

HOW DOES YOUR BANK STACK UP?

By Chris Bledsoe, CEO & Co-Founder,
Banker's Dashboard

In banking, as in life, everything is relative. That's why peer group analysis should be a regular part of every bank's "high performance" routine—it's critical to determining how your bank stacks up and where you need to focus. The fact of the matter is that you can't truly know how the bank is performing until you compare the institution with its peers.

The Who and When

Banks should perform a peer group analysis on either a quarterly (recommended) or semi-annual basis. When selecting peers for any analysis, it is important that your team include banks of similar markets and size, and include some that are of the size your institution "aspires" to be, not just where it is positioned today. Also, limit the number of banks in your peer group to 10, 15 or 20 at the most. Often banks look at the data from the Uniform Bank Performance Report (UBPR) and they may find that as many as 1,000 or more other banks fit a similar profile, but they can't possibly get to know these banks to the degree necessary for a beneficial comparison.

Additionally, consider the fact that you should continually refine your peer groups as you improve in performance. If you find that you are the peak performer among a particular group, then it's time to select a new group of higher performers; this will help you learn what you can do to further progress.

What to Measure

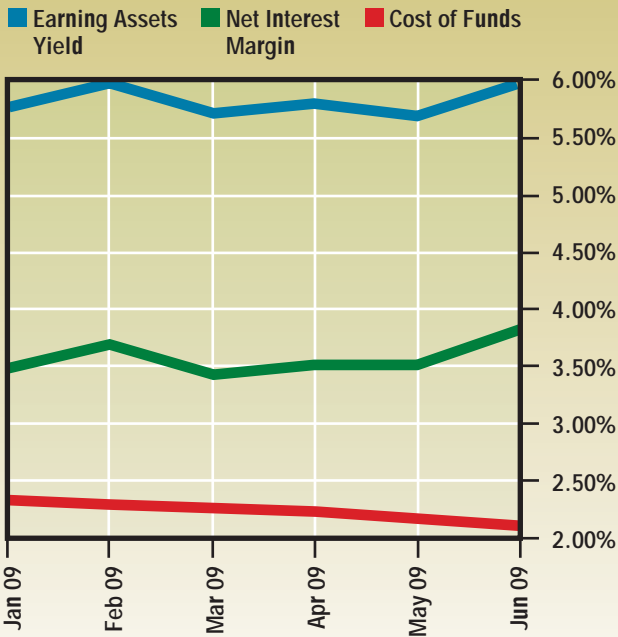
Of course another chief concern is determining what measurements should be used to evaluate and rank bank performance. Often banks simply look at Return on Assets (ROA) or Return on Equity (ROE), but that isn't enough. My best advice is to conduct your evaluation as if you were going to consider making an investment in the bank. Approach it much like *Investor's Business Daily* examines stocks. As an investor, you would look at overall growth, how the bank is managing its margin and its operating efficiency; all of these components are crucial to truly analyzing performance.

That's why we created the Banker's Dashboard Performance Ranking Report a few years ago—so that the clients who utilized our Dashboard community bank management tool would have an easy and comprehensive way to compare their performance to peers. The report distinctly looks for consistent performance in all of the above mentioned components over a one to two-year period, not just a single point in time. Together, they help to identify an institution's fundamental strengths and weaknesses and provide an overall and decisive comparison; they are the indicators of whether the bank can achieve sustained performance.

► **PROFITABILITY** — the most common measurement of high performance banking is profitability. On the average, high and consistently delivered ROE and ROA tend to reflect increasing profitability and superior management. In evaluation, focus on the most recent twelve months and the most recent twenty-four months—looking at both performance and consistency. This said, achieving and sustaining profitability is particularly challenging for banks in today's economy, and that should be taken into consideration. In a composite analysis, profitability should carry a lower weighting for 2009.

HISTORICAL MARGIN GRAPH

Yields - Actual



Period Net Margin Change = 34 basis points

Annualized Net Effect, Pre-tax = \$985,366

► **GROWTH** — this is the second most important factor in determining if the bank's performance is headed in the right direction. Many banks make the mistake of comparing total assets. Instead, growth should be determined by looking at loan and deposit growth (core deposits and non-interest bearing accounts) over the last twelve and twenty-four month periods. Loan growth, which should be broken out by loan category, may receive a higher weighting than deposit growth, depending upon your goals. If the bank has multiple branches, your team should also evaluate and compare loan and deposit growth by branch.

► **MARGIN MANAGEMENT** — the net interest margin drives ninety percent (90%) of the average community bank's bottom line. It is the single most significant factor in determining profitability and performance. Consider breaking the margin into four separate measures including a year-over-year comparison of net interest margin, year-over-year comparison of earning asset yield, year-over-year comparison of cost of funds and two-year average net interest margin—tracking the trends over time should be a fundamental part of any analysis. (See *Marginal Rate Chart* above.)

► **EFFICIENCY** — this component demonstrates a bank's ability to utilize its resources for maximum production. Be sure that you and your team calculate and compare assets per FTE, the actual efficiency ratio itself and deposits per FTE, as these ratios typically highlight those banks that leverage efficient operations to contribute to their high performance.

In the end, understanding where your bank ranks in each of these categories relative to its peers will give you the true measure of its performance. Combine these components and weight each accordingly to create an overall composite rating; keep in mind the percentage weightings may need to change based on each component's importance to the institution at the time of your analysis. By continuously focusing on and assessing these critical factors you and your team can spot opportunities for improvement and reallocate time appropriately.

Improving Performance

Now that you have all of this insight, how do you apply it? Consider some immediate steps that you can take to more proactively manage your bank's performance. Get your whole team involved; have them participate in setting performance targets and tie those targets to specific incentive plans. Provide them information via a daily scorecard so that they can easily track and monitor the bank's progress and their individual contributions. When you involve the team up front in the process, it is easier to motivate and hold them accountable for results.

Additionally, it's undeniable that technology can help you to improve operational efficiency, so automate wherever you can. We believe that peer group analysis is such a vital element in driving a bank's performance that we not only created our Ranking Report, but also provide clients the ability to measure and compare their own performance against peer data online in the Dashboard management tool.



Chris Bledsoe

Chris Bledsoe is CEO and co-founder of the Banker's Dashboard, an endorsed service provider of CBAA. For more information, contact him at Chris.Bledsoe@BankersDashboard.com.