

# Steve H. Powell & Company

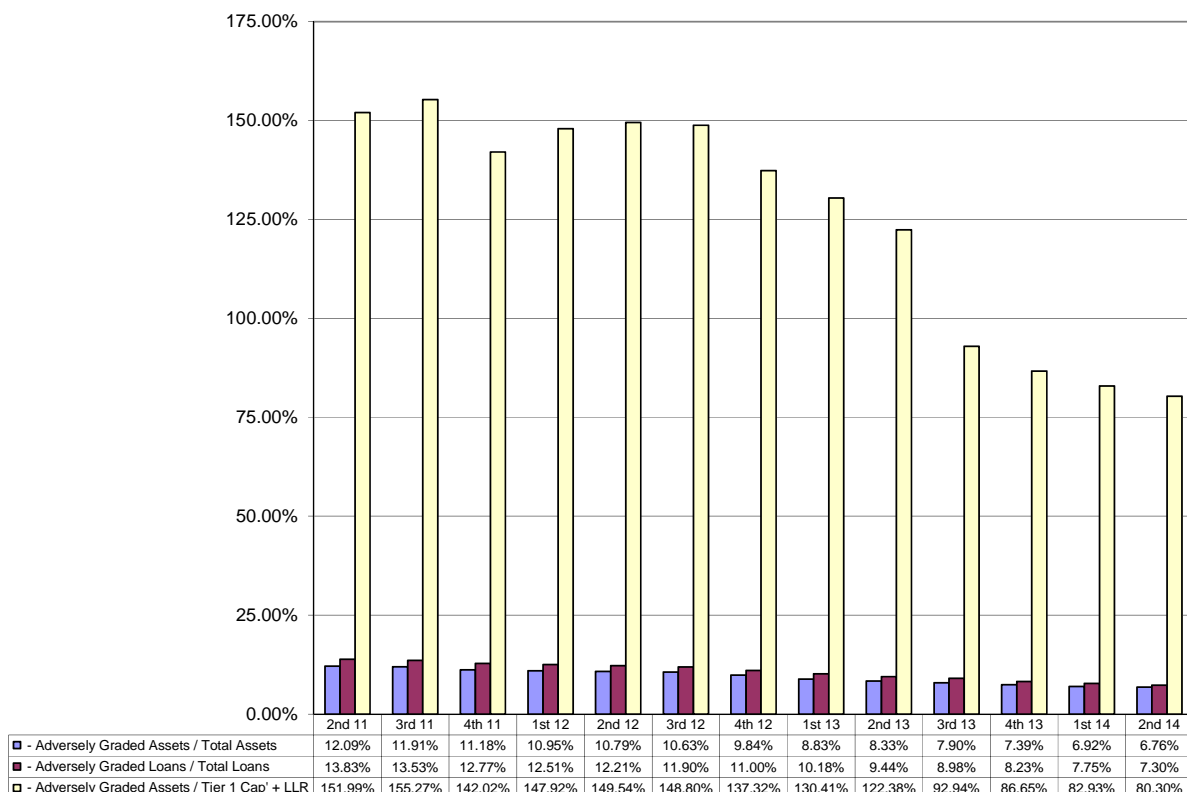
## Quarterly Newsletter

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Q2 2014

### Trends in Asset Quality

**TRENDS IN ASSET QUALITY**  
**AVERAGE LEVEL OF ADVERSELY GRADED ASSETS**

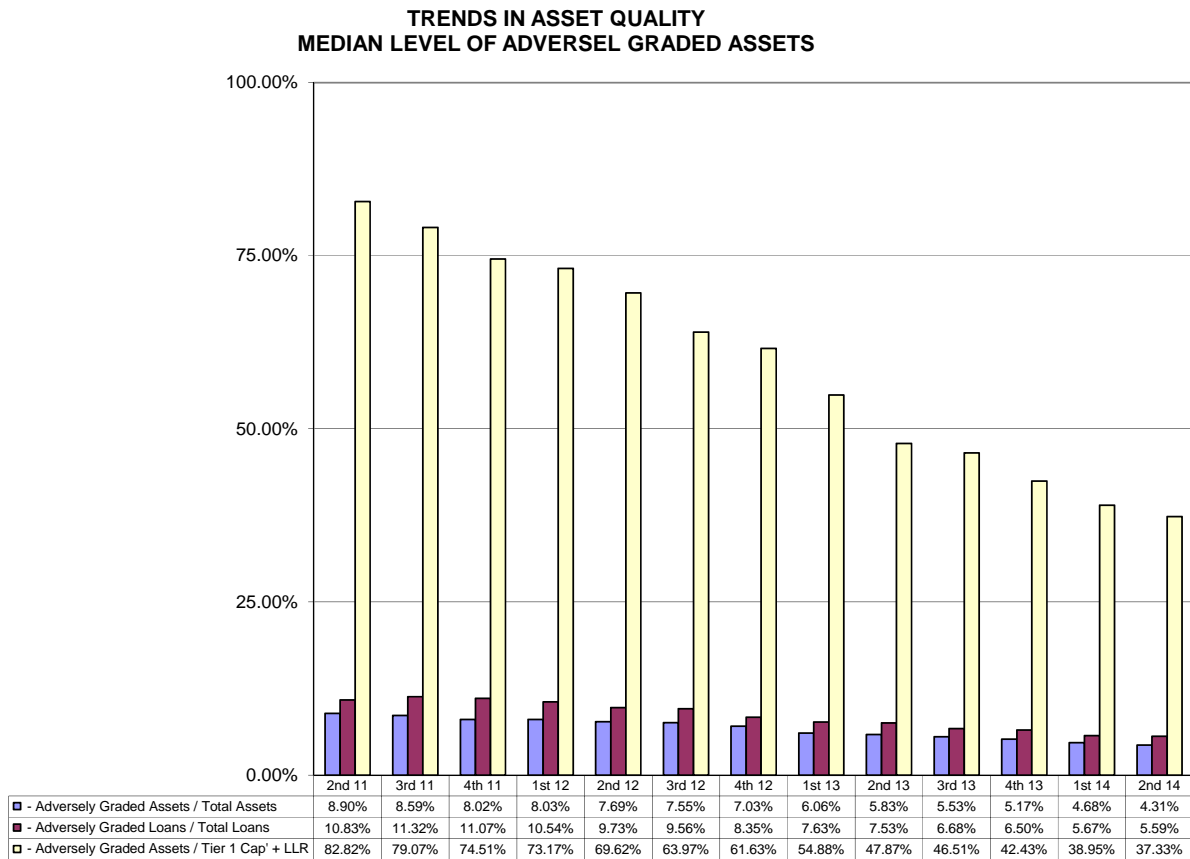


Based on Steve H. Powell & Company client data, during the Second Quarter 2014, the average level of adversely graded assets decreased as a percentage of assets, loans, and capital. Problem assets averaged 6.76% of total assets, 7.30% of total loans, and 80.30% of tier-one capital plus loan loss reserve as compared to 6.92% of total assets, 7.75% of total loans, and 82.93% of tier-one capital plus loan loss reserve during the First Quarter 2014.

*Steve H. Powell & Company was founded in August of 1993 by former banker and regulator, Steve H. Powell. With the goal of providing unparalleled asset quality monitoring and regulatory compliance services, the company's clientele base has grown and now exceeds 100 different financial institutions. We also provide our clients with bank charter consulting, due diligence support, regulatory applications, financial analysis, and strategic planning.*

*The staff of Steve H. Powell & Company is comprised of former bankers & regulators who understand the complexities of today's regulatory environment. The unique skill sets possessed by our specialists are derived from extensive review experience in institutions of various sizes and charter types.*

## Median Level of Problem Assets



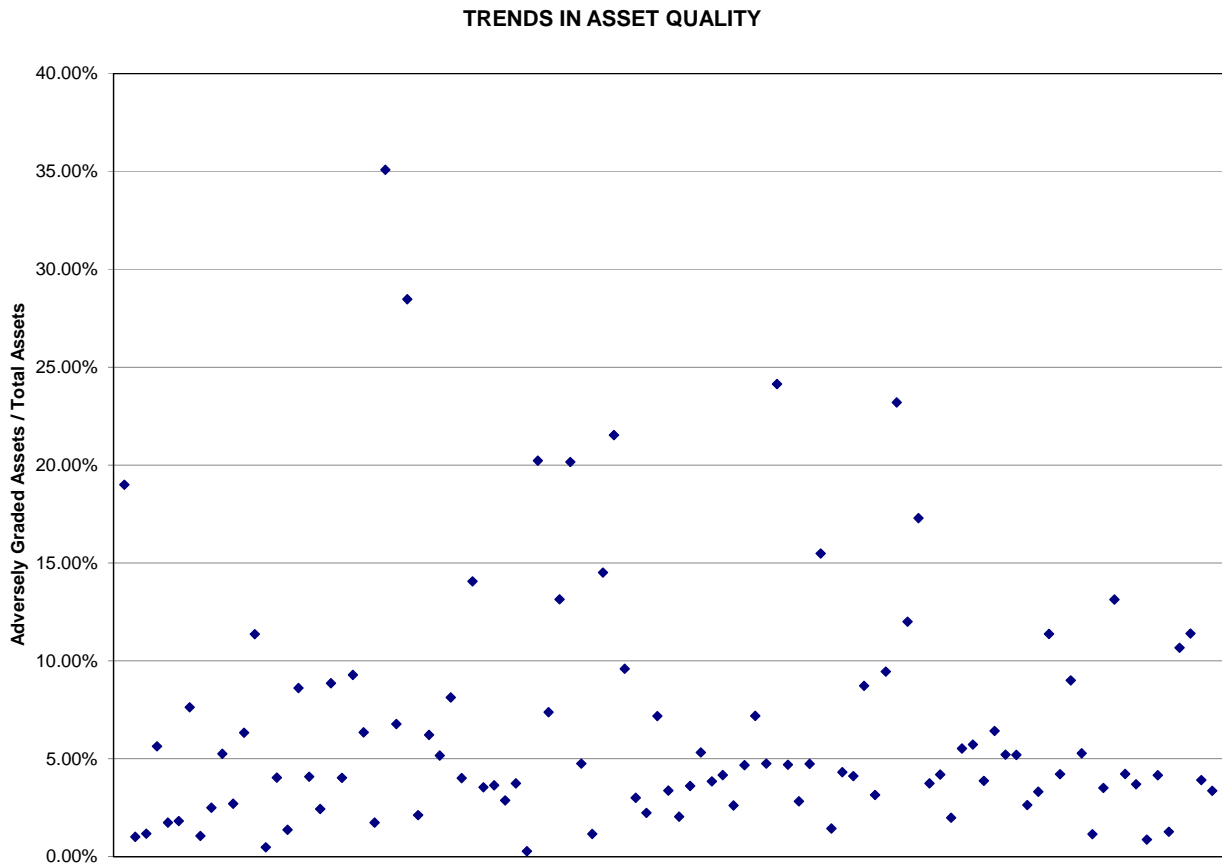
The median level of problem assets as of Q2 2014 decreased to 37.33% of tier-one capital plus loan loss reserve as compared to 38.95% during Q1 2014. Median classifications peaked at 92.05% in Q3 2010. Please note the continued downward trend from Q2 2011.

### Historical Comparisons

During Q2 2014, increases in problem assets, as measured by adversely graded assets divided by tier-one capital plus loan loss reserve, were noted in approximately 20% of our clients. This quarter's increase compares to:

- 17% during the First Quarter 2014
- 14% during the Fourth Quarter 2013
- 23% during the Third Quarter 2013
- 15% during the Second Quarter 2013
- 25% during the First Quarter 2013 and
- 23% during Fourth Quarter 2012

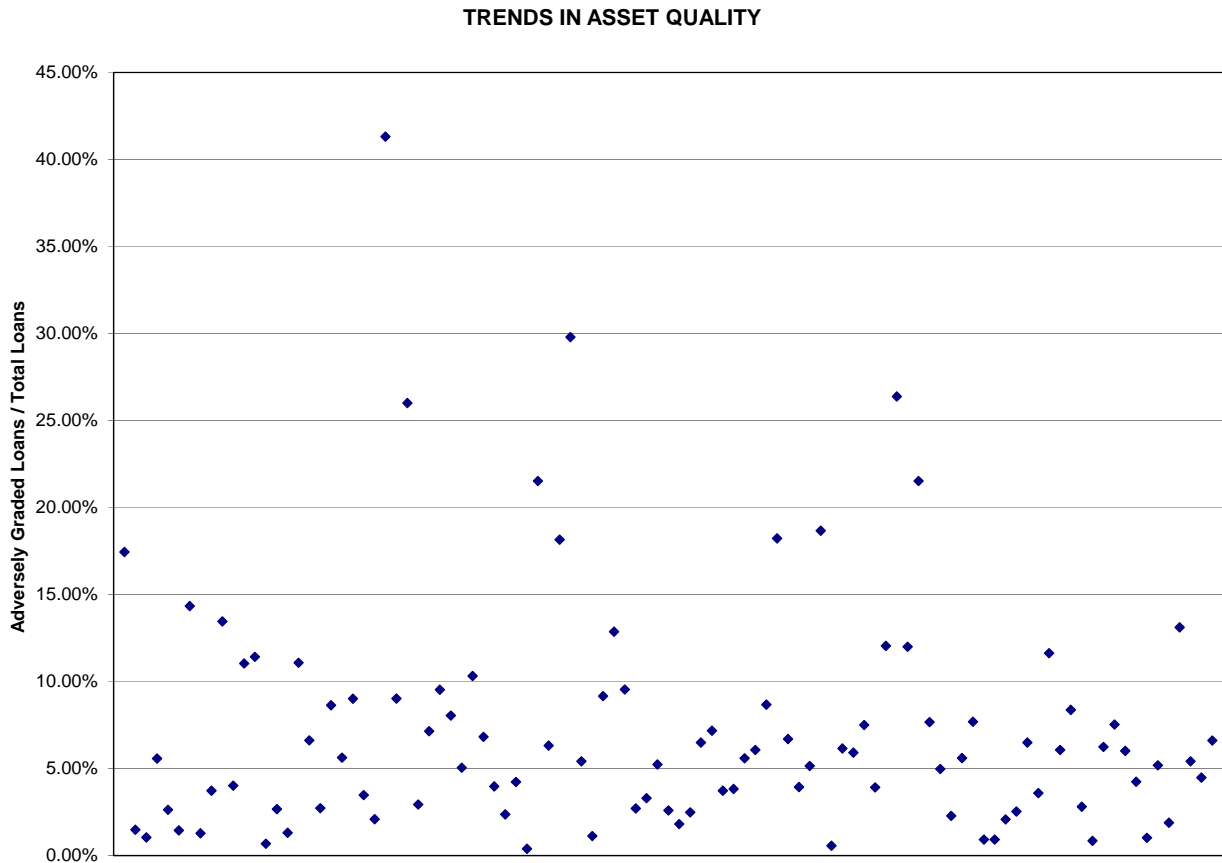
## Dispersion of Problem Assets as % of Total Assets



The above graph shows the dispersion of problem assets as a percentage of total assets. Please note the number of institutions with adversely graded assets that exceed 10% of total assets – a benchmark for significant asset quality concern.

## Dispersion of Problem Loans as % of Total Loans

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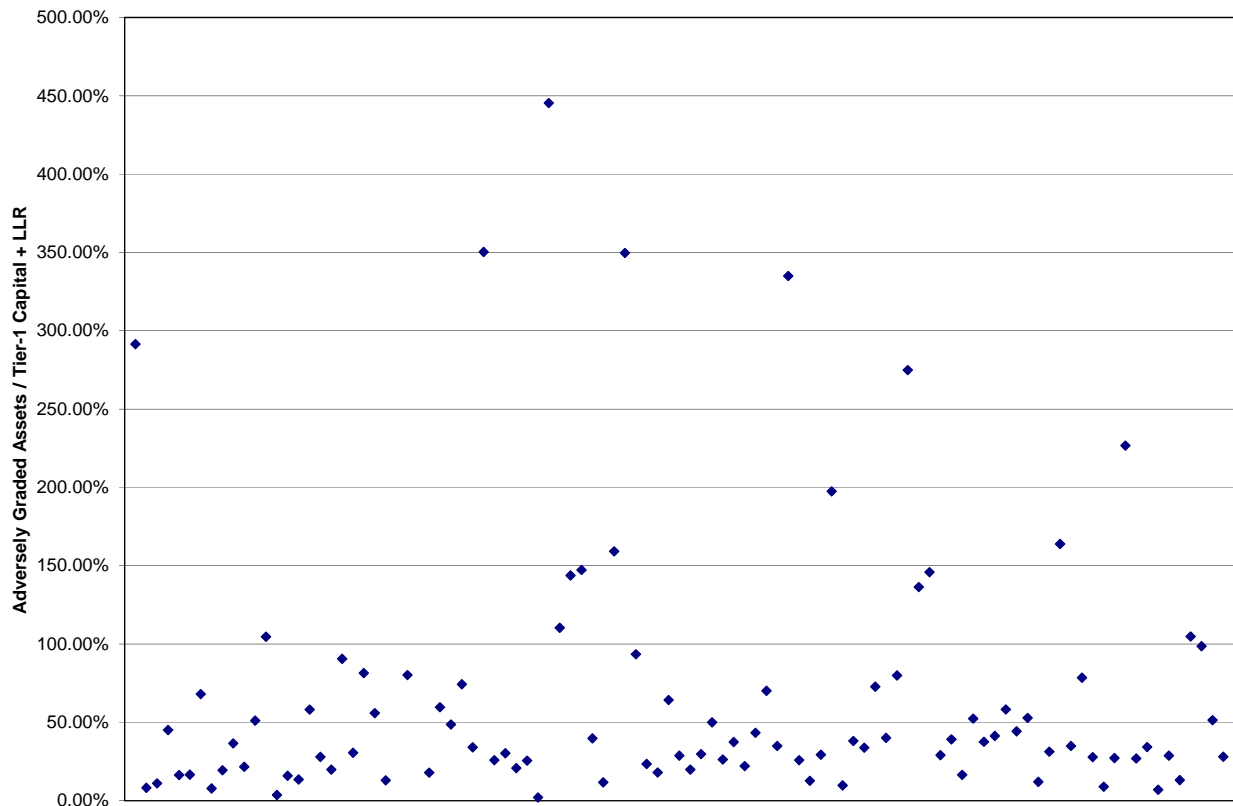


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Please note the number of institutions with adversely graded loans that exceed 10% of total loans - a benchmark for significant loan quality concern.

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## TRENDS IN ASSET QUALITY



## Historical Comparisons

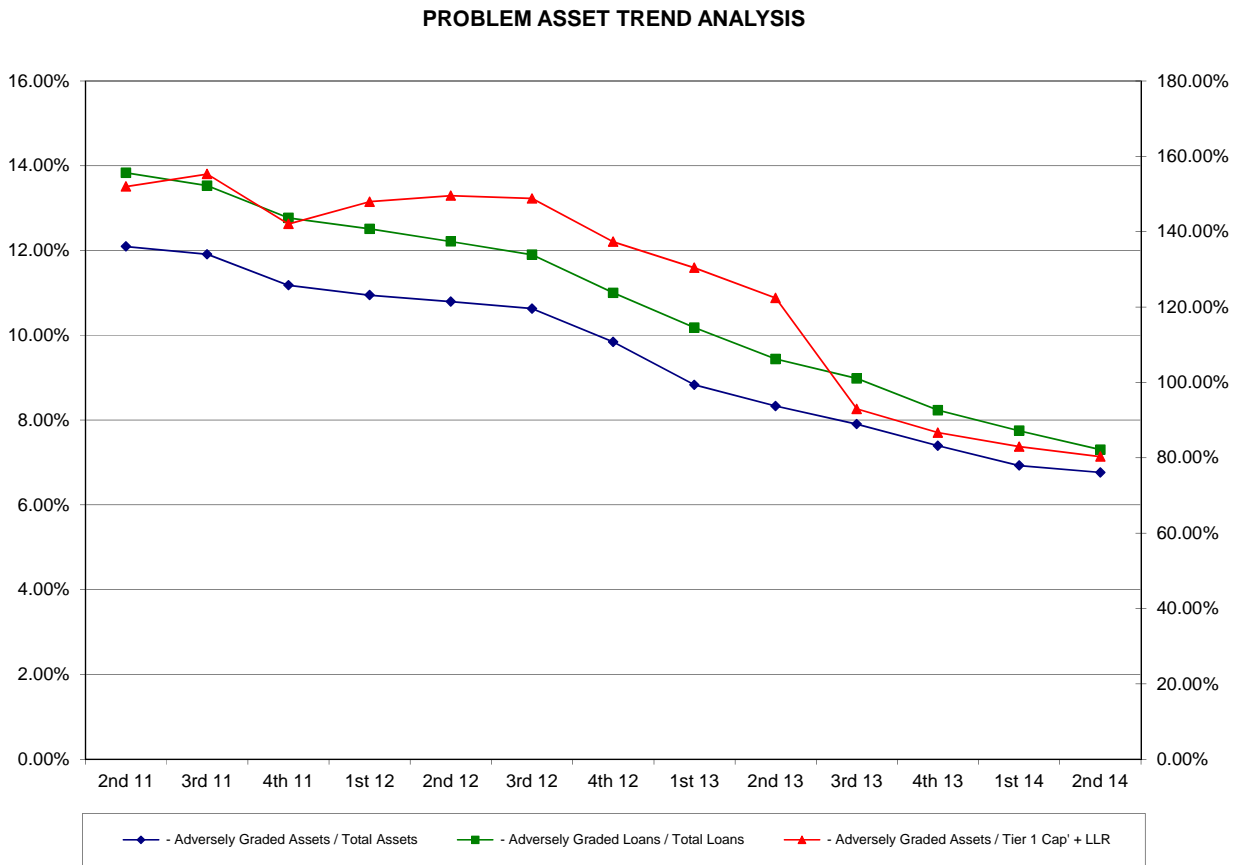
Our sample group includes thirty one (31) banks with problem assets exceeding 60% of tier-one capital plus loan loss reserve. This number compares to:

- Thirty four (34) during the First Quarter 2014
- Thirty seven (37) during the Fourth Quarter 2013
- Forty three (43) during the Third Quarter 2013
- Forty four (44) during the Second Quarter 2013
- Forty six (46) during the First Quarter 2013 and
- Fifty six (56) during the Fourth Quarter 2012

Twenty four (24) banks now exceed 80% of tier-one capital plus loan loss reserve – a level normally associated with some form of formal regulatory action – as compared to:

- Twenty six (26) during the First Quarter 2014
- Twenty eight (28) during the Fourth Quarter 2013
- Twenty nine (29) during the Third Quarter 2013
- Thirty three (33) during the Second Quarter 2013
- Thirty seven (37) during the First Quarter 2013 and
- Forty three (43) during the Fourth Quarter 2012

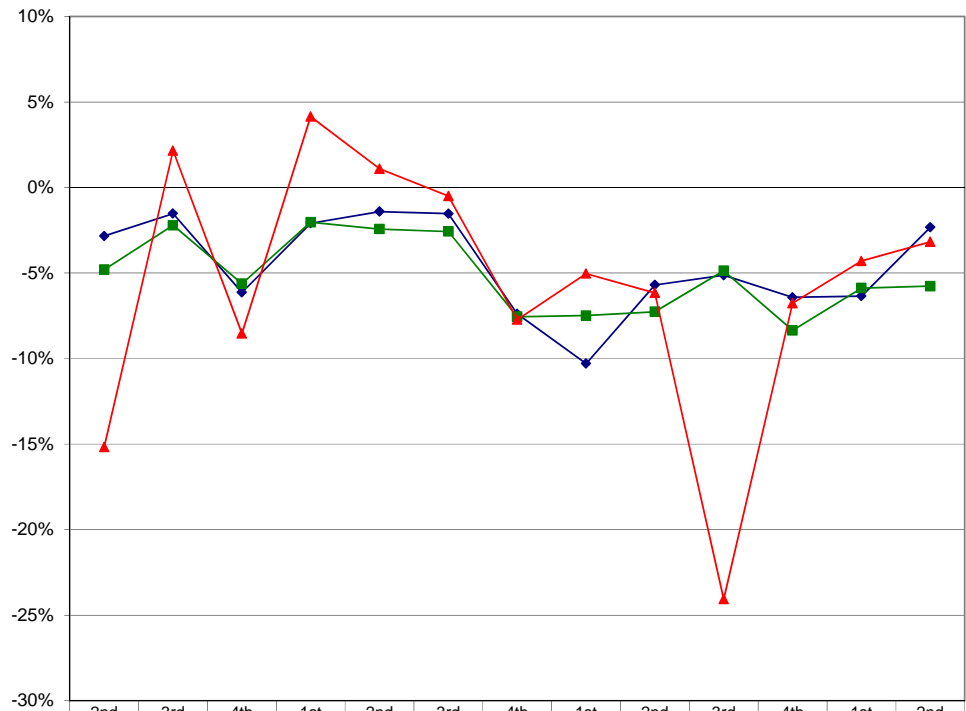
## Problem Asset Trend Analysis



The above graph reflects the trend in asset quality as measured by adversely graded assets to total assets, adversely graded loans to total loans, and adversely graded assets to tier-one capital plus LLR. The average level of adversely graded assets as a percentage of total assets and adversely graded loans as a percentage of total loans continued a downward trend that began during Q3 & Q4 2010.

## Comparative % Change in Adversely Graded Assets

**COMPARATIVE % CHANGE IN ADVERSELY CLASSIFIED ASSETS**  
 Comparative to Assets, Loans and Tier One Capital + LLR



	2nd 11	3rd 11	4th 11	1st 12	2nd 12	3rd 12	4th 12	1st 13	2nd 13	3rd 13	4th 13	1st 14	2nd 14
◆ % Change in ACA/TA	-2.83%	-1.52%	-6.13%	-2.08%	-1.41%	-1.53%	-7.38%	-10.29%	-5.69%	-5.12%	-6.42%	-6.35%	-2.33%
■ % Change in ACL/TL	-4.80%	-2.20%	-5.62%	-2.03%	-2.43%	-2.57%	-7.55%	-7.48%	-7.25%	-4.86%	-8.35%	-5.88%	-5.77%
▲ % Change in ACA/Tier 1 Cap' + LLR	-15.16%	2.16%	-8.53%	4.15%	1.10%	-0.49%	-7.72%	-5.03%	-6.16%	-24.06%	-6.76%	-4.29%	-3.17%

The above graph shows the pace of asset quality deterioration or improvement. The calculation is based on the percent change of problem asset levels from one quarter to the next. The graph indicates a favorable trend in asset quality ratios. Please note any data points below 0% indicate improvement in asset quality.

## Modified Peer Data Analysis

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Prior newsletters have included a discussion of a cross-peer comparison. The comparison was performed again this quarter. The data set was divided into three modified peer group segments – SHP & Co. peer group data was divided into thirds. The segmentation was based on adversely graded loans as a percentage of total loans:

- Tier Group 1 included banks ranging from 0% to 3.82%
- Tier Group 2 included banks between 3.83% and 7.16%
- Tier Group 3 included data points > 7.16%

Average classification ratios in the three tier groups are reflected in the following table:

<b>Modified Peer Comparison</b>	<i>Tier Group 1</i>	<i>Tier Group 2</i>	<i>Tier Group 3</i>
<b>Adversely Graded Assets / Total Assets</b>	2.62%	4.62%	12.99%
<b>Adversely Graded Assets / Total Loans</b>	2.08%	5.58%	14.19%
<b>Adversely Graded Assets / Tier 1 Cap' + LLR</b>	21.77%	39.84%	178.10%

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### *Additional Modified Data Set*

We again performed an analysis in which a total of six outlier data points were excluded – the three lowest and the three highest data points, as based on classifications as a percentage of tier-one capital plus loan loss reserve.

With the outlier data points excluded, problem assets averaged 6.29% of total assets, 6.80% of total loans, and 65.12% of tier-one capital plus loan loss reserve. Second Quarter 2014 modified data compares to the following First Quarter 2014 modified average data set:

- 6.45% of total assets
- 7.26% of total loans, and
- 68.13% of tier-one capital plus loan loss reserve

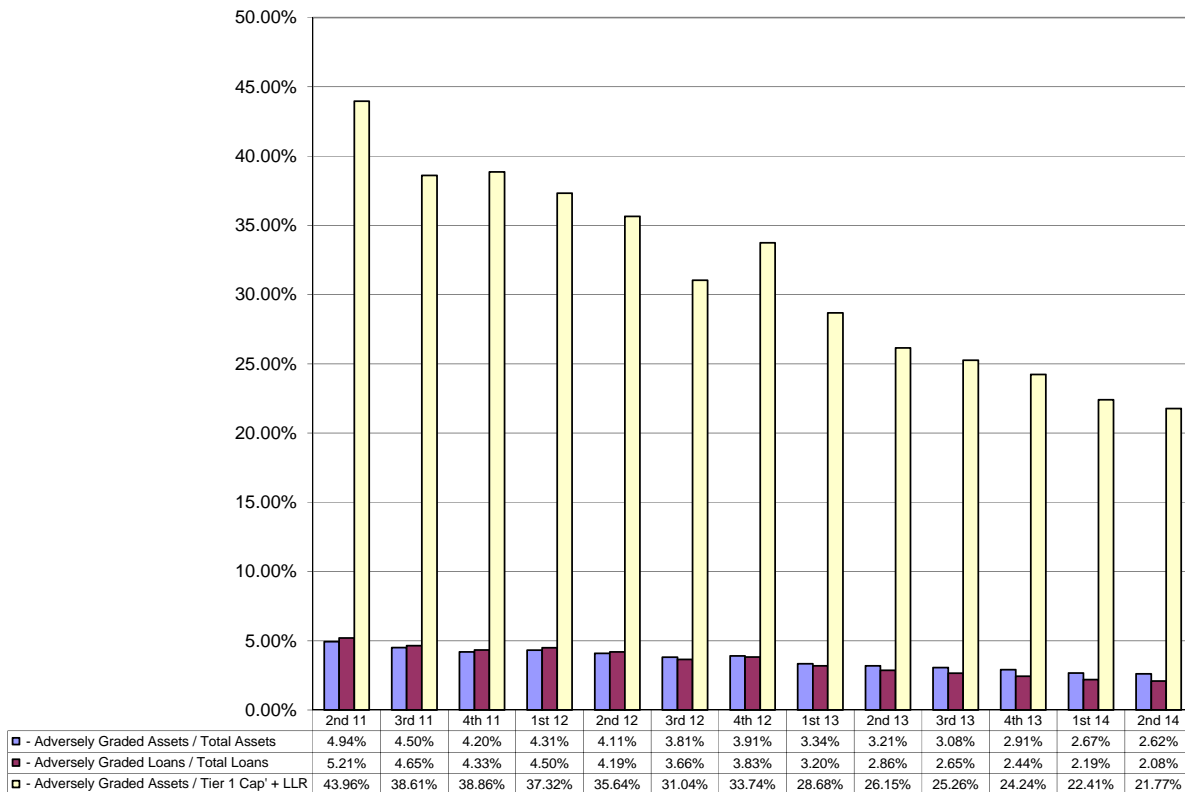
Median asset quality ratios within the modified data set were 4.31% of total assets, 5.59% of total loans, and 37.33% of tier-one capital plus loan loss reserve. Second Quarter 2014 modified data compares to the following First Quarter 2014 modified average data set:

- 4.68% of total assets,
  - 5.67% of total loans, and
  - 38.95% of tier-one capital plus loan loss reserve
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# Tier Group 1

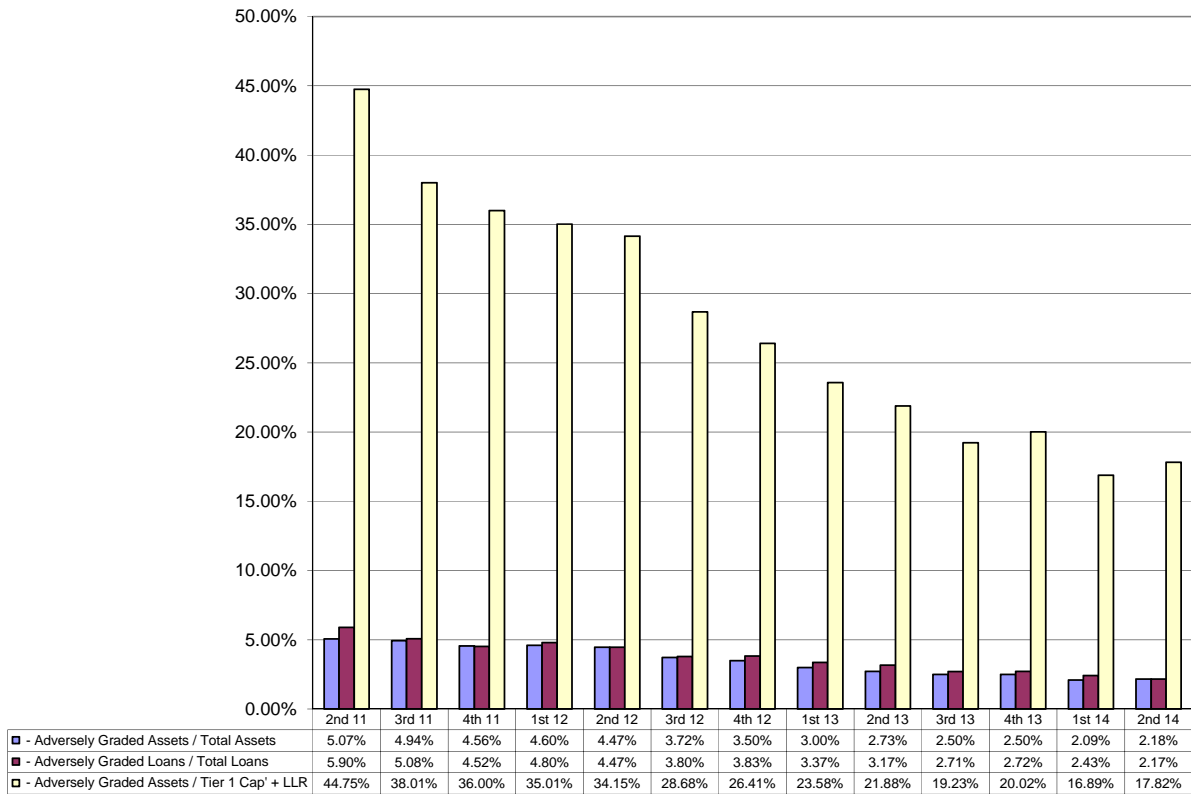
**Tier 1 Group Banks  
AVERAGE LEVEL OF ADVERSELY GRADED ASSETS**



## Tier Group 1 (continued)

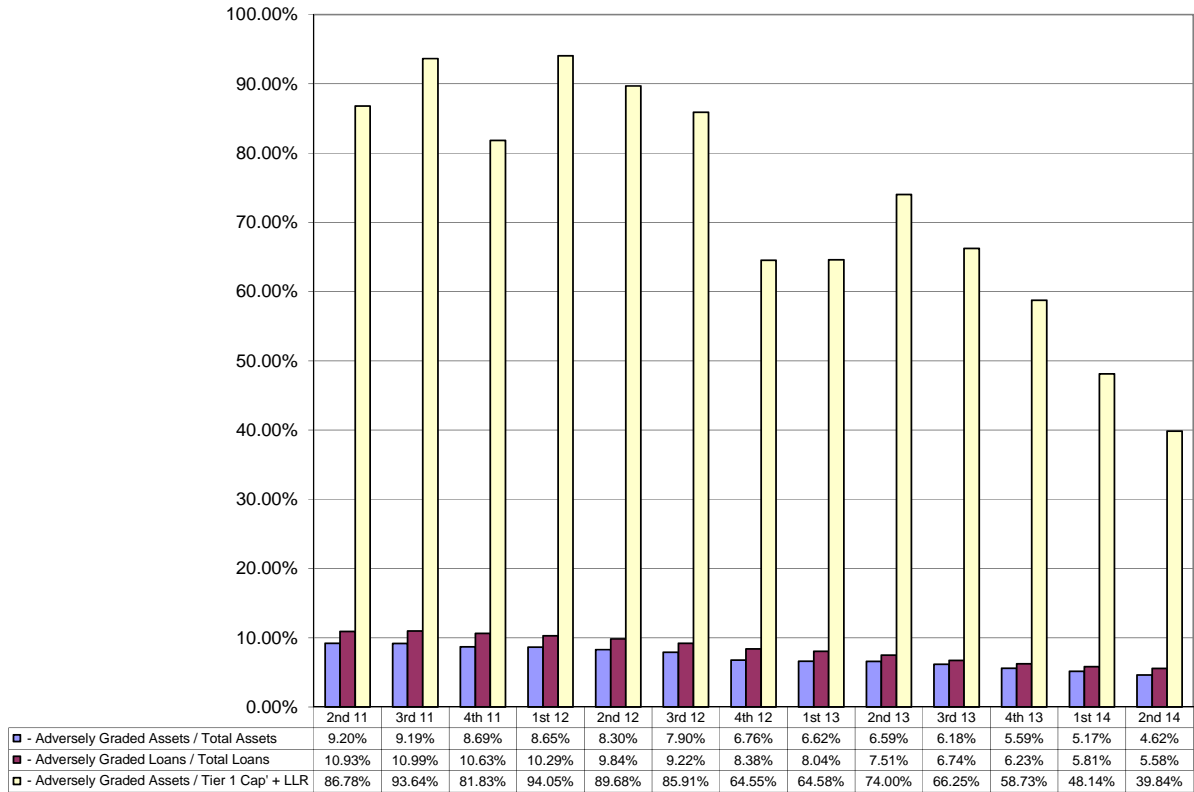
Tier Group 1 banks’ asset quality has stabilized at historically normal, or pre-2008 crash, levels. Tier Group 1 banks continue to benefit from positive earnings. Earnings momentum has contributed to expanding capital accounts. Decreases in adversely graded assets, in conjunction with expanding capital accounts, has driven the improvement in asset quality ratios.

**Tier 1 Group Banks  
MEDIAN LEVEL OF ADVERSELY GRADED ASSETS**



## Tier Group 2

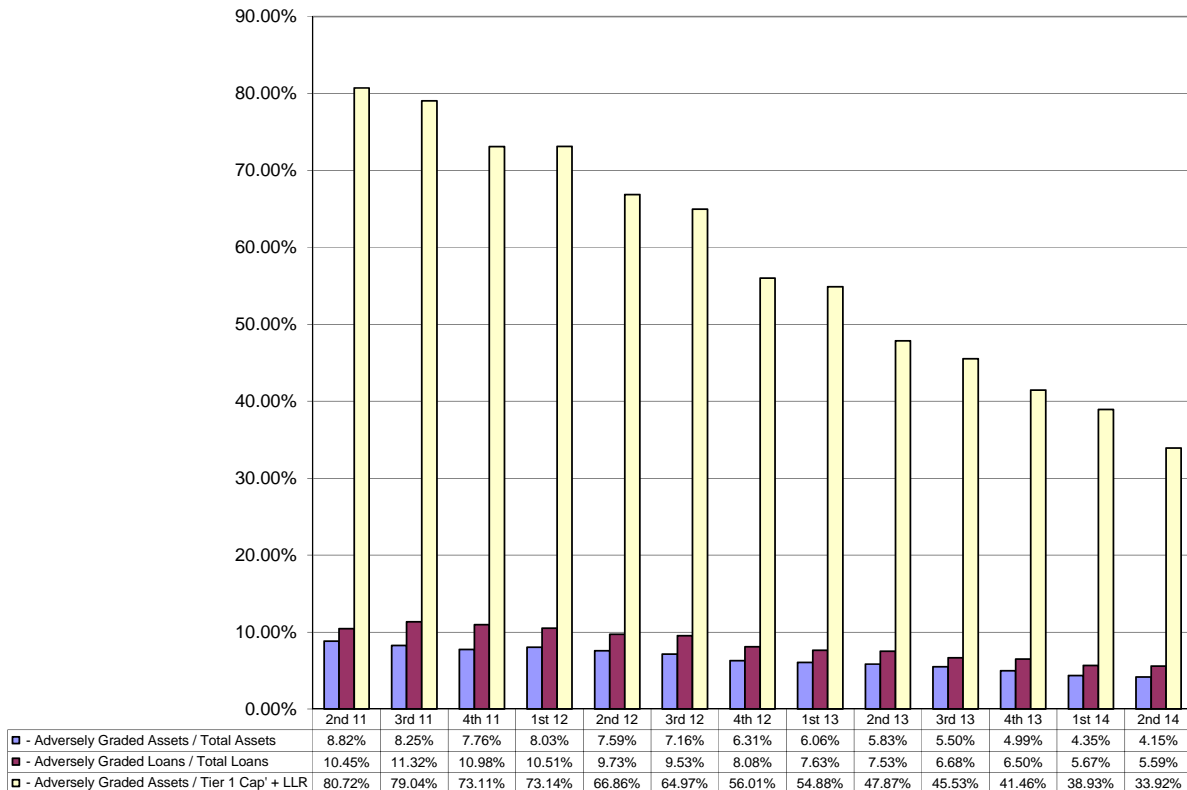
**Tier 2 Group Banks  
AVERAGE LEVEL OF ADVERSELY GRADED ASSETS**



## Tier Group 2 (continued)

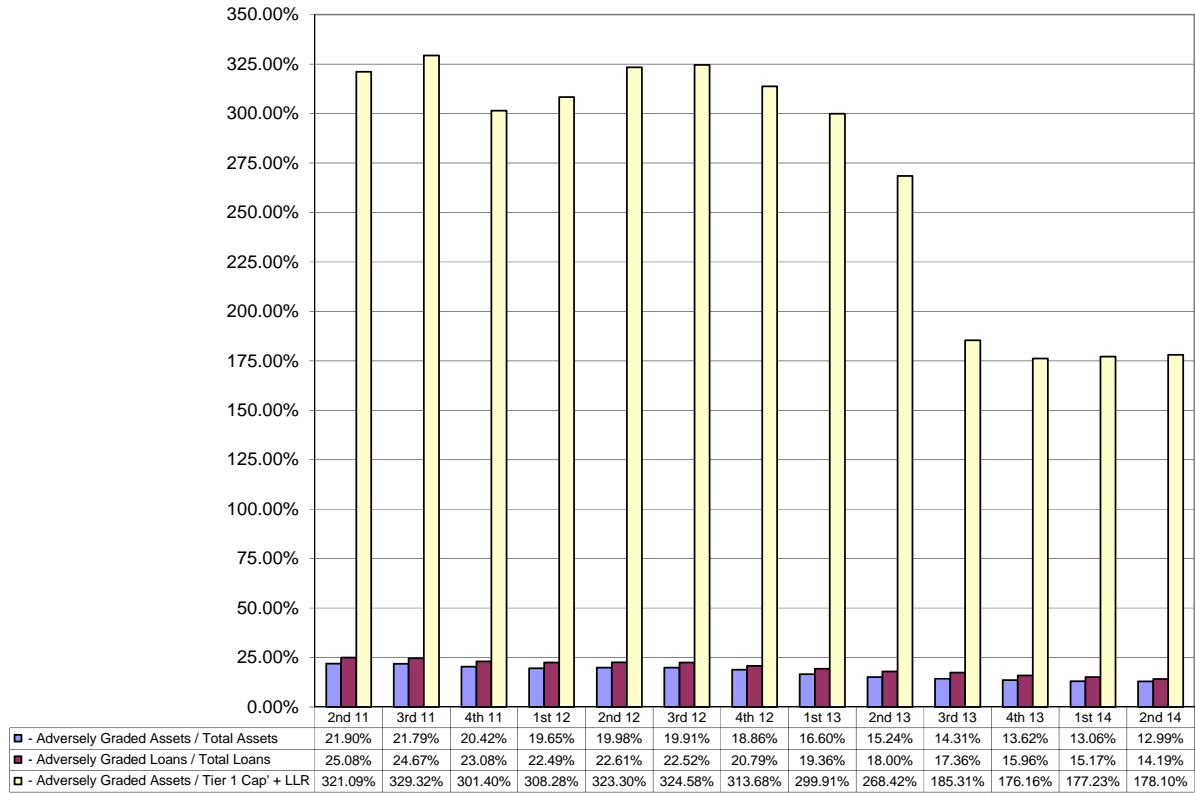
Tier Group 2 banks continue to improve, but asset quality ratios do not appear to have reached the historically normal 20% - 40% of tier one capital + LLR. Tier 2 banks continue to work out of ORE holdings. Improvements in their loan customers’ performance have enabled Tier 2 banks to return previously non-accrual loans to accrual status. Jettisoning other real estate and returning non-earning loans back to accrual status has led to expansion in capital accounts. As with Tier 1 banks, asset quality ratios continue to be driven by improvements in the various asset quality ratios’ numerators and denominators.

**Tier 2 Group Banks  
MEDIAN LEVEL OF ADVERSELY GRADED ASSETS**



## Tier Group 3

**Tier 3 Group Banks  
AVERAGE LEVEL OF ADVERSELY GRADED ASSETS**

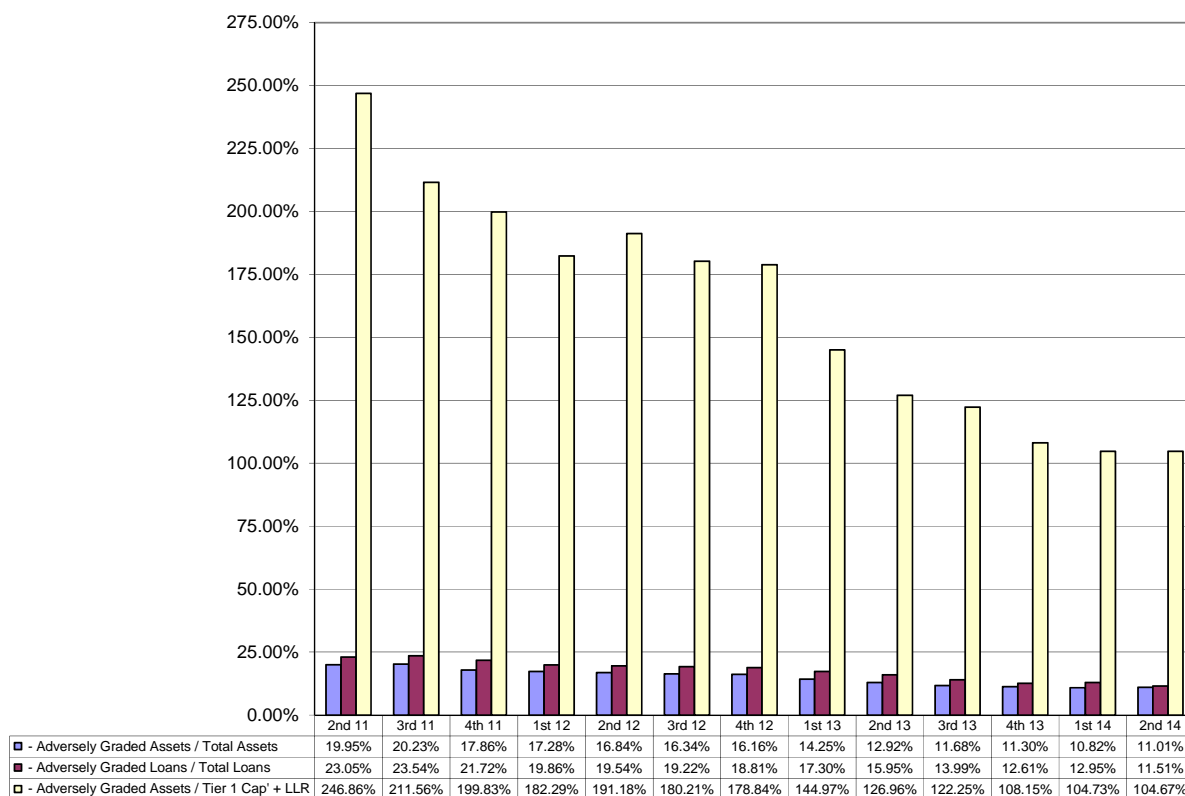


### Tier Group 3 (continued)

Tier 3 data still reflects excessive classification levels, but they continue general improvement. It would appear, as based on the historical trend line, the average level of classified assets, as measured by adversely graded assets divided by tier-1 capital + LLR, has slightly increased from approximately 177% to 178%. The increase is due to outliers as the median ratio was noted to remain stable.

Overall levels of classifications continue to slowly decline. Losses continue to wane, and capital accounts have generally stabilized, but tier one capital for many banks in the group is < 5%. As with Tier 2 banks, Tier 3 banks have begun to see positive earnings. The Tier 3 group’s asset quality ratios are heavily influenced by several peer group banks whose classifications continue to exceed 150% of tier one capital + LLR.

**Tier 3 Group Banks  
MEDIAN LEVEL OF ADVERSELY GRADED ASSETS**



## Banking Performance | By: Steve H. Powell

In response to profitability challenges facing the banking industry, the third quarter 2011 SHPCO newsletter included an analysis of bank profitability. The information was well received and the subject of several presentations. Improvement in bank performance has spurred debate regarding bank feasibility and optimum size.

The last ten years of banking has been one of the most tumultuous in our industry. To quote Charles Dickens in *A Tale of Two Cities*:

“It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to heaven, we were all going direct the other way - in short, the period was so far like the present period, that some of its noisiest authorities insisted on its being received, for good or for evil, in the superlative degree of comparison only.”

We analyzed bank performance by performing a ten year peer group comparison. Peer groups were based on FFIEC UBPR peer groups. These include:

P7	Insured commercial banks having assets between \$100 million and \$300 million, with 2 or fewer full service banking offices and not located in a MSA
P11	Insured commercial banks having assets between \$50 million and \$100 million, with 2 or fewer full service banking offices and not located in a MSA
P15	Insured commercial banks having assets less than \$50 million, with 1 full service banking offices and not located in a MSA
P9	Insured commercial banks having assets between \$50 million and \$100 million, with 3 or more full service banking offices and not located in a MSA
P14	Insured commercial banks having assets less than \$50 million, with 1 full service banking offices and located in a MSA
P5	Insured commercial banks having assets between \$100 million and \$300 million, with 3 or more full service banking offices and not located in a MSA
P2	Insured commercial banks having assets between \$1billion and \$3 billion
P1	Insured commercial banks having assets greater than \$3 billion
P13	Insured commercial banks having assets less than \$50 million, with 2 or more full service banking offices and not located in a MSA
P6	Insured commercial banks having assets between \$100 million and \$300 million, with 2 or fewer full service banking offices and located in a MSA
P3	Insured commercial banks having assets between \$300 million and \$1 billion
P12	Insured commercial banks having assets less than \$50 million, with 2 or more full service banking offices and located in a MSA
P10	Insured commercial banks having assets between \$50 million and \$100 million, with 2 or fewer full service banking offices and located in a MSA
P4	Insured commercial banks having assets between \$100 million and \$300 million, with 3 or more full service banking offices and located in a MSA
P8	Insured commercial banks having assets between \$50 million and \$100 million, with 3 or more full service banking offices and located in a MSA

The qualitative criteria for performance, safety and soundness included the following:

### Profitability and Return

- Return on Average Assets
- Return on Average Equity
- Dividends / Net Income

### Cost Efficiency

- Non Interest Expense / Average Total Assets

### Asset Quality

- Restructured + Nonaccrual + RE Acquired to Equity Capital +ALLL
- Net Charge Offs / Total Loans

### Capital Strength

- Tier 1 Capital

## Banking Performance – Return on Average Assets

Individual peer groups were assigned a P1 through P15 designation. Please refer to the individual group description for P1 through P15 on Page 15.

ROAA	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	AVG
P7	1.35	1.39	1.35	1.28	1.14	0.98	1.12	1.18	1.18	1.14	1.211
P11	1.23	1.27	1.25	1.24	1.12	0.88	0.93	1.01	1.03	0.96	1.092
P5	1.2	1.21	1.19	1.14	0.93	0.7	0.83	0.9	1.01	0.97	1.008
P15	1.1	1.12	1.12	1.08	0.88	0.68	0.72	0.77	0.74	0.72	0.893
P9	1.08	1.07	1.07	1.01	0.85	0.63	0.67	0.72	0.77	0.8	0.867
P3	1.21	1.27	1.26	1.1	0.53	0.1	0.44	0.67	0.92	0.95	0.845
P1	1.28	1.29	1.24	0.97	-0.16	-0.24	0.49	0.87	1.03	1.01	0.778
P2	1.24	1.33	1.31	1.07	0.18	-0.37	0.33	0.71	0.94	0.99	0.773
P13	0.94	0.95	0.94	0.9	0.66	0.46	0.51	0.62	0.66	0.6	0.724
P6	1.21	1.34	1.29	1.06	0.38	-0.26	0.05	0.47	0.78	0.87	0.719
P14	0.91	1.04	1.07	0.98	0.65	0.25	0.35	0.54	0.51	0.46	0.676
P4	1.09	1.14	1.1	0.92	0.4	0	0.13	0.38	0.65	0.72	0.653
P10	1.06	1.13	1.13	0.93	0.42	0.15	0.16	0.36	0.56	0.61	0.651
P8	0.87	0.96	0.95	0.84	0.45	0.22	0.14	0.26	0.41	0.44	0.554
P12	0.73	0.78	0.72	0.63	0.23	0.07	0.21	0.21	0.18	0.1	0.386

The above chart ranks the average ROAA for the peer groups over the last ten years. The color code delineates the top third of performers in green, the middle third in yellow and the bottom performers in orange.

### Top Performing Peer Groups:

- Banks having assets between \$100 million and \$300 million, with 2 or fewer full service banking offices and not located in a MSA
- Banks having assets between \$50 million and \$100 million, with 2 or fewer full service banking offices and not located in a MSA
- Banks having assets between \$100 million and \$300 million, with 3 or more full service banking offices and not located in a MSA
- Banks having assets less than \$50 million, with 1 full service banking offices and not located in a MSA
- Banks having assets between \$50 million and \$100 million, with 3 or more full service banking offices and not located in a MSA

*General observation: The top performing peer groups are banks \$50 million to \$300 million in total assets and not located in an MSA.*



## Banking Performance – Return on Average Assets

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### Middle Performing Peer Groups:

- Banks having assets between \$300 million and \$1 billion
- Banks having assets greater than \$3 billion
- Banks having assets between \$1 billion and \$3 billion
- Banks having assets less than \$50 million, with 2 or more full service banking offices and not located in a MSA
- Banks having assets between \$100 million and \$300 million, with 2 or fewer full service banking offices and located in a MSA

*General observation: The first three peer groups are commonly touted as having the size efficiency to make the greatest return but are the middle group of performing banks over the last ten years. In comparison, the largest of banks are only slightly more profitable than the smallest or those shown in bullet point four – those with less than \$50 million in assets, 2 or more offices and not located in an MSA.*

### Bottom Performing Peer Groups:

- Banks having assets less than \$50 million, with 1 full service banking offices and located in a MSA
- Banks having assets between \$100 million and \$300 million, with 3 or more full service banking offices and located in a MSA
- Banks having assets between \$50 million and \$100 million, with 2 or fewer full service banking offices and located in a MSA
- Banks having assets between \$50 million and \$100 million, with 3 or more full service banking offices and located in a MSA
- Banks having assets less than \$50 million, with 2 or more full service banking offices and located in a MSA

*General observation: The first bullet point includes late de novo banks that have not grown to an efficient size. The last four bullet points all show banks located in an MSA with less than \$300 million in assets. Their poor performance is likely weighed down by asset quality problems of recent years, relatively high overhead expense of operating in an MSA, and intense competition for business against compromising yields.*

## Banking Performance – Return on Average Equity

ROAE	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	AVG
P7	12.97	13.54	13.38	12.52	10.85	8.97	10.16	10.6	10.41	10.39	11.379
P5	12.41	12.47	12.2	11.56	9.44	6.92	8.15	8.7	9.58	9.47	10.09
P11	11.5	11.98	11.67	11.18	9.91	7.61	8.1	8.99	8.93	8.72	9.859
P9	11.05	10.92	10.83	10.21	8.38	6.08	6.75	7.11	7.52	7.95	8.68
P3	13.16	13.85	13.73	11.64	5.52	0.32	3.92	6.27	8.65	9.28	8.634
P2	13.27	14.02	13.62	10.89	2.03	-5.04	2.9	6.86	9.02	9.62	7.719
P1	14.24	13.97	12.97	9.64	-1.45	-2.38	4.45	7.67	9.11	8.96	7.718
P15	9.56	9.72	9.39	8.74	7.3	5.67	6.13	6.64	6.34	6.38	7.587
P13	9.24	9.4	9.29	8.58	6.21	4.28	4.89	6.07	6.14	5.85	6.995
P6	12.56	13.79	12.88	10.06	3.37	-4.18	-1.47	3.65	6.76	7.8	6.522
P4	11.59	12.02	11.53	9.31	4.05	-0.63	0.21	3.08	6.01	6.98	6.415
P10	10.33	11.14	10.85	8.64	3.65	0.63	0.65	2.45	4.4	5.01	5.775
P8	9.19	9.96	9.73	8.47	4.44	1.86	1.05	1.18	3.25	3.84	5.297
P14	7.82	8.55	8.57	7.6	5.59	1.76	2.12	3.81	3.61	3.38	5.281
P12	7.03	7.2	6.83	5.72	1.99	0.39	1.57	1.8	1.26	0.22	3.401

The above chart ranks the average ROAE for the peer groups over the last ten years. The color code delineates the top third of performers in green, the middle third in yellow and the bottom performers in orange.

### Top Performing Peer Groups:

- Banks having assets between \$100 million and \$300 million, with 2 or fewer full service banking offices and not located in a MSA
- Banks having assets between \$100 million and \$300 million, with 3 or more full service banking offices and not located in a MSA
- Banks having assets between \$50 million and \$100 million, with 2 or fewer full service banking offices and not located in a MSA
- Banks having assets between \$50 million and \$100 million, with 3 or more full service banking offices and not located in a MSA
- Banks having assets between \$300 million and \$1 billion

*General observation: The top performing peer groups of banks are \$50 million to \$300 million in total assets and not located in an MSA. Also, the fifth bullet point finds the addition of banks having between \$300 million and \$1 billion in total assets. Though not specified in the peer description some of these may also have non-MSA or more Micro-MSA characteristics and those truly located in a true large city environment.*

## Banking Performance – Return on Average Equity

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### Middle Performing Peer Groups:

- Banks having assets greater than \$3 billion
- Banks having assets less than \$50 million, with 2 or more full service banking offices and not located in a MSA
- Banks having assets less than \$50 million, with 1 full service banking offices and located in a MSA
- Banks having assets between \$300 million and \$1 billion
- Banks having assets between \$1 billion and \$3 billion

*General observation: The largest bank peer groups are in the middle of the pack among dividend payers.*

### Bottom Performing Peer Groups:

- Banks having assets between \$50 million and \$100 million, with 3 or more full service banking offices and located in a MSA
- Banks having assets between \$50 million and \$100 million, with 2 or fewer full service banking offices and located in a MSA
- Banks having assets less than \$50 million, with 2 or more full service banking offices and located in a MSA
- Banks having assets between \$100 million and \$300 million, with 3 or more full service banking offices and located in a MSA
- Banks having assets between \$100 million and \$300 million, with 2 or fewer full service banking offices and located in a MSA

*General observation: The weakest dividend payers are usually small banks located in an MSA. Some of these are de novo banks. Others have likely been caught by weakened asset quality, competitive pressures and a weak economic environment.*

## Banking Performance – Dividend / Net Income

Dividends/Net	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	AVG
P7	53.16	54.78	57.84	56.41	55.54	53.25	45.47	42.66	50.4	46.49	51.6
P11	51.29	53.76	56.72	56.31	60.46	50.82	45.74	42.71	48.56	42.88	50.925
P15	53.41	54.87	54.7	53.57	56.34	43.12	39.87	38.15	38.71	34.63	46.737
P5	47.02	49.25	51.5	53.69	55.1	43.82	37.94	37.26	41.12	44.11	46.081
P9	44.37	47.56	50.09	53.75	57.25	44.19	39.06	36.71	38.42	41.12	45.252
P1	46.07	46.9	47.82	62.59	34.51	20.54	20.54	29.78	45.69	43.02	39.746
P13	41.46	47.3	47.05	47.22	47.21	38.62	31.21	27.01	35.61	31.84	39.453
P14	39.4	40.09	44.15	46.11	43.25	33.77	30.99	31.46	32.83	26.57	36.862
P3	38.13	36.15	39.93	47.84	45.37	30.16	26.27	28.25	32.25	34.05	35.84
P2	39.93	39.67	43.74	46.66	36	25.08	22.07	25.57	34.39	36.87	34.998
P8	38.88	37.97	39.19	41.56	41.46	32.1	25.56	27.55	26.98	28.6	33.985
P10	31.63	35.59	41.21	44.35	45.13	33.54	26.94	24.88	24.6	25.39	33.326
P12	36.47	36.44	38.39	34.62	36.59	25.74	25.25	20.75	22.7	22.72	29.967
P4	30.99	32.51	37.76	40.66	38.07	25.25	20.86	20.86	25.52	25.97	29.845
P6	28.07	30.84	33.75	41.75	39.78	22.13	21.34	18.49	20.95	20.82	27.792

The above chart ranks Dividends / Net Income for the peer groups over the last ten years. The color code delineates the top third of performers in green, the middle third in yellow and the bottom performers in orange.

### Top Performing Peer Groups:

- Banks having assets between \$100 million and \$300 million, with 2 or fewer full service banking offices and not located in a MSA
- Banks having assets between \$50 million and \$100 million, with 2 or fewer full service banking offices and not located in a MSA
- Banks having assets less than \$50 million, with 1 full service banking offices and not located in a MSA
- Banks having assets between \$100 million and \$300 million, with 3 or more full service banking offices and not located in a MSA
- Banks having assets between \$50 million and \$100 million, with 3 or more full service banking offices and not located in a MSA

*General observation: The top dividend paying peer groups of banks are \$50 million to \$300 million in total assets and not located in an MSA.*

## Banking Performance – Dividend / Net Income

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### Middle Performing Peer Groups:

- Banks having assets between \$1 billion and \$3 billion
- Banks having assets greater than \$3 billion
- Banks having assets less than \$50 million, with 1 full service banking offices and not located in a MSA
- Banks having assets less than \$50 million, with 2 or more full service banking offices and not located in a MSA
- Banks having assets between \$100 million and \$300 million, with 2 or fewer full service banking offices and located in a MSA

*General observation: Please note that the first two bulleted peer groups have a higher return on equity more as a result of less equity than more profitability. Please refer to the following chart comparing level of capitalization.*

### Bottom Performing Peer Groups:

- Banks having assets between \$100 million and \$300 million, with 3 or more full service banking offices and located in a MSA
- Banks having assets between \$50 million and \$100 million, with 2 or fewer full service banking offices and located in a MSA
- Banks having assets between \$50 million and \$100 million, with 3 or more full service banking offices and located in a MSA
- Banks having assets less than \$50 million, with 1 full service banking offices and located in a MSA
- Banks having assets less than \$50 million, with 2 or more full service banking offices and located in a MSA

*General observation: Again please note all of the bulleted bottom performers are located in an MSA. The ones less than \$50 million are likely late de novo banks with high expenses and high capital thus creating a low return. As noted previously, the larger bank peer groups have performance weighed down by asset quality problems of recent years, relatively high overhead expense of operating in an MSA, intense competition for business against compromising yields.*

## Banking Performance – Non Interest Expense / Average Total Assets

NIE/TA	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	AVG
P7	2.42	2.41	2.44	2.46	2.45	2.56	2.55	2.45	2.43	2.39	2.456
P11	2.75	2.78	2.8	2.8	2.77	2.86	2.79	2.72	2.64	2.6	2.751
P1	2.91	2.74	2.56	2.66	2.94	2.83	2.8	2.78	2.75	2.72	2.769
P6	2.71	2.62	2.74	2.75	2.89	2.95	3	3.05	2.97	2.93	2.861
P3	2.9	2.86	2.84	2.85	2.91	2.97	2.94	2.93	2.93	2.92	2.905
P2	2.83	2.78	2.75	2.79	2.92	3.12	2.95	3.02	3.06	2.98	2.92
P5	2.95	2.98	2.98	2.99	3.01	3.08	3.02	3	2.93	2.91	2.985
P15	3	3.05	3.13	3.11	3.09	3.17	3.1	2.97	2.88	2.78	3.028
P9	3.22	3.26	3.29	3.27	3.24	3.32	3.31	3.24	3.2	3.1	3.245
P4	3.21	3.2	3.21	3.23	3.25	3.3	3.34	3.33	3.32	3.29	3.268
P10	3.17	3.21	3.2	3.25	3.23	3.27	3.36	3.36	3.39	3.28	3.272
P13	3.41	3.45	3.47	3.45	3.43	3.53	3.44	3.38	3.3	3.28	3.414
P8	3.57	3.63	3.59	3.58	3.61	3.66	3.71	3.75	3.73	3.59	3.642
P14	3.58	3.6	3.54	3.53	3.5	3.75	3.73	3.82	3.77	3.84	3.666
P12	4	4.02	4.08	4.02	4.07	4.12	4.12	3.95	4.01	4.1	4.049

The above chart ranks the average Non Interest Expense / Average Total Assets for the peer groups over the last ten years. The color code delineates the top third of performers in green, the middle third in yellow and the bottom performers in orange.

### Top Performing Peer Groups:

- Banks having assets between \$100 million and \$300 million, with 2 or fewer full service banking offices and not located in a MSA
- Banks having assets between \$50 million and \$100 million, with 2 or fewer full service banking offices and not located in a MSA
- Banks having assets greater than \$3 billion
- Banks having assets between \$100 million and \$300 million, with 2 or fewer full service banking offices and located in a MSA
- Banks having assets between \$300 million and \$1 billion

*General observation: The most efficient peer groups of banks with 2 or fewer offices are \$50 million to \$300 million in total assets and not located in an MSA. The \$3 billion and up peer group finally made the top group of performers thus validating their cost efficiency. Even the peer group of \$100 million to \$1 billion group is showing some level of cost efficiency. Please note the cost efficiency gain for the latter two peer groups was not sufficient to place them in the top performers for ROAA or ROAE.*

## Banking Performance – Non Interest Expense / Average Total Assets

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### Middle Performing Peer Groups:

- Banks having assets between \$1 billion and \$3 billion
- Banks having assets between \$100 million and \$300 million, with 3 or more full service banking offices and not located in a MSA
- Banks having assets less than \$50 million, with 1 full service banking offices and not located in a MSA
- Banks having assets between \$50 million and \$100 million, with 3 or more full service banking offices and not located in a MSA
- Banks having assets between \$100 million and \$300 million, with 3 or more full service banking offices and located in a MSA

*General observation: Note the cost efficient operation of banks between \$1 billion and \$3 billion is not meaningfully different than much smaller institutions.*

### Bottom Performing Peer Groups:

- Banks having assets between \$50 million and \$100 million, with 2 or fewer full service banking offices and located in a MSA
- Banks having assets less than \$50 million, with 2 or more full service banking offices and not located in a MSA
- Banks having assets between \$50 million and \$100 million, with 3 or more full service banking offices and located in a MSA
- Banks having assets less than \$50 million, with 1 full service banking offices and located in a MSA
- Banks having assets less than \$50 million, with 2 or more full service banking offices and located in a MSA

*General observation: Note the most costly operations are for banks generally less than \$100 million and located in an MSA. These groups are likely to include late de novo banks which have not grown to an efficient size.*

## Banking Performance – Restructured + Nonaccrual + RE Acquired to Equity Capital +ALLL

Rest+Nonac+	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	AVG
P15	3.77	3.5	3.45	3.68	5.13	6.84	7.49	7.47	7	6.37	5.47
P11	3.95	3.67	3.69	4.22	7.67	10.64	11.23	10.51	9.53	8.2	7.331
P7	3.66	2.89	3.41	4.37	8.17	12.13	13.91	10.9	9.7	9.42	7.856
P14	4.23	3.49	2.89	3.57	6.48	10.06	11.7	12.58	12.94	12.66	8.06
P13	5.08	4.46	4.39	4.88	8.15	11.01	12.7	11.51	11.39	11	8.457
P9	5.31	4.95	5.16	6.13	10.33	14.32	15.79	16.79	14.28	13.21	10.627
P5	4.95	4.65	4.71	6.34	11.09	17.22	19.55	19.4	16.97	14.6	11.948
P1	3.28	2.88	2.76	5.69	15.65	27.04	23.46	19.77	14.81	11.48	12.682
P2	3.28	2.88	2.76	5.69	15.65	27.04	23.46	19.77	14.81	11.48	12.682
P12	5.87	5.51	5.72	6.71	12.2	16.93	19.57	17.81	21.32	16.91	12.855
P10	4.11	4.1	4.34	6.77	16.09	23.12	29.69	29.16	23.45	20.45	16.128
P8	5.49	4.71	4.94	7.37	14.13	24.4	27.99	33.41	31.39	23.89	17.772
P3	3.94	3.72	4.16	8.06	18.71	34.15	35.71	31.15	23.09	17.53	18.022
P6	3.24	3.41	4.44	8.1	19.23	39.09	39.18	33.28	24.78	18.59	19.334
P4	4.24	4.1	4.49	8.03	19.38	32.77	41.41	36.23	30.13	23.74	20.452

The above chart ranks the level of problem assets as compared to equity capital + ALLL for the peer groups over the last ten years. The color code delineates the top third of performers in green, the middle third in yellow and the bottom performers in orange.

### Top Performing Peer Groups:

- Banks having assets less than \$50 million, with 1 full service banking offices and not located in a MSA
- Banks having assets between \$50 million and \$100 million, with 2 or fewer full service banking offices and not located in a MSA
- Banks having assets between \$100 million and \$300 million, with 2 or fewer full service banking offices and not located in a MSA
- Banks having assets less than \$50 million, with 1 full service banking offices and located in a MSA
- Banks having assets less than \$50 million, with 2 or more full service banking offices and not located in a MSA

*General observation: The best asset quality levels are found in banks having less than \$300 million in total assets and not located in an MSA. Please note bullet point four showing banks less than \$50 million in assets located in an MSA - likely late de novo banks.*



## **Banking Performance – Restructured + Nonaccrual + RE Acquired to Equity Capital +ALLL**

### Middle Performing Peer Groups:

- Banks having assets between \$50 million and \$100 million, with 3 or more full service banking offices and not located in a MSA
- Banks having assets between \$100 million and \$300 million, with 3 or more full service banking offices and not located in a MSA
- Banks having assets greater than \$3 billion
- Banks having assets between \$1 billion and \$3 billion
- Banks having assets less than \$50 million, with 2 or more full service banking offices and located in a MSA

*General observation: The first and second bulleted peer groups are similar to the top performers in that they are small banks in rural areas. Our larger institutions fall in the middle of the pack for asset quality.*

### Bottom Performing Peer Groups:

- Banks having assets between \$50 million and \$100 million, with 2 or fewer full service banking offices and located in a MSA
- Banks having assets between \$50 million and \$100 million, with 3 or more full service banking offices and located in a MSA
- Banks having assets between \$300 million and \$1 billion
- Banks having assets between \$100 million and \$300 million, with 2 or fewer full service banking offices and located in a MSA
- Banks having assets between \$100 million and \$300 million, with 3 or more full service banking offices and located in a MSA

*General observation: The worst asset quality was found in urban areas in smaller banks less than \$1 billion in total assets.*

## Banking Performance – Net Charge Offs / Total Loans

NCO	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	AVG
P15	0.16	0.16	0.13	0.17	0.29	0.45	0.35	0.23	0.16	0.13	0.223
P11	0.2	0.15	0.13	0.15	0.26	0.49	0.44	0.34	0.24	0.15	0.255
P13	0.22	0.15	0.15	0.17	0.26	0.5	0.43	0.32	0.19	0.17	0.256
P7	0.2	0.15	0.12	0.18	0.32	0.53	0.42	0.37	0.28	0.18	0.275
P14	0.18	0.16	0.15	0.18	0.25	0.59	0.42	0.37	0.26	0.26	0.282
P9	0.2	0.17	0.13	0.18	0.31	0.49	0.48	0.42	0.31	0.19	0.288
P5	0.2	0.16	0.15	0.19	0.32	0.59	0.57	0.49	0.34	0.23	0.324
P8	0.22	0.19	0.16	0.19	0.35	0.61	0.61	0.61	0.48	0.3	0.372
P12	0.34	0.29	0.22	0.26	0.41	0.68	0.56	0.34	0.56	0.33	0.399
P10	0.18	0.16	0.14	0.21	0.49	0.78	0.84	0.71	0.44	0.32	0.427
P4	0.16	0.13	0.12	0.2	0.48	0.99	0.98	0.83	0.52	0.33	0.474
P3	0.17	0.13	0.11	0.18	0.53	1.12	1.01	0.8	0.51	0.29	0.485
P6	0.15	0.13	0.11	0.2	0.56	1.22	1.11	0.77	0.5	0.27	0.502
P2	0.18	0.16	0.14	0.24	0.81	1.54	1.27	0.96	0.58	0.26	0.614
P1	0.26	0.2	0.17	0.29	0.97	1.86	1.66	0.93	0.61	0.3	0.725

The above chart ranks the average Net Charge Offs / Average Total Loans for the peer groups over the last ten years. The color code delineates the top third of performers in green, the middle third in yellow and the bottom performers in orange.

### Top Performing Peer Groups:

- Banks having assets less than \$50 million, with 1 full service banking offices and not located in a MSA
- Banks having assets between \$50 million and \$100 million, with 2 or fewer full service banking offices and not located in a MSA
- Banks having assets less than \$50 million, with 2 or more full service banking offices and not located in a MSA
- Banks having assets between \$100 million and \$300 million, with 2 or fewer full service banking offices and not located in a MSA
- Banks having assets less than \$50 million, with 1 full service banking offices and located in a MSA

*General observation: The lowest loan losses are found in banks having less than \$300 million in total assets and not located in an MSA. Please note bullet point five showing banks less than \$50 million in assets located in an MSA - likely late de novo banks.*

## Banking Performance – Net Charge Offs / Total Loans

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### Middle Performing Peer Groups:

- Banks having assets between \$50 million and \$100 million, with 3 or more full service banking offices and not located in a MSA
- Banks having assets between \$100 million and \$300 million, with 3 or more full service banking offices and not located in a MSA
- Banks having assets between \$50 million and \$100 million, with 3 or more full service banking offices and located in a MSA
- Banks having assets less than \$50 million, with 2 or more full service banking offices and located in a MSA
- Banks having assets between \$50 million and \$100 million, with 2 or fewer full service banking offices and located in a MSA

*General observation: The first and second bulleted peer groups are similar to the top performers in that they are small banks in rural areas.*

### Bottom Performing Peer Groups:

- Banks having assets between \$100 million and \$300 million, with 3 or more full service banking offices and located in a MSA
- Banks having assets between \$300 million and \$1 billion
- Banks having assets between \$100 million and \$300 million, with 2 or fewer full service banking offices and located in a MSA
- Banks having assets between \$1 billion and \$3 billion
- Banks having assets greater than \$3 billion

*General observation: The largest levels of loan loss are found in our largest institutions.*

## Banking Performance – Tier 1 Capital

Tier 1 Capital	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	AVG
P14	12.66	13.59	14.5	13.51	12.63	12.14	14.24	13.97	13.86	13.54	13.464
P15	11.79	12.12	12.41	12.52	12.02	11.73	11.41	11.33	11.1	11.23	11.766
P11	10.58	10.76	10.98	11.09	11.03	10.83	10.73	10.91	10.91	11.06	10.888
P12	10.5	10.6	10.93	10.78	10.8	10.48	10.27	10.26	10.09	10.47	10.518
P7	10.4	10.56	10.36	10.34	10.23	10.28	10.44	10.52	10.6	10.89	10.462
P10	10.14	10.21	10.56	10.73	10.31	10.09	10.12	10.36	10.71	10.99	10.422
P6	9.6	9.84	10.32	10.32	9.88	9.41	9.55	10.34	10.59	10.86	10.071
P13	9.95	10.25	10.19	10.35	10.14	10.04	9.68	9.82	9.84	10.21	10.047
P9	9.52	9.77	9.81	9.72	9.59	9.41	9.39	9.46	9.65	9.96	9.628
P5	9.3	9.46	9.55	9.46	9.27	9.25	9.38	9.66	9.78	10.05	9.516
P8	9.24	9.53	9.81	9.88	9.69	9.31	9.24	9.15	9.54	9.62	9.501
P4	9.16	9.36	9.51	9.6	9.34	9.09	9.16	9.57	9.8	10.05	9.464
P3	8.69	8.88	9.02	9.06	8.75	8.66	9.02	9.4	9.66	9.94	9.108
P2	8.44	8.65	8.69	8.73	8.4	8.31	8.86	9.39	9.52	9.69	8.868
P1	7.74	7.82	8.18	8.05	8.21	8.68	9.17	9.59	9.76	9.86	8.706

The above chart ranks the capital level for the peer groups over the last ten years. The color code delineates the top third of performers in green, the middle third in yellow and the bottom performers in orange.

### Top Performing Peer Groups:

- Banks having assets less than \$50 million, with 1 full service banking offices and located in a MSA
- Banks having assets less than \$50 million, with 1 full service banking offices and not located in a MSA
- Banks having assets between \$50 million and \$100 million, with 2 or fewer full service banking offices and not located in a MSA
- Banks having assets less than \$50 million, with 2 or more full service banking offices and located in a MSA
- Banks having assets between \$100 million and \$300 million, with 2 or fewer full service banking offices and not located in a MSA

*General observation: The first and fourth bulleted peer groups likely include a number of de novo banks with comparative large capital accounts. The second, third and fifth bulleted peer groups include just small rural banks with high amounts of retained capital. It should be noted that this peer group pays approximately 50% of net income in dividends.*

## Banking Performance – Tier 1 Capital

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### Middle Performing Peer Groups:

- Banks having assets between \$50 million and \$100 million, with 2 or fewer full service banking offices and located in a MSA
- Banks having assets between \$100 million and \$300 million, with 2 or fewer full service banking offices and located in a MSA
- Banks having assets less than \$50 million, with 2 or more full service banking offices and not located in a MSA
- Banks having assets between \$50 million and \$100 million, with 3 or more full service banking offices and not located in a MSA
- Banks having assets between \$100 million and \$300 million, with 3 or more full service banking offices and not located in a MSA

### Top Performing Peer Groups:

- Banks having assets between \$50 million and \$100 million, with 3 or more full service banking offices and located in a MSA
- Banks having assets between \$100 million and \$300 million, with 3 or more full service banking offices and located in a MSA
- Banks having assets between \$300 million and \$1 billion
- Banks having assets between \$1 billion and \$3 billion
- Banks having assets greater than \$3 billion

*General observation: Weaker capital levels found among the largest banks.*

## Banking Performance – Summary

ROAA	ROAE	Dividends/Net Income	Net Interest Expense/ATA	Rest+Nonac+RE Acq to Eqcap+ALLL	NCO	Tier 1 Capital
Top Performers						
P7	P7	P7	P7	P15	P15	P14
P11	P5	P11	P11	P11	P11	P15
P5	P11	P15	P1	P7	P13	P11
P15	P9	P5	P6	P14	P7	P12
P9	P3	P9	P3	P13	P14	P7
Middle Performers						
P3	P2	P1	P2	P9	P9	P10
P1	P1	P13	P5	P5	P5	P6
P2	P15	P14	P15	P1	P8	P13
P13	P13	P3	P9	P2	P12	P9
P6	P6	P2	P4	P12	P10	P5
Bottom Performers						
P14	P4	P8	P10	P10	P4	P8
P4	P10	P10	P13	P8	P3	P4
P10	P8	P12	P8	P3	P6	P3
P8	P14	P4	P14	P6	P2	P2
P12	P12	P6	P12	P4	P1	P1

The above chart shows the frequency of ranking among the 15 peer groups within the different performance factors based on the last ten years. The color code delineates the top third of performers in green, the middle third in yellow and the bottom performers in orange.

### Top Performers

- P7 - Banks having assets between \$100 million and \$300 million, with 2 or fewer full service banking offices and not located in a MSA
- P11 - Banks having assets between \$50 million and \$100 million, with 2 or fewer full service banking offices and not located in a MSA
- P15 - Banks having assets less than \$50 million, with 1 full service banking offices and not located in a MSA
- P9 - Banks having assets between \$50 million and \$100 million, with 3 or more full service banking offices and not located in a MSA
- P14 - Banks having assets less than \$50 million, with 1 full service banking offices and located in a MSA

*General observation: The best performing banks by these qualitative measures includes banks less than \$300 million in total assets and not located in a MSA. The fifth bullet point appears to be an outlier but these include late de novo banks that scored high on the asset quality and capital measures.*

## Banking Performance – Summary

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### Middle Performers

- P5 - Banks having assets between \$100 million and \$300 million, with 3 or more full service banking offices and not located in a MSA
- P2 - Banks having assets between \$1 billion and \$3 billion
- P1 - Banks having assets greater than \$3 billion
- P13 - Banks having assets less than \$50 million, with 2 or more full service banking offices and not located in a MSA
- P6 - Banks having assets between \$100 million and \$300 million, with 2 or fewer full service banking offices and located in a MSA

*General observation: The first bulleted point includes another group of banks under \$300 in total assets not located in an MSA. They have more branches which might have made them less cost efficient. Note the largest banks or those over \$1 billion in total assets are in the very middle of overall industry performance.*

### Bottom Performers

- P3 - Banks having assets between \$300 million and \$1 billion
- P12 - Banks having assets less than \$50 million, with 2 or more full service banking offices and located in a MSA
- P10 - Banks having assets between \$50 million and \$100 million, with 2 or fewer full service banking offices and located in a MSA
- P4 - Banks having assets between \$100 million and \$300 million, with 3 or more full service banking offices and located in a MSA
- P8 - Banks having assets between \$50 million and \$100 million, with 3 or more full service banking offices and located in a MSA

*General observation: Note the bottom performers are banks largely located in an MSA. Many have suffered through asset quality challenges, a lagging economy and stiff competition. Operating costs are more expensive in an urban environment making them less cost efficient. Please note that the first bulleted point is banks between \$300 million and \$1 billion – making these banks likely exposed to an MSA.*

## Banking Performance – Summary

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The preceding analysis indicates cost efficiencies and capital limitations do not make larger banks better overall performers than their smaller counterparts. As the data shows, cost efficiencies do not appear to begin until > \$3 billion in total assets. Small bank shareholders, particularly in rural areas, are rewarded with industry-leading returns and some of the industry's highest dividend payments.

Over the last ten years, the community banking model has survived the best of times and worst of times. As based on performance data, small bank peer groups have, overall, excelled. We have seen the results of foolishness and hopefully we will be wiser in the future. We have been through the winter of despair and are in the spring of hope. It has seemed as if we have had nothing going for us, but we have much better times before us.

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*For more information about Steve H. Powell & Company, please visit our website at [www.shpco.net](http://www.shpco.net)*

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