



The Virtue of Being Mutual

Presented By:
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Virtue

A Commendable Quality or
Trait.....

Merriam-Webster Dictionary

Virtue

**A Beneficial Quality or
Power of a Thing**

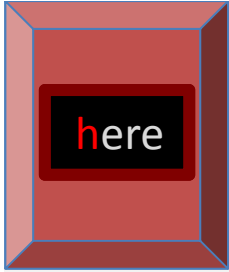
Merriam-Webster Dictionary



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next

then



Strategy and the Regulatory Process

March 9, 2016 – ICBA Convention

“What is the right model for a community bank? Not that there is one model, but what thoughts or considerations are you giving to that?”

Toney Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision at the Office of the Comptroller of the Currency

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The Economic/Business Model Considerations

Cyclical

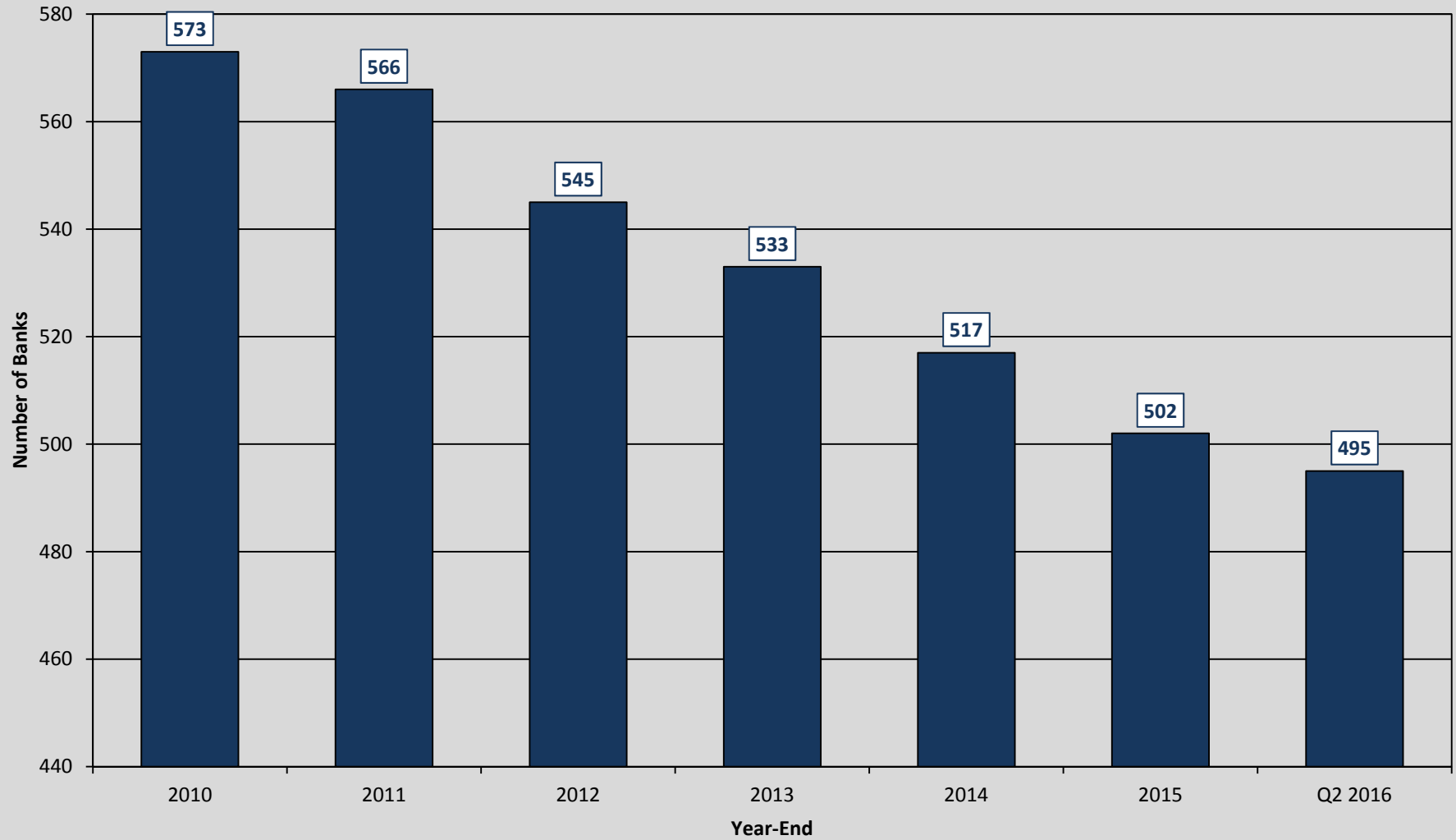
- *Political*
- *Economic*
- *Monetary Policy*
- *Market Conditions*

Systemic

- *Global*
- *National*
- *Regional*
- *Local*

Unknown

Mutual Savings Banks at Year-End

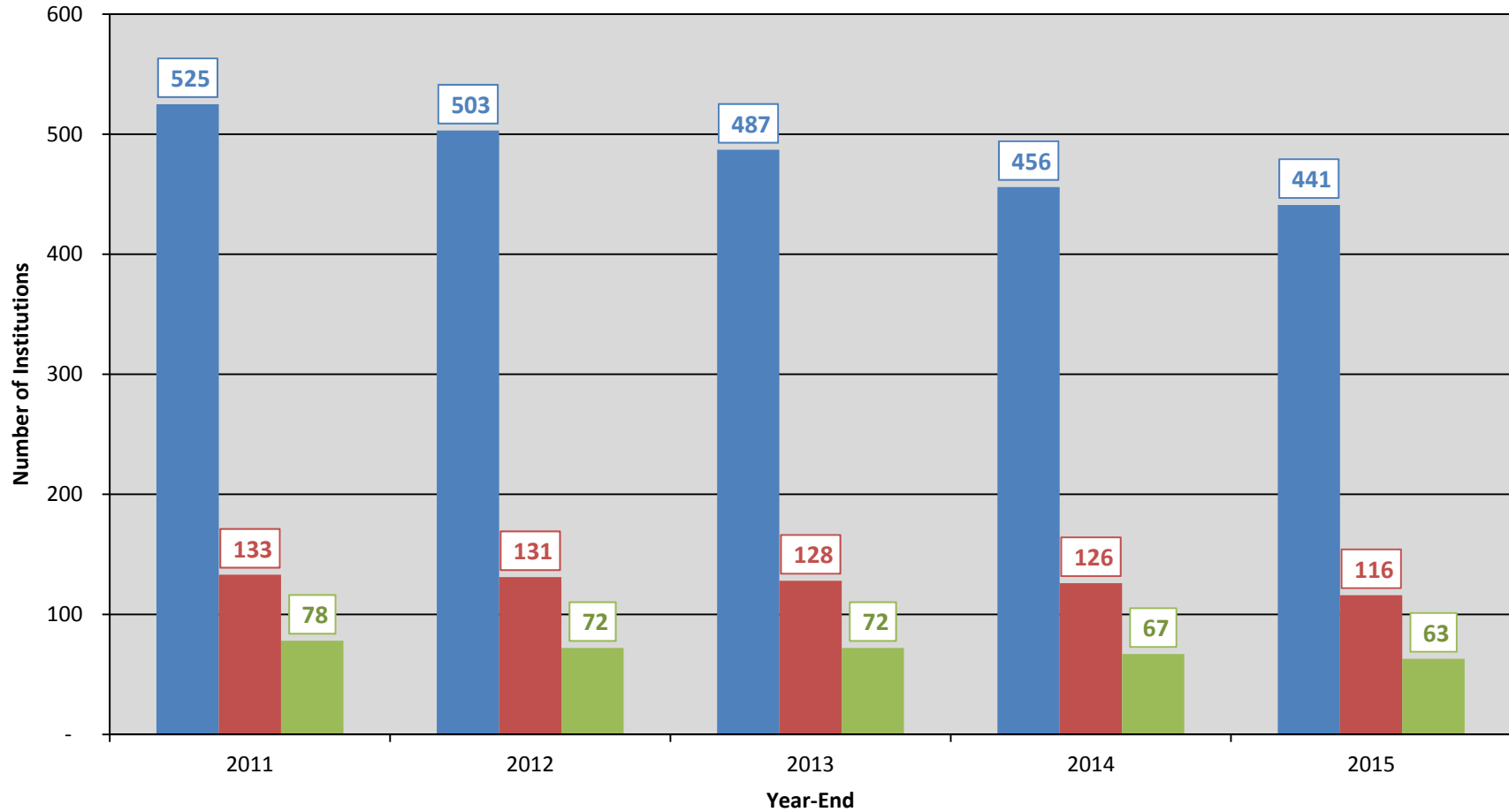


Accounts for changes due to failures, mergers/acquisitions, and mutual to stock conversions.

Sources: SNL Financial and FDIC Mutual to Stock Conversion Applications

Pennsylvania Financial Institutions by Type

■ Credit Unions ■ Commercial Banks ■ Savings Banks



Mutual/Stock Cultures

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What
You
Believe

How
You
Act

How You
Define
Success

How You
Share
Success

here

PA Industry Financial Performance

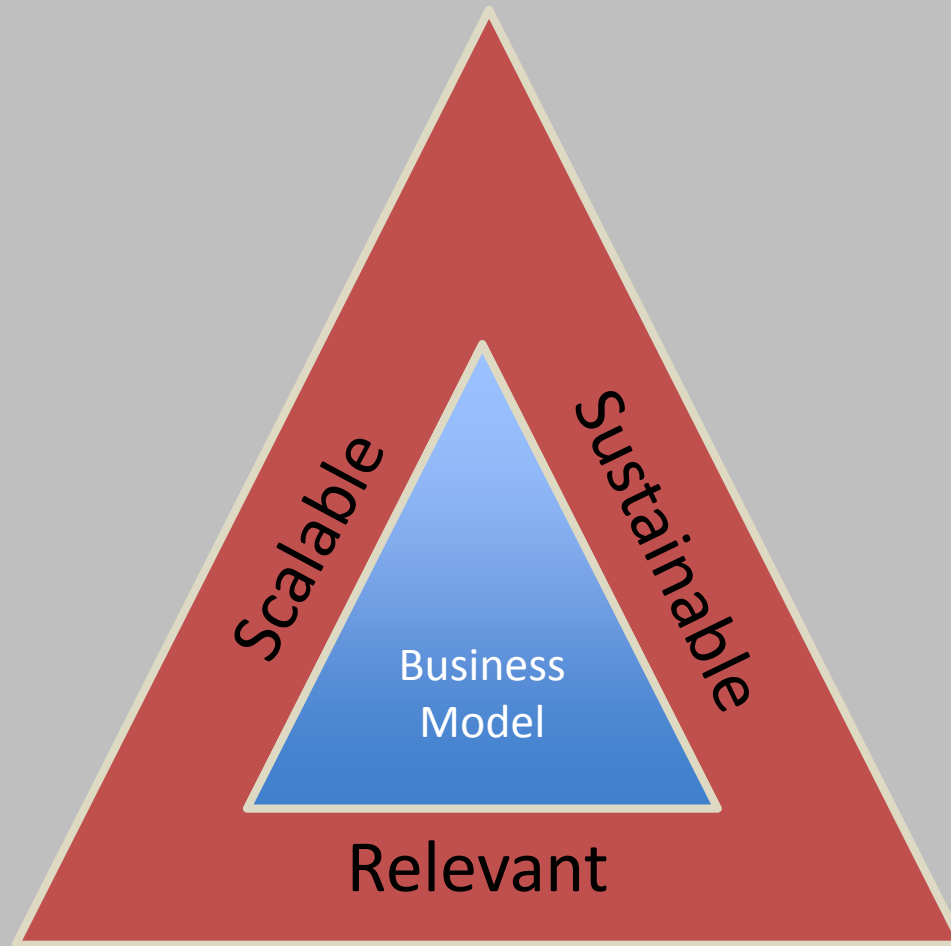
6/30/16	Commercial Banks	Mutual Savings Banks
ROA	.84%	.53%
ROE	7.9%	3.8%
NIM	3.4%	2.9%
Efficiency	70.7%	73.2%
Provision For LL	.17%	.12%
Tang. Eq./Tang. Assets	9.9%	13.9%


PA Banks with assets less than \$5 Billion

Source: SNL Data

Business Model Challenges

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Strategy and **Virtue**

“Effective strategy forms the context for making sound decisions, assesses opportunities, improves communications throughout the organization and forms the dynamic link with Enterprise Risk Management”

J. Salvetti

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Strategy and **Virtue**

“There is nothing more strategic than who owns you...”

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Mutual/Stock Cultures

Focus + Discipline = Outcomes

Strategy + Risk Management = Performance



Next

A Virtuous Strategy

- Customer Value Creation
- Regulatory Value Creation
- Talent Attraction
- Effective Risk Management
- A Winning Brand
- Financial Performance
- Capital Formation
- Consistent Business Growth
- Dynamic Strategy and Capital Investment
- Target “ROE”
- Strategic Options

The Mutual Metric

ROE = Net Income/Average Equity

ROE = **ROA** X Capital Leverage

ROE – (Dividend Payout %) = **SGR**

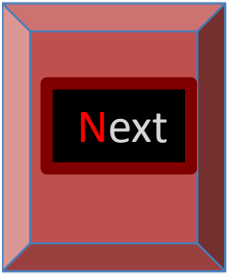
ROE = **SGR**

Strategic risk remains an ongoing concern. Banks are several years into the risk accumulation phase of the economic cycle. The banking environment continues to **evolve**, with growing **competition** among banks, nonbanks, and financial technology firms. Banks are increasingly offering innovative products and services, enabling them to better meet the needs of their customers. While doing so may heighten strategic risk if banks do not use sound risk management practices that align with their overall business strategies, failure to innovate to meet evolving needs or financial services may place a bank at a competitive disadvantage.

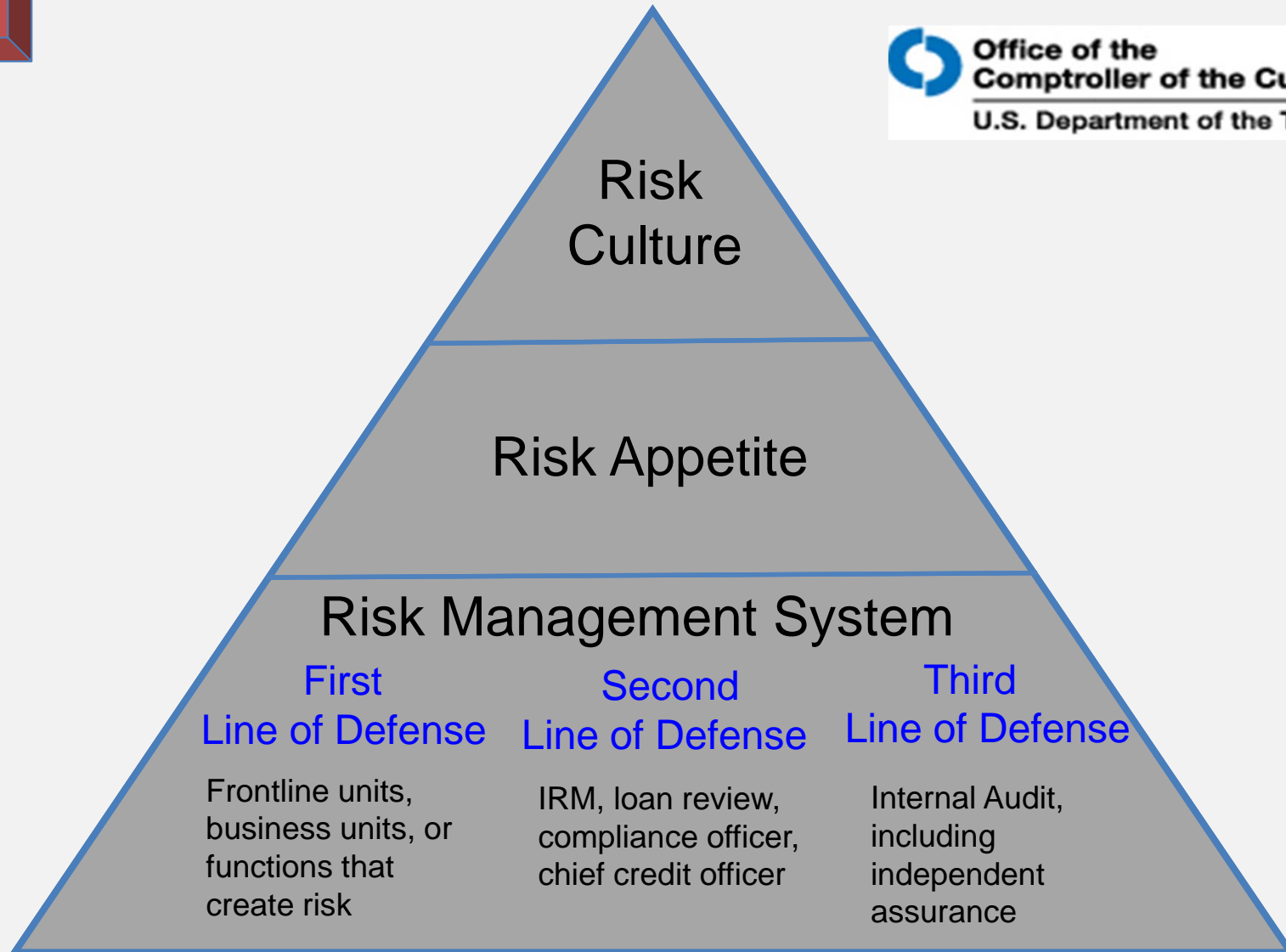
Regulatory Perspective – Risk Governance

Risk Governance is an important element of corporate governance. Risk governance applies the principles of sound corporate governance to the identification, measurement, monitoring, and controlling of risks to ensure that risk-taking activities are in line with the bank's strategic objectives and risk appetite.

OCC Comptroller's Handbook July 2016



Risk Governance Framework



Virtuous Discretionary Spending

- **Achieved Net Income**

Discretionary Expenditures

- ✓ **Customers**
- ✓ **Employees**
- ✓ **Market Expansion**
- ✓ **Infrastructure**
- ✓ **Communities**
- ✓ **Tax Effect**

- **Reported Net Income**

Strategy and the Regulatory Process

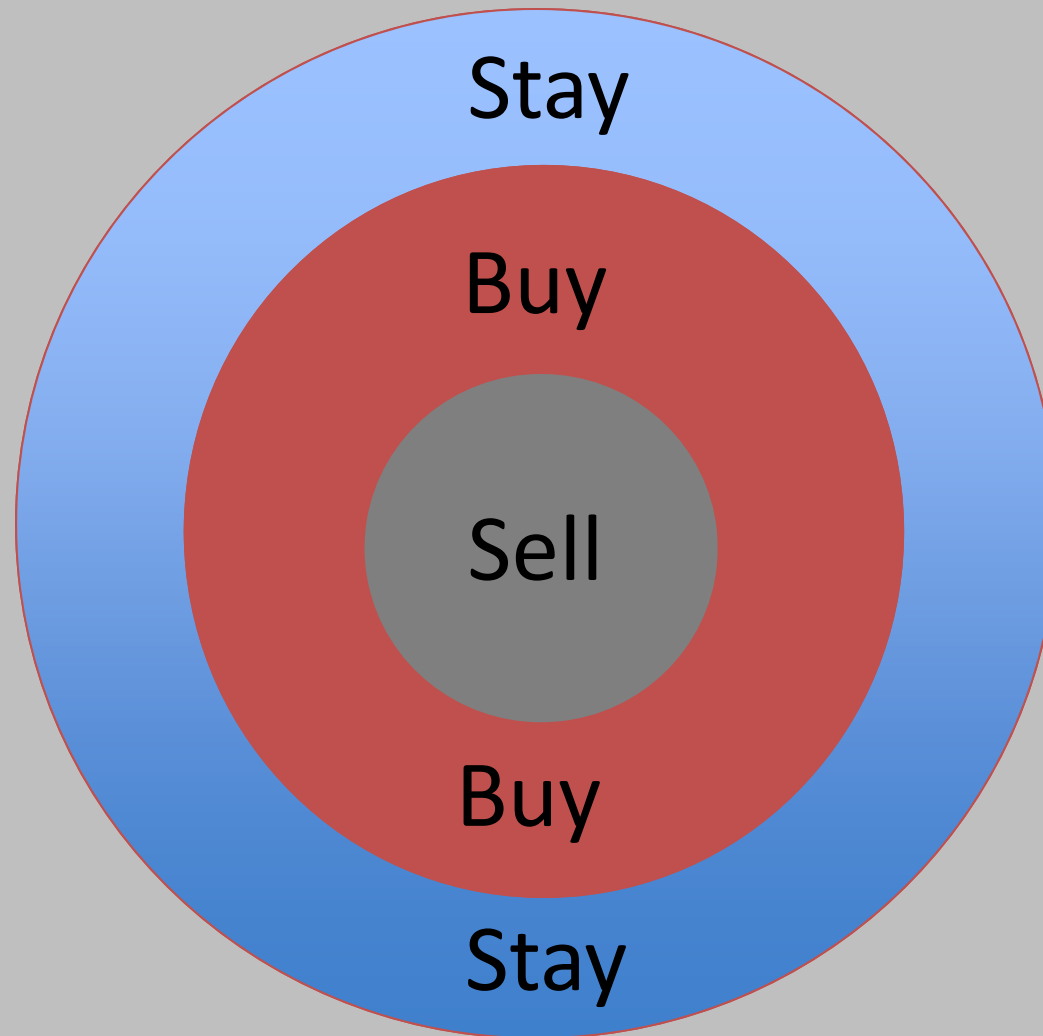
March 9, 2016 – ICBA Convention

“What is your business viability?”

Toney Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision at the Office of the Comptroller of the Currency

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The Sustainability of Virtue



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Jack R. Salvetti is a Principal with S.R. Snodgrass, P.C., a regional accounting and consulting firm specializing in service to the banking industry. Jack assists banks throughout the United States by formulating successful strategies, improving financial performance, and implementing dynamic enterprise risk management frameworks. Jack is a frequent speaker, writer, and instructor at bank management schools and bank director programs.



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