
GERRISH'S MUSINGS

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Dear Subscriber:

Greetings from Colorado, Florida, Illinois, Kentucky, Tennessee, North Dakota, South Dakota, California, and Pennsylvania!

CIVIL DISCOURSE

One of our clients recently received a demand from a group of shareholders that no bank holding company would welcome. This particular group of shareholders banded together to demand a special meeting of shareholders to discuss various issues related to shareholder value. There was no specific proposal to be considered at the special meeting. Instead, the shareholders indicated they wanted a forum for an opportunity to talk with the other shareholders about the level of dividends, stock liquidity, potential sale of the bank, and the like.

Since our community bank client had never had the opportunity to participate in a meeting like this, they asked us to join. Of course, we were happy to do so. Leading up to the meeting, we were not certain exactly what the tenor of the shareholders would be. We anticipated they would want to voice some level of dissatisfaction, but we did not know how high they would turn up the volume.

The meeting lasted about an hour and 20 minutes. In our view, it went just about as well as could have been hoped. There was no gnashing of the teeth, lodging of accusations, or comments

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we felt were out of bounds. Instead, about 40 to 50 shareholders gathered to civilly discuss corporate strategy and stock ownership considerations.

What is interesting about this set of circumstances is that this community bank is actually a high performer. The bank is making good money and has had a strong asset growth rate for a number of years. The problem is that most of the retained earnings have been utilized to support growth rather than pay dividends or facilitate stock liquidity. The shareholders wanted to talk about their desires as investors, which we thought was completely within bounds. Overall, we thought the meeting to be a great example of civil discourse in community banking.

AN IMPRESSIVE ANALYSIS

One of our clients recently sent us what we thought was a very interesting and eye-opening corporate analysis. One of the members of our client's Board of Directors fed a prompt into artificial intelligence (e.g., Microsoft Copilot) asking for an analysis and comparison of this particular bank's financial performance and competitive advantages when compared to similarly situated banks in their state. It probably took 30 seconds for the director to write the prompt and probably half that time for artificial intelligence to do its magic and provide the requested analysis.

Our client provided the requested analysis to us. Frankly, it was impressive. It was accurate and insightful while also being direct and efficient.

Our comment to our client (halfway joking, of course) was that this AI exercise may adversely impact our service of providing expertise in these areas to our clients. Actually, we don't feel too "threatened." If you have not done so, you might find it either fun or beneficial to try something like this for your bank.

ANNUAL MEETING RECORD DATE

Over the past couple of weeks, we have had a couple of different instances where we have assisted clients as it relates to the record date for their annual meeting. In each of these instances, the client asked us to review their proxy materials for the annual meeting in advance of their distribution to shareholders. In two instances, the record date for the annual meeting was listed as December 31, 2025. Upon inquiry, each generally indicated they thought that to be the appropriate record date because it was the last day of the year before the first day of the year in which the annual meeting was being held.

The record date for an annual meeting is not quite so simple as going back to the last day of the year preceding the year of the meeting. Instead, it is a matter of state law and the organization's governing documents. Simply put, each state has a specific rule about how far in advance of the annual meeting the record date can be set. For most states, that is 70 days. The corporate governing documents, usually the Bylaws, also typically have a parallel provision, which might be 70 days or something different.

It is best to avoid a "foot fault" and technical violation that would occur if the record date did not comply with the requirements. It could certainly be argued to be a harmless error, but an ounce of prevention is worth a pound of cure. If you have not done so, we recommend you ensure the record date for your annual meeting is within the appropriate timeframe in accordance with state law and your corporate governing documents.

NOTICE OF ANNUAL MEETING

The record date, once appropriately set, determines which shareholders are entitled to notice of and to vote at the annual meeting. Traditionally, community bank holding companies have printed all of the annual meeting documents, stuffed those in envelopes, and mailed them to the shareholders. One of the questions we are getting more frequently is whether notice of the annual meeting, and all of the related documents, can be provided via email. This, of course, saves much in terms of printing and mailing costs, as well as labor to stuff and prepare the envelopes for mailing.

Similar to the record date, whether notice of an annual meeting can be provided electronically is generally a matter of state law and the organization's governing documents. Most states have a provision that simply requires shareholders to be provided written notice of the date, time, and place of the annual meeting. The applicable statutes do not typically require the written notice be provided via U.S. Mail. With that in mind, our view is that email delivery is generally acceptable unless there is a state law or provision in the corporate governing documents that requires actual mailing. If you are looking to improve efficiency and reduce noninterest expense, you might give emailing your annual meeting documents consideration.

STANDSTILL PROVISIONS

Over the past couple of months, we have been assisting a community bank holding company client in completing a very significant share repurchase transaction. In this instance, our

client is repurchasing about 25% of the holding company's shares outstanding from a group of investors acting in concert. Given the size of the repurchase, we had what might be described as a lengthy Stock Repurchase Agreement. This is the contract that is entered into between the holding company and shareholders that provides for the terms and conditions related to the share repurchase transaction.

The Agreement contains a number of different representations, warranties, covenants, and the like. One of the items is referred to as a "standstill provision." If you are not familiar, a standstill provision is essentially an agreement by the sellers they will not acquire or otherwise control additional shares of the holding company common stock in the future. Some standstill provisions are for a limited amount of time, such as five years. Others may run forever.

The idea behind the provision is that the holding company is paying a significant amount of money to the shareholder to redeem the shareholder's stock, which reduces the shares outstanding, and they do not want the shareholder to go back and try to acquire additional shares in the future to obtain additional leverage or control. For significant share repurchase transactions, standstill provisions are pretty typical. Sometimes the circumstances make them more meaningful than others.

DIVERSIFIED NICHES

We recently facilitated a strategic planning session for a community bank that has several distinct lines of business. Some of these lines of business are interrelated. Others have no real relationship between them. As we were talking through these various business lines, one of the directors remarked that the bank really has a few diversified niches. That struck us as insightful, and we thought it a pretty good way to describe the bank's structure and strategy.

We have seen many community banks that have what are properly characterized as diversified niches. Some are interrelated. Some are not. Either way, the hope and expectation are that they all work in harmony and provide benefit to the various stakeholders.

During the same planning session, the discussion turned to a particular line of business that the Board believes may not be producing much in terms of profitability. In discussing whether that line of business should continue, another director remarked that farmers don't milk cows to get strong fingers. We enjoyed the "folksy" approach. In our view, that was well played.

PRELIMINARY SHAREHOLDER POLLING

One of our clients recently asked what we thought was a pretty insightful question. It was the ownership percentage at which a shareholder who is not aware of a potential strategic transaction is brought into the fold to judge their insight and enthusiasm for the deal. Put another way, at what percent ownership should a representative of the Board reach out to a shareholder who may not be in the know to confidentially talk with them about a strategic opportunity that may require shareholder approval?

In our view, there is no absolute answer. It is really a matter of facts and circumstances. There are multiple different considerations in play. One of those certainly relates to the ability to obtain a shareholder vote, should that be the circumstance. We also see reputational risks involved.

Whatever the circumstance, if your community bank holding company has a material shareholder that is not “in the know” (typically a non-director) about a potential transaction that requires shareholder approval, it may be best to bring them into the fold prior to doing so for all other shareholders. Of course, a strict confidentiality/nondisclosure agreement should be required of the shareholder. It might be that if the shareholder votes no against the transaction, it will not be approved. It might be that if you don’t, the shareholder would be offended to the point that a reputational risk has been created. If either of those or similar circumstances are present, it is probably best to go discuss the opportunity or issue with the shareholder(s) sooner rather than later.

PROM SEASON IS COMING

We recently had a discussion with a Board of Directors regarding prom season. (As an initial matter, we recognize the oddity of a reference to prom season in a Board discussion.) The comment came up in light of a discussion about the right time, if ever, to sell the bank. As most *Musings* readers know, we are staunchly in favor of independent community banks and hope our clients will continue to take appropriate action to remain independent. This Board, however, was wrestling with the conundrum of potentially looking to sell the bank at the height of corporate performance, versus the alternative of enjoying the benefits of the height of corporate performance while maintaining independence. In other words, if the bank is currently operating on all cylinders, is it best to enjoy that performance while maintaining independence or sell the bank and maximize transaction value?

During the discussion, it was remarked that you go to prom when you are all dressed up. Of course, the analogy is that it is best to market the bank, and it will bring the best value, when it

is operating at peak performance. We generally agree with this notion. If you are thinking about selling your bank, the time to do so is when operating most efficiently and profitably. In other words, when you look your best.

On the other hand, we strongly recognize the corporate and personal enjoyment of operating an independent and highly performing community bank. If the bank is clicking on all cylinders and things are going great, why sell the bank? If independence is working well for all involved, why ruin a good thing?

This is a real conundrum that many boards have faced. It really is a question of independence and is a fundamental aspect of strategic planning.

CONCLUSION

We look forward to seeing many of you at ICBA LIVE in San Diego next week. For those of you that are heading west, safe travels. See you soon.

Jeff Gerrish

Philip Smith

Greyson Tuck

Upcoming Webinars and In-Person Presentations:

- March 3, 2026 – South Carolina and North Carolina Bankers Association Bank Directors and Executives Summit 2026, Charlotte, North Carolina. (Greyson Tuck, presenting) Registration: [Carolinans Bank Directors and Executives Summit 2026](#)
- March 6-9, 2026 – Independent Community Bankers of America LIVE 2026 Annual Convention at the San Diego Convention Center, San Diego, California. (Jeff Gerrish, Philip Smith, Greyson Tuck and Doc Bodine, presenting) Registration: [ICBA LIVE 2026](#)
- April 1, 2026 – Independent Community Bankers of America, ICBA Credit Analyst Institute, Livestream. (Doc Bodine presenting) Registration: [ICBA Credit Analyst Institute](#)
- April 7, 2026 – Community Bankers Association of Illinois, Enhancing Stakeholder Value Conference, Springfield, Illinois. (Philip Smith and Greyson Tuck presenting) Registration: [CBA of Illinois Directors Seminar Enhancing Stakeholder Value](#)

- April 14-16, 2026 – Virginia Association of Community Banks, Bank Directors’ Symposia, M&A Strategies in the Current Environment, Columbia, Maryland and Richmond and Blacksburg, Virginia. (Greyson Tuck presenting) Registration: [Bank Directors' Symposium - Virginia Bankers Association](#)
- April 23, 2026 – The Paul W. Barret School of Banking, Barret Executive Leadership Academy, Memphis, Tennessee. (Doc Bodine presenting) Registration: [Barret Executive Leadership Academy](#)

Acquisition Pricing: All Bank Transactions

	All Deals in the U.S. Over the Past 12 Months Where the Target Has:		
	Less than \$250 Million in Total Assets	Between \$250 Million and \$1 Billion in Total Assets	Between \$1 Billion and \$5 Billion in Total Assets
Number of Deals	77	38	39
Average Price/Book (%)	136.11	128.74	139.41
Average Price/Tangible Book (%)	137.94	136.01	152.57
Median Price/Earnings (x)	28.06	15.18	15.34
Average Price/Assets (%)	21.42	12.92	12.91
Average Price/Deposits (%)	27.82	19.20	15.49
Median Premium/Core Deposits (%)	6.44	5.69	5.78

* Through February 25, 2026

** Source: S&P Global Market Intelligence