



What Happened and What's Next - The 2024 State of Banking

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Keefe, Bruyette & Woods, A Stifel Company



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

2024 State of the Industry

January, 2024

Thomas B. Michaud | President & CEO



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The Banking Industry Today



The 2023 Banking Crisis is Behind Us

COVID Era Pressures are Receding

Earnings Pivot in the 2H Likely

Credit Quality is the Wild Card



Big Banks and Non-Banks Continue to Grab Share



Scale is Working while Consolidation has Been on Pause



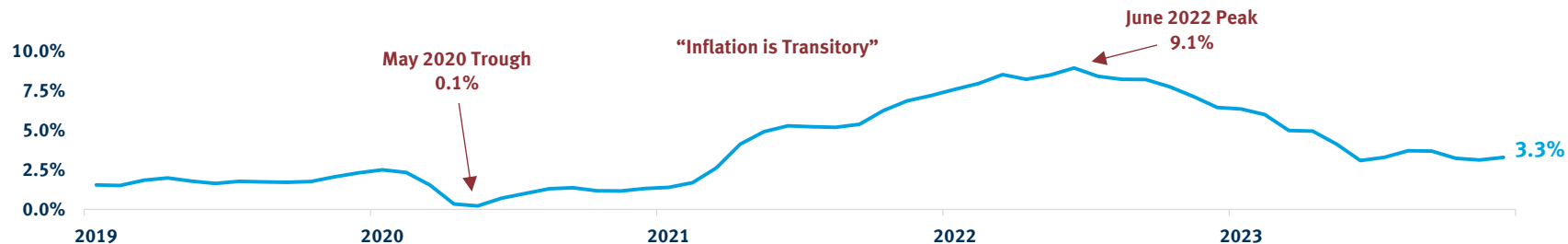
FinTech Adoption has Reset and Continues to Grow



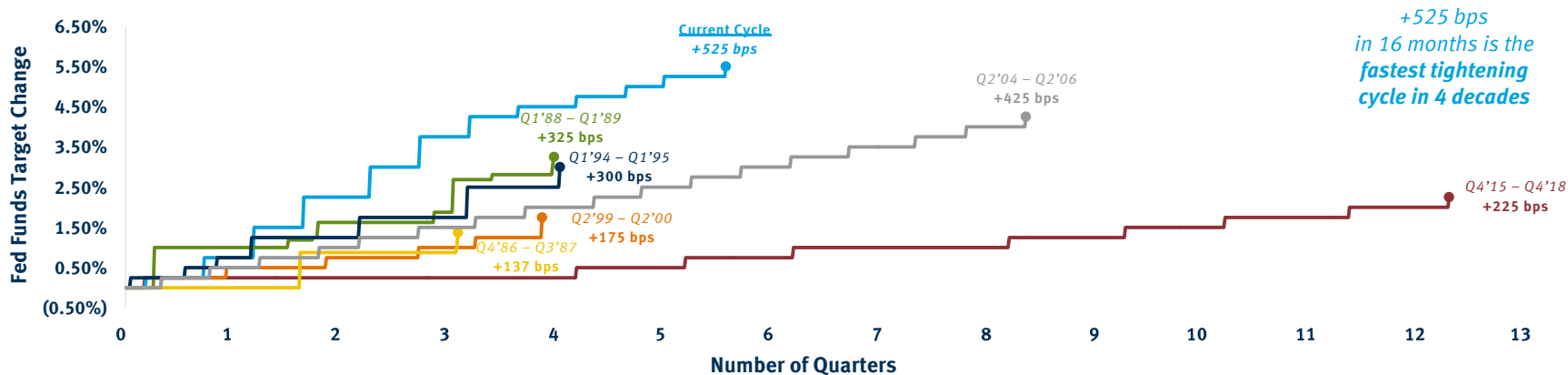
Regulation and November Elections Have Washington Back in Focus

How Did We Get Here? ... Inflation Spiked and The Fed Responded

Inflation Rate Since 2019



Changes In Fed Funds During Prior Cycles



Source: S&P Global Market Intelligence and The Federal Reserve

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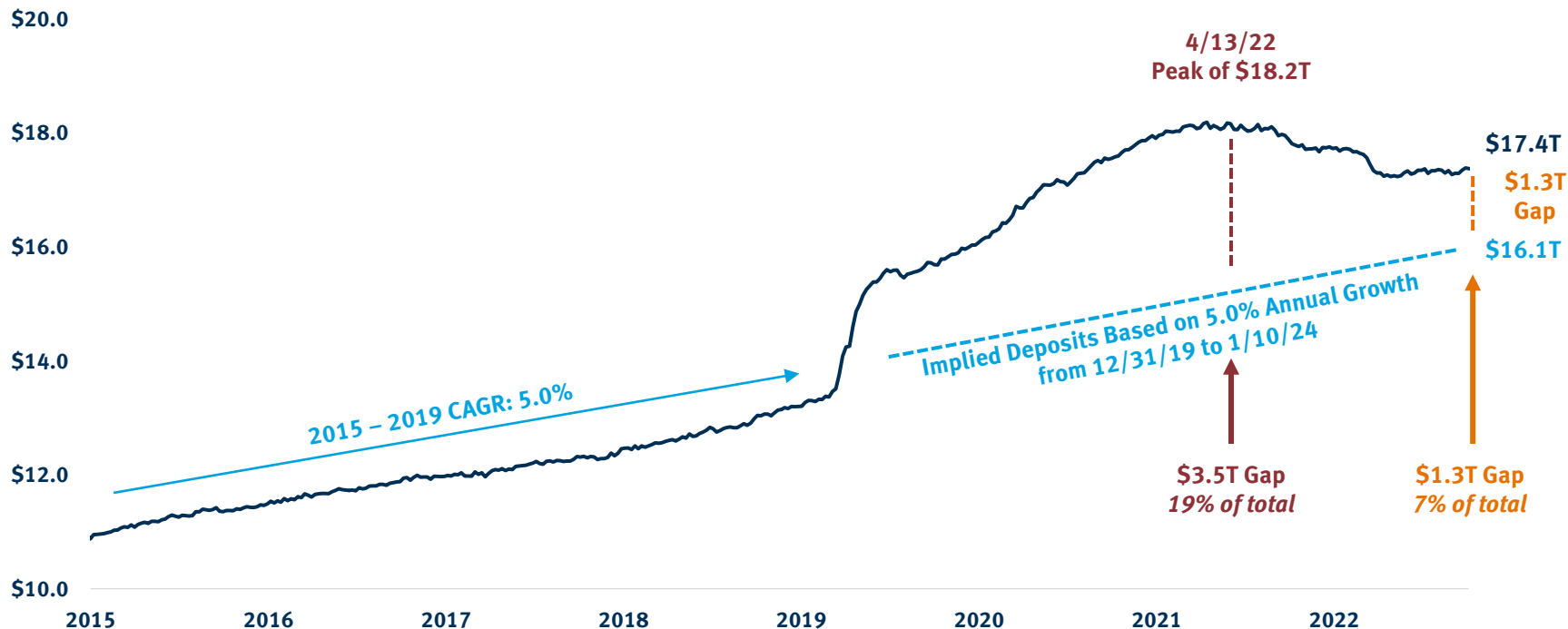
Note: Historical rate hikes since 1985; Rate hikes based on the Fed upper bound



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How Did We Get Here? ... Deposits Surged During COVID

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

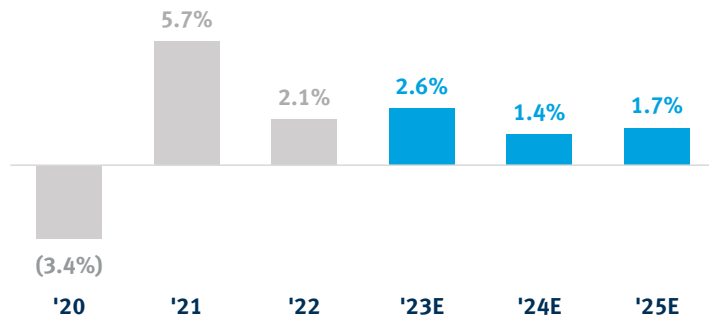


Source: FRED St. Louis Federal Reserve; Latest bi-weekly deposit data available as of 1/10/2024

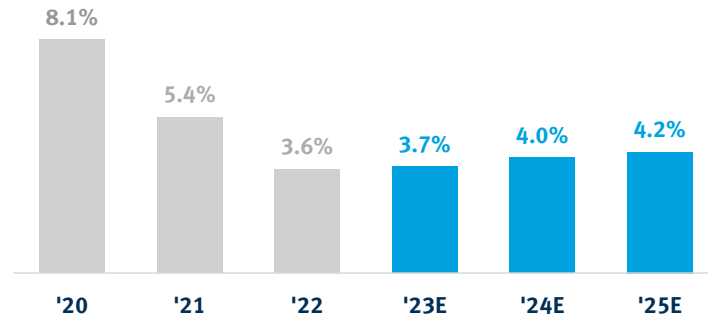


KBW's Economic Baseline Assumes a Slowing Economy

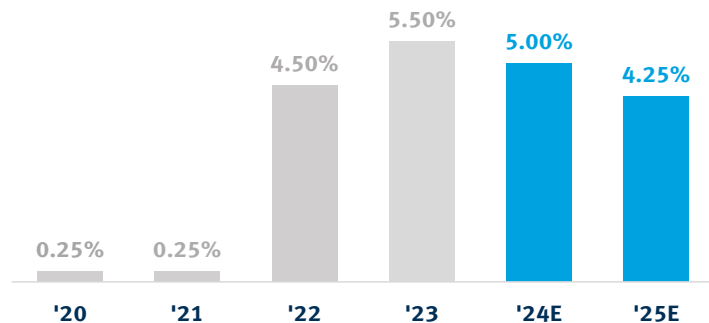
Real GDP Growth



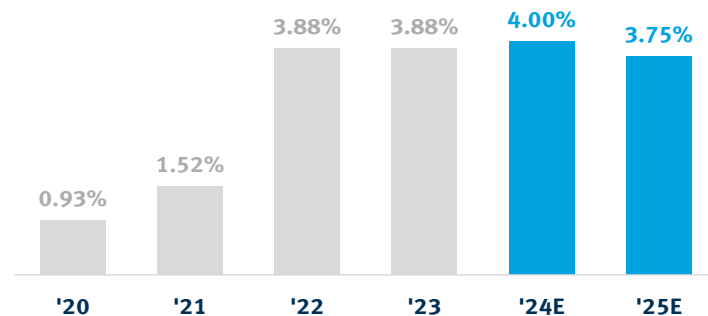
Unemployment Rate



Fed Funds Rate (Upper Bound)

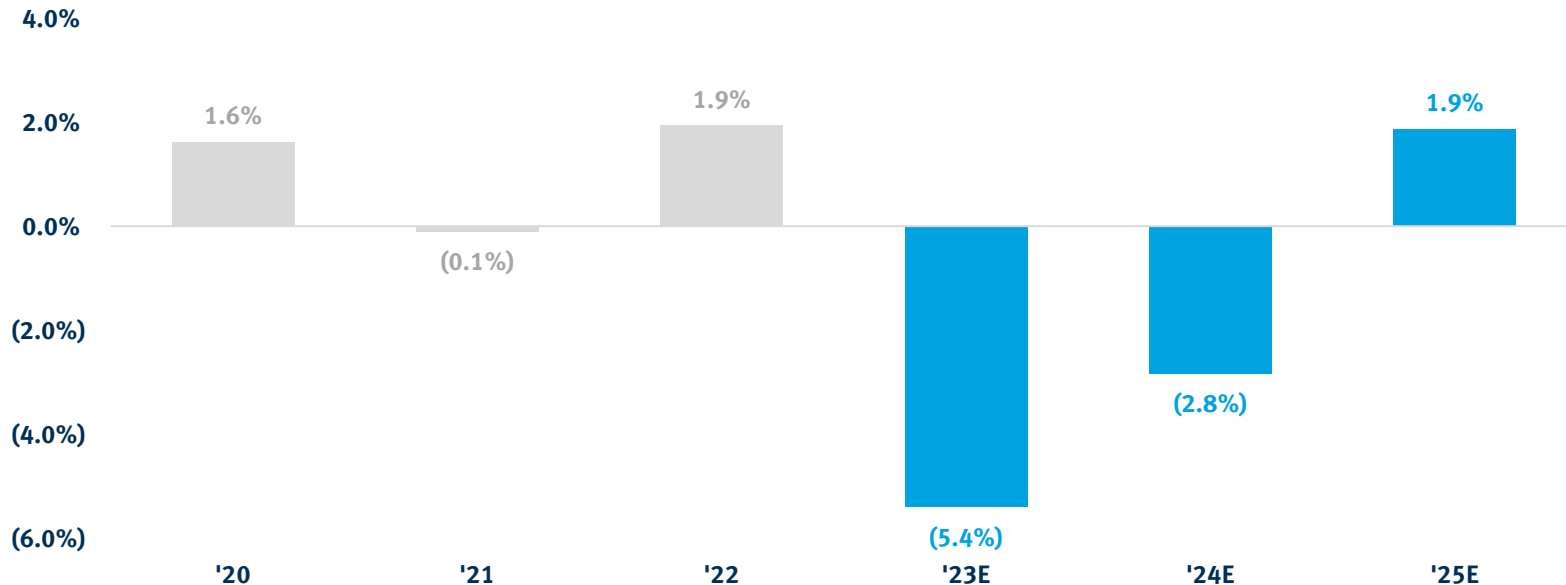


10-Year Treasury



Operating Leverage has Been a Headwind, but Should Improve

Operating Leverage = Revenue Growth – Expense Growth



Source: S&P Global Market Intelligence, FactSet and KBW Research

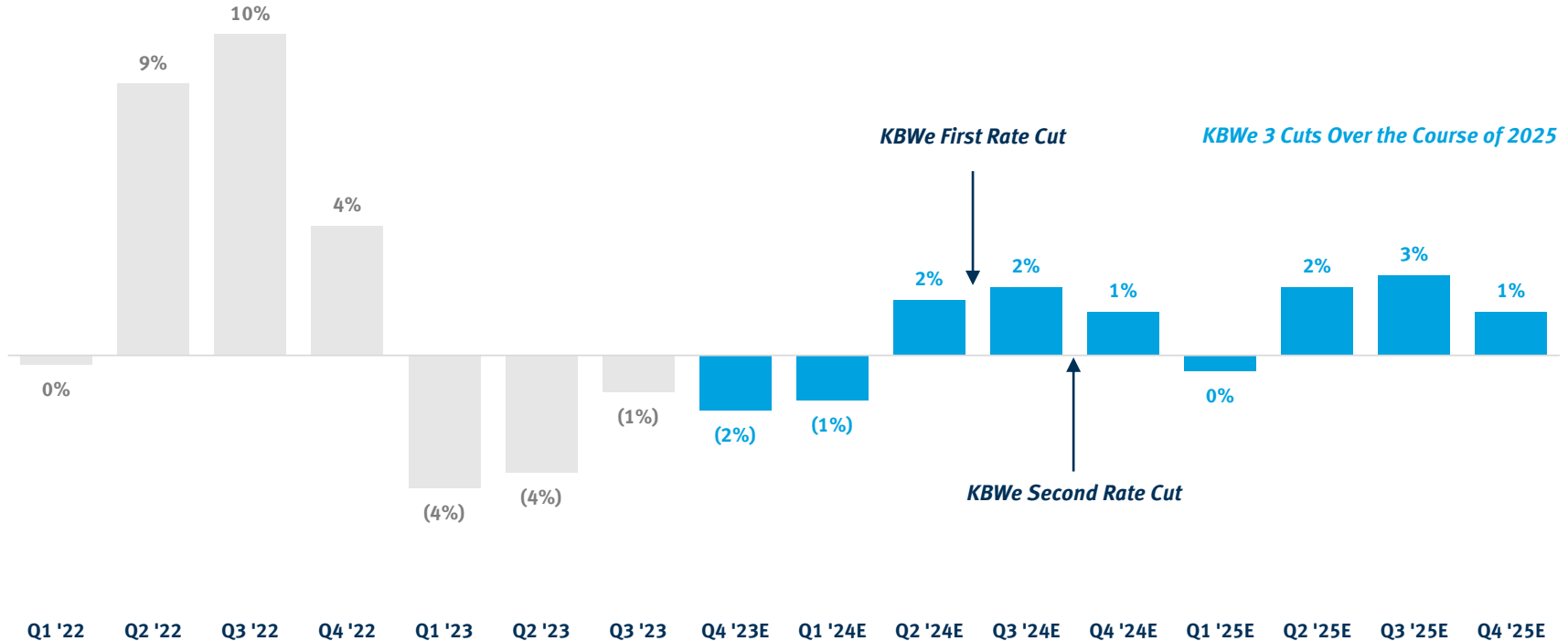
Note: Industry estimates per KBW Research; Data presented on median basis for all banks within KBW coverage universe; Excludes BK, GS, NTRS, and STT; KBW Research estimates per FactSet as of 1/22/2024

Note: Expenses do not include provision expense



Net Interest Income Should Drive Better Revenues

Net Interest Income – Q-o-Q Change (KBWe)



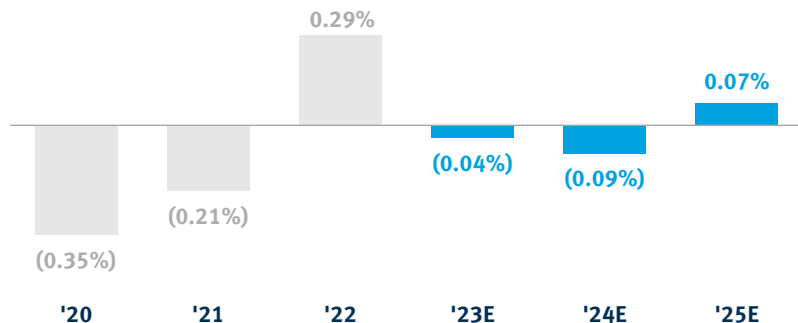
Source: KBW Research; "4Q23 Bank Preview Rates Drive Bank Stocks in 4Q Focus Now"

Note: Data is on a median basis for all banks under KBW Research coverage. Change in NII is linked-quarter, not annualized

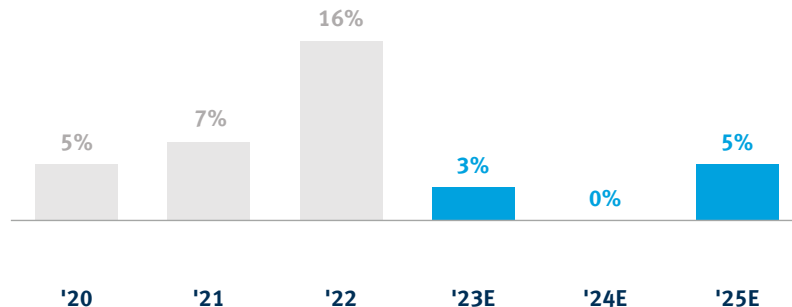


Profitability Pivot ... 2024 Exit Velocity is Key

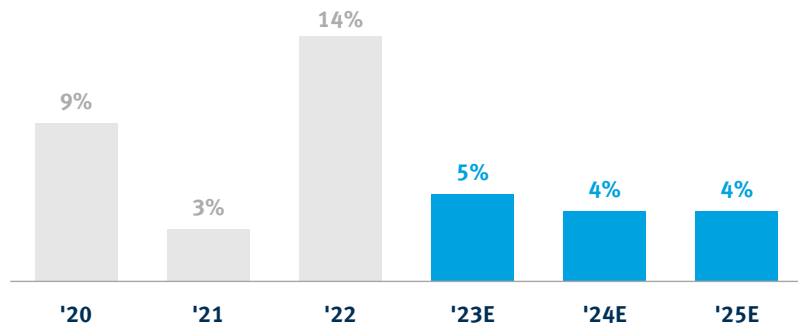
Margin Expansion



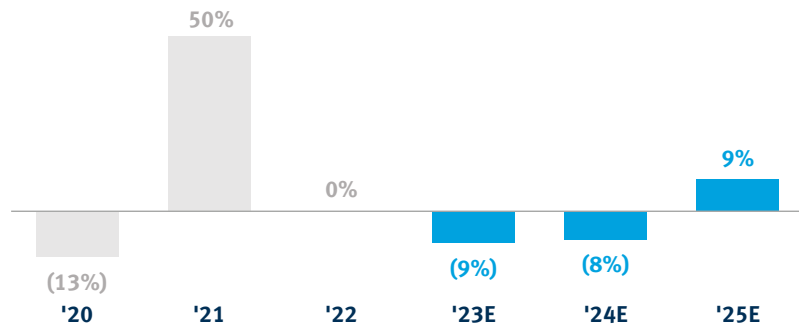
Net Interest Income Growth



Loan Growth



EPS Growth



Source: KBW Research

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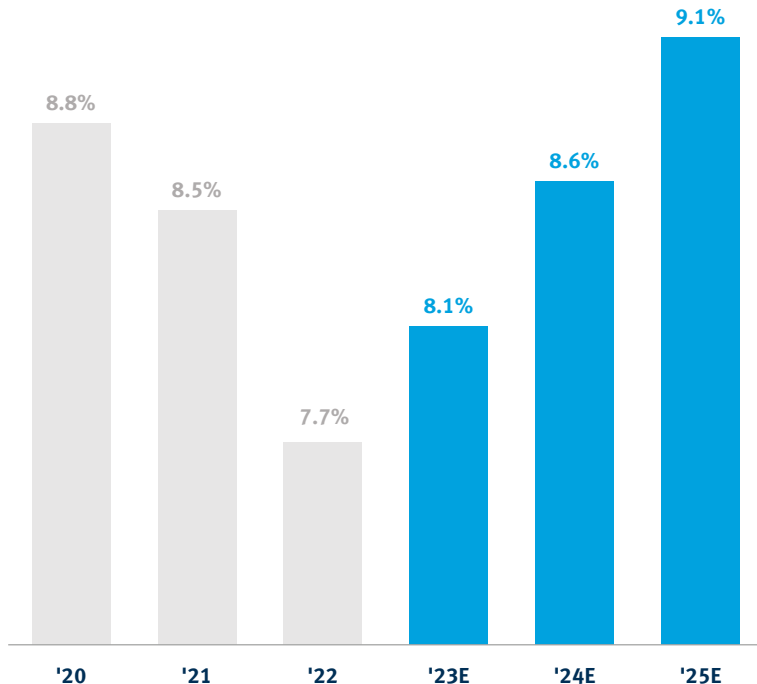
Note: Industry estimates per KBW Research; Data presented on median basis for all banks within KBW coverage universe; Excludes BK, GS, NTRS, and STT



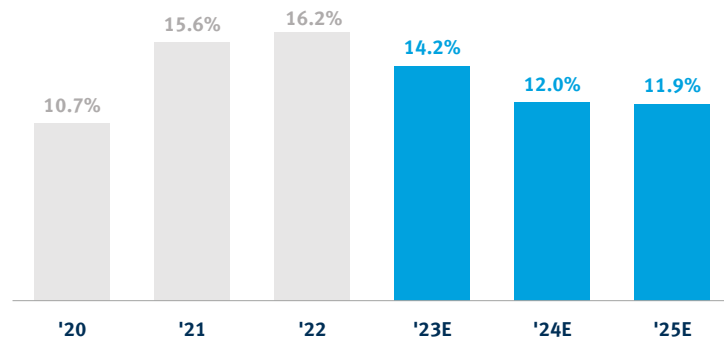
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Capital is Growing Quickly

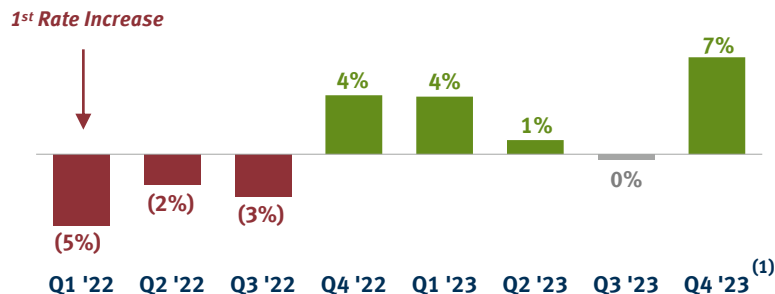
Tangible Common Equity / Tangible Assets



Return on Tangible Common Equity



Q-o-Q Change in TBV per Share



Source: FactSet, KBW Research

Note: Industry estimates per KBW Research; Data presented on median basis for all banks within KBW coverage universe; Excludes BK, GS, NTRS, and STT

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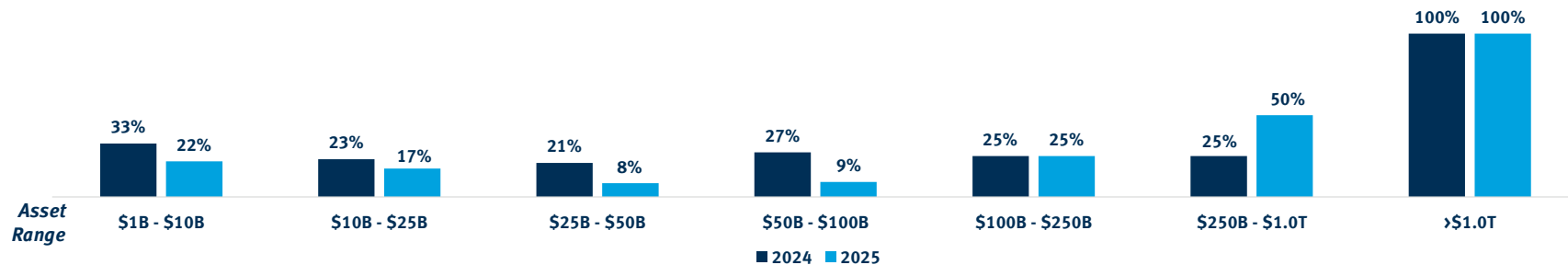
(1) Q4'23 includes 62 banks (30% of KBW bank universe) reported data as of 1/23/2024



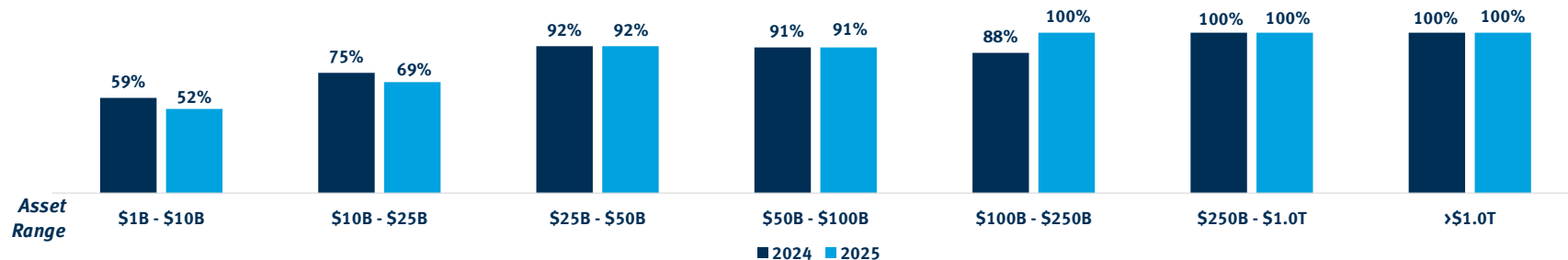
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More Capital Return is Likely

Percentage of Banks Repurchasing Shares



Percentage of Banks Increasing Dividends



Source: Factset and KBW Research

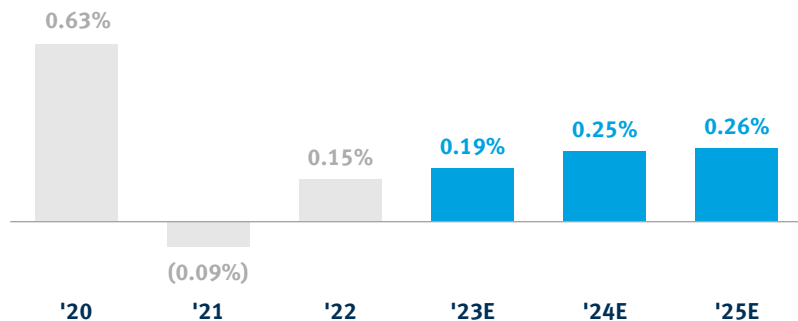
Note: KBW Research estimates per FactSet as of 1/22/2024

Note: Includes banks under KBW Research Coverage; Excludes BK, GS, MS, NTRS and STT; estimated 2024 and 2025 share repurchases and dividend increases per KBW Research

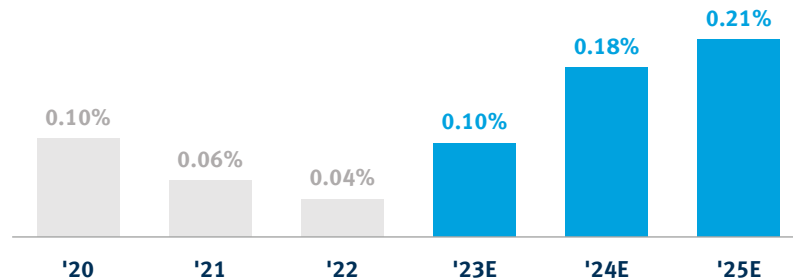


Credit is Normalizing

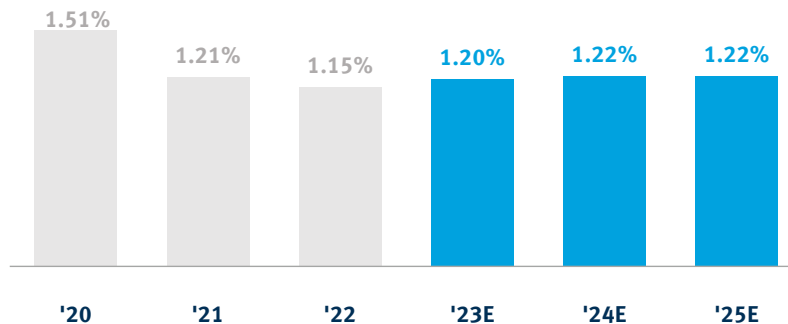
Provision / Average Loans



NCOs / Average Loans



Reserves / Average Loans



Source: KBW Research

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Note: Industry estimates per KBW Research; Data presented on median basis for all banks within KBW coverage universe; Excludes BK, GS, NTRS, and STT

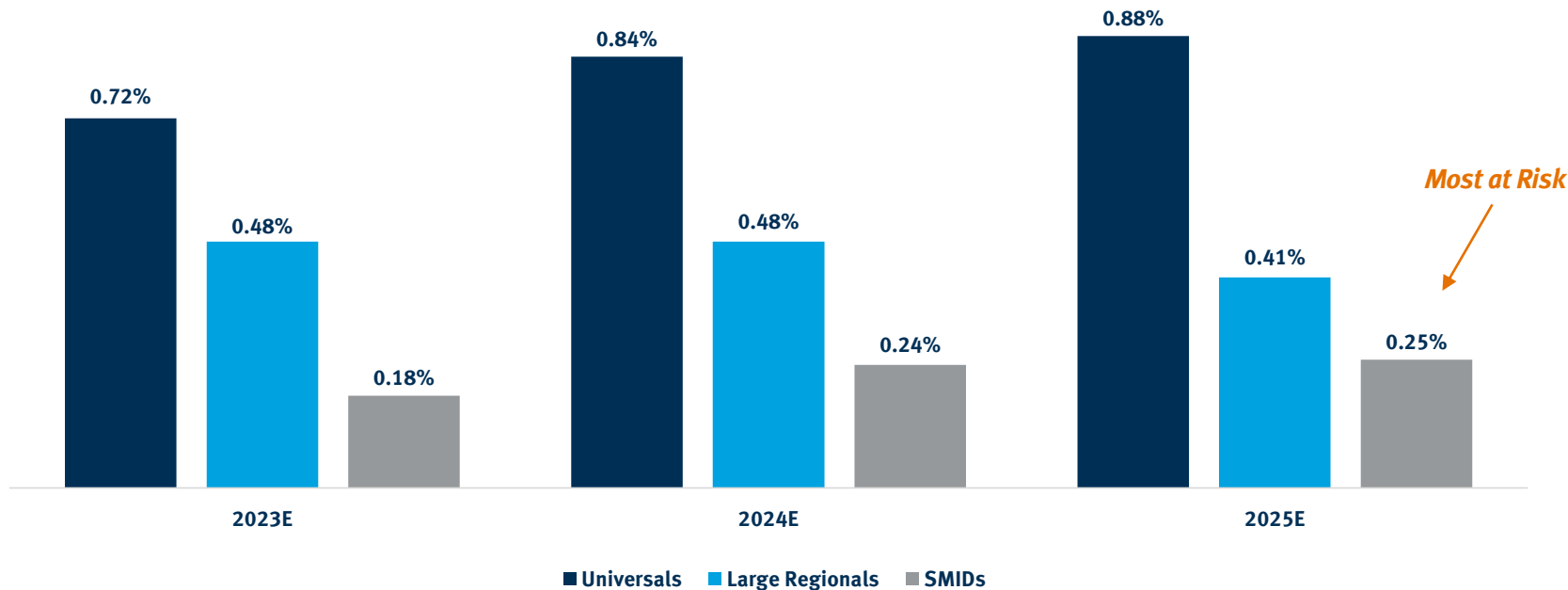


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But if Credit Normalizes Higher ... Bank Earnings are at Risk

KBW Published EPS Estimates Already Factor in Credit Normalization for the Largest Banks

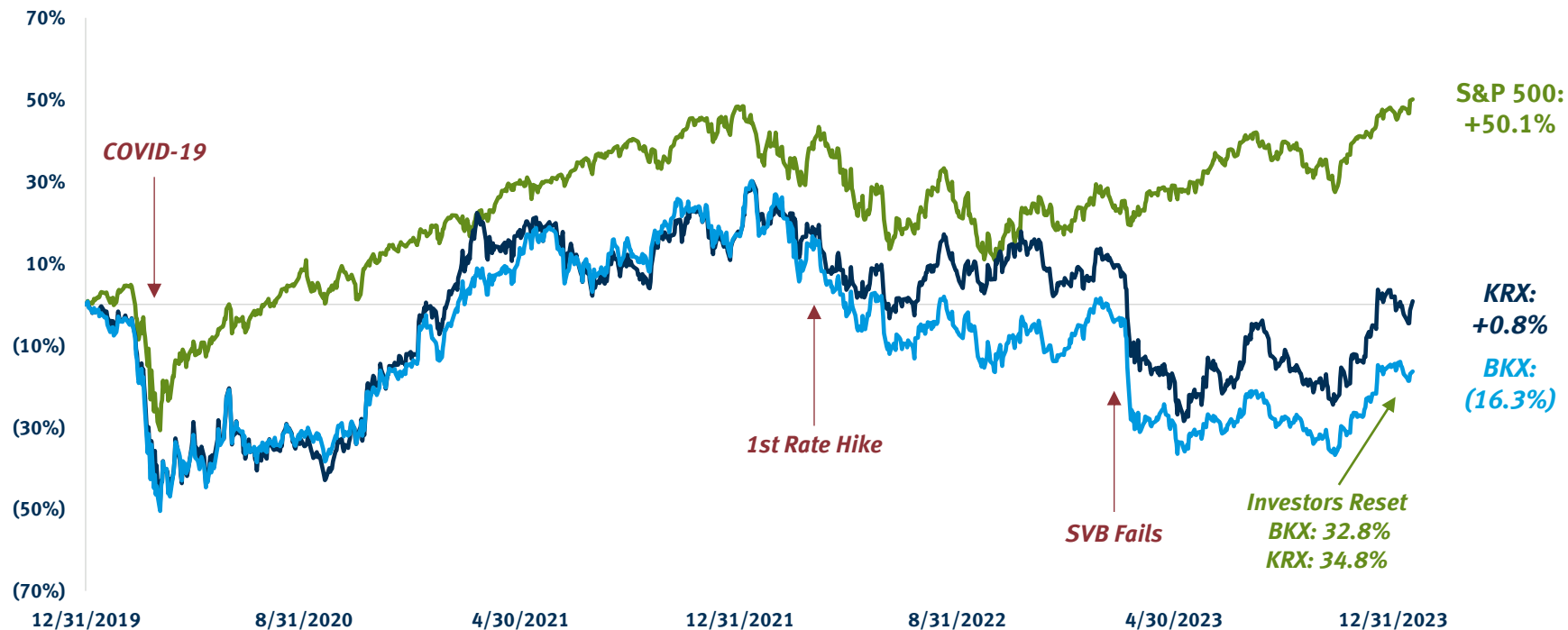
Provision / Average Loans



Source: KBW Research; "4Q23 Bank Preview Rates Drive Bank Stocks in 4Q Focus Now"



It's Been a Rocky Ride for Bank Stocks



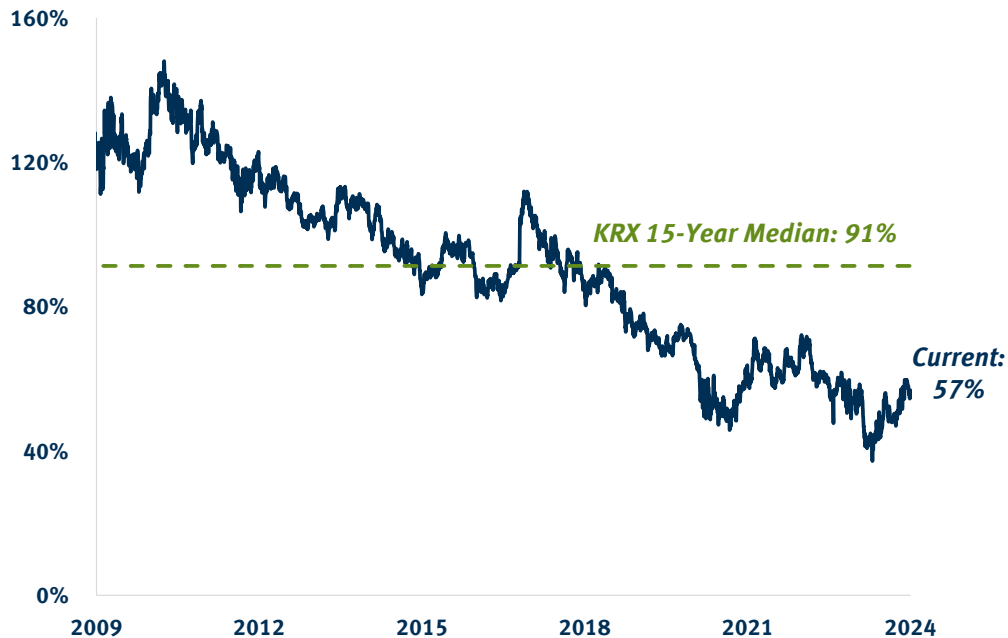
Source: FactSet; Market data as of 1/22/2024

Note: "Investor Reset" price performance data from 10/25/2023 to 12/29/2023

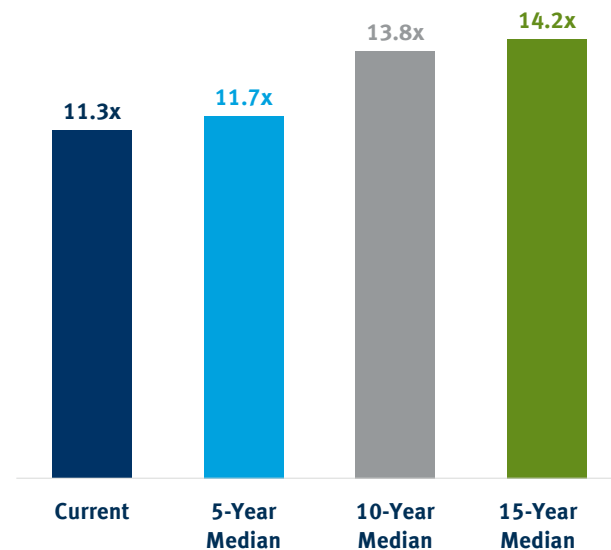


Bank Stock Valuation

Relative NTM P/E: KRX vs. S&P 500



NTM P/E: KRX



Source: S&P Global Market Intelligence, FactSet; Market data as of 1/22/2024

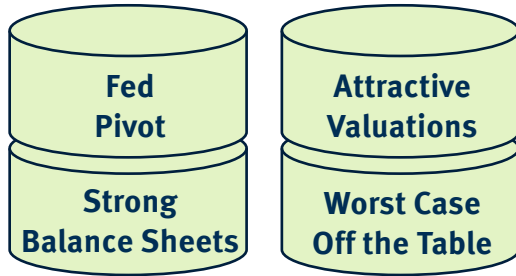
Note: KBW Nasdaq Regional Bank Index (KRX) includes 50 US regional banks ranging in assets from approximately \$10bn to \$120bn



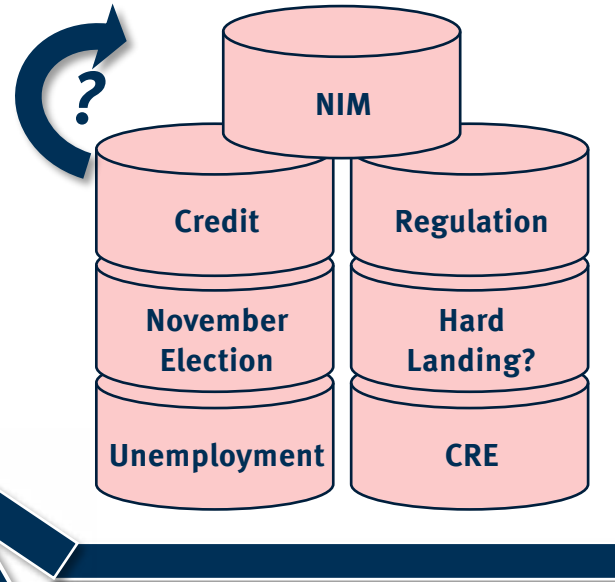
What are Investors Thinking?

Investors are Concerned About Earnings and Industry Pressures - Will Credit Replace Margin?

Healthy Balance Sheets & Attractive Valuation



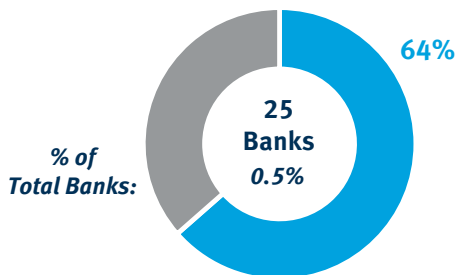
Earnings and Industry Pressures



The Biggest Banks Continue to Gain Share

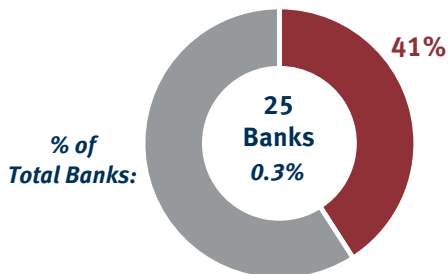
Top 25 Banks by Total Assets

2023:



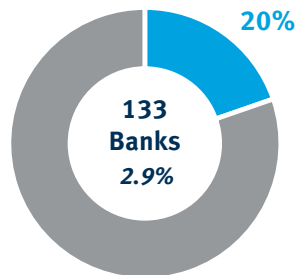
Aggregate Deposits: **\$10.9T**

2003:

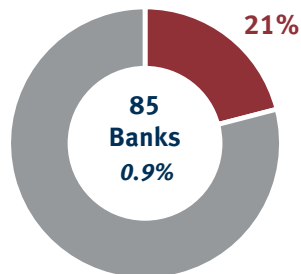


Aggregate Deposits: **\$2.1T**

Mid-Sized Banks⁽¹⁾

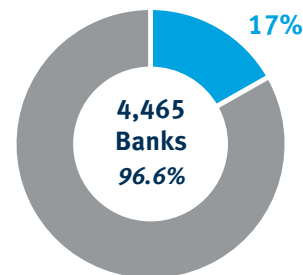


\$3.4T

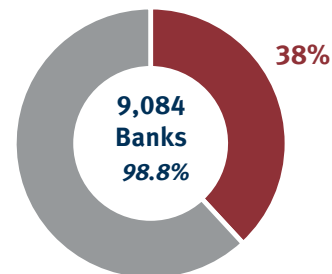


\$1.1T

< \$10 Billion in Total Assets



\$2.9T



\$2.0T

Source: FDIC and S&P Global Market Intelligence; 2023 data as of 9/30/2023; 2003 data as of 12/31/2003; Totals may not sum due to rounding

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Note: Company size based on assets and not pro forma for pending acquisitions

(1) Defined as all banks greater than \$10 billion in assets and not in the top 25 banks by asset size

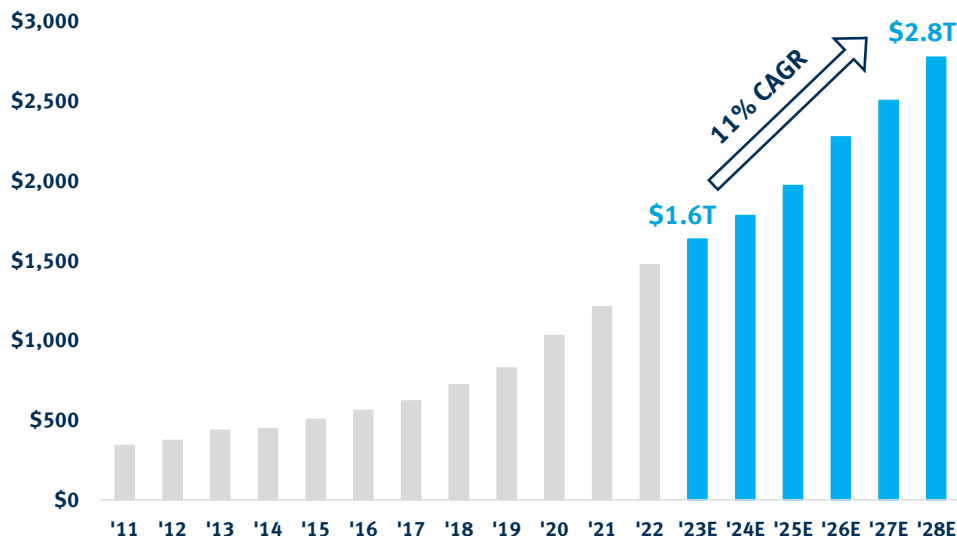


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Non-Banks are Growing Faster Than Banks

Total Private Credit Market (\$B)

Private Credit Industry Expected to Grow by Over \$1T Within 5 Years



Alternative Managers Credit FPAUM⁽¹⁾

Rank as a US Bank	Institution	FPAUM (\$B)
#10	APOLLO	\$386
#15	Blackstone	\$211
#23	KKR	\$184
#24	ARES	\$167
#25	Brookfield	\$152
#28	CARLYLE	\$124
#39	BLUE OWL	\$54

Source: FRB, Bloomberg, KBW Research, Prequin and Company Filings

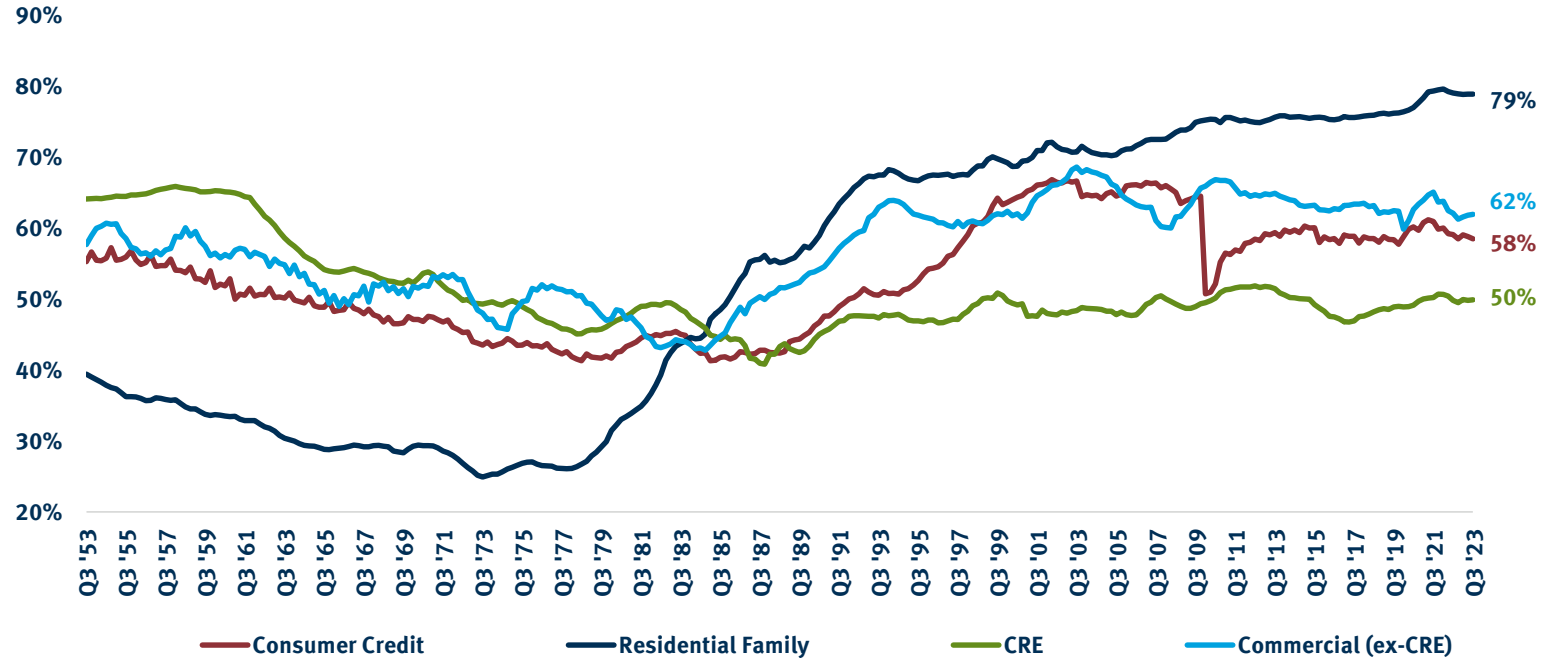
Note: FPAUM = Fee-Producing Assets Under Management; KKR's ending Credit FPAUM excludes 26.8B of assets managed through its hedge fund platform

(1) Data as of 9/30/2023



Non-Banks Also Have Leading Market Share

Non-Bank Share of Credit Outstanding (%)



Source: Fed Flow of Funds and KBW Research

Note: Shift in the 2010Q1 of consumer credit from the issuers of ABS to other sectors is largely due to financial institutions' implementation of the Financial Accounting Standards, or FAS, 166/167 accounting rules

Note: Data as of 9/30/2023



Mortgage is a Case Study

In 2008, 8 out of the top 10 Originators Were Banks

2008			
Rank	Originator	Volume (\$B)	Market Share
1	WELLS FARGO	\$237	16.0%
2	CHASE	\$187	12.6%
3	BANK OF AMERICA	\$183	12.3%
4	Countrywide	\$132	8.9%
5	citi	\$115	7.8%
6	Residential Capital	\$55	3.7%
7	WACHOVIA	\$51	3.5%
8	SUNTRUST	\$37	2.5%
9	usbancorp	\$34	2.3%
10	PHH Mortgage	\$34	2.3%
Top 10:		\$1,065	71.9%
Banks as a % of Top 10		92%	

Today, only 4 are Banks

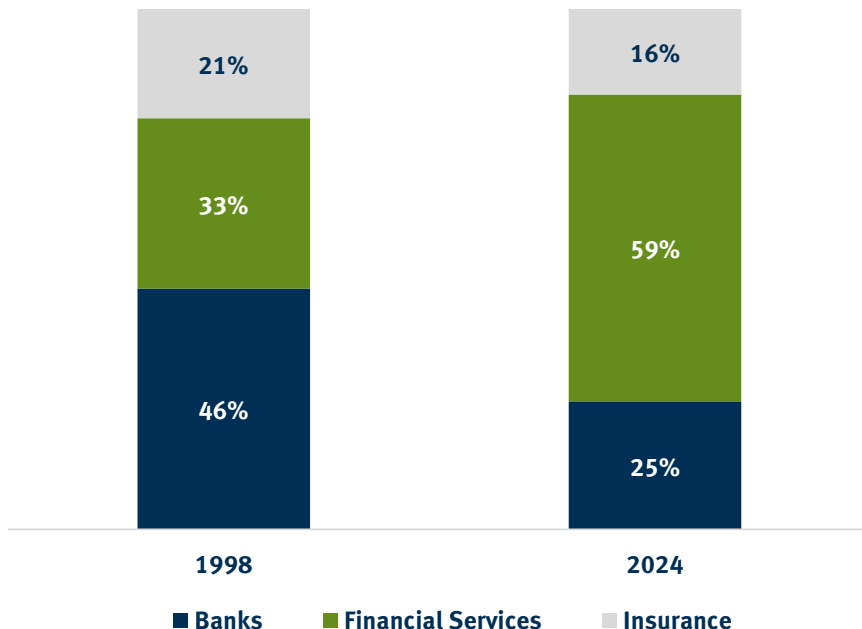
Today			
Rank	Originator	Volume (\$B)	Market Share
1	United Wholesale	\$84	7.8%
2	PennyMac	\$72	6.7%
3	Rocket Mortgage	\$61	5.7%
4	CHASE	\$33	3.0%
5	WA Western Alliance Bancorporation	\$32	2.9%
6	usbancorp	\$30	2.8%
7	NewRex / Caliber	\$28	2.6%
8	Guaranteed Rate	\$27	2.5%
9	Fairway Independent Mortgage	\$21	1.9%
10	WELLS FARGO	\$21	1.9%
Top 10:		\$410	37.8%
Banks as a % of Top 10		28%	

Source: Inside Mortgage Finance (Used with Permission) and KBW Research
 Note: 2023 data as of YTD 9/30/2023



Non-Banks are also Gaining Share in the S&P 500

Financial Services Now Account for 59% of the S&P 500 Weighting ...



... With Notable Potential Adds

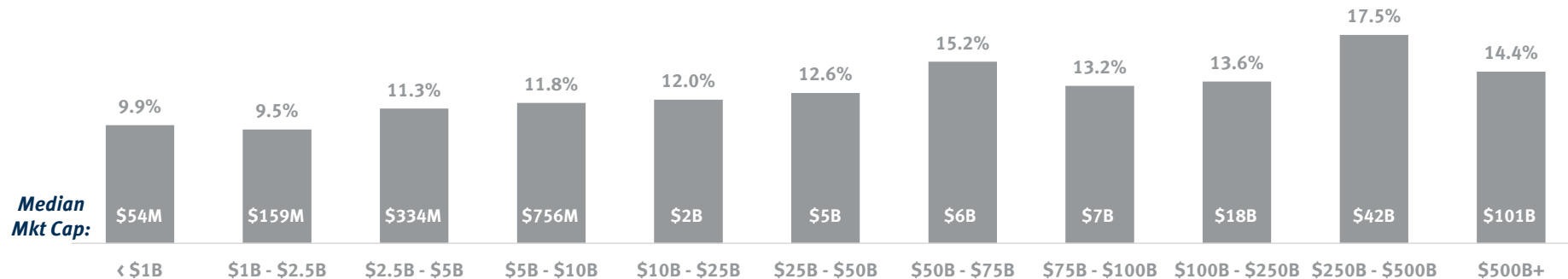
<i><u>Institution</u></i>	<i><u>Market Cap</u></i>
KKR	\$75B
APOLLO	\$55B
ARES	\$22B
Tradeweb	\$21B
First Citizens BancShares	\$21B

Source: KBW Research; S&P Global Market Intelligence

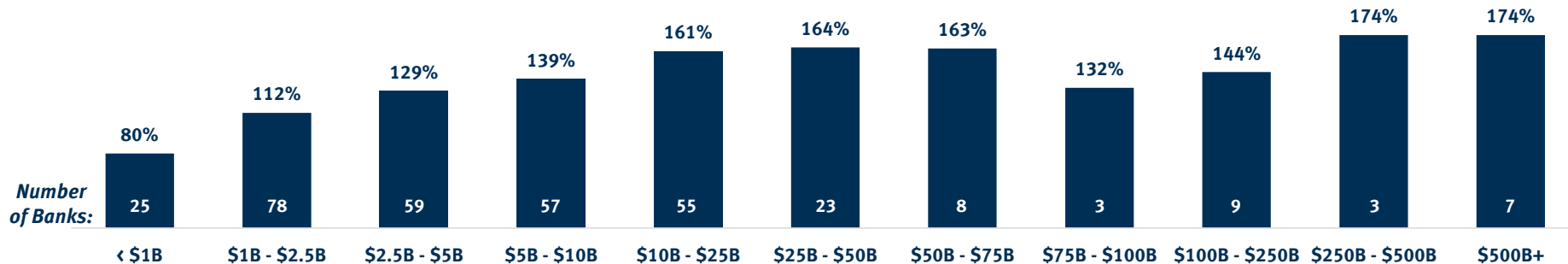
Note: Market data as of 1/22/2024

Scale Matters

2024E ROATCE by Assets Today



P/TBV by Assets Today



Source: S&P Global Market Intelligence, Factset; Market data as of 1/22/2024

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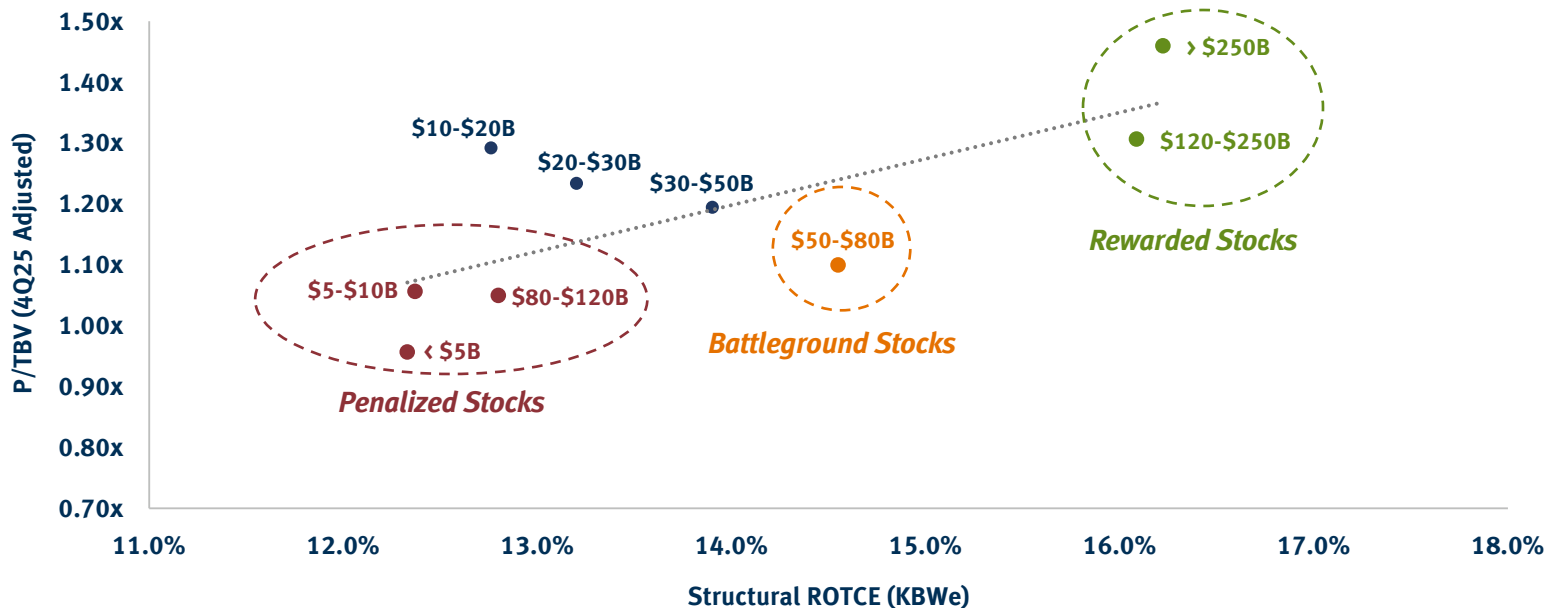
Note: Includes major exchange traded banks headquartered in the U.S. Excludes merger targets



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Scale and Regulation Will Drive Returns

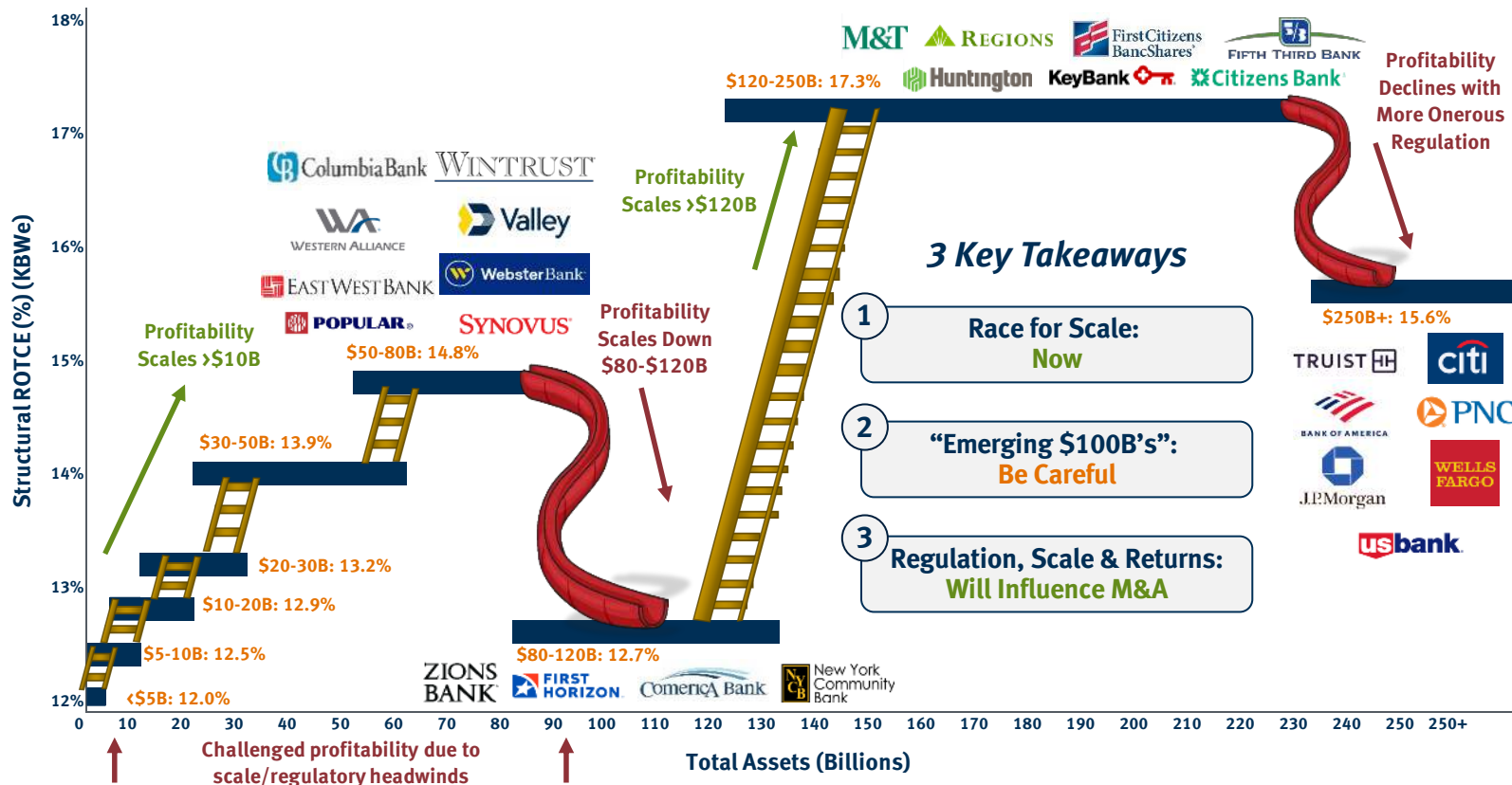
Estimated P/TBV vs. Estimated Structural ROTCE Based on Asset Size



Source: S&P Global Market Intelligence and KBW Research; "Chutes and Ladders Analyzing ROTCE Potential and Implication" published on 11/20/2023; Data updated 1/10/2024
Note: Structural ROTCE is KBWe and represents long-term return potential (inclusive of proposed regulation/implications), not a specific year, and excludes the impact of accretion income. P/TBV multiple uses YE25 TBV/share and normalizes capital levels based on estimated long-term targets for the largest banks (Emerging banks up through Category I banks) based on proposed regulatory capital changes impacting banks \$100B in assets and higher

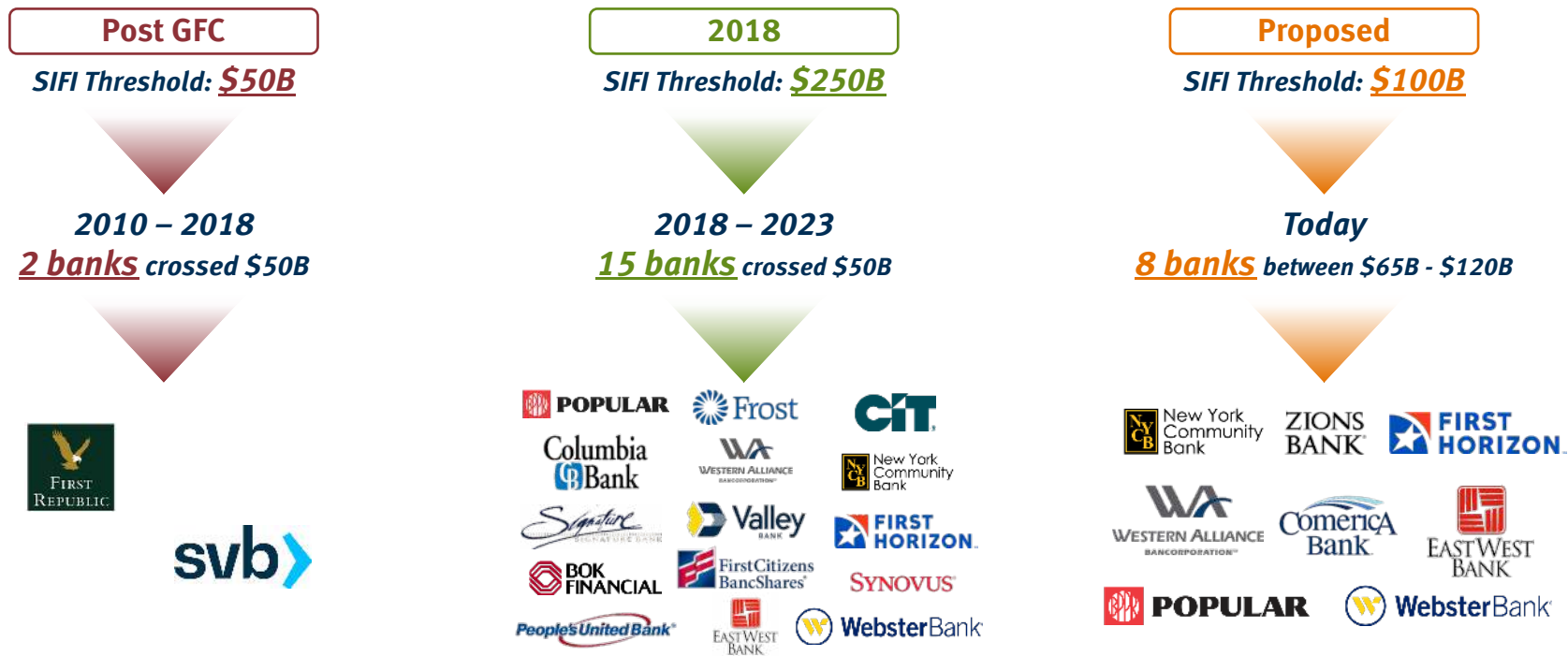


New Regs Create Sweet Spots for Larger Banks ... Chutes & Ladders

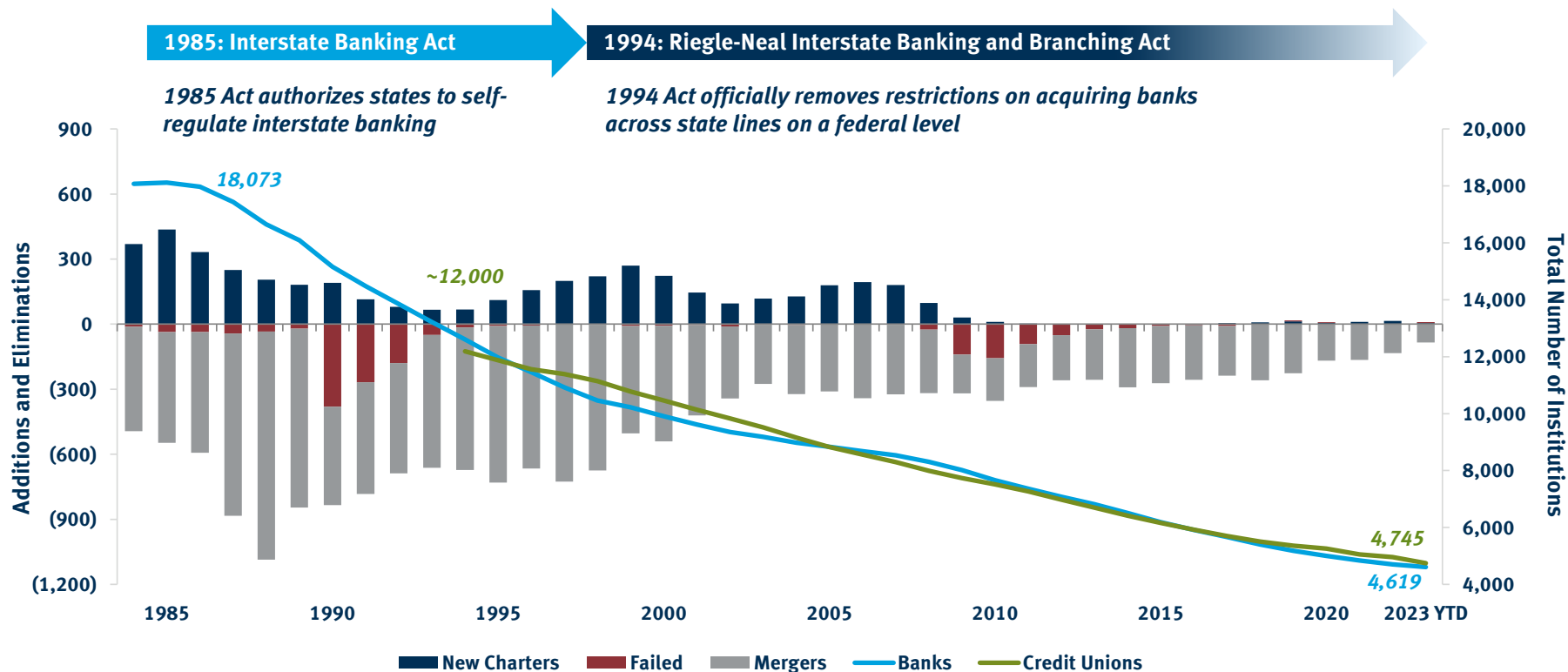


SIFI Rules are a Case Study

SIFI Threshold Impacts Growth and M&A



Consolidation has Been a Common Theme for 40 Years



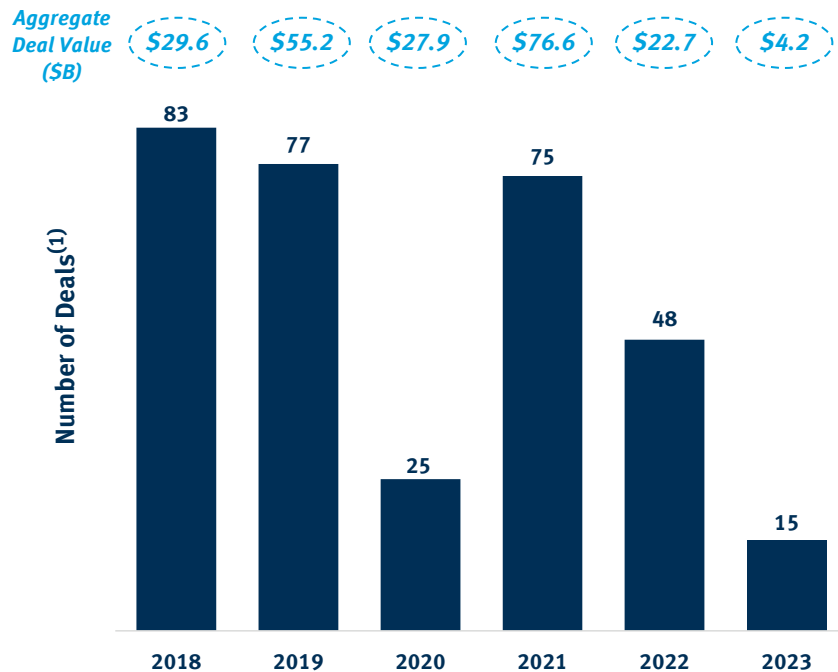
Source: FDIC, S&P Global Market Intelligence; Data as of 9/30/2023

Note: Mergers includes government assisted transactions



But the Last few Years Have Been Quiet

Deal Activity Since 2018



Important Reasons Why

Economic Uncertainty

Volatile Industry Earnings and Stock Prices

Mark to Market Impact on Pro Forma Capital

Regulatory Headwinds

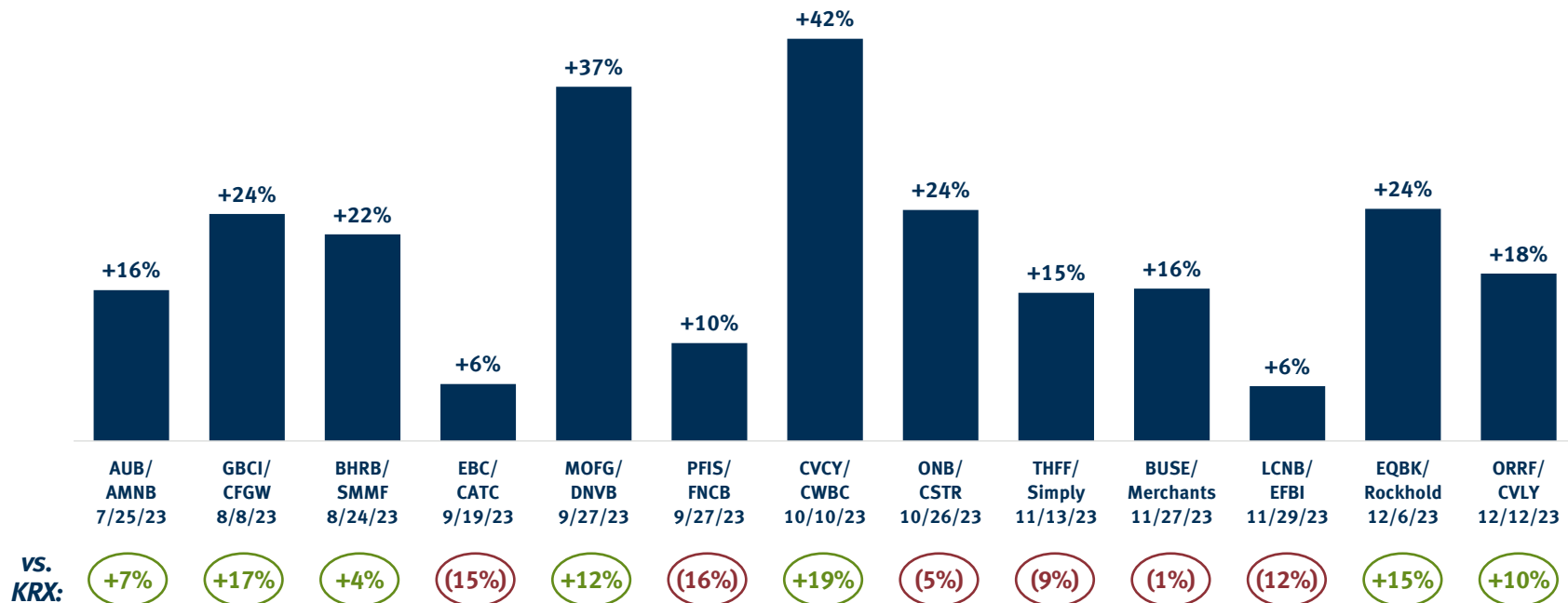
Source: S&P Global Market Intelligence, FDIC and Company documents; Data as of 12/31/2023

(1) Includes all announced bank and thrift transactions with deal value greater than \$50mm since 1/1/18 where target was headquartered in the United States



Investors Have Been Warming to M&A

Price Performance of Select Buyers Since Deal Announcement



Source: S&P Global Market Intelligence and FactSet; Market data as of 1/22/2024

Note: Include transactions since 7/1/2023 with deal values greater than \$20 million

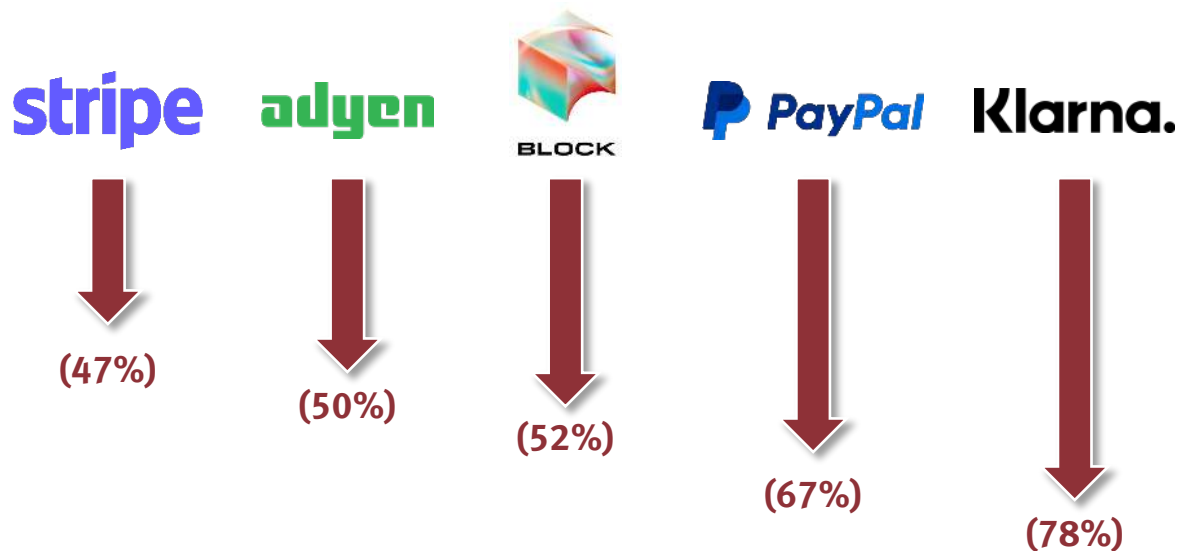
Note: Excludes PACW / BANC transaction, deals with private and foreign buyers and buyers that are not major exchange traded



2023 was a Painful Year for Fintech Valuations

Meaningful Correction Since the Peak in Late 2021

*Public/Private Valuations have Retrenched as
Understanding of Growth Prospects is Evolving*



19%



20%



*Some Incumbent Names Have
Been Long-term Winners*

Source: KBW Research; Company Websites

Note: Note: Valuations are from end of 2021 to end of 2023

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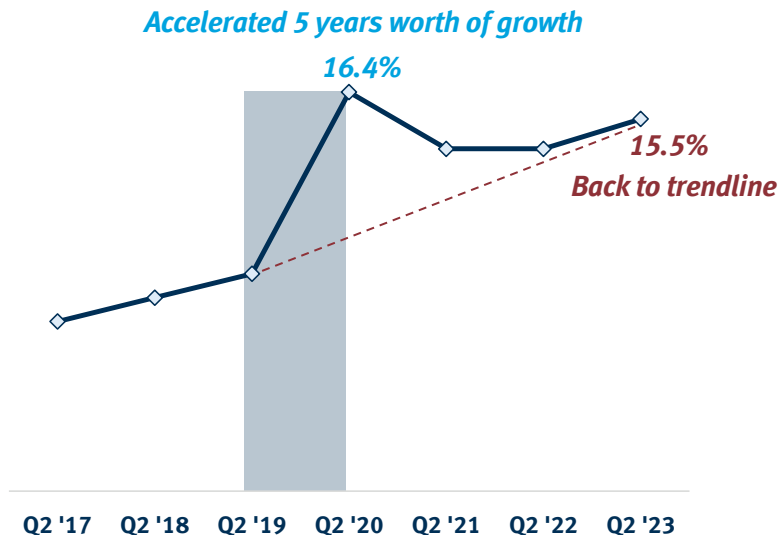


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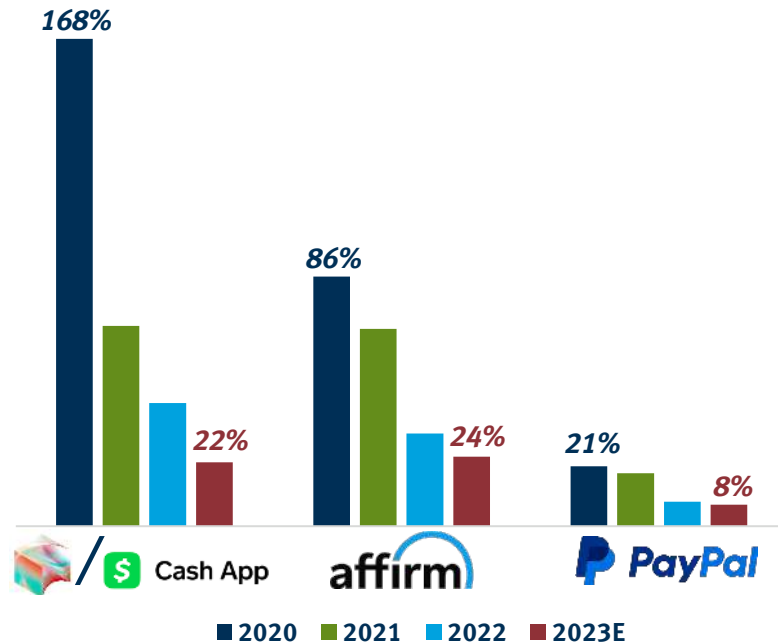
In Hindsight, Markets Overestimated the Upside Post Pandemic

Post Pandemic Surge in Adoption has Levelled Off

E-Commerce Market Share



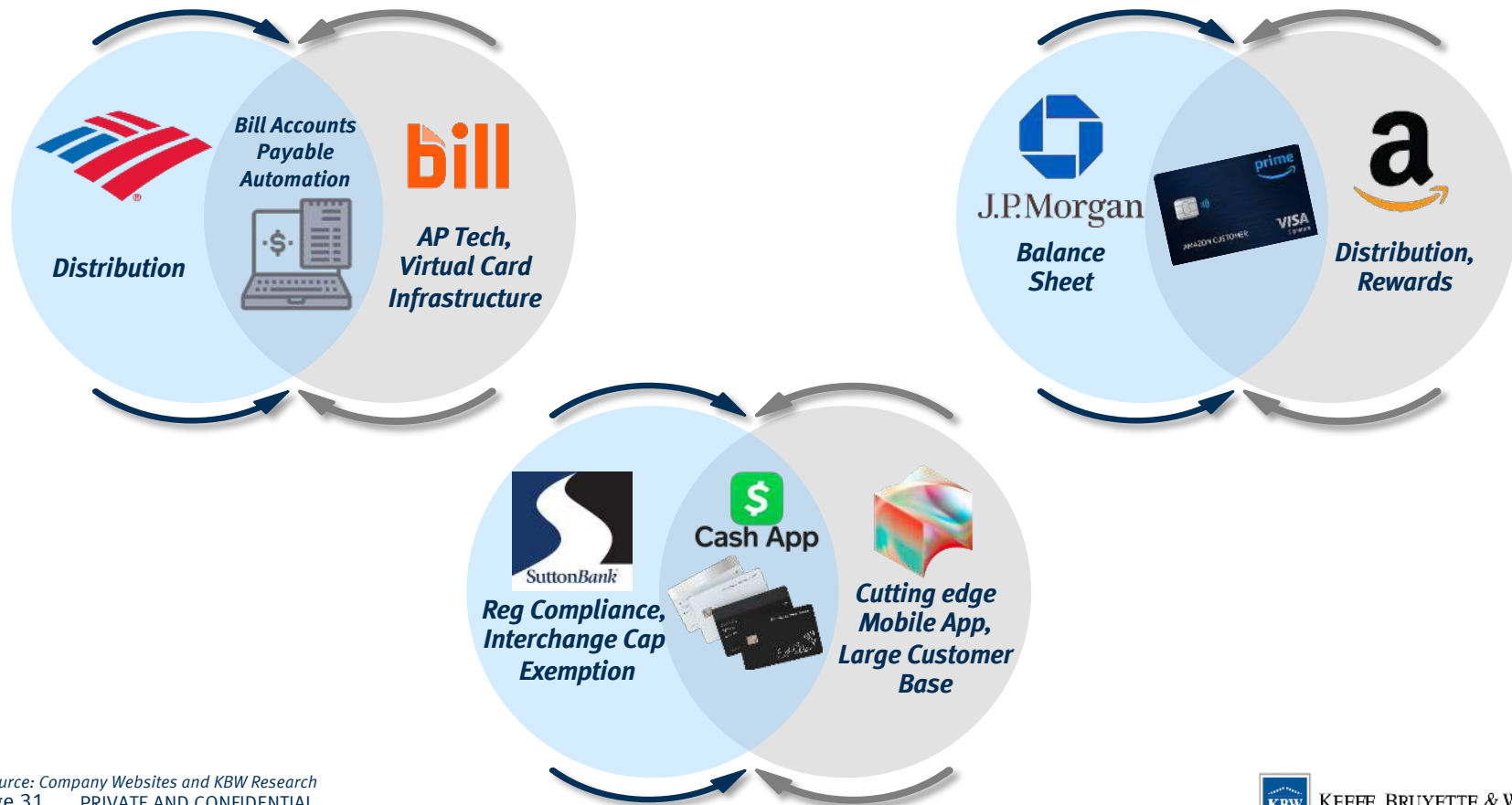
Rise & Fall of Revenue Growth



Source: KBW Research



Collaboration Rather than Disruption More Likely



We Still Think Fintech is the Future



*Delivery of Financial Services
has Transformed Through Fintech*



88% of US Consumers use Fintech apps



65% of US Consumers use Digital Banking



*3x Expected Growth in Fintech Revenue vs.
Traditional Bank Revenue '23-'28*

Still Have to Worry About Embedded Finance, Especially Big Tech



Source: KBW Research



Washington Back in Focus

Regulatory Initiatives – Racing the Election

**Basel
Endgame**

M&A Policy

**CFPB
Open Banking**

FHLB Reform

**CRA
Implementation**

2024 is Here

Choosing a New Government



Joe Biden



Nikki Haley



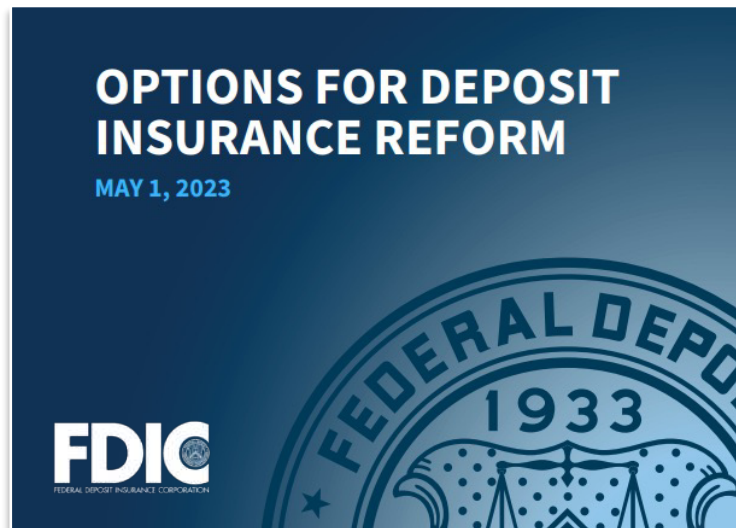
Donald Trump

Control of Congress

One Party or Divided Body?

Unfinished Business

Deposit Insurance Reform



- ☐ Limited Coverage
- ☐ Unlimited Coverage
- ☒ Targeted Coverage

Recommended Reading



Tom Michaud
Congressional Testimony
Washington D.C.
5/10/2023



Conclusion



Industry Fundamentals Should Improve



Investors Remain Cautious



The Industry is Reshaping Itself and Non-Bank Competitors are Rising



FinTech is Here to Stay



Regulation and November Election Have Scale in Focus



As Always, There Will be Winners and Losers

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