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November 2024
Research

2025 Bank M&A Survey

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Crowe

TABLE OF CONTENTS

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EXECUTIVE SUMMARY

Could banking industry growth prospects rebound in 2025?

Merger activity has slowed in recent years, driven by factors including unrealized losses on banks' balance sheets and uncertainty about regulatory approvals. At the same time, the interest rate environment has challenged bank profitability, tamping down borrowing demand and making core deposits more expensive.

Bank executives and directors responding to Bank Director's 2025 Bank M&A Survey, sponsored by Crowe LLP, strike a cautiously optimistic note about the prospect of M&A.

"The general sentiment in the industry is that M&A is back on the table," says Patrick Vernon, a strategy and transaction advisory senior manager at Crowe. "Some of those lower yielding assets have rolled off, and we've seen banks aggressively restructuring balance sheets, which allows for those pricing multiples to be more reflective of what a buyer would expect."

Forty-three percent of bank leaders say their organization is very or somewhat likely to buy another bank by the end of 2025, up from 35% a year earlier. Among respondents who were open to acquiring, scale to drive technology and other investments (43%) and geographic expansion (37%) are cited as the two most important factors driving acquisition strategies.

Among prospective acquirers from publicly traded banks, 55% believe their bank's stock is attractive enough to buy a target that meets their criteria, reflecting broader improvements in bank stock prices over the past year. In last year's survey, conducted as the industry experienced widespread stock depreciation on the heels of a trio of large bank failures, 40% said their bank's stock would be strong enough to make such an acquisition. Bank stocks have since rebounded; for example, the KBW Nasdaq Bank Index was up 68% from the prior year as of Oct. 23.

Despite these positive signs, deposit costs continue to challenge bank profitability, according to 72% of respondents. That should improve if the Federal Reserve continues to cut interest rates. The survey was fielded in September 2024, with most respondents taking part before the Fed moved to cut rates by 50 basis points; 60% expect lower core deposit costs in such a scenario.

In the survey, 40% of bank leaders cite concerns about regulatory compliance costs as a significant challenge to profitability. And more than a third point to an increased compliance burden as an obstacle to organic growth, up from 22% a year earlier.

"I think the regulatory pendulum is swinging so very far into the weeds that it is going to choke us," wrote the CEO of a small, midwestern bank who responded to the survey. He believes the need for scale in such an environment could drive more consolidation. "It is getting harder and harder to maintain acceptable profitability as a small, family-owned bank in a rural marketplace."

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

Barriers To Dealmaking

More than three-quarters of respondents say potential targets' pricing expectations are a key hurdle to making an acquisition, followed by demands on bank capital (52%), culture or personnel integration (52%) and a lack of suitable targets (50%).

Pricing Divide

Forty percent of potential buyers would pay up to 1.5 times tangible book value for an institution that meets their criteria, while another 34% would pay up to 1.2 times book value. A majority of potential sellers want a minimum value of 1.5 times book value, or more, if they were to sell.

Obstacles To Organic Growth

Respondents cite competition by other financial institutions (48%), economic uncertainty (44%) and the high interest rate environment (36%) as the top obstacles to organic growth. They also report growing concern about the regulatory compliance burden (34%) as well as sluggish or limited loan demand (31%) as impediments.

Capital Plans

Most respondents representing publicly traded banks expect to continue paying dividends or buying back stock at historical levels (46%) or increase dividend payments or buybacks (44%). That could indicate that bankers see dividend payments or buybacks as a show of strength to shareholders, Vernon says.

Appetite For MOEs

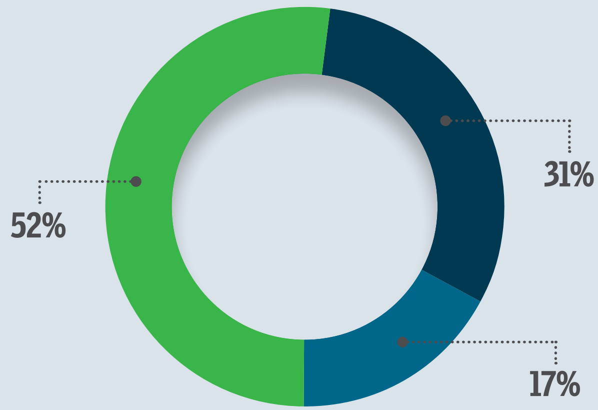
Nearly half of bank leaders (48%) indicate their management team would consider a merger of equals or similar strategic combination, compared with 41% a year ago. Respondents representing banks between $250 million and $5 billion of assets are much likelier to consider a merger of equals.

Credit Union Deals

A majority (76%) of bank executives and directors believe credit unions should be banned from buying banks. Respondents representing banks under $10 billion of assets are more likely to express this view.

ACQUISITION PLANS

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

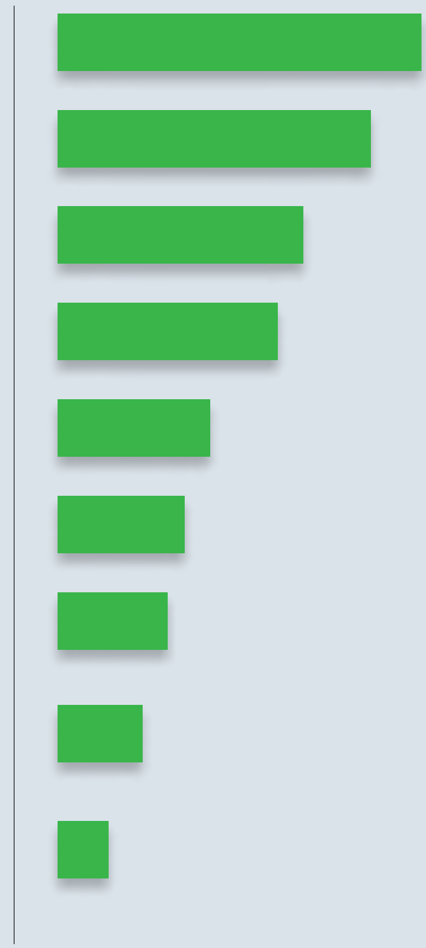


- We're open to acquisitions, but will focus primarily on organic growth
- We want to be active acquirers
- M&A is an unlikely growth path for my bank

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

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

43%	Scale to drive technology and other investments
37%	Geographic expansion
29%	Adding a low-cost deposit base
26%	Customer acquisition
18%	New business lines/revenue opportunities
15%	Cost savings
13%	Talent acquisition
10%	Pressures on profitability tied to the economic environment and similar factors
6%	Loan portfolio diversification



3. 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.

76%
Pricing expectations of potential targets

52%
Demands on my bank's capital

52%
Culture/integration of personnel

50%
Lack of suitable targets in desired markets/areas

36%
Concerns about asset quality of potential targets

24%
Unfavorable core provider contract terms/conditions

22%
Our stock doesn't trade at a high enough premium

22%
Lack of experience in doing acquisitions

17%
Commercial real estate concentration

16%
Technology integration

14%
Uncertainty about ability to gain regulatory approval

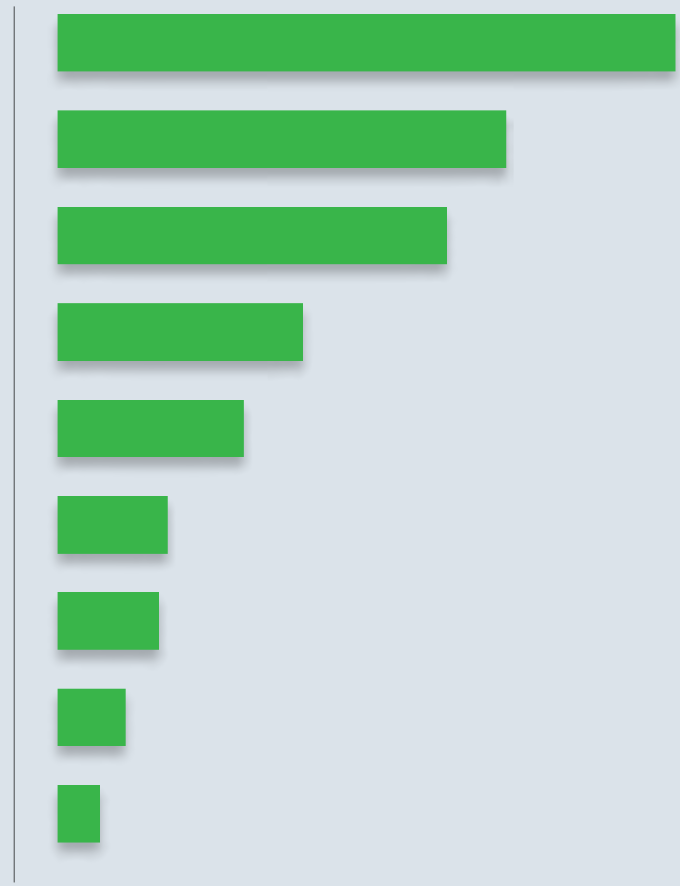
14%
Uncertainty about the future of banking

12%
Uncertainty about the future economy

1%
Other loan concentration

4. What are the top three challenges your bank faces in successfully executing an acquisition?

73%	Cultural integration challenges
53%	Post-merger integration plans
46%	Achieving post-merger cost saves
29%	Lack of acquisition experience
22%	Defining our M&A strategy
13%	Closing within the desired time frame
12%	Effective due diligence
8%	Communication with investors and other key stakeholders
5%	Inadequate risk mitigation practices



5. 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

54%
Efficiency gains/potential cost saves

50%
Complementary culture

48%
Complementary credit standards and/or consistent credit quality

37%
Locations in growing markets

35%
Demonstrated/potential loan growth

34%
Target size

30%
Talented lenders/lending teams

21%
Complementary business lines/ sources of revenue

20%
Target's strong reputation/brand in its market(s)

19%
New business lines/sources of revenue

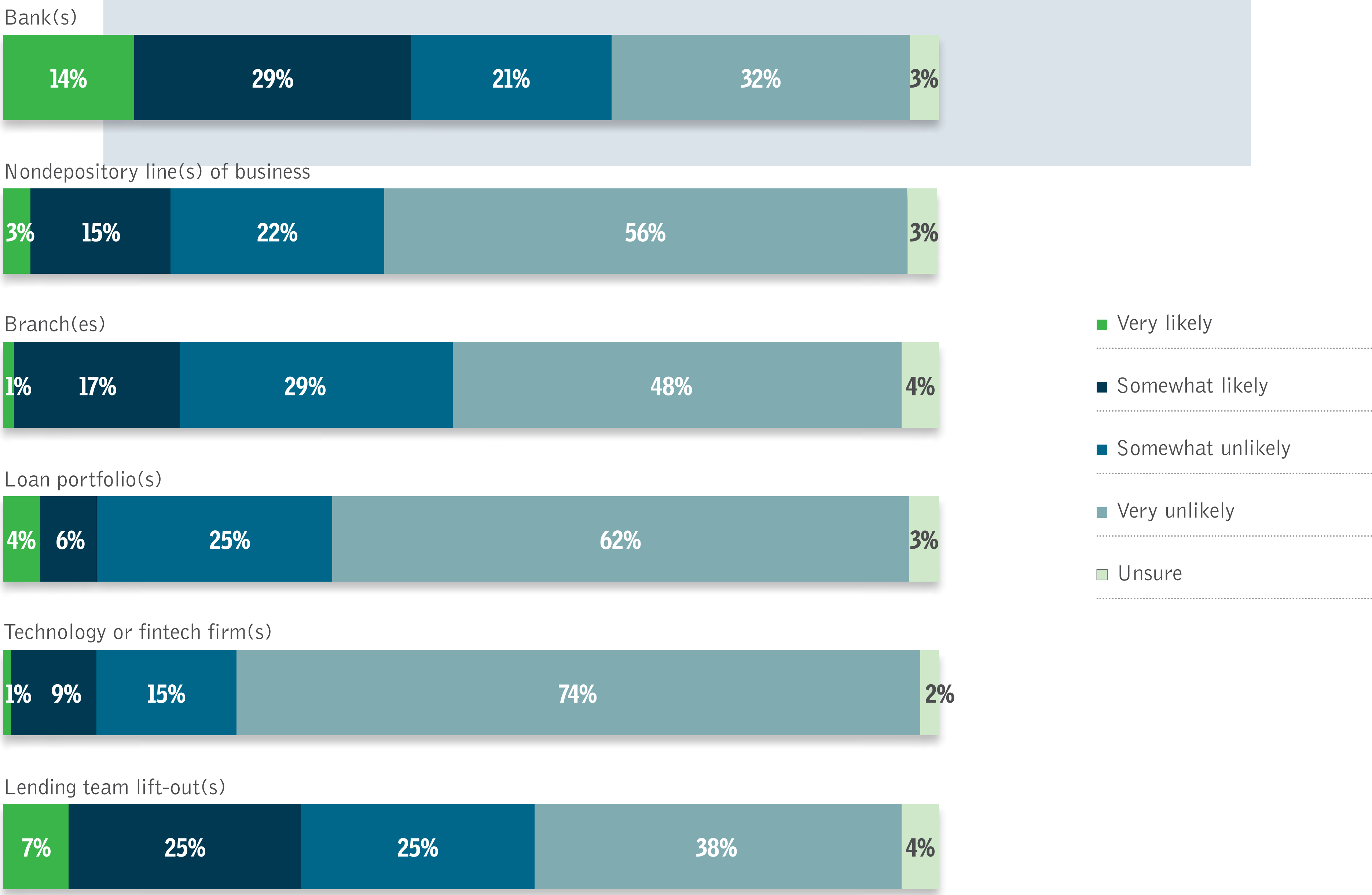
17%
High level of profitability

9%
Technology platform/ infrastructure

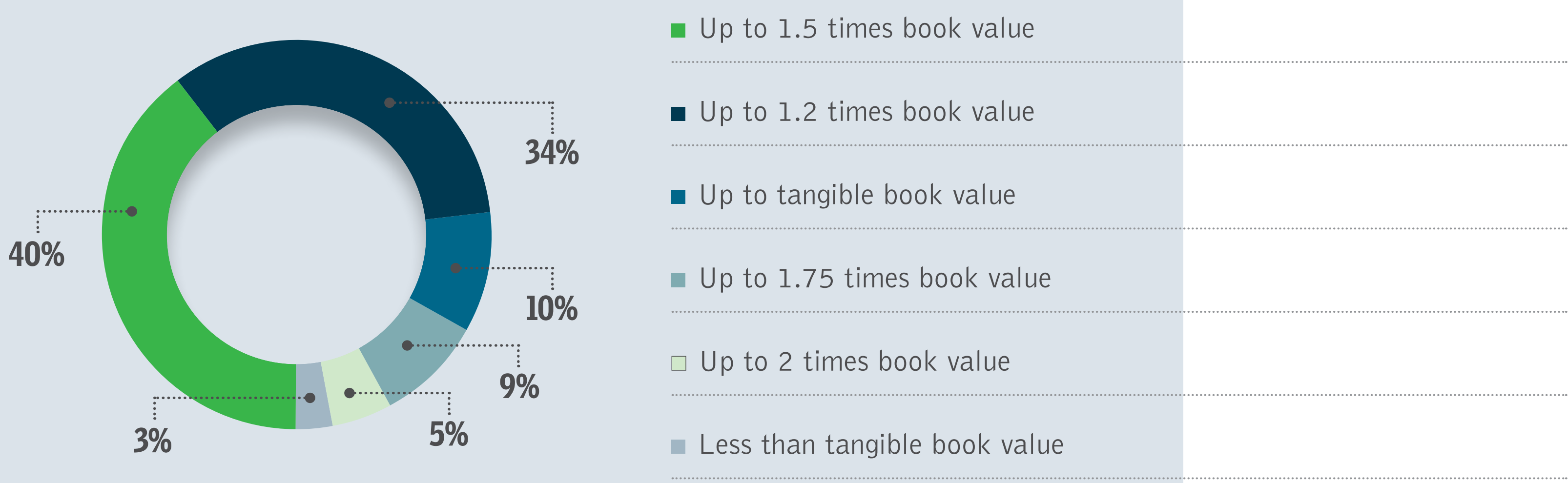
7%
Branch network overlap

1%
Strong digital footprint

6. Given the current environment, how likely is it that your institution will purchase the following by the end of 2025?



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



8. 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.

BALANCE SHEET CONSIDERATIONS

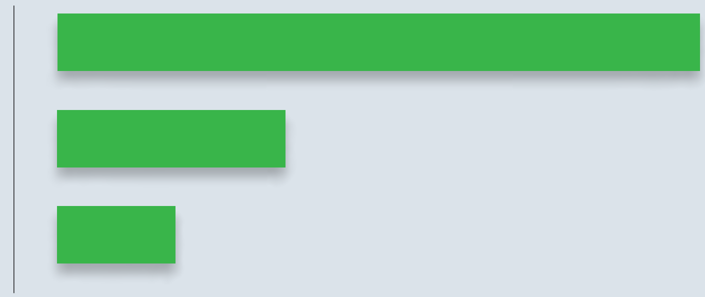
9. In 2024-25, what steps has your bank taken or will take to address long-term, lower rate assets on the balance sheet?

Respondents were asked to select all options that apply to their institution.

76% We will hold underwater assets to maturity

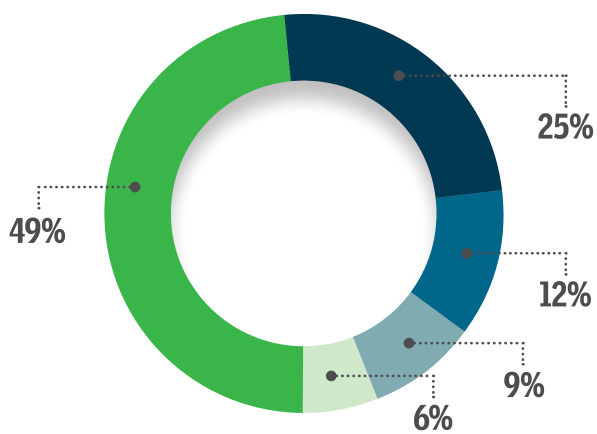
27% We have sold underwater assets at a loss

14% We expect to sell underwater assets at a loss



10. Has your bank's leadership discussed raising capital from a third party for any business purpose in 2024-25?

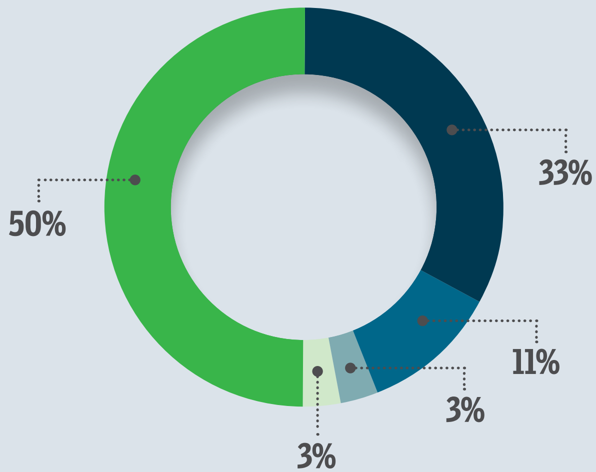
Question only asked of respondents from publicly traded or privately held banks.



- We have not discussed this at all
- We've discussed it but decided not to raise capital
- We've discussed it, but have not yet made a decision
- We've agreed to raise capital but have not yet started the process
- We've begun the process of raising capital from a third party

11. Why is your bank seeking to raise capital in 2024-25?

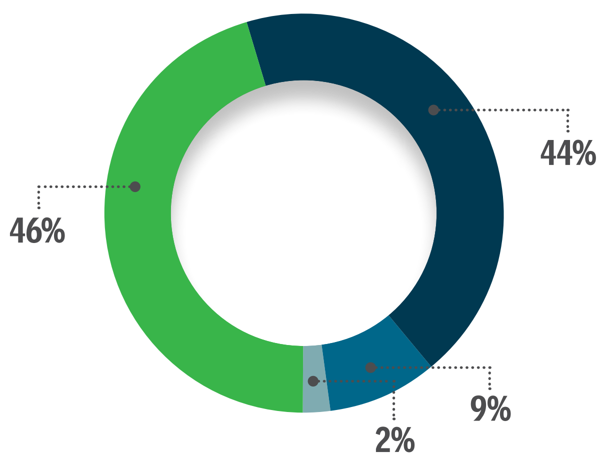
Question only asked of respondents who indicated their bank had started to raise capital or was planning to.



- To fund organic growth
- To fund M&A
- Other
- To address issues raised by our examiners
- To fund technology investment

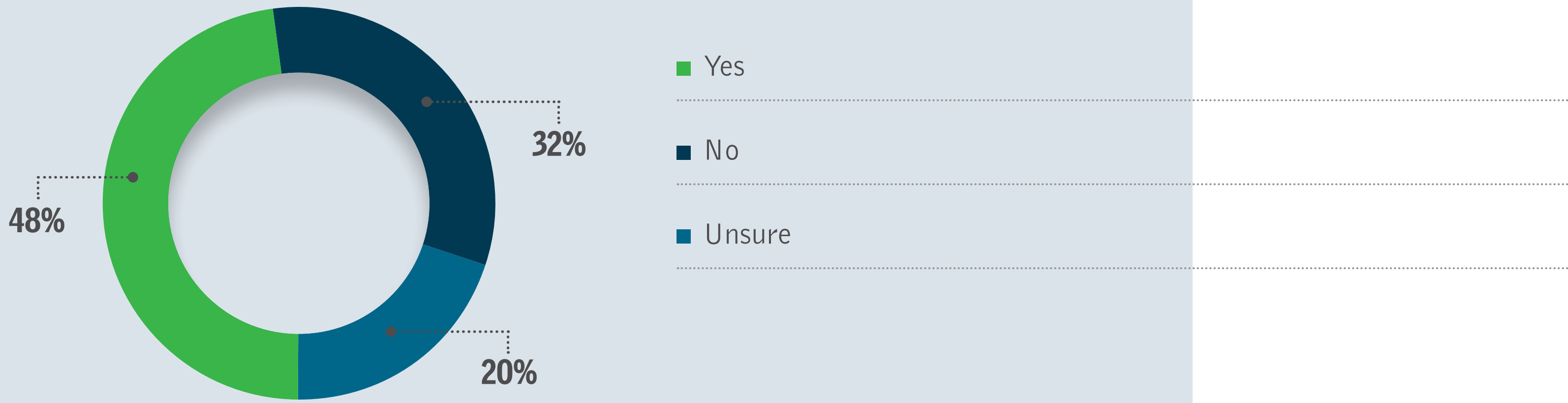
12. Will your bank continue paying dividends and/or buying back stock in 2024-25?

Question only asked of respondents from publicly traded banks.



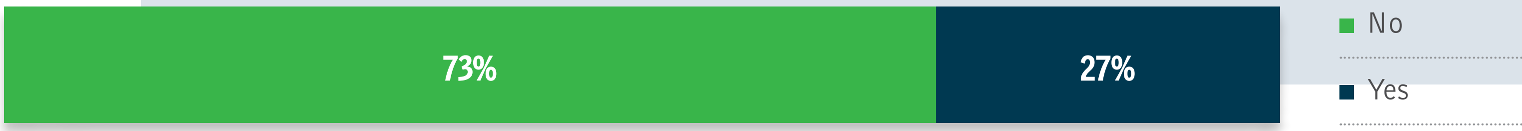
- Yes, we will continue at historical levels
- Yes, and we will increase dividends and/or buy back quantities
- No, we have not been paying dividends or buying back stock
- No, we do not plan to continue this activity

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

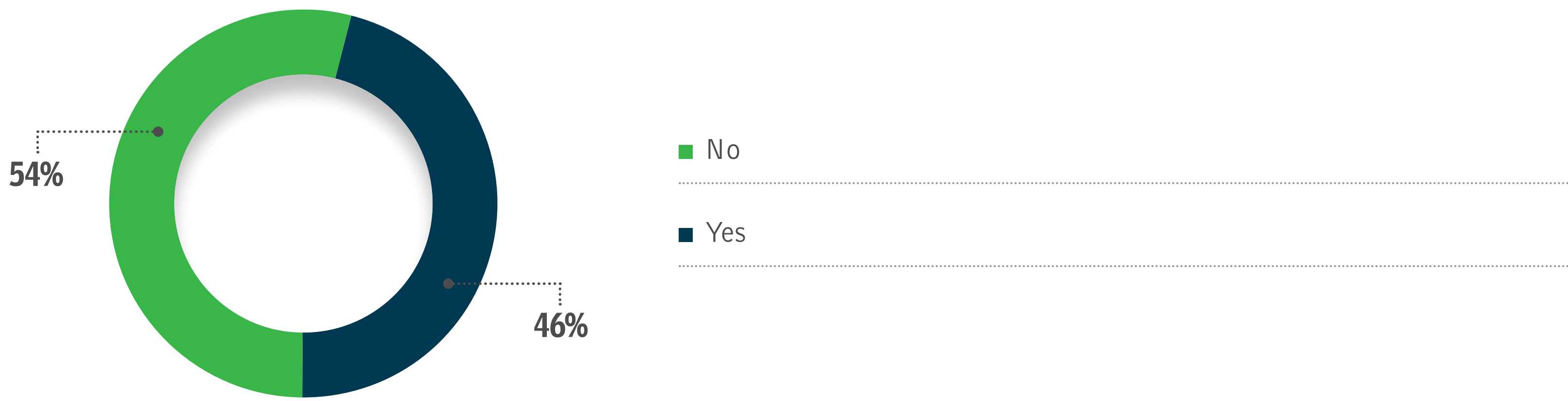


SENTIMENTS ABOUT SELLING

14. To your knowledge, did another financial institution express interest in acquiring your bank in 2023 or 2024?

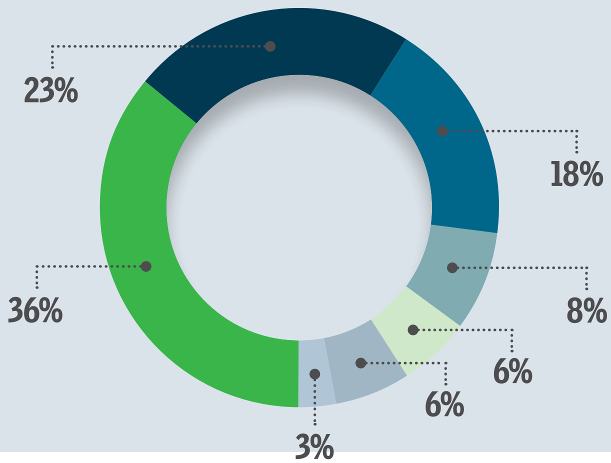


15. Would your board and management team be open to selling the bank over the next five years, at the right price?



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

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

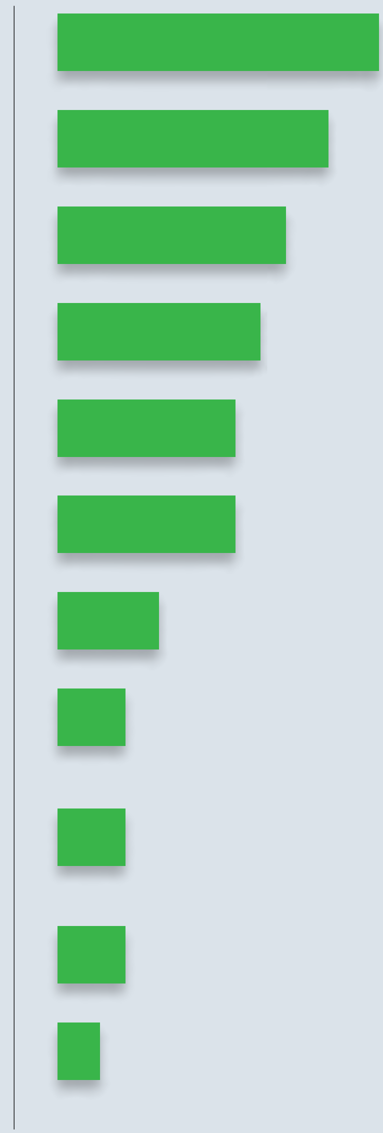


- At least 1.5 times book value
- At least 2 times book value
- At least 1.75 times book value
- At least 2.5 times book value
- More than 2.5 times book value
- At least 1.2 times book value
- At least tangible book value

17. What changes do you believe your bank could make that would result in a better price if you sell within the next five years?

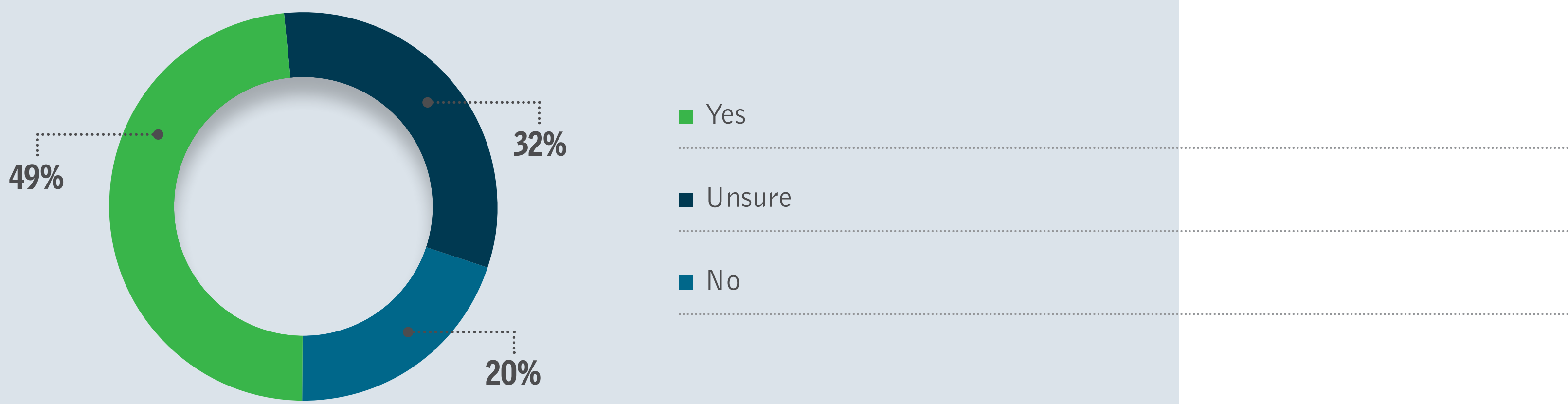
Question only asked of respondents who indicated their board and management team would be open to selling their institution over the next five years. Respondents were asked to select all that apply.

38%	Grow business lines that generate fee income
32%	Restructure the securities portfolio
27%	Reduce concentration of non-core, higher cost deposits
24%	I don't believe changes are needed
21%	Reduce commercial real estate concentrations
21%	Renegotiate core processor or key vendor contract(s)
12%	Address weaknesses in the bank's BSA/AML program
8%	Reduce or work out problem loans
8%	Renegotiate employment contracts to tie up key producers or executives
8%	Other
5%	Increase investment in technology or AI



18. Do you believe there are enough prospective buyers that would offer an attractive price for your bank?

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



ORGANIC GROWTH & PROFITABILITY

19. In 2023-24, what means of organic growth has your bank engaged in?

Respondents were asked to select all that apply.

63%	Adding staff in revenue-generating areas of the bank
45%	Adding new products within existing business areas
37%	Shift in marketing and advertising strategies
37%	New digital initiatives or upgrades that attract deposits
34%	De novo expansion (offices or branches) in new markets
31%	New customer referral initiatives
31%	New or upgraded customer relationship management tools
29%	Adding new business lines or products
19%	New digital initiatives or upgrades to drive loan originations
5%	Other
4%	Launching a niche digital brand to attract deposits
4%	Launching a digital brand to originate loans
2%	Banking as a service or embedded banking

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

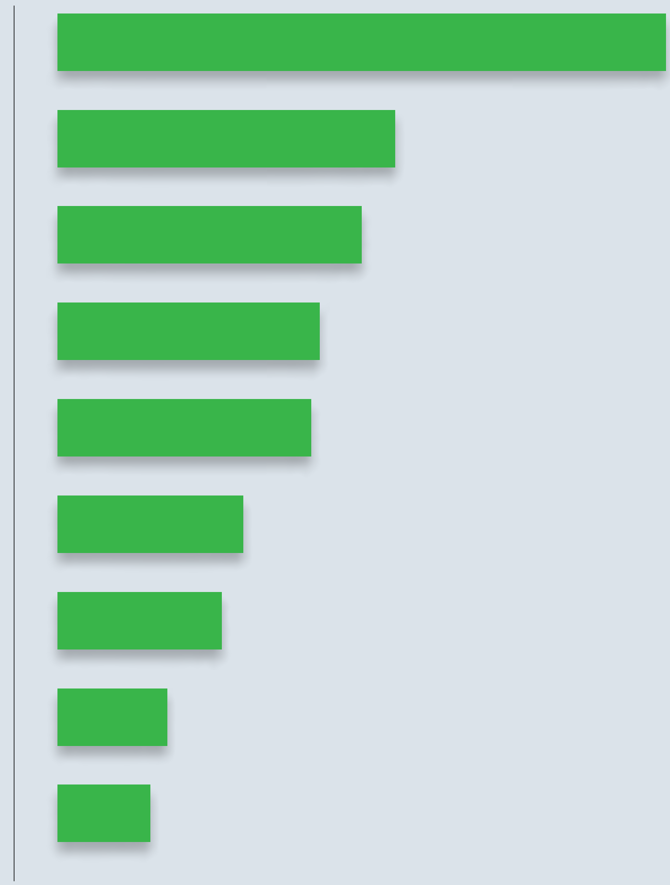
Respondents were asked to select no more than three options.

48%	Competition from other financial institutions offering more attractive rates
44%	Economic uncertainty or fear of recession
36%	High interest rate environment
34%	Increased compliance burden
31%	Limited or sluggish demand for loans
25%	Competition from fintechs or nonbank financial institutions (i.e. neobanks, online lenders)
24%	Talent shortage in key growth areas
14%	Need for more capital
12%	Slow new business formation in our markets
6%	Tightened underwriting standards
4%	Regulatory approval needed for new products or services

21. What do you consider the top three challenges to profitability facing your bank?

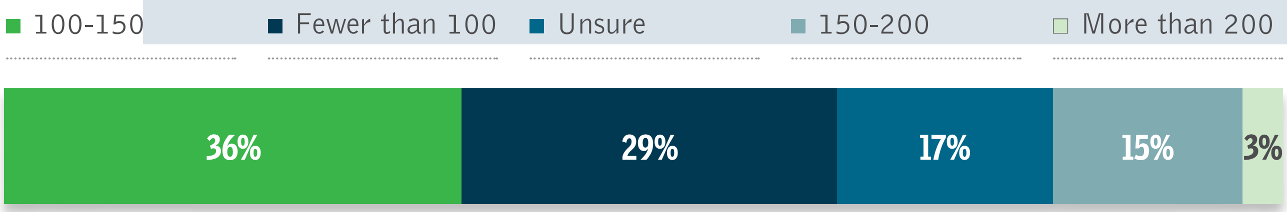
Respondents were asked to select no more than three options.

72%	Deposit costs
40%	Regulatory compliance costs
36%	Technology costs
31%	Slow or sluggish loan demand
30%	Compensation and benefits costs
22%	Underwater assets
19%	Declining fee revenue
13%	Difficulty in retaining talented employees
11%	Costs associated with the bank's branch network



VIEWS ON CONSOLIDATION

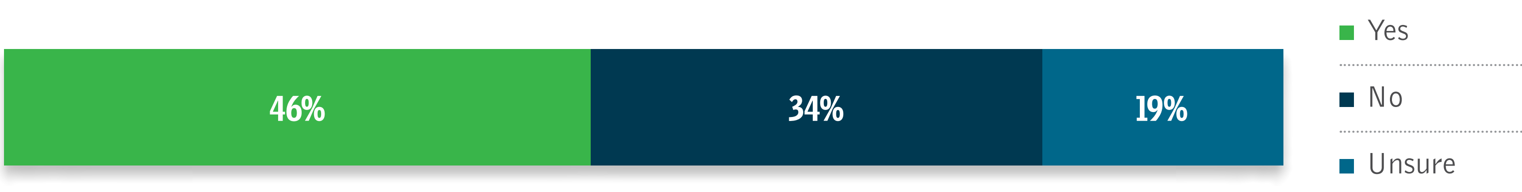
22. The U.S. had 59 bank mergers through the first half of 2024 and 99 in 2023. What do you believe is an ideal number of bank mergers to see in a full calendar year?



23. Should credit unions be banned from buying banks?

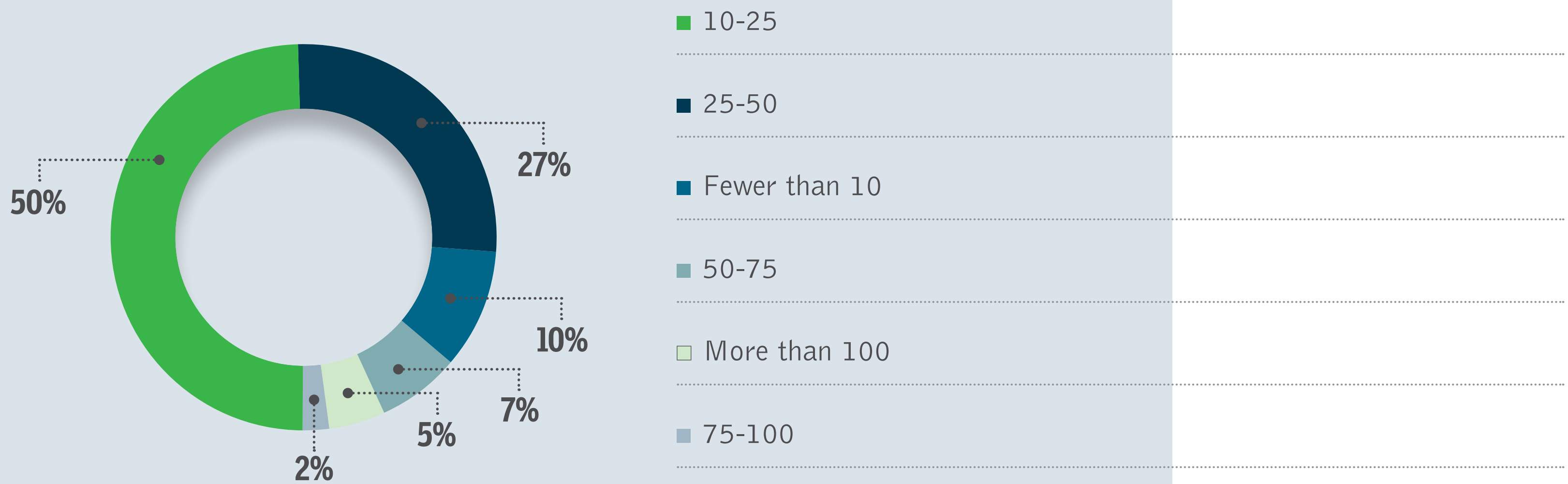
24. Do you want to see more de novo bank formation?

Numbers do not add up to 100 due to rounding.



25. What would be an ideal number of de novo banks to be formed each year?

Question only asked of respondents who said they would like to see more de novo bank formation. Numbers don't add up to 100 due to rounding.



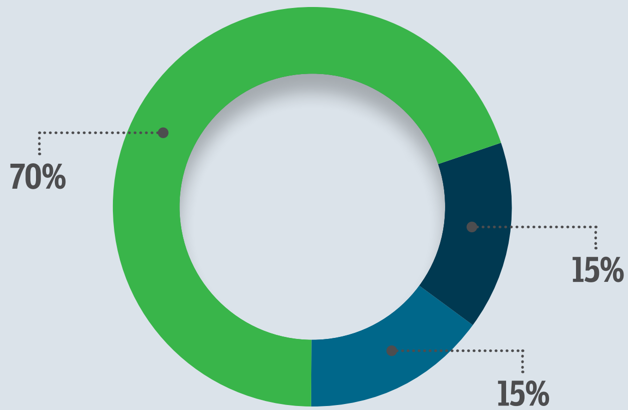
ECONOMIC & POLITICAL OUTLOOK

26. If the Federal Reserve cuts interest rates by 25-50 basis points within the next six months, do you believe that will be overall positive or negative for the U.S. economy?

27. If the Federal Reserve cuts interest rates by 25-50 basis points within the next six months, what do you anticipate the impact will be on your bank?

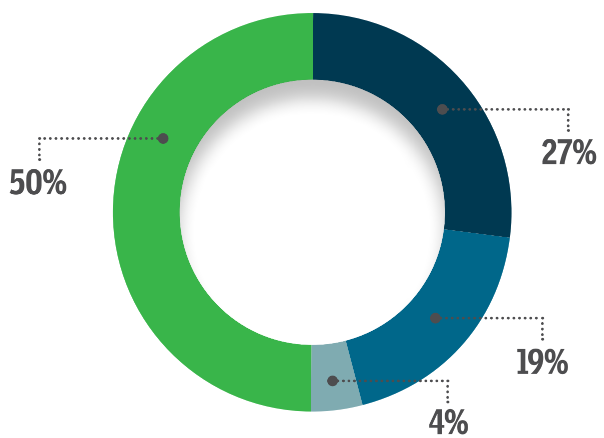
60%	Lower core deposit costs
35%	Increased commercial loan demand
31%	More refinance demand
27%	We don't expect a significant impact to our bank within six months with this rate cut
23%	Increased flexibility in balance sheet structuring due to changes in security valuation
21%	Lessened competition for deposits
14%	Increased consumer loan demand

28. Which presidential nominee do you believe will be better for the economy?



- Donald Trump (Republican)
- Kamala Harris (Democrat)
- Unsure

29. Who do you plan to vote for in the presidential election?

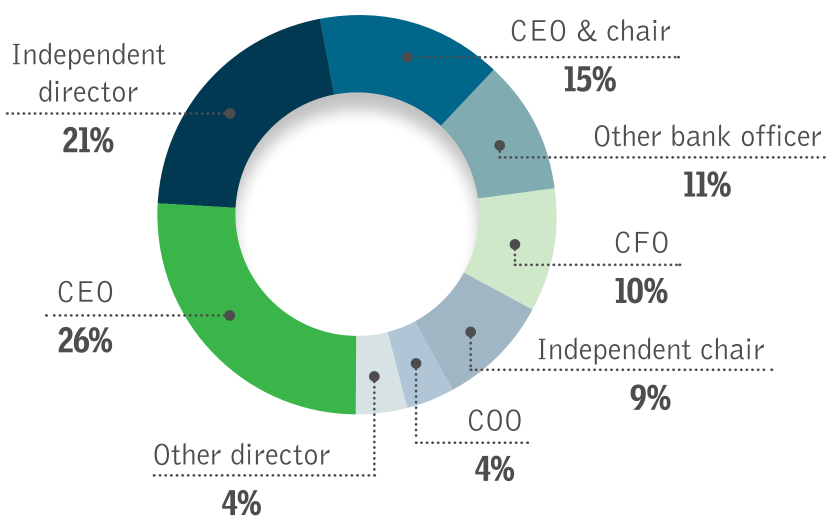


- Donald Trump
- Unsure
- Kamala Harris
- Other

ABOUT THE SURVEY

Bank Director's 2025 Bank M&A, sponsored by Crowe LLP, surveyed 180 independent directors, CEOs, chief financial officers and other senior executives of U.S. banks below $100 billion in assets to examine organic growth strategies, M&A and profitability challenges. Just over half represent banks that are privately held, while 40% represent a publicly traded institution. Forty-one percent serve as the bank's CEO; 30% represent independent board members.

TITLE



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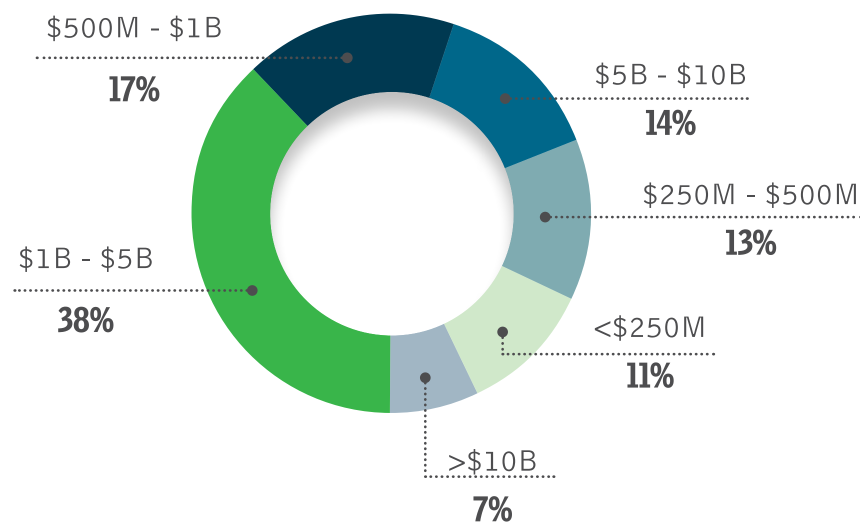

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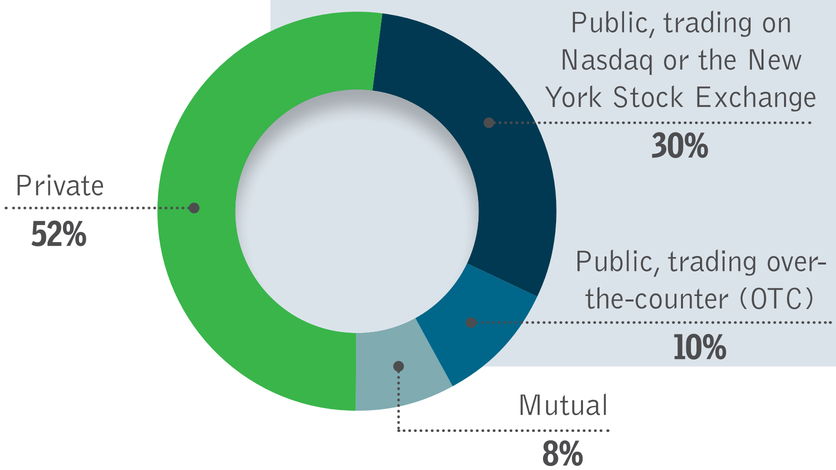
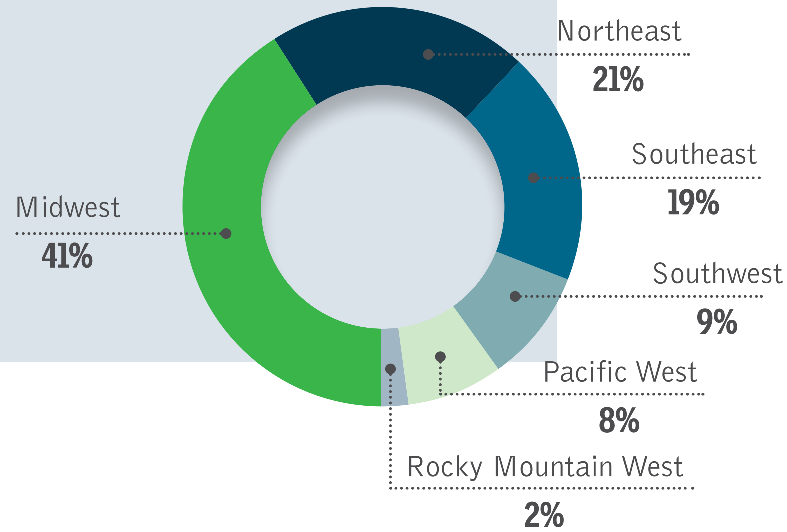


REGION



*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)