BankExec - Overview

1

1

Simulation Environment

- Manage an almost $800 million bank
  - Complete top level management change
  - Only recent financial information
  - Assume many problems (discover and correct)

- Competitive community of several banks
  - Same size, financial condition, and economic environment
  - Any differences in competitive position over time are directly attributable to management

2

2

Important Considerations

- Financial position of the bank
  - Earnings rates on various assets; costs of various financing sources; cost effectiveness of overhead operations; maturity structure of assets and liabilities; capital position of the bank; potential problems
- Macro environment
  - Interest rate movements
  - Economic activity
- Review
  - Stockholders, competitors, regulators

Successful Bank Management

- Set goals, determine a course of action (strategic plan), and develop policies to guide your decisions
- Arrange the decision-making process to best utilize the skills and talents of the managers
- Measure actual results against desired results and make logical changes that coincide with your plan

Successful Bank Management (cont.)

- Avoid trying to indicate the precise effect of a specific change in a decision variable
  - **Forecast** simulation will help
  - Model “considers” decisions made in earlier quarters
  - Competitors’ decisions impact you
  - Most decisions impact numerous areas of the bank
  - Economy may change in unanticipated ways
- Keep the focus on making logical decisions that lead the bank in the intended direction

5

5

Always

- Run the bank as you would in the real world
- Accept that some of your choices will be “less than optimal”
- Do not worry about “mistakes” or dwell on “what could have been”
- Focus on making the best choices going forward

6

6

The Goal of Bank Management

- What is the goal of bank management?
  - Maximize shareholder value
    - Long-run perspective
    - Ongoing concern
- Asset Value/Price
  - Present value of expected future cash flows
    - Profit, growth, risk
  - Bank management must determine the "appropriate" balance between risk and return
    - Higher profit often requires taking additional risk
    - Higher ***profit*** does not always translate into higher ***value***

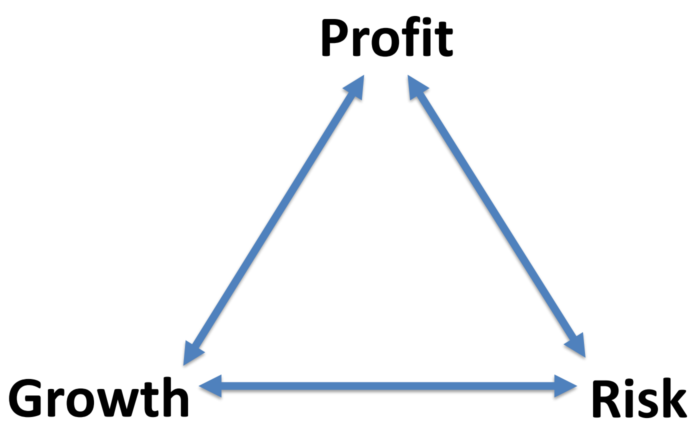
7

7

Most Importantly

Implement your own strategy!

Watch competitors and make adjustments, but keep focus on your goals



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Some Decision Considerations

- Pricing and mix of assets
- Pricing and mix of liabilities
- Quality and growth of loans
- Service charges and fee income
- Expense control
- Choice to sell assets
- Amount of earning assets
- Ability to manage taxes
- Payment of dividends
- Use of deposits and debt

9

9

Drivers of Stock Price in BankExec

- Capital
- Asset Quality
- Management quality
  - EPS forecast error
  - Interest sensitivity gap
- Profitability
- Liquidity
- Dividend Policy
- Growth
- Earnings volatility and risk

10

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11