

## Webster Financial Corp.

## Missing the forest for the trees; Initiate at Buy

Reinstating Coverage: BUY | PO: 60.00 USD | Price: 50.98 USD

## Initiate WBS at Buy: Risks more than discounted

We are initiating coverage of Webster Financial Corp (WBS) with a Buy rating and a \$60 price objective (c20% total potential return). We believe the current valuation overlooks the bank's near best-in-class fundamentals (i.e., top-5 efficiency ratio and ROTCE, and 1.5X faster loan growth) for near-term headwinds. We can appreciate the headwinds facing WBS, including interest rate and credit risks; however, even under stress we est. the bank can generate an ROTCE ~300bp higher than the peer average. Expectations for WBS to generate ~18% ROTCE in 2024 suggest shares could re-rate higher (from 8.7x to 10x), in our view.

## Rate sensitivity reduced, NIM likely more stable from here

We don't believe the market fully appreciates the steps management has taken to reduce its sensitivity. WBS' sensitivity to a +/-100bp change in rates has been cut by more than a third since 2018. The reduced sensitivity can be attributed to the bank's diverse deposit funding sources, interLINK in particular. These deposits are likely to offer WBS increased flexibility to offset the NIM headwinds in 2024. Additionally, on balance sheet hedges could protect the NIM in 2H24. Finally, continued above-average loan growth could also help to minimize the impact of lower rates. For 2024, we forecast loan growth of 7% YoY, nearly 2X that of mid-cap peers.

## Credit concerns overdone, see 2% credit leverage benefit

We believe WBS may have more credit leverage than is embedded within consensus estimates. Consensus is forecasting WBS' NCO ratio increases 52% YoY to 32bp in 2024 (vs. its 25bp TTC loss rate) whereas average mid-cap increase is 32%. That said, cons. is forecasting a ~\$35mn reserve build in 2024, which will limit the downside risk to EPS est., in our opinion. We expect NCOs to increase by 33% YoY to ~\$125mn or 24bp, assuming a 140bp YoY increase unemployment rate by 4Q24. This would imply ~2% EPS benefit to consensus estimates all else equal. (Note: WBS' above-average CRE and SNC exposures may draw undue investor focus).

## Room for P/TBV to re-rate higher amid ~18% returns

WBS is trading at 1.5x AOCI-adjusted TBV, only modestly above the low-end of its historical trading range (defined as +/-1 standard deviation). Although this represents a 6% premium to peers, we note WBS has typically traded at a 15% premium. We would expect shares to re-rate higher in 2024 given its above-average return profile (even under stress). We expect WBS to generate ~18% ROTCE in 2024.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	4.42	3.56	5.15	5.86	6.67
EPS Change (YoY)	88.1%	-19.5%	44.7%	13.8%	13.8%
DPS	1.60	1.60	1.60	1.60	1.60
Valuation (Dec)					
P/E	11.5x	14.3x	9.9x	8.7x	7.6x
Dividend Yield	3.1%	3.1%	3.1%	3.1%	3.1%

11 January 2024

## Equity

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## Stock Data

Price	50.98 USD
Price Objective	60.00 USD
Date Established	11-Jan-2024
Investment Opinion	B-1-7
52-Week Range	31.03 USD -56.00 USD
Mrkt Val / Shares Out (mn)	8,770 USD / 172.0
Free Float	99.1%
Average Daily Value	78.24 USD
BofA Ticker / Exchange	WBS / NYS
Bloomberg / Reuters	WBS US / WBS.N
ROE (2023E)	0%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

## Acronyms:

NCO: net charge-off

NIM: net interest margin

ROTCE: return on tangible common equity

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Timestamp: 11 January 2024 06:00AM EST

# iQprofile<sup>SM</sup> Webster Financial Corp.

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Income	901	2,034	2,351	2,358	2,536
% change	1.1%	125.8%	15.6%	0.3%	7.5%
Net Fee Income	312	445	357	369	387
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	1,213	2,479	2,708	2,727	2,923
Operating Expenses	(698)	(1,143)	(1,185)	(1,242)	(1,276)
% change	-2.5%	63.7%	3.7%	4.8%	2.7%
Provisions Expense	55	(281)	(151)	(188)	(199)
% change	-139.6%	NA	-46.2%	24.5%	5.9%
Operating Pre-Tax Income	581	1,056	1,355	1,296	1,447
Operating Net Income to Comm S/Hold.	399	596	886	937	1,035
GAAP Net Income	399	596	886	988	1,087

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Assets	34,359	68,564	71,140	74,642	78,034
Average Interest Earning Assets	NA	NA	NA	NA	NA
Total Gross Customer Loans	6,895	12,905	11,706	11,390	11,597
% change	NA	87.2%	-9.3%	-2.7%	1.8%
Total Customer Deposits	59,694	108,109	120,235	123,945	129,264
% change	9.2%	81.1%	11.2%	3.1%	4.3%
Tangible Equity	NA	NA	NA	NA	NA
Common Shareholders' Equity	(28,918)	(47,885)	(57,715)	(58,566)	(61,095)

## Key Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Margin	NA	NA	NA	NA	NA
Effective Tax Rate	24.6%	25.3%	26.6%	27.7%	28.4%
Loan / Deposit Ratio	11.5%	11.9%	9.7%	9.2%	9.0%
Tangible Common Equity / Assets	0%	0%	0%	0%	0%
ROA	NA	NA	NA	NA	NA
ROE	NA	NA	NA	NA	NA
RoTE	NA	NA	NA	NA	NA
Dividend Payout Ratio	36.2%	44.9%	31.1%	28.8%	25.2%
Efficiency Ratio (Cost / Income Ratio)	57.5%	46.1%	43.8%	45.6%	43.7%

## Quality of Earnings (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Non-Interest Inc / Operating Inc	25.7%	17.9%	13.2%	13.5%	13.2%
NPLs plus Foreclosed Real Estate / Loans	0%	0%	0%	0%	0%
Loan Loss Reserves / NPLs	NA	NA	NA	NA	NA
Loan Loss Reserves / Total Loans	4.37%	4.61%	5.57%	6.27%	6.48%

## Company Sector

Banks-US Regionals

## Company Description

Webster Financial Corporation (WBS) is a \$73bn+ asset bank, which operates over 200 branches in CT, NY, MA, and RI. WBS and its HSA Bank division deliver a wide range of financial solutions, including equipment financing, asset-based lending, and treasury and payment solutions. WBS operates in three segments: Commercial Banking, Consumer Banking, and HSA Bank.

## Investment Rationale

Valuation overlooks the bank's near best-in-class fundamentals (i.e., top-5 efficiency ratio and ROTCE, and 1.5X faster loan growth) for near-term headwinds. Under stress we estimate WBS can generate an ROTCE 300bp higher than the peer average. Expectations for WBS to generate 18% ROTCE in 2024 suggest shares could re-rate higher.

## Stock Data

Average Daily Volume 1,534,813

## Quarterly Earnings Estimates

	2022	2023
Q1	-0.14A	1.24A
Q2	1.00A	1.32A
Q3	1.31A	1.28A
Q4	1.38A	1.31E

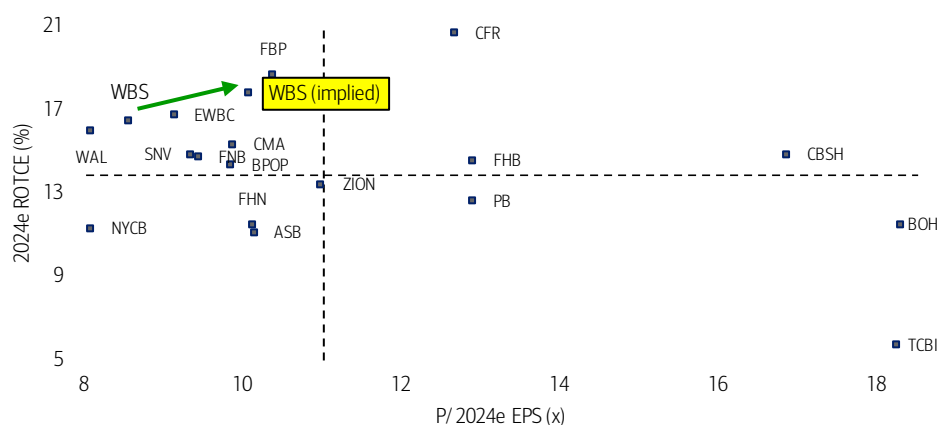
# Initiate at Buy, PO implies 20% return

We are initiating coverage of Webster Financial Corp (WBS) with a Buy rating and a \$60 price objective (c20% total potential return).

We believe the current valuation overlooks the bank's near best-in-class fundamentals (i.e., top-5 efficiency ratio and ROTCE, and 1.5X faster loan growth) for near-term headwinds. We can appreciate the headwinds facing WBS, including interest rate and credit risks, yet even under stress we est. the bank can generate an ROTCE ~300bp higher than the peer average. Expectations for WBS to generate ~18% ROTCE in 2024 suggest shares could re-rate higher (from 8.7x to 10x), in our view, representing 16% potential upside.

## Exhibit 1: Above-average ROTCE expectations suggest WBS trades closer to 10x

ROTCE forecasts vs. P/ '24e multiples



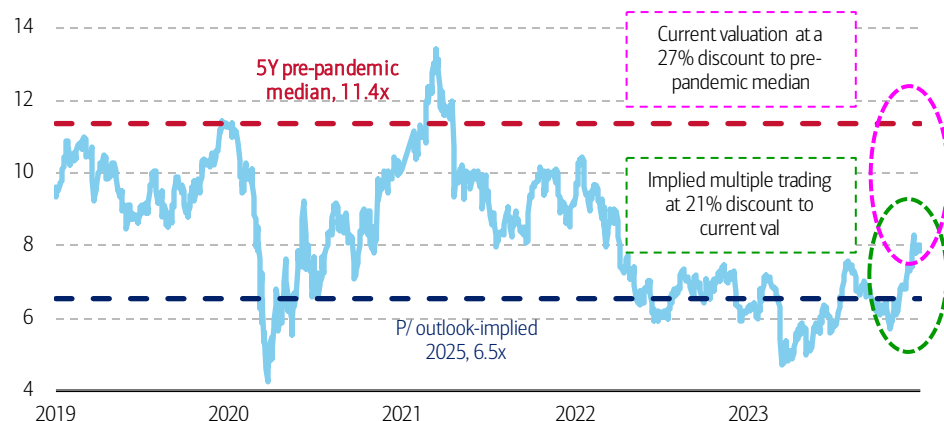
Source: BofA Global Research, Visible Alpha

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It is widely expected WBS will fall short of its 2025 financial targets. However, we believe this is more than discounted in the current valuation. Assuming management's 11-13% annual PPNR growth outlook (provided at its 2023 Investor Day), we estimate WBS is trading at 6.5x pro forma 2025e, a 21% discount to where shares are trading relative to consensus 2025e (8.0x). Meanwhile, the latter represents a 25%+ discount to its pre-pandemic historical median.

## Exhibit 2: Shares more than discount risks facing WBS, including execution vs. targets

2-year forward P/E multiple



Source: BofA Global Research, company filings, Bloomberg, Visible Alpha

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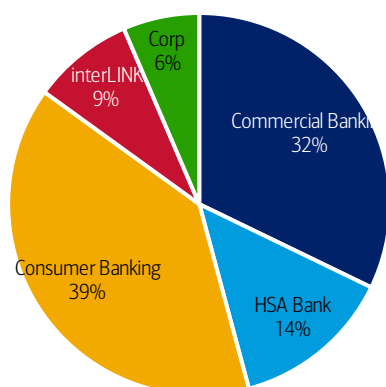


## Diverse funding sources help minimize NIM volatility

WBS prides itself on its diverse funding profile, including \$8.2bn in HSA deposits (14% of deposits). (Note: HSA deposits provide WBS with long-duration, low-cost funding). This is complemented by the bank's tech-enabled, core-deposit gathering platforms: BrioDirect and interLINK. These differentiated channels are intended to minimize WBS' reliance on wholesale debt to support loan growth. Not to mention, this funding should provide the bank increased protection against future industry-wide liquidity issues (should they arise). Furthermore, interLINK deposits offer WBS incremental downside NIM support in a rate-cutting cycle (like that expected for 2024). Coupled with continued expectation for above average loan growth, we believe WBS should experience less NIM volatility going forward, and thus more stable earnings.

### Exhibit 3: WBS generates deposit growth through diverse channels

Deposit composition (3Q23)



Avg mid-cap bank:  
**Commercial:** 35%  
**Consumer:** 53%  
**Wealth:** 1%  
**Other:** 11%

Source: company filings

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## HSA deposits are the “crown jewel”

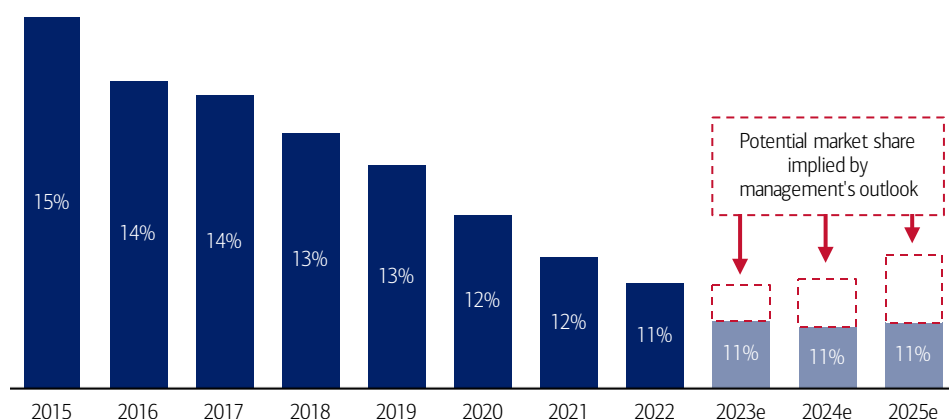
WBS (via HSA Bank segment) ranks as one of the top health savings account provider with 3mn customers nationally. HSA Bank division relies on partnerships with various health insurance carriers; partners who provide high deductible health plan options are a significant source of new and existing HSA holders. HSAs are used in conjunction with high deductible health plans to facilitate tax advantages for account holders. Fee income is generated predominantly through service fees and interchange income. (Note: HSA Bank's interchange revenue is not subject to FRB's Debit Card Interchange rules).

A Health Savings Account (HSA) is a type of savings account that lets customers set aside money (on a pre-tax basis) to pay for qualified medical expenses. As the HSA market has grown (5Y CAGR: 14%), WBS has steadily ceded share. The bank's deposit market share has decreased nearly 400bp to 11% in 2023. As of 2022, WBS ranks as 4th largest HSA provider (based on total assets) in 2022, down from #1 in 2014.

Management had indicated expectations for HSA deposits to grow by double-digits per year by 2025, consistent with its compounded annual growth rate between 2017-22. Deposit growth is expected come from increased account penetration as well as tech enhancements meant to improve the client experience. We forecast HSA deposits grow 8% YoY in 2024. That said, continued industry deposit growth expectations (+17% over the next two years) represents upside potential to our estimates.

**Exhibit 4: HSA deposit market growth has outpaced that of WBS, but presents upside**

HSA deposit market share



Source: BofA Global Research, company filings

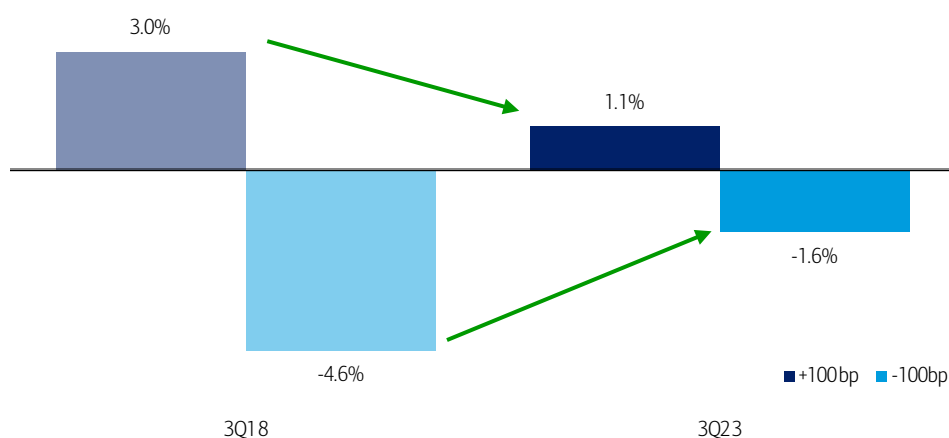
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**Rate sensitive deposits offer a new lever in downside rate scenario...**

WBS is rate sensitive; however, impact from lower rates largely in line with that of peers. Management estimates a 100bp rate cut would lower NII by 1.6% over NTM. (We note, WBS is more sensitive to a decline in the long end of the yield curve vs. a decline in the short end). That said, we don't believe the market fully appreciates the steps management has taken to reduce its sensitivity. WBS' sensitivity to a +/-100bp change in rates has been cut by more than a third since 2018 – an impressive accomplishment given Sterling Bancorp (acquired in 2022) was more rate sensitive. The reduced sensitivity can be attributed to the bank's diverse deposit funding sources, interLINK deposits in particular. These deposits are likely to offer WBS increased flexibility to offset the NIM headwinds in 2024 relative to peers. Additionally, on balance sheet hedges will protect the NIM in 2H24, assuming a 3.5% terminal Fed funds rate. (Futures currently forecast the Fed funds rate declines to ~4% by YE2024).

**Exhibit 5: WBS has reduced its rate sensitivity by more than 1/3<sup>rd</sup> since 2018**

Est. impact to NII over NTM following a +/-100bp change in interest rates



Source: company filings, S&amp;P Capital IQ

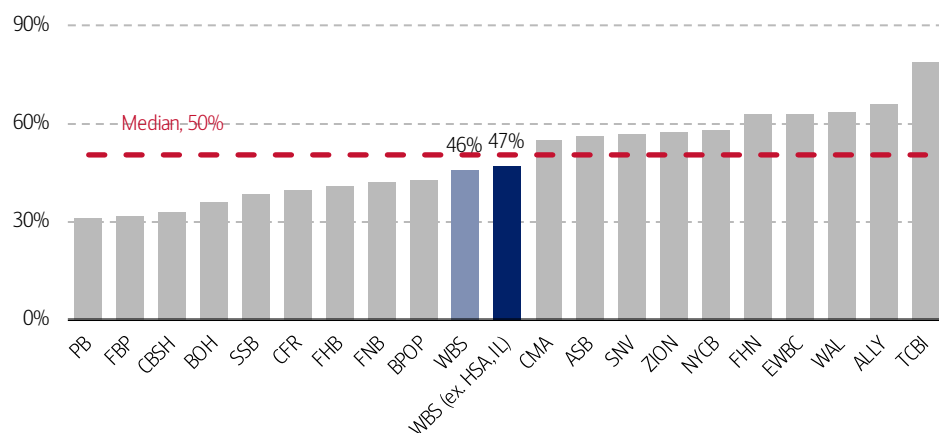
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### ... plus core deposit beta leverage largely consistent with peers'

WBS has experienced a 46% deposit beta cycle-to-date. Despite low-cost, rate insensitive HSA deposits (comprise 14% of total balances at 3Q23), WBS' deposit beta is only slightly below the peer median (50%). While growth in interLINK deposits (\$5.2bn at 3Q23) likely contributed to the higher CTD deposit beta – partially offsetting the benefit of HSA deposits – we estimate a pro forma deposit beta (i.e., excluding both HSA and interLINK deposits) at ~47%. We reckon WBS' higher exposure to brokered deposits (as a % of earning assets) is a contributing factor. Furthermore, whereas peers have likely locked in high-cost debt (with minimal maturities expected in 2024), WBS' reliance on high-cost/rate-sensitive deposits CTD provides them with a comparable opportunity to offset NIM headwinds, in our view.

#### Exhibit 6: WBS' deposit beta still elevated after excluding HSA & interLINK deposits

Cycle-to-date deposit beta



Source: company filings, S&P Capital IQ

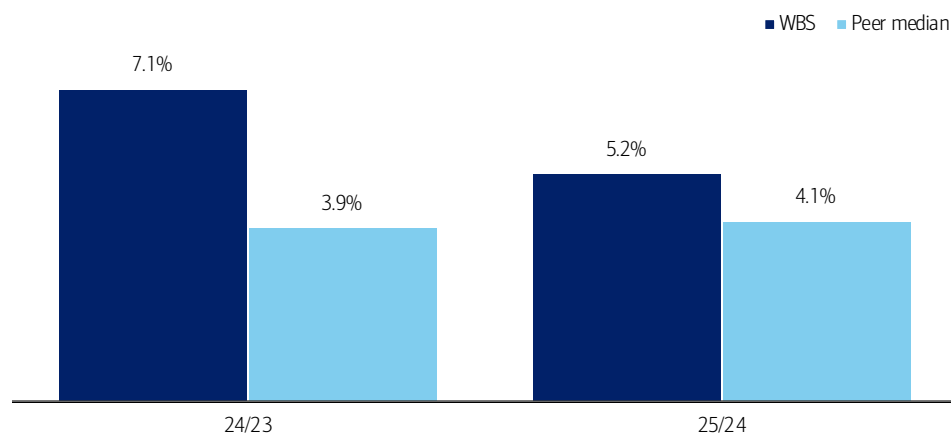
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### Above-average loan growth may help neutralize rate sensitive b/s

WBS' 1-year interest rate sensitivity gap ratio – which compares the mismatch between re-pricing or maturity of assets vs. liabilities – was 25% as of 3Q23, slightly higher than the peer median (18%). In isolation, this implies interest rate-sensitive assets exceed interest rate-sensitive liabilities, and thus will result in the NIM decreasing in a falling rate environment. However, continued above-average loan growth could help to minimize the impact of lower rates. For 2024, we forecast loan growth of 7% YoY, nearly 2X that of mid-cap peers.

**Exhibit 7: We forecast WBS loan growth of 7%, nearly 2X that of peers**

BofA mid-cap bank loan growth forecasts



Source: BofA Global Research estimates

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**Modest credit leverage**

We believe WBS may have more credit leverage, albeit modest, than is embedded within consensus estimates. Consensus is forecasting WBS' NCO ratio increases 52% YoY to 32bp in 2024 vs. mid-cap average increase of 32%. It is important to note that although WBS' allowance (when compared to loan loss forecasts) appears light relative to peers, consensus is forecasting a ~\$35mn reserve build in 2024. This should limit downside risk to EPS estimates, in our opinion. For 2024, we expect NCOs to increase by 33% to ~\$125mn or 24bp of average loans (vs. ~25bp TTC). This assumes a 75%/25% blended average of Moody's unemployment forecasts in its base case and stagflation scenarios.

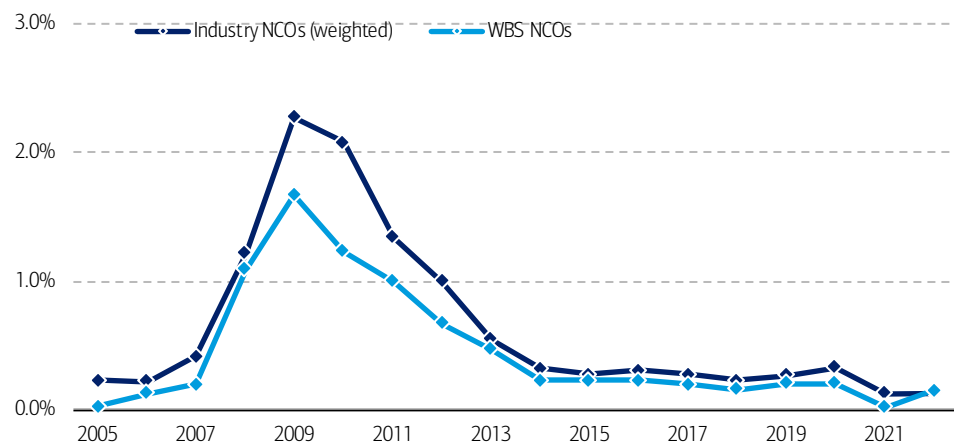
WBS has typically incurred lower loan losses than that of the industry. On average, WBS has reported an average annual NCO rate of 45bp (28bp ex. recessions) vs. a composition-like industry average of 64bp. Meanwhile, recent increases in NCOs (+57% YoY YTD) have been entirely driven by proactive loan sales. Although WBS' criticized loans have increased by 71% since 4Q21 to \$1.27bn (vs. peer average of +21%), management has been able to resolve these problem loans with minimal losses incurred. (As of 3Q23, YTD change in special mention commercial loans have declined \$10mn). Peers, on the other hand, have seen criticized loans steadily increase.

Broad concerns around CRE exposure could weigh on shares. CRE (+ multifamily) represents 41% of loans (vs. 27% mid-cap average). CRE is weighted towards multifamily and industrial property types in New York. That said, office only represents 2% of loans (3% bank average), 38% of which located in New York area.



**Exhibit 8: WBS' loan losses have typically outperformed the group**

Historical NCO rates

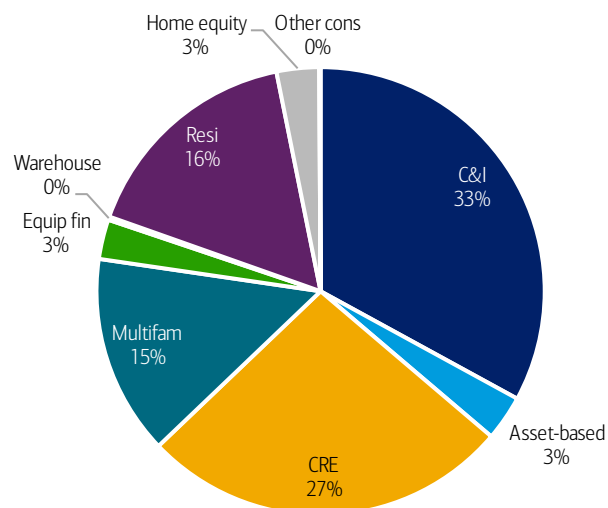


Source: company filings, S&amp;P Capital IQ, FDIC

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**Exhibit 9: CRE & multifamily loans comprise 41% of total loans**

Loan composition as of 3Q23

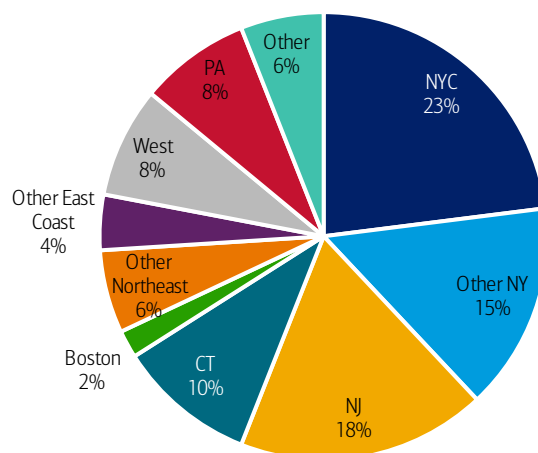


Source: company filings

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**Exhibit 10: Nearly 40% of office portfolio located in NY region**

Office portfolio by geography



Source: company filings

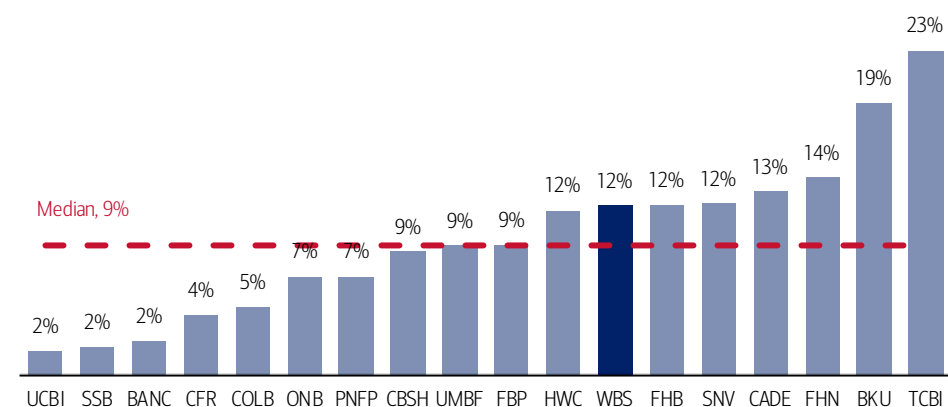
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SNC portfolio represents 12% of loans, of which ~\$3bn are leveraged loans. WBS' use of SNCs has been in strategy or in geography or in product. The SNC portfolio has a weighted average risk rating of 50bp better than the overall weighted average risk rating of the commercial portfolio.



**Exhibit 11: WBS has greater exposure to SNC than peers**

SNC portfolio as % of total loans



Source: company filings

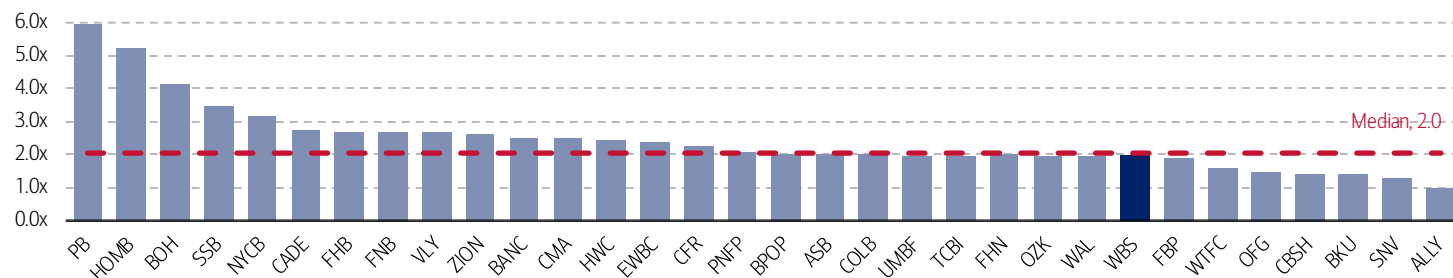
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**Total allowance appears sufficient, more allocated to CRE than peers**

WBS had a reserve ratio of 1.27%, modestly higher than that of the peer average; however, this represents a coverage ratio of 2.0x consensus' 2024/25 NCO forecasts (modestly below that of peers).

**Exhibit 12: Consensus forecasts suggest WBS has limited credit leverage**

Allowance vs. consensus 2024/25 NCO forecasts



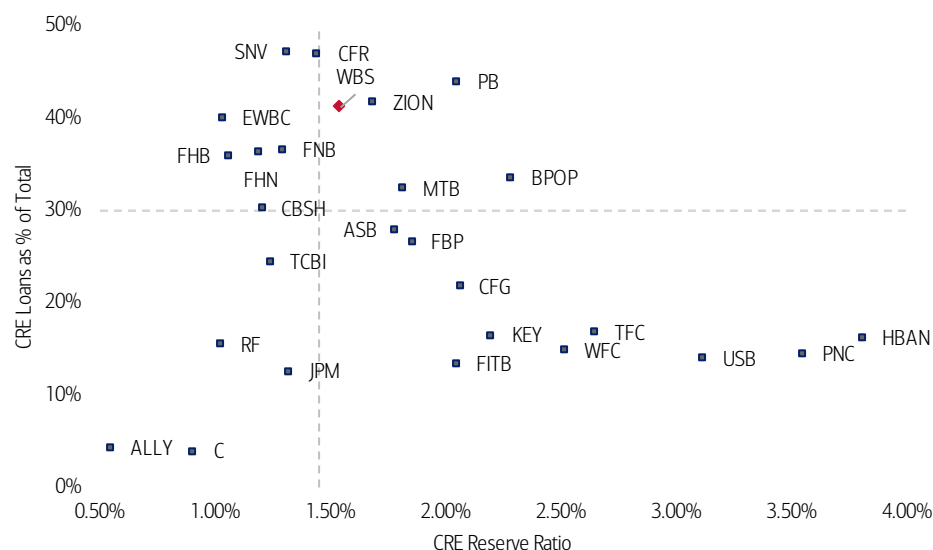
Source: company filings, Visible Alpha

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More importantly, at least given the prominence of CRE concerns currently, WBS' CRE loan portfolio (41% of loans) appears adequately reserved for relative to peers. As of 3Q23, WBS had allocated 50% of its loan loss reserves toward CRE, representing 1.54% of loans (vs. 1.45% peer average).

**Exhibit 13: WBS has allocated 50% of reserves toward CRE**

CRE exposure vs. CRE-related reserves



Source: company filings

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**Valuation**

Shares of WBS are trading at 8.7x 2024E EPS, a 30%+ discount to its 5-year, pre-pandemic historical average. The bank's ~60% EPS growth since 2018 may represent one reason why multiples have compressed by 1.4x. More recently, multiple compression likely attributable to merger integration risk, indiscriminate CRE concerns, and liquidity risk (have since reduced exposure to uninsured deposits). Over this time, the discount to peers has also widened. WBS is trading at a 23% discount to the KRX Index vs. -2% at 12/31/18.

**Exhibit 14: WBS trading below low-end of historical range**

WBS 1-year forward P/E multiple (x)



Source: Bloomberg

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**Exhibit 15: P/E discount to peers has widened**

WBS 1-yr fwd P/E multiple vs. KRX Index



Source: Bloomberg

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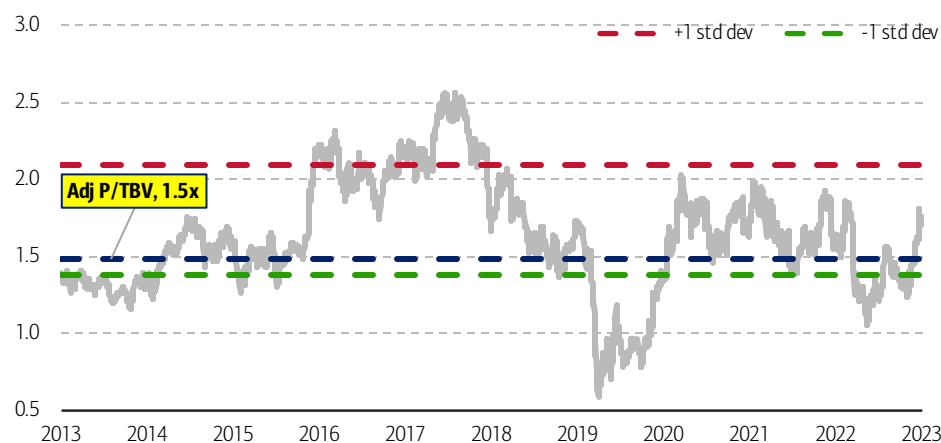
WBS is trading at 1.5x AOCI-adjusted TBV, only modestly above the low-end of its historical trading range (defined as +/-1 standard deviation). Although this represents a 6% premium to peers, we note WBS has typically traded at a 15% premium. We would



expect shares to re-rate higher in 2024 given its above-average return profile. Consensus expects WBS to generate ~18% ROTCE in 2024, 400bp higher than the mid-cap peer median.

#### Exhibit 16: WBS P/TBV multiple only modestly above low-end of historical range

WBS price to tangible book value multiple (x)



Source: Bloomberg

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## Price Objective

We value WBS'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 \$60 price objective based on the following:

Given expectations for WBS to generate 17%+ (16% under stress), we ascribe a 10.2x multiple on our 2024e EPS. This implies a fair value of ~\$60. The discount to its 5-year pre-pandemic history (11.4x) reflects relatively higher near-term risk.

During times of uncertainty, principally driven by the trajectory of credit costs – and therefore earnings – investors will utilize a price-to-tangible book valuation (P/TBV) methodology. We ascribe a 1.7x P/TBV multiple based on our 2024e ROTCE. This implies a fair value of ~\$60.

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

## Company overview

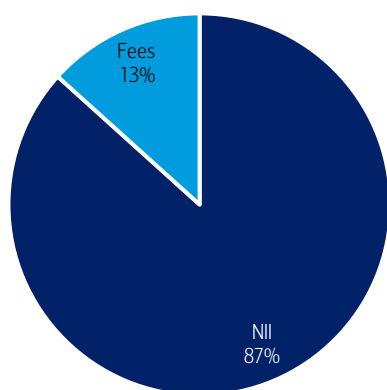
Headquartered in Stamford, CT, Webster Financial Corp is comprised of three lines of business: Commercial Banking, HSA Bank, and Consumer Banking. HSA Bank is one of the largest providers of employee benefits solutions in the US.

Majority of revenue is generated via net interest income. The Commercial Banking segment contributes two-thirds of total pre-provision net revenue.



**Exhibit 17: Revenue composition**

FY2022

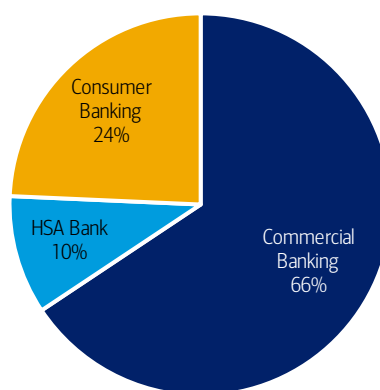


Source: company filings

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**Exhibit 18: PPNR composition by segment**

FY2022



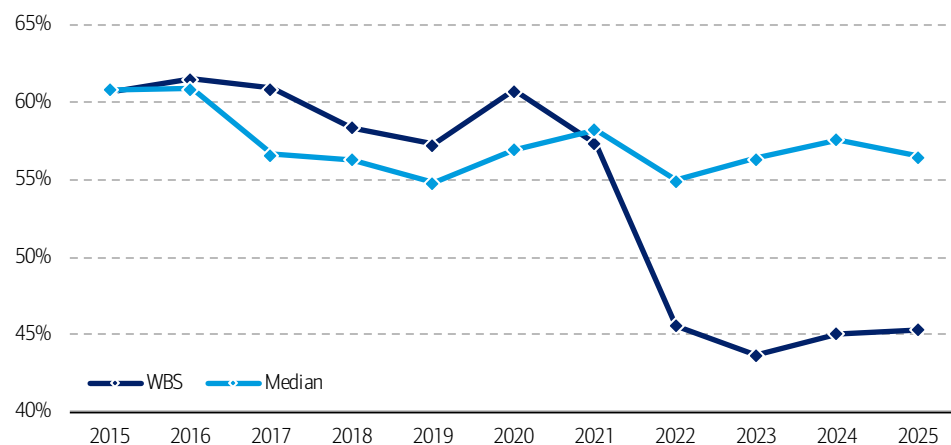
Source: company filings

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Webster Financial Corp is amongst the most efficient mid-cap banks

**Exhibit 19: WBS has improved its efficiency following acquisition of Sterling Bancorp**

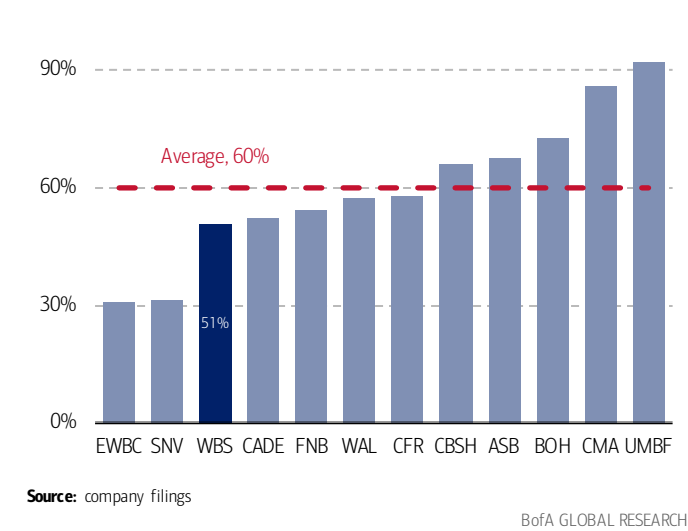
Efficiency ratio



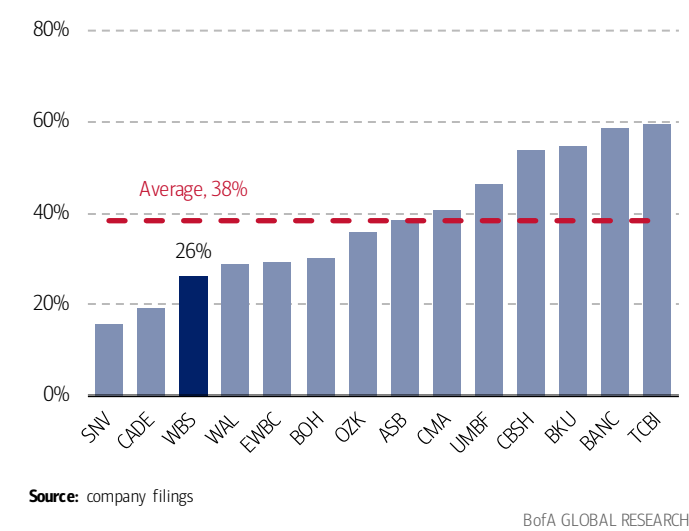
Source: company filings, Visible Alpha

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**Exhibit 20: WBS’ Consumer Banking more efficient than mid-caps**  
Consumer segment efficiency ratio (2022)



**Exhibit 21: ... similarly for its Commercial Banking segment**  
Commercial segment efficiency ratio (2022)



## Price objective basis & risk

### Webster Financial Corp. (WBS)

Our \$60 PO is based on a 50%/50% weighting between our 2024e EPS and 2024e tangible book value (TBV). We assigned 10.2x/1.7x multiples, respectively, to correspond with its near 20% ROTCE profile but below its pre-pandemic average (11.4x/1.8x) due to near-term EPS headwinds.

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

## 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
<b>BUY</b>				
	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
	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	TS LX	TS LX 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
<b>NEUTRAL</b>				
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Annaly Capital Management	NLY	NLY US	Derek Hewett

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	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
	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
	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

iQmethod<sup>SM</sup> Measures Definitions

## Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

## Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

## Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

## Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

## Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

## Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

## Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

## Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

## Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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