

BankDirector

Breakout 4:
Navigating the Future:
Bank Strategic Planning
Amidst Evolving
Challenges and Shifting
Regulatory Focus

Erica Crain

CliftonLarsonAllen LLP

Susan Sabo

CliftonLarsonAllen LLP

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Navigating the Future: Bank Strategic Planning Amidst Evolving Challenges and Shifting Regulatory Focus

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About Your Speakers



Susan Sabo is the managing principal of CLA's (CliftonLarsonAllen LLP) financial services practice. She is a CPA with more than 25 years of combined experience in public accounting and the financial services industry, including experience with Fortune 500 financial services companies. Susan provides board advisory and management consulting services in the areas of strategic planning and mergers & acquisitions. Susan has been involved in multiple mergers & acquisitions of sizes ranging from \$150 million to \$500 billion with engagement at all stages of the process. Susan can be reached at susan.sabo@claconnect.com.



Erica Crain is the managing principal of CLA's specialized advisory value & risk services. With 25 years of experience in strategic and enterprise risk management, Erica has a track record of navigating various economic environments. As a former regulator, risk management director, and trusted advisor to financial institutions, Erica has successfully guided clients through periods of economic uncertainty and market volatility. Her experience in risk management and strategic planning has helped clients mitigate risk and capitalize on opportunities in even the most difficult economic climates. Erica can be reached at erica.crain@claconnect.com.



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CLA exists to create opportunities for our clients, our people, and our communities.

OUR PROMISE

We promise to know you and help you.

CLA Promise

OUR FAMILY CULTURE

We're one family, working together to create opportunities.

OUR STRATEGIC ADVANTAGES

Deep industry specialization
Seamless, integrated capabilities
Premier resource for private businesses and owners
Inspired careers



Curious, Collaborative, Transparent, Inclusive, Reliable



OUR STRATEGIC ADVANTAGES

Deep industry specialization

Seamless, integrated capabilities

Premier resource for private
businesses and owners

Inspired careers



National and International Reach

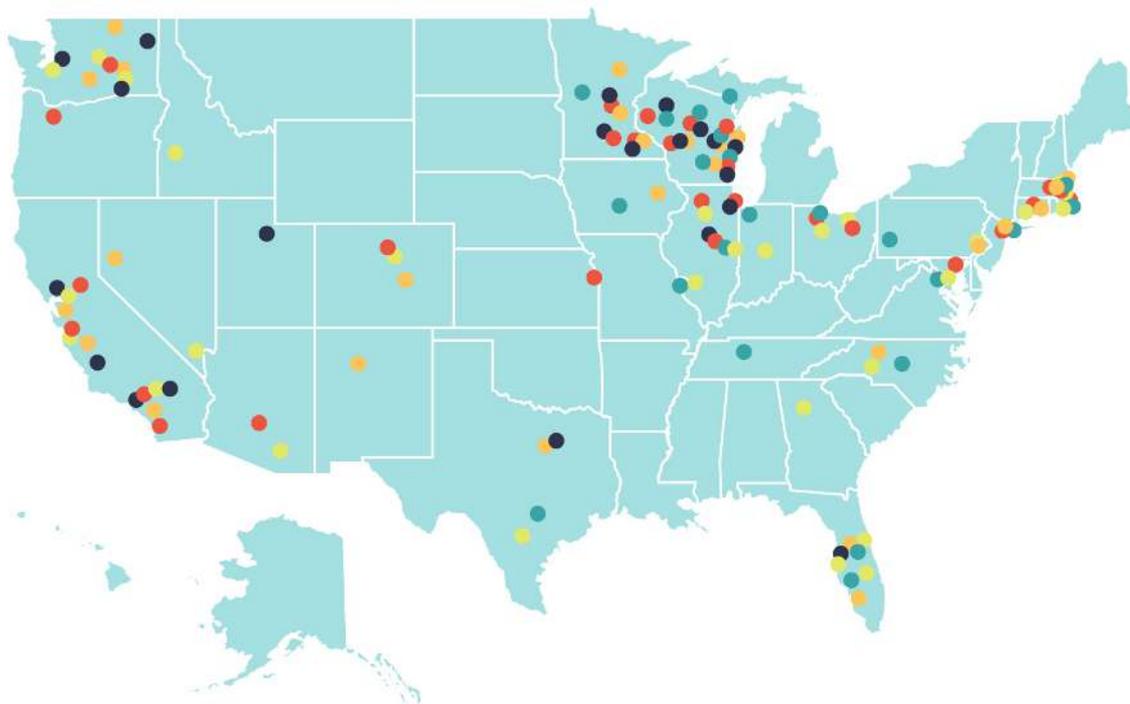
8,500+
PEOPLE

130
NEARLY 130 U.S. LOCATIONS

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Today's Topics



Evolving Challenges



What Now? What's Next?



Shifting Regulatory Focus



Key Takeaways

Evolving Challenges



Setting the Stage: From Volatility to Stability

Tough – revenues fell
and costs remain

Stable – muted revenue
growth with expense control

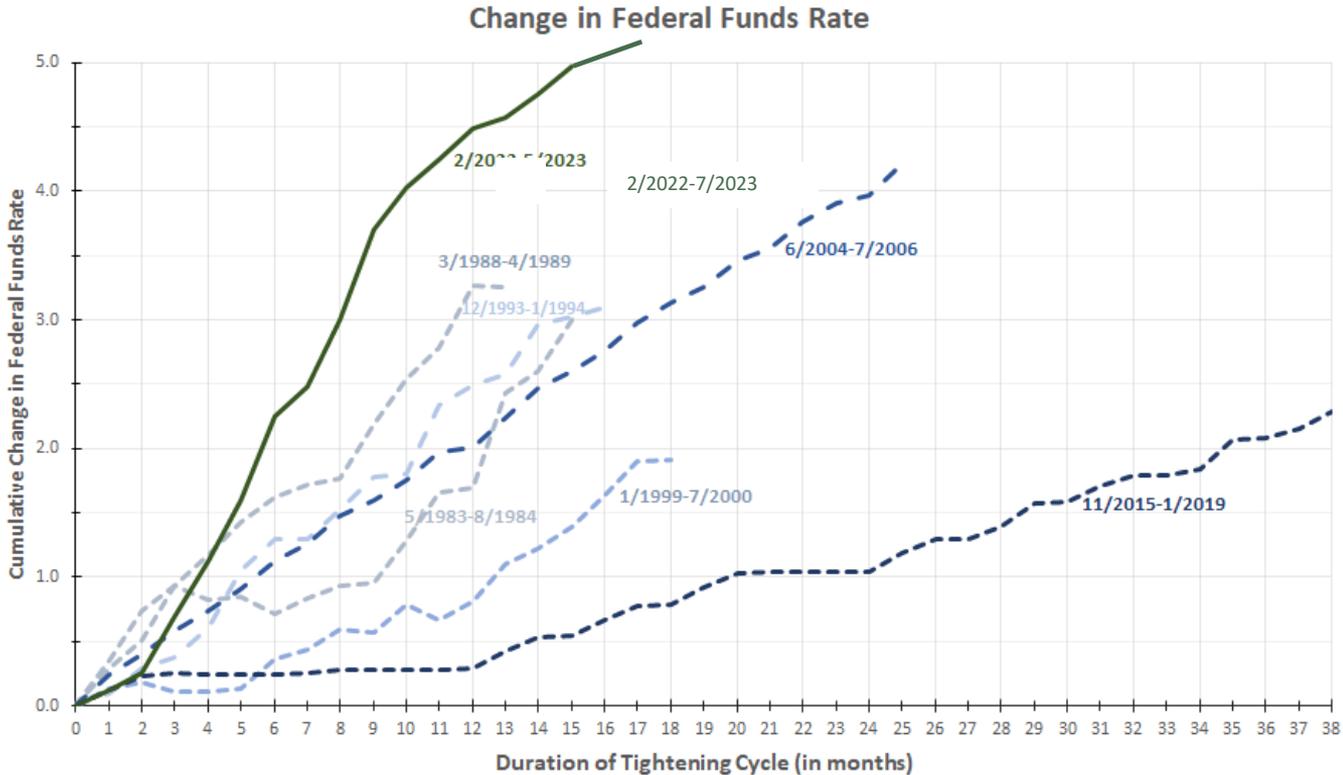


Better – revenue growth
with price hikes

Growth – revenue driven by
with unit growth and price
hikes while controlling costs



Interest Rates Have Never Risen So Far, So Fast



Higher Rates and Industries

In a world of higher rates, the costs of operating your business are higher.



Higher wages



Higher financing costs



Handling your working capital and excess cash



Workforce of the Future



Megatrend: Industry 4.0

Industry 4.0 is the trend of transforming the way products and services are designed, created, and delivered.



Digital strategies:
Artificial intelligence
and big data



Talent management:
Reskilling and using
outsourcing for increased
flexibility and agility

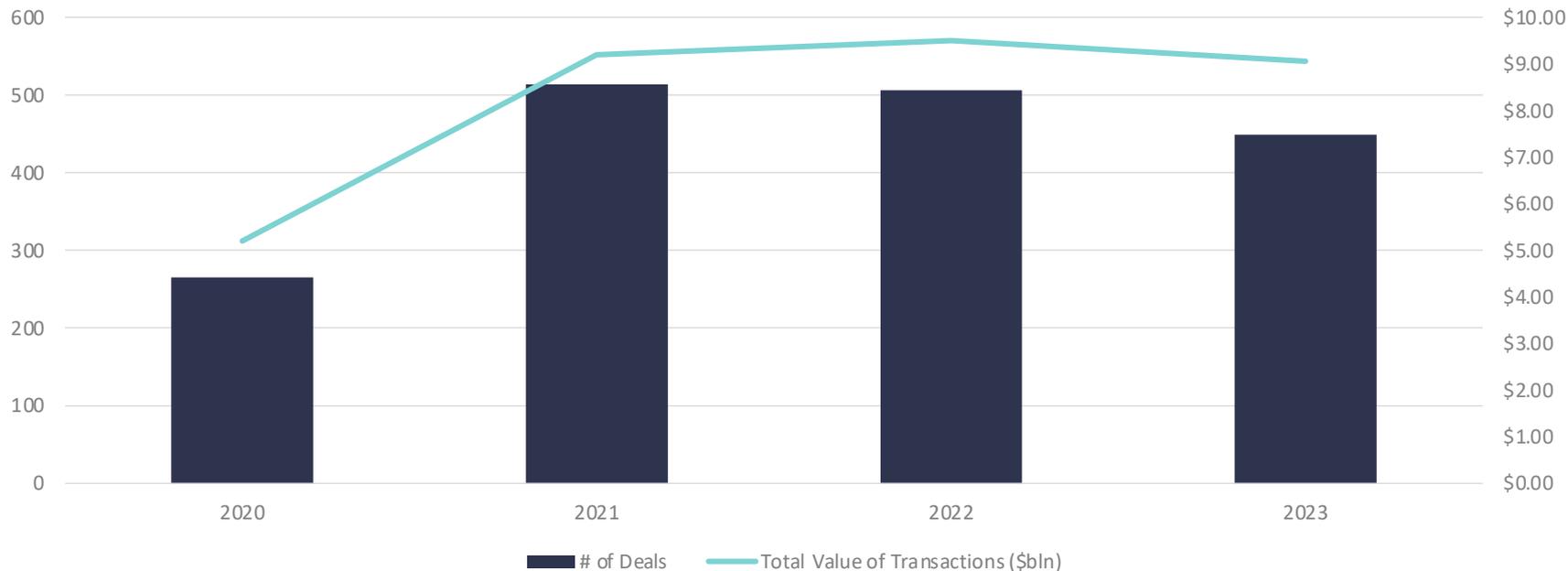


Cybersecurity is
taking an elevated
importance for
business owners

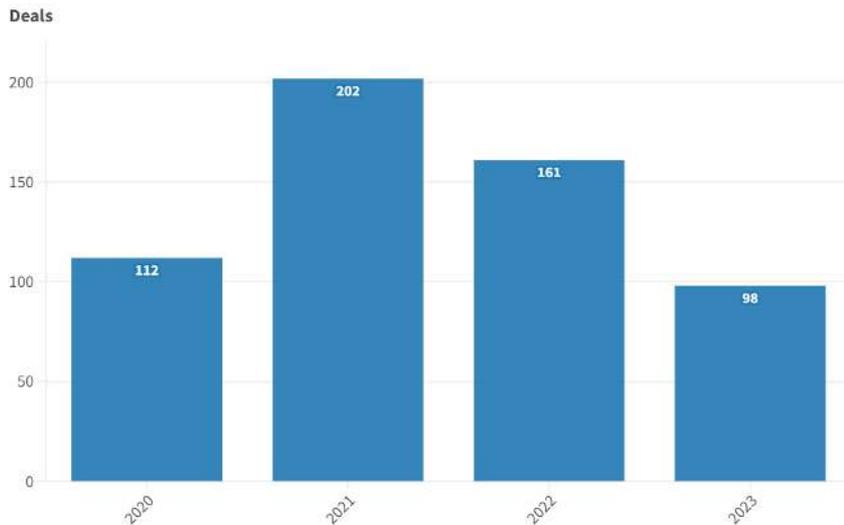


Business Owners Continue to Evaluate Exit Opportunities

Potential Transactions
(CLA Buy-side and Sell-side Due Diligence)



Merger & Acquisition Trends



Source: S&P Global Market Intelligence

- Bank consolidation at lowest point of activity in a decade
- Momentum gained in last half of the year; 53 of 98 deals closed including the five largest of the year



What Now? What's Next?



Looking Back to Plan Ahead

Where is your financial institution in the strategic planning process?

What did your bank do well in 2023?

What will you do differently?

How are you monitoring success?



2. What do you see as the three most significant strategic challenges for your organization over the next 18 months?

Respondents were asked to select no more than three options.



Deposit pricing



Attracting and/or retaining talent



Slowing credit demand



Liquidity management



Evolving regulatory or compliance requirements



CEO and/or senior management succession



Inability to keep pace with technological advances in banking



Attracting customers under the age of 40



Diversifying revenue



Declining asset quality



Augmenting staff with technology/automation



Differentiating our brand in the marketplace



Key Performance Indicators (KPIs)



KPIs are measurable values that demonstrate how effectively a company is achieving its key business objectives. KPIs are used to evaluate the success of an organization or of a particular activity in which it engages.



Examples: NIM, ROA, ROE, Efficiency ratio, Non-Performing Loans, Capital Adequacy Ratio, Liquidity Ratio



What are your customized KPIs?

Key Risk Indicators (KRIs)

Credit Risk Indicators: High loan default rates, low credit quality, the percentage of high-risk loans in the portfolio, or high loan concentrations in specific sectors.

Operational Risk Indicators: System downtime incidents, attempted cybersecurity breaches, or the employee turnover rate are all examples of KRIs related to operational risk.

Liquidity Risk Indicators: Low levels of cash reserves, high dependency on short-term funding, or a high ratio of loans to deposits can hint at liquidity risk.

Market Risk Indicators: Key risk indicators for banks indicating market risk include changing interest rates or commodity prices or fluctuations in investment values.

Compliance Risk Indicators: Volume of consumer complaints, the number of policy exceptions, and the rate of compliance training completion are all potential KRIs suggesting an increase in compliance risk exposure.



Current considerations

Digital advancements

Earnings
compression

Emerging credit
concerns &
concentration
management

Competition

Succession
planning challenges

Asset/liability
management;
interest rate risk

Increased regulatory
burden

Capital – cost,
availability &
planning



Shifting Regulatory Focus



Points of Emphasis



Digital Strategy



Credit Risk



Asset/Liability
Management

Digital Strategy



Data's Role in Digital Strategy

Having quality data is critical

Data drives processes, efficiencies, and new ideas



Work to Foster an Innovative Culture

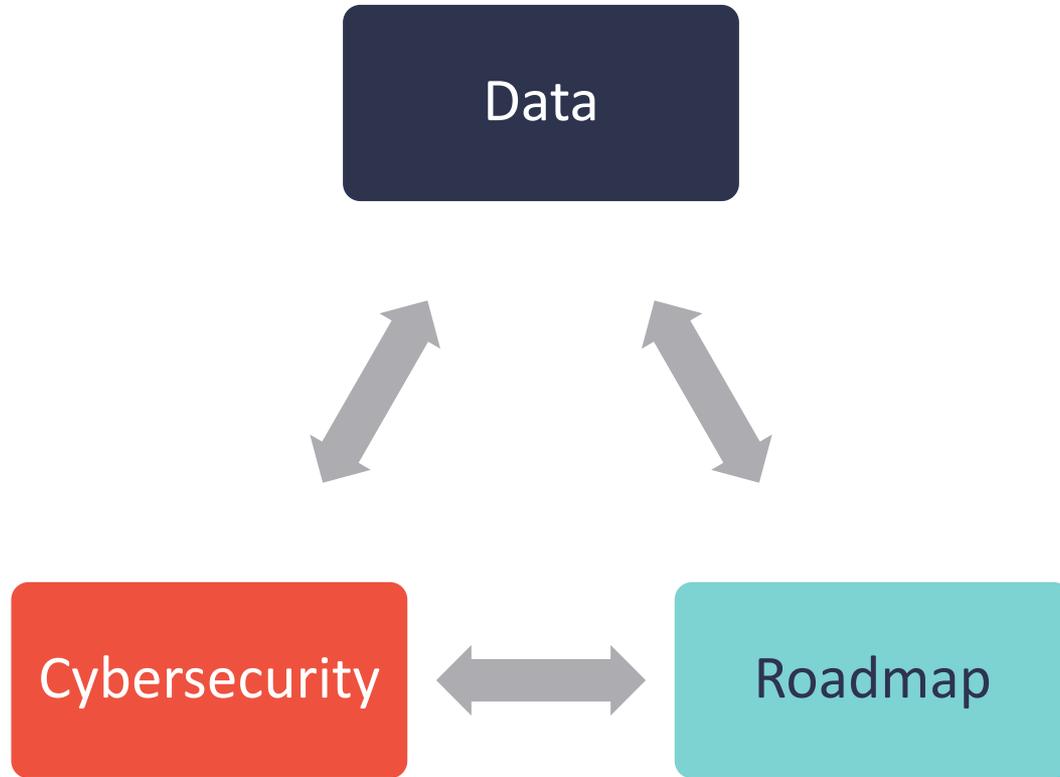
Ideation

KPIs and KRIs

Development and Communication



Digital Strategy – Allow Data to Help the Plan



Credit Risk

Vulnerable retail and commercial borrowers

Commercial real estate (CRE) pressures

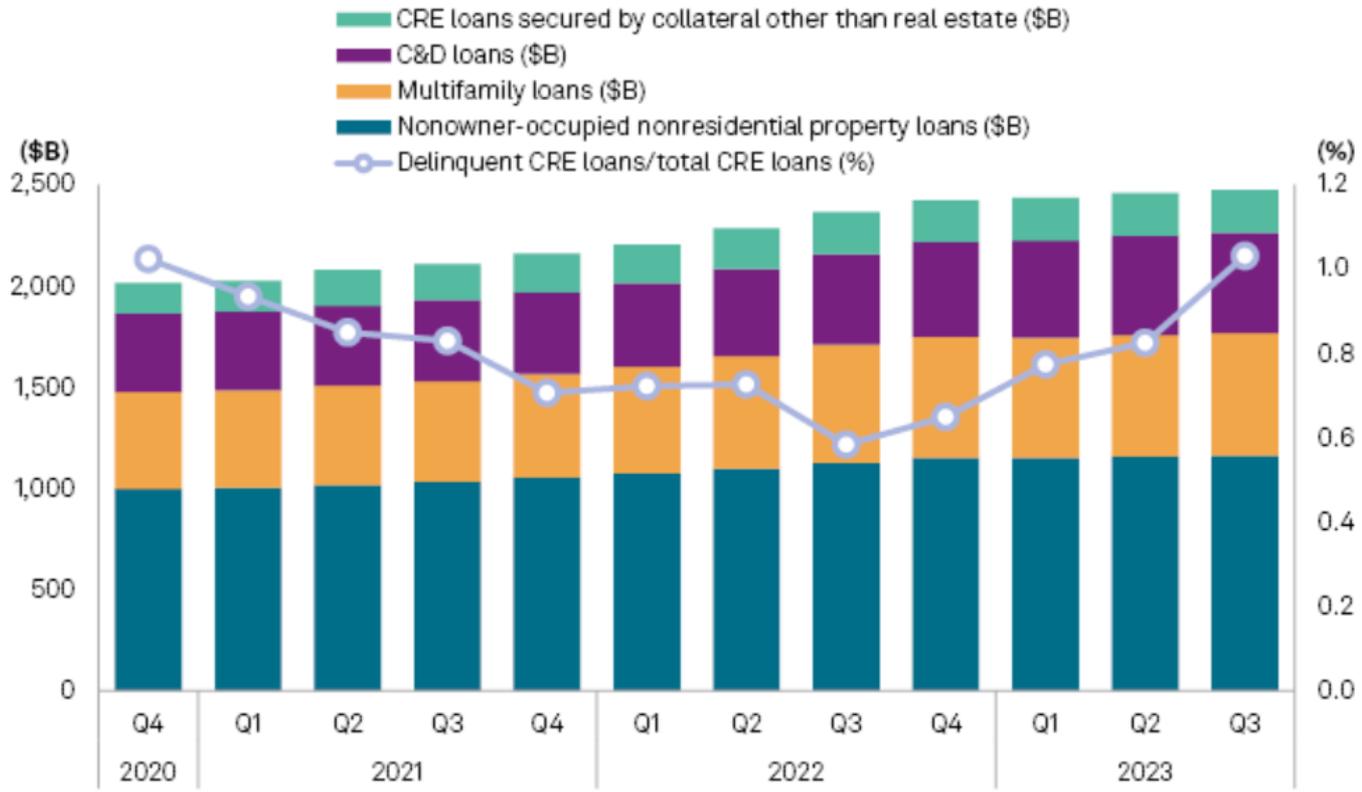
CRE maturities

Credit concentration management

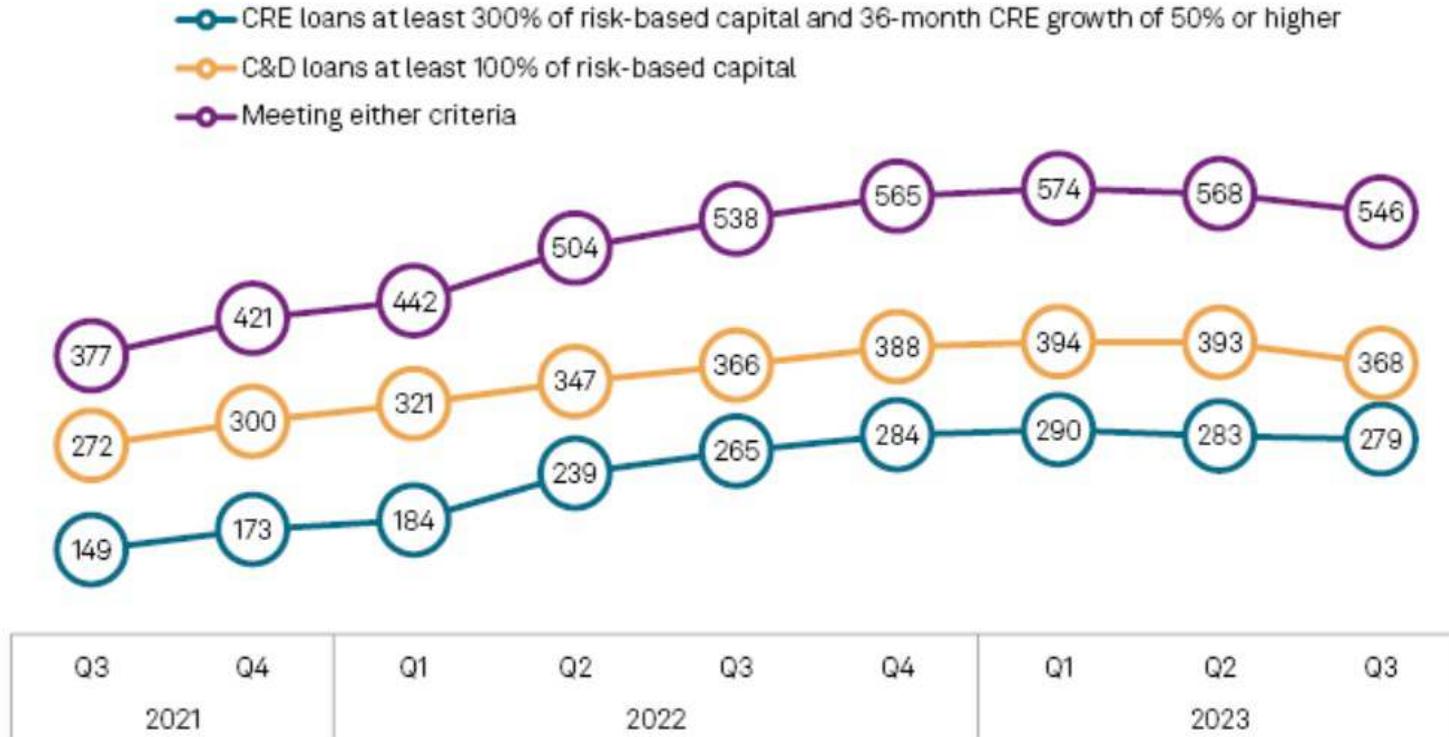
Consideration of the Allowance for Credit Losses (ACL)



CRE Delinquencies & Composition



U.S. Banks exceeding 2006 CRE thresholds



Asset-Liability Management (ALM)



Stress testing
scenarios



Key model
assumptions



Liquidity
sources



Contingency
planning

Takeaways



Key Takeaways



APPLY A DISCIPLINED
APPROACH TO
IDENTIFYING
OPPORTUNITIES AND
RISKS



FOSTER INNOVATION
THROUGH A “BLUE SKY
MEETING”



PLAN FOR THE
ACHIEVEMENT OF
GOALS
WITHIN ACCEPTABLE
RISK TOLERANCES



STAY ON COURSE WITH
AN APPROPRIATE
CONTROL FRAMEWORK



ENACT SOUND
CORPORATE
GOVERNANCE



It takes balance.™

It's our job to engage in conversations, listen to what you really want, and apply our talents and experience to make extraordinary impact on your organization and life.



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this session.



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