GERRISH'S MUSINGS

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Dear Subscriber:

Greetings from Arkansas, California, Iowa, Kansas, Kentucky, Ohio, Tennessee, Texas, and Vermont!

CONCERNING TREND

Things have been pretty good in the community banking industry for a pretty good amount of time. In fact, things have been so good for so long that we have recounted in several prior *Musings* that many experienced community bankers have expressed some level of skepticism about how long the good times will continue. Based on our last couple of weeks, we wonder if we might be on the leading edge of a change.

Over the last couple weeks, we have had several discussions with clients that have had what could be properly characterized as "less than ideal" examinations. We do not know that these quite rise to the level of bad examinations, but we expect the officers and directors involved would call them "less than ideal" experiences.

The circumstances generally relate to credit/asset quality. What is a little bit different than in the past is that these credit concerns are not one-offs. They are a little bit more widespread throughout the bank. These are examinations where a number of the bank's credits are being scrutinized and criticized from an asset quality perspective. Frankly, that has not happened in some time. Some of these examinations have even risen to the level of informal enforcement actions.

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We are not declaring the downfall of the industry. Instead, we are simply reporting that over the last three or four weeks we have had a noticeable increase in the number of client discussions that have involved less than ideal examinations. We hope these are isolated incidents and not the leading edge of an industry-wide downturn. We will keep you updated on what we hear.

REGULATORY CHANGES

Speaking of the examiners, most community bankers know that over the last couple years there have been a slew of regulatory changes. These changes are generally described as regulatory relief coming out of Washington. Most of these are not a complete rewrite of the rules or a total removal of previously existing regulations. Instead, the general MO seems to be to generally maintain the tenet of existing regulation, with more significant changes to the banks to which the regulations are applicable. In other words, regulatory relief is generally happening by increasing the asset thresholds to which certain regulations apply.

Generally speaking, the "old rules" made crossing the $500 million and $1 billion total asset thresholds meaningful. Those thresholds are now generally higher, up to $5 billion. Banks now have more runway to get larger without picking up the compliance obligations for certain regulations.

We have a Memo to Clients and Friends that we have updated to account for these regulatory changes. Please let us know if you would like a copy. We are happy to provide it.

GRADUAL DISEMPOWERMENT

In the not-too-distant past, we dedicated a portion of *Musings* to the risks posed by disintermediation. As a quick reminder, that risk is essentially the removal of the traditional banking system, including community banks, from the process of moving money as financial consideration for transactions. In some of our recent reading, we came across a somewhat similar concept related to emerging technologies that we thought appropriate to pass along: gradual disempowerment.

What is gradual disempowerment? It is essentially an artificial intelligence safety concept that describes the permanent, irreversible loss of human control over key societal systems through incremental AI development.[1]

[1] Source: rxiv.org

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In trying to put this into plain language, it is really the concept of a gradual decline of the importance of human control through the piecemeal transfer of labor, decision-making, and cognition to more efficient machine alternatives.

Gradual disempowerment is essentially the risk that AI will chip away at the importance and relevance of humans, because computers will be able to work more efficiently. This is along the lines of the type of doomsday scenario that some preach that say humanity is doomed in the next decade, so there is no point in worrying about living much beyond that. We are not declaring that to be the case. We do think this is a concept that will continue to be talked about as businesses evolve and utilize artificial intelligence.

SPEAKING OF ARTIFICIAL INTELLIGENCE

Speaking of artificial intelligence, we were recently asked by a client what it is that we see most community banks doing as it relates to artificial intelligence. Our answer was essentially dabbling in it and trying to figure it out. We do not see many community banks that we would properly classify as heavily utilizing artificial intelligence at this point. It is also rare for us to see a community bank that says they are doing nothing in terms of trying to figure out the technology.

Our overall view is that many banks in the industry recognize the importance and opportunity of artificial intelligence. It is certainly an elephant that is not going to be consumed in one bite. So, most community banks are beginning the process of trying to figure it out.

Whatever AI program they choose, many banks seem to be looking for ways to use it to become more efficient and ensure continued relevance. For those that are doing so, we applaud your efforts. We certainly do not think an ostrich approach of sticking your head in the sand is the right corporate strategy going forward.

SHAREHOLDER PROPOSALS

Over the past couple of weeks, we have had some extensive discussions with a client regarding shareholder proposals. Fortunately for this client, we are not in the middle of a proxy battle. Instead, they are working on revisions to their Bylaws, and we are talking through the appropriate process for shareholders to place proposals on the ballot at the annual meeting. In our view, it is better to be thinking through these issues now rather than when a shareholder proposal is presented, particularly if it is one that is adverse to the Board and management.

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Like many other Bylaws, this corporation's Bylaws will have a specific provision that addresses shareholder proposals. This is the process that a shareholder must follow in order to get an initiative before shareholders for their consideration at an annual meeting.

These types of Bylaw provisions are typically very detailed in what a shareholder must do in order to get an initiative properly on the ballot. This includes certain timing requirements and shareholder disclosure requirements. These requirements are in place for two reasons. First, they clearly establish the process that a shareholder must follow, and the information that must be provided, so that shareholder-led proposals that may make their way before the other shareholders are fully understood. Second, and just as importantly, they act as somewhat of a roadblock against shareholders by providing that an initiative is not properly presented if it is not made in strict compliance with the Bylaw requirements.

Shareholder proposals are not common for most community bank holding companies. But, when they happen, they can potentially be a meaningful event. With that in mind, we think there is benefit to thinking through the process and requirements before there is an actual proposal made by a shareholder that may not be supported by the Board or management.

BE CAREFUL WHAT YOU ASK FOR

We recently had a client discussion that brought us back to the old adage of being careful what you ask for. This discussion was in the context of employee compensation. Specifically, it was a discussion on whether executive compensation should be in the form of cash, equity, or synthetic equity.

During the discussion, one of the participants mentioned that the executives ought to be asked their preference. We certainly appreciate the benevolent intentions behind the comment. We indicated that we generally agreed, provided the Board was actually open to any of the three consideration alternatives. In other words, our view is that if any of those types of compensation are off-limits in the Board's view, you should not ask management whether that is what they want. We do not think it is an ideal situation for management to indicate that they would like a certain type of compensation if asked, only for that not to be a realistic possibility.

If you are thinking about asking management about what type of compensation may be relevant to them, we recommend at the Board level you first discuss whether anything is off-limits. If it is, we think it is probably best not to discuss that with management, because they might say that is what they want even though you are not willing to actually provide it.

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CASH BONUS CONSIDERATIONS

Speaking of bonus compensation, one of the issues that typically comes into focus this time of year is annual cash bonuses. Our experience is that there is a pretty significant disparity in the process by which cash bonuses are determined.

Some community banks use a highly objective formula based strictly on mathematical calculations. These types of bonus programs typically set certain performance targets or ranges and then calculate the bonus to be paid based on the bank's performance in relation to the identified targets. The other alternative is a purely subjective determination, where the Board determines the right level of bonus payment to executives, which is typically based on prior year payments, corporate history, and annual performance.

In our view, there is no "right way" to determine annual bonuses. Instead, we think the Board is best served to make a determination on what works best for your individual bank, given its specific circumstances. We tend to appreciate a bonus calculation that is a mixture of subjective and objective factors.

CONCLUSION

Halloween is upon us. We hope you see more princes than ghosts and goblins Saturday night. We also hope you have as much fun as the kids, but do not eat quite as much candy.

See you in two weeks.

Jeff Gerrish *Philip Smith* *Greyson Tuck*

Upcoming Webinars and In-Person Presentations:

- November 12-13, 2026 - AcctoFi/Educational Foundation Affiliate of Texas Society of CPAs, CPE Expo 2026 – DFW in Frisco, Texas. "Community Banking Today: Top Issues Shaping the Industry" (Nov. 12) (Philip Smith, Presenter) Registration: CPE Expo 2026

- November 18, 2026 – Independent Community Bankers of America – Modern Financial Services Simplified (Greyson E. Tuck, Presenter) Registration: Modern Financial Services Simplified

- December 7, 2026 – Community Bankers Association of Illinois, Annual Community Bank Directors' Conference. "The Modern Community Bank Board: What Governance Really Means"(Philip Smith, Presenter) Registration: CBAI Annual Conference

- December 7, 2026 – Community Bankers Association of Illinois, Annual Community Bank Directors' Conference. "Planning for Your Bank's Future (and Survival)!" (Cliston V. "Doc" Bodine, III, Presenter) Registration: CBAI Annual Conference

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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	64	50	31
Average Price/Book (%)	195.66	139.65	143.86
Average Price/Tangible Book (%)	199.69	142.92	150.70
Median Price/Earnings (x)	31.62	17.95	16.60
Average Price/Assets (%)	26.92	14.63	14.13
Average Price/Deposits (%)	23.18	14.70	14.33
Median Premium/Core Deposits (%)	16.28	5.83	6.51

* Through October 28, 2026
** Source: S&P Global Market Intelligence

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