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BUSINESS VALUATION & FINANCIAL ADVISORY SERVICES
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Bank Watch

ARTICLE

2022 Bank Stock Performance Recap

In This Issue

2022 Bank Stock Performance Recap

We recall discussions in early 2022 with clients regarding their outlook for 2022 – three 25 basis point Fed rate increases, a "more normal" operating environment following the pandemic afflicted 2020 and 2021, and stable credit quality. The latter of those three items held true, but 2022 was anything but normal. Instead of three 25 basis point rate increases, the Fed delivered seven totaling 425 basis points. The bull market was routed for both equities and, most exceptionally, bonds.

Given this backdrop, publicly-traded banks did comparatively well. The median stock price change among the 343 banks and thrifts traded on the NASDAQ and NYSE was negative 9% in 2022, relative to negative 19% for the S&P 500 and negative 33% for the NASDAQ. Further, there was more dispersion in performance during 2022.

Figure 1

2022 Stock Price Change	Number of Banks	% of Total	Median Stock Price Change
Up > 20%	21	6%	27%
Up 10% to 20%	26	8%	13%
Up 0% to 10%	56	16%	4%
Total Up	**103**	**30%**	**9%**
Down 0% to 10%	80	23%	-5%
Down 10% to 20%	75	22%	-14%
Down > 20%	85	25%	-27%
Total Down	**240**	**70%**	**-15%**
All Banks	**343**	**100%**	**-9%**

Table excludes banks subject to M&A transactions

Source: S&P Capital IQ Pro, Mercer Capital research

In 2020, only 13% of publicly-traded banks reported a rising stock price during the year, whereas in 2021 only 5% of banks reported a falling stock price from year-end 2020 to 2021. That is, banks generally moved in tandem—down in 2020 and up in 2021. While not evenly balanced, 30% of banks reported a positive year-over-year stock price change in 2022 (see Figure 1). We believe this positive performance for quite a few banks in 2022 was masked by the downbeat market sentiment and warrants further investigation.

Figure 2 (on the next page) distinguishes shares price changes in 2022 by asset size range. The largest banks, with assets exceeding $100 billion, performed the worst in 2022, with no banks reporting share price appreciation and a median stock price decline of 22%. Smaller banks performed better, led by banks with assets between $1 and $5 billion. This stratum reported a median share price decline of only 5%, with 38% of the banks experiencing positive share price appreciation in 2022.

WHAT WE'RE READING

Fourth quarter GDP growth of 2.9% (annualized) painted a mixed picture with stable consumer spending partially offset by a slowdown in capital spending and a weaker housing market.

Banking Exchange reports an **uptick in mortgage activity** following declines in mortgage rates as refinancing applications increased for a third consecutive week.

The Federal Reserve Board **fined** Popular Bank $2.3 million for **allegedly failing to stop fraud** by PPP applicants, representing the first time the Fed has taken action against a bank itself in connection with the program.

Figure 2

Asset Size Range	2022 Change in Stock Price: Down > 15%	Down 0% to 15%	Up 0% to 15%	Up > 15%	% with Share Price Change > 0%	Median Stock Price Change
< $1 Billion	32%	45%	23%	0%	23%	-10%
$1 - $5 Billion	28%	34%	22%	16%	38%	-5%
$5 - $10 Billion	37%	30%	27%	6%	33%	-11%
$10 - $100 Billion	36%	40%	21%	2%	24%	-8%
> $100 Billion	76%	24%	0%	0%	0%	-22%
Total	**35%**	**35%**	**22%**	**8%**	**30%**	**-9%**

Values in the table represent the % of banks with stock price. changes of 0% to 15%, greater than 15%, etc.

While market performance remains a function of the market's ever evolving view of a particular bank's earning power, growth outlook, and risk attributes, we explore in this article some of the factors influencing the better and weaker performing banks in 2022.

What Goes Down Must Go Up?

One of the best predictors of share price appreciation in 2022 was, in fact, performance from year-end 2019 to year-end 2021. As indicated in Figure 3, banks with the strongest price appreciation during 2020 and 2021 performed the worst in 2022, while those banks that most lagged the market in 2020 and 2021 outperformed in 2022.

Some of the market leaders in 2020 and 2021 crashed out of favor in 2022, such as those embracing crypto or positioning themselves as technology leaders rather than stodgy, traditional banks. Figure 4 (on the next page) presents the ten banks with the largest negative returns in 2022.

Figure 3

2020 - 2021 Stock Price Performance Quartile	Stock Price Change: 2020 - 2021	2022
1st Quartile	71%	-19%
2nd Quartile	16%	-10%
3rd Quartile	2%	-3%
4th Quartile	-16%	0%

Stock price change is the average for the banks in each quartile

Source: S&P Capital IQ Pro, Mercer Capital research

Figure 4

Largest Share Price Decliners		Stock Price Change 2020 - 2021	Stock Price Change 2022	Total Assets	Notes
Silvergate Capital Corporation	SI	831.5%	-88.3%	11,355,553	Crypto
SVB Financial Group	SIVB	170.2%	-66.1%	212,867,000	Venture capital; deposit attrition
Live Oak Bancshares, Inc.	LOB	359.2%	-65.4%	9,314,650	Tech-oriented
Signature Bank	SBNY	136.8%	-64.4%	110,363,651	Crypto
LendingClub Corporation	LC	nm	-63.6%	6,775,074	Consumer lender
Provident Bancorp, Inc.	PVBC	49.4%	-60.9%	1,788,025	Crypto
Triumph Financial, Inc.	TFIN	213.2%	-59.0%	5,642,450	Tech-oriented
Customers Bancorp, Inc.	CUBI	174.5%	-56.6%	20,367,621	Crypto
Broadway Financial Corporation	BYFC	50.0%	-56.3%	1,169,634	
Carver Bancorp, Inc.	CARV	251.3%	-51.9%	755,723	Former meme stock

Source: S&P Capital IQ Pro, Mercer Capital research

A Question Answered

The most common question we received over the last twelve months was, "what is the effect of the unrealized securities portfolio loss on share value?" While there are possibly extenuating circumstances for some banks (see, e.g., Silvergate Capital Corp. in Figure 4), our general guidance is that the market emphasizes forward-looking earning power, not the magnitude of the unrealized loss.

Figure 5 (on the next page) correlates stock performance in 2022 with the magnitude of the unrealized securities portfolio loss.[1] For example, banks in the first quartile had a median unrealized loss of 5% of equity.[2] These banks experienced a median stock price change of negative 6%. Meanwhile, banks with the largest unrealized losses—ranging from 29% to 111% of tangible equity—reported a median stock price change of negative 5%. A more robust statistical analysis indicates a similar result; that is, virtually no relationship between the size of a bank's unrealized securities portfolio loss and market performance in 2022.

Our view is that the unrealized loss on securities should be evaluated in the context of the entire balance sheet. We would be more concerned, from a valuation standpoint, when a large unrealized loss is coupled with a heavier exposure to fixed rate loans, particularly if the bank is facing pressure on deposit rates.

[1] *Figures 5 through 8 include banks traded on the NASDAQ or NYSE with total assets between $1 billion and $10 billion.*

[2] *To create a more consistent analytical framework, the analysis considers the unrealized losses on securities classified as both available-for-sale and held-to-maturity, as a percentage of tangible common equity.*

Figure 5

	Unrealized Loss / Tangible Equity			Stock Price Change
	Smallest	Largest	Median	Median
1st Quartile	6%	-8%	-5%	-6%
2nd Quartile	-8%	-19%	-14%	-10%
3rd Quartile	-19%	-29%	-24%	-7%
4th Quartile	-29%	-111%	-38%	-5%

Source: S&P Capital IQ Pro, Mercer Capital research

The "Corest" of Core Deposits

As we found out in 2022, some core deposits are more core than others. One of the strongest determinants of stock price performance in 2022 was the change in the cost of funds. We evaluated the change in the cost of funds from the first through the third quarters of 2022.[3] As indicated in Figure 6, banks in the first quartile reported a median increase in the cost of funds of two basis points, whereas banks in the fourth quartile reported a median increase of 48 basis points. Further, banks in the first quartile reported a median stock price change of positive 5% in 2022, versus negative 16% for the fourth quartile banks.

Figure 6

	Change in Cost of Funds			Stock Price Change
	Smallest	Largest	Median	Median
1st Quartile	-5 bps	6 bps	2 bps	5%
2nd Quartile	7 bps	20 bps	14 bps	-7%
3rd Quartile	21 bps	36 bps	29 bps	-4%
4th Quartile	36 bps	117 bps	48 bps	-16%

Source: S&P Capital IQ Pro, Mercer Capital research

An analysis of net interest margin expansion between the first and third quarters of 2022 shows a similar result. Banks in the first quartile reported a median change in NIM of six basis points and a stock price change of negative 18%, while banks in the quartile with the most NIM expansion—82 basis points for the median fourth quartile bank—eked out a 1% positive share price appreciation.

Figure 7

	Change in NIM			Stock Price Change
	Smallest	Largest	Median	Median
1st Quartile	-97 bps	23 bps	6 bps	-18%
2nd Quartile	23 bps	42 bps	30 bps	-8%
3rd Quartile	44 bps	68 bps	57 bps	0%
4th Quartile	69 bps	225 bps	82 bps	1%
Tighter NIM	-97 bps	-1 bps	-14 bps	-21%

Source: S&P Capital IQ Pro, Mercer Capital research

The preceding analysis masks the market's concern for banks with tightening NIMs, however. Among the 205 banks in our analysis, eighteen reported NIM compression between the first and third quarters of 2022. These banks underperformed, with sixteen of the eighteen reporting lower stock prices in 2022 and a median stock price decline of 21%. This indicates the market's sensitivity to NIM compression, which will be an issue for more banks in 2023 as rising deposit rates bite.

The Role of Balance Sheet Mix

From publicly-available disclosures, it is difficult to discern the sensitivity of a bank's assets, including both loans and securities, to rising rates. In the recent zero rate environment, pressure existed to invest in anything but short-term liquid assets. Therefore, we evaluated whether balance sheet composition could explain market

[3] *As of the drafting of this article, fourth quarter 2022 performance was not available for many publicly-traded banks.*

performance in 2022. We could find no discernable relationship between loan/deposit ratios and market performance in 2022. However, while the evidence is somewhat weak, banks with the largest exposures to short-term liquid assets performed better in 2022. [4]

Figure 8

	Liquid Assets % of Total Assets			Stock Price Change
	Smallest	Largest	Median	Median
1st Quartile	0.5%	1.9%	1.5%	-9%
2nd Quartile	1.9%	3.3%	2.5%	-10%
3rd Quartile	3.4%	6.6%	4.7%	-10%
4th Quartile	6.7%	27.0%	9.9%	1%
> 10% of Assets			13.3%	9%
> 15% of Assets			18.9%	16%

Source: S&P Capital IQ Pro, Mercer Capital research

Figure 8 shows short-term liquid assets as a percentage of total assets. Most banks operate with short-term liquid assets in a relatively tight range (under 5% of total assets); thus, limited correlation is evident between exposure to short-term liquid assets and performance. However, a more positive relationship begins to emerge in the tail of the distribution. Banks in the fourth quartile reported liquid assets of 9.9% and a positive 1% stock price change. Narrowing the fourth quartile banks to those with liquid assets exceeding 10% or 15% of total assets results in stronger share price changes of positive 9% and 16%, respectively.

Conclusion

As in 2022, no doubt some newfound concerns will emerge in 2023 to drive bank stock performance. We suspect that funding cost pressure will remain an overarching concern in 2023, with true core deposits proving their value in a way not evident for years. Loan repricing will be interesting to watch. With many Prime, LIBOR, and SOFR-based floating rate loans having already repriced, further expansion in asset yields will depend on the contractual repricing periods for existing adjustable rate loans and, for newly originated loans, the "rate beta" between origination rates and broad market rates. After a long period of near nil credit losses, it would not be surprising to see some upward pressure on credit losses, although this seems likely to remain episodic in 2023. Some banks with heavier exposure to consumer loans underperformed in 2022, and it will be interesting to watch if weaknesses emerge in any segments of banks' commercial loan portfolios in 2023.

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[4] *We define short-term liquid assets as cash, balances at the Federal Reserve, Fed Funds sold, etc.*

PAY vs. PERFORMANCE

5 THINGS YOU NEED TO KNOW ABOUT THE NEW SEC RULES

In August 2022, the SEC adopted final rules implementing the Pay Versus Performance Disclosure required by Section 953(a) of the Dodd-Frank Act. These rules go into effect for the 2023 proxy season and introduce significant new valuation requirements related to equity-based compensation paid to company executives. What does this mean, and how does it apply to you? What are the requirements, and why might there be significant valuation challenges involved?

1

The new **Pay Versus Performance** rules create new disclosure requirements that apply to the upcoming 2023 proxy season.

2

The new disclosures cover

- Executive Pay
- Financial Performance
- Total Shareholder Return

3

Equity Award Valuations are needed to measure fair value changes for grants to named executive officers.

4

Simpler option-based awards can be valued with Black Scholes. Complex awards may require lattice modeling or **Monte Carlo Simulation.**

5

Advance planning is essential to identify how many valuations will be needed.

But it's not too late!

Click the button below to read the full article.

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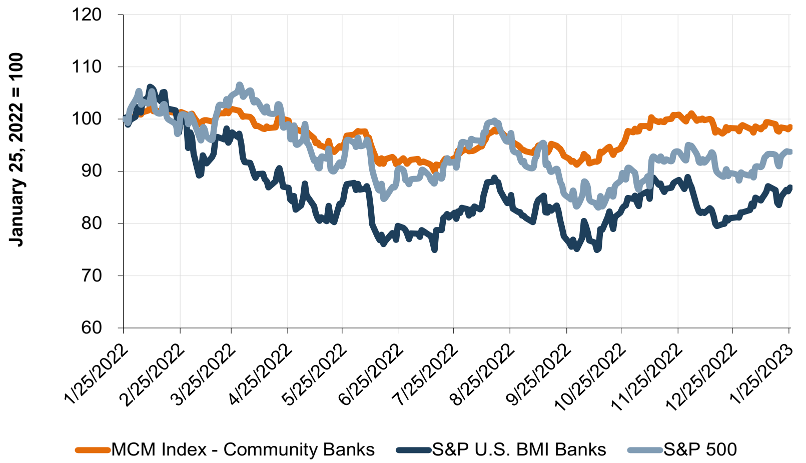
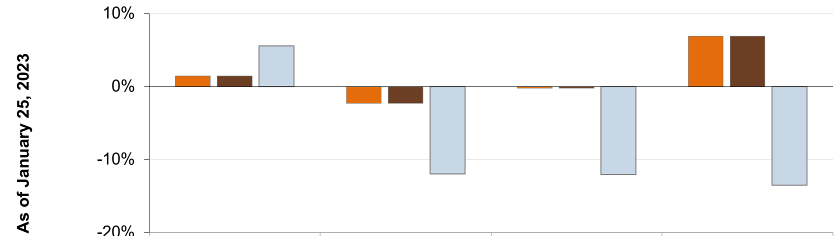
Mercer Capital's Bank Group Index Overview



Source: S&P Capital IQ Pro.

Return Stratification of U.S. Banks

by Market Cap



	S&P U.S. Banks Market Cap Under $250 Million	S&P U.S. Banks Market Cap Between $250 Million - $1 Billion	S&P U.S. Banks Market Cap Between $1 Billion - $5 Billion	S&P U.S. Banks Market Cap Over $5 Billion
Month-to-Date	1.47%	-2.28%	-0.19%	6.91%
Year-to-Date	1.47%	-2.28%	-0.19%	6.91%
Last 12 Months	5.59%	-11.94%	-12.06%	-13.49%

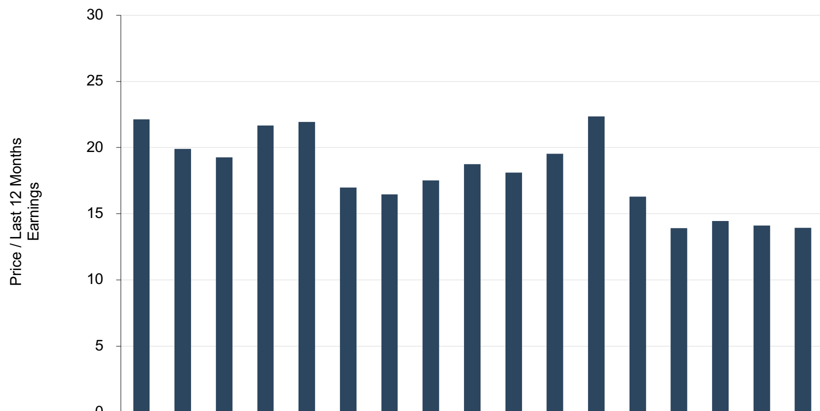
Source: S&P Capital IQ Pro.

	Total Return			Regional Index Data as of January 25, 2023					
	Month-to-Date	Year-to-Date	Last 12 Months	Price / LTM EPS	Price / 2023 (E) EPS	Price / 2024 (E) EPS	Price / Book Value	Price / Tangible Book Value	Dividend Yield
Atlantic Coast Index	-0.2%	-0.2%	-5.8%	10.7x	8.6x	9.2x	128%	140%	2.8%
Midwest Index	-2.9%	-2.9%	-1.2%	9.8x	8.5x	8.4x	114%	130%	3.1%
Northeast Index	-1.0%	-1.0%	3.3%	9.5x	8.0x	7.9x	123%	131%	3.0%
Southeast Index	0.0%	0.0%	2.0%	9.4x	10.3x	9.1x	119%	132%	2.8%
West Index	-0.1%	-0.1%	-3.5%	10.2x	8.7x	8.1x	120%	129%	2.9%
Community Bank Index	-0.4%	-0.4%	-1.5%	9.9x	8.5x	8.3x	122%	132%	3.0%
S&P U.S. BMI Banks	5.8%	5.8%	-13.1%	na	na	na	na	na	na

Source: S&P Capital IQ Pro.

Median Price/Earnings Multiples

Target Banks' Assets <$5B and LTM ROE >5%

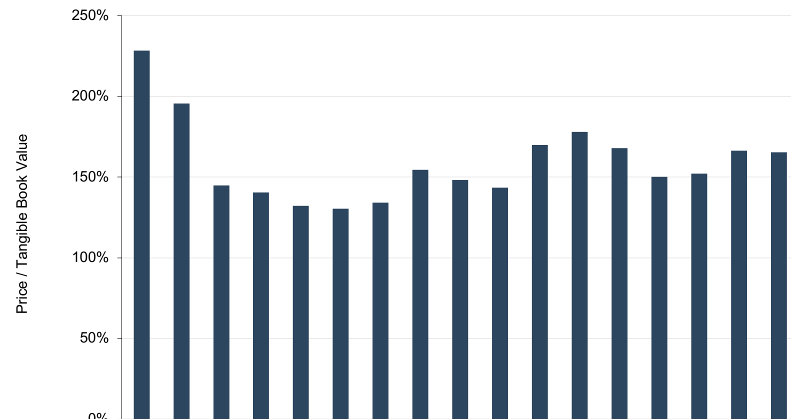


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	LTM 2023
U.S.	22.1	19.9	19.3	21.7	21.9	17.0	16.5	17.5	18.8	18.1	19.5	22.4	16.3	13.9	14.5	14.1	13.9

Source: S&P Capital IQ Pro.

Median Price/Tangible Book Value Multiples

Target Banks' Assets <$5B and LTM ROE >5%

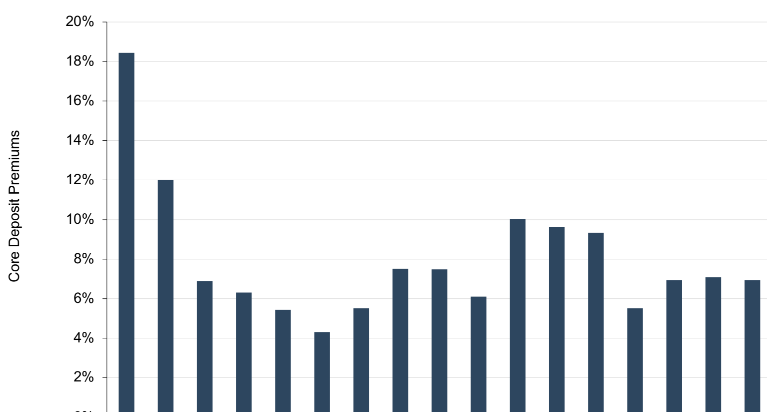


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	LTM 2023
U.S.	228%	196%	145%	141%	132%	130%	134%	155%	148%	143%	170%	178%	168%	150%	152%	166%	165%

Source: S&P Capital IQ Pro.

Median Core Deposit Premiums

Target Banks' Assets <$5B and LTM ROE >5%



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	LTM 2023
U.S.	18.4	12.0	6.9%	6.3%	5.4%	4.3%	5.5%	7.5%	7.5%	6.1%	10.0	9.6%	9.3%	5.5%	6.9%	7.1%	6.9%

Source: S&P Capital IQ Pro.

Median Valuation Multiples for M&A Deals

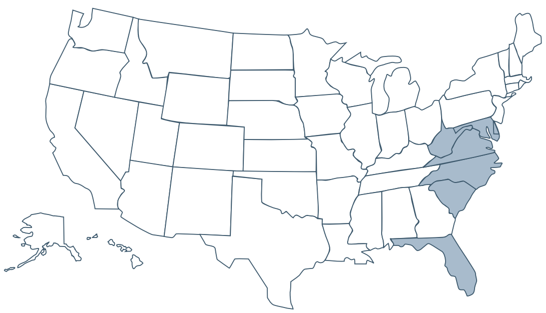
Target Banks' Assets <$5B and LTM ROE >5%, 12 months ended January 26, 2023

Regions	Price / LTM Earnings	Price/ Tang. BV	Price / Core Dep Premium	No. of Deals	Median Deal Value ($M)	Target's Median Assets ($000)	Target's Median LTM ROAE
Atlantic Coast	12.1x	191%	9.4%	15	117.7	608,600	10.2%
Midwest	14.1x	161%	7.8%	48	123.9	194,628	9.8%
Northeast	13.1x	128%	4.1%	8	63.0	493,278	9.2%
Southeast	14.1x	171%	6.9%	19	102.6	330,778	13.0%
West	15.1x	169%	8.2%	16	75.0	249,301	12.9%
National Community Banks	13.9x	165%	6.9%	106	103.2	323,207	10.3%

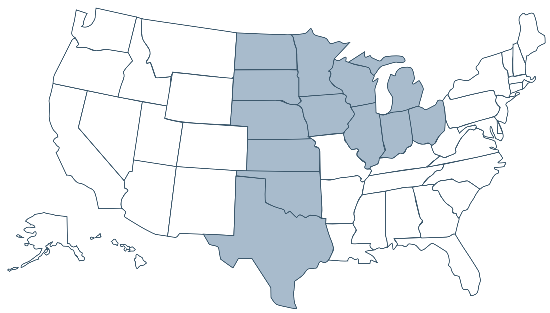
Source: S&P Capital IQ Pro.

Mercer Capital's Regional Public Bank Peer Reports

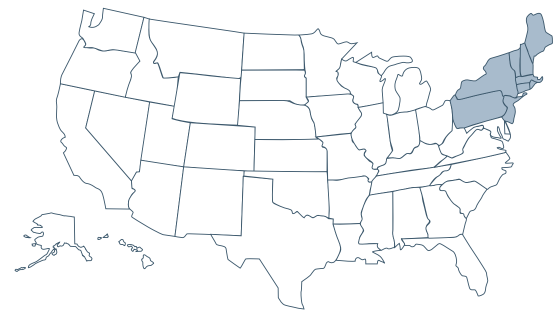
Updated weekly, Mercer Capital's Regional Public Bank Peer Reports offer a closer look at the market pricing and performance of publicly traded banks in the states of five U.S. regions. Click on the map to view the reports from the representative region.



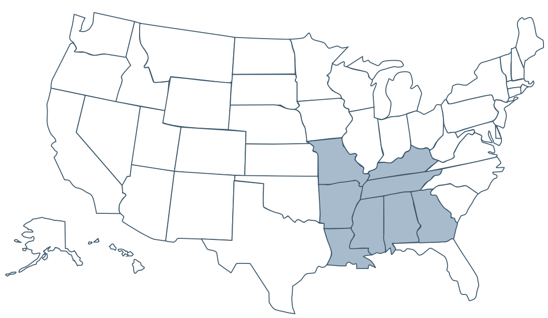
Atlantic Coast



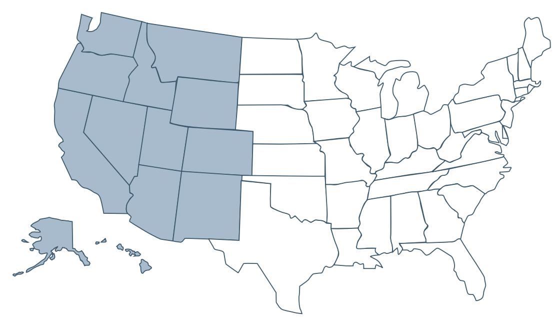
Midwest



Northeast



Southeast



West

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