



# MANAGEMENT DEVELOPMENT PROGRAM

## SESSION ONE: INTRO TO BANKING

**Andy Davies**

**The Marathon Organization**

**October 12, 2021**



# Session One: Intro to Banking

**Members of the 2021 – 2022 Class of the  
VBA's Management Development Program  
from Andy Davies  
October, 2021**

## **Review: What's the MDP?**

*from the program brochure:*

**A five-month program designed  
for bankers who:**

1. have developed a passion for banking,
2. want to enhance their knowledge of banking, and
3. are motivated to excel in their careers and reach their full potential.



# Disclosure: My Experiences Impact My Opinions And Recommendations

## Vertical Experience

- **CEO/Director of \$800MM bank, 1991-1999**
- **VA Board Chair of \$8b bank, 1999-2002**
- **CEO/Director of \$3b bank, 2009-2011**

## Horizontal Experience

- **Strategic Planning Consultant**
  - 2003-2009
  - 2011-Present
- **Direct Engagement with 100+ community banks**
  - Boards and management teams
  - 1,000+ bank directors
- **Speaker at Bank Director Colleges/Seminars**  
Virginia, North Carolina, Tennessee, Michigan



# **Session One: Intro to Banking**

**Co-Leader of Today's  
Intro to Banking Session**

**Michelle Austin**

**SVP and Chief Financial Officer  
The Bank of Botetourt**

**"ALCO in 90 Minutes"**





# About Michelle Austin

- Botetourt County Native, joined Bank of Botetourt in 1993
- Graduate of Roanoke College, UVA School of Bank Management, Graduate School of Banking at LSU, MBA from Troy University
- Current serves on VBA Benefits Board, VBA Executive Women in Banking and Past chair of VBA CFO Committee
- Serves as CFO responsible for financial reporting, shareholder relations, bank investments, ALCO decisions, and led \$7.5 million capital raise for Bank of Botetourt
- Served as adjunct professor at Roanoke College for 11 years.
- Served on the Botetourt County school Board from 2017-2021
- James River High School "Knights of Distinction" Hall of Fame
- *"Top 20 Under 40"*, Blue Ridge Business Journal
- Virginia Business Magazine CFO of the Year, Nominee in 2014 & 2017
- GO Virginia Region 2 Council Member, DSLCC Educational Foundation Member



# Session One: Intro to Banking

*Special Guest*

**Tom Rasey**

**SVP and Chief Operations Officer  
The Farmers Bank of Appomattox**



# About Tom Rasey

- Texas native, graduate of Hampden Sydney College
- Joined Farmers 2009
- Has partnered with member of executive management to develop the Bank's current employee mentorship program
- Has served as Bank's grassroots advocacy representative with federal/state regulatory agencies
- Has led Bank's financial literacy efforts, cultivating employee engagement to broaden the Bank's reach into area schools/local library
- Prior tenure with Scott Insurance (Lynchburg), Wachovia (Farmville), and GEICO (VA Beach)
- Served as Chair of VBA's Emerging Bank Leaders in 2019; EBL Committee Member since 2011
- Member, Board of Directors, VA Association of Community Banks
- Graduate: VBA School of Bank Management, 2013 (Second Honor Graduate)
- Graduate: VBA Executive Leadership Institute, 2017
- Currently enrolled: Graduate School of Banking, LSU, where he serves as Class Treasurer and member of the Student Advisory Committee for the Class of 2022
- Member, Payments Advisory Council for VA, Federal Reserve Bank of Richmond
- National winner, 2020: ICBA 40, *Under 40* Emerging Community Bank Leaders



# Session One: Intro to Banking

## Our Schedule, Section One, Part Two

**10:30 a.m. - Noon**

**Intro to Banking, Session One, with Andy Davies**

**Noon – 12:45 p.m.**

**Lunch**

**12:45 – 1:45 p.m.**

**Intro to Banking, Session Two, with Andy Davies**

**1:45 – 2:00 p.m.**

**Break**

**2:00 – 3:30 p.m.**

**“ALCO in 90 Minutes” with Michelle Austin**

**3:30 - 4:30 p.m.**

**Intro to Banking, Session Three, with Andy Davies**



## Quick Review: The Questions!

# Quick Review: Pre-Work Questions



# Quick Review: The Questions!

## *Pre-Work Assignments:* *Pre-Work Questions*

### **Request meeting/phone call with CEO or Chief Financial Officer**

- obtain and review most recent quarterly balance sheet and income statement;
- review with that individual the highlights of balance sheet and income statement;
- discuss pre-work questions



# Quick Review: The Questions!

## *Pre-Work Assignments*

### *Pre-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 and why



## Quick Review: The Questions!

**What are your bank's**  
**AREAS OF STRENGTH?**  
**AREAS OF OPPORTUNITY?**





## Quick Review: VISION

# About Your Bank's Vision Statement

What did you find?



# Quick Review: VISION

## Creating a VISION STATEMENT

\*\*\*\*\*

### *What IS a VISION STATEMENT?*

Created by Board and Management, as all parties discuss this central and basic question:

*"If you could have whatever you want for  
ABC Bank, what would that look like?"*

### *A VISION statement should:*

- state what your bank ASPIRES to become
- be ambitious but attainable with hard work
- be inspirational
- be tightly focused, brief and memorable



# Quick Review: VISION

## Creating a **VISION STATEMENT**, *(cont.)*

\*\*\*\*\*

### ***Without a VISION STATEMENT:***

- **there is no clear picture of what lies ahead**
- **management is less likely to think about the future as it focuses on day-to-day challenges**
- **all will assume they are doing a good job, when, in fact, they may be:**
  - creating obstacles
  - treading water
  - slowly failing
  - some or all of the above



# Quick Review: VISION

## VISION Statement Examples

### **Bank in Nashville, TN MSA**

*"We strive to be recognized, by any measure,  
as the best community bank in Middle Tennessee."*

### **Bank in Greenville/Spartanburg, SC MSA**

*"We will be a model for successful community banking  
as we deliver real value to our customers, shareholders and communities."*

### **Bank in Richmond, VA MSA**

*"Our vision is to be Central Virginia's  
most sought after community bank."*



# Quick Review: VISION

## VISION Statement Examples, *(cont.)*

### **Bank in Chattanooga, TN MSA**

*"We will be the community bank of choice  
for people of East Tennessee."*

### **Bank in Myrtle Beach, SC MSA**

*"We will be recognized by our peers and customers as the  
premier community bank in the communities we serve."*



**Class Exercise**  
**Groups of 6:**  
**Create**  
**“Vision Statement”**  
**For a Bank**



## Quick Review: Core Values

# About Your Bank's Core Values

What did you find?



# Quick Review: Core Values

## CORE VALUES... (aka Guiding Principles)

- are prepared by a CEO and Management Team and represent those qualities considered as BACKBONE factors upon which the entire organization is built.
- are about BEHAVIORS
- should be revisited and reinforced often (at least annually during the strategic planning process for upcoming year)





# Quick Review: Core Values

## Examples of CORE VALUES

\*\*\*\*\*

### **Example: Core Values (\$1b bank in SE)**

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

### **Example: Core Values (\$400MM bank in SE)**

- . Act with Integrity
- . Serve Others
- . Commit to Success
- . Celebrate Achievement
- . Enjoy Every Day



## Quick Review: Core Values

Guiding

# Principles

Always do your best

Do what is right

Treat others as you want to be treated

Financial success begins with high integrity



**Class Exercise**  
**Groups of 6:**  
**Create**  
**“Core Values”**  
**For a Bank**



## Session One: Intro to Banking

**Pause Here  
For  
Questions/Comments**



# Creating a Peer Group

- **Option: UBPR Report**
- **Option: Custom Peer Report**



# Peer Group: UBPR

## Tracking Peer Performance via “Uniform Bank Performance Report” (UBPR)

- **Banks must submit reports each calendar quarter**
  - Statement of Condition (Balance Sheet)
  - Report of Income (Income Statement)
  - Ancillary Schedules
    - **Assets, Liabilities, Capital, Income and Expense Accounts**
- **UBPR contains peer group data categorized by:**
  - Asset Size
  - Number of Branches
  - MSA or non-metropolitan area
  - Age



# Peer Group: UBPR

## Tracking Peer Performance via “Uniform Bank Performance Report” (UBPR), *(cont.)*

- A bank will create a PEER GROUP REPORT going into UBPR website and comparing itself to other banks meeting similar characteristics.
- Bank can see where it aligns in ‘percentile rank’ vs. all other banks in its peer group.
- Bank examiners examine UBPR peer reports and analyze the reasons for any ratios significantly different in the bank vs. peers (even if favorable).



# CUSTOM “Peer” Group





# Custom Peer Group

**Creating a custom peer group can be useful for a management team and board to index performance against specific banks that have:**

- similar business models
- similar asset size
- similar market/geographic characteristics (urban/suburban/rural)
- some number of 'high performing' institutions
- consider 8-10 total banks, 3-4 in state, others in neighboring states
- include 2-3 "top 25% performers" (to strive to achieve)



# Custom Peer Group

## WHY

### Create and Use a Custom Peer Group? Management's Perspective

- Keeps management on its toes vs. peers.  
(especially those that are competitors)
- Allows management to 'test' performance, dig into numbers and seek avenues of improvement each quarter.

#### Allows Management to Distinguish Between 2 Separate Goals

*#1: do we try to achieve 'peer median' results in x categories?*

*#2: do we try to achieve 'top quartile' results in x categories?*



# Custom Peer Group

*Some banks use custom peer groups to establish 'buddy relationships' with management teams of high performing banks within peer group that are not competitors and these management teams often meet semi-annually for social/business sessions.*

## View from the Board Room

- *Enables board to compare what management does/says to real-time peers*
- *Gives board 'risk oversight' comparisons/comfort*
- *Can be useful to board in management performance evaluations*
- *Strong educational opportunities for directors*



# Custom Peer Group: Sample Table of Contents

## TABLE OF CONTENTS – PEER ANALYSIS

<b>Section 1</b>	<b>Peer Group Analysis Overview</b>
<b>Section 2</b>	<b>Asset Quality and Loan Portfolio Composition</b>
<b>Section 3</b>	<b>Balance Sheet Composition / Yields &amp; Costs</b>
<b>Section 4</b>	<b>Liquidity</b>
<b>Section 5</b>	<b>Non-Interest Income</b>
<b>Section 6</b>	<b>Non-Interest Expense &amp; Efficiency</b>
<b>Section 7</b>	<b>Profitability</b>
<b>Section 8</b>	<b>Other Franchise Measures</b>

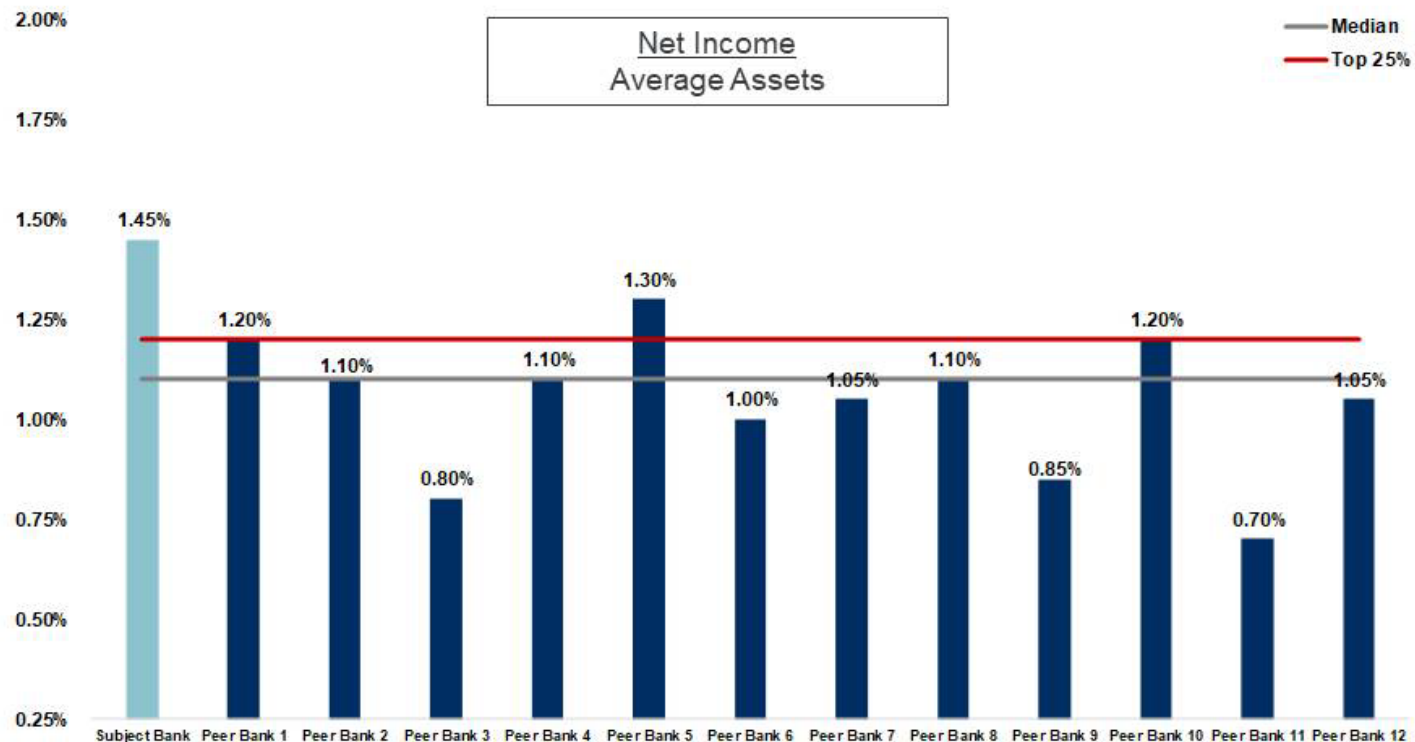


# Custom Peer Group: Sample Comparison Using ROA: Comparing Subject Bank to 12 Peers

Discussion Materials | Detailed Peer Group

## RETURN ON AVERAGE ASSETS

- *Return on Average Assets (ROAA) indicates how effective an organization's assets are at generating income*
- *Key components of ROAA will be broken down later in the presentation*



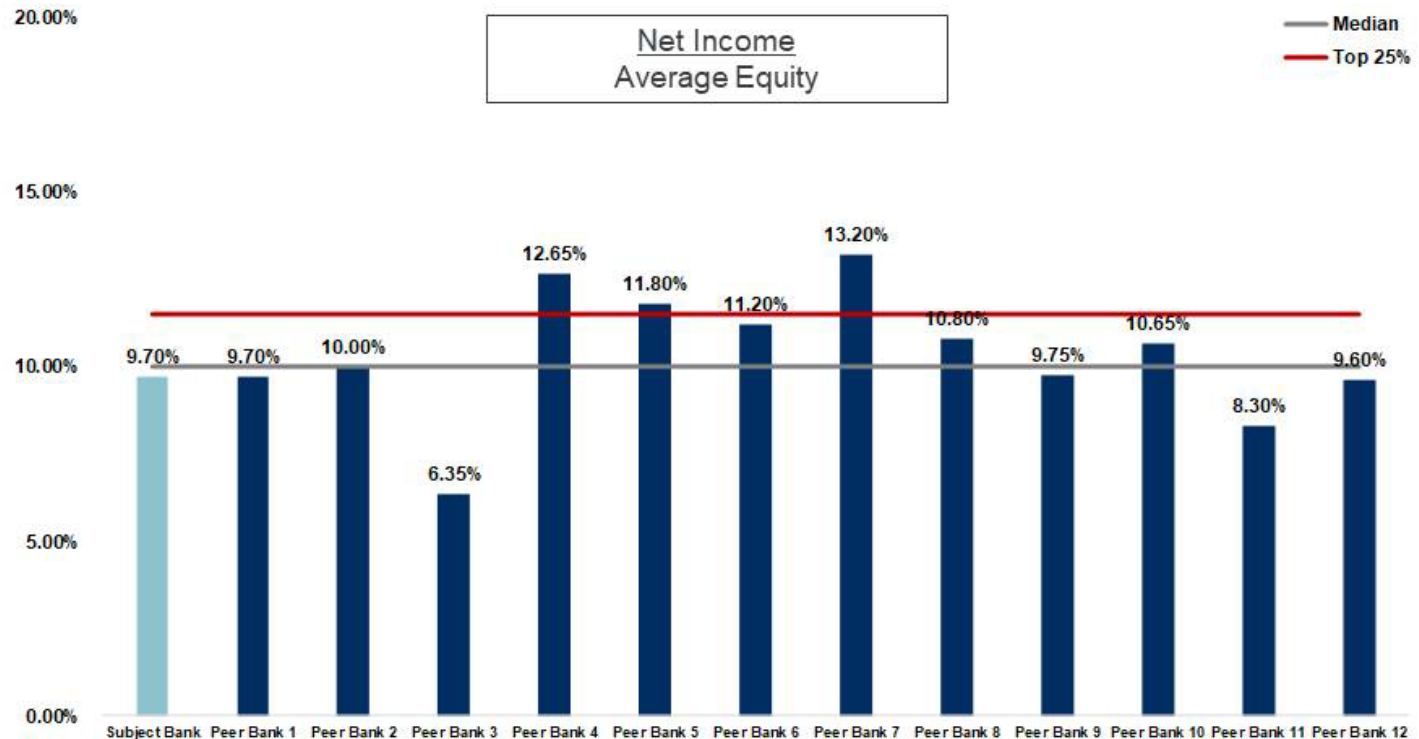


# Custom Peer Group

Discussion Materials | Detailed Peer Group

## RETURN ON AVERAGE EQUITY

- An organization's equity value is a function of its ability to consistently generate a strong return on equity
- Two components of return on equity, profitability and leverage (TCE/TA), are broken out in the following pages



RAYMOND JAMES

Note: Bank-level financial data; LTM data as of March 31, 2019  
Source: S&P Global Market Intelligence

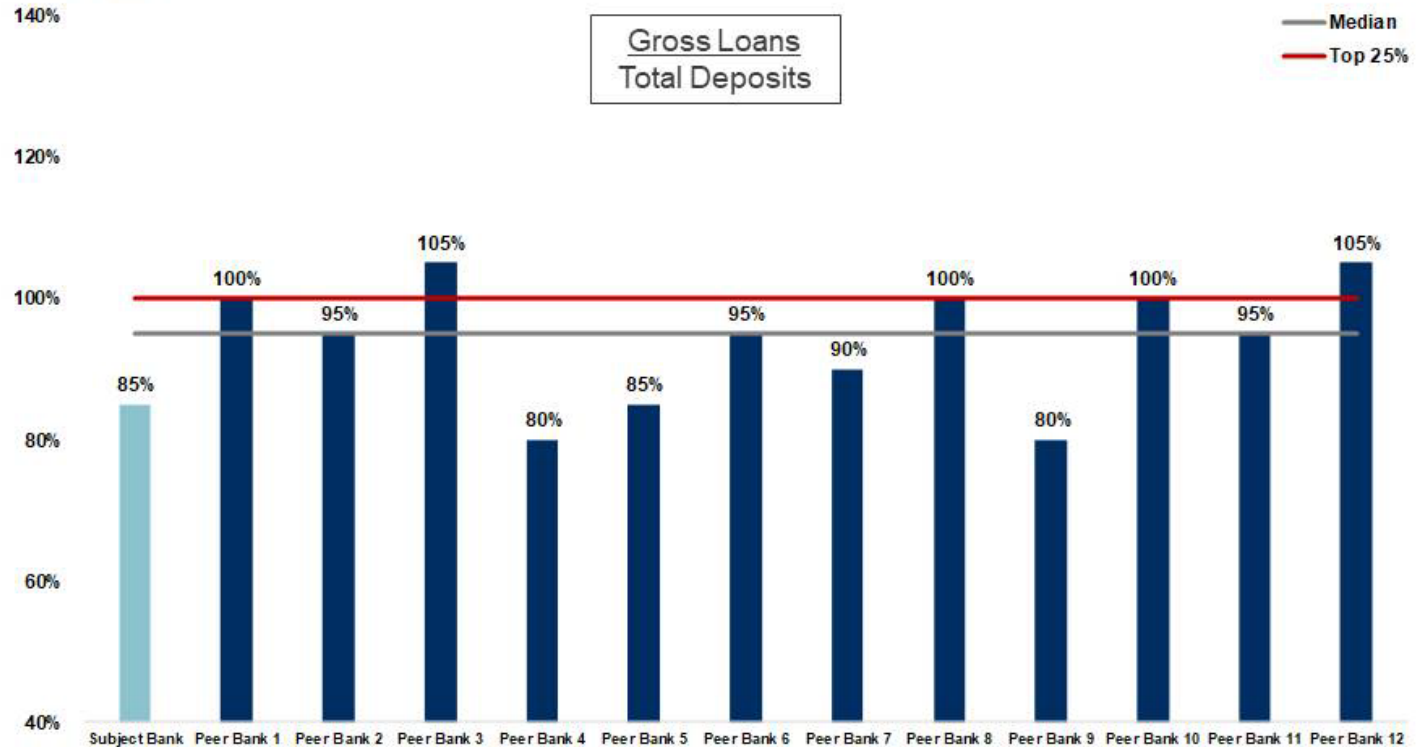


# Custom Peer Group

Discussion Materials | Detailed Peer Group

## LOANS / DEPOSITS

- Indicates the extent to which an institution is able to deploy funds raised from depositors
- Optimal level is near 90% - provides a liquidity buffer and enables bank to hold other assets that enhance the interest rate risk profile



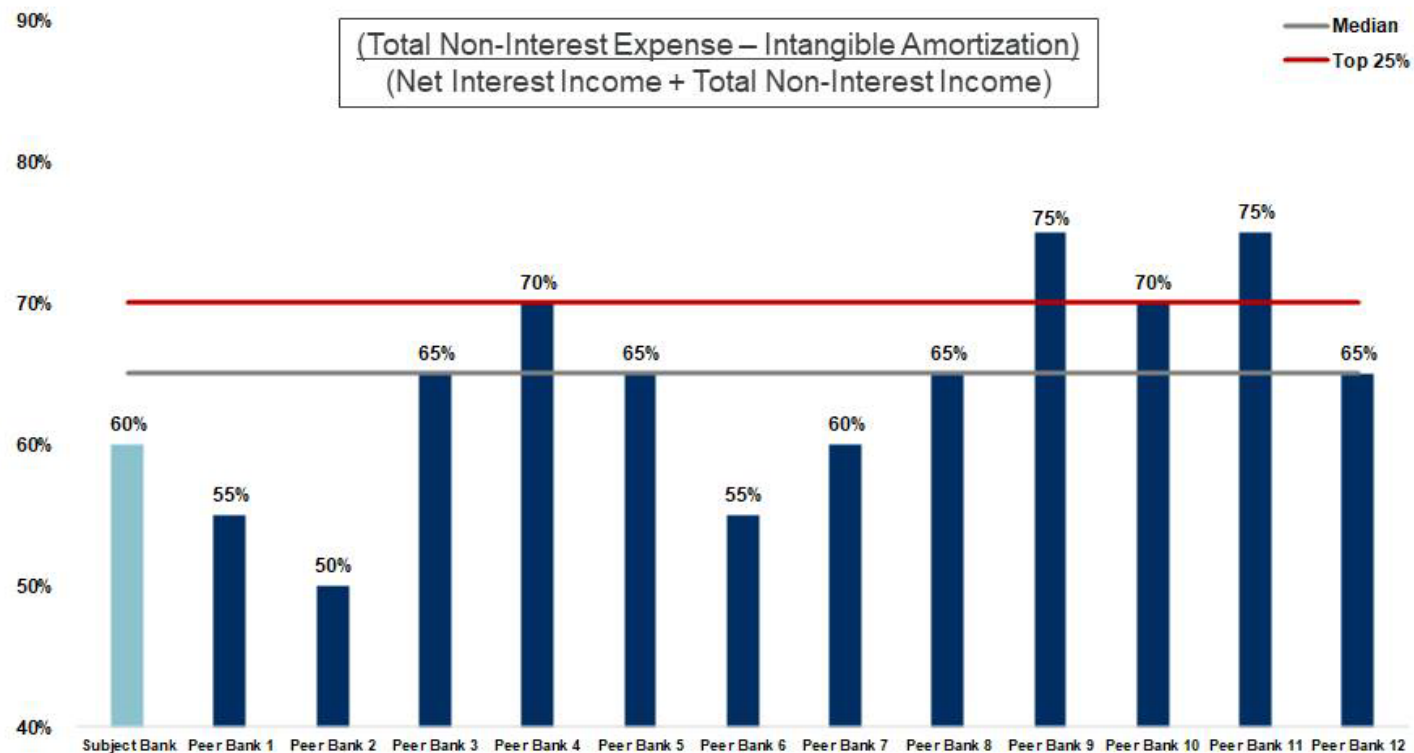


# Custom Peer Group

Discussion Materials | Detailed Peer Group

## EFFICIENCY RATIO

- Demonstrates costs incurred to generate a dollar of revenue
- Can be skewed by one-time events and outlier non-interest income levels







## Session One: Peer Group

# Creating a Peer Group

- In practice, having a custom peer group the CEO and Management Team create is **ALWAYS** more meaningful to a management team and to a board of directors.
- But, regulators **ONLY** use the UBPR report when conducting their peer comparisons.



## Session One: Intro to Banking

# Deposits



# Session One: Deposits

From: "Growing the Bank" by Jack Milligan, *Bank Director Magazine*, 2nd Quarter, 2006

- ***Reduces the Bank's RISK***

- Core Deposits are a cheap source of funding.
- Banks with a high % of core funding can avoid risky loans as generate strong returns.
- Banks simply do not have to grow as fast or have to chase those riskier loans.  
(Consider a loan to be an 'entry point' and not an 'end point').

- ***Easy on the Balance Sheet***

- You don't need to add equity as you grow deposits.
- As you grow loans, you need to raise more equity to support that growth.

- ***"Hub Account" in most banking relationships***

- More opportunities to cross-sell additional products to *business and consumer checking account customers* than any other financial product.



# Session One: Deposits

From: "Growing the Bank" by Jack Milligan, *Bank Director Magazine*, 2nd Quarter, 2006

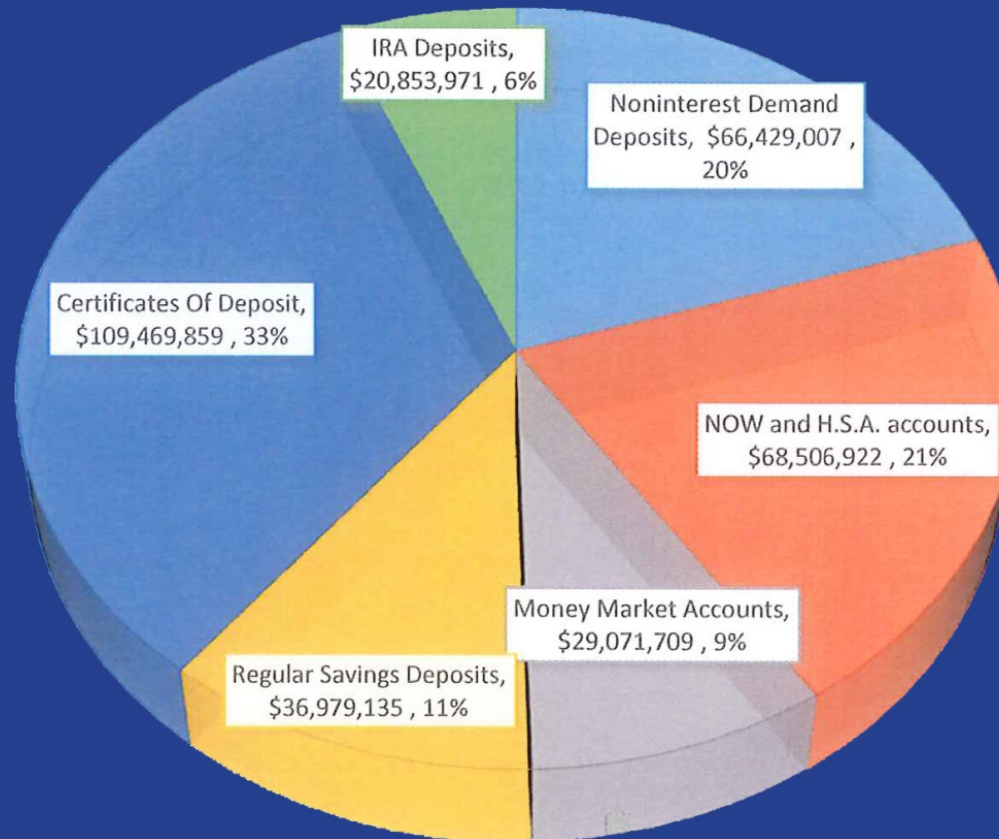
- Checking Account is that "hub" account that leads to other relationships, all of which increase earnings.
- ***Universally Valuable, Regardless of Rate Environment***
  - Irrespective of where you are in interest rate cycle, banks that GAIN transaction accounts are TAKING MARKET SHARE AWAY FROM THEIR COMPETITORS.

**All in all, growth in core deposits is the PRIMARY way of improving earnings, and thus, SHAREHOLDER VALUE.**



# Session One: Deposits

## Sample Community Bank DEPOSIT COMPOSITION





# Session One: Deposits

## Deposit “Hot Topic” Achieving the Right Balance in a Bank’s “Loans-to-Deposits Ratio” (LDR)

### What is this ratio?

- used to assess a bank’s liquidity, comparing  
TOTAL LOANS to TOTAL DEPOSITS for SAME PERIOD
- is expressed as percentage (%)

$$\text{LDR} = \frac{\text{TOTAL LOANS}}{\text{TOTAL DEPOSITS}}$$



# Session One: Deposits

## “Loans-to-Deposits Ratio”, *(cont.)*

### About the ratio?

- if too high, bank may not have enough liquidity to uncover unforeseen funding requirements
- if too low, bank may not be earning as much as it could be
- **Discussion:** What has happened during 2020 – 2021 that has impacted the L/D ratio of many banks?

### A ratio of 100%?

- bank loans \$1 to customers for every \$1 received in deposits
- bank will thus not have sufficient reserves available for unexpected contingencies



# Session One: Deposits

## “Loans-to-Deposits Ratio”, *(cont.)*

### What’s an Ideal LDR?

- 80 – 90%, but it’s a balance
- if banks lend too much of their deposits, they might over-extend, particularly in periods of economic downturn
- if banks lend too few of their deposits, those deposits are sitting on balance sheets earning no income
- banks with *LOW LTD RATIOS* might have lower interest income resulting in lower earnings





# Session One: Deposits

## “Loans-to-Deposits Ratio”, *(cont.)*

### Calculation Example

Bank has \$500 million in deposits

Bank has \$400 million in loans

LDR would be calculated by dividing the total loans by total deposits

$$\text{LDR} = \frac{\$400 \text{ million}}{\$500 \text{ million}} = .8 = 80\%$$



# Session One: Deposits

## “Loans-to-Deposits Ratio”, *(cont.)*

### Limitations:

- does not measure quality of a bank's loans
- does not reflect number of loans that are past due or in default

### Usage:

- as with all financial ratios, LDR is most effective when compared to banks of same size and characteristics



## Session One: Intro to Banking

# Loan Mix (Concentrations) and Factors

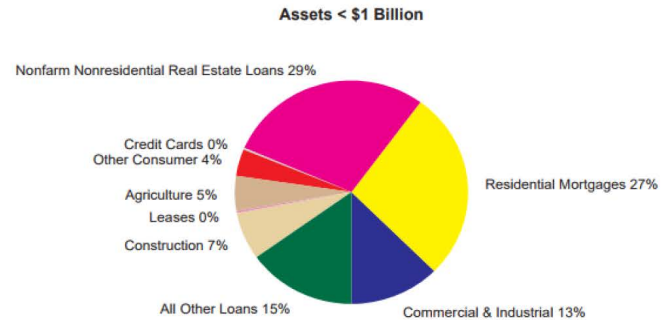


# Session One: Loan Mix: Charts are dated 2017 Percentages are similar in 2018-2019

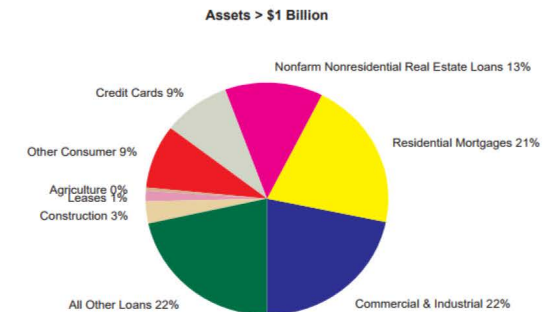
## Loan Portfolio Composition by Asset Size

June 30, 2017

### Small Institutions



### Larger Institutions



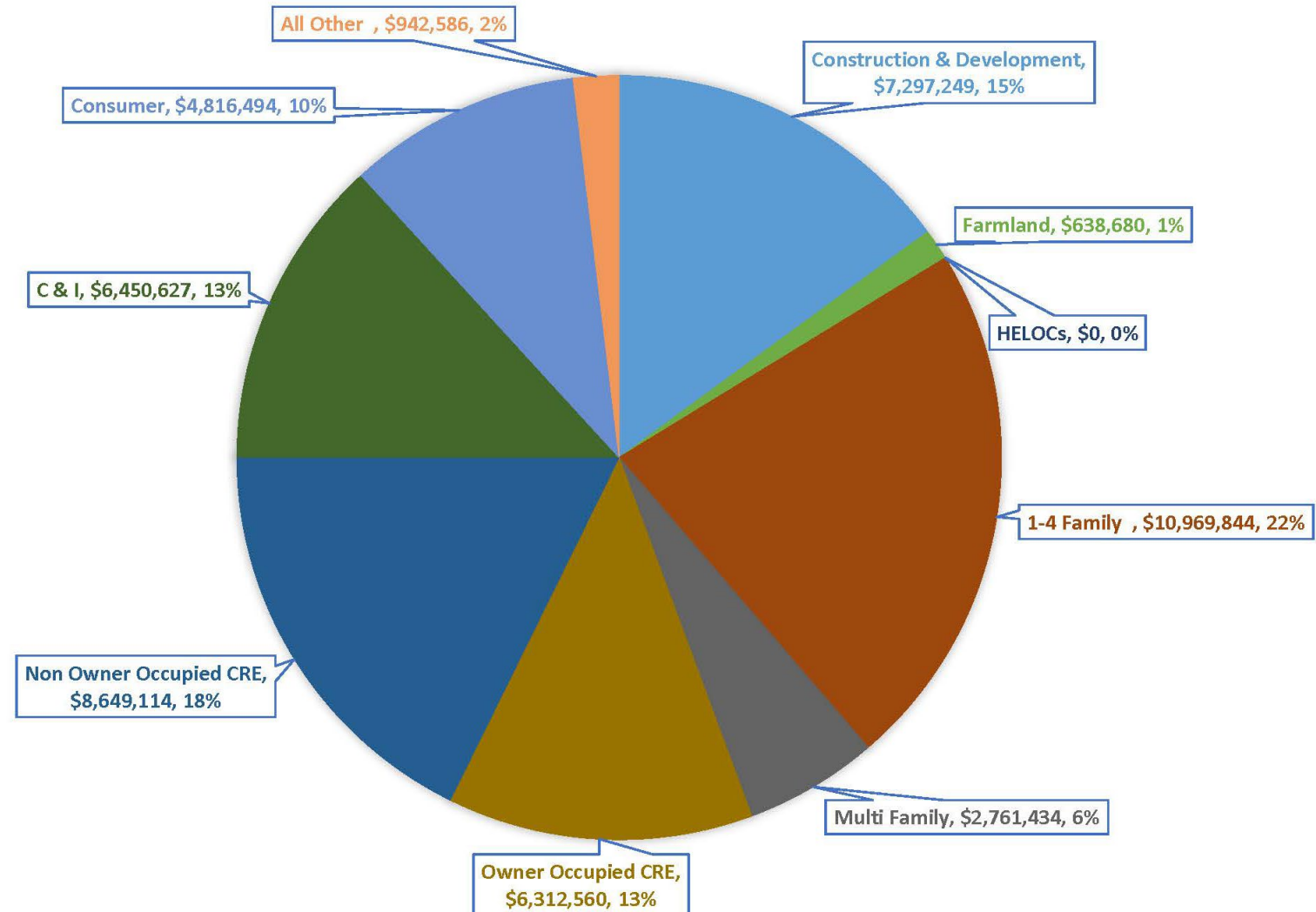
**63%** Loans Tied To Real Estate **37%**

Source—FDIC



# Session One: Loan Mix:

ALL LOANS 6/9/2021





# Session One: Intro to Banking

## Session Topics



# Session One: Intro to Banking

## Additional Session Topics

- **10 Key Ratios**
- **CAMELS Rating System**
- **Risk Management and Risk Oversight**
  - Regulatory Speech
  - Regulatory Enforcement Actions
- **Other Topics:**
  - SCALE
  - A Community Bank < \$1 billion
  - DEI
  - ESG
  - LEADERSHIP



# Session One: Intro to Banking

## **10 Key Ratios** which warrant **Special Quarterly Performance Focus**

- **Return on Average Tangible Common Equity (ROE)**
- **Return on Average Assets (ROA)**
- **Net Non-Interest Expense/Avg Assets**  
(non-interest expense less non-interest income)
- **Net Interest Margin**
- **Cost of Funds**

*Note: a more detailed overview of 'financial ratios' will occur during Michelle Austin's "ALCO in 90 Minutes" presentation*





# Session One: Intro to Banking

## *10 Key Ratios* which warrant Special Quarterly Performance Focus

- **Core (non-CD) Deposits/Total Deposits**
- **Loans/Deposits**
- **Tangible Common Equity/Tangible Assets**  
(non-interest expense less non-interest income)
- **Loan Growth**
- **Non-Performing Assets/Total Assets**



# CAMELS Rating System



# CAMELS Rating System

- **Supervisory rating system developed to classify a bank's overall condition**
- **Applies to every bank and credit union in US**
- **Ratings assigned based on ratio analysis of financial statements, combined with on-site examinations via designated supervisory regulator**
  - Federal Reserve Bank (FRB)
  - Federal Deposit Insurance Corporation (FDIC)
  - Office of the Comptroller of the Currency (OCC)
  - National Credit Union Administration (NCUA)
  - Farm Credit Administration (FCA)
  - State Banking Commissioner Offices
- **Ratings are not public but are conveyed to executive management/board**



# CAMELS Rating System

- **Components of a bank's condition that are assessed**
  - C: Capital Adequacy**
  - A: Asset Quality**
  - M: Management (including Board of Directors)**
  - E: Earnings**
  - L: Liquidity (aka asset liability management)**
  - S: Sensitivity (to market risk, especially interest rate risk)**
- **Ratings are given from 1 (best) to 5 (worst) in each category**
- **For details/very specific information:**
  - [www.fdic.gov/regulations/safety/manual/](http://www.fdic.gov/regulations/safety/manual/)
  - FDIC's "Risk Management Manual of Examination Policies"



# CAMELS Rating System Sample Community Bank 2017

## SUMMARY

The overall financial condition continues to exhibit **improving trends**. However, **asset quality** remains less than satisfactory primarily due to an elevated but declining level of adversely classified loans, an increase in the severity of classifications, and continuing credit administration and loan underwriting concerns. **Management and Board performance remains less than satisfactory, despite efforts to improve asset quality and the overall financial condition of the bank.** Capital levels continue to improve, the favorable earnings performance, which contributes to satisfactory capital adequacy. Both areas should be able to sufficiently mitigate asset quality concerns provided favorable trends in key asset quality metrics continue. Liquidity and funds management practices remain adequate for the size and complexity of the institution. Sensitivity to market risk is adequately controlled with only minimal potential that the financial condition of the institution will be adversely affected. Concurrent Information Technology (IT) and Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) reviews produced satisfactory ratings. However, the IT examination noted the Support and Delivery area to be less than satisfactory. The most recent Compliance and community Reinvestment Act (CRA) exams revealed satisfactory programs.

Examination Conclusions and Comments			
Uniform Financial Institutions Rating System			
	Current Exam	Prior Exam	Prior Exam
Examination Date	03/20/2017 / J	02/22/2016 / J	01/05/2015 / J
Examination As Of Date	12/31/2016 / J	12/31/2015 / J	12/31/2014 / J
Composite Rating	3	3	4
Component Ratings			
Capital	2	2	3
Asset Quality	3	3	4
Management	3	3	4
Earnings	2	2	3
Liquidity	2	2	2
Sensitivity to Market Risk	2	2	2
Information Technology	2	2	
Compliance <sup>1</sup>	2		
Community Reinvestment Act <sup>1</sup>	S		
Examination dated 05/11/2015			



# CAMELS Rating System

## **“Current *KEY REGULATORY HOT BUTTONS*”**

**Sept, 2019**

(Based on Andy’s interaction with federal and state regulators and via recent regulatory publications)

- **RISK – CYBER RISK**

- highest risk concern of federal and SE state regulators right now
- highly recommended that banks use FFIEC Risk Assessment Tool (Boards/Management)
- FFIEC tool is ‘approaching being made mandatory’ by regulators
- FDIC says – challenge for community banks – find talent that is both CYBER and BANKING experienced
- FRB wants banks to have plan in place to communicate breaches with board, regulators, law enforcement
- impacts RISK PROFILE and “M” of CAMELS rating

- **BSA/AML and All Compliance Areas**



# CAMELS Rating System

## **“Current *KEY REGULATORY HOT BUTTONS*” - (cont.)**

- **RISK – CREDIT RISK**

- has risen in importance since 2012, when bankers were in post-financial crisis recovery mode and exercising considerable caution in their lending... AND when loan demand was soft
- because asset quality metrics are lagging indicators of performance, some loans regulators are analyzing today are to customers who would simply not have qualified 3, 4, 5 years ago
- moreover, many banks have made conscious decisions to increase their risk appetite and take on additional credit risk... regulators now see signs of credit risk in – (1) relaxed credit underwriting and in (2) increased loan concentrations

- **RISK – INTEREST RATE RISK**

- generally ALCO modeling is seen as OK but often community banks not showing sufficient risk based modeling/scenarios and assumptions to document actions



# CAMELS Rating System

## **“Current *KEY REGULATORY HOT BUTTONS*”, (cont.)**

- **CORPORATE GOVERNANCE FOCUS AREAS**

- expertise of boards
- quality and detail of reports being presented by management to boards
- succession planning: regulators looking BEYOND plans for CEO to all boards and management

- **ALL AREAS OF REGULATION O**

- this FRB regulation places limits and stipulations on loans member banks can offer to executive officers, principal shareholders and directors
- any/all insider transactions
- quality and sufficient detail of board meeting minutes

(best way to evaluate board's engagement .. and...regulators are asking for more and more documentation which is different from advise bankers often receive from their legal counsel; not so much interested in seeing verbatim discussion or transcripts... just sufficient detail to show proper level of discussion and engagement that cannot be seen in regular material in board meeting binders).





## Session One: Risk Management

# Risk Management and *Risk Oversight*



# Session One: Risk Management

**Banking is about the  
identification, management  
and oversight of RISK**

**Bankers MANAGE RISK**

**Bank directors provide  
RISK OVERSIGHT**



# Session One: Risk Management

## 8 Risk Categories Identified by Federal/State Regulators

- **Strategic Risk**
- Credit Risk
- Interest Rate Risk
- Liquidity Risk
- Pricing Risk
- Regulatory/Compliance Risk
- Operational Risk (including cyber/IT)
- Reputation Risk



# Session One: Risk Management

## STRATEGIC RISK

- The baseline risk among which all other risk categories are built.
- Is the risk to current/anticipated earnings, capital, franchise value arising from *adverse business decisions, improper implementation of decisions, or lack of responsiveness to changes.*
- *Is directly addressed via a bank's formal, written strategic business plan, which should be reviewed/critiqued monthly by management and quarterly by board.*
  - *to assess existing strategic risk AND whether Bank has the TALENT and operating systems to mitigate areas of strategic risk.*



# Session One: Risk Management

**At the beginning of each business day...  
and  
at the end of each business day...**

**the  
management and mitigation (oversight)  
of all areas of**

**RISK  
are 100% dependent upon:**

**TALENT  
(management and board of directors)**



# Session One: Risk Management

And let's add  
additional

**“BUSINESS RISK” Category**

affecting Corporate America

**“Disruptive Risks”**

(for Banking, tied to Strategic and Operational Risk)



# Session One: Risk Management

From: NACD, "An Animal Kingdom of Disruptive Risks"  
January, 2019

**From time to time  
Discuss Potential**

## **"Disruptive Risks"**

- **Black Swans**

- Events that are highly improbable, difficult to predict, have massive impact, and occur more often than one might think (example: 2008 financial crisis).
- While we tend to view black swans as threats whose damage can be at best mitigated, they can also be great opportunities whose rewards disproportionately flow to the well-prepared.



# Session One: Risk Management

From: NACD, "An Animal Kingdom of Disruptive Risks"  
January, 2019

**From time to time  
Discuss Potential**

## **"Disruptive Risks", *(cont.)***

- **Gray Rhinos**

- **Probably, high-impact trends that are clearly observable but often ignored.**
- **Also called 'known unknowns'**
  - we know these emerging trends could have massive impact, but we don't know how to react appropriately  
(examples: disruptive technologies: rise of Netflix, demise of Blockbuster)





# Session One: Risk Management

From: NACD, "An Animal Kingdom of Disruptive Risks"  
January, 2019

**From time to time  
Discuss Potential**

## **"Disruptive Risks", *(cont.)***

- **White Elephants**
  - **Existential risks that are difficult to address.**
  - **They are no-win situations fraught with subjectivity, emotions and loyalties.**
    - (examples: a money-losing business favored by the CEO: Telsa)
    - (example: sexual harassment cases that ushered in the #MeToo movement)



# Session One: Risk Management

## "Regulatory Speech"

### "Regulations"

- banks are expected to comply, and noncompliance is *enforceable*.

### "Guidance"

- banks are expected to comply, but guidance is *not enforceable*.

### "Best Practices"

- are procedures and approaches certain banks use
- they may represent strong ways to meet a particular challenge
- performing them is not a regulatory expectation (so say some regulators)
- regulators are frequently asked about 'best practices' by bankers
- regulators *state they don't examine for best practices*

from: [www.ababj.com](http://www.ababj.com) (American Bankers Association Banking Journal), April 17, 2014  
"FDIC Officials Tackle Bank Concerns" by Steve Cocheo



# Session One: Risk Management

## Regulatory Enforcement Actions (Definitions)

From: "Banc Investment Daily", Steve Brown and PCBB, November 28, 2011  
(confirmed by Andy Davies via discussions with regulators of FDIC, FRB, OCC), (cont.)

### **INFORMAL ENFORCEMENT ACTIONS:**

*When regulators view a bank's overall condition as sound, but feel it is necessary to obtain written commitments from board to make sure identified problems will be promptly corrected;*

These actions are explicit in nature and while not a legally binding document, the failure to honor the commitment most often leads to a formal action; information actions include the following:

- **commitment letters** (document signed by board reflecting specific written commitments to take corrective actions);
- **memoranda of understanding** (MOU) (in form and content looks like a formal enforcement action);
- **safety and soundness plans** (a description of the steps bank will take to correct deficiencies and the time within which these steps are to be taken).

### **FORMAL ENFORCEMENT ACTIONS:**

*Authorized by statute, are more severe, are publicly disclosed and include the following (ranked in terms of severity from most to least):*

- **consent orders** (an order to cease and desist that outlines restrictions and remedial measures the bank must take to correct deficiencies or violations);



# Session One: Risk Management

From: "Banc Investment Daily", Steve Brown and PCBB, November 28, 2011  
(confirmed by Andy Davies via discussions with regulators of FDIC, FRB, OCC), (cont.)

- **cease & desist orders** (identical in form and legal effect to the consent order but imposed on an involuntary basis after issuance of charges and a hearing before a judge);  
*(the first two examples above give regulators the power to restrict the growth of the bank, dispose of assets and prohibit payments on contracts the bank has with others)*
- **formal written agreement** (as with consent order and C&D) this document sets out and specifically indicates restrictions and measures the bank needs to take to correct deficiencies or violations; it is a legally recognized document but unlike the consent order and the C&D, it is not enforceable through federal court system; in addition, while willful violation of a consent order or C&D can be used to appoint a receiver, the formal agreement may not);
- **prompt corrective action (PCA)** subjects bank to mandatory restrictions based on bank's capital category and gives a time line to comply; has same force and effect as C&D, and when banks are undercapitalized or worse, are often used in anticipation of an early resolution;  
*(violations of a consent or other order are used to provide the legal basis for assessing civil money penalties against directors and officers; in addition, formal enforcement actions can require a bank to raise capital, sell itself, merge, restrict asset growth, make restitution, dispose of assets, rescind contracts or agreements, employ qualified officers or even liquidate).*



## Session One: Intro to Banking

# SCALE



# Session One: Scale

## Why is “SCALE” so important in banking today?

- In many cases, you must grow to survive
- You **GROW** via laser focus on a **DUAL STRATEGY**
  - *organic growth with long term and annual goals*
  - *as you remain vigilant if other opportunities arise*
- Achieving **SCALE** is achieved via ORGANIC GROWTH or AQUISITION or MERGER OF EQUALS or SALE.
- Simply getting bigger doesn't improve shareholder value; Getting bigger unlocks economics of scale that drive greater profitability.



# Session One: Scale

## Achieving “SCALE” is important because:

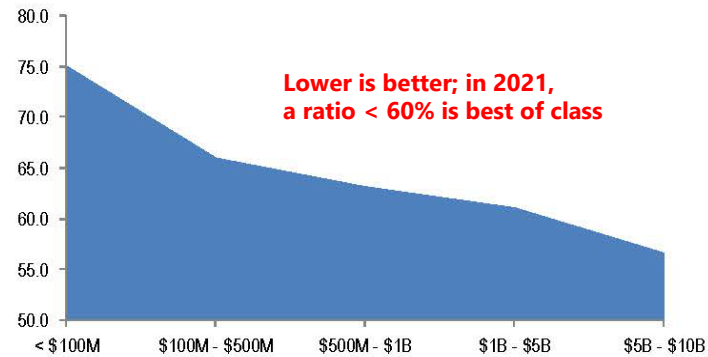
- provides ability to spread costs over more customers/assets
- improves profitability (ROE, ROA)
- often leads to higher stock valuation (price/BV)
- provides higher legal lending limit
- helps in competition for “A” level talent
- provides needed investments in IT/People without adversely impacting earnings



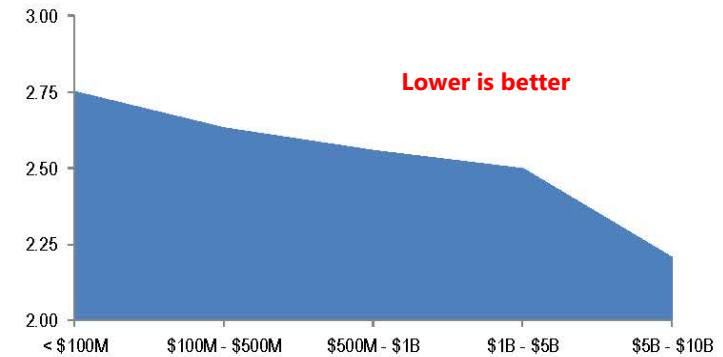
# Session One: Intro to Banking

## *Economies of Scale*

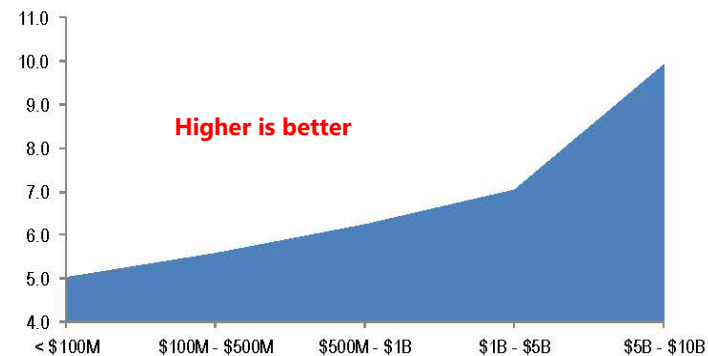
Efficiency Ratio (%)



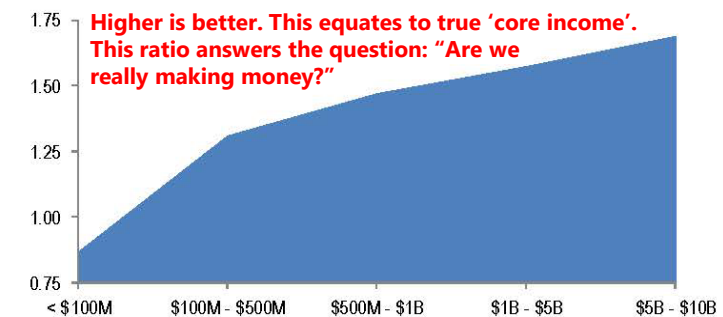
Noninterest Expense / Avg Assets (%)



Assets/ Employees (\$MM)



Pre-Tax Pre-LLP Income/ Avg Assets (%)



Source: S&P Global Market Intelligence





## Session One: Intro to Banking

**Pause Here  
For  
Questions/Comments**



## Session One: Intro to Banking

# A Community Bank of ANY Assets Size



# A Community Bank < \$1 Billion As A Strong Viable Business Model Must Have These Attributes

## FIRST & FOREMOST:

- **SUPERIOR LEADERSHIP TALENT ACROSS ALL LINES OF BUSINESS**

- within a sales culture in which all members of management act as a strong, unified team
- composed of individuals who each have ***strong communication and problem-solving skills***
- with a clear understanding of what needs to be done ***differently*** and ***quickly*** to remain viable,
- maintaining proper balance between what bank ***needs to do*** vs. what bank ***can afford to do***

## SECOND:

- **A 'Dual Growth Strategy' Carefully Crafted to Achieve Sufficient Operating 'Scale'**

- that is well conceived/conveyed in a written document covering a 3-year forward period
- with strategic 2-3 year long term goals and short term annual goals
- offering a unique/attractive 'niche' focus that distinguishes the bank from competitors
- that has operational and sales-focused excellence with means to grow target customers who value 'personalized relationship-focused banking.'



# A Community Bank < \$1 Billion As A Strong Viable Business Model Must Have These Attributes

- Strong and consistent core earnings
- Ability to attract 'next generation' of lenders, managers, directors
- Strong capital position and sound credit quality
- High % of footprint in markets with real growth potential
- Specific retail 'branch rationalization' program
- Prudent risk management/risk oversight process
- Key financial ratios that position bank within Top 25% of custom peer group  
(*ability within 3 yrs. to achieve high single digit EPS, ROAA of 1% and ROAE > 10%*)
- Disciplined expense control
- Respect of state/federal regulators and investment banking community



# Session One: Intro to Banking

**DEI**



# Session One: Intro to Banking

## What is "DEI"?

Source: [www.inclusionhub.com](http://www.inclusionhub.com) November 6, 2020

### ***DEI stands for Diversity, Equity and Inclusion***

and encompasses the symbiotic relationship, philosophy and culture of acknowledging, embracing, supporting and accepting those of all racial, sexual, gender, religious and socioeconomic backgrounds, among other differentiators.

### **DIVERSITY:**

Acknowledges all the ways people differ: race, sex, gender, age, sexual orientation, disability, socioeconomic status, religious beliefs and more.

### **EQUITY:**

Is often used interchangeably with equality, but there is a core difference: Where equality is a system in which each individual is offered the same opportunities regardless of circumstance, equity distributes resources based on needs.

We live in a disproportionate society, and equity tries to correct its imbalance by creating more opportunities for people who have historically had less success.

### **INCLUSION:**

Is about diversity in practice. It's the act of welcoming, supporting, respecting and valuing all individuals and groups.



# Session One: Intro to Banking

## **"Financial Institutions of ALL SIZES Increase DEI Efforts"**

from: *"BID Daily"*, Pacific Coast Bankers Bank, 8/4/21

**While community banks may not have the same big budgets as big and regional banks, many are equally committed to their own DEI initiatives.**

**There are many ways banks are committing to DEI.  
Creatively working together on measures that work for a bank  
and your diverse communities will help find the best ways  
to make the biggest impacts.**



# Session One: Intro to Banking

## "Financial Institutions of ALL SIZES Increase DEI Efforts"

from: "*BID Daily*", Pacific Coast Bankers Bank, 8/4/21, (cont.)

**\$8b NC community bank set internal DEI goals with aim of creating equal advancement opportunities for employees across its entire organization, from interns and new hires to its board.**

### **To do that, the institution has:**

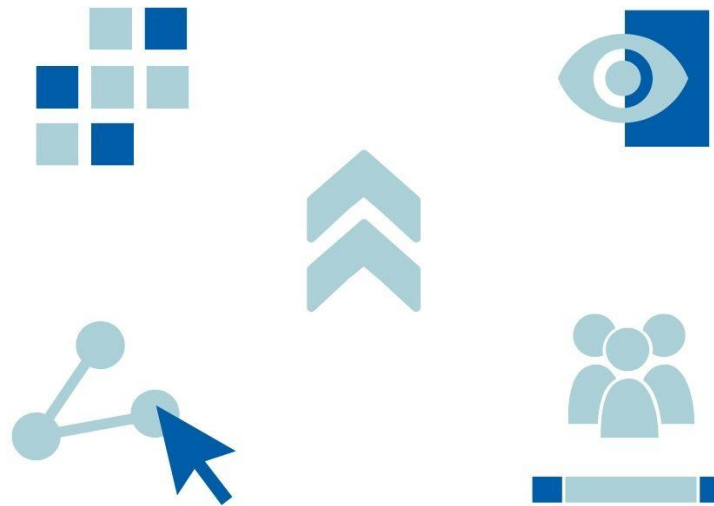
- created a DEI committee
- been holding forums on race relations
- started affinity groups
- established team to focus on ways the bank can help underserved communities
- created small business center focused on
- helping minority & female-owned small businesses succeed





# Session One: Intro to Banking

## VBA DIVERSITY, EQUITY & INCLUSION EFFORTS AND ADDITIONAL RESOURCES



CONTACT CHANDLER OWDOM AT  
[COWDOM@VABANKERS.ORG](mailto:COWDOM@VABANKERS.ORG) FOR MORE  
INFORMATION ON ANY OF THESE INITIATIVES.



# Session One: Intro to Banking

## "VBA's DEI Efforts"

As part of the VBA's 2019-2021 Strategic Plan, the VBA created the goal of developing recommendations for how VBA can assist members in building a more diverse future leadership.

(As part of this process)

The VBA created a

**"Diversity, Equity and Inclusion Council"**

in 2019

to help guide the creation of DEI initiatives and programming for member banks.

The Council, made up of 24 member bankers, is a key driver of the VBA's DEI efforts.

Since 2019, the Council has met six times and will continue to meet and be a sounding board as the VBA works to support member banks in their DEI efforts.



# Session One: Intro to Banking

# ESG



# Session One: Intro to Banking

## What is "ESG"?

Source: [www.marketbusinessnews.com](http://www.marketbusinessnews.com) June 5, 2021

### **ESG stands for Environmental, Social and Governance**

and refers to the 3 key factors when measuring the sustainability and ethical impact of an investment in a company. Most socially responsible investors check companies out using ESG criteria to screen investments.

"ESG" is a generic term used by investors to evaluate the behavior of companies, as well as determining future investment performance.

"ESG" factors are a subset of non-financial performance indicators which include ethical, sustainable and corporate government issues such as making sure there are systems in place to ensure accountability and managing a company's carbon footprint.

The number of investment funds that incorporate "ESG" factors has been growing rapidly since the beginning of the decade.

Experts say that what constitutes an appropriate set of "ESG" criteria is subjective; it depends on an individual's priorities.



# Session One: Intro to Banking

## What is "ESG"?

Source: [www.marketbusinessnews.com](http://www.marketbusinessnews.com) June 5, 2021

### Environmental

- Waste and pollution
- Resource depletion
- Greenhouse gas emission
- Deforestation
- Climate change

### Social

- Employee relations and diversity
- Working conditions
- Local communities
- Health and safety
- Conflict

### Governance

- Tax strategy
- Executive remuneration
- Donations and political lobbying
- Corruption and bribery
- Board diversity and structure



## Session One: Leadership

# Leadership



## Session One: Leadership

# LEADERSHIP

Leadership is about 3 simple things:

**#1 Get Better**

**#2 Help Others**

**#3 Get Better at**

**Helping Others Get Better**

Quote from Penning Pennington, Principal  
Edward Jones, St. Louis

As quoted in *NASHVILLE BUSINESS JOURNAL*, April 1, 2016



# Session One: Leadership

## 5 Leadership Lessons From Super Bowl Coaches

Dale Buss, [www.chiefexecutive.net](http://www.chiefexecutive.net)

January 29, 2016

- **Have faith in your best people.**
- **Find a great mentor.**
- **Get back up.**
- **Have patience when you see potential.**
- **Create a leadership mission.**
- **Be a leader you would follow.**
- **As leader, it is not always about being in front.**
- **Delegate the authority, not the standard. You must set the standard.**
- **Hold everyone to that standard, especially yourself.**
- **Remember, at the end of the day, you are responsible for the standard.**





# Session One: Leadership

## Good Advice

### "4 Qualities All Successful Leaders Have in Common"

from: [www.chiefexecutive.net](http://www.chiefexecutive.net)

Terry Gallagher

May 19, 2016

- **They acknowledge the contributions of others, and they want to return the favor.**
  - *an individual's success is tied to the contribution of others*
- **They do what they love, and they encourage others to do the same.**
  - *successful leaders really do follow their passion*
  - *"my advice for any young person is to determine what you enjoy; it's important to go beyond the paycheck. Where do your passions lie? What will spur you to bring the most energy to your job every day? When you can answer these questions, you'll be able to define what success means to you and how you can best achieve it." Alan McKim, Chairman, Clean Harbors*



# Session One: Leadership

## Good Advice, *(cont.)*

### "4 Qualities All Successful Leaders Have in Common"

from: [www.chiefexecutive.net](http://www.chiefexecutive.net)

Terry Gallagher

May 19, 2016

- **Their definition of success has evolved with their leadership.**
  - *they re-evaluate/revise their metrics for success throughout their career*
  - *it moves from 'me and my success' to 'the people in my company'*
- **They are committed to intellectual curiosity.**
  - *a drive to learn, to improve and never become comfortable*
  - *self-development is key; they never give up learning*
  - *you never know where your greatest lesson will come from*



# **Session One: Intro to Banking**

## **Leadership Article**

**To Members of the MDP Class of 2021-2022**

**From Andy Davies**

## **“Leadership Article”**

**that I hope is of interest to you**

**“The 21 Indispensable Qualities of a Leader”**



# Session One: Intro to Banking Leadership Article

From: "The 21 Indispensable Qualities of a Leader"  
John C. Maxwell, 2007, American author and speaker

## "The 21 Indispensable Qualities of a Leader"

\*\*\*\*\*

**For Members of the 2021-2022 Class of the VBA Management Development Program**

From Andy Davies

Opinion : These qualities are as relevant in 2021 as when written in 2007

***To help you be the kind of leader people want to follow:***

*(qualities underlined and in all caps are highlighted by Andy)*

### **CHARACTER:**

- how you deal with the circumstances of life
- character is a **CHOICE**

### **CHARISMA:**

- ability to draw people to you
- **be more concerned about making others feel good about themselves than you are making them feel good about you**
- give people hope
- put a "10" on every person's head



# Session One: Intro to Banking Leadership Article

From: "*The 21 Indispensable Qualities of a Leader*"

John C. Maxwell, 2007, American author and speaker, (cont.)

## **COMMITMENT:**

- separates doers from dreamers
- starts in the heart and is tested by action
- **OPENS THE DOOR** to achievement

## **COMMUNICATION:**

- share knowledge and ideas to transmit a **SENSE OF URGENCY** and enthusiasm to others
- **SIMPLIFY** the message; **SEE** the person; **SHOW** the truth; **SEEK** a response
- **BE CLEAR AS A BELL**
- live your message

## **COMPETENCE:**

- It's the leader's ability to say it, plan it and **DO IT** in such a way that **OTHERS KNOW** that you know how ... and know that **THEY** want to **FOLLOW YOU**
- keep **IMPROVING**
- **FOLLOW THROUGH with EXCELLENCE**
- **ACCOMPLISH MORE THAN EXPECTED**
- **INSPIRE OTHERS**



# Session One: Intro to Banking Leadership Article

From: "*The 21 Indispensable Qualities of a Leader*"

John C. Maxwell, 2007, American author and speaker, (cont.).

## **COURAGE:**

- begins with an inward battle
- is about making things right and not just smoothing them over
- inspires **COMMITMENT** from followers

## **DISCERNMENT:**

- **DISCOVER ROOT ISSUES**
- enhance your problem solving
- evaluate options for maximum impact
- multiply your opportunities
- **ANALYZE PAST SUCCESSES**
- **LISTEN TO YOUR GUT**

## **FOCUS:**

- **THE SHARPER IT IS, THE SHARPER YOU ARE**
- focus 70% on strengths
- focus 25% on new things (growth= change)
- focus 5% on weaknesses (and delegate these)



# Session One: Intro to Banking Leadership Article

From: "*The 21 Indispensable Qualities of a Leader*"

John C. Maxwell, 2007, American author and speaker, (cont.)

## **GENEROSITY:**

- giving is the highest level of living
- be grateful for whatever you have
- **PUT PEOPLE FIRST**
- develop the habit of giving
- **FIND SOMEONE TO MENTOR**

## **INITIATIVE:**

- know what you want
- **PUSH YOURSELF TO ACT**
- take risks
- make mistakes

## **LISTENING:**

- **A GOOD LEADER ENCOURAGES FOLLOWERS TO TELL HIM/HER WHAT HE/SHE NEEDS TO KNOW.  
NOT WHAT HE/SHE WANTS TO HEAR**
- **MEET PEOPLE ON THEIR TURF**
- **LISTEN BETWEEN THE LINES**



# Session One: Intro to Banking Leadership Article

From: "*The 21 Indispensable Qualities of a Leader*"

John C. Maxwell, 2007, American author and speaker, (cont.)

## **PASSION:**

- **CONCENTRATE ON WHAT YOU DO WELL, AND DO IT BETTER THAN ANYBODY ELSE**
- is the first step to achievement
- increase your willpower
- changes you
- makes the impossible possible

## **POSITIVE ATTITUDE:**

- if you believe you can, you can

## **PROBLEM SOLVING:**

- you can't let your problems **BE** problems
- **ANTICIPATE PROBLEMS**
- accept the truth
- **SEE THE BIG PICTURE**
- handle one thing at a time
- **DON'T GIVE UP A MAJOR GOAL WHEN DOWN**





# Session One: Intro to Banking Leadership Article

From: "*The 21 Indispensable Qualities of a Leader*"

John C. Maxwell, 2007, American author and speaker, (cont.)

## **RELATIONSHIPS:**

- if you get along, they'll go along
- understand people
- love people
- help people

## **RESPONSIBILITY:**

- if you won't carry the ball, you can't lead the team
- get the job done
- go the extra mile
- **BE DRIVEN BY EXCELLENCE**
- produce, regardless of the situation

## **SECURITY:**

- **KNOW YOURSELF**
- give away the credit
- **GET HELP**



# Session One: Intro to Banking Leadership Article

From: "*The 21 Indispensable Qualities of a Leader*"

John C. Maxwell, 2007, American author and speaker, (cont.)

## **SELF-DISCIPLINE:**

- the first person you lead is **YOU**
- develop and follow your priorities
- **MAKE A DISCIPLINED LIFESTYLE YOUR GOAL**
- **CHALLENGE YOUR EXCUSES**
- **REMOVE REWARDS UNTIL THE JOB IS DONE**
- **STAY FOCUSED ON RESULTS**
- sort out your priorities
- **GET RID OF EXCUSES**

## **SERVANTHOOD:**

- **TO GET AHEAD, PUT OTHERS FIRST**
- put others ahead of your own agenda
- possess the confidence to serve
- serve out of love
- **PERFORM THE SMALL ACTS**
- learn to walk slowly through the crowd
- move into action



# Session One: Intro to Banking Leadership Article

From: "*The 21 Indispensable Qualities of a Leader*"

John C. Maxwell, 2007, American author and speaker, (cont.)

## **TEACHABILITY:**

- to keep leading, keep learning
- **OBSERVE HOW YOU REACT TO MISTAKES**
- try something new
- learn in your areas of strength

## **VISION:**

- you can seize only what you can see
- **THE FUTURE BELONGS TO THOSE WHO SEE POSSIBILITIES BEFORE THEY BECOME OBVIOUS**
- starts within
- draws on your history
- meets others' needs
- helps you gather resources
- use it to measure yourself
- write it down
- do a gut check



## **Session One: Intro to Banking** Leadership Article

**When You Have Time...  
Select Your Top 3  
From  
Maxwell's List !**



## Session One: Intro to Banking

# Open Discussion