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Pennsylvania Banking Report
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2020 Anyone?

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The McCarran Act gone; Glass Steagall gone; asset quality only a problem in the eyes of a few regulators; the big bank mergers focusing on the investment banking sector; internet banking firms losing money; if you like it quiet, then banking 2000 is a near nirvana, but it was not supposed to be this way. The passage of a financial modernization act was going to bring on a rash of cross-industry financial mergers emulating Citicorp-Travelers, and WingspanBank.com was going to have numerous imitators. The new millennium was to be synonymous with unprecedented change, but so far, the only noticeable change in banking in 2000 seems to be stock prices going in the wrong direction and the rush by large global banks, including Chase, to buy investment banks.

With so few banking headlines, it is tempting to view 2000 as the "calm before the storm," but the truth may be that it is the "calm after the storm." We already may be in a period of industry transformation where buying markets is passé and the keys to the future are research, brand acceptance and convenient delivery. Who will win and who will lose may have been pre-ordained by the merger activity from 1995 through early 1999 – i.e., Citicorp-Travelers raises the bar, while First Union's acquisitions of CoreStates, First Fidelity, Signet and the Money Store send shareholders to the nearest bar.

The pre-ordaining, though, is at the national level where Citigroup, Chase, Wells Fargo and Fleet look good; Bank One and First Union struggle; Bank of America is an enigma; outsiders like GE, HSBC, AXA and AIG try to turn financial services into their version of alphabet soup; and financial institutions with revenues of less than $15 billion need not apply. The race to 2020 is on, and while the very large will get the headlines and become household names, there also will be a local and specialist segment as big as 25% of a financial services industry whose total size will be introducing a new number into industry lexicon, quadrillions of dollars by 2020.

It is almost certain the change will be more in the next ten years than it has been in the last twenty, and that includes the players. If anyone needs a reminder as to how the players can change, a look back twenty years tells a dramatic story in that of the thirty largest banks in Pennsylvania when the eighties began, only Mellon and Pittsburgh National, now PNC, are left, and even then, they were the largest (see Table 1). Coming and going in the intervening years were such soon-to-be-forgotten names as CoreStates, Meridian, Integra and Meritor.

This is a stark reminder of how great change can be in a generation, and if future movements come at an even faster pace because of new technologies, a logical conclusion would be that no more than one or two of today's top thirty will be around ten years from now. This may be unsettling, but if Vegas was giving odds on whether five or more of Pennsylvania's thirty largest would be around in ten years after looking at the results of the last twenty and factoring in technological change, it is likely those odds would be very high.

Yet while so much has changed and so many banks have disappeared, Pennsylvania still has more than 300 banking organizations, not counting credit unions, most of which are recording earnings gains every year and producing shareholder rewards that few industries can match, albeit the investor does not seem to care. ROEs of 16% or better have become commonplace, and in recent years, most banks have produced more than 10% annual increases in shareholder value measured by capital per share plus dividends.

Why do we have this dichotomy between all past Pennsylvania banking leaders except the top two disappearing and the strong performance of the banks that remain? There were a lot of reasons for banks being sold after 1980 not the least of which was the greater freedom to merge that resulted from the arrival of intrastate and interstate banking in the eighties and the asset quality problems that plagued the industry in the late eighties and early nineties. The primary reasons for sale, though, were future uncertainty and a desire to protect shareholder value with the latter heightened by the asset quality problems of a decade ago that were accompanied by a sharp drop in shareholder value.

Since bank performance has been good in the last few years it can be argued that most banks that sold would be performing well if they were around today.

What they did was add a 30% to 50% one-time increase in shareholder value to a 10% to 12% annual increase in value if they had stayed the course.

While bank performance continues to be strong, a lack of investor interest in traditional banking and a slowdown of acquisition activity in the midst of a booming economy suggest there are doubts about the sustainability of bank earnings and growth in recent years. In particular, the investor love affair with bank stocks that existed from 1995 through mid-1998 has ended with almost an indiscriminate "trashing" of bank and thrift stocks. Locally, only Mellon has not been hit hard, and the median decline in stock prices of the largest banks and thrifts in Pennsylvania is about 38% since their 1997 and 1998 peaks (see Table 2). For thrifts, the corresponding number is 49%.

The lack of investor interest in bank stocks may be no more than a reaction to rising interest rates, competition with new economy companies for investor dollars and bank stock prices being too high in 1998, but this may be wishful thinking. Less comforting may be that investors are concerned that most banks are not structured to participate in future financial services growth and that many of them have neither the will nor the ability to do what is necessary to make the needed adjustments. This is complicated by an uncertainty as to just what are "needed adjustments" and a declining availability of cheap deposits, an important ingredient in past bank profitability.

The banks most likely to make the right adjustments, overcome the deposit shortage, or at least exit with a favorable outcome for investors, are those that are performing well and recognize that diversification away from traditional banking may be a requirement for increased investment value. Unfortunately, the wrong diversification can be worse than no diversification, and there is a history of misguided moves away from traditional banking.

Which banks, and thrifts, in Pennsylvania are most likely to have the best results, or sell at the best prices, in the coming years? Picking individual banks is difficult, but a good starting point are those that are performing well and those that have made a meaningful start on diversification. In identifying the best performers, it also is time to discard measurements of the past such as asset size, return on assets and deposit market share. A bank can buy all the low earning assets it wants, and much of the competition has only a passing interest in CDs. The key performance measurements are ROE, revenue growth and EPS gains, and, in the future, a word from the past, dividends, may be added to that trilogy.

Best Performers - Local

A major difference in Pennsylvania banking today from two decades ago is the size differential between the largest, Mellon and PNC, and everyone else. Twenty years ago, Mellon was much larger than all banks in the state, but PNC, which at that time was Pittsburgh National Bank, was only slightly larger than Philadelphia National, First Pennsylvania, Girard, Fidelcor and Provident. Now measured by revenues, PNC is 17 times the size of number three in the state, Fulton, and Mellon has about 15 times Fulton's revenues (see Table 3). These comparisons accentuate the difference between assets and revenues with Mellon only having a little over seven times the assets of Fulton.

The performances of PNC and Mellon also suggest that size is a primary determinant of good performance, which may be valid since most large banks have high ROEs, double-digit annual core EPS and shareholder value increases. The large, though, also have their share of laggards – i.e., Bank One, First Union, National City and KeyCorp. There is no faulting the performance of PNC and Mellon, though, with ROEs in excess of 20%, core EPS increases of more than 12% annually over the last five years and double-digit gains in their shareholder value as measured by the annual increases in their capital per share plus dividends. They do not do quite as well when tangible capital is used to calculate increases in shareholder value, but tangible capital is less of a concern as the size of a bank increases. PNC and Mellon also are among a handful of large banks that have more than 50% of revenues coming from non-interest income.

Mellon and PNC are not alone, though, in posting strong past performance numbers. S&T, Harleysville National, Univest, PennRock and Royal have double-digit growth in core EPS and shareholder value gains over the last five years, whether measured by equity or tangible capital plus dividends, and each has an ROE above 16%; and Fulton missed only one of those marks, and that one just barely. National Penn is second in shareholder value increase when measured by tangible capital and has an ROE that tops all banks in the top twenty except Mellon and PNC.

As good as the financial performances of these institutions are, they reflect the past, and beg the question – What can they do for an encore? The investing public is generally dubious, or at least is taking a "wait and see" attitude, and most Pennsylvania banks, other than PNC and Mellon, are still overwhelmingly committed to traditional spread banking and its accompanying slow, underlying growth momentum. The most that can really be said about existing local banks relative to the future is that those with the best recent performances have a better chance of adjusting to future changes or "bailing out" at a good price. The next three or four years could be difficult ones for playing "catch up."

"Catching up" has been a thrift problem for the last twenty years, but the performances of some of the few remaining mid-sized Pennsylvania stock thrifts are encouraging. Parkvale and Progress have ROEs above 16%, and Parkvale has had double-digit annual core EPS and shareholder value gains.

Best Performers - Large

The present hiatus in big bank mergers also should not be construed as Pennsylvania having seen the last merger involving large banks that will create customer turmoil benefiting local banks. The trends in banking favor the large, but they do not favor all large banks, and some will be forced to merge because of poor performance. Others may do so well with diversification that they get offers they cannot refuse or decide to exit traditional banking.

The last couple of years have seen a real divergence in the financial and stock performance of the nation's seven largest banks and some of the second tier banks with positions in Pennsylvania (see Table 4). Bank One and First Union are shedding businesses, cutting people, taking large write-offs and have had virtually no change in stock price since 1995. Bank of America is not having the same degree of problems, but its commitment to branches goes far beyond that of other large banks, and it, too, is feeling investor pressure that it is countering with massive lay-offs. Meanwhile, Citigroup, Chase, at least prior to its J.P. Morgan acquisition, Wells Fargo and Fleet are generally getting good marks from analysts, if not always from investors.

The five large, but still second tier, banks that have major Pennsylvania positions – PNC, Mellon, National City, Summit and M&T – have very strong financial performances across the board when measured by profit generation, but only PNC and Mellon combine high profitability, substantial movement away from spread banking and investor enthusiasm. Summit and M&T have fees producing less than 30% of revenues, and Summit and National City have had minimal stock price gains over the last five years.

In a banking environment that is changing rapidly with a growing emphasis on technology, branding, economies of scale and non-traditional bank businesses - Will a Bank One or First Union be given time to "catch up?" and - Is there anything happening within National City and Summit that will generate investor enthusiasm?

The latter duo may have more options than Bank One and First Union, but each has to make changes to regain investor interest; and a possible change is a big upstream merger.

While Mellon and PNC seem well-positioned for the future, their size raises questions about long-term viability, albeit there does not appear to be much investor downside. With more than half of their revenues coming from fees, they would be attractive acquisitions for all of the domestic "big seven" and large foreign banks with an American interest such as HSBC and ABN AMRO. They might even see fit to exit branch banking and concentrate on such areas as national lending, asset management, investment banking and merchant banking.

What all of this could bring to the local financial services business over the next five years is:

- An acquisition of First Union by Bank of America or Citigroup that will be less tumultuous than previous First Union mergers, but will still be a name change and have some customer dislocation.

- Upstream mergers for National City and Summit that also bring name changes and a bigger partner with less interest in a local physical presence.

- The rest of Mellon's branch network being sold.

Whether these moves are merely steps toward the diminishing of existing branch franchises or the introducing of new long-term players, the interim effect will be the same – i.e., removing the mid-sized players to the benefit of large, national financial institutions and the better local banks. It is unlikely, though, that local banks will benefit from anything like the customer outflow that accompanied the CoreStates acquisition of Meridian or First Union's mergers with First Fidelity and CoreStates.

Diversification Away from Spread Income

The need for banks to become less dependent on spread income, if they are to continue to produce good revenue and earnings gains, is driven by a reduced availability of cheap funds and the increased securitization of loans, but except for the very large banks, movement in this direction is in its early stages. Most of the banks in Pennsylvania still have noninterest income accounting for less than 20% of revenues, and much of that is deposit and loan fees. This is a long way from the 55% plus of PNC and Mellon (see Table 5).

There are exceptions, though, beyond the large banks. Sterling had 41% of its revenues coming from non-spread sources in the twelve months ending June 30, 2000, with leasing generating much of it, and the restructured USBANCORP has about 35% of its revenues coming from noninterest income. Susquehanna and Univest also have 25% or more of revenues flowing from noninterest income.

The diversification status is very much the same for thrifts – i.e., minimal movement away from spread banking – and for thrifts, what diversification there is tends to be heavily mortgage-oriented. Three of the six largest thrifts in the state have 12% or less of their revenues coming from fees.

As with the banks, though, there are some significant thrift exceptions. Progress has become more of a diversified financial services company than any major bank or thrift in the state, other than PNC and Mellon, with 42% of its revenues coming from noninterest income generated through merchant banking, leasing and a wide variety of other fee businesses. Commonwealth has 25% of its revenue in nonspread income, but it is more traditional than Progress with most of this coming from mortgage banking.

While a high fee revenue content is a start toward a profile that suggests a growing financial services company, it is not a certain panacea for offsetting the slow growth of spread banking since many fee businesses generate low and/or erratic profitability. Mortgage banking, particularly the servicing sector, has delivered mixed results in the past, and most early efforts by banks with securities sales, insurance and other fee businesses frequently have been more effort than profits. It also may be more than coincidental that the present high performers are generally on the low end of the diversification totem pole.

Diversification for the small and mid-sized banks is a "catch-22" in that without it, revenue and earnings growth are likely to slow to the detriment of investment value, but conversely, moving into unfamiliar businesses may add little in the way of profits. The key word here, though, is "unfamiliar" since most of these fee businesses have produced very good results for knowledgeable operators.

Deposit Growth

Low, and possibly diminishing, deposit growth is a primary cause for the need to diversify and in the last decade the problem has become acute. Deposits have being growing about 3% per annum over the last ten years as compared to double-digit annual increases for money market funds and mutual funds, which are the major alternatives for retail money (see Table 6).

The money market fund growth started as a slow rumble in the sixties and it has been building ever since. It also is not a coincidence that money market funds and securitized loans each grew approximately 13% per annum over the last ten years as one trend is feeding the other. Low yielding loans such as home mortgages, most consumer loans and even some commercial real estate now sit on balance sheets of investors, large and small, in part supported by money market funds. Low rates can be attractive in this type of investment where credit and interest rate risk are minimized and equity is not required to be held.

Since 1990, securitized loans have increased from $1.2 trillion to $3.4 trillion, money market funds have grown from $500 billion to $1.7 trillion and the total value of mutual funds have gone from $600 billion to $4.8 trillion. Meanwhile in the nineties, checking deposits have increased only from $587 billion to $619 billion, and the retail CD volume actually declined during the decade. MMDA/savings accounts saw some growth, increasing from $918 billion to $1.7 trillion, or a 7.4% increase per annum in the nineties.

Absent the success of money market and mutual funds, banks would be reaping a windfall of funding generated by a vibrant economy, but this is like saying absent Fannie Mae and Freddie Mac, the thrift industry would still be making most mortgage loans. In order to deal with the reality of deposit trends and still produce good growth for investors, a bank must have a strategy to either buck the national trends or participate in them.

While it is commonplace to attribute the difficulty in gathering cheap deposits to competition from nonbanks and credit unions or the high rates others seem willing to pay, the reality is that deposits no longer hold the importance they once did. Checking accounts are still a desired convenience, but it is a diminishing few that look to deposits as an important source of savings and/or investment or are concerned about deposits being "insured." Thus, financial institutions counting on deposits as a key element in producing future growth will be disappointed.

Sale Prospects

As deposit growth slows and diversification grows in importance, selling is not as attractive of an option for most banks in 2000 as it was a couple of years earlier, and it is likely to get less attractive as times goes by. M&T's purchase of Keystone, which at the time of the announcement was Pennsylvania's third largest bank, is a lesson in recent merger mathematics. The price of $21.50 per share was about half of Keystone's peak price of $42 per share in 1998, and if abnormal expenses were removed, the price was about 12 times earnings for the twelve months prior to the announcement (see Table 7).

Keystone's deal also was far from unique. Pennsylvania's second largest bank merger in 2000, Sterling's acquisition of Hanover, was announced at 21 times earnings and 286% of book, but with bank stocks having lost value since then, the present value of that transaction is about 13 times earnings and 177% of book. Despite these numbers, Keystone and Hanover may have been the smart ones in dealing with the realities of change.

There are three major factors causing the much reduced bank acquisition prices. These are a) low acquirer stock prices – i.e., if a stock is trading in the nine to twelve times earnings range, it is hard to pay more than 15 to 16 times earnings, if that; b) investors almost invariably punish the stock of an acquirer; and c) a product mix on the part of most sellers that commits the acquirer even more than it already is to traditional spread banking. For sellers, there is not much they can do about the first two, but they can reduce the overdependence on spread banking.

Where is acquisition pricing headed? The only certainties are that 1998 pricing will not return and that most banks that sell in the next couple of years will do so at prices below 1998 peaks. Beyond that, the most likely scenario is the one that thrifts have been experiencing over the last fifteen years – i.e., when the interest in franchise value disappears, pricing moves toward liquidation value, which is 20% above or below book.

As to merger activity, it will pick up in time, but that time may not come until the fear of being left with uncertain growth prospects, few, if any, "non-liquidation" buyers, and the possibility "of being the last one to turn off the lights" is more widely recognized. Something akin to that already has happened among Middle Atlantic thrifts with Sovereign no longer buying every thrift available, commercial banks not being interested and Dime being unable to find any buyers other than the unwanted North Fork.

This low acquisition activity outlook, though, is for traditional banking only in that the market will always reward those that have something positive to offer. Mellon, State Street, Northern Trust and Citigroup all have stocks selling close to or above 500% of book, and a Commerce that is making a transaction banking specialty pay, has a stock price of about 400% of book.

In order to create good future sale value, a bank has to move beyond traditional banking, or specialize within it in a way that creates strong growth and earnings. Some existing banks will meet this challenge, but many bankers will convince themselves that the most desired customer service is attention rather than convenience and price. Some even think their best customers enjoy talking to tellers.

Conclusion

The above may sound a little frightening, and it is, but it is no more than time marching on, and what happens in the next five to twenty years in financial services will only be an acceleration of the changes that occurred in the preceding decades. A look back at 1980 and 1990 might be helpful in understanding the inevitability of dramatic change in the years following 2000.

- In 1980, for example, how many would have expected that before the decade had ended that Pennsylvania would have statewide banking and interstate banking; that most home mortgages would be securitized; the Philadelphia Savings Fund and host of other bastions of the thrift industry would have failed or be in the process of doing so; and, as earlier noted, that within twenty years all but two of the thirty largest banks in the state would be sold.

- Similarly in 1990, who would have expected that a North Carolina bank would dominate Philadelphia banking; the largest bank based in the Philadelphia area would be National Penn; securitization of commercial real estate loans would be heading in the direction of home mortgages; Glass-Steagall and the McCarran Act would fall; and the nation's largest bank would come under the control of a large insurance company. To that might be added, who in 1990 had even heard of the internet.

Unlike 1980 and 1990 when change was ushered in along with economic problems of considerable severity, in 2000, the only economic hardship is the impact on shareholders of the steep decline in bank stock prices. This, though, carries its own risk in that in a "calm after the storm," there can be complacency that stands in the way of "getting ready" for what is coming and as a result is detrimental to long-term investment and/or sale value. In good times, how many bank decision-makers discuss the likelihood of their institution not being around in 2020, 2010 or even 2005; what may be more important is – how many discuss being around, but no longer being relevant.

Table 1

Disposition of Pennsylvania's Thirty Largest Banks
January 1, 1982

	Assets (In mill.)	Disposition
1. Mellon	$17,776	As is
2. Pittsburgh National (PNC)	6,789	As is
3. Philadelphia National	5,935	Acquired
4. First Pennsylvania	5,159	Acquired
5. Girard	4,768	Acquired
6. Fidelcor	3,576	Acquired
7. Provident	3,210	Acquired
8. Equimark	2,938	Acquired
9. National Central	2,138	Acquired
10. American Bancorp	2,047	Acquired
11. Continental	2,043	Acquired
12. Industrial Valley	1,718	Acquired
13. Union National	1,341	Acquired
14. Commonwealth National	1,107	Acquired
15. First National Allentown	980	Acquired
16. First Eastern	892	Acquired
17. Northeastern	882	Acquired
18. Dauphin Deposit	825	Acquired
19. Southeast National	695	Acquired
20. Pennbank	688	Acquired
21. United Penn	638	Acquired
22. Bank of Pennsylvania	638	Acquired
23. Central Penn	637	Acquired
24. First Seneca	637	Acquired
25. First Valley	634	Acquired
26. Gallatin National	614	Acquired
27. Merchants	613	Acquired
28. York Bank & Trust	560	Acquired
29. Central Counties	518	Acquired
30. Mid-State	503	Acquired

Source: Danielson Associates' compilations.

Table 2

Pennsylvania Bank and Thrift Stock Performance

	Stock Price*	Price* Times Earnings**	Price* Percent of Book	Change from High
Banks				
1. PNC	$59.19	14.2X	293%	(8.8)%
2. Mellon	44.06	22.9	557	(2.6)
3. Fulton	20.75	14.8	243	(20.3)
4. Susquehanna	13.56	9.5	125	(47.8)
5. F.N.B.	21.63	11.9	160	(37.7)
6. First Commonwealth	9.25	10.8	182	(47.2)
7. National Penn	19.50	12.1	228	(38.9)
8. S&T	18.75	11.9	204	(35.3)
9. USBANCORP	4.34	10.9	85	(84.1)
10. BT Financial	18.00	11.9	157	(38.5)
11. Harleysville National	29.31	10.2	170	(29.2)
12. Sterling	16.50	10.5	158	(60.1)
13. Univest	19.88	8.9	137	(44.3)
14. Main Street	8.19	9.3	110	(65.6)
15. Omega	27.81	16.0	162	(29.6)
16. Community Banks	21.25	12.3	203	(22.3)
17. PennRock	16.25	9.2	153	(40.9)
18. Royal	17.25	13.1	173	(24.7)
19. Patriot	6.50	6.8	72	(62.0)
20. Three Rivers	8.25	10.9	120	(20.0)
		11.4X	161%	(38.1)%
Thrifts				
1. Sovereign	$ 8.88	12.9X	108%	(60.0)%
2. Northwest	8.13	14.3	155	(54.9)
3. Commonwealth	14.25	10.5	107	(41.2)
4. Harris	7.69	14.8	153	(72.4)
5. Progress	11.25	11.0	139	(42.8)
6. Parkvale	17.63	7.9	120	(36.8)
		11.9X	130%	(48.8)%

*September 2, 2000.
**Last twelve months ended June 30, 2000 or last twelve months available and adjusted for unusual quarters.

Source: SNL Securities LC, Charlottesville, Virginia.

Table 3

Performance Summary
Leading Pennsylvania Banks

	Revenues** (In mill.)	Annual Core EPS Increase 1995-2000	Annual Shareholder Value Increase 1994-1999* Equity Capital	Tangible Capital	ROE**
Banks					
1. PNC	$5,416	14.2%	10.8%	5.1%	20.89%
2. Mellon	4,548	12.3	13.2	10.4	25.98
3. Fulton	311	9.6	12.8	13.6	16.92
4. Susquehanna	236	7.8	11.1	11.0	13.13
5. F.N.B.	209	8.7	8.9	9.3	13.90
6. First Commonwealth	181	7.2	7.7	8.8	16.91
7. National Penn	115	8.2	14.0	15.7	18.80
8. S&T	110	12.9	13.6	13.3	17.96
9. USBANCORP***	107	-	-	-	-
10. BT Financial	99	7.5	11.7	10.0	13.25
11. Harleysville National	78	11.0	16.3	17.0	17.50
12. Sterling	71	7.0	14.0	13.7	16.10
13. Univest	63	11.3	11.0	10.7	16.04
14. Main Street	56	(4.2)	8.6	8.3	(1.14)
15. Omega	57	4.2	10.8	10.9	10.80
16. Community Banks	40	12.8	8.0	10.6	17.19
17. PennRock	36	12.1	14.2	14.0	18.20
18. Royal	36	10.7	12.1	12.1	13.72
19. Patriot	32	20.2****	3.6****	(3.5)****	12.13
20. Three Rivers***	32	-	-	-	-
Thrifts					
1. Sovereign	$ 822	4.4%	15.1%	5.0%	(1.20)%
2. Northwest	119	10.2****	10.0****	6.3****	11.39
3. Commonwealth	95	4.2****	3.3****	3.9****	9.57
4. Harris	71	13.2	8.9	7.0	10.39
5. Progress	50	6.5	21.7	19.6	17.52
6. Parkvale	38	13.0	14.1	14.2	16.52

*Capital plus dividends.
**Six months ended June 30, 2000.
***Financial data distorted by Three Rivers "spin off."
****Four years only.

Source: SNL Securities LC, Charlottesville, Virginia.

Table 4

Performance Summary
Large Banks

	Revenue* (In bill.)	Nonint. Income/ Revenue*	ROE*	Annual Stock Price Increase**	Stock Price/ Book***
Big Seven					
Citigroup	$69.0	70%	28.72%	39.9%****	522%
Bank of America	33.6	45	18.48	9.0	192
J.P. Morgan Chase	33.0	71	20.74	23.9	294
Wells Fargo	16.8	41	18.39	21.5	309
Fleet	15.7	57	24.38	15.0	252
Bank One	14.5	38	3.77	2.0	212
First Union	13.5	42	1.74	.8	204
Other Large					
U.S. Bancorp	6.6	48	19.82	5.5	204
SunTrust	4.8	36	17.36	7.6	196
Bank of New York	4.7	61	26.85	33.6	696
KeyCorp	4.6	41	18.94	2.7	137
Wachovia	4.4	43	13.27	4.2	192
Firstar	4.2	35	19.64	28.9	364
Local Second Tier					
National City	$ 5.3	44%	22.59%	5.0%	210%
PNC	5.4	56	20.89	12.9	293
Mellon	4.5	69	25.98	26.8	557
Summit	1.8	24	17.74	3.2	164
M&T	1.5	27	15.36	17.5	202

*First half 2000 annualized.
**1995 to September 2, 2000.
***September 2, 2000.
****1996 to September 2, 2000.

Source: SNL Securities LC, Charlottesville, Virginia.

Table 5

Noninterest Income
Leading Pennsylvania Banks

Banks	Percent of Revenues*				
	Nonint. Income	Deposit Fees	Trust**	Loan Sales	Other
1. PNC	56%	4%	23%	-	29%
2. Mellon	69	7	49	-	13
3. Fulton	18	7	6	-	5
4. Susquehanna	25	5	2	1%	17
5. F.N.B.	23	11	2	1	10
6. First Commonwealth	16	6	3	-	7
7. National Penn	22	5	4	-	11
8. S&T	17	6	4	-	7
9. USBANCORP	35	4	10	3	18
10. BT Financial	16	8	4	-	4
11. Harleysville National	13	5	3	-	5
12. Sterling	41	5	4	-	32
13. Univest	27	9	7	-	11
14. Main Street	16	5	2	1	8
15. Omega	19	6	5	-	8
16. Community Banks	13	5	1	1	6
17. PennRock	8	3	2	-	3
18. Royal	4	3	-	-	1
19. Patriot	20	5	-	4	11
20. Three Rivers	14	6	1	-	7

Thrifts	Nonint. Income	Loan Fees	Loan Sales	Other
1. Sovereign	18%	1%	3%	14%
2. Northwest	9	6	-	3
3. Commonwealth	25	2	16	7
4. Harris	12	1	(1)	12
5. Parkvale	9	-	-	9
6. Progress	42	-	-	42

*Twelve months ending June 30, 2000.
**Includes mutual funds and other investment advisory fees.

Source: SNL Securities LC, Charlottesville, Virginia.

Table 6

Annual Growth Rate
of Selected Financial Products

	Assets			Annual Increase	
	1999	1990 (In billions)	1980	1990-99	1980-90
Mutual funds	$ 4,752	$ 602	$ 58	25.8%	26.4%
Money market funds	1,671	498	109	14.4	16.4
Securitized loans	3,390	1,179	406	12.5	11.2
Pension funds	10,387	3,484	705	12.9	17.3
Life Insurance	779	380	97	8.3	14.6
Portfolio loans	4,257	2,949	1,614	4.2	6.2
Deposits	4,031	3,167	1,710	2.7	6.4
Demand deposits	372	290	275	2.8	.5
Other checkable deposits	247	297	27	(2.0)	27.1
Savings deposits incl. MMDAs	1,738	918	398	7.4	9.4
Retail CDs	956	1,169	748	(2.2)	4.6
Jumbo CDs	700	494	262	4.7	6.5

Source: Federal Reserve Bulletins.

Table 7

Recent Bank and Thrift Merger Pricing - Northeast

	Offer Price (In mill.)	Price: Times Earnings Annc'd.	Price: Times Earnings Today*	Price: Percent of Book Annc'd.	Price: Percent of Book Today*	Date
Acquirer-Acquired						
Banks						
Valley National-Merchants	$ 376	18.1X	18.1X	388%	388%	9/00
BB&T-FCNB (Md.)	217	19.5	21.0	243	262	7/00
M&T-Premier (N.Y.)***	343	16.5	17.6	243	258	7/00
M&T-Keystone***	1,027	11.7	13.7	184	217	5/00
BB&T-One Valley (W.V.)	1,202	15.1	14.5	211	206	2/00
Sterling-Hanover (Pa.)	97	21.2	13.1	286	177	1/00
Mercantile-Union Nat'l. (Md.)	67	20.0	24.2	261	316	1/00
NBT-Pioneer American (Pa.)	85	21.0	15.0	263	188	12/99
Summit-NMBT (Ct.)**	76	21.3	18.4	246	212	10/99
NBT-Lake Ariel (Pa.)	93	25.0	15.1	256	154	8/99
Tompkins-Letchworth (N.Y.)	84	23.1	17.4	247	186	8/99
Median		20.0X	17.4X	244%	206%	
Thrifts						
Queens County-Haven (N.Y.)	$ 197	17.5X	24.9X	169%	241%	6/00
Harris-York (Pa.)	180	19.2	20.3	158	168	3/00
Webster-MECH (Ct.)**	206	16.6	15.7	215	203	12/99
North Fork-Reliance (N.Y.)**	354	16.9	15.6	199	184	8/99
North Fork-JSB (N.Y.)	593	13.8	11.9	154	133	8/99
Median		16.9X	15.7X	169%	184%	

*September 2, 2000.
**Purchase accounting.
***Assumes all stock transactions.

Source: SNL Securities LC, Charlottesville, Virginia.