



Webcast May 15, 2008

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The Future of Bank M & A Survivors Take Out Excess Capacity

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Who is Financial Insights?

- Provider of independent market research, custom research and strategic consulting
- Focus on the strategic business application of financial services technologies
- Provide unique insights on how to improve business through the use of technology
- Breadth & depth with global reach of IDC and our industry knowledge

Introducing Our Speakers



- Jeanne Capachin, VP Research, Global Banking & Insurance Practices
 - Directs the research and analysis for the all Financial Insights' Banking and Insurance Practices, IT Spending Guides, Industry rankings; FinTech 100 and Insurer's Choice
 - Taught thousands of bankers, vendors, and regulators about banking and payment systems issues and trends through NEACH association
 - Previously at Bank of Boston and Guaranty Bank and Trust with responsibility for product management, operations management, and systems development and integration

Introducing Our Speakers



- **Bill Bradway, President, Bradway Research**
 - Research focused on the attributes that make a difference in the performance of banks (including thrifts and credit unions)
 - Over 30 years experience in senior executive roles in banking, research and consulting
 - Formed Bradway Research LLC in late 1996
 - Research career includes Group VP, Banking and Insurance at Financial Insights, president and co-founder of Meridien Research before its merger with IDC, and founding member of TowerGroup
 - 15 year career at senior executive at Coast Federal Bank, including IT, mortgage servicing, asset based lending, insurance agency, and marketing

Agenda

- Industry Consolidation Continues
 - Updated forecast on consolidation through 2010
 - Impact of consolidation on performance & spending
 - Market impact of M&A deals that are:
 - In-market roll-ups
 - Extension of market reach and/or expansion of product lines
 - Impact on FinTech vendors and the CIO's initiatives
- Lingering Issues That Never Go Away
 - How does a CIO support business users when acquisitions disrupt ongoing projects?
 - How do FinTech vendors manage their businesses when M&As disrupt ongoing projects?
- Questions? Chat or Audio

Banking Industry Consolidation Analysis

- Consolidation trends reshape the mix of institutions
- Share of growth in total assets by tier
 - >\$10 Billion: 1998 = 63.2%; 2003 = 70.3%; 2007 = 77.7%
 - \$1 - \$10 Billion: 1998 = 17.5%; 2003 = 14.5%; 2007 = 10.9%
 - <\$1 Billion: 1998 = 19.3%; 2003 = 15.2%; 2007 = 11.4%
- Total industry purchasing opportunities shrink while high value opportunities concentrate at larger firms

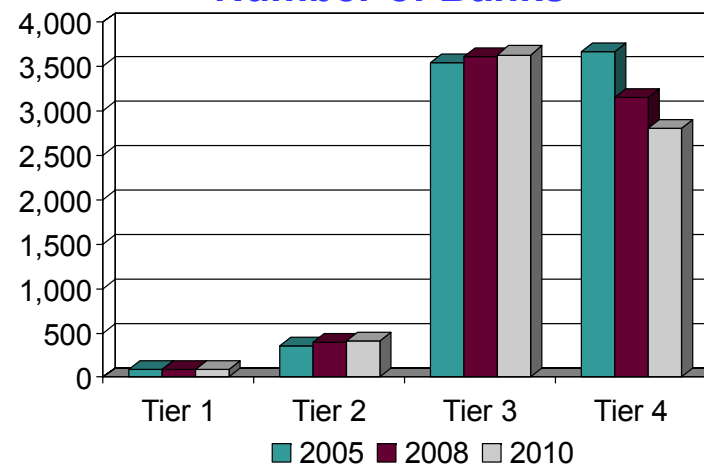
Segment Size	1993	1998	2003	10-Year Δ
> \$10 billion*	83*	105*	110*	32.5%
\$1–10 billion*	483*	432*	471*	(2.5%)
\$100 million–1 billion*	3,928*	3,815*	4,211*	7.2%
< \$100 million*	8,937*	6,109*	4,390*	(50.9%)
Total institution count*	13,421*	10,461*	9,182*	(31.6%)

Note: * FDIC data combined for bank & thrift asset categories. Source: FDIC, Financial Insights

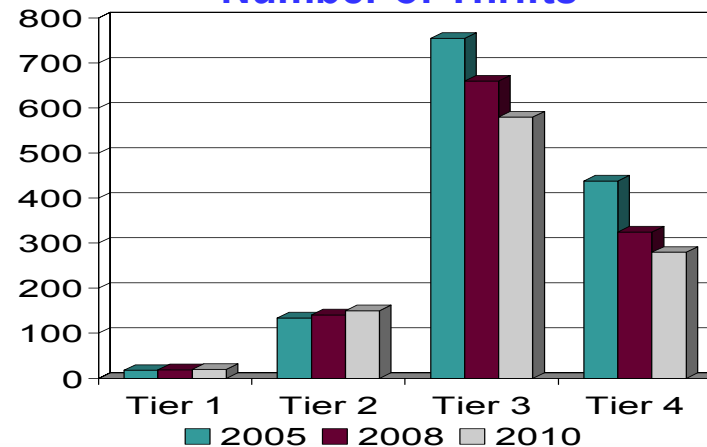
2010 Forecast by Segments and Tiers

- Tiers based on assets
 - Tier 1: > \$10 billion
 - Tier 2: \$1 – \$10 billion
 - Tier 3: \$100 M – \$1 billion
 - Tier 4: < \$100 M
- Bank market still shrinking
 - 7,630 to 7,230 to 6,928
 - Tier 1 is flat
 - Tier 2 and 3 expand slightly
 - Tier 4 continues a steep drop
- Thrift institution base shrinks
 - 1,345 to 1,145 to 1,030
 - Tier 1 declines slightly
 - Tier 2 expands slightly
 - Tiers 3 and 4 still falling

Number of Banks



Number of Thrifts



Consolidation Hits Performance and Spending

- Performance gains for banks > \$10 billion
- Performance slips for banks < \$100 million
- Spending consolidates dramatically to banks > \$10 billion
- IT spending grows faster than all other non interest expenses
- Market power potential at JP Morgan Chase and Bank of America

Impact of Consolidation on Performance

➤ Profitability

- As a group, the biggest are more profitable
- The smallest institutions are hard pressed to maintain profits

➤ Operating efficiency

- The big institutions are benefiting from economies of scale
- The small institutions struggle to keep operating ratios flat

Segment Size	1993	1998	2003	10-Year Δ
Return on Assets				
> \$10 billion	1.16%	1.08%	1.42%	22.4%
<\$100 million	1.15%	1.14%	0.95%	(17.4%)
Efficiency Ratio				
> \$10 billion	NA	62.11%	54.80%	(11.8%)
< \$100 million	NA	67.30%	71.68%	6.51%

Source: FDIC, Financial Insights

Banking Industry Non Interest Expenses

- Large institutions (>\$10 Billion) improve operating efficiency faster
- Large institutions expand share NIE to 77%
- NIE has been flat for other firms since 2003

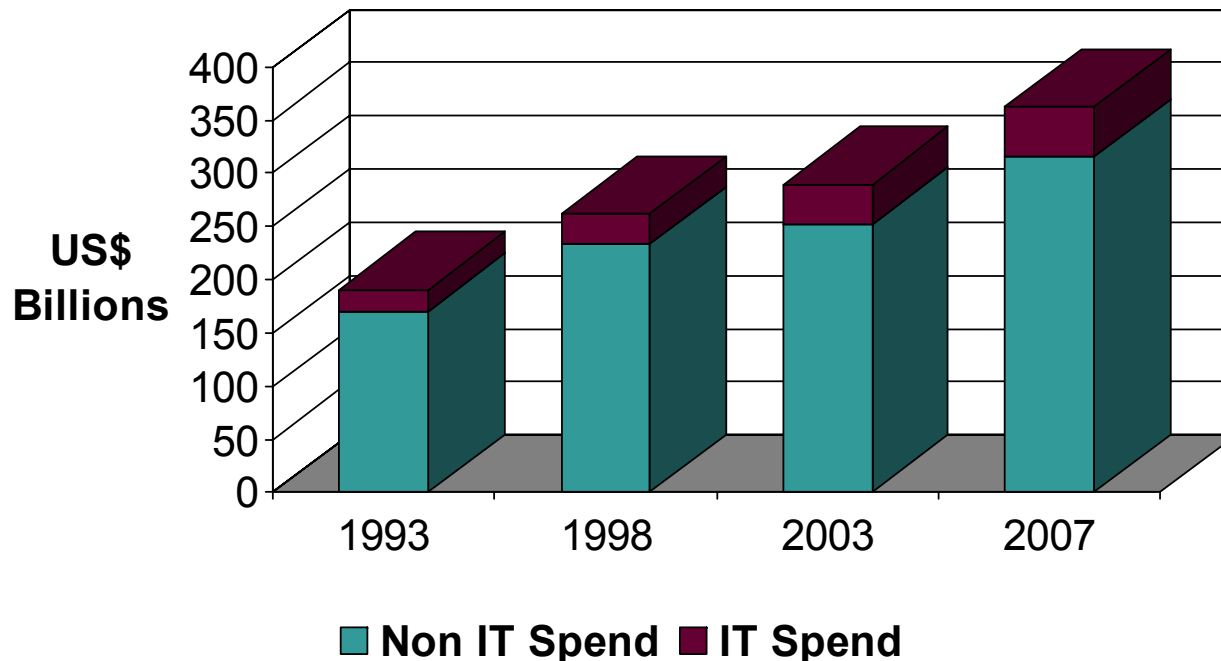
Segment Size for Non-interest Expense	1993	1998	2003	10 Year Δ	2007
Institutions with >\$10 billion NIE ratio	4.20%	4.05%	3.17%	(24.5%)	2.92%
Rest of the banking industry NIE ratio	3.95%	3.95%	3.23%	(18.2%)	3.01%
Total banking industry NIE (\$billion)	\$190.8	\$262.2	\$289.5	51.7%	\$362.5
Institutions with >\$10 billion share of NIE	43.4%	63.8%	69.8%	60.8%	77.1%
Institutions with >\$10 billion NIE (\$billion)	\$82.9	\$167.3	\$202.2	143.9%	\$279.6
Rest of banking industry NIE (\$billion)	\$109.9	\$94.9	\$87.3	(20.6%)	\$87.6

Source: FDIC, Bradway Research, Financial Insights

IT Spend Outpaces NIE Growth

- IT spending represented about 12% of NIE in 2003
- IT spending expanded to 12.8% of NIE during 2007

US Bank NIE and IT Spending (1993 - 2007)



M & A's Appeal Create Value for Owners and Customers

- Value of cost savings exceeds premium
- Deep, proven management team to handle integration
- Strong balance sheet and significant capital generation



JPM and BAC = Market Share Monoliths

Line of Business or Market Segment	U.S. Ranking	
	JP Morgan Chase	Bank of America
Retail banking, demand deposits and branches	2 - DDA deposits 4 - Branches	1 - DDA deposits 1 - Branches
Credit cards outstanding	2	5 1
Mortgages serviced	4	5 1*
Installment loans outstanding	1	2
Small business lending	4	1
Syndicated lending	1	3
Assets under management	3	13
Private banking (\$1 million minimum)	2	4 3**
CHIPS, Fed wire, and ACH origination	1	3

Source: FDIC, Barron's, Institutional Investor, JP Morgan Chase, Bank of America, Financial Insights

 = result of post-Fleet acquisitions (MBNA, CFC*, US Trust**)

Market Leadership in Wholesale Financial Services Client Base Benefits from More Products

	Clients ¹			Products
	JPMorgan Chase	Bank One	Combined	
Corporate	8,000	3,000	11,000	Advisory Capital-raising Market-making Risk management Cash management
Middle Market	10,000	20,000	30,000	Securities processing

Significant opportunity to offer expanded product set to a larger client base

¹ Approximate numbers, combined number may contain duplicate customers

Market Leadership in Wholesale Financial Services Investment Bank

Market leadership

- #1 in Global Syndicated Loans
- #1 Derivatives House
- #2 U.S. Investment Grade Corporate Debt
- #4 in Global Equity and Equity-related
- #5 in Global Announced M&A

Highlights

- Premier global investment bank with a complete, integrated product offering
- Leadership positions in all key markets
- Global scale – Combined client revenues equal to highest on the street¹
- Broad corporate and investor client base covering 95% of Fortune 100 companies and equivalent global penetration
- Proven ability to provide innovative solutions
- Cross sell opportunities with a leading middle market client franchise

¹ Based on 9/30/03 YTD IB revenues versus C, GS, LEH, MER and MWD
Source: Thomson Financial and internal company data

Market Leadership in Wholesale Financial Services Treasury & Securities Services

Market leadership

- #1 in U.S. Dollar Clearing
- #1 U.S. Corporate Trustee
- #1 in CHIPS, Fedwire, ACH origination

Highlights

- Cash Management: Combined JPMorgan Chase/Bank One doubles revenue to \$4bn
 - Largest global player
 - “Best in class” product expertise applied to much larger client base
- Securities Processing
 - Custody - \$7tn in assets
 - Trustee/transaction agency - \$5tn of debt issues
- Cross sell opportunities in cash management, custody and trust to a broader client base

Source: Thomson Financial, Globalcustody.net, Ernst & Young, NACHA and internal company data

Market Leadership in Wholesale Financial Services Investment Management/Private Banking

Market leadership

- #1 U.S. / #3 Global Private Bank
- #2 U.S. Active Asset Manager
- #2 Global Money Market Asset Manager
- #4 U.S. Mutual Fund Company

Highlights

- Second largest global active asset manager with over \$700bn in AUM
- Scale increased to over \$300bn of client assets in the private bank
- Mutual fund family grows significantly to \$200bn in AUM
- Broader wealth management product range serving a larger client base

Source: Company filings, Pensions & Investments, iMoneyNet, Financial Research and internal company data

Lingering Issues That Won't Go Away

➤ CIO

- Balancing regulatory and compliance requirements that do not generate any revenue, just more costs
- Being responsive to M & A when it happens => cost take out from consolidating IT & operations
- Inflationary and expansion pressures drive up costs
 - Forces a fresh look at the entire IT framework and options
 - Green IT issues also become a factor
- New ways for IT to displace non-IT spend at lower cost

➤ FinTech vendors

- Succeeding with fewer new business opportunities
- Help client institutions use IT to displace non-IT spend
- Managing R & D, balance cost structure vs. revenues
- Staying “smart” on the buy side

Essential Guidance

- Expect consolidation waves will continue
- Large transactions like JPM and BAC deals have escalating operational risk factors
- Successful financial institution M & A needs symmetry between business models, cultures and buyer's acquisition strategy
- Institutions gain competitive advantage with a planning framework for IT applications and infrastructure that incorporates M & A
- Purchasing power consolidation benefits buyer
- Vendors plan for “future” customer portfolio

Questions? Live Meeting Chat or Audio



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Is Mobile a Viable Channel for Banking, Investing, and Insurance?

Slides will be posted within 24 hours

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 - May 22, 2008
- Data Management Integration and its Impact on Institutions, Markets, and the FinTech Community
 - June 11, 2008
- The FinTech Marketplace: Is the Future Dynamic or Dull?
 - June 24, 2008

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- **Payments 2008: Thought Leadership and Innovative Solutions**
 - May 18-21, 2008, MGM Grand, Las Vegas
 - Join Dana Gould, Senior Research Analyst, Payments as he presents a session on "Banking Opportunity in the Healthcare Industry" within the Payments Biz track.
- **FST Summit 2008 - New York City**
 - Four Seasons Hotel, NYC, June 3-5, 2008
 - Join a team of analysts including: Cyrus Daruwala, Asia/Pacific Managing Director, Jeanne Capachin, Research VP, Banking and Insurance and others in NYC.
- **SIFMA's 28th Annual Technology Management Conference & Exhibit**
 - Hilton New York, June 10-12, 2008
 - Join Sean O'Dowd, senior research analyst, Capital Markets



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Thank you for your time and attention

Slides and Recording will post overnight

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