The RJ Report

Banking Issues and Information

QUARTERLY REPORT

FALL 2024

In This Report

- Industry Sector Overview and Outlook
- Third 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 therjreport@gmail.com.

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. In this quarter, we removed Northern Trust, State Street, and New York Community from our list. We have determined that significant differences in business model and performance fundamentals were skewing our analysis of more traditional banks. 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)***
Fifth Third ***(FITB)***	Synovus Financial ***(SNV)***	Bank OZK ***(OZK)***
Citizens Financial ***(CFG)***	Western Alliance ***(WAL)***	Cadence ***(CADE)***
KeyCorp ***(KEY)***	Cullen Frost ***(CFR)***	Pinnacle ***(PNFP)***
Huntington ***(HBAN)***	BOK Financial ***(BOKF)***	Wintrust ***(WTFC)***
Regions Financial ***(RF)***		Webster Bancorp ***(WBS)***
M&T Bank ***(MTB)***		

Key Industry Developments

- The Federal Reserve began reducing interest rates during the quarter, starting with a 50bps decrease. This was followed up by an additional 25bps cut. Expectations now indicate possibly one more cut before year end. The outlook for 2025 generally contains additional cuts throughout the year, however, policies implemented by the incoming Administration could change those expectations.

- 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 4th 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.

- We expect significant changes to the regulatory environment as a result of the recent election. It is unclear what specific regulatory changes will be implemented but we expect significant reductions in consumer protection oversight as well as fewer restrictions on capital adequacy and expansion.

- 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

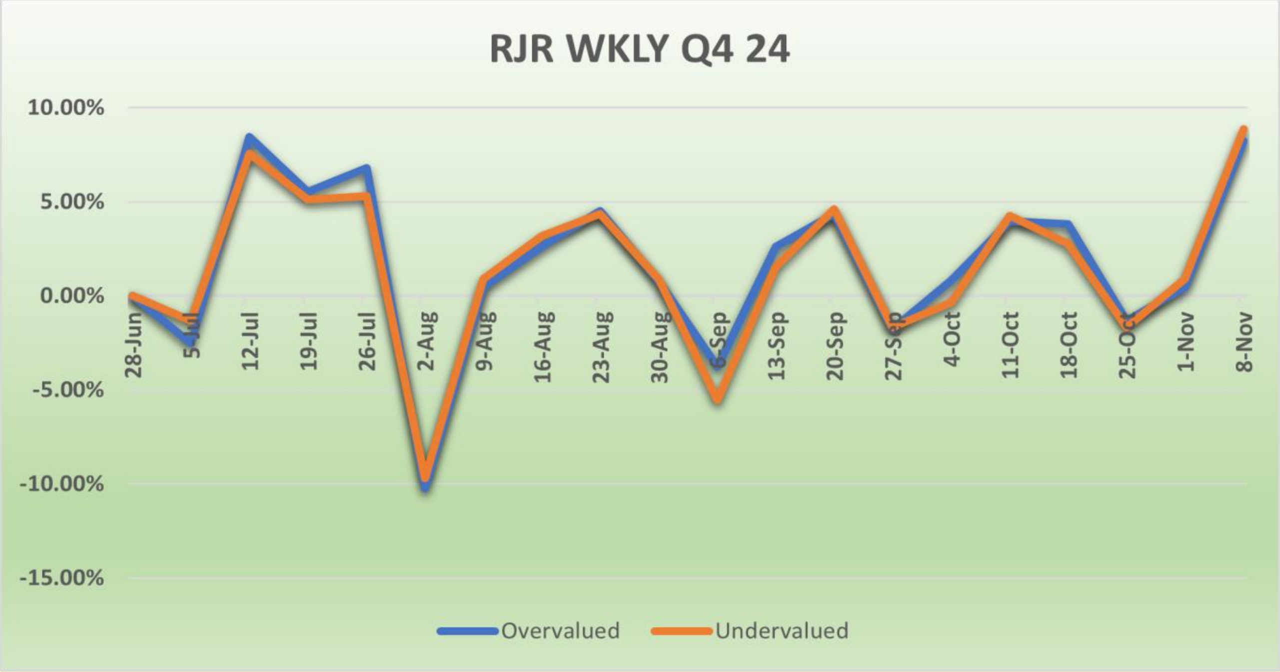
For most of the past two years, we have rated the banking sector as either undervalued or fully valued relative to the overall market. Consequently, investor returns have generally mirrored the broader market, while there have been a couple of periods after downturns where the banking sector has significantly outperformed market averages. 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 early November. However, while we expected the sector to rally towards the end of the year, we did not foresee the massive market response to the elections results. The jury is out on whether this bounce is sustainable or merely a sugar high. Recent updates are provided on our website, therjreport.com.

Banking Sector Rated Fully Valued

The RJR Indicator

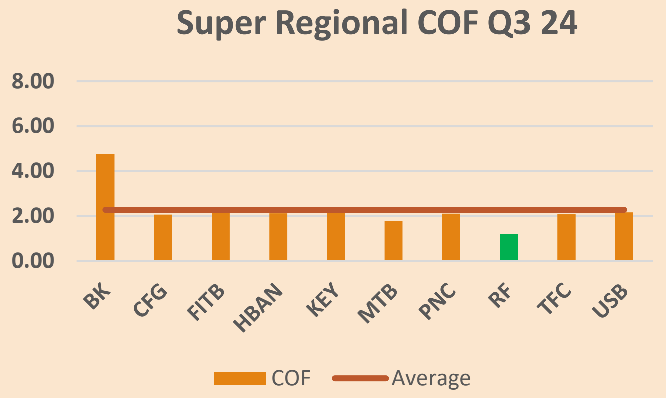
The RJR Indicator is a metric we use to identify potential overall market moves. The indicator looks at the performance of our banks rated undervalued relative to those rated overvalued. A positive indicator occurs when our undervalued banks outperform those rated overvalued. A positive indicator signals an upward trending market and a negative indicator a downward trend. T. The indicator has showed mixed signals throughout the first half of 2024, with a bias towards the positive but turned positive in early July and then again just before the election in November. We believe the market and industry fundamentals remain strong and are expecting continued market appreciation for the foreseeable future. The wild card continues to be the sustainability of the huge move in response to the election results. We are skeptical that this momentum can be sustained and believe there is significant risk currently in both the banking sector and market, overall. Weekly movements of the RJR Indicator are available on our website ***therjreport.com***.

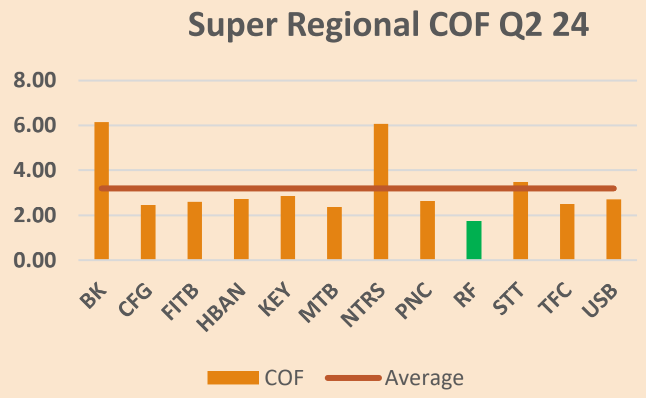
The RJR Indicator Turned Positive in October 2024

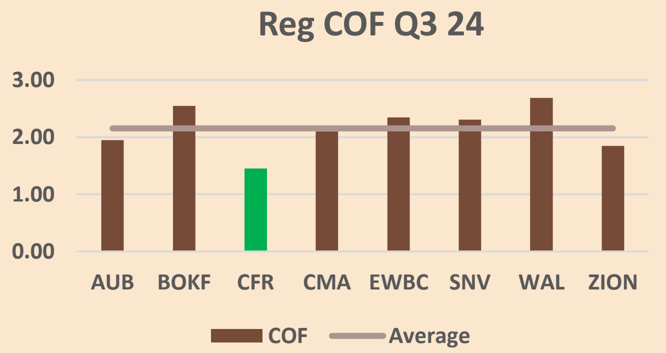


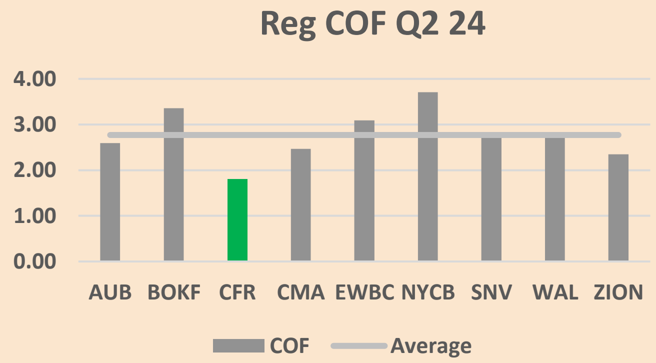
Quarterly Focus: Funding Costs

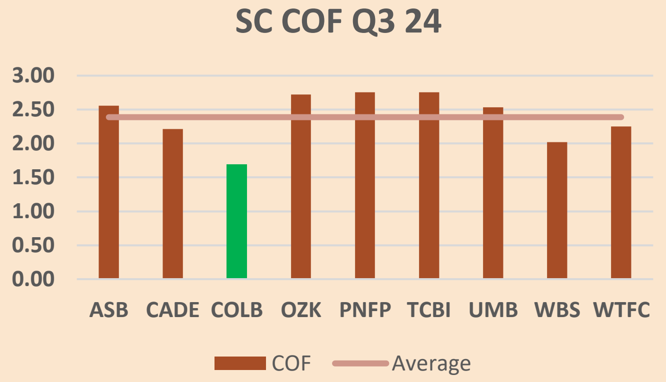
This quarter we are again doing a deep dive on the deposit side of the balance sheet and its impact on deposit growth and cost. During the quarter, funding costs decreased slightly in all size categories. This is a reversal of the significant increases in the previous three quarters. The result was a slight increase in Net Interest Margins in all of the sectors we cover. We expect cost of funds to continue to stabilize throughout this year and next The winners will continue to 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 change in COF and highlight those banks that continue to enjoy cost advantages.

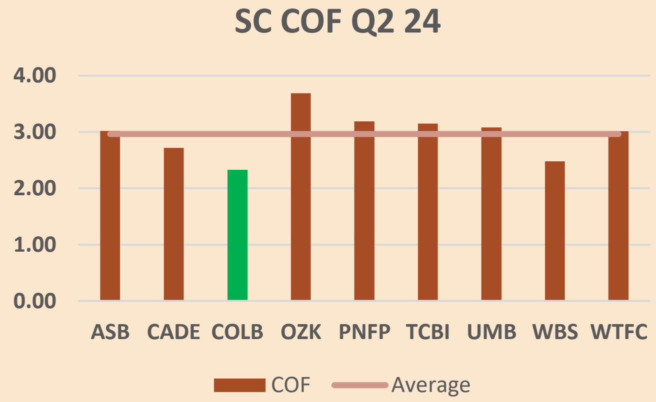






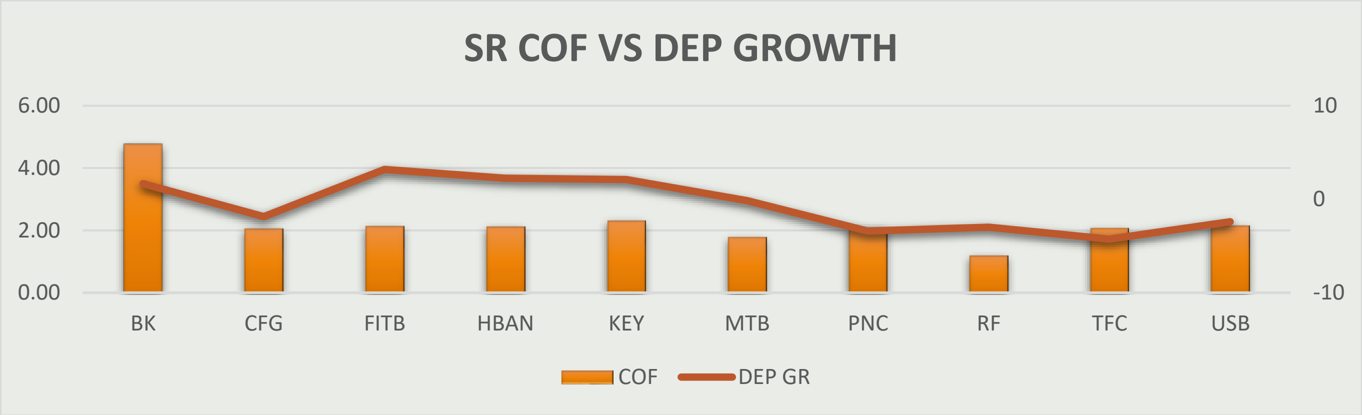


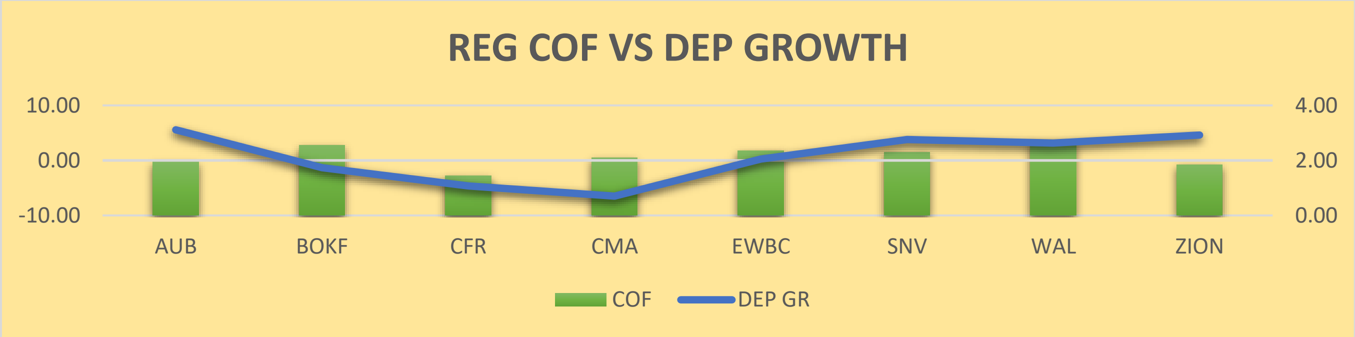


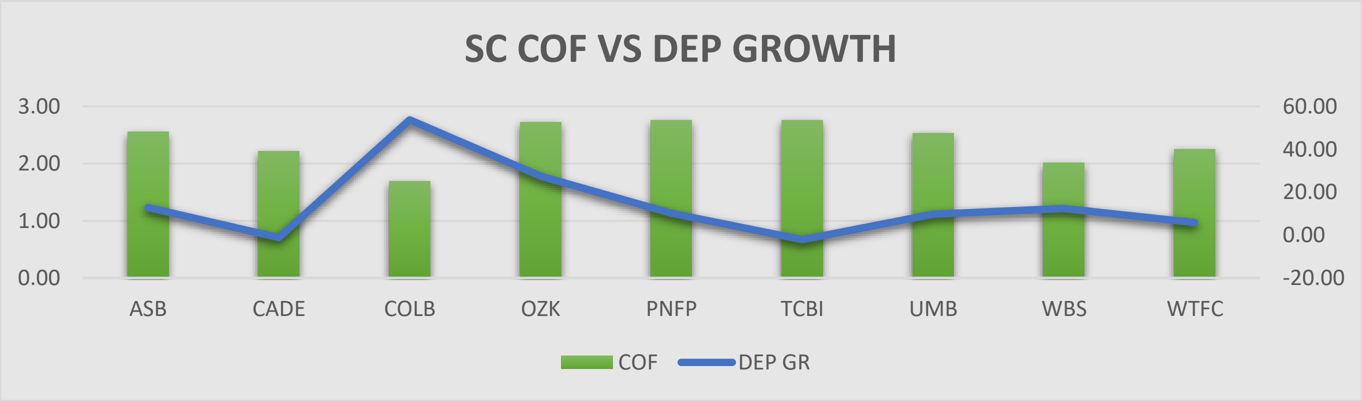


Quarterly Focus: Deposit Growth

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 likely 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. Previously most of these banks were 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 of 2023. This changed during the quarter, as Super Communinty banks ramped up their deposit businesses. Less diversified banks such as BK grew their deposit portfolios significantly but at very high cost.







Performance Review

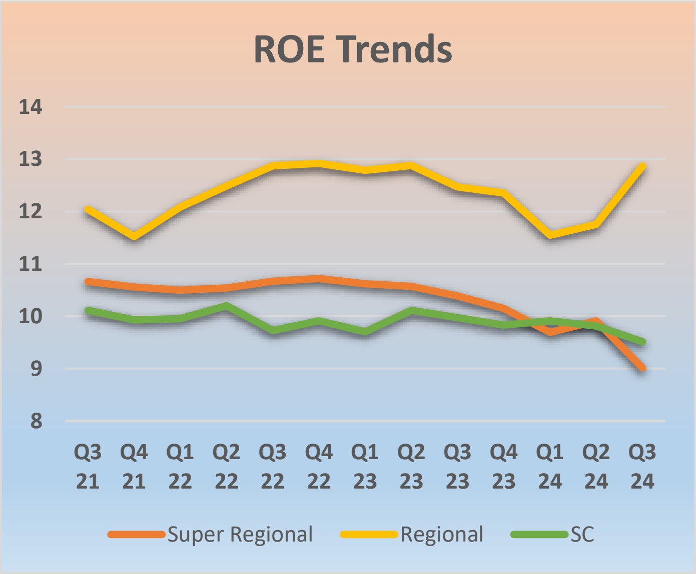
Sector Performance

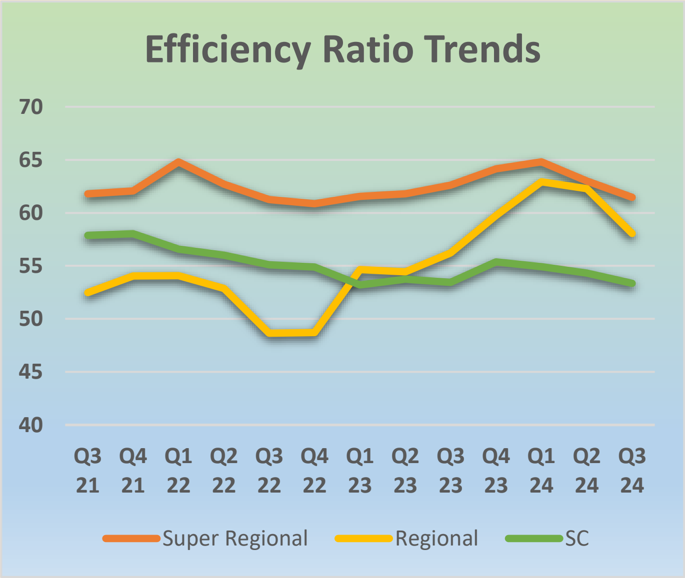
The Third Quarter saw a general increase in many metrics across the three industry sectors we follow. Decreases from the 1st quarter are indicated in red, while improvements are green. Performance varied considerably by individual bank, reflecting both significant differences in strategies and business 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 some investor concerns regarding the size of the bank's CRE portfolio. We believe these concerns are overblown and continue to consider the bank undervalued relative to peers. Key Bank (KEY) waon the title of our lowest rated "traditional" bank. The following pages provide information on the performance of each of our banks on a variety of key performance criteria.

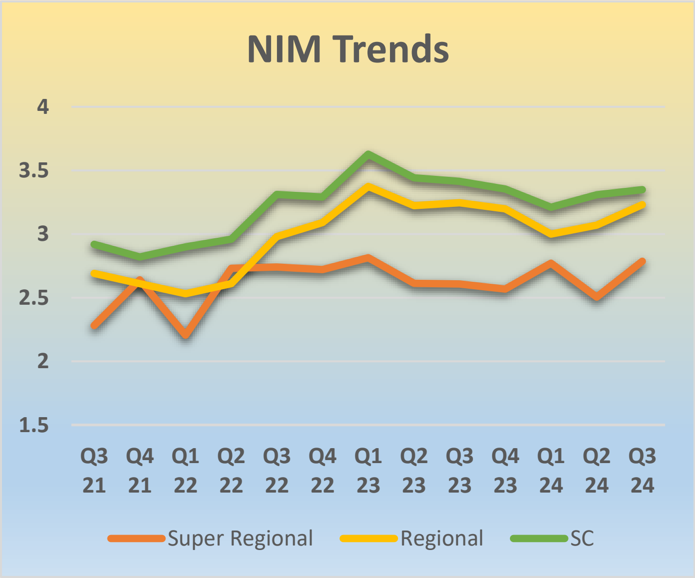
Sector	ROE	NIM	COF	PE	Eff Ratio	Price/Book	Yield	Score
Super Regional	9.01	2.79	2.27	13.13	61.47	127	3.79%	5.64
Regional	12.86	3.23	2.15	12.30	58.05	148	2.96%	5.33
Super Community	9.51	3.35	2.39	11.97	53.35	115	2.48%	5.67
Best Performer	CFR	OZK	RF	TCBI	OZK	CFR	CMA	OZK
Worst Performer	KEY	BK	BK	OZK	CMA	CFG	TCBI	KEY

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. it is encouraging that most banks have been able to maintain somewhat healthy margins even in the face of increases in funding/deposit costs. This is counter to many analysts' expectations who predicted significant drops in NIM. We expect continuing improvements in NIM as funding costs go down and loan demand picks up. We expect an increased focus on cost reduction and industry consolidation to intensify as banks combine to achieve potential scale economies.

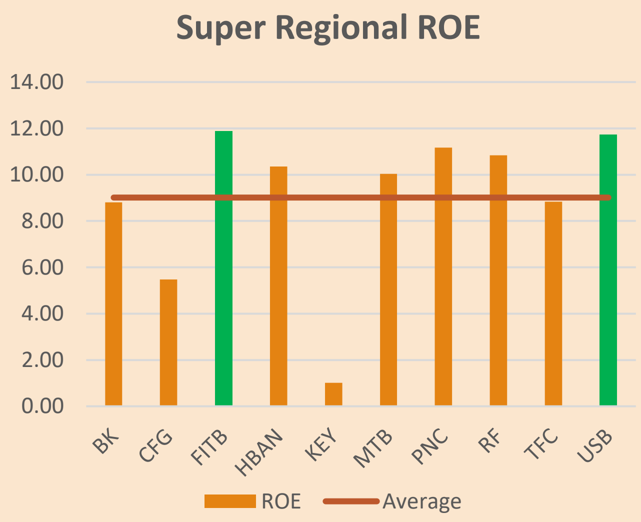


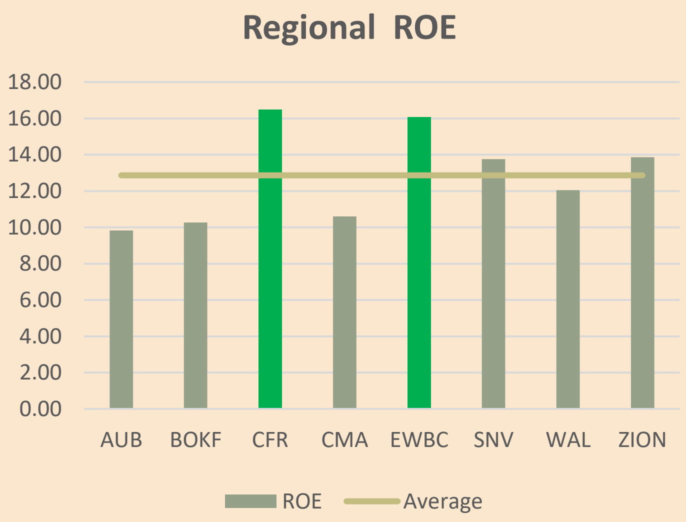


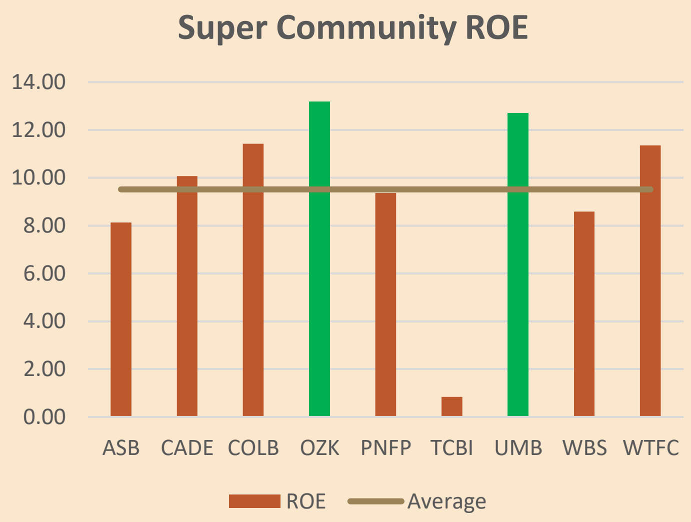


Return on Equity

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 **UMBF** 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)***, Key Bank (***KEY***), Atlantic Union ***(AUB)***, Associated ***(ASB)*** and Texas Capital ***(TCBI).***

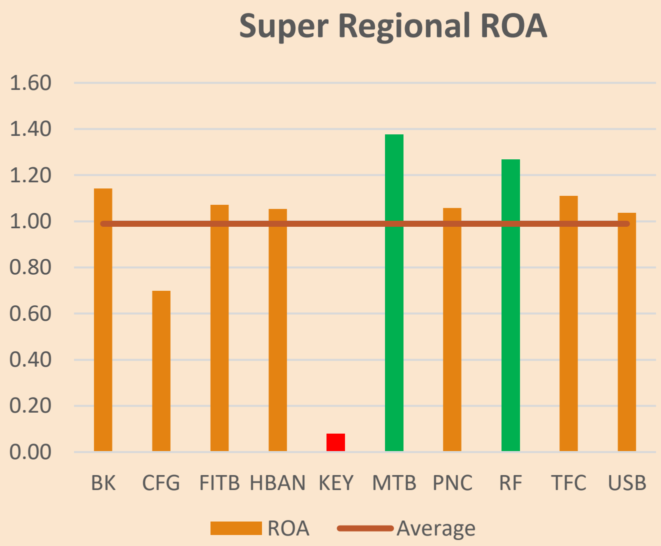


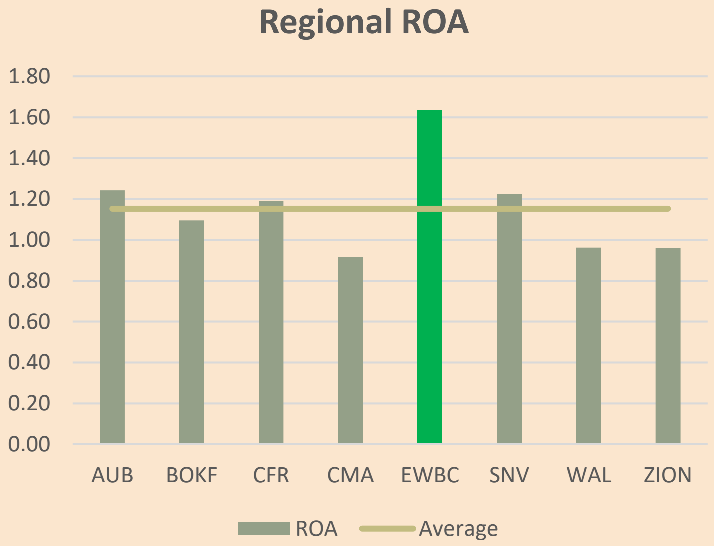


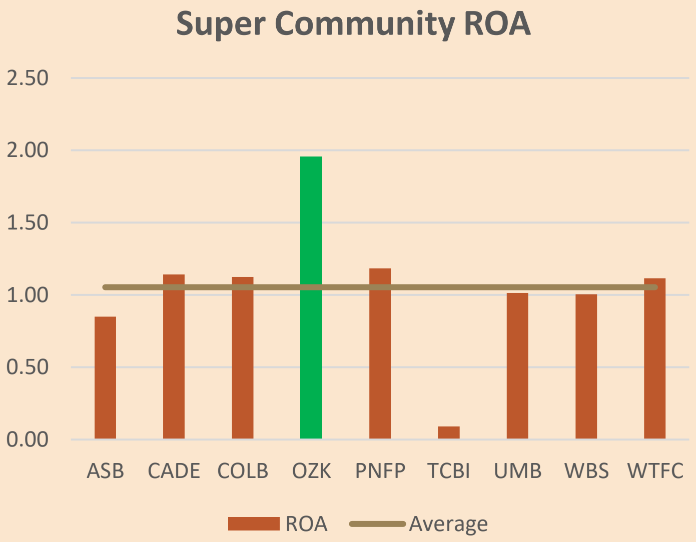


Return on Assets

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 and* Regions Financial**), banks with commercial focus (**East West**), and those with very low-cost structures relative to their size (**Bank OZK**).

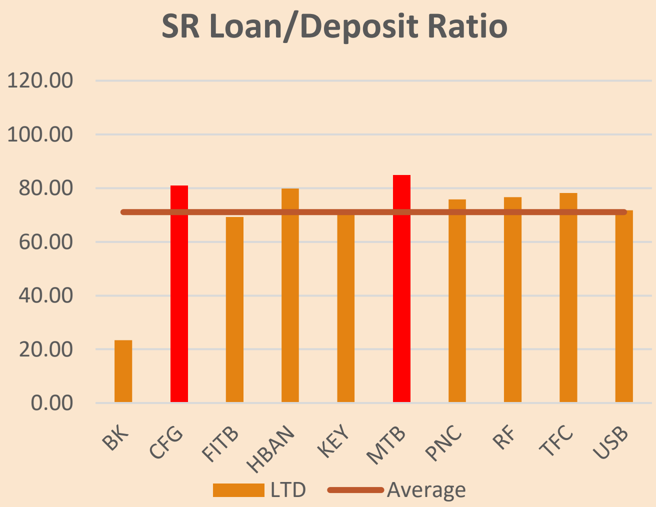


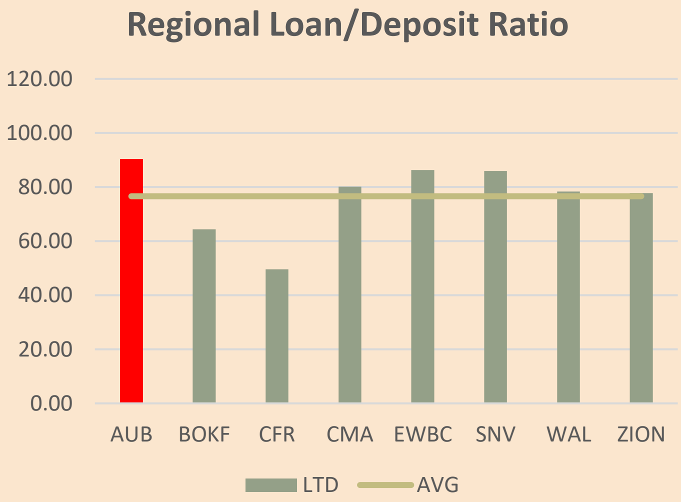


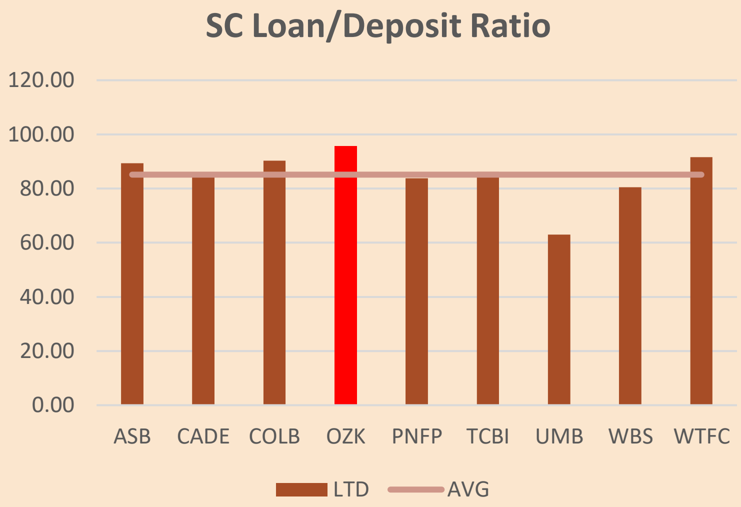


Loan to Deposit Ratios

As funding pressures have mitigated and loan growth remained relatively small, loan to deposit ratios have declined marginally. 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. Thanks to success in generating funding, the bulk of the banks we analyze are still at or slightly below that Goldilocks level. Generally, smaller Regional and Super Community banks continue to experience funding challenges, while most larger banks have room to run. Banks that have either reached or are approaching this sweet spot include ***CFG, MTB, AUB, ASB, OZK***, and ***WTFC.***

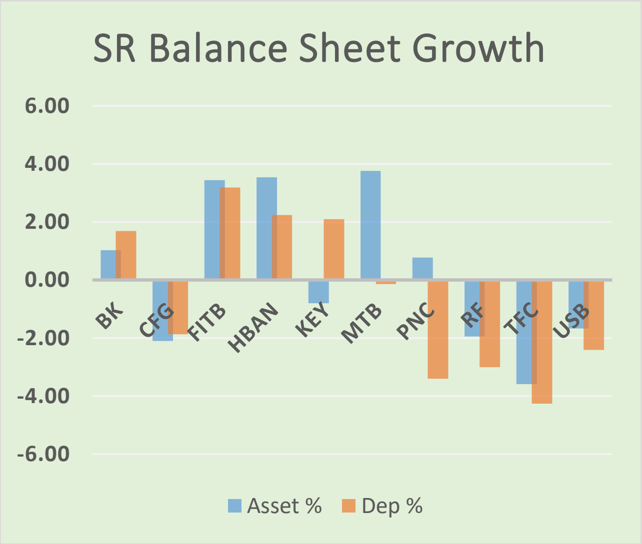


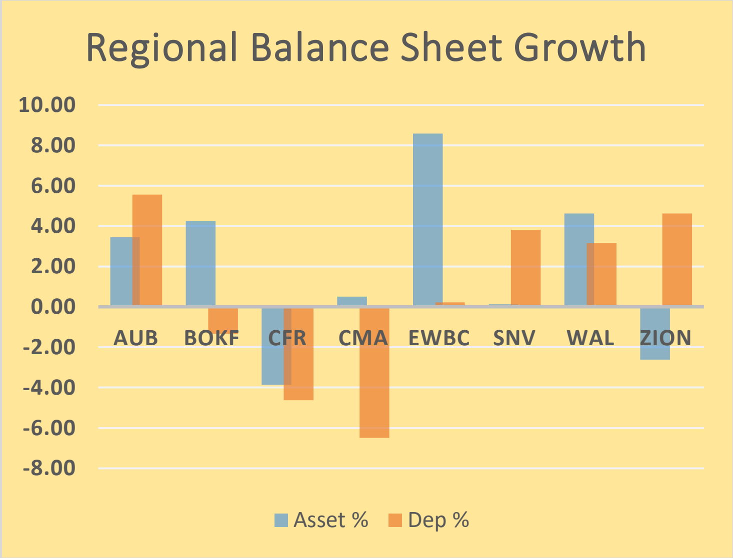


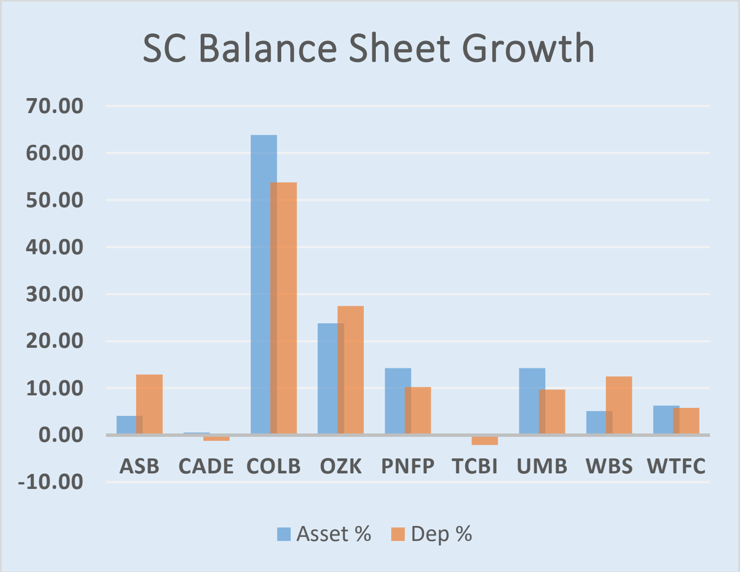


Balance Sheet Growth

During the Third Quarter, There was considerable variation in the balance sheet strategies across the industry. We expect and increased focus on growth in most of these banks over the next 12 months, either organically or through acquisition, as loan demand increase and many banks continue to pursue elusive scale economies. While continued reductions in Commercial Real Estate (CRE) will likely trim those portfolios, we expect these reductions to decline and those balances replaced with a more diversified mix.

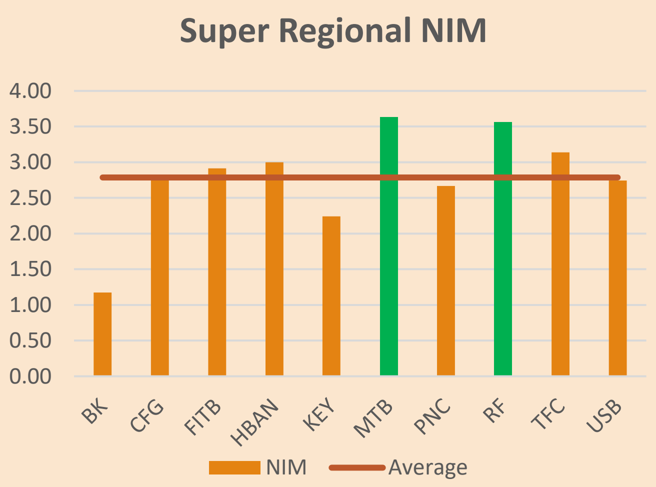


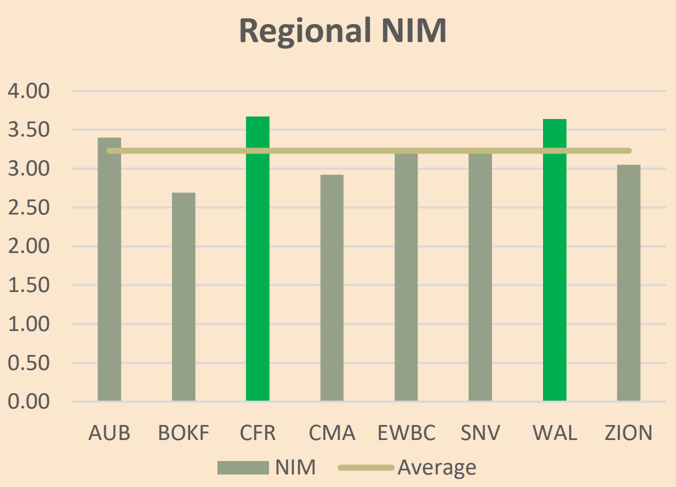


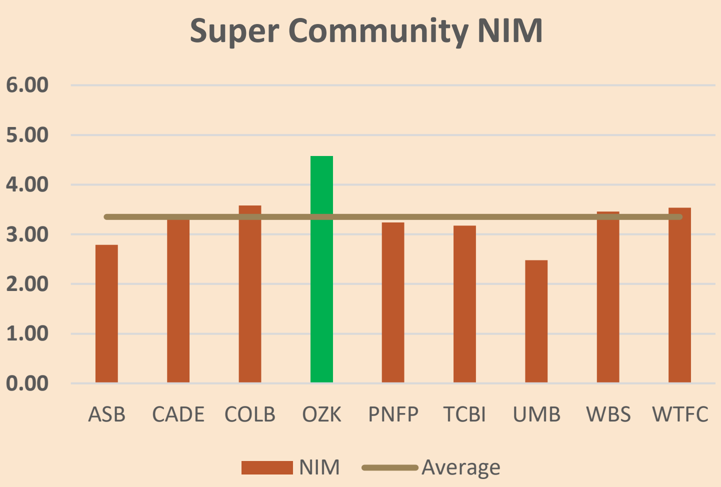


Net Interest Margins

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 2023. And, while margin pressures have continued, most banks have been able to maintain acceptable net interest margins through proactive balance sheet management We expect net interest margins to continue to improve throughout 2025 reflecting a more benign interest rate environment. Barring any unforeseen economic crisis, we expect to see strong net interest margins fuel significant earnings increases over the next few quarters. Not surprisingly, some of our top-rated banks, ***MTB, RF***, ***WAL***, and ***OZK*** rank particularly high on this metric.

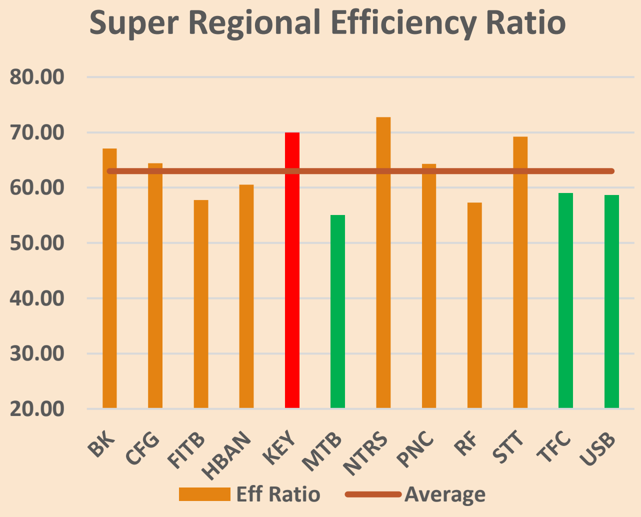


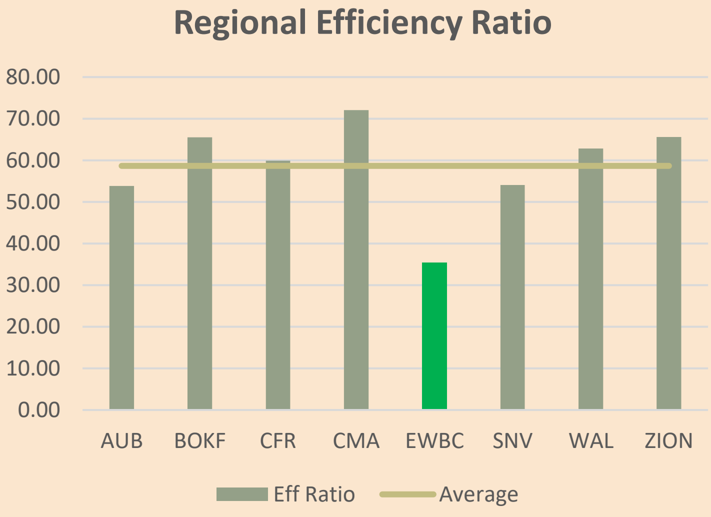


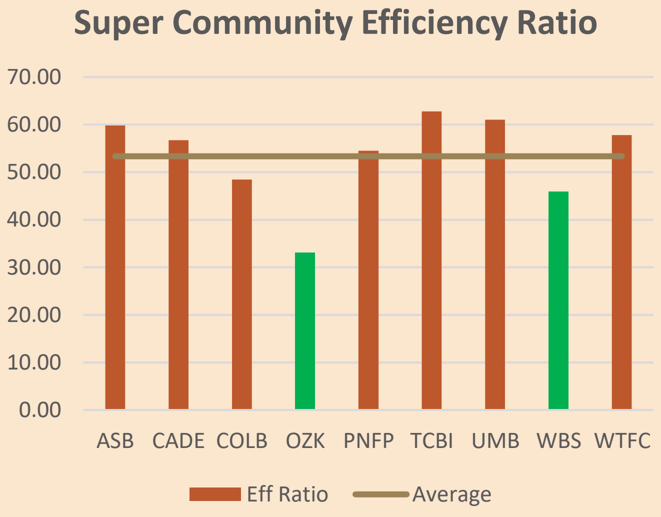


Efficiency Ratios

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 Super Community segment. We expect that those banks that can maintain this cost discipline as NIM stabilizes 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 ***MTB***,***TFC***, ***USB***, ***EWBC, WBS*** and ***OZK*** perform exceptionally well on this metric. Banks that perform poorly generally such as ***KEY*** and ***ASB*** generally wind up on our acquisition list.

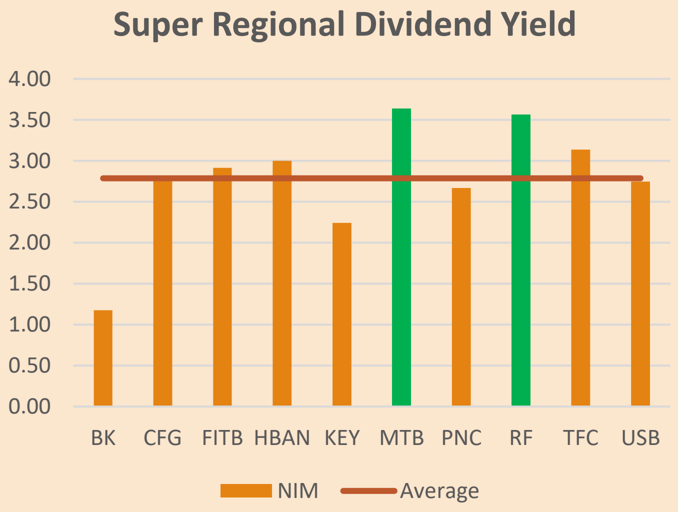


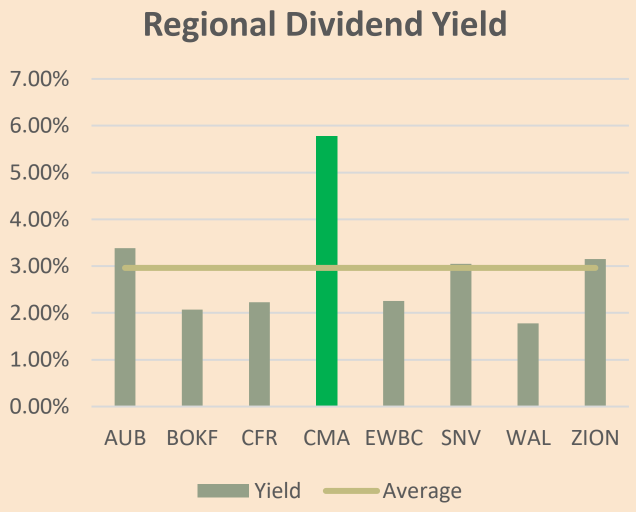


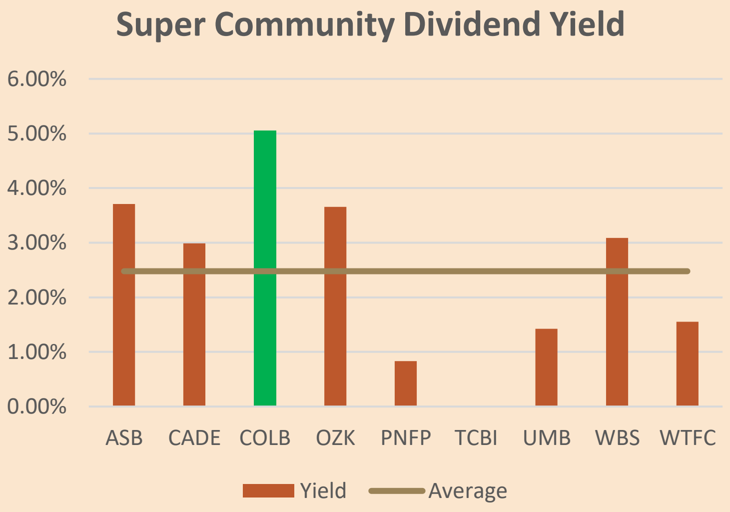


Dividend Yield

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 ***MTB, RF, CMA***, and ***COLB***. 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.



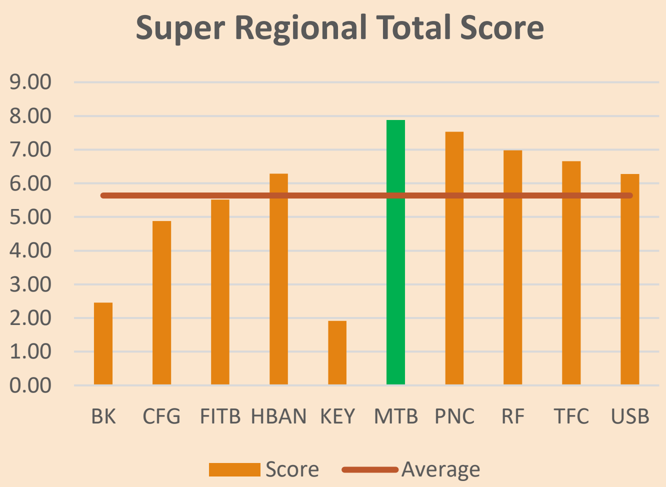


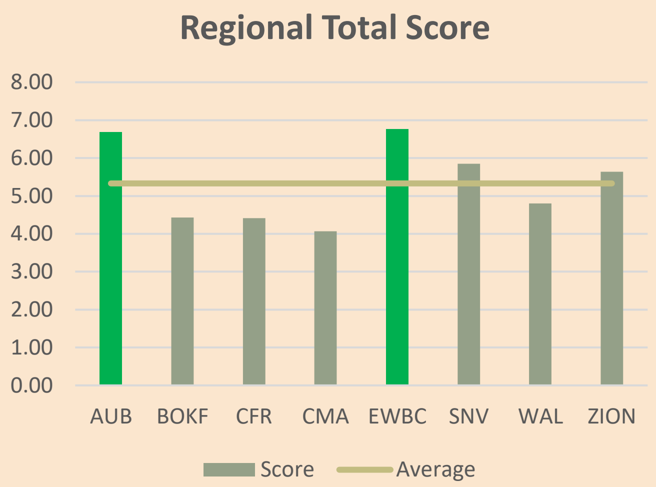


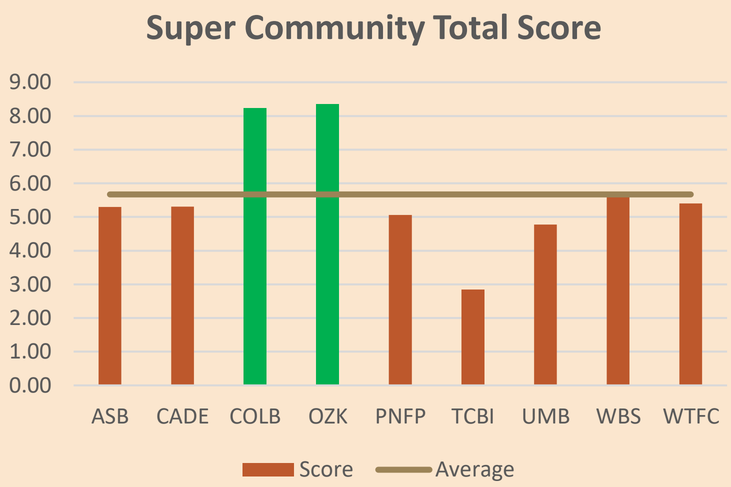
Market Valuation

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 decline and are weighting the ability to generate net interest income, manage funding costs, and control expenses somewhat higher than other performance factors. 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, PNC, AUB, EWBC, COLB, and OZK***. We believe that there is some noise in the numbers for a couple of banks that have resulted in the score for AUB to be higher and for WAL to be lower than previous quarters.

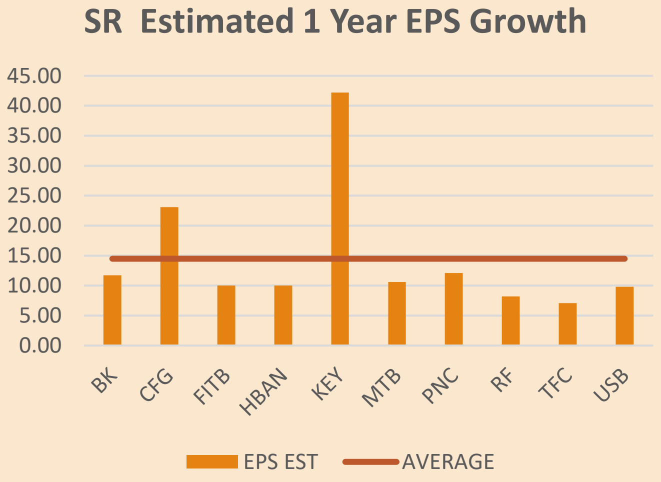


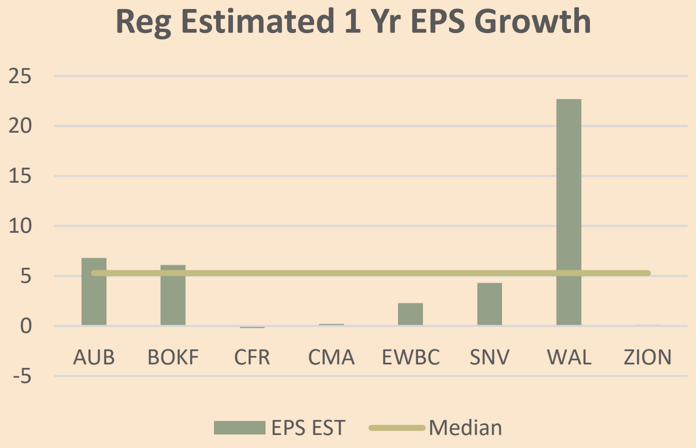


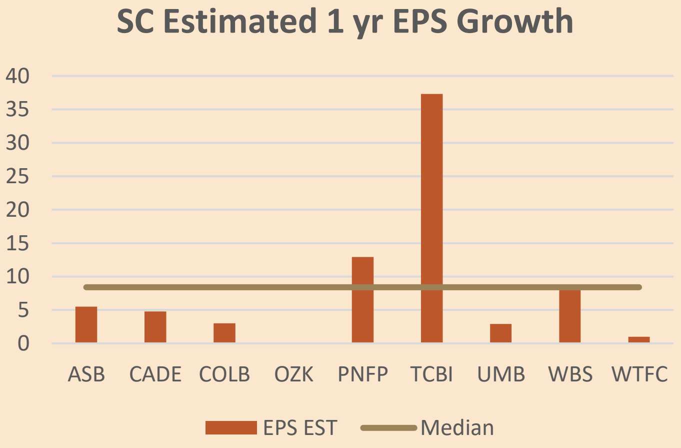


Forecasted EPS Growth Rates

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 a few expected to see zero growth. 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.

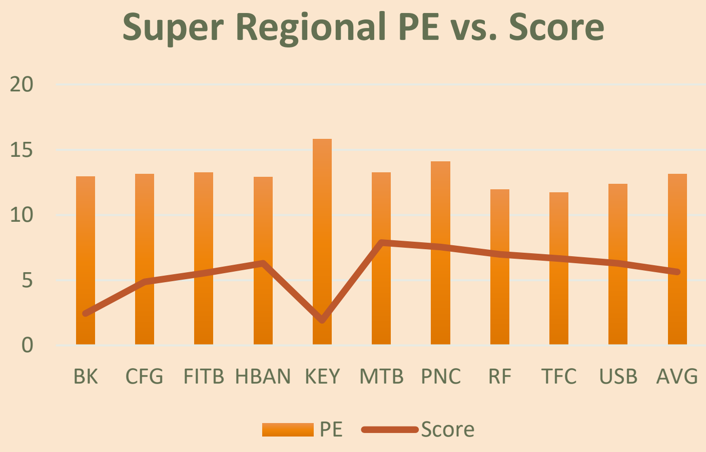


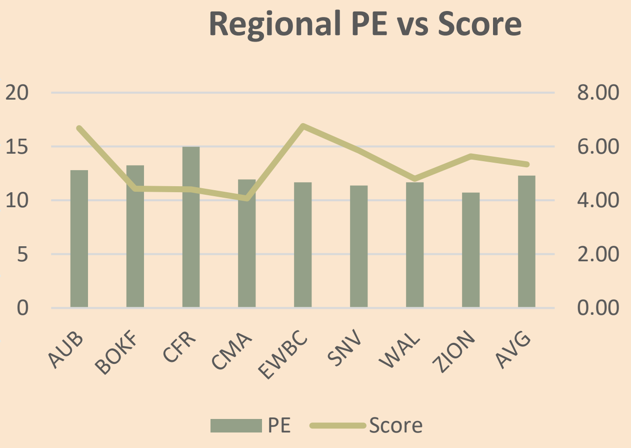


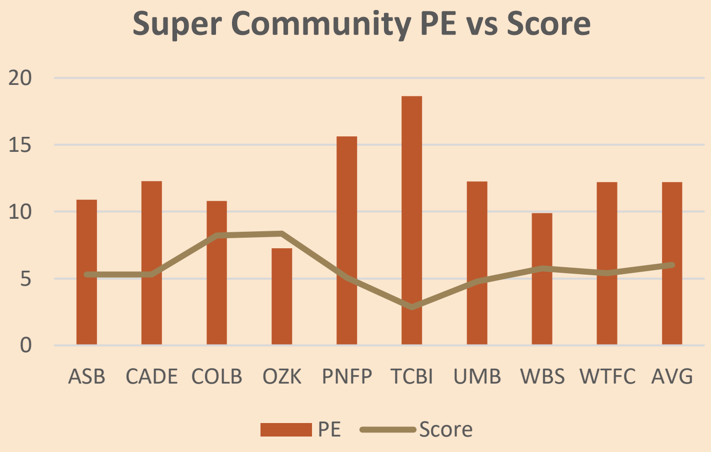


Market Multiples -- PE

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, CMA, OZK, WBS,*** and ***COLB*** are the most undervalued companies and ***BK, BOKF, CFR, PNFP and TCBI*** the most overvalued in terms of their market multiples.



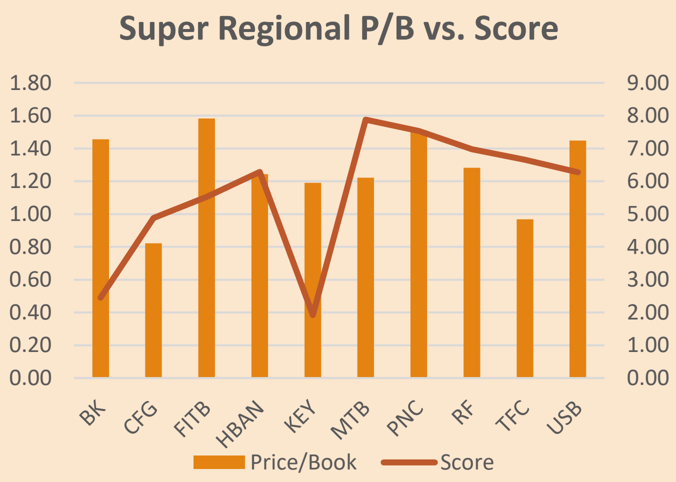


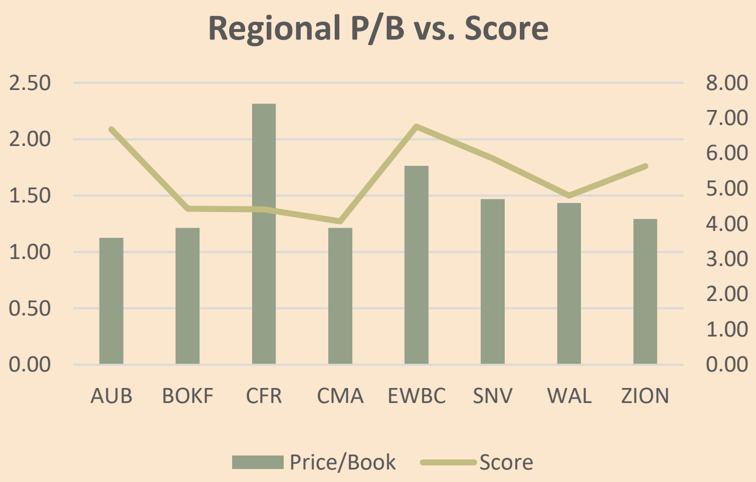


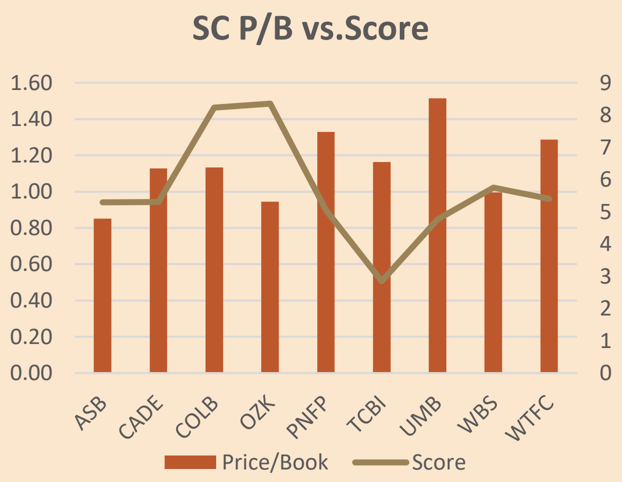
* Multiples reflect closing prices on 11/1/2024

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***, ***TFC***, ***MTB***, ***OZK, CMA,*** and ***WAL*** appear to be the most undervalued while ***BK, CFR, UMBF and PNFP*** are the most overvalued by a wide margin. Our current top acquisition target remains Atlantic Union (**AUB**) followed by ***PNFP***.



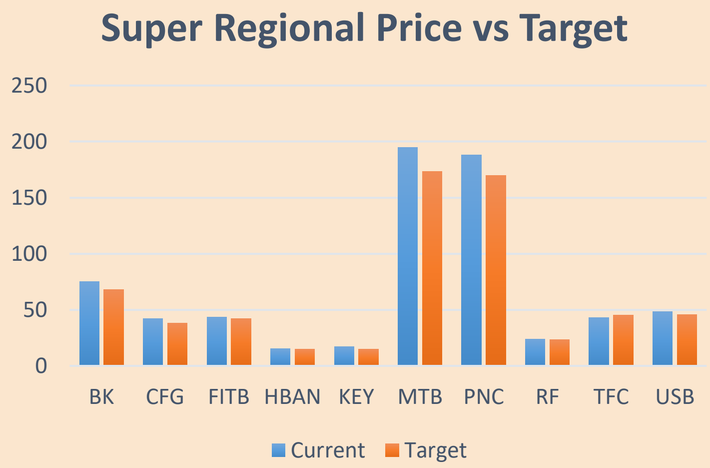


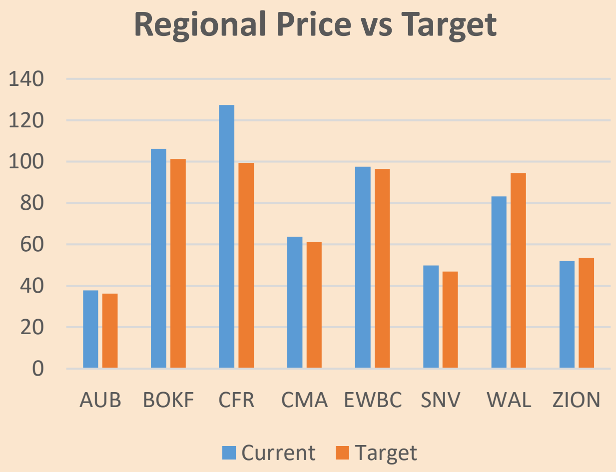


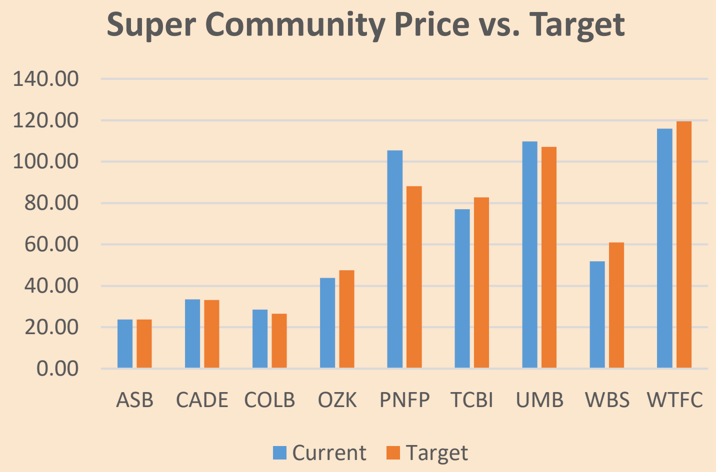
* Multiples reflect closing prices on 11/1/2024

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 October 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 following the post election surge, we do not think it will be significant across the board. We update this analysis weekly and display it on our website for members.



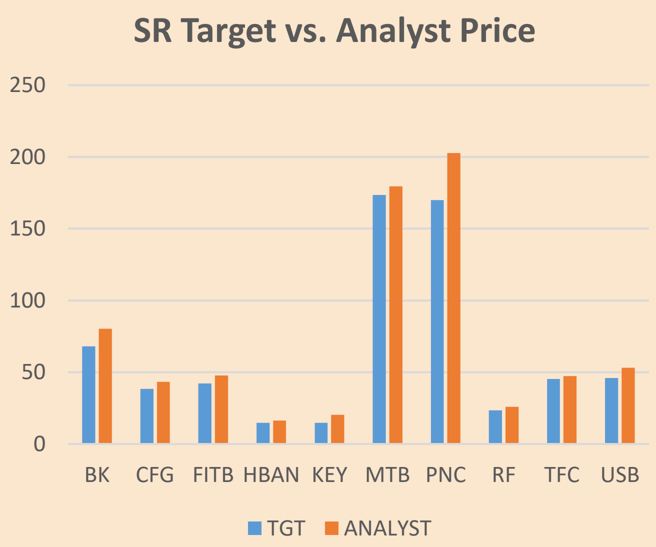


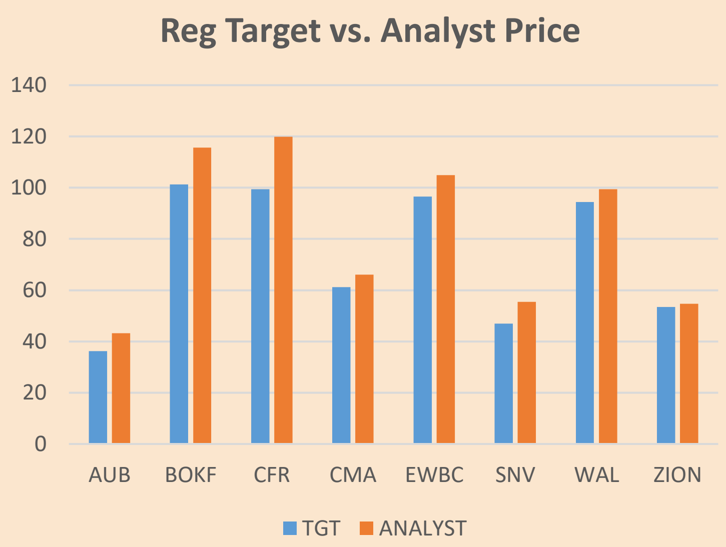


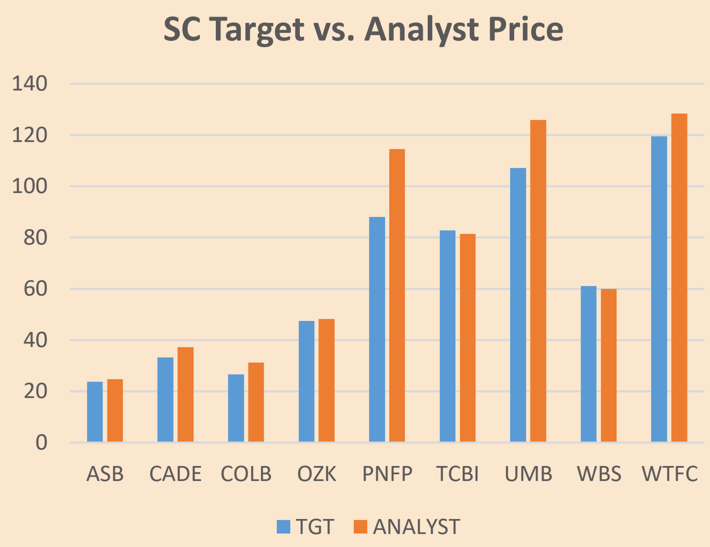
* Equity prices reflect closing prices on 11/1/2024

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 lower 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 some 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 actual impact ot the election becomes clearer, 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 6 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	MTB	COLB HBAN RF	OZK EWBC WBS WTFC WAL
MEDIUM	CFR BOKF	CFG FITB TFC CMA SNV PNFP CADE AUB ZION USB	PNC
LOW	ASB TCBI BK	UMBF KEY	

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.