The RJ Report
Banking Issues and Information

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Banking Issues, Insights and Information for Investors

Winter 2024

Third Quarter Performance Highlights

The Fourth Quarter saw mixed performance across the three industry sectors we follow. Decreases from the3rd 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. Key Bank retains the dubious titile of our lowest rated bank.

Sector	ROE	NIM	COF	PE	Eff Ratio	Price/Book	Yield	Score
Super Regional	9.23	2.85	2.80	12.04	60.64	137	3.58%	5.54
Regional	12.24	3.26	2.62	12.22	57.91	158	2.81%	5.37
Super Community	9.65	3.33	2.86	11.50	52.93	127	2.33%	5.62
Best Performer	CFR	OZK	CFR	PNFP	OZK	CFR	KEY	OZK
Worst Performer	KEY	BK	BK	OZK	CMA	CFG	TCBI	KEY

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. The Fed has now paused rate cuts as they assess the potential inflationary impact of some of the new administration policies, specifically potential widespread tariffs on

- Inflation has come down significantly indicating the impact of higher interest rates although it stalled during the quarter. 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.

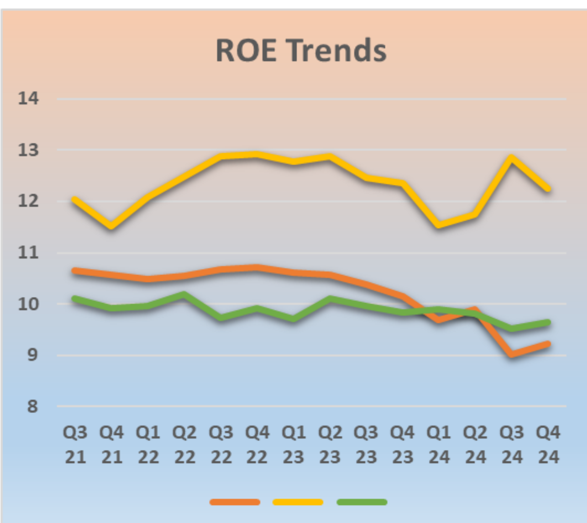
- Credit quality remains strong, although warning signs continue to flash in the Commercial Real Estate sector. We saw most banks increase reserves in the 4th quarter of 2023 and into 2024 as the CRE market comes under additional scrutiny.

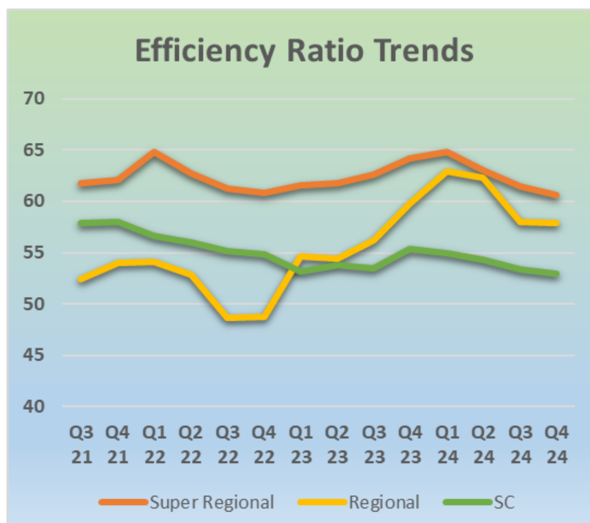
- ØDeposit funding growth and costs are the major issues confronting banks of all sizes. We expect that those banks that can grow and maintain a strong, stable core deposit portfolio will consistently outperform.

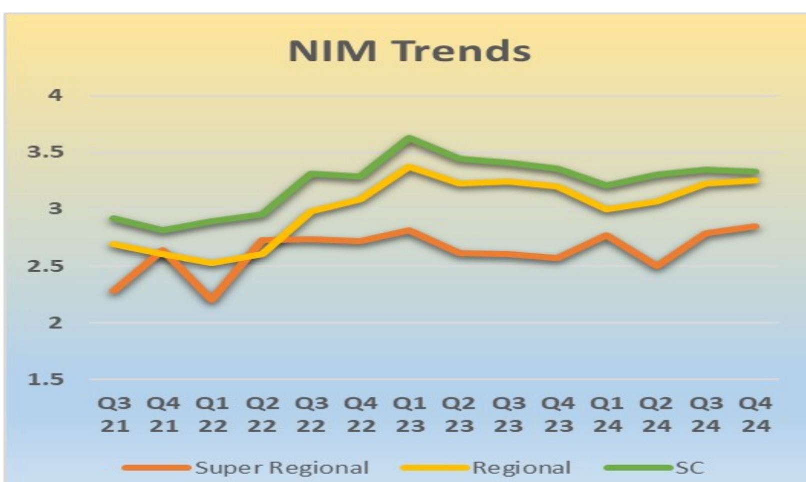
- We have already seen significant changes to the regulatory environment as a result of the recent election. It is unclear what specific regulatory changes will be implemented but we expect significant reductions in consumer protection oversight, reduced focus on fair lending, and fewer restrictions on capital adequacy and expansion. We expect a significant reduction in new rulemaking, lower levels of enforcement, a more accommodative M&A environment, and continued efforts to roll back existing regulations through the court system.

Regional Banks Continue to Outperform on Key Metrics

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 also expect a continuing focus on cost reduction and industry consolidation to intensify as banks combine to achieve potential scale economies.







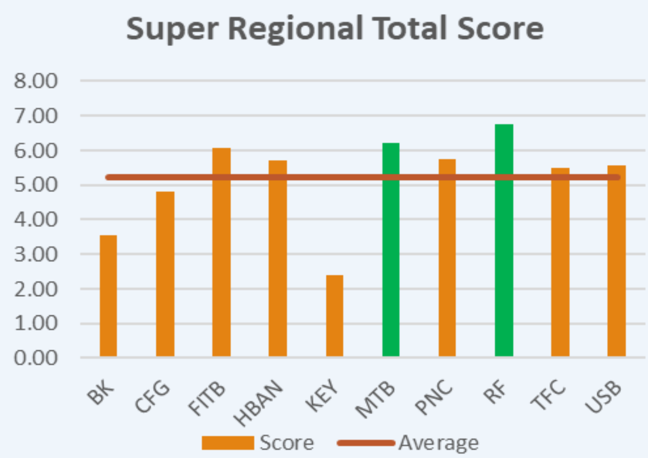
Market Valuation Summary

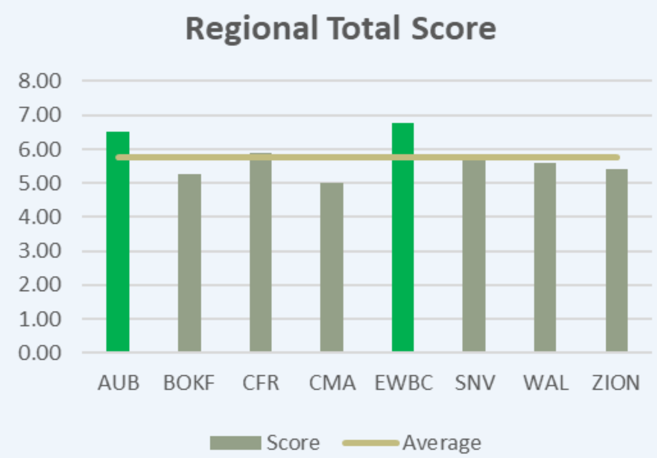
Based on our scoring and valuation models we believe the sector, as a whole, is now FULLY VALUED relative to the market overall. However, while we believe there is some risk in the market in the near term, a few banks represent attractive buying opportunities. Consequently, while conservative investors may want to keep their powder dry until the actual impact ot the Trump administration policies 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**

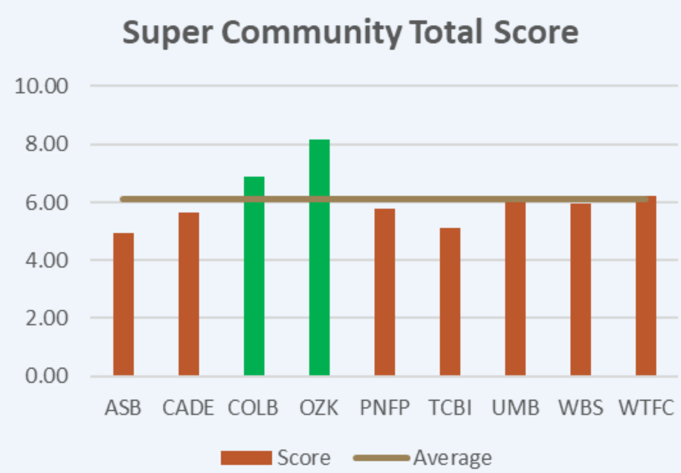
HIGH		COLB HBAN RF MTB FTIB UMBF WTFC	OZK EWBC WTFC AUB
MEDIUM	CFR BOKF CMA SNV PNFP	TFC PNFP CADE AUB ZION USB PNC	WAL WBS
LOW	CFG TCBI	KEY BK	ASB

Q4 2024 Heroes and Zeros

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 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, RF, 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.

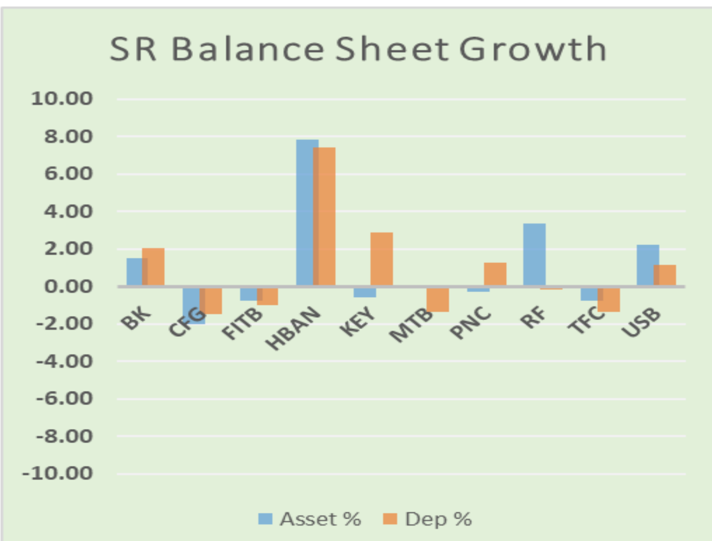


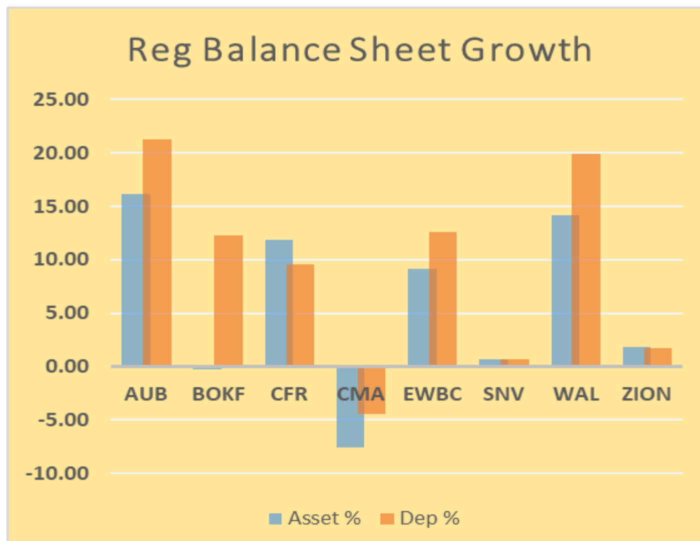


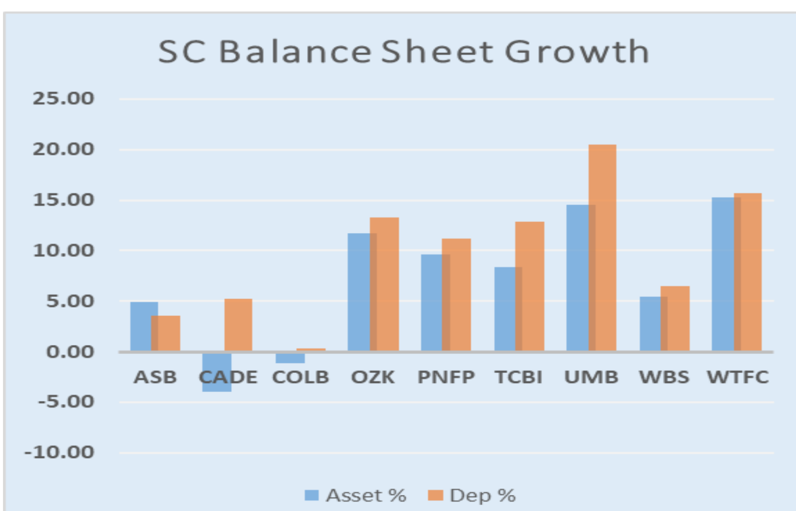


Balance Sheet Trends

During the Fourth Quarter, there was considerable variation in the balance sheet strategies across the industry. We expect an increased focus on growth in most of these banks over the next 12 months, either organically or through acquisition, as loan demand increases, 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 be replaced with a more diversified mix.







The RJR Indicator is Flashing Caution

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 indicator has shown mixed signals throughout much of 2024, with a bias towards the positive. While we believe the industry fundamentals remain strong, we are seeing potential market headwinds., and the Indicator flashed NEGATIVE in the first week of February. The chart below shows the banking index relative to the S&P, as well as the timing of our RJR Indicator calls prior to our most recent call. Weekly movements of the RJR Indicator are available on our website ***therjreport.com***

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