Bank Sector Overview:
Where We Are, How We Got Here, and Where We're Going

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Topics of Discussion

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Recent Sector Performance and Sentiment

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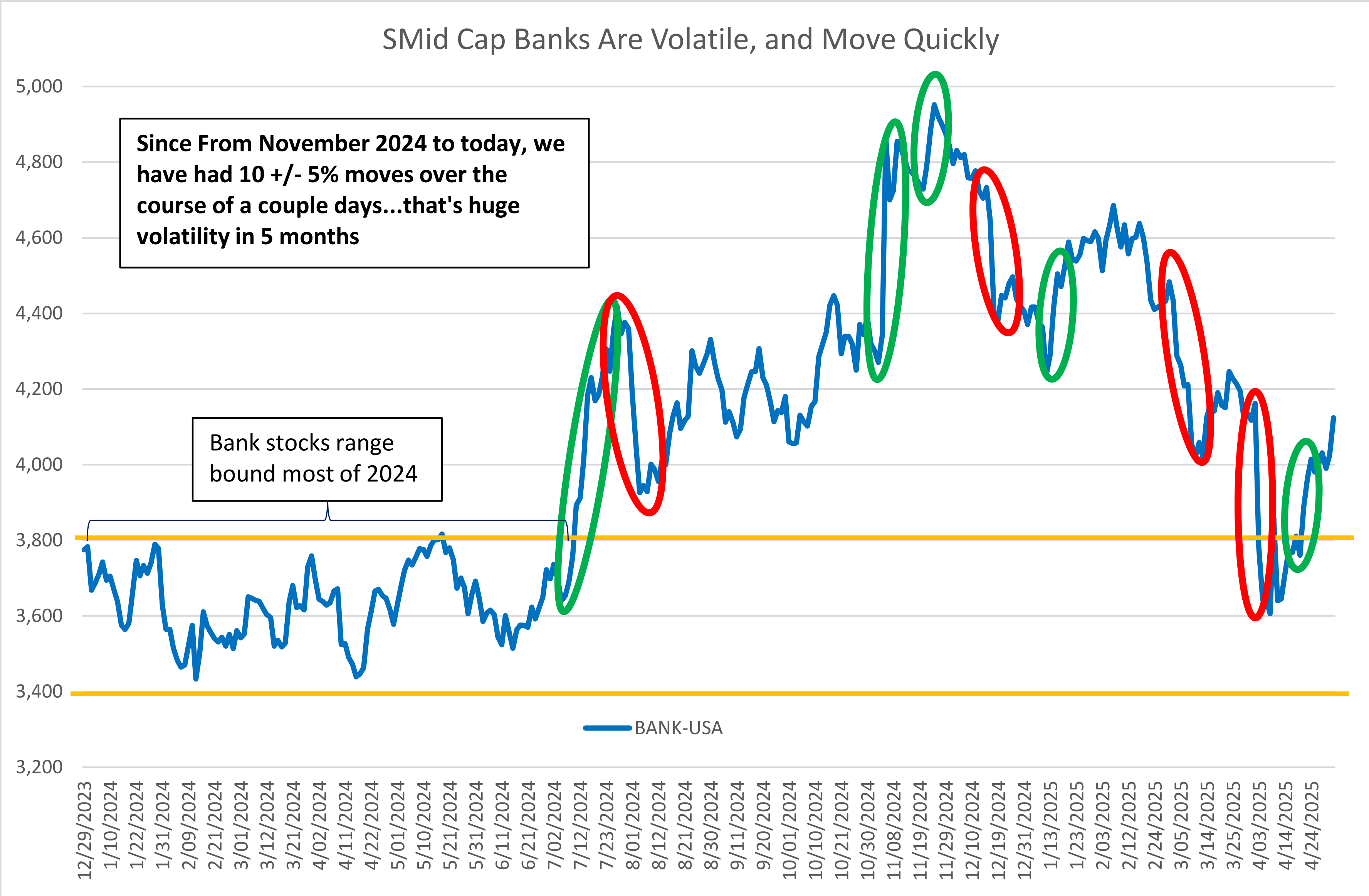
SMid Cap Stocks Have Been Volatile To Say The Least



Source: FactSet, Raymond James research

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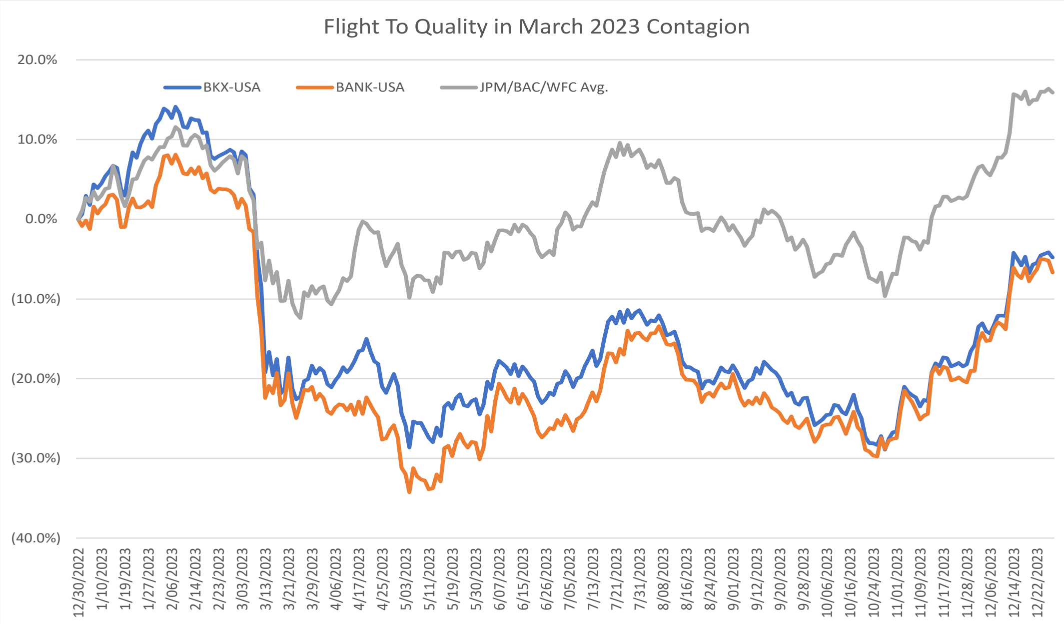
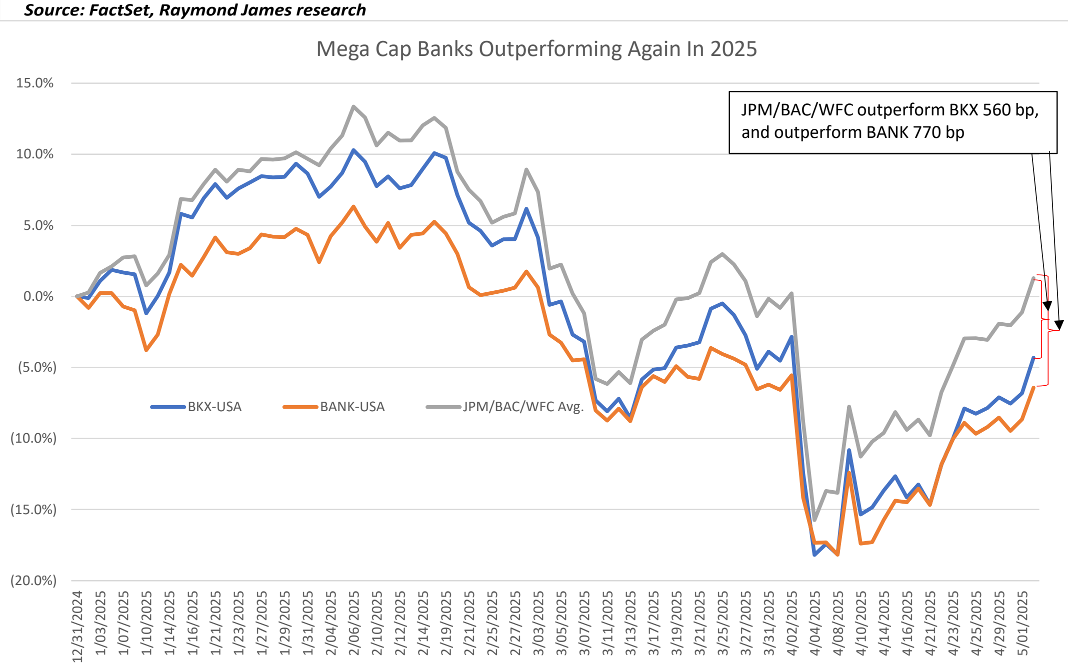
2023 Playbook Coming Back Into Play



Source: FactSet, Raymond James research



Source: FactSet, Raymond James research

- The playbook in 2023 was to own megacap banks, who saw less downside and more upside given "flight to quality" and risk-off mentality

- This same playbook is seemingly being employed today, with much more focus on larger banks, with more liquidity and diversified sources of revenue.

- We understand this sentiment, but also see this trade as somewhat counterintuitive, given theoretically more exposure to tariffs and the consumer.

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10 Reasons To Buy Banks And Why They Were Outperforming

- Anticipation of de-regulation ☑
- Improving economic backdrop drives accelerating loan growth ☒
- More consolidation in the industry, even at the larger-end ☒
- Additional capital deployment (buybacks, restructurings etc.) ☑ ☒
- Declining rates reduces credit fear and improves funding costs ☒
- Positive momentum in fee revenues led by investment banking/cap mkts ☒
- Yield curve steeps and normalizes (ie not inverted) ☒
- Accelerating TBV growth supported by AOCI recoveries ☑
- Earnings seemingly at/near trough ☑
- Valuations are cheap and dividends are attractive relative to history ☑

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Why Have Bank Stocks Lagged Recently?

- **UNCERTAINTY and VOLATILITY**
  - **This is the worst thing for the market, especially bank stocks**
- Where are we in the economic/credit cycle?
  - Who knows….will DOGE, trade wars, immigration reform etc. lead to a recession? Or will Trump back off?
- Credit normalization continues, and concerns on the health of the consumer (we are more cautious on C&I and small business/SBA)
- Loan growth not materializing like had hoped for
- Lack of clarity on rates
- When will earnings/profitability return to normalized levels?
  - Can banks earn their cost of capital in the near-term?

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Earnings Season Not As Bad As Feared

	Medians		
	1Q24	4Q24	1Q25
Margin, Profitability & Balance Sheet Metrics			
NIM	3.13%	3.31%	**3.35%**
ROTCE	11.0%	12.1%	**11.6%**
ROA	0.85%	0.96%	**0.94%**
Efficiency Ratio	65.1%	61.9%	**62.4%**
Revenue Growth (Q/Q)	-0.9%	2.7%	**0.4%**
Net Int Income Growth (Q/Q)	-1.8%	3.1%	**1.1%**
Fee Income Growth (Q/Q)	2.1%	0.1%	**-3.1%**
Loan Growth (Q/Q)	0.7%	1.0%	**0.5%**
Consensus EPS			
% beat consensus	59%	68%	**75%**
% miss consensus	36%	29%	**24%**
% FY26 estimates raised	43%	64%	**56%**
% FY26 estimates lowered	43%	33%	**38%**

Many beats on NII

Low-single digit ann. loan growth

Note: Data exclude banks with less than $750 million in assets, Mutual Holding Companies, and custody banks. Core deposits exclude all time deposits. Data for all periods only include companies that have reported financial results as of May 2, 2025.

Source: S&P Global, FactSet, and Raymond James research

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Investor Sentiment: Uncertainty/Volatility Are Major Headwinds

Bull Case

- **Credit remains pristine, growth accelerates, NIM expands, accelerating M&A, and major upwards EPS revisions**

Base Case

- **Mild recession, slow growth, modest credit cycle, capital return, small M&A, modest negative EPS revisions**

Bear Case

- **Major recession, credit weakens, no growth, NIM compresses as rates cut, and material negative EPS revisions.**

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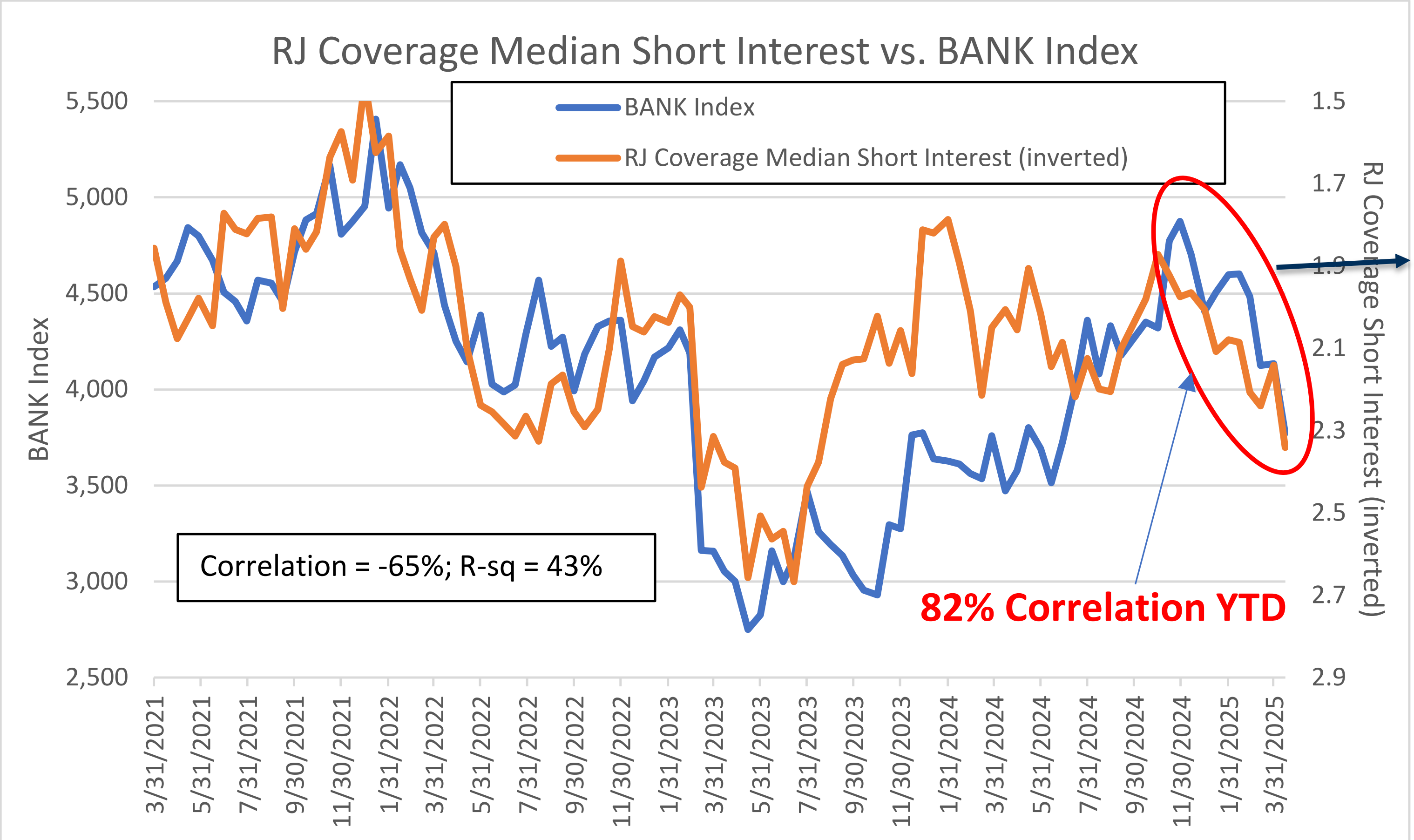
With Generalists Underweight, Hedge Funds Driving Bank Stocks



Sources: S&P Global, FactSet, Raymond James research

Increasing short interest indicates a material decrease in confidence in the economic backdrop

- Generalist Long-only investors have been underweight since the onset of the pandemic, and post-Trump election began increasing sector allocations, but with the trade wars and broader uncertainty have increased underweights
- **As such, hedge funds have been driving bank stocks and likely will be for the near future**

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RJ Bank Team Outlook – Cautious, But Hopeful

- If playing the long-game, it's a great time to buy; near-term still challenging
- Unpredictable market makes it difficult to get more constructive
- **Where are we in the economic cycle? Probably late cycle = bad for banks**
- Valuations remain attractive, but…
- …potential for negative EPS revisions near-term if trade wars extend
- Credit risk increasingly concerning; CRE still a risk, but collateral values solid
- When will banks return to normalized levels of profitability?
- When does industry M&A reaccelerate? Late 2025 or 2026 story?
- **Attributes we favor and see as key at this point in the cycle are:**
  - Solid low-cost core deposit bases with plenty of liquidity
  - Strong historical credit performance and solid levels of reserves
  - Reasonable organic loan growth outlooks w/ significant repricing opp.
  - Plenty of excess capital and increased likelihood for deployment
  - Tech forward management teams
  - Markets matter – focus on strong markets with good in-migration

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What's Been Driving Stocks?

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What Has Been Driving Bank Stocks?

- **Self-inflicted volatility and uncertainty from the Trump Administration's agenda and ongoing trade wars are the primary driver of stocks and the recent sell-off, despite otherwise solid fundamentals**

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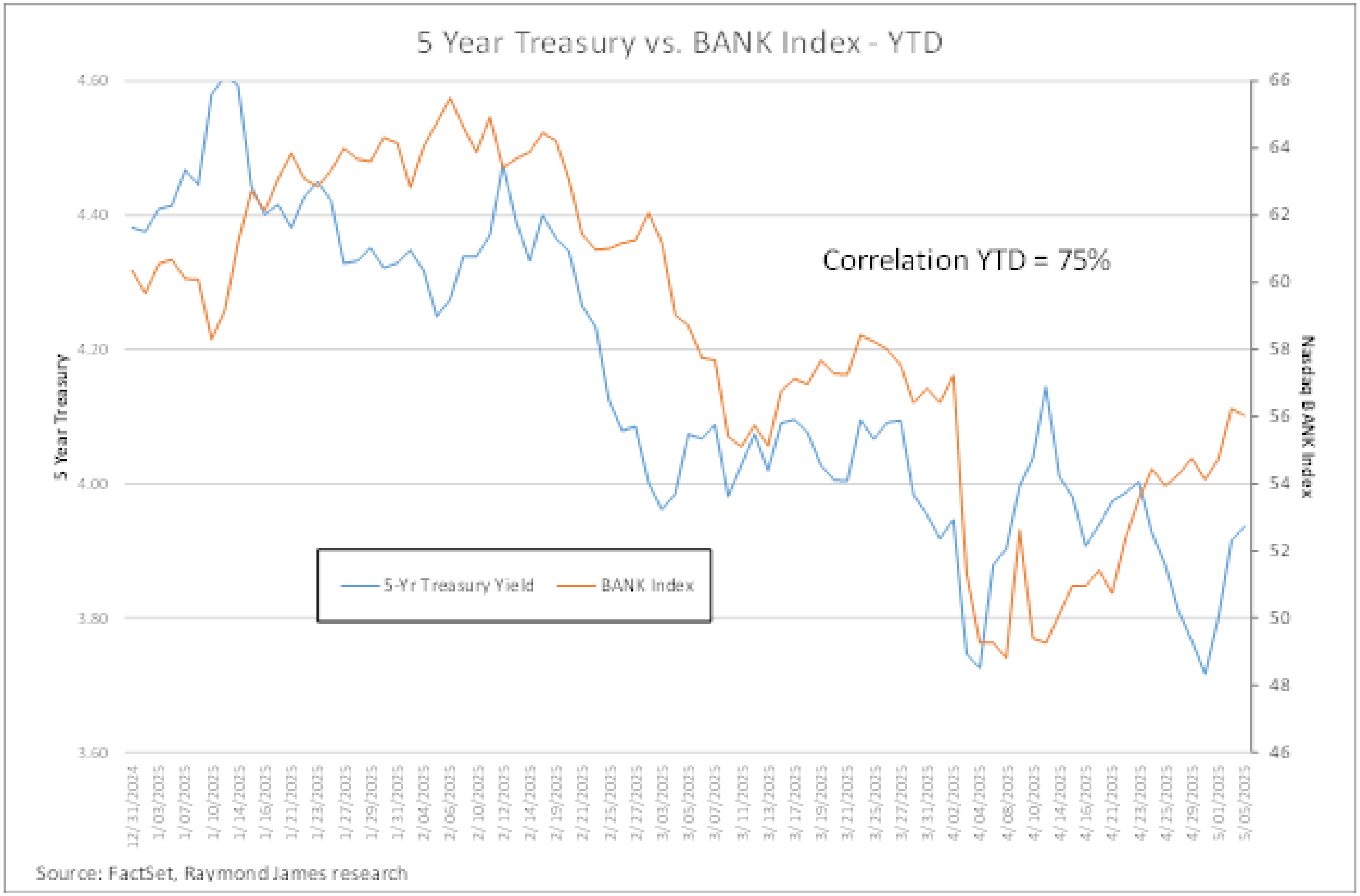
Rates Have Been Key Drivers Of Bank Stocks



- **Why? Because of implications for asset quality and the economic outlook**
- **Bond market often looked to as the "smartest guys in the room"**

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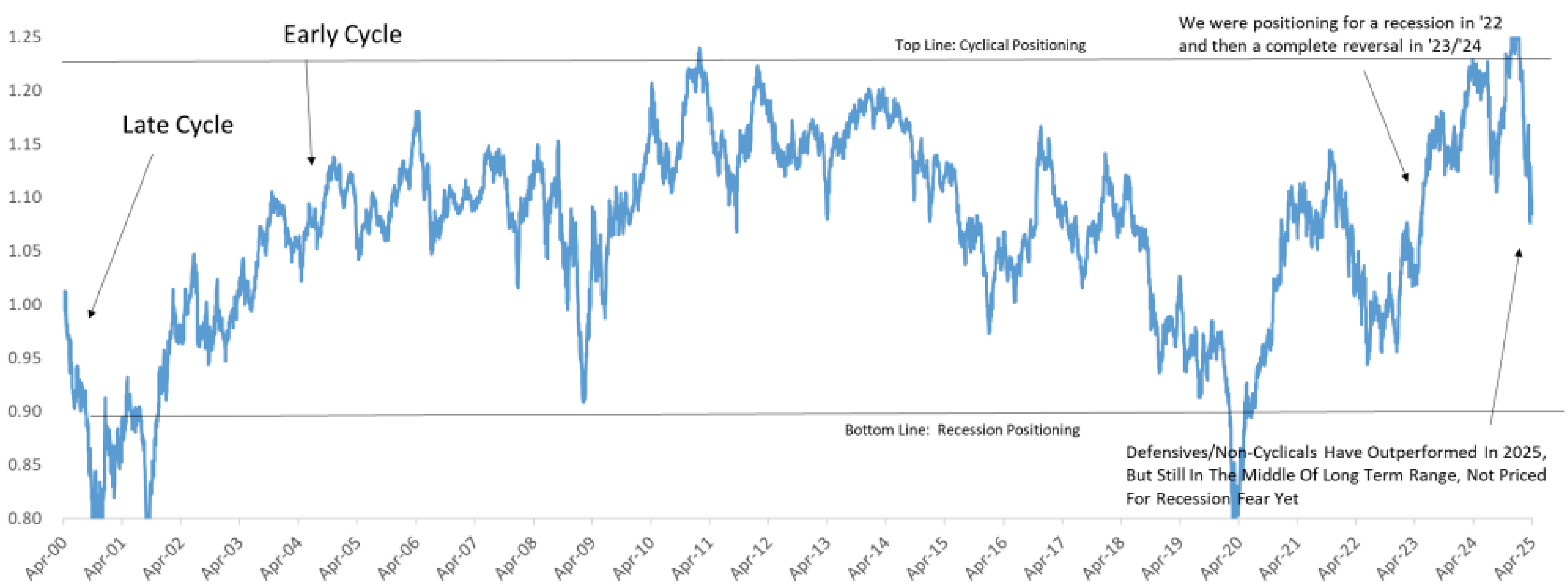
Performance Driven By Economic Cycle – Where Are We?

What About Positioning In The Market? Performance Is Still Far From Recession Level Of Fear

Cyclical Minus Non-Cyclical Industries Relative Performance 1998-2024



Source: FactSet; Raymond James research

- Part of the stock performance is where are in the cycle…nobody knows
- Inverted yield curve, slowing growth, and increasing unemployment indicate late cycle and has driven weakness
- But slowing inflation and moderating economic strength drive outlook for material rate cuts, and expectations for resolution of trade wars could reaccelerate economy and boost hopes of a “soft landing”

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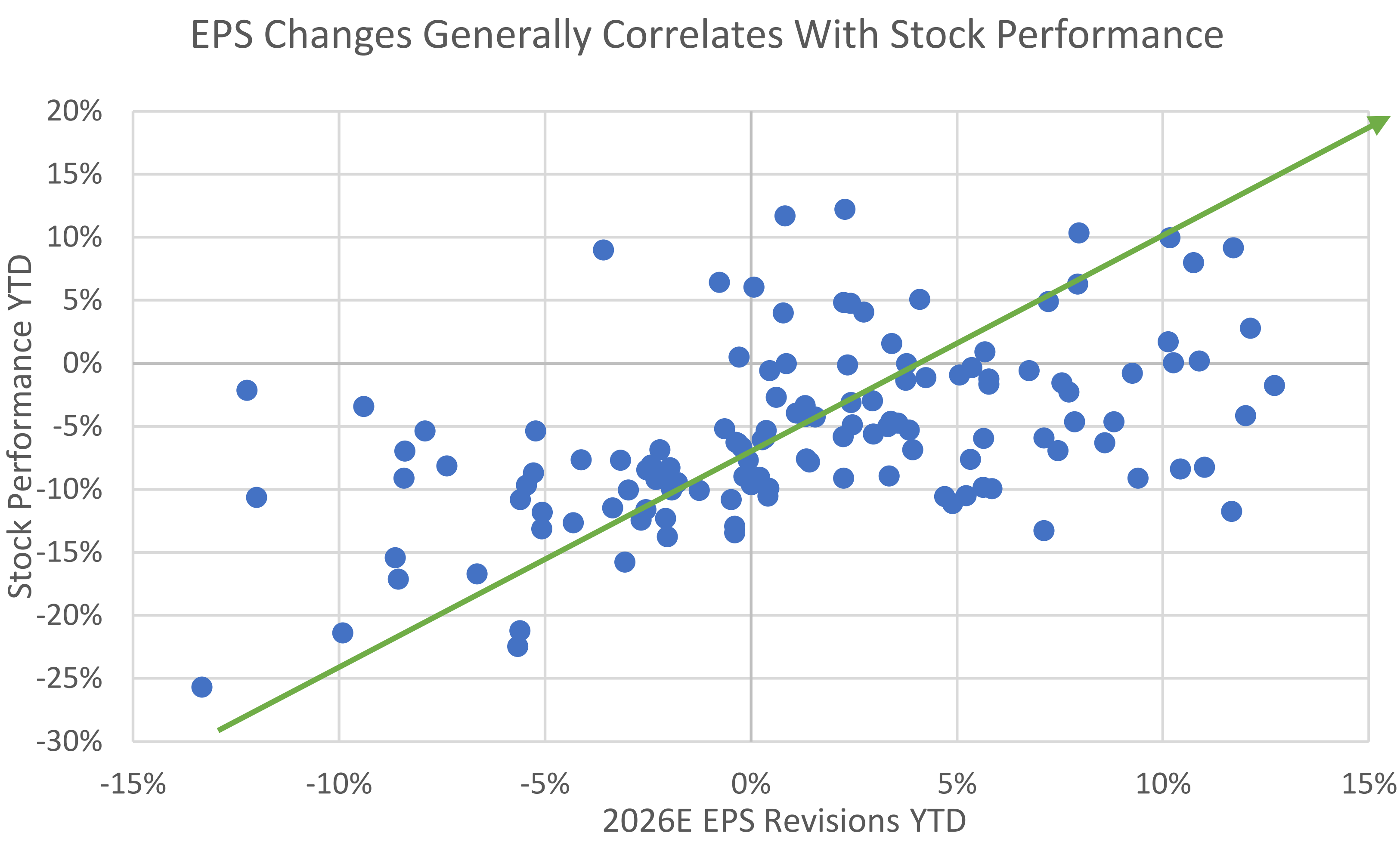
And EPS Revisions



Source: Raymond James research; S&P Global, FactSet

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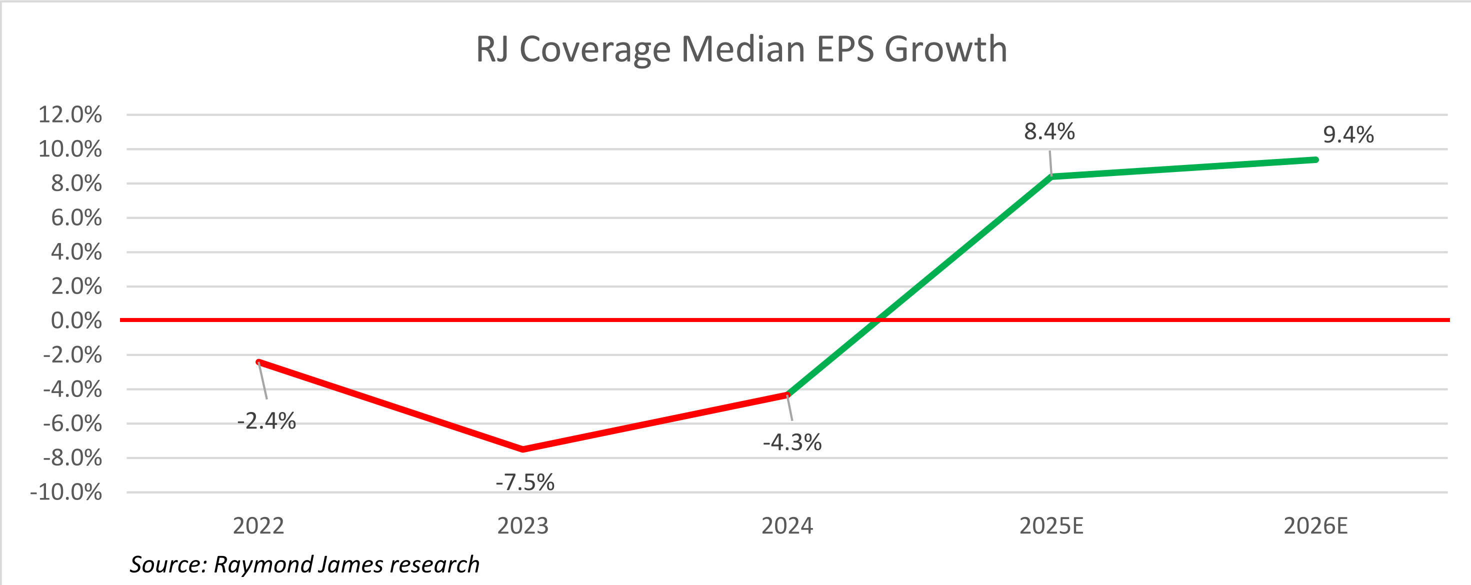
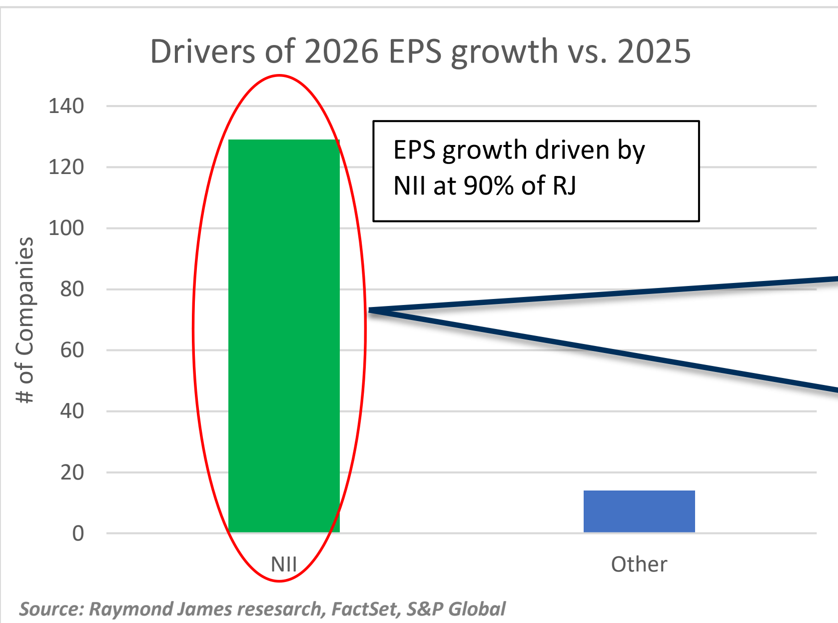
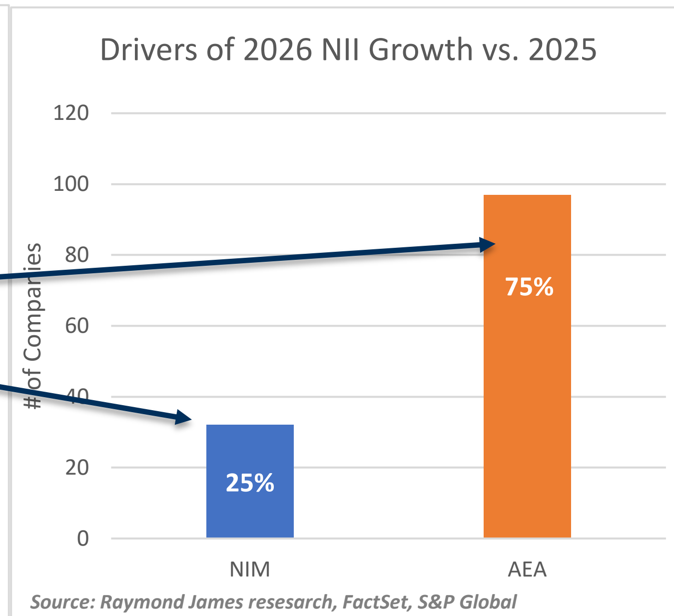
EPS Growth Expected To Re-Accelerate in 2025, And Even More in 2026



- Following three consecutive years of declines, EPS growth set to resume in 2025, and accelerate in 2026





- **NII is the primary driver of EPS growth for most, notably on AEA growth**
- **Highly reliant on loan growth and Fed cuts**

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What About M&A?

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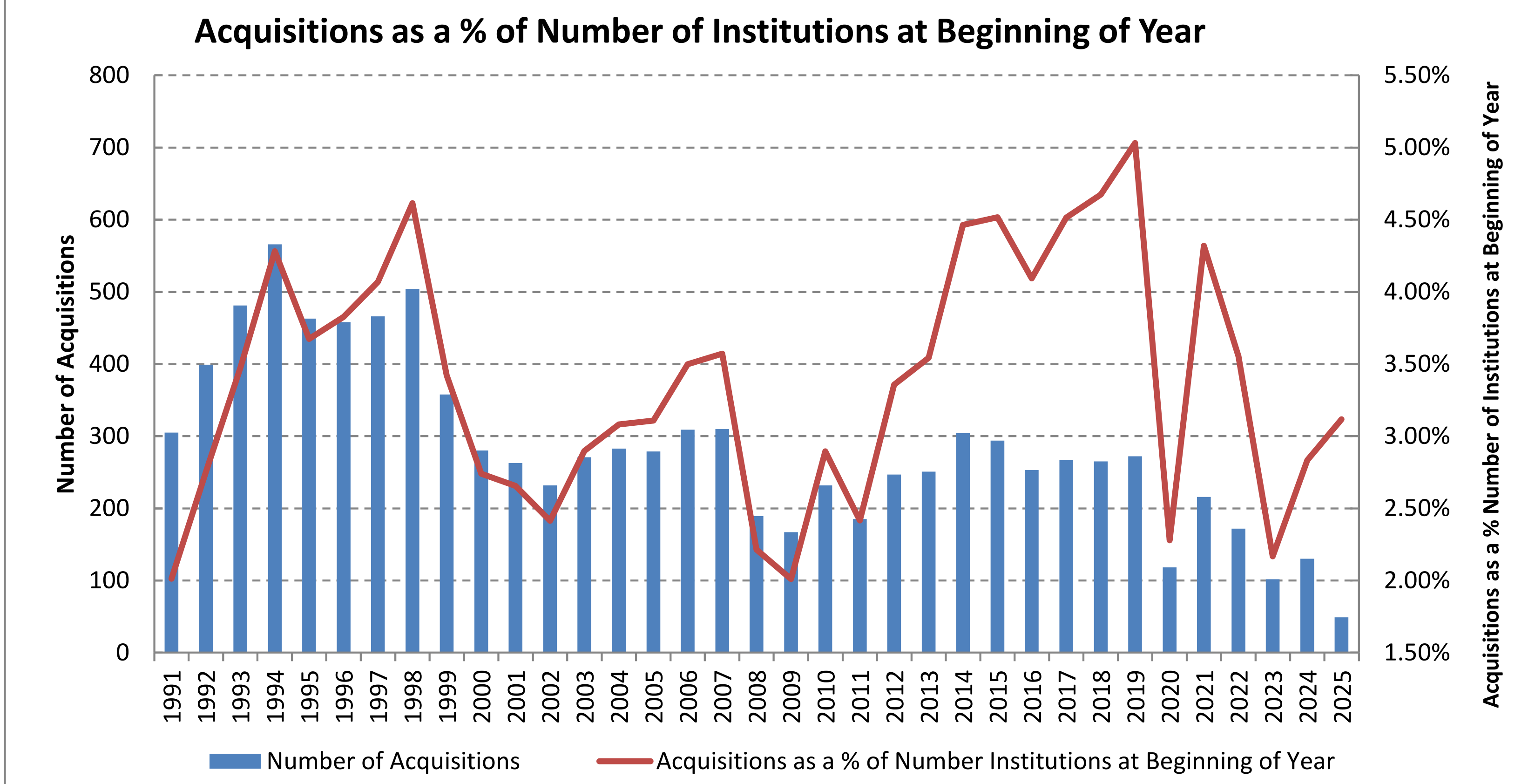
2025 M&A Activity Accelerated – Expect Consolidation To Increase



Source: S&P Global; FDIC; data as of 5/7/25; 2025 is annualized

- M&A announcements have increased recently, and there's still a lot of conversations going.
- Could the trade wars push more banks into the seller camp?
- Conversely, how do you underwrite credit in this environment?

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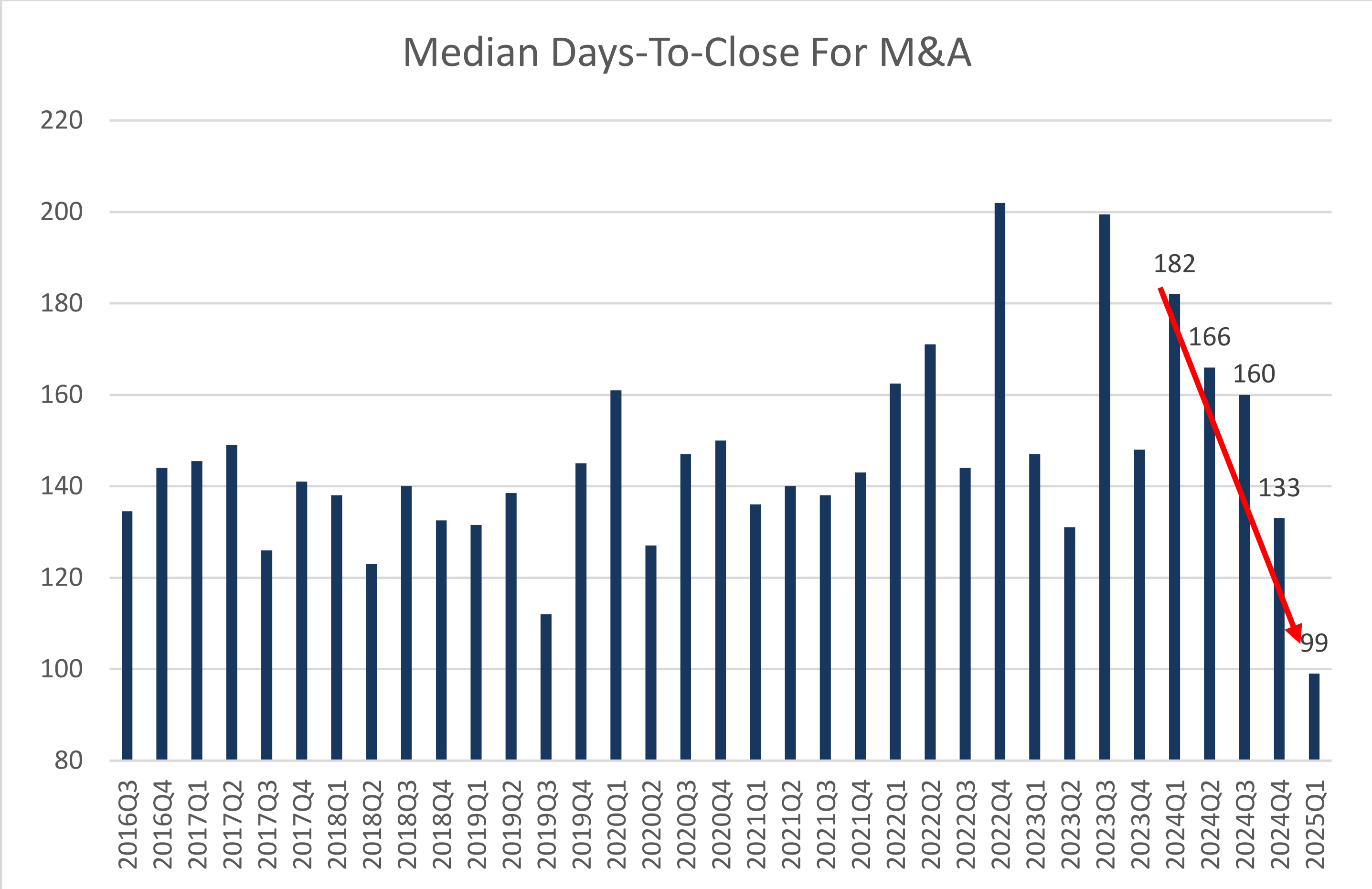
De-Regulation Paying Off



Source: Raymond James research, S&P Global; FDIC; data as of 5/7/25

- The de-regulatory agenda is paying off, where there has been a significant improvement in days-to-close for M&A.
- The median days-to-close has improved from 182 days in 1Q24 to 133 in 4Q24, where there have been several deals already announced and closed in 2025

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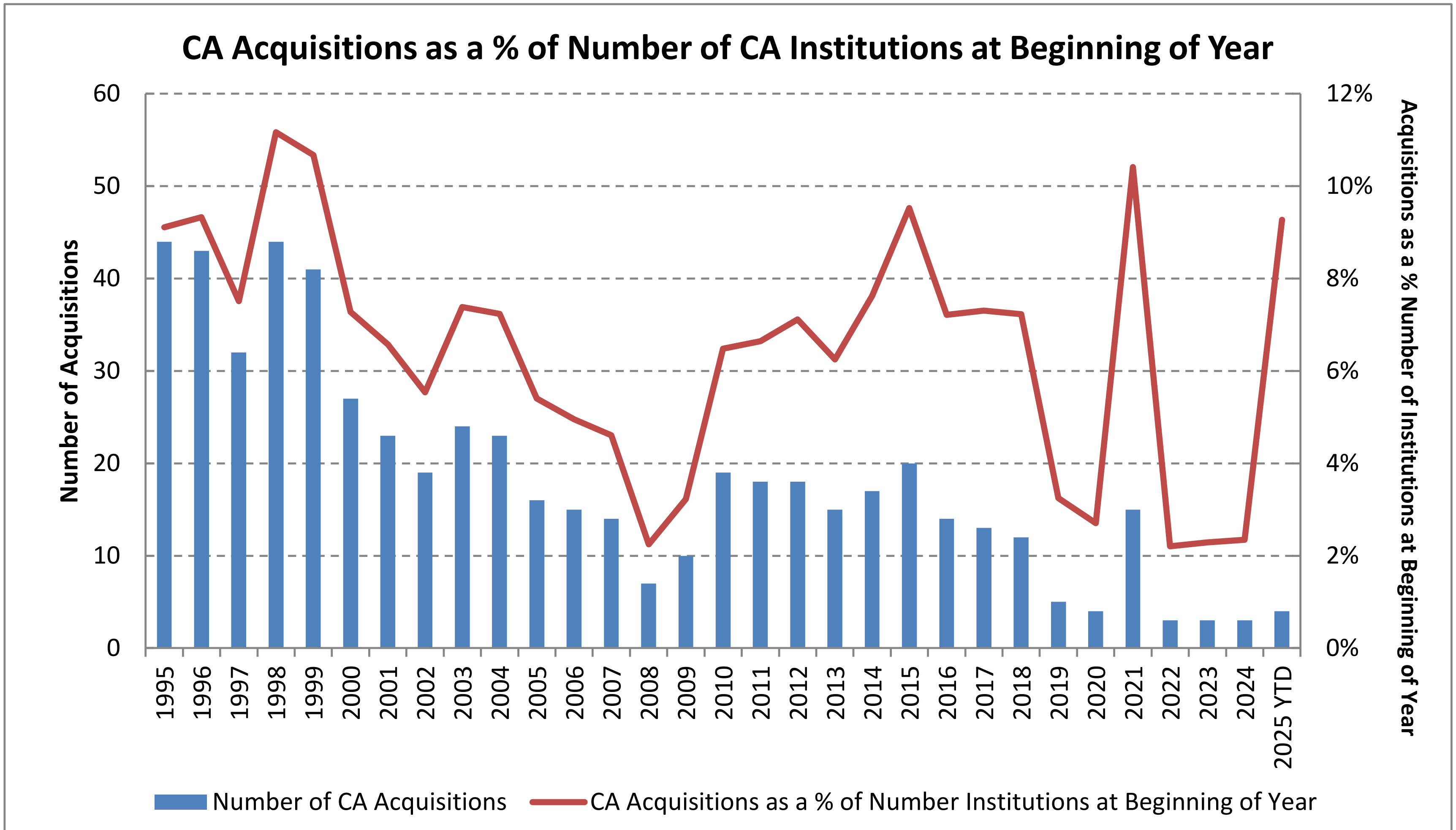
CA M&A activity



Source: S&P Global; FDIC; data as of 5/7/25; 2025 is annualized

- M&A announcements have increased YTD, and conversations remain active
- We've already had more deals announce in 2025 than any of the prior 3 yrs

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Credit Coming Back To The Forefront

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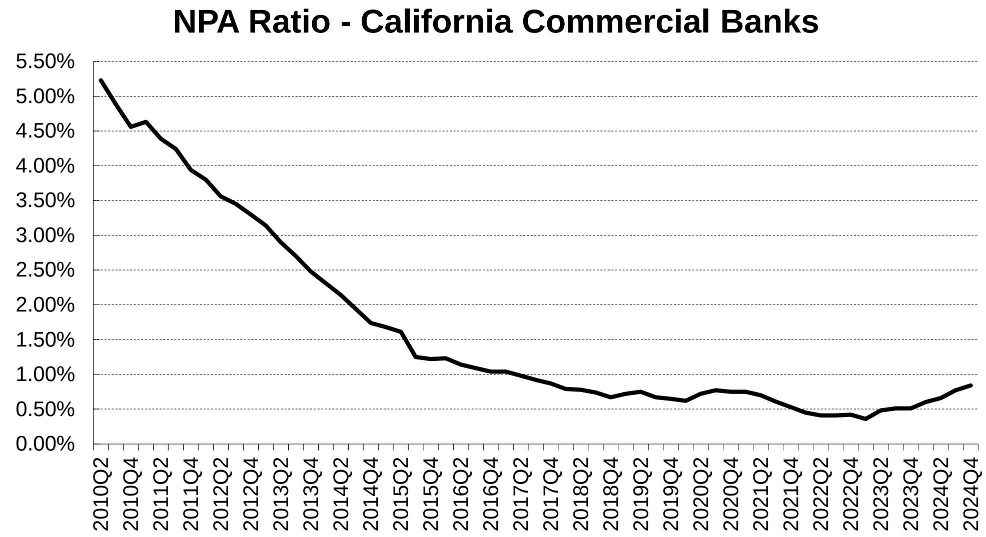
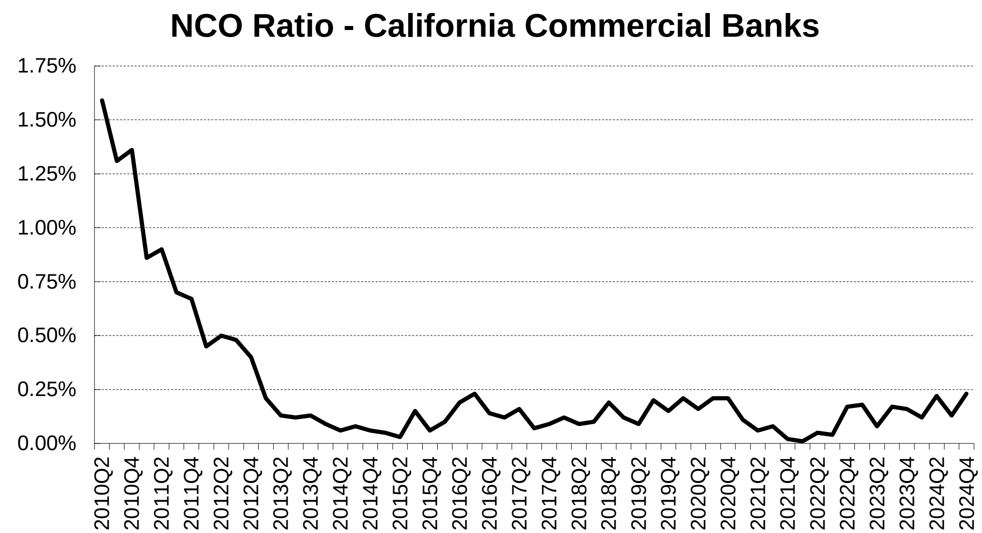
Credit Picture Remains Benign – But Starting to Normalize



Source: S&P Global



Source: S&P Global

- Credit concerns have re-entered the picture given the recent tariffs and trade wars, which could potentially impact the health of the consumer
- We'd characterize credit as starting **NORMALIZING**, returning to pre-pandemic levels
- **Banks are better positioned for this credit cycle, whatever it may be, given better underwriting, strong LLR ratios and significant excess capital**

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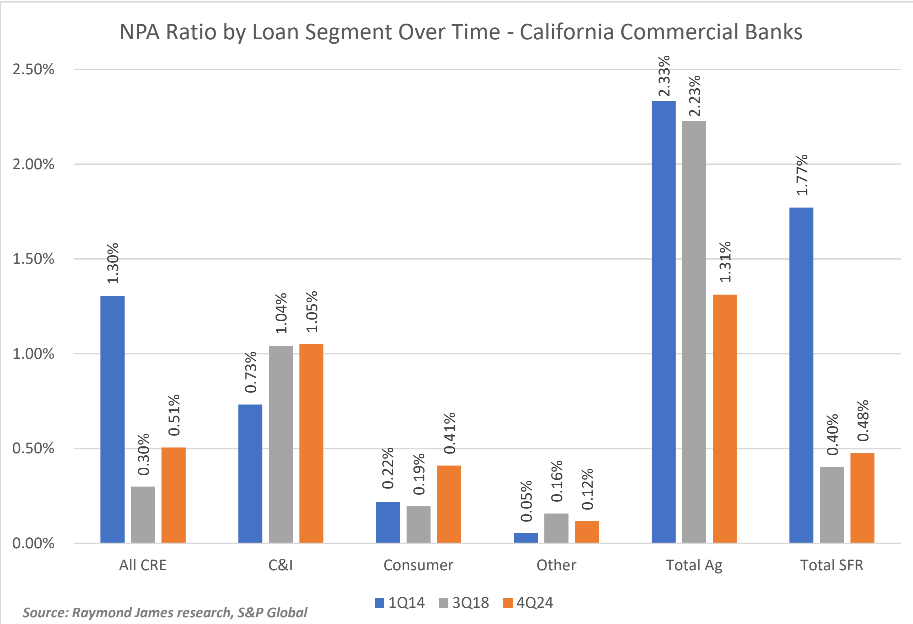
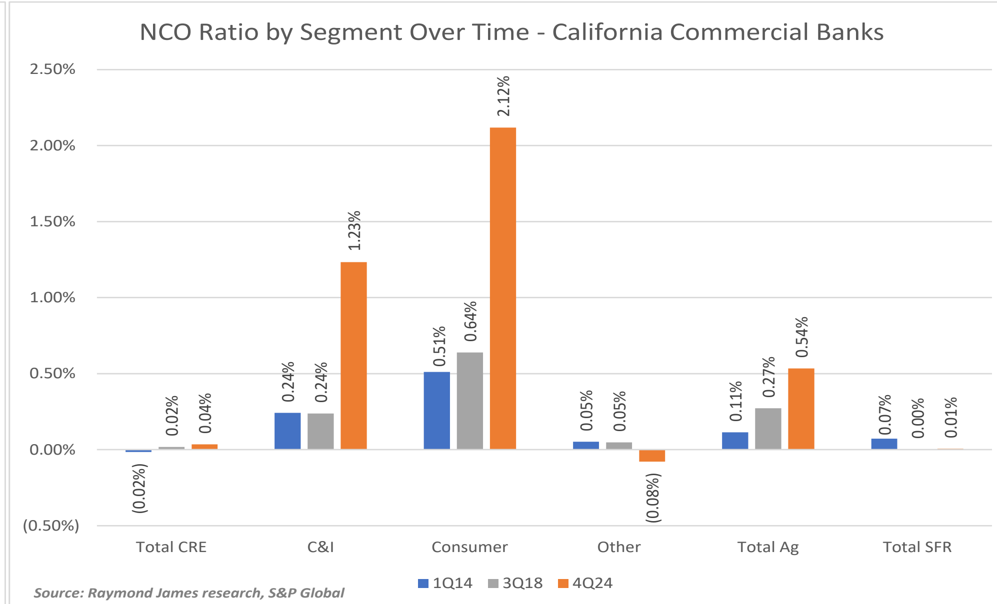
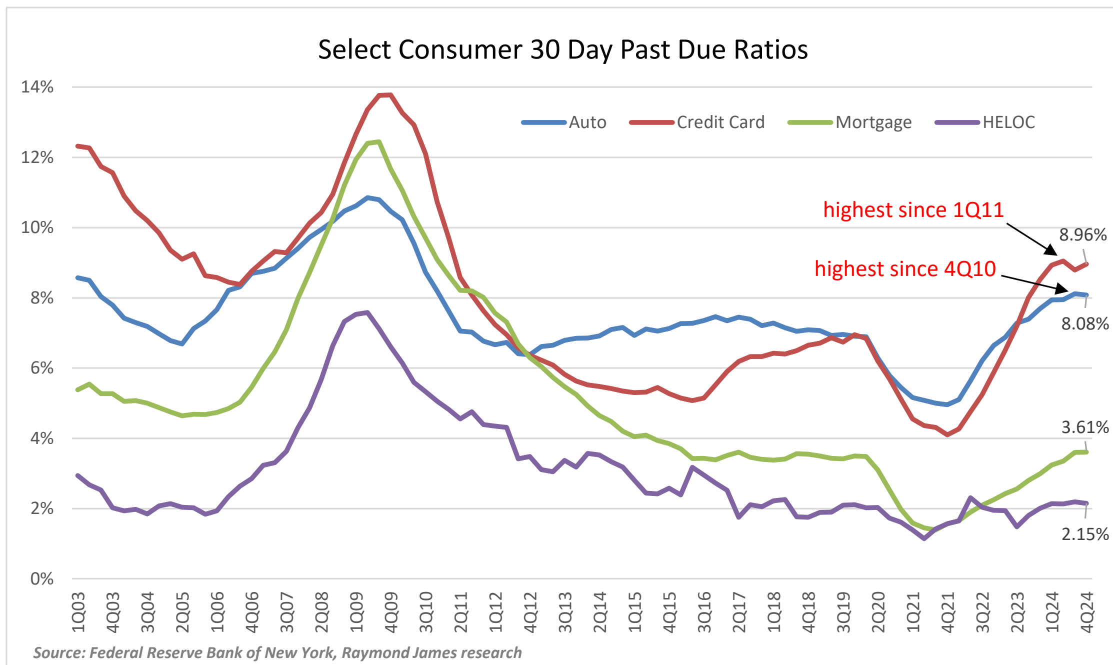
Credit Fears Focused On CRE and Consumer





- The market remains hyper-focused on CRE, but also cautious on the consumer
- Credit card and auto delinquency rates are highest in past 14 years, and mortgage delinquencies increase
- NCOs are increasing, primarily in consumer, C&I and ag



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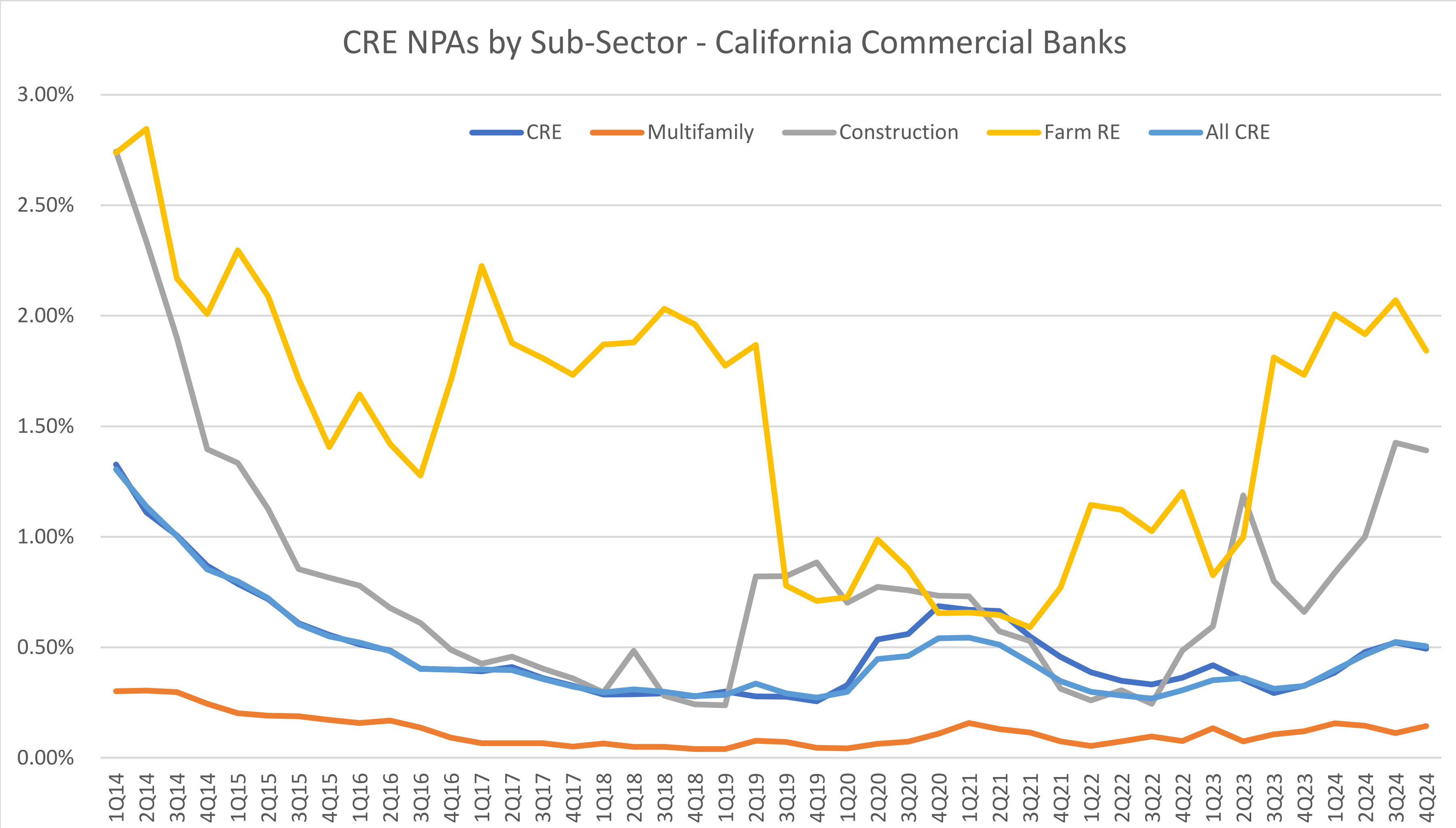
CRE NPA Trends Increasing



Source: Raymond James research, S&P Global

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- The market remains hyper-focused on CRE, but credit nowhere near disaster
- How does this look as we approach rate resets or maturity dates in the next 2 years?

CA Continues To See Rent Growth

Change in Daily Asking Rent Year-Over-Year Growth

	Y/Y Asking Rent Growth							2nd Derivative Watch		
	February	January	December	November	October	September	August	30-Day Chg.	90-Day Chg.	180-Day Chg.
Northeast										
Boston	2.1%	2.2%	2.2%	2.2%	2.7%	2.6%	2.8%	-0.01%	-0.06%	-0.63%
Long Island	1.1%	1.0%	1.3%	1.3%	1.4%	1.4%	2.0%	0.08%	-0.21%	-0.91%
New York City	1.9%	1.8%	1.7%	1.8%	2.0%	2.1%	2.2%	0.10%	0.07%	-0.24%
North New Jersey	2.0%	2.4%	2.0%	2.5%	2.6%	2.9%	2.8%	-0.44%	-0.49%	-0.83%
Philadelphia	2.0%	2.1%	1.9%	1.8%	1.9%	2.1%	2.1%	-0.05%	0.23%	-0.06%
Washington D.C.	2.7%	3.0%	2.8%	2.8%	3.1%	3.3%	3.7%	-0.25%	-0.08%	-0.93%
Southeast										
Raleigh	-1.4%	-1.8%	-2.6%	-2.3%	-2.5%	-2.6%	-2.4%	0.38%	0.92%	1.00%
Charlotte	-0.5%	-0.6%	-0.7%	-0.8%	-0.9%	-1.3%	-1.1%	0.07%	0.28%	0.58%
Nashville	-1.0%	-0.8%	-0.7%	-0.7%	-0.9%	-1.0%	-0.7%	-0.18%	[illegible]	-0.32%
Atlanta	-1.5%	-1.6%	-1.9%	-2.0%	-2.0%	-2.0%	-2.1%	0.11%	0.49%	0.59%
Jacksonville	-1.5%	-1.7%	-2.0%	-1.8%	-1.9%	-2.2%	-2.7%	0.25%	0.33%	1.21%
Orlando	-0.8%	-1.1%	-1.2%	-1.0%	-1.0%	-1.1%	-1.0%	0.26%	0.15%	0.13%
Tampa	1.2%	1.1%	1.0%	0.8%	-0.9%	-1.4%	-1.3%	0.10%	0.47%	2.58%
Miami	1.5%	1.8%	1.6%	1.8%	2.2%	2.3%	2.3%	-0.25%	-0.32%	-0.76%
Texas/Southwest										
Houston	0.6%	0.6%	0.5%	0.6%	0.8%	0.8%	0.8%	0.02%	-0.07%	-0.22%
Dallas	-1.2%	-1.3%	-1.5%	-1.1%	-1.2%	-1.3%	-1.2%	0.13%	-0.12%	-0.02%
Austin	-4.4%	-4.7%	-4.8%	-4.6%	-4.5%	-4.6%	-4.6%	0.30%	0.22%	0.23%
Las Vegas	0.2%	-0.4%	-0.3%	-0.3%	0.5%	0.5%	0.6%	0.50%	0.41%	-0.43%
Phoenix	-1.9%	-1.8%	-2.0%	-1.8%	-2.0%	-1.8%	-1.5%	-0.02%	-0.06%	-0.34%
Midwest/Mountain										
Minneapolis	1.2%	1.1%	1.2%	1.2%	1.2%	1.3%	1.2%	0.14%	0.06%	0.03%
Denver	-3.1%	-3.0%	-2.4%	-1.8%	-1.1%	-0.3%	0.4%	-0.15%	-1.34%	-3.53%
West Coast										
Seattle	1.5%	1.7%	1.8%	1.9%	1.9%	1.8%	2.1%	-0.23%	-0.42%	-0.54%
San Francisco	2.1%	1.9%	2.0%	2.1%	1.9%	1.5%	1.5%	0.12%	-0.01%	0.53%
East Bay/Oakland	0.3%	0.1%	0.0%	0.0%	-0.4%	-0.6%	-0.7%	0.23%	0.29%	0.98%
San Jose	2.7%	2.9%	3.0%	3.6%	2.9%	2.8%	2.7%	-0.20%	-0.93%	-0.07%
Los Angeles	0.9%	0.8%	0.8%	0.7%	0.5%	0.4%	0.5%	0.09%	0.21%	0.42%
Inland Empire	1.2%	1.2%	1.1%	1.4%	1.3%	1.1%	1.2%	0.06%	-0.18%	-0.02%
Orange County	1.5%	0.7%	0.0%	0.9%	1.0%	1.3%	1.2%	0.81%	0.65%	0.28%
San Diego	0.6%	0.9%	0.8%	0.8%	0.2%	0.3%	0.0%	-0.29%	-0.16%	0.62%

Source: Costar, Raymond James Research

- **Rents are continuing to increase in CA, whereas most Southeast and Southwest markets are seeing declines**

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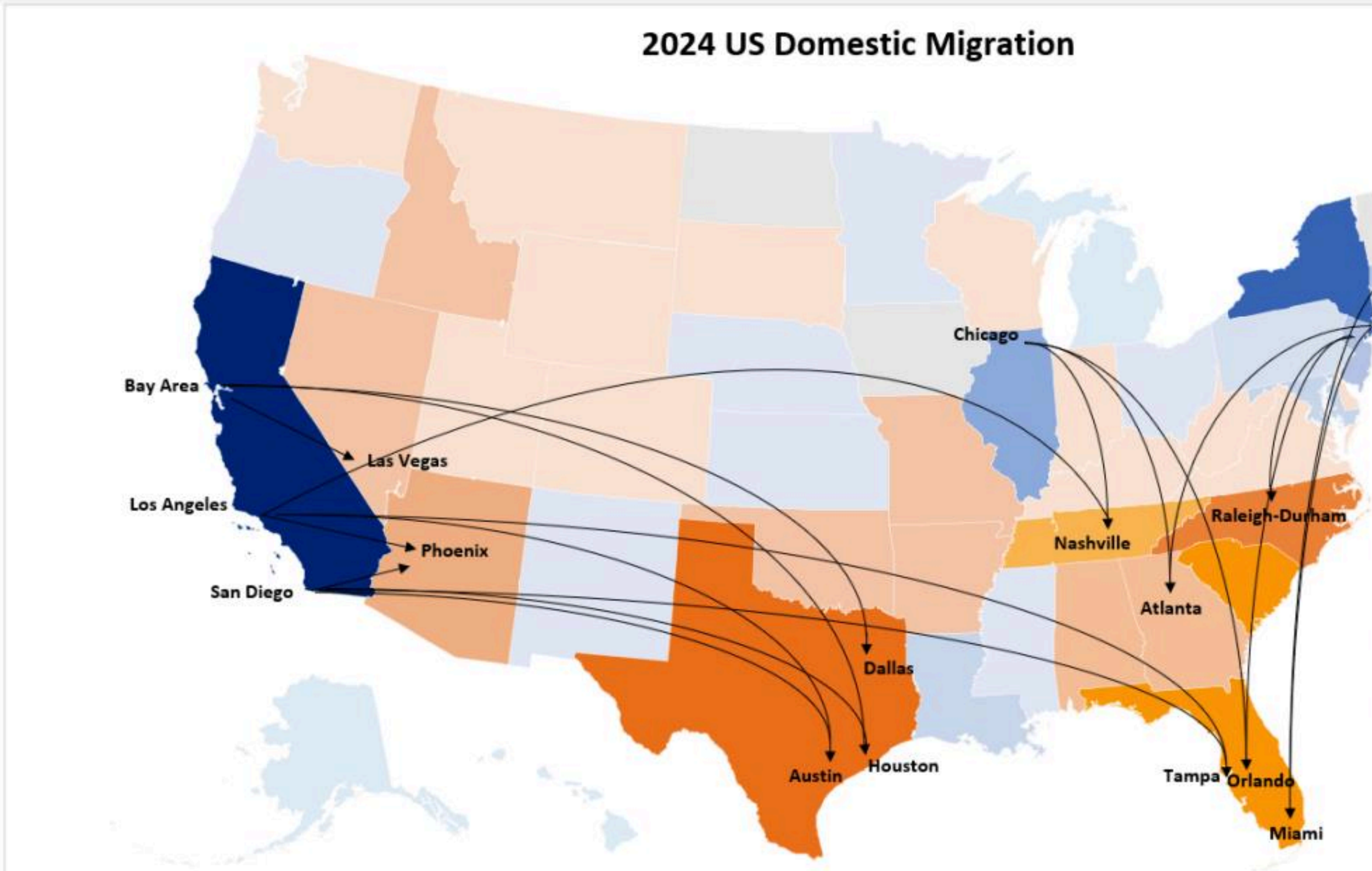
Out-Migration Continues To Lower-Cost States



2024 Domestic Migration			
Texas	85,267	California	(239,575)
North Carolina	82,288	New York	(120,917)
South Carolina	68,043	Illinois	(56,235)
Florida	64,017	New Jersey	(35,554)
Tennessee	48,476	Massachusetts	(27,480)
Arizona	34,902	Maryland	(18,509)
Alabama	26,028	Louisiana	(17,405)
Georgia	25,321	Pennsylvania	(11,500)
Nevada	16,853	Hawaii	(9,321)
Idaho	16,383	Michigan	(7,656)
Oklahoma	14,036	Connecticut	(6,060)
Arkansas	13,465	Mississippi	(4,939)
Missouri	12,289	Kansas	(4,701)
Delaware	8,155	Alaska	(3,774)
Kentucky	7,294	Ohio	(2,462)
Wisconsin	6,332	New Mexico	(1,571)
Colorado	5,422	Nebraska	(1,498)
Montana	5,410	Oregon	(1,162)
Maine	5,329	Minnesota	(1,161)
Virginia	5,284	Vermont	(511)
New Hampshire	4,889	Rhode Island	(305)
West Virginia	4,520	North Dakota	(291)
Indiana	4,268	Iowa	(231)
Utah	3,220		
Washington	2,671		
South Dakota	2,132		
Wyoming	861		

Source: U.S. Census Bureau, Raymond James research

- **Unaffordability, politics, high taxes, and high housing costs are driving people away from major metro markets**
- **Could return to office mandates stymie the bleed?**

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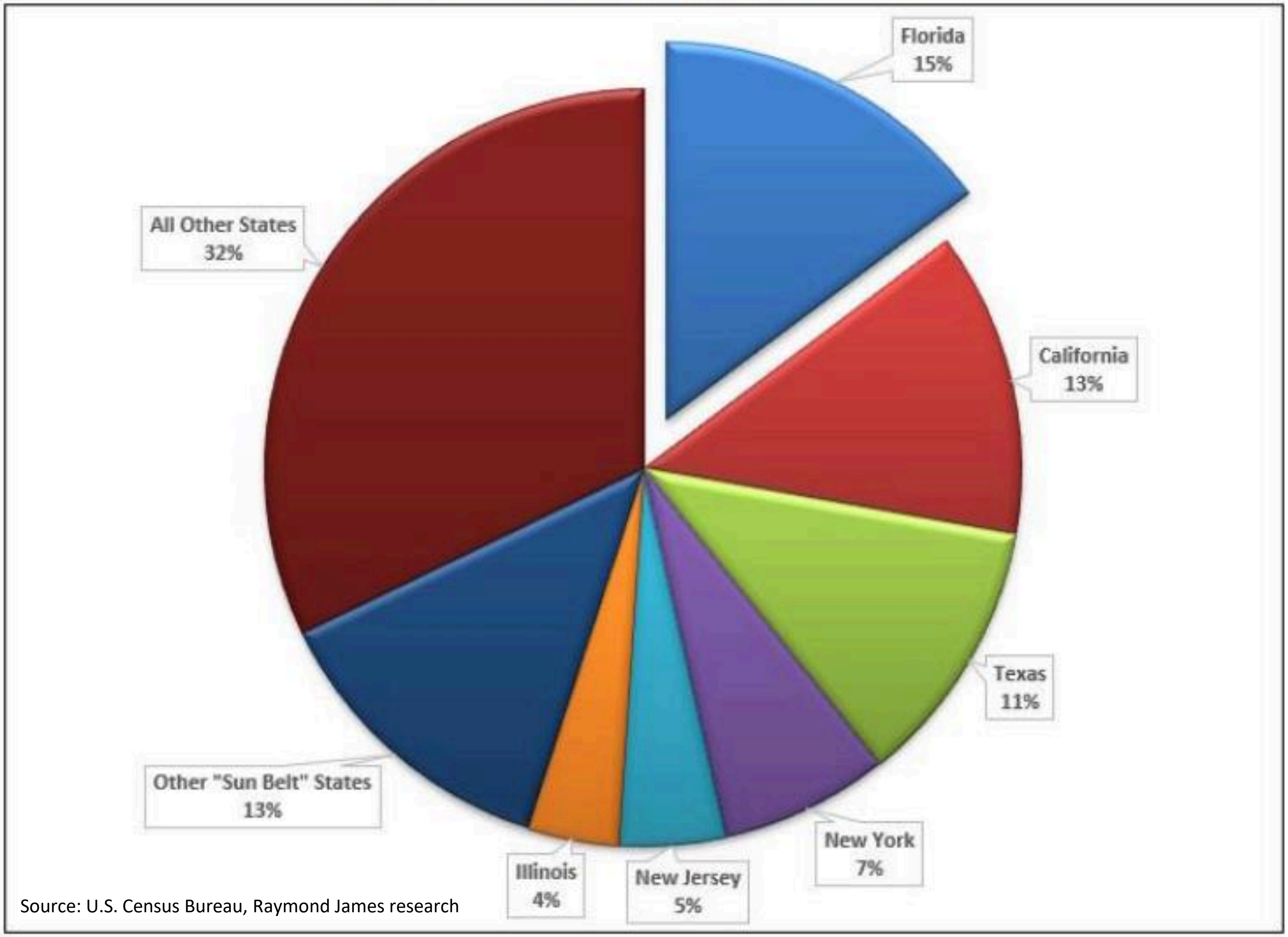
California Is The #2 Destination For New International Migration

State Share of Net International Migration: 2020-2024



Source: U.S. Census Bureau, Raymond James research

- **This is very important for the ag, hospitality and construction industries**
- **How will immigration reform and tariffs impact this?**

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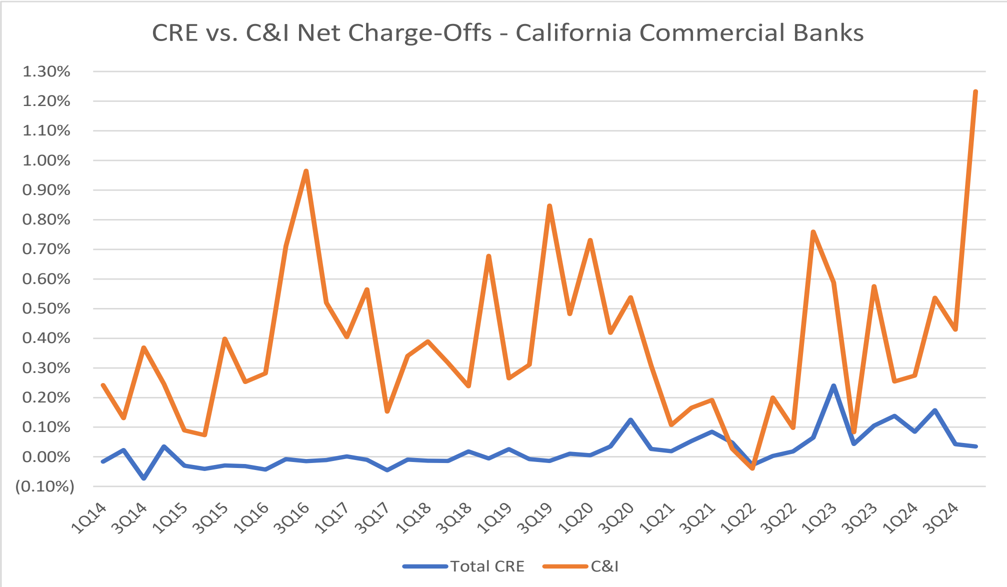
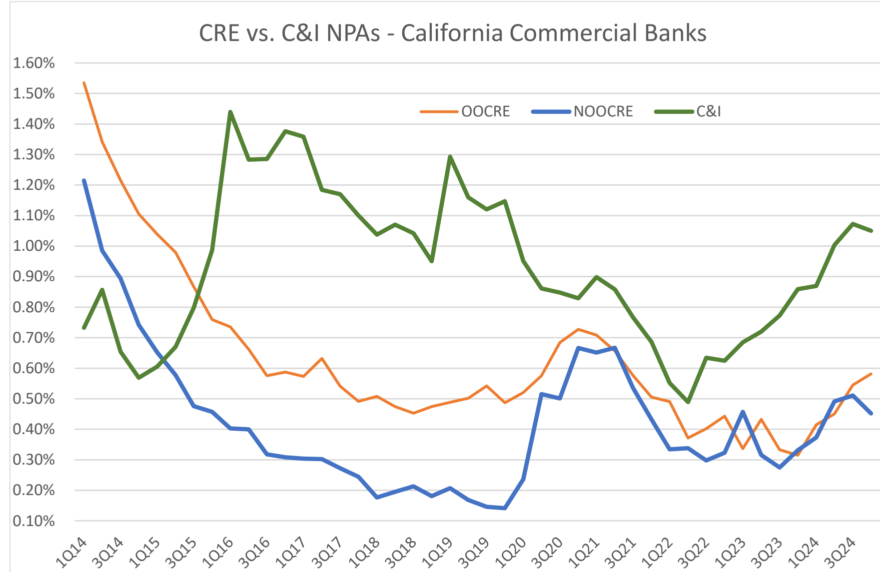
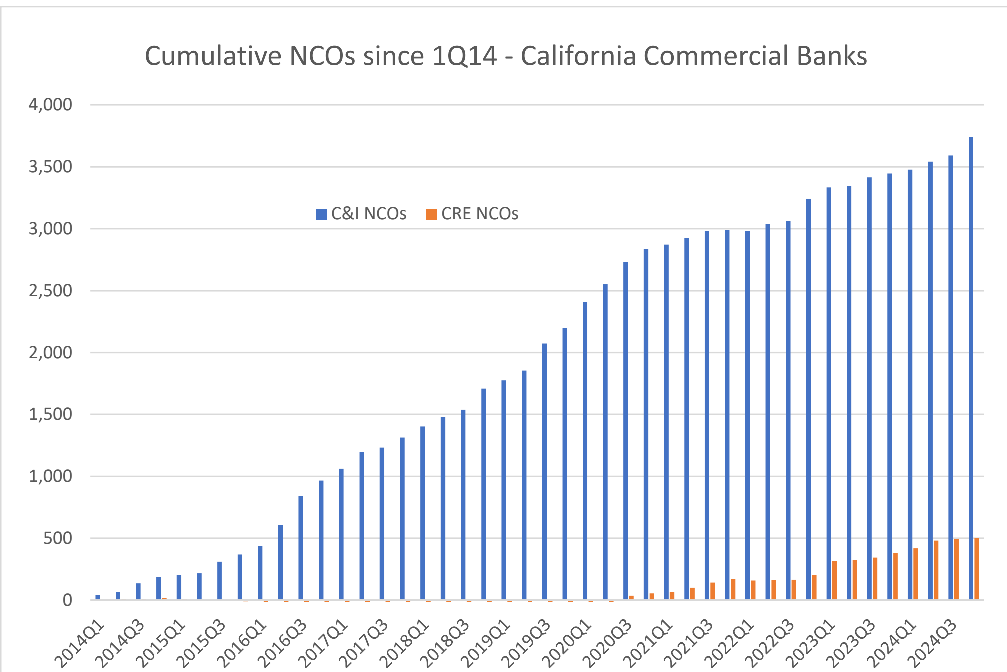
We Are Cautious on C&I – Especially Small Business





Source: Raymond James research, S&P Global



Source: Raymond James research, S&P Global

- We tend to be more cautious on C&I than CRE, given concerns over the consumer and demand

- We are especially cautious on small business, given the lack of scale and less financial flexibility

- C&I NCOs and NPAs continue to trend higher than CRE. In fact, **cumulative C&I losses are ~7.5x larger than CRE over the past decade**

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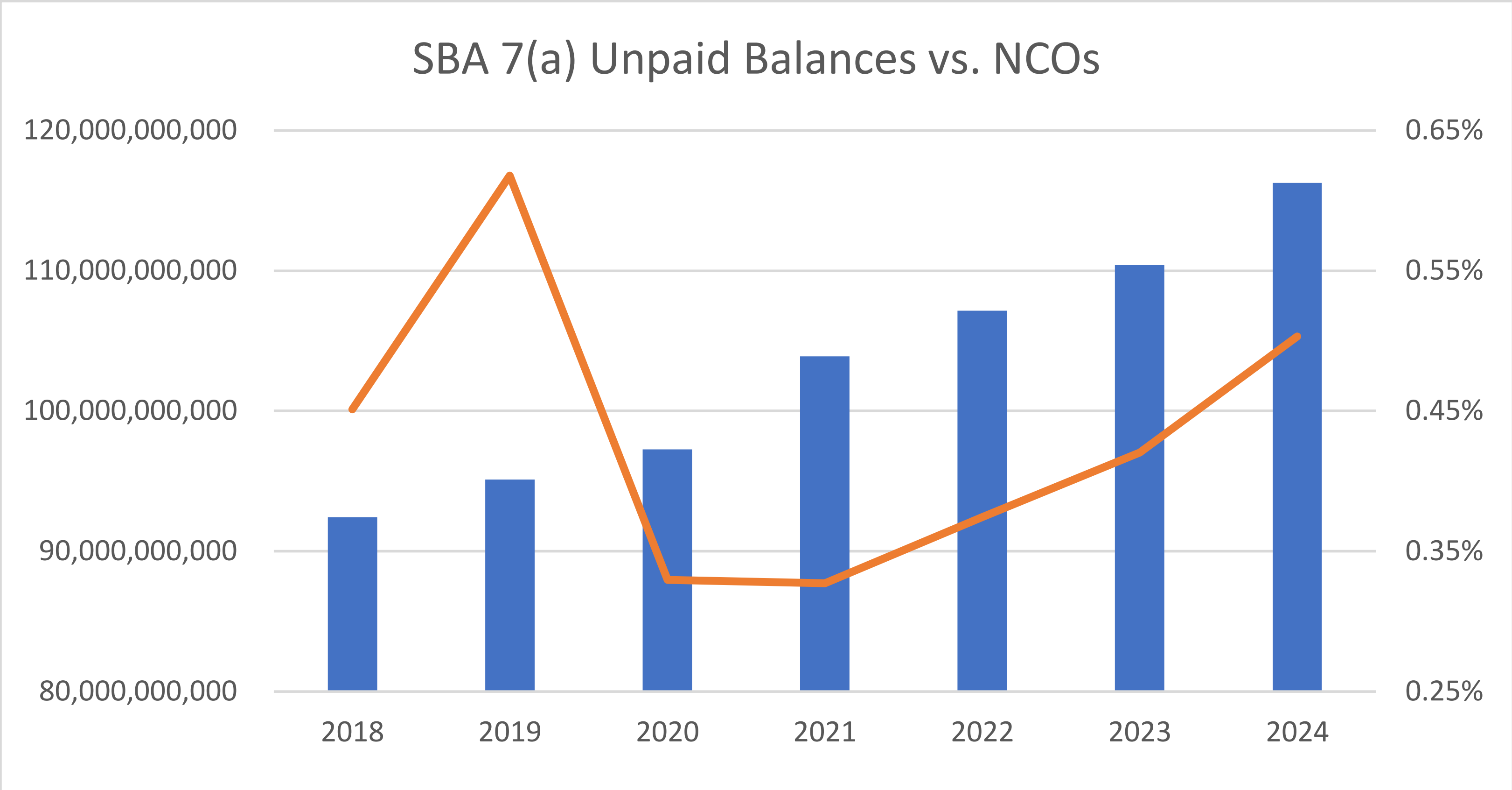
SBA 7(a) NCOs Normalizing, But Remain Low



Source: SBA.gov

- SBA 7(a) balances continues to grow, but losses starting to normalize given higher rates and normalizing economy

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How Healthy Is the Consumer?

Source: St. Louis Fed; Raymond James research

Source: FactSet, Raymond James research

- Continuing claims the highest level since early 2018
- **Not a lot of firing, but not much hiring either**

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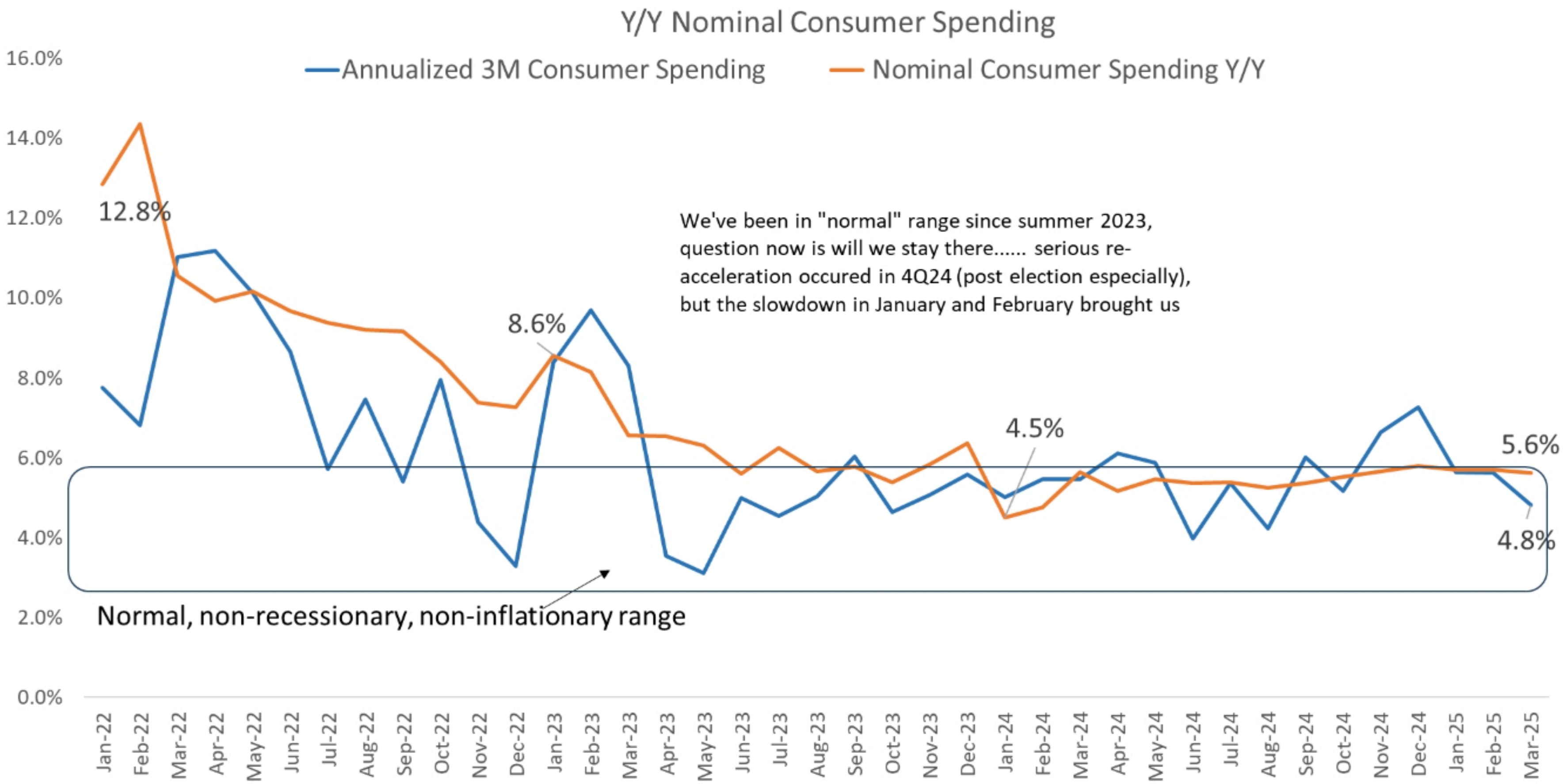
How Healthy Is the Consumer?



Source: St. Louis Federal Reserve; Raymond James research

- The consumer is still spending, trending at the high-end of a “normal” range.
- Growth recovering from cold/flu induced weakness in Jan/Feb, and early indications for April from Visa/Mastercard are solid y/y.

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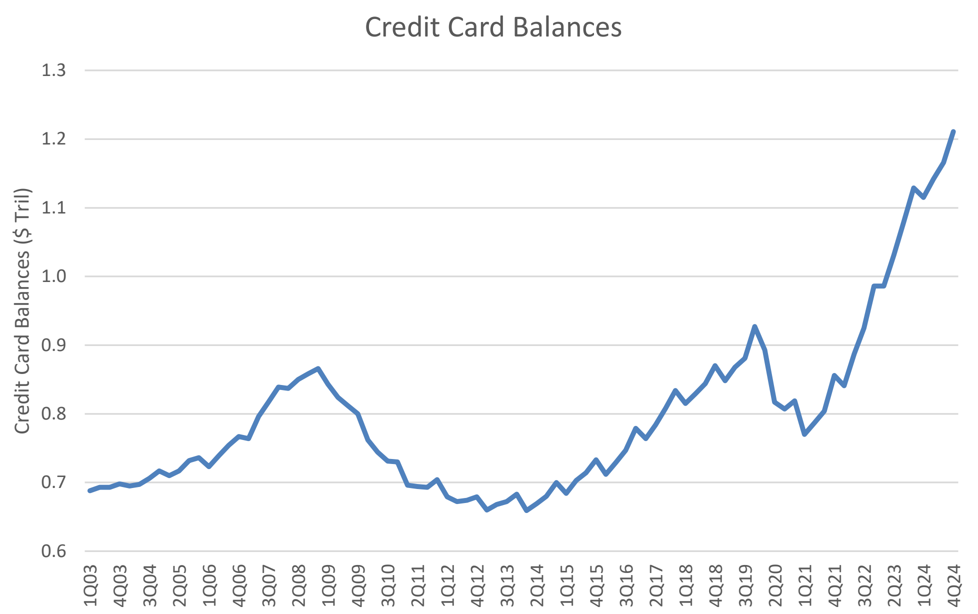
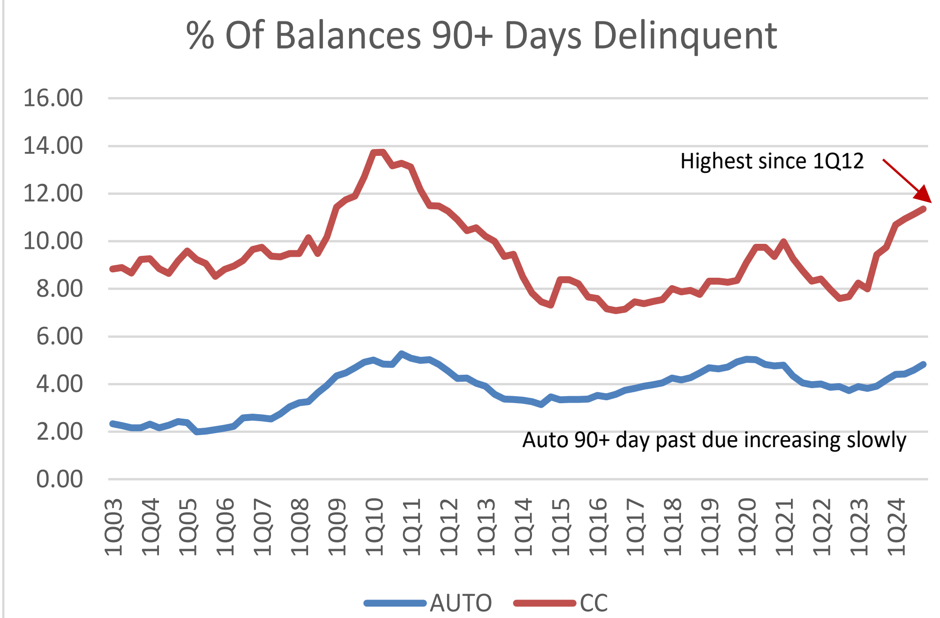
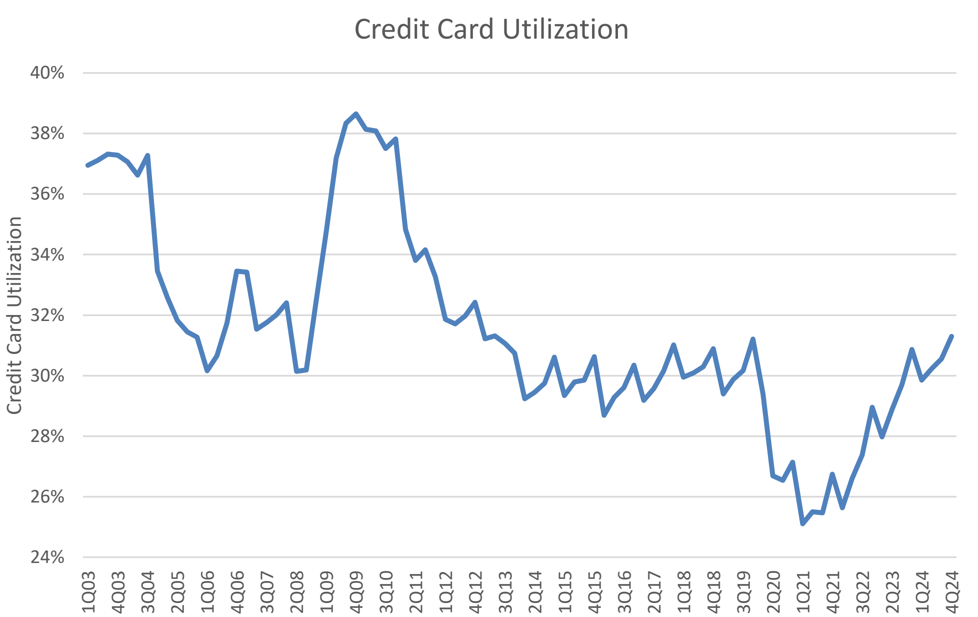
How Healthy Is the Consumer?



Source: Raymond James research, Federal Reserve of New York





Source: Raymond James research, Federal Reserve of New York

- Stimulus largely running out and inflationary pressures weighing on the consumer
- Credit card balances at record levels, credit card utilization increasing, and 90+ days past due credit card loans the highest since 1Q12

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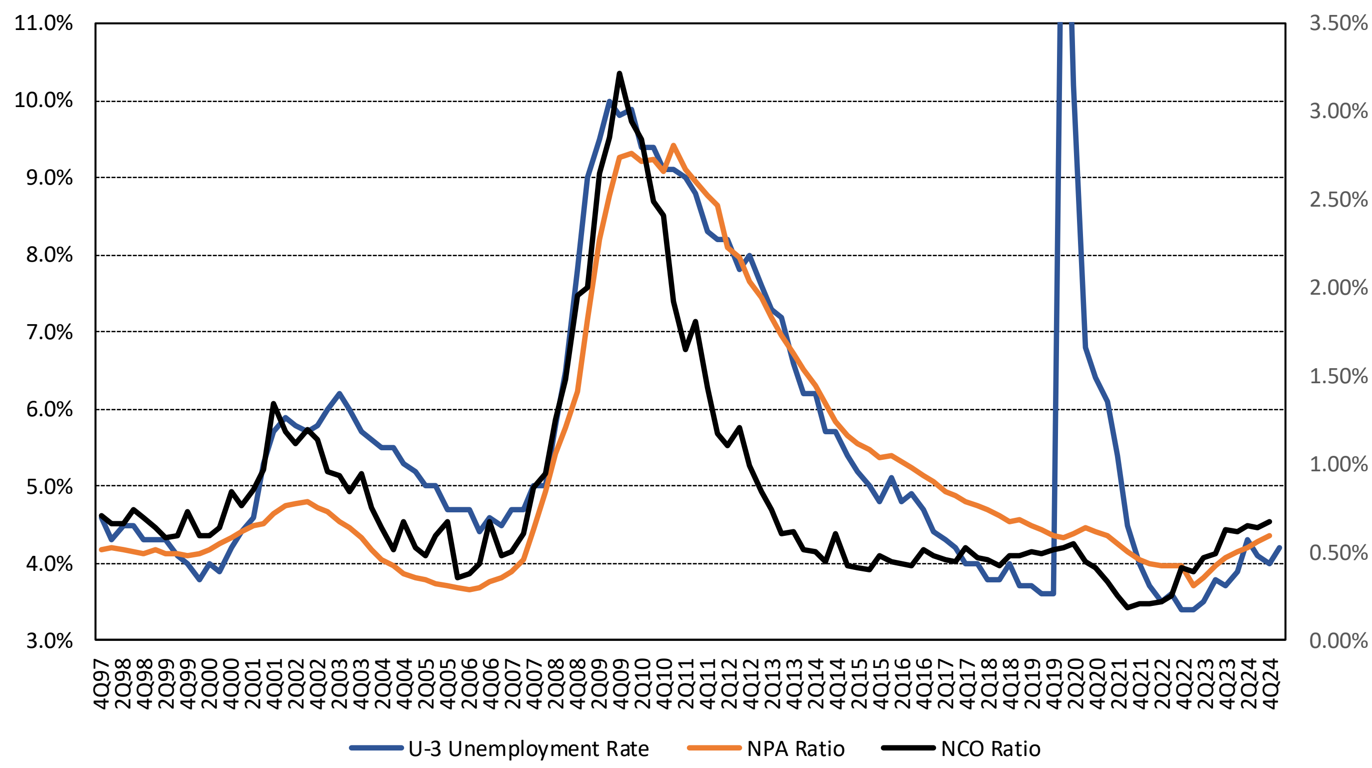
Unemployment leads to NPAs and NCOs

- Rising unemployment rates has been a good predictor of higher NPAs and NCOs.
- The correlation of NPAs to changes in the unemployment rate (pre-pandemic) is measured with an R-squared of 83%. The R-squared since the throes of the pandemic is 66%
- The correlation of NCOs to changes in the unemployment rate (pre-pandemic) is measured with an R-squared of 73%.
- Rising unemployment implies NPAs and NCOs are likely to rise

Unemployment Rate vs. NPA and NCO Ratio



Source: Bureau of Labor Statistics, S&P Global, Raymond James research

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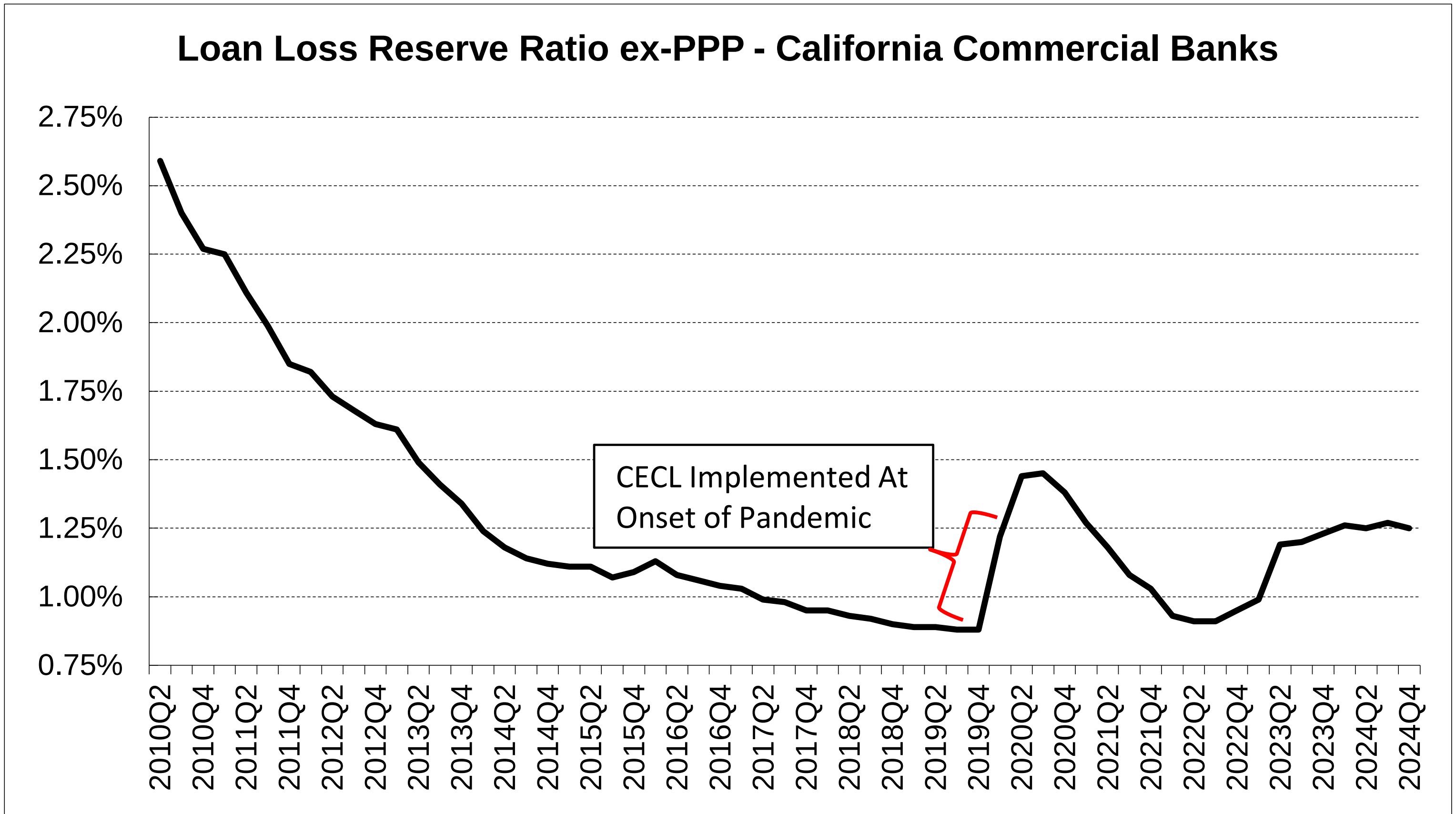
Reserves Remain Strong - Plenty Of Coverage



Source: S&P Global, Raymond James research

- LLR ratios now 3 bp above 1Q20 ratios where CECL began, and 20 bp below pandemic highs (ex-PPP)
- Will counter-cyclicality of CECL and weaker economic outlooks force further reserve builds?
- Is 1.25% the new normal LLR ratio under CECL?

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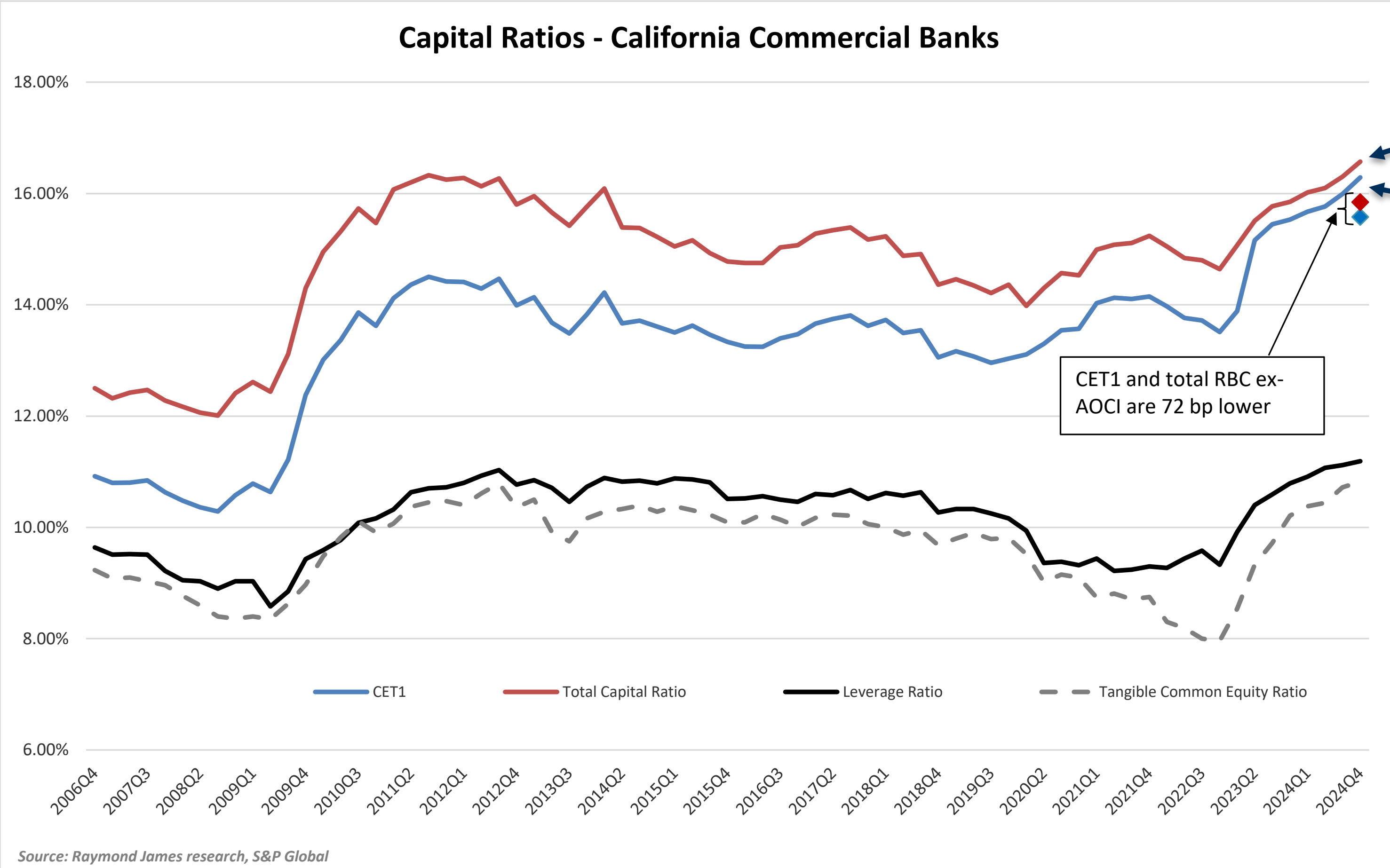
But Banks are VERY Well-Capitalized



- Focus on Tier 1 and Total Capital
- CA Banks have record levels of capital on balance sheets, and growing
- CA banks have +300 bp more CET1 and Total RBC vs. pre-pandemic levels

- We think credit risk is more of an EPS issue rather than a capital issue

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Growth Increasingly In Focus

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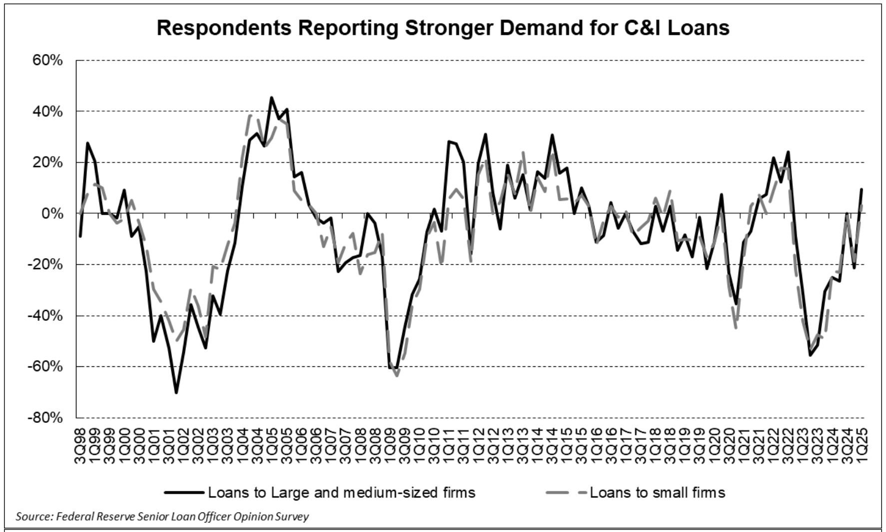
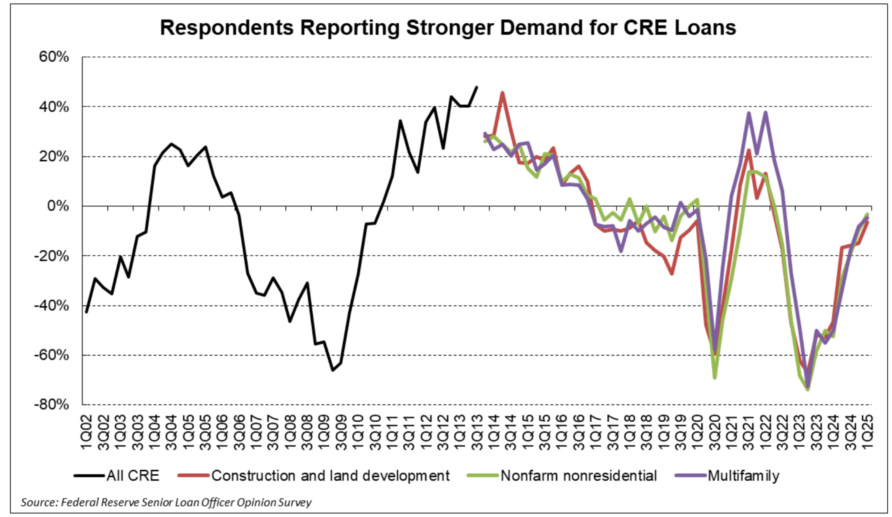
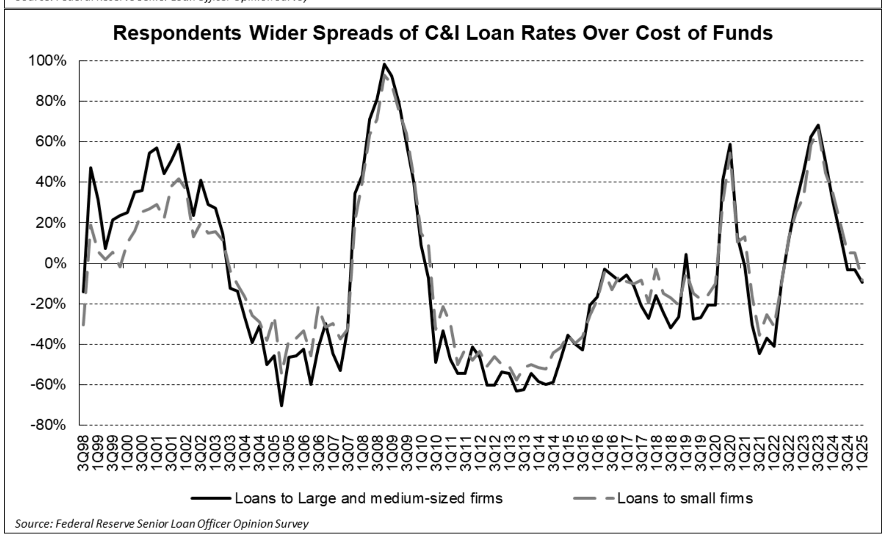
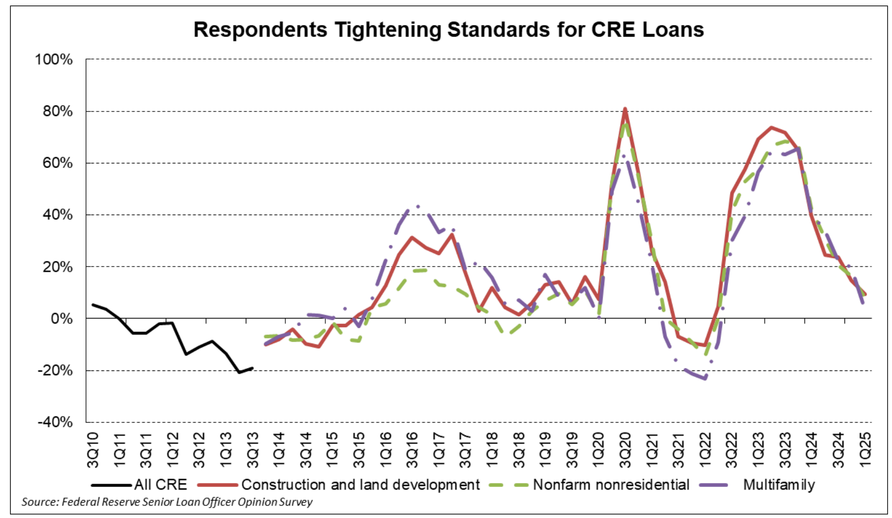
Senior Loan Officer Opinion Survey: Weaker Demand & Tightening









- **C&I:** demand is weaker as clients focus on de-levering, but increased focus on C&I growth by banks drives increased competition and tighter spreads
- **CRE:** demand slowly improving, and standards remain tight
- Management appetite for credit has improved, which likely supports growth

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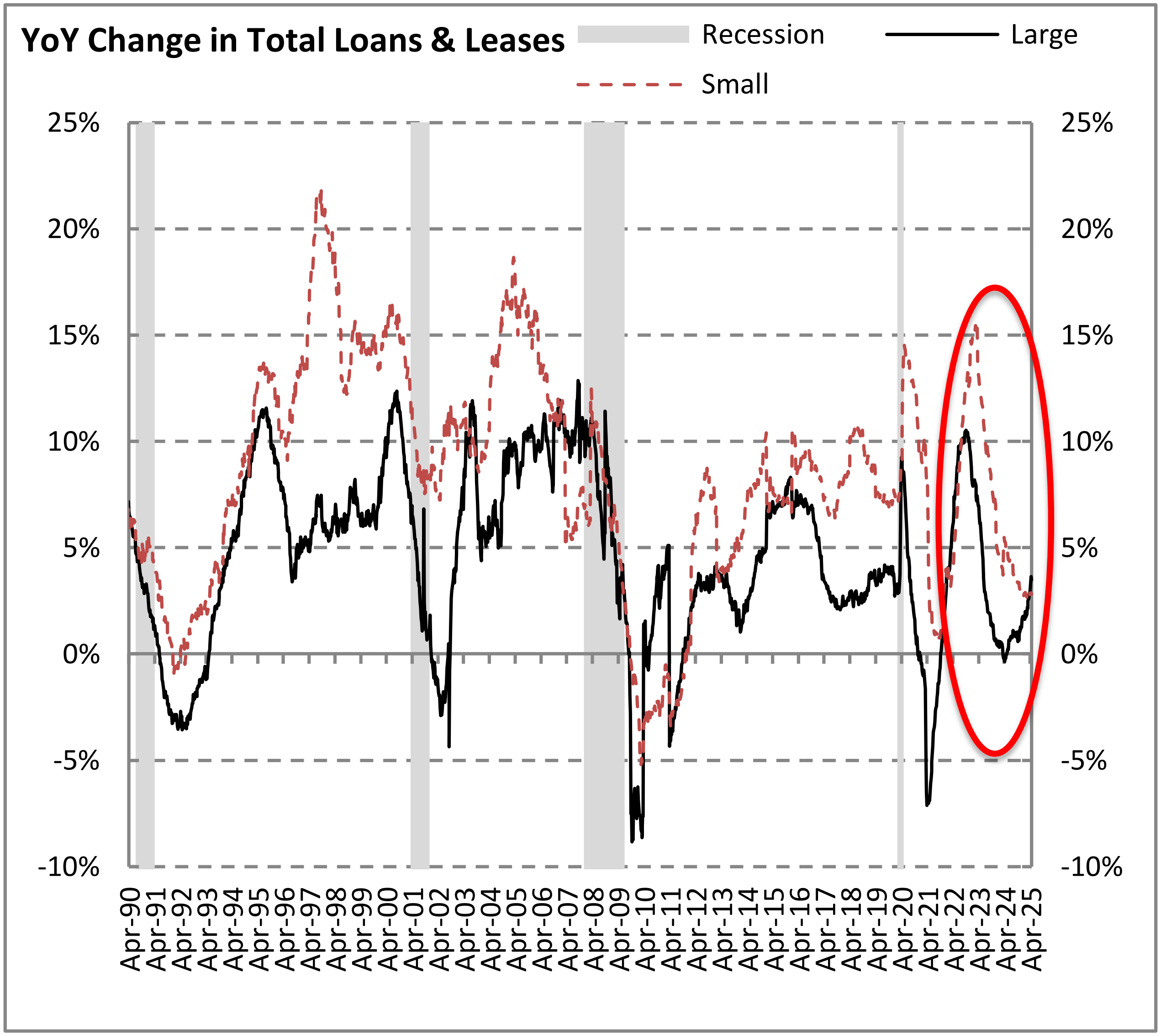
Loan Growth Continues, But Remains Modest



Source: Federal Reserve

- Loan growth continues, but remains slower than hoped for
- Larger banks driven by consumer and other, while smaller banks driven by CRE, resi and consumer
- Loan growth generally expected in the low-to-mid single digits going forward
- Still hopeful for accelerating growth in 2H25, but payoffs/ paydowns a headwind

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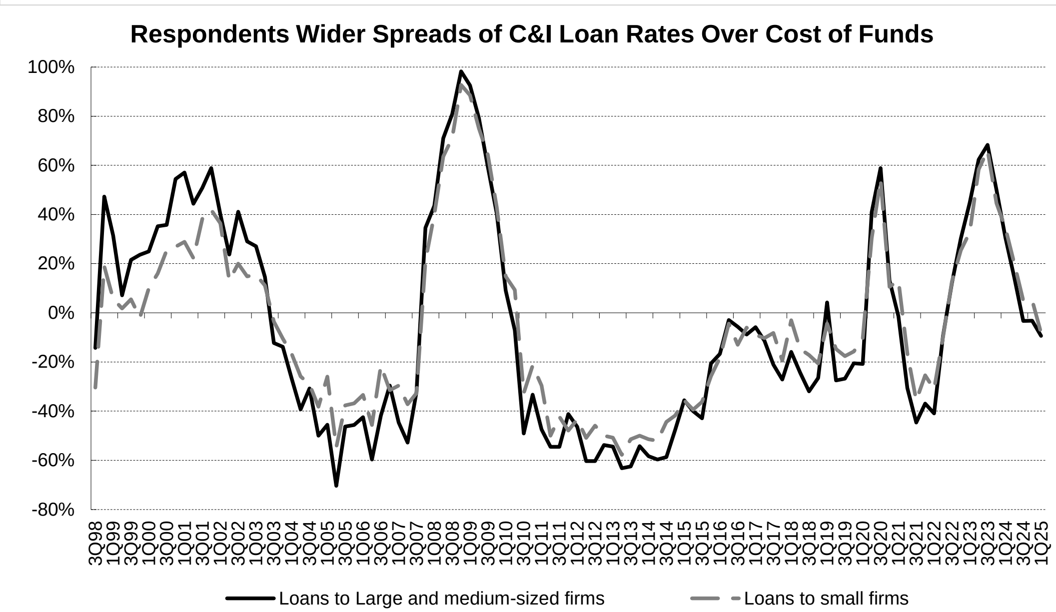
But Loan Yields Under Pressure

Source: FactSet, Raymond James research



Source: Federal Reserve Senior Loan Officer Opinion Survey

- **Declines in the 5-year and increased competition are weighing on spreads and new loan yields**
- **We worry the industry may become increasingly desperate for growth in 2H25 to meet guidance, resulting in thinner spreads and slower NIM expansion than Street expects**

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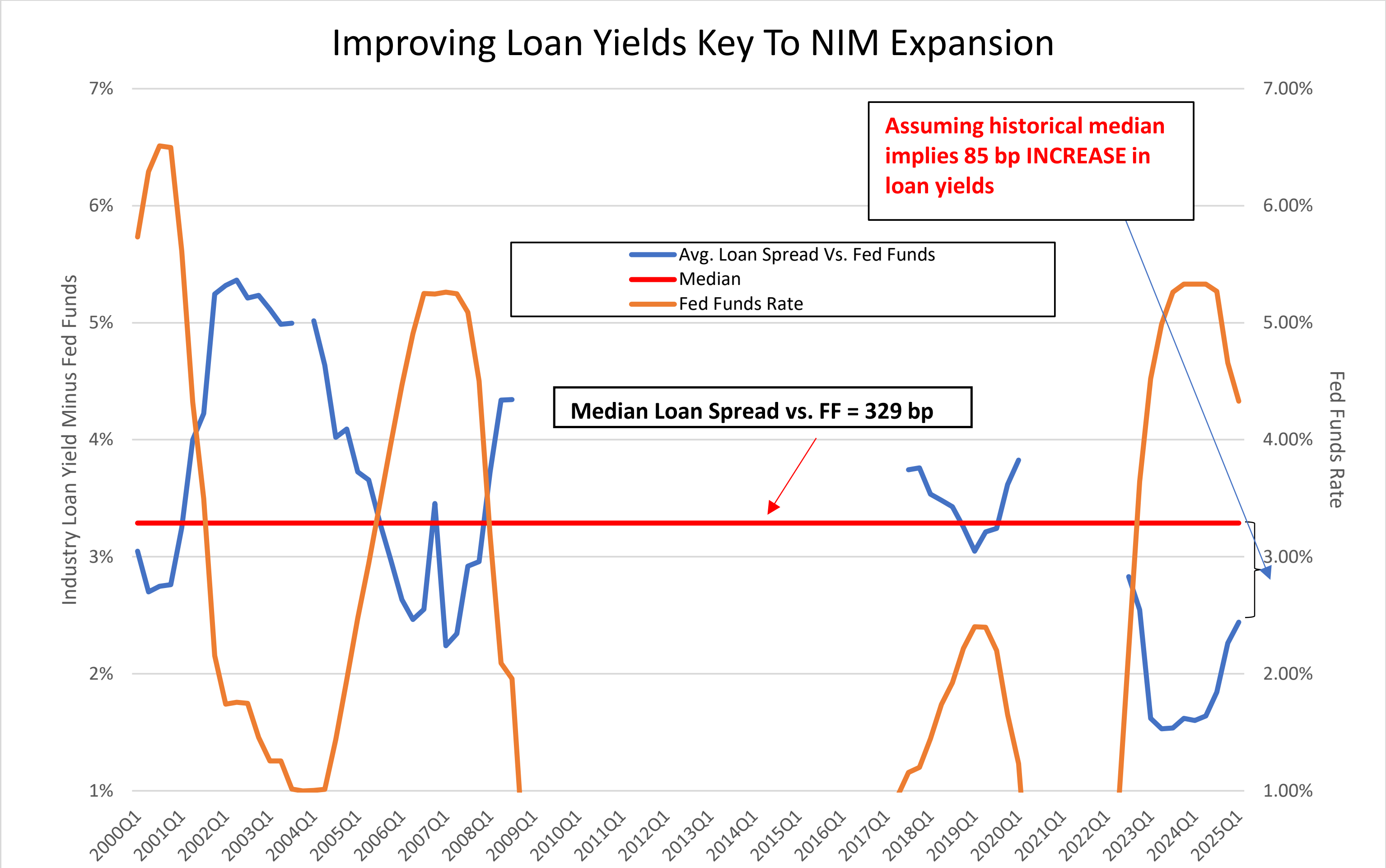
Loan Yields Are Key To NIM Expansion Going Forward



Source: Raymond James research; S&P Global

- **We worry the industry may become increasingly desperate for growth in 2H25 to meet guidance, resulting in thinner spreads and slower NIM expansion than Street expects**

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How Do You Fund Growth?

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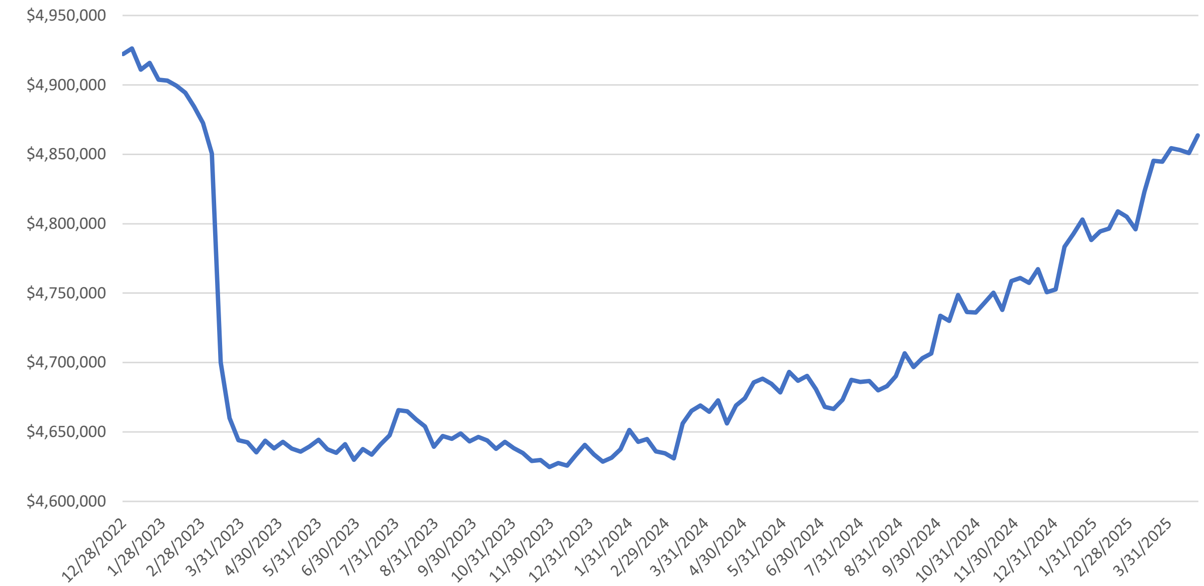
Core Deposit Growth Improving As Well



Source: Federal Reserve, Raymond James research

Source: Federal Reserve, Raymond James research

- Deposit growth in 2023 was largely driven by non-core funding, notably time and brokered funding
- While migration continued, core deposit balances improved early 2023 as the banking industry stabilized, and prospects of Fed cuts helped improve sentiment
- Deposit growth and securities cash flows, combined with slower loan growth allowed banks to reduce higher cost borrowings, supporting NIM expansion.

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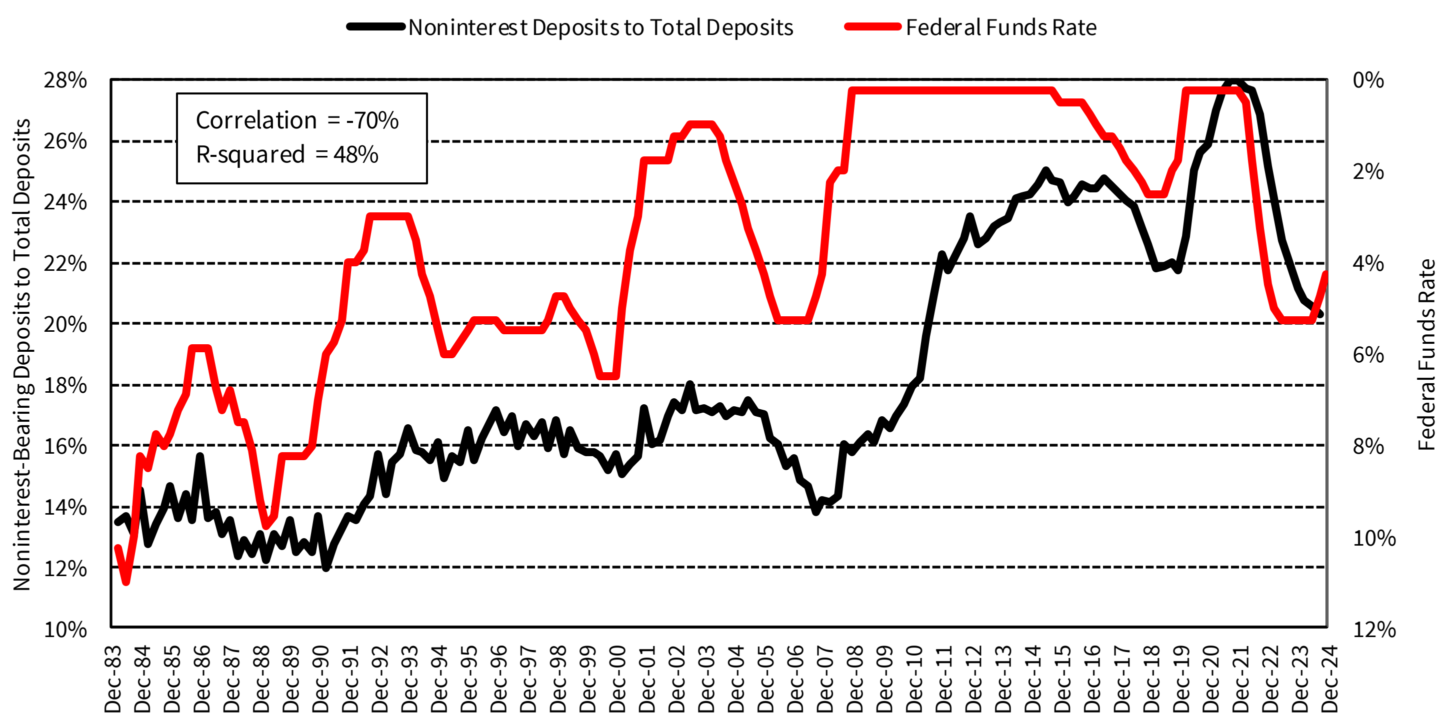
NIB Mix Shift Stabilizing, and Potentially Improve

- Bank management teams guide for noninterest bearing deposit concentration levels seems overly optimistic
  - Historically there is an inverse correlation between rates and NIB composition.
    - Correlation = -70% and R-squared = 49%
  - **Could rate cuts drive NIB growth?**
  - **Commercial clients de-levering has been a headwind, and could shift to a tailwind**
- After 15 years of essentially a ZERO interest rate backdrop, depositors demanding yield

Noninterest-Bearing Deposits to Total Deposits Versus the Federal Funds Rate



Source: Federal Reserve Bank Of St. Louis (FRED), Federal Deposit Insurance Corporation, FactSet, Raymond James Research

Data as of December 31, 2024

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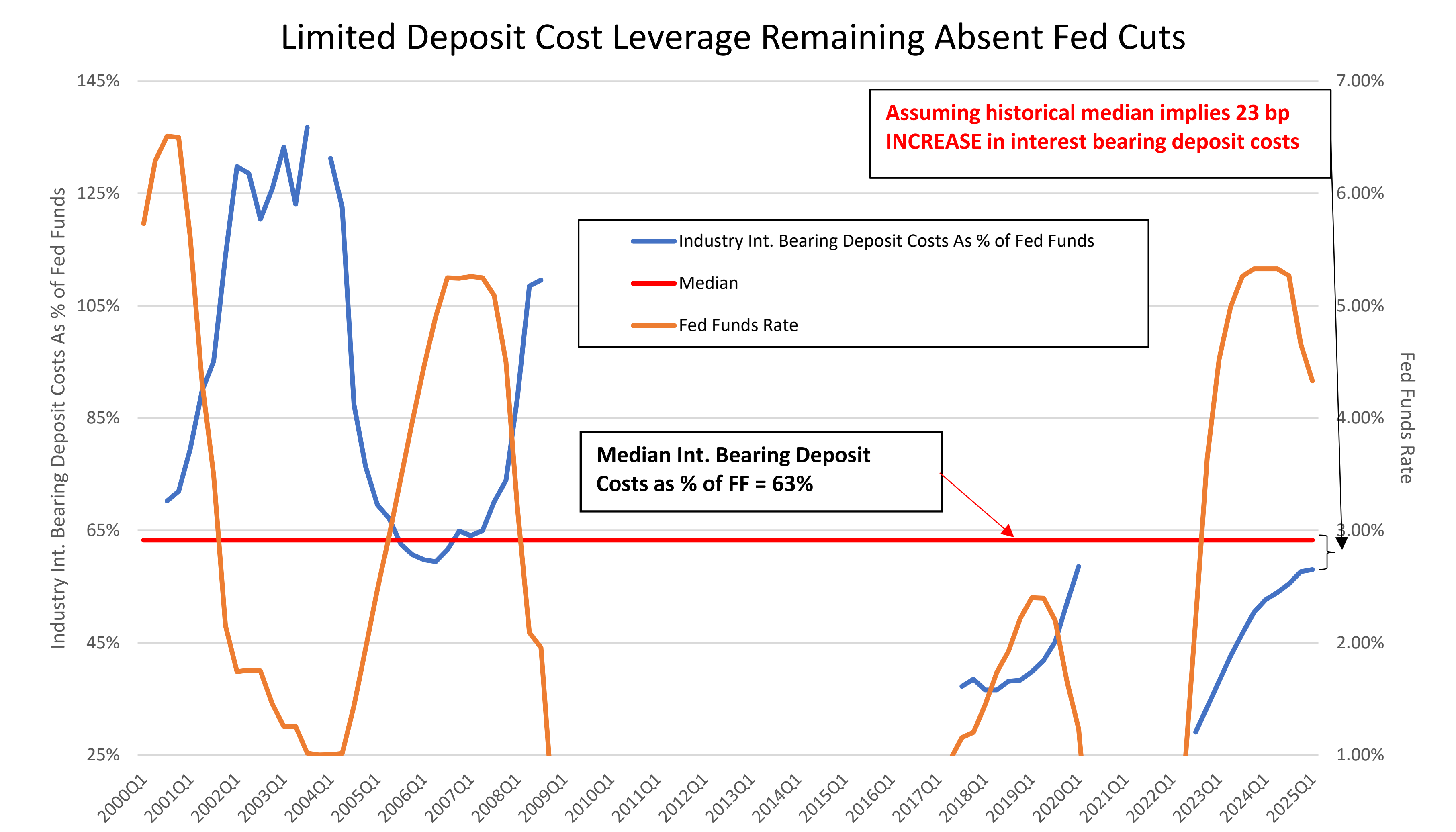
Limited Deposit Cost Leverage Remaining



Source: Raymond James research; S&P Global

- Interest-bearing deposit costs relative to Fed Funds in line with medians.
- Anecdotally, deposit price competition increasing.

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What About Profitability and NIM Expansion?

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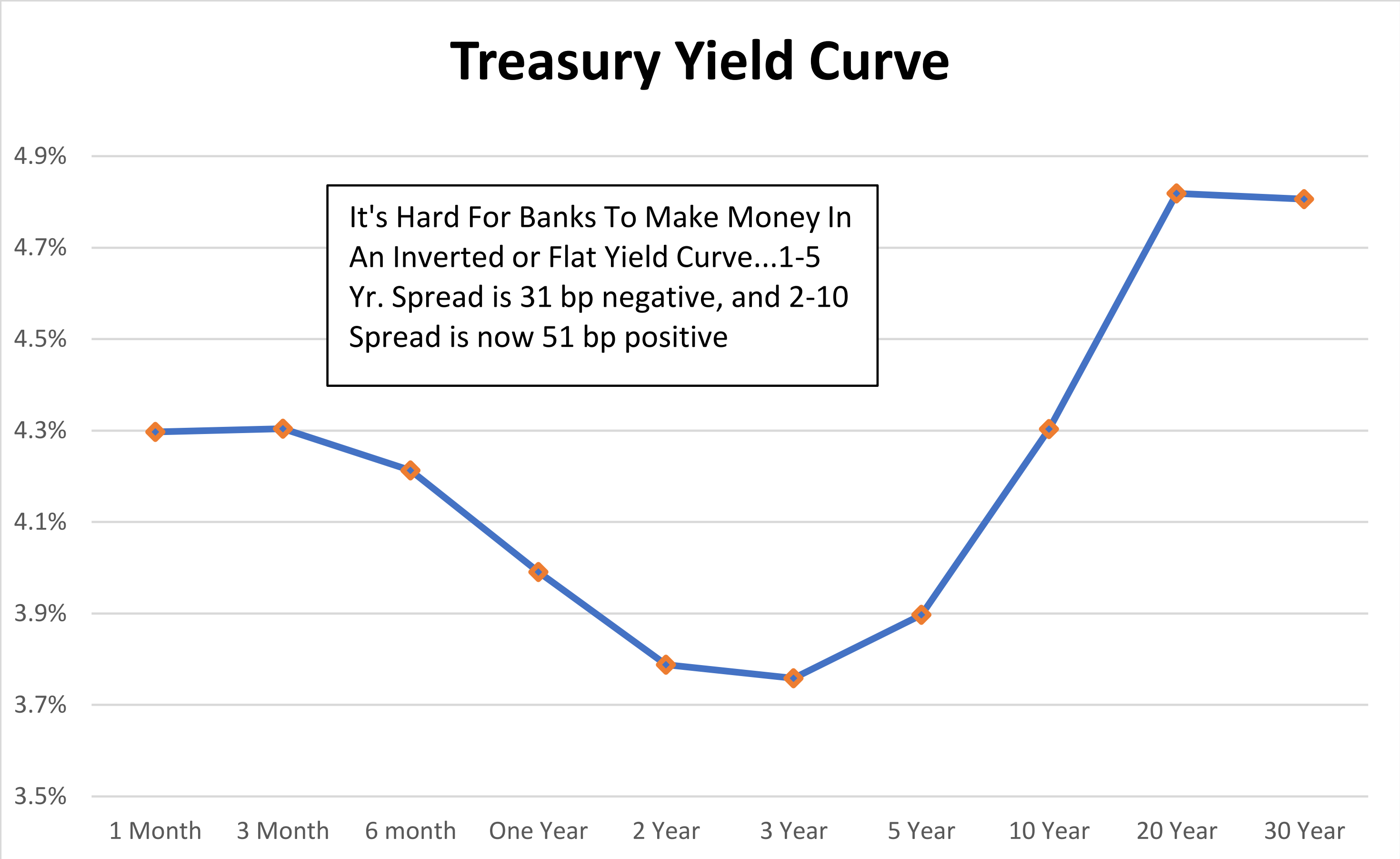
Why is profitability so depressed?



Source: FactSet, Raymond James research

- Banks make money borrowing short and lending long. It's really hard to make money in a flat or inverted yield curve

- **The question is how does the curve steepen, not whether it will**

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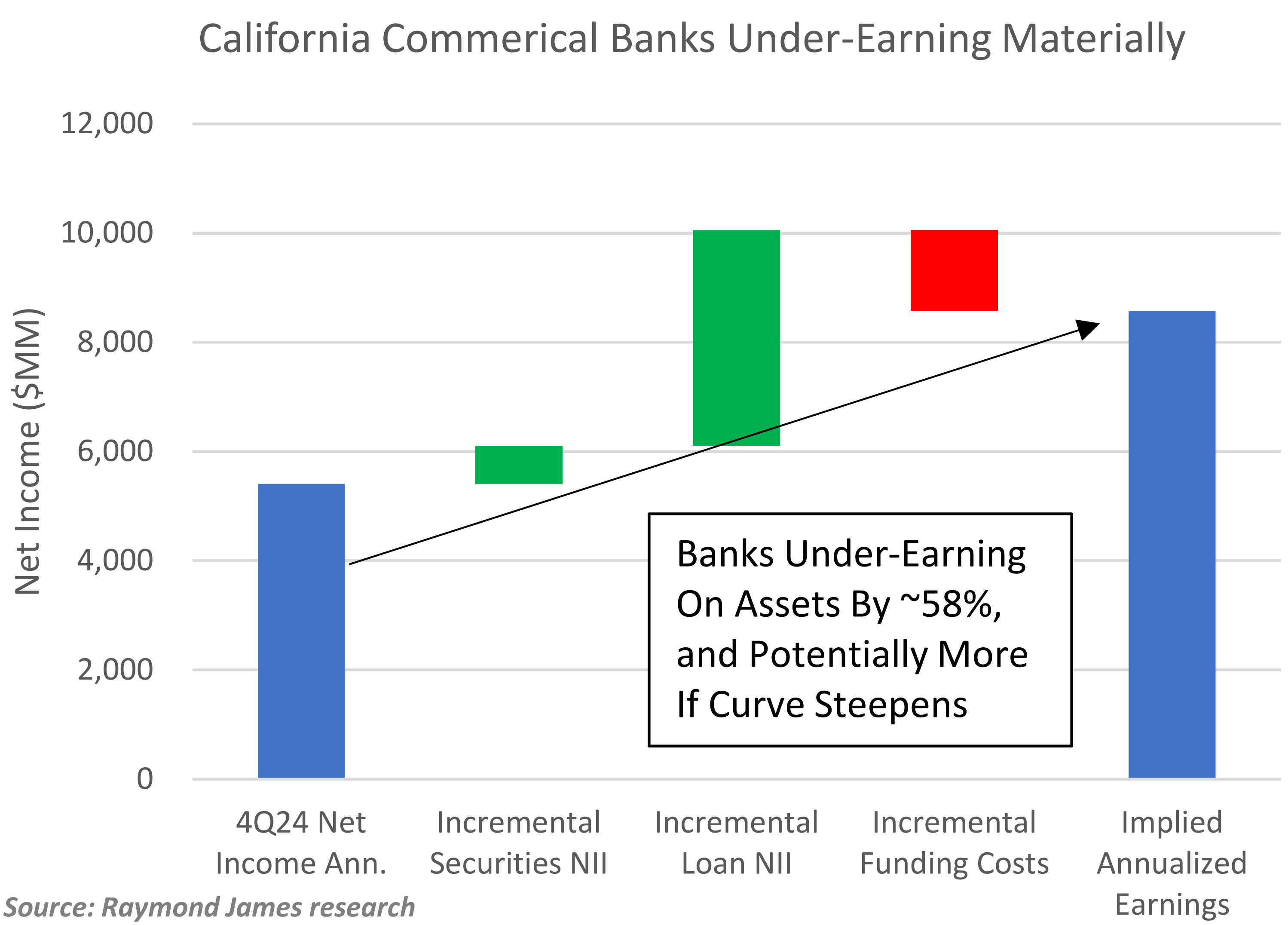
Significantly Underearning On Asset Base



Source: Raymond James research

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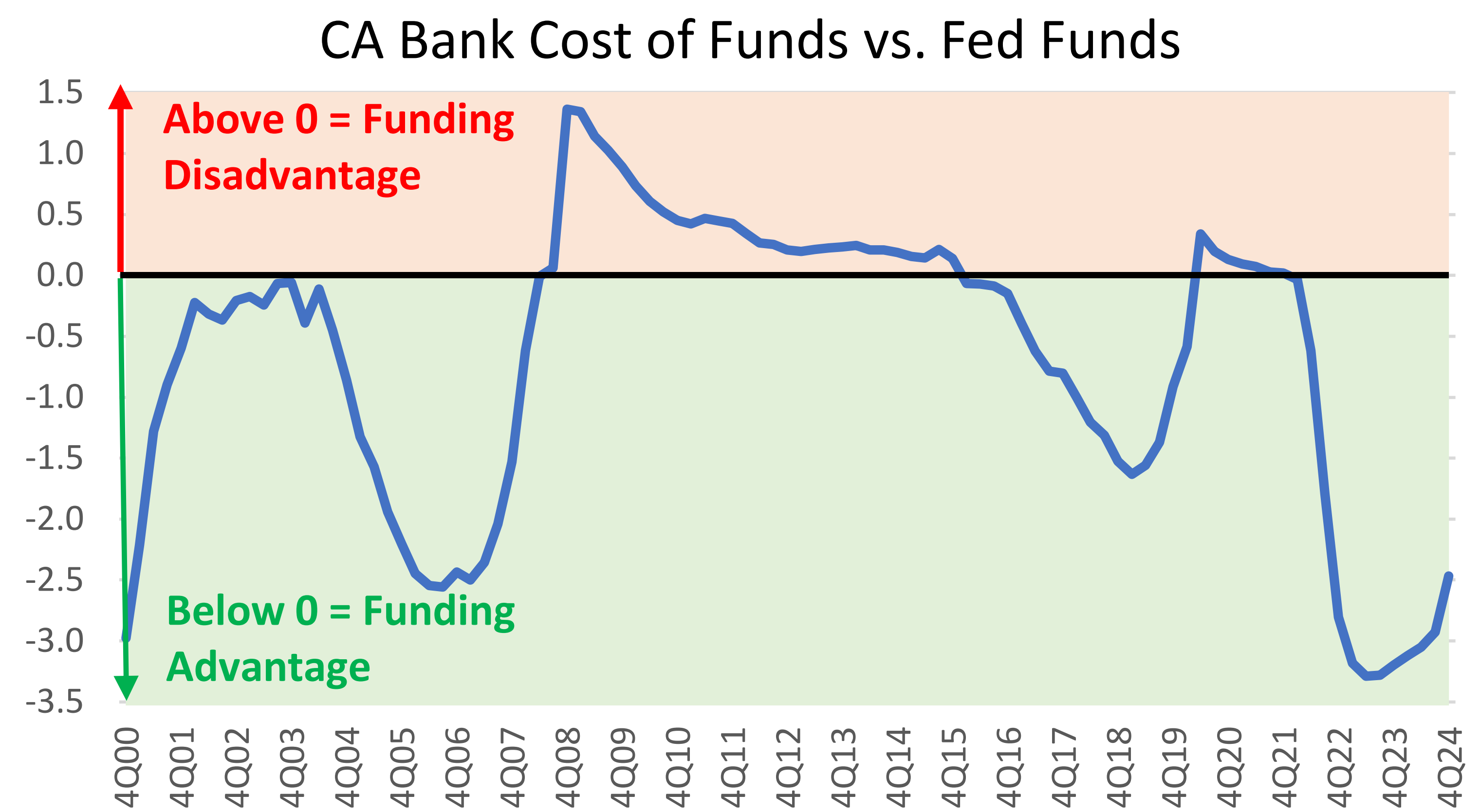
Bank's Structural Funding Advantage More Apparent in Higher Rate Environment



Source: Raymond James research; S&P Global, FactSet

- At the end of the day, a bank's franchise value remains its deposit base.
  - Anyone can make a loan, only a bank can take a deposit
- We have gotten away from this in a zero rate environment, where funding costs are less are less relevant.
- **In a higher rate environment, the banking industry's funding advantage is more clear**

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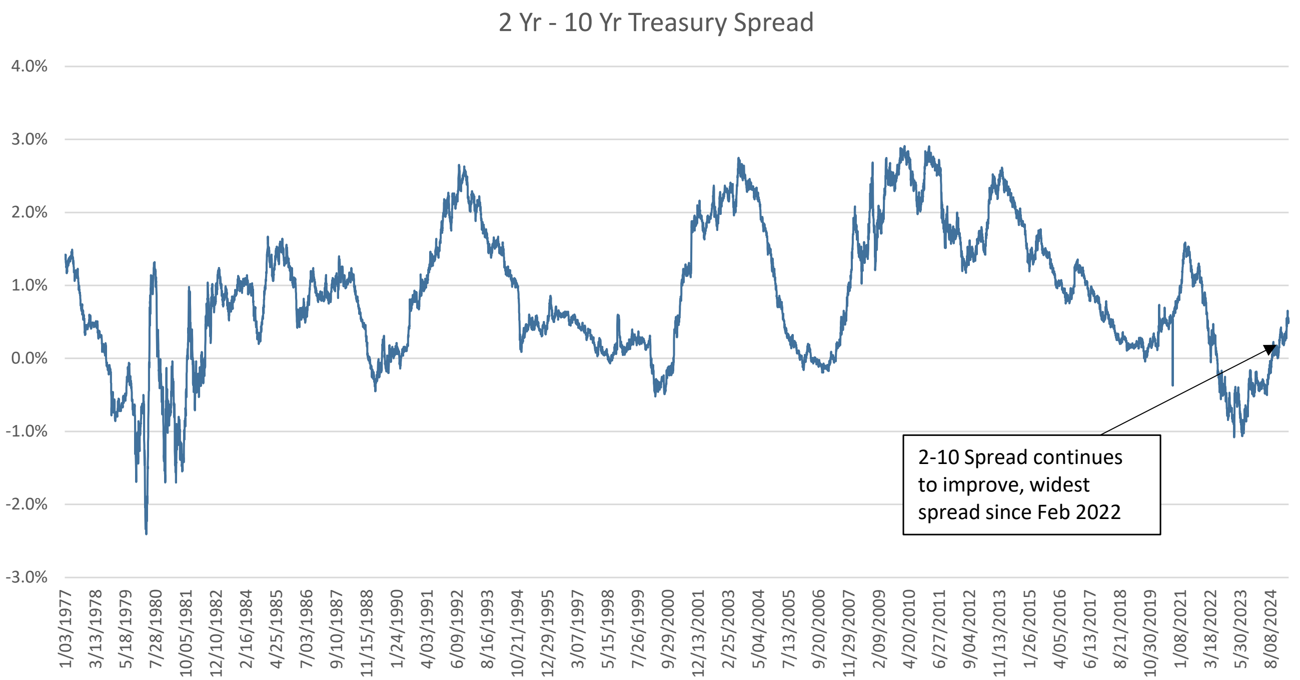
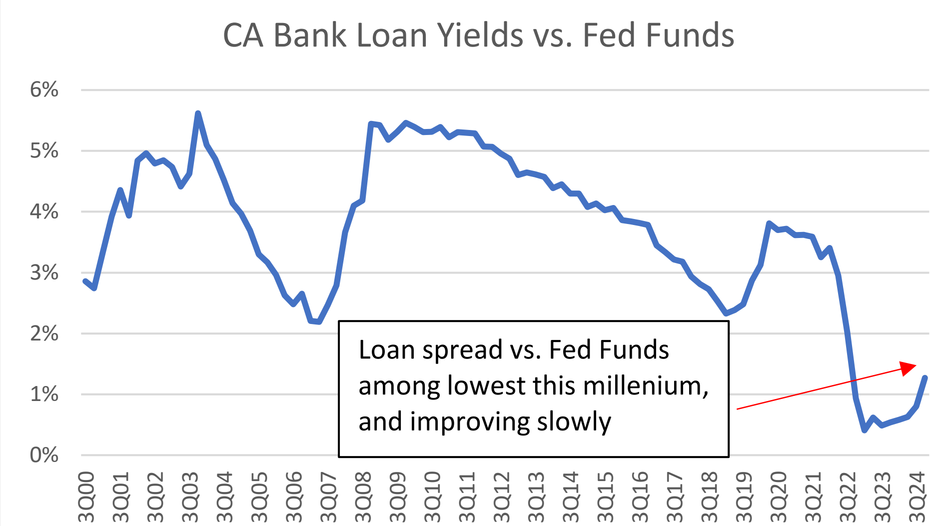
We Argue This Is Slow Re-Pricing Issue More Than A Rising Funding Cost Issue

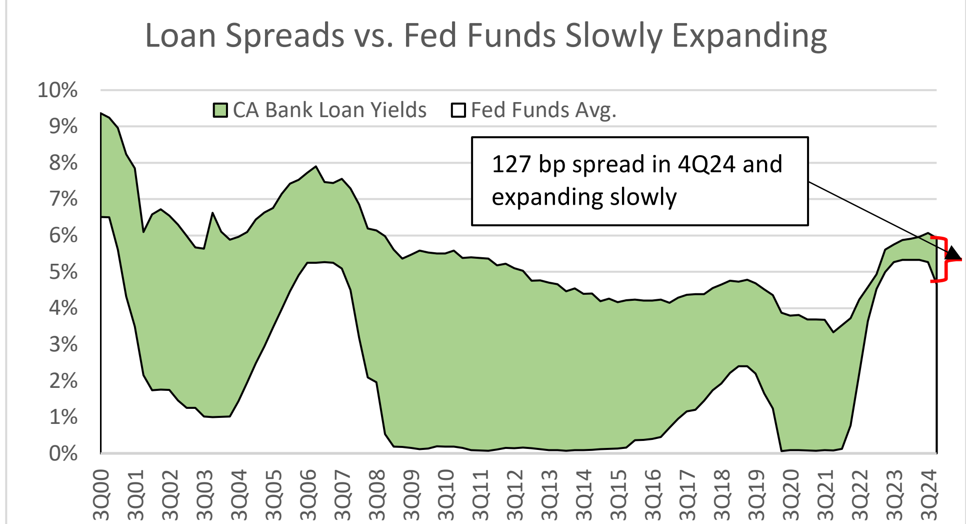


Source: Raymond James research, FactSet

- Curve is starting to steepen on the longer end
- Shape of the curve will be very important – **not whether we steepen, but how**



Source: Raymond James research; S&P Global, FactSet



Source: Raymond James research; S&P Global, FactSet

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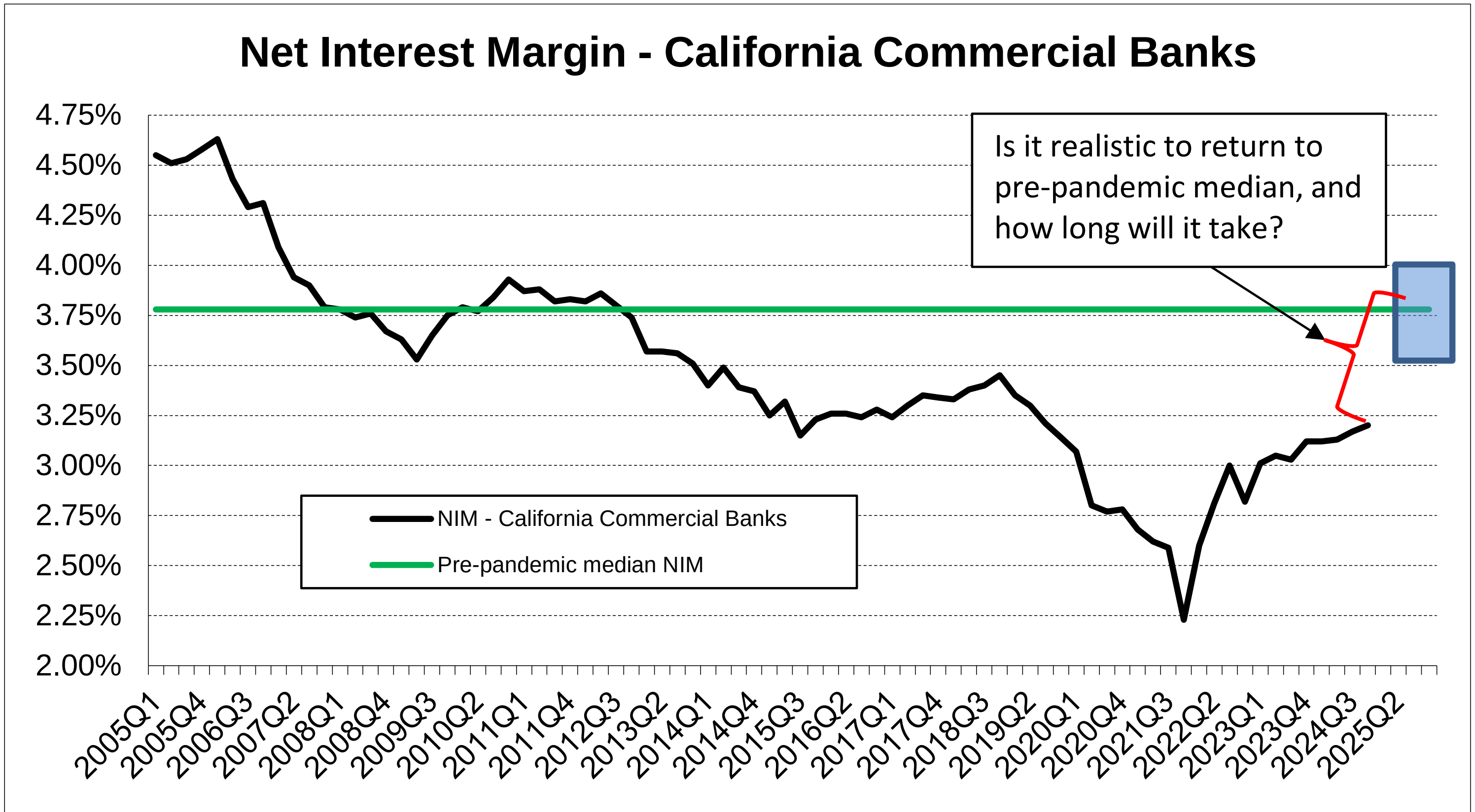
NIM's Improving - Slowly

- NIMs are continuing to improve, primarily driven by improving funding costs most recently
- How long before we return to normalized levels pre-pandemic? Currently 44 bp below pre-pandemic median
- Key to NIM expansion going forward is loan growth/repricing, funding cost tailwinds slowing



Source: S&P Global

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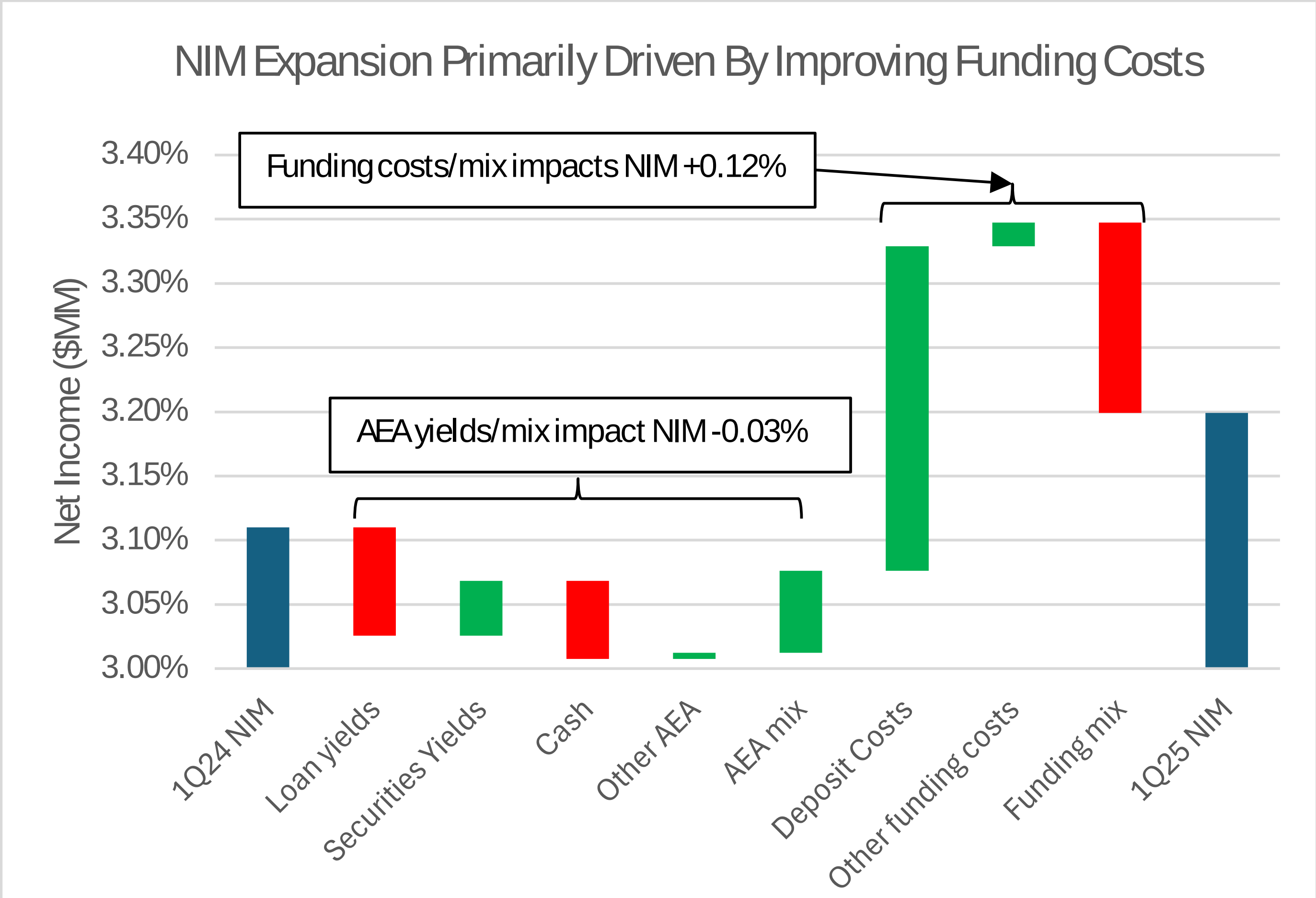
Key To NIM Expansion Is Improving Loan Yields & AEA Mix



Source: Raymond James research

- NIM expansion has primarily been driven by funding costs recently, but we see limited deposit cost leverage remaining
- Interest income growth is key to NIM expansion, notably on loan yields

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What About Rates?

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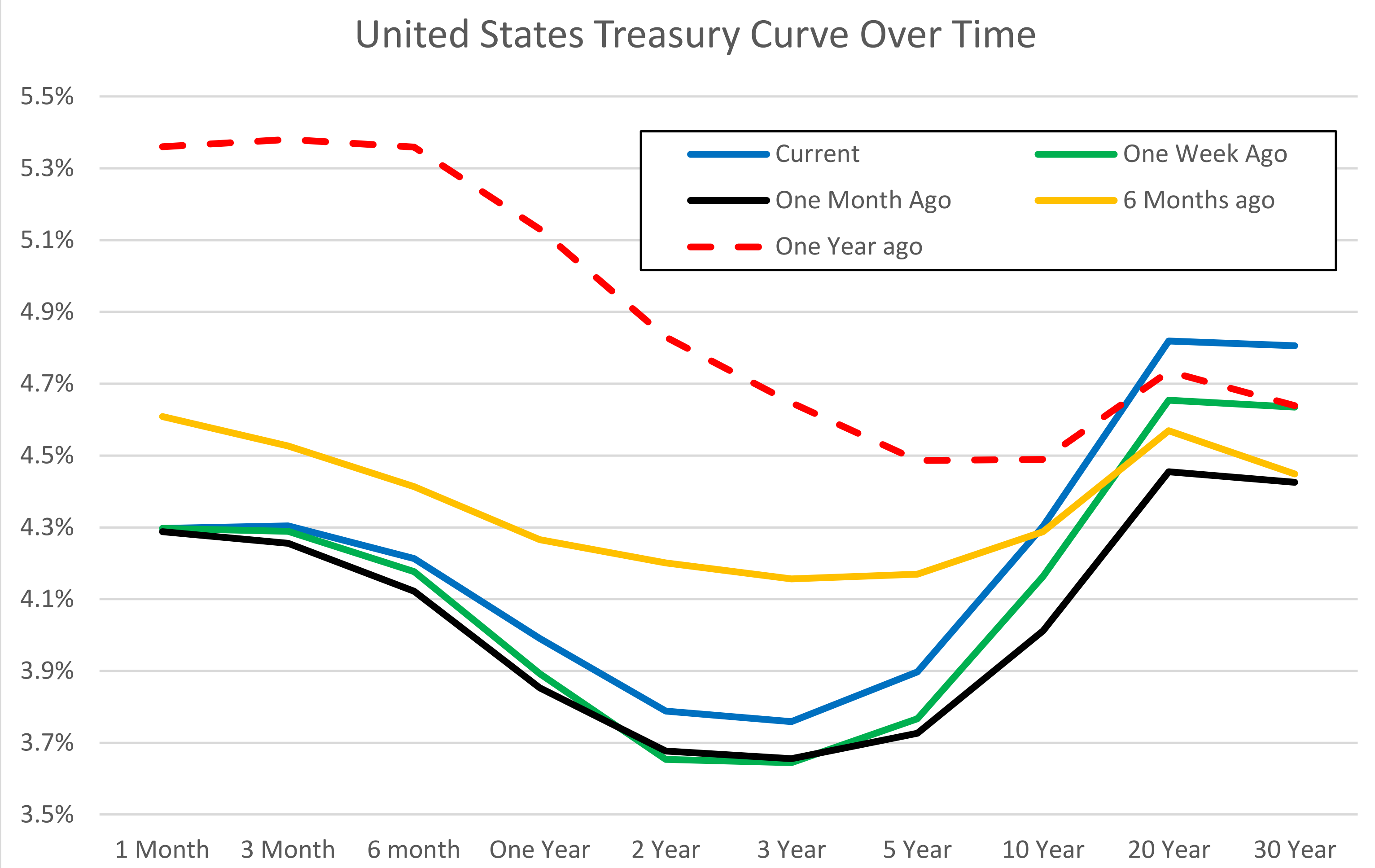
Treasury Curve Implies Rates Cuts Are Coming



Source: FactSet, Raymond James research

- The Treasury curve has flattened materially – hard for banks to make money in this environment
  - Short-end needs to come down or long-end increase

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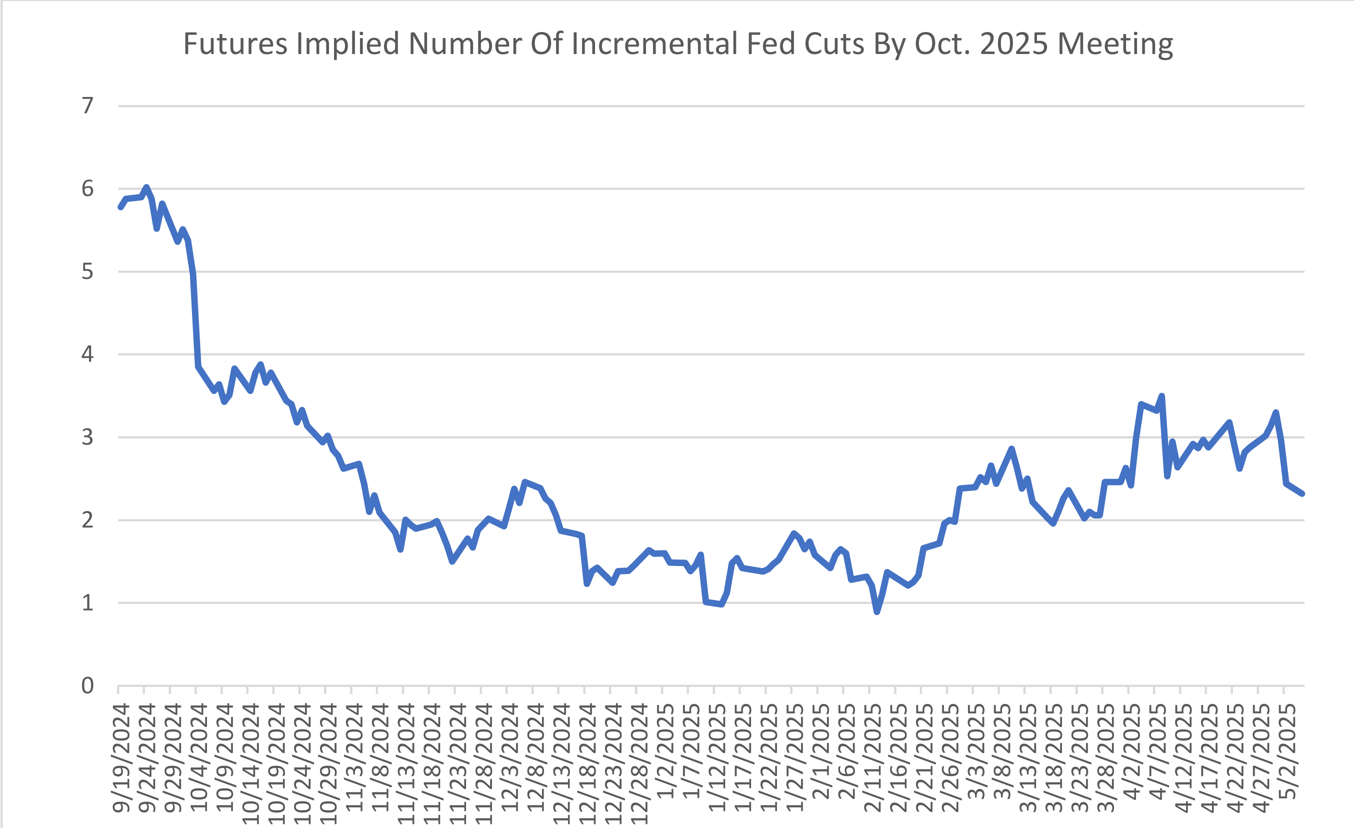
Futures Market Implies Fed Rate Cuts On the Horizon



Source: Raymond James research, CME Group

- Fed cuts has material implications on bank profitability and credit outlooks. Shape of the curve matters too
- Expectations around Fed actions has been extremely volatile
  - **Current expectations call for another 2-3 cuts by year-end, vs. 6 incremental cuts late last year.**

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A Closer Look at Valuation

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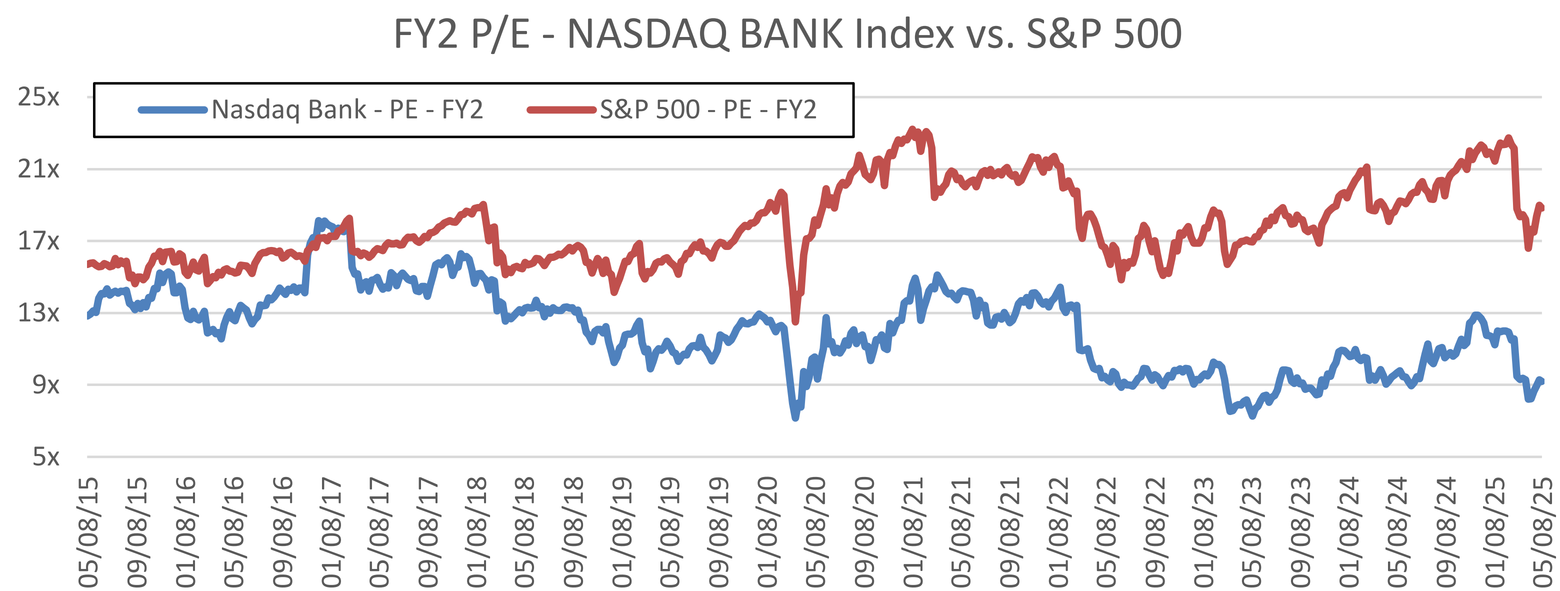
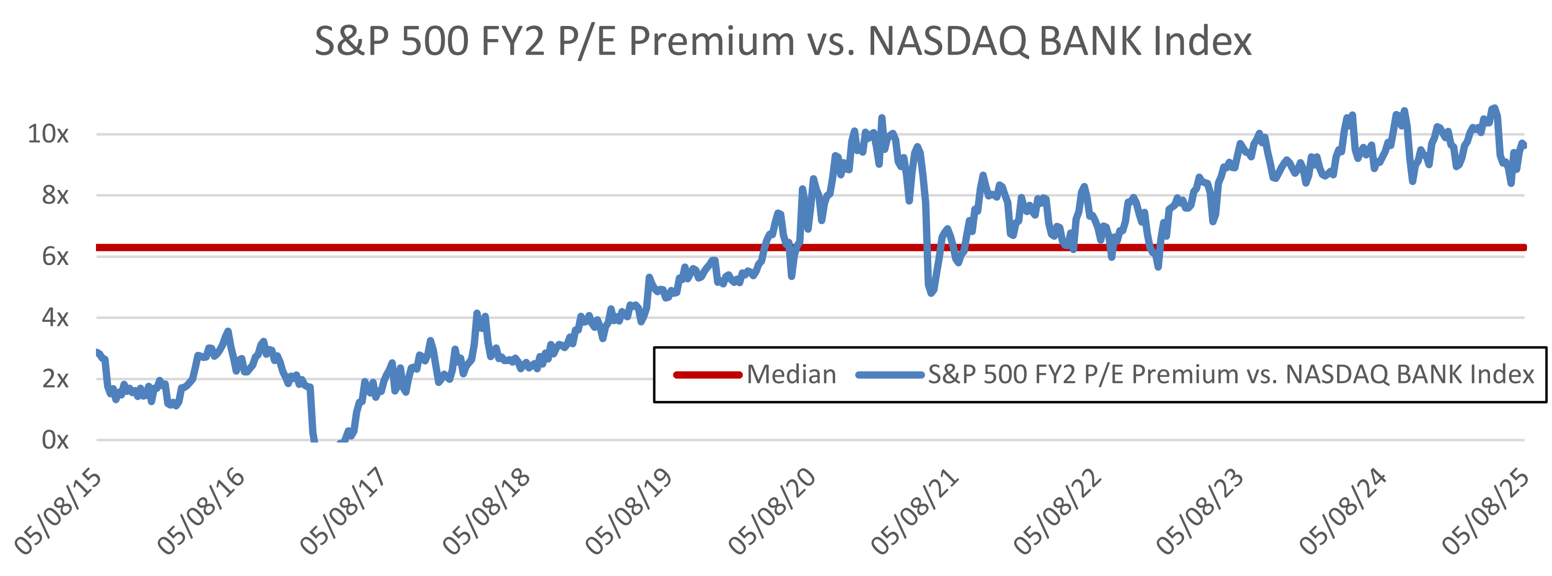
Community Banks VERY Cheap Relative to S&P



Source: FactSet, Raymond James research



Source: FactSet, Raymond James research

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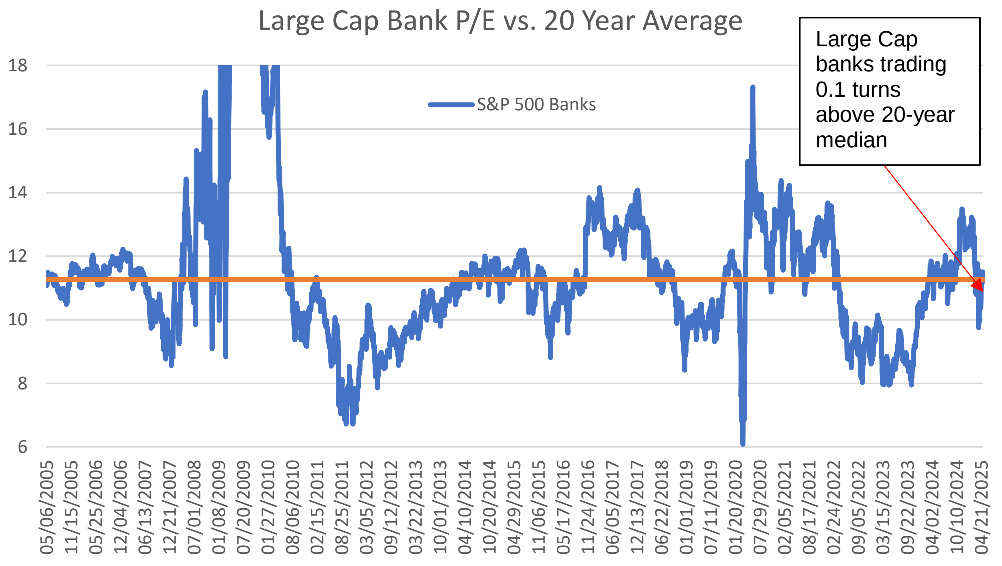
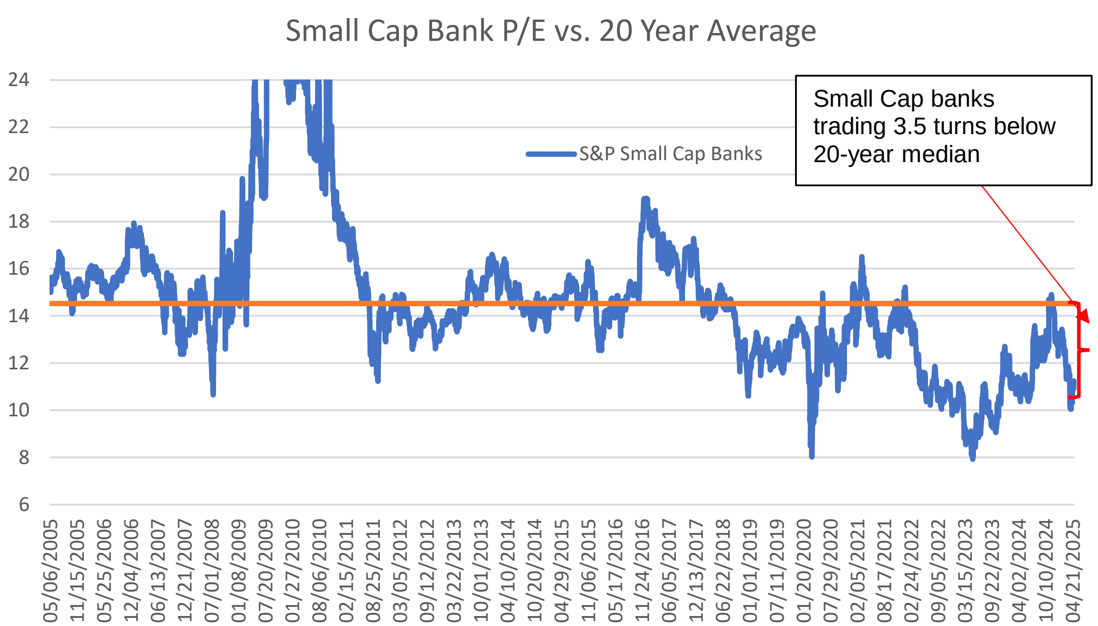
P/E Valuation By Size – Still A Large Cap Bias, But Diminishing



Source: Raymond James research; FactSet

- Large cap financials trading in line with 20 year median
- SMID cap financials trading ~3.5 turns below historical median
- **Are SMID estimates too high or valuations too low?**

- Implications:
  - Investors need liquidity
  - Large = defensive and more capital flexibility
  - Smaller = more EPS risk
  - Smaller = more credit risk
  - Significant M&A premiums not expected?



Source: Raymond James research; FactSet

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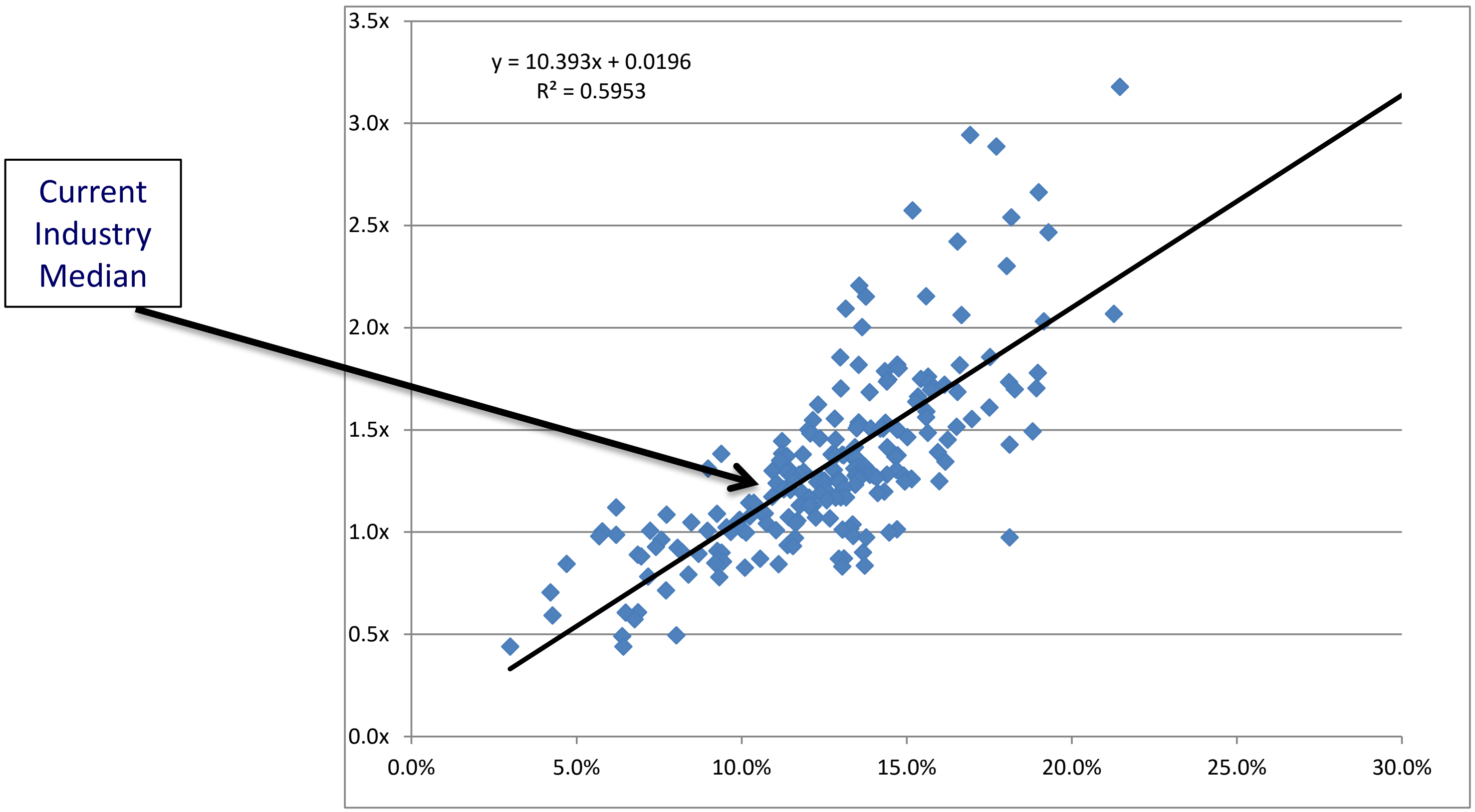
Valuation and Profitability: P/TBV vs. ROTCE Expectations

- P/TBV and P/E Valuations are both relevant – but P/TBV more reliable
  - P/E doesn't hold up well until ROE normalizes and focus shifts to growth
  - **Credit concerns adding noise today**
- Historically, 10% expected ROTCE commands 1.5x P/TBV multiple; 15% ROTCE commands 2.0x TBV multiple (60%+ r-squared over 20 years)
- Median expected 2026 ROTCE is 12.9% and median P/TBV is 1.1x – undervalued? Or are estimates too high?



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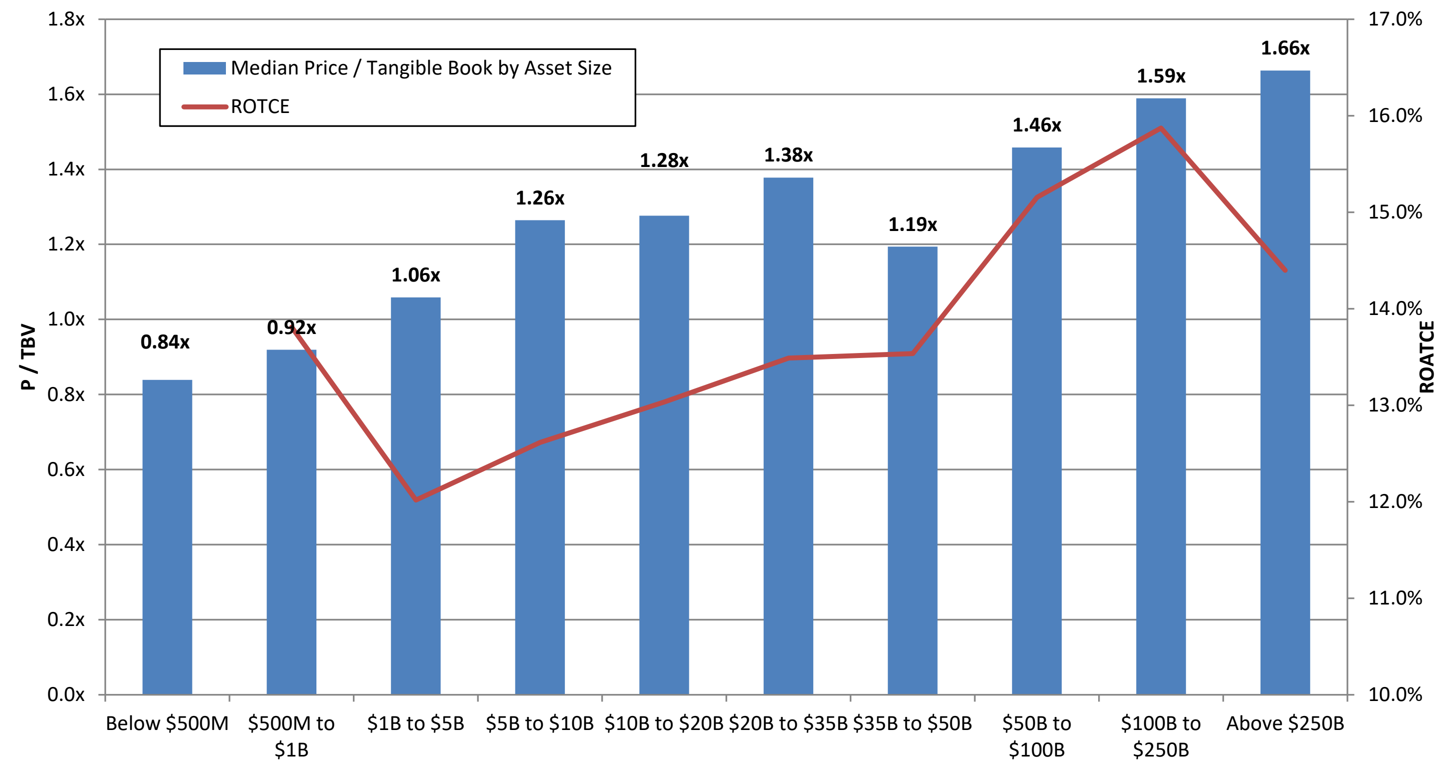
Valuation and Size: Scale Matters

- The "sweet spot" for TBV multiples has increased from historical levels
  - Used to be ~$5-8 billion in assets given highest profitability
  - Now, is +$50 billion in assets
- WHY? Our take: Scale matters and biggest beneficiaries of de-regulation
  - Largest banks are the biggest beneficiaries of de-regulation
  - Scale: SMids and Regionals have scale to maximize profitability, have staying power and invest in tech, and operate with community bank feel



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Valuation and Profitability: Putting it all together

- We prefer P/TBV relative to ROTCE which suggests bank stocks provide an attractive valuation...
- …However, AOCI impacts inflate ROTCE and P/TBV multiples…
- ...Also, we now see upside to estimates should less cuts materialize and growth accelerate, but funding challenges persist, where management teams are aggressively working to reduce deposit costs…we expect EPS growth y/y for most banks in 2025, accelerating into 2026…finally!
- …Improving profitability, de-regulation, expectations for accelerating growth and less focus on credit are increasing interest in the sector, and shifting valuation towards P/E as enter early cycle…
- …As visibility improves into the credit cycle & economic backdrop (ie return to early cycle) we could see significant multiple expansion and outperformance
- **Overall, we believe risk/reward skews favorably**
- Winners will be those that stand out
  - Strong core deposit franchises and plenty of liquidity, driving higher NIMs
  - Solid economic backdrops and decent loan growth with attractive yields
  - Significant AEA remixing and repricing stories = simple/steady EPS growth
  - **NO** Credit hiccups! Investors have zero tolerance at this point
  - Strong capital bases with capital return or M&A potential

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Total Number of Companies	911	100%	245	100%	106		51	

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