



Capital Management FSAA Conference

June 18, 2003

David Moffett
Vice Chairman & CFO



Forward-looking Statement

This presentation and corresponding material contain forward-looking statements. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These statements often include the words “may,” “could,” “would,” “should,” “believes,” “expects,” “anticipates,” “estimates,” “intends,” “plans,” “targets,” “potentially,” “probably,” “projects,” “outlook” or similar expressions. These forward-looking statements cover, among other things, anticipated future revenue and expenses, and the future prospects of the Company. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including the following, in addition to those contained in the Company’s reports on file with the SEC: (i) general economic or industry conditions could be less favorable than expected, resulting in a deterioration in credit quality, a change in the allowance for credit losses, or a reduced demand for credit or fee-based products and services; (ii) changes in the domestic interest rate environment could reduce net interest income and could increase credit losses; (iii) the conditions of the securities markets could change, adversely affecting revenues from capital markets businesses, the value or credit quality of the Company’s assets, or the availability and terms of funding necessary to meet the Company’s liquidity needs; (iv) changes in the extensive laws, regulations and policies governing financial services companies could alter the Company’s business environment or affect operations; (v) the potential need to adapt to industry changes in information technology systems, on which the Company is highly dependent, could present operational issues or require significant capital spending; (vi) competitive pressures could intensify and affect the Company’s profitability, including as a result of continued industry consolidation, the increased availability of financial services from non-banks, technological developments, or bank regulatory reform; (vii) acquisitions may not produce revenue enhancements or cost savings at levels or within time frames originally anticipated, or may result in unforeseen integration difficulties; and (viii) capital investments in the Company’s businesses may not produce expected growth in earnings anticipated at the time of the expenditure. Forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to update them in light of new information or future events.

Address Five Critical Capital Questions

- 1.) How do we set target capital levels?**
- 2.) What factors do we consider in setting target capital levels?**
- 3.) How do we manage the balance sheet and businesses to maintain target capital levels?**
- 4.) How do we think about the distribution of excess capital?**
- 5.) How do we allocate capital internally and measure the business line return on capital?**

How Do We Set Target Capital Levels?

Four Measures that Create Shareholder Value

- **Cash return on tangible equity**
- **Growth in free cash flow**
- **Quality of the earnings**
- **Stability/predictability of the cash flow stream**

$$\text{ROE} = \text{Leverage} \times \text{ROA}$$

Convert to tangible and cash

$$\text{CRTCE} = \text{TCE} \times \text{CROA}$$

**Cash Return on Tangible common equity =
Tangible common equity ratio x Cash return on assets**

Keep Constant

$$\text{CRTCE} = \boxed{\text{TCE}} \times \text{CROA}$$

6.25%

What Factors Do We Consider In Setting Target Capital Levels?

- **The Capital Retention Question**
- **Constituency Considerations**
- **Future Considerations**

What Factors Do We Consider In Setting Target Capital Levels?

The Capital Retention Question

- State and direction of the U.S. Economy
- Profitability targets
- Asset growth
- Credit quality issues
 - size and direction of NPA's
 - migration of risk ratings
 - level of unallocated reserves
 - direction and level of charge-offs
- Regulatory capital needs
- Creation of intangibles
- Acquisitions
- Capital expenditures

What Factors Do We Consider In Setting Target Capital Levels?

Constituency Considerations

- Rating agency peer comparisons
- Regulators
- Equity market comparisons
- Debt market comparisons

What Factors Do We Consider In Setting Target Capital Levels?

Future Considerations

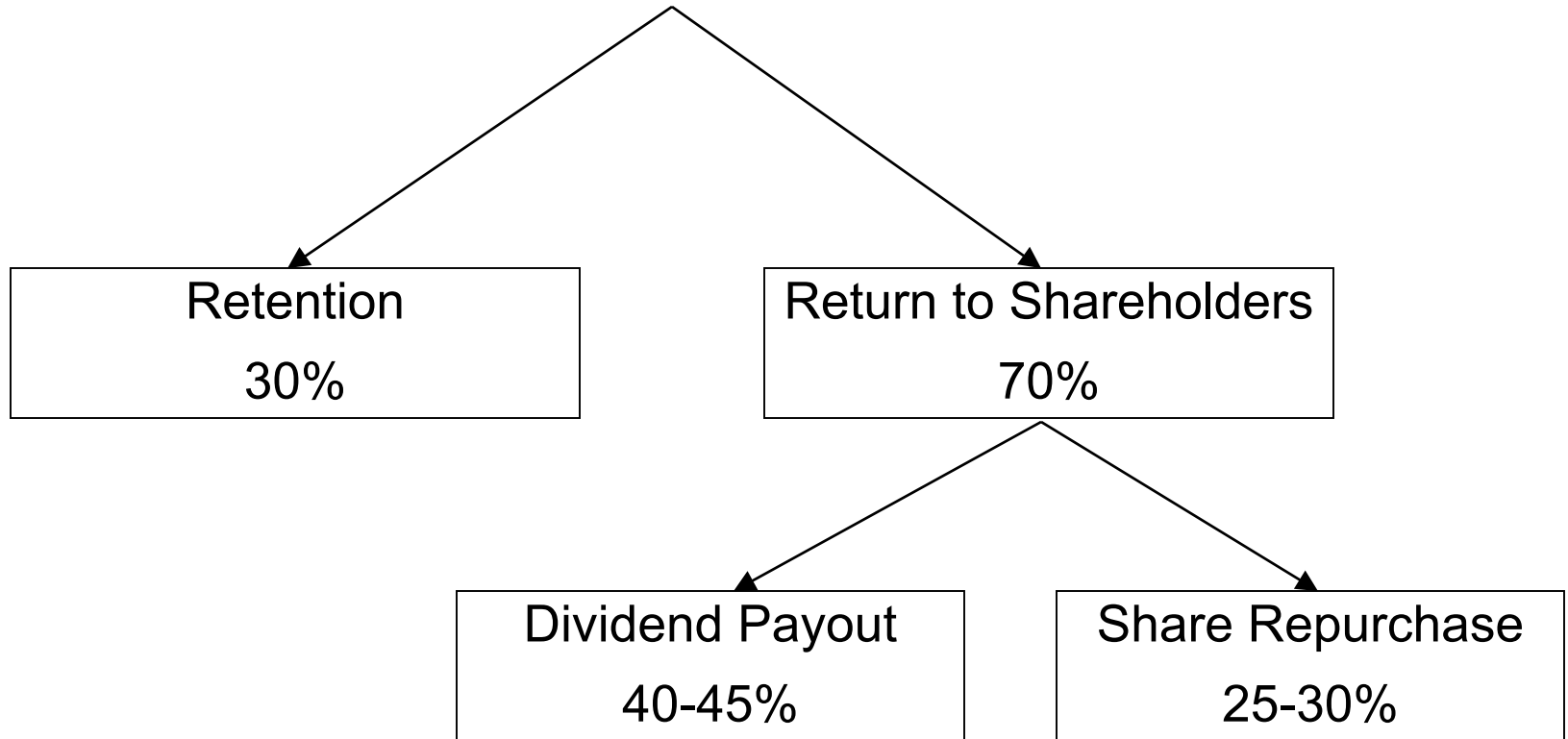
- **Basel II Capital Rules**
 - credit allocation
 - operational risk allocation

How Do We Manage The Balance Sheet And Businesses To Maintain Target Capital Ratios?

- **Maintain a target tangible common ratio of 6.25%**
- **Asset growth driven by loan growth**
- **Maintain a flat securities portfolio**
- **Maintain balanced interest rate and liquidity positions**

How Do We Think About The Distribution Of Excess Capital?

Internal Capital Generation



Dividend vs. Share Repurchase Decision

- **Sustainability**
- **Dividend Yield**
- **Tax Considerations**
- **Peer Bank Payout Ratios**
- **Investor Preferences**
- **Option/Restricted Stock Dilution**
- **Impact on Tangible Book Value**
- **Internal Rate of Return on Buyback**

How Do We Allocate Capital Internally?

- **Set each business to Tangible Common Ratio of 6.25%**
- **Assign additional capital for other risks**
 - fiduciary risk
 - lending commitments
 - operational risk
 - securitization / off-balance sheet
- **Loan loss reserves {additional capital}**
 - loan risk rating
 - loan growth
 - charge offs
- **Capital expenditure needs**
- **Cash return on capital invested**
- **Earnings growth prospects**



Capital Management FSAA Conference

June 18, 2003

David Moffett
Vice Chairman & CFO