

The 7 Secrets of Consistently High Performing Community Banks



2017 VBA ANNUAL CONVENTION
Virginia Bankers Association
June 18-21 • The Omni Homestead Resort



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**VIRGINIA BANKERS
ASSOCIATION**

Discussion Topics

- I. Growth, Consolidation & Concentration Trends
- II. Consistent High Performance
- III. What Makes CHP Banks Different?
- IV. What does this mean for me?

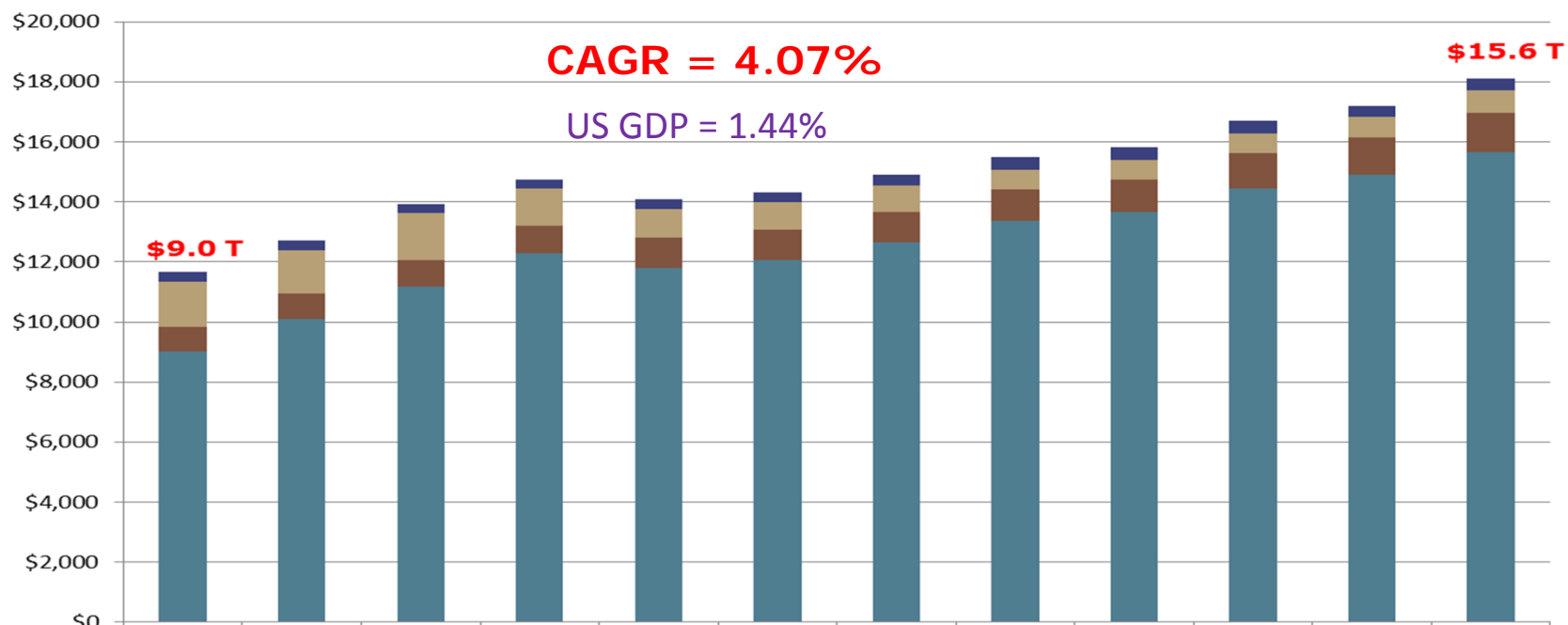


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Industry Growth, Consolidation & Concentration Trends

Total Assets by Institution Type
(in Billions \$'s)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
■ SAVINGS BANKS	\$326	\$306	\$307	\$305	\$323	\$323	\$362	\$442	\$425	\$411	\$367	\$380
■ S&L's	\$1,512	\$1,464	\$1,552	\$1,230	\$943	\$933	\$884	\$629	\$641	\$677	\$690	\$753
■ CREDIT UNIONS	\$801	\$853	\$908	\$909	\$1,000	\$1,005	\$1,007	\$1,055	\$1,093	\$1,153	\$1,239	\$1,328
■ COMM'L BANKS	\$9,036	\$10,088	\$11,171	\$12,302	\$11,816	\$12,061	\$12,646	\$13,379	\$13,665	\$14,465	\$14,911	\$15,646

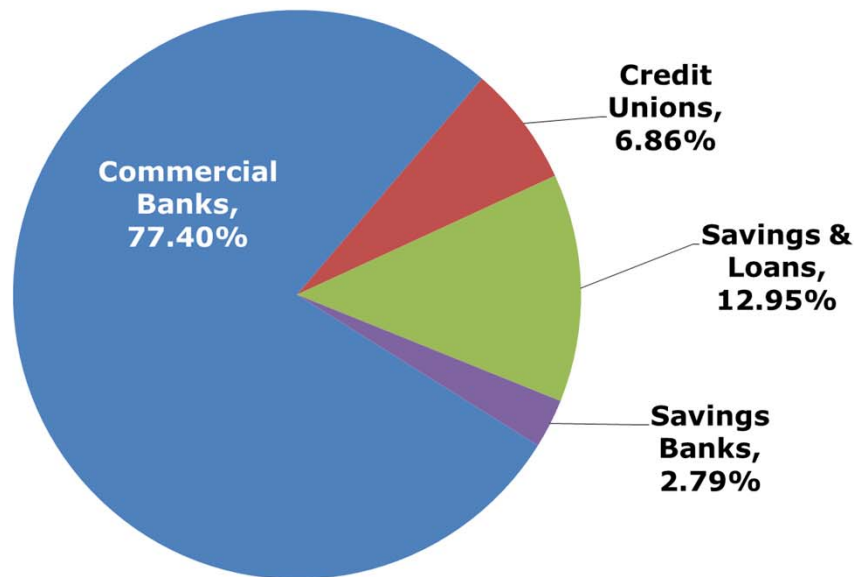


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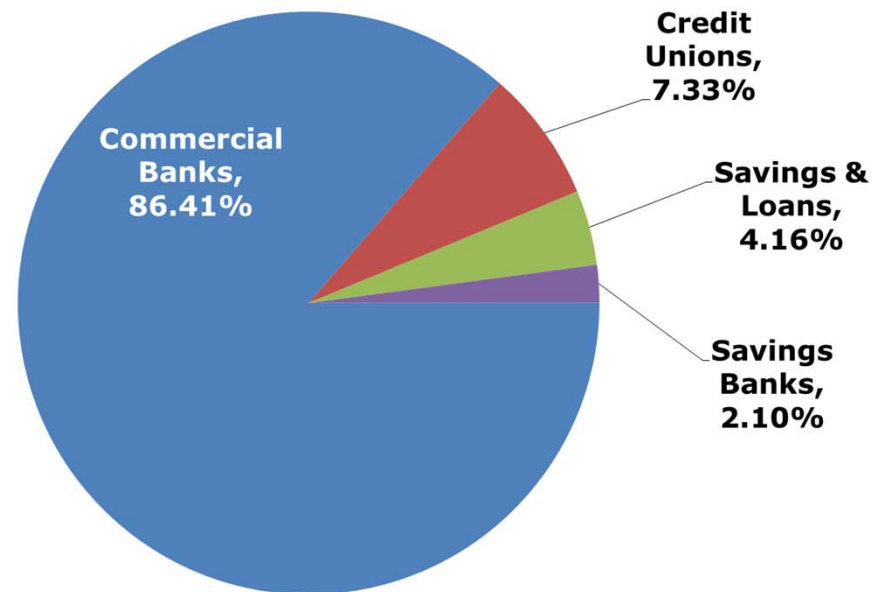
Total Assets by Industry Segment

2005



\$11.7 Trillion

2016



\$18.1 Trillion

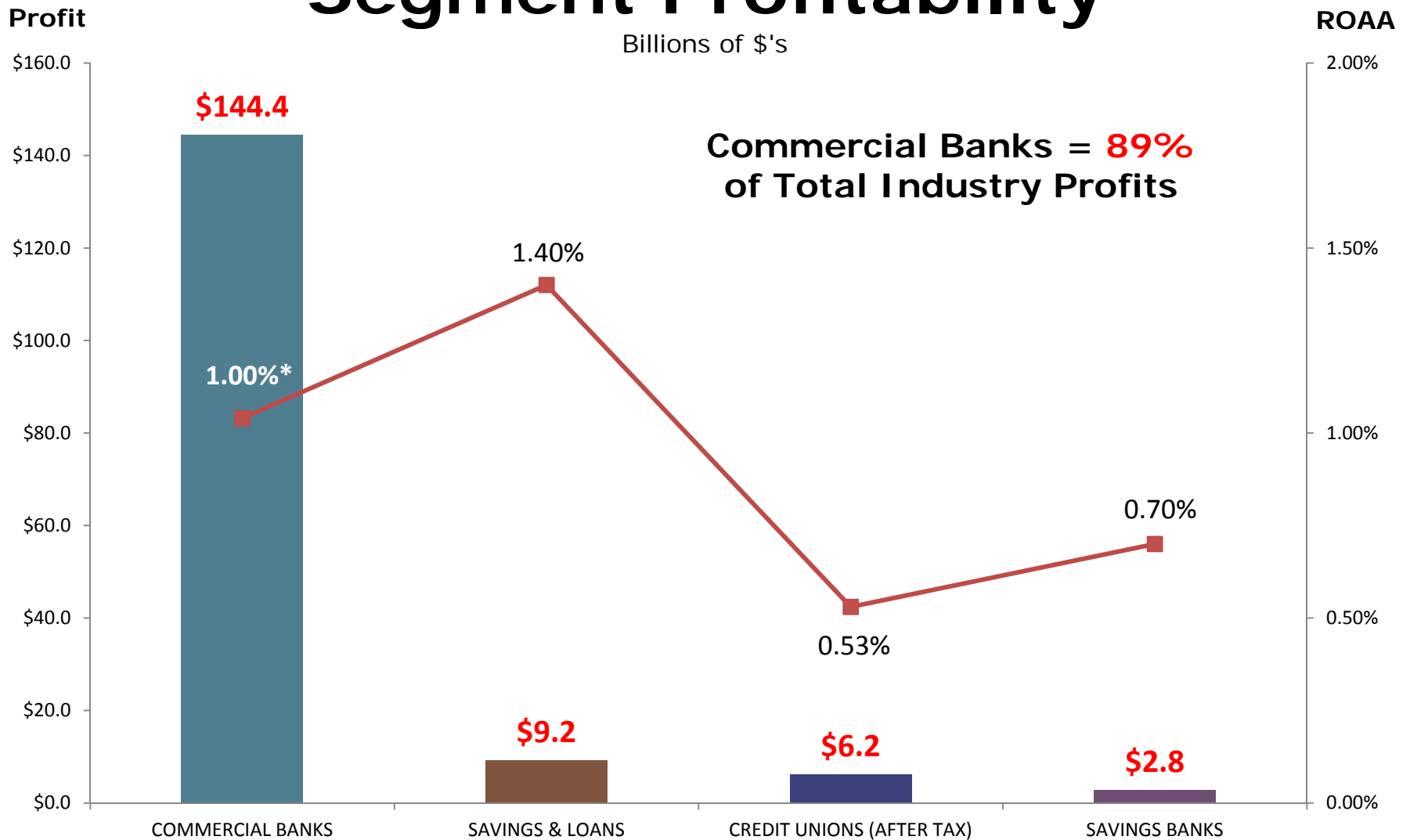


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Segment Profitability

Billions of \$'s

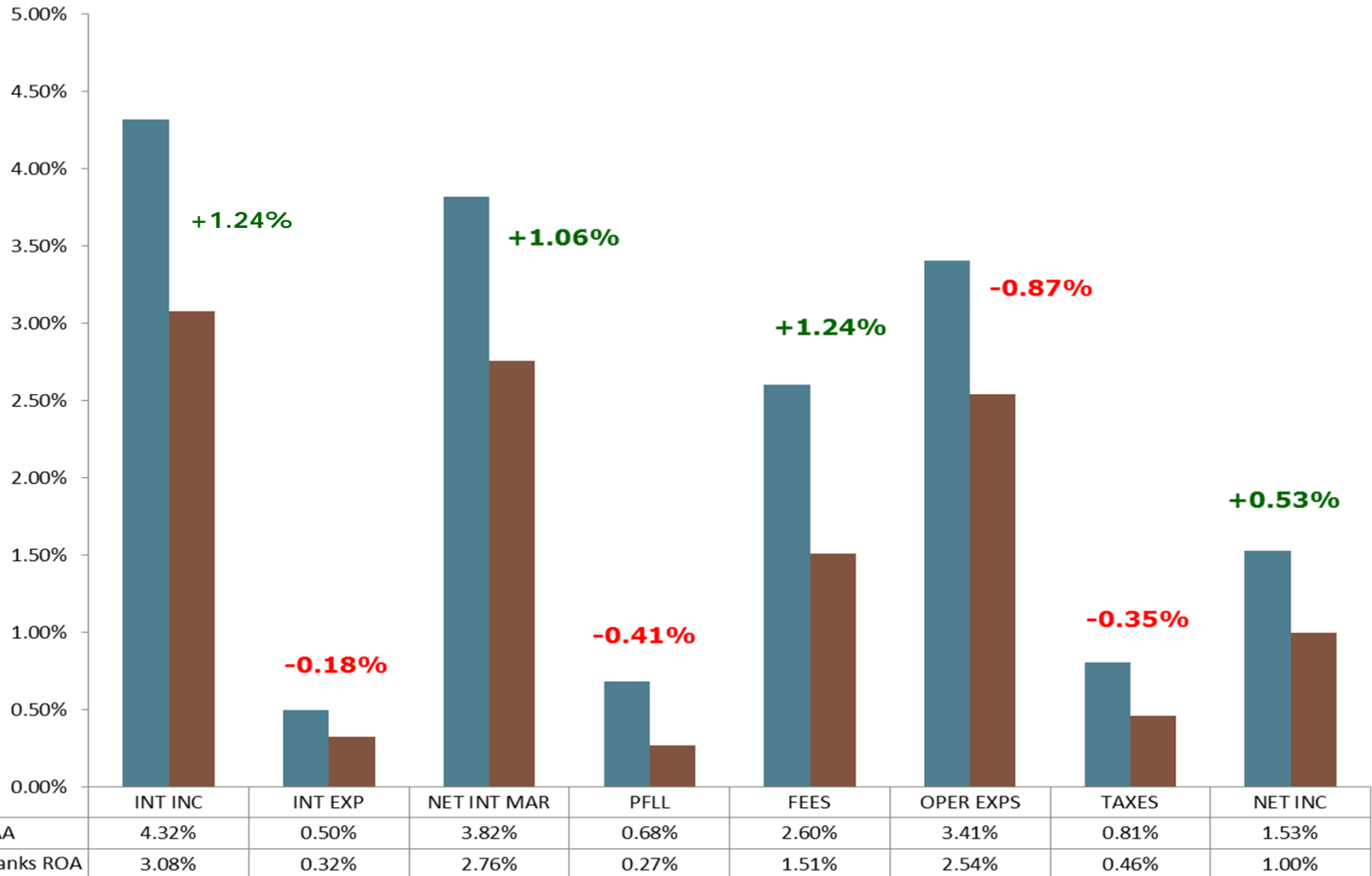


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* Subchapter S Adjusted ROAA

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S&L's Earnings vs. Commercial Banks

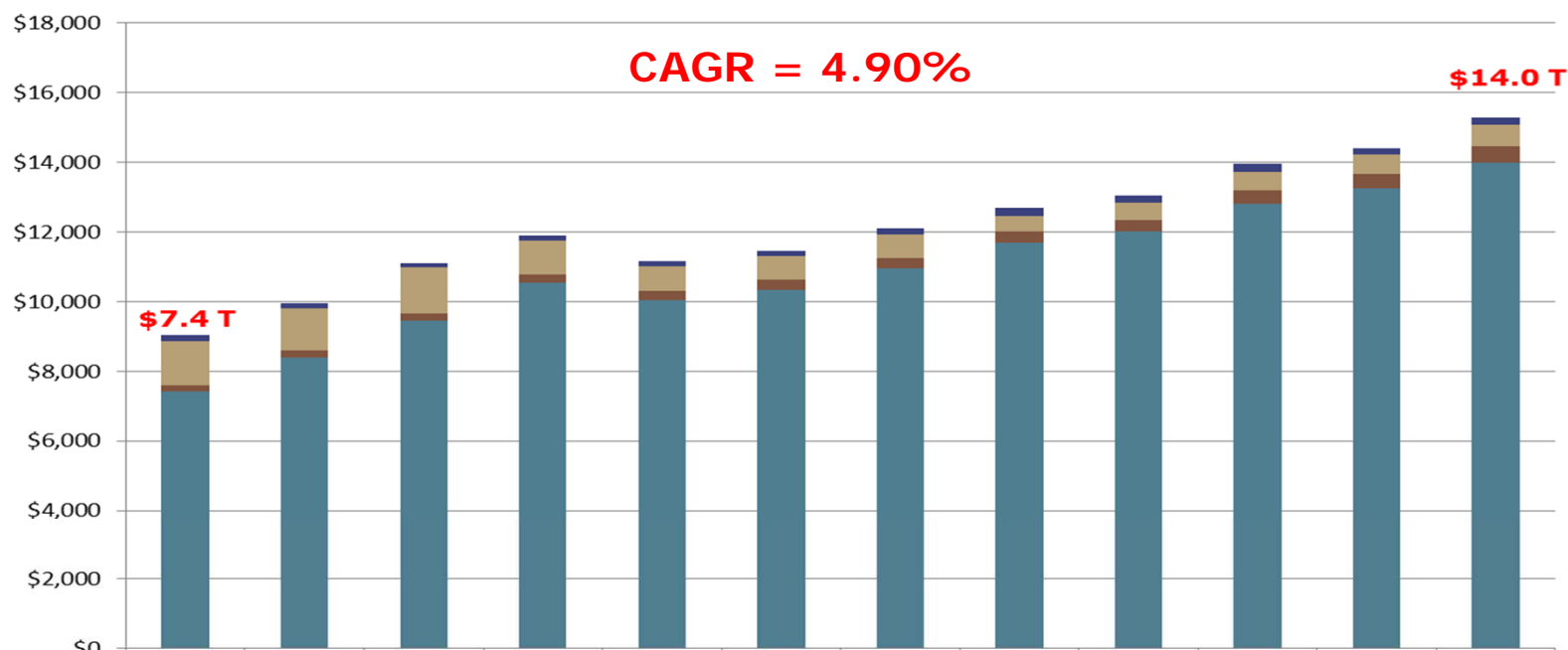


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Industry Growth, Consolidation & Concentration Trends

Larger Institutions - > \$3 Billion
(in Billions \$'s)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
■ SAVINGS BANKS	\$165	\$139	\$137	\$131	\$150	\$147	\$176	\$242	\$226	\$223	\$192	\$207
■ S&L's	\$1,262	\$1,215	\$1,303	\$967	\$690	\$687	\$679	\$449	\$479	\$522	\$544	\$616
■ CREDIT UNIONS	\$185	\$204	\$228	\$246	\$269	\$285	\$308	\$333	\$352	\$380	\$420	\$462
■ COMM'L BANKS	\$7,407	\$8,381	\$9,435	\$10,531	\$10,037	\$10,326	\$10,940	\$11,673	\$11,991	\$12,810	\$13,238	\$13,983

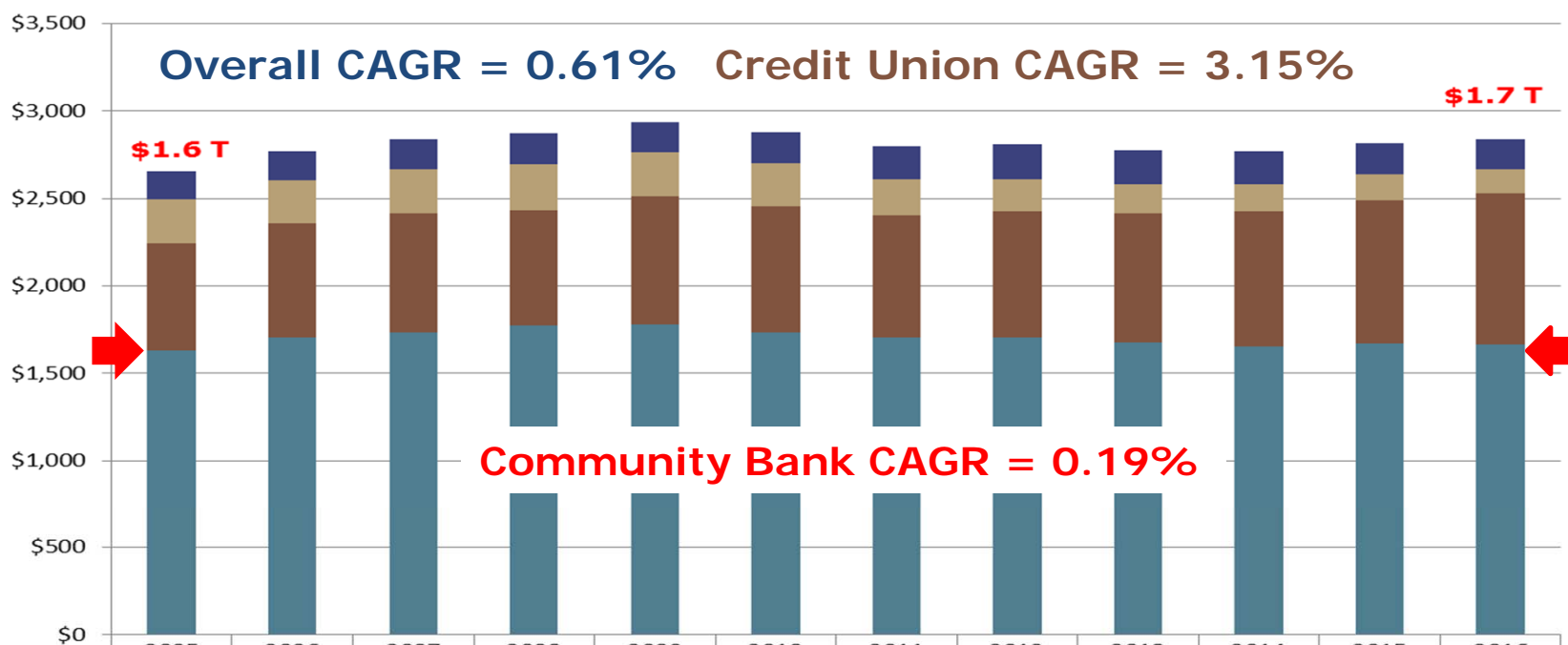


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Industry Growth, Consolidation & Concentration Trends

Smaller Institutions < \$3 Billion
(in Billions \$'s)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
■ SAVINGS BANKS	\$161	\$167	\$170	\$174	\$173	\$176	\$186	\$200	\$199	\$188	\$175	\$173
■ S&L's	\$251	\$250	\$249	\$263	\$253	\$246	\$205	\$181	\$162	\$155	\$146	\$137
■ CREDIT UNIONS	\$615	\$649	\$681	\$662	\$732	\$721	\$699	\$722	\$741	\$773	\$819	\$866
■ COMM'L BANKS	\$1,629	\$1,706	\$1,736	\$1,771	\$1,779	\$1,735	\$1,706	\$1,707	\$1,674	\$1,655	\$1,672	\$1,663



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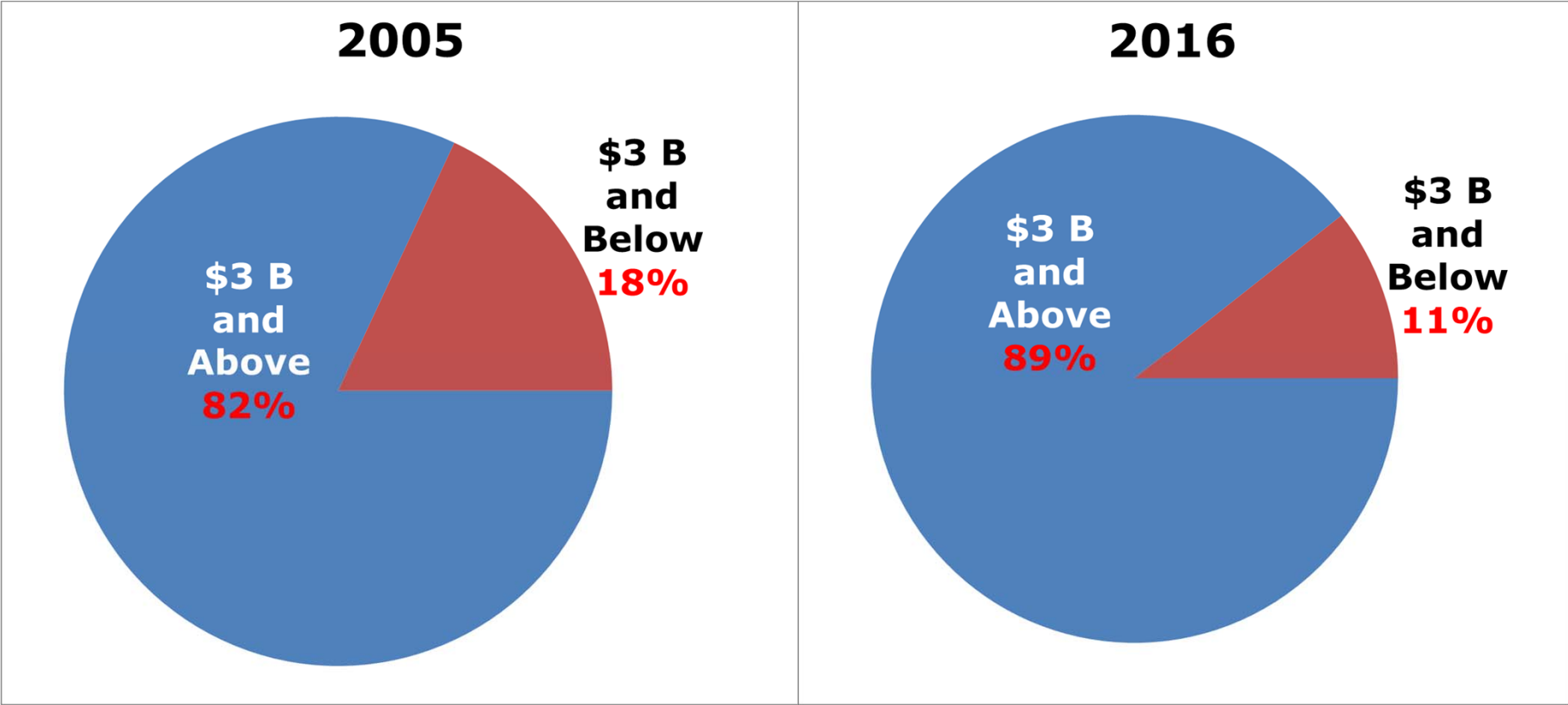
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Total Assets by Institution Size

\$9.0 Trillion

Larger Banks > \$ 3 B

\$15.3 Trillion



\$2.7 Trillion

Smaller Banks < \$ 3 B

\$2.8 Trillion

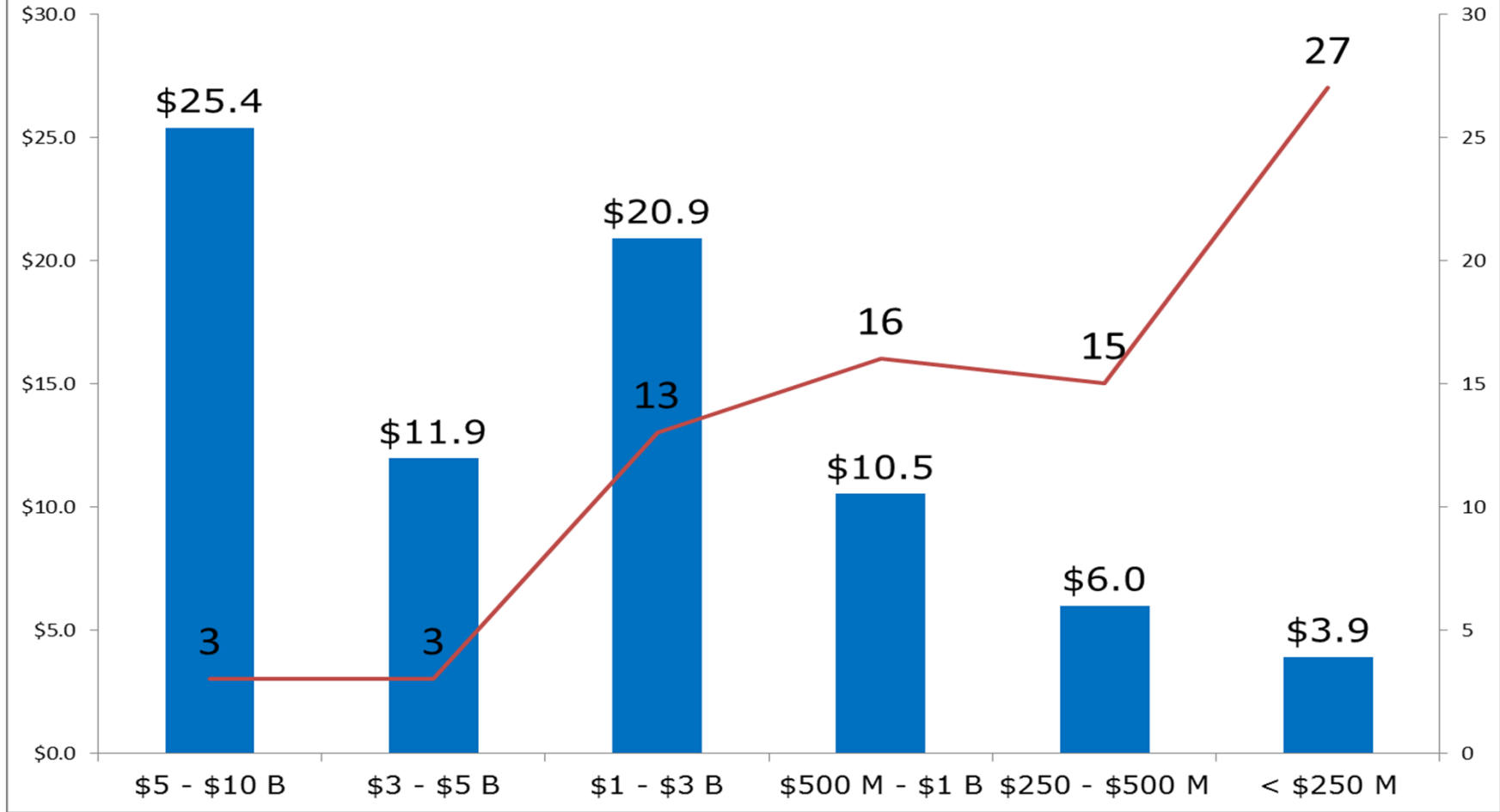


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Virginia Banks by Asset Class

(in Billions)



\$8.5 B

\$4.0 B

\$1.6 B

\$650 M

\$400 M

\$144 M

Average Bank Size

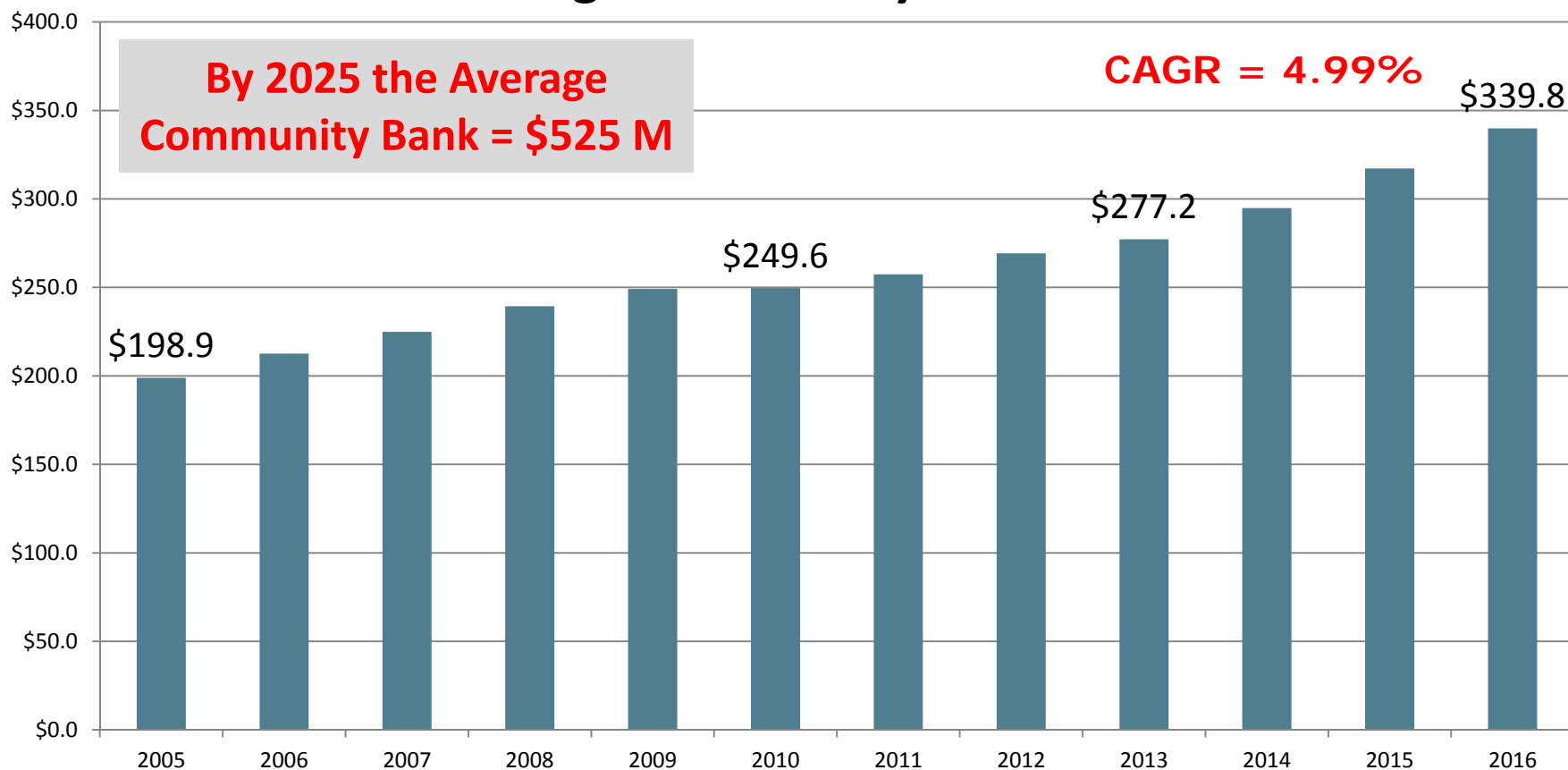


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Industry Growth, Consolidation & Concentration Trends

Average Community Bank Size



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Industry Growth, Consolidation & Concentration Trends



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Industry Growth, Consolidation & Concentration Trends

Commercial Bank Acquisitions	Banks < \$3 Billion	Banks > \$3 Billion	Total
Commercial Banks 1998	9,177	406	9,583
Commercial Banks Acquired 1999 - 2017	4,326	153	4,479
Probability of Acquisition	47.1%	37.7%	46.7%
Expected No. of Commercial Banks in 2027	2,851	245	3,096



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Does Being a Consistently High Performing Community Bank Matter?

- By 2027 half of all currently existing community banks will cease to exist
- 2,500 Banks will disappear
 - 250 of those will simply fail
 - The remaining 2,250
 - 1,950 will sell at 1.50 Times Tangible Book Value (TBV)
 - The remaining 300 will sell at between 1.50 – 2.00 Times TBV

For a \$300 M Asset Bank, this could mean as much as a \$7.5 - \$15 M Difference

(The Consistently High Performing Community Banks)

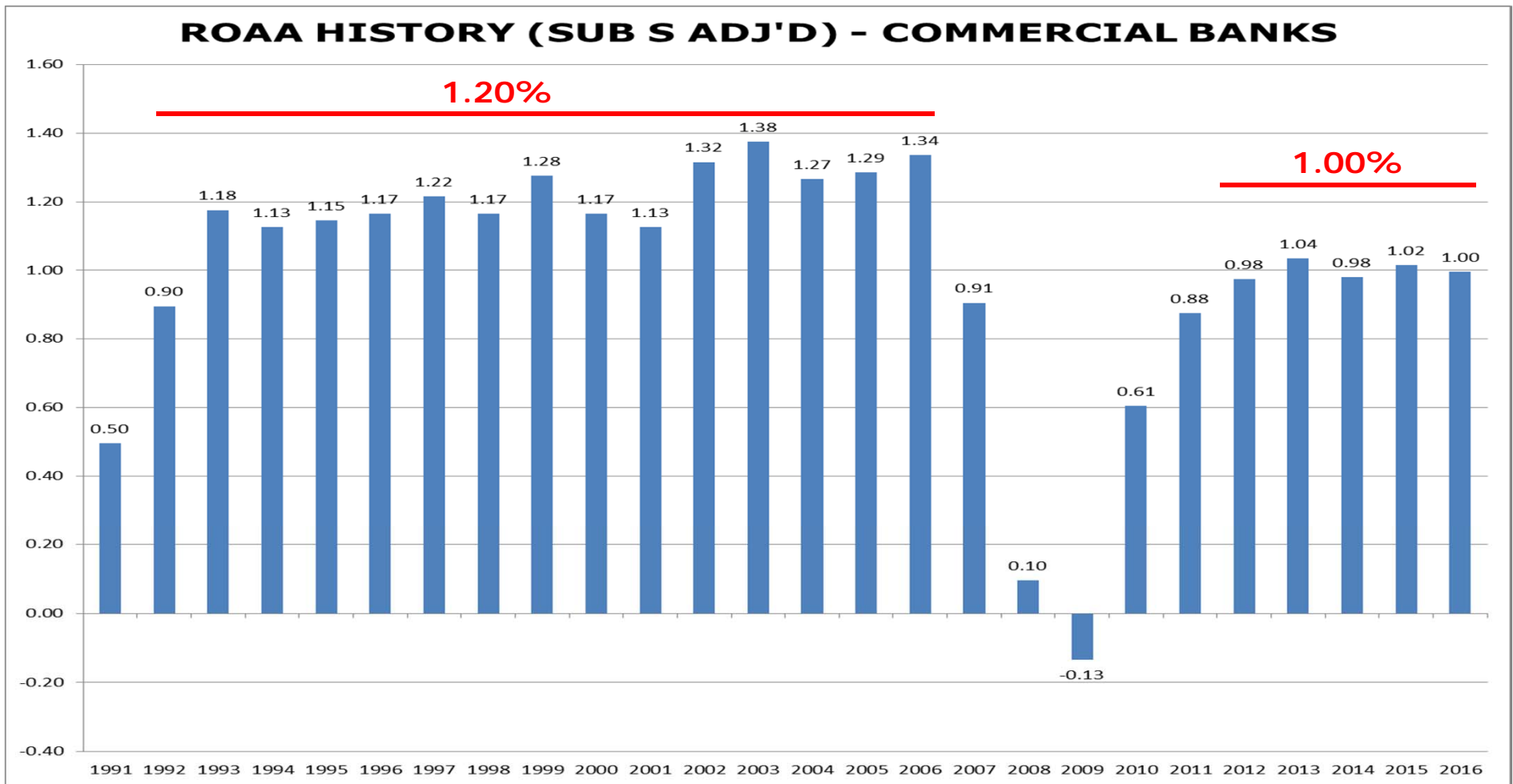


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Industry Performance – Commercial Banks

(1991 – 2016)

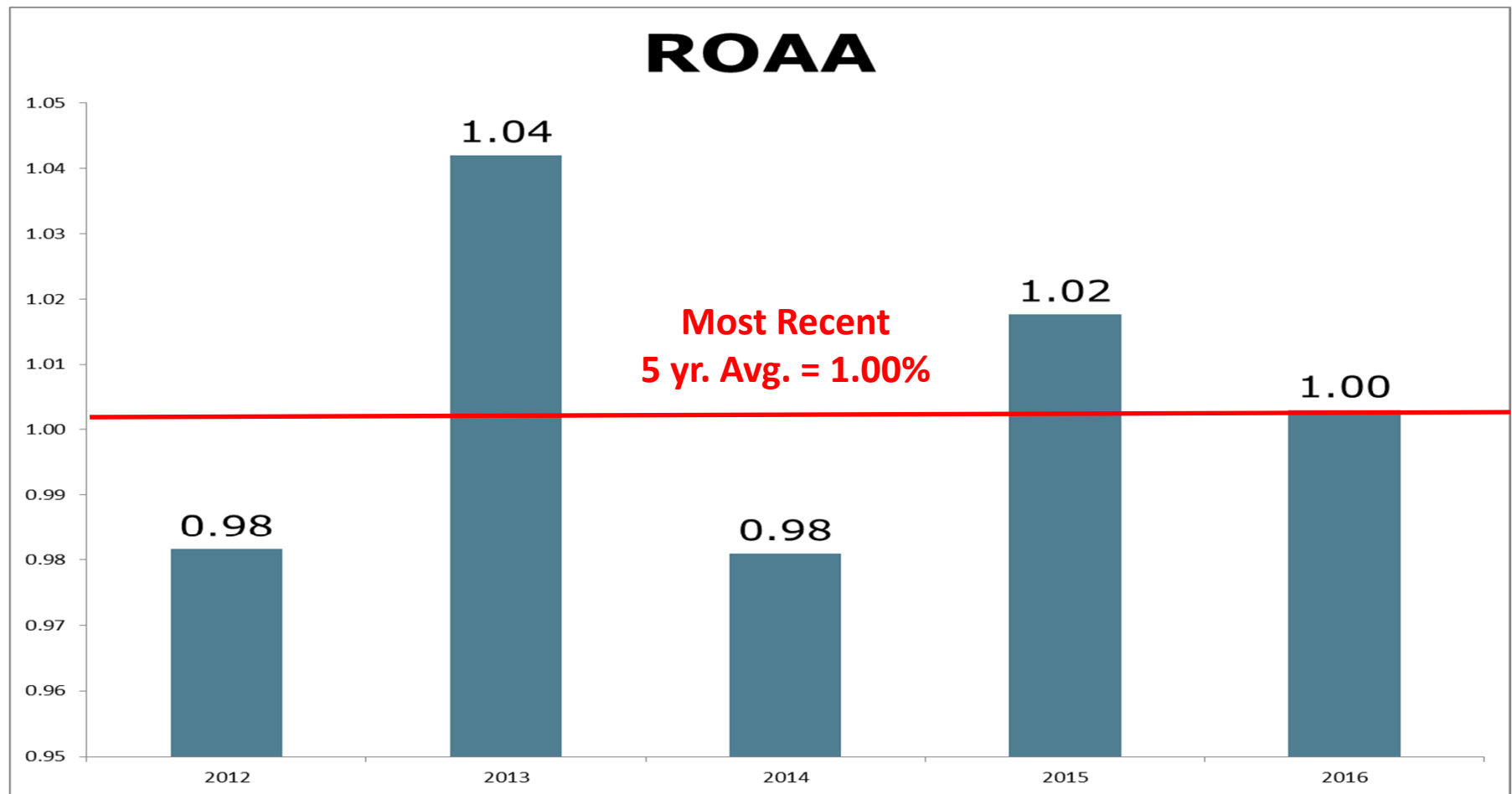


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Industry Performance – Commercial Banks

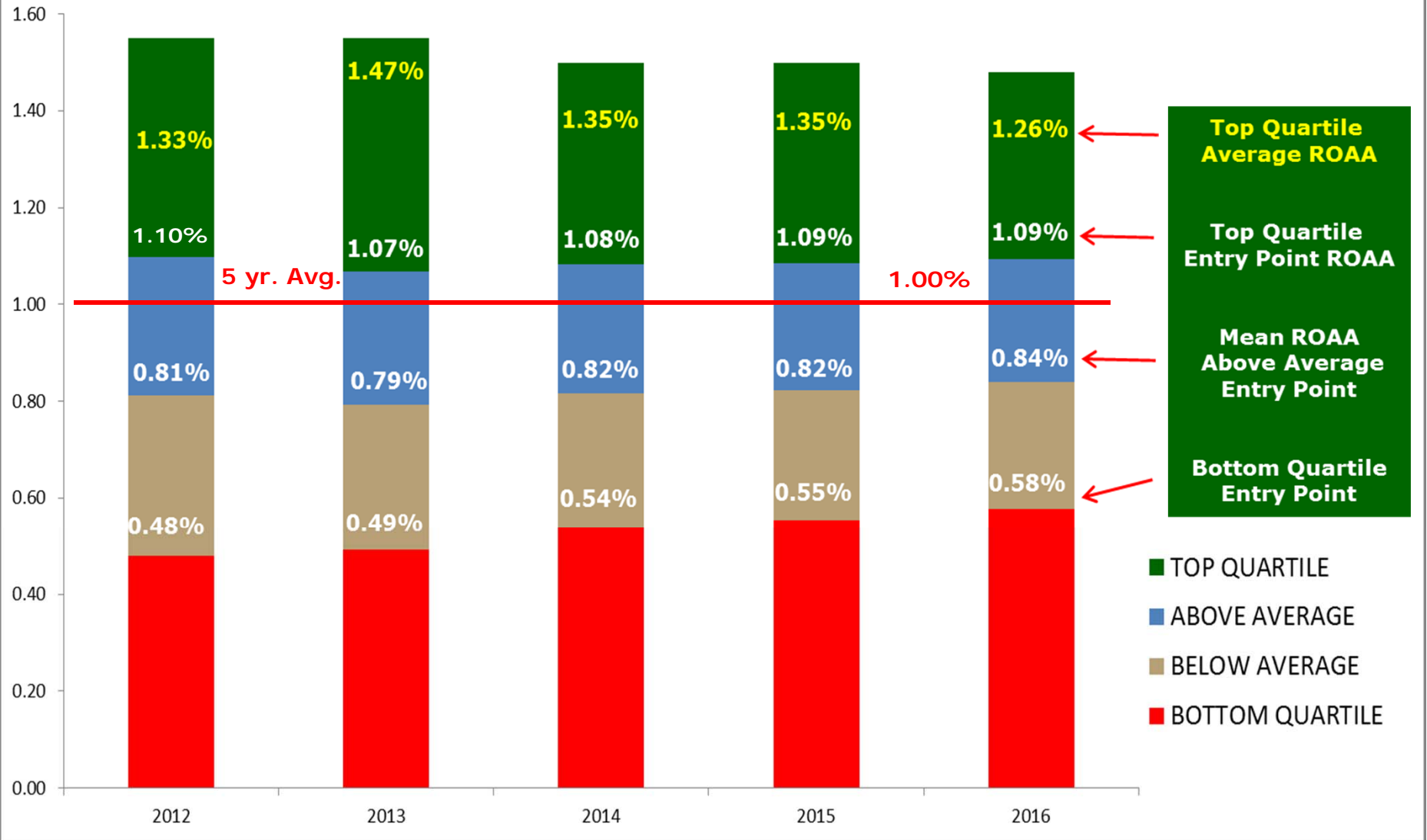
(2012 – 2016)



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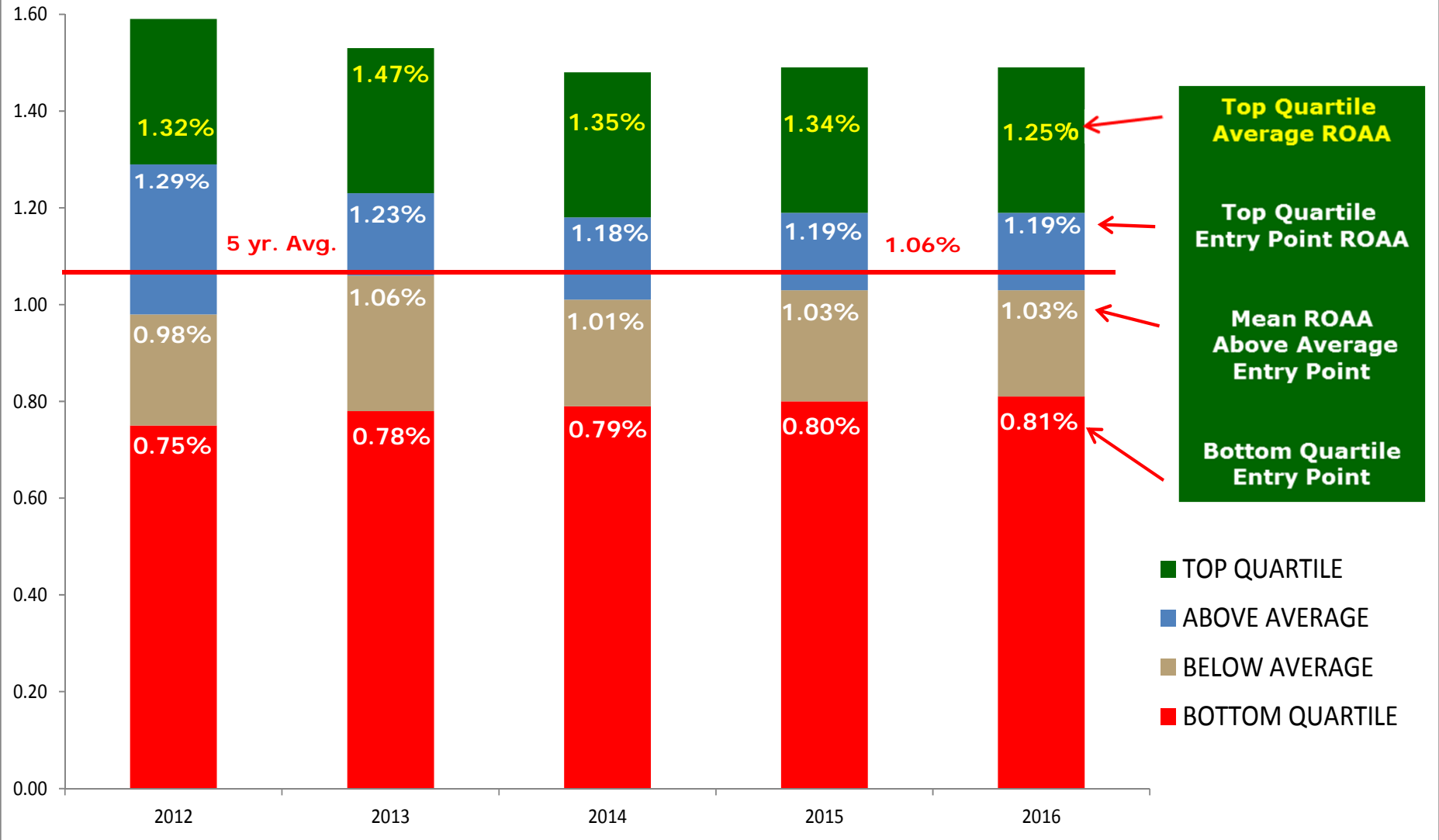
Commercial Bank ROAA Quartiles



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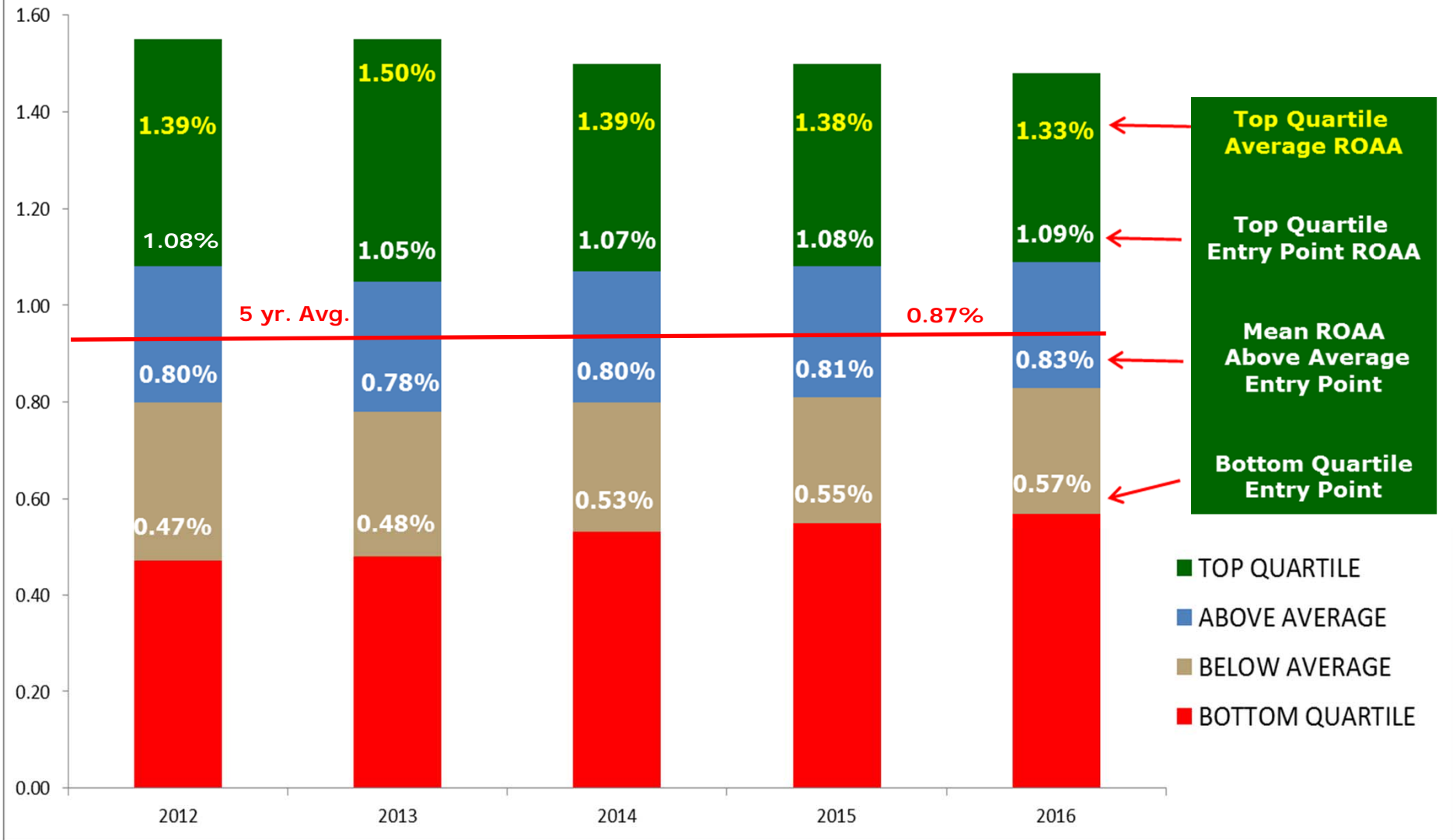
Comm'l Banks > \$3 Billion



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Commercial Banks < \$3 Billion



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Consistently High Performing

Definition:

Top Quartile ROAA
Five Years (2012 – 2016)

Our Focus:

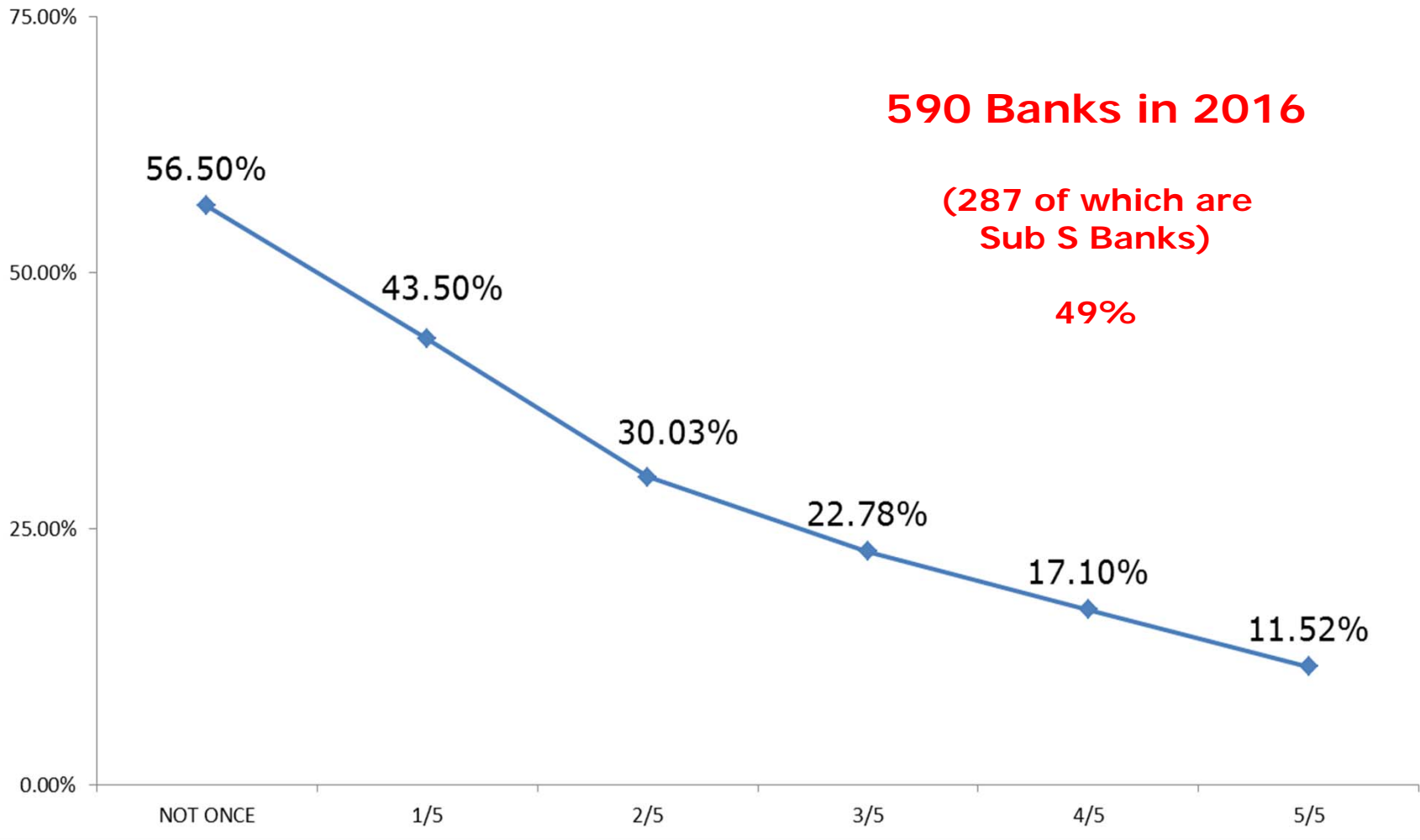
Community Banks
< \$3 Billion in Total Assets



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Probability of Achieving Consistent High Performance



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Virginia's Consistently High Performing Community Banks

<u>Institution</u>	<u>5 Yr. Avg. ROAA</u>
Access National Bank	1.67%
National Bank of Blacksburg	1.51%
Bank of Southside Virginia	1.45%
First Bank & Trust Company	1.37%



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Virginia's Consistently High Performing Community Banks

Top 5 – High Performance Indicators						
Institution	5 yr. Avg. ROAA	Loan Yield	Loan / Asset Ratio	Comm'l. Loans / Total Loans	PFLL to Total Income	Efficiency Ratio
Access National Bank \$1.4 B	1.67%	4.82%	80.30%	77.33%	2.82%	60.97%
National Bank of Blacksburg \$1.2 B	1.51%	5.22%	52.97%	63.50%	3.63%	44.15%
Bank of Southside Virginia \$561 M	1.45%	6.13%	43.46%	38.41%	1.14%	53.53%
First Bank & Trust Company \$1.7 B	1.37%	5.16%	77.83%	73.01%	0.58%	51.52%
Average Community Bank	1.00%	4.55%	53.12%	46.50%	3.16%	76.53%

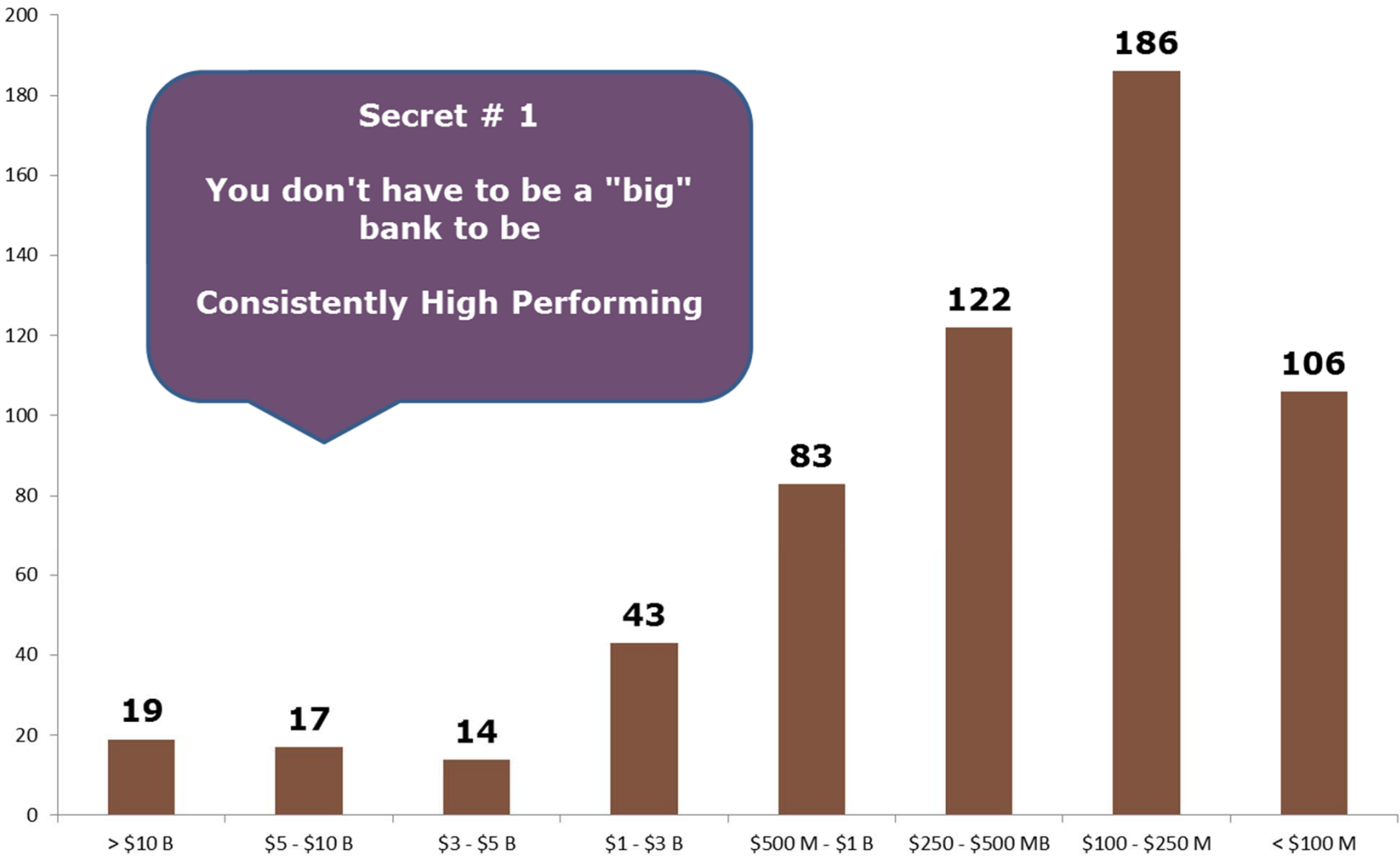


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Consistently High Performing Banks by Size Class

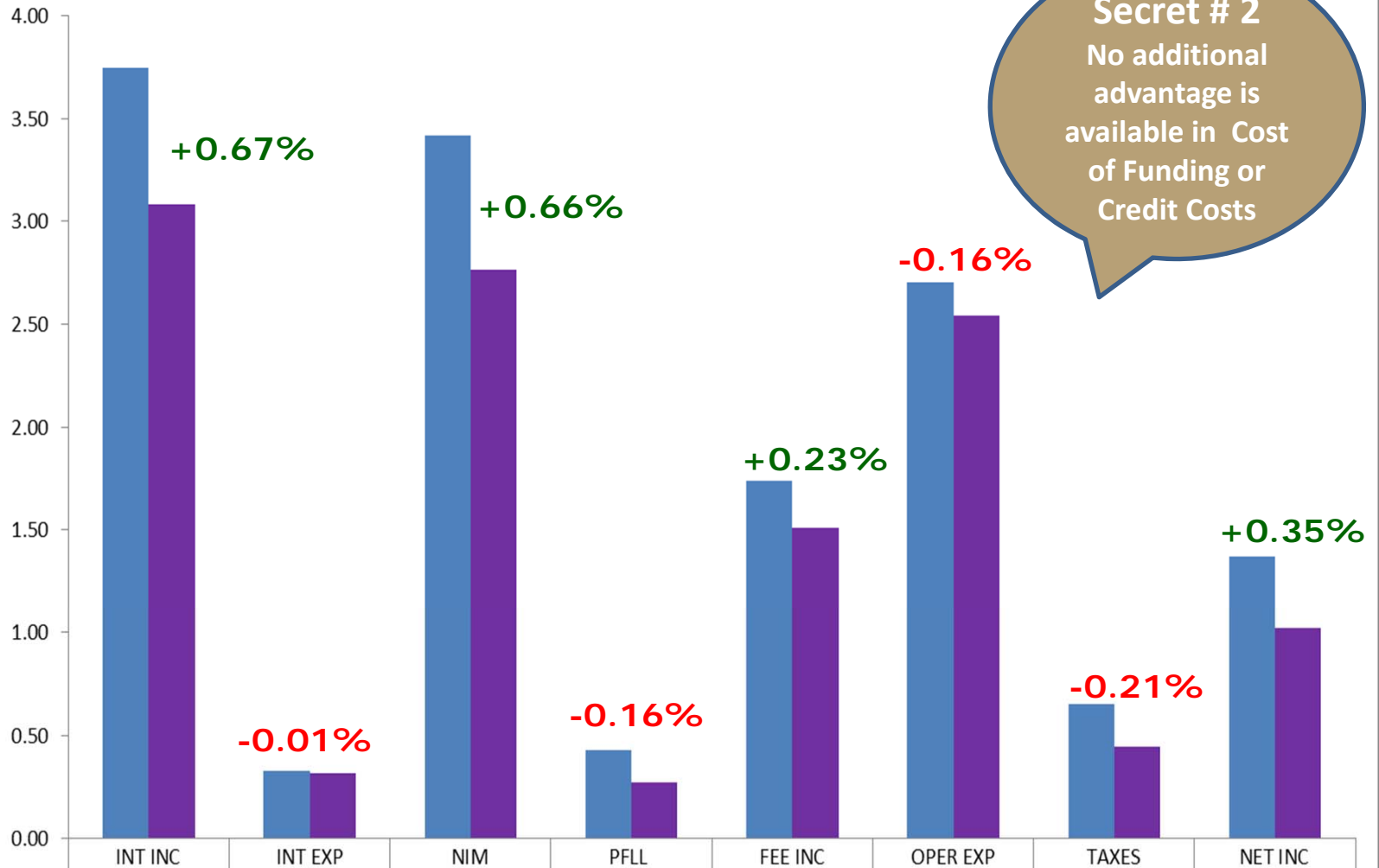
Secret # 1
You don't have to be a "big" bank to be
Consistently High Performing



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Income Statement Comparison



Secret # 2
No additional advantage is available in Cost of Funding or Credit Costs

■ High Performers	3.75	0.33	3.42	0.43	1.74	2.70	0.65	1.37
■ Average Commercial Bank	3.08	0.32	2.76	0.27	1.51	2.54	0.44	1.02



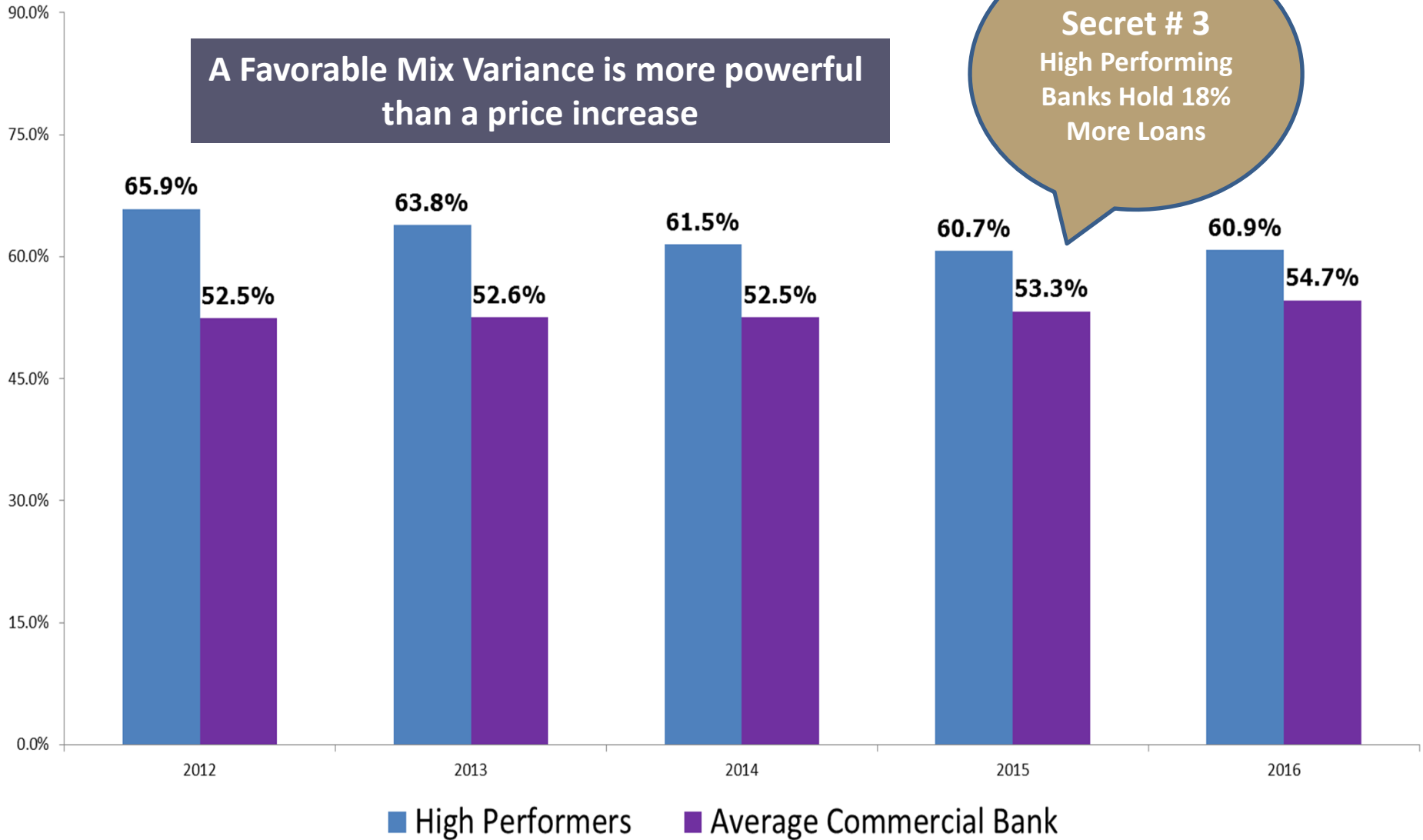
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Loan to Asset Ratio

A Favorable Mix Variance is more powerful than a price increase

Secret # 3
High Performing Banks Hold 18% More Loans



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Secret # 4

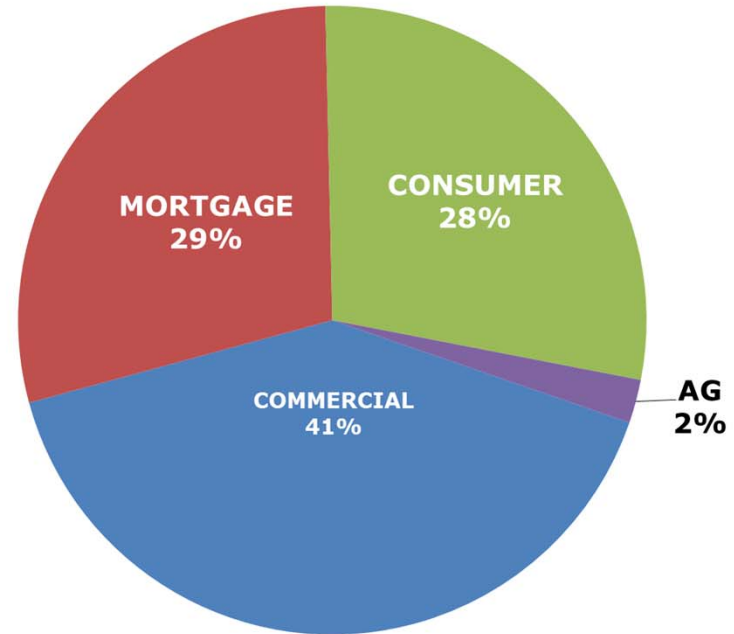
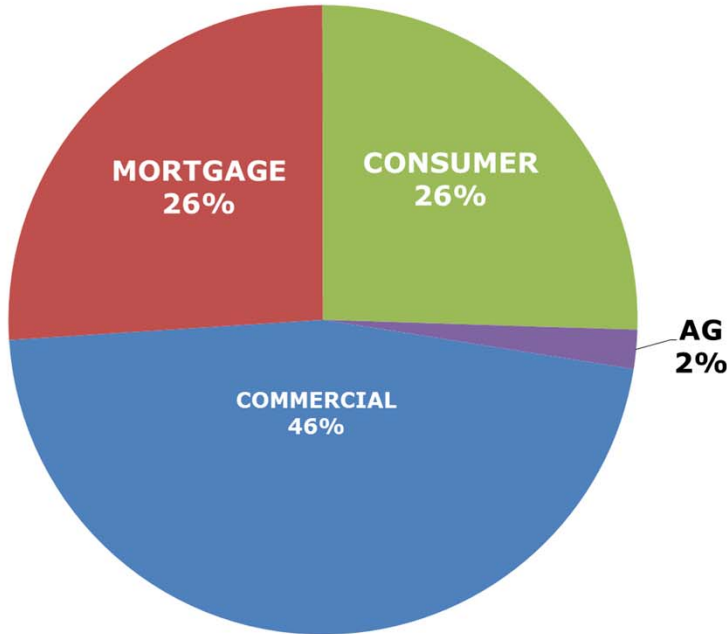
High Performers have more Diversified Loan Portfolios

Portfolio Differences

Mortgage +3%
Consumer +2%
Commercial -5%

Average Loan Portfolios

Hi Performing Loan Portfolios



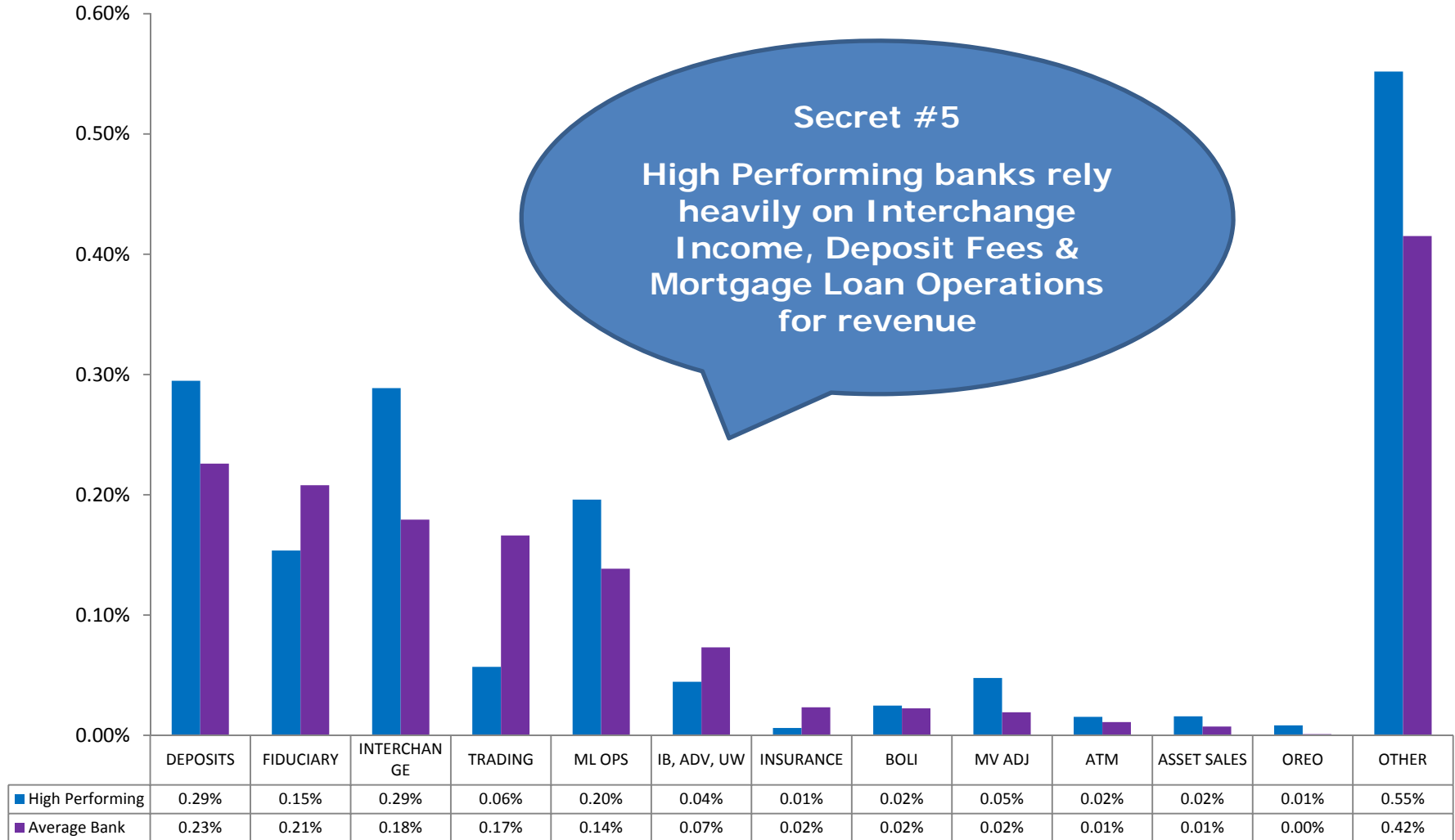
\$170 M Portfolio, - \$10 M of CL's
\$500 M Portfolio, - \$30 M of CL's



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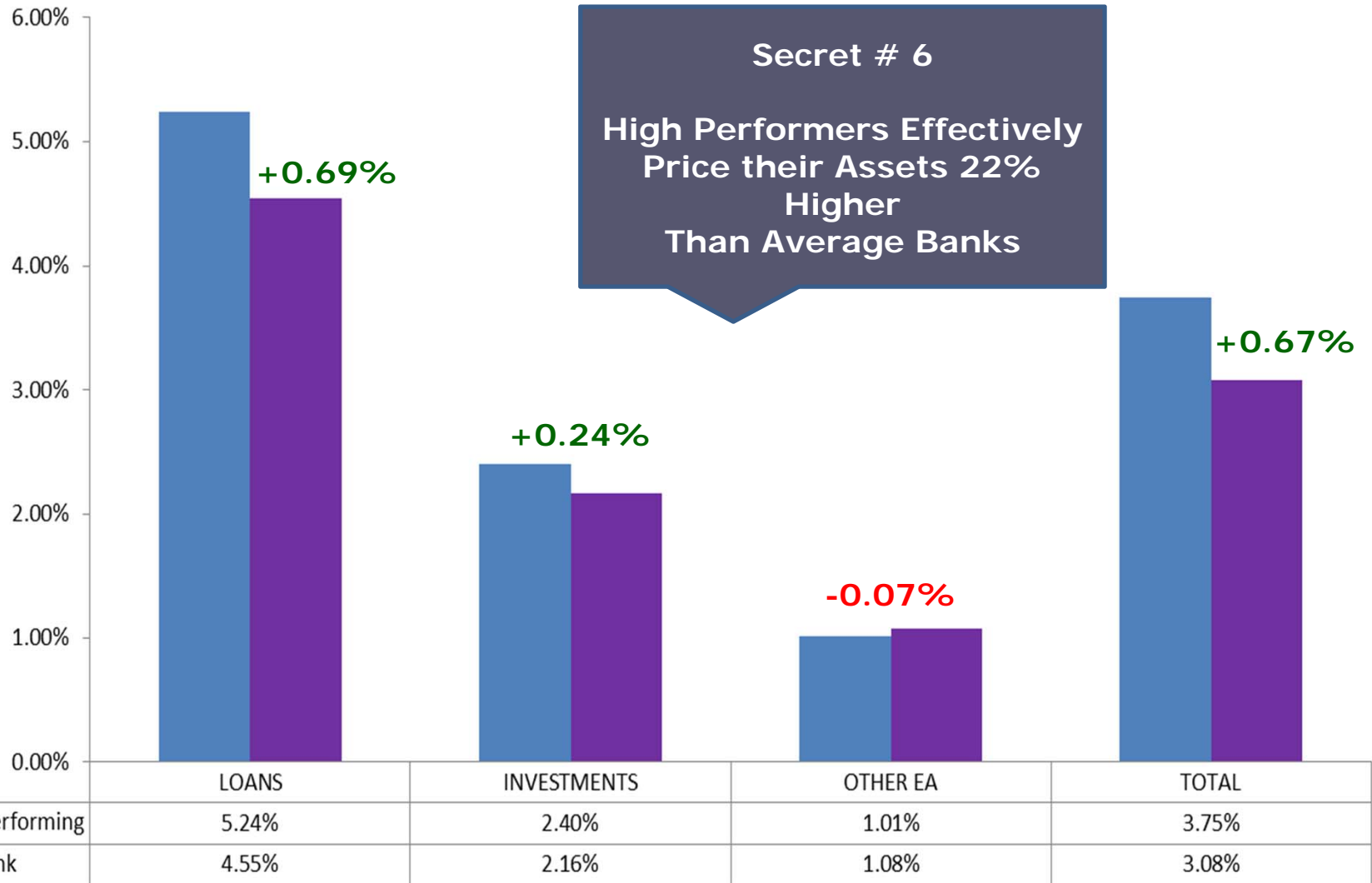
Sources of Non Interest Income as a Percentage of Average Assets



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Yield by Asset Class

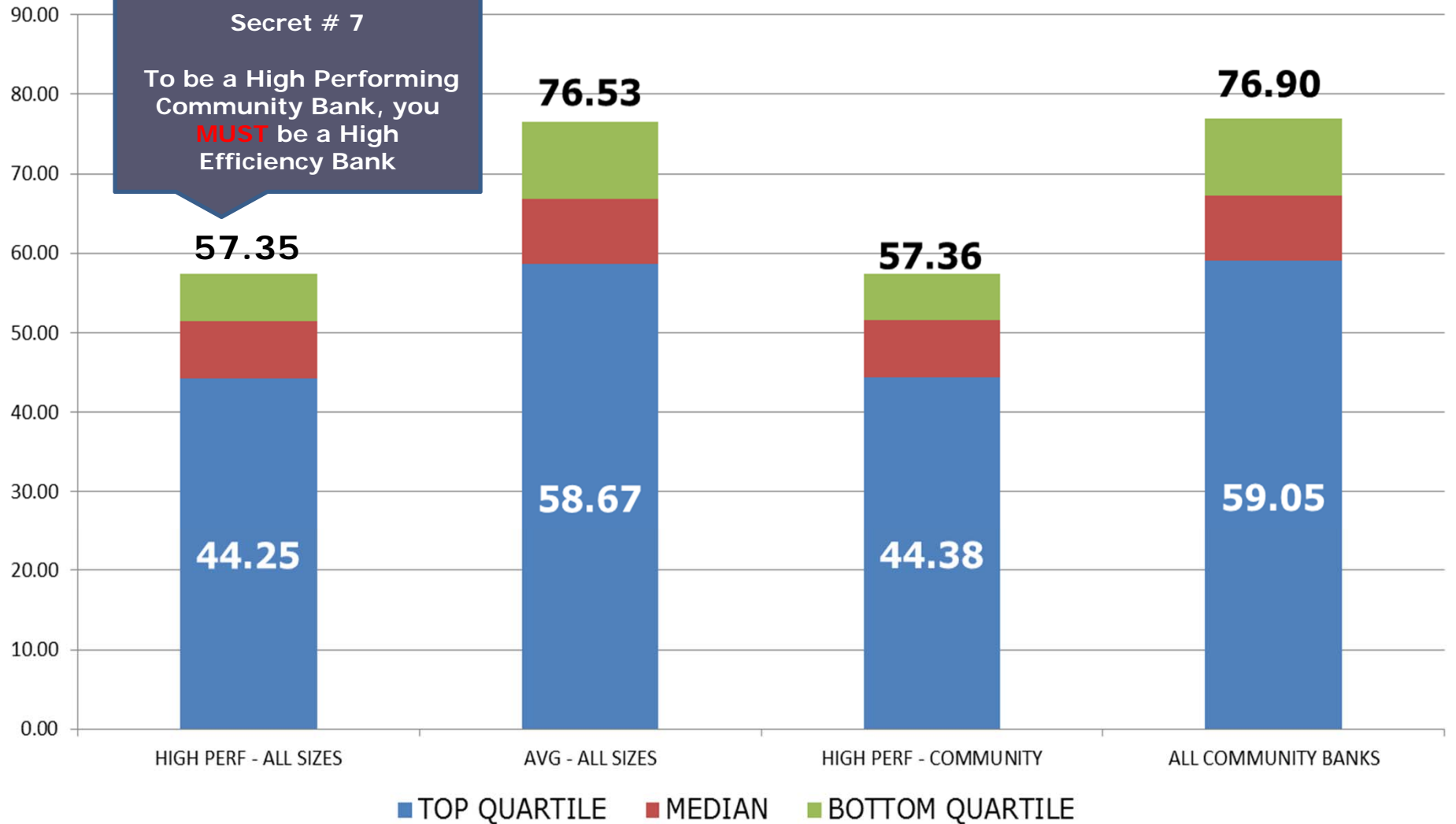


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Efficiency Ratio

Secret # 7
To be a High Performing Community Bank, you **MUST** be a High Efficiency Bank



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Implications

- “Improvement” in ROAA, Efficiency, Growth all lead to Increased Market Value
- Strategic Plan Priorities
 - Evaluate current position vs CHP Banks
 - Assess Capabilities in Each Area vs Goal
- Success leads to
 - Higher Survival Probability
 - Higher Price Upon Sale



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KEY PERFORMANCE INDICATORS

ProBank Austin Example Client

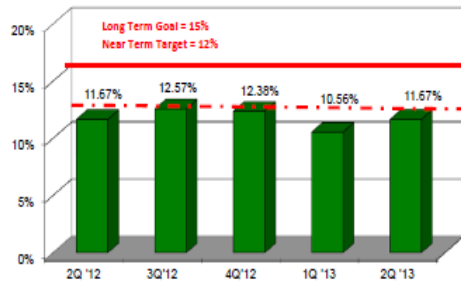
March 31, 2017

PBA - TOTAL

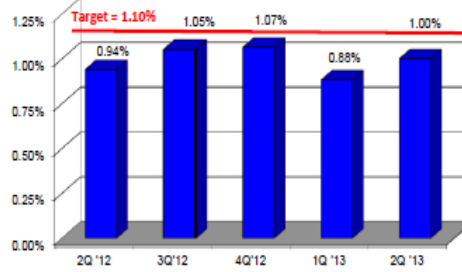
ACCOUNTABLE PARTY

CEO

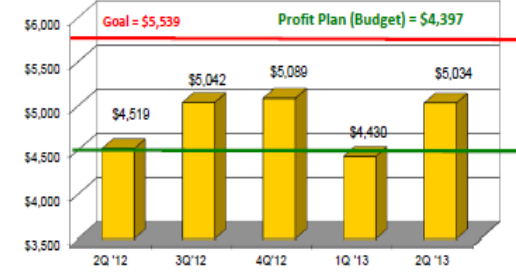
RETURN ON TIER I CAPITAL (ROE%)



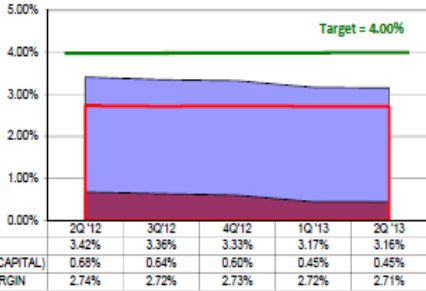
RETURN ON ASSETS (ROA%)



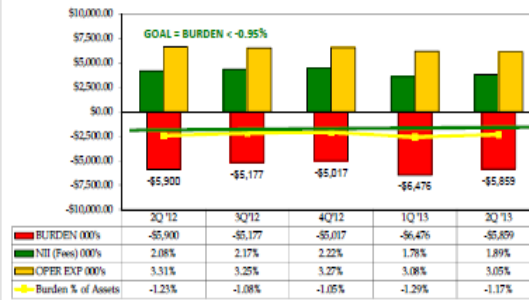
ANNUALIZED NET INCOME (\$000's)



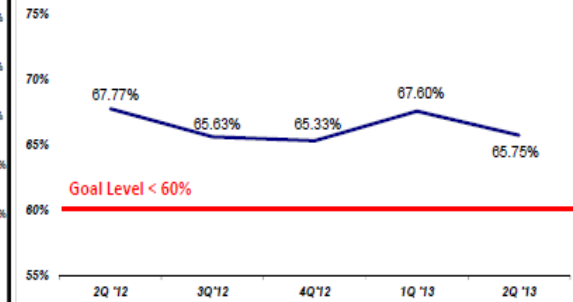
NET INTEREST MARGIN



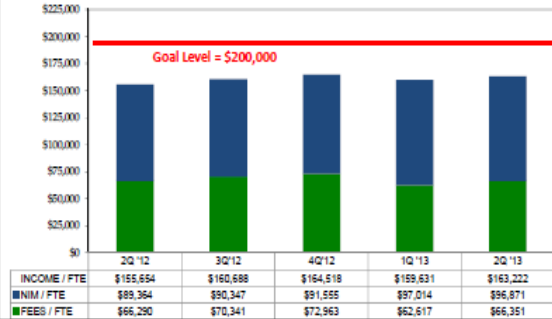
OPERATIONAL BURDEN (\$000's)



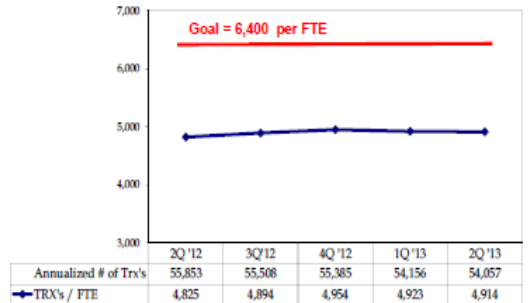
EFFICIENCY RATIO



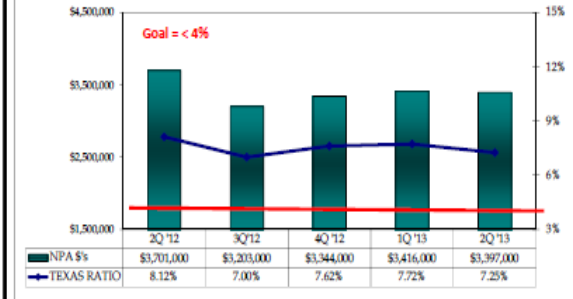
TOTAL REVENUE PER FTE EMPLOYEE



NO. OF SERVICE CONTACTS / CSR

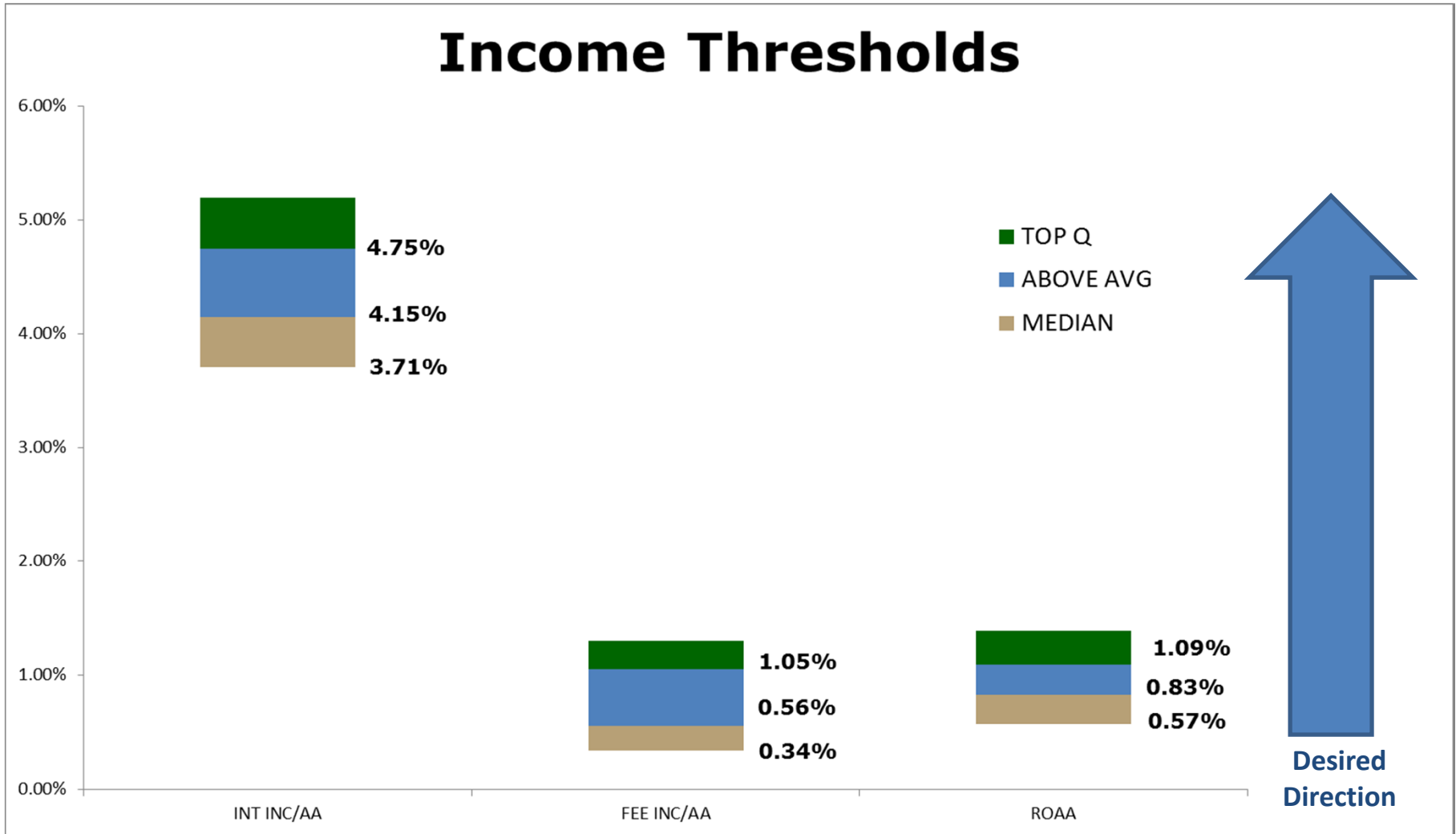


NPA \$'S AND THE TEXAS RATIO



CHP - Financial Performance Benchmarks

Income Thresholds

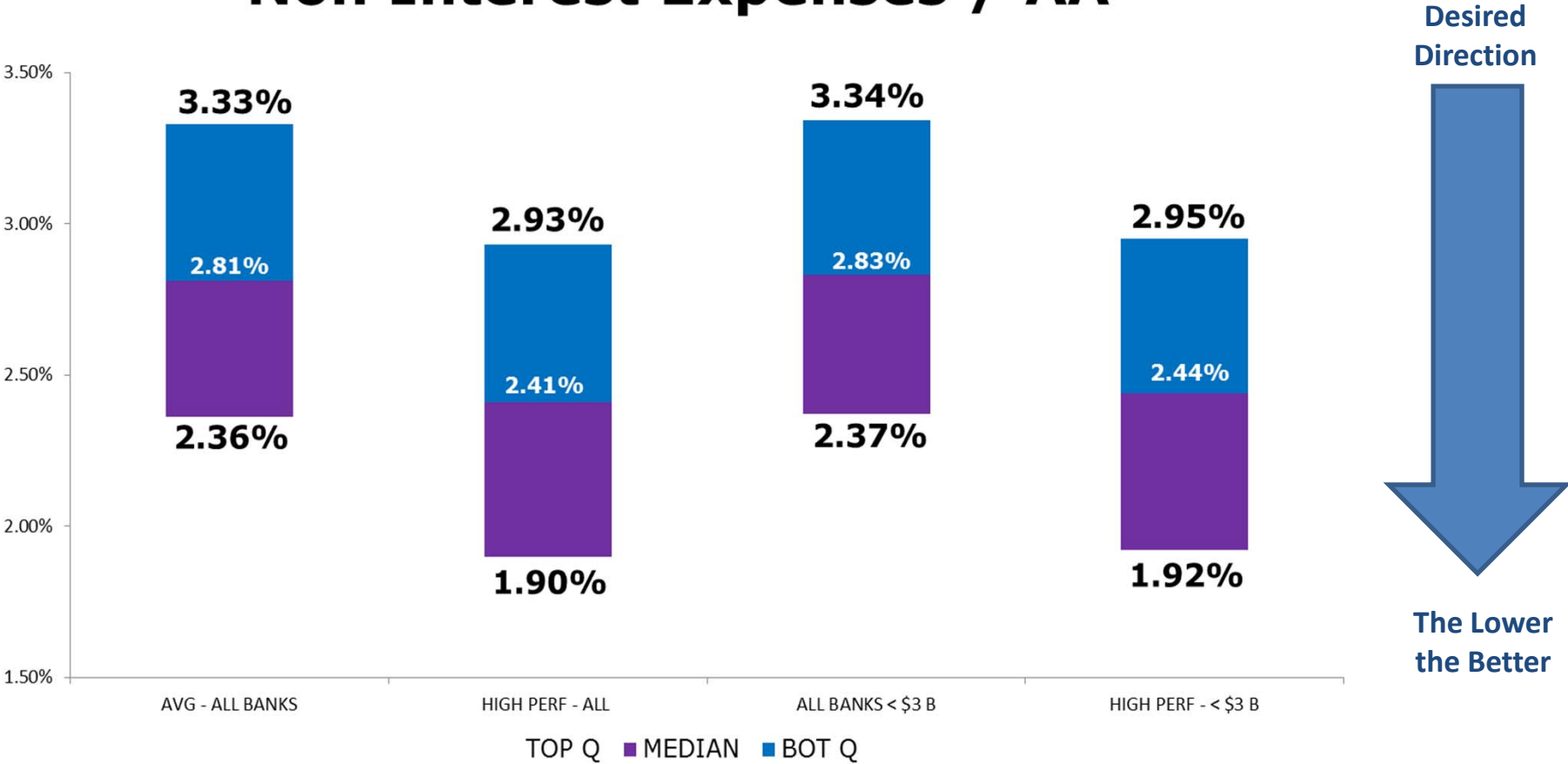


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CHP - Financial Performance Benchmarks

Non Interest Expenses / AA

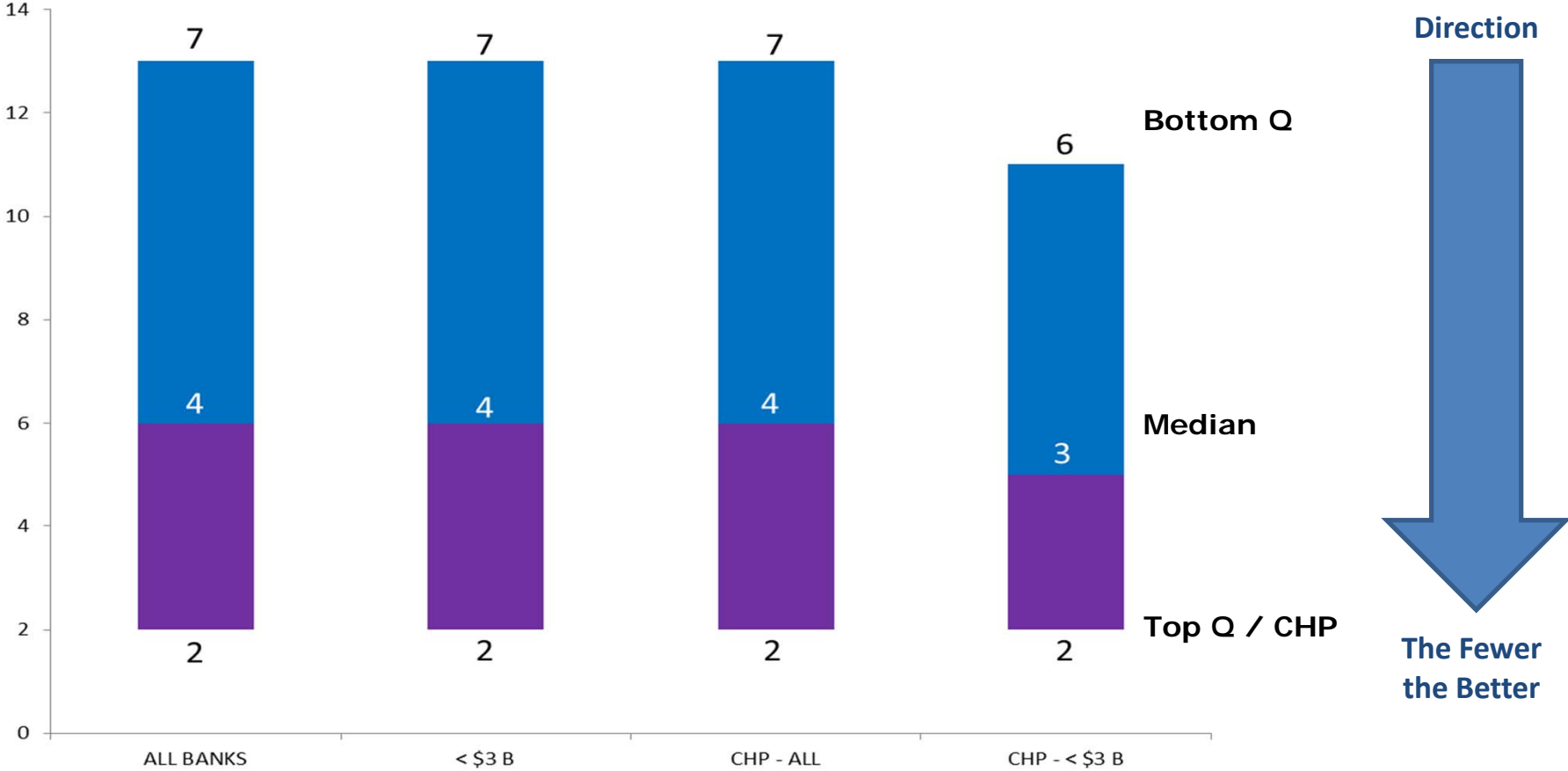


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CHP - Efficiency Benchmarks

Utilization of Branches

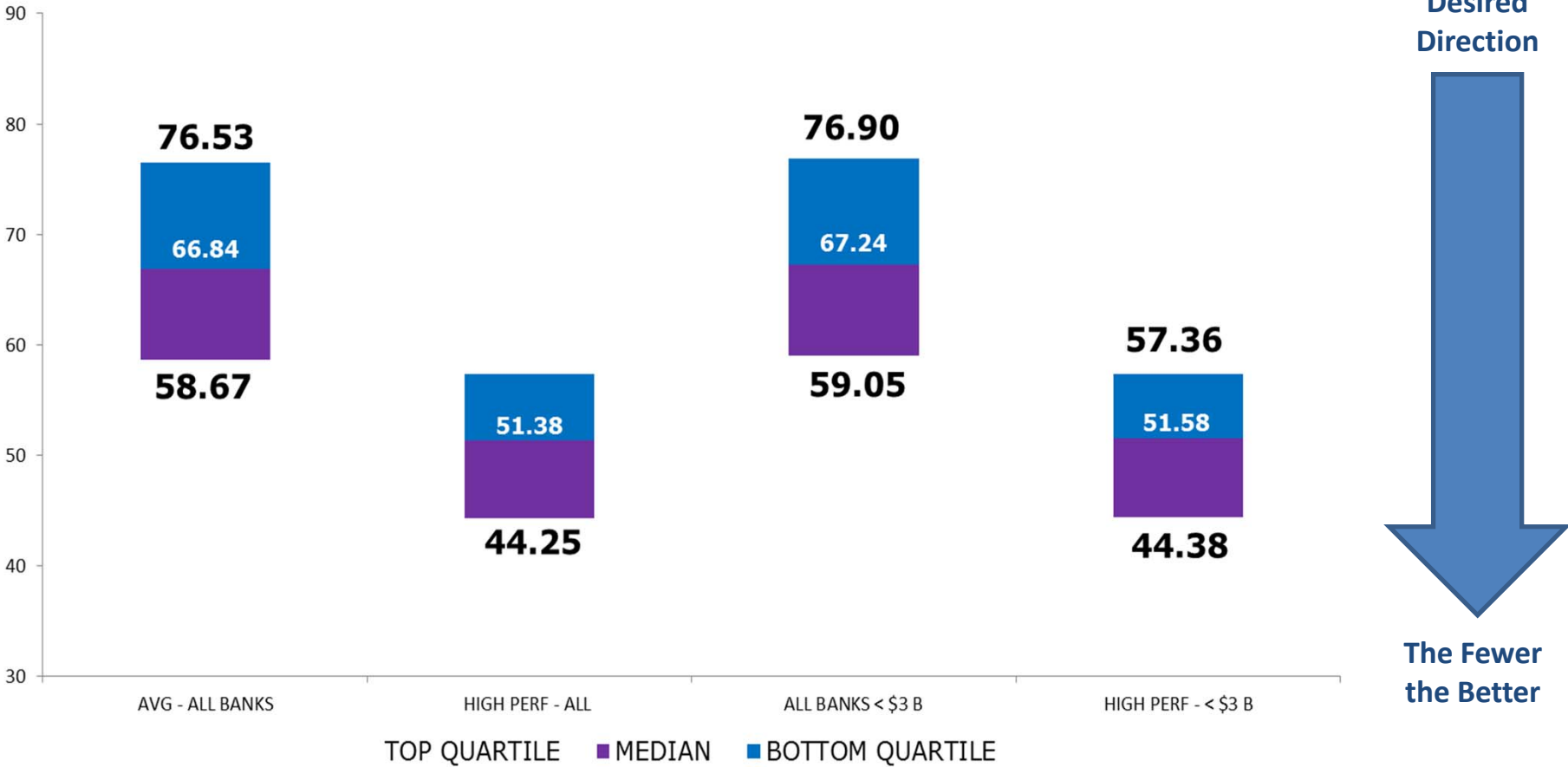


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CHP - Efficiency Benchmarks

Efficiency Ratio

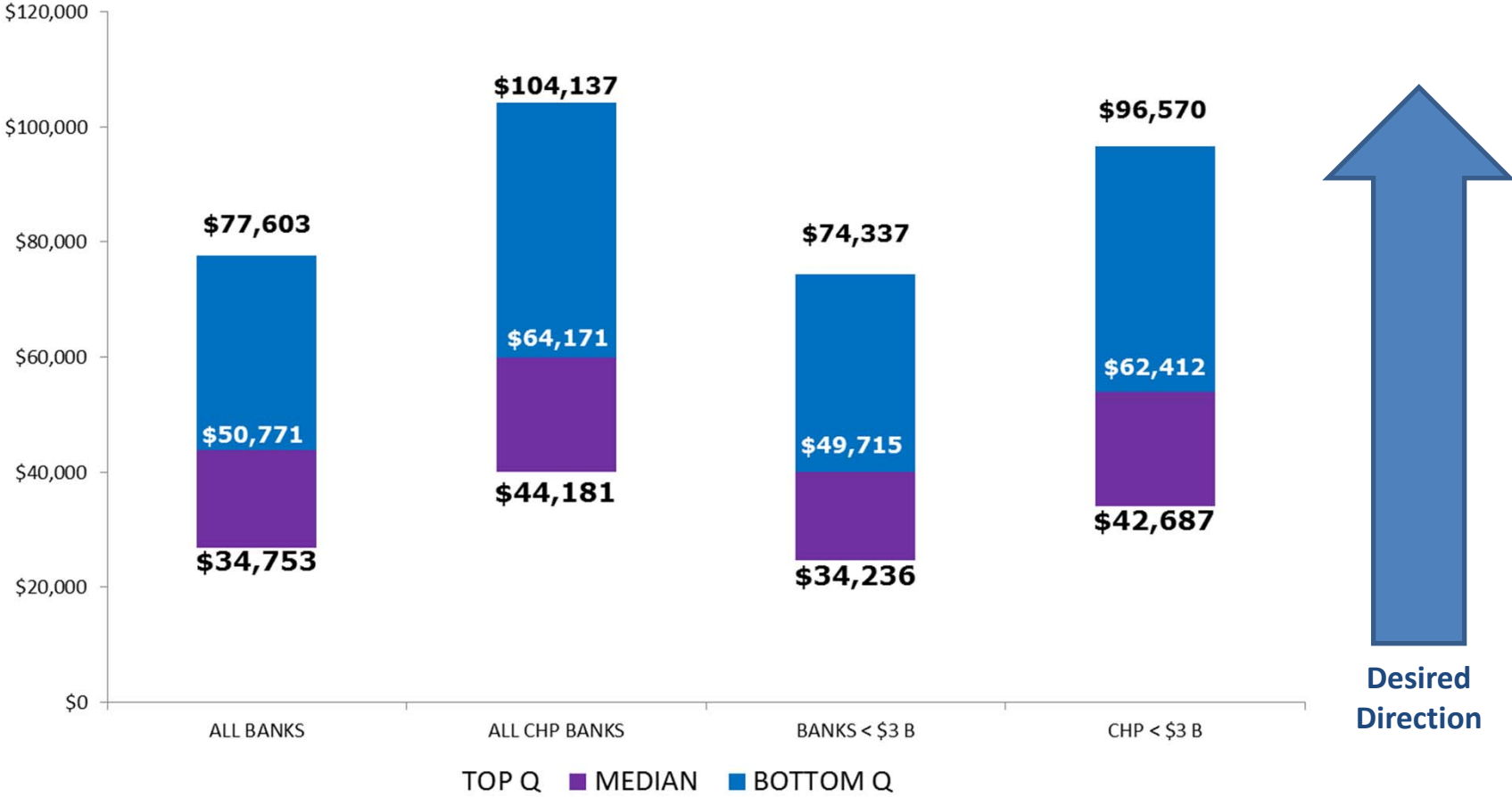


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CHP - Efficiency Benchmarks

Average Assets / Branch

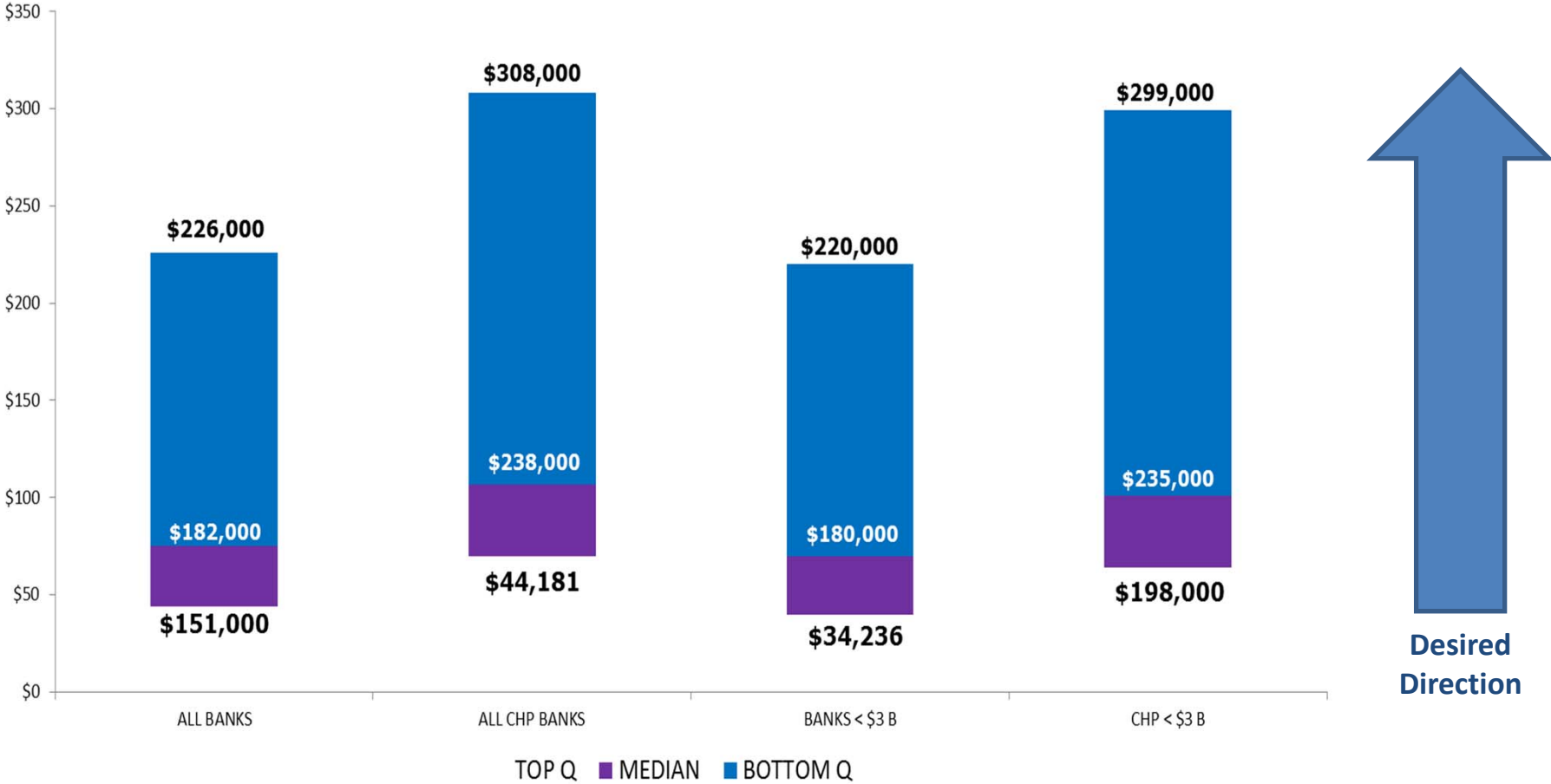


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CHP - Efficiency Benchmarks

Total Revenue per Employee



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Efficiency

The Critical Role of Operating Efficiency in Producing High-Performance Community Banks – May, 2016

Key Operating Efficiency Drivers for Community Banks – June, 2016

Branch Profitability

Omni-Channels: The Effects of New Technologies on Bank and Branch Profitability – November, 2016

Loan Pricing

Loan Growth Strategies for Highly Competitive Markets – February, 2016

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Jeff Morris joined Austin Associates (now ProBank Austin) in 1998. He is responsible for profitability analysis services and works with clients who utilize the firm's innovative software products, including its proprietary organization/product/customer profitability software and its loan and deposit pricing software. Jeff has over 35 years of experience in various financial management roles.



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