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Chutes and Ladders

Analyzing ROTCE Potential (and Implications) Across the U.S. Banking Sector

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Please refer to important disclosures and analyst certification information on pages 45–48 of this report.

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All pricing metrics within this report as of November 15, 2023, unless otherwise noted.

The authors would like to thank Kate Ashley for her contribution to this report.

Investment Thesis: Our Three Key Takeaways

1. **The Race for Scale Is Underway** – Banks above $250B and $120B-$250B have the highest Structural ROTCE and trade at the highest valuations, while banks under $10B have the lowest returns and valuations

- **Market View:** Investors rewarding scale and penalizing lack of scale
- **KBW View:** Distance yourself from $10B, own $50B-$80Bs, and re-evaluate at $80B
  - Among large caps, favor **USB** and **TFC** vs. **PNC,** and favor **KEY** vs. **CFG**
  - Battleground $50B-$80Bs are cheap versus Structural ROTCE with all eight banks rated Outperform – **BPOP, COLB, EWBC, SNV, VLY, WAL, WBS,** and **WTFC**

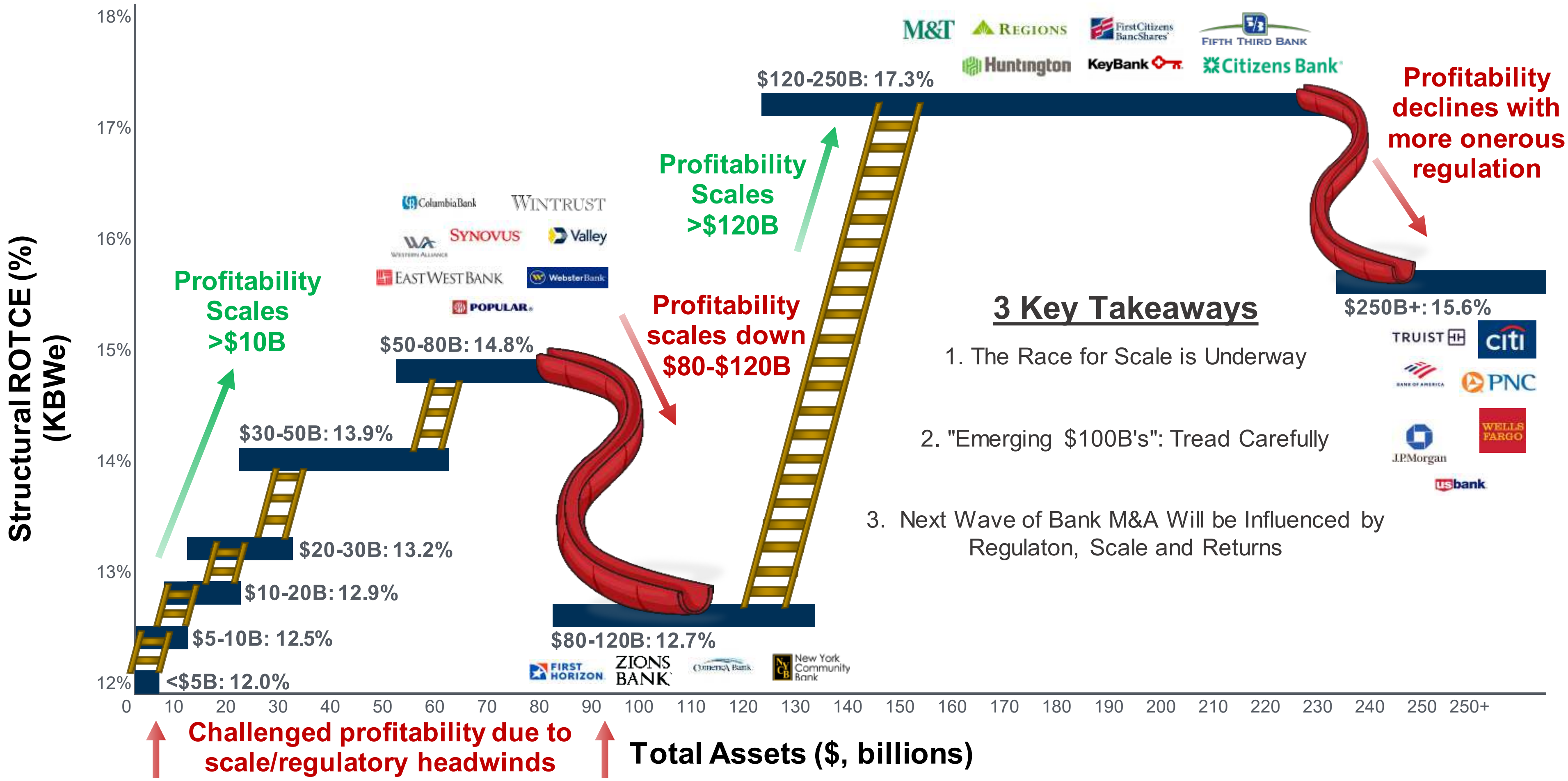
2. **"Emerging $100Bs": Tread Carefully** – Clustered valuations and emerging regulatory risk, but notable ROTCE/capital differences, make this group a stock-pickers dream

- **Market View:** Avoid all banks in this regulatory "no-fly zone" around $100B
- **KBW View:** Seek select exposure where differences in Structural ROTCEs not fully reflected in valuations
  - Capital differences: Favor **EWBC** and **WBS** vs. **CMA** and **ZION**
  - Profitability differences: Favor **EWBC, WAL,** and **WBS** vs. **CMA, FHN,** and **ZION**

3. **Next Wave of Bank M&A Will Be Influenced by Regulation, Scale, and Returns**

- **Market View:** M&A can't resume until regulatory environment thaws
- **KBW View:** M&A must occur given regulatory burden and scale demands
  - Potential scale builders/strong Structural ROTCE: **HBAN, FITB, MTB, RF, EWBC**
  - Potential "sources of scale" with less scale today and less margin to their cost of capital: **CMA, FHN,** and **ZION**
  - Could go either way: Above-peer Structural ROTCEs at **WBS** and **WAL** earn right to remain independent, but scale considerations and discounted valuations provide strategic optionality

Exhibit 1: Chutes and Ladders – Bank Edition



Source: KBW Research.

Structural ROTCE – Defining Our Methodology

At the core of our analysis is the determination of long-term, normalized profitability, defined as "Structural ROTCE," with our research dissecting each component of a bank's return on tangible common equity and evaluating the potential impact from emerging regulation. Specifically, we isolate and sensitize three key variables within the ROTCE construct – NII, expenses, and capital – which result in key profitability differences across the industry and at the individual bank level:

- **Net Interest Income** – We normalized loan-to-deposit (L/D) for Category IV banks and Emerging $100B Banks to more closely align with increased liquidity requirements for the largest banks. This burden is more than offset by back book repricing for all banks beyond what it is already assumed in our 2025E.

- **Expenses** – We increased the regulatory expense burden for Category IV and Emerging $100B Banks, which added 200-400bps to annual expense growth rates and modestly reduced Structural ROTCEs.

- **Capital** – Proposed capital rules, if enacted, will "push down" greater regulation to more banks, most notably Basel III endgame, total loss absorbing capacity (TLAC), and the inclusion of accumulated other comprehensive income (AOCI) in CET1 capital ratios for banks above $100 billion. Our analysis establishes benchmark capital targets (based on size) and then assigns either a capital benefit/charge.

Exhibit 2: ROTCE – Sensitivity Analysis

sorted

Ticker	Assets ($B)	Category	Analyst	Rating	2025 ROTCE KBWe	Aggregate Sensitivity Impact on ROTCE: NII	+	Expenses	+	Capital	=	Total	Structural ROTCE Pro Forma
JPM	3,898	I	Konrad, CFA	MP	**14.5%**	1.3%	+	0.0%	+	-0.2%	=	1.1%	**15.6%**
BAC	3,153	I	Konrad, CFA	MP	**12.0%**	3.1%	+	0.0%	+	-0.1%	=	3.0%	**14.9%**
C	2,368	I	Konrad, CFA	MP	**7.4%**	2.2%	+	0.0%	+	-0.2%	=	2.0%	**9.4%**
WFC	1,909	I	Konrad, CFA	OP	**12.8%**	1.9%	+	0.0%	+	0.0%	=	1.9%	**14.7%**
USB	668	III	Konrad, CFA	OP	**16.9%**	3.2%	+	0.0%	+	-1.1%	=	2.1%	**19.0%**
PNC	557	III	Konrad, CFA	UP	**13.5%**	3.1%	+	0.0%	+	0.3%	=	3.4%	**16.9%**
TFC	543	III	Konrad, CFA	OP	**16.1%**	4.6%	+	0.0%	+	-2.8%	=	1.8%	**17.9%**
CFG	225	IV	Konrad, CFA	MP	**12.0%**	2.2%	+	-0.5%	+	0.1%	=	1.8%	**13.8%**
FCNCA	214	IV	Gailey, CFA	OP	**11.0%**	-1.3%	+	-0.7%	+	5.4%	=	3.3%	**14.3%**
FITB	213	IV	Konrad, CFA	OP	**17.6%**	2.7%	+	-0.5%	+	-2.5%	=	-0.3%	**17.3%**
MTB	209	IV	Konrad, CFA	MP	**14.3%**	1.2%	+	-0.6%	+	0.9%	=	1.6%	**15.8%**
KEY	188	IV	Konrad, CFA	OP	**15.1%**	4.5%	+	-0.5%	+	-1.3%	=	2.7%	**17.7%**
HBAN	187	IV	Konrad, CFA	MP	**16.5%**	1.8%	+	-0.5%	+	0.6%	=	1.8%	**18.3%**
RF	154	IV	Konrad, CFA	MP	**18.3%**	3.1%	+	-0.6%	+	-0.6%	=	2.0%	**20.3%**
NYCB	111	IV	McGratty, CFA	OP	**11.4%**	0.9%	+	-0.6%	+	0.4%	=	0.7%	**12.1%**
ZION	87	Emerging	McGratty, CFA	MP	**12.5%**	4.0%	+	-1.0%	+	-2.2%	=	0.8%	**13.3%**
CMA	86	Emerging	McGratty, CFA	MP	**13.6%**	3.1%	+	-0.9%	+	-1.4%	=	0.9%	**14.5%**
FHN	83	Emerging	Gailey, CFA	MP	**10.5%**	1.2%	+	-0.7%	+	1.1%	=	1.6%	**12.1%**
WBS	73	Emerging	McGratty, CFA	OP	**16.5%**	1.6%	+	-0.6%	+	3.9%	=	4.9%	**21.5%**
WAL	71	Emerging	McGratty, CFA	OP	**15.2%**	0.8%	+	-0.8%	+	2.2%	=	2.2%	**17.4%**
BPOP	70	Emerging	Motta, CFA	OP	**9.7%**	3.2%	+	-1.1%	+	1.5%	=	3.6%	**13.3%**
EWBC	68	Emerging	McGratty, CFA	OP	**14.7%**	-0.2%	+	-0.4%	+	5.1%	=	4.6%	**19.3%**

Category I	**12.4%**	2.0%	+	0.0%	+	-0.1%	=	1.9%	**14.3%**
Category III	**16.1%**	3.2%	+	0.0%	+	-1.1%	=	2.1%	**18.2%**
Category IV	**14.7%**	2.0%	+	-0.6%	+	0.3%	=	1.7%	**16.3%**
Emerging	**13.6%**	1.6%	+	-0.8%	+	1.5%	=	2.3%	**15.9%**

Note – Structural ROTCE is KBWe and represents long-term return potential (inclusive of proposed regulation/implications), not a specific year, and excludes the impact of accretion income.

Source: KBW Research, S&P Capital IQ, and company reports.

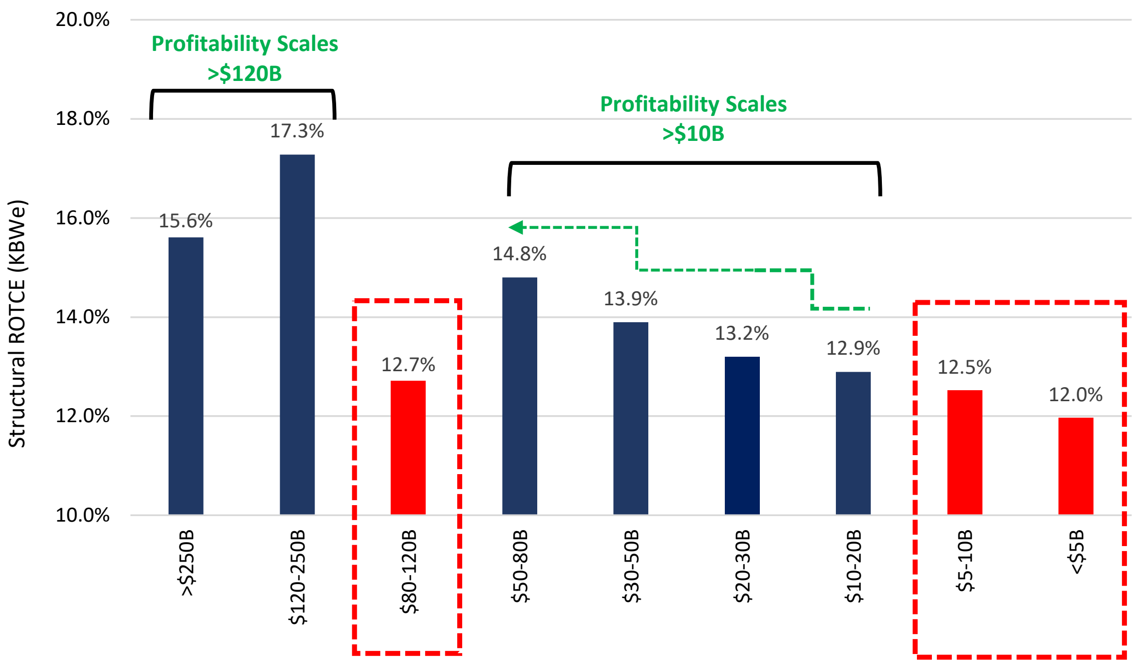
Profitability Scales Up…and Down

Below and by asset band, we provide high level takeaways from our sensitivity analysis examining Structural ROTCEs, and Exhibit 3 illustrates a key conclusion that "profitability scales" – both up and down.

- **Profitability Scales Up After $120B** – Structural ROTCEs of 15.6% for banks over $250 billion in assets and 17.3% for banks $120-$250 billion highlight the clear benefits of scale and diversification.
- **Profitability Scales Down Between $80-120B** – Once a bank enters the $80-$120 billion zone, Structural ROTCEs take a notable 210bp step down compared to banks $50-$80 billion (12.7% versus 14.8%). In addition, there's a 460bp ROTCE differential to the $120-$250 billion banks (12.7% versus 17.3%). Said another way, $80-$120 billion in many ways could be deemed a "no fly zone" until a clearer path to greater scale is more apparent.
- **A Clear Stair Step-Up in Profitability as Banks Distance From $10B** – Banks in the $50-$80 billion range have Structural ROTCEs that are 190bps higher than banks $10-$20 billion (14.8% vs. 12.9%) and there is a clear stair step-up in profitability at every increment between $10 billion and $80 billion.
- **Profitability Is the Lowest at the Smallest Banks** – Our estimated Structural ROTCEs for banks under $10 billion is the lowest of any asset band at 12.0-12.5%, with this in large part explained by reduced scale, but also less business model diversification.

Profitability scales up after $120B and similarly after banks distance themselves from $10B

Exhibit 3: Profitability Scales Up…and Down



Note – Structural ROTCE is KBWe and represents long-term return potential (inclusive of proposed regulation/implications), not a specific year, and excludes impact from accretion income.
Source: KBW Research and S&P Capital IQ.

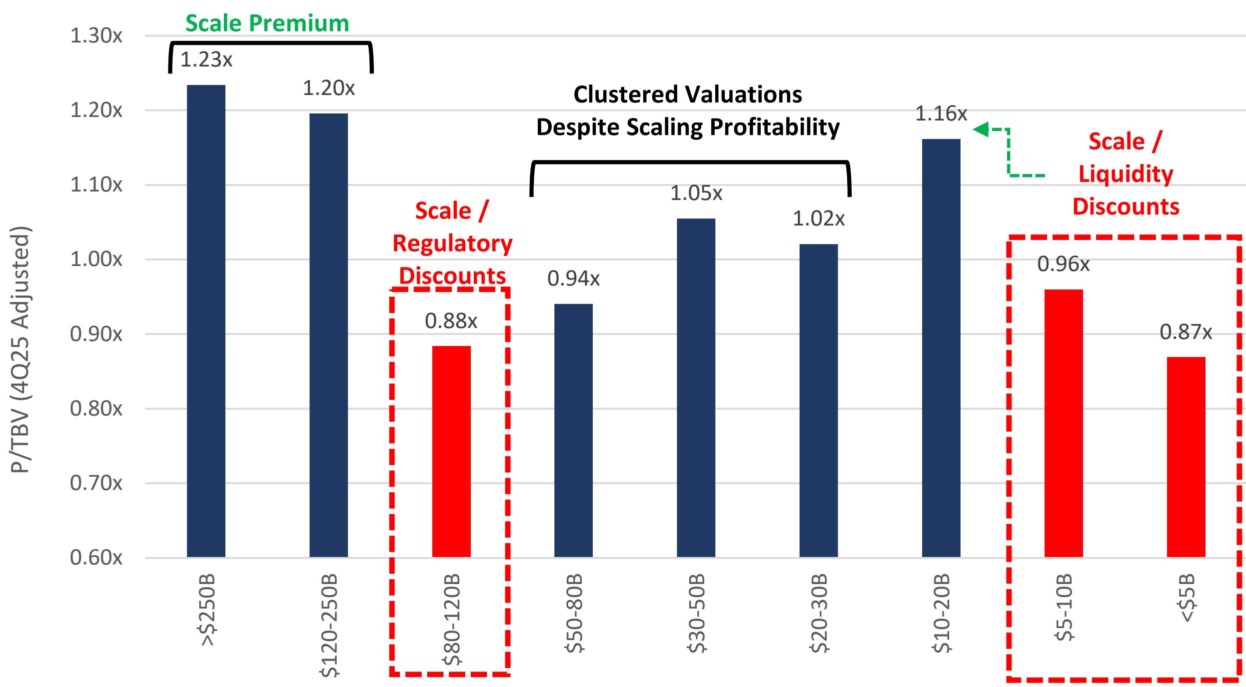
Valuation Scales Up…and Down, Too

Below and by asset band, we provide high level takeaways on valuation, and similarly Exhibit 4 illustrates a key conclusion that "valuation scales" – both up and down. Our analysis utilizes P/TBV for YE25 and normalizes capital levels based on estimated long-term targets.

- **35-40% Scale Premium for Largest Banks** – Market assigning clear scale premium (35-40%) for banks over $250 billion (1.23x) and banks $120-$250 billion (1.20x) compared to banks $80-$120 billion (0.88x).
- **Smallest Banks Valued the Cheapest –** Banks under $5 billion and $5-$10 billion trade at the lowest price/tangible book value (P/TBV) multiples (0.87x and 0.96x), reflecting both scale and liquidity discounts, in our view.
- **Clustered Valuations in the Middle –** Valuations for $20-80 billion banks are tightly clustered (0.94-1.05x), though interestingly the most profitable segment of $50-80 billion actually trades at the lowest multiple (0.94x). This can be explained in one of two ways: 1) significantly undervalued relative to their Structural ROTCE potential, or 2) the market sniffing out future growth constraints/regulatory costs related to $100 billion.

Market valuations are rewarding scale and punishing lack of scale

Exhibit 4: Valuation Scales Up…and Down, Too



Note – P/TBV multiple uses YE25 TBV/share and normalizes capital levels based on estimated long-term targets for the largest banks (Emerging banks up through Category I banks) based on proposed regulatory capital changes impacting banks $100B in assets and higher.
Source: KBW Research and S&P Capital IQ.

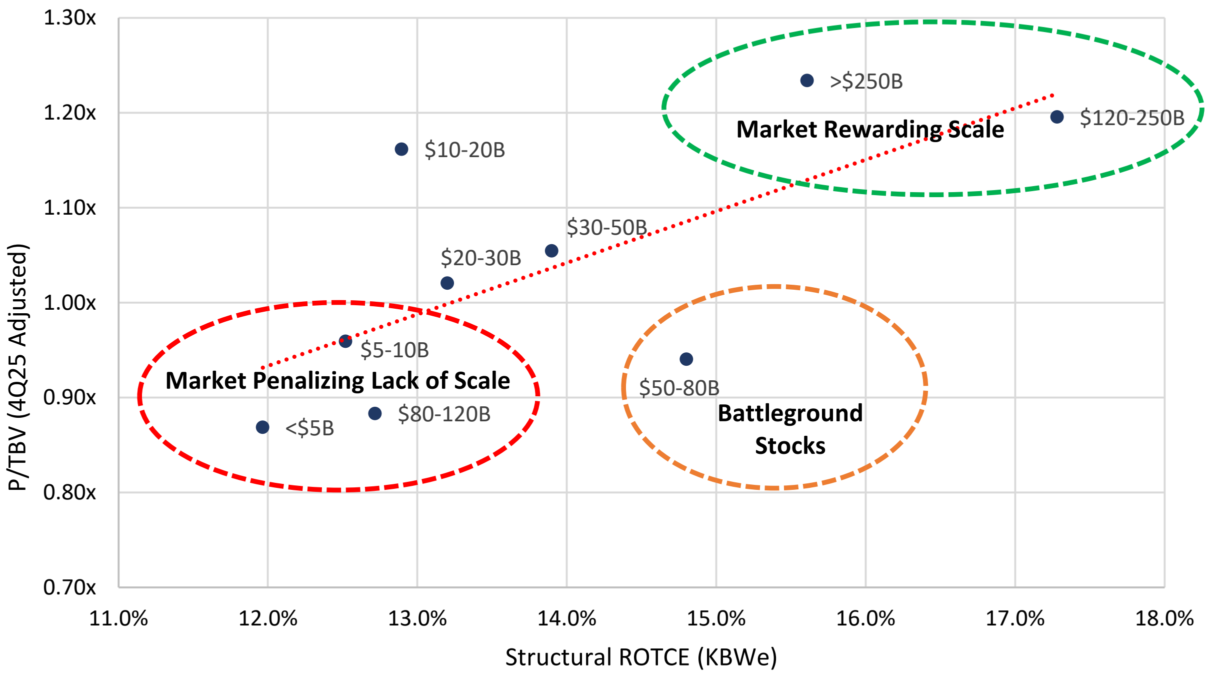
Next, Exhibit 5 illustrates the results of our regression analysis, which compares Structural ROTCEs (x-axis) and P/4Q25 Adjusted TBV (y-axis), separated by asset size. We see three clear conclusions:

Market is rewarding scale and penalizing lack of scale

- **The Market Is Rewarding Scale** – Banks above $250 billion and $120-$250 billion trade at the highest multiples, which is supported by above-average profitability. This is clear evidence that the market is rewarding scale.
- **The Market Is Penalizing Lack of Scale** – Banks in the $80-120 billion range and those under $10 billion are clearly being penalized by the market for lack of scale around key regulatory guide posts ($100 billion and $10 billion, respectively).
- **Battleground Stocks** – The $50-80 billion banks appear clearly undervalued relative to their Structural ROTCE potential, which aligns with our view since all eight of these banks are fundamentally rated Outperform (**BPOP, COLB, EWBC, SNV, VLY, WAL, WBS,** and **WTFC**). However, the alternative view is that the market is getting ahead of the eventual regulatory burden, potentially slower growth, and likely strategic decisions that might need to be considered (e.g. deal risk) in order to graduate to the next class of asset size (over $120 billion).

Exhibit 5: Market Rewarding and Penalizing Scale

Structural ROTCE vs. P/TBV (4Q25E Adjusted)



Note – Structural ROTCE is KBWe and represents long-term return potential (inclusive of proposed regulation/implications), not a specific year, and excludes the impact of accretion income. P/TBV multiple uses YE25 TBV/share and normalizes capital levels based on estimated long-term targets for the largest banks (Emerging banks up through Category I banks) based on proposed regulatory capital changes impacting banks $100B in assets and higher.
Source: KBW Research and S&P Capital IQ.

Next, Exhibit 6 provides the results of our regression analysis at the company level for Category I through Emerging banks. Broadly speaking, the company-level results are largely consistent with our fundamental view for banks within the major asset size groupings, and we provide our top three takeaways below. *Of note, in Appendices 1-5 we provide a similar regression analysis for all of KBW's Bank Research coverage, separated by the asset bands consistent with Exhibit 5, with the supporting data provided in an Excel link (HERE) and Appendix 6.*

- **Favor USB and TFC vs. PNC** – Many of the largest banks plot above the regression line, which we view as the market voicing its opinion that structurally higher profitability (ROTCE) warrants a premium valuation. On a relative basis, **USB** and **TFC** (both rated Outperform) plot as relatively more attractive compared to **PNC** (rated Underperform), which aligns with our fundamental ratings for these stocks.

- **Favor KEY vs. CFG** – Both **KEY** and **CFG** look attractive from a valuation perspective in Exhibit 6, as both are meaningfully below the line. However, we have a preference for **KEY** given its more favorable near term NIM trends. **KEY** has tremendous leverage to NIM and NII as $8.4 billion of Treasuries and $38 billion of swaps mature over the next six quarters with average yields below 50bps. However, **CFG** has more challenges near term with the addition of $12.1 billion of forward swaps coming on the balance sheet by 4Q24, yielding 140bps lower than the current average swap yields. As a result, our estimates are above the Street for **KEY** but below the Street for **CFG**. In addition, with under 1% office exposure and 50% of Commercial & industrial (C&I) loans being investment grade, we view **KEY** as having lower credit risk.

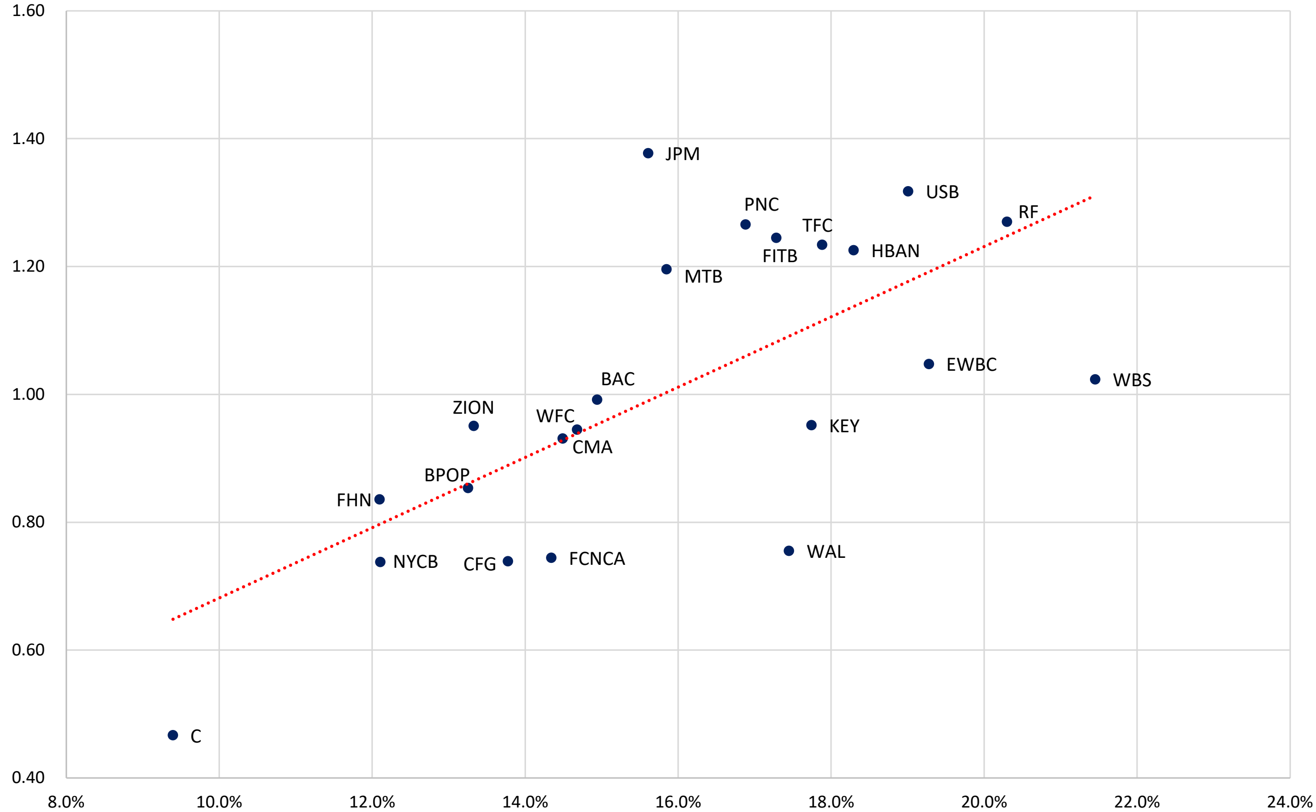
- **Favor EWBC and WBS vs. CMA and ZION** – Trading at essentially the same P/TBV multiples, Structural ROTCEs are 500-800bps higher for **EWBC** and **WBS** (both rated Outperform) compared to **CMA** and **ZION** (both rated Market Perform). Said another way, the market is assigning virtually no relative valuation premium/discount for **EWBC/WBS**' excess capital or **CMA/ZION**'s capital shortfall. These conclusions align with our fundamental views on these four stocks.

Bottom-up and top-down analysis generally aligns with company-level results

- **Top Value Ideas with Capital Optionality: FCNCA, WBS, WAL, EWBC, BPOP** – All trading relatively inexpensive compared to Structural ROTCEs (below regression line), these five banks represent high-conviction, deep-value opportunities. The Emerging $100 billion status for **WBS, WAL, EWBC,** and **BPOP** and recently crossed aspect for **FCNCA** likely explain the relative discounts, but we believe this is more than priced in, particularly compared to other banks facing similar regulatory considerations (**CMA**, **ZION**) that trade at similar (or higher) P/TBV multiples and have lower Structural ROTCEs.

Exhibit 6: Bottom-Up and Top-Down Generally Aligned Under Our Sensitivity Analysis

Structural ROTCE vs. P/TBV (4Q25E Adjusted) – Banks Over $65B-in-Assets



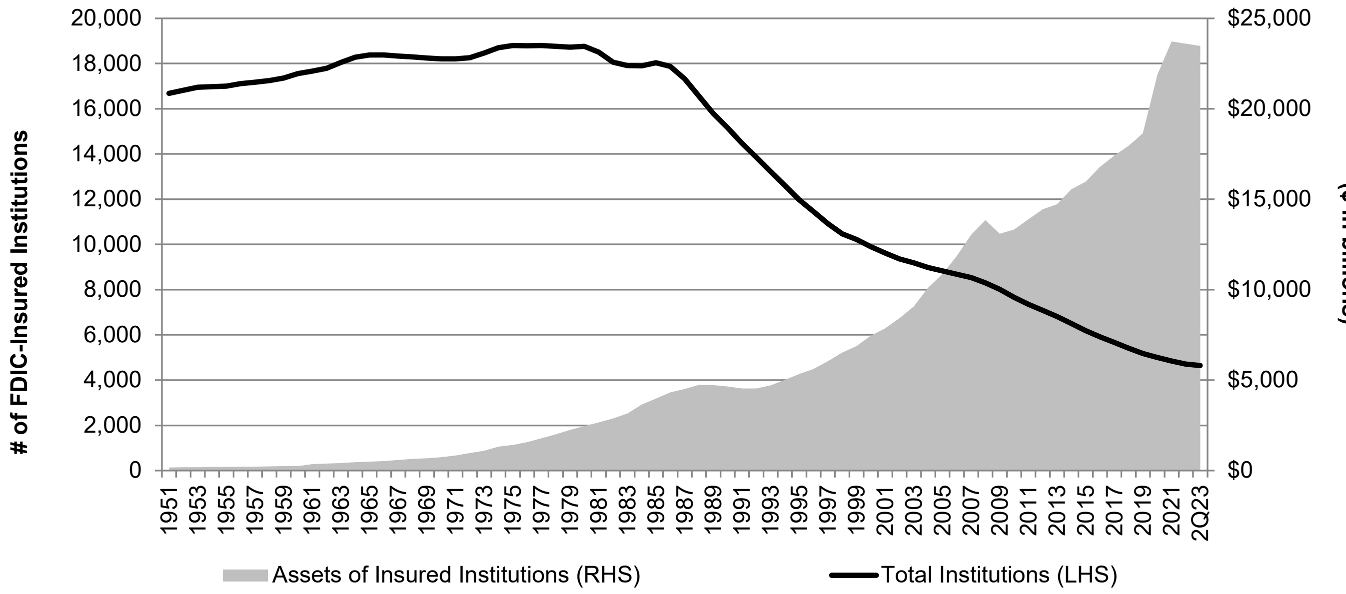
Note – Structural ROTCE is KBWe and represents long-term return potential (inclusive of proposed regulation/implications), not a specific year, and excludes the impact of accretion income. P/TBV multiple uses YE25 TBV/share and normalizes capital levels based on estimated long-term targets for the largest banks (Emerging banks up through Category I banks) based on proposed regulatory capital changes impacting banks $100B in assets and higher.

Source: KBW Research and S&P Capital IQ.

M&A Implications from Profitability Analysis

The benefits of scale (across multiple asset bands) are clearly visible based on the results of our Structural ROTCE analysis, and we believe most banks (but not all) will be able to consistently generate returns in excess of their cost of capital. Acquisitions have been one consistent method of achieving scale, and in Exhibit 7 we compare the number of FDIC-insured institutions (4,645) to industry assets ($23 trillion). As shown, banking is a naturally consolidating industry with an approximate 4% annual consolidate rate historically and, although recent activity has been fairly muted, we believe M&A will again play an active role for banks on either side of the profitability ledger in the coming years.

Exhibit 7: Industry Assets Versus Total Institutions



Note – Data updated as of 2Q23.

Source: FDIC, Office of the Comptroller of the Currency (OCC), and KBW Research.

We also believe the role of regulation – which continues to evolve – will remain an active consideration in determining the pace and profile of future bank M&A and that a thawing of the regulatory environment is a necessary development as well. “High water marks” for asset size are not new, but they will continue to evolve and impact the characteristics of M&A activity. Next, we provide both historical context and prospective opinions.

- **$50 Billion in Assets (Post GFC)** – Immediately following the Global Financial Crisis (GFC), financial regulators deemed $50 billion in assets to be the threshold for a bank to be a systemically important financial institution (SIFI). Reflecting the significant financial burden, there was a notable “disincentive” for banks to cross $50 billion, with only two banks (**FRC**, **SIVB**) growing through the threshold between 2010 and 2018 (upper left, Exhibit 8).

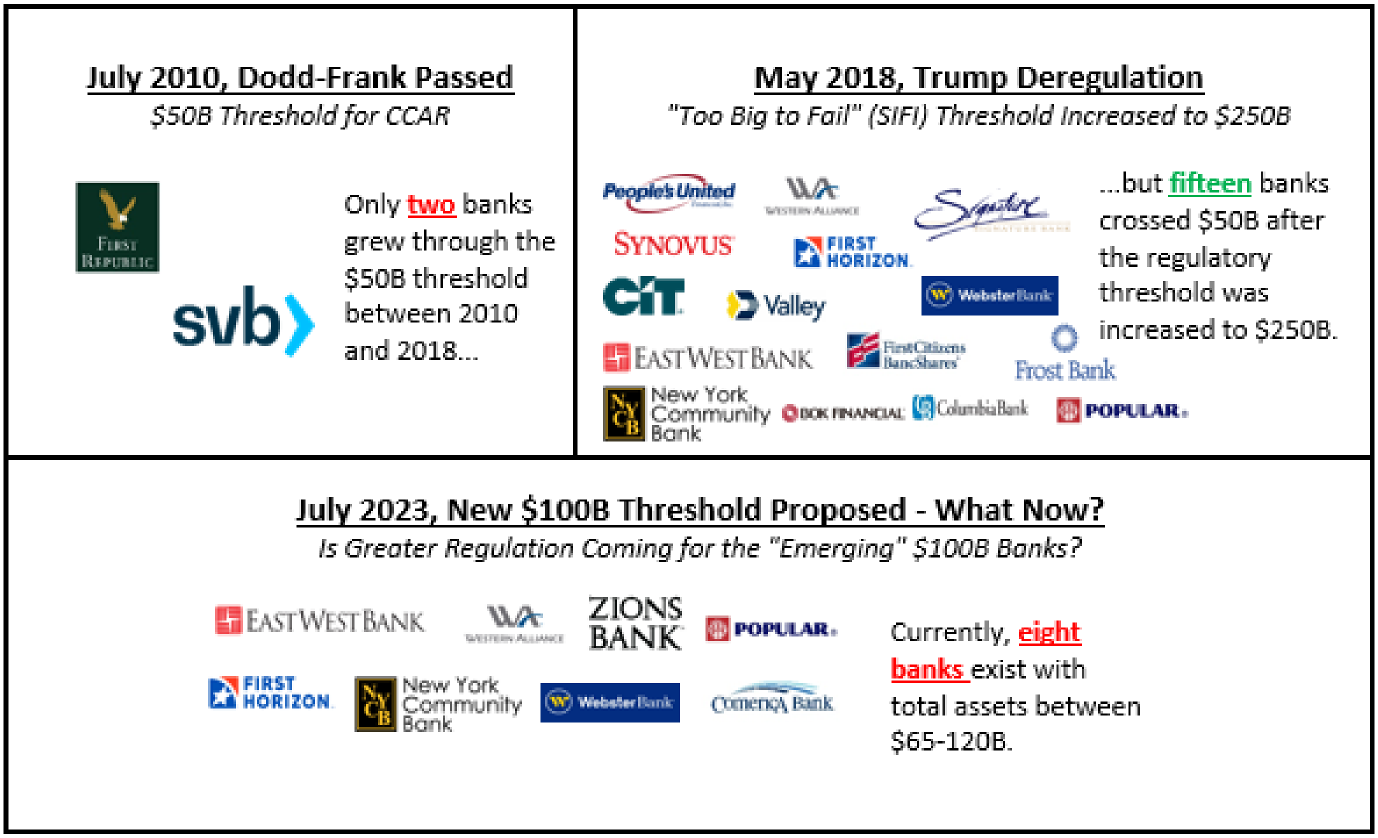
- **$10 Billion in Assets (Post GFC)** – For smaller banks, $10 billion remains an important asset level as crossing this threshold subjects a bank to the Durbin Amendment, limiting interchange fees. This has been in place since the GFC and our prior research on this topic concluded that banks face a *Field of Dreams* decision – to cross or stay on this side of the line (Go Big or Go Home: Implications of Crossing $10 Billion, February 19, 2015). Our analysis concluded that true "economic breakeven" from crossing may be at least $12 billion, with many banks opting to sell as a strategy to maximize shareholder value, while others opted to buy their way to the needed scale.

Asset thresholds are likely to continue to influence M&A decisions

- **SIFI Threshold Raised to $250B from $50B (2018)** – The Trump administration took notable deregulatory actions, among the most notable of which was raising the SIFI threshold (or "Too Big to Fail") from $50 billion to $250 billion in 2018. This removed a significant regulatory obstacle and, since this occurred, 15 banks have crossed the $50 billion threshold (upper right, Exhibit 8). Pro forma, these banks achieved greater scale and stronger profitability without the increase in regulatory burden had the SIFI threshold remained at $50 billion.

- **$100B Proposal to Impact Strategic Decisions for the "Emerging" Banks** – New regulatory proposals call for $100 billion in assets to be the next "high water mark", which means "Emerging banks" need to start evaluating their strategic options. To be fair, these banks do have time before crossing or before any of the new regulatory changes officially take place, but at the same time we also believe the market is already evaluating this class of banks as though they are already subject to the new regulatory proposals. As it stands today, there are eight banks with assets between $65-$120 billion. Ranked smallest to largest, these are **EWBC** ($68B), **BPOP** ($70B), **WAL** ($71B), **WBS** ($73B), **FHN** ($83B), **CMA** ($86B), **ZION** ($87B), and **NYCB** ($111B) – bottom of Exhibit 8. We include **NYCB** in this group of banks given the recent proximity of crossing $100 billion, which occurred in 1Q23 with the Signature Bank failed bank transaction.

Exhibit 8: Regulatory "High Water Marks" Aren't New, but They Continue to Evolve



Source: KBW Research and company reports.

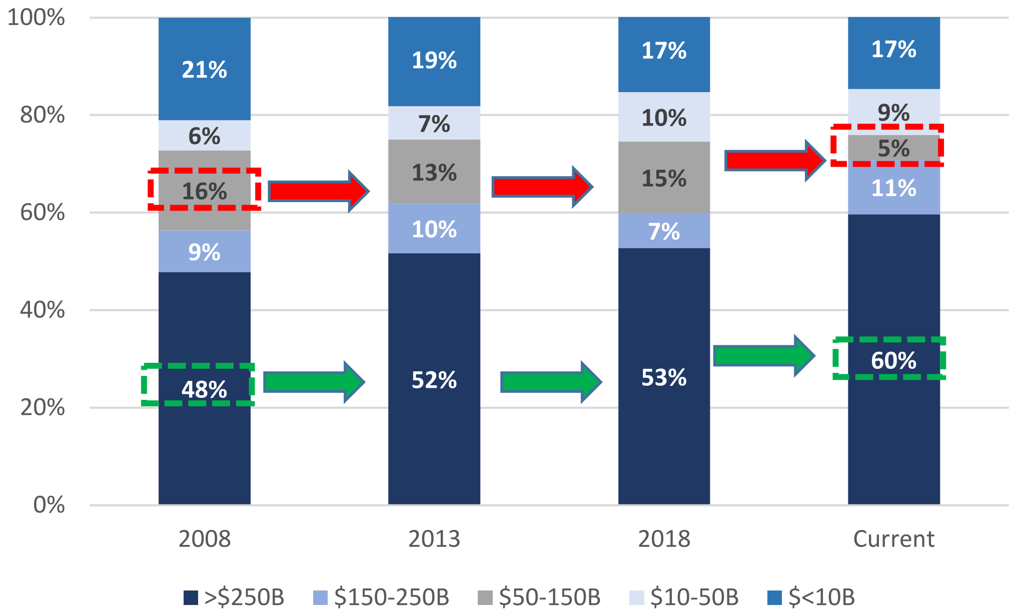
Next, in Exhibit 9 we illustrate the composition of the banking industry's total assets by asset band over the past 15 years (since 2008). Highlighted in green is the evolution of banks over $250 billion in assets, where their respective share of the industry's assets has increased from 48% in 2008 to 60% today. Conversely, the share of industry assets among the $50-$150 billion banks has declined significantly from 16% in 2008 to just 5% today. Banks under $10 billion have also lost market share, though by a lesser degree. Taken together, this shows that the U.S. banking system has become much more concentrated since the GFC.

U.S. banking system has become much more concentrated since GFC

Looking ahead, we believe a dynamic and thriving banking system needs greater competition up and down the asset gamut in order to not only serve the needs of communities and larger scale businesses, but also to promote a safer financial system altogether. Said another way, we believe the industry needs more banks competing in the $250 billion+ segment (which is also the most regulated), but also re-establishing a thriving middle class of banks, which has lost significant market share in recent years.

Exhibit 9: M&A Evolution: The Big Get Bigger and the Middle Shrinks

Mix of commercial bank assets for domestic banks



Source: KBW Research and Federal Reserve.

- **Group #1: Banks that Have Already Captured Scale** – The seven banks above $250 billion in assets – **JPM, BAC, C, WFC, USB, PNC,** and **TFC** – have already captured the targeted scale objectives and have strong Structural ROTCEs (with the exception of **C** at 9.4%). This, along with national deposit cap considerations, likely means these banks will be less active in traditional M&A.

- **Group #2: Banks as Potential Scale Builders with Strong Structural ROTCEs** – Strong Structural ROTCEs are a common thread among **HBAN, FITB, MTB, RF,** and **EWBC**, and we believe this affords them the most flexibility to increase scale and profitability, especially if valuations expand and better align with Structural ROTCEs (e.g. ability to pay).

Banks have clear incentive to get to $80B, but then scaling up or strategic conversations must occur

- **Group #3: Banks with Less Scale and Less Margin to Their Cost of Capital** – Emerging $100 billion banks, with less scale and less margin to their respective cost of capital, include **CMA**, **FHN** and **ZION**. Over time, we believe investors may look to these banks as potential "sources of scale" for larger peers.

- **Group #4: Banks with Multiple Options** – **WBS** has the highest Structural ROTCE under our sensitivity analysis (21.5%), which represents a material spread to its cost of capital and supports a view that they have earned the right to remain independent. That said, at $73 billion in assets and an acquisition history (most recently **STL** in 2021), we believe the company has both options and time before it must decide how to best achieve necessary scale. Similar to what many banks did when evaluating crossing the $50 billion and $10 billion thresholds, we believe **WBS** could buy its way through $100 billion or alternatively be a "source of scale" for a bank already above $100 billion that is looking for even greater scale.

WAL is another bank with a Structural ROTCE (17.4%) well in excess of its cost of capital, yet for many years the stock has traded cheap relative to its return profile. In our view, the source of this dislocation stems back to the GFC when the company had elevated credit costs, and while the company is much more diversified today, this stigma has continued to plague its valuation, in our view. More recently, the March banking crisis brought down niche peers (**FRC**, **SBNY**, and **SIVB**) and, although **WAL** emerged on its feet, investors' appetite for niche banks has been tempered, in our view. Near term, **WAL** continues to prioritize liquidity and capital build, which will keep balance sheet growth relatively muted for some period of time, though at $71 billion, we are still of the view that longer-term the company will be an above-average grower. As $100 billion becomes more of a consideration, we believe it could make sense for the company to introduce a retail component to its funding structure, which could modestly weigh on returns, but be more than offset by higher valuation multiples. Being a source of scale could also be an option over time, in our view, though we believe potential buyers' multiples would need to move considerably higher before **WAL**'s Board actively sought this alternative.

Exhibit 10: Next Wave of Bank M&A Will Be Impacted by Regulation, Scale and Structural Returns

1

Banks with Captured Scale

Captured targeted scale objectives and have strong Structural ROTCEs

2

Potential Scale Builders

Strong Structural ROTCEs with the most flexibility to increase scale and profitability

3

Banks with Less Scale

Less scale and less margin to their cost of capital; potential "sources of scale" for larger peers

4

Banks with Optionality

Strong Structural ROTCEs with time and options to best achieve necessary scale

Source: KBW Research.

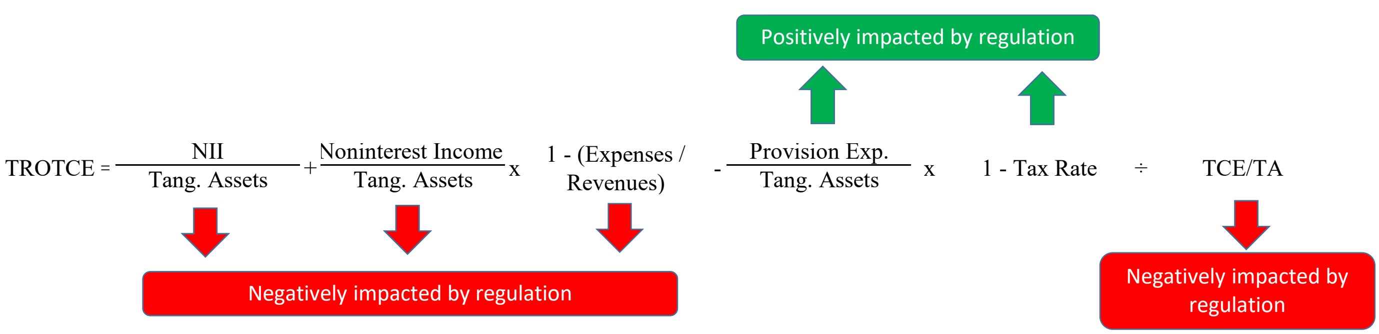
Dissecting ROTCE – Regulatory Fingerprints Are Everywhere

Regulation is touching every aspect of bank profitability and the burden will continue to increase

There are many variables that drive an individual bank's profitability, but it is often easiest to start analyzing performance based on a few key variables. For the banking industry, we disaggregate the key part of the DuPont formula by combining asset turnover and gross profit margin to arrive at pre-tax, pre-provision return on assets (PTPP ROA). We then subtract credit expense and tax expense to arrive at return on assets (ROA), and finally divide this by the tangible common equity ratio (TCE/TA) to arrive at tangible return on tangible common equity (TROTCE).

At a high level, the banking industry remains highly regulated and at its core that is because banks are entrusted with the deposits of both consumer and commercial customers. Our view is that proper regulation is needed in order to maintain a stable, yet profitable, banking sector; however, regulation is far from perfect, with the GFC and the March banking crisis (**SIVB**, **SBNY**, and **FRC** failures) two recent examples of regulatory shortfalls. To better understand how future regulation may impact profitability for the banking sector, we believe having a strong foundation and appreciation of past regulatory actions are necessary. This section of our report isolates each component of a bank's TROTCE and overlays how regulation has influenced bank profitability (mostly negative, but not universally).

Exhibit 11: Regulation and Returns – Mostly (but Not Always) Negative for Profitability



Note – NII = Net interest income.

Source: KBW Research.

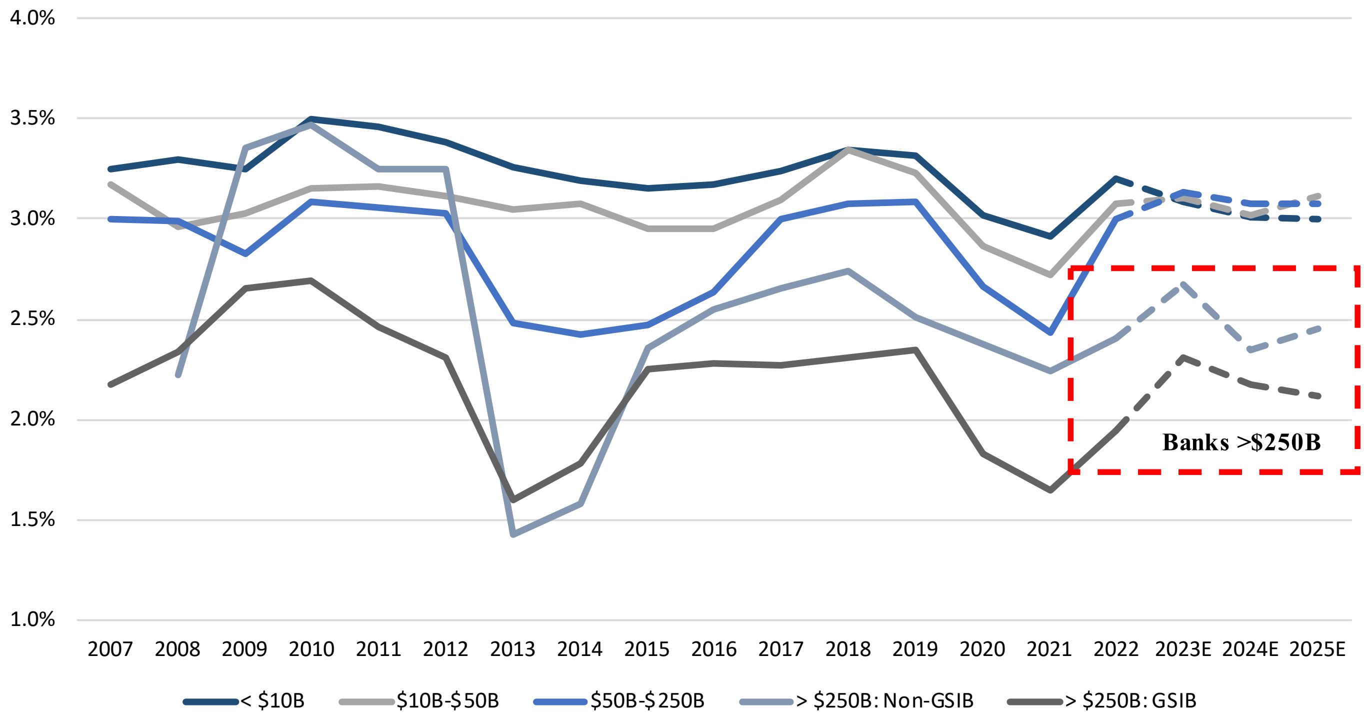
Net Interest Income / Tangible Assets

Conclusion: Big bank NIMs are structurally lower, but $100B is an emerging risk

In Exhibit 12, we provide a view of trends in net interest income to tangible assets (proxy for NIM) beginning in 2007 and extending through our forecast for 2025E. We separate the data into five groups of banks based on asset size, with a key observation being the disparity in margins by asset size. For example, banks over $250 billion in assets have margins in the low-to-mid 2% range today compared to approximately 3.0% for banks under $250 billion in assets.

Exhibit 12: Big Bank Margins (>$250B) Are Structurally Lower Today, in Part Due to Regulation

Net Interest Income / Tangible Assets (%)



Note – Peer groups are dynamic and represent banks within the referenced asset band at that point in time.

Source: KBW Research and S&P Capital IQ.

A portion of the historical margin variance is due to business mix as banks under $10 billion in assets have loan yields that are approximately 30-40bps higher than banks over $250 billion (more Commercial real estate [CRE] at small banks versus more consumer at larger banks). That said, as loan growth across the industry continues to slow (in particular CRE), this relative loan yield advantage could be at risk of narrowing due to a less favorable mix of earning assets.

Regulation has structurally impacted margins for the largest banks

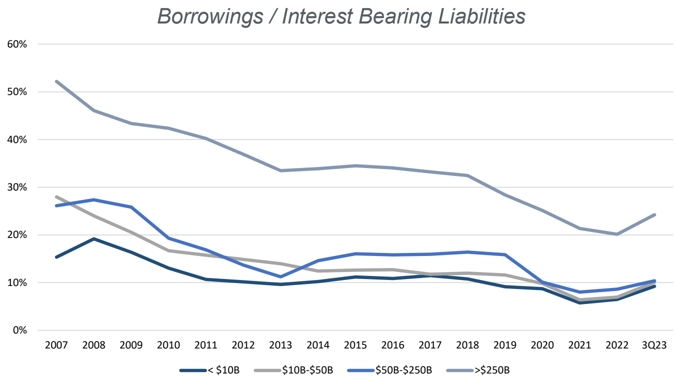
On the other side of the balance sheet, over the past decade the quality of a bank's deposit base has generally been masked by near-zero interest rates with little pricing differences between large and small banks. However, a sustained higher interest rate environment, along with the implicit guarantee that the largest banks enjoy today (post March banking crisis), should only lead to a widening in the current deposit cost advantage (10-15bps) of these larger banks.

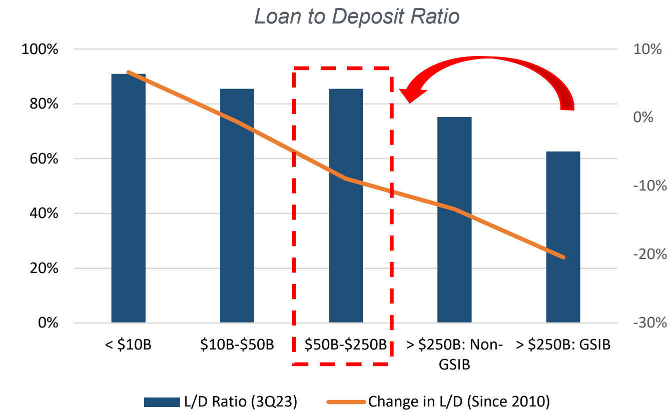
That said, the effects of financial regulation have also played a critical role in driving margin separation between large and small banks, in our view. For example, since 2010, borrowings have consistently represented about 25% of interest-bearing liabilities for banks over $250 billion in assets compared to 10-15% for banks under $250 billion (Exhibit 13, left), in part due to the regulatory impact from TLAC.

In addition, the largest banks have been forced to maintain significantly greater balance sheet liquidity (Liquidity Coverage Ratio, or LCR), and this has had the effect of reducing L/D ratios for the largest banks. More specifically, the four G-SIFI banks with assets over $250 billion in assets today (**BAC, C, JPM, WFC**) have a median 55% L/D ratio compared to 83% in 2010 (or -28% reduction), while other traditional banks over $250 billion in assets

(**PNC, TFC, USB**) have seen their median L/D ratio decline to 75% from 89% (or -14% reduction). Taken together, the effects of greater financial regulation have structurally impacted (impaired) the margins for banks over $250 billion in assets.

Exhibit 13: Mix Shift in Big Bank Balance Sheets Has Structurally Impacted Their Margins





Source: KBW Research and S&P Capital IQ.
Note – Peer groups are dynamic and represent banks within the referenced asset band at that point in time.

Proposed $100B+ regulation pushes down the structural NIM risk to more banks and will impact Structural ROTCEs

Looking ahead, proposed regulation is likely to be pushed down to the $100 billion in asset threshold, which expands the structural margin risk to a greater subset of the banking industry, and this will impact their long-term return potential (ROTCE), in our view. To better estimate the potential impact at the company level, our sensitivity analysis normalizes L/D ratios for Category IV banks and "Emerging" banks ($65-$100 billion in assets) so that their pro forma L/D ratios look more similar to Category III banks. We also consider the positive impact of back book repricing of earning assets for all banks (beyond what is already captured in our 2025 EPS estimates). Net/net, on a combined basis, these adjustments add 220bps (median) to Structural (long-term) ROTCEs.

- **Normalizing L/D Ratios** – The first component of our NII sensitivity analysis assumes that Category IV banks and Emerging banks cap their L/D ratio at 80%. If a bank is above this level in 2025E, we assume one of two balance sheet actions must occur: 1) increase liquidity through additional deposit growth, or 2) reduce loans until an 80% L/D ratio is achieved. Mathematically, we assume either option carries a -150bps cost to incremental NIM – for example, incremental deposit growth at 5.0% reinvested in securities at 3.5%, or a loan yielding 150bps more than the marginal cost of funds runs off the balance sheet. In addition, if a bank's L/D ratio is below 80%, we conservatively do not allow a bank to lever up. On a median basis, this trims a modest 10-20bps from Structural (long-term) ROTCEs for Category III and Emerging banks.

- **Back Book Repricing** – The second NII adjustment we make is to consider the positive impact of back book repricing of earning assets beyond what is already assumed in our 2025E. We make this adjustment since our sensitivity analysis is not meant to explicitly be a 2025E profitability exercise, but rather to better estimate the Structural (longer-term) ROTCE for the industry or an individual company. The adjustments we make here include 1) back book repricing of single-family mortgages to a 5.50% yield (and also select adjustments to auto and multi-family) and 2) back book repricing of investment securities to 4.00%. On a median basis, this adds 260bps to Structural (long-term) ROTCEs, which fully captures banks in Category I through Emerging.

Exhibit 14: NII Impact on ROTCE – Sensitivity Analysis

sorted

Ticker	Assets ($B)	Category	Analyst	Rating	Impact on ROTCE: L/D Ratio	+	Impact on ROTCE: Earning Asset Backbook Repricing	=	Impact on ROTCE: Total
JPM	3,898	I	Konrad, CFA	MP	0.0%	+	1.3%	=	**1.3%**
BAC	3,153	I	Konrad, CFA	MP	0.0%	+	3.1%	=	**3.1%**
C	2,368	I	Konrad, CFA	MP	0.0%	+	2.2%	=	**2.2%**
WFC	1,909	I	Konrad, CFA	OP	0.0%	+	1.9%	=	**1.9%**
USB	668	III	Konrad, CFA	OP	0.0%	+	3.2%	=	**3.2%**
PNC	557	III	Konrad, CFA	UP	0.0%	+	3.1%	=	**3.1%**
TFC	543	III	Konrad, CFA	OP	0.0%	+	4.6%	=	**4.6%**
CFG	225	IV	Konrad, CFA	MP	-0.4%	+	2.6%	=	**2.2%**
FCNCA	214	IV	Gailey, CFA	OP	-1.0%	+	-0.4%	=	**-1.3%**
FITB	213	IV	Konrad, CFA	OP	0.0%	+	2.7%	=	**2.7%**
MTB	209	IV	Konrad, CFA	MP	0.0%	+	1.2%	=	**1.2%**
KEY	188	IV	Konrad, CFA	OP	0.0%	+	4.5%	=	**4.5%**
HBAN	187	IV	Konrad, CFA	MP	-0.2%	+	2.0%	=	**1.8%**
RF	154	IV	Konrad, CFA	MP	-0.1%	+	3.2%	=	**3.1%**
NYCB	111	IV	McGratty, CFA	OP	-1.4%	+	2.3%	=	**0.9%**
ZION	87	Emerging	McGratty, CFA	MP	0.0%	+	4.0%	=	**4.0%**
CMA	86	Emerging	McGratty, CFA	MP	-0.2%	+	3.4%	=	**3.1%**
FHN	83	Emerging	Gailey, CFA	MP	-1.4%	+	2.6%	=	**1.2%**
WBS	73	Emerging	McGratty, CFA	OP	-0.3%	+	1.9%	=	**1.6%**
WAL	71	Emerging	McGratty, CFA	OP	-0.2%	+	1.0%	=	**0.8%**
BPOP	70	Emerging	Motta, CFA	OP	0.0%	+	3.2%	=	**3.2%**
EWBC	68	Emerging	McGratty, CFA	OP	-1.2%	+	1.0%	=	**-0.2%**

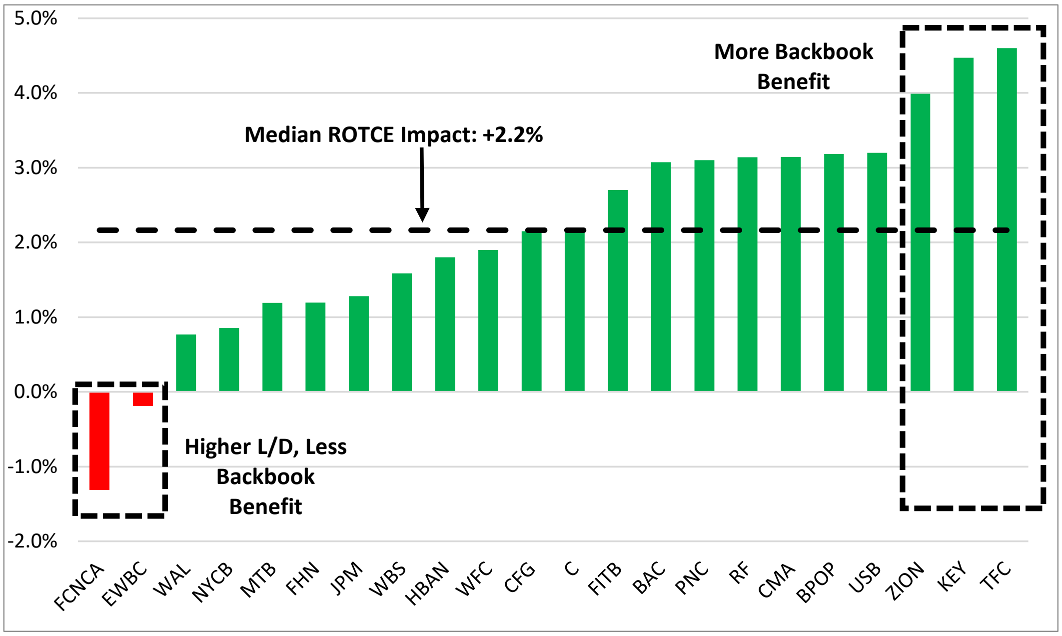
Category I	0.0%	2.0%	**2.0%**
Category III	0.0%	3.2%	**3.2%**
Category IV	-0.1%	2.4%	**2.0%**
Emerging	-0.2%	2.6%	**1.6%**

Note – L/D impact for Category I and III banks is 0% as our analysis does not assume any change beyond what is assumed in 2025E as these banks are already subject to higher liquidity standards. For Category IV and Emerging banks, L/D impact is the additional cost to bring L/D to 80% (at a -150bp incremental margin) or 0%, whichever is less (e.g. not allowing banks to lever up if below 80% L/D).

Source: KBW Research, S&P Capital IQ, and company reports.

- **Key Takeaways** – Broadly speaking, banks with larger and lower yielding securities portfolios benefit disproportionately over time as the portfolio is ultimately reinvested in market rate securities (**TFC, KEY, ZION**). Conversely, banks with higher L/D ratios, smaller investment portfolios, and less back book repricing stand to benefit by a lesser degree (**FCNCA, EWBC**).

Exhibit 15: NII Impact on ROTCE – Company Conclusions



Source: KBW Research, S&P Capital IQ, and company reports.

Noninterest Income / Tangible Assets

Conclusion: Small bank fees being regulated away; biggest banks more diversified

The ability to generate revenues that are less interest rate dependent and less capital intensive are two of the positive attributes of banks with a higher proportion of noninterest income. Overall, there is a direct correlation between the proportion of fees and asset size, with banks over $250 billion generating 40-45% of total revenues from non-interest income and about 35% for banks with $50-$250 billion, while this drops off considerably to around 20% for banks under $50 billion.

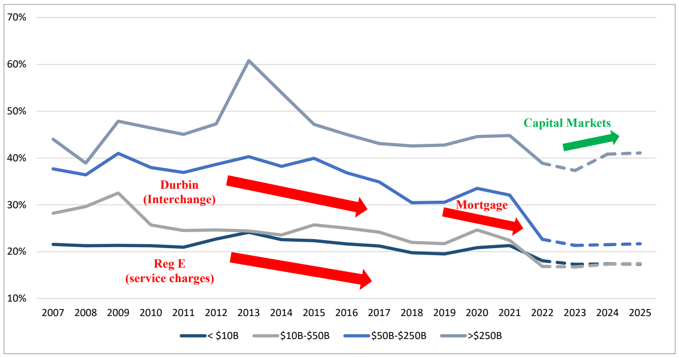
Fee income continues to be regulated away, particularly for small banks

Scale is one factor impacting this dynamic, though increased regulation following the GFC cannot be overlooked, in our view. Most notable are Reg E in 2010 (service charges) and the Durbin Amendment in 2011 (interchange limitations for banks over $10 billion in assets) – both of which weighed disproportionately on the smaller banks. More recently, low interest rates drove a significant increase in mortgage banking activity (originate and sell model), though this largely commoditized business is facing significant revenue headwinds today based on the sharp increase in interest rates. Conversely, while capital markets activity arguably remains in a recession-like environment, interest rate stability and greater economic certainly should ultimately lead to strengthening revenues in 2024/2025E, which generally favors the largest banks.

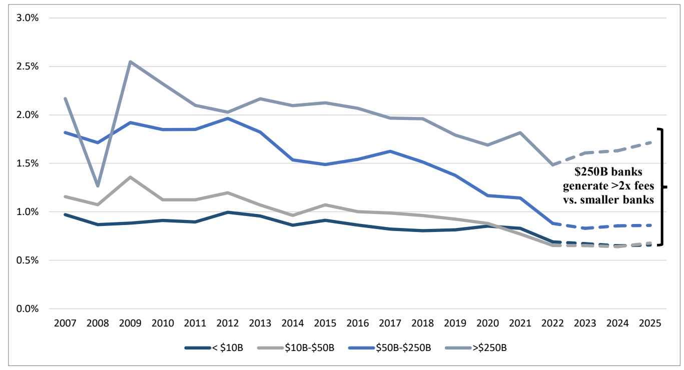
Looking ahead, one potential source of additional revenue headwind relates to the Federal Reserve's recent proposal to cap debit fees, a topic KBW analyst Sanjay Sakhrani discussed in his recent report: Fed Releases Proposal on Lowering Debit Fee Caps, October 25, 2023. At this point, it's too early to estimate the potential impact or timing on debit card revenues, but, all else equal, this would represent another modest headwind for banks above $10 billion in assets.

Exhibit 16: Big Banks Are More Diversified and Small Bank Fees Are Being Regulated Away

Noninterest Income / Total Revenues



Noninterest Income / Tangible Assets



Source: KBW Research and S&P Capital IQ.

Note – Peer groups are dynamic and represent banks within the referenced asset band at that point in time.

Noninterest Expense / Tangible Assets

Conclusion: The "price of poker" continues to go up as regulation increases

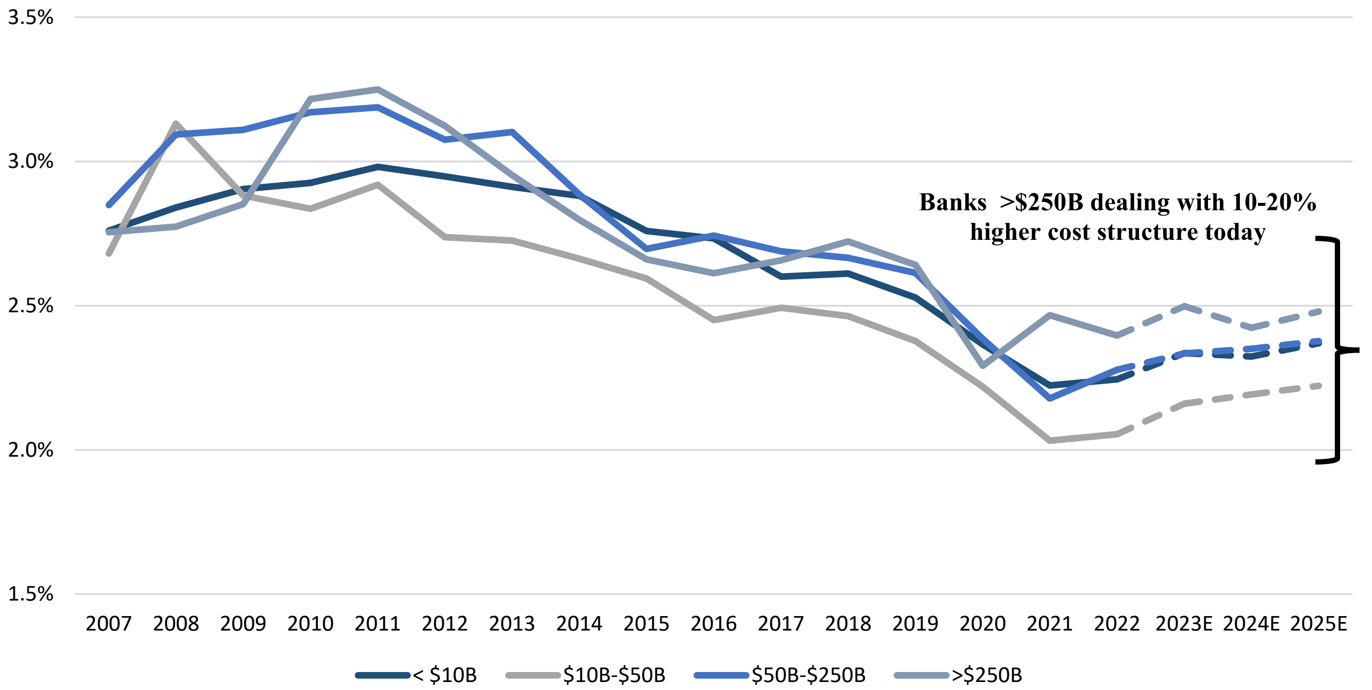
Expenses are the third and final component of a bank's pre-tax, pre-provision earnings (PPNR), and in Exhibit 17 we compare the ratio of noninterest expense to average assets, separated by asset size. As shown, this metric was approximately 3% for the industry following the GFC. However, banks were generally successful adjusting their cost structures in the face of very low interest rates, which included reducing branch count/size and also cost synergies from M&A. Because of this, the ratio of non-interest expense to tangible assets improved to about 2.5% in 2019, or said another way an approximate -15% improvement.

That said, while this metric has improved for banks of all sizes, we would point out two key observations: 1) asset levels became inflated post-COVID (liquidity build), which positively impacted this ratio, and perhaps more important 2) on an absolute level the largest banks (>$250 billion) are operating 10-20% higher (worse) on this metric today compared to smaller banks (2.5% versus 2.1-2.3%). We attribute this in large part to a greater regulatory burden.

Regulation has been pushing up expenses for the largest banks for years

Exhibit 17: Spreading the Wealth – Higher Regulatory Costs Will Get Pushed Down to More Banks

Noninterest Expense / Average Assets



Note – Peer groups are dynamic and represent banks within the referenced asset band at that point in time.
Source: KBW Research and S&P Capital IQ.

Looking ahead, following the collapse of **SIVB, FRC,** and **SBNY** this spring, there is consensus that greater regulation is necessary, and we believe this presents an incremental risk on expenses for banks in the $50-$250 billion range, and in particular banks that are approaching $100 billion or have recently crossed this important threshold (e.g. CCAR, living will, TLAC). In many ways, this appears to be quite similar to the increased regulation put in place for banks over $50 billion in assets immediately following the GFC (Dodd-Frank), which was subsequently raised to $250 billion in assets during the Trump administration.

Proposed $100B+ regulation pushes down the expense headwind to more banks and will impact Structural ROTCEs

To better estimate the potential expense burden at the company level, we consider two expense-driven efficiency metrics: 1) salaries expense to average assets, and 2) non-interest expense to average assets. Our sensitivity analysis applies a multiplier effect relative to our published expense forecast in 2025, which on average added 200-400bps to the annual expense growth rate for Category IV and Emerging banks. The total estimated ROTCE impact represents an average of these two individual measures. Of note, we did not add incremental costs to banks over $250 billion in assets as these banks have already been subject to a higher regulatory expense burden for many years.

- **Salaries Expense / Average Assets** – We believe a significant portion of the incremental expense burden will be people-related, and one way to capture this is by looking at the relationship between salaries expense and average assets, using our assumptions for 2025E as our starting point. On a median basis, the ROTCE impact is -40-50bps for Category IV and Emerging banks.

- **Noninterest Expense / Average Assets –** An alternative measure of estimating the expense impact from greater regulation can be captured by examining the expense to average asset ratio, similarly using our assumptions for 2025E as a starting point. On a median basis, the ROTCE impact is -70bps for Category IV banks ($100-$250 billion) and -110bps for Emerging banks ($65-$100 billion).

The regulatory expense burden on Category IV and Emerging banks could add 200-400bps to their annual expense growth rate and reduce Structural ROTCEs by 60-80bps

- **FHN Expense Commentary Validates Our Methodology** – At a competitor conference in September, FHN CEO Bryan Jorden spoke about the potential cost of crossing $100 billion in assets, specifically: "*We do think that the cost of becoming a $100 billion organization is significant. If you take out tailoring and you turn on all of the daily reporting, the living wills, all the things that go with being essentially a G-SIB or north of $100 billion untailored world, you're probably talking $50 million to $100 million in incremental annual cost."* These comments are entirely consistent with our estimated impact for **FHN** of $49 million (low-end) and $84 million (high-end).

- **CMA Expense Commentary Also Validates Our Methodology** – As part of KBW's annual West Coast Bank Field Trip on November 9 (HERE), **CMA** commented that it believes $50 million is a reasonable estimate for the incremental annual cost to cross $100 billion. These comments are also consistent with our estimated range of $41 million (low-end) and $94 million (high-end); thus **CMA**'s estimate is closer to our low-end estimate.

Exhibit 18: Expense Impact on ROTCE – Sensitivity Analysis

	sorted				Impact on ROTCE			
Ticker	Assets ($B)	Category	Analyst	Rating	Low End	vs.	High End	Average
JPM	3,898	I	Konrad, CFA	MP	0.0%		0.0%	**0.0%**
BAC	3,153	I	Konrad, CFA	MP	0.0%		0.0%	**0.0%**
C	2,368	I	Konrad, CFA	MP	0.0%		0.0%	**0.0%**
WFC	1,909	I	Konrad, CFA	OP	0.0%		0.0%	**0.0%**
USB	668	III	Konrad, CFA	OP	0.0%		0.0%	**0.0%**
PNC	557	III	Konrad, CFA	UP	0.0%		0.0%	**0.0%**
TFC	543	III	Konrad, CFA	OP	0.0%		0.0%	**0.0%**
CFG	225	IV	Konrad, CFA	MP	-0.3%		-0.6%	**-0.5%**
FCNCA	214	IV	Gailey, CFA	OP	-0.6%		-0.8%	**-0.7%**
FITB	213	IV	Konrad, CFA	OP	-0.4%		-0.7%	**-0.5%**
MTB	209	IV	Konrad, CFA	MP	-0.4%		-0.7%	**-0.6%**
KEY	188	IV	Konrad, CFA	OP	-0.4%		-0.7%	**-0.5%**
HBAN	187	IV	Konrad, CFA	MP	-0.4%		-0.7%	**-0.5%**
RF	154	IV	Konrad, CFA	MP	-0.4%		-0.8%	**-0.6%**
NYCB	111	IV	McGratty, CFA	OP	-0.4%		-0.8%	**-0.6%**
ZION	87	Emerging	McGratty, CFA	MP	-0.7%		-1.2%	**-1.0%**
CMA	86	Emerging	McGratty, CFA	MP	-0.5%		-1.2%	**-0.9%**
FHN	83	Emerging	Gailey, CFA	MP	-0.5%		-0.9%	**-0.7%**
WBS	73	Emerging	McGratty, CFA	OP	-0.4%		-0.8%	**-0.6%**
WAL	71	Emerging	McGratty, CFA	OP	-0.4%		-1.1%	**-0.8%**
BPOP	70	Emerging	Motta, CFA	OP	-0.6%		-1.6%	**-1.1%**
EWBC	68	Emerging	McGratty, CFA	OP	-0.3%		-0.5%	**-0.4%**

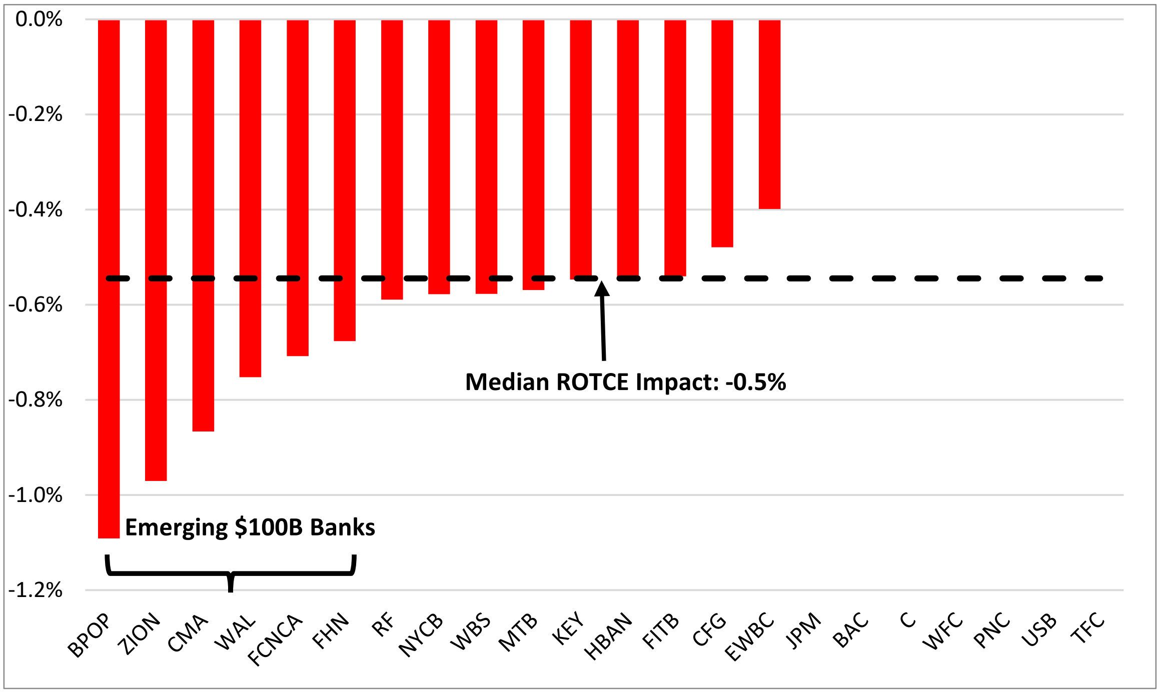
	Low End	High End	Average
Category I	0.0%	0.0%	**0.0%**
Category III	0.0%	0.0%	**0.0%**
Category IV	-0.4%	-0.7%	**-0.6%**
Emerging	-0.5%	-1.1%	**-0.8%**

Note – Low end stresses salaries expense/average assets and high end stresses noninterest expense/average assets. Expense impact for Category I and Category III banks is 0% as our analysis does not assume any additional regulatory costs beyond what is assumed in 2025E as these banks area already subject to higher regulatory standards. For Category IV and Emerging banks, we added 200-400bps to their annual expense growth rate to reflect a higher anticipated expense burden due to regulation, though made certain adjustments for banks that had previously been subject to greater regulation when the SIFI threshold was $50B-in-assets.

Source: KBW Research, S&P Capital IQ, and company reports.

- **Company Conclusions: Size Matters** – Not surprising, Emerging banks, or those that recently crossed $100 billion in assets, face a potentially higher expense burden due to regulatory costs. Conversely, this burden has already been in the run rate for many years for the largest banks ($250 billion+).

Exhibit 19: Expense Impact on ROTCE – Company Conclusions



Source: KBW Research, S&P Capital IQ, and company reports.

Provision / Tangible Assets

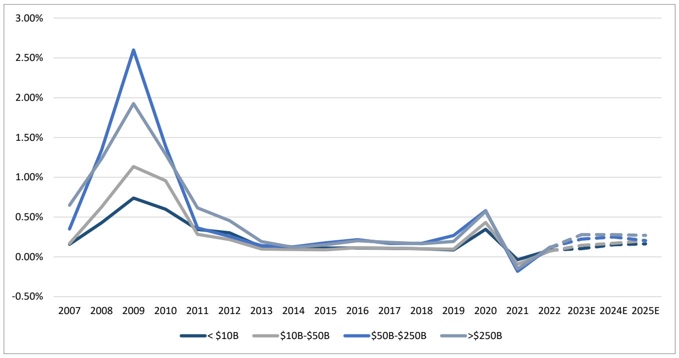
Conclusion: Regulation has made U.S. banks safer, but at the expense of growth by less-regulated, non-traditional lenders

Regulation has made U.S. banks safer with very low levels of NCOs since GFC

Asset quality trends have been very strong since the GFC, and this is in part due to improved underwriting, but also the positive effects of financial regulation. In fact, provision expense, as a proportion of tangible assets, remains near multi-decade lows in the 10-15bp range (Exhibit 20, left), while net charge-offs (NCOs) (excluding Cards) were just 12bps in 2022 (Exhibit 20, right). This compares to the industry's long-term average NCO of 61bps (median since 1984). While credit is beginning to normalize higher, our published 2024 EPS estimates only factor in 18bps of NCOs, representing about one-third of historical losses, while for 2025, our published estimates factor in 26bps/21bps of provisions/NCOs.

Exhibit 20: U.S. Banking System Is Safer Today, in Part Due to Regulation Post GFC

Provision / Tangible Assets



Annual NCOs by Asset Class

All FDIC-Insured Commercial Banks				
		1984-2022		
	2022	Mean	High	Low
Residential Mortgage*	(0)	25	156	(1)
Home Equity*	(18)	58	364	(22)
Commercial Real Estate	2	39	190	1
Construction	(1)	107	548	(5)
Commercial	16	76	219	16
Credit Cards	205	411	1197	151
Other Consumer	64	107	308	36
Leases	12	43	128	9
Other	12	36	259	(6)
Total Loans	26	87	269	24
Total Loans (ex-Credit Cards)	12	61	221	10

KBWe 2024: 18bps total NCOs

Note – Peer groups in left chart are dynamic and represent banks within the referenced asset band at that point in time.

Source: FDIC and KBW Research.

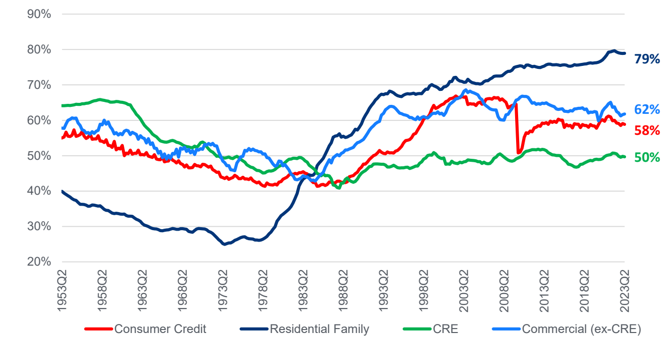
One notable consequence of increased regulation is the significant credit risk transfer from the banks to non-traditional lenders, and this is clearly evident in the shift since 2008 due to increased regulation (Dodd-Frank) and more recently the Basel III Endgame proposal from the Federal Reserve.

In fact, according to KBW analyst David Konrad's recent analysis (Big Banks' RWA Diet Fuels Private Credit Feast, October 8, 2023), increased regulation has meaningfully reduced the risk on bank balance sheets, but this has also shifted a greater share of lending outside the Fed's historical regulatory purview. For example, non-traditional lenders now control at least 50% market share in each major U.S. lending category (Exhibit 21, left) and banks' share of the leveraged loan market has declined to 25% in 2022 from 71% in 1994 (Exhibit 21, right), with alternative managers and hedge funds continuing to have a strong appetite for this asset class. Overall, tighter regulation following the GFC has helped reduce credit costs for U.S. banks, but at the same time it may also reduce domestic credit availability, which has the potential to weigh on economic growth.

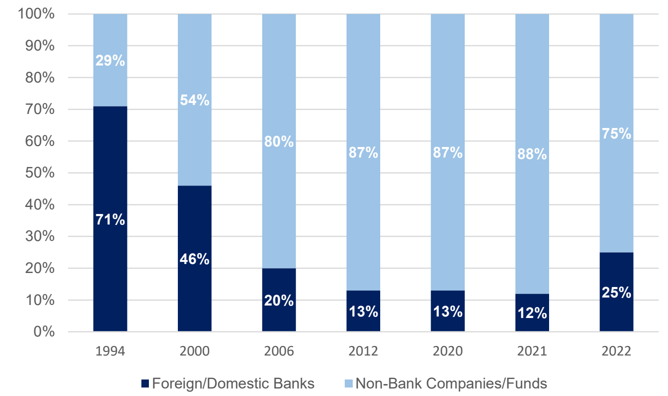
Regulation has also transferred credit risk to less-regulated, non-traditional lenders, which reduces credit availability and could weigh on economic growth

Exhibit 21: Non-Traditional Lenders Continue to Take Market Share

Non-Traditional Bank Share of Credit Outstanding



Share of U.S. Leveraged Lending Market



Note – Data in left chart includes shift in 2010Q1 of consumer credit from the issuers of ABS to other sectors is largely due to financial institutions' implementation of the Financial Accounting Standards, or FAS, 166/167 accounting rules.

Source: KBW Research, LCD/PitchBook, and Fed Flow of Funds.

Tax Rates

Conclusion: Regulation (lower tax rates) helped improve bank profitability recently

Regulation has also impacted tax rates with the most recent (and positive) change occurring in December 2017, when the Tax Cuts and Jobs Act (TCJA) was signed into place by President Trump. In addition to reducing personal tax rates, corporate taxes were cut from 35% to 21%, which had the positive effect of increasing bank ROTCEs by approximately 150-200bps on average. Our expectation is that tax rates will remain unchanged.

Lower corporate tax rates added 150-200bps to bank ROTCEs, starting in 2018

Tangible Common Equity / Tangible Assets (TCE/TA)

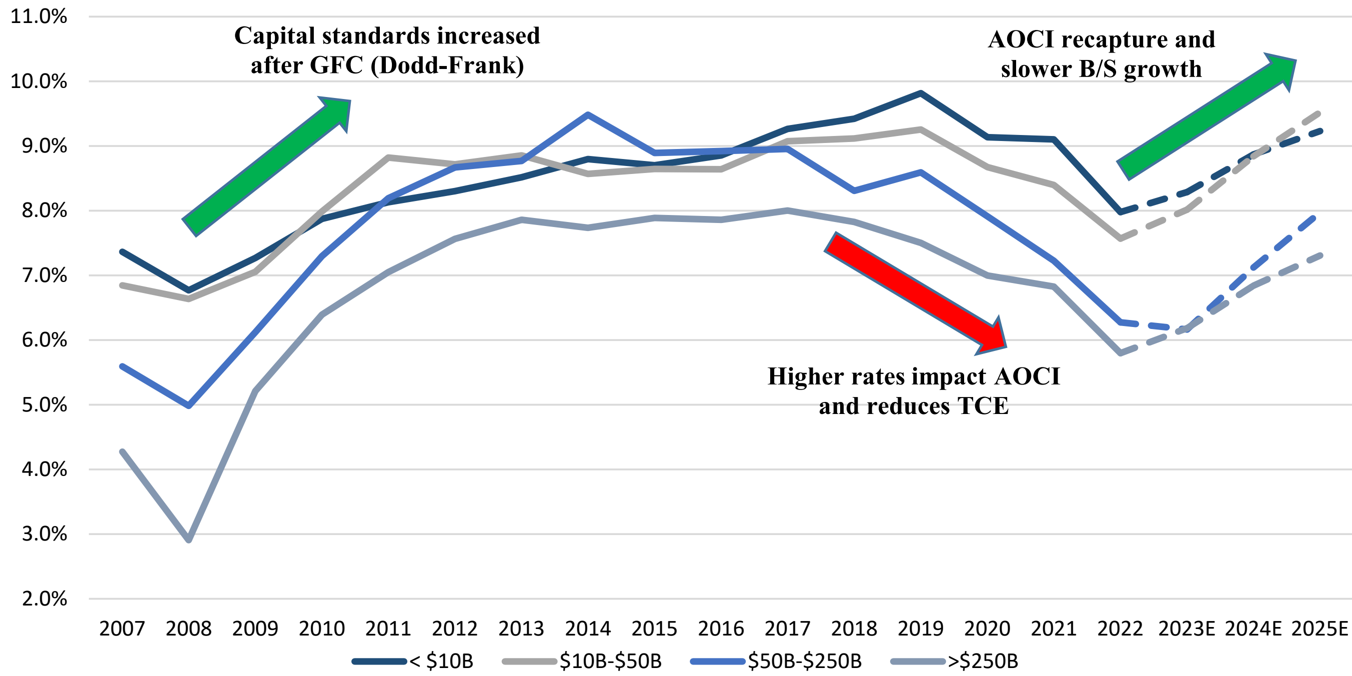
Conclusion: Regulation has pushed capital standards higher, and this will continue

The effects of financial regulation have increased capital standards, with banks generally operating with 8-9% TCE/TA post-GFC, a sharp contraction to the outsized leverage at some of the biggest banks, which ran with 3-4% TCE/TA in 2007-2008. More recently, the spike in interest rates has reduced the value of AFS securities (and thus impacted AOCI) and pressured TCE/TA ratios, with banks above $50 billion operating at about 6% TCE/TA today (smaller banks 8%). Looking ahead, the combination of regular bond discount accretion, stable interest rates, and more modest balance sheet growth should collectively support TCE/TA ratios, with our models assuming a 100-150bp improvement by the end of 2025.

Regulatory standards for capital continue to move higher, even though bond losses are pressuring TCE/TA ratios today

Exhibit 22: Capital Standards Continue to Move Higher, but Bond Losses Pressuring TCE/TA Ratios

TCE/TA Ratios



Note – Peer groups are dynamic and represent banks within the referenced asset band at that point in time.

Source: KBW Research and S&P Capital IQ.

For banks >$100B, TLAC and AOCI in CET1 are two of the most notable capital proposals on the table

Looking ahead, there are several proposed changes to capital rules, which, if enacted, will have the effect of "pushing down" greater regulation to more banks. Most notably, this includes Basel III endgame, issuing long-term debt for TLAC, and the inclusion of AOCI in CET1 capital ratios for banks above $100 billion in assets. As a side note, the issue that brought down **SIVB** – unrealized losses on held to maturity securities (HTM) following a run on deposits – wouldn't have necessarily been caught by the proposed capital rules of including AOCI in CET1 (which captures unrealized gains/losses for available for sale [AFS], but not HTM securities). At this point, it's neither here nor there, but it does highlight the potential shortcomings of reactionary financial regulation.

- **TLAC** – The impact of TLAC is already captured in our published 2025 EPS estimates for banks above $100 billion, though this would be a negative -60bp ROTCE impact for Emerging banks due to their need to issue long-term debt. Though proposed regulation assumes a multi-year phase-in period, our sensitivity analysis assumes the full amount is issued since we are estimating Structural (long-term) ROTCEs.

- **CET1 Including AOCI** – A more notably negative impact to terminal ROTCEs is the inclusion of AOCI in CET1 capital ratios for banks above $100 billion in assets, whereas current regulation only includes AOCI in CET1 for Category I banks (**JPM, BAC, C, WFC**). If implemented, the potential impact varies significantly between banks, with notable factors including 1) the relative size of the investment portfolio and 2) how aggressive or conservative a bank was at investing in the bond portfolio at the early part of this rate cycle when rates were considerably lower. Our CET1 targets for Category III, Category IV, and Emerging banks are 9.5% (exception is 12.0% for **BPOP** given the systemic importance to Puerto Rico), while for Category I banks it is customized (**JPM** 13.0%, **BAC** 11.4%, **C** 12.5%, and **WFC** 9.8%). The column labelled "Impact on ROTCE with CET1 ex AOCI @ Target" reflects the impact from either the capital surplus or shortfall based these targets and fully loaded risk-weighted assets (RWA), and uses year-end 2025 as a reference point.

Exhibit 23: Capital Impact on ROTCE – Sensitivity Analysis

sorted

Ticker	Assets ($B)	Category	Analyst	Rating	Impact on ROTCE: TLAC	+	Impact on ROTCE: CET1 ex AOCI @ Target	=	Total
JPM	3,898	I	Konrad, CFA	MP	In KBWe	+	-0.2%	=	**-0.2%**
BAC	3,153	I	Konrad, CFA	MP	In KBWe	+	-0.1%	=	**-0.1%**
C	2,368	I	Konrad, CFA	MP	In KBWe	+	-0.2%	=	**-0.2%**
WFC	1,909	I	Konrad, CFA	OP	In KBWe	+	0.0%	=	**0.0%**
USB	668	III	Konrad, CFA	OP	In KBWe	+	-1.1%	=	**-1.1%**
PNC	557	III	Konrad, CFA	UP	In KBWe	+	0.3%	=	**0.3%**
TFC	543	III	Konrad, CFA	OP	In KBWe	+	-2.8%	=	**-2.8%**
CFG	225	IV	Konrad, CFA	MP	In KBWe	+	0.1%	=	**0.1%**
FCNCA	214	IV	Gailey, CFA	OP	-0.4%	+	5.8%	=	**5.4%**
FITB	213	IV	Konrad, CFA	OP	In KBWe	+	-2.5%	=	**-2.5%**
MTB	209	IV	Konrad, CFA	MP	In KBWe	+	0.9%	=	**0.9%**
KEY	188	IV	Konrad, CFA	OP	In KBWe	+	-1.3%	=	**-1.3%**
HBAN	187	IV	Konrad, CFA	MP	In KBWe	+	0.6%	=	**0.6%**
RF	154	IV	Konrad, CFA	MP	In KBWe	+	-0.6%	=	**-0.6%**
NYCB	111	IV	McGratty, CFA	OP	In KBWe	+	0.4%	=	**0.4%**
ZION	87	Emerging	McGratty, CFA	MP	-0.8%	+	-1.4%	=	**-2.2%**
CMA	86	Emerging	McGratty, CFA	MP	-0.9%	+	-0.5%	=	**-1.4%**
FHN	83	Emerging	Gailey, CFA	MP	-0.8%	+	1.9%	=	**1.1%**
WBS	73	Emerging	McGratty, CFA	OP	-0.6%	+	4.5%	=	**3.9%**
WAL	71	Emerging	McGratty, CFA	OP	-0.6%	+	2.8%	=	**2.2%**
BPOP	70	Emerging	Motta, CFA	OP	-0.5%	+	2.0%	=	**1.5%**
EWBC	68	Emerging	McGratty, CFA	OP	-0.6%	+	5.7%	=	**5.1%**

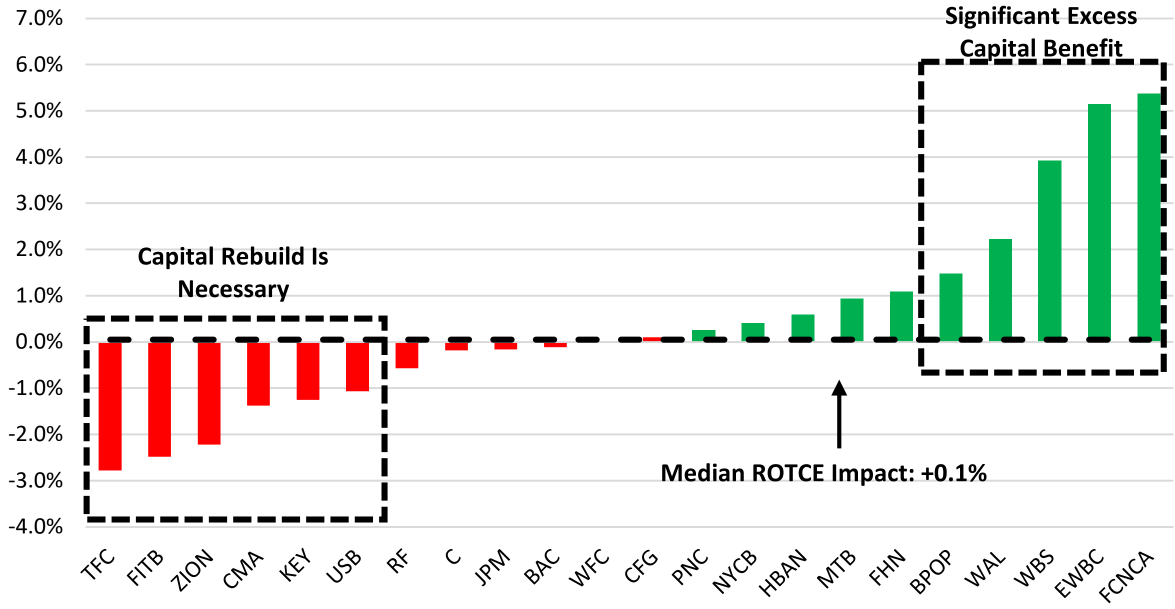
	TLAC	CET1 ex AOCI @ Target	Total
Category I	N/A	-0.1%	**-0.1%**
Category III	N/A	-1.1%	**-1.1%**
Category IV	-0.4%	0.3%	**0.3%**
Emerging	-0.6%	2.0%	**1.5%**

Note – CET1 target for Category III, Category IV, and Emerging banks is 9.5%, and 13.0% for JPM, 11.4% for BAC, 12.5% for C, and 9.8% for WFC. We use 12.0% CET1 target for BPOP given systemic importance to Puerto Rico.

Source: KBW Research, S&P Capital IQ, and company reports.

- **Key Takeaways** – Under this analysis, we assign a notable Structural ROTCE benefit for banks with significant excess capital (**FCNCA, EWBC, WBS, WAL, BPOP)**, while there is an effective "capital charge" to Structural ROTCEs for banks that are below our fully loaded CET1 targets (**TFC, FITB, ZION, CMA, KEY, USB**).

Exhibit 24: Capital Impact on ROTCE – Company Conclusions



Source: KBW Research, S&P Capital IQ, and company reports.

Tangible Return on Tangible Common Equity (TROTCE)

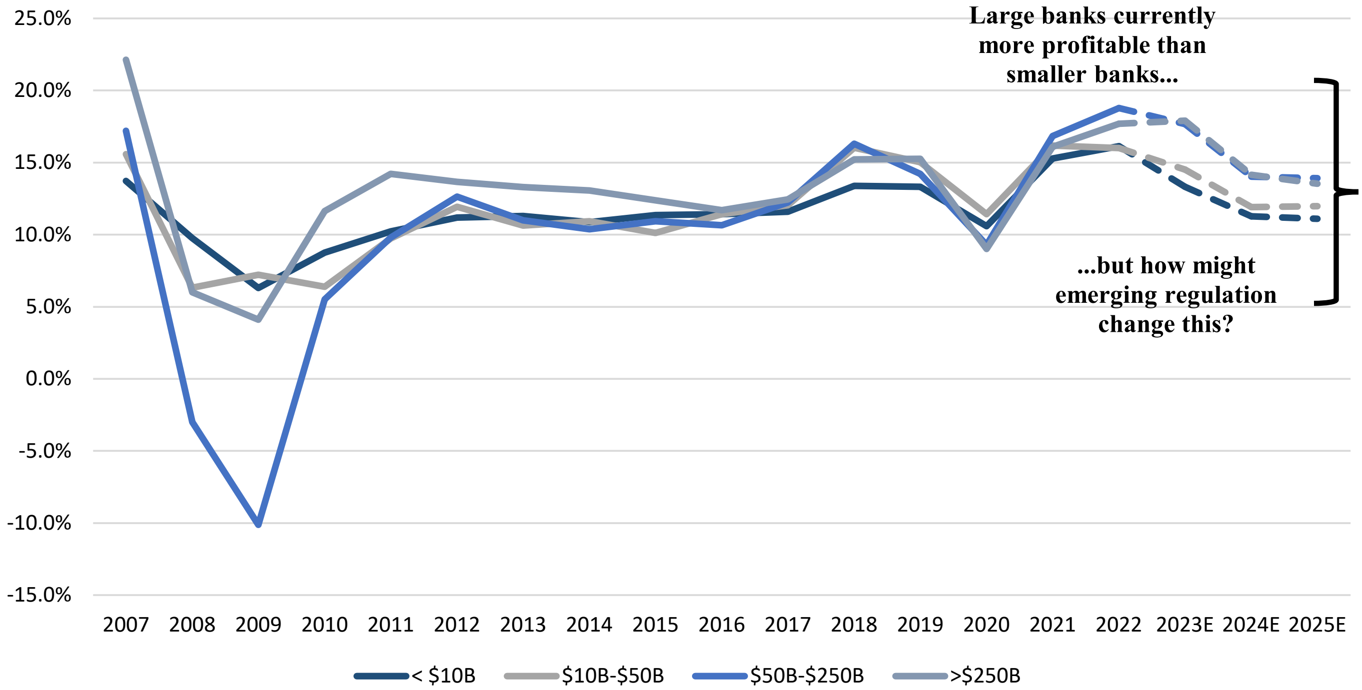
Conclusion: Rates (and leverage) supporting ROTCE today, but regulation set to impact profitability at more banks

Bank profitability (ROTCE) remains at fairly strong levels, though it is moderating from an exceptionally strong 2022, where revenues were supported by higher rates and capital levels declined due to shifts in AOCI (e.g. lower denominator in ROTCE calculation). More specifically, between 2020 and 2022, returns effectively doubled to 18-19% for banks over $50 billion, while smaller banks also enjoyed about a 500-600bp improvement in returns to 16%. Looking ahead, with pressure on PTPP earnings and capital levels set to move higher (slower growth and AOCI recapture), we see banks over $50 billion producing a 14% ROTCE in 2025 compared to 11.0-11.5% for banks under $50 billion.

Large banks are more profitable today, but proposed regulation is being pushed down

Exhibit 25: Returns Are Strong, but a Key Question Is the Impact of Emerging Regulation

Tangible Return on Tangible Common Equity (TROTCE) – Published KBWe



Note – Peer groups are dynamic and represent banks within the referenced asset band at that point in time.
Source: KBW Research and S&P Capital IQ.

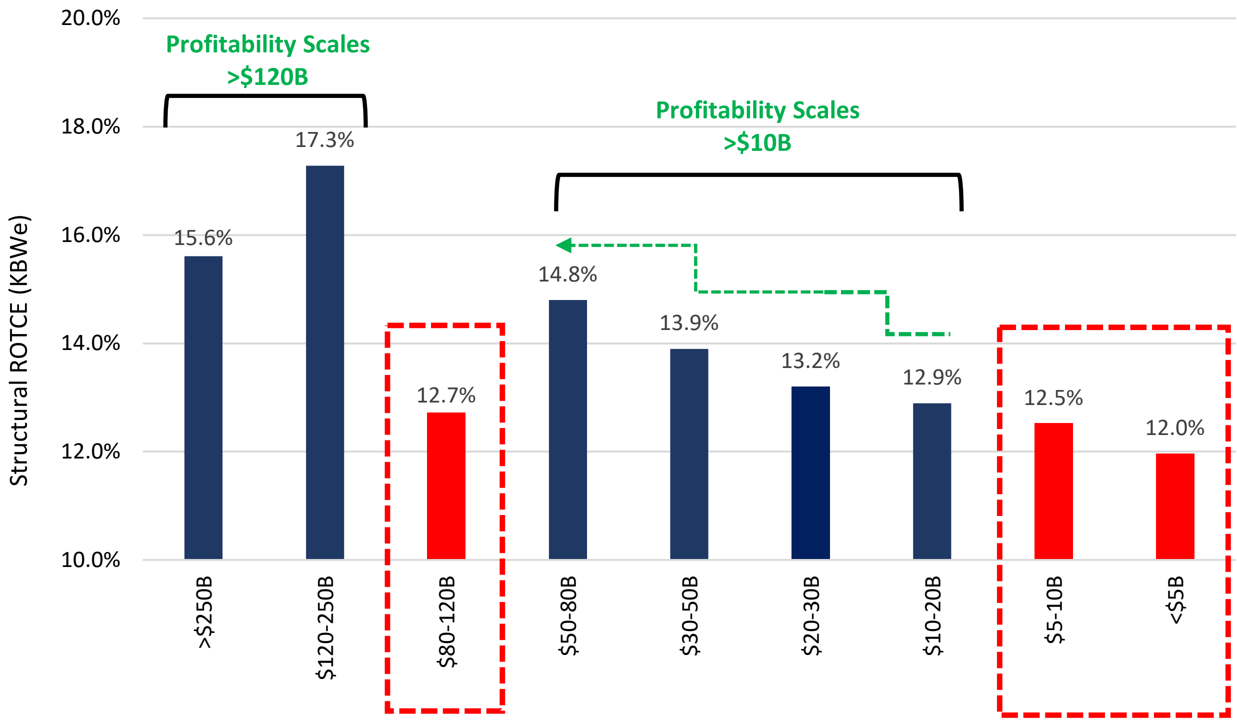
In Exhibit 26, we illustrate our estimate for "Structural ROTCEs" by asset range. Of note, this is not meant to map to a specific year, but rather our long-term estimate for profitability on a fully loaded (adjusted) basis. To arrive at the estimates, we aggregated the cumulative impact from NII (Exhibit 14), expenses (Exhibit 18), and capital (Exhibit 23) for banks above the Emerging threshold ($65 billion and above), while for banks below this level of total assets, the only adjustment we made to 2025 ROTCEs was to add a 150bp positive adjustment for back book repricing (since the proposed regulatory impact on expenses and capital analyzed throughout this report does not directly impact banks of this size). Key takeaways and conclusions are provided below:

- **Profitability Scales** – Banks above $250 billion in assets and banks $120-$150 billion are highly profitable, with Structural ROTCEs of 15.6% and 17.3%, respectively. In addition, among smaller banks there is a direct correlation between profitability and scale, with the $50-$80 billion banks 190bps more profitable than banks between $10-$20 billion (or 14.8% versus 12.9%).

- **Lack of Scale Hurts Profitability** – There is a sharp drop-off in Structural ROTCEs for banks in the $80-$120 billion range (12.7%), and this makes sense to us given the increased regulatory burden surrounding the proposed $100 billion threshold. These profitability pressures are even more acute for banks under $10 billion, where Structural ROTCEs are the lowest (12.0-12.5%).

- **Key Conclusion: Scale Breakpoints Exist –** Based on our analysis, we see three optimal "breakpoints" for banks to consider in the evolving regulatory environment: 1) above $120 billion (or 20% above proposed $100 billion threshold), 2) $50-$80 billion (or comfortably below the proposed $100 billion threshold), and 3) $20-$50 billion (or comfortably above the $10 billion threshold).

Exhibit 26: Profitability Scales – Clear Thresholds Exist to Achieve Optimal Profitability



Source: KBW Research and S&P Capital IQ.

Next, in Exhibit 27, we illustrate the combined effects from our sensitivity analysis at the individual bank level, which provides a "walk" from our published 2025 ROTCE to "Structural ROTCEs". While the medians collectively point to an approximate 200bp lift to "Structural ROTCEs" relative to published 2025 ROTCEs, there is notable disparity at the individual bank level, which we elaborate on below:

- **Banks >$250B** – With the exception of **C** (9.4%), all banks over $250 billion in assets are highly profitable and in the 15-19% range (**USB** highest at 19.0%).

- **$120-$250B Is a Good Place to Live Too –** Median 17% Structural ROTCE, with **RF** (20.3%) and **HBAN** (18.3%) positive outliers and **CFG** (13.8%) below the median. For the positive outliers, the combination of scale and strong profitability could position many of these banks to be acquirers in the coming years, especially if valuation multiples re-rate higher to reflect stronger structural profitability.

- **$80-$120B Is a Challenging Spot for Profitability** – The four banks in this range all have below-peer Structural ROTCEs, including **CMA** (14.5%), **ZION** (13.3%), **NYCB** (12.1%), and **FHN** (12.1%). The correlation between scale and profitability – especially in light of a rising cost of capital – may need to be addressed in the coming few years, with M&A a potential solution, in our view.
- **Emerging Bank Winners** – We view **WBS** (21.5%), **EWBC** (19.3%), and **WAL** (17.4%), as "Emerging Bank Winners", with Structural ROTCEs well in excess of their respective cost of capital.

Exhibit 27: ROTCE – Sensitivity Analysis

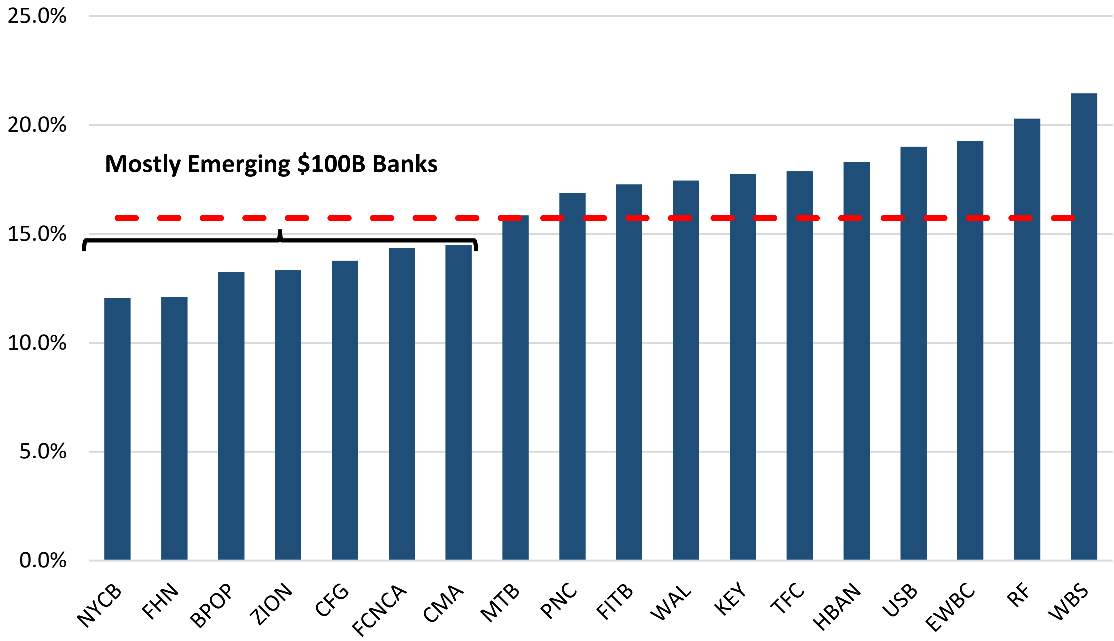
	sorted				2025 ROTCE	Aggregate Sensitivity Impact on ROTCE							Structural ROTCE
Ticker	Assets ($B)	Category	Analyst	Rating	KBWe	NII	+	Expenses	+	Capital	=	Total	Pro Forma
JPM	3,898	I	Konrad, CFA	MP	**14.5%**	1.3%	+	0.0%	+	-0.2%	=	1.1%	**15.6%**
BAC	3,153	I	Konrad, CFA	MP	**12.0%**	3.1%	+	0.0%	+	-0.1%	=	3.0%	**14.9%**
C	2,368	I	Konrad, CFA	MP	**7.4%**	2.2%	+	0.0%	+	-0.2%	=	2.0%	**9.4%**
WFC	1,909	I	Konrad, CFA	OP	**12.8%**	1.9%	+	0.0%	+	0.0%	=	1.9%	**14.7%**
USB	668	III	Konrad, CFA	OP	**16.9%**	3.2%	+	0.0%	+	-1.1%	=	2.1%	**19.0%**
PNC	557	III	Konrad, CFA	UP	**13.5%**	3.1%	+	0.0%	+	0.3%	=	3.4%	**16.9%**
TFC	543	III	Konrad, CFA	OP	**16.1%**	4.6%	+	0.0%	+	-2.8%	=	1.8%	**17.9%**
CFG	225	IV	Konrad, CFA	MP	**12.0%**	2.2%	+	-0.5%	+	0.1%	=	1.8%	**13.8%**
FCNCA	214	IV	Gailey, CFA	OP	**11.0%**	-1.3%	+	-0.7%	+	5.4%	=	3.3%	**14.3%**
FITB	213	IV	Konrad, CFA	OP	**17.6%**	2.7%	+	-0.5%	+	-2.5%	=	-0.3%	**17.3%**
MTB	209	IV	Konrad, CFA	MP	**14.3%**	1.2%	+	-0.6%	+	0.9%	=	1.6%	**15.8%**
KEY	188	IV	Konrad, CFA	OP	**15.1%**	4.5%	+	-0.5%	+	-1.3%	=	2.7%	**17.7%**
HBAN	187	IV	Konrad, CFA	MP	**16.5%**	1.8%	+	-0.5%	+	0.6%	=	1.8%	**18.3%**
RF	154	IV	Konrad, CFA	MP	**18.3%**	3.1%	+	-0.6%	+	-0.6%	=	2.0%	**20.3%**
NYCB	111	IV	McGratty, CFA	OP	**11.4%**	0.9%	+	-0.6%	+	0.4%	=	0.7%	**12.1%**
ZION	87	Emerging	McGratty, CFA	MP	**12.5%**	4.0%	+	-1.0%	+	-2.2%	=	0.8%	**13.3%**
CMA	86	Emerging	McGratty, CFA	MP	**13.6%**	3.1%	+	-0.9%	+	-1.4%	=	0.9%	**14.5%**
FHN	83	Emerging	Gailey, CFA	MP	**10.5%**	1.2%	+	-0.7%	+	1.1%	=	1.6%	**12.1%**
WBS	73	Emerging	McGratty, CFA	OP	**16.5%**	1.6%	+	-0.6%	+	3.9%	=	4.9%	**21.5%**
WAL	71	Emerging	McGratty, CFA	OP	**15.2%**	0.8%	+	-0.8%	+	2.2%	=	2.2%	**17.4%**
BPOP	70	Emerging	Motta, CFA	OP	**9.7%**	3.2%	+	-1.1%	+	1.5%	=	3.6%	**13.3%**
EWBC	68	Emerging	McGratty, CFA	OP	**14.7%**	-0.2%	+	-0.4%	+	5.1%	=	4.6%	**19.3%**

Category I	**12.4%**	2.0%	+	0.0%	+	-0.1%	=	1.9%	**14.3%**
Category III	**16.1%**	3.2%	+	0.0%	+	-1.1%	=	2.1%	**18.2%**
Category IV	**14.7%**	2.0%	+	-0.6%	+	0.3%	=	1.7%	**16.3%**
Emerging	**13.6%**	1.6%	+	-0.8%	+	1.5%	=	2.3%	**15.9%**

Note – Structural ROTCE is KBWe and represents long-term return potential (inclusive of proposed regulation/implications), not a specific year, and excludes the impact of accretion income.
Source: KBW Research, S&P Capital IQ, and company reports.

Finally, in Exhibit 28 we illustrate the absolute level of Structural ROTCEs for banks above $65 billion in assets, which we sort lowest to highest. As shown, we estimate that many (but not all) banks in the Emerging category have structurally lower ROTCEs compared to banks with the greatest scale.

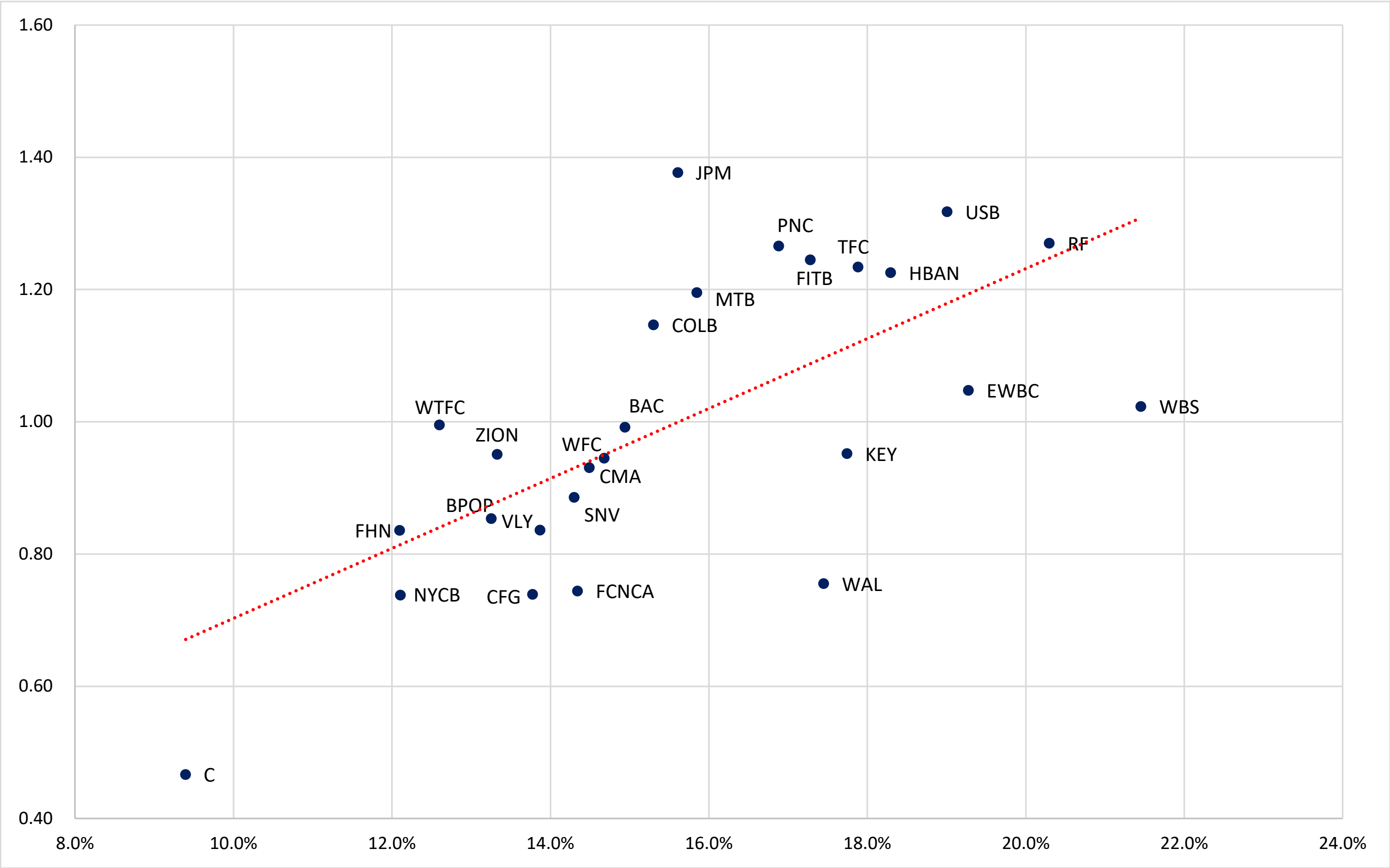
Exhibit 28: ROTCE – Company Conclusions



Source: KBW Research, S&P Capital IQ, and company reports.

Appendix 1: Banks >$50B in Assets

Structural ROTCE vs. P/TBV (4Q25E Adjusted)

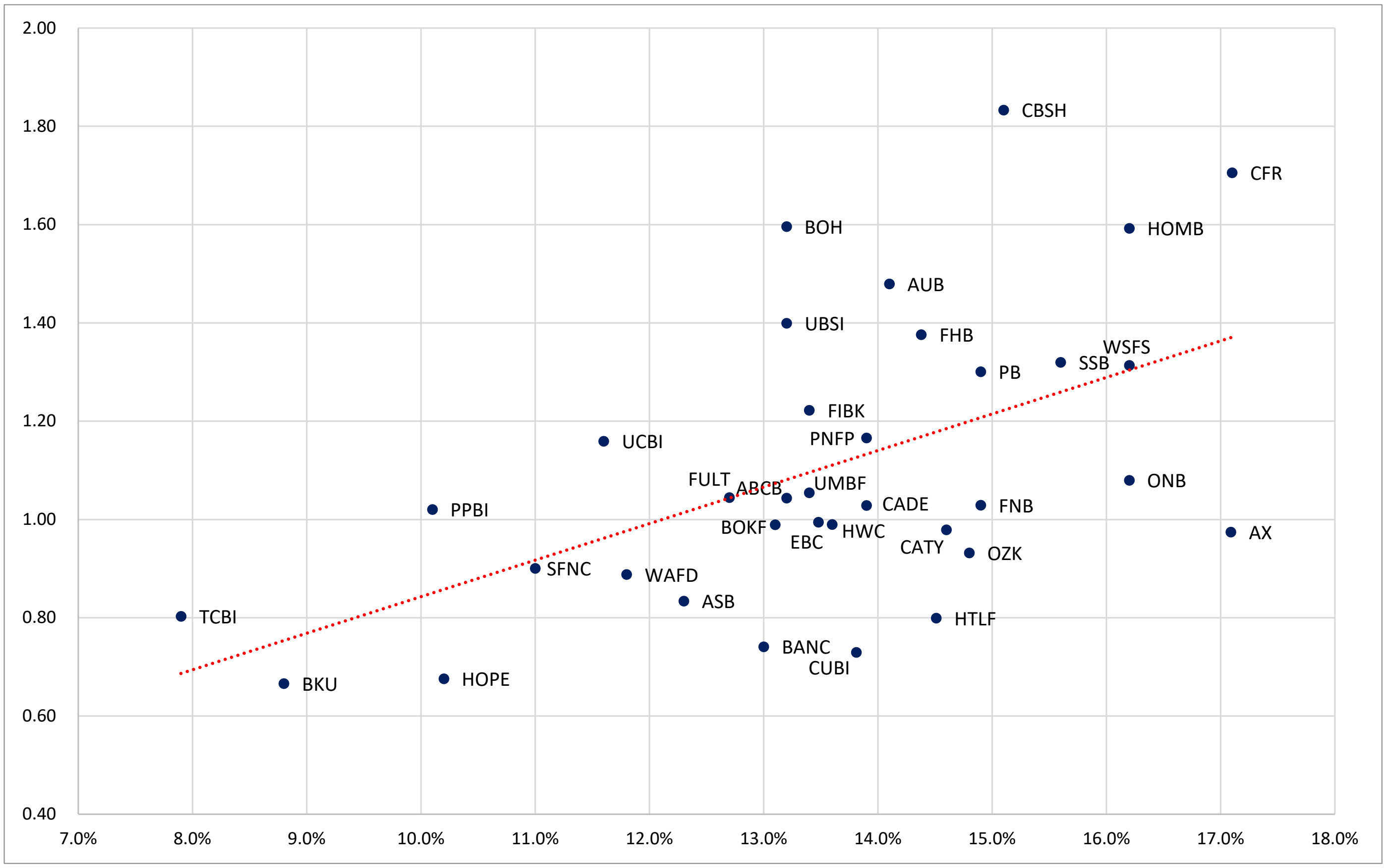


Note – Structural ROTCE is KBWe and represents long-term return potential (inclusive of proposed regulation/implications), not a specific year, and excludes the impact of accretion income. P/TBV multiple uses YE25 TBV/share and normalizes capital levels based on estimated long-term targets for the largest banks (Emerging banks up through Category I banks) based on proposed regulatory capital changes impacting banks $100B in assets and higher.

Source: KBW Research and S&P Capital IQ.

Appendix 2: Banks $20-50B in Assets

Structural ROTCE vs. P/TBV (4Q25E Adjusted)



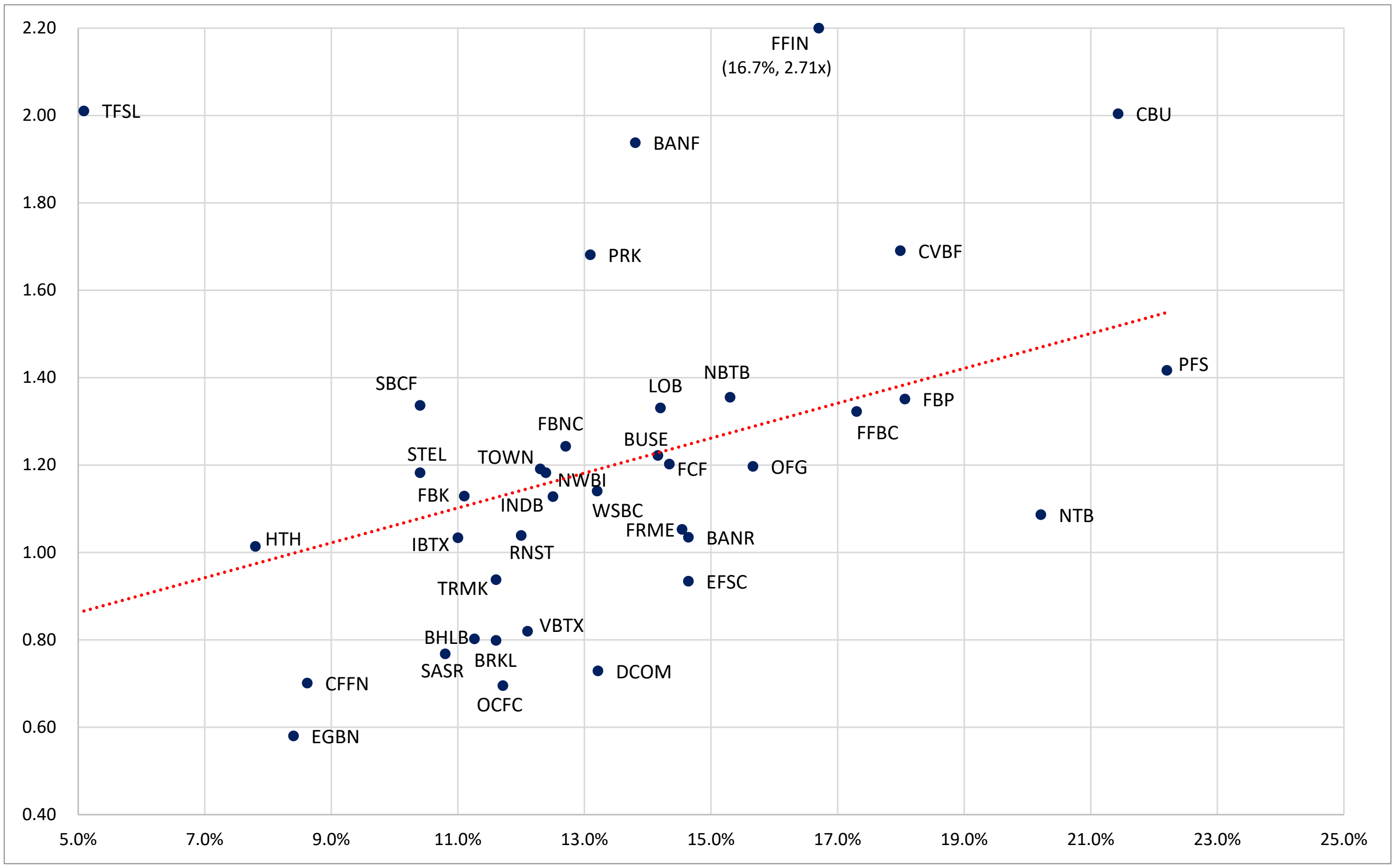
Note – Structural ROTCE is KBWe and represents long-term return potential (inclusive of proposed regulation/implications), not a specific year, and excludes the impact of accretion income. P/TBV multiple uses YE25 TBV/share and normalizes capital levels based on estimated long-term targets for the largest banks (Emerging banks up through Category I banks) based on proposed regulatory capital changes impacting banks $100B in assets and higher.

BANC will be approximately $36 billion in assets pro forma for PACW deal, which is scheduled to close on 11/30/2023.

Source: KBW Research and S&P Capital IQ.

Appendix 3: Banks $10-20B in Assets

Structural ROTCE vs. P/TBV (4Q25E Adjusted)



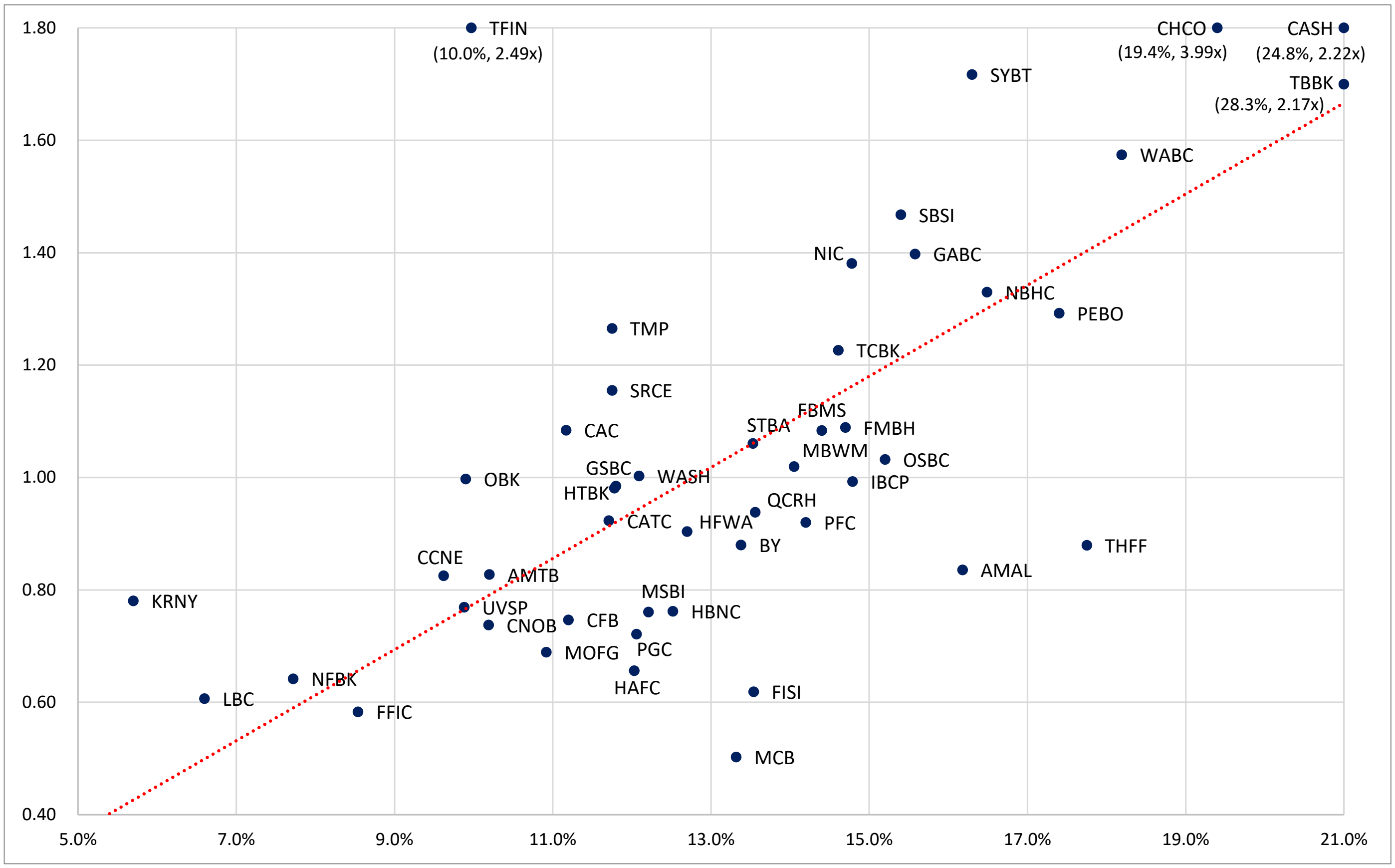
Note – Structural ROTCE is KBWe and represents long-term return potential (inclusive of proposed regulation/implications), not a specific year, and excludes the impact of accretion income. P/TBV multiple uses YE25 TBV/share and normalizes capital levels based on estimated long-term targets for the largest banks (Emerging banks up through Category I banks) based on proposed regulatory capital changes impacting banks $100B in assets and higher.

THFF is included in $5-$10 billion peer group, which is pro forma for a pending deal.

Source: KBW Research and S&P Capital IQ.

Appendix 4: Banks $5-10B in Assets

Structural ROTCE vs. P/TBV (4Q25E Adjusted)



Note – Structural ROTCE is KBWe and represents long-term return potential (inclusive of proposed regulation/implications), not a specific year, and excludes the impact of accretion income. P/TBV multiple uses YE25 TBV/share and normalizes capital levels based on estimated long-term targets for the largest banks (Emerging banks up through Category I banks) based on proposed regulatory capital changes impacting banks $100B in assets and higher.

Source: KBW Research and S&P Capital IQ.

Appendix 5: Banks <$5B in Assets

Structural ROTCE vs. P/TBV (4Q25E Adjusted)

Note – Structural ROTCE is KBWe and represents long-term return potential (inclusive of proposed regulation/implications), not a specific year, and excludes the impact of accretion income. P/TBV multiple uses YE25 TBV/share and normalizes capital levels based on estimated long-term targets for the largest banks (Emerging banks up through Category I banks) based on proposed regulatory capital changes impacting banks $100B in assets and higher.

Source: KBW Research and S&P Capital IQ.

Appendix 6: Structural ROTCE

11/15/2023					2025 ROTCE	Aggregate Sensitivity Impact on ROTCE							Structural ROTCE	Price /	
Ticker	Price	Analyst	Rating	Total Assets ($B)	KBWe	NII	+	Expenses	+	Capital	=	Total	Pro Forma	'25 TBV	Adjusted '25 TBV
Banks Greater Than $50B in Assets															
JPM	$149.74	Konrad	MP	$3,898	**14.5%**	1.3%	+	0.0%	+	-0.2%	=	1.1%	**15.6%**	1.38x	1.38x
BAC	$29.62	Konrad	MP	$3,153	**12.0%**	3.1%	+	0.0%	+	-0.1%	=	3.0%	**14.9%**	0.99x	0.99x
C	$44.88	Konrad	MP	$2,368	**7.4%**	2.2%	+	0.0%	+	-0.2%	=	2.0%	**9.4%**	0.45x	0.47x
WFC	$42.84	Konrad	OP	$1,909	**12.8%**	1.9%	+	0.0%	+	0.0%	=	1.9%	**14.7%**	0.94x	0.94x
USB	$37.18	Konrad	OP	$668	**16.9%**	3.2%	+	0.0%	+	-1.1%	=	2.1%	**19.0%**	1.33x	1.32x
PNC	$128.96	Konrad	UP	$557	**13.5%**	3.1%	+	0.0%	+	0.3%	=	3.4%	**16.9%**	1.26x	1.27x
TFC	$31.91	Konrad	OP	$543	**16.1%**	4.6%	+	0.0%	+	-2.8%	=	1.8%	**17.9%**	1.27x	1.23x
CFG	$27.32	Konrad	MP	$225	**12.0%**	2.2%	+	-0.5%	+	0.1%	=	1.8%	**13.8%**	0.74x	0.74x
FCNCA	$1,478.33	Gailey	OP	$214	**11.0%**	-1.3%	+	-0.7%	+	5.4%	=	3.3%	**14.3%**	0.85x	0.74x
FITB	$27.31	Konrad	OP	$213	**17.6%**	2.7%	+	-0.5%	+	-2.5%	=	-0.3%	**17.3%**	1.27x	1.24x
MTB	$125.29	Konrad	MP	$209	**14.3%**	1.2%	+	-0.6%	+	0.9%	=	1.6%	**15.8%**	1.19x	1.20x
KEY	$12.19	Konrad	OP	$188	**15.1%**	4.5%	+	-0.5%	+	-1.3%	=	2.7%	**17.7%**	0.94x	0.95x
HBAN	$11.00	Konrad	MP	$187	**16.5%**	1.8%	+	-0.5%	+	0.6%	=	1.8%	**18.3%**	1.22x	1.23x
RF	$16.20	Konrad	MP	$154	**18.3%**	3.1%	+	-0.6%	+	-0.6%	=	2.0%	**20.3%**	1.28x	1.27x
NYCB	$9.34	McGratty	OP	$111	**11.4%**	0.9%	+	-0.6%	+	0.4%	=	0.7%	**12.1%**	0.67x	0.74x
ZION	$36.08	McGratty	MP	$87	**12.5%**	4.0%	+	-1.0%	+	-2.2%	=	0.8%	**13.3%**	0.93x	0.95x
CMA	$45.05	McGratty	MP	$86	**13.6%**	3.1%	+	-0.9%	+	-1.4%	=	0.9%	**14.5%**	0.92x	0.93x
FHN	$12.50	Gailey	MP	$83	**10.5%**	1.2%	+	-0.7%	+	1.1%	=	1.6%	**12.1%**	0.88x	0.84x
WBS	$42.63	McGratty	OP	$73	**16.5%**	1.6%	+	-0.6%	+	3.9%	=	4.9%	**21.5%**	1.04x	1.02x
WAL	$49.14	McGratty	OP	$71	**15.2%**	0.8%	+	-0.8%	+	2.2%	=	2.2%	**17.4%**	0.81x	0.76x
BPOP	$72.68	Motta	OP	$70	**9.7%**	3.2%	+	-1.1%	+	1.5%	=	3.6%	**13.3%**	0.89x	0.85x
EWBC	$61.90	McGratty	OP	$68	**14.7%**	-0.2%	+	-0.4%	+	5.1%	=	4.6%	**19.3%**	1.06x	1.05x
VLY	$8.85	Perito	OP	$61	**12.4%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.9%**	0.84x	0.84x
SNV	$30.44	Gailey	OP	$59	**12.8%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.3%**	0.89x	0.89x
WTFC	$84.14	McGratty	OP	$56	**11.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**12.6%**	1.00x	1.00x
COLB	$22.89	McGratty	OP	$52	**13.8%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**15.3%**	1.15x	1.15x
Banks Between $20B-$50B in Assets															
ONB	$15.01	McGratty	OP	$49	**14.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**16.2%**	1.08x	1.08x
BOKF	$73.86	Gailey	MP	$49	**11.6%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.1%**	0.99x	0.99x
CFR	$98.85	Gailey	MP	$49	**15.6%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**17.1%**	1.71x	1.71x
CADE	$24.88	Mealor	OP	$49	**12.4%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.9%**	1.03x	1.03x
PNFP	$72.24	Mealor	OP	$48	**12.4%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.9%**	1.17x	1.17x
BANC	$12.63	Motta	MP	$46	**11.5%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.0%**	0.74x	0.74x
FNB	$11.96	Perito	MP	$45	**13.4%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.9%**	1.03x	1.03x
SSB	$75.37	Mealor	OP	$45	**14.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**15.6%**	1.32x	1.32x
ASB	$18.12	McGratty	MP	$42	**10.8%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**12.3%**	0.83x	0.83x
UMBF	$73.96	McGratty	MP	$41	**11.9%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.4%**	1.05x	1.05x
PB	$59.47	Gailey	OP	$39	**13.4%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.9%**	1.30x	1.30x
HWC	$41.41	Mealor	MP	$36	**12.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.6%**	0.99x	0.99x
BKU	$25.83	Gailey	MP	$35	**7.3%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**8.8%**	0.67x	0.67x
OZK	$41.32	Mealor	MP	$33	**13.3%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.8%**	0.93x	0.93x
CBSH	$49.63	McGratty	MP	$31	**13.6%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**15.1%**	1.83x	1.83x
FIBK	$25.74	McGratty	MP	$31	**11.9%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.4%**	1.22x	1.22x
TCBI	$56.63	Gailey	OP	$30	**6.4%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**7.9%**	0.80x	0.80x
UBSI	$33.27	Mealor	MP	$29	**11.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.2%**	1.40x	1.40x
SFNC	$16.63	Gailey	MP	$28	**9.5%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.0%**	0.90x	0.90x
FULT	$14.33	McGratty	MP	$27	**11.2%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**12.7%**	1.04x	1.04x
UCBI	$25.14	Mealor	MP	$27	**10.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.6%**	1.16x	1.16x
ABCB	$43.53	Gailey	OP	$26	**11.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.2%**	1.04x	1.04x
FHB	$19.39	Motta	MP	$25	**12.9%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.4%**	1.38x	1.38x
BOH	$57.15	Motta	UP	$24	**11.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.2%**	1.60x	1.60x
CATY	$37.57	McGratty	MP	$23	**13.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.6%**	0.98x	0.98x
WAFD	$27.71	Motta	OP	$22	**10.3%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.8%**	0.89x	0.89x
HOMB	$22.36	Gailey	MP	$22	**14.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**16.2%**	1.59x	1.59x
CUBI	$45.37	Perito	OP	$22	**12.3%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.8%**	0.73x	0.73x
EBC	$12.44	DelMonte	OP	$21	**12.0%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.5%**	0.99x	0.99x
AX	$39.32	Perito	OP	$21	**15.6%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**17.1%**	0.97x	0.97x
AUB	$32.21	Mealor	MP	$21	**12.6%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.1%**	1.48x	1.48x
PPBI	$22.35	McGratty	MP	$20	**8.6%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**10.1%**	1.02x	1.02x
HTLF	$30.85	DelMonte	MP	$20	**13.0%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.5%**	0.80x	0.80x
HOPE	$10.15	McGratty	MP	$20	**8.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**10.2%**	0.68x	0.68x
WSFS	$40.32	Perito	MP	$20	**14.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**16.2%**	1.31x	1.31x

Note - P/TBV multiple uses YE25 TBV/share and normalizes capital levels based on estimated long-term targets for the largest banks (Emerging banks up through Category I banks) based on proposed regulatory capital changes impacting banks $100B in assets and higher. For banks under $50B in assets, P/YE25 TBV and P/YE25 TBV Adjusted are the same.

Rating Key: OP = Outperform, MP = Market Perform, UP = Underperform

Source: KBW Research, FactSet, and company documents.

Appendix 6: Structural ROTCE continued

11/15/2023					2025 ROTCE	Aggregate Sensitivity Impact on ROTCE							Structural ROTCE	Price /	
Ticker	Price	Analyst	Rating	Total Assets ($B)	KBWe	NII	+	Expenses	+	Capital	=	Total	Pro Forma	'25 TBV	Adjusted '25 TBV
Banks Between $10B-$20B in Assets															
INDB	$56.84	O'Connell	MP	$19	**11.0%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**12.5%**	1.13x	1.13x
FBP	$15.17	Motta	OP	$19	**16.6%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**18.1%**	1.35x	1.35x
IBTX	$39.28	Gailey	OP	$19	**9.5%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.0%**	1.03x	1.03x
TRMK	$22.79	Mealor	MP	$18	**10.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.6%**	0.94x	0.94x
FRME	$31.89	DelMonte	OP	$18	**13.0%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.5%**	1.05x	1.05x
WSBC	$27.44	Mealor	MP	$17	**11.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.2%**	1.14x	1.14x
RNST	$28.34	Mealor	MP	$17	**10.5%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**12.0%**	1.04x	1.04x
FFBC	$20.79	McGratty	MP	$17	**15.8%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**17.3%**	1.32x	1.32x
TFSL	$13.47	DelMonte	MP	$17	**3.6%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**5.1%**	2.01x	2.01x
TOWN	$27.00	Mealor	MP	$17	**10.8%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**12.3%**	1.19x	1.19x
HTH	$31.14	Gailey	MP	$16	**6.3%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**7.8%**	1.01x	1.01x
CVBF	$18.46	Motta	MP	$16	**16.5%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**18.0%**	1.69x	1.69x
BANR	$45.90	Motta	MP	$16	**13.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.6%**	1.03x	1.03x
CBU	$45.23	O'Connell	MP	$15	**19.9%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**21.4%**	2.00x	2.00x
SBCF	$24.12	Gailey	MP	$15	**8.9%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**10.4%**	1.34x	1.34x
NWBI	$11.40	Perito	MP	$14	**10.9%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**12.4%**	1.18x	1.18x
SASR	$23.40	Mealor	MP	$14	**9.3%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**10.8%**	0.77x	0.77x
PFS	$15.77	Perito	MP	$14	**20.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**22.2%**	1.42x	1.42x
EFSC	$39.81	DelMonte	OP	$14	**13.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.6%**	0.93x	0.93x
NBTB	$37.05	O'Connell	MP	$14	**13.8%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**15.3%**	1.36x	1.36x
DCOM	$21.00	O'Connell	OP	$14	**11.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.2%**	0.73x	0.73x
OCFC	$14.40	Perito	OP	$13	**10.2%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.7%**	0.70x	0.70x
NTB	$28.53	Perito	OP	$13	**18.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**20.2%**	1.09x	1.09x
FFIN	$26.92	Gailey	MP	$13	**15.2%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**16.7%**	2.71x	2.71x
FBK	$34.22	Mealor	MP	$12	**9.6%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.1%**	1.13x	1.13x
VBTX	$19.81	Gailey	OP	$12	**10.6%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**12.1%**	0.82x	0.82x
BUSE	$21.83	DelMonte	OP	$12	**12.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.2%**	1.22x	1.22x
BHLB	$21.56	O'Connell	MP	$12	**9.8%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.3%**	0.80x	0.80x
BANF	$87.63	Gailey	MP	$12	**12.3%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.8%**	1.94x	1.94x
FBNC	$32.88	Gailey	OP	$12	**11.2%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**12.7%**	1.24x	1.24x
FCF	$13.38	Perito	MP	$11	**12.8%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.3%**	1.20x	1.20x
BRKL	$9.36	O'Connell	MP	$11	**10.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.6%**	0.80x	0.80x
EGBN	$24.18	Mealor	MP	$11	**6.9%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**8.4%**	0.58x	0.58x
LOB	$33.43	Perito	MP	$11	**12.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.2%**	1.33x	1.33x
STEL	$24.23	Gailey	MP	$11	**8.9%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**10.4%**	1.18x	1.18x
OFG	$33.64	Motta	OP	$10	**14.2%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**15.7%**	1.20x	1.20x
CFFN	$5.37	DelMonte	MP	$10	**7.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**8.6%**	0.70x	0.70x
PRK	$114.46	DelMonte	MP	$10	**11.6%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.1%**	1.68x	1.68x

Note - P/TBV multiple uses YE25 TBV/share and normalizes capital levels based on estimated long-term targets for the largest banks (Emerging banks up through Category I banks) based on proposed regulatory capital changes impacting banks $100B in assets and higher. For banks under $50B in assets, P/YE25 TBV and P/YE25 TBV Adjusted are the same.

Rating Key: OP = Outperform, MP = Market Perform, UP = Underperform

Source: KBW Research, FactSet, and company documents.

Appendix 6: Structural ROTCE continued

11/15/2023					2025 ROTCE	Aggregate Sensitivity Impact on ROTCE							Structural ROTCE	Price /	
Ticker	Price	Analyst	Rating	Total Assets ($B)	KBWe	NII	+	Expenses	+	Capital	=	Total	Pro Forma	'25 TBV	Adjusted '25 TBV
Banks Between $5B-$10B in Assets															
TCBK	$37.49	Motta	MP	$10	**13.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.6%**	1.23x	1.23x
NBHC	$33.92	Motta	MP	$10	**15.0%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**16.5%**	1.33x	1.33x
OBK	$33.19	Gailey	OP	$10	**8.4%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**9.9%**	1.00x	1.00x
CNOB	$19.32	Perito	OP	$10	**8.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**10.2%**	0.74x	0.74x
STBA	$29.10	Perito	MP	$9	**12.0%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.5%**	1.06x	1.06x
HMST	$6.78	Lay	MP	$9	**3.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**4.6%**	0.23x	0.23x
AMTB	$20.83	Gailey	MP	$9	**8.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**10.2%**	0.83x	0.83x
BY	$21.05	DelMonte	MP	$9	**11.9%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.4%**	0.88x	0.88x
PEBO	$30.24	Perito	MP	$9	**15.9%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**17.4%**	1.29x	1.29x
PFC	$20.38	Perito	MP	$9	**12.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.2%**	0.92x	0.92x
QCRH	$52.53	DelMonte	OP	$9	**12.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.6%**	0.94x	0.94x
SRCE	$50.09	DelMonte	MP	$9	**10.3%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.8%**	1.16x	1.16x
FFIC	$14.16	O'Connell	MP	$8	**7.0%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**8.5%**	0.58x	0.58x
LC	$5.74	Perito	MP	$8	**4.3%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**5.8%**	NA	NA
NIC	$77.29	DelMonte	MP	$8	**13.3%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.8%**	1.38x	1.38x
LBC	$9.16	Lay	OP	$8	**5.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**6.6%**	0.61x	0.61x
MSBI	$23.90	DelMonte	MP	$8	**10.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**12.2%**	0.76x	0.76x
KRNY	$7.83	O'Connell	MP	$8	**4.2%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**5.7%**	0.78x	0.78x
SBSI	$29.66	Gailey	MP	$8	**13.9%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**15.4%**	1.47x	1.47x
HBNC	$11.14	DelMonte	MP	$8	**11.0%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**12.5%**	0.76x	0.76x
AMAL	$21.28	O'Connell	OP	$8	**14.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**16.2%**	0.84x	0.84x
SYBT	$46.79	Motta	MP	$8	**14.8%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**16.3%**	1.72x	1.72x
FBMS	$27.00	Mealor	OP	$8	**12.9%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.4%**	1.08x	1.08x
FMBH	$31.22	Switzer	OP	$8	**13.2%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.7%**	1.09x	1.09x
UVSP	$18.91	Perito	MP	$8	**8.4%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**9.9%**	0.77x	0.77x
TMP	$56.27	Perito	MP	$8	**10.3%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.8%**	1.27x	1.27x
CASH	$50.13	Perito	MP	$8	**23.3%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**24.8%**	2.22x	2.22x
TBBK	$39.60	Perito	OP	$7	**26.8%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**28.3%**	2.17x	2.17x
HAFC	$16.97	Motta	MP	$7	**10.5%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**12.0%**	0.66x	0.66x
WASH	$27.19	DelMonte	MP	$7	**10.6%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**12.1%**	1.00x	1.00x
CFB	$12.03	Gailey	OP	$7	**9.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.2%**	0.75x	0.75x
HFWA	$18.10	Motta	MP	$7	**11.2%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**12.7%**	0.90x	0.90x
MCB	$37.76	O'Connell	OP	$7	**11.8%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.3%**	0.50x	0.50x
WABC	$50.60	Motta	MP	$7	**16.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**18.2%**	1.57x	1.57x
PGC	$26.58	O'Connell	OP	$7	**10.6%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**12.1%**	0.72x	0.72x
MOFG	$22.16	DelMonte	MP	$6	**9.4%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**10.9%**	0.69x	0.69x
LKFN	$56.51	DelMonte	MP	$6	**13.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.6%**	1.87x	1.87x
FISI	$17.77	DelMonte	MP	$6	**12.0%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.5%**	0.62x	0.62x
CHCO	$98.20	Mealor	MP	$6	**17.9%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**19.4%**	3.99x	3.99x
GABC	$30.36	DelMonte	MP	$6	**14.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**15.6%**	1.40x	1.40x
OSBC	$14.74	McGratty	OP	$6	**13.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**15.2%**	1.03x	1.03x
GSBC	$53.22	DelMonte	MP	$6	**10.3%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.8%**	0.98x	0.98x
CAC	$34.61	DelMonte	MP	$6	**9.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.2%**	1.08x	1.08x
CCNE	$21.06	Switzer	MP	$6	**8.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**9.6%**	0.83x	0.83x
TFIN	$70.60	Perito	MP	$6	**8.5%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**10.0%**	2.49x	2.49x
THFF	$37.02	DelMonte	MP	$6	**16.3%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**17.8%**	0.88x	0.88x
CATC	$60.08	O'Connell	OP	$5	**10.2%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.7%**	0.92x	0.92x
NFBK	$9.85	O'Connell	MP	$5	**6.2%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**7.7%**	0.64x	0.64x
HTBK	$8.96	Lay	OP	$5	**10.3%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.8%**	0.98x	0.98x
MBWM	$36.65	DelMonte	OP	$5	**12.6%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.1%**	1.02x	1.02x
IBCP	$22.14	DelMonte	MP	$5	**13.3%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.8%**	0.99x	0.99x
INBK	$17.98	Perito	MP	$5	**7.8%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**9.3%**	0.38x	0.38x

Note - P/TBV multiple uses YE25 TBV/share and normalizes capital levels based on estimated long-term targets for the largest banks (Emerging banks up through Category I banks) based on proposed regulatory capital changes impacting banks $100B in assets and higher. For banks under $50B in assets, P/YE25 TBV and P/YE25 TBV Adjusted are the same.

Rating Key: OP = Outperform, MP = Market Perform, UP = Underperform

Source: KBW Research, FactSet, and company documents.

Appendix 6: Structural ROTCE continued

11/15/2023					2025 ROTCE	Aggregate Sensitivity Impact on ROTCE							Structural ROTCE	Price /	
Ticker	Price	Analyst	Rating	Total Assets ($B)	KBWe	NII	+	Expenses	+	Capital	=	Total	Pro Forma	'25 TBV	Adjusted '25 TBV
Banks Under $5B in Assets															
HBT	$19.80	DelMonte	OP	$5	**14.9%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**16.4%**	1.20x	1.20x
FMNB	$12.81	Switzer	MP	$5	**21.6%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**23.1%**	2.16x	2.16x
EQBK	$27.34	DelMonte	MP	$5	**10.0%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.5%**	0.84x	0.84x
SMBK	$22.02	Mealor	MP	$5	**8.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**10.2%**	0.90x	0.90x
HTBI	$22.96	Gailey	MP	$5	**8.9%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**10.4%**	0.79x	0.79x
SMBC	$44.85	Motta	MP	$4	**13.6%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**15.1%**	1.09x	1.09x
FLIC	$11.67	O'Connell	MP	$4	**8.2%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**9.7%**	0.65x	0.65x
SPFI	$27.04	Gailey	OP	$4	**9.4%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**10.9%**	1.00x	1.00x
CCBG	$29.02	Gailey	OP	$4	**12.3%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.8%**	1.15x	1.15x
RBB	$15.60	Motta	MP	$4	**6.6%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**8.1%**	0.63x	0.63x
BMRC	$19.92	Lay	OP	$4	**6.5%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**8.0%**	0.82x	0.82x
BHB	$26.17	DelMonte	MP	$4	**12.2%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.7%**	1.08x	1.08x
ALRS	$19.25	DelMonte	MP	$4	**8.5%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**10.0%**	1.02x	1.02x
BCBP	$11.60	O'Connell	MP	$4	**12.4%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.9%**	0.60x	0.60x
BSRR	$19.07	Lay	MP	$4	**10.6%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**12.1%**	0.78x	0.78x
CIVB	$15.98	Perito	OP	$4	**11.4%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**12.9%**	0.92x	0.92x
CCB	$41.17	Perito	OP	$4	**22.2%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**23.7%**	1.25x	1.25x
SHBI	$12.14	Mealor	MP	$4	**9.8%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.3%**	0.82x	0.82x
MCBS	$21.67	Motta	MP	$4	**14.2%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**15.7%**	1.15x	1.15x
FSBC	$22.63	Lay	MP	$4	**13.6%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**15.1%**	1.13x	1.13x
MVBF	$19.92	Mealor	OP	$3	**10.0%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.5%**	0.78x	0.78x
FBIZ	$34.03	DelMonte	OP	$3	**13.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.6%**	0.87x	0.87x
CSTR	$16.50	Mealor	MP	$3	**8.3%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**9.8%**	0.96x	0.96x
BWFG	$27.62	O'Connell	OP	$3	**10.9%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**12.4%**	0.72x	0.72x
GNTY	$30.50	Gailey	MP	$3	**9.0%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**10.5%**	1.29x	1.29x
ORRF	$23.89	Switzer	OP	$3	**11.5%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**13.0%**	0.87x	0.87x
MYFW	$16.85	Gailey	OP	$3	**6.9%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**8.4%**	0.65x	0.65x
MCBC	$9.97	DelMonte	MP	$3	**12.8%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**14.3%**	0.97x	0.97x
CHMG	$45.40	O'Connell	MP	$3	**13.5%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**15.0%**	0.96x	0.96x
PCB	$15.71	Motta	MP	$3	**9.8%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.3%**	0.71x	0.71x
UNTY	$26.68	O'Connell	OP	$3	**14.5%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**16.0%**	0.82x	0.82x
CVCY	$17.48	Lay	MP	$2	**15.4%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**16.9%**	1.12x	1.12x
SSBK	$26.08	Mealor	MP	$2	**11.2%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**12.7%**	0.95x	0.95x
USCB	$11.82	Gailey	OP	$2	**9.5%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.0%**	0.92x	0.92x
MRBK	$12.54	Switzer	MP	$2	**10.3%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.8%**	0.79x	0.79x
TBNK	$7.31	Motta	MP	$2	**2.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**3.6%**	0.25x	0.25x
EVBN	$27.53	O'Connell	MP	$2	**8.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**10.2%**	0.75x	0.75x
OPBK	$8.55	Motta	MP	$2	**11.4%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**12.9%**	0.57x	0.57x
BLFY	$8.81	O'Connell	MP	$2	**-3.7%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**-2.2%**	0.63x	0.63x
CALB	$22.74	Lay	OP	$2	**8.5%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**10.0%**	0.85x	0.85x
MBCN	$28.14	Switzer	MP	$2	**10.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.6%**	1.25x	1.25x
BSVN	$24.22	Gailey	OP	$2	**18.1%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**19.6%**	1.02x	1.02x
FFNW	$10.93	Lay	MP	$2	**4.0%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**5.5%**	0.61x	0.61x
ESQ	$47.84	Perito	OP	$1	**18.2%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**19.7%**	1.45x	1.45x
CBFV	$21.62	Switzer	MP	$1	**9.5%**	1.5%	+	0.0%	+	0.0%	=	1.5%	**11.0%**	0.86x	0.86x

Note - P/TBV multiple uses YE25 TBV/share and normalizes capital levels based on estimated long-term targets for the largest banks (Emerging banks up through Category I banks) based on proposed regulatory capital changes impacting banks $100B in assets and higher. For banks under $50B in assets, P/YE25 TBV and P/YE25 TBV Adjusted are the same.

Rating Key: OP = Outperform, MP = Market Perform, UP = Underperform

Source: KBW Research, FactSet, and company documents.

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