To: Members of the MDP Class of 2022-2023 **October 31, 2022**
Fr: Andy Davies

Re: Bank Financial Reporting: Update and Continuation from Michelle's time with you in Session One!

Context:
After the end of each quarter (3Q22 ended 9/30/22) it usually takes another month for most of the country's PUBLICLY TRADED BANKS to report their financial results from the prior quarter.

We have reached the timeline when a great majority of the LARGER publicly-traded banks have reported, and that means it's time for a quarterly 'progress report' from 4 well-regarded banking analysts with investment banking firm Raymond James.

Suggestion:
Take this report and my questions/comments and find some time to sit down with your bank's CFO or Chief Accounting Officer and review your own bank's quarterly performance vs. information contained in this synopsis!

RAYMOND JAMES October 31, 2022

BANKING

3Q22 Progress Report: NII/NIM Strength Driving Results; Consensus on the Rise Despite Macroeconomic Uncertainties

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In this report, we investigate earnings trends for banks that have reported 3Q22 results through Friday, October 28. Our analysis considers the industry as a whole, but also breaks it into groups based on geographic region and by market cap. To date, 367 of 488, or 75%, of publicly traded banks with more than $750 million in assets have reported results.

- **3Q results beating consensus on material NIM expansion; estimate forecasts mixed as accelerating deposit betas loom while fee and expense headwinds remain.** With the second full week of the 3Q22 bank earnings season behind us, 62% of banks that have reported have beaten consensus. Revenue growth accelerated this quarter with revenues up 7.2% at the median on substantial NIM expansion resulting from rate hikes and continuation of impressive sequential loan growth. The median NIM expansion of +26 bp was driven by a +42 bp increase in the yield on earning assets outpacing the rise in deposit costs (up +16 bp at the median).

→→↓↓ Andy's Thoughts from prior bullet point:
Did your bank 'beat' budgeted/expected revenue growth for the quarter?
If yes, how did you compare with this average shown as 7.2%?

What happened to your bank's "NIM" (Net Interest Margin)?

Median NIM expanded 26 "bp" (basis points) and was DRIVEN by
LOAN GROWTH OUTPACING THE RISE OF DEPOSIT RATES.
Note: Tracking results of a bank's "NIM" is very important. WHY???

- **PTPP earnings remain strong while NIM outlook cools.** Strong loan growth and NIM expansion boosted spread revenue results that outpaced headwinds in fees and expenses, leading to strong PTPP results. While banks benefited in recent quarters from rising rates as variable rate loan portfolios have materially lifted asset yields, deposit costs have lagged thus far. Looking ahead, we believe with recent aggressive Fed rate hikes, in addition to those anticipated, bank customers are likely to be more aggressive in seeking deposit rate increases while loan demand will eventually cool, reducing the benefit on yields.

↓↓ Andy's Thoughts about the following bullet point:
During the banking industry's "immediate post-Recession years" of 2009-2012, a VERY important financial ratio that was closely followed was a bank's "PTPP" (Pre-Tax, Pre-Provision) ratio, determined by:

Net Interest Income PLUS Non-Interest Income MINUS Non-Interest Expense MINUS Security Gains and Other Non-Operating Income.

This is a key ratio used by investment banking analysts (and bank CFOs/ALCOs) to gauge STRUCTURAL PROFITABILITY BEFORE CREDIT COSTS. It was widely used during post-Recession years as an indicator of a bank's ABILITY TO BE READY FOR RISING CREDIT LOSSES.

Investors who look at publicly traded banks are cautious and focus on true, underlying CORE EARNINGS to determine if loan loss provisions are masking those earnings.

All in all: a bank's PTPP earnings is an answer to this question: "Are we really making money?"

↓↓ Andy's Thoughts about the following bullet:
Median ROA was 1.23%
Median ROE was 17.1%

How do these ratios compare to your own bank's results for 3Q22?
Why might your CFO advise that these rates for large publicly traded banks are USUALLY higher than for smaller public and private community banks?

- **Profitability metrics improve on spread revenue results; capital levels intact despite AOCI marks.** As noted, strong loan growth results and margin expansion outpaced headwinds in both expenses and fees, driving profitability metrics higher sequentially with median return on assets (ROA) of 1.23% and median return on tangible common equity (ROTCE) of 17.1%. Capital levels remain relatively strong though the median TCE ratio dipped to 7.28% as many banks continue to AOCI adjustments. Regulatory capital levels have held up better than TCE with a median leverage ratio of 9.34% and a median Tier 1 ratio of 11.82%.



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