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CPG and the American Banker Rank The Top Performing Banks of 2015

CPG is proud to partner again with American Banker to rank the top performing banks of 2015.

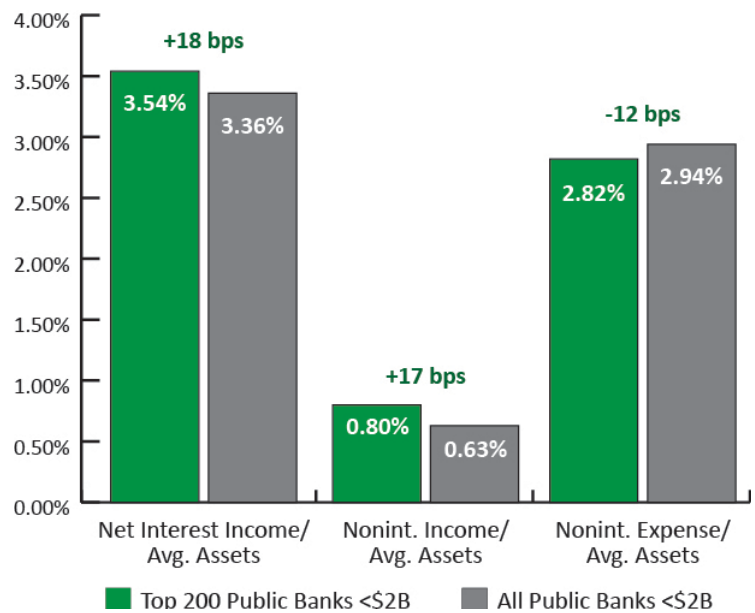
Overall, 2015 performance was good for publicly-traded community banks: median return on average equity for the group improved by 50 basis points over 2014 levels. This improvement was mainly driven by reductions in noninterest expenses. Net interest income and noninterest income levels remained relatively flat, but the group was able to reduce its median ratio of noninterest expense to average assets by 5 basis points. Asset quality improved significantly year-over-year for the group, and this likely contributed to a reduction in problem loan expenses.

The top 200 public community banks attained superior profitability compared to their counterparts by modestly outperforming the group across each of the major income statement items. As a percentage of average assets, the top 200 achieved net interest income that was 18 basis points higher, noninterest incomes was 17 basis points higher, and noninterest expenses was 12 basis points lower. Taken together, this enabled the top 200 to achieve significantly better efficiency ratios and higher profitability.

A ranking of publicly-traded banks with assets of less than $2 billion appears in the May edition of the American Banker Magazine.

In June, the American Banker Magazine will feature 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 will also be available online in June.

Top 200 Public Community Banks vs. All Public Community Banks



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.

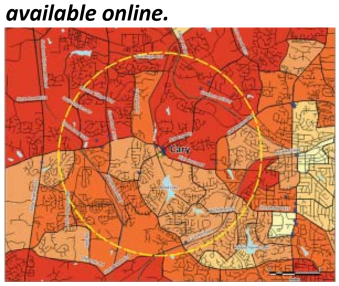
Rankings of the top performing mid-tier banks and thrifts ($2B - $10B) will be available on the American Banker website and in the June 2016 issue of the American Banker Magazine. For more information, please contact Kevin Halsey at khalsey@capitalperform.com or 202-337-7873.

Leveraging Small Data to Enhance Branch Network Performance

For most banks, including community banks, there is a tremendous opportunity to enhance sales and improve the performance of the branch network through the use of data analytics. These analytics require banks to obtain insights in three areas:

Trade area opportunity. Markets can vary significantly across a branch network. It is important that banks are able to measure and differentiate the opportunity present in the geographic areas that surround each branch (known as branch trade areas). Understanding these differences can allow for differentiated branch goal setting. In turn, this can help to inform increased sales goals and sales results for branches located in attractive markets. This analysis requires collecting and aggregating demographic and economic data, often at the block group level, from third parties. Most of this data can be purchased, analyzed, and put to use in a relatively short amount of time.

Example of branch trade area attractiveness map. Larger map available online.



Branch performance. The performance of each branch should be evaluated across a variety of performance metrics. Insights from this analysis and the trade area opportunity analysis can be combined to inform decisions related to resource allocation and the priorities for enhanced sales management. Branches that have high market opportunity but below average performance should be prioritized for performance improvement.

Segment, channel, and product usage. Effective marketing is not possible without understanding the characteristics and preferences of your customers and potential customers, including how they use your products and how they prefer to use channels. Using these insights, bankers can tailor their marketing tactics at both the overall branch network level and, in some cases, at the market level. For example, banks can implement direct mail marketing campaigns in branch trade areas with high market opportunity and low penetration of desired products. This target approach can signifi-

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Leveraging Small Data (continued)

cantly improve direct mail response rates and return on marketing investment.

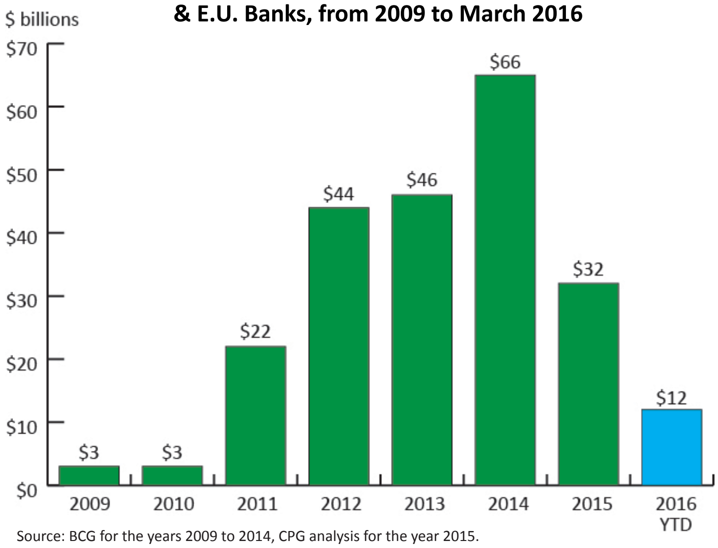
Banks that obtain insights on these three areas and act upon them experience impressive sales increases. One bank that implemented a sales improvement program based on these analytics reported a thirty percent increase in the number of branches that achieved or exceeded goals. Over time, that bank was able to continue to set more aggressive sales goals.

To learn more about how your bank can improve its branch network performance through the use of small data, please contact Kevin Halsey at khalsey@capitalperform.com or 202-337-7873.

Trends in Regulatory Fines & Penalites

The steady stream of penalties levied in the first two months of 2016 came to a halt in March. Of the 18 largest institutions headquartered in the U.S. and E.U., none experienced a fine, penalty, or settlement of greater than $50 million between March 1st and March 31st. As a result, CPG's year-to-date fine total stayed at $12.5 billion.

Total Fines, Penalties, & Settlements for the 18 largest U.S. & E.U. Banks, from 2009 to March 2016



Source: BCG for the years 2009 to 2014, CPG analysis for the year 2015.

Nevertheless, there are several ongoing investigations that could result in additional penalties in the coming months. In March, Goldman Sachs came under scrutiny for alleged involvement in several illegal activities including: manipulating Treasury bond prices; price-rigging for the secondary market; and money laundering.

A high profile lawsuit was also announced in March, between retail merchants and major credit card issuers, including Barclays and Wells Fargo. The plaintiffs claim that the credit card issuers colluded to shift the liability of fraudulent credit card transactions from themselves to retailers when they made the switch to EMV chip cards.

Between continued regulatory scrutiny, the rise of new lawsuits, and ongoing investigations, it seems clear that the lack of large fines, penalties, and settlements in March represents only a temporary respite for our large bank group.

Regulators have emphasized the need for proactive risk management frameworks at insitutions of all sizes. Large insitutions - those at or near $50B - are expected to have more rigorous risk managment programs in place. Smaller institutions have found that they too can benefit from more formal processes.

CPG has created the RISK EVENTS MONITOR, a new product that allows you to review and respond to outside events in a more efficient and proactive manner. Each report includes:

- *A monthly summary of events – including events that could have implications for reputational and strategic risk*
- *Information on the relative impact of events*
- *Tools to help you identify priority events for your bank*

With the MONITOR, institutions can manage external risk more efficiently and effectively. While institutions have systems in place to monitor internal risk, external risk can be harder to track.

For more information, please contact Mary Beth Sullivan at msullivan@capitalperform.com or 202-337-7872.

Marketing ROI in Banking: A Big Black Hole? (excerpted from The Financial Brand)

Every year, The Financial Brand fields an annual survey exploring the marketing challenges facing retail banks and credit unions. Insights from the 2016 Financial Marketing Survey reveal major gaps between how senior marketers see themselves in their role and how non-marketing executives view marketing.

Financial industry executives agree that measuring the results and impact of their marketing programs is hazy at best. Most have no idea how much their institutions should be spending on marketing or what they get in return for what they do spend. In an industry characterized by intense competition and razor thin margins, this has to change. In an enduring low-interest rate environment, financial institutions are struggling to maintain profitability and any expense that does not have an obvious ROI is going to be scrutinized, cut or reduced.

Marketing leaders at banks and credit unions are feeling the heat to justify their marketing efforts. Clearly they need to grab the reins and demonstrate – through data and facts – that what they are doing is achieving quantifiable results.

Smart marketers begin with a clear understanding of what type of customer is being targeted, and how that customer researches and buys the product in question. Utilizing tools such as Scarborough and Neilsen are critical to making sure that money is being focused where it is most likely to advance consumers through the buying tunnel.

Mixed media modeling is another tool that uses complex math to correlate media spend with actual sales. Companies like Market-Share, Google Analytics 360 and Visual IQ pioneered this type of analytical methodology over the past decade. And that's why some of their services run upwards of $250,000 per year.

For smaller organizations, similar methodologies are available today for a fraction of that cost. If a financial institution can provide at least three years of media plans and sales results, there are many different third-party service providers that can help them determine what drives sales and what doesn't. Typically, an institution could invest around 2% of its overall budget into this type of ROI analysis and wind up saving 10-20% through reduced waste and more precise targeting.

Want more? CPG's Mark Gibson and Mary Beth Sullivan will be presenting "How to Create a C-Suite Savvy Marketing Plan" at The Financial Brand Forum in Las Vegas on May 18th.