Our Bank Industry Update

Taking A Deep Breath After A Whirlwind Stretch

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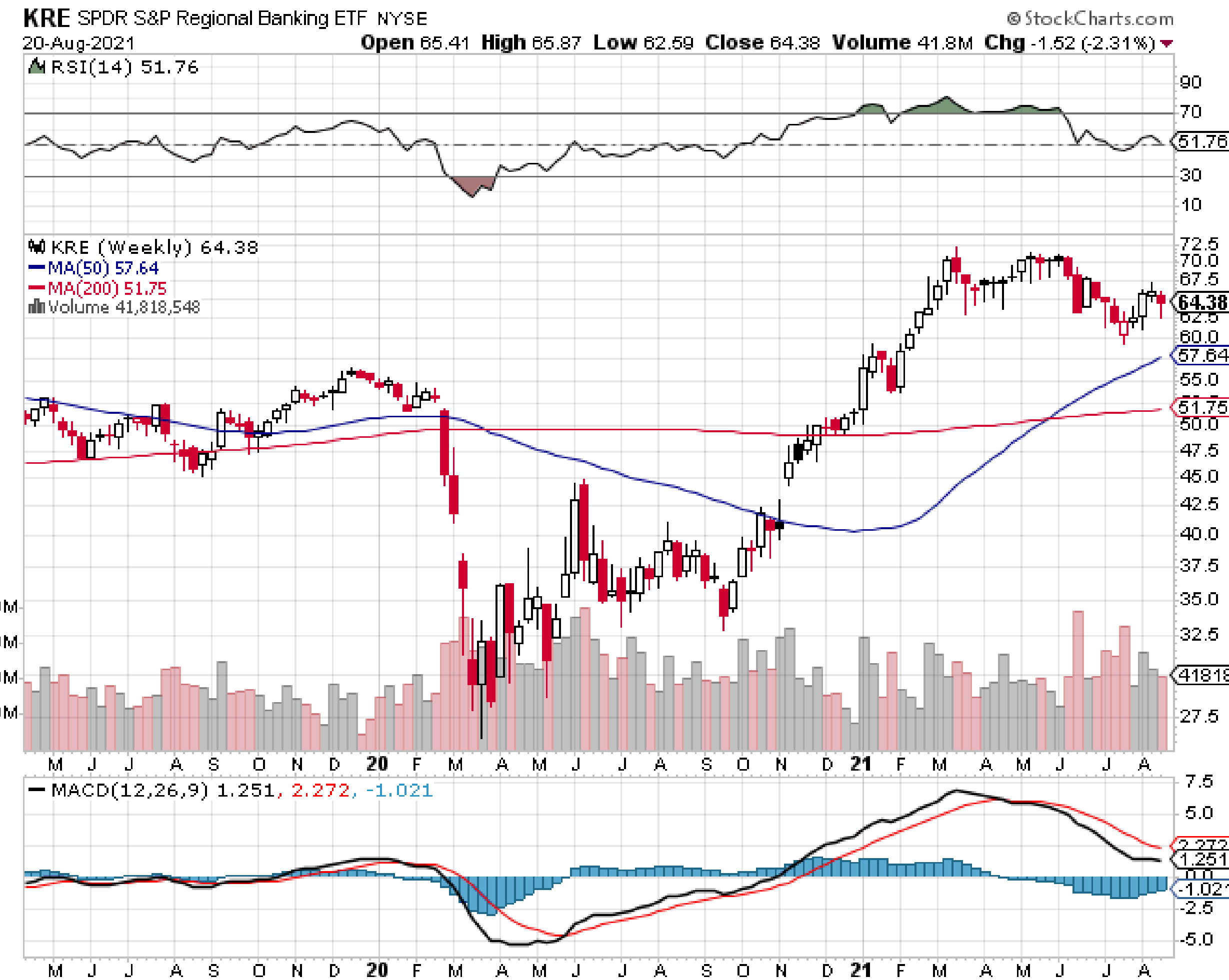
What A Wild Ride!

S&P Regional Bank sector benchmark

Bank stocks are about 10% above pre-pandemic prices after a 52% haircut in Spring 2020 when the pandemic was first acknowledged.



Source: Janney Research (FIG Group), S&P Capital IQ pricing 8-20-2021

What's $100K Worth Now vs Then?

$100K Since Mid-Feb 2020

$116,365	NASDAQ Bank
$131,404	S&P 500
$128,444	Russell 2000
$114,443	**KRE**

$100,000 invested into S&P 500 vs Bank sector benchmarks both before and after the COVID-19 pandemic unfolding

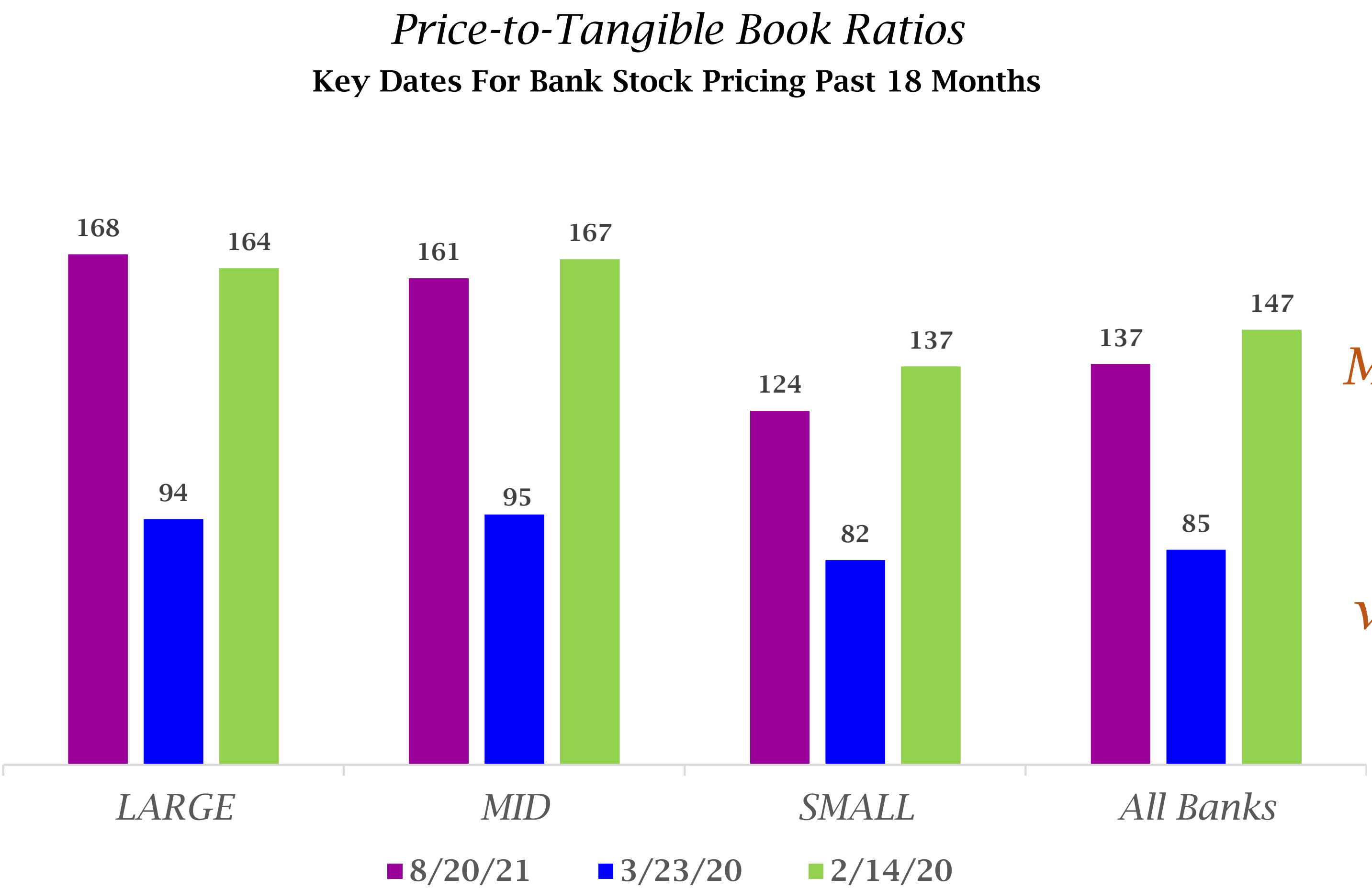
$100K Since March 2020 Low

NASDAQ Bank	$209,203
S&P 500	$198,520
Russell 2000	$216,241
KRE	$228,724

From another angle, Bank stock values exceed the pre-COVID levels

Source: Janney Research (FIG Group), S&P Capital IQ pricing 8-20-2021

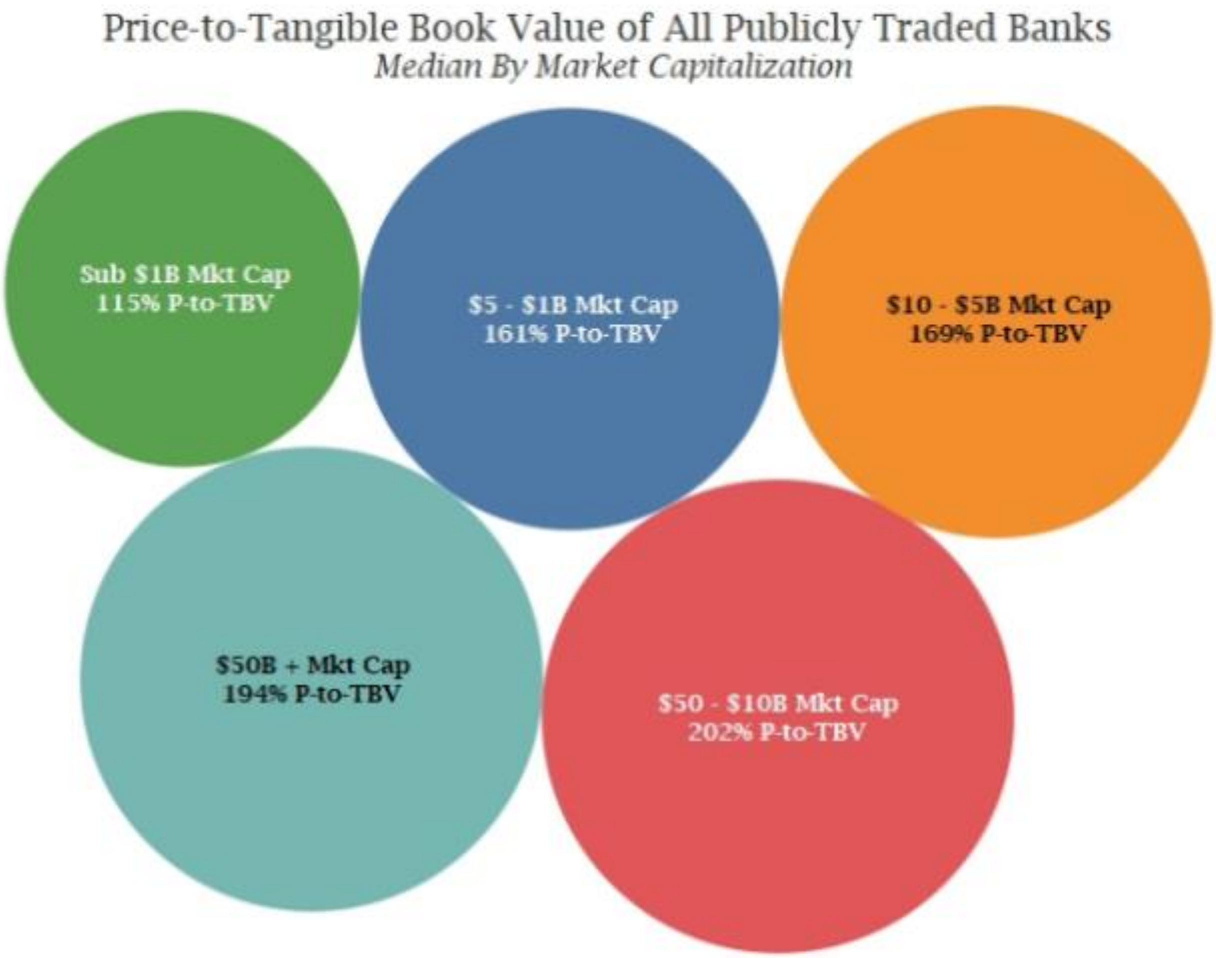
Valuations Have Snapped Back!



Median P-to-TBV ratios suggest that Banks are cheaper today vs pre-COVID in Winter 2020.

Source: Janney Research (FIG Group), S&P Capital IQ

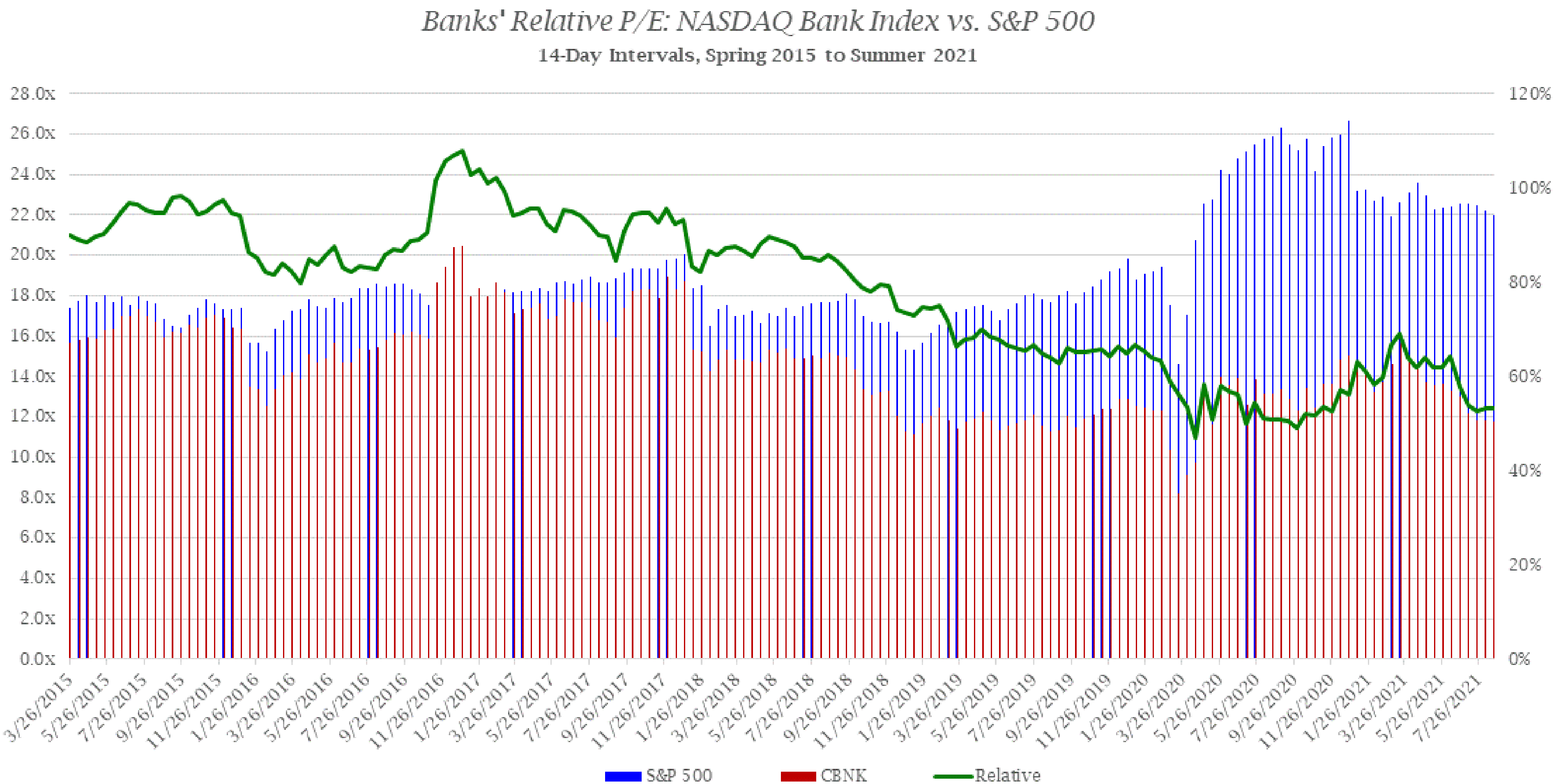
P-to-TBV Ratios By Market Value



P-to-TBV ratio retreated by 15 to 20 %-points for Banks $1B to $5B since early June.

Source: Janney Research (FIG Group), S&P Capital IQ pricing 8-18-2021

Banks' "Relative P/E" Multiple Is Low



Source: Janney Research (FIG Group), S&P Global MI, Bloomberg LP

NASDAQ Bank Index trades at 53% of the S&P 500's P/E

Recognize The Positives In BANKING

Banking & Bank stocks are blessed today:

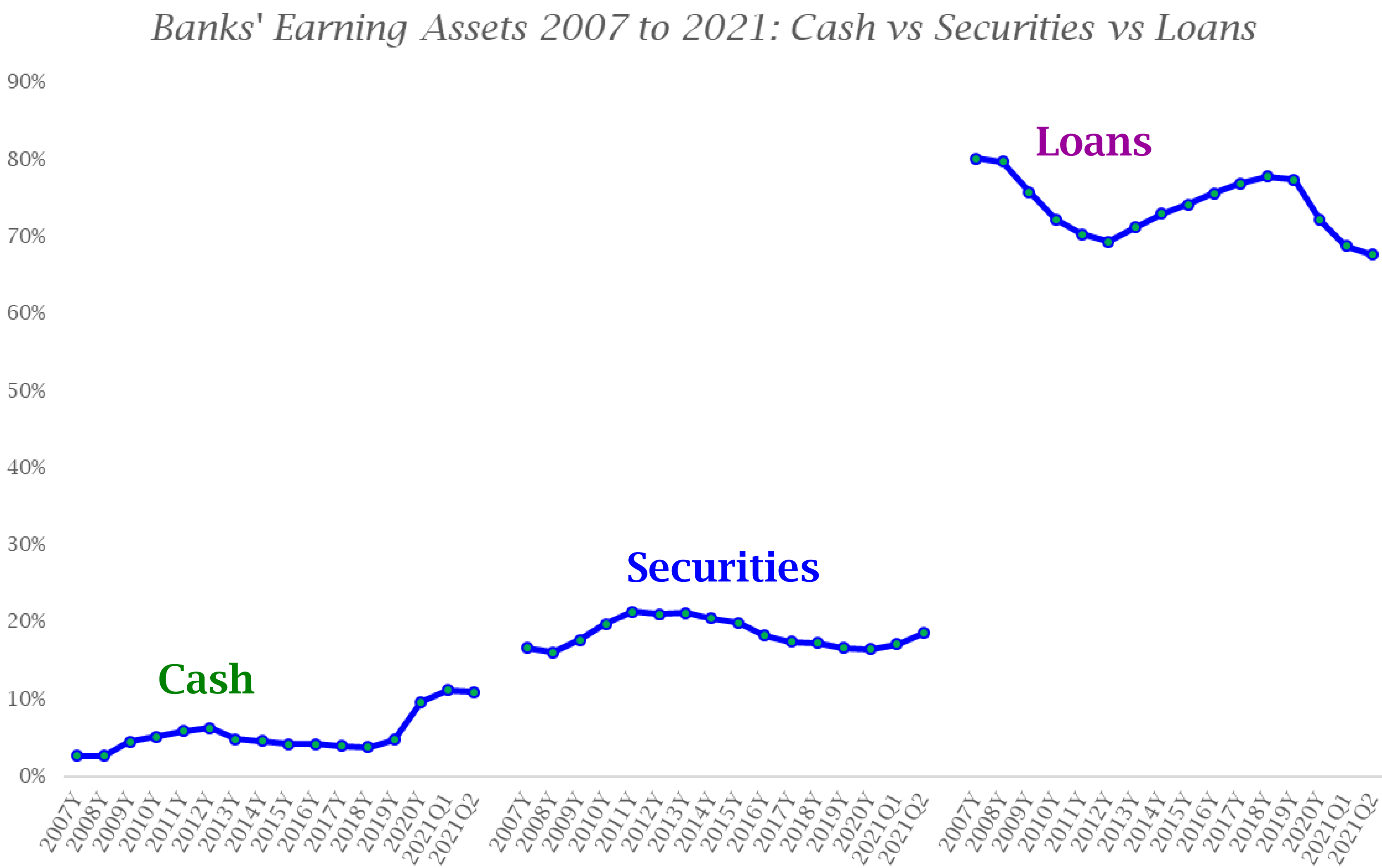
- **Credit issues low – digest pandemic / recession**
- **Reserve needs reduced**
- **Deposits are plentiful & cheap**
- **Capital is quite strong (possibly too much?)**
- **M&A creates new opportunities for survivors**
- **Regulators are tolerant (yet still tough)**

Headwinds Always Exist

Banking & Bank stocks face these issues:

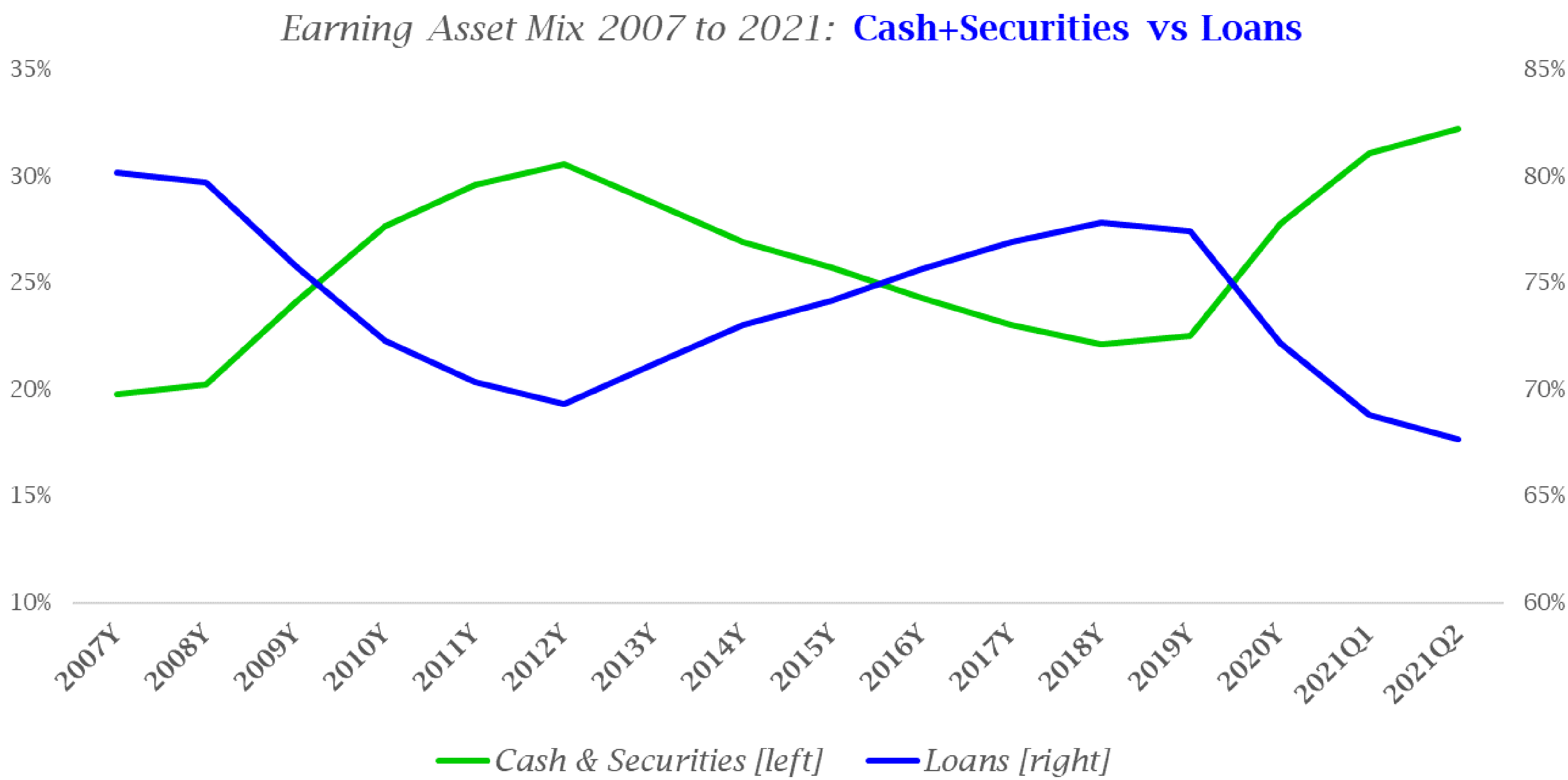
- **New Loans may not use excess cash & liquidity! What is your M&A plan or other ideas?**
- **Competition is *fierce*, pricing/structure is *thin***
- **Pressure to reduce costs (go digital)**
- **How to navigate around the "gorilla" (when the FED dominates the marketplace)**
- **Customers crave advice in an "always on" financial system. *The Winning Bank Delivers*.**

Balance Sheet Trends Over 14 Years



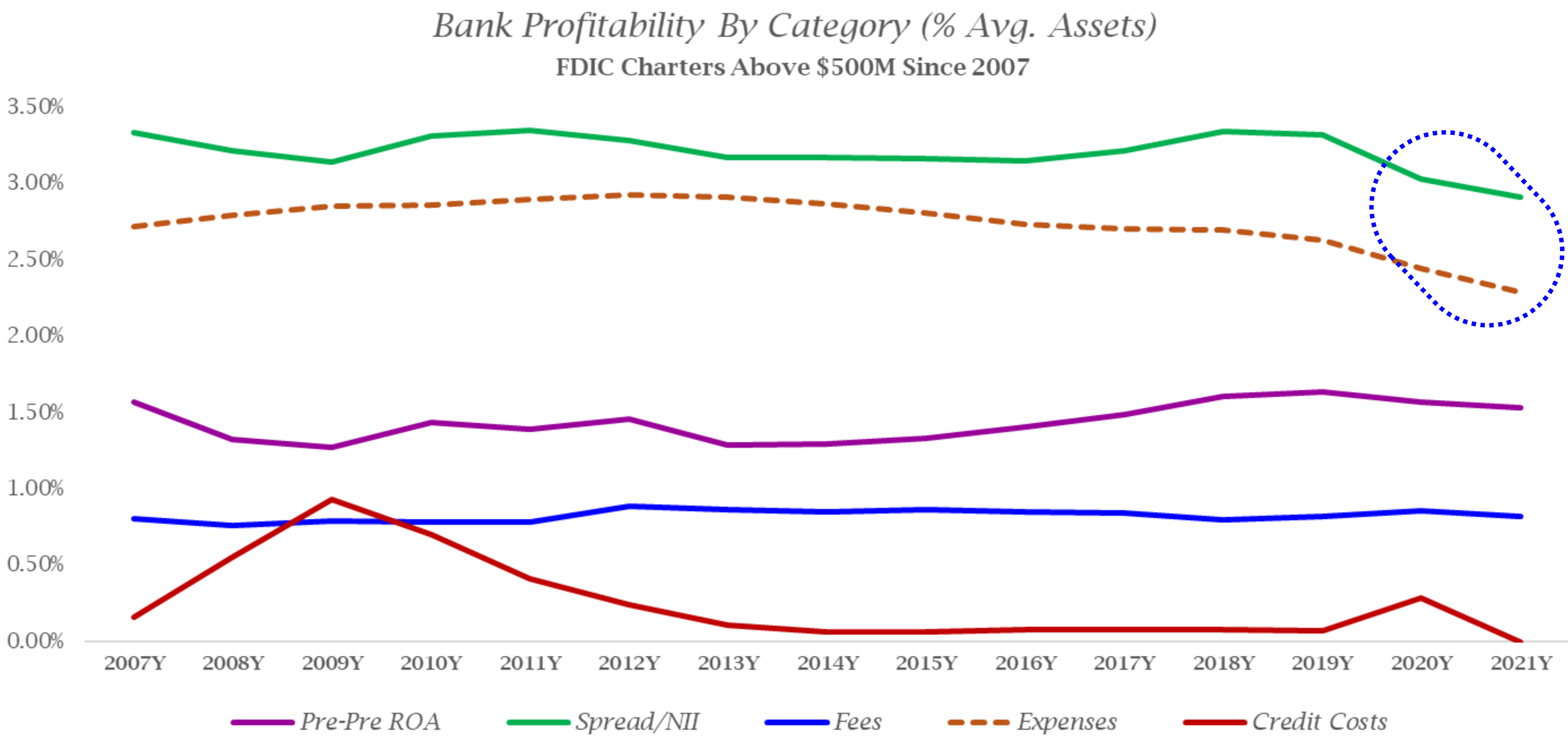
Source: Janney Research (FIG Group), S&P Capital IQ. FDIC call report data 2007 to 2021 / **Median for Banks above $500M in Assets**

Liquidity Trends Over Past 14 Years



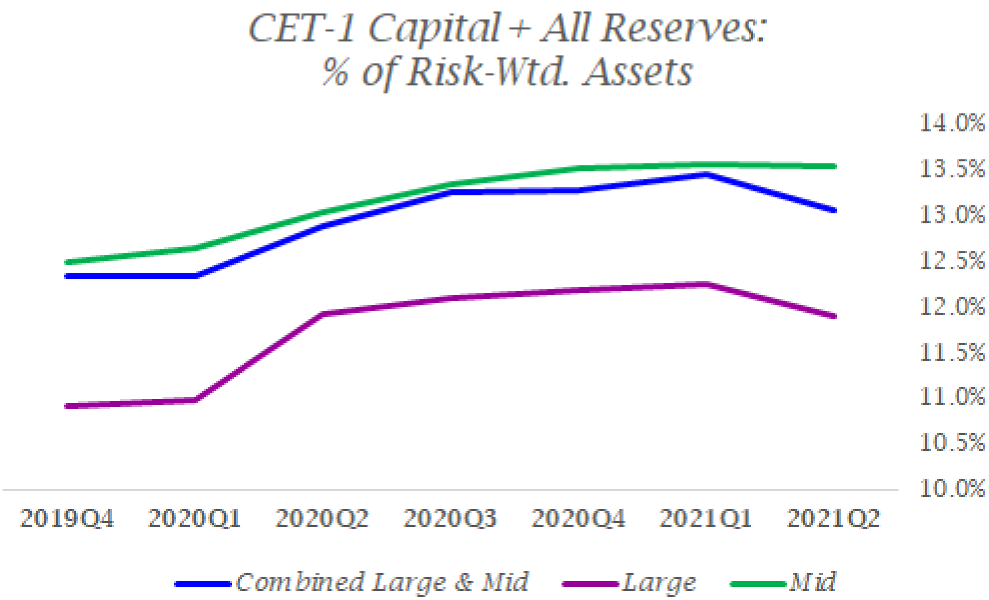
Source: Janney Research (FIG Group), S&P Capital IQ. FDIC call report data 2007 to 2021 / **Median for Banks above $500M in Assets**

Banks' See Lower Spreads & Expenses



Source: Janney Research (FIG Group), S&P Capital IQ. FDIC call report data 2007 to 2021

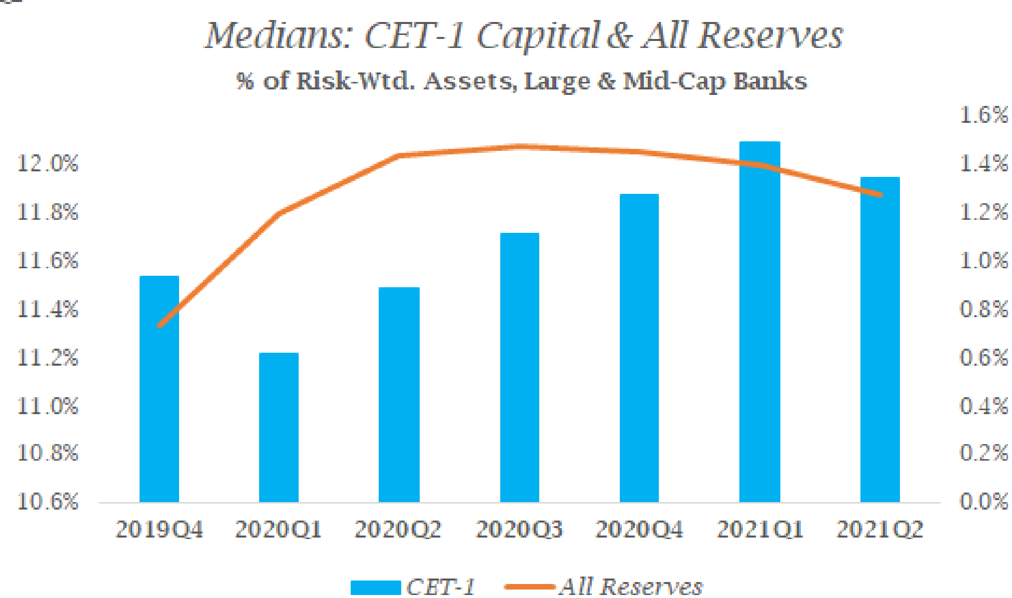
Capital & Reserves High % of RWA



Source: Janney Research (FIG Group), S&P Capital IQ

Banks' combined Capital and Reserves are quite strong vs. risk-weighted Assets (RWA).

We think Net Income grows faster than Assets thru 2022.



Source: Janney Research (FIG Group), S&P Capital IQ

Upward Trend: Capital & Reserves

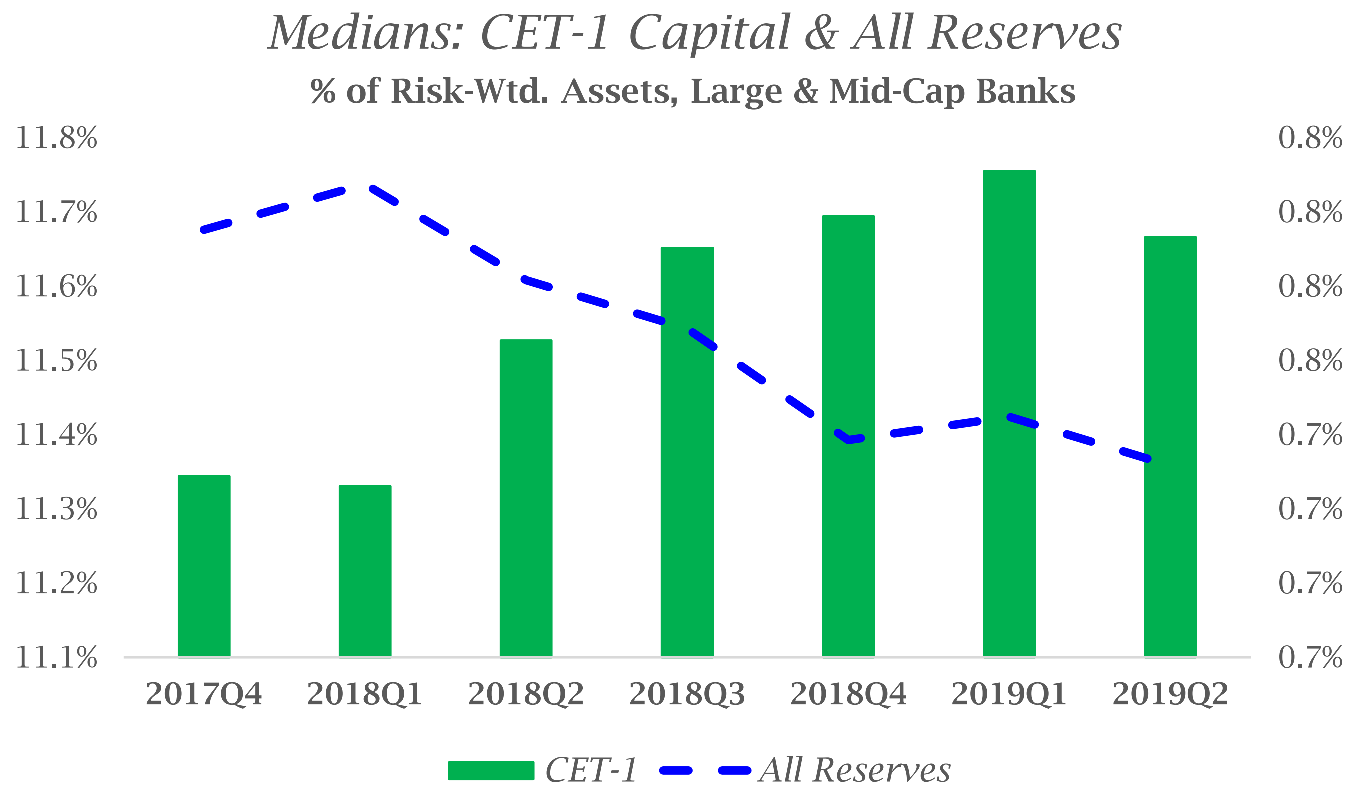
	2017Q4	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2
CET-1	11.3%	11.3%	11.5%	11.7%	11.7%	11.8%	11.7%
All Reserves	0.8%	0.8%	0.8%	0.8%	0.7%	0.7%	0.7%

	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2
CET-1	11.5%	11.2%	11.5%	11.7%	11.9%	12.1%	11.9%
All Reserves	0.7%	1.2%	1.4%	1.5%	1.5%	1.4%	1.3%

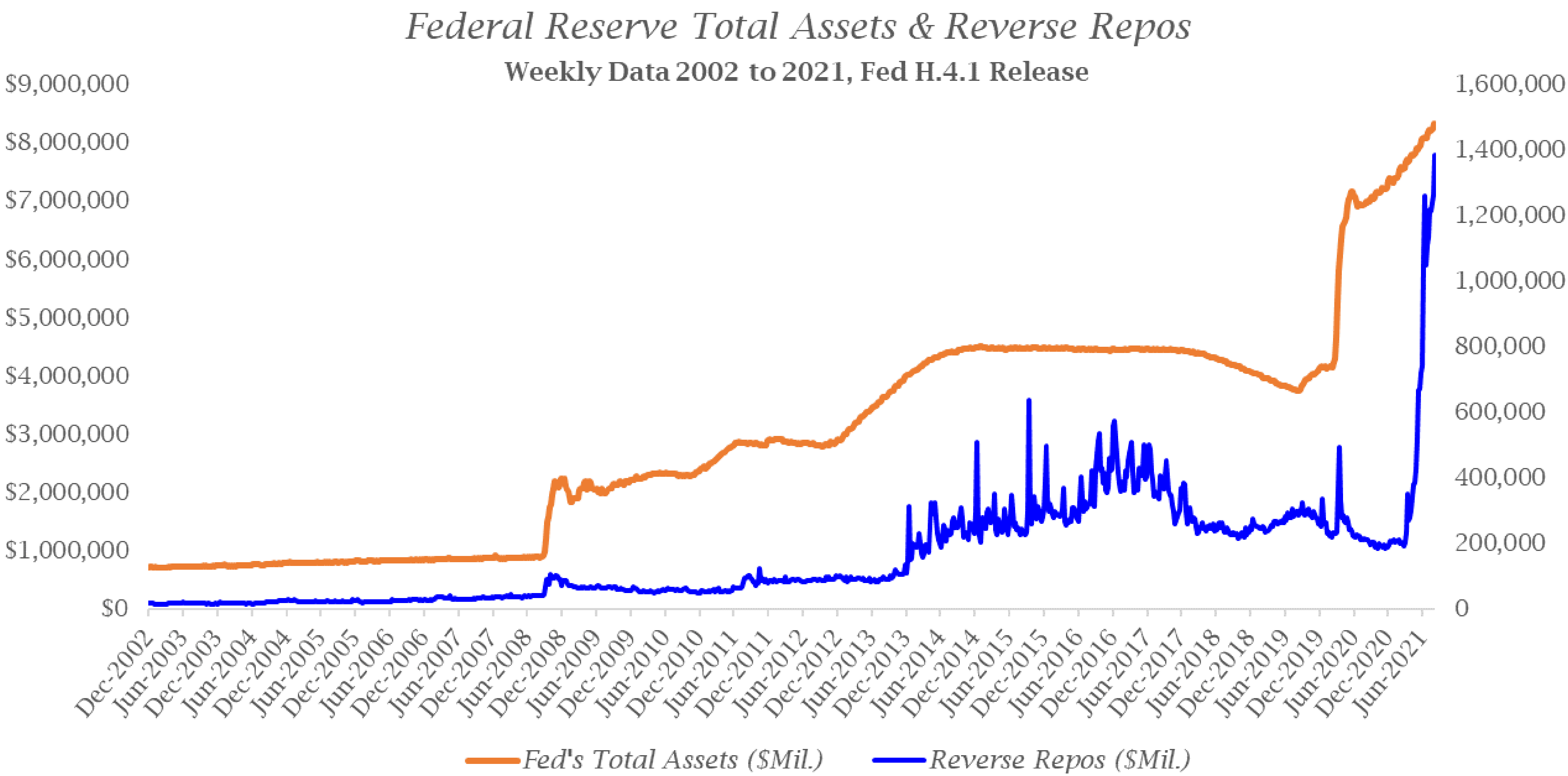
Source: Janney Research (FIG Group), S&P Capital IQ

Prior to the pandemic & CECL, Banks had slightly less capital (still strong).

We expect a return to these levels by 2022.

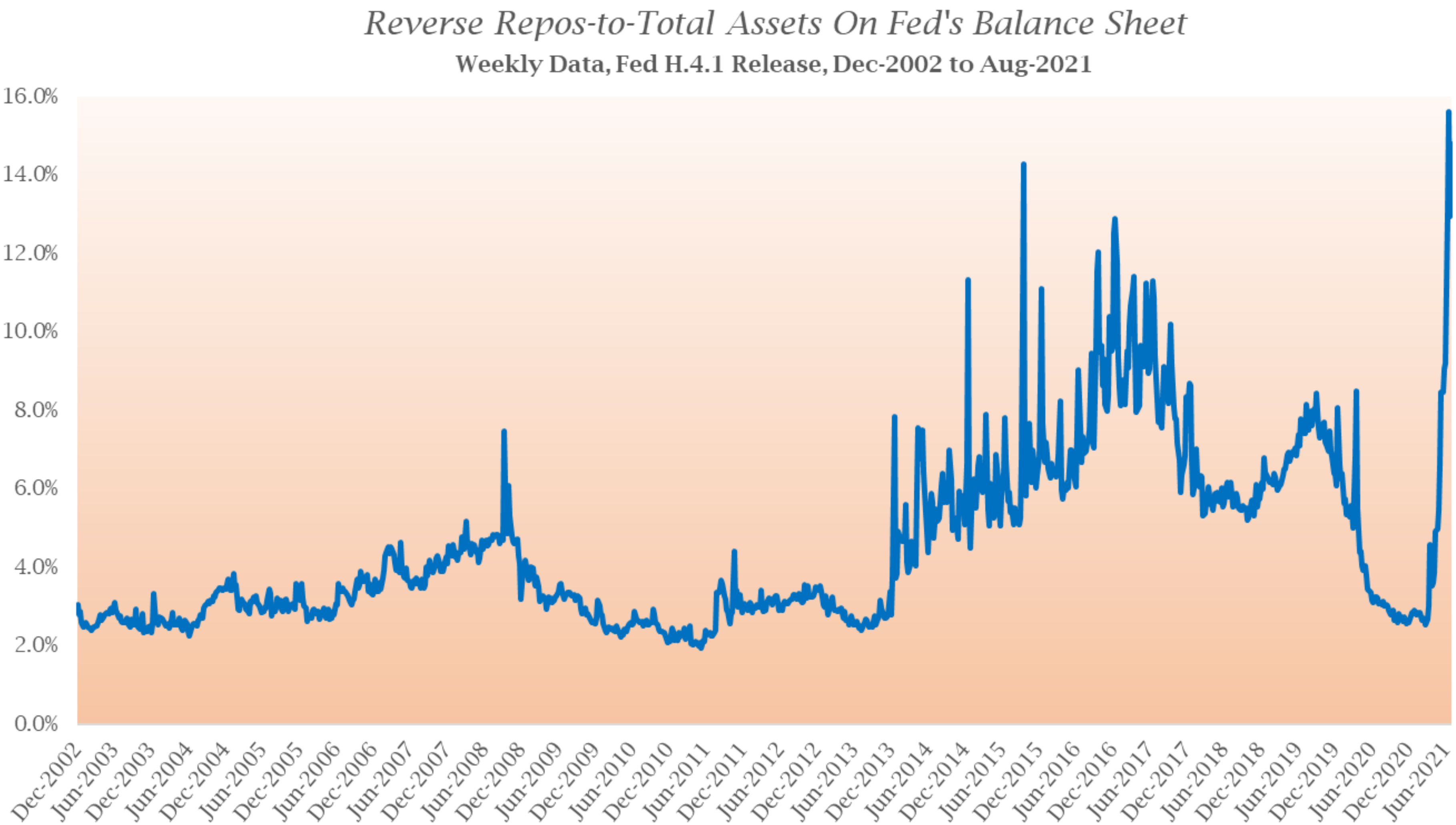


The Gorilla In The Room Is The FED



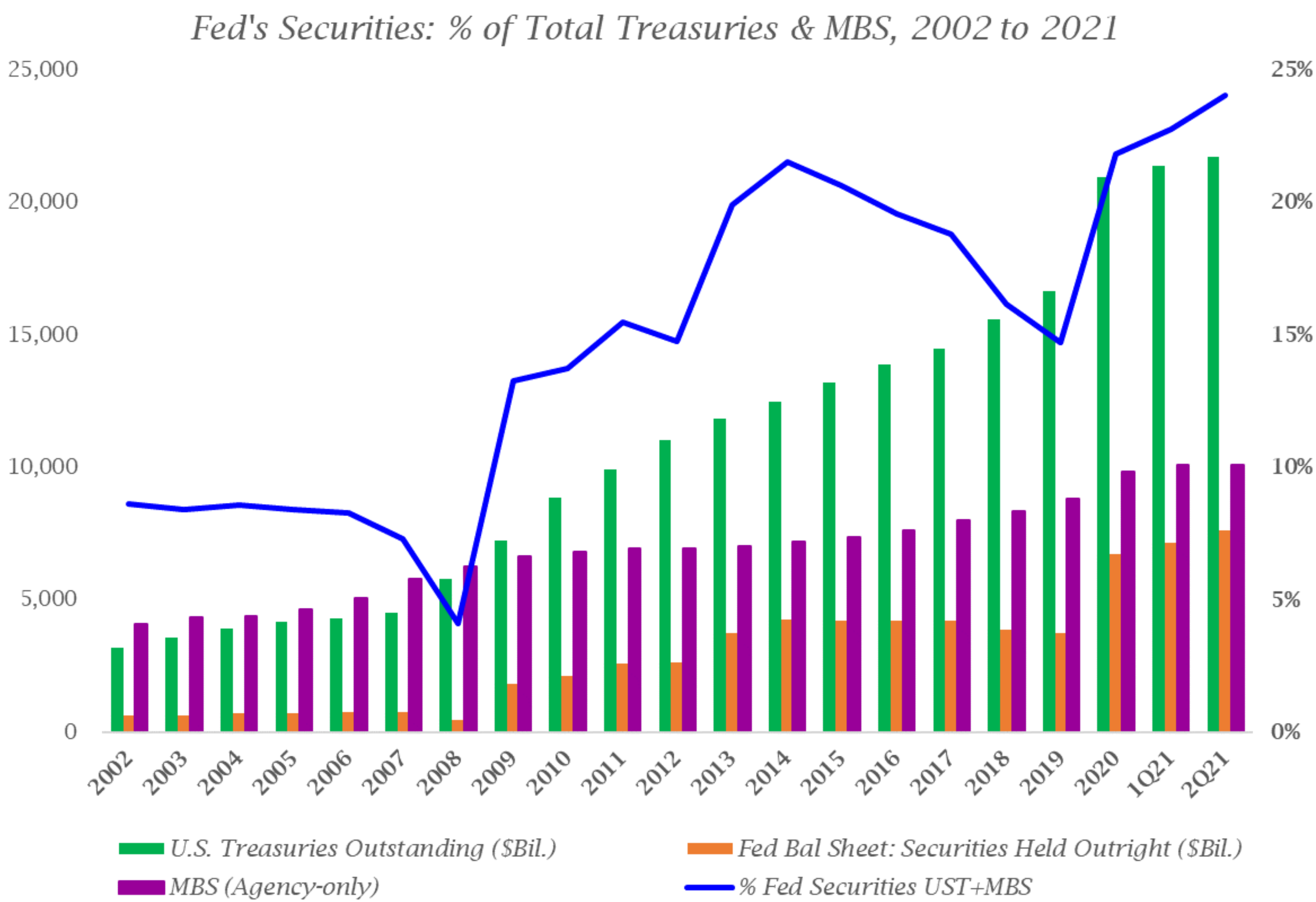
Source: Janney Research (FIG Group), Federal Reserve H.4.1 weekly report data 2002 to 2021

Reverse Repos: Impacting Rates?



Source: Janney Research (FIG Group), Federal Reserve H.4.1 weekly report data 2002 to 2021

Fed Controls 24% of Treasuries + MBS



Source: Janney Research (FIG Group), Federal Reserve H.4.1 filing, SIFMA industry data

Fed Dominates Incremental Securities

Since December 2019, combined US Treasury and MBS market size grew to $31.8T or $6.3T.

The Fed's Securities holdings are $3.9T more or 62% of incremental dollars.

2021 YTD Fed buys are 90% of the SIMFA data for market size growth.

	SIFMA Market Size: UST+MBS	**Fed Bal Sheet:** *Securities Held Outright ($Bil.)*	*Fed Change vs Market Change*
2018	23,979.9	3,880.2	
2019	25,501.3	3,751.2	
2020	30,807.0	6,730.7	
1Q21	31,465.4	7,158.5	
2Q21	32,067.6	7,650.9	
Change Since '19	**6,566.3**	**3,899.7**	59%
Change: 2021 Only	**1,260.6**	**920.1**	73%

Source: Janney Research (FIG Group), Federal Reserve H.4.1 filing, SIFMA industry data

New Risks: Affordability If Rates Rise

Scenario 1 - 10% down	*Current*	*Up 50bps Mortgage Rates*	*% Change*
House Price	$777,778	$728,922	(6.3%)
Down Payment 10%	$77,778	$72,892	
Mortgage	$700,000	$656,029	(6.3%)
Payment 2.50% MTG	$2,765.85		
Same Loan, 50bps Higher Rate	$2,951.23	$185.38	6.7%
Reduced Loan, Same PMT	$656,029	($43,971)	(6.3%)
Annual Mortgage Cost	$33,190.16		
Income @ 35% debt/income, 35% taxes	$145,890.79		

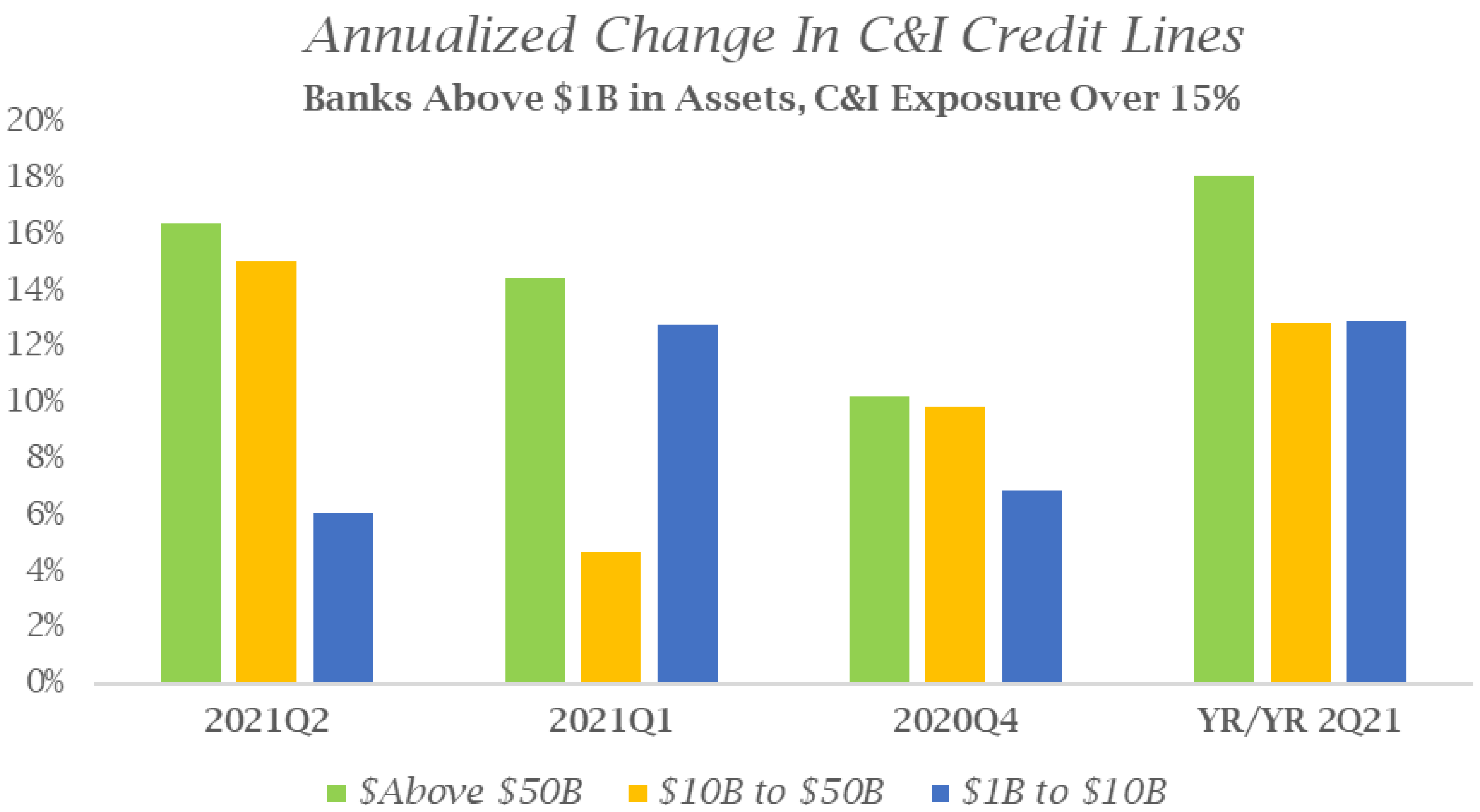
Scenario 1 - 10% down	*Current*	*Up 100 bps Mortgage Rates*	*% Change*
House Price	$777,778	$684,378	(12.0%)
Down Payment 10%	$77,778	$68,438	
Mortgage	$700,000	$615,940	(12.0%)
Payment 2.50% MTG	$2,765.85		
Same Loan, 100 bps Higher Rate	$3,143.31	$377.47	13.6%
Reduced Loan, Same PMT	$615,940	($84,060)	(12.0%)
Annual Mortgage Cost	$33,190.16		
Income @ 35% debt/income, 35% taxes	$145,890.79		

This is a real life example where a home buyer plans 10% down for a house purchase and experiences a 50bps and 100bps change in mortgage rates.

Note how their purchasing power changes …

Source: Janney Research (FIG Group)

Green Shoots! Credit Line Expansion



Source: Janney Research (FIG Group), S&P Capital IQ. FDIC call report filings 2020 to 2021

FinTech & Digital Changes In Banking

A shift from "analog" to "digital" started years ago …

- **Technology is a catalyst-for-change in Banking**
- **Major cost infrastructure (branches, some staff) is replaced by technology spending (video, digital onboarding, multi-channel interfaces).**
- **Cost of new business is less than in the past, Overhead-to-Assets is down in all Asset sizes.**
- **Banks understand the "Regulatory Rails" (FinTechs lack this knowledge & experience). We see more complements and far less threats.**
- *Digital Currencies see new regulations, less bad actors*

Applying Digital/Crypto To Banking

How Technology Trends Impact Banking In The Future (i.e., Soon or Now)

Tokenization:

In data security and payments, converting data using a random process into unique characters is essential to maintaining the integrity of the information (i.e., customer account numbers, CVV codes, social security ID, expiration dates, etc.). In the past, encryption was only as good as protecting the original code. Original encryption could be reverse engineered if the source came into the wrong hands. Tokenization improves this greatly due to the random generation of individual and unique codes.

This gives rise to several new means that companies exchange information securely, and this includes regulatory agencies who monitor financial institutions and related organizations.

RegTech:

Recently, and excellent interview with John Ryan from CSBS-Conference of State Bank Supervisors cited the critical nature of regulators keeping pace with technology in Banking and beyond (which we cited earlier in this report). We highly recommend reading the regulatory technology or "RegTech" manifesto from July 2020 published by the Alliance for Innovative Regulation ("air") that documents how technological changes benefit regulators from numerous angles.

This is worth reviewing by any Bank executive, director, investor, or other professional — we found it practical and common-sense.

Source: Janney Research (FIG Group), **read Janney's Analysis June-1-2021:** 5 Questions Directors & Executives Should Ask

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More Digital/Crypto Concepts

Decentralized Finance (DeFi):

This is an open-ended topic of high interest across the investment industry and technology circles. Financial products made available on a decentralized network without intermediaries (such as Banks, Broker/Dealers, etc.) using a blockchain network. We like the Investopedia definition that DeFi represents software written on blockchains to make it possible for buyers, sellers, lenders, and borrowers to interact peer-to-peer or strictly with software intermediaries rather than a financial company or institution. Our advice is to understand the underlying technology, how Banks improve costs and profits, and *worry less about competitive threats.*

Artificial Intelligence (AI):

AI has been in place for several years by big banks who desired back-up methods of meeting the Bank Secrecy Act (BSA) standards (i.e., we recall BB&T now TFC-Truist showcasing BSA-related AI systems to analysts in November 2018 prior to its SunTrust merger). This evolved into chatbots being prominent on most large Banks' websites. AI is still scratching-the-surface on practical applications and increasingly small financial institutions are using this method to solve both simple and complex tasks.

Practical Applications Happening Now/Soon:

These are just a few examples how digital currency activities are interrelated to technology adoption that benefits Banks:

- Smart Contracts
- KYC/AML/BSA applications
- Stablecoins (seek more stable value that normal people could use, see the HBR article)
- ATM transactions accepting an alternative currency (read a Virginia community bank example)

Source: Janney Research (FIG Group), **read Janney's Analysis June-1-2021:** 5 Questions Directors & Executives Should Ask

Demographics Matter A Great Deal

Source: Janney Research (FIG Group), S&P Global, United Van Lines COVID-19 study, read Janney's Weekly Musings 1-4-2021

The pandemic shifted households and this is ongoing …

Disclosures

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NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Janney Montgomery Scott Ratings Distribution as of 06/30/2021

			IB Serv./Past 12 Mos.*	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [B]	124	47.51	26	20.99
NEUTRAL [N]	103	39.46	3	2.91
SELL [S]	0	0.00	0	0.00
EXTENDED REVIEW [EXTRE]	34	13.03	8	23.53

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