ABA Banking Journal
May 2012

TOP PERFORMING mid-sized banks

As with large banks, reduced provisions helped, but equally important for banks in the \$1 billion- to \$10 billion-size range was careful balance-sheet management and fee income

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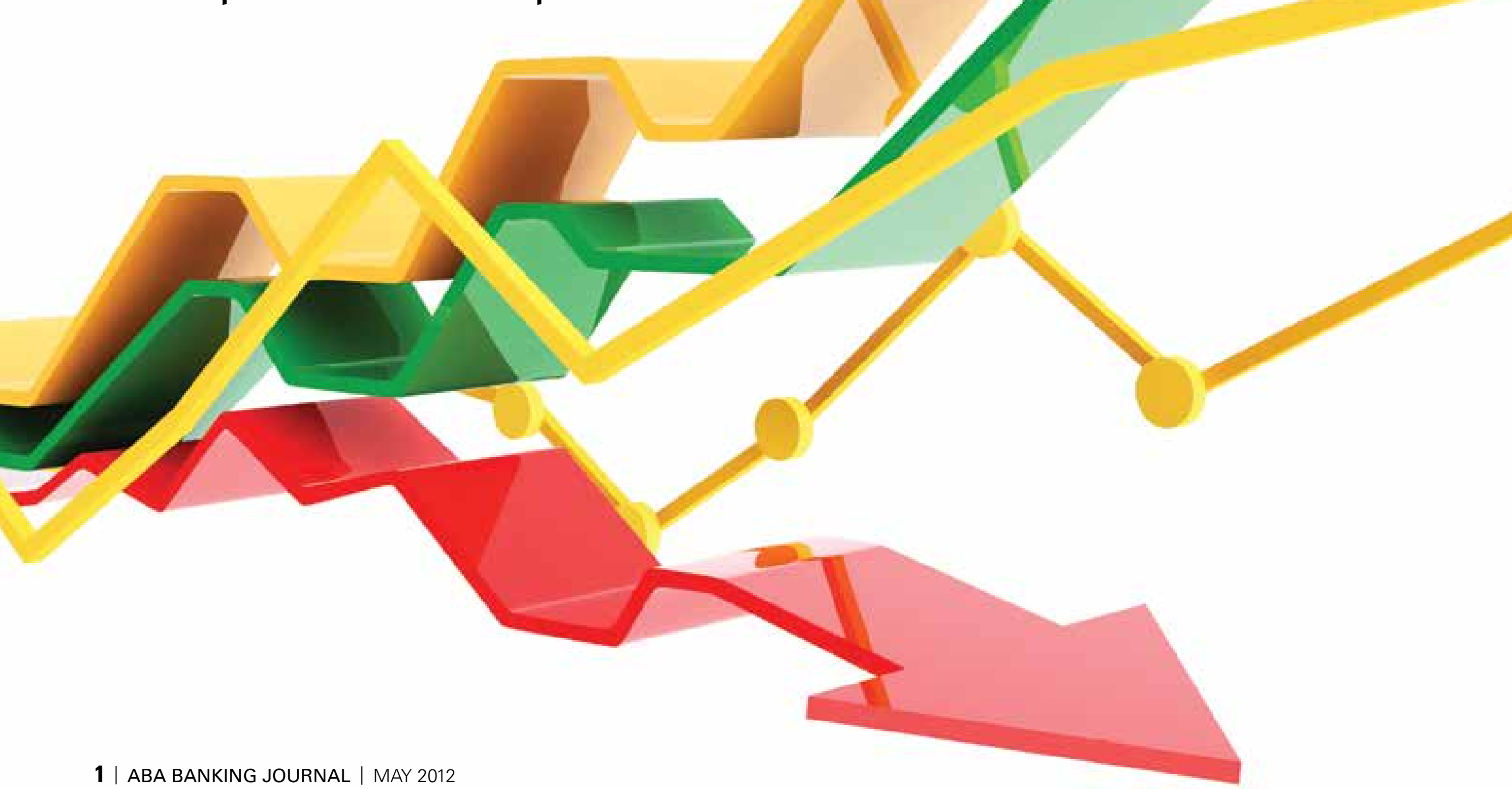

Public banks and thrifts with total assets of $1B-10B

2012 RANK	2011 RANK		Total assets ($000)	2011 ROAE (%)	2011 ROAA (%)	Non-interest income/ total revenue (%)	Capital ratio (%)	Efficiency ratio (%)	Nonper-forming loans/ total loans (%)
1	1	Bank of the Ozarks, Little Rock, AR	3,839,987	26.80	2.70	17.65	18.93	55.91	0.50
2	125	Southern BancShares, Mt. Olive, NC	2,068,677	24.57	2.27	60.67	21.30	42.21	10.98
3	7	Republic Bancorp, Louisville, KY	3,419,991	21.42	2.76	40.34	24.74	43.42	3.67
4	6	Southside Bancshares, Tyler, TX	3,308,400	16.84	1.29	28.24	22.36	54.41	1.14
5	236	Pacific Mercantile Bancorp, Costa Mesa, CA	1,024,552	16.51	1.15	19.30	13.40	89.97	2.14
6	221	CoBiz Financial, Denver, CO	2,423,504	16.23	1.39	27.06	16.30	75.78	2.93
7	5	WestAmerica Bancorp., San Rafael, CA	5,042,161	16.14	1.78	23.14	15.83	49.16	2.19
8	4	BofI Holding, San Diego, CA	2,223,797	16.00	1.33	14.72	13.77	42.03	1.28
9	16	Hingham Institution for Savings, Hingham, MA	1,127,276	15.52	1.13	4.53	13.55	42.88	0.85
10	26	Citizens & Northern Corp., Wellsboro, PA	1,323,735	15.30	1.78	23.31	21.17	51.22	1.35
11	15	Cass Information Systems, Bridgeton, MO	1,319,301	15.17	1.77	57.76	19.03	69.06	0.93
12	17	Hills Bancorp., Hills, IA	2,018,297	14.96	1.36	21.15	15.96	50.55	1.68
13	21	First Financial Bankshares, Abilene, TX	4,120,531	14.44	1.78	24.81	18.74	51.67	1.13
14	9	Merchants Bancshares, S. Burlington, VT	1,611,869	14.11	0.97	15.71	15.92	70.22	0.24
15	178	First Business Financial Services, Madison, WI	1,177,165	14.03	0.75	16.60	13.11	62.08	2.57
16	258	Hanmi Financial Corp., Los Angeles, CA	2,744,824	13.81	1.01	19.08	19.00	67.22	4.16
17	23	Dime Community Bancshares, New York, NY	4,021,180	13.67	1.16	5.38	12.00	41.84	N/A
18	18	Arrow Financial Corp., Glens Falls, NY	1,962,684	13.48	1.13	30.85	16.00	61.34	0.67
19	88	Texas Capital Bancshares, Dallas, TX	8,137,618	13.37	1.11	9.62	10.56	56.15	1.53
20	14	Cambridge Bancorp, Cambridge, MA	1,275,860	13.28	1.06	28.43	15.30	69.60	0.18
21	12	Bridge Bancorp, Bridgehampton, NY	1,337,458	13.21	0.88	13.97	16.20	61.97	1.55
22	19	S.Y. Bancorp, Louisville, KY	2,053,097	13.14	1.20	31.97	14.63	57.30	1.51
23	28	City Holding Company, Charleston, WV	2,777,109	13.08	1.51	37.32	14.07	55.20	1.12
24	20	American Business Bank, Los Angeles, CA	1,177,726	12.95	0.90	10.99	N/A	59.17	N/A
25	30	National Bankshares, Blacksburg, VA	1,067,102	12.89	1.71	17.08	20.90	47.47	1.60

Source: Highline Financial, LLC

Additional data and rankings appear on *www.ababj.com*

Banks faced a great many questions in 2011: Keep or discard free checking? Build branches or invest in alternative delivery technologies? Expand into new markets and lines of business, or grow earnings? As with their larger counterparts, the successful mid-sized institutions of 2011 were those who responded with decisive action.

In Part Two of the 20th annual *ABA Banking Journal* performance rankings, we provide details on the financial results and strategies of the nation's top-performing banks with total assets of between $1 billion and $10 billion. Part Three, which will appear in the June issue, will examine top-performing community banks with total assets of less than $1 billion. The full rankings of the mid-sized banks, along with those of the nation's largest banks (published in April), can be found online at *http://tinyurl.com/topbanks-2012*.

How the rankings were done

Our analysis ranks the performance of federally insured domestic-depository institutions with assets of between $1 billion and $10 billion as of Dec. 31, 2011. In turn, we divided these institutions into two subgroups: publicly held depository institutions (banks, thrifts, and bank or financial holding companies) and private or foreign-owned depositories (described in greater detail below). A total of 253 public banks, thrifts, and holding companies and 230 private institutions qualified under the selection criteria. They were ranked by return on average total equity (ROAE) for 2011. In instances where the reported ROAE was identical for two or more institutions, 2011 return on average total assets (ROAA) was used as a secondary ranking criterion.

As explained last month, we expanded the overall top-performer series to three groups of banks: large, mid-size, and community banks. As with the large banks, we re-ran last year's rankings as if this reclassification had been applied in 2010 to facilitate direct year-to-year comparisons.

Securities and Exchange Commission filings were the source for public company data, and regulatory filings were the data source for private and foreign-owned institutions. The data for the 2011 analysis was provided by Highline Financial, LLC.

Routes to the top tier

This year's top performers made the earnings environment work to their advantage, resulting in an average ROAE of 15.64% for the top 25 banks—roughly four times higher than that of all mid-size institutions, which was 3.86%. Improved credit quality played a role. The average top performer posted a 35.1% decline in provision expense, compared to a 31.2% decline at the average mid-sized bank. Only two of the top 25—perennial top-performer WestAmerica Bancorp. of San Rafael, Calif. (No. 7), and BofI Holding of San Diego, Calif. (No. 8)—posted little to no change in provision expense. They maintained relatively solid credit quality during the recent economic contraction.

Acquisitions continued to be an important component of increased earnings. While Bridge Bancorp, Bridgehampton, N.Y. (No. 21) engaged in a traditional transaction, most of this year's acquisitions were assisted purchases. Bank of the Ozarks, Little Rock, Ark., received top honors for the second consecutive year due to benefits accruing from FDIC-assisted transactions. It acquired three institutions in Georgia, building on its Atlanta-area presence and adding locations in the state's southern region. Southern BancShares, Mt. Olive, N.C. (No. 2) engaged in a single FDIC-assisted acquisition, entering the Norfolk, Va., market. Both institutions booked bargain-purchase gains and benefited from the loan, account, and fee-income growth associated with new customers and branches.

The remaining high performers typically pursued one of two routes to top earnings performance: expanding fee-generating lines of business or adjusting balance sheets to conserve net-interest income.

Boost from trust and insurance

Like the large banks, top-performing mid-size banks spent much of 2011 focusing on developing lines of business with the potential to offset declines in fee income. Mid-size banks more commonly concentrated on expanding trust and insurance services. Cambridge Bancorp, Cambridge, Mass. (No. 20) completed expanding its wealth management business into New Hampshire in 2011. Cambridge hired new personnel with knowledge of the local markets and built two new wealth management-only offices in the state. This allowed the bank to capture new business outside its existing Boston-area footprint and provided existing customers with the option of moving trusts from Massachusetts to New Hampshire (offering more flexibility in creating trusts and a more favorable tax treatment). In total, 21.25% of total revenue at Cambridge came from trust revenues, compared to an average of 5.82% among the top performers and an average of 4.36% among all public mid-size banks.

Arrow Financial Corp. of Glen Falls, N.Y. (No. 18) acquired three insurance agencies in 2011, supplementing earlier acquisitions and increasing insurance commissions by 147%. Arrow saw a 47% increase in non-interest income—well above the average growth of 3.6% seen among all top performers and average growth of 2.6% experienced among all institutions.

Managing the balance sheet

Other institutions adapted to the low interest-rate environment by slowing asset growth or reducing funding costs to maximize yields. In highly competitive markets where loan pricing approached the irrational, this often meant refraining from reaching for loan growth, rather than lowering interest rates or fees. Dime Community Bancshares of New York, N.Y. (No. 17) "elected to moderate asset and loan portfolio growth in 2011" and focused on raising capital for future investment. Texas Capital Bancshares, Dallas, Texas (No. 19) "actively turn[ed] away" high-cost deposits in the first half of last year.

WestAmerica Bancorp. also maintained a relatively conservative

Public banks and thrifts with total assets of $1B-10B

SUMMARY STATISTICS	Top 10			All mid-size banks		
	2011	2010	Percent change	2011	2010	Percent change
Average ROAE (%)	15.64	15.93	(0.29)	3.86	(4.49)	8.36
Average ROAA (%)	1.44	1.37	0.06	0.44	(0.02)	0.46
Average loans/deposits (%)	83.82	80.70	3.12	80.32	83.77	(3.44)
Average non-interest income/ total revenue (%)	23.99	21.62	2.36	21.58	21.68	(0.10)
Average net interest margin (%)	4.15	4.08	0.07	3.86	3.64	0.22
Average capital ratio (%)	16.78	17.23	(0.45)	16.69	15.43	1.26
Average efficiency ratio (%)	57.11	58.52	(1.41)	71.27	70.83	0.45
Average nonperforming loans/ total loans (%)	2.00	3.67	(1.67)	4.37	4.96	(0.59)

Source: Highline Financial, LLC

strategy. Rather than pursue loans with increasingly competitive pricing, it shrank net-loan balances by 13.69%, year-over-year, compared to a median increase of 2.06% among the top 25 mid-size banks. This was offset by increased cash balances and securities holdings.

WestAmerica focused on raising deposits—not to support growth, but to reduce interest expenses. New non-interest-bearing deposit balances of $100 million replaced time deposits (which decreased by $90 million) and borrowings (which decreased by $30 million), leading to a decline in its cost of interest-bearing liabilities from 45 basis points to 29 basis points. At 0.17%, WestAmerica's ratio of interest expense to average assets was the lowest of all 25 top performers, and markedly lower than the average ratio across mid-size banks (0.92%).

Private/foreign-owned bank results

Average ROAE among the top 25 private banks was 23.80%. Many, but not all, benefited from S-corporation status and the differentiated tax treatment that accompanies it. On a comparable aftertax basis, average ROAE was 17.09%.

The strategies they employed to generate strong earnings performance were remarkably similar to those pursued by top public companies. Union Savings Bank of Cincinnati, Ohio, this year's top-performing mid-size private bank, successfully managed the liability side of its balance sheet to improve overall net interest income. Also, it significantly decreased its provision expense relative to 2010 levels. A focus on mortgage lending helped it generate interest income and non-interest income from servicing fees.

The universe of institutions used for our analysis of private mid-size banks includes non-publicly traded banks, thrifts, and holding companies, and wholly owned financial institution subsidiaries of privately held and publicly traded foreign financial services companies, where the company is not listed on a major U.S. exchange and the U.S. subsidiary's results are available. Wholly owned financial institution subsidiaries of *non-bank* companies (e.g., BMW) were excluded from these rankings, as were institutions with an industrial loan or nondepository trust charter, or deposits equaling less than 10% of total liabilities, or credit card loans exceeding 70% of total loans at year-end.

Private and foreign-owned banks and thrifts with total assets of $1B-10B

2012 rank	2011 rank		Total assets ($000)	2011 ROAE (%)	2011 ROAA (%)
1	5	Union Savings Bank, Cincinnati, OH	2,218,607	38.21	2.94
2	1	United National Corp, Sioux Falls, SD	1,799,837	33.62	13.91
3	N/A	Central Bancshares, Golden Valley, MN	1,121,431	31.91	2.12
4	8	WNB Bancshares, Odessa, TX	1,198,490	28.21	1.72
5	15	Heartland Bancorp, Bloomington, IL	1,953,830	27.54	2.60
6	9	Beal Bank USA, Las Vegas, NV	5,722,272	27.40	10.00
7	3	Woodforest Financial Group, The Woodlands, TX	3,559,767	27.26	1.78
8	92	State Bankshares, Fargo, ND	2,265,782	26.45	1.91
9	7	Independence Bancshares, Owensboro, KY	1,143,820	26.02	1.46
10	6	NRBC Holding Corp., Chicago, IL	1,298,746	25.71	2.56
11	16	Midfirst Bank, Oklahoma City, OK	9,790,194	24.58	2.53
12	N/A	Certusholdings, Atlanta, GA	1,818,533	24.09	5.35
13	20	Bessemer Group, Woodbridge Twp, NJ	2,937,506	21.57	2.39
14	11	Plains Bancorp, Dimmitt, TX	1,082,319	20.94	1.46
15	12	United Community Bancorp, Chatham, IL	1,280,593	20.24	1.62
16	22	Ida Grove Bancshares, Ida Grove, IA	1,154,534	20.21	1.84
17	21	First Security Bancorp, Searcy, AR	4,171,542	19.99	2.39
18	13	Amarillo National Bancorp, Amarillo, TX	3,168,689	19.69	2.28
19	23	Industry Bancshares, Industry, TX	1,881,701	19.62	1.83
20	N/A	CBX Corp, Carrollton, IL	1,013,923	19.49	1.24
21	N/A	First York Ban Corp, York, NE	1,118,705	19.09	1.60
22	N/A	Watford City Bancshares, Watford City, ND	1,089,768	19.03	1.20
23	24	Stockman Financial Corp, Miles City, MT	2,141,531	18.82	1.75
24	27	Banterra Corp, Eldorado, IL	1,108,064	17.69	1.39
25	N/A	Hometown Community Bancorp, Morton, IL	2,674,486	17.51	1.32

Source: Highline Financial, LLC

Looking ahead

As the U.S. economy improves, we expect to see more mid-sized banks expand into national lending businesses like auto lending and leasing in the quest for earning assets. ■

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