



# Getting the Highest Value Possible

**Curtis Carpenter**

*Hovde Group, LLC*

# GETTING THE HIGHEST VALUE POSSIBLE

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## PRESENTATION BY:

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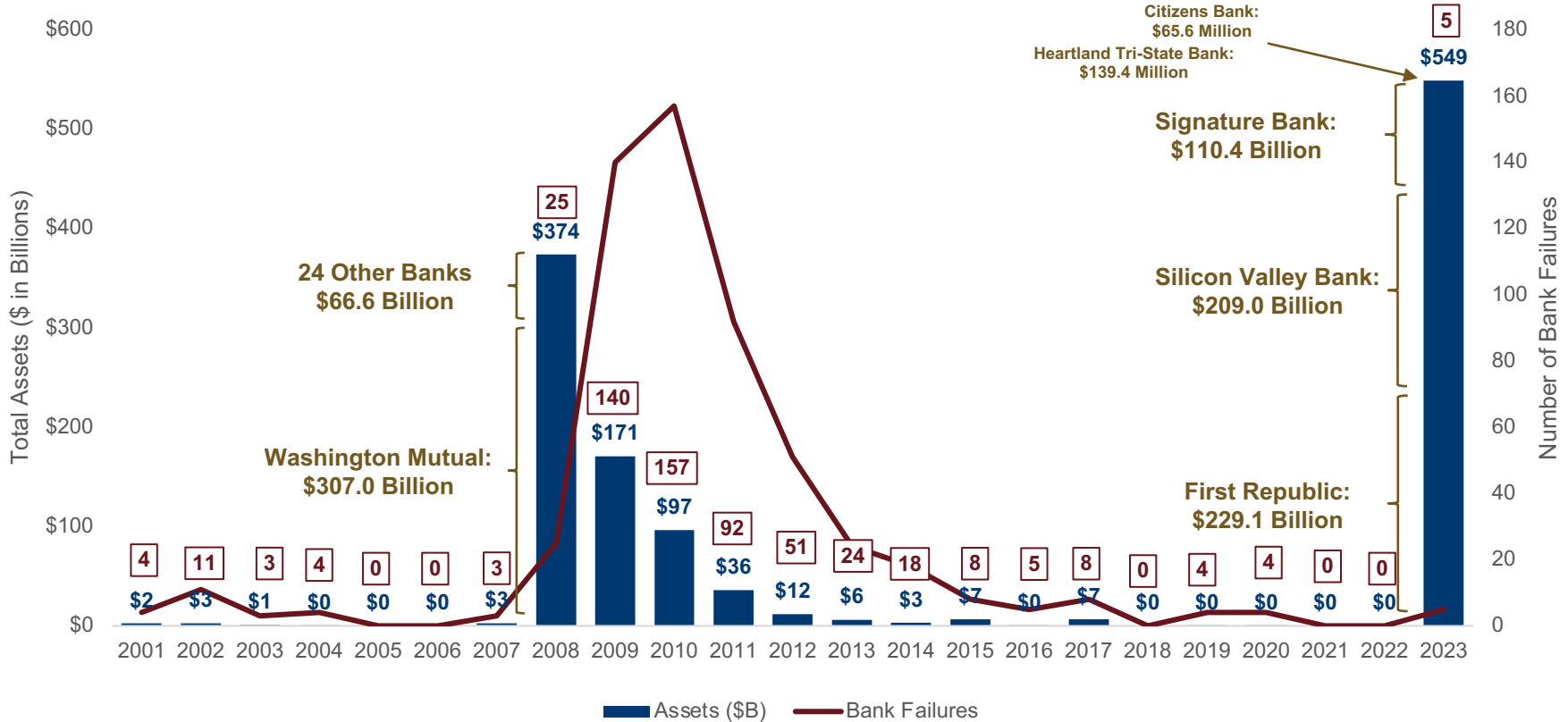
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## I. BANKING INDUSTRY WOES IN 2023

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

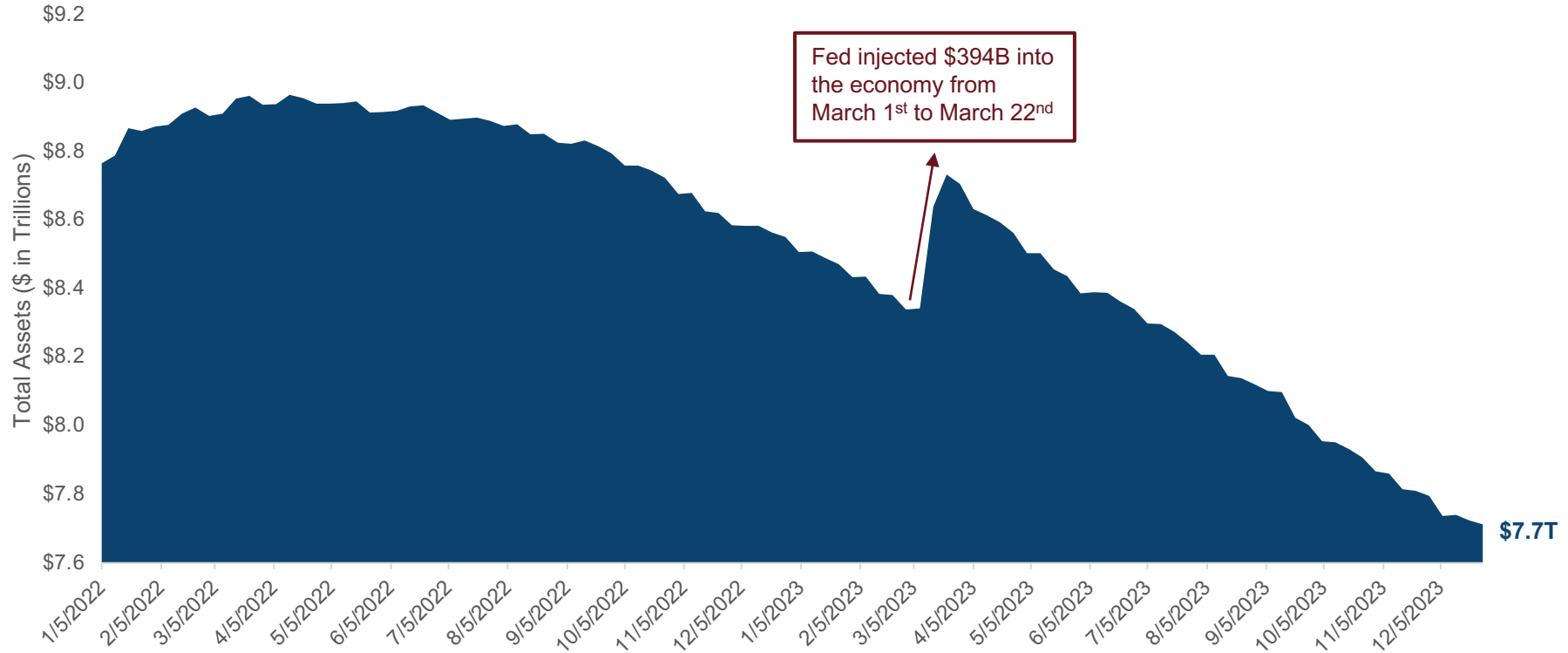


# HIGHEST ESTIMATED COST TO FDIC ON GOVERNMENT ASSISTED DEALS SINCE 1998

Failed Bank	Buyer	Date Announced	Est. Cost to FDIC (\$M)	Total Assets (\$B)	Total Deposits (\$B)	Discount on Assets Assumed (\$M)	Est. Cost to FDIC/Failed Bank Assets (%)
<i>Silicon Valley Bridge Bank</i>	<i>First Citizens Bancshares</i>	03/27/23	20,000	167.0	119.0	16,450.0	12.0
<i>First Republic Bank</i>	<i>JPMorgan Chase &amp; Co.</i>	05/01/23	13,000	232.9	104.5	TBD	5.6
IndyMac Federal Bank	IMB Management Holdings	01/02/09	12,438	23.5	6.4	4,700.0	52.9
BankUnited FSB	BankUnited Inc.	05/21/09	5,275	13.6	8.6	3,000.0	38.8
Colonial Bank	BB&T Corp.	08/14/09	3,330	25.2	19.2	1,462.0	13.2
<i>Signature Bridge Bank</i>	<i>New York Community Bancorp</i>	03/19/23	2,500	110.4	88.6	2,700.0	2.3
Westernbank Puerto Rico	Popular Inc.	04/30/10	2,340	11.1	8.4	1,097.1	21.1
AmTrust Bank	New York Community Bancorp	12/04/09	2,258	13.0	8.2	425.0	17.4
ANB Financial	IBERIABANK Corp.	05/09/08	1,030	2.1	1.8	NA	49.1
R-G Premier Bank of Puerto Rico	Bank of Nova Scotia	04/30/10	1,002	5.9	4.3	441.8	16.9
First NBC Bank	Hancock Holding Co.	04/28/17	967	4.7	3.5	NA	21.0
Georgian Bank	First Citizens Bancorp. Inc.	09/25/09	967	2.1	2.0	349.0	47.0
Security Bank Corp. (6 subsidiaries)	State Bank and Trust Co.	07/24/09	911	2.5	2.4	316.5	37.2
Irwin Union Bank / Irwin Union B&T	First Financial Bancorp.	09/18/09	904	3.2	2.5	652.2	28.3
First Heritage Bank / FNB of Nevada	Omaha Financial Holdings	07/25/08	830	3.7	3.2	NA	22.7
Mutual Bank	Central Bancorp Inc.	07/31/09	825	1.7	1.6	415.7	48.5
<b>Median</b>			<b>1,644</b>	<b>8.5</b>	<b>5.3</b>	<b>874.7</b>	<b>21.9</b>

# THE FED AND TREASURY TOOK EMERGENCY ACTIONS

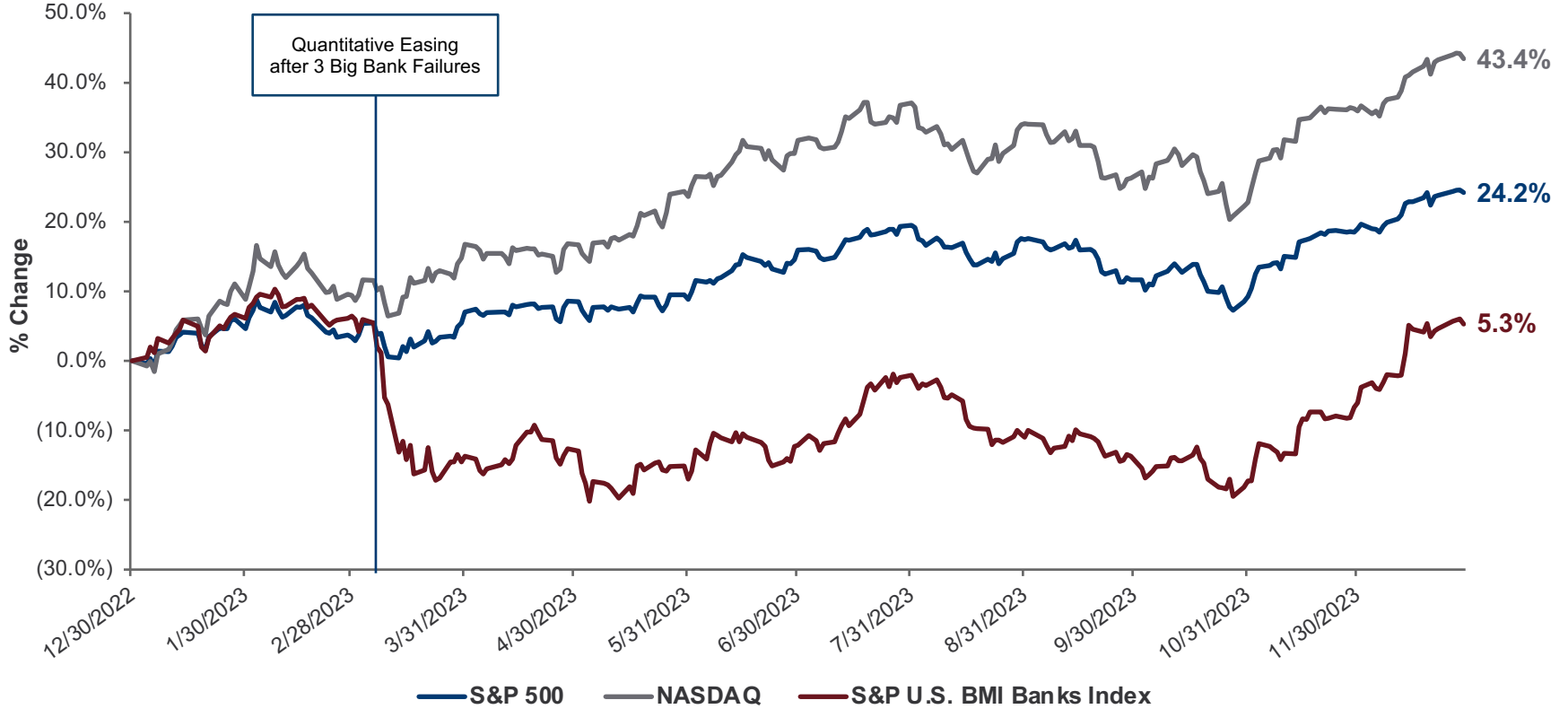
FEDERAL RESERVE BALANCE SHEET: TOTAL ASSETS



Fed injected \$394B into the economy from March 1<sup>st</sup> to March 22<sup>nd</sup>

# EQUITIES TUMBLED THEN RALLIED POST LIQUIDITY INJECTION

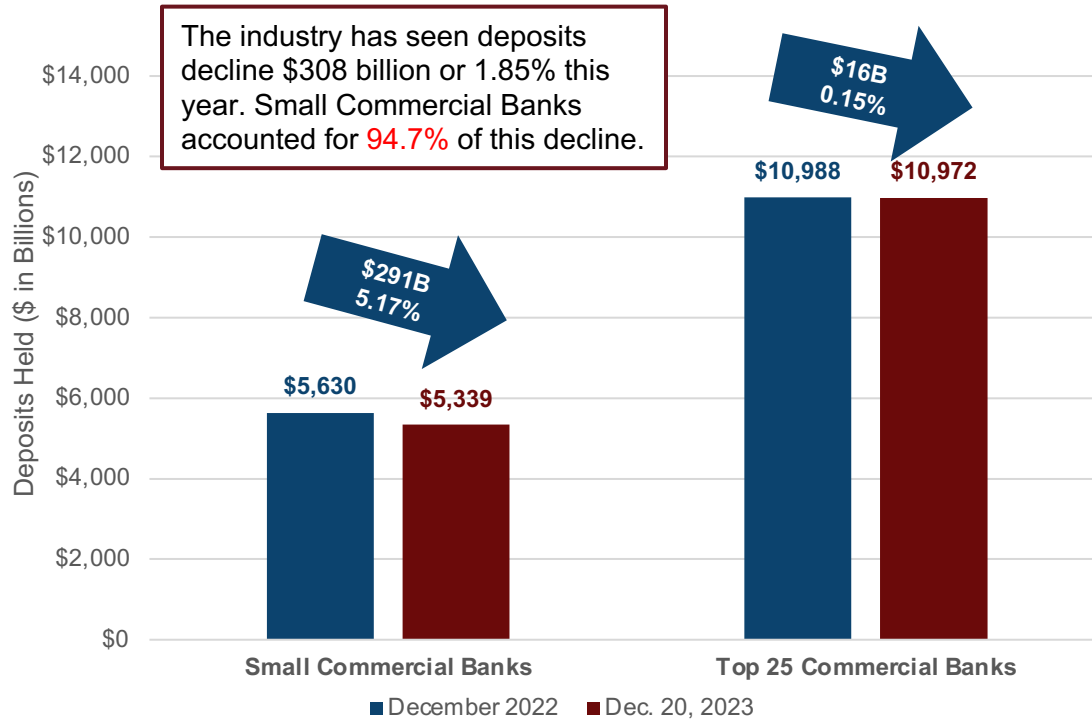
**S&P U.S. BMI BANKS INDEX VS. S&P 500 VS. NASDAQ 2023 PERFORMANCE**





# TOO BIG TO FAIL STRIKES AGAIN

## 2023 DEPOSIT FLOWS IN LARGE AND SMALL COMMUNITY BANKS



- The week following the failures of SVB and Signature Small Commercial Banks experienced deposit outflows amounting to \$184 billion.
- That same week, depositors flocked to banks they deemed “too big to fail” and Large Commercial Banks<sup>1</sup> experienced deposit inflows of \$120 billion.
- 2023 Deposit Flows:
  - Small Commercial Banks<sup>2</sup>:
    - ↓ \$291 billion
    - ↓ 5.17%
  - Top 25 Commercial Banks<sup>1</sup>:
    - ↓ \$16 billion
    - ↓ 0.15%

Note: Data is not seasonally adjusted

1. Large domestically chartered commercial banks are defined as the top 25 domestically chartered commercial banks, ranked by domestic assets as of the previous commercial bank Call Report to which the H.8 release data have been benchmarked.

2. Small domestically chartered commercial banks are defined as all domestically chartered commercial banks not included in the top 25.

Source: Federalreserve.gov (Most recent data available as of 12/20/2023)

## II. US MACROECONOMIC ENVIRONMENT

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## THE PANDEMIC SPENDING PARTY AND BIDENOMICS

- During the COVID lockdowns of 2020, the Federal Government spent an **unprecedented \$3.5 trillion**.
- After the economy started to recover in 2021, the Biden Administration passed a series of spending measures providing **\$3.2 trillion of additional fiscal spending** on top of regular budgeted expenditures.
- This **\$7.3 trillion** of Fiscal stimulus has been the **largest fiscal spending in U.S. history** and has been appropriated from March 2020 to today.

CARES Act March 2020	\$2.2 Trillion
Consolidated Appropriations Act December 2020	\$900 Billion
Other Related 2020 Spending	\$400 Billion
American Rescue Plan Act March 2021	\$1.9 Trillion
Infrastructure Investment and Jobs Act November 2021	\$500 Billion
The CHIPS and Science Act August 2022	\$280 Billion
Inflation Reduction Act August 2022	\$437 Billion
<b>Total as of November 2023</b>	<b>\$7.3 Trillion</b>

**“Inflation** is just like **alcoholism**;

In both cases, when you **start drinking** or when you start **printing too much money**, the good effects come first, and the bad effects only come later.

That’s why in both cases there is a strong temptation to overdo it-to **drink too much** and to **print too much money.**”

- Milton Friedman, Economist and Nobel Prize Recipient  
(Economics for his contribution to consumption analysis and monetary history and theory)

# TIME TO PAY THE PARTY'S TAB

## Stages of Inflation:

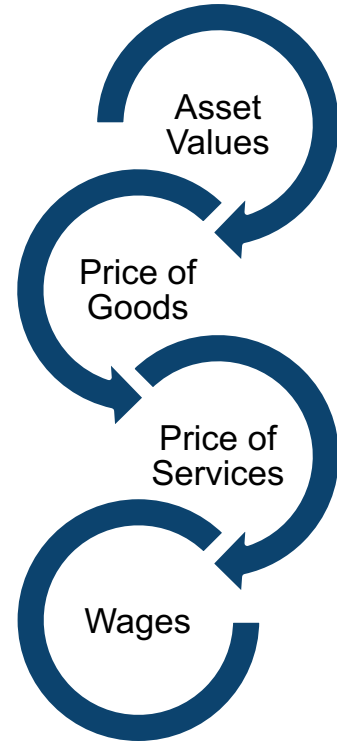
1. Asset Values

2. Price of Goods

3. Price of Services

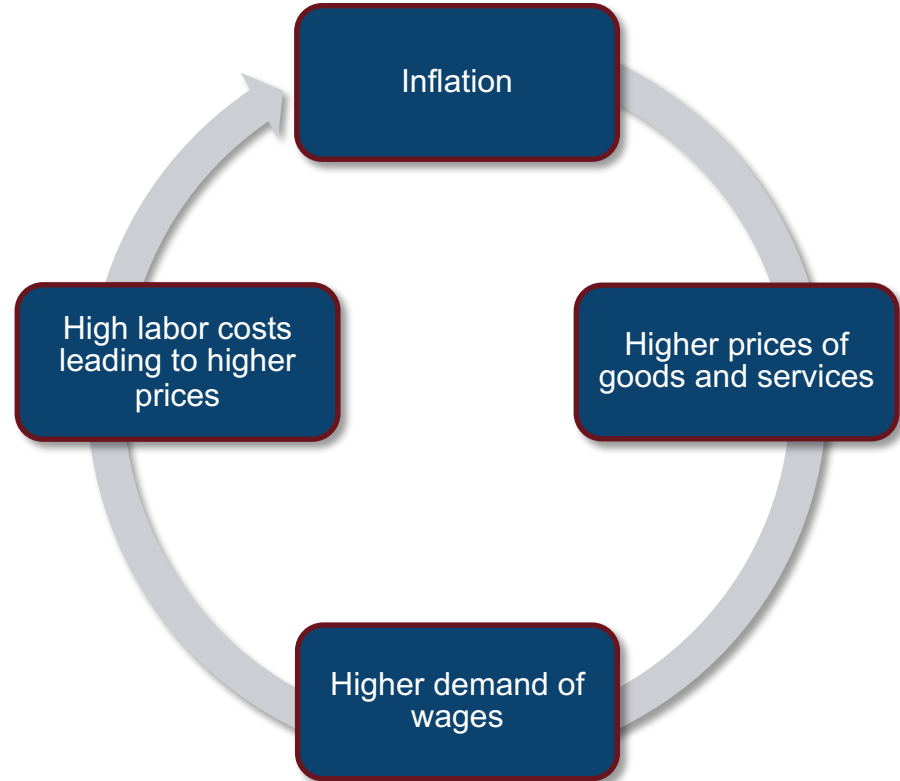
4. Wages

## The Order in Which Inflation Flows Through an Economy:



## WAGE-PRICE SPIRAL: FEAR OF ENTRENCHED INFLATION

- Nominal wages have increased 4.5% year-over-year. However, adjusted for inflation, real wages have only increased 0.8% year-over-year.
- Consequently, employees will seek even greater compensation increases.



## UNIONS DEMAND HIGHER WAGES AND BENEFITS

### UPS Drivers

Drivers will earn \$170,000 in annual pay and benefits by the end of the 5-year contract.



STELLANTIS



KAISER PERMANENTE®

### Healthcare Unions

Unions representing 85,000 workers at Kaiser Permanente came to a tentative agreement which includes a 21% pay increase over the next 4 years.

### UAW Workers

The Big Three Automakers have agreed to a 25%-33% pay increase over 4 years, with 11% of that coming in the first year.



CHRYSLER

Jeep

### Major Airline Pilots

Various deals have been made, including American Airlines' agreement to increase pay by 46% over the next 4 years.



### Major Airline Flight Attendants

Flight attendants at Southwest Airlines agreed to a 36% cumulative pay increase over a 5-year contract.



CAESARS  
ENTERTAINMENT



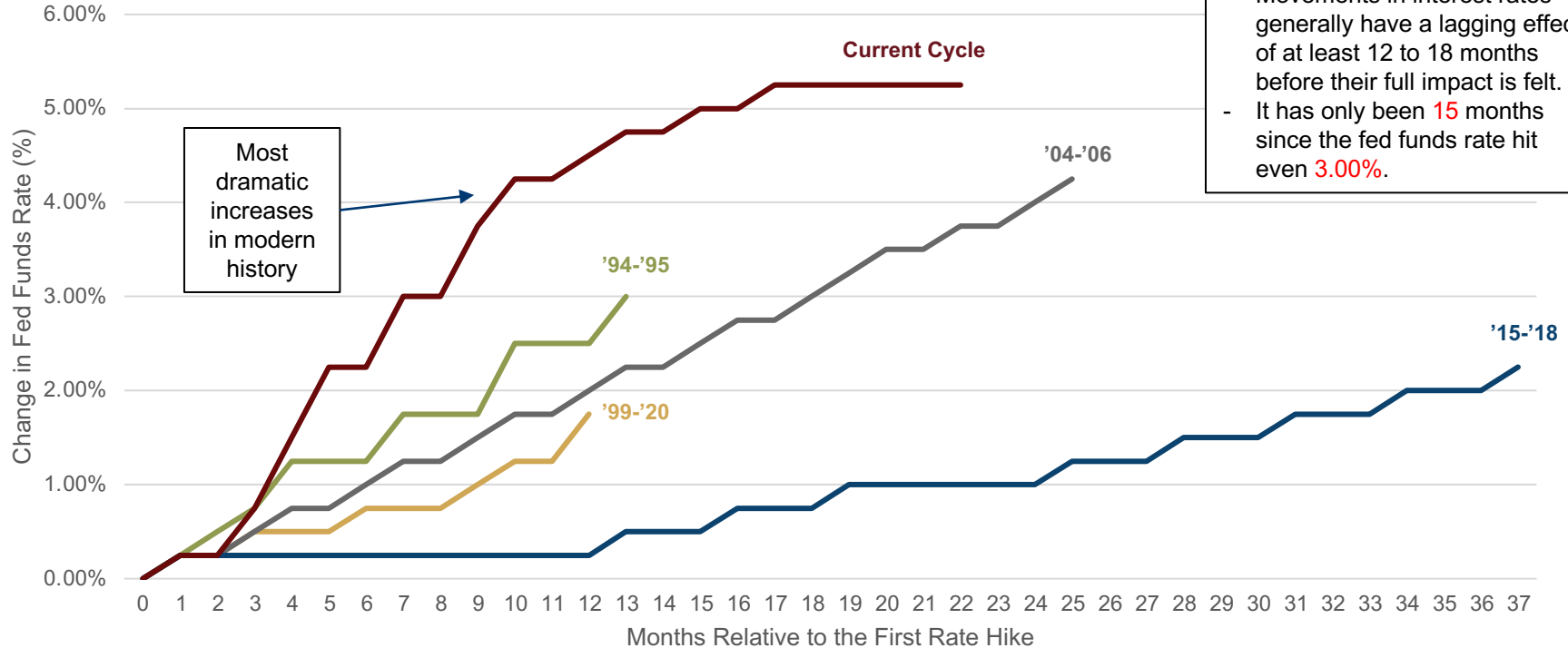
### Culinary and Bartenders Unions

MGM, Caesars and Wynn Resorts workers are demanding the largest increase in the history of the Union.



# FULL IMPACT OF RATE HIKES IS UNKOWN

## FOMC'S TARGET FEDERAL FUNDS RATE CHANGES OVER TIME



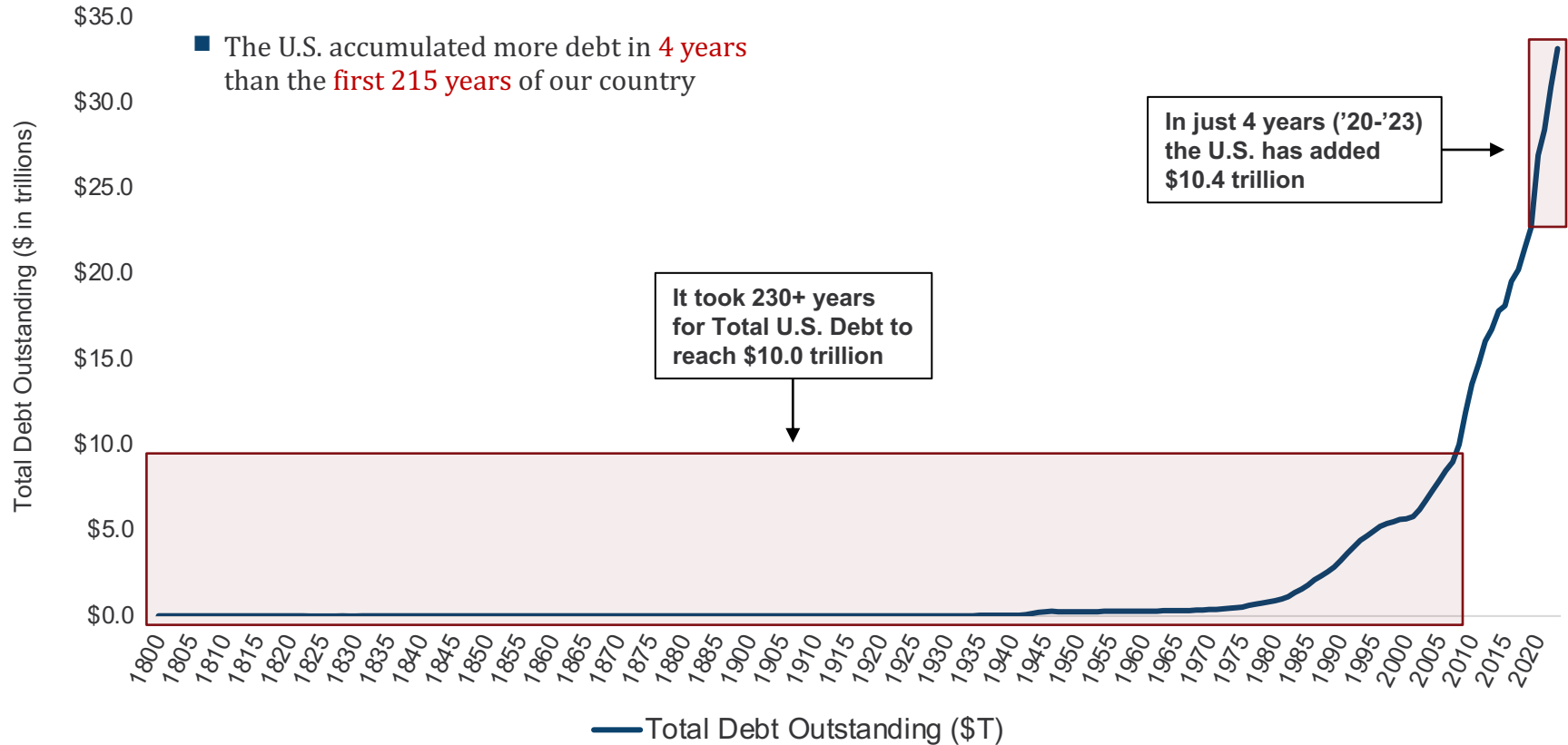


# WHAT WILL THE FED BREAK THIS TIME?

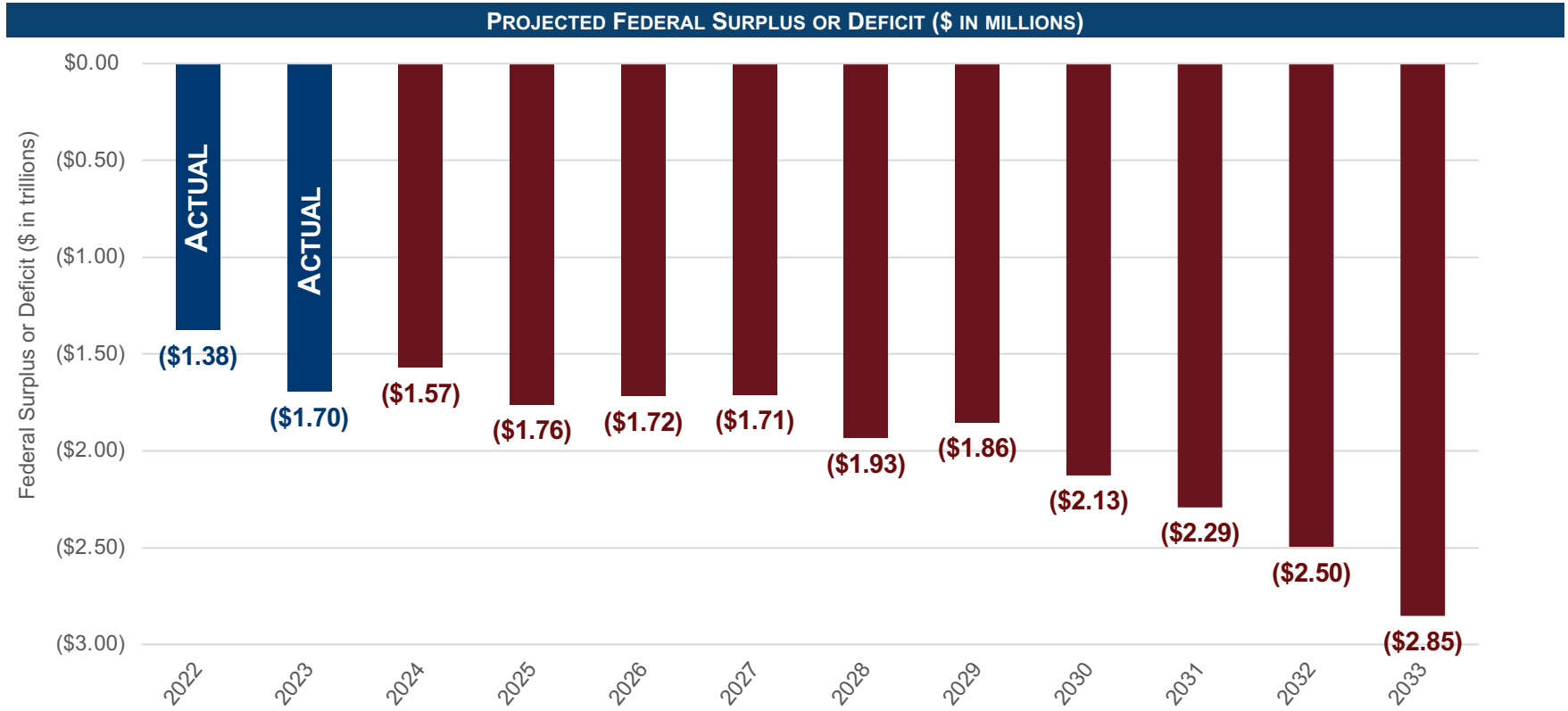
## LARGE PENSION, INVESTMENT FUND, FINANCIAL ENTITY OR FOREIGN GOVERNMENT?



# U.S. DEBT ACCUMULATION IS UNSUSTAINABLE



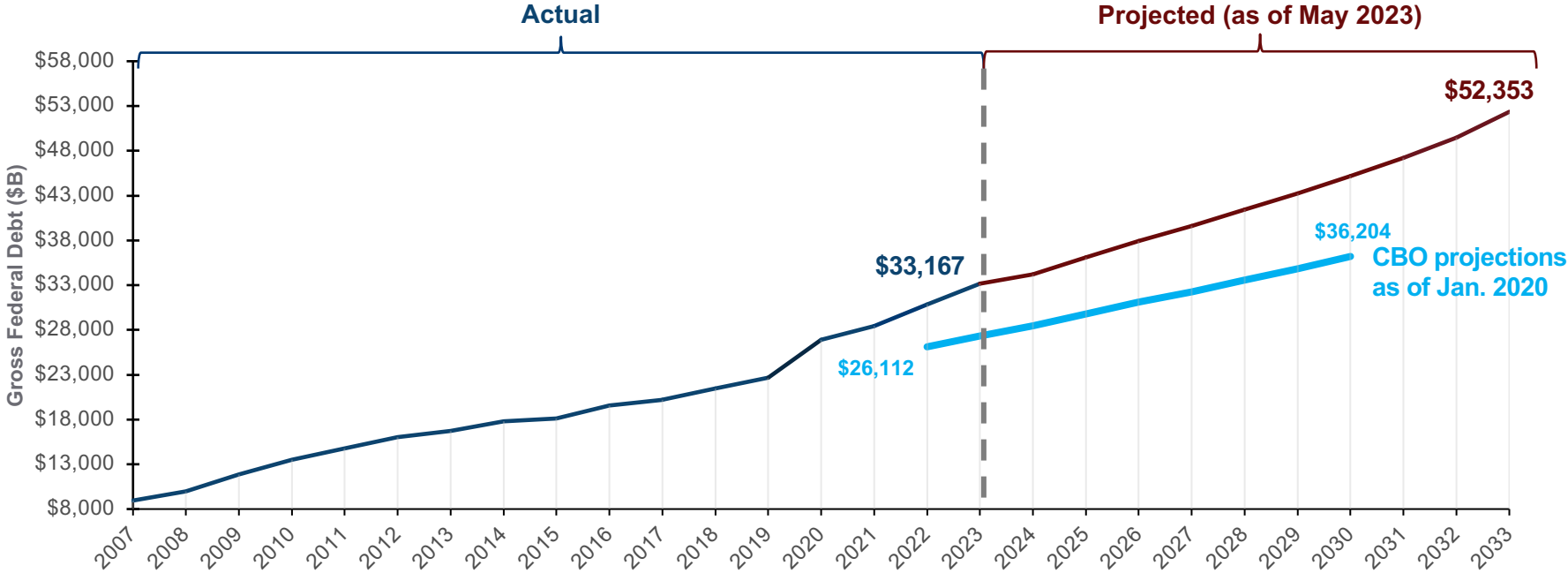
# CONGRESSIONAL BUDGET OFFICE PROJECTS INCREASING DEFICITS INDEFINITELY



# THE CBO IS FORECASTING THE U.S. DEBT TO EXCEED \$50 TRILLION

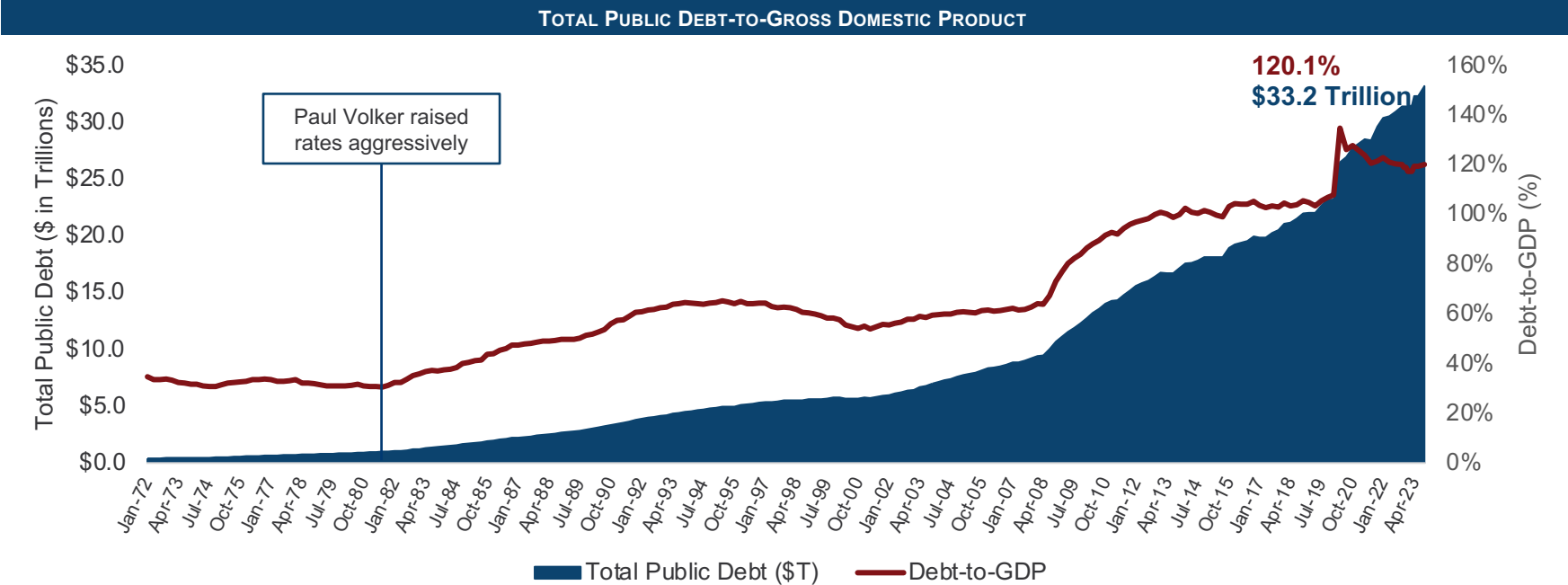
- We have seen a steep increase in debt. In 2007 gross federal debt was under \$9.0 trillion and in 2023 we saw it increase to \$33.2 trillion
- The Congressional Budget Office (CBO) expects gross federal debt to increase approximately 60% to \$52.4 trillion by 2033

## GROSS FEDERAL DEBT (\$B)



# U.S. NATIONAL DEBT TO GDP LIMITS OUR FLEXIBILITY

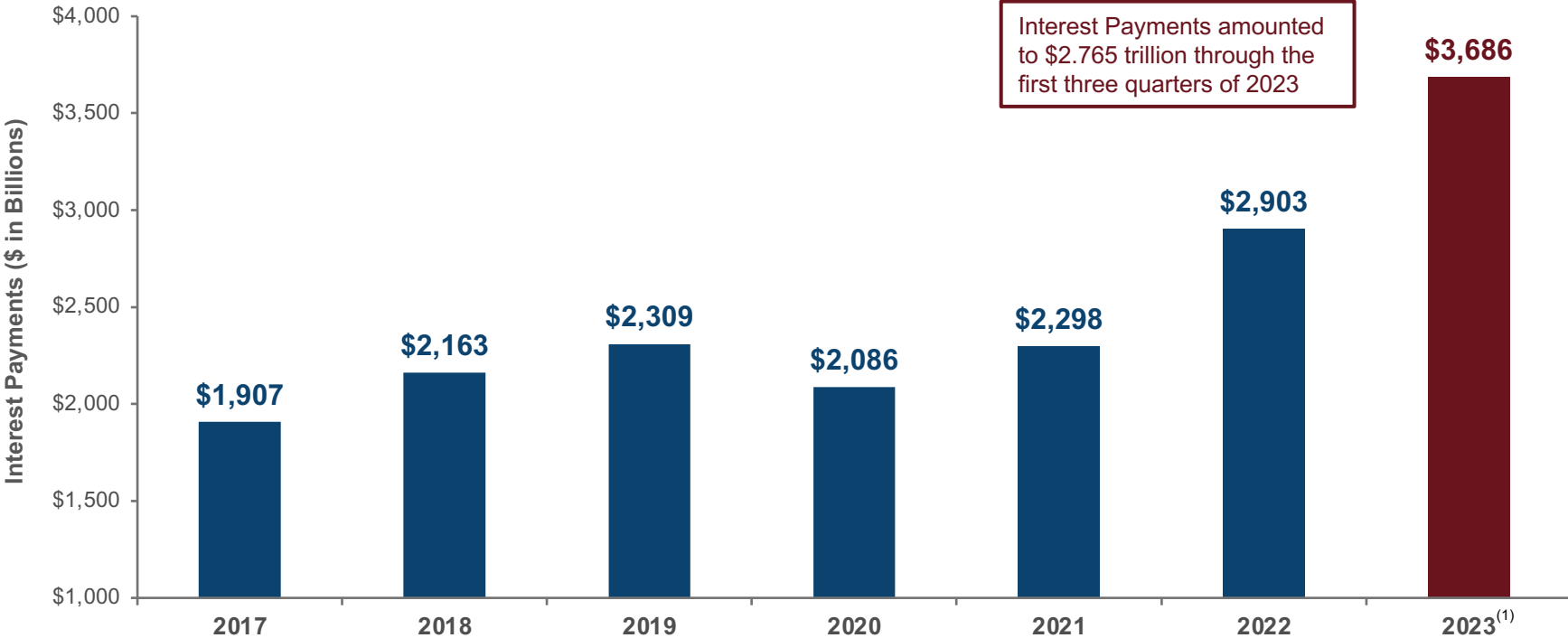
- The U.S. currently has \$33.2 trillion in public debt which does not include future entitlement obligations.
- The U.S. **Debt-to-GDP is currently at 120% - higher than WWII levels.**
- The CBO projects public debt to reach \$52.3 trillion by the end of 2033.
- U.S. Debt levels are unsustainable and put economic growth and stability at great risk.



Source: St. Louis Federal Reserve; Congressional Budget Office; Data for the third quarter 2023

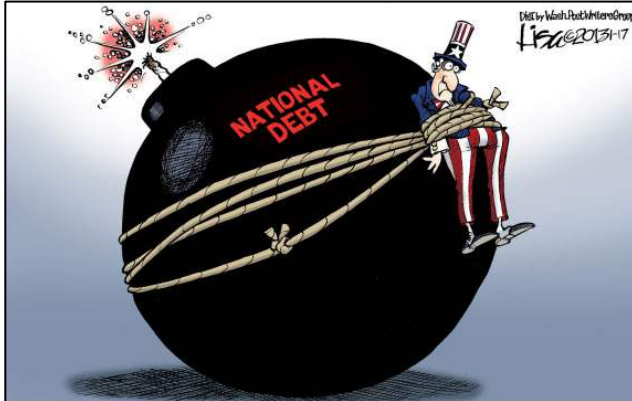
# INTEREST ON OUR NATIONAL DEBT IN AN ECONOMIC PANDEMIC

## FEDERAL GOVERNMENT: INTEREST PAYMENTS



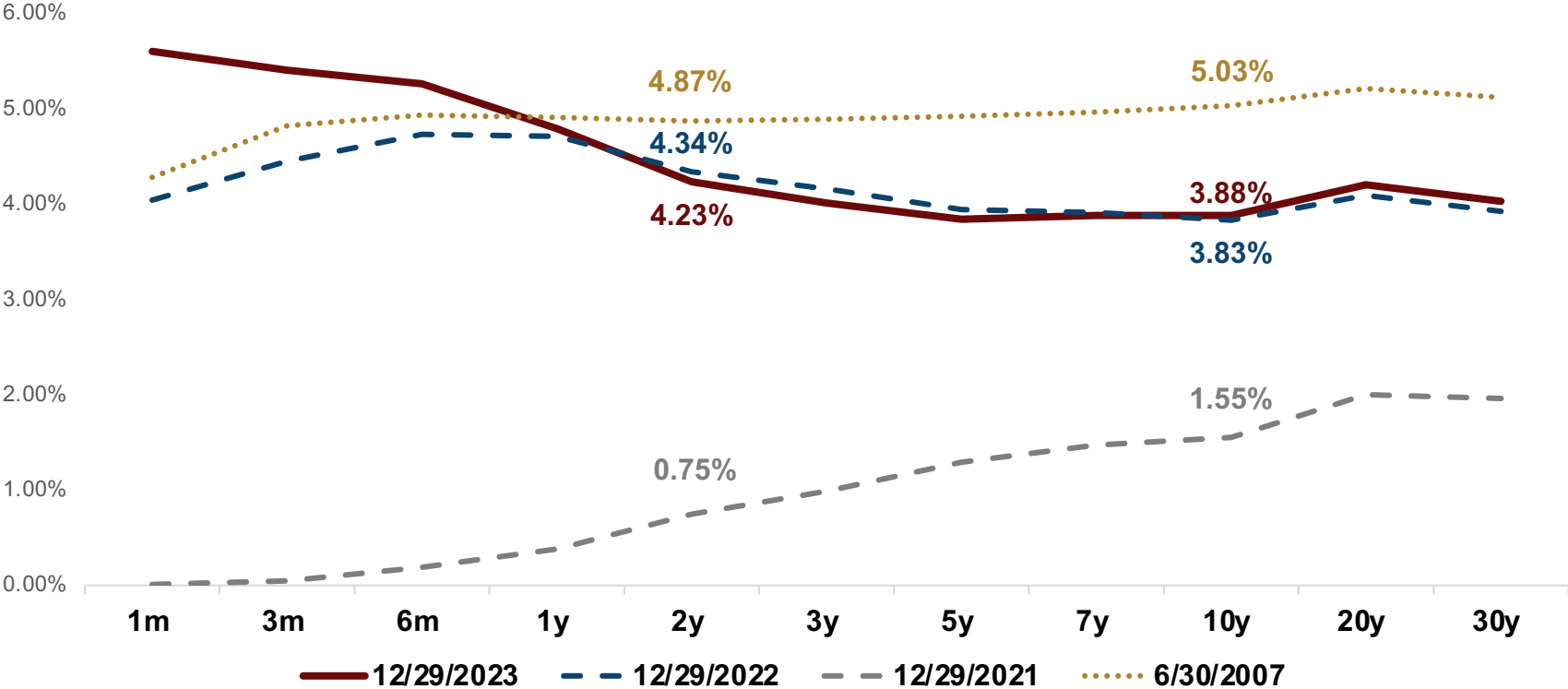
(1) 2023 is annualized (Interest Payments amounted to \$2.765 trillion through the first three quarters of 2023)  
Source: Federal Reserve Bank of St. Louis (Federal government current expenditures: Interest Payments)

# THE U.S. GOVERNMENT – LENDER OF LAST RESORT IS BROKE



# YIELD CURVE – MORE RECESSIONARY THAN 2007

U.S. YIELD CURVE (CURRENT, 1 YEAR AGO, 2 YEARS & PRE-GREAT RECESSION)

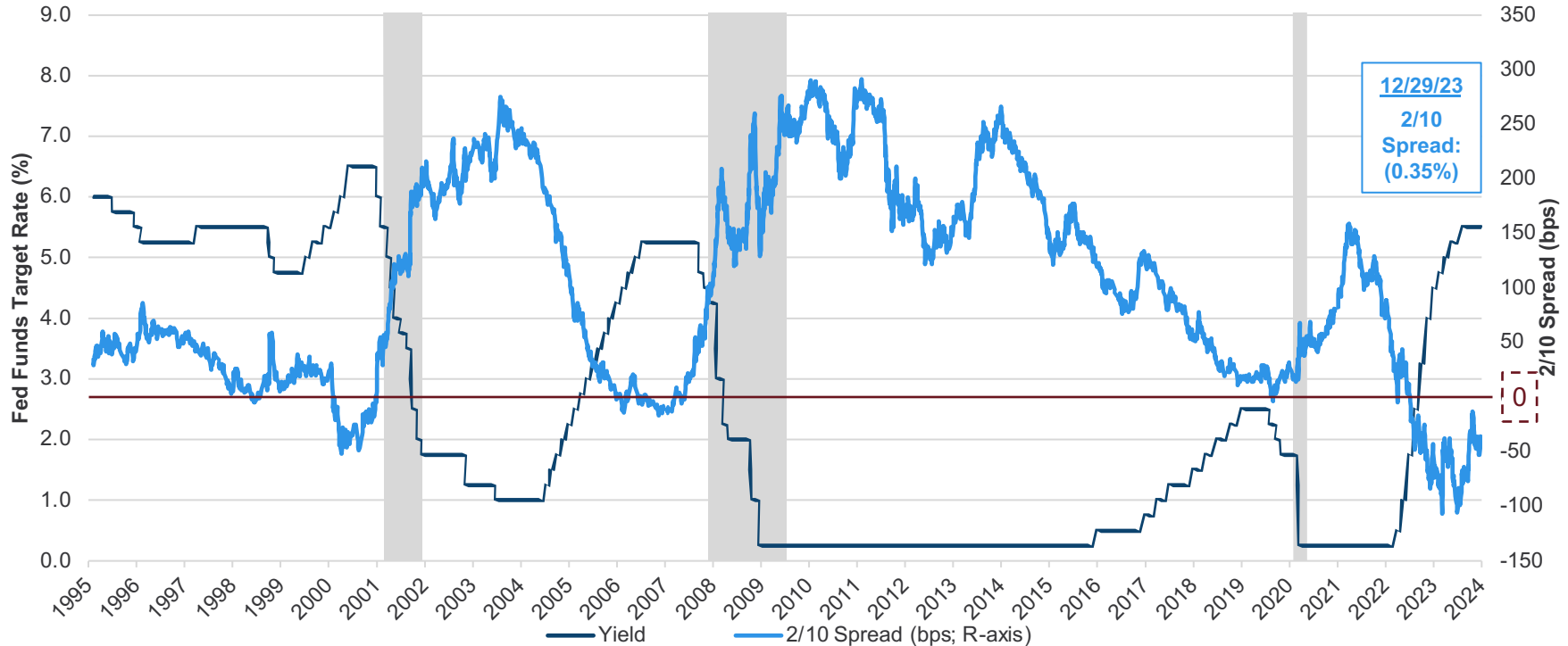




# HISTORICALLY RELIABLE INDICATOR POINTS TO A RECESSION

- The spread between the U.S. 2-year Treasury and 10-year has historically fallen as the Federal Funds Target rate has been increased
- Currently, the 2/10 spread is a -35 bps which is lower than the -19 bps trough experienced in late 2006

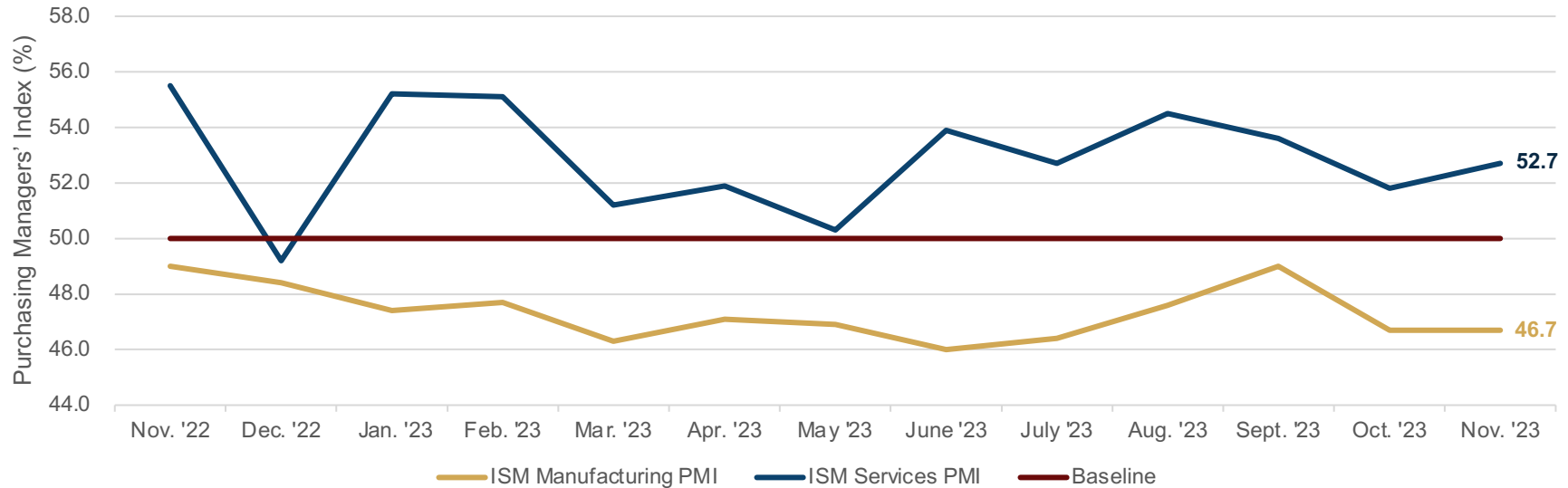
## FEDERAL FUNDS TARGET VS. 2-YEAR/10-YEAR SPREAD (1995 TO CURRENT)



## A TALE OF TWO ECONOMIES

- Manufacturing has remained in contraction for 12 months. All 5 of the sub-indexes that directly factor into the Manufacturing PMI are in contraction territory.
- Services on the other hand has expanded for its 11<sup>th</sup> consecutive month after 1 month of contraction in December 2022.
- A PMI above 50 generally indicates an expansion of the overall economy and below 50 represents a contraction.

### MANUFACTURING VS. SERVICES



# THREE MAIN REASONS THE ECONOMY REMAINED RESILIENT

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**Federal, State and Municipal  
Government Spending**

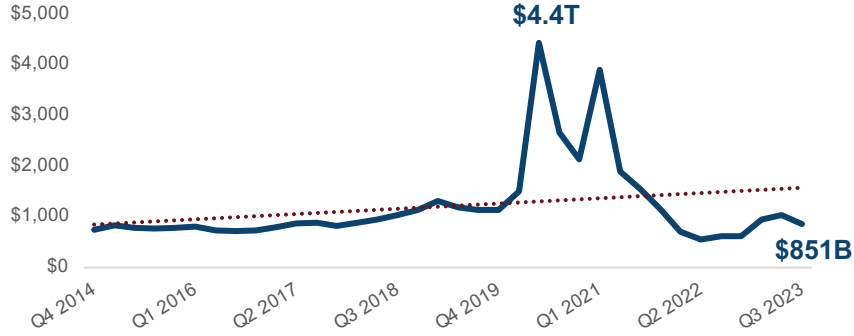
**A Resilient  
Consumer**



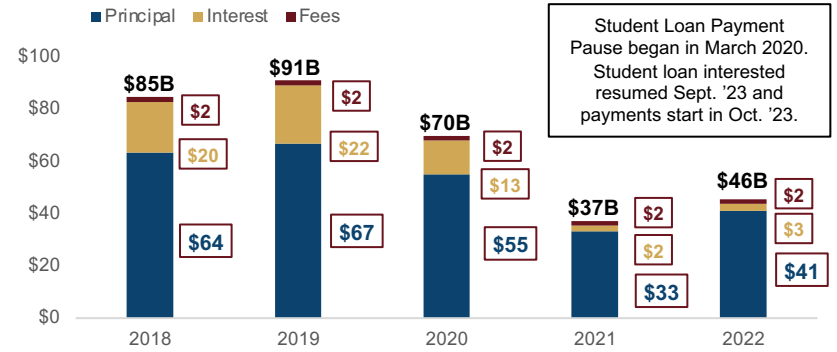
**Failure of Silicon Valley, Signature  
and First Republic Banks  
Triggered the Fed to Restart QE  
Briefly**

# FORCES THAT LIFTED CONSUMERS – THE BIGGEST PART OF GDP

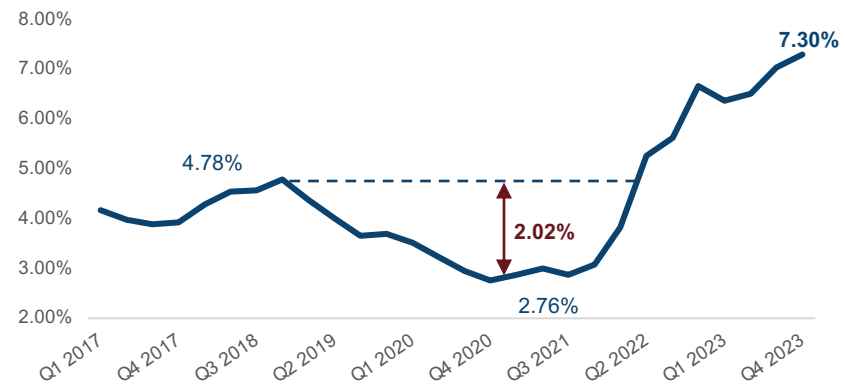
## PERSONAL SAVINGS (\$ IN BILLIONS)<sup>1</sup>



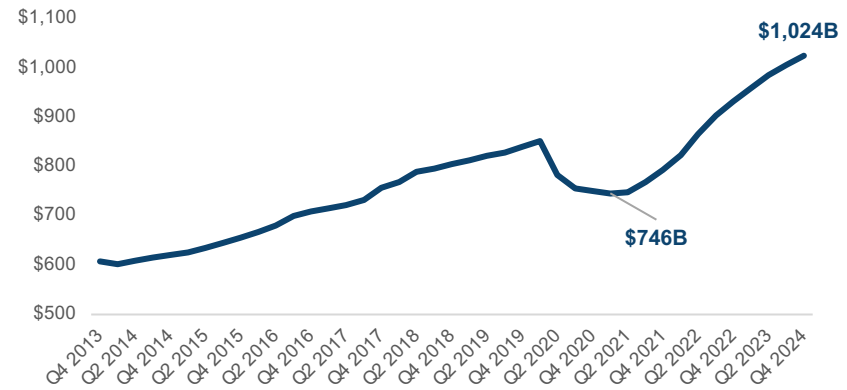
## STUDENT LOAN COLLECTIONS (\$ IN BILLIONS)<sup>2</sup>



## QUARTERLY AVERAGE 30-YEAR FIXED RATE MORTGAGE<sup>3</sup>



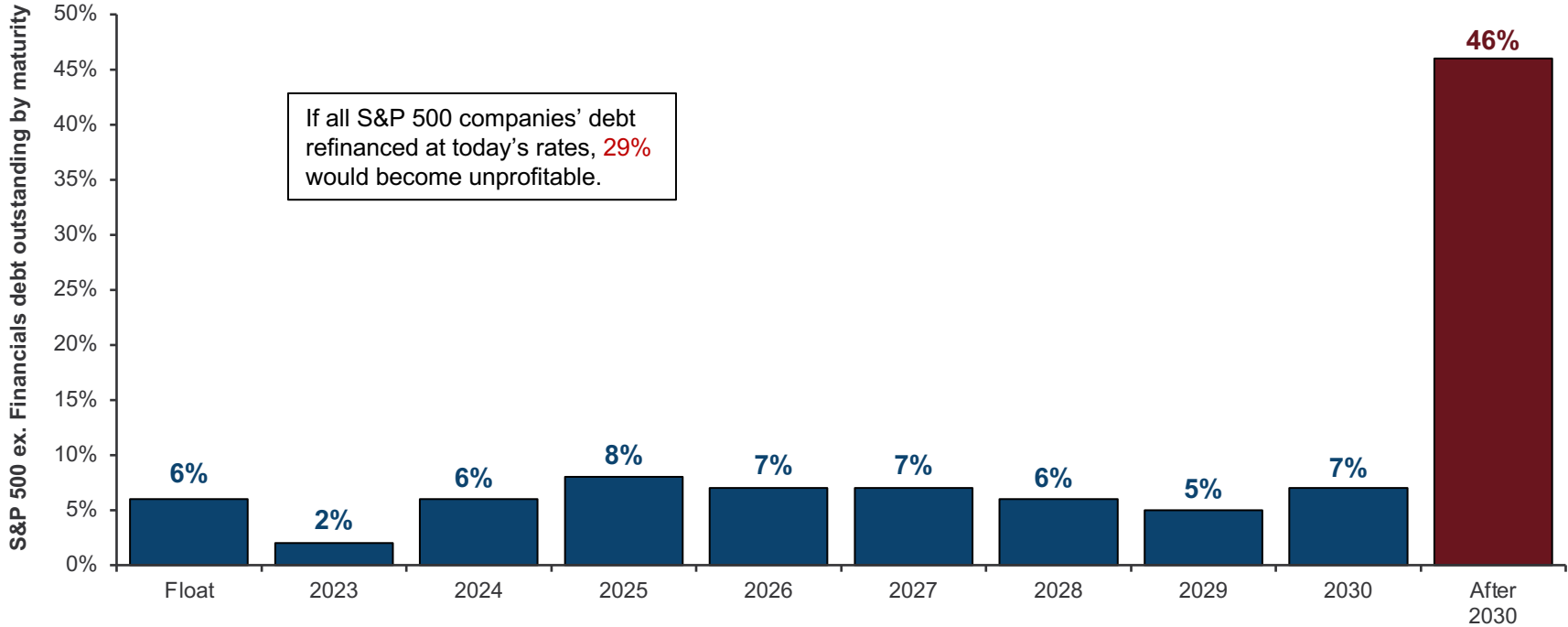
## QUARTERLY AVERAGE CREDIT CARD BALANCES (\$ IN BILLIONS)<sup>4</sup>



1. FRED: Personal Savings, Seasonally Adjusted Annual Rate 2. Department of Education Annual Financial Report 3. FRED 4. FRED: Consumer Loans and Other Revolving Plans (all commercial banks), Seasonally Adjusted

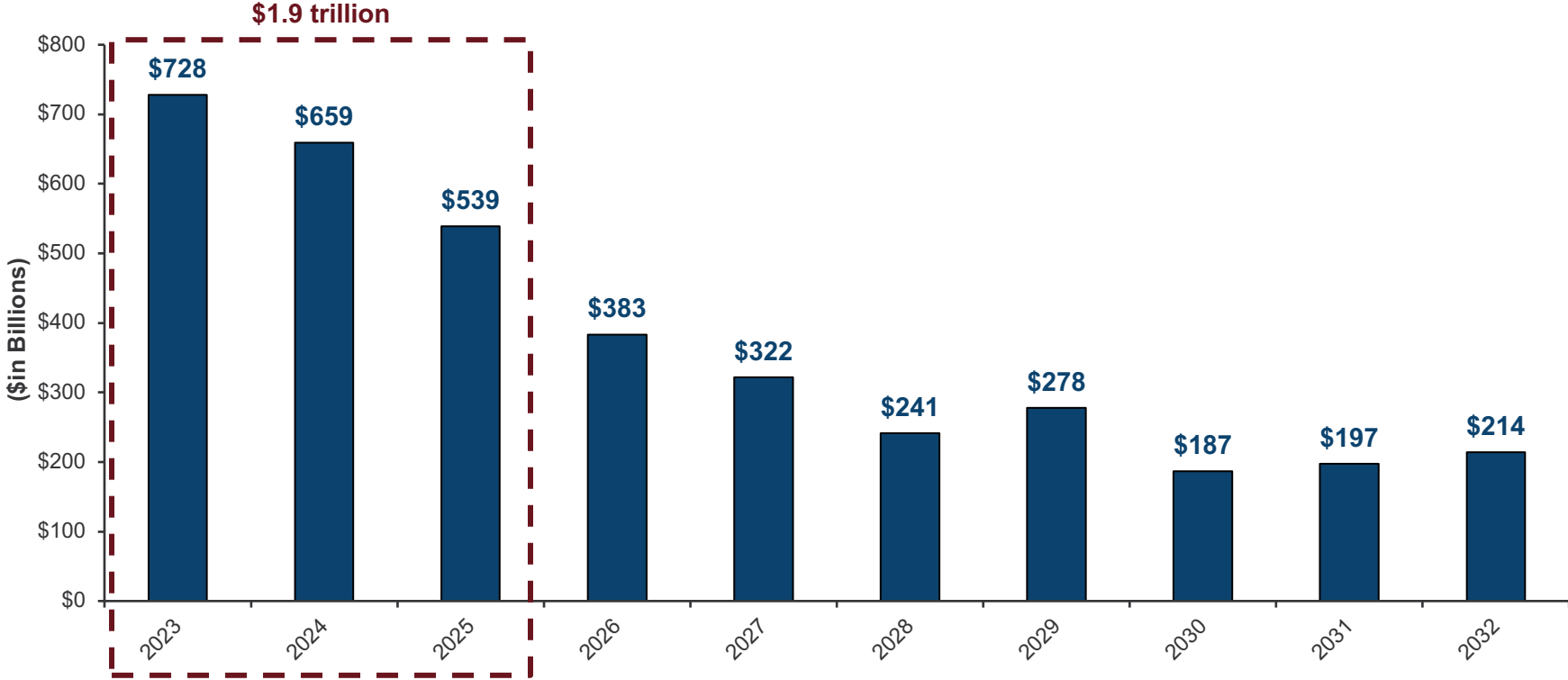
# BILLIONS OF DEBT NEEDS REFINANCING AT HIGHER RATES

**NEARLY HALF OF S&P 500 DEBT TO MATURE AFTER 2030**



# WAVE OF COMMERCIAL MORTGAGE MATURITIES APPROACHING

COMMERCIAL MORTGAGE MATURITIES (\$ IN BILLIONS)



## THE PROBLEM: RE-MARGINING CRE LOANS

	Loan Amount	Rate	Net Operating Income / Cash Flow	Interest Payment	Cash Flow after Interest	Debt Service Coverage
Original Loan	\$10,000,000	4.00%	\$600,000	\$400,000	\$200,000	1.50x
Original Loan at Current Rates	\$10,000,000	8.00%	\$600,000	\$800,000	(\$200,000)	0.75x
New Loan at Current Rates	\$5,000,000	8.00%	\$600,000	\$400,000	\$200,000	1.50x
Financing Gap	(\$5,000,000)					

### III. BANK INDUSTRY MACRO TRENDS

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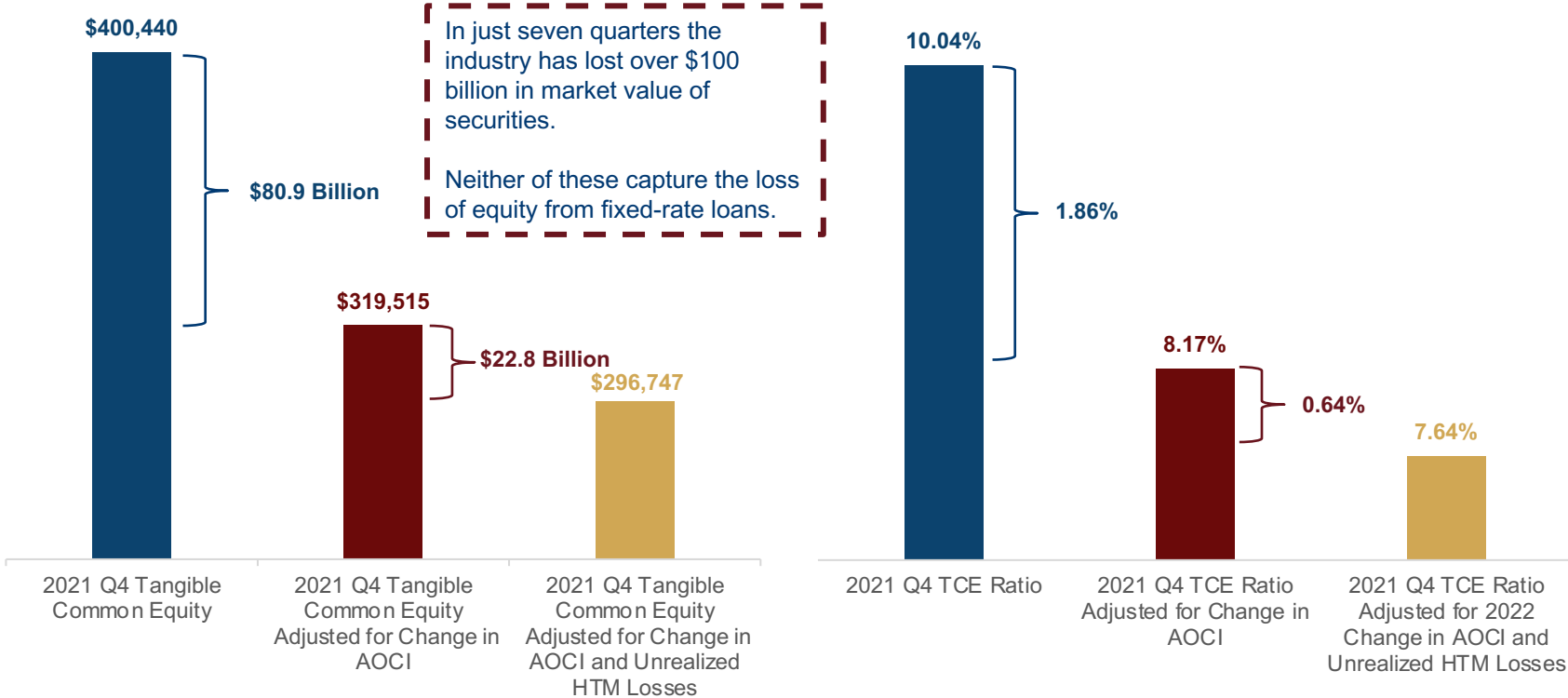




# EFFECT OF UNREALIZED BOND LOSSES ON CAPITAL

## AOCI's Impact on Tangible Common Book Value (Aggregate for Banks < \$20 Billion)

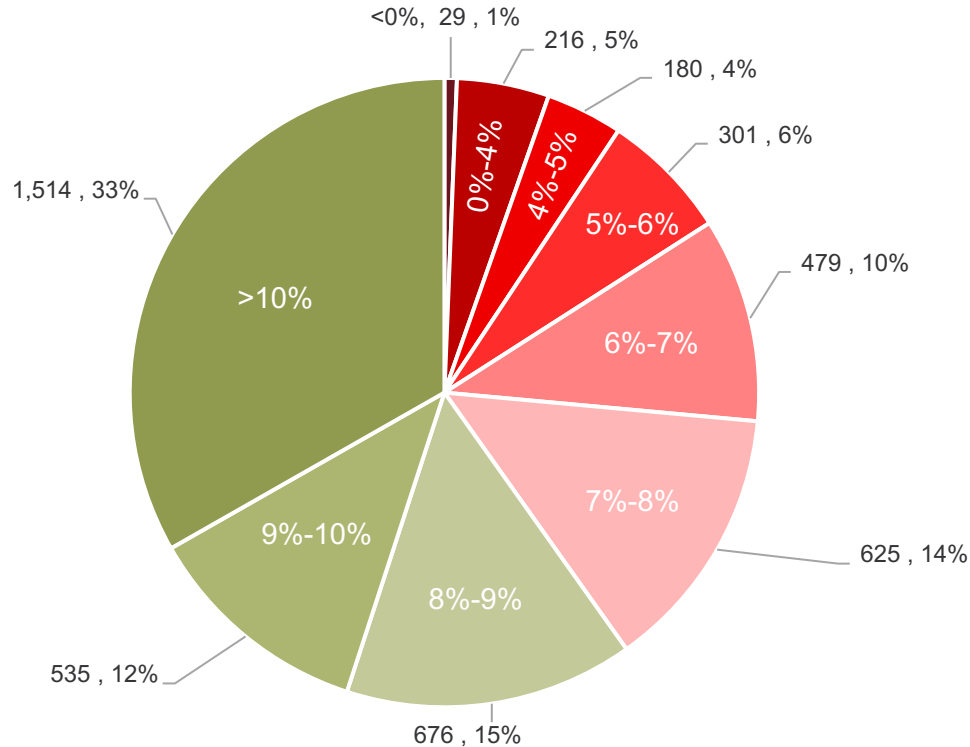
(\$ in millions)



Note: Adjusted TCE Ratio reduces Tangible Common Equity and Tangible Assets by Change in AOCI since the 4<sup>th</sup> quarter of 2021; Includes all Commercial Banks, Savings Banks, and Savings & Loan Associations with less than \$20 billion in assets and a loan-to-deposit ratio greater than 1% Source: S&P Capital IQ Pro; Data as of 9/30/2023

# FED RATE INCREASES HAVE DEPLETED BANK CAPITAL

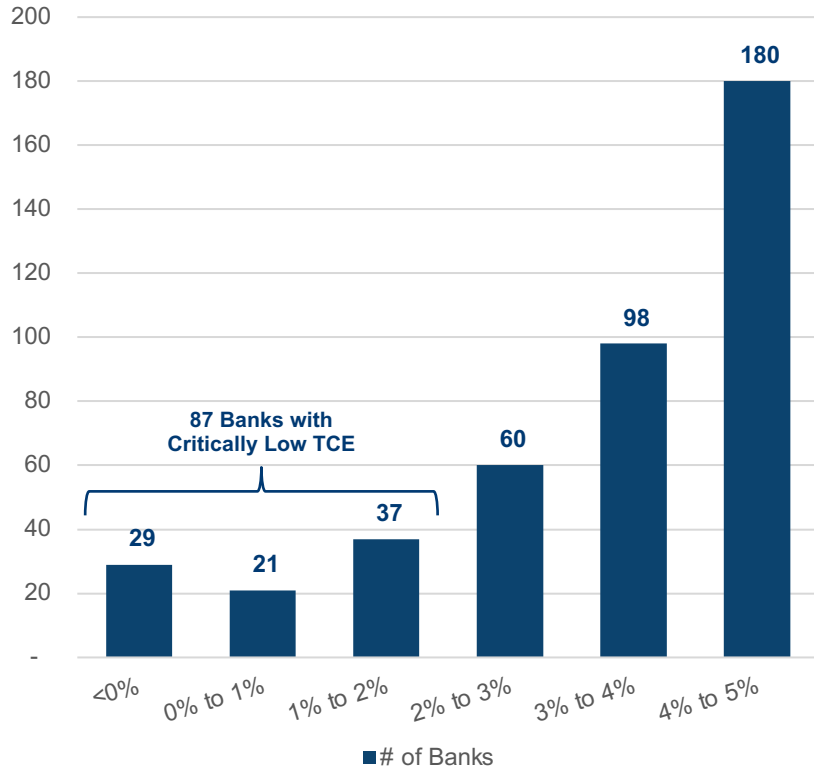
## PERCENTAGE OF INDUSTRY BY TANGIBLE COMMON EQUITY-TO-ASSETS



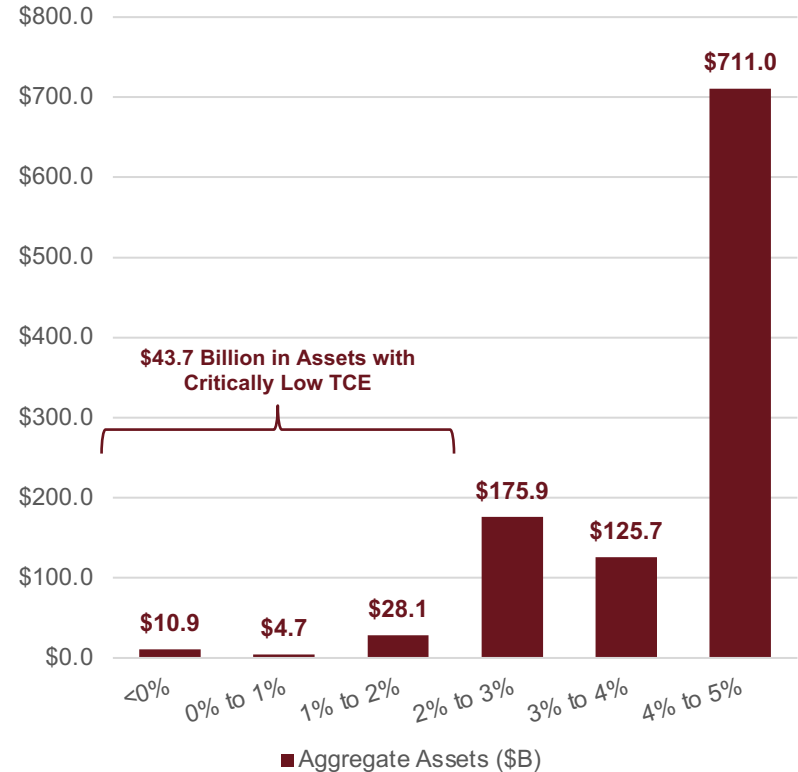
- 40% of banks have less than 8% Tangible Common Equity-to-Assets as of September 30, 2023.
- 38% of banks had less than 8% Tangible Common Equity-to-Assets as of June 30, 2023.

# BANKS WITH TANGIBLE EQUITY CAPITAL BELOW 5.00%

## # OF BANKS BY TANGIBLE COMMON EQUITY



## AGGREGATE ASSETS BY TANGIBLE COMMON EQUITY

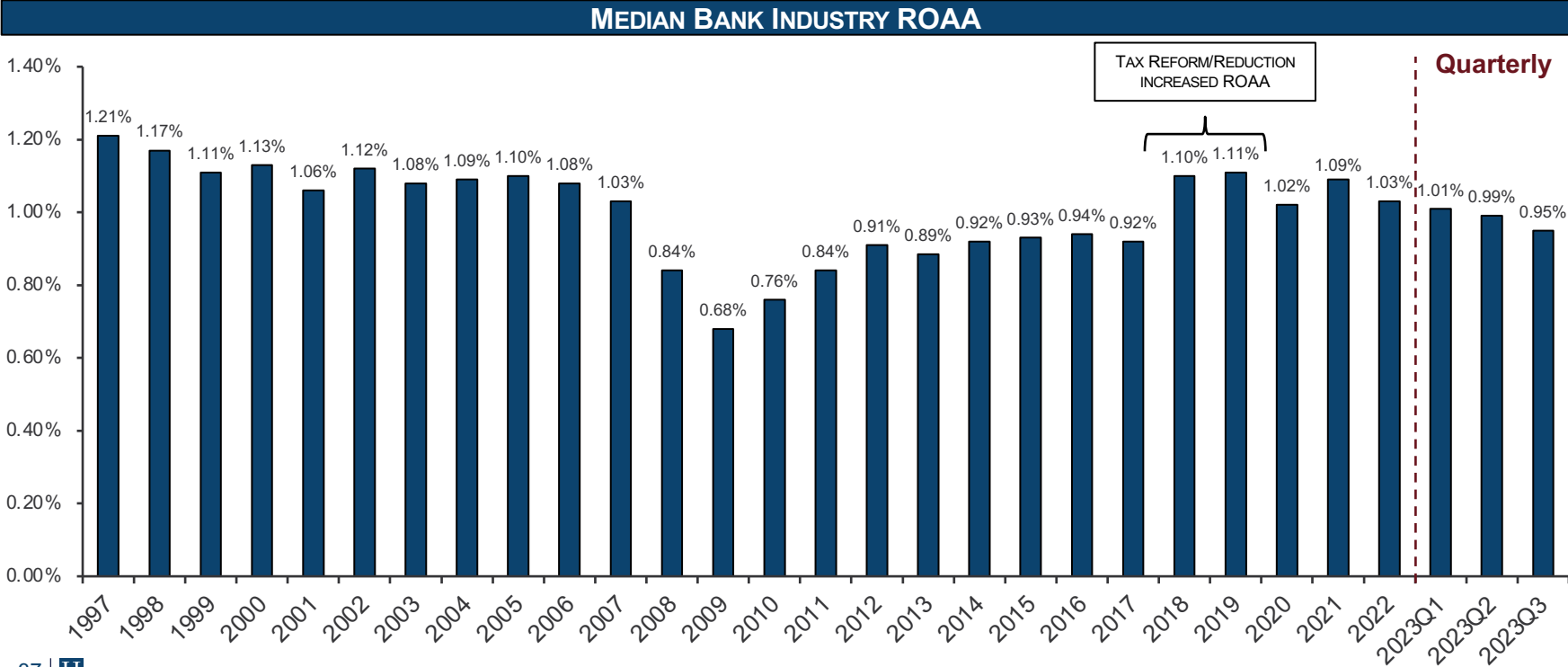


# REGULATORY TOOL KIT FOR AOCI PROBLEMS?



# WHERE ARE BANK EARNINGS HEADING FROM HERE?

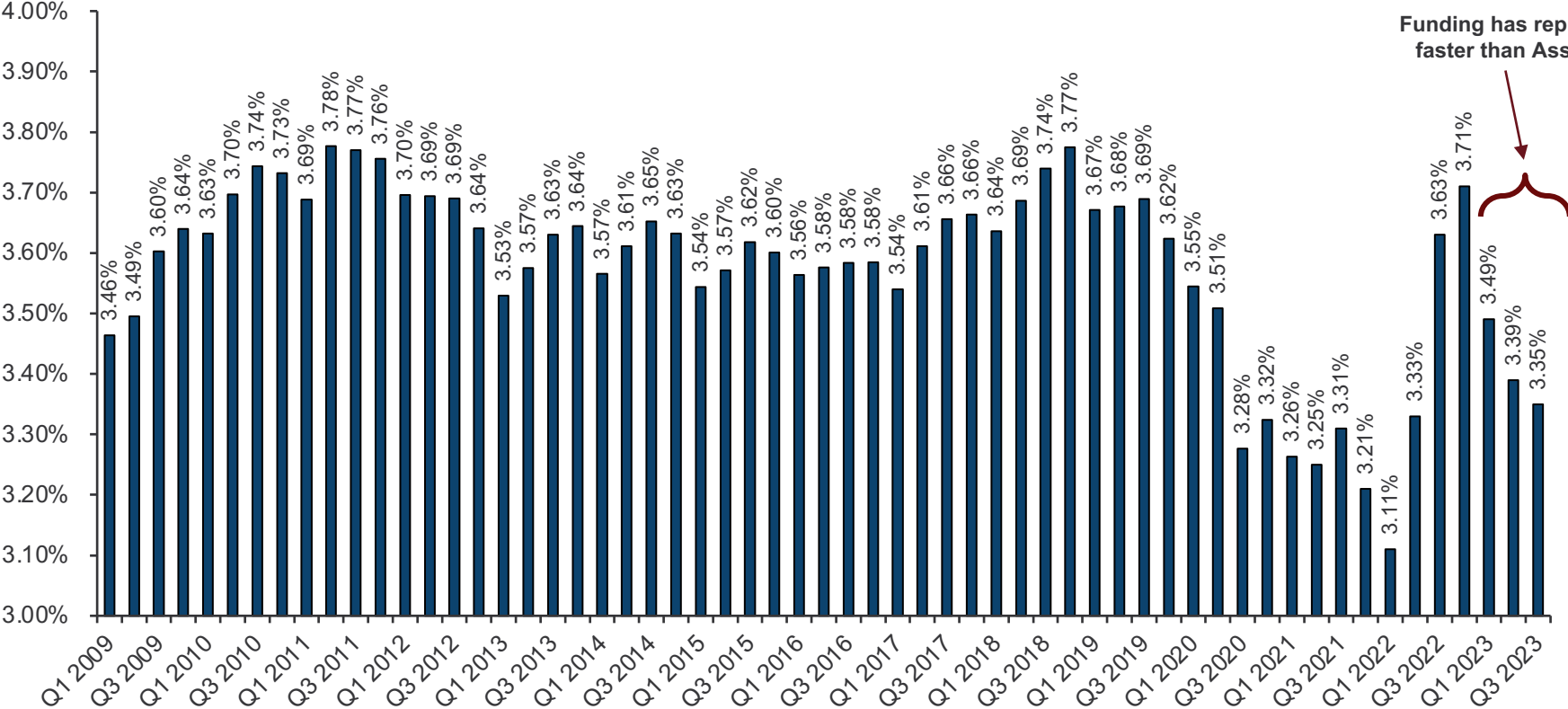
- Tax reform helped juice bank earnings to near historical highs in 2019
  - Corporate tax rates are in jeopardy of going higher, cost of deposits and capital are increasing, as well as regulatory compliance burdens
- 2021 returns are skewed by negative provisions, PPP fees and the tail end of the mortgage refi boom



Note: Includes financial data for all U.S. commercial banks, savings banks, and thrifts (top tier consolidated only)  
Source: S&P Capital IQ Pro; Data as of 9/30/2023

# NIM CONTINUES TO DECLINE – WHEN WILL RECOVERY BEGIN?

## QUARTERLY BANK INDUSTRY NET INTEREST MARGIN

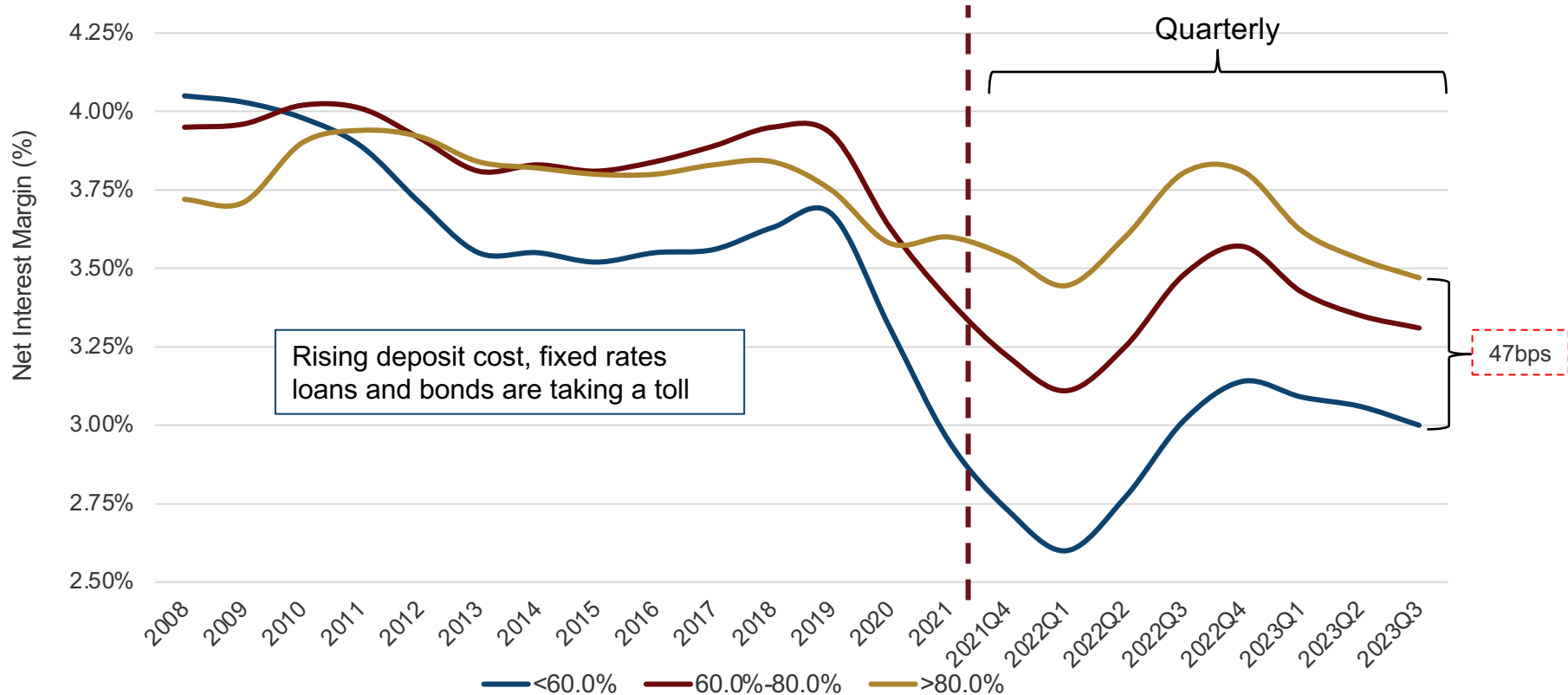


Funding has repriced faster than Assets

Source: FDIC; Data as of 9/30/2023; Includes all FDIC-insured Community Banks (as defined by the FDIC)

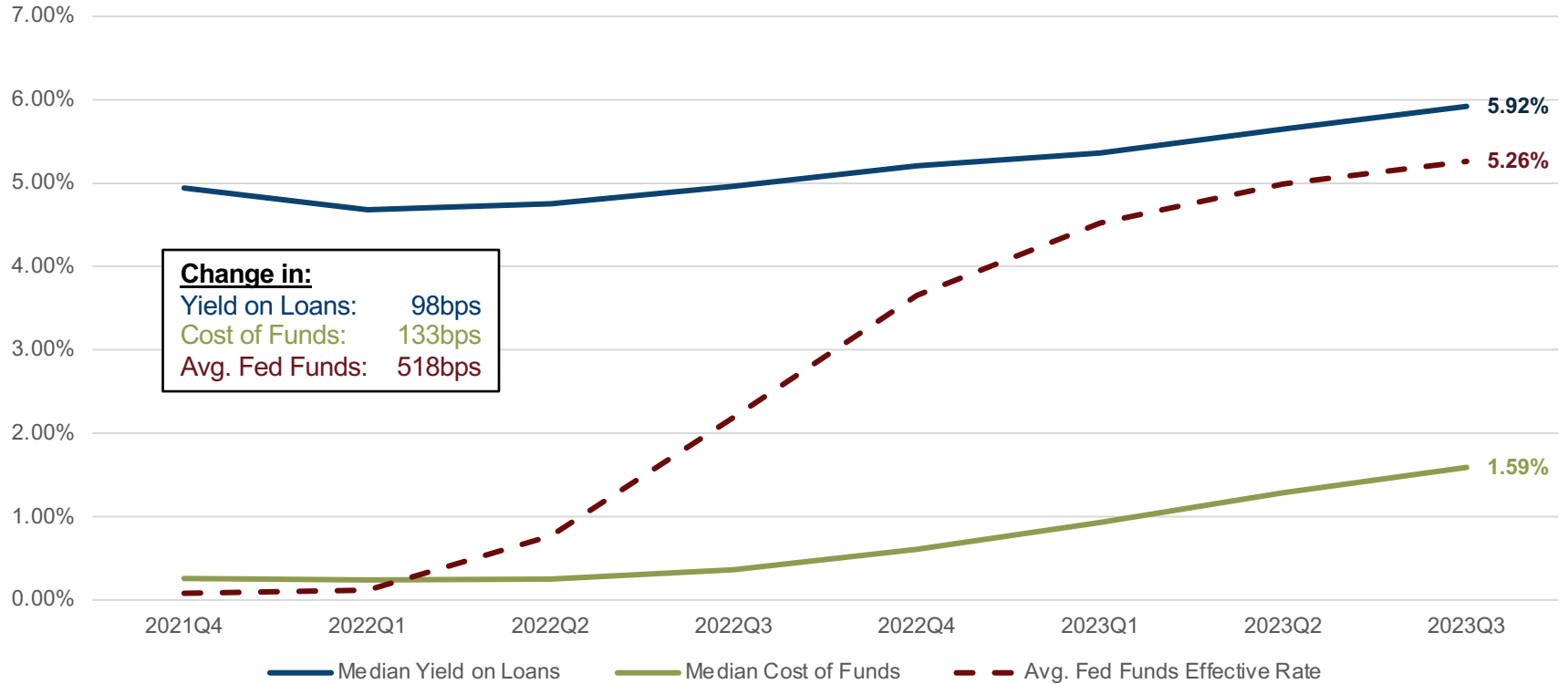
# LOAN-TO-DEPOSIT RATIO: IMPACT ON NET INTEREST MARGIN

## MEDIAN NET INTEREST MARGIN BY LOAN-TO-DEPOSIT RATIO



# LOAN YIELDS AND COST OF FUNDS: FULL IMPACT OF RISING RATES UNKNOWN

## LOAN YIELDS AND COST OF FUNDS VS. FED FUNDS RATE

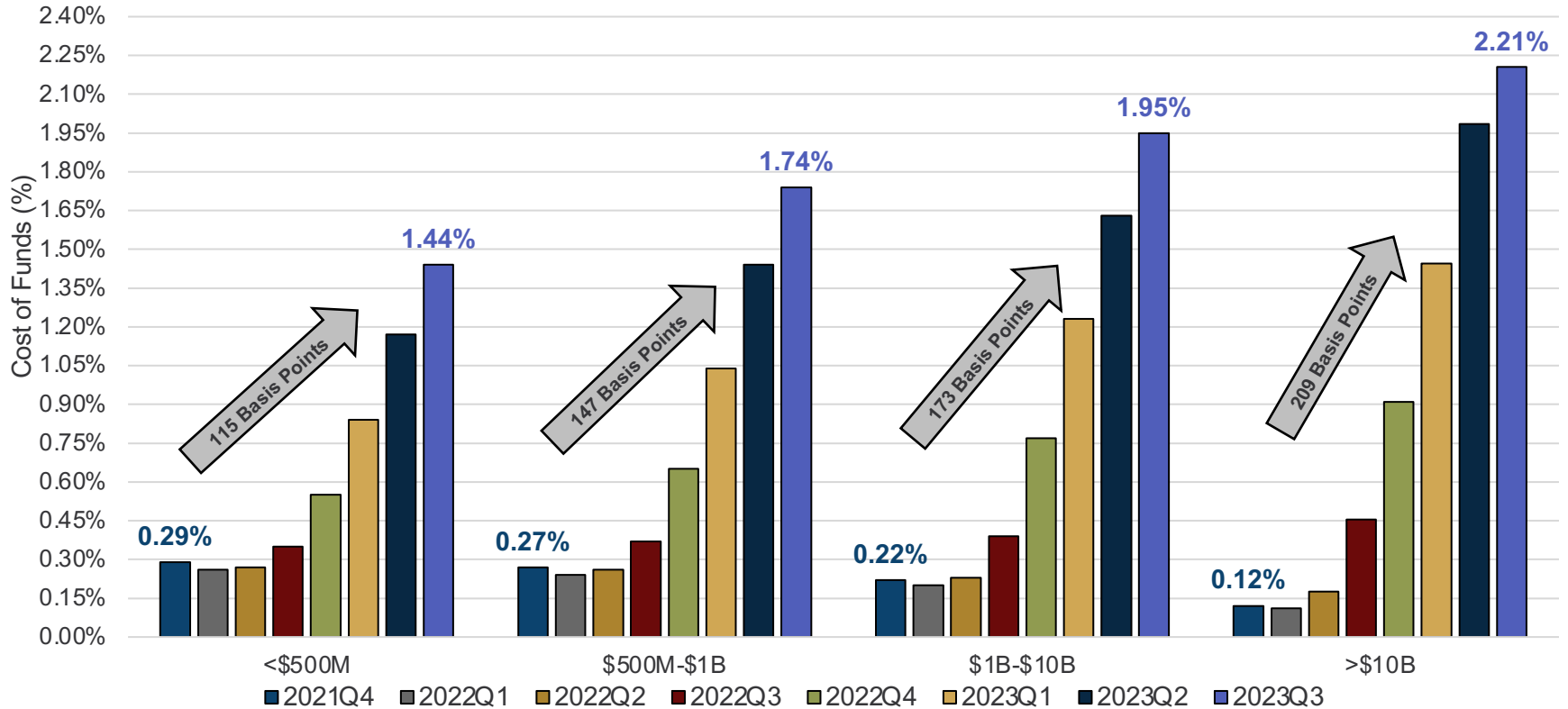


Note: Includes all commercial banks and savings banks (top tier consolidated only) with assets less than \$20.0 billion; Avg. Fed Funds Effective Rate is an Average for each respective quarter  
 Source: S&P Capital IQ Pro; Federal Reserve Bank of St. Louis; Data as of 9/30/2023



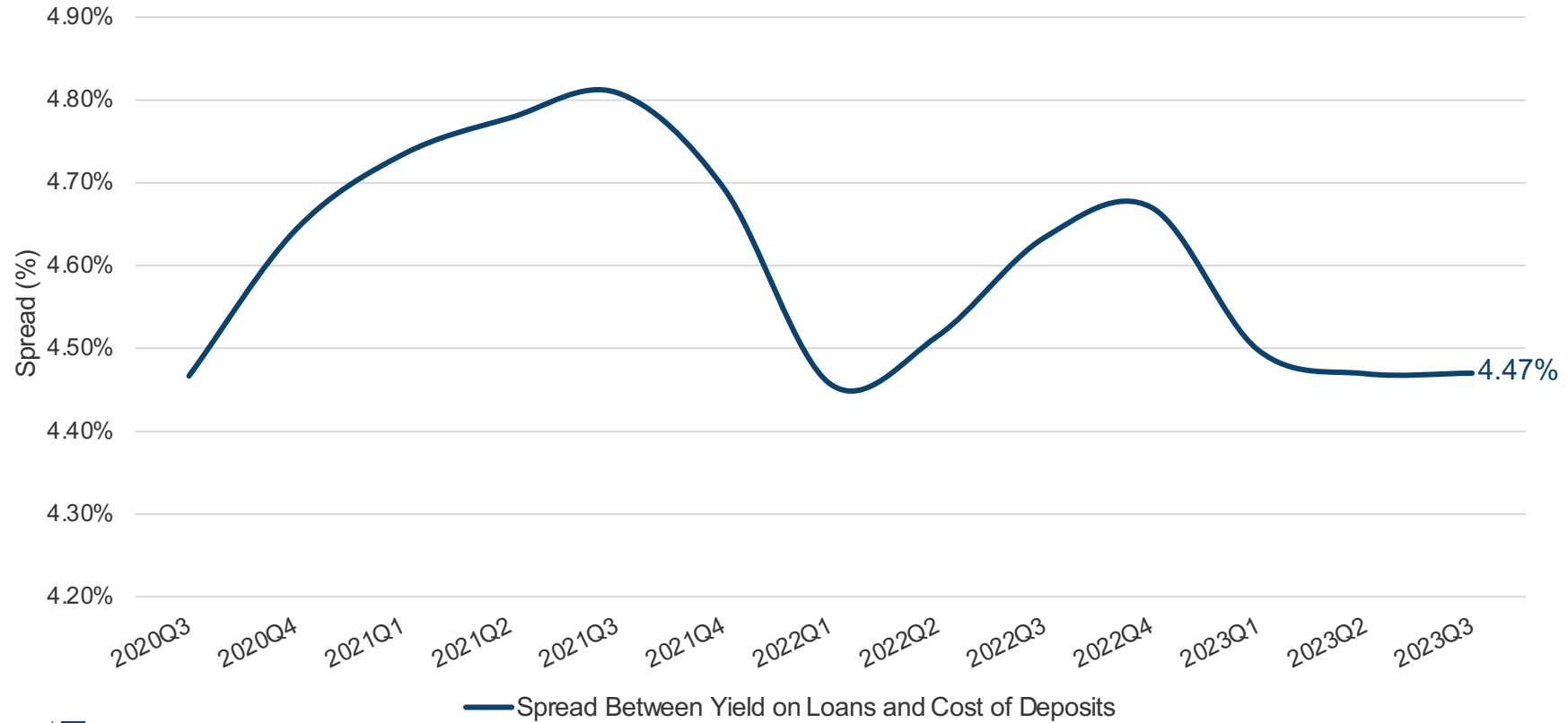
# COST OF FUNDS BY ASSETS

## COST OF FUNDS BY ASSET RANGES



# SPREAD BETWEEN LOAN YIELDS AND DEPOSIT COSTS

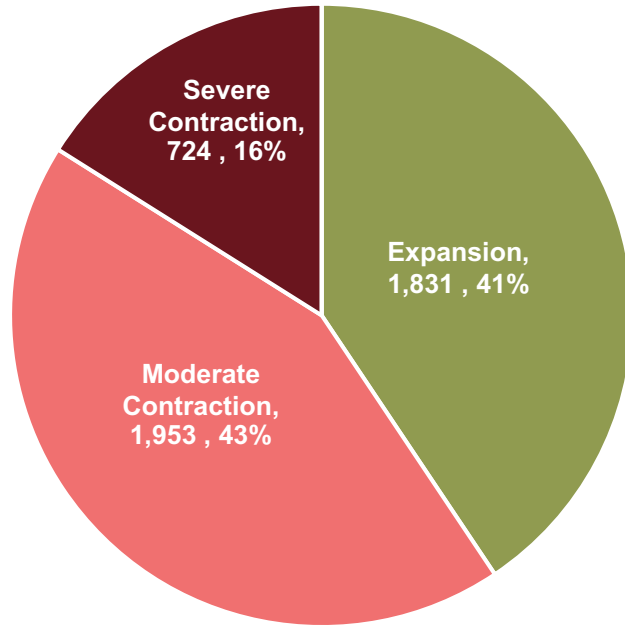
## SPREAD BETWEEN MEDIAN YIELD ON LOANS AND MEDIAN COST OF DEPOSITS (LAST 12 QUARTERS)



Note: Includes all commercial banks and savings banks (top tier consolidated only) with assets less than \$20.0 billion  
Source: S&P Capital IQ Pro; Data as of 9/30/2023

# NET INTEREST MARGIN CONTRACTION/EXPANSION

**THE INDUSTRY IS BIFURCATED: 41% OF BANKS EXPANDED NIM IN Q3 2023**



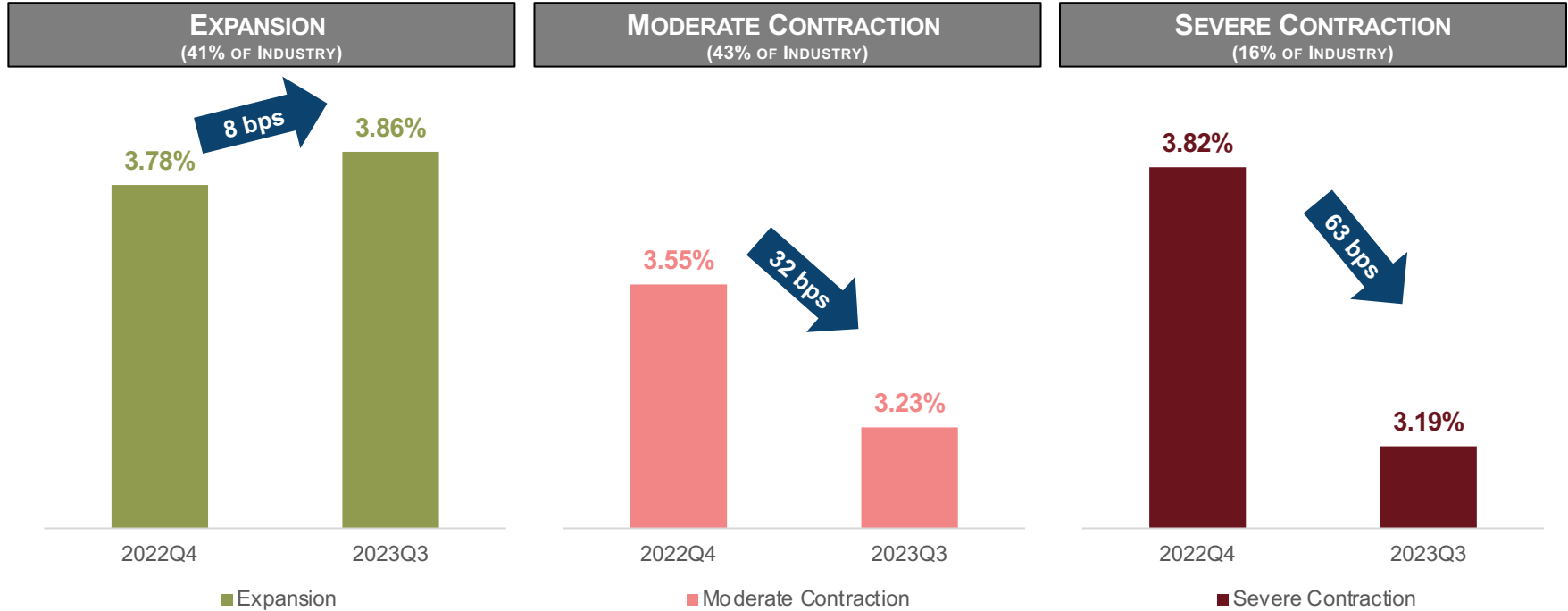
## **Q3 2023 Change in NIM:**

Expansion (1,831):	>0.00%
Moderate Contraction (1,953):	(0.20%) - 0.00%
Severe Contraction (724):	<(0.20%)

- The majority of the banking industry experienced NIM contraction in the third quarter of 2023.
- 41% of banks experienced NIM expansion.
- 16% of banks experienced NIM contraction greater than 20 bps. On average these banks NIM decreased by 40 bps.

# NET INTEREST MARGIN CONTRACTION/EXPANSION – THE HAVES AND HAVE NOTS

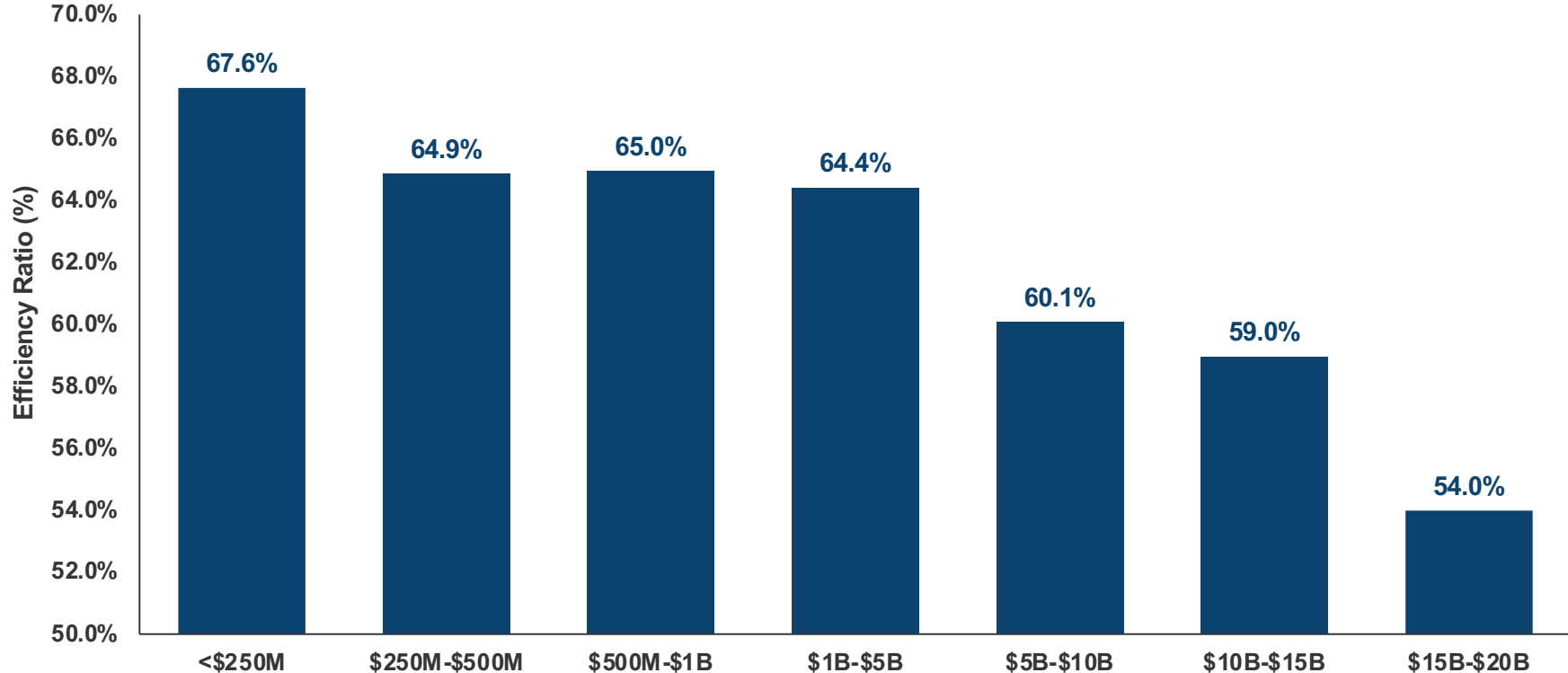
## AVERAGE NET INTEREST MARGIN



Q3 2023 Change in NIM:	
Expansion (1,831):	>0.00%
Moderate Contraction (1,953):	(0.20%) - 0.00%
Severe Contraction (724):	<(0.20%)

# EFFICIENCY THROUGH SIZE IS STILL A RELIABLE STRATEGY

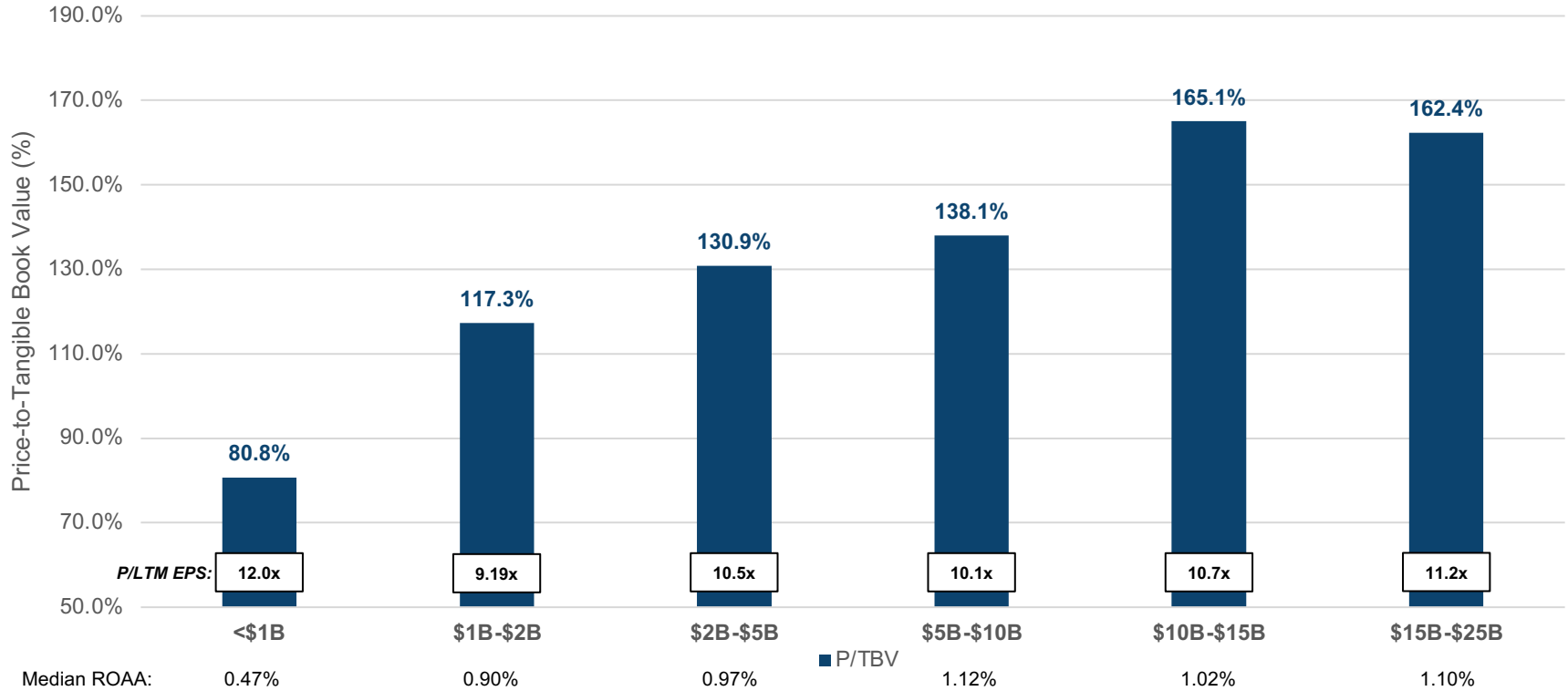
**MEDIAN Q3 2023 EFFICIENCY RATIO BY ASSET SIZE**



Note: Includes all commercial banks and savings banks (top tier consolidated)  
Source: S&P Capital IQ Pro; Data as of 9/30/2023

# MARKET PRICING BY ASSET SIZE – STILL A STRONG PREFERENCE FOR SIZE

## MEDIAN PRICE-TO-TANGIBLE BOOK VALUE & PRICE-TO-LTM EARNINGS BY ASSET SIZE



Note: Includes all banks traded on the NYSE and NASDAQ exchanges (Excludes merger targets)  
 Source: S&P Global Market Intelligence; Data as of 12/29/2023

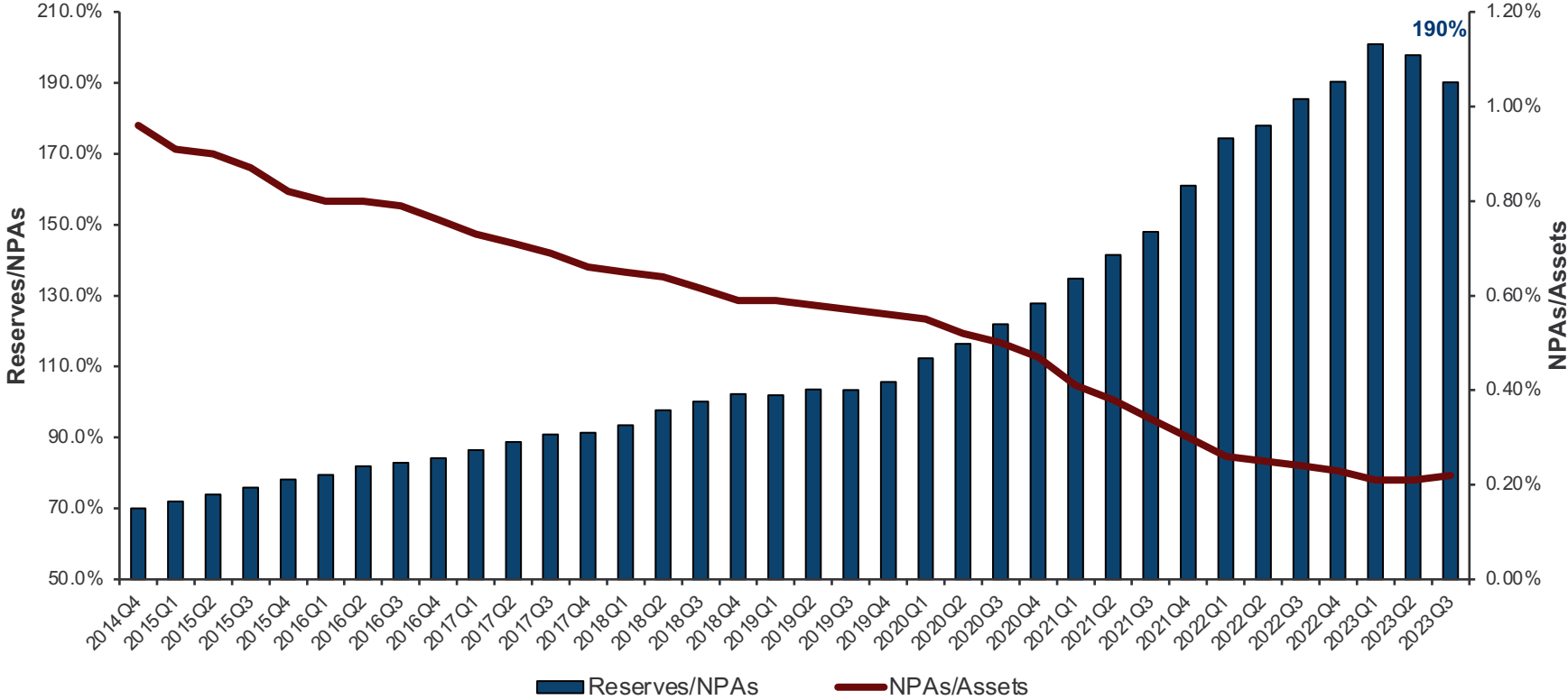
A) WHAT DOES CREDIT QUALITY LOOK LIKE NOW & WHERE WILL IT GO?

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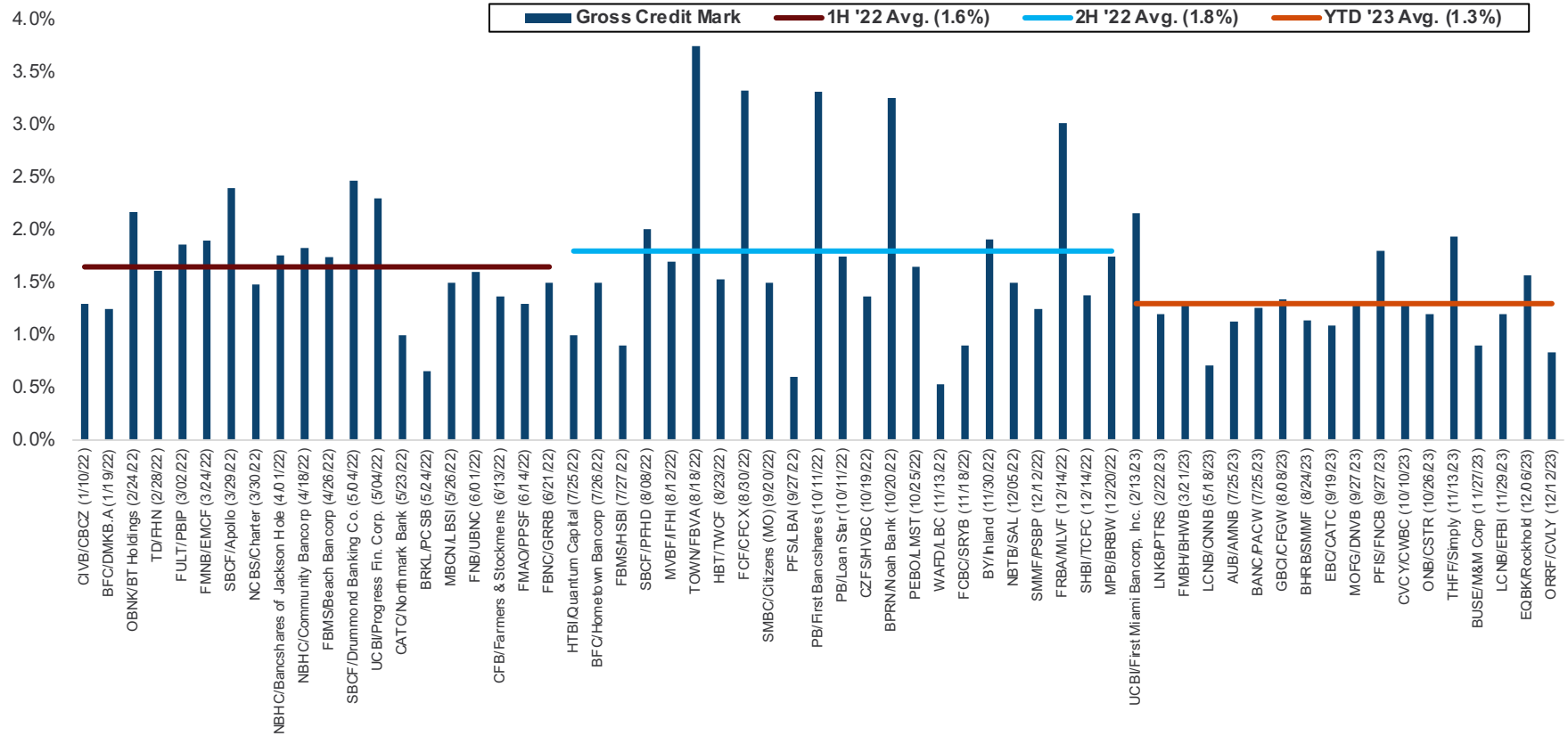
# BANKS APPEAR TO BE WELL RESERVED UTILIZING TRADITIONAL METRICS

## MEDIAN QUARTERLY BANK INDUSTRY RESERVES/NPAs vs NPAs/ASSETS



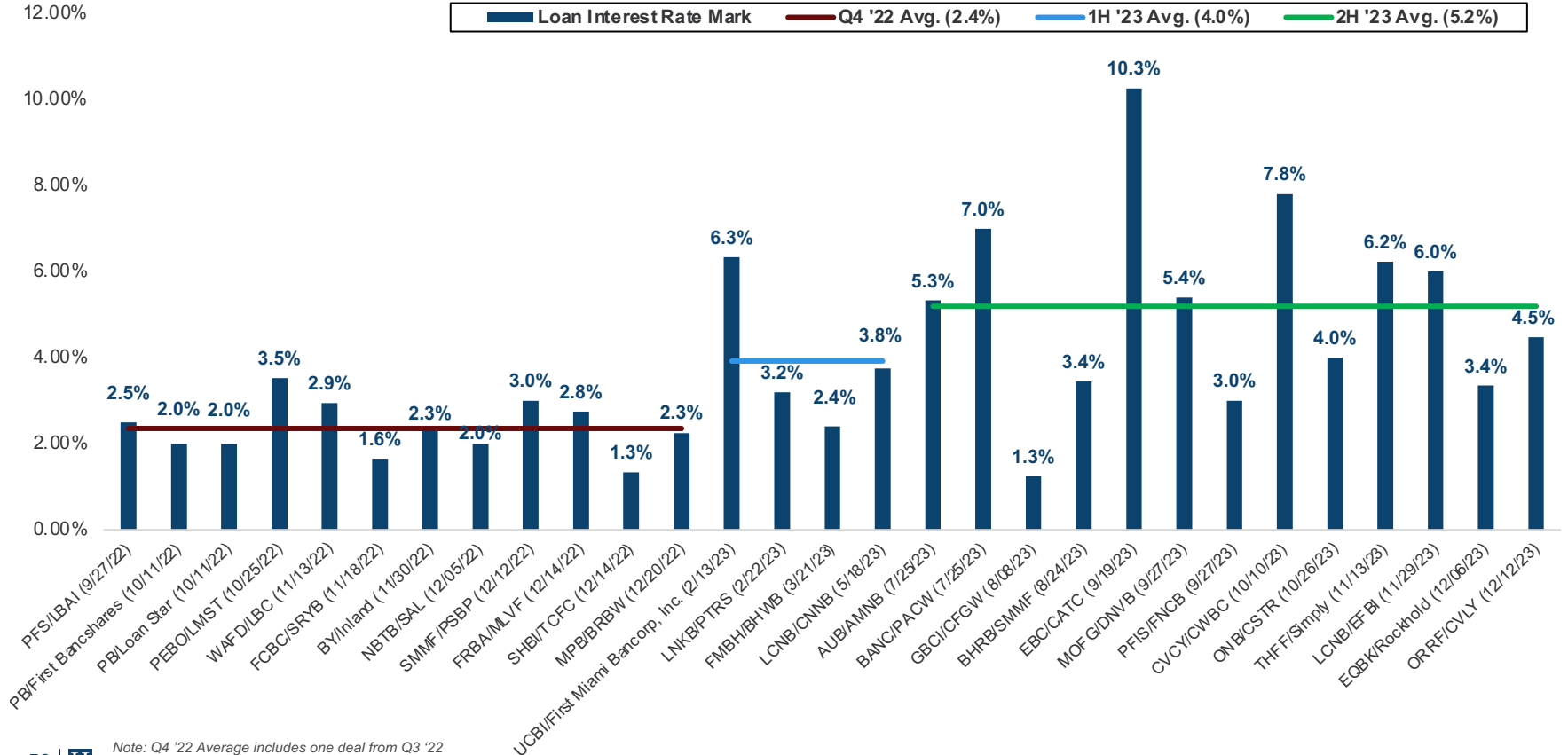


# CREDIT MARKS SINCE JANUARY 1, 2022



Note: Includes transactions where credit marks are disclosed  
 Note: BANC/PACW mark represents the fair value adjustment to BANC's loan portfolio  
 Source: Company documents; Data as of 12/31/2023

# GROSS LOAN INTEREST RATE MARKS SINCE SEPTEMBER 1, 2022



Note: Q4 '22 Average includes one deal from Q3 '22  
 Note: Includes transactions where interest rate marks are disclosed  
 Note: BANC/PACW mark represents the fair value adjustment to BANC's loan portfolio  
 Source: Company documents; Data as of 12/31/2023

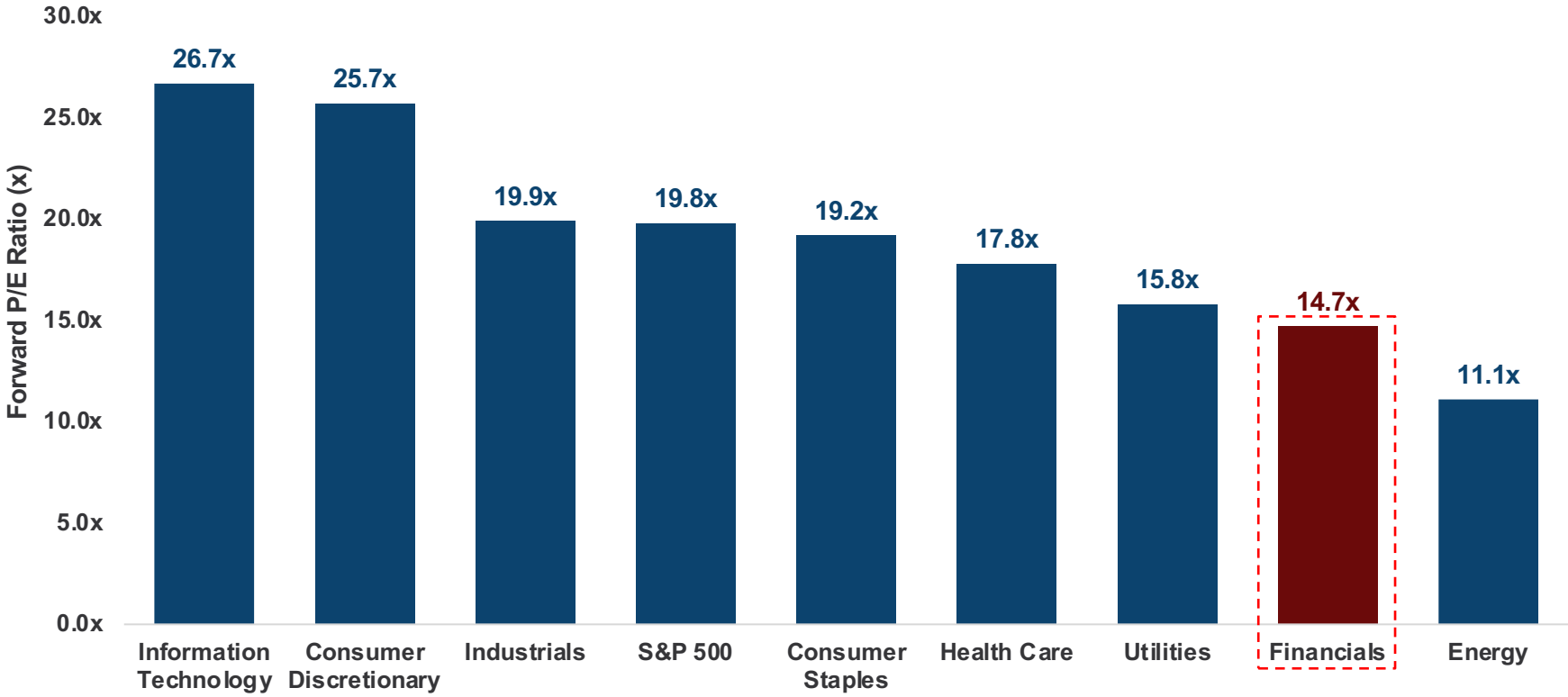
## IV. THE IMPACT ON BANK STOCK VALUES AND M&A

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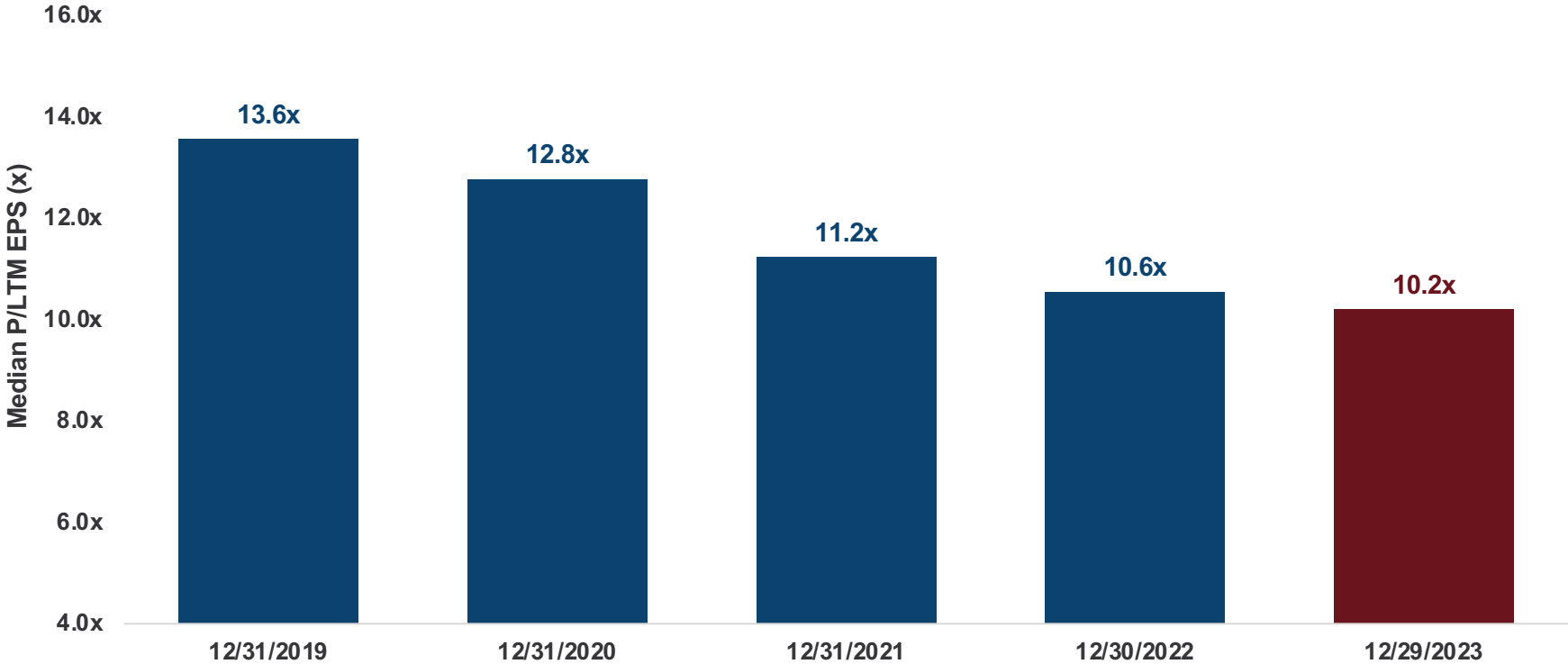
# BANK STOCKS ARE STILL OUT OF FAVOR, BUT STARTING TO REBOUND?

## SELECT S&P 500 SECTORS FORWARD P/E RATIOS



# PRICE-TO-EARNINGS ON A STEADY DECLINE

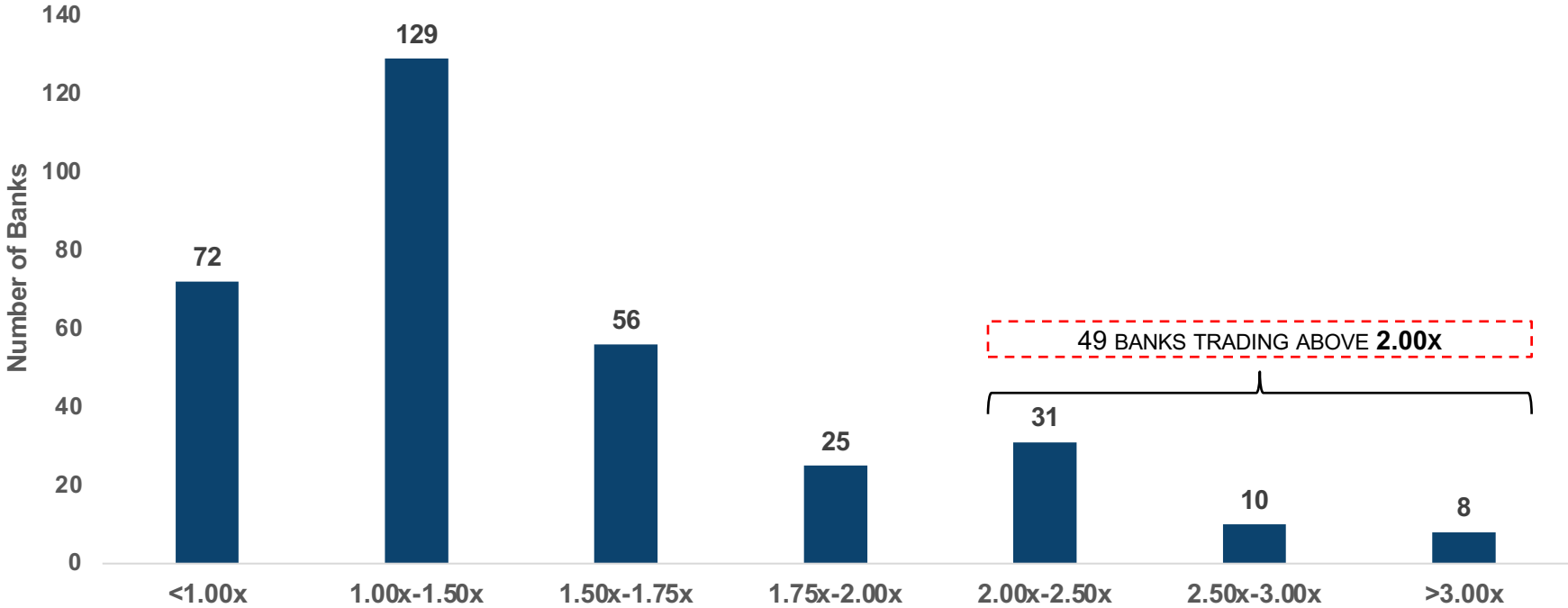
## MEDIAN PRICE-TO-LTM EARNINGS (MAJOR EXCHANGE TRADED BANKS)



Note: Includes all banks traded on the NYSE and NASDAQ exchanges where price-to-LTM EPS metrics are available  
Source: S&P Capital IQ Pro; Data as of 12/29/2023

# TURMOIL IN THE BANKING INDUSTRY HAS LEAD TO DEPRESSED PRICING

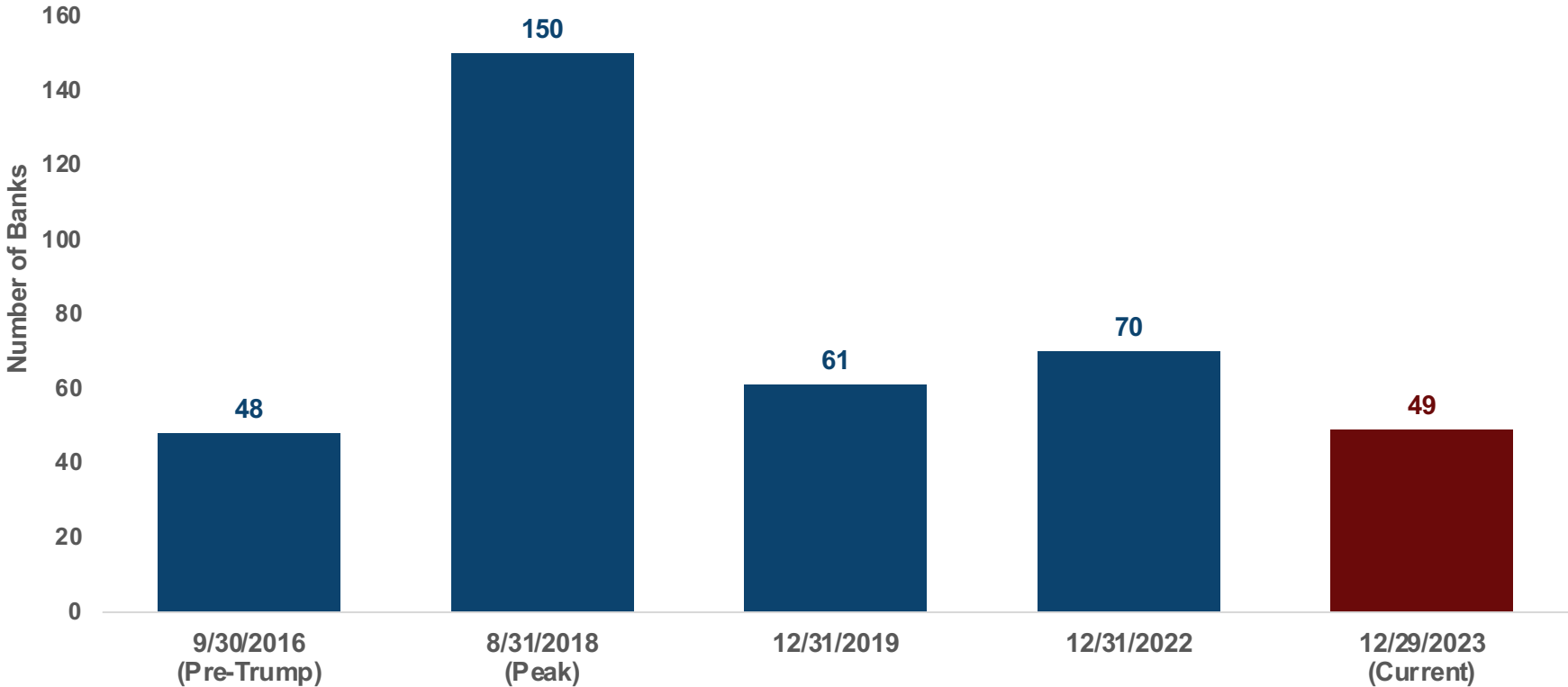
## NUMBER OF BANKS IN PRICE-TO-TANGIBLE BOOK RANGES



Note: Includes all banks traded on the NYSE and NASDAQ exchanges where price-to-tangible book metrics are available  
Source: S&P Capital IQ Pro; Data as of 12/29/2023

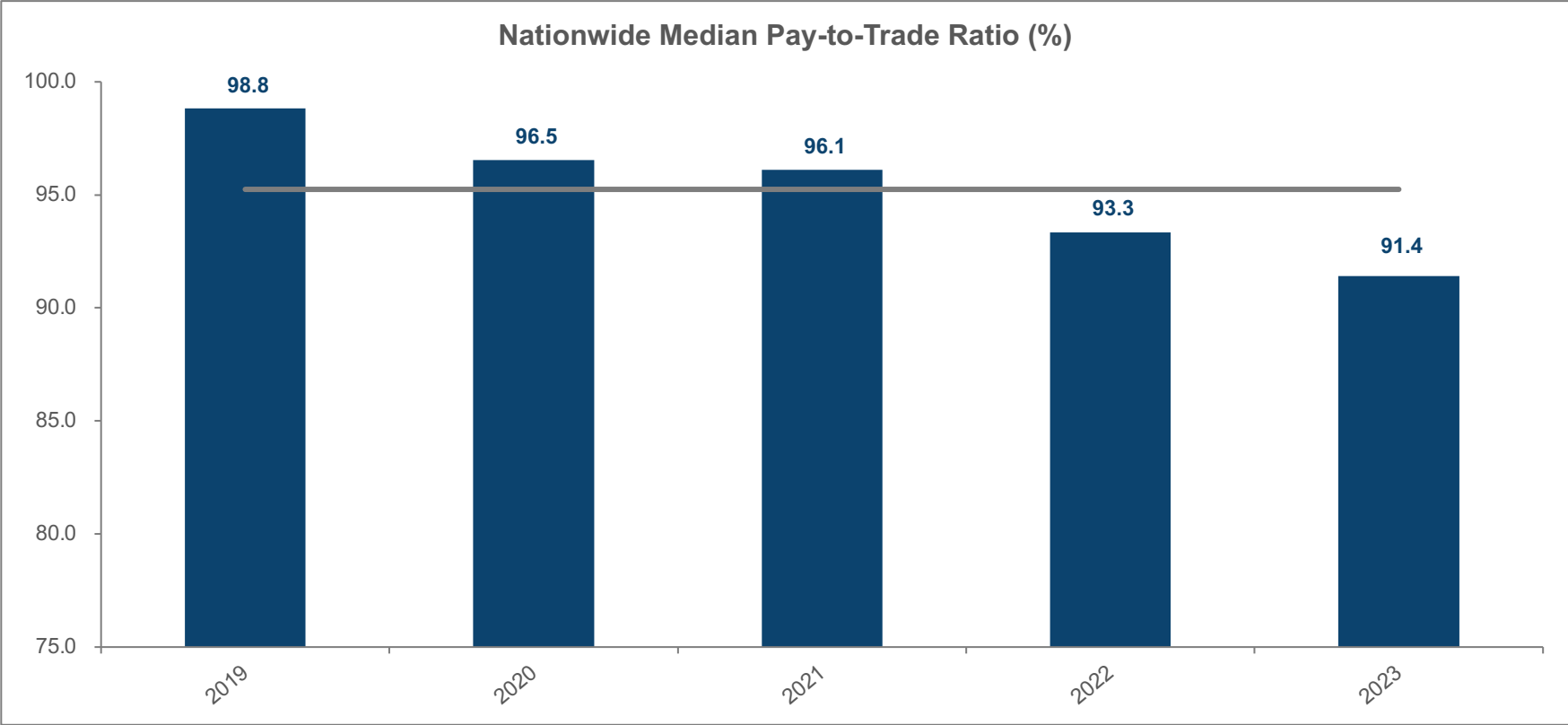
# LOW TRADING VALUES & UNCERTAINTY HAVE DEPRESSED M&A ACTIVITY

## NUMBER OF BANKS WITH PRICE-TO-TANGIBLE BOOK VALUES GREATER THAN 2.00X



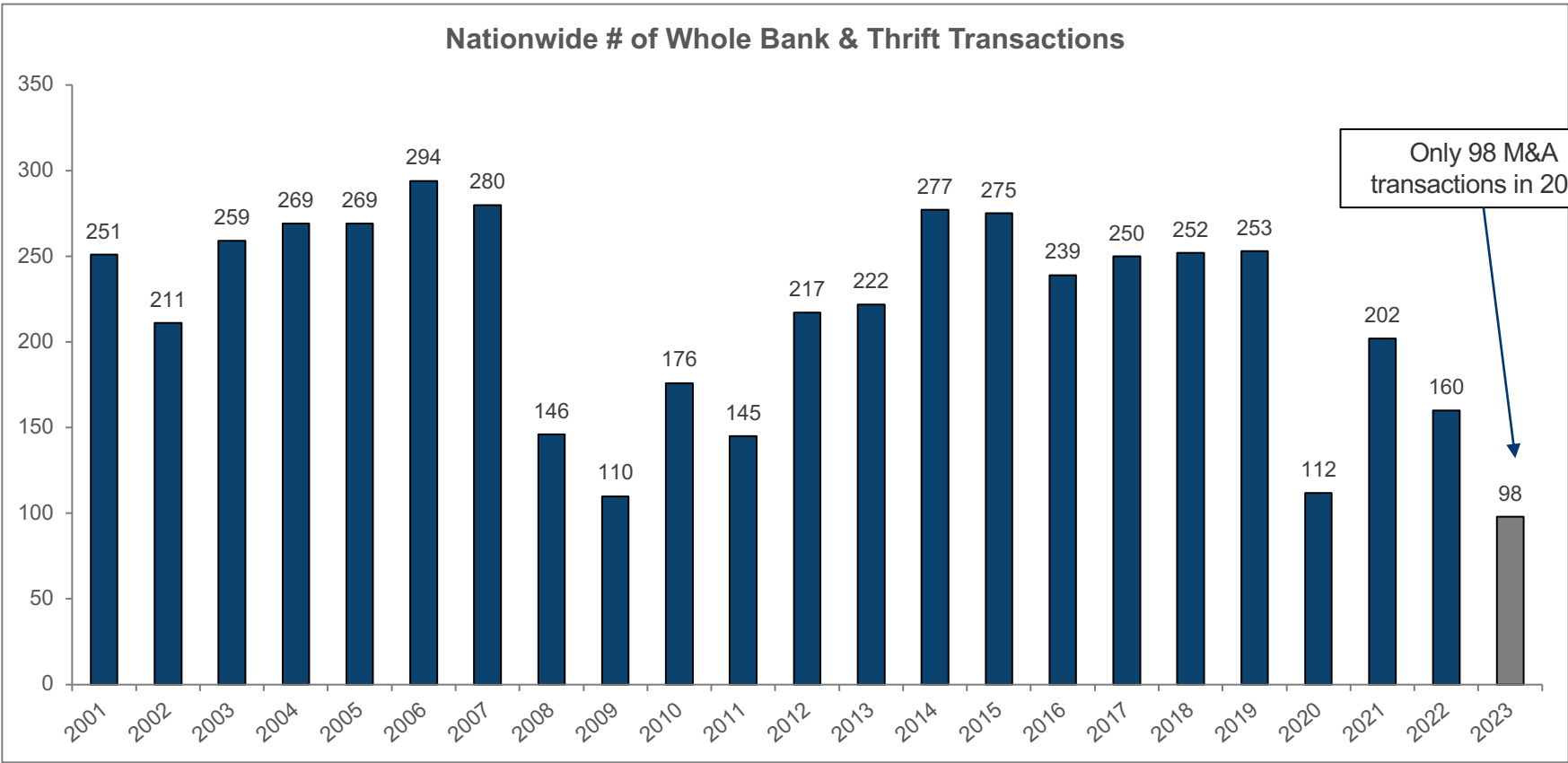
*Note: Includes all banks traded on the NYSE and NASDAQ exchanges where price-to-tangible book metrics are available  
Source: S&P Global Market Intelligence; Data as of 12/29/2023*

# MEDIAN NATIONWIDE PAY-TO-TRADE ANALYSIS

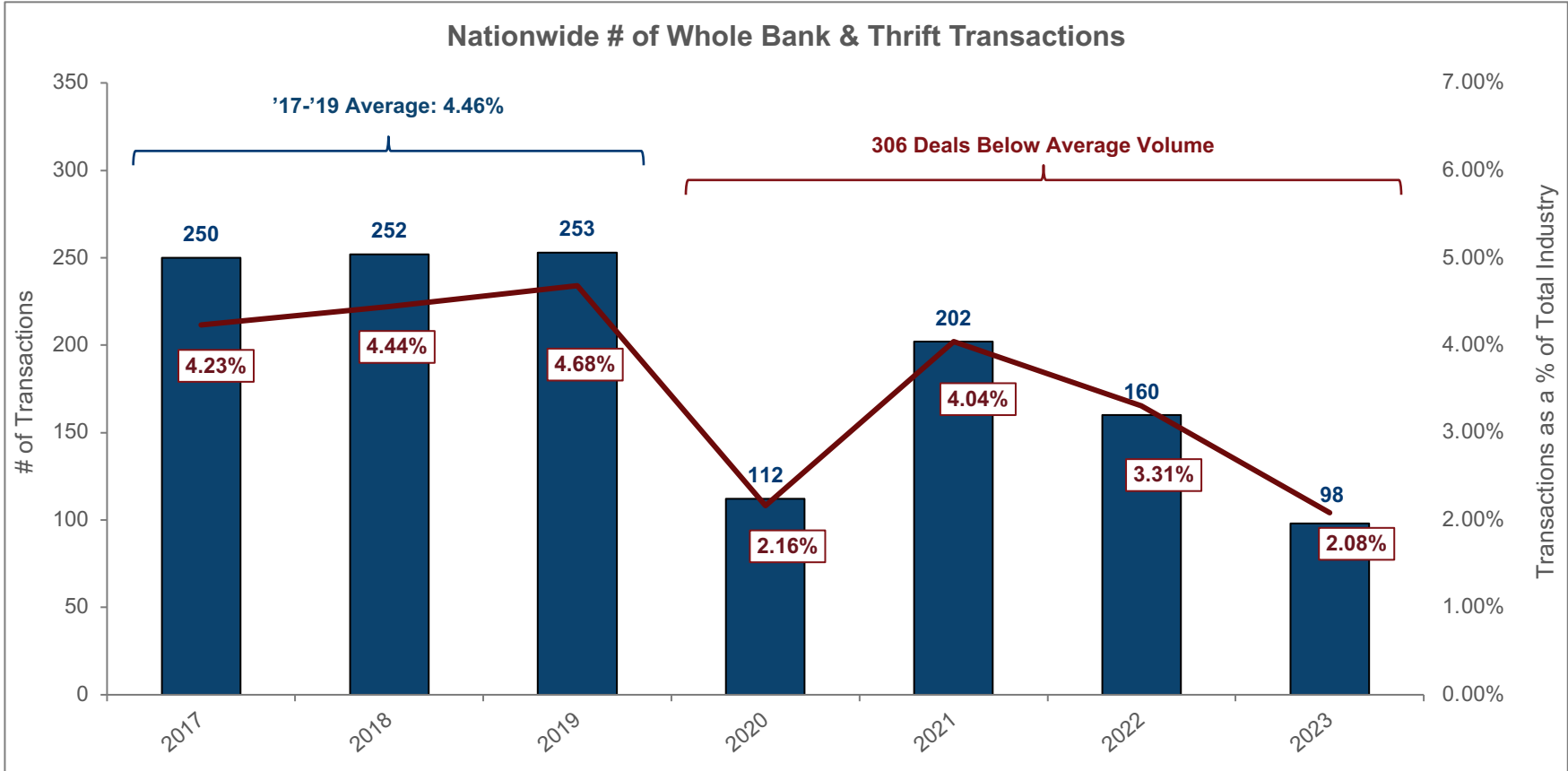




# WHOLE BANK & THRIFT M&A TRENDS

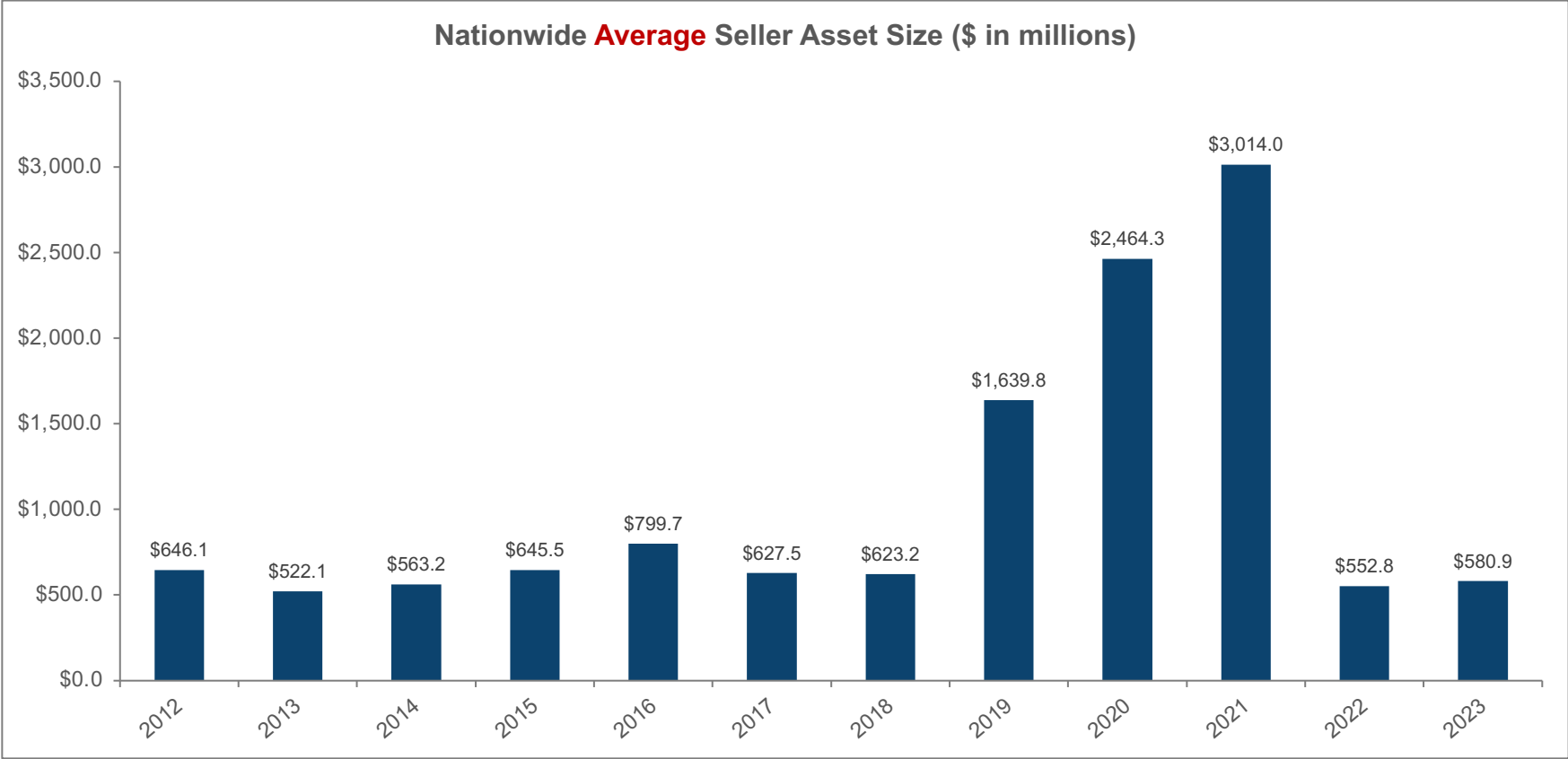


# BACKLOG OF PENT UP SELLER DEMAND

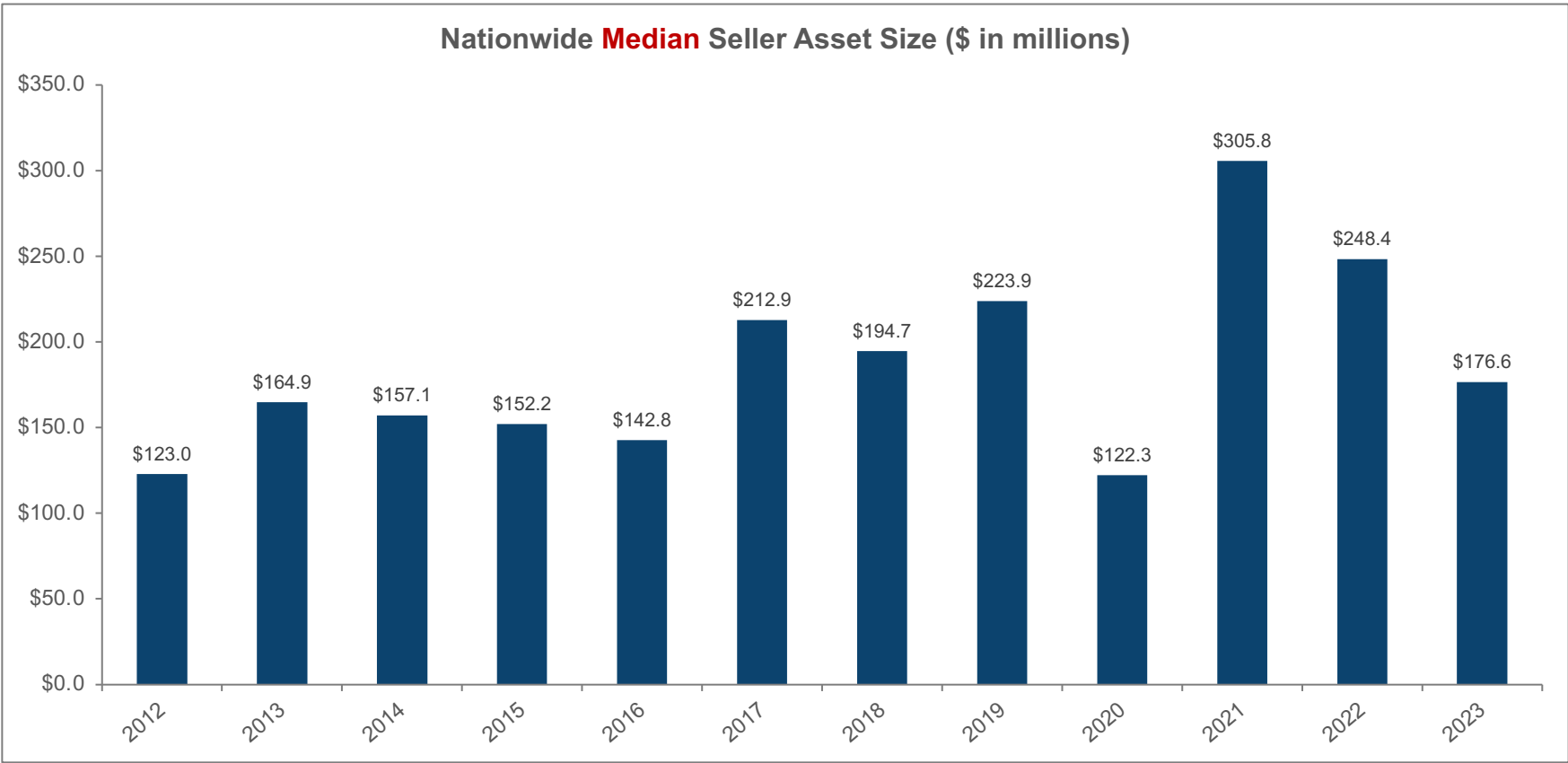


Note: Transactions as a % of Total Industry is based on the total number of FDIC-insured institutions for the previous year  
Data as of 12/31/2023  
Source: S&P Global Market Intelligence

# WHOLE BANK & THRIFT M&A TRENDS



# WHOLE BANK & THRIFT M&A TRENDS



## 2023 M&A BY THE NUMBERS

### MEDIAN PROFITABILITY METRICS

Price-to-Earnings:  
**11.1x**

LTM ROAA:  
**0.89%**

### MEDIAN CAPITAL METRICS

Price-to-TBV:  
**124.5%**

TCE Ratio:  
**9.11%**

### MEDIAN DEAL SIZES

Public Deals:  
Buyer: **\$5.7B**  
Seller: **\$1.1B**

Private Deals:  
Buyer: **\$740M**  
Seller: **\$134M**

### OTHER 2023 KEY TRANSACTION HIGHLIGHTS

- Only **30 transactions** with **pricing disclosed**
- Median seller net loan-to deposit ratio: **76.7%**
- Median core deposit premium: **2.42%**
- **13 transactions terminated**

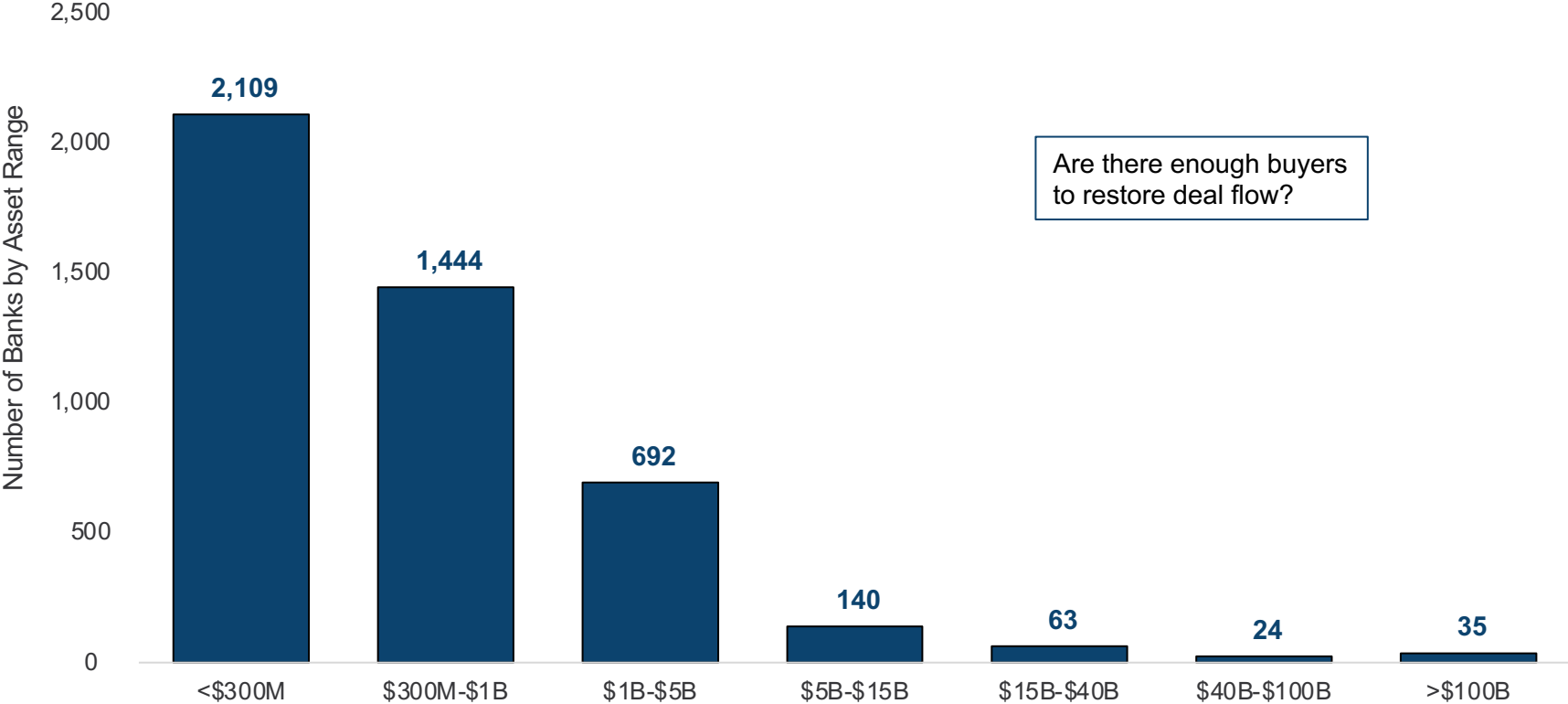
# PURCHASE ACCOUNTING MARKS CREATE HIGH DILUTION EVEN AT LOW PRICE POINTS

Hypothetical Seller Balance Sheet Adjusted for Interest Rate and Credit Marks								
(\$ in thousands)	Beginning Balance Sheet	Estimated Marks		Adjusted Balance	Note	Seller Merger Adjustments	Adjusted Balance	Note
		(%)	(\$000)					
<b>Assets</b>								
Cash	50,000	0.00%	-	50,000		(3,510)	46,490	7
HTM Securities	25,000	(8.00%)	(2,000)	23,000	1	-	23,000	
AFS Securities	100,000	Fair Value		100,000	2	-	100,000	
Total Securities	125,000	(1.60%)	(2,000)	123,000		-	123,000	
Loans	800,000	(5.75%)	(46,000)	754,000	3	-	754,000	
Reserves	(12,000)	Reversal, net		(18,000)	4	-	(18,000)	
Net Loans	788,000	(6.60%)	(52,000)	736,000		-	736,000	
CDI	-	Reversal		-		22,500	22,500	8
Goodwill	-	Reversal		-		43,785	43,785	9
Other Assets	37,000	0.00%	-	37,000		4,725	41,725	10
<b>Total Assets</b>	<b>1,000,000</b>	<b>(5.40%)</b>	<b>(54,000)</b>	<b>946,000</b>		<b>67,500</b>	<b>1,013,500</b>	
<b>Liabilities:</b>								
Deposits	900,000	(1.00%)	(9,000)	891,000	5	-	891,000	
Other Liabilities	10,000	0.00%	-	10,000		-	10,000	
<b>Total Liabilities</b>	<b>910,000</b>	<b>(0.99%)</b>	<b>(9,000)</b>	<b>901,000</b>		<b>-</b>	<b>901,000</b>	
<b>Shareholders' Equity:</b>								
AOCI	(10,000)	AOCI Eliminated		10,000	2	-	-	
Equity	100,000		(55,000)	45,000	6	67,500	112,500	
<b>Total Equity</b>	<b>90,000</b>		<b>(45,000)</b>	<b>45,000</b>		<b>67,500</b>	<b>112,500</b>	
<b>Tangible Equity</b>	<b>90,000</b>		<b>(45,000)</b>	<b>45,000</b>		<b>1,215</b>	<b>46,215</b>	
<b>Price-to-TBV</b>	<b>125.0%</b>			<b>250.0%</b>			<b>243.4%</b>	
Purchase Price	112,500			112,500			112,500	

## NOTES

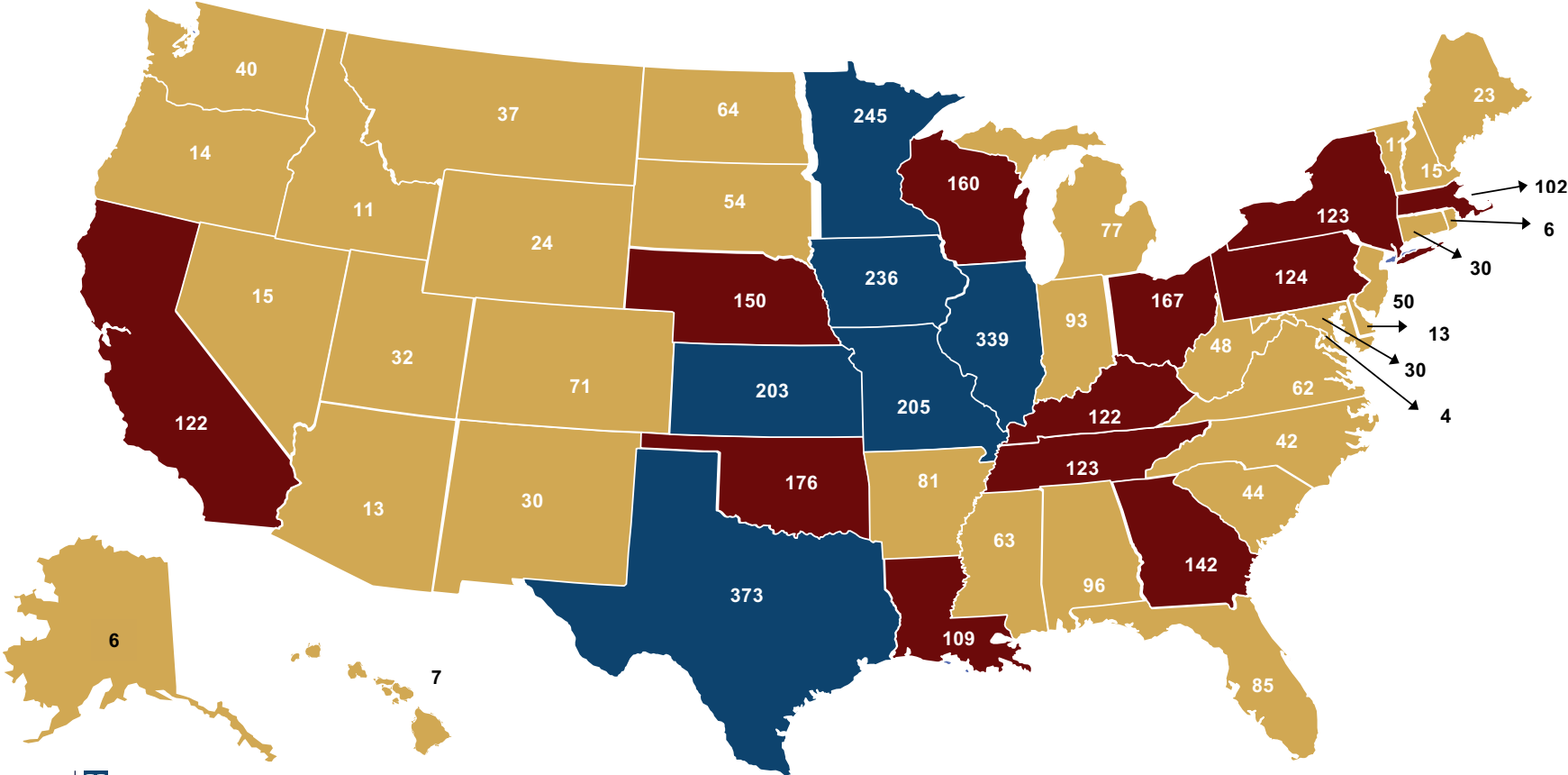
- Median implied mark based on the differences reported between fair value and cost basis for HTM securities in Q3 was 7.90%.<sup>(1)</sup>
- AFS Securities have after-tax mark incorporated and reflected as AOCI. Through purchase accounting, an acquirer will lose its capital treatment.
- Average interest rate mark for the second half of 2023 was 5.2% and average credit mark was 1.3%. The analysis is utilizing a 5.0% interest rate mark and a 0.75% Non-PCD credit mark.
- Reversal of Seller's reserves, net of 0.75% PCD credit mark.
- Estimated 1.00% mark up on deposits.
- Includes \$10 million reduction for the elimination of the AOCI balance.
- Assumes a transaction charge of 7.5% of deal value, 50% allocated to the Seller, 80% deductible and a 21% tax rate.
- CDI estimated to be 2.5% of total deposits.
- Goodwill created based on purchase price less Seller's adjusted tangible common equity (tangible common equity less net mark to market and Seller's portion of transaction expenses).
- DTA created based on gross mark to market of \$22.5 million and a 21% tax rate.

# NUMBER OF BANKS BY ASSET SIZE



Are there enough buyers to restore deal flow?

# NUMBER OF COMMERCIAL AND SAVINGS BANKS BY STATE: 2023



Note: Institutions screened 12/31/2023; Includes all top-tier consolidated banks  
Source: S&P Capital IQ Pro



## WHAT CREATES VALUE FOR BANKS?

### CHARACTERISTICS ENHANCING VALUE

- History of organic growth
- Core profitability from NIM and fee income
- Market with organic loan demand
- Core low-cost depository relationships
- Synergies with buyer
- Willingness to take stock as consideration – especially publicly traded
- Wealth management income
- Strong management bench

### CHARACTERISTICS LIMITING VALUE

- Non-organic growth
- Markets with low or negative growth demographics
- Transactional earnings (mortgage and asset sales)
- Large amounts of fixed rate earning assets (creating large balance sheet marks)
- High funding costs or non-core funding
- Reliance on key individual(s) with flight risk
- Specialty lending or other niche or ethnic focus
- Requirement of cash as consideration

## V. WHAT IS NEXT?

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## M&A OUTLOOK – HEADWINDS & RESISTANCE



### HEADWINDS & RESISTANCE

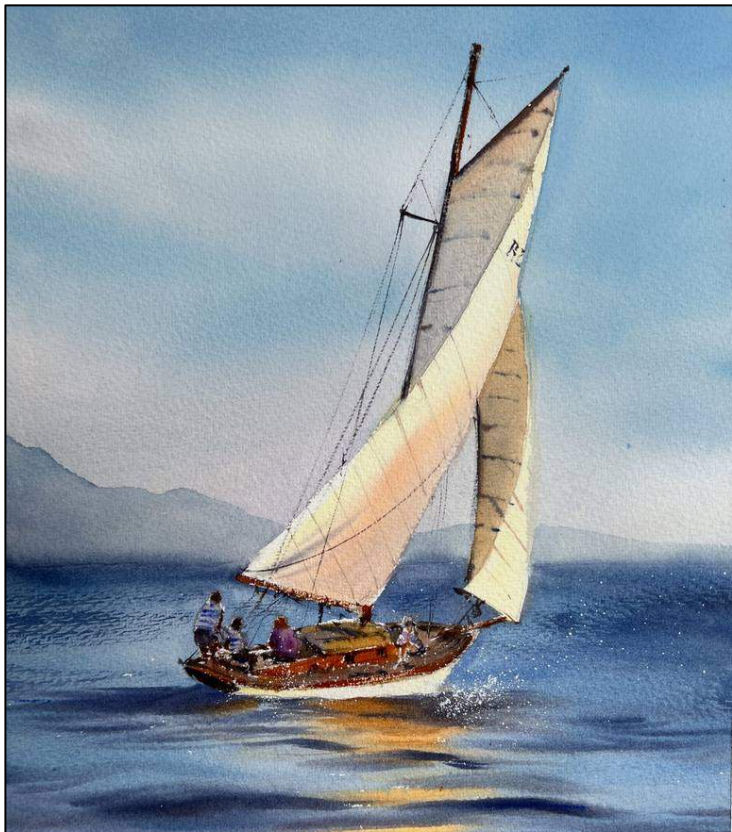
#### PURCHASE ACCOUNTING CHALLENGES

- AOCI and HTM marks
- Interest rate marks on loans
- Increasing credit marks
- The combination of these is often 50% of book value

#### EARNINGS CHALLENGES

- Continued NIM compression
- Wage Inflation

## M&A OUTLOOK – TAILWINDS & ASSISTANCE



### TAILWINDS & ASSISTANCE

- December bank stock rally carries into 2024
- Banks with low leverage ratios are being pressured by regulators
- Regional banks need acquisitions to grow EPS
- Large backlog of sellers looking for partners
- Growing seller receptivity to stock deals with upside

## FINAL THOUGHTS FOR 2023

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### OBSERVATIONS

- Regulatory pressure is building on banks with severely low capital levels
- Some banks are trapped by fixed-rate bonds and loans and face declining earnings
- Opportunities exist for sellers to “buy low” with publicly-traded bank stocks in mergers
- Investor money is plentiful on the sidelines for strategic transactions
- We are in the lowest tax environment for the rest of our lifetimes

### ACTION STEPS

- Be looking for strategic partnerships both above and below
- Be sure you are on the FDIC notification list
- Strategic planning is critical – keep your board informed and ready to act
  - ✓ Know a good opportunity when you see one – board education in advance
  - ✓ Know the availability and cost of new capital

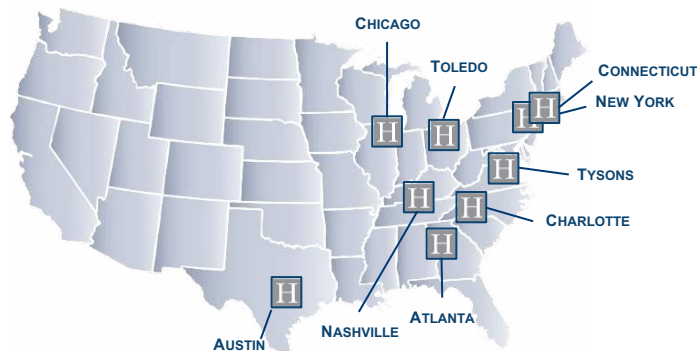
# HOVDE GROUP PROFESSIONALS & CONTACT INFORMATION

## HOVDE GROUP OVERVIEW

Hovde Group, LLC is a leading U.S. financial advisory group that provides a full-service suite of investment banking, capital markets, financial advisory, sales and trading, and equity research services focused exclusively on the banking industry. It has been a leading advisor in the banking sector for over 35 years.

Hovde's experienced professionals advise banks across all 50 states and provide the expertise, resources and focus necessary to structure, negotiate and successfully close the most complex strategic M&A and capital transactions.

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