



Lessons From the Latest Acquisitions

Scott Anderson

*Keefe, Bruyette & Woods,
A Stifel Company*

Joseph Berry

*Keefe, Bruyette & Woods,
A Stifel Company*

A photograph of a desert landscape at sunset. Several tall saguaro cacti are silhouetted against a vibrant sky of orange, yellow, and blue. The ground is covered in dry, scrubby vegetation.

BankDirector.

Acquire or Be Acquired:

Lessons Learned in 2023

The AOPA Top 10

Scott Anderson

Head of Investment Banking

Joe Berry

Co-Head of Investment Banking
Head of Fintech & Depositories

#AOPA24

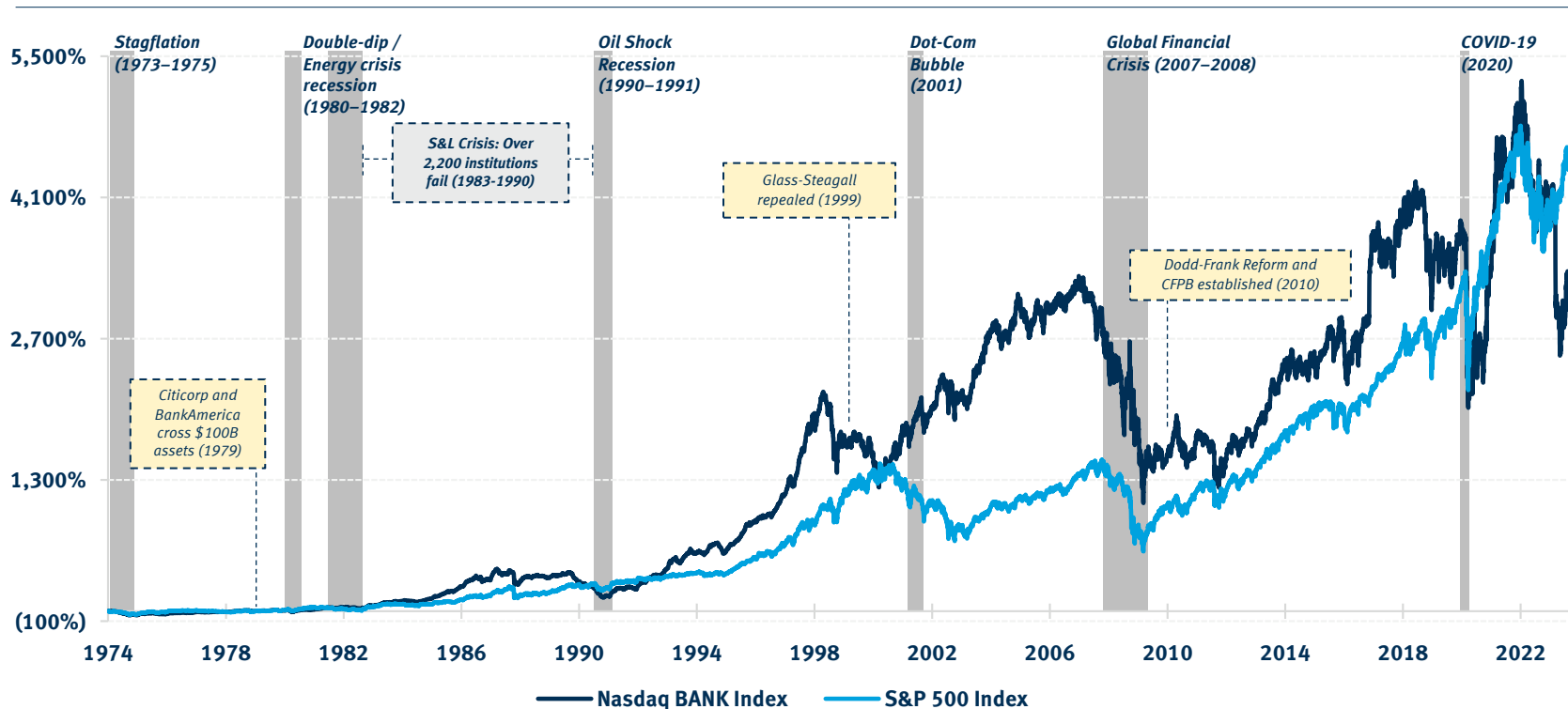
10 Lessons Learned in 2023

10 Cycles Happen



Review of Troublesome Times Within the Industry

50-Year Relative Historical Price Performance of the Banking Industry⁽¹⁾



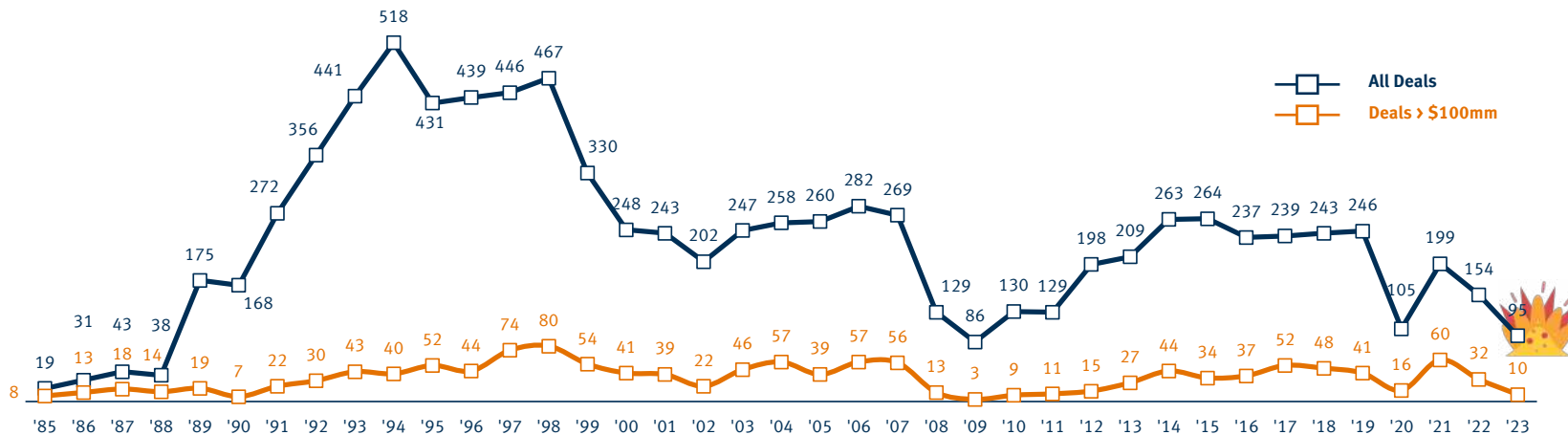
Source: S&P Global Market Intelligence & KBW Research
 (1) Price performance from 1/1/1974 – 12/31/2023



2023 Has Been One of The Worst Years on Record for M&A Activity

Total Nationwide Whole Bank M&A Deals⁽¹⁾

Traditional bank M&A activity has been suppressed to levels not seen since the Great Financial Crisis



Source: S&P Global Market Intelligence
 Note: Excludes terminated transactions; Deal values based at announcement
 (1) Excludes investor group transactions

2023: Not Much Happened?

The M&A Environment in 2023 Has Been Challenging...

There has been a total of 95 announced whole bank transactions⁽¹⁾ for the full year of 2023 with a significant death in large bank M&A (outside of FDIC transactions)

Deals Over \$100mm: 10 Transactions



Deals Over \$1bn: 1 Transaction



Government Assisted Transactions: 5 Transactions



2024: Will it Be the Same?



Ways to Fix an Investment Banker's Budget

Total Advisory Fee:

\$1,000,000

Tipping Options:

| | | | |
|-------------------|-----|-----|-----|
| 5% | 10% | 15% | 20% |
| 25% | 30% | 35% | 40% |
| Don't Ask for Tip | | | |

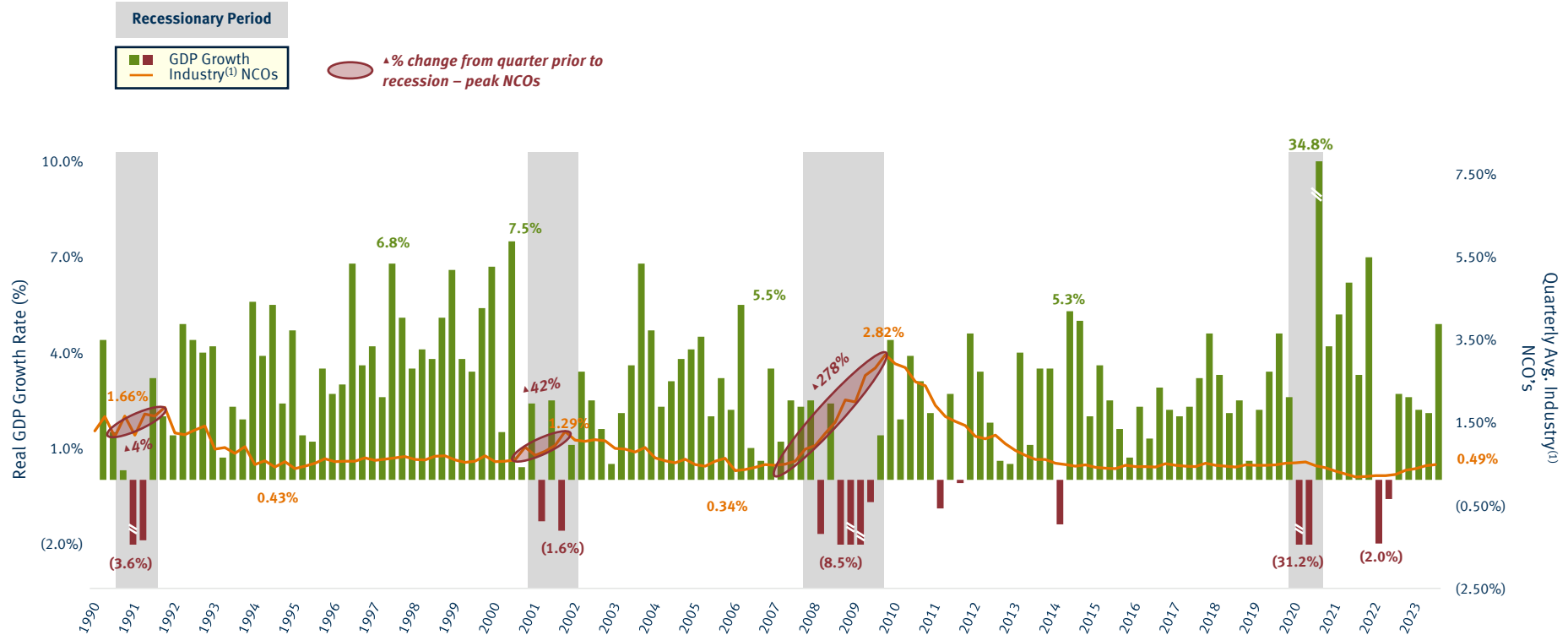
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9 But This Cycle is Different



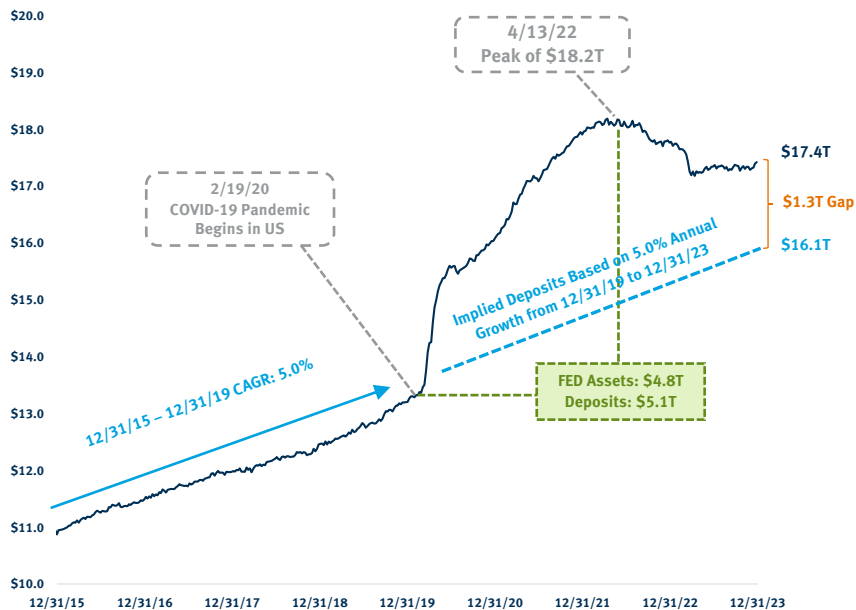
The Credit Environment in Past Economic Cycles



Source: FactSet, Federal Reserve Bank of St. Louis. Data as of 12/31/2023
 (1) All commercial banks as defined by the Federal Reserve Bank of St. Louis

Liquidity / Inflation

Total Deposits of Commercial Banks in the United States (\$T)

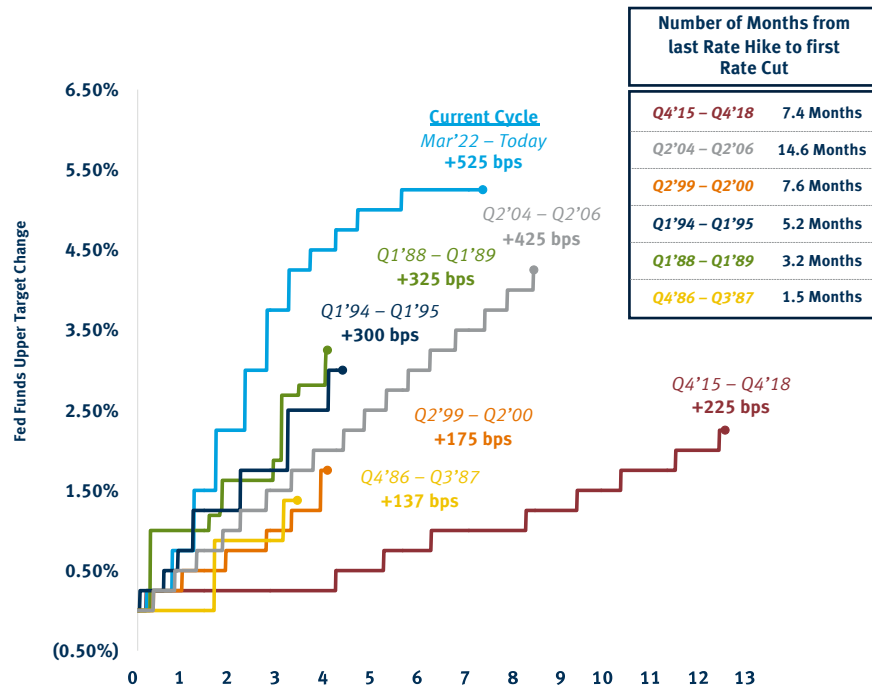


Source: Federal Reserve Bank of St. Louis

Note: Deposit data as of 12/31/2023

Note: Historical rate hikes since 1985; Rate hikes based on the fed upper bound

The Fed Had to Take Unprecedented Action to Beat Inflation



Flight to Safety

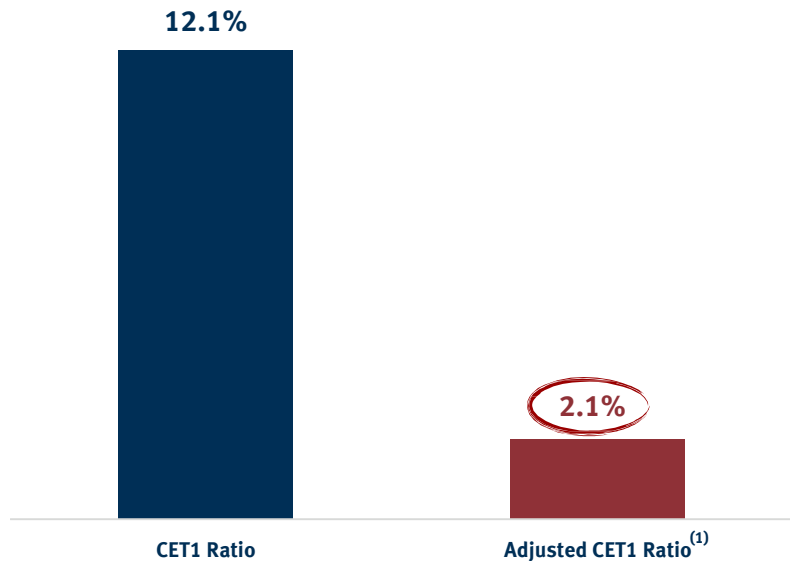
“Nobody Got Fired For Keeping Their Money in J.P. Morgan!”



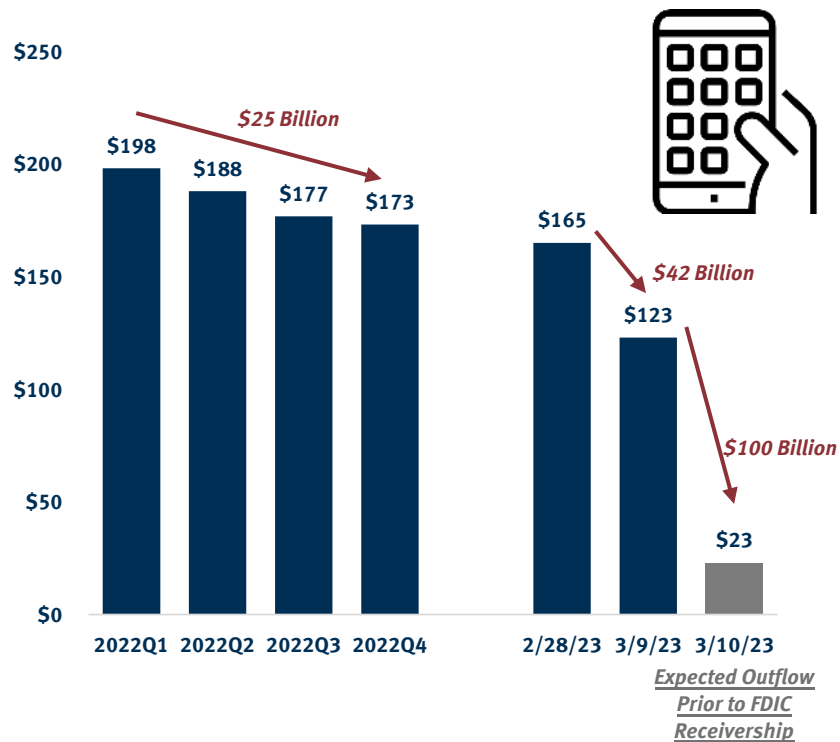
Source: CNBC Broadcast 3/10/2023



Technology Has its Drawbacks



Digital Access Accelerated the Pace of SVB's Deposit Runoff (\$B)



Source: S&P Global Market Intelligence, Company Documents, California Department of Financial Protection & Innovation and CNBC
 (1) Adjusted for AOCI and after-tax HTM securities fair value impact



Some Banks Ended Up Down the Drain



FIRST REPUBLIC

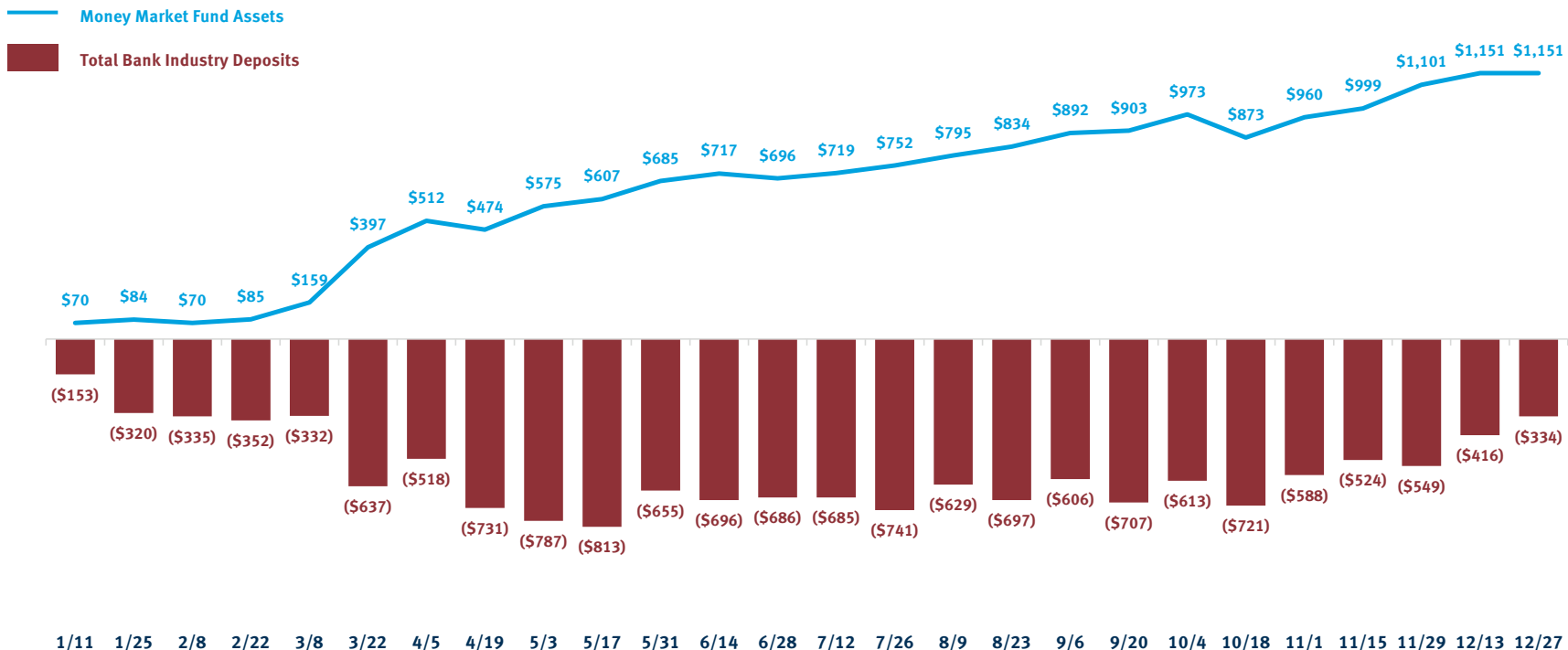


The Higher Flyers



There Has Been a Shift in Flows to Money Market Fund Assets

Year-to-Date Cumulative Change (\$B)

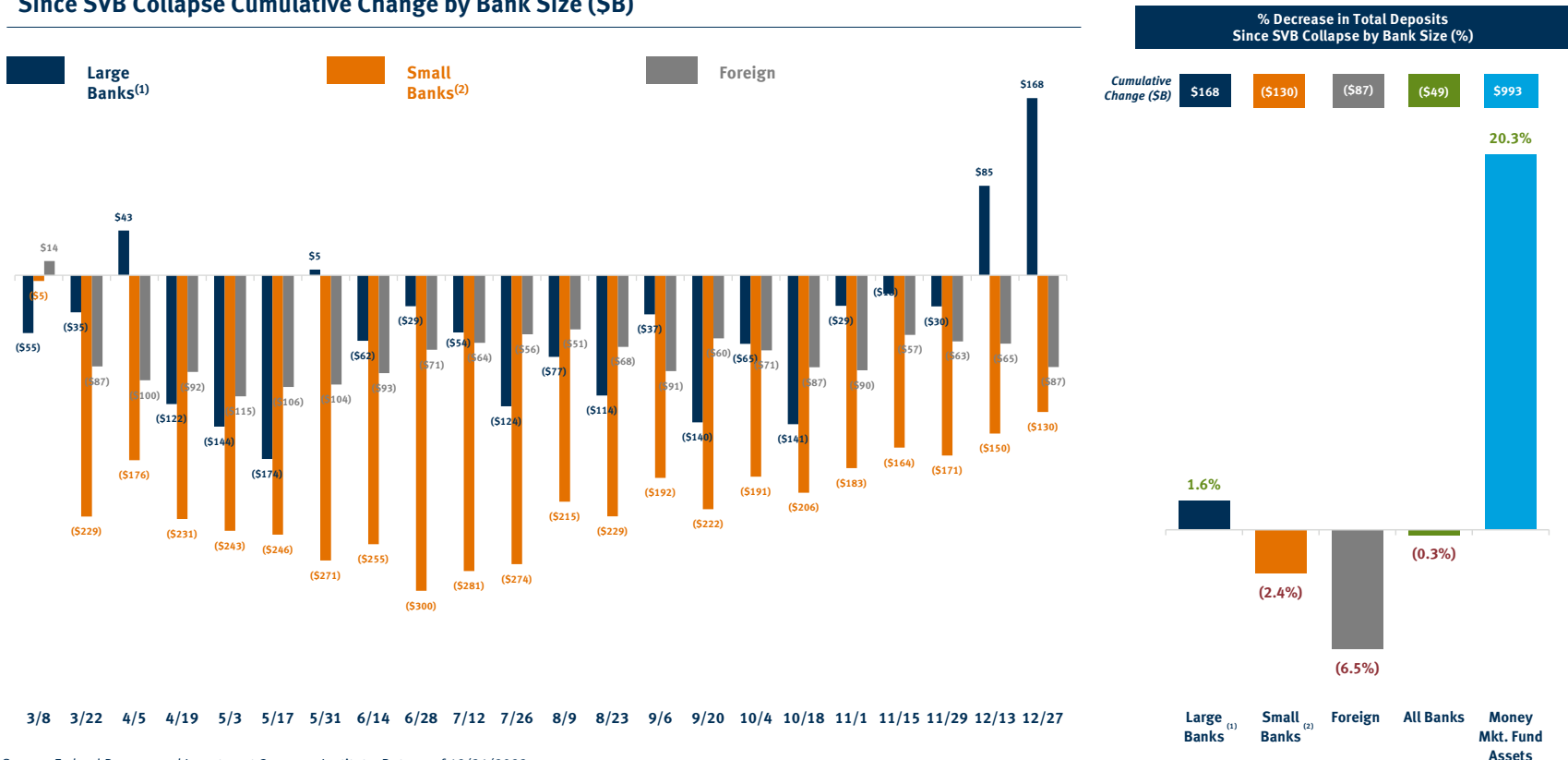


Source: Federal Reserve and Investment Company Institute. Data as of 12/31/2023



Larger Banks Are Seeing Net Positive Flows Post Crisis While Smaller Banks Still Struggle

Since SVB Collapse Cumulative Change by Bank Size (\$B)



Source: Federal Reserve and Investment Company Institute. Data as of 12/31/2023

Page 15 PRIVATE AND CONFIDENTIAL

(1) Includes the top 25 domestically chartered commercial banks ranked by size

(2) Includes all domestically chartered banks outside of the top 25



KEEFE, BRUYETTE & WOODS
A Stifel Company

The Federal Reserve Balance Sheet

Significant Losses on the Federal Reserve System's Open Market (SOMA) Holdings

| <i>(in millions)</i> | September 30, 2023 | | | |
|--|---------------------|---------------------|---|--|
| | Amortized Cost | Fair Value | Cumulative Unrealized Gains (Losses), Net | Gain / (Loss) as a % of Amortized Cost |
| Treasury Securities | | | | |
| Bills | \$ 236,062 | \$ 236,022 | \$ (40) | (0.0%) |
| Notes | 3,042,691 | 2,769,737 | (272,954) | (9.0%) |
| Bonds | 1,883,384 | 1,361,651 | (521,733) | (27.7%) |
| Total Treasury Securities | \$ 5,162,137 | \$ 4,367,410 | \$ (794,727) | (15.4%) |
| Federal Agency and GSE MBS | | | | |
| Residential | \$ 2,521,720 | \$ 2,016,279 | \$ (505,441) | (20.0%) |
| Commercial | 9,041 | 7,263 | (1,778) | (19.7%) |
| Total Federal Agency and GSE MBS | \$ 2,530,761 | \$ 2,023,542 | \$ (507,219) | (20.0%) |
| GSE Debt Securities | 2,564 | 2,605 | 142 | 5.5% |
| Total Domestic SOMA Portfolio Securities Holdings | \$ 7,695,462 | \$ 6,393,557 | \$ (1,301,804) | (16.9%) |

Source: Federal Reserve Banks Combined Quarterly Financial Report as of 9/30/2023



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9 But This Cycle is Different

8 OK, This Cycle is the Same

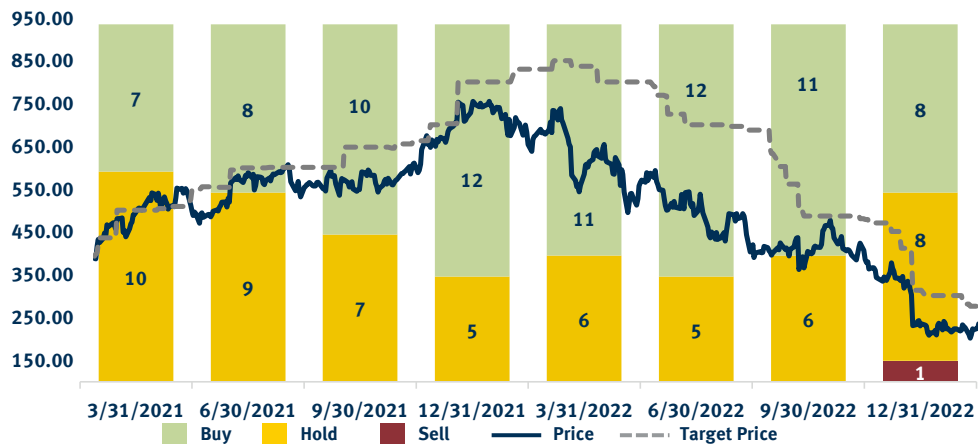


We've Seen this Movie Before: Bailey Bros. Building & Loan



It Is Hard to See Around the Bend

SIVB Analysts Ratings & Target Price vs. Stock Price



Credit Ratings Ahead of March 8th

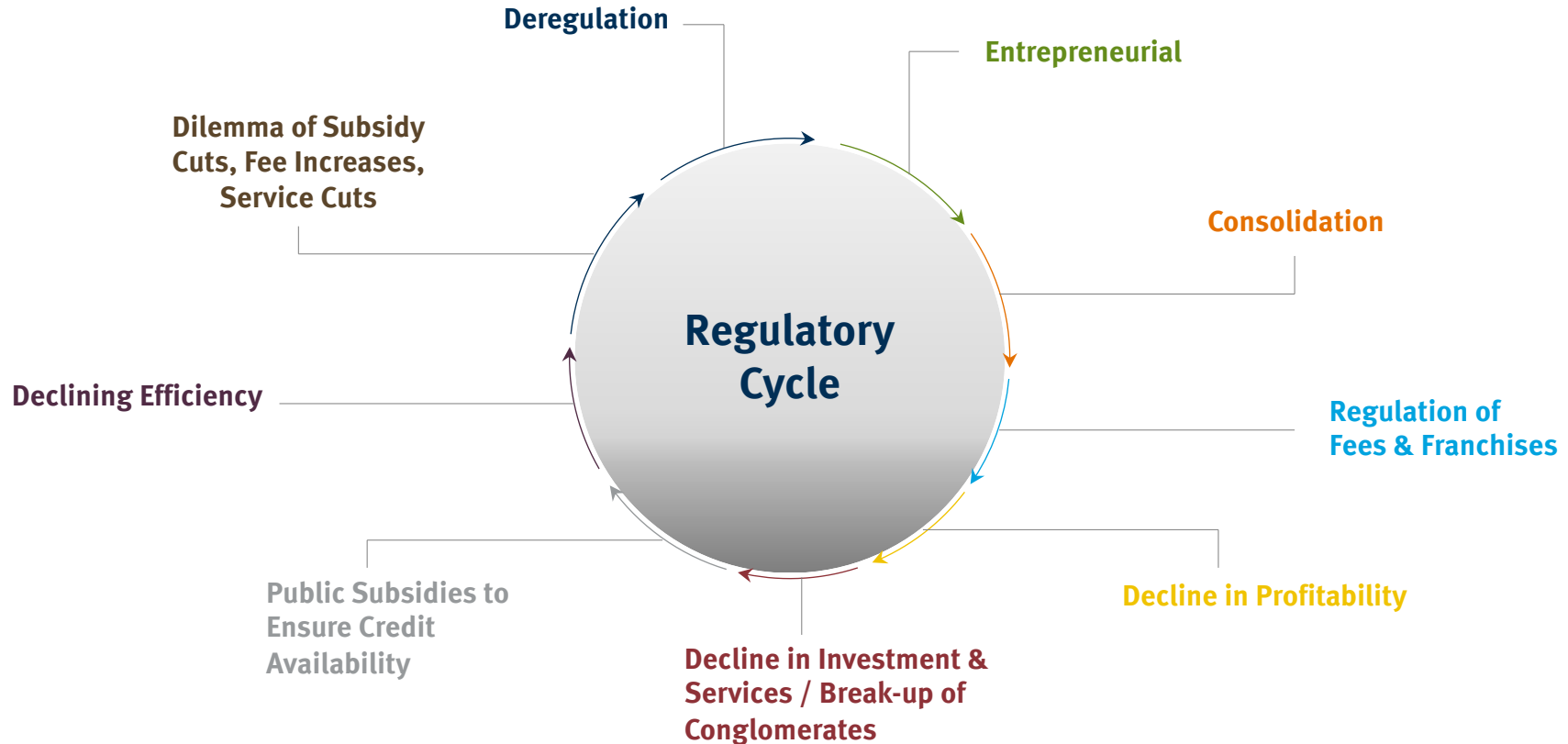
A3
Stable Outlook
Moody's

BBB
Stable Outlook
S&P

SIVB Analyst Estimates as of January 2023

| SIVB Financial Group | | | EPS Estimates | | Price Target (\$) |
|----------------------|-----------------------|---------|----------------|----------------|-------------------|
| Institution | Market Recommendation | Date | 2023 (\$) | 2024 (\$) | |
| Broker 1 | Buy | 1/20/23 | 20.12 | 21.71 | 300.00 |
| Broker 2 | Buy | 1/20/23 | 18.46 | 30.35 | 300.00 |
| Broker 3 | Buy | 1/26/23 | 19.56 | 22.32 | 269.00 |
| Broker 4 | Buy | 1/20/23 | 18.34 | 24.65 | 291.00 |
| Broker 5 | Buy | 1/31/23 | 20.19 | 24.85 | 360.00 |
| Broker 6 | Buy | 1/20/23 | 21.50 | 30.00 | 500.00 |
| Broker 7 | Buy | 1/20/23 | 19.65 | 24.00 | 300.00 |
| Broker 8 | Overweight | 1/20/23 | 19.00 | 19.00 | 285.00 |
| Broker 9 | Hold | 1/20/23 | 18.13 | 20.20 | 250.00 |
| Broker 10 | Hold | 1/20/23 | 22.26 | 24.43 | - |
| Broker 11 | Hold | 1/20/23 | 19.98 | 27.41 | 240.00 |
| Broker 12 | Hold | 1/20/23 | 20.03 | 24.94 | 220.00 |
| Broker 13 | Hold | 1/20/23 | 20.25 | 24.00 | 250.00 |
| Broker 14 | Hold | 1/20/23 | 17.62 | 22.60 | 270.00 |
| Broker 15 | Hold | 1/20/23 | 19.00 | 28.00 | 308.00 |
| Broker 16 | Hold | 1/20/23 | 17.00 | 20.00 | 260.00 |
| Broker 17 | Sell | 1/24/23 | 16.07 | 25.79 | 190.00 |
| Median: | | | \$19.48 | \$24.54 | \$280.00 |
| Average: | | | \$19.40 | \$24.33 | \$285.99 |

Regulatory Reactions Are Predictable



Senator Knows Best?

The New York Times

Elizabeth Warren: Silicon Valley Bank Is Gone. We Know Who Is Responsible.

March 13, 2023



“Bank regulators unwillingness to block bank mergers over the last few decades has made our banking system more concentrated. Bank regulators have also made the ‘too big to fail’ problem even worse.”

– Senator Elizabeth Warren

Tom Michaud Congressional Testimony: Washington D.C. (May 10th, 2023)

“...I believe that the tools are in place and it is a matter of how it is supervised, **rather than needing new rules or laws for the Federal Reserve** at this moment.”

“...even as we sit here today, there are banks that are willing to take on other banks that may be underperforming. But the banks would be unwilling to take that action because **they don't know if the regulatory response would allow them to do it** and they can't afford that risk.”



“...ultimately, **the industry would be healthier**, the mid-sized banks would be healthier, and the industry would be able to resolve weaker banks in that manner without the deposit insurance **fund if there was a more efficient way to consolidate than there is right now.**”

“**The amount of time it takes to complete a merger in the United States has doubled in the last 2 years.** Not only that, but there is uncertainty as to the process and the outcome, should you look to undertake consolidation.”

What's Coming...?

Down the Chute – What's in Store For Banks?

~15%
ROATCE

Long Term Debt



Basel III Endgame

Liquidity Coverage
Ratio

More Capital

Weaker Growth

Lower Profitability

~12 – 13%
ROATCE

“Based on real-time fed funds futures expectations, valuations of 10x (BKK) and 11x (KRX) would be justified, and with stocks now currently modestly above these levels (10.5x and 11.4x, respectively), this would imply that the market is beginning to price in positive EPS revisions, or looking beyond 2024E.”

- Christopher McGratty, CFA; KBW Research

10 Lessons Learned in 2023

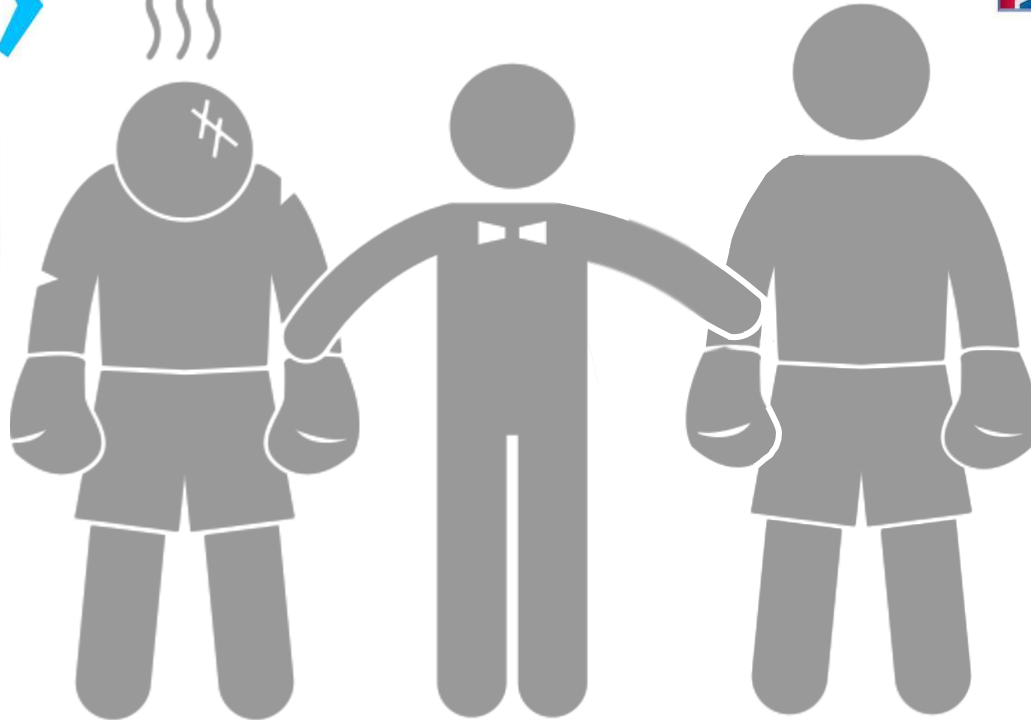
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 - 7 Don't Waste a Cycle**
-



Winners & Losers



FIRST REPUBLIC



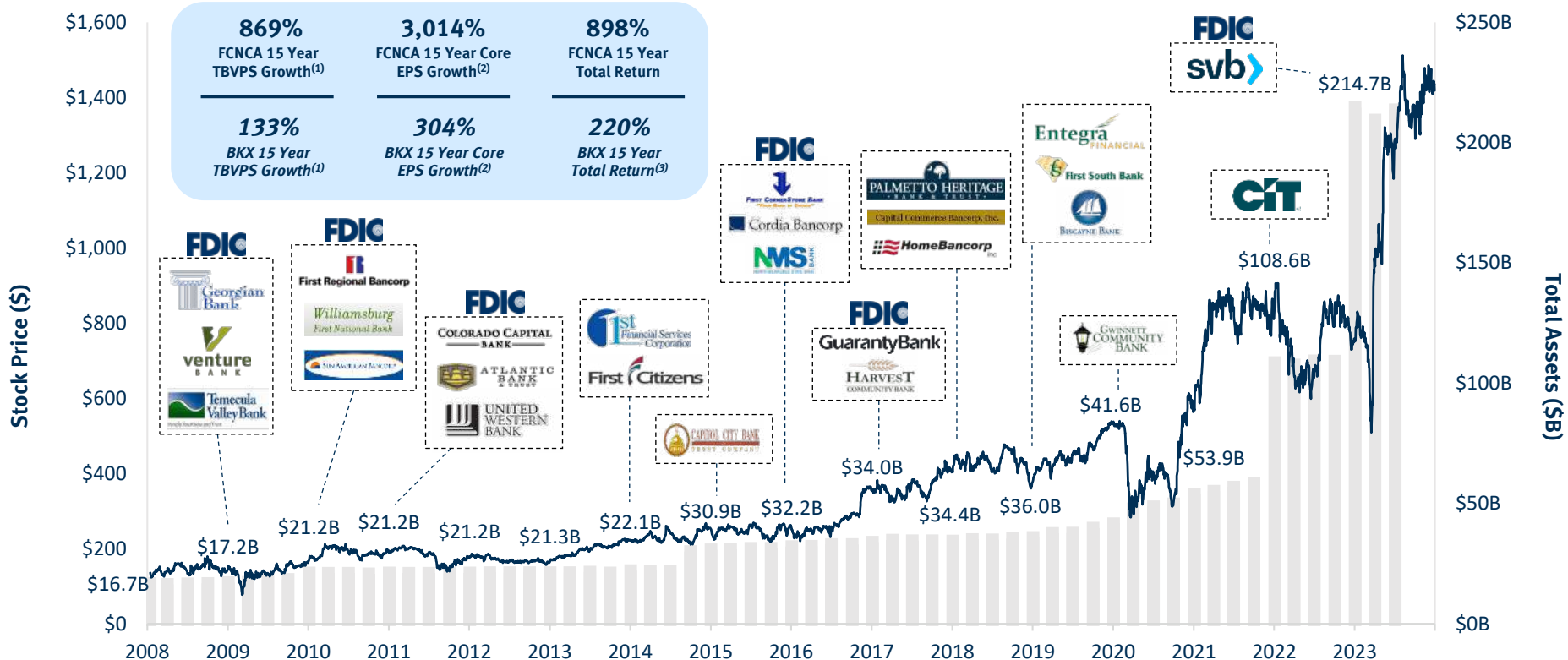
JPMORGAN
CHASE & CO.



STIFEL



Taking Advantage of Cycles: The Evolution of First Citizens



Source: S&P Global Market Intelligence, FactSet
 Note: Financial data as of the respective quarter ended; Market data as of 12/31/2023; Financial data as of 9/30/2023

(1) TBVPS growth reflects 15 year growth from most recent quarter

Page 26 PRIVATE AND CONFIDENTIAL

(2) Core EPS growth calculated from 2008 to 2023E

(3) BKK Total Return reflects median total return of constituents



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Buffet on Banks

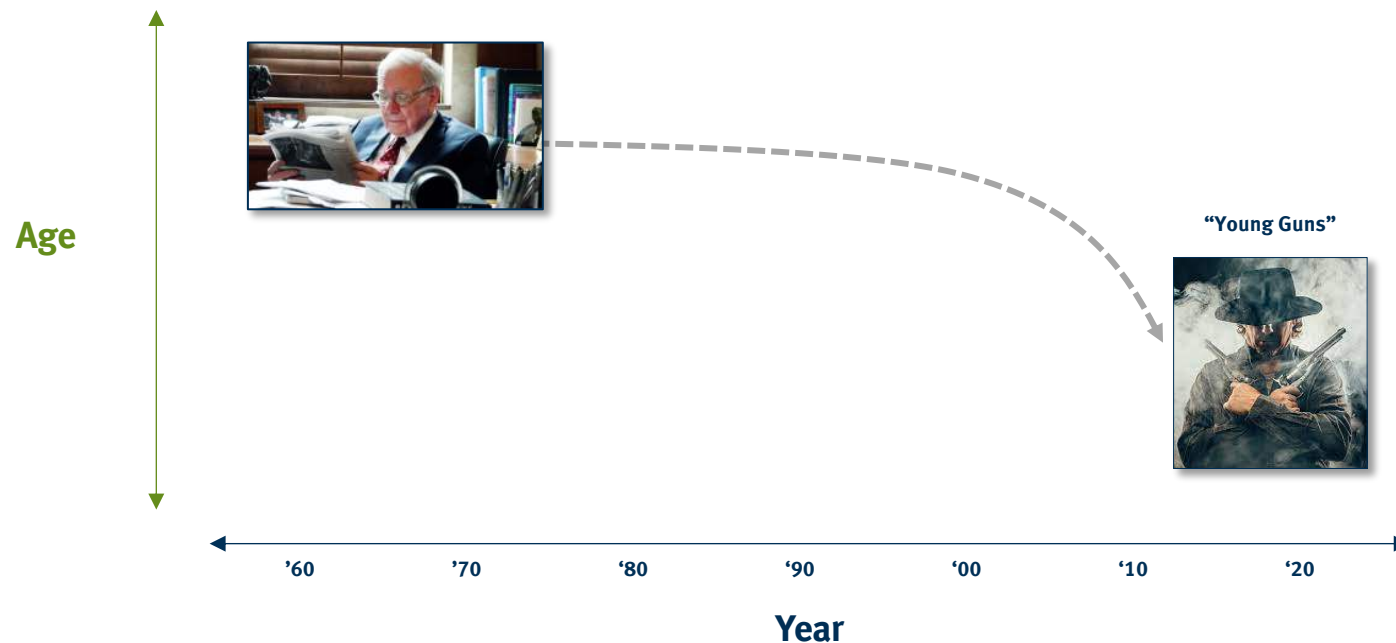


“...And we don’t know where the shareholders of the big banks, necessarily, or the regional banks or any bank, are heading now.”

- Berkshire Hathaway Annual Shareholder Meeting (May 6th, 2023)

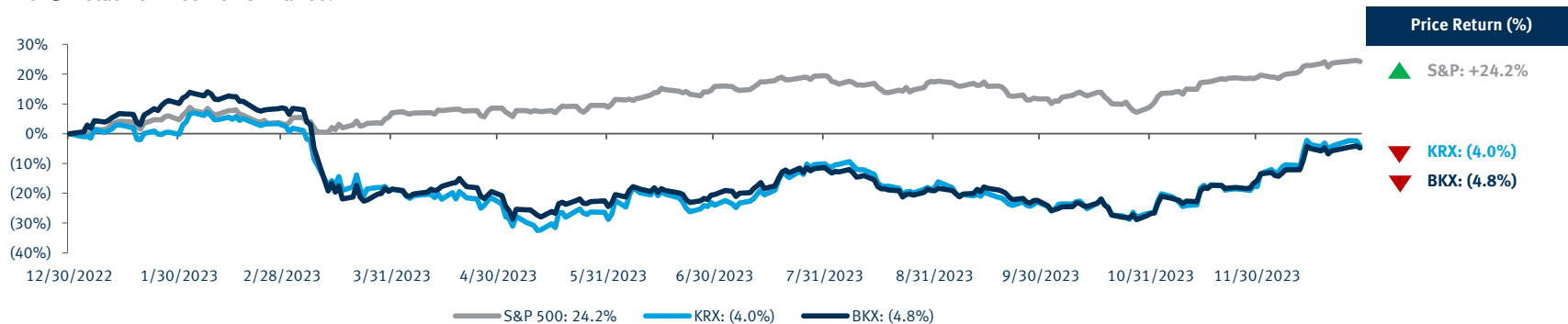
The Coverage of the Banking Landscape Has Also Changed

Age of Bank Fund Portfolio Managers – Evolution of Bank Stock “Investors” to Bank Stock “Traders”

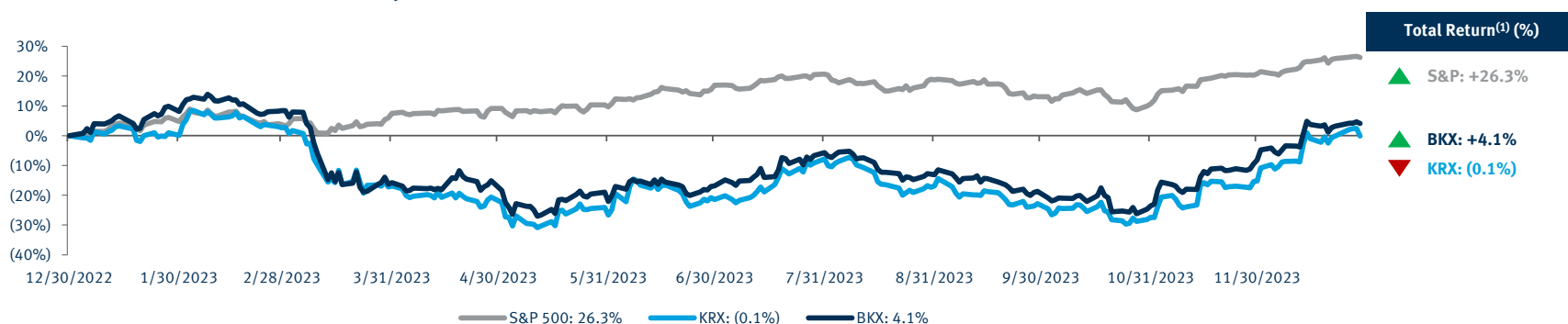


2023 Relative Performance of the Banking Industry vs. The S&P 500

2023 Relative Price Performance:



2023 Relative Total Return (Includes Impact of Cumulative Dividends)⁽¹⁾:



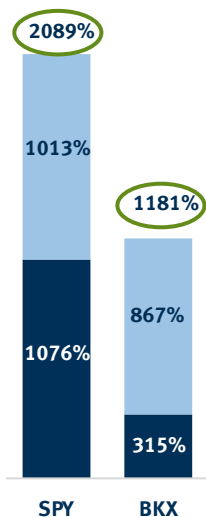
Source: S&P Global Market Intelligence; FactSet; Market data as of 12/31/2023

⁽¹⁾ Data reflects median total return from index constituents

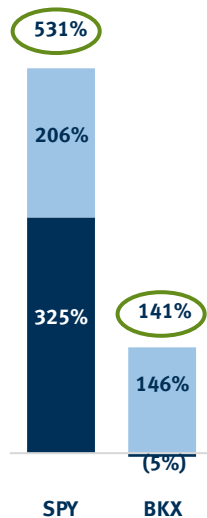


Relative Total Return: Underwhelming Price Performance

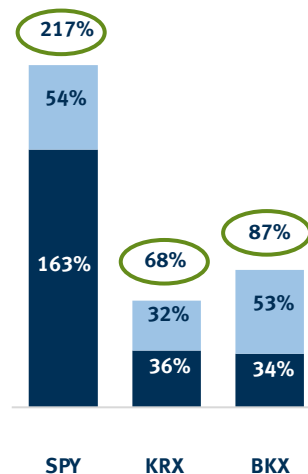
Since 1992⁽¹⁾⁽²⁾



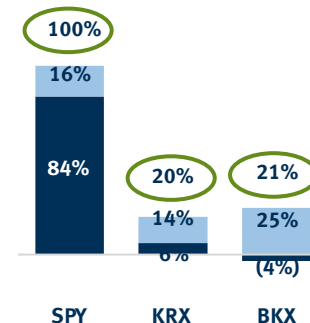
20-Year⁽¹⁾



10-Year



5-Year



Price Return
 Dividend Return
 Total Return

Source: S&P Global Market Intelligence and FactSet; Market data as of 1/19/2024

Note: Data reflects median total return from index constituents

Page 31 PRIVATE AND CONFIDENTIAL

(1) Excludes KRX which did not begin trading until 7/26/2005

(2) BKX began trading on 5/26/1992

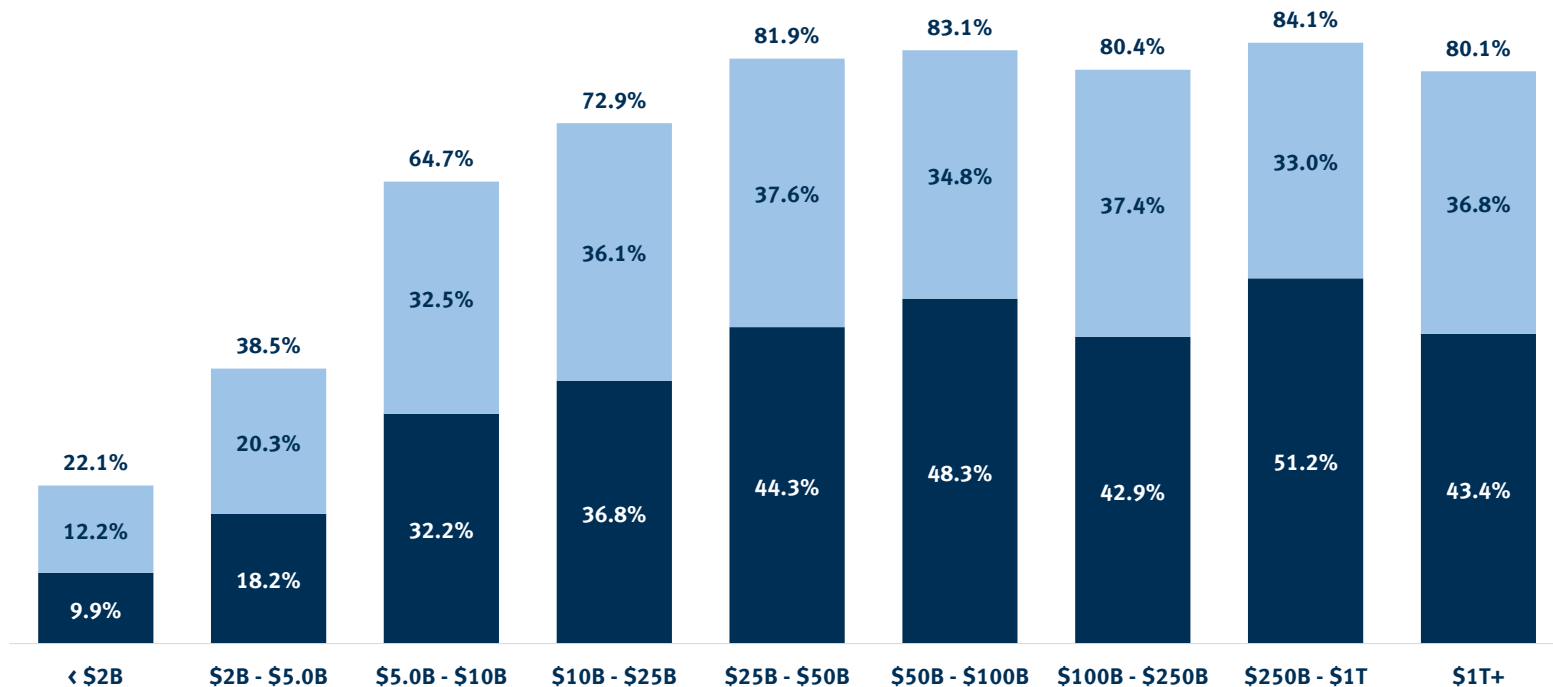


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Smaller Players are Getting Less Institutional Interest

■ Active ■ Passive

Percent Institutional Ownership



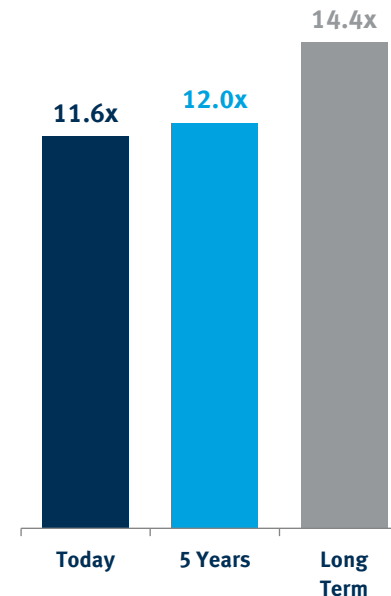
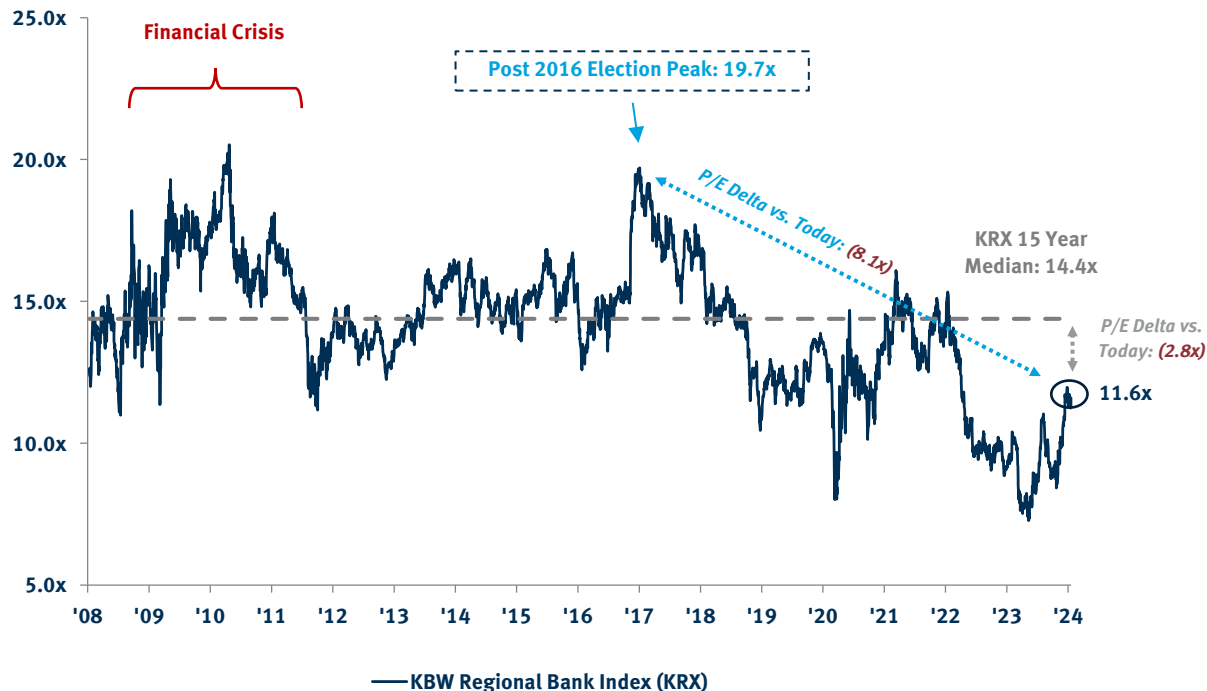
Source: FactSet and S&P Global Market Intelligence; Financial data as of 9/30/2023; Ownership data as of 12/31/2023
 Note: Includes major exchange traded banks headquartered in the US; Excludes merger targets; ; Active /Passive investors defined by FactSet



Bank Stock P/E Multiples Embed Investor Concerns

Bank Stock Consensus Forward (NTM) Earnings Multiples Since 2008

KRX Valuation Multiples



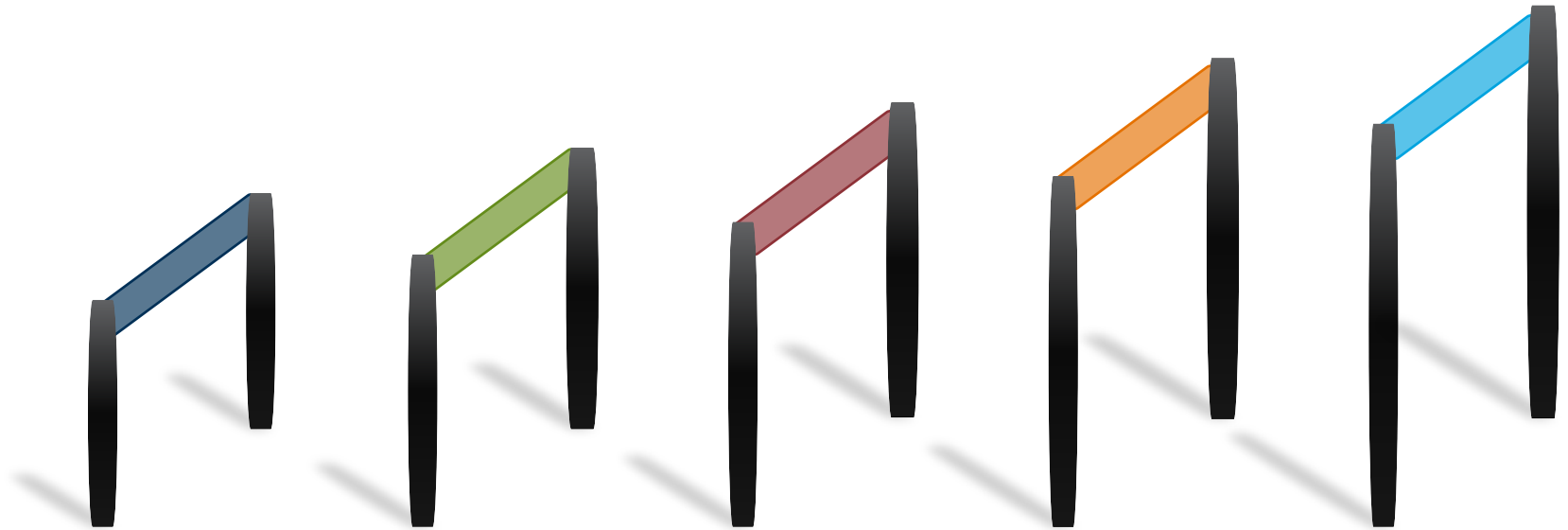
Source: FactSet; Market data as of 1/19/2024
 Note: The KBW Regional Banking Index (KRX) includes 50 U.S. based regional banks with assets between \$9 and \$90 billion

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- 9 But This Cycle is Different
- 8 OK, This Cycle is the Same
- 7 Don't Waste a Cycle
- 6 We May Have Done Permanent Damage to Investors
- 5 But Bankers Are Proven Winners**



The Evolution of Banking

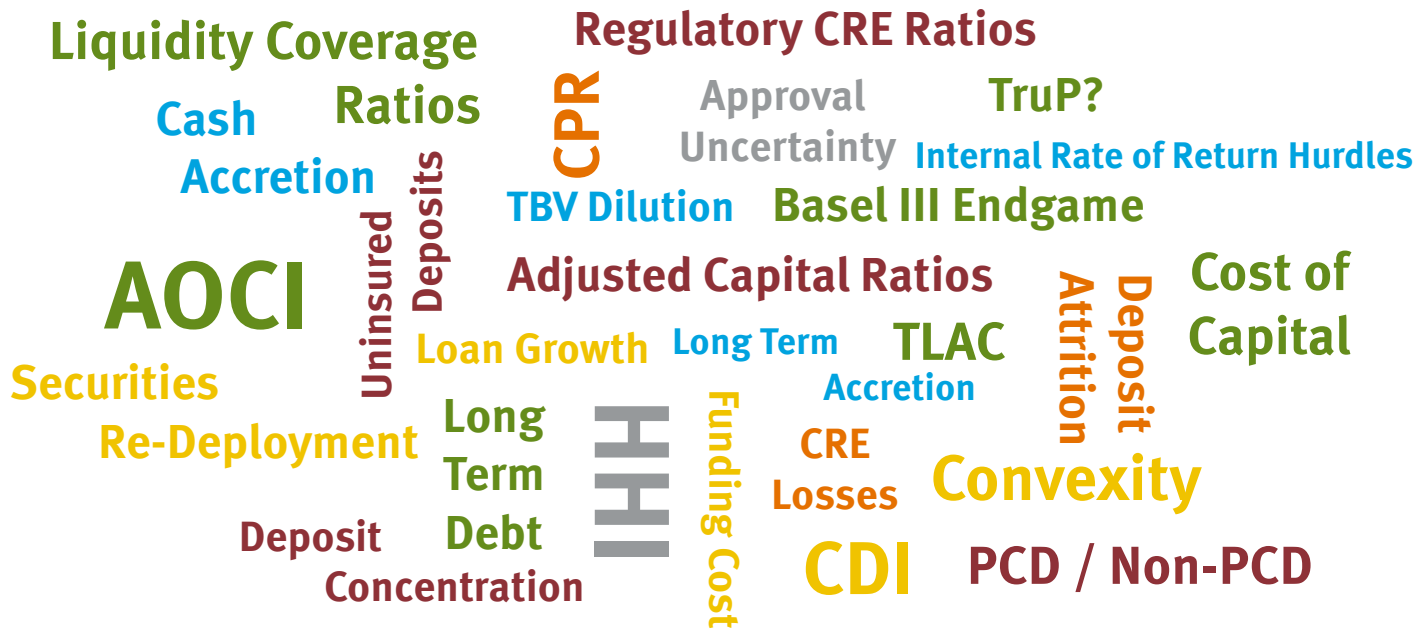


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The Tangle of Themes in Today's Deal Environment

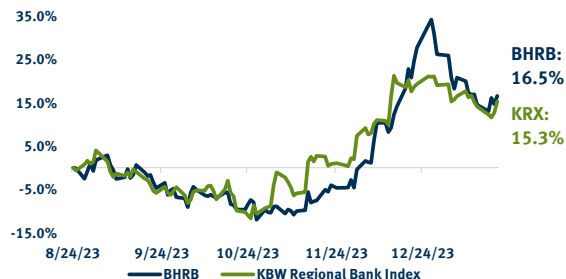


Deals Can Work

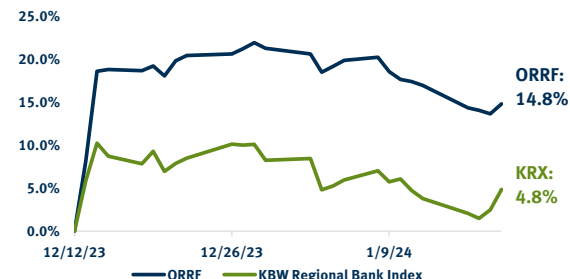
AUB - AMNB



BHRB - SMMF



ORRF - CVLY



KBW advised AMNB on this transaction

Pro Forma Scale

\$24B

Assets

\$17B

Loans

\$19B

Deposits

Transaction Multiples

1.85x

P/TBV

15.9x

P/'24E EPS

Pro Forma Impacts

(9.7%)

TBV Dilution

~19%

'24E EPS

Accretion

~3 Years

Earnback

KBW advised BHRB on this transaction

Pro Forma Scale

\$8B

Assets

\$6B

Loans

\$7B

Deposits

Transaction Multiples

1.15x

P/TBV

6.1x

P/'24E EPS

Pro Forma Impacts

(12.7%)

TBV Dilution

~92%

'25E EPS

Accretion

~1 Year

Earnback

KBW advised CVLY on this transaction

Pro Forma Scale

\$5B

Assets

\$4B

Loans

\$5B

Deposits

Transaction Multiples

1.13x

P/TBV

12.2x

P/'24E EPS

Pro Forma Impacts

(20.9%)

TBV Dilution

~46%

'25E EPS

Accretion

~3 Years

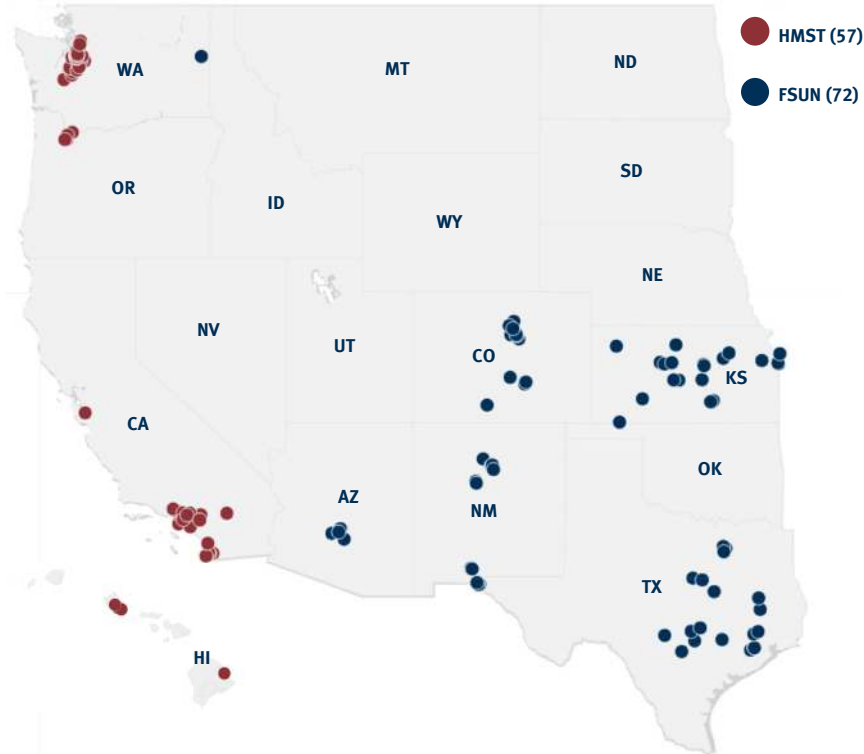
Earnback



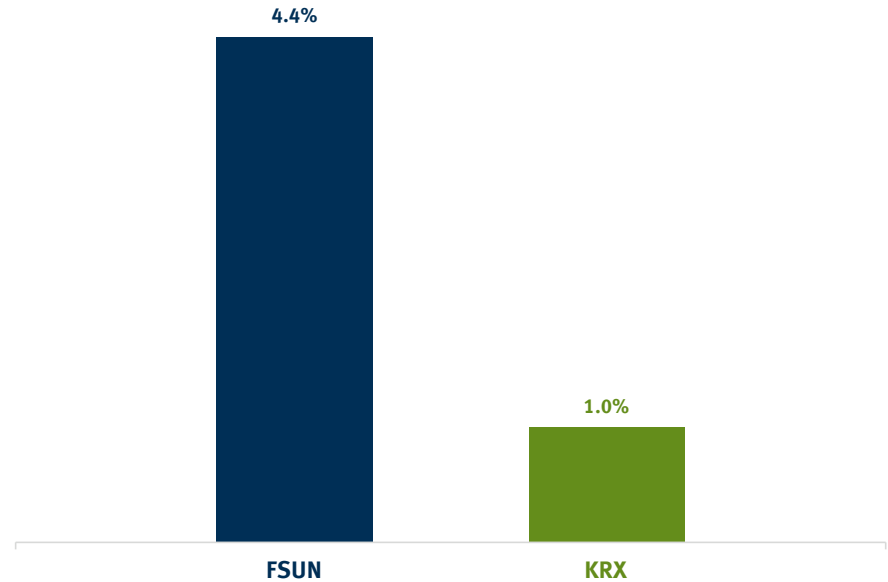
Deals Can Work (Continued)



Pro Forma Franchise Footprint



Price Performance Since FSUN – HMST Announcement (1/16/2024)



Additional Opportunities

Investment Portfolio Restructuring

- Enhances Liquidity
- Higher Asset Yields
- Pay Down Current Borrowings



Sale Leasebacks (SLB)

- Capital Creation
- Removes Non-Earning Assets
- Fully Recognized Gain at Close



Insurance Subsidiary Sales

- Strategic realignment
- Strengthens capital position
- Improves valuation



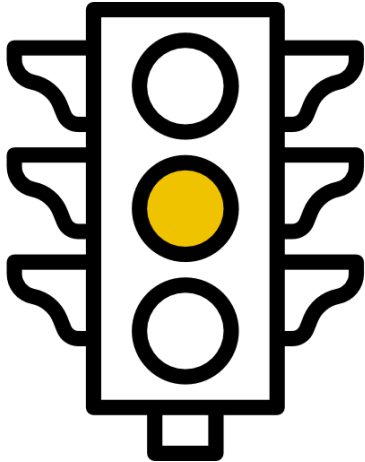
Source: S&P Global Market Intelligence and Company Documents

10 Lessons Learned in 2023

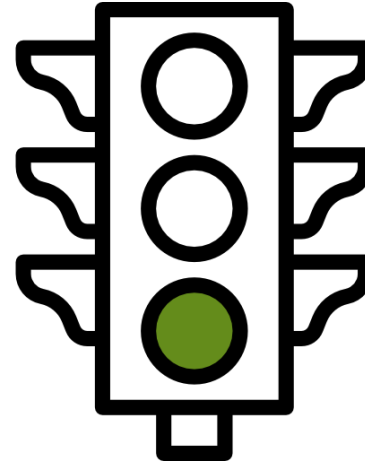
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- 3 But Regulators Hold the Cards**



Regulatory Approval?

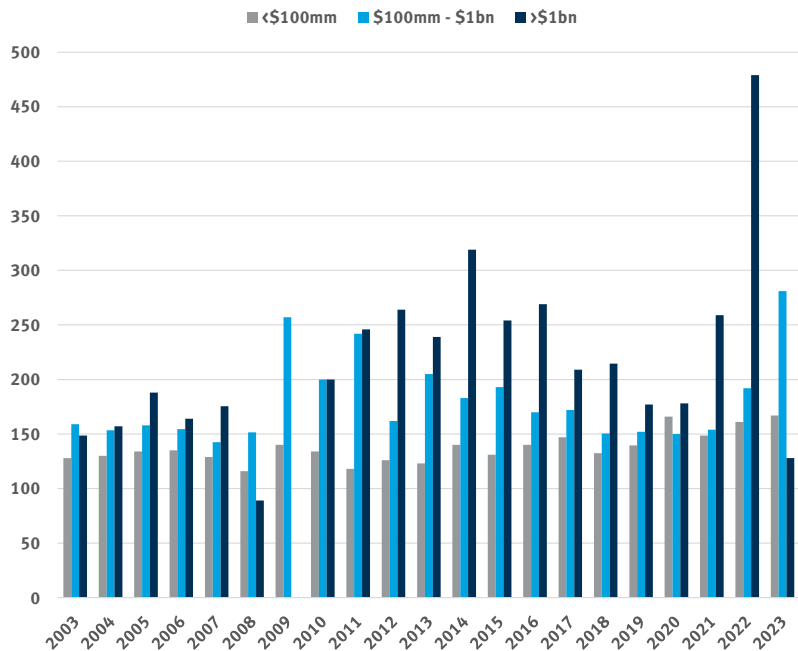


BANC OF CALIFORNIA



Whole Bank Transaction Approval Time Since 2003

Number of Days From Deal Announcement to Deal Completion⁽¹⁾⁽²⁾



Transaction close has taken longer, especially large deals...

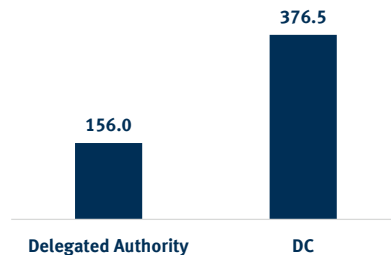
Median Number of Days From Deal Announcement to Deal Completion

| Deal Value | 2003 - 2020 | 2021 - 2023 | 2023 | ▲ '03 - '20 to '21 - '23 | ▲ '03 - '20 to '23 |
|-----------------|-------------|-------------|--------------------|--------------------------|--------------------|
| <\$100mm | 133 | 150 | 167 | 17 | 34 |
| \$100mm - \$1bn | 161 | 174 | 281 | 13 | 120 |
| >\$1bn | 188 | 259 | 128 ⁽³⁾ | 71 | (60) |

BANC / PACW

Avoid D.C. if you can...

Median Number of Days From Deal Announcement to Deal Completion for KBW advised deals since 2021 by approval authority⁽⁴⁾



Larger transactions typically do not have the benefit of designated authority with the Fed

Since 2021, 80% of KBW advised deals over \$1 billion were sent to D.C. for approval

Source: S&P Global Market Intelligence and FactSet; Data as of 1/19/2024

Note: Transactions include bank, savings bank and thrift transactions; Excludes non-full bank transactions, terminated transactions and FDIC transactions. Transactions grouped by announced deal value

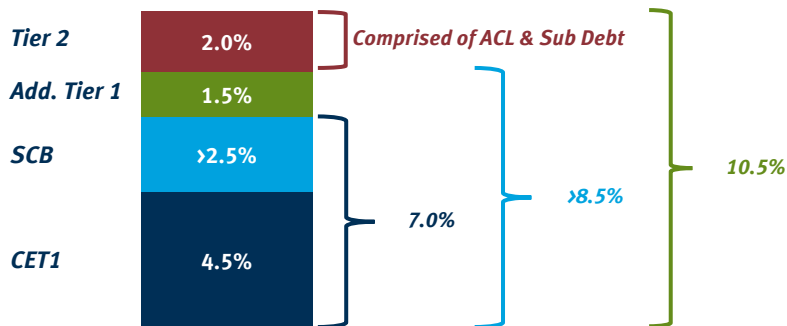
Note: Median values shown for number of days from deal announcement to deal completion

(1) Incomplete deals announced before 6/1/2023 assume completion date of 1/19/2024 to reasonably measure lengthiness of approval process for incomplete deals for illustrative purposes



They are Changing the Rules

Current Risk-Based Capital Requirement



New Capital Proposals

- **6% Holding Company Long Term Debt**
 - ▶ 6% of risk-weighted assets 3-year phase in
 - ▶ Includes debt previously issued at Holding Company & Bank Subsidiary
- **AOCI Opt-in requirement**
 - ▶ Require banks with over \$100B of Assets include unrealized gains and losses on AFS securities in regulatory capital
- **Standardized Risk-Weighted Asset Approach**

Approval

| Indicator | Threshold for Structural Presumption |
|----------------------------|---|
| Post-merger HHI | Market HHI greater than 1,800 and Change in HHI greater than 100 |
| Merged Firm's Market Share | Share greater than 30% and Change in HHI greater than 100 |

- **Raised approval thresholds**
- **Consumer protection regulation**
- **New antitrust and competition framework**

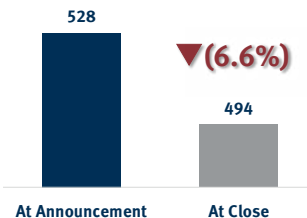
Customers are Not a Concern For Regulators



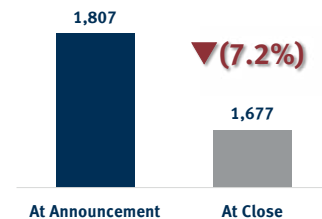
Days to Completion

584

Customer Attrition (000s)



403



Source: S&P Global Market Intelligence

Note: Customer Accounts per Bank level Call Report filings; Attrition data based on number of deposit accounts disclosed in the quarter at announcement compared to the number of deposit accounts disclosed in the quarter preceding completion



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 - 2 We Need More Winners**
-



The Largest Have a Structural Advantage

THE WALL STREET JOURNAL.



FINANCE

First Republic Bank Is Seized, Sold to JPMorgan in Second-Largest U.S. Bank Failure

Lender teetered for weeks after Silicon Valley Bank's collapse in March

Other Whole Bank Bidders Missed the Spotlight

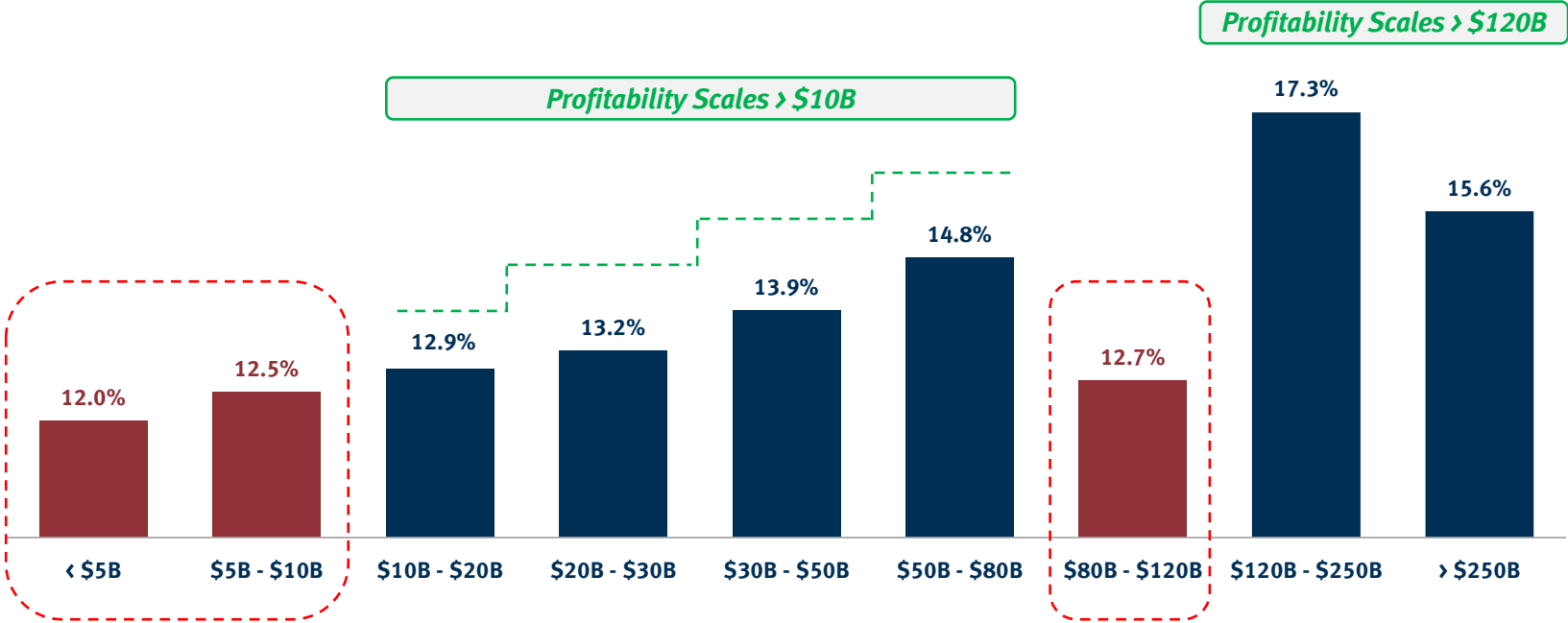


“Goliath (won) in terms of organic deposit share growth... Corporates bluntly don't necessarily trust the regulatory environment to ensure that their deposits in a bank are safe. And so we've seen those deposits flow uphill.”

- Bill Demchak, CEO of PNC Financial Services

Profitability Will Scale Up and Down ... Scale Matters

Estimated Structural ROTCE Based on Asset Size



Source: S&P Global Market Intelligence, KBW Research

Note: Structural ROTCE is KBWe and represents long-term return potential (inclusive of proposed regulation/implications), not a specific year; Excludes impact from accretion income

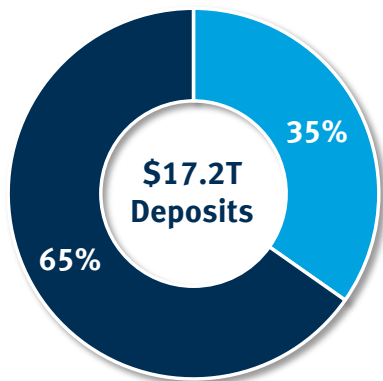


The Government is Unlikely to Help

“Any universal guarantee on all bank deposits, whether implicit or explicit, enshrines a dangerous precedent that simply encourages future irresponsible behavior to be paid for by those not involved who followed the rules”

– Republican House Freedom Caucus

Industry Deposit Concentration





■ Top 4 Banks

■ All Others

Source: FDIC
 Note: Financial data as of 9/30/2023
 (1) The industry is defined as all FDIC insured institutions

Cost of Total Deposits – Top 4 vs. The Industry⁽¹⁾

| Institution | Q3 2023 Cost Of Total Deposits |
|--|--------------------------------|
| CHASE  | 1.83% |
| BANK OF AMERICA  | 1.56% |
| WELLS FARGO | 1.38% |
| citi | 2.93% |
| Rest of the Industry | 2.10% |



10 Lessons Learned in 2023

- 10 Cycles Happen
 - 9 But This Cycle is Different
 - 8 OK, This Cycle is the Same
 - 7 Don't Waste a Cycle
 - 6 We May Have Done Permanent Damage to Investors
 - 5 But Bankers Are Proven Winners
 - 4 So Be Alert to the Evolution of Thinking
 - 3 But Regulators Hold the Cards
 - 2 We Need More Winners
 - 1 Plan Ahead**
-



Plan Ahead

Jeff Haley's Three Lessons from 2023

- I. Do Your Homework
- II. Educate and Involve your Board
- III. Be Exhaustive Strategically



Source: Jeff Haley; President, CEO and Chairman of American National Bankshares Inc.



THANK YOU!



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