



***First Coastal Bank***

# **Strategic Business Plan 2022-2024**

**Approved: Board of Directors  
December 15, 2021**



## **2021 Planning TIMELINE to Create 2022-2024 Strategic Business Plan**

**August 16, 2021**

**During Regular Monthly Board Meeting,  
CEO discusses board retreat agenda topics with directors**

**September 18, 2021**

**During Monthly Management Team Meeting  
CEO conveys 'strategic goals' to achieve over revised 3-yr plan period of 2022-2024**

**September 20, 2021**

**During Regular Monthly Board Meeting,  
CEO discusses board retreat topics,  
CEO shares proposed strategic goals and planning timeline**

**October 16, 2021**

**Qtr Mgt Team Meeting to Assess Results of 3Q21  
. 8:30-Noon: normal qtr deep dive of qtr results  
(we should be 75% toward success with each 2021 goal)**

**. Noon-3:00 p.m.: Group Discussion:  
(review, critique/finalize proposed "2022 Annual Goals")**

**October 18, 2021**

**During Regular Monthly Board Meeting,  
CEO finalizes discussion of board retreat agenda topics  
and finalizes specific agenda format for 11/20 retreat**

**October 17-November 8, 2021**

**2022 Key Goal Teams Prepare Tactical Actions for Each 2022 Annual Goal**

**November 20, 2021**

**Board Retreat, ABC Location, 7:00 a.m.-Noon  
Management Team Retreat, ABC Location, 12:30-5:00 p.m.**

**December 10, 2021**

**Board Approves 2022-2024 Plan During Regular Board Meeting**

**January 3, 2022**

**"Tracking Progress" of  
2022-2024 Strategic Plan Officially Begins**





## 2022-2024 `Strategic Business Plan

### TABLE OF CONTENTS

#### Section 1: Foundation

- . History of the Bank
- . *Core Values*
- . *Vision Statement*
- . *Mission Statement*
- . *Our Strategy (should be supported via Strategic Goals and then Annual Goals)*
- . Strategic Risk Management
- . Organization Chart

#### Section 2: Financial Analysis

- . 2023-2024 Pro Forma Balance Sheet & Income Statement
- . 2022 Consolidated Budget
- . Loan and Deposit Growth Detail
- . Key Financial Ratios to Accomplish During 2022
- . Custom Peer Group

#### Section 3: Key Goals

##### *Part A: Strategic Goals, 2022-2024*

- . Create and establish desired Service Standards throughout the Organization
- . Grow Assets organically to \$800 million
- . Maintain ROAE above 12%
- . Maintain Efficiency Ratio under 60%
- . Successfully implement optimal Omni-Channel Experience (incorporating digital and retail strategies)
- . Develop and implement comprehensive Facilities Plan (for retail branches and operational areas)

##### *Part B: Annual Goals, 2022*

- . Build a model to target specific, competitive Growth Opportunities in our existing markets
- . Successfully complete our Culture Initiative, begun in 2021
- . Implement plan to establish Service Expectations throughout the Organization
- . Create a Digital/Payments Strategy
- . Create a Retail Banking Strategy
- . Assess/enhance Credit Administration/Commercial Loan Production processes to support loan growth
- . Reduce Non-Interest Expense by 4 basis points
- . Perform comprehensive Facilities Assessment (Retail and Operations) & develop facilities plan

#### Section 4: Tracking Progress

- . Management Team
- . Board of Directors

# **Section One**

## **FOUNDATION**

- . History of the Bank**
- . Core Values**
- . Vision Statement**
- . Mission Statement**
- . Our Strategy**
- . Strategic Risk Management**
- . Organization Chart**





## Session One, Part Two PRE-WORK

Facilitator: Andy Davies, CEO  
The Marathon Organization, LTD | [adavies@marathonorg.com](mailto:adavies@marathonorg.com)

*A note from Andy: Greetings, Ladies and Gentlemen! I am looking forward to meeting you and getting to know each of you through the entire course of the upcoming premier VBA Management Development Program. Welcome! I know there are a multitude of skill sets/experiences within the class, so I thought the best way to create a 'pre-session' assignment would be an exercise designed to provide you with a broad overview of key topics.*

**Step #1: Obtain from your Bank's CEO or CFO:**  
most recent month-end or quarter-end balance sheet and income statement

**Step #2: At the same time, share this list of questions with that individual**  
ask for a specific time to then meet with that individual;  
at that meeting, discuss the questions as they pertain to your bank.

**Step #3: Bring your Questions/Answers with you to Session One**  
**UPDATE:** Andy will not see your answers, however you must send your answers to Gail Queen ([gqueen@vabankers.org](mailto:gqueen@vabankers.org)) no later than October 8th. Having the discussion with your CEO or CFO will simply prepare you for discussion of these topics during Session One.

From Andy to Members,  
MDP Class of 2021-2022:

. Think back to Session One  
and CORE VALUES and VISION  
discussions & group work!

### QUESTIONS:

- Review together your bank's **BALANCE SHEET** and **INCOME STATEMENT** for the most recent month or quarter that these financial reports are available  
ASK: *what are areas of strength?*  
*what are areas of weakness?*  
*what opportunities exist that could impact these financials?*
- Review your bank's **VISION** and/or **MISSION STATEMENTS**
- Does your bank have a set of **CORE VALUES**?  
ASK: *how were these originally created?*
- Discuss how your bank compares its financial performance to **PEER BANKS**  
ASK: *which specific peers are included in your bank's peer group?*  
*what criteria are used in selecting a peer group?*  
*how is the peer information used?*
- Review your bank's **DEPOSIT MIX**  
DETERMINE: *the mix of 'core' deposits vs 'non-core deposits'*  
*the % of deposits that are 'non-interest bearing'*  
*with significant rise in deposits at most all banks as a result of the impact of 2020, how is management dealing with the large influx?*
- Review your bank's **LOAN PORTFOLIO MIX**  
DETERMINE: *the mix of loan types within the total portfolio*  
*the loan types that are most desired by the and why*

See on next pages  
how they show up  
**FRONT AND CENTER**  
in a well-crafted  
strategic plan!

→→→→





# Our Core Values

**(((Note from Andy Davies to Members of MDP, Class of 2021-2022  
January, 2022**

**Always remember a company's CULTURE is a direct reflection of its  
CORE VALUES.**

***"Culture is like an iceberg. There's more HIDDEN than SHOWING.  
Virtually all of it and its consequences are a product of a specific system of  
VALUES."***

**from: "Culture Issues Just Won't Go Away"  
Ed O'Leary, Bankers Exchange, March 20, 2018)))**

**Integrity  
Trust  
Respect  
Dependability  
Teamwork  
Welcoming Spirit  
Winning Attitude  
Community-Mindedness**



**First Coastal Bank**

# **Our Vision:**

**First Coastal Bank  
*will be the most  
admired and respected  
community bank  
in the markets we serve,  
as judged by our customers,  
our team members,  
our peer banks  
and our communities.***





**First Coastal Bank**

## **Our Mission**

**Independence... Community... Customer-First...  
A total commitment to provide quality financial services.**

### **To Our Customers:**

***We pledge to operate our bank in a safe and sound manner.  
We will listen to your needs and respond with prompt,  
professional and accurate services.***

### **To Our Team Members:**

***We will provide leadership to ensure a pleasant, safe and stable work environment.  
We will show respect for individuals and their ideas.  
We will provide challenges for those who are willing to accept them  
and opportunities for personal development.***

### **To Our Shareholders:**

***We must endeavor to protect and to earn a reasonable return on your investment.  
We will continually develop the organization and foster its growth  
through sound banking practices.***

**Our uniqueness as an independent bank lies in providing  
quality, personalized financial services and  
constant innovation.**

**As always, we will continue meeting the needs  
of our customers  
and communities today  
with a vision of improving for tomorrow.**





**First Coastal Bank**

# **Our Strategy:**

***We will continue to focus on  
sound, profitable organic growth  
within our existing markets  
while we also  
evaluate additional opportunities  
that may arise that could  
improve the Bank's  
strategic position.***

Members of the MDP Class of 2021-2022 from Andy Davies:

This is what I call a 'dual strategy' that this bank is following.

Think of it like this:

"We're going to STAY FOCUSED ON and FOLLOW our existing ORGANIC GROWTH strategy,  
while we (on behalf of our shareholders)  
keep our eyes and ears open for other 'opportunities.'  
(examples: an acquisition or a merger of equals)"



# Strategic Risk Management

“RISKS” can impact the Bank’s strategic objectives.  
Therefore, sound risk management is integrated within the execution  
of the Bank’s strategic plan.

“RISK OVERSIGHT” is the responsibility of the Board of Directors.  
The Audit Committee of the Board monitors the results of various  
risk audits performed by management to determine  
the effectiveness of the Bank’s risk management process.

The Board communicates the level of risk it is willing to accept  
relative to achieving the Bank’s strategic objectives.  
The Board reviews various risk measurements to monitor the level of risk  
and determine the adequacy of the Bank’s responses to specific risks.

“RISK MANAGEMENT” with the organization is the responsibility  
of Executive Management, though all employees play a role.  
A risk management framework provides guidance for addressing risks.  
The processes and practices in the framework  
are coordinated by Jane Doe, SVP and Director of Risk Management

“STRATEGIC RISK ANALYSIS”  
The following pages outline potential risks  
to the Bank’s strategic objectives.  
If realized, these risks and events could have an adverse impact  
on the Bank’s growth and success.

The risks are separated into two distinct categories:

**. ECONOMIC AND MARKET RISKS OUTSIDE OUR CONTROL:**

**. INTERNAL, MANAGEABLE RISKS:**

*Risks specific to First Coastal Bank’s operating environment  
and manageable with appropriate mitigation.*



### **Economic and Market Risks Outside Our Control**

- . Lingering effects of COVID-19, with potential, even likelihood, the pathogen will circulate for years, or even decades, leaving society to co-exist with COVID-19 as it does with other endemic diseases like flu, measles and HIV- implying lasting modifications to personal and societal behavior.
- . Impact of global, US, state and local market overall economic conditions on our ability to achieve our loan, deposit and non- interest revenue goals, interest rate margins and desired asset quality performance
- . Significant and unexpected fluctuations in interest rates
- . Actions of our competitors:
  - . related to loan rates, terms and underwriting standards which impact deposit pricing and terms
  - . affecting recruitment of talent in all our markets
  - . impacting our development of digital technologies and products
- . Changes in liquidity levels within the financial industry
- . Potential political unrest, natural disasters, pandemics, terror attacks
- . Unanticipated federal or state regulatory actions, regulations or expenses
- . Unanticipated changes in federal, state and local taxation
- . Damage to company's reputation (e.g. negative social media)
- . Legal and accounting expenses associated with growth
- . Changes in capital requirements
- . Changes in technology, product delivery channels and end-user demands and acceptance
- . Increase in non-bank competition
- . Economies of scale that can provide competitive advantage to larger banks
- . Changes in the needs of business owners and consumers
- . Changes in the secondary market for residential mortgages affecting our mortgage area
- . Changes in financial accounting rules (GAAP)
- . Changes in regulatory pressure towards IT, compliance and audit
- . Unanticipated changes to tax law/code
- . Change in shareholder expectations



## **Internal, Manageable Risks**

### **Business Risk**

- Shifting business model to move more aggressively to grow the commercial banking business line:
  - Redirecting incentives for sales team to support expansion of commercial banking business line, including focus on core deposit growth and promotion of treasury services
  - Adapting and mainstreaming personalized service culture for commercial clients
  - Maintaining management focus on service culture and associate engagement as business model evolves

### **Human Resources:**

- Talent – The Bank depends on its associates to propel growth and maintain outstanding service levels that provide a competitive advantage
  - Maintaining focus on developing capabilities of existing associates and acquiring new talent as First Reliance grows
  - Maintaining focus on associate engagement and First Reliance's culture as incentive structures are realigned to support accelerated growth goals
- Succession Planning:
  - attraction, retention and succession of key personnel, including the Board of Directors, CEO, C-Suite and all levels of management
- Training:
  - creation of structured curricula, addressing internal and external training opportunities

### **Strategic risk**

Arises from failure to regularly evaluate performance in achieving key goals within our strategic business plan

### **Credit Administration and Lending:**

- Within our lending line of business:
  - ensuring we maintain appropriate underwriting
  - understanding that commercial real estate & consumer loans generally carry greater credit risk than 1-4 family residential loans
  - being aware that a significant portion of our loan portfolio is secured by real estate, and events could negatively impact the real estate market
  - the fact that repayment of commercial business loans is primarily dependent on cash flows of borrowers, which may be unpredictable, and the collateral securing these loans may fluctuate in value
- potential credit quality deterioration within existing loan portfolio
- failure to properly address existing problem credits



- quality underwriting and pricing of new loan relationships and pricing of deposit products
- expansion into loan products that require specialized risk management processes and skills
- proper oversight of lending staff: some were not employed during Great Recession (related to interest rate risk and credit risk)

### Capital

- we may need additional access to capital, which we may be unable to obtain on attractive terms or at all

### Liquidity/Deposits/Funding

- cost of funds
- failure to retain/attract core deposits (primarily non-interest-bearing deposits) vs. competitors
- improving balance sheet risk profile to help mitigate the effects of economic downturns

### Markets/Retail

- retail banking strategy and 'rationalization' of retail distribution network
  - Branch rationalization plan will establish common standards for branch performance and use those standards to evaluate new and existing branches. Monthly scorecards will be developed to measure performance against standards
- failure to monitor our market niche vis-à-vis our primary local competitors
- expansion into new markets:
  - new bank office facilities may take time to become profitable
  - successful recruitment of key personnel within new markets
- pricing our services to compete with larger and peer competitors

### Operations and Technology:

- Balancing increased spending in operations and technology with profitability and efficiency goals. Securing staffing resources to manage the increased scale of the Bank's operations as it grows
  - Management will need to closely examine talent resources in its various markets to determine optimal areas for investment
- full use of alternative/digital delivery channel



- potential loss of customers associated with converting to digital partner for online/digital banking (this risk crosses over into retail/earnings/liquidity, etc)
- disruption in product delivery
- IT infrastructure suitable for current and anticipated growth
- failure/breach of our operational and security system or infrastructure, or those of our third party vendors and other service providers, including as a result of cyber attacks, which could disrupt our business, resulting in the disclosure or misuse of confidential or proprietary information, increased costs and potential losses
- risks associated with trying to do too much with same/limited resources or failure to successfully execute on primary projects before beginning 'shiny new toy' projects (project management is operational topic, but ties as well into HR and strategic management)
- operating expenses

### Vendor Management

- appropriate oversight of third parties (high-risk vendors) that provide operational and business functions and new technology
- annual evaluation of high- risk vendors: relationship management, service level agreements (names/actions)
- consistent management and oversight of renewal negotiations with all high-risk vendors to yield rates (pricing) at or below market
- term of high-risk vendor agreements should be consistent (3-5yrs, etc) with flexibility to move to annual renewal after initial term
- co-term high-risk vendor contracts (maximize buying power)
- 
- consolidate high-risk vendor relationships where possible
- adopt new technology from existing high-risk vendors before going to market and pulling in new vendors
- documentation of key service level metrics and consistent review of metrics with all high-risk vendor managers
- high-risk vendor contract terms/conditions (including core service provider) must complement strategic goals



- mitigation of high-risk vendor termination fees which include liquidated damages, de-conversion (transition services) fees and the conversion of legacy data (check images, drivers' licenses, document images, signature snippets, report archive, etc.)

### Mortgage

- counterparty credit risk (vendors, brokers, attorneys, investors)
- interest rate risk: impact on volume from originators/channels, market-to-market on pipelines and hedging, mark-to-market of MSR and hedging of such, potential impact on fee income
- liquidity risk: failure to properly underwrite loans which would impact salability; repurchase risk, defaulted loans requiring remittance to P&I investors
- pricing risk: change in value of loans in pipeline, value of MSR; fallout risk from decline in rates; pair off fees due to not being able to meet mandatory forward commitment sales
- operational risk: internal controls/processes; originate efficiently; sufficient staff; oversight of third party vendors (i.e. initial due diligence, comprehensive contract requirements, periodic reviews, complaint reviews, business continuity replacement options; document tracking; operational flexibility adapting to volume cycles)
- compliance risk: systems, processes and ongoing training
- reputational risk: breakdown in operational processes, systems that must be robust; problem resolution management

### Marketing

- marketing and branding: type, delivery channels, expectations, budgeting

### Compliance and Legal

- legal, reputation, compliance management systems and staffing, including BSA/AML



# **Section Two**

## **Financial Analysis**

**. 2023-2024 Pro Forma  
Balance Sheet & Income Statement**

**. 2022 Consolidated Budget**

**. Loan and Deposit Growth Detail**

**. Key Ratios of Budget  
vs. History and Peer Group**

**. Custom Peer Group**





## **Section Three**

### **KEY GOALS**

#### **Part One:**

### **Strategic Goals**

#### **(2022-2024)**

#### **Part Two:**

### **Key Organic Growth Goals**

#### **to Accomplish Between**

#### **Jan 1-Dec 31, 2022**





**First Coastal Bank**

# 2022-2024

## Strategic Goals

(to successfully accomplish by December 31, 2024)

- . Create & establish desired Service Standards throughout the Organization
- . Grow Assets organically to \$800 million
- . Maintain Return on Average Equity above 12%
- . Maintain Efficiency Ratio under 60%
- . Develop and implement a comprehensive Facilities Plan for both retail branches and operational areas of Bank
- . Successfully implement an optimal OMNI-CHANNEL EXPERIENCE:
  - . incorporating a DIGITAL STRATEGY
  - . incorporating a RETAIL BRANCH STRATEGY





**First Coastal Bank**

## **2022 Annual Goals**

(to successfully accomplish by December 31, 2022)

- . Build a model to target specific, competitive GROWTH OPPORTUNITIES in our existing markets
- . Successfully complete our CULTURE INITIATIVE, begun in 2021
- . Implement a plan to establish SERVICE EXPECTATIONS throughout the Organization
- . Create a DIGITAL/PAYMENTS STRATEGY
- . Create a RETAIL BANKING STRATEGY
- . Assess and enhance CREDIT ADMINISTRATION/COMMERCIAL LOAN PRODUCTION processes, procedures and tools to support loan growth
- . Reduce NON-INTEREST EXPENSE by 4 Basis Points
- . Perform a comprehensive FACILITIES ASSESSMENT (Retail and Operations) and develop a facilities' plan









**Section Four**

# **Tracking Progress**

**Monthly and Quarterly**

**By Management Team  
By Board of Directors**



# First Coastal Bank

## **“Tracking Progress” of 2022 Key Goals within Strategic Business Plan**

.....

**Period: January 3, 2022- December 31, 2022**

“Tracking Progress” is important so that we ensure:

- . we achieve good results from our step-by-step actions
- . any impediments are quickly identified, addressed and resolved by keeping all engaged
- . we remain flexible and shift priorities as conditions dictate
- . we measure any gaps between our “2022 annual goals” and “execution” of those goals

Monitoring the status of our 2022 key goals within our Strategic Plan is the responsibility of the Bank’s Management Team. We will follow the following plan throughout 2022:

### **Management Team:**

**MONTHLY (beginning in January 2022), Management Team will:**

- . review status of all 2022 key goals and tactical actions
- . assess financial performance month-to-month and quarter-to-quarter
- . make adjustments to any parts of our 2022 Plan as conditions warrant

### **Board of Directors:**

**MONTHLY (beginning in January 2022), Board will:**

- . review status of key segments of Plan as provided by (CEO)

**QUARTERLY (beginning April, 2022), Board will:**

- . review with (CEO) details of the entire Plan
- . host 1-2 “2022 Key Goal Teams” (to be selected on rating basis) for specific updates