

SALTMARSH, CLEVELAND & GUND

Saltmarsh
Saltmarsh, Cleveland & Gund
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

August 27-28, 2024

Saltmarsh BankTalk: State of Banking

Josh Strickland, Shareholder

Paul Allen, Director

Banking Industry Performance, FDIC Press Release Q1 2024

- Quarterly Net Income of all FDIC Insured, \$64.2 Billion
- Net Income Increased Quarter Over Quarter, But Slightly Lower than Q1, Q2 or Q3 2023 (Q4 2023 lower due to FDIC Assessment)
- The Net Interest Margin Fell For the Second Consecutive Quarter
- Asset Quality Metrics Remained Generally Favorable With the Exception of Material Deterioration in Credit Card and Commercial Real Estate Portfolios
- Loan Balances Declined Modestly From the Prior Quarter, but Increased From a Year Ago
- Domestic Deposits Increased For the Second Straight Quarter

Economic Expectations for Remainder of 2024

- Cut in interest rates appearing more likely in September, with possibility of another rate cut in 4th qtr
- Fed still trying to reduce balance sheet, Treasury expanding borrowings, still significant uncertainty about outlook for bonds
- Rate of inflation is slowing, economy is slowing, but still positive
- Housing sector continues to be sluggish; inventories rising, especially in certain markets
- Unemployment levels still low, but likely to rise further slowing inflation

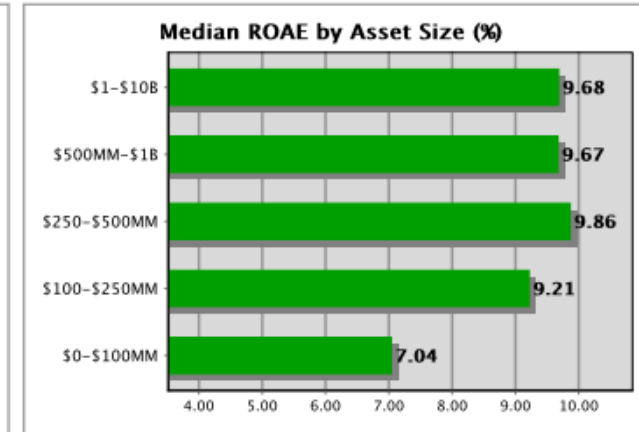
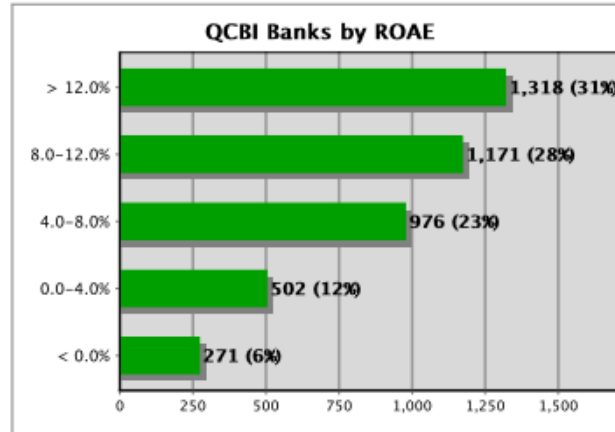
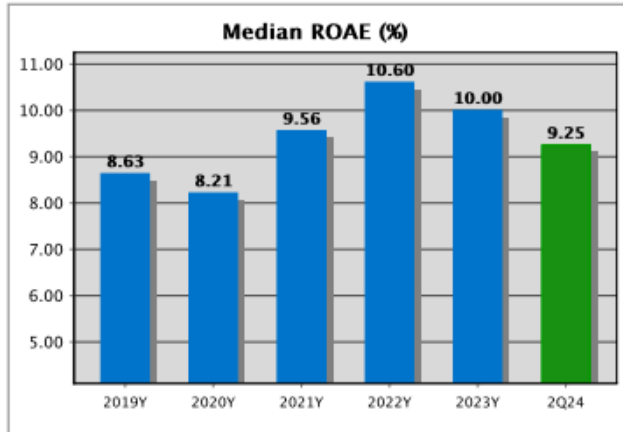
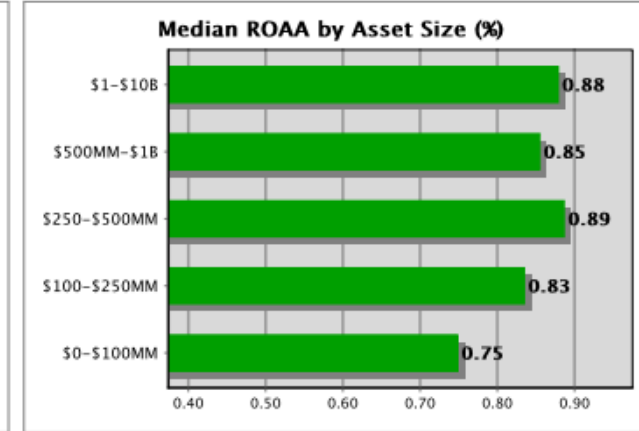
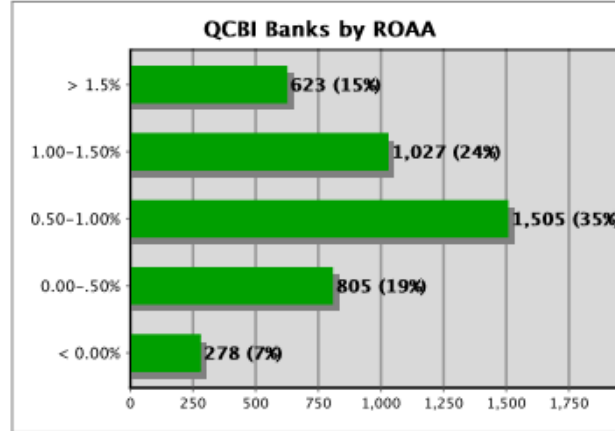
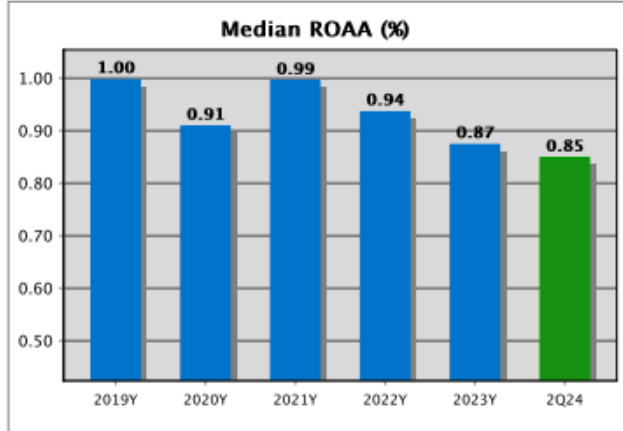
Early look at 2nd Qtr Results

- Using QwickAnalytics (prior to FDIC issuing its Quarterly Industry Earnings Release), key takeaways:
- Loan growth range 5-8%; Total asset growth lower, 3-5%
- Deposit growth slowly picking up, 2-5%
- Cost of funds continuing to rise, up from .38 2022 to 2.07 now; anecdotal stories that starting to slow, banks looking for relief as Fed lowers rates
- Net interest margin continues in the low to mid 3%
- Efficiency ratio slightly up, 67% to 68%

QwickAnalytics National Performance Trends

Profitability Trends

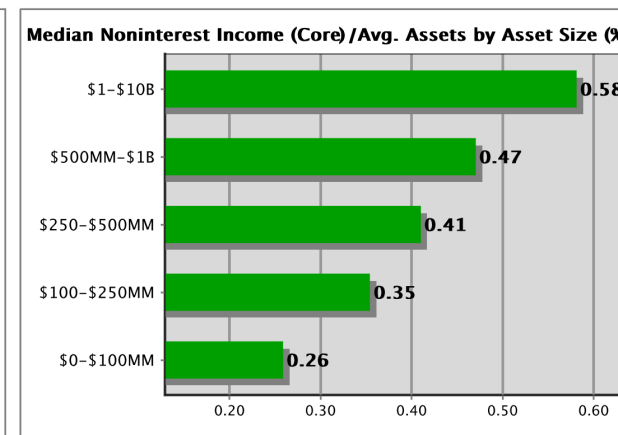
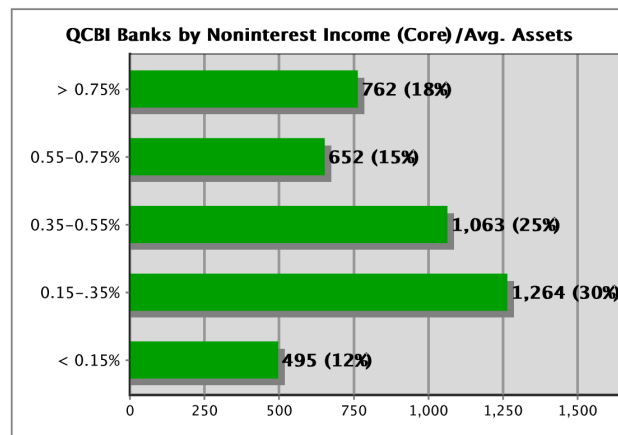
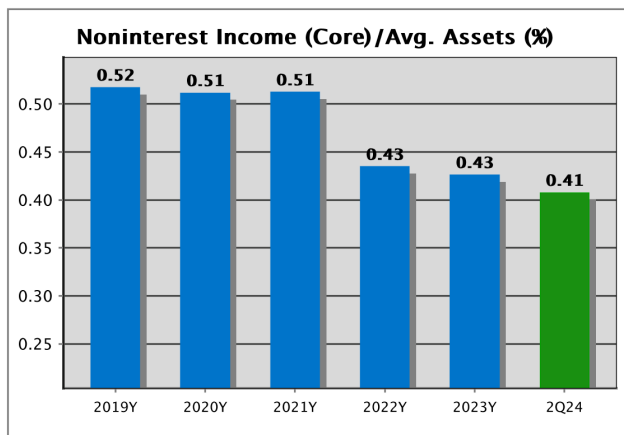
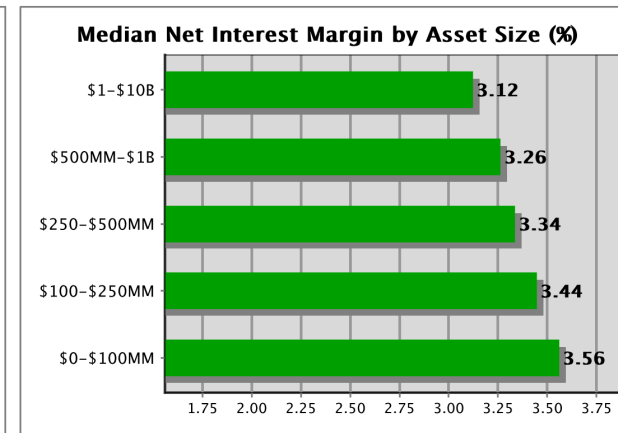
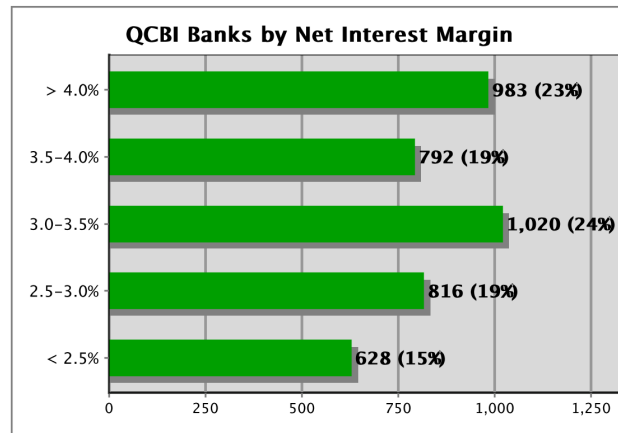
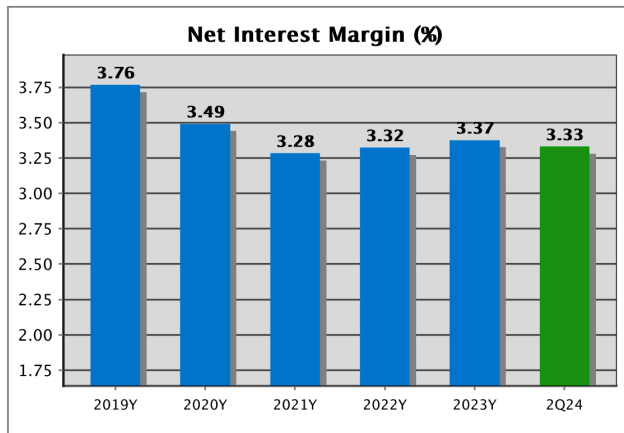
U.S.
Banks
June 30, 2024



QwickAnalytics National Performance Trends

Performance Trends

U.S.
Banks
June 30, 2024



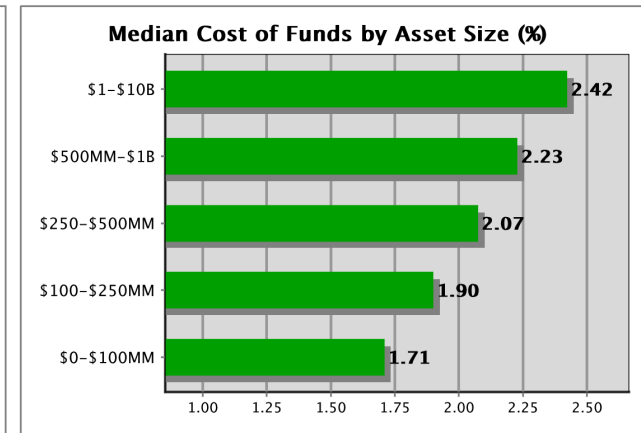
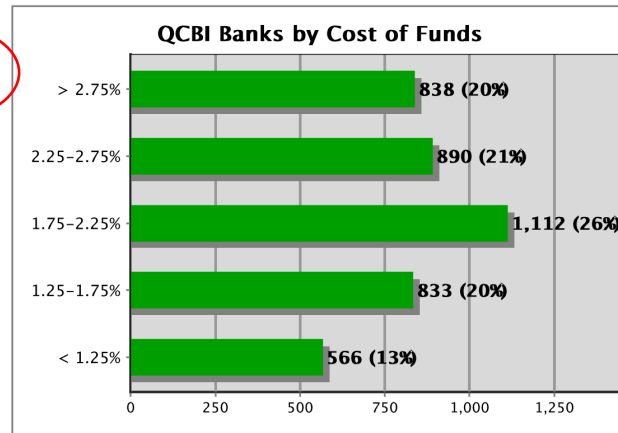
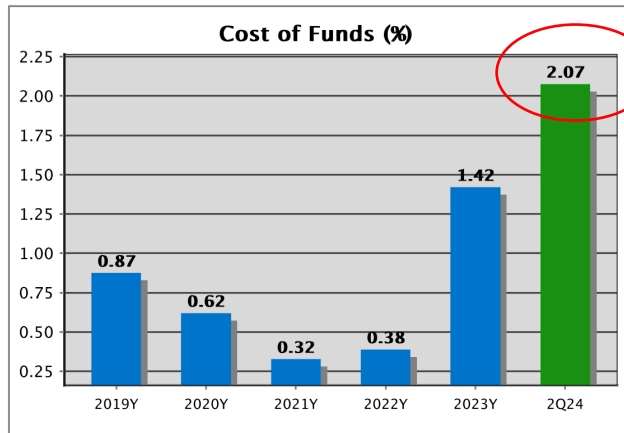
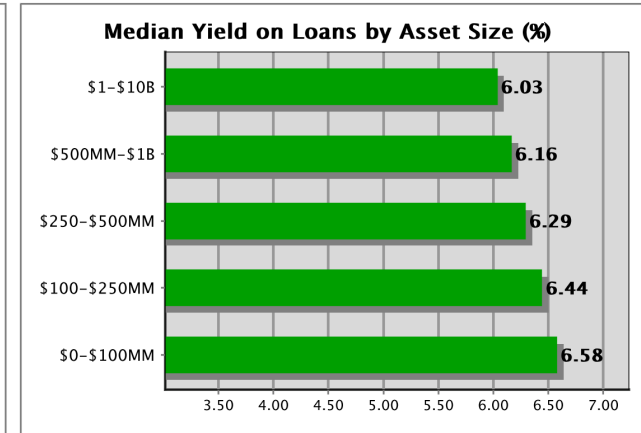
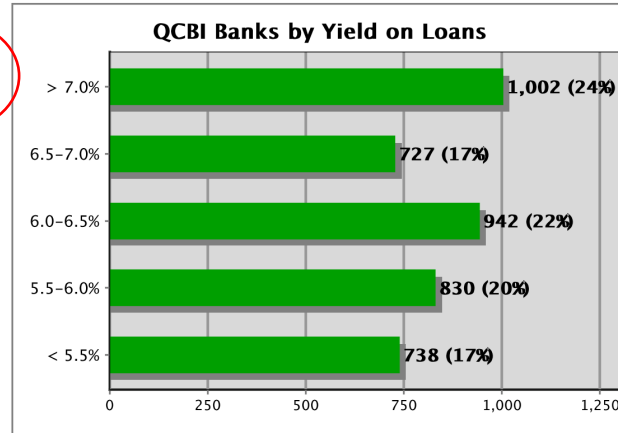
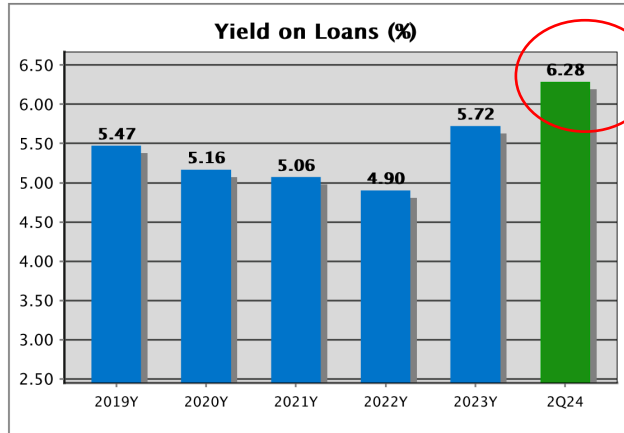
Note: All data points represent median values;
current period data (green bars) are for the most recent quarter (MRQ); Core items exclude nonrecurring gains/losses



QwickAnalytics National Performance Trends Performance Trends

U.S.
Banks
June 30, 2024

6.28-
2.07=4.21
spread
before
provision
and
operating
costs



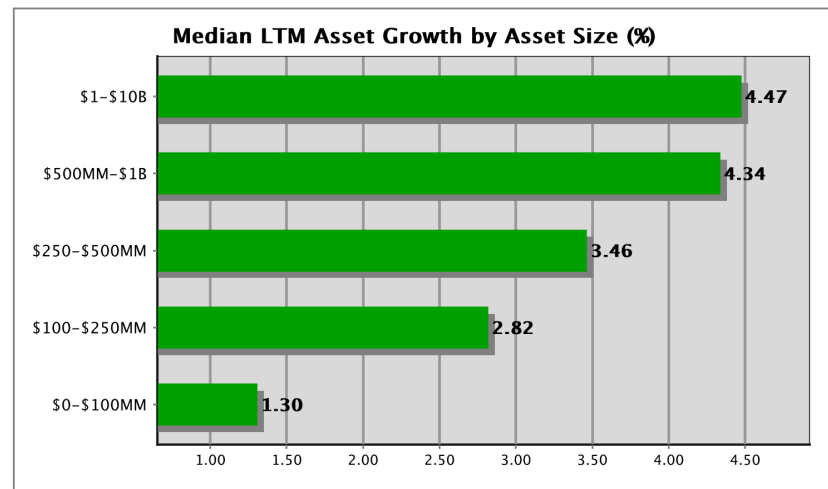
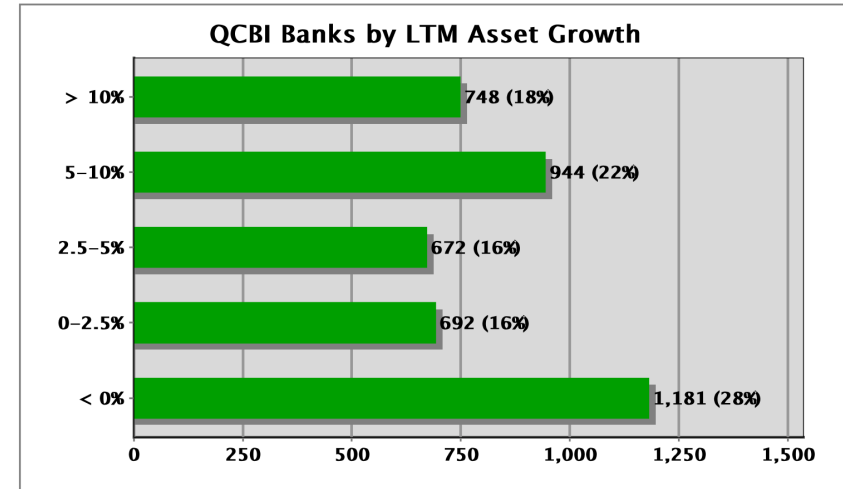
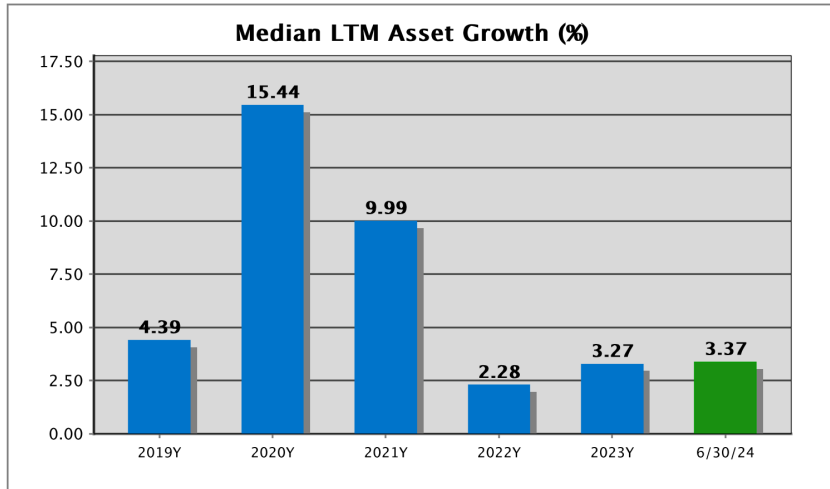
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QwickAnalytics National Performance Trends

Asset Growth Trends

U.S.
Banks
June 30, 2024



* LTM = Last 12-months (or "trailing" 12-months)



What we are hearing from our client base...

- Funding and funding costs remain a very high priority to our community bank clients, as competition for deposits has risen dramatically, both from other banks as well as from “the Street” (broker MMDA accounts) and from other non-bank entities
- CDs have again become a strategic offering, and consumer demand for CDs has picked up dramatically
- Given the shape of the yield curve (inverted or flat), it is very challenging to match fund loans

Bits and pieces from industry analysts and media stories

- August 19, 2024: Yield curves stay inverted for 110 consecutive weeks
- August 2024: Fed Reserve data shows Loans .6%, C&I -.05% and Deposits -.3% YTD in 2024 but up 1.45% Yr over Yr; Industry Loan to Deposit is 71% (versus 60% in April 2022), compared to 76% pre-Pandemic; community bank LTD 84% (versus 67% in April 2022, and 80% February 2020).
- From 2011 to 2019, Core or nonmaturity funds averaged 72%, which bumped up to 82% in 2022 due to Pandemic, compared to 76% currently.
- Mix of funding has shifted, with levels of CDs and Borrowings back to pre-pandemic levels in 2019 (Currently: 13.6% Large Time; 86% Other Deposits, 12% Borrowings; 2019: 13.7%, 86%, 12.5%)

YTD 2024 Deposits & Funding at US Banks: *Deposits Are Higher YR/YR, And About Flat YTD 2024*

\$Dollar Change

	Total Deposits	Large Time	Other Deposits	Borrowings
3Q-2024	64.4	10.5	54.0	(40.3)
2Q-2024	(186.1)	35.4	(221.5)	17,515.8
1Q-2024	66.5	95.4	(28.9)	17,716.2

Deposit detail for the US Banking system
(Fed H.8 thru 8-16-24, 1-week lag)

DEPOSITS: +0.1% YTD '24, +1.8% YR/YR
LOANS: +0.8% YTD '24, +2.6% YR/YR

Banks' CDs and Borrowings are back to 2019 levels prior to the Pandemic

	% Mix: Late 2019 to August 2024		
	Large Time Dep	Other Deposits	Borrowings (% Total Funding)
4Q-2019	13.7%	86.3%	12.5%
1Q-2020	12.3%	87.7%	13.5%
4Q-2020	9.0%	91.0%	9.1%
4Q-2021	7.6%	92.4%	8.2%
4Q-2022	9.2%	90.8%	9.4%
4Q-2023	12.8%	87.2%	11.7%
3Q-2024	13.6%	86.4%	11.7%

	% Funding: Late 2019 to August 2024	
	Core Funding	Non-Core Funding
4Q-2019	75.5%	24.5%
1Q-2020	75.9%	24.1%
4Q-2020	82.7%	17.3%
4Q-2021	84.8%	15.2%
4Q-2022	82.3%	17.7%
4Q-2023	77.0%	23.0%
3Q-2024	76.2%	23.8%

Source (all charts): Janney Research, Fed H.8 weekly data thru 8-16-24

YR/YR Deposit and Funding changes
(from the FRED charts via the St. Louis Fed's website).

- Deposits, All Commercial Banks (right):
- Large Time Deposits, All Commercial Banks (left):
- Other Deposits, All Commercial Banks (right):
- Borrowings, All Commercial Banks (left):

Wed, Aug 7, 2024	1.45473
Wed, Aug 7, 2024	15.37201
Wed, Aug 7, 2024	-0.44365
Wed, Aug 7, 2024	4.22341

SECURITIES at All US BANKS: Updated Data From 2nd Quarter 2024 Portfolio Disclosures

Bank Securities Recap at 6-30-24 -- All FDIC Charters

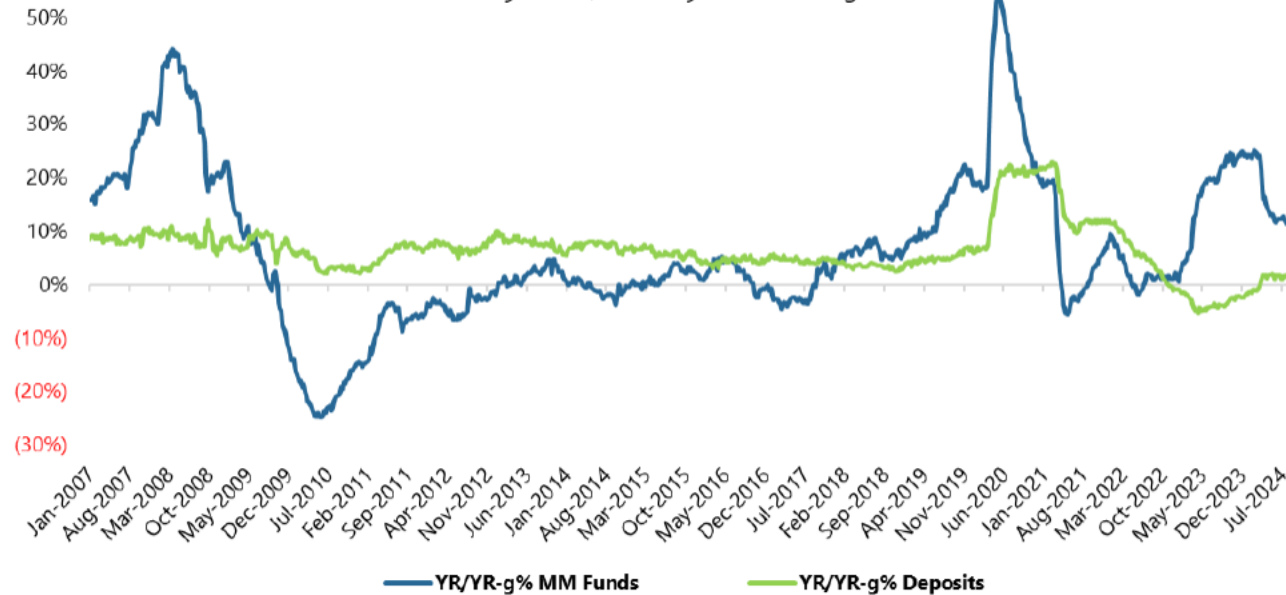
	HTM @ Cost 2024Q2	HTM @ FV 2024Q2	AFS @ Cost 2024Q2	AFS @ FV 2024Q2
Below \$350M	10,719,815	9,893,306	83,427,585	75,701,988
\$350M to \$500M	5,501,035	5,040,545	40,370,719	36,525,860
\$500M to \$1B	15,109,980	13,768,253	101,726,024	91,700,316
\$1B to \$3B	34,302,928	31,039,914	164,924,317	147,986,194
\$3B to \$10B	47,624,147	41,767,335	221,495,322	201,640,432
\$10B to \$30B	95,683,299	85,555,363	233,597,478	212,477,262
\$30B to \$50B	42,734,607	37,961,398	141,261,280	131,167,006
\$50B to \$100B	55,370,777	51,035,232	148,679,450	136,056,350
\$100B to \$250B	213,153,692	188,551,091	430,920,825	397,027,665
Above \$250B	1,878,851,242	1,625,014,958	1,680,350,241	1,613,188,120
TOTAL FDIC BANKS	<u>2,399,051,522</u>	<u>2,089,627,395</u>	<u>3,246,753,241</u>	<u>3,043,471,193</u>
	<i>Discount</i>	(309,424,127)	<i>Discount</i>	(203,282,048)
	<i>Combined Discount</i>	(512,706,175)		
		(9.1%)		
PORTFOLIO @ COST: HFS + AFS	<u>5,645,804,763</u>			
Change: 2Q24 vs 1Q24	(0.5%)			
Change: 2Q24 vs 4Q21	(3.7%)			

Unrealized loss continues to drag on industry, with perhaps some relief in sight as Fed moves rates down

Money Market Funds Keep Rising (at Slower Growth Pace), With Deposits +1.5% YR/YR, -0.3% YTD '24

YR/YR Growth Pace: Money Market Funds vs U.S. Deposits

Weekly Data, January 2007 to August 2024



Source: Janney Research, Fed H.8 and ICI-Investment Company Institute weekly data thru 8-16-24

Money Market Funds have zero deposit insurance and are separate from U.S. banking Deposits.

Thru 8-15-24, MM Funds are \$6.22 trillion, up \$1.48T since Dec-2022 vs \$380B fewer US Deposits. Cumulative gains since Dec-2019 are **2.58T MM Funds** and **\$4.23 trillion U.S. Deposits**. Key metric we cite is \$100 of U.S. Deposits in 2019 is \$132 in Aug-2024 (versus \$138 peak in April 2022).

Separately, Fed Reverse Repos are 75% below (-\$1.9 trillion) their 2023 peak. RRs represent 11% of all MM Funds or 9.5% of the Fed balance sheet. We track the entire Fed RR positions ([via FRED link](#)) which is separate from just NY Fed overnight RR transactions ([separate FRED link](#)). Also, we monitor Fed counterparties on RRs (i.e., many household names on mutual fund families participate).

QwickAnalytics National Performance Trends Performance Matrix

U.S.
Banks
June 30, 2024

Percentile Rank	10th	20th	30th	40th	50th (median)	60th	70th	80th	90th
Growth Trends									
Asset Growth (LTM)	-3.74%	-1.30%	0.36%	1.91%	3.37%	4.98%	6.67%	9.12%	13.81%
Loan Growth (LTM)	-1.74%	1.30%	3.37%	5.12%	6.66%	8.48%	10.54%	13.48%	18.39%
Deposit Growth (LTM)	-5.66%	-2.87%	-0.83%	0.99%	2.56%	4.30%	6.26%	9.10%	14.29%
Performance Trends									
Yield on Loans	5.18%	5.58%	5.83%	6.07%	6.28%	6.53%	6.79%	7.11%	7.66%
Cost of Funds	1.11%	1.45%	1.69%	1.88%	2.07%	2.26%	2.47%	2.74%	3.18%
Net Interest Margin	2.31%	2.66%	2.91%	3.12%	3.33%	3.55%	3.79%	4.11%	4.65%
Nonint. Income / AA	0.14%	0.21%	0.27%	0.34%	0.41%	0.48%	0.59%	0.72%	0.99%
Efficiency Ratio	48.8%	55.6%	60.3%	64.2%	68.2%	72.2%	76.7%	82.3%	92.2%
Profitability Trends									
Pretax ROAA	0.18%	0.49%	0.72%	0.91%	1.08%	1.26%	1.46%	1.74%	2.18%
Core Op Earnings	0.24%	0.57%	0.80%	1.00%	1.17%	1.36%	1.57%	1.85%	2.28%
ROAA	0.15%	0.40%	0.57%	0.72%	0.85%	0.98%	1.15%	1.35%	1.68%
ROAE	1.44%	4.35%	6.26%	7.79%	9.25%	10.70%	12.15%	14.01%	17.43%
Asset Quality Trends									
NPAs / Assets	0.00%	0.05%	0.12%	0.21%	0.31%	0.45%	0.63%	0.91%	1.52%
Texas Ratio	0.0%	0.4%	1.1%	2.0%	3.0%	4.4%	6.3%	8.9%	14.2%
Reserve / Loans	0.78%	0.94%	1.03%	1.12%	1.20%	1.28%	1.40%	1.55%	1.85%
Net Chargeoff Ratio	-0.02%	0.00%	0.00%	0.00%	0.00%	0.01%	0.03%	0.08%	0.21%
Capital Trends									
Total Equity / Assets	6.49%	7.59%	8.27%	8.88%	9.50%	10.23%	11.13%	12.34%	14.54%
Leverage Ratio	8.59%	9.13%	9.58%	10.09%	10.60%	11.27%	12.11%	13.31%	15.65%
Tang Common Eq / TA	6.19%	7.30%	7.95%	8.57%	9.19%	9.89%	10.74%	11.99%	14.16%

Other Banking Trends and Issues

- Digital Transformation: AI and Automation - Banks are leveraging artificial intelligence for tasks like fraud detection, customer service (via chatbots), and personalized financial advice.
- Regulatory Changes -Compliance: Increasing regulations around data privacy, cybersecurity, and anti-money laundering are prompting banks to invest heavily in compliance and security measures.
- Cybersecurity Concerns - Banks are investing heavily in cybersecurity to protect sensitive data and maintain customer trust. Banks are investing also in Identity Verification, offering enhanced methods for verifying customer identity, such as biometric authentication, to prevent fraud.
- Personalization and Customer Experience – Banks are using big data and analytics to offer more personalized products and services, in order to improve customer satisfaction and engagement, as well as to drive a competitive advantage.
- Financial Inclusion – Driven initially by CFPB and Fair Lending regulation, banks are focusing and committing resources to expand banking services to underserved populations, including through mobile banking solutions and microfinance initiatives. As part of this effort, Banks are focusing on financial literacy programs to help consumers make informed financial decisions.

EFFECT OF THE ABOVE ON ROE, ROA, and the Efficiency Ratio?

Summary

- While our industry continues to be profitable, and has historically high capital levels and loan loss reserve levels, the economic environment will continue to be challenging, especially with a presidential election and the economic environment
- Bank staffing and succession continue to be “complicated”, which we’ll talk more tomorrow
- Credit risk, while creeping up a bit, continues to be historically low
- Most banks will continue to focus on ALM and Liquidity for the rest of 2024 and for 2025, with an anticipation of lower pressure on funding costs as the Fed moves market rates lower

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FAST FACTS

Saltmarsh, Cleaveland & Gund

At Saltmarsh, we believe the way to achieve success is by contributing to the success of others, which is why we thrive in **genuine relationships**. Our passion for people and **excellence** is more than a shared value; it's the foundation of our work.

SIZE OF FIRM



OFFICE LOCATIONS

5

FLORIDA
Destin
Orlando
Pensacola
Tampa

TENNESSEE
Nashville

AFFILIATIONS

SALTMARSH FINANCIAL ADVISORS, LLC



THE BDO ALLIANCE USA



WHAT WE DO

Audit & Assurance | Business Valuation | Employee Benefits Consulting | Financial Planning | Litigation Support & Dispute Advisory | Outsourced Accounting Solutions | Retirement Plan Administration | Tax Compliance & Consulting | Technology & Managed IT Consulting | Wealth Management

WHO WE SERVE

Financial Institutions | Construction & Real Estate Development | Governments, Municipalities & Pension Plans | High Net Worth Individuals | Manufacturing & Distribution | Non-Profit | Post-Acute Healthcare | Professional Employer Organizations (PEOs)

