The RJ Report

Banking Issues and Information

QUARTERLY REPORT

SPRING 2024

In This Report

- Industry Sector Overview and Outlook
- First Quarter 2024 Performance Review
- Company Ranking and Valuations

This report is published by RJ Reports, LLC and is meant for the sole purpose of providing information about banking issues and investment considerations to its members. Interested parties can contact us by visiting our website at therjreport.com or sending an email to info@rjreports.com.

Nothing in this report should be construed to represent either an offer to buy or solicitation to sell investment securities. It is for information and entertainment purposes only. As always, you should consult a qualified financial professional before making any investment decisions.

Sector Overview and Outlook

What We Look At

The Financial Sector is quite large and includes many types of companies – commercial banks, mortgage companies, investment banks, brokerage firms, insurance companies, and many others that provide a variety of financial-related products and services. While there are interesting investment opportunities throughout this sector, we focus on commercial banks. We segment the industry into five major categories based on asset size.

Segment	Asset Size	Geographic Scope
Global/National	>$500 Billion	Coast to Coast
Super Regional	$150 Billion - $500 Billion	Multiple States and Multiple Regions
Regional	$50 Billion - $150 Billion	Multiple States within a Region
Super Community	$10 Billion - $50 Billion	Primarily within one or two states
Community	<$10 Billion	Individual Communities

Our Company Focus

This report focuses on Super Regional, Regional, and Super Community Banks. We have not included National Banks such as JPMorgan Chase and Bank of America, specialized banks that have significant concentrations in one business line (e.g., Capital One), or smaller community banks. From time to time, we add or remove banks from this list to reflect mergers or other significant developments. Specific companies we examine are included in the accompanying table. On request (and for an additional fee) we will provide in-depth reports on these or other companies.

Super Regional	Regional	Super Community
U.S. Bancorp ***(USB)***	Comerica ***(CMA)***	Associated ***(ASB)***
Truist Financial ***(TFC)***	Zions Bancorp ***(ZION)***	Columbia ***(COLB)***
PNC ***(PNC)***	Atlantic Union ***(AUB)***	Texas Capital ***(TCBI)***
Bank of New York ***(BK)***	East West ***(EWBC)***	UMB ***(UMBF)***
State Street ***(STT)***	New York Community Bank ***(NYCB)***	Bank OZK ***(OZK)***
Fifth Third ***(FITB)***	Synovus Financial ***(SNV)***	Cadence ***(CADE)***
Citizens Financial ***(CFG)***	Western Alliance ***(WAL)***	Pinnacle ***(PNFP)***
KeyCorp ***(KEY)***	Cullen Frost ***(CFR)***	Wintrust ***(WTFC)***
Huntington ***(HBAN)***	BOK Financial ***(BOKF)***	Webster Bancorp ***(WBS)***
Northern Trust ***(NTRS)***		
Regions Financial ***(RF)***		
M&T Bank ***(MTB)***		

Key Industry Developments

- The Federal Reserve continues to maintain interest rates at elevated levels. Expectations now indicate the possibility of two rate cuts by the end of the year. We remain pessimistic that these cuts will actually occur.

- Inflation has come down significantly indicating the impact of higher interest rates. The consumer continued to spend throughout this cycle fueling economic growth and strong employment. Credit card debt has exploded, and personal savings balances declined, representing a potential risk going forward if consumer balance sheets deteriorate further.

- Many analysts and economic pundits have eliminated their recession forecasts as job growth and GDP remain robust. If this positive economic performance continues, it may offset some of the potential risks placing pressure on the banking sector.

- Credit quality remains strong, although warning signs continue to flash in the Commercial Real Estate sector. We saw most banks increase reserves in the 4^{th} quarter of 2023 and into 2024 as the CRE market comes under additional scrutiny.

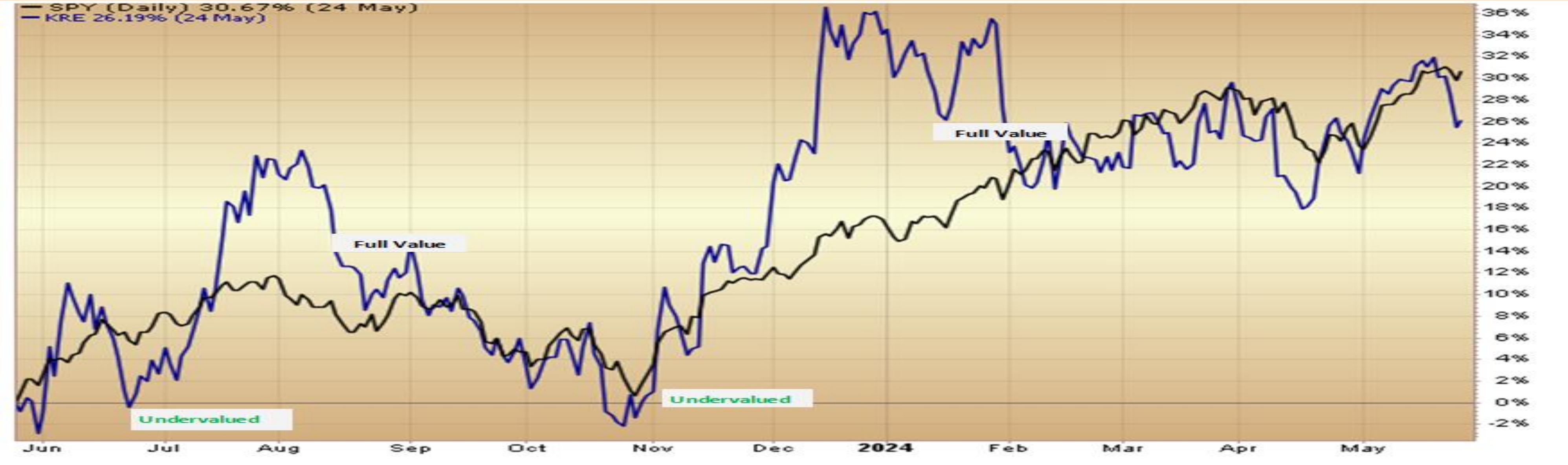
- Deposit funding growth and costs are the major issues confronting banks of all sizes. We expect that those banks that can grow and maintain a strong, stable core deposit portfolio will consistently outperform.

- The M&A environment has been quiet with a few notable exceptions. We expect consolidation activity to pick up over the next 12 to 18 months as bank stock prices increase and the search for funding intensifies.

Market Performance

For most of the past two years, we have rated the banking sector as either overvalued or fully valued relative to the overall market. Consequently, investor returns have been generally negative. While we rated the sector as overvalued at the beginning of March 2023, we did not anticipate the crash brought about by a few large, high profile bank failures. In May, we believed the sector was oversold and changed our rating to undervalued for only the second time in two years. We moved back to fully valued in August but then made another bullish call in November. However, we changed the call to fully valued in January 2024 and than call remains, signally we believed the banking sector would mirror the overall market performance. Recent updates are provided on our website, therjreport.com.

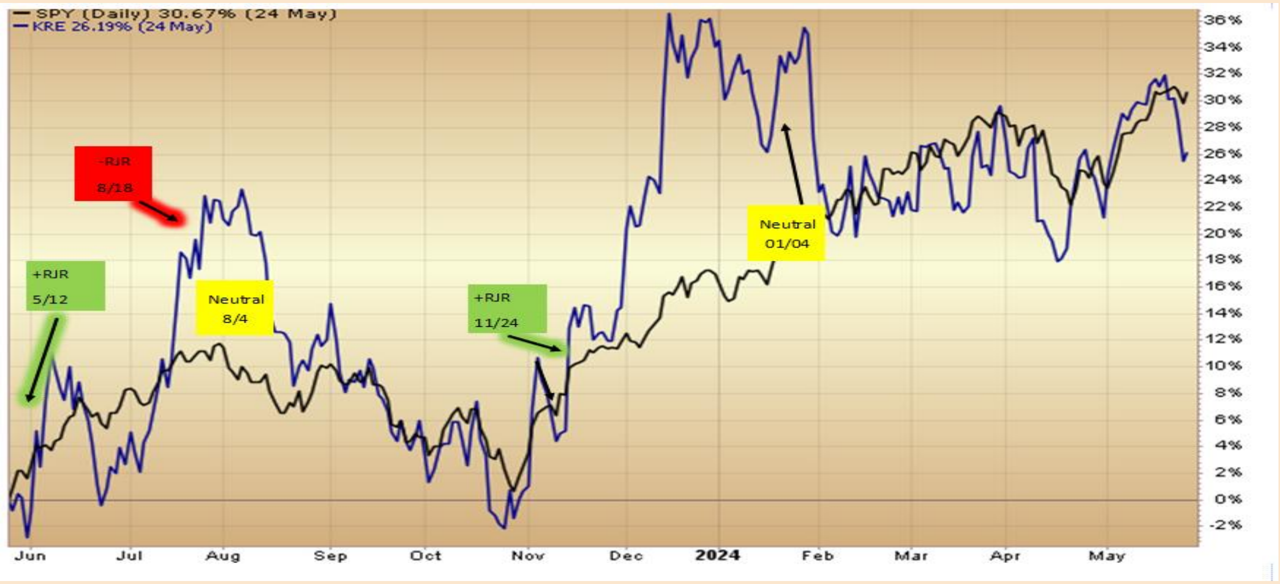
Banking Sector Rated Fully Valued

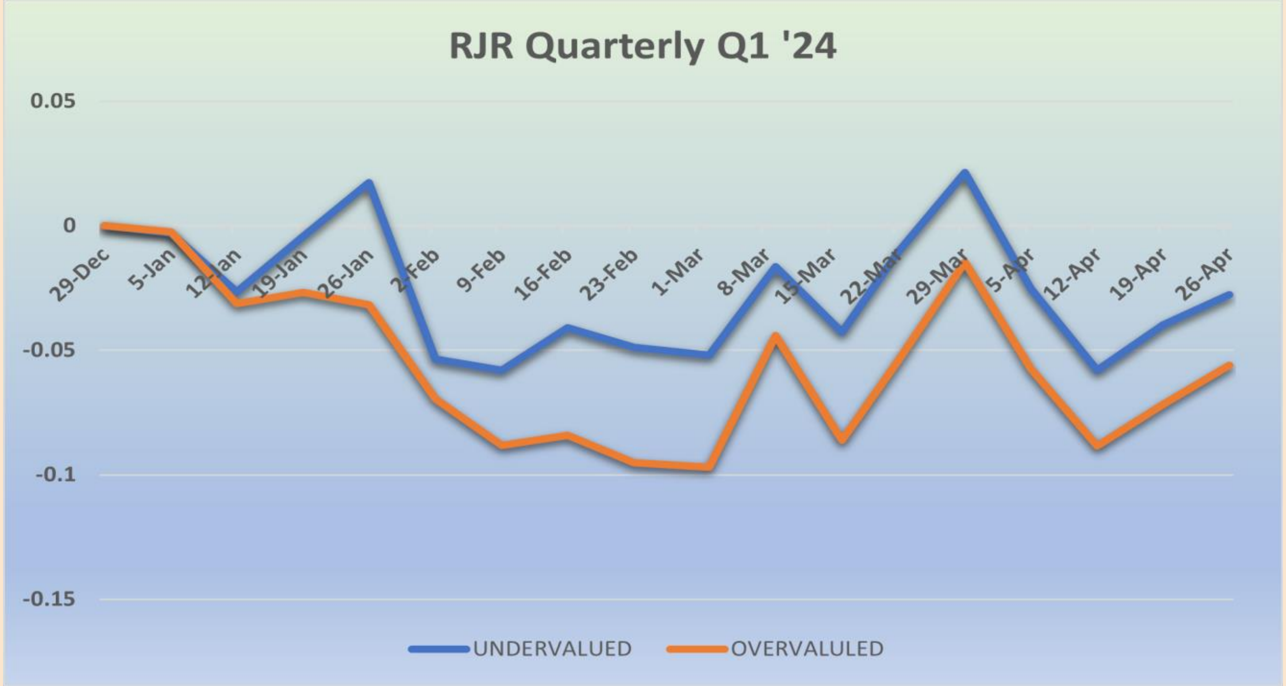


The RJR Indicator

The RJR Indicator is a metric we use to identify potential overall market moves. The indicator looks at the performance of our banks rated undervalued relative to those rated overvalued. A positive indicator occurs when our undervalued banks outperform those rated overvalued. A positive indicator signals an upward trending market and a negative indicator a downward trend. The RJRI turned positive at the beginning of January 2023 but then turned decidedly negative during the first week of March. The indicator turned decidedly positive late in April and then meandered through much of the year unto a decidedly positive indicator in November signalling a significant move in the broader market. While the banking secvtor has not participated broadly in this bull market, our indicator remains slightly positive indicating that the broad market rally has room to run. We do expect some appreciation in the banking sector, particularly among our undervalued banks. Weekly movements of the RJR Indicator are available on our website ***therjreport.com***.

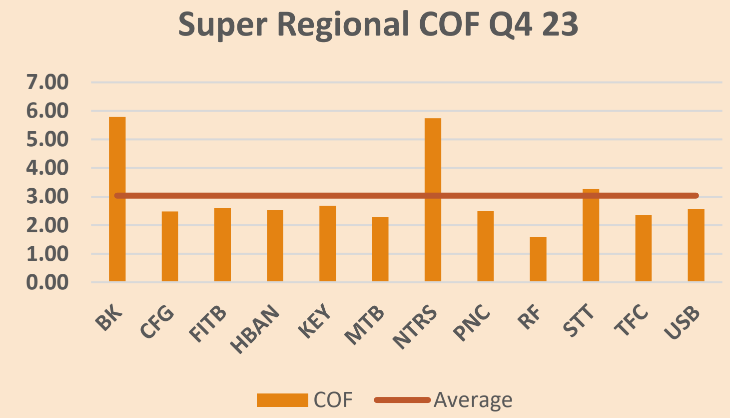
The RJR Indicator Turned Neutral at the Beginning of 2024

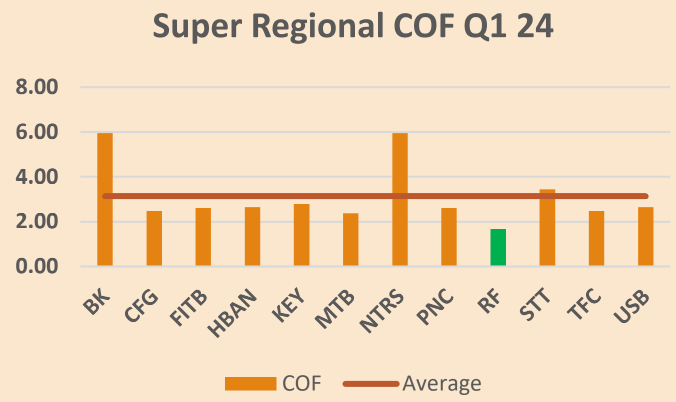


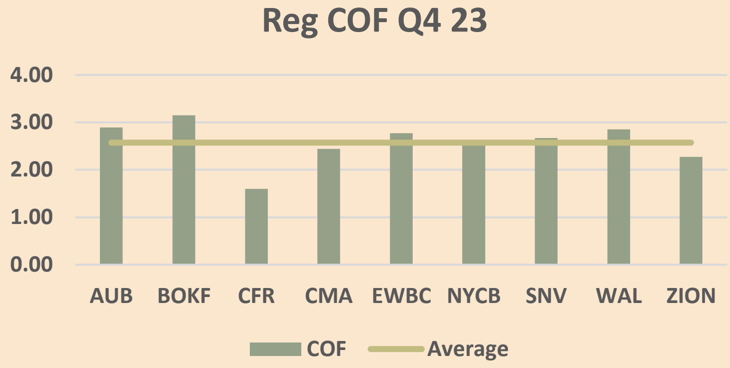


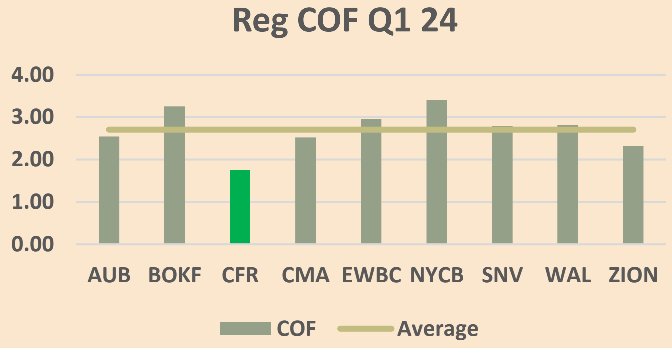
Quarterly Focus: Funding Costs

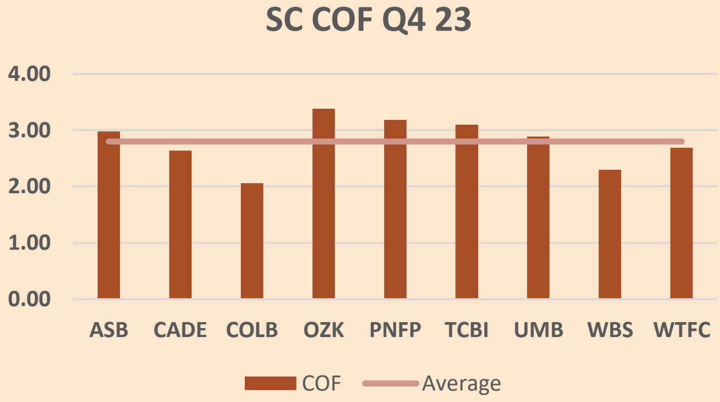
This quarter we are again doing a deep dive on the deposit side of the balance sheet and its impact on deposit growth and cost. During the quarter, funding costs increased in all size categories. This is on top of the significant increase s in Q3 and in Q4. The result was a reduction in Net Interest Margins in all of the sectors we cover, with averages falling approximately 20 bps. We expect cost of funds to continue to increase throughout the year but at a slower pace, placing additional pressure on net interest margins and net income. The winners will be those banks that have built a strong, stable and diversified deposit franchise and are able to manage funding costs appropriately. These charts show the quarter-to-quarter increase in COF and highlight those banks that continue to enjoy cost advantages.

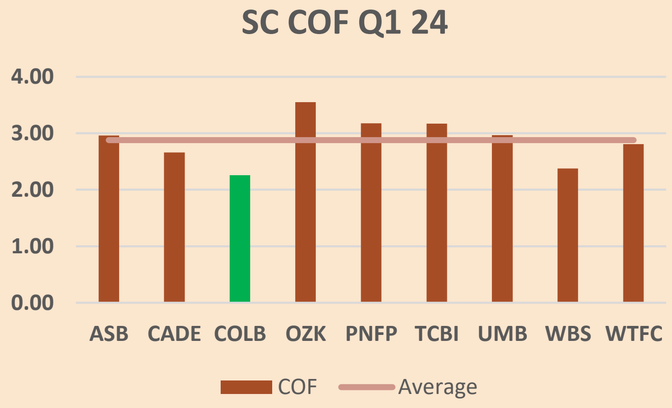






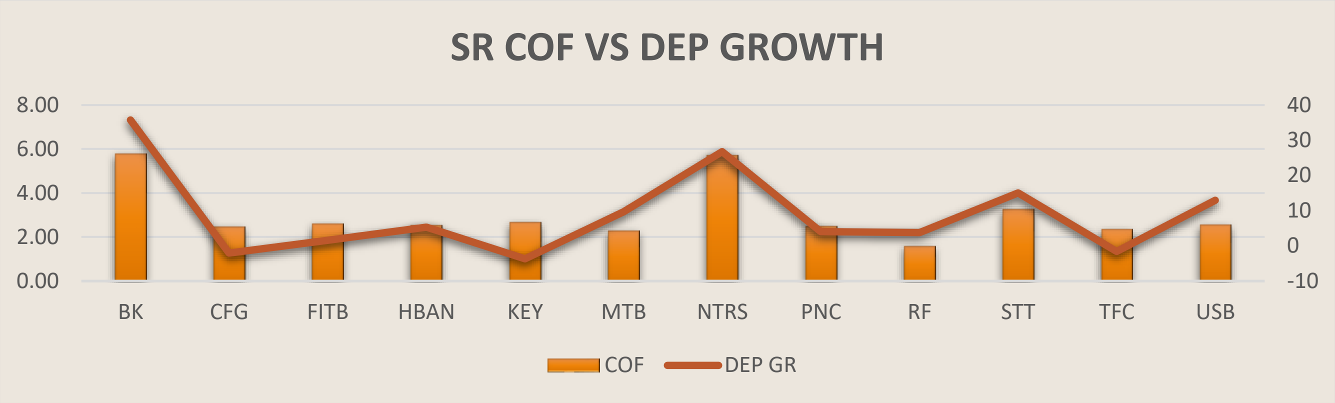


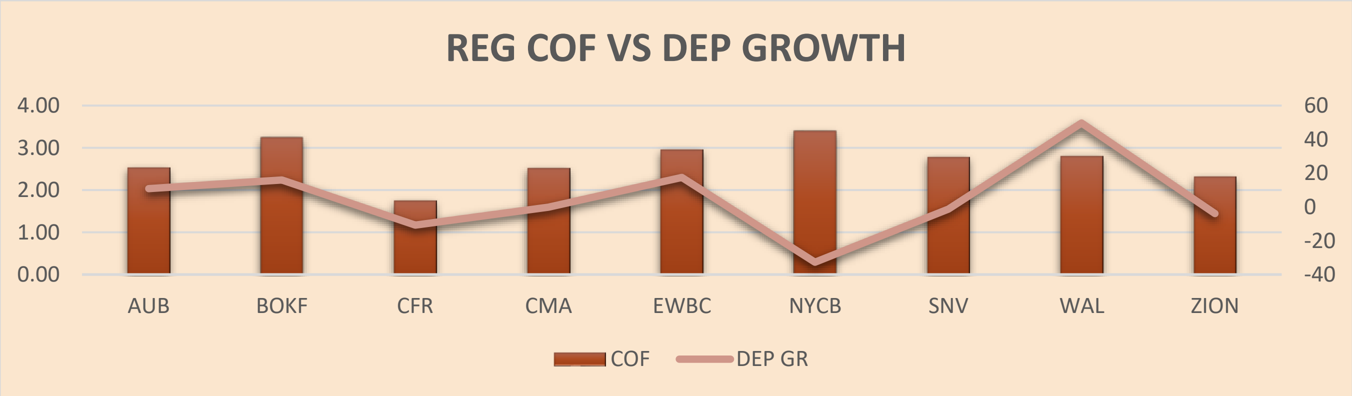


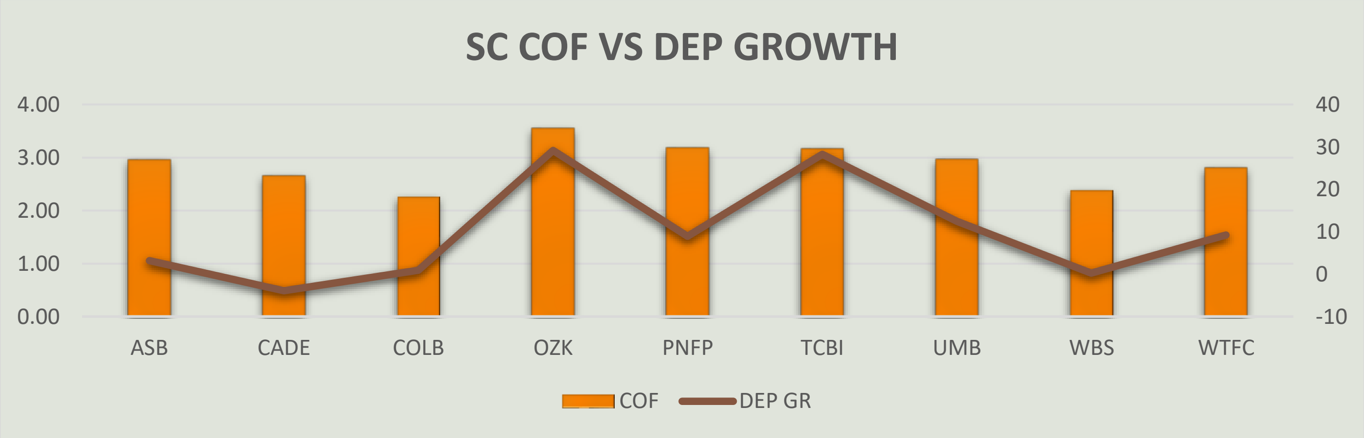


Quarterly Focus: Deposit Growth

A key driver of performance will continue to be a bank's ability to generate core, stable funding at an acceptable cost. Those banks that can consistently generate lower cost funds will significantly outperform those that rely purely on high interest rates to achieve funding objectives. These charts identify banks that have been able to generate industry leading deposit growth while effectively managing cost of funds. Most of these banks are in our Super Regional category because of their larger and more diversified geographic presence and business mix. Additionally, some of these larger banks have been the beneficiary of a flight to quality after the meltdown in the Spring. Less diversified banks such as BK and NTRS grew their deposit portfolios significantly but at very high cost.

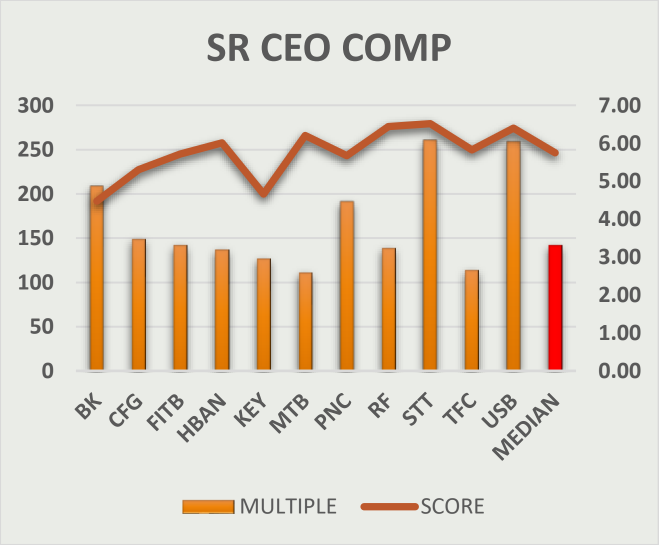


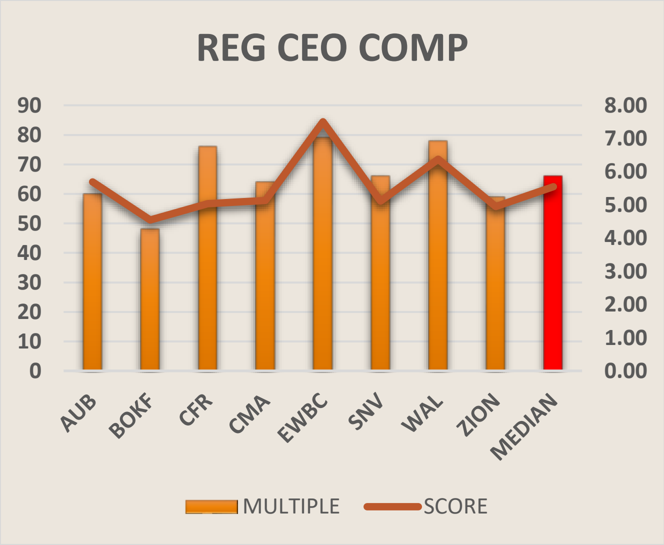


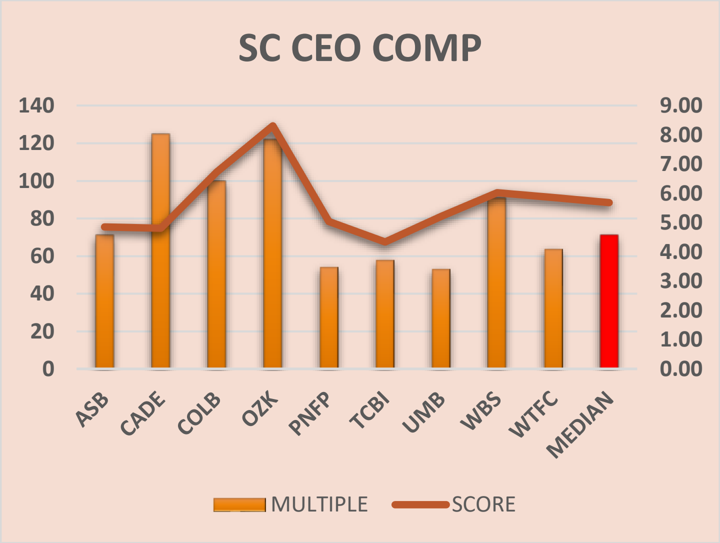


Quarterly Focus: CEO Compensation

Now that the first quarter data is in, we can look at CEO compensation and ask the question, “Are they worth it?” While the answer is generally no, there is considerable variation across industry sectors and individual banks. To evaluate which CEOs are earning their keep within we examine two variables – CEO comp as a multiple of the average employee compensation and our proprietary scoring model that measures bank performance relative to peers. The median compensation multiple in our Super Regional category was 141(e.g. the Median CEO was earning 141 times the compensation of the average employee) while the multiple for both the Regional and Super Community categories was around 70. Not surprisingly, there was quite a range, especially in the Super Regional and Super Community sectors. The charts below illustrate the CEO comp levels for each of our banks relative to their performance score. There are clearly some disconnects and leave it to our highly informed members to determine who is overpaid and who needs a raise.

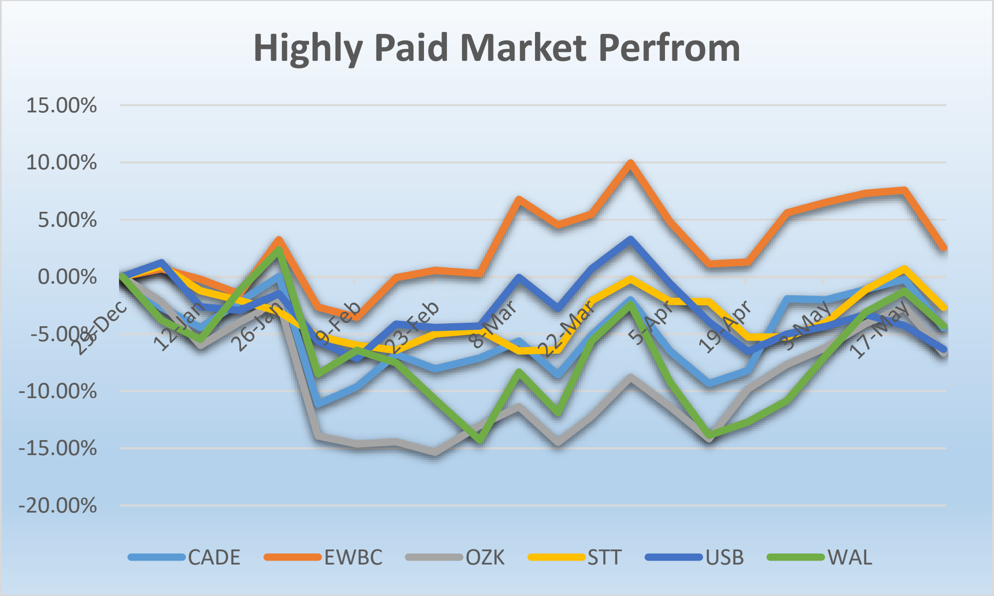


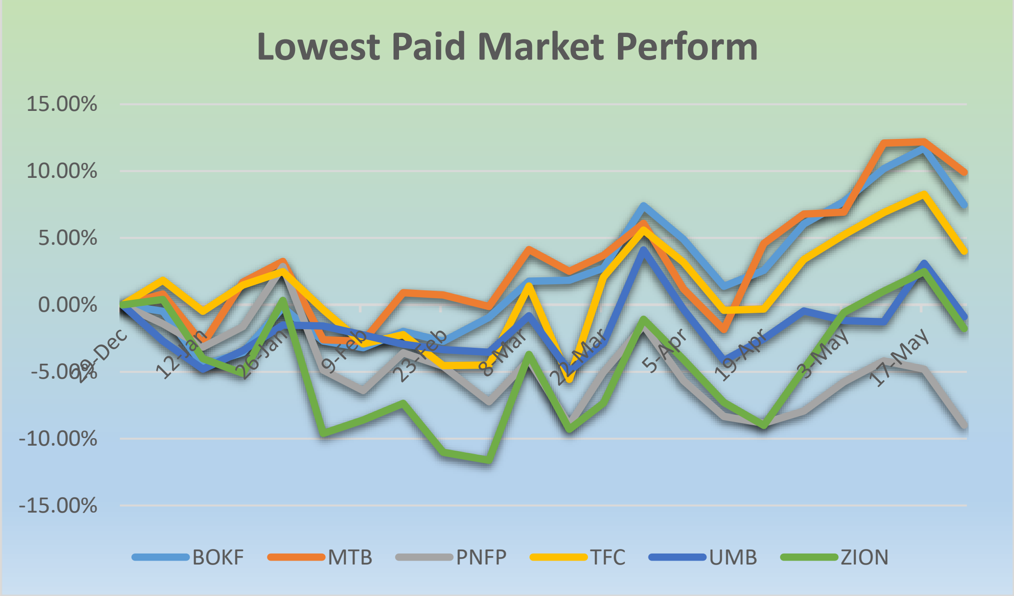




Quarterly Focus: CEO Comp and Market Performance

It is always dangerous to take one variable and extrapolate its impact on stock price and performance. The main risk is confusing correlation with causality. There are myriad factors that influence stock performance, CEO compensation being the least. Nevertheless, the CEO is theoretically responsible for managing within all those factors so one would hope that higher paid CEOs would deliver higher market performance. To see if there was any correlation, we took the two highest paid and two “lowest” paid CEOs (on a relative basis) in each of our size categories and tracked stock performance since the beginning of the year. Well, a funny thing happened on the way to a conclusion: only one bank with a highly paid CEO showed positive returns YTD 2024 (***EWBC***), while all the banks with lower paid CEOs except one showed positive returns, especially ***MTB***, ***BOKF***, and ***TFC***.





Performance Review

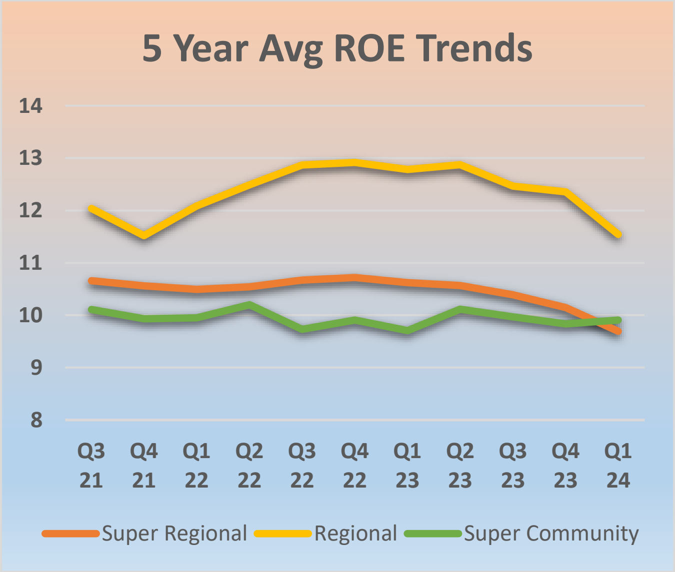
Sector Performance

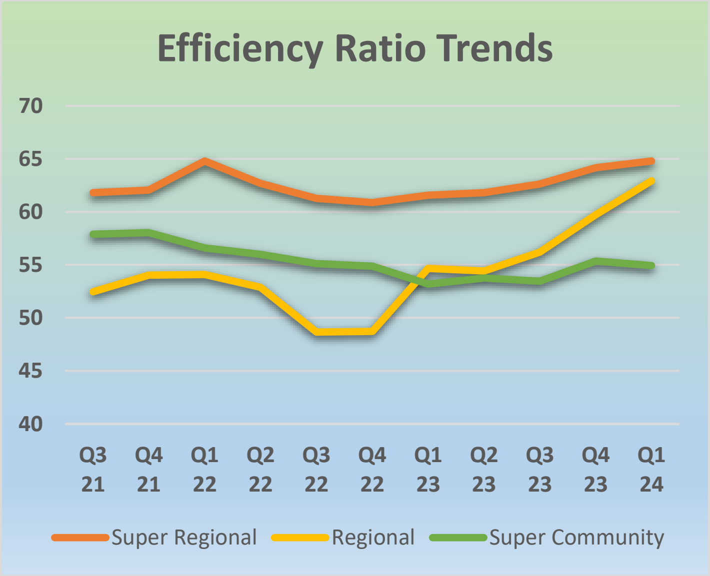
The First Quarter saw a general decline in most metrics across the three industry sectors we follow., causing overall performance scores to decrease. Decreases from the 4th quarter are indicated in red, while improvements are green. Performance varied considerably by individual bank, reflecting both significant differences in strategies and business models across the industry, as well as each bank's approach to managing its balance sheet and product lines. We score all our banks across multiple metrics to arrive at a rating. The average performance for each metric and sector is indicated on the chart, as well as the best and worst individual performer on each. There were only a few changes in these rankings during the quarter, with the most notable being the continuation of Bank OZK (***OZK***) as our top scoring bank across all three industry sectors. It is interesting that OZK also has the lowest PE, perhaps indicating a potential buying opportunity in this high performing company. Bank of New York (***BK***) was our lowest rated bank. The following pages provide information on the performance of each of our banks on a variety of key performance criteria.

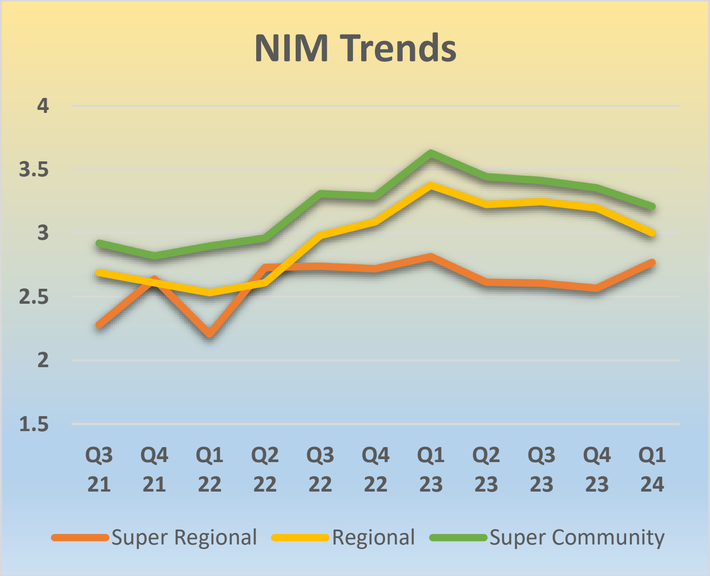
Sector	5 Yr ROE	NIM	COF	PE	Eff Ratio	Price/Book	Yield	Score
Super Regional	9.69	2.77	3.13	11.07	64.80	117	4.30%	5.34
Regional	11.35	3.00	2.70	9.06	62.93	119	3.81%	4.65
Super Community	9.91	3.21	2.88	10.40	54.92	101	2.98%	5.69
Best Performer	WAL	OZK	RF	TCBI	OZK	CFR	COLB	OZK
Worst Performer	NYCB	STT	BK	OZK	CMA	NYCB	TCBI	BK

Sector Trends

Smaller Regional and Super Community banks continued to outperform on a few key metrics, most notably on both the Efficiency ratio and Net Interest Margin. While NIM leveled out and declined slightly, larger banks, on average, actually saw a slight increase. it was encouraging that most banks were able to maintain somewhat healthy margins even in the face of significant increases in funding/deposit costs. This is counter to many analysts' expectations who predicted significant drops in NIM. However, we do expect continued pressure on both deposit balances and cost of funds over the next few quarters and believe both net interest margins and earnings will decline somewhat across the board. One troubling aspect is the continued increase in the average Regional Bank efficiency ratio. We expect an increased focus on cost reduction and industry consolidation to intensify as banks combine to achieve potential scale economies.

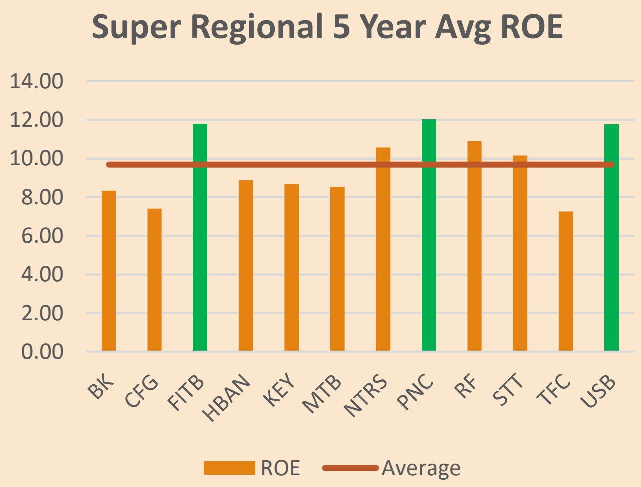


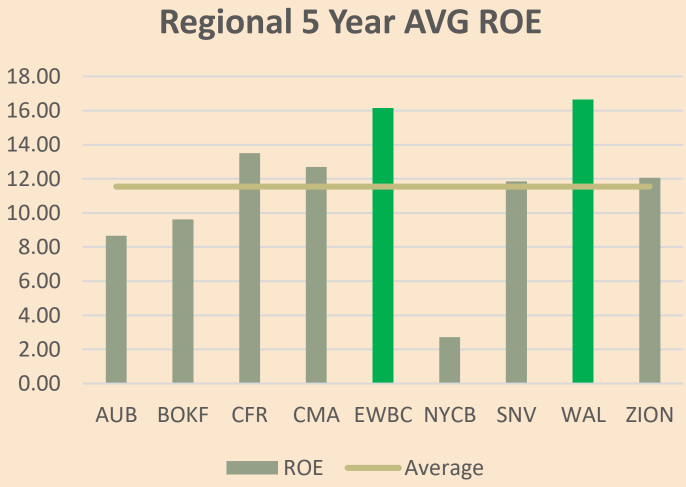


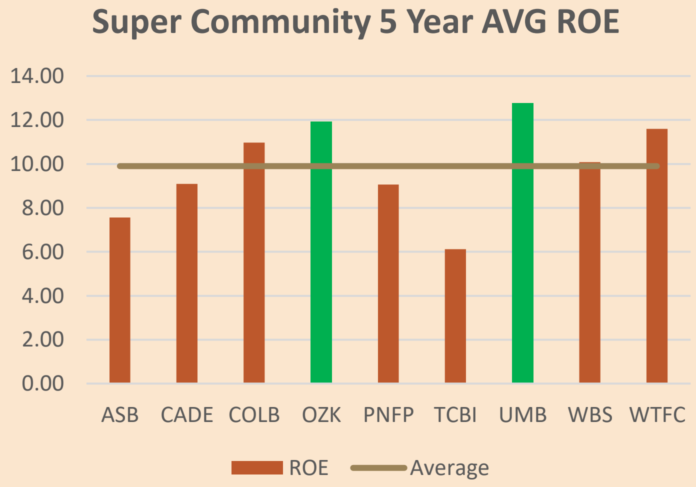


Five Year Return on Equity

We look at how individual banks produce return on shareholder equity over time, not just for the current period. We believe that a consistent, sustainable earnings stream over various economic and business cycles drives quality and helps to determine value. Outstanding performers include **Fifth Third**, **PNC**, **U.S. Bank**, **East West Bancorp**, **Western Alliance, Bank OZK** and **UMB** in Missouri. While return on shareholder equity is important, only three of these, ***WAL, EWBC and OZK***, are among our highest rated banks, overall. We believe that ROE is an important indicator of management effectiveness, so we pay just as much attention to low performers on this indicator, such as Citizens Financial ***(CFG)***, New York Community ***(NYCB),*** Atlantic Union ***(AUB)***, Associated ***(ASB)*** and Texas Capital ***(TCBI).***

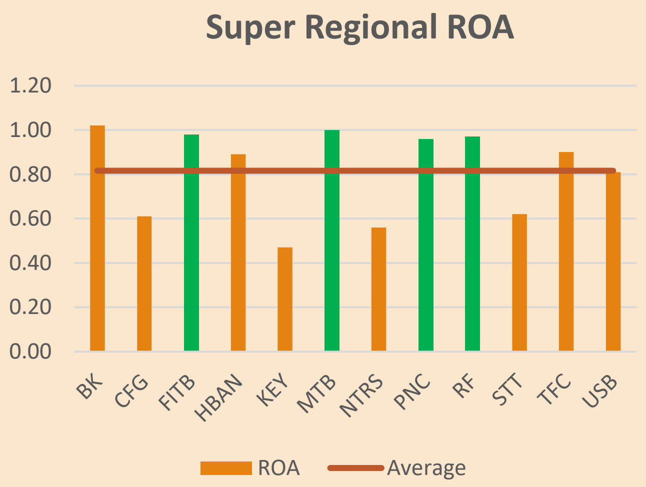


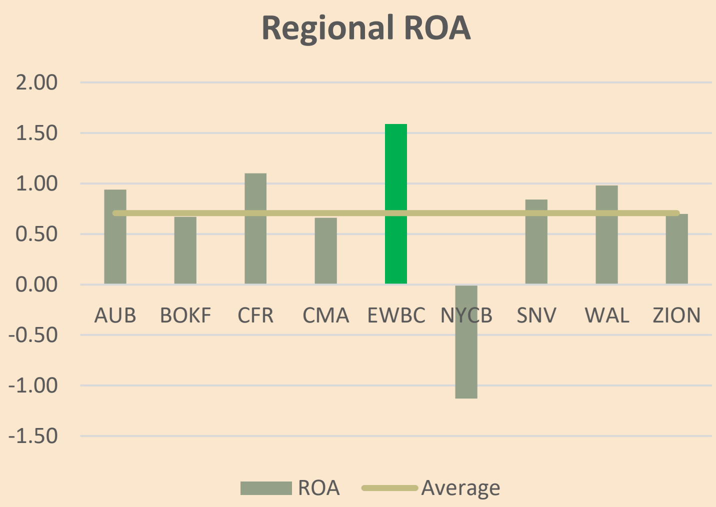


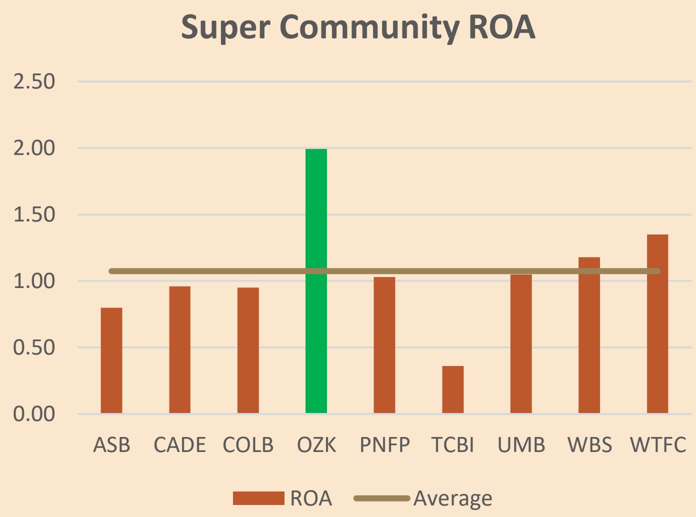


Return on Assets

While Return on Equity measures management's ability to leverage capital to optimize shareholder return, Return on Assets measures the bank's ability to manage its balance sheet to produce financial results. ROA is influenced by a bank's business model – the asset mix created, the cost to produce those assets, and the degree to which fee income is generated from non-lending sources. Not surprisingly, we see high performers across all types of business models – diversified companies (***M&T***, **Regions Financial, PNC, and Fifth Third**), banks with commercial focus (**East West**), and those with very low-cost structures relative to their size(**Bank OZK**).

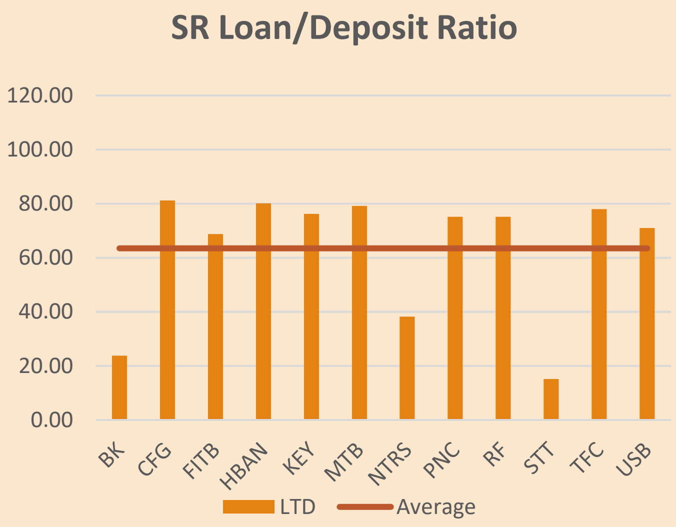


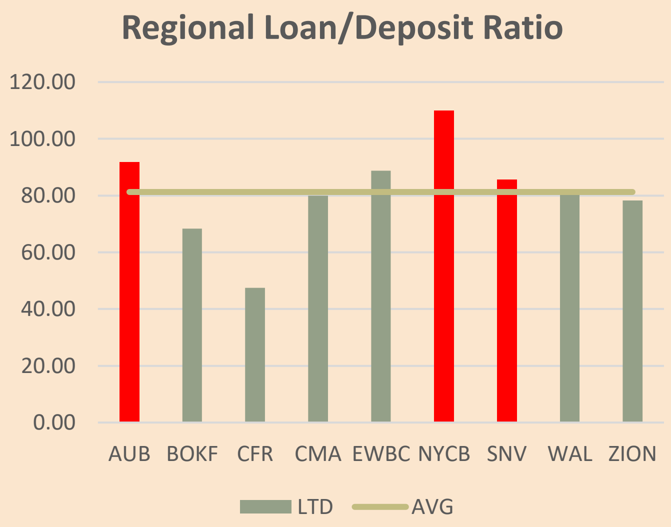


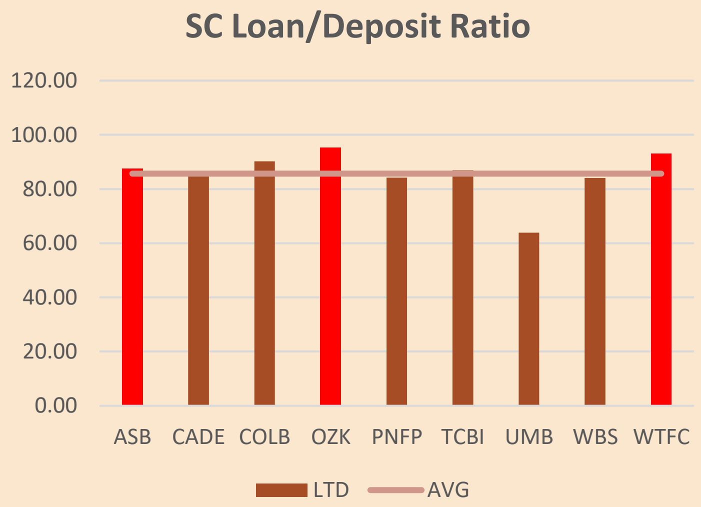


Loan to Deposit Ratios

As both loan growth and interest rates continue to accelerate, maintaining the right level of funding at the right cost will increasingly challenge banks' asset/liability practices. As with ROA, this metric is highly influenced by a bank's business model. Obviously, those larger banks that generate the bulk of their earnings from non-lending related fee income are comfortable with a low loan to deposit ratio. Banks with more traditional business models and balance sheets are far more sensitive to the level and cost of both their loan and deposit portfolios. Historically, the sweet spot for those banks has been in the 80% range – significantly below that net interest margins suffer and significantly above that signals the need to increase funding and associated costs. While the bulk of the banks we analyze are still at or slightly below that Goldilocks level, we are seeing significant increases that signal a renewed focus on deposit generation and an attendant increase in funding costs. Generally, smaller Regional and Super Community banks are starting to experience funding challenges, while most larger banks have room to run. Banks that have either reached or are approaching this sweet spot include ***NYCB, AUB, SNV, ASB, OZK***, and ***WTFC.***

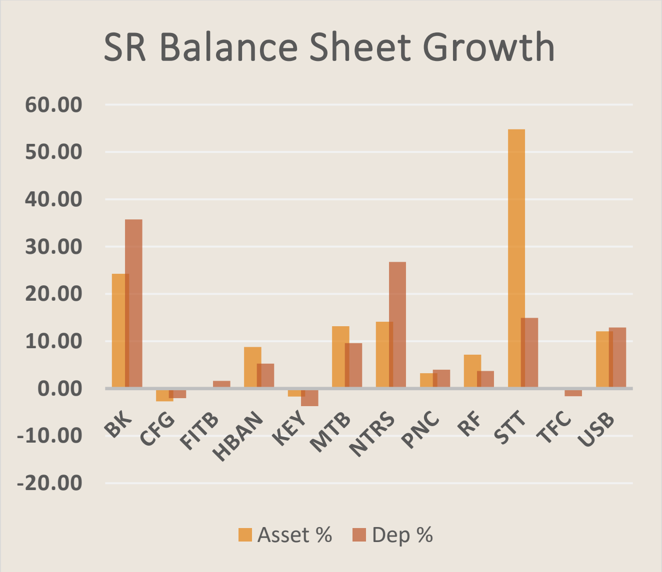


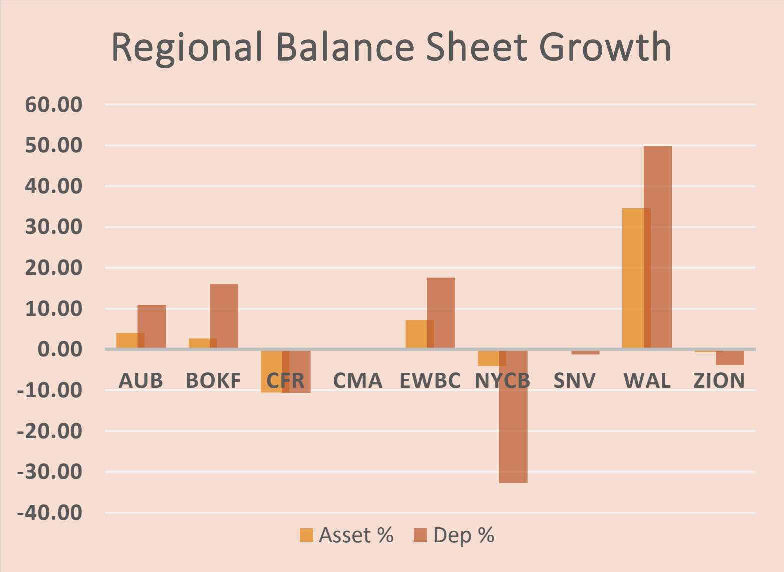


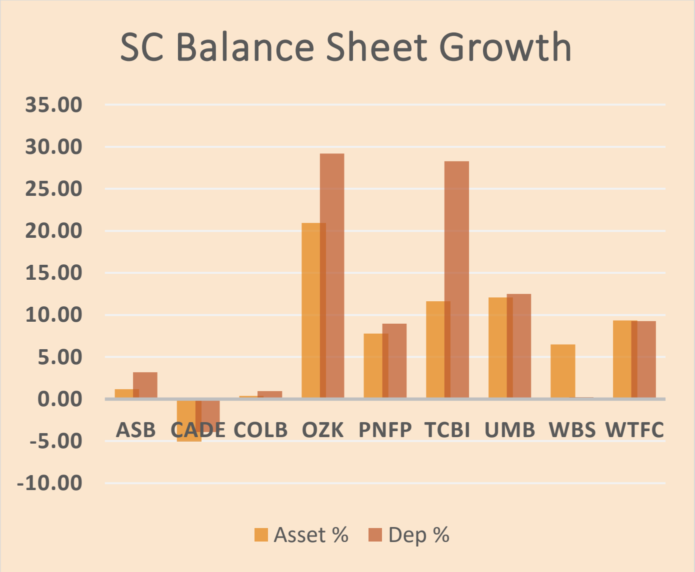


Balance Sheet Growth

During he first quarter, most banks saw increases on both sides of the balance sheet. While most banks saw a semblance of balance between loan and deposit growth there were a few disconnects – specifically NYCB saw a large decline in deposits and only a slight decrease on the asset size, indicating continued balance sheet risk. We expect most banks to grow only marginally over the next 12 months as they continue to focus on funding costs, net interest margin and cost reduction to drive performance rather than loan growth. Additionally, banks that are heavily concentrated in Commercial Real Estate (CRE) will likely trim those portfolios and seek to replace those balances with a more diversified mix.

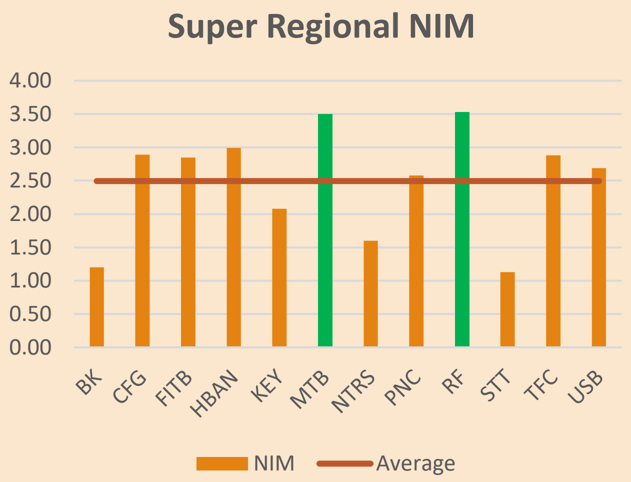


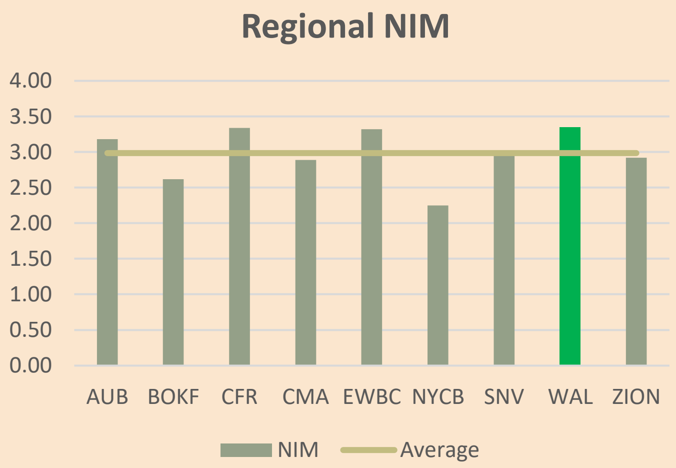


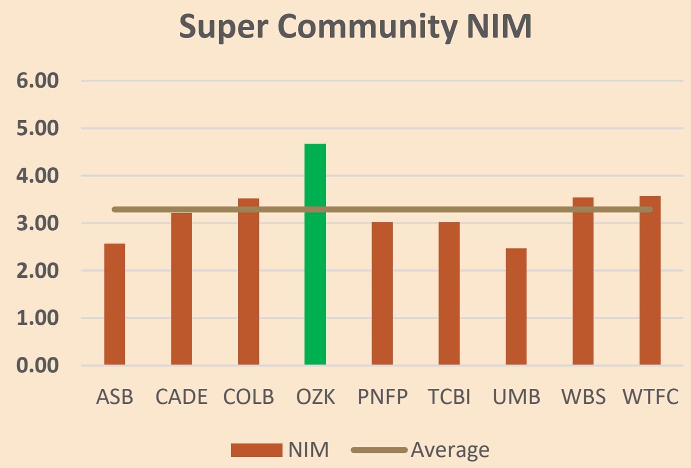


Net Interest Margins

Historically low interest rates over the past few years, as well as anemic loan demand, have put significant pressure on all banks' Net Interest Margins. However, most banks have still been able to produce strong earnings results thanks to lower operating costs and pristine credit quality throughout 2021, 2022, and the first half of 2023. However, we expect costs to climb and reserve levels to increase (other than in a few banks), placing greater reliance on the ability to optimize intermediation income. While we expect earnings increase percentages to decrease across the entire industry in 2024, a persistent high rate environment will continue to benefit those banks that have stable core deposit franchises and generate the bulk of their earnings through net interest income. Again, generally Regional and Super Community banks will continue to experience more pressure on NIM than the larger banks who have more diversified funding sources. Not surprisingly, some of our top-rated banks, ***MTB, RF***, ***WAL***, and ***OZK*** rank particularly high on this metric.

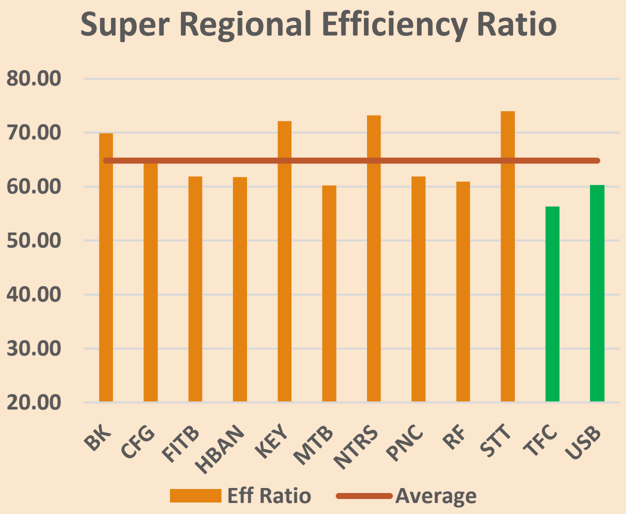


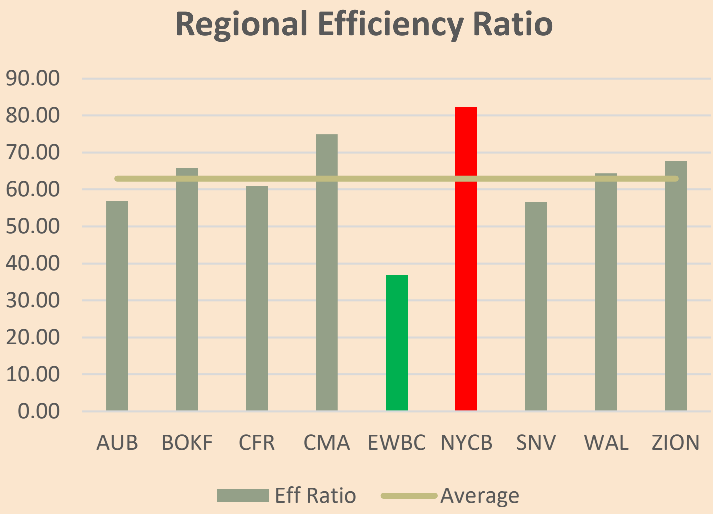


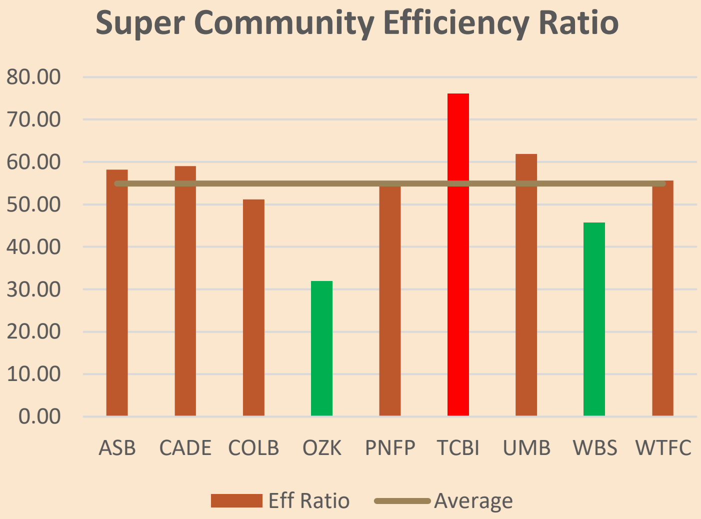


Efficiency Ratios

Over the past few years, revenue growth in the industry has been challenging, driven by low interest rates and even lower loan demand. Consequently, many banks have focused on expense savings and reduction through consolidation of branch networks, elimination of low value products and functions, and installation of new technology to boost productivity. We expect this trend to not only continue but accelerate. Some banks have been more successful than others in driving down operating costs relative to income (the “Efficiency Ratio”), especially in the Regional segment. We expect that those banks that can maintain this cost discipline as NIM deteriorates will produce superior financial results and shareholder returns. Those that don’t will become prime targets for an acquisition by larger, more efficient institutions. Again, it is not surprising that some of our highest rated banks such as ***TGFC***, ***USB***, ***EWBC, WBS*** and ***OZK*** perform exceptionally well on this metric.

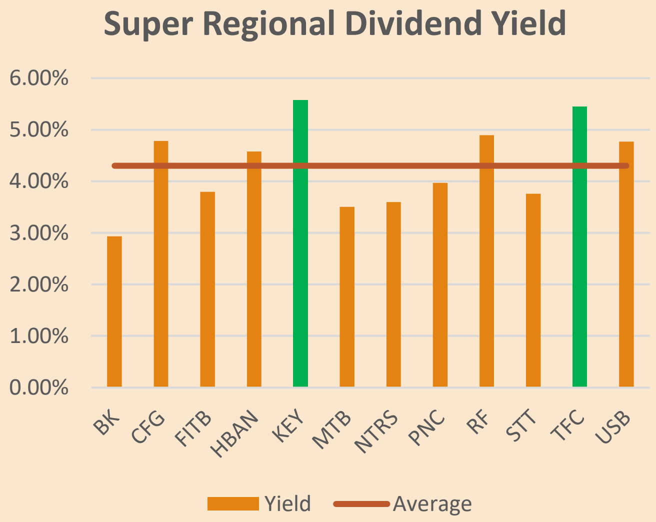


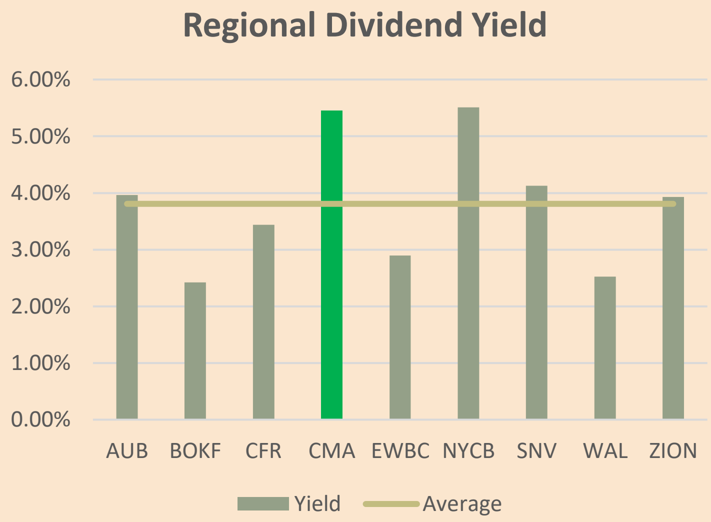


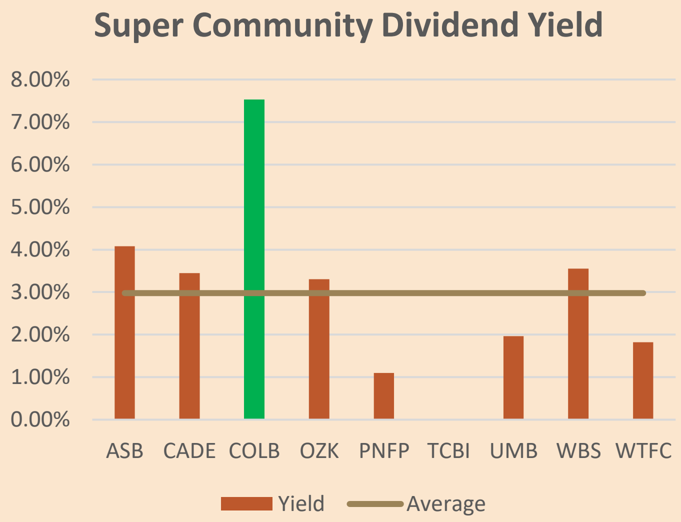


Dividend Yield

Most banks have maintained and/or slightly increased their dividends during the last few years, reflecting a strong rebound in earnings. However, there is significant variance among our target banks in terms of dividend levels and policies. These stable and, in some cases, increasing dividends have provided investors with the opportunity for a twofer – attractive yield plus price appreciation. Banks with significantly high yields relative to their peers include ***KEY, TFC***, ***CMA***, and ***COLB***. We tend to ignore NYCB in this analysis since their capital position and dividend policy outlook are shaky at best. While we would expect stronger price performance from these high yielding banks, we did not see much differentiation during the quarter. It is a bit surprising that one of our banks, ***TCBI***, acts more like a "growth" company and pays no dividend, although their earnings and capital would support one.



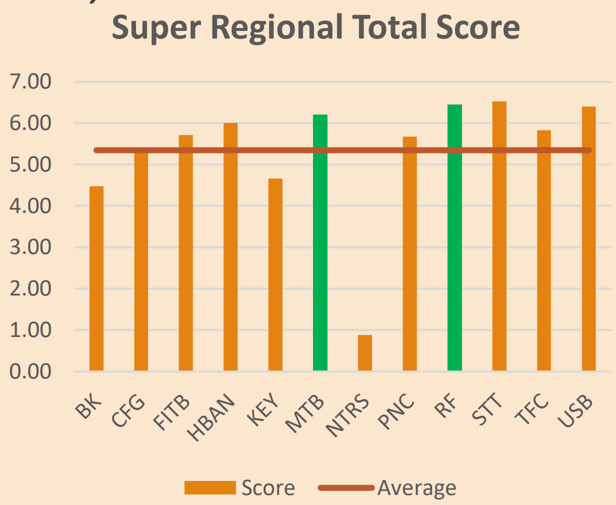


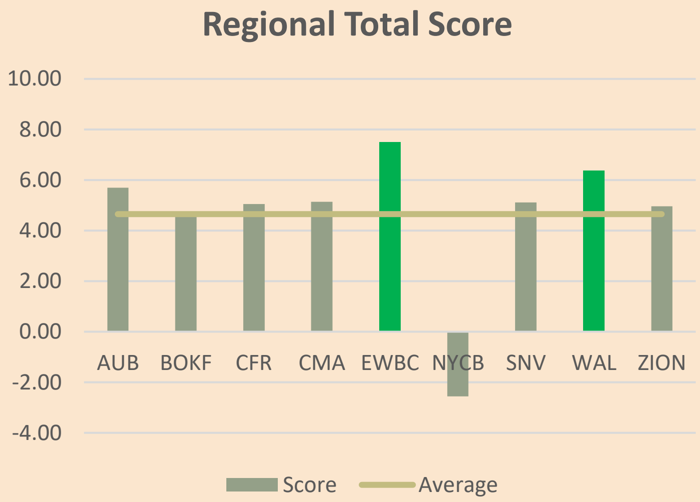


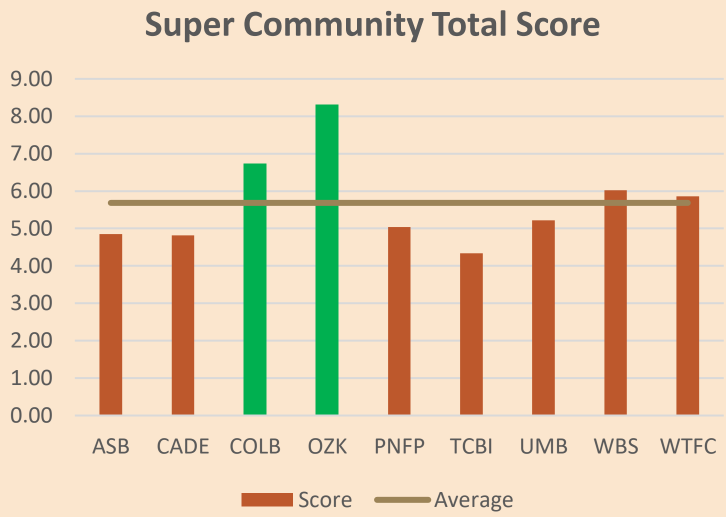
Market Valuation

Institution Total Scores and Ranking

Our goal is to identify high quality companies that may be undervalued relative to the industry and their peers. As a result, we use a scoring model based on individual performance metrics and market factors. We weight each variable based on our outlook for the industry and economy to arrive at a total score. These weightings may change from time to time as economic and market conditions change. Currently, we are expecting interest rates to rise and are weighting the ability to generate net interest income, manage funding costs, and control expenses somewhat higher than other performance factors. More specialized companies such as ***BK, NTRS, and STT*** typically rank low on these metrics so should be evaluated relative to each other, rather than against more traditional banks. Our scores help to determine overall valuation. Just because a company receives a high score does not mean that we are necessarily expecting higher returns than the market, overall, and vice versa. Currently, our highest rated companies are ***MTB, RF, EWBC, USB, EWBC WAL, COLB, and OZK***.

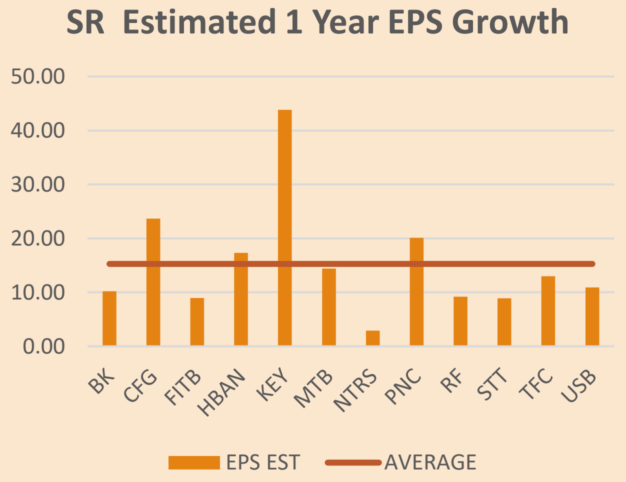


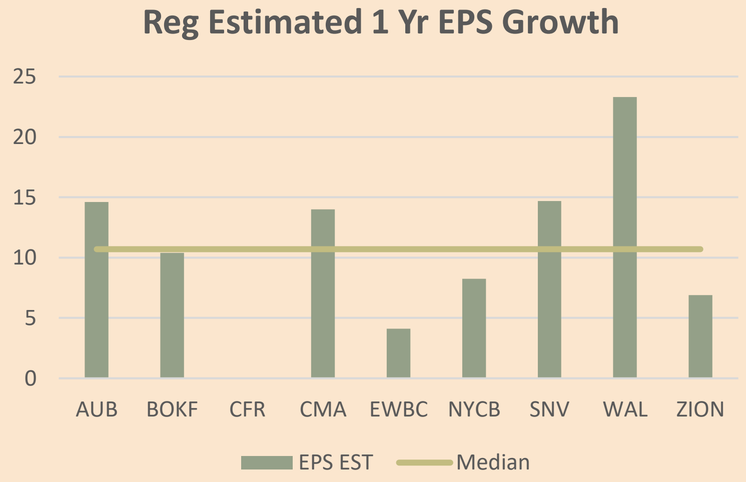


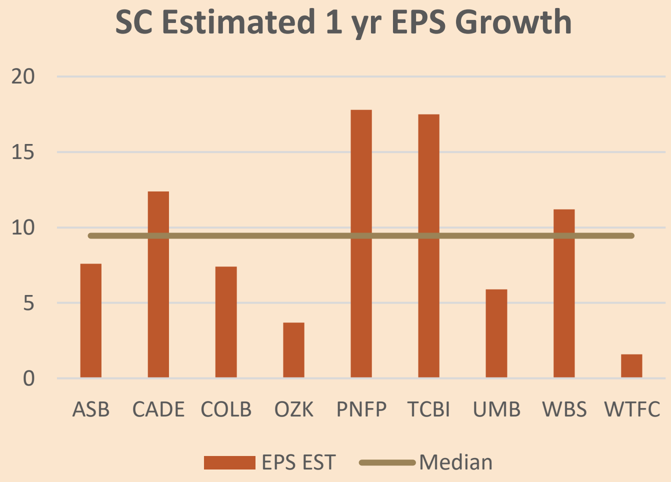


Forecasted EPS Growth Rates

Theoretically, equity markets are forward looking with prices reflecting not just current or historical performance, but, importantly, estimates of future performance. While we're not sure that is always true because many forecasts are generally wrong, models are fallible and too many analysts are talking their own book, we do take consensus analyst forecasts into consideration when looking at market valuations. We don't weight this factor very high in our scoring model, but we do think it's instructive as an indicator of market sentiment. These estimates cover a wide range and should be viewed in context. Current EPS growth estimates for 2025 are generally positive, with only one bank (CFR) expected to see EPS decline. This reflects the rebound that analysts are expecting as a result of decreasing interest rates, and potential stabilization in the commercial real estate market. We tend to agree with this assessment but are watching funding costs and credit quality closely and may change our outlook based on deterioration in either of these metrics.

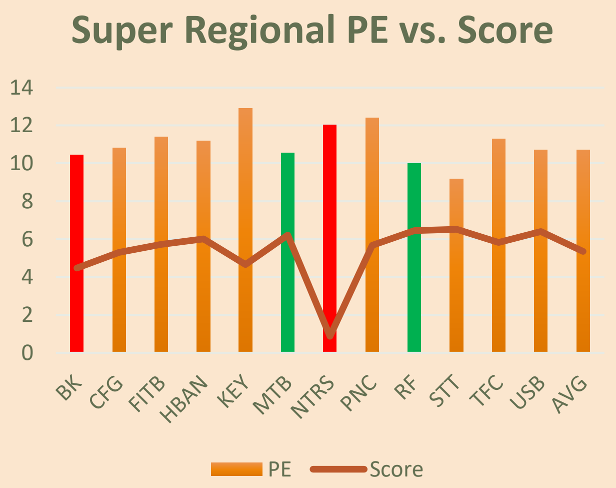


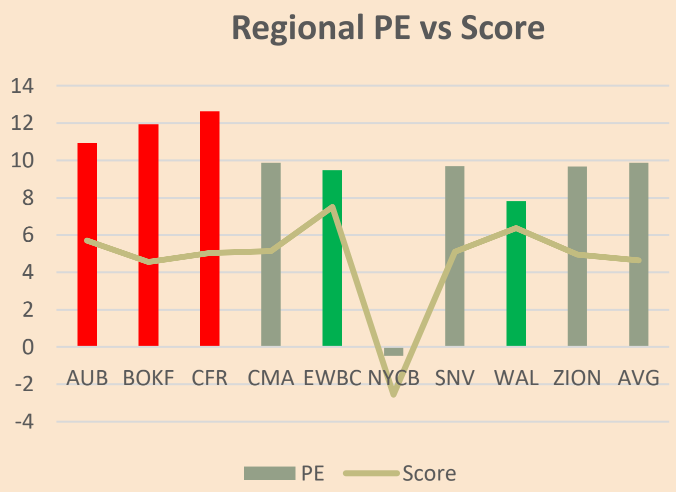


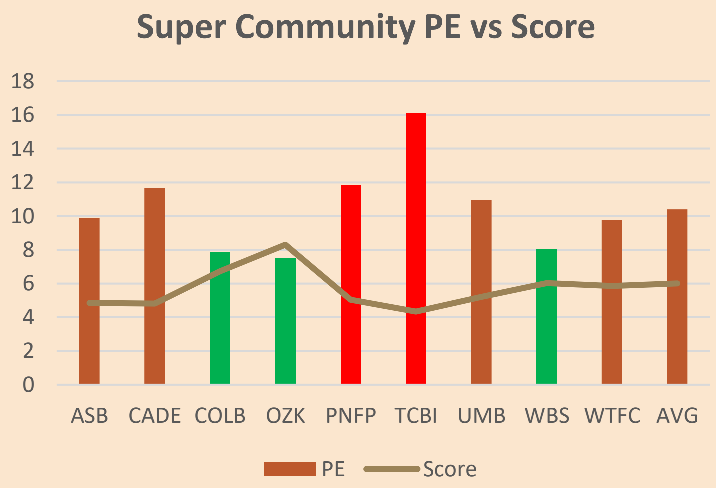


Market Multiples -- PE

We believe that higher rated companies should be given higher market multiples than their lower ranking peers. Since our goal is to identify high quality companies that may be undervalued, we examine individual company Price/Earnings multiples relative to their rating and sector averages. The goal is to identify significant differences among companies that may indicate whether that bank's stock price is potentially over or under valued. Based on this analysis, it appears that there are a few disconnects that should be considered to arrive at an opinion on appropriate market valuation. Based on this analysis, it appears that ***RF, MTB, WAL, EWBC, OZK, WBS,*** and ***COLB*** are the most undervalued companies and ***NTRS, BK, AUB, BOKF, CFR, PNFP and TCBI*** the most overvalued in terms of their market multiples.



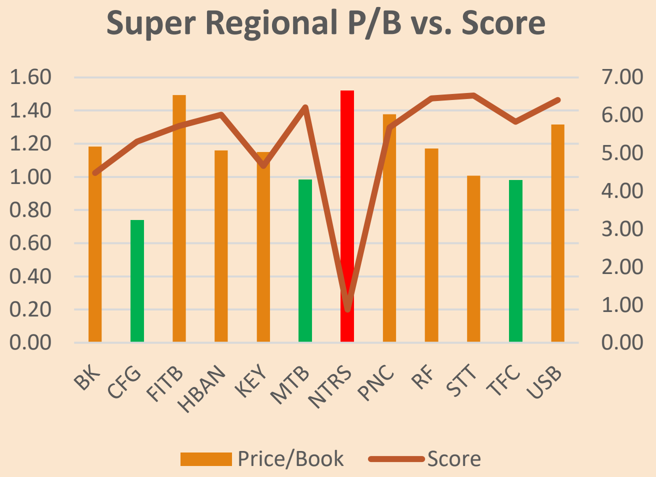


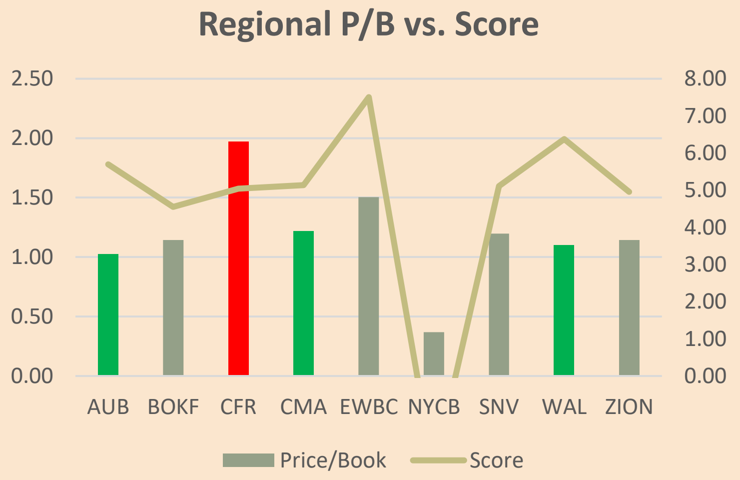


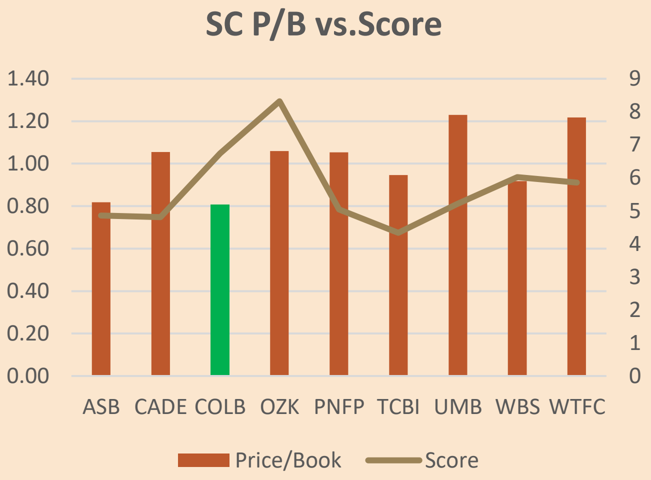
* Multiples reflect closing prices on 5/3/2024

Market Multiples – Book Value

We also assess valuation in relationship to book value. Similar to our PE evaluation, we expect our higher rated companies to trade at higher price to book multiples. Significant disconnects can signal a potential opportunity or market risk, depending on the degree to which Price-to-Book ratios represent higher or lower expected multiples. We have found that this ratio can also help identify potential acquisition targets. Well-performing banks with low market prices to book value tend to rank high on our acquisition target list. Based on this metric, ***CFG***, ***WAL***, ***TFC***, ***MTB***, ***OZK, CMA, COLB,*** and ***WAL*** appear to be the most undervalued while ***CFR and NTRS*** are the most overvalued by a wide margin. NYCB would appear to be significantly undervalued, however, this company contains significant risk and is not an investment choice for a conservative investor. Our current top acquisition target remains Atlantic Union (**AUB**).



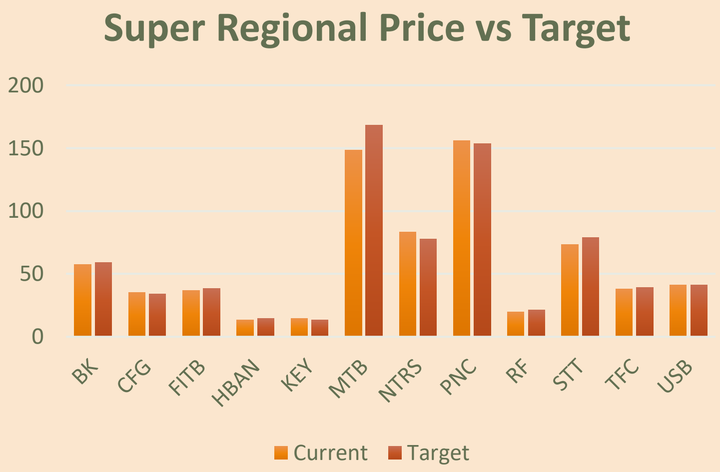


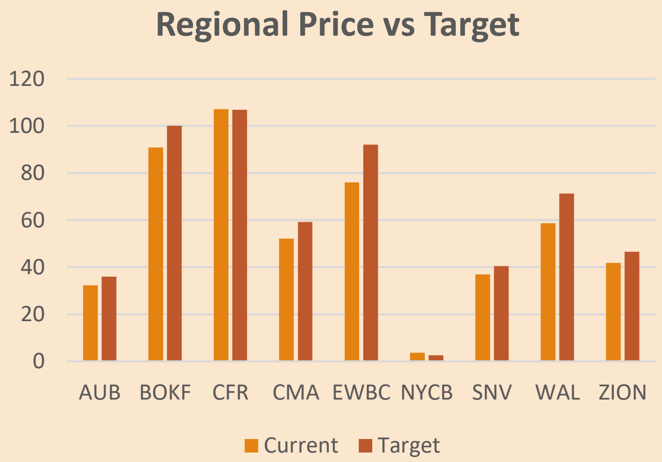


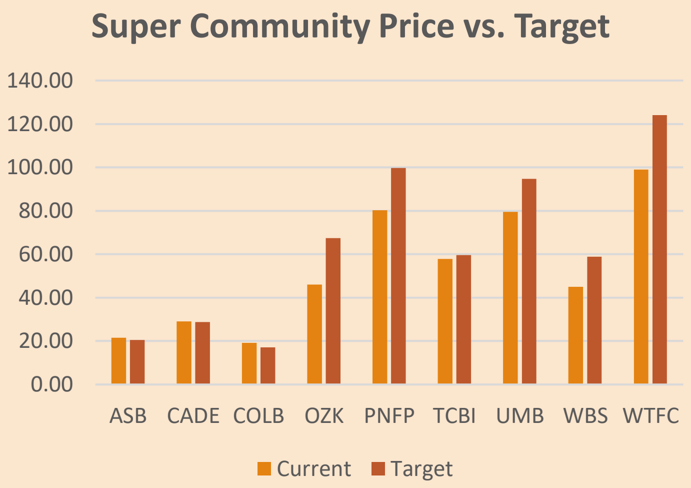
* Multiples reflect closing prices on 5/3/2024

Target vs. Current* Price

We combine our scoring model with a statistical valuation model to determine a target price based on a calculated target P/E and the company's overall performance. These targets change based on company performance and overall market conditions. While the target price calculation is instructive, it shows relative, not absolute, valuation. We use it to estimate an individual company's potential to either outperform or underperform the market over time. As a result, we characterize a company as overvalued or undervalued if its current price is above or below our target price by 15%. At the end of April 2024, most of our companies were trading close to our targets and we have rated the sector as fully valued, expecting that it will rise and fall in tandem with the broader market. While we expect some appreciation, we do not think it will be significant across the board. We update this analysis weekly and display it on our website for members.



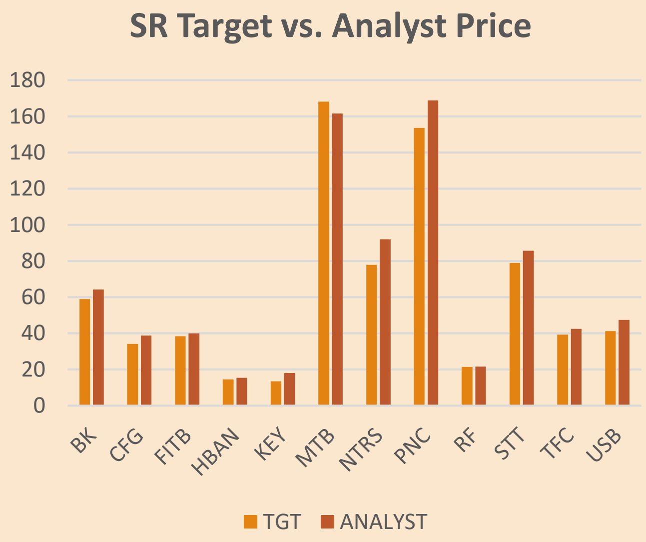


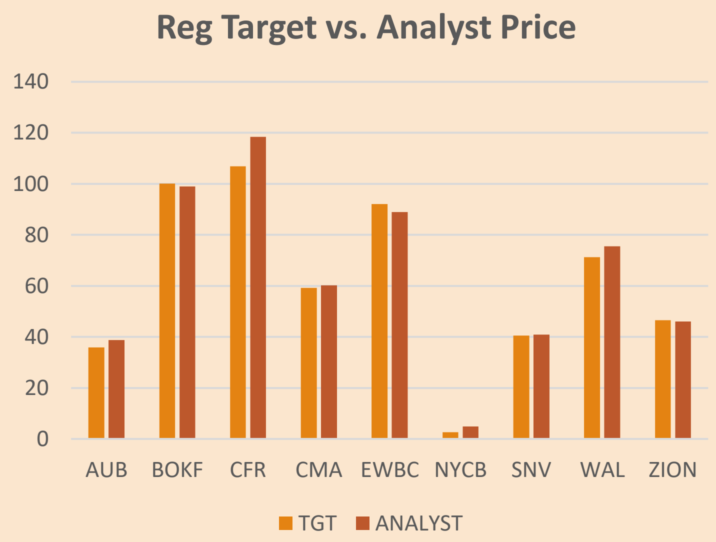


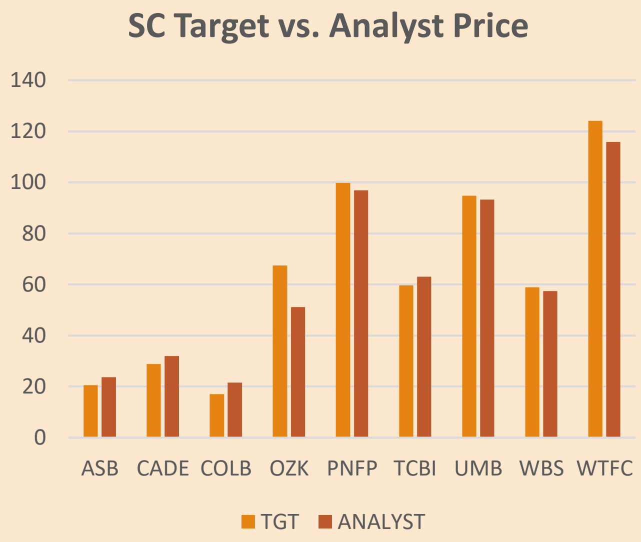
* Equity prices reflect closing prices on 5/3/2024

Our Target Value vs. Analyst Target Prices

While we do not take analyst price forecasts as gospel, we compare them to our targets to try to understand market sentiment. While our targets are generally in line with analyst forecasts, in some cases we tend to assign higher target prices to a few of our banks. This is not surprising since we don't have an economic interest in encouraging investors to buy, sell or hold individual stocks.







Valuation Summary

Based on our scoring and valuation models we believe the sector, as a whole, is now FULLY VALUED relative to the market overall. However, while we believe there is still risk in the market in the near term, a few banks represent attractive buying opportunities. Consequently, while conservative investors may want to keep their powder dry until the interest rate outlook is more discernible, others may want to take advantage of bargains that may deliver attractive returns over the next few months. While we rate most of our banks as fully valued, we have identified 8 companies that we believe are undervalued based on their performance and our score. If we invested in individual bank stocks (which we don't) we would focus our attention on the upper two right hand boxes and stay away from the bottom two left hand boxes. **As always, investment decisions should only be made after thorough analysis, due diligence on individual companies, and consultation with a qualified investment professional.**

SCORE	OVERVALUED	FULLY VALUED	UNDERVALUED
HIGH	COLB	FITB STT USB	MTB OZK EWBC WAL
MEDIUM	AUB CFR ASB CADE	CFG PNC TFC CMA SNV ZION PNFP UMB	RF HBAN WBS WTFC
LOW	KEY NTRS TCBI	BK BOKF NYCB	

The RJ Report

Banking Issues and Information

This report is published by RJ Reports, LLC and is meant for the sole purpose of providing information about banking issues and investment considerations to its members. Interested parties can contact us by visiting our website at TheRJReport.com or sending an email to info@rjreports.com

Nothing in this report should be construed to represent either an offer to buy or solicitation to sell investment securities. It is for information and entertainment purposes only. As always, you should consult a qualified financial professional before making any investment decisions.