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Dear Banker:

The enclosed banking report suggests that the financial services industry may have already moved out of the era of consolidation by merger and into a stage of consolidation that will be driven by research, marketing and delivery systems that have no geographic constraints. This is likely to be an era not unlike what the telecommunication and business information industries are going through right now in that it favors size, but only those with size that know how to use the modern technologies – i.e., AT&T and IBM have struggled.

Where does this leave the local bank? It will be playing in a ball game in which it and its regulators will not be making the rules, but the game will include the handling of assets that by 2020 may introduce quadrillion of dollars into the financial services lexicon. If 20% to 25% goes to local and specialized financial services firms, which I think it will, there will be a lot of business for small firms that, to steal a phrase from above, “know how to use modern technology” and can fill real, not imagined, voids that the large leave for others. Whether these are new financial services firm that are not deterred by the baggage of the past or forward thinking existing firms that start with the tremendous advantage of a large customer base, only time will tell.

Welcome to the 21st century.

Respectfully yours,

Arnold G. Danielson
Chairman