M&A Discussion – KeyBank's $4.1 Billion Acquisition of First Niagara

Presentation to the Board of Directors

Goldman Stanley

M&A Recommendation and Executive Summary

- We recommend **against** pursuing this $4.1 billion acquisition of First Niagara, as the company is ~45% overvalued at that price, and the deal is dependent on Cost Synergies that represent 40% of First Niagara's Non-Interest Expense

- Similar, recent deals in the sector have had *projected* Cost Synergies estimated at **~30%** of the Seller's Non-Interest Expense; the average over the past ~20 years is closer to **25%**

- Not only is First Niagara overvalued at the Offer Price of $11.40 / share, but its ROE, ROA, ROTCE, and regulatory capital ratios are all worse than KeyBank's

- First Niagara is more of a pure-play commercial bank, but KeyBank has been diversifying and moving away from that model; ~55% of its Revenue comes from Net Interest Income vs. ~80% for First Niagara

- First Niagara would not deliver lower funding costs, higher Asset Growth, or valuable IP for KeyBank; the only benefits would be modest geographic expansion and a slightly more diversified loan portfolio

- This transaction would make sense only if the Purchase Price were significantly lower or far lower Cost Synergies were required for significant EPS accretion and improvement in the Returns-based financial metrics

Valuation: Summary of Dividend Discount Model Assumptions

Total Asset Growth Rate	▪ Between 1% and 2%; declines to 1.5% by FY 26
Risk-Weighted Assets % Total Assets	▪ 73-74% over the 12 years in the explicit forecast period (FY 15 – FY 26)
Targeted CET 1 Ratio	▪ 9.0% (Slightly above company's current target of 8.5%)
Return on Average Assets	▪ 0.60% increasing to 0.83% by FY 26
Dividend Payout Ratio	▪ 65-70% increasing to 80% by FY 26
Cost of Equity	▪ 8.97% in all periods (2.1% RFR, 5.8% ERP, and 1.19 Levered Beta)
Terminal P / TBV Multiple	▪ 1.33x based on 1.6% NI to Common Growth, 11.42% ROTCE, and 8.97% Cost of Equity; implied Terminal P / E multiple of 11.8x

Dividend Discount Model Output

($ USD in Millions except for $ per Share Figures)

- As a standalone entity, First Niagara is almost certainly overvalued at its *undisturbed share price* of $8.96, let alone the Offer Price of $11.40:

		Discount Rate (Cost of Equity):								
		8.00%	8.25%	8.50%	8.75%	**9.00%**	9.25%	9.50%	9.75%	10.00%
Terminal P / TBV Multiple:	1.50 x	$ 9.15	$ 8.95	$ 8.75	$ 8.56	**$ 8.38**	$ 8.20	$ 8.02	$ 7.85	$ 7.68
	1.45 x	8.97	8.78	8.59	8.40	**8.22**	8.04	7.87	7.71	7.54
	1.40 x	8.80	8.61	8.42	8.24	**8.07**	7.89	7.73	7.56	7.40
	1.35 x	**8.63**	**8.44**	**8.26**	**8.08**	**7.91**	**7.74**	**7.58**	**7.42**	**7.27**
	1.30 x	8.45	8.27	8.09	7.92	**7.75**	7.59	7.43	7.28	7.13
	1.25 x	8.28	8.10	7.93	7.76	**7.60**	7.44	7.28	7.13	6.99
	1.20 x	8.11	7.93	7.77	7.60	**7.44**	7.29	7.14	6.99	6.85

		Discount Rate (Cost of Equity):								
		8.00%	8.25%	8.50%	8.75%	**9.00%**	9.25%	9.50%	9.75%	10.00%
CET 1 Target:	10.50%	$ 8.41	$ 8.21	$ 8.02	$ 7.84	**$ 7.66**	$ 7.49	$ 7.32	$ 7.16	$ 7.00
	10.00%	8.46	8.27	8.08	7.90	**7.73**	7.56	7.39	7.23	7.07
	9.50%	8.51	8.33	8.14	7.97	**7.79**	7.62	7.46	7.30	7.14
	9.00%	**8.57**	**8.38**	**8.20**	**8.03**	**7.86**	**7.69**	**7.53**	**7.37**	**7.22**
	8.50%	8.62	8.44	8.26	8.09	**7.92**	7.76	7.60	7.44	7.29
	8.00%	8.67	8.49	8.32	8.15	**7.98**	7.82	7.67	7.51	7.36
	7.50%	8.73	8.55	8.38	8.21	**8.05**	7.89	7.73	7.58	7.44

- However, with the full Cost Synergies factored in (40% of its Non-Interest Expense, or ~$400 million per year), the company's implied share price jumps up to approximately $18.00 …

- *If* we attribute 100% of the Cost Synergies to First Niagara and ignore all the other acquisition effects – which is questionable

Comparable Public Companies

($ USD in Millions except for $ per Share Figures)

- Despite significantly worse Returns-based metrics and capital ratios, First Niagara trades above or in-line with the P / E and P / TBV multiple of its peer companies (Data from one day before announcement date):

Comparable Companies - U.S.-Based Regional Banks with Between $20 Billion and $150 Billion in Total Assets

($ in Millions USD Except Per Share Data)

Operating Statistics:	Capitalization & Assets									TCE /	Common	Tier 1
	Equity	Tangible	Total	P / E	P / TBV	ROATCE		ROA	ROE	Tangible	Equity	Leverage
Company Name	Value	Book Value	Assets	FY16	LTM	LTM	FY16	LTM	LTM	Assets	Tier 1 %	Ratio
M&T Bank Corporation	$ 15,079.8	$ 6,957.0	$ 122,787.9	14.7 x	2.2 x	13.0%	14.2%	1.16%	8.9%	7.5%	9.8%	10.2%
Comerica, Inc.	7,843.7	6,973.0	71,012.0	14.1 x	1.1 x	7.8%	7.8%	0.76%	7.2%	9.9%	10.6%	10.3%
Zions Bancorporation	6,002.3	5,601.3	58,410.9	15.0 x	1.1 x	6.1%	7.1%	0.69%	5.3%	9.8%	12.2%	11.6%
BOK Financial Corporation	4,499.3	2,946.7	30,600.0	13.9 x	1.5 x	10.3%	10.6%	0.96%	8.8%	9.8%	12.8%	9.6%
Cullen/Frost Bankers, Inc.	4,342.3	2,096.2	28,341.4	14.6 x	2.1 x	14.3%	13.9%	1.09%	10.6%	7.6%	11.6%	7.9%
Associated Banc-Corp	2,971.2	1,846.6	27,467.2	14.9 x	1.6 x	10.6%	10.4%	0.71%	6.6%	7.0%	9.4%	7.5%
First Horizon National Corporation	3,395.9	2,017.7	25,387.3	15.3 x	1.7 x	13.7%	10.8%	1.01%	11.4%	8.0%	10.8%	10.0%
Webster Bank, N.A.	3,526.8	1,700.5	24,069.8	16.0 x	2.1 x	11.9%	12.5%	0.88%	8.7%	7.2%	10.8%	8.4%
Maximum:	15,079.8	6,973.0	122,787.9	16.0 x	2.2 x	14.3%	14.2%	1.16%	11.4%	9.9%	12.8%	11.6%
75th Percentile:	6,462.7	5,940.2	61,561.2	15.1 x	2.1 x	13.2%	12.9%	1.03%	9.3%	9.8%	11.8%	10.2%
Median:	**$ 4,420.8**	**$ 2,521.5**	**$ 29,470.7**	**14.8 x**	**1.6 x**	**11.3%**	**10.7%**	**0.92%**	**8.8%**	**7.8%**	**10.8%**	**9.8%**
25th Percentile:	3,494.1	1,974.9	26,947.2	14.5 x	1.4 x	9.7%	9.8%	0.75%	7.1%	7.4%	10.4%	8.3%
Minimum:	2,971.2	1,700.5	24,069.8	13.9 x	1.1 x	6.1%	7.1%	0.69%	5.3%	7.0%	9.4%	7.5%
First Niagara Financial Group, Inc.	**$ 3,203.1**	**$ 2,401.0**	**$ 39,413.0**	**15.6 x**	**1.3 x**	**9.8%**	**7.7%**	**0.63%**	**5.9%**	**6.3%**	**8.5%**	**7.6%**

Valuation Multiples:	Current Price:	Offer Price:	Public Comps:	Buyer:
Forward Year 1 (2016-12-31) P / TBV:	1.2 x	1.5 x	N/A	1.2 x
Forward Year 1 (2016-12-31) P / BV:	0.8 x	1.0 x	N/A	1.1 x
Forward Year 1 (2016-12-31) P / E:	15.6 x	19.9 x	14.8 x	11.8 x
Forward Year 2 (2017-12-31) P / TBV:	1.2 x	1.5 x	N/A	1.2 x
Forward Year 2 (2017-12-31) P / BV:	0.8 x	1.0 x	N/A	1.1 x
Forward Year 2 (2017-12-31) P / E:	14.6 x	18.6 x	N/A	11.2 x

Summary of Merger Model Assumptions

Offer Price and Premium	▪ $11.40 / Share ($4.1 billion Equity Purchase Price); 27% premium
Cash / Stock Mix	▪ 20% Cash and 80% Stock; Cash funding via 7.5% Fixed-Rate Debt
Targeted CET 1 Ratio	▪ 10.0% (Equity capital infusions assumed if CET 1 Ratio falls below this level)
Cost Savings	▪ 40.0% of Seller's Non-Interest Expense ($426 million); 50% Realization in Year 1 and 100% in Year 2 and beyond
Restructuring Costs	▪ 137.5% of fully-phased-in Synergies; $567 million pre-tax charge in Year 1
Core Deposit Intangibles	▪ 1.5% of Core Deposits ($360 Million); Straight-line amortization over 10 years
Mark-to-Market Adjustments	▪ 3.1% Loan Mark; ~1% on Debt, Deposits, and Investments; 6-year amortization for Loan Mark

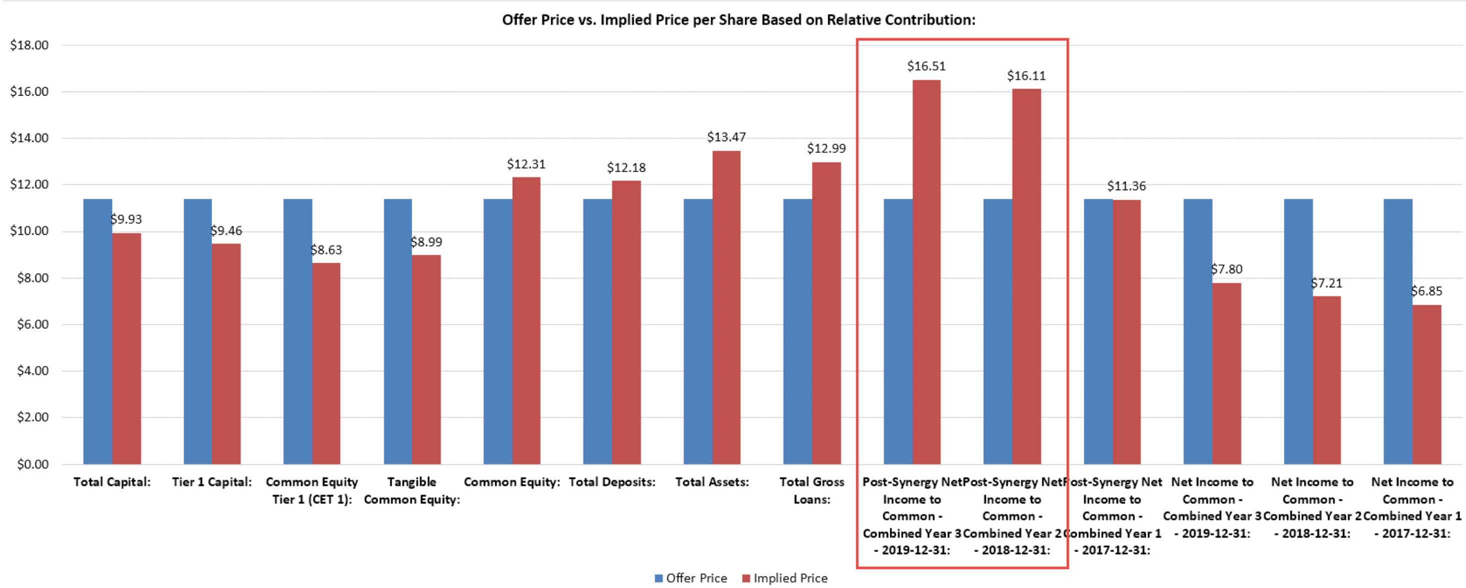
Merger Model Output

($ USD in Millions except for $ per Share Figures)

- If the Cost Savings represent 10-20% of the Seller's Non-Interest Expense, the Year 2 EPS accretion declines to 0-5%:

Purchase Premium to Seller's Undisturbed Share Price:	Cost Synergies % Seller's Non-Interest Expense:								
	-	5.0%	10.0%	15.0%	20.0%	25.0%	30.0%	35.0%	**40.0%**
35.0%	(7.4%)	(4.9%)	(2.4%)	0.1%	2.6%	5.1%	7.7%	10.2%	**12.7%**
32.5%	(6.9%)	(4.4%)	(1.8%)	0.7%	3.2%	5.8%	8.3%	10.8%	**13.3%**
30.0%	(6.3%)	(3.8%)	(1.3%)	1.3%	3.8%	6.4%	8.9%	11.5%	**14.0%**
27.5%	**(5.8%)**	**(3.2%)**	**(0.7%)**	**1.9%**	**4.4%**	**7.0%**	**9.5%**	**12.1%**	**14.7%**
25.0%	(5.2%)	(2.7%)	(0.1%)	2.5%	5.0%	7.6%	10.2%	12.8%	**15.3%**
22.5%	(4.7%)	(2.1%)	0.5%	3.1%	5.7%	8.2%	10.8%	13.4%	**16.0%**
20.0%	(4.1%)	(1.5%)	1.1%	3.7%	6.3%	8.9%	11.5%	14.1%	**16.7%**
17.5%	(3.5%)	(0.9%)	1.7%	4.3%	6.9%	9.5%	12.1%	14.8%	**17.4%**
15.0%	(2.9%)	(0.3%)	2.3%	4.9%	7.6%	10.2%	12.8%	15.4%	**18.1%**

- A Relative Contribution Analysis also confirms that the $11.40 Offer Price makes sense only if full Cost Synergies are realized and attributed to the Seller:



Are the Cost Synergy Figures Realistic?

- Recent M&A deals, such as BB&T's acquisitions and CIT / OneWest, have had significantly lower projected Cost Synergies as percentages of the Seller's Non-Interest Expense:

BB&T expects to incur pre-tax merger and integration costs of approximately $100 million and expects to achieve annual cost savings of approximately $65 million (approximately 30 percent of National Penn's non-interest expenses). BB&T expects this acquisition to be accretive to earnings per share in the first full year excluding one-time charges and expects the transaction to exceed its IRR hurdle.

BB&T expects to incur pre-tax merger and integration costs of approximately $250 million and expects to achieve annual cost savings of approximately $160 million (approximately 32% of Susquehanna's non-interest expenses). BB&T expects this acquisition to be accretive to earnings per share in the first full year excluding one-time charges and expects the transaction to exceed its IRR hurdle.

Key Transaction Assumptions

Approximately 5% of OneWest's Non-Interest Expense.

Synergies

Cost	• $20 million pre-tax per annum • Fully phased-in by 2016

Are the Cost Synergy Figures Realistic?

- Even in much frothier periods, such as the pre-Lehman decade, the average expected Cost Synergies in bank M&A deals was only ~25% of the Seller's Non-Interest Expense

Significant Value Created from Cost Savings

Unlocked value from cost synergies provides strong upside for shareholders

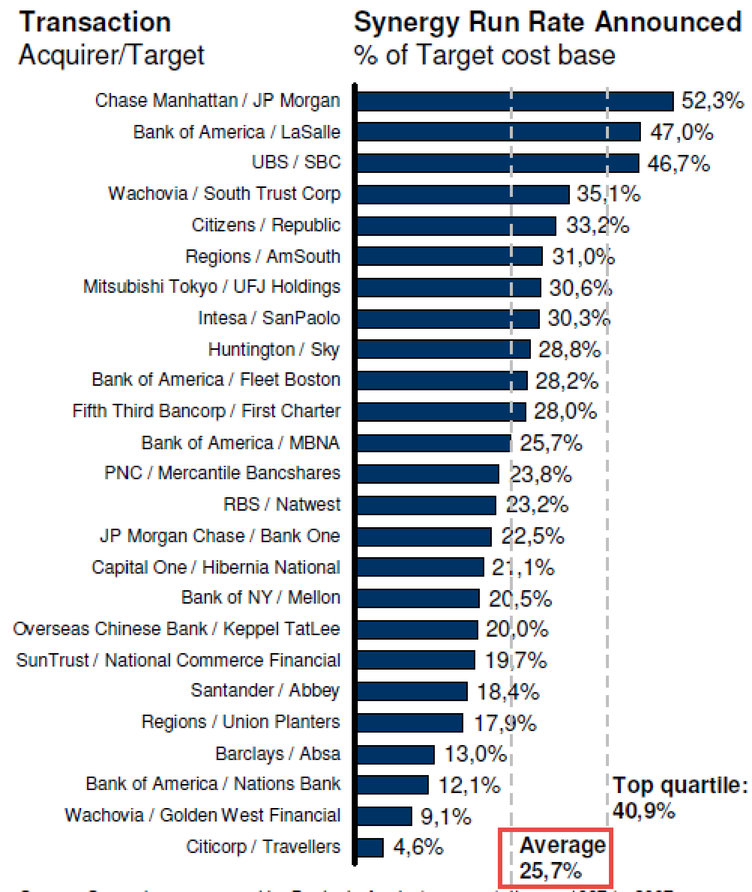
- High degree of market overlap accelerates benefit realization
  - > 30% of FNFG branches within two miles of a Key branch
- FNFG's technology infrastructure largely outsourced ➔ Key has opportunity to efficiently scale our existing platform

- KeyBank's logic doesn't make much sense; even if 30% of FNFG's branches are within two miles of a KeyBank branch, that won't result in 30% cost savings – some employees must be retained

- And the details of the technology/infrastructure scaling are too vague to factor into the analysis – which *specific* expenses can KeyBank cut from the combined company?

- Based on this, we find the 40% Cost Synergy estimate highly unrealistic; 20-25% might be more reasonable

Synergy run rate (1997-2007)



Source: Synergies announced by Banks in Analysts presentations – 1997 to 2007

Our M&A Metrics vs. KeyBank's Estimates

	Our Estimates	KeyBank's Estimates
ROTCE, FY 18	▪ 2% Improvement	▪ 2% Improvement
Cash Efficiency Ratio, FY 18	▪ 6% Improvement	▪ 3% Improvement
EPS Accretion, FY 18	▪ 15%	▪ 5%
IRR (10 Years, Slowing Dividend Growth, 10x P / E)	▪ 11-13%	▪ 15%
Post-Deal TBVPS Dilution	▪ 11%	▪ 12%
Regulatory Capital Ratios	▪ **CET 1:** 9.5% ▪ **Tier 1:** 10.5% ▪ **Leverage:** 9.3%	▪ **CET 1:** 9.5% ▪ **Tier 1:** 10.0% ▪ **Leverage:** 9.5%

Why the Discrepancies?

- Broadly speaking, our Balance Sheet and regulatory figures line up with the company's, but most of our Income Statement metrics significantly exceed theirs

- The most likely **explanation** is that we have factored in items that the company did not, such as true Debt funding, the impact of the Federal Funding Differential, the Amortization of the Mark-to-Market Adjustments, and possible Equity Capital Infusions

- However, if we removed the Income Statement impact of all those items, the EPS accretion would still be ~15%

- **Our Best Guess:** It's some combination of those factors, potentially a different tax rate (35% in investor presentation vs. 25% historically), and different Income Statement projections for both companies

- If anything, the company's numbers make the deal look even worse – at 5% EPS accretion, 20% Cost Synergies rather than 40% would almost certainly make the deal dilutive to FY 18 EPS

- To further address these discrepancies, we would need more detailed projections and schedules from KeyBank

Summary and Recommendations

#1	We Recommend AGAINST This Deal	$11.40 Offer Price overvalues First Niagara by ~45%, the deal is dependent on unrealistically high Cost Synergies (40% of FNFG Non-Interest Expense), and FNFG doesn't add much to KEY's core business and long-term strategy
#2	Cost Synergies Are Unrealistically High	Similar, recent deals (BB&T's acquisitions) have had ~30% projected Cost Synergies; KeyBank's logic for the 40% number doesn't make sense, and there aren't enough specifics to justify it
#3	FNFG Delivers Few, If Any, Benefits	It is smaller than KEY, has lower Asset Growth, lower ROE, ROA, ROTCE, and lower capital ratios; only benefit is modest geographic/loan diversification
#4	Deal is Unlikely to Meet Financial Criteria	At 30% Synergies, IRR drops to 10.1% vs. KEY's 9.5% Cost of Equity; at 20%, it falls to 8.1%; Year 2-3 EPS accretion/dilution is closer to neutral as well