

Community Financial Services Bank's impact on the community through succession planning

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ABSTRACT

The purpose of this case study is to determine the importance of succession planning at community banks. Community banks face a unique set of difficulties. Identifying, retaining, and training talent are particularly burdensome for these small-town banks. Despite these challenges, it is important for banks to strategize and develop succession plans to ensure that their future is sound.

This paper analyzes the succession plan established at Community Financial Services Bank (CFSB), a community bank located in Benton, Kentucky with ties across the Western Kentucky region. Interviews and research conducted on CFSB were used to analyze the potential problems faced by community banks.

Particular attention is given to the board of directors, the bank employees, and the community as a whole in order to understand how the bank's succession plan can lead to growth. Succession planning is typically put on the backburner for many community banks. CFSB, however, has developed employees within their bank in order to maintain their unique culture. CFSB strives to bring employees in at younger ages and with less education at lower level positions with the intent to train and educate them. CFSB's involvement in Murray State University has provided them with a unique talent pipeline.

Keywords: succession planning, community banks

INTRODUCTION

The Community Financial Services Bank, known as CFSB, is a regional bank in Western Kentucky founded in 1890. With five branches, CFSB has a wide reach throughout the Western Kentucky Region and is headquartered in Benton, Kentucky. The most important part of the bank's name is in the first word, *community*. The bank has a name reflecting its role as a community bank, and the mission statement further reiterates this idea: *The CFSB Team is committed to creating VALUE for our clients, our community, our stockholders, and our team members!* The mission statement positions CFSB as not just a bank that follows through with actions to help the surrounding community, but as an innovative one that is not afraid to try new things that create value for their community. That enterprising spirit carries into the bank's succession plan. Their planning is unique and helps promote stability within the bank, ensuring the community remains safe. In this case study, financial characteristics of the bank, the importance of succession planning in the banking industry, and interviews with top management at CFSB were considered to get a better understanding of the idiosyncrasies of CFSB's succession plan.

Focus on succession planning in banking should always be a top priority. However, the recent financial crisis brought this issue to the forefront at a national level as many large banks, and not just community banks, were forced to reckon with the implications of top leadership members stepping down in the midst of distress. As one article from the *American Banker* put it, the last 13 years has witnessed the changing of 18 chief executive officers at the largest twelve banks of the country (Davis, 2009). The high-profile nature of this turnover at the top drove home the importance of stability in succession during a crisis, but another high-profile bank served as an example for the necessity of succession planning when dealing with disruptions in everyday life. This bank was JP Morgan, and their Chief Executive Officer (CEO), Jamie Dimon, announced in 2014 he had throat cancer and would be treated for it (Barba, 2014). Such an example illustrates how, even without financial pressures, the stability a sound succession plan offers is vital to the continuity and profitability of a bank. Since the average age in the banking industry for a CEO is now 57, and since succession planning, or rather the lack thereof, can lead to mergers between banks, it is imperative that banks take it upon themselves to have a foundational plan in place (Reosti, 2016). With community banks such as CFSB, the success of any succession plan ultimately means success for the communities they serve. An interview with Charles Vice, Commissioner of the Kentucky Department of Financial Institutions, uncovered that in the 1990s, there were 160 state-chartered banks in Kentucky and how currently in 2017 there are now only 132. This shrinkage in state-chartered banks over the last generation has been due in part to poor succession planning. CFSB during this time has in fact grown and stands out as being strong in their own succession planning. The case study takes an in depth look at this bank.

Before delving into the unique succession planning CFSB has in place, a thorough analysis of financial characteristics and historical trends of the bank was conducted utilizing data from FEDFis, a database offering complete and comprehensive data on the U.S. Banking Industry. Earnings performance was the first component analyzed. In finance, there are multiple measures to examine a financial institutions earnings performance and, in order to provide a more holistic examination of the bank, multiple ones were applied in this case study. Return on equity (ROE), measured as net income after taxes divided by total equity, is known for its

applicability as an “internal performance measure of shareholder value” (“Beyond ROE,” 2010). The trend over the last ten years for CFSB and their return on equity can be viewed in Figure 1.

While the return on equity portrayed in Figure 1 seems healthy at first glance, it is imperative to compare CFSB’s performance in this regard with the banking industry average. To do so, this case study then employed the Return on Average Equity measure for CFSB and compared the bank’s ten-year trend with both the 23 bank’s serving the Murray State (MSU) area where CFSB is located and the banking industry trend across the United States. Return on Average Equity is an adjusted measurement of return on equity, measured by net income divided by *average* shareholder’s equity. When using this method, the performance of CFSB relative to both its peers in its main service district in Western Kentucky near Murray State University and the banking industry as a whole appears to be very strong. Whereas the entire banking industry experienced a vast decline in return on average equity near the beginning of the Great Recession, CFSB maintained roughly constant or even increasing returns on average equity during the height of the crisis, as illustrated in Figures 2 and 3. The September 2016 Return on Average Equity value for CFSB was strong at 12.12%, while in the 23 bank Murray State service area, which includes some of CFSB’s most direct competitors, it was only 10.04%.

Scholarly research in the field of banking has noted that return on equity and return on average equity has its limits as an effective performance measure, due in part to the fact that return on equity can be immune to effects from risk and leverage (“Beyond ROE,” 2010). Net interest margin augments insights gained from return on equity because it functions as “a proxy for the income generation capacity of the intermediation function of banks” (“Beyond ROE,” 2010).

As figure 4 indicates, the net interest margin has decreased recently. However, it is important to be aware that CFSB changed asset peer groups when it went from being in the 250-500 Million asset peer group in 2009 to the 500 Million to 1 Billion asset peer group in 2010. The change in peer group means that, although the net interest margin decreased to 3.90% in September 2016, CFSB remains in the 67th percentile ranking when compared to its newer, larger peer group. When CFSB was in its smaller asset peer group, in September 2009 it was in the 74th percentile ranking compared to that group. CFSB has maintained a relatively solid percentile ranking compared to peers, regardless of which asset peer group it was measured against.

One final angle this case study used to examine the earnings performance of CFSB was the efficiency ratio. The efficiency ratio can be expressed through the formula of non-interest expenses divided by revenue and conceptually as “how much does it cost your bank to generate a dollar of revenue?” (“Bank Efficiency Ratio,” 2017). For this reason with this particular ratio, unlike most of the other ones, it is better when it has a lower value. Figure 5 displays the efficiency ratio for CFSB compared with the quarterly efficiency ratio for the 23 banks in the Murray State service area that compete directly with CFSB. Comparing the two trend lines it is evident that the 23 banks combined have seen slightly more volatility in the efficiency ratio than CFSB alone. As of September 2016, CFSB had a lower, and thus better efficiency ratio than the 23 banks it directly competes with in Western Kentucky.

When comparing CFSB to the banking industry as a whole, the banking industry average efficiency ratio for September 2016 was 58.5%, meaning CFSB was nearly on par with the industry average at 60.31% for September 2016. From an earnings performance perspective, CFSB appears to be in a steady financial position.

After analyzing the earnings of CFSB, the case study turned to the bank's loan portfolio composition. A loan portfolio is the total amount of loans held by the bank on any given day. In their role as a community bank, CFSB did an exemplary job of being able to provide real estate loans during the housing crisis and Great Recession. In figure 6, data from the FDIC on the dollar value of loans held by CFSB over the past ten years illustrates that the majority of their loan portfolio and its growth is from real estate loans. Commercial and industrial loans, while growing, have grown at a much slower rate and make this group of loans a smaller percentage of CFSB's total loan portfolio. Going forward, CFSB will want to try and diversify its loan portfolio composition by expanding out of the real estate lending which predominately makes up the portfolio now.

Total assets measure the size of the financial institution. The sum of all current and noncurrent assets are equal to the sum of total liabilities plus stockholders' equity. Total assets of a community bank include any revenue earning entry on the banks' balance sheet. To be considered a community bank, the bank must have less than \$1 billion of assets on the balance sheet. CFSB's total assets equaled \$927,542 as of September 2016 which put them under the amount needed to be classified as a community bank. In Figure 9, CFSB's asset growth over the past ten years is displayed. Through the Great Recession, CFSB continued to grow despite the financial crisis' catastrophic effects throughout the country.

In Table 1, one can see that CFSB's capital levels are growing and exceeding minimum capital regulations. Total capital has more than doubled in the past ten years, starting with a capital of \$40,240 in 2006 and ending with \$94,561 in 2016. Their tier one capital ratio, which regulators use to insure a bank is sufficiently capitalized, has remained sufficient. CFSB has been considered well-capitalized every year, for the past ten years. To be considered well-capitalized, a bank must have a Tier one capital ratio of at least 6% ("Capital," 2015). Within the past ten years CFSB has had a ratio ranging from 10.57%- 16.05%. According to their leverage ratio, CFSB appears to be able to handle large negative shocks to their balance sheet. To be considered well capitalized a bank this size would need to have a minimum of a 3% Tier one leverage ratio. CFSB has not gone below a 4.57% Tier one leverage ratio in the past ten years. They have fluctuated, and increased their ratio to a 9.4% Tier one leverage ratio in the year of 2016. This is well above regulations, especially for a bank this size.

EXISTING SUCCESSION PLAN PRACTICES

Not only are the financial characteristics of CFSB important, it is imperative to examine strengths and weaknesses in the bank's succession plan to ensure the bank's continued success. CFSB takes a pragmatic approach to their succession plan where they combine opportunities for leadership development with flexibility.

At CFSB their CEO Betsy Flynn emphasized how they only promote from within in terms of succession planning except for in rare cases where they need a certain technical skill that a current employee does not have. There is much research emphasizing this is a strength in succession planning. An article in *American Banker* attests to problems that can arise if a bank has to turn too often to external hiring:

Poor talent management forces companies to reach outside the organization for leaders. Sometimes an external hire is appropriate, of course, but more often it's a sign the board of directors and senior management have failed in one of their chief duties. Sources cite studies from the National Association of Corporate Directors that show that external hires

typically fare more poorly than internal ones. What's more, external candidates are more costly to hire, and often cause strife among those passed over for the job (Sisk, 2009).

Analyzing the insight provided in this quote, it is evident that CFSB can avoid many of these problems when it follows its plan of promoting from within. CEO Flynn reiterated how hiring from within ensures consistency in the corporate culture and heightened employee morale as they see one of their peers being promoted rather than an outsider who has not given as much time and dedication to the bank. The commitment of CFSB in promoting internal candidates can serve as an economic signal of sorts to potential employees, signaling that the bank does a good job of investing in its employees so that they are able to reach higher, upper-level management positions. This sort of economic signal can thus help inspire employees to work for the bank longer and to invest more of themselves for the bank. From a cost perspective, the bank avoids large relocation or signing bonuses that might come from external candidates when they choose to hire within. For all of these reasons, the idea at the core of their succession plan seems incredibly strong.

Another strength offered by CFSB's succession plan is that they have expanded their planning to cover all levels of the bank. Much like the rest of their culture, which stresses a flat hierarchy between employees and top executives, CEO Betsy Flynn revealed how their succession plan includes an immediate and long-term successor to every officer and supervisor. Flynn went on to delineate how they will reach out to the individuals listed in the plan to see if they are truly interested in the role and if they are, CFSB works to ensure the adequate training is provided to the individual. Flynn noted that the succession plan is not a guarantee the individual will take on the role, but rather that they will be as prepared as possible to be a competitive and qualified candidate. Since the inclusion of lower level management in succession planning is known throughout CFSB, that means even entry-level employees are having succession planning brought to their attention early on in their tenure with the bank, and this can assist in preparing them to be better leaders in the future.

CFSB strives to maintain transparency in its succession planning and this strategy is viewed as a strength. According to CFSB employee Dallas Jo Young, "If we believe in anything, it is transparency. The only thing that is not discussed as a team is personnel issues and those stay in HR. If Betsy, our CEO knows something, then it will be a short matter of time and the entire team will know it and it will come from her. We have monthly leadership meetings following our Board Meetings and the team leaders are to bring everything they learned back and share it with their team." This transparency not only ensures effective succession planning for roles within the bank, but since leadership meetings are after Board Meetings, this ensures that any succession planning surrounding the Board of Directors is being brought to the attention of all employees as well.

CFSB has a process to ensure all employees are developing as leaders and have the potential to reach higher leadership positions in the bank. This begins the moment an employee is hired at the bank. Every employee receives a leadership book they must read. There is monthly leadership training for members of the executive committee which lasts four hours where they take part in seminars and discuss the leadership book. Department leaders get to invite their team members to one of the monthly seminars a year. A difference between CFSB and other banks in the industry is that other banks usually have an official mentoring program where each new employee is assigned to a mentor to foster their development while CFSB has an informal program where older employees are able to mentor any new employees and not just one they have been assigned.

In an interview with President and CEO Betsy Flynn, she noted how millennials that work for CFSB have a motivation to not only work but to give back to the community. CEO Flynn sees CFSB's role as a community bank as appealing to millennials because they can attract employees who desire community involvement as a balance to their work life. For those employees who want to make an impact in the community CFSB serves, there are numerous opportunities outside of work where they can represent CFSB informally, such as at philanthropic events in Western Kentucky.

To better prepare employees for future leadership positions, CFSB sends employees to a two-year banking school, preparing them to take on the reigns as a leader within the bank when the time comes. Dallas Jo Young reiterates CFSB's willingness to meet their employees' desire to grow and be prepared as a leader when she states "I am a firm believer that if you want to grow, you have to let your peers and supervisors know. At CFSB, they are willing to give you the world and let you run with it if you show interest and perform well while doing so. I know I have had some amazing opportunities that I may not have had at another bank or place of business. I am the type of person that I want to know everything that I possibly can and I make sure to let others know I feel that way, as well."

One way CFSB strives to enhance profitability is through its Bright Ideas Team. In an interview with employee Dallas Jo Young, she describes the CFSB's Bright Ideas Team as a team that "reviews ideas submitted from all team members about ways to better the bank via Profitability, Efficiency, Safety & Soundness and Communication which are all core values that we try to succeed at and uphold." This team indirectly promotes awareness of leadership succession preparedness by allowing any employee to submit ideas which can enhance the long term core values of the bank and these core values must be maintained in any transition of power at the bank. Since all team members at the bank are aware of this team, that means the Profitability, Efficiency, Safety & Soundness and Communication of CFSB is being brought to the forefront of their minds and making the team members potential candidates for succession planning. They are better prepared for potential leadership succession planning not only because they have been trained through the Bright Ideas Team to consider the bank's long term core values and profitability but also because these team members are given the opportunity to actually *practice* leadership. This means that if the opportunity opens up for a new leadership role, the bank has a trained team member from which to choose, and one who has experience in thinking of innovations to increase bank profitably. Dallas Jo Young elaborated further about another team she is involved in as a leader at CFSB, the Hoopla Team. Young explains how on this team, "I get to work with an awesome team of people that provides our entire bank with standards of behavior and also have the tasks of conducting our quarterly team meetings (which are mandatory bank wide)." Once more, CFSB provides a platform for employees to practice their leadership skills in an environment where they can receive immediate feedback. This further aids in their preparedness and is another qualitative program in place to create a talent pipeline of prepared and ready leaders.

CFSB is continuing to grow in not only size, but new developments as well. Due to the bank's rapid growth they continue to think of new ways to reach all types of clients. This April they created a new department called CFSB LIVE. This department will be used to service clients using the newly purchased technology: Interactive Teller Machines, or ITMs. These machines are similar to a typical ATM, but do far more. Clients will be able to do almost everything they would be able to do with a live teller on this machine. They will have the option to do it on their own, or call a live virtual teller on the screen. The CFSB Live department will be

accessible at all times that the ITM is available for use. The bank is the first in their region to come out with this technologically advanced product, and is the second bank in the state of Kentucky to come out with similar machines. The goal of the bank is client service and maintaining an image of community. CFSB hopes this new technology will attract new clients, especially millennials. It will promote efficiency in the bank if clients chose to use the new technology. Clients will be able to do quicker, more convenient transactions without having to wait on a teller to do it for them. It appeals to all generations because it provides the opportunity to self-serve and the opportunity to have a live teller do the transactions for you. The bank recently changed their hours at all locations to appeal to all clients' schedules. The bank is now open from 8 a.m. to 6 p.m. Monday through Friday and open from 9 a.m. through 1 p.m. on Saturdays. However, the ITMs will be accessible from 7 a.m. until 8 p.m. every day. The ITMs will be placed in locations such as Walmart to expand their reach and be where their customers are most likely to be in need of cash and other quick transactions. In this regard the ITMs will be similar to ATMs that are placed throughout the community and this will encourage quick adaption of this innovative technology. This availability and innovation is attractive to millennials and provides convenience for working professionals and the community as a whole. The attraction to millennials is not only from the customer side, but also from the perspective as a potential employee. Millennials want to impact their community and the opportunity CFSB is providing them through this new technology is to impact their community for the better and introduce them to a technological interface that will become more prevalent in the future.

CFSB has been strategic in their location and size expansion. Although they were originally named as the Bank of Benton, they rebranded as the Community Financial Services Bank, or CFSB, and expanded to include large facilities in Murray, Kentucky. The Murray location united with their succession plan to attract millennials. Murray State University offers a large amount of skilled labor that has come to know the bank and its significance in the community through efforts such as the CFSB Center, the university basketball arena. The presence of CFSB on Murray State's campus, coupled with visits to finance classes by President Betsy Flynn herself, have led to lasting relationships between the University and CFSB. The relationships have yielded a lasting talent pipeline with many Murray State graduates becoming employees of the bank. In fact, CFSB currently has 103 Murray State Alumni working for them and estimate that in the past there were approximately 50 additional Murray State alumni who worked for them. The appeal of a place like CFSB to recent graduates is in part due to the fact that growth and promotion at the bank occur at a pace consistent with an employee's success. For instance, an employee who has only been there a year can be promoted based on high performance evaluations, rather than on tenure like often seen at larger banking institutions. In an interview for an article with *American Banker*, Doug Adamson, who is an Executive Vice President "of the Professional Development Group at the American Bankers Association" stated, "Make the development plan clear for young talent, and you get buy-in. If they can see a clear path up, they know what's expected of them, can see the rewards, and are more likely to remain" (Sisk, 2009). Adamson's statement echoes the philosophy CFSB currently practices and emphasizes how CFSB needs to maintain its provision of a "clear" path to new employees, especially recent college graduates who build up their talent pipeline for the long run.

Outside of CFSB's relationship to Murray State University, their size and location play other key roles in attracting top talent to the bank. According to "Viewpoint: How to Sell Top Talent on Joining Your Small Company" published in the *Society for Human Resource Management*, "the opportunity you're selling in a small business is...the opportunity to develop

in a professional role at a much faster rate than a candidate would...see in a large corporate environment” (Sackett, 2017). This holds true for CFSB where new employees are groomed to develop as a professional in all aspects of the bank and are mentored through leadership books and training. The aforementioned article points out another benefit CFSB can offer and sell to potential employees because of its smaller size: freedom. The article mentions how at larger organizations, “many employees become frustrated with...being left in limbo with no information on what could happen next.” CFSB CEO Betsy Flynn reiterated this point in an interview when she explained that employees are most concerned with being kept in the loop and being informed. She said that although the general public may think pay is the biggest issue employees would be concerned about, time and time again it is proven to be access to information. A smaller bank like CFSB means that “Communication flows more freely because there aren’t levels to filter it through” (Sackett, 2017). Betsy Flynn emphasized how at CFSB her door is “always open” for any employee to talk to her and how she does not consider herself a “boss” so much as a “coach” who fosters growth and freedom for employees to develop and grow in their strengths, as well as their weaknesses. The final attribute a smaller company like CFSB can sell to potential employees is family: “Applicants...feel like family from the first interaction” (Sackett, 2017). CFSB embraces this philosophy and is a strength of the bank in recruiting and developing employees to be prepared to take on long-term succession roles. Betsy Flynn described in detail the welcoming first day for new employees where she personally attends a breakfast and gets to know new members of the team.

However, in spite of the numerous advantages that accompany a succession plan based on promoting from within, there is one key weakness with this practice: the lack of diversity in terms of experience. When interviewing Human Resources professional Teri Ray, a professor at Murray State University, she brought up how only promoting internally can limit growth and lead to stagnation at a company and that forces of change typically come from those with outside experiences. In this lens, it is clear that CFSB is limiting the diversity of ideas and potential for change that could benefit their bottom line if they only hire and promote from within. To further strengthen their succession plan, it is recommended that CFSB combine the two strategies in a way that maximizes the benefits of each. One way to achieve this would be if CFSB strategically hired externally for positions above entry-level and after a few years of this external hire being acclimated to the bank’s culture, they can start to be considered as a name for the succession plan. This practice would allow a diversity of perspectives and experiences to be brought to CFSB but by the time they would be a factor in succession planning, they would not be an external hire anymore and would have been integrated into CFSB’s unique culture.

The Board of Directors of CFSB has characteristics which reflect the demographics of the Western Kentucky region. All members except CFSB President and CEO Betsy Flynn are business owners within the community and Caucasian males who have prominent leadership roles in their business. Nearly all Board Members are president of their respective businesses. CFSB has a mandatory retirement age of 70 years for all Board Members, and this means most board members are between 50 and 70 years old, serving until they must retire. The lack of diversity--whether from an age, gender, location, or ethnicity perspective--is a major weakness for CFSB. CFSB keeps a prospective list of potential board members. Although the bank’s Board of Directors is open and transparent with CFSB, they are not as transparent to the community they serve. When asked for an interview, the Board of Directors politely declined. The details on their succession plan and onboarding come from President Flynn. However, the interaction with

the Board indicates that, as a community bank, the CFSB Board of Directors could improve in serving the community shareholders who ultimately drive the bank's success.

According to CFSB President and CEO Betsy Flynn succession planning for the board begins with, "prospecting for new Board members" which "is very serious and a painstaking process. We look for leaders in the community who are very involved in the business world and community activities." The inclusion of prominent community members on the Board of Directors is common to community banks. Some of CFSB's Board members own local pharmacies, fabric stores, and even construction companies in the Western Kentucky region. CEO Betsy Flynn elaborates on the search process for new Board members when she explains, "They must be of the highest character, understand business, and bring business to the Bank." By having owners of businesses such as construction contracting, which are tied to fluctuations in the local economy, CFSB may be better able to anticipate changes in the demand for loans. Once a prospective board member has been identified, there remains the interview process. CEO Betsy Flynn describes what this step entails when she describes how "The prospective Board member is then interviewed by the Board, followed by an interview by the Executive Committee." Once a Board member is hired, they must go through onboarding steps including training. The training given to Board members includes both federal FDIC training and in-house training from CFSB staff.

In an interview with Charles Vice, Commissioner of the Kentucky Department of Financial Institutions, he emphasized the importance of a written, concrete succession plan for a Board of Directors when being evaluated by regulators. He mentioned that banks are often hesitant to include names in succession planning so as not to create discouragement among those who may not be listed as a potential successor. His point was that from a regulatory perspective, a written plan with positions listed is the key thing regulators look at. CFSB does this with their succession plan and by this standard meets regulation.

CFSB employee Allen Waddell elaborated on the bank's internal succession plan in an interview, stating it "is a living document that changes frequently." This fluidity and adaptability are strengths of the succession plan. Allen Waddell furthered this point when he explained "Last year, we had several team members retire and each position was filled seamlessly with no issues. This is due to our succession planning. Our bank management goes out of their way to make sure each team member stays informed." This testament is worthy to note because it indicates not just CFSB's strength in succession planning, but also how their effective management of succession planning will continue to help them in the coming years as the Baby Boomer generation retires in droves. The several members who retired at CFSB last year reflects larger demographic shifts and illustrates CFSB's competence in meeting this demographic challenge.

The long term goals of CFSB include wanting to expand into Southern Illinois, continue to operate profitably, and to maintain and enhance their work culture. The meticulous succession plan of CFSB for its Board members relates to the bank's long term expansion goals because it ensures those who are selected are capable of guiding the bank through an expansion. However, a shortcoming of the current board structure, when examined with regards to the long term goals of the bank, is the lack of diversity. The board's succession plan needs to focus more on diversity and inclusion of people from different backgrounds, and particularly from different geographic backgrounds if the bank plans to operate profitably in locations whose local economy may differ from that of Western Kentucky's. If this limitation of the current plan is kept in mind and coupled with the current plan's emphasis of attracting and selecting board members who fit the

culture of CFSB, then the succession plan for the board will be successful in assisting the bank achieve their long term goals of expansion, operating profitably, and enhancing work culture.

The board's current structure and succession plan has the potential to both negatively and positively impact the bank's involvement and lending in the community. A negative impact could stem from the lack of diversity on the board. The lending and involvement in the community could end up being concentrated to those industries that are represented through the business ties the current board members have, such as the construction industry. A positive impact could stem from the fact that board members are so meticulously chosen that those who end up sitting on the board will not bias their lending or involvement toward those industries they are involved with. Rather, the business acumen board members bring will assist lending in the community because they will know the best type of loans for certain customers based on their outside industry experience. A board with industry experience has also proven to assist the community CFSB serves by implementing lending practices to help constituents during the Great Recession while allowing CFSB to grow at the same time, thus propelling further lending in the community. This in part kept Western Kentucky insulated from some of the worst effects of the financial crisis.

CONCLUSION

CFSB is in a position to meet the future head on, while creating value for all of its shareholders. With sound financial characteristics and a solid succession plan, this bank is prepared for any new challenge that may arise. If CFSB follows some of the suggested new practices in succession planning and increases their diversity, there is no limit to the positive impacts this bank will continue to make in their community, the core of their business and indeed, their heart.

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APPENDIX

Figure 1. ROE for CFSB

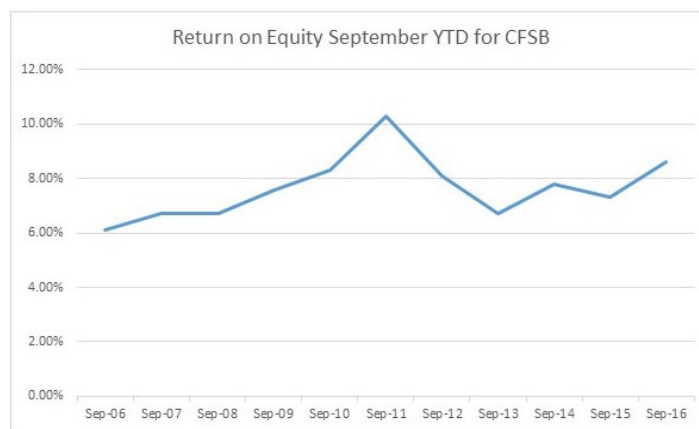


Figure 2. Return on Average Equity Comparison

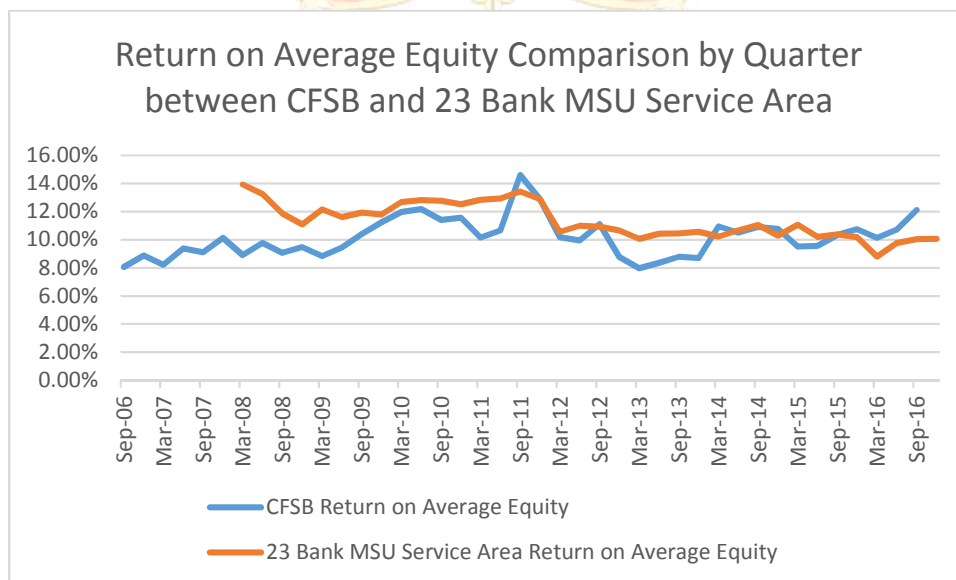


Figure 3. Return on Average Equity for all U.S. Banks

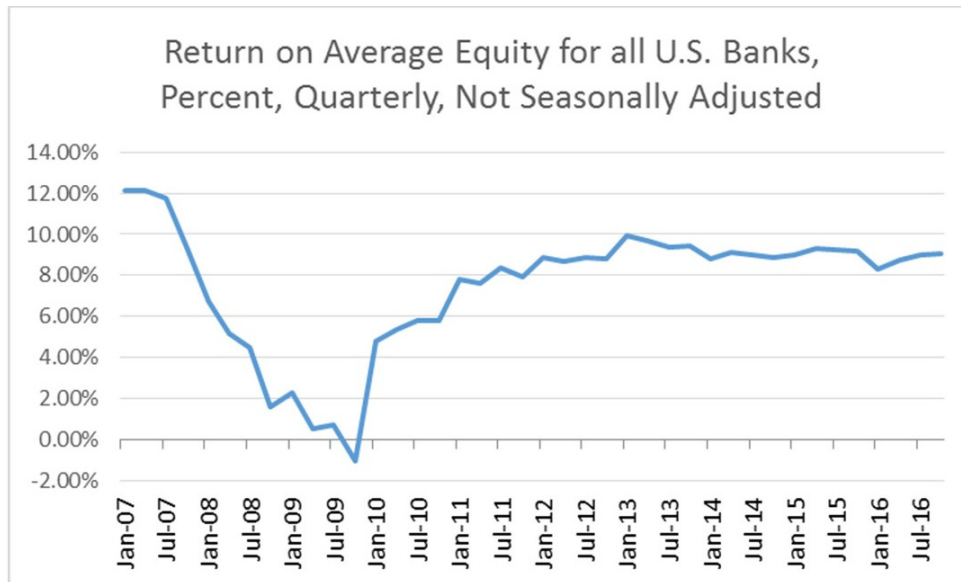


Figure 4. Net Interest Margin



Figure 5. Efficiency Ratio Comparison

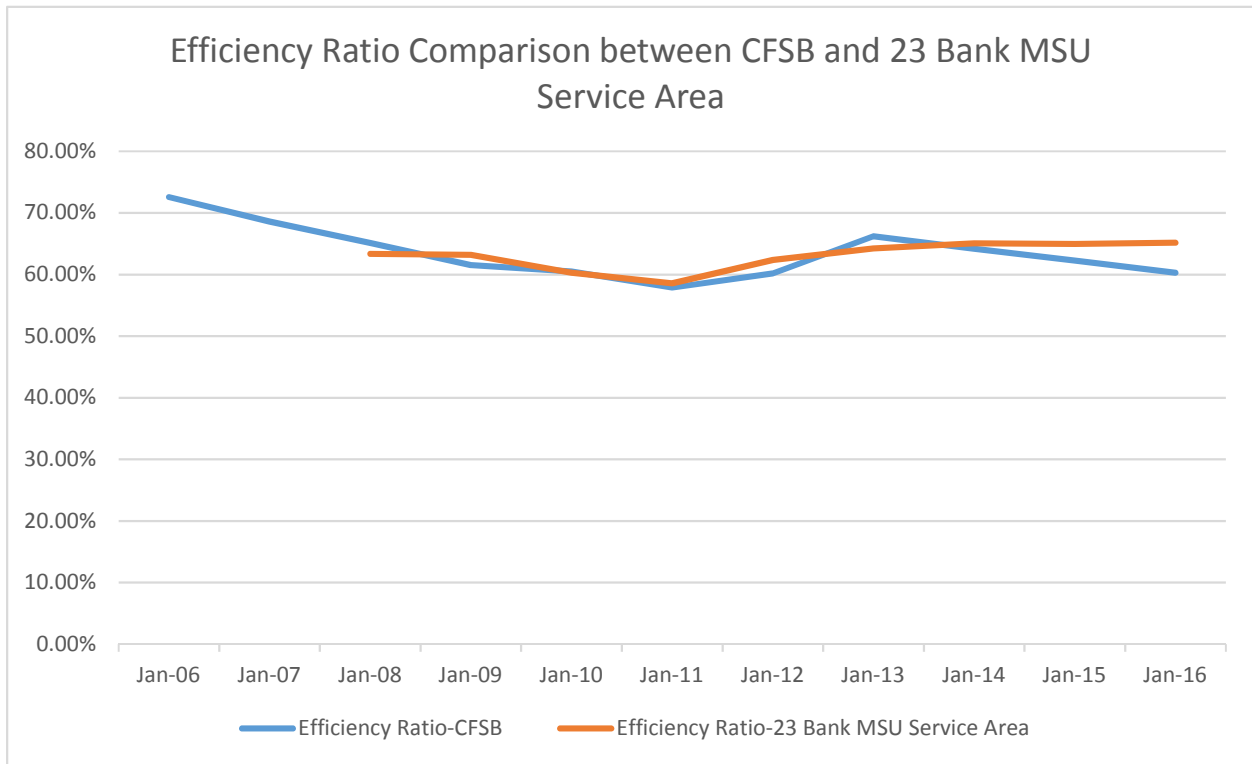


Figure 6. Dollar Value of Loans Held by CFSB, 2006-2016

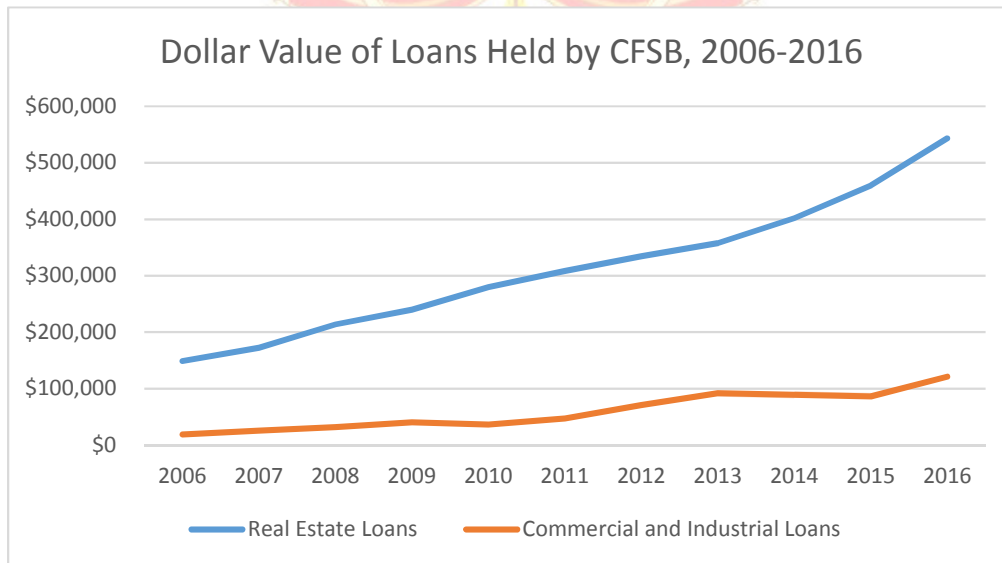


Figure 7. Loan Portfolio Composition

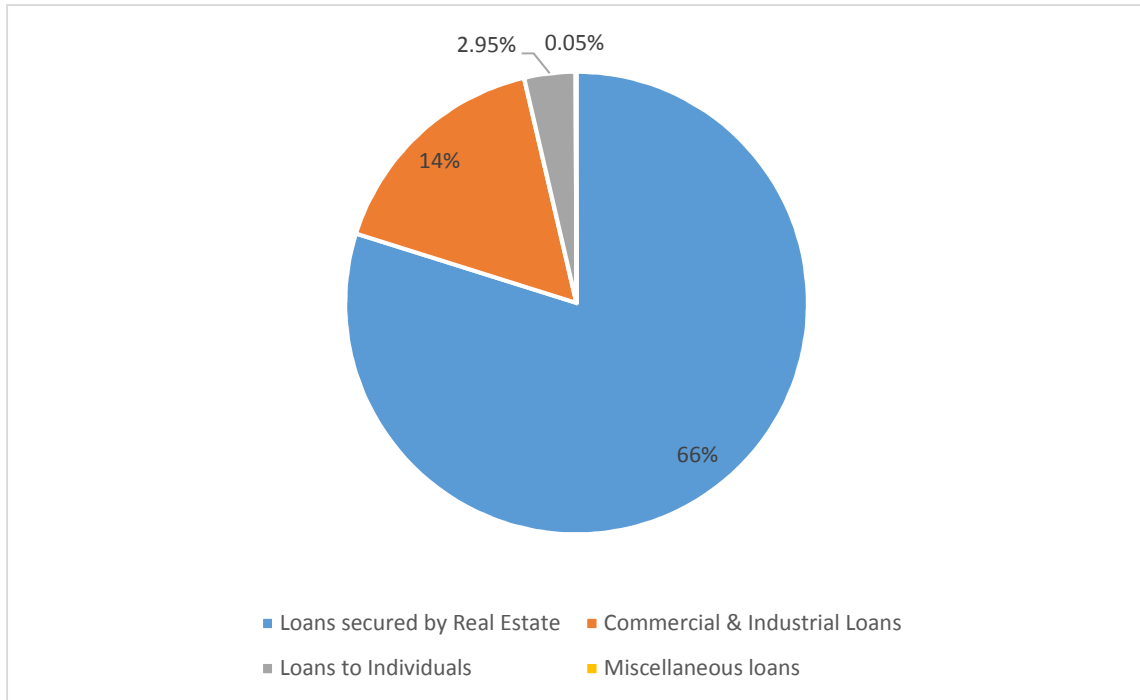


Figure 8. Total Asset Growth

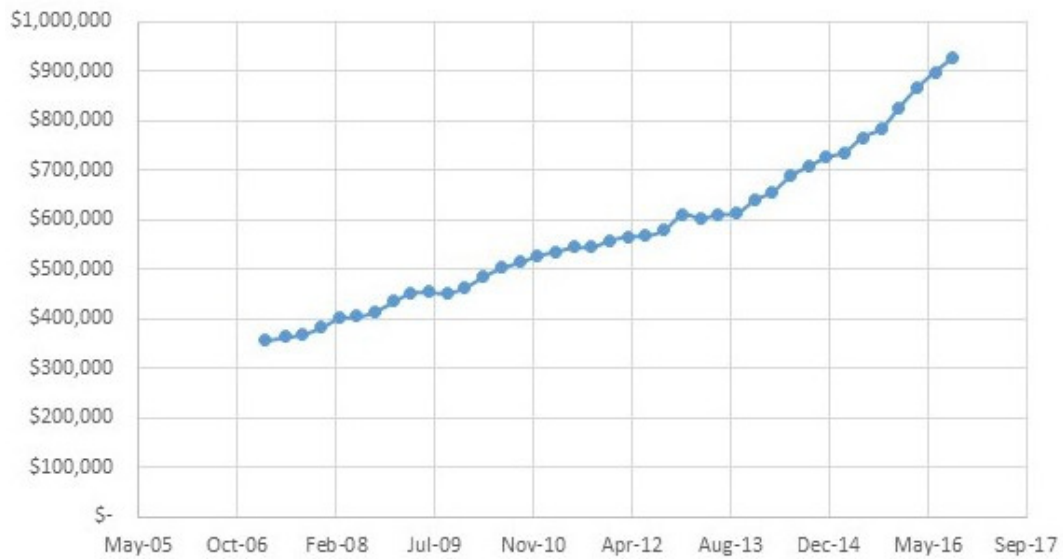


Figure 9. Percent change in asset growth

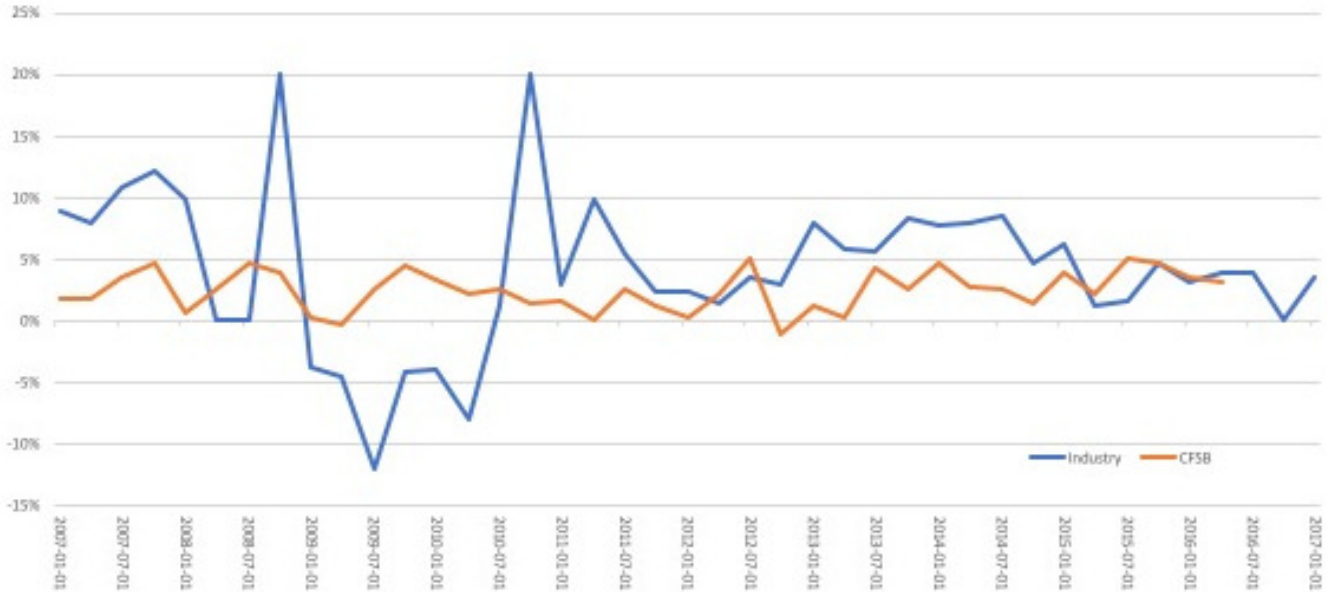


Table 1. Capital Ratios for CFSB

Capital Ratios	Sep-16	Sep-15	Sep-14	Sep-13	Sep-12	Sep-11	Sep-10	Sep-09	Sep-08	Sep-07	Sep-06
Tier 1 Leverage Ratio	9.48%	9.40%	9.20%	9.53%	9.86%	4.81%	4.57%	4.89%	5.02%	5.33%	5.65%
Total Capital Ratio	11.43%	11.74%	11.66%	12.52%	13.06%	12.86%	12.80%	14.11%	13.94%	16.05%	17.30%
Tier 1 Capital ratio (risk based)	10.39%	10.57%	10.54%	11.27%	11.80%	11.60%	11.54%	12.85%	12.69%	14.80%	16.05%
Capital Data	Sep-16	Sep-15	Sep-14	Sep-13	Sep-12	Sep-11	Sep-10	Sep-09	Sep-08	Sep-07	Sep-06
Tier 1 Capital	\$85,986.00	\$72,696.00	\$64,056.00	\$58,212.00	\$56,278.00	\$52,185.00	\$46,680.00	\$43,675.00	\$41,161.00	\$39,316.00	\$37,313.00
Tier 2 Capital	\$ 8,575.00	\$ 8,047.00	\$ 6,820.00	\$ 6,485.00	\$ 5,980.00	\$ 5,640.00	\$ 5,079.00	\$ 4,270.00	\$ 4,062.00	\$ 3,333.00	\$ 2,927.00
Total Capital	\$94,561.00	\$80,743.00	\$70,876.00	\$64,697.00	\$62,258.00	\$57,825.00	\$51,759.00	\$47,945.00	\$45,223.00	\$42,649.00	\$40,240.00