

US Banks

Chair Powell raises prospects for “scrapping” Basel III End Game proposal

Industry Overview

Big banks likely to see improved capital flexibility

Fed Chair Jay Powell’s comments during a congressional testimony today (see excerpts below) further increase our confidence that substantial changes to the Basel III End Game proposal are likely. The Chair also introduced the prospect that the original proposal could be “scrapped” altogether. This was a possibility that we had anticipated based on our discussions with industry experts. The statements today increase the likelihood of this occurring. The substantial feedback and changes required to the original proposal had made it untenable for the Fed to come up with the final rules this summer, based on the feedback from industry experts, including during a regulatory panel hosted at BofA’s annual financial services conference last month. We also note that ahead of today’s testimony in Congress, Republicans on the Financial Services Committee demanded that regulators withdraw the proposal.

Boost capital flexibility for GSIB banks

On average, the GSIB banks are operating with a 254bp buffer over their minimum CET1 capital ratio requirement (Exhibit 1). We believe that changes or the “scrapping” of the proposal should offer increased capital flexibility to the largest banks coming out of the June stress test results. We also see this as potentially marking an important inflection point whereby the regulatory burden levied on the largest banks post the GFC could be nearing a peak. While this should be a positive for the entire group, we highlight Buy-rated WFC (which had already announced a >\$12bn buyback in January) as a meaningful beneficiary given that it improves the likelihood of the bank achieving its 15% ROTCE target sooner. We also see this as a significant positive for Buy-rated C to accelerate buybacks in 2H24/2025, with stock trading at 0.6x TBV.

We note the following relevant research: [Wells Fargo & Company: This is where it all began: End of OCC consent order significant 15 February 2024/ Citigroup Inc.: Fraser’s Citigroup taking shape 26 February 2024 / US Banks: BofA 2024 Financial Services Conference takeaways: What did we learn? 26 February 2024.](#)

Excerpts from Chair Powell’s testimony

“I do expect that there will be broad and material changes to the proposal.”

Regulators scrapping the plan proposed last July and proposing a new version is a “very plausible option.”

“I am confident that the final product will be one that does have broad support both at the Fed and in the broader world.”

“We are just now reaching the stage where we can begin to make decisions about how to proceed.”

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Equity
United States
Banks

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C: Citigroup

CET1: common equity tier 1

GFC: Global Financial Crisis

GSIB: global systematically important bank

ROTCE: return on tangible common equity

TBV: tangible book value

WFC: Wells Fargo

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Timestamp: 06 March 2024 12:51PM EST

Exhibit 1: On average, GSIB banks are operating with a 254bp buffer above the minimum CET1 requirement

Reported 4Q23 CET1 ratios versus minimum regulatory requirement as of October 2023

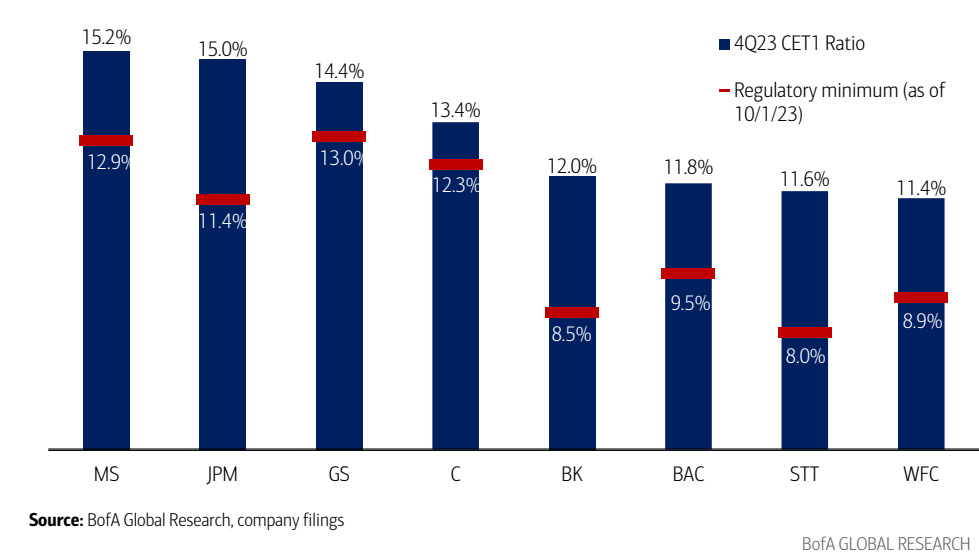


Exhibit 2: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
C	C US	Citigroup	US\$ 56.26	B-1-7
WFC	WFC US	Wells Fargo	US\$ 56.6	B-1-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Citigroup Inc. (C)

Our \$65 PO is based on a 50%/50% weighting between our 2024e EPS and 2024e TBV. We assign 9.5x/0.8x multiples respectively, vs. large-cap peers (13.2x/1.6x) due to the bank's lower return metrics.

Downside risks to our PO are execution risk tied to mgmt's franchise transformation efforts, an economic downturn or a macro-economic shock, increased costs tied to the regulatory consent orders, regulatory changes. Faster pace of share buybacks, better than expected operating leverage.

Wells Fargo & Company (WFC)

Our \$60 PO is based on a 50%/50% weighting between our 2024e EPS and 2024e TBV. We assign 12.5x/1.4x multiples, respectively, in-line/below the bank's 5 year pre pandemic median of 12.4x/1.8x given heightened uncertainty surrounding EPS/ROTCE outlooks, owing to the macro backdrop.

Downside risks to our PO: worse-than-expected economic downturn that leads to significantly higher-than-expected credit losses, elevated expense trajectory, slower-than-expected resolution of its consent orders. Upside risks: better-than-expected credit quality (i.e., lower loan losses) and material expense management that improve visibility on future earnings.

Analyst Certification

I, Ebrahim H. Poonawala, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.



North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Barings BDC Inc	BBDC	BBDC US	Derek Hewett
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	Cullen/Frost Bankers Inc	CFR	CFR US	Ebrahim H. Poonawala
	East West Bancorp, Incorporated	EWBC	EWBC US	Ebrahim H. Poonawala
	Fifth Third Bank	FITB	FITB US	Ebrahim H. Poonawala
	First Bancorp Puerto Rico	FBP	FBP US	Brandon Berman
	First Horizon Corporation	FHN	FHN US	Ebrahim H. Poonawala
	FNB Corporation of Pennsylvania	FNB	FNB US	Brandon Berman
	Goldman Sachs	GS	GS US	Ebrahim H. Poonawala
	JPMorgan Chase & Co.	JPM	JPM US	Ebrahim H. Poonawala
	KeyCorp	KEY	KEY US	Ebrahim H. Poonawala
	M&T Bank	MTB	MTB US	Ebrahim H. Poonawala
	Morgan Stanley	MS	MS US	Ebrahim H. Poonawala
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	Northern Trust Corporation	NTRS	NTRS US	Ebrahim H. Poonawala
	Nuveen Churchill Direct Lending	NCDL	NCDL US	Derek Hewett
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Sixth Street Specialty Lending, Inc	TSLX	TSLX US	Derek Hewett
	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	The Bank of New York Mellon Corporation	BK	BK US	Ebrahim H. Poonawala
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	Webster Financial Corp.	WBS	WBS US	Brandon Berman
	Wells Fargo & Company	WFC	WFC US	Ebrahim H. Poonawala
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala
NEUTRAL				
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Eric Dray, CFA
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Brandon Berman
	Commerce Bancshares Inc.	CBSH	CBSH US	Brandon Berman
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	Ladder Capital Corp	LADR	LADR US	Eric Dray, CFA
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Palmer Square Capital BDC	PSBD	PSBD US	Derek Hewett
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	Popular Inc	BPOP	BPOP US	Brandon Berman
	Regions Financial	RF	RF US	Ebrahim H. Poonawala
	Starwood Property Trust	STWD	STWD US	Eric Dray, CFA
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	Ebrahim H. Poonawala

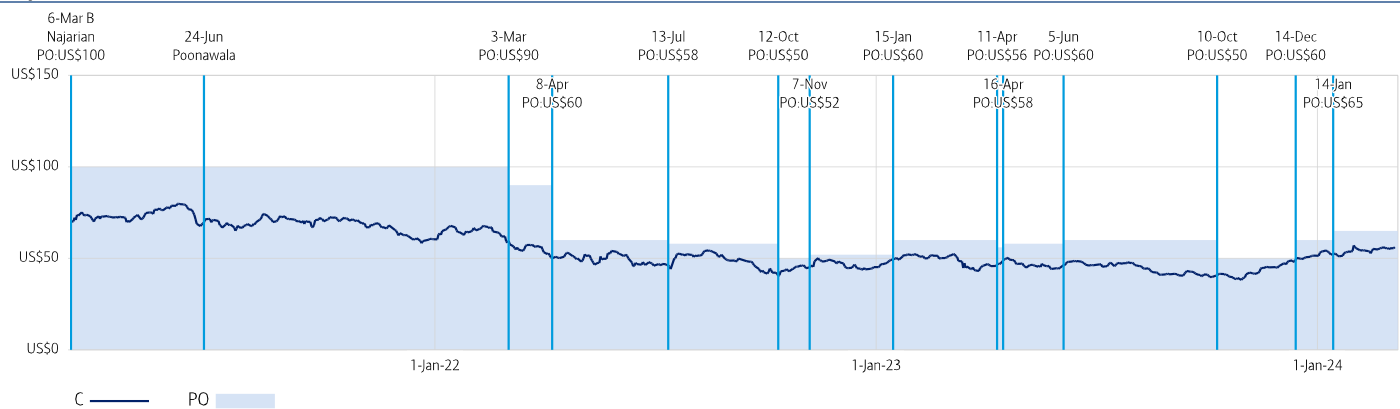
North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	Apollo Commercial Real Estate Finance	ARI	ARI US	Eric Dray, CFA
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Eric Dray, CFA
	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	BrightSpire Capital Inc.	BRSP	BRSP US	Eric Dray, CFA
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Guild Holdings Company	GHLD	GHLD US	Derek Hewett
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Eric Dray, CFA
	Zions Bancorp	ZION	ZION US	Brandon Berman

Disclosures

Important Disclosures

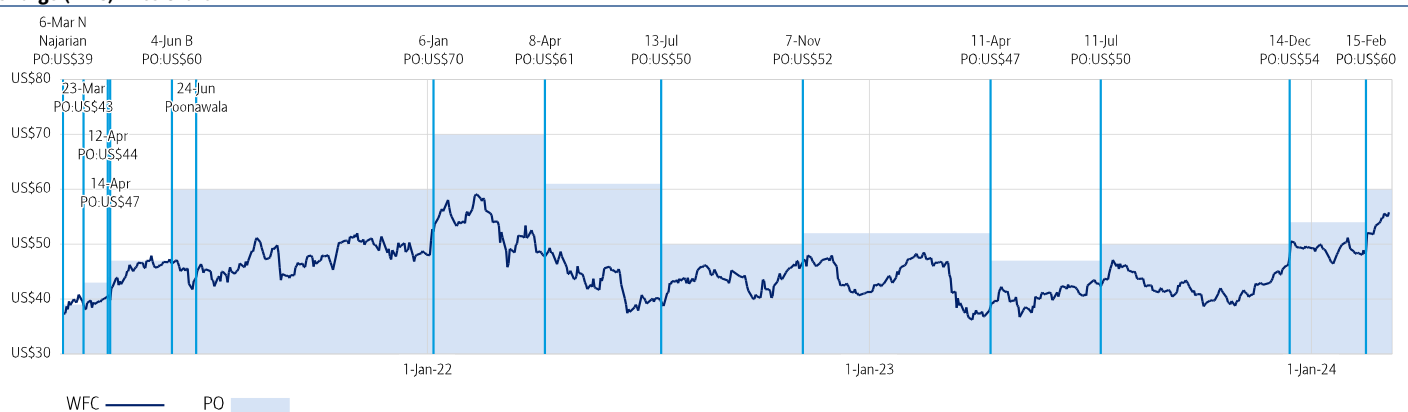
Citigroup (C) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Wells Fargo (WFC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Banks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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