

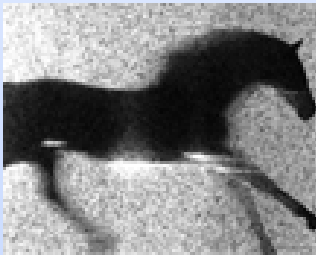
The Banking Industry 2011— **Where Are We, Exactly?**

Presented by:

Nancy A. Bush, CFA

SNL Annual Bank M&A Symposium

October 5, 2011



NAB RESEARCH, LLC

"A career built on independent thinking"

Nancy A. Bush, CFA

Nancy Bush has long been noted both for the strength of her views on the banking industry and for the excellence of her written product. In 2007 she was ranked as the third top analyst in the Institutional Investor poll for independent research of financial institutions. As an analyst independent of investment banking conflicts, she has made stock calls that sometimes brought her into controversy with company managements—such as her “Sell” rating on Bank of New England in 1988 (which resulted in a communications embargo on the part of that now-defunct company) and a request from CoreStates’ then-CEO Terry Larsen in 1995 to discontinue coverage of that company after her condemnation of a proposed CoreStates-Bank of Boston deal. (The request was denied.) Her First Call notes were avidly read by bank managements and investors alike, and resulted in extensive quotation in industry publications such as the Wall Street Journal, the American Banker, and others. She also consistently received high rankings in Greenwich surveys during her sell-side career for her high level of industry knowledge.

Ms. Bush made her jump to the “sell-side” of Wall Street in 1985, after having been a portfolio manager and analyst at Sentinel Advisors, the mutual fund advisory arm of National Life of Vermont. She joined the old Philadelphia brokerage firm of Butcher & Singer in November of that year, and quickly made her mark with the “Banking Quarterly Review,” making that publication one of the most-often quoted and widely read brokerage publications in the Middle Atlantic region. In 1987, she moved to the big-time—New York City—as the regional banking analyst at Dean Witter Reynolds, where she expanded her coverage from the Middle Atlantic to include Southeastern and Western banking companies. From there, she moved to the venerable Wall Street firm Brown Brothers Harriman in 1990, serving as Senior Banking Analyst and later also as Assistant Director of Research. Forsaking the interminable Wall Street commute in 1998, she joined Ryan, Beck & Co., a Livingston, New Jersey, financial services boutique, as a Senior Bank Analyst and—after a short return to New York to work as senior banking analyst at Prudential—later returned to Ryan, Beck as Director of Financial Institutions Group Research. Throughout her sell-side career, she has tracked the progress of companies such as Wachovia, Wells Fargo, Bank of America and SunTrust, among others, through their evolutions from smaller regional banks into today’s mega-regionals.

Ms. Bush has also been a sought-after speaker in the banking industry. Recent speaking engagements have included presentations at the Chicago Fed conference on "Banking Structures and Competition," the BAI Transpay Conference in Las Vegas and the Federal Reserve Bank of Atlanta’s 2008 Banking Industry Outlook conference. Past engagements have included addresses to senior managements at Wells Fargo, Bank of America, SunTrust, and Northern Trust, among others, and speeches to senior examiners at the Office of the Comptroller of the Currency and numerous banking industry groups.

On the personal front, Ms. Bush resides in Hunterdon County, New Jersey, where she is active in the horse world as well as the Wall Street world. She is a member of the Boston Bank Analysts Association, the New York Society of Security Analysts, and has also served as an intelligence officer in the U.S. Naval Reserve, resigning at the rank of Lieutenant Commander in 1993.

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PANIC!

- Great Banking Panics That I Have Known and Survived:
 - The Big One, CRE-Style: 1988-1991;
 - The Derivatives Blow-Up: 1993-1994;
 - Russia/LTCM: The Summer of 1998;
 - The Tech Meltdown/Sept. 11—2000-2001;
 - The Great Recession—Is this one the last?
- And Now—Fiddling as Athens Burns!**



The Great Recession—It Has NOT Left The Building...

Some headlines from May 18, 2010:

- “Toxic CDO’s Beset FDIC As Banks Fail”—WSJ
- “Deflation Threat Likely To Keep Cap on Rates”—WSJ
- “Stench Lingers On Bad Home Loans”—WSJ
- “Euro Crisis Drifts To China”—New York Times
- “Could America Live With European Austerity?”—CNBC

The Major Issues That Are facing Us:

- The level of global indebtedness—for governments and individuals;
- The retirement of the Baby Boomers in the U.S.;
- The loss of the **thrift** ethic—and the **mindset of honoring one’s obligations**—of the Great Depression Generation;
- The “over-housing” of the U.S.—how much longer will it last?

Bottom Line: The piper has YET to be paid!



Banks Versus Main Street—This Is Nothing New...

- Thomas Jefferson vs. Alexander Hamilton—1792
- Andrew Jackson vs. Nicholas Biddle and The Second Bank of the U.S.—1833
- The Bank Holiday—March 4-12, 1933
- Lehman Brothers—September 15, 2008
- **Washington's wars on the banks are nothing new!**



What Is A Bank, Exactly?

- Investment banks versus commercial banks—they're not the same!
- Was the repeal of Glass-Steagall a mistake?
- How much capital markets capability does a commercial bank really need?
- **The industry needs to clear up the confusion that has been created in the minds of the public...**



The Way Back Home...

- Going back to basics—Taking deposits and making loans...
- The branch as the primary point of customer contact...
- Outreach to customers to point out the differences with Wall Street...
- Understanding consumer needs in a time of instability and uncertainty...
- **Don't let the media set the agenda!**



Do Banks Have The Products For the Future?

- Products for painless saving...The adult piggybank?
“Keep the Change”, adjustable rate CD’s
- What about advice— and not just for the wealthy?
- How will banks serve the credit-challenged? A
“credit-builder” account...
- Brand identities and products that **recognize the anxiety of the times**— “Live Solid, Bank Solid”



Industry Overview

- The major bank stocks have significantly **outperformed** the broader market for the past year, up 37.5% versus a strong 27.2% rise for the S&P 500.
- Year-to-date performance has also been very strong as the recovery has gained steam—but performance is **beginning to fade**. Major bank stocks are up **23.4% through mid-May**, versus a broader market that is up 1.8%.
- The impediments from here are several—the possibility of a double-dip recession, the fears of Euro-zone contagion, the **ongoing evolution of Fin Reg**—and a **general sense of an identity crisis** for the banking industry.
- **The real question—what happens as Fed support for the financial system begins to be withdrawn? In the words of Warren Buffett—“When the tide goes out, you can see who’s swimming naked!”**



Industry Overview

(Continued)

MAJOR FACTORS

IN BANK STOCK PERFORMANCE

- Rates, rates, rates –What will happen when we have a “normal” rate environment?
- Bank stocks are still deep value investments...Does tangible book value mean anything?
- The credit outlook—can commercial loan quality continue to hold up?
- **Dividends—When can they be resumed?**

THE FUTURE...

- Industry consolidation—Likely to accelerate as the crisis subsides...
- Earnings trends—What are “normal” returns?
- **Bank stocks—Can they ever be trusted again?**



Industry Overview

(Continued)

Question: What continues to move these stocks from here?

Answer: Credit quality and capital adequacy will continue to trump all other concerns through 2011...

Things to think about...

- How will we redefine “the American Dream”?
- Consumer spending—what is “the new normal”?
- Is future inflation of real concern—and what does it do to bank balance sheets in the future? **Or is deflation the “real” enemy?**



Industry Overview

(Continued)

HOWEVER—Looking at the longer term:

- Industry consolidation is still an evolutionary force, and will become even more so...
- Rates will go up and liquidity will lessen...
- The housing market will resume growth at a subdued pace...
- **ONLY THE STRONG WILL THRIVE IN THE BANKING ENVIRONMENT OF THE FUTURE!**



Table 1
Major Banks
Earnings Estimates/Valuation Data

Ticker	Rating	05/14/10 Price	Target Price	EPS 2009A	EPS 2010E	EPS 2011E	P/E 2010E	P/E 2011E	Rel. P/E 2010E	Rel. P/E 2011E	Rel. P/E '02-'06 Range	Tangible BV 03/31/10	Price to TBV	Annual Div.	Div. Yield
Northeastern															
JPM	H	39.89	51	2.31	3.44	4.62	11.6	8.6	0.78	0.71	0.6 - 2.0	26.12	152.7%	0.20	0.5%
PNC	H	65.61	60	3.43	3.47	4.41	18.9	14.9	1.27	1.23	0.6 - 0.8	26.81	244.7%	0.40	0.6%
Northeastern Average															
							15.3	11.8	1.03	0.97			198.7%		0.6%
Southeastern															
BAC	H	16.34	20	(0.29)	0.61	1.25	26.8	13.1	1.80	1.08	0.6 - 0.6	11.70	139.7%	0.04	0.2%
BBT	H	34.05	30	1.15	1.41	2.29	24.1	14.9	1.63	1.22	0.7 - 1.0	14.67	232.1%	0.60	1.8%
STI	H	29.82	30	(3.98)	(1.42)	0.65	NM	45.9	0.00	3.78	0.7 - 0.7	22.76	131.0%	0.04	0.1%
SNV	H	3.20	3	(3.94)	(0.73)	(0.11)	NM	NM	0.00	0.00	0.8 - 1.1	3.36	95.2%	0.04	1.3%
Southeastern Average															
							25.5	24.6	0.86	1.52			149.5%		0.8%
Midwestern/Western															
FITB	NR	14.08	NA	0.67	(0.11)	0.92	NM	15.3	0.00	1.26	0.8 - 1.3	9.16	153.7%	0.04	0.3%
KEY	H	8.43	9	(2.27)	(1.04)	(0.19)	NM	NM	0.00	0.00	0.6 - 0.7	7.91	106.6%	0.04	0.5%
USB	B	25.51	32	0.97	1.66	2.28	15.4	11.2	1.03	0.92	0.6 - 0.7	7.95	320.9%	0.20	0.8%
WFC	B	32.04	33	1.75	2.01	2.41	15.9	13.3	1.07	1.10	0.7 - 0.8	13.29	241.1%	0.20	0.6%
Midwestern/Western Average															
							15.7	12.2	0.70	0.67			222.8%		0.6%
Trust, Processing & Asset Management															
BK	H	29.70	34	2.13	2.44	2.75	12.2	10.8	0.82	0.89	0.8 - 1.5	6.73	441.3%	0.36	1.2%
NTRS	H	53.18	55	3.16	3.50	3.90	15.2	13.6	1.02	1.12	1.0 - 1.3	24.65	215.7%	1.12	2.1%
STT	H	41.63	49	4.11	4.06	4.36	10.3	9.5	0.69	0.79	0.9 - 1.1	18.21	228.6%	0.04	0.1%
Trust & Processing Average															
							12.5	11.3	0.84	0.93			295.2%		1.1%
NAB Research, LLC Major Bank Average															
							16.7	15.6	0.84	1.07			212.5%		0.8%
NAB Research, LLC Major Bank Average excl. Trust & Processing															
							18.8	17.4	0.84	1.11			184.9%		0.7%
SPX	S&P 500	1,135.68		56.03	76.47E	93.55E	14.9	12.1	1.00	1.00	NA	NA	NA	23.83	1.6%
BIX	S&P Major Bank Index	154.53		1.91A	6.08E	11.92E	25.4	13.0	2.09	1.07	NA	NA	NA	1.35	0.9%

Notes: S&P 500 estimates based on FirstCall data.

2009 actual results are operating; 2011 estimates are preliminary.
Estimates for FITB are from First Call data; "core" estimates for State Street are \$2.95 and \$3.54 respectively.
TBV's are calculated on a non-GAAP basis.

Rating Legend
B (Buy), H (Hold), S (Sell)

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Table 2
Major Banks
Stock Performance

Region	Company	Closing Price										% Change	
		5/14/09	6/30/08	9/30/08	12/31/08	3/31/09	6/30/09	9/30/09	12/31/09	3/31/10	5/14/10	One Year	Year-to-Date
Northeastern	JP Morgan Chase	35.54	34.31	46.70	31.53	26.58	34.11	43.82	41.67	44.75	39.89	12.2	-4.3
	PNC	43.12	57.10	74.70	49.00	29.29	38.81	48.59	52.79	59.70	65.61	52.2	24.3
Southeastern	Bank of America	11.31	23.87	35.00	14.08	6.82	13.20	16.92	15.06	17.85	16.34	44.5	8.5
	BB&T Corp.	22.30	22.77	37.80	27.46	16.92	21.98	27.24	25.37	32.39	34.05	52.7	34.2
	SunTrust Banks	15.03	36.22	44.99	29.54	11.74	16.45	22.55	20.29	26.79	29.82	98.4	47.0
	Synovus Financial	3.86	8.73	10.35	8.30	3.25	2.99	3.75	2.05	3.29	3.20	-17.1	56.1
Midwestern/Western	Fifth Third Bancorp	7.52	10.18	11.90	8.26	2.92	7.10	10.13	9.75	13.56	14.08	87.2	44.4
	KeyCorp	5.93	10.98	11.94	8.52	7.87	5.24	6.50	5.76	7.75	8.43	42.2	46.4
	U.S. Bancorp	17.84	27.89	36.02	25.01	14.61	17.92	21.86	22.51	25.88	25.51	43.0	13.3
	Wells Fargo	25.69	23.75	37.53	29.48	14.24	24.26	28.18	26.99	31.12	32.04	24.7	18.7
Trust, Processing & AM	BNY Mellon	28.44	37.83	32.58	28.33	28.25	29.31	28.99	27.97	30.88	29.70	4.4	6.2
	Northern Trust Corp.	55.00	68.57	72.20	52.14	59.82	53.68	58.16	52.40	55.26	53.18	-3.3	1.5
	State Street Corp.	39.23	63.99	56.88	39.33	30.78	47.20	52.60	43.54	45.14	41.63	6.1	-4.4
	S&P 500 (SPX)	893.07	1,280.00	1,164.74	903.25	797.87	919.32	1,057.08	1,115.10	1,169.43	1,135.68	27.2	1.8
	S&P Bank Index (BIX)	112.35	171.34	180.64	137.53	75.71	106.99	129.14	125.19	148.71	154.53	37.5	23.4



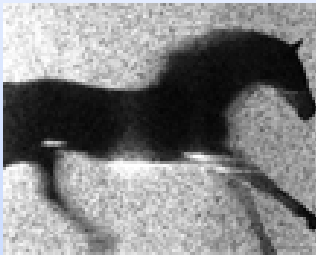
Investment Philosophy

- Numbers tell you **NOTHING** about a bank!
- In no other industry does the personality of the CEO so determine the success or failure of the company.
 - Corollary: The only way to truly change the culture is to change the CEO.
- Chronically cheap bank stocks are that way for a reason, as are bank stocks that are always “expensive.”
- Capital strength and credit quality are the long-term determinants of bank stock multiples, not revenue growth.

QUALITY ALWAYS WINS!!



Questions & Answers



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