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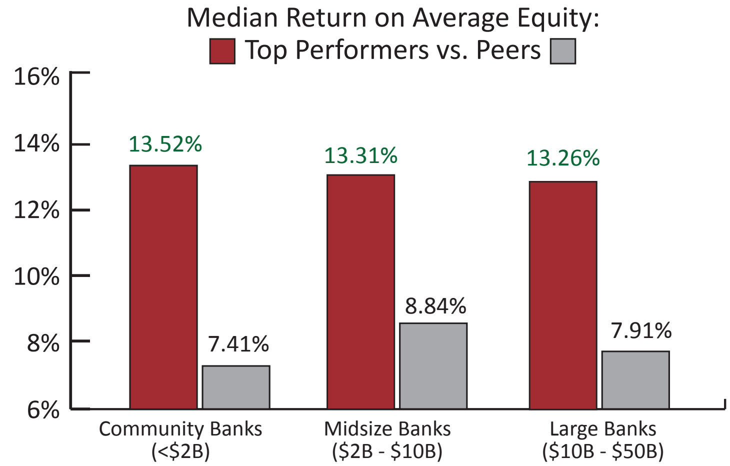
Results from the Top: CPG and the American Banker Rank the Nation's Best Banks

For the second straight month, CPG partnered with the American Banker to rank and analyze the 2015 performance of the banking industry. This month, we focused on three groups of banks (both public and private): community banks (defined as having assets of less than $2 billion), midsize banks ($2 billion to $10 billion), and large banks ($10 billion to $50 billion).

Despite differences in business models and size, our analysis shows that top performing banks among each of the three asset tiers were able to generate median return on average equity of greater than 13%. This is an impressive feat given the margin pressures and rising cost challenges facing the industry.

An examination of the highest ranking banks reveals some key similarities among the group. For one, they were more productive and efficient. In 2015, the top performing groups were able to attain efficiency ratios that were between 4% and 14% lower than their peer groups. Top performers also grew the balance sheet faster than peers, and this helped them to offset rising compliance and technology costs. Furthermore, top performers invested to grow. Top performers in each group increased expenses at a much higher clip than their counterparts, but they were able to attain even greater rates of revenue growth. This enabled them to generate greater operating leverage.

A full ranking of the midsize banks appears in the June edition of the American Banker Magazine and is made available online.



Source: Capital Performance Group analysis of data provided by SNL Financial, LC, 2016. Financial data is based on SEC filings. If SEC data was unavailable, regulatory financials were used. Data is for the twelve months ended December 31, 2015, unless otherwise indicated.

Mary Beth Sullivan's BankThink article, "Lessons from the Top-Performing Banks", provides a comprehensive view of the common traits that set high performers apart from their peers. It also appears in the American Banker magazine.

To obtain a spreadsheet that contains the full rankings of banks, or for other information, please contact Kevin Halsey at khalsey@capitalperform.com or 202-337-7873.

CPG is proud to partner again with American Banker to rank the top performing banks of 2015. In June, the American Banker Magazine features the ranking of banks with assets between $2 billion and $10 billion. Supporting analytics and a ranking of banks with assets between $10 billion and $50 billion is also available.

Retail Distribution: Strengths & Challenges

For many banks, their retail distribution networks represent both their greatest strength and most significant challenge. Our research clearly shows that small businesses and consumers across all segments value the convenience, choice and access provided by a multi-channel delivery network. However, it is also clear that they do not value all channels equally for all transactions and interactions.

The importance and value placed on each channel varies by both customer demographics and transaction type. Often this importance is not always reflected in frequency of use. Branches have seen considerable declines in transaction volumes and traffic, yet the importance placed on physical facilities by consumers and small businesses for high value services (opening accounts, making deposits, etc.) remains significantly high. As demographics, behaviors and attitudes change and evolve, the need to maintain, expand, and continue to invest in a wide variety of delivery channels creates a significant strategic and financial challenge for banks of all sizes. Addressing these challenges requires a clear vision of the role and expectations for the retail distribution system overall and for each of its component channels, a thorough understanding of customer profiles, behaviors and expectations, a comprehensive roadmap to guide investment activities and improvement initiatives, and a framework to manage the network consistently and effectively.

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Leadership Lessons from High Performing Banks

Excerpted from American Banker's BankThink, June 1, 2016, by Mary Beth Sullivan.

For more than 20 years CPG has studied the industry's top performers. We have found a few traits that set them apart from other banks:

- More efficient and more productive. The highest-performing banks across all asset sizes consistently achieve median efficiency ratios that are 5% to 15% lower than their counterparts.
- More agile. Standouts demonstrate the ability to shift strategies in response to marketplace trends.
- A choice in today's marketplace. The top performers are increasingly distancing themselves from their competitors in the minds of customers and prospects. These banks don't just reward their shareholders; they reward their customers too.
- Action-oriented, with can-do cultures. At many of the top banks, performance itself is a way of life. These institutions promote individuals who build teamwork, motivate others and champion organizational change.
- Focused and aligned. The banks on the list of top performers are quite different from each other. Regardless of the strategy pursued, these banks have a well-defined, well-understood plan that gets them to pay dirt, and they align their resources accordingly.

Achieving high performance is a challenge. When taken together, the traits above suggest that the real similarity among the elite banks is strong leadership.

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Retail Distribution (continued)

We have worked with numerous clients to create programs and plans to help them optimize their retail distribution networks and have established a thorough and proven process to achieve tangible results.

CPG executes a four phase process:

Phase One: A comprehensive retail distribution strategy and vision to guide analytical and planning efforts. The vision establishes the role of the retail distribution network in obtaining competitive distinctiveness, achieving financial goals and creating a differentiated customer experience.

Phase Two: A thorough and objective analysis of the configuration, capabilities, utilization and performance of the current retail distribution network.

Phase Three: A specific roadmap to guide investment decisions, establish performance criteria and objectives, build credible business cases, and assign implementation tasks, accountabilities and timeframes.

Phase Four: Managing, monitoring and reporting ongoing performance and results against established goals.

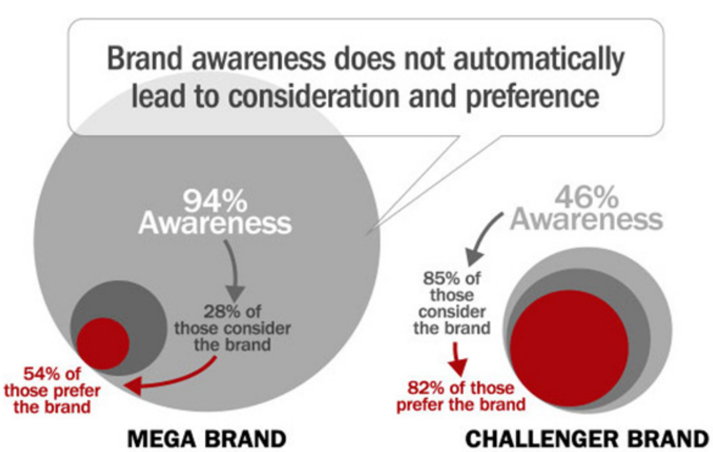
Schedule a Presentation

We have delivered insightful presentations on retail distribution trends and issues to numerous industry groups and management teams. Our clients have found these presentations help bring focus to their planning activities and investment decisions. If you would like to schedule an in-person presentation please contact either Mary Beth Sullivan at msullivan@capitalperform.com or 202-337-7872, or Rolland Johannsen at rjohannsen@capitalperform.com or 646-303-3312.

Improving Brand Preference Drives New Household Growth

(excerpted from The Financial Brand)

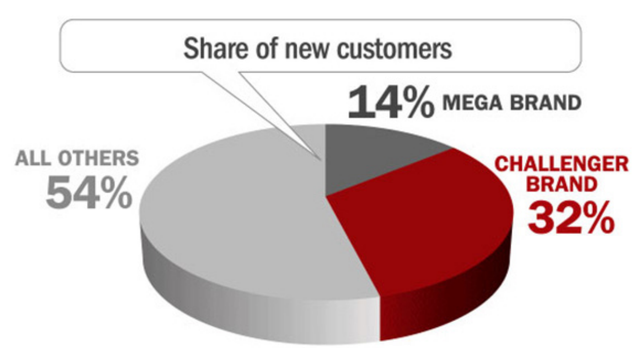
Building your brand should boil down to simple math — the kind of equation that any CFO would love. You need to increase unaided awareness of your brand so that when a prospect decides to change banking providers, they think of you (or at least place you in consideration). But, it's not enough for them to just think of you — they need to think *good things* about you. That's called "creating brand preference." Increasing awareness — then managing and increasing conversions through the consideration and preference stages — drives increased sales.



Source: The Financial Brand 2016 Marketing Survey.

Large institutions often have an advantage with awareness, but struggle with creating preference. As the chart below left shows, 94% of the public is aware of the Mega Brand, but only 14% would prefer to do business with it. Contrast that with smaller Challenger Brand, whose awareness is only half as much, but because it is well liked and respected, the challenger does a much more effective job converting awareness into preference, and its share of new customers is more than double that of Mega Brand.

This is how the math of branding works. And calculating what one percentage point of growth in commercial loan or retail deposit market share is worth helps you size how much time and money your organization should be spending on building a strong positive brand image.



Source: The Financial Brand 2016 Marketing Survey.