

**WILARY WINN**

# **Wilary Winn University 2026: Mergers of Equals**

## THIS SESSION'S SPEAKER



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**WILARY WINN**

## Wilary Winn Services

- Our primary services include fairness valuations and opinions of credit union mergers, bank acquisitions, mutual-to-mutual bank mergers, credit union purchases of banks, and branch acquisitions
- We offer two valuations – a preliminary and a final valuation of the institution acquired
- Additional services include:
  - Qualitative goodwill impairment testing
  - Quantitative goodwill impairment testing

## Resources

[Accounting for Credit Union Mergers](#)

[Accounting for Bank Acquisitions](#)

[Credit Union Merger Results Through 2025](#)

[Bank Merger and Acquisition Activity Through 2025](#)

[Resources | Wilary Winn](#)

## Objectives

Participants will learn:

- Key trends in the merger marketplace
- Why financial institution engage in mergers and acquisitions, and primary considerations of the transaction
- Basics of business combination accounting and the impact to the combined institution
- How the acquiring institution is determined in a merger of equals using both qualitative and quantitative factors

*Polling questions will be included throughout the session*

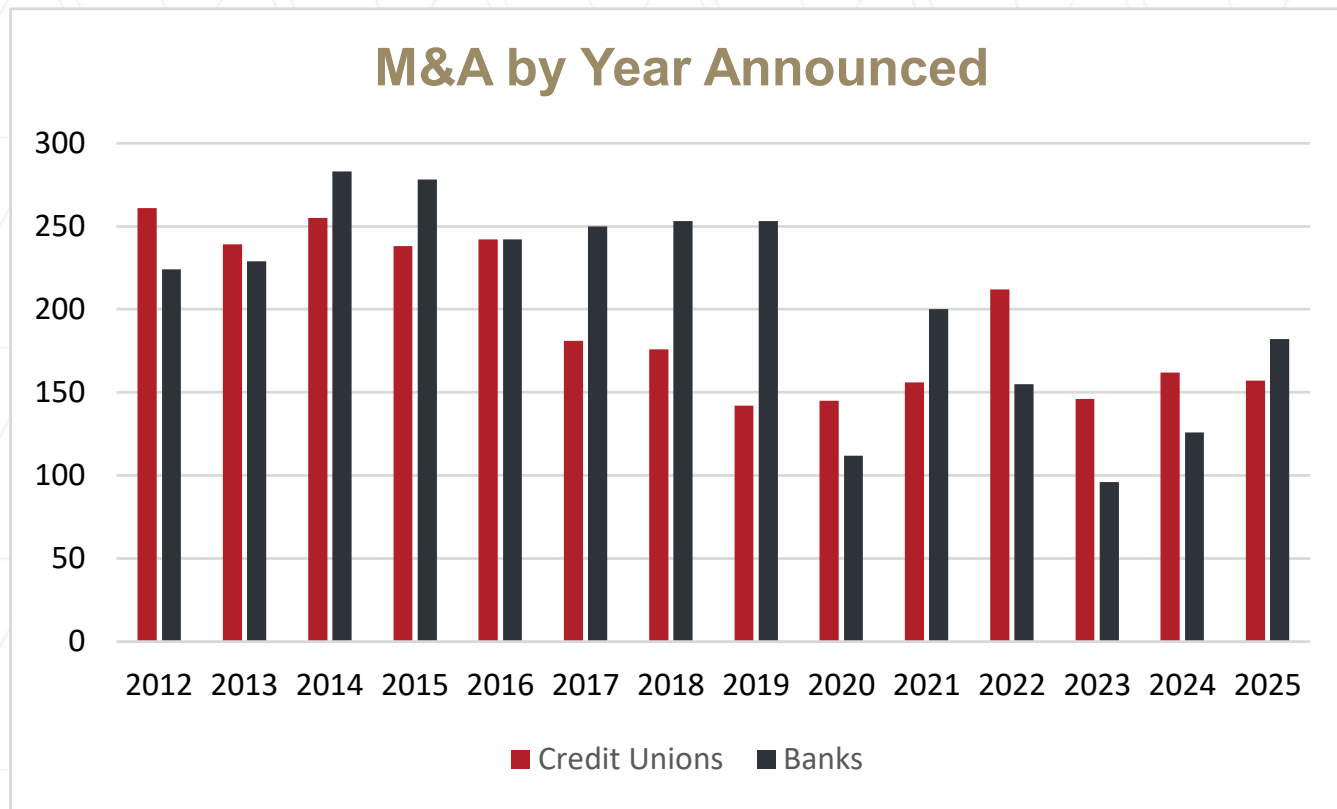
## Agenda

Gain a thorough understanding and be better equipped to navigate complexities of a merger

- Mergers and Acquisitions Marketplace
- Merger Considerations
  - Qualitative
  - Quantitative
- Implications of Business Combination Accounting
- How to Determine the Acquirer in a Merger of Equals

## Mergers and Acquisitions Marketplace

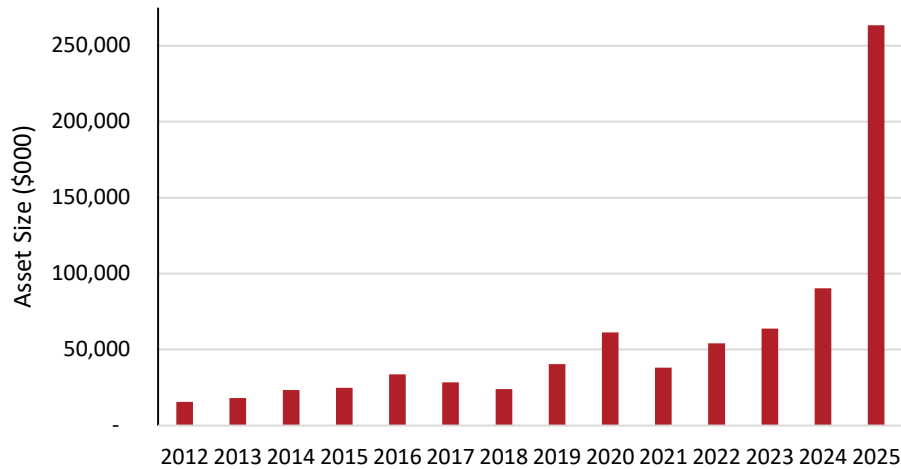
Deal activity has picked up in 2025



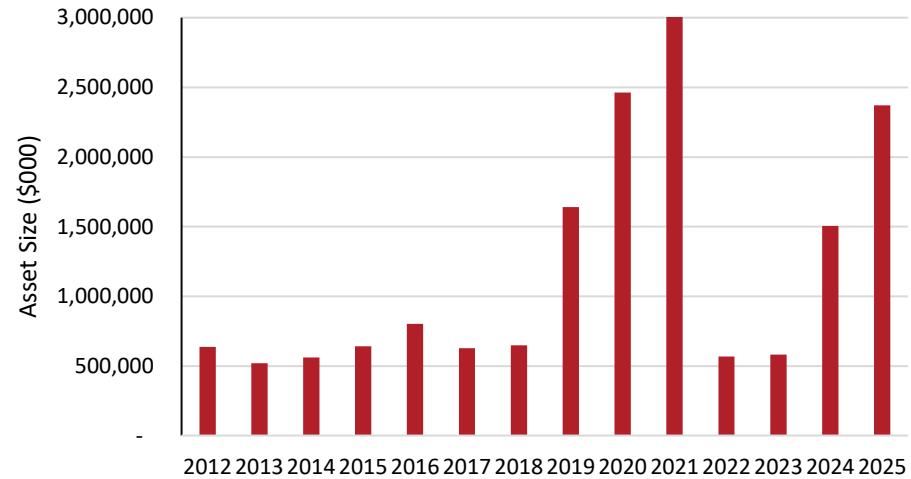
## Mergers and Acquisitions Marketplace

Size of transactions reflect shift toward strategic mergers aimed at achieving scale

### Asset Size of Acquired Credit Union



### Asset Size of Acquired Bank



# Mergers of Equals

## Why would a financial institution consider a merger or acquisition?

### Reasons to Acquire

- Scale
- Efficiency
- Technology
- Expand into new markets
- Additional products/services
- Talent

### Reasons to Sell

- Retiring executives
- Weak earnings
- High costs
- Limited technology
- Lack of talent
- Heavy insider ownership (banks)

## Considerations of M&A

Successful mergers give weight to nonfinancial factors

- **Customer** – benefits to both institution existing customers
- **Culture** – goals, strategies, business model, customer service
- **Employee** – retention of key staff
- **Technology** – core system costs, mobile banking, cyber security, AI
- **Governance** – executive positions, Board members
- **Financial** – economies of scale, break-even analysis, complementary balance sheets, accretive/dilution to earnings, capital, cost/benefit of customer acquisition
- **Accounting** – Business combination accounting

## Considerations of M&A

Considerations are magnified for a merger of equals

- **Customer** – integration of two large financial institutions can increase benefits, but also magnify disruption
- **Culture** – critically important, and often the deciding factor since cultures are blended
- **Employee** – gain top talent from both institutions
- **Technology** – significant cost savings, but significant integration
- **Governance** – challenging to integrate executives into new positions
- **Financial** – focus on relative contribution, shared cost synergies, and proforma capital strength, less emphasis on control premium
- **Accounting** – preliminary valuations necessary to assess impact to continuing organization

## Topic 805, Business Combinations (ASC 805)

### History of Topic 805

- Prior to 2009, financial institutions accounted for mergers using pooling of interest method
- Beginning in 2009, FASB required financial institution mergers and acquisitions to be recorded at fair value
- Our preliminary valuation:
  - Is designed to help our clients better understand the accounting, combined balance sheet risk, and regulatory capital implications from a contemplated merger
  - Used to support the application seeking regulatory approval
- Our final valuation is performed as of the legal closing date, is used to record the day one journal entries, and provides the basis for the ongoing accounting

## Topic 805, Business Combinations (ASC 805)

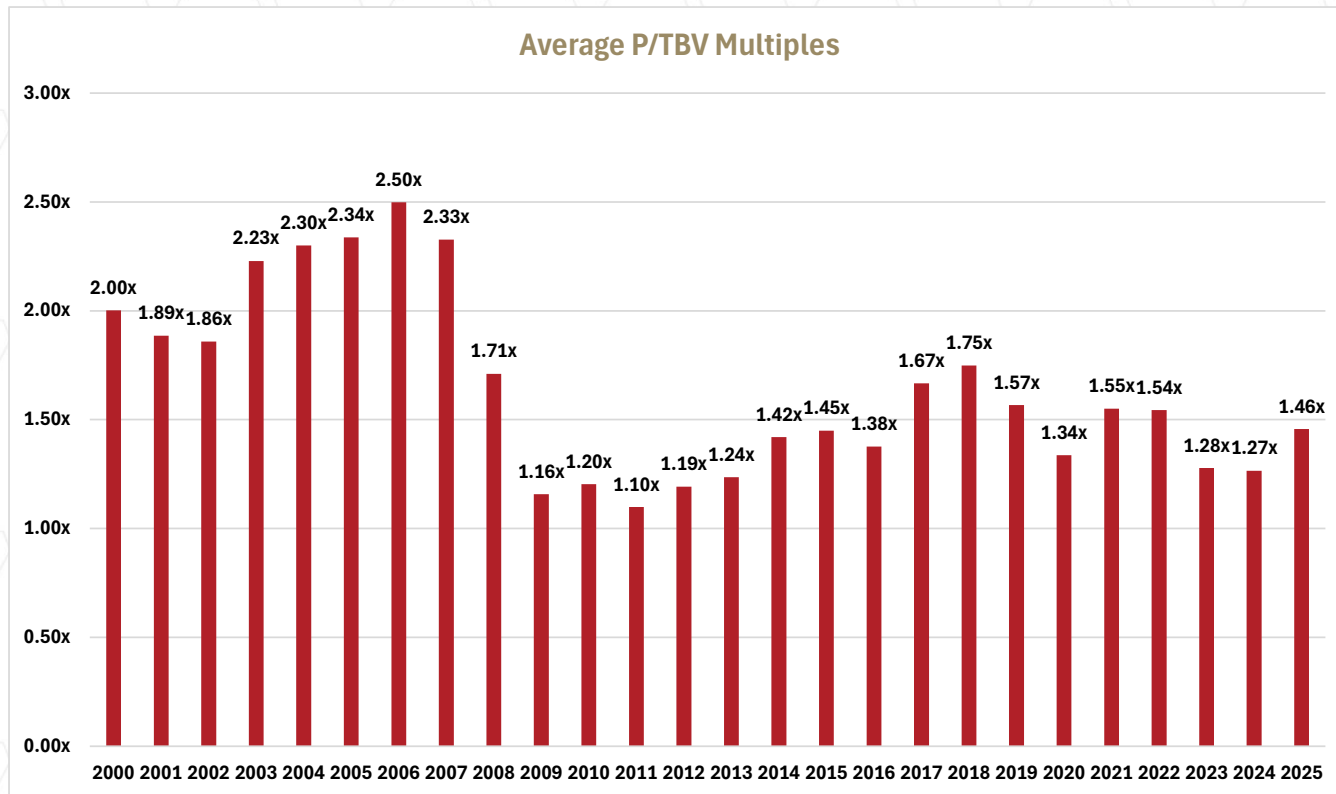
### Valuation Steps

- Fair value of the institution (consideration transferred or fair value of equity)
- Fair value of the acquired institution's financial assets and liabilities
- Fair value of the acquired institution's non-financial assets and liabilities
- Fair value of any intangible assets – the most common being the core deposit intangible and mortgage servicing rights
- Value of the Tradename
- Amount of Goodwill/Bargain Purchase Gain resulting from the transaction

# Mergers of Equals

## Topic 805, Business Combinations (ASC 805)

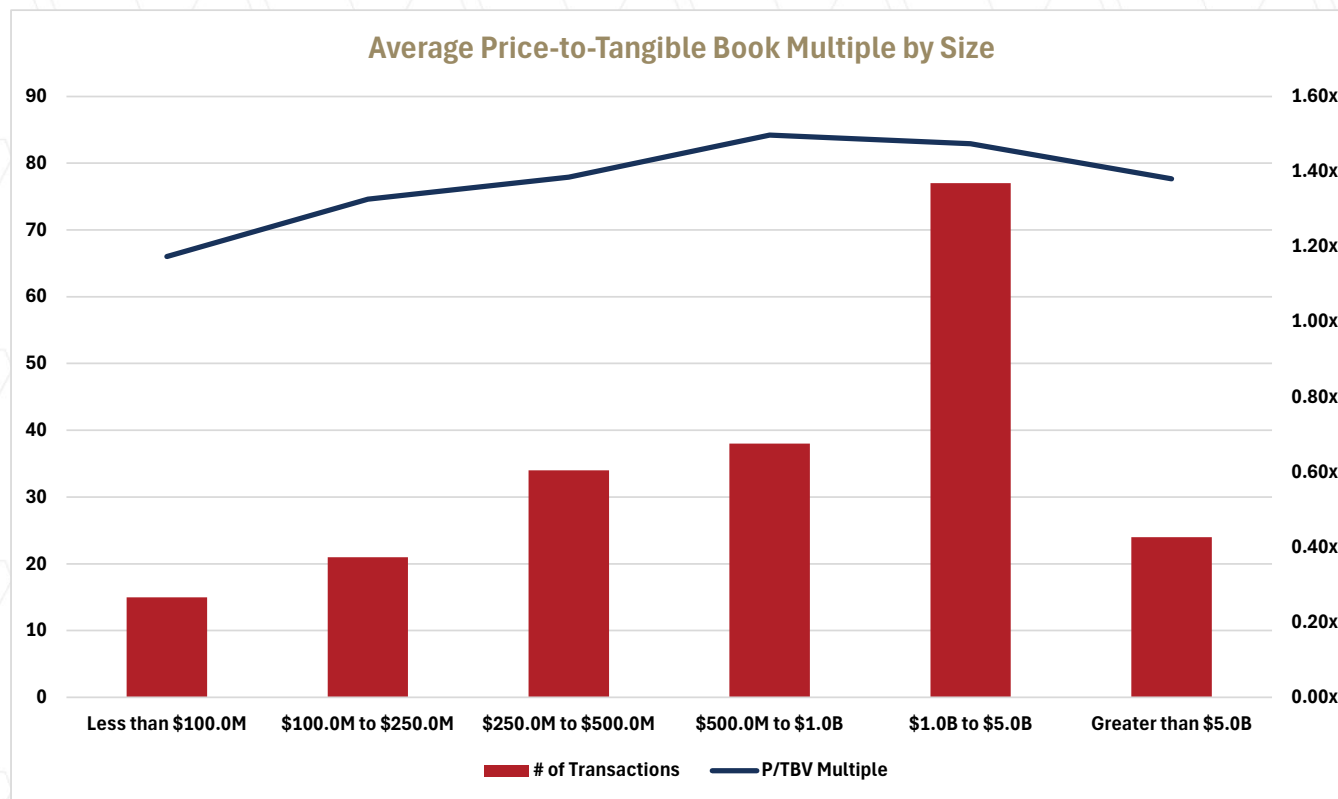
Fair value of the institution (consideration transferred or fair value of equity)



# Mergers of Equals

## Topic 805, Business Combinations (ASC 805)

Mergers of equals place emphasis on combined institution benefits, not a high premium



## Topic 805, Business Combinations (ASC 805)

Fair value of the acquired institution's financial assets and liabilities

- Investments – priced using Bloomberg, discounted cashflow analysis, or other pricing service
- Borrowings – valued using discounted cashflow analysis
- Time deposits – valued using discounted cashflow analysis
- Non-maturing deposits – recorded at book value

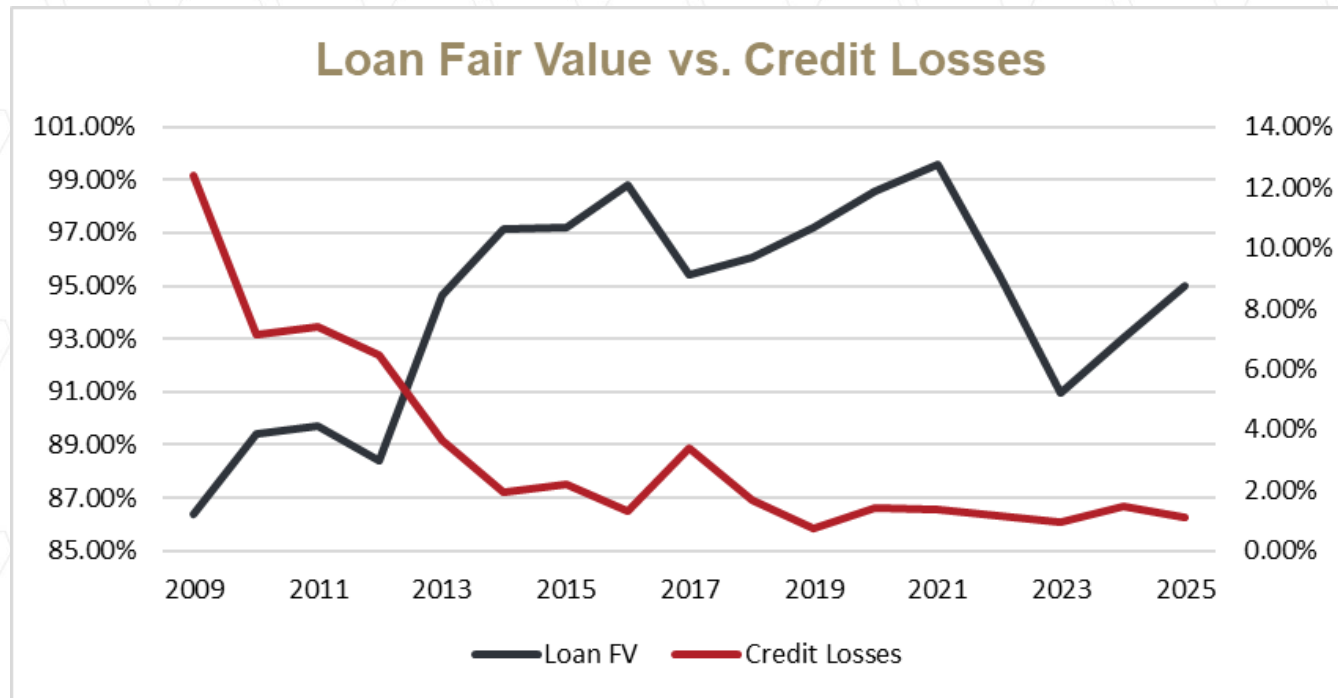
## Topic 805, Business Combinations (ASC 805)

### Fair value of the acquired institution's financial assets and liabilities

- Loans - discount the contractual cash flows at an "all in" estimated market discount rate, which includes a credit spread OR develop a "best estimate of expected cash flows" and discount the amounts back to the valuation date at an appropriate discount rate – net of the credit spread
  - Begin with contractual cash flows per loan agreement
  - Modify the cash flows based on estimates for prepayment, default, and loss severity
  - Discount the resulting expected cash flows back to the valuation date
  - The book value of the loans is adjusted for the purchase discount or premium
- Allowance for credit losses - recorded at zero because the estimated discount or premium includes estimated credit losses

## Topic 805, Business Combinations (ASC 805)

Fair value of the acquired institution's financial assets and liabilities



## Topic 805, Business Combinations (ASC 805)

Fair value of the acquired institution's non-financial assets and liabilities

- Land and Building - commercial real estate appraisals generally used
- Real estate leases
  - Lease cost is greater than market rate, an asset is recorded
  - Lease cost is less than market rate, a liability is recorded

## Topic 805, Business Combinations (ASC 805)

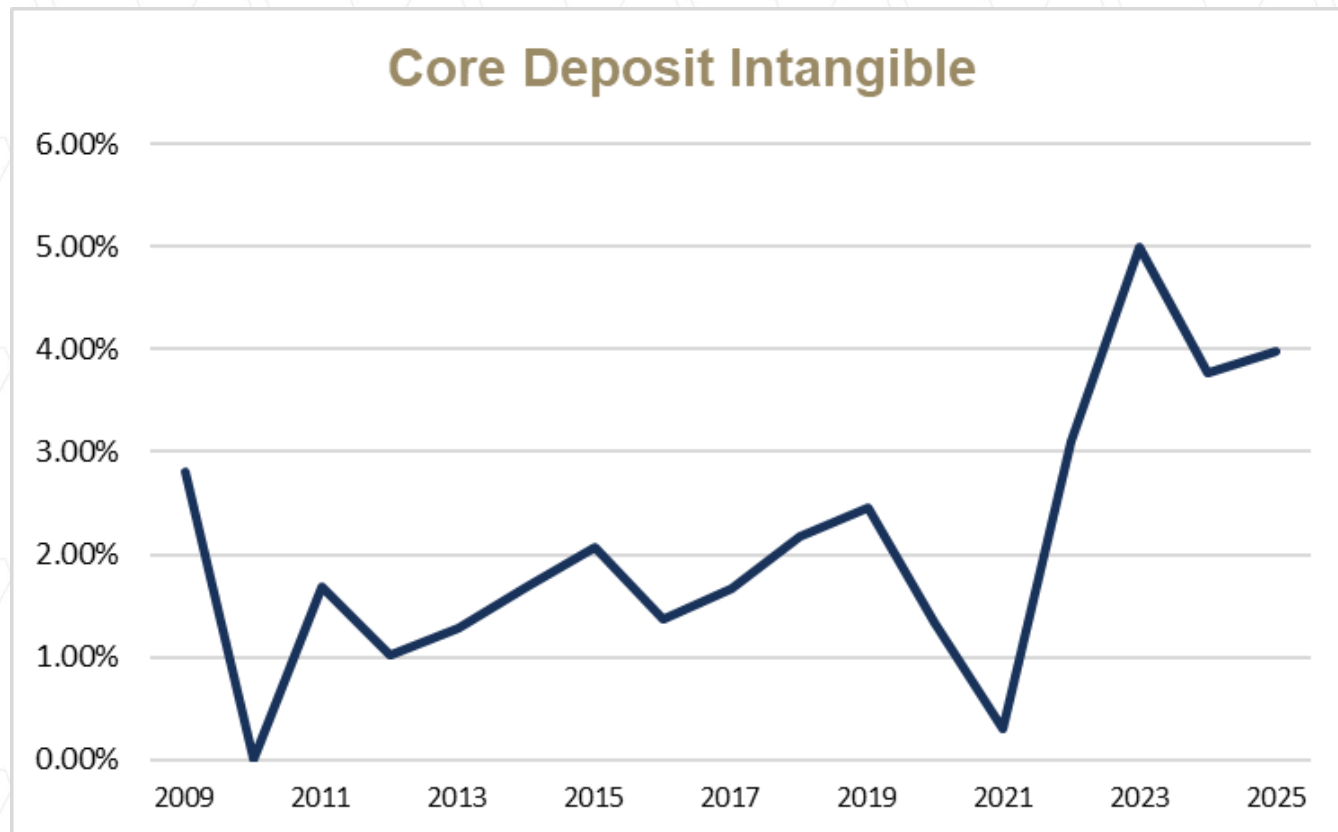
### Fair value of any intangible assets

- Core Deposit Intangible - premise is that a rational buyer would be willing to pay a premium to obtain a group of core deposit accounts that are less expensive than the buyer's marginal cost of funds
- Trade Name - can have value based on how widely it is recognized
- Mortgage Servicing Rights - rights to service a loan that has been sold in the secondary market for a fee
  - Determined via discounted cash flow analysis

# Mergers of Equals

## Topic 805, Business Combinations (ASC 805)

Fair value of any intangible assets



## Topic 805, Business Combinations (ASC 805)

### Amount of Goodwill/Bargain Purchase Gain

- Goodwill
  - Amount required to balance day one journal entry
  - Mergers generally result in goodwill
- Bargain Purchase
  - GAAP requires institution to “double check” its work

## Topic 805, Business Combinations (ASC 805)

### Accounting Implications

- Goodwill and other intangibles
- Earnings
- Capital
- CECL

## Topic 805, Business Combinations (ASC 805)

### Accounting Implications - Goodwill

- Mergers of equals generally result in goodwill
- Goodwill is accounted for in one of two ways:
  - Annual impairment testing – qualitative or quantitative (required for publicly traded banks)
  - Amortization – irrevocable accounting election (for private entities)
- Impact to risk-based capital
  - Goodwill is deducted from tier 1 capital for banks
  - Goodwill is deducted from risk-based capital for credit unions

## Topic 805, Business Combinations (ASC 805)

### Accounting Implications - Earnings

- Discounts on assets are accreted as additional income
- Premiums on assets are amortized as reductions to income
- Discounts on liabilities are amortized as additional expense
- Premiums on liabilities are accreted as reductions to expense

## Topic 805, Business Combinations (ASC 805)

### Accounting Implications – Bank Capital

- Risk-based capital – impact of intangible assets
- Acquisition of a bank is dilutive to capital
- Merger of mutuals can be accretive or dilutive to capital

### Accounting Implications – Credit Union Capital

- GAAP Equity – equity acquired in merger
- Net worth – adjustments to retained earnings through business combinations
- Risk-based capital – impact of intangible assets
- Mergers can be accretive or dilutive to capital

## Topic 805, Business Combinations (ASC 805)

### Accounting Implications - CECL

- Non-PCD Loans
  - Premiums or discounts are amortized or accreted as a decrease or increase in interest income
  - Allowance for credit loss should be recorded through provision expense
- PCD Loans
  - Allowance for credit loss is recorded through adjustment to amortized cost basis of financial asset (balance sheet gross-up)
  - Favorable and unfavorable changes in expected credit-related cashflows will run through the allowance and credit loss expense
  - Non-credit premiums or discounts are amortized or accreted as a decrease or increase in interest income based on the effective yield after the gross-up

## Topic 805, Business Combinations (ASC 805)

### Accounting Implications - CECL

Non-PCD Loans	
Total Loans	15,000,000
Less: Discount Rate Adjustment	(400,000)
Less: Credit Adjustment	(100,000)
Net Balance	14,500,000
ACL %	0.7%
Allowance for Credit Losses	(100,000)
Net Balance including ACL	14,400,000

PCD Loans	
Total Loans	15,000,000
Less: Discount Rate Adjustment	(400,000)
Less: Credit Adjustment	(100,000)
Plus: Allowance for Credit Losses	100,000
Net Balance	14,600,000
ACL %	0.7%
Allowance for Credit Losses	(100,000)
Net Balance including ACL	14,500,000

**Non-PCD loans result in double counting of the credit adjustment and a provision expense for CECL. PCD loans result in no double count and no day one provision expense.**

## Topic 805, Business Combinations (ASC 805)

### Accounting Implications - ASU 2025-08

- FASB issued ASU 2025-08 which establishes a single accounting model for acquired loans
  - All loans acquired in a business combination, except for credit cards, are classified as purchased seasoned loans (“PSLs”) and accounted for using the gross-up approach previously applied only to PCD loans.
  - Accordingly, the initial amortized cost basis of PSLs equals the purchase price plus the initial ACL recorded at acquisition.
  - The non-credit discount or premium is subsequently accreted or amortized to interest income over the expected life of the loans.

## How do you determine the acquiring institution?

### Qualitative

- Management and Board control
- Culture
- Geographic
- Charter
- Customer retention
- Brand name recognition
- Impact of name change
- Member vote (credit union)

### Quantitative

- Fair value calculations
- Relative size of institutions
- Hart-Scott-Rodino filing fees
- Cost of member voting (credit union)

# Mergers of Equals

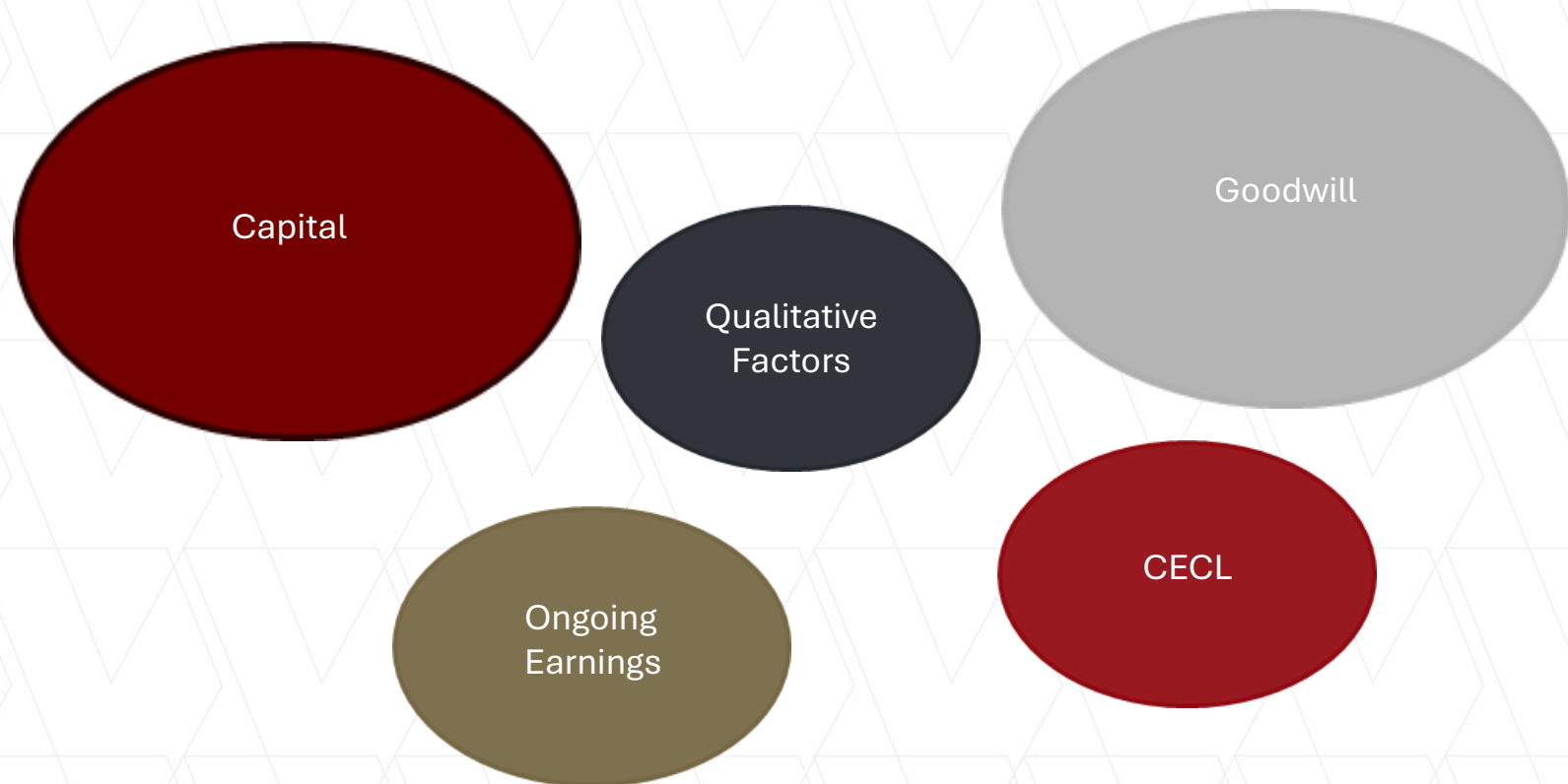
## How do you determine the acquiring institution?

Example using results from dual preliminary valuations

	Abc as the Merged-In Institution		Xyz as the Merged-In Institution	
	Advantage	Disadvantage	Advantage	Disadvantage
<b>Goodwill from Merger</b>		The calculated amount of Goodwill was \$40,964,726.	The calculated amount of Goodwill was \$10,144,777.	
<b>Combined Goodwill</b>	Xyz reported Goodwill of \$1,000,534 at 10/31/25. The combined institution's Goodwill amount would be \$41,965,260.			Abc reported Goodwill of \$36,555,664 at 10/31/25. The combined institution's Goodwill amount would be \$46,700,441.
<b>Total Intangibles as a Percentage of Total Assets</b>		Combined Goodwill of \$41,965,260 and combined Core Deposit Intangible of \$80,500,726 would result in total intangible assets being approx. 2.93% of total combined assets.	Combined Goodwill of \$46,700,441 and combined Core Deposit Intangible of \$34,433,001 would result in total intangible assets being approx. 1.41% of total combined assets.	
<b>Total Asset Size</b>		Abc reported total assets of \$2,744,336,200 at 10/31/25.	Xyz reported total assets of \$2,435,664,465 at 10/31/25.	
<b>Future Net Income Impact*</b>		The future impact to net income from the purchase accounting adjustments would be (\$10,564,897).	The future impact to net income from the purchase accounting adjustments would be \$5,346,846.	
<b>Net Worth Ratio**</b>	The combined institution's net worth ratio would be approx. 10.75% (approx. \$445.8M in net worth).			The combined institution's net worth ratio would be approx. 10.68% (approx. \$440.5M in net worth).
<b>Risk Based Capital Ratio</b>		The combined institution would have to calculate the risk-based capital ratio for regulatory capital reporting purposes.	The combined institution would be able to opt out of calculating the risk-based capital ratio for regulatory capital reporting purposes (i.e., eligible to use the CCULR framework).	

How do you determine the acquiring institution?

Which factors carry the most weight?



## Questions & Discussion



**Questions?**

*Thank You*



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