

CPG and the American Banker Rank the Top Banks of 2018 *by Liam Murphy (202-737-7874)*

Each year, CPG partners with the American Banker to rank the top performing banks.

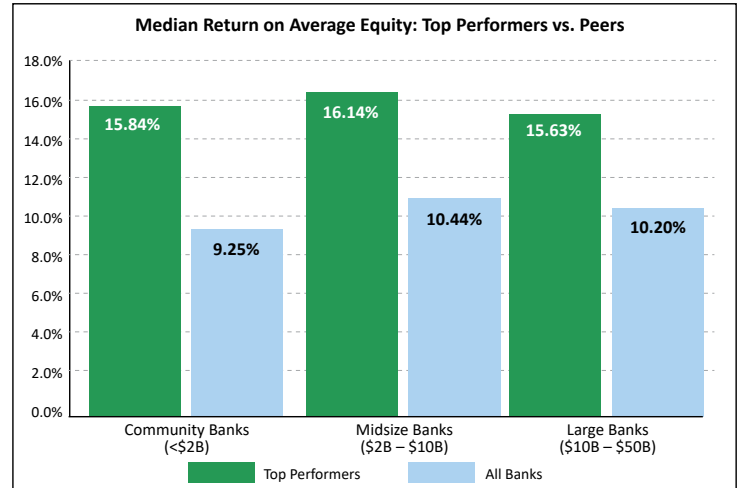
CPG, in conjunction with the American Banker, analyzed the performance of the banking industry in 2018. Our analysis divided the industry into three asset tiers: Community Banks (defined as having total assets of less than \$2.0B), Midsize Banks (total assets of between \$2.0B to \$10.0B), and Large Banks (total assets of between \$10.0B to \$50.0B).

Not surprisingly, every asset tier enjoyed a significant jump in overall profitability last year. The increase may be partly attributed to the fact that profitability in 2017 was somewhat depressed due to one-time adjustments related to the enactment of major tax legislation. The lower corporate tax rates that went into effect in 2018, coupled with continued economic growth and rising interest rates, expanded net interest margins and enabled banks in each asset tier to grow revenues faster than expenses.

Other takeaways from the 2018 analysis:

- ◆ Efficiency ratios continued to improve and asset quality remained good;
- ◆ However, growth in net loans and core deposits slowed substantially compared to 2017. The median core deposit growth rate last year fell to almost half of that in 2017, across all asset tiers;
- ◆ Deposit growth failed to match the pace of loan growth, which led to an increase in the ratio of net loans to deposits. This poses a growing threat to banks' ability to continue to lend.

Looking ahead, the central challenge for executives, as always, is to find the path that allows them to safely and profitably grow their



institutions. In light of the uncertainty surrounding the future of economic growth and interest rates, the operating environment in 2019 will not be as benign as that which prevailed last year. Consequently, perhaps the only sure path forward for banks is the one where they continue to provide value to their customers.

A full ranking of the public community banks and midsize banks appear in the May and June editions of the American Banker Magazine, respectively. Both are also available online: [Community Banks](#); [Midsize Banks](#).

To obtain a spreadsheet that contains the complete rankings of banks, or for other information, please contact [Kevin Halsey](#) (202-337-7873).

Financial Management and Decision Support Set Top Performers Apart

by Claude Hanley (202-337-7875) Excerpted from BankThink article: [BankThink: What sets the industry's top performers apart](#)

Year after year there is remarkable consistency among the banks at the top of the American Banker's annual rankings.

What accounts for their consistent high performance regardless of external factors like interest rates? It cannot be attributed solely to good market demographics or strategy. Top performers compete in a variety of markets and pursue different strategies.

While, top performers possess varying levels of competency across functions, they typically have very effective financial management and decision support. Broadly defined, this discipline encompasses financial reporting, financial and strategic planning, risk management, and analysis of sales reporting, performance and profitability.

Practices of effective decision support found at top performers include:

- ◆ **Rigorous budgeting, forecasting and planning processes.** Top performers gather meaningful input from line managers for budgeting

and planning through well-defined procedures. They use templates that isolate the financial impact expected from new initiatives.

- ◆ **Timely and relevant business intelligence and performance analytics.** Top performers deliver financial reporting and analysis in a targeted way throughout the organization, such as by line of business or geography. They incorporate performance metrics, peer data and trend analysis into financial reports.

Succinct and timely feedback helps line managers and executives evaluate performance, whether from new lines of business, new strategies, or sales and marketing initiatives. For instance, lead generation and customer



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Acquisition of Commercial Banks by Credit Unions

by [Claude Hanley](#) (202-337-7875)

So far this year, ten transactions have been announced where a credit union is buying the assets of a commercial bank. According to S&P Global Market Intelligence, this pace of cross-industry acquisition activity has already surpassed that of last year, when nine such transactions were announced the entire year. A number of strategic reasons underly this trend, including:

- ◆ The credit union acquires new core members and attains greater operating scale, which is critical for competing effectively in consumer financial services;
- ◆ Acquiring a bank helps the credit union to diversify its loan portfolio away from indirect automobile lending and also bolsters the products and services that the credit union can offer to business members;
- ◆ The acquisition provides entry into an attractive geographic market and provides new locations for the credit union to deliver its products and services; and
- ◆ Often, smaller banks have a limited number of suitors due to their lack of size and credit unions are often willing to pay higher price compared to bank acquirers. Also, the social issues are typically not as complicated to solve in an acquisition of a bank compared to a merger with another credit union.

We expect that these business dynamics factors will continue to entice credit unions to acquire banks.

Buyer	Buyer Location	Buyer Total Assets (\$000)	Announce Date	Seller	Seller Location	Seller Total Assets (\$000)
VyStar Credit Union	Jacksonville, FL	8,055,875	1/14/2019	Citizens State Bank	Perry, FL	279,724
Addition Financial Credit Union	Lake Mary, FL	1,868,150	1/24/2019	Fidelity Bank of Florida, National Association	Merritt Island, FL	174,418
FAIRWINDS Credit Union	Orlando, FL	2,319,989	2/19/2019	Friends Bank	New Smyrna Beach, FL	95,299
Power Financial Credit Union	Penbroke Pines, FL	654,654	3/27/2019	TransCapital Bank	Sunrise, FL	204,107
Spokane Teachers CU	Liberty Lake, WA	2,986,300	4/15/2019	Certain assets and liabilities of Banner Corp	Sandpoint, ID	NA
Teachers Credit Union	South Bend, IN	3,171,994	4/26/2019	New Bancorp, Inc.	New Buffalo, MI	117,804
MIDFLORIDA Credit Union	Lakeland, FL	3,486,947	5/3/2019	Certain assets and liabilities of Stark Bank Group	Naples, FL	NA
MIDFLORIDA Credit Union	Lakeland, FL	3,486,947	5/3/2019	Community Bank and Trust of Florida	Ocala, FL	733,320
Arizona Federal Credit Union	Phoenix, AZ	1,688,543	6/3/2019	Pinnacle Bank	Scottsdale, AZ	236,412
Verve Credit Union	Oshkosh, WI	961,373	6/18/2019	South Central Bank, NA	Chicago, IL	295,913

Source: S&P Global Market Intelligence.

Financial Management and Decision Support (continued)

conversion rates from digital channels are increasingly relevant, given the increased focus on digital marketing at many banks.

- ◆ **Financial and risk analyses for major projects.** Another best practice is to require a business case for capital investments, marketing initiatives and major spending programs. To establish accountability, reflect the business case in budgets very clearly.

Conduct follow-up analysis to determine if the anticipated return was realized. For instance, did an investment in video teller equipment yield salary savings as projected?

Focus on profitability when evaluating new products and lines of business. One bank abandoned a proposed partnership with a digital third-party consumer lender because the financial and risk analysis showed that the net profits, after accounting for the revenue split with the partner, did not justify the potential credit risk.

Macroeconomic conditions certainly influence performance. However, institutions with important decision support traits like those listed here can become top performers regardless of the operating environment.

Announcements

CPG is happy to welcome **Emma Metzler** and **Alexandra Akins** to the firm! Both are recent graduates of the University of Maryland and join us as Business Analysts. Go Terps!

Recent Articles & Speeches

[It's Never too Early for Marketing Planning](#), ABA Bank Marketing, July 9, 2019, by Mary Ellen Georgas-Tellefsen.

[BankThink: What Sets the Industry's Top Performers Apart](#),

American Banker's BankThink, June 6, 2019, by Claude Hanley.

[No Participation Trophies Here: Our 2019 Ranking of Midtier Banks](#), American Banker, June 3, 2019, by Andy Peters, featuring Kevin Halsey.

[Five Common Digital Misfires and How to Avoid Them](#), CUES Webinar, May 30, 2019, by Mark Gibson and Mike Wallach.

[Harnessing Data to Move Marketing Forward](#), ABA Bank Marketing, May 29, 2019, by Mark Gibson and Mike Wallach.

[CFO Focus: Scenario Planning and your Financial Future](#), CUES, May 22, 2019, by Claude Hanley.

[Warning Signs amid Big Gains - Ranking the Top 200 Community Banks](#), American Banker Magazine, May 3, 2019, by Bonnie McGeer featuring Kevin Halsey.