

NOVEMBER 2025

# Bank Watch

## ARTICLES

### Top Three Questions for Potential Bank Acquirers

#### In This Issue

---

Top Three Questions for Potential Bank Acquirers	1
Public Market Indicators	4
M&A Market Indicators	5
Regional Public Bank Peer Reports	6
About Mercer Capital	7

# Top Three Questions for Potential Bank Acquirers

By: Jay D. Wilson, Jr., CFA, ASA, CBA

With year-end approaching, we are starting our annual process of recapping community bank M&A in 2025 and considering the outlook for 2026. In doing so, we turned our attention to 2025 bank M&A data to see what trends were emerging. The total number of bank deals year-to-date (166 deals through November 21, 2025) has already outpaced 2023 and 2024 levels (133 in 2024 and 102 in 2023). With a more relaxed regulatory stance towards larger bank M&A in 2025, larger deals increased and the total reported deal value was \$45.8 billion (deals announced through November 21, 2025) and well ahead of full year 2023 (\$4.2 billion) and 2024 levels (\$17.0 billion). Valuation multiples on announced deals also illustrated a similar trend with price/tangible book multiples and core deposit premiums trending higher in year-to-date 2025 relative to 2023 and 2024 levels.

For those banks considering strategic options, like a sale, 2026 could also be a favorable year if the improving trends experienced in 2025 continue. These trends include an increase in buyer's interests in acquisitions, a shorter and more efficient timeline to close, stable to improving valuation trends, and a tax environment for sellers and their shareholders that is favorable relative to historical levels. Bankers also appear to be cautiously optimistic about the economic outlook for 2026. The majority (57%) anticipate the U.S. economy to grow at a moderate pace in 2026, compared to only 15% anticipating a downturn or **recession**.

Against this backdrop of the potential for an active bank M&A environment in 2026, we consider three questions that, in our view, should be top of mind for bank acquirers to help make a successful bank acquisition.

## 1. What is my acquisition criteria and what banks would be the best strategic fit for my institution?

Before embarking on an acquisition, it's important for acquirers to consider their strategic priorities that they hope to address through an acquisition. Sometimes it can help for acquirers to examine their peers and the broader market environment for clues. According to *Bank's Director's 2026 Bank M&A Survey* the top motivations for incorporating M&A into their bank's strategy are the following: a desire for low cost deposits (41%), geographic expansion (41%) and scale to drive technology and other investments (38%).

Acquirers may also want to look internally and consider the weaknesses of their institution and try to address or strengthen that weakness via an acquisition. For example, an acquirer with a strong lending franchise but limited core deposit growth may look to buy a bank that has the opposite profile—one with a low loan-to-deposit ratio, a higher proportion of core deposits, and a lower cost of funds. Alternatively, an acquirer who has a strong deposit franchise but is in slower growing legacy markets with fewer lending opportunities may look to prioritize an acquisition in a faster growing geographic market or a bank with a strong lending team/niche. Lastly, earnings growth through geographic expansion or cost savings and efficiency from greater scale are often top of mind for acquirers, particularly for those acquirers with a higher than peer efficiency ratio (non-interest expenses to revenues).

Once these acquisition priorities are developed, then acquirers can be better positioned to be more responsive to those opportunities from selling banks that fit some or all of their preferred acquisition criteria. the goal is for the acquirer to be able to recognize and be better positioned to act.

## 2. What is a reasonable valuation range for the seller?

Developing a reasonable valuation for a bank is essential for an acquisition in any economic environment, but particularly in the current environment. 2025 has been a relatively volatile market environment as the market has wrestled with diverging views on the outlook for interest rates, inflation, tariffs, geopolitical events, and the future of the K-shaped U.S. economy. To illustrate the year's volatility, consider that the S&P Small Cap Bank Index was up roughly 3% year-to-date (January 1 to November 24, 2025), despite falling about 15% in mid-April and then rebounding over the summer and fall to reach a peak gain of around 10% in mid-September. Against this backdrop, certain banks have been well positioned to increase earnings in the current rate and economic environment while others have faced earnings pressure from a combination of higher costs of funds, legacy assets that haven't repriced upward as fast as funding costs, and higher non-interest expenses.

Valuing a bank requires assessing a variety of factors related to the bank (including core earning power, growth/market potential, and risk factors). Additionally, external market factors are considered and appropriate valuation methodologies are applied – such as a market approach that looks at transaction multiples involving comparable sellers and/or an income approach focused on future earnings potential and developed in a discounted cash flow or internal rate of return analysis.

While deal values are often reported and compared based upon multiples of tangible book value, value to specific buyers is often a function of market multiples applied to core earning power combined with projected cash flow estimates inclusive of cost savings that the acquirer believes the bank target can produce in the future. Specific buyers may have differing viewpoints on core earning power, future earnings, and the strategic benefits or cost savings that the seller may provide, and it is important to consider the acquirer's viewpoints in a valuation of a target bank.

## 3. How will the potential acquisition impact my institution generally and my capital ratios more specifically?

A transaction that looks favorable in terms of valuation and strategic fit may flounder and not be worth pursuing if other key deal metrics and implied pro forma capital ratios are weak. Traditional deal metrics to assess bank targets include pro forma capital ratios, implied book value dilution and the capital earn back period, earnings accretion/dilution, and an internal rate of return (IRR) analysis.

Below we focus a bit more on some fundamental elements to consider when estimating the pro forma balance sheet impact and earn back period.

### Pro Forma Balance Sheet Impact and Earn Back Period

To consider the pro forma impact of the bank target on the acquirer's balance sheet, it is important to develop reasonable and accurate fair value estimates as these estimates will impact the pro forma balance sheet at closing as well as future earnings and capital/net worth balances and ratios after closing. In the initial accounting for a bank acquisition, acquired assets and liabilities are marked to their fair values. The most significant marks are typically for the loan portfolio, followed by intangible assets for depositor customer relationships (core deposit). Below are some key factors for acquirers to consider for those fair value estimates:

- » **Loan Valuation.** The loan valuation process can be complex, with a variety of economic, company, or loan-specific factors impacting interest rate and credit loss assumptions. The valuation often relies upon a) monthly cash flow forecasts considering both the contractual loan terms, as well as the outlook for future interest rates; b) prepayment speeds; c) credit loss estimates based upon qualitative and quantitative assumptions; and d) appropriate discount rates. Problem credits above a certain threshold are also typically evaluated on an individual basis.

- » **Core Deposit Intangible Valuation.** Core deposit intangible asset values are driven by market factors (interest rates) and bank-specific factors such as customer retention, deposit base characteristics, and a bank's expense and fee structure.

## Mercer Capital Can Help

Mercer Capital has significant experience providing valuation, due diligence, and advisory services to bank acquirers across each phase of a potential transaction. For acquirers, our services include providing initial valuation ranges for bank targets, performing financial due diligence on targets during the deeper due diligence and negotiation phase, providing fairness opinions and presentations related to the acquisition to the buyer's management and/or board, and providing valuations for fair value estimates of loans and core deposit during due diligence (prior to close) or at closing.









For sellers, our services include providing valuation and advisory services to community banks considering strategic options and developing a process to maximize valuation upon exit. Feel free to reach out to us to discuss your community bank or credit union's unique situation and strategic objectives in confidence.

### MERCER CAPITAL'S

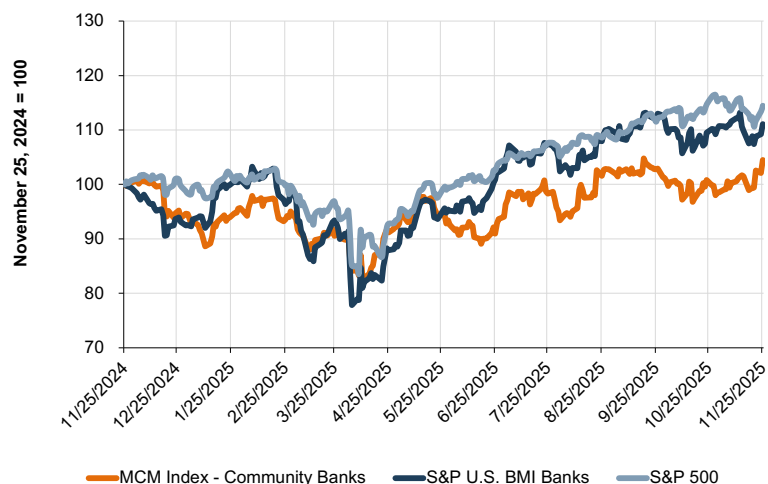
## Recent Representative Transactions

In addition to valuation services, Mercer Capital provides transaction and financial advisory services to banks, thrifts, and credit unions.

[>> View more transactions](#)

<p>M&amp;A ADVISORY</p>  <p>Palmetto Citizens FEDERAL CREDIT UNION Columbia, South Carolina</p> <p>HAS AGREED TO ACQUIRE FOUR BRANCHES OF</p>  <p>SOUTHERN BANK Georgia</p> <p>Mercer Capital served as financial advisor to Palmetto Citizens Federal Credit Union</p>	<p>M&amp;A ADVISORY</p>  <p>Navigant CREDIT UNION Smithfield, Rhode Island</p> <p>HAS ACQUIRED</p>  <p>RANDALL Financial Group, LLC Providence, Rhode Island</p> <p>Mercer Capital served as financial advisor to Navigant Credit Union</p>
<p>M&amp;A ADVISORY</p>  <p>NUSENDA CREDIT UNION Albuquerque, New Mexico</p> <p>HAS ACQUIRED</p>  <p>WESTERN HERITAGE BANK® Las Cruces, New Mexico</p> <p>Mercer Capital served as financial advisor to Nusenda Federal Credit Union</p>	<p>M&amp;A ADVISORY</p>  <p>Y-12 CREDIT UNION Oak Ridge, Tennessee</p> <p>HAS ACQUIRED</p>  <p>FSB First State Bank Middlesboro, Kentucky</p> <p>Mercer Capital served as financial advisor to Y-12 Federal Credit Union</p>

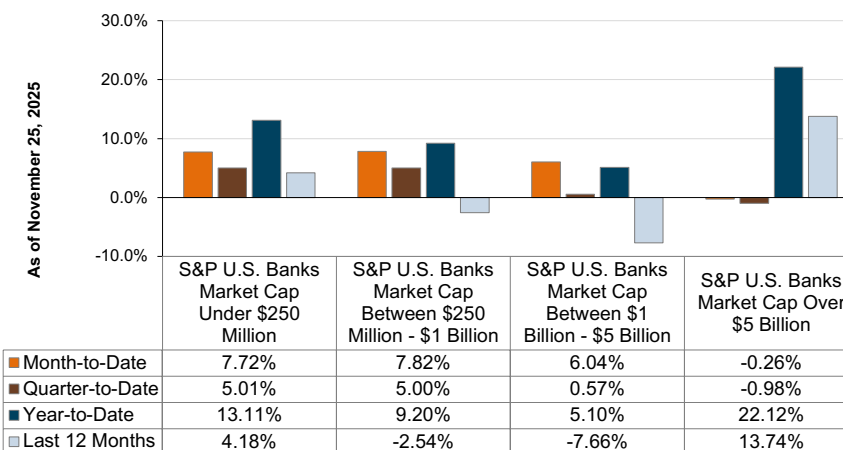
### Mercer Capital's Bank Group Index Overview



Source: S&P Capital IQ Pro.

### Return Stratification of U.S. Banks

by Market Cap



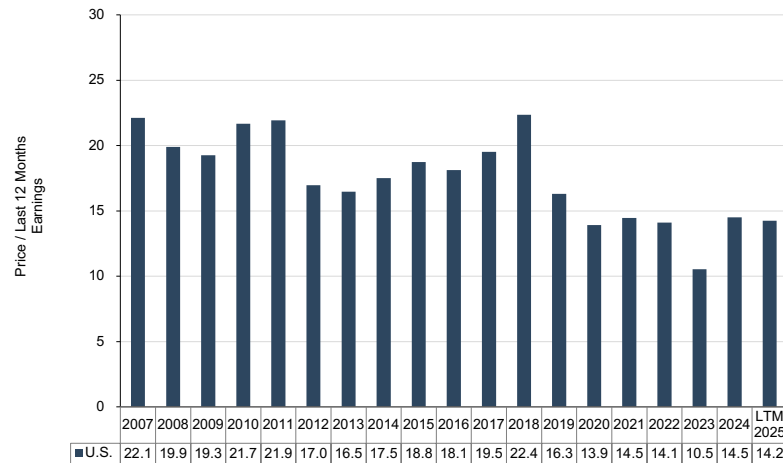
Source: S&P Capital IQ Pro.

	Total Return				Regional Index Data as of November 25, 2025					
	Month-to-Date	Month-to-Date	Year-to-Date	Last 12 Months	Price/LTM EPS	Price / 2025 (E) EPS	Price / 2026 (E) EPS	Price / Book Value	Price / Tangible Book Value	Dividend Yield
Atlantic Coast Index	4.3%	0.4%	6.1%	-1.9%	11.0x	11.1x	9.9x	104%	113%	2.5%
Midwest Index	7.8%	5.7%	15.2%	10.9%	12.5x	10.0x	9.5x	103%	121%	2.5%
Northeast Index	8.4%	4.9%	13.7%	5.7%	11.4x	9.8x	8.5x	109%	123%	3.1%
Southeast Index	5.2%	3.9%	16.6%	6.3%	12.2x	11.5x	8.1x	95%	109%	2.2%
West Index	1.9%	-2.3%	-0.4%	-1.1%	14.1x	13.4x	10.9x	105%	111%	3.3%
Community Bank Index	6.0%	3.3%	10.4%	4.5%	11.5x	10.4x	9.3x	105%	114%	2.8%
S&P U.S. BMI Banks	0.4%	-0.7%	20.1%	11.1%	na	na	na	na	na	na

Source: S&P Capital IQ Pro.

### Median Price/Earnings Multiples

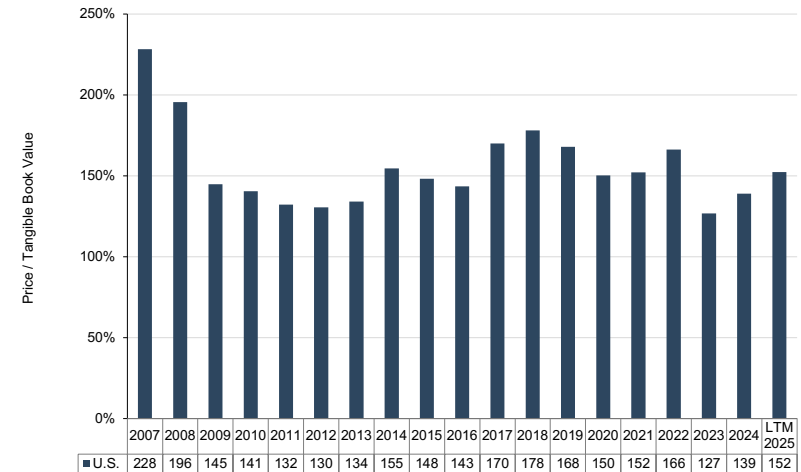
Target Banks' Assets <\$5B and LTM ROE >5%



Source: S&P Capital IQ Pro.

### Median Price/Tangible Book Value Multiples

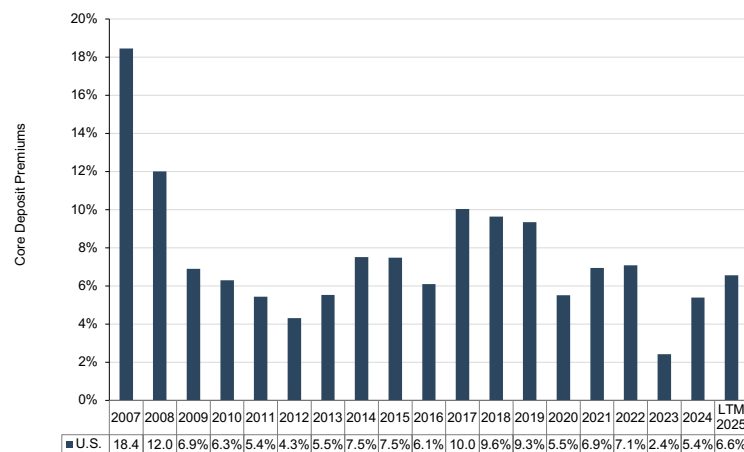
Target Banks' Assets <\$5B and LTM ROE >5%



Source: S&P Capital IQ Pro.

### Median Core Deposit Premiums

Target Banks' Assets <\$5B and LTM ROE >5%



Source: S&P Capital IQ Pro.

### Median Valuation Multiples for M&A Deals

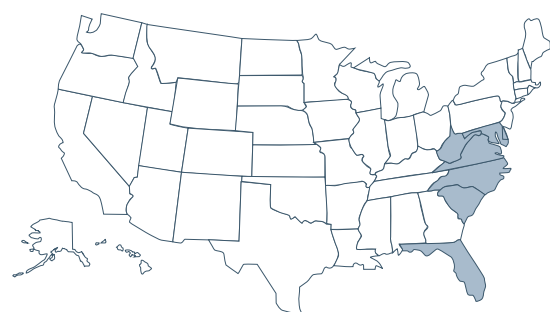
Target Banks' Assets <\$5B and LTM ROE >5%, 12 months ended November 25, 2025

Regions	Price / LTM Earnings	Price/ Tang. BV	Price / Core Dep Premium	No. of Deals	Median Deal Value (\$M)	Target's Median Assets (\$000)	Target's Median LTM ROAE
Atlantic Coast	17.4x	173%	8.5%	8	150.6	828,948	8.7%
Midwest	13.8x	142%	6.1%	18	146.6	1,563,992	10.5%
Northeast	15.5x	133%	2.5%	5	98.8	877,064	10.3%
Southeast	12.3x	146%	7.6%	6	155.9	890,789	12.8%
West	15.3x	153%	7.0%	5	70.0	1,169,226	11.1%
National Community Banks	14.2x	152%	6.6%	42	122.7	1,190,440	10.2%

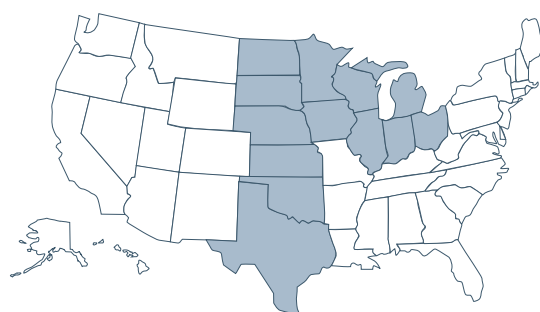
Source: S&P Capital IQ Pro.

# Mercer Capital's Regional Public Bank Peer Reports

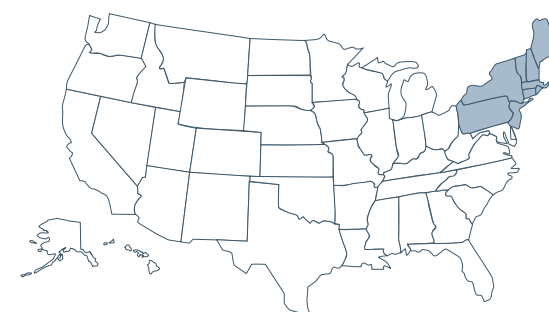
Updated monthly, Mercer Capital's Regional Public Bank Peer Reports offer a closer look at the market pricing and performance of publicly traded banks in the states of five U.S. regions. Click on the map to view the reports from the representative region.



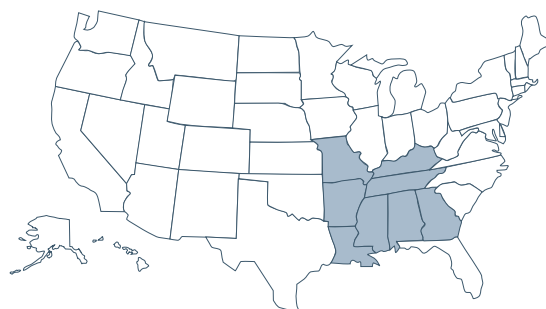
**Atlantic Coast**



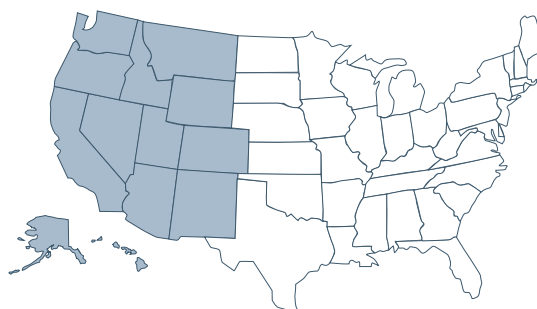
**Midwest**



**Northeast**



**Southeast**



**West**



**OTCQX**

*with assets greater than \$1.5 billion*



**MERCER CAPITAL**

# Depository Institutions Services

Mercer Capital assists banks, thrifts, and credit unions with significant corporate valuation requirements, transaction advisory services, and other strategic decisions.

Mercer Capital pairs analytical rigor with industry knowledge to deliver unique insight into issues facing banks. These insights underpin the valuation analyses that are at the heart of Mercer Capital's services to depository institutions.

- |                                 |                            |                        |
|---------------------------------|----------------------------|------------------------|
| » Bank valuation                | » Litigation support       | » Tax compliance       |
| » Financial reporting for banks | » Stress Testing           | » Transaction advisory |
| » Goodwill impairment           | » Loan portfolio valuation | » Strategic planning   |

## Depository Institutions Team



**Jeff K. Davis, CFA**  
615.345.0350  
jeffdavis@mercercapital.com



**Andrew K. Gibbs, CFA, CPA/ABV**  
901.322.9726  
gibbsa@mercercapital.com



**Jay D. Wilson, Jr., CFA, ASA, CBA**  
469.778.5860  
wilsonj@mercercapital.com



**Eden G. Stanton, CFA, ASA**  
901.270.7250  
stantone@mercercapital.com



**Mary Grace Arehart, CFA**  
901.322.9720  
arehartm@mercercapital.com



**Heath A. Hamby, CFA**  
615.457.8723  
hambyh@mercercapital.com



**Luke Tanner**  
469.904.6719  
tannerl@mercercapital.com

[www.mercercapital.com](http://www.mercercapital.com)





**Mercer Capital**

[www.mercercapital.com](http://www.mercercapital.com)

