

The 2023 State of the Industry - The Evolving Dynamics of Banking

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Keefe, Bruyette & Woods, *A Stifel Company*





BankDirector.
ACQUIRE^{OR}
ACQUIRED^{BE}

2023 State of the Industry:
The Evolving Dynamics of Banking

January 29, 2023

Thomas B. Michaud | President & CEO



KEEFE, BRUYETTE & WOODS
A Stifel Company

The Banking Industry Today



The Industry Is In Good Shape, But The Economy And Rates Are Shifting



Investors Want Certainty And Are Waiting



The *Battle Royale* Is Underway

Largest Banks vs. Other Banks vs. Shadow Banks vs. FinTech



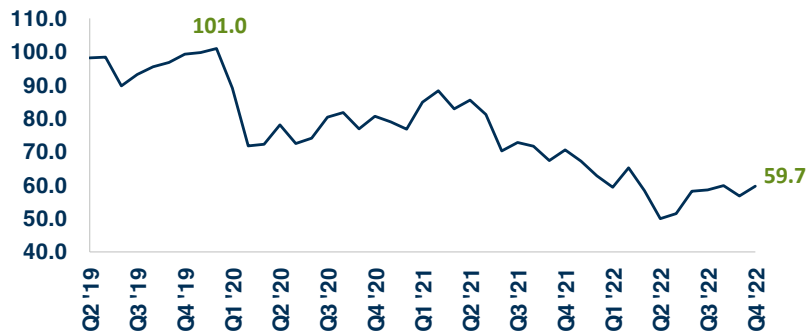
Headwinds Have Slowed Bank Consolidation, For Now

Economic Indicators are Signaling Recession

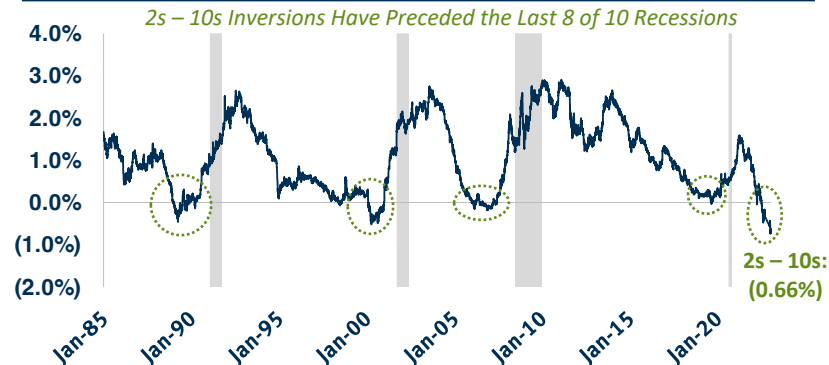
Consumer Price Index (Y-O-Y % Change)



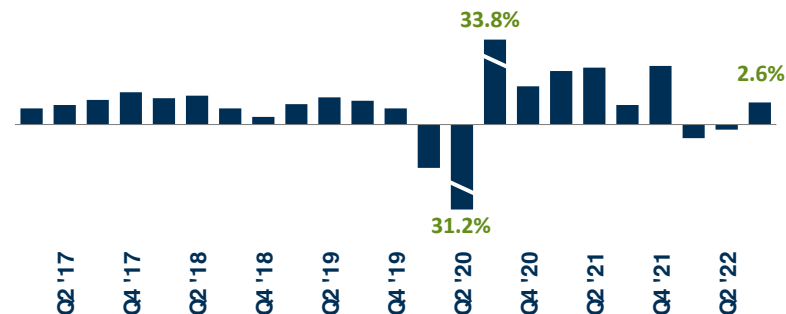
Consumer Confidence



2-10 Year Spread



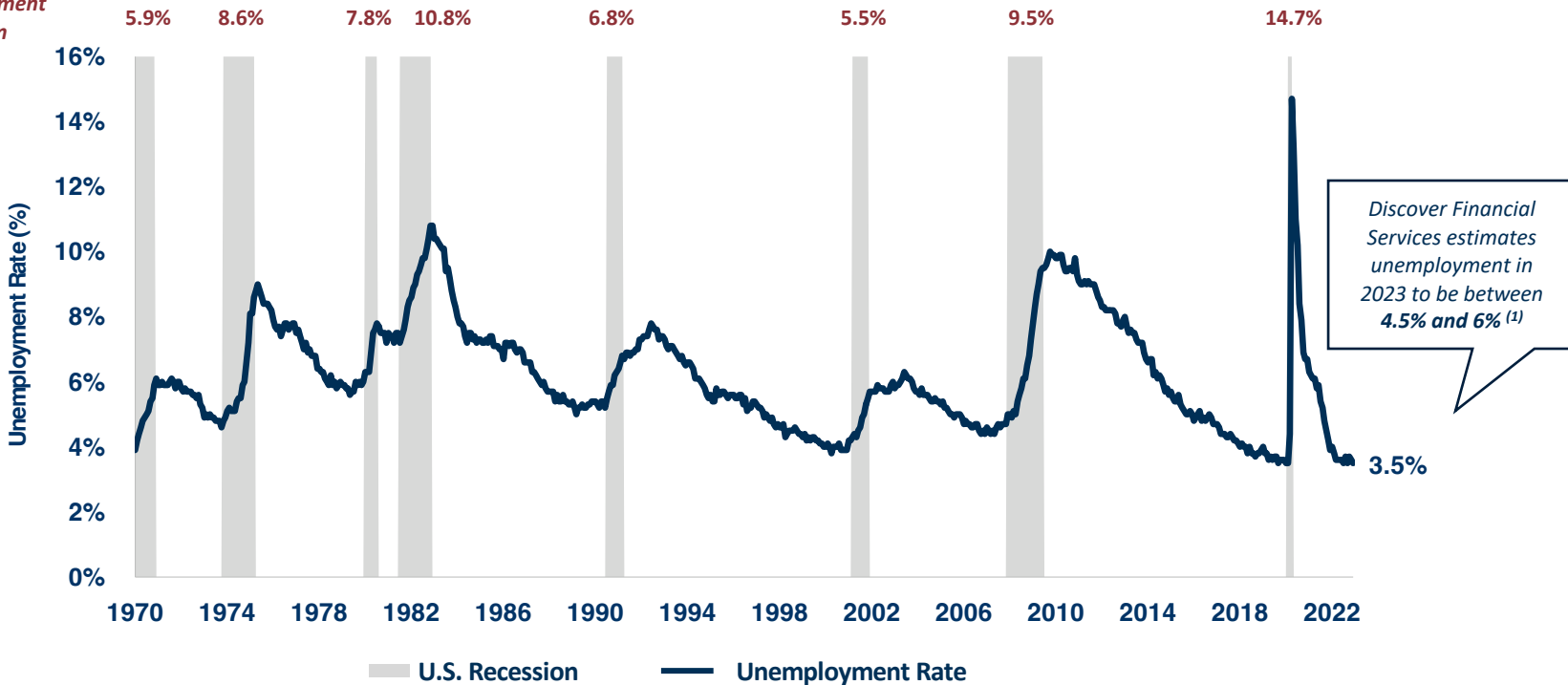
U.S Real GDP Growth (%)



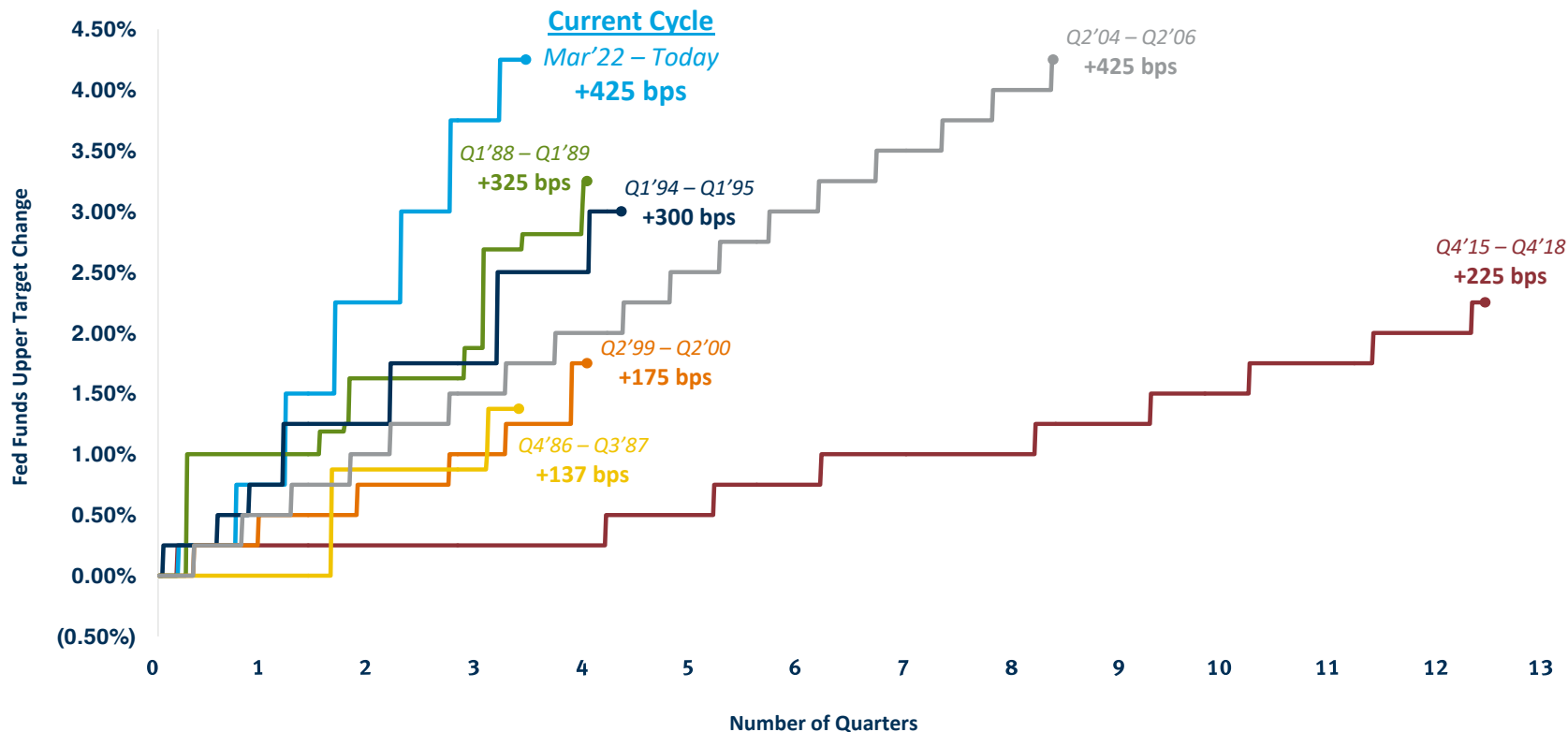
Historical Trends Signal Rising Unemployment

U.S. Unemployment Rate and Recessions Since 1970

Peak Unemployment during Recession

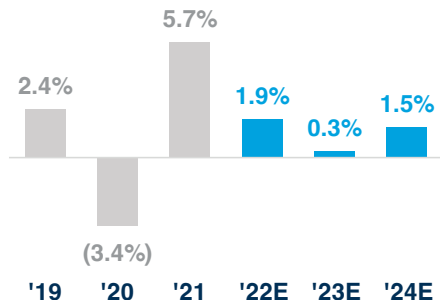


The Fed has Taken Unprecedented Action to Beat Inflation

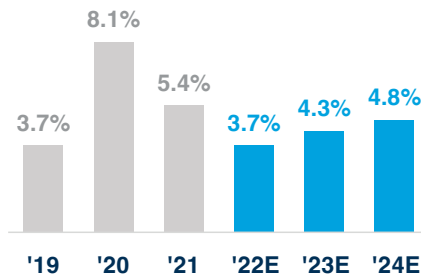


KBW's Economic Baseline – *Rising Rates & Softer Landing*

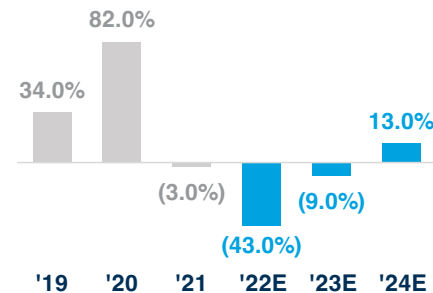
Real GDP Growth



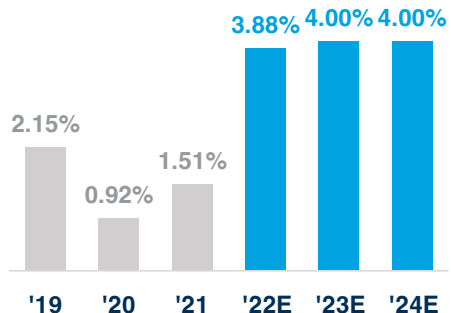
Unemployment Rate



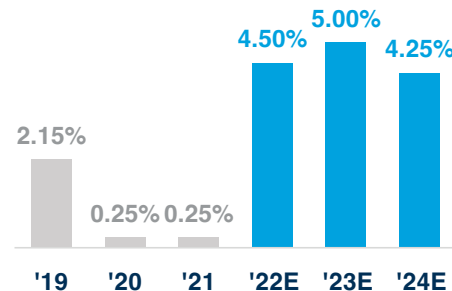
Mortgage Originations (% Change)



10-Year Treasury



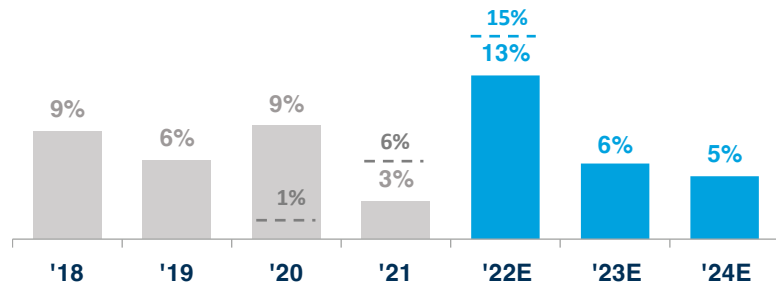
Fed Funds Rate (Upper Bound)



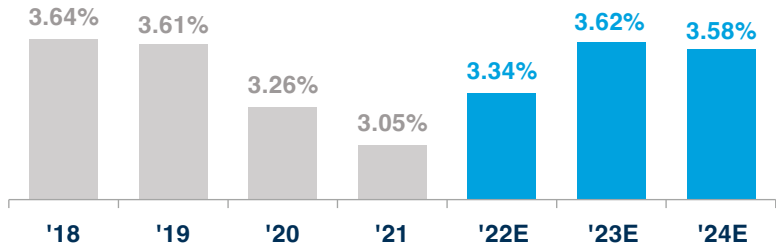
KBW Outlook – *Slowing Growth*

Loan Growth

----- Excl. PPP

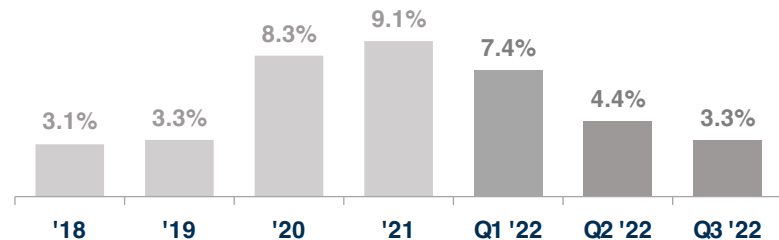


Margin Expansion

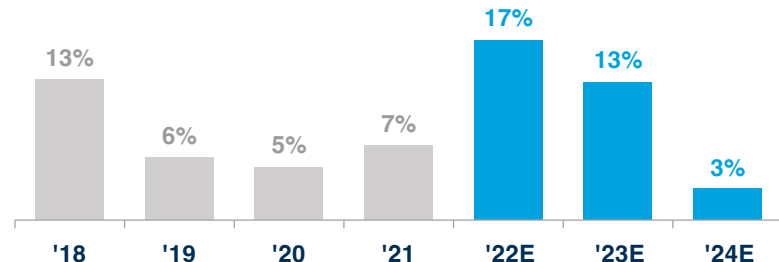


Excess Liquidity

Cash & Equivalents / Average Assets (%)

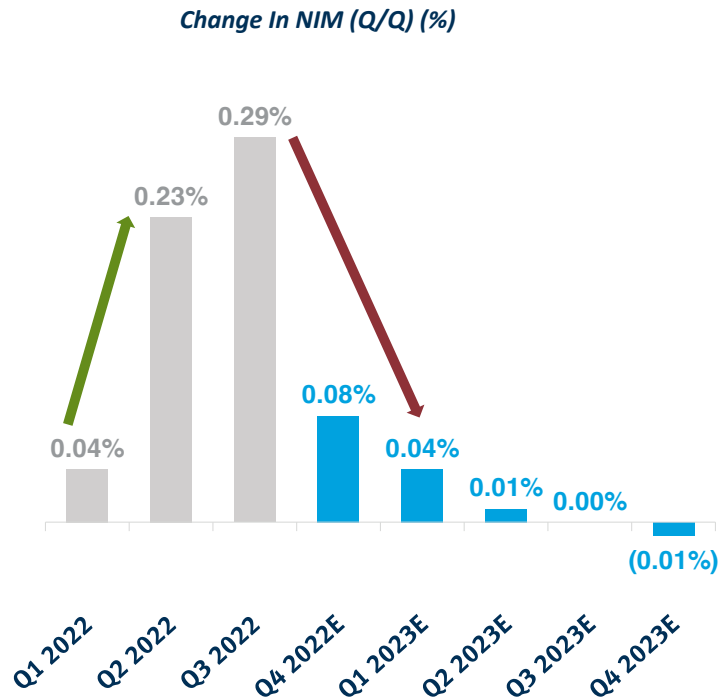


Net Interest Income Growth

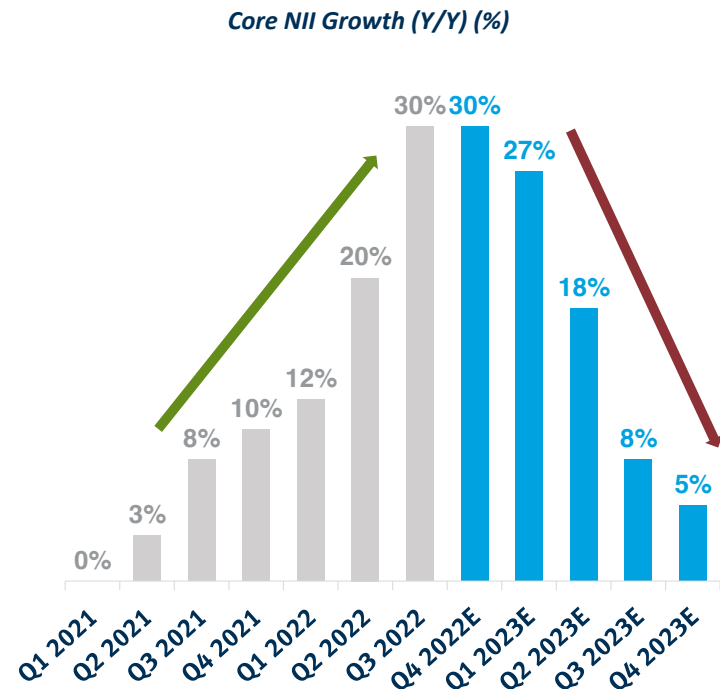


KBW Outlook – *Peak Revenue Growth is Now*

Core NIM Expansion Is Over

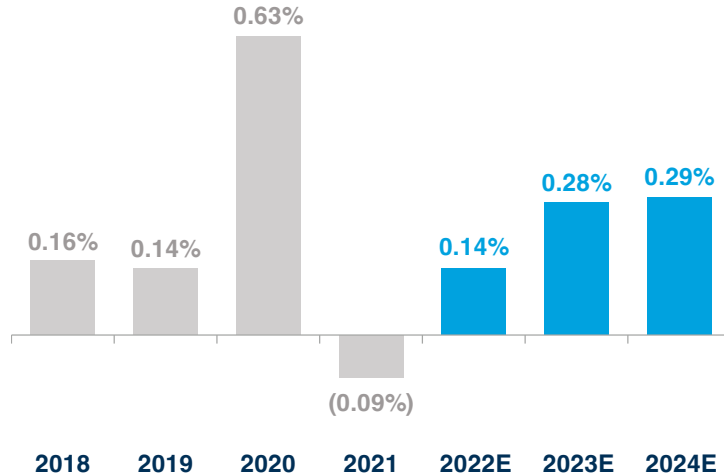


Peak NII Growth Is Here

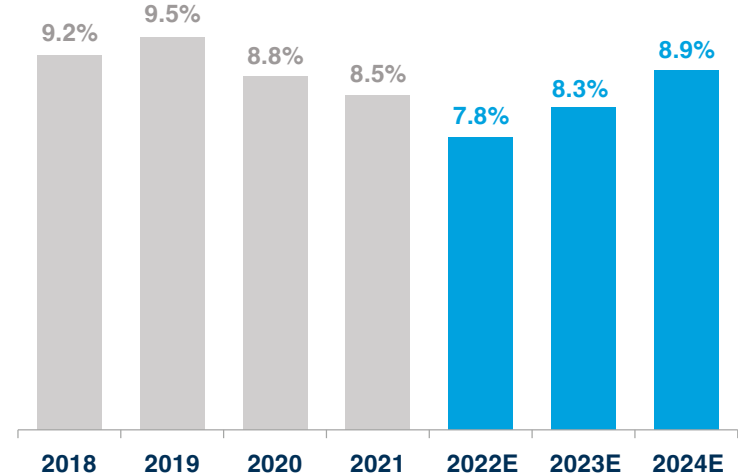


KBW Outlook – *Provisions are the Wild Card and Capital Should Rebuild*

Provision / Average Loans (excl. PPP)

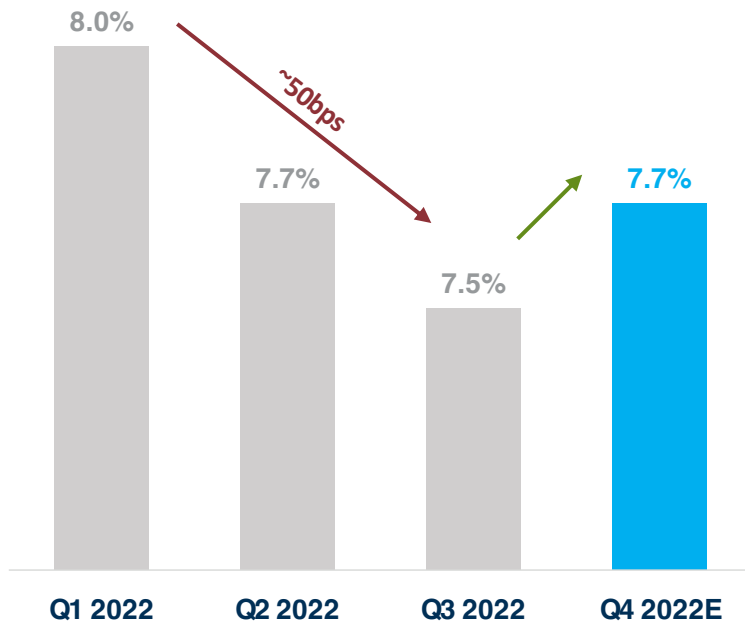


Tangible Common Equity / Tangible Assets

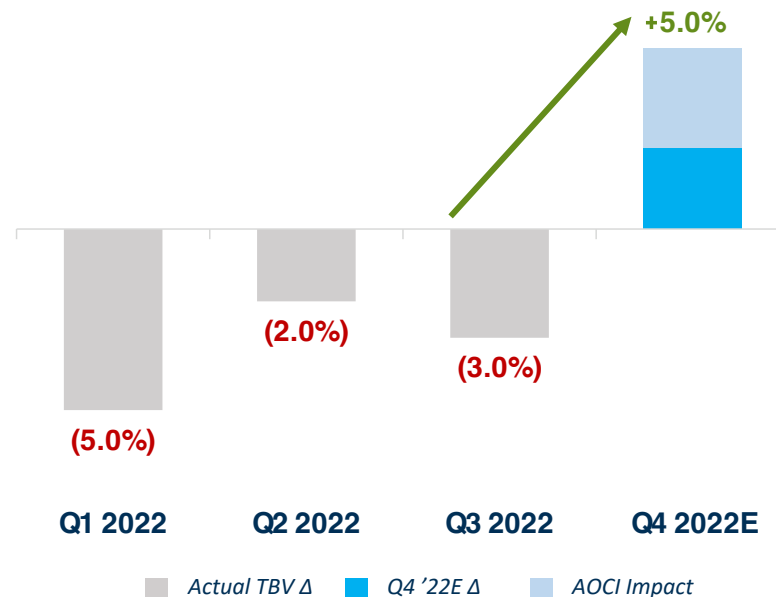


KBW Outlook – *Positive Pivot from AOCI in Q4*

2022 Quarterly TCE/TA

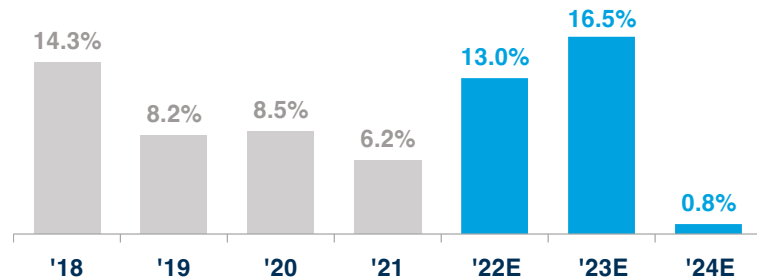


2022 Quarterly Change in Tangible Book Value

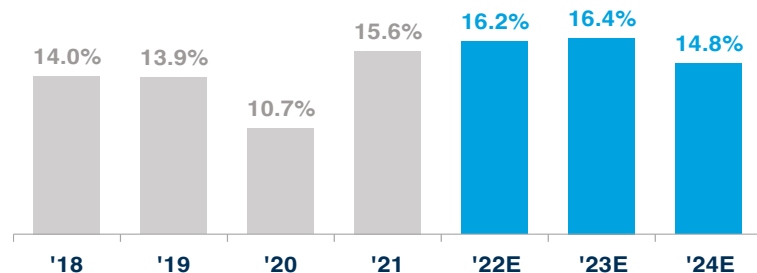


KBW Outlook – Operating Leverage & EPS Growth is About to Turn

Pre-Provision Net Revenue Growth ⁽¹⁾

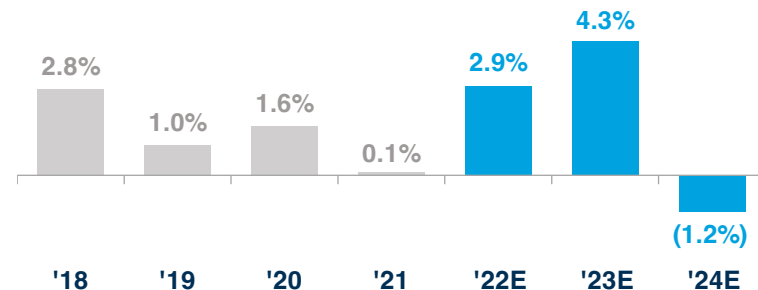


Return on Average Tangible Common Equity

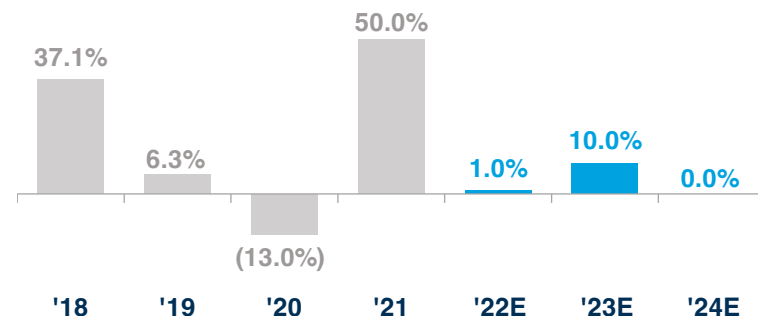


Operating Leverage ⁽²⁾

Operating Leverage = Revenue Growth – Expense Growth



EPS Growth



Source: S&P Global, FactSet and KBW Research published on 1/8/2023.

Note: Industry estimates per KBW Research; Data presented on median basis for all banks within KBW coverage universe.

Excludes BK, GS, NTRS, and STT; KBW Research estimates per FactSet as of 1/20/2023 where applicable.

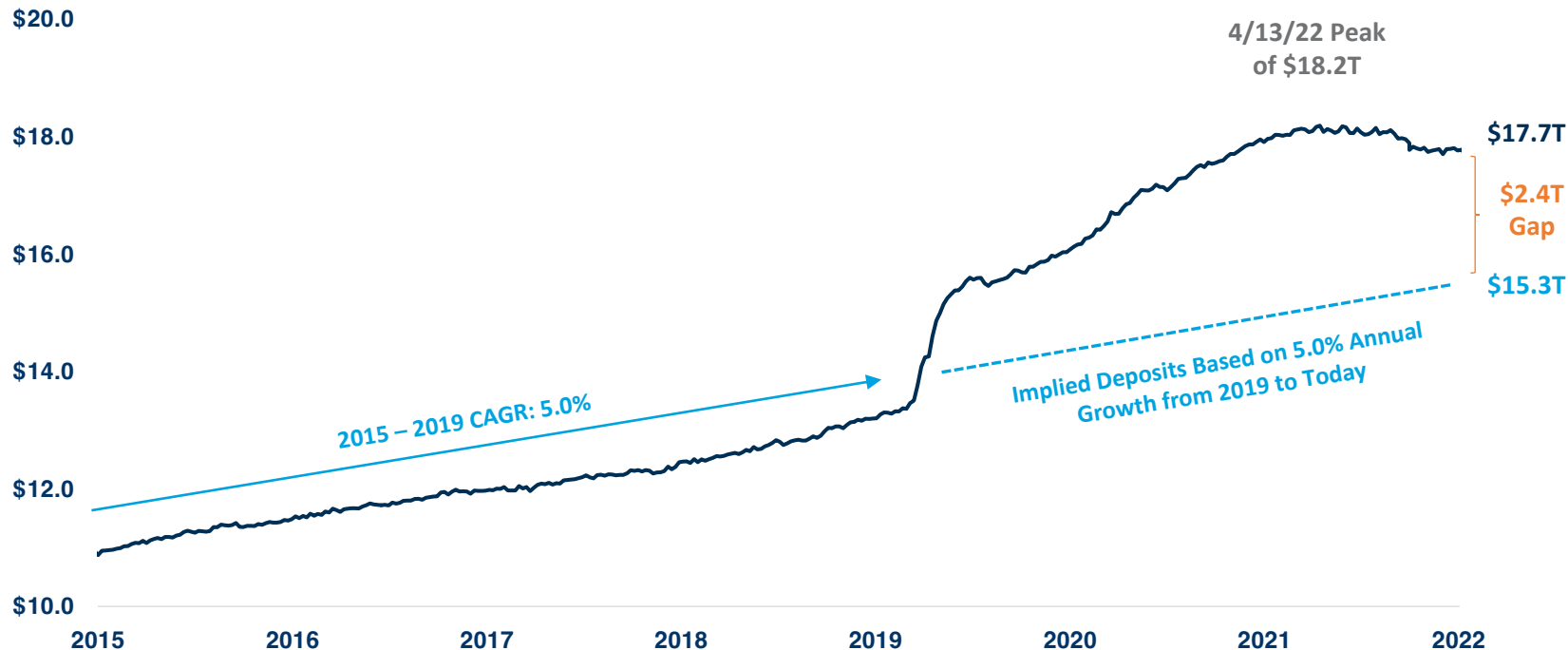
(1) Pre-Provision Net Revenue is equal to the sum of net interest income and noninterest income less noninterest expense.

(2) Expenses do not include provision expense.









Focus on Deposits – *Deposits are Shrinking and Competition is Building*

Total Deposits of Commercial Banks in the United States (\$T)

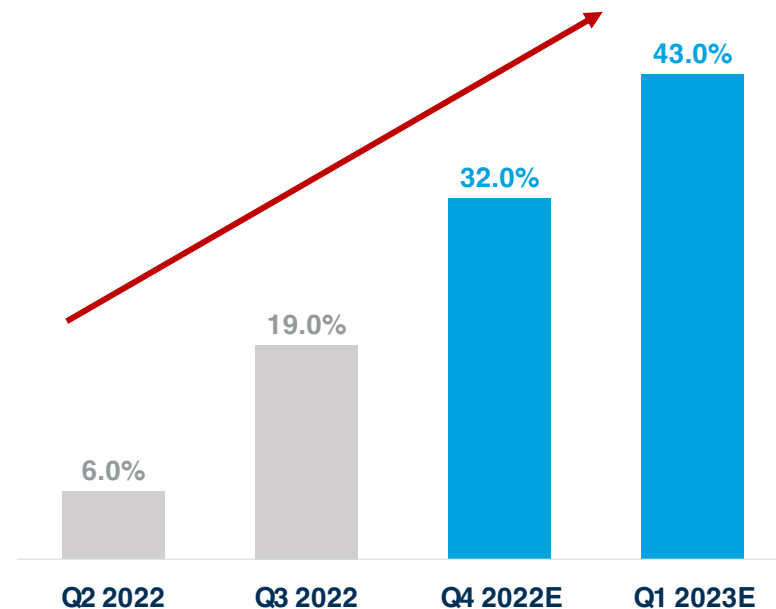


Deposits Costs – *Betas Are Back*

Recently Disclosed Q4 Betas

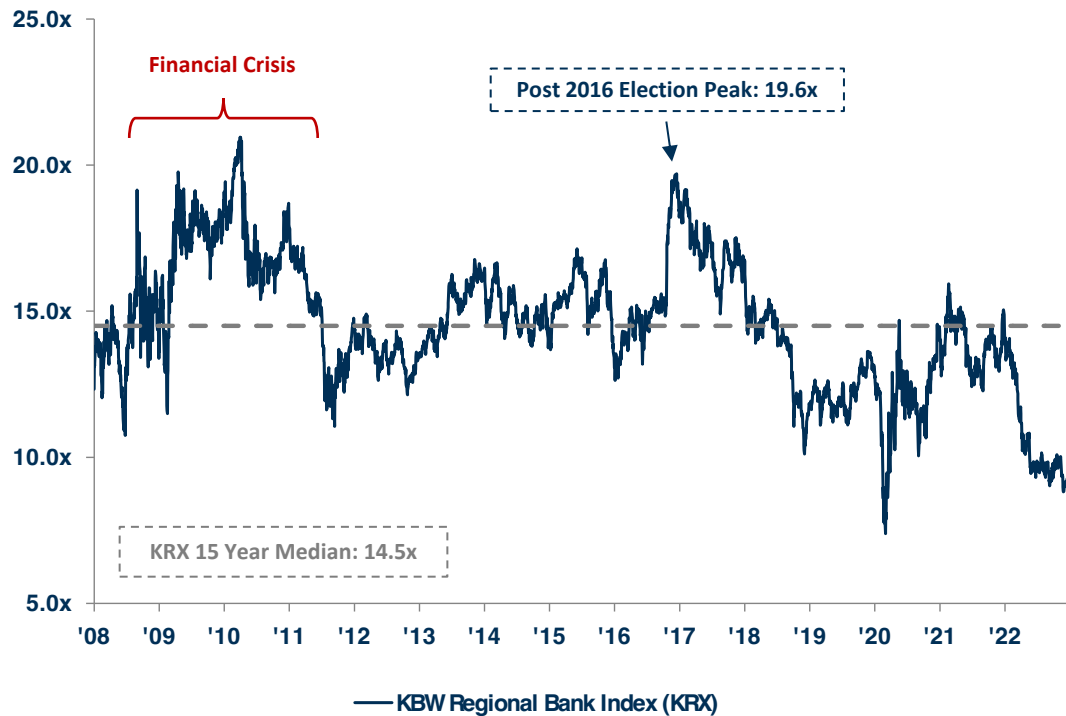
Institution	IBD Beta
 SIGNATURE BANK	84%
 Silicon Valley Bank	75%
 TEXAS CAPITAL	73%
 BankUnited	63%
 FIRST REPUBLIC	61%
 HOME BANCSHARES	52%

Incremental Deposit Betas

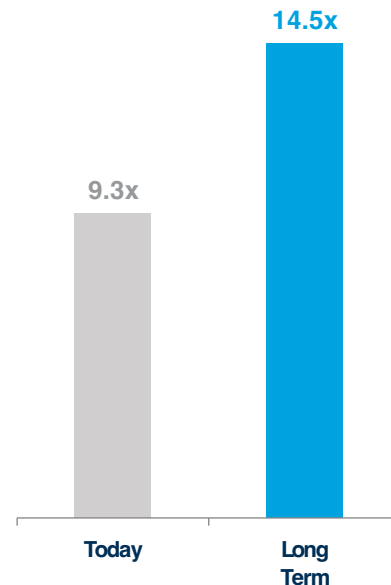


Bank Stocks Embed Investor Concerns

Bank Stock Consensus Forward (NTM) Earnings Multiples Since 2008



KRX Valuation Multiples



Investors Want Certainty And Are Waiting

Strong Starting Point

- ✓ Profitability
- ✓ Credit
- ✓ Capital

Attractive Valuation

- ✓ P/E Ratios
- ✓ Dividend Yields

Are Earnings Estimates Accurate?

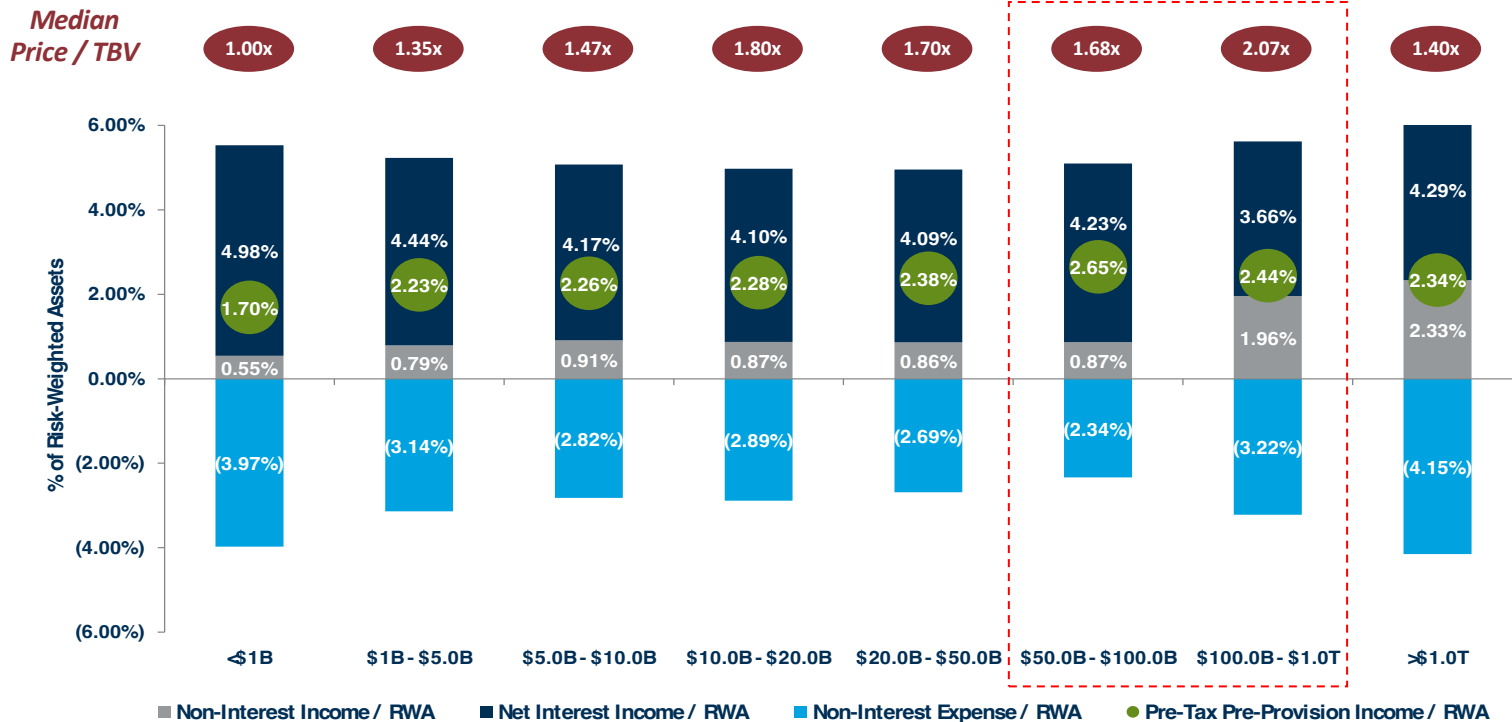
What about...

- The Economy
- Credit
- Growth
- Bond Marks
- Core Funding
- Expense Inflation
- Technology Investment
- Regulatory Costs

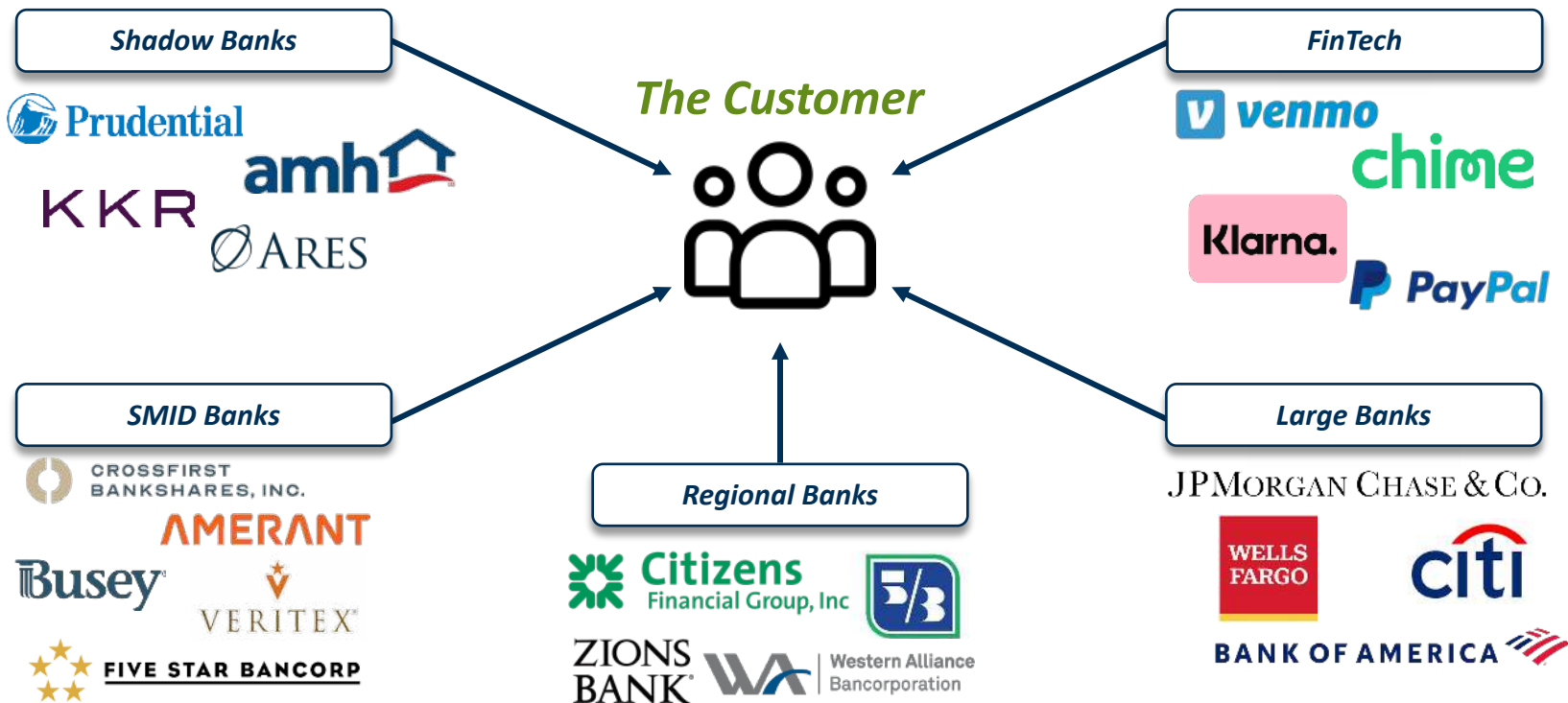


Investors Continue to Favor Scale

Pre-Tax Pre-Provision Income Composition



The Battle Royale – Who's Winning?

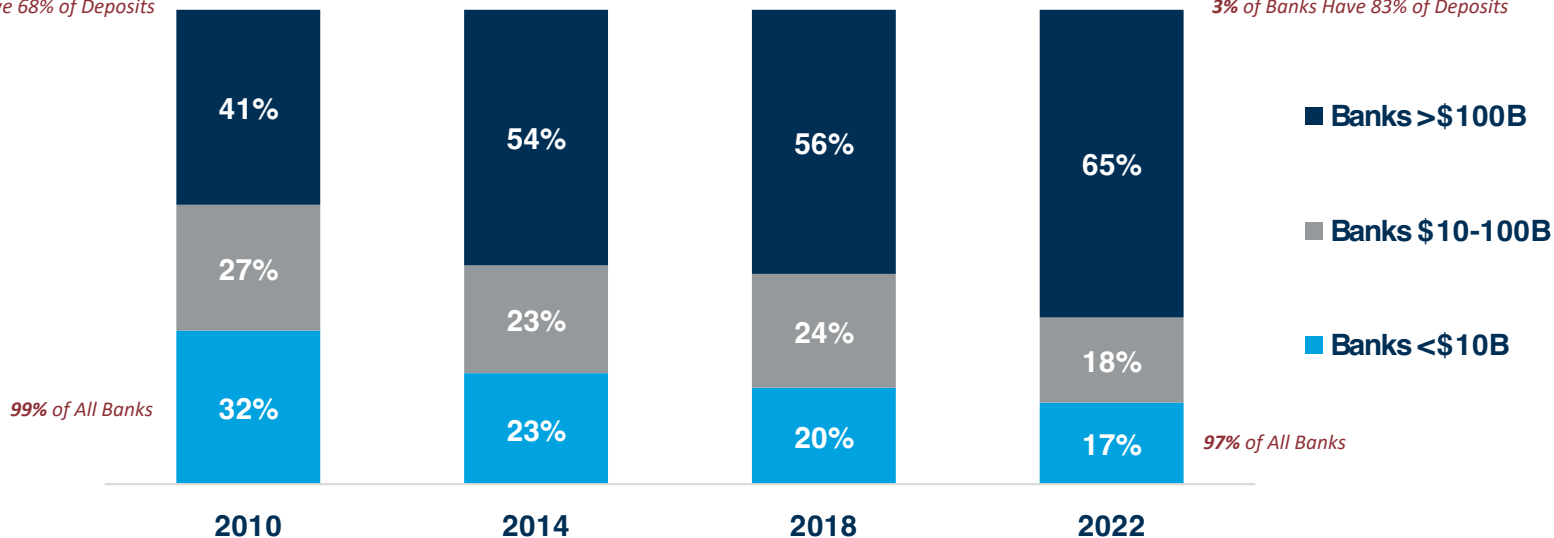


Big Banks Continue to Win Deposit Share

Deposit Market Share by Bank Size (%)

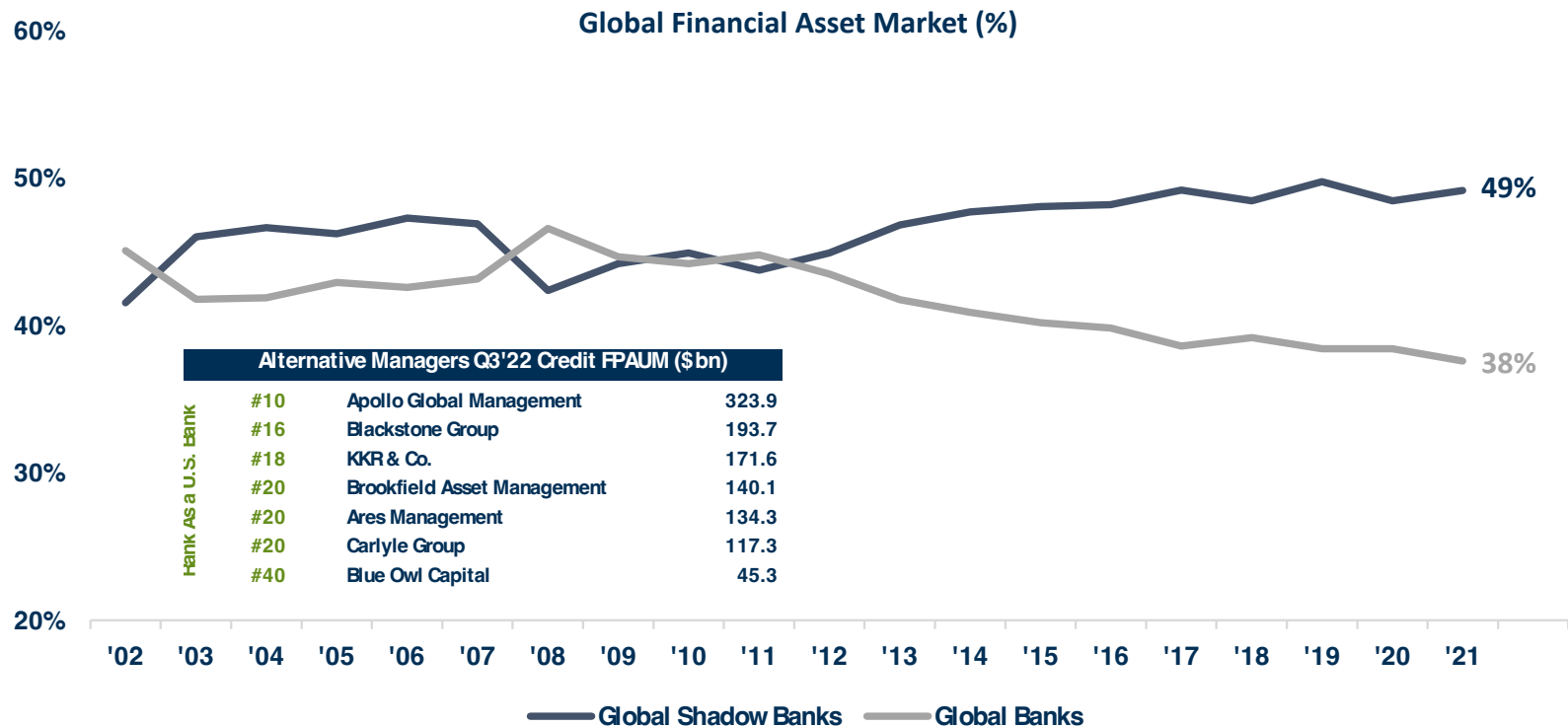
1% of Banks Have 68% of Deposits

3% of Banks Have 83% of Deposits

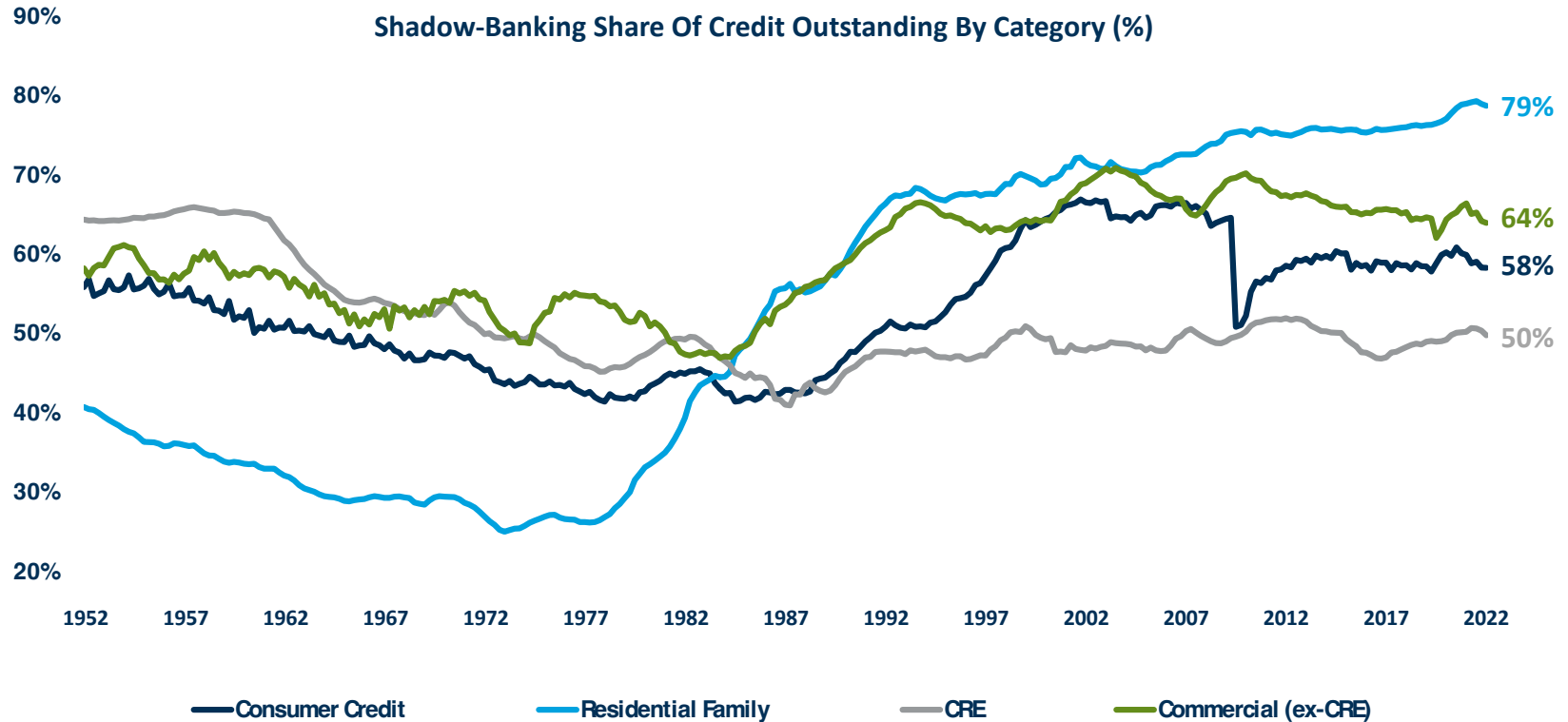


Total US Deposits	\$7.9 Trillion	\$10.4 Trillion	\$12.7 Trillion	\$17.8 Trillion
Total US Banks	7,466	6,518	5,415	4,754

Shadow Banks Have More Share Than Big Banks



Shadow Banks Lead Most Lending Categories



Shadow Banking Competitive Dynamics



**Zero Interest Rates Were Good For
Shadow Banks**



**Credit Risk Has
Migrated Here**



**Funding Will Matter
More**



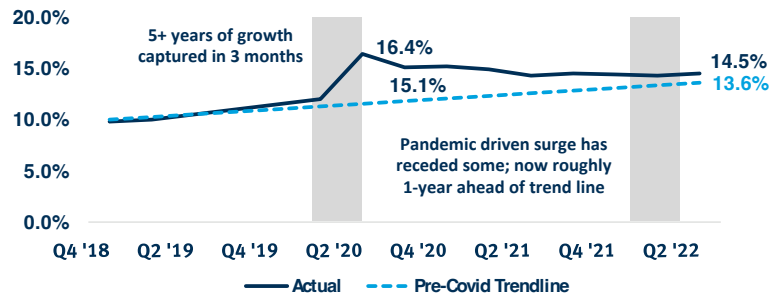
Crypto Involvement



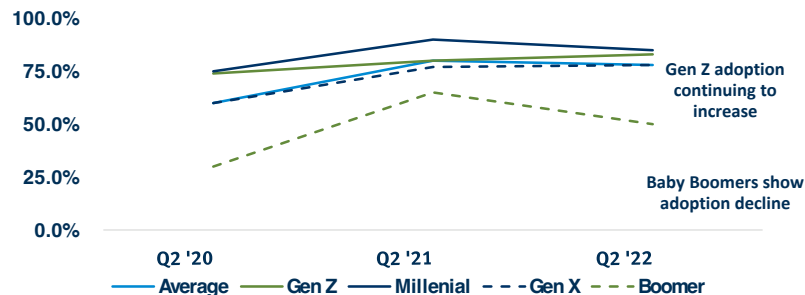
**Regulatory Response
Pending**

Rising Engagement Shows Digitization is Here to Stay

US eCommerce Penetration (%)

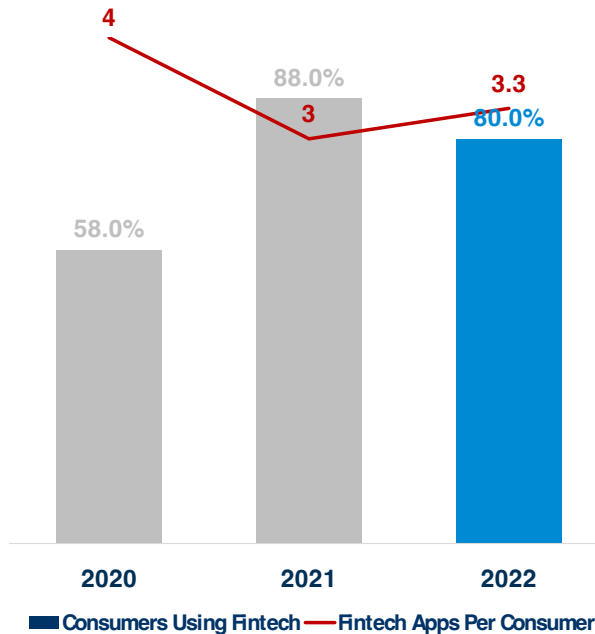


Adoption By Age Group (%)⁽¹⁾

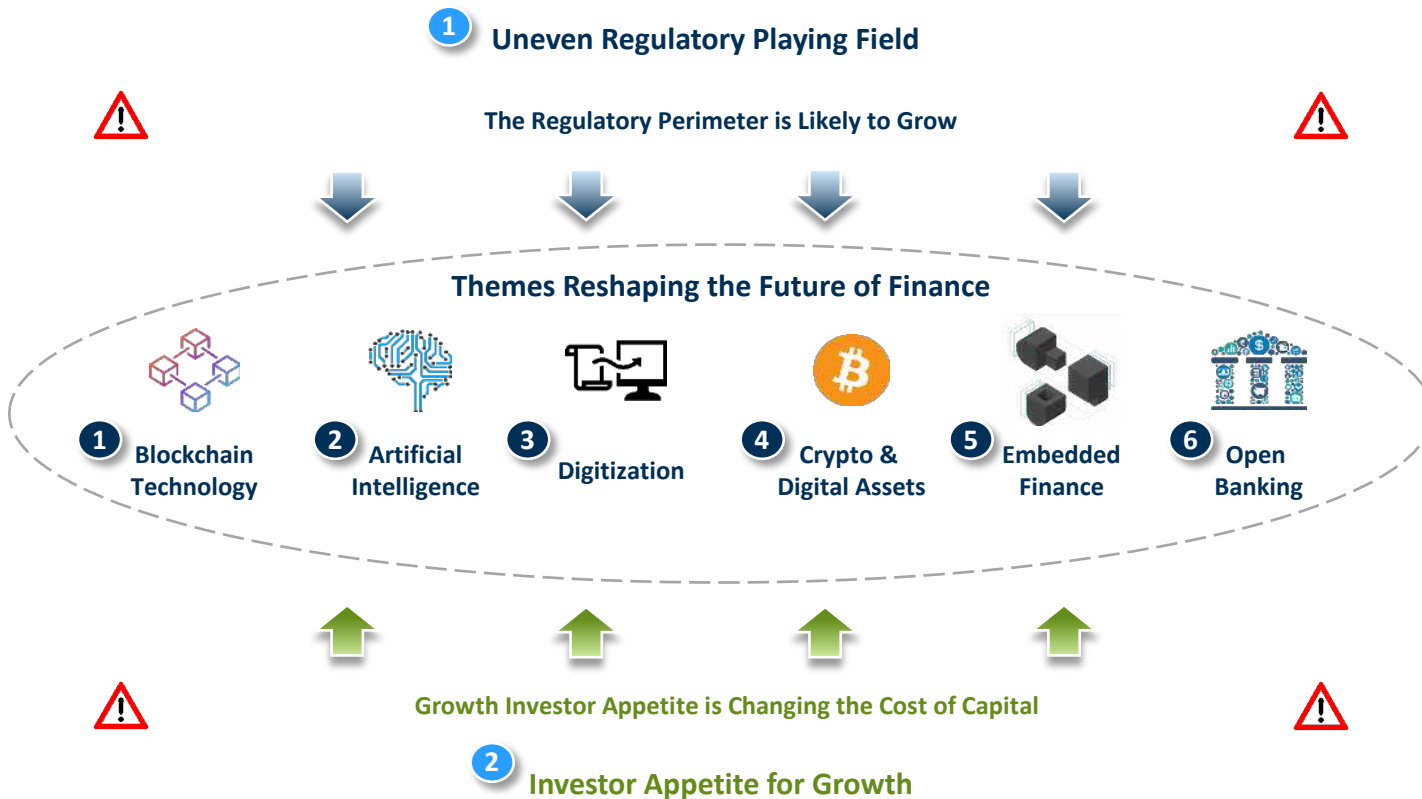


Consumer Fintech Adoption

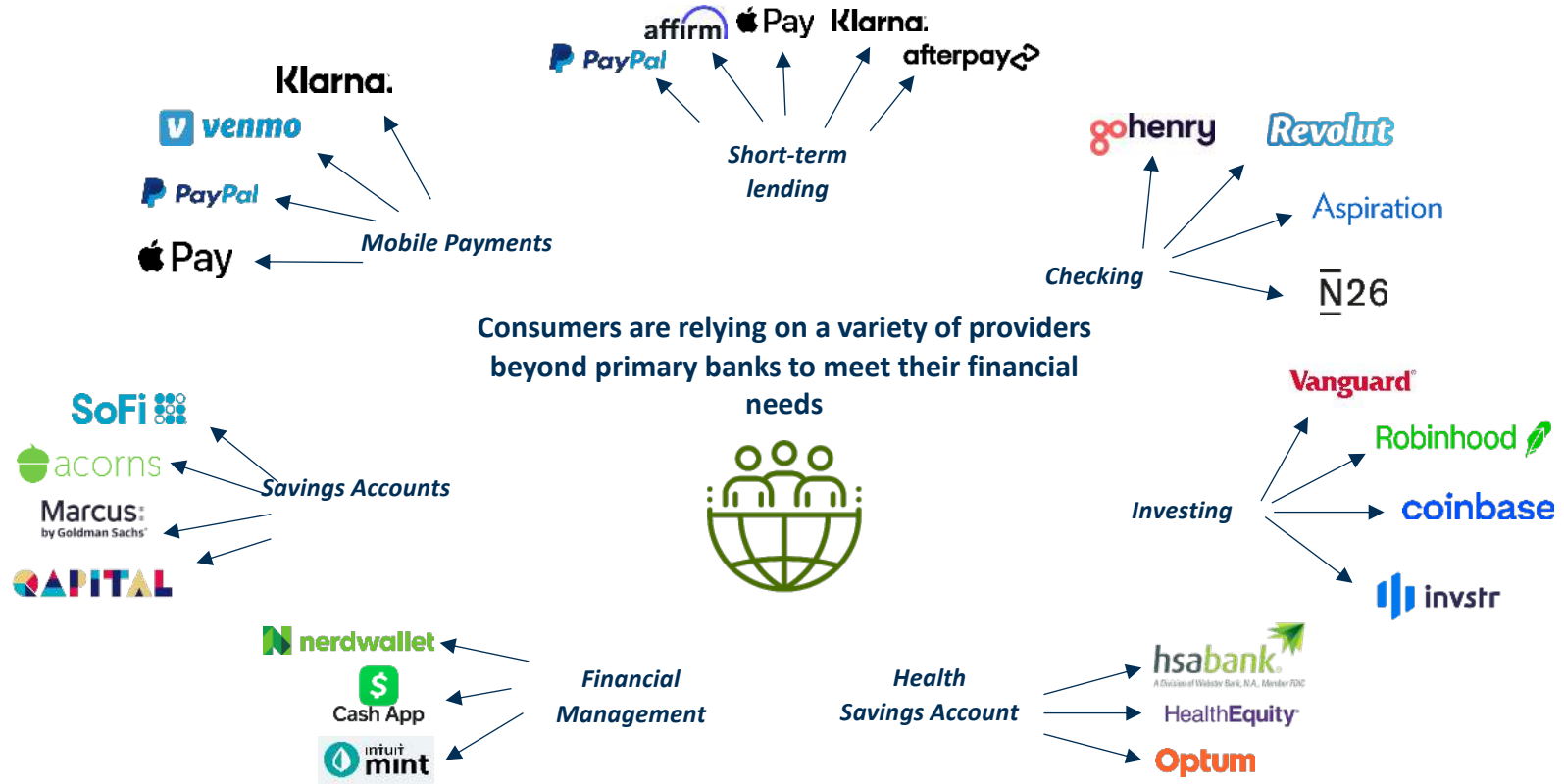
Surge in US eComm adoption, albeit recent pullback



KBW FinTech Map – 6 Themes Driven by 2 Forces

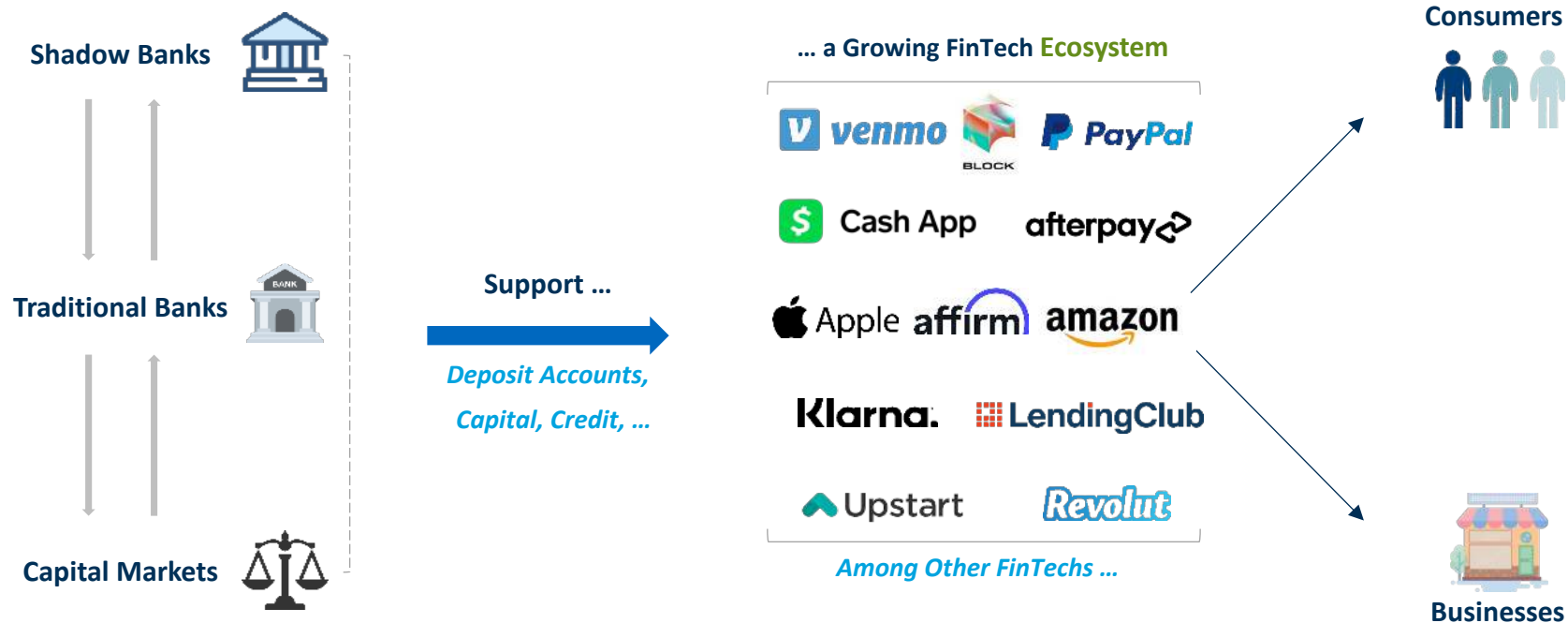


A Multitude of FinTechs Have Stepped in With Better Digital Experiences



How Financial Services are Consumed and Distributed is Evolving

Notably, Shadow Banking Is Becoming A Key Enabler Of A Growing Fintech Field



Big Tech Is Paying Attention – *Apple's Growing Financial Lineup*



Apple Wallet/Pay

Holds card credentials for digital payments, and IDs/tickets/etc.



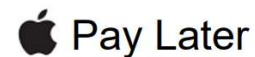
Apple Card

Apple branded credit card in partnership with GS



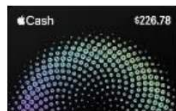
Monthly Installments

0% APY 12M installment plan for apple products



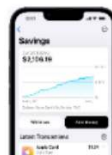
Apple Pay Later

Branded BNPL offering available within Apple Pay



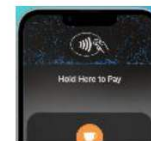
Apple Cash

Simple cash deposit account (P2P/Payments)



Apple Savings

High-yield savings account within Apple Wallet



Apple Tap to Pay

Accept contactless payments without additional hardware

Big Tech's Scope Is Widening

Popular Digital Wallets Are Expanding Their Scope



Debit/Credit Cards



Tax Services



Closed Loop Networks



P2P Payments



Cash App

Business Accounts



Direct Deposit



Crypto



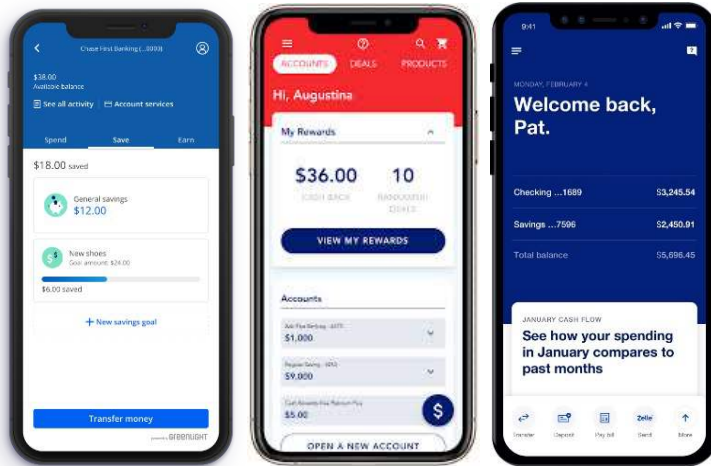
Investing



To Defend their Turf, Banks Have to Act

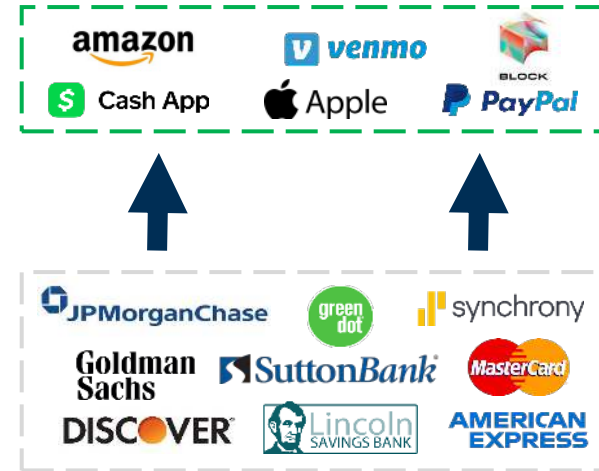
Invest or ...

Larger Fis Have Built Solid Digital Offerings ...















... Partner

Well-established FI Partners Can Enable New FinTechs



Banks of All Sizes Are Starting to Act

Bank / Fintech Partner	Description	Bank / Fintech Partner	Description
 Byline Bank™  Tassat	<ul style="list-style-type: none"> TassatPay provides customers access to real-time payments 24/7 with no limits on transaction sizes or volumes Announced September 2022 	 ConnectOneBank MANTL	<ul style="list-style-type: none"> MANTL streamlines and digitizes the deposit onboarding process for consumer, small business and commercial clients Announced September 2022
 National Bank Holdings CORPORATION Finexio	<ul style="list-style-type: none"> Finexio reduces cost and drive efficiencies through payments solutions Announced July 2022 	 synchrony Sweetwater	<ul style="list-style-type: none"> Sweetwater enables enterprise data sharing and the digital transformation of payment solutions Announced May 2022
 Lincoln SAVINGS BANK  Cash App	<ul style="list-style-type: none"> Partnership allows for bank clients to receive paychecks directly through Cash App Announced April 2022 	 TAB bank  easypay finance	<ul style="list-style-type: none"> Easypay lends to customers with low FICO scores unable to obtain credit Announced March 2022
 SuttonBank Robinhood 	<ul style="list-style-type: none"> Enables card holders to round up change on spending and invest in their choice of asset Announced March 2022 	 THE BANK OF MISSOURI CoServ	<ul style="list-style-type: none"> Provides support to payment card issuing programs to launch Visa consumer, business, and commercial credit cards Announced February 2022

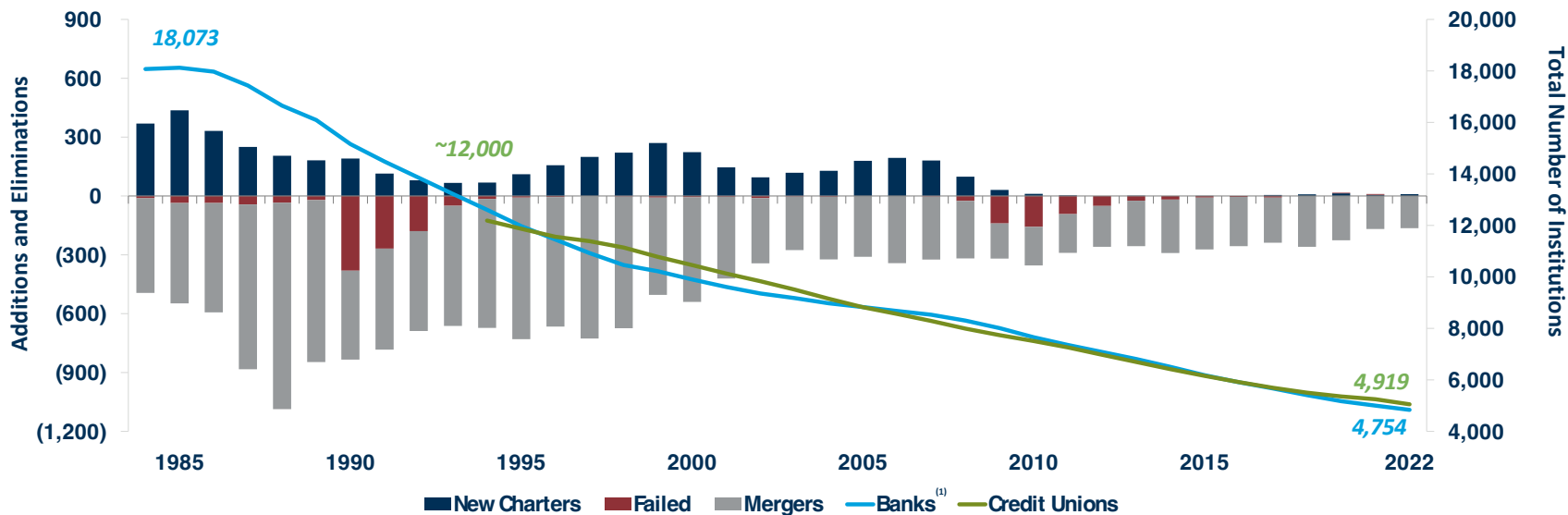
35 Years Of Bank Consolidation Has Shrunk the Industry

1985: Interstate Banking Act

1985 Act authorizes states to self-regulate interstate banking

1994: Riegle-Neal Interstate Banking and Branching Act

1994 Act officially removes restrictions on acquiring banks across state lines on a federal level



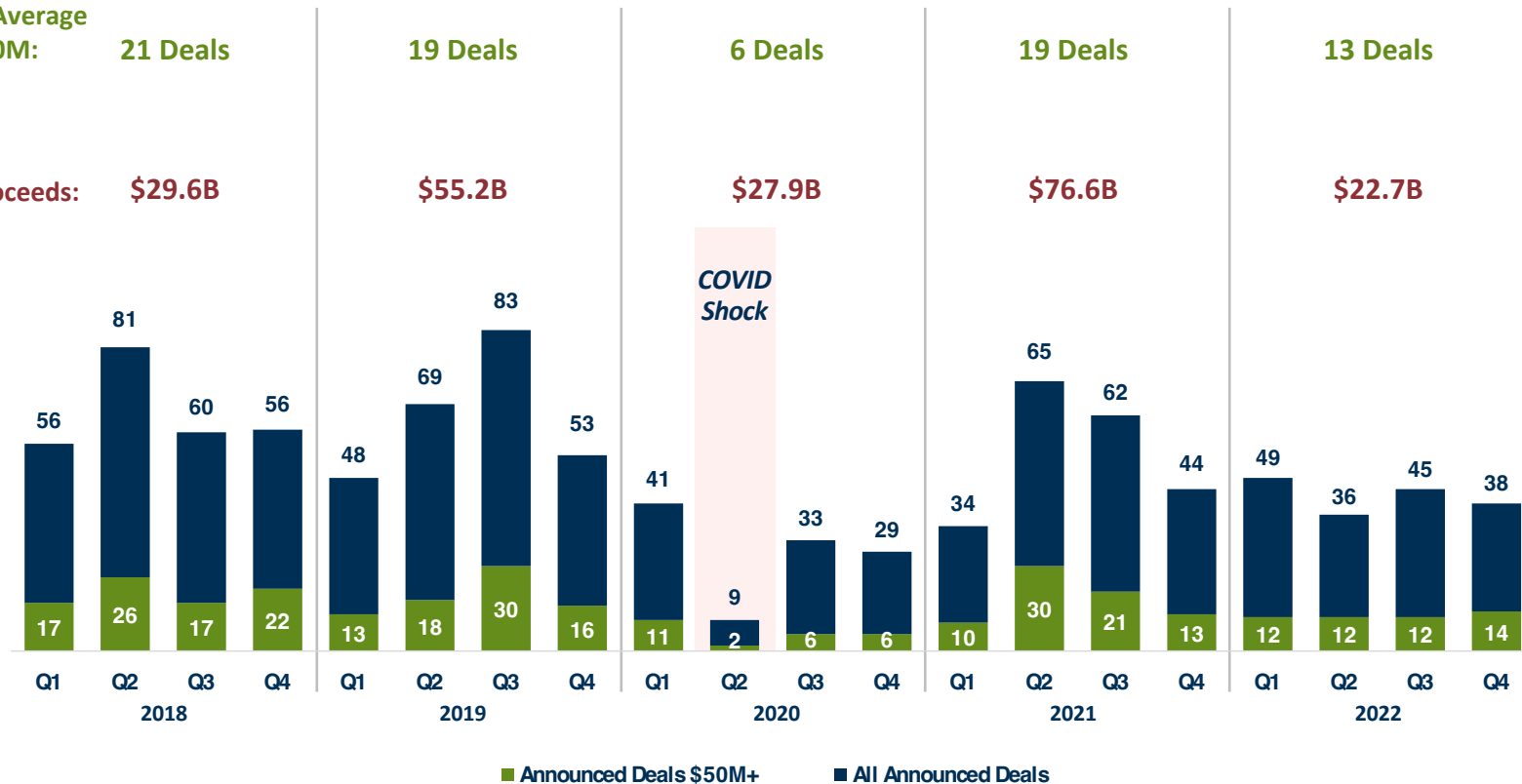
Bank M&A Has Slowed

Quarterly Average

Deals > \$50M: 21 Deals

Total Bank

Merger Proceeds: \$29.6B



Top 15 Bank Mergers Since 2021

2021 Deals

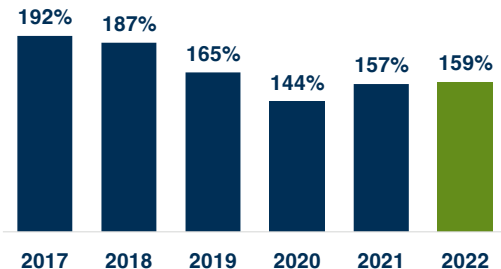
 BMO Bank of Montreal	 BANK of the WEST	\$16.3B
 us bancorp	 UnionBank	\$8.0B
 M&T Bank	 People's United Bank	\$7.6B
 WebsterBank	 STERLING NATIONAL BANK	\$5.2B
 Umpqua Holdings Corporation	 Columbia Banking System Inc.	\$5.1B
 Citizens Financial Group, Inc.	 investors Bancorp, Inc.	\$3.7B
 BancorpSouth	 CADENCE BANK	\$2.9B
 NEW YORK COMMUNITY BANCORP, INC.	 Flagstar Bank	\$2.6B
 OLD NATIONAL BANCORP	 First Midwest	\$2.5B
 First Interstate BancSystem	 Great Western Bancorp, Inc.	\$2.0B
 Valley	 leumi	\$1.2B
 RAYMOND JAMES	 TriState CAPITAL	\$1.2B
 INDEPENDENT	 Meridian Bancorp, Inc.	\$1.2B

2022 Deals

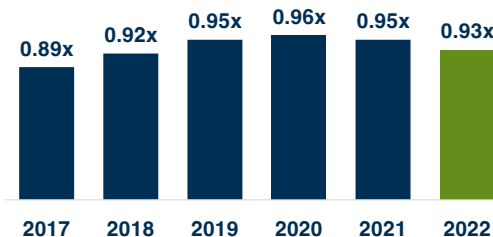
 TD Bank	 FIRST HORIZON NATIONAL CORPORATION	\$13.7B
 Provident	 Lakeland	\$1.3B

Multiples Paid Remain Consistent with Buyers' Trading Valuations

Price / TBV

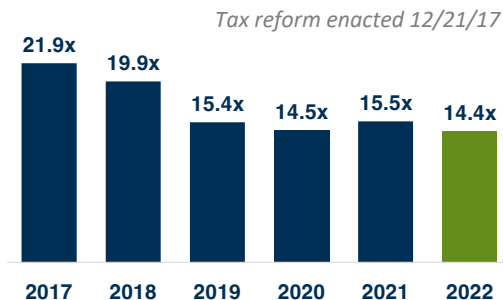


Pay-to-Trade⁽¹⁾

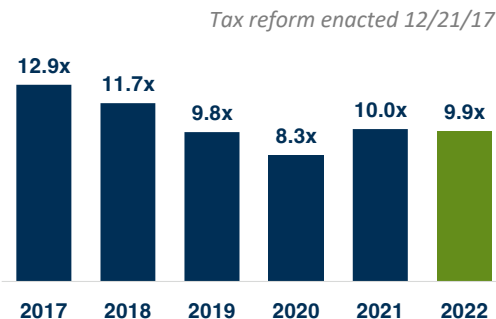


Valuation is
Relative...
Pay-to-Trade
Remains
Consistent

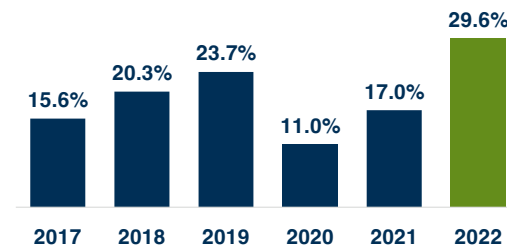
Price / LTM EPS⁽²⁾



Price / LTM EPS + Saves⁽²⁾

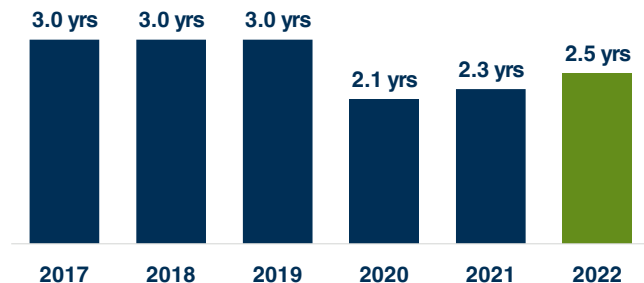


1-Day Market Premium

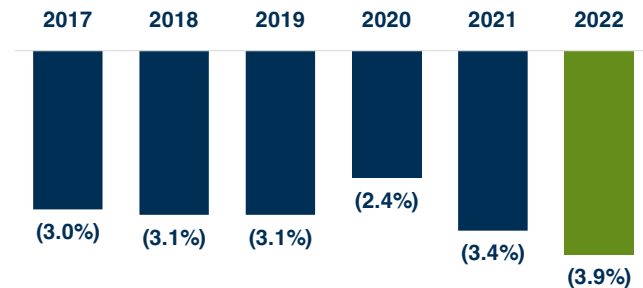


Buyers Remained Conservative on Earnback in 2022

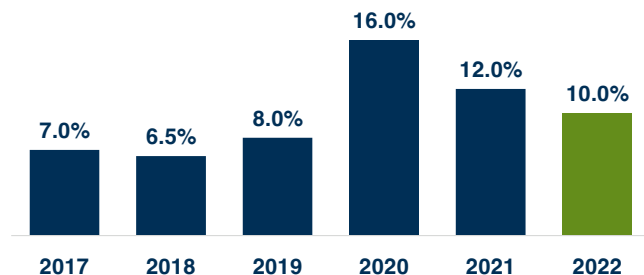
TBV Earnback (Years)



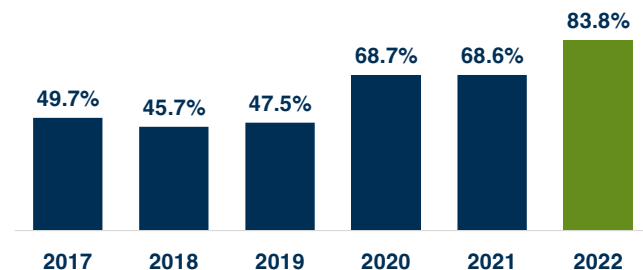
TBV Dilution (%)



Buyer EPS Accretion (%)



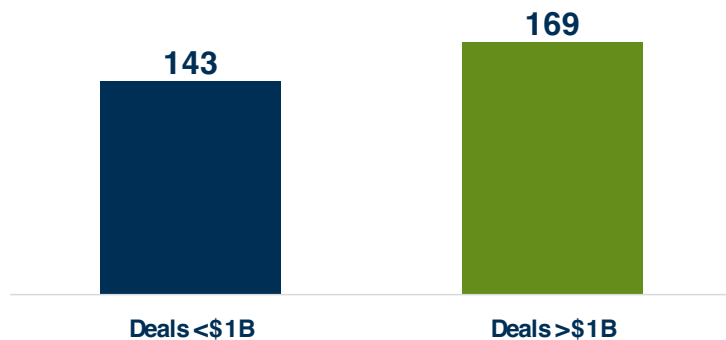
Buyer Incremental EPS Accretion (%)⁽¹⁾



Deals Will Take Longer to Close

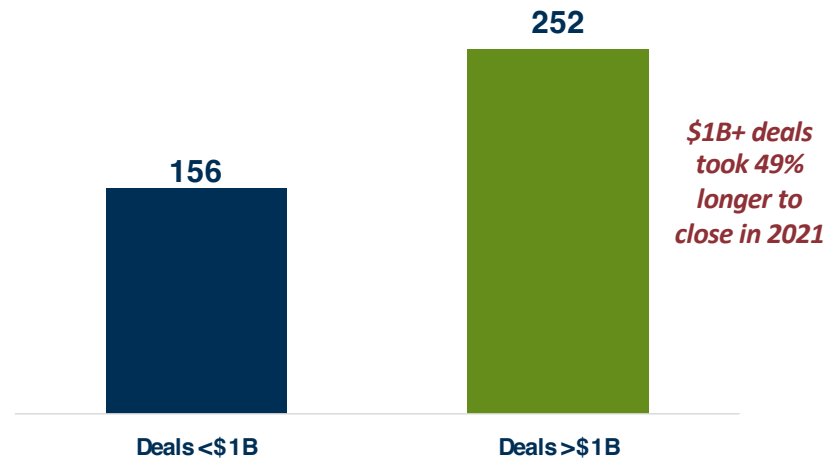
Days Until Close – Deals Announced in 2019

Trump Administration



Days Until Close – Deals Announced in 2021

Biden Administration



Washington Update



Regulatory Initiatives

- President's Requested Bank M&A Review
 - February 10 OCC Hosted Bank M&A Symposium
- Final CRA Rule Being Written
- Fair Lending In Focus
- New BSA & AML Rule Implementation
- Basel IV Introduction



Legislative Initiatives

- Debt Limit
- Crypto & Stablecoin Framework

Don't Forget About 2024



Joe Biden



Ron DeSantis



Kamala Harris



Donald Trump



Gavin Newsom



Mike Pence



Pete Buttigieg



Nikki Haley



Michelle Obama



Glenn Youngkin

Congress?

Conclusion



The Banking Business Is Likely To Get Harder As The Year Unfolds



Competition Is Coming From More Places



Consolidation Has Slowed, But The Reasons For It Are Probably Growing



Banks Of All Sizes Can & Will Be Winners, If They Pick Their Course Now

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