2Q24
Quarterly Bank Report

August 8, 2024

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:

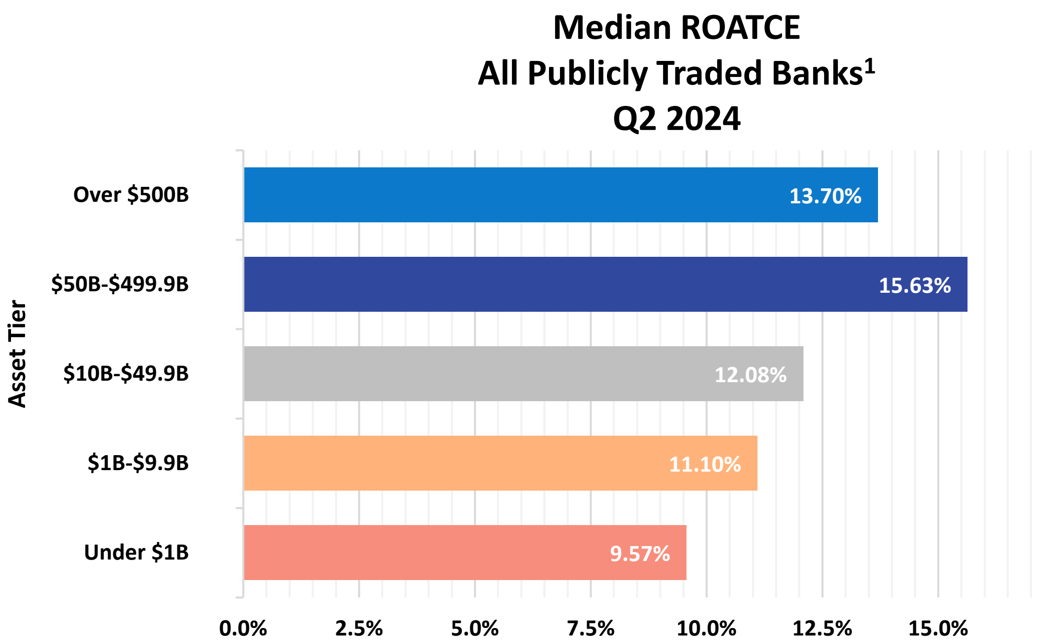
2Q24 earnings reports contained signs that the industry's performance was emerging from the doldrums.

- ✓ The median net interest margin increased in three of five asset tiers: It increased in the three asset tiers below $50B, but it decreased in the two largest asset tiers. During earnings calls, several executives expressed optimism that upward pressure on the cost of funds was abating, and some expected an expansion in the net interest margin over the remainder of the year driven partly by Fed rate cuts. Net interest margins should rise modestly next year and expand further in 2026.
- ✓ Funding costs continued to rise in the second quarter, albeit at a slightly slower pace than in prior quarters. The median cost of funds rose between 2bps and 10bps across all five asset tiers. Most banks continued to see a rotation into higher-rate deposit products. Fed rate cuts will not bring immediate relief: deposit rates will remain high as banks and nonbanks protect against balance outflows.
- ✓ Median efficiency ratios improved across all asset tiers below $500B as growth in revenue, driven by higher net interest income, exceeded growth in operating expenses.
- ✓ The median ratio of nonaccrual loans to total assets ticked up slightly in four of five asset tiers, yet asset quality generally remains sound. While certain sub-sectors of CRE remain a concern, there was no sign of a broader weakening in credit quality.
- ✓ However, loan growth remained muted. Median loan growth was 1.42% or less for all tiers above $1.0B. Banks will need to focus on competing for high-quality loans to maintain profitability.
- ✓ Bank stock valuations held steady in the second quarter of 2024. However, the outlook for the remainder of 2024 is unclear. The upcoming election, moderating economic growth, a softening labor market, and potential rate cuts combine to create significant degree of uncertainty.

Economic Outlook

- Fears of an impending recession have again taken center stage. A weaker-than-expected jobs report and deterioration in the ISM manufacturing index has led to speculation that the Fed may cut rates by 50bps at the FOMC meeting in September.
- According to the Conference Board Economic Forecast for the US Economy, GDP growth should tick up later in 2024 as inflation subsides and the Fed lowers rates.

Median ROATCE

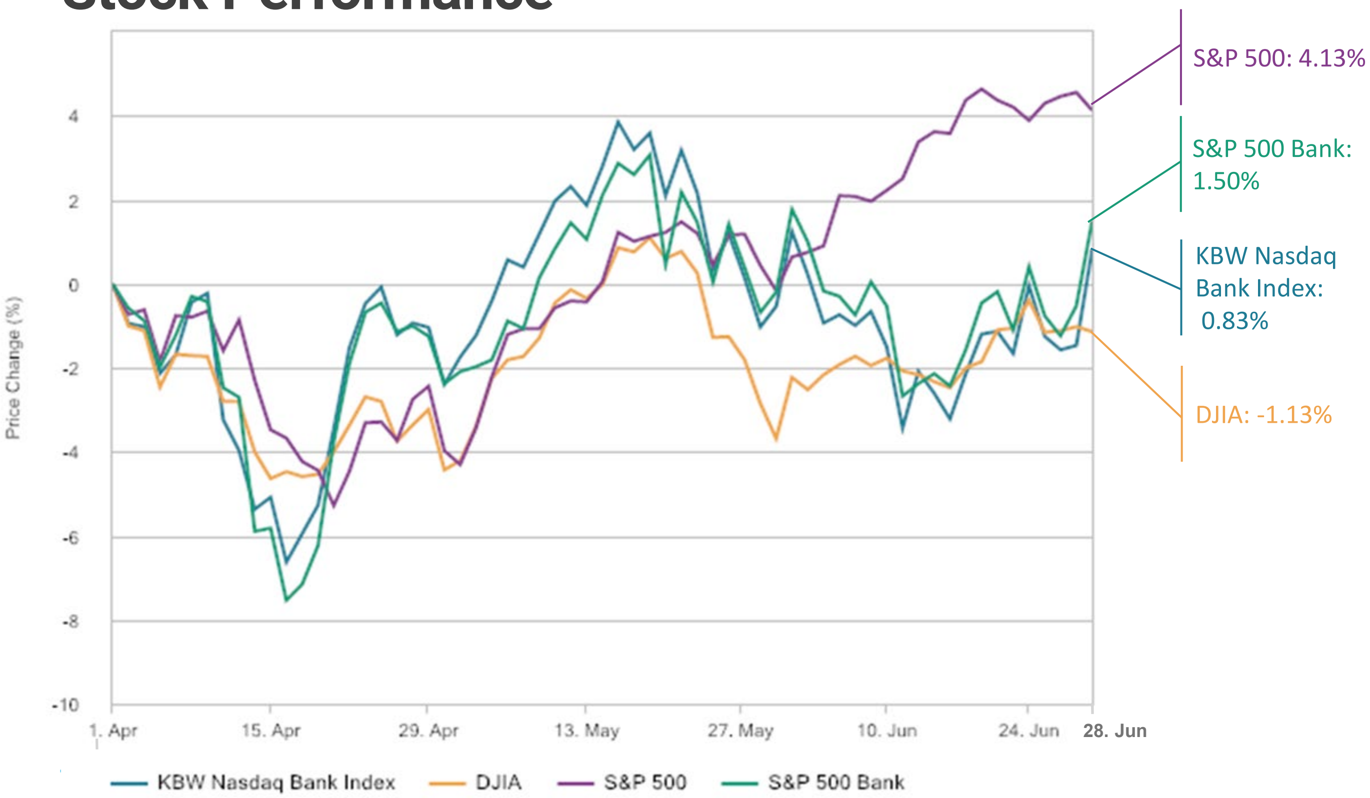


Asset Tier	Median Price/Tangible Book Value[2] Q2 2024	Median Total Return to Shareholders[3] Q2 2024
Over $500B	157.46%	18.79%
$50B-$499.9B	141.41%	6.88%
$10B-$49.9B	136.52%	(7.75%)
$1B-$9.9B	101.21%	(6.20%)
Under $1B	86.73%	0.40%

Bigger was better regarding financial performance in 2Q24. The two largest asset tiers posted the highest median ROATCE and generated a median return to shareholders ranging from 6.88% to 18.79%. Many regionals reported an increase in EPS on a linked quarter basis, as deposit costs stabilized. Institutions in the smaller asset tiers did not perform as well.

Source: CPG analysis of data provided by S&P Global Market Intelligence, 2024.
1. 433 publicly traded U.S. banks and thrifts that had reported Q2 2024 results as of 7/29/24.
2. Share price as of 6/30/24.
3. Total Return to Shareholders YTD as of 6/30/24.

Stock Performance



Both bank and broader market indices declined in April caused in part by higher-than-expected inflation data, which lowered the projected number of Federal Reserve rate cuts this year. However, bank and market indices have recovered or surpassed previous levels since then. The S&P 500 Index increased by 4.13% between March 31st and June 30th. The S&P 500 Bank Index, composed of the largest 60 U.S. Banks, increased by 1.5% over the same period, while the KBW Nasdaq Bank Index, comprised of 24 of the largest banks in the U.S., rose by 0.83%.

Source: S&P Global Market Intelligence, 2024. Price Change (%) collected from March 31, 2024 through June 28, 2024.

Top Valued Banks as of June 30, 2024 (Price/Tangible Book Value)

Asset Tier (Institution)	Headquarters (City, State)	Price/Tangible Book Value (X) As of 6/30/24	Change [3/31/24-6/30/24]
Over $500B Median		1.6	0.0
Morgan Stanley	New York, NY	2.3	0.0
JPMorgan Chase & Co.	New York, NY	2.2	-0.1
U.S. Bancorp	Minneapolis, MN	1.8	-0.3
$50B-$499.9B Median		1.4	-0.1
The Bank of New York Mellon Corporation	New York, NY	2.5	0.0
Discover Financial Services	Riverwoods, IL	2.2	-0.2
Fifth Third Bancorp	Cincinnati, OH	2.1	-0.1
Regions Financial Corporation	Birmingham, AL	1.9	-0.1
Huntington Bancshares Incorporated	Columbus, OH	1.7	-0.1
$10B-$49.9B Median		1.4	0.0
First Financial Bankshares, Inc.	Abilene, TX	3.5	-0.5
Community Financial System, Inc.	Dewitt, NY	3.2	-0.1
Commerce Bancshares, Inc.	Kansas City, MO	2.6	0.1
Cullen/Frost Bankers, Inc.	San Antonio, TX	2.3	-0.3
ServisFirst Bancshares, Inc.	Birmingham, AL	2.3	-0.2
$1B-$9.9B Median		1.0	0.0
Triumph Financial, Inc.	Dallas, TX	3.3	0.1
Pathward Financial, Inc.	Sioux Falls, SD	3.2	0.1
City Holding Company	Charleston, WV	3.0	0.0
Greene County Bancorp, Inc.	Catskill, NY	2.8	0.3
Lakeland Financial Corporation	Warsaw, IN	2.4	-0.2
Under $1B Median		0.9	0.0
Marine Bancorp of Florida, Inc.	Vero Beach, FL	2.0	NA
Truxton Corporation	Nashville, TN	1.9	-0.1
Trinity Bank, N.A.	Fort Worth, TX	1.9	NA
Juniata Valley Financial Corp.	Mifflintown, PA	1.7	-0.3
RBAZ Bancorp, Inc.	Phoenix, AZ	1.5	0.6

The median price/tangible book value multiples were essentially unchanged for all asset tiers between March 31, 2024, and June 30, 2024.

The multiples of most of the top-valued institutions in each asset tier experienced a slight decline.

The multiples of a few smaller regional and community banks ticked up, including that of Triumph Financial and Pathward Financial.

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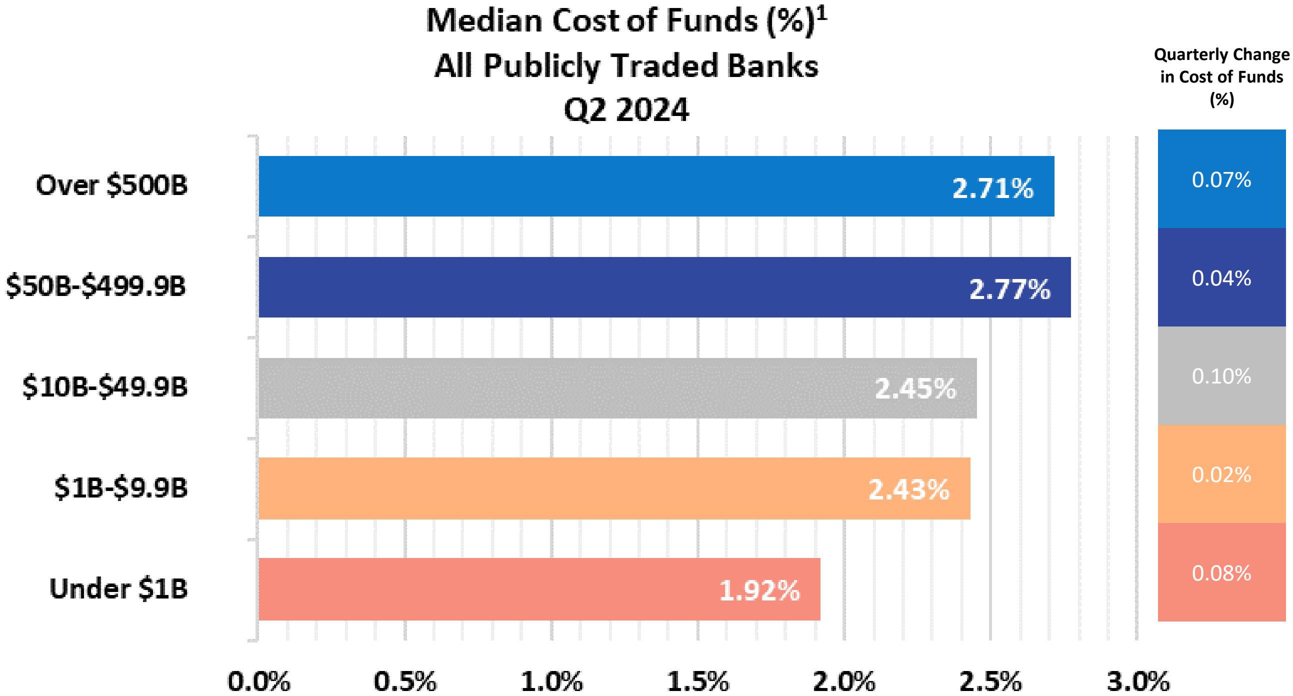
Cost of Funds



The median cost of funds rose between 2bps and 10bps. The increase was sharpest among institutions with between $10B and $49.9B in total assets. Most banks continued to see a rotation into higher-rate deposit products. According to S&P Global, the number of banks offering a rate of over 4% on a one-year $10,000 CD rose to 819 as of June 7, up from 728 at March 31 and 639 at year-end 2023. Of these 819 banks, 146 marketed rates of 5% or more.

Source: CPG analysis of data provided by S&P Global Market Intelligence, 2024.
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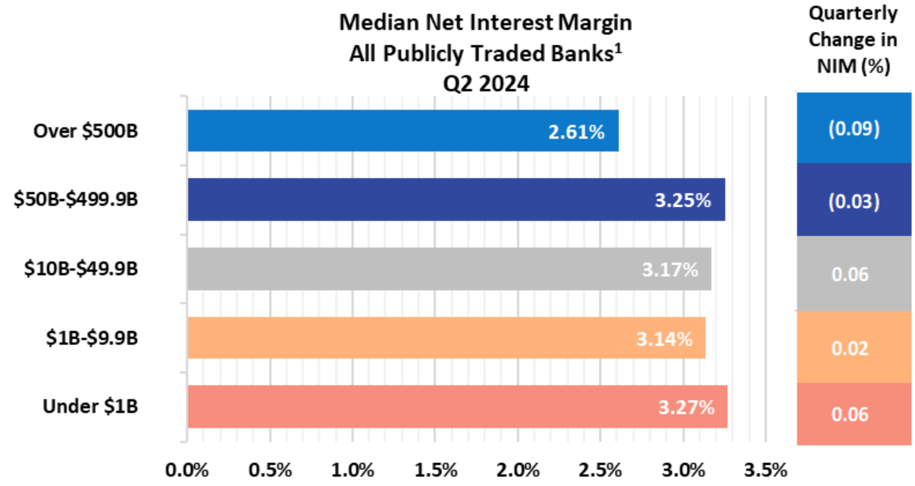
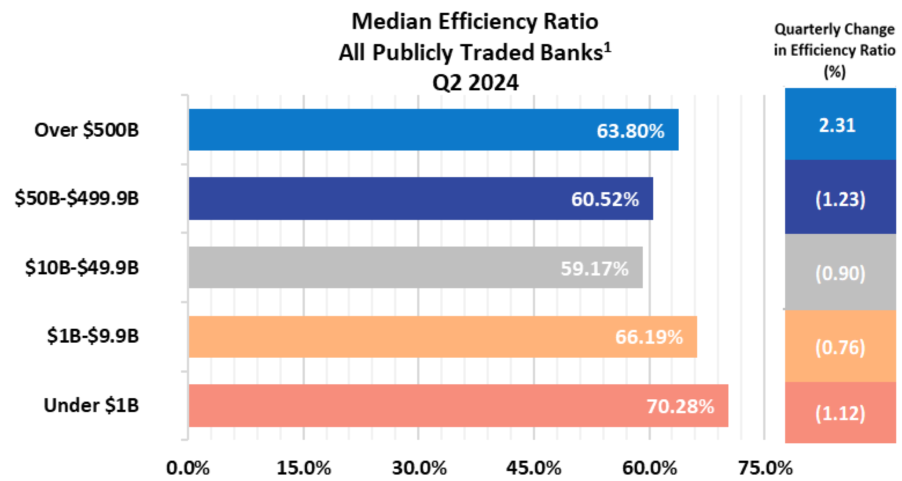
Net Interest Margin

The median net interest margin increased in the three asset tiers below $50B in 2Q24, but it decreased in the two largest asset tiers. Executives were generally optimistic that margins would expand over the remainder of the year with Fed rate cuts.



Efficiency Ratio

Median efficiency ratios improved across all asset tiers below $500B in 2Q24. The over $500B asset tier saw a decline in median revenue that outpaced its reduction in operating costs. The other four asset tiers significantly reduced their efficiency ratios primarily by growing revenue.



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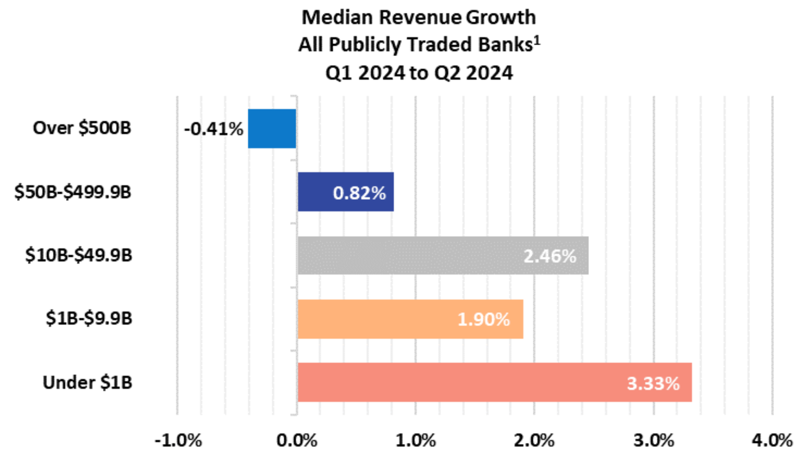
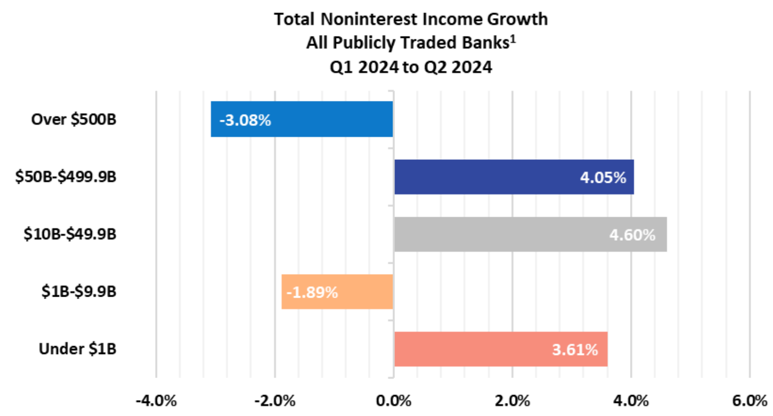
Revenue Growth

Revenue grew for all asset tiers below $500B. Net interest income also increased for those same asset tiers.



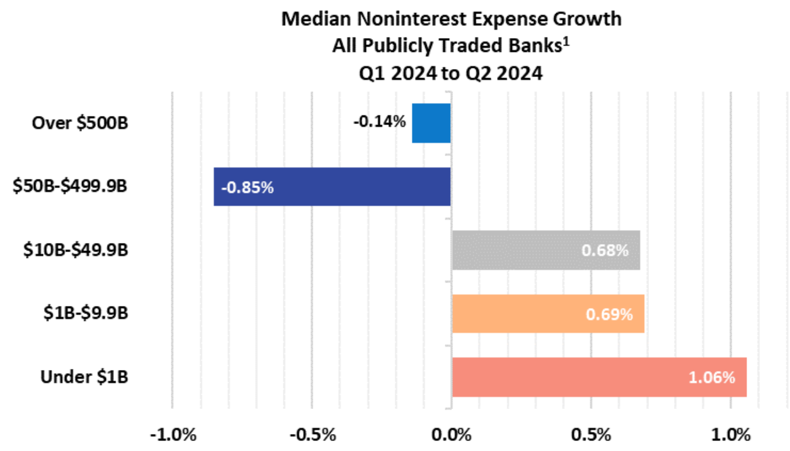
Noninterest Income

Total noninterest income growth declined for the over $500B and the $1B-$9.9B asset tiers in 2Q24. The $10B-$49.9B asset tier had the largest quarterly increase in fee income at 4.60%.



Noninterest Expense

Noninterest expense growth was negligible across all asset tiers in 2Q24. In fact, asset tiers above $50B reduced operating expenses.



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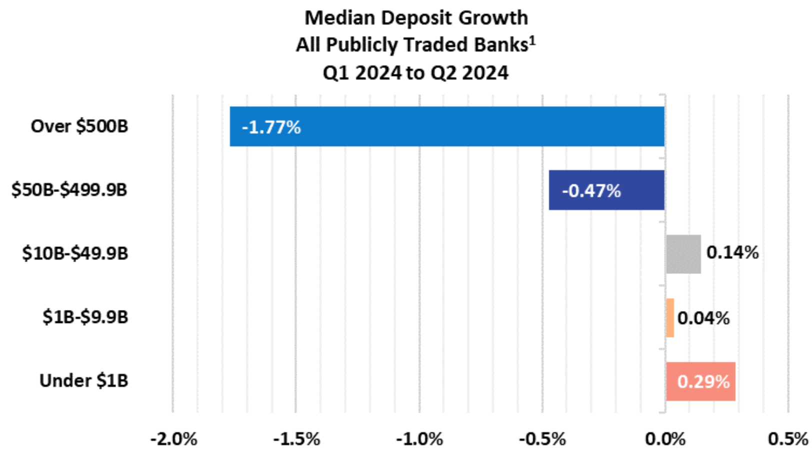
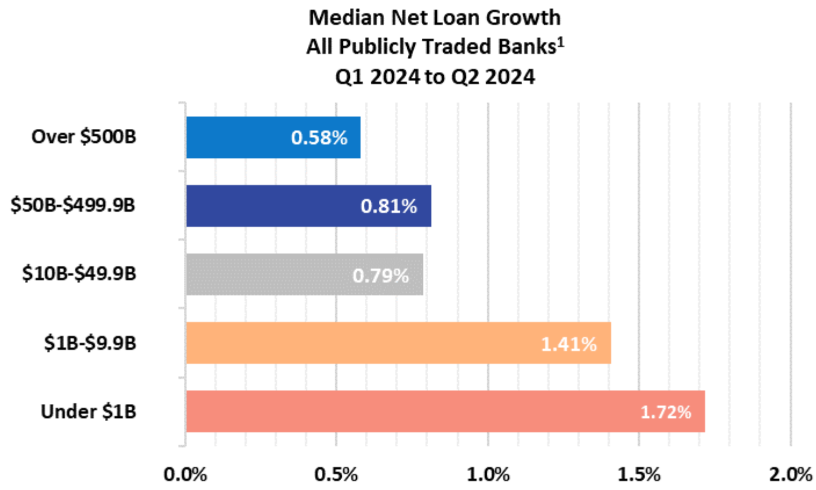
Deposit Growth

Deposit growth remained a challenge across all asset tiers in 2Q24. Growing core deposits will remain the primary focus of many institutions for the second half of 2024.



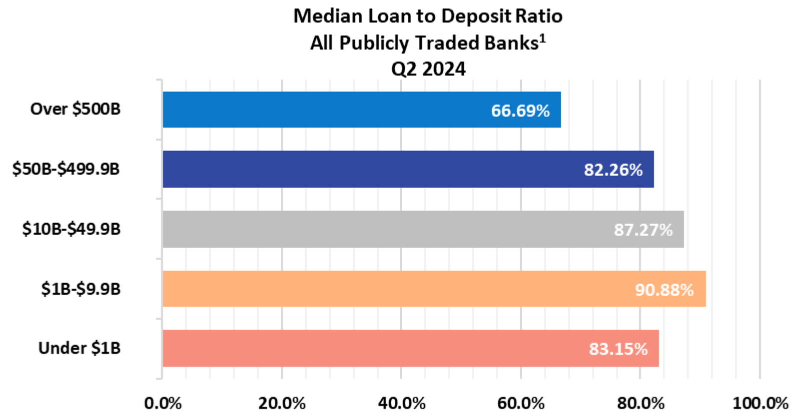
Net Loan Growth

Ongoing funding challenges and tighter credit standards for CRE, credit card, and auto lending led to muted loan growth in 2Q24. Median loan growth was less than 1.42% for all tiers above $1.0B.



Loan to Deposit Ratio

The aggregate industry loan-to-deposit ratio increased after two straight quarters of declines. All four asset tiers below $500B maintained loan-to-deposit ratios over 80.0%.



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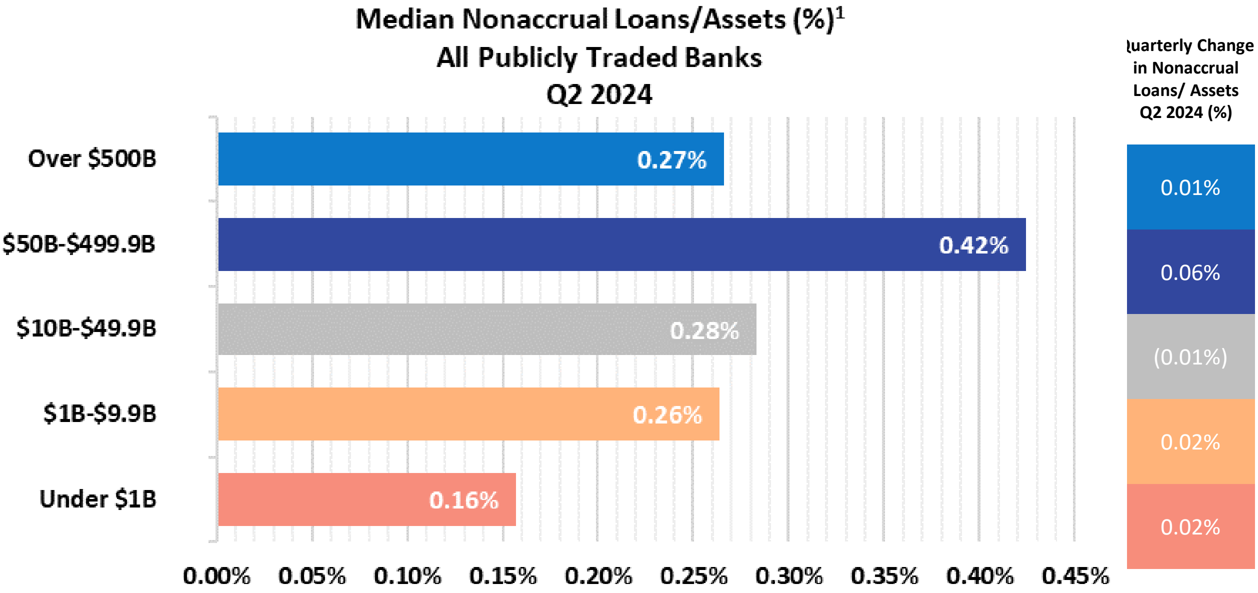
Nonaccrual Loans/Assets



The median ratio of nonaccrual loans to total assets increased in all asset tiers except for the $10B-$49.49B group in 2Q24, as the industry aggregate median ratio of nonaccrual loans to total assets continued to tick up. In the second quarter, credit continued to normalize but did not bleed into new spaces, according to Piper Sandler. Banks' solid second-quarter earnings reports alleviated concerns about credit risk problems, though commercial real estate risks remain, Janney Montgomery Scott analyst Christopher Marinac said. “Pre-provision net revenue has been stable in the past quarter, which supports future reserve-building when necessary to cover new credit losses,” Marinac added.

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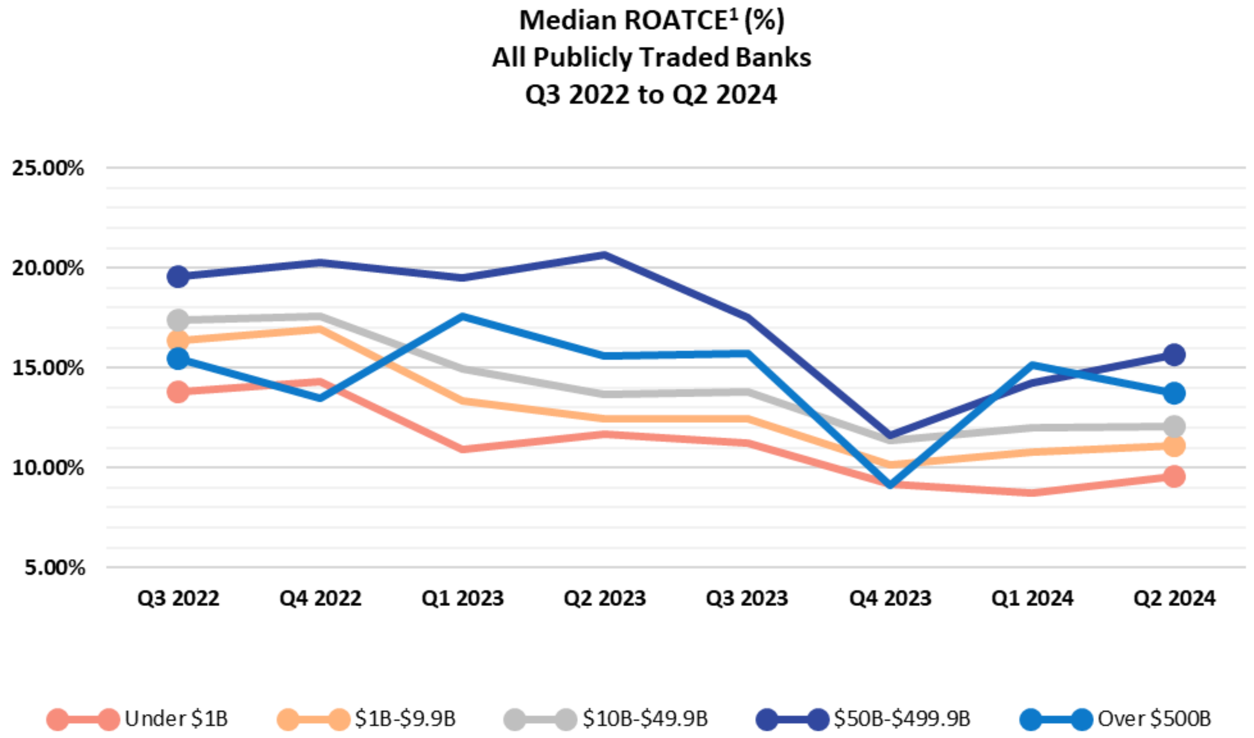
ROATCE Trends by Asset Tier



The median ROATCE increased in asset tiers with less than $500B in total assets in 2Q24. Net interest income also increased for all asset tiers less than $500B. All asset tiers except the over $500B tier and the $1B-$9.9B tier saw total fee income grow from the prior quarter.

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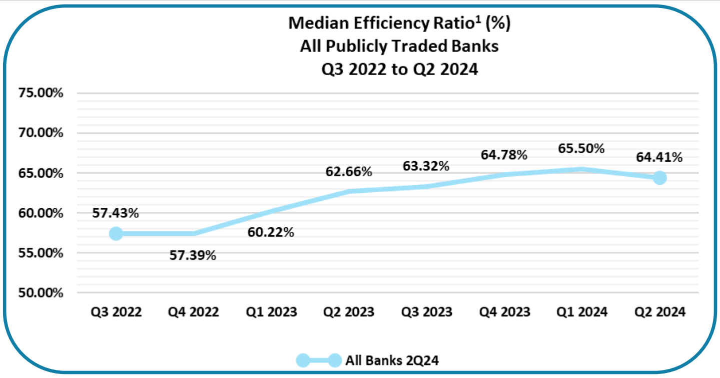
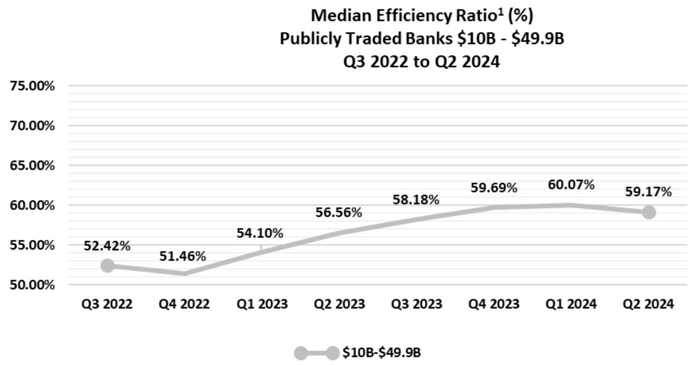
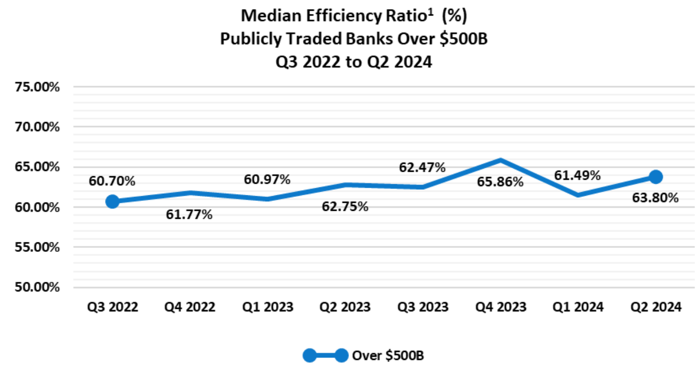
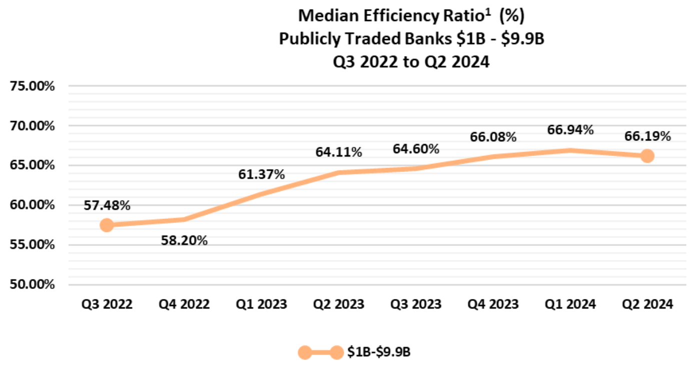
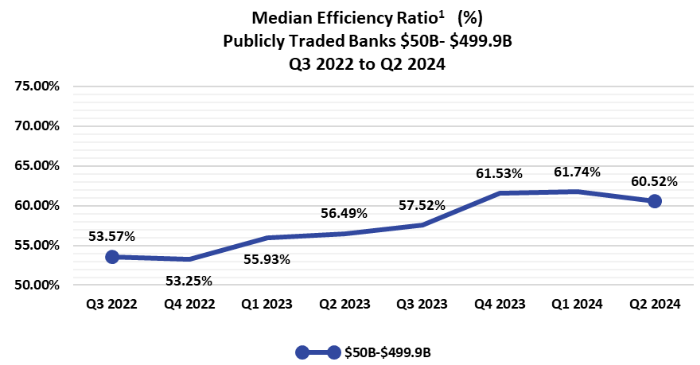
Efficiency Trends by Asset Tier

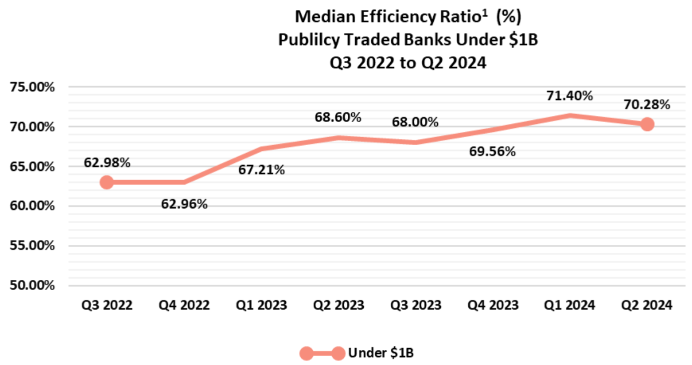












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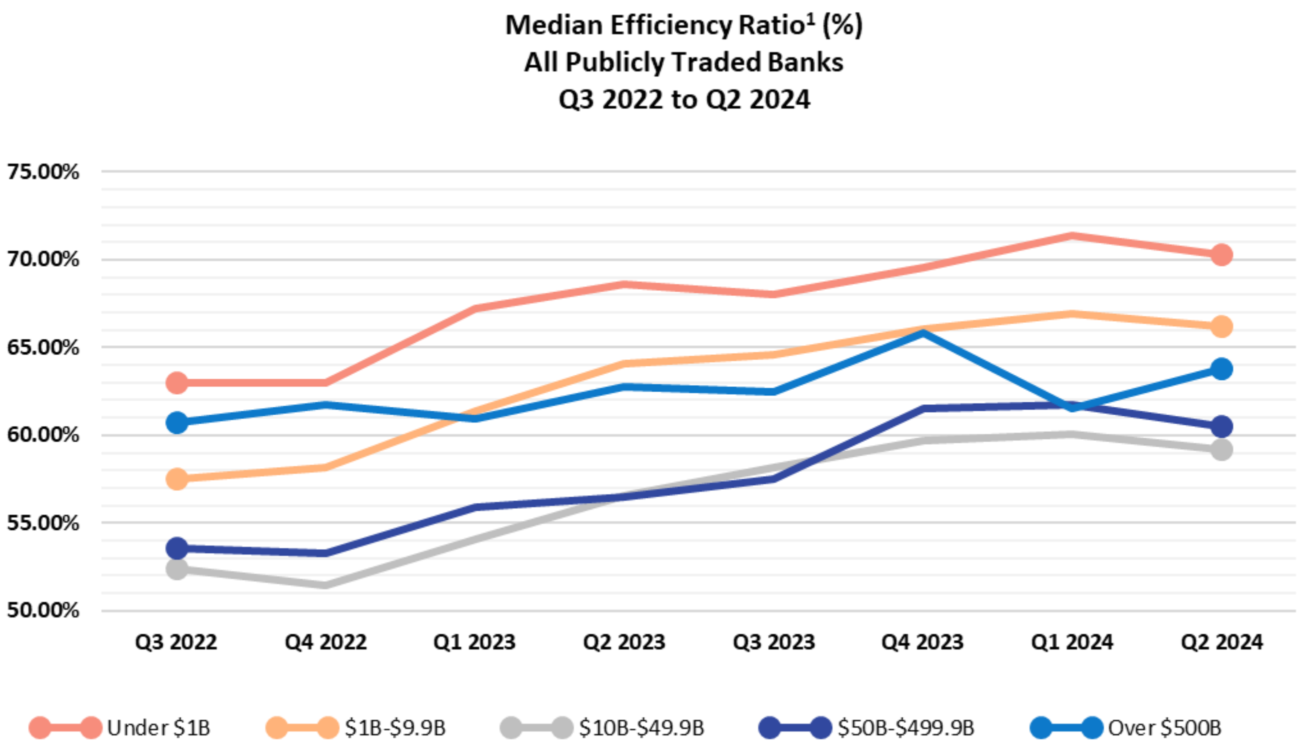
Efficiency Trends by Asset Tier



Efficiency ratios improved for all asset tiers below $500B in the second quarter of 2024. The largest asset tier's 41bps decrease in median revenue outpaced its 14bps reduction in operating costs, resulting in a 2.31% increase in the tier's median efficiency ratio. Many banks continue to actively pursue cost-cutting measures in an effort to offset increased interest expenses.

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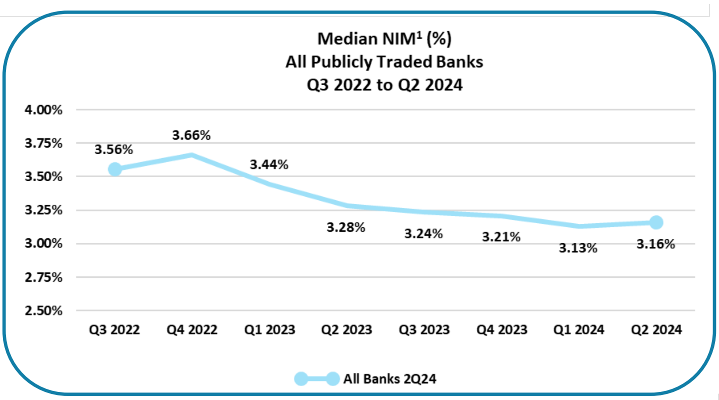
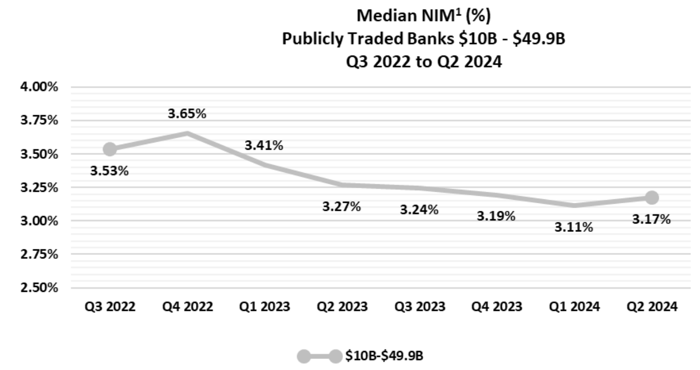
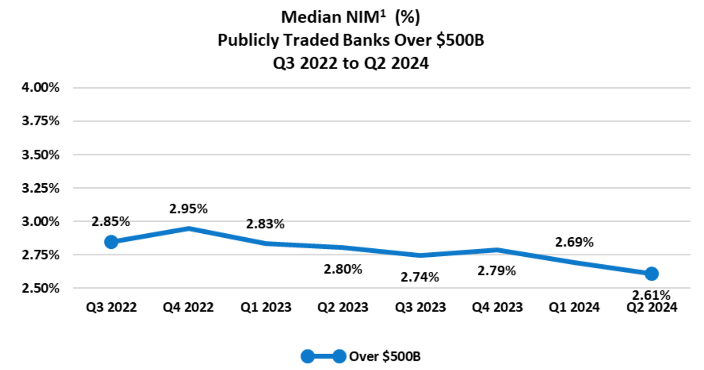
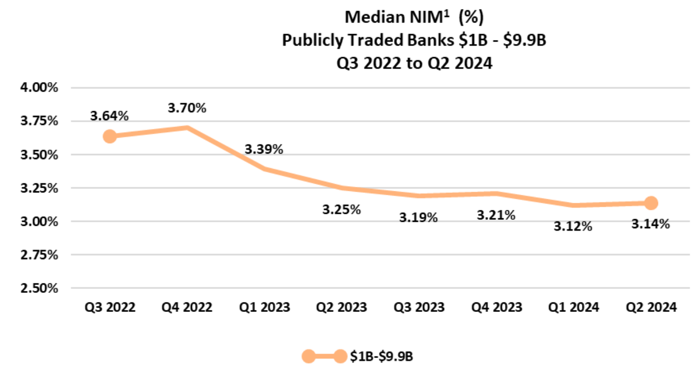
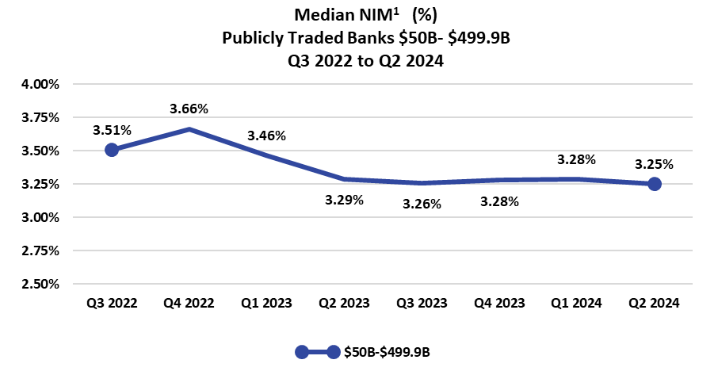
Net Interest Margin Trends by Asset Tier

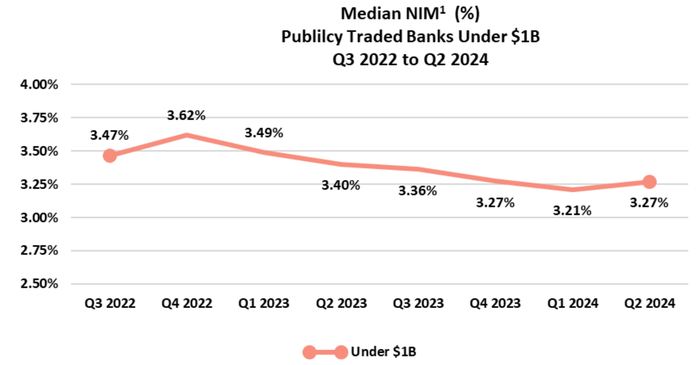












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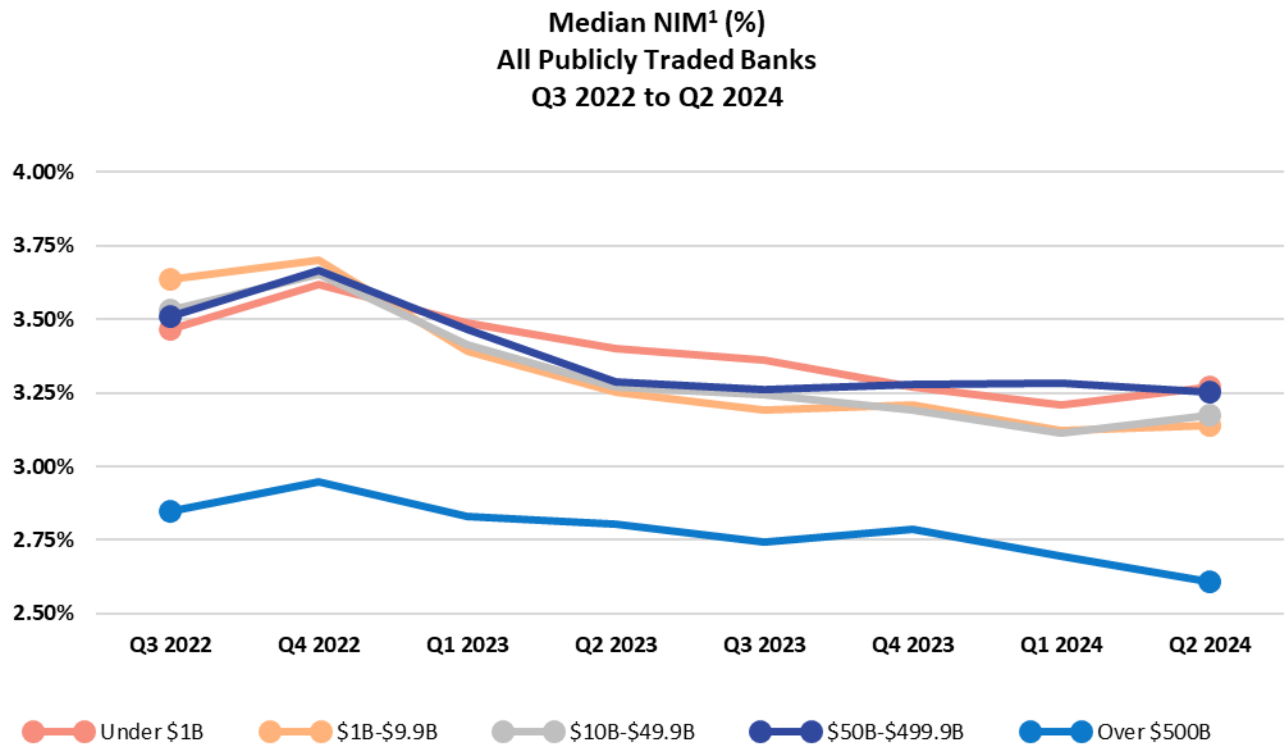
Net Interest Margin Trends by Asset Tier



Median net interest margins expanded among the three asset tiers below $50.0B in assets but contracted in the two largest asset tiers. According to S&P Global Market Intelligence, while the pressure of net interest margin could subside soon, higher deposit costs will prove stubborn for the vast majority of banks during the remainder of 2024 unless there are notable declines in interest rates. Longer term, it stated that "net interest margins should rise modestly in 2025 before expanding more notably in 2026, when the profitability metric is expected to rise 16 basis points year over year."

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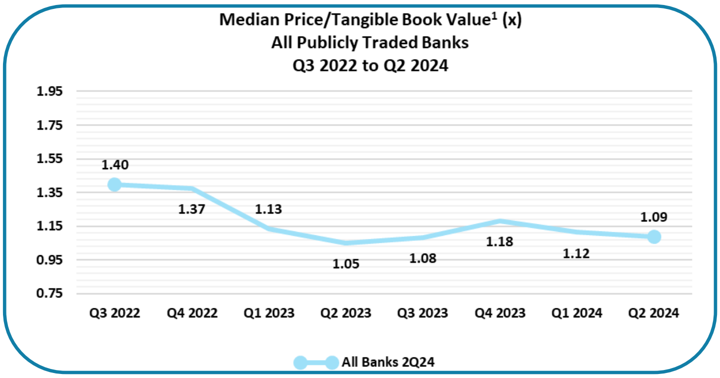
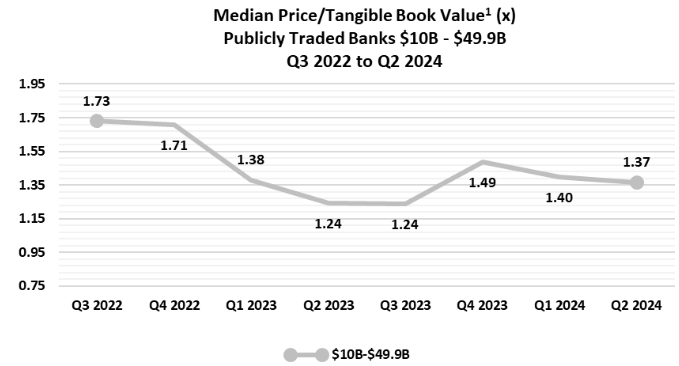
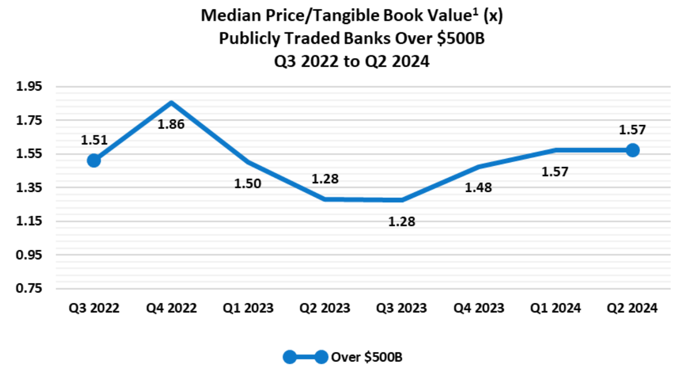
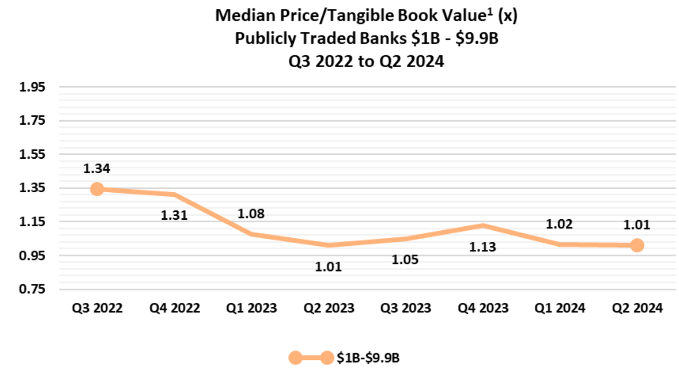
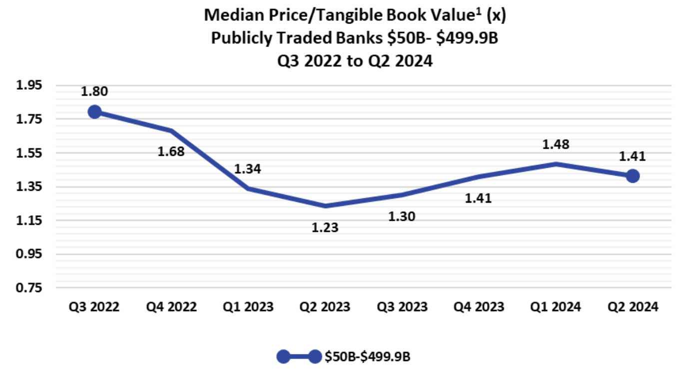
Valuation Trends by Asset Tier

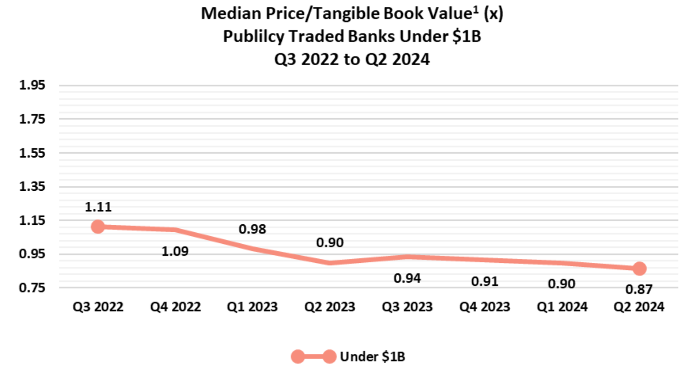












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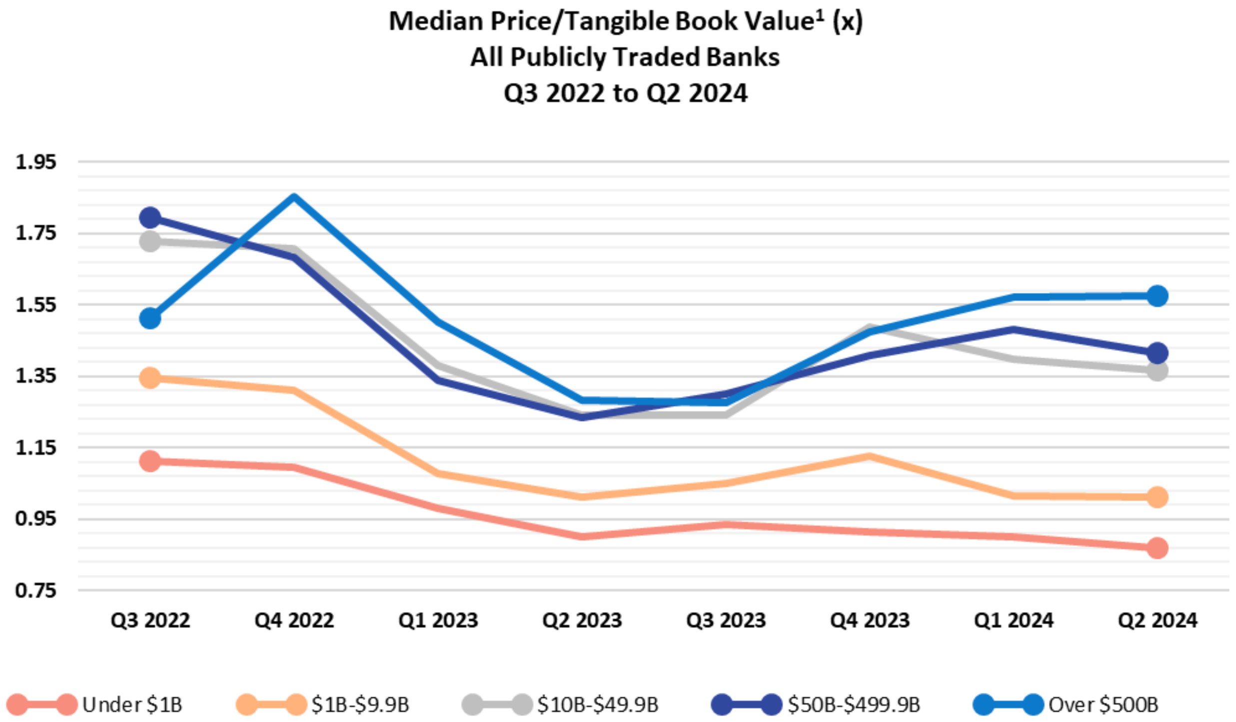
Valuation Trends by Asset Tier



After making a recovery at the end of last year, bank stock valuations held steady in the second quarter of 2024. The median price to tangible book value decreased by at least 3bps for small community banks under $1B in assets and banks between $10B and $499.99B in total assets. Stocks rallied after the Federal Reserve kept interest rates unchanged in July, as expected, while highlighting inroads against inflation. However, the 2024 outlook for bank stocks is unclear. Looking ahead, investors will have to balance an increase in election-related uncertainties with moderating economic growth, inflation and potential rate cuts setting a positive stage for corporate earnings and equities.

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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.

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