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Florida Banking Report

Florida Banking: 25 Years Later

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When I took my first look at Florida banking 25 years ago, it was a very different industry. County line branching restrictions were being breached by holding companies, but in most markets, local banks prevailed – and it was made very clear that non-Florida banks were not welcome. The big names in those days were Barnett and Southeast Banking, which are long gone as are all of the second tier banks – i.e., Florida National, Atlantic, First Florida, Landmark, Ellis and Exchange. The only continuity among the commercial banking leaders between then and now is Sun Banks, but even that Orlando institution, which was once the third largest in the state, lives on only as the “Sun” in SunTrust, an Atlanta-based institution. Among thrifts, the only survivor among the leaders in 1978 is Atlantic Savings, now called BankAtlantic.

How it all changed is a long story. The primary causes, though, were the state’s high growth that made it attractive to outsiders; the negative impact of high interest rates in the early eighties on thrifts and a real estate recession in the late eighties and early nineties; as well as a national consolidation pattern that could be slowed, but not stopped.

Why the winners came from North Carolina and Georgia is another story, but hindsight suggests that the prolonged resistance of some of the biggest banks in the state to interstate banking was a major reason. Banks in North Carolina and Georgia were more open to change, and when interstate banking finally came to Florida, the leading banks in those states were much larger than any Florida bank.

Whatever the reasons, Florida banking today is dominated by three of the largest banks in the country – Bank of America, Wachovia and SunTrust - that have, directly or indirectly, acquired 19 of Florida’s 25 largest banks and thrifts of

1978 (see Appendix I). As a result, in mid-2002 they held close to half of the state's deposits. Five of the remaining six leaders in 1978 were bought by two banking organizations of national scope, Citigroup and Washington Mutual, that have maintained a major presence, but they do not have the local stature of the "big three."

The "in with the new" and "out with the old" that has been the *modus operandi* of banking consolidation, though, has had a different twist in Florida. The "out with the old" resulted in the disappearance of all of the leaders of the past except one as well as 282 of the 327 commercial banks that operated in the state when the seventies began, but there are still more than 200 banks in Florida as result of multiple new bank openings.

Changes in the Number of Institutions

	Florida					
	<u>Total Banks</u>	<u>New*</u>	<u>New Sold*</u>	<u>More Than</u>		<u>Gone</u>
				<u>12 Years</u>	<u>32 Years</u>	
2003**	219	102	9	117	45	282
2000	205	-	-	-	-	-
1990	318	-	-	-	-	-
1980	299	-	-	-	-	-
1970	327	-	-	-	-	-

Note: Since 1988, 32 of 116 new banks have been sold.

*Opened since 1990.

**As of June 23, 2003.

Source: SNL Financial, Charlottesville, Virginia and the FDIC website.

Not only has opening new banks long been a Florida sport, but it has not lost its appeal. In the eighties, there were 274 banks opened in the state, and in the nineties, another 90 opened their doors. This resulted in an increase in the number of banks in the eighties, but it was not enough to keep the total number from falling from 318 in 1990 to 205 in 2000. This is still a lot of banks, and since 2000, the number has risen to 219. Of the 219 banks, 102, or 47%, have been opened in the last 12 years.

So where does Florida banking go from here? Banking in the state has assumed the classic “barbell” structure with a few dominant banks competing primarily with a multitude of small banks. The state’s rapid growth, however, also has attracted many mid-sized banks and thrifts from states with less growth potential, and numerous non-banks from near and far that have an interest in the state’s deposits and/or mortgages.

Florida Banking Today

Deposit share statewide shows the dominance of Florida’s “big three” with Bank of America, Wachovia and SunTrust holding 43.3% of the state’s deposits as of June 30, 2002, and Washington Mutual and Citigroup lift the large bank total to just under 49%. If the data is fully-pooled – i.e., the acquirer given credit for the acquiree’s deposits on a continuing basis – the dominance is a little less daunting. In 1996, these five banks and all their purchases had about 61% of the deposits, which means there has been a subsequent decline in deposit share of about 12 percentage points.

The losses of the big banks, though, is a little overstated in that much of the decline was experienced by Bank of America after its 1998 acquisition of Barnett. The fully-pooled share of the two banks fell from 27.1% in 1996 to 18.7% in 2002. Some of this is the natural short-term loss in a post-merger period, but some of the loss is corporate deposits moving from Jacksonville to Charlotte. There is little doubt, though, that Bank of America, and Wachovia as well, have had substantial customer run-off in recent years. This does not appear to be as true of SunTrust, Washington Mutual and Citigroup.

Also losing big in deposit share are some of the banks that have moved in from Alabama and Tennessee. SouthTrust, AmSouth and Union Planters have seen their collective, fully-pooled deposit share fall from 9.9% in 1996 to 7.1% in mid-2002.

Florida* Deposit Share, Fully-Pooled

	Deposits 2002 (In millions)	Market Share				Actual June 30, 1996
		June 30,				
		2002	2000	1998	1996	
<u>Large Banks</u>						
Bank of America	\$ 49,633	18.7%	20.4%	23.2%	27.1%	10.2%
Wachovia	36,386	13.7	15.2	17.1	16.9	15.3
SunTrust	28,798	10.9	11.1	11.1	11.9	9.6
Washington Mutual	9,533	3.6	3.2	3.2	3.8	-
Citigroup	5,134	1.9	1.3	1.3	1.2	1.2
Subtotal	\$129,484	48.8%	51.2%	55.9%	60.9%	36.3%
<u>Other Out-of-State</u>						
SouthTrust	\$ 9,692	3.7%	4.5%	4.9%	5.2%	1.9%
AmSouth	5,329	2.0	2.3	2.4	2.6	2.6
Ohio Savings	5,257	2.0	2.0	1.4	.7	.7
Golden West	4,460	1.7	1.5	1.6	.6	.6
Colonial	3,947	1.5	1.6	1.4	1.1	.1
Union Planters	3,728	1.4	1.6	2.0	2.1	-
Northern Trust	2,949	1.1	1.1	1.0	.7	.7
Regions	2,357	.9	1.0	1.0	.9	.6
Mercantil Servicios	2,217	.8	.5	.3	.2	.2
Others	17,234	6.5	6.0	4.9	4.1	9.2
Subtotal	\$ 57,170	21.6%	22.1%	20.9%	18.2%	16.6%
<u>Florida Banks</u>						
Ocean Bankshares	\$ 3,667	1.4%	1.3%	1.0%	.7%	.7%
F.N.B.	2,457	.9	.9	.9	.6	-
Republic	2,069	.8	.9	1.0	.7	.4
Others	31,581	11.9	10.2	8.3	7.5	31.4
Subtotal	\$ 39,774	15.0%	13.3%	11.2%	9.5%	32.5%
<u>Florida Thrifts</u>						
BankUnited	\$ 3,033	1.1%	1.1%	1.0%	.5%	.2%
BankAtlantic	2,980	1.1	1.2	1.1	1.2	.7
Others	9,127	3.4	3.0	2.5	2.0	6.0
Subtotal	\$ 15,140	5.6%	5.3%	4.6%	3.7%	6.9%
Credit Unions	\$ 24,189	9.0%	8.1%	7.4%	7.7%	7.7%
Total	\$ 265,757	100.0%	100.0%	100.0%	100.0%	100.0%

*Excludes investment banks.

Source: SNL Financial, Charlottesville, Virginia.

So who has been gaining share? There have been some good gains by outsiders – i.e., in the late nineties the World Savings subsidiary of Golden West and Ohio Savings, had a good run, and Venezuelan-based Mercantil Servicios has steadily expanded its Miami area base. Florida’s largest remaining local bank and thrift, Ocean Bankshares and BankUnited, respectively, have doubled their deposit share since 1996. Credit unions also have increased their share, albeit modestly, from 7.7% in 1996 to 9% in 2002.

The big gains in Florida, though, have been made by small local banks and thrifts. Banks and thrifts based in the state with deposits of less than \$2 billion have increased their deposit share from 10% in 1996 to more than 15% in 2002.

Miami

The Miami area, defined to include Palm Beach as well as Broward and Dade counties, has a banking structure and pattern similar to that of the state. The very large banks have a little over half the deposits and have been losing deposit share on a fully-pooled basis; other out-of-state banks hold about 23% of the deposits; and the major deposit share gains have been made by local banking organizations.

Where Miami differs from the state and its next two largest banking markets, Tampa and Orlando, is that market leadership resides in a “big two,” not a “big three.” Bank of America and Wachovia, are Miami’s big banks with about one-third of the area’s deposit, which reflects their acquisitions of Barnett and Southeast Banking. They have lost deposit share in recent years on a fully-pooled basis with their combined share falling from just under 42% in 1996 to 33.6% in 2002, but they are in no danger of losing their local dominance.

The third member of the statewide “big three,” SunTrust ranked no better than fourth in 2002 with just 6.4% of the Miami area’s deposits, and it is part of a second tier with Washington Mutual, Citigroup and Ohio Savings. They each have deposit shares in the 4.5% to 7.5% range. Unlike the two leaders, though, these second tier players are not losing ground. Their collective share on a fully-pooled basis has risen from 20.5% in 1996 to 23.5% in 2002.

Miami Area* Deposit Share, Fully-Pooled

	Deposits <u>2002</u> (In millions)	Market Share				Actual June 30, <u>1996</u>
		June 30,				
		<u>2002</u>	<u>2000</u>	<u>1998</u>	<u>1996</u>	
<u>Large Banks</u>						
Bank of America	\$ 19,315	18.3%	20.2%	19.8%	22.2%	10.9%
Wachovia	16,156	15.3	16.9	19.7	19.6	15.7
Washington Mutual	7,689	7.3	6.6	6.8	7.5	-
SunTrust	6,724	6.4	6.2	6.5	6.4	6.4
Citigroup	<u>5,134</u>	<u>4.8</u>	<u>3.4</u>	<u>3.4</u>	<u>3.6</u>	<u>3.0</u>
Subtotal	\$ 55,018	52.1%	53.3%	56.2%	59.3%	36.0%
<u>Other Out-of-State</u>						
Ohio Savings	\$ 5,257	5.0%	5.0%	3.7%	3.0%	1.6%
Union Planters	3,728	3.5	4.0	5.3	5.0	-
SouthTrust	2,289	2.2	2.9	4.0	4.4	-
Mercantil Servicios	2,217	2.1	1.1	.7	.6	.5
Golden West	2,051	1.9	1.9	2.3	2.4	.9
Northern Trust	1,787	1.7	1.6	1.4	1.2	1.0
Colonial	1,595	1.5	1.6	1.1	1.0	-
Others	<u>5,097</u>	<u>4.8</u>	<u>4.6</u>	<u>4.3</u>	<u>3.5</u>	<u>15.1</u>
Subtotal	\$ 24,021	22.7%	22.7%	22.8%	21.1%	19.1%
<u>Florida Banks</u>						
Ocean Bankshares	\$ 3,667	3.5%	3.2%	2.5%	2.1%	1.7%
City National	1,493	1.4	1.6	1.1	1.1	-
Others	<u>8,393</u>	<u>7.9</u>	<u>7.2</u>	<u>6.3</u>	<u>6.0</u>	<u>28.9</u>
Subtotal	\$ 13,553	12.8%	12.0%	9.9%	9.2%	30.6%
<u>Florida Thrifts</u>						
BankUnited	\$ 2,997	2.8%	2.8%	2.5%	1.6%	.6%
BankAtlantic	2,672	2.5	2.6	2.6	2.6	1.7
Fidelity	1,567	1.5	1.4	1.1	.9	.7
Others	<u>1,361</u>	<u>1.3</u>	<u>.9</u>	<u>.6</u>	<u>1.0</u>	<u>7.0</u>
Subtotal	\$ 8,597	8.1%	7.7%	7.8%	6.1%	10.0%
Credit Unions	\$ 4,628	4.3%	4.3%	4.3%	4.3%	4.3%
Total	\$105,817	100.0%	100.0%	100.0%	100.0%	100.0%

*Broward, Dade and Palm Beach counties.

Source: SNL Financial, Charlottesville, Virginia.

The big deposit share gains in Miami were produced by local banks and thrifts. The leading local bank, Ocean Bankshares, increased its deposit share from 2.1% in 1996 to 3.5% in 2002, and, during these same years, the local thrift leader, BankUnited, went from 1.6% to 2.8%. The share of all the local banks and thrifts went from 15.3% to just under 21%.

Credit unions are a factor in Miami, but a very small factor and going nowhere. Their deposit share was the same 4.3% in 2002 that it was in 1996.

So where does Miami banking go from here? At least for the next five years, there is not likely to be much change.

- The large bank deposit share should continue to slide on a “continuing bank” basis, but their absolute share may be relatively unchanged as a result of a Bank of America, Wachovia or SunTrust acquisition of one of the Alabama or Tennessee banks with significant Miami area deposits.
- The other out-of-state banks may maintain their 20% plus deposit share with the help of acquisitions of some of the larger local banks, but other than by acquisition, the only growth in market share that can be expected will be from banks with Hispanic connections or strong asset management skills. This group may also experience internal consolidation as some of the smaller out-of-state banks have more ambition than capability.
- The local bank deposit share will fall below 20%, but the slippage will be totally the result of acquisitions. Local banks that are around five years from now will have increased their deposit share, but probably not enough to offset the group’s losses through acquisition.

The “wild card” in Miami’s, and all of Florida’s, banking future is the “Commerce effect”. The success of that bank in New Jersey, New York and Pennsylvania with seven day-a-week banking and branches being open virtually from dawn to dusk during the working week already has prompted BankAtlantic to take this concept to Miami. It is possible that at some point Commerce, itself, will arrive, but a more likely result is that the big banks will take this philosophy beyond in-store branches, forcing others to respond in kind. Then consolidation moves to another level.

Tampa

In the Tampa area, which is defined to include Hillsborough, Manatee and Pinellas counties, the state's "big three" of Bank of America, Wachovia and SunTrust are also the area's "big three," but without the help they had in Miami from Washington Mutual and Citigroup, the large bank deposit share was only a little above 40% in 2002. The "big three" also may be only a year away from having less than 40% since all of Tampa's large banks have been steadily losing deposit share.

While there is a "big three" in Tampa, there is no question who is the largest bank in the market as Bank of America's 22.2% deposit share is a full percentage point more than Wachovia and SunTrust combined. It also has had the biggest decline with its fully-pooled deposit share falling from 30.1% in 1996 to 22.2% in 2002. Much of this loss again can be attributed to the after-effects of its 1998 acquisition of Barnett.

Other out-of-state banks are numerous in the Tampa area, and with 24.5% of the deposits, they have a larger share of the market than in Miami. The Alabama banks are the leading "other" out-of-state banks with SouthTrust and AmSouth holding 6.3% and 5.1% of the area's deposits, respectively, in 2002, and Colonial and Regions had almost a 3% combined share.

These "other" out-of-state banks are not losing share, collectively, but they are not the ones making the gains at the expense of the big banks. Their share is up by 1.5 percentage points since 1996, but one thrift, Third Federal, alone was up 1.7 percentage points, and most of the others with good gains since 1996, are out-of-state banks with recent acquisitions - i.e., South Financial and Synovus - and their "fully-pooled" gains were recorded by the local acquirees prior to their acquisition.

The major share gains were made by the smaller local banks and credit unions. Florida-based banks with deposits of less than \$500 million have seen their deposit share grow from 4.4% in 1996 to 7.9% in 2002. The credit unions are a major factor in Tampa with 17.7% of the deposits in 2002 that is up from 12.4% in 1996.

Tampa Area* Deposit Share, Fully-Pooled

	Deposits <u>2002</u> (In millions)	Market Share <u>June 30,</u>				Actual June 30, <u>1996</u>
		<u>2002</u>	<u>2000**</u>	<u>1998</u>	<u>1996</u>	
<u>Large Banks</u>						
Bank of America	\$ 7,929	22.2%	26.2%	27.8%	30.1%	16.2%
Wachovia	4,154	11.6	11.7	13.8	13.2	13.3
SunTrust	<u>3,425</u>	<u>9.6</u>	<u>10.2</u>	<u>10.4</u>	<u>10.8</u>	<u>6.7</u>
Subtotal	\$15,508	43.4%	48.1%	52.0%	54.1%	36.2%
<u>Other Out-of-State</u>						
SouthTrust	\$ 2,232	6.3%	6.1%	5.5%	6.6%	3.1%
AmSouth	1,828	5.1	5.7	6.2	6.2	6.2
Golden West	978	2.7	2.7	3.1	3.1	-
Third Federal	678	1.9	.7	.2	.2	-
Colonial	555	1.6	2.0	2.4	2.3	-
South Financial	515	1.4	1.4	1.2	1.1	-
Regions	415	1.2	1.2	1.3	1.2	.3
Gold Banc	320	.9	.9	.9	.8	-
Synovus	288	.8	.6	.6	.4	-
Intervest	268	.7	.6	.5	.4	.3
Others	<u>708</u>	<u>1.9</u>	<u>2.7</u>	<u>.9</u>	<u>.7</u>	<u>5.0</u>
Subtotal	\$ 8,785	24.5%	24.6%	22.8%	23.0%	14.9%
<u>Florida Banks</u>						
Republic	\$ 900	2.5%	3.3%	3.5%	2.6%	2.5%
F.N.B.	753	2.1	1.7	1.9	1.7	-
Tampa Banking	481	1.4	1.1	.9	.8	.7
Florida Banks	273	.8	.4	.2	.2	-
P.C.B.	263	.7	.7	.8	.8	.3
Others	<u>1,798</u>	<u>5.0</u>	<u>3.4</u>	<u>2.4</u>	<u>2.6</u>	<u>30.0</u>
Subtotal	\$ 4,468	12.5%	10.6%	9.7%	8.7%	33.5%
Other Thrifts	\$ 663	1.9%	2.1%	1.6%	1.8%	3.0%
Credit Unions	<u>6,319</u>	<u>17.7</u>	<u>14.6</u>	<u>13.1</u>	<u>12.4</u>	<u>12.4</u>
Total	\$35,743	100.0%	100.0%	100.0%	100.0%	100.0%

*Hillsborough, Manatee and Pinellas counties.

**Adjusted.

Source: SNL Financial, Charlottesville, Virginia.

Where does Tampa banking go from here? The story is pretty much the same as in Miami. The big banks will lose share on a continuing operation basis, but the acquisition of one or more of the Alabama banks by the “big three” might maintain their absolute deposit share. The mid-sized out-of-state banks will lose share as they learn, as Huntington and Provident and others have already, that absentee ownership has its drawbacks no matter how good the market and exit through a sale of their Florida operations. At the other end of the spectrum, credit unions and Florida-based banks that do not sell will gain market share.

The words “do not sell,” however, has more meaning for local banks in Tampa than elsewhere because of the performance and/or recent moves of the two Florida banks with the largest Tampa area deposit shares, Republic and F.N.B. Republic may still be independent because its poor performance in recent years has made a good sale difficult. With its performance improving, though, it may soon take advantage of the high acquisition prices being paid for Florida banks. Meanwhile, F.N.B. recently announced it was going to “unbundle” its Pennsylvania and Florida banking operations into separate entities to maximize value, which could lead to the sale of one or both of these entities.

Orlando

The large banks are strongest in the Orlando area, which is defined to include Orange, Osceola and Seminole counties, with about 63% of the deposits in 2002. This reflects Suntrust’s ability to hold the preeminence of the area’s acquired leader, Sun Banks. Its 27% of the area’s deposits in 2002 was virtually unchanged from 1996, and this at least partly reflects the fact that the acquisition of SunBank goes back to the eighties. Bank of America and Wachovia held 30% of the Orlando deposits between them in 2002 with, what was for them, a small deposit share loss on a fully-pooled basis since 1996. Washington Mutual added another 5.9% to the big bank total.

The other out-of-state banks held a little less than 15% of Orlando area deposits in 2002, most of which was accounted for by four Alabama banks – Colonial, SouthTrust, AmSouth and Regions. The “other” out-of-state banks have had a modest deposit share increase on a fully-pooled basis since 1996, but the gain was not widespread. Collectively, the Alabama banks lost deposit share, and almost all of the gains were by a Puerto Rican bank, Popular, and a local bank acquired by South Financial prior to its acquisition.

Orlando Area* Deposit Share, Fully-Pooled

	Deposits 2002 (In millions)	Market Share				Actual June 30, 1996
		June 30,				
		2002	2000	1998	1996	
<u>Large Banks</u>						
SunTrust	\$ 5,111	27.0%	26.1%	28.1%	27.8%	26.0%
Bank of America	3,583	18.9	21.7	19.8	21.9	8.0
Wachovia	2,102	11.1	13.2	13.7	13.2	12.1
Washington Mutual	<u>1,111</u>	<u>5.9</u>	<u>5.8</u>	<u>6.1</u>	<u>6.8</u>	-
Subtotal	\$11,907	62.9%	66.8%	67.7%	69.7%	46.1%
<u>Other Out-of-State</u>						
Colonial	\$ 649	3.4%	3.7%	3.6%	3.7%	1.7%
SouthTrust	471	2.5	2.8	3.4	3.0	2.3
AmSouth	415	2.2	2.3	2.6	2.2	1.9
South Financial	391	2.1	1.7	1.3	.7	-
Regions	215	1.1	1.3	1.3	1.1	-
Popular	200	1.1	.9	.7	.2	-
Others	<u>412</u>	<u>2.2</u>	<u>1.2</u>	<u>1.4</u>	<u>1.9</u>	<u>8.3</u>
Subtotal	\$ 2,753	14.6%	13.9%	14.3%	12.8%	14.2%
<u>Florida Banks</u>						
Southern Community	\$ 285	1.5%	.8%	-	-	-
Republic	212	1.1	1.5	2.1%	2.2%	-
F.N.B.	211	1.1	1.1	1.1	1.0	-
United Community	190	1.0	.1	-	-	-
Century National	174	.9	.4	-	-	-
Others	<u>988</u>	<u>5.2</u>	<u>4.0</u>	<u>3.2</u>	<u>2.5</u>	<u>25.3%</u>
Subtotal	\$ 2,060	10.8%	7.9%	6.4%	5.7%	25.3%
<u>Florida Thrifts</u>						
Federal Trust	\$ 216	1.1%	1.2%	.8%	.9%	.9%
Others	<u>124</u>	<u>.7</u>	<u>.8</u>	<u>.7</u>	<u>.7</u>	<u>4.2</u>
	\$ 340	1.8%	2.0%	1.5%	1.6%	5.1
Credit Unions	\$ 1,883	9.9%	9.4%	10.0%	10.2%	9.3%
Total	\$18,943	100.0%	100.0%	100.0%	100.0%	100.0%

*Orange, Osceola and Seminole counties.

Source: SNL Financial, Charlottesville, Virginia.

Local banks have done even better in Orlando than in Tampa and Miami. Florida-based commercial banks have almost doubled their deposit share from

5.7% in 1996 to 10.8% in 2002. If a struggling Republic were removed from the mix, the gain would have been from 3.5% to 9.7%.

Credit unions are important in Orlando, but they are not gaining deposit share. Their 2002 share of 9.9% was less than they had in 1996 and 1998.

So where does Orlando banking go from here? Orlando is likely to see less structural change going forward than any of the state's other major markets. The big banks have over 60% of the deposits and are not losing deposit share as fast as elsewhere. Local banks will continue to sell, but their present share is so small that what is acquired is likely to be replaced by the growth of the other local banks and new banks.

Jacksonville

The Jacksonville area, defined to include Clay, Duval, Nassau and St. Johns counties, differs from Florida's other major metropolitan centers in that it is smaller and has a much larger military content that contributes to credit unions being major players. The credit union deposit share is growing rapidly, and their 26% share in 2002 greatly reduced the deposits held by the big, out-of-state and local banks.

Even with the large credit union content, two banks, Wachovia and Bank of America, held just over 40% of all deposits in 2002 and 54% of the non-credit union deposits. This reflects their acquisitions of First Florida and Barnett. Like elsewhere in Florida, these banking leaders are losing share rapidly. In 1996, on a fully-pooled basis, they held almost 55% of all deposits and 76% of the non-credit union portion.

The third member of Florida's "big three," SunTrust, is much smaller than Wachovia and Bank of America in Jacksonville, and its number three position in the area places it only slightly ahead of two Alabama banks, Southtrust and Compass. The 2002 shares for all three of these banks are in the 4.9% to 5.7% range. SunTrust differs from the Alabama banks in that it is gaining deposit share while they are losing – i.e., the Alabama banks have had a share decline on a fully-pooled basis from 13% in 1996 to less than 10% in 2002.

Jacksonville Area* Deposit Share, Fully-Pooled

	Deposits <u>2002</u> (In millions)	Market Share				Actual June 30, <u>1996</u>
		<u>June 30,</u>				
		<u>2002</u>	<u>2000**</u>	<u>1998</u>	<u>1996</u>	
<u>Large Banks</u>						
Wachovia	\$ 3,716	23.7%	31.3%	34.3%	33.1%	33.1%
Bank of America	2,607	16.6	17.3	20.1	21.4	1.0
SunTrust	896	5.7	5.0	5.0	5.2	5.2
BB&T	<u>85</u>	<u>.6</u>	<u>.5</u>	-	-	-
Subtotal	\$ 7,304	46.6%	54.1%	59.4%	59.7%	39.3%
<u>Other Out-of-State</u>						
SouthTrust	\$ 774	4.9%	5.9%	7.7%	7.3%	3.0%
Compass	774	4.9	5.7	5.1	5.7	2.6
AmSouth	255	1.6	1.7	1.5	2.0	2.0
Atlantic Coast	147	.9	.2	.2	.1	-
Synovus	93	.6	.6	.4	.4	.4
Others	<u>204</u>	<u>1.3</u>	<u>.6</u>	<u>.3</u>	<u>.3</u>	<u>.4</u>
Subtotal	\$ 2,247	14.2%	14.7%	15.2%	15.8%	8.4%
<u>Florida Banks</u>						
Prosperity	\$ 255	1.6%	1.5%	.9%	.5%	.5%
First Guaranty	224	1.4	1.4	1.3	1.4	1.4
Jacksonville Bancorp	108	.7	.1	-	-	-
Florida Banks	97	.6	.3	-	-	-
CNB	88	.6	.2	-	-	-
Others	<u>367</u>	<u>2.3</u>	<u>1.6</u>	<u>1.2</u>	<u>.8</u>	<u>29.0</u>
Subtotal	\$ 1,139	7.2%	5.1%	3.4%	2.7%	30.9%
<u>Florida Thrifts</u>						
First Alliance	\$ 472	4.7%	1.2%	.5%	.4%	-
Others	<u>197</u>	<u>1.3</u>	<u>1.1</u>	<u>.8</u>	<u>.6</u>	<u>.6</u>
Subtotal	\$ 669	6.0%	2.3%	1.3%	1.0%	.6%
Credit Unions	\$ 4,080	26.0%	23.8%	20.7%	20.8%	20.8%
Total	\$15,439	100.0%	100.0%	100.0%	100.0%	100.0%

*Clay, Duval, Nassau and St. Johns counties.

** Adjusted.

Source: SNL Financial, Charlottesville, Virginia.

The weaknesses of the large and out-of-state banks in the Jacksonville area are reflected in the large share increases of the local banks and thrifts as well as the credit unions. Between 1996 and 2002, the remaining Florida-based banking organizations increased their local deposit share from 3.7% to 13.2%.

Where does Jacksonville area banking go from here? This is the easiest “call” in Florida. The credit unions are powerful and should continue to grow faster than their bank competition; Wachovia and Bank of America will lose more share; and local banks will grow much faster than the big and out-of-state banks, but their absolute share may not change much because of acquisitions. With Jacksonville’s proximity to Georgia, local banks that sell also may be more prone to selling to SunTrust, Synovus and BB&T rather than the Alabama and Tennessee banks.

The Big Picture

There are several recurring themes in the preceding discussion of Florida banking and its big markets that impact banks from Pensacola to Key West and warrant further discussion. The most important of these themes are:

- Three big banks dominate Florida banking, but they are losing market share to others. This may be the case relative to traditional banking as measured by deposit share, but the big banks will increase their share of financial services, in general, as they move beyond traditional banking and expand their hours. Service counts for a lot, but in busy markets with congested traffic, which is much of Florida, convenience in location and multiple services counts for more.
- Second tier out-of-state banks also are losing share, and their collective position is likely to be reduced by acquisition. This is an irreversible trend that has little to do with whether they can compete. The mid-sized bank is a disappearing species, and their performance almost always slips the further they get from home. It also is sobering to note the pricing pattern of the properties of two mid-sized Ohio banks, Huntington and Provident, as they entered and exited the state. Huntington bought Barnett’s divested branches for a 20% deposit premium, and then three years later sold them to SunTrust at a 15% premium. This year, Provident sold its Florida branches to the Royal Bank of Canada at a 10% deposit premium.

- Local banks are gaining share at the expense of the large and out-of-state banks. This is certainly the case, but it is on continuing operations basis, and may have a ceiling on the total share in any significant market in the 20% to 25% range for traditional banking products. Thus, as long as some small, and in most cases new, banks continue to sell, there is room for those that remain or open to grow. This is likely to be the case, but the “game” will stop if the buyers disappear.
- The “Commerce effect” of virtual around-the-clock branches is a “wild card” with implications that go beyond what most can imagine and could negatively impact value. The threat of these long hours transaction banks are that a) they have per office costs that others cannot afford – i.e., three teams of tellers in each office, and b) they prefer *de novo* entry over acquisitions since the office design is important to their success. Thus, not only will they raise the cost of doing business, but they do not provide a profitable exit for those that cannot or will not meet the challenge.

A “big picture” subject that was not covered in the analyses beyond just mentioning that Citigroup and Washington Mutual had major presences was the likelihood of Bank of America, Wachovia and SunTrust being challenged by large banks with “staying power.” Washington Mutual has talked big about its national branching plans, and recent acquisitions have brought the Royal Bank of Canada and BB&T into Florida. The problem is that SunTrust’s purchase of the Huntington branches was the last large Florida banking entity available other than through the acquisition of an AmSouth, Regions or Southtrust. As a result, what happens in Birmingham may decide whether Florida’s “big three” ever becomes a “big four.”

Conclusion

The suggestions in this report as to what comes next in Florida banking are based primarily on a) projecting what has happened in the past, b) the strength and tendencies of the major players and c) the strong desire of shareholders to maximize value and minimize risk. It cannot, or does not, factor in surprises, and only in terms of branch convenience, the likelihood that there will be major changes in how banking services are delivered.

Surprises are inevitable. In the mid-nineties, there was speculation that Barnett would be sold and that NationsBank and Wachovia were the most likely acquirers, but few would have guessed that eight months after announcing the

Barnett acquisition, NationsBank would announce a so-called equal merger with BankAmerica to form the present day Bank of America. First Union merging with Wachovia in spite of the overlapping Carolina franchises also was a surprise that eliminated a fringe factor in Florida with a lot of potential upside.

The most likely sources of surprises in the next five years that would impact Florida banking are Citigroup and the Alabama banks. With \$17 billion in earnings and \$230 billion in market capital, Citigroup is the 800 pound gorilla that can do what it wants. It could buy SunTrust or Wachovia, or it could unload its \$5 billion in Miami area deposits and overnight give SunTrust or Washington Mutual equal status with Bank of America and Wachovia in that market or else provide BB&T, Royal Bank of Canada or Royal Bank of Scotland with the basis for being real players in the state. The Alabama surprise would be the sale of one of its big four – AmSouth, Compass, Regions or SouthTrust – to Bank One or Fifth Third or the purchase of Union Planters by Regions or SouthTrust, either of which could turn Florida’s “big three” into a “big four” in time.

The big unknown is the impact of change on how bank products and services are delivered. The disappearance of the branch, the advent of “one stop” banking and the internet as a major banking conduit have been widely predicted, and while Wall Street, corporate America and the young have made great use of remote access banking, Main Street still writes checks and stands in teller lines. Then again, once upon a time we listened to radios when we were not in our cars and used phone booths to call home or the office.

Appendix I

Florida Deposit Share 1978

	<u>Deposits</u> (In thousands)	<u>Market Share</u>	<u>Disposition</u>
1. Southeast Banking	\$3,095	4.9%	Wachovia
2. Barnett Banks	2,622	4.1	Bank of America
3. Sun Banks	1,943	3.1	SunTrust
4. First Federal-Miami	1,784	2.8	Washington Mutual
5. Flagship Banks	1,656	2.6	SunTrust
6. First Federal-Broward County	1,495	2.3	Washington Mutual
7. Florida National	1,341	2.1	Wachovia
8. Atlantic Bancorporation	1,289	2.0	Wachovia
9. Dade Savings	1,247	2.0	Washington Mutual
10. Florida Savings	1,237	1.9	Wachovia
11. First Florida Banks	1,188	1.9	Bank of America
12. American Savings	1,020	1.6	Wachovia
13. Coral Gables Savings	917	1.4	Wachovia
14. Landmark Banking	907	1.4	Bank of America
15. Ellis Banking	884	1.4	Bank of America
16. Atlantic Savings (BankAtlantic)	871	1.4	As is
17. Freedom Savings	871	1.4	Bank of America
18. Hollywood Savings	849	1.3	Wachovia
19. Chase Savings	835	1.3	Bank of America
20. Financial Savings	812	1.3	Bank of America
21. Washington Savings	709	1.1	Citigroup
22. Exchange Bancorporation	708	1.1	Bank of America
23. Century Banks	701	1.1	SunTrust
24. United First	673	1.1	Bank of America
25. Biscayne Savings	660	1.0	Citigroup

Source: Branch Directory and Summary of Deposits-Florida, Georgia, Puerto Rico, 1978-79, Decision Research Sciences, Inc., Blue Bell, Pennsylvania.

Appendix II

Prices Offered for Commercial Banks in Florida

	Offering Price (In mill.)	Times Earnings	Price	
			Book	Percent of Assets
<u>2003*</u>				
F.N.B.-Charter	\$ 150	36.7X	329%	23.3%
Colonial-Sarasota	41	23.9	341	24.6
Alabama National-Millennium	<u>25</u>	<u>34.4</u>	<u>311</u>	<u>26.6</u>
Median	\$ 216**	34.4X	329%	24.6%
<u>2002</u>				
RBC-Admiralty	\$ 150	37.7X	296%	25.9%
South Financial-Gulf West	116	23.0	285	22.5
Colonial- Palm Beach National	106	33.3	318	31.2
Synovus-United Financial	84	19.9	295	20.0
P.C.B.-Gateway American	11	-	122	12.1
Old Florida-Marine	<u>9</u>	<u>-</u>	<u>127</u>	<u>14.2</u>
Average	\$ 544**	28.2X	285%	22.5%
2001 (8)	\$ 278	23.0X	208%	17.4%
2000 (12)	524	20.4	183	18.6
1999 (14)	678	25.3	252	22.3
1998 (21)	811	25.9	297	28.6
1997 (29)	17,253	20.5	247	21.8
1996 (22)	572	19.6	204	17.7
1995 (22)	643	18.3	186	18.5
1994 (14)	200	18.2	170	13.3
1993 (28)	408	18.0	171	13.4
1992 (11)	991	14.4	135	10.9
1991 (4)	41	18.0	203	10.9
1990 (4)	19	20.7	238	14.3

*Through July 11, 2003.

** Total.

Source: SNL Financial, Charlottesville, Virginia.