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Bank Watch

ARTICLE

Views from The Road: Paths to Enhance Your Institution's Growth and Strategic Plan

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Views from The Road: Paths to Enhance Your Institution's Growth and Strategic Plan

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Mercer Capital was proud to sponsor *Bank Director's 2026 Acquire or Be Acquired* ("AOBA") conference again this year. I enjoyed the warmer weather in Phoenix in February, connecting with leaders in the industry, and the informative content. This year's gathering acknowledged that the decisions facing bank CEOs and boards are broader, and potentially more consequential, than simply buying or selling. Recurring themes included a brighter M&A outlook, capital allocation discipline, FinTech's operational imperative, and that enhancing performance and shareholder returns organically can be a viable alternative to consolidation. The prevailing mood was one of cautious optimism: banking still faces challenges, but opportunities abound for institutions that align strategy with execution.

This article distills a few key takeaways from the conference and places them in context for banking leaders evaluating growth and strategic direction in 2026.

1. Tailwinds and Optimism for Bank M&A in 2026

The 2026 AOBA Conference featured record attendance (over 2,000 attendees) which illustrated the generally optimistic mood of the conference. Assuming the economic environment is strong in 2026, earnings and capital growth were expected to position banks for organic or inorganic (i.e., M&A) growth. Reasons cited for optimism towards bank M&A in 2026 included:

- » Pent-Up M&A Demand
- » Faster timelines to closing amidst a lighter regulatory environment

- » Buyer Needs - Elements for buyers that could drive M&A include improved valuations (relative to year-end 2023) to facilitate using their stock as acquisition currencies in deals, improved fundamentals (NIMs/profitability, fair value marks on acquired assets, and capital positions), a continued focus on improving efficiency and returns by achieving greater scale, the need to diversify and/or enhance loan/deposit mix, and expanding geographically.
- » Seller Needs - Drivers include: aging management/ownership/board combined with succession issues; a need for liquidity for shareholders; a need for additional scale to enhance efficiency, technology stack, and/or profitability; and relatively low tax rates (present vs. historical).

2. A Broadened Understanding of Growth

One recurring message was that growth is not a binary choice between acquisition or independence. While M&A remains relevant, particularly for institutions seeking scale, geographic diversification, or cost synergies, sessions repeatedly emphasized the value of multiple paths to growth.

Presenters encouraged boards and executives to evaluate growth through a holistic framework that considers:

- » Growth through deeper relationships with existing clients or acquiring new customers (both organically or through acquisition)

- » Niche specialization in either underserved verticals or those that fit your bank's customer base/markets
- » Operational improvements and efficiency gains
- » Strategic partnerships, including external opportunities such as M&A or FinTech partnerships

This expanded view aligns with broader industry observations that consolidation alone cannot address the full spectrum of competitive challenges facing banks. Instead, successful growth strategies will likely blend organic initiatives, disciplined capital deployment, and technology-enabled enhancements, tailored to each institution's competitive strengths and market dynamics.

Consistent with this expanded view was the recognition of the importance for leadership teams to set clear strategic priorities. Growth initiatives, whether M&A or otherwise, should be grounded in sustainable economics and a deep understanding of customer and market dynamics.

3. Don't Be Like the Cat Following the Red Light: Stay the Course

One panelist at the conference gave some great advice to bank leaders during a discussion on the importance of strong boards: "Don't be like the cat following the red light: Stay the course". This comment resonated with me for two reasons: 1) We added a cat to our household this past year after some intense lobbying from my daughter, and we often get amused at his excitement and level of distraction while chasing different things (including a red light); and 2) I think it is great advice in the current environment. At AOBA 2026, a number of strategic growth options or red lights were presented across a range of sessions over the course of the three-day event, illustrating that multiple paths exist and it can be easy to get distracted. Maintaining focus, being practical, and staying the course going forward are paramount in this environment though, and leaders should focus execution and efforts on those growth opportunities that fit their institution and strategic plan best.

4. Capital Allocation: The Strategic Core

One of the most referenced themes at AOBA 2026 was capital allocation. Unlike discussions that focus narrowly on managing capital ratios, this year's content treated capital allocation as a central leadership discipline, one that requires the same rigor as underwriting, strategy development and risk management.

Improved performance and outlook for many banks in the current environment presents more capital allocation options and more complex decisions, where competing needs include:

- » Investments in technology and digital infrastructure
- » Balance sheet growth through lending and deposit initiatives
- » Balancing dividend policy, shareholder liquidity and repurchases, and shareholder returns
- » M&A transactions
- » Reserves for economic volatility

Frameworks presented at the conference urged leaders to assess capital decisions through risk-adjusted return expectations, strategic alignment, and implications for franchise value over time. Rather than reacting to short-term market signals, high-performing institutions are adopting multi-scenario evaluations to ensure capital commitments are robust across economic cycles and maximizing earnings per share over time.

Valuation discussions reinforced this point. Instead of fixating solely on deal multiples, speakers emphasized the importance of understanding the underlying drivers of valuation, including earnings quality and consistency, growth profile and risk profile, and capital strength. Valuation provides a strategic lens and should be understood as a strategic tool, not just a transaction metric. This perspective is critical whether a bank is contemplating M&A or optimizing its financial strategy.

5. FinTech: Execution Over Buzz

FinTech was a prominent theme, but with a markedly operational and outcome-oriented focus. The narrative has shifted from digital transformation as an abstract obligation to technology as a practical engine for operational efficiency, customer insight and risk management.

Artificial Intelligence attracted attention across multiple sessions, but the discussion was grounded in real-world applications (such as automating back-office or compliance tasks or enhancing risk monitoring) rather than hype.

The topic of stablecoins and FinTech partnerships also popped up as presenters discussed the potential risks and opportunities. FinTech partnerships were frequently cited as a way to access modern capabilities without the time, expense, and staff needed to build them internally.

Importantly, multiple presenters stressed that technology adoption must be paired with governance and risk controls. As institutions explore AI, FinTech partnerships, stablecoins, and advanced analytics, banks should also develop policies to manage risk, ensure data integrity/governance and align with regulatory expectations.

6. Scenario Planning in an Uncertain Macroeconomic Context

Economic uncertainty was also a persistent undercurrent throughout AOBA 2026. Although recent banking performance indicators have been resilient, the conference highlighted the importance of scenario planning and stress testing as essential tools for leadership teams.

Rather than attempting to predict a single outcome for interest rates, credit conditions or economic growth, presenters urged institutions to build capacity around multiple plausible futures. This means evaluating how capital plans, earnings forecasts and balance sheet strategies perform under varying assumptions.

This multi-scenario mindset supports more informed decision making and bolsters strategic flexibility, particularly when institutions must choose between competing capital allocation priorities like technology investment, dividend policy or potential transactions.

7. Improved Performance as a Strategic Alternative

One last theme from the 2026 conference was the recognition that improving performance organically, not just via consolidation, can be a credible path forward for many banks. This broadened view challenges the notion that independence is synonymous with strategic vulnerability. Instead, improved performance when grounded in clear differentiation and disciplined execution can deliver meaningful value and resilience. This perspective resonates with broader industry insight: banks that couple strategic clarity with strong execution can thrive without necessarily succumbing to consolidation pressures.

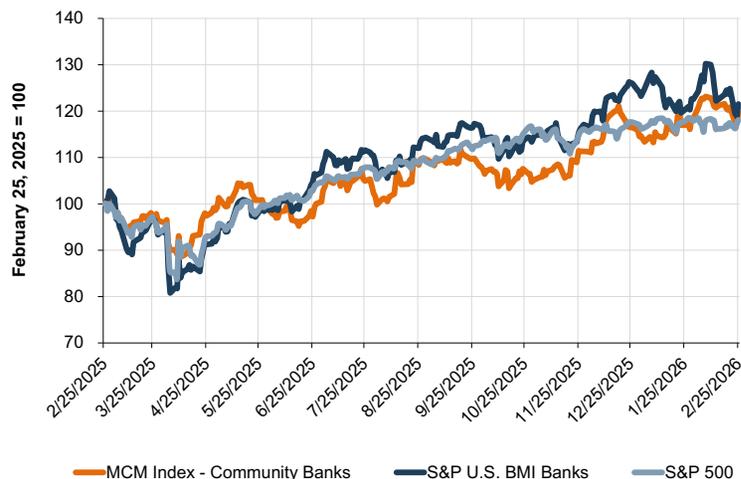
Conclusion: Strategic Discipline in a Dynamic Era

Banking leaders are navigating an environment marked by technological change, competitive pressure, and an evolving economic landscape. Rather than yielding to short-term impulses though, the prevailing message was one of strategic discipline, thoughtful prioritization and execution focus.

Growth today requires more than just considering M&A prospects; it demands capital allocation rigor, strong leadership, technology-enabled execution and scenario-based planning. Institutions that integrate these elements into their strategic frameworks will be better positioned to create long-term franchise value, whether through acquisition, or disciplined independence.

We look forward to discussing these issues further with clients in 2026 and monitoring how they evolve within the banking industry over the next year. We are also available to discuss these trends as they relate to your financial institution and can assist with a variety of services for your financial institution, including valuations, stress testing, strategic planning, and transaction advisory.

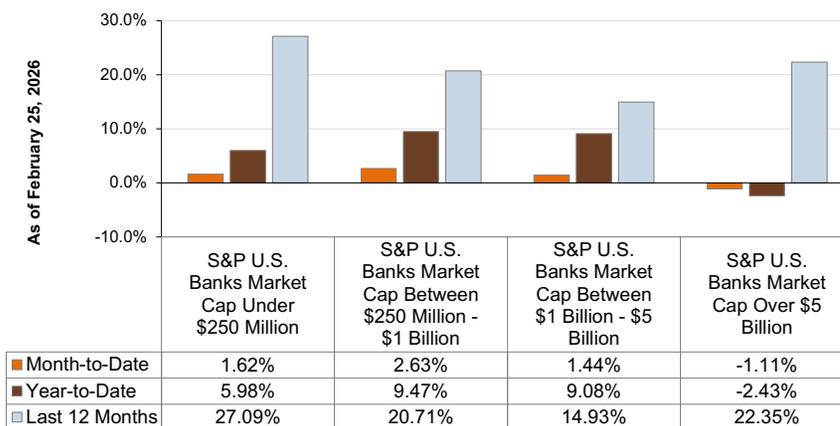
Mercer Capital's Bank Group Index Overview



Source: S&P Capital IQ Pro.

Return Stratification of U.S. Banks

by Market Cap



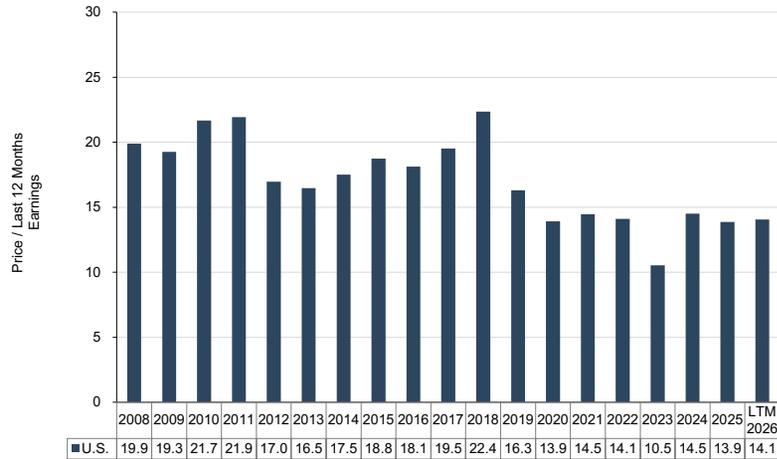
Source: S&P Capital IQ Pro.

	Total Return			Regional Index Data as of February 25, 2026					
	Month-to-Date	Year-to-Date	Last 12 Months	Price/LTM EPS	Price / 2026(E) EPS	Price / 2027(E) EPS	Price / Book Value	Price / Tangible Book Value	Dividend Yield
Atlantic Coast Index	1.3%	6.6%	15.7%	11.7x	11.0x	9.6x	114%	123%	2.5%
Midwest Index	1.4%	3.9%	29.3%	12.2x	10.2x	9.3x	108%	127%	2.5%
Northeast Index	1.0%	5.9%	22.7%	11.0x	9.2x	8.3x	118%	137%	3.0%
Southeast Index	1.2%	3.6%	29.2%	13.6x	9.1x	8.4x	96%	112%	2.1%
West Index	1.1%	3.6%	9.5%	13.6x	11.4x	9.1x	108%	123%	2.8%
Community Bank Index	1.1%	4.4%	19.7%	12.1x	10.0x	9.1x	111%	124%	2.5%
S&P U.S. BMI Banks	-0.8%	-1.4%	21.6%	na	na	na	na	na	na

Source: S&P Capital IQ Pro.

Median Price/Earnings Multiples

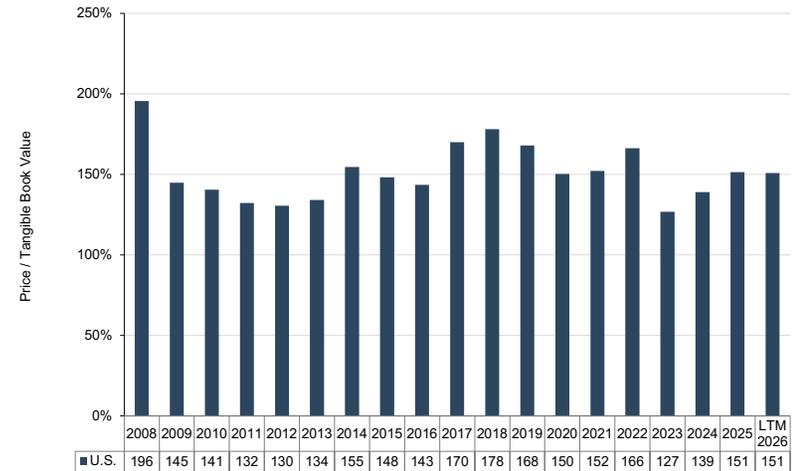
Target Banks' Assets <\$5B and LTM ROE >5%



Source: S&P Capital IQ Pro.

Median Price/Tangible Book Value Multiples

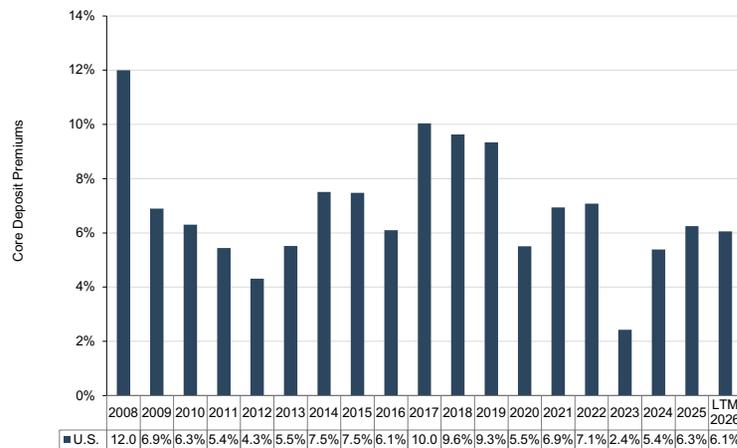
Target Banks' Assets <\$5B and LTM ROE >5%



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 February 26, 2026

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	17.8x	172%	10.4%	8	187.4	1,058,258	9.3%
Midwest	13.8x	145%	6.9%	19	123.0	1,533,551	11.0%
Northeast	14.0x	126%	2.4%	5	99.1	877,064	8.5%
Southeast	13.4x	137%	5.2%	8	128.6	1,026,497	11.3%
West	16.2x	144%	5.4%	3	176.6	1,235,620	8.5%
National Community Banks	14.1x	151%	6.1%	43	154.1	1,192,160	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.



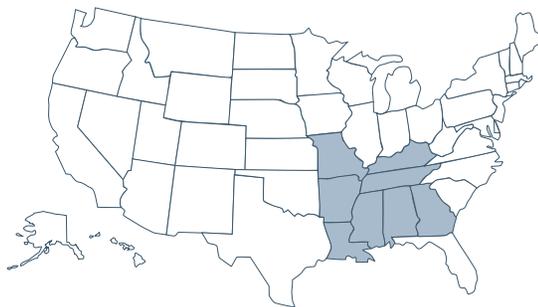
Atlantic Coast



Midwest



Northeast



Southeast



West



OTCQX

with assets greater than \$1.5 billion

MERCER CAPITAL

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