U.S. BANK INDUSTRY PERFORMANCE AS OF Q2 2025

Based on Efficient Frontier Analysis (EFA) of the Bank Industry

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INSIGHT

The U.S. Bank Industry is now seeing dramatic changes in the U.S. trade position due to tariff actions of the new administration, as well as the prospect of declining interest rates. These and other impacts from new government policies on the economy will challenge banks to properly position themselves to address changing customer financial needs as a result.

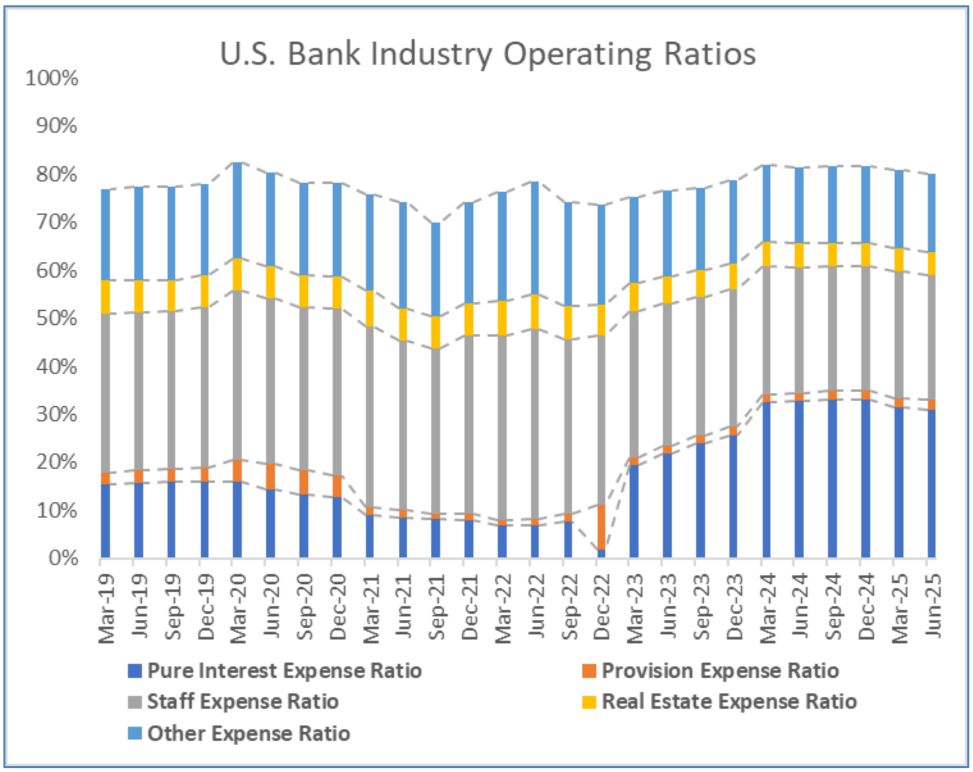
Top Performing U.S. Banks – Q2 2025

Highest Rated Banks for Business Quality & Operational Efficiency

Hoeg & Company, Ltd. has completed its review of the U.S. Bank Industry for Q2 2025. The review included 4,411 banks operating in the U.S. and measured how efficiently they managed their business operations and how effectively they built and maintained quality books of business. In other words, the review measured how much "bang for the buck" each institution got from what it spent on its business operations and the quality of the book of business those operations produced and maintained. Hoeg & Company, Ltd. also used its Efficient Frontier Analysis (EFA) to evaluate the performance of the industry in total to better understand the trends occurring in the industry and how competition is changing among the country's banks.

Industry Situation – Q2 2025

In Q2 2025, interest rates remain elevated and the prospect of any potential decline is moderate, at best, and then only at a slow pace. This pressure combined with mixed inflation signals suggests that U.S. banks will continue to experience high interest expense. Any reduction in the cost of interest will be a welcome relief to the operating costs of U.S. banks and may lead to a slow return to an environment similar to the pre-COVID period. The stability of low interest rates combined with attractive economic growth before the pandemic allowed banks to more confidently compete based on factors more withing their direct control such as service levels and quality.

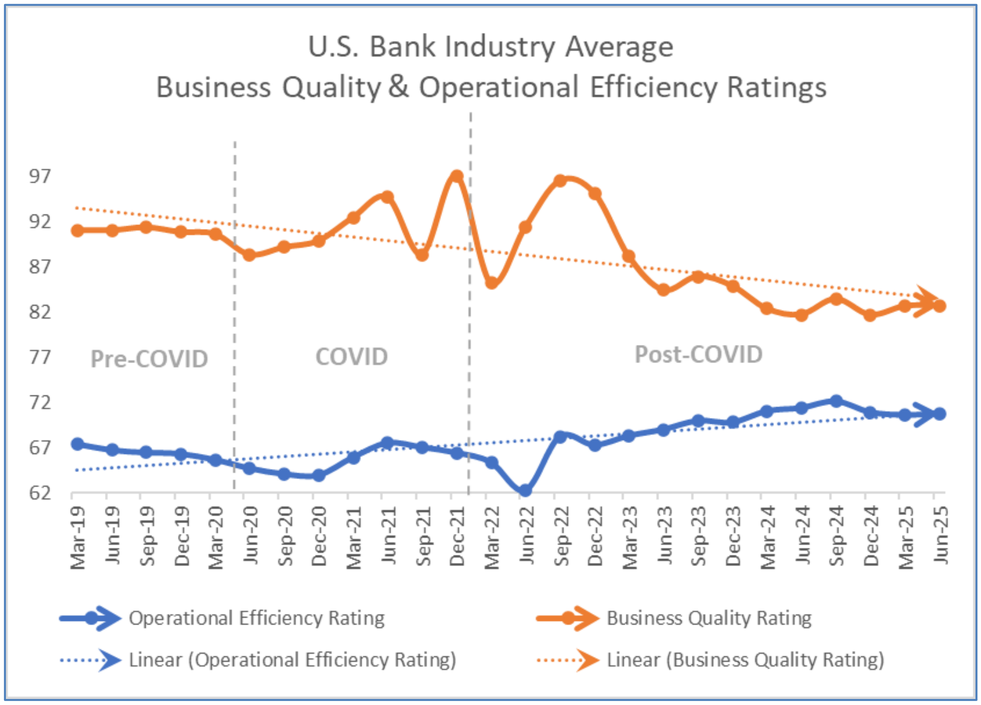


Anticipating slowly declining interest rates, bank managers should plan for two phases of coming competition. First, a transition period of declining costs and economic growth, including an increase in mortgage business. Transition periods are difficult in any industry, even when changing for the better. For the bank industry such periods can be particularly difficult because the dynamic between capturing new business opportunities and maintaining discipline in selecting and pricing new business can be tricky to manage. To the extent that a bank is nimble in identifying and implementing operating and resource changes needed to address changing customer needs, in a cost appropriate manner, win.

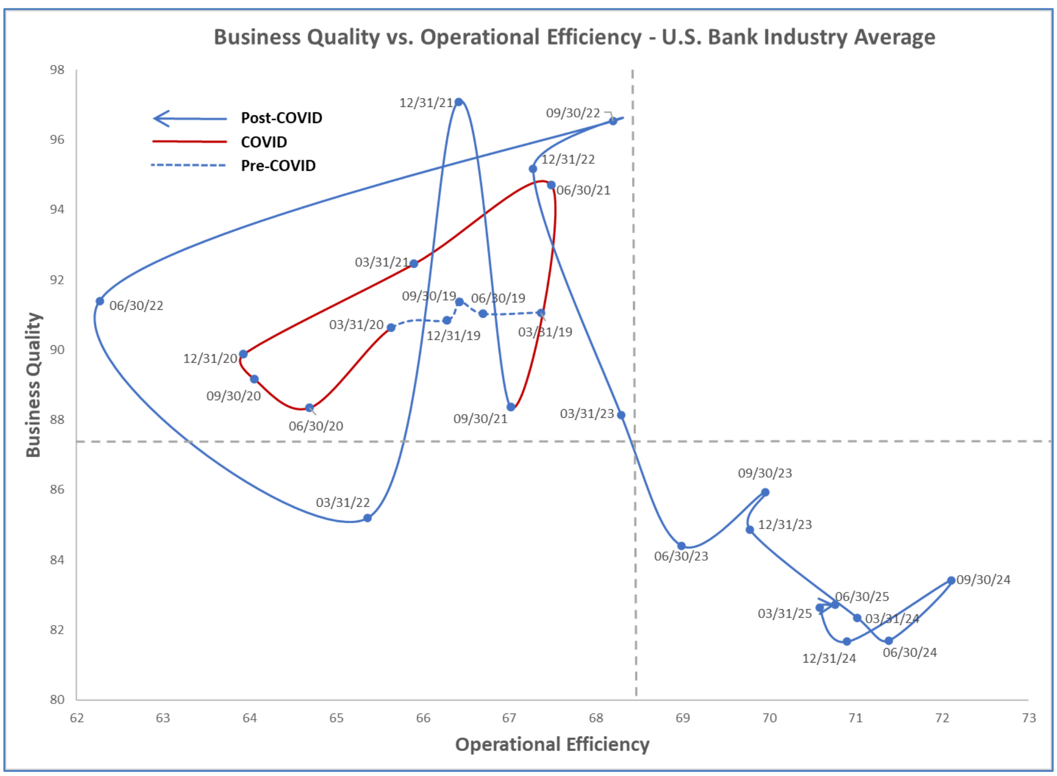
There is currently a significant difference from the pre-COVID period for bank operations than currently exists. Pre-COVID the bank industry had a higher quality book of business than it has now, but the industry is far more operationally efficient now than before COVID.

This is likely due to two issues. First, the pre-COVID environment for banks was one of long-term low interest rates. Long-term stability in interest rates meant that banks needed to find ways to compete beyond interest-based products. Many turned to differentiation based on service levels along with increased targeting of select customer groups. As a result, bank business quality remains high and stable, consistent with a stable economic and interest rate environment. Banks could tailor their product and service offerings to a high degree of refinement to attract their desired customer base and achieve their best quality book of business. As a result, operational efficiency became less of a focus and declined. In other words, the competitive environment was not one of open warfare, but rather one of subtle and nuanced combat.

For now, interest expense remains the primary cost for the bank industry, greater than the cost of personnel. With interest expense consuming such a high portion of banks revenue, it has made it difficult for banks to invest in initiatives to improve their competitive position. The prospect of this changing will likely bring with it increasing competition among banks for market share. Reductions in interest costs will likely motivate many banks to pursue operational investments to improve competitive capabilities to capture a greater share of a market growing with the economy.



Second, the upheaval of the COVID era economic restrictions forced banks to operate in a highly uncertain economic environment in form of survival mode. As the economy shut down most banks were forced to become highly efficient and to shed all but absolutely necessary costs. This forced operational cost-discipline became the new normal for U.S. banks at a time when customer and product focus became less of a driver of bank success. As a result, the bank industry is now more operationally efficient but with a generally lower quality book of business.



Banks that maintained advantages in business quality during the recent period of high interest costs now find themselves best positioned to move to capture attractive new business as the economy turns to lower interest rates and business growth. Banks that sacrificed business quality to become more operationally efficient may find their ability to capture attractive business as the economy continues to improve constrained.

Fears of bank failures typically diminish as the economy improves, and M&A activity increases. Many well positioned banks both in efficiency and business quality will likely seek to identify weaker competitors to acquire as a means to capture market share knowing that there will be bargains among banks that are not operationally efficient or cannot build higher quality books of business. Banks with inefficient operations may find some relief once interest rates begin to decline, but will likely not be able to compete for improving new business making them low-cost acquisitions. Banks currently with poor-quality business portfolios but efficient operations will likely be best positioned to lead in capturing market share as interest costs decline. Their potential to benefit from improving economic conditions and will also render them as targets for acquisition.

Concerns that tariffs will hamper improvements to the economy appear to be unfounded as are concerns that deportations of illegal immigrants will negatively impact employment figures and the economy. Any significant concerns about the health of the economy appear to be for markets outside the U.S. which will have little influence on most U.S. banks.

Bank managers must now focus on where and how to compete in a rapidly improving economy. This process must start with a clear understanding of how well a bank stands with both the quality of its existing book of business and the financial efficiency of its operating resources. Banks need to prepare for the coming economic conditions, both favorable and unfavorable. To do so, they need to understand where they are positioned in the market and where they have strengths upon which to rely and weaknesses they must overcome. At best, the current combination of economic factors makes it difficult for a bank to commit to a strategy unless it is one designed to improve where it is weak.

The U.S. Bank Industry has landed in a competitive scenario of high operational efficiency and lower book of business quality. The likely changes in the near-future for the economy will make the current state of competition shift dramatically.

For most banks the greatest challenge will be to improve the quality of their book of business quality without over-sacrificing operational efficiency. Knowing exactly where a bank stands in terms of operational efficiency and business quality is vital to effectively address new market opportunities. This knowledge will provide a basis for making sensible tradeoffs between efficiency and quality when needed.

Bank management and owners must consider several important issues to achieve success in an economically changing environment:

- What can be done to improve the quality of its customer base and product mix to improve profitability?
- Where should investments in operational resources be made and how much should be invested to capture new opportunities and retain current business?
- Which products and services should be emphasized as the tools to drive growth and which de-emphasized?
- Can their bank remain flexible and nimble enough to respond faster than competitors to a rapidly changing economic environment and capture attractive business opportunities as they arise?
- Which of their bank's resources are most efficiently deployed and which are least efficiently deployed?
- How will likely economic events/trends change the financial product needs of their customers, both short and long term?
- What opportunities and challenges do the bank's current business mix provide under various likely economic scenarios?

The answers to these questions will determine the competitive positioning of a bank and what it must do to protect or improve its position to achieve business success under changing economic conditions. Those banks currently with the best quality business portfolios and the best operational efficiency performance are likely those best positioned to capture opportunities presented in varying economic conditions, but some may be over committed to certain classes of resources, or a particular customer sets to adjust quickly as circumstances change. Knowing how efficiently deployed operational resources are and the current quality level of a bank's book of business will prove vital to deciding how to respond to changing circumstances.

The Ratings

The Ratings of Business Quality and Operational Efficiency are developed using Efficient Frontier Analysis (EFA), scored from 0 (worst) to 100 (best) and are defined as:

- ***Business Quality*** *(Operational Effectiveness)* – A measure of the quality of the business portfolio a bank has built in terms of the portfolio's profit potential compared to industry best performers (or a measure of how effectively the bank has built and is maintaining a quality book of business)

- ***Operational Efficiency*** – A measure comparing each bank to industry best performers in terms of the total cost of their business operations relative to the value of the revenue those operations generate, given their book of business.

Hoeg & Company developed the ratings by using Efficient Frontier Analysis (EFA) like that used in investment portfolio theory, to identify best performers. The evaluation is objective, using publicly available data reported in bank Call Reports submitted to the Federal Deposit Insurance Corporation (FDIC) and with no other input from the banks themselves. Data from all institutions with FDIC Certificate Numbers is collected and ratings issued for over 99% of these banks. The ratings are indexed to produce scores ranging from 0 (worst) to 100 (best).

The result is an accurate set of measures of how effectively and efficiently each bank operates to get the most value from its investment in business resources.

For complete industry ratings and detailed analyses on these and other U.S. Banks contact us at www.HoegCo.org, www.HoegCompany.com, gjhesq@hoegco.org.