



*2014 Annual Convention
Amelia Island, Florida*

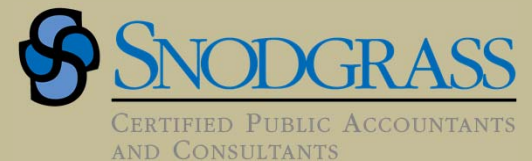
The New Normal Is Anything but Normal

Presented by:

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Three Questions Concerning Your Strategy and Business Model

Sustainable

Scalable

Relevant

“Disruptive Influencers in the New Normal”

- Your absolute requirement for business growth to drive profitability
- Gen X and the aging customer base
- The changing competitive landscape resulting from Basel III
- The industry-wide impact of the BofA fines
- Are your customers caught in a time warp between a social and techno-digital banking experience?
- The changing tangible/intangible aspects of your business
- The disruption caused by your BSA and anti-money laundering responsibilities
- The latest J.D. Power survey of the banking industry showing the industry is missing the mark on three important segments
- The future of core deposits and how your ALCO process has tainted your view of the depositor
- The challenges associated with recruiting a competent labor force
- The future of the branch experience in light of the future of money

Enterprise Risk Management

The First Rule of Enterprise Risk Management Is:

“It’s NOT just about Risk”

Enterprise Risk Management

Managing risk is not just about identifying, assessing, and monitoring all the things that could go wrong. It is also about understanding all the things that need to go right for a bank to achieve its mission and objective of safely and profitably serving its customers and communities.

Carolyn G. DuChene, Deputy Comptroller Operational Risk, OCC

Enterprise Risk Management

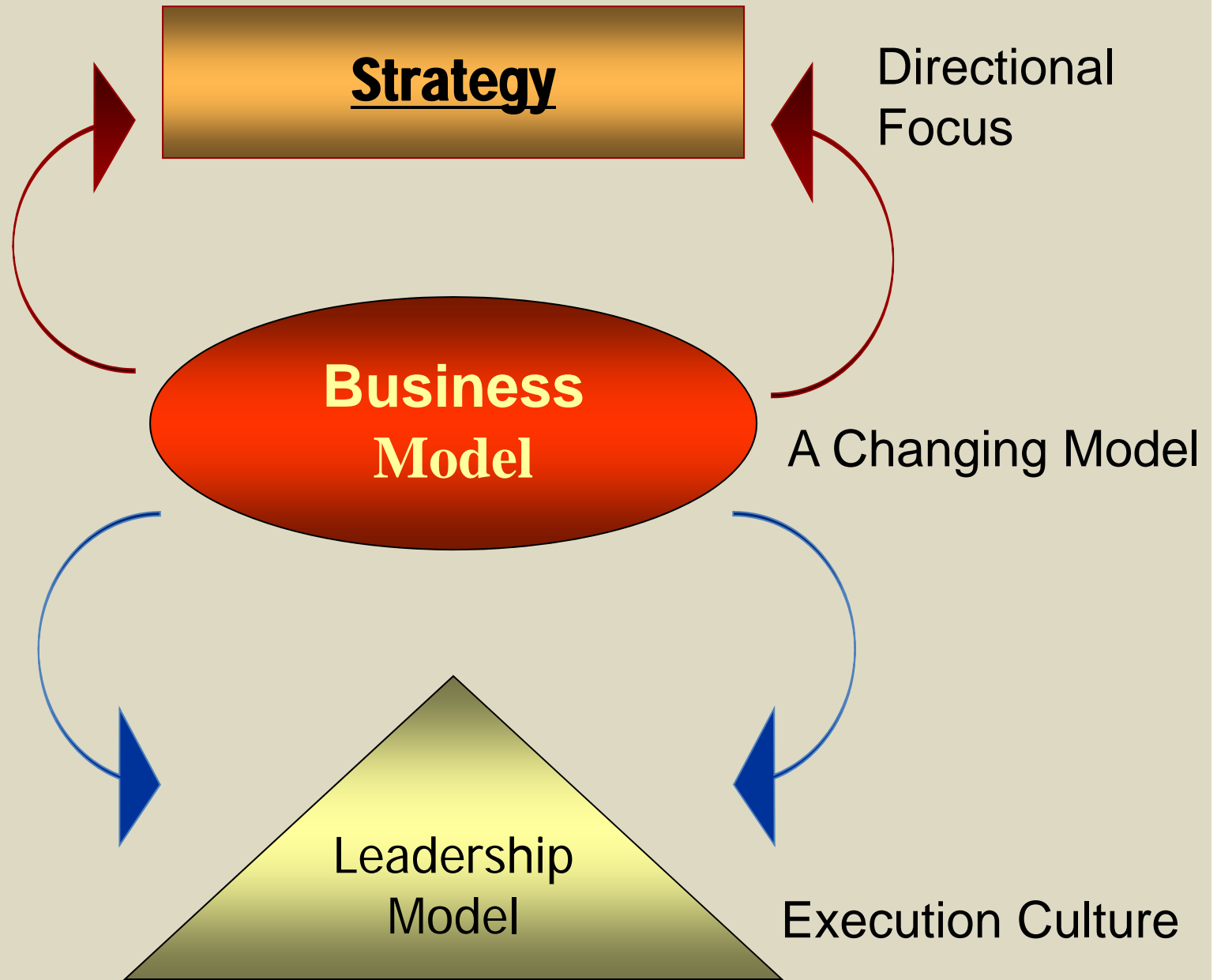
Strategic and Reputational Risks
are at **Elevated Levels!**

Reputation Risk: The Effects of Negative Public Opinion.

- Not Just Security Breaches
- Industry/Institution Level
- Customers
- Shareholders
- CFPB Provides Protection from Harm
- Recruiting Future Leaders

Strategic Risk: The Effects of Adverse Business Decisions; Improperly Implemented Business Decisions; Lack of Responsiveness to Industry Changes

“Performance Follows Focus”



Despite ongoing public scrutiny, customer satisfaction with banks is at a record high as banks improve experiences for their customers, reduce problems and create a better understanding of fees, according to the J.D. Power 2014 U.S. Retail Banking Satisfaction StudySM released today. Yet, midsize banks are missing the mark with key audience segments, such as millennials (born 1977-1995) and minorities, with affluent customers still the least-satisfied customer segment.

“Customer Satisfaction with Banks at All-Time High, but Areas of Weakness Signal Competitive Vulnerability,” J.D. Power. 1 May 2014.

However, not all customers feel the same. Banks are not meeting the needs of affluent customers, the least-satisfied segment. Expectations for personalized experiences are high among affluent customers, and banks have not provided a differentiated experience to meet those expectations.

“It’s remarkable that banks are failing to satisfy affluent customers, especially with deposits and liquidity so important to the life of a financial institution.”

“As boomers age, the country is poised for a huge transfer of wealth in upcoming years. As this occurs, those banks that have satisfied the affluent segment will be more competitively positioned to prosper.”

“Customer Satisfaction with Banks at All-Time High, but Areas of Weakness Signal Competitive Vulnerability,” J.D. Power. 1 May 2014.

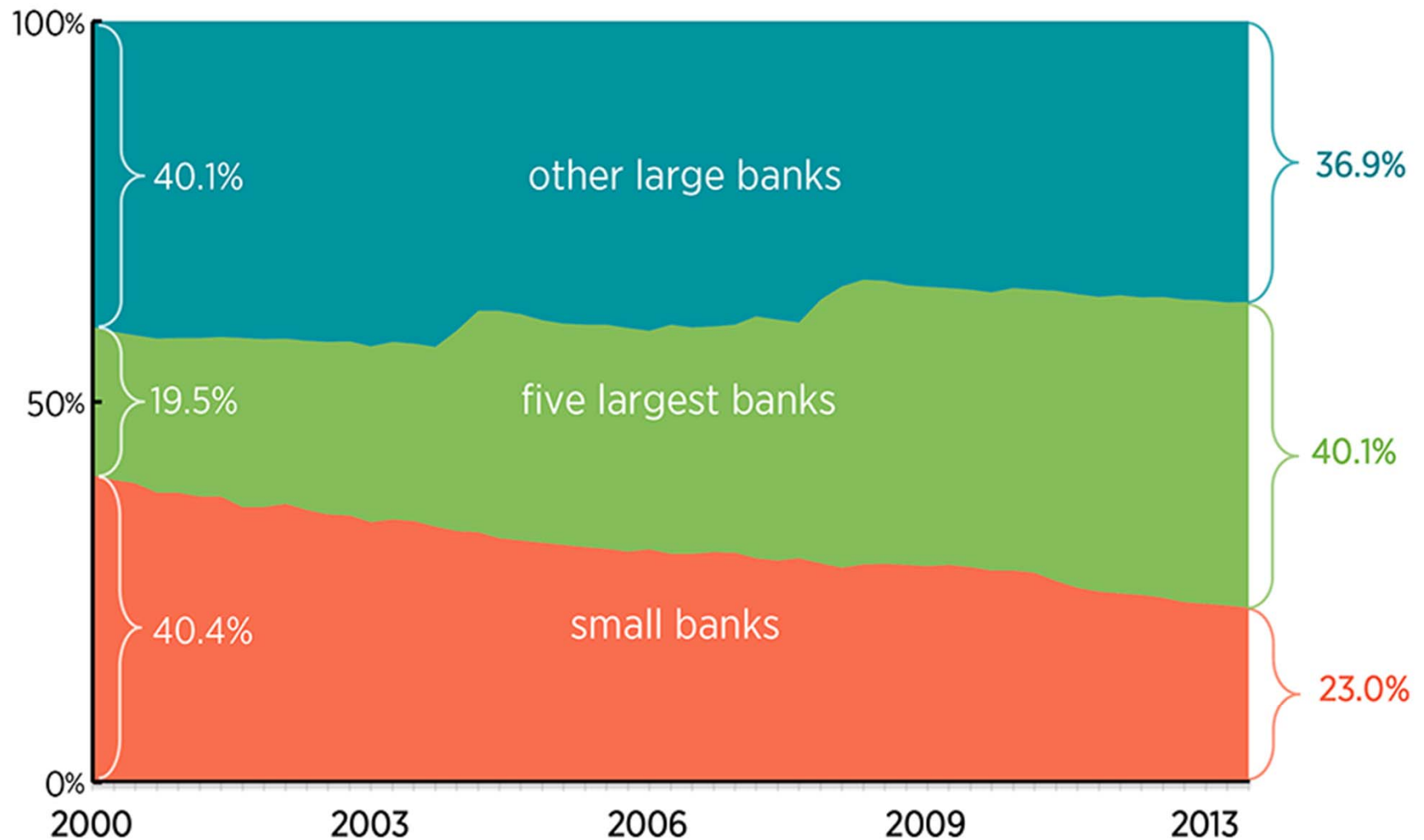
“Midsize banks are falling behind in meeting the needs of the fastest growing demographic groups, millennials and minorities, especially in online, mobile and problem resolution.”

“If midsize banks don’t change their focus to adjust to demographic shifts, they are extremely vulnerable and risk losing market share to competitors and becoming irrelevant.”

~Jim Miller, director of banking services at J.D. Power

“Customer Satisfaction with Banks at All-Time High, but Areas of Weakness Signal Competitive Vulnerability,” J.D. Power. 1 May 2014.

Share of Total Domestic Deposits Held by Small Banks vs. Large Banks, 2000-2013

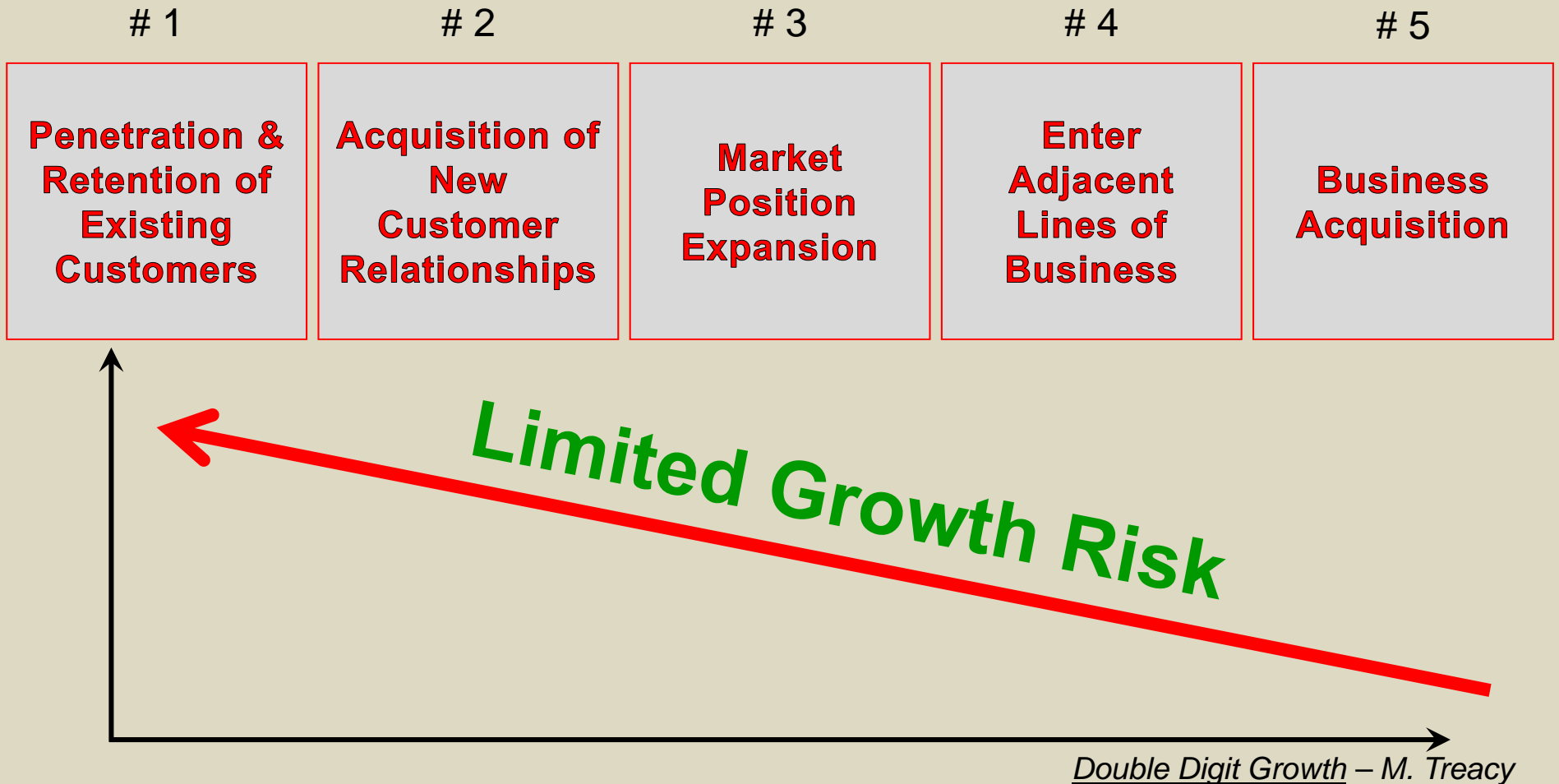


Source: *Statistics on Depository Institutions*, Federal Deposit Insurance Corporation.
 Data note: Banks are ranked by asset size. Small banks are defined as US banks with \$10 billion or less in assets.
 For purposes of this chart, banks were aggregated under their bank holding companies.
 Available data did not permit thrifts to be aggregated under their holding companies.
 Produced by Hester Peirce, Robert Greene, and Rizqi Rachmat, Mercatus Center at George Mason University

Five Principles of Revenue Growth Spectrum



Five Principles of Revenue Growth Spectrum

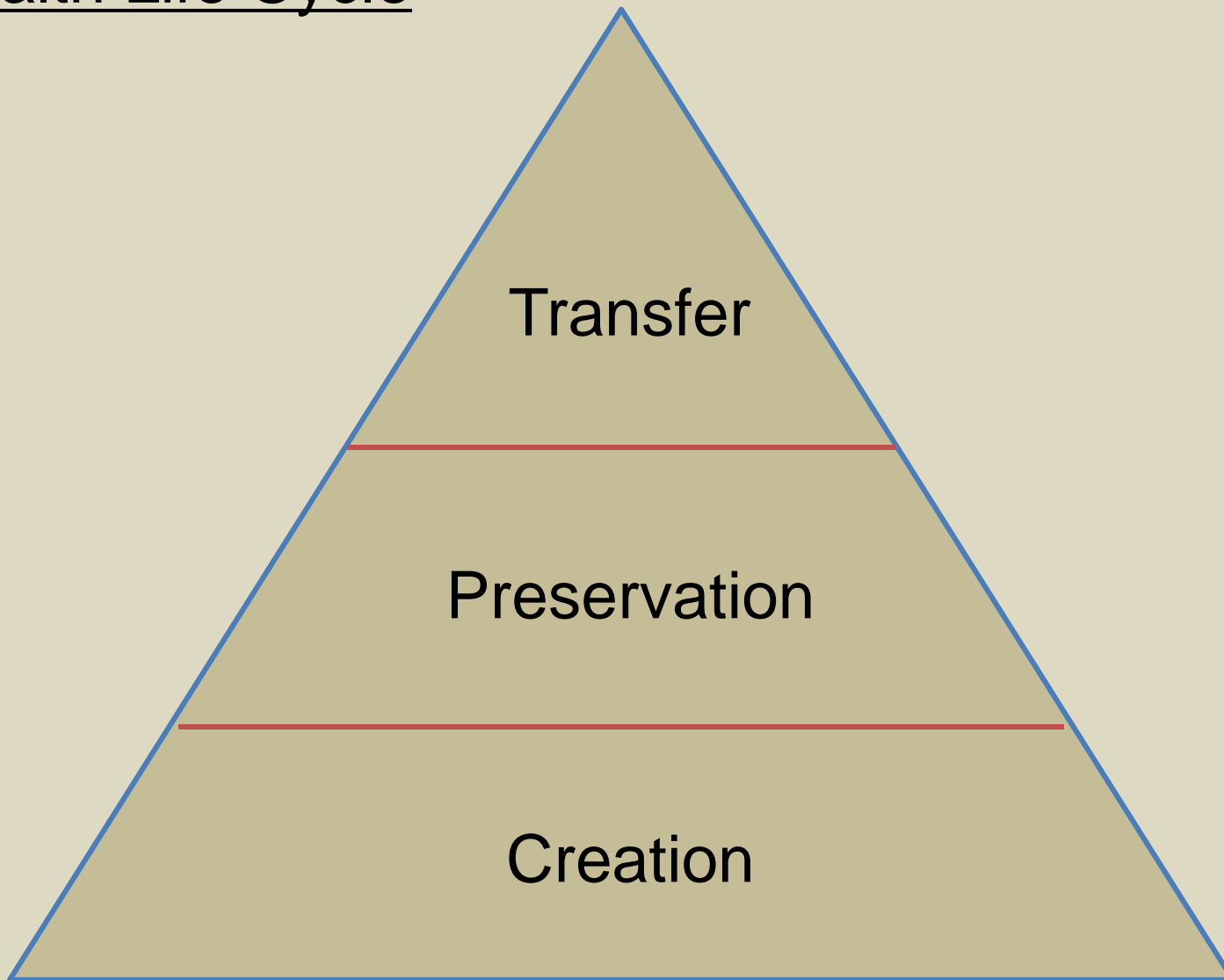


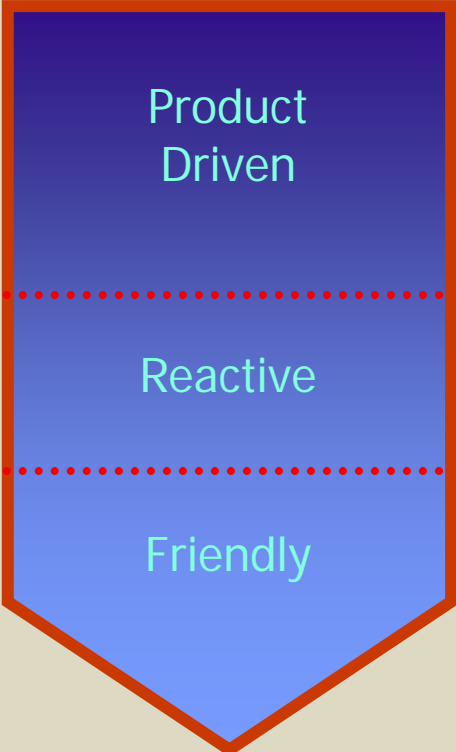
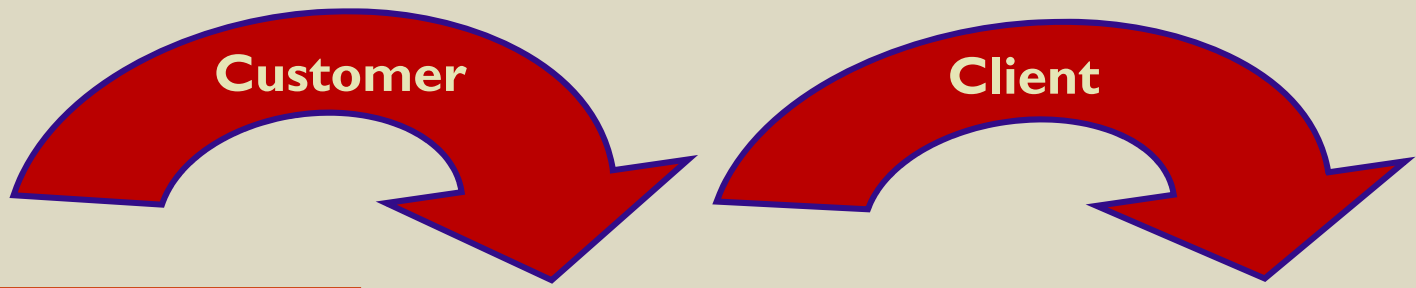
Adapting to technological change can be especially challenging for established companies like Kodak, because **entrenched leadership** often finds it difficult to break old patterns that once spelled success. Kodak's history shows that innovation alone isn't enough; **companies must also have a clear business strategy that can adapt to changing times.** Without one, disruptive innovations can sink a company's fortunes even when the innovations are its own.

Knowledge @ Wharton

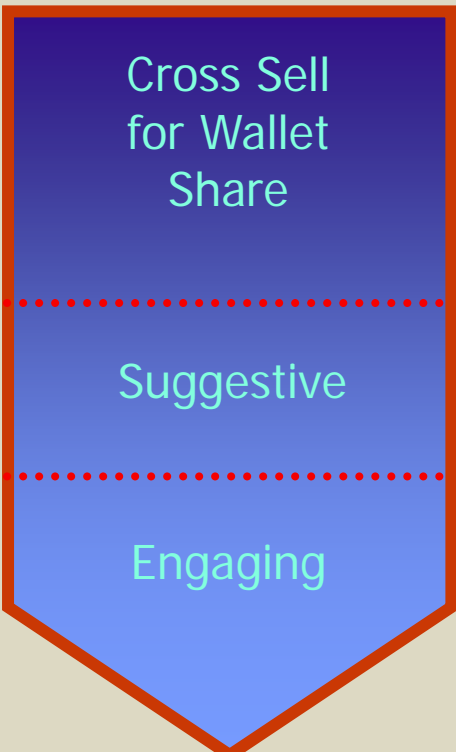
"What's Wrong with This Picture: Kodak's 30-year Slide in Bankruptcy" February 1, 2012

Wealth Life Cycle





Traditional Model



Sales Culture



Relationship Banking

The Fundamental Strategic Choice....

Which approach will create greater customer and shareholder value?

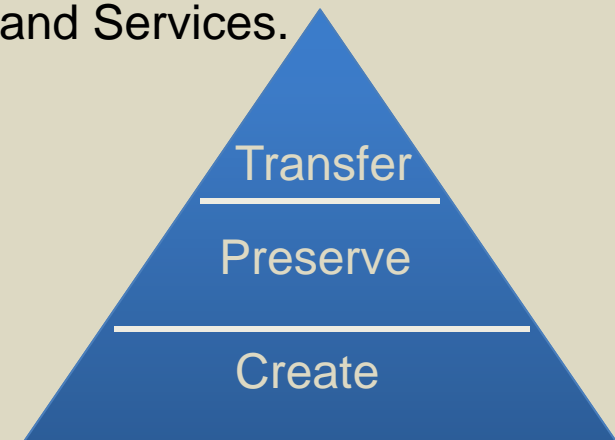
Product Orientation

Design, Produce And Deliver Quality Products That Have Attractive FEATURES.....

- ◆ Simplicity
- ◆ Flexibility
- ◆ Optionality
- ◆ Convenience
- ◆ Price

Relationship Driven

Utilize market segmentation to recruit customers who will use a number of Products and Services and value Advice and Assistance in managing their FINANCIAL AFFAIRS as we seek to understand how customers use the Products and Services.

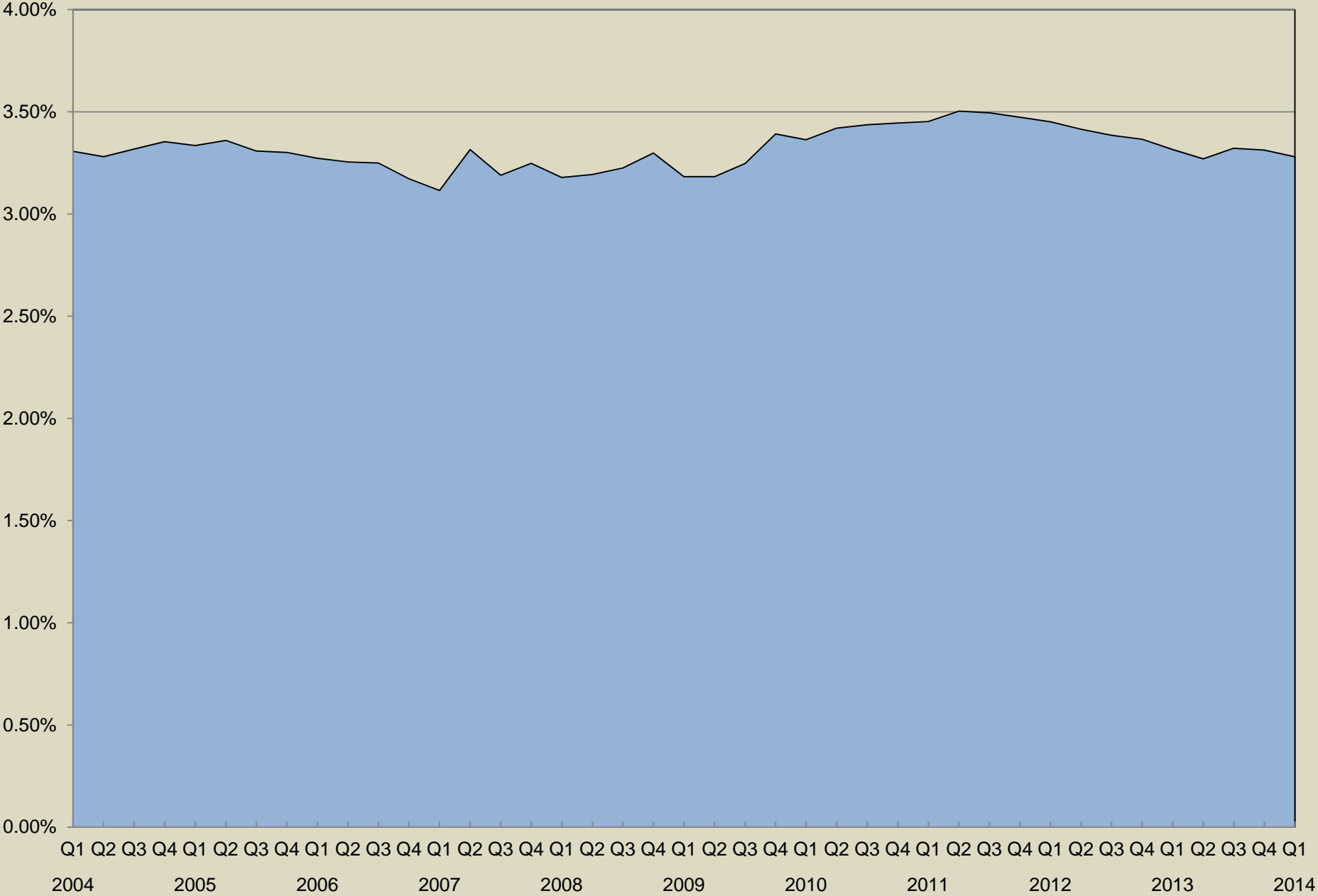


Customer Needs.....

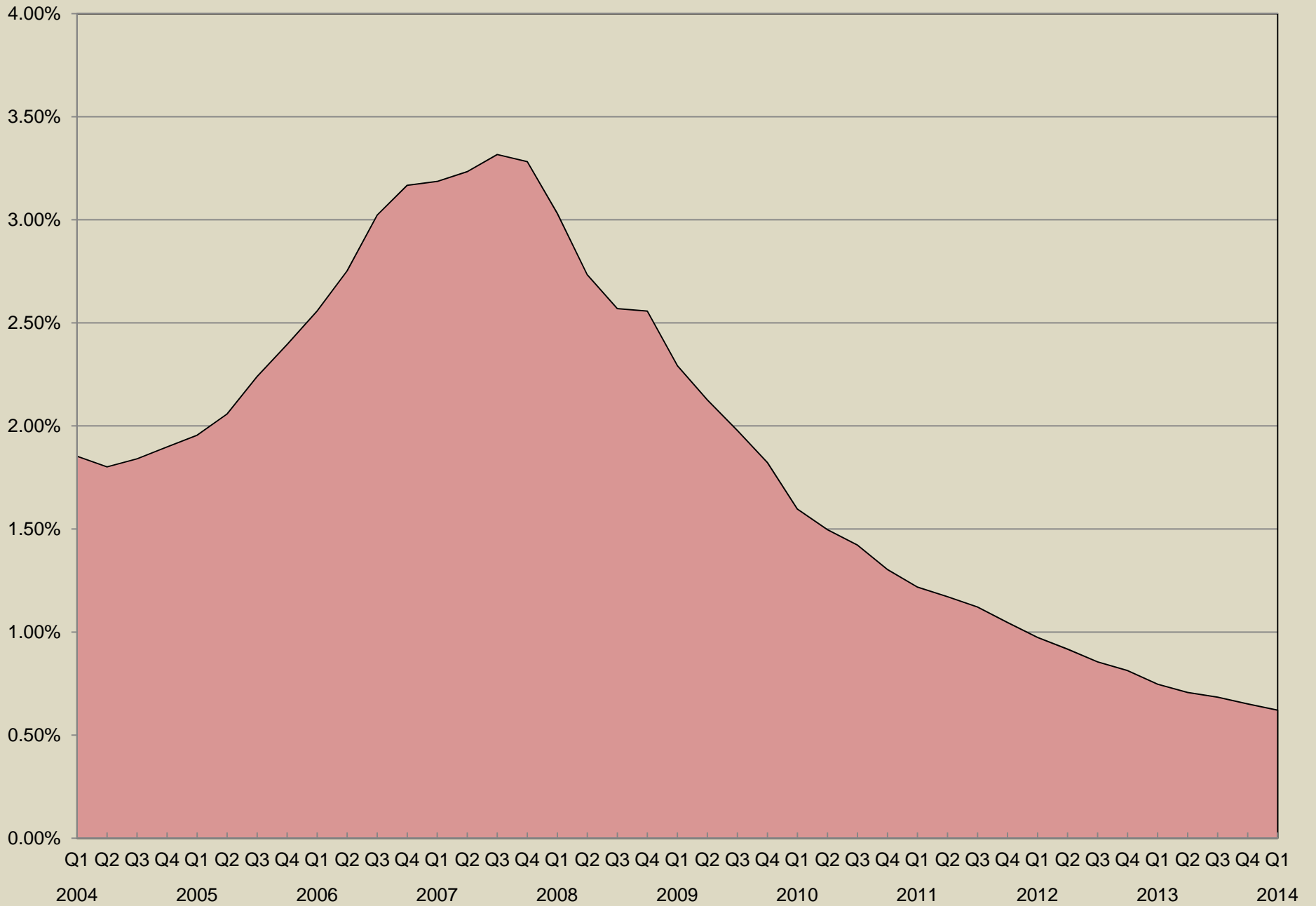
In the end the customer uses channel options for:

Information Knowledge Advice

Pennsylvania Banks: Net Interest Margin

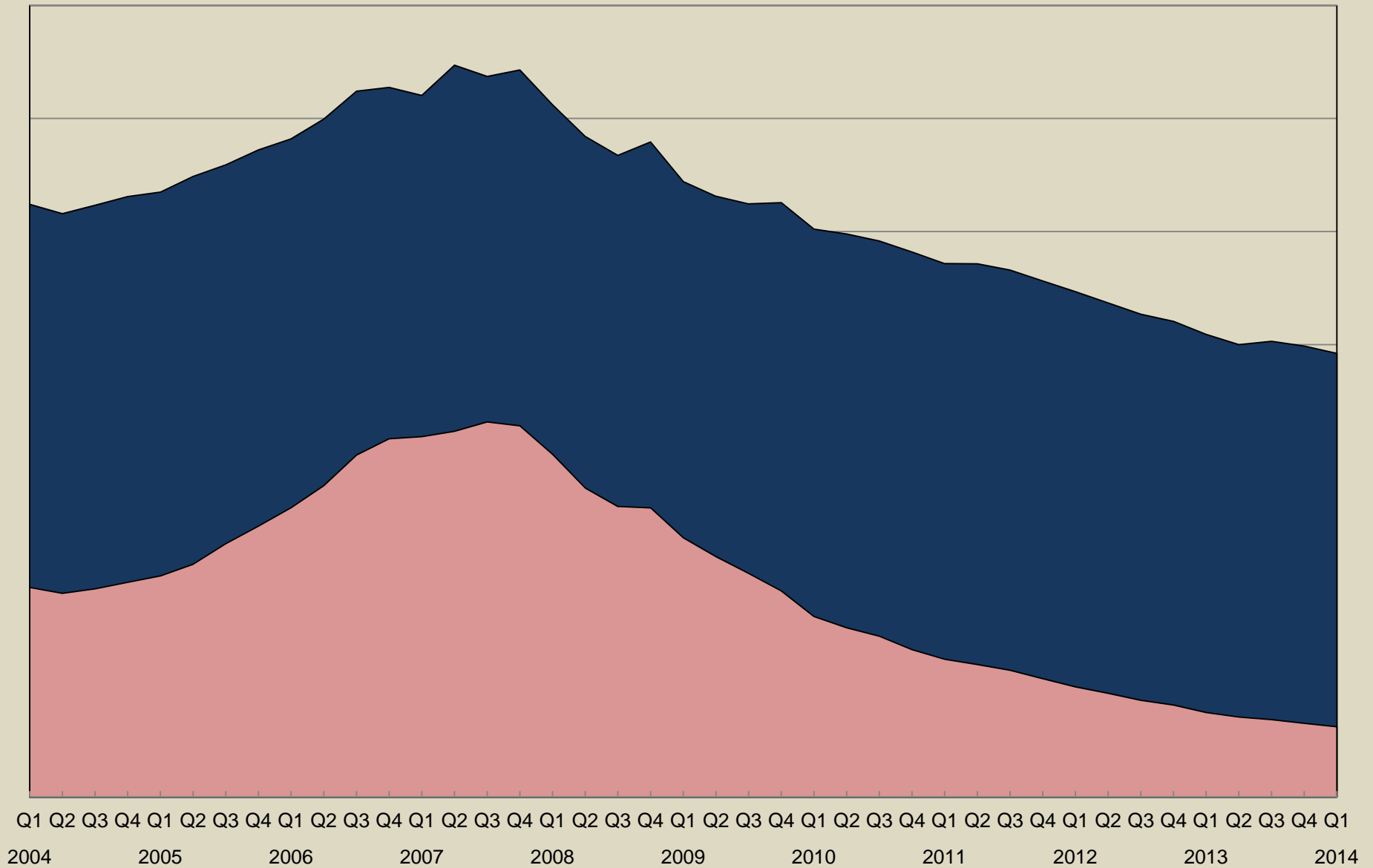


Pennsylvania Banks: Deposit Cost



Pennsylvania Banks: Yield on Earning Assets to Deposit Cost Comparison

■ Yield on Earning Assets ■ Deposit Cost



The Deposit Customer is “Rate Weary”

- At or near the bottom
- 2008 “flight to safety” buying FDIC Insurance
- The objective was wealth preservation
- Today a balance of wealth preservation and creation
- Trend in transferring retirement assets back to equities
- The biggest banks are reacting to the Basel III liquidity requirements (liquidity coverage ratio)
- Loan demand is beginning to improve
- Funding strategic risk - “money desk,” “customer,” or “vendor”
- Impacts reputation risk