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CONTACT: Andrew Singer
914-381-7475
a.singer@verizon.net

‘Wealth Management’ Banks Had Higher Net Earnings In 2007

Mamaroneck, NY—July 7, 2008: Banks with a ‘wealth management’ bent were more profitable in 2006 and 2007.

That’s one conclusion from a study, *Who’s Who in Bank Wealth Management (2008 Edition)*, published this week by the Bank Insurance Market Research Group (www.singerpubs.com).

Examining FDIC call report data, the study found that banks with above average wealth management (WM) activity[1] were 77 percent more profitable in 2007 and 68 percent more profitable in 2006 than the average bank.

Moreover, this trend toward higher (median) net income persisted in all asset-size groups. Among banks with $10 billion or more in assets, for instance, institutions with ‘above-average WM activity’ (i.e., trust, brokerage and insurance revenues above the median) in 2007 scored 130 percent higher in (median) net income (see table below).

Wealth management' (WM) Banks Were More Profitable in 2007				
Commercial and savings banks only; dollars in thousands				
	Median	*Number of*	*Median Net Income*	*Change in net*
Asset Size	*Net Income*	*banks*	*at WM Banks**	*at WM banks*
More than $10 billion	$206,915	89	$475,113	130%
$1 billion-$10 billion	$18,394	470	$23,259	26%
$500 million - $1 billion	$6,489	591	$6,906	6%
$250mm-$500mm	$3,321	1,099	$3,509	6%
< $250 million	$652	5,455	$957	47%
All	**$1,075**	**7,704**	**$1,901**	**77%**

[1] Wealth Management is defined here as the sum of three fields reported to the FDIC: trust, retail brokerage (‘income from the sale and servicing of mutual funds and annuities’), and insurance brokerage.

And also in 2006….				
	Median	***Number of***	***Median Net Income***	***Change in net***
Asset Size	***Net Income***	***banks***	***at WM Banks****	***at WM banks***
More than $10 billion	$274,653	92	$626,989	128%
$1 billion-$10 billion	$22,037	450	$26,216	19%
$500 million - $1 billion	$7,204	576	$7,334	2%
$250mm-$500mm	$3,750	1,104	$3,829	2%
< $250 million	$728	5,610	$1,000	37%
All	**$1,201**	**7,832**	**$2,014**	**68%**

*A 'WM (wealth management) bank' is defined as one that was in the upper half of its peer group in combined revenues from trust, retail brokerage ('income from the sale and servicing of mutual funds and annuities'), and insurance brokerage as reported to the FDIC. With the largest bank group—those banks with more than $10 billion in assets—for instance, banks with more than $48.1 million in combined trust, retail brokerage, and insurance—the median—would be considered a 'WM Bank'

"Fee-based businesses like wealth management can help smooth out earnings when loan income suffers—as bank industry experience in 2007 suggests," said Andrew Singer, Managing Director of the Bank Insurance Market Research Group (Mamaroneck, NY), and author of the study. While overall (median) net income at FDIC-reporting banks plunged 10 percent between 2006 and 2007, net income at 'WM banks' dropped only 6 percent.

Overall, the median net income figure at 7,704 operating banks and savings banks was $1,075,000 in 2007. The median at 'WM banks' was $1,900,000—77 percent higher. In 2006, median net income at 7,832 FDIC-reporting banks was $1,201,000. At 'WM banks,' however, the median was $2,014,000, 68 percent higher

JPMorgan Chase once again headed the list of bank holding companies in *Who's Who in Bank Wealth Management (2008 Edition),* a 140-page study of the top 60 bank wealth managers.

The New York-based institution was first on the basis of its $8.07 *billion* in 2007 trust revenues. In 60th position was INTRUST Financial Corp (Wichita, KS) with $14.93 *million* in trust revenues.

Joining the list for the first time in the 2008 ($14.9 million in trust revenues as reported to the Federal Reserve Board were required to make the top 60) were Wisconsin's Johnson Financial (47th place), Chicago's PrivateBancorp (54th place), Mississippi's Hancock Holding Company (56th place), Illinois' First Midwest Bancorp (57th place), and Indiana's 1st Source Corporation (58th place). The full rankings can be found on the BIMRG website at http://singerpubs.com/html/bank_wealth_management.html

Distributed by the Bank Insurance & Securities Association (BISA), this annual study is intended to help "describe and define the outlines" of the burgeoning bank wealth management (WM) industry, according to BISA President John Vaughan, Jr.

The study also identified 29 institutions with *reportable* wealth management segments—which means that these banking companies report earnings, not just revenues, in their SEC 10-K filings. Again, this is a rough approximation of WM profits, because these segments can include institutional business. But it does offer some idea of the relative heft of WM at a given institution.

The median WM earnings contribution at these 29 institutions was 13 percent. That is, the WM segment at the middle-ranking institution contributed 13 percent of that company's consolidated net earnings in 2007. By comparison, the median was 10 percent in 2006.

Does this mean that wealth management is gaining greater traction at bank companies? Not necessarily. 2007 was a difficult year for many banking institutions. "Banks struggled against an unfavorable yield curve in the first part of the year and a severe mortgage lending crisis in the second half," said Singer. "Overall net earnings took a beating. At Citigroup and Huntington Bancshares the WM segment accounted for more than half of the parent company's consolidated net income in 2007—not so much because WM earnings soared as because overall company earnings plunged. The denominator in the ratio shrunk dramatically in 2007, in other words."

If one excludes Citigroup and Huntington, the largest relative WM contributions to net income in 2007 were found at Northern Trust—the wealth management segment accounted for 47 percent of consolidated net income—followed by Pacific Capital Bancorp (34 percent)—which redefined WM in 2007 so that it now includes loan revenue from 11 affluent retail branches—UMB Financial Corp. (24 percent), Washington Trust Bancorp (24 percent), and City National Corp. (17 percent).

In last year's study (which covered fiscal 2006), Northern Trust had the biggest relative WM contribution (47 percent) followed by Mellon Financial Corp. (32 percent) and Delaware's Wilmington Trust (21 percent).

Wealth management remains a somewhat ambiguous term. The study defines it as "fiduciary, investment management, and/or financial planning services for high-net-worth individuals, households, and families—typically those with between $500,000 and $1 million (minimum) in investable assets."

The study found that $1 million in investable assets was most often required for a client to be considered a WM candidate at banks. Indeed, among the 50 institutions where minimum client thresholds could be identified, almost half (23) reported a $1 million minimum. Minimums were generally lower in the Midwest, higher on the East and West Coasts.

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Sponsors of *Who's Who in Bank Wealth Management (2008 Edition)* were EAI

Information Systems, Invest Financial, Nationwide, Pershing LLC, and Raymond James Financial Services (in addition to BISA).

The Bank Insurance Market Research Group (www.singerpubs.com) provides market research and investment sales data to the bank and insurance industries. Among recent publications are ***Who's Who in Bank Insurance*** (2007 Edition) and ***Singer's 2007 Bank Brokerage Compensation Study***.

NOTE: Credentialed members of the press may obtain additional information by calling Andrew Singer at 914-381-7475.