# 2011 Community Banker Opinion Survey

*Bankers views of the industry for 2011*

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# 2011 Community Banker Opinion Survey

*Good plans shape good decisions. That's why good planning helps to make elusive dreams come true.*
Lester Robert Bittel

*I don't believe in little plans. I believe in plans big enough to meet a situation which we can't possibly foresee now.*
Harry S. Truman

*Everyone has a plan - until they get punched in the face.*
Mike Tyson

In the first quarter of 2011 Cross Financial Group conducted an online survey with community bankers to examine the challenges, opportunities and concerns being addressed by industry management teams. The results of the annual online survey are detailed in the following summary report. The survey was distributed to bankers throughout the United States with the assistance of state banking associations and industry professionals. Distribution was targeted to senior managers and active owners.

The survey included topics and relevant issues facing community bankers in today's economic times. The survey instrument addressed content in the following categories:

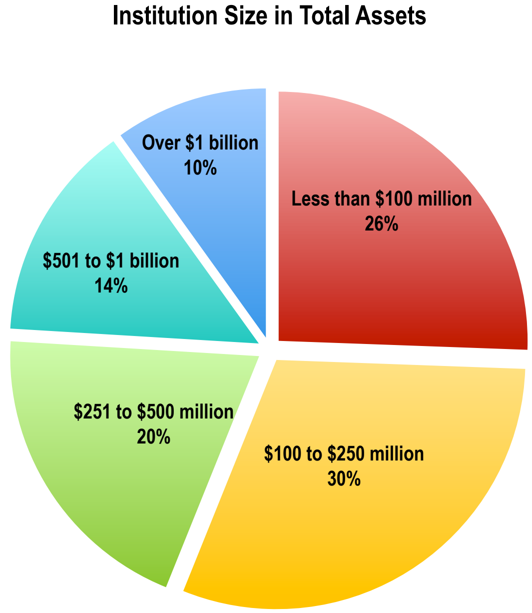
- **Strategic Planning**
- **Industry Outlook**
- **Company Growth**
- **Profitability**
- **Staff Compensation and Benefits**

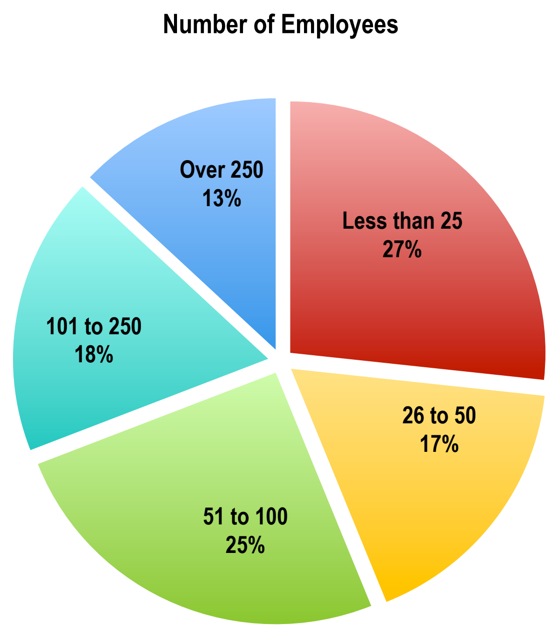
# The Survey Results

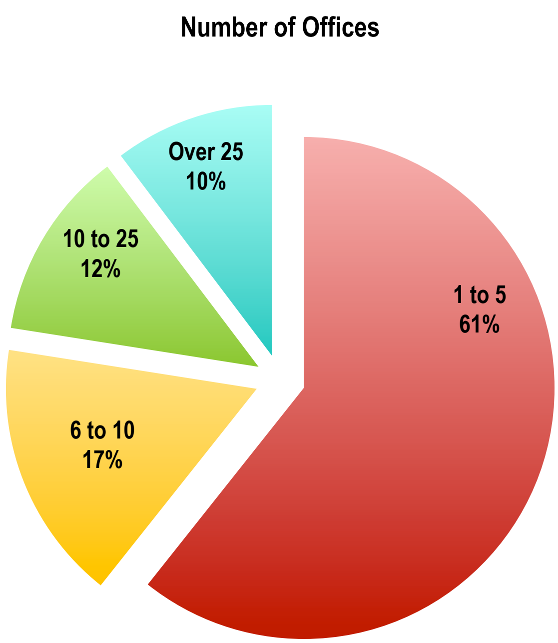
The 2011 Cross Financial Group Community Banker Opinion Survey link was distributed to community bank managers and owners nationwide. The results presented in the following tables, charts and graphs are a compilation of the responses from 261 completed surveys.

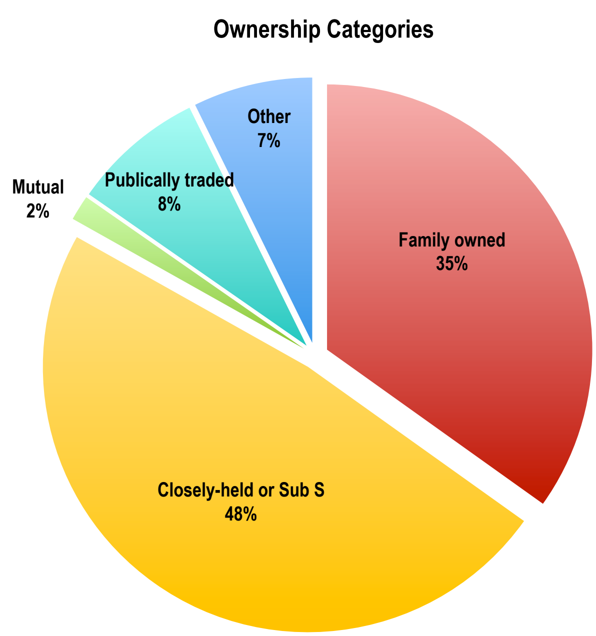
The data examination will focus on the summary results from all respondents. Some questions include results by specific demographic groups to provide comparisons by institution size and related demographics.

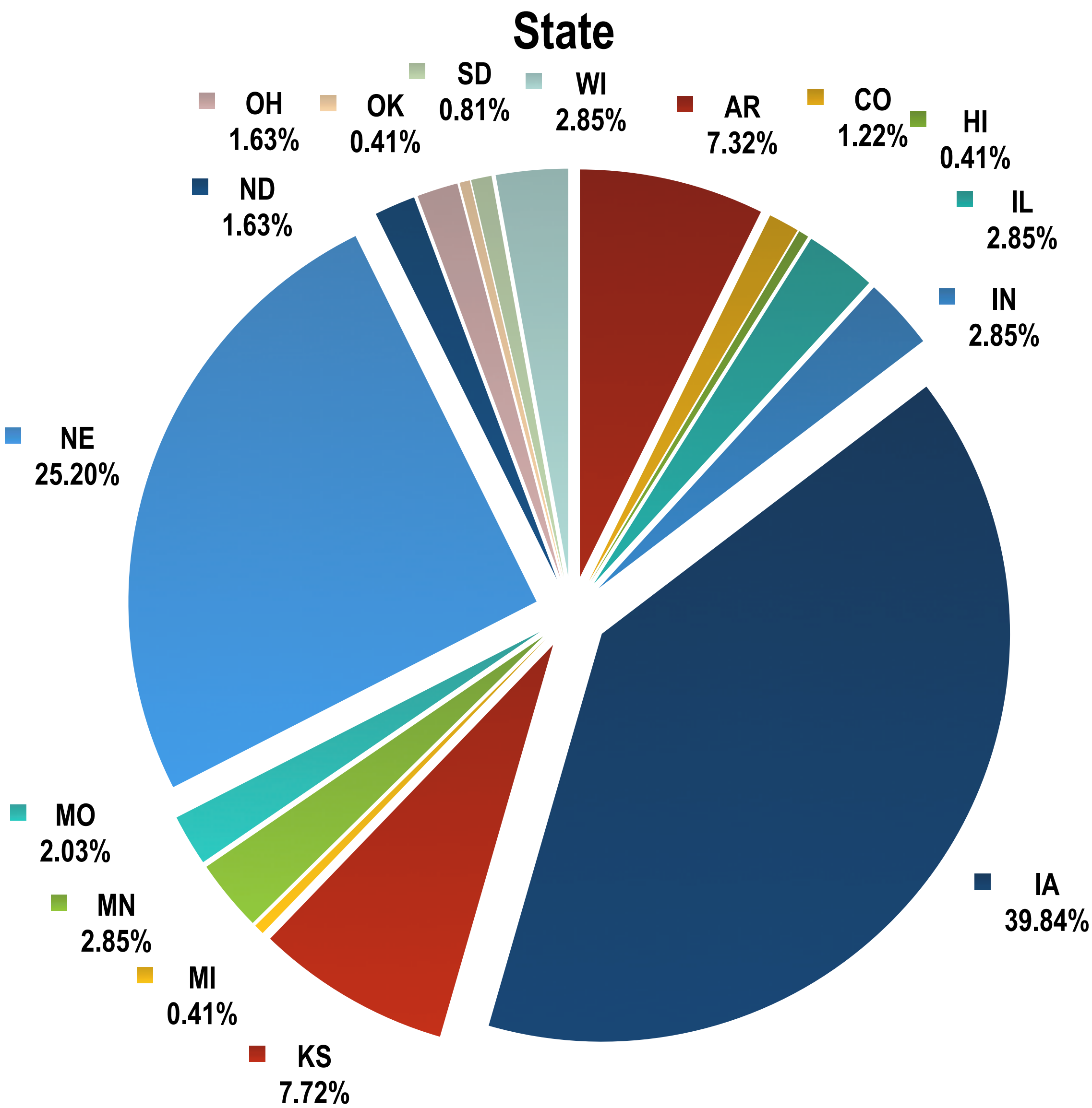
## Response Group Profile



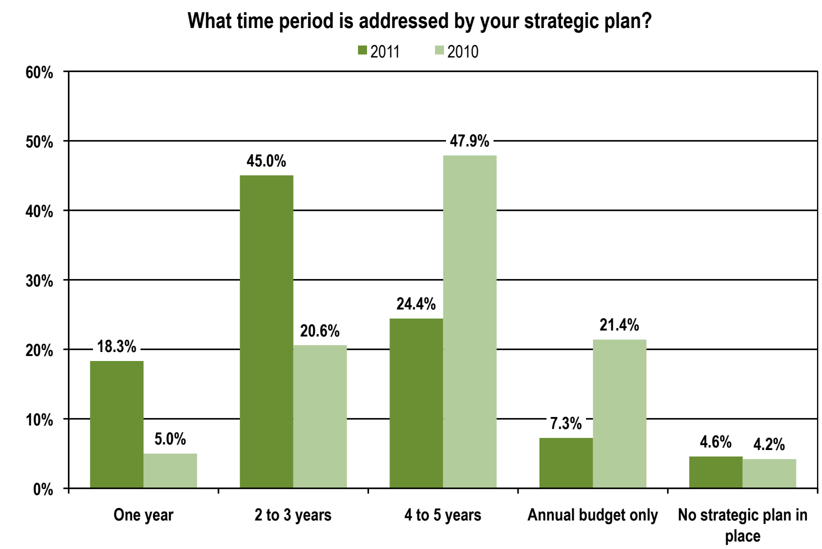



The survey responses included bankers from 16 different states. The majority of the distribution is located in states through the central portion of the United States.

## Strategic Planning

The core questions for this portion of the survey included the following topics.

- ***Time period addressed by your organization's strategic plan***
- ***Frequency for reviewing and discussing company performance***
- ***Sharing of company financial performance or goal achievement with employees***
- ***Presence of a succession plan***
- ***Planned source of your future senior management candidates and leaders***



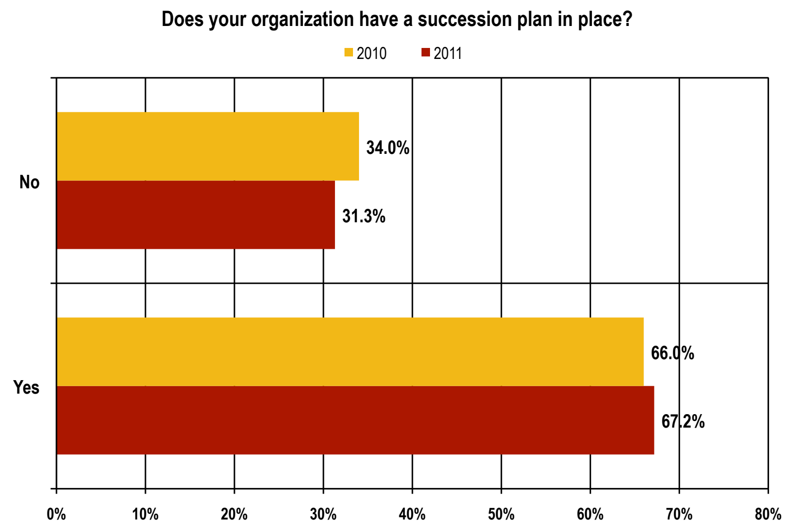

Community bankers made significant improvements in their strategic planning performance in the year-to-year comparison from 2010 to 2011. A small portion of the bankers indicated they did not have a strategic plan in place (less than 5%). The number of banks that migrated from budget only management to a documented strategic plan showed marked improvement. 7.3% of bankers indicated they use their annual budget as a strategic plan, down from 21.4% one year ago. The number of banks utilizing a two to three year strategic plan has increased to 45%. All of the banks with $500 million to $1 billion in total assets reported having a strategic plan. Nearly 21% of the banks with assets under $100 million indicated the use of their annual budget to support business planning.

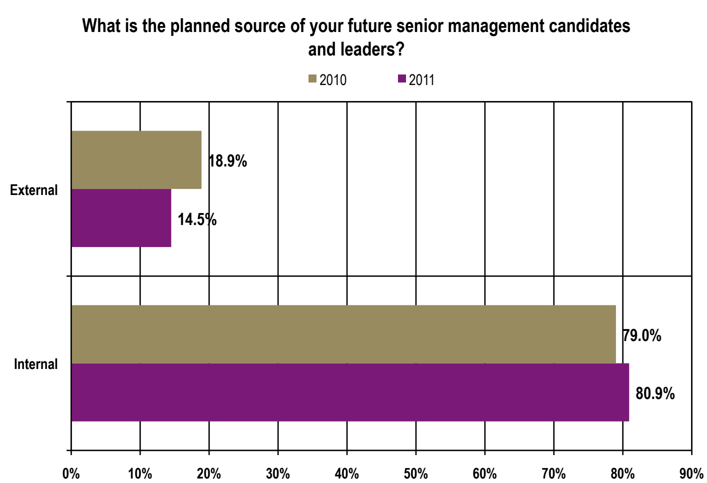

67.9% of the responding bankers indicated their management team discusses their company performance at least quarterly. Size of organization influenced a portion of the results. Most telling was the correlation between the number of offices and the frequency for reviewing planned performance. Quarterly reviews were sighted as the most common discussion frequency. One out of three banks with less than 50 employees were likely to review their financial performance annually.


Sharing financial performance with employees was less common among banks with less than $100 million in assets. 38% of these organizations indicated they do not share company financial performance. That is in direct comparison to banks with more than $250 million in total assets where more than 80% of responding banks indicated they share financial performance with employees.

67.2% of responding organizations indicated they have a succession plan in place. That number is up slightly from 2010. The historical comparison is presented in the chart to the right. The presence of a succession plan was generally higher in larger institutions.

Under $100 million - 59.7%
$100 to $250 million - 68.8%
$250 to $500 million - 65.4%
$500 million to $1 billion - 73.0%
Over $1 billion - 76.9%




It was clear in the results that community banking organizations are expecting to select their future senior management team members from inside the organization. 80.9% of all respondents felt their future leaders would come from internal sources. This was a majority rating at all organizations. The anticipated need for future senior managers from outside sources was almost twice as high in the smaller organizations. 22.4% of banks with less than $100 million in total assets felt their future leaders would come from an external source. The percentage for banks with assets between $100 and $250 million was 12.5%.

## Industry Outlook

The core questions for this portion of the survey included the following inquiries.

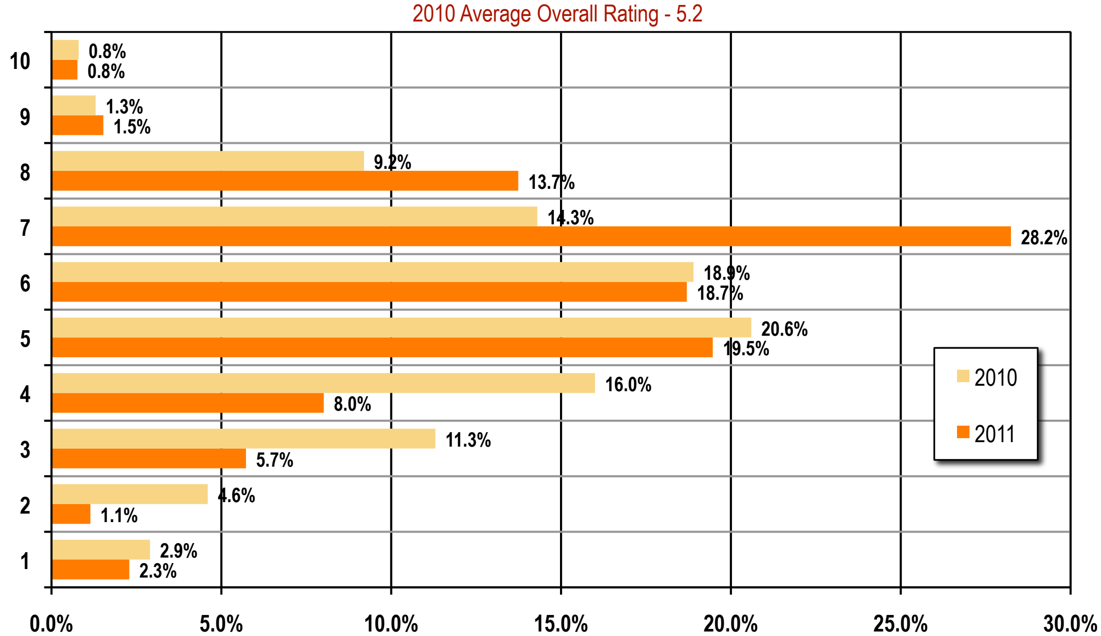
- **Optimism related to annual banking industry performance**
- **Source of primary competition**
- **Importance of key industry challenges on bank performance**
- **Management of new and changing regulations and industry guidelines**
- **Source of organization growth**
- **Anticipated change in profitability**

**Optimism for banking industry performance over next 12 months.**

*1 - Not At All Optimistic, 10 - Very Optimistic*

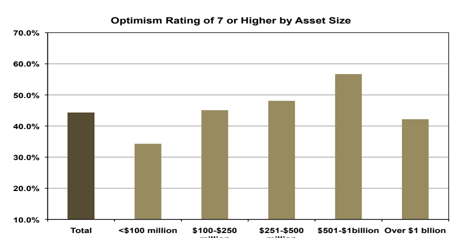
2011 Average Overall Rating - 5.95

2010 Average Overall Rating - 5.2



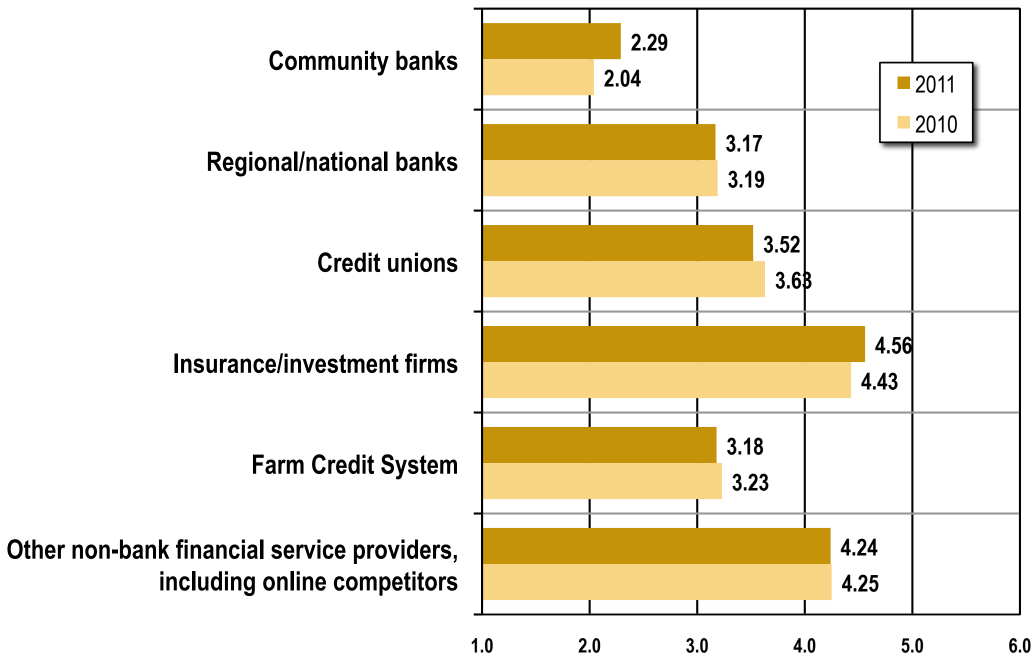

The optimism rated by respondents indicates that, as an industry, banking still has some room for improvement to reestablish the confidence lost since 2008. 39.5% of all respondents rated their optimism a 5 or 6 on a scale of 1 to 10, where 1 was Not At All Optimistic and 10 was Very Optimistic. The greatest diversity in responses occurred with banks in the $100 to $250 million asset size. The absence of very low or very high ratings was more apparent in the organizations with more than $250 million in assets. The smallest organizations were the least optimistic. The average scores by asset size show the highs and lows in the overall index.

| Asset Size | 2010 | 2011 | Change |
|---|---|---|---|
| Under $100 million | **5.06** | **5.40** | **0.34+** |
| $100 to $250 million | 5.22 | 6.04 | 0.82+ |
| $251 to $500 million | 5.19 | 6.12 | 0.93+ |
| $501 million to $1 billion | **5.38** | **6.41** | **1.03+** |
| Over $1 billion | 5.35 | 6.08 | 0.73+ |



**Source of primary competition for next 12 months.**

*Forced Ranking from 1 to 6, 1 - Most Significant, 6 - Least Significant*

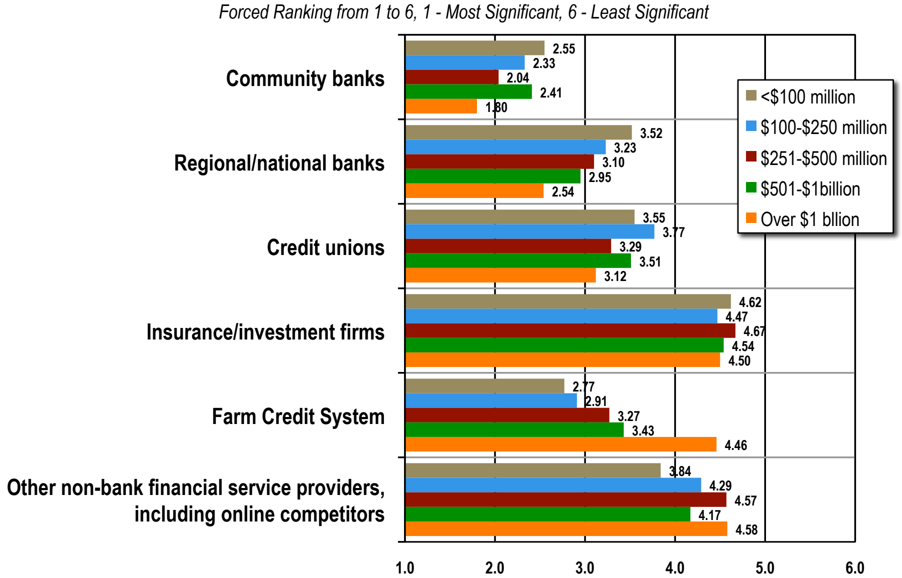


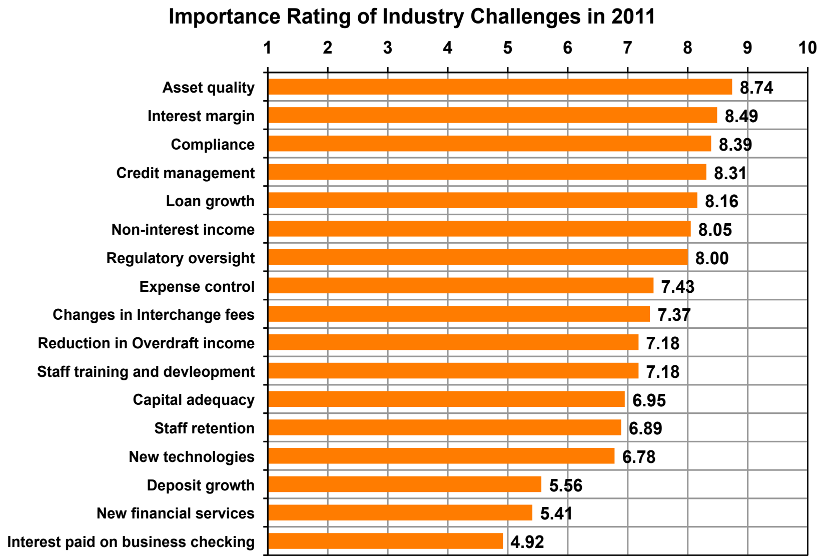

A forced rating was used to identify which direct competitors will generate the greatest competition for community banks in 2011. The results can be grouped into three statistical groups based on the average ratings. Community banks were the clear leader in overall ratings with an average rank of 2.29. The second tier of competitors is comprised of regional banks, national banks, Farm Credit System and to some degree, credit unions. In the third tier and in a much lower position are non-bank competitors, online providers and insurance/investment firms. The 2011 results show little change from mindsets discovered in the 2010 survey.

Some of the average rankings were clearly influenced by the size of the organization. The following chart provides additional data points related to the forced rankings.

**Source of primary competition for next 12 months.**

*Forced Ranking from 1 to 6, 1 - Most Significant, 6 - Least Significant*





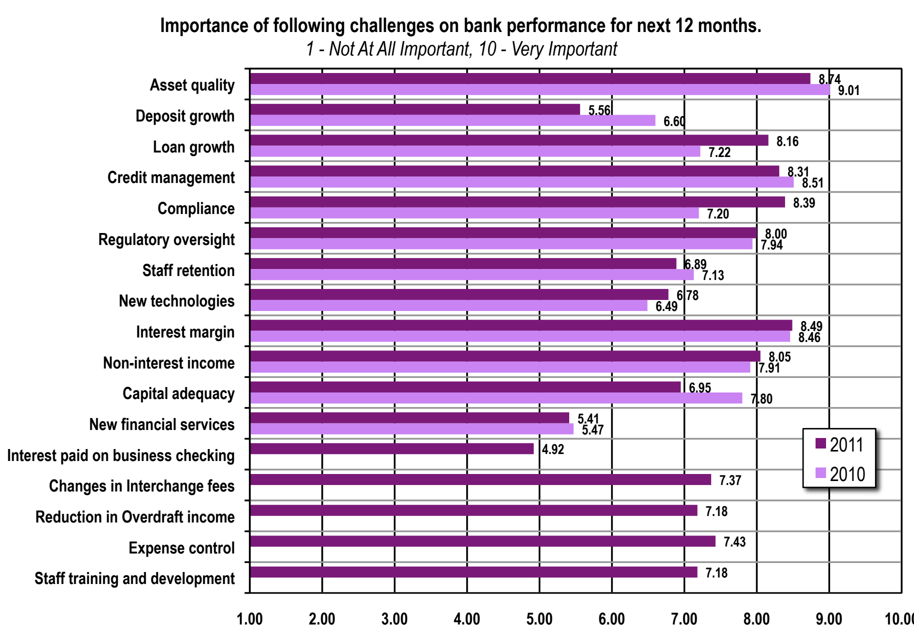

**Top Tier Challenges**
Asset quality
Interest margin
Compliance
Credit management
Loan growth
Non-interest income

**Middle Tier Challenges**
Regulatory oversight
Expense control
Interchange fees
Overdraft income
Staff development
Capital
Staff retention
New technology

**Low Tier Challenges**
Deposit growth
New services
Interest on business checking

Identifying the challenges faced by the banking industry is an important step in the planning process. One of the core questions in the 2011 Community Banker Opinion Survey was an examination of the most common challenges that have been identified by bank management teams. In the chart above the relative rating of each challenge provides a perspective for key challenges within a scale from Not At All Important (1) to Very Important (10). Statistically the chart can be divided into three key groups. The average rating for each challenge is directly comparable to all other ratings.

Comparing the 2011 community banker responses to the 2010 results, the importance rating of loan growth increased 0.94 points from 7.22 to 8.16, while capital adequacy declined 0.85 points. The top five challenges were consistent across all total asset categories. Paying interest on business checking accounts received the lowest importance rating in all demographic categories. The following chart provides a visual comparison of importance ratings from 2010 and 2011.

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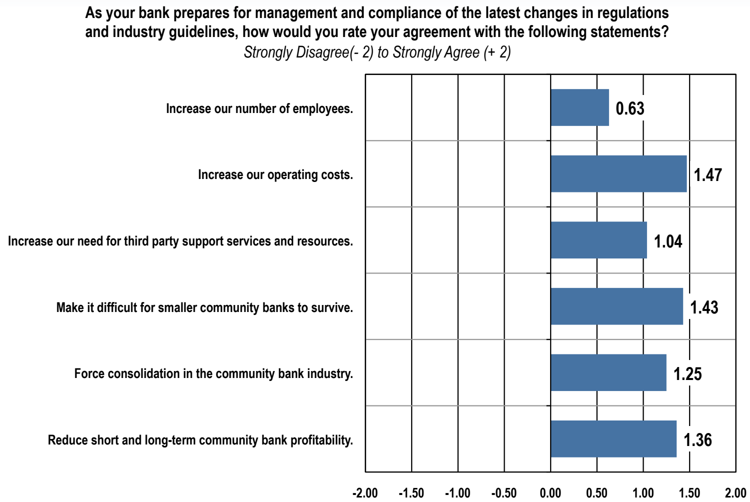
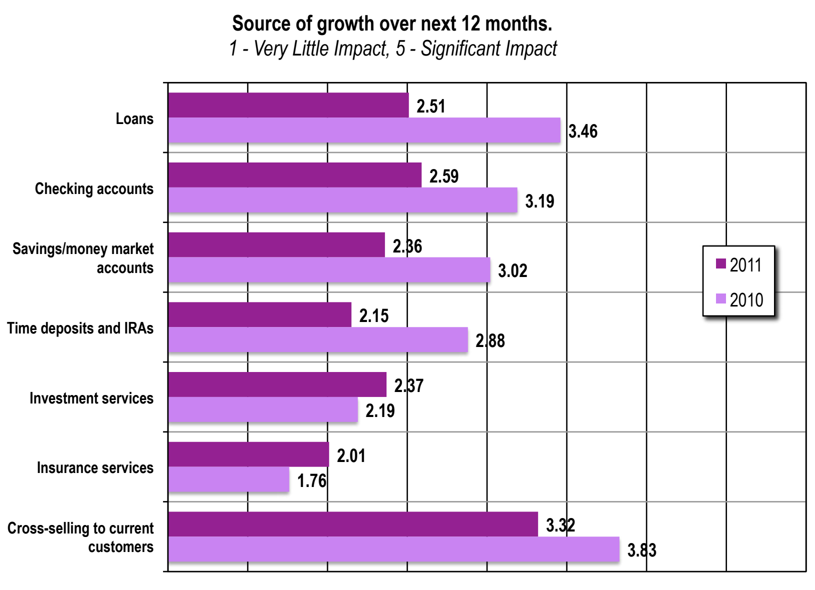


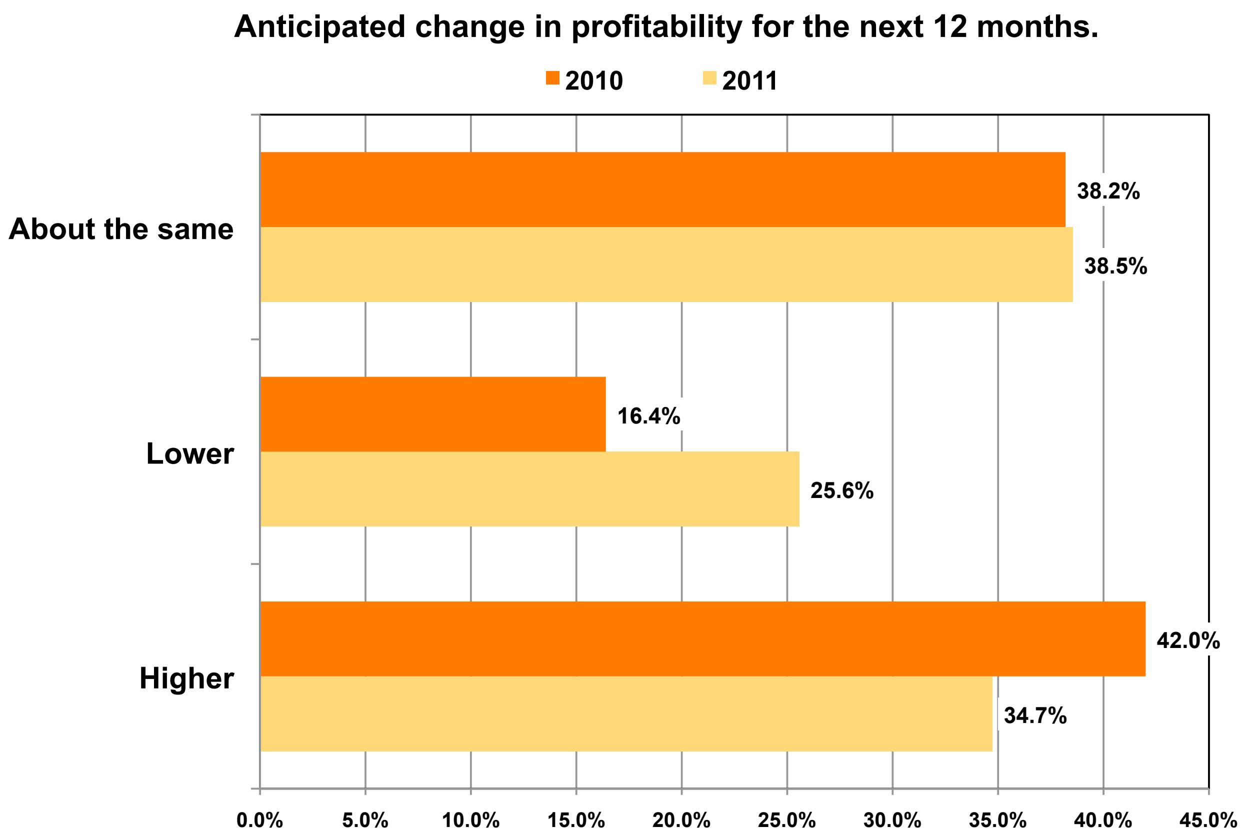

Community banks continue to be challenged by the impact of changing regulations. The anticipated impact of those changes is reflected in the accompanying chart. Bankers anticipate that managing and complying with regulatory changes will result in increased operating costs and make it more difficult for smaller banks to survive. In addition, there was a high emphasis on potential reductions in profitability and the need for community bank consolidation. Concerns for increasing operating costs were most prevalent among banks with assets under $100 million. The anticipated need for third party support resources was considerably higher at banks with less than $250 million in assets.

In an effort to identify the most common sources of bank growth, survey participants were asked to rate the impact of several factors and financial services on bank growth. The relative level of each index score helps identify planning topics that should be addressed if the financial institution plans to optimize their resources...financial, human and technological. The 2010 to 2011 results comparison is presented in the chart above.

Cross-selling to existing customers is the clear leader in the final results for the second straight year. The ratings for loans and checking accounts share a second level rating. Bank size and composition had only marginal impact on the average scores. Cross-selling to current customers was the highest rated source of growth for all size categories. The data suggests core relationship growth with exsiting clients will be an opportunity for community banks in 2011.



The majority of respondents felt their profitability in 2011 would be the same or higher than 2010. One out of four respondents felt their 2011 profitability would be lower than 2010. There were some modest variances in responses based on the size of organizations. 46.2% of the banks with total assets over $1 billion felt their 2011 profitability would be higher, compared to 28.4% for banks under $100 million. Approximately 34% of the family-owned, sub-S and closely held banks felt their 2011 profitability would increase.

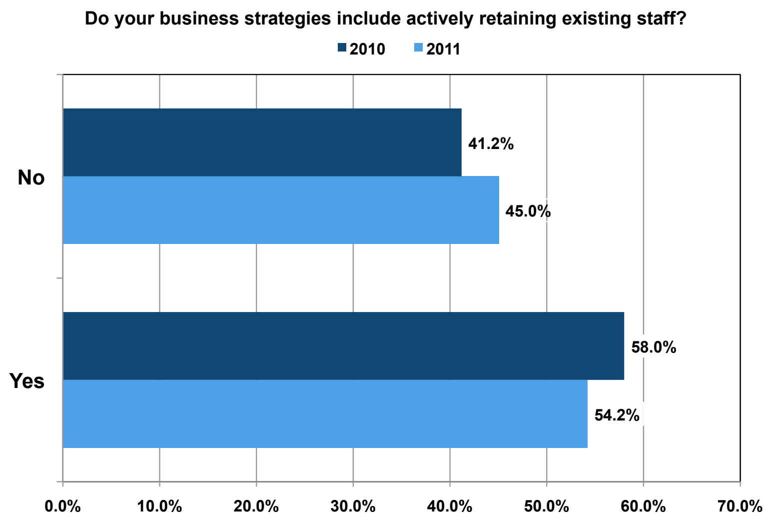


## Staff Compensation and Benefits

The final section of the survey examined participant opinions about staff development, how employees are rewarded for their individual contributions to success and the development of customer relationship loyalty.

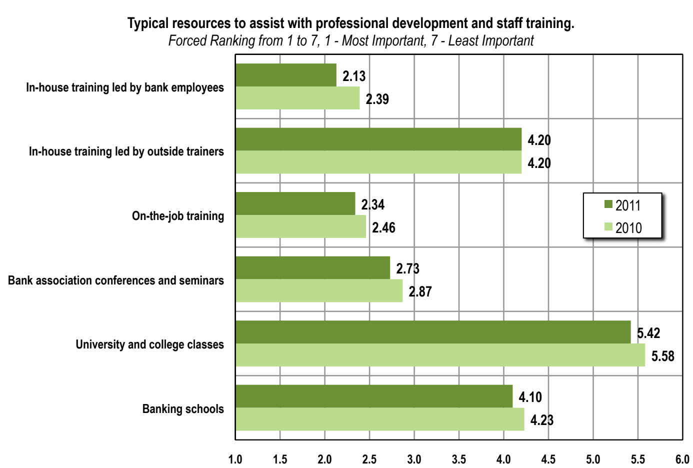
The core questions for this portion of the survey included the following topics.

- **Utilization of structured rewards for staff incentives and recognition**
- **Business strategies to actively retain existing staff**
- **Resources used to assist with professional development and staff training**
- **Bank’s ability to produce customer loyalty and long-term relationships**




Creating lifetime value in customer relationships is an important objective for many financial institutions. That same long-term perspective is applicable to managing high performing employees. Over half (54%) of all respondents indicated they had active business strategies to retain their existing staff. That number is slightly lower than the 2010 survey results. It is important to note that nearly half (45%) of all respondents indicated they do not have business strategies in place to retain existing staff. This is an interesting statistic when you realize that nearly 81% of banks felt their next generation of managers and leaders would come from an internal source.

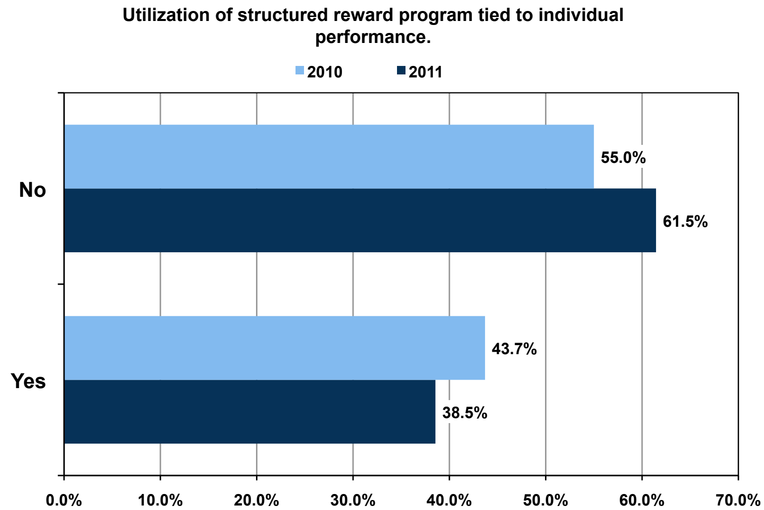
The highest affirmative responses came from financial institutions with either total assets over $250 million, or more than five branch locations.




As evidenced in the accompanying chart, in-house training lead by bank employees and on-the-job training have been rated as the most common methods for training and developing staff. The responses for all development resources are statistically the same as the 2010 survey.

The success of both strategies is highly dependent on the skills and capabilities of the in-house trainers, coaches and managers responsible for staff development. In general, smaller institutions appear to rely more heavily on in-house training and bank association conferences, while larger institutions utilize a combination of in-house and on-the-job training.

Pay for performance continues to be a talking point for many community banks. In this investigation, 38.5% of respondents indicated they have some form of reward or recognition program tied to individual performance. The lowest active program level was for banks with less than $100 million in assets where only 16.4% of the participants indicated they possess a structured reward program. Approximately 50% of banks with assets between $250 million and $1 billion have structured reward and recognition based on individual performance.




Finally, the 2011 Community Banker Opinion Survey asked bankers for opinions of what is necessary to produce customer loyalty and long-term relationships. Company-wide service culture and effective relationship building environments topped the list of importance ratings. Customer retention strategies rated a close third place position. The most significant year-to-year changes in importance scores occurred with a decline in the importance rating for 'customer retention strategies' and an increase in an 'effective relationship building environment.' Performance measurements for staff and managers, along with effective customer information management, produced the lowest ratings in both 2010 and 2011.

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