



KEEFE, BRUYETTE & WOODS  
*A Stifel Company*

# Community Bank Outlook

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## Hawaii 2026

North American Equity Research

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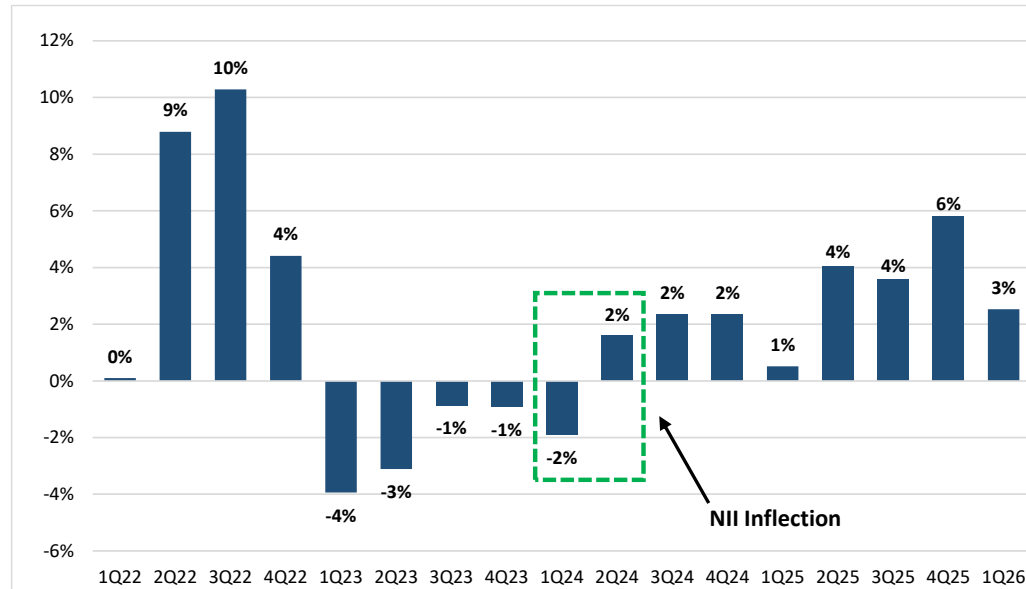
Please refer to important disclosures and analyst certification information on pages 43 – 46 of this report.

# Fundamental Backdrop

# NII Has Bottomed

## Focus Turns to Who Is Primed for NII Growth

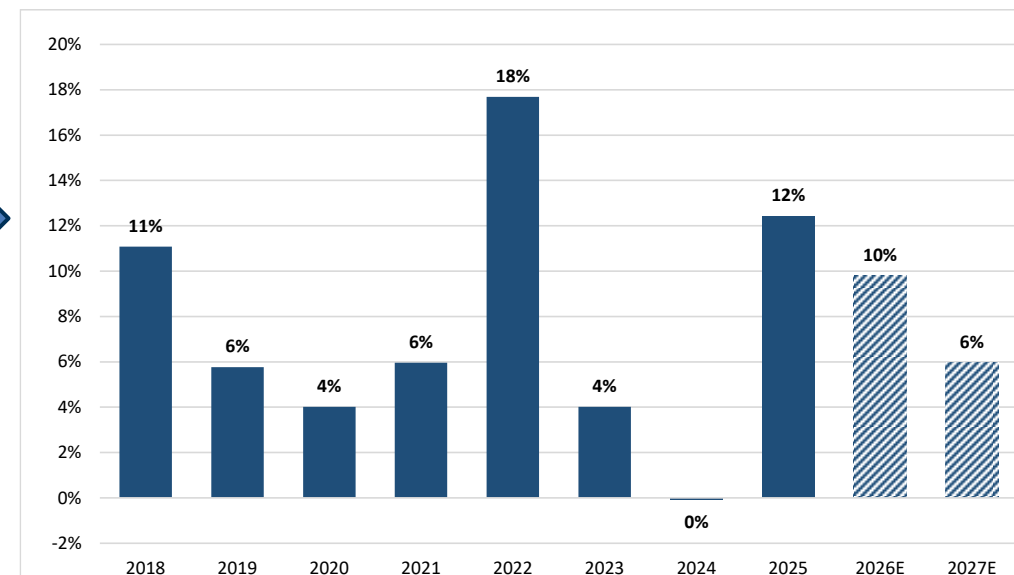
Quarterly NII Growth (%)



- ▶ NII troughed in 1Q24 after five consecutive quarters of negative growth (q/q).
- ▶ NII growth (not trough) is a key area of focus today by investors.

- ▶ After NII was flat in 2024 and saw 12% growth in 2025, we expect 10% in 2026 and 6% in 2027.
- ▶ Investors are considering stocks poised to benefit from higher for longer, but also those that benefit from lower rates.

Annual NII Growth (%)

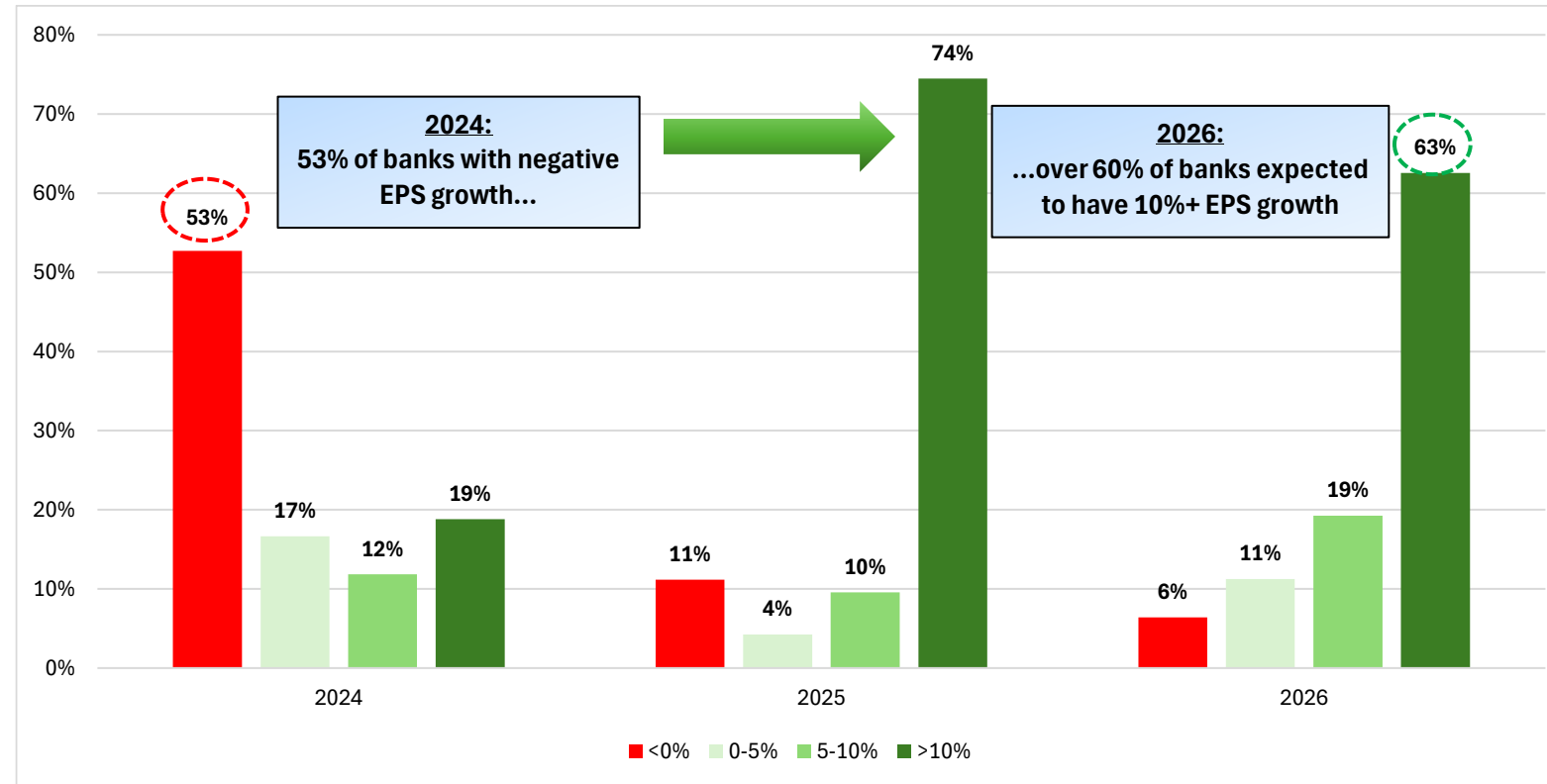


Note - Quarterly NII growth is q/q (not annualized).  
Source: KBW Research.

# Negative to Positive...

## EPS Growth Is Improving for the Banking Sector

EPS Growth Stratum (%)



### Key Takeaways

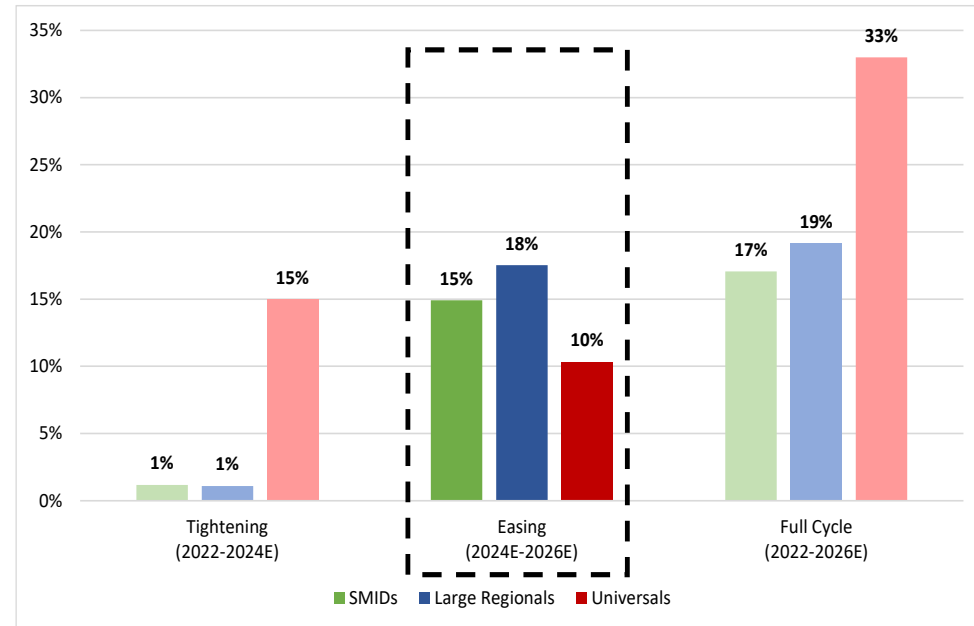
- ▶ Approximately 53% of banks under KBW Research coverage had negative EPS growth in 2024, and this was due to the top-line challenges from NII (NIM and loan growth).
- ▶ That said, we see 63% of banks producing double-digit year-over-year EPS growth in 2026 compared to just 19% in 2024.
- ▶ To us, this demonstrates the power that lower interest rates can have on EPS growth over a multi-year time horizon.

Source: KBW Research.

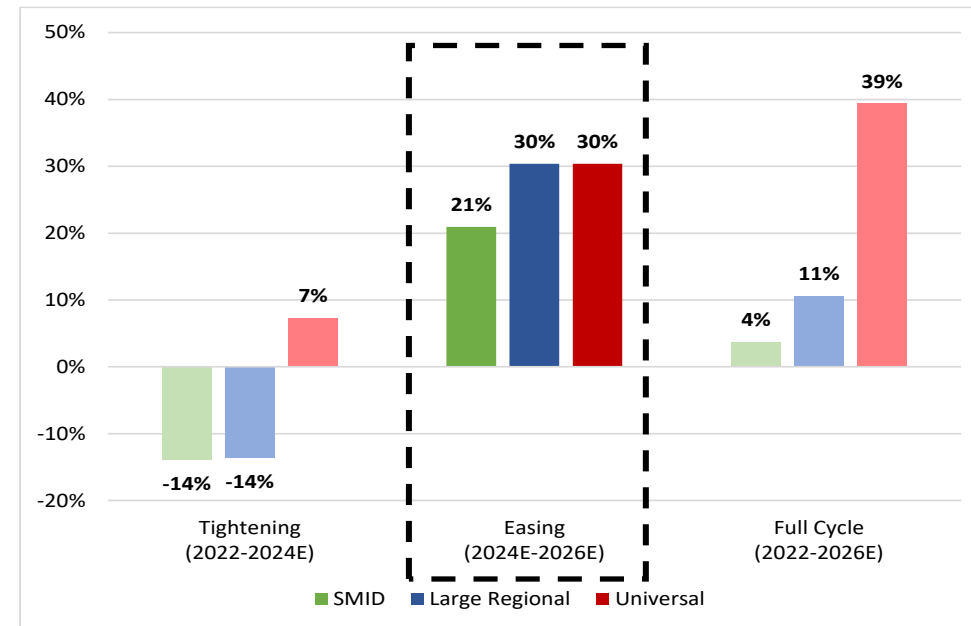
# EPS & NII/Share Growth Across Entire Rate Cycle...

## The Banking Industry's Full Body of Work

Median NII/Share Growth (% - Cumulative)



Median EPS Growth(% - Cumulative)



### Key Takeaways

- ▶ **Tightening Cycle (2022-2024)** – Universal banks the clear winners, while spread lenders underperformed.
- ▶ **Easing Cycle (2024-2026E)** – Catch-up opportunity for SMIDs and Large Regional banks.
- ▶ **Full Cycle Performance (2022-2026E)** – Universal banks expected to produce the strongest EPS and NII/share growth over the entire interest rate cycle, underscoring their consistency and the scale benefits that exist.

Source: KBW Research.

# Improving Fundamentals Are Here; Range of Outcomes Narrowing

| Key Metrics           | 2024A  | 2025A | 2026E | 2027E |
|-----------------------|--------|-------|-------|-------|
| Loan Growth (ann.)    | 3%     | 6%    | 5%    | 5%    |
| Deposit Growth (ann.) | 3%     | 5%    | 5%    | 5%    |
| NIM Delta             | -0.10% | 0.24% | 0.12% | 0.03% |
| NII Growth (y/y)      | 0%     | 12%   | 10%   | 6%    |
| EPS Growth (y/y)      | -2%    | 17%   | 12%   | 9%    |
| PTPP ROAA             | 1.48%  | 1.68% | 1.80% | 1.87% |
| ROAA                  | 1.03%  | 1.17% | 1.25% | 1.28% |
| ROTCE                 | 13.1%  | 13.8% | 14.3% | 14.0% |
| Efficiency Ratio      | 61.2%  | 58.3% | 56.4% | 55.4% |
| Expense/Avg Assets    | 2.32%  | 2.37% | 2.38% | 2.35% |
| Provision / Avg Loans | 0.19%  | 0.20% | 0.19% | 0.22% |
| NCOs/ Avg Loans       | 0.16%  | 0.18% | 0.17% | 0.17% |
| Reserves / Loans      | 1.22%  | 1.21% | 1.20% | 1.18% |
| TCE/TA                | 8.7%   | 9.0%  | 9.4%  | 9.8%  |
| Total Payout Ratio    | 43%    | 49%   | 42%   | 39%   |
| Dividend Payout Ratio | 34%    | 31%   | 30%   | 29%   |

**2024**

*EPS declined due to a combination of NIM compression, slower growth and modest credit normalization*

**2025**

*A rebound in EPS fueled by 100bps of total rate cuts in 2H24 and another 75bps in 2025*



### **2026 Guidance Takeaways:**

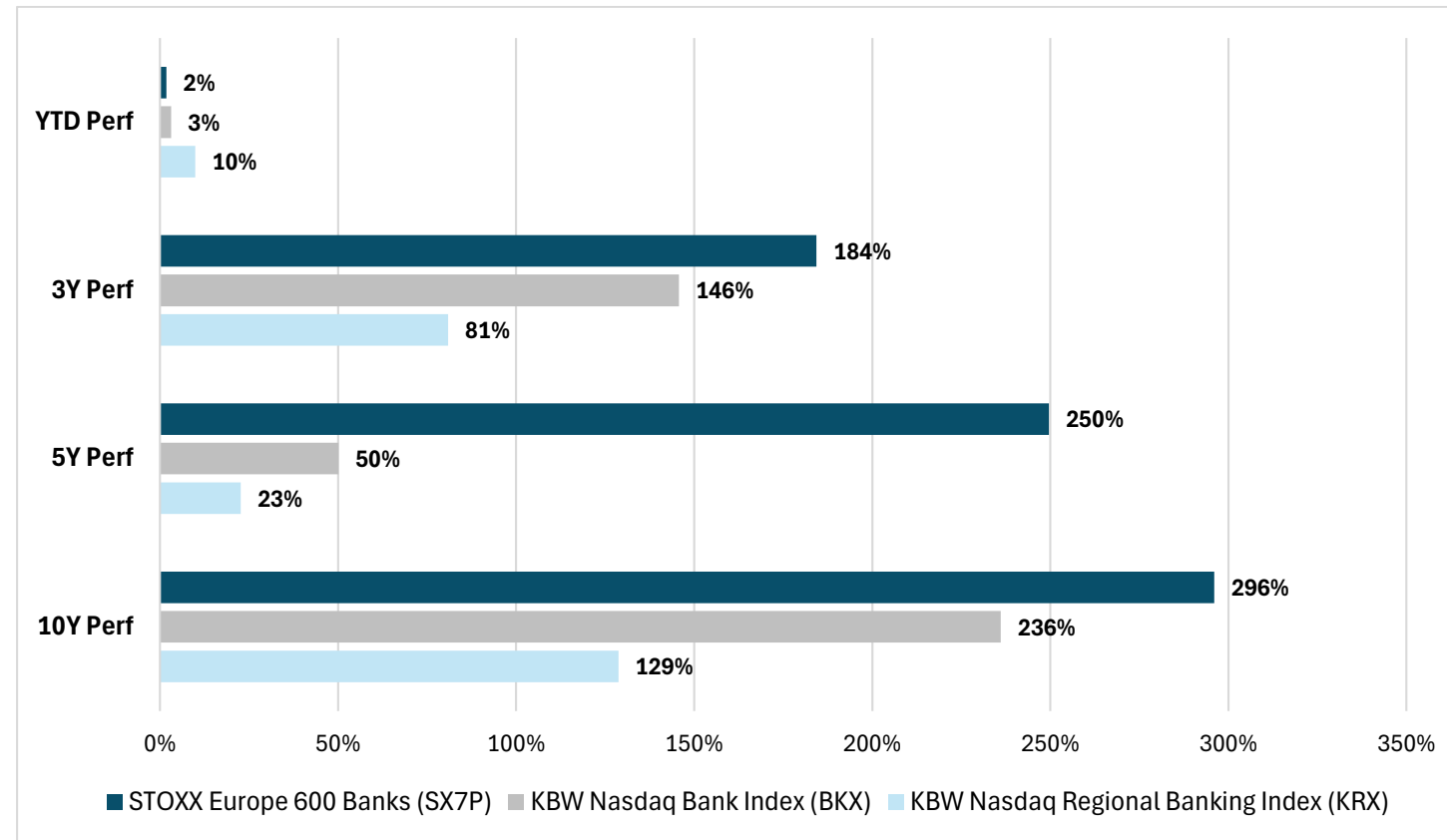
- KBWe a single 25bp rate cut in 4Q26
- NII outcomes less volatile, more believable
- Mid-single-digit loan growth
- Credit still normalizing, but stable
- Capital flexibility increasing with deregulation

Source: KBW Research.

# Performance and Valuation

# U.S. Bank vs. European Bank Total Shareholder Return...

## A Look at 1Y, 3Y, 5Y, and 10Y Performance



### Key Takeaways

- ▶ **YTD Performance** – KRX outperforming both European banks and the BKX.
- ▶ **Medium Term Favors European Banks** – 3Y and 5Y total return significantly stronger for European banks.
- ▶ **Long-Term Trends** – European banks have recently recouped significant underperformance, while BKX performance ~2x the KRX.

Source: KBW Research.

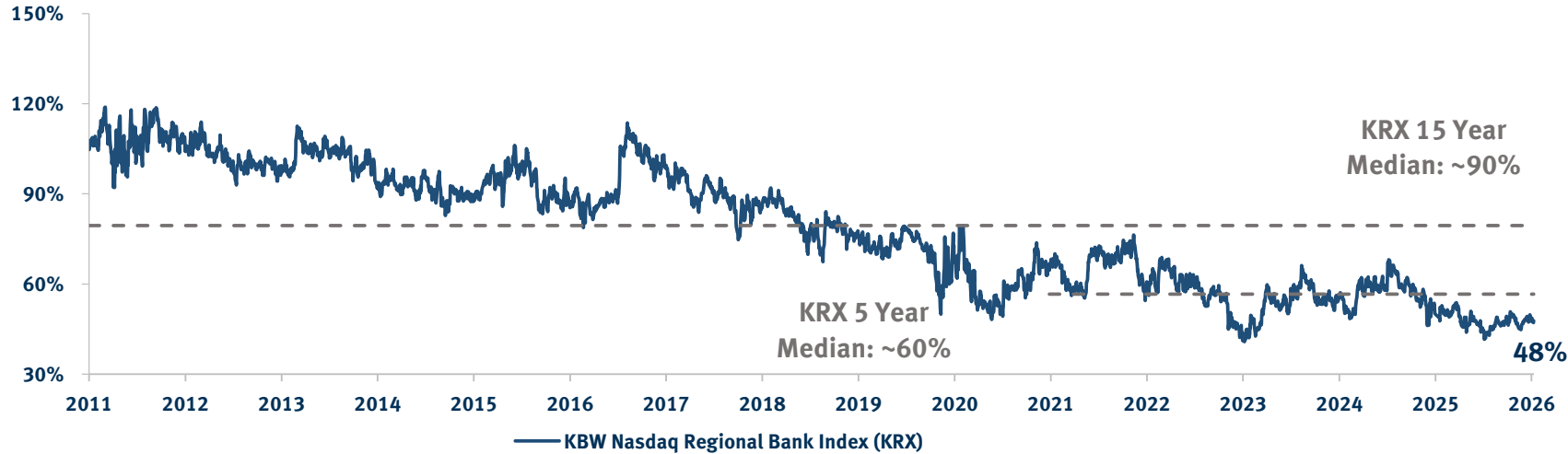
# Banks Trade at a Discount

## Banks Are Inexpensive Relative to S&P and Their Historical Multiple

### Bank Stock P/E Multiples Since 2009



### Relative P/E: KRX vs. S&P 500



Forward P/E multiple over next twelve months per consensus.  
Source: KBW Research and FactSet.

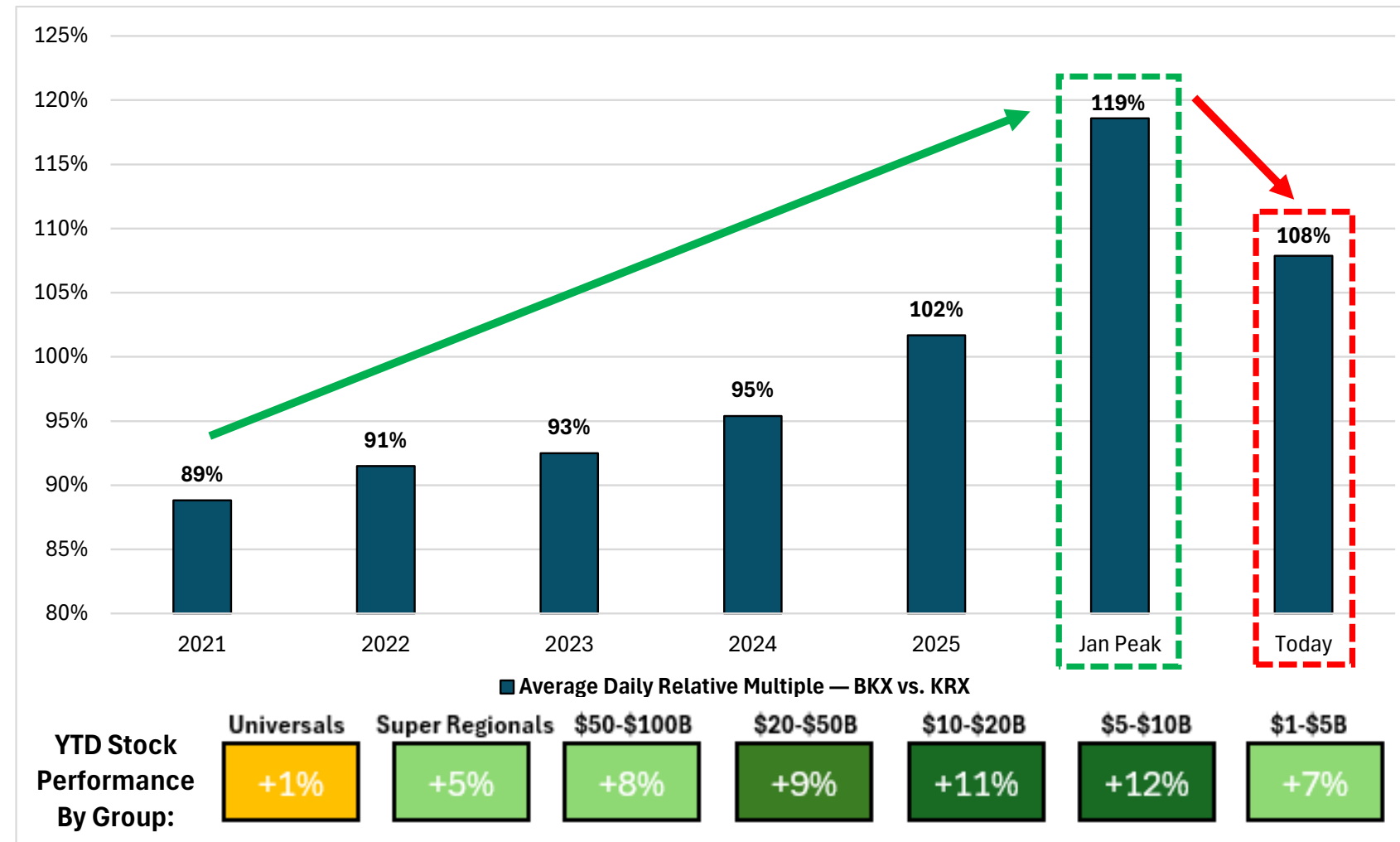
#### Key Takeaways

- ▶ Banks remain inexpensive relative to S&P 500 on both an absolute and relative P/E basis.
- ▶ In fact, the 48% relative multiple for the KRX compares to ~90% historically (15-year median).
- ▶ KRX also cheap relative to 5-year median (48% vs. ~60%).

# Larger Banks Getting Better Multiples

## Although Rotation Remains an Important Consideration

Relative Multiple BKX vs. KRX (P/NTM)



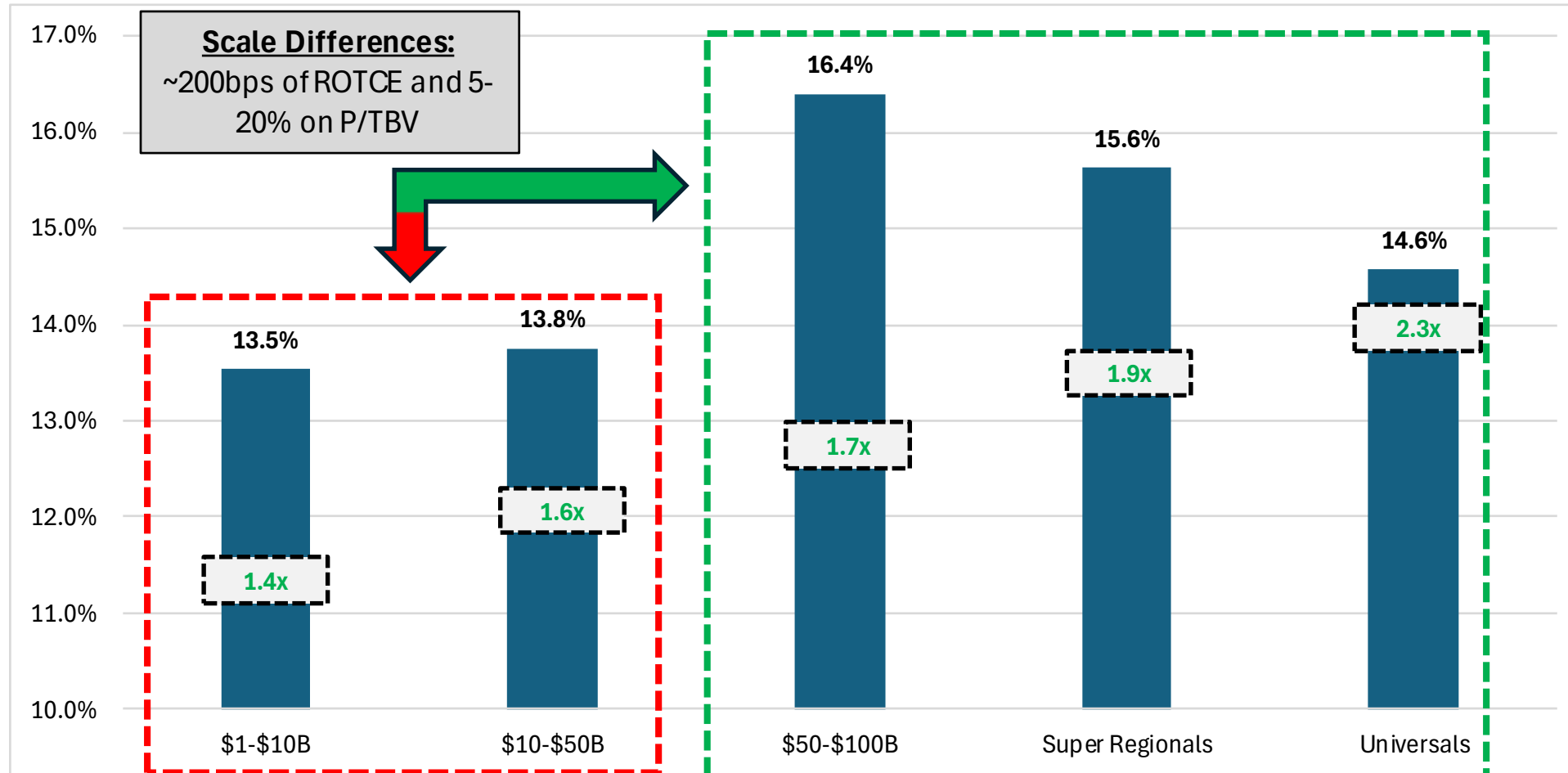
Note: Stock performance figures below exhibit represent 2026 YTD performance by bank group.  
Source: KBW Research and FactSet.

# Benefits of Scale Can't Be Ignored

# Returns Are a Scale Business

## The Market Pays Up for Scale

The Market Has Spoken on What It Values  
 ☐ Returns, business mix, and scale



Note- Data illustrates ROTCE and P/TBV on a "full cycle" basis, or 2021-2026E (median). P/TBV medians as of 4/30/26.  
 Source: KBW Research

# ROTCE Decomposition by Bank Group

## Full Cycle (2021-2026E)

**Returns (ROTCE) & Scale (Assets) Correlated**  
 ▶ 200bp ROTCE delta for banks above/below \$50B

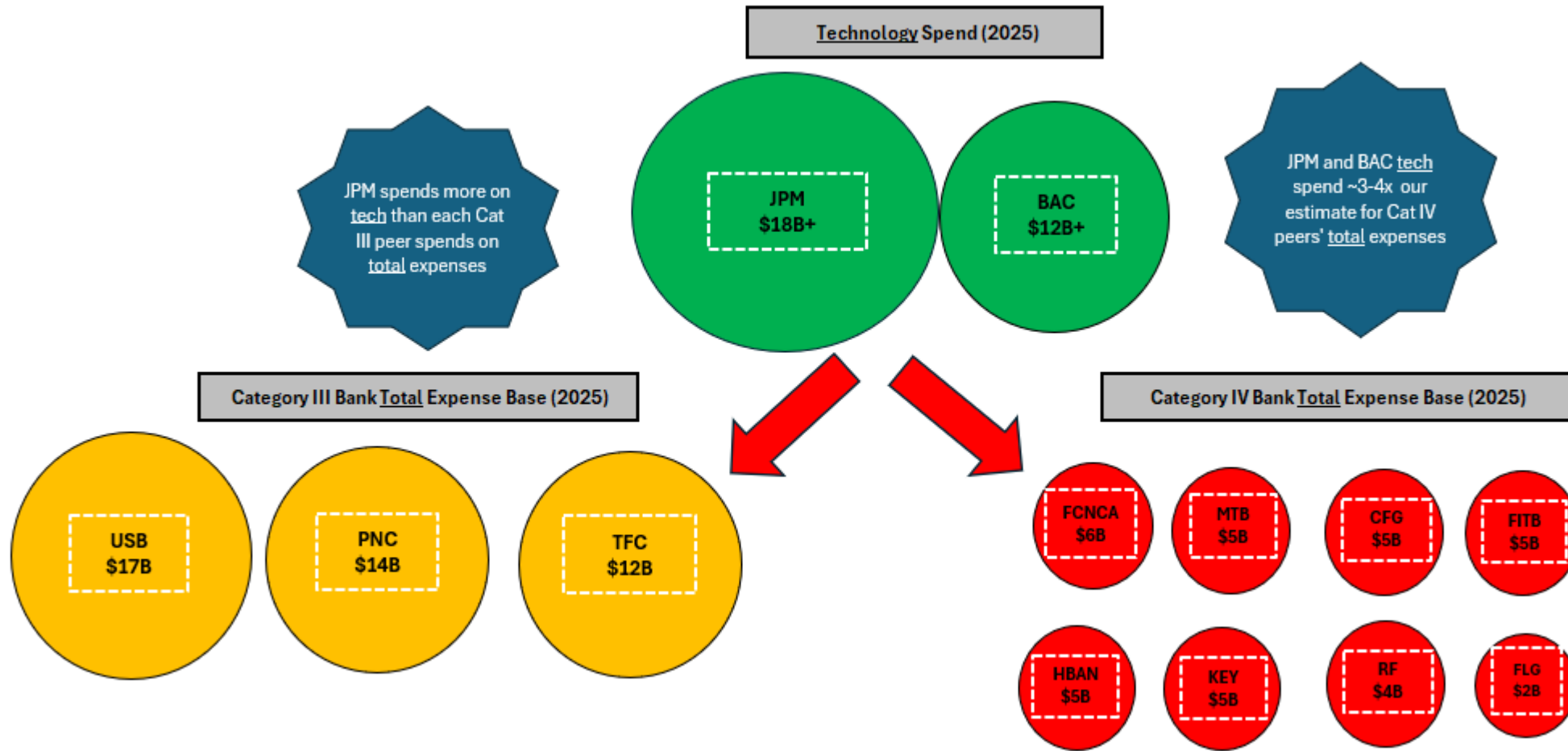
| Bank Group         | <u>Dupont Decomposition</u> |   |             |             |              | = ROTCE     |              |
|--------------------|-----------------------------|---|-------------|-------------|--------------|-------------|--------------|
|                    | NII                         | + | Fees        | - Expenses  | - Provision  |             | ÷ TCE / TA   |
| Universals         | 2.3%                        |   | 1.6%        | 2.2%        | 0.24%        | 6.6%        | 14.6%        |
| Super Regionals    | 2.8%                        |   | 1.2%        | 2.4%        | 0.27%        | 7.0%        | 15.6%        |
| \$50-\$100B Banks  | 3.2%                        |   | 0.8%        | 2.3%        | 0.17%        | 7.7%        | 16.4%        |
| \$10-\$50B Banks   | 3.1%                        |   | 0.7%        | 2.2%        | 0.13%        | 8.8%        | 13.8%        |
| \$1-\$10B Banks    | 3.3%                        |   | 0.7%        | 2.4%        | 0.12%        | 9.0%        | 13.5%        |
| <b>Bank Median</b> | <b>3.2%</b>                 |   | <b>0.7%</b> | <b>2.4%</b> | <b>0.14%</b> | <b>8.6%</b> | <b>13.9%</b> |

*Note – Universals include BAC, C, GS, JPM, MS, and WFC; however, individual components of ROTCE exclude GS and MS due to business model differences from traditional banks.  
 Source: KBW Research*

# Scale Is a Winning Strategy

## Technology Is a Scale Business

**Tech Budgets at the Universal Banks**  
 Provide scale and strategic advantages



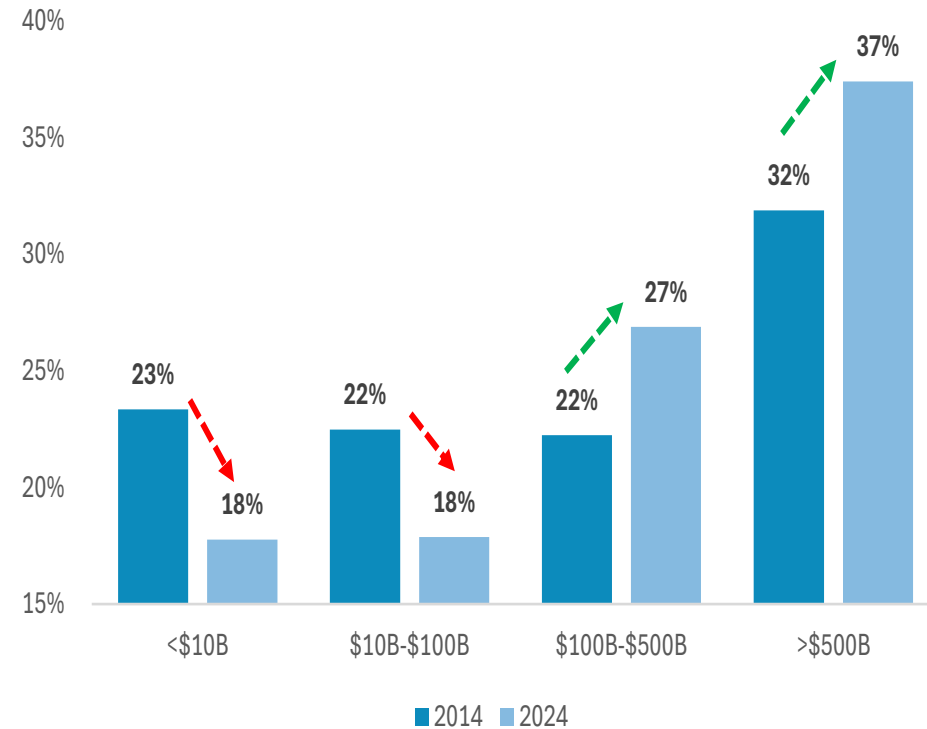
Source: KBW Research and Company reports.

# Deposits Are a Scale Business

## Large Banks Are Taking Market Share

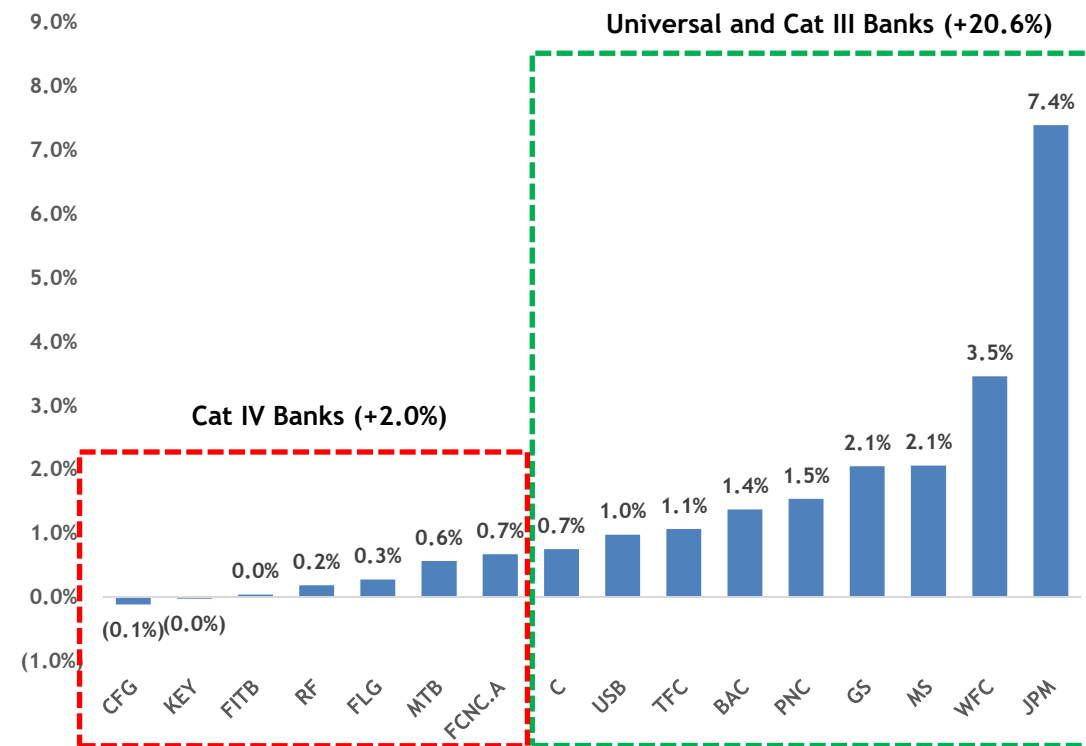
Large banks increased market share by 10% over the past decade

- Top 5 banks control 37% of domestic deposits
- 4,353 banks control just 18% of deposits



Universals and Cat III Banks Taking Share / Cat IV Banks Treading Water

- M&A and regulation influencing share shifts

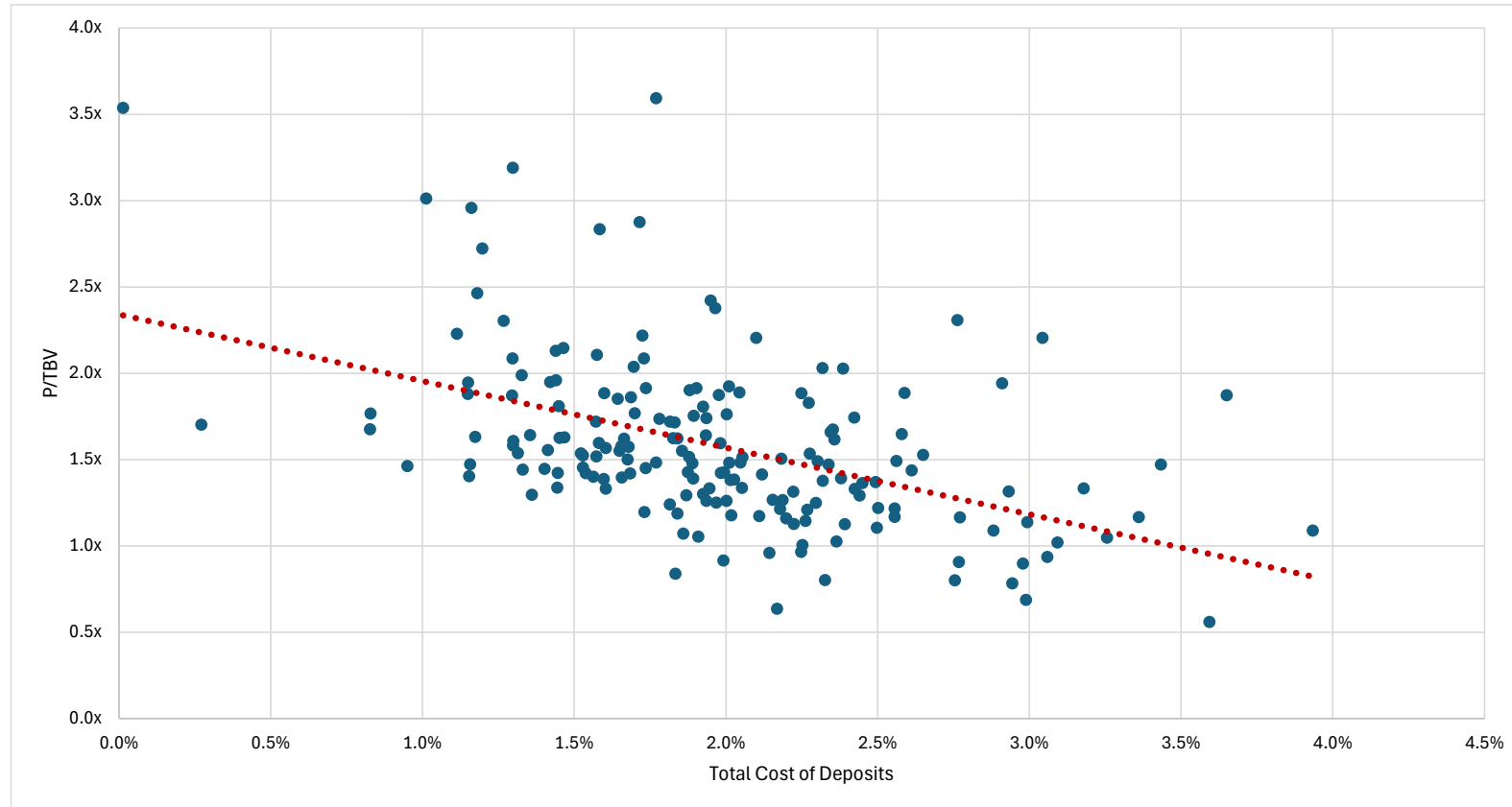


Source: KBW Research.

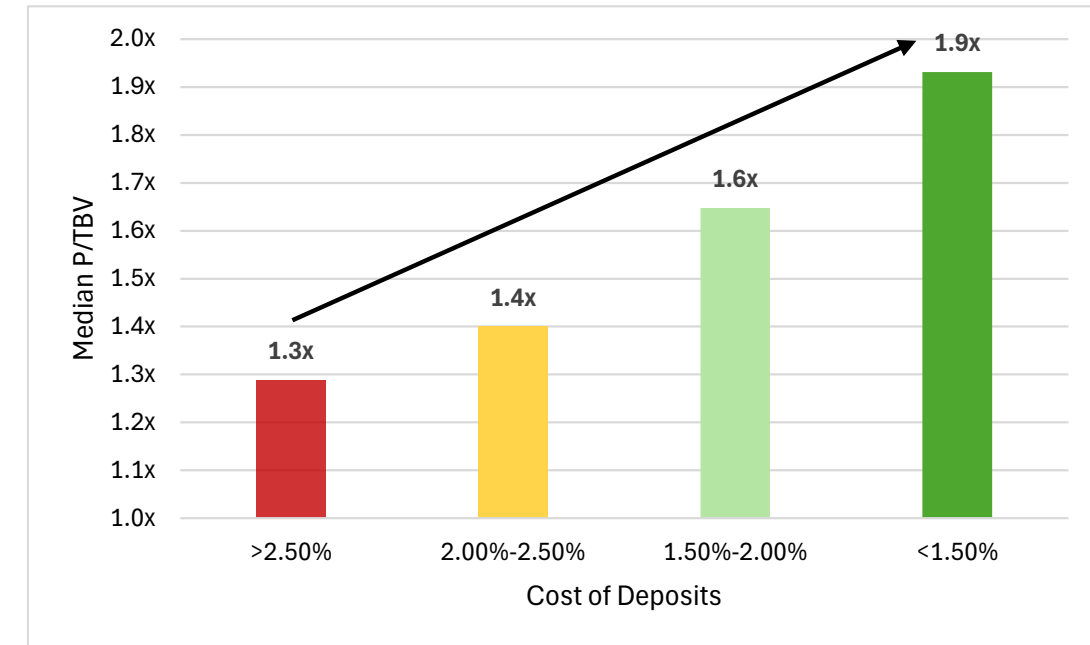
# Strong Deposit Franchises Underpin Higher Multiples

## Valuation Generally Correlated with Quality of Funding

**P/TBV vs. Deposit Costs (Banks Under KBW Coverage)**



**Deposit Cost Strata**



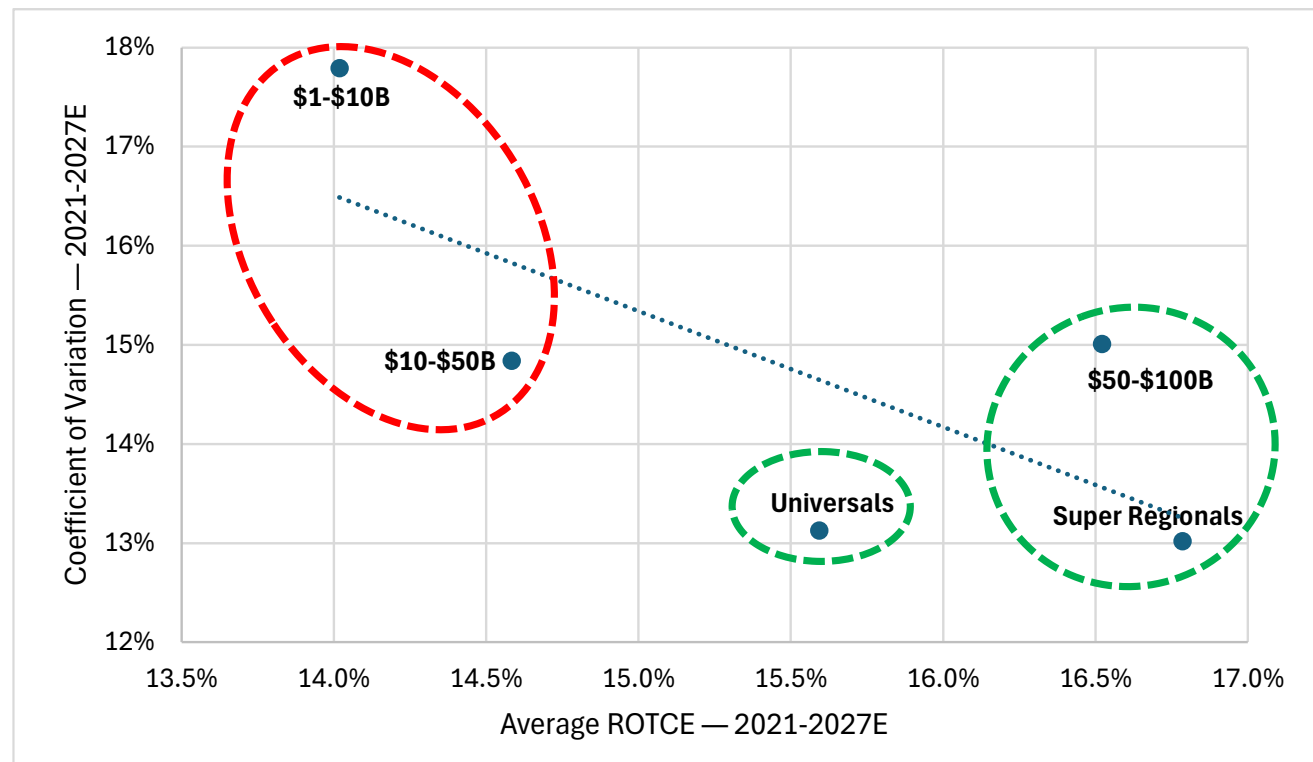
Pricing as of 4/30/26.  
Source: KBW Research.

# The Importance of Consistency

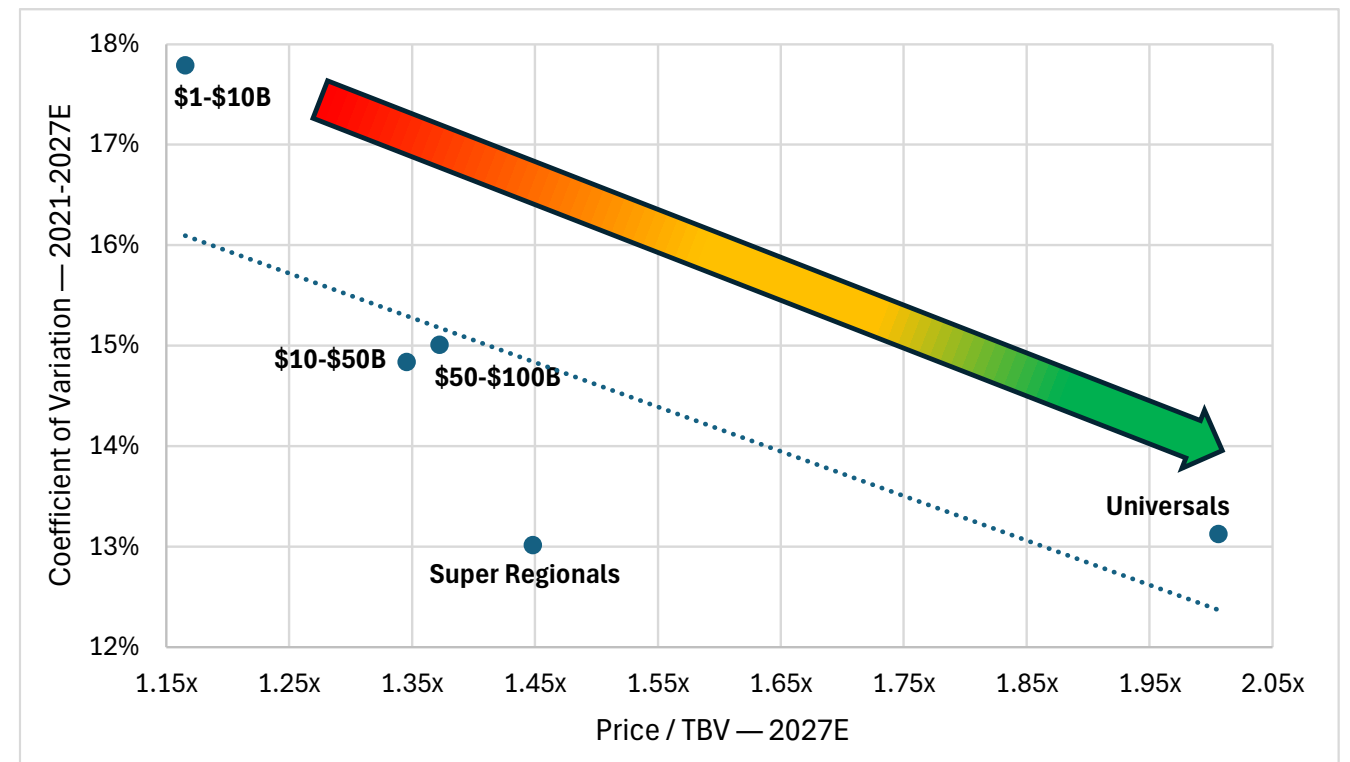
# The Market Pays for Consistency

## Returns Are Important, but the Market Puts a Premium on Consistency

Returns Are Important, but Predictability of Returns Can't Be Ignored



The Verdict Is In: The Market Pays for Strong and Predictable Returns

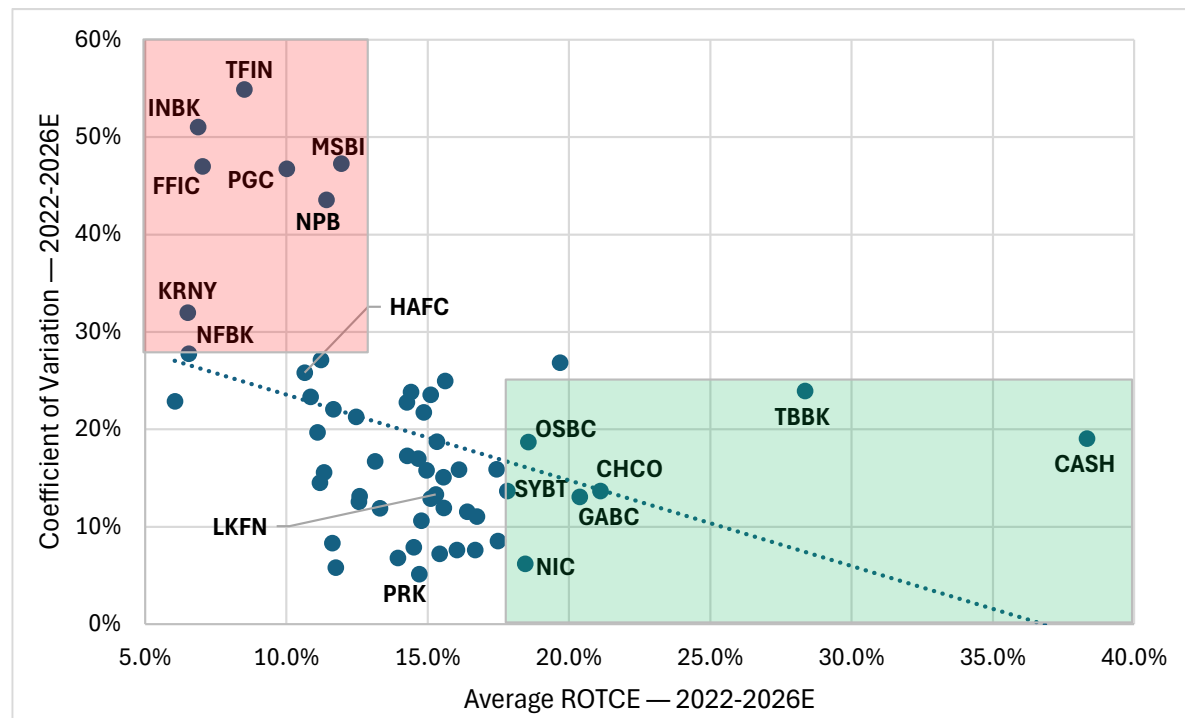


Source: KBW Research and FactSet.

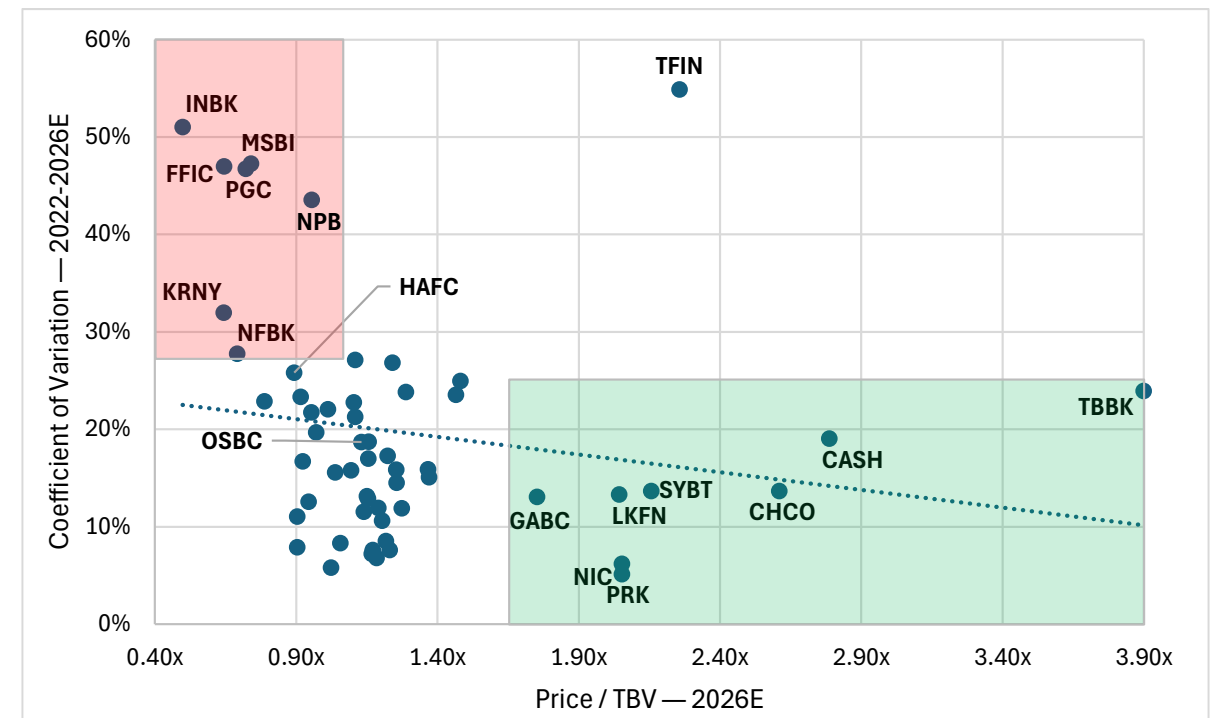
# Consistency Is Rewarded, Volatility Is Penalized

## A Closer Look at the \$5-\$10B Banks

ROTCE Volatility vs. Average ROTCE



ROTCE Volatility vs. P/TBV (2026E)



Source: KBW Research and FactSet.

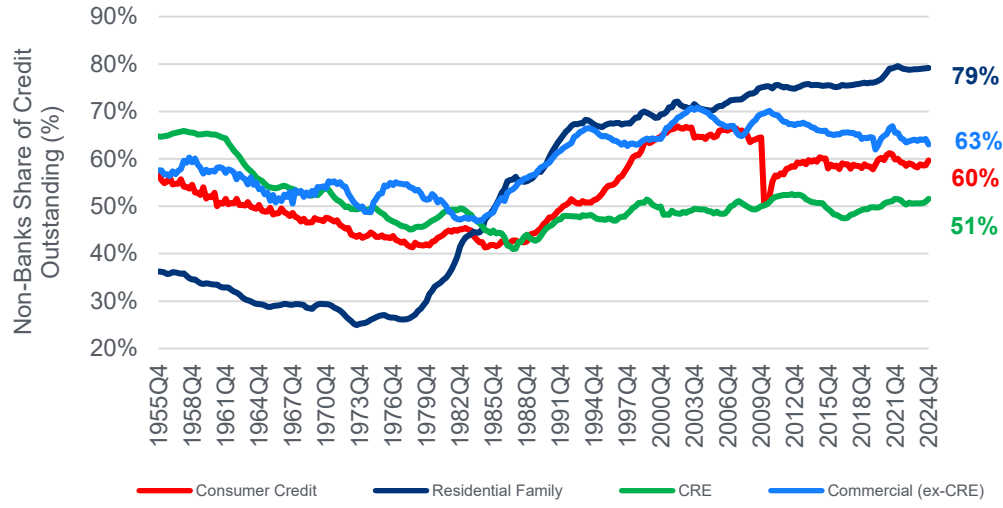
# Asset Quality

# Banks Have Lost Market Share to Non-Banks... but Banks Have Also Reduced Credit Risk

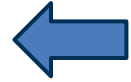
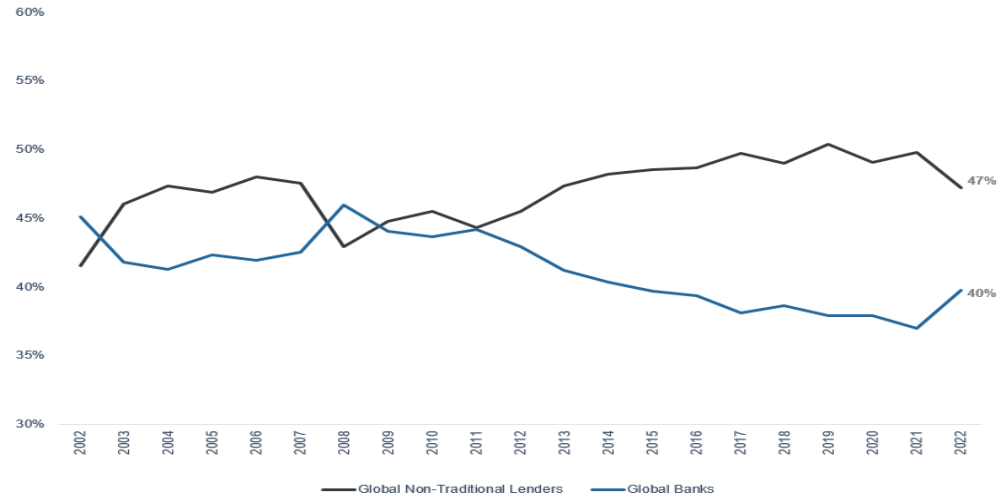
Non-traditional lenders capture at least 50% share in each major US lending category.



**Non-Bank Share of Credit Outstanding (%)**



**Global Financial Asset Market Share %**



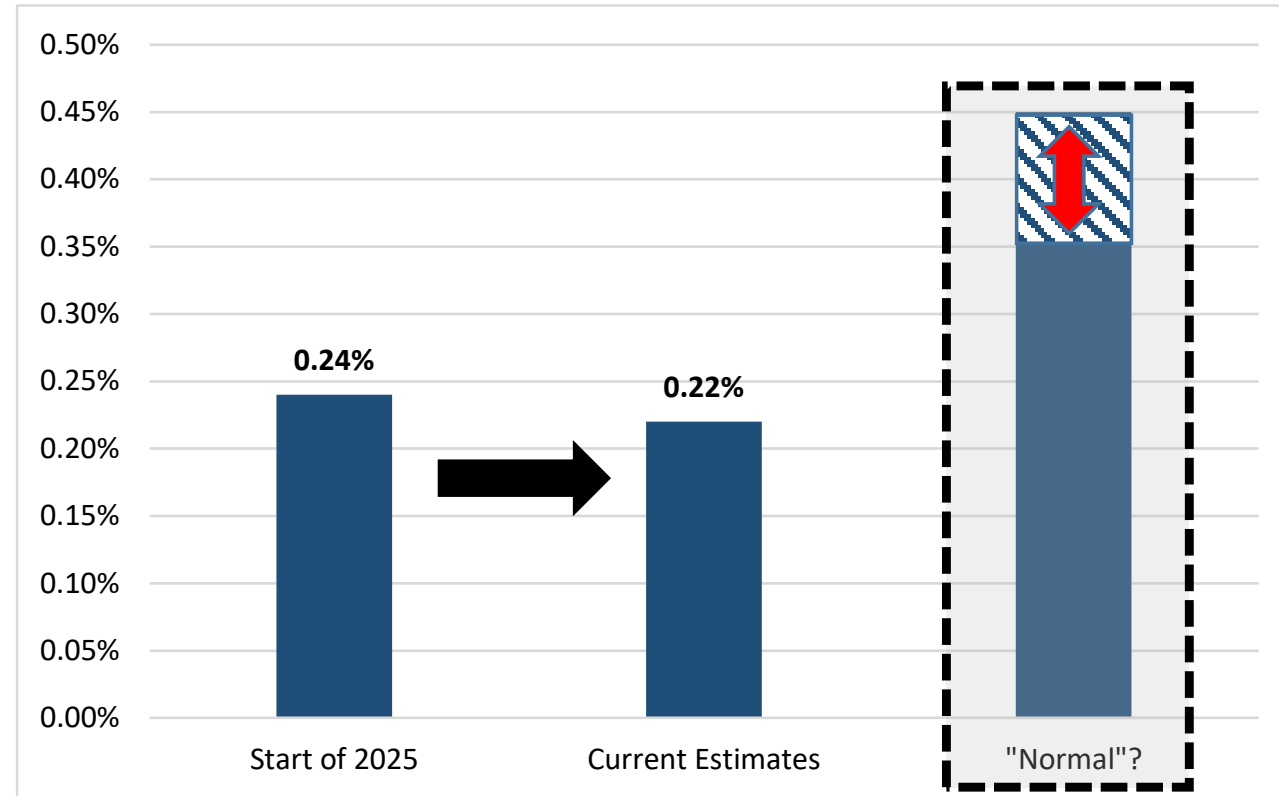
Non-traditional lenders have gained global financial asset market share since GFC (%).

Source: Fed Flow of Funds, Prequin, FSB, Company Filings, and KBW Research.

# Credit Remains Resilient...

## Though Normalization Still a Risk for EPS Estimates

Provision / Average Loans (KBWe) – 2026E



### Key Takeaways

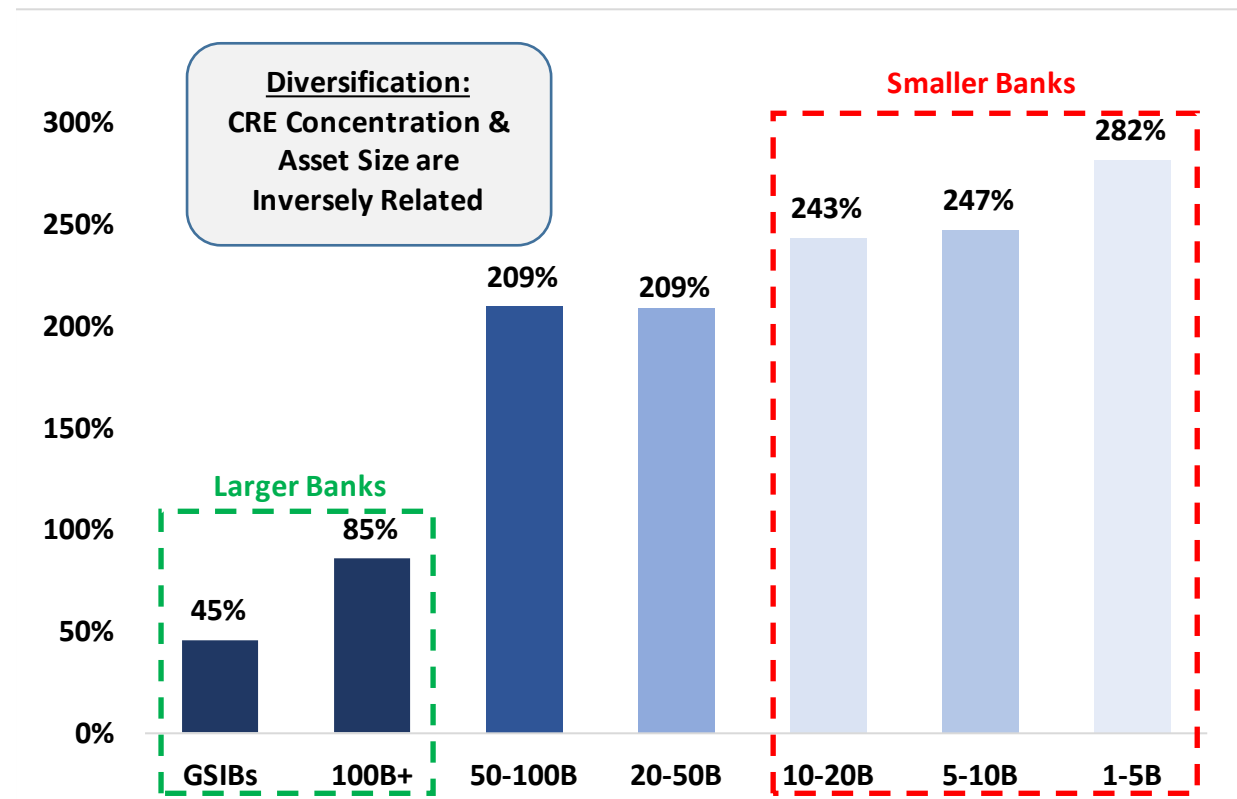
- ▶ Credit quality continues to perform very well, even with higher rates.
- ▶ To us, this reflects improved underwriting post GFC and shift of higher-risk assets out of traditional banks (due to regulation).
- ▶ Normalization process is ongoing and still poses a risk to EPS estimates (notably commercial real estate).
- ▶ KBW rule of thumb: each 1bp increase in provision/average loans = -1% to EPS).

Source: KBW Research.

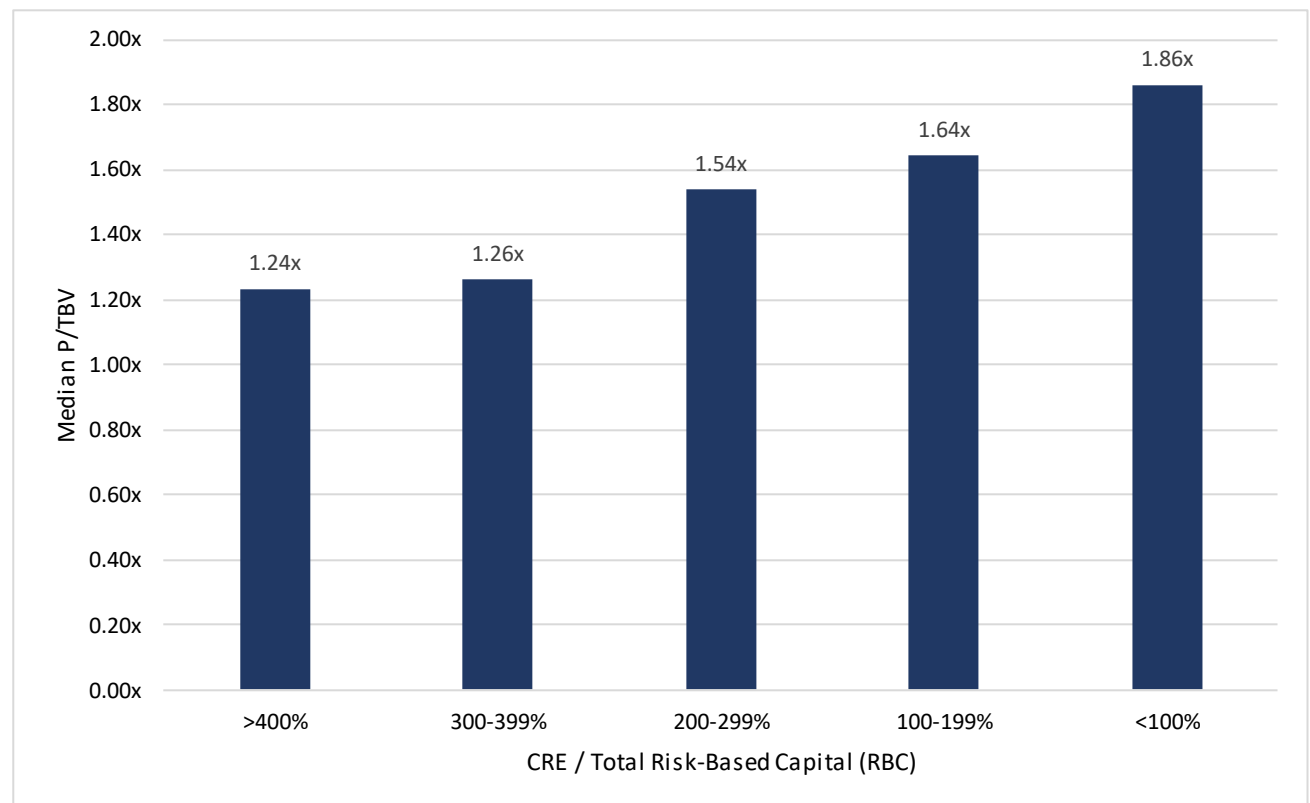
# CRE Exposure and Valuation Inversely Related... but Lower Rates Helping Sentiment

- ▶ CRE asset quality remains a risk to the banking industry today.
- ▶ However, lower interest rates are helping to ease the most acute credit concerns for CRE.

**CRE / Total RBC by Asset Band**



**CRE / Total RBC vs. Median P/TBV**

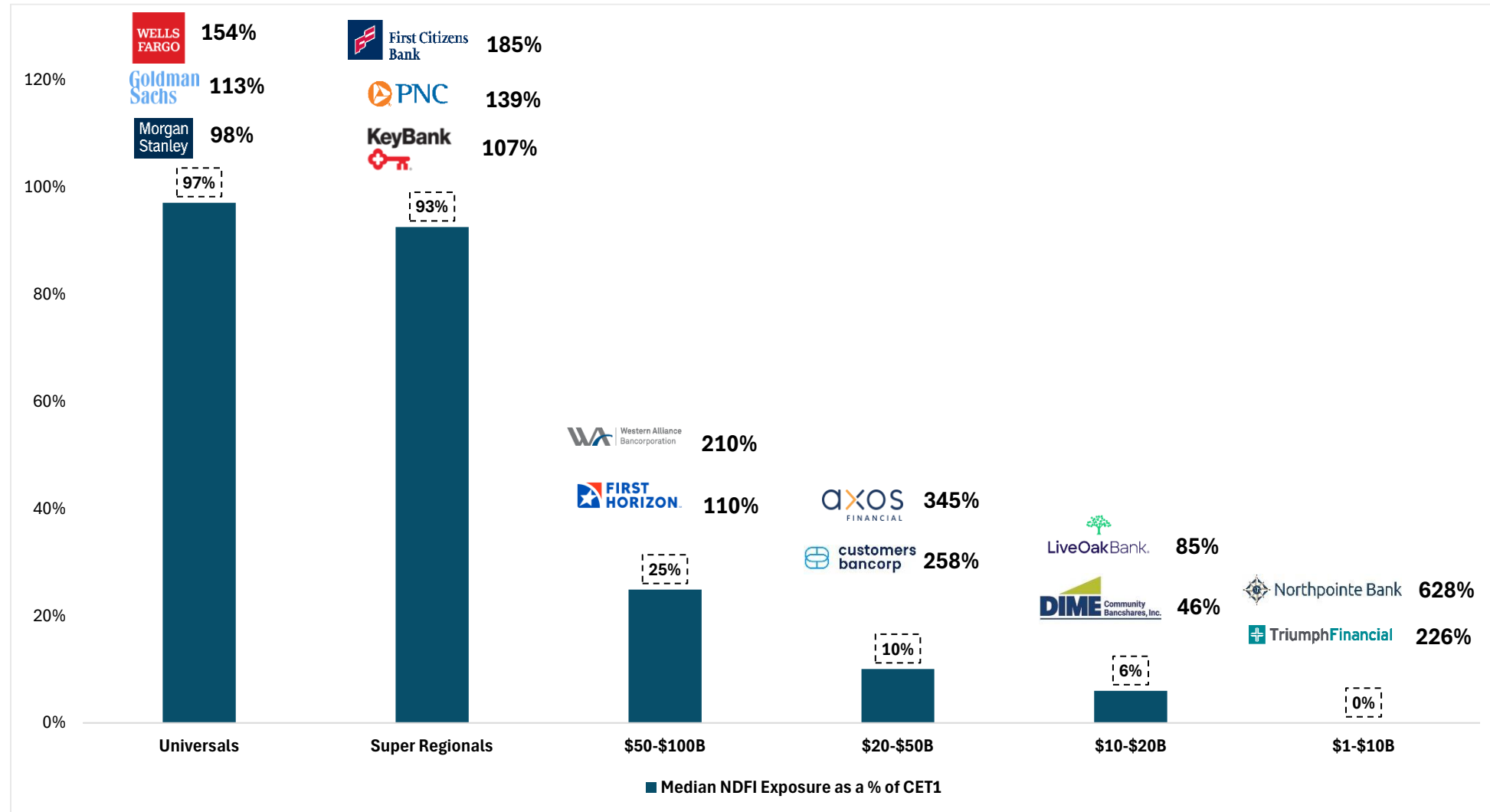


Source: KBW Research, FactSet, and S&P Global Market Intelligence.

# NDFI Exposure and Private Credit in Focus

## Bank Stocks Remain Sensitive to Headline Risk

**NDFI Loans as % of CET1 Capital - by Bank Group**



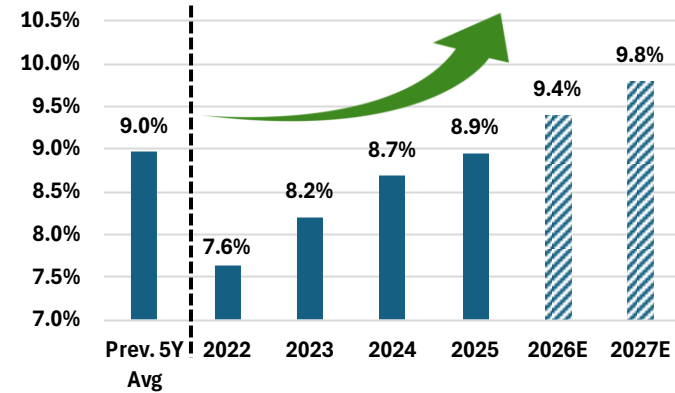
Exposure as of 4Q25 regulatory filings.  
Source: KBW Research and Company Documents.

# Capital and Consolidation

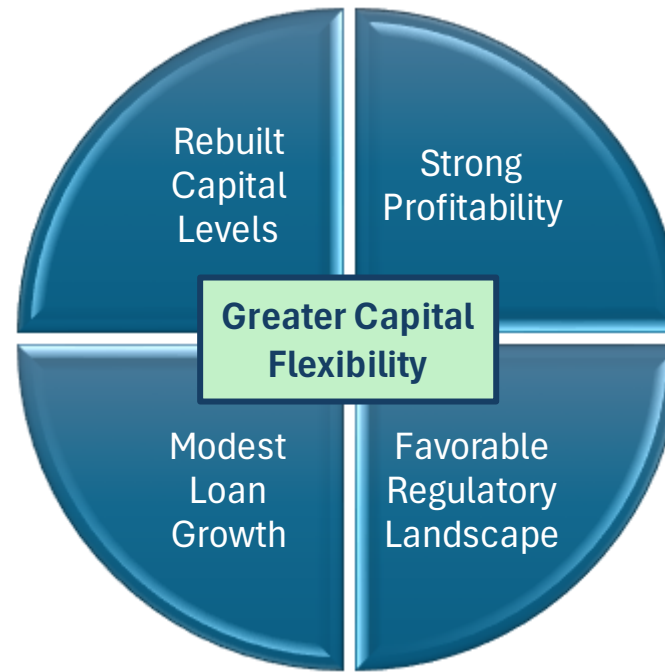
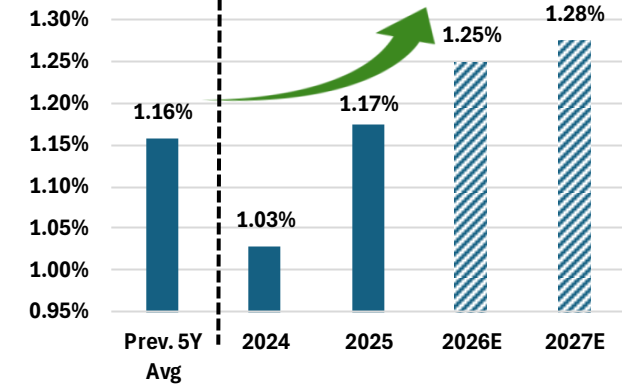
# All Roads Lead to Greater Capital Flexibility

## A Tailwind Ahead for Banks

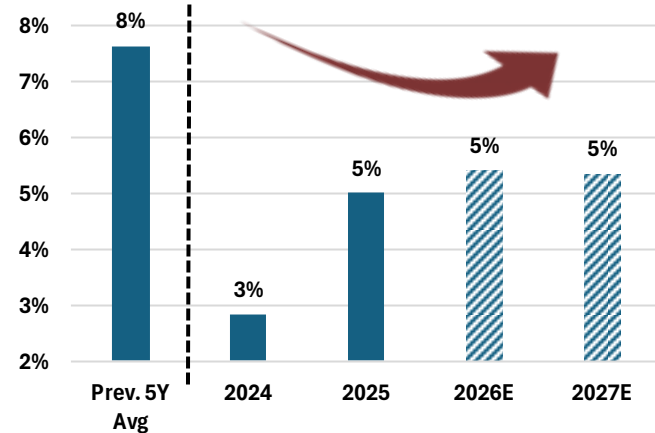
**TCE / TA... Capital Levels Fully Restored**



**ROAA... Profitability Back Above Historicals**

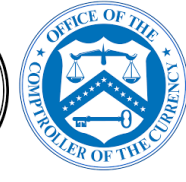
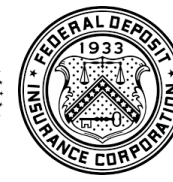


**Loan Growth... Running Below Historicals**



**Bank Regulation... Positive Momentum**

- Easing M&A Regulation
- Quicker Deal Closings
- B3 Reform / RWA Inflation
- SCB Buffers / GSIB Reform
- \$100B Threshold
- SLR Relief

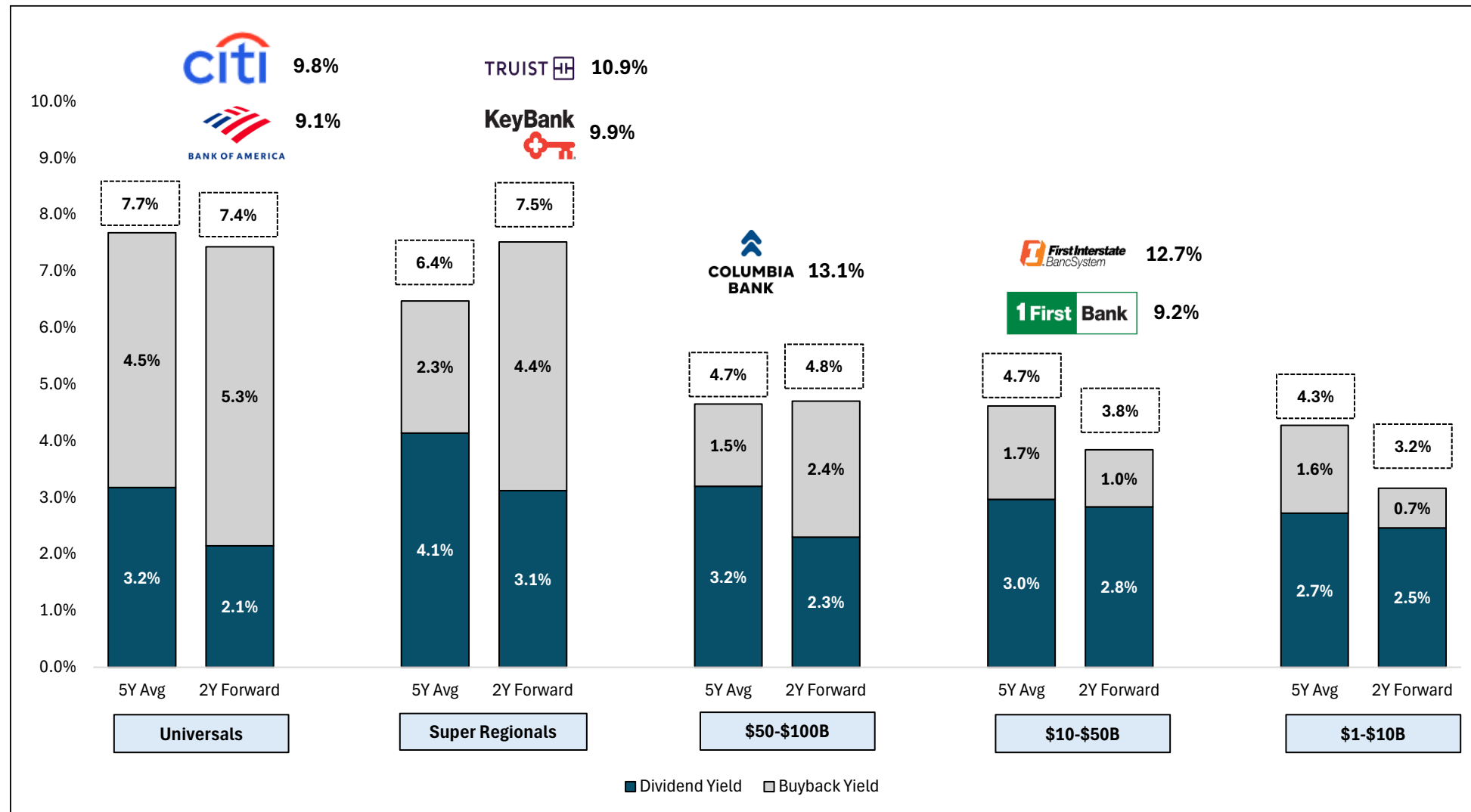


Source: KBW Research

# Capital Return a Growing Theme

## Lower Market Cap Names Have Opportunity to Bridge the Gap

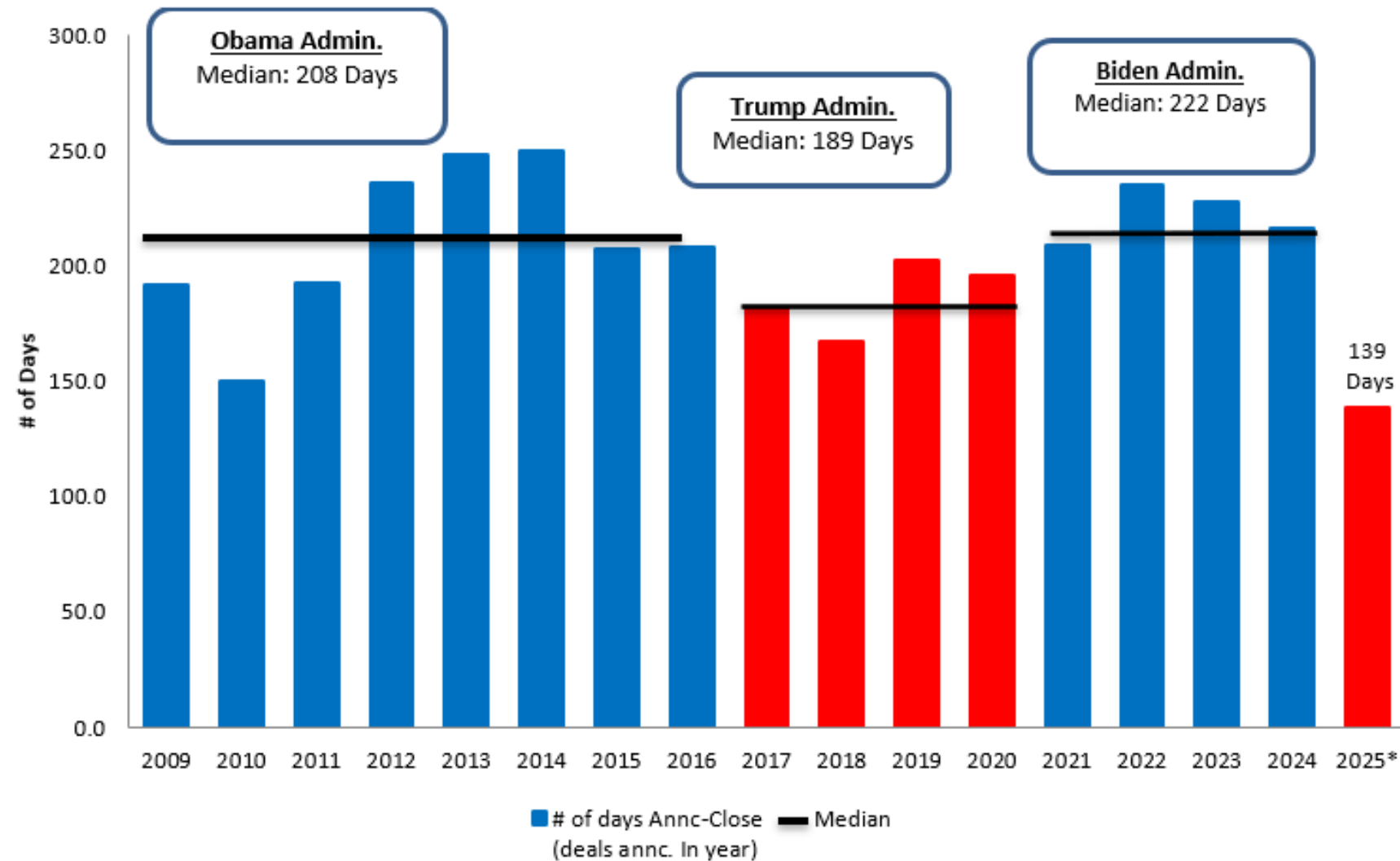
Cash-on-Cash Yield (Dividend Yield + Buyback Yield) - 5Y Historical vs. 2Y Prospective



Source: KBW Research and S&P Capital IQ

# Regulatory Environment Is Becoming More Favorable to M&A

## Consolidation Levels Inflecting Off the Bottom, Aided by De-Reg Catalysts



\*2025 excludes all pending deals  
Source: KBW Research

# Industry Consolidation Accelerating

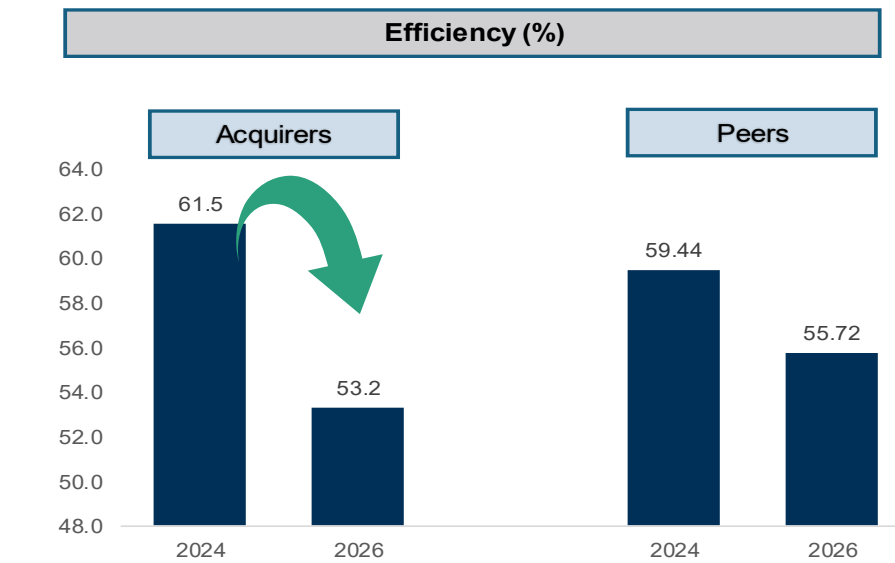
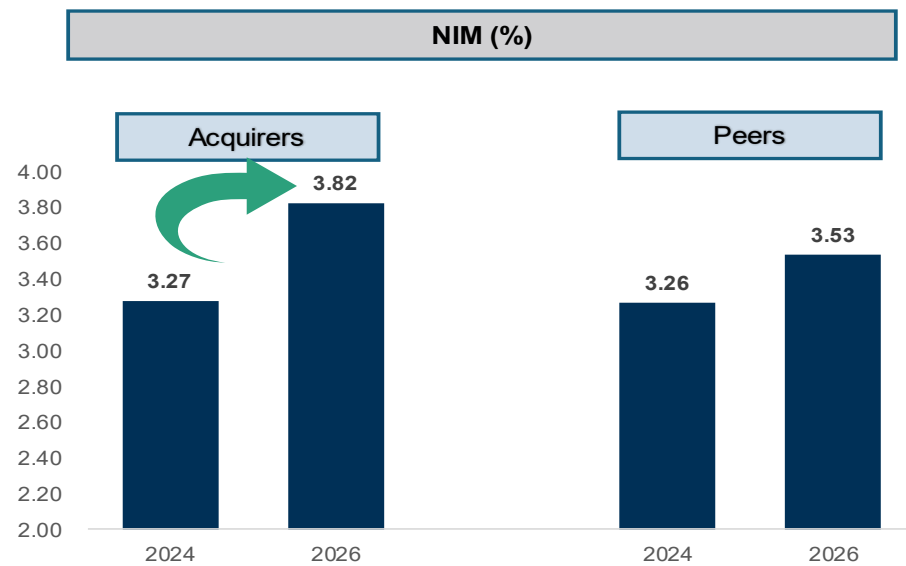
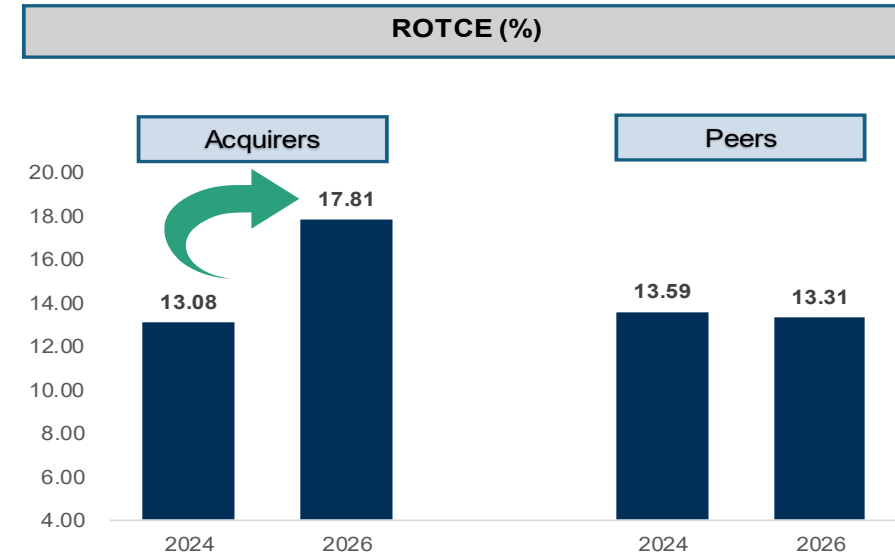
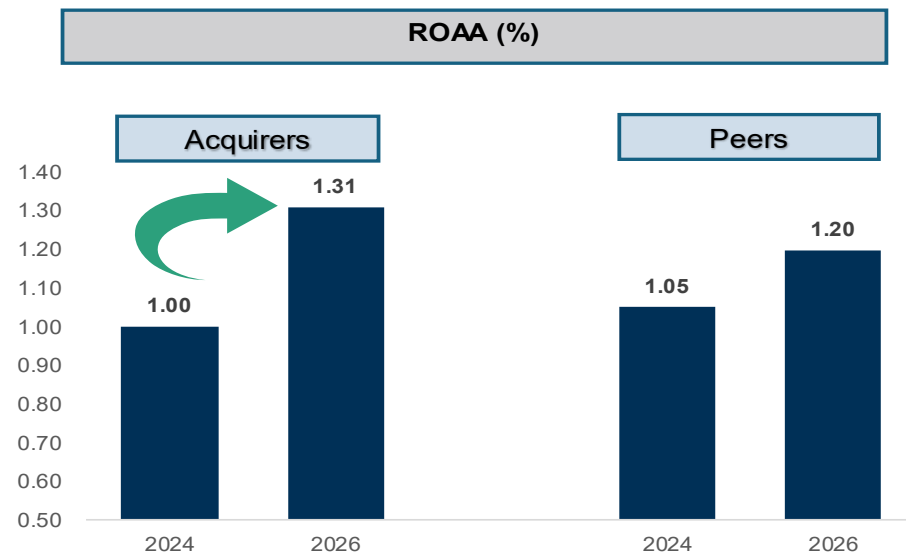
## Consolidation Levels Inflecting Off the Bottom, Aided by De-Reg Catalysts



Source: KBW Research and FDIC Quarterly Banking Profile.

# Buyers Are Positioned for Higher Levels of Profitability

## Execution on Deals Will Be Catalysts



Acquirers Include deals announced in 2024 and 2025 with deal values over \$500 million. Peers include banks in KBW coverage >\$1B market cap.  
 Source: KBW Research, S&P Global, and FactSet.

# Heard on the Street – Thoughts from the Investor Community

# Passive Investors Are Prominent... The Most in Our Lifetime

▪ *Passive ownership includes ETFs & Equity Index Funds*

■ Active Ownership %  
▨ Passive Ownership %

Industry Investor Composition as of 12/31/2014

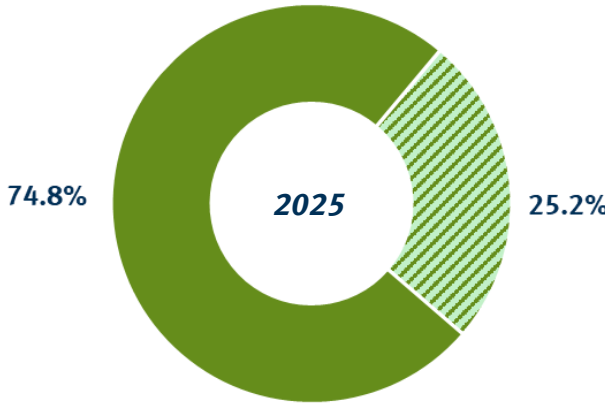
BKX



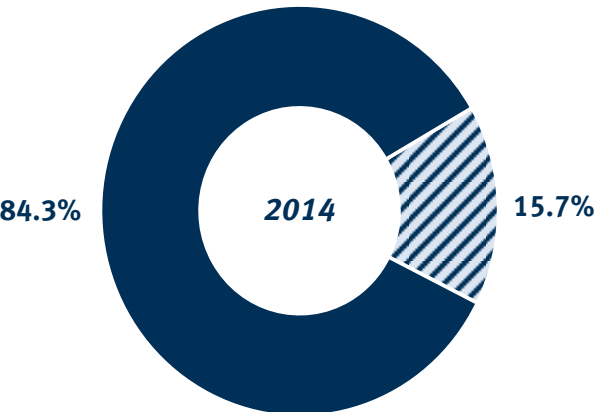
**BKX:**  
13.9% decline in active investors



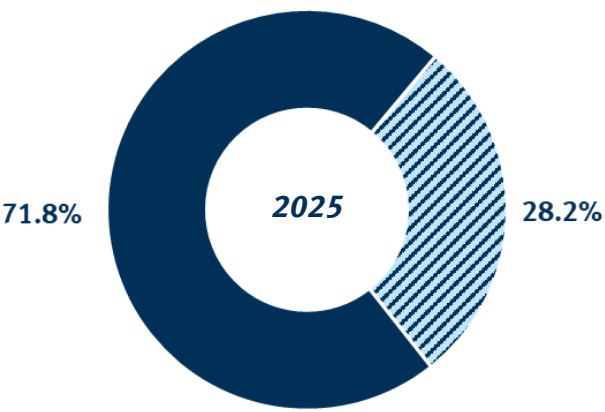
Industry Investor Composition as of 12/31/2025



KRX



**KRX:**  
12.5% decline in active investors



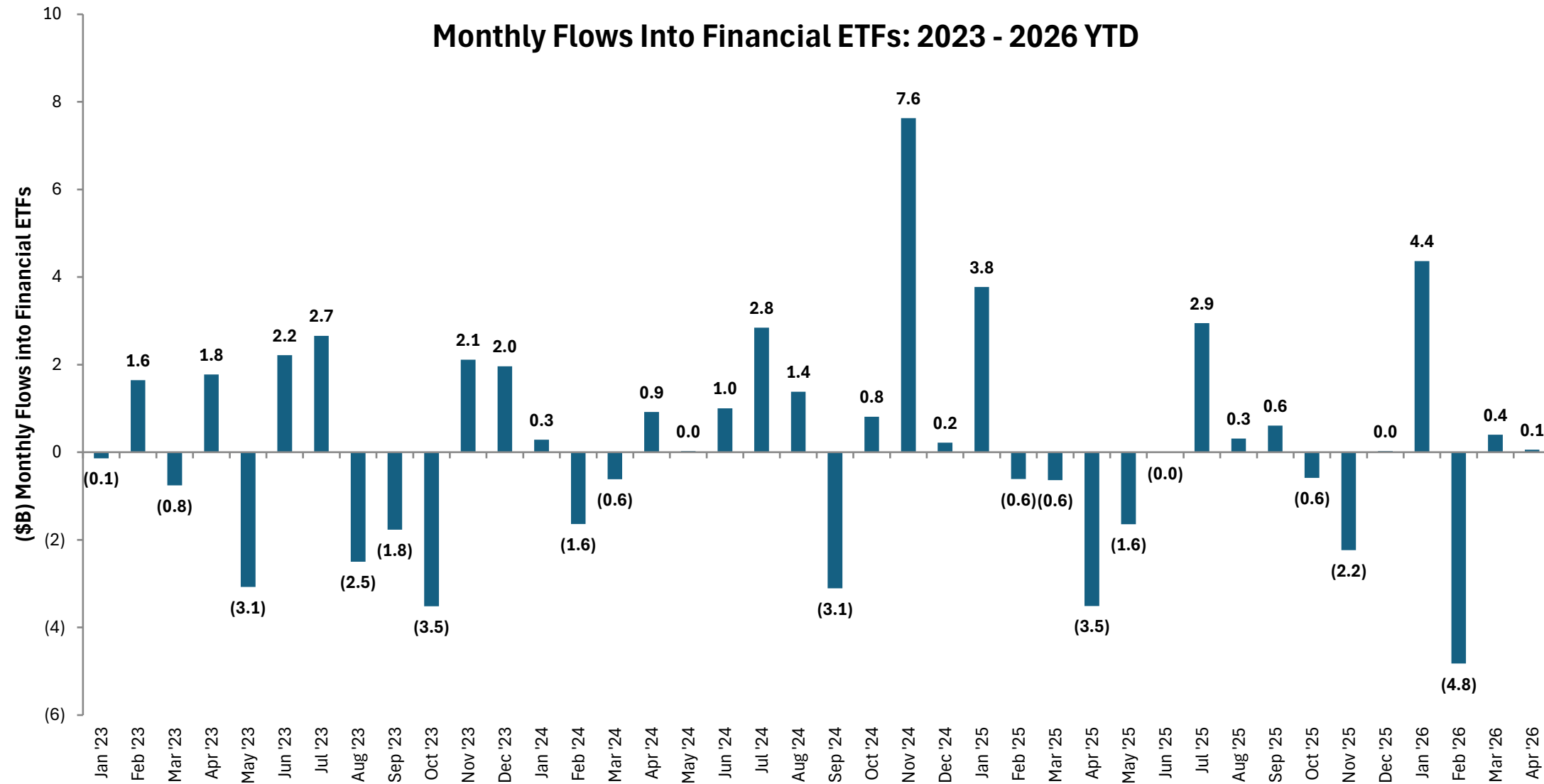
Source: KBW Research.

Note I: KBW NASDAQ Regional Banking Index (KRX) includes 50 U.S. regional banks or thrifts with assets between \$11 and \$113 billion.

Note II: KBW NASDAQ Bank Index (BKX) includes 24 banking stocks representing the large U.S. national money centers, regional banks and thrifts with assets between \$70 billion and ~\$4 trillion.

# Flows into Financial ETFs Remain Volatile

## A Tool for Gauging Shifts in Investor Sentiment



Source: KBW Research, Bloomberg.

# Heard on the Street

## Recent Feedback from Investors in the Community Bank Space

“Outlook not as good as the beginning of the year because you’ve lost the deposit repricing. But, you’ve still got the fixed asset repricing - to the extent that you have that dynamic, HFL gives you incremental benefit... Within financials, there is probably not a better group than the small-cap banks.”

“I like my banks, but I feel like the group is going to do better with rate cuts, not HFL... I think we are going to see more pressure on deposit costs with big banks being deregulated and growing more, putting greater pressure on funding and loan pricing... plus just enough credit slippage that it keeps it on generalists’ minds and keeps them from getting interested.”

# Heard on the Street (Continued)

## Recent Feedback from Investors in the Community Bank Space

“I think the #1 factor - as a smaller bank, there’s limited product offering - how are you going to stay competitive in that environment? That’s the most important thing given competition heating up on both sides of B/S. The other is margin/growth - that is the output of your competitiveness. If you have capacity to compete, you can have pretty good growth while maintaining margin. Otherwise, you are going to end up giving up profitability to grow, or protect profitability and you give up growth.”

“It feels like the initial margin expansion we’ve gotten from easing deposit costs and fixed asset repricing is starting to slow... so the only way to get earnings growth is if we start growing the balance sheet. That’s what we’re looking for - companies that can grow loans without eating their margin.”

# Heard on the Street (Continued)

## Recent Feedback from Investors in the Community Bank Space

“You need to think about where the world is in five years (from the perspective of technology, generational changes) - and assess your relevance within the space and your ability to serve your customers, as well as your relevance to the investment community (both from a multiple and M&A perspective).”

“Small/microcap names miss that when you sell at a certain price with a stock component, you participate in the upside of the combined companies.”

# Heard on the Street (Continued)

## Recent Feedback from Investors in the Community Bank Space

“Opportunity for banks with niche businesses.”

“Really need something differentiated to generate alpha.”

“We like wealth or growth”

“There are some deep-value names out there with opportunity to re-rate from improving profitability.”

“There’s a threshold of profitability where you just don’t get a look if you aren’t above a certain level.”

# Community Banking Done Well

# Stock Yards Bancorp

## Community Banking Done Well

**Stock Yards**  
Bank & Trust<sup>®</sup>

13.3x P/2027E  
(35% Premium to KRX)

2.4x P/TBV  
(44% Premium to KRX)

1.6% ROA  
(200bps Above KRX)

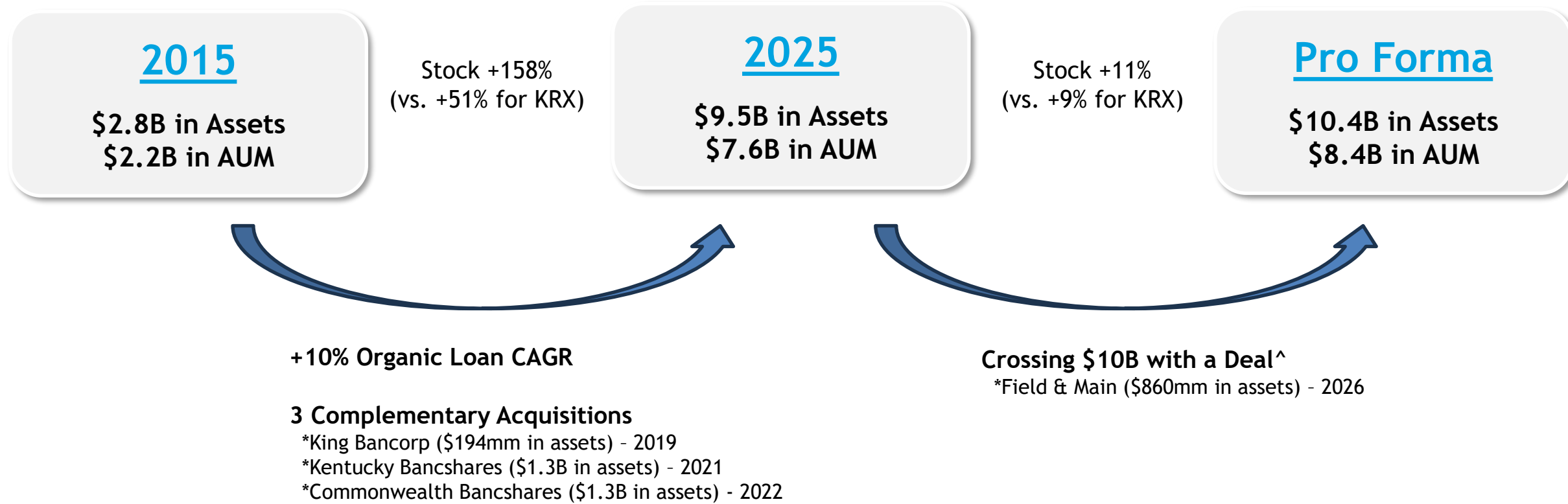
15% ROTCE  
(100bps Above KRX)

- ❑ Full-service \$9.5B-in-asset relationship bank - 75 locations across Louisville, Central, Eastern, and Northern KY, as well as Indianapolis and Cincinnati.
- ❑ High-touch service model - “technology not replacing shoe leather.”
- ❑ Focus on commercial banking - leading to full relationships with customer.
- ❑ Primarily core funded - 93% L/D ratio with 1.89% cost of deposits and 3.65% NIM.
- ❑ Above-average fee contribution (~24% of revenues) - wealth/trust group a key differentiator.
- ❑ No concentration issues (~250% CRE / <1% of loans in NDFI).

Note: Profitability is KBW estimates for 2027E.  
Source: KBW Research

# Stock Yards Bancorp

## Top Organic Grower Supplemented by Thoughtful Acquisitions



<sup>^</sup>Utilizing reciprocal deposits to navigate <\$10B at year-end 2026E – pushing Durbin implementation to 2H28.  
 YTD performance through 4/30/26.  
 Source: KBW Research

*“Our end game is way out in the future. We have a vision for 15 or 20 years from now, so we’re on track to win. We never take a year or a quarter and say we’re winning. We’re executing, we’re moving the ball forward. It is a long game... and we get to wake up every morning and come in to work to earn our right for independence.” -Chairman & CEO Ja Hillebrand*

# Companies Mentioned

| Ticker | 5/6/2026   | Price      | Rating         | Analyst       |
|--------|------------|------------|----------------|---------------|
|        | Price      | Target     |                |               |
| AX     | \$88.03    | \$110.00   | Market Perform | Motta, CFA    |
| BAC    | \$53.60    | \$64.00    | Outperform     | McGratty, CFA |
| C      | \$127.60   | \$140.00   | Outperform     | McGratty, CFA |
| CFG    | \$65.62    | \$72.00    | Outperform     | McGratty, CFA |
| COLB   | \$30.20    | \$33.00    | Outperform     | McGratty, CFA |
| CUBI   | \$78.24    | \$88.00    | Market Perform | Motta, CFA    |
| DCOM   | \$37.19    | \$43.00    | Outperform     | Konrad, CFA   |
| FCNCA  | \$1,991.33 | \$2,300.00 | Outperform     | McGratty, CFA |
| FHN    | \$25.07    | \$26.00    | Market Perform | McGratty, CFA |
| FIBK   | \$36.39    | \$37.00    | Market Perform | Motta, CFA    |
| FLG    | \$14.38    | \$16.00    | Outperform     | McGratty, CFA |
| GS     | \$937.35   | \$1,000.00 | Market Perform | McGratty, CFA |
| HBAN   | \$16.64    | \$19.50    | Market Perform | McGratty, CFA |
| JPM    | \$314.90   | \$363.00   | Outperform     | McGratty, CFA |
| KEY    | \$22.23    | \$24.00    | Outperform     | McGratty, CFA |
| LOB    | \$37.74    | \$42.00    | Outperform     | Switzer, CFA  |
| MS     | \$193.35   | \$218.00   | Outperform     | McGratty, CFA |
| MTB    | \$217.42   | \$230.00   | Market Perform | McGratty, CFA |
| NPB    | \$17.69    | \$22.00    | Outperform     | DelMonte      |
| PNC    | \$222.42   | \$253.00   | Market Perform | McGratty, CFA |
| RF     | \$28.21    | \$31.00    | Market Perform | McGratty, CFA |
| SYBT   | \$72.37    | \$81.00    | Market Perform | Motta, CFA    |
| TFC    | \$50.80    | \$53.00    | Market Perform | McGratty, CFA |
| TFIN   | \$67.22    | \$70.00    | Market Perform | Switzer, CFA  |
| USB    | \$56.16    | \$59.00    | Market Perform | McGratty, CFA |
| WAL    | \$83.33    | \$94.00    | Outperform     | McGratty, CFA |
| WFC    | \$80.42    | \$98.00    | Market Perform | McGratty, CFA |

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

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|---------------------------|-------|---------|-------------------------|---------|-------------------------|---------|
|                           |       |         | Count                   | Percent | Count                   | Percent |
| <b>Outperform</b>         | 254   | 45.04   | 227                     | 89.37   | 107                     | 42.13   |
| <b>Market Perform</b>     | 228   | 40.43   | 205                     | 89.91   | 96                      | 42.11   |
| <b>Suspended</b>          | 48    | 8.51    | 40                      | 83.33   | 16                      | 33.33   |
| <b>Underperform</b>       | 32    | 5.67    | 31                      | 96.88   | 6                       | 18.75   |
| <b>Restricted</b>         | 1     | 0.18    | 1                       | 100.00  | 0                       | 0.00    |
| <b>Covered -Not Rated</b> | 1     | 0.18    | 1                       | 100.00  | 1                       | 100.00  |

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