



*It's that time again, when we dust off our crystal ball and prognosticate about the coming year and take a look at 2011 happenings.*

## What to Expect in 2012

**Industry consolidation will accelerate.** With all of the various pressures building up for 2012 – margin pressure, earnings pressure, and regulatory pressure – we expect another wave of both assisted and unassisted M&A. The past year has brought into stark relief the fact that there are only so many operating revenue generating opportunities to go around. Many banks may work through their credit issues only to find that they are unable to get back to full strength in the current operating environment, fueling further industry consolidation.

**Banks will develop more specialized commercial lending focus areas.** Competing for the few commercial loan opportunities in a market with low credit demand will require that banks tout not just their ability to extend credit but also their ability to help businesses in various industries deal with industry-specific issues and problems. We've been saying that institutions need to deliver on a "trusted advisor" value proposition for years, and we believe this will be what truly drives loan growth next year.

**More banks will try to get into ag lending.** Rising commodity prices and farmland values have made the agriculture industry one bright spot in an otherwise stagnant landscape. One of the specialized areas that we believe will see heavy competition will be agribusiness banking.

**Further belt tightening.** With deposit rates close to zero and loan demand stagnant, reducing operating expenses will continue to be a focus of executive managers. We expect to see more branch closures, reductions in force, and freezes on discretionary expenditures. This sensitivity will have a ripple effect, as banks will become more aggressive in requiring price concessions from their vendors.

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## 2011 Snapshot

**Old MacDonald had a farm, e-i-e-i-dough!** According to the FDIC, agricultural banks posted a combined return on assets of 1.27 percent in the third quarter of 2011, compared to 1.03 percent for all FDIC-insured institutions. The agricultural sector benefited from increased demand for agricultural products and higher commodity prices. With returns like this, many bankers may feel like joining in the chorus.



**A new enemy number one?** After 10 years of hunting, a team of CIA officers and Navy SEALs killed Osama bin Laden in Pakistan in May. The death of the mastermind behind the worst-ever terrorist attack on U.S. soil came as a relief to most Americans. Given the current national mood, many bankers might wonder if they have replaced bin Laden as the nation's collective arch enemy.



**Super fizzle.** The Joint Select Committee on Deficit Reduction, referred to as the Supercommittee, was created in August. Indicative of the federal government's ongoing fiscal irresponsibility, in November, the committee issued a statement that it had failed to reach a bipartisan agreement on deficit reduction.

**Safe by comparison.** Citing the nation's political process and criticizing lawmakers for failing to cut spending or raise revenue enough to reduce record budget deficits, in August Standard &

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## Big Bank Market Cap Meltdown

As shown in the table below, among those institutions with more than \$100 billion in total assets, only Capital One increased its total market capitalization this year. At the other end of the spectrum, Bank of America lost more than 50% of its value year-to-date, as questions surrounding its financial strength and outstanding lawsuits have continued to weigh on the bank.

#	Institution	City, State	Total Assets (\$000)	Market Cap (\$000)		Market Cap (\$000)		Change in Mkt Cap YTD
				12/31/2010	Rank	12/1/2011	Rank	
1	Capital One Financial Services	McLean, VA	200,148,000	19,450,489	9	20,565,904	8	5.7%
2	U.S. Bancorp	Minneapolis, MN	330,141,000	51,806,765	5	49,155,752	5	-5.1%
3	Fifth Third Bancorp	Cincinnati, OH	114,905,000	11,689,281	12	10,942,190	11	-6.4%
4	PNC Financial Services Group, Inc.	Pittsburgh, PA	269,470,000	31,938,270	7	28,125,220	6	-11.9%
5	BB&T Corporation	Winston-Salem, NC	167,677,000	18,255,276	10	16,075,149	10	-11.9%
6	State Street Corporation	Boston, MA	208,795,000	23,246,203	8	19,338,675	9	-16.8%
7	Wells Fargo & Company	San Francisco, CA	1,304,945,000	163,078,157	2	135,179,734	1	-17.1%
8	JPMorgan Chase & Co.	New York, NY	2,289,240,000	165,874,676	1	115,713,901	2	-30%
9	SunTrust Banks, Inc.	Atlanta, GA	172,553,000	14,767,866	11	9,660,648	12	-34.6%
10	Bank of New York Mellon Corp.	New York, NY	322,187,000	37,494,212	6	23,161,273	7	-38.2%
11	Regions Financial Corporation	Birmingham, AL	129,762,000	8,793,655	13	5,186,575	13	-41.0%
12	Citigroup, Inc.	New York, NY	1,935,992,000	137,446,045	3	78,910,884	3	-42.6%
13	Bank of America Corporation	Charlotte, NC	2,219,628,000	134,535,965	4	56,043,406	4	-58.3%

Source: CPG analysis of data from Highline Financial, LC 2011.

All data as of September 30, 2011. Market Capitalization is as of the close on the day indicated.

## What to Expect in 2012 (continued)

**Branch design will further evolve.** Yes, most banks are trying to identify offices that can be closed. But if banks like JPMorgan Chase and Umpqua plan to expand their branch networks during a time when there is pressure to do so as efficiently as possible, they will have to do so in an inventive fashion. This means that we're likely to see an increasing degree of innovation in branches that are built in 2012.

**The next great financial technology innovation will come from a bank.** More and more of the large institutions are starting "innovation labs" that function as a tech start-up would. Taking technology development seriously increases the chances that at least one of these institutions could find the next Square before Silicon Valley does.

**What we got right last year:** Return on average equity did stay in the single digits; however, it had improved markedly by September 30, 2011, primarily due to decreasing provisions. Banks moved away from debit rewards programs – or repurposed these programs to help serve specific groups of customers. And both commercial payments services offerings and banking apps for smart phones improved dramatically.

**What we got wrong:** Like many, we were overly optimistic about the pace at which GSE reform would move from Pennsylvania Avenue to Capitol Hill. Treasury submitted a whitepaper on the issue in April, Congress continues to ask for more detail, and so it goes. In addition, we were wrong about the speed at which institutions would change their perceptions of Millennials (or Generation Y).

We're not even going to try to judge whether or not our Dodd-Frank predictions were correct.

## 2011 Snapshot (continued)

Poor's lowered the long-term sovereign credit rating on the U.S. to AA+ from AAA. Despite the downgrade, U.S. Treasuries remained the flight-to-quality asset of choice in light of sovereign debt problems in the Eurozone.

**STANDARD  
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**Occupy something...** The Occupy Wall Street movement began in September. While the message of the movement struck many as incoherent, the protesters have sought, in part, more and better jobs, more equal distribution of income, a reduction of the influence of corporations on politics and bank reform. Haven't they heard of Dodd Frank?



**Think different RIP.** In October, Apple Inc. co-founder and technology visionary Steve Jobs succumbed to his long fight with pancreatic cancer. Among other accomplishments, the mobile technology embodied in his iPhone will likely revolutionize how consumers interact with their banks.



**Happy Holidays  
and Best Wishes  
for Success in 2012!**

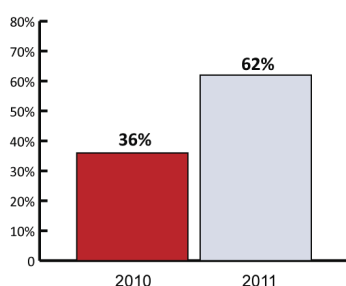
### High Performer and Median Multiples, by Asset Tier

Asset Tier/Highest Multiple	City, State	Total Assets (\$000)	Price to Tangible Book Value	Median Price to Tangible Book Value for Tier
			12/9/2011	12/9/2011
<b>Greater than \$50 billion</b>				
U.S. Bancorp	Minneapolis, MN	330,141,000	2.71	1.16
<b>\$20 billion to \$50 billion</b>				
New York Community Bancorp, Inc.	Westbury, NY	41,969,028	1.76	1.18
<b>\$10 billion to \$20 billion</b>				
Bank of Hawaii Corporation	Honolulu, HI	13,304,758	2.56	1.31
<b>\$5 billion to \$10 billion</b>				
Prosperity Bancshares, Inc.	Houston, TX	9,567,087	3.13	1.34
<b>\$1 billion to \$5 billion</b>				
WestAmerica Bancorporation	San Rafael, CA	4,966,499	3.01	1.01

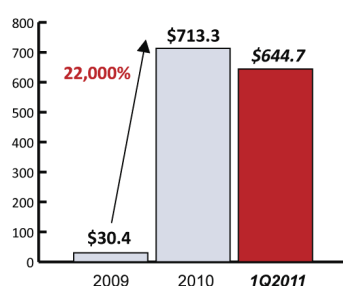
Source: CPG analysis of data from Highline Financial, LC 2011. All data as of September 30, 2011. Stock Price is as of the close on the day indicated. Includes all publicly traded banks and thrifts.

## 2011 and the Acceleration of All Things Online

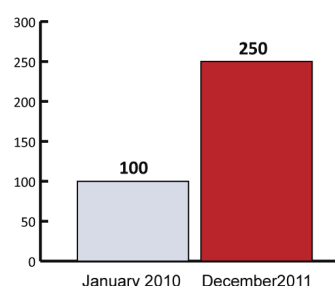
% of customers who prefer to bank online<sup>1</sup>



Groupon Revenues (\$ million)<sup>2</sup>



Tweets Per Day (millions)<sup>3</sup>



Sources: 1) American Bankers Association; 2) www.techcrunch.com; 3) www.techcrunch.com.

### ANNOUNCEMENTS

What do FinancialBrand.com, JDPower Banking, BAI, *Bank Director Magazine*, and the *ABA Banking Journal* have in common? They all follow CPG on Twitter @CPG\_DC



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