

Top Community Banking Strategies for 2021 and Beyond

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Current Community Banking Environment

- Significant economic, political and global health concerns
- Community bank asset quality has largely held strong – significant unknown is whether it will hold
- Significant balance sheet growth
- Soft loan demand, other than PPP loans
- Community banks resume exploration and pursuit of strategic transactions



Long-Term Future of Community Banks

- Positive, but does size matter?
- Consolidation, increasing branches and decreasing charters
- Technology driven
- Community bank advantage
- Relationship-based lending
- Aging shareholder base

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Top Strategies for Community Banking in 2021 and Beyond

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1. Enhance Shareholder Value

- Earnings per share growth (target 10% - 12% annually)
- Appropriate return on equity (10% - 15%)
- Dividends or dividend equivalent distributions
- Liquidity
- Maintenance of satisfactory regulatory relations


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2. Strategic Planning for Current and Future Success

- Current analysis
- Discussion of key issues
- Consensus decisions
- Assignment of responsibility
- Development of timeline
- Follow-Up


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Independence: The Preliminary Decision

- Are we a buyer, seller or neither?
- Can we do a better job for our shareholders than another holding company's stock or cash?
- Can we make an acquisition and enhance shareholder value?
- Independence is conceptual Board determination
- Proactive or reactive independence strategy?

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Core Business Strategy

- Growth
- Profitability
- Profitable growth (community bank nirvana)

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Substantive Strategic Planning Issues

- Capital comfort level & allocation
- Organizational profitability
- Organizational structure
- Geographic expansion/footprint
- Core banking strategies
- Technology
- Regulatory/compliance
- Shareholder issues
- Other issues

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3. Plan for Succession

- Shareholder succession
- Director succession
- Management succession

“The absence of an effective succession plan is an ineffective plan to sell your bank.”

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Types of Succession Planning

- Future succession planning (expected change in three plus years)
- Near term succession planning (expected change in less than three years)
- Emergency succession planning


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4. Attract and Retain Top Talent

- Shortage of banking talent
- Strategies to identify and access new talent
- Provide workplace that attracts talent
- Three fundamental needs
 - Fair cash compensation
 - Fair incentive compensation
 - Long-term equity compensation


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Strategies to Attract and Retain Employees

- Employment Agreements
- Initial bonus
- Equity-based compensation
 - ESOP/KSOP
 - Stock Options
 - Stock grants
 - Restricted stock
 - Phantom stock
 - Stock Appreciation Rights


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Talent Development

- Broad exposure to all operations
- Growth and responsibilities
- Professional continuing education
- Mentoring relationships


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5. Technology for Community Banks is a Must

- Technology is a necessary investment, not an expense
- Technology strategy is a key corporate decision
- Internal and external technology considerations
- Avoid circumstance where returns do not justify expense

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Technology is a Tool, Not a Replacement for Relationships

- Technology is a tool that should supplement your customer relationships
- Development of personal relationships with customers will continue to drive banking business, particularly loans
- Customer relationships will not compensate for inefficient operations
- Ideal situation is to reach appropriate mix of personal relationships, technologies and efficiencies

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6. Develop Successful Stock Liquidity Strategies

1. Shareholder relations program
2. Holding company share repurchases
3. ESOP/KSOP


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Shareholder Relations Program

- Diminish demand for stock liquidity through shareholder education
- Identify value metrics of stock ownership
 - Earnings per share
 - Return on equity
 - FMV/BV growth
- Active shareholder education on investment value
- Shareholder Relations Officer?


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BHC Share Repurchase

- Voluntary Stock Repurchase
 - Reactive Walk-In Repurchase Program
 - Proactive Voluntary Stock Repurchase Program
- Involuntary Stock Repurchase

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Walk-In Repurchase Program

- Authorized via Board Resolution
- Approve repurchase of specific number of shares at specific price
- Program terms and conditions set by Board of Directors
- Allocate additional capital once depleted

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Voluntary Stock Repurchase Program

- Proactive program open to all or identified stockholders
- Allocation of capital to repurchase of shares at specific amount
- Program documentation
- Program terms and conditions


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Share Repurchase Price

- Board determination
- No requirement for independent appraisal
- Balance interest of selling and remaining shareholders
- Disclosure requirements


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Funding Share Repurchases

- Existing “excess” capital
- Bank holding company debt
 - Line of credit
 - Secured debt
 - Subordinated Debenture
- Sale of common or preferred stock


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ESOP / KSOP

- Employee Stock Ownership Plan, possibly with a 401(k) feature
- Trust created to own stock for benefit of bank employees
- Funding stock purchases
 - Tax deductible bank contributions
 - Employee 401(k) contributions
 - ESOP leverage


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7. Appreciate Current Regulatory Environment

- Current accommodations for COVID-19
- Actual regulatory forbearance is not expected
- Anticipate “yes, but...” examinations
- Identify problem assets before the regulators


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Compliance Concerns

- Fair lending
- Redlining
- UDAAP
- Other compliance concerns


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8. Understand Current M&A Environment

- Active market in spite of COVID-19
- Many bankers believe scale equates to efficiency
- Corporate value is primarily based on earnings
- Understand what makes an attractive target
 - Strong earnings
 - Inefficient operations
 - Young and bright management team
 - Lack of shareholder or management succession
 - Market share
 - High loan-to-deposit ratio
 - Clean operations


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Unsolicited Offers

- Unsolicited Expressions of Interest (not hostile takeovers) are common
- Response strategy to receipt of unsolicited offer
- Analysis is essentially whether shareholders are better off independent or taking offered consideration
- Plan for it before it happens


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Conclusion

- Community banking remains strong despite COVID-19
- Internal failures jeopardize success more significantly than external events
- Proactively plan and implement strategies to achieve and maintain success

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