

Strategic Phase In

Under COVID-19

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Strategic Direction Going Forward

The COVID-19 virus has changed the world as we know it. This has happened in a short time and with breath taking speed. No one knows when and how this will end, what the fallout will be and what the subsequent landscape will look like.

From a strategic planning standpoint, it is fair to say that a bank's current Strategic Plan and bank focus are greatly changed in the near-term, perhaps even out six months or more. Nonetheless, the current Strategic Plan provides valuable direction and will be the basis for life going forward, especially post-pandemic.

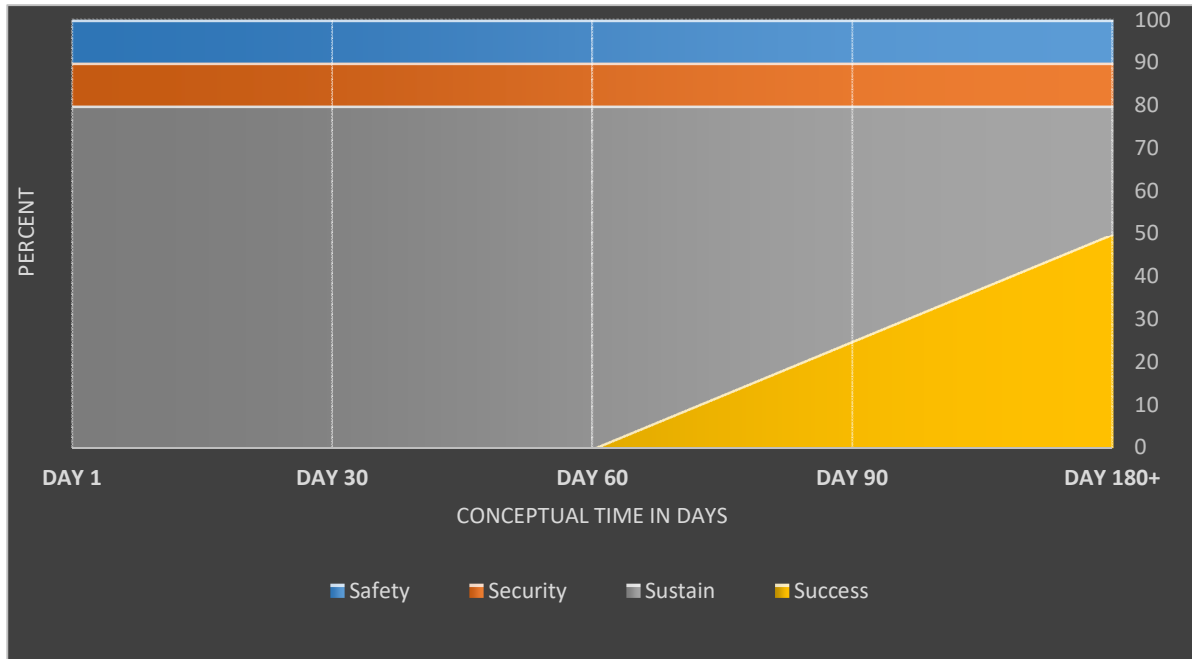
The following provides some thoughts as to how and when to proceed with the most critical challenges first, then moving to normalcy in the intermediate and longer-term. This is a broad outline of steps, many of which will be better considered under a bank's other catastrophe plans. We are defining this process as a Strategic Phase In. This Phase In comes with the understanding that bank operations have been ongoing though this period, generally without full service, but without interruption, adjusted to the current, dynamic situation.

It is likely that until there is a vaccine for immunization, even if COVID-19 retreats over the summer, there could be a resurgence later this year or early next year. Strategic plans will have to be adjusted for the near-term and for the longer-term. The Implementation of some or many of the Objectives for the current Strategic Plan may be meaningless at this time. This means that both the Strategic Plan and the Implementation of the Strategic Plan's Objectives may need a partial or complete redevelopment.

The focus of the Strategic Plan and Implementation, for the shorter-term, should be on four Phases: *Safety*, *Security*, *Sustain* and *Success*. Longer-term the original direction and implementation pace of the bank can be considered. There may be many opportunities that were not available before the pandemic. Or, perhaps given the severity of the situation bank-specific, there could be existential considerations facing a bank. We have included some initial thoughts regarding these Phases. Many of the points are already in your Pandemic or Business Continuity Plans, however, these will also make their way to the Strategic Plan and Strategic Plan Implementation, likely into 2021.

From a timing standpoint, the four Phases may be viewed as follows:

STRATEGIC PHASE IN TIMETABLE



The Strategic Phase In Timetable: The Safety and Security Phases are immediate and ongoing. The Sustain Phase is almost immediate and ongoing, until Success is implemented. These are all interdependent and critical to the reboot of normal operations. Success is implemented sooner or later at least by sixty days from the ‘all clear’, so to speak. As the Success Phase begins implementation, the resources are diverted from the Sustain Phase as Success becomes fully functional. The percent attempts to place relative weight to a Phase, but all are critical.

Safety Phase

The Safety Phase is immediate and the first step toward moving in a positive direction by taking control from the current base-line. This Phase provides the ability to assess the status of the human capital and the working environment. As stated above, it is understood that banks have been and are functioning, albeit under severely distressed conditions.

The first and most important action, to the extent not already completed, is to define the Team members and the conditions of protocol. The second action is to define the Workplace. That is, the on-site facilities, home offices or some other remote office.

For each Team member, at each defined workplace, knowledge of that person’s COVID-19 condition is critical and may include: checking temperatures and check symptoms for those entering the facilities before entering the facilities. Ultimately, this protocol will be required in

some fashion and to varying degrees to all those entering the safe space, who are not Team members, i.e. customers, vendors, etc. Integrating doctor approvals for work for those identified as symptomatic may be required. Within the work space, considerations must be given to include social distancing, meetings and equipment sharing and usage, restrooms, lunch and breakrooms. Other considerations include the scope, timing and frequency of all cleaning and disinfecting, etc.

Communication is critical and should be on-going and consistent to the Constituencies. Constituencies include the Team of the Board, Management and staff, as well as the Customers, Regulators and, others in the influence sphere of the bank, such as community leaders and, those providing services to the bank. From a Board of Directors perspective, the Executive Committee will likely provide a sufficient resource for direction and oversight between full Board meetings. Remote conferencing will be critical for safety and speed.

Security Phase

The Security Phase is also immediate and coincidental with the Safety Phase. It provides a base line for operations in a secure environment for the human capital, physical plant, electronic assets and the general working environment.

Security includes physical security for the Constituencies, and the operational facilities, including ATM's and lobbies. Electronic and physical security includes the customer data, the regulatory interaction, the corporate and other data, and records and document protection. Further, electronic security focuses on cyber protection for transmission and storage of the delivery channels, transactions and data as defined above.

Communication is also on-going and consistent to the Constituencies. Constituencies for security may be different for each consideration, based on a 'need to know' basis and level of interaction.

Sustain Phase

The Sustain Phase is almost as immediate as the Safety and Security Phases, but can only begin once the Safety and Security Phases have begun to be successfully managed.

Initially, there must be an assessment of the risks to the bank as a financial institution, to include: human capital; capital; liquidity; financial balance sheet assets and liabilities, by type; and, physical assets. As an example, assessments should consider loan concentration in weakened geographic areas, or in certain commercial categories.

Human capital is the most critical and valuable asset of the bank. We all hope that there are no losses of our Team or their families. However, statistically, it is reasonable to assume some changes will be realized. As such, an assessment will be critical as to the expected short and

long term implications for the bank based on information regarding the Team. Once an assessment of the needs and resources available has been conducted, it may prove to be that there will be the need to redirect responsibilities and reporting chains of command. There may be the need for new hires and enhanced and new training. Depending on the size of the bank, and the level of the need, the Management Succession Plan and the Staff Development Plan will provide a good foundation.

The processes to accomplish many heretofore routine activities may change somewhat or perhaps completely. As an example, more virtual outreach may be required to assess a new hire candidate, while not compromising the quality of the hiring process. Additionally, some operational activities may not lend themselves to work at home scenarios or, more importantly, new and more innovative solutions to operations, processes and management of large areas of the bank may be the new reality. *See considerations in the Success Phase below.*

For the loan portfolio, modeling or stress testing of loan potential repayment scenarios, will be critical and as soon as possible. The process could be granular by loan, or grouping by type and portfolio, all depending on the size and type of loan portfolio. Incorporated into the modelling should be the expected delinquency and/or loss ratios and forbearance or forgiveness scenarios. Time and severity of impact will differ by type. Some loans or categories will be effected permanently, while others may rebound quickly. Also, depending on the type of loan the CARES Act and other Federal and state programs may provide some relief to businesses, individuals and the bank.

Finally, at a minimum, other financial assets and investments should be assessed as to their value and/or impairment.

In addition to the physical delivery channels of the bank, the digital delivery channels should be assessed immediately. To the extent customers and any of the Constituencies can be redirected to a digital alternative, that shift should take place.

In the immediate term, it is critical to offer products and services across all channels to maintain the customer current base. Depending on the current marketing focus and the established strategy to offer, originate and maintain digital services, there may be an opportunity to add new customers. Another more immediate example may include SBA lending to the small and medium sized businesses offered through the new Federal programs.

An assessment should be made to determine the scope, flexibility and completeness of the digital delivery channel, to include products and services. To the extent there are deficiencies and/or upgrades which are identified, priorities should be determined and a full court press should be used to ensure the core data provider will provide the needed services or upgrades in

a manner and timeliness that will provide your bank with the greatest chance of survival and success.

All of the above needs to be modeled into the bank's revised 2020 operating budget and balance sheet, with consideration for future income projections, and the resultant effect on the capital position of the bank. A pro forma organizational chart, short and longer term, will be of great assistance to understanding the current and future banking operation and human capital needs. With this accomplished, the current Strategic Plan can then be assessed as to its value going forward. In many cases, the Strategic Plan Implementation will be delayed; while in other situations, the Strategic Plan will need to be revised, somewhat or completely.

Success Phase

The Success Phase focuses on getting back to business as usual, relatively speaking. This means determining from the first three Phases, the next steps to be taken toward moving forward to begin the implementation of the basic *Mission* and *Vision* of the bank, as is defined in the current Strategic Plan.

There may be great opportunity to communicate to the bank's market by offering needed products and services, as the country begins to reopen and resume daily life, which includes the continued need for banking services. While not all products and services can or should be marketed, there are enough opportunities to begin to serve the markets and assess the next steps both for scope and type of product offerings. The bank's most recent Strategic Plan will provide first options for consideration. Some of the growth and directional Objectives will be valid, while others, perhaps many others, will be inconsistent with the near-term or intermediate-term.

Depending on the current marketing focus and the established strategy to offer, originate and maintain digital services, this may be an opportunity to add new customers. An assessment should be made to determine the scope, flexibility and completeness of the digital delivery channel, to include products and services. To the extent there are deficiencies and/or upgrades which are identified, priorities should be determined and a full court press should be used to ensure the core data provider will provide the needed services or upgrades in a manner and with timeliness that will provide the greatest chance for success.

All of the above needs to be modeled into the bank's balance sheet, income projections, and the resultant effect on the capital position of the bank. A pro forma organizational chart, short and longer term, will be a great assistance to understanding the current and future banking operation and human capital needs. As in the Sustain Phase, with the full assessment of the situation, the current Strategic Plan can then be assessed as to its value going forward. In many

cases, the Strategic Plan Implementation will be delayed; while in other situations, the Strategic Plan will need to be revised, somewhat or completely.

New means of operating will be critical to the success of the bank. This will provide an opportunity to turn lemons into lemonade, so to speak. In addition to the assessment of the pro forma organizational chart, operational norms and processes need to be examined and re-examined for their usefulness going forward. Initially, the more efficient methods of operations should include, or at least consider, the use of: electronic signing, document imaging, artificial intelligence (“AI”), and, secure remote working through services, such as LogMeIn, and WebEx, GoToMeetings, etc. need to be an integral part of the immediate operational structure.

Communication is again on-going and consistent to the Constituencies. In this Phase, the P.R. message should focus on the ‘local community’ based bank, with local Team members, always available to the customer, with low cost or no cost fees and charges. The bank’s email data base, and customer data base, by service are the first considerations. Simultaneously, the local print media and web based communication will provide a means to reach those not a customer and/or on its data base.

As time moves on, during the second month of the Success Phase, the Strategic Plan can be assessed along with other parts of the operating structure of the bank. Sections of the Strategic Plan that will need assessment and refocus may include: Corporate Governance and the need for adjustment of the By-Laws for electronic quorums, and other necessary means of Board direction and oversight. Succession planning will be revisited, updated and possibly refined. All forms of Risk Management will be assessed against the current operational model and the changes which result from all of the above. All Financial Projections, Lending, Funding Liability Management Objectives, as well as Marketing, Information Technology, Human Capital Management and other Operational criteria will be assessed against the current Strategic Plan for change.

Conclusion:

This overview is not meant to be the complete work plan for the restarting of the bank. It is meant to provide a framework for the possible steps to be considered to restart and begin the ramp up to normalcy within the structure of the current Strategic Plan. Monitoring of the decisions and making changes may be routine throughout these dynamic Phases. As the bank continues to increase operations, and unknowns become knowns, a process can be considered to revise or redevelop the Strategic Plan. This should be part of the Success Phase and can begin within sixty to ninety days. Good luck!