Outlook 2025:
Industry Trends and the Challenges Ahead

bancography

Dear Clients and Colleagues,

Every year, Bancography publishes an Outlook for the financial services industry, presenting some of our favorite statistics regarding deposit, demographic and economic trends across the U.S.

The Outlook compares the largest metropolitan areas in the U.S. on an array of measures that can help bankers understand their own markets, and identify prospective markets for expansion.

The study includes statistics on deposit growth, branching activity, household demographics and economic measures, both at the metro-area level and for the U.S. overall, to support your institution’s branch capital deployment decisions.

As you review the report, contact us with any questions. Thanks, as always, for your confidence in Bancography.

INDUSTRY OUTLOOK: ANALYTIC FRAMEWORK

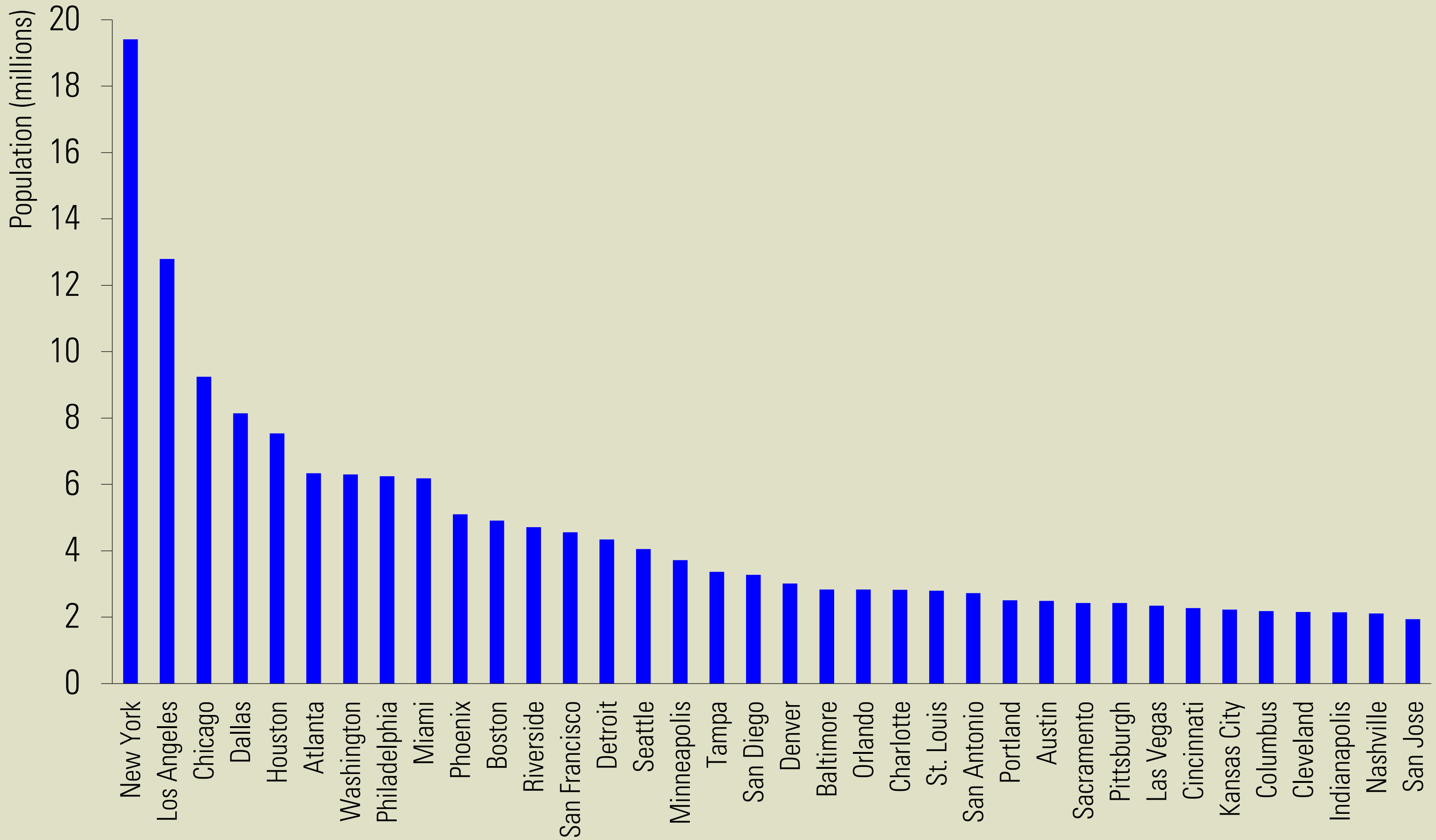
- Most data are presented in two groups:
  - For the 36 metropolitan areas in the U.S. with two million or more residents
  - For the 35 top-ranking markets on the specific attribute, among all U.S. metropolitan areas with at least 500,000 residents; this threshold impounds 111 metros
- The analysis waives San Jose into the large-market peer group, rounding its 1.94 million population upward. This leaves a distinct band of demarcation between the largest and next tier of markets, as the next-ranking MSA, Virginia Beach-Hampton Roads, contains 1.79 million residents – 150,000 fewer than San Jose.
- Similarly, the analysis waives Springfield, Missouri into the second tier, rounding its 494,000 population upward to the 500,000 threshold.

INDUSTRY OUTLOOK: ANALYTIC FRAMEWORK

- The 36 metro, large MSA peer group encompasses:
  - 49% of U.S. residents and 52% of U.S. retail and small business deposits
- The 111 metros with population > 500,000 encompass:
  - 69% of U.S. residents and 70% of U.S. retail and small business deposits
- Need information on a market that's not in the study or a measure that's not included? Let us know, and we'll send the statistics you need.

POPULATION

The 36 U.S. MSAs with at least two million residents



Of the 36 U.S. metros with at least two million residents, half show population in the two million to three million range (Baltimore and rightward in the graph above). Ten metros hold more than five million residents (Phoenix and leftward in the graph).

SOURCES, NOTES, ETC.

- Data include both banks and credit unions.
- Substantial corporate and public funds deposits at large main offices can skew deposit statistics. To counter this, all calculations truncate individual bank branch deposits at \$250M (i.e., any bank branch that owns more than \$250M in deposits is given credit for only \$250M in the deposit-summary calculations). The resulting statistics provide a plausible estimate of retail and small business deposits.
- However, credit unions, in contrast to banks, are not required to report deposits at the branch level. As a result, all credit union deposits are reported in the institution's headquarters market. The vast majority of credit unions operate in a single market; but a few larger, multi-market credit unions can cause significant distortions.
- Most acutely, Navy Federal Credit Union accounts for \$64B of the reported \$98B in deposit growth in the Washington, DC, metro area, yet only 40 of the institution's more than 300 branches sit in that MSA; so much of that gain accrued in other markets. Similarly, much of State Employees' Credit Union's \$46B deposit base is likely resident outside its home market of Raleigh, given the institution's statewide branch network.

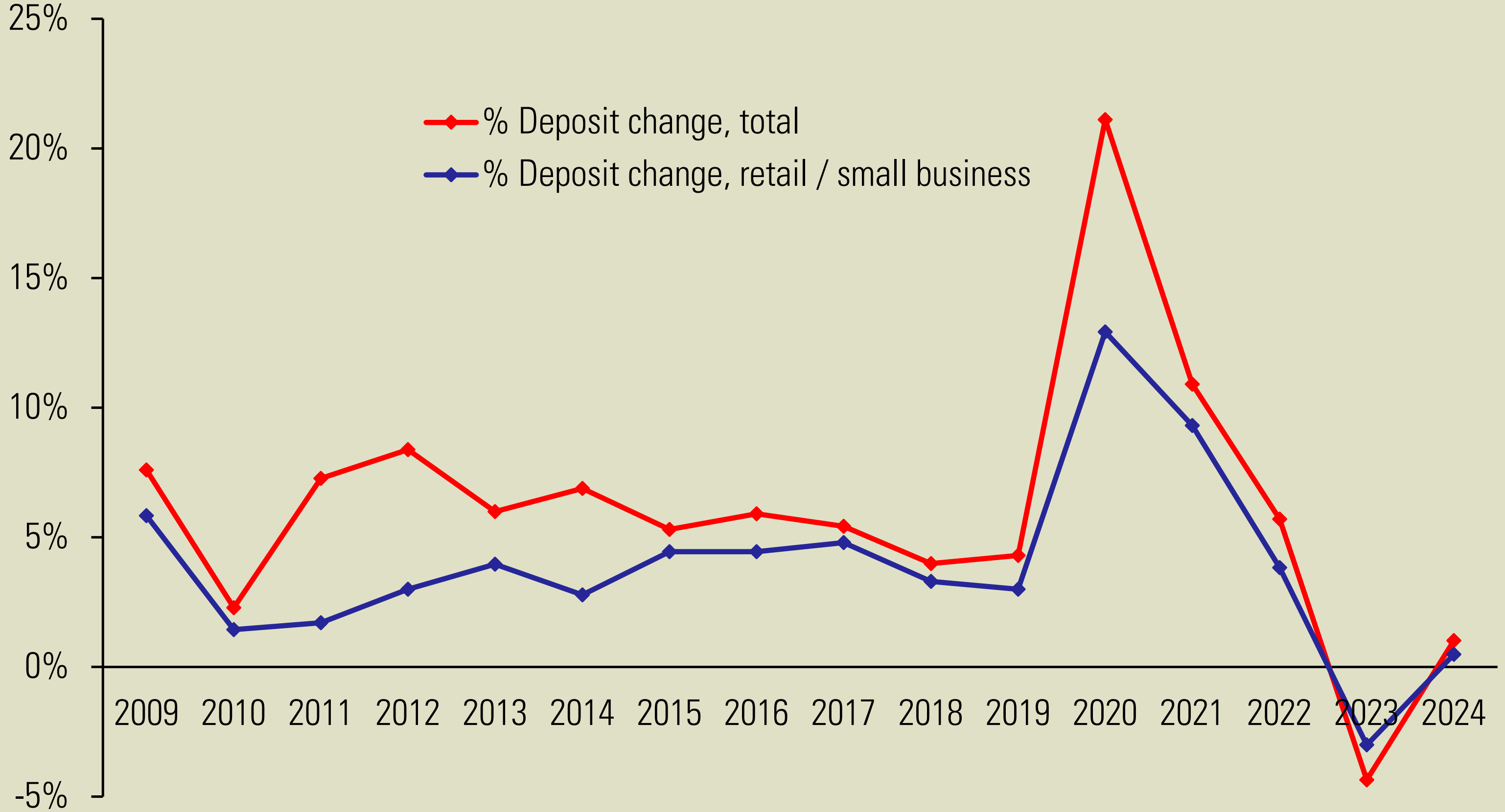
SOURCES, NOTES, ETC.

- Several graphs present deposit growth data in both year-over-year and four-year contexts. Large-office balance variances tend to smooth over time, so the four-year trend graphs may be more useful than the one-year graphs.

- Deposit and branch statistics reflect the June 30, 2024 FDIC and NCUA releases. Product demand data are from the Federal Reserve Board's September 2024 *Flow of Funds Accounts* report. All demographics are from EASI Demographics, June 2024. Other data sources are noted on the specific slides.

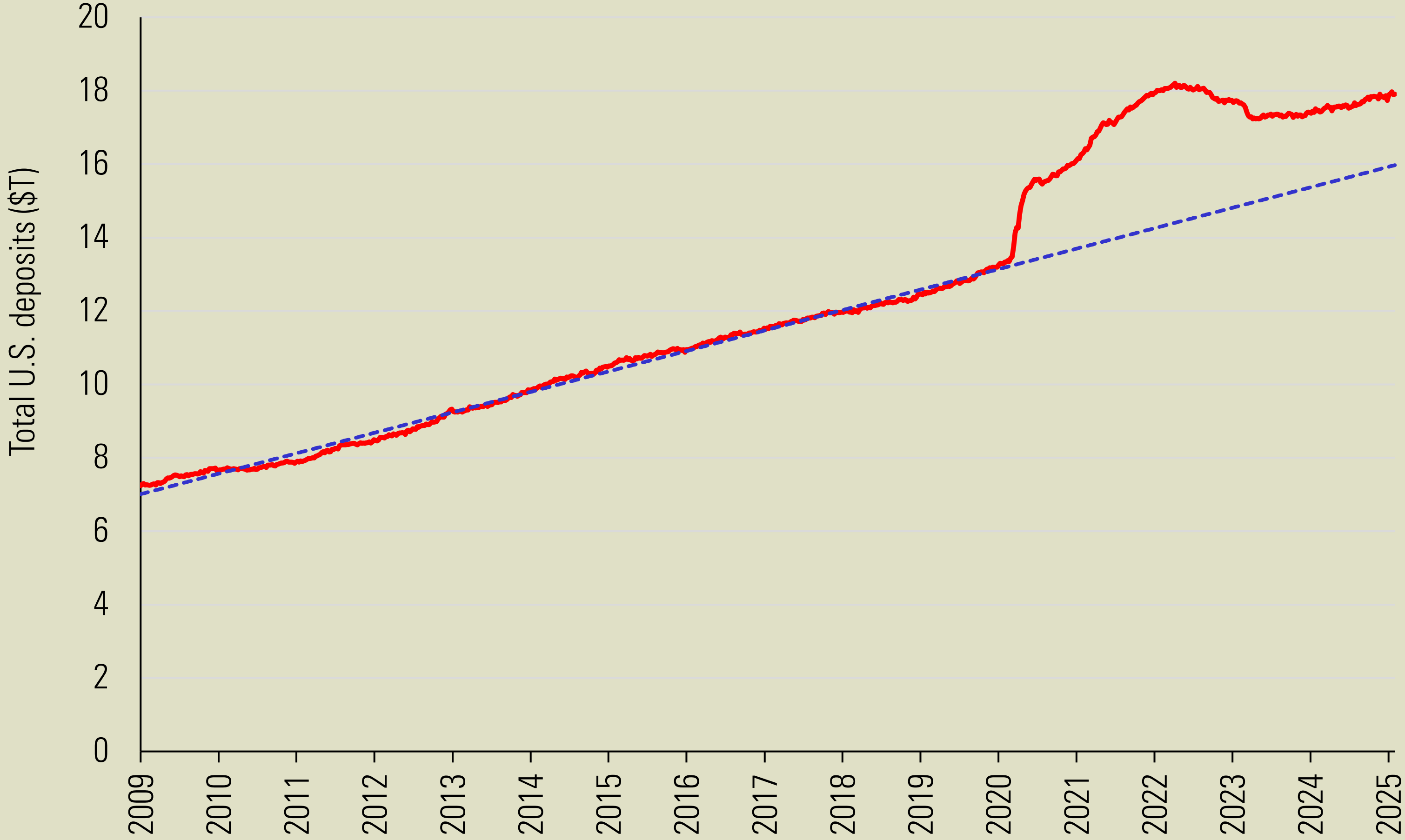
NATIONAL DEPOSIT GROWTH TRENDS

Nationwide deposit totals declined in 2023 for the first time in decades, as consumers and businesses spent down surplus deposits accrued from COVID-relief funds, and the lack of spending during the peak of the pandemic. In 2024, the decline in deposits abated, as totals remained essentially flat relative to the prior year. Retail and small business deposits increased by a scant $40M in 2024, a nearly imperceptible change on a base of more than $9T.



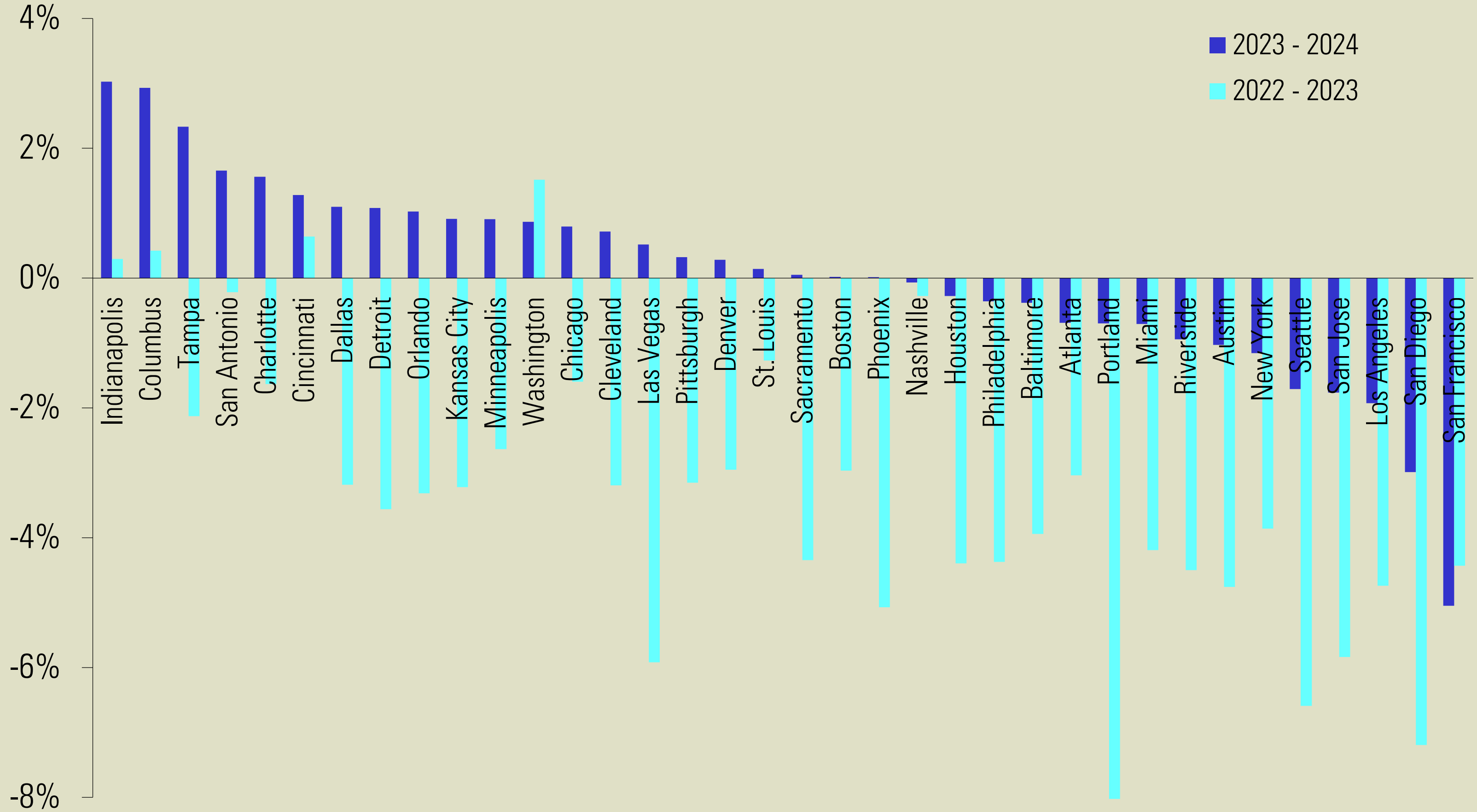
NATIONAL DEPOSIT GROWTH TRENDS

Even with the stagnant trends in nationwide deposits in the past two years, there is evidence that deposits may erode further. If the growth trends of the post-financial crisis period persisted through the current era with no COVID disruption, current deposits would reach only $16T, versus an actual of $17.9T. That is, current deposits nationwide remain nearly $2T above the levels a pre-COVID trendline would have predicted for year-end 2024.



DEPOSIT CHANGE (%), TWO-YEAR COMPARISON

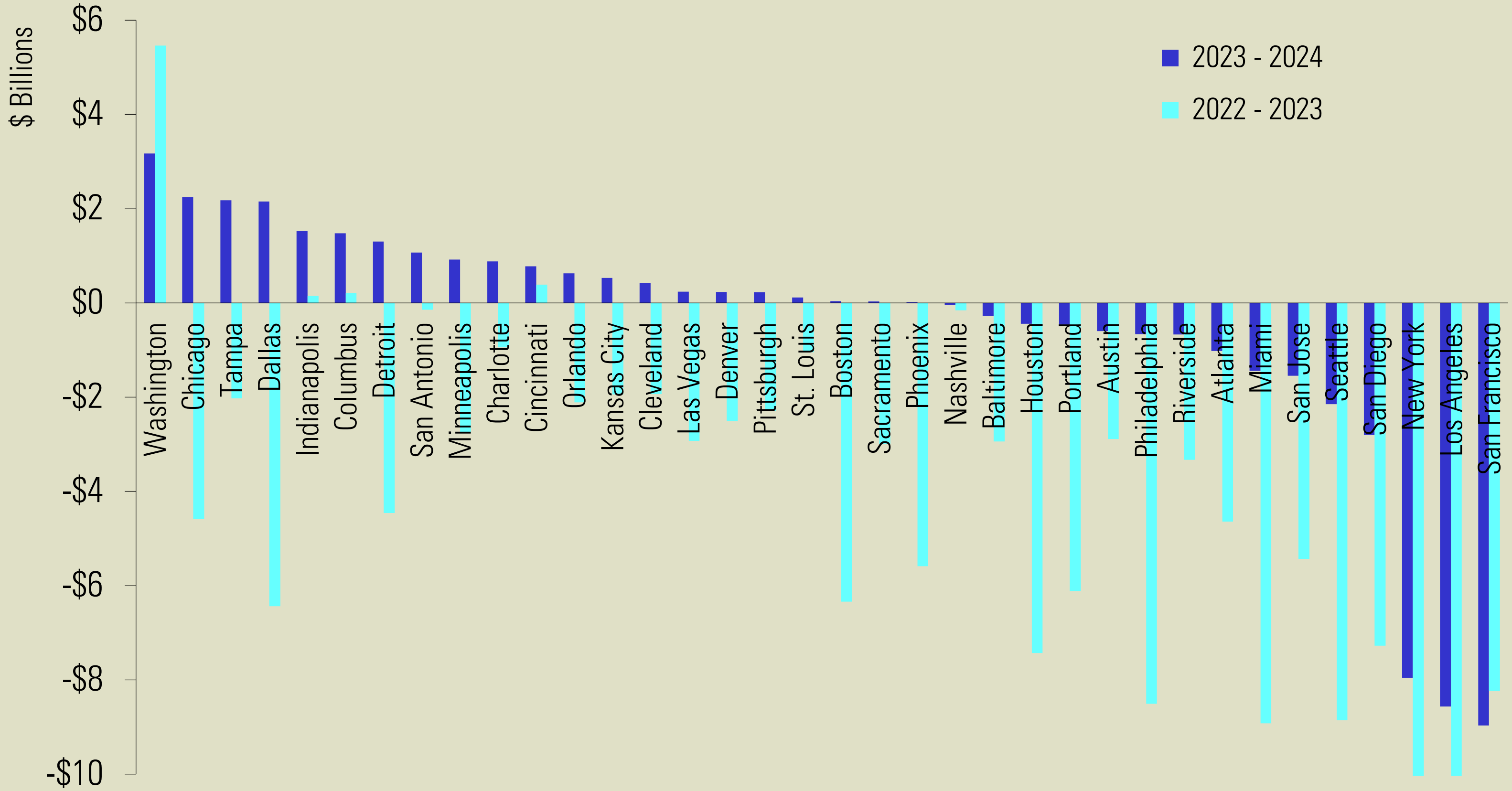
All MSAs with at least two million residents



In 2023, only four of the nation's largest metros avoided deposit declines. That performance improved in 2024, when about half of the large-metro peer group posted deposit gains. That still left 15 markets with two consecutive years of deposit declines. Indianapolis and Columbus posted the top deposit-growth levels last year, two markets that represent cases of household growth in otherwise low-growth states. Three other Midwest metros joined the top-10 growth markets, with several others also ranking above median.

DEPOSIT CHANGE ($B), TWO-YEAR COMPARISON

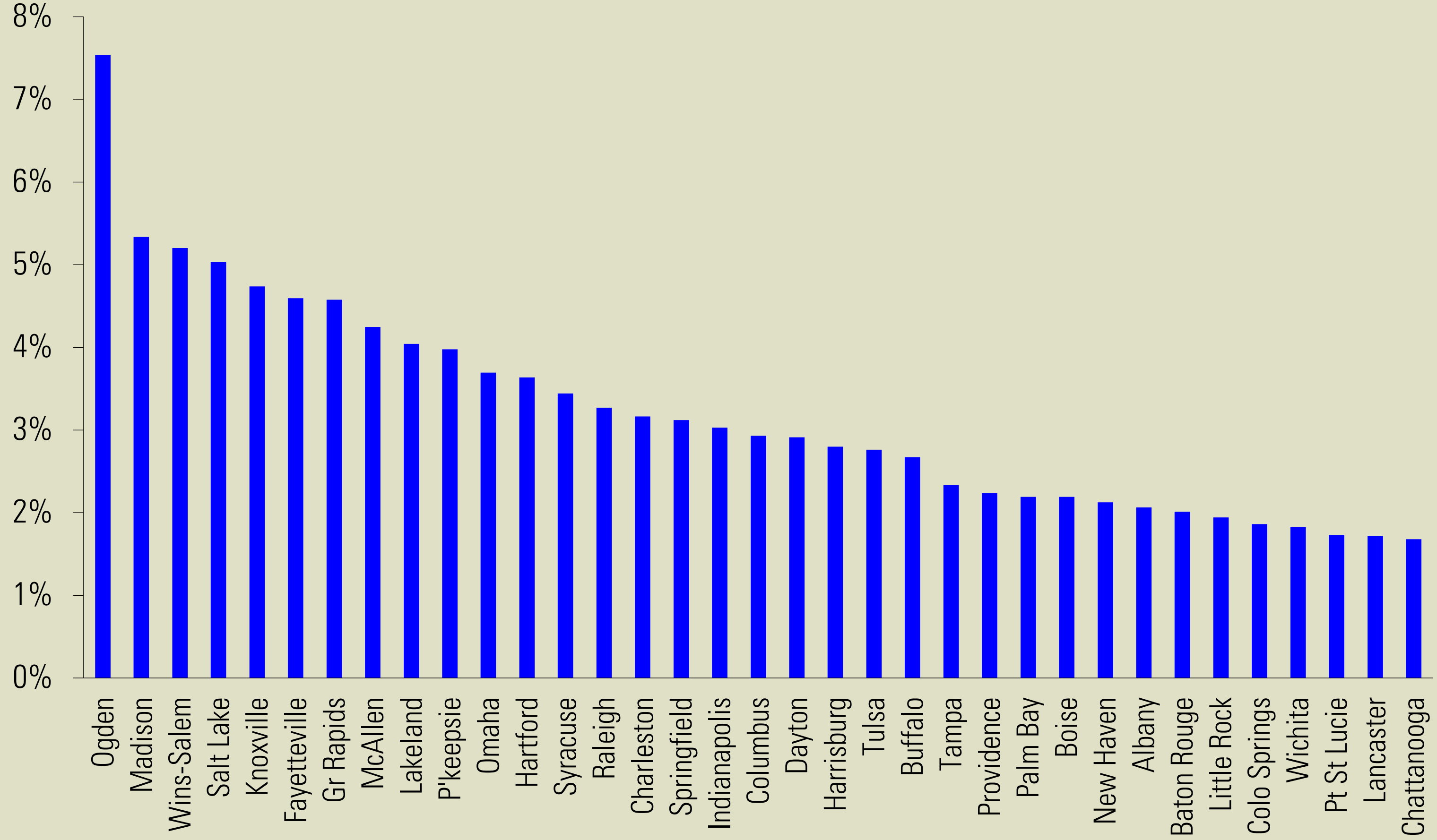
All MSAs with at least two million residents



Four markets posted deposit gains of more than $2B in the past year, though for Chicago and Dallas, their gains did not fully offset the declines of the prior year. San Francisco, Los Angeles and New York all experienced a second consecutive year of deposit declines exceeding $5B. However, other markets that saw large declines in 2023, such as Seattle, Miami and Philadelphia, rebounded toward even deposit levels in 2024.

DEPOSIT CHANGE (%), 2023 - 2024

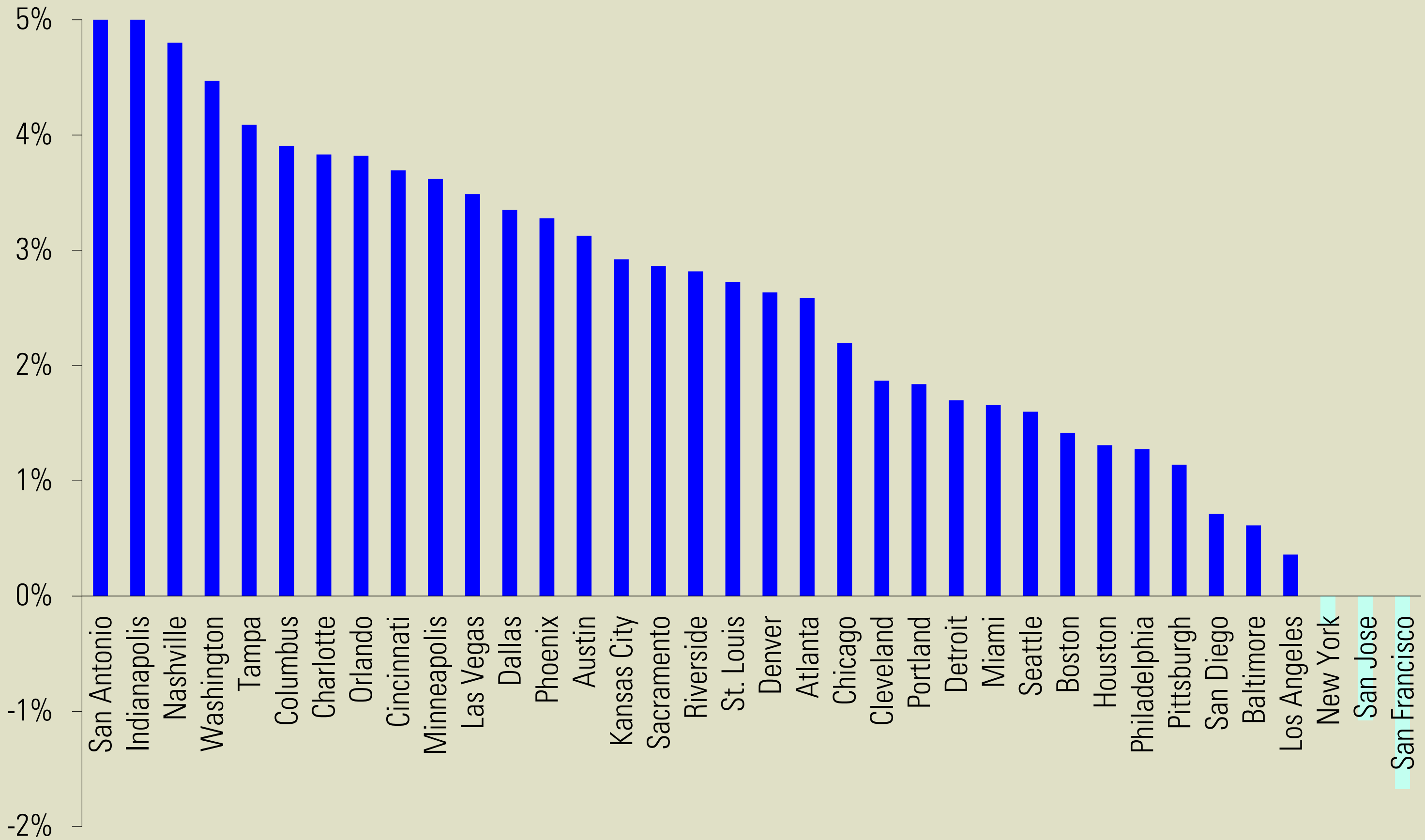
Top 35 MSAs among all metros with population > 500,000



Among the 111 large- and mid-sized U.S. metros, the top deposit-growth markets spanned all regions of the nation, with markets as diverse as Ogden (UT), Madison (WI), Knoxville (TN), Poughkeepsie (NY) and Omaha (NE) all ranking among the top-10 markets in terms of percentage gains. Only 17 markets nationwide exceeded 3% deposit growth, a level that in a typical year marks median performance.

DEPOSIT CHANGE (%), 2020 - 2024

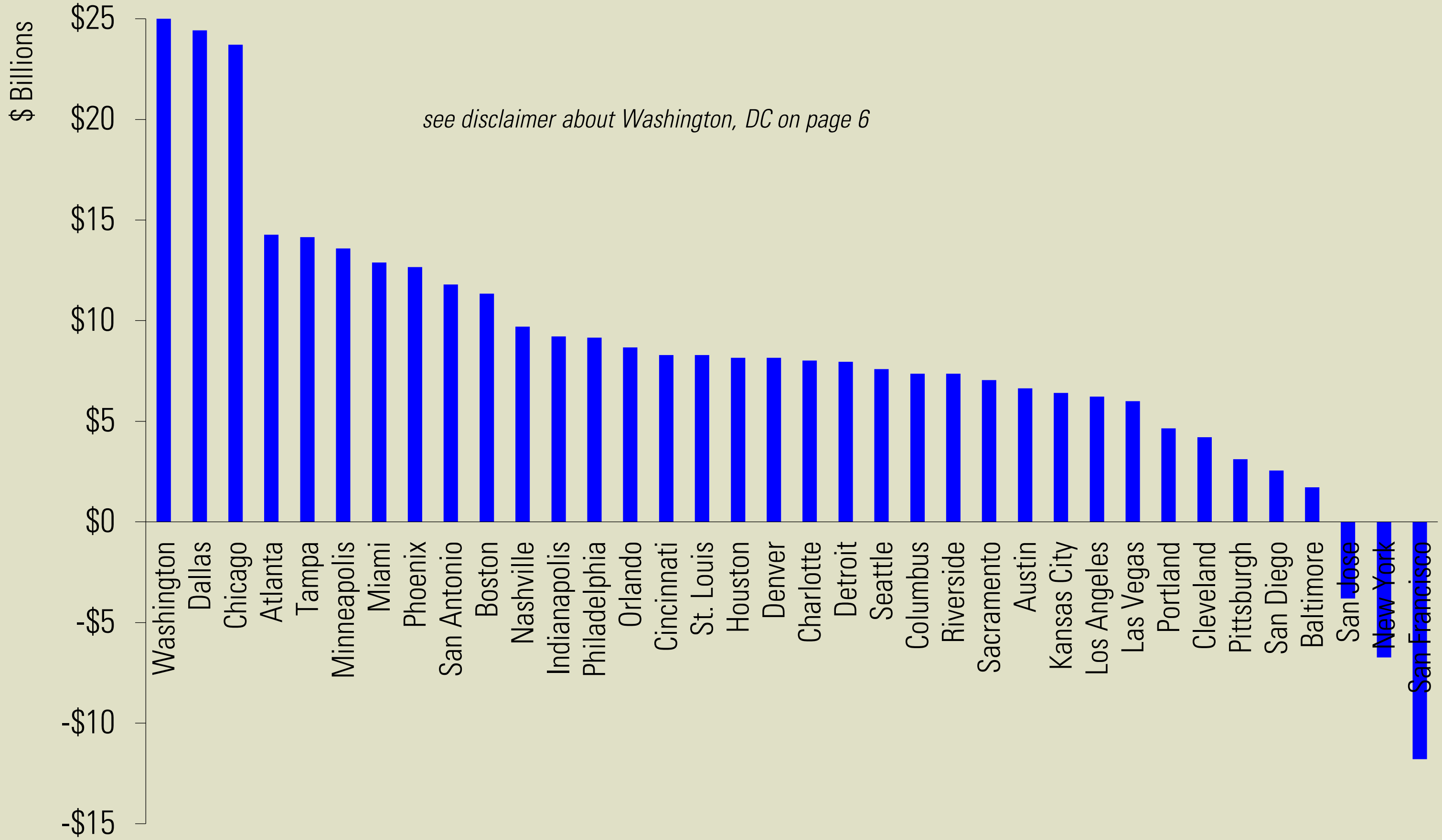
All MSAs with at least two million residents; compound annual growth rate



Keeping in mind that a four-year period includes both the COVID-fueled inflows and ensuing outflows, Midwest and Sunbelt metros fared best in longer-term deposit growth, with Indianapolis, Columbus, Cincinnati and Minneapolis among the top-10 growth markets from the Midwest; and San Antonio, Nashville, Tampa, Charlotte and Orlando representing the broadly defined Sunbelt. San Francisco, San Jose and New York all suffered deposit declines over the 2020 - 2024 period.

DEPOSIT CHANGE ($B), 2020 - 2024

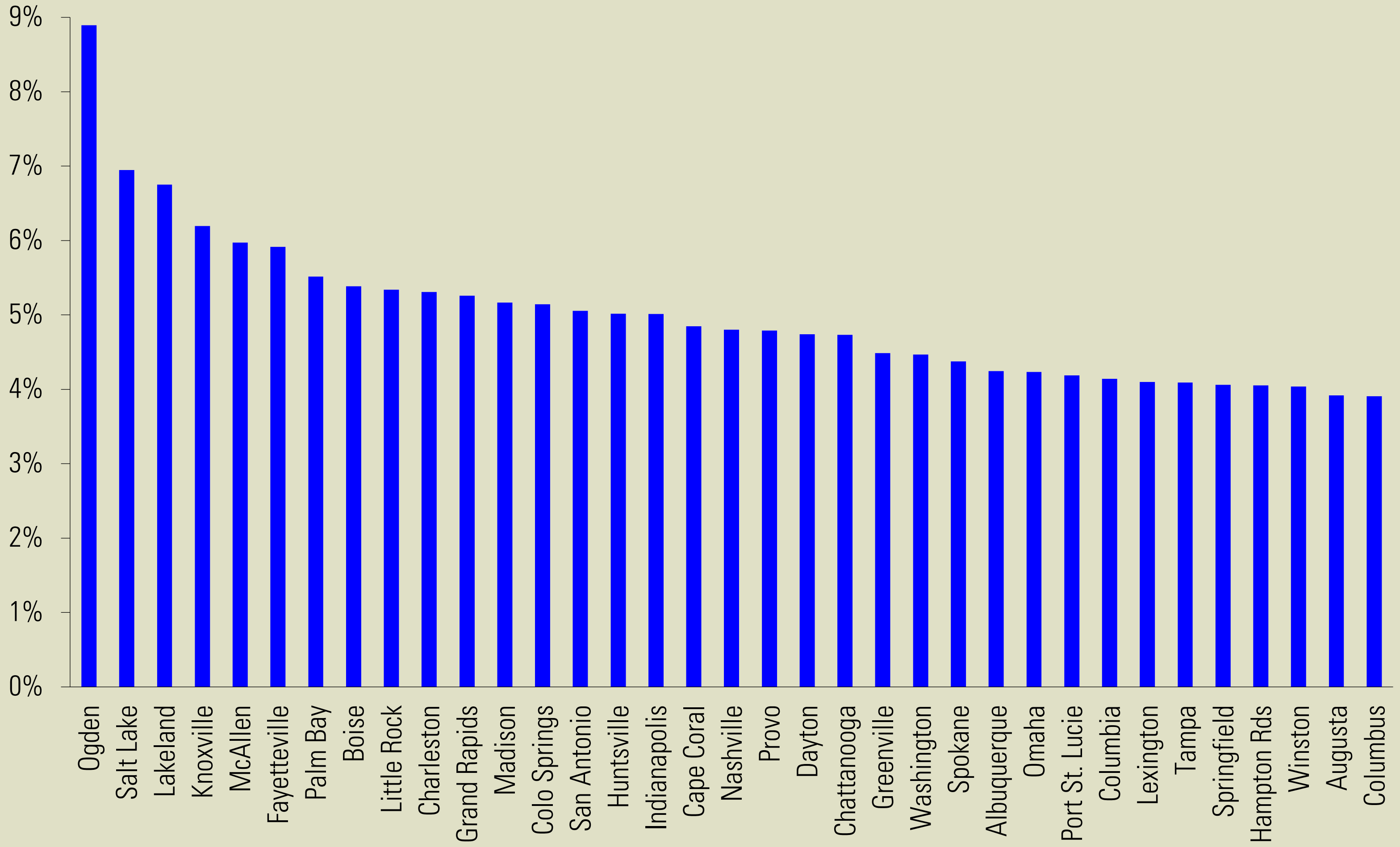
All MSAs with at least two million residents



The largest metros by population also showed the top absolute gains, with seven of the 10 largest markets by population also ranking among the top-10 markets by deposit change. Tampa, Minneapolis and San Antonio also reached the top 10 in absolute deposit gains, despite ranking below that level in population. Ten metro areas posted deposit gains of more than $10B over the past four years; and three large metros suffered deposit declines in that period: San Francisco, New York and San Jose.

DEPOSIT CHANGE (%), 2020 - 2024

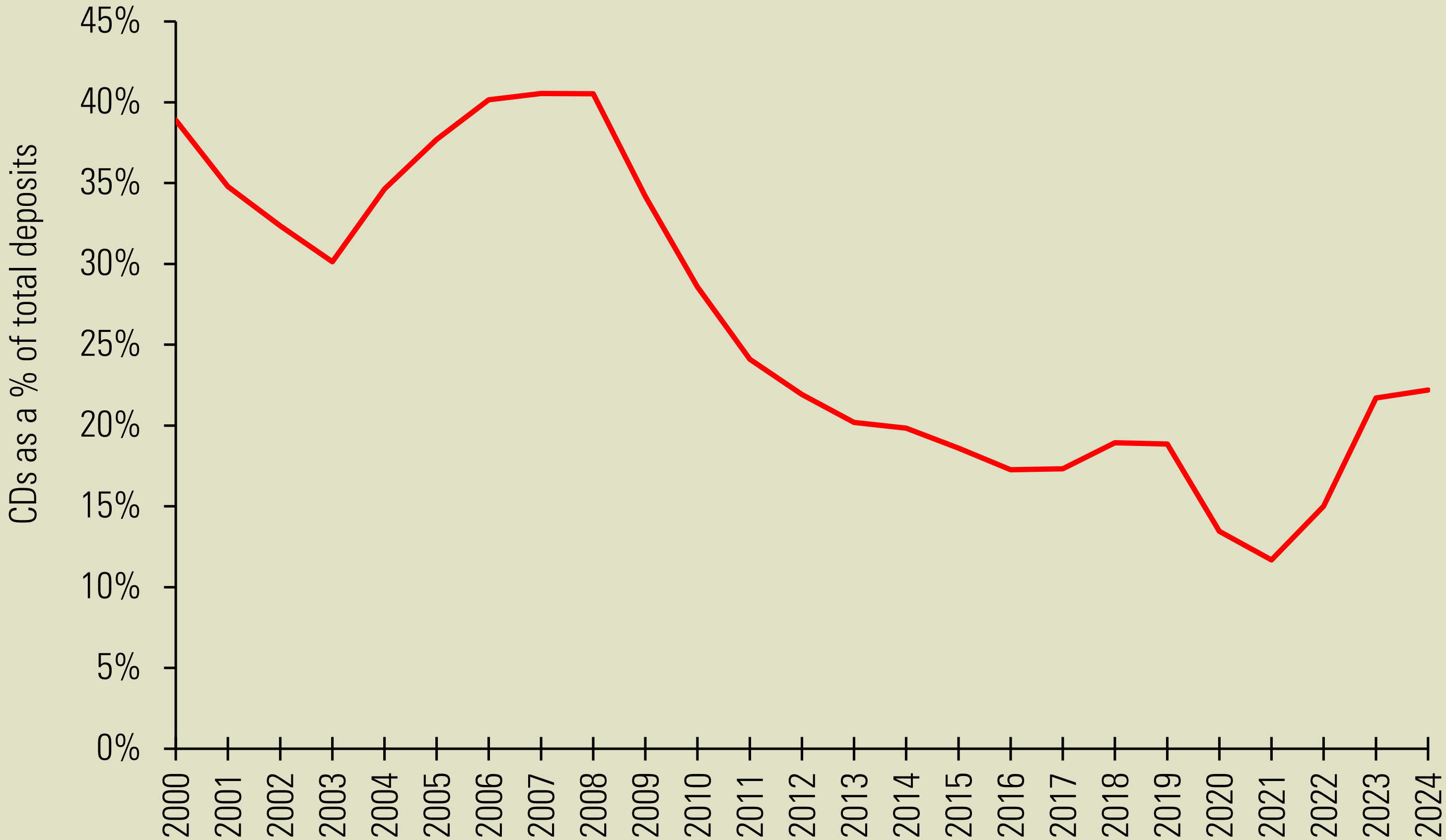
Top 35 MSAs among all metros with population > 500,000; compound annual growth rate



The top deposit-growth markets among all mid-sized and large U.S. metros over the past four years are led by two markets in Utah, and Rockies-region neighbor Boise also ranks well. Most of the other top-10 deposit-growth markets were in the Southeast, but the next tier includes Midwest markets (Grand Rapids, Madison), additional Rockies markets (Colorado Springs, Provo), and numerous other Southeastern markets.

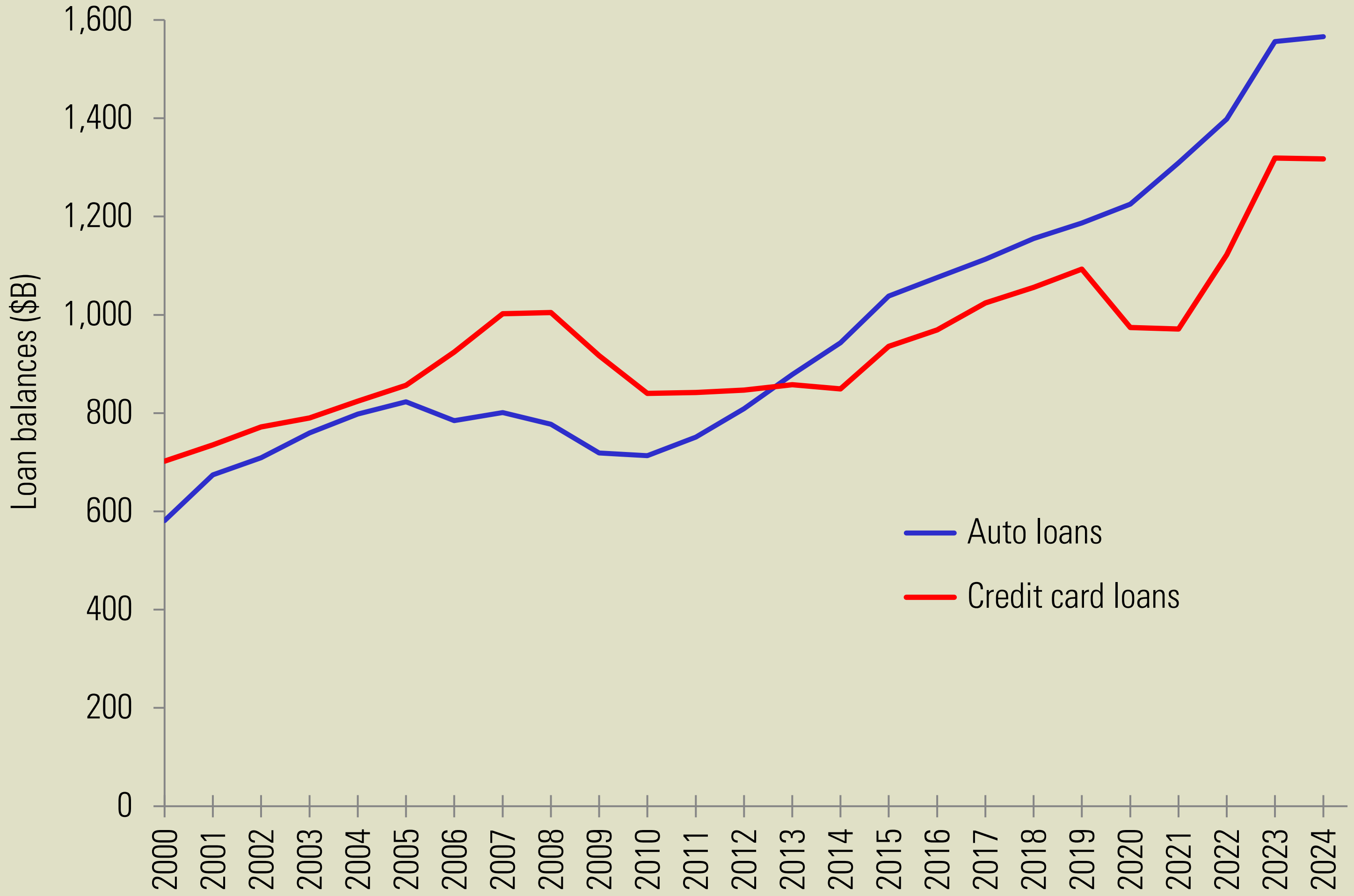
CONSUMER BALANCE SHEET TRENDS

From 2006 to 2008, CDs represented more than 40% of deposits held in U.S. bank branches. But the financial crisis of 2008/2009 and the low-rate environment that followed brought about a steady erosion in consumers' appetite for fixed-term, fixed-rate investments. The trend away from CDs finally started reversing in 2018 and 2019, only to see the COVID-driven, zero-rate environment of 2020 and 2021 take CD demand to all-time lows. However, the rising-rate environment of the past two years increased demand for CDs, which now represent 22% of consumer deposits, the highest proportion since 2012.



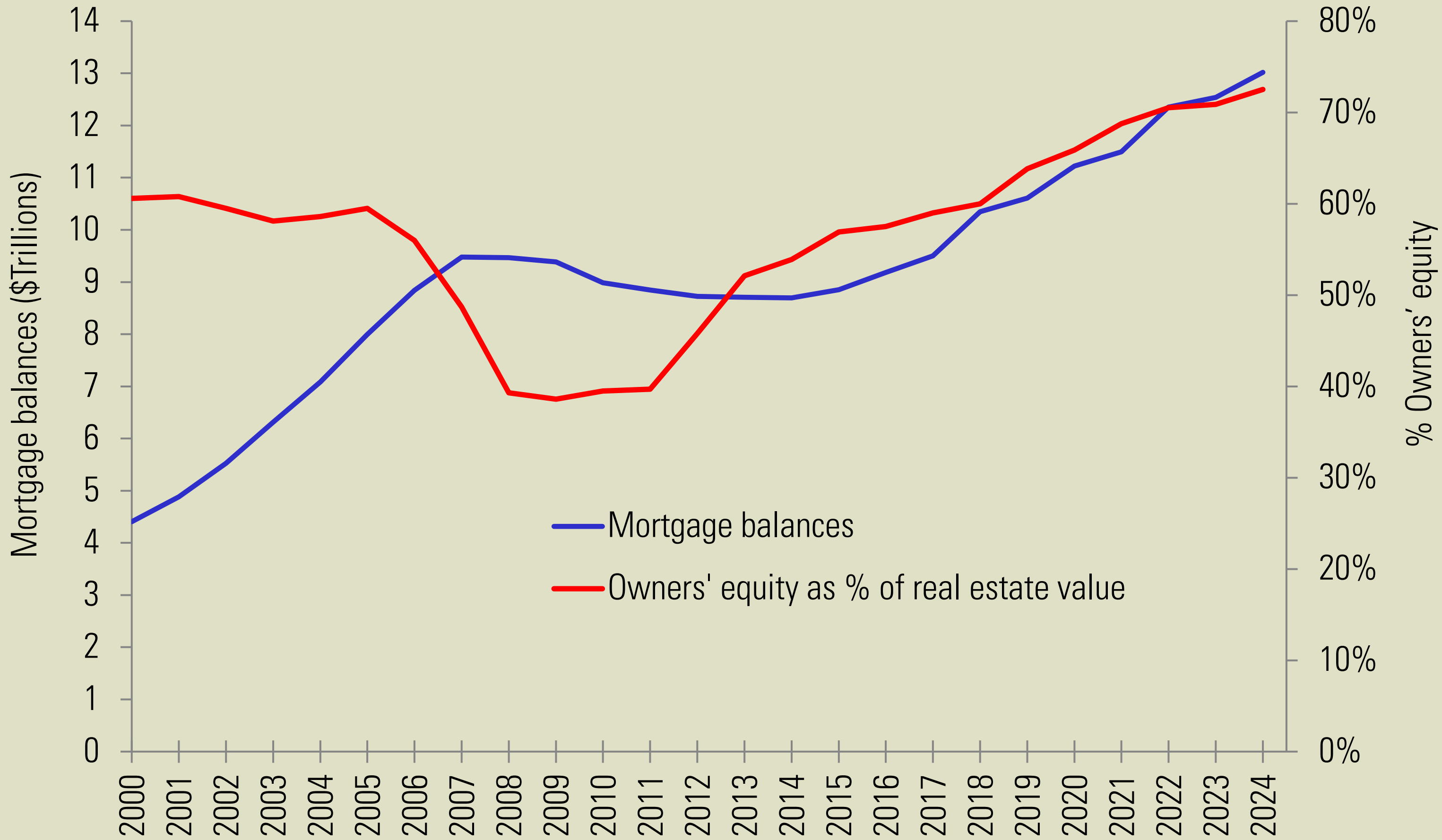
CONSUMER BALANCE SHEET TRENDS

Automobile and credit card loans surged in the immediate post-pandemic years, but borrowing of both types plateaued in 2024. This could be interpreted as a positive or a negative for the broader economy: as consumers having less need to borrow, or consumers eschewing borrowing due to concerns over repayment ability.



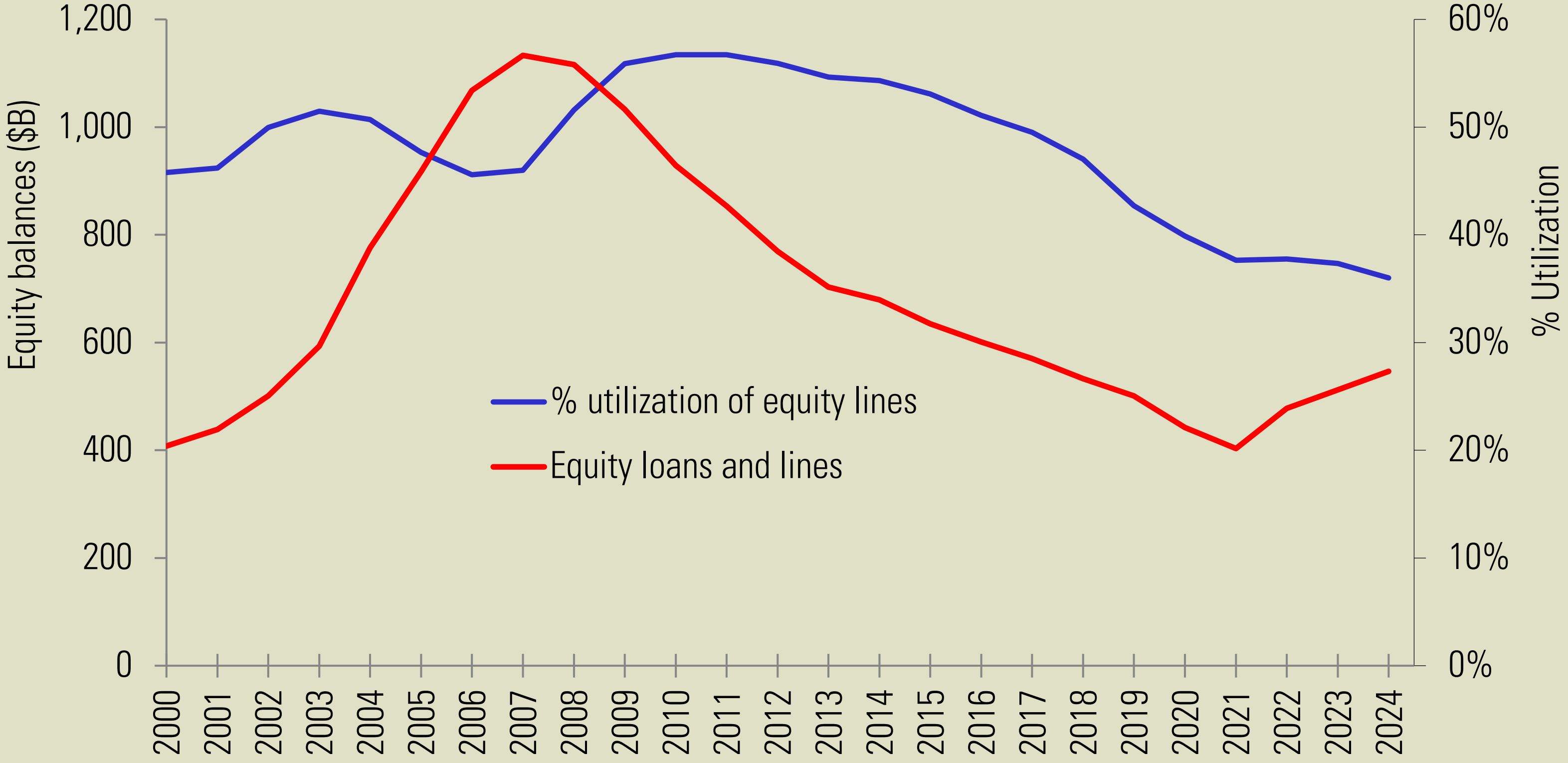
CONSUMER BALANCE SHEET TRENDS

After a precipitous fall in the wake of the financial crisis of 2008/2009, mortgage balances finally matched pre-recession peaks in 2017, and each subsequent year has brought record balances. Correspondingly, homeowners' equity soared to 72%; i.e., U.S. homeowners carry mortgage balances equivalent to 28% of the aggregate market value of their homes, and inversely hold equity worth 72% of the homes' values. The steady revival in homeowners' equity should continue to revive demand for home equity lines and loans.



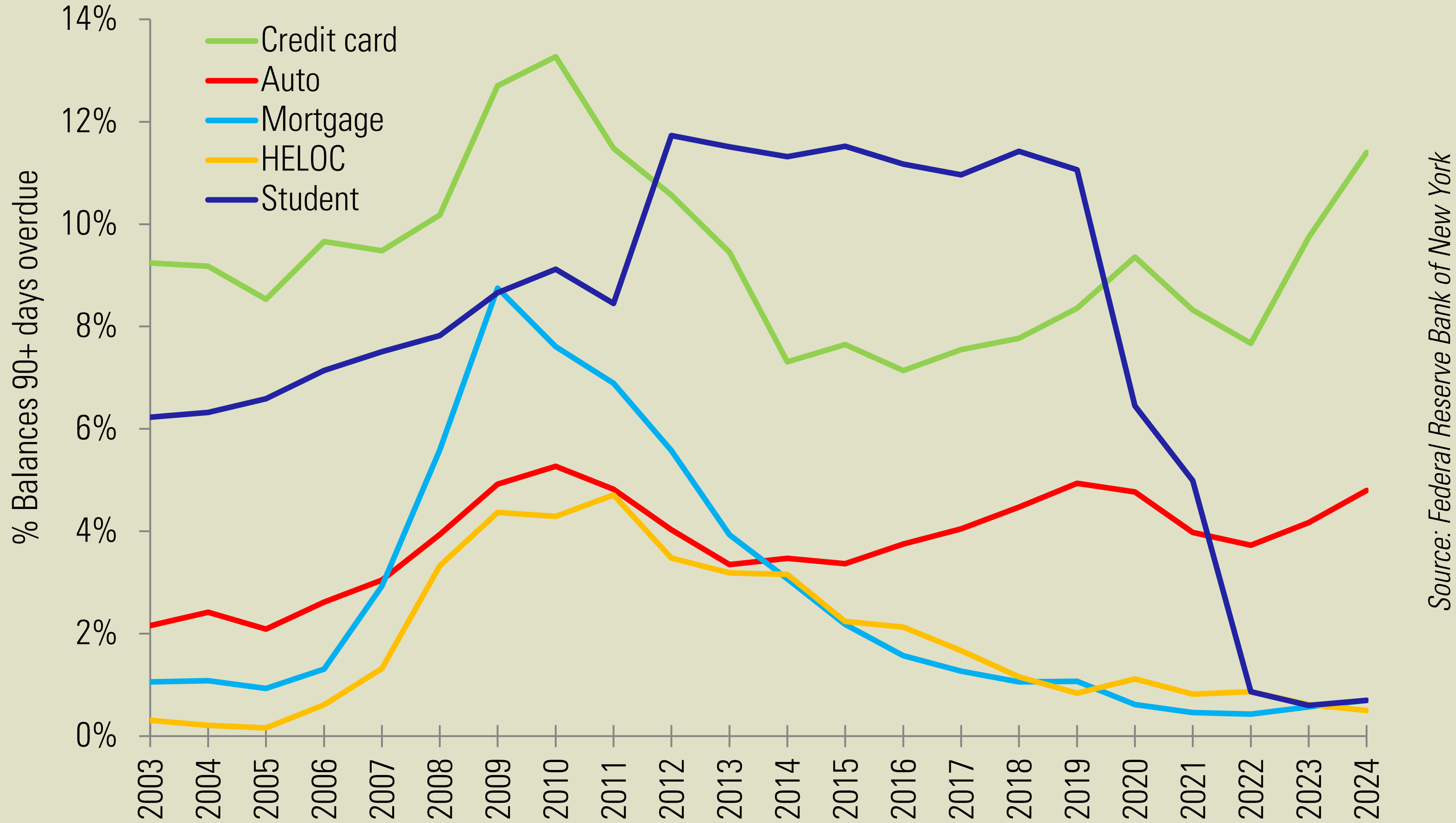
CONSUMER BALANCE SHEET TRENDS

Home equity borrowing declined every year since the 2008/2009 financial crisis, shedding $700B from the balance sheets of U.S. financial institutions. In the post-crisis years, this reflected consumers' and bankers' reticence to assume dangerously high leverage. More recently, cash-out mortgage refinancings provided a preferable means to tap equity in a home, as refinancing would also reduce the primary mortgage interest rate. Today, higher rates add value to a HELOC's tax benefits and almost all U.S. mortgages carry rates below current levels, obviating refinancing. Accordingly, HELOC demand is finally reviving, and 2024 saw home-equity balances reaching levels last seen in 2017. Home-equity-line utilization remains well below peak levels, with current balances equating to 36% of credit-line amount, versus 57% in 2010.



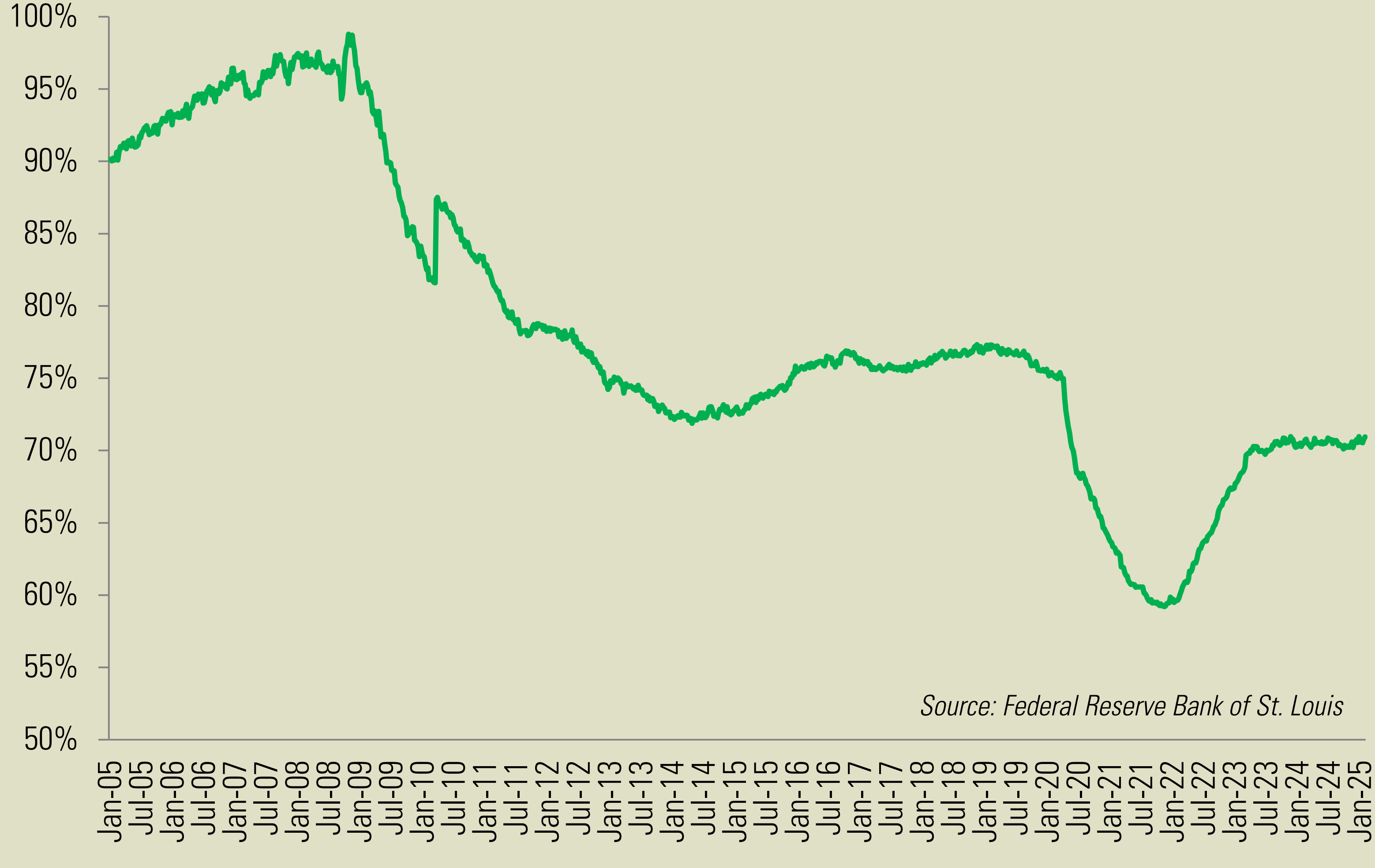
CONSUMER BALANCE SHEET TRENDS

The proportion of overdue balances generally remained steady in most consumer loan types in 2024, as a robust employment market allowed consumers to manage debt burdens. The one exception was in credit cards, where overdue rates reached levels not seen since the peak of the financial crisis of 2008/2009. Automobile loan overdue rates edged upward and also bear monitoring. Student loan delinquencies remain modest due to an array of forgiveness programs.



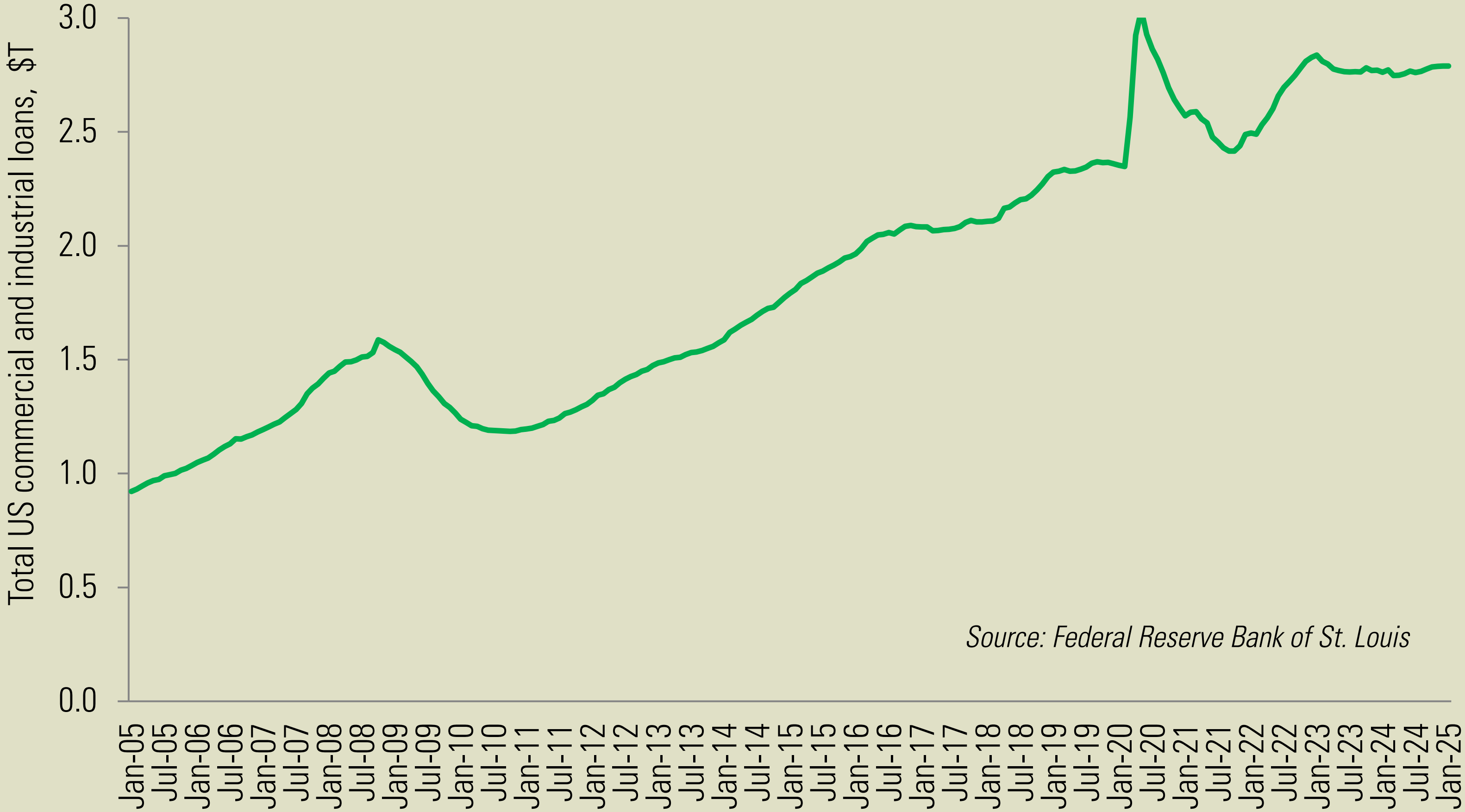
BANK BALANCE SHEET TRENDS

Industry-wide loan-to-deposit ratios have hovered in the 70% - 71% range for most of the past two years – levels above the pandemic-era lows when banks were awash in liquidity, but still shy of the 75% - 77% level that held for most of the five years before the onset of the COVID crisis.



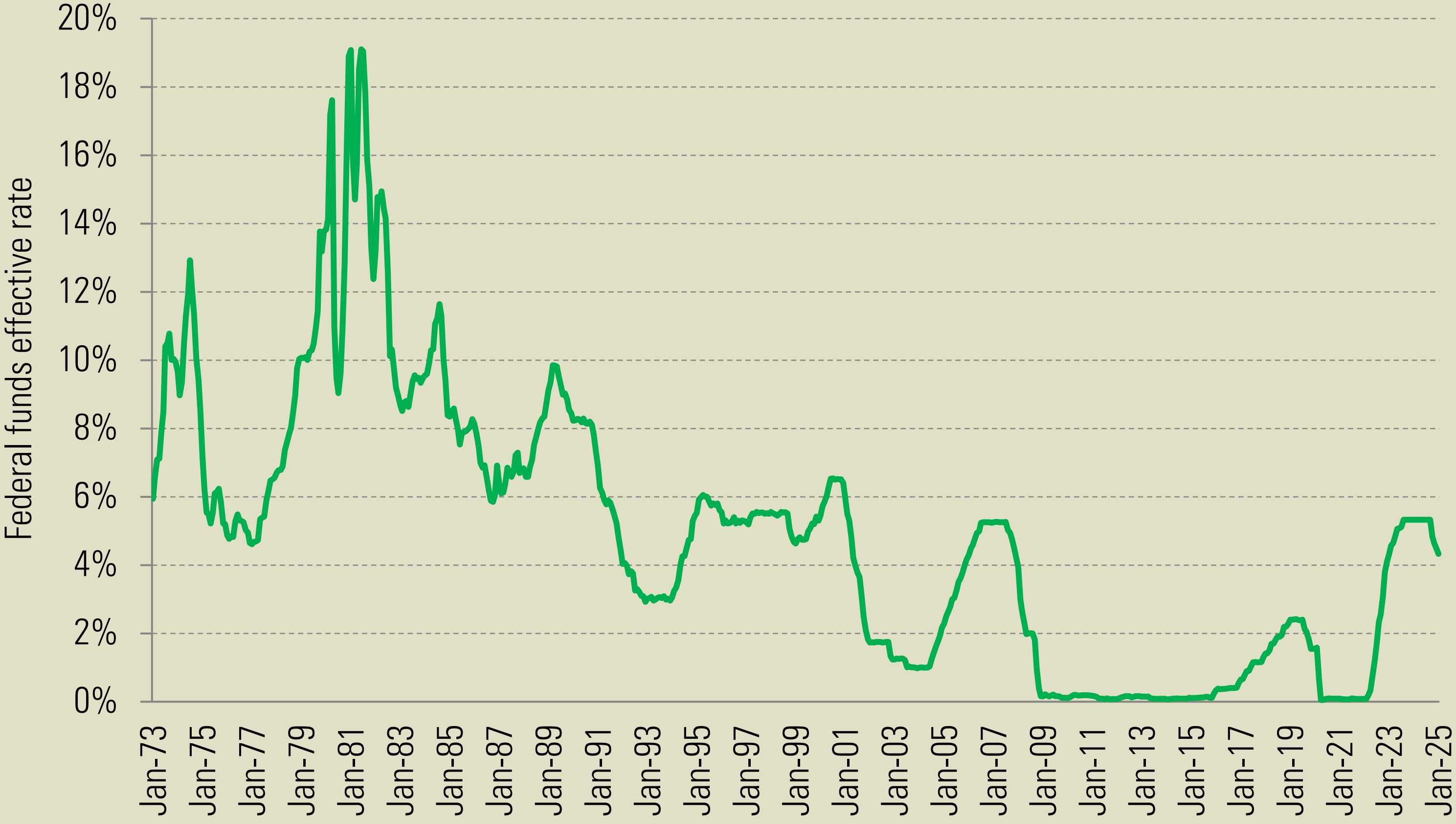
BANK BALANCE SHEET TRENDS

The reduced loan demand underlying the liquidity challenges mostly reflected a decline in commercial and industrial loans. After a spike in the early days of the pandemic due to Paycheck Protection loans, non real estate commercial loan balances plummeted, declining for 17 consecutive months. October 2021 marked the nadir of the downturn, and C&I loan balances increased for the next 16 months thereafter, before reaching a plateau in February 2023. C&I loan balances have remained flat at about $2.8 trillion for most of the past two years, posing a challenge for commercial banks reliant on that loan type.



THE RATE ENVIRONMENT IN PERSPECTIVE

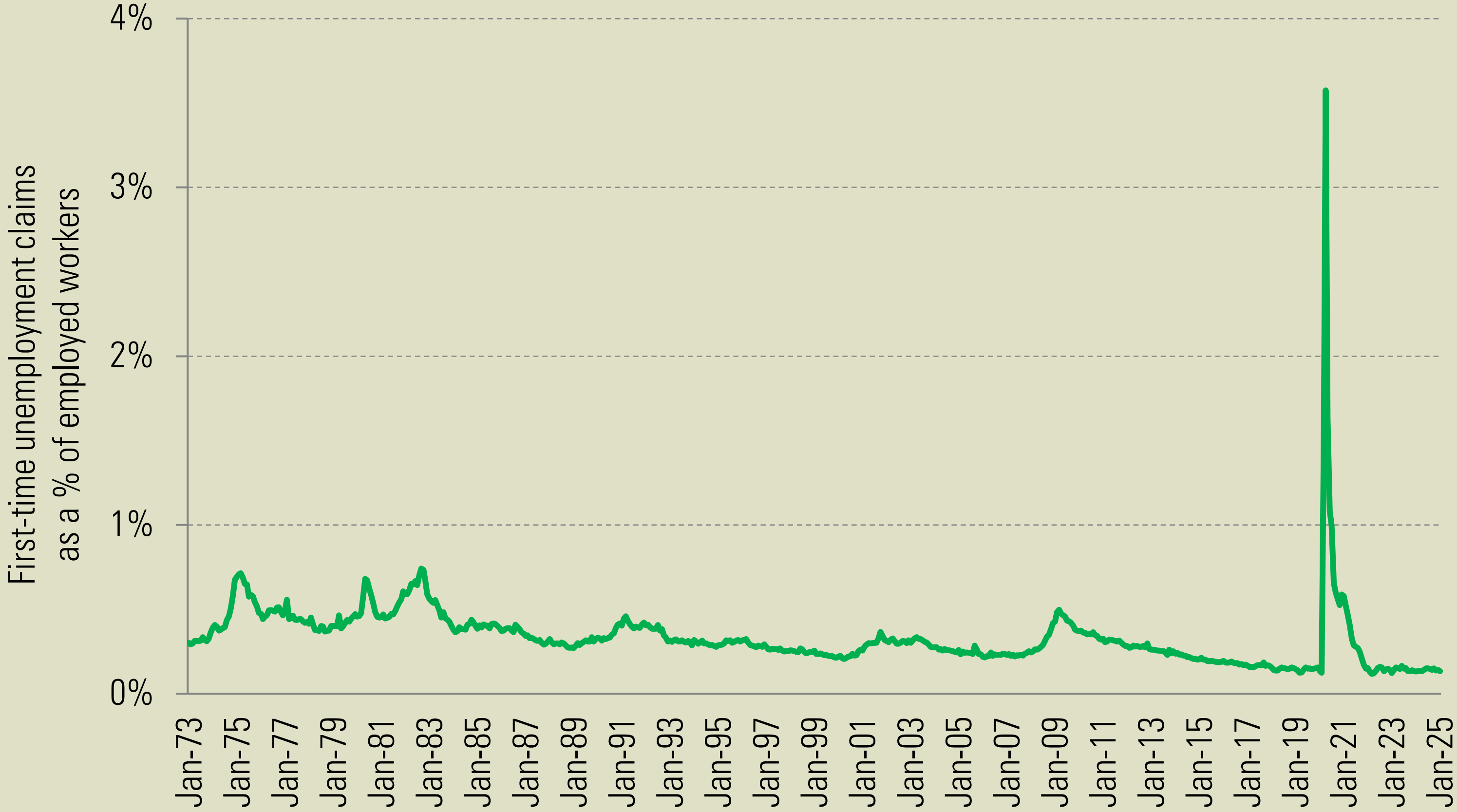
The stagnations in commercial loan demand tracks with a rise in interest rates, even as rates still remain moderate by long-term historic standards. The Fed funds rate stayed above 5% for the entire time from mid-1977 to late 1991, 1995 through 1998, and for much of 2006 and 2007. The near-zero rates that endured for years following the financial crises and then returned during the COVID crisis represent a historic aberration. Still, with companies now perhaps conditioned to lower rates, it remains uncertain whether the 100 basis point decline in rates since late 2024 will be sufficient to spur C&I lending upward again.



Source: Federal Reserve Bank of St. Louis

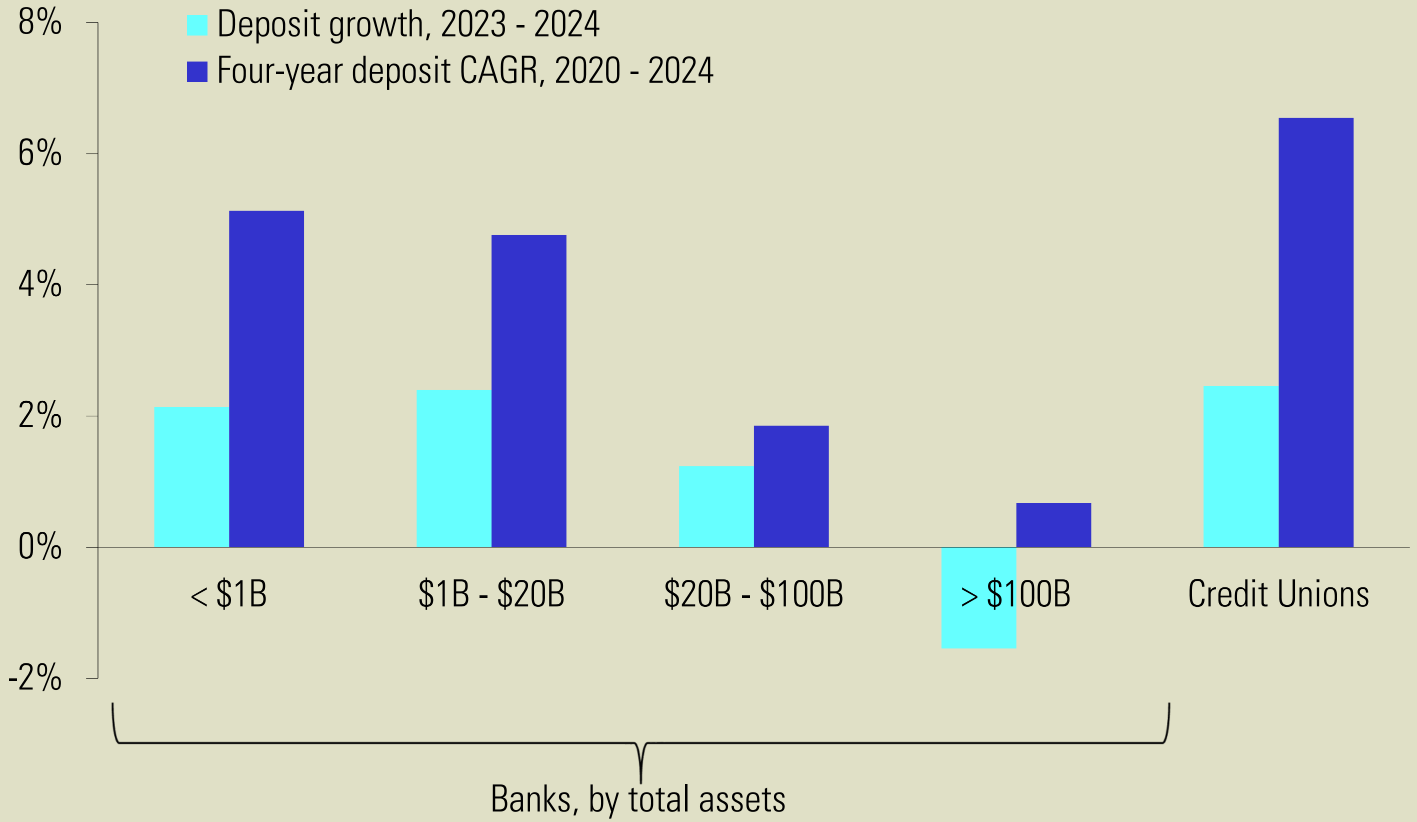
THE IRREPRESSIBLE JOBS MARKET

After the COVID crisis, employment rebounded sharply, with first-time unemployment claims and the overall unemployment rate both hovering near record lows for most of 2023 and 2024. The graph below charts the level of first-time unemployment claims relative to the size of the nation's workforce overall; and as a proportion of that workforce, claims remain near record low levels. If the robust employment environment continues, that should bolster consumer deposit and loan demand.



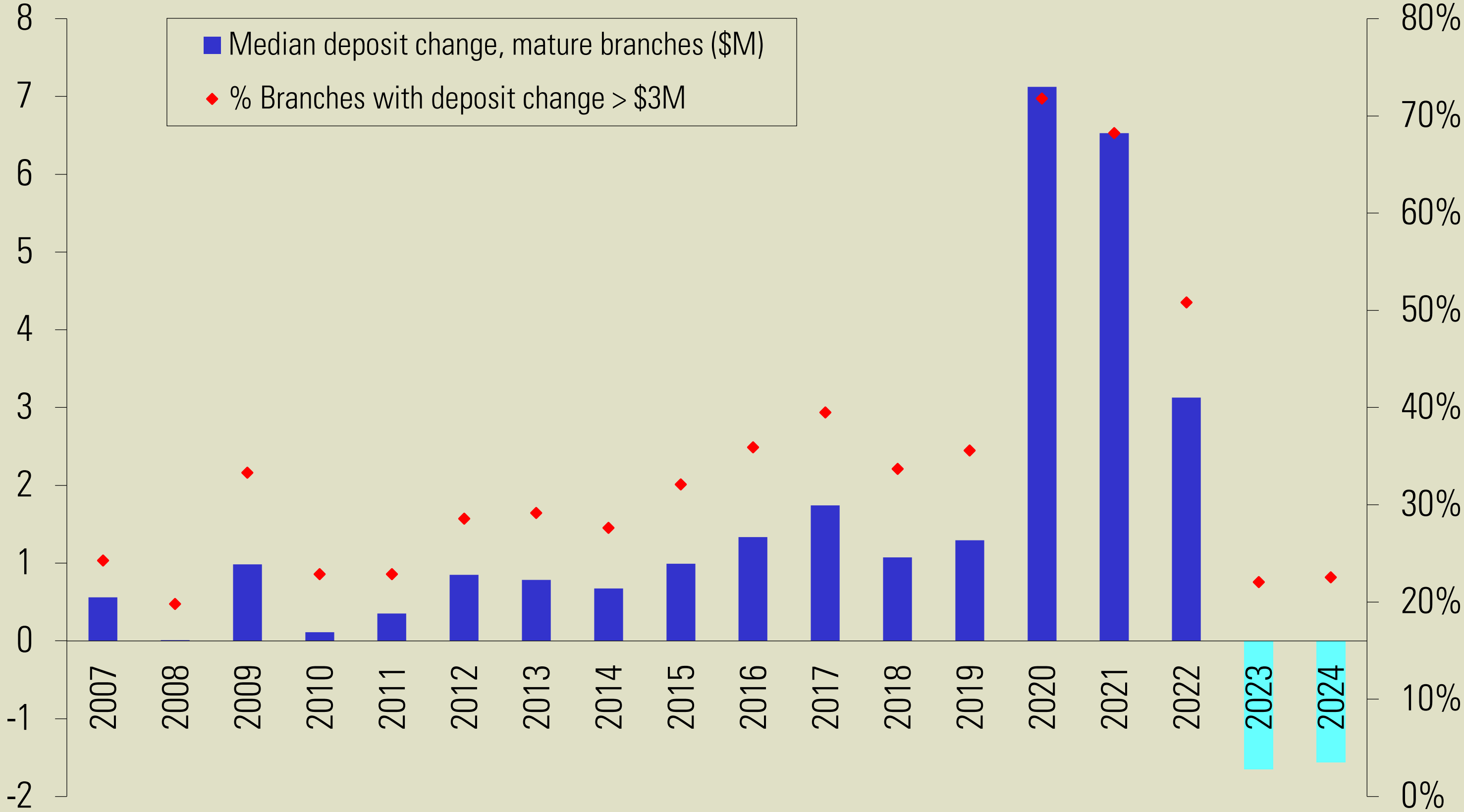
Source: Federal Reserve Bank of St. Louis

BRANCH DEPOSIT GROWTH



Last year's overall flat deposit growth reflected gains of about 2% in deposits at community banks and credit unions, offset by a 1.5% decline in deposit levels at the largest national banks; with regional banks in the middle with 1.2% deposit growth. Over a longer-term view of the past four years, credit union deposits grew at a 6.5% compound annual rate – outpacing the 5% pace of community banks, the 2% pace of regional banks, and the near flat growth of the largest national banks. Even with greater recent growth, credit unions still account for only about 10% of all deposits nationwide.

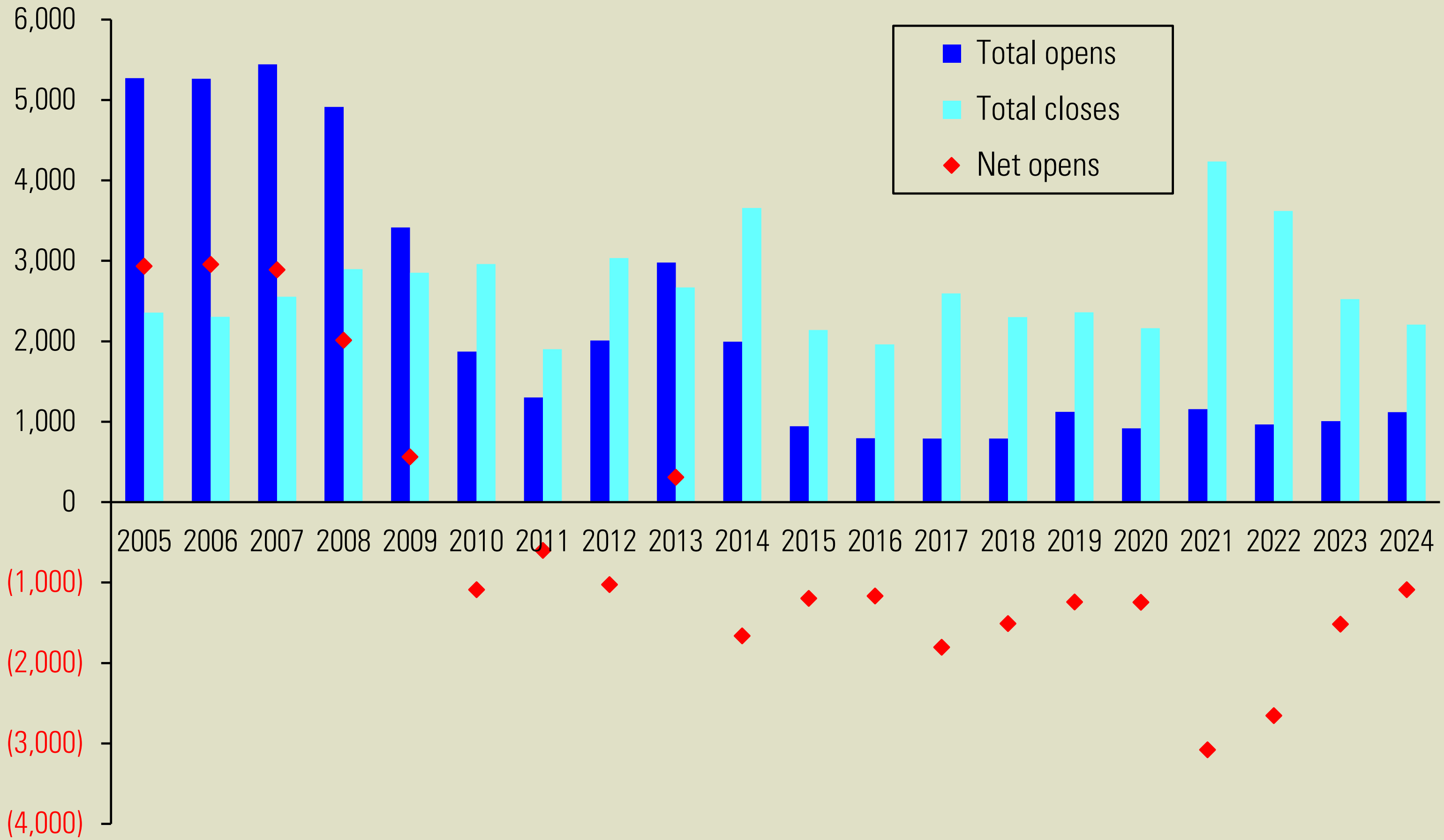
BRANCH DEPOSIT GROWTH



The erosion in deposits pervaded the industry. In most years prior to the pandemic, mature branches (defined as opened at least five years) showed median annual deposit gains in the $700m to $1.1M range. After that median spiked to $7M and $6.5M in 2020 and 2021, in both 2023 and 2024 the median branch suffered a slight decline in deposits, of about $1.5M each year. In most pre-pandemic years, only about 35% of branches posted deposit gains of more than $3M. That figure spiked to near 70% in 2020 and 2021, but in each of the past two years, only 22% of mature branches were able to gain more than $3M in deposits.

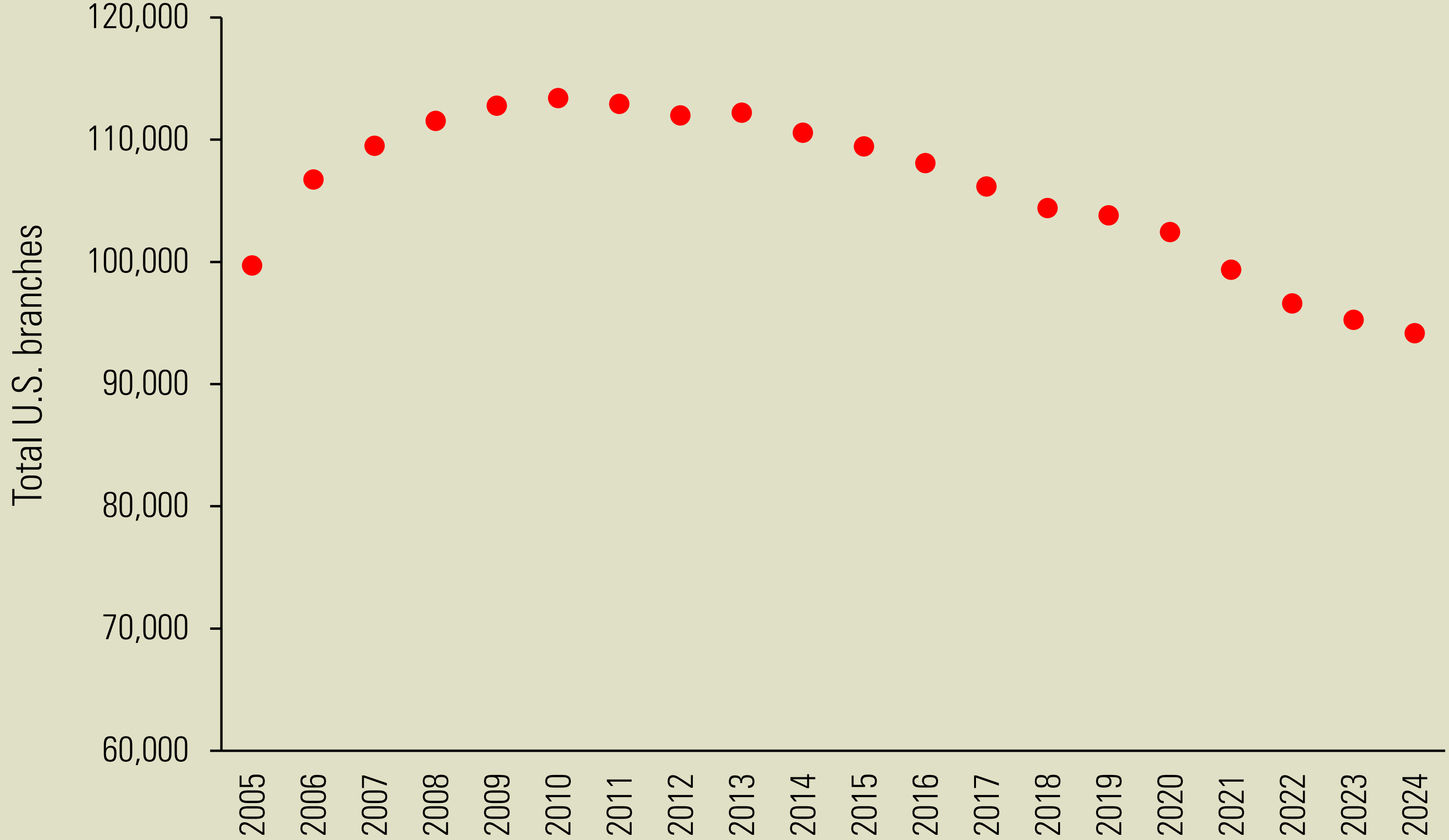
BRANCHING ACTIVITY OF U.S. INSTITUTIONS

After the industry closed nearly 8,000 branches in 2021 and 2022 combined, branch closures have abated in recent years, even as opens have remained steady at about 1,000 to 1,100 new branches per year. As a result, the industry saw a net decline of only 1,100 branches last year, the smallest decline in 10 years. With the average cost of a new branch approaching $2.5M, the new branches opened in 2024 represented a near $3B capital investment in branches, even as the industry concurrently closed more than 2,000 branches.



BRANCHING ACTIVITY OF U.S. INSTITUTIONS

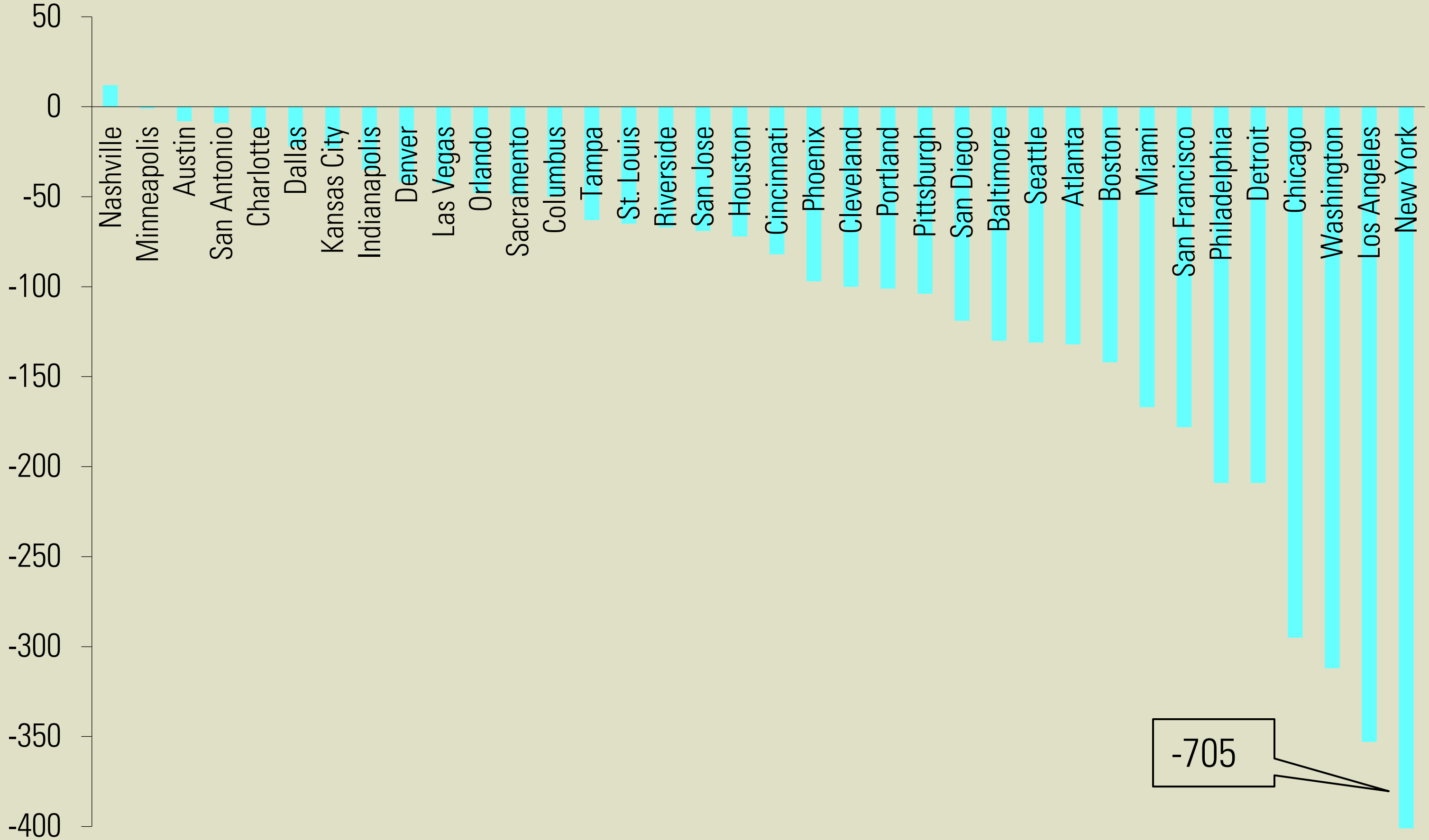
The net reduction of about 8,300 branches over the past four years represents an 8% contraction from 2020 levels, and the current total count of 95,000 bank and credit union branches nationwide sits 17% below the peak levels of 2010.



BRANCH COUNT CHANGES, 2020 - 2024

All MSAs with at least two million residents

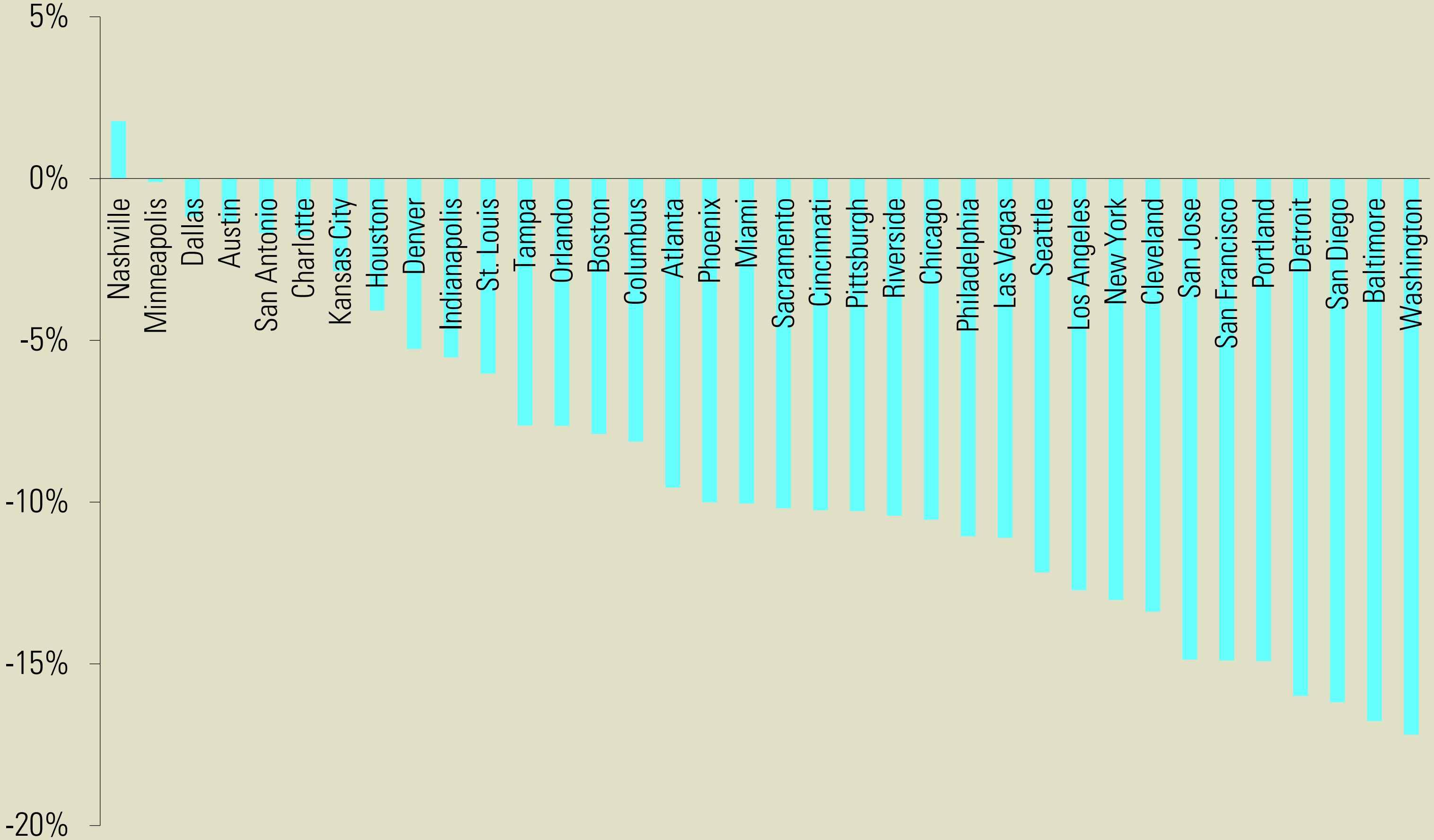
The 8% contraction in branch counts over the past four years was not spread evenly across all markets. Rather, the New York metro saw a net decline of 700 branches in that timeframe, while Los Angeles, Washington and Chicago each shed 300 or more branches. In contrast, Nashville posted a modest gain in branch counts, and counts remained essentially unchanged in Minneapolis and a few other markets from 2020 to 2024.



BRANCH COUNT CHANGES (%), 2020 - 2024

All MSAs with at least two million residents

In proportionate terms, New York's net decline represented a 13% reduction in branches, whereas Washington, Baltimore, San Diego and Detroit all saw reductions of 15% - 17% in their branch inventories since 2020. The median large market saw a 10% contraction in branch counts from 2020 to 2024, while net closures reduced total branch counts by less than 4% in eight of the large metros: Houston and left on the graph below.



BRANCHING ACTIVITY OF U.S. INSTITUTIONS

- The bank side of the industry remains more concentrated than the credit union side, due to the greater geographic reach of the largest banks. The 10 largest bank branch networks now hold one-third of all U.S. bank branches; and concentration continues through the next tier of institutions, as the 50 largest branch networks account for 51% of all U.S. bank branches. Just 250 of the nation's more than 4,000 banks own nearly 70% of the bank side of the industry's total branches.

- The credit union side of the industry remains much less concentrated, as the 10 largest credit union networks hold only 7% of credit union branches; and even the 250 largest networks impound only 39% of credit union branches.

By Branch Count	Banks	Credit Unions
Top 10	32%	7%
Top 50	51%	16%
Top 250	69%	39%

BRANCHING ACTIVITY OF U.S. BANKS

Note: these comments reference the graph shown on page after next

The graph that follows shows the average deposits of closed branches, as a function of the distance to the bank's nearest surviving branch.

Focus first on the yellow bars, representing the branches that closed in 2023. Note the trend that the greater the distance to a surviving branch, the lesser the deposits banks are willing to put at risk via a branch closure.

This makes intuitive sense. If after closure we still offer a branch within one or two miles, then our retention likelihood is strong; so, we're willing to close a branch with $55M in deposits, knowing most customers will not find the additional one- or two-mile path to the bank too much of an inconvenience.

But if the nearest surviving branch is four or five miles away? Now, our retention likelihood isn't as great; not every client will be willing to add that distance to their errand loop. As a result, the average deposits of the closed branches is lower; the bank is not willing to place large deposit bases at risk if the likelihood of attrition is greater.

Now, focus on the different colored bars within any given mile-band over the past seven years. Take for example, the 2-to-3-mile band, indicated by the value 3 on the x-axis, meaning all branches that closed when the bank had a surviving branch more than 2 miles but less than 3 miles away.

BRANCHING ACTIVITY OF U.S. BANKS

In every year from 2018 through 2022, the average deposits of branches closed in the 2-to-3-mile band increased versus the prior year, indicating that banks became increasingly willing to take on attrition risk. This likely reflects bankers' beliefs that greater use of alternate channels left consumers less branch dependent and thus willing to tolerate greater travel time to their bank.

For example, in 2018, the average deposits of closed branches in the 2-to-3-mile band was $33M; so, on average, bankers were willing to place only $33M at risk if closing a branch left the nearest surviving option 2 to 3 miles away.

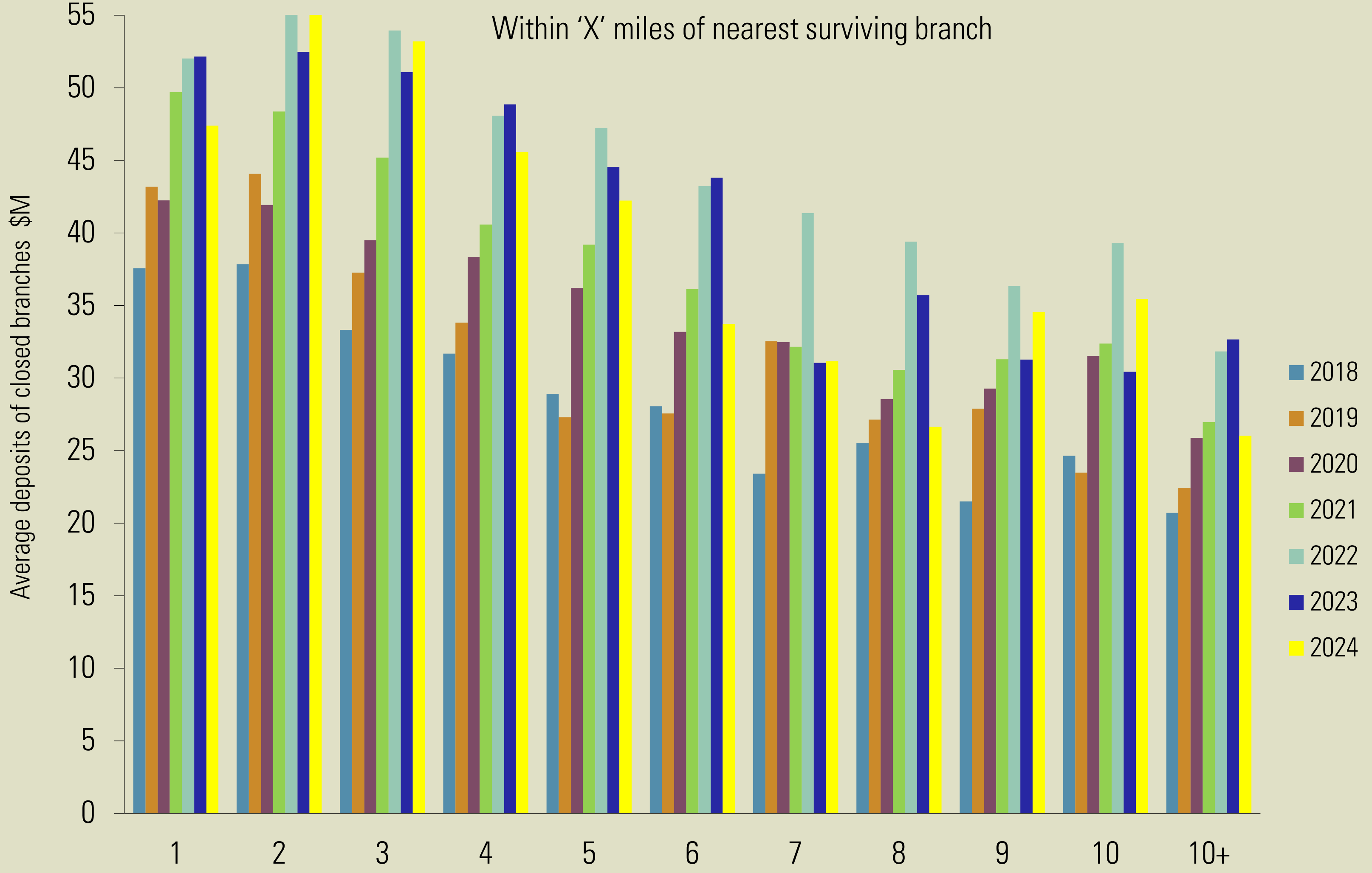
By 2022, the average deposits of closed branches in the 2-to-3-mile band reached $54M. Bankers were willing to place much greater deposit levels at risk of attrition, presumably convinced that electronic channels could help retain depositors even absent a closer branch alternative.

In 2023 and 2024, the average deposits of closed branches appear to have plateaued and even ticked downward in many mileage bands; and this may suggest the easier closure decisions are exhausted (e.g., in a market with limited competition).

Combined with the increased value of deposits in a less liquid environment, bankers appeared more judicious in 2024 in terms of the deposit bases they were willing to place at risk of attrition from closing a branch. This may reflect adverse experiences from closures undertaken in prior years – i.e., even with lesser presumed consumer demand for branches, attrition still reached untenable levels in prior closures.

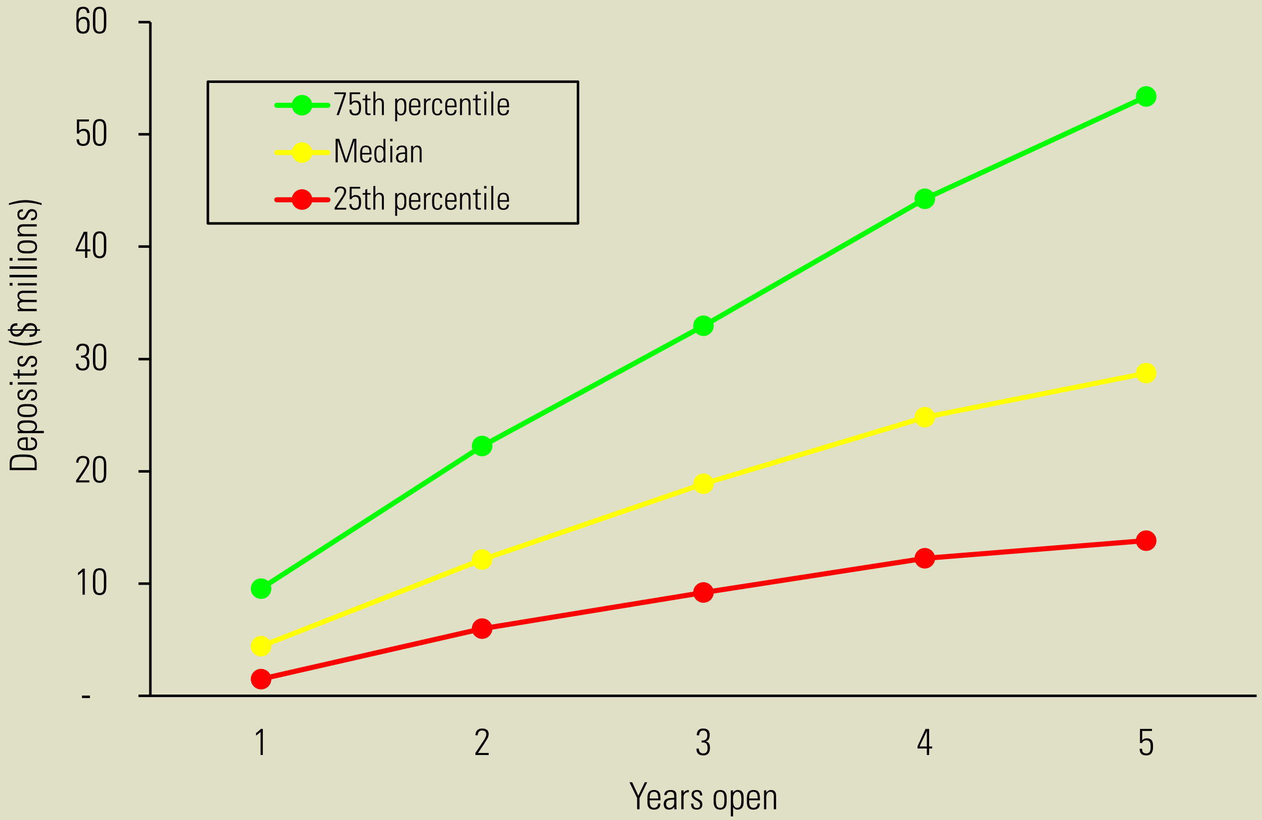
BRANCHING ACTIVITY OF U.S. BANKS

See discussion, previous pages

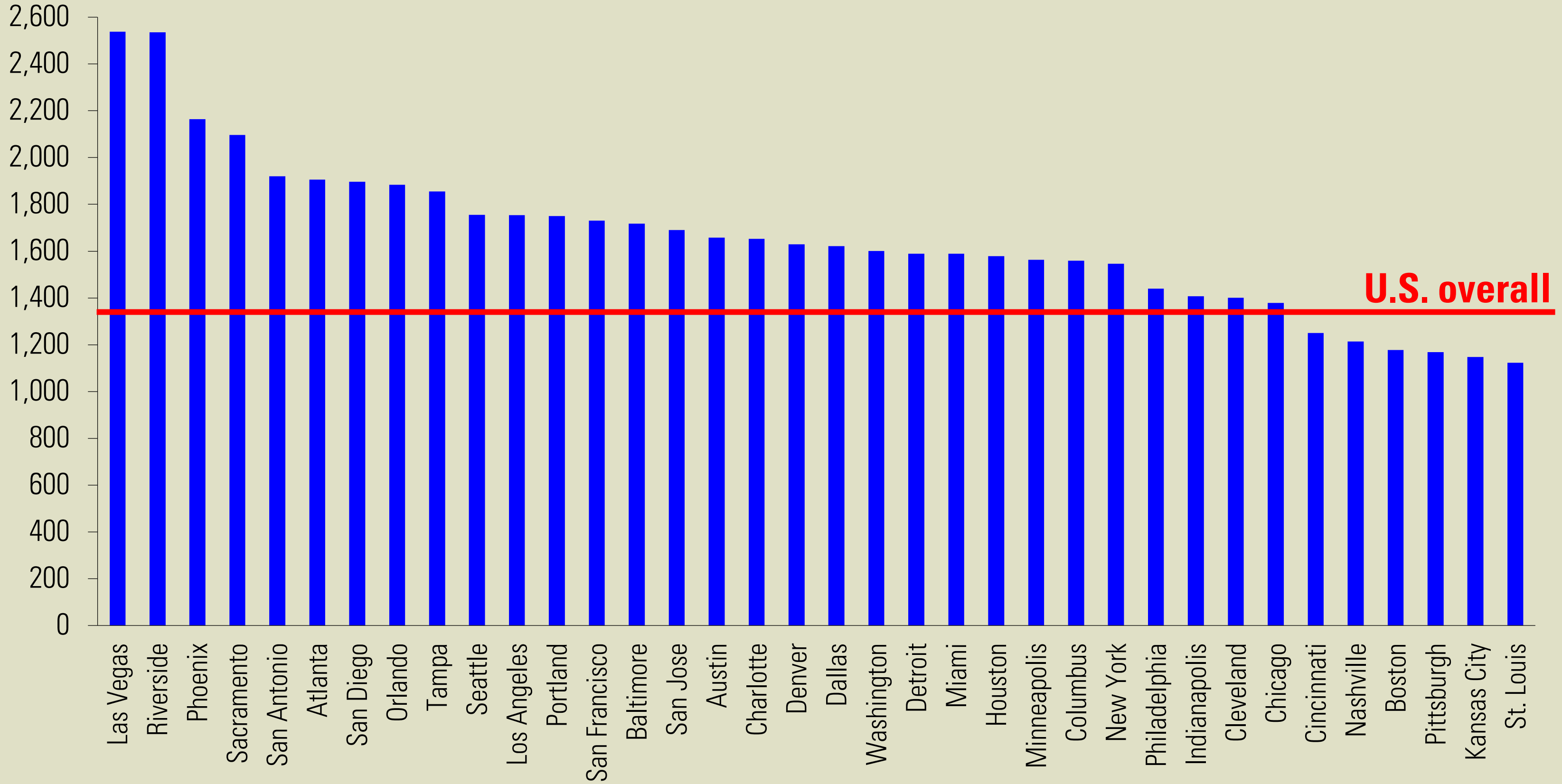


BRANCHING ACTIVITY OF U.S. BANKS

Among U.S. freestanding branches that opened in 2017 through 2019 (i.e., the latest cohort for which we have a full five years of deposit history) median deposits after five years of operation reached $29M. However, there was significant variance in performance, as the top quartile of branches exceeded $53M in deposits by their fifth anniversary, while the bottom quartile languished below $15M after five years of operations.



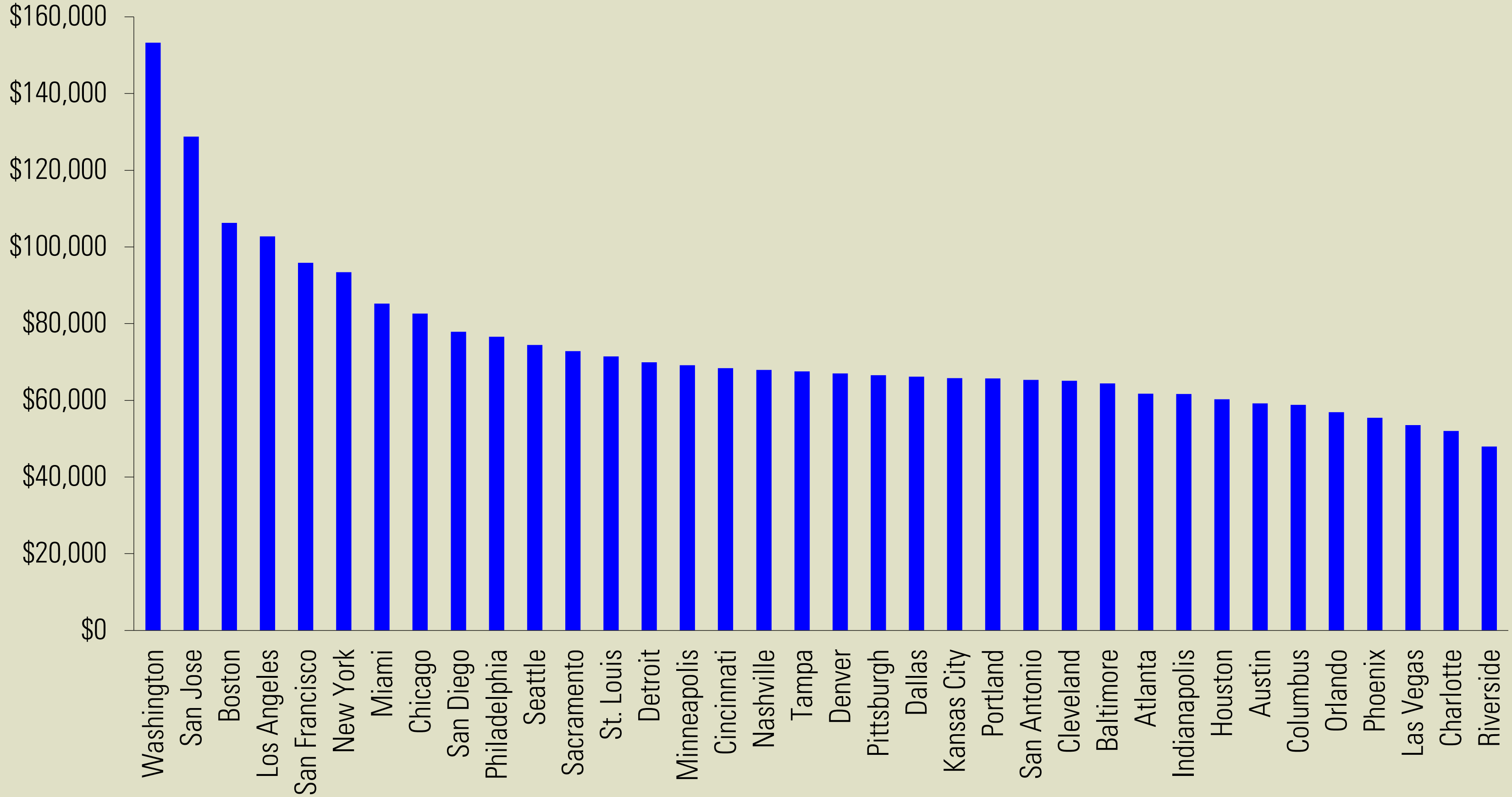
BRANCH CONCENTRATION



The branch closures of recent years have yielded a less concentrated branch landscape. Across the U.S., there is now one branch for every 1,340 households, compared to one for every 1,060 households in 2015. Concentration remains higher in long-established Midwest and Northeast metros: St. Louis, Kansas City, Pittsburgh and Boston all contain one branch for every 1,100 - 1,200 households; and Nashville joins that tier, unusually concentrated for a later-developing market. In contrast, Las Vegas and Riverside each contain only one branch for every 2,500 households, with Phoenix and Sacramento both near 2,100 households per branch. Most large metros remain less concentrated than the U.S. median, offset by smaller metros and rural markets that are much more concentrated.

DEPOSITS PER HOUSEHOLD

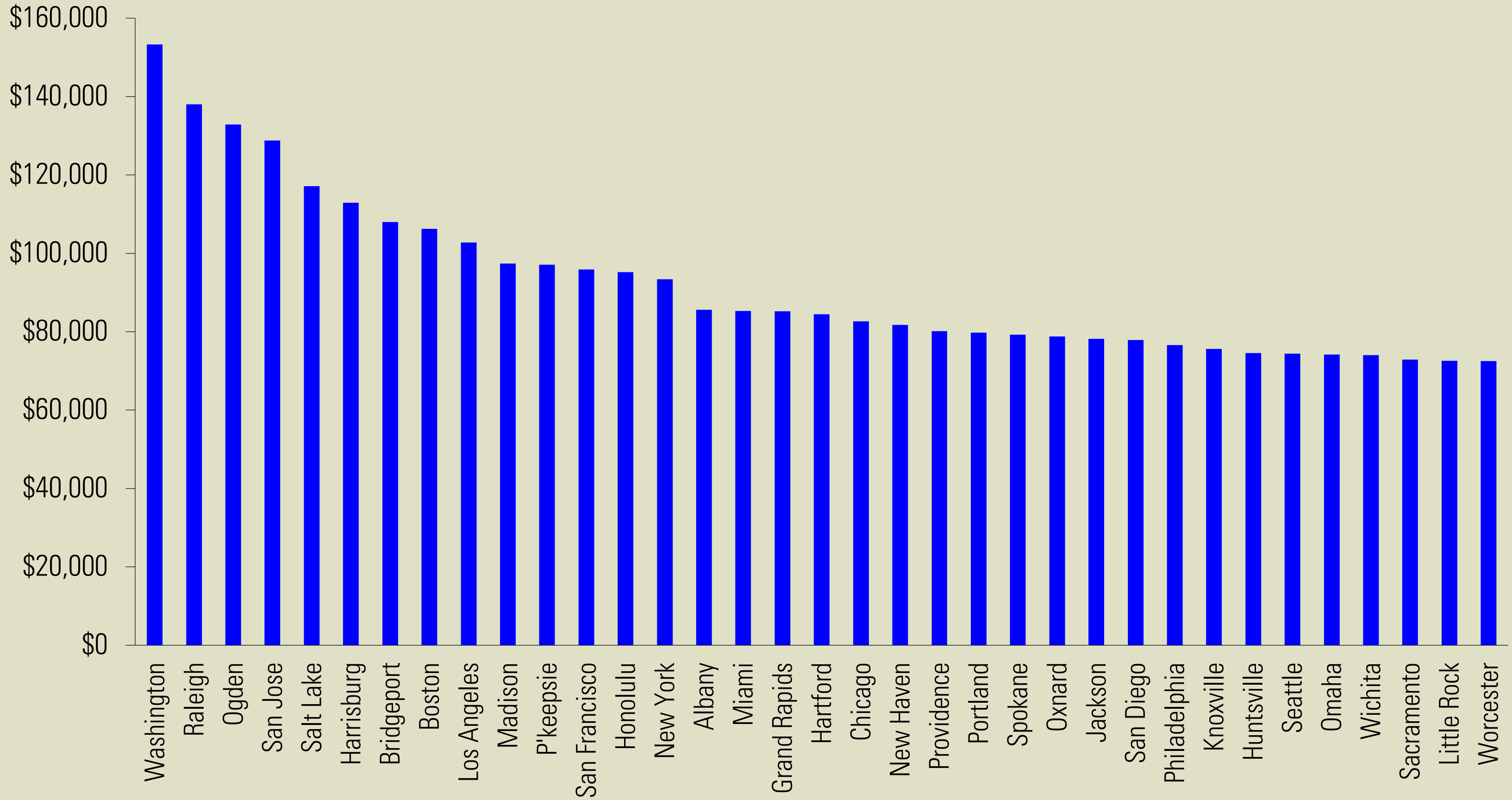
All MSAs with at least two million residents



The larger metros show greater deposits per household, with seven of the 10 largest metros by population also ranking in the top 10 on this measure. This likely reflects the greater concentration of business deposits in those large-market branches, in addition to a general correlation between market size and affluence. Dallas, Houston and Atlanta are the three markets that rank in the top 10 by population but not in per-household deposits, all falling below median on that measure.

DEPOSITS PER HOUSEHOLD

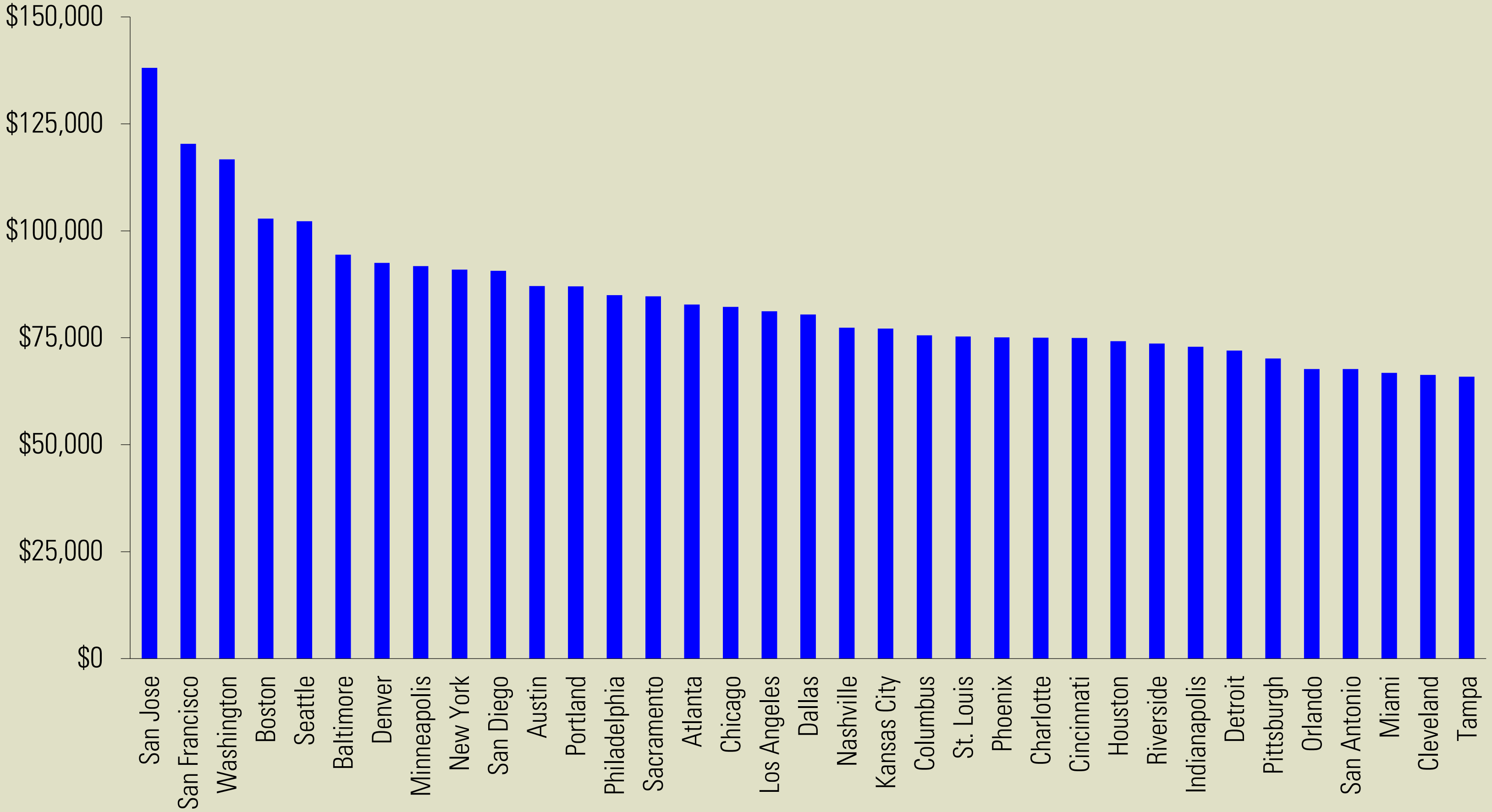
Top 35 MSAs among all metros with population > 500,000



Within the broader universe of all large- and mid-sized metros, numerous markets from the mid-sized tier rank well. These include 'edge cities' of large metros (e.g., Bridgeport and Poughkeepsie of New York, Ogden of Salt Lake City); and broad representation from markets in the Northeast corridor and West Coast regions.

MEDIAN HOUSEHOLD INCOME

All MSAs with at least two million residents



Five markets in the large-metro peer group show median household income exceeding $100,000, with San Jose leading at $140,000, San Francisco and Washington near $120,000, and Boston and Seattle exceeding $100,000. The most affluent metros are generally in coastal regions, with Denver, Minneapolis and Austin notable high-income markets in the interior part of the nation.

MEDIAN HOUSEHOLD INCOME

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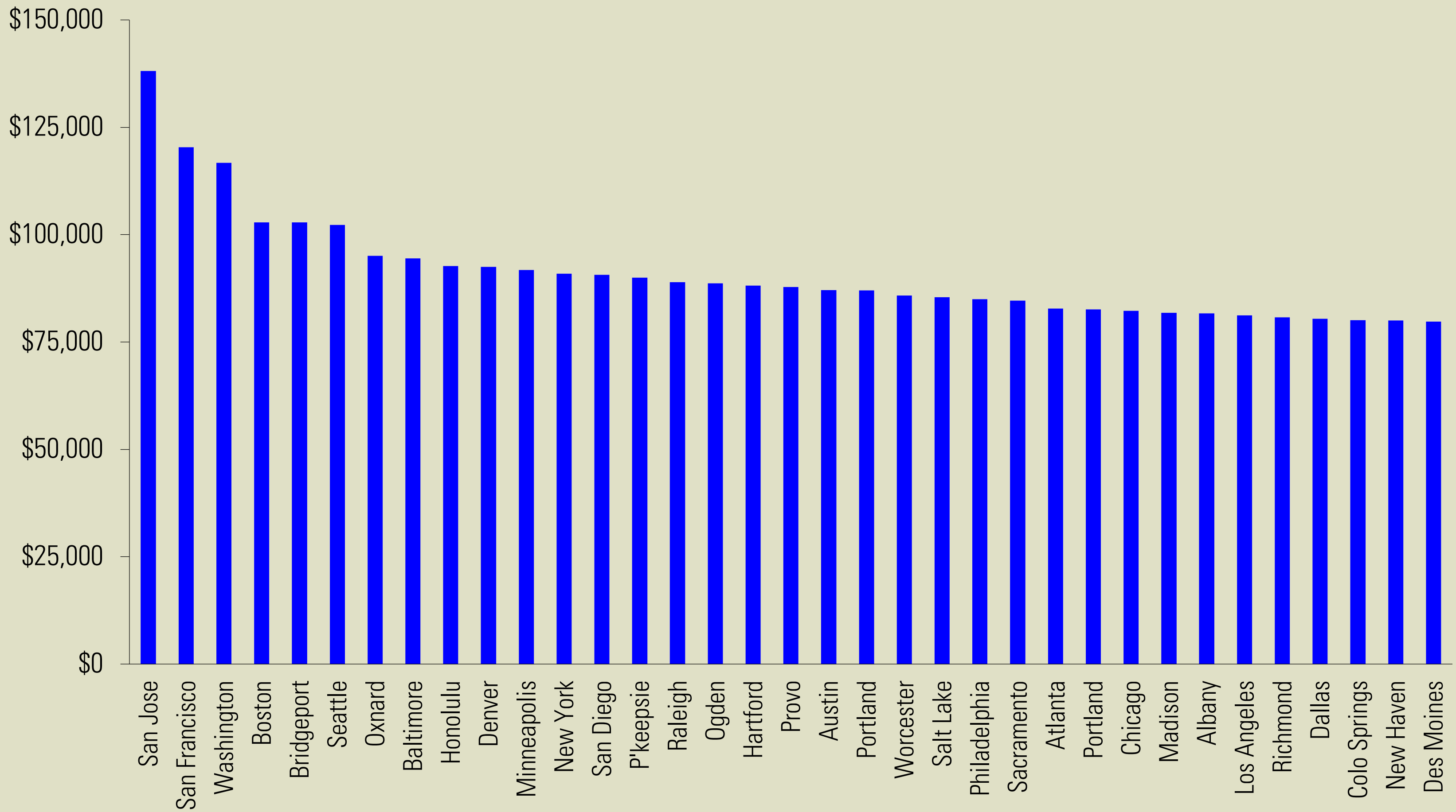
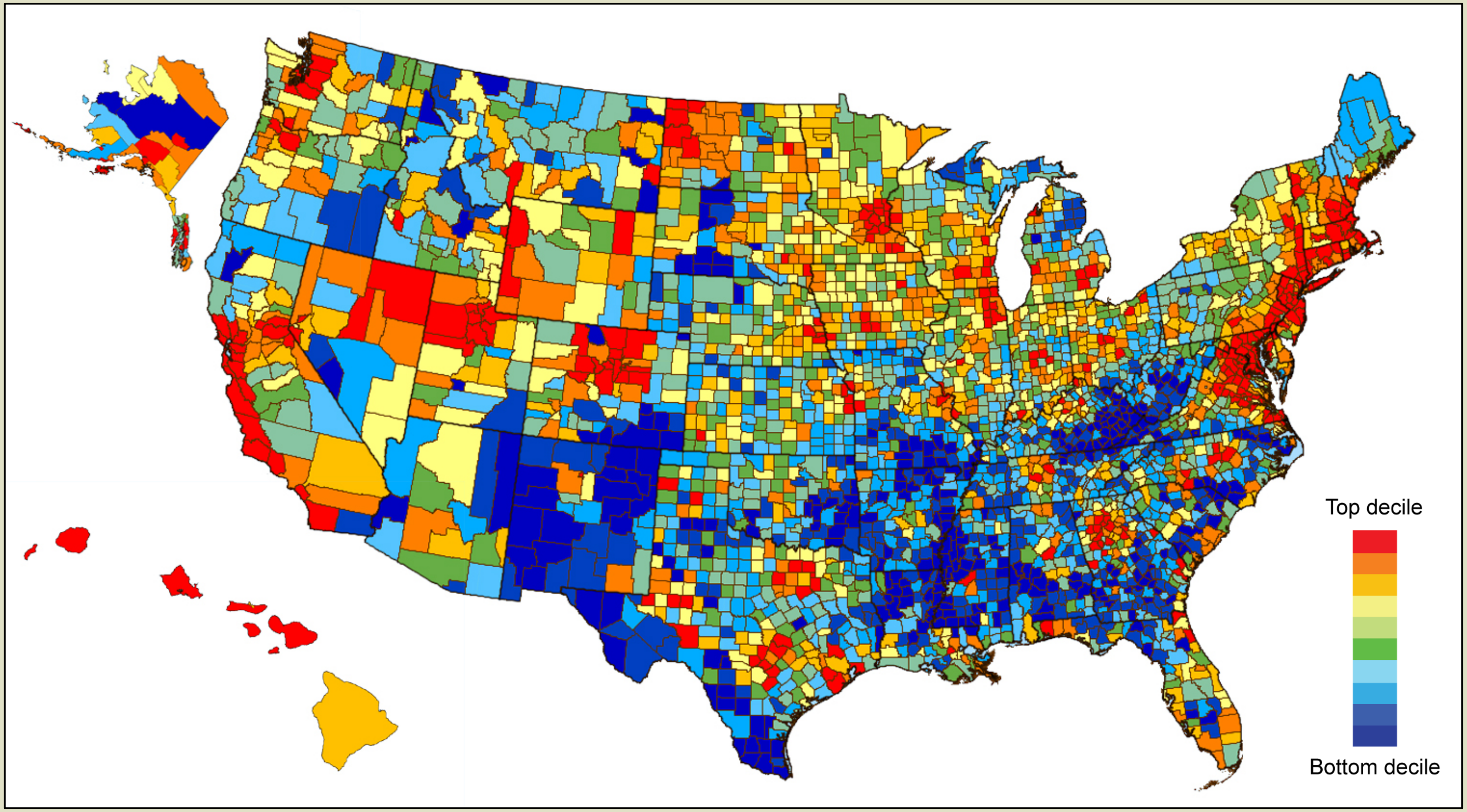


Income remains correlated with market size, so larger metros dominate the list of most affluent MSAs, even when including mid-sized markets. Still, as with the deposits-per-household measure, several edge-city, smaller metros join the top-ranking list (Bridgeport, Oxnard, Poughkeepsie, Ogden, Provo); with Honolulu and Raleigh the top-earning standalone mid-sized metros.

INCOME DISTRIBUTION

Median Household Income



America's largest concentration of affluent households lies along the Northeast corridor, in a region stretching from Richmond through Washington, Baltimore, Philadelphia, New York, Hartford, Boston, and into Portland (ME). The coastal parts of California and Washington (state) are also highly affluent. In between, affluence is mostly concentrated near major metro areas such as Chicago, Minneapolis, Denver and Salt Lake City.

HOUSEHOLD GROWTH PATTERNS

The graphs and maps that follow show trends in household growth in the U.S. over the past five years. Although the data can be informative, one issue merits a caveat.

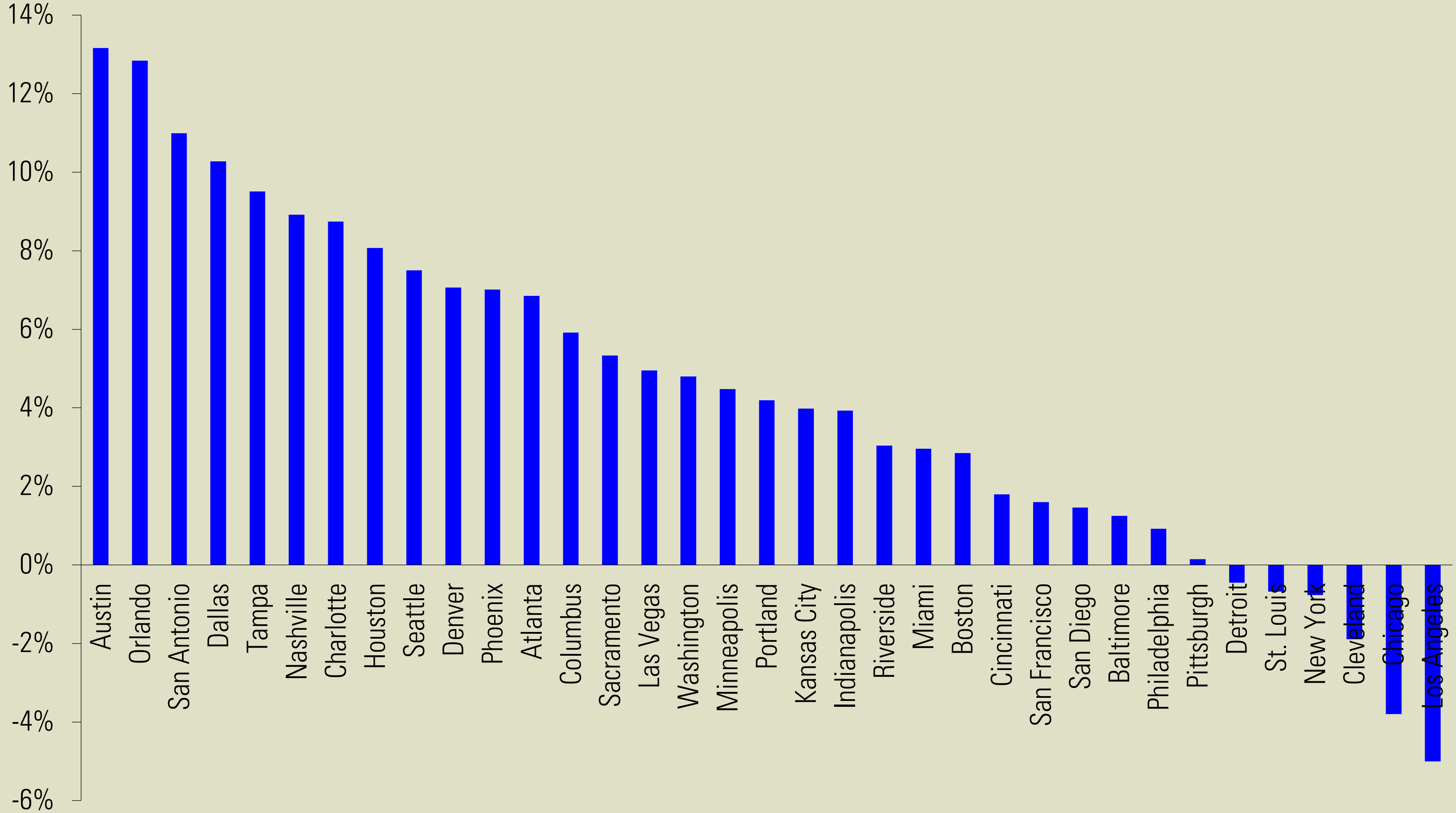
The COVID pandemic caused some significant but temporary population changes. Consider college towns, where students exited for the majority of 2020, artificially reducing population counts; or beach and mountain communities where people may have temporarily relocated during work-from-home periods.

Because a last-five-years look spans from 2019, before the pandemic started, to 2024, by which time any impacts should have "shaken out," the net change across that period may be fully indicative of market dynamics and predictive of future trends.

However, other measures could be less so; for example, bankers should use caution in interpreting any statistics framed as "change since 2020," as in that case, the baseline – pending what point in 2020 it represented – could have been abnormally depressed or augmented due to temporary, COVID-driven relocations into or out of a given market.

HOUSEHOLD GROWTH, 2019 - 2024

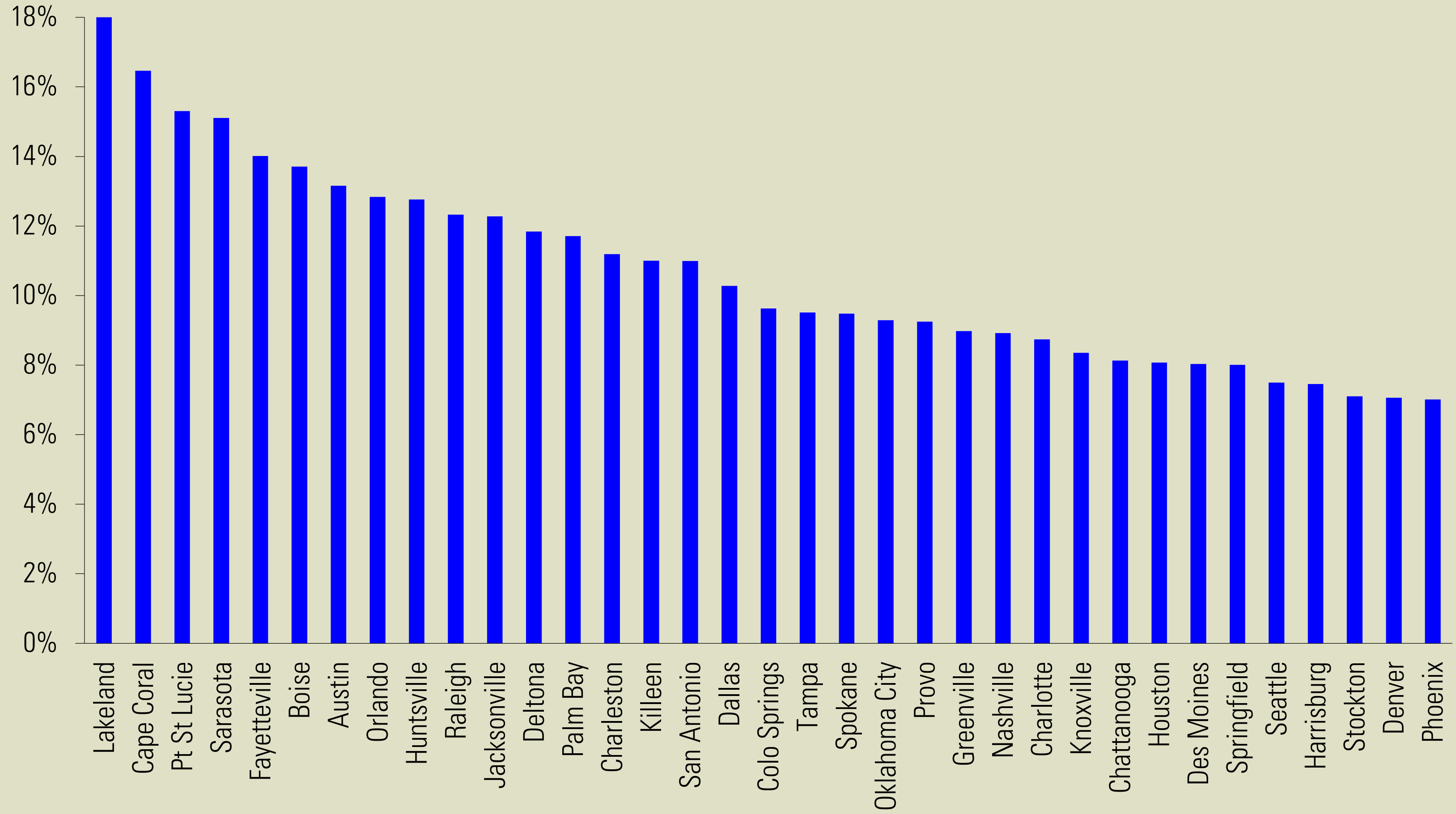
All MSAs with at least two million residents



Texas and Florida markets ranked as the five fastest-growing large metros in the nation over the past five years, with Nashville, Charlotte, Seattle and Denver also ranking well. In contrast, Los Angeles, Chicago, Cleveland, and New York all suffered declining household bases over the past five years, with St. Louis, Detroit and Pittsburgh all about neutral.

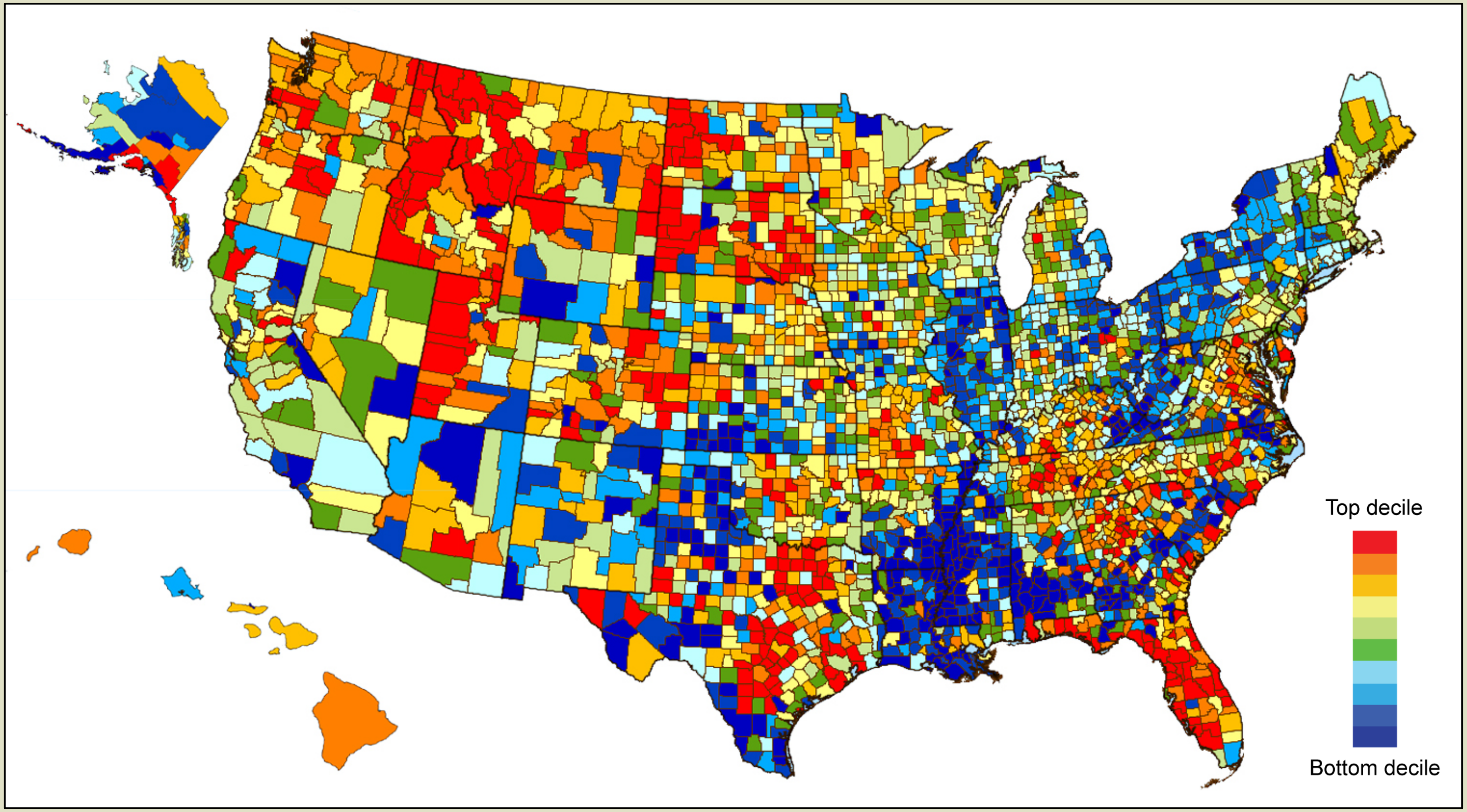
HOUSEHOLD GROWTH, 2019 - 2024

Top 35 MSAs among all metros with population > 500,000



Among all large- and mid-sized metros, eight of the 10 fastest-growing markets are in the southeast part of the U.S. or in Texas, with Boise, Colorado Springs and Spokane the outliers from other regions. Looking beyond that absolute leading tier, top-growth markets from other regions include Oklahoma City, Des Moines, Springfield (MO), Seattle and Harrisburg.

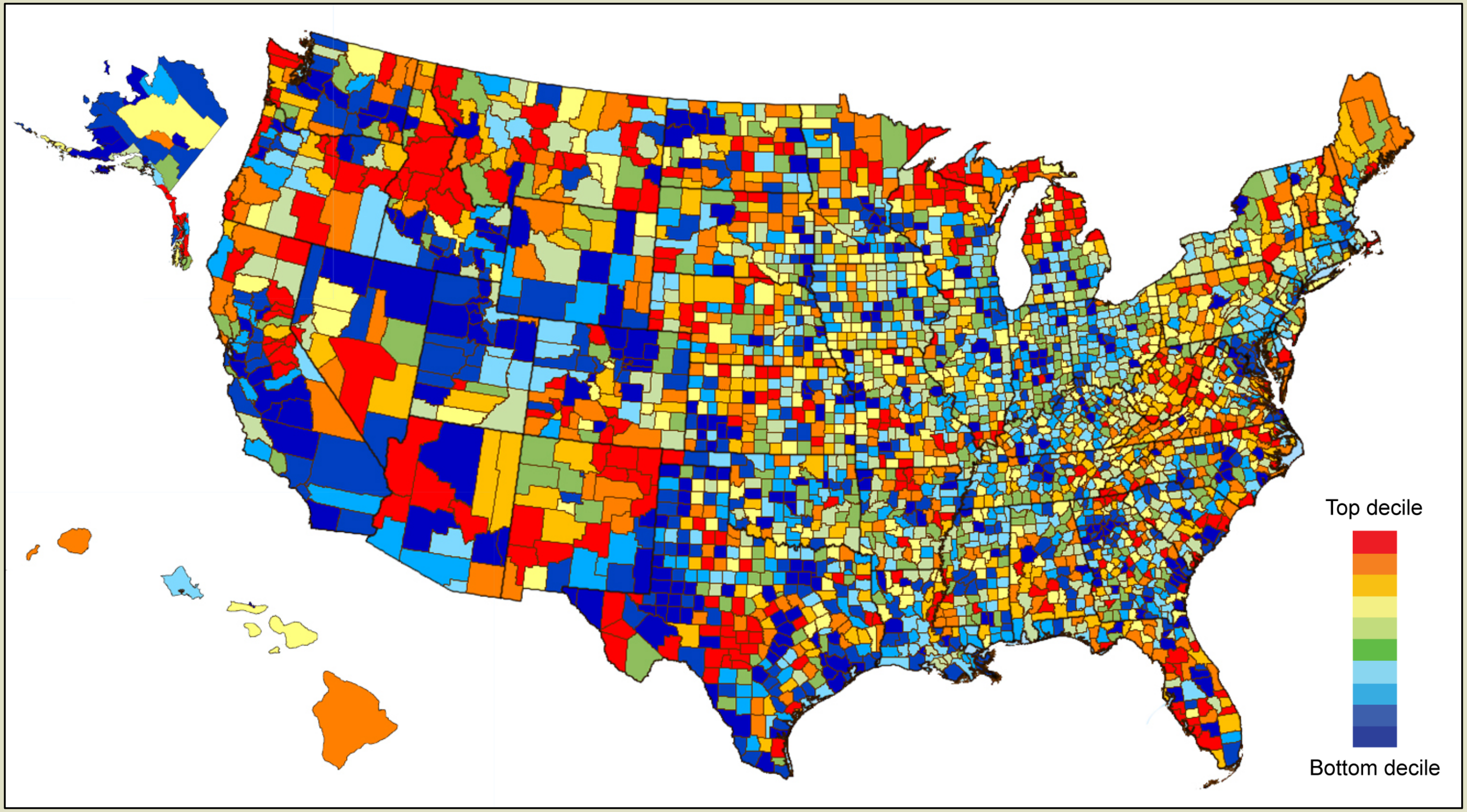
HOUSEHOLD GROWTH, 2019 - 2024



The Pacific Northwest and Rocky Mountain regions saw substantial household growth over the past five years, in part due to Californians relocating for a lower cost of living. Other growing regions included retiree havens in Florida and the Ozark Mountains and dynamic metros such as Nashville, Charlotte, Washington DC, and multiple Texas markets. In contrast, rural areas in the lower Mississippi River Valley, along the Great Lakes, and in the Appalachian region continue to suffer population declines.

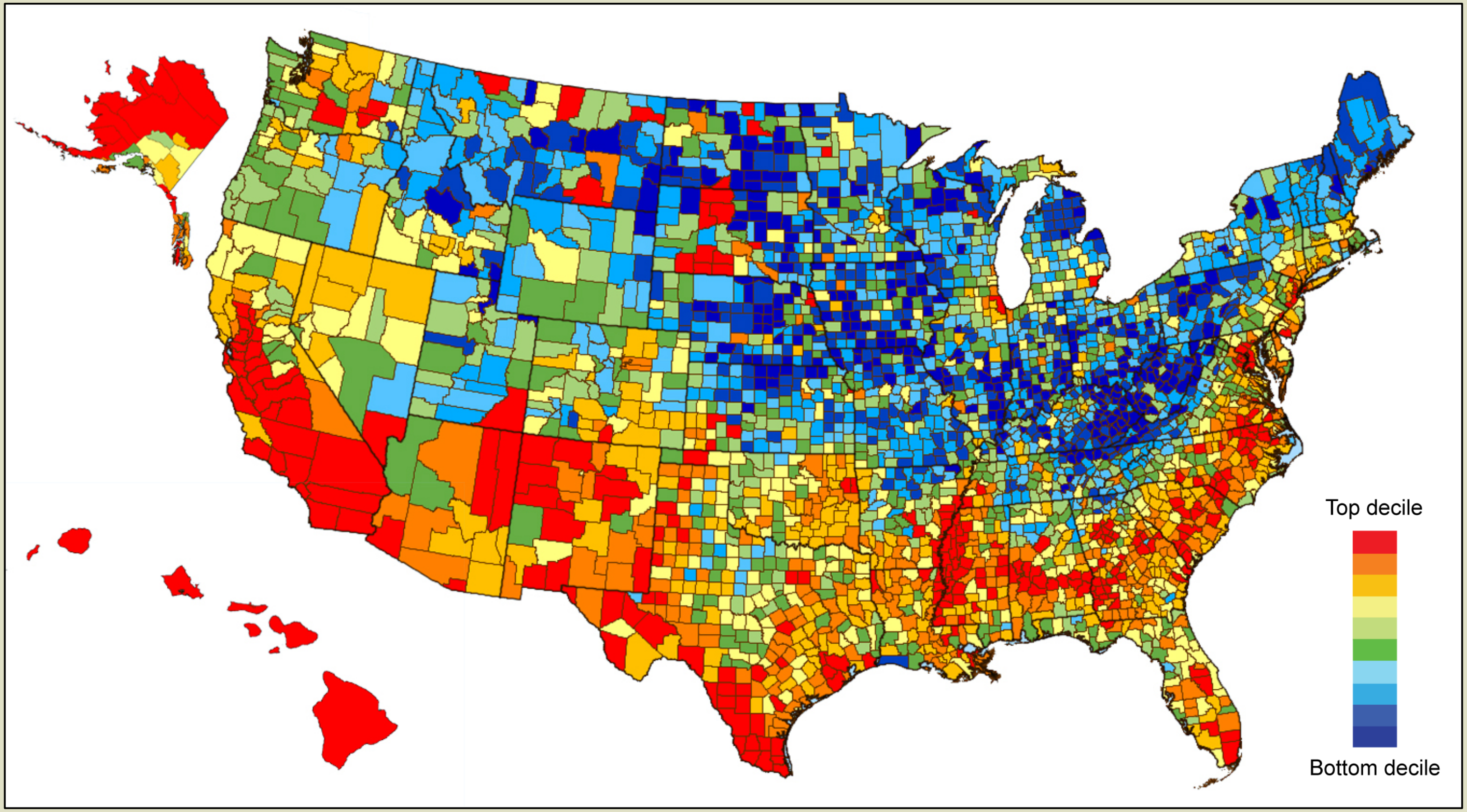
AGE DISTRIBUTION

Median Age (Head of Household)



The United States' population has shifted increasingly toward urban areas in a decades-long trend, leaving the Appalachian and Plains regions among the oldest-skewed parts of the nation. Those regions join traditional retirement havens such as Florida, the coastal parts of the Carolinas, and the coastal parts of Maine and Michigan in skewing older. In contrast, much of California skews younger, as do major metro areas in Texas, Colorado and Utah, and to a lesser extent, in the Southeast U.S.

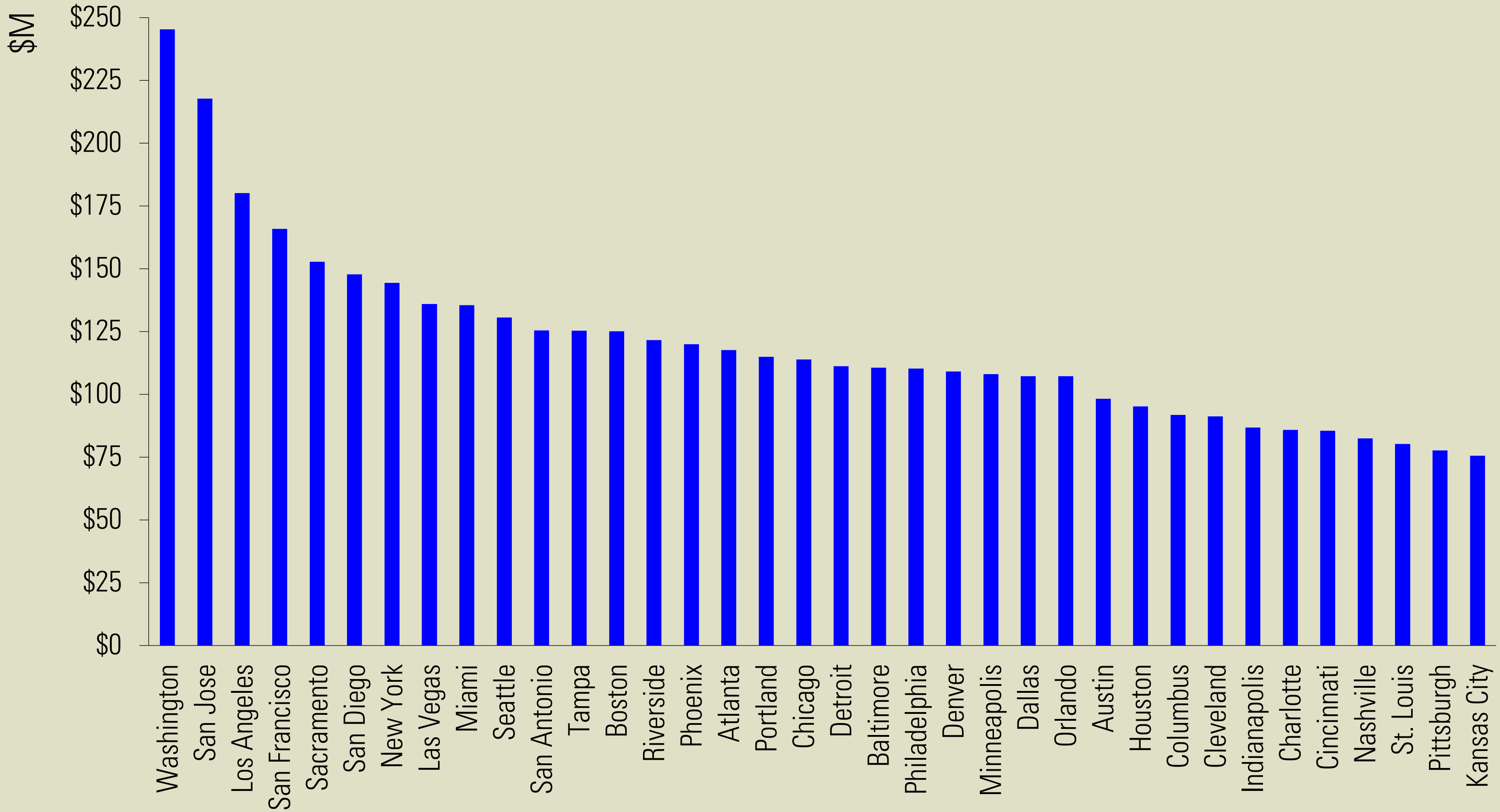
MINORITY POPULATION



Minority population distribution in the U.S. is highly skewed, with the greatest concentrations of minority residents across the Southwest (mostly Hispanic or Native American) and the Southeast (mostly African-American), as well as Native Alaskan and Hawaiian in those respective states. Note also pockets of Native American concentration in South Dakota, Montana and Washington. In contrast, the Northeast (other than the coastal metros), Midwest and Appalachian regions maintain predominantly White population bases.

DEPOSITS PER BRANCH

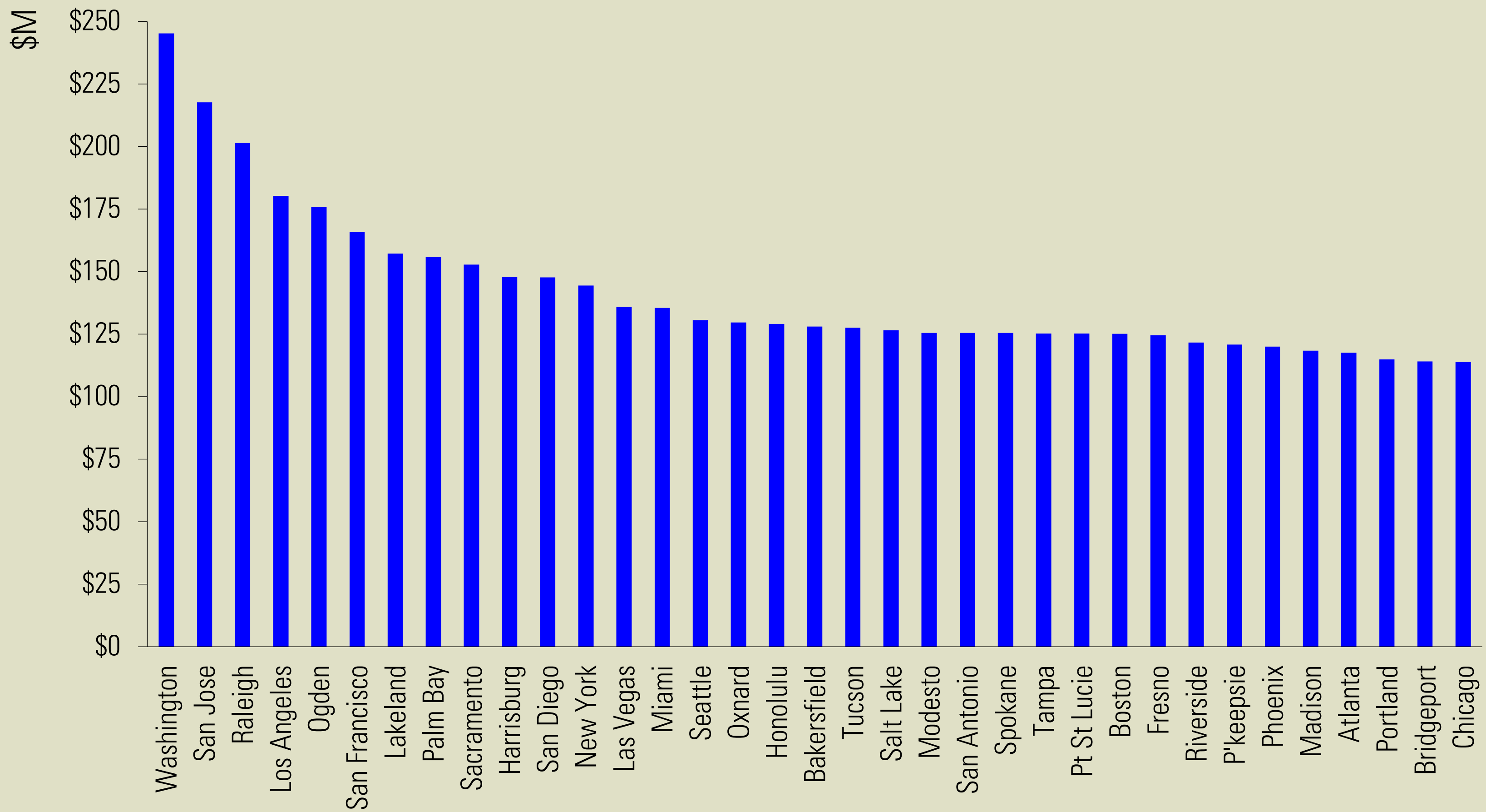
All MSAs with at least two million residents



The top markets in terms of deposits per branch reach that status through a combination of high affluence (median income and/or deposits per household) or low-to-moderate branch concentration. The largest average branch size is thus found in markets that rank highly on both attributes (such as the numerous California markets at the top of the list). In Washington, New York, Miami and Boston, affluence is high enough to offset greater branch concentration; in Las Vegas, the opposite holds (i.e., low branch concentration offsetting modest affluence).

DEPOSITS PER BRANCH

Top 35 MSAs among all metros with population > 500,000



Because larger markets generally show greater affluence and less branch concentration than smaller markets, few mid-sized metros reach the top of the deposits-per-branch ranking. Those that reach the list are mostly deposit-laden retirement markets (e.g., Lakeland, Palm Bay, Tucson); plus a few exceptions where the large centralized deposit bases of statewide credit unions skew the statistics (e.g., Raleigh, Harrisburg).

THE YEAR AHEAD: A MULTICHANNEL IMPERATIVE

- Looking back on 2024 reveals what was by many measures a successful year for the banking industry. By perhaps the ultimate arbiter of performance, safety and soundness, the industry excelled in 2024, seeing only two failures in 2024; one of those was from a bank beset by management turmoil and ill-advised strategic decisions, and the other held only $110M in total assets.

- Banks and credit unions fared well by other measures, too, with return on assets, return on equity, net interest margin and efficiency ratios across the industry either holding steady or modestly improving versus 2022 and 2023.

- Further, waning inflation in 2024 prompted the Federal Reserve Board to multiple interest rate reductions in the latter part of 2024, which should spur demand for commercial loans while also "unsticking" the mortgage market, as consumers find mortgage rates that can entice them to trade up to new homes.

THE YEAR AHEAD: A MULTICHANNEL IMPERATIVE

- Most importantly, the Federal Reserve Board appears to have engineered the elusive "soft landing" for the U.S. economy, bringing inflation to acceptable levels without damaging the robust underlying employment environment.

- In sum, barring any external shocks, the banking industry appears favorably positioned for another year of solid performance ahead.

- That noted, competition remains intense across the industry. And with few major acquisitions in the past two years, community banks and credit unions will find fewer opportunities to capitalize on post-merger market tumult.

- Further, bankers face an array of capital-investment decisions, needing to maintain top-tier electronic channel options to keep up with the largest providers in the industry, let alone create meaningful differentiation.

THE YEAR AHEAD: A MULTICHANNEL IMPERATIVE

- And yet, faced with a continued need to invest in technology, bankers cannot neglect that fundamental channel consumers and businesses most closely associate with financial institutions – the branch.

- After years of industry pundits painting the branch as an anachronism that only staid community banks might cling to, 2024 saw headlines such as this from the *Associated Press* article "Coffee, sculptures and financial advice. Banks try to make new branches less intimidating" published June 10.

  After years of closing or mostly neglecting physical bank branches across the U.S., the nation's largest banks are spending hundreds of millions of dollars on refurbishing old locations or building new ones

- And from *PYMNTS* on March 20, 2024: "Are Brick-and-Mortar Bank Branches Cool Again? "

THE YEAR AHEAD: A MULTICHANNEL IMPERATIVE

- Bearing this out, an article in *American Banker* published January 21, 2025 titled "Why Fifth Third isn't prioritizing M&A in Southeast expansion" noted:

  But buying a bank isn't high on Fifth Third's priority list, CEO Tim Spence indicated, pointing to the bank's early success in the Southeast branches it's building. "We are growing really nicely organically," Spence told American Banker, which means Fifth Third doesn't have to "reach for M&A."

- The above is one of many cases where the nation's largest banks have either already commenced or announced planned revivals in branch investments, and the reemphasis on retail positioning is not distinct to our industry. *Fortune Magazine* (March 2025) noted how Nike forsook retail in favor of the online channel during the pandemic, but then suffered from not reestablishing that channel afterwards:

  "The company's fatal error was believing the pandemic had changed consumer behavior forever – that brick-and-mortar was dead. Instead, it turned out people still liked going to stores, checking out the new styles, trying on the sneakers before they bought them. And when they walked into Foot Locker or Dick's or DSW, all the shelves that used to be filled with Nikes now held new brands."

THE YEAR AHEAD: A MULTICHANNEL IMPERATIVE

- And while speaking with your local banker may not be quite as likeable or exciting an experience as trying on the latest styles in athletic footwear, when consumers venture into their town centers or suburban shopping districts, they still expect to see financial institution presence.

- Thus, if your institution is not among the brands "on the shelves," or in the case of our industry, on the street or in the strip center, how does the bank or credit union even reach the evoked set – i.e., that limited subset of the 8,500 banks and credit unions operating in the U.S. that a consumer or business might realistically consider for their next banking need?

- Even for an intangible product, physical presence matters, in that the trust in the product recommendations may largely emanate from the in-person interaction, a dynamic difficult – though not impossible – to cultivate or replicate remotely.

THE YEAR AHEAD: A MULTICHANNEL IMPERATIVE

- Unfortunately for our chief financial officers, the revival in branch expansion plans in no way reverses the imperative of the past several years to invest in robust alternate delivery channels.

- Rather, in the year ahead many banks and credit unions will need to return to a strategic framework from the early days of the Internet era: clicks and bricks. The multi-channel approach is appealing to consumers; why be ratcheted into a pure online institution or a branch-centric one, when you can find numerous options offering both?

- But as Bancography has reminded in numerous prior articles and presentations, the CFO has only one pool of noninterest expense to go around; one pot of funds from which to support the numerous channels clamoring for investment.

- Which do we prioritize – the branches, the call center, the online channel, the ITMs? And the challenging answer is: D) All of the above.

THE YEAR AHEAD: A MULTICHANNEL IMPERATIVE

- Accordingly, a key challenge for 2025 will lie in channel-investment allocation decisions. How do we fund the new technologies consumers and businesses demand, while maintaining the branches that create awareness for the institution, placing it in the choice set to begin with, when financial needs arise?
- Toward that end, three key areas meriting attention are:
    - Branch design and the ability to build smaller, more cost-effective service models with lesser staffing requirements
    - Staffing efficiency, including both role definition and resource allocation, in the branch and the call center channels
    - Capacity utilization and leveraging the surplus square footage that burdens so many bank and credit union branches nationwide, artifacts of a prior era in banking when transaction queuing space was imperative

THE YEAR AHEAD: A MULTICHANNEL IMPERATIVE

- Regarding capacity utilization, Bancography has long maintained that the largest challenge confronting retail banking operations is not a surplus of branches, but rather a surplus of square footage.

- To address that, bankers need to consider innovative uses for surplus square footage, whether as community-use space; to house a back-office function (e.g., the indirect lending support center) in lieu of paying rent at a headquarters location; or as co-working space for customers and members of the institution.

- Since the COVID crisis, there has been uncertainty over the extent to which remote and/or hybrid work models will endure. Even as some companies continue to offer hybrid work options as both a means of reducing office occupancy costs and as an enticement for employee recruitment, others have mandated a full return to office work.

- With the unemployment rate bouncing off of its historic 3.4% low to 4.1%, the additional slack in the workplace may also shift leverage to employers that prefer in-office presence but feared employee retention challenges from demanding such.

THE YEAR AHEAD: A MULTICHANNEL IMPERATIVE

- In one example, the city of Philadelphia (the nation's sixth largest city by population) mandated in mid-2024 that all employees return to their respective office locations, describing the edict as "sunsetting the virtual work policy" of the COVID era, though allowing departments "discretion to permit occasional remote work to address periodic life circumstances."

- Where the majority of employers land on the remote to hybrid to in-office continuum carries implications for branch banking. Branches in bedroom suburban communities that at one time saw limited daytime traffic as their neighborhood clients mostly commuted outward to central business districts have seen increased traffic in the hybrid work era, as have retailers in such communities overall.

- Accordingly, branches in such communities, typically mass-affluent suburbs, stand to realize the greatest benefits from the simple addition of wi-fi, workstations, coffee, and a few other amenities to repurpose dormant excess space into shared workspaces clients or members can utilize as a work-from-home venue with less background noise than the den or the Starbucks. Such uses can build loyalty and reinforce an institution's top-of-mind status for when those visitors encounter new financial needs.

THE YEAR AHEAD: A MULTICHANNEL IMPERATIVE

- Beyond the delivery network, uncertainties in the interest rate environment leave corresponding uncertainties in loan demand. Federal Reserve Board guidance indicates two rate drops in 2025, when prior guidance had predicted four.

- However, the relationship of rate reductions to borrowing demand at this point may not be quite as direct or linear as one might expect. At some point, projections of fewer and/or shallower rate cuts may stimulate borrowing demand, as consumers and business owners concede "this may be as good as it gets for a while."

- If the next rate reduction no longer appears imminent, borrowers may no longer carry the option to wait out the higher-rate period; and will instead assume loans at current market rates.

- Relative to that decision, too, keep in mind that interest rates, while still elevated in the context of the zero-interest rate policy era that emanated from the 2008/2009 financial crisis, remain at reasonable levels relative to historic norms.

THE YEAR AHEAD: A MULTICHANNEL IMPERATIVE

- Finally, one other challenge bankers may face is a slowing pace of household growth in the U.S., yielding what would be closer to a ‘zero-sum’ environment where all institutions are pursuing a fixed pool of customers and one institution can gain only at the expense of another; than to an environment where an expanding base allows gains for all, the proverbial rising tide that elevates all boats.

- Per the U.S. Census Bureau, 2024 saw the fastest pace of population growth in the U.S. in 20 years. However, the level of natural population growth (i.e., births over deaths in the nation), though rebounding from the COVID-induced nadir of 2021 and 2022, remained at a lower level in 2024 than any other years this century. Rather, the majority of the nation’s population gains arose from immigration. And to the extent that changes in federal policy and/or a less appealing employment environment may reduce that channel, the minimal growth from the currently aging incumbent U.S. population will do little to increase aggregate demand for any products, financial or otherwise.

THE YEAR AHEAD: A MULTICHANNEL IMPERATIVE

- As always, our annual outlook would not be complete without a note of gratitude to our colleagues on the regulatory side of the industry. Though often cited as an impediment to growth or profitability by overeager bankers, the reality is, regulators serve the best interests of our industry, striving to foresee looming obstacles and to warn bankers accordingly. To a group that often toils in a thankless corner of our industry, Bancography offers our appreciation, and a sincere hope that every banker takes greater effort in building mutually beneficial relationships with their regulators.

- To the bankers, we extend wishes for a successful year ahead, and we will anticipate seeing the creative, innovative ways banks and credit unions pursue their strategic objectives, overall and especially with their distribution channels.

HOW BANCOGRAPHY CAN HELP

- As bankers consider the industry landscape in 2025, Bancography can provide:
  - **Bancography Plan**, a market analysis and branch planning tool that enables users to forecast profitability for proposed locations, monitor competition and evaluate the performance of existing branches.
  - **Branch Network Optimization** services, to determine an overarching branching strategy, including expansion targets, reconfiguration and hub-and-spoke opportunities, close candidates, and prospective merger partners to create the most efficient branch network possible.
  - **Branch Performance Evaluations**, to determine how selected branches are performing relative to industry benchmarks and market opportunity, to assist in keep/close decisions.
  - **Branch Staffing Reviews**, to ensure staff levels at every branch align with demand, and every branch is leveraging the proper operating model (e.g., equipment, universal banker versus teller/CSR divide) to maximize efficiency.
  - **Marketing Research**, to confirm all channels continue to provide top-tier customer service, and to measure changes in consumer preferences.

Questions, Comments or More Information?

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