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Breakout 2:
**Bank M&A Update: Why
Capital/Balance Sheet
Management Will Be a
Key Component of
Dealmaking in 2024**

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#A0BA24

**BANK M&A UPDATE:
WHY CAPITAL/BALANCE SHEET MANAGEMENT
WILL BE A KEY COMPONENT OF DEALMAKING IN 2024**

JANUARY 2024

PRESENTATION BY:

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Member: FINRA/SIPC

SESSION DESCRIPTION & PRESENTERS

- This session briefly reviews the bank operating environment and bank M&A activity in 2023, the key factors which slowed activity during the year, and expectations for bank M&A in 2024, with capital (both organic and externally raised) and balance sheet management being key components to any successful bank M&A strategy

NAME	TITLE & CONTACT	EXPERIENCE
<p>Michael Barry</p> 	<p>Senior Managing Director & Head of Northeast/Mid-Atlantic Regions</p> <p>M: (917) 319-1122 mbarry@hovdegroup.com</p>	<p>Michael F. Barry joined Hovde in 2023 as Senior Managing Director & Head of Northeast/Mid-Atlantic Regions -Investment Banking. He has over 35 years of experience advising depository institutions on mergers and acquisitions, recapitalizations, and public and private debt and capital raising transactions, having advised on over 100 announced depository M&A transactions with an aggregate transaction value of over \$170 billion and over 80 public and private debt and equity transactions raising over \$55 billion in the aggregate.</p> <p>Prior to joining Hovde, Mr. Barry was a Managing Director and Head of the Northeast Region at Performance Trust. Prior to Performance Trust, Mr. Barry held positions in the Financial Institutions Groups at Piper Jaffray, Sterne Agee, Stifel Nicolaus Weisel and Merrill Lynch, where he spent more than 13 years and was most recently Head of U.S. Depository Group. Mr. Barry graduated from Princeton University with an AB Politics Summa Cum Laude and the Wharton School at the University of Pennsylvania with a MBA With Distinction. Mr. Barry is licensed with FINRA as a registered representative and holds the following licenses: Series 7, 24, 63 and 79.</p>
<p>Will Curtiss</p> 	<p>Director, Investment Banking</p> <p>O: (615) 783-1638 wcurtiss@hovdegroup.com</p>	<p>Mr. Curtiss is responsible for evaluating the financial and strategic options of financial institutions, including mergers and acquisitions and capital raising transactions, as well as providing strategic advisory solutions to banks and thrifts throughout the Southeast and Mid-Atlantic, performing financial analyses and valuations of depository institutions, and assessing the impact of national and regional trends across the banking industry.</p> <p>Prior to joining the Investment Banking Group in May 2022, Mr. Curtiss was a senior analyst in the Research Department at Hovde responsible for equity research coverage of the U.S. bank sector. He joined Hovde in 2018 from Piper Jaffray & Co. where he was a Vice President in the research department covering Southeast regional and community banks. Prior to joining Piper Jaffray, he spent nearly four years as an analyst at SunTrust Robinson Humphrey covering Midwest, Northeast, and Mid-Atlantic banks and began his career in 2007 at Sandler O'Neill + Partners with a focus on Midwest and Southeast banks. Mr. Curtiss is based in the Nashville, Tennessee office and holds a bachelor's degree in Business Administration and an MBA both from the University of Tennessee. He also played baseball at the University of Tennessee and was a member of the 2001 College World Series team. Mr. Curtiss is licensed with FINRA as a registered representative and holds the following licenses: Series 7, 63, 79, 86, and 87.</p>

I. MACRO & INDUSTRY OVERVIEW



MULTIPLE ISSUES FACING THE BANKING INDUSTRY

Interest Rate Environment:

- Unprecedented rate increases to combat inflation
- Rate hikes still working their way through the system
- Uncertain impact on credit
- Federal Reserve has held interest rates for 3 straight meetings
 - Market re-thinking “higher for longer”

Bank Financial Performance:

- Significant NIM contraction from increasing cost of funds
- Deposit mix shift
- Credit is tightening although credit losses have not yet materialized
- Bank ROA's and ROE's declining

Bank Stock Performance:

- KRE index was down 32.5% YTD through 10/31/2023
- Bank stocks have significantly rebounded since 10/31/2023 (KRE +31.6%) but still down 10.7% in 2023
- Trading multiples are coming off historically low levels



Capital Raises Scarce:

- Sub debt is unattractive with pricing at 9%+
- ~\$640M in common equity, preferred equity and subordinated debt raised in 2023 for community banks (under \$10B in assets) compared to \$3.8B in 2022 and \$5.3B in 2021

Bank M&A Environment:

- Only 98 transactions announced in 2023 compared to an average of 248 deals per year between 2012-2019
- Pricing declined in correlation with bank equity values
- Unrealized losses in investment portfolios along with loan interest rate marks are making merger accounting for transactions challenging

Competitive Environment:

- Deposit composition degradation and continued upward pressure on funding costs
- Despite projecting three 25 basis point rate cuts in 2024, the Fed anticipates a Fed funds rate of 4.6% in 2024 and 3.6% in 2025

SUMMARY OF RECENT BANKING INDUSTRY EVENTS

Unprecedented increases in interest rates caused record levels of unrealized securities losses while prompting fierce competition for deposits

Five bank failures in 2023 totaling \$549 billion in assets with market focus shifted to non-insured deposits

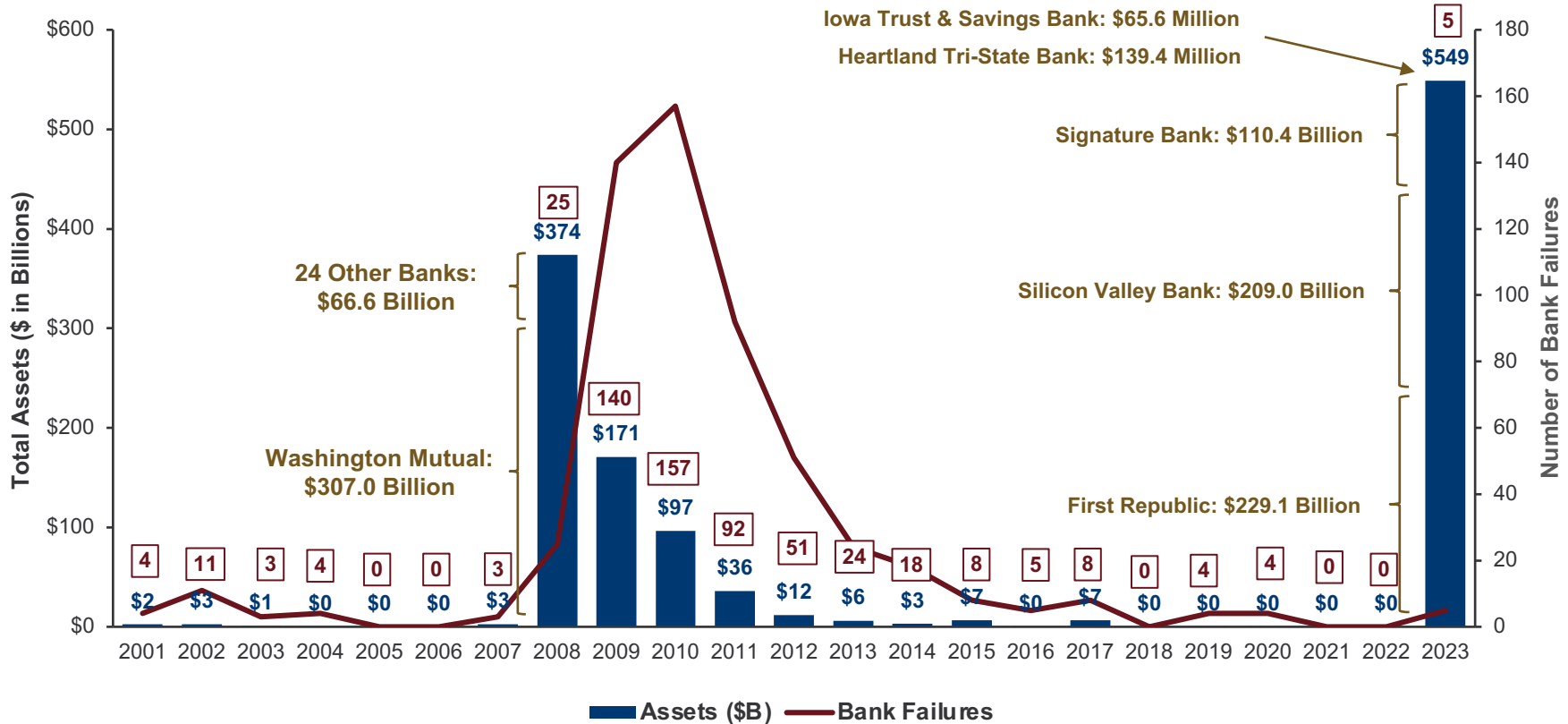
Market valuations of bank stocks deteriorated for most of 2023 but have significantly recovered since the end of October

WHAT WILL THE FED BREAK THIS TIME?

LARGE PENSION, INVESTMENT FUND, FINANCIAL ENTITY OR FOREIGN GOVERNMENT?



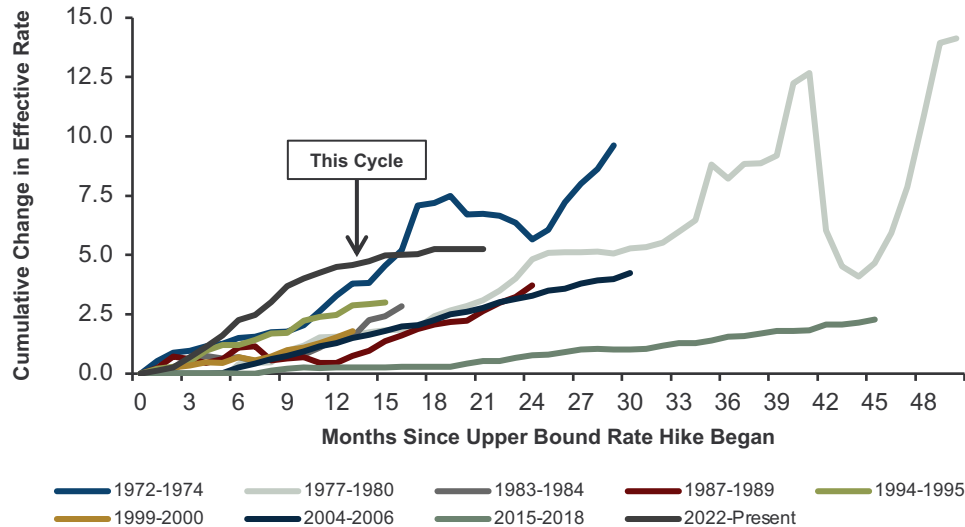
BANKING INDUSTRY 2023 WOES – U.S. BANK FAILURES SINCE 2001



THE FEDERAL RESERVE RAISED RATES FASTER THAN ANY TIME IN RECENT HISTORY

- The effective federal funds rate is a weighted average of the rate banks use to lend money to each other overnight. It is determined by the market but is **influenced by the Federal Reserve's target**

Speed & Duration of Fed Rate Hikes (Since 1970)



Period	Start (UB)	End (UB)	Start (E)	End (E)	Change (E)	% Change (E)
2022-Present	0.25	5.50	0.07	5.33	5.26	7514%
2015-2018	0.25	2.50	0.12	2.40	2.28	1900%
2004-2006	1.00	5.25	1.00	5.24	4.24	424%
1999-2000	4.75	6.50	4.74	6.53	1.79	38%
1994-1995	3.00	6.00	3.05	6.05	3.00	98%
1987-1989	6.00	9.75	6.13	9.85	3.72	61%
1983-1984	8.50	11.75	8.80	11.64	2.84	32%
1977-1980	4.75	18.00	4.95	19.08	14.13	285%
1972-1974	3.50	13.00	3.29	12.92	9.63	293%

INTEREST RATE COMPARISON SINCE 2021

- The Federal Reserve raised the overnight rate by a total of 525 basis points since the end of 2021 to a range between 5.25% and 5.50%, a 22-year high. After holding rates steady for a third-straight meeting, the Fed indicated it could be cutting its key interest rate by three quarters of a percentage point in 2024

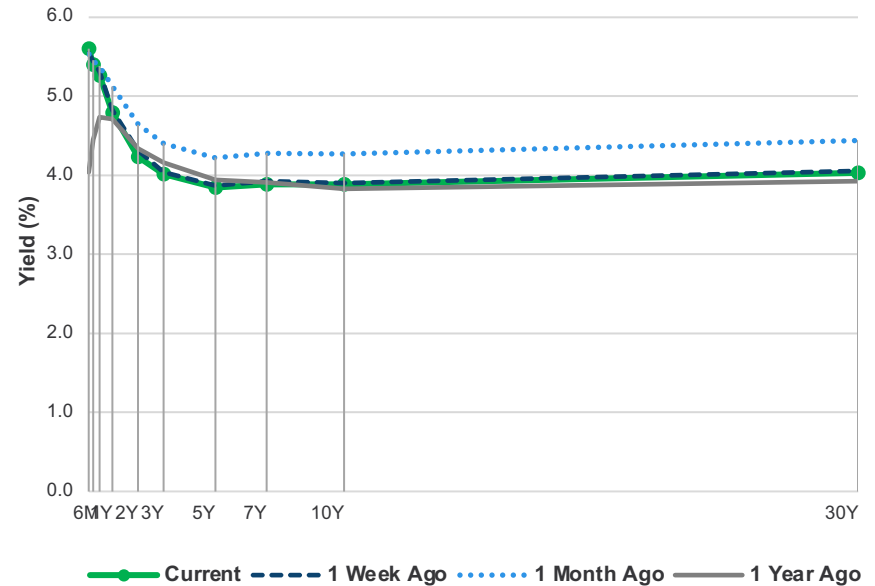
Key Interest Rate Benchmarks December 2021 – Current

Rate/Yield	Rate as of:		Change (%)
	12/31/2021 (%)	12/29/2023 (%)	
Effective Fed Funds Rate	0.07	5.33	7,514%
3-Month Treasury	0.06	5.40	8,900%
2-Year Treasury	0.73	4.23	479%
5-Year Treasury	1.26	3.84	205%
7-Year Treasury	1.44	3.88	169%
10-Year Treasury	1.52	3.88	155%
30-Year Fixed Mortgage	3.27	7.12	118%

Key Spreads	12/31/2021 (bps)	12/29/2023 (bps)	Change (bps)
3M/10Y	146	-152	-298
2Y/10Y	79	-35	-114
5Y/10Y	26	4	-22

Yield Curve

Current vs. Last Year



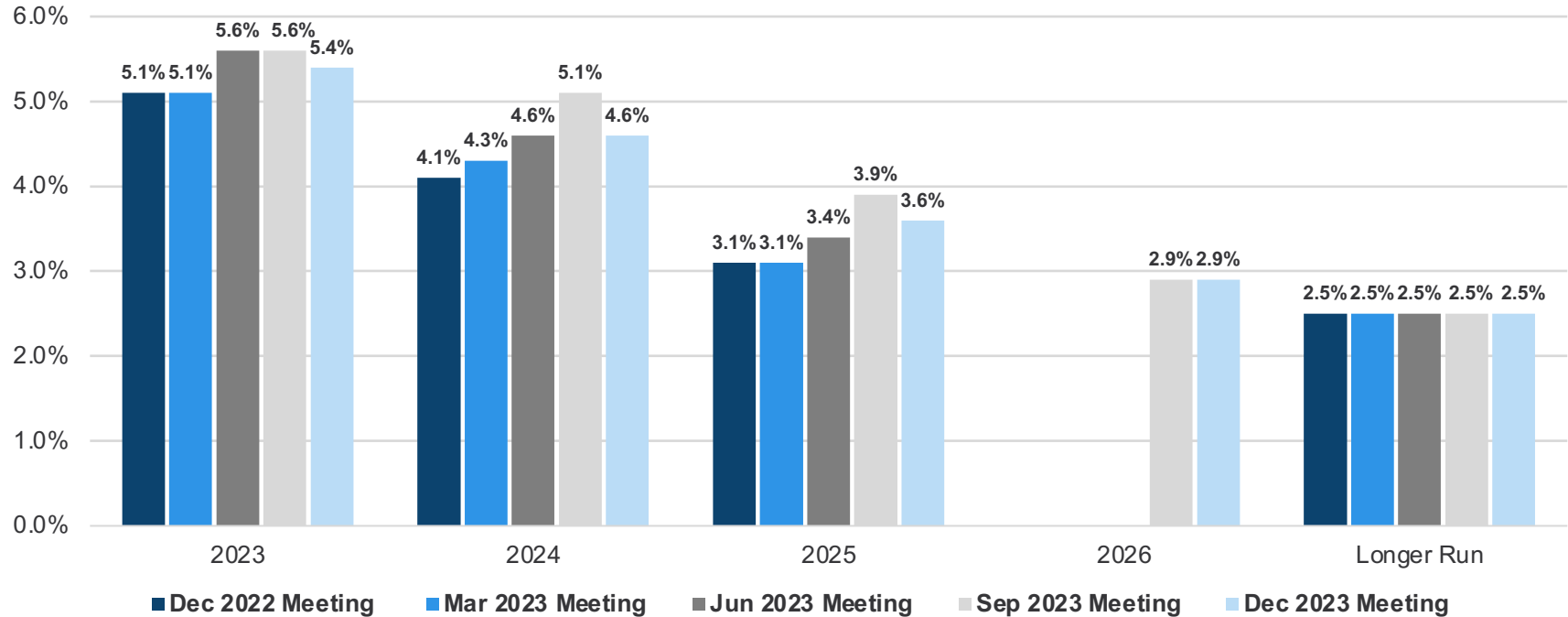
The 2/10 spread – a leading indicator for predicting recessions – has been inverted since early July 2022

LATEST FED PROJECTIONS INDICATE RATE CUTS ARE POSSIBLE IN 2024

■ Median FOMC Projections for Federal Funds Rate

Federal Funds Rate

December 2022 Meeting – December 2023 Meeting

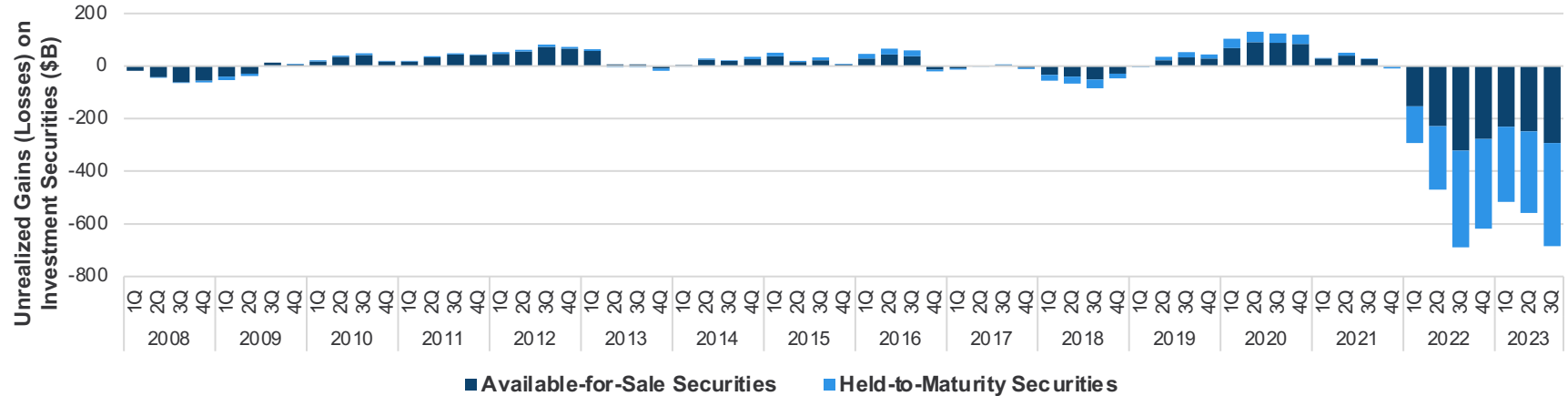


RECORD LEVELS OF UNREALIZED SECURITIES LOSSES

- While higher interest rates initially provided a lift to U.S. banks' net interest margins', the drastic increase in rates has negatively impacted the values of most bonds that institutions own and caused record levels of unrealized losses on investment securities

Industry Unrealized Gains (Losses) on Investment Securities

2008 – 3Q23

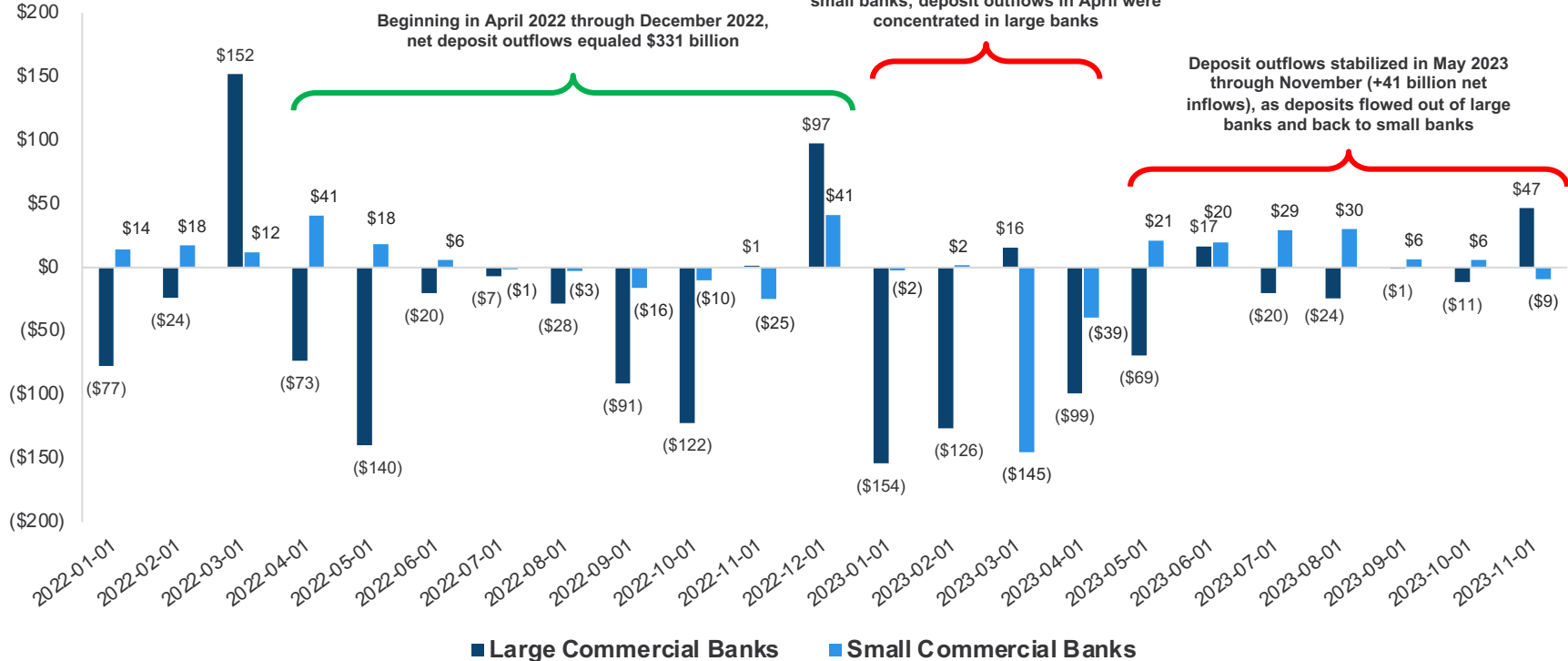


	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
Losses on AFS Securities (\$B)	-\$152.2	-\$228.0	-\$321.6	-\$277.0	-\$231.6	-\$248.9	-\$293.5
Losses on HTM Securities (\$B)	-\$141.5	-\$241.7	-\$368.3	-\$340.8	-\$284.0	-\$309.6	-\$390.5

BANKING INDUSTRY DEPOSIT OUTFLOW IN CONTEXT

Monthly Change in Deposits (\$B)

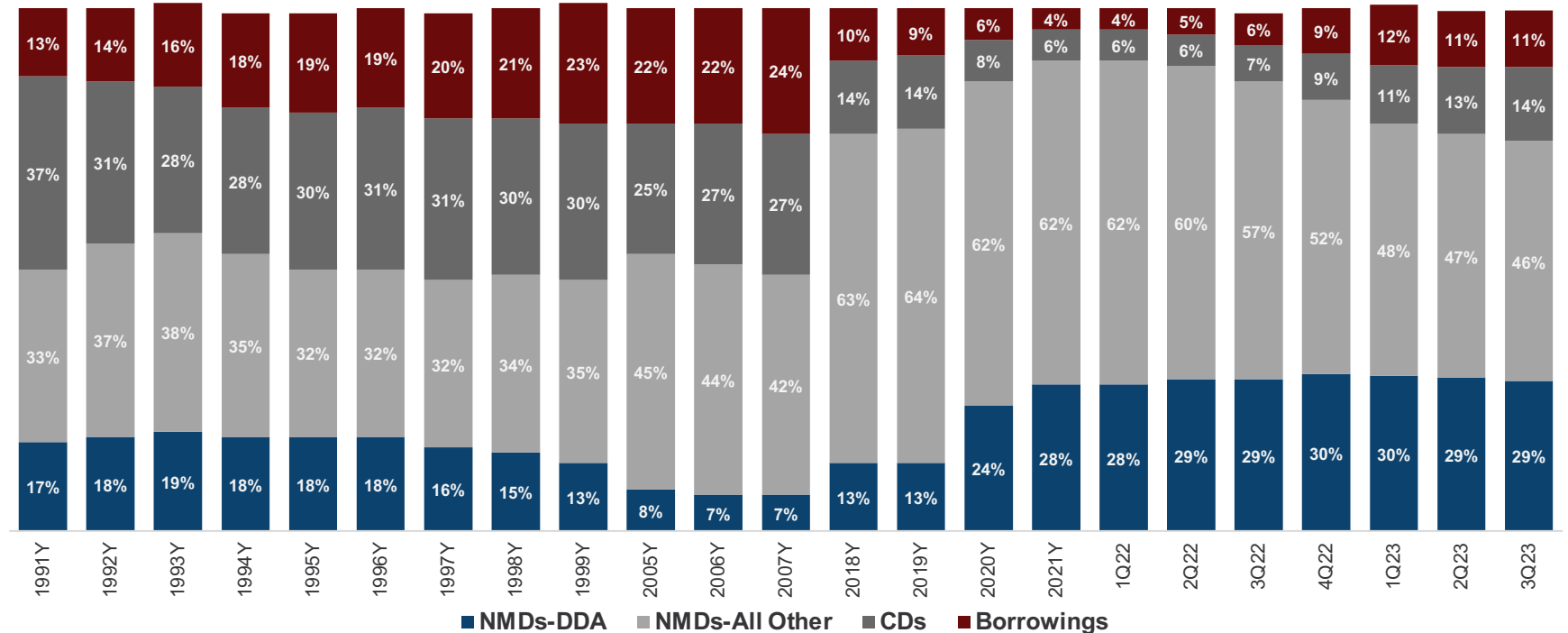
January 2022 - Current



HISTORICAL FUNDING MIX

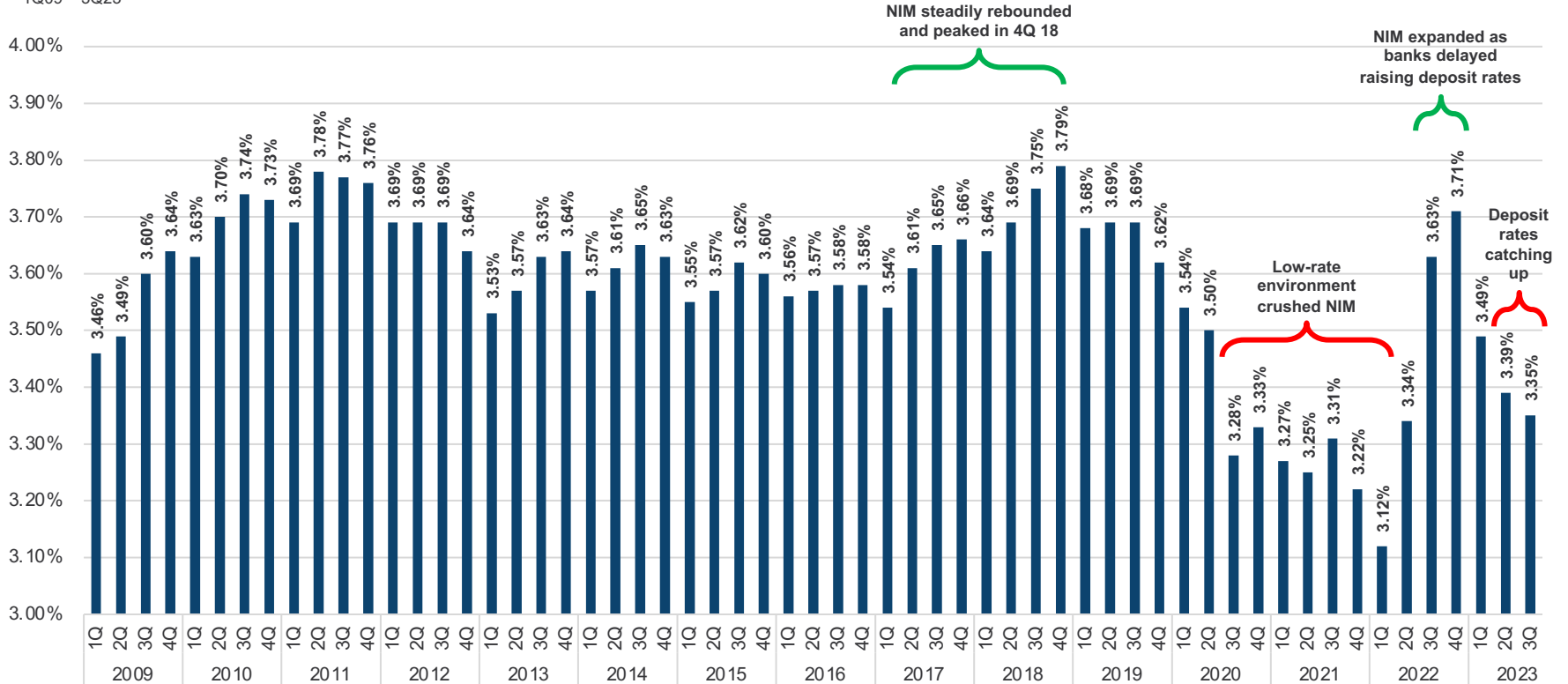
Historical Funding Mix – U.S. Commercial Banks

1991 – 1999, 2005 – 2007 & 2018 – Current



NIM'S UNDER EXTREME PRESSURE AS DEPOSIT COSTS RISE

Quarterly Bank Industry Net Interest Margin
1Q09 – 3Q23

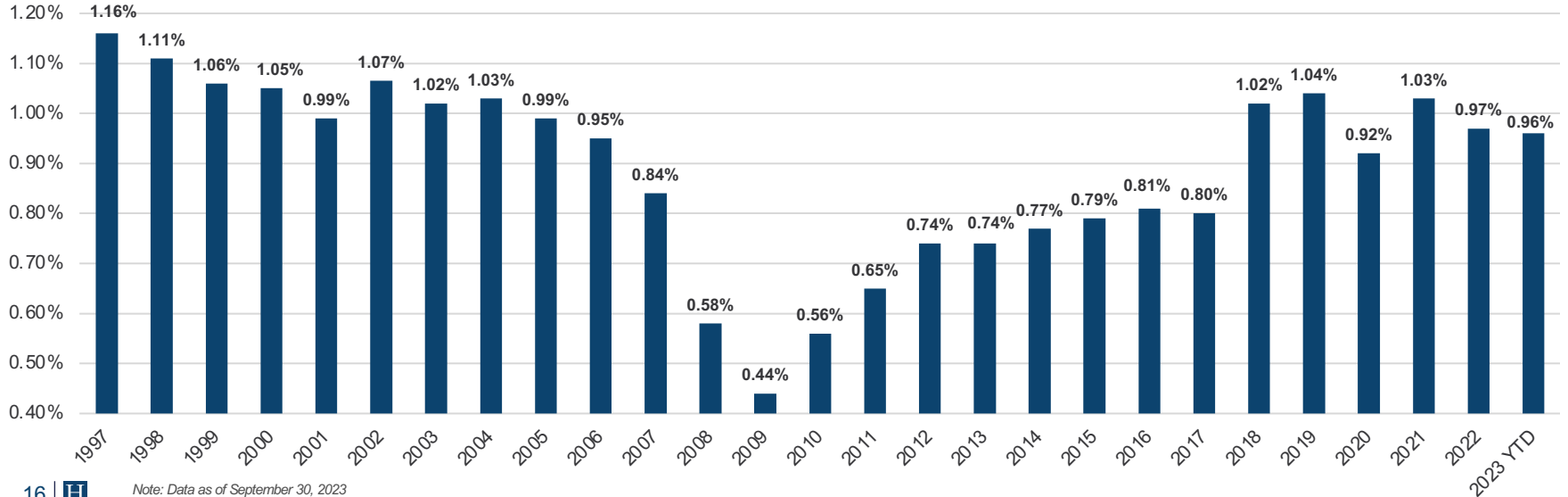


BANK EARNINGS FACE HEADWINDS

- Tax reform propelled bank earnings to near historic highs in 2018 and 2019
- 2021 returns were positively impacted by PFLR reversals, PPP loan fees, and the mortgage refinancing boom, none of which were repeated during 2022. 2022 earnings were positively impacted by NIM expansion as interest rates increased, coupled with loan growth, that partially offset the weak mortgage market and end of PPP
- The rapid rise in funding costs over the past 12+ months has pressured top-lines along with softer fee income and higher expenses

Median Bank Industry ROAA

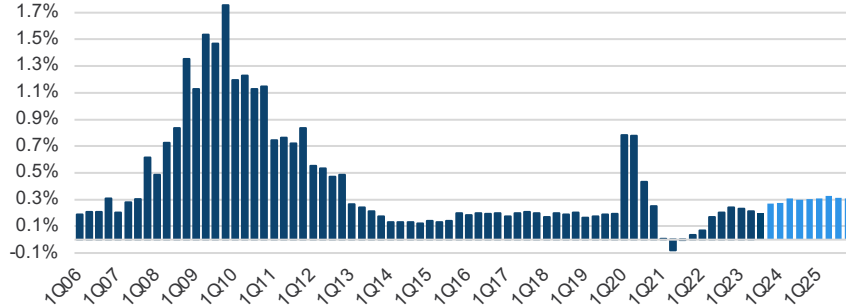
1997 – YTD 2023



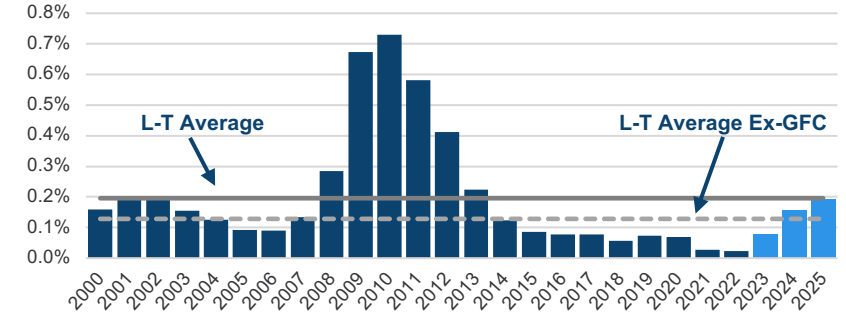
CREDIT REMAINS IN GOOD SHAPE, BUT TRENDS ARE BEGINNING TO NORMALIZE

- Although, Street estimates are still factoring in generally optimistic levels of provisioning which may serve as downside risk to EPS estimates

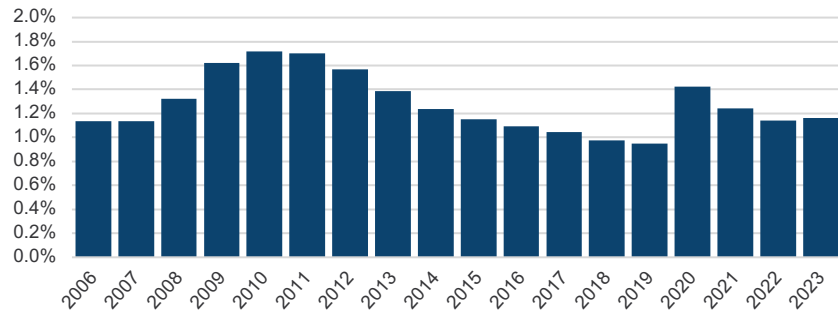
Provision/Average Loans and Consensus Estimates
2006 – 2025E



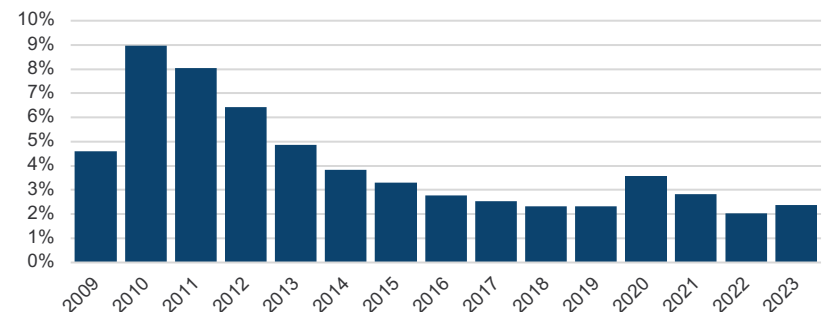
Net Charge-off Ratio
2000 – 2025E



Loan Loss Reserve Ratio
2006 – 2023 YTD

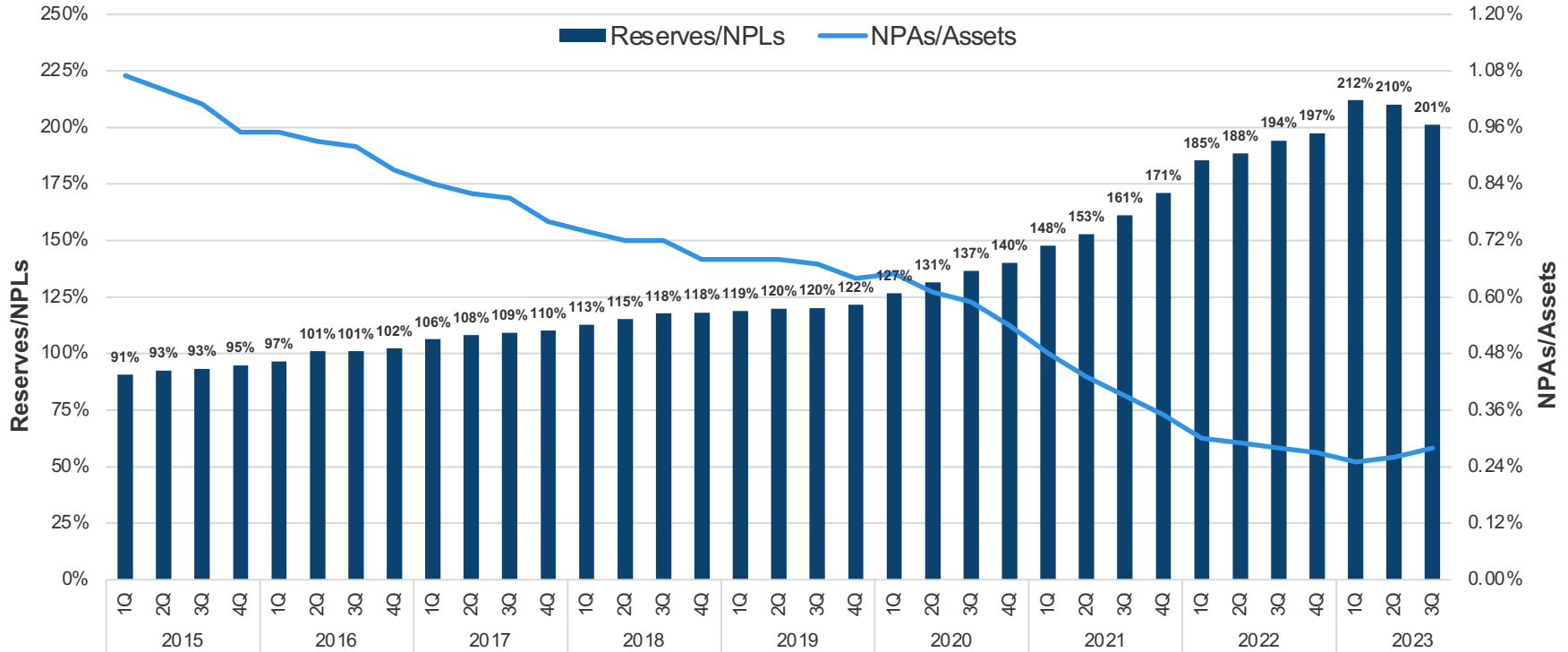


Criticized Loans as a % of Total Loans
2009 – 2023 YTD



BANKS APPEAR TO BE WELL RESERVED UTILIZING TRADITIONAL METRICS

Median Bank Industry Reserves/NPLs vs. NPAs/Assets
1Q15 – 3Q23



Note: Data as of September 30, 2023; Includes all U.S. commercial banks, savings banks, and savings and loan associations (including acquired and defunct companies)

NPAs = Nonperforming Assets. Based on loans 90+ days past due, nonaccrual loans, other real estate owned, and nonperforming debt securities

NPAs exclude restructured and government guaranteed loans

NPLs = Nonperforming Loans. Based on loans 90+ days past due and nonaccrual loans adjusted to exclude government guaranteed loans

Source: S&P Capital IQ Pro

II. MARKET OVERVIEW



BULL & BEAR CASE FOR BANKS

- **Recent earnings results have been better-than-feared which has resulted in a little more interest in bank stocks from generalist investors – an integral group missing from the space for several years – but macro headwinds are still a concern**
 - For further outperformance in bank stocks to occur, the market primarily needs further clarity around the general economic outlook (i.e., recession or not), future Fed rate actions, and magnitude of weakness in credit which should be a significant driver to multiple expansion assuming there is no “hard landing.”
 - However, there will likely be fits and starts along the way (e.g., market’s reaction to rating agencies’ downgrade of several regional banks, emergence of “one-off” credit issues)

Bear Case for Banks



- Continued upward move in funding costs and degradation in deposit compositions will result in further erosion to top-line revenue
- Estimate revisions for the group continue to be ratcheted lower which has resulted in less of a disconnect with P/E multiples (albeit current levels are still notably below historic norms)
- Downward bias on consensus growth expectations should the economy worsen
- Concerns around the next credit cycle and potential losses particularly within commercial real estate
- Fear over more bank failures
- Changing regulatory and capital requirements

Bull Case for Banks



- Mostly driven by macro economic environment at this time
 - Core inflation data continues to show signs of cooling
 - Increasing optimism that a “soft landing” might be possible
 - Fed rate cuts appear likely over the course of 2024
- Improved macro narrative should lessen concerns with respect to credit quality risks
- Stabilization with NII/NIMs over the next few quarters could provide footing to consensus EPS estimates
- Reemergence of traditional M&A coupled with normalized timelines to close transactions

BANK STOCKS HAVE REBOUNDED OF LATE AFTER YEARS OF MEANINGFUL UNDERPERFORMANCE

■ S&P 500 Regional Bank Index vs. S&P 500

- Since 2019, the KRE is down -10% and the banking industry has meaningfully underperformed the market (S&P 500: +47%) over this time frame but has outperformed the S&P 500 since early November by +18%

■ Financial Sector Fund Flows

- Following strong inflows into the financial sector in June and July, there was a significant level of net redemptions in August through October reflecting investors' more cautious stance, but that trend did reverse course in November

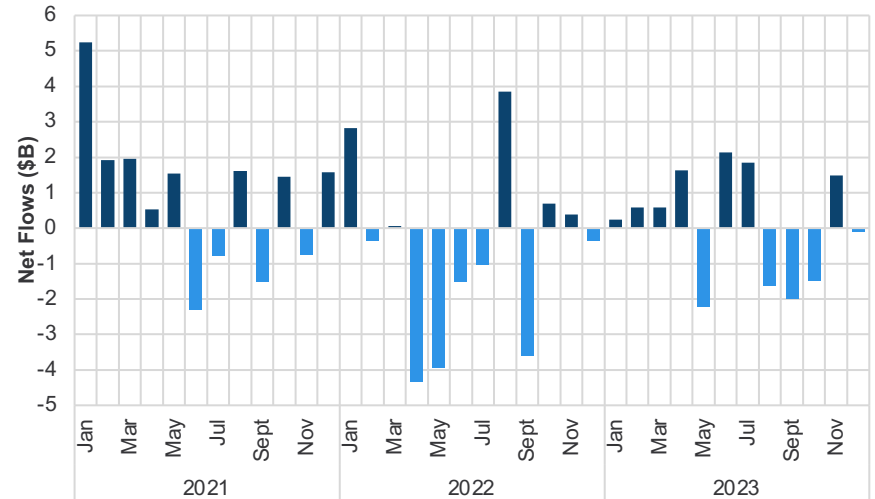
S&P Regional Bank Index (KRE) vs. S&P 500 Index

Since 2019



Financial Select Sector SPDR (XLF) Fund Flows

2021 - Current

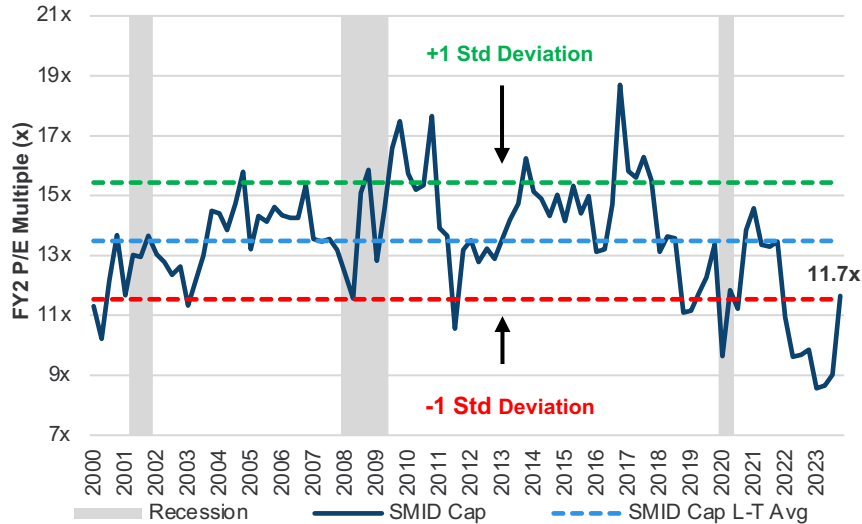


VALUATIONS HAVE RECOVERED FROM DEPRESSED LEVELS EXPERIENCED FOR MOST OF 2023

- **SMID cap banks⁽¹⁾ have experienced a rebound in valuations since November but still trade below historical levels**
 - Currently, SMID cap banks are trading at 11.7x 2024 EPS and 1.64x TBV which represents ~86% of the group's L-T average P/E and ~92% its L-T average P/TBV multiple (or ~1.34x and ~75% L-T average adjusting for AOCI)
 - P/E multiples for SMID cap banks are up ~34% since Q2 2023
 - Historically, the group trades ~13.5x on an FY2 P/E basis and ~1.80x P/TBV

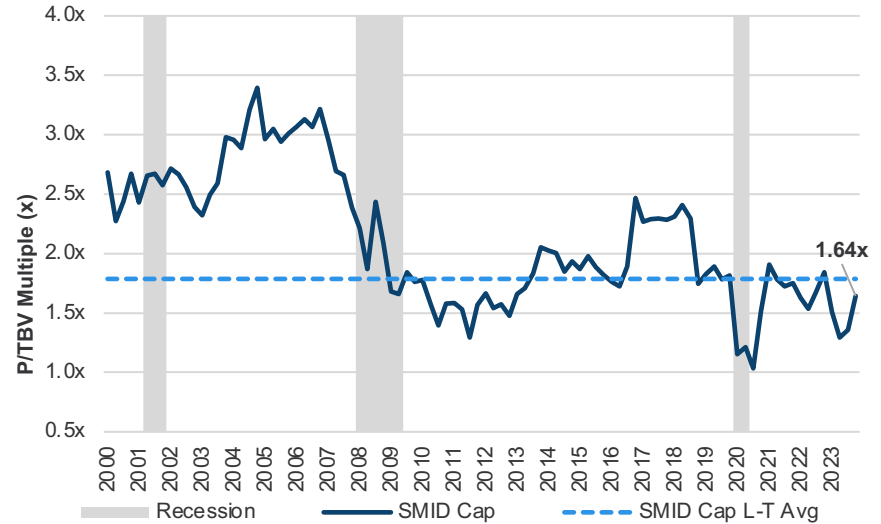
SMID Cap P/E Multiples

2000 - Current



SMID Cap P/TBV Multiples

2000 - Current



SMALL TO MID-CAP BANKS | EXPECTATIONS MOVING FORWARD

Key Metric Medians	Actual				Estimated			
	2019A	2020A	2021A	2022A	2023E	2024E	2025E	
Loan Growth	7%	12%	3%	16%	6%	5%	6%	①
Deposit Growth	8%	20%	13%	3%	4%	4%	4%	
Loan-to-Deposit Ratio	93%	88%	80%	90%	92%	92%	93%	
Core EPS Growth (Y/Y)	6%	-3%	37%	4%	-15%	-8%	10%	②
ROAA	1.18%	1.01%	1.23%	1.17%	0.97%	0.88%	0.93%	③
ROAE	10.5%	9.2%	12.6%	12.8%	10.4%	9.4%	9.6%	③
ROATCE	11.6%	10.6%	14.3%	14.9%	12.1%	11.0%	11.2%	
Net Interest Margin	3.65%	3.37%	3.24%	3.43%	3.28%	3.22%	3.26%	④
NIM Change (bps)	-5	-26	-11	21	-21	-10	6	
Efficiency Ratio	62%	59%	60%	58%	63%	64%	63%	
Tang. Common Equity/Tang. Assets	10.0%	9.2%	9.0%	7.8%	8.0%	8.4%	8.9%	
Provision / Avg. Loans	0.12%	0.44%	0.00%	0.13%	0.11%	0.20%	0.23%	⑤
NCOs / Avg. Loans	0.07%	0.07%	0.03%	0.03%	0.05%	0.15%	0.18%	
Dividend Payout Ratio	28%	30%	25%	26%	30%	32%	30%	

①
Loan growth up significantly in 2022 to moderate in 2023-2025

②
Core EPS growth to decline significantly in 2023/2024 and rebound in 2025

③
Median ROAA and ROAE to decline significantly from the Q4 2022 high water mark

④
Median NIM projected to stabilize in 2024, but still significantly below Q4 2022 high mark

⑤
Credit costs to rise from near-zero, but still remain at relatively benign levels

III. CAPITAL MARKETS & M&A OVERVIEW



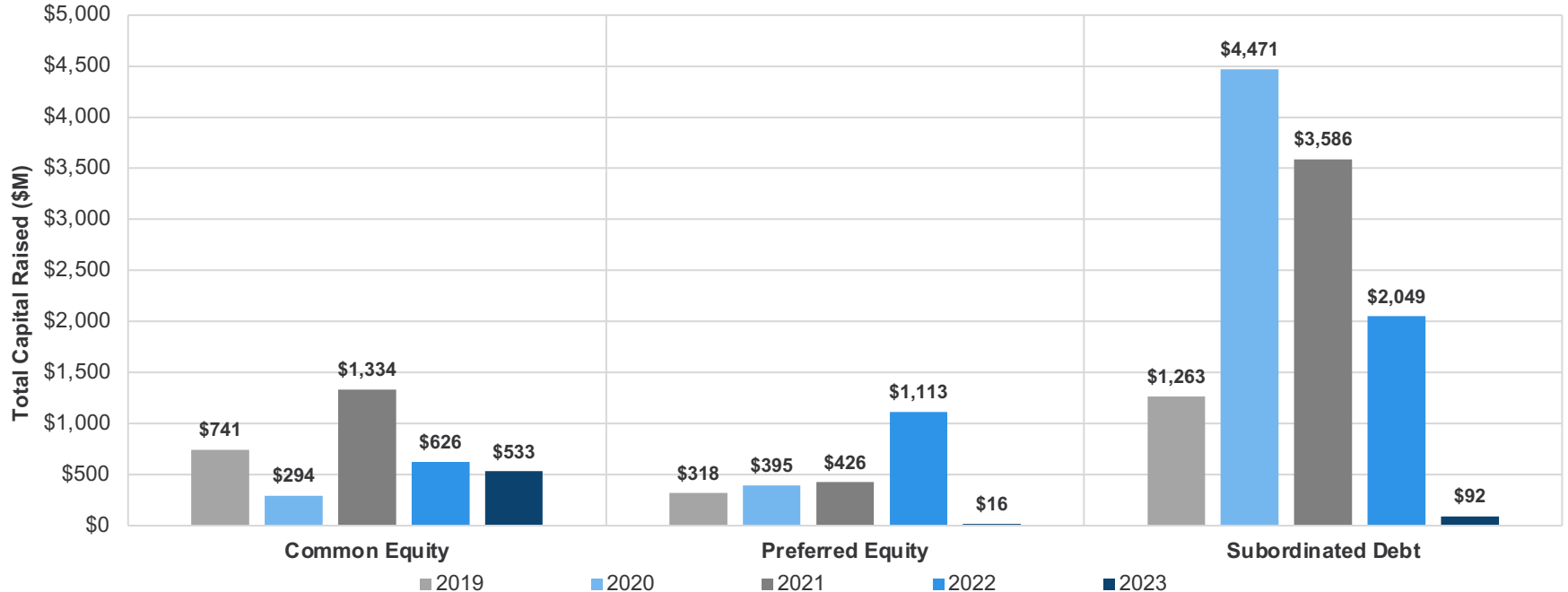
CAPITAL MARKETS UPDATE

- Bank debt and equity issuance for banks under \$10 billion in assets essentially came to a halt in 2023

- ~\$640 million in common equity, preferred equity and subordinated debt issued in 2023 versus \$3.8 billion in 2022 and \$5.3 billion in 2021

Capital Raised Since 2019

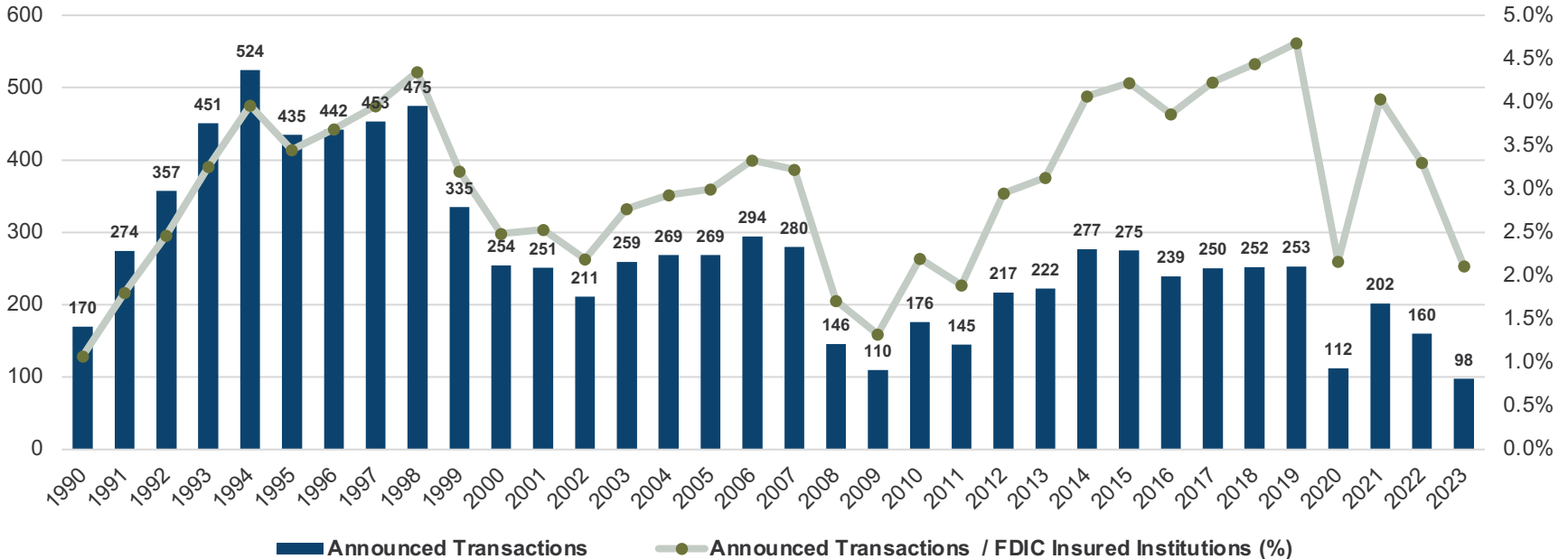
January 1, 2019 - Current



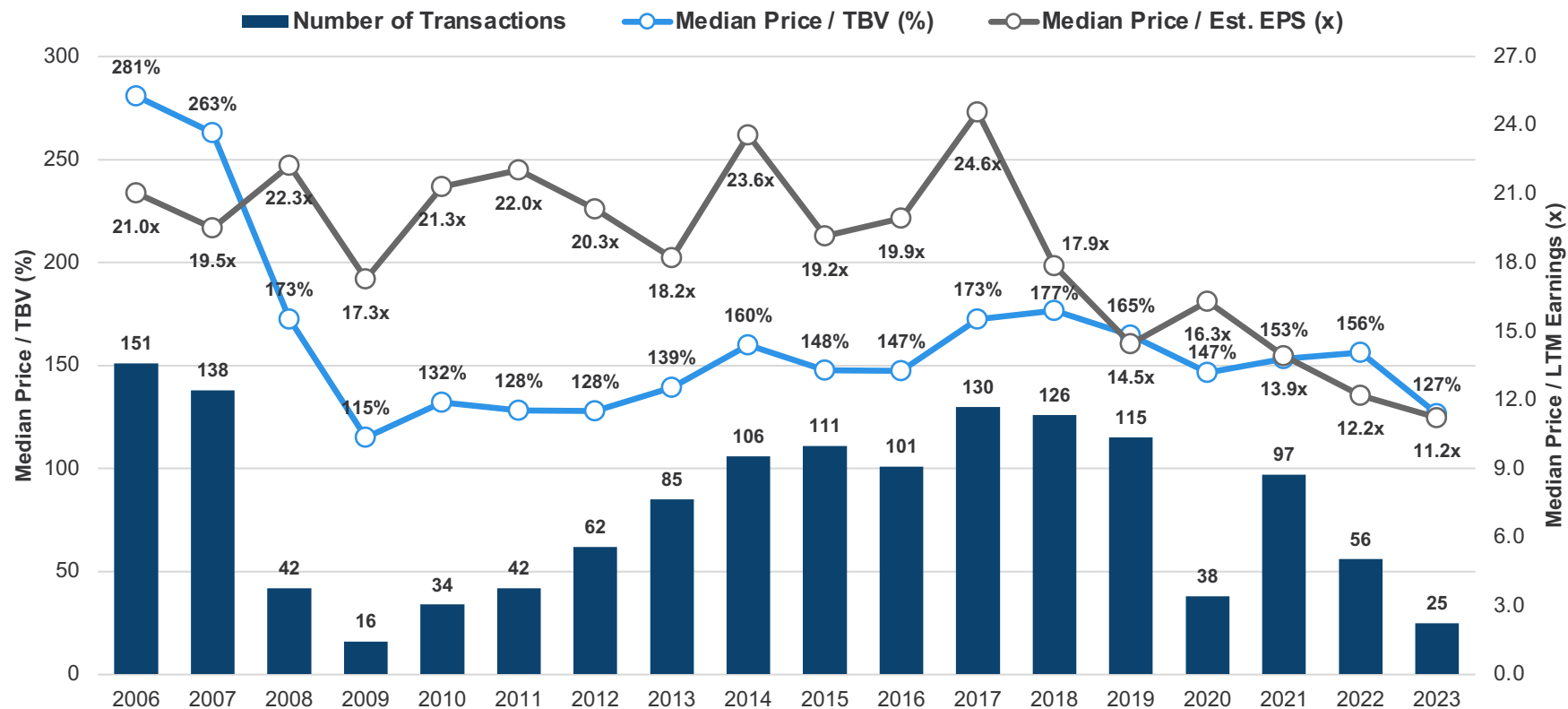
NATIONWIDE BANK M&A ACTIVITY STALLED IN 2023

- Bank M&A activity slowed in 2022 due to the decline in bank stock prices, rise in interest rates, and increased probability of a recession. With the three bank failures and related turmoil in the banking industry, bank M&A slowed further in 2023
 - There were only 98 announced transactions in 2023, marking the lowest level since 1990

Whole Bank M&A Transactions
Since 1990



SELECT NATIONWIDE M&A DEAL METRICS (GREATER THAN \$20M DEAL VALUE)



U.S. BANK MERGERS OF EQUALS MADE A COMEBACK IN 2023

- U.S. bank merger of equals activity rebounded in 2023 after hitting a five-year low in 2022. The MOE announcement between Burke & Herbert Financial Services Corp. and Summit Financial Group Inc. marked the largest such deal since 2021
- MOEs made up 6% of all U.S. bank M&A activity in 2023, higher than the last two years (2% in 2022 & 2021). The six MOEs announced in 2023 represented a combined total deal value of about \$993.3 million, or 24% of total announced deal value
- While overall M&A activity softened, MOE activity picked up and became more of a focus as banks increasingly viewed these deals as an attractive alternative to combine and tackle ongoing headwinds amid a lack of buyers and low valuations

US Bank MOEs Announced Since 2020											
Ann. Date	Close Status	Close Date	Buyer	ST	Buyer's Assets (\$M)	Seller	ST	Seller's Assets (\$M)	Total Deal Value (\$M)	DV / Tg. Book (%)	
12/12/23	P	TBD	Orrstown Financial Services, Inc.	PA	3,054.4	Codorus Valley Bancorp, Inc.	PA	2,190.6	205.6	113.7	
09/27/23	P	TBD	Peoples Financial Services Corp.	PA	3,681.8	FNCB Bancorp, Inc.	PA	1,861.9	128.2	103.4	
08/24/23	P	TBD	Burke & Herbert Financial Services Corp.	VA	3,669.2	Summit Financial Group, Inc.	WV	4,552.3	371.5	115.4	
04/18/23	C	11/11/23	CCFNB Bancorp, Inc.	PA	944.0	Muncy Bank Financial, Inc.	PA	650.9	59.6	121.9	
02/23/23	P	TBD	Main Street Financial Services Corp.	WV	604.3	Wayne Savings Bancshares, Inc.	OH	729.8	66.9	155.7	
02/22/23	C	11/30/23	LINKBANCORP, Inc.	PA	1,163.7	Partners Bancorp	MD	1,650.7	161.5	132.6	
12/14/22	C	07/01/23	Shore Bancshares, Inc.	MD	3,446.8	The Community Financial Corp.	MD	2,359.6	255.5	152.5	
11/10/22	C	04/01/23	Savanna-Thomson Investment, Inc.	IL	108.6	Maximum Bancshares, Inc.	IA	74.5	NA	NA	
03/15/22	C	10/03/22	S.B.C.P. Bancorp, Inc.	WI	1,675.9	Monona Bankshares, Inc.	WI	1,198.7	NA	NA	
11/08/21	C	09/30/22	Allegiance Bancshares, Inc.	TX	6,759.8	CBTX, Inc.	TX	4,209.1	858.1	178.8	
06/01/21	C	02/15/22	Old National Bancorp	IN	23,744.5	First Midwest Bancorp, Inc.	IL	21,208.6	2,468.6	165.3	
04/19/21	C	01/31/22	Webster Financial Corporation	CT	33,259.0	Sterling Bancorp	NY	29,914.3	5,225.2	192.8	
04/12/21	C	10/29/21	BancorpSouth Bank	MS	25,802.5	Cadence Bancorporation	TX	18,800.4	2,874.2	158.6	
01/26/21	C	09/01/21	First State Capital Corporation	MS	125.5	M & F Bancorp, Inc.	MS	117.8	NA	NA	
12/10/20	C	09/17/21	GNB Financial Services, Inc.	PA	437.1	LINKBANCORP, Inc.	PA	368.6	62.6	184.6	
10/16/20	C	01/03/22	First Citizens BancShares, Inc.	NC	48,666.9	CIT Group Inc.	NY	60,865.0	2,158.6	43.6	
10/01/20	C	04/01/21	Virginia National Bankshares Corp.	VA	821.0	Fauquier Bankshares, Inc.	VA	840.3	62.2	86.2	
08/26/20	C	04/01/21	Broadway Financial Corporation	CA	491.3	CFBanc Corporation	DC	367.2	39.6	109.7	
08/13/20	C	01/31/21	Blue Ridge Bankshares, Inc.	VA	1,585.8	Bay Banks of Virginia, Inc.	VA	1,238.2	97.3	82.1	
07/01/20	C	02/01/21	Dime Community Bancshares, Inc.	NY	6,347.8	Bridge Bancorp, Inc.	NY	6,150.7	498.2	126.2	
01/27/20	C	06/07/20	South State Corporation	SC	15,921.9	CenterState Bank Corporation	FL	17,142.0	3,220.6	201.6	
Average					8,676.7			8,404.3	1,045.2	134.7	
Median					3,054.4			1,861.9	230.5	129.4	

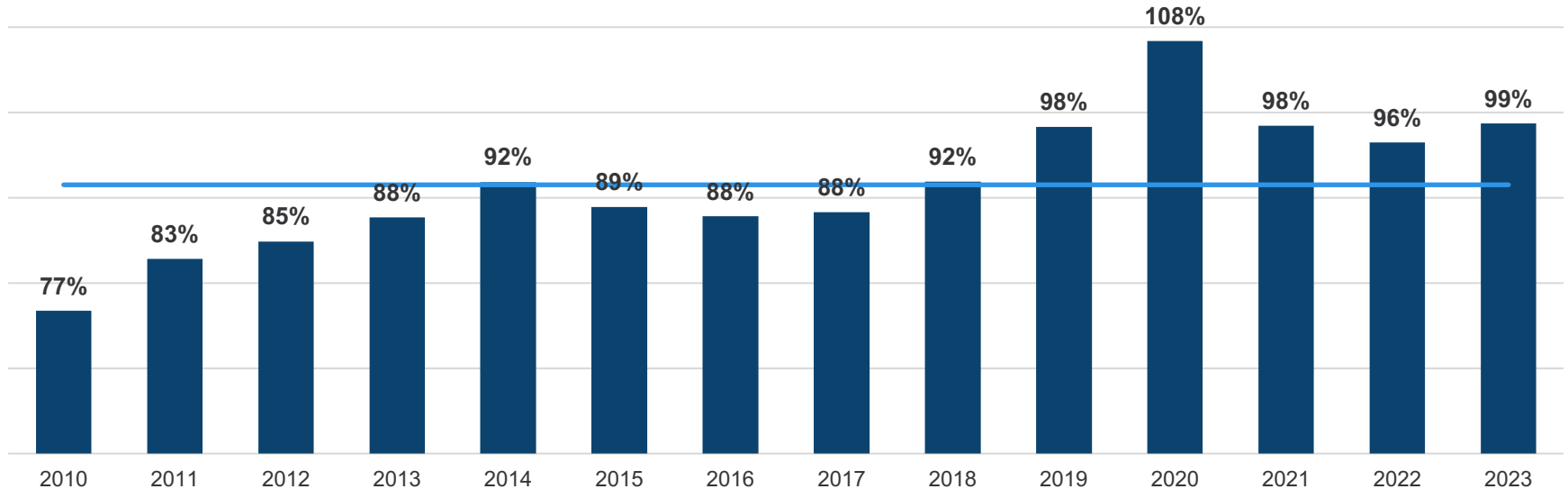
HISTORICAL BANK M&A PRICING SINCE 2010 (GREATER THAN \$20M DEAL VALUE)

■ Pay-to-Trade Ratio

- Pay-to-trade ratio is defined as P/TBV multiple paid in the transaction divided by the buyer's P/TBV multiple at announcement
- Since 2010, the average pay-to-trade ratio has been 92%

Pay-to-Trade Ratio

2010 - 2023



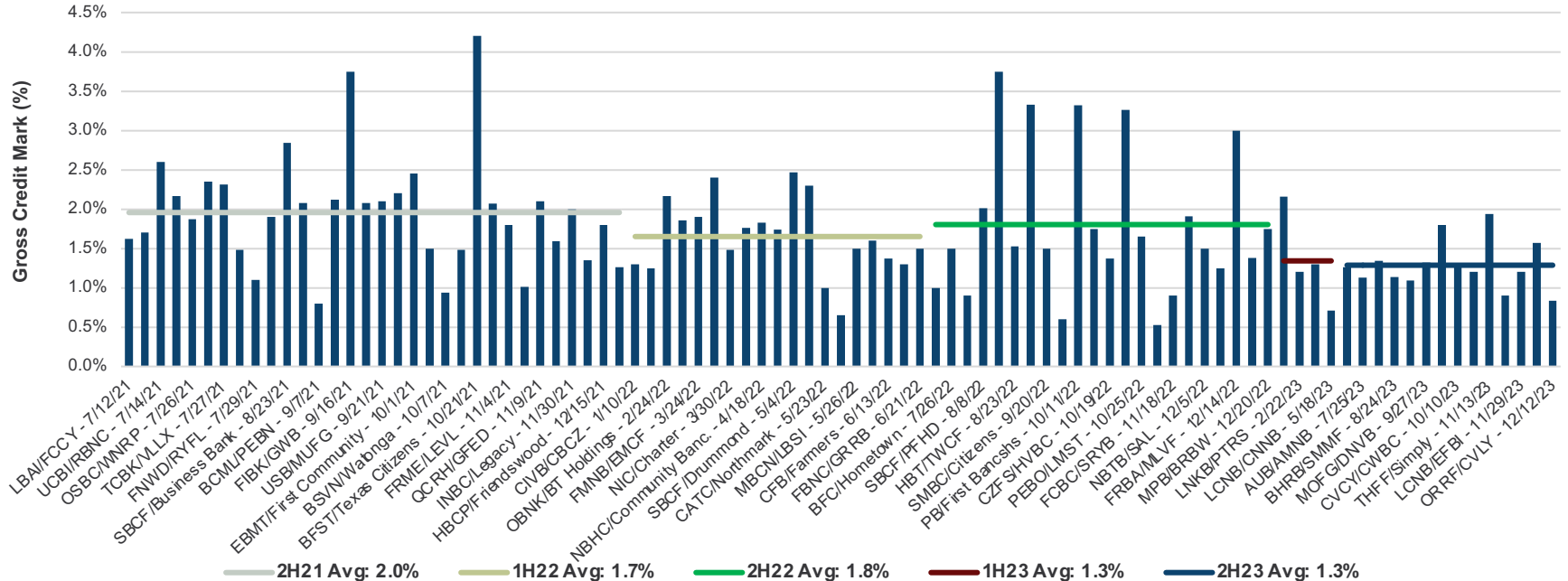
M&A RECENT TRENDS

Gross Credit Marks

- Since 2021, the average gross credit mark disclosed was ~1.9% but has come down a bit of late to ~1.3% in 2023

Gross Credit Marks

2H21 - Current



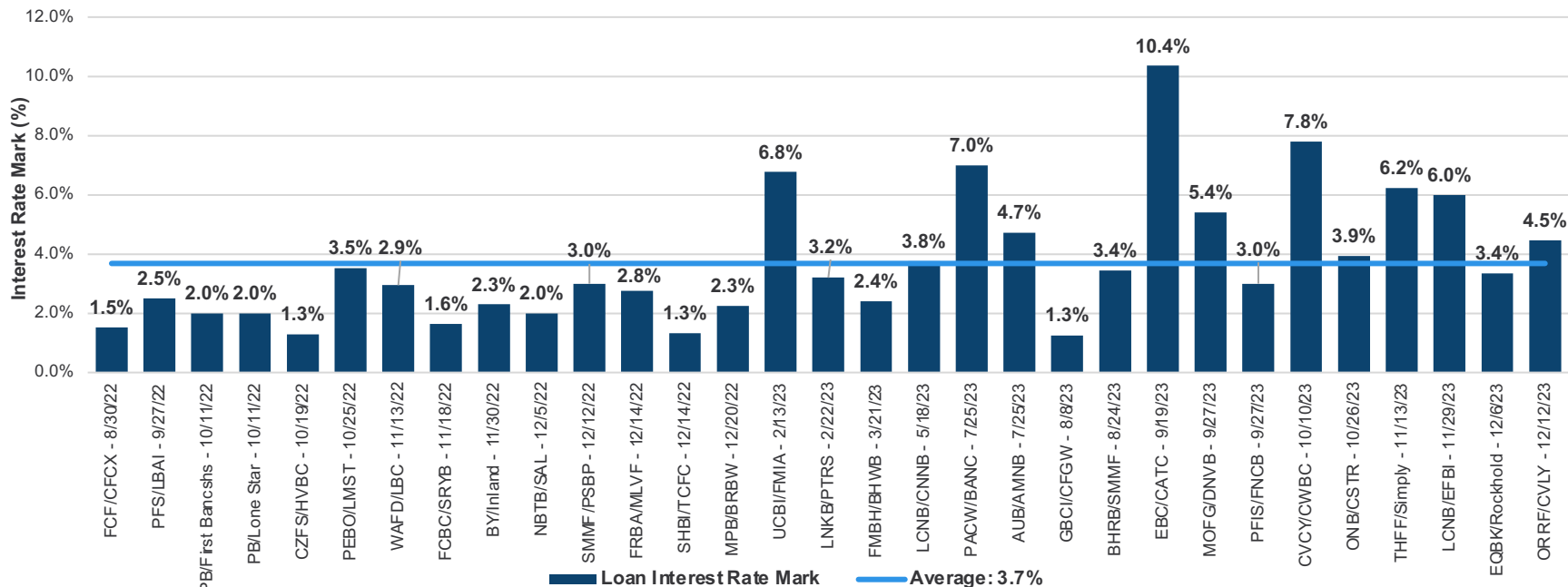
M&A RECENT TRENDS

Gross Loan Interest Rate Marks

- Since August 2022, the average loan interest rate mark disclosed was ~3.7%

Loan Interest Rate Marks

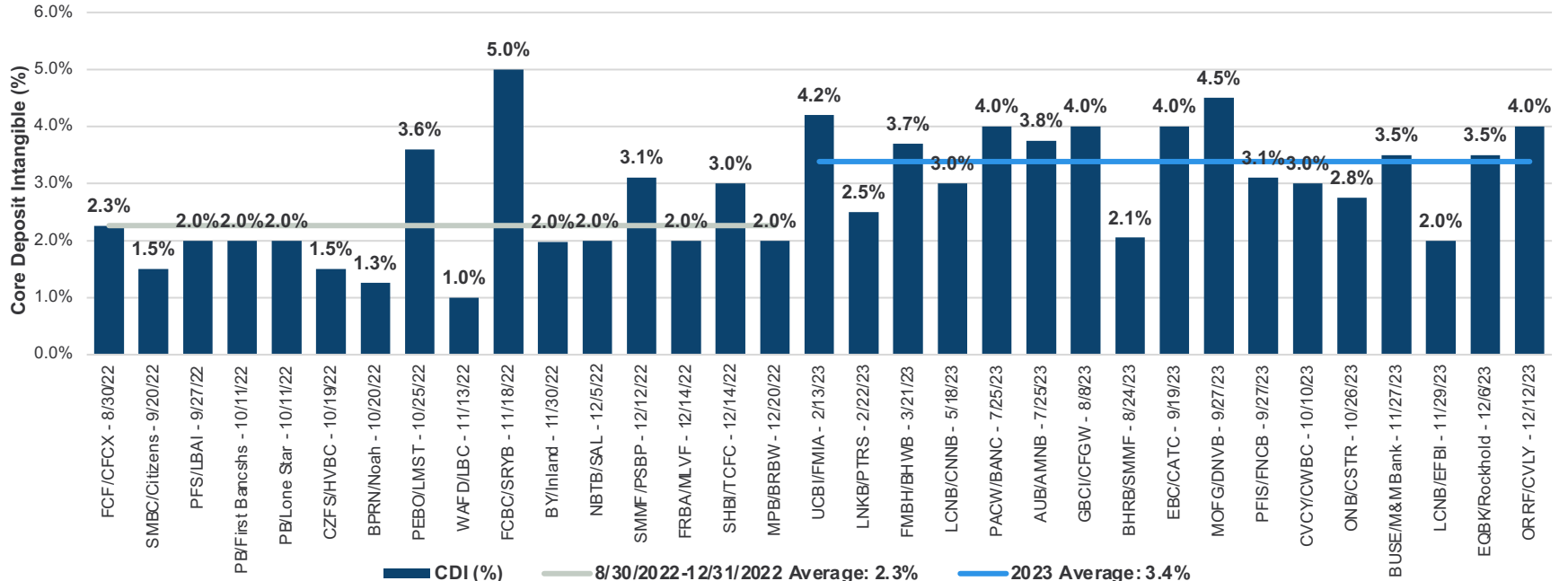
2022 - Current



M&A RECENT TRENDS

- Announced Core Deposit Intangible percentages increased in 2023 along with interest rates
 - Average core deposit intangible % for 2023 was 3.4% versus 2.3% in 2022 (from August 2022)

Core Deposit Intangible
2022 - Current



MARKS AND AOCI HAVE A SIGNIFICANT IMPACT ON M&A MATH

- For deals announced in 2023, the median EPS accretion on a stated basis was ~19% for 2024E and ~24% in 2025 while TBV dilution was ~8% with an earnback period of nearly 2.5 years
 - Excluding marks and AOCI, EPS accretion would have been closer to ~8% and ~12% for 2024-25E with TBV dilution of ~1% and earnback ~1.5 years

Select M&A Transactions – GAAP vs. Non-GAAP Financial Impact

Deals Announced in 2023

Date Announced	BUYER				TARGET				GAAP Financial Impact				Non-GAAP Financial Impact ¹			
	Company Name	Ticker	State	Assets (\$M)	Company Name	Ticker	State	Assets (\$000)	EPS Accretion		TBV Impact		EPS Accretion		TBV Impact	
									2024E (%)	2025E (%)	Accr./Dil. (%)	Earnback (Yrs)	2024E (%)	2025E (%)	Accr./Dil. (%)	Earnback (Yrs)
12/12/23	Orrstown Financial Services	ORRF	PA	3,054,435	Codorus Valley Bancorp Inc.	CVLY	PA	2,190,592	21.0%	46.0%	-20.9%	2.6	8.0%	25.0%	-0.7%	0.3
12/6/23	Equity Bancshares Inc.	EQBK	KS	4,945,267	Rockhold Bancorp		MO	405,681	12.0%	14.3%	-3.4%	1.3	3.1%	4.8%	-0.9%	0.7
11/29/23	LCNB Corp.	LCNB	OH	1,981,668	Eagle Financial Bancorp Inc	EFBI	OH	175,765	-	11.5%	-2.4%	2.1	-	5.9%	Accretive	-
11/27/23	First Busey Corp.	BUSE	IL	12,258,250	Merchants & Manufacturers Bank		IL	473,109	-	>6%	<1.5%	2.0	-	-	-	-
11/13/23	First Financial Corp.	THFF	IN	4,784,806	Simply Bank		TN	701,819	-	32.1%	-13.6%	3.0	-	14.6%	-5.0%	2.1
10/26/23	Old National Bancorp	ONB	IN	49,059,448	CapStar Finl Hldgs Inc		TN	3,264,540	-	5.0%	-1.8%	<2.0	-	-	Accretive	-
10/10/23	Central Valley Community Bncp	CVCY	CA	2,435,359	Community West Bancshares	CWBC	CA	1,131,430	-	42.5%	-18.7%	2.4	-	10.2%	3.3%	-
9/27/23	MidWestOne Financial Grp Inc.	MOFG	IA	6,521,489	Denver Bankshares Inc.	DNVB	CO	274,275	13.4%	10.2%	-3.8%	2.6	6.4%	3.9%	-1.2%	1.5
9/27/23	Peoples Financial Services	PFIS	PA	3,681,775	FNCB Bancorp Inc.	FNCB	PA	1,861,872	43.0%	59.0%	-11.3%	2.4	18.0%	32.0%	-	-
9/19/23	Eastern Bankshares Inc.	EBC	MA	21,583,493	Cambridge Bancorp	CATC	MA	5,489,622	>20%	-	-7.5%	2.8	-	-	11.0%	-
8/24/23	Burke & Herbert Finl Svcs Corp	BHRB	VA	3,569,226	Summit Financial Group Inc.	SMMF	WV	4,552,270	71.0%	92.0%	-12.7%	1.2	30.0%	49.0%	4.1%	-
8/8/23	Glacier Bancorp Inc.	GBCI	MT	27,527,679	Cmnty Finl Grp (Spokane WA)	CFGW	WA	716,313	3.4%	4.2%	-0.4%	<1.0	-	-	-	-
7/25/23	Atlantic Union Bkshs Corp.	AUB	VA	20,602,332	American National Bankshares	AMNB	VA	3,113,163	18.6%	-	-9.7%	<3.0	4.8%	-	-4.5%	2.8
5/18/23	LCNB Corp.	LCNB	OH	1,950,763	Cincinnati Bancorp Inc	CNNB	OH	305,017	18.2%	26.2%	-6.6%	2.3	8.0%	17.6%	-2.5%	1.6
3/21/23	First Mid Bancshares	FMBH	IL	6,744,215	Blackhawk k Bancorp Inc.	BHWB	WI	1,321,798	22.4%	21.9%	-7.7%	1.9	9.7%	10.1%	-3.0%	1.7
2/22/23	LINKBANCORP Inc.	LNKB	PA	1,163,654	Partners Bancorp	PTRS	MD	1,574,612	23.0%	-	-14.0%	2.7	19.0%	-	-2.0%	0.6
Median									18.6%	24.1%	-7.7%	2.4	8.0%	12.4%	-1.2%	1.6
Average									22.6%	30.4%	-9.0%	2.2	11.9%	17.3%	-0.1%	1.4

IV. EXPECTATIONS FOR THE YEAR AHEAD



WHAT WE EXPECT FROM BANKS IN THE NEXT ~12 MONTHS

Balance Sheet Liquidity:

- A number of banks have announced modest repositioning of their securities portfolios in 4Q23 and we expect more to come in 2024

Deposits:

- Deposit growth was generally in an upward trend throughout 3Q and 4Q after declining in 1Q and being flattish in 2Q23
- CD growth has slowed
- Cost of deposits has begun to stabilize

Net Interest Margin:

- Many banks are more optimistic about forward NII trends due to possible interest rate cuts and deposit costs appearing to stabilize

Overall, many bank management teams expect 4Q23 results to “mirror” 3Q23 results with 1H24 expectations not too far off this guidance

Credit:

- Asset quality remains the wild card, but trends noted intra-quarter paint a rather tame credit picture as headline concerns are generally not residing on the balance sheets of regional and community banks

M&A:

- Banks are feeling better about pursuing M&A and M&A dialogue is increasing
- Opportunity to diversify liquidity sources
- Need for scale and succession planning issues are still a driving issue

Focus on Efficiency:

- Head count reductions persist: the banking industry's aggregate head count shrank again during the third quarter falling to 2.10 million full-time employees from 2.12 million in the second quarter

BANK M&A OUTLOOK | CONSOLIDATION THEMES (+/-)

Valuation/Bank Stock Prices

- The KRE index was down 10.7% in 2023 after being down 17.1% in 2022, but has rebounded +31.6% since October 31, 2023
- Relatively weak bank stock prices contributed to the slow down in 2023 bank M&A activity, while increasing bank stock prices should help fuel increased bank M&A activity in 2024

Credit

- Banks still remain relatively positive on asset quality as reflected in Q3 '23 earnings calls
- That being said, banks are definitely more cautious as we enter 2024 and have started to build reserves
 - Of the major exchange traded banks, 65% logged higher provisions in Q3 compared to Q2 2023

Interest Rate Environment

- The unprecedented rise in interest rates negatively impacted bank's AOCI positions and purchase accounting mark-to-market on investment securities and loans, which increases upfront TBV dilution, lengthens TBV earnback and negatively impacts pro forma capital ratios
- Recent Fed actions including expectations for interest rate cuts in 2024 will be a catalyst for increased bank M&A in 2024

Tech/Scale

- The rise of mobile banking, fintech, Buy Now Pay Later ("BNPL"), and pressure to innovate has management teams rethinking long-term strategy and longevity – larger banks have the pricing power and increased resources to scale tech
- Consolidation is a key way for smaller community banks to keep pace with the large competition while increasing earnings and enhancing franchise value

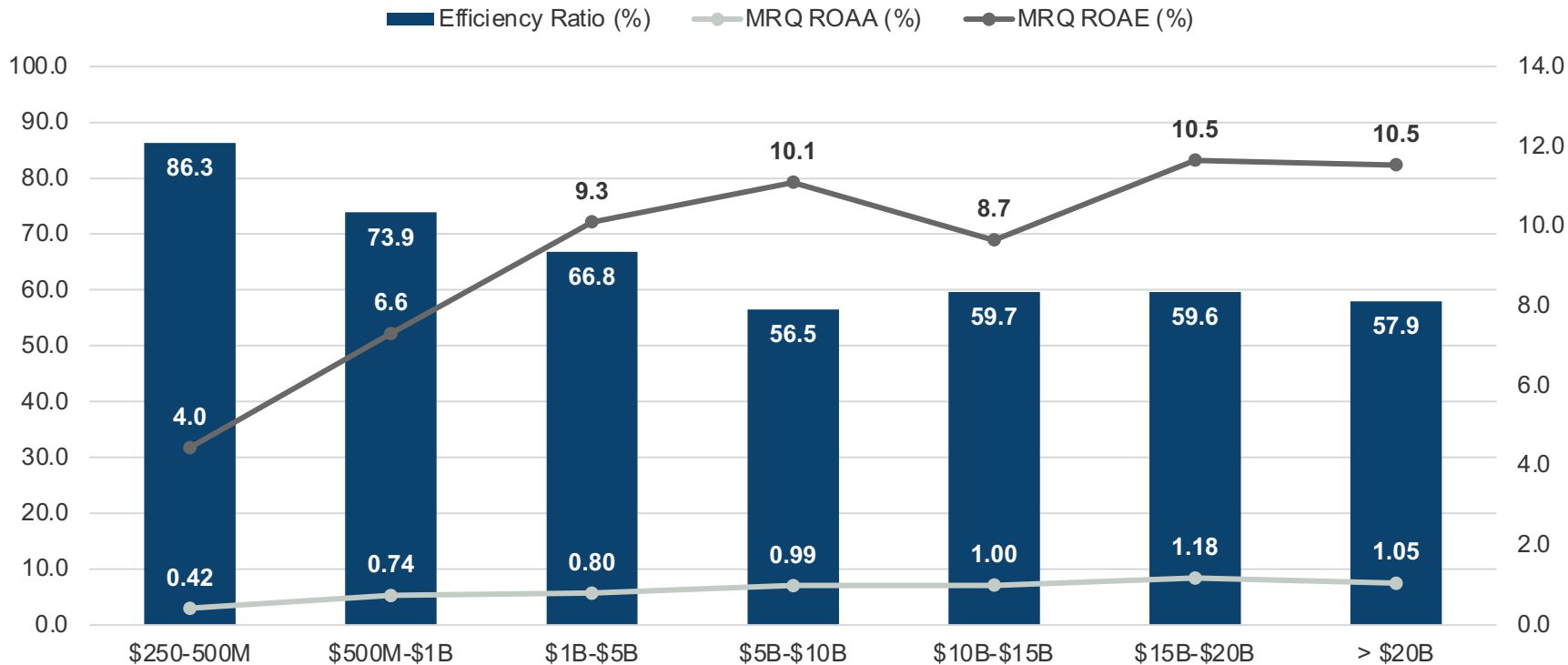
Regulatory/ Federal Reserve

- Increased regulatory scrutiny related to large bank M&A approvals has begun to impact smaller sized acquisitions as well, with the average period to obtain regulatory approvals increasing
- Even with the prospect of longer regulatory approval timelines, management fatigue related to increased regulatory scrutiny following the recent turmoil in the banking industry should result in increased incentives for bank M&A in 2024

BANK METRICS BY TOTAL ASSETS

Bank Profitability Ratios by Total Assets

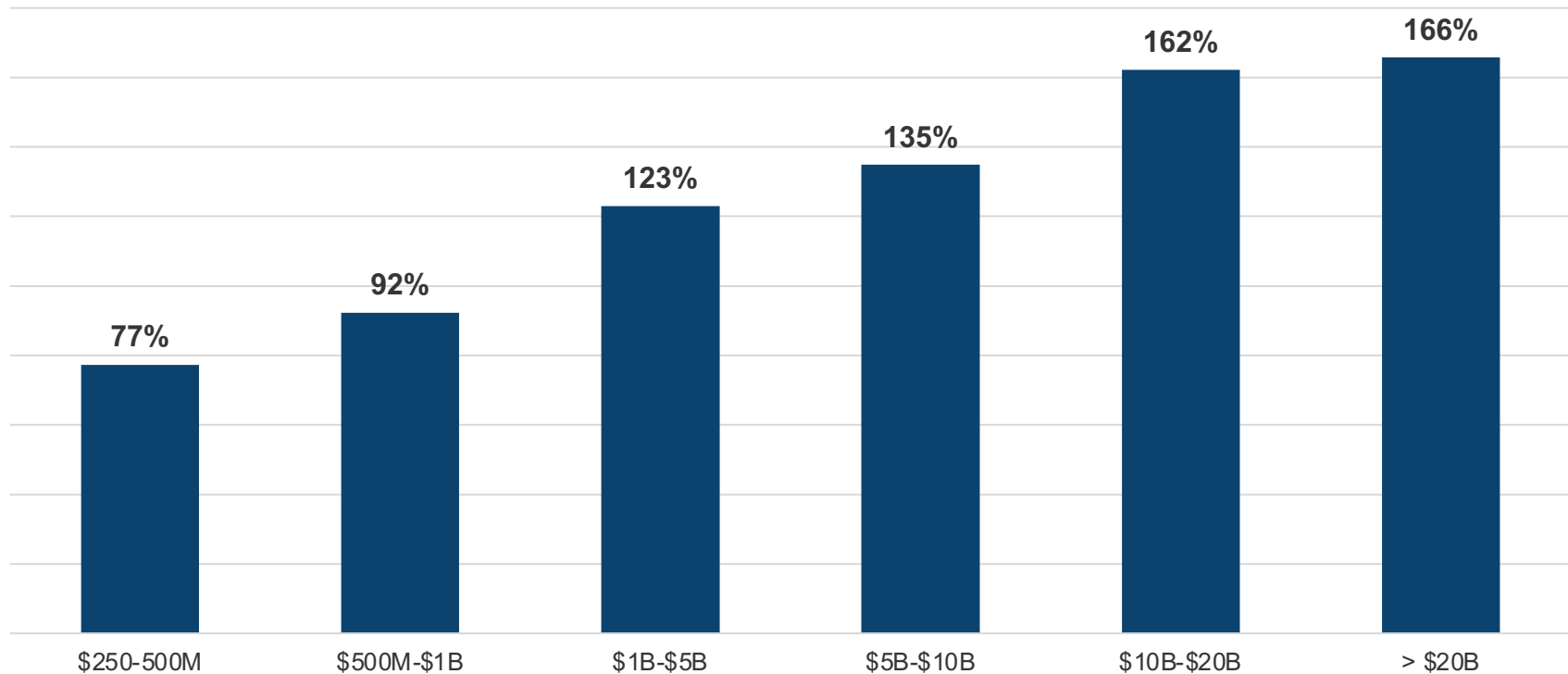
Median Efficiency Ratio, ROAA & ROAE




SCALE AND RELEVANCE WILL CONTINUE TO BE A FACTOR IN FUTURE BANK M&A

Price-to-TBV by Assets

As of January 8, 2024



KEY M&A MARKET THEMES

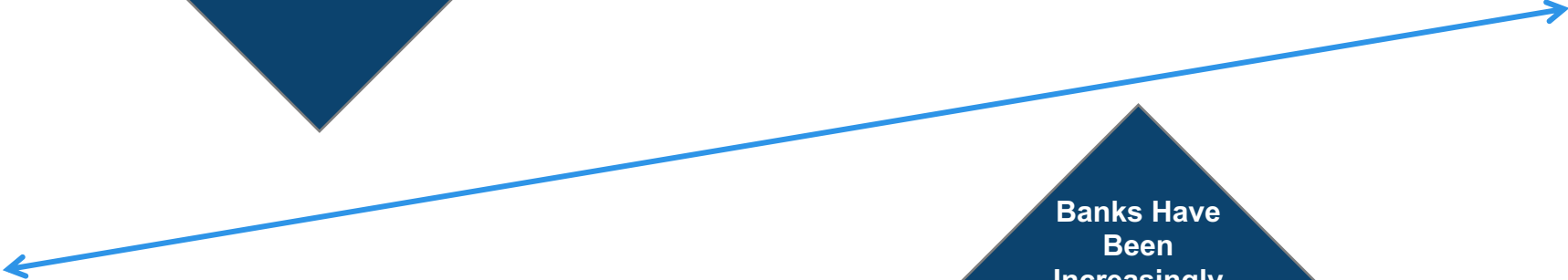


Significant Headwinds to M&A

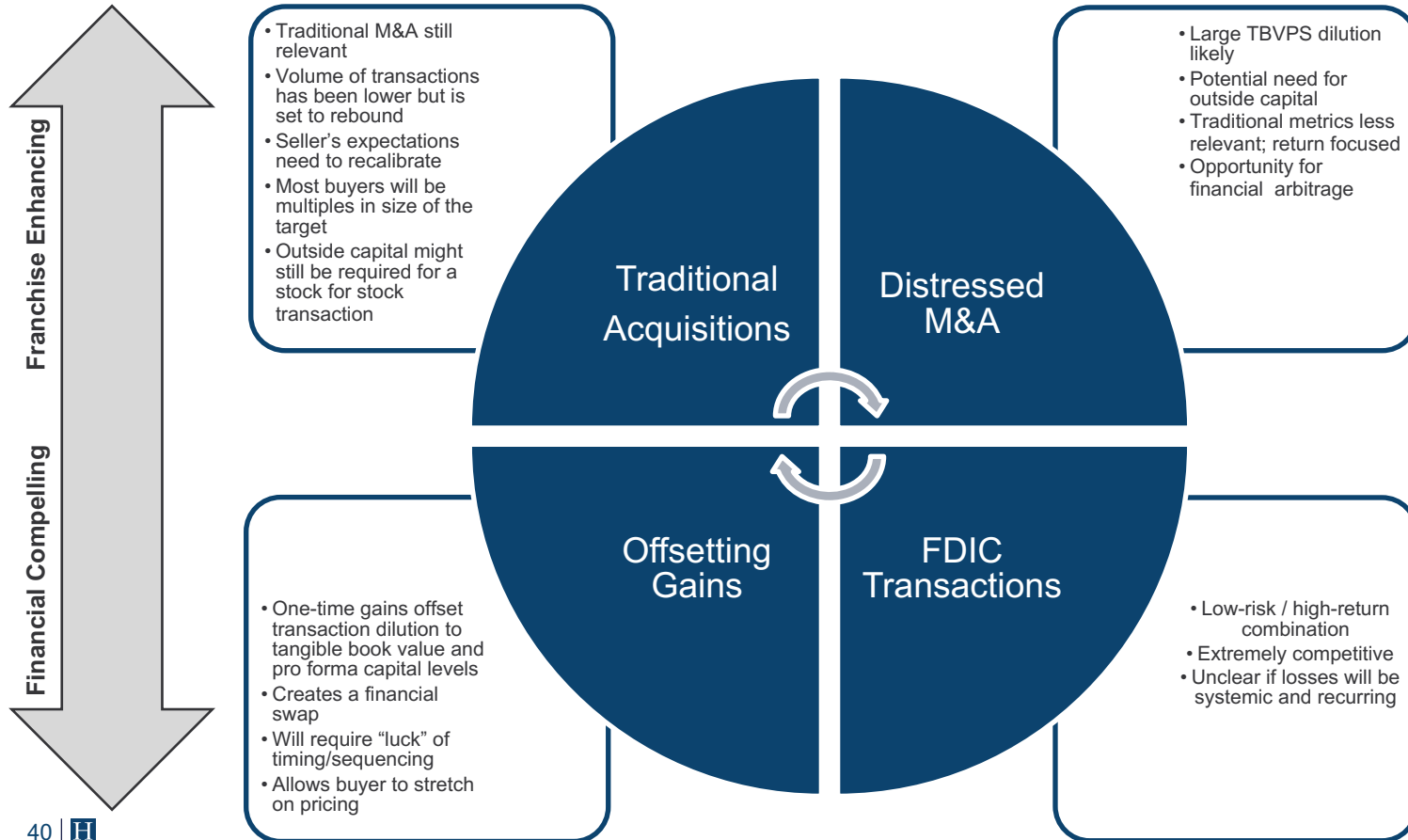
- Trading valuations are coming off of long-term lows
- The interest rate environment is distorting purchase accounting
- Regulatory delays and focus on CRA have stymied discussions
- Smaller transactions seem to be getting done, but 13 deals have been terminated since January 2022



Banks Have Been Increasingly Willing to Announce Strategic Deals/Bank M&A Dialogue Has Been Heating Up

- 
- Certain strategic deals have been well received despite significant upfront TBV dilution
 - M&A creates opportunity to restructure balance sheets
 - Further decreases in estimates will emphasize the importance of acquisition related earnings growth
 - Sellers appear more open to taking stock at depressed levels

TODAY'S M&A ENVIRONMENT



OFFSETTING GAINS

- In September 2023, MidWestOne Financial Group, Inc. (“MOFG”), announced a 100% cash acquisition of Denver Bankshares, Inc., (“DNVB”) for \$32.6 million and the sale of its Florida franchise including 2 branches for a 7.5% deposit premium
- The monetization of MOFG’s Florida franchise provided capital for the acquisition of Denver Bankshares, Inc. and the TBVPS dilution from the DNVB acquisition was substantially offset by the deposit premium received in the Florida franchise divestiture

MOFG Pro Forma:

Acquisition of DNVB & Florida Divestiture

13.4% accretive to 2024 EPS
10.2% accretive to 2055 EPS

3.7% dilutive to TBVPS at closing

2.58 years

~26%

TCE/TA of 6.5%; CET1 of 8.9%; TRBC of 11.8%

MOFG Pro Forma:

Acquisition of DNVB Only

12.0% accretive to 2024 EPS
12.9% accretive to 2055 EPS

5.7% dilutive to TBVPS at closing

3.58 years

~14%

TCE/TA of 6.2%; CET1 of 8.5%; TRBC of 11.3%

EPS Impact

TBVPS Impact

Earn-back

IRR

Capital Ratios

CAPITAL WILL BE KING IN 2024

Excess capital will be needed in 2024 to repurchase stock, restructure low-yielding investment and loan portfolios and participate in bank consolidation



Banks will need to carefully allocate their excess capital between the above alternatives in addition to maintaining a buffer should the economy go into recession and credit deteriorate



Banks should assess where they might have untapped sources of capital on their balance sheets:

- **Sale of business or subsidiary (e.g., insurance business)**
- **Sale of noncore assets (e.g., Visa shares)**
- **Sale of branches and/or loans**

CAPITAL WILL BE KING IN 2024

Most stock for stock transactions (including low market premium deals) are significantly dilutive to pro forma capital ratios due to required fair value marks



Merger accounting is still an impediment to deal activity due to significant (although hopefully improved) fair value marks related to:

- HTM securities portfolios
- AFS securities portfolios especially as it relates to a target's regulatory capital
- Loans (both credit and interest rate)
- Core Deposit Intangible

Which are only partially offset by fair value marks related to:

- Fixed asset/other asset write-ups
- Deposits
- Borrowings
- Sub debt/trust preferred

HYPOTHETICAL M&A TRANSACTION

- Illustrative example of a stock-for-stock merger of two relatively like-size banks and purchase accounting impact on pro forma capital ratios

Financial Highlights

(\$M)	Standalone Buyer	Standalone Seller	Pro Forma
Assets	\$4,000	\$3,000	\$6,983
Loans	2,800	2,100	4,795
Deposits	3,300	2,450	5,726
Loan-to-Deposit Ratio	85%	86%	84%
Equity	380	285	672
ROA	0.96%	0.90%	1.44%
ROTCE	11.3%	10.2%	20.8%
TCE Ratio	8.2%	8.5%	7.1%
Leverage Ratio	10.1%	10.4%	8.2%
CET1 Ratio	11.3%	11.6%	9.1%
Tier 1 Capital Ratio	11.3%	11.6%	9.1%
Total Risk-Based Ratio	13.6%	13.8%	11.0%
Price/TBV	130%	115%	
Price/2024E EPS	10.5x	10.3x	
Price/2025E EPS	10.3x	10.0x	

Financial Impact:

GAAP Basis

2024E EPS: +49%

2025E EPS: +52%

TBV Dilution: -17%

Earnback: 2.1 years

Financial Impact:

Non-GAAP Basis

2024E EPS: +9%

2025E EPS: +12%

TBV Dilution: -2%

Earnback: 0.6 years

Key Assumptions

Pricing Summary

Consideration Mix: 100% Stock

Market Premium: 8%

Pay-to-trade Ratio: 95%

Loan Credit Marks

Gross Credit Mark: \$21.0M or 1.00% of gross loans

Non-PCD Mark: \$10.5M accreted back to earnings over 5 years

PCD Mark: \$10.5M accreted back to earnings over 5 years

Day-2 CECL reserve of \$10.5M

Other Assumptions

Loan Int. Rate Mark: 4.50% accreted back to earnings over 5 years

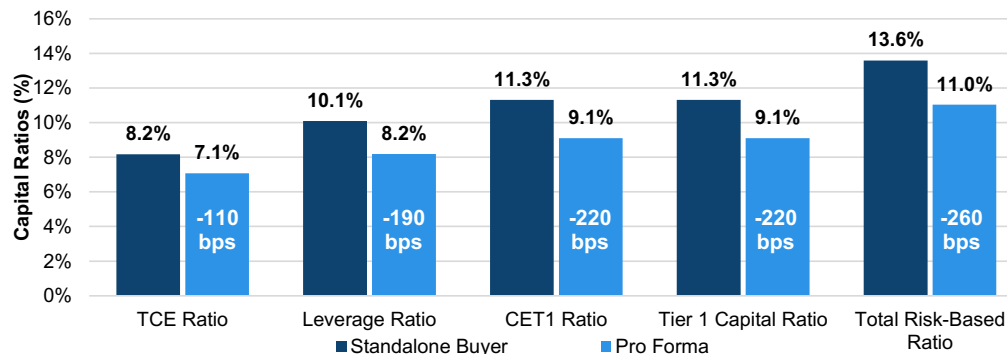
Deposit Mark Down: 1.00% accreted back to earnings over 2 years

Securities Mark: \$30M accreted back to earnings over 5 years

Elimination of AOCI: \$57M or ~20% of equity; accreted 5 years

Impact to Capital Ratios

Standalone vs. Pro Forma



BANK CAPITAL ALTERNATIVES



Instrument	Senior Debt (Holding Company)	Subordinated Debt	Preferred Equity	Convertible Preferred	Common Equity
Details	<ul style="list-style-type: none"> ➤ Tier 1 at the bank level ➤ Non-dilutive to equity ownership ➤ Not holding company regulatory capital ➤ Holdco loan typically secured by subsidiary bank stock ➤ Senior debt is typically unsecured 	<ul style="list-style-type: none"> ➤ Tier 2 capital at issuing level ➤ Tier 1 at bank level if issued at Holding Company ➤ Requires dividend from bank to pay interest 	<ul style="list-style-type: none"> ➤ Counts as Tier 1 if non-cumulative and perpetual ➤ Fixed or floating rate structures, perpetual term ➤ Investor base may be limited given lack of upside 	<ul style="list-style-type: none"> ➤ Tier 1 capital, potentially common equity if converted ➤ Fixed or floating rate structures ➤ Adds complexity to financial statements and execution 	<ul style="list-style-type: none"> ➤ All proceeds count as regulatory capital at all levels ➤ Can negatively impact per-share performance metrics ➤ Dilutive to existing shareholders

CLOSING THOUGHTS

Capital is available for well structured M&A transactions, although admittedly it may be relatively expensive at the moment

- The recent improved sentiment related to interest rates, bank operating environment, and bank stock prices should draw investors from the sidelines



Acquirers should make sure that any capital needed in a M&A transaction is fully committed at the time of announcement, which will potentially impact the type of investors who will need to participate



Potential investors in bank stocks / bank M&A transactions include:

- Private equity / hedge funds
- Financial services institutional investors
- Generalist institutional investors
- Family offices
- Insiders / board members

BankDirector.

Breakout 2:
**Bank M&A Update: Why
Capital/Balance Sheet
Management Will Be a Key
Component of Dealmaking
in 2024**

Scan here to fill out
the evaluation for
this session.



Michael Barry

Hovde Group, LLC

Will Curtiss

Hovde Group, LLC

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