



Banks Outperform Since Election Day: Choosing a Relevant Bank Benchmark Is Key

Summary

Since Election Day, banks significantly outperformed owing to a combination of factors including renewed enthusiasm for higher interest rates, increased optimism for corporate tax reform and reduced regulation, inflows from both passive and active funds and an improved earnings growth outlook. Despite the large rally, there are differences in performance among the banks, based on the size of the banking institution and the type of services offered. Investors using associated exchange-traded fund (ETF) products to either make positions or hedge equity exposures benefit from using precise bank indices. These indices also provide the most relevant bank benchmarks for comparative purposes.

- **Banks provide investors with unique exposures, performance and valuation trends.** Universal and large regional banks are most impacted by industry regulation and Federal Reserve policy. Their exposure to higher associated regulatory costs and fewer M&A opportunities is reflected in lower valuations relative to their regional peers. Regional banks provide investors with geographical exposure as well as M&A takeout opportunities.
- **Regional banks trade at higher valuation multiples:**
 - **On a price-to-forward earnings basis**, at the end of Jan., regionals traded at premiums of 39% to universals and 17% to large regionals.
 - **On a price-to-book basis**, at the end of Jan., regionals traded at premiums of 28% to universals and 8% to large regionals.
- **Since Election Day, regional banks were the best performers**, rising 23.2% on average, while large regionals gained 22.5% and universals rose 18.5%.
- **For investors looking to differentiate bank performance:**
 - The **KBW Nasdaq Bank Index (BKX)** and **S&P Banks Select Industry Index (SPSIBK)** are used to measure universal and large regional banks. *The PowerShares KBW Portfolio (KBWB) tracks BKX and the SPDR S&P Bank ETF (KBE) tracks SPSIBK.*
 - The **KBW Nasdaq Regional Banking Index (KRX)** and **S&P Regional Banks Select Industry Index (SPSIRBK)** are used for the regional banks. *The PowerShares KBW Regional Banking Portfolio (KBWR) tracks KRX and the SPDR S&P Regional Banking ETF (KRE) tracks SPSIRBK.*
- **BKX and KRX** are maintained by an index committee to replicate investable large-cap and regional-bank segments, respectively. There is no membership overlap between BKX and KRX.
- **SPSIBK and SPSIRBK are constructed as sub-indices of the S&P Total Market Index (SPTMI), based on GICS sub-industry classifications.**
- **SPSIBK includes non-banking institutions due to their GICS classifications** - VOYA (insurance), MTG and RDN (both mortgage finance) contribute 6% of SPSIBK's weighting. **About 89% of SPSIRBK weighting comes from SPSIBK.**
- **This significant membership overlap erodes differentiated bank performance. On average, the quarterly spread between BKX-KRX is nearly 2.6x that of SPSIBK-SPSIRBK.** For investors seeking differentiated performance post the election, the spread between BKX-KRX was -3.4% from 11/8/16 - 1/31/17 versus -1.3% between SPSIBK-SPSIRBK.
- **SPSIBK and SPSIRBK trade at nearly identical index fundamentals.** BKX and KRX trade at differentiated fundamentals with the KRX trading at higher multiples, reflective of the investable regional bank universe and its valuation premiums.
- **SPSIBK and SPSIRBK are nearly identical with a 0.98 correlation!** For comparison, BKX and KRX are also correlated, owing to their similar industry, but significantly lower at 0.90.
- *Please view pages 2-17 for our full analysis.*

Melissa A. Roberts
212 887 3820
mroberts@kbw.com

Pell Bermingham
212.887.8699
berminghamk@kbw.com

Frederick Cannon, CFA
(212)887-3887
fcannon@kbw.com

[Glossary of Terms](#)

Keefe, Bruyette & Woods, Inc. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Please refer to important disclosures and analyst certification information on pages 18 - 21.



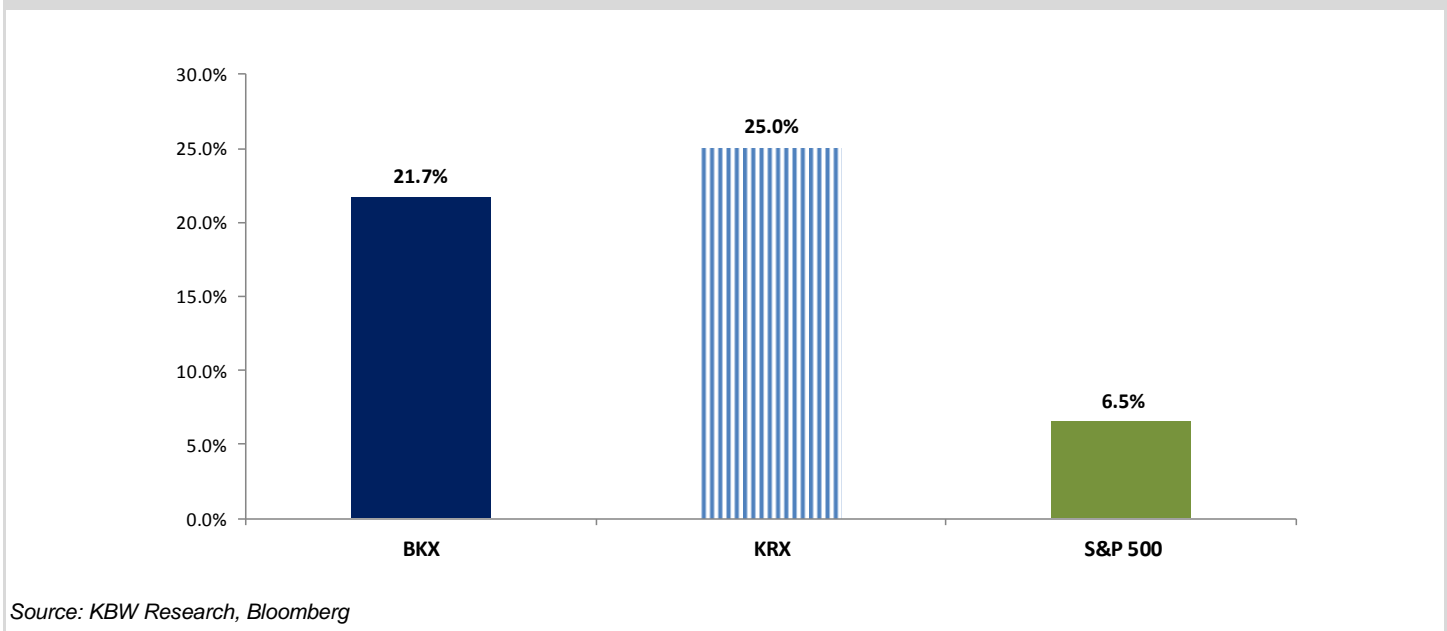
An Optimistic Outlook for Banks After Election Day

Since Election Day, banks meaningfully outperformed the market and other financial industry groups. Sentiment toward the banks dramatically improved as banks came back in vogue with investors. From November 8, 2016 (Election Day) through January 31, 2017, the KBW Nasdaq Bank Index (BKX) and KBW Nasdaq Regional Banking Index (KRX) dramatically outperformed, gaining 21.7% and 25.0%, respectively, as the S&P 500 Index (SPX) rose 6.5%.

Four key factors have likely contributed to the rally since Election Day:

- **Renewed enthusiasm for higher interest rates.** While much of 2016 was spent with “lower for longer” in focus, investor enthusiasm for higher rates returned following Election Day. The curve steepened dramatically, with the spread between 2-year and 10-year treasuries widening to 125 basis points at the end of January from 100 basis points at Election Day. Further, increases in the federal funds rates were factored back into forward earnings expectations, particularly as the Fed raised rates in December.
- **Increased optimism for corporate tax reform and reduced regulation.** After the election, investors were positive on the outlook for a reduction in the corporate tax rate as well as the possibility of less regulation for the banks. In recent years, increased regulatory burdens have hindered the profitability of the banking industry.
- **Inflows into the group from both passive and active funds.** Since the Election through the end of January, we estimate \$10.5 billion flowed into financials-focused ETFs. In addition, we found that many institutional funds that are actively managed were underweight both financials and banks at the end of the third quarter. We believe these funds moved to market weighting after the Election and provided an additional catalyst for the group.
- **Improved outlook for earnings growth.** After factoring in the improved rate outlook, earnings estimates and expectations for the group moved higher and further buoyed the group’s advance.

Exhibit 1: KBW Nasdaq Bank Index Performance Since Election (11/8/16-1/31/17)





Taking a Closer Look at the Investable Banking Universe

The investable banking industry is highly fragmented but can be broken down by asset size into three main types of banking institutions:

□ *Universal Banks (Assets Greater Than \$500 Billion)*

Universal banks are the largest, most established and complex institutions with global exposures. They offer a wide array of banking, capital markets and financial services, and their revenues are typically generated outside of traditional lending channels. Universal banks are mostly focused on scale businesses such as capital markets, mortgage servicing and credit cards.

There are six publicly traded banks classified as universal banks based on their December 31, 2016, asset size.

Exhibit 2: Universal Banks as of December 31, 2016, Asset Levels

Ticker	Name	Assets (\$B) as of 12/31/16
JPM	JPMorgan Chase & Co.	2,491
BAC	Bank of America Corporation	2,188
WFC	Wells Fargo & Company	1,930
C	Citigroup Inc.	1,792
GS	The Goldman Sachs Group, Inc.	862
MS	Morgan Stanley	811

Source: KBW Research, SNL DataSource

□ *Large Regional Banks (Assets Between \$50 Billion and \$500 Billion)*

Large regional banks offer an array of banking and financial-related services, typically with a large deposit footprint that spans several states. These banks have more of a traditional lending focus and a greater degree of deposit funding than the Universal banks. There are 17 publicly traded banks classified as large regional banks based on their December 31, 2016, asset size.



Exhibit 3: Large Regional Banks as of December 31, 2016, Asset Levels

Ticker	Name	Assets (\$B) as of 12/31/16
USB	U.S. Bancorp	446
PNC	PNC Financial Services Group, Inc.	366
COF	Capital One Financial Corporation	357
BK	Bank of New York Mellon Corporation	333
STT	State Street Corporation	243
BBT	BB&T Corporation	219
STI	SunTrust Banks, Inc.	205
CFG	Citizens Financial Group, Inc.	150
FITB	Fifth Third Bancorp	142
KEY	KeyCorp	136
RF	Regions Financial Corporation	126
NTRS	Northern Trust Corporation	124
MTB	M&T Bank Corporation	123
HBAN	Huntington Bancshares Incorporated	100
FRC	First Republic Bank	73
CMA	Comerica Incorporated	73
ZION	Zions Bancorporation	63

Source: KBW Research, SNL DataSource

□ Regional Banks (Assets Less Than \$50 Billion)

Regional banks are smaller-scale institutions whose funding and lending is focused across a narrower geographical footprint. These institutions are typically less involved in high fee-income business due to the cost and complexity involved in running non-lending businesses. This is the broadest grouping of the banks as there are nearly 400 publicly traded banks within this asset size classification.



A Stifel Company

Differences Among the Banks Result in Differences in Performance and Valuation

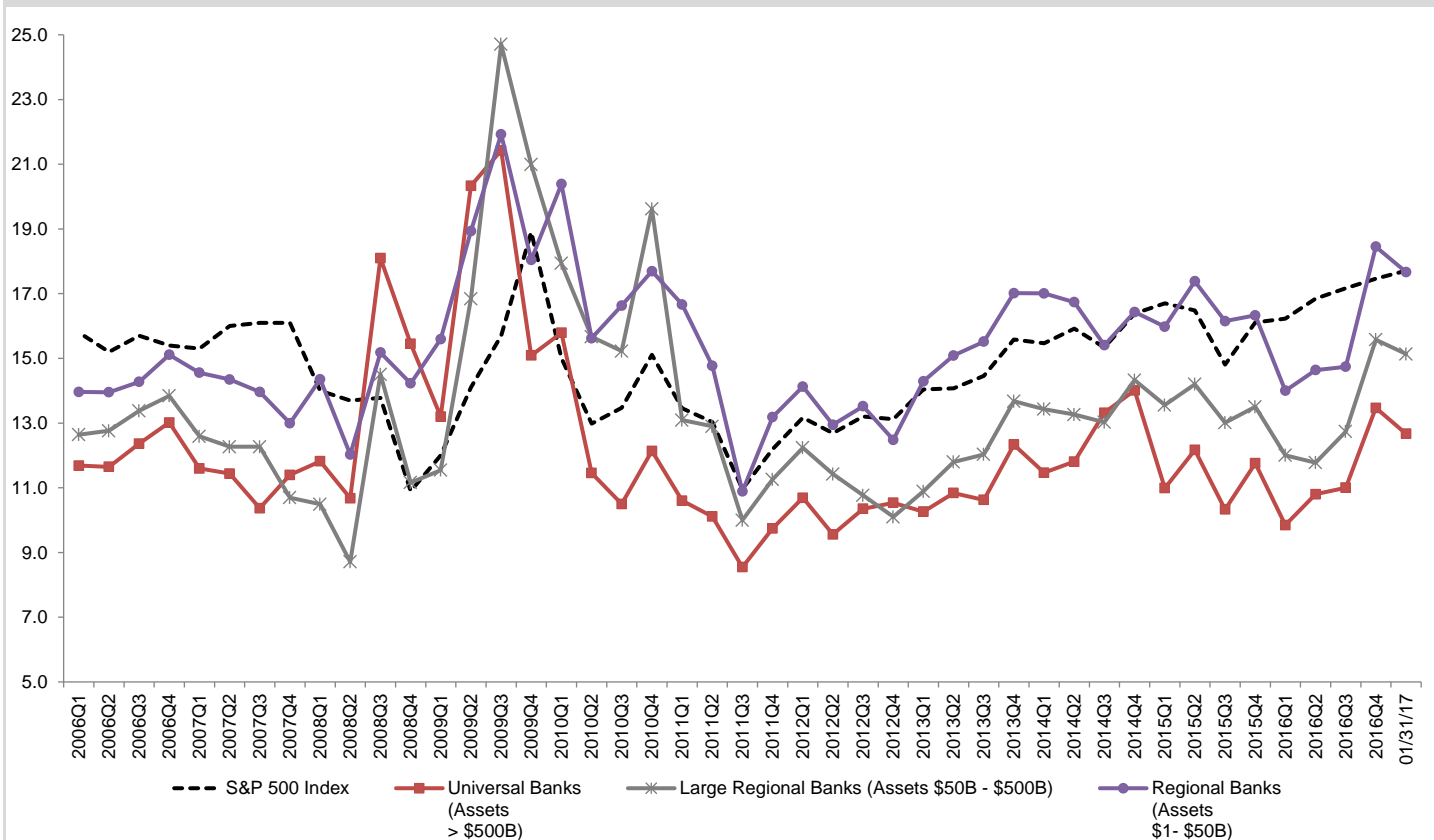
Universal and large regional banks are valued more similarly by the market than their regional peers. Both universal and large regional banks provide investors with exposure to Federal Reserve policy as well as the credit cycle. Universal and large regional banks are most impacted by enhanced industry regulation, and consequently have fewer merger and acquisition opportunities owing to these constraints. Aside from historically offering higher yields, regional banks often trade on perceived merger and acquisition activity, which is often viewed as a catalyst for outperformance. In turn, all of these factors translate into reduced forward multiples for both the universals and large regionals.

Price-to-Forward Earnings Multiples

At the end of January, universal banks traded at 12.7x next-12-months consensus earnings estimates while large regional and regional banks traded at 15.1x and 17.7x, respectively. Regional banks are currently trading at premiums of 39% to universal banks and 17% to large regional banks. This is slightly above the 10-year historical premium of 28% for the regionals relative to universals and the 16% 10-year historical average premium to large regionals.

Universal and large regional banks traded at a discount to the market at the end of January while regional banks traded in line with the market. Universal banks traded with the largest discount of 28% followed by the large regionals at 15%. This compares to 10-year historical average market discounts of 18% for the universals and 9% for the large regional banks. Historically, regional banks traded at a 5% premium to the market, on average.

Exhibit 4: Price-to-Forward Earnings Multiples for Banks (by Asset Size) and the Market



Source: KBW Research, SNL DataSource, Factset and Bloomberg.

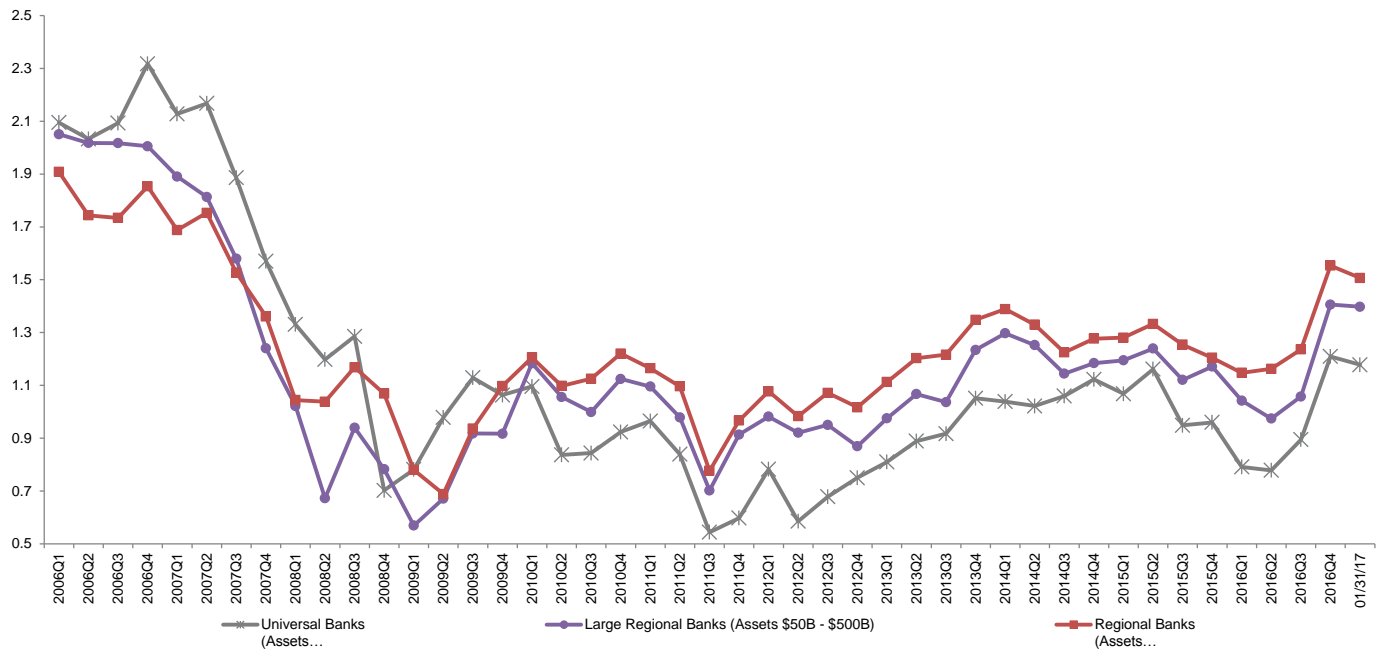


A Stifel Company

Price-to-Book Multiples

At the end of January, universal banks traded at 1.18x book value, while large regional and regional banks traded at 1.40x and 1.51x. Regional banks are currently trading at premiums of 28% to universal banks and 8% to large regional banks. This is significantly higher than the 10-year historical premiums of 6% for the regionals relative to universals and 6% to large regionals.

Exhibit 5: Price-to-Book Multiples for Banks (by Asset Size) and the Market



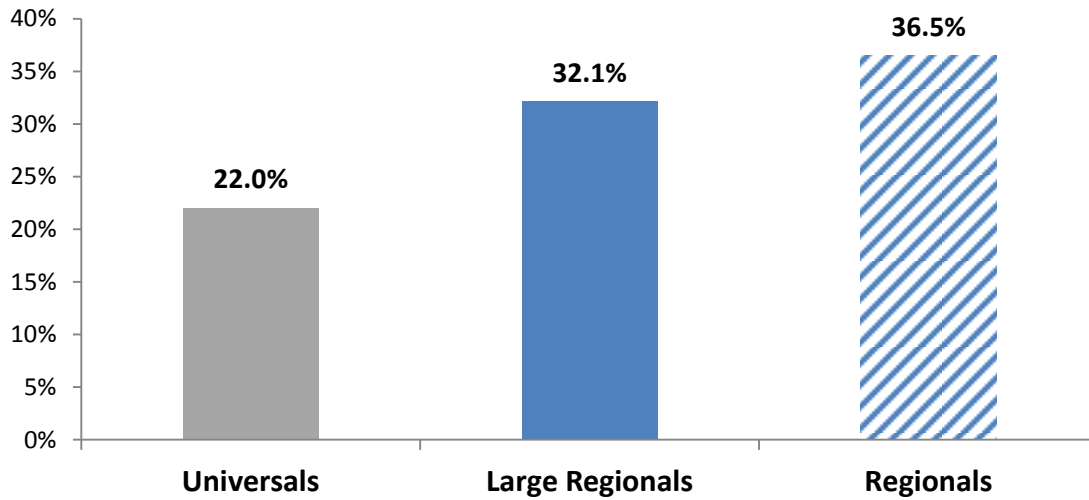
Source: KBW Research, SNL DataSource, Factset and Bloomberg.

Performance Trends in 2016 and Since Election Day

Similar to their unique valuation multiples, the banking groups demonstrate distinct price trends. In 2016, universal banks were the worst performers, gaining 22.0% on average, while large regionals rose 32.1% and regionals advanced 36.5%. Similar trends are exhibited since Election Day through January month-end, on average, universals are the worst-performing group, rising 18.5% as large regionals gained 22.5% and regionals rose 23.2%.

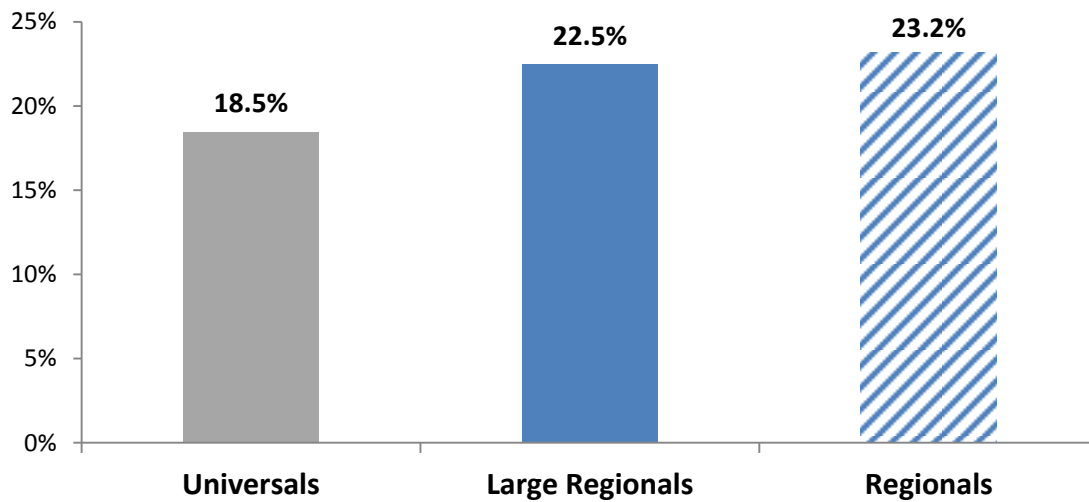


Exhibit 6: Average Price Performance in 2016 by Bank Asset Size



Source:KBW Research, SNL DataSource and Factset.

Exhibit 7: Average Price Performance Since Election Day (11/8/16 - 1/31/17) by Bank Asset Size



Source:KBW Research, SNL DataSource and Factset.

Given these meaningful differences in both price performance and valuation multiples, investors can benefit from enhanced performance clarity by sub-dividing the banks based on size and business mix.



Indices Designed to Measure Domestic Banking Industry Trends

There is no shortage of index products designed to track the various sectors or industry groups within the market. There are two index families with associated investable trading products widely recognized as ways to breakdown and differentiate the banking industry.

KBW, in partnership with Nasdaq, offers two modified market-cap weighted indices: the KBW Nasdaq Bank Index (BKX) and the KBW Nasdaq Regional Banking Index (KRX). The BKX tracks the performance of the universal and large regional banks and includes banking stocks representing large domestic money centers, banks and thrifts while the KRX tracks the performance of domestic regional banks and thrifts. Both the BKX and KRX are constructed and maintained by an index committee consisting of KBW and Nasdaq staff.

In addition, the BKX and KRX have Invesco PowerShares sponsored ETFs tracking them. ***The PowerShares KBW Bank Portfolio (KBWB) tracks the BKX and the PowerShares KBW Regional Banking Portfolio (KBWR) tracks the KRX.***

S&P Dow Jones Indices (SPDJI) offers two modified equal-weighted indices: the ***S&P Banks Select Industry Index (SPSIBK)*** and the ***S&P Regional Banks Select Industry Index (SPSIRBK)***. SPSIBK focuses on the larger banks and SPSIRBK focuses on regional banks.

SPSIBK and SPSIRBK have State Street Global Advisors (SSgA) sponsored ETFs tracking them. The SPDR S&P Bank ETF (KBE) tracks SPSIBK and the SPDR S&P Regional Banking ETF (KRE) tracks SPSIRBK.



Exhibit 8: A Closer Look at the KBW Nasdaq and S&P Bank Indices

Index Name	Index Ticker	# of Stocks	Weighting Methodology	Rebalancing Frequency	Launch Date	ETF Linked to Underlying Index	Constituent Criteria
S&P Banks Select Industry Index	SPSIBK	68	Modified Equal Weighted	Quarterly	9/9/2011	SPDR S&P Bank ETF (KBE)	Index includes S&P Total Market Index members classified in the GICS Sub-Industries: Asset Management & Custody Banks (40203010), Diversified Banks (40101010), Regional Banks (40101015), Other Diversified Financial Services (40201020) and Thrifts & Mortgage Finance (40102010)
S&P Regional Banks Select Industry Index	SPSIRBK	99	Modified Equal Weighted	Quarterly	9/9/2011	SPDR S&P Regional Banking ETF (KRE)	Index includes S&P Total Market Index members classified in the GICS Regional Banks (40101015) Sub-Industry.
KBW Nasdaq Bank Index	BKX	24	Modified Market-Cap Weighted	Quarterly	10/21/1991	PowerShares KBW Bank Portfolio (KBWB)	Index includes banking stocks representing large U.S. national money centers, regional banks and thrift institutions. Must have minimum 1-M ADTV of 100K shares, minimum average trailing-30-day stock closing price of \$2.00, minimum float of 20%, have listed options, seasoned for at least 3 months, be listed on Nasdaq, or NYSE.
KBW Nasdaq Regional Banking Index	KRX	50	Modified Market-Cap Weighted	Quarterly	7/25/2005	PowerShares KBW Regional Banking Portfolio (KBWR)	Index designed to track the performance of U.S. regional banks and thrifts that are publicly traded in the U.S. Must have minimum 1-M ADTV of 100K shares, minimum average trailing-30-day stock closing price of \$2.00, minimum float of 20%, have listed options, seasoned for at least 3 months, be listed on Nasdaq, or NYSE

*Data as of 1/31/17

Source: KBW Research, Nasdaq, Invesco PowerShares, SPDJI, SSgA.



Exhibit 9: A Closer Look at the KBW Nasdaq and S&P Bank Index Fundamentals

Index Name	Index Ticker	# of Stocks	Smallest Constituent Mkt Cap (\$M)	Median Constituent Mkt Cap (\$M)	Largest Constituent Mkt Cap (\$M)	Total Constituent Mkt Cap (\$M)	Largest Constituent Contribution (%)	Price to Fwd Earnings	Price to Book	Dividend Yield (%)
S&P Banks Select Industry Index	SPSIBK	68	\$2,274	\$23,705	\$301,384	\$1,619,668	2.5	15.9	1.4	1.7
S&P Regional Banks Select Industry Index	SPSIRBK	99	\$577	\$2,901	\$58,423	\$528,602	3.8	16.7	1.5	1.7
KBW Nasdaq Bank Index	BKX	24	\$5,839	\$22,464	\$302,828	\$1,496,904	8.2	15.74	1.3	1.9
KBW Nasdaq Regional Banking Index	KRX	50	\$1,111	\$3,463	\$8,602	\$181,779	4.1	19.61	1.7	1.9

*All Mkt Cap Data and Weighting data as of 1/31/17, All Valuation data as of 1/31/17

Source: KBW Research, Nasdaq, Invesco PowerShares, SPDJI, SSgA.



Key Differences between KBW Nasdaq and S&P Bank Indices

History

While SPSIBK and SPSIRBK were launched on September 9, 2011, the KBW Nasdaq bank indices, **BKX and KRX**, have significantly longer pricing histories available back to **October 21, 1991, and July 26, 2005, respectively.**

Index Membership

KBW Nasdaq: The KBW Nasdaq bank indices, BKX and KRX, are maintained by a five-member index committee with the objective to design and maintain indices that replicate investable large-cap and regional-bank segments. Subject to specified index eligibility constraints:

- BKX consists of 24 large publicly traded U.S. national money centers, regional banks and thrift institutions.
- KRX consists of 50 publicly traded U.S. regional banks and thrifts.

There is no overlap between constituents of BKX and constituents of KRX.

SPDJI: SPSIBK and SPSIRBK are constructed as sub-indices of the S&P Total Market Index (SPTMI), based on sub-industry classifications as defined by the Global Industry Classification System (GICS). GICS is a four-tiered industry classification system jointly developed by S&P and MSCI.

- SPSIBK includes SPTMI members classified in the following GICS sub-industries: Asset Management & Custody Banks, Diversified Banks, Regional Banks, Other Diversified Financial Services and Thrifts & Mortgage Finance.
- SPSIRBK includes SPTMI members classified in the GICS Regional Banks sub-industry.

Since SPSIBK and SPSIRBK both include SPTMI members classified in the Regional Banks sub-industry group, there is considerable membership overlap.

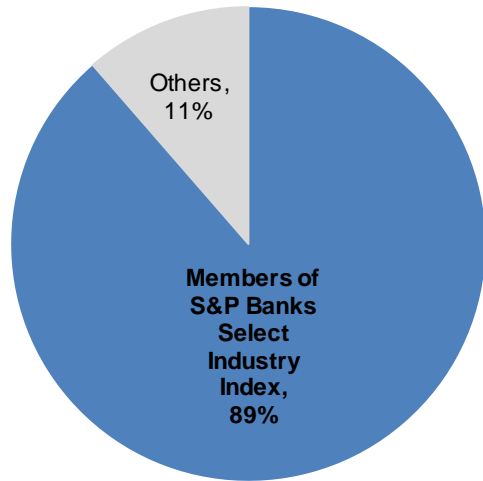
In addition, under GICS, non-banking entities are classified within the Thrifts & Mortgage Finance and Other Diversified Financial Services sub-industry groups. Consequently, SPSIBK includes non-banking institutions VOYA (insurance), MTG and RDN (both mortgage finance).

- ***About 73% of SPSIBK's weighting comes from SPSIRBK members while an additional 6% of weighting comes from non-banking institutions.***
- ***SPSIRBK even more closely mirrors SPSIBK with SPSIBK members contributing 89% of overall SPSIRBK weighting!***
- ***Ten of SPSIB's 15 largest members are also among the 15 largest SPSIRBK members.***



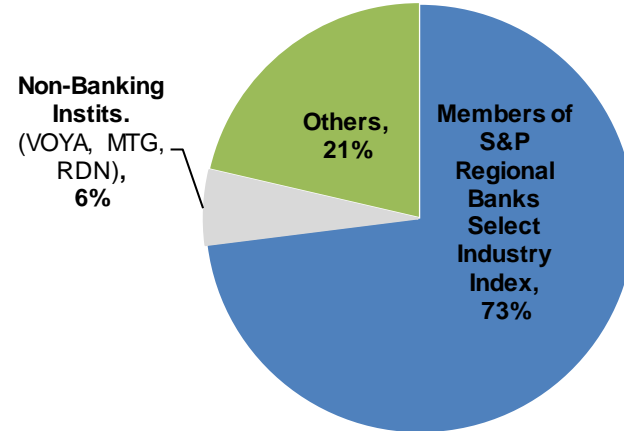
Exhibit 10: Weighting Distributions of S&P Banks Select Industry Index and S&P Regional Banks Select Industry Index

Weighting Distribution of S&P Regional Banking Select Industry Index



As of 1/31/17

Weighting Distribution of S&P Banks Select Industry Index



As of 1/31/17.

Source: KBW Research, Bloomberg, SsgA, SPDJI.



KBW Nasdaq Bank Indices Offer Investors a Narrower Focus

BKX and KRX, are more narrowly defined than the S&P bank indices, with tighter constituent market-cap ranges and smaller constituent groups, representative of their respective capitalization focus.

At January 31, 2017:

- *BKX consisted of 24 members ranging in market caps from \$5.8 billion to \$303 billion, with a median constituent capitalization of \$22 billion.*

- *SPSIBK consisted of 68 members ranging in market caps from \$2.2 billion to \$301 billion, with a median constituent capitalization of \$24 billion.*

- *KRX consisted of 50 members ranging in market caps from \$1 billion to \$9 billion, with a median constituent capitalization of \$3 billion.*

- *SPSIRBK consisted of 99 members ranging in market caps from \$577 million to \$58 billion, with a median constituent capitalization of \$3 billion.*

Significant Membership Overlap Erodes Differentiated Bank Performance

Investors making a differentiated call on universal/large-regional versus pure regional banks would have benefited from the differentiated performance of the BKX and KRX as evidenced by their greater average quarterly spread over the past five years. On average, the quarterly spread between the BKX and KRX is nearly 2.6x that of SPSIBK-SPSIRBK.

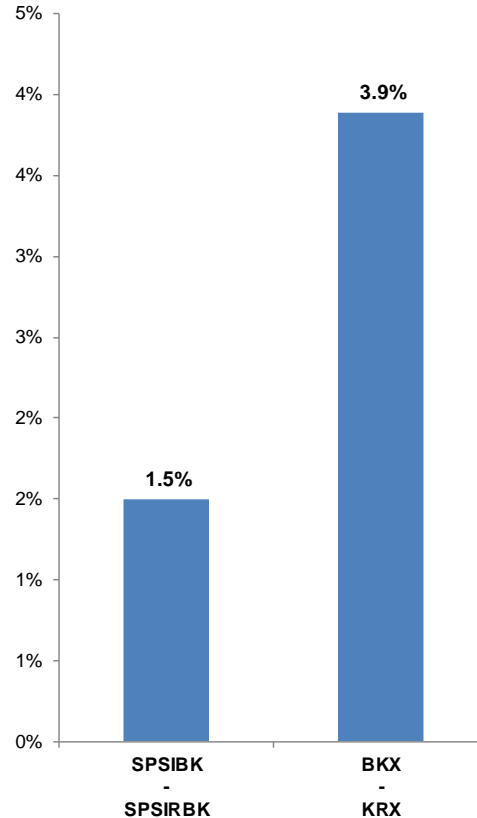
The fact that 89% of SPSIRBK's weighting comes from SPSIBK is a major driver of this undifferentiated performance.



Exhibit 11: The Average Quarterly Spread Between BKX-KRX Is About 2.6x That of SPSIBK-SPSIRBK

Quarterly Price Returns					Absolute Spread Between:	
Quarter	BKX	SPSIBK	KRX	SPSIRBK	BKX - KRX	SPSIBK - SPSIRBK
4Q11	11.4%	15.2%	26.9%	24.1%	15.5%	8.8%
1Q12	26.3%	20.6%	14.1%	16.5%	12.2%	4.1%
2Q12	-7.9%	-7.9%	-3.1%	-3.9%	4.8%	4.0%
3Q12	8.3%	6.6%	2.9%	4.7%	5.3%	1.9%
4Q12	3.4%	1.7%	-3.0%	-2.0%	6.4%	3.7%
1Q13	9.8%	13.2%	12.6%	13.7%	2.9%	0.5%
2Q13	9.1%	6.4%	4.9%	6.4%	4.3%	0.0%
3Q13	1.4%	4.7%	7.0%	5.2%	5.7%	0.5%
4Q13	11.3%	10.5%	13.6%	14.0%	2.4%	3.5%
1Q14	4.4%	2.6%	0.9%	1.9%	3.4%	0.7%
2Q14	-1.4%	-1.9%	-3.0%	-2.5%	1.6%	0.6%
3Q14	0.4%	-4.6%	-6.2%	-6.2%	6.5%	1.6%
4Q14	3.8%	5.3%	9.1%	7.7%	5.3%	2.4%
1Q15	-2.8%	-0.2%	0.8%	0.3%	3.7%	0.5%
2Q15	7.0%	8.3%	9.5%	8.1%	2.5%	0.2%
3Q15	-9.5%	-8.5%	-7.2%	-6.8%	2.3%	1.6%
4Q15	4.7%	2.0%	1.0%	2.1%	3.7%	0.2%
1Q16	-12.1%	-10.4%	-5.4%	-10.2%	-6.7%	-0.1%
2Q16	1.0%	0.5%	3.1%	2.1%	-2.1%	-1.6%
3Q16	9.2%	9.5%	8.2%	9.8%	1.1%	-0.3%
4Q16	29.6%	30.4%	28.6%	31.6%	1.0%	-1.2%
Median:					3.7%	0.6%
Average:					3.9%	1.5%

Average Absolute Quarterly Spread From 4Q11 - 4Q16 Between BKX-KRX vs. SPSIBK-SPSIRBK



Source: KBW Research, Nasdaq, and Bloomberg.

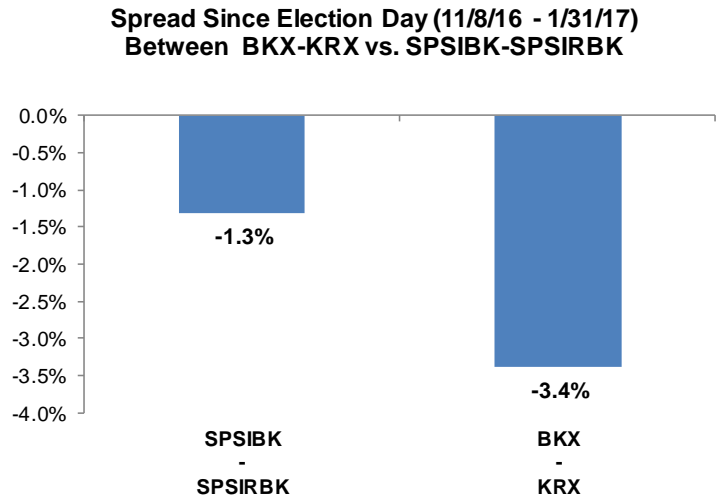
As mentioned, there has been a tremendous rally in bank stocks since the election in early November. Despite the large rally, there were still differences in performance between the universal, large regional and regional banking groups. *The spread in performance between BKX and KRX since Election Day clearly conveys how these two indices can be the better choice for investors seeking differentiated returns between Universals and Regional Banks. While the spread between SPSIBK and SPSIRBK was a mere -1.3% from November 8th through January 31, the spread between BKX and KRX was -3.4%.* Investors looking for differentiated performance for the banks post-Election Day benefited from the differentiated performance provided by BKX and KRX relative to SPSIBK and SPSIRBK.



Exhibit 12: BKX-KRX Spread Since Election Day Shows the Importance of Carefully Crafted Indices

Price Returns Since Election Day (11/8/16)			
BKX	SPSIBK	KRX	SPSIRBK
21.7%	24.7%	25.0%	26.0%

Absolute Spread Between:	
BKX - KRX	SPSIBK - SPSIRBK
-3.4%	-1.3%



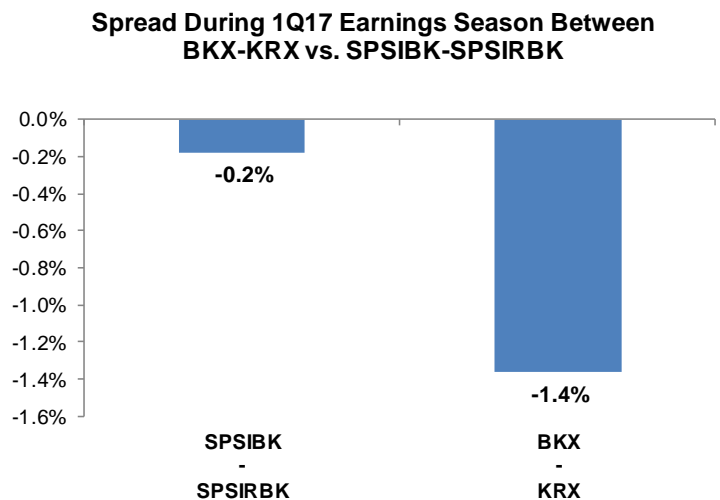
Source: KBW Research, Nasdaq, and Bloomberg.

Further, the lack of performance differentiation between SPSIBK and SPSIRBK is even more magnified in 2017. For investors trying to differentiate between the banks during first-quarter earnings reporting season, the BKX and KRX did a better job at conveying the differentiated performance between the large and regional banks. The spread between SPSIBK and SPSIRBK was a mere 0.2% from January 12 through January 31 while the spread between BKX and KRX was -1.4%. Investors looking to differentiate between the banks during earnings season would have benefited from the differentiated performance trends of BKX and KRX relative to SPSIBK and SPSIRBK.

Exhibit 13: Disparities in Spread Are Clear During 1Q17 Reporting Season

Price Returns During 1Q17 Earnings Season			
BKX	SPSIBK	KRX	SPSIRBK
-1.0%	0.1%	0.4%	0.3%

Absolute Spread Between:	
BKX - KRX	SPSIBK - SPSIRBK
-1.4%	-0.2%



Source: KBW Research, Nasdaq, and Bloomberg.



A Stifel Company

In addition, SPSIBK and SPSIRBK trade at similar fundamentals. At the end of January, SPSIBK traded at 15.9x forward earnings while SPSIRBK traded at a 16.7x. On a price-to-book basis, SPSIBK and SPSIRBK traded at 1.4x and 1.5x, respectively. Lastly, the indices offered similar dividend yields with both SPSIBK and SPSIRBK offering 1.7% yields.

The BKX and KRX trade at differentiated fundamentals. At the end of January, BKX traded at 15.7x forward earnings while KRX traded at 19.6x. On a price-t-book basis, similar differences in valuation were noted. The BKX traded at 1.3x book value while the KRX traded at 1.7x at the end of the month. The KRX trades at higher multiples, reflective of the investable regional banking universe and the valuation premiums discussed earlier.

Exhibit 14: Index Fundamentals as of January 31, 2017

Index Name	Index Ticker	Price to Fwd Earnings	Price to Book	Dividend Yield (%)
S&P Banks Select Industry Index	SPSIBK	15.9	1.4	1.7
S&P Regional Banks Select Industry Index	SPSIRBK	16.7	1.5	1.7
KBW Nasdaq Bank Index	BKX	15.74	1.3	1.9
KBW Nasdaq Regional Banking Index	KRX	19.61	1.7	1.9

*All Mkt Cap Data and Weighting data as of 1/31/17, All Valuation data as of 1/31/17

Source: KBW Research, Nasdaq, SPDJ and Bloomberg.



Membership Overlap Drives Correlation between SPSIBK and SPSIRBK to 0.98

Since both BKX and KRX as well as SPSIBK and SPIRKB comprise solely banking institutions within the same broader banking industry group, correlations between indices are likely to be significant. Correlations coefficients are considered statistically significant if they are greater than or equal to 0.81. Correlation coefficients can range from -1.00 to +1.00.

The BKX and KRX exhibit a significant 0.90 correlation coefficient while SPSIBK and SPSIRBK exhibit a nearly perfect correlation of 0.98.

Exhibit 15: Correlation Coefficient Matrix for Banking Indices and the S&P 500 Index

CORRELATION COEFFICIENTS					
	SPX	BKX	KRX	SPSIBK	SPSIRBK
SPX	1.00	0.85	0.79	0.83	0.80
BKX	0.85	1.00	0.90	0.98	0.94
KRX	0.79	0.90	1.00	0.97	0.99
SPSIBK	0.83	0.98	0.97	1.00	0.98
SPSIRBK	0.80	0.94	0.99	0.98	1.00

Source: KBW Research, Bloomberg, Nasdaq, SPDJI.



IMPORTANT DISCLOSURES

RESEARCH ANALYST CERTIFICATION: We, Melissa A. Roberts, Pell Birmingham and Frederick Cannon, CFA, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject companies and their securities. We also certify that we have not been, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation in this report.

Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

The recommendations contained in this report were produced at 1 February 2017 18:19 EDT and disseminated at 1 February 2017 18:19 EDT

For disclosures pertaining to recommendations or estimates made on a security mentioned in this report, please see the most recently published company report or visit our global disclosures page on our website at <http://www.kbw.com/research/disclosures> or see the section below titled "Disclosure Information" for further information on how to obtain these disclosures.

AFFILIATE DISCLOSURES

This report has been prepared by Keefe, Bruyette & Woods, Inc. ("KBWI") and/or its affiliate Stifel Nicolaus Europe Limited ("SNEL"), also trading as Keefe, Bruyette & Woods Europe ("KBW Europe"); collectively "KBW". Both KBWI and KBW Europe are affiliates of Stifel Financial Corp. KBWI is regulated by FINRA and the United States Securities and Exchange Commission, is a member of NYSE, and its headquarters is located at 787 7th Avenue, New York, NY 10019. Stifel Nicolaus Europe Limited, also trading as Keefe, Bruyette & Woods Europe, is registered in England and Wales, no. 03719559 and its registered office is 4th Floor, 150 Cheapside, London EC2V 6ET. Stifel Nicolaus Europe Limited, also trading as Keefe, Bruyette & Woods Europe, is authorised and regulated by the Financial Conduct Authority (FCA) in the UK entered on the FCA's register, no. 190412 and is a member of the London Stock Exchange. Disclosures in the Important Disclosures section referencing KBW include one or all affiliated entities unless otherwise specified.

Registration of non-U.S. Analysts: Any non-U.S. Research Analyst employed by a non-U.S. affiliate of KBWI contributing to this report is not registered/qualified as research analyst with FINRA and/or the NYSE and may not be an associated person of KBWI and therefore may not be subject to FINRA Rule 2241 or NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

Disclosure Information: For current company-specific disclosures, please write to one of the KBW entities: For **U.S. Research:** Keefe, Bruyette & Woods, Inc. Research Department, 787 7th Avenue, 4th Floor, New York, NY 10019. For **European Research:** The Compliance Officer, Stifel Nicolaus Europe Limited, 4th Floor, 150 Cheapside, London EC2V 6ET. Or visit our website at <http://www.kbw.com/research/disclosures>. KBW has arrangements in place to manage conflicts of interest including information barriers between the Research Department and certain other business groups. As a result, KBW does not disclose certain client relationships with, or compensation received from, such companies in its research reports.

Distribution of Ratings/IB Services
KBW

Rating	Count	Percent	*IB Serv./Past 12 Mos.	
			Count	Percent
Outperform [BUY]	187	29.82	64	34.22
Market Perform [HOLD]	376	59.97	120	31.91
Underperform [SELL]	41	6.54	8	19.51
Restricted [RES]	1	0.16	1	100.00
Suspended [SP]	23	3.67	3	13.04
Covered -Not Rated [CNR]	4	0.64	1	25.00

*KBW maintains separate research departments; however, the above chart, "Distribution of Ratings/IB Services," reflects combined information related to the distribution of research ratings and the receipt of investment banking fees globally. **Note: All ratings for Keefe, Bruyette and Woods, Inc. as of January 15, 2015 reflect a relative ratings system.

Explanation of Ratings: KBW Research Department provides three core ratings: Outperform, Market Perform, and Underperform, and three ancillary ratings: Suspended, Restricted, and Covered-Not Rated. For purposes of New York Stock Exchange Rule 472 and FINRA Rule 2241, Outperform is classified as a Buy, Market Perform is classified as a Hold, and Underperform is classified as a Sell. Suspended indicates that KBW's investment rating and/or target price have been temporarily suspended due to applicable regulations and/or KBW policies. Restricted indicates that KBW is precluded from providing an investment rating or price target due to the firm's role in connection with a merger or other strategic financial transaction. Covered-Not Rated indicates that KBW is not providing an investment rating and/or price target due to the lack of publicly available information and/or its inability to adequately quantify the publicly available information to sufficiently produce such metrics.

North American Stocks and European Stocks are rated based on the share price upside to target price relative to the relevant sector index performance on a 12-month horizon. Outperform rated stocks have a greater than 10 percentage point ("pp") relative performance versus the sector, Market Perform rated stocks between +10pp to -10pp relative performance versus the sector, and Underperform rated stocks a lower than 10pp relative performance versus the sector. The 12-month price target may be determined by the stock's fundamentally driven fair value and/or other factors (e.g., takeover premium or illiquidity discount).



KBW Model Portfolio: “Model Portfolio Buy” - Companies placed on this list are expected to generate a total rate of return (percentage price change plus dividend yield) of 10% or more over the next 3 to 6 months. “Model Portfolio Sell” - Companies placed on this list are expected to generate a total rate of return (percentage price change plus dividend yield) at or below -10% over the next 3 to 6 months.

The purpose of the Model Portfolio is to inform institutional investors of KBWI’s short-term (as described above) outlook for a particular industry sector. The Portfolio is not available for purchase or sale, cannot be duplicated as shown, is hypothetical and is for illustrative purposes only. For a more detailed description of the selection criteria and other specifics related to the construction of the Model Portfolio, please refer to the January 5, 2010 Model Portfolio Primer and/or contact your KBWI representative for more information.

The Model Portfolio should be viewed as a short-term outlook of a particular industry sector, not as individual security recommendations. The Model Portfolio uses a three-to-six-month time horizon and should not be considered when making longer term investments. KBWI Research publishes research with a 12-month outlook on each issuer of securities contained in the Model Portfolio. Investors who are interested in a particular security should request KBWI Research’s coverage of such securities by contacting your KBWI representative. KBW research contains analyses of fundamentals underlying each issuer.

KBWI’s long-term recommendations may differ from recommendations made for the Model Portfolio. These differences are the result of different time horizons—KBWI research has a 12-month outlook and the Model Portfolio has a three-to-six-month outlook.

Although the model portfolio is based upon actual performance of actual investments, KBWI did not recommend that investors purchase this combination—or hypothetical portfolio—of investments during the time period depicted here. As this hypothetical portfolio was designed with the benefit of hindsight, the choice of investments contained in it reflects a subjective choice by KBWI. Accordingly, this hypothetical portfolio may reflect a choice of investments that performed better than an actual portfolio, which was recommended during the depicted time frame, would have performed during the same time period. Moreover, unlike an actual performance record, these results do not represent actual trading wherein market conditions or other risk factors may have caused the holder of the portfolio to liquidate or retain all or part of the represented holdings.

Stifel/KBW Income Opportunity List, Stifel/KBW Analyst Select List, and Stifel/KBW Select Income Opportunity—The Crossovers List: These lists include companies that analysts believe have the most attractive risk-adjusted return potential over the next 12 months, or, in the case of the Stifel/KBW Income Opportunity Ideas List, have yield in excess of 2%. In some cases, analysts who cover more than one sub-sector may have more than one name on the list.

Other Research Methods: Please be advised that KBW provides to certain customers on request specialized research products or services that focus on covered stocks from a particular perspective. These products or services include, but are not limited to, compilations, reviews, and analysis that may use different research methodologies or focus on the prospects for individual stocks as compared to other covered stocks or over differing time horizons or under assumed market events or conditions.

OTHER DISCLOSURES

Indexes: The following indexes: U.S.: KBW Nasdaq Bank Index (BKX), KBW Nasdaq Insurance Index (KIX), KBW Nasdaq Capital Markets Index (KSX), KBW Nasdaq Regional Banking Index (KRX), KBW Nasdaq Property & Casualty Index (KPX), KBW Nasdaq Financial Technology Index (KFTX), KBW Nasdaq Premium Yield Equity REIT Index (KYX); KBW Nasdaq Financial Sector Dividend Yield Index (KDX) and Global: KBW Nasdaq Global Bank Index (GBKX), are the property of KBWI and Nasdaq.

KBWI and Nasdaq do not guarantee the accuracy and/or completeness of the indexes, make no express or implied warranties with respect to the indexes and shall have no liability for any damages, claims, losses, or expenses caused by errors in the index calculation. KBWI and Nasdaq make no representation regarding the advisability of investing in options on the Index. **Past performance is not necessarily indicative of future results.**

ETFs—Important Disclosures: The shares (“Shares”) of ETFs are not sponsored, endorsed, sold, or promoted by KBWI. KBWI makes no representation or warranty, express or implied, to the owners of the Shares or any member of the public regarding the advisability of investing in securities generally or in the Shares particularly or the ability of its Indexes to track general stock market performance. The only relationship of KBWI to Invesco PowerShares Capital Management LLC is the licensing of certain trademarks and trade names of KBWI and its Indexes which are determined, composed, and calculated by KBWI without regard to Invesco PowerShares Capital Management LLC, the fund, or the Shares. KBWI has no obligation to take the needs of Invesco PowerShares Capital Management LLC or the owners of the shares into consideration in determining, composing, or calculating the Indexes. KBWI is not responsible for and has not participated in any determination or calculation made with respect to issuance or redemption of the Shares. KBWI has no obligation or liability in connection with the administration, marketing, or trading of the Shares.

Compensation. KBWI and Invesco PowerShares Capital Management LLC are parties to an index licensing agreement wherein KBWI licenses its Indexes to Invesco PowerShares Capital Management LLC and KBWI receives as compensation payments based on the amount of assets under management in the ETFs (which the licensed Indexes underlie) and which may be recommended in this report.

ETF and Index Reports. The author of index and related ETF reports is the Director of KBWI’s Research Department, who is also the head of the KBWI Index Committee. This Index Committee selects index components for the indexes upon which the recommended ETFs are based.

ETF Risks. There are risks involved with investing in ETFs, including possible loss of money. ETFs may not always trade or price as expected. Generally, security classifications used in calculating allocation tables are as of the last trading day of the previous month. ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs net asset value. Diversification does not ensure a profit and may not protect against loss in declining markets. Investors should refer to the individual ETF prospectus for a more detailed discussion of the specific risks and considerations for an individual ETF.

Investing in a single sector may be subject to more volatility than funds investing in a diverse group of sectors. Brokerage commissions and ETF expenses will reduce returns. In general, ETFs can be expected to move up or down in value with the value of the applicable index. Although ETFs may be bought and sold on the exchange through any brokerage account, ETFs are not individually redeemable from the Fund. Investors may



acquire ETFs and tender them for redemption through the Fund in Creation Unit Aggregations only, please see the prospectus (link below) for more details. Shares are not actively managed and are subject to risks including those regarding short selling and margin maintenance requirements. Past performance is not necessarily indicative of future results.

An investor should consider the Funds' investment objectives, risks, charges, and expenses carefully before investing. This and other information can be found in their prospectuses. For this and more complete information about the Funds, call InvescoPowerShares at 1-800-983-0903 or visit <https://www.powershares.com> for a prospectus. The prospectus should be read carefully before investing.

Shares of the ETFs funds are not guaranteed or insured by the FDIC or by another governmental agency; they are not obligations of the FDIC nor are they deposits or obligations of or guaranteed by KBWI or Invesco PowerShares Capital Management LLC. ETFs are distributed by Invesco Distributors, Inc. the distributor of the PowerShares Exchange-Traded Fund Trust II. PowerShares® is a registered trademark of Invesco PowerShares Capital Management LLC.

General Risk Disclosure: Investments in securities or financial instrument involve numerous risks which may include market risk, counterparty default risk, liquidity risk and exchange rate risk. No security or financial instrument is suitable for all investors, and some investors may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in this communication. The securities of some issuers may not be subject to the audit and reporting standards, practices and requirements comparable to those companies located in the investor's local jurisdiction. Where net dividends to ADR investors are discussed, these are estimated, using withholding tax rate conventions, and deemed accurate, but recipients should always consult their tax advisor for exact dividend computations.

COUNTRY-SPECIFIC AND JURISDICTIONAL DISCLOSURES

United States: This report is being distributed in the U.S. by KBWI. Where the report has been prepared by a non-U.S. affiliate, KBWI accepts responsibility for its contents.

U.K. and European Economic Area (EEA): This report is issued and approved for distribution in the EEA by Stifel Nicolaus Europe Limited, also trading as Keefe, Bruyette & Woods Europe, which is regulated in the United Kingdom by the Financial Conduct Authority (FCA).

To access a table of all rating and price target changes in the preceding 12 months for stocks under KBW coverage, please click here: <https://kbw3.bluematrix.com/sellside/MAR.action>

Canadian Distribution: Research produced by KBW is distributed in Canada by KBW in reliance on the international dealer exemption. This material is intended for use only by professional or institutional investors. None of the investments or investment services mentioned or described herein is available to other persons or to anyone in Canada who is not a "permitted client" as defined under applicable Canadian securities law.

In jurisdictions where KBW is not already licensed or registered to trade securities, transactions will only be affected in accordance with local securities legislation which will vary from jurisdiction to jurisdiction and may require that a transaction is carried out in accordance with applicable exemptions from registration and licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a representative of the KBW entity in their regional jurisdiction except where governing law permits otherwise. U.S. customers wishing to effect a transaction should do so by contacting a representative of KBWI.

ONLY DISTRIBUTE UNDER REGULATORY LICENSE

This communication is only intended for and will only be distributed to persons residing in any jurisdictions where such distribution or availability would not be contrary to local law or regulation. This communication must not be acted upon or relied on by persons in any jurisdiction other than in accordance with local law or regulation and where such person is an investment professional with the requisite sophistication and resources to understand an investment in such securities of the type communicated and assume the risks associated therewith.

The securities discussed in this report may not be available for sale in all jurisdictions. Clients considering an investment in the securities discussed should speak with their sales representative prior to making an investment decision.

CONFIDENTIAL INFO

This communication is confidential and is intended solely for the addressee. It is not to be forwarded to any other person or copied without the permission of the sender. Please notify the sender in the event you have received this communication in error.

NO SOLICITATION OR PERSONAL ADVICE

This communication is provided for information purposes only. It is not a personal recommendation or an offer to sell or a solicitation to buy the securities mentioned. Investors should obtain independent professional advice before making an investment.

ASSUMPTIONS, EFFECTIVE DATE, AND UPDATES

Certain assumptions may have been made in connection with the analysis presented herein, so changes to assumptions may have a material impact on the conclusions or statements made in this communication. Facts and views presented in this communication have not been reviewed by, and may not reflect information known to, professionals in other business areas of KBW, including investment banking personnel.

The information relating to any company herein is derived from publicly available sources and KBW makes no representation as to the accuracy or completeness of such information. Neither KBW nor any of its officers or employees accept any liability whatsoever for any direct, indirect, or consequential damages or losses arising from any use of this report or its content.

This communication has been prepared as of the date of the report.

KBW does not undertake to advise clients of any changes in information, estimates, price targets, or ratings, all of which are subject to change without notice. The recipients should assume that KBW will not update any fact, circumstance, or opinion contained in this report.

COPYRIGHT



This report is produced for the use of KBW customers and may not be reproduced, re-distributed or passed to any other person or published in whole or in part for any purpose without the prior consent of KBW.