2Q23
Quarterly Bank Report

August 2, 2023

CPG monitors the quarterly financial performance trends of publicly traded banks and provides opinions on the implications for the industry and the strategies required to deliver top-tier performance going forward.

If you have any feedback or would like to discuss this report, please contact Claude Hanley at 703-861-8623 or chanley@capitalperform.com.

CPG's Takeaways:

- Performance metrics in 2Q23 reflected a continuation of the profitability challenges that emerged in the previous quarter.
  - ✓ For the second consecutive quarter, median net interest margins contracted in all asset tiers except the very largest banks. It was unchanged for the largest asset tier.
  - ✓ The cost of funds continued to increase in the quarter. The median cost of funds rose by 39 bps or more in all asset tiers except the smallest where it rose by 30 bps.
  - ✓ Loan growth remained muted. No asset tier above $1B grew loans by more than 2.0%. This was in line with the lower expectations set by executives in the first quarter.
  - ✓ The median P/TBV ratio declined across all five asset tiers as investors continued to worry about the industry's prospects in a challenging economic environment.
- Despite these negative metrics, some positive signs began to emerge in the quarter.
  - ✓ Several large regional banks reported that their core deposit balances had stabilized.
  - ✓ Executives at some larger institutions increased their net interest income projections for the rest of the year.
  - ✓ While the median ratio of nonaccrual loans to total assets increased slightly in three of the five asset tiers, asset quality remained better than historic averages.
  - ✓ Investor sentiment regarding the industry improved towards the end of June.
- However, the operating environment is expected to remain challenging for the next several quarters. Consequently, community financial institutions should continue to focus on:
  - ✓ **Deposit growth:** deepening existing customer relationships; building stronger value propositions for small businesses and deposit-rich business verticals;
  - ✓ **Efficiency:** leveraging existing technology platforms more effectively; robotic process automation solutions in repetitive functions (accounting; contact centers; etc.); and
  - ✓ **Focus:** scaling back or eliminating nonmaterial/no-growth business lines; greater clarity on markets/segments/business lines that have promise for future growth, including outside the traditional geographic footprint.

Economic Outlook

- The economic outlook is becoming slightly more positive. Economists are dialing back their expectations for a recession. Morgan Stanley Research believes the U.S. economy can achieve the Fed's inflation target while avoiding a recession.
- However, that optimistic sentiment is not universally shared. Pessimists point to the fact that a recession typically follows an inverted yield curve, albeit after some period of time has elapsed.

Biggest Gains in Price/Tangible Book Value (March 31, 2023 – June 30, 2023)

Asset Tier (Institution)	Price/Tangible Book Value As of 3/31/23	As of 6/30/23	Change [3/31/23-6/30/23]
Over $500B Median	1.7	1.5	-0.2
Wells Fargo & Company	1.1	1.2	0.1
JPMorgan Chase & Co.	1.7	1.8	0.1
The Goldman Sachs Group, Inc.	1.1	1.1	0.0
$50B-$499.9B Median	1.3	1.2	-0.1
Discover Financial Services	2.0	2.3	0.3
New York Community Bancorp, Inc.	0.9	1.1	0.2
Capital One Financial Corporation	1.1	1.2	0.1
Synchrony Financial	1.2	1.4	0.1
Comerica Incorporated	1.2	1.2	0.1
$10B-$49.9B Median	1.4	1.2	-0.2
BancFirst Corporation	2.5	2.7	0.2
Bank OZK	1.0	1.2	0.1
First BanCorp.	1.5	1.6	0.1
Live Oak Bancshares, Inc.	1.3	1.4	0.1
Home Bancshares, Inc. (Conway, AR)	2.0	2.1	0.1
$1B-$9.9B Median	1.1	1.0	-0.1
Greene County Bancorp, Inc.	2.2	2.8	0.6
First Community Bankshares, Inc.	1.4	1.7	0.3
Pathward Financial, Inc.	3.3	3.5	0.3
Esquire Financial Holdings, Inc.	1.9	2.1	0.2
Bank First Corporation	2.2	2.4	0.2
Under $1B Median	1.0	0.9	-0.1
Mid-Southern Bancorp, Inc.	0.9	1.1	0.2
Delhi Bank Corp.	2.4	2.5	0.1
Community Bancorp of Santa Maria	0.7	0.8	0.1
Juniata Valley Financial Corp.	2.7	2.7	0.1
GBank Financial Holdings Inc.	1.7	1.8	0.1

In general, Price/Tangible Book Value (P/TBV) multiples[1] declined across the industry in 2Q23.

The decline in valuations was a continuation of the sell-off that started in 1Q23, though the declines in P/TBV multiples were less dramatic in 2Q23.

However, some institutions enjoyed a slight uptick in their P/TBV multiples.

Institutions with higher P/TBV multiples included both JPMorgan Chase and New York Community Bancorp which benefited from FDIC-assisted transactions.

Credit card lenders such as Discover Financial and Capital One Financial, with significant high-yield, variable rate loan portfolios, also saw slight increases in their P/TBV multiples.

Source: CPG analysis of data provided by S&P Global Market Intelligence, 2023.
1. 360 publicly-traded U.S. banks and thrifts that had reported Q2 2023 results as of 7/27/23.

Biggest Increases in Cost of Funds

Asset Tier (Institution)	Cost of Funds 1Q23 (%)	2Q23 (%)	Change [1Q23 to 2Q23] (bps)
Over $500B Median	1.67	2.10	43
Citigroup Inc.	3.17	3.72	56
Bank of America Corporation	2.19	2.75	55
U.S. Bancorp	1.59	2.10	51
$50B-$499.9B Median	1.59	2.19	61
The Bank of New York Mellon Corporation	3.28	4.63	134
Northern Trust Corporation	2.80	3.77	97
Comerica Incorporated	1.26	2.22	96
First Horizon Corporation	1.37	2.17	80
Zions Bancorporation, National Association	1.16	1.88	72
$10B-$49.9B Median	1.40	1.81	42
PacWest Bancorp	2.51	3.57	106
BOK Financial Corporation	1.65	2.40	75
Independent Bank Group, Inc.	1.87	2.53	66
Bank OZK	1.83	2.49	66
UMB Financial Corporation	1.90	2.56	66
$1B-$9.9B Median	1.27	1.64	37
MainStreet Bancshares, Inc.	1.65	2.57	92
CrossFirst Bankshares, Inc.	2.63	3.40	78
Mountain Commerce Bancorp, Inc.	2.47	3.21	75
Metropolitan Bank Holding Corp.	1.81	2.52	71
Avidbank Holdings, Inc.	1.81	2.51	70
Under $1B Median	0.88	1.18	30
GBank Financial Holdings Inc.	1.30	1.96	65
Triad Business Bank	2.05	2.68	63
Pacific Alliance Bank	2.61	3.18	57
blueharbor bank	0.54	1.11	57
Truxton Corporation	2.25	2.80	55

For the second consecutive quarter, the median cost of funds jumped across asset tiers.

The increase was steepest in the $50B - $499.9B asset tier, which also experienced the biggest decline in median net interest margin in 2Q23 when compared to the prior period.

Comerica Incorporated ($90.7.9B; Dallas, TX), introduced a 5.25% 6-month fixed-rate CD and saw a 96 bps jump in funding costs. During Comerica's earnings call, the bank stressed that its dynamic pricing approach has been key to maintaining balances. Although NII declined, the bank said its customer deposit base has stabilized since May.

CrossFirst Bankshares, Inc. $7.1B; Leawood, KS) also emphasized that its deposit base stabilized in the second quarter, noting that the increase in funding costs was merely a reflection of the operating environment. The bank opened 1,100 net new deposit accounts in 2Q23, largely due to its CD specials.

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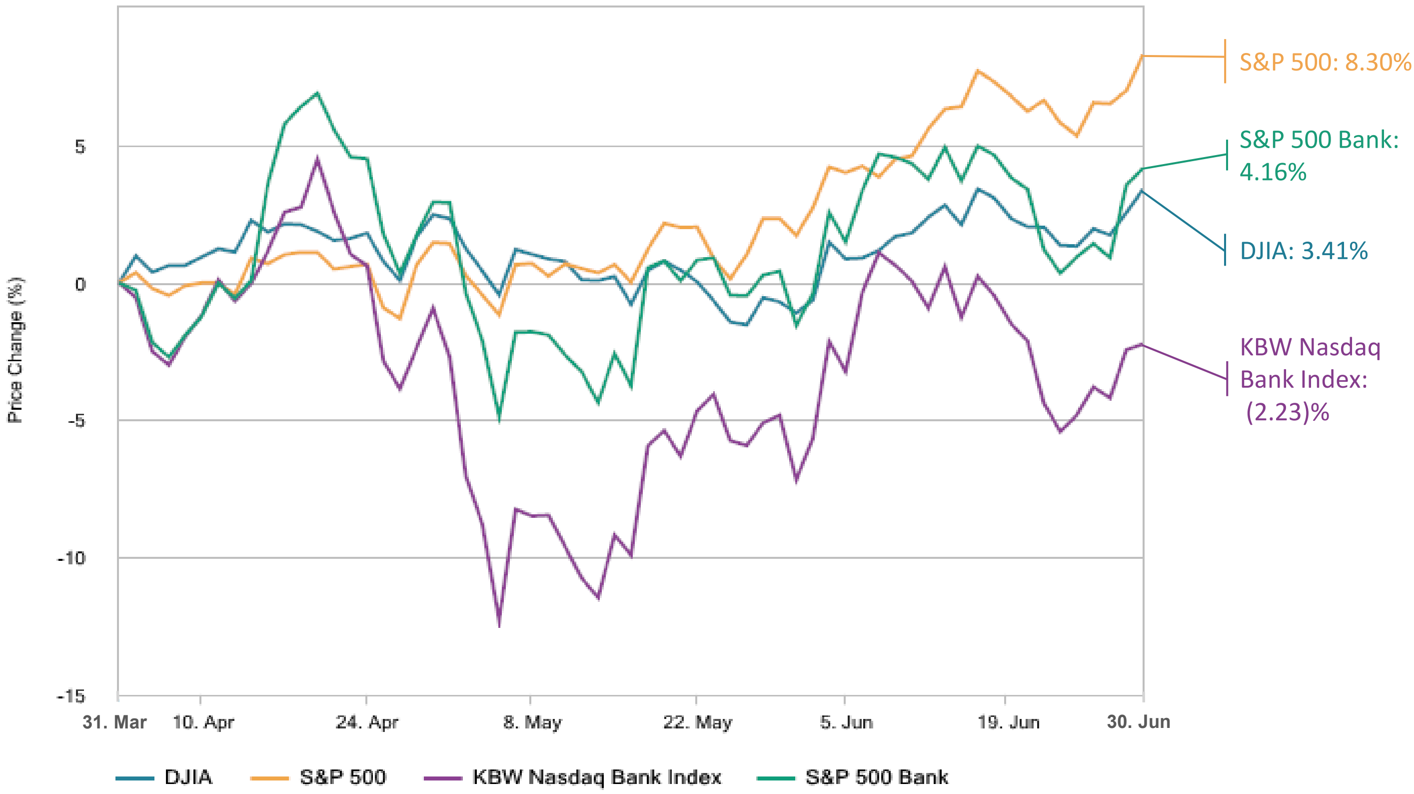
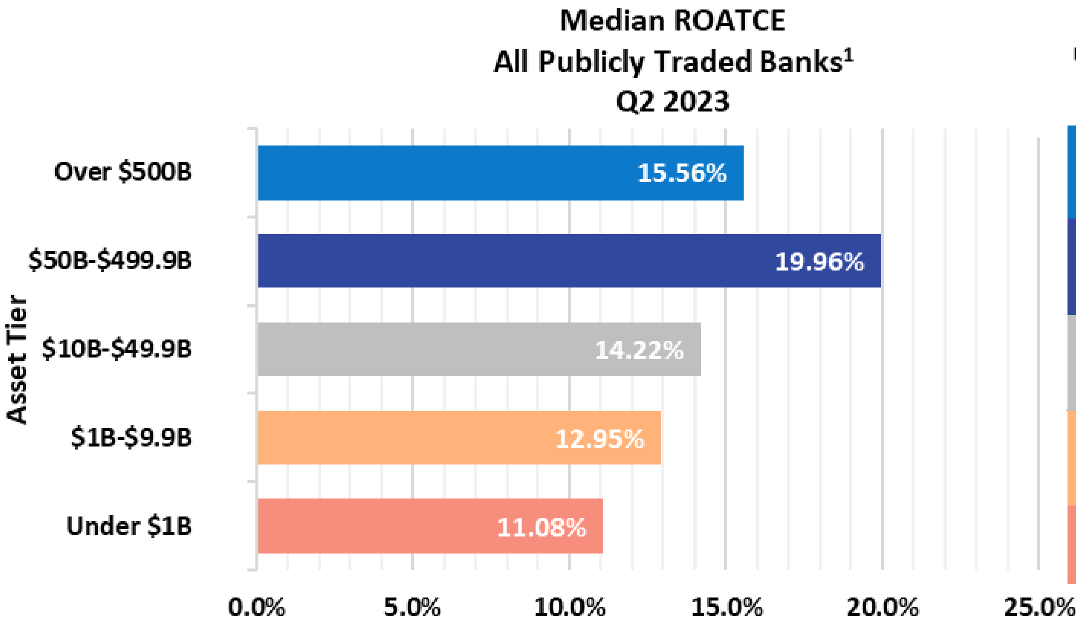
Stock Performance



The sell-off of banking stocks that started in the first quarter of 2023 continued into the second quarter. However, both the S&P 500 Bank Index and the KBW Nasdaq Bank Index saw an increased valuation at the end of June as the profitability outlook brightened. The S&P 500 Bank Index, composed of the largest 60 U.S. Banks, increased by over 4.0% between March 31st and June 30th. The KBW Nasdaq Bank Index, which only looks at 24 of the largest banks in the U.S., declined by 2.0% over the same period.

Source: S&P Global Market Intelligence, 2023. Price Change (%) collected from March 31, 2023, through June 30, 2023.

Median ROATCE

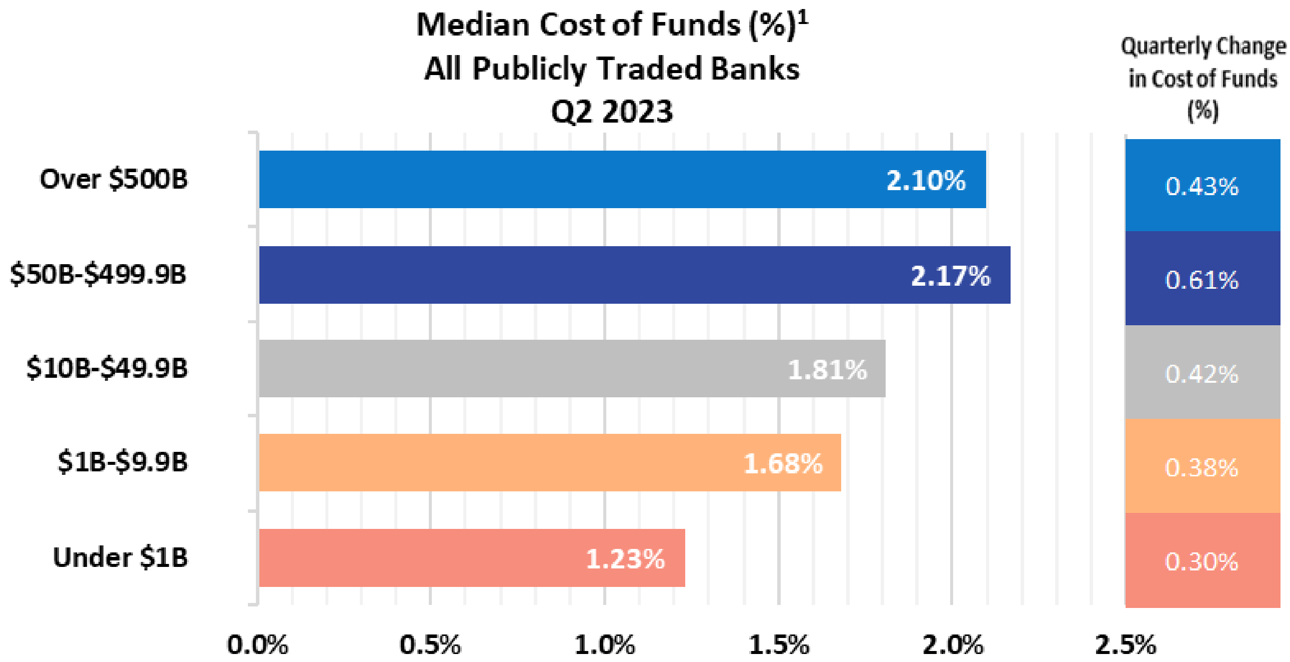


Asset Tier	Median Price/Tangible Book Value[2] Q2 2023	Median Total Return to Shareholders[3] Q2 2023
Over $500B	152.91%	1.11%
$50B-$499.9B	122.41%	(0.37%)
$10B-$49.9B	123.84%	(9.08%)
$1B-$9.9B	103.50%	(4.19%)
Under $1B	89.75%	(3.37%)

The median ROATCE for the $50B to $499.9B asset tier increased by 166 bps in 2Q23; however, the primary contributor to the increase in ROATCE was a 0.46% decline in tangible common equity. The median ROATCE in the other four asset tiers declined. Also, the median P/TBV fell in all five asset tiers.

Source: CPG analysis of data provided by S&P Global Market Intelligence, 2023.
1. 360 publicly-traded U.S. banks and thrifts that had reported Q2 2023 results as of 7/27/23.
2. Share price as of 6/30/23.
3. Total Return to Shareholders YTD as of 6/30/23.

Cost of Funds



In 2Q23, funding costs continued to soar, although the increases were not as sharp as those in the first quarter. The median cost of funds rose by 39 bps or more in each asset tier with assets over $1B. Among them, banks between $50B and $499.9B in assets suffered the steepest increase in cost of funds. Looking ahead, deposit betas and funding costs are expected to keep rising through 3Q23, leading to further contractions in net interest margins.

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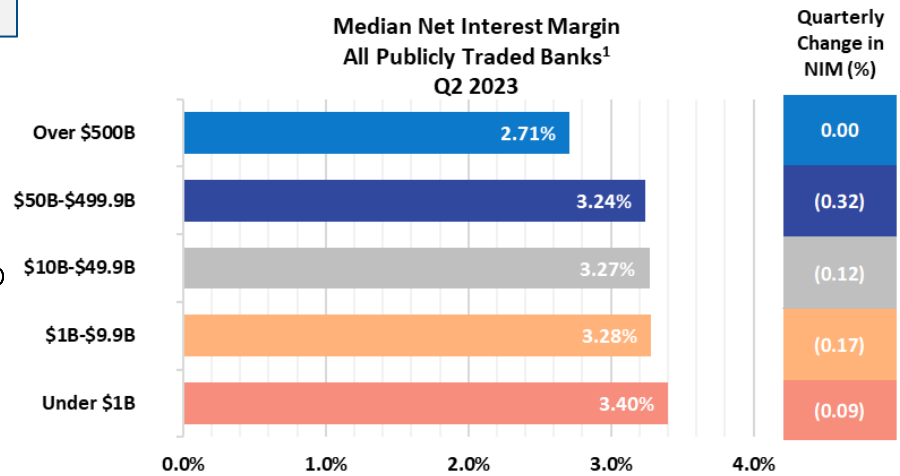
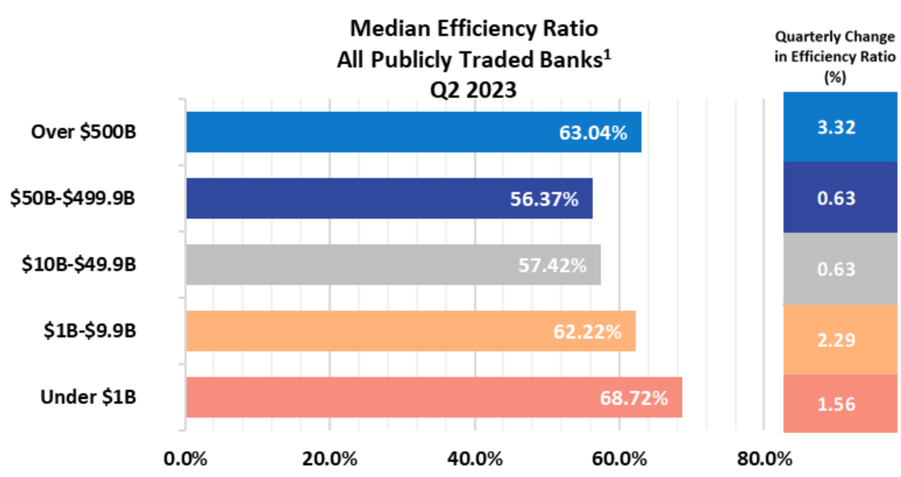
Net Interest Margin

Median net interest margins contracted in all asset tiers below $500B. NIMs are expected to continue to decline through 2023 due to the rising cost of funds and intense competition for deposits.



Efficiency Ratio

Median efficiency ratios increased in all five asset tiers in 2Q23. The over $500B asset tier reported a 332 bps increase, the largest of any tier. Regional banks between $50B and $499.9B increased their median efficiency ratio by just 63 bps in 2Q23 and remained the most efficient of the asset tiers.



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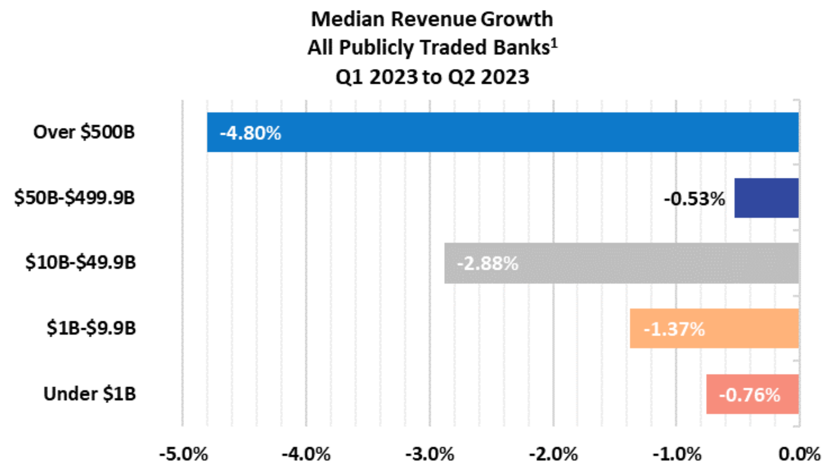
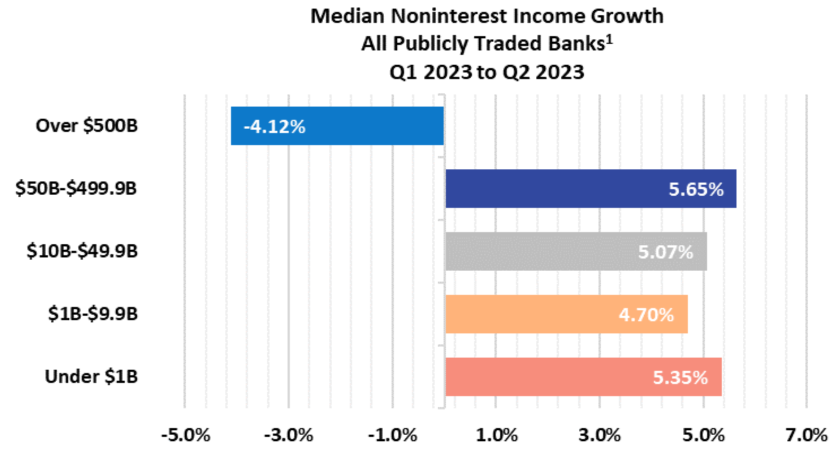
Revenue Growth

Revenue declined in all asset tiers. The largest asset tier had the biggest decline. This was driven by reductions in revenue in capital markets and trading activities.



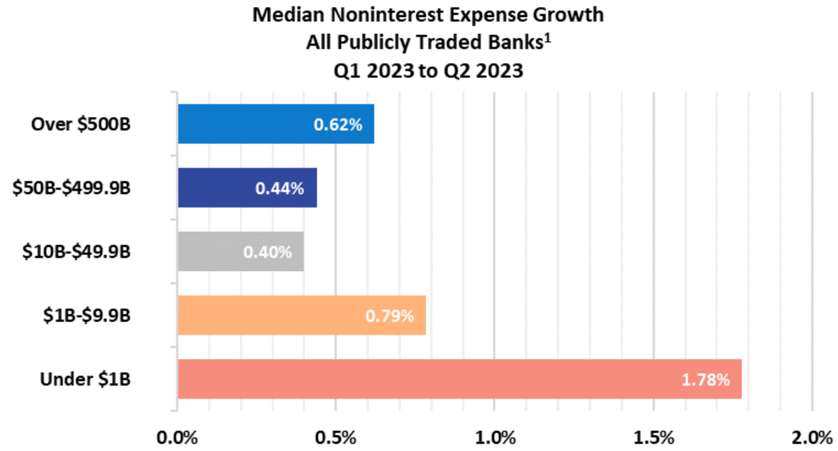
Noninterest Income

All four asset tiers below $500B in assets grew fee income by at least 4.7% in 2Q23. The decline in the over $500B asset tier was largely due to losses tied to capital markets activity.



Noninterest Expense

Noninterest expense increased across all asset tiers in 2Q23, although the growth was minimal for the asset tiers above $1B.



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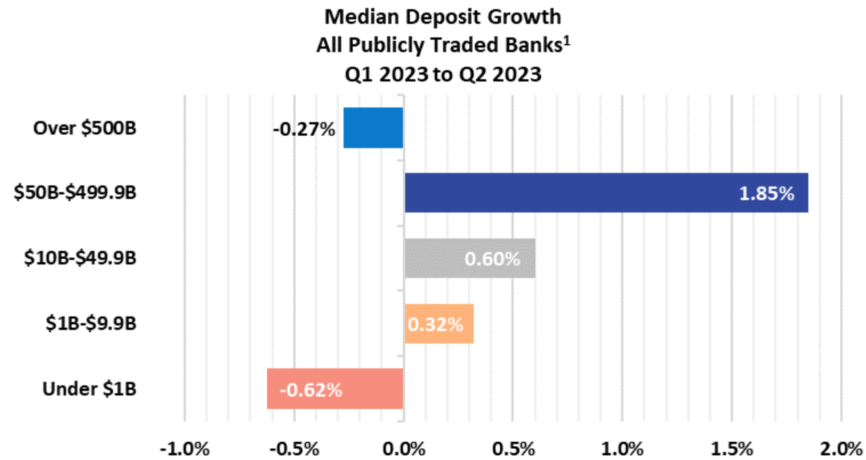
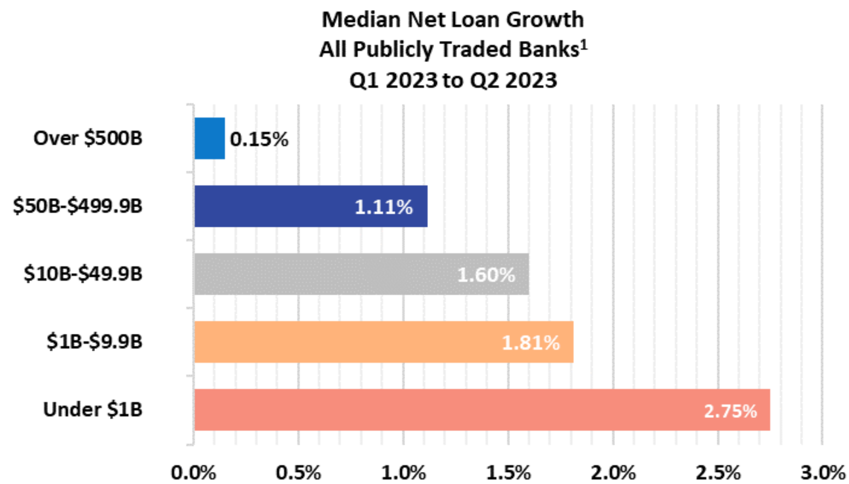
Deposit Growth

Regional banks between $50B and $499.9B outperformed every other asset tier in 2Q23. The growth came at a cost; the same asset tier recorded the highest increase in cost of funds and the biggest decline in NIM for the same period.



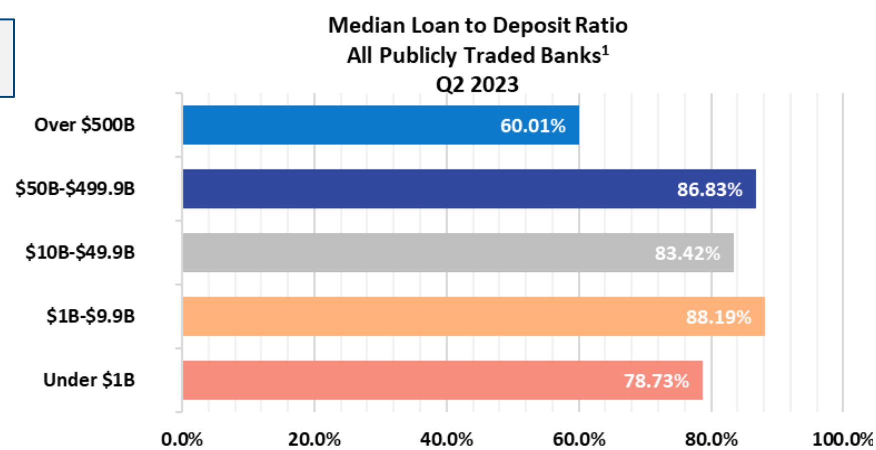
Net Loan Growth

Median net loan growth was positive for every asset tier in 2Q23. However, the outlook for the rest of the year remains guarded due to softened demand from higher interest rates and tighter underwriting standards.



Loan to Deposit Ratio

Median loan-to-deposit ratios increased for all asset tiers in 1Q23. The aggregate industry loan to deposit ratio has now increased in each of the last four quarters.



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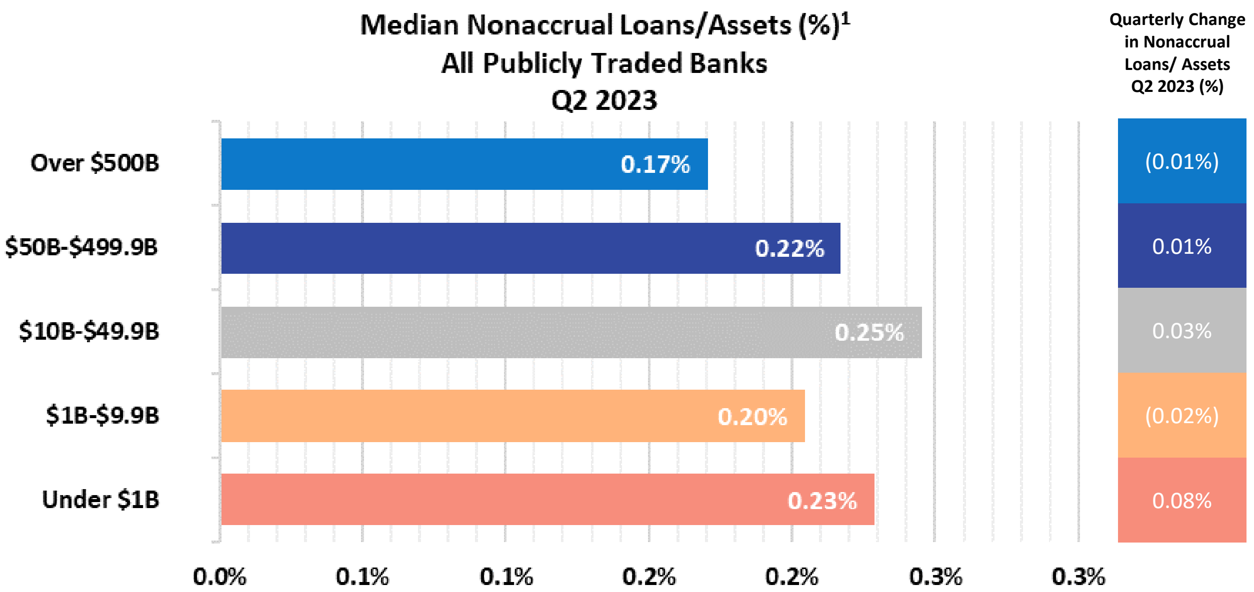
Nonaccrual Loans/Assets



The median ratio of nonaccrual loans to total assets increased slightly in three of the five asset tiers in 2Q23, although asset quality remains better than historic averages. However, some bank executives have expressed concern about the long-term effects of higher interest rates and the pressure it may place on small businesses to pay off their loans. On the other hand, many bank executives remain confident in their underwriting and are confident they can navigate through potential headwinds.

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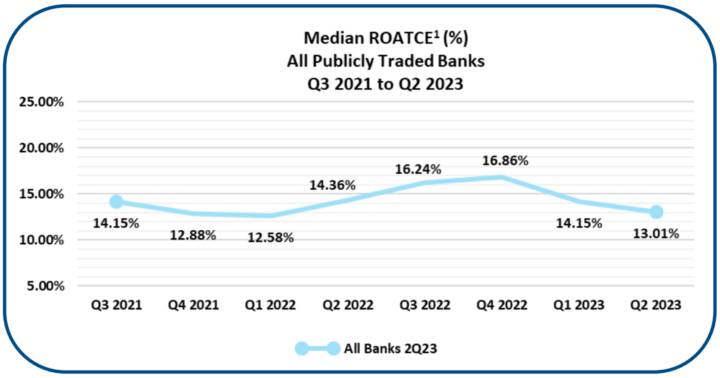
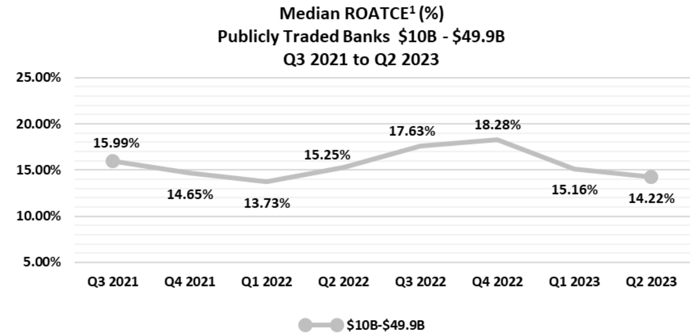
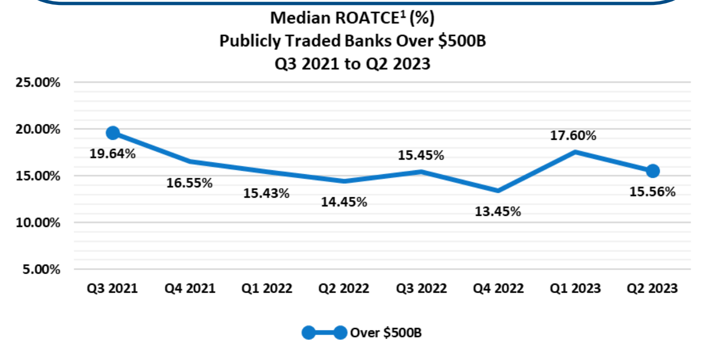
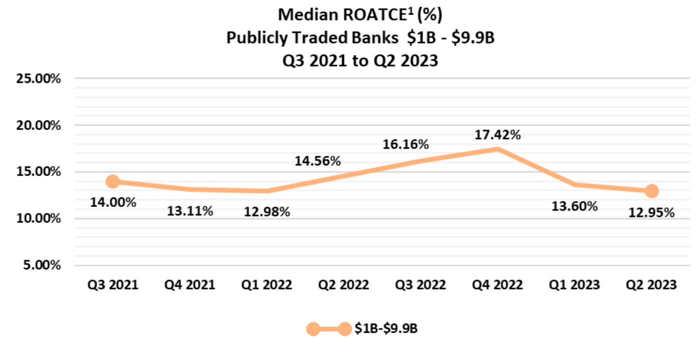
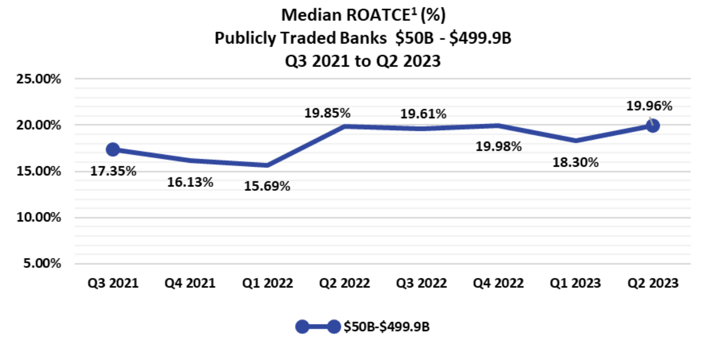
ROATCE Trends by Asset Tier

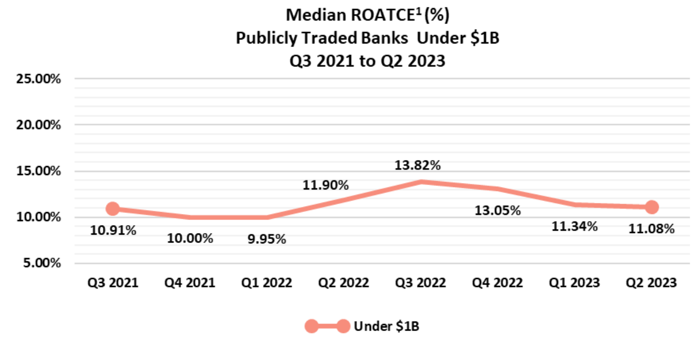












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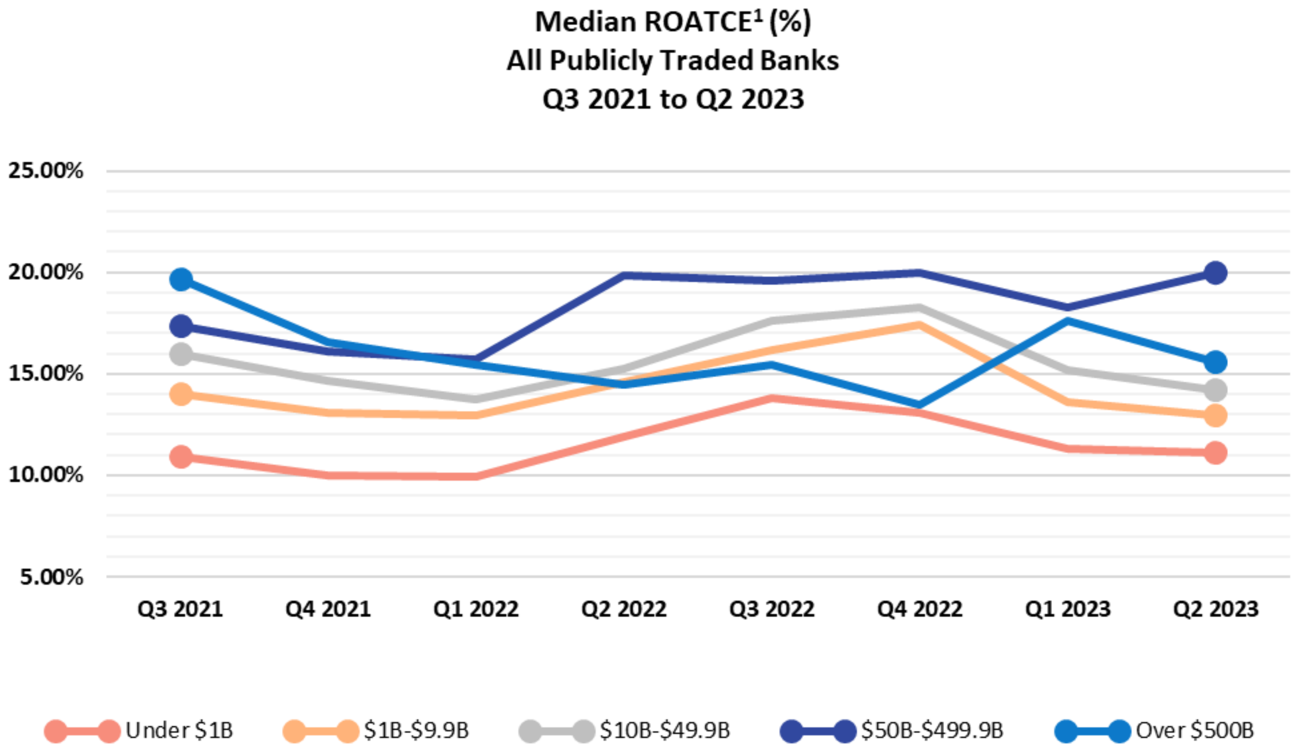
ROATCE Trends by Asset Tier



In 2Q23, ROATCE was impacted negatively for four of the five asset tiers due to increased funding costs, declining net interest margins, flat deposit growth, and tepid loan growth. However, the $50B-$499.9B asset tier experienced a marginal uptick in ROATCE. This improvement can partly be attributed to strong fee income growth, moderate deposit growth, and the slightest increase in the median efficiency ratio compared to any other asset tier; however, the increase in ROATCE was attributable to a 0.46% decline in tangible common equity.

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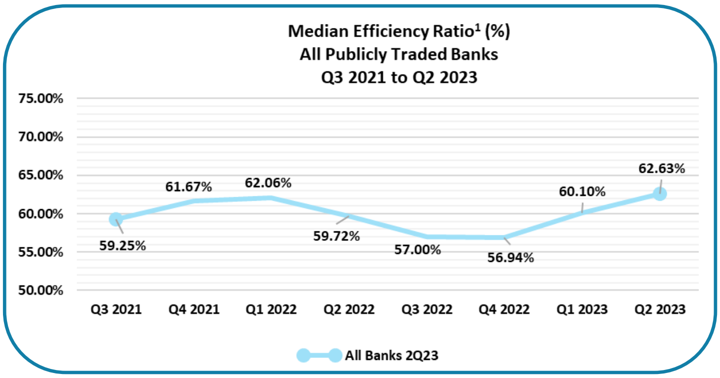
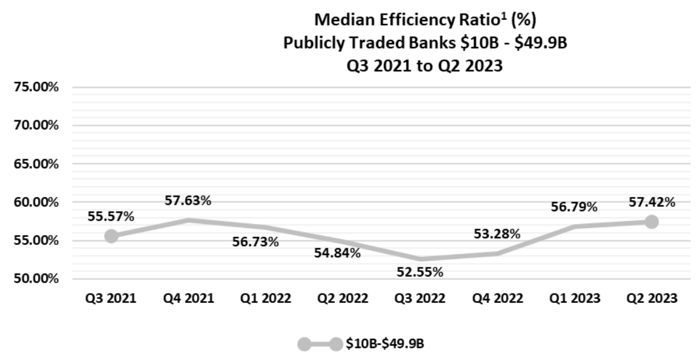
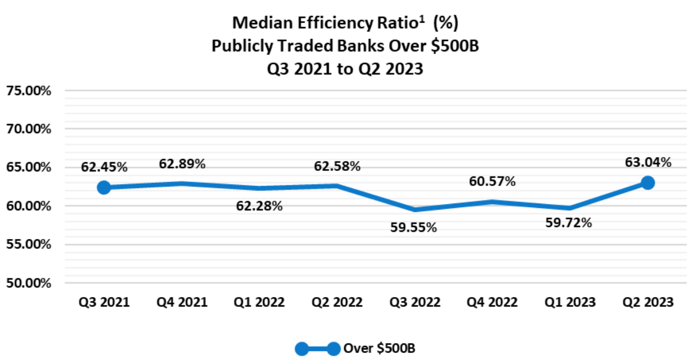
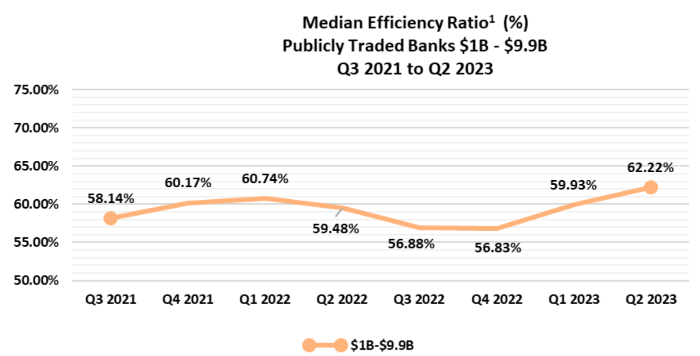
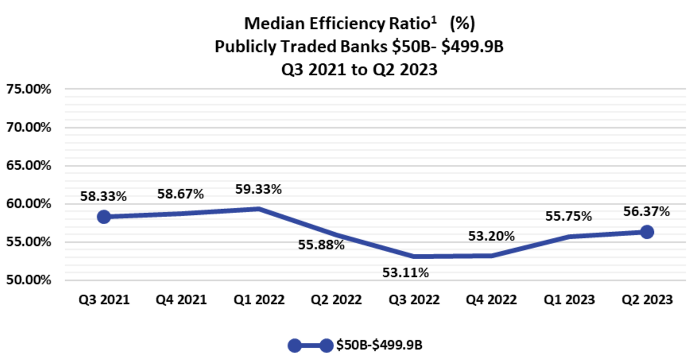
Efficiency Trends by Asset Tier

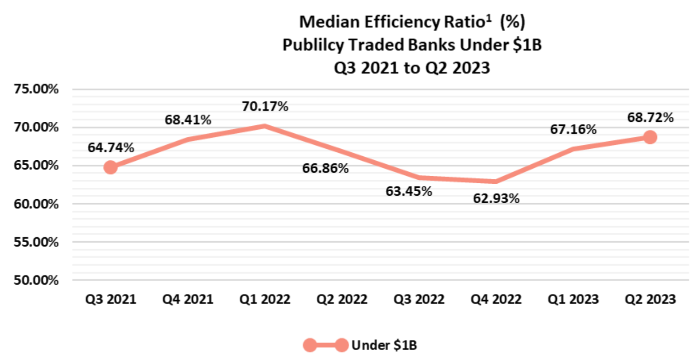












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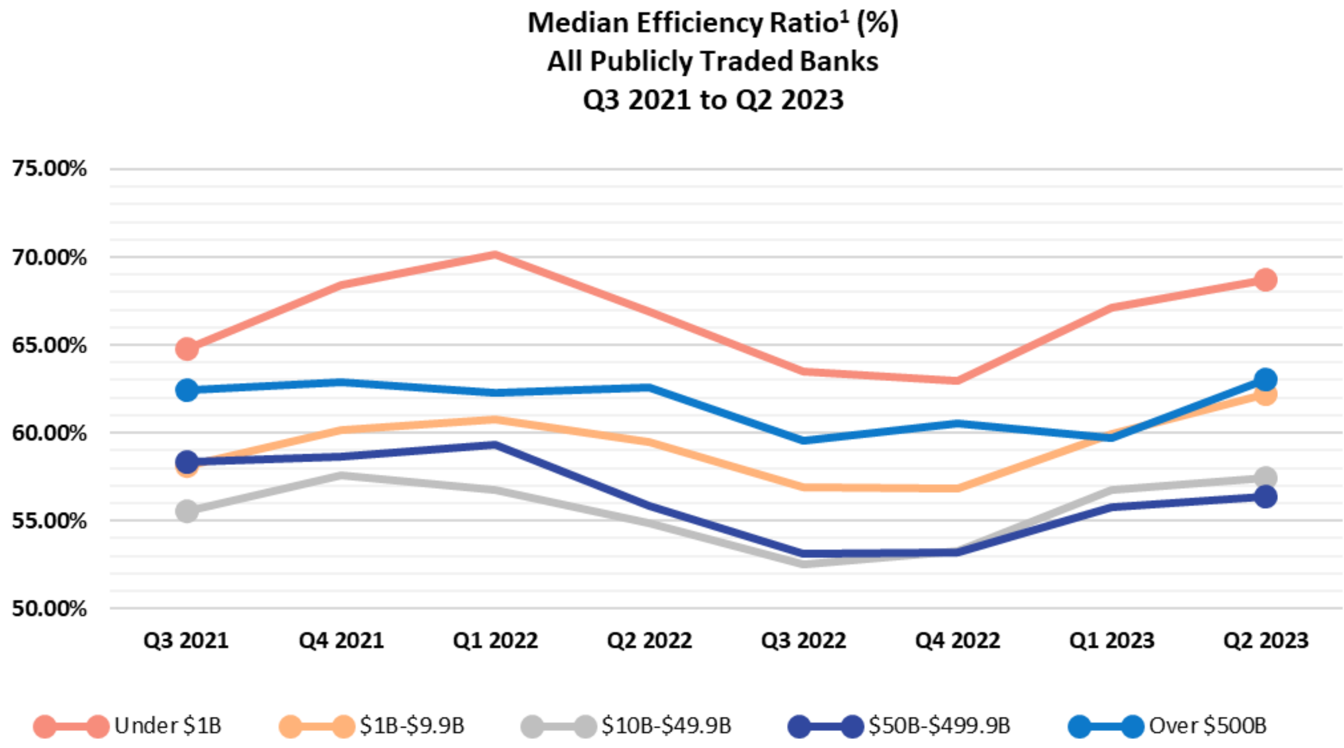
Efficiency Trends by Asset Tier



The median efficiency ratio increased for all five asset tiers in the second quarter. Every asset tier recorded an increase in operating expenses related to increased staff expenses, higher technology costs, or increased regulatory and legal fees.

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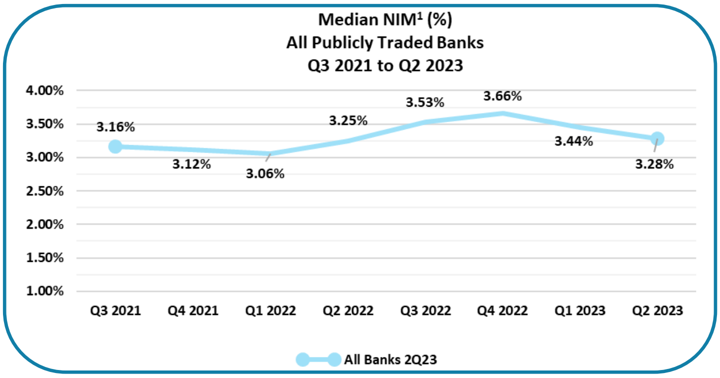
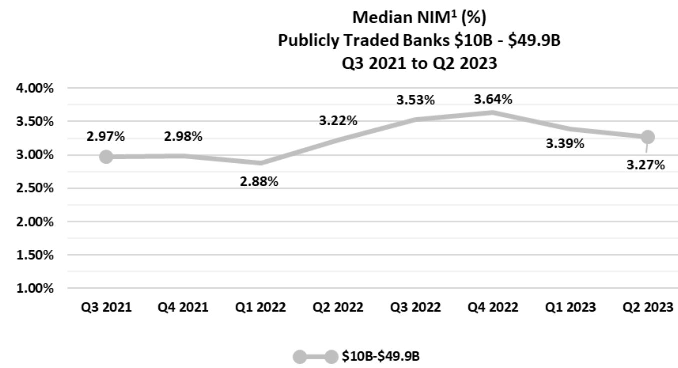
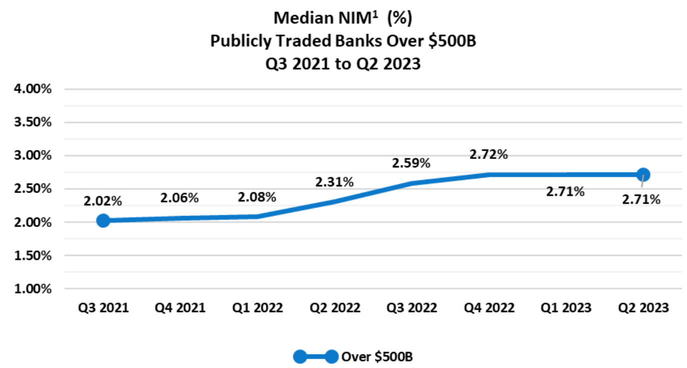
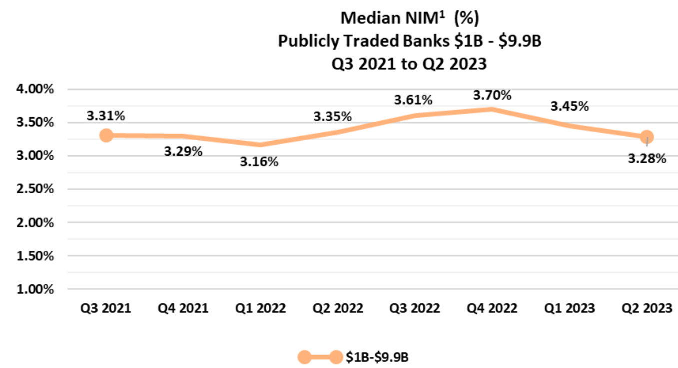
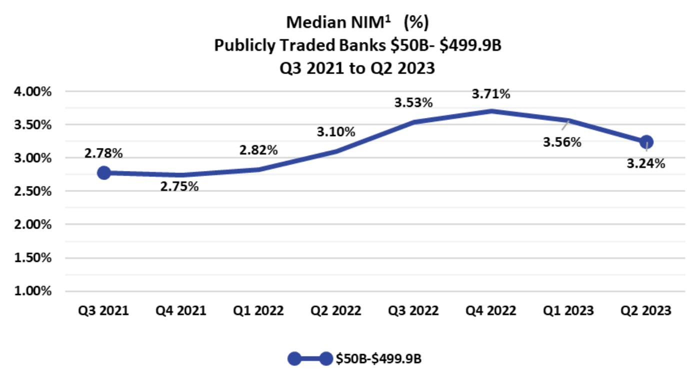
Net Interest Margin Trends by Asset Tier

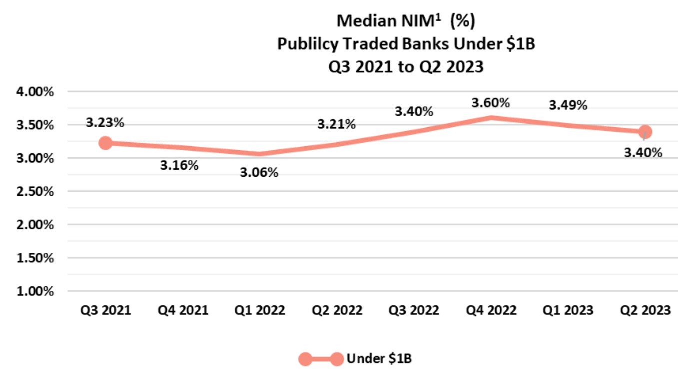












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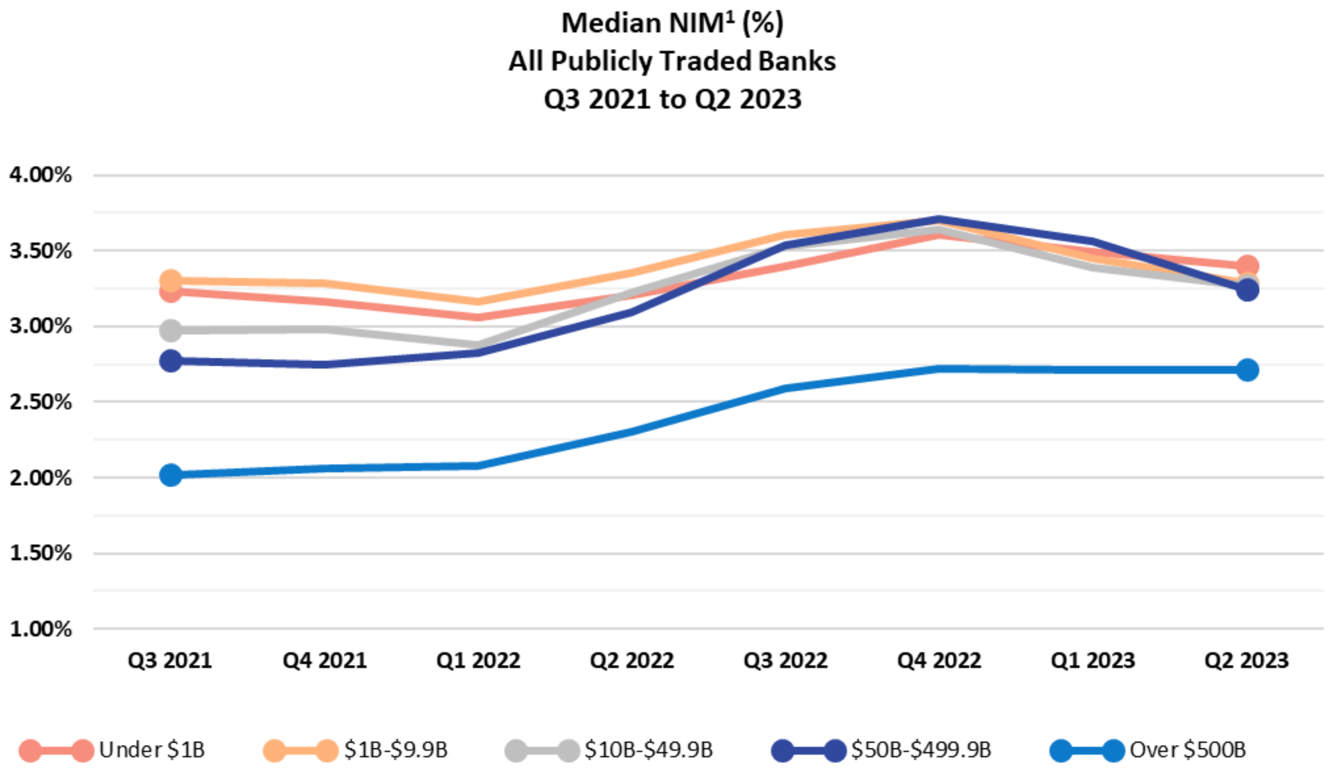
Net Interest Margin Trends by Asset Tier



Median net interest margins continued to compress for the second consecutive quarter in each asset tier under $500B in assets. There was no change in the median net interest margin for the over $500B asset tier, which already was the lowest margin of any tier. Margins are expected to continue to contract due to ongoing increases in funding costs and tepid loan demand.

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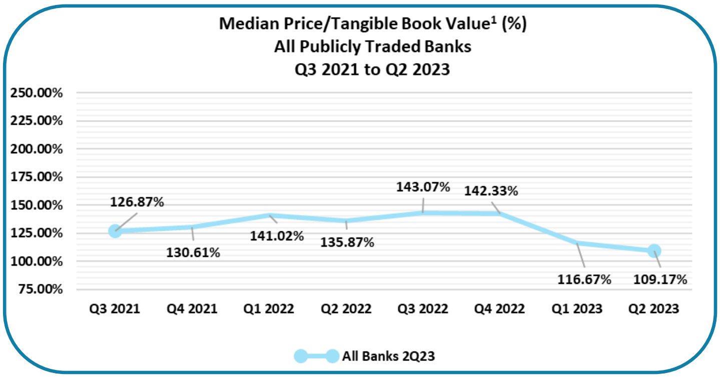
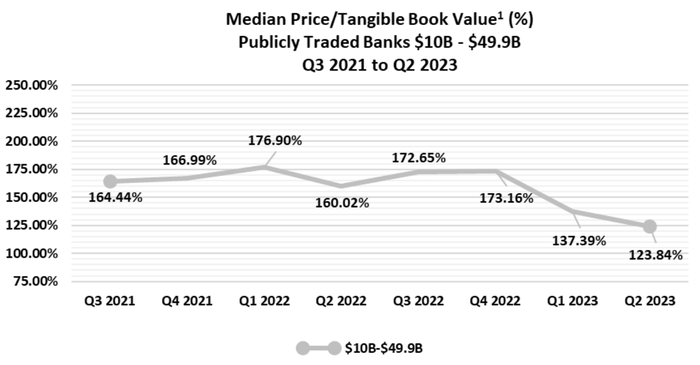
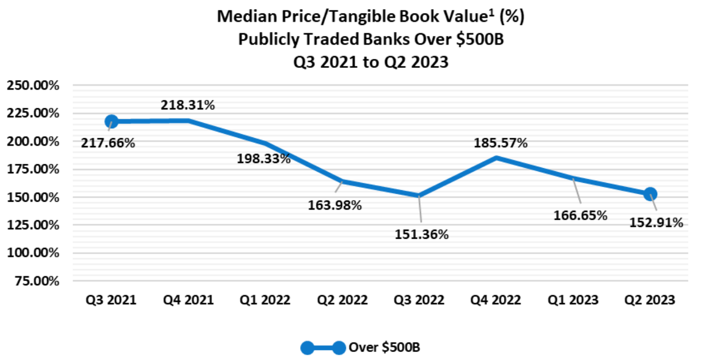
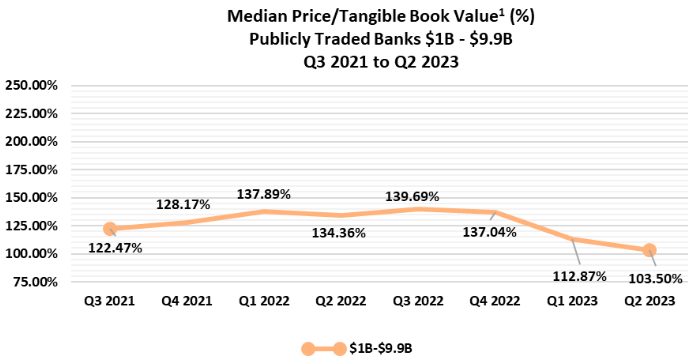
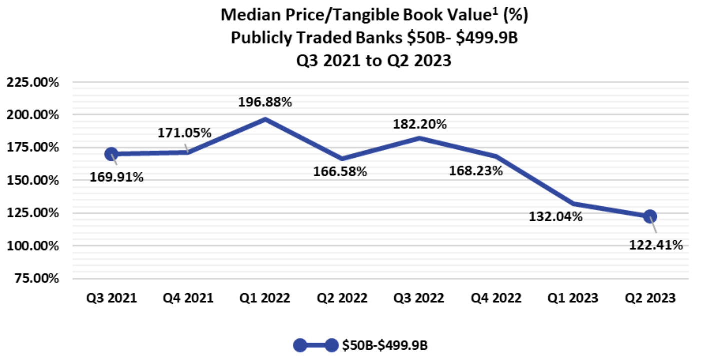
Valuation Trends by Asset Tier

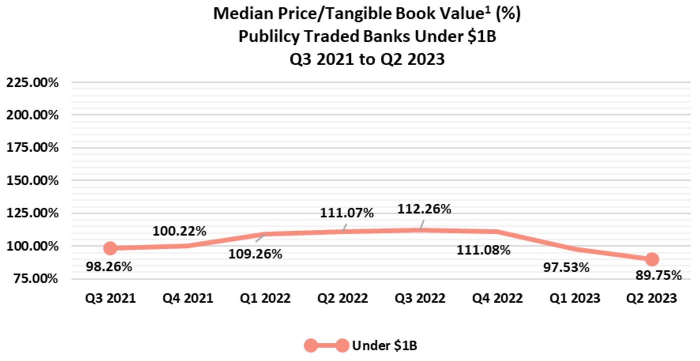






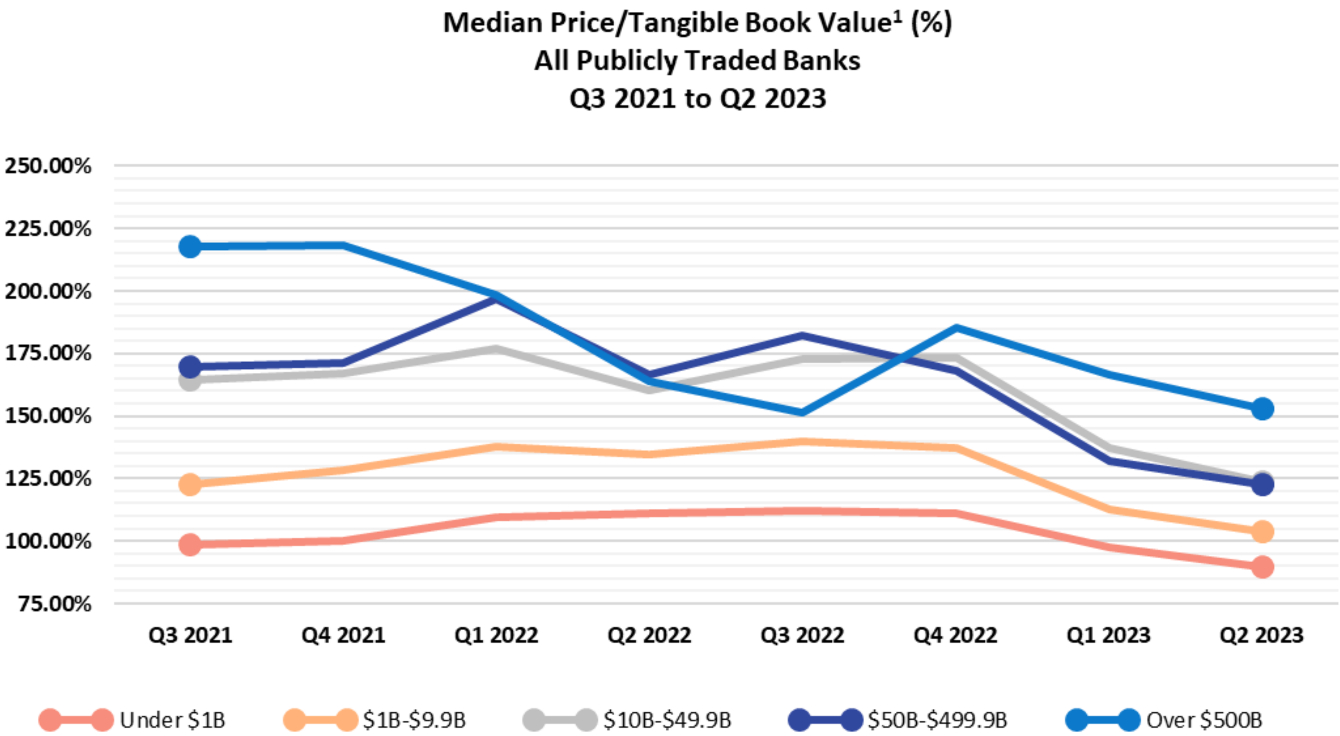






Source: CPG analysis of data provided by S&P Global Market Intelligence, 2023.
1. 360 publicly-traded U.S. banks and thrifts that had reported Q2 2023 results as of 7/27/23.

Valuation Trends by Asset Tier



In 2Q23, all asset tiers experienced a decline of at least 7.5% in the median P/TBV compared to 1Q23. However, the declines were less severe than those in the first quarter when investors punished bank stocks following the Silicon Valley Bank failure. Investors generally responded positively to 2Q23 performance, as it became evident that many banks, particularly large regional banks, managed to stabilize their deposit bases. This development led to an increase of 13.0% in the KBW Nasdaq Regional Banking Index between July 14th and July 26th.

Source: CPG analysis of data provided by S&P Global Market Intelligence, 2023.
1. 360 publicly-traded U.S. banks and thrifts that had reported Q2 2023 results as of 7/27/23.

Who We Are

CPG is a management consulting firm founded in 2001. We focus exclusively on the financial services industry. We provide value to our clients by delivering proven solutions to critical business issues, empowering decision-makers with relevant, concise, well-organized information, and engineering work practices to drive efficiencies and productivity.

For more than 20 years, Capital Performance Group has worked with the ABA Banking Journal and the American Banker to evaluate the nation's top performing banks.

Quarterly Banking Report Team

Mary Beth Sullivan
Managing Partner
msullivan@capitalperform.com

Claude A. Hanley, Jr.
Partner
chanley@capitalperform.com

Trevor Fox
Business Analyst
tfox@capitalperform.com

www.capitalperform.com
@CPG_DC
1233 20th Street, NW, Suite 450
Washington, DC 20036