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CPG and the American Banker Rank the Top Banks of 2017 *by Kevin Halsey (202-337-7873)*

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

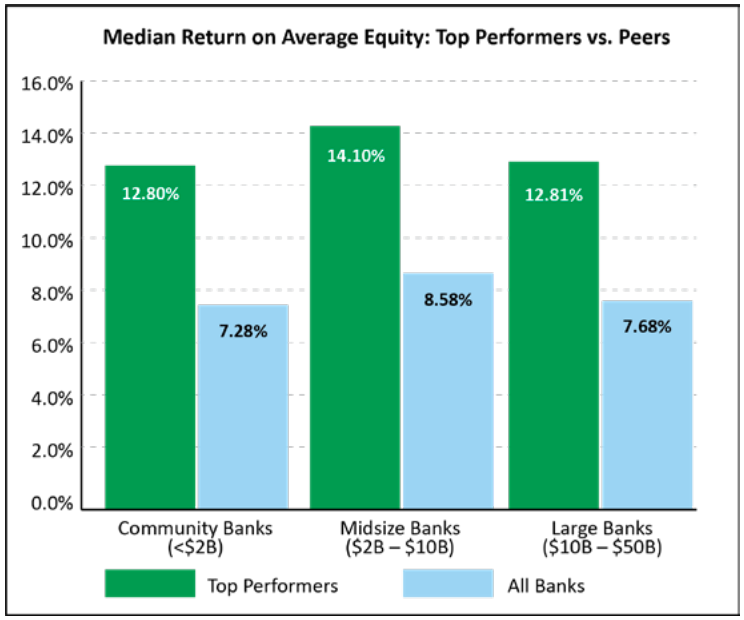
CPG, in conjunction with the American Banker Magazine, ranked and analyzed the nation's top banks of 2017. This month, we focused on three groups of banks: community banks (defined as having assets of less than $2B), midsize banks ($2B to $10B), and large banks ($10B to $50B).

Across all asset tiers, 2017 was an interesting year for profitability. The passage of the Tax Cuts and Jobs Act in December caused many to write down deferred tax assets. These one-time write-downs were almost entirely responsible for the year-over-year decline in profitability. It was an otherwise great year. Net interest margins increased, efficiency ratios fell, and asset quality metrics improved.

Impressively, the top performing institutions in each group continued to deliver double-digit ROE though many were impacted by the write-downs. A key ingredient to their successes was balance sheet growth. The top performers in each group grew both core deposits and loans at a faster rate than peers. The ability to fund the balance sheet with cheap deposits proved important for many as it allowed their net interest margins to expand in a rising rate environment.

We believe relaxed regulations, rising rates, and lower taxes in 2018 should enable most banks to generate an ROAE of over 10% for the year. It will be interesting to see just how profitable the nation's top banks will be in 2018 in light of these favorable industry headwinds.

A full ranking of the public community banks and midsize banks appears 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 at khalsey@capitalperform.com or 202-337-7873.

Focus: Imperative for High Performance *by Kevin Halsey (202-337-7873)*

Excerpted from Kevin Halsey's BankThink article: "The Most Important Strategy of Top Performing Banks: Simplify"

Thanks to rising interest rates, lower corporate taxes, and easing of regulations, the prospects for higher bank profits are bright. The positive trends provide management teams with options regarding where and how to invest in their businesses, according to Capital Performance Group's analysis of the banking industry's 2017 financial performance. The dramatic changes in consumer and business behavior and the rapid adoption of technology create mandates for investment in new capabilities – and there are a lot of options to consider.

More options, however, don't always translate to better decisions for the long-term success of a bank. There are many research studies that suggest the greater the number of choices, the harder it is to make the right choice.

Banks don't necessarily have a good track record with the concept of "more is better". More branches in more markets have contributed to inefficiencies at many institutions. More product offerings have resulted in too many choices for consumers, watered-down value propositions, ineffective sales conversations, and operational complexity in the back office. For some banks, more lines of business have distracted management teams while contributing little to the bottom line.

Our research on the top-performing banks provides examples of management teams that demonstrate an ability to manage the noise and focus on the most important drivers of success for their institutions:

- Some of the standouts purposefully shrank or completely exited lines of business to focus on core activities. Residential mortgage lending was a common pain point this year. Bank of the Ozarks exited its secondary market home lending business, and U.S. Bank exited its wholesale mortgage lending facility.
- Serving particular customer segments continued to work well for

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Focus (continued)

others. Silicon Valley Bank (innovation focus), Bremer Financial (agriculture and nonprofit focus), Signature Bank (middle-market business focus), and East West Bank (Chinese-American focus) all offer value propositions that make them perennial high performers.

- Driving efficiency helped propel others to success. Continued trimming of the branch network was a profitable strategy for FCB Financial Holdings and Western Alliance and, notably, they still maintain healthy core deposit growth. Both have reduced their branch networks by more than 10% since 2015, contributing to steady improvements in their efficiency ratios. Many top performers continued to post sub 40% efficiency ratios by intensely monitoring noninterest expense levels against peers and ensuring that new investments generate positive operating leverage.

Ultimately, focus remains the most important strategic imperative for high-performing banks. So, what management characteristics lead to clarity in strategic focus?

- They have alignment between goals and activities. They set clear financial and strategic targets to be achieved. In turn, these targets provide the framework for prioritizing the initiatives to be pursued and the others that should be postponed or dismissed completely.
- They are data-savvy. They use data accurately and objectively to identify the handful of opportunities that will help the bank attain strategic targets. They then use data again to determine the best options for pursuing those opportunities.
- They understand what they do well. The high performers recognize what strengths they can leverage and build on. They know which segments they serve well. In short, they see where they can win.
- They communicate better. A sharp strategic focus and a well-conceived plan are important. However, both must be clearly and consistently communicated throughout the organization to ensure unity of direction. It's no accident that the best leaders are also the best communicators.
- They act fast. None of the above matters if the institution takes too long to implement and execute. In today's world, the timeline for action is becoming shorter and shorter.

Top Performing Credit Unions

by Kevin Halsey (202-337-7873)

CPG also ranked the financial performance of credit unions with over $1 billion in assets, based on three-year average return on assets. The five credit unions with the highest three-year average ROA are shown below.

Rank Institution	City, St	Total Assets ($000) 2017	Three-Year Avg. ROAA (%) 2015-2017
1 Redwood Credit Union	Santa Rosa, CA	4,046,987	1.87%
2 Lake Michigan Credit Union	Grand Rapids, MI	5,221,804	1.79%
3 Idaho Central Credit Union	Chubbuck, ID	3,538,146	1.79%
4 Robins Financial Credit Union	Warner Robins, GA	2,383,369	1.73%
5 Genisys Credit Union	Auburn Hills, MI	2,349,213	1.68%
Median: All Credit Unions (>$1B)[1]		1,672,210	0.79%
Median: Top Performers[2]		2,355,786	1.22%

Top performing credit unions were defined as those institutions that generated a three-year average ROA in the top quartile. The top performing credit unions outperformed their counterparts across many of the profitability metrics. They also grew members, loans, and deposits at a faster rate than their peers.

The ability to build scale was important for the top performers. Median asset size of the top performing group was 40% higher than that of the peer median. This increased scale allowed the top performers to attain efficiency ratios that were significantly lower than their counterparts.

	Median All Credit Unions[1] 2017	Median Top Performers[2]	Variance 2017
Basic Information			
Number of Institutions	290	73	NM
Total Assets ($000)	1,670,210	2,355,786	683,577
Profitability & Efficiency			
ROAA	0.81%	1.24%	0.43%
Net Interest Margin	3.23%	3.31%	0.08%
Noninterest Income/Avg. Assets	1.36%	1.48%	0.13%
Noninterest Expense/Avg. Assets	3.05%	2.94%	-0.11%
Efficiency Ratio	71.65%	63.10%	-8.55%
Annual Growth, 2017			
Member Growth	5.68%	8.22%	2.53%
Loan Growth	10.85%	13.12%	2.28%
Deposit and Share Growth	6.68%	8.16%	1.49%

Source: CPG Analysis of data provided by S&P Global Market Intelligence, 2018. Data are for the twelve months ended December 31, 2017.

1. All credit unions with assets greater than $1 billion were considered for this analysis. Corporate credit unions were excluded for the analysis.
2. The Top Performers are credit unions that rank in the top 75th percentile based on a three-year average of return on average assets.

Announcements

Recent Articles & Speeches

The Siren Song of Bank Marketing, *ABA Bank Marketing*, June 12, 2018, by Mark Gibson.

BankThink: Most Important Strategy of Top Performing Banks? Simplify. *American Banker BankThink*, June 7, 2017, by Kevin Halsey.

The Branch-Closing Conundrum: Our 2018 Ranking of Midtier Banks, American Banker, June 7, 2018, by Andy Peters featuring Kevin Halsey.

Strategies to Succeed in a Rapidly Changing Industry, Massachusetts Bankers Women in Banking Conference, May 24, 2018, by Mary Beth Sullivan.

Customer Experience as a Competitive Weapon, Strategic Information Resources Consumer Lending Summit, May 22, 2018, by Mary Ellen Georgas-Tellefsen.

Financial Marketers: Are You Listening? Stop Buying New Customers, *The Financial Brand*, May 7, 2018, by Mark Gibson.

Cautiously Optimistic: Top Performing Publicly-Traded Community Banks <$2B, *American Banker*, May 4, 2018, by Bonnie McGeer featuring Kevin Halsey.

The Five Pitfalls of Digital Marketing Banks and Credit Unions, *The Financial Brand*, May 4, 2018, by Mark Gibson.

How Banks Can Regain Home Loan Market Share, *ABA Bank Marketing*, April 18, 2019, by Mark Gibson.