

December 31, 2003

National Banking Report – Winter 2003-04

Bank of America: Did It Change the Landscape?

By:
Arnold G. Danielson
Chairman
Danielson Associates Inc.

Bank of America's acquisition of Fleet may not be banking's most important intra-industry merger, but if it does not rank first, it is a close second to the 1998 merger of NationsBank and the original BankAmerica, that created the nation's first coast-to-coast banking operation. Acquiring Fleet will make Bank of America a truly national institution, and if inter-industry mergers were included, this acquisition would be part of a "big three" that includes Citigroup-Travelers.

The importance of Bank of America buying Fleet, however, has not been viewed positively by all as cries of anguish over paying too much and short-changing shareholders have emanated from almost every corner of Wall Street. Wall Street, though, has never seen a merger it likes if it is even modestly dilutive to earnings, and, in general, Wall Street does not like strategic mergers.

Whether this merger is shareholder-friendly in the near-term may be important to some Bank of America shareholders, particularly those with the short-sighted Wall Street perspective, but what really counts for most is just how it impacts the banking landscape nationally as well as in Fleet's Northeast domicile. Only time will tell the story, but there are three key elements that make this different from previous large mergers. These are:

- The resulting institution is not only big, but it is so large that it will rank among the four largest companies in the

world with estimated 2004 profits of \$13 to 14 billion. Only Exxon Mobil, Citigroup and GE are bigger, and the last only

slightly so. Neither Wal-Mart nor Microsoft has yet to reach \$10 billion.

- In market coverage, Bank of America will rank first in deposit share in the Northeast, Southeast, Southwest and Far West. Only in the Midwest is it a minor force, but even there it ranks second in Missouri and Kansas and has \$3 billion deposits in its three Chicago branches (see the following page).
- In most markets, Bank of America and Fleet gained share in 2003 with Florida and New Jersey being exceptions as the fall-out from the Barnett and Summit acquisitions has not yet run its course in those states.

Thus, it now is Bank of America, not Citigroup, that is banking's 800 pound gorilla. It has size, a marketable name, a good reputation and the advertising/brand advantages of national coverage. There also is no combination of two banks that can come close to matching its coverage, and it is unlikely any two banks are going to try.

Some will continue to claim that there are no advantages to size in banking and use a 1990 Federal Reserve study to make their case. They may be right, but in the 1990's, most large bank mergers were primarily a race for size and survival with the "what came next" being a secondary concern. The recent large mergers suggest a more deliberate, thought-out process, and we already have seen some of this in the First Union purchase of Wachovia.

As for those that worry about shareholder value and EPS dilution, it also is unlikely that five years from now many will look back and wonder why the world's largest bank with earnings in excess of \$25 billion paid so much to buy Fleet. A more likely complaint will be that a rising market value took away a nice 4% yield.

Banking Leaders by Region, June 2003

| | <u>Northeast*</u> | <u>Southeast</u> | <u>Southwest</u> |
|---------------------|-------------------|------------------------|------------------|
| <u>Number One</u> | Bank of America | Bank of America | Bank of America |
| Deposits (In bill.) | \$150.9 | \$131.6 | \$52.4 |
| Market Share | 10.1% | 13.9% | 11.6% |
| <u>Number Two</u> | J.P. Morgan | Wachovia | J.P. Morgan |
| Deposits (In bill.) | \$150.1 | \$129.1 | \$46.1 |
| Market Share | 10.1% | 13.6% | 10.2% |
| <u>Number Three</u> | Citigroup | SunTrust | Bank One |
| Deposits (In bill.) | \$128.7 | \$66.8 | \$37.4 |
| Market Share | 8.8% | 7.1% | 8.3% |
| | <u>Midwest**</u> | <u>Mountain States</u> | <u>Far West</u> |
| <u>Number One</u> | Bank One | Wells Fargo | Bank of America |
| Deposits (In bill.) | \$102.8 | \$21.8 | \$159.8 |
| Market Share | 8.4% | 12.3% | 20.2% |
| <u>Number Two</u> | U.S. Bancorp | U.S. Bancorp | Wells Fargo |
| Deposits (In bill.) | \$80.7 | \$10.7 | \$113.4 |
| Market Share | 6.6% | 6.1% | 14.4% |
| <u>Number Three</u> | Wells Fargo | Zions | Citigroup |
| Deposits (In bill.) | \$56.2 | \$8.6 | \$34.4 |
| Market Share | 4.6% | 4.8% | 4.4% |

*North of the Potomac River.

**Includes Kentucky and West Virginia.

Source: FDIC.

Should competitors be afraid of a bigger, and probably better, Bank of America? Some should, but a good case can be made that while the new Bank of America will be a winner, the only competitors that should suffer are those already going in the wrong direction. Who wins and who loses is speculative, but a look at the local banking structures in East Coast regions and states provides some indication of who is at risk.

New England

What happens in New England is of particular interest since this is Fleet's home territory, and a common perception is that a business run-off will benefit Fleet's competitors. Royal Bank of Scotland and Sovereign already have proclaimed themselves winners as large "local" banks that will take deposits from this outsider, but how a bank that is headquartered in Glasgow or a thrift from Pennsylvania can truly play the "local card" against one of the nation's best-known banks with the word America in its name and still is one of New England's largest employers is a bit puzzling. For other reasons, Royal Bank of Scotland and its Citizens affiliate should be winners in the aftermath of this merger, but it will not be the result of a rerun of a 1990 style post-merger run-off.

The problem for the competition is that a Bank of America-Fleet merger is unlikely to suffer the business run-off of previous large bank mergers in New England since:

- There is no overlap, and, as a result, there will be no branch closings or job losses among customer contact personnel.
- Customers that do not like large banks have long since left Fleet.
- Bank of America brings better retail skills to the table.
- It will have the advantages in advertising dollars, brand identification, multiple product offerings and technology.

New England Deposit Share, Fully Pooled

| | Deposits 2003 (In millions) | Market Share | | | | Actual 1996 |
|---|-----------------------------------|--------------|-------------|------------|------------|----------------|
| | | June 30, | | | | |
| | | 2003 | 2002 | 2000 | 1996 | |
| <u>Large Banks</u> | | | | | | |
| Bank of America | \$ 65,288 | 21.2% | 20.2% | 24.7% | 27.4%* | - |
| Royal Bank of Scotland | 35,305 | 11.5 | 10.7 | 9.5 | 8.8 | 5.4% |
| Wachovia | 5,343 | 1.7 | 1.7 | 1.7 | 2.2 | .9 |
| J.P. Morgan Chase | <u>2,161</u> | <u>.7</u> | <u>.8</u> | <u>.7</u> | <u>.7</u> | <u>.7</u> |
| Subtotal | \$108,097 | 35.1% | 33.4% | 36.6% | 39.1% | 7.0% |
| <u>Leading Regional Banks</u> | | | | | | |
| Banknorth | \$ 18,000 | 5.8% | 6.5% | 6.7% | 6.2% | 1.6% |
| Chittenden | 4,896 | 1.6 | 1.7 | 1.7 | 1.8 | .7 |
| KeyCorp | <u>2,736</u> | <u>.9</u> | <u>.9</u> | <u>1.1</u> | <u>1.3</u> | <u>1.3</u> |
| Subtotal | \$ 25,632 | 8.3% | 9.1% | 9.5% | 9.3% | 3.6% |
| <u>Local or Regional Thrifts</u> | | | | | | |
| Sovereign | \$ 14,332 | 4.6% | 4.7% | 4.4% | 4.4%* | - |
| Webster | 9,636 | 3.1 | 3.2 | 3.5 | 3.7 | 1.5% |
| People's Mutual | 8,838 | 2.9 | 3.0 | 3.0 | 2.6 | 2.3 |
| New Haven Savings | 3,849 | 1.2 | 1.4 | 1.4 | 1.3 | .7 |
| Seacoast | 3,598 | 1.2 | 1.2 | 1.1 | .9 | .4 |
| Eastern Bank | 3,560 | 1.2 | 1.2 | 1.1 | 1.0 | .8 |
| Middlesex Savings | <u>2,727</u> | <u>.9</u> | <u>.9</u> | <u>.6</u> | <u>.5</u> | <u>.5</u> |
| Subtotal | \$ 46,540 | 15.1% | 15.6% | 15.1% | 14.4% | 6.7% |
| Other Thrifts | \$ 68,072 | 22.1% | 22.7% | 21.2% | 20.0% | 47.3% |
| Other Banks | 27,319 | 8.9 | 9.0 | 8.2 | 8.0 | 26.3 |
| Credit Unions | <u>32,346</u> | <u>10.5</u> | <u>10.2</u> | <u>9.4</u> | <u>9.2</u> | <u>9.2</u> |
| Total | \$308,006 | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Excludes: Investors Financial, Mellon, Providian and State Street.

*Estimates for Sovereign branches acquired from Fleet.

Source: SNL Financial, Charlottesville, Virginia.

Fleet also was gaining deposit share in New England before the merger was announced – i.e., share went from 20.2% to 21.2% between 2002 and 2003. Going from 21.2% to 25%, which is as much as could be expected over the next five years, though, hardly pushes everyone else out, but it takes away the easy gains associated with earlier large mergers that made so many banks look good.

Bank of America's acquisition of Fleet also solidifies the bar bell structure of New England banking – i.e., a couple of large banks at the top and a lot of small banks at the bottom with little in-between, which helps the Royal Bank of Scotland; albeit it does not need much help as it has steadily increased market share even without acquisitions. On a fully-pooled basis, its share of New England deposits has risen from 9.5% to 11.5% since 2000 as it enjoyed the role of being the only large alternative to Fleet in every part of the region except southwest Connecticut.

What Bank of America does for the Royal Bank of Scotland is it reduces the interest of other large banks in entering New England and reinforces the unusual situation of having just two large banks at the upper end of the bar bell. Just two big banks with a strong local presence competing for large local accounts instead of the normal four or five is a big plus for these “two banks.” It also creates opportunities for mid-sized banks like Banknorth and Webster, which really can play the “local card,” opportunities not as available in markets with multiple large banks.

The latest deposit data that shows Fleet and Royal Bank of Scotland gaining significant share between June 2002 and 2003 also shows the share gain came at the expense of almost all of the major individual competitors and banking groups. Banknorth, Sovereign, Webster, People's Mutual and Chittenden lost share. The only competitor with a more than 1.5% deposit share not to lose ground was another big bank, Wachovia. Thrifts as a group lost significant share, and even the “other” local banks had a modest decline.

What does this mean relative to future structural change in New England? Bank of America and Royal Bank of Scotland are very well-positioned and, collectively, they may push their share up to as much as 40%. It is unlikely any large outsider will acquire its way into the greater Boston area, but Wachovia could enhance its position in Connecticut with the acquisition of Webster. Sovereign's inevitable sale could be a vehicle

for entry by an outsider, but it also is unlikely anyone is in a position to outbid the Royal Bank of Scotland, particularly with the weak dollar that gives European banks a big acquisition advantage in cash deals.

This still leaves 55% to 60% of the retail banking business to local banks and thrifts, which is far more than in any other part of the country. In New England, the real competitive concern for local banks is not what Bank of America and Royal Bank of Scotland do, but rather that there are still far too many local banking organizations competing for that 55% to 60% with a majority of them being mutual thrifts that do not have the return on equity pressures of stock organizations.

New York

Acquiring Fleet does not give Bank of America the same number one ranking in New York as in New England, but the merger does make Bank of America number four in a state that is the financial center of the country and the world. Its 5.1% deposit share is much less than the shares of the three leaders - J.P. Morgan, Citigroup and HSBC – but it is well ahead of number five, M&T. These deposit shares exclude offices with deposits in excess of \$10 billion, including a Bank of America branch, and foreign banks with single offices New York City to better approximate the real local situation.

Large banks, including Fleet, have held their deposit share in New York despite the aggressiveness of North Fork, Commerce and the local thrift leaders. Collectively, big banks lost some deposit share in the past year, but their fully-pooled share is higher than in 2000, and has changed little since 1996. Fleet was down slightly in 2003, but was still above its 2000 share.

New York* Deposit Share, Fully-Pooled

| | Deposits <u>2003</u> (In millions) | Market Share | | | | Actual <u>1996</u> |
|-------------------------------|--|-----------------|-------------|-------------|-------------|-----------------------|
| | | <u>June 30,</u> | | | | |
| | | <u>2003</u> | <u>2002</u> | <u>2000</u> | <u>1996</u> | |
| <u>Large Banks</u> | | | | | | |
| J.P. Morgan | \$ 63,879 | 15.7% | 17.5% | 16.6% | 17.1% | 17.1% |
| Citigroup | 50,261 | 12.4 | 11.3 | 11.5 | 9.7 | 7.6 |
| HSBC | 39,945 | 9.8 | 9.8 | 10.2 | 10.5 | 4.7 |
| Bank of America | 20,882 | 5.1 | 5.3 | 4.2 | 5.6 | 5.6 |
| Washington Mutual | 12,319 | 3.0 | 2.7 | 3.3 | 3.8 | - |
| Wachovia | <u>4,516</u> | <u>1.1</u> | <u>1.1</u> | <u>.9</u> | <u>.8</u> | <u>.8</u> |
| Subtotal | \$191,802 | 47.1% | 47.7% | 46.7% | 47.5% | 35.8% |
| <u>Leading Regional Banks</u> | | | | | | |
| M&T | \$ 14,883 | 3.7% | 4.1% | 4.6% | 4.7% | 3.1% |
| North Fork | 14,034 | 3.5 | 3.1 | 2.9 | 3.2 | 1.0 |
| Bank of New York | 11,619 | 2.9 | 2.9 | 3.1 | 3.6 | 3.5 |
| Charter One | 7,750 | 1.9 | 1.9 | 1.6 | 1.8 | - |
| KeyCorp | <u>7,714</u> | <u>1.9</u> | <u>2.0</u> | <u>2.5</u> | <u>2.9</u> | <u>3.4</u> |
| Subtotal | \$ 56,000 | 13.9% | 14.0% | 14.7% | 16.2% | 11.0% |
| <u>Local Thrifts</u> | | | | | | |
| GreenPoint | \$ 12,573 | 3.1% | 2.9% | 3.4% | 3.9% | 3.9% |
| Astoria | 11,248 | 2.8 | 2.9 | 2.9 | 3.3 | 1.4 |
| New York Community | 10,543 | 2.6 | 2.6 | 2.5 | 2.2 | .3 |
| Independence Community | 6,851 | 1.7 | 1.7 | 1.7 | 1.6 | 1.1 |
| Emigrant | 4,987 | 1.2 | 1.3 | 1.5 | 1.7 | 1.7 |
| Apple Savings | 4,917 | 1.2 | 1.3 | 1.4 | 1.2 | 1.2 |
| First Niagara | <u>3,297</u> | <u>.8</u> | <u>.8</u> | <u>.9</u> | <u>.8</u> | <u>.3</u> |
| Subtotal | \$ 54,416 | 13.4% | 13.5% | 14.3% | 14.7% | 9.9% |
| Other Banks | \$ 56,506 | 13.8% | 13.5% | 13.8% | 11.0% | 21.3% |
| Other Thrifts | 20,402 | 5.0 | 4.9 | 3.0 | 3.7 | 15.1 |
| Credit Unions | <u>27,686</u> | <u>6.8</u> | <u>6.4</u> | <u>6.0</u> | <u>5.5</u> | <u>5.5</u> |
| Total | \$406,812 | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

*Excludes offices with deposits over \$10 billion and single office foreign banks.

Source: SNL Financial, Charlottesville, Virginia.

It is unlikely Bank of America will defend its New York turf quite as aggressively as it will in New England since Fleet's New York strength is upstate where the growth dynamics are not good. In the New York City area, it, like everyone else, must compete with North Fork and Commerce. North Fork has grown steadily with and without acquisitions, and when the 2004 numbers are available, it could replace M&T as the fifth largest bank in New York as measured by deposits. Commerce had about \$1.6 billion deposits in New York in 2003, which was a \$1.2 billion increase over 2002.

Bank of America also may not close the gap between itself and J.P. Morgan and Citigroup in New York, but it almost certainly will challenge HSBC for the third spot. In doing so, it should put considerable distance between it and most other banks in the market. Other than North Fork and Commerce, the mid-sized banks are losing share, and for KeyCorp and M&T, dramatically so.

The "wild cards" in New York are the direction of four mid-sized thrifts – Greenpoint, Astoria, New York Community and Independence Community – and Bank of New York. These thrifts may follow the lead of most of their stock brethren and exit through a sale, albeit recent actions suggest this may not be any time soon, but the sale of any, or all, of them would likely either increase the market penetration of Washington Mutual and/or Wachovia or bring in the Royal Bank of Scotland. Bank of New York has a different set of dynamics, but the attractiveness of its nonbank activities and declining retail banking share make an eventual sale likely with Bank One, Wachovia, and Royal Bank of Scotland being among the likely acquirers.

New Jersey and Eastern Pennsylvania

Bank of America's real challenge will be in New Jersey and Eastern Pennsylvania. Fleet is the market leader in New Jersey and is a close second to Wachovia in a combined New Jersey-Eastern Pennsylvania, but it owes most of its position to the purchase of Summit in late 2001, and the post-merger customer run-off is still in effect. In addition, in much of this area, it will be competing directly with the extended hours and seven-days-a-week banking of Commerce and Royal Bank of Scotland.

New Jersey-Eastern Pennsylvania Deposit Share, Fully-Pooled

| | Deposits 2003 (In millions) | Market Share | | | | Actual 1996 |
|----------------------------------|-----------------------------------|--------------|------------|------------|------------|----------------|
| | | June 30, | | | | |
| | | 2003 | 2002 | 2000 | 1996 | |
| <u>Large Banks</u> | | | | | | |
| Wachovia | \$ 45,769 | 13.8% | 13.3% | 14.3% | 19.0% | 7.9% |
| Bank of America | 38,779 | 11.7 | 12.5 | 14.1 | 13.6 | - |
| PNC | 27,968 | 8.4 | 8.9 | 9.6 | 9.9 | 9.4 |
| Royal Bank of Scotland | 13,007 | 3.9 | 3.9 | 3.6 | 5.0 | - |
| J.P. Morgan Chase | 3,010 | .9 | 1.0 | .9 | 1.0 | 1.0 |
| Washington Mutual | <u>2,248</u> | <u>.7</u> | <u>.6</u> | <u>.8</u> | <u>1.0</u> | <u>-</u> |
| Subtotal | \$130,781 | 39.4% | 40.2% | 43.3% | 49.5% | 18.3% |
| <u>Leading Regional Banks</u> | | | | | | |
| Commerce | \$ 16,042 | 4.8% | 4.0% | 2.4% | 1.2% | 1.0% |
| M&T | 7,181 | 2.2 | 2.5 | 3.0 | 3.9 | - |
| Fulton | 6,246 | 1.9 | 1.9 | 2.0 | 1.6 | 1.1 |
| Valley National | 6,032 | 1.8 | 1.9 | 1.9 | 2.0 | 1.7 |
| Trust Co.-N.J. | 3,387 | 1.0 | 1.1 | 1.0 | .9 | .9 |
| Hudson United | 3,380 | 1.0 | 1.2 | 1.3 | 1.6 | .6 |
| Bank of New York | <u>3,135</u> | <u>1.0</u> | <u>1.0</u> | <u>1.1</u> | <u>1.3</u> | <u>1.3</u> |
| Subtotal | \$ 45,403 | 13.7% | 13.6% | 12.7% | 12.5% | 6.6% |
| <u>Regional or Local Thrifts</u> | | | | | | |
| Sovereign | \$ 13,538 | 4.1% | 4.3% | 5.1% | 4.7% | 2.0% |
| Hudson City | 10,027 | 3.0 | 2.8 | 2.5 | 2.2 | 2.2 |
| Investors | <u>3,179</u> | <u>1.0</u> | <u>.9</u> | <u>.8</u> | <u>.8</u> | <u>.8</u> |
| Subtotal | \$ 26,744 | 8.1% | 8.0% | 8.4% | 7.7% | 5.0% |
| Other Banks | \$60,108 | 18.0 | 17.9 | 16.2 | 11.8 | 46.4 |
| Other Thrifts | 46,725 | 14.1 | 14.1 | 13.9 | 13.1 | 18.3 |
| Credit Unions | <u>22,285</u> | <u>6.7</u> | <u>6.2</u> | <u>5.5</u> | <u>5.4</u> | <u>5.4</u> |
| Total | \$332,046 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: SNL Financial, Charlottesville, Virginia.

New Jersey and Eastern Pennsylvania may be a challenge for Bank of America, but its purchase of Fleet removes one of the uncertainties from a market that has been in a state of flux for years. A year ago, Wachovia was the leader, but still in a freefall; it was only a matter of time before, Fleet and PNC, would be sold; Commerce and Royal Bank of Scotland were making big gains at the expense of the leaders; and everyone else was enjoying the benefits of the customer outflow from Wachovia, Fleet and PNC. Today, the Wachovia freefall is over, and Fleet has been sold to a bank that has greater retail banking capabilities.

Going forward, it is anticipated that Bank of America and Wachovia will be the market leaders and have “bottomed out,” or are close to doing so, relative to market share loss; Commerce and Royal Bank of Scotland will continue to gain share; second tier banks that have been losing share even when conditions were more favorable – PNC, M&T and Sovereign – are more vulnerable than ever; the pressures on PNC and Sovereign to sell have increased; and everyone else will have to earn their gains as the Santa Clauses from Boston and Charlotte are no more. A key question is – How will Bank of America and Wachovia respond to the extended hours and days of Commerce and Royal Bank of Scotland?

Maryland, Virginia and DC

Some indication of what to expect out of a bar bell structure with Bank of America at the top can be seen in what has happened in markets it bought its way into in the nineties. One such market, and the one closest to the Northeast, includes the Middle Atlantic states of Maryland and Virginia plus the District of Columbia; a market that is dominated by the Washington area, but also includes Baltimore, Richmond and Norfolk.

Bank of America came in via the acquisitions of Sovran and MNC, and, although it became an instant market leader, it struggled mightily in this area during the mid- and late 1990's. Since 2000, though, it has been gaining deposit share – i.e., up from 12.5% to 13.3% - and in 2003, it was joined by Wachovia in gaining share.

Maryland, Virginia and D.C. Deposit Share, Fully-Pooled

| | Deposits <u>2003</u> (In millions) | Market Share | | | | Actual <u>1996</u> |
|--|--|--------------|-------------|-------------|-------------|-----------------------|
| | | June 30, | | | | |
| | | <u>2003</u> | <u>2002</u> | <u>2000</u> | <u>1996</u> | |
| <u>Large Banks</u> | | | | | | |
| Bank of America | \$ 29,572 | 13.3% | 12.7% | 12.5% | 13.4% | 13.4% |
| Wachovia | 29,064 | 13.1 | 12.8 | 13.1 | 18.2 | 7.9 |
| BB&T | 23,424 | 10.5 | 10.8 | 11.4 | 11.7 | .4 |
| SunTrust | 19,866 | 8.9 | 9.8 | 10.8 | 10.8 | - |
| Citigroup | <u>3,023</u> | <u>1.4</u> | <u>1.3</u> | <u>1.5</u> | <u>.9</u> | <u>.9</u> |
| Subtotal | \$104,949 | 47.2% | 47.4% | 49.3% | 55.0% | 22.6% |
| <u>Leading Regional and Local Banks</u> | | | | | | |
| Mercantile | \$ 10,560 | 4.8% | 4.6% | 4.5% | 4.5% | 3.4% |
| M&T | 8,434 | 3.8 | 4.2 | 4.9 | 4.2 | - |
| Riggs | 5,020 | 2.3 | 2.1 | 2.0 | 2.3 | 2.3 |
| Provident | 4,362 | 2.0 | 2.1 | 2.7 | 1.8 | 1.2 |
| United | 2,055 | .9 | 1.0 | .9 | .6 | .1 |
| Sandy Spring | 1,597 | .7 | .7 | .7 | .7 | .5 |
| National Commerce | 1,451 | .7 | .7 | .7 | .2 | .2 |
| Susquehanna | 1,383 | .6 | .7 | .7 | .8 | .8 |
| Virginia Financial | <u>1,205</u> | <u>.5</u> | <u>.6</u> | <u>.6</u> | <u>.3</u> | <u>.2</u> |
| Subtotal | \$ 36,067 | 16.3% | 16.7% | 17.7% | 15.4% | 8.7% |
| <u>Regional Thrifts</u> | | | | | | |
| Chevy Chase | \$ 8,046 | 3.6% | 3.8% | 4.0% | 2.8% | 2.8% |
| Other Banks | \$ 36,559 | 16.4% | 15.8% | 14.5% | 12.0% | 46.4% |
| Other Thrifts* | 9,582 | 4.3 | 4.3 | 4.0 | 4.1 | 8.8 |
| Credit Unions** | <u>27,146</u> | <u>12.2</u> | <u>12.0</u> | <u>10.6</u> | <u>10.7</u> | <u>10.7</u> |
| Total | \$222,349 | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

*Excludes Capital One, Countrywide and E*Trade.

**Excludes Navy and Pentagon Federal.

Source: SNL Financial, Charlottesville, Virginia.

With Bank of America and Wachovia gaining share in a market that had experienced many new bank openings, something had to give, and it was primarily the mid-sized banks. Among the biggest share losers since 2000 were First Virginia and Allfirst – before their purchases by BB&T and M&T – along with Chevy Chase and Provident. Going against the tide were Mercantile and Riggs, but the latter did so almost totally with bought money.

While the Maryland-Virginia-DC market may not experience further mergers that will change the top end of its bar bell structure, there will be some changes in the market dynamics. Chief among these are that BB&T should reverse, or at least slow, the First Virginia slide, and Commerce will arrive with 15 offices in the Washington area in 2005 and bring with it seven-days-a-week banking. Bank of America also should eventually put some room between Wachovia and itself.

Florida

Florida is another market in which Bank of America is the leader and struggled in the 1990's. It has been in Florida for more than two decades, but its leadership position came from its acquisition of Barnett, the only local bank with statewide coverage and a popular bank with retail customers. Barnett's acquisition came almost simultaneously with the NationsBank-BankAmerica merger, and the complexities and distractions of multiple large deals showed up in customer reaction. Between 1996 and 2002, the fully-pooled Florida deposit share of Bank of America slid from 27.1% to 18.7% with the Barnett acquisition in 1998 being the catalyst for this slide.

It is not certain Floridians have totally forgiven Bank of America for the Barnett acquisition, but the customer run-off appears to have slowed. Between 2002 and 2003, its deposit share loss was a modest .3 percentage points, and this left it comfortably ahead of the other two members of the local "big three," Wachovia and SunTrust.

Deposit Share in Florida, Fully-Pooled

| | Deposits 2003 (In millions) | Market Share June 30, | | | | Actual June 30, 1996 |
|-----------------------------------|-----------------------------------|--------------------------|--------|--------|--------|----------------------------|
| | | 2003 | 2002 | 2000 | 1996 | |
| <u>Large Banks</u> | | | | | | |
| Bank of America | \$ 54,233 | 18.4% | 18.7% | 20.4% | 27.1% | 10.2% |
| Wachovia | 40,008 | 13.6 | 13.7 | 15.2 | 16.9 | 15.3 |
| SunTrust | 29,396 | 10.0 | 10.9 | 11.1 | 11.9 | 9.6 |
| Washington Mutual | 10,369 | 3.5 | 3.6 | 3.2 | 3.8 | - |
| Citigroup | 5,468 | 1.9 | 1.9 | 1.3 | 1.2 | 1.2 |
| BB&T | 3,158 | 1.1 | 1.2 | 1.3 | 1.1 | - |
| Subtotal | \$142,632 | 48.5% | 50.0% | 52.5% | 62.0% | 36.3% |
| <u>Out-of-State Banks</u> | | | | | | |
| SouthTrust | \$ 10,372 | 3.5% | 3.7% | 4.5% | 5.2% | 1.9% |
| AmSouth | 6,582 | 2.2 | 2.0 | 2.3 | 2.6 | 2.6 |
| Golden West | 5,751 | 2.0 | 1.7 | 1.5 | .6 | .6 |
| Ohio Savings | 4,983 | 1.7 | 2.0 | 2.0 | .7 | .7 |
| Union Planters | 4,327 | 1.5 | 1.4 | 1.6 | 2.1 | - |
| Colonial | 4,312 | 1.5 | 1.5 | 1.6 | 1.1 | .1 |
| Northern Trust | 3,324 | 1.1 | 1.1 | 1.1 | .7 | .7 |
| Regions | 2,580 | .9 | .9 | 1.0 | .9 | .6 |
| Subtotal | \$ 42,231 | 14.4% | 14.3% | 15.6% | 13.9% | 7.2% |
| <u>Local Bank Leaders</u> | | | | | | |
| Ocean | \$ 3,704 | 1.3% | 1.4% | 1.3% | .7% | .7% |
| F.N.B. | 2,741 | .9 | .9 | .9 | .6 | - |
| Subtotal | \$ 6,445 | 2.2% | 2.3% | 2.2% | 1.4% | .7% |
| <u>Local Thrift Leader</u> | | | | | | |
| BankUnited | \$ 3,155 | 1.1% | 1.1% | 1.1% | .5% | .2% |
| BankAtlantic | 2,905 | 1.0 | 1.1 | 1.2 | 1.2 | .7 |
| Subtotal | \$ 6,060 | 2.1% | 2.2% | 2.3% | 1.7% | .9% |
| Other Banks | \$ 55,570 | 18.7% | 17.7% | 15.5% | 10.6% | 34.4% |
| Other Thrifts | 14,453 | 4.9 | 4.5 | 4.1 | 2.9 | 12.6 |
| Credit Unions | 27,474 | 9.2 | 9.0 | 8.1 | 7.7 | 7.7 |
| Total | \$294,865 | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Excludes: CIBC and Raymond James Financial.

Source: SNL Financial, Charlottesville, Virginia.

The Fleet acquisition will have no direct impact on Bank of America in Florida, but this is a market where size and name recognition may play a bigger than usual role. The strong growth dynamics of Florida have attracted a large number of out-of-state entrants and new bank openings. The result has been a plethora of bank signs with different names and the resulting problem of a recognizable identity. Other than Wachovia and SunTrust, no bank has a deposit share in excess of 3.5% or shown much in the way of upward momentum. This puts them that at a disadvantage in “identity-establishing” against a competitor with more advertising clout that will soon be the most recognizable banking name in the Northeast, which provides so many of Florida’s affluent, incoming residents.

What momentum there is in Florida banking has been totally with the local banks and thrifts with the major impetus coming from *de novo* banks. The combined deposit share of the surviving local banks and thrifts has risen from 18.3% in 1996 to almost 30% in 2003. This momentum has slowed in the most recent years, but the one year gain in 2003 was still more than a percentage point.

Florida with its rich deposit base and rapid growth will always have an allure to banks from other states and investors in new banks, but the tide already has turned relative to out-of-state mid-sized bank interest. In the last couple of years, two Ohio banks, Huntington and Provident, have sold their Florida branches, and the larger Alabama banks have lost much of their 1990’s zeal for Florida acquisitions. This retreat has been partially offset by the recent entry of BB&T, but that bank’s acquisition skills will be limited by the paucity of targets with meaningful size.

All of this works in favor of those that already have substantial bulk in Florida, and it particularly favors Bank of America with its deep pockets and national coverage. Five years from now, Florida’s banking structure should not be as “muddled” as it is today and is likely to have a bar bell structure more reminiscent of the bar bell structures in other states – i.e., fewer out-of-state banks in the low end of that bar bell.

Shareholder Reward

This report is about the impact of Bank of America's acquisition of Fleet on the banking landscape, but even in that context, it is pertinent that Bank of America, and its predecessor NationsBank, have not squandered shareholder value, which is a common perception. An investor that put \$100,000 in NationsBank stock in 1987, and invested the dividends at a 5% return, would have a little over \$1.2 million as of September 30, 2003. This is an annual return of 17.1%. Big may not be better and acquisitions may dilute shareholder value, but the long-term Bank of America numbers do not support that thesis.

Conclusion

There will be many different views on the importance and the likely outcome of the acquisition of Fleet by Bank of America. Four aspects of this merger, though, which are not debatable are that:

- It is a big merger.
- It makes the nation's largest retail bank, the number one retail bank in the Northeast.
- It is the last bank acquisition in United States for Bank of America.
- It commits Bank of America to a strategy built around branches, or "stores."

The last, a strategy built around stores, may be the most significant to the overall future of banking. If Bank of America is going to make its investment in "bricks and mortars" work in an environment that is seeing reduced banking activity in existing branches, then Bank of America must either take business from others and/or sell more products through its existing "stores." The obvious strategy is to do a better job than anyone else in selling more products through its "stores," and, in so doing, take business from others.

With no further bank acquisitions allowed because of the regulatory deposit cap, Bank of America can turn its focus inward and concentrate on making such a strategy work. This means a full range of insurance and investment products sold in its banking stores seven-days-a-week. This, of course, cannot be done overnight, and it may be five or more years before the full impact is in effect. What is not known is – Whether the public will buy it? or, How good will Bank of America's execution be? What is certain, is that if it does not execute, its shareholders will have a lot more to worry about than whether Bank of America overpaid for Fleet.

Addendum

Big Bank Strategies after Fleet

Bank of America taking Fleet off the table has the “domino effect” of taking some of the uncertainties out of the strategies of other large banks, particularly Citigroup, J.P. Morgan, Wachovia and HSBC, albeit uncertainty was probably more in the eyes of outside analysts than in the boardrooms of these banks. In understanding much of what is in the preceding report, it is helpful to recognize where the sale of Fleet leaves the other big banks.

- Citigroup, the other really big bank, has never suggested it was going to move its focus away from corporate lending, investment banking and credit cards on an international scope, and it historically has shown little interest in buying branch networks; but it had the size to overnight become a retail bank with substantial coverage. If it had wanted to build a branch-oriented retail network, the logical move was Fleet as its coverage complemented what Citigroup already had, and there is no good second choice.

The outcome: Citigroup will continue to buy and expand, but retail branch networks in the United States will not be in that mix.

- J.P. Morgan Chase is not nearly as big as Citigroup, but it is still big and with its strong retail banking coverage in Texas and metropolitan New York, adding Fleet would have made it the dominant bank in the Northeast and allowed it to make other bank acquisitions from a position of strength.

The outcome: See Citigroup above.

- HSBC as the second largest bank in world, a position it will lose when Bank of America completes the Fleet acquisition, was always a threat, albeit a reluctant threat, to build on its New York base and become a big player in American retail banking. Fleet was the acquisition that

made the most sense for HSBC as it was the best fit and in the part of the country most receptive to European banks.

The outcome: HSBC will not become a major player in the United States.

- Royal Bank of Scotland is the only big Northeast bank that is still making small bank and thrift acquisitions, and it will continue to do so. It will bid on every attractive banking franchise that is up for sale from Baltimore to Bangor, and it is only a matter of time before it moves into the New York-North Jersey market.

The outcome: The only thing changed by Fleet's sale is one less competitor for bank and thrift acquisitions in Pennsylvania.

- Wachovia is a "cut below" the above in size, but it has built a network in the Southeast that rivals Bank of America and then moved north through Maryland, Pennsylvania and New Jersey; and the purchase of Fleet would have made it the preeminent East Coast retail bank. With Fleet gone, what is left for Wachovia in the Northeast are "filler" purchases in Connecticut and Western Pennsylvania.

The outcome: Wachovia is happy where it is. With Fleet gone and Bank of America "maxed out" relative to future acquisitions, it has less competition bidding for the few remaining mid-sized retail banks east of the Mississippi. As the world's eighth largest bank in market capital and the nation's third largest securities brokerage, it may not be Bank of America, but it is a potent force that is far from through expanding.

- Wells Fargo, Washington Mutual, Bank One and U.S. Bancorp are the rest of the second tier of America's big banks, and their roots are in the Midwest and Far West, and Fleet was never part of their thinking. Wells Fargo and

Washington Mutual also have heavy commitments to mortgage banking that may shape their future directions more than geography. Bank One is the “wild card” in the national mix with the closest proximity to the East Coast and a world class credit card operation.

The outcome: Bank One is a logical candidate for the next big acquisition, but nothing it does will move it into the Bank of America-Citigroup class.

If there is any battle at the top left in domestic retail banking, it is who will be number two behind Bank of America. Wachovia, Wells Fargo and Bank One are contenders, and although Bank One is the most likely to make the next move, all three will be buyers over the next five years.