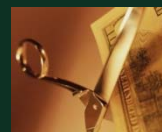


Strategic Planning in the Age of Uncertainty: How Finance Can Help Lead the Way

February 22, 2012

George W. Millward



What is your reaction to strategic planning?

- If I never have to go through that bureaucratic exercise again, it will be too soon.
- Our bank does it whenever we get around to it or whenever the examiners push us to do so.
- It's an annual event.
- Whenever business conditions require.

Overall approach to strategic planning:

“Plan your work; work your Plan.”

Ed Crump, Boss of Memphis, Tennessee during the
1920's

Basic planning process:

1) **Survey:**

- 1) The environment.
- 2) Internal capabilities.
- 3) Risk appetite & tolerances.

2) **Establish/re-enforce purpose:**

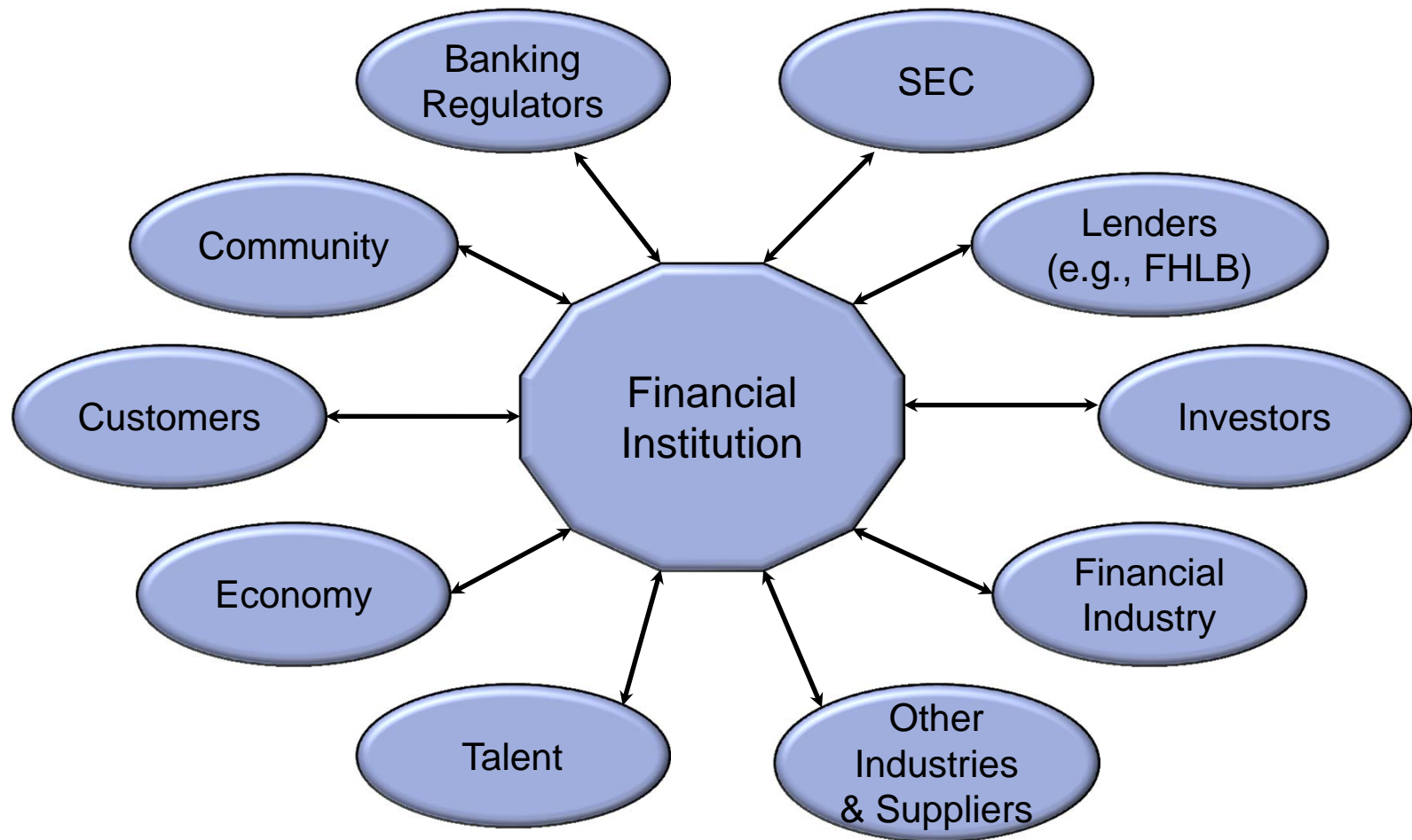
- 1) For example, Mission & Vision statements.

3) **Define the critical issues to be addressed.**

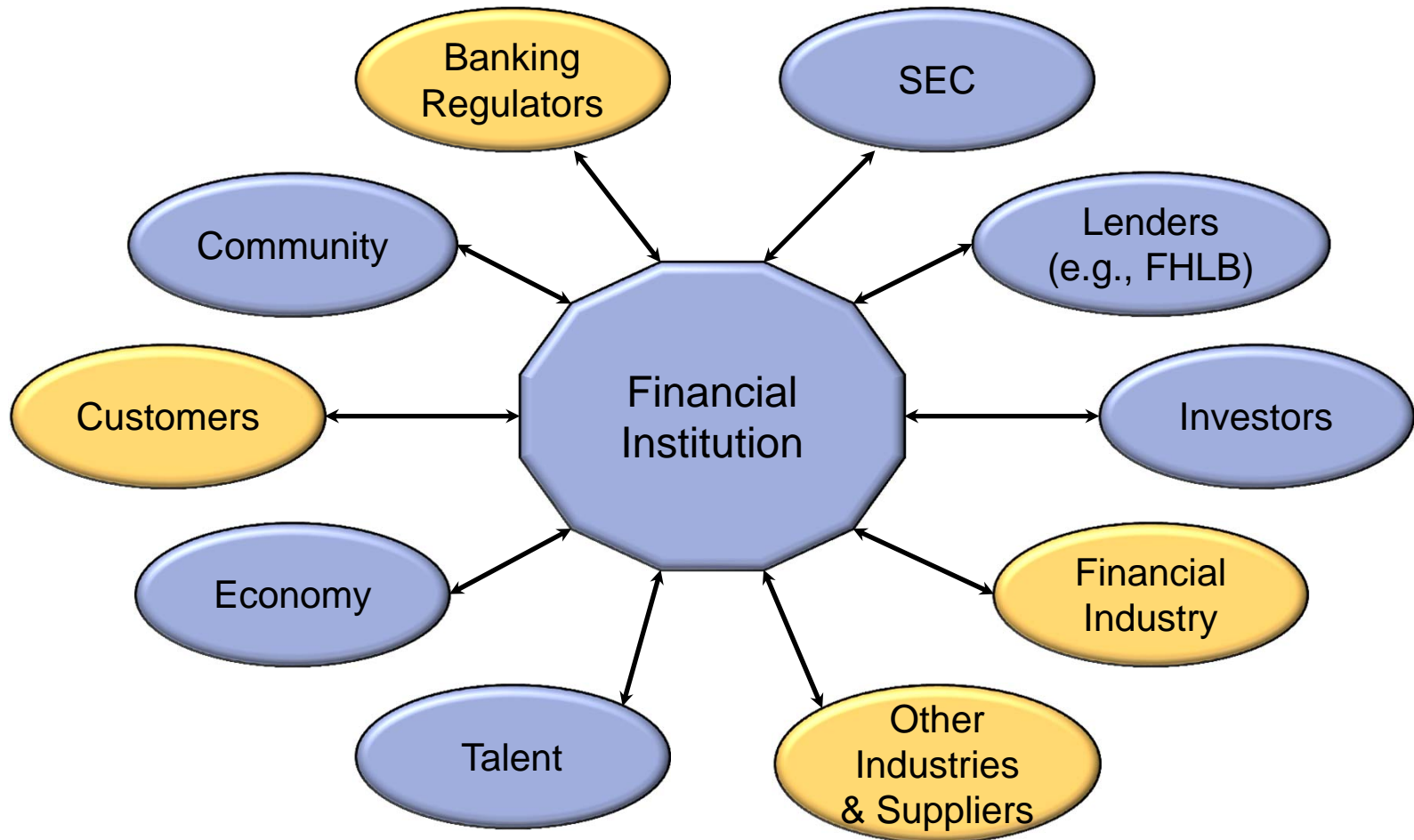
4) **Build objectives, goals and tasks** to address those objectives.

5) **Develop financial projections** for the planning horizon (including an assessment of the adequacy of capital).

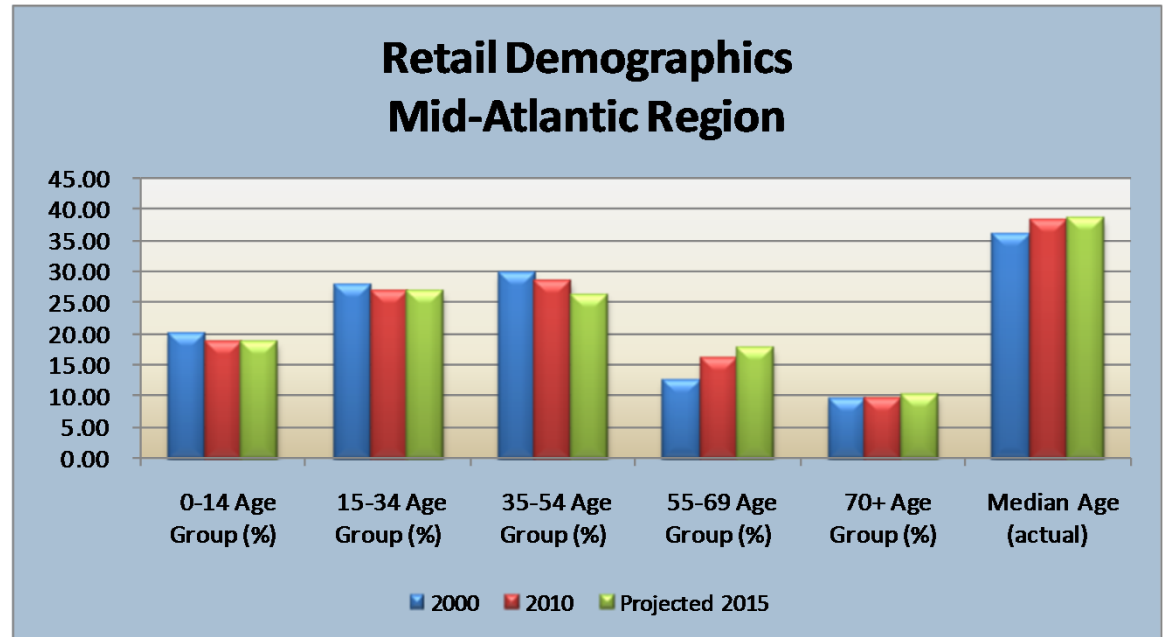
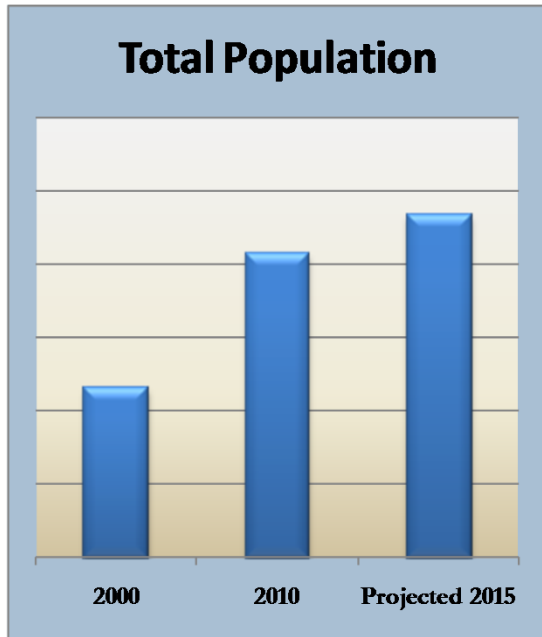
Survey the environment:



Survey the environment: Let's look at four examples –

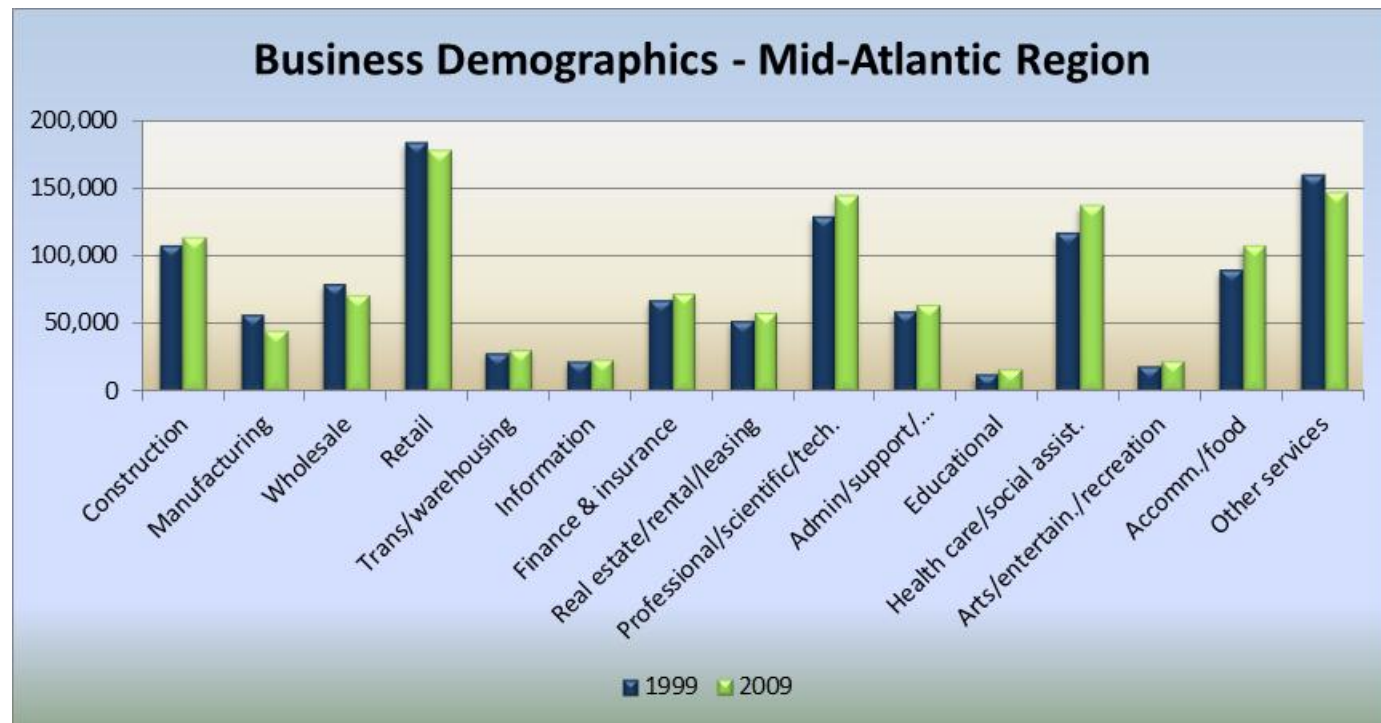


Mid-Atlantic demographics:



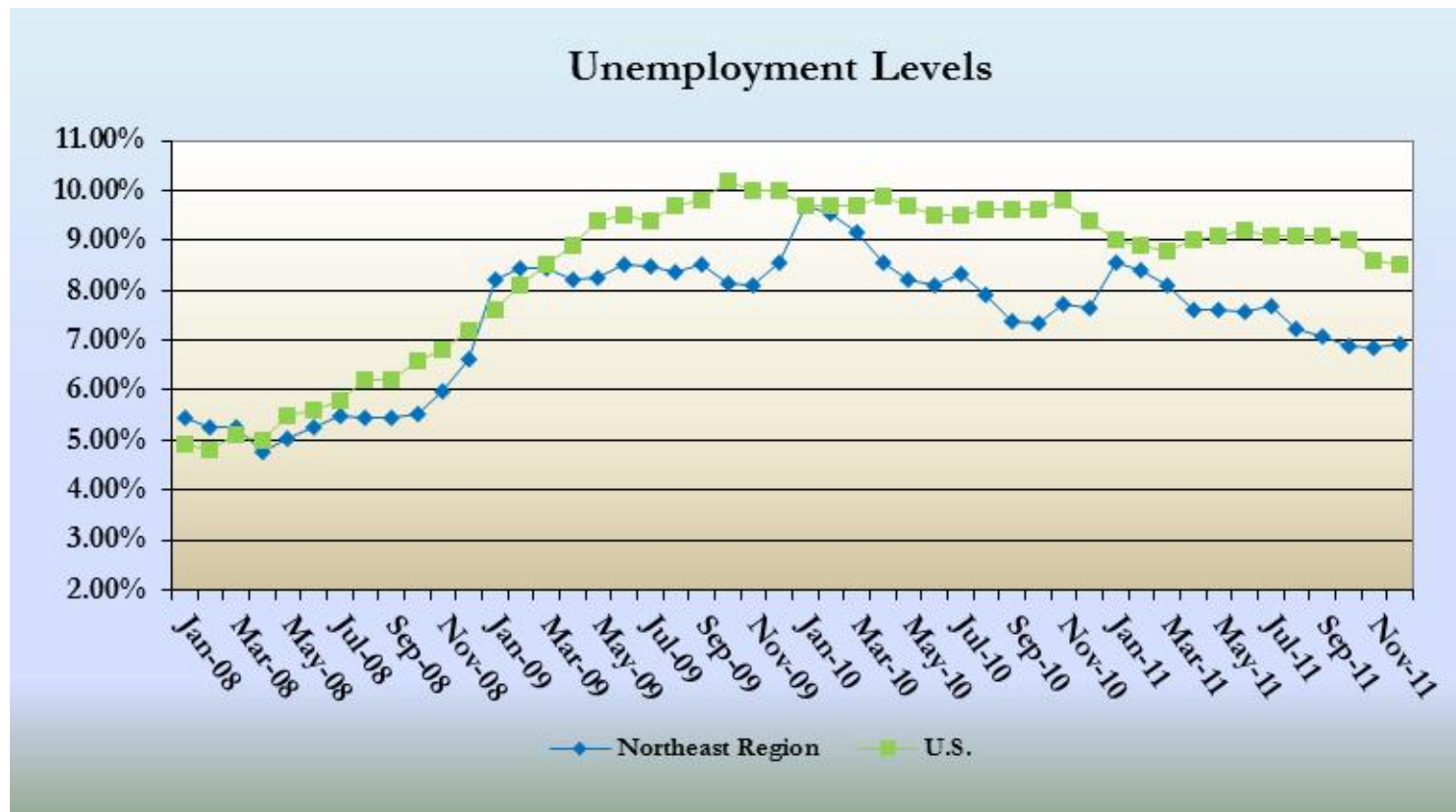
- Projected population growth is led by the boomers, who are increasingly comfortable using technology.

Mid-Atlantic business environment:



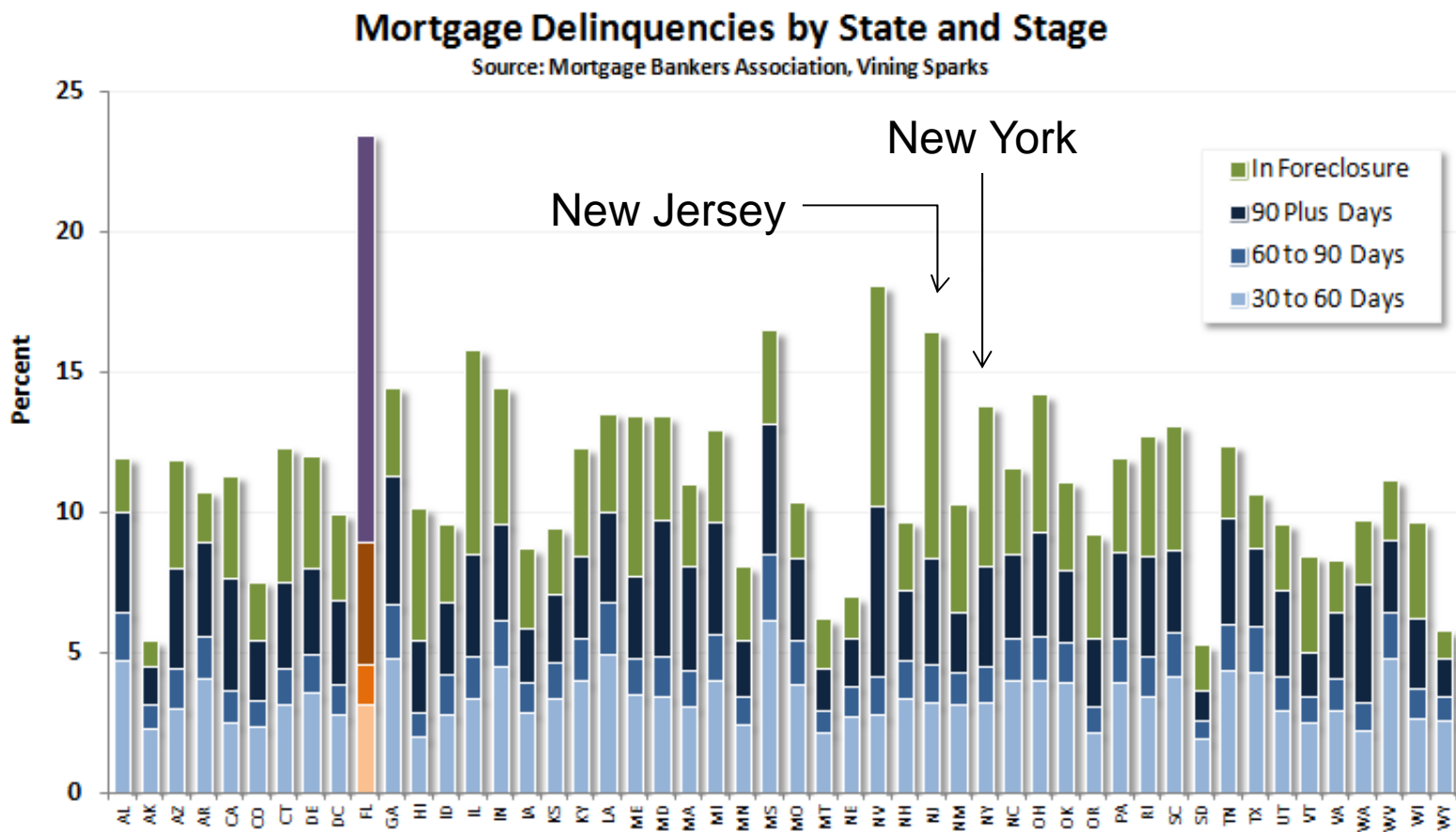
- Growing industry groups include construction, finance/insurance, real estate/rental/leasing, administrative, professional/scientific, health care, food services.
- In determining strategy, FIs must determine if these industries have real estate to lend against.

Customer environment – We continue to see better news on the employment front!

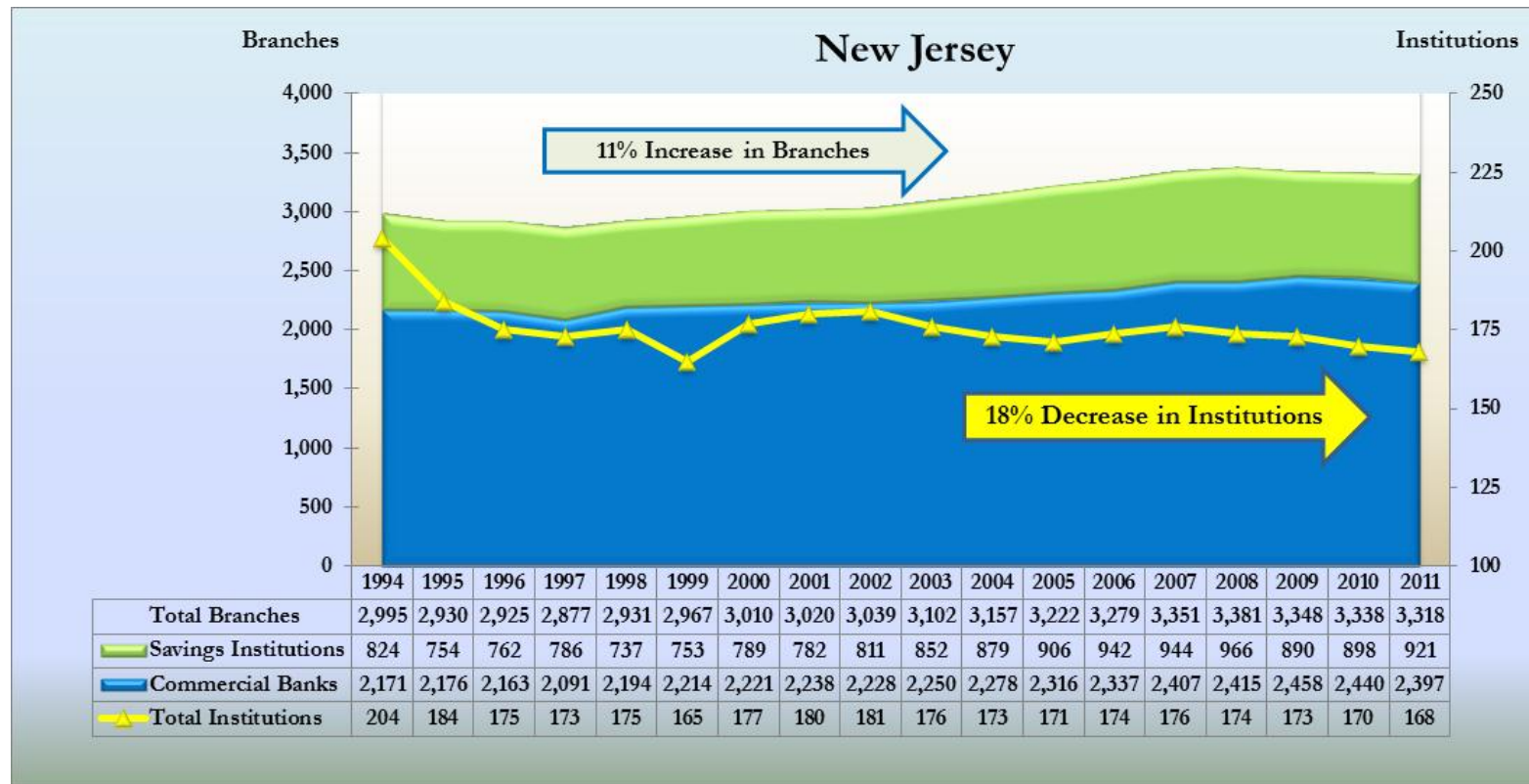


Source: SNL Financial, LC

Customer environment – however, the mortgage issue isn't going away anytime soon.



Retail outlets continue to be important.



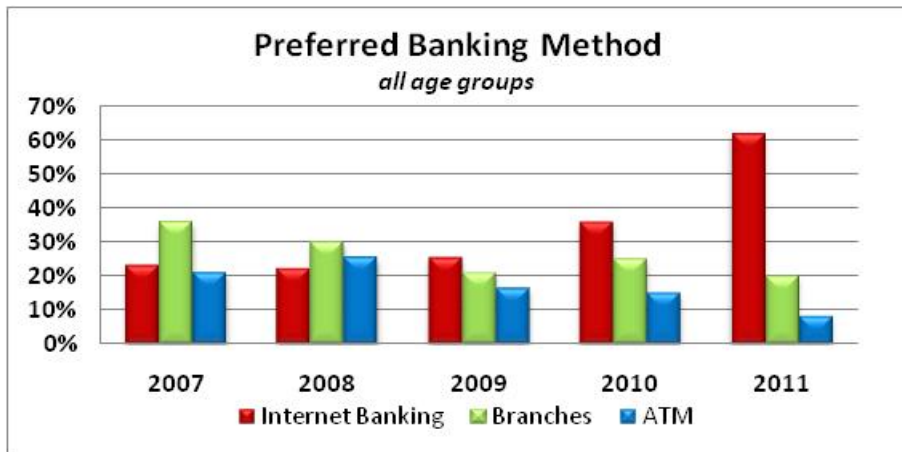
New Jersey deposits continue to grow:

Deposit Summary Detail: New Jersey

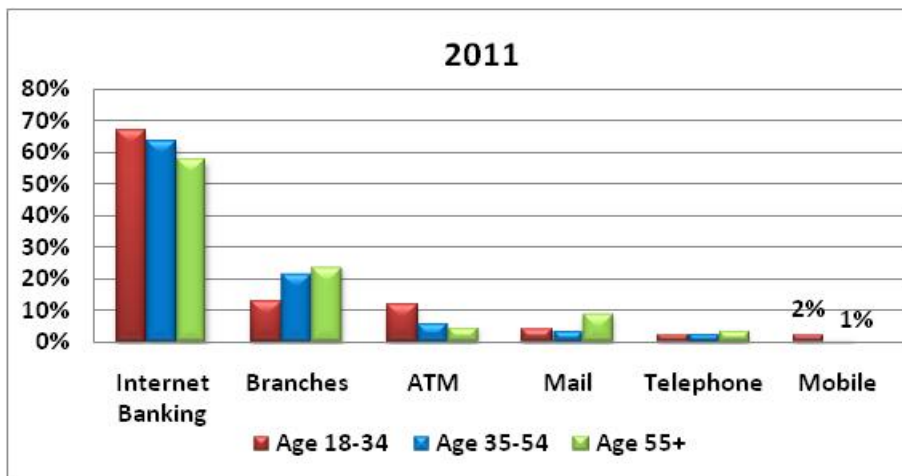
		Total Deposits at June 30,					CAGR(%)	One Year Growth(%)
Deposits (\$000)		2007 (\$000)	2008 (\$000)	2009 (\$000)	2010 (\$000)	2011 (\$000)		
1	Bank	164,782,356	166,407,153	206,228,912	197,657,194	205,086,970	5.62	3.76
2	Thrift	39,885,237	53,330,462	33,857,792	37,900,414	38,394,846	(0.95)	1.30
3	Savings Bank	4,237,631	4,094,979	4,870,692	4,759,701	5,232,408	5.41	9.93
4	Total Bank and Thrift Deposits	208,905,224	223,832,594	244,957,396	240,317,309	248,714,224	4.46	3.49
5	Credit Union	8,378,865	8,690,294	9,651,362	10,439,221	10,782,910	6.51	3.29
Branches (actual)								
6	Bank	2,659	2,681	2,887	2,874	2,827	1.54	(1.64)
7	Thrift	627	645	399	407	409	(10.13)	0.49
8	Savings Bank	70	60	64	59	72	0.71	22.03
9	Total Bank and Thrift Branches	3,356	3,386	3,350	3,340	3,308	(0.36)	(0.96)
10	Credit Union	231	223	216	209	NA	NA	NA
11	Avg. Bank Branch Size	61,972	62,069	71,434	68,774	72,546	4.02	5.48
12	Avg. Thrift Branch Size	63,304	81,455	83,647	91,545	90,701	9.41	(0.92)
13	Avg. Bank and Thrift Branch Size	62,248	66,105	73,122	71,951	75,186	4.83	4.50
14	Average Credit Union Branch Size	36,272	38,970	44,682	49,948	NA	NA	NA

Customer/technology environment:

Technology Utilization

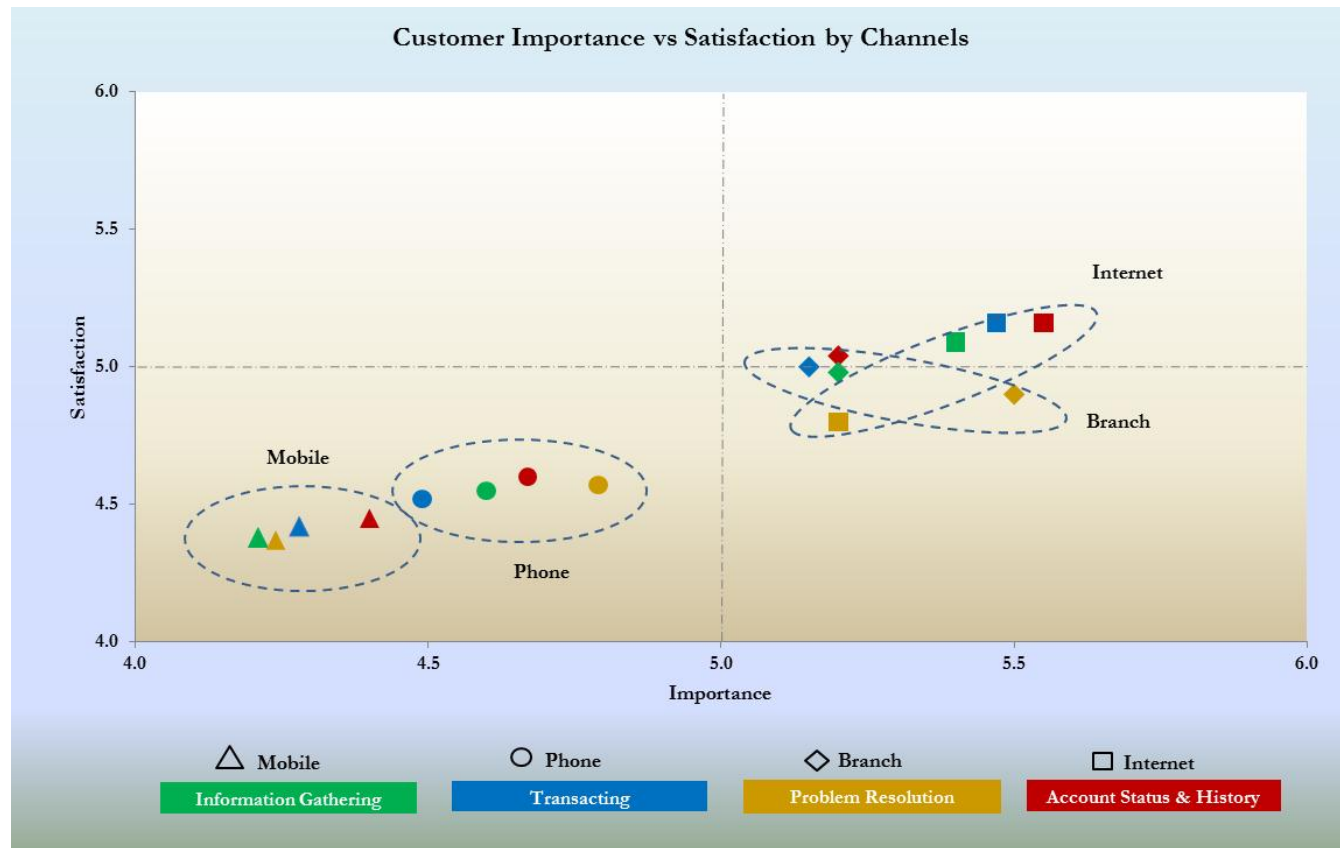


Among all consumers, the preference for online banking was followed by visiting branches and using ATMs.



Survey results showed that the popularity of online banking was not exclusive to the youngest consumers, it was the preferred banking method for all bank customers.

Banking channel trends:



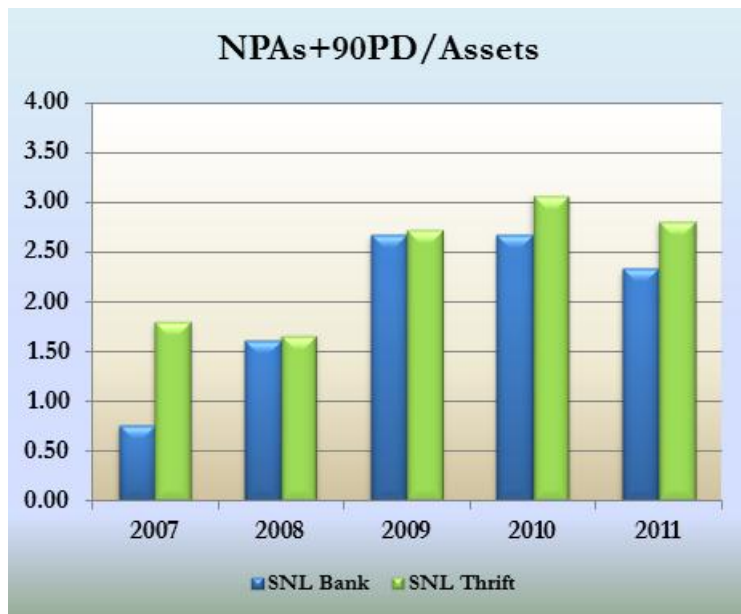
- For all transactions except problem resolution, Internet is perceived as the most important channel and one that delivers the higher customer satisfaction.

Financial industry overview: margin continues to be under pressure:

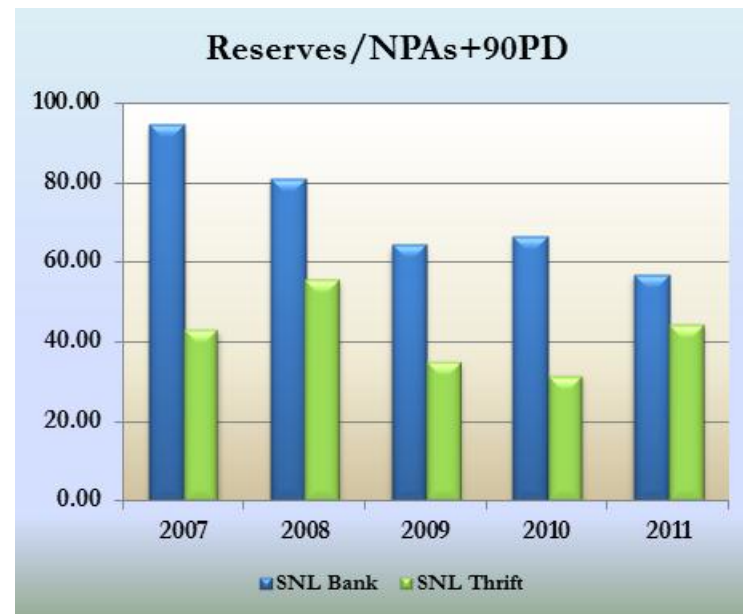


Source: SNL Financial, LC

Financial industry overview – asset quality remains a concern:

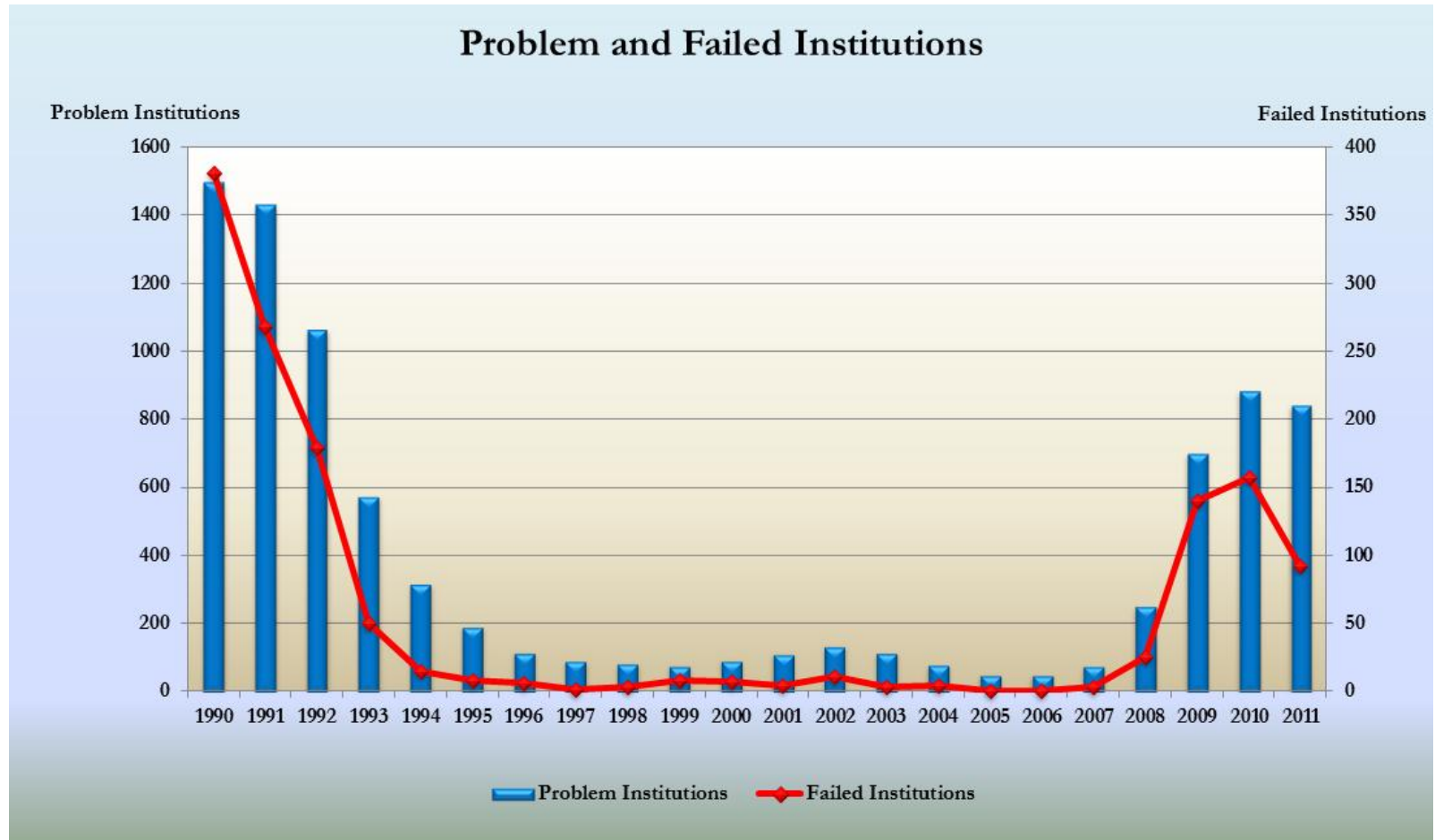


- Asset quality remains a concern. Negative trend continued.
- Median home sale price 4Q05: \$226k, 4Q10: \$172k



- Reserve ratios are historically low. Combined with lower collateral values, regulators are concerned.
- Regulators reduced the five “c’s” (character, capacity, capital, collateral, conditions) of credit to one: cash flow. If it doesn’t cash flow, it gets written down.

The Banking Industry continues to see the fallout of the crisis:



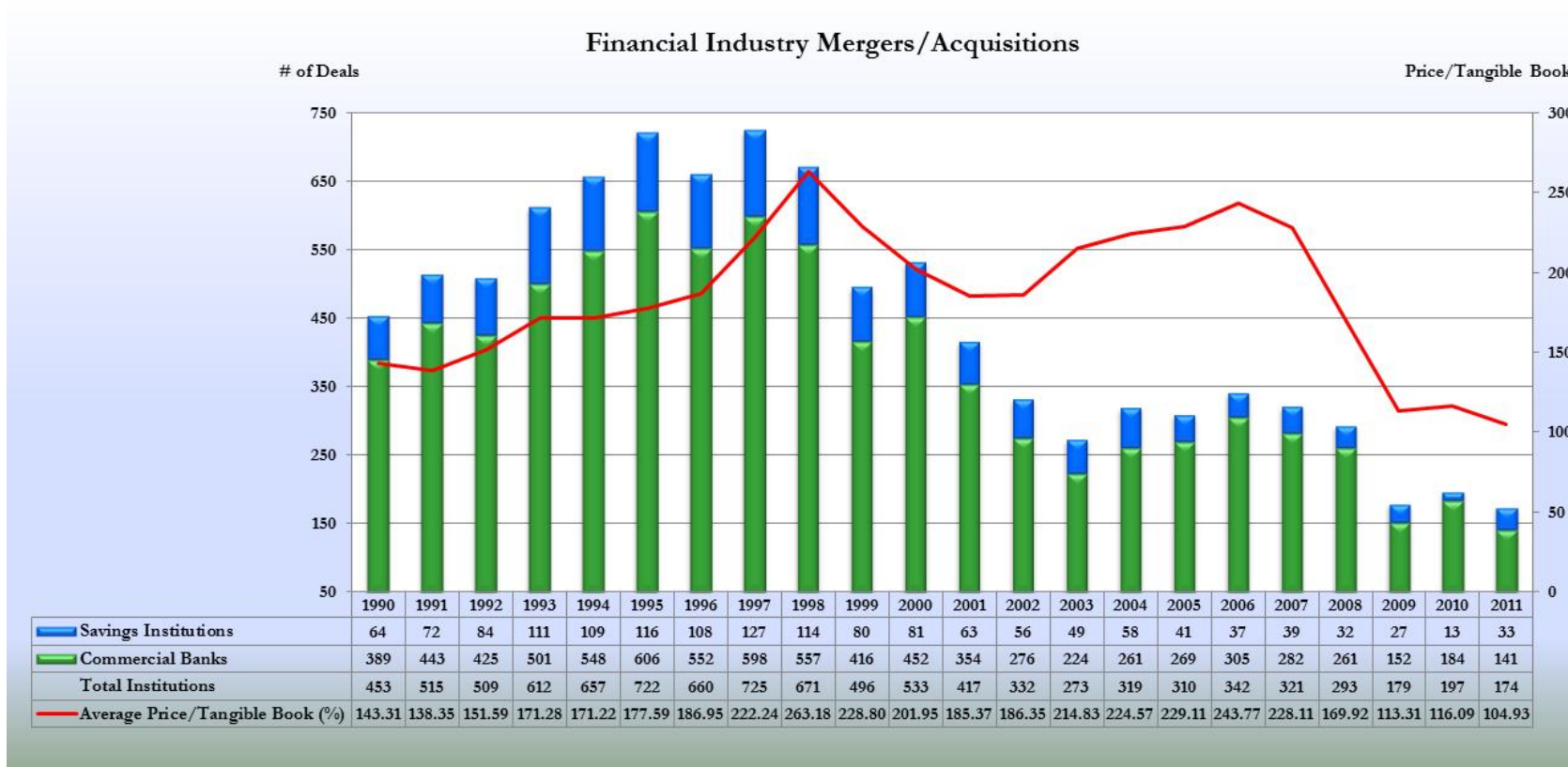
Source: FDIC

Enforcement actions have decreased:



Source: SNL Financial, LC

Long-expected industry consolidation has yet to happen:



- Bank M&A did not sustain its momentum from 2010.
- While whole-bank aggregate deal value grew to \$17.01 billion in 2011 compared to \$12.32 billion in 2010 the average price to tangible book slipped from 109% to 100%.

Source: FDIC

Regulatory Environment: Dodd Frank is still coming!



Source: The Economist, February 18 – 24, 2012

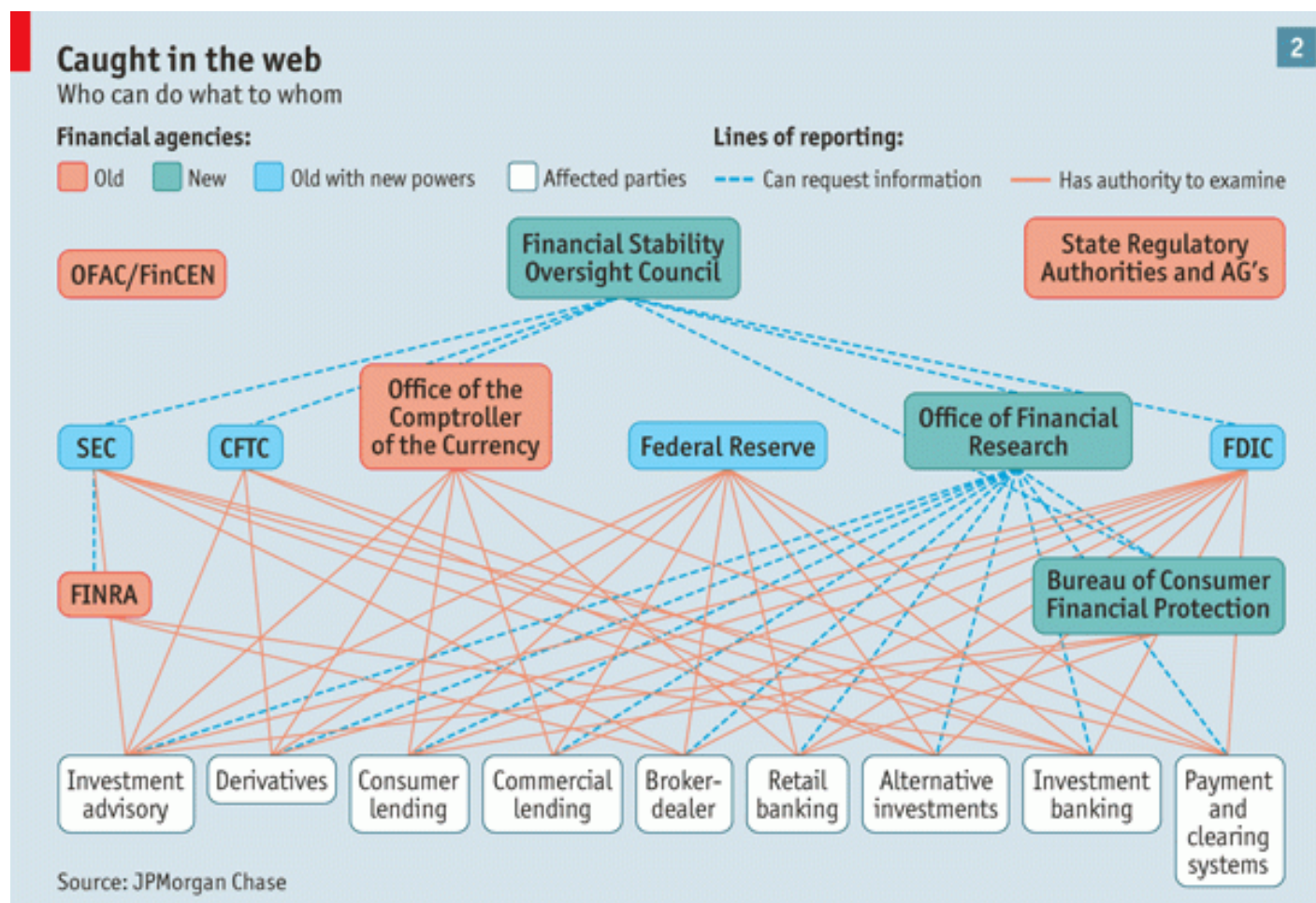
Progress (?) in Dodd-Frank rule-making:



- Someone will have to pay for all of this – and we know who it will be!
- Imperative for Community Banks to focus on:
 - What will really affect us, and
 - How to pay for it.

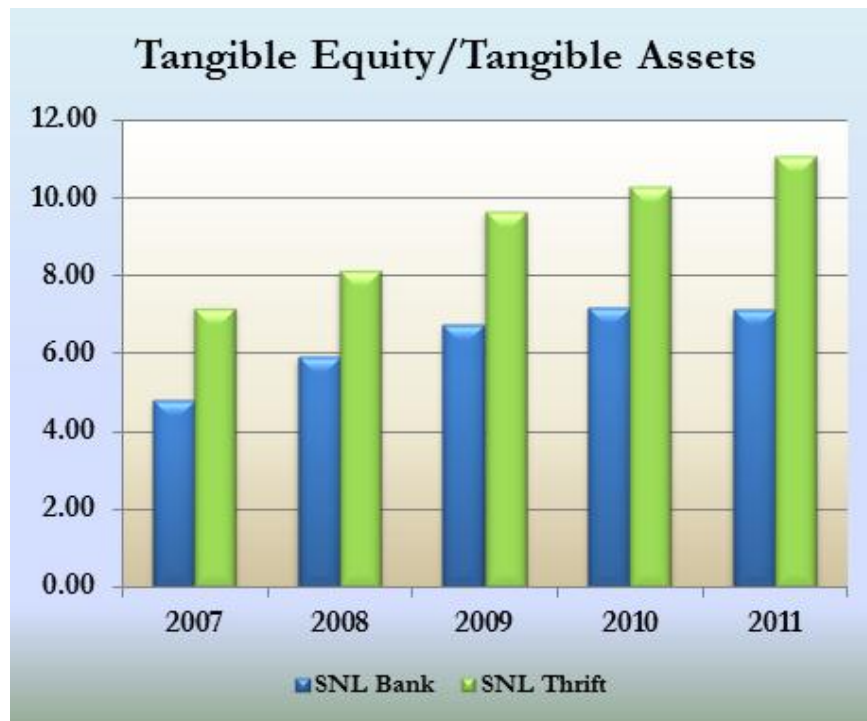
Source: Davis Polk as published in The Economist, February 18 – 24, 2012

Dodd Frank regulatory morass – complexity reigns!



Source: JPMorgan Chase as published in The Economist, February 18 – 24, 2012

Capital will continue to be king:



Source: SNL Financial, LC

- Dodd-Frank Limitations on Tier 1 Capital
- Regulatory preference for common equity
- Increased regulatory issuance of individual minimum capital ratios (IMCRs)
- Regulators are increasingly requiring financial institutions to set their own minimum capital ratios within their capital plans.
- SBLF funding today may cause capital issues 4 years out when the rate on the funds jumps to 9%

Bringing the environmental scan together:

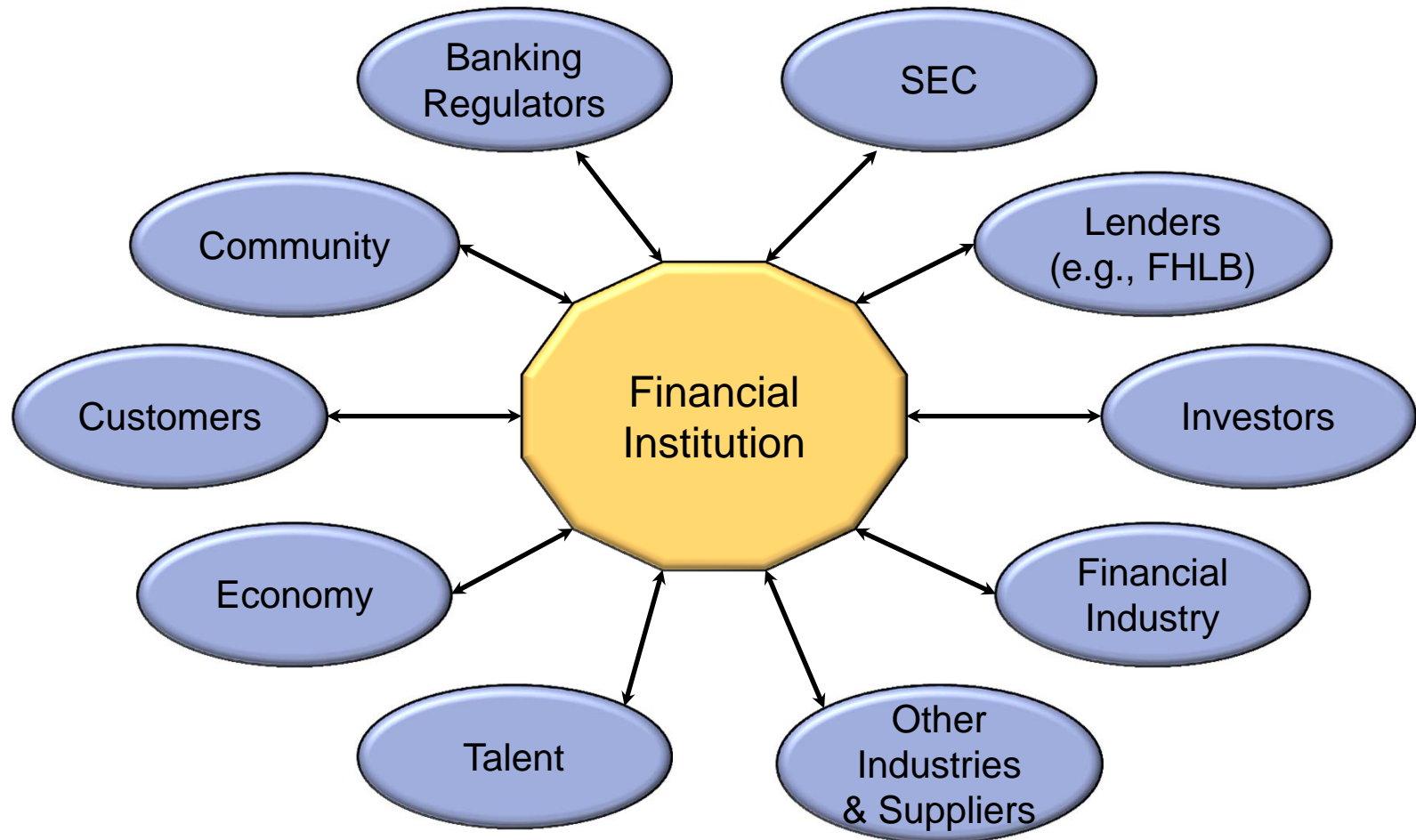


- No one “magic” approach exists.
- Finding a way to focus is key – such as the “SWOT” approach.
- But completing the environmental assessment isn’t the end of the job.

Basic planning process, once again:

- 1) Survey:
 - a) The environment.
 - b) Internal capabilities.
 - c) Risk appetite & tolerances.
- 2) **Establish/re-enforce purpose:**
 - a) For example, Mission & Vision statements.
- 3) **Define the critical issues to be addressed.**
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Let's look at internal capabilities:



Internal assessment:

- Topics:
 - Adequacy and relevance of bank policy
 - Products
 - Infrastructure:
 - People
 - Processes
 - Information technology
 - Risk appetite and tolerances, and the process to understand, monitor & report.
 - Means to communicate status of implementing the plan.
- Review needs to be succinct and focused.

The power of purpose:

- Mission & Vision statements should describe the rationale for the business.
- They are most powerful when combined with the Bank's messages to the outside world – such as the “Tag Line” in communications. For example:
 - “America's most convenient Bank.”
 - “Simply a better bank.”

Make these statements vehicles for driving action!

Action needs an actual plan:

#	Strategic Objective	Goal	Task	Deliverable	Management Responsible	End Date	Budget Impact
5001	Develop Brand & Marketing Plan	Continue to focus on two brands - national Capital Funding and regional Community Bank.	Build on Capital Funding's existing national reputation/brand.	Marketing plan in place.	Sr Mgt, Business Unit Leaders	12/31/2012	Medium-high
5002	Develop Brand & Marketing Plan	Continue to focus on two brands - national Capital Funding and regional Community Bank.	Build a brand/image for the regional community bank. Consider using a well-known sports celebrity or other recognizable person as spokesperson for CFGCB.	Marketing plan in place.	Bank President	3/31/2012 and annually thereafter by 12/31	Medium-high
5003	Develop Brand & Marketing Plan	Continue to focus on two brands - national Capital Funding and regional Community Bank.	Define Bank's core focus - CFG Community Bank to deliver superior customer service as differentiating factor.	Marketing plan includes customer service codes of conduct.	Sr Mgt, Business Unit Leaders	3/31/2012	Minimal
5004	Develop Brand & Marketing Plan	Construct and implement marketing plans for each business unit or segment within CFG.	Coordinate meetings with external marketing group to assist with plan design and implementation of strategies.	Marketing plan in place.	Sr Mgt, Business Unit Leaders	12/31/2011	Medium-high
5005	Develop Brand & Marketing Plan	Construct and implement marketing plans for each business unit or segment within CFG.	Communicate with operations groups regarding timing, volume, product design and ensure adequate training and staffing are in place to support initiatives.	Marketing plan in place.	Sr Mgt, Business Unit Leaders	Ongoing	Minimal
5006	Develop Brand & Marketing Plan	Provide consistent delivery of brand/image across all marketing tools, media, communications, etc.	Enhance website and Internet presence, while considering expanded use of social media. Tie together web presence with social media.	New site in place and updated regularly.	Sr Mgt, Business Unit Leaders, IT	9/30/2012	Medium-high
5007	Develop Brand & Marketing Plan	Provide consistent delivery of brand/image across all marketing tools, media, communications, etc.	Improve collateral materials and develop consistency.	Collateral materials in print.	Business Unit Leaders	3/31/2012	Medium
5008	Develop Brand & Marketing Plan	Provide consistent delivery of brand/image across all marketing tools, media, communications, etc.	Provide consistent image for community events. Encourage CFG Staff to volunteer and/or participate in events.	Marketing plan in place.	Sr Mgt, Business Unit Leaders	3/31/2012	Medium
5009	Develop Brand & Marketing Plan	Provide consistent delivery of brand/image across all marketing tools, media, communications, etc.	Define roles of Bank President, Business Unit Leaders, Board members, and others in delivering the brand.	Org Structure, Position Descriptions	Sr Mgt, HR	3/31/2012	Minimal
5010	Develop Brand & Marketing Plan	Provide consistent delivery of brand/image across all marketing tools, media, communications, etc.	Share marketing plan with employees and involve employees as ambassadors to build a sense of pride among all members of CFG staff.	Marketing plan in place.	Sr Mgt, HR	3/31/2012	Minimal

But it's not all good news – Common examiner criticisms of strategic plans:

- Insufficient assessment of the Bank's ability to implement the strategic plan.
- Inadequate or no discussion of risk appetite or tolerances.
- No discussion of specific actions required to implement the plan, and no indication of timing or accountability.
- No discussion of the process for the Board to monitor implementation.
- Projections do not correspond to the planned actions.
- The capital plan does not correspond to the strategic plan, and does not address the adequacy of capital to support the present or planned risk profile.
- Requirement that any new product/business/market initiative be accompanied by all of the above items.

Let's go back to Ed Crump's approach –

“Plan your work; work your Plan.”

But –

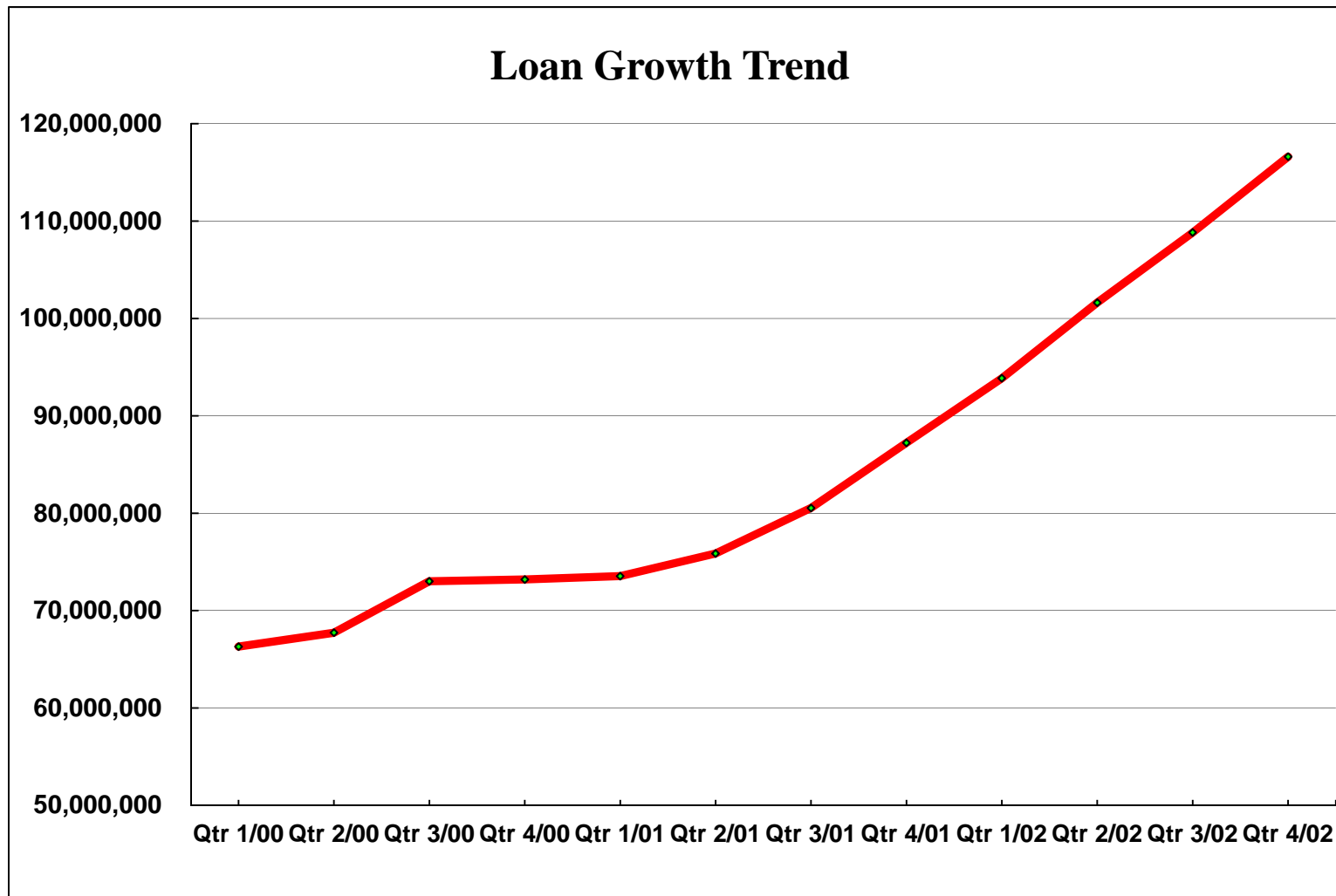
“Plan your work; work your Plan.”

“Every day is ordinary until it isn’t.”

Bernard Cornwall

So, how can you handle surprises?

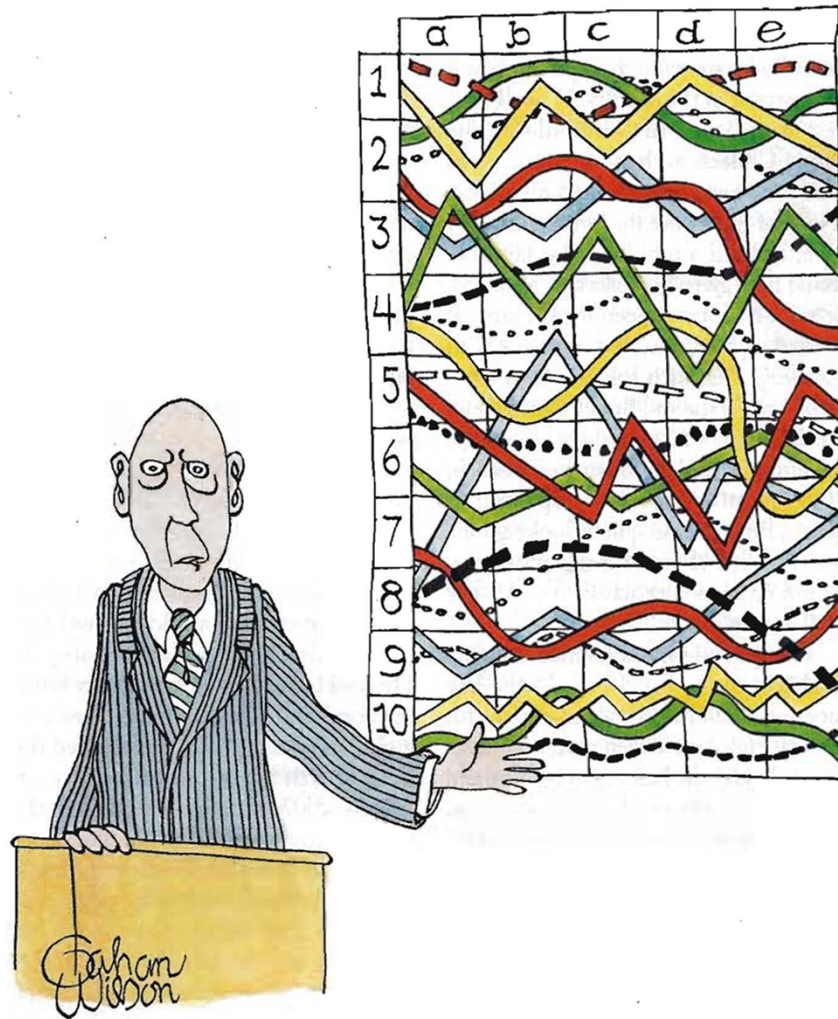
“Every day is ordinary . . .”



What is your reaction to strategic planning?

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- ~~Our bank does it whenever we get around to it or whenever the examiners push us to do so.~~
- It's an annual event.
 - To refresh the actions and assess our overall progress.
- Whenever business conditions require.

How can Finance help lead the way?



“I’ll pause for a moment so you can let this information sink in.”

“I’ll pause for a moment so you can let this information sink in.”

Source: New Yorker, December 6, 2010, page 59

Actions to help lead the way:

1. **Forecast:** More than the annual 3-year projection

- a) Rolling 3 year forecast by quarter.
- b) Building in the various strategic initiatives as time goes by
- c) Tie with asset-liability management.
- d) Prepare an appropriate capital plan tied to the forecast.

2. **Analyze:**

- a) Build projections supporting any major use of capital from M&A to investments in infrastructure.
- b) Develop assessments of the value of the Bank.
- c) Understand the sources of earnings for the Bank.

Actions to help lead the way, continued:

3. **Drive** for efficient & effective use of resources.
4. **Encourage** evaluation of how the plans might go wrong.
 - a) To help keep board & management from anchoring too much to the conventional wisdom.
5. **Monitor** financial performance against the plan, not just against the budget.
6. **Push for plan review** when unexpected events occur.



QUESTIONS?



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