Top performing MID-SIZED BANKS

By Claude Hanley, with Richard Colligan and Kevin Halsey, Capital Performance Group LLC
Loan growth—mortgage-related or otherwise—propelled top performing mid-sized banks to the top of the charts

The U.S. economic expansion gained a firmer footing in 2012, and the performance of mid-sized banks reflected it. Problem loan levels continued to recede. A continuation of near-record residential mortgage refinancing activity and an upturn in residential purchase activity helped many mid-sized banks record robust revenue from residential mortgage originations and solid growth in loan portfolios. The latter enabled growth in net-interest income despite generally lower yields on earning assets.

In Part Two of the 21st annual ABA Banking Journal performance rankings, we look at those dynamics and provide detail on the financial results and strategies of the nation’s top-performing banks with total assets of between $1 billion and $10 billion. In June, Part Three will examine the top-performing community banks (under $1 billion). For full rankings, and a look at the performance of the nation’s largest banks (April issue), visit http://tinyurl.com/TopBanks-ababj.

Selection criteria explained
Our analysis ranks the performance of federally insured, domestic-depository institutions as of Dec. 31, 2012. We divided these into two sub-groups: publicly held depository institutions (banks, thrifts, and bank or financial holding companies) and private or foreign-owned depositories (further subdivided into subchapter S and non-sub S banks). A total of 242 public and 234 private institutions qualified. They were ranked by return on average total equity for 2012. Where reported ROAE was identical for two or more institutions, 2012 return on average total assets was used as a secondary ranking criterion. (Further details about criteria appear online.)

Securities and Exchange Commission filings provided public company data, and regulatory filings provided private and foreign-owned institution data. Thomson Reuters, LLC provided data for the 2012 analysis.

Top-performer strategies
With 16.25% average ROAE for the top 25 banks, over-

<table>
<thead>
<tr>
<th>Public banks and thrifts with total assets of $1B - $10B</th>
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<tbody>
<tr>
<td><strong>2012</strong></td>
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<td>25</td>
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</tbody>
</table>


Source: Thomson Reuters, LLC, 2013
all profitability reached levels comparable to those before the financial crisis. Average ROAE for all publicly held, mid-sized institutions was 6.09%. Higher loan growth was significant. The average top performer posted annual loan growth of 12.93% versus 5.51% at the average mid-sized bank.

**Strategy 1: Residential mortgages**

In 2012, residential mortgages were central to top-performer profitability. HomeStreet, Inc., Seattle, Wash., (No. 1) had record net income. Eighty percent of total revenue came from noninterest income, primarily mortgage origination and sales fees. CEO Mark Mason noted that residential mortgage lending has been a central element of the bank’s operations for 92 years. A successful IPO coupled with competitive opportunities in the Pacific Northwest enabled the bank to add 389 lending and support personnel and to open 15 new mortgage origination offices. These investments helped the bank to increase the volume of closed loans to a record $6.6 billion for the year. This performance capped a remarkable turnaround for Homestreet, whose ability to manage rate risk. Growth in mortgage lending was attained via organic growth and acquisition. It opened five offices in 2012, including two loan production offices. It acquired the Citizens Bank, adding an office in Geneva, Ga.

Cardinal Financial, McLean, Va., (No. 8) expanded mortgage banking, helping it capitalize on lending and refinancing growth in the Washington, D.C. area. It increased staff in the division to 425 from 246 during 2012, and added eight new locations, doubling its mortgage offices to 16. This larger mortgage banking unit increased annual originations by almost 70% to $6.6 billion. Growth in mortgage lending was attained via organic growth and acquisition. It opened five offices in 2012, including two loan production offices. It acquired the Citizens Bank, adding an office in Geneva, Ga.

**Strategy 2: Organic loan growth**

In the Northeast, Canandaigua National Corp., Canandaigua, N.Y., (No. 19) grew loans organically by 12.9% last year, led by double-digit growth in its indirect automobile portfolio. That growth followed a 2011 decision to replace low-yielding investments with increased originations of short- to medium-duration, higher-yielding loans. The bank benefited from customer dislocation after a sale of 125 branch locations in western New York by HSBC Bank USA. Due to market turmoil, Canandaigua acquired many new customer relationships.

Net income in 2012 for Merchants Bancshares, South Burlington, Vt., (No. 21) was second only to its record year in 2010. It had strong organic growth in loans, deposits, and trust fees. CEO Mike Tuttle partly attributes the bank’s consistent performance to its credit-risk management skills coupled with its standing as the only state-wide, independent bank. The organic growth of 5.4% in net loans was led by growth in the commercial loan portfolio driven by new customers and expansion of existing relationships. The increase in the residential mortgage portfolio was driven by increased refinance volume. Interestingly, the bank has not sold a residential mortgage on the secondary market in over ten years. A biweekly mortgage product coupled with Vermonters’ desire to pay off loans helps the bank to manage rate risk. Tuttle is optimistic about prospects for continued growth in 2013.

**Strategy 3: Acquisitions**

Acquisitions played a significant role in several top performers’ performance. Great Southern Bancorp, Springfield, Mo., (No. 17) has pursued an expansion strategy via FDIC-assisted acquisitions. Since 2009, it consummated four such transactions. Its loan and deposit portfolios have become more diversified, and it has significantly expanded its geographic footprint by adding operations in Iowa, Kansas, Minnesota, and Nebraska. Republic Bancorp, Louisville, Ky., (No. 3) consummated two such transactions in

<table>
<thead>
<tr>
<th>Public banks and thrifts with total assets of $1B - $10B</th>
<th>SUMMARY STATISTICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 25</td>
<td>All banks</td>
</tr>
<tr>
<td>2012</td>
<td>2011</td>
</tr>
<tr>
<td>Average ROAE (%)</td>
<td>16.25</td>
</tr>
<tr>
<td>Average ROAA (%)</td>
<td>1.52</td>
</tr>
<tr>
<td>Average non-interest income/total revenue (%)</td>
<td>36.69</td>
</tr>
<tr>
<td>Average capital ratio (%)</td>
<td>16.24</td>
</tr>
<tr>
<td>Average efficiency ratio (%)</td>
<td>60.60</td>
</tr>
<tr>
<td>Average nonperforming loans/total loans (%)</td>
<td>2.49</td>
</tr>
<tr>
<td>Average loans/deposits (%)</td>
<td>82.62</td>
</tr>
<tr>
<td>Average non-interest income/total income (%)</td>
<td>4.10</td>
</tr>
</tbody>
</table>

Source: Thomson Reuters, LLC, 2013

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

<table>
<thead>
<tr>
<th>Rank</th>
<th>Bank Name</th>
<th>Total assets ($000)</th>
<th>2012 ROAE (%)</th>
<th>2012 ROAA (%)</th>
<th>Non-interest income/total revenue (%)</th>
<th>Capital ratio (%)</th>
<th>Efficiency ratio (%)</th>
<th>Non-performing loans/total loans (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Heartland Bancorp, Bloomington, IL</td>
<td>$2,936,343</td>
<td>30.81</td>
<td>2.96</td>
<td>35.80</td>
<td>13.78</td>
<td>45.26</td>
<td>4.10</td>
</tr>
<tr>
<td>2</td>
<td>Stearns Financial Services, St Cloud, MN</td>
<td>$1,583,684</td>
<td>29.77</td>
<td>4.08</td>
<td>21.68</td>
<td>23.40</td>
<td>40.06</td>
<td>1.27</td>
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<tr>
<td>3</td>
<td>WNB Bancshares, Odessa, TX</td>
<td>$1,396,641</td>
<td>29.28</td>
<td>2.03</td>
<td>16.62</td>
<td>16.80</td>
<td>47.68</td>
<td>1.12</td>
</tr>
<tr>
<td>4</td>
<td>Midland Financial Company, Oklahoma City, OK</td>
<td>$9,895,682</td>
<td>28.87</td>
<td>2.66</td>
<td>39.61</td>
<td>N/A</td>
<td>57.31</td>
<td>27.14</td>
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<tr>
<td>5</td>
<td>Woodforest Financial Group, Inc, The Woodlands, TX</td>
<td>$3,754,554</td>
<td>27.97</td>
<td>2.07</td>
<td>86.69</td>
<td>19.40</td>
<td>86.97</td>
<td>1.51</td>
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<tr>
<td>6</td>
<td>United National Corp, Sioux Falls, SD</td>
<td>$2,058,751</td>
<td>26.74</td>
<td>12.68</td>
<td>49.24</td>
<td>70.25</td>
<td>38.49</td>
<td>1.69</td>
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<td>7</td>
<td>Luther Burbank Corporation, Santa Rosa, CA</td>
<td>$3,657,054</td>
<td>26.30</td>
<td>1.74</td>
<td>29.71</td>
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<td>29.71</td>
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<td>8</td>
<td>Watford City Bancshares, Watford City, ND</td>
<td>$1,306,373</td>
<td>25.06</td>
<td>1.68</td>
<td>23.38</td>
<td>13.46</td>
<td>54.44</td>
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<td>9</td>
<td>Weststar Bank Holding Company, El Paso, TX</td>
<td>$1,051,488</td>
<td>24.68</td>
<td>2.17</td>
<td>13.77</td>
<td>13.66</td>
<td>52.74</td>
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<td>10</td>
<td>Olney Bancshares of Texas, Olney, TX</td>
<td>$1,881,443</td>
<td>23.01</td>
<td>2.54</td>
<td>11.81</td>
<td>13.90</td>
<td>43.24</td>
<td>1.26</td>
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</tbody>
</table>

Source: Thomson Reuters, LLC, 2013

Full rankings at http://tinyurl.com/TopBanks-ababj

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

<table>
<thead>
<tr>
<th>Rank</th>
<th>Bank Name</th>
<th>Total assets ($000)</th>
<th>2012 ROAE (%)</th>
<th>2012 ROAA (%)</th>
<th>Non-interest income/total revenue (%)</th>
<th>Capital ratio (%)</th>
<th>Efficiency ratio (%)</th>
<th>Non-performing loans/total loans (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Villages BanCorp, Lady Lake, FL</td>
<td>$1,511,987</td>
<td>24.29</td>
<td>1.83</td>
<td>5.32</td>
<td>15.94</td>
<td>32.04</td>
<td>3.72</td>
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<td>2</td>
<td>Independent Bancshares, Owensboro, KY</td>
<td>$1,025,959</td>
<td>22.24</td>
<td>1.46</td>
<td>10.62</td>
<td>12.20</td>
<td>47.22</td>
<td>0.47</td>
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<tr>
<td>3</td>
<td>State Bankshares, Fargo, ND</td>
<td>$2,048,459</td>
<td>18.09</td>
<td>1.28</td>
<td>45.19</td>
<td>12.20</td>
<td>69.03</td>
<td>0.42</td>
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<tr>
<td>4</td>
<td>First Security Bancorp, Searcy, AR</td>
<td>$4,465,096</td>
<td>17.64</td>
<td>2.39</td>
<td>31.01</td>
<td>19.41</td>
<td>42.02</td>
<td>0.73</td>
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<tr>
<td>5</td>
<td>Industry Bancshares, Industry, TX</td>
<td>$2,188,750</td>
<td>17.45</td>
<td>1.82</td>
<td>16.38</td>
<td>24.03</td>
<td>43.12</td>
<td>0.77</td>
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<tr>
<td>6</td>
<td>American Bancorp, Ltd, Dickinson, ND</td>
<td>$1,055,033</td>
<td>16.63</td>
<td>1.32</td>
<td>31.38</td>
<td>12.47</td>
<td>60.67</td>
<td>0.38</td>
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<tr>
<td>7</td>
<td>First Farmers Financial Corp, Converse, IN</td>
<td>$1,166,938</td>
<td>16.37</td>
<td>1.28</td>
<td>22.23</td>
<td>11.06</td>
<td>54.35</td>
<td>0.57</td>
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<tr>
<td>8</td>
<td>Landrum Company, Columbia, MO</td>
<td>$1,753,482</td>
<td>15.35</td>
<td>0.94</td>
<td>32.68</td>
<td>13.11</td>
<td>68.16</td>
<td>0.64</td>
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<tr>
<td>9</td>
<td>Liberty Bancshares, Springfield, MO</td>
<td>$1,064,618</td>
<td>14.93</td>
<td>1.33</td>
<td>21.04</td>
<td>15.16</td>
<td>50.20</td>
<td>0.81</td>
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<tr>
<td>10</td>
<td>Blackhawk BanCorp, Milan, IL</td>
<td>$1,120,558</td>
<td>14.31</td>
<td>1.42</td>
<td>8.09</td>
<td>18.13</td>
<td>42.21</td>
<td>1.86</td>
</tr>
</tbody>
</table>

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Full rankings at http://tinyurl.com/TopBanks-ababj

2012, which provided entrée to the metro markets of Nashville, Tenn., and Minneapolis, Minn. Time will tell if buyers can integrate acquisitions in a way that contributes to sustainable high performance.

Private and foreign-owned results
This segment includes non-publicly traded banks, trusts, 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 subsidiary’s results are available.

Average ROAE among the top ten private, subchapter S banks was 27.25%. Heartland Bancorp, Bloomington, Ill., was the top performer here, due largely to acquisitions. It acquired Premier Bancorp of Illinois and Princeton National Bancorp, the latter via an FDIC-assisted transaction. Heartland recorded $11.4 million in bargain purchase gains. It lowered its cost of funds and provision expense, and booked a gain on loan sales.

Average ROAE for the top ten non-S-corp private banks was 17.78%. Unlike many top-performing publicly held banks, this year’s top-performing private, non-S-corp bank, Villages Bancorp, The Villages, Fla., did not grow its loan portfolio in 2012. It relied on a $7.2 million gain from the sale of securities to boost net income. Improved credit quality reduced provision expense.

Looking ahead
The year represented a return to normalcy, whereby superior performance was defined by loan growth. While economic growth was far from robust, top performers capitalized on available opportunities. We predict more of this for 2013.

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