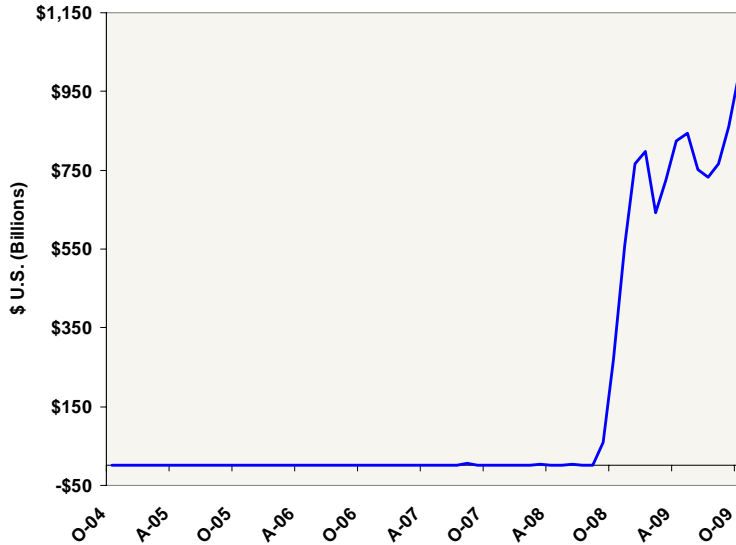


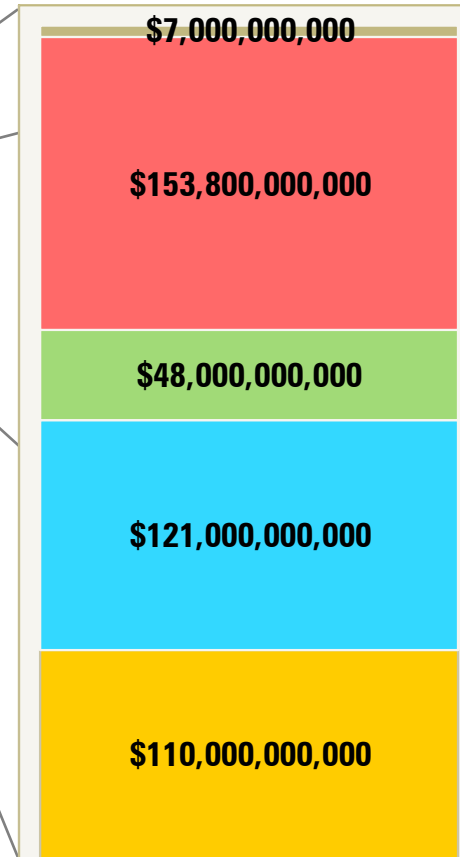
The Elephant in the Room Part II

Near-Term inflation outlook not so dire as Excess Reserves indicate more than risk aversion.

Excess Bank Reserves at US Depository Institutions
October, 2004 - October, 2009



Effect of Accounting Rule Change on Bank Balance Sheets



Largest Five Banks by Market Cap:

- The Bank of New York Mellon Corporation
- Citigroup Inc.
- Wells Fargo & Company
- Bank of America Corporation
- JPMorgan Chase & Co.

Total Estimated Effect on Balance Sheets for all Five Banks: \$439.8 Billion

- Banks are prepared to bring special purpose entities that hold asset-backed securities back onto their balance sheets as accounting rule change* approaches.
- While the new accounting rule is set up to have a significant impact in 2010, banks may be too prepared as regulators have recently been considering a three-year phase-in of the new accounting rule.
- Reserves will likely decline further as defaults on Commercial Mortgage Backed Securities (CMBS) are projected to increase in the coming years. We will explore this in more detail in next week's chart.

Estimates obtained from company 10-Q's. *New Accounting Rule is FAS 167