South Florida Banking Industry Report

Issue I **January to December 2013**

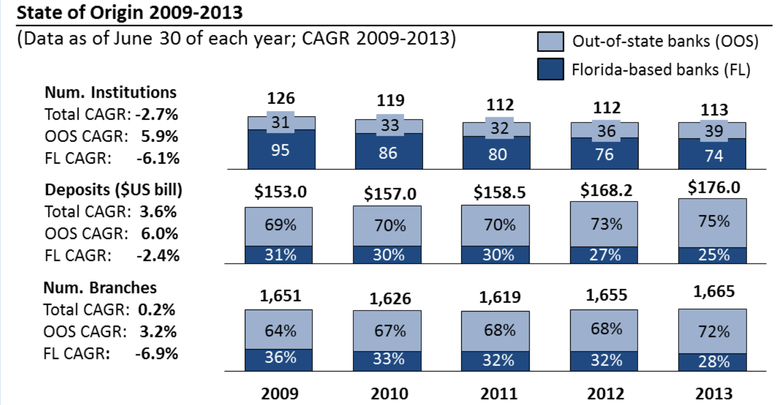
EXECUTIVE SUMMARY: Since the financial crisis of 2007-2008, South Florida's banking industry* has undergone a transformative consolidation process. Large, out-of-state banks have been steadily gaining market share, many times displacing smaller, local community banks which have been unable to compete against banking juggernauts like Wells Fargo and Bank of America, Miami Metropolitan Area's largest banks. Mergers and acquisitions activity, as well as FDIC-assisted bank failures, have been pervasive throughout Florida since 2009, leading the nation in bank failures in 2010 with 29 in total. Since 2009 there has been a steady but slow improvement in the banking sector. Asset quality has improved, loan activity has increased and the majority of banks are well capitalized. Nevertheless, banks in South Florida still face considerable challenges. A highly competitive environment with narrow margins, subpar loan growth and a slowdown in mortgage refinancing transactions, have made it difficult for banks to increase income and improve returns.

DEPOSITS AND BRANCHES: "Non-Florida banks have a dominant weight in the Miami Metropolitan Area"

Large, federally chartered, out-of-state banks, including Wells Fargo, Bank of America, Citibank, and JPMorgan Chase, control a majority of the banking activity in the Miami Metropolitan Area (MMA). As of June 30, 2013, there were 113 banking institutions that managed deposits in the MMA, statistical area comprised of Miami-Dade, Broward and Palm Beach Counties, 74 of which were Florida-based banks (65%) while 39 were out-of-state banks (35%) (see Figure 1). Out-of-state banks managed deposits of $132.5 billion, representing 75% of total deposits in Miami Metro branches which amounted to $176.0 billion, while Florida-based banks managed $43.5 billion, or 25% of the market (see Figure 2). The two largest banks operating in the MMA, Wells Fargo and Bank of America, control 43.1% of deposits of out-of-state banks and 32.4% of total deposits. When analyzing bank branch presence, out-of-state banks also dominate the banking landscape in the MMA. Of the 1,665 branches, 1,206 or 72% were administered by out-of-state banks, while 459 or 28% by Florida-based banks (see Figure 3).

Figures 1-3: Trends in Number of Banks, Deposits and Number of Branches by State of Origin 2009-2013

(Data as of June 30 of each year; CAGR 2009-2013)



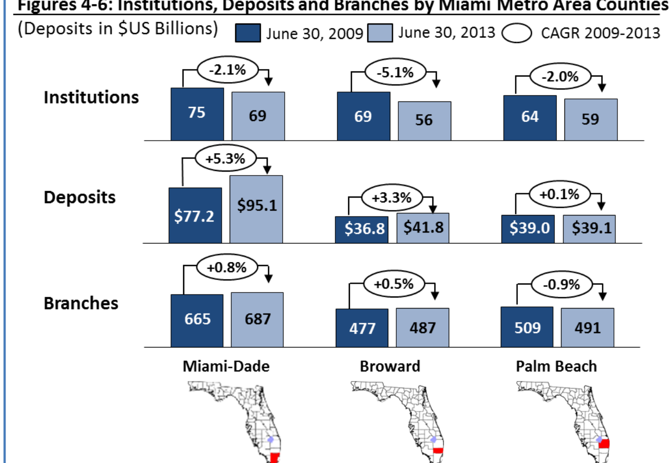
When looking at the historical trends in terms of the number of banking institutions and deposits, out-of-state banks have been gradually encroaching in Florida's banking industry, commanding an increasingly larger market share vis-à-vis Florida-based banks. As of June 30, 2009, 31 or 25% of the 126 banks with deposits in the MMA were headquartered in states other than Florida while 95 or 75% were Florida-based. This contrasts starkly with data as of June 30, 2013 when 39 or 35% of the 113 banks in the MMA were from out-of-state while 74 or 65% were Florida-based (see Figure 1). The compound annual growth rate (CAGR) between 2009 and 2013 of the number of out-of-state banks in the MMA was +5.9% while that of Florida-based was –6.1%. In terms of deposits, non-Florida banks in the MMA exhibited positive growth between 2009 and 2013 (CAGR 6.0%), while Florida-based banks experienced a decrease (CAGR –2.4%) (see Figure 2).

REGIONAL ANALYSIS: "The Miami Metro Area holds 40% of Florida deposits and 30% of bank branches"

Banking activity in Florida is concentrated in Miami-Dade, Palm Beach and Broward Counties, Florida's three most populous counties (population of 5.8 million, 30% of FL, as of 2012 Census estimates), and Duval in the northeast. Deposits in Miami-Dade had a CAGR of 5.3% from 2009 to 2013, 3.3% in Broward and 0.1% in Palm Beach (see Figure 5). These three counties control $176 billion in deposits (40% of total FL deposits) and 1,665 branches (30%), as of June 30, 2013. In the Miami-Dade County, Florida's most populous county and seventh in the nation, there were 687 branches managing $95.1 billion in deposits (22% of total FL deposits). Broward County, second most populous in Florida and eighth in the US, holds $41.8 billion in deposits in 487 branches. Palm Beach County holds $39.1 billion in deposits in 491 branches.

Figures 4-6: Institutions, Deposits and Branches by Miami Metro Area Counties

(Deposits in $US Billions)



Inside this issue:

Source: Federal Deposit Insurance Corporation (FDIC), Summary of Deposits (SOD); Analysis by "Financial Institutions Practice" V2A.

*Note: South Florida, for the purposes of this report, is defined as the Miami Metropolitan Area (MMA), statistical area comprised of Miami-Dade, Broward And Palm Beach Counties (also known as the Miami-Fort Lauderdale-West Palm Beach, FL Metropolitan Statistical Area).

MMA'S TOP 10: "Wells Fargo, Bank of America, Citi, JPMorgan Chase and SunTrust control more than 50% market share"

As aforementioned, out-of-state banks operating in the Miami Metro Area (MMA) and Florida as a whole, have a dominant weight in banking activity. Eight of the ten largest banks operating in the MMA are headquartered in other states while only two, BankUnited and Mercantil Commercebank, are Florida-based. The Top 5 banks, as of June 30, 2013, Wells Fargo, Bank of America, Citibank, JPMorgan Chase and SunTrust, collectively represent 53% of all of MMA deposits and 44% of branches (see Figure 8). The combined deposits of the two largest out-of-state banks in the MMA represent a larger market share than all of Florida-based banks in the MMA market combined (32.4% vs. 24.7%).

Figures 7-10: Top 10 Banks in the Miami Metropolitan Area (MMA)

Top 10	Deposits (June 30, 2012)	Deposits (June 30, 2013)	Deposits (Change*)	Small Business Loans (2011)	Small Business Loans (2012)	Small Business Loans (Change*)
Wells Fargo	18.4%	17.0%	-1.4	14.7%	12.6%	-2.1
Bank of America	14.9%	15.5%	+0.6	10.0%	12.6%	+2.6
Citibank	7.6%	7.9%	+0.3	1.5%	3.0%	+1.5
JPMorgan Chase	6.3%	7.1%	+0.8	2.9%	5.0%	+2.1
SunTrust	6.4%	5.9%	-0.5	3.6%	3.8%	+0.2
BankUnited	3.7%	3.9%	+0.2	4.4%	5.0%	+0.6
Branch Banking & Trust Co.	2.0%	3.7%	+1.7	2.5%	3.2%	+0.7
HSBC Bank USA	2.7%	3.3%	+0.6	1.3%	1.0%	-0.3
Mercantil Commercebank	3.0%	3.0%	0.0	1.3%	1.7%	+0.4
TD Bank	2.0%	2.5%	+0.5	1.6%	1.9%	+0.3
TOTAL MMA	$168.2 billion	$176.0 billion	+4.6%	$3.25 billion	$3.63 billion	+11.9%

Notes: *Change in percentage points; Blue shaded areas are Florida-based banks.

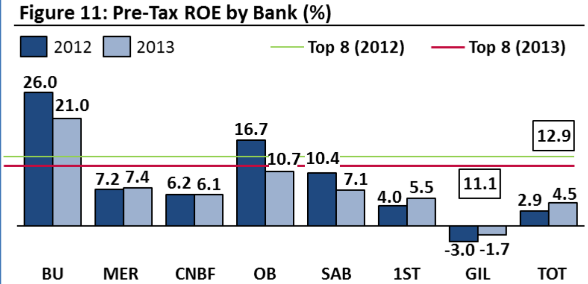
When comparing deposit data of 2012 and 2013 (as of June 30 of each year), one can see that the majority (7 out of 10) of the Top 10 banks gained market share, while two experienced a decrease and one remained unchanged. Total deposits in the MMA increased by $7.8 billion or 4.6% in said time period. Wells Fargo, the biggest bank in the MMA, saw a significant decrease in market share from 2012 to 2013 (-1.4 PPT), possibly due to new checking account fees which started in late 2012. This income-generating practice has been put in place by many megabanks in an attempt to compensate for lost revenue due to new restrictions on bank overdraft fees. SunTrust was the other bank that lost market share (-0.5 PPT). The Northern Trust Company and Regions Bank, two banks which were in the Top 10 in 2012, saw their market shares decrease by 0.4 and 0.2 percentage points, respectively. Of the seven banks that gained market share, Branch Banking & Trust Company (BB&T), was a clear winner, seeing its market share increase by 1.7 percentage points from 2.0% to 3.7%. BB&T has become a serious player in the MMA, expanding into Florida in 2009 through the opportune acquisition of Colonial Bank , and cementing its standing in South Florida banking by purchasing Fort Lauderdale's BankAtlantic in 2012. JPMorgan Chase also saw its market share increase substantially (+0.8 pp), in great part due to years of aggressive branch expansion in South Florida.

Small business lending activity picked up considerably in 2012, increasing by $387.3 billion or 11.9% when compared to 2011, a welcomed trend that is added on to other positive economic and financial metrics in South Florida. When juxtaposing deposit and small business lending data by bank, one can notice they are correlated. Wells Fargo and Bank of America, the two largest banks in terms of deposits are also the two main small business lenders in the MMA. Wells Fargo did see a drop in its market share in small business lending of 2.1 percentage points while Bank of America's ticked up by 2.6 percentage points. Citibank and JPMorgan Chase, the next biggest banks, also saw an increase in their small business lending market share. Big bank lending to small businesses is clearly on the rise, in part due to the fact that banks are seeing healthier balance sheets from potential borrowers and Dodd Frank regulations. It should be noted that Florida-based BankUnited is an important small business lender in the MMA, lending $181.8 million to small businesses in 2012 or 5.0% market share.

PROFITABILITY: "BankUnited (21.0%) and Ocean Bank (10.7%) obtained double digit pre-tax ROEs in 2013"

The double digit consolidated profitability of the Top 8 Florida-based banks in the MMA was driven by BankUnited and Ocean Bank, reaching a pre-tax ROE of 11.1% in 2013, 1.8 percentage points lower than in 2012 (see Figure 11). BankUnited, the largest FL-based bank in the MMA, showed the highest profitability level in both 2012 and 2013, with pre-tax ROEs of 26% and 21%, respectively, significantly higher than the consolidated Top 8 level. BankUnited, which has been expanding in New York, outperformed the other banks thanks to its larger interest income and higher fees and commissions income (see Annex 1).The higher interest income is driven by its larger residential portfolio which has a higher interest yield than other loans (see Annex 2).

Figure 11: Pre-Tax ROE by Bank (%)



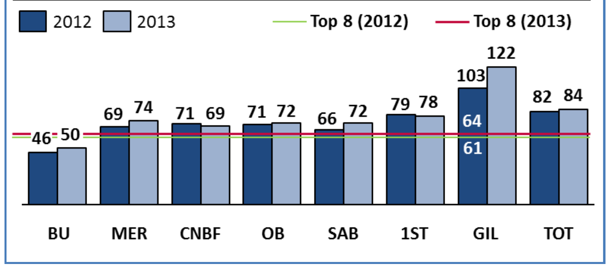
When comparing 2012 and 2013, BankUnited showed a reduction in the interest income level and in fees and commissions income which was partially offset by lower financial expenses and an increase in other income. Ocean Bank, which came in second in terms of profitability, reached a pre-tax ROE of 10.7% in 2013, 6 percentage points lower than in 2012. The lower financial and credit provision expenses did not compensate for the lower interest income, lower fees and commissions income and reduced financial leverage. Mercantil Commercebank, the second largest Florida-based bank in the MMA, reached a pre-tax ROE of 7.4% in 2013, slightly higher than in 2012. Its profitability was driven by a sharp decline in loan loss provisions expenses while interest income and fees and commissions income decreased with respect to 2012. Of the Top 8 Florida-based banks in the MMA, Gibraltar Private Bank & Trust was the only one that registered a negative pre-tax ROE in both 2012 and 2013, although it did return to profitability in the fourth quarter of 2013. Due to regulatory compliance measures to meet Bank Secrecy Act and anti-money laundering controls, the Coral Gables-based bank has seen its expenses rise in 2013.

Source: FDIC, Summary of Deposits (SOD); Federal Financial Institutions Examination Council's (FFIEC), Community Reinvestment Act (CRA) Data; Federal Deposit Insurance Corporation (FDIC), 10-Q SEC filings; Analysis by "Financial Institutions Practice" V2A.

PRODUCTIVITY: "As expected, BankUnited leads the industry in terms of productivity by a wide margin"

The productivity level on a consolidated basis of the Top 8 Florida-based banks in the MMA, measured by the cost to income ratio, reached 64% in 2013, 3 percentage points higher than in 2012. This might be attributable to banks seizing organic growth opportunities due to a healthier economy and incurring in additional expansionary costs. BankUnited once again stands out with a cost to income (C/I) ratio of 50% in 2013. The other banks analyzed obtained efficiency ratios which fluctuated between 69% and 122%. BankUnited compared very favorably to the other banks with regards to employee productivity and branch network management, two key drivers of banking efficiency (see Annexes 2 and 3). The net margin per employee of BankUnited was $348,000 in 2013 followed by City National Bank of Florida with $214,000, which was much more in line with the industry level (see Annex 2). Banks should continue to implement productivity enhancing measures to compensate for increasing regulatory costs.

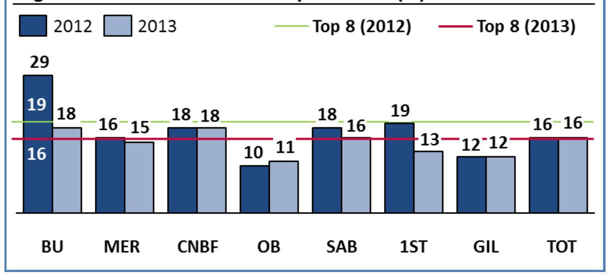
Figure 12: Efficiency Ratios (Cost to Income) by Bank (%)



CAPITAL ADEQUACY: "Banks' strong capital levels puts them in a position to expand or reward investors"

The South Florida banking industry is well capitalized, as measured by capital adequacy ratios. The Tier 1 risk based capital ratio reached a solid 16% in 2013, although lower than the 2012 level but still well above the well capitalized level of 6% (see Figure 10). Similarly, the industry's Tier 1 Leverage and Total Risk Based Capital ratios stayed significantly above the well capitalized levels at 10.0% and 17.1%, respectively (see Annex 2). When looking at capitalization levels by bank, the capital levels of BankUnited and City National Bank of Florida, are particularly high with the tier 1 risk based capital ratio both reaching 18% in 2013. Given the robust capital levels, banks with excess capital should identify organic and inorganic growth opportunities including acquisitions of weaker banks, purchase of local asset portfolios and growing outside business operations, or return capital to shareholders.

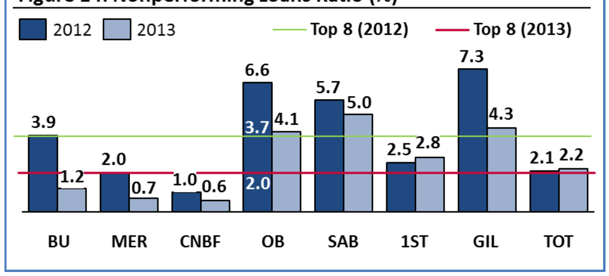
Figure 13: Tier 1 Risk-based Capital Ratio (%)



ASSET QUALITY: "Several of the Top 8 banks still have some way to go before they have a 'clean' asset base"

The nonperforming loans ratio or NPL ratio (non accruing loans + past due 90 days or more and still accruing loans as the numerator and total loan balances as the denominator) at the industry level improved significantly from 3.7% in 2012 to 2.0% in 2013. Ocean Bank and Sabadell, which did see an improvement in their asset quality in 2013 with respect to 2012, should continue dedicating efforts to reduce their delinquency levels and get them more in line with the industry levels. City National Bank of Florida reached the lowest NPL ratio in 2013 with 0.6%, followed by Mercantil Commercebank with 0.7% and BankUnited with 1.2%.

Figure 14: Nonperforming Loans Ratio (%)



In summary, the economic and banking outlook in South Florida is looking a lot better and the region is well poised to experience growth in 2014 and beyond. Although the MMA has experienced across the board improvements in housing market indicators, and many of its banks are reporting better gains, many banks are currently still in a very weak position. It is possible that those banks with inadequate capital levels, risky and/ or unprofitable pool of assets, and subpar profitability levels will be ultimately bought by banks with high capital levels and healthy returns.

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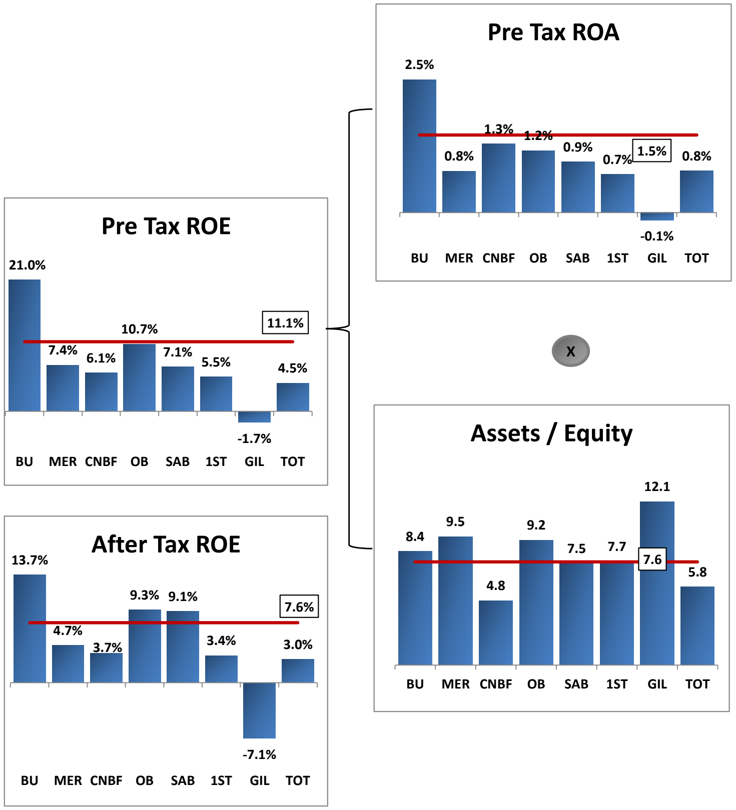
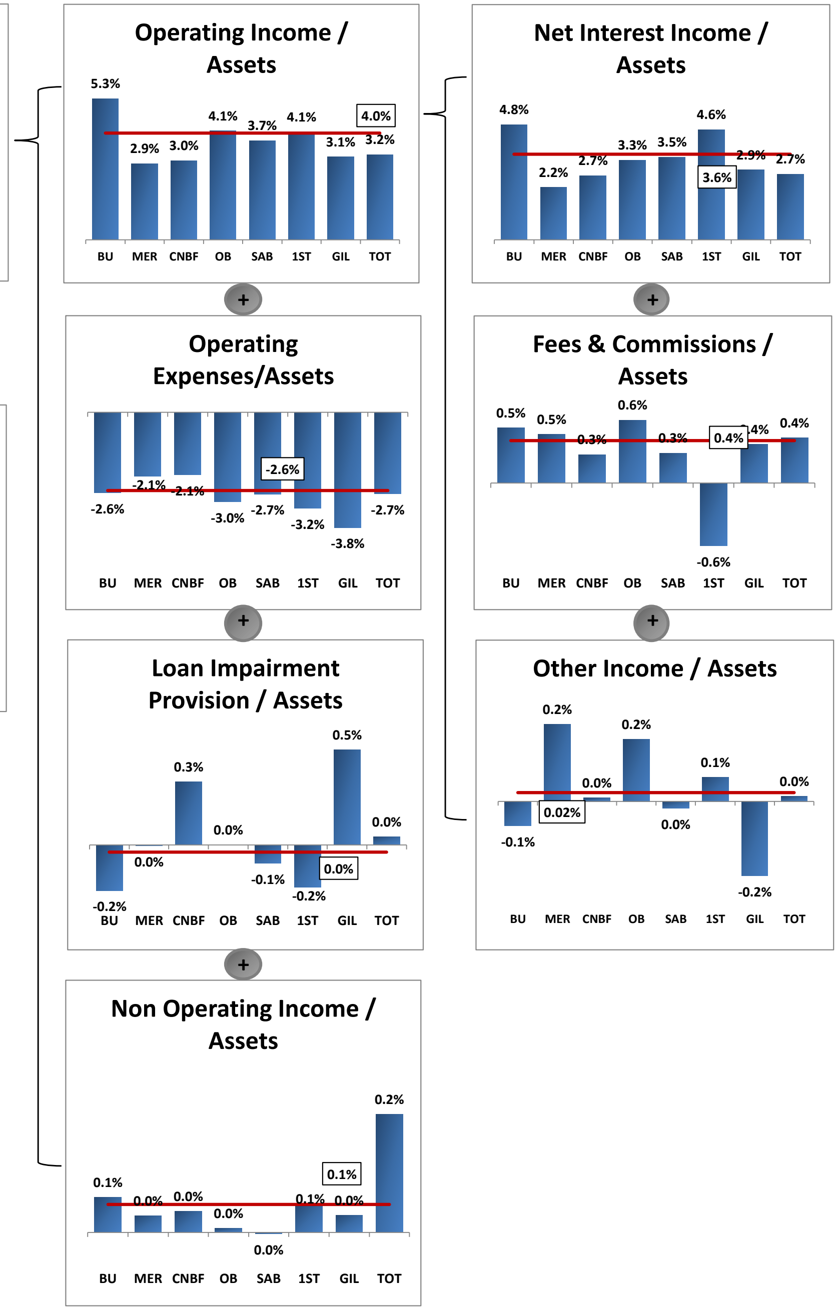
Important Note: This report analyzes on an individual basis the performance of the eight Florida-based banks with more than $1 billion in deposits in the Miami Metropolitan Area (MMA) as of June 30, 2013: BankUnited (BU), Mercantil Commercebank (MER), City National Bank of Florida (CNBF), Ocean Bank (OB), Sabadell United Bank (SAB), 1st United Bank (1ST), Gibraltar Private Bank & Trust Company (GIL) and TotalBank (TOT). Collectively these eight banks represent 14.4% of total deposits in the MMA and 58.4% of deposits in Florida-based banks.

Source: Federal Deposit Insurance Corporation (FDIC), 10-Q SEC filings; Analysis by "Financial Institutions Practice" V2A.

ANNEX 1: BANKING INDUSTRY PROFITABILITY 2013





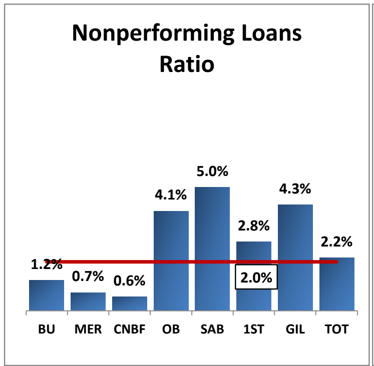
BU =	Bank United
MER =	Mercantil Bank
CNBF =	City National Bank Of Florida
OB =	Ocean Bank
SAB =	Sabadell United Bank
1ST =	1st United Bank
GIL =	Gibraltar Private Bank & Trust Co.
TOT =	TotalBank

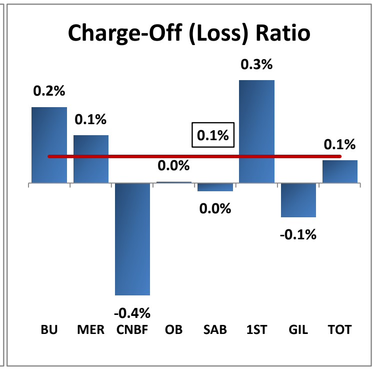
Note: Income and expense ratios are annualized
Source: Federal Deposit Insurance Corporation (FDIC)

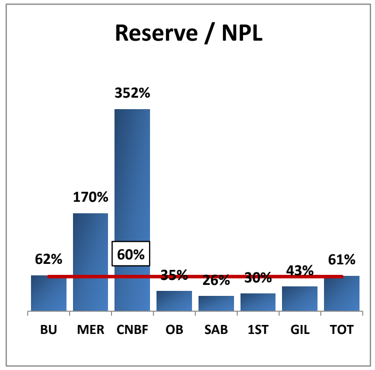
Industry

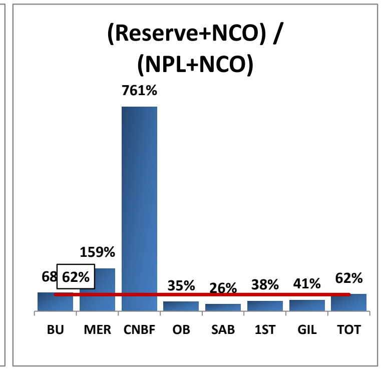
ANNEX 2: BANKING INDUSTRY PERFORMANCE RATIOS 2013

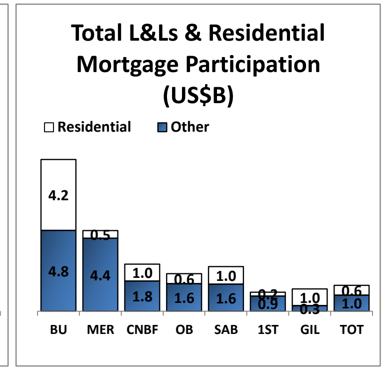
ASSET QUALITY



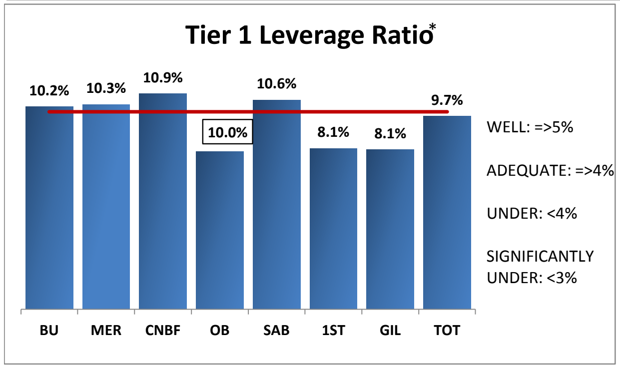


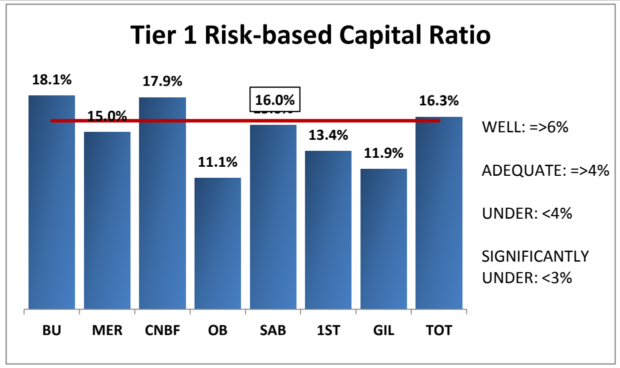


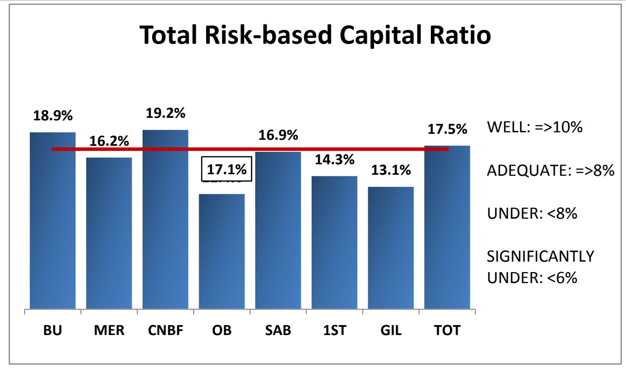




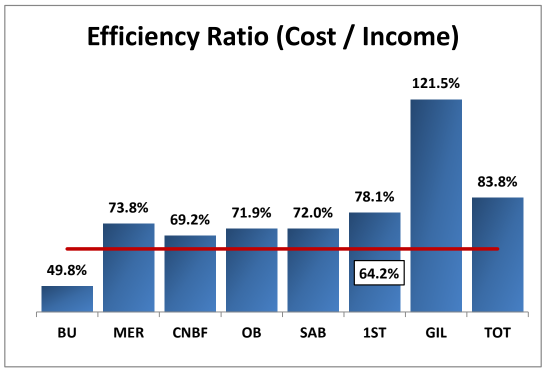
CAPITAL ADEQUACY

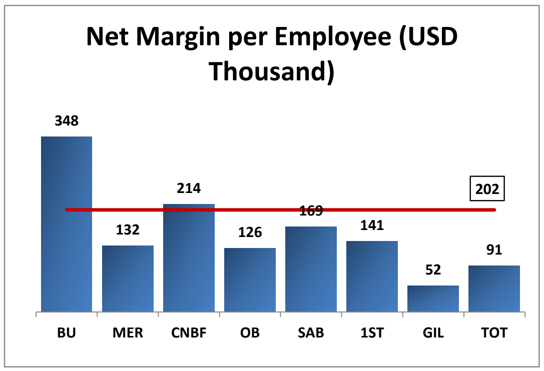






PRODUCTIVITY





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* Also referred to as Core Capital (leverage) Ratio by the FDIC

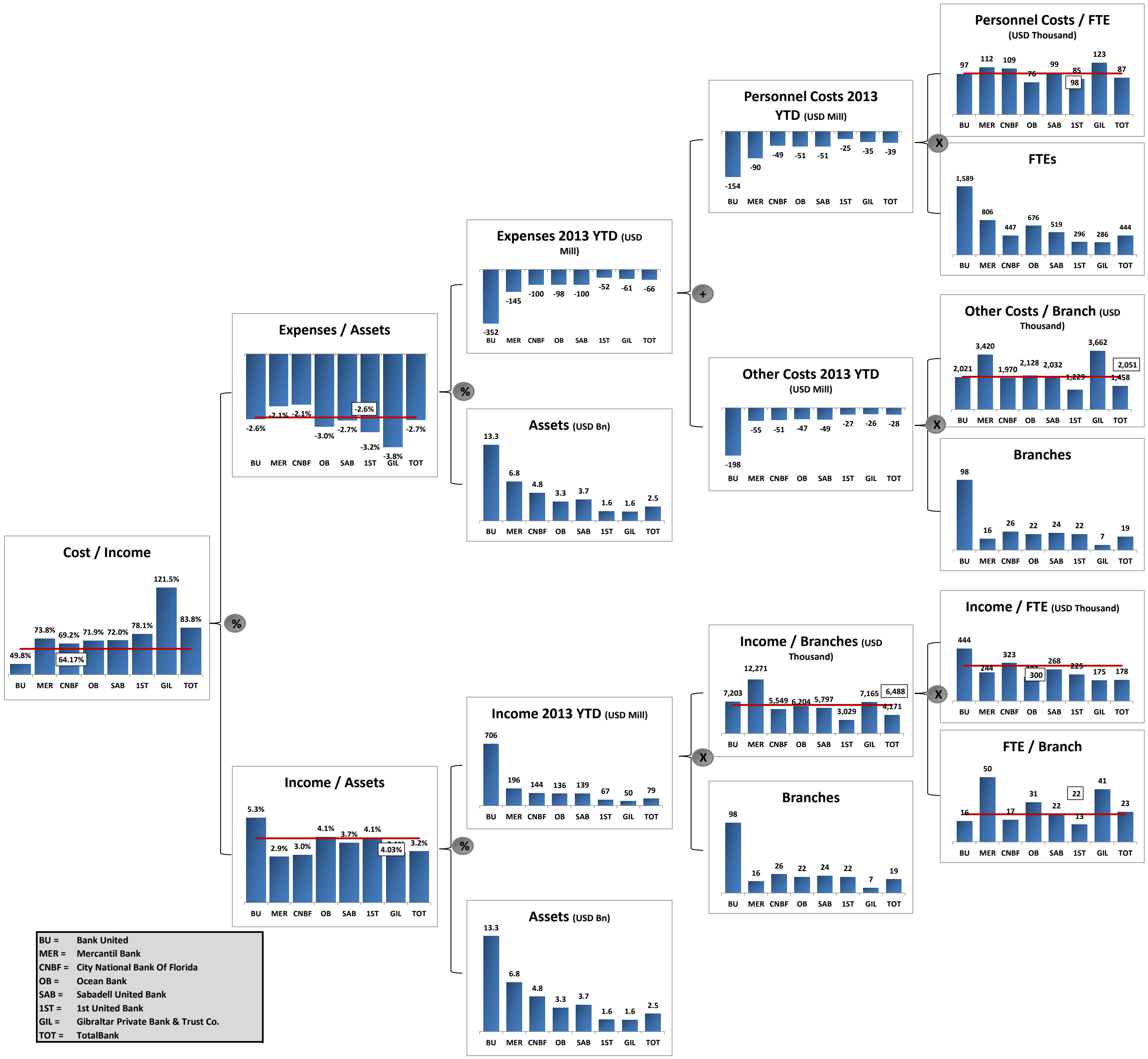
Notes:

Asset quality ratios are not adjusted for FDIC covered and available for sale portfolios

Income and expense ratios are annualized

Source: Federal Deposit Insurance Corporation (FDIC)

ANNEX 3: BANKING INDUSTRY PRODUCTIVITY 2013



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Note 1: expense and income ratios are annualized