

Strategic Planning: What's On Your Agenda?

Forces of great change in the financial services industry...

Recent Economic Developments

- Housing and credit crises; significant decline in equity values
- High rates of unemployment/low confidence
- Massive federal government deficits; rising rate environment

Changing Marketplace Composition

- Rapid change in demographic profile of the U.S.
- Weakened investment bank/bank competitors
- Fast growth of financial technologies (e.g. money management, mobile)

Changing Attitudes & Behaviors

- Shift from spend/invest to save/cash mentality
- Loss of confidence in financial sector; massive loss of wealth
- Desire to interact with providers through multiple channels and customize one's experience

Technology Advances

- Web 2.0: redefining customer experience/concept of community
- Increasingly distributed delivery
- Security and business intelligence capabilities are focal points

Increased Role of Government

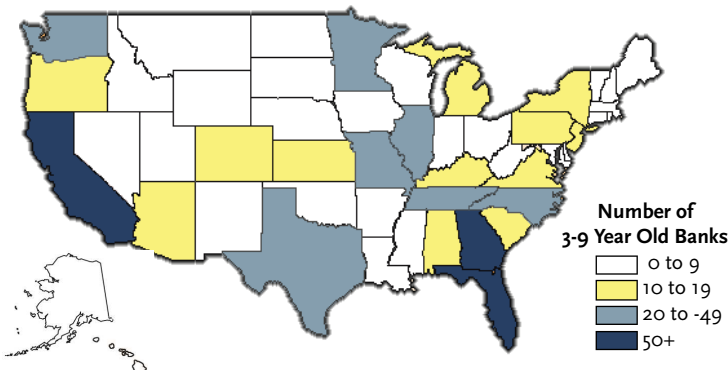
- Higher compliance costs; greater regulatory scrutiny
- New regulation driving major change to existing business models
- Significant funds allocated to specific sector

...require new strategies for sustainable growth and profitability.

1. Customer-centric business models built around more robust value propositions.
2. Brand-building: standing out from the pack.
3. Products: commoditization fast shifting to customization via online technology.
4. Lower margins and robust M&A activity drive new quest for volumes.
5. Mindset of cash flow optimization and savings spurs integration of robust money management solutions.
6. Efficiency as a core competency.
7. Segmentation: greater focus on fewer customers.
8. IT to drive more highly engineered sales, marketing, and customer management practices.
9. Standardization and centralization of activities outside the value chain.
10. Integration of mobile banking and social media into delivery system.

Concentrations of Younger Financial Services Institutions

According to the FDIC, banks that have been in existence for three to nine years are most likely to be adversely affected by events that have recently troubled the banking sector. We have taken a look at commercial banks and bank holding companies established between January 1, 2000 and December 31, 2006 to determine which markets contain the greatest numbers of younger institutions (and may potentially be overbanked). Younger banks may be found in 45 of the nation's 50 states, with the greatest concentrations of these banks occurring in states within the Southeast.



Rank	State	Region	Total Banks	Banks 3-9 Years	% of Total
1	California	Pacific	188	85	45.2%
2	Florida	Southeast	200	70	35.0%
3	Georgia	Southeast	231	68	29.4%
4	Texas	Southwest	479	35	7.3%
5	Tennessee	Southeast	136	31	22.8%
6	Minnesota	Great Plains	351	28	8.0%
7	Illinois	Great Lakes	439	26	5.9%
8	North Carolina	Southeast	43	22	51.2%
9	Missouri	Great Plains	262	21	8.0%
10	Washington	Northwest	46	20	43.5%

Across the United States, California boasts the largest population of younger banks, with 85 institutions that have been established in the past three to nine years.

Banking's Top Performers

Every year, CPG partners with the *ABA Banking Journal* to produce a list of the year's top performing banks and thrifts, ranked based on year-end return on average equity (ROAE). Many of this year's top performers were banks who were able to execute core banking principles well. We have highlighted two examples – one large bank and one community bank – below. For more information on how all of our top performing institutions were able to overcome the many obstacles of 2008, please see the May 2009 and June 2009 issues of the *ABA Banking Journal* or go to www.ababj.com.

Bank of Hawaii Corporation, Honolulu, HI:

BOH was the year's top performing public bank with an ROAE of 24.54%. BOH has

displayed consistent high performance over the past few years, appearing in our top 5 since 2006.

BOH's 2008 performance was driven by:

1. The bank's ability to execute its relatively focused business model well.
2. The bank's decision to shift from consumer lending to higher-yield commercial lending – all while maintaining a ratio of nonperforming loans to total loans of 0.22%.
3. The implementation of several innovative new strategies to raise core deposits, including changing performance metrics to better emphasize deposit production and reworking BOH's deposit product line.

Security First National Bank of Hugo, OK:

Security First was this year's top performing non-subchapter S corporation with total assets of between \$100 million and \$3 billion. Like BOH, Security First has also been a consistent top performer. In 2008, Security First achieved its ROAE of 29.89% by:

1. The bank's focus on agricultural lending (a strategy used by many other top performing community banks). Approximately 40% of total loans made by Security First in 2008 were either farm loans or agricultural production loans.
2. The bank's ability to fund that lending with low-cost deposits (approximately 43% of all deposit balances are in transaction accounts).

	Bank of Hawaii	Top 25 Avg/Median ¹	Peer Group Avg/Median ¹	Security First National Bank	Top 25 Avg/Median ²	Peer Group Avg/Median ²
Total Assets (\$000)	10,763,475			101,032		
Return on Average Equity	24.54	13.37	(4.21)	29.89	18.78	1.03
Efficiency Ratio (FTE)	54.11	55.68	61.62	42.63	54.99	76.29
Nonperforming Loans/Total Loans	.022	0.89	2.47	1.37	0.49	2.25
Loans/Deposits	78.75	84.66	100.04	77.09	86.84	91.62
Net Interest Margin	4.33	3.88	3.40	6.22	4.49	3.58
Deposit Growth	4.40	6.96	6.99	1.71	6.37	5.84
Loan Growth	(1.14)	7.14	6.13	-5.27	13.43	7.95

1. "Top 25" includes the top 25 publicly traded banks & thrifts with assets of \$3B+, based on ROAE; "Peer Group" includes all publicly traded banks & thrifts with assets of \$3B+. All statistics are averages; all growth rates are medians.
2. "Top 25" includes the top 25 C-corporation banks & thrifts with assets of \$100MM to \$3B, based on ROAE; "Peer Group" includes all C-corporation banks & thrifts with assets of \$100MM to \$3B. All statistics are averages; all growth rates are medians.

The Washington Corner

While the last six weeks were marked by several noteworthy legislative and regulatory developments including the disclosure of stress test results and the announcement of the administration's regulatory reform plan, there were two items that received less publicity, but that bear watching.

1. **FDIC Chairman Bair has asked Congress to extend the resolution authority of the FDIC to include the assets, liabilities, and operating subsidiaries that reside in the holding company of a failed bank or thrift.** Congress appeared to be receptive to this request, and approval for the enhanced authority could be expedited by separating it from the much larger public policy ques-

tion of establishing a resolution structure to handle systemically important institutions. Granting the FDIC such authority will provide the FDIC with priority claim on assets that reside outside of the failed bank, which can be material for larger companies. It therefore has implications to both creditors and shareholders. In light of this, CPG believes this proposal warrants much more attention from the industry.

2. **One of the more underreported components of the proposed overhaul of the regulatory structure of the financial services industry is the proposed elimination of federal preemption for national banks.** Ten of the nineteen stress-tested

banks have national bank charters. Bank of America Corp, JPMorgan Chase & Co., and Citigroup operate their mortgage companies as subsidiaries of the bank to garner the benefits of federal preemption. Elimination of federal preemption will result in much higher compliance costs and lender liability as lenders will need to comply with the requirements set among fifty state attorneys general.

Go Green!



Help reduce your (and our) carbon footprint by receiving the Wire via email. Just email the word "green" to wire@capitalperform.com.

CPG Announcements

- CPG welcomes our new Business Analyst, Nick Robin, a recent graduate from The George Washington University.
- Our **2Q09 Bank Performance Barometer** comes out in July! To pre-order and receive a sample of our 1Q09 report, email us at info@capitalperform.com.
- Gary Stein's *BAI Banking Strategies* article "Turbocharging the Branch with Specialty Products" is now available at www.bai.org/bankingstrategies.
- Vanessa Mambrino reviews the performance of the best community banks in the *ABA Banking Journal's* 17th annual Top Performers article, June 2009.

Capital Performance Group, LLC

1025 Thomas Jefferson St., NW, Suite 310 East, Washington, DC 20007 phone: 202/337-7870 www.capitalperform.com
The Wire is also available online. Capital Performance Group, LLC (CPG) is a management consulting firm headquartered in Washington, DC.
CPG offers consulting, analytic, and research services to clients in the financial services industry.