



BISON BANKING BRIEF

August 2024 | U.S. Banking Insights



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Bison Banking Brief – August 2024

Key Themes in U.S. Banking

As the Dust Settles: Q2 '24 Review

- The FDIC recently released their second quarter banking profile which provides a snapshot of the banking sector's overall performance
 - Community bank quarterly net income increased by 1.1% from the prior quarter, driven by higher net interest income and noninterest income that offset higher noninterest and provision expenses. Provision expenses have been higher than pre-pandemic average for the past eight quarters due to loan growth, deterioration in office markets and credit card charge-offs
 - The 10-year Treasury yield finished the quarter roughly where it started from 4.20% to 4.36%, leading to improved unrealized losses of \$512.9 billion for the quarter, decreasing \$3.6 billion from Q1 '24
 - Asset quality metrics remained generally favorable despite weakness in CRE and credit card portfolios. The quarterly net charge-off rate of 0.67% increased 3 bps from last quarter and 20 bps higher than a year ago, which was significantly impacted by the results at the big banks and those consumer-focused institutions. Although charge-offs increased in the second quarter, NCOs are still below the 20-year average of 0.81% and are expected to "normalize"
 - Net interest margin increased 7 bps quarter over quarter reversing a four-quarter declining trend as the change in the yield on assets exceeded the change in the cost of liabilities. Community bank NIMs of approximately 3.0% remain well below the pre-pandemic average of 3.6%
 - Total loans at community banks increased 6.3% from the prior year, primarily driven by growth in CRE loans and 1-4 family residential mortgage loan originations. 1-4 family mortgage originations reversed a three-quarter downward trend in Q2'24, rebounding to reach the highest level since 2022. The increase resulted from a strong spring home-buying season and lower mortgage interest rates
- Commercial real estate borrowers are facing pressure from higher interest costs. The delinquency ratio for CRE loans across U.S. banks rose 16 bps in Q2 '24 to 1.40%. With \$950 billion in CRE loans maturing in 2024 and nearly \$1 trillion in 2025, additional interest rate cuts would be welcome
- Many banks have started modestly decreasing deposits rates as interest rate cuts loom on the horizon. According to S&P Capital IQ, the number of banks cutting deposit rates outpaced the number of banks increasing rates as of early September

End of Summer Synopsis

- The Nasdaq Bank Index closed just below the year-to-date high at the end of August, leading bank stocks to be on the cusp of recovering all losses from a recent sell-off earlier in the month
- At the August Economic Symposium in Jackson Hole, Fed Chair Jerome Powell signaled rate cuts were on the horizon as he said, "the time has come for policy to adjust". According to most recent Fed Minutes, most participants at the Federal Reserve's July Federal Open Market Committee meeting observed that, if the data continued to come in about as expected, it would likely be appropriate to ease policy at the next meeting
- Inflation extends cooling streak to decline 2.5% in August, following July's positive news of a first drop below 3% since 2021, signaling a positive outlook for the Fed's policy moves
 - The Federal Reserve Bank of New York's Center for Microeconomic Data released the August 2024 Survey of Consumer Expectations, which shows inflation expectations remained unchanged at the short and longer-term horizons, rebounding at the medium-term horizon after a sharp decrease in July. Labor market expectations were mixed, but largely stable. Households were more optimistic about the availability of credit a next year. Delinquency expectations rose slightly again, to the highest level since April 2020
- The Fed cut interest rates by 50 bps in the most recent September meeting. The decision over whether to cut the two decade high between 5.25% and 5.50% by either 25 bps or 50bps came down to a balancing act. Cutting by 50 bps argued that the Fed is more concerned about employment than inflation. A smaller 25 bps cut would have rested on the idea the economy is healthy and cutting too fast could risk higher inflation

Elevated M&A Environment

- U.S. Bank M&A activity increased this summer with 20 deals announced since Memorial Day
 - Minnesota based Bridgewater Bank, has agreed to acquire Minnesota based First Minnetonka City Bank, in an all-cash transaction
 - Illinois-based First Busey Corp. has agreed to acquire Kansas-based CrossFirst Bankshares Inc. in an all-stock transaction valued at approximately \$916.8 million
 - Announced in June of 2022, the Federal Reserve approved Canadian lender VersaBank's application to acquire Minnesota-based Stearns Bank Holdingford. The transaction provided Versa with access to U.S. deposits to boost growth
- One trend appearing over the summer was announcing a capital offering in conjunction with the M&A transaction to fortify balance sheets and improve regulatory capital while reducing CRE concentrations under 300% of RB capital



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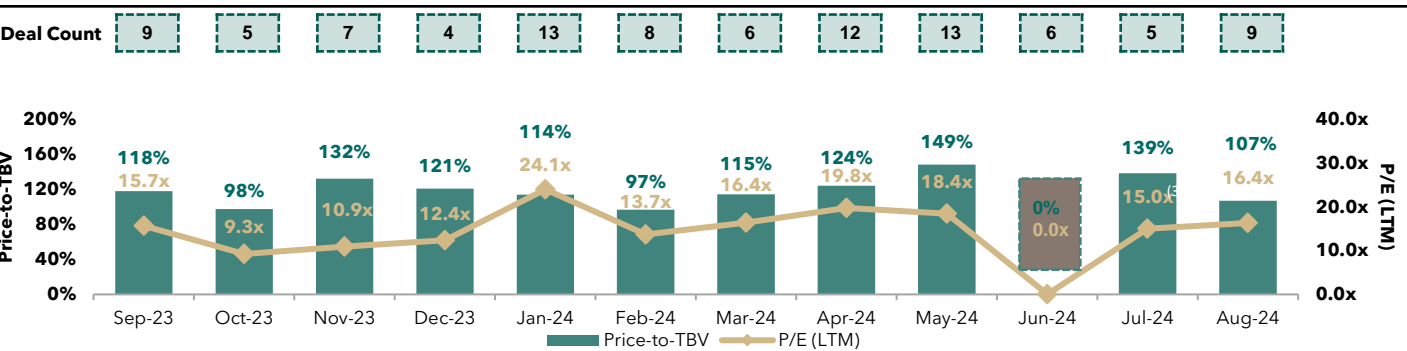
1 U.S. Bank M&A Activity

- M&A activity is incrementally increasing
 - M&A activity is below historical levels, but starting to see a slight increase in deal activity
 - On pace for 114 transactions in 2024, a 16% increase from 2023
- Credit unions continue to be active bank buyers with 12 transactions announced in 2024 YTD and account for over 15% of the M&A transactions Nationwide
- Types of transactions should vary in the upcoming quarters including smaller 100% cash deals, predominately (or 100%) stock deals and strategic partnerships (100% stock)
- Increased regulatory scrutiny and longer than average time to obtain regulatory approvals are top of mind for management teams looking to complete a transaction

M&A By Region – Last Twelve Months⁽¹⁾

Region	Deal Value (\$M)	# of Deals	Deals w/ C.U. Buyer	Price-to-TBV	P/E (LTM)
Midwest	\$ 3,230	46	5	134%	15.9x
Southeast	\$ 2,624	23	5	120%	10.6x
Southwest	\$ 4,132	14	1	152%	21.0x
Mid Atlantic	\$ 652	10	1	109%	18.1x
West	\$ 1,186	16	7	106%	15.4x
Northeast	\$ 527	5	0	116%	11.1x
Total	\$ 12,350	114	19	123%	15.5x

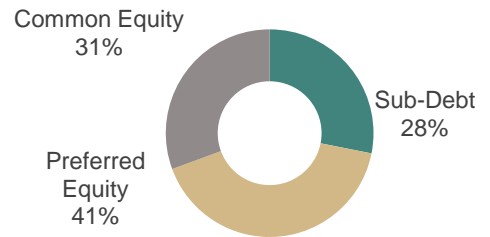
M&A Activity and Valuation Multiples – Last Twelve Months⁽¹⁾



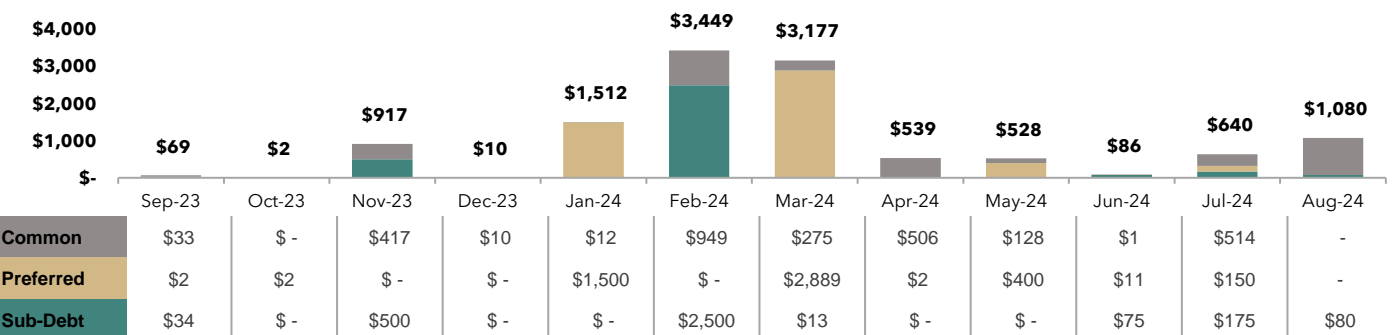
2 U.S. Bank Capital Offerings

- Several strategic offerings announced in conjunction with M&A transactions
 - ChoiceOne Financial Services, Inc. completed a \$34.5 million common offering along side the announced acquisition of Fentura Financial, Inc.
 - Renasant Corporation completed a \$230.0 million common offering in conjunction with the announced acquisition of The First Bancshares
- Multiple issuances of subordinated debt announced during the last 30 days
 - QNB Corp., announced the completion of its \$40.0 million of 8.88% fixed-to-floating-rate subordinated notes due 2034
 - BCB Bancorp, Inc. announced the completion of \$40.0 million 9.25% fixed-to-floating-rate subordinated notes due 2034

Capital Offering Mix – LTM⁽²⁾



Capital Offering Activity – Last Twelve Months⁽²⁾



Source: S&P Capital IQ Pro; M&A and offering data as of 8/30/2024; Note: All dollars in millions, unless otherwise noted
 (1) Median data for M&A transactions. Excludes terminated deals and FDIC-assisted transactions
 (2) Excludes mutual conversions
 (3) Transaction economics for June 2024 deals are confidential or awaiting release to the public



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Nationwide M&A League Table – Since 1/1/2023⁽¹⁾

Rank	Advisor	# of Deals	Deal Value (\$M)
1	Piper Sandler Companies	33	\$ 3,741.3
2	Stifel Financial Corp.	25	\$ 8,608.3
3	D.A. Davidson & Co.	19	\$ 946.8
4	Olsen Palmer LLC	18	\$ 57.6
4	Raymond James & Associates, Inc.	16	\$ 5,332.3
6	Janney Montgomery Scott LLC	15	\$ 881.3
7	Performance Trust Capital Partners, LLC	15	\$ 217.7
8	The Capital Corporation, LLC	11	\$ 44.4
8	Hovde Group, LLC	11	\$ 497.3
8	Stephens Inc.	11	\$ 2,124.1
11	McQueen Financial Advisors II, Inc.	9	\$ 253.6
12	Hillworth, LLC	6	\$ 32.6
12	Mercer Capital Management, Inc.	5	\$ -
13	Donnelly Penman & Partners Inc.	4	\$ 45.2
13	Commerce Street Capital, LLC	4	\$ -
14	Gerrish Smith Tuck Consultants, LLC	3	\$ -
14	Morgan Stanley	3	\$ 945.5
14	Burke Stelling Group, LLC	3	\$ 294.2
15	Cummings & Company, LLC	3	\$ -
20	BofA Securities, Inc.	2	\$ 2,517.3

D.A. Davidson Bank M&A Transactions

 BRIDGEWATER BANK has agreed to acquire  BUY-SIDE ADVISOR	 has acquired six branches from  BUY-SIDE ADVISOR	 has agreed to be acquired by One America Bancorp Inc. SELL-SIDE ADVISOR
 has agreed to merge with  SELL-SIDE ADVISOR	 has agreed to acquire  FINANCIAL ADVISOR	 has agreed to acquire  BUY-SIDE ADVISOR

D.A. Davidson Bank Capital Offerings

 has completed a follow-on offering of common stock \$34,500,000 SOLE BOOKRUNNING MANAGER	 has partnered with a new investor \$53,000,000 FINANCIAL ADVISOR	 has completed a public offering of subordinated notes \$74,750,000
 has completed a follow-on offering of common stock \$86,293,125	 has completed a private placement of perpetual preferred stock \$80,750,000 LEAD PLACEMENT AGENT	 has completed an initial public offering of common stock \$38,259,038

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Source: S&P Capital IQ Pro
 (1) Includes all whole bank and branch M&A transactions. Transaction league tables are as of 8/30/2024