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Community Bank Performance for 3Q 2015 [Presentation]

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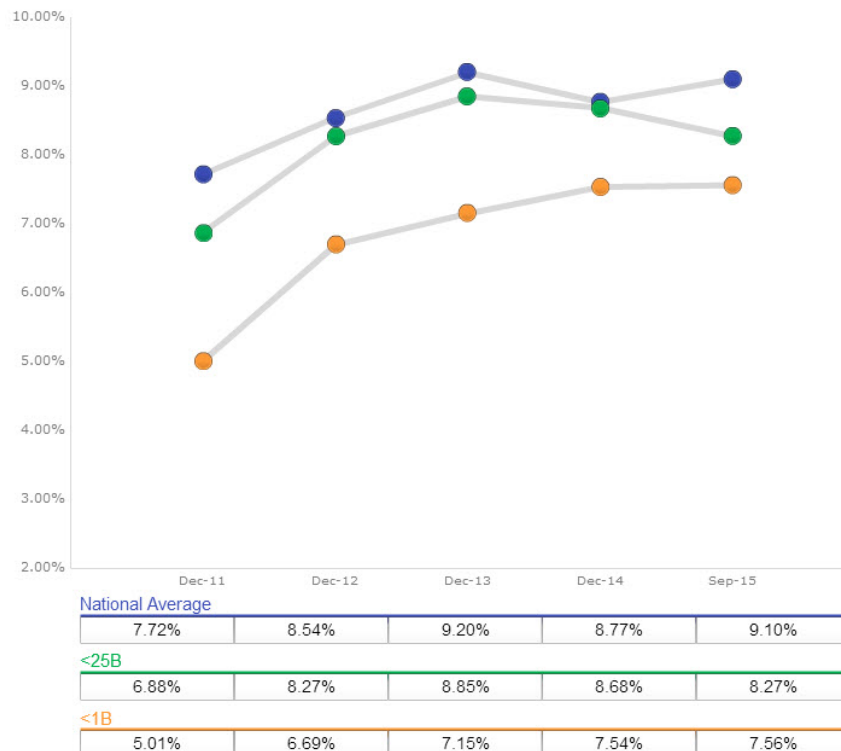


In order to give you the most current perspective on our banking industry, we have compiled the latest data and have attached a complete presentation at the bottom of this blog post. The summation of the quarter is this – While large banks did just slightly better for performance, community bankers felt like they were hamsters running in place hard, but not getting anywhere. While new origination was up, total loan growth was up just a little due to run off. The net result was earnings for community banks being down. Here is a further breakdown -

Overview

For the first quarter, the banking industry improved its ROE from 8.7% to 9.1%. Community banks, however, decreased their ROE performance just slightly from 8.7% to 8.3%. The lower ROE performance remains below most bank's cost of capital and will make it harder to attract future equity. From an asset efficiency standpoint, the industry had a return on asset (ROA) ratio of 1.02%, up 5 basis points (bps) while community banks were down 3 bps to a 0.94% ROA.

Return on Equity

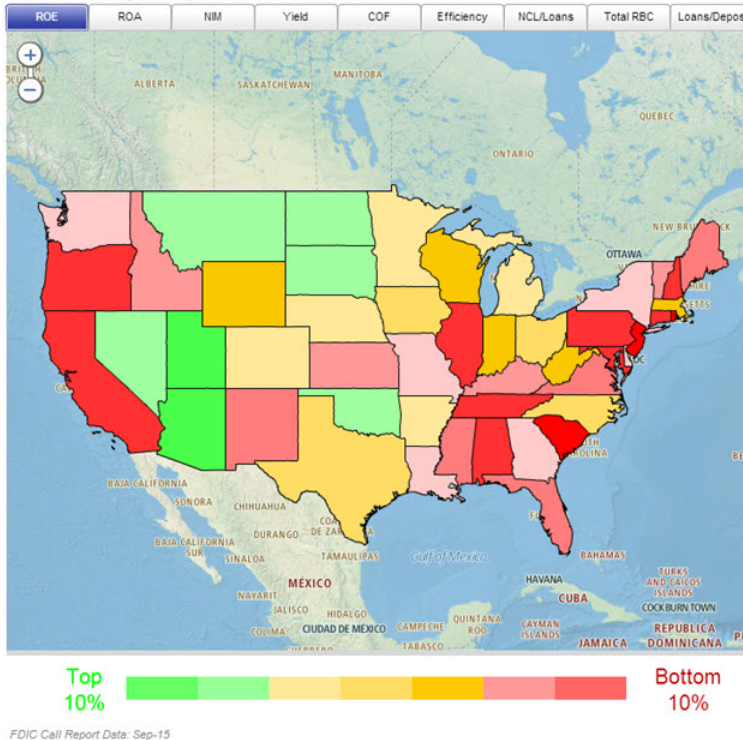


While loan growth was up slightly, total assets were flat to down for most banks. Net interest margins improved 2 bps to a wafer thin 3.03%. Like a sponge that is almost dry, the industry was also able to squeeze just a little bit more out of improving credit quality as allowance for loan and lease losses (ALLL) fell at a decreasing rate from 1.38% to 1.36%. Next to asset quality, improvement in operating efficiency was largely unchanged and branch consolidation was offset by higher labor costs.

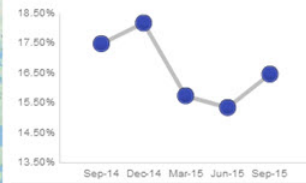
Of course, not all areas performed the same. States like AZ, UT and the Dakotas outperformed, while banks in states like RI, SC, NJ and CA produced some of the lowest return on equity in the industry.

3Q 2015 Performance Map

Ratios represent a weighted-average of all banks chartered in a state



Arizona Return on Equity



(click ratio for more info)	
ROE	16.47%
ROA	1.82%
Net Interest Margin	3.99%
Yield on earning assets	4.19%
Cost of funding earning assets	0.20%
Efficiency ratio	54.52%
NCL/Loans	0.52%
Total risk-based capital ratio	13.10%
Loans/Deposits	87.43%

Return on Equity

Top 5 States

1. Arizona
2. Utah
3. Nevada
4. North Dakota
5. South Dakota

Bottom 5 States

50. Rhode Island
49. South Carolina
48. New Jersey
47. California
46. New Hampshire

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Credit Quality

Repayments of commercial loans slowed a touch from previous quarters, now running just under 20% from 22% last quarter. Unlike 2Q, where credit quality improved, but pricing increased, 3Q saw the contraction of pricing in accordance with improving credit quality. Commercial loan pricing for renewals jumped up to Libor (L) + 2.75% before tightening back to L + 2.68%. For new production, spreads peaked at L + 2.25% for the quarter before closing out at an average of 2.23%. Offsetting some margin compression was an increase in duration as more banks took on fixed rate loans helping margins but increasing their interest rate risk. Going forward, we anticipate higher rates and if past history holds, spreads should continue to tighten as demand decreases.

Banks continued to improve credit quality, as non-accruing loans to total loans dropped from 96 bps to 90 bps. Loan and lease loss provisions for community banks decreased from 1.38% in 2Q to 1.36% in 3Q. Other than C&I and consumer loans, most all loan categories improved performance. Construction stands out as the loan type with the greatest improvement followed by commercial real estate. The Texas ratio for community banks decreased from 12.92% to 12.46%.

**Quarter-to-Quarter
Change In Bank Loan Delinquencies**

	2Q 2015	3Q 2015	Change
Construction	1.63%	1.38%	 -15.3%
1-4 Resi	2.08%	1.94%	 -6.7%
Agriculture	1.76%	1.57%	 -10.8%
CRE	1.27%	1.11%	 -12.6%
Multi-family	0.64%	0.58%	 -9.4%
Other	0.66%	0.64%	 -3.0%
Heloc	1.07%	1.02%	 -4.7%
C&I	1.02%	1.07%	 4.9%
Credit Card	0.61%	0.60%	 -1.6%
Consumer	0.43%	0.46%	 7.0%
Average	1.12%	1.04%	 -7.2%

Revenue and Expenses

Funding leverage increased as the loan-to-deposit ratio increased from 69.2% in 2Q to 70.5% in 3Q for all banks and 80.3% to 82.0% for community banks. This leverage helped profitability as net income to total assets increased from 1.10% in 2Q to 1.14% in 3Q. Fee income as a percent of earning assets decreased 2 bps for the industry down to 1.78%, but increased for community banks 2 bps to 1.19%.

The cost side was mixed as ATM charges increased at large banks due to increased software costs and conversions but stayed flat at community banks. Legal, advertising, consulting, data processing and accounting charges all dropped or stayed the same for 3Q.

Cost of funds decreased by 1 bps for the industry to 0.32% and 2 bps for community banks to 0.41%. This came despite a marked increase in interest bearing accounts as a percent of total deposits (Below).

Wholesale funding decreased for the industry, but increased 5 bps to 13.82% for community banks. While FHLB advances accounted for some of the change, most came through increased use of brokered deposits. Core deposits to total deposits increased for most banks and stands at 78.21% for the industry and 88.97% for community banks for 3Q.

IBD to Total Deposits

**Capital**

With higher retained earnings, banks increased their capital-to-total asset ratio from 11.1% to 11.4%, quarter over quarter. The core capital ratio increased for the industry 8 bps to 9.3% and community banks came in higher at 10.3%. However, riskier assets skewed bank's Tier 1 risk-based capital ratio, as it fell 4 bps for the industry to 12.7% and 35 bps to 14.1% for community banks.

Other

The number of insured commercial banks declined 1.4% to 6,258 due to 1 bank failure, with 64 acquisitions plus charter consolidations. The average deal price for a bank was largely unchanged at 1.31x book value (1.35x tangible book). On an earnings multiple basis, prices decreased from 27.3x in 2Q to 22.7x in 3Q. The threat of higher rates drove up the price of deposits as premiums increased from 4.7% to 5.2%. 416 branches were sold during the quarter, up from 315 the previous quarter. Due to consolidations, the average deposits per branch are now at a record high of \$127.3mm of deposits per branch. Community banks, unfortunately, are still averaging \$59mm per branch which is one major reason for the higher cost structure at community banks.

For more data and analysis, download the board-ready presentation [HERE](#)

([/sites/csbcorrespondent.com/files/Community%20Bank%20Trends%203Q%202015%2011%2016%2015.pdf](http://sites/csbcorrespondent.com/files/Community%20Bank%20Trends%203Q%202015%2011%2016%2015.pdf)) .