

Directors Workshop

West Virginia Bankers Association Convention
July 23rd , 2023
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State at a Glance, WV

	WV	National
▶ Population (7/22)	1,775,156	333,287,557
▶ Change (4/2020)	-1.0%	0.6%
▶ Median Household Inc.	\$50,884	\$69,021
▶ Per Capita Inc.	\$28,761	\$37,638
▶ Median Home Value	\$128,800	\$244,900
▶ Home Ownership Rate	73.9%	64.6%
▶ High School Grads	88.1%	88.9%
▶ College Grads or Higher	21.8%	33.7%

UBPR Analysis WV

WV State Averages 1/31/23

Number of banks:

- 43 – 2023
 - 43 – 2022
 - 43 – 2021
 - 44 – 2020
-
- ▶ National Peer: \$300M – \$1B
 - 1,291 Banks

UBPR Analysis WV

	<u>Your Bank</u>	<u>WV</u>	<u>National</u>
▶ In Income		4.12	4.36
▶ In Expense		0.73	0.95
▶ NIM		3.54	3.54
▶ NII		0.56	0.51
▶ ROA		0.96	1.19
▶ ALLL		1.19	1.33
▶ Past Due/ Non AC		0.56	0.34
▶ Tier 1 Capital		10.56	9.97

UBPR Analysis WV

	<u>Your Bank</u>	<u>WV</u>	<u>National</u>
▶ Loan Growth		11.95%	13.63%
▶ Personnel Expenses		1.34	1.43
▶ Other Expenses		1.01	0.74
▶ Eff Ratio		67.7%	62.4%
▶ Avg Personnel Exp		\$71.08	\$95.74
▶ Assets Per FTE		5.45	6.97

UBPR Analysis WV

▶	<u>Your Bank</u>	<u>WV</u>	<u>National</u>
▶ DDA		26.76	24.19
▶ MM Accts		8.03	15.42
▶ Other Savings		20.00	14.06
▶ TD @ Limits		14.32	12.60
▶ TD Above Limits		3.46	4.64
▶ FHLB		2.19	2.03
▶ ROE		11.52%	14.19%
▶ ROE, Dividends		2.08%	4.32%

Can Bank Directors Really Govern Risk?

Bank Director Magazine 3rd Qtr, 2023

- ▶ The recent failure of the three regional banks:
 - Silicon Valley
 - First Republic
 - Signature
- ▶ has caused a ripple effect throughout the banking system. The inspector general report noted that regulators identified the risk, but fail to take aggressive action to remedy the problems. Guess what the tone of your next exam will take???

Can Bank Directors Really Govern Risk?

- ▶ These failures were not caused by Asset Quality problems, but by a Liquidity crunch. What were the common traits of risk in these banks?
 - 1. Funding, a low level of core deposits
 - FDIC Core Deposits: Stable deposits with lower cost that reprice more slowly than other deposits
 - 2. Rapid growth of the bank
 - Can your Risk Controls keep up with increased complexity of your bank?
 - 3. Leveraging of risk
 - Are loans and deposits concentrated in the same group of customers?

The Boards Role!

- ▶ Regulators: A bank's failure can be traced back to a compliant Board
 - Did the Board respond to concerns raised in the ROE?
 - Why didn't management identify the problem before the examiner's?
 - Who is accountable?
 - What is being done to fix it?
 - How soon will it happen?
- ▶ Comprehensive reporting to the board is required
- ▶ Should we consider ex bankers for Board seats?

Introduction

- ▶ **Developing a strategic plan is the responsibility of the Board of Directors.**

Boards often delegate this responsibility, in part, to the Executive Management team.

There are several reasons for the development of a plan:

- Mutually (Board & Management) defining “Success”
- Developing a framework for future decision making
- Defines the role of the entire team
- Meets regulatory requirements
- Translates the bank’s “Values” into action items
- Provides an “Honest” assessment of current condition

Effective Strategic Planning

- ▶ In the US Banking Industry today, strategic Planning is still done poorly, at best, by most community banks and especially at the Board Level. Even though “ensuring that the strategic plans are established is one of the basic duties of the Board”, 90% – 95% of banks have a Strategic Plan that covers a three (3) year to five (5) year period.

The Process

- ▶ The planning process should address the interest of the various constituents and stakeholders of the bank:
 - Shareholders
 - Officers and Staff
 - Customers
 - Regulators
 - Community
- ▶ Step 1.
 - Gather feedback from the individual Board members and the executive officers
 - Surveys and individual interviews

The Process

▶ Step 2.

- Have a qualified outside expert prepare an objective assessment of the bank's current condition and operations, including a peer review.

▶ Step 3.

- Conduct a planning meeting that includes the Board and Executive Team
 - Review results of interviews and survey
 - Review current operations, with peer analysis
 - Identify the 4–5 most important priorities (next 3 years)
 - Board members only; Board operations, Compensation Issues, Management Strengths & Weaknesses, Board succession
 - Outside Directors only; CEO performance, Succession, Regulatory feedback

The Process

- ▶ Step 4. Prepare a summary document that covers the key agreed upon objectives, priorities and tactics.
 - Includes industry best practices
- ▶ Step 5. Overlay metrics and team responsibilities with target dates
- ▶ Step 6. Present quarterly updates to the Board
 - This would include changes to the plan

Key Reasons Plans Fail!

- ▶ Too many goals and/or priorities
- ▶ Not thoroughly communicated
- ▶ Limited follow-up or monitoring
 - Quarterly reports to the Board
- ▶ Limited or inadequate resources
 - Capital
 - Human Talent
- ▶ Who is accountable??
 - Measurable metrics
 - Included in Job Description & Performance Reviews

Why Plans Fail

- ▶ No roadmap for success
 - Growth targets
 - Merger or Acquisition or Sell
 - What is acceptable performance
- ▶ Exclusive versus inclusive
 - Each employee understands their role
- ▶ Does not consider regulatory issues
 - Regulatory due diligence
 - Compliance auditing
- ▶ Watch that the retreat does not become a session for complaints and grievances

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NATIONAL #	\$300M – 1B	1,203 BANKS
S DAKOTA ##	\$300M – 1B	11 BANKS
▶ REGIONAL ###	\$300M – 1B	44 BANKS

BANKS WITH ASSETS BETWEEN \$300 MILLION AND 1 BILLION.

BANKS IN SOUTH DAKOTA WITH ASSETS BETWEEN \$300 MILLION AND 1 BILLION.

BANKS IN SOUTH DAKOTA, NORTH DAKOTA, AND NEBRASKA WITH ASSETS BETWEEN \$300 MILLION AND 1 BILLION.

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PROFITABILITY IS GOOD, BUT MAY BE SOME OPPORTUNITIES FOR IMPROVEMENT IN THE AREAS OF NON-INTEREST INCOME AND NET INTEREST MARGIN. PARTICULARLY AS COMPARED TO SD BANKS.
% OF AVERAGE ASSETS

6/30/2014

	Bank	NAT'L	SD	REG
NIM #	3.67	3.75	4.42	3.80
NON II	0.72	0.74	1.14	0.79
NON IE	2.45	2.87	2.86	2.63
ROA	1.36	0.99	1.51	1.34

% OF AVERAGE EARNING ASSETS

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LIBERAL PRICING IS EVIDENT IN ALL LENDING CATEGORIES AND IS CONSIDERABLY LOWER THAN SOUTH DAKOTA PEER BANKS .

YIELD ON LOANS

6/30/2014

	Bank	NAT'L	SD	REG
TOTAL LOANS	4.77	5.16	7.11	5.19
1 – 4	4.76	5.09	5.32	5.13
AGRICULTURAL	4.25	5.24	4.89	4.69
COM'L & IND	4.88	5.28	5.72	5.24
INDIVIDUAL	5.83	6.62	6.98	6.44
CREDIT CARD	6.56	8.84	16.47	10.60

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Areas for Consideration

- Non-interest income performance needs to be explored and vetted. Fees such as overdrafts, safe deposit, ATM should be reviewed and compared with competitors, as well as the introduction of new services (i.e., payroll, cash management, and advisory for ag hedging).
- Market analysis of loan pricing should be conducted and possibly increased if substantially below competition.
- Establish and implement a plan to increase non-interest bearing deposits in anticipation of increasing rate environment.
- Should expansion of owner-occupied and consumer lending portfolio be undertaken??
- Is capital sufficient for future growth?
 - ▶ capital raise?
 - ▶ increased **earnings retention?**