

US Mid-cap Banks

4Q23 Review: ASB, BPOP & FHB

Price Objective Change

ASB: Believe skepticism of NII outlook exaggerated

ASB's stock price reaction the day after the bank reported results suggests some investor skepticism surrounding mgmt.'s NII outlook. On one hand, the residual benefit from its b/s repositioning (+11bp in 1Q) should more than offset the impact of rate cuts. On the other, one could make the case that mgmt.'s reverse deposit beta assumptions (45-55% in 2024) are aggressive. Consistent with peers, ASB needed to revise higher its beta assumptions over the course of 2023. While we appreciate the difficulty in forecasting deposit pricing trends, we believe the events in early-2023 may likely cause deposit costs to remain relatively sticky. We forecast reverse deposit beta of 33% in 2024, implying NII growth of +1.4% YoY vs. mgmt.'s +2-4% guide.

Expense control has remained an encouraging sign. The growth outlook for 2024 was revised lower to +2-3% YoY, down from +3-4% when mgmt. presented their strategic update in early-Nov. Mgmt. is reinvesting expense savings into targeted investments, such as RMs (intended to maintain loan/deposit growth into 2025). Meanwhile, intense focus on specific measurements gives mgmt. confidence they can execute on its expense plan. It is worth noting mgmt. had revised lower its expense growth over the course of 2023 as the revenue backdrop softened. We are raising our 2024e EPS by 3% to \$2.16. Reiterate Neutral rating and \$23 PO.

BPOP: Better NII growth offsets normalizing credit trends

BPOP reported core 4Q23 EPS of \$1.90, better than our/cons. \$1.69/1.70 est. Stronger PPNR growth and a lower tax rate were partially offset by higher credit costs. More importantly, the mid-point of mgmt.'s 2024 PPNR outlook implies upward revisions to cons. est. We are raising our 2024e EPS by 15% to \$8.54 – despite a ~60% increase in credit costs – primarily due to higher NII growth assumptions. Expectations for NII to increase 9%-13% in 2024 is among the highest within our mid-cap coverage. Although mgmt. is only assuming 2 rate cuts in its outlook, additional rate actions should not have a material impact on NII (as illustrated by our NIM defensibility heatmap, see Exhibit 2). That said, expectations for EOP public deposits to remain elevated throughout 2024 is the primary reason why our NII forecast is at the low-end of mgmt.'s range.

Credit trends are continuing to normalize. For example, consumer delinquencies and NCOs are near or exceeding pre-pandemic levels as of 4Q. We note, the mid-point of mgmt.'s NCO outlook is consistent with the low-end of their historical TTC range. That said, mgmt. has made changes to underwriting criteria to decrease exposure to higher risk segments. Coupled with the more favorable outlook, and the economic backdrop in Puerto Rico more stable, this should help mitigate payment defaults and loan losses, in our view. At 10x our revised 2024e, we see further multiple expansion as limited. Reiterate Neutral rating, raising our PO to \$97 driven by our revised estimates.

FHB: Consensus 2024e EPS likely intact

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Acronyms:

EOP: end of period

KRX: KBW Regional Banking Index

NCOs: net charge-offs

NII: net interest income

NIM: net interest margin

PPNR: pre-provision net revenue

RMs: relationship managers

Tickers mentioned:

ASB: Associated Banc-Corp

BPOP: Popular Inc

FHB: First Hawaiian Inc

Exhibit 1: Summary of changes

New vs. old EPS est., price objectives

| | 2024E EPS | | PO | |
|------|-----------|---------|-------|----------|
| | New | Old | New | Old |
| ASB | \$ 2.16 | \$ 2.12 | -- | \$ 23.00 |
| BPOP | 8.54 | 7.45 | 97.00 | 85.00 |
| FHB | 1.73 | 1.73 | -- | 20.00 |

Source: BofA Global Research

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Timestamp: 29 January 2024 07:55AM EST

FHB: Consensus 2024e EPS likely intact

Shares of FHB outperformed KRX by 240bp on Fri. following 4Q23 results, likely due to its YTD underperformance. FHB reported core 4Q23 EPS of \$0.46, better than our/cons. \$0.45/0.44 est. Relative to us, lower credit costs drove the beat while higher fees were offset by lower NII. Meanwhile, mgmt.'s outlook implies cons. 2024e EPS should remain largely intact. The benefit to NIM from the security sale is expected to neutralize the impact of rate cuts and offset the higher expense run-rate. No change to our 2024 EPS est. of \$1.73 nor our \$20 PO. At 13x our 2024e, a 20% premium vs. mid-cap peers, we see better relative risk/reward elsewhere in the group. Maintain Underperform rating.

Balance sheet actions (i.e., use of securities cash flows to pay down high-cost funding and/or fund loan growth), coupled with +300bp spread benefit on \$1.5bn of fixed-rate assets, expected to provide the NIM with support in the face of lower rates. We forecast FY2024 NIM of 2.88%, implying 1% decrease in NII. On the other hand, FY2024 expenses of \$500mn was higher than expected. Use of cost savings to fund investments in the franchise should help to maintain a relatively consistent quarterly run-rate in 2024 and allow for the pace of expense growth to return to within the natural +2-3% expense range going forward.

Exhibit 2: NIM defensibility heatmap

Shading denotes relative strength/weakness to mitigate lower interest rates

| (as % of avg. earning assets) | ASB | BOH | BPOP | CBSH | CFR | CMA | EWBC | FBP | FHB | FHN | FNB | NYCB | PB | SNV | TCBI | WAL | WBS | ZION |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Cash \$ | 2% | 2% | 9% | 6% | 16% | 9% | 7% | 5% | 4% | 4% | 3% | 6% | 1% | 1% | 14% | 5% | 3% | 4% |
| Annual securities \$ cash flows | 5% | 3% | 6% | 8% | 2% | 2% | 2% | 5% | 3% | 1% | 2% | | 6% | 2% | 1% | 3% | 2% | 4% |
| Duration (years) | 6.1 | 3.9 | 2.2 | 3.9 | 5.7 | 5.6 | 5.1 | 3.6 | 5.5 | 5.3 | 4.4 | 7.1 | 4.5 | 5.4 | 4.4 | 5.5 | 4.5 | 3.5 |
| Yield on securities (3Q23) | 3.03% | 2.46% | 2.33% | 2.33% | 3.24% | 2.10% | 3.11% | 1.59% | 2.14% | 3.01% | 2.61% | 4.30% | 2.05% | 2.29% | 2.33% | 4.91% | 3.39% | 2.73% |
| Fixed rate \$ loans | 39% | 38% | 26% | 23% | 17% | 33% | 17% | 42% | 35% | 27% | 31% | 37% | 25% | 29% | 4% | 33% | 30% | 15% |
| Consensus loan growth forecast | 3% | 2% | 7% | 4% | 7% | 4% | 5% | 6% | 3% | 3% | 5% | 2% | 7% | 2% | 10% | 5% | 6% | 0% |
| Loan beta (CTD) | 60% | 22% | 19% | 46% | 57% | 59% | 56% | 26% | 37% | 52% | 44% | 46% | 25% | 48% | 68% | 55% | 53% | 40% |
| Loan/deposit ratio | 94% | 67% | 54% | 68% | 45% | 80% | 92% | 73% | 67% | 92% | 93% | 102% | 78% | 87% | 86% | 91% | 83% | 75% |
| Noninterest bearing deposits \$ | 17% | 25% | 22% | 25% | 32% | 37% | 25% | 28% | 36% | 23% | 27% | 23% | 29% | 23% | 32% | 28% | 17% | 33% |
| Brokered \$ CDs + index-linked deposits | 9% | 10% | 1% | 4% | 0% | 6% | 3% | 2% | 11% | 5% | 2% | 8% | 0% | 11% | 5% | 10% | 12% | 10% |
| CD \$ maturity schedule | 1% | 3% | 4% | 1% | 1% | 0% | 0% | 5% | 6% | 0% | 2% | 16% | | 3% | 4% | 13% | 6% | 0% |
| Short term \$ borrowings | 8% | 1% | 0% | 9% | 0% | 6% | 7% | 0% | 2% | 3% | 5% | 0% | 12% | 0% | 5% | 12% | 3% | 5% |
| Long term debt to mature in 2024 | 0% | 0% | 0% | 0% | 0% | 1% | 0% | 0% | 0% | 2% | 0% | 1% | 0% | 5% | 0% | 1% | 0% | 0% |

Source: BofA Global Research, company filings (as of 3Q23), Visible Alpha

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Variance tables

Exhibit 3: Associated Banc-Corp (ASB) variance table

New vs. old EPS estimates, assumptions (\$ in millions unless noted)

| KEY FORECAST VARIABLES: | 3Q23 | Actual 4Q23 | Estimate 4Q23 | Variance | New 2024E | Old 2024E | Variance | New 2025E | Old 2025E | Variance |
|--------------------------------------|---------------|-----------------|------------------|--------------|---------------|---------------|-----------|---------------|---------------|-----------|
| EOP Loans | 30,248 | 29,340 | 30,443 | -3.63% | 30,779 | 31,129 | -1.12% | 31,814 | 32,222 | -1.26% |
| Average Loans | 29,885 | 29,952 | 30,291 | -1.12% | 30,039 | 30,844 | -2.61% | 31,174 | 31,621 | -1.41% |
| Average Earning Assets | 38,076 | 38,274 | 38,139 | 0.35% | 38,518 | 38,600 | -0.21% | 39,467 | 39,616 | -0.38% |
| Net Interest Margin (%) | 2.71 | 2.69 | 2.77 | -8bp | 2.79 | 2.75 | 4bp | 2.83 | 2.80 | 3bp |
| Net Interest Income (FTE) | 259.1 | 258.0 | 266.1 | -3.04% | 1,073.0 | 1,061.3 | 1.10% | 1,118.5 | 1,110.0 | 0.76% |
| Loan Loss Provision | 21.9 | 21.0 | 22.5 | -6.48% | 83.5 | 83.5 | 0.00% | 68.0 | 68.3 | -0.54% |
| Noninterest Revenues | 66.6 | 64.2 | 64.5 | -0.48% | 256.5 | 258.1 | -0.64% | 259.2 | 260.8 | -0.62% |
| Securities Transactions | (0.0) | 6.0 | 0.0 | NA | 0.0 | 0.0 | NA | 0.0 | 0.0 | NA |
| Tot. Revenue | 326 | 328 | 331 | -0.71% | 1,329 | 1,319 | 0.76% | 1,378 | 1,371 | 0.50% |
| Staff Expenses | 117.2 | 120.7 | 116.3 | 3.74% | 485.6 | 485.6 | 0.00% | 497.7 | 497.7 | 0.00% |
| OREO Expenses | 2.0 | 0.6 | 2.2 | -73.69% | 4.9 | 6.4 | -23.25% | 8.7 | 11.3 | -23.25% |
| Other Expenses | 74.8 | 84.9 | 74.8 | 13.53% | 306.2 | 296.6 | 3.22% | 312.3 | 302.5 | 3.22% |
| Total Expenses | 196.2 | 208.4 | 195.6 | 6.56% | 805.5 | 797.4 | 1.01% | 827.5 | 820.4 | 0.86% |
| Pre-Tax Income (FTE) | 107.5 | 98.9 | 112.6 | -12.19% | 440.5 | 438.5 | 0.44% | 482.2 | 482.1 | 0.03% |
| FTE Tax Rate (%) | 18.9 | 8.3 | 20.0 | -12pp | 20.0 | 21.0 | -1pp | 20.0 | 21.0 | -1pp |
| Net Income | 83.2 | 86.4 | 86.2 | 0.25% | 337.6 | 331.2 | 1.91% | 371.0 | 365.6 | 1.45% |
| Available For Common | 80.4 | 83.6 | 83.3 | 0mn | 326.1 | 319.8 | 6mn | 360.9 | 355.6 | 5mn |
| Op. EARNINGS PER SHARE (F.D.) | \$0.53 | \$0.55 | \$0.55 | 0% | \$2.16 | \$2.12 | 2% | \$2.39 | \$2.36 | 1% |
| GAAP EPS (F.D.) | \$0.53 | (\$0.62) | \$0.38 | -262% | \$2.16 | \$2.12 | 2% | \$2.39 | \$2.36 | 1% |
| Book Value Per Share | \$26.06 | \$26.35 | \$26.34 | \$0.01 | \$28.07 | \$28.02 | \$0.05 | \$29.98 | \$29.89 | \$0.09 |
| Tangible Book Value Per Share | \$18.46 | \$18.77 | \$18.75 | \$0.02 | \$20.55 | \$20.49 | \$0.06 | \$22.51 | \$22.42 | \$0.09 |
| Dividends Per Share | \$0.21 | \$0.22 | \$0.22 | \$0.00 | \$0.90 | \$0.90 | \$0.00 | \$0.95 | \$0.95 | \$0.00 |
| Average Fully-Diluted Shares | 151.0 | 151.0 | 151.0 | 0mn | 151.0 | 151.0 | 0mn | 151.0 | 151.0 | 0mn |
| CAPITAL RATIOS: | | | | | | | | | | |
| EOP Common Equity/Assets (%) | 9.45 | 9.70 | 9.58 | 12bp | 10.00 | 9.98 | 2bp | 10.34 | 10.33 | 2bp |
| Tang. Common Equity/Assets (%) | 6.88 | 7.11 | 7.02 | 9bp | 7.52 | 7.50 | 2bp | 7.97 | 7.95 | 2bp |
| Tangible Common Equity/RWA (%) | 8.32 | 8.66 | 8.46 | 20bp | 8.94 | 9.02 | -9bp | 9.49 | 9.58 | -9bp |
| Tier 1 Common/RWA (%) | 9.54 | 9.39 | 9.33 | 7bp | 9.34 | 9.57 | -24bp | 9.59 | 9.82 | -23bp |
| Tier 1/RWA (%) | 10.12 | 9.99 | 10.20 | -21bp | 9.90 | 10.43 | -53bp | 10.14 | 10.65 | -52bp |
| PROFITABILITY RATIOS: | | | | | | | | | | |
| Return On Assets (%) | 0.80 | 0.83 | 0.82 | 1bp | 0.80 | 0.79 | 1bp | 0.86 | 0.85 | 1bp |
| Return On Common Equity (%) | 7.72 | 8.05 | 7.97 | 8bp | 7.58 | 7.44 | 14bp | 8.23 | 8.13 | 10bp |
| Return On Tangible Common Equity (%) | 11.43 | 11.92 | 11.77 | 15bp | 11.00 | 10.79 | 21bp | 11.80 | 11.68 | 12bp |
| Operating Expenses/Revenues (%) | 60.25 | 64.67 | 59.15 | 552bp | 60.6 | 60.43 | 15bp | 60.1 | 59.85 | 22bp |
| BALANCE SHEET ITEMS: | | | | | | | | | | |
| EOP Total Deposits | 32,123 | 33,446 | 32,121 | 4.12% | 34,187 | 32,611 | 4.83% | 34,673 | 32,876 | 5.47% |
| AVG Total Deposits | 32,002 | 32,192 | 32,122 | 0.22% | 34,045 | 32,619 | 4.37% | 34,430 | 32,743 | 5.15% |
| EOP Total Assets | 41,637 | 41,016 | 41,488 | -1.14% | 42,416 | 42,383 | 0.08% | 43,774 | 43,696 | 0.18% |
| EOP Equity | 4,128 | 4,174 | 4,170 | 0.10% | 4,434 | 4,424 | 0.23% | 4,722 | 4,707 | 0.33% |
| EOP Preferred Equity | 194 | 194 | 194 | 0.00% | 194 | 194 | 0.00% | 194 | 194 | 0.00% |
| EOP Common Equity | 3,934 | 3,980 | 3,976 | 0.10% | 4,240 | 4,230 | 0.24% | 4,528 | 4,513 | 0.35% |
| EOP Tangible Common Equity | 2,786 | 2,834 | 2,830 | 0.14% | 3,103 | 3,093 | 0.33% | 3,400 | 3,385 | 0.46% |
| CREDIT QUALITY INDICATORS: | | | | | | | | | | |
| Net Charge-Offs | 18 | 16 | 20 | -21.50% | 76 | 76 | 0.00% | 61 | 61 | 0.00% |
| % Average Loans | 0.25 | 0.21 | 0.26 | -5bp | 0.25 | 0.25 | 1bp | 0.20 | 0.19 | 0bp |
| Nonperforming Assets | 178 | 160 | 152 | 5.26% | 194 | 185 | 4.62% | 201 | 190 | 5.77% |
| % EOP Loans + OREO | 0.59 | 0.55 | 0.50 | 5bp | 0.63 | 0.60 | 3bp | 0.63 | 0.59 | 4bp |
| Nonperforming Loans | 169 | 150 | 145 | 3.10% | 184 | 178 | 3.12% | 183 | 177 | 3.18% |
| % EOP Loans (excl. OREO) | 0.56 | 0.51 | 0.48 | 3bp | 0.60 | 0.57 | 2bp | 0.57 | 0.55 | 2bp |
| Loan Loss Reserve | 346 | 351 | 348 | 0.81% | 359 | 356 | 0.80% | 366 | 363 | 0.68% |
| % EOP Loans | 1.15 | 1.20 | 1.15 | 6bp | 1.17 | 1.14 | 2bp | 1.15 | 1.13 | 2bp |
| % Nonperforming Loans | 204.35 | 234.19 | 239.51 | 0bp | 195.08 | 199.57 | 0bp | 199.87 | 204.83 | 0bp |

Source: BofA Global Research estimates, company filings

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Exhibit 4: Popular Inc (BPOP) variance table

New vs. old EPS estimates, assumptions (\$ in millions unless noted)

| KEY FORECAST VARIABLES: | 3Q23 | Actual 4Q23E | Estimate 4Q23E | Variance | New 2024E | Old 2024E | Variance | New 2025E | Old 2025E | Variance |
|--------------------------------------|---------------|-----------------|-------------------|------------|---------------|---------------|------------|----------------|---------------|------------|
| EOP Loans | 34,035 | 35,069 | 34,419 | 1.89% | 36,696 | 35,849 | 2.36% | 37,762 | 36,893 | 2.36% |
| Average Loans | 33,453 | 34,448 | 34,222 | 0.66% | 35,749 | 35,008 | 2.12% | 37,225 | 36,366 | 2.36% |
| Average Earning Assets | 69,175 | 68,885 | 65,846 | 4.62% | 68,418 | 67,504 | 1.35% | 70,425 | 71,385 | -1.35% |
| Net Interest Margin (%) | 3.24 | 3.26 | 3.34 | -8bp | 3.56 | 3.37 | 19bp | 3.75 | 3.45 | 30bp |
| Net Interest Income (FTE) | 563.7 | 564.8 | 554.9 | 1.78% | 2,436.9 | 2,273.3 | 7.20% | 2,639.5 | 2,463.0 | 7.17% |
| Loan Loss Provision | 45.1 | 78.7 | 47.2 | 66.57% | 284.0 | 179.8 | 57.93% | 258.3 | 257.3 | 0.40% |
| Noninterest Revenues | 157.5 | 162.8 | 155.8 | 4.54% | 654.6 | 628.4 | 4.18% | 659.2 | 632.7 | 4.18% |
| Securities Transactions | (1.3) | 2.3 | 0.0 | NA | 0.0 | 0.0 | NA | 0.0 | 0.0 | NA |
| Tot. Revenue | 720 | 730 | 711 | 2.71% | 3,092 | 2,902 | 6.54% | 3,299 | 3,096 | 6.56% |
| Total Expenses | 443.0 | 459.7 | 475.0 | -3.20% | 1,912.2 | 1,908.4 | 0.20% | 1,980.8 | 1,976.5 | 0.22% |
| Pre-Tax Income (FTE) | 231.8 | 191.6 | 188.5 | 1.62% | 895.3 | 813.4 | 10.07% | 1,059.6 | 862.0 | 22.93% |
| FTE Tax Rate (%) | 25.5 | 15.0 | 23.5 | -9pp | 21.0 | 23.5 | -3pp | 23.5 | 23.5 | 0pp |
| Net Income | 150.5 | 136.8 | 121.5 | 12.62% | 610.4 | 531.4 | 14.87% | 716.8 | 568.6 | 26.07% |
| Available For Common | 150.1 | 136.5 | 121.1 | 15mn | 609.0 | 530.0 | 79mn | 715.4 | 567.1 | 148mn |
| Op. EARNINGS PER SHARE (F.D.) | \$2.09 | \$1.90 | \$1.69 | 12% | \$8.54 | \$7.45 | 15% | \$10.97 | \$8.70 | 26% |
| GAAP EPS (F.D.) | \$1.90 | \$1.31 | \$0.92 | 42% | \$8.54 | \$7.45 | 15% | \$10.97 | \$8.70 | 26% |
| Book Value Per Share | \$61.49 | \$71.03 | \$64.00 | \$7.03 | \$85.93 | \$77.40 | \$8.53 | \$105.11 | \$93.25 | \$11.86 |
| Tangible Book Value Per Share | \$50.20 | \$59.74 | \$52.71 | \$7.03 | \$74.11 | \$65.58 | \$8.53 | \$92.01 | \$80.15 | \$11.87 |
| Dividends Per Share | \$0.55 | \$0.62 | \$0.55 | \$0.07 | \$2.48 | \$2.48 | \$0.00 | \$2.60 | \$2.60 | \$0.00 |
| Average Fully-Diluted Shares | 71.8 | 71.9 | 71.6 | 0mn | 71.4 | 71.2 | 0mn | 65.2 | 65.2 | 0mn |
| CAPITAL RATIOS: | | | | | | | | | | |
| EOP Common Equity/Assets (%) | 6.36 | 7.24 | 6.73 | 51bp | 8.08 | 7.25 | 84bp | 8.72 | 7.57 | 115bp |
| Tang. Common Equity/Assets (%) | 5.25 | 6.16 | 5.61 | 55bp | 7.05 | 6.21 | 84bp | 7.72 | 6.58 | 114bp |
| Tangible Common Equity/RWA (%) | 10.13 | 11.89 | 10.82 | 107bp | 13.61 | 11.98 | 162bp | 14.90 | 12.70 | 220bp |
| Tier 1 Common/RWA (%) | 16.81 | 16.30 | 17.17 | -87bp | 17.80 | 16.16 | 164bp | 17.27 | 15.02 | 225bp |
| Tier 1/RWA (%) | 16.87 | 18.11 | 17.23 | 88bp | 17.86 | 16.22 | 164bp | 17.32 | 15.07 | 225bp |
| PROFITABILITY RATIOS: | | | | | | | | | | |
| Return On Assets (%) | 0.85 | 0.77 | 0.69 | 8bp | 0.85 | 0.75 | 10bp | 0.97 | 0.76 | 21bp |
| Return On Common Equity (%) | 9.00 | 8.04 | 10.62 | -258bp | 10.87 | 10.47 | 40bp | 11.54 | 10.24 | 130bp |
| Return On Tangible Common Equity (%) | 10.29 | 9.15 | 12.95 | -380bp | 11.97 | 11.78 | 19bp | 12.58 | 11.45 | 112bp |
| BALANCE SHEET ITEMS: | | | | | | | | | | |
| EOP Total Deposits | 63,338 | 63,618 | 62,392 | 1.96% | 65,273 | 66,937 | -2.48% | 65,815 | 65,428 | 0.59% |
| AVG Total Deposits | 63,551 | 63,266 | 62,865 | 0.64% | 64,764 | 65,560 | -1.21% | 65,544 | 66,182 | -0.96% |
| EOP Total Assets | 69,737 | 70,758 | 68,595 | 3.15% | 72,977 | 73,297 | -0.44% | 74,510 | 76,114 | -2.11% |
| EOP Equity | 4,458 | 5,147 | 4,638 | 10.97% | 5,921 | 5,334 | 11.01% | 6,518 | 5,783 | 12.72% |
| EOP Preferred Equity | 22 | 22 | 22 | 0.00% | 22 | 22 | 0.00% | 22 | 22 | 0.00% |
| EOP Common Equity | 4,435 | 5,125 | 4,616 | 11.02% | 5,899 | 5,312 | 11.06% | 6,496 | 5,761 | 12.77% |
| EOP Tangible Common Equity | 3,620 | 4,311 | 3,802 | 13.38% | 5,088 | 4,501 | 13.05% | 5,687 | 4,951 | 14.85% |
| CREDIT QUALITY INDICATORS: | | | | | | | | | | |
| Net Charge-Offs | 33 | 57 | 39 | 45.32% | 253 | 179 | 41.63% | 240 | 240 | 0.00% |
| % Average Loans | 0.39 | 0.66 | 0.45 | 20bp | 0.71 | 0.51 | 20bp | 0.64 | 0.66 | -2bp |
| Nonperforming Assets | 444 | 438 | 458 | -4.31% | 500 | 523 | -4.31% | 521 | 545 | -4.30% |
| % EOP Loans + OREO | 0.64 | 0.62 | 0.67 | -5bp | 1.36 | 1.45 | -9bp | 1.38 | 1.47 | -10bp |
| Loan Loss Reserve | 711 | 729 | 719 | 1.42% | 760 | 720 | 5.56% | 779 | 738 | 5.57% |
| % EOP Loans | 2.09 | 2.08 | 2.09 | -1bp | 2.07 | 2.01 | 6bp | 2.06 | 2.00 | 6bp |
| % Nonperforming Loans | 196.69 | 203.95 | 192.18 | 1176bp | 185.18 | 167.66 | 1752bp | 184.11 | 166.68 | 1744bp |

Source: BofA Global Research estimates, company filings

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Exhibit 5: First Hawaiian Inc (FHB) variance table

New vs. old EPS estimates, assumptions (\$ in millions unless noted)

| KEY FORECAST VARIABLES: | 3Q23 | Actual 4Q23 | Estimate 4Q23E | Variance | New 2024E | Old 2024E | Variance | New 2025E | Old 2025E | Variance |
|--------------------------------------|---------------|----------------|-------------------|-----------|---------------|---------------|-----------|---------------|---------------|-----------|
| EOP Loans | 14,332 | 14,353 | 14,241 | 0.79% | 14,772 | 14,711 | 0.41% | 15,311 | 15,251 | 0.39% |
| Average Loans | 14,350 | 14,350 | 14,287 | 0.44% | 14,504 | 14,406 | 0.68% | 15,041 | 14,981 | 0.40% |
| Average Earning Assets | 22,061 | 21,689 | 22,271 | -2.61% | 21,925 | 22,499 | -2.55% | 22,310 | 23,139 | -3.58% |
| Net Interest Margin (%) | 2.86 | 2.81 | 2.76 | 5bp | 2.88 | 2.80 | 8bp | 3.00 | 2.85 | 15bp |
| Net Interest Income (FTE) | 157.1 | 151.8 | 155.0 | -2.07% | 631.4 | 630.5 | 0.14% | 669.0 | 659.8 | 1.41% |
| Loan Loss Provision | 7.5 | 5.3 | 6.6 | -18.73% | 38.1 | 37.2 | 2.40% | 31.3 | 31.3 | 0.00% |
| Noninterest Revenues | 46.1 | 51.0 | 47.0 | 8.32% | 197.4 | 190.5 | 3.62% | 200.0 | 193.0 | 3.65% |
| Securities Transactions | 0.0 | 0.0 | 0.0 | NA | 0.0 | 0.0 | NA | 0.0 | 0.0 | NA |
| Tot. Revenue | 203 | 203 | 202 | 0.35% | 829 | 821 | 0.95% | 869 | 853 | 1.91% |
| Total Expenses | 118.5 | 118.7 | 119.0 | -0.22% | 500.1 | 492.7 | 1.49% | 517.8 | 510.2 | 1.51% |
| Pre-Tax Income (FTE) | 77.2 | 78.711 | 76.518 | 2.87% | 290.6 | 291.0 | -0.15% | 320.0 | 311.3 | 2.77% |
| FTE Tax Rate (%) | 23.8 | 24.5 | 24.5 | 0pp | 24.1 | 24.1 | 0pp | 24.1 | 24.1 | 0pp |
| Net Income | 58.9 | 59.4 | 57.8 | 2.88% | 220.6 | 220.9 | -0.15% | 242.9 | 236.3 | 2.78% |
| Available For Common | 58.9 | 59.4 | 57.8 | 2mn | 220.6 | 220.9 | 0mn | 242.9 | 236.3 | 7mn |
| Op. EARNINGS PER SHARE (F.D.) | \$0.46 | \$0.46 | \$0.45 | 3% | \$1.73 | \$1.73 | 0% | \$1.90 | \$1.85 | 3% |
| GAAP EPS (F.D.) | \$0.46 | \$0.37 | \$0.36 | 2% | \$1.73 | \$1.73 | 0% | \$1.90 | \$1.85 | 3% |
| Book Value Per Share | \$18.42 | \$19.48 | \$18.83 | \$0.65 | \$20.96 | \$20.32 | \$0.64 | \$22.54 | \$21.85 | \$0.69 |
| Tangible Book Value Per Share | \$10.62 | \$11.68 | \$11.03 | \$0.65 | \$13.16 | \$12.52 | \$0.64 | \$14.74 | \$14.05 | \$0.70 |
| Dividends Per Share | \$0.26 | \$0.26 | \$0.26 | \$0.00 | \$1.12 | \$1.12 | \$0.00 | \$1.20 | \$1.20 | \$0.00 |
| Average Fully-Diluted Shares | 127.9 | 128.0 | 127.6 | 0mn | 127.6 | 127.6 | 0mn | 127.6 | 127.6 | 0mn |
| CAPITAL RATIOS: | | | | | | | | | | |
| EOP Common Equity/Assets (%) | 9.44 | 9.97 | 9.58 | 40bp | 10.72 | 10.02 | 69bp | 11.35 | 10.53 | 82bp |
| Tang. Common Equity/Assets (%) | 5.67 | 6.23 | 5.84 | 39bp | 7.01 | 6.42 | 59bp | 7.73 | 7.03 | 69bp |
| Tier 1 Common/RWA (%) | 12.21 | 12.39 | 12.34 | 5bp | 12.94 | 12.07 | 88bp | 13.25 | 12.24 | 101bp |
| PROFITABILITY RATIOS: | | | | | | | | | | |
| Return On Assets (%) | 0.94 | 0.97 | 0.92 | 5bp | 0.87 | 0.87 | 0bp | 0.97 | 0.90 | 6bp |
| Return On Common Equity (%) | 9.87 | 9.93 | 9.64 | 29bp | 8.55 | 8.85 | -30bp | 8.75 | 8.78 | -3bp |
| Return On Tangible Common Equity (%) | 17.02 | 17.10 | 16.59 | 51bp | 13.92 | 14.72 | -80bp | 13.64 | 13.94 | -30bp |
| Operating Expenses/Revenues (%) | 58.32 | 58.55 | 58.88 | -33bp | 60.34 | 60.02 | 32bp | 59.59 | 59.82 | -24bp |
| BALANCE SHEET ITEMS: | | | | | | | | | | |
| EOP Total Deposits | 21,511 | 21,333 | 21,573 | -1.12% | 21,380 | 22,781 | -6.15% | 21,578 | 22,962 | -6.03% |
| EOP Total Assets | 24,913 | 24,926 | 25,098 | -0.68% | 24,968 | 25,874 | -3.50% | 25,354 | 26,481 | -4.26% |
| EOP Equity | 2,351 | 2,486 | 2,403 | 3.44% | 2,675 | 2,593 | 3.17% | 2,877 | 2,788 | 3.19% |
| EOP Preferred Equity | 0 | 0 | 0 | NA | 0 | 0 | NA | 0 | 0 | NA |
| EOP Common Equity | 2,351 | 2,486 | 2,403 | 3.44% | 2,675 | 2,593 | 3.17% | 2,877 | 2,788 | 3.19% |
| EOP Tangible Common Equity | 1,356 | 1,491 | 1,408 | 5.87% | 1,680 | 1,598 | 5.15% | 1,881 | 1,793 | 4.96% |
| CREDIT QUALITY INDICATORS: | | | | | | | | | | |
| Net Charge-Offs | (0) | 6 | 5 | 22.60% | 23 | 23 | 0.00% | 25 | 25 | 0.00% |
| % Average Loans | (0.01) | 0.16 | 0.13 | 3bp | 0.16 | 0.16 | 0bp | 0.17 | 0.17 | 0bp |
| Nonperforming Assets | 15 | 19 | 14 | 30.42% | 20 | 15 | 30.42% | 24 | 18 | 30.42% |
| % EOP Loans + OREO | 0.10 | 0.13 | 0.10 | 3bp | 0.14 | 0.10 | 3bp | 0.16 | 0.12 | 4bp |
| Nonperforming Loans | 15 | 19 | 16 | 13.54% | 20 | 17 | 13.54% | 24 | 22 | 13.54% |
| % EOP Loans (excl. OREO) | 0.10 | 0.13 | 0.12 | 1bp | 0.13 | 0.12 | 2bp | 0.16 | 0.14 | 2bp |
| Loan Loss Reserve | 155 | 157 | 157 | -0.08% | 171 | 171 | 0.45% | 178 | 177 | 0.44% |
| % EOP Loans | 1.08 | 1.09 | 1.10 | -1bp | 1.16 | 1.16 | 0bp | 1.16 | 1.16 | 0bp |
| % Nonperforming Loans | 1058.57 | 841.80 | 956.50 | -11470bp | 877.23 | 991.50 | -11426bp | 727.40 | 822.28 | -9488bp |

Source: BofA Global Research estimates, company filings

BofA GLOBAL RESEARCH



Price objective basis & risk

Associated Banc-Corp (ASB)

Our \$23 PO is based on a 50%/50% weighting between our 2024e EPS and 2024e tangible book value (TBV). We assign 12.0x/1.0x multiples respectively, below peer multiples (12.3x/1.1x) due to its below-average EPS growth momentum.

Upside risk: stronger-than-expected balance sheet growth and greater NIM expansion relative to peers. Downside risk: higher-than-expected expense growth, accelerated credit migration, slower balance sheet growth.

First Hawaiian Inc. (FHB)

Our \$20 PO is based on applying a 50%/50% weighting between our 2024e EPS and 2024e TBV. We assign 12.5x/1.4x multiples respectively, below the bank's 5 year pre-pandemic median of 14.3x/2.5x given heightened uncertainty surrounding EPS/ROTCE outlooks, owing to the macro backdrop.

Downside risks are 1) FHB's reliance on the Hawaiian economy, with 80% of the franchise spread across Hawaii, Guam, and Saipan, poses downside risk to EPS from a severe economic downturn in this region. 2) While FHB has a history of conservative underwriting, its exposure to auto loans could serve as an overhang if investor concerns around the health of the auto sector and consumer increase. Upside risk to our PO is a quick economic recovery in Hawaii and better-than-expected NIM expansion.

Popular Inc (BPOP)

We value BPOP's shares using a 50/50 blend of forward price-to-earnings (P/E) and price-to-tangible book value (P/TBV) multiples. We arrive at our \$97 price objective based on the following:

We ascribe an 11.0x multiple on our 2024e EPS. Premium to history (7.6x) reflecting some realization of idiosyncratic growth opportunities not previously available to BPOP (efficiency improvements & credit leverage).

We ascribe a 1.4x P/TBV multiple on our 2024e TBV per share. Premium to history (0.8x) reflects the benefit from undisbursed federal aid to credit performance as well as 2x TBV growth vs. that of peers.

Upside risks: a better-than-expected improvement in the macro environment and credit performance, and larger cost savings

Downside risks: slower-than-expected federal aid disbursement, a deterioration in credit quality and/or increase in expenses

Analyst Certification

I, Brandon Berman, 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 |
| | Ares Commercial Real Estate Corporation | ACRE | ACRE 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 |
| | Blackstone Mortgage Trust Inc | BXMT | BXMT 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 |
| | New York Community Bancorp | NYCB | NYCB US | Ebrahim H. Poonawala |
| | Northern Trust Corporation | NTRS | NTRS US | Ebrahim H. Poonawala |
| | 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 | TSIX | TSIX US | Derek Hewett |
| | Starwood Property Trust | STWD | STWD 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 |
| | Apollo Commercial Real Estate Finance | ARI | ARI 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 Secured Lending Fund | BXSL | BXSL US | Derek Hewett |
| | BrightSpire Capital Inc. | BRSP | BRSP 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 | 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 |
| | 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 |
|-------------------|----------------------------|-------------|------------------|--------------|
| | TPG RE Finance Trust, Inc. | TRTX | TRTX US | Derek Hewett |

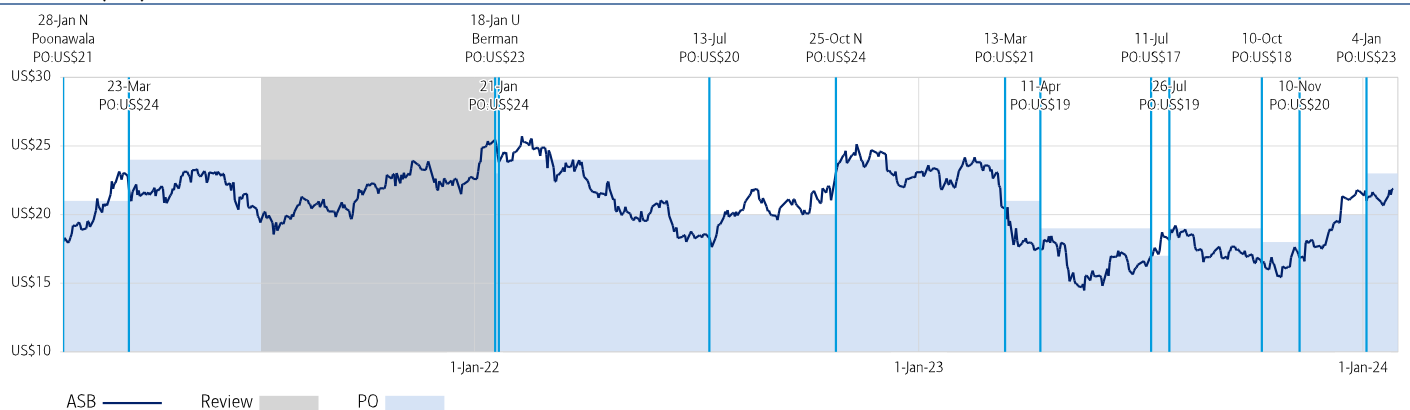
UNDERPERFORM

| | | | | |
|--|--------------------------------|------|---------|----------------------|
| | Bank of Hawaii Corp. | BOH | BOH US | Brandon Berman |
| | 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 |
| | Zions Bancorp | ZION | ZION US | Brandon Berman |

Disclosures

Important Disclosures

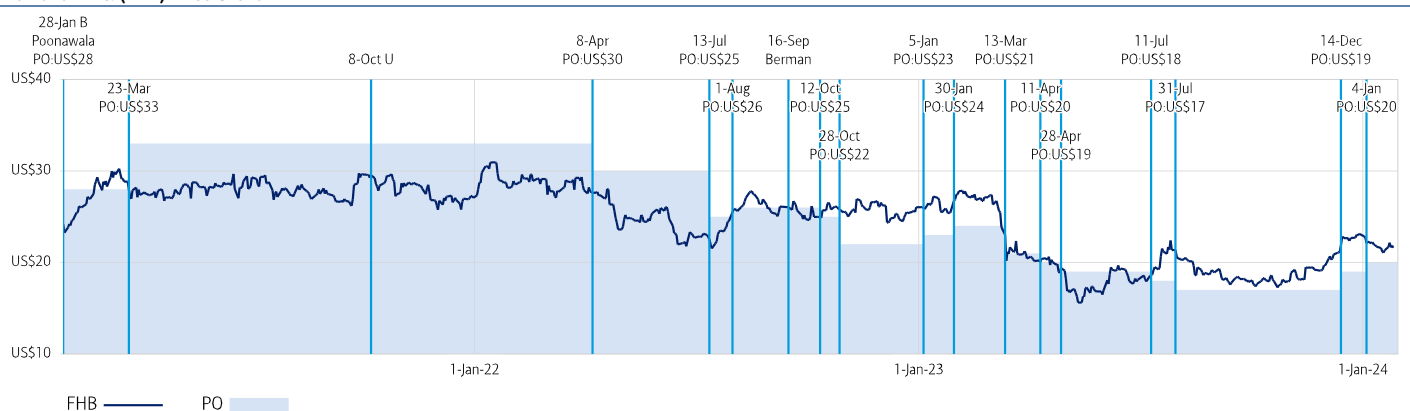
Associated Banc (ASB) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

First Hawaiian Inc. (FHB) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Popular Inc (BPOP) Price Chart



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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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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster ^{R2} |
|-------------------|---|--|
| 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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