Continuum Global Asset Management, LLC

Banking Sector Valuation Analysis

Following is a group of national and regional banks that we have considered in our sector analysis. Each company has recently announced earnings which have been consistently improving since the 2008-09 housing and banking debacle. We have undertaken this exercise with a basic analysis paradigm to view the valuation and potential for investment return of this group.

Note: We originally conducted this analysis in mid May, 2012. A recent downgrade by Moody's (Credit Rating Agency) on major US banks led us to re-examine our analysis and understand, what we believe to be a ridiculous downgrade of this sector by this agency.

Table 1[1]

No.	Ticker	Company	Sector	Price / Earnings	PE / Growth	Price /Sales	Price / Book	Div. Yield	EPS growth this year	EPS growth next year	Profit Margin	Performance (Year to Date)	Current Price ($)	**Target price (Next year, $)**	**Potential Growth (Next year-2013, %)**
1	BAC	Bank of America Corporation	Financial			1.32	0.36	0.51%	102.23%	71.19%	0.06%	40.90%	7.84	**$18.00**	**146.58%**
2	C	Citigroup, Inc.	Financial	7.80	0.86	1.13	0.45	0.14%	1.18%	12.38%	14.27%	5.86%	28.08	**$32.00**	**14.15%**
3	HBAN	Huntington Bancshares Incorporated	Financial	10.03	1.79	2.76	1.04	2.57%	206.69%	4.76%	21.32%	14.76%	6.26	**$20.81**	**224.12%**
4	JPM	JPMorgan Chase & Co.	Financial	7.89	1.08	2.23	0.72	3.38%	13.05%	21.74%	19.05%	8.26%	36.19	**$47.46**	**30.09%**
5	RF	Regions Financial Corp.	Financial	50.08	6.26	2.21	0.52	0.61%	96.48%	28.33%	6.91%	51.75%	6.62	**$16.29**	**158.12%**
6	WFC	Wells Fargo & Company	Financial	11.11	1.06	3.49	1.18	2.72%	27.71%	11.89%	20.32%	18.59%	32.72	**$46.45**	**43.72%**
Average				**17.38**	**2.21**	**2.19**	**0.71**	**1.66%**	**74.56%**	**25.05%**	**13.66%**	**23.35%**			**102.80%**

[1] Source: Continuum Global Asset Management LLC

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Moody's Downgrades Credit Rating On 15 Major Banks

"Moody's Investors Service downgraded the debt ratings of 15 major international banks and securities firms on Thursday (June 21, 2012), a move that could cost the banks billions of dollars in extra collateral.

U.S banks that were downgraded included: Bank of America, whose long-term debt rating was cut one notch, to BAA2 from BAA1, Citigroup, which was cut two notches, to BAA2 from A3, Goldman Sachs, cut by two notches, to A3 from A1,JPMorgan, cut by two notches, to AA3 from A2 and Morgan Stanley, also cut by two notches, to BAA1 from A2." *Source: CNBC.Com.*

I believe that this is a blatant illustration of the insanity and inefficiency within the data sources that investors rely and react to. Moody's, Standard & Poors and Fitch were the same rating agencies that tagged on high quality ratings on the toxic mortgages in the period of abundant credit that lasted from 2003-2008. We all know how that party ended. After experiencing one of the worst downturns in the US / Global economy primarily caused by these toxic assets, we as investors continue the insanity to listen to and believe these agencies. I guess, Mr. John Maynard Keynes (one of the most reputed English Economist in the mid 1900s) was spot on when he said, "There is safety in conventional failures…". We on the other hand at CGAM, believe that the US banks are in a much better position and would do very handsomely for long term investors. Long term in our view is approximately 2-3 years and not an indefinite period. Please review the following analysis which supports our bullish outlook for this sector.

Major quantitative observations from the Table above:

1. **The differential between the current and the future PE is very encouraging**: The Price/Earnings (P/E) ratio which attempts to gauge whether the stock is over or undervalued with respect to its earnings. It can be observed that the average P/E ratio for the group is approximately 17 which is relatively higher than the current S&P 500 P/E ratio of about 14-15. This ratio drops to about 9 if Regions Financial (RF) is dropped from the group, which illustrates a relatively attractive valuation for the group. In other words this group is about 30-35% undervalued compared to the average PE ratio of the S&P 500 companies.

2. **PEG ratio:** Another valuation parameter that gauges the current value of the stock in relation to the earnings potential of the company is the Price/Earnings to Earnings Growth (PEG) ratio. This ratio is achieved by dividing the PE ratio by the earnings growth of the company. As earnings are the denominator in the formulae, a higher growth potential will result in a lower ratio. As a rule of thumb, the lower the

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PEG the better the valuation of the stock. The group has a PEG ratio of 2.2 which drops to 1.2 with out the inclusion of RF. Citigroup (C), JP Morgan (JPM) and Wells Fargo (WFC) have very reasonable PEG ratios relative to their industry and the S&P 500 companies.

3. **<u>Price to Book Value:</u>** A company's book value is derived by assuming the liquidation value of all assets. It provides a good gauge of the intrinsic value of the company per share. Currently, the Price to Book Value (P/BV) for the group is approximately 0.70. In other words, the group is trading 30% below the actual value on the books. In normal times, P/BV is approximately 1.25-1.5, but we have experienced some unusual times during the housing debacle in 2008-09. There are genuine reasons for this group to be trading at depressed levels historically speaking. Since the 2008 housing bust, most investors have been concerned about the quality of the mortgage portfolios these banks hold on their balance sheets. On the same token, most of these banks have accumulated adequate loan loss provisions (cash reserves in case a certain critical percentage of loans result in being delinquent). We believe that housing sector is actually in recovery. We have illustrated actual data that shows the progress in the US housing conditions and the Unemployment situation. We believe that the Unemployment situation is an important element which precedes the housing turn around.

<u>The following definitions are taken directly from Bloomberg.com,</u> ***"The employment situation is a set of labor market indicators based on two separate surveys in this one report. Based on the Household Survey, the unemployment rate measures the number of unemployed as a percentage of the labor force. Other key series come from the Establishment Survey (of business establishments). Nonfarm payroll employment counts the number of paid employees working part-time or full-time in the nation's business and government establishments."***

Chart 1[2]

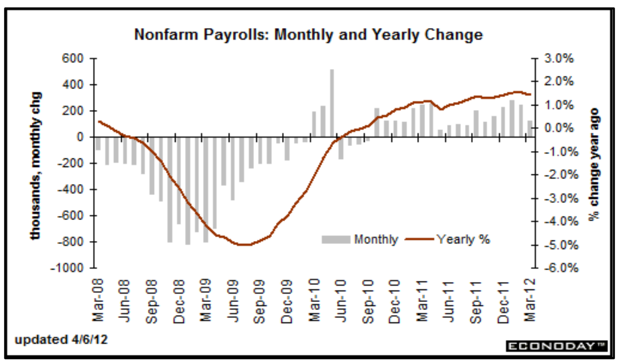
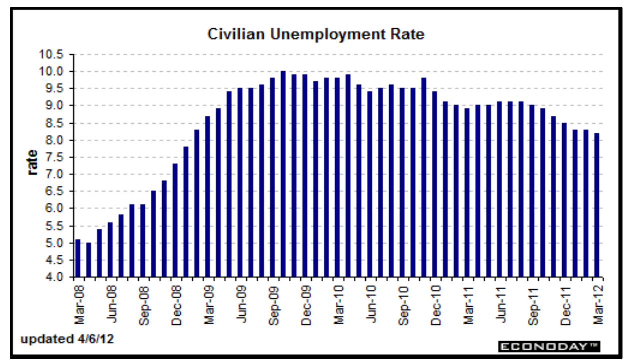


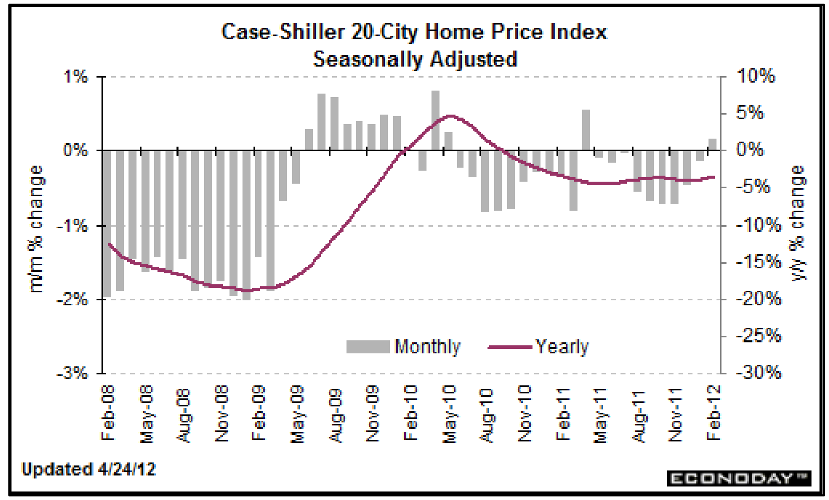
Chart 2



We can clearly see from Chart 1 above that the Nonfarm Payroll numbers which measure employment other than agriculture in the US, experienced a turn around since December 2009. Despite some bumps the NonFarm Payrolls are trending upwards. Currently, the employment rate shown in Chart 2 has improved to approximately 8.1% from a high of 10% in October 2010.

[2] Source: www.Bloomberg.com

We now move our attention to the housing conditions. Case-Shiller is a broadly followed index which exhibits the housing situation in the US.



Definition of the Case-Shiller Home Price Index: ***The S&P/Case-Shiller home price index tracks monthly changes in the value of residential real estate in 20 metropolitan regions across the U.S. The composite indexes and the regional indexes are seen by the markets as measuring changes in existing home prices and are based on single-family home re-sales. The key composite series tracked are for the expanded 20-city composite indexes[3].***

The adjacent chart shows that housing has improved in terms of prices. The chart illustrates an increase in prices since the bottom in December 2009. Even though housing hasn't improved with the robustness that we would like to see, we can not refute the improvement in this sector. If the housing sector continues to show resilience and stability, most of the banks will not have to continue to bleed cash into the housing loan loss provision accounts. The important aspect is the recovery in the employment situation which should diminish mortgage delinquencies. If our projections come to fruition, then the banks will be left with cash reserves that will eventually inflow to their respective balance sheets, making them even stronger.

4. EPS growth of 75% and 24% respectively for 2012 and 2013: The most crucial element attributing to the performance of a company is its earnings potential. We have used the average estimates of all analyst's following these companies. These estimates are then multiplied using current PE multiple to establish a logical stock value. The average potential gain for the group is evaluated at approximately 68%. It is not important to concentrate the actual price targets we can expect but the overall risk reward for this group.

Despite a numbers of negative variables surrounding this sector which include uncertain political / policy environment, exposure to European debt within the group's investment portfolios and the uncertainty with the US housing market; we believe that in light of factors mentioned above, banking sector provides a great buying opportunity for long term investors.

[3] Source: www.Bloomberg.com

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