



MANAGEMENT DEVELOPMENT PROGRAM

SESSION ONE: INTRO TO BANKING

Andy Davies

The Marathon Organization

October 11, 2022



ICE BREAKER

Words

**If you could have dinner
with three people dead or
alive, who would they be?**

Drawing

**What are you most proud of
(personal or professional)?**

Words & Drawing

Happiest childhood memory

Words or Drawing

Something unique about me



Session One: Intro to Banking

**Members of the 2022 – 2023 Class of the
VBA's Management Development Program
from Andy Davies
October, 2022**

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.



Session: Intro to Banking

"Our Pledge for a Circle of Trust"

**What is discussed in this room STAYS IN THIS ROOM.
No exceptions**

- **Keep an open mind and be prepared to learn:**
 - some content may not be new to you, but it may be discussed in a completely different context
 - the hope is that every topic we discuss as a group will help you IN SOME WAY
- **No phone use during sessions:**
 - you will have ample time on breaks to check messages
 - please don't force Andy to call-out violations of this common courtesy
- **Use MDP to 'expand your network' and 'develop relationships'**
 - Andy/Walt/Gail have watched this work 'wonders' over past 5 years!



Session One: Intro to Banking

Our MDP Leadership with the VBA

Walt Lyons

**Manager, Education and Training, VBA
Exec. Director, VA Mortgage Bankers Association**

Gail Queen

**Training and Education Coordinator, VBA
Event Registrar, VBA**



Disclosure: Andy's Experiences Impact His 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**

"A+ Accounting & ALCO"



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

MDP Stats Years 1-5

- **154 Graduates**
- **Of those, 23 have now graduated from VBASBM or are currently enrolled**
- **Current VBASBM: 9 MDP graduates currently enrolled (including 2023 Class President)**

MDP Stat for Year 6

2022-2023

- **Record in-person enrollment: 39**



Session One: Intro to Banking

Our Schedule, Session One

9:00 – 9:30 a.m.	Welcome and Ice Breaker	Walt Lyons
9:30 – 10:15 a.m.	Part One: Introduction to Banking	Andy Davies
10:15 – 10:30 a.m.	Break	
10:30 – Noon	Introduction to Banking, <i>(cont.)</i>	Andy Davies
Noon – 12:45 p.m.	Lunch	
12:45 – 2:15 p.m.	Part Two: A+ Accounting & ALCO	Michelle Austin
1:15 – 2:20 p.m.	Break	
2:30 – 4:30 p.m.	A+ Accounting & Alco, <i>(cont.)</i>	Michelle Austin
4:30 – 5:30 p.m.	Reception	



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."*



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



Session One: Intro to Banking

**Pause Here
For
Questions/Comments**



Session One: Peer Group

Creating a Peer Group

- Option: UBPR Report
- Option: Custom Peer Report



Session One: Peer Group

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



Session One: Peer Group

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).



Session One: Peer Group

9/24/22, 12:10 PM

Print UBPR Report - FFIEC Central Data Repository's Public Data Distribution

FDIC Certificate # 6128
OCC Charter # 0
Public Report

FRB District/ID_RSSD 5 / 353724
County: BOTETOURT

BANK OF FINCASTLE, THE; FINCASTLE, VA
Summary Ratios--Page 1

Summary Ratios
09/24/2022 12:09:25 AM

	06/30/2021			06/30/2020			12/31/2020			12/31/2019			12/31/2018		
	BANK	PG 6	PCT	BANK	PG 6	PCT	BANK	PG 6	PCT	BANK	PG 6	PCT	BANK	PG 6	PCT
Earnings and Profitability															
Percent of Average Assets:															
Interest Income (TE)	3.41	3.59	38	3.84	4.21	27	3.88	3.98	42	4.08	4.46	21	3.90	4.30	22
- Interest Expense	0.27	0.32	43	0.48	0.80	37	0.42	0.53	37	0.58	0.71	37	0.40	0.54	33
Net Interest Income (TE)	3.14	3.25	43	3.36	3.59	35	3.46	3.44	51	3.50	3.73	33	3.50	3.74	31
+ Noninterest Income	0.51	0.81	51	0.57	0.59	54	0.55	0.62	52	0.27	0.59	13	0.41	0.61	30
- Noninterest Expense	4.56	2.85	98	3.52	2.94	80	3.23	2.86	73	3.47	3.09	74	3.30	3.09	85
Pre-Provision Net Revenue (TE)	-0.90	1.28	0	0.42	1.30	9	0.77	1.26	18	0.30	1.30	4	0.61	1.32	10
- Provision: Loan & Lease Losses	0.00	0.06	39	0.13	0.15	52	0.10	0.13	47	-0.09	0.09	3	0.11	0.09	85
- Provision: Credit Loss Oth Assets	N/A	0.00	N/A	N/A	0.00	N/A	N/A	0.00	N/A	N/A	0.00	N/A	N/A	0.00	N/A
Pretax Operating Income (TE)	-0.90	1.21	0	0.29	1.13	10	0.67	1.11	21	0.39	1.19	8	0.50	1.22	8
+ Realized Gains/Losses Sec	0.00	0.01	74	0.00	0.02	80	0.00	0.02	53	0.00	0.01	61	0.00	0.00	83
+ Unrealized Gains / Losses Equity Sec	0.00	0.00	90	0.00	0.00	93	0.00	0.00	93	N/A	0.01	N/A	N/A	0.00	N/A
Pretax Net Operating Income (TE)	-0.90	1.23	0	0.29	1.17	8	0.67	1.15	18	0.39	1.21	7	0.50	1.22	9
Net Operating Income	-0.75	1.04	0	0.26	1.00	9	0.55	0.97	19	0.99	1.04	49	0.43	1.04	9
Adjusted Net Operating Income	-0.68	1.09	0	0.60	1.12	17	0.80	1.07	30	0.84	1.07	34	0.29	1.08	5
Net Inc Attrib to Min Ints	0.00	0.00	99	0.00	0.00	98	0.00	0.00	98	0.00	0.00	99	0.00	0.00	99
Net Income Adjusted Sub S	-0.75	0.96	0	0.26	0.91	9	0.55	0.89	20	0.99	0.95	54	0.43	0.96	9
Net Income	-0.75	1.04	0	0.26	0.99	9	0.55	0.97	19	0.99	1.04	49	0.43	1.04	9
Margin Analysis:															
Avg Earning Assets to Avg Assets	93.78	94.19	38	92.10	93.94	24	92.62	93.93	28	91.36	94.18	14	90.42	94.21	8
Avg Int-Bearing Funds to Avg Assets	52.76	64.85	11	54.32	66.92	10	53.81	66.43	9	57.85	68.39	12	56.75	69.21	8
Int Inc (TE) to Avg Earn Assets	3.64	3.82	39	4.17	4.49	31	4.18	4.25	43	4.46	4.74	30	4.31	4.57	32
Int Expense to Avg Earn Assets	0.29	0.34	44	0.52	0.64	39	0.45	0.56	38	0.63	0.76	40	0.44	0.58	35
Net Int Inc-TE to Avg Earn Assets	3.35	3.47	43	3.65	3.83	38	3.73	3.67	54	3.83	3.96	40	3.87	3.98	42
Loan & Lease Analysis:															
Net Loss to Average Total LN&LS	-0.09	0.02	8	-0.28	0.04	1	-0.18	0.06	3	0.08	0.07	66	0.35	0.06	92
Earnings Coverage of Net Losses (X)	N/A	103.76	N/A	N/A	95.26	N/A	N/A	82.28	N/A	5.05	71.16	14	2.42	74.46	4
LN&LS Allowance to LN&LS Not HFS	1.57	1.30	76	1.31	1.20	66	1.47	1.28	71	1.38	1.21	70	1.77	1.23	91
LN&LS Allowance to Net Losses (X)	N/A	72.89	N/A	N/A	55.16	N/A	N/A	53.47	N/A	18.35	42.20	54	5.24	47.93	18
LN&LS Allowance to Total LN&LS	1.56	1.29	75	1.31	1.19	66	1.47	1.28	72	1.38	1.21	70	1.76	1.22	91
Total LN&LS-90+ Days Past Due	0.00	0.04	61	0.00	0.07	55	0.00	0.05	56	0.00	0.06	53	0.00	0.06	54
-Nonaccrual	0.51	0.49	66	0.62	0.59	62	0.59	0.54	62	0.74	0.58	66	2.00	0.61	90
-Total	0.51	0.58	60	0.62	0.71	57	0.59	0.62	59	0.74	0.68	62	2.00	0.72	87
Liquidity															
Net Non Core Fund Dep New \$250M	-20.33	-12.56	28	-2.49	-5.22	56	-8.20	-9.97	51	-10.67	-1.60	19	-10.93	1.00	16
Net Loans & Leases to Assets	71.98	57.86	85	82.03	65.62	94	77.86	61.57	90	76.01	67.76	72	72.13	69.01	55
Capitalization															
Leverage Ratio	10.0498	10.02	55	10.5940	10.39	60	10.8382	10.16	67	11.7177	10.94	68	11.8909	10.78	74
Total Capital Ratio	17.9532	17.65	62	16.2618	16.52	56	16.7492	16.87	58	16.1590	16.70	53	16.1700	16.36	56
Cash Dividends to Net Income	0.00	27.04	35	0.00	30.72	33	0.00	38.45	19	0.00	39.70	18	0.00	35.37	21
Retained Earnings to Avg Total Equity	-6.70	6.52	2	2.12	5.30	23	4.69	5.03	50	8.08	4.75	83	3.53	5.47	28
Rest+Nonac+RE Acq to Eqcap+ALLL	9.12	4.70	77	12.98	6.32	81	10.59	5.47	79	17.30	6.62	88	25.37	7.87	91
Growth Rates															
Total Assets	5.62	11.62	20	15.45	16.13	52	15.66	16.49	49	6.85	5.70	66	3.20	4.18	50
Tier 1 Capital	3.51	7.33	25	5.65	5.92	51	7.91	6.43	66	5.12	5.74	45	4.00	6.68	29
Net Loans & Leases	-7.31	-0.42	20	33.94	12.70	89	18.47	7.25	86	12.59	5.39	83	6.22	6.58	65
Short Term Investments	340.63	33.89	98	-67.40	95.74	0	-3.89	92.98	18	6.21	45.80	40	409.72	16.12	97
Short Term Non Core Funding	56.63	-5.26	85	34.82	38.62	57	1.62	16.55	49	74.71	14.80	83	-6.44	16.14	38
Average Total Assets		267,323			235,681			246,842			215,411			202,575	
Total Equity Capital		29,214			29,000			29,996			28,180			25,326	
Net Income		-1,003			303			1,363			2,129			876	
Number of banks in Peer Group		318			373			343			429			483	



Session One: Peer Group

CUSTOM “Peer” Group



Session One: 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)



Session One: 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?



Session One: 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*

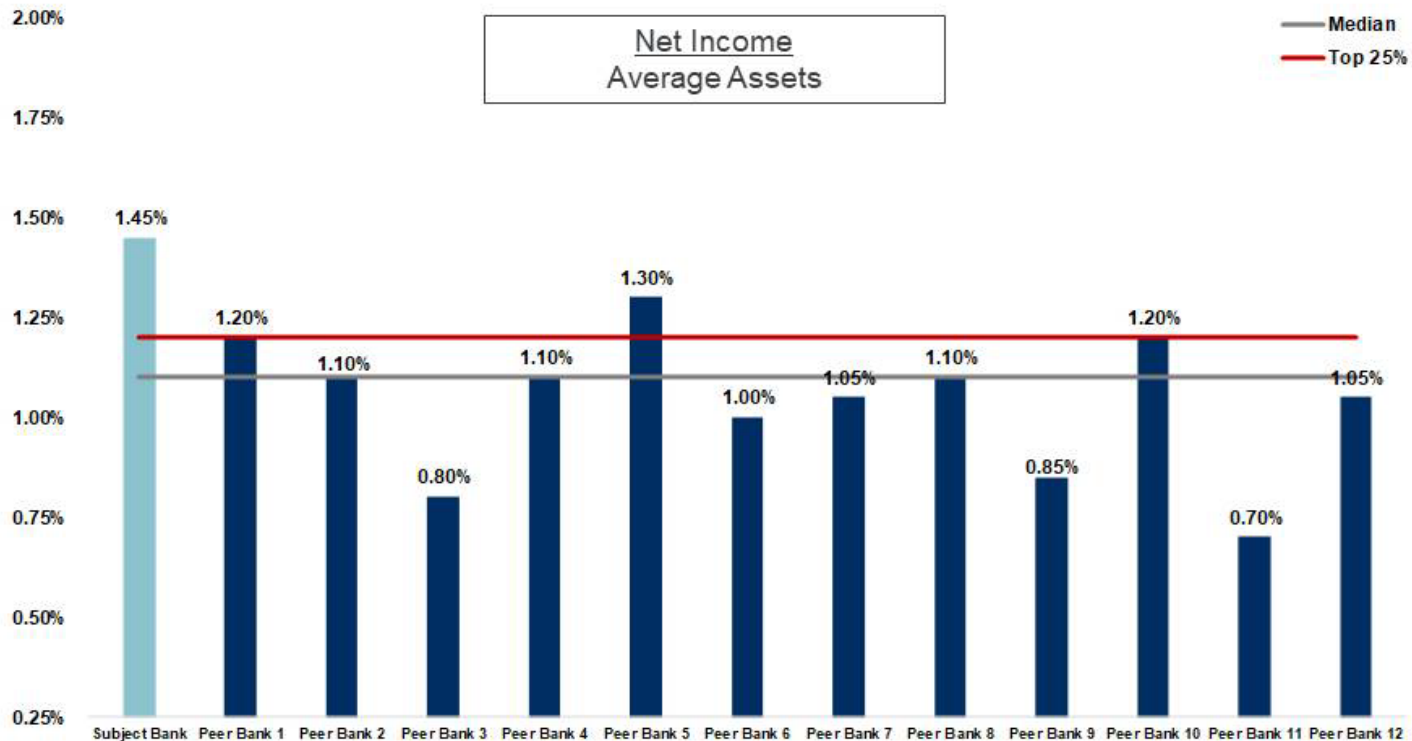


Session One: Peer Group: Sample Comparison Using ROA: Comparing Subject Bank to 12 Peers

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*





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: Deposits

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, (cont.)

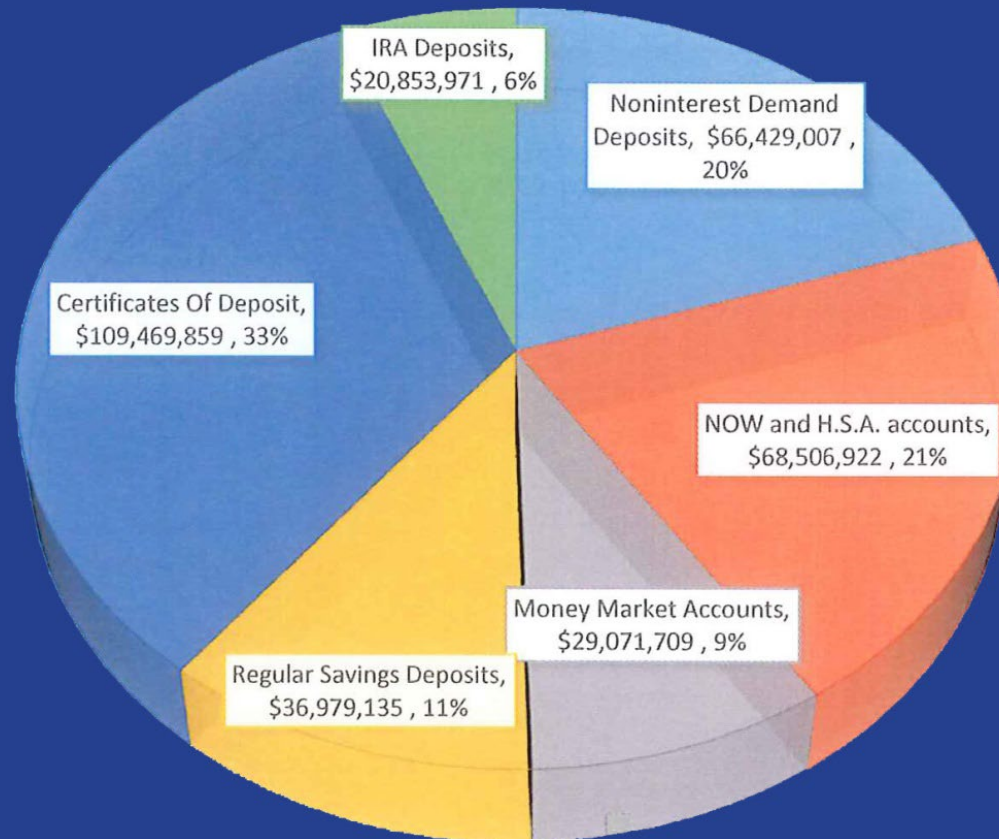
- Checking Account is that "hub" account that leads to other relationships, all of which increase earnings.
- ***Universally Valuable, Regardless of Rate Environment***
 - Irrespective of where you are in interest rate cycle, banks that GAIN transaction accounts are TAKING MARKET SHARE AWAY FROM THEIR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

Loan Mix (Concentrations) and Factors

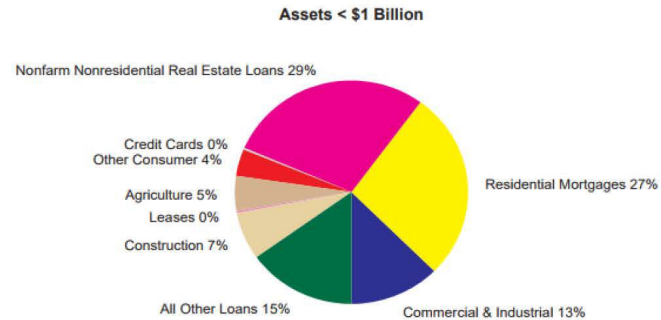


Session One: Loans: Charts are dated 2017 Percentages are similar in 2022

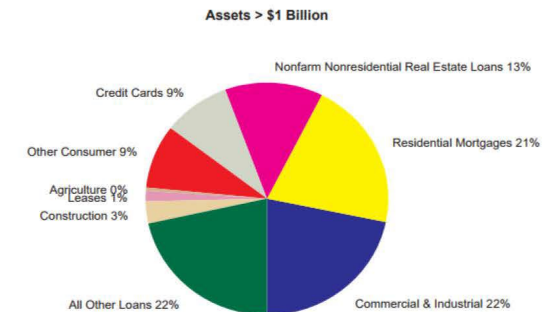
Loan Portfolio Composition by Asset Size

June 30, 2017

Small Institutions



Larger Institutions



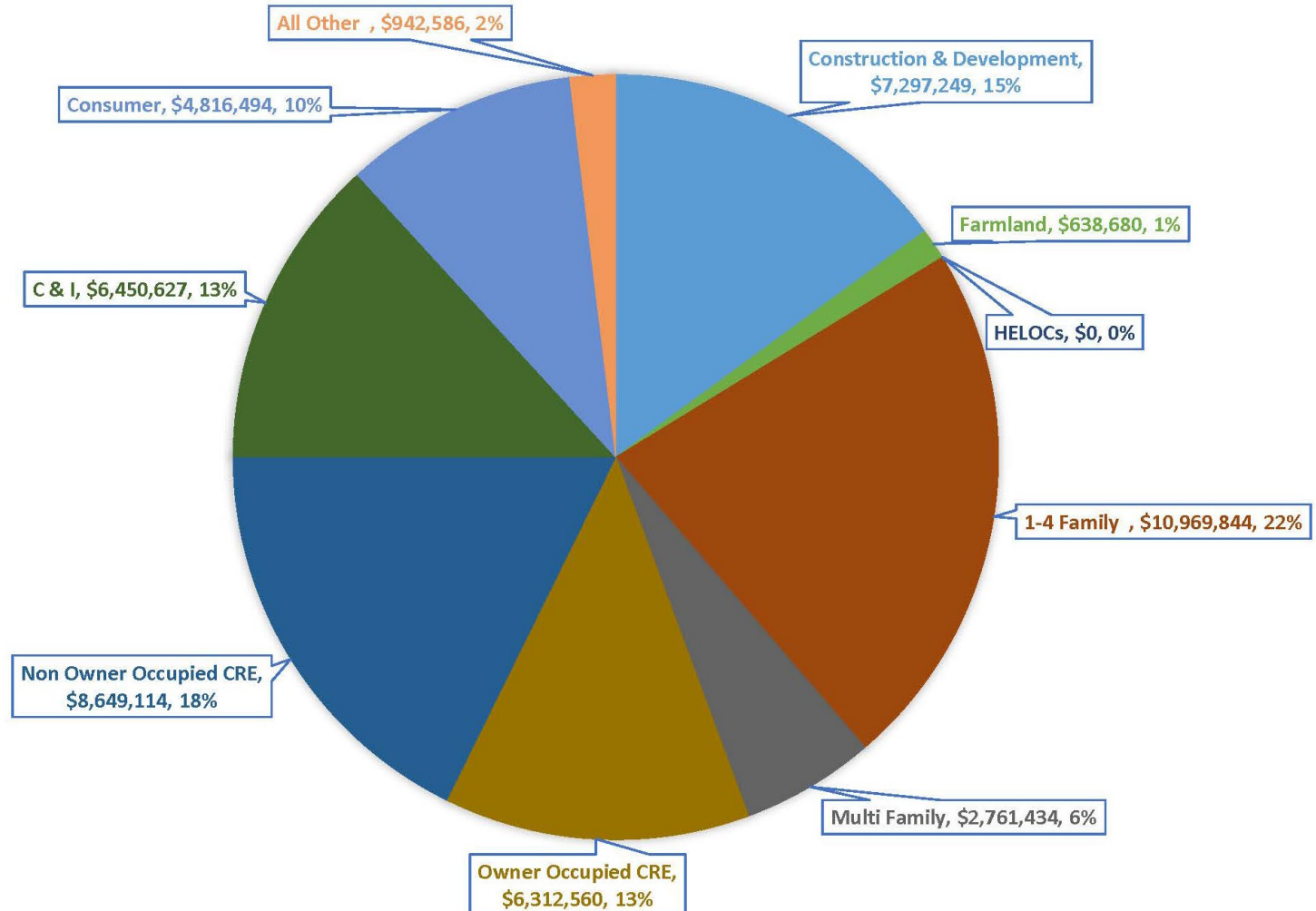
63% Loans Tied To Real Estate **37%**

Source—FDIC



Session One: Loans:

SAMPLE





Session One: Intro to Banking

Additional Session Topics

- **Changes Affecting the Traditional Community Bank Model**
- **CAMELS Rating System**
- **Risk Management and Risk Oversight**
- **SCALE**
- **A Community Bank of Any Assets Size**
- **DEI**
- **ESG**
- **Leadership Highlights**



Session One: Community Bank Model

Changes Affecting the Traditional Community Bank Model



Session One: Community Bank Model

Considerations as you think about your bank's "model"

- As of 2020/2021, it's estimated that ~70% of the US workforce is composed of Millennials and Gen Zers (all age 41 and under).
- That means a community bank TODAY needs to offer banking services that will APPEAL to ~70% of the US workforce.
- Boomers and Gen Xers are increasingly declining as % of workforce, and yet most community bank models operating today are heavily focused on offering banking services to Boomers and Gen Xers.
- The question becomes:

"How long is your CURRENT MODEL sustainable in its present form?"



Session One: Community Bank Model

Defining Current Generations

Data Current as of 2022

The Greatest: Born Before 1928

(now ages 94+)

Silent: Born 1928-1945

(now ages 77-94)

Baby Boomers: Born 1946-1964

(now ages 58-76)

Generation X: Born 1965-1980

(now ages 42-57)

Millennials: Born 1981-1996

(now ages 26-41)

Generation Z: Born 1997-2012

(now ages 10-25)

Generation Alpha: Born Since 2012

(now under age 10)



Session One: Community Bank Model

Defining Current Generations, *(cont.)* *Data Current as of 2022*

Facts of Interest

About Millennials and Gen Zers

From: "How to Please Dissatisfied 'Zillennial' Employees" (PCBB, 5/16/22)

- 74% want unpaid leave
- 67% want work-life management programs
- 62% want mental wellness benefits (including EAP)
- 55% want programs to support their financial needs

Estimates as of 2020

Gen Zers outnumbered Millennials and totaled ~40% of workforce
Millennials represented ~35% of workforce



Session One: Community Bank Model

Defining Current Generations, *(cont.)* *Data Current as of 2022*

By 2026

- Boomers will essentially all be retired
- Most bank CEO's will be Gen X (oldest will be late 50s/early 60s)
- Millennials and Gen Zers will be moving into senior management positions
- Millennials and Gen Zers will be single largest demographics

As of 2043

- White Americans will be in minority position within overall population as US shifts to 'majority-minority' population



Session One: Community Bank Model

From: "The Bank Legacy is Dead: Long Live the Fintech Collision"

February 8, 2022, *Gonzo Banker*, *Cornerstone Advisors*

"Our Takeaways from Bank Directors' 2022 'Acquire or Be Acquired' Conference

"What the alpha bankers bragged about this year"

Absent from the discussion:

- having the finest relationship bankers
- next generation branches
- "It's all about execution"

Instead, discussion centered around:

- digital transformation and fintech disruption
- fintech investments
- BaaS opportunities
- customer experience transformation



Session One: Community Bank Model

From: "The Bank Legacy is Dead: Long Live the Fintech Collision"

February 8, 2022, *Gonzo Banker, Cornerstone Advisors, (cont)*

"Our Takeaways from Bank Directors' 2022 'Acquire or Be Acquired' Conference

- With the 'digital deniers' all but gone, bankers are scrambling to feel safe that their story of strategic evolution is strong enough and fast enough for this decade. Bankers can sense a new world emerging that's going to take a reset on strategy to stay in the shareholder value game.
- Only the 'niched' will survive. The winners in this next decade will press their advantages going deep with specialized expertise and niches ... customer experience and strong talent will be table stakes.
- Banks need to 'up their game' in redirecting legacy expenses to investments that will stand up better in the fintech world. Reaching even stronger levels of efficiency will require major work on bank's tech stacks and operations. *The next 5 years will be about changing out the plumbing in banking.*



Session One: Community Bank Model

From: "The Road Ahead"

Tom Brown, Second Curve Capital, Quoted in Bank Director 2Q18

"What's the single most important thing for Bank CEOs to focus on right now?"

- "The #1 thing all banks need to figure out is how they are going to differentiate themselves in an environment where the big banks are winning in the retail banking business, and they have to figure out what part of the broader financial services world they can excel in.
- They're not going to be able to compete with the \$10.5 billion that JP Morgan Chase is going to spend on technology this year (2018). Just think about how few banks there are over \$10.5 billion in assets."



Session One: Community Bank Model

“Shift in Source of Competitive Advantage Over Past Decades”

From: “The Big Change in Banking”, Bank Director, Q319

**One Key Factor:
*Shift in Growth Strategies
of Top 3 US banks to
investments in technology***

- JP Morgan Chase, Bank of America and Wells Fargo control 33% of US deposits
- Since each controls > 10% of all deposits, each is *prohibited* under Riegle-Neal Act of 1994 from *further acquisitions*.



Session One: Community Bank Model

From: "The Big Change in Banking", Bank Director, Q319, (cont.)

Thus, the only avenue open for expansion
is **ORGANIC GROWTH-**
which each of the Top 3 define as
DIGITAL DISTRIBUTION CHANNELS

This shift in growth strategies by the Big 3 has far-reaching implications:

- Community/regional banks benefitted for decades from big bank acquisitions.
- Smaller banks that wanted to sell could find buyers.
- Those that didn't want to sell gained customers/deposits when local rivals were acquired.

AND...

***It's the money the big banks once spent
on acquisitions that is now funding
investments in technology***



Session One: Community Bank Model

“Banking’s Netflix Problem”

BankDirector.com

By Emily McCormick, Vice President of Research May 6, 2022

Highlights:

- “A 2021 survey conducted by Plaid found that 88% of Americans use digital services to manage money, a 30-point increase from 2020. Americans use a lot of financial apps, and the majority want their bank to connect to these providers.
- Boomers use avg. of 2.6 financial apps (digital banking, lending, payments, investments, budgeting and financial mgt.)
- Gen Z consumers use avg. of 4.6 financial apps.



Session One: Community Bank Model

BankDirector.com

By Emily McCormick, Vice President of Research May 6, 2022, (cont.)

**“Successful banks will figure out
how to make their APP
the central hub for their customers.**

- A new Jack Henry survey found that > **90%** of community banks plan to embed fintech-integrating, innovative, 3rd party products and services into their banks' own product offerings and processes-
over the next 2 years.
- As fractured as the financial landscape may be today for consumers, bank leaders may feel similarly overwhelmed by the number of technologies available for their bank to adopt.

**Bank leaders should re-think their strategy
and business opportunities,
and then identify the different
fintech partners to help them drive strategy.”**



Session One: Community Bank Model

From:

“Bridges Over Ladders”

*Secure Growth and Fortify Profit
with Millennial Employees, Customers and Members*
Kent Wessinger
c. 2019

Boomers Were Asked:

“What method do you utilize to **RETAIN** employees?”

#1: Pay Increase	39%
#2: Position Promotion	28%
#3: Benefits	25%
#4: Other	7%
#5: Increase Voice	1%

Millennials Were Asked:

“What’s the **PRIMARY** reason you **LEFT JOB?**”

#1: Not Heard	38%
#2: Pay	33%
#3: Freedom to Create	16%
#4: Benefits	13%



Session One: Community Bank Model

From: McKinsey & Company's "Mind the Gap"

Curated Reads for Gen Z and Their Z-Curious Colleagues September 13, 2022

"This is Where Gen Z Goes for Financial Advice"

- Gen Zers are almost 5x more likely to get financial advice from social media platforms than people aged 41 or over.
- There has been a rise of "finfluencers" - an influencer who provides financial advice- that hold an estimated market size of \$104 billion.
- Gen Zers rely on different values when evaluating their banking and investment options than earlier generations.
- They've inherited the Millennials' lack of trust in old-school financial institutions.



Session One: Community Bank Model

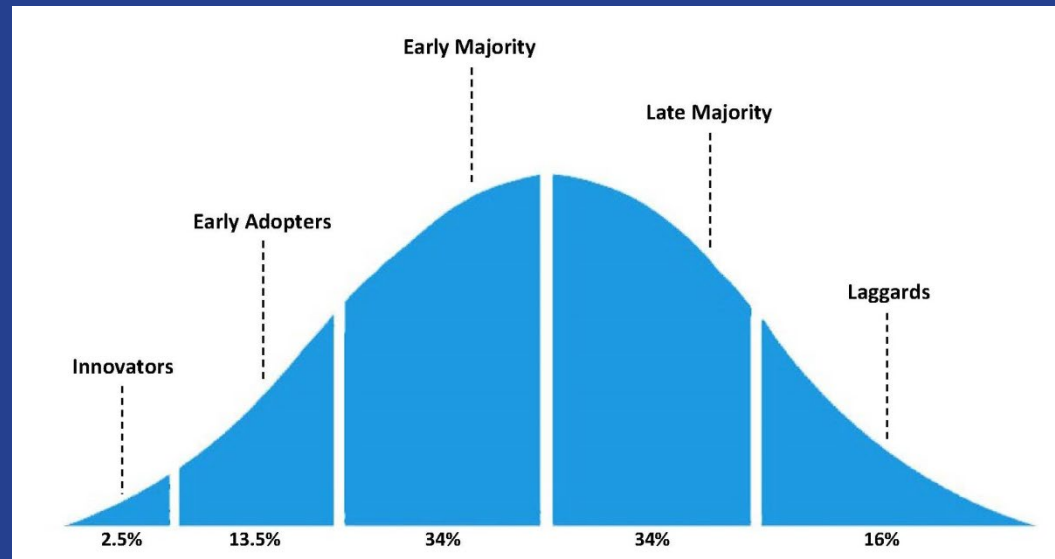
Innovation in Digital Delivery

Where Do You FIT on the Curve or within the Bar?

Part One: Where Do You FIT ON THE CURVE?

From: "The Future is Payments", Tina Giorgio, ICBA, 2020

Sample Illustration





Session One: Community Bank Model

“2022 Technology Survey Results: Investing in Banking’s Future”

Bank Director, August, 2022

- *Bank Director's 2022 Technology Survey, sponsored by CDW, asked bank senior execs and directors about challenges their banks face, and where they've been investing their resources in technology.*
- *48% of those surveyed worry about an inadequate understanding within the bank of emerging technologies.*
- *Just 25% of directors and execs surveyed say their bank has the tools it needs to effectively serve Generation Z, and only 50% believe their bank can effectively serve **Millennials**.*



Session One: Community Bank Model

“Nine Digital Banking Stats From Bank of America That Should Worry Legacy Banks”

From: “The Financial Brand”, April 18, 2022

“Few banks have had the digital transformation success that has been achieved by Bank of America. In the past few years, BofA has invested billions to grow its

DIGITAL PLATFORMS.

The investments are reaping significant rewards. With more than 54 million digital banking users at BofA, here are nine digital banking facts about the bank:

- #1: BofA added 2 million active digital clients in 2021.
- #2: BofA's digital log-ins rose 15% YoY in 2021, up to 10.5 billion, or 28 million per day.
- #3: 24 million users of BofA's “Erica” chatbot completed 123 million interactions in 4Q2, up 247% YoY.



Session One: Community Bank Model

“Nine Digital Banking Stats From Bank of America That Should Worry Legacy Banks”

From: “The Financial Brand”, April 18, 2022, (cont.)

- #4: 86% of BofA's deposits are made thru digital or ATM channels.
- #5: 16 million BofA customers are active users of Zelle.
- #6: 70% of BofA households actively use digital platforms.
- #7: 40% of all sales @ BofA are now digital, up 46% YoY. BofA now conducts 1.6 million digital sales annually.
- #8: BofA booked 764,000 appointments digitally in 2021, up 20% YoY.
- #9: More than 6 million BofA customers have created a BofA 'Life Plan', a personal financial management goal-setting tool for mobile use.”



Session One: Community Bank Model

“Bank of America Grabbing Millennials and Gen Zers”

From: “The Financial Brand”, August 16, 2021
Poll by Raddon Research, 2021

Question: Which one of these institutions do you consider your primary source for financial services?”

31% Bank of America

15% Wells Fargo

11% JPMorganChase

11% small community banks

9% credit unions

8% USBank

5% online bank

4% tie: Truist and PNC Bank



Session One: Camels

CAMELS Rating System



Session One: Camels

- **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**



Session One: Camels

- **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/
 - FDIC's "Risk Management Manual of Examination Policies"



Session One: Camels 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 ¹	2		
Community Reinvestment Act ¹	S		
Examination dated 05/11/2015			



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: Scale

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:

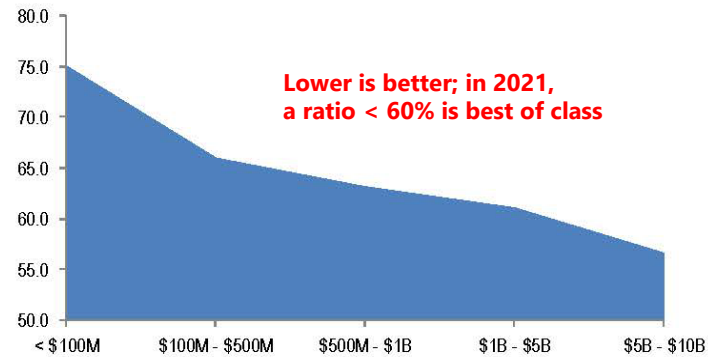
- provides ability to spread costs over more customers/assets
- improves profitability (ROE, ROA)
- often leads to higher stock valuation (price/BV)
- provides higher legal lending limit
- helps in competition for “A” level talent
- provides needed investments in IT/People without adversely impacting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



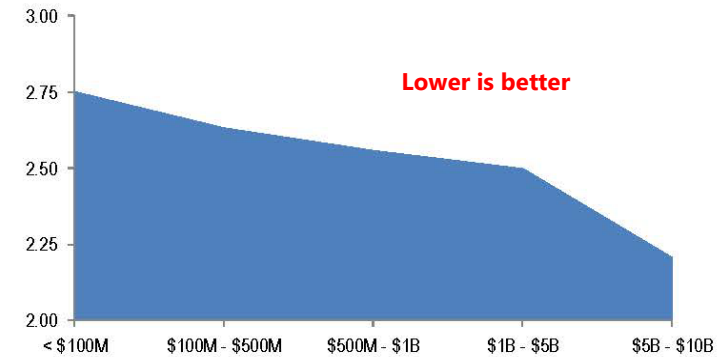
Session One: Scale

Economies of Scale

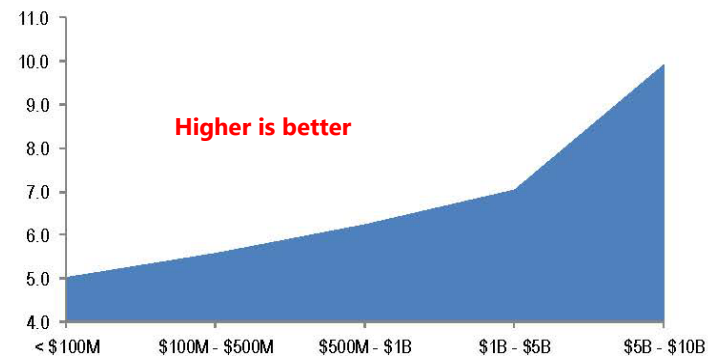
Efficiency Ratio (%)



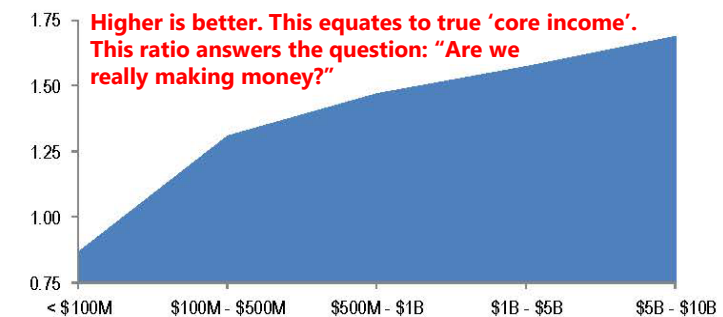
Noninterest Expense / Avg Assets (%)



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 of Any Assets Size 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 of Any Assets Size 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: DEI

DEI



Session One: DEI

What is "DEI"?

Source: 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: DEI

"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: DEI

"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.

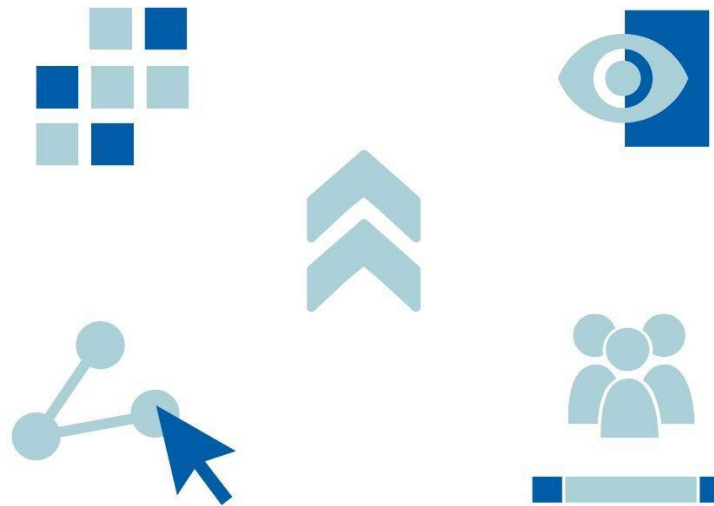
To do that, the institution has:

- 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: DEI

VBA DIVERSITY, EQUITY & INCLUSION EFFORTS AND ADDITIONAL RESOURCES



CONTACT CHANDLER OWDOM AT
COWDOM@VABANKERS.ORG FOR MORE
INFORMATION ON ANY OF THESE INITIATIVES.



Session One: DEI

"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: ESG

ESG



Session One: ESG

What is "ESG"?

Source: 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: ESG

What is “ESG”?

Source: 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 *Highlights*



Session One: Leadership

Good Advice

"4 Qualities All Successful Leaders Have in Common"

from: 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

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: Leadership

5 Leadership Lessons From Super Bowl Coaches

Dale Buss, 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

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

To Members of the MDP Class of 2022-2023

From Andy Davies

“Leadership Article”

that I hope is of interest to you

“The 21 Indispensable Qualities of a Leader”



Session One: Leadership

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 2022 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: Leadership

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: Leadership

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: Leadership

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: Leadership

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: Leadership

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: Leadership

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: Leadership

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: Leadership

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



Session One: Intro to Banking

Throughout the Next “4 Months of MDP”...

- I'll be regularly (weekly) posting news articles that relate to economic, financial, cultural topics as they are covered by print and online media.
- These are offered as "FYI".
- We'll have time at the beginning of each of our 5 sessions to briefly discuss any of these topics, AND/OR topics on your mind, as you desire!
- You'll find these on your MDP portal under this heading:

"Additional Resources/Articles"



Session One: Intro to Banking

Open Discussion