

Danielson Associates Inc.

6110 Executive Blvd., Suite 504
Rockville, Maryland 20852
Tel: (301) 468-4884
Fax: (301) 468-0013

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Dear Banker:

Two years have passed since the passage of the financial modernization act, and while there have not been any subsequent “blockbuster” mergers along the line lines of Citicorp-Travelers, the cumulative effect of other mergers has created a new industry structure for financial services. Key elements in this structure are:

- Dominance by the nation’s and world’s largest commercial banks.
- The disappearance of mid-sized banks and a resulting “bar bell” structure – i.e., the very large competing primarily with each other and local boutiques.
- Reluctance to participate by insurance companies, which is likely to impair their long-term ability to compete on equal terms.

The attached report takes a look at the new financial structure; who the leading players are; what changes can be expected in the next couple of years; and what it means to local banks. You might be surprised just how far the convergence has moved in the last couple of years.

Respectfully yours,

Arnold G. Danielson
Chairman