MULL BEFORE YOU MERGE

SYNERGY RISK, DISRUPTION, AND THE METRICS LINKED WITH THE BEST BANK M&A

"If a CEO is enthused about a particularly foolish acquisition, both his internal staff and his outside advisors will come up with whatever projections are needed to justify his stance. Only in fairy tales are emperors told that they are naked."

Warren Buffett, Chairman's Letter, Berkshire Hathaway 1997 Annual Report

BY RICHARD J. PARSONS

The purpose of this analysis is to challenge risk managers to address two under-identified risks faced by banks when doing acquisitions: synergy risk and business disruption risk—and to challenge boards and management to ensure that is happening. While massive expense cuts get the headlines during a merger, banks seeking superior share price performance must not only meet expense-cut commitments but also prove able to protect revenue and, ultimately, generate new business.

The analysis will show with data that:

1. The stock price of 60% of banks that bought another bank from 2014-2018 lagged industry peers two and three years after announcing a merger.
2. While acquiring banks whose stock prices lagged the most as a group achieved superior overhead ratios, the 2019 record shows that as a group they failed to grow normalized diluted EPS, suggesting top-line revenue growth concerns.
3. Acquiring banks that have had the best stock price performance have distinct characteristics and operating results that suggest they do a better job protecting and growing revenue during a merger than other banks engaged in mergers.

The analysis will raise the question as to the role of the risk organization, notably the CRO, in escalating synergy and business disruption risk to a level of management and board attention as important as expense cut commitments and operational excellence.

The analysis is organized as follows:

- Warren Buffett on Mergers
- Bank Merger Data 2014-2019: Trends, Valuations, Stock Prices
- Key Findings from the Data
- Implications to Risk Executives

Merger Mania

Banks merged in 2019 at a faster rate than at any time since the mid-1990s—when Congress passed the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, which legalized interstate banking.

Many industry pundits speculate that the merger floodgates will open over the next several years as the industry morphs into a new digital era that will drive massive change across the banking landscape. Bank boards either already know or soon will know that the talent needed to run banks in the 2030s will look a lot different than the talent it took in the 1990s.

Even if the banking industry does not find itself gripped in merger mania in the years ahead, the recent trend of five bank mergers per week is unlikely to slow. This seems especially true if the "merger of equals" trend accelerates as banks attempt to gain scale and access to next-generation digital expertise.

Warren Buffett on Mergers

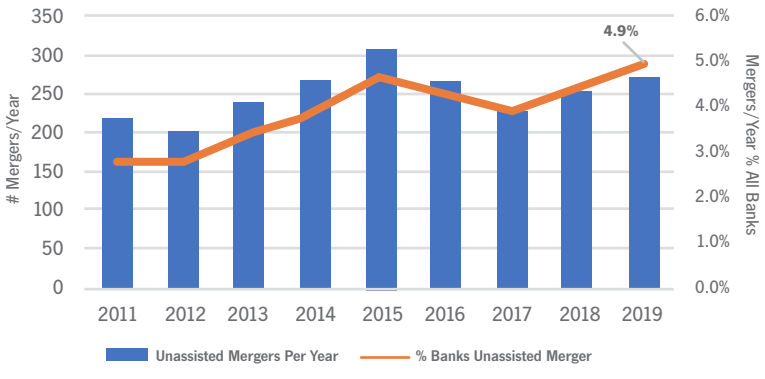
Fans of Warren Buffett know he loves bank stocks. As of September 30, 2019, Berkshire Hathaway's position in eight big bank stocks was worth $88 billion.

What his fans may not know is that Buffett has written about the perils of mergers more than once in his letters to shareholders. The 1997 Berkshire Hathaway Annual Report included these insights from Buffett in his "Chairman's Letter."

Merging with public companies presents a special problem for us. If we are to offer any premium to the acquiree, one of two conditions must be present: Either our own stock must be overvalued relative to the acquiree's, or the two companies together must be expected to earn more than they would if operated separately. Historically, Berkshire has seldom been overvalued. In this market, moreover, undervalued acquirees are almost impossible to find. That other possibility—synergy gains—is usually unrealistic, since we expect acquirees to operate after we've bought them just as they did before. Joining with Berkshire does not normally raise their revenues nor cut their costs….

The reasoning that Berkshire applies to the merger of public companies should be the calculus for all buyers. Paying a takeover premium does not make sense for any acquirer unless: a) its stock is overvalued relative to the acquiree's or b) the two enterprises will earn more combined than they would separately. Predictably, acquirers normally hew to the second argument because very few are willing to acknowledge that their stock is overvalued. However, voracious

FIGURE 1: UNASSISTED MERGERS # AND % BY YEAR 2001-2019



Source: FDIC

On Previous Page: Shutterstock.com

buyers—the ones that issue shares as fast as they can print them—are tacitly conceding that point. (Often, they are also running Wall Street's version of a chain-letter scheme.)

In some mergers there truly are major synergies—though many times the acquirer pays too much to obtain them—but at other times the projected cost and revenue benefits prove illusory. Be certain of one thing: If a CEO is enthused about a particularly foolish acquisition, both his internal staff and his outside advisors will come up with whatever projections are needed to justify his stance. Only in fairy tales are emperors told that they are naked.

Buffett holds no punches in expressing his skepticism about mergers.

This analysis will put the mergers since 2014 under the microscope by overviewing key bank merger data from 2014 to 2019.

Bank Merger Data 2014-2019: Trends, Valuations, Stock Prices

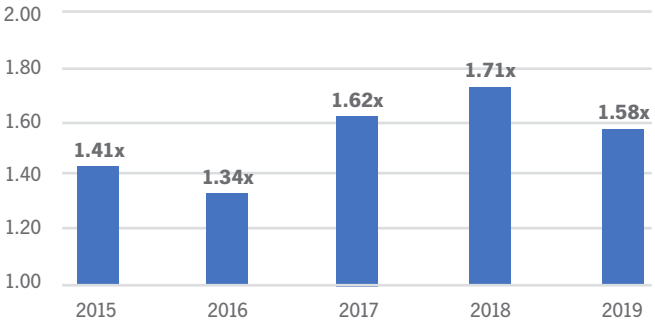
Setting the price for a bank acquisition is both science and art. Bank merger prices, like the price of any other asset, be it a bottle of French wine or an office building on 5th Avenue in New York City, vary over time based on many factors. Like both wine and Manhattan property, the market for bank stocks runs hot and cold, influenced by assumptions about future cash flows, perceptions of market euphoria and fear, and a qualitative desire to achieve intangible "strategic" benefits.

Mergers are a core competency of U.S. banks. Since 1972 there have been 21,704 mergers—as of this writing—in the U.S. Of that total, almost 3,800 were "assisted" deals. "Assisted," of course, is a euphemism for a failed bank that the FDIC took over. The other nearly 18,000 mergers involved healthy banks; the FDIC calls these "unassisted" mergers.

Figure 1 shows merger activity in the U.S. for the past nine years. Several facts can be drawn from Figure 1:

- As the blue bars show, since 2011 there have been 2,234 unassisted mergers in the U.S. Not shown are an additional 207 assisted mergers that occurred during this same time. There have been only five unassisted mergers since 2016.
- The total number of mergers over the past decade is equivalent to just about half the number of the 4,858 banks doing business at year-end 2019.
- The orange line indicates the ratio of banks acquired through merger by year to the number of banks in the U.S. at the end of the prior year. The ratio hit a two-decade high in 2019 at 4.9%. During the early and mid-1990s merger rates averaged just north of 5%. In other words, each year, one out of every 20 U.S. banks was party to a merger.

FIGURE 2: MEDIAN PRICE TO TANGIBLE BOOK VALUE FOR BANK MERGERS NATIONALLY 2015 - 2019

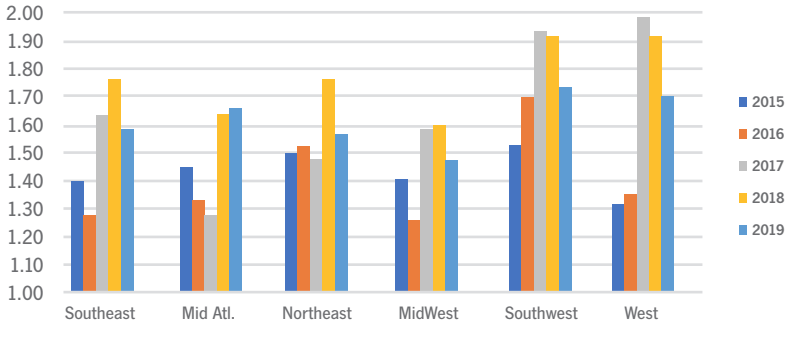


Source: S&P Global Market Intelligence

Figure 2 shows the median price to tangible book value for bank mergers by year from 2015 to 2019. Perhaps no surprise to risk executives who remember 2015-2016, bank merger valuations ran about 20% lower back then compared to what the industry enjoyed in 2017-2018. Call the bump the "Trump Effect," as bank investors gained the benefit of corporate tax cuts plus the perception of a more bank-friendly administration.

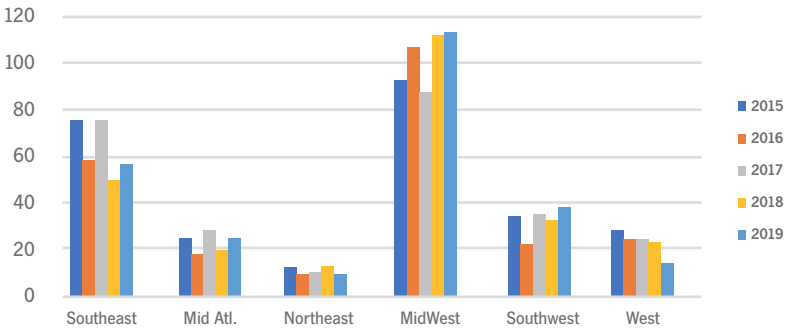
Figure 3 dissects Figure 2 and reveals the median price to tangible book

FIGURE 3: MEDIAN PRICE TO TBV FOR BANK MERGERS BY REGION 2015 - 2019



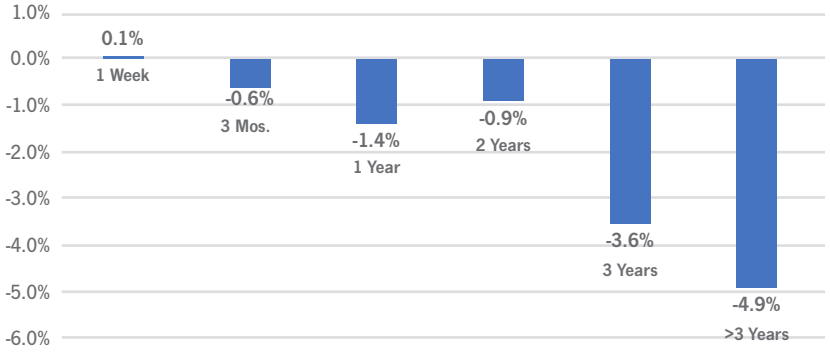
Source: S&P Global Market Intelligence

FIGURE 4: # MERGERS BY REGION BY YEAR
2015 - 2019



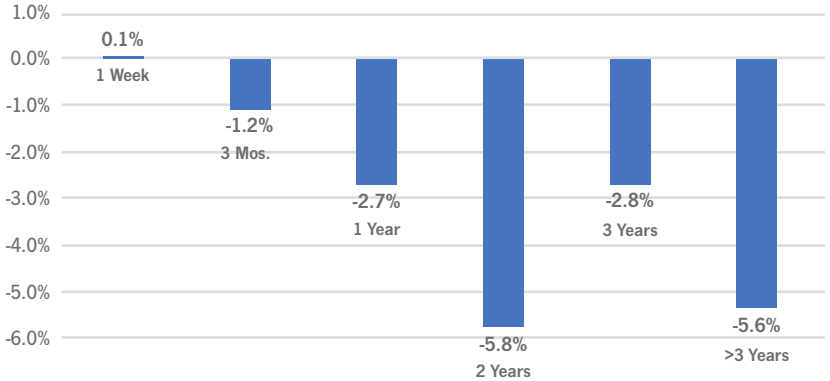
Source: S&P Global Market Intelligence

FIGURE 5: AVERAGE STOCK PRICE CHANGE OF AQUIRING BANKS COMPARED TO THE REGIONAL BANK ETF "KRE"
1 week, 3 mos., 1 yr., 2 yrs., 3 yrs., >3 yrs., after merger announced 2014 - 2019



Sources: Company Press Release, Ycharts

FIGURE 6: MEDIAN STOCK PRICE CHANGE OF ACQUIRING BANKS COMPARED TO THE REGIONAL BANK ETF "KRE"
1 week, 3 mos., 1 yr., 2 yrs., 3 yrs., >3 yrs., after merger announced 2014 - 2019



Sources: Company Press Release, Ycharts

value of mergers by year by region of the country. The most expensive banks in the country since 2017 are in the West and the least expensive are in the Midwest.

Figure 4 may shed light on why merger prices vary across the country. The answer likely has something to do with the oldest concept in economics: supply and demand. Anyone who read my book, *Broke: America's Banking System,* knows there is not one single U.S. banking system. Banking is as different across the 50 states as state birds.

Bank Mergers and Stock Prices

Is all this recent merger activity good for the bank shareholders of acquiring banks?

The answer appears to be "no" for most banks—based on an analysis of the stock price change for acquiring banks compared to an industry benchmark one week; three months; and one, two, and three years after the acquirer announced the merger. The benchmark selected for this exercise is the S&P Regional Bank ETF (Symbol: KRE). The date of the acquirer-KRE comparison is established as the day preceding the merger announcement.

As this analysis will show, roughly three of five banks that have been acquirers since 2014 saw their stock price lag KRE. To draw this conclusion, each acquiring bank's stock price was matched to the same corresponding time for KRE.

Figure 5 shows the average stock price change of acquiring banks compared to KRE over six time frames. Figure 6 is the same as Figure 1, except this Figure considers the median stock price change of acquiring banks.

These two Figures provide several insights.

First, consider the stock price change of acquiring banks one week and three months after announcing a merger acquisition. As both Figures 5 and 6 show, the 81 acquiring banks in this study of short-term price change

did not, as a group, gain or lose substantial value compared to the KRE benchmark.

Not apparent in the data, it should be noted, is that a few banks saw their stock price fall by nearly 10% within a week of announcing an acquisition. However, in most cases, there is evidence the market overreacted to the news of the merger. We know this because these same banks' stock prices generally reverted to peer averages over the next two years. As a further insight, the data indicates larger regional banks appear most vulnerable to an overly negative short-term reaction to news of an acquisition.

Second, moving the comparison out to one year indicates there is modest unfavorable stock price action of acquiring banks to the benchmark. In fact, the difference is so small that it should be viewed as statistically insignificant.

Third, Figures 5 and 6 show the gap in performance between acquirers and the benchmark is still modestly negative two and three years after a merger announcement.

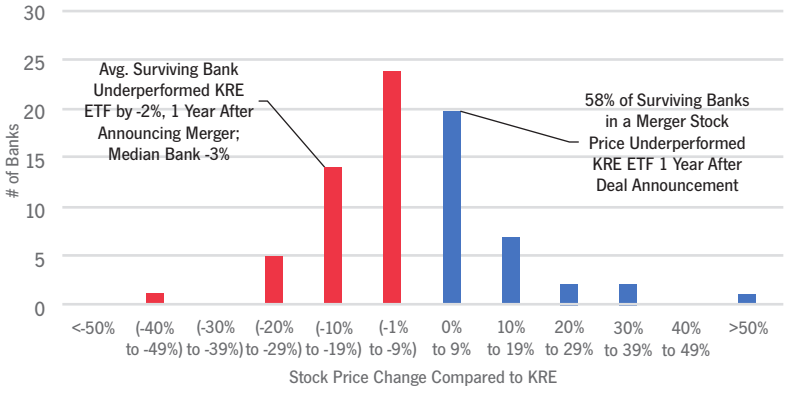
Figures 7, 8, and 9 provide a more detailed picture of stock price changes of acquiring banks compared to the change in the price of KRE. Each bar in the histograms shows the number of banks by change in stock price compared to KRE's change in price for the same time frame.

For example, Figure 7 shows 24 acquiring banks experienced a stock price decline of 1% to 9% compared to KRE's change for the same one-year time frame after a merger announcement. Of the 76 banks in the study, 44, or 58%, underperformed the KRE ETF for the one-year after the merger announcement. Of the 42% that beat KRE, three banks did so by more than 30%.

Figure 8 takes the analysis to two years after the merger announcement.

Acquiring banks' stock prices do not show any improvement relative to KRE two years after announcing the merger. While the average stock price

FIGURE 7: FREQUENCY OF STOCK PRICE CHANGE COMPARED TO KRE FOR 76 ACQUIRING BANKS 1 YEAR AFTER MERGER ANNOUNCED



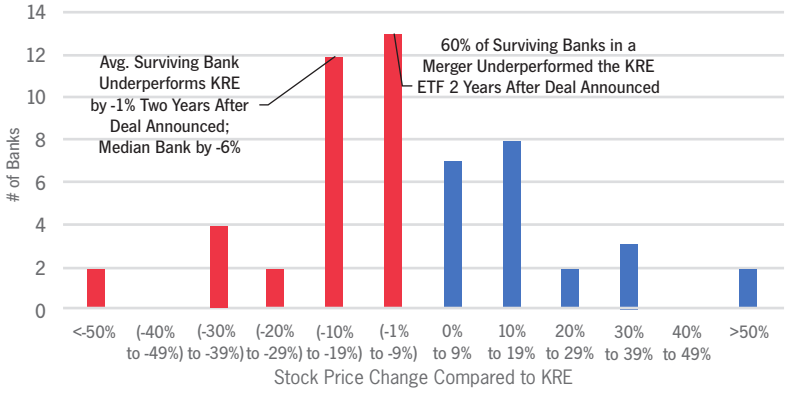
Source: Bank Press Releases, Ycharts (Mergers 2014 - 2018)

THREE YEARS AFTER BANK MERGERS WERE ANNOUNCED, ACQUIRING BANK STOCK PRICES REMAINED STUBBORNLY BEHIND THE BANK BENCHMARK.

of the 55 acquiring banks falls short of KRE by just 1%, more concerning is that 33 of the 55 banks, or 60%, underperformed the benchmark at the two-year mark.

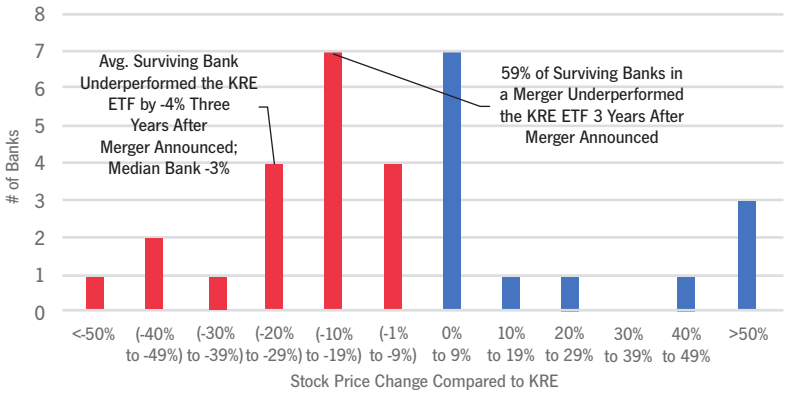
Three years after bank mergers were announced, acquiring bank stock prices remained stubbornly behind the bank benchmark. As Figure 9 highlights, at the three-year mark, almost 60% of acquiring bank stock prices lag KRE. Grim as that statistic is, note that four banks solidly beat KRE after three years, with each bank's shareholders enjoying stock price appreciation of at

FIGURE 8: FREQUENCY OF STOCK PRICE CHANGE COMPARED TO KRE FOR 55 ACQUIRING BANKS 2 YEARS AFTER MERGER ANNOUNCED



Source: Bank Press Releases, Ycharts (Mergers 2014 - 2017)

FIGURE 9: FREQUENCY OF STOCK PRICE CHANGE COMPARED TO KRE FOR 32 ACQUIRING BANKS 3 YEARS AFTER MERGER ANNOUNCED



Source: Bank Press Releases, Ycharts (Mergers 2014 - 2017)

least 40% better than KRE for the same timeframes.

Conclusion: Share price data indicates acquiring banks, as a group, have lagged the price change of KRE.

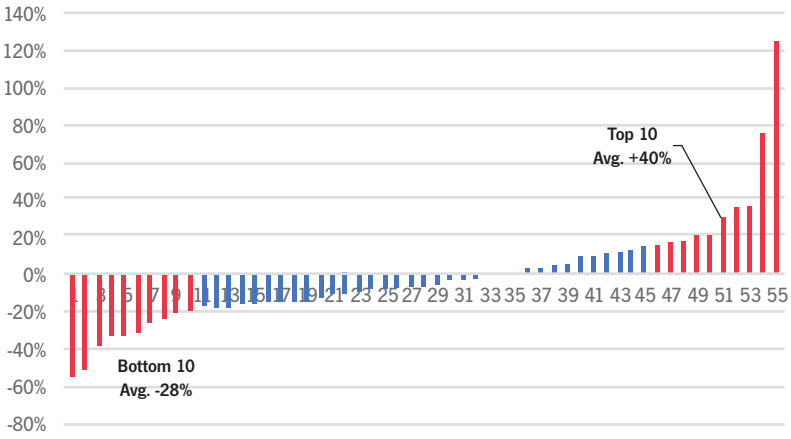
Key Findings from the Data

The analysis turns now to a study of 20 of the 55 acquiring banks where there is two years of shareholder performance data. This analysis will show the 10 banks with the best share price change two years after a merger announcement have operating results different from the 10 banks with the lowest share price change for the same time frame.

For the purposes of the following section, the 10 banks with the highest shareholder price change two years after a merger announcement are labeled "Top 10." Banks with the lowest two-year stock price change are labeled "Bottom 10." All data is as of December 31, 2019. The data source for stock price, ROE, ROA, and asset size information is YFigures. All operating metric data comes from www.bankregdata.com, which derives its data from FDIC Call Reports. The FDIC data is for the bank only; the data may be very slightly different than reports for the holding company.

Figure 10 provides a graphical view of the array of two-year stock price changes for the 55 banks in the study. Note the Top 10 banks beat KRE on average by 40% and the Bottom 10 banks declined in price by 28% compared to KRE.

FIGURE 10: PRICE CHANGE 55 ACQUIRING BANKS 2 YEARS AFTER ANNOUNCING MERGER 2014 - 2017



Source: Ycharts

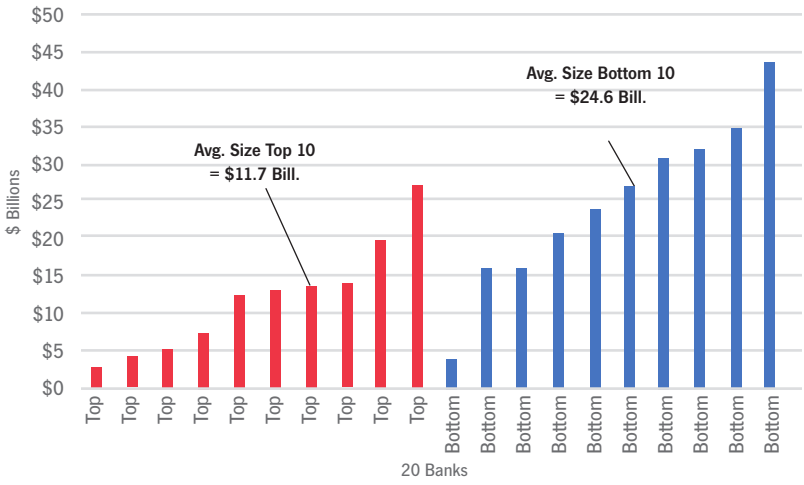
Key Data Facts:

- **Stock Price Change: Top 10 = +40% vs. Bottom 10 = -28%**
- The 10 banks with the best two-year share price change showed an average stock price appreciation of 40%, with a range between 18% and 125%.
- The bottom 10 banks had an average two-year price change of -28%, with a range between -17% and -50%.

- **Texas Ratio: Top 10 = 5.8 vs. Bottom 10 = 5.8**
- Credit quality across the banking industry at year-end 2019, as measured by the so-called "Texas Ratio"—the amount of a bank's non-performing assets divided by the bank's tangible common equity plus its loan loss reserves—is pristine.
- Credit quality does not appear to influence stock prices subsequent to a merger, unless a bank announces a spike in provision; when that occurs, the market is swift in doling out punishment.
- None of the Bottom 10 banks had a Texas Ratio above 10; the one bank that had announced a credit concern two years ago now has a Texas Ratio of 2.0.
- Banks with superior risk-reward cultures are not rewarded for their skill at this point in the business cycle when all banks show strong credit performance.

- **Asset Size: Top 10 = $11.7 billion vs. Bottom 10 = $24.6 billion**
- The Top 10 are clearly smaller than the Bottom 10. The average asset size of the Bottom 10 banks was more than twice as large as the Top 10.
- Top 10 banks ranged in size between $2.7 billion and $26.8 billion. Only one had assets greater than $20 billion. Four had assets lower than $10 billion.
- Seven of the Bottom 10 had assets greater than $20 billion and only one had less than $10 billion. The range was $3.7 billion to $43.3 billion.
- Given the stark contrast in size, Figure 11 depicts the actual size at year-end of all 20 banks. Top 10 and Bottom 10 banks are clearly skewed to each size of the Figure.

FIGURE 11: ASSET SIZE YE 2019 OF TOP 10 AND BOTTOM 10 STOCK PRICE BANKS 2 YEARS AFTER MERGER ANNOUNCEMENT



Source: Ycharts

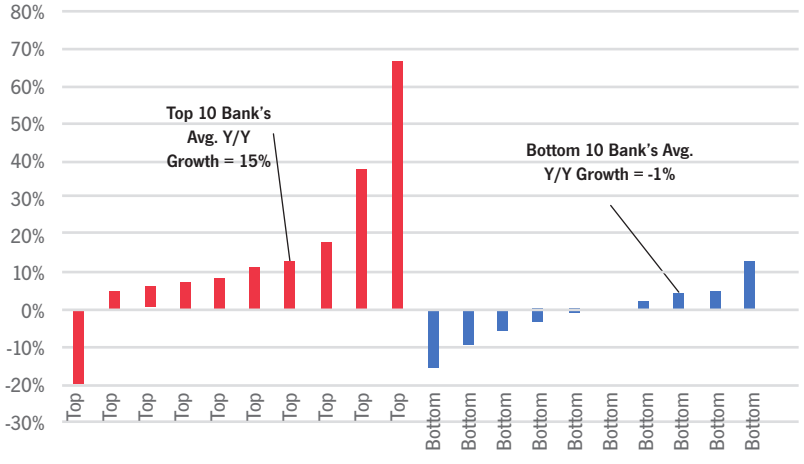
- **Return on Equity: Top 10 = 10.9% vs. Bottom 10 = 9.0%**
- Top 10 banks ranged in Return on Equity (ROE) between 7.8% and 17.7%. Only one bank had a ROE less than 9%.
- Bottom 10 banks ranged in ROE between 5.8% and 11.9%. Only one had a ROE greater than 10%, and five had ROEs less than 9%.
- Top 10 banks tend to have slightly lower total equity ratios than Bottom 10, but the difference does not appear to explain the significant difference in ROE.

- **Return on Assets: Top 10 = 1.42% vs. Bottom 10 = 1.24%**
- Top 10 banks range in ROA between 1.25% and 1.99%.
- Bottom 10 banks range in ROA between .62% and 1.90%.
- Only one Bottom 10 bank had a ROA less than 1.0%.
- The median Top 10 bank ROA was 1.33% vs. 1.19% for the Bottom 10.

- **Funding Costs: Top 10 = 57 basis points vs. Bottom 10 = 86 basis points**
- Funding costs appear to be a significant differentiator between Top 10 and Bottom 10 banks.
- Top 10 banks had an average lower cost of funds, by 35 basis points, compared to peer banks, whereas Bottom 10 banks have the same cost of funds as peer banks.
- Two Top 10 banks had cost of funds less than 25 basis points and one bank had cost of funds greater than 65 basis points.
- The Bottom 10 had no banks with cost of funds less than 50 basis points, and eight banks with cost of funds greater than 65 basis points.

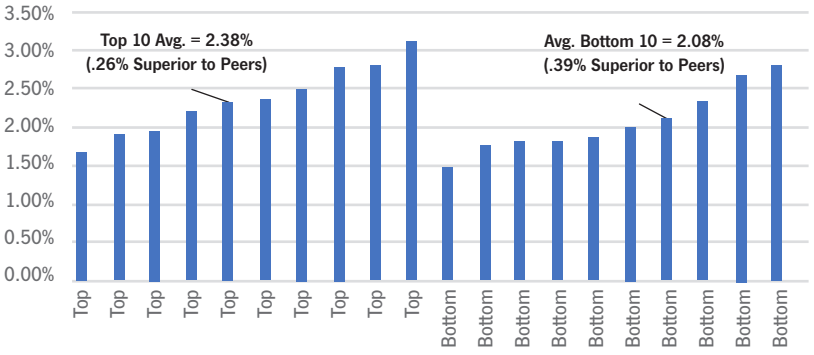
- **Net Interest Margin: Top 10 = 375 basis points vs. Bottom 10 = 320 basis points**
- Three Top 10 banks had NIM greater

FIGURE 12: NORMALIZED DILUTED EPS GROWTH 2019 VS. 2018 FOR TOP 10, BOTTOM 10 BANKS



Source: Ycharts

FIGURE 13: OVERHEAD RATIO FOR 2019 TOP 10 AND BOTTOM 10 BANKS

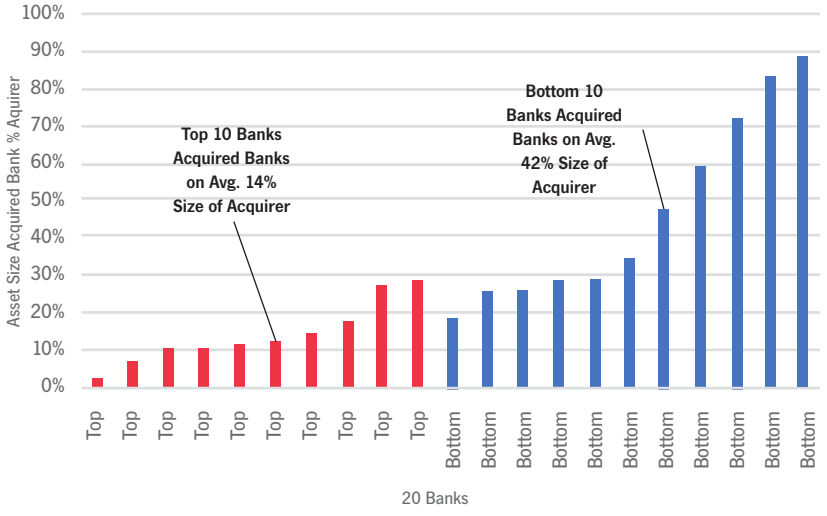


Source: BRD

than 400 basis points and only one had NIM less than 350 basis points
- Two Bottom 10 banks had NIM greater than 350 basis points and six had NIM of 305 basis points or lower.

- **Normalized Diluted EPS Year-over-Year Growth: Top 10 = +15% growth in 2019 compared to 2018 vs. Bottom 10 = -1% growth in 2019 compared to 2018.**
- Let's introduce an investment term some readers may not be familiar with—"normalized diluted earnings per share (EPS)." Normalized diluted EPS refers to income that "belongs" to each share of common stock after accounting for dilution and after adjusting for one-time expenses and other abnormal income and expenses. By adjusting for one-time expenses—something common to all bank mergers—the normalized diluted EPS growth effectively makes it possible to compare current and past earnings on an apples-to-apples basis.
- Figure 12 shows the normalized diluted EPS growth in 2019 compared to 2018 for the Top 10 and Bottom 10 banks. This Figure is telling because it indicates stock price growth two years after a merger is associated with true EPS growth after adjusting for one-time merger related expenses. In other words, earnings growth matters.

FIGURE 14: ASSET SIZE OF ACQUIRED BANK AS % OF TOP AND BOTTOM 10 BANKS' ASSET SIZE AT TIME OF ANNOUNCEMENT



Source: Ycharts

- **Overhead Ratio: Top 10 = 2.38% vs. Bottom 10 = 2.08%**
- Overhead ratio (OH) is defined as non-interest expenses divided by average assets.
- Figure 13 shows the OH ratio for the Top 10 and Bottom 10 banks.
- Note that Bottom 10 banks have superior performance in OH ratio compared to both Top 10 banks as well as relative to peer banks, which adjusts for size difference between Top 10 and Bottom 10 banks.
- What this Figure indicates is that both Top 10 and Bottom 10 banks have better OH ratios compared to peers—something mergers should achieve—but it also indicates Bottom 10 banks, as a group, have done an even more outstanding job driving out expenses than Top 10 banks.
- These facts indicate Bottom 10 banks have done a great job driving out expense; however, given the lack of real EPS growth as shown in the prior Figure, a question arises whether these banks either cut expenses too deeply, thus impairing revenue generation capabilities, or were so focused on expense cuts that they took their collective eyes off of top-line revenue protection and growth.

- **Efficiency Ratio: Top 10 = 54 vs. Bottom 10 = 52.5**
- Efficiency ratio differences between Top 10 and Bottom 10 are insignificant.
- The fact that efficiency ratios for the two groups of banks are similar is further evidence the Top 10 banks are doing a better relative job creat-

ing revenue compared to the more cost-effective (as measured by OH ratio) Bottom 10 banks.

- **Size of Acquisition: Top 10 = 14% of Assets vs. Bottom 10 = 47% of Assets**
- The importance of the data in Figure 14 cannot be overstated to risk managers in their assessment of risk when engaged in M&A due diligence and merger transition work.
- This Figure clearly shows the banks that acquired relatively large banks—as measured by assets as a percentage of the acquiring bank's asset size at time of merger announcement—have stock prices that lag the industry two years after merger announcement.
- Based on the data in this study, banks that acquire banks that are relatively small have superior stock price performance two years after announcing the merger.
- Note that not one of the Top 10 banks bought a bank with assets greater than 30% the size of the acquirer.
- In addition, 7 of the 10 acquisitions by Top 10 banks were of banks less than 15% the size of the acquirer.
- Bottom 10 banks tended to buy much bigger banks than Top 10 banks.
- Four of the Bottom 10 banks' acquisitions had assets greater than 50% of the acquirer.
- Here is one other interesting consideration: 8 of 10 mergers for both the Top 10 and the Bottom 10 were out-of-market. This is a critical insight to risk managers, as it seems to indicate the risks associated with doing mergers outside a bank's home market do not seem to influence stock price return two years later. The key conclusion appears to be that the size of the acquisition is a greater risk factor to shareholder returns than location. However, this conclusion requires more data to confirm with confidence.

Data Summary

Common to both the Top 10 and Bottom 10 banks in this study are the following performance metrics:

- Excellent credit as measured by the Texas Ratio.
- An efficiency ratio in the low-to-mid 50s.

The data showing certain factors at year-end 2019 are common among Top 10 banks:

- Higher return on equity.
- Lower cost of funds.
- Better net interest margins.
- Superior normalized diluted EPS growth.
- Tendency to be close to $10 billion in asset size.

The Bottom 10 banks also had several characteristics less common to Top 10.

- Tend to be larger mid-tier banks: $25 billion on average.
- Superior overhead ratio.
- Greater appetite to acquire a bank half its own size.
- Low-to-no growth of normalized diluted EPS.

The Role of the CRO: Addressing Synergy Risk and Business Disruption Risk

Since only a minority of banks that engaged in acquisitions between 2014 and 2017 saw their stock prices beat the industry benchmark, it appears Warren Buffett is correct to be skeptical about the benefit of mergers to shareholders.

The data in this study indicates that merger benefits appear less likely to accrue to shareholders when the acquiring bank buys a bank with assets that are relatively large as a percentage of the acquirer's asset size. Conversely, relatively smaller acquisitions appear to have a greater probability of producing stock price returns that beat the bank benchmark.

These findings appear logical for two reasons.

First, it seems reasonable to assume that when an acquirer buys a bank relatively larger than smaller, the burden on senior management to focus attention on the acquisition is greater than when the merger is with a bank of a much smaller relative size. The intense focus on the acquisition may mean less management attention to the acquirer's existing business. Merger disruption at the top of the house puts the acquirer's existing revenue and expense management discipline at risk. Similarly, the revenue-generation capabilities of the acquired bank may slow as the acquired bank's managers worry about job retention, are assimilated into a new culture, integrated systems, and a focus on public commitments of expense cuts.

Second, there is an old saying: "What gets measured is what gets done." The larger the relative size of an acquisition, the greater the investor scrutiny of expense-cut commitments. Here's how this plays out. Banks have analysts who develop Excel spreadsheets to model the timing and extent of merger benefits. Analysts believe expense-cut commitments tend to not only be a large determinant of the success or failure of the acquisition, but that expenses are relatively easy to track. Therefore, analysts press the bank CEO in quarterly earnings calls to provide updates on the timing and amount of the forecasted expense cuts.

When those commitments are thought by analysts to be at risk, the analyst community peppers the CEO with questions, and if unsatisfied with the response, sells the bank stock. This theme was illuminated in January 2020 when the CEO of a bank currently engaged in a relatively large acquisition gave analysts during the earnings call reason to believe the bank was delaying the timing of expense cuts. Literally, as he spoke, the stock market opened, and the bank's stock price fell 6.4% in the opening minutes of trading.

TRACKING SYNERGY RISK AND BUSINESS DISRUPTION RISK SHOULD INCLUDE A MORE ROBUST UNDERSTANDING OF EXISTING AND PROSPECTIVE CUSTOMER/CLIENT REVENUE PUT AT RISK DURING THE TRANSITION.

CEOs know full well an acquisition will get enormous scrutiny given the skepticism many investors such as Buffett have about mergers. Therefore, CEOs engaged in mergers cannot relax. They must press forward on the timing of expense cuts promised at the time of merger announcement. Since the immediate problem/opportunity at hand during a merger is meeting expense cuts, there is a risk that less attention is given to protecting and enhancing revenue during the early stages of a merger transition. Sometimes the rush to reduce expenses weakens the revenue production muscle of both the acquirer and acquired.

Traditionally, bank risk organizations are focused on three prominent risks during a merger:

- Meeting the risk group's expense cut goals.
- Asset quality.
- Operational excellence (e.g., flawless systems integration).

The findings in this analysis indicate that risk organizations of acquiring banks have generally done a good job meeting these three objectives.

However, given the data and findings from this analysis, a case is now made that bank management and boards have not paid enough attention to synergy risk and business disruption risk during mergers. Therefore, the risk purview of the CRO and risk organization should expand to identify, mitigate, monitor, and report synergy risk.

Tracking synergy risk and business disruption risk should include a more robust understanding of existing and prospective customer/client revenue put at risk during the transition. It should include a second- and third-order analysis of the timing and extent of expense cuts and the potential that expense cuts lead to unintended consequences on top line growth.

Finally, the data in this analysis may suggest CROs should weigh in directly on the price/valuation of the acquired bank. Banks that make relatively large acquisitions (i.e., the acquired bank's assets as % of the acquirer) need to be more vigilant about overpaying for an acquisition. Recent history suggests too many of these acquisitions have probably been overpriced. ®

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