



3Q24 Quarterly Bank Report

November 5, 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:

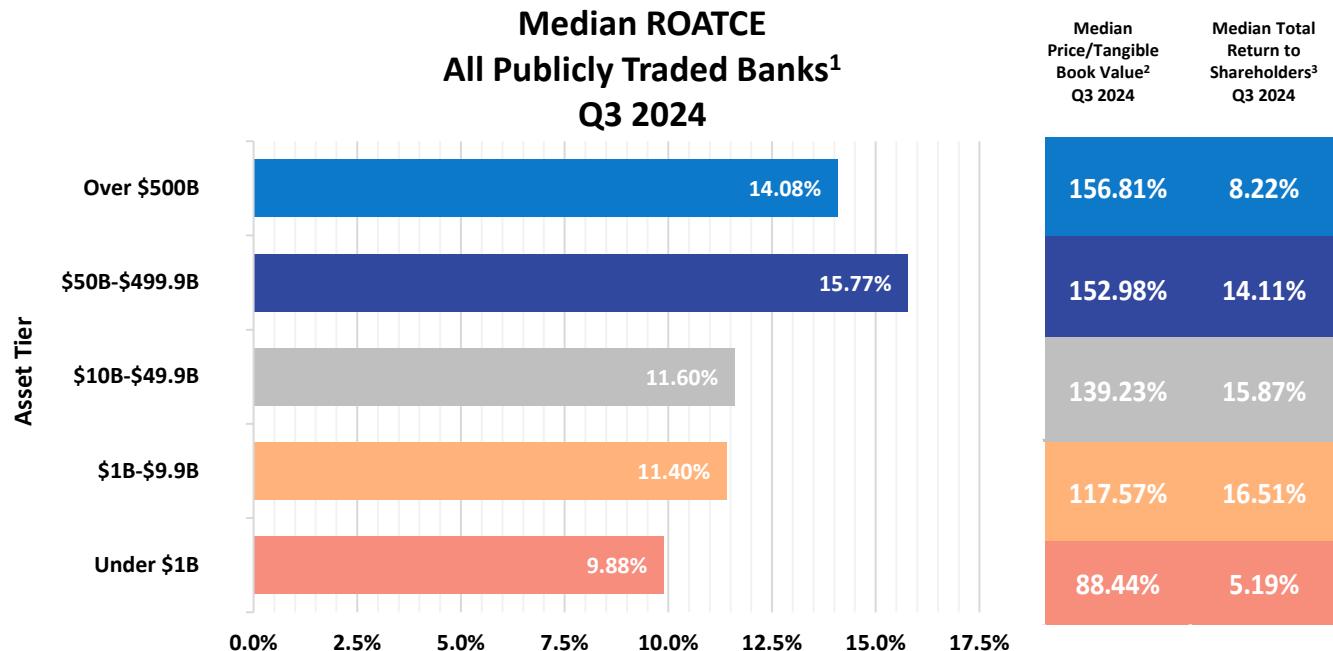
The third-quarter earnings reports demonstrated continued improvement in the banking industry's financial performance. The quarter was also characterized by an uptick in investor sentiment regarding the industry, as shown by higher valuations.

- ✓ The median ROATCE increased in three of five asset tiers. Total fee and net interest income grew in all asset tiers from the prior quarter.
- ✓ Funding costs continued to rise in the third quarter, albeit only slightly. The median cost of funds rose between 2bps and 8bps across all five asset tiers. However, many banks started to lower deposit rates following the September 19th rate cut by the FOMC, and funding costs are expected to decline as the Fed continues to lower interest rates
- ✓ Efficiency ratios improved for all asset tiers 3Q24, as revenue growth outpaced growth in operating expenses.
- ✓ While the median ratio of nonaccrual loans to total assets increased slightly in three of five asset tiers, most banks posted lower provisions for credit losses than expected, and concerns about a broad deterioration in credit are receding.
- ✓ Loan growth remained tepid. The median loan growth was less than 1.00% for all tiers. Loan growth will likely increase in the coming quarters, assuming banks can obtain the core deposits to fund it.
- ✓ Bank stock valuations rebounded in the third quarter. The KBW Nasdaq Bank Index, comprised of 24 of the largest banks in the U.S., rose by 8.88%, exceeding the broader market. The median stock price to tangible book value increased by at least 7bps in four asset tiers. Despite the recent increase, median valuations remain well below levels in 4Q22.
- ✓ M&A activity will continue to accelerate as credit quality concerns recede and the trading multiples of acquirers strengthen.

Economic Outlook

- Job growth slowed sharply in October, continuing a trend of reports showing slowing job growth. However, the unemployment rate, at 4.1%, remains relatively low.
- The Commerce Department reported that GDP grew at a solid 2.8% in the third quarter.
- The FOMC is expected to lower the target fed funds range by 25bps at its next meeting on November 6-7.

Median ROATCE



The two largest asset tiers posted the highest median ROATCE. However, banks in the \$1B-\$9.9B and \$10B-\$49.9B asset tiers generated the highest median total returns to shareholders: 16.51% and 15.87%, respectively. The median performance of the smallest asset tier lagged that of the larger tiers.

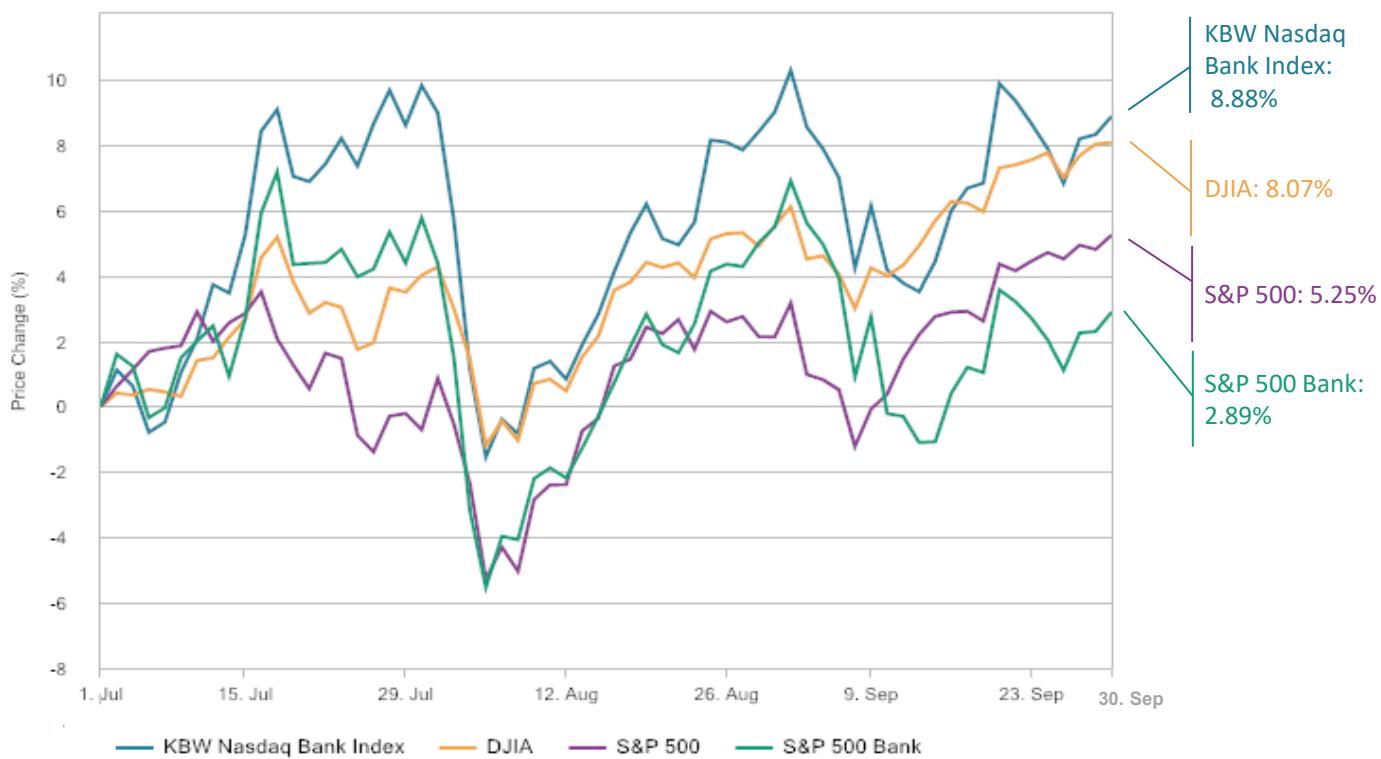
Source: CPG analysis of data provided by S&P Global Market Intelligence, 2024.

1. 419 publicly traded U.S. banks and thrifts that had reported Q3 2024 results as of 10/29/24.

2. Share price as of 9/30/24.

3. Total Return to Shareholders Q3 as of 9/30/24.

Stock Performance



Both bank and broader market indices declined in early August and early September. However, they recovered and finished up for the quarter. The S&P 500 Index increased by 5.25% between June 30th and September 30th. The S&P 500 Bank Index, composed of the largest 60 U.S. Banks, increased by 2.89% over the same period, while the KBW Nasdaq Bank Index, composed of 24 of the largest banks in the U.S., rose by 8.88%.

Source: S&P Global Market Intelligence, 2024. Price Change (%) collected from June 30, 2024 through September 30, 2024.

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

Asset Tier (Institution)	Headquarters (City, State)	Price/Tangible Book Value (X)	
		As of 9/30/24	Change [6/30/24 9/30/24]
Over \$500B Median		1.6	0.0
Morgan Stanley	New York, NY	2.5	0.2
JPMorgan Chase & Co.	New York, NY	2.2	0.0
U.S. Bancorp	Minneapolis, MN	1.9	0.1
\$50B-\$499.9B Median		1.5	0.1
The Bank of New York Mellon Corporation	New York, NY	2.8	0.3
Discover Financial Services	Riverwoods, IL	2.2	0.0
Fifth Third Bancorp	Cincinnati, OH	2.1	0.1
Regions Financial Corporation	Birmingham, AL	1.9	0.0
State Street Corporation	Boston, MA	1.9	0.2
\$10B-\$49.9B Median		1.4	0.1
First Financial Bankshares, Inc.	Abilene, TX	3.9	0.4
Community Financial System, Inc.	Dewitt, NY	3.5	0.2
ServisFirst Bancshares, Inc.	Birmingham, AL	2.8	0.5
BancFirst Corporation	Oklahoma City, OK	2.5	0.3
Glacier Bancorp, Inc.	Kalispell, MT	2.4	0.4
\$1B-\$9.9B Median		1.2	0.1
Pathward Financial, Inc.	Sioux Falls, SD	3.2	0.0
The Bancorp, Inc.	Wilmington, DE	3.2	0.8
Triumph Financial, Inc.	Dallas, TX	3.2	-0.2
City Holding Company	Charleston, WV	3.0	0.0
Stock Yards Bancorp, Inc.	Louisville, KY	2.5	0.4
Under \$1B Median		0.9	0.0
Delhi Bank Corp.	Delhi, NY	2.3	NA
Truxton Corporation	Nashville, TN	2.1	0.2
Juniata Valley Financial Corp.	Mifflintown, PA	1.6	-0.1
Village Bank and Trust Financial Corp.	Midlothian, VA	1.5	0.6
River Valley Community Bancorp	Yuba City, CA	1.3	-0.2

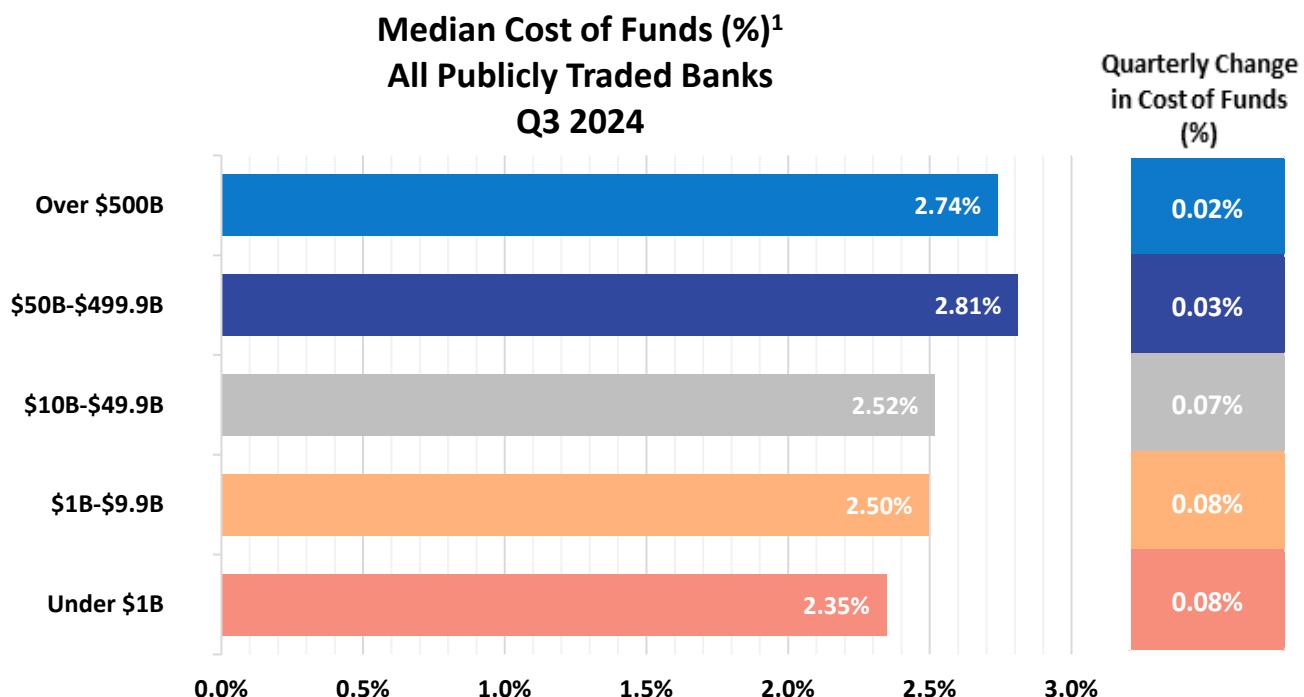
The median price/tangible book value multiples either increased or remained unchanged for all asset tiers between June 30, 2024, and September 30, 2024.

The multiples of most of the top-valued institutions in each asset tier similarly experienced increases.

The multiples of certain smaller regional and community banks experienced sharp increases. One of the things that is driving higher valuations is a rebound in M&A. Of note, Village Bank announced it was being acquired by TowneBank on September 24th.

Source: CPG analysis of data provided by S&P Global Market Intelligence, 2024.
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Cost of Funds



The median cost of funds rose between 2bps and 8bps. The increase was the largest among institutions in the two smallest asset tiers. Executives attributed the higher costs to sustained competition and ongoing rotation into higher-yielding deposit products.

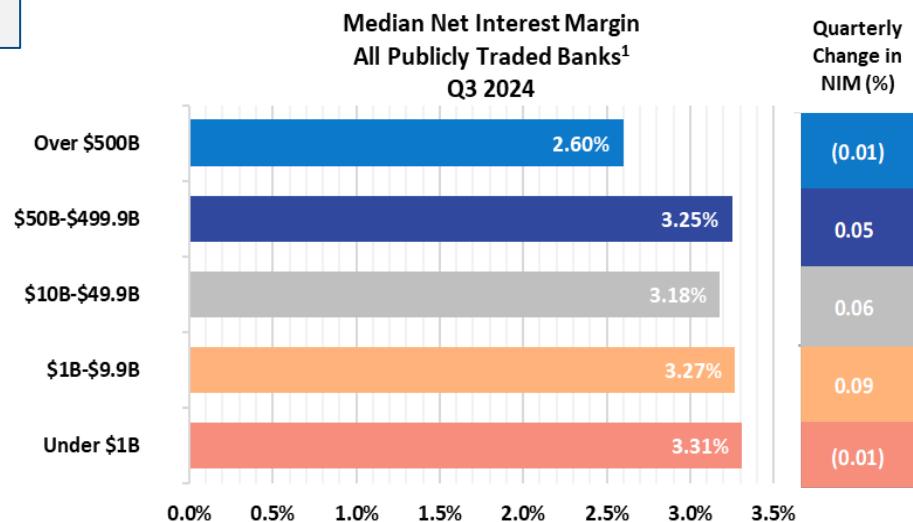
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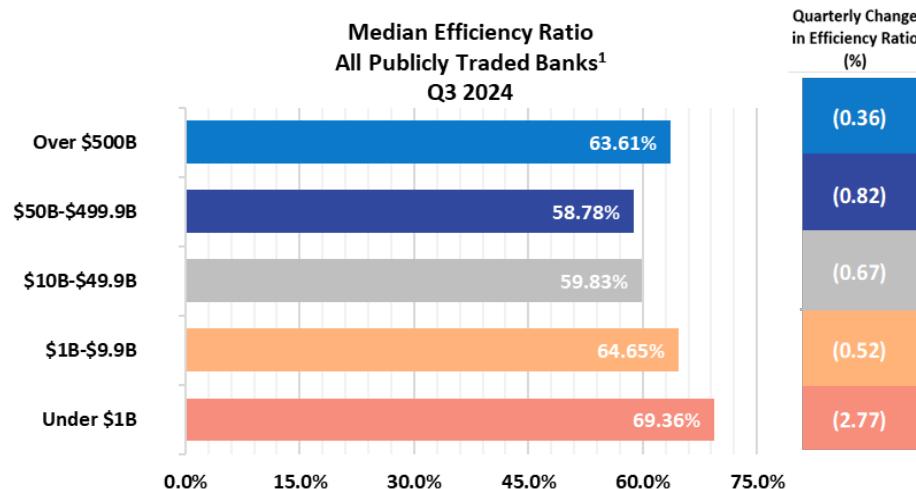
Net Interest Margin

The median net interest margin increased in the middle asset tiers of \$1B-\$500B and declined only slightly in banks over \$500B and under \$1B. Executives were generally optimistic that margins would expand after the September rate cuts and subsequent cuts.



Efficiency Ratio

Median efficiency ratios improved across all asset tiers in 3Q24. All asset tiers saw an increase in median revenue, which strongly outpaced their operating costs.



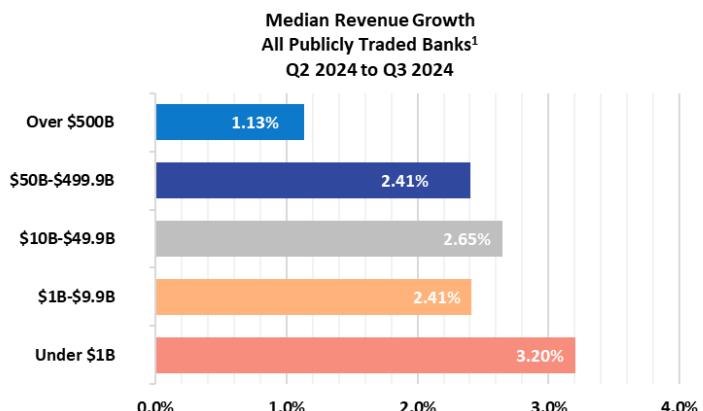
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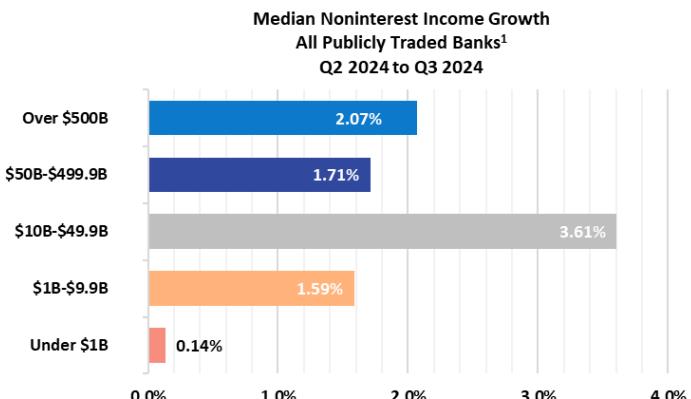
Revenue Growth

Median revenue grew among all asset tiers, with the under \$1B segment experiencing the strongest growth at 3.20%.



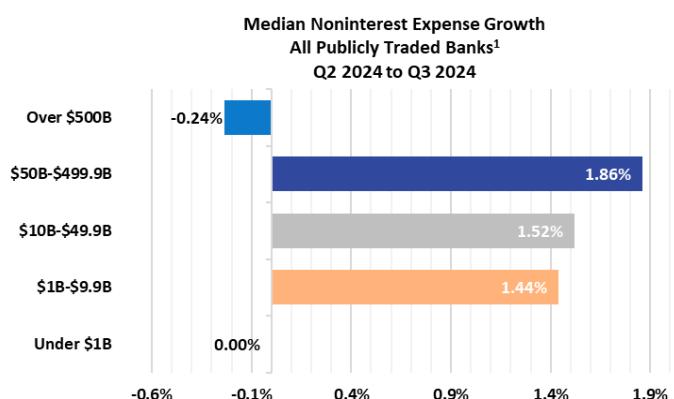
Noninterest Income

Total noninterest income growth increased for all asset tiers in Q3. The \$10B to \$49.9B asset tier experienced the largest quarterly increase in fee income at 3.61%, following its rise of 4.60% in Q2.



Noninterest Expense

Noninterest expense grew across the asset tiers between \$1B and \$499.9B and showed little variability for the lowest and highest asset tiers. Management alluded to higher salaries and compensation as one of the main reasons for the increases.



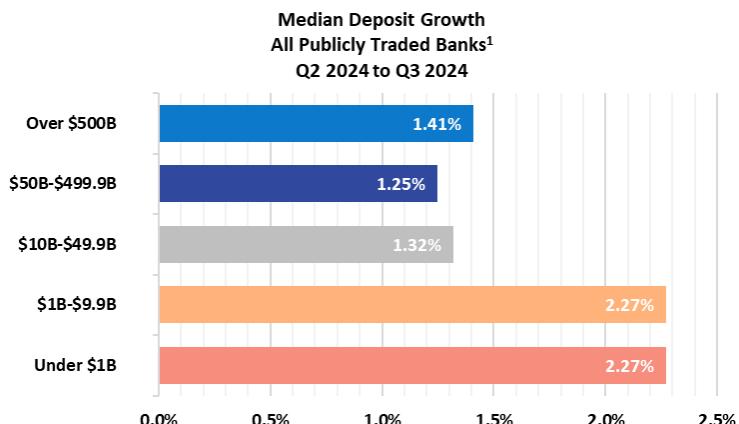
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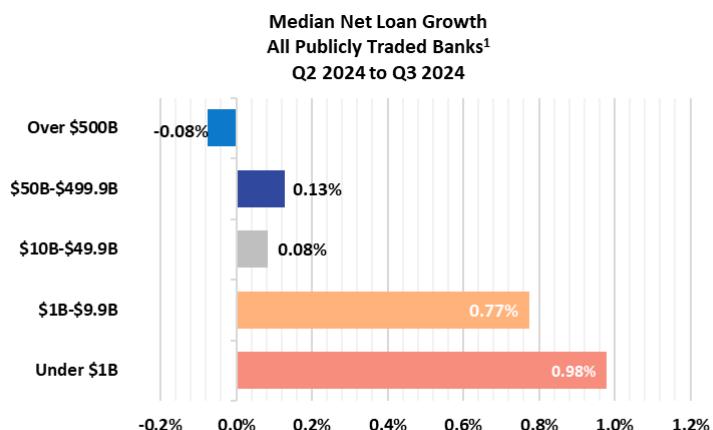
Deposit Growth

Deposits saw an uptick in the third quarter with increases across all asset tiers largely due to a sustained rise in popularity for short term CD's. Growing core deposits will continue to be a focus for many institutions to close out 2024.



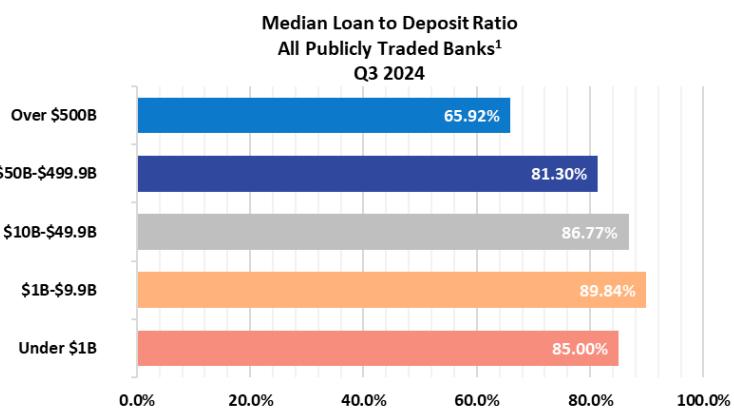
Net Loan Growth

Ongoing funding challenges and tighter credit standards for CRE, credit card, and auto lending led to muted loan growth in 3Q24. Median loan growth was less than 1% for all tiers, with the largest tier decreasing its net loan portfolio.



Loan to Deposit Ratio

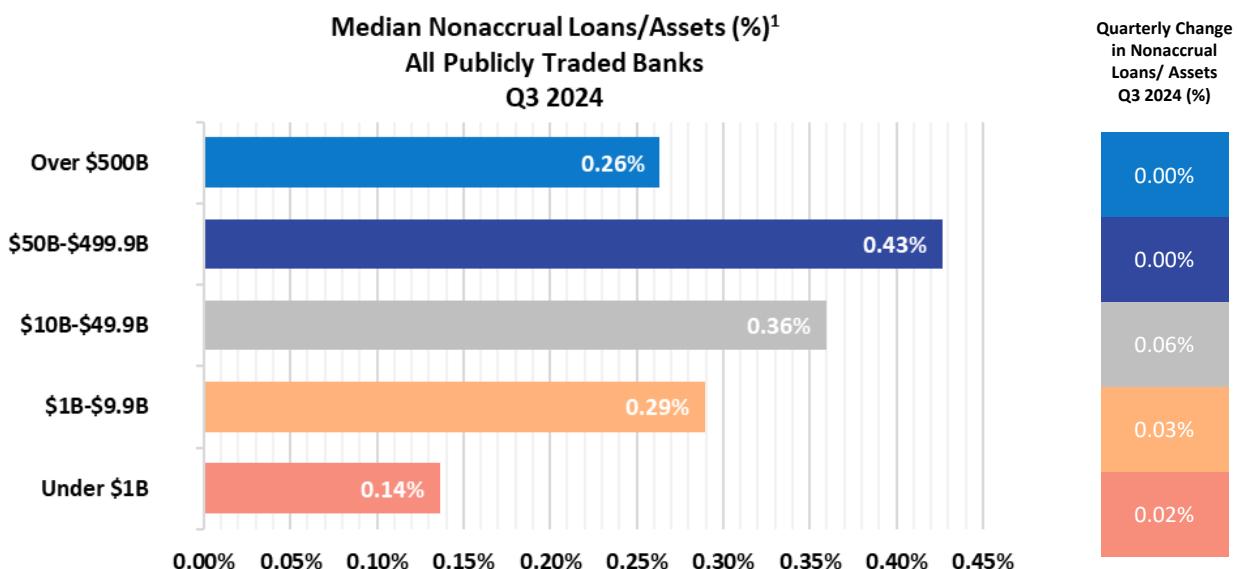
The median loan to deposit ratio decreased for all asset tiers. However, all four asset tiers below \$500B maintained loan-to-deposit ratios over 80.0%.



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

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Nonaccrual Loans/Assets

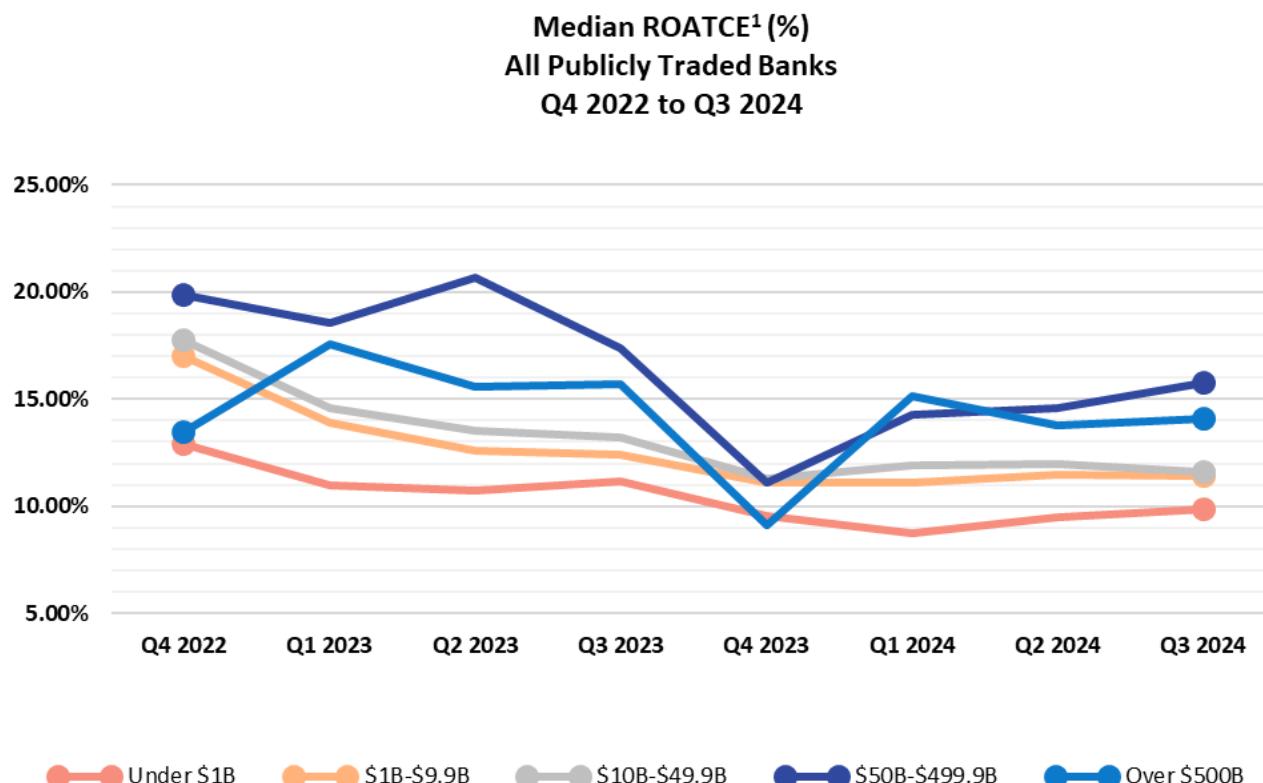


The median ratio of nonaccrual loans to total assets increased across all asset tiers below \$50 billion through the third quarter of 2024, reflecting a broader trend in the industry as the aggregate median ratio continued to rise. In 3Q24, provisions for credit losses also grew, with commercial real estate risks remaining a significant concern. However, solid earnings reports from banks eased some apprehensions about credit risk. Furthermore, current and anticipated interest rate cuts could make it easier for borrowers to manage floating-rate loans, enhancing the outlook for struggling asset classes and potentially mitigating some credit challenges.

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

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ROATCE Trends by Asset Tier

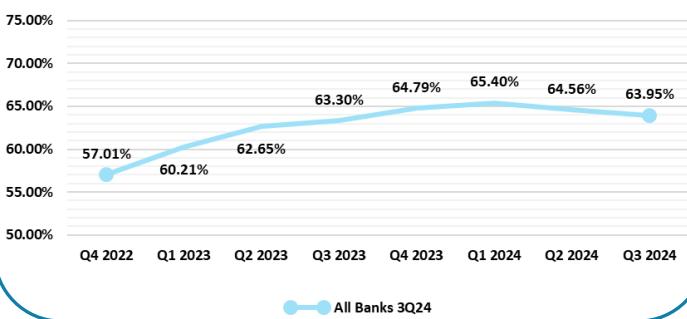


The median ROATCE increased in asset tiers outside of the \$1B-\$49.9B range. Total fee income and net interest income grew in all asset tiers from the prior quarter.

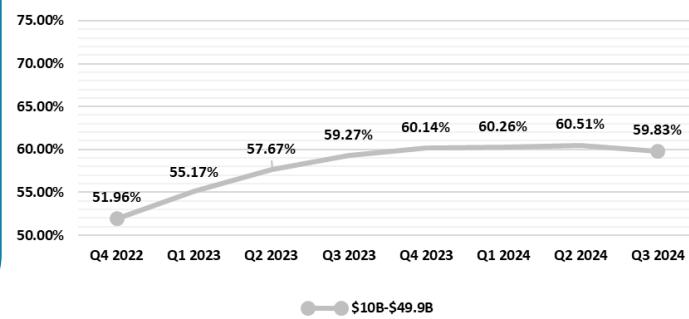
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Efficiency Trends by Asset Tier

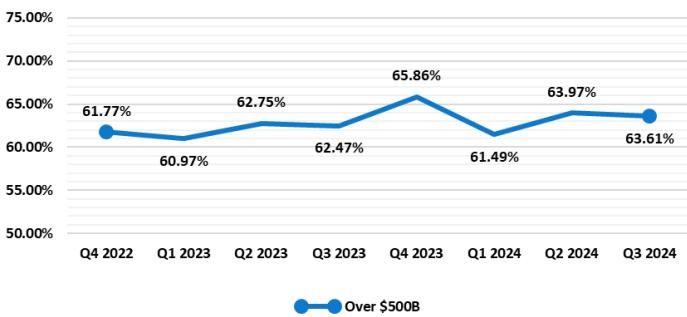
Median Efficiency Ratio¹ (%)
All Publicly Traded Banks
Q4 2022 to Q3 2024



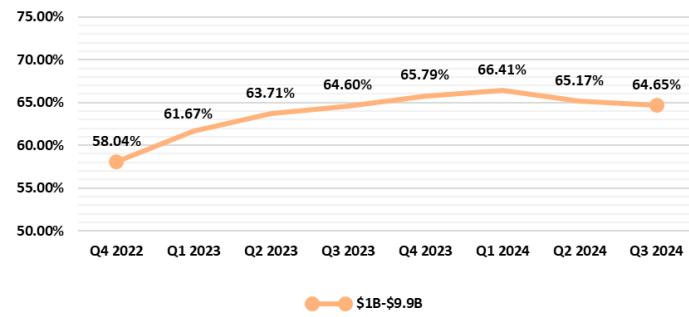
Median Efficiency Ratio¹ (%)
Publicly Traded Banks \$10B - \$49.9B
Q4 2022 to Q3 2024



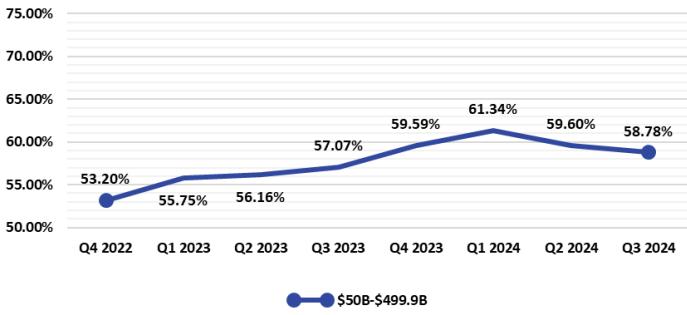
Median Efficiency Ratio¹ (%)
Publicly Traded Banks Over \$500B
Q4 2022 to Q3 2024



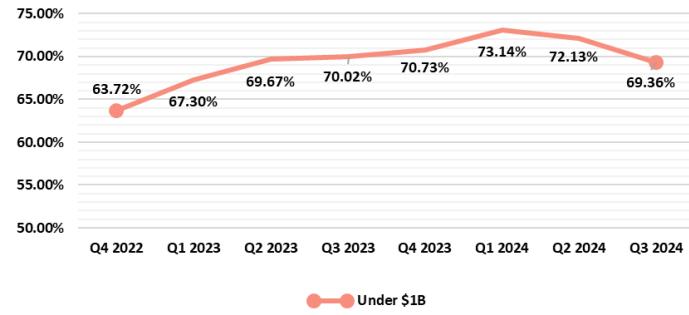
Median Efficiency Ratio¹ (%)
Publicly Traded Banks \$1B - \$9.9B
Q4 2022 to Q3 2024



Median Efficiency Ratio¹ (%)
Publicly Traded Banks \$50B- \$499.9B
Q4 2022 to Q3 2024



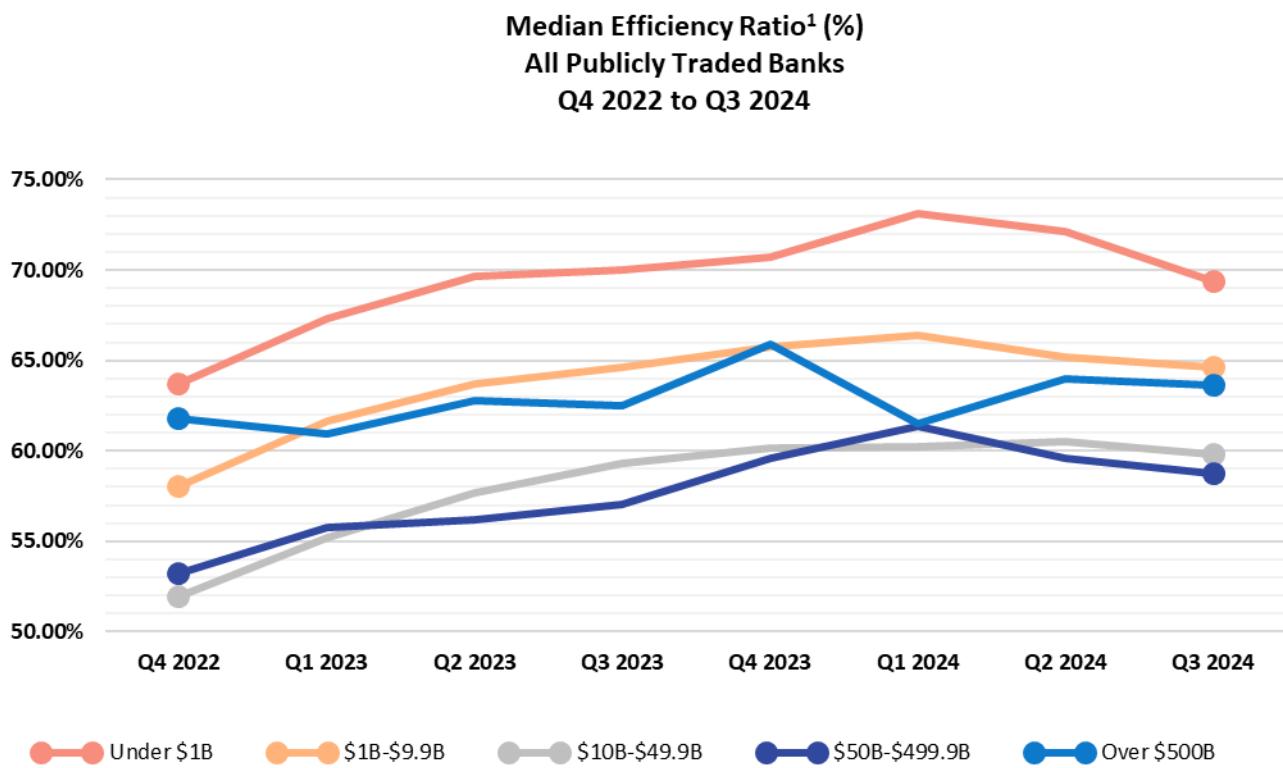
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Efficiency Trends by Asset Tier

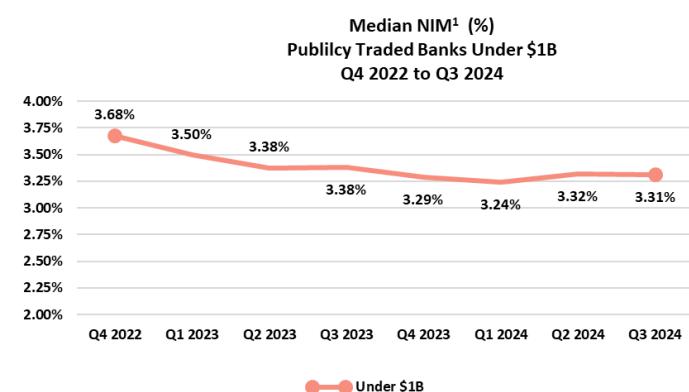
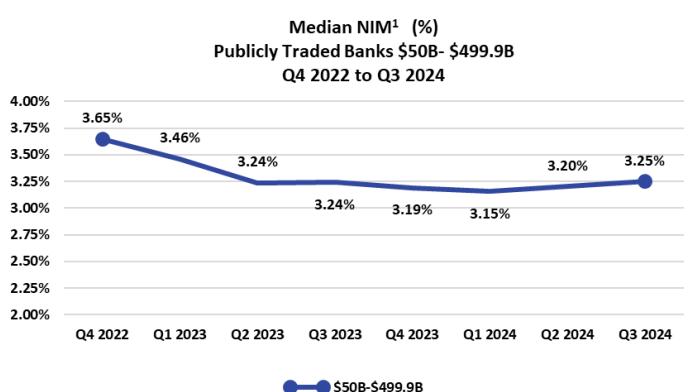
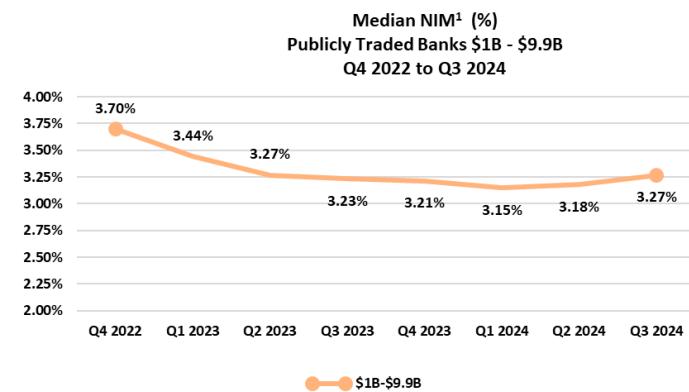
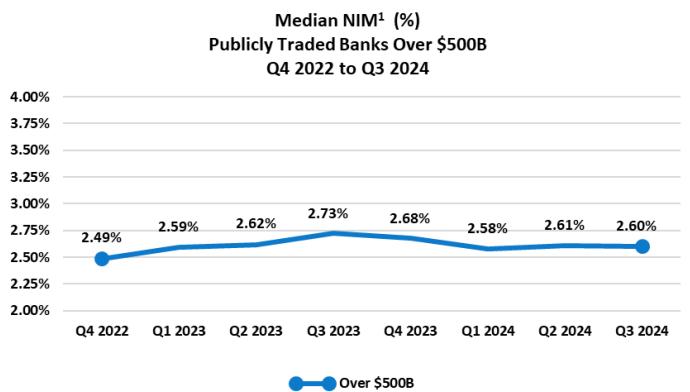
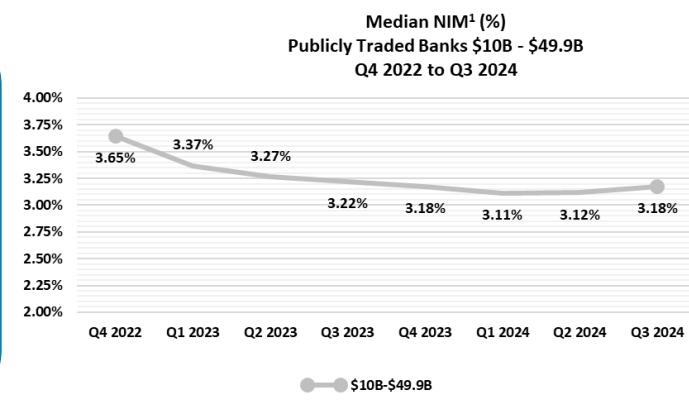
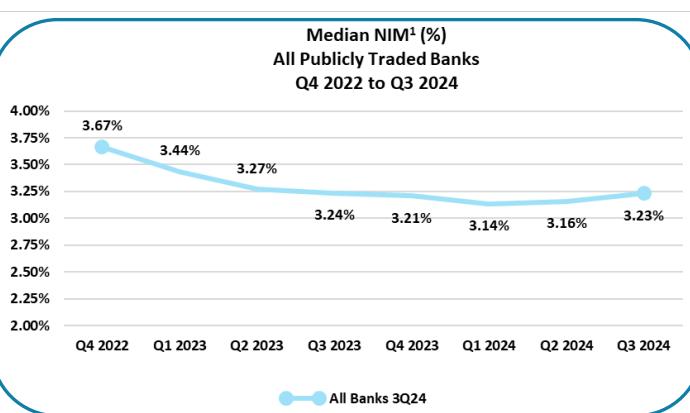


Efficiency ratios improved for all asset tiers in the third quarter of 2024. Notably, the smallest asset tier's 3.20% growth in median revenue and stable median operating costs, resulted in a 2.77% decrease in the tier's median efficiency ratio.

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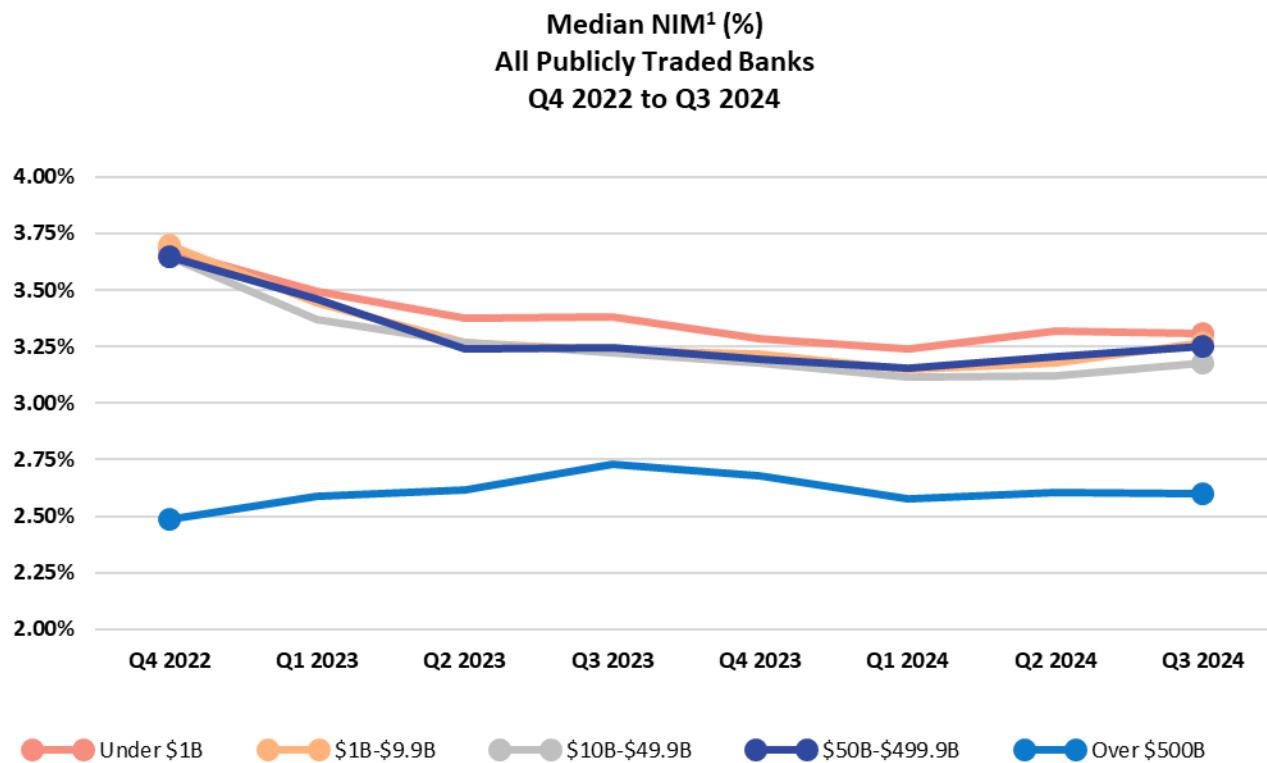
Net Interest Margin Trends by Asset Tier



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

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Net Interest Margin Trends by Asset Tier



Median net interest margins expanded among the three asset tiers from \$1B-\$499.9B in assets but contracted slightly in the largest and smallest tiers. Many executives acknowledged that this quarter marked an inflection point for margins and had a favorable outlook as deposit costs are projected to decrease from interest rate cuts. According to S&P Global Market Intelligence, “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.”

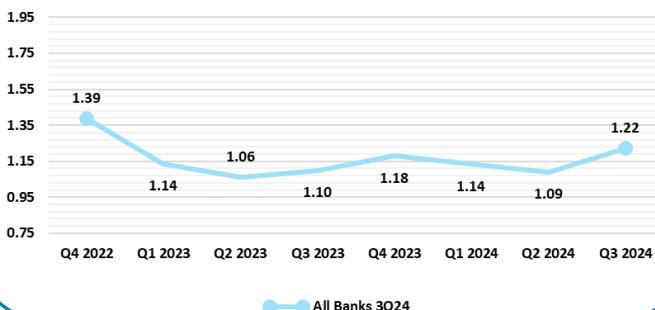
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Valuation Trends by Asset Tier

Median Price/Tangible Book Value¹ (x)
All Publicly Traded Banks
Q4 2022 to Q3 2024



Median Price/Tangible Book Value¹ (x)
Publicly Traded Banks Over \$500B
Q4 2022 to Q3 2024



Median Price/Tangible Book Value¹ (x)
Publicly Traded Banks \$50B- \$499.9B
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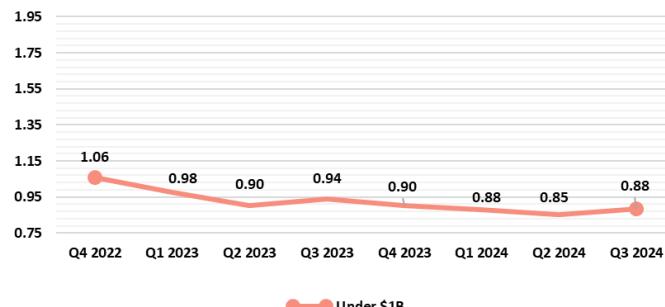
Median Price/Tangible Book Value¹ (x)
Publicly Traded Banks \$10B - \$49.9B
Q4 2022 to Q3 2024



Median Price/Tangible Book Value¹ (x)
Publicly Traded Banks \$1B - \$9.9B
Q4 2022 to Q3 2024



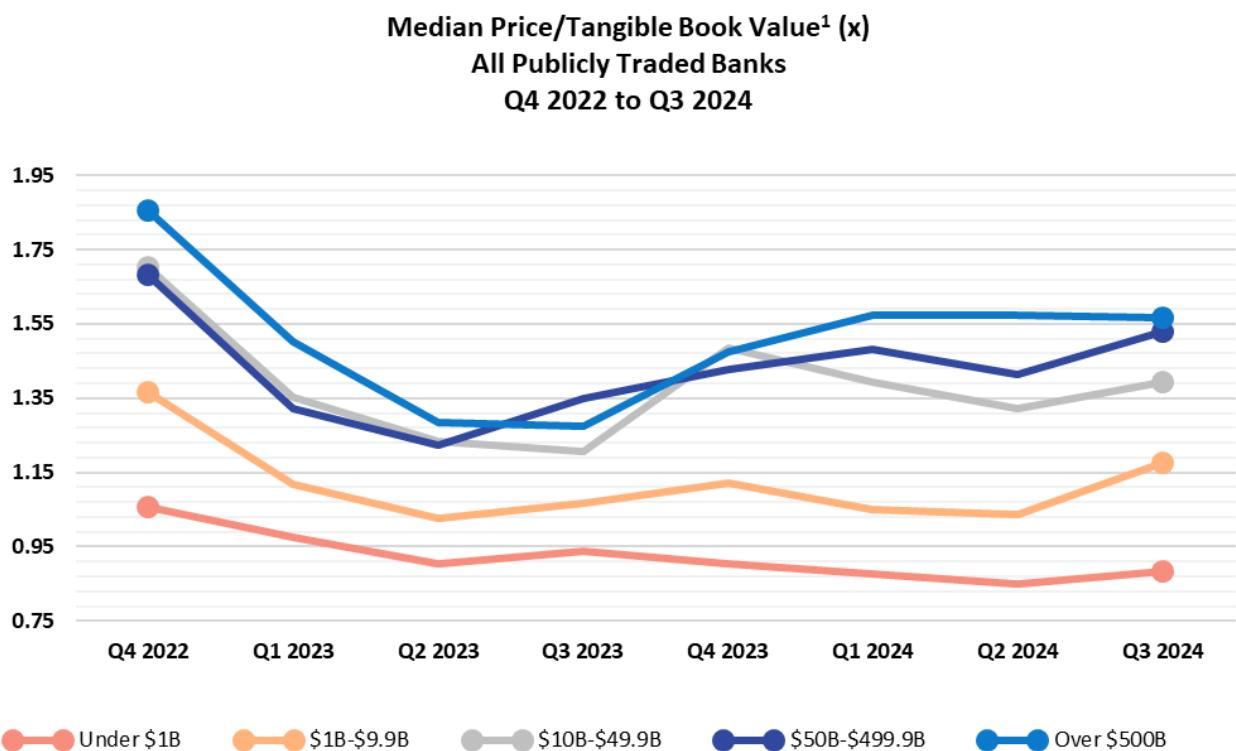
Median Price/Tangible Book Value¹ (x)
Publicly Traded Banks Under \$1B
Q4 2022 to Q3 2024



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Valuation Trends by Asset Tier



Apart from the over \$500B tier, which held steady, bank stock valuations grew in the third quarter of 2024. The median price to tangible book value increased by at least 7bps for banks with \$1B-\$9.9B, \$10B-\$49.9B, and \$50B-\$499.9B in assets. Stocks rallied before and after the Federal Reserve cut interest rates in mid-September. However, the outlook for bank stocks for the remainder of 2024 is unclear. Investors will have to balance the impact of the election results with moderating economic growth 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.

Quarterly Banking Report Team



Mary Beth Sullivan

Managing Partner

msullivan@capitalperform.com



Claude A. Hanley, Jr.

Partner

chanley@capitalperform.com



Kunal Choksi

Business Analyst

kchoksi@capitalperform.com



Emma Metzler

Consultant

emetzler@capitalperform.com

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1233 20th Street, NW, Suite 450
Washington, DC 20036