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EQUITY CAPITAL MARKETS

Stress Test and Capital Planning Panel

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Impact of Testing on Banks

- **Expensive to assemble the data**
  - **Federal Reserve acknowledged this as CapPR (banks with $50+ billion in assets) data submissions were not as extensive as CCAR (19 largest banks), reflecting the view that these banks needed time to build internal systems**
  - **“Tens of thousands of man hours” needed to build models and then run the tests, cited by the American Banker**
  - **Q4 expenses for banks much higher than the first 3 quarters, more so than typical seasonality suggests**
- **Consumes management’s time that could be spent focusing on day-to-day issues related to running the bank**

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Has the exercise been helpful?

- Provided a measure of confidence to the marketplace on the health of the banking system
  - Bank stock rally accelerated after results posted
  - Financial shares concentration in S&P 500 Index increased
- Clearly defined how much capital can be returned to shareholders
- Forced banks to broaden their test criteria and examine capital levels at extreme and previously unforeseen economic backdrops
- Gave management teams a sense of where they stand relative to peers in the eyes of their regulators

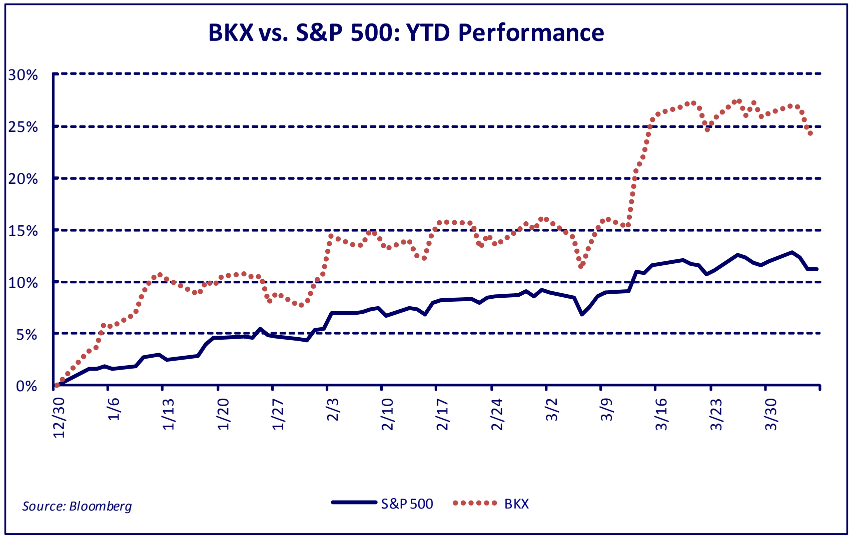
CCAR Results Viewed Favorably

Projected Capital Ratios for the 19 Largest Banks

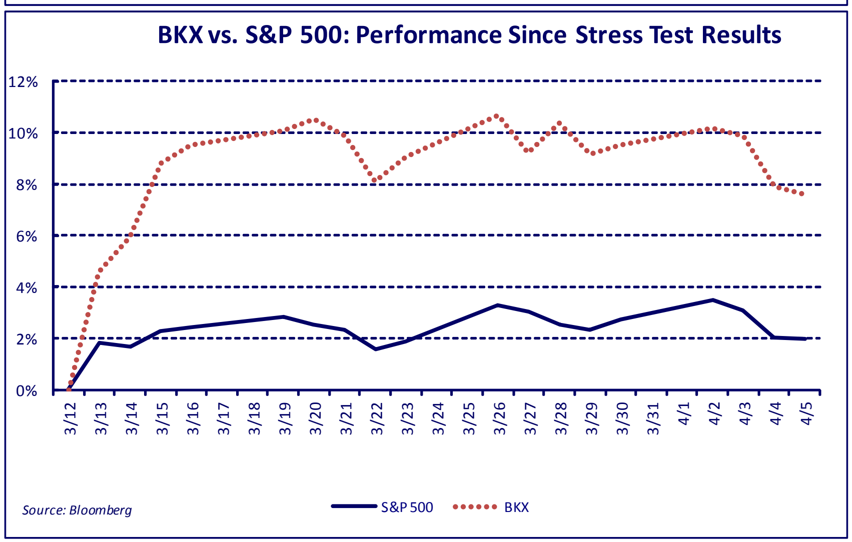
	Ally Financial	American Express	Bank of America	The Bank of New York Mellon	BB&T	Capital One Financial	Citigroup	Fifth Third Bancorp	Goldman Sachs	JPMorgan Chase & Co.	Keycorp	Metlife	Morgan Stanley	PNC Financial Services	Regions Financial	State Street	SunTrust Banks	U.S. Bancorp	Wells Fargo	19 Participating Bank Holding Companies
Actual Q3 2011																				
Tier 1 Common Capital Ratio (%)	8.0	12.3	8.7	12.5	9.8	10.0	11.7	9.3	12.1	9.9	11.3	9.3	12.0	10.5	8.2	16.0	9.3	8.5	9.3	10.1
Tier 1 Capital Ratio (%)	14.3	12.3	11.5	14.0	12.6	12.4	13.4	12.0	13.8	12.1	13.5	9.9	15.2	13.1	12.8	17.9	11.1	10.8	11.3	12.3
Total Risk-Based Capital Ratio (%)	15.5	14.3	15.9	16.1	16.1	15.4	16.9	16.2	16.9	15.3	17.0	10.2	16.4	16.5	16.5	19.5	13.9	13.5	14.9	15.5
Tier 1 Leverage Ratio (%)	11.6	9.8	7.1	5.1	9.2	9.9	7.0	11.1	6.7	6.8	11.9	5.4	6.4	11.4	9.7	7.8	8.9	9.0	9.0	7.4
4Q13 Under the Stress Scenario - includes all proposed capital actions through 4Q13																				
Tier 1 Common Capital Ratio (%)	4.4	10.8	6.2	13.1	6.4	8.8	4.9	6.3	7.2	5.9	5.3	6.3	7.6	5.9	6.8	12.5	4.8	5.4	6.3	6.3
Tier 1 Capital Ratio (%)	6.4	10.8	8.6	14.3	6.4	9.4	6.0	7.3	8.9	7.1	5.9	6.9	10.4	7.1	8.1	14.4	5.7	7.4	7.9	7.8
Total Risk-Based Capital Ratio (%)	7.1	13.0	13.8	16.1	9.9	12.0	9.9	11.0	12.1	10.4	9.1	7.2	11.9	10.5	12.1	16.1	8.5	10.2	11.5	11.2
Tier 1 Leverage Ratio (%)	5.2	9.2	5.3	5.1	4.7	6.9	2.9	6.8	4.5	4.0	5.8	4.1	4.5	5.9	6.4	6.3	4.5	5.6	6.0	4.7
Mimimum Under the Stress Scenario - includes all proposed capital actions through 4Q13																				
Tier 1 Common Capital Ratio (%)	2.5	10.8	5.9	13.0	6.4	7.8	4.9	6.3	5.7	5.4	5.3	5.1	5.4	5.9	6.6	12.5	4.8	5.4	6.0	6.2
Tier 1 Capital Ratio (%)	6.4	10.8	8.2	14.3	6.4	9.0	6.0	7.3	7.5	6.6	5.9	5.7	8.0	7.1	7.4	14.4	5.7	7.4	7.6	7.6
Total Risk-Based Capital Ratio (%)	7.1	13.0	13.3	16.1	9.9	11.5	9.9	11.0	10.9	9.8	9.1	6.0	9.2	10.5	11.4	16.1	8.5	10.2	11.2	11.0
Tier 1 Leverage Ratio (%)	5.2	9.0	5.1	5.1	4.7	6.7	2.9	6.8	3.8	3.8	5.8	3.4	3.4	5.9	5.7	6.3	4.5	5.6	5.7	4.6
Minimum Under the Stress Scenario - no capital action after 1Q12 (1)																				
Tier 1 Common Capital Ratio (%)	2.5	12.4	5.7	13.3	7.3	7.2	5.9	7.7	5.8	6.3	6.3	5.4	5.4	6.6	5.7	15.1	5.5	7.7	6.6	6.8
Tier 1 Capital Ratio (%)	6.4	12.4	8.0	14.9	7.3	8.2	6.8	8.7	7.8	7.8	6.9	6.0	8.0	7.9	6.4	17.0	6.5	9.8	8.3	8.4
Total Risk-Based Capital Ratio (%)	7.1	14.4	13.2	17.1	10.9	10.7	10.8	12.7	11.0	10.9	10.1	6.3	9.2	11.3	10.4	18.6	9.3	12.5	11.9	11.7
Tier 1 Leverage Ratio (%)	5.2	10.1	5.0	5.2	5.3	6.2	3.2	8.1	3.8	4.5	6.7	3.6	3.4	6.5	4.9	7.1	5.0	7.4	6.3	5.1

Note 1: Assumes planned capital actions through 1Q12, but no material capital issuances from March 16 through March 31, 2012.
Note 2: The two minimum capital ratios presented here are for the period 4Q11 through 4Q13 and di nit necessarily occur in the same quarter
Note 3: Capital actions include common dividends, share repurchases, and share issuance
Source: Federal Reserve

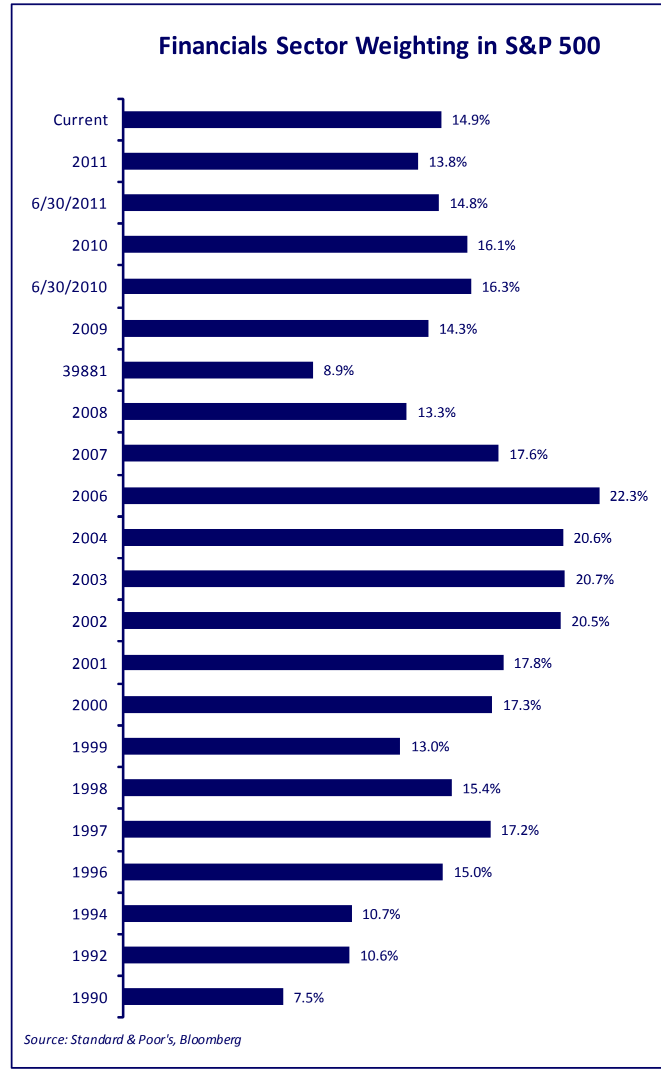
Bank Stock Performance



Source: Bloomberg



Source: Bloomberg



Source: Standard & Poor's, Bloomberg

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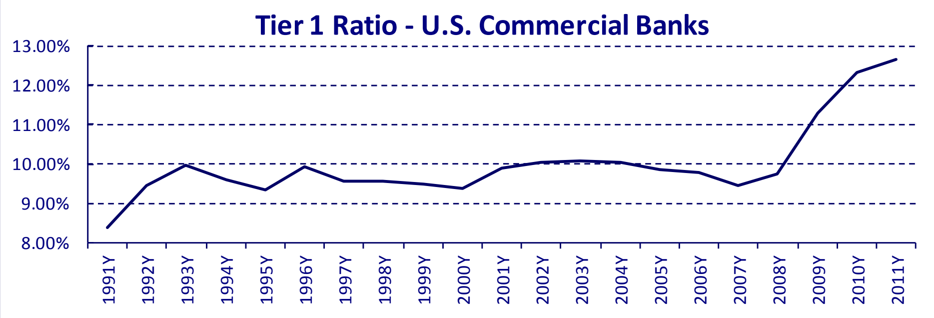
Balance Sheets are Healthy



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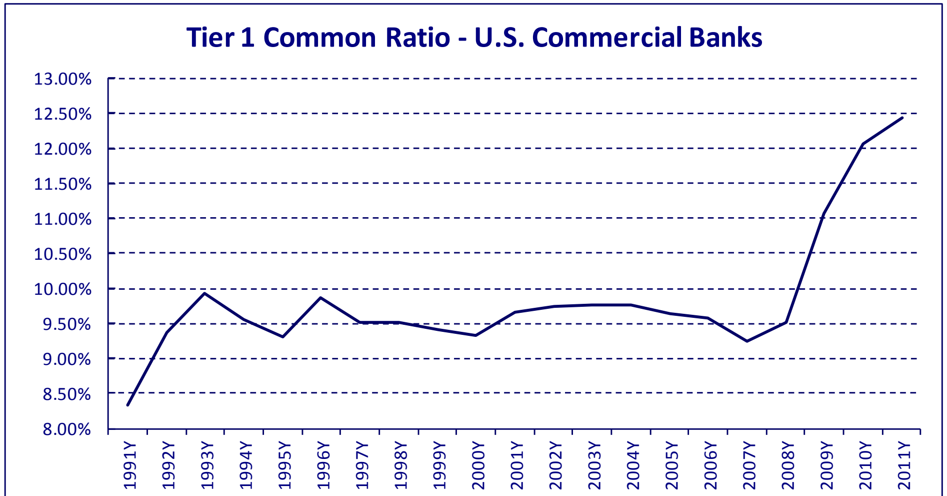

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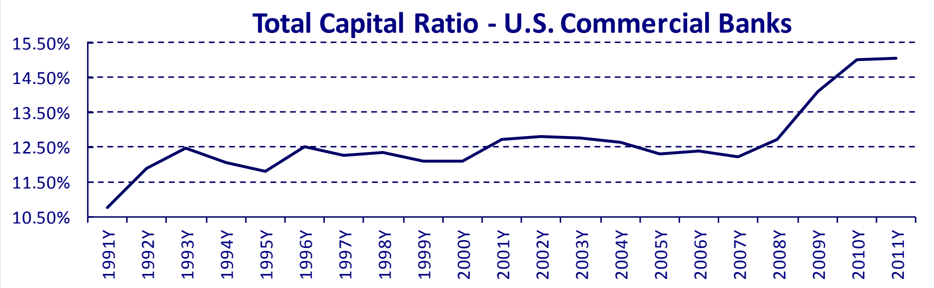

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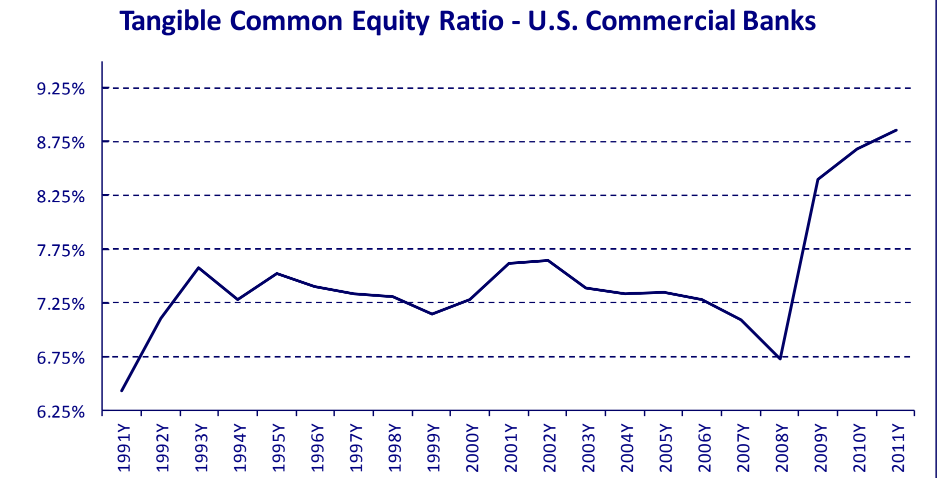

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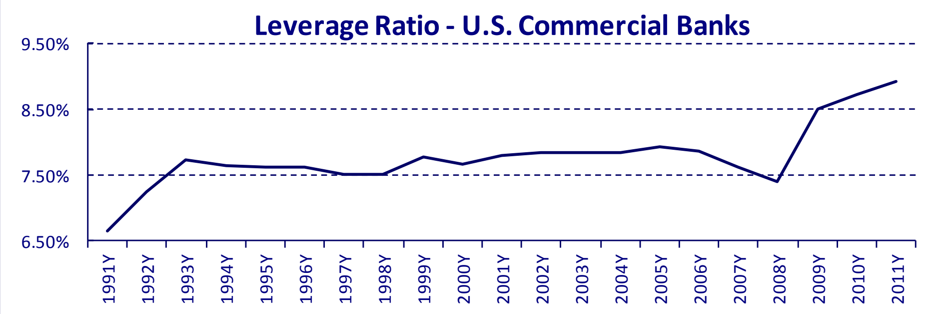
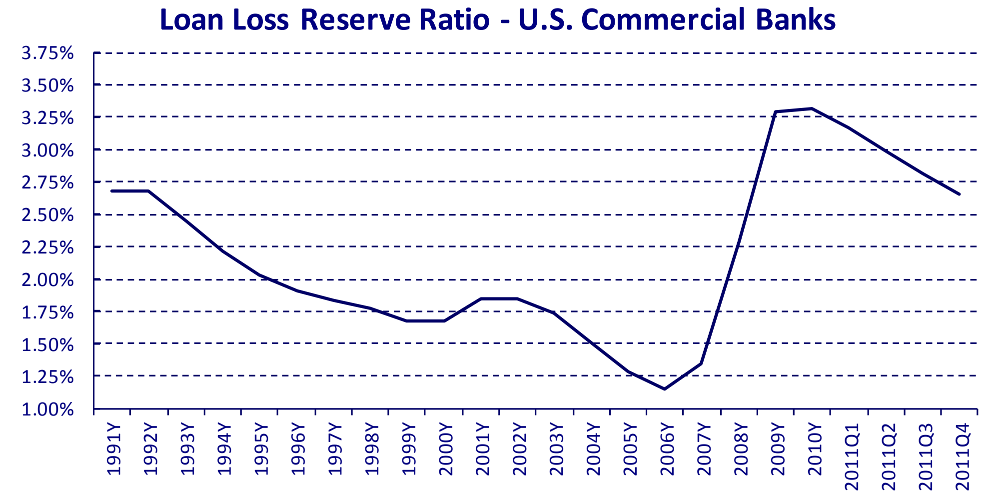


Source: SNL Financial

Reserve Levels are Still Robust



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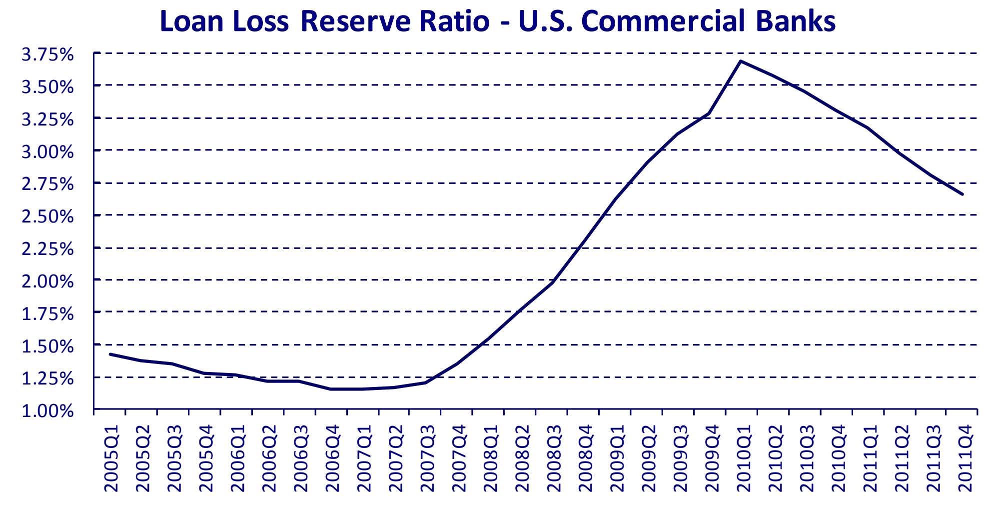

Source: SNL Financial

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Concerns

- No two crises or recessions are alike
- Test assumes U.S. Treasury and U.S. government agency obligations / mortgage-backed securities (MBS) have no default risk
- Larger banks can absorb added costs better than smaller banks; competitive pressures placed on banks in the next round of testing – those with $10 billion to $50 billion in assets
    - FDIC and OCC each proposed stress test standards for banks with $10-$50 billion in assets; comment period runs until April 30
    - Dis-incented to grow above $10 and $50 billion asset levels

What changes can be made?

- Eliminate the “Price is Right” approach in capital planning that asks banks to bid up to, but not over, the amount of capital that they would like to return to shareholders
- Eliminate the word “test” associated with the capital review; there is a tendency to force a failure in order to bolster confidence in the results
- Change “fail” notice to pre-capital distribution targets only
- Disclose assumptions the Federal Reserve uses in determining losses; share the model
- Run exam assuming no capital is returned to shareholders; from there, determine how much (if any) capital can be returned to shareholders

What has changed over the last 3 years?

- **Higher regulatory capital levels may have *unintended consequences* for the broader economy:**
  - **Reduced appetite to lend**
  - **Reluctance to own riskier securities**
- **Lower profitability metrics for banks**
  - **Lower revenue (Reg-E, Durbin Amendment, etc.)**
  - **Higher regulatory/compliance-related expenses; more than 250 new rules associated with Dodd-Frank Act**
- **Reduced returns for bank stock investors (ROE)**
- **Lower equity valuations compared to historical averages**

- **Will lead to consolidation – *unintended consequence***

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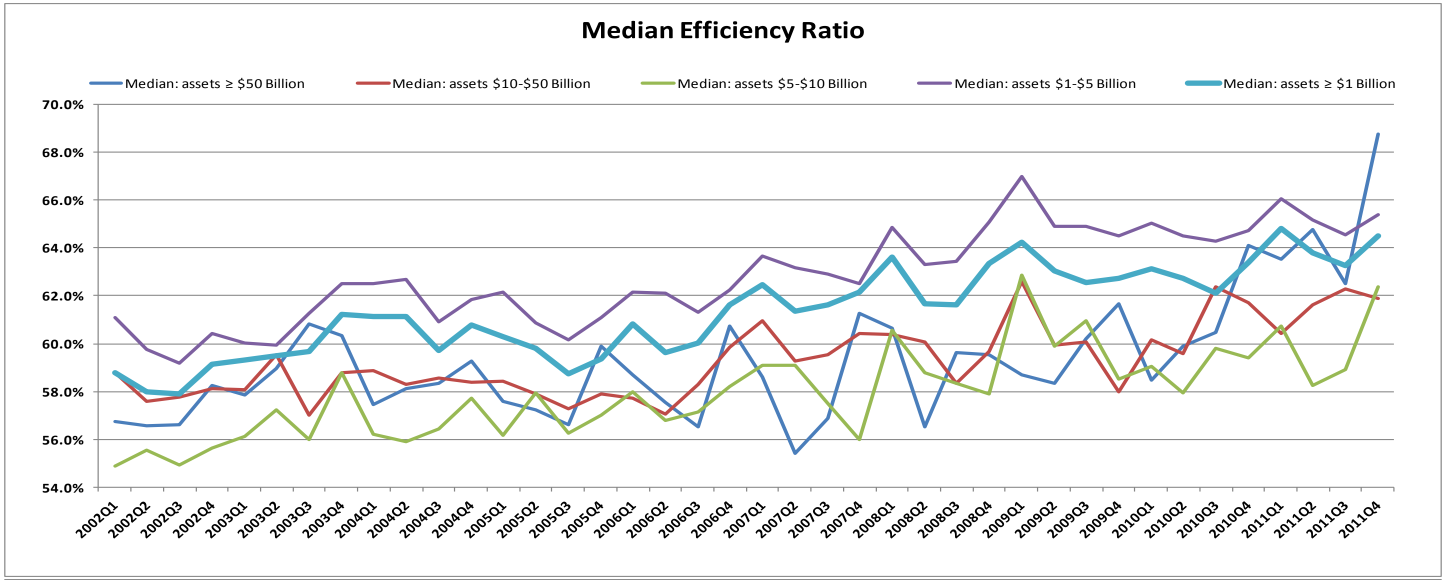
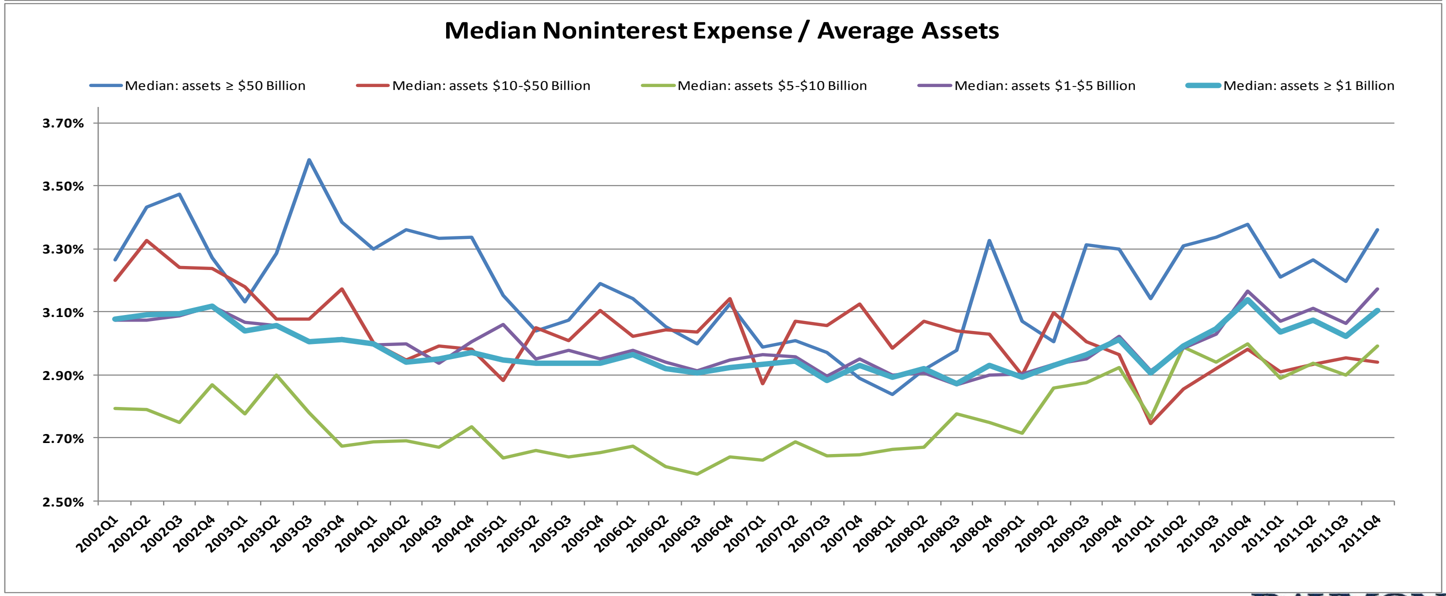
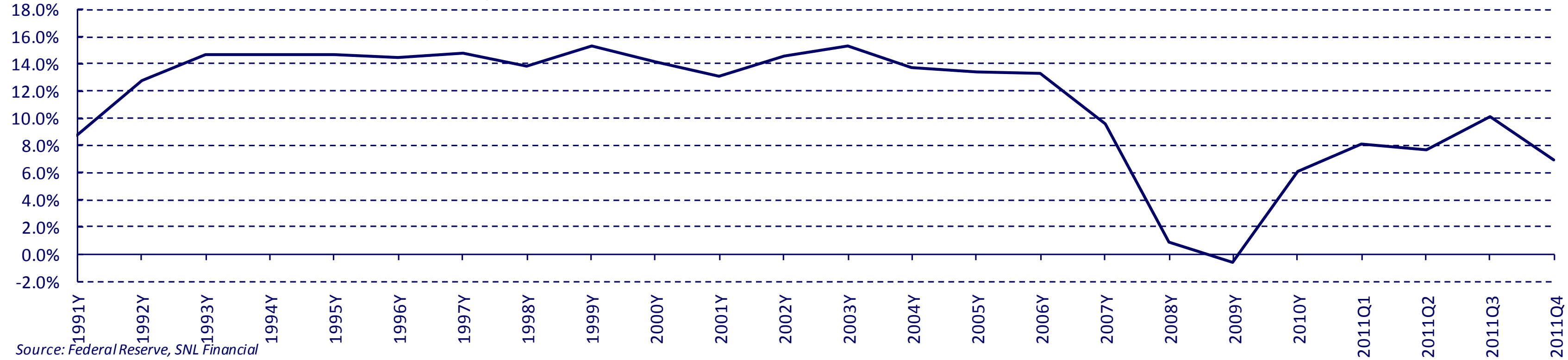
Profitability Negatively Impacted

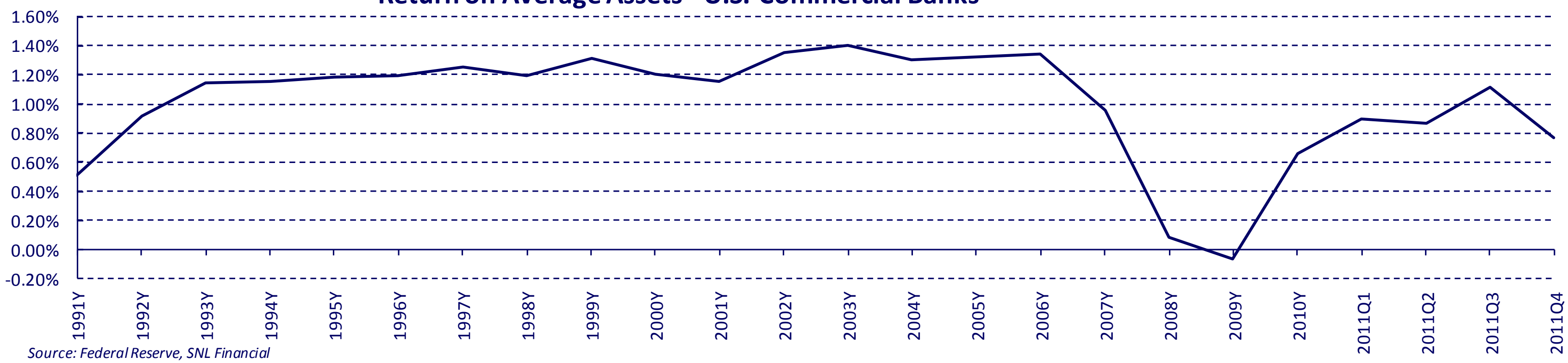




Returns Lower



Source: Federal Reserve, SNL Financial
Note: ROACE excludes extraordinary items



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