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WACHOVIA CORP/ NC
Form 425
June 28, 2001

Filed by First Union Corporation

Pursuant to Rule 425 under the Securities Act of 1933 and deemed filed pursuant to Rule 14a-12 under the Securities Exchange Act of 1934

Subject Company: Wachovia Corporation
Commission File No. 333-59616

Date: June 27, 2001

This filing contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include, but are not limited to, (i) statements about the benefits of the merger between First Union Corporation and Wachovia Corporation, including future financial and operating results, cost savings, enhanced revenues, and accretion to reported earnings that may be realized from the merger; (ii) statements with respect to First Union's and Wachovia's plans, objectives, expectations and intentions and other statements that are not historical facts; and (iii) other statements identified by words such as "believes", "expects", "anticipates", "estimates", "intends", "plans", "targets", "projects" and similar expressions. These statements are based upon the current beliefs and expectations of First Union's and Wachovia's management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements: (1) the risk that the businesses of First Union and Wachovia will not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected; (2) expected revenue synergies and cost savings from the merger may not be fully realized or realized within the expected time frame; (3) revenues following the merger may be lower than expected; (4) deposit attrition, operating costs, customer loss and business disruption following the merger, including, without limitation, difficulties in maintaining relationships with employees, may be greater than expected; (5) the ability to obtain governmental approvals of the merger on the proposed terms and schedule; (6) the failure of First Union's and Wachovia's stockholders to approve the merger; (7) competitive pressures among depository and other financial institutions may increase significantly and have an effect on pricing, spending, third-party relationships and revenues; (8) the strength of the United States economy in general and the strength of the local economies in which the combined company will conduct operations may be different than expected resulting in, among other things, a

deterioration in credit quality or a reduced demand for credit, including the resultant effect on the combined company's loan portfolio and allowance for loan losses; (9) changes in the U.S. and foreign legal and regulatory framework; and (10) adverse conditions in the stock market, the public debt market and other capital markets (including changes in interest rate conditions) and the impact of such conditions on the combined company's capital markets and asset management activities. Additional factors that could cause First Union's and Wachovia's results to differ materially from those described in the forward-looking statements can be found in First Union's and Wachovia's reports (such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current

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Reports on Form 8-K) filed with the Securities and Exchange Commission and available at the SEC's Internet site (<http://www.sec.gov>). All subsequent written and oral forward-looking statements concerning the proposed transaction or other matters attributable to First Union or Wachovia or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements above. First Union and Wachovia do not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made.

The proposed transaction will be submitted to First Union's and Wachovia's stockholders for their consideration, and, on June 27, 2001, First Union filed an amended registration statement on Form S-4 with the SEC containing a joint proxy statement/prospectus of First Union and Wachovia and other relevant documents concerning the proposed transaction. Stockholders are urged to read the joint proxy statement/prospectus contained in the registration statement and any other relevant documents filed with the SEC, as well as any amendments or supplements to those documents, because they will contain important information. You will be able to obtain a free copy of the joint proxy statement/prospectus, as well as other filings containing information about First Union and Wachovia, at the SEC's Internet site (<http://www.sec.gov>). Copies of the joint proxy statement/prospectus and the SEC filings that will be incorporated by reference in the joint proxy statement/prospectus can also be obtained, without charge, by directing a request to First Union, Investor Relations, One First Union Center, Charlotte, North Carolina 28288-0206 (704-374-6782), or to Wachovia, Investor Relations, 100 North Main Street, Winston-Salem, North Carolina 27150 (888-492-6397).

First Union and Wachovia, and their respective directors and executive officers, and others may be deemed to be participants in the solicitation of proxies from the stockholders of First Union and Wachovia in connection with the merger. Information about the identity of participants in the solicitation and a description of their direct or indirect interests, by security holdings or otherwise, is set forth in an exhibit to the registration statement and in the joint proxy statement/prospectus regarding the proposed transaction.

THE FOLLOWING NEWS RELEASE WAS ISSUED BY FIRST UNION AND WACHOVIA

[FIRST UNION LOGO APPEARS HERE]

[WACHOVIA LOGO APPEARS HERE]

Wednesday

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June 27, 2001

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FIRST UNION AND WACHOVIA TO MAIL PROXY MATERIALS

Merger Proxy Statements Declared Effective by SEC

Charlotte and Winston-Salem, N.C. - First Union Corporation (NYSE: FTU) and Wachovia Corporation (NYSE: WB) announced today that their joint merger proxy statement has been declared effective by the Securities and Exchange Commission.

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Printing of the proxy statements will begin immediately and distribution to Wachovia and First Union shareholders is expected to begin by the end of this week. First Union's annual meeting of shareholders is scheduled for July 31, 2001, and Wachovia's annual meeting of shareholders is scheduled for August 3, 2001.

L.M. Baker Jr., chairman and chief executive officer of Wachovia, said, "In our view, the merger of equals with First Union is a thoughtful, strategic combination designed to give Wachovia shareholders the same Wachovia dividend rate and potential for superior earnings. We believe the case for our merger is compelling, and we welcome the opportunity for shareholders of both companies to review this proposed combination."

Ken Thompson, chairman and chief executive officer of First Union, said, "The mailing of the proxy statement is an important milestone in the merger process. The integration planning process continues at full speed, and we are more enthusiastic than ever about the growth prospects for the new Wachovia. We look forward to the votes on July 31st and August 3rd, when we shareholders of both companies will have the opportunity to vote on this combination."

First Union: (NYSE:FTU), with \$253 billion in assets and stockholders' equity of \$16 billion at March 31, 2001, is a leading provider of financial services to 15 million retail and corporate customers throughout the East Coast and the nation. The company operates

full-service banking offices in 11 East Coast states and Washington, D.C., and full-service brokerage offices in 47 states and internationally. Online banking products and services can be accessed through www.firstunion.com.

Wachovia (NYSE: WB) is a major interstate financial holding company offering banking and financial services to individuals primarily in Florida, Georgia, North Carolina South Carolina and Virginia and to corporations and institutions throughout the United States and globally. Wachovia Corporation is headquartered in Winston-Salem, N.C., and Atlanta and had assets of \$75.6 billion at March 31, 2001. Wachovia Web site is located at www.wachovia.com.

This news release may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, without limitation, (i) statements about the benefits of the merger between First Union Corporation and Wachovia Corporation, including future financial and operating results, cost savings, enhanced revenues, and accretion to reported earnings that may be realized from the merger; (ii) statements with respect to First Union's and Wachovia's plans, objectives, expectations and intentions and other statements that are not historical facts; and (iii) other statements identified by words such as "believes", "expects", "anticipates", "estimates", "intends", "plans", "targets", "projects" and similar expressions. These statements are based upon the current beliefs and expectations of First Union's and Wachovia's management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements: (1) the risk that the businesses of First Union and Wachovia will not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected; (2) expected revenue synergies and cost savings from the merger may not be fully realized or realized within the expected time frame; (3) revenues following the merger may be lower than expected; (4) deposit attrition, operating costs, customer loss and

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business disruption following the merger, including, without limitation, difficulties in maintaining relationships with employees, may be greater than expected; (5) the ability to obtain governmental approvals of the merger on the proposed terms and schedule; (6) the failure of First Union's and Wachovia's stockholders to approve the merger; (7) competitive pressures among depository and other financial institutions may increase significantly and have an effect on pricing, spending, third-party relationships and revenues; (8) the strength of the United States economy in general and the strength of the local economies in which the combined company will conduct operations may be different than expected resulting in, among other things, a deterioration in credit quality or a reduced demand for credit, including the resultant effect on the combined company's loan portfolio and allowance for loan losses; (9) changes in the U.S. and foreign legal and regulatory framework; and (10) adverse conditions in the stock market, the public debt market and other capital markets (including changes in interest rate conditions) and the impact of such conditions on the combined company's capital markets and asset management activities. Additional factors that could cause First Union's and

Wachovia's results to differ materially from those described in the forward-looking statements can be found in First Union's and Wachovia's reports (such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K) filed with the Securities and Exchange Commission and available at the SEC's Internet site (<http://www.sec.gov>). All subsequent written and oral forward-looking statements concerning the proposed transaction or other matters attributable to First Union or Wachovia or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements above. First Union and Wachovia do not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made.

Additional Information

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THE FOLLOWING IS A TRANSCRIPT OF A PRESENTATION AT A CREDIT SUISSE FIRST BOSTON SEMINAR. THE STATEMENTS THEREIN REPRESENT THE CURRENT OPINIONS, BELIEFS AND EXPECTATIONS OF THE SPEAKER.

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JUNE 26, 2001

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DON MCMULLEN

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WEBCAST WITH

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CREDIT SUISSE FIRST BOSTON

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1 >> AS YOU ALL KNOW, THE LARGE CAP BANKS, BANKS
2 GENERALLY HAVE BECOME INCREASINGLY DIVERSE, A LOT
3 OF COMPANIES PLAYING AN INCREASINGLY ACTIVE ROLE
4 IN THE ASSET MANAGEMENT BUSINESS.

5 OUR NEXT SPEAKER THIS MORNING IS DON MCMULLEN,
6 VICE CHAIRMAN AND HEAD OF FIRST UNION'S CAPITAL
7 MANAGEMENT GROUP, A GROUP WHICH INCLUDES ITS
8 BROAD-BASED MANAGEMENT BUSINESS FOR ABOUT \$170
9 BILLION, AND IT ALSO INCLUDES THEIR RETAIL
10 BROKERAGE BUSINESS.

11 BETWEEN 1995 AND 2000 THROUGH ACQUISITIONS AND
12 ORGANIC GROWTH, FIRST UNION MANAGED TO GROW ITS
13 ASSETS UNDER MANAGEMENT AT AN IMPRESSIVE NEAR 30%
14 RATE.

15 I'M GOING TO TURN THE PODIUM OVER TO DON, BUT,
16 FIRST, I'VE BEEN GIVEN THE OPPORTUNITY TO READ A
17 LITTLE SEC MANDATED THING HERE.

18 BEFORE WE BEGIN, PLEASE LET ME REMIND YOU THAT
19 ANY FORWARD-LOOKING STATEMENTS MADE DURING THIS
20 PRESENTATION ARE SUBJECT TO RISKS AND
21 UNCERTAINTY.

22 FACTORS THAT COULD CAUSE FIRST UNION'S RESULTS TO
23 DIFFER MATERIALLY FROM ANY FORWARD-LOOKING
24 STATEMENTS ARE SET FORTH IN FIRST UNION'S PUBLIC
25 REPORTS FILED WITH THE SEC INCLUDING FIRST

3

1 UNION'S REGISTRATION STATEMENT ON FORM S-4
2 RELATING TO THE PROPOSED MERGER WITH WACHOVIA.
3 PLEASE READ THAT DOCUMENT AND OTHER RELATED
4 DOCUMENTS FILED WITH THE SEC WHICH ALSO CONTAIN

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5 INFORMATION REGARDING THE INTERESTS OF CERTAIN
6 PARTICIPANTS IN THE PROXY SOLICITATION.
7 THESE DOCUMENTS CAN BE OBTAINED FOR FREE AT THE
8 SEC'S WEBSITE AND FROM FIRST UNION AND WACHOVIA.
9 DON?

10 [LAUGHTER]

11 >> DON: GOOD MORNING, ANY QUESTIONS?

12 GOOD MORNING TO EVERYBODY IN ATTENDANCE AND TO
13 THE FOLKS LISTENING ON THE WEBCAST TODAY.

14 IT'S AN HONOR TO BE HERE, QUITE CANDIDLY, WITH SO
15 MANY FRIENDS, COMPETITORS, TEAMMATES THAT WE WORK
16 WITH IN THIS INDUSTRY AS IT'S REALLY BLENDED
17 TOGETHER, AND MANY TIMES, I THINK, AS THE TITLE
18 SUGGESTS, FOLKS CALL US FROM TIME TO TIME TO TALK
19 ABOUT THIS WHOLE BANK STUFF.

20 WHAT IS GOING ON IN THE BANK DISTRIBUTION
21 NETWORK? EVEN THE TITLE I WAS GIVEN TO TALK
22 ABOUT, ATTACKING THE DISTRIBUTION BOTTLE NECK, IS
23 AN INDICATION OF SORT OF THE PERCEPTION THAT'S
24 OUT THERE AROUND THE BANKING CHANNELS.

25 WE SORT OF WANTED TO RETITLE IT AKA, ALSO KNOWN

4

1 AS, REALLY TAKING A BANK CHANNEL, IF YOU WILL,
2 AND OPTIMIZING THAT TO YOUR ADVANTAGE TO BE THE
3 KEY TO BUILD WHAT I WOULD CALL A MULTICHANNEL
4 PLATFORM INTO A FINANCIAL SERVICES POWERHOUSE.
5 I JOINED FIRST UNION IN 1995, MIXED BACKGROUND
6 WITH ASSET MANAGEMENT FIRMS AND BANKING
7 EXPERIENCE; AND AT THAT TIME, WHAT I REALLY SAW
8 WORKING IN DIFFERENT SIDES OF THE INDUSTRY IS THE
9 POTENTIAL THAT WAS OUT THERE, AND THE MODEL THAT

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10 WE ATTEMPTED TO BUILD STARTING IN 1995, AND IT
11 WOULD HAVE BEEN A LOT DIFFERENT BACK THEN,
12 BECAUSE WE REALLY SAW AN INSTITUTION THAT WAS A
13 LARGE BANKING INSTITUTION, BUT ALSO UNDERSTOOD
14 THE FINANCIALS OF THE WORLD:
15 WHERE THE CONSUMER WAS GOING, WHERE THE CLIENT
16 WAS GOING IN TERMS OF INVESTMENT PRODUCTS, WHERE
17 PEOPLE WERE VOTING WITH THEIR FEET.
18 WHAT WE STARTED TO DO WAS TRY TO CONSTRUCT THE
19 MODEL THAT WOULD TAKE ADVANTAGE OF ALL THE
20 SERVICES THAT CLIENTS CAME TO HAVE, THE
21 DISTRIBUTION CAPABILITY, AND WE WANTED TO REALLY
22 BUILD OUT A BALANCE MODEL.
23 SO IF YOU LOOK AT IT TODAY, WE HAVE A SITUATION
24 WHERE OUR TRADITIONAL GENERAL BANK IS REALLY
25 GENERATING ONLY 45% AS THE KEY CORE OF THE

5

1 ORGANIZATION, BUT WE BLENDED IN THE OTHER KIND OF
2 SKILL SETS THAT I THINK ARE GOING TO BE NECESSARY
3 TO COMPETE IN THE COMING YEARS.
4 FOR EXAMPLE, WHAT I'M HERE TO DO TODAY IS TALK
5 ABOUT THE CAPITAL MANAGEMENT AREA, AND WE'VE COME
6 TO A POINT THAT'S SIGNIFICANT.
7 WE'RE ABOUT 26% OF THE REVENUES.
8 WE'RE \$168 BILLION OF ASSET UNDER MANAGEMENT.
9 WHEN YOU LOOK AT IT FROM A BROKERAGE POINT OF
10 VIEW, WE'RE THE THIRD LARGEST BANK-OWNED
11 BROKERAGE FIRM BEHIND CITICORP, AND WE DO HAVE
12 THE PRESENCE IN 47 STATES.
13 WE MANAGE ABOUT \$87 BILLION IN MUTUAL FUNDS, AND
14 WE HAVE A VARIETY OF SERVICES IN THE WEALTH,

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15 TRUST, 401(K), INSURANCE AREA.
16 OUR WHOLE PHILOSOPHY FROM THE BEGINNING WAS TO
17 TRY TO TAKE A LOOK REALLY FROM THE CUSTOMER'S
18 POINT OF VIEW, WHETHER THAT CUSTOMER BE AN
19 INDIVIDUAL, SMALL BUSINESS, COMMERCIAL TYPE OF
20 ENTITY; AND IF YOU LOOK AT IT, AND YOU SORT OF
21 SAID, WELL, WHAT ARE THE KINDS OF SERVICES THAT
22 THESE INDIVIDUALS NEED AS YOU GO FORWARD? YOU
23 LOOK AT THE PRODUCTS THAT ASSET MANAGEMENT,
24 FINANCIAL PLANNING, BROKERAGE SERVICES, INSURANCE
25 TYPE SERVICES, ALL YOUR TRADITIONAL BANKING,

6

1 CONSUMER, FINANCE, RETAIL, SMALL BUSINESS
2 BANKING, AND TRUST SERVICES.
3 THIS IS WHAT WE'VE BEEN BUILDING OVER THE LAST
4 FOUR TO FIVE YEARS, AND, AGAIN, MANY OF YOU
5 PROBABLY KNOW FIRST UNION MORE BECAUSE OF A LOT
6 OF THE BANKING ACTIVITIES, BUT WHAT WE HAVE
7 QUIETLY DONE IS BUILD A STRONG PRODUCT SKILL SET.
8 THEN WE'VE COUPLED THAT WITH -- I'M VERY BIASED
9 AND I'M IN FAVOR OF ADVICE GIVING.
10 WE'RE AN ADVISER GIVING RELATIONSHIP. WE BELIEVE
11 IN WRAPPING ADVISEMENT AROUND THE RELATIONSHIP.
12 WE PUT IN SERIES SIX AND SEVEN INDIVIDUALS.
13 WE HAVE WEALTH MANAGERS, PRIVATE CAPITAL
14 MANAGERS, IF YOU WILL.
15 WE HAVE THE WHOLE SERIES SEVEN WORK FORCE.
16 WE HAVE TELEPHONE DIRECT SPECIALISTS THAT
17 INTERFACE WITH CLIENTS, INSTITUTIONAL TRUST
18 REPRESENTATIVES.
19 OF COURSE, WE HAVE THE ON-LINE THAT WE DEVELOPED,

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20 BUT THE WHOLE IDEA WAS TO TAKE OUR CLIENT BASE,
21 TAKE THAT PRODUCT SKILL SET AND THEN TRY TO BLEND
22 IT WITH TAILORED ADVICE TO ALLOW THE CUSTOMER TO
23 BASICALLY HAVE A SINGLE POINT FOR SOLUTIONS, AND
24 REALLY COMBINING THAT WITH ALL OF THE TYPES OF
25 SERVICES THAT ARE OUT THERE TODAY.

7

1 HERE'S WHERE WE ARE IN THE STORY TODAY.
2 IF YOU GO BACK TO 1995 WHEN I FIRST CAME ON THE
3 SCENE, WE WERE LAYING OUT OUR STRATEGY.
4 WE SAID WE WANTED TO BE A MAJOR PLAYER IN THESE
5 BUSINESSES.
6 LIKE A LOT OF THE PRESENTATIONS I THINK YOU'RE
7 GOING TO HEAR TODAY AND YOU HAVE HEARD FROM MITCH
8 IS OBTAINING SOME SORT OF MASS AND SCALE ON THESE
9 BUSINESSES, I THINK WILL BE CRITICAL FOR
10 COMPETITION IN THE YEARS AHEAD, AND IF YOU LOOK
11 AT IT STARTING WITH THE BROKERAGE SIDE, TODAY
12 FROM THE NUMBER OF REPS, WE'RE THE SIXTH LARGEST.
13 WE'RE THE EIGHTH LARGEST IN THE AMA ACCOUNTS,
14 WHICH IS THE CASH MANAGEMENT SWEEP ACCOUNTS
15 COMBINING BANKING AND BROKERAGE.
16 OUR INSURANCE EFFORT, WE'VE COME A LONG WAY, AND
17 WE'RE BEHIND ONLY TO CITICORP.
18 THE PRIVATE CAPITAL MANAGEMENT AREA, SOMETHING
19 WE'RE ALL GOING TO HAVE TO DEAL WITH AT SOME
20 POINT, AND IT'S SOMETHING I CALL GETTING OLDER,
21 AND YOU'VE GOT A DEMOGRAPHIC RIGHT NOW WHERE WE
22 HAVE A LOT OF FOLKS AS THEY GET INTO THE 50s AND
23 MID-50s, THEY'RE STARTING TO UNDERSTAND WHAT
24 ESTATE PLANNING MEANS.

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25 THEY'RE STARTING TO UNDERSTAND WHAT INHERITANCE

8

1 TAX MEANS, AND THERE'S AN UNBELIEVABLE DYNAMIC
2 THAT'S GOING ON IN THE NEXT 20 YEARS, 30 YEARS
3 AROUND THAT WHOLE TOPIC.

4 MUTUAL FUNDS, TODAY, WE RANK 21st FROM THE LATEST
5 REPORTING STATISTICS.

6 WE A VERY LARGE INSTITUTIONAL MANAGER, AND THE
7 401(K) BUSINESS IS SOMETHING THAT WE THINK WILL
8 BE VERY IMPORTANT.

9 IN TERMS OF THE HISTORY OF WHERE WE'VE COME FROM,
10 MANY ANALYSTS ASK US THESE QUESTIONS, AND WE TRY
11 TO ANTICIPATE AND PUT IT UP ON THE SCREEN.

12 IN 1995, WE HAVE ROUGHLY 400 MILLION OF REVENUE
13 IN THIS AREA TODAY AND IN 2000 REPORTED DATA THAT
14 WE HAVE OUT THERE ALREADY.

15 WATCHING THE PRECAUTIONARY STATEMENT, NOT TO GIVE
16 A FORWARD-LOOKING COMMENT, WE FINISHED LAST YEAR
17 WITH \$3.7 BILLION IN REVENUE, AND IF YOU ADJUST
18 FOR THE ACQUISITIONS, -- AND WE WILL SHOW YOU
19 THAT LATER ON --IT WAS A 30% GROWTH RATE.

20 AS YOU LOOK AT THE DIRECT BOTTOM LINE
21 CONTRIBUTION, WE WENT FROM 200 MILLION PLUS TO A
22 BILLION PLUS, AND AGAIN, ADJUSTING GRAPH
23 POSITIONS, THAT WOULD BE IN THE MID-20s, ABOUT
24 25% ORGANIC GROWTH RATE.

25 IF YOU LOOK AT SOME OF THE PRODUCT LINES THAT WE

9

1 FOCUSED ON, IF YOU REMEMBER, WE SAID WHEN WE
2 LOOKED AT IT, CUSTOMERS WERE LEAVING THE BANK
3 BECAUSE THEY WANTED TO GET MUTUAL FUNDS. THEY

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4 WANTED BROKERAGE ADVICE, ET CETERA.
5 THE MAJOR PRODUCT LINES EARLY ON WERE TO BUILD
6 MUTUAL FUND CAPABILITY.
7 WE WENT TO 85 BILLION REPORTED AT THE END OF THE
8 YEAR, AGAIN, ADJUSTING FOR ACQUISITIONS AS 24%
9 GROWTH RATE OVER THAT PERIOD.
10 BROKERAGE CLIENTELE WENT FROM 10 BILLION TO 205
11 BILLION IN ASSETS, 31% GROWTH.
12 AMA ASSETS, 12 TO 121 BILLION, 38%; ASSETS UNDER
13 MANAGEMENT, 47 TO 171, ABOUT A 19% GROWTH RATE.
14 WE DIDN'T PUT THE INSURANCE IN THERE, AND IT'S AN
15 ASSET PER SE, AND IN ITS MOST SPECIFIC SENSE, AND
16 THE GROWTH RATE WOULD HAVE BEEN PHENOMENAL.
17 WE WERE DOING ANNUITY TYPE OF BUSINESS.
18 WE DID ABOUT A 1.8 BILLION LAST YEAR.
19 A SUPER PRODUCT IN THE MARKETPLACE OUT THERE,
20 ESPECIALLY FOR OUR BANK CHANNEL, IS FIXED
21 ANNUITIES BECAUSE IT ALLOWS PEOPLE TO TAKE THE
22 FIRST STEP, IF YOU WILL, TOWARD SOME TYPE OF
23 INVESTMENT PRODUCT, AND THEN YOU CAN ADD INTO
24 THAT VARIABLE ANNUITIES, WHICH WE'VE DONE IN THE
25 LAST SEVERAL YEARS.

10

1 THIS SLIDE, MANY TIMES YOU CAN'T SEE IT.
2 OUR WHOLE STRATEGY HAS BEEN TO BUILD, IF YOU
3 WILL, A BALANCE.
4 THAT'S SUPPOSED TO BE A SCALE.
5 IF YOU LOOK AT THE CAREER I'VE HAD, SOMETIMES
6 I'VE WORKED ON THE DISTRIBUTION SIDE.
7 SOMETIMES I'VE WORKED ON THE PRODUCT SIDE, AND
8 BOTH HAVE VERY STRONG POSITIVES AND SOME

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9 NEGATIVES TO THEM.
10 ON THE DISTRIBUTION SIDE, QUITE CANDIDLY, IT'S
11 NOT AS HIGH MARGIN TYPE OF BUSINESS AS THE
12 PRODUCT LINE, BUT IT'S SURE GREAT FOR HAVING
13 CUSTOMER RELATIONSHIPS AND THE ABILITY TO GROW
14 AND BUILD.
15 PRODUCTS OFFER A TERRIFIC MARGIN, BUT ONCE AGAIN,
16 GREAT PRODUCT WITHOUT A LOT OF DISTRIBUTION CAN
17 ALSO BE A VERY DIFFICULT TASK.
18 WHAT WE WANTED TO DO IS TRY TO BALANCE THOSE TWO
19 AS WE WENT THROUGH TIME, SO IF YOU FOLLOW THE
20 LAST FOUR OR FIVE YEARS WITH US, WHAT WE'VE BEEN
21 DOING IS A COMBINATION OF TRYING TO BUILD OFF
22 SKILL SET ON EITHER SIDE OF THAT SCALE, BUT,
23 TODAY, WHAT WE TRIED TO EVOLVE TO IS ON THE
24 LEFT-HAND SIDE IS MULTIPLE DISTRIBUTION CHANNELS,
25 GOING BACK TO THAT BANK STATEMENT.

11

1 STARTING WITH THAT ADVANTAGE THAT WE HAD WITH THE
2 LARGE BANKING ORGANIZATION, GREAT CHANNEL BUT WE
3 WERE MISSING THE WHOLE CHANNEL THAT MANY OF US
4 LOOK AT ONLY, THE BROKERAGE CHANNEL AS THE ONLY
5 PLACE TO GET ADVICE, AND WE NEEDED TO DEVELOP
6 THAT KIND OF CHANNEL ALSO.
7 SO WE LAUNCHED OUR NATIONAL BROKERAGE STRATEGY,
8 AND THE HIGH NET WORTH AREA, WE CALL PRIVATE
9 CAPITAL MANAGEMENT.
10 INDIVIDUALS IN THAT AREA NEED A WHOLE ARRAY OF
11 SERVICES, ESTATE PLANNING, SOPHISTICATED TAX
12 MANAGEMENT, THE WHOLE TRUST AREA.
13 THERE'S JUST A WHOLE LOT OF SERVICES THERE THAT'S

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14 NOT -- IT'S A DISTRIBUTION CHANNEL ITSELF THAT
15 HAPPENED TO THAT NETWORK.
16 EVERGREEN DISTRIBUTION REFERS TO THE MUTUAL FUND
17 STRATEGY.
18 AGAIN, WE DON'T USE THE WORD PROPRIETARY BECAUSE
19 WE DON'T WANT TO RUN A PROPRIETARY MUTUAL FUND
20 GROUP.
21 WE WANT TO RUN A MUTUAL FUND GROUP, AND IF IT'S
22 GOOD, IT WILL BE COMPETITIVE.
23 IF IT'S NOT, WE'LL CHANGE MANAGEMENT AND MOVE ON.
24 BUT IT IS SOMETHING THAT YOU HAVE TO RUN AS A
25 GREAT BUSINESS, BUT YET THERE'S A DISTRIBUTION

12

1 CHANNEL THERE.
2 THE INSTITUTIONAL MARKET IS A DISTRIBUTION
3 CHANNEL.
4 AGAIN, CONTACT POINTS IN THE LIKE AND THEN THE
5 ON-LINE CHANNEL.
6 FLIP OVER TO THE RIGHT-HAND SIDE. WE HAVE A FULL
7 ARRAY OF INVESTMENT MANAGEMENT PRODUCTS, MUTUAL
8 FUNDS, WRAP ACCOUNTS WHICH ARE VERY, VERY LARGE
9 IN RECENT YEARS.
10 PERSONAL TRUST SERVICES, AMA SERVICES, AND
11 INSURANCE, AND 401(K).
12 LET'S LOOK AT WHERE WE STARTED.
13 IN 1995, WE LOOKED AT AND REALIZED OUR STRENGTH
14 WAS A FAST-GROWING BANKING FRANCHISE.
15 WE HAD SOMETHING LIKE 2,000 FINANCIAL CENTERS.
16 WE HAD A NUMBER OF TELEPHONE CENTERS WHERE FOLKS
17 CAN CALL IN.
18 WHEN THEY'RE MOVING FROM ONE CITY TO ANOTHER,

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19 OFTEN THE FIRST CALL THEY MAKE IS TO A BANK TO
20 SEE WHAT KINDS OF SERVICES ARE OUT THERE.
21 LARGE ATM NETWORK, WHICH WAS VERY, VERY IMPORTANT
22 TO WHAT WE CALL OUR CAP ACCOUNT, WHICH IS THE
23 BROKERAGE TYPE OF BANKING ACCOUNT, BUT PUTTING AN
24 ATM NETWORK INTO THAT MADE THAT ACCOUNT VERY
25 POSITIVE.

13

1 OUR WHOLE ON-LINE CAPABILITY GAVE US ACCESS TO
2 ABOUT 1.8 MILLION CLIENTS USING THE ON-LINE
3 ACCESS FOR FIRST UNION BANKING PRODUCTS IN THE
4 LIKE.
5 WHAT WE DID IS WE WENT OUT AND TRIED TO BASICALLY
6 LOOK AT EVERY BRANCH AND SAY WE WANT TO HAVE
7 SOMEWHERE IN THE NEIGHBORHOOD OF TWO FINANCIAL
8 SPECIALISTS IN EACH OF THOSE BRANCHES.
9 IN OTHER WORDS, A LICENSED INDIVIDUAL, WHETHER IT
10 BE SERIES SIX OR SERIES SEVEN, AND THE IDEA TO
11 BEGIN TO TALK WITH OUR CLIENTS, CUSTOMERS, FIND
12 OUT WHAT THEIR NEEDS AND SERVICES ARE AND LET
13 THEM KNOW THAT WE HAVE, INDEED, THE ABILITY TO
14 OFFER BROKERAGE TYPES OF SERVICES.
15 AS WE DID THAT, IT WAS VERY CLEAR FROM A LOT OF
16 OUR WORK THAT MANY INDIVIDUALS OUT THERE WILL
17 ONLY SEE A BANK FOR CERTAIN THINGS, AND THEY'LL
18 ONLY SEE A BROKERAGE FIRM FOR CERTAIN THINGS.
19 WHAT WE NEEDED TO DO IS DEVELOP A BRAND AND
20 IDENTITY IN HOW TO BANK CHANNEL, AND YOU MAY HEAR
21 THAT PHRASE TODAY, AND WE BOUGHT THE OLD WHEAT,
22 BUTCHER-SINGER ORGANIZATION, THE EVEREN
23 ORGANIZATION, FIRST ALBANY, J.W. GENESIS, AND

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24 TODAY, WE'RE A NATIONWIDE BROKERAGE FIRM.
25 WE'RE IN 47 STATES.

14

1 WE HAVE 531 BROKERAGE OFFICES THAT ARE
2 STAND-ALONE BROKERAGE OFFICES AND HAVE NOTHING
3 ASSOCIATED WITH THE BANK, AND WE HAVE 76 OFFICES
4 THAT WE DEVELOPED OUT WHERE WE DO HIGH NET WORTH
5 TYPE OF BUSINESS, TRUST BUSINESS, INVESTMENT
6 OFFICERS, ESTATE PLANNERS, ET CETERA, AND THAT'S
7 OBVIOUSLY TRYING TO FOCUS ON CERTAIN MARKETS
8 WHERE THERE'S A LOT OF CLUSTERS OF WEALTH.
9 AND THE GREAT NEWS FOR US WAS THE BANKING
10 FRANCHISE BEING A STRONG EAST COAST ORGANIZATION
11 AND PUT US NATURALLY IN A LOT OF THOSE AREAS.
12 IF YOU BREAK THAT DOWN, AGAIN, BY THE NUMBER OF
13 TYPES OF INDIVIDUALS THAT WE HAVE IN EACH OF
14 THESE MODELS, YOU CAN SEE THE GROWING ADVISER
15 MODEL THAT WE HAVE, AND TODAY AT THE END OF THE
16 FIRST QUARTER, WE WERE ROUGHLY 7,784 LICENSED
17 INDIVIDUALS BROKEN DOWN WITH A STRATEGY OF
18 OUT-OF-BANK SERIES SEVEN, IN-BANK SERIES SEVEN,
19 LICENSED SERIES SIX, AND THE ORANGE BAR AT THE
20 TOP THERE IS THE INDEPENDENT CHANNEL, WHICH WE'RE
21 DEVELOPING OUT WITH THE ACQUISITION OF J.W.
22 GENESIS.
23 SO WHEN YOU LOOKED AT THIS, WHAT WE WERE TRYING
24 TO DO IS, ONE, MEET THE CLIENTS, MAYBE YOU AND I
25 AS INDIVIDUALS, THE WAY WE WANT TO BE MET.

15

1 HAVE THE STORE FRONT THAT YOU AND I ARE
2 COMFORTABLE DOING BUSINESS IN, BUT SINCE WE'RE

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8 WE HAVE 874,000 ACTIVE ACCOUNTS.
9 ONE OF THE STRATEGIES IS TO CONTINUE TO EVOLVE
10 THIS BUSINESS TO BE A MORE RECURRING FEE
11 BUSINESS.
12 THIS IS BASICALLY BEING PAID AS AN ADVISER, AND
13 HAVING A RECURRING FEE AND NOT LIVING OFF THE
14 TRANSACTION VOLUME.
15 IF YOU LOOK AT THE -- JUST TO GIVE SOME
16 PERSPECTIVE TODAY, MASS AND SCALE, SIZE AND SCALE
17 ARE IMPORTANT.
18 YOU CAN PROBABLY HAVE THREE DAYS OF PRESENTATIONS
19 WHERE JUST ABOUT EVERY BANK IS IN THIS BUSINESS.
20 THIS IS THE KEY.
21 DO THEY REALLY HAVE THE SIZE AND SCALE? AS WE
22 STATED AT THE TOP, OUR BANK PUTS US IN A GOOD
23 FOOTPRINT WHEN YOU LOOK AT ITS EAST COAST
24 ORIENTATION AND THE NUMBER OF INCOME MARKETS.
25 IF YOU LOOK AT THE FINANCIAL CENTERS COUPLED WITH
17
1 THE BROKERS, WHAT WE DID WAS ROUGHLY 5.5 BILLION
2 WORTH OF PRODUCT, AND WE'RE A FAN OF OPEN
3 ARCHITECTURE.
4 OUR ADVISERS, TO DO BUSINESS, THEY HAVE TO REALLY
5 BE FREE TO CHOOSE FROM ANY TYPE OF PRODUCTS LINES
6 THEY WANT. WE DO THAT.
7 IF YOU PUT THAT TOGETHER, YOU SEE ANNUITIES, 1.8
8 BILLION.
9 NON-PROPRIETARY MUTUAL FUNDS, 1.9 BILLION.
10 THAT'S WHY I SAY THERE'S A LOT OF FRIENDS IN THE
11 ROOM BECAUSE WE WORK TOGETHER SELLING THEIR
12 PRODUCTS, AND 1.8 BILLION OF EVERGREEN, BUT THAT

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13 5.5 BILLION, IF YOU LOOK IN THE DIFFERENT
14 RANKINGS IN THE LIKE, THAT'S A NATURED OFFERING
15 IN AND OF ITSELF.
16 THE NATIONAL CHANNEL, WE HAVE 130 BILLION OF
17 CLIENT ASSETS.
18 ABOUT 1.6 ACTIVE ACCOUNTS WORKING ON THE
19 RECURRING FEE PERCENTAGE.
20 IF YOU LOOK AT THE INDEPENDENT CHANNEL, WHICH IS
21 NOW UP TO 30 BILLION IN CLIENT ASSETS, 450,000
22 ACTIVE ACCOUNTS.
23 HIGHER PERCENTAGE OF RECURRING FEES THERE BECAUSE
24 WE DO A FAIR AMOUNT OF THAT BUSINESS ON A
25 FEE-BASED BUSINESS TO SUPPORT A NUMBER OF THE

18

1 CLEARING FIRMS, AND THEN ON-LINE, NEVER GOT TO
2 THE TOTALS THAT A LOT OF PEOPLE THOUGHT, BUT IT'S
3 BECOME A HELPFUL KIND OF THING THAT TIES THE
4 BROKERS IN TOGETHER WITH THE CLIENTS THAT WANT
5 THOSE TYPES OF ACTIVITIES.
6 IF YOU PUT THAT ALL TOGETHER, YOU HAVE A SUITE OF
7 ORGANIZATIONS THAT AN ADVISER CAN CHOOSE.
8 YOU WANT TO BE THE FIRM OF CHOICE FOR THOSE
9 ADVISERS, AND WE ALSO SUBSCRIBE TO THE ONENESS
10 THEORY.
11 BY THAT, I MEAN, WE HAVE ONE BACK OFFICE, ONE
12 TECHNOLOGY PLATFORM, ONE SUITE OF PRODUCTS, ET
13 CETERA, SO IF YOU HAPPEN TO BE AN ADVISER, AND
14 YOU WANT TO JOIN US, IT DOESN'T MATTER WHICH
15 CHANNEL YOU SIT IN, YOU HAVE THE BASIC SUPPORT
16 SYSTEM, PRODUCT SYSTEM, AND THAT PRODUCT SYSTEM
17 BY THE WAY, ALSO INCLUDES BANKING PRODUCTS, WHICH

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18 IS VERY, VERY IMPORTANT TO TIE UP THE
19 RELATIONSHIP FROM ANY OF THESE ADVISERS, AND THAT
20 ONE MANAGEMENT STRUCTURE HELPED US GAIN SOME
21 EFFICIENCIES AND HELPED US DOING THIS DURING THIS
22 RECENT TIME PERIOD WITH TOUGHNESS IN THE
23 MARKETPLACE.

24 WHEN YOU LOOK AT WHAT TYPE OF DISTRIBUTION IS
25 THIS WHEN YOU PUT IT ALTOGETHER, ACTUALLY, THIS

19

1 WHOLE TEAM SOLD ABOUT \$11 BILLION WORTH OF
2 PRODUCTS, AND THE ONLY PRODUCTS I'M PICKING ON
3 ARE THE MORE VISIBLE ONES THAT WE MADE AN EFFORT
4 IN, MUTUAL FUNDS, THE ANNUITIES, BOTH FIXED AND
5 VARIABLE.

6 SO IF YOU LOOK AT THAT WHOLE LIST, THAT'S ABOUT
7 \$12 BILLION WORTH OF PRODUCT.

8 ABOUT A THIRD OF THAT, A THIRD PERCENT OF THAT,
9 WAS WITH PRODUCTS THAT WE MANUFACTURED, SO WE'RE
10 PARTICIPATING IN OUR DISTRIBUTION CHANNEL, WHICH
11 IS VERY POSITIVE.

12 IN ADDITION, AS FAR AS DISTRIBUTION FIRE POWER IS
13 CONCERNED THIS GROUP SOLD ABOUT \$3 BILLION WORTH
14 OF WRAP PRODUCTS LAST YEAR, AND YOU HAVE ALL OF
15 THE COMMISSION IN THE TRADING BUSINESS OUT THERE.

16 LET ME MOVE TO ANOTHER CHANNEL, WHICH I THINK IS
17 GOING TO BE JUST A VERY, VERY IMPORTANT CHANNEL
18 TO FOCUS ON, AND THIS IS AN INTERESTING CHANNEL
19 BECAUSE FROM A BANKING POINT OF VIEW, -- AND I'M
20 TRYING TO REPRESENT THE BANKING CHANNEL IN SOME
21 RESPECTS HERE TODAY. FROM A BANKING POINT OF
22 VIEW, THIS IS ONE WHERE THE BANKING HISTORY IS

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23 SORT OF AN ADVANTAGE.
24 ON THE BROKERAGE SIDE, IN A WAY, WE'VE BEEN
25 SWIMMING UPSTREAM OVER THE LAST FOUR, FIVE YEARS

20

1 TO ESTABLISH LEGITIMACY.
2 PART OF THAT WAS OVERCOME AND EASILY DONE BY
3 GETTING THE EXPERTISE OF EVEREN, WHEAT, FIRST
4 ALBANY, AND EXPERIENCED BROKERS IN THE LIKE, BUT
5 IT TOOK A WHILE FOR PEOPLE TO REALIZE THAT WE
6 COULD BE IN THE BROKERAGE BUSINESS, ESPECIALLY
7 WHEN YOU COUPLE THE PRODUCT SET.
8 WHEN YOU MOVE INTO THE HIGH NET WORTH AREA, A LOT
9 OF THESE FOLKS, THE NUMBER ONE SERVICE THAT THEY
10 NEED IS MULTIPLE SERVICES.
11 THESE FOLKS ARE BUSY. THEY'RE SUCCESSFUL.
12 THEY HAVE A LOT OF WEALTH, AND THEY TEND TO WANT
13 ONE SINGLE ADVISER, AND WE CALL THAT PCM, PRIVATE
14 CAPITAL MANAGEMENT RELATIONSHIP MANAGER.
15 WE WANT THAT PERSON TO BE AN EXPERT ON THE
16 CLIENT.
17 WE WANT THEM TO BE A CLIENT ADVOCATE FOCUSED ON
18 HELPING THEIR RELATIONSHIP.
19 WHEN YOU LOOK BELOW, THESE ARE THE TYPES OF
20 SERVICES THAT WE DO, AND MANY OF THEM ARE THE
21 TYPES OF SERVICES THAT BANKS HAVE DONE FOR
22 CENTURIES.
23 THE LENDING CAPABILITIES, THE CREDIT OFFICER, THE
24 TAX STRATEGIES, THE PERSONAL TRUST, THE ESTATE
25 PLANNING.

21

1 THESE ARE TYPES OF SERVICES THAT ARE REALLY A

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2 HOME ADVANTAGE FOR THE BANKING INDUSTRY, AT LEAST
3 IF YOU HAVE BEEN IN THE HIGH NET WORTH OR TRUST
4 PART OF YOUR BUSINESS FOR A LONG TIME.

5 THIS REALLY GIVES US A VERY STRONG OPENING TO THE
6 DEMOGRAPHICS THAT ARE OUT THERE.

7 FOR THOSE OF US THAT WILL ADMIT AS WE GET OLDER,
8 YOU START THINKING ABOUT, IN FACT, HOW TO
9 MINIMIZE ESTATE TAXES.

10 HOW DO YOU PASS YOUR WILL ON? AND GOD FORBID, IF
11 SOMETHING SHOULD HAPPEN, HOW DO YOU MAKE SURE
12 YOUR HUSBAND, WIFE, KIDS ARE TAKEN OF?

13 MANY OF US HAVE OLDER PARENTS ALIVE AND YOU HAVE
14 CHILDREN ALIVE, AND YOU'RE TRYING TO EDUCATE SOME
15 OF THEM AND TRYING TO KEEP SOME OF THEM HEALTHY;
16 AND THERE'S A LOT OF CHALLENGES OUT THERE, AND SO
17 MUCH THAT A BANKING ORGANIZATION CAN DO FOR YOUR
18 TRUST IS VERY HELPFUL IN THIS AREA.

19 IF YOU LOOK AT THAT, YOU CAN SUMMARIZE IT.
20 YOU CAN SAY, WHAT DO WE HAVE GOING HERE? WE HAVE
21 A GENERAL BANK.

22 WE LOOKED AT THE CHANNEL THAT WE RESTRUCTURED,
23 AND WE TALKED ABOUT HOW IMPORTANT THIS WAS TO US,
24 AND WE REALIZED HOW MANY WEALTH CENTERS WE'RE IN,
25 AND WE LAUNCHED THIS MONTH A NEW GOLD CENTER

22

1 CONCEPT.

2 TRANSLATION: WHAT WE'RE REALLY DOING IS WE'RE
3 OUT THERE IN THOSE BANKING AREAS WHERE WE ALREADY
4 HAVE BANKS, FINANCIAL CENTERS, BRANCHES, IF YOU
5 WILL, AND WE REALIZED THAT WHAT A SWEET SPOT
6 THERE IS OUT THERE TO DEVELOP.

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7 USE THAT BRICK AND MORTAR, USE THAT HOME BASE TO
8 DEVELOP HIGH NET WORTH CENTERS, PUTTING IN MORE
9 INVESTMENT MANAGEMENT AND ESTATE PLANNING TALENT,
10 PRIVATE CAPITAL MANAGEMENT RELATIONSHIP OFFICERS.
11 IN FACT, WHEN WE LOOKED THROUGH THE DATA BASE AND
12 STARTED TO FINE TUNE THAT, WE REALIZED THERE'S
13 107,000 HOUSEHOLDS DEALING WITH THE BANK THAT
14 DON'T USE US FOR THESE TYPES OF SERVICES.
15 IT'S A SWEET SPOT WE CAN DEVELOP.
16 FIRST UNION SECURITIES BUILT A BRIDGE SYSTEMS
17 LAUNCH BETWEEN OUR TRUST AND OUR BROKERAGE
18 CAPABILITY, SO IF YOU'RE A BROKER-ADVISER OUT
19 THERE IN ANY OF THE BROKERAGE CHANNELS, CHANCES
20 ARE YOU'RE WORKING WITH A LOT OF WEALTHY PEOPLE.
21 YOU CAN INTRODUCE THEM TO TRUST CAPABILITIES.
22 THE SYSTEMS ARE RANKED.
23 YOU CAN SEE THE TRUST ASSETS.
24 YOU CAN HELP MANAGE THAT, AND IT GIVES A SINGLE
25 POINT OF CONTACT FOR THE CLIENT, AND IT GIVES THE
23
1 CLIENT, IF YOU WILL, A TRUST BUSINESS THAT WE'VE
2 BEEN IN FOR HUNDREDS -- WELL, NOT HUNDREDS OF
3 YEARS BUT DECADES.
4 WE ALREADY PUT ABOUT 1.5 BILLION OF ASSETS ON THE
5 BOOKS THROUGH THE BROKERAGE CHANNELS, AND THERE'S
6 THE PRIVATE CAPITAL MANAGEMENT OFFICES WHERE WE
7 HAVE 300 RELATIONSHIP MANAGERS ACROSS THE
8 COUNTRY.
9 WE LAUNCHED AN AREA CALLED CALIBRE HERE IN JUNE
10 FOR THE ULTRA NET WORTH, HIGH NET WORTH TYPE OF
11 GROUP, AND THERE'S WHERE YOU WILL BE FOCUSING

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12 MORE AND MORE ON THE PLETHORA OF AGGREGATING
13 SERVICES. THIS IS WHERE THE TECHNOLOGY CAN COME
14 INTO PLAY IN CONJUNCTION WITH THE ASSET
15 MANAGEMENT SERVICES AND THE LENDING SERVICES OF
16 THE BANK.
17 IF THAT'S DISTRIBUTION, THINK ABOUT PRODUCT
18 CAPABILITY FOR A MOMENT BECAUSE THE PRODUCT HELPS
19 YOU WITH THE WHOLE IDEA OF HOW YOU WILL DEVELOP
20 AND MAINTAIN CLIENTS.
21 IT ALSO IS GOING TO HELP YOU WITH YOUR
22 FINANCIALS, WHICH ARE VERY IMPORTANT TO US, AND,
23 OF COURSE, THE BIG ONE FOR US THAT WE REALLY
24 WANTED TO DEVELOP WAS ASSET MANAGEMENT, AND SO,
25 TODAY, AGAIN, \$168-\$170 BILLION RANGE OF ASSETS

24

1 UNDER MANAGEMENT AND MUTUAL FUNDS.
2 WE'RE A PLAYER IN THE INSTITUTIONAL MARKET AND
3 THE HIGH NET WORTH MARKET.
4 A COUPLE OTHER AREAS TO MENTION.
5 THE WRAP ACCOUNT AREA, AND WE HAVE A WRAP PROGRAM
6 CALLED MASTERS THAT ALLOWS US TO NAME MONEY
7 MANAGERS IN A WRAP TYPE OF FORMAT.
8 WE HAVE A FUND SOURCE WHICH ALLOWS YOU TO WRAP
9 MONEY MANAGEMENT TOGETHER WITH MUTUAL FUNDS, AND
10 WE HAVE HIGH PLUS THAT ALLOWS THE CLIENT TO HAVE
11 UNLIMITED TRADING, FINANCIAL ADVISER, WRAP
12 PRODUCTS, ET CETERA.
13 OUR PERSONAL TRUST AREA WITH 53,000 ACCOUNTS
14 MAKES IT THE FOURTH LARGEST IN THE TRUST AREA AS
15 FAR AS PERSONAL TRUST ACCOUNTS ARE CONCERNED.
16 WE'VE TALKED TO YOU A LITTLE BIT ABOUT THE

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17 FOOTPRINT WE HAVE THERE.
18 INSURANCE AND ANNUITIES, I WILL QUICKLY SAY, THE
19 WHOLE INSURANCE AREA IS SOMETHING THAT I THINK IS
20 A VERY IMPORTANT KEY TO OUR STRATEGY, NOT JUST
21 WITH THE SUCCESS THAT WE'VE HAD WITH FIXED
22 ANNUITIES OR VARIABLE ANNUITIES, BUT THE WHOLE
23 INSURANCE PLATFORM.

24 ONE OF THE FIRST THINGS YOU WILL FIND OUT WHEN
25 AND IF YOU EVER DECIDE TO DO AN ESTATE PLAN IS

25

1 THE IMPORTANCE OF INSURANCE AND HELPING WITH THE
2 TAX STRATEGIES, CREATING CASH FLOW, ESPECIALLY IF
3 YOU MANAGE YOUR OWN BUSINESS, HAVE A FARM,
4 INSURANCE PLAYS A KEY ROLE.

5 INSURANCE STRATEGY IS IMPORTANT TO THE
6 DEVELOPMENT OF THE SWEET SPOT FOR US IN THE
7 COMMERCIAL SMALL BUSINESS BANKING SERVICES.
8 THE AMA IS A VERY LARGE ACCOUNT BASE FOR US.
9 THAT'S BASICALLY A BANKING AND BROKERAGE
10 TOGETHER.

11 THE BROKERAGE INDUSTRY REALLY LAUNCHED AND
12 STARTED THAT YEARS AGO, WITH TAKING BROKERAGE AND
13 TRYING TO ADD BANKING TO IT.
14 WE DID IT FROM REVERSE.

15 WE TOOK A BANKING PLATFORM, AND ADDED BROKERAGE
16 TO IT, AND THAT'S BECOME A STRONG SERVICE FOR US,
17 AND THEN THE 401(K), WHICH WE PROBABLY WON'T HAVE
18 TIME TO DEVELOP IN ANY STRONG FORMAT, IS THAT WE'RE
19 ALSO VERY SERIOUS ABOUT THAT BUSINESS.

20 WE HAVE ABOUT \$18 BILLION UNDER ADMINISTRATION.
21 WE USE AN OPEN ARCHITECTURE IN TERMS OF USING

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22 MANY ASSET FIRMS IN THE ROOM TODAY, BUT WE ALSO
23 HIGHLIGHT EVERGREEN FUNDS AS BEING ONE OF THE
24 ALTERNATIVES THAT YOU CAN CHOOSE.
25 WE SERVICE ABOUT 400,000 PARTICIPANTS.

26

1 WE'RE WEB ENABLED AND HAVE THE FULL SERVICE
2 RECORD KEEPING AN THE LIKE, AND THE REAL SECRET
3 IN THAT BUSINESS I THINK IS, A, NOT ONLY RUNNING
4 THAT BUSINESS RIGHT, AND YOU HAVE TO RUN IT RIGHT
5 BECAUSE YOU DON'T MAKE MONEY OFF OF PURE 401(K)
6 ADMINISTRATION. IT HAS TO BE ASSET MANAGEMENT
7 CHOICES, BUT, IT WILL BE THE TURNOVER OF THE
8 INDIVIDUALS WITHIN THAT 401(K) PLAN.
9 WHETHER IT BE RETIREMENT, WHETHER IT BE
10 RESTRUCTURING FROM CORPORATIONS AN THE LIKE, AND,
11 TODAY, WE'RE ACTUALLY CAPTURING ABOUT 30% OF
12 THOSE ASSETS AS AN INDIVIDUAL COMES OUT OF A
13 401(K) PLAN. MANY TIMES WHAT THEY NEED IS ADVICE
14 WITH OUR NATIONAL BROKERAGE FIRM.
15 WE CAN GIVE THEM THE ADVICE.
16 WE'VE GOT THE ROLLOVER PRODUCTS, AND OF COURSE,
17 MANY TIMES, IF YOU DON'T MAKE YOUR CAREER IN THIS
18 INDUSTRY, YOU'RE JUST NOT AWARE OF THINGS, LIKE
19 YOU CAN'T TAKE YOUR 401(K) MONEY OUT IF YOU ARE
20 SUBJECT TO A LOT OF TAXATION AND THE LIKE.
21 MANY TIMES PEOPLE SAY, YEAH, BUT AN INDIVIDUAL'S
22 ONLY RETIRING WITH \$30,000.
23 I KNOW THAT'S A NICE ACCOUNT, BUT IS THAT WORTH
24 IT?
25 BUT WHAT YOU FIND OUT IS THAT THESE INDIVIDUALS

27

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1 MAY BE WORTH A LOT MORE BECAUSE THEY HAVE ASSETS
2 OF WEALTH IN OTHER AREAS, OR MAYBE THEY'RE
3 MARRIED AND HAVE A MATE OR PARTNER THAT HAS A LOT
4 OF WEALTH, AND THEY NEVER GOT AROUND IN THEIR
5 BUSY CAREERS TO DO THE FINANCIAL PLANNING THAT
6 THEY NEED.

7 LET ME MOVE ON TO ASSET MANAGEMENT BECAUSE IT'S
8 SO CRUCIAL TO US.
9 WHAT WE WOULD BE IS I WOULD CALL US A VERY STRONG
10 BALANCED MANAGER.

11 WE HAVE BALANCED MANAGEMENT IN TERMS OF ASSET
12 DISTRIBUTION SYSTEMS, AND IN EFFECT, WE HAVE A
13 BALANCE HERE WHEN YOU LOOK AT IT.

14 I'M NOT REFERRING TO THE SPECIFIC STYLE OF
15 INVESTMENT.

16 I'M SAYING LOOK AT HOW WE BREAK THIS DOWN.
17 FOR EXAMPLE, THE \$168 BILLION. WE HAVE ROUGHLY
18 \$87 BILLION IN MUTUAL FUND FORMAT, AND \$81
19 BILLION IN A SEPARATE ACCOUNT FORMAT.

20 IF YOU BREAK THAT DOWN, WE HIT TWO DIFFERENT
21 MARKETS.

22 WE HIT THE INSTITUTIONAL MARKET WITH \$43 BILLION
23 IN SEPARATE ACCOUNT MANAGEMENT, AND THE HIGH NET
24 WORTH TO ABOUT \$38 BILLION OF ASSETS UNDER
25 MANAGEMENT.

28

1 IF YOU LOOK AT THE TOTAL HIGH, MANY TIMES WHEN
2 YOU LOOK AT A BANKING ORGANIZATION, YOU THINK OF
3 A FIRM THAT'S MAYBE DOMINATED WITH MONEY MARKET
4 FUND ASSETS, AND IN OUR CASE, WE'RE ACTUALLY
5 ABOUT A THIRD, 34% ARE EQUITY TYPE FUNDS, 28% ARE

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6 IN FIXED INCOME FUNDS, AND 38% ARE IN MONEY
7 MARKET FUNDS SO WHAT WE'RE GOING TO HAVE IS A
8 ROCKETSHIP ENVIRONMENT OUT THERE.
9 WE'RE GOING TO TRAIL IN THE ASSET GROWTH, IF YOU
10 WILL, TO THE 100% EQUITY FIRMS, BUT IN SORT OF
11 THE TRUE TIME, IF YOU WILL, WE HAVE A NICE
12 BALANCE TO IT, SO WE HAVE DEFENSIVE
13 CHARACTERISTICS WHEN YOU GET INTO A MARKET LIKE
14 WE'RE IN AT THE MOMENT.
15 EVERGREEN HAS BEEN THE BRAND THAT WE HAVE
16 DEVELOPED IN THE MUTUAL FUND AREA.
17 VERY IMPORTANT THAT WE HAVE A BRAND IN THIS AREA.
18 IT SHOULD NOT BE TAKEN LIGHTLY THAT YOU CANNOT
19 USE THE NAME AND THE BRAND OF THE ORGANIZATION
20 BECAUSE THEN IT BECOMES A PROPRIETARY FUND.
21 WE RUN THIS AS A SEPARATE PLATFORM, AS A SEPARATE
22 BUSINESS, BUT PART OF OUR FAMILY.
23 THE GROWTH HAS BEEN SUBSTANTIAL, AND IT'S BEEN
24 THROUGH A COMBINATION OF ACQUISITIONS WHICH WE
25 PUT HERE ON THE LEFT.

29

1 MANY FOLKS WANT TO SORT OF ANALYZE THIS, SO YOU
2 HAVE A COMBINATION OF ACQUISITIONS.
3 ROUGHLY ABOUT \$45, \$46 BILLION, PUT INTO THAT SOME
4 CONVERSIONS OF TRUST FUNDS IN THE MUTUAL FUND
5 FORMAT, AND THEN YOU PUT TOGETHER SOME MARKET
6 APPRECIATION, AND THEN THE ORGANIC GROWTH THAT WE
7 DID, AND YOU END UP WITH \$87 BILLION.
8 A KEY TO THIS, AGAIN, YOU HEARD THE ONENESS OF
9 BROKERAGE CHANNEL, THE ONENESS, IF YOU WILL, ON
10 RUNNING THE TRUST CHANNEL AND THE HIGH NET WORTH

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11 CHANNEL, ONCE AGAIN, WE'VE GONE WITH THE ONENESS
12 HERE.
13 DESPITE ALL OF THESE ACQUISITIONS AND LOOKING
14 LIKE A LOT OF CHAOS IN MANY RESPECTS AT ANY GIVEN
15 DAY, WE ONLY HAVE ONE BOARD OF DIRECTORS.
16 AS WE BOUGHT COMPANIES, WE LAID OUT OUR STRATEGY
17 AS TO WHAT WE WERE TRYING TO DO WITH THE BOARDS.
18 THEY AGREED WITH IT.
19 WE HAVE ONE DISTRIBUTION EFFORT AND ONE
20 TECHNOLOGY PLATFORM, ET CETERA, AND THE ONE THING
21 THAT WE DO IF YOU GO FAR ENOUGH BACK IN MY
22 CAREER, I WAS MONEY MANAGER, RESEARCH DIRECTOR IN
23 THE LIKE, WE DON'T BELIEVE THAT ANY ONE LOCATION
24 HAS MAGIC WATER IN IT, AND EVERYBODY SHOULD MOVE
25 TO ONE BUILDING.

30

1 ASSET MANAGERS SHOULD BE WHERE THEY WANT TO BE,
2 WHERE THEY'RE HAPPY, WHERE THEY CAN MAKE GOOD
3 INVESTMENT DECISIONS, SO WE ALLOW OUR INVESTMENT
4 FOLKS TO LIVE WHERE THEY WANT TO LIVE, RUN MONEY
5 THE WAY THEIR STYLE IS SUPPOSED TO BE RUN.
6 WE JUST HAVE IT ALL TIED TOGETHER WITH ONE
7 PLATFORM AND ONE DISTRIBUTION, AND THAT'S
8 SOMETHING THAT, QUITE FRANKLY, VERY GOOD MONEY
9 MANAGERS LIKE BECAUSE THEY WANT TO RUN THE MONEY.
10 THEY DON'T WANT TO BE MESSING AROUND WITH
11 DISTRIBUTION DECISIONS AND TECHNOLOGIES AND THOSE
12 KINDS OF THINGS.
13 THE INSTITUTIONAL MARKET, AND I THINK I SHOWED
14 YOU ON AN EARLIER SLIDE, WE RUN AN ACCOUNT
15 BUSINESS OF \$43 BILLION.

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16 THERE'S PROBABLY CLOSE TO \$80 SOME BILLION TOTAL
17 IF YOU CUT MUTUAL FUNDS THAT WE HAVE DEDICATED TO
18 THE INSTITUTIONAL MARKET.
19 IT'S A LARGE MARKET FOR US.
20 WE DEVELOPED A VERY BROAD SUITE OF PRODUCTS, AS
21 YOU CAN SEE BY THE EXHIBIT.
22 WE HAVE APPROXIMATELY 147 DEDICATED INVESTMENT
23 PROFESSIONALS ACROSS DIFFERENT STYLES.
24 AGAIN, THEY'LL GIVE ME THE HOOK IF I TRY TO GIVE
25 YOU A SALES PITCH FOR EACH AND EVERY ONE OF THESE

31

1 STYLES, BUT THEY ARE DOING A GREAT JOB, AND WE
2 HAVE, AGAIN, WITH INSIDE THIS ONE BRAND, WE HAVE
3 FIRMS LIKE TATTERSALL THAT IS AN EXCITING CORE
4 BOND FIXED INCOME MANAGER, AND WE USED THE
5 TATTERSALL NAME THERE, BECAUSE THE CONSULTANTS
6 KNOW THAT NAME AND THE INSTITUTIONAL MARKETS KNOW
7 THAT NAME, AND HAVING SAID THAT, WE HAVE STRONG
8 INSTITUTIONAL SKILL SETS THAT WE'VE GOT FROM
9 CERTAIN ACQUISITIONS THAT WE'VE DONE, AND IT
10 REALLY IS A STRONG BASE THAT WE THINK WILL BE
11 IMPORTANT IN THE FUTURE.
12 THE HIGH NET WORTH PLATFORM, ABOUT \$38 BILLION AS
13 I SAID EARLIER IN SEPARATE ACCOUNTS.
14 IF YOU INCLUDE THE MUTUAL FUNDS WHICH A LOT OF
15 THOSE ARE MUNICIPAL FUNDS AN THE LIKE WHICH HELP
16 WITH SOME OF THE TAX STRATEGIES AND SO FORTH OF
17 THESE INDIVIDUALS, AND WE HAVE \$45 BILLION WORTH
18 OF ASSETS.
19 312 DEDICATED INVESTMENT PROFESSIONALS.
20 WE HAVE INVESTMENT PROFESSIONALS ACROSS OUR

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21 FOOTPRINT WITH THIS TYPE OF BUSINESS.
22 OF THE HIGH NET WORTH INDIVIDUALS, AN THE LIKE,
23 LIKE TO SEE THEIR PORTFOLIO MANAGERS AND LIKE
24 THAT LOCAL TOUCH, IF YOU WILL.
25 ONCE AGAIN, IT'S ONE INVESTMENT PLATFORM, ONE
32
1 CHIEF INVESTMENT OFFICER AND ONE TECHNOLOGY
2 OFFICER, 42 OFFICES, 10 STATES AND A BROAD RANGE
3 OF PRODUCTS.
4 INCLUDING ALTERNATIVE INVESTMENTS AND OPEN
5 ARCHITECTURE TO BRING UNDER STYLES OF MONEY
6 MANAGEMENT IN WHAT WE DON'T SPECIALIZE IN THAT
7 WHAT THE CLIENTS MIGHT WANT.
8 TO SUMMARIZE, OUR ASSET GROWTH MANAGEMENT PLANS
9 ARE WE WANT TO LEVERAGE THE BANK PLATFORM, WE WANT
10 TO OFFER THESE SERVICES THROUGH THE BROKERAGE
11 PLATFORM.
12 WE HAVE THE WEALTH MANAGEMENT PLATFORM.
13 WE HAVE DIFFERENT TYPES OF CAPABILITIES, RETAIL,
14 HIGH NET WORTH, EVEN 401(K).
15 AND WE WANT TO CONTINUE TO OFFER AND ORIGINATE
16 PRODUCTS AND FEE-BASED SERVICES.
17 THE FEE-BASED PIECE IS SO IMPORTANT BECAUSE WHEN
18 YOU PUT THESE FEE-BASED SERVICES TOGETHER, YOU GO
19 BACK TO THE THAT RECURRING FEES ON THE BROKERAGE
20 SIDE, AND WHEN YOU PUT IT ALLTOGETHER, WE'RE OVER
21 100% OF RECURRING FEES THAT COVER THESE COSTS.
22 HIDDEN VALUE, WELL, WORKING FOR FIRST UNION OVER
23 THE LAST SEVEN YEARS, THERE'S JUST BEEN A LOT OF
24 STORIES.
25 THE BANKING STORIES CONTINUE TO BE THE DOMINANT

1 STORY, BUT PART OF WHAT I'M TRYING TO DO TODAY IS
2 SAY WHAT WE DEVELOPED AND GROWN.
3 YOU'RE ALL IN ASSET MANAGEMENT FIRMS.
4 PUT YOUR KEY RATIOS UP THERE.
5 THESE ARE PUBLISHED P/E RATIOS.
6 ASSET MANAGEMENT FIRMS IN THE 20s.
7 WEALTH COMPANIES, MID-20s.
8 BROKERAGE FIRMS, 15.
9 THEN COMPARE THE MULTIPLES PUT ON GENERAL BANKING
10 ORGANIZATIONS.
11 WHAT WE'RE TRYING TO DO IS BUILD A REAL BALANCE
12 THAT WILL BLEND THAT TOGETHER, AND I THINK THIS
13 IS A LOT OF HIDDEN VALUE THAT WILL ULTIMATELY BE
14 UNDERSTOOD AND BECOME KNOWN THROUGH TIME BECAUSE
15 WE HAVE REACHED THAT CRITICAL SCALE.
16 WE HAVE REACHED THAT PLACE THAT WE CAN LEVERAGE
17 GOING FORWARD.
18 IT'S A WELL POSITIONED MULTICHANNEL.
19 IT'S NATIONAL.
20 WE'RE NOT JUST AN EAST COAST BANK.
21 WE HAVE A BROAD SPECTRUM OF PRODUCT, PROVEN TRACK
22 RECORD, AND ALL OF THIS IS FOCUSED ON HIGHER P/E
23 BUSINESSES.
24 AT LEAST HIGHER P/E BUSINESSES RELATIVE TO A
25 GENERAL BANKING PLATFORM.

1 FINALLY, SINCE THERE'S SO MUCH GOING ON IN OUR
2 COMPANY, THIS IS THE REASON FOR THE PRECAUTIONARY
3 STATEMENT.
4 THE ONE QUESTION THAT FOLKS ASK ME THAT I CAN'T

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5 ANSWER IS, IF YOU LOOK AT WHAT'S GOING ON TODAY,
6 IN CASE YOU MISSED IT, THERE'S A PROPOSED MERGER
7 WITH THE WACHOVIA TEAM, AND IF YOU LOOK AT WHAT
8 THEY HAVE IN SOME OF THESE BUSINESSES, YOU CAN
9 SEE THE ADDED STRENGTH THAT WE WILL HAVE BOTH FOR
10 WACHOVIA CLIENTS AND FOR OURSELVES.

11 THERE'S OUR CAUTIONARY STATEMENT, AGAIN, I REFER
12 YOU TO THAT.

13 LET ME NOW TURN IT OVER TO YOU FOR QUESTIONS.

14 >> THANK YOU FOR REMINDING US OF THE CAUTIONARY
15 STATEMENT. I'M CURIOUS.

16 IT'S A MORE DIFFICULT MARKET AND INVESTING
17 ENVIRONMENT HERE TODAY.

18 IS THERE A DIFFERENCE IN THE BUYING PATTERNS
19 BETWEEN CUSTOMERS IN THE BANK CHANNEL AND THE
20 BROKERAGE CHANNEL?

21 >> DON: WHAT YOU SEE AT THE END OF THE DAY IS
22 THERE'S MORE SIMILARITIES THAN THERE'S
23 DIFFERENCES.

24 A LOT OF THAT DEFINITION, IF YOU WILL, IS WHAT
25 THE CLIENTS SEE THEMSELVES, WHERE THEY MIGHT

35

1 PARTICULARLY GO FOR BUSINESS, BUT I THINK THE
2 GENERAL TRENDS WOULD BE THE SAME.

3 THE MAJOR DIFFERENCE WE HAVE IN THE BANKING
4 CHANNEL, THOUGH, FROM AN INVESTMENT OPPORTUNITY
5 POINT OF VIEW IS SO MANY OF THESE INDIVIDUALS
6 HAVE NOT STARTED THEIR INVESTMENT PROGRAMS.
7 THEY KNOW THEY NEED TO START.

8 THEY'RE BUSY.

9 THEY'RE NOT SURE THEY HAVE THE WEALTH OR KNOW, IF

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10 YOU WILL, WHERE TO GET THE TIME TO STUDY UP ON
11 INVESTMENTS, FIND A BROKERAGE FIRM AN THE LIKE,
12 SO WHAT WE HAVE EXPERIENCED IS MORE OF A MASS
13 MARKET TYPE OF DEVELOPMENT WHERE WE INTRODUCE
14 PEOPLE FOR THE FIRST TIME TO ANNUITIES, FIXED
15 ANNUITIES, VARIABLE ANNUITIES.
16 THEY'RE STARTING THAT FIRST MUTUAL FUND
17 INVESTMENT PROGRAM, AND THAT'S A REAL NICE
18 CHARACTERISTIC TO HAVE, AND QUITE FRANKLY, THE
19 EASE AND THE BENEFIT OF HAVING THAT AT ONE
20 ORGANIZATION, WE CAN DO YOUR BANKING BUSINESS AND
21 START YOUR INVESTMENT BUSINESS, IS EXCELLENT, AND
22 THEN AS WE DEVELOPED OUT THE SERIES SEVEN
23 PLATFORM WITHIN THE BANK, TODAY, I THINK OUR
24 AVERAGE ADVISER IN THE BANK HAS 15, 16 YEARS OF
25 EXPERIENCE, AND WE'RE NOW ATTRACTING EFFECTIVELY

36

1 THE CHARACTERISTICS THAT YOU WOULD SEE IN THE
2 OUT-OF-BANK CHANNEL.
3 [INAUDIBLE QUESTION]
4 >> DON: ON THE FIRST QUESTION IN TERMS OF HOW TO
5 TAP THE BANK CHANNEL, IT'S A COMBINATION OF
6 THINGS, AND THE SLIDE I HAD BACK THERE, -- AND I
7 WON'T GO BACK TO IT -- IT'S WHAT WE'RE CALLING
8 GOLD CENTERS THAT WILL BE THE FIRST MAJOR THRUST
9 IN TRYING TO DO THAT.
10 THE GOLD CENTERS, WE LOOKED AT THE BRANCHES.
11 WE LOOKED AT WHERE THEY'RE LOCATED.
12 WE LOOKED AT THE 172,000 CLIENT LIST, AND SAID,
13 OKAY, IF YOU LOOK AT THESE AREAS, AND OUR GOAL
14 SOME DAY WILL BE TO GET TO 100, BUT WE'RE

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15 STARTING WITH 25.
16 THESE ARE AREAS WHERE WE KNOW THOSE TYPES OF
17 CLIENTS ARE COMING THROUGH THE DOOR, AND THEY
18 HAVE THAT KIND OF CAPABILITY RIGHT THERE ON THE
19 SPOT THAT THEY CAN MEET AND CHAT WITH FOLKS,
20 ESTATE PLANNERS, ASSET MANAGERS, ET CETERA,
21 INSURANCE SPECIALISTS, TRUST SPECIALISTS.
22 THIS WE FEEL IS HOW WE'RE REALLY GOING TO TAP IT,
23 AND MY PARTNER, BEN JENKINS, WHO RUNS THE GENERAL
24 BANK, IS VERY SUPPORTIVE OF THAT, BECAUSE WHEN
25 YOU GO BACK TO LOOK AT THE PRIVATE CAPITAL GROUP

37

1 WE HAVE TODAY, WE ALREADY HAVE 60,000 CLIENTS
2 INAUDIBLE, AND WHEN YOU LOOK AT THOSE
3 CLIENTS, THEY'RE TERRIFIC BANKING CLIENTS.
4 THEY HAVE MORE DEPOSITS.
5 THEY GROW DEPOSITS.
6 THEY HAVE GOOD LOANS WITH US.
7 THEY'RE A GREAT CREDIT RISK.
8 MANY OF THESE PEOPLE RUN BUSINESSES, RUN LAW
9 FIRMS, ET CETERA, SO FROM A GENERAL BANKING
10 INTEREST POINT OF VIEW, IT'S IN THEIR INTEREST
11 ALSO TO WANT TO INTRODUCE THEIR CUSTOMERS TO
12 THESE KINDS OF SERVICES BECAUSE IT HELPS BUILD
13 THAT WHOLE RELATIONSHIP.
14 ON THE INSURANCE SIDE, THE QUESTION OF THE
15 ECONOMICS, THEREIN, AN THE LIKE, IS FROM FIRST
16 UNION'S POINT OF VIEW, WE'RE NOT INTERESTED IN
17 ACQUIRING INSURANCE COMPANIES.
18 WE DON'T THINK FOR US THAT WOULD BE THE WAY WE
19 COULD MAXIMIZE THE USE OF OUR CAPITAL.

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20 UNDERWRITING THE PRODUCTS, WE DON'T NEED TO DO.
21 WE'RE A DISTRIBUTOR.
22 INSURANCE PRODUCTS PLAY A ROLE IN ALL OF OUR
23 CLIENTS' LIVES, WHETHER IT BE THE INDIVIDUAL
24 FROM, AGAIN, I KEEP GOING BACK TO THE ESTATE TAX
25 AND THE LIKE, THE ANNUITIES, ET CETERA, RIGHT

38

1 THROUGH THE COMMERCIAL AGENCIES AND SO FORTH, SO
2 FOR US, WE CAN PARTICIPATE IN THE DISTRIBUTION
3 PROFITS, WHICH IS WHAT WE'RE ALL GOOD ABOUT.
4 AND SECOND OF ALL, WE USED OUR MASS AND SCALE,
5 THAT IN A LOT OF THE ANNUITIES WE ARE A
6 CO-ADVISER AND MANAGE A LOT OF THE MONEY.
7 WE DO THAT ANYWAY FOR A LIVING, SO WE CAN SHARE
8 IN SOME OF THE ASSET MANAGEMENT ECONOMICS, BUT TO
9 GET INTO THE UNDERWRITING WOULD BE A USE OF
10 CAPITAL, AT LEAST FROM OUR STRATEGY, WE DON'T SEE
11 THAT THAT MAKES SENSE.

12 >> CAN I FOLLOW UP ON THAT? YOU DEVELOPED
13 INCREASING CONFIDENCE IN YOUR ABILITY TO
14 DISTRIBUTE PRODUCTS THROUGH THE BROKERAGE
15 CHANNEL, WHICH IS A RELATIVELY NEW CHANNEL FOR
16 YOU.
17 WOULD THAT GIVE YOU MORE CONFIDENCE TO CROSS-SELL
18 FROM THE LIFE INSURANCE CHANNEL NOT BEING A
19 MANUFACTURER?

20 >> DON: YES, WE COULD DO THAT IN ADDITION TO THE
21 LIFE INSURANCE BUSINESSES THAT WE WHOLESAL TO
22 AND TALK TO THROUGH OUR MUTUAL FUND GROUP TODAY,
23 AND THE COMMERCIAL AGENCY SIDE, IF YOU FOLLOW US,
24 WE MADE A NUMBER OF SMALL ACQUISITIONS IN

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25 COMMERCIAL AGENCIES, THE AGENCY UP IN NEW JERSEY

39

1 AREA FOR EXAMPLE; AND, AGAIN, WE HAVE A CLASSIC
2 SITUATION WHERE YOU HAVE INDIVIDUALS WHO MADE
3 THEIR CAREER WITH ONE SET OF PRODUCTS, IN THIS
4 CASE, COMMERCIAL INSURANCE, AND WE CAN NOW LINK
5 EVERYTHING TOGETHER.

6 OUR GOAL IS ANY SERVICE THAT WE HAVE AT FIRST
7 UNION, WE WANT WHOEVER IS DEALING WITH THE CLIENT
8 TO BE ABLE TO BRING ALL OF THAT THROUGH, AND WE
9 ALREADY HAD TREMENDOUS CROSS-SELL SUCCESSES
10 BECAUSE THE CLIENTS OF THESE COMMERCIAL AGENCIES
11 KNOW AND TRUST THESE PEOPLE.

12 THEY KNOW WHEN THEY NEED SOME OF THEIR BANKING
13 SERVICES OR ASSET SERVICES.

14 Q. YOU LET YOUR MONEY MANAGERS MOVE ANYWHERE
15 THEY WANT.

16 [INAUDIBLE]

17 WHAT ARE YOUR RULES IN HOW YOU GOVERN THAT?

18 >> Don:: THAT'S WHY IT'S HELPFUL TO HAVE ONE
19 SALES STRUCTURE FOR THE MANAGEMENT SIDE BECAUSE
20 IT'S A DIFFICULT TASK.

21 EVERYBODY WANTS TO SEE THE MONEY MANAGERS.

22 WE BASICALLY SAT DOWN AND NEGOTIATED, IF YOU
23 WILL, WHAT WOULD BE A REASONABLE AMOUNT OF TIME
24 FOR A MANAGER TO BE AWAY BECAUSE YOU CAN'T GO
25 INTO ESPECIALLY THE EXTERNAL BROKERAGE CHANNELS,

40

1 WHICH BY THE WAY, WE SELL ABOUT AS MUCH EVERGREEN
2 FUND THROUGH A LOT OF THE PARTNERS IN THE ROOM
3 TODAY TO WHAT I WOULD CALL EXTERNAL CHANNEL THAN

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4 WE MADE THROUGH FIRST UNION-OWNED CHANNEL, AND WE
5 TRY TO FIGURE OUT THE AMOUNT OF TIME THAT A
6 PORTFOLIO MANAGER COULD BE AWAY, AND THEN ARE
7 AHEAD OF THAT WHOLE DISTRIBUTION SIDE.
8 IT'S LIKE A LIMITED QUANTITY TO GET THE MANAGER
9 SO MUCH.
10 IF YOU WERE A MANAGER OF A CERTAIN FUND, AND YOU
11 WERE CHOSEN TO SPEAK TO A MORGAN STANLEY MEETING,
12 SO BE IT, YOU MAY NOT BE AVAILABLE FOR ANOTHER
13 MEETING. IT'S A BALANCING ACT.
14 YOU'VE GOT TO PROTECT YOUR ASSET MANAGERS.
15 MAYBE THIS IS MY OLD ASSET MANAGEMENT BACKGROUND
16 COMING THROUGH, BUT YOUR JOB IS REALLY TO MANAGE
17 ASSETS, AND THAT'S WHAT WE LET THEM DO.
18 >> DON, THANK YOU.
19 >>DON: THANK YOU VERY MUCH. APPRECIATE YOUR
20 TIME.
21 THANK YOU.
22 [APPLAUSE]
23
24
25

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First National Bank

59,299 10.3 22,989 4.0 28,736 5.0

Reliance State Bank

16,485 7.9 8,386 4.0 10,483 5.0

State Bank & Trust

15,623 10.5 5,950 4.0 7,437 5.0

United Bank & Trust

12,299 11.5 4,296 4.0 5,370 5.0

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	Actual			For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount	Ratio	Amount	Ratio	
As of December 31, 2011:								
Total capital (to risk-weighted assets):								
Consolidated	\$ 132,923	18.0	%	\$ 59,032	8.0	%	N/A	N/A
Boone Bank & Trust	13,715	17.5		6,274	8.0		\$ 7,843	10.0 %
First National Bank	59,403	14.4		33,096	8.0		41,370	10.0
Reliance State Bank	9,719	14.5		5,368	8.0		6,710	10.0
State Bank & Trust	15,913	15.4		8,293	8.0		10,366	10.0
United Bank & Trust	12,088	20.0		4,838	8.0		6,047	10.0
Tier 1 capital (to risk-weighted assets):								
Consolidated	\$ 124,691	16.9	%	\$ 29,516	4.0	%	N/A	N/A
Boone Bank & Trust	12,900	16.5		3,137	4.0		\$ 4,706	6.0 %
First National Bank	55,906	13.5		16,548	4.0		24,822	6.0
Reliance State Bank	8,955	13.4		2,684	4.0		4,026	6.0
State Bank & Trust	14,613	14.1		4,146	4.0		6,220	6.0
United Bank & Trust	11,329	18.7		2,419	4.0		3,628	6.0
Tier 1 capital (to average-weighted assets):								
Consolidated	\$ 124,691	12.2	%	\$ 40,572	4.0	%	N/A	N/A
Boone Bank & Trust	12,900	10.9		4,731	4.0		\$ 5,914	5.0 %
First National Bank	55,906	10.3		21,824	4.0		27,280	5.0
Reliance State Bank	8,955	10.2		3,526	4.0		4,408	5.0
State Bank & Trust	14,613	10.0		5,839	4.0		7,299	5.0
United Bank & Trust	11,329	10.4		4,361	4.0		5,452	5.0

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the Banks to the Company. Dividends paid by each Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. Except for the potential effect on the Company's level of dividends, management believes that these restrictions currently do not have a significant impact on the Company.

Note 16. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced

transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

The standards require the use of valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques are consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, a fair value hierarchy was established for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted process for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatility, prepayment speeds, credit risk); or inputs derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The following table presents the balances of assets measured at fair value on a recurring basis by level as of December 31, 2012 and 2011:

Description	Total	Level 1	Level 2	Level 3
2012				
U.S. government agencies	\$ 48,687,000	\$ -	\$ 48,687,000	\$ -
U.S. government mortgage-backed securities	191,957,000	-	191,957,000	-
State and political subdivisions	309,573,000	-	309,573,000	-
Corporate bonds	34,761,000	-	34,761,000	-
Equity securities, financial industry common stock	630,000	630,000	-	-
Equity securities, other	2,809,000	-	2,809,000	-
	\$ 588,417,000	\$ 630,000	\$ 587,787,000	\$ -
2011				
U.S. government agencies	\$ 63,200,000	\$ -	\$ 63,200,000	\$ -
U.S. government mortgage-backed securities	159,855,000	-	159,855,000	-
State and political subdivisions	259,393,000	-	259,393,000	-
Corporate bonds	20,387,000	-	20,387,000	-
Equity securities, financial industry common stock	2,810,000	2,810,000	-	-
Equity securities, other	2,980,000	-	2,980,000	-
	\$ 508,625,000	\$ 2,810,000	\$ 505,815,000	\$ -

Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Other available-for-sale securities are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value

measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things.

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Certain assets are measured at fair value on a nonrecurring basis; that is, they are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment or a change in previously recognized impairment). The following table presents the assets carried on the balance sheet (after specific reserves) by caption and by level with the valuation hierarchy as of December 31, 2012 and 2011:

Description	Total	Level 1	Level 2	Level 3
2012				
Loans	\$ 2,732,000	\$ -	\$ -	\$ 2,732,000
Other real estate owned	9,911,000	-	-	9,911,000
Total	\$ 12,643,000	\$ -	\$ -	\$ 12,643,000
2011				
Loans	\$ 2,453,000	\$ -	\$ -	\$ 2,453,000
Other real estate owned	9,538,000	-	-	9,538,000
Total	\$ 11,991,000	\$ -	\$ -	\$ 11,991,000

Loans: Loans in the tables above consist of impaired credits held for investment. In accordance with the loan impairment guidance, impairment was measured based on the fair value of collateral less estimated selling costs for collateral dependent loans. Fair value for impaired loans is based upon appraised values adjusted for trends observed in the market. A valuation allowance was recorded for the excess of the loan's recorded investment over the amounts determined by the collateral value method. This valuation is a component of the allowance for loan losses. The Company considers these fair values level 3.

Other Real Estate Owned: Other real estate owned in the table above consists of real estate obtained through foreclosure. Other real estate owned is recorded at fair value less estimated selling costs, at the date of transfer. Subsequent to the transfer, other real estate owned is carried at the lower of cost or fair value, less estimated selling costs. The carrying value of other real estate owned is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value less estimated selling costs. Management uses appraised values and adjusts for trends observed in the market and for disposition costs in determining the value of other real estate owned. A valuation allowance was recorded for the excess of the asset's recorded investment over the amount determined by the fair value, less estimated selling costs. This valuation allowance is a component of the allowance for other real estate owned. The Company considers these fair values level 3.

Fair value of financial instruments: The following methods and assumptions were used by the Company in estimating fair value disclosures:

Cash and due from banks and interest bearing deposits in financial institutions: The recorded amount of these assets approximates fair value.

Securities available-for-sale: Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the securities credit rating, prepayment assumptions and other factors such as credit loss assumptions.

Loans held for sale: The fair value of loans held for sale is based on prevailing market prices.

Loans receivable: The fair value of loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates, which reflect the credit and interest rate risk inherent in the loan. The estimate of maturity is based on the historical experience, with repayments for each loan classification modified, as required, by an estimate of the effect of current economic and lending conditions. The effect of nonperforming loans is considered in assessing the credit risk inherent in the fair value estimate.

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Deposit liabilities: Fair values of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings and NOW accounts, and money market accounts, are equal to the amount payable on demand as of the respective balance sheet date. Fair values of certificates of deposit are based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

Securities sold under agreements to repurchase: The carrying amounts of securities sold under agreements to repurchase approximate fair value because of the generally short-term nature of the instruments.

FHLB advances and other long-term borrowings: Fair values of FHLB advances and other long-term borrowings are estimated using discounted cash flow analysis based on interest rates currently being offered with similar terms.

Accrued income receivable and accrued interest payable: The carrying amounts of accrued income receivable and interest payable approximate fair value.

Commitments to extend credit and standby letters of credit: The fair values of commitments to extend credit and standby letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and credit worthiness of the counterparties. The carry value and fair value of the commitments to extend credit and standby letters of credit are not considered significant.

Limitations: Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following table includes the carrying amounts and fair values of financial assets and liabilities as of December 31, 2012 and 2011.

		2012		2011	
	Fair Value Hierarchy Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:					
Cash and due from banks	Level 1	\$ 34,805,371	\$ 34,805,000	\$ 22,829,291	\$ 22,829,000
Interest bearing deposits	Level 1	44,639,033	44,639,000	33,741,406	33,741,000
Securities available-for-sale	See previous table	588,417,037	588,417,000	508,624,622	508,625,000
Loans receivable, net	Level 2	510,125,880	514,047,000	438,650,837	445,240,000
Loans held for sale	Level 2	1,030,180	1,030,000	1,212,620	1,213,000
Accrued income receivable	Level 1	7,173,703	7,174,000	6,467,509	6,468,000
Financial liabilities:					
Deposits	Level 2	\$ 1,004,732,450	\$ 1,008,013,000	\$ 818,705,391	\$ 821,979,000
	Level 1	27,088,660	27,089,000	41,696,585	41,697,000

Securities sold under agreements to repurchase					
FHLB and other long-term borrowings	Level 2	34,611,035	38,401,000	35,179,335	38,705,000
Accrued interest payable	Level 1	752,425	752,000	802,847	803,000

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Note 17. Subsequent Events

Management evaluated subsequent events through the date the financial statements were issued. There were no significant events or transactions occurring after December 31, 2012, but prior to March 12, 2013, that provided additional evidence about conditions that existed at December 31, 2012. There were no significant events or transactions that provided evidence about conditions that did not exist at December 31, 2012.

Note 18. Ames National Corporation (Parent Company Only) Financial Statements

Information relative to the Parent Company's balance sheets at December 31, 2012 and 2011, and statements of income and cash flows for each of the years in the three-year period ended December 31, 2012, is as follows:

CONDENSED BALANCE SHEETS
December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and due from banks	\$31,189	\$39,366
Interest bearing deposits in banks	2,995,809	4,846,197
Securities available-for-sale	629,700	9,059,164
Investment in bank subsidiaries	133,965,023	113,534,816
Loans receivable, net	7,635,109	6,923,288
Premises and equipment, net	545,956	555,846
Accrued income receivable	29,990	82,420
Deferred income taxes	543,531	788,684
Other assets	15,000	115,000
Total assets	\$146,391,307	\$135,944,781
LIABILITIES		
Dividends payable	\$1,396,637	\$1,210,419
Accrued expenses and other liabilities	258,935	176,977
Total liabilities	1,655,572	1,387,396
STOCKHOLDERS' EQUITY		
Common stock	18,865,830	18,865,830
Additional paid-in capital	22,651,222	22,651,222
Retained earnings	94,159,839	85,564,078
Accumulated other comprehensive income	11,075,342	9,492,753
Treasury stock	(2,016,498)	(2,016,498)
Total stockholders' equity	144,735,735	134,557,385

Total liabilities and stockholders' equity	\$146,391,307	\$135,944,781
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CONDENSED STATEMENTS OF INCOME
Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
Operating income:			
Equity in net income of bank subsidiaries	\$14,212,775	\$13,865,320	\$13,418,456
Interest	505,918	685,698	954,867
Dividends	20,400	59,400	96,094
Rental income	118,545	112,652	114,372
Other income	1,364,000	1,243,000	-
Securities (losses), net	(83,180)	-	(12,152)
	16,138,458	15,966,070	14,571,637
Credit for loan losses	(224,000)	(50,000)	(50,000)
Operating income after credit for loan losses	16,362,458	16,016,070	14,621,637
Operating expenses	2,208,650	2,089,563	1,961,563
Income before income taxes	14,153,808	13,926,507	12,660,074
Income tax expense (benefit)	(28,500)	5,700	(306,200)
Net income	\$14,182,308	\$13,920,807	\$12,966,274

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CONDENSED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 14,182,308	\$ 13,920,807	\$ 12,966,274
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	39,116	38,165	39,136
Credit for loan losses	(224,000)	(50,000)	(50,000)
Amortization, net	52,200	125,968	(1,091)
Provision for deferred income taxes	47,138	5,000	(83,000)
Securities (gains) losses, net	(176,671)	-	12,152
Other-than-temporary impairment of securities available-for-sale	259,851	-	-
Gain on sale of other real estate owned	-	(8,120)	(30,568)
Equity in net income of bank subsidiaries	(14,212,775)	(13,865,320)	(13,418,456)
Dividends received from bank subsidiaries	8,428,000	5,384,000	3,900,000
Decrease (increase) in accrued income receivable	52,430	(5,500)	27,161
Decrease (increase) in other assets	100,000	(100,000)	245,955
Decrease (increase) in accrued expense and other liabilities	81,958	28,660	(59,541)
Net cash provided by operating activities	8,629,555	5,473,660	3,548,022
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of securities available-for-sale	-	(6,592,208)	-
Proceeds from sale of securities available-for-sale	3,030,867	-	2,176,341
Proceeds from maturities and calls of securities available-for-sale	416,002	1,773,232	500,000
Decrease (increase) in interest bearing deposits in banks	1,850,388	3,136,304	(6,469,267)
(Increase) decrease in loans	(487,821)	2,850,925	4,185,210
Proceeds from the sale of other real estate owned	-	87,045	148,956
Purchase of bank premises and equipment	(29,226)	(20,431)	(9,145)
Investment in bank subsidiaries	(8,017,613)	-	-
Net cash provided by (used in) investing activities	(3,237,403)	1,234,867	532,095
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of treasury stock	-	(2,016,498)	-
Dividends paid	(5,400,329)	(4,703,424)	(4,056,153)
Net cash used in financing activities	(5,400,329)	(6,719,922)	(4,056,153)
Net increase (decrease) in cash and cash equivalents	(8,177)	(11,395)	23,964
CASH AND DUE FROM BANKS			
Beginning	39,366	50,761	26,797
Ending	\$ 31,189	\$ 39,366	\$ 50,761
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash receipts for income taxes	\$ 149,519	\$ 6,806	\$ 393,829

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Note 19. Selected Quarterly Financial Data (Unaudited)

	2012			
	March 31	June 30	September 30	December 31
Total interest income	\$9,211,369	\$9,670,406	\$ 9,666,692	\$ 9,523,271
Total interest expense	1,498,816	1,472,802	1,420,259	1,360,064
Net interest income	7,712,553	8,197,604	8,246,433	8,163,207
Provision for loan losses	51,293	64,412	35,664	(129,092)
Net income	3,543,158	3,309,416	3,860,995	3,468,739
Basic and diluted earnings per common share	0.38	0.36	0.41	0.37
	2011			
	March 31	June 30	September 30	December 31
Total interest income	\$9,147,792	\$9,543,717	\$ 9,549,724	\$ 9,374,472
Total interest expense	1,749,553	1,736,968	1,676,822	1,566,722
Net interest income	7,398,239	7,806,749	7,872,902	7,807,750
Provision for loan losses	-	404,788	4,904	123,269
Net income	3,472,521	3,243,372	3,589,874	3,615,040
Basic and diluted earnings per common share	0.37	0.34	0.38	0.39

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ITEM CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND
9. FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's current disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

Management's annual report on internal control over financial reporting is contained in Item 8 of this Report.

The attestation report of the Company's registered public accounting firm on the Company's internal control over financial reporting is contained in Item 8 of this Report.

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors

Refer to the information under the captions "Corporate Governance" and "Proposals to be Voted on at Meeting – Proposal 1 – Election of Directors" contained in the Company's definitive proxy statement prepared in connection with its Annual Meeting of Shareholders to be held April 24, 2013, as filed with the SEC on March 18, 2013 (the "Proxy Statement"), which information is incorporated herein by this reference.

Executive Officers

The information required by Item 10 regarding the executive officers appears in Item 1 of Part I of this Report under the heading "Executive Officers of the Company and Banks".

Section 16(a) Beneficial Ownership Reporting Compliance

Refer to the information under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement, which information is incorporated herein by this reference.

Audit Committee

The Company has established an Audit Committee as a standing committee of the Board of Directors. Refer to the information under the caption “Corporate Governance – Board Committees” in the Proxy Statement, which information is incorporated herein by this reference.

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Audit Committee Financial Expert

The Board of Directors of the Company has determined that Warren R. Madden, a member of the Audit Committee, qualifies as an "audit committee financial expert" under applicable SEC rules. The Board of Directors has further determined that Mr. Madden qualifies as an "independent" director under applicable SEC rules and the corporate governance rules of the NASDAQ stock market. The Board's affirmative determination was based, among other things, upon Mr. Madden's experience as Vice President of Finance and Business of Iowa State University, a position in which he functions as the principal financial officer of the University.

Code of Ethics

The Company has adopted an Ethics and Confidentiality Policy that applies to all directors, officers and employees of the Company, including the Chief Executive Officer and the Chief Financial Officer of the Company. A copy of this policy is posted on the Company's website at www.amesnational.com. In the event that the Company makes any amendments to, or grants any waivers of, a provision of the Ethics and Confidentiality Policy that requires disclosure under applicable SEC rules, the Company intends to disclose such amendments or waiver and the reasons therefore on its website.

ITEM 11. EXECUTIVE COMPENSATION

Refer to the information under the caption "Executive Compensation" in the Proxy Statement, which information is incorporated herein by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Refer to the information under the caption "Security Ownership of Management and Certain Beneficial Owners" in the Proxy Statement, which information is incorporated herein by this reference. The Company does not maintain any equity compensation plans covering its directors, officers or employees or the directors, officers or employees of the Banks.

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Refer to the information under the captions "Loans to Directors and Executive Officers and Related Party Transactions" and "Corporate Governance – Director Independence" in the Proxy Statement, which information is incorporated herein by this reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Refer to the information under the caption "Relationship with Registered Public Accounting Firm" in the Proxy Statement, which information is incorporated herein by this reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) List of Financial Statements and Schedules.

1. Financial Statements

Reports of CliftonLarsonAllen LLP, Independent Registered Public Accounting Firm
Consolidated Balance Sheets, December 31, 2012 and 2011

Consolidated Statements of Income for the Years ended December 31, 2012, 2011 and 2010

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012, 2011 and 2010

Consolidated Statements of Stockholders' Equity for the Years ended December 31, 2012, 2011 and 2010

Consolidated Statements of Cash Flows for the Years ended December 31, 2012, 2011 and 2010

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

All schedules are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or notes thereto.

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(b) List of Exhibits.

3.1	- Restated Articles of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.1 to Form 8-K as filed June 16, 2005)
3.2	- Bylaws of the Company, as amended (incorporated by reference to Exhibit 3.2 to Form 8-K as filed February 19, 2008)
10.1	- Management Incentive Compensation Plan (incorporated by reference to Exhibit 10 filed with the Company's Form 8-K on November 19, 2012*)
21	- Subsidiaries of the Registrant
23	- Consent of Independent Registered Public Accounting Firm
31.1	- Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	- Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	- Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350
32.2	- Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350
	* Indicates a management compensatory plan or arrangement.
101.INS	XBRL Instance Document (1)
101.SCH	XBRL Taxonomy Extension Schema Document (1)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (1)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (1)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (1)
101.DEF	