Survive and Thrive:
Six Strategic “Must Do’s” for 2010
and
Best Practice Strategies

The Creative Imperative

“A greater emphasis on human imagination, innovation, and creativity must be the key differentiators for business.”

World Economic Forum 2006
Davos, Switzerland (WSJ 1/28-29/06)

Industry Overview

Challenging Times Demand Creative Thought and Realigned Tools
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Unprecedented times affirm or alter strategic direction!

“The times they are a’ changing!”

- Altered assumptions
- Adjusted direction
- “Right” priorities
- Strategy modification or enhancement
- Restructuring the organization
- Review, readjust, realign variable compensation and what we reward

Commercial Banks and Thrifts


Hot Priorities

1. Risk management (ERM)
2. Asset quality
3. Capital adequacy
4. Funding
5. Liquidity
6. Leadership effectiveness
7. Succession and keeping best talent
Strategic Effectiveness: Six Strategic "Must-Do's!"

Key to incorporate in 2010

The Differentiators!

Strategic Must-Do #1:

Evaluate Current Priorities

• Leading?
• Lagging?

Sustainable Strategies for Long-Term Success

What might they be?
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and and
Best Practice Strategies

Sustainable Strategies

1. Continually build an efficient, effective infrastructure
   - Risk management
   - Credit policy/support
   - Staff support/leadership

Sustainable Strategies

2. Continually define and evaluate markets you are in:
   - Market share gains/losses
   - Growth vs. maintenance
   - Track/monitor all branches
     - Brick/mortar
     - In-store
     - Electronic
   - Know the market demographics

Sustainable Strategies

3. Competitive advantage
   - Does your financial institution have one?
   - Does it truly differentiate you? ...

Really?
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Competitive Advantage

Why should I do business with your financial institution?

Sustainable Strategies

4. Focus
   … on what you do best
   … on developing those core competencies
   … on ditching the rest!

Sustainable Strategies

5. Look forward!
   Get your head out of the rearview mirror!
Take Strategic Action!

1. Now is the time to update the strategic plan

2. Get crystal clear on the vision three to five years hence
   • Redevelop the three to four most important priorities to get you to that vision
   • Enroll or re-enroll the key stakeholders
   • Communicate, communicate, communicate!

Take Strategic Action!

At the end of the day, it’s all about the “M!”

Strategic Must-Do #2:

Enhance Board Governance

How is the board performing?
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**Board Performance**
Six Keys to Consider

1. Ensure competent leadership for today and tomorrow

2. Be informed and educate thyself as a board member
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Board Performance
Six Keys

3. Affirm direction and “destination”
Monitor it quarterly

4. Establish and monitor risk management

The Board’s Role

• Setting risk appetite
• Monitoring risk levels
• Ensuring adequate risk management resources, relative to both size and condition
• Requiring regular, periodic presentations on risk management issues and “hot buttons”
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**Board Performance**
Six Keys

5. Get progressive!

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**Board Performance**
Six Keys

6. Revisit the tools

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**The Board’s Tool Kit**

1. Updated role description
2. Qualified, competent outside directors
3. Proper committee structure
4. Regulatory guidebooks
5. Ongoing education/board development
6. Quality, transparent reporting
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Best Practice Strategies

Take Strategic Action!
1. Read Ram Charan’s “Boards That Deliver”
2. Ensure a majority of qualified outside directors
3. Review and update the board’s tool kit
4. Continually provide board education
5. Annually, have the board evaluate its performance
6. Insist that the board review the FDIC’s website and read published C&Ds

Strategic Must-Do #3:
The Next Generation of Customers

Gas Station Philosophy
How do you choose a gas station?
- Lowest price
- Convenience – Same side of the street
- Urgency – Low fuel light came on and you pulled into the next gas station you saw
- Loyalty – Always use the same gas station
- Cleanliness – Pumps and station are clean
- Hunger or thirst – Filled up and went in to the convenience store
- Speed – Like the pay-at-the-pump system at the preferred gas station
- Rewards – Get rewards at the gas station used

Source: Doug True, President of FORUM Solutions
Survive and Thrive: Six Strategic “Must Do’s” for 2010 and Best Practice Strategies

The Ultimate Challenge
From where will tomorrow’s profitable growth come?
What MARKETS?
Which NICHES within those markets?
HABITS of consumers?
The role of TECHNOLOGY?

Strategic Planning GPS™ Survey 2009
Detailed Item Report

Delivery Channels and Marketing

Wipfli LLP 2009
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Delivery Channels and Marketing (continued)

<table>
<thead>
<tr>
<th>Question</th>
<th>Rating</th>
<th>&lt; 100MM</th>
<th>100-250MM</th>
<th>251-500MM</th>
<th>501MM-1 Billion</th>
<th>&gt; 1 Billion</th>
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<td>Q26</td>
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<td>Q27</td>
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</tr>
</tbody>
</table>

Q26 Aggregate

Question 26: Internet banking is functional, reliable, and maximized as a key delivery channel.

Question 27: Marketing strategies are differentiated by market segments.

Communication Methods

“I only use e-mail to get ahold of old people like you.”

Meet the Next Generation

<table>
<thead>
<tr>
<th>Generation Name</th>
<th>Birth Years - Ages in 2009</th>
<th>% of Total Adult Population</th>
<th>% of Internet-Using Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gen Y (Millenials)</td>
<td>Born 1977-1990, Ages 18-32</td>
<td>26%</td>
<td>30%</td>
</tr>
<tr>
<td>Gen X</td>
<td>Born 1965-1976, Ages 33-44</td>
<td>20%</td>
<td>23%</td>
</tr>
<tr>
<td>Younger Boomers</td>
<td>Born 1955-1964, Ages 45-54</td>
<td>20%</td>
<td>22%</td>
</tr>
<tr>
<td>Older Boomers</td>
<td>Born 1946-1954, Ages 55-63</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>Silent Generation</td>
<td>Born 1937-1945, Ages 64-72</td>
<td>9%</td>
<td>7%</td>
</tr>
<tr>
<td>G.I. Generation</td>
<td>Born 1936 or before, Age 73+</td>
<td>9%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: Pew Internet & American Life Project December 2008 survey. N=2,253 total adults, and margin or error is ±3%. N=1,650 total Internet users, and margin of error is ±4%.

These generational break points are somewhat arbitrary but are roughly comparable to those used by other scholars and researchers.
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Understanding the Next Generation Understanding the Next Generation

- The current infrastructure will struggle to meet expectations of the next generation “raised on the Internet”
- They have new attitudes and aptitudes as a result of the environment they have grown up in and lived in

Baby Boomers... Baby Boomers... …can be majority (of customers) …can be majority (of customers)

<table>
<thead>
<tr>
<th>Age</th>
<th>% of Customers</th>
<th>Cumulative %</th>
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<tbody>
<tr>
<td>&lt; 19 years</td>
<td>6.9</td>
<td>6.9</td>
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<tr>
<td>19 to 25 years</td>
<td>4.5</td>
<td>11.4</td>
</tr>
<tr>
<td>25 to 30 years</td>
<td>4.5</td>
<td>15.9</td>
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<tr>
<td>30 to 40 years</td>
<td>8.2</td>
<td>24.1</td>
</tr>
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<td>40 to 50 years</td>
<td>13.8</td>
<td>37.9</td>
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<tr>
<td>50 to 60 years</td>
<td>20.3</td>
<td>58.2</td>
</tr>
<tr>
<td>60 to 70 years</td>
<td>22.4</td>
<td>80.6</td>
</tr>
<tr>
<td>&gt; 70 years</td>
<td>19.4</td>
<td>100</td>
</tr>
</tbody>
</table>

Preferred Banking Channels Preferred Banking Channels (The branch is not dead...)

The branch and the Web are the key buying channels.

The Web is a top channel for day-to-day banking.

The branch is the top service channel.

Source: Forrester Research, The Banking Channel Popularity Contest Consumer Preferences For Buying, Banking, And Service Interactions Bruce D. Temkin, with Eric M. Dolan and Peter Hult.
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Future of Customer Feedback?

Provides customers their desired sense of control

Dramatically reduces the bank’s opportunity for face-to-face interaction, which was the foundation of old-style bank loyalty

Customer Loyalty is Being Redefined

A Quote to Ponder...

"The biggest profit center at banks is customer ignorance, which banks have mistaken for customer loyalty."

Gary Hamel, speaking to 1000+ bankers at BAI's Retail Delivery Conference, Nov. 15, 2006

Wipfli LLP 2009
Take Strategic Action!

1. Know your customer demographics...across all niches
2. Track the traffic coming into your branches
3. Treat electronic banking as a branch
4. Think about mobile banking
5. Track, measure, monitor, and evaluate

---

Take Strategic Action!

At the end of the day... it’s all about the customer!

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Strategic Must-Do #4:

Re-recruit the top 20%
- Customers
- Employees
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Strategic Must-Do #4:
Re-recruit the top 20% every year!
- Top performers!
- Top potential!
- Most profitable customers
- Customers with most potential

“People aren’t a company’s most important asset . . .
... the right people are.”
Jim Collins
Good to Great

Re-recruit/Re-enlist
The “A” team!
1. Identify “A” players... (“Starting Lineup”)
   - How do we define?
   - Who are they?
   - How many do we have?
   - What’s our bench strength?
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Re-recruit/Re-enlist

Defining “A” players
1) Strongest performers
2) Most potential
3) Intellectual capacity
4) Wise sages

Re-Re-recruit/Re-enlist

Key position planning

Key Positioning

Wipfli LLP 2009
Re-recruit/Re-enlist

Force ranking

Force Ranking

A process…
...for the brave
...the honest
...and the realists!

Identify Key Performers

Force-ranking validation
- 80/20
- 70/20/10
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Best Practice Strategies

Take Strategic Action!
1. Know who they are
2. Differentiate!
3. Develop retention strategies
4. Tell them!
5. Allocate appropriate development $$
6. Track retention

Strategic Must-Do #5:
Talent management and succession
-Board
-Management

Talent Management Best Practices
Developing succession at all levels… step by step!
TALENT MANAGEMENT
The ONLY thing that will matter...

Capital Adequacy
Human Capital
Well capitalized?
Adequately capitalized?
Under capitalized?

Segment Your “Asset” Portfolio!
How do the demographics break out?
- By total bank?
- By management group?
- By department?
- By location?
- By major market?
Concerning Statistic

25% of high-potential employees plan to leave their current jobs over the next 12 months

American Bankers Association and Corporate Executive Board Talent Management Survey Results 2009

Bottom Line

“Why should I volunteer critical years of my career with you and your bank?”

Bottom Line

“Which employees have the most potential for future roles?”
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**Bottom Line**

“Who are our best performers, and how do we retain them?”

**Bottom Line**

“The CEO just called and said the Board wants to see our succession plan next month...and we have never done one. What should we do?”

The right people... in the right seats... for the right time...
“If we don’t get the people thing right, we lose. It’s the most important thing in all our businesses.”

Jack Welch, Former CEO
General Electric (GE)

“It all comes from people!”

Peters and Waterman
In Search of Excellence
Mid-1980s

Top Three Reasons
Why Community Banks Sell

1. No management successor(s)
2. Can’t afford the necessary technology investments
3. Insufficient capital
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Talent Management

In 2008, for every new entrant in the work force, three left!

Note: Statistic prior to fourth quarter 2008

Effective, Attainable Talent Management

Six Critical Tools

1. Training needs assessment/career path planning
   (Development plans)
Six Critical Tools

2. Internal job posting

3. A talent management process

4. Current, multiyear strategic plan
Six Critical Tools

5. Organizational chart
- Now
- Three years out (planning cycle)
- Six years out (two planning cycles)

Six Critical Tools

6. Assessment tools

Role of Assessments
- Increasingly important
- External experts
- “Match” with company
- Potential/capacity
- Developmental needs

Critical: Trust/rapport
Take Strategic Action!

1. Develop a talent management process
2. Have HR lead...with talent and development
3. Develop the organizational chart
   - Now
   - Three years out
   - Five to six years out

Strategic Must-Do #6:
Capital Planning and Alignment of Shareholder Priorities

Updated Priorities: Capital Planning

Develop or update the capital plan to align with the strategic plan and current economic times
Updated Priorities: Capital Planning

Decide what you and your board believe the “new” numbers will be

Plan accordingly...with contingencies!

Capital Planning

- Capital adequacy
- Level of earnings
- Level of retained earnings
- For Sub S: potential changes to tax code
- Sources and strategies for raising capital
- For healthy banks: capital to seize opportunities to grow, if desired

Managing Shareholder Expectations

- Rolling three-year ROE
- The “right” peer group(s) (Objective!
- Capital plan for the next 12 months
  - The next three years
  - The next five years
- Credit quality “gates” for all variable compensation
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Take Strategic Action!
1. Update the multi-year capital plan
2. Track/align with strategic plan
3. Know and track the ratios at the board level
4. Develop appropriate “what if” strategies
5. Get positioned…and stay positioned

Summary
1. Proactively develop strategies to right-size the bank in these times

Summary
2. Win the talent war!
   ✓ Get real about succession
   ✓ Re-recruit the top 20%
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Summary

3. Decide what the “next generation” means for your financial institution
Plan accordingly

Summary

4. At the end of the day, it’s all about the “M!”

“"It is not the strongest of the species that survive, nor the most intelligent, but the ones most responsive to change.”"
-Charles Darwin
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Discussion, Thoughts, and Questions

Out-spend or Out-inspire

QUESTIONS?

Contact:
Terry Saber
tsaber@wipfli.com
952.548.3363
www.wipfli.com