

Five Characteristics of High Performing Banks

Bank Holding Company Association

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Number of Troubled Banks Declines

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Failures	4	6	14	24	51	92	157
Troubled	<175	<200	<400	<500	800+	850	880

Source: BKD

Performance Trends

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2007</u>
▶ # Charters	6,111	6,238	6,570	6,874	7,149	7,787
▶ Loan Growth	7.26%	7.02%	7.10%	4.15%	2.84%	9.76%
▶ Past Due	1.68%	1.78%	2.23%	2.53%	3.14%	2.20%
▶ Cost Staff \$	73,130	72,080	69,990	68,300	66,760	58,120
▶ Eff Ratio	69.3%	70.4%	71.3%	72.2%	71.6%	68.9%
▶ ROA	0.82%	0.80%	0.77%	0.73%	0.71%	0.80%

Source: BKD

What Happened?

- ▶ The banking industry has gone through a period of survival, and now it enters a period of renewed focus on the **customer**.
- ▶
- ▶ **The question of the day?:**
- ▶ *“What products or services can we provide our Customers; that our Customers will perceive enough value that they will pay us enough \$\$, that we can provide our shareholders with an acceptable return on there investment”*
- ▶ *Don't let regulators run your Bank!!*

5 Qualities of Winning Bank's

- ▶ The best run Bank's in the country are also the top performing Bank's, as Management and the Board provide clear strategic direction. Some of the shared qualities are:
- ▶ **1. A laser like Customer focus**
 - Defines its target customers & markets
 - Service always matters
- ▶ **2. A disciplined and aggressive credit culture**
 - Credit quality is a first consideration
- ▶ **3. A desire to be the Employer of choice**
 - Recruits talent at every level of the Bank
 - Compensation is designed to maximize bank performance

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Winning Bank's

- ▶ **4. Innovation is encouraged**
 - Technology is not seen as the end-game but as a tool that is to be used
 - Good ideas can come from anywhere within the company

- ▶ **5. The Board will exercise its independence**
 - The Board provides strategic direction
 - The Board provides management with informal & formal feedback
 - The Board will use outside resources when necessary
 - Auditors, Attorneys, Consultants

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KEYS TO RISK CONTROL

- ▶ **1. Know Your Borrower**
 - Due diligence (analysis, **on-site visits**, financial info)

- ▶ **2. Hi Quality Trained Loan Officers**
 - Judgment, Personality, Common Sense

- ▶ **3. Clear Loan Policy**
 - Exception policy & procedures
 - Collections & foreclosure
 - Lending Authority – Renewed annually

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Risk/Credit Controls

- ▶ **Appoint a qualified Chief Credit Officer:**
 - Look for Regulatory and/or Lending-Workout experience
 - Portfolio size of \$200M – \$250M
 - Reports to CEO
 - No compensation tied to loan volume
 - Integrate into Loan approval & structuring process
- ▶ **Utilization of External Audits and Reviews**
 - Shape and develop management responses
- ▶ **Serves as Bank's primary interface with Regulators**

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Credit Culture

- ▶ **Perform due diligence prior to funding**
 - Set minimum loan package for loan committee presentations
 - Is this our type and/or size deal?
- ▶ **Early identification of higher risk loans**
 - Performance expectations are to raise hands early
 - Use group "autopsy" of charge-offs and higher risk loans
 - Use loan officer loan committee for teaching, (vetting deals)

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Asset Quality is King!

- ▶ Asset Quality continues to be *the* defining issue for the banking industry.
 - Who do we want for customers/clients?
 - Is this type of deal within our wheelhouse?
 - Is our loan policy clear and up to date?
 - Do we have enough talent to do the job?
 - Can we work within the regulatory framework?
 - Is our credit culture disciplined?
 - Have we balanced Risk & Return?
 - Are we serving the financial needs of our community?

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Talent Acquisition & Development

- ▶ Who do we hire?
 - Personality profiling
 - Leadership traits
 - Self starter
 - Strong communication skills
 - People skills
 - Intellectual curiosity
- ▶ Staff development
 - Mentoring high potential Team Members (Board)
 - Internal & External training, developmental assignments
 - Leadership training

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Talent

- ▶ Identify, Recognize, Reward high performers
- ▶ Identify, Coach, Remove under performers
- ▶ Develop relationships with local Colleges & Universities
 - Internship programs

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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”, still only 90% – 95% of banks have a Strategic Plan that covers a three (3) year period.

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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

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Pre Planning Preparations

- ▶ Develop interview questionnaire for Board and Senior Management:
- ▶ **Has the bank's performance met your expectations to date? If not what are the impediments?**
- ▶ **What strengths or resources does the bank possess?**
- ▶ **What are the vulnerabilities or challenges?**
- ▶ **What are the most important elements in measuring success?**

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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 .

	Bank	YIELD ON LOANS		
		6/30/2014		
		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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