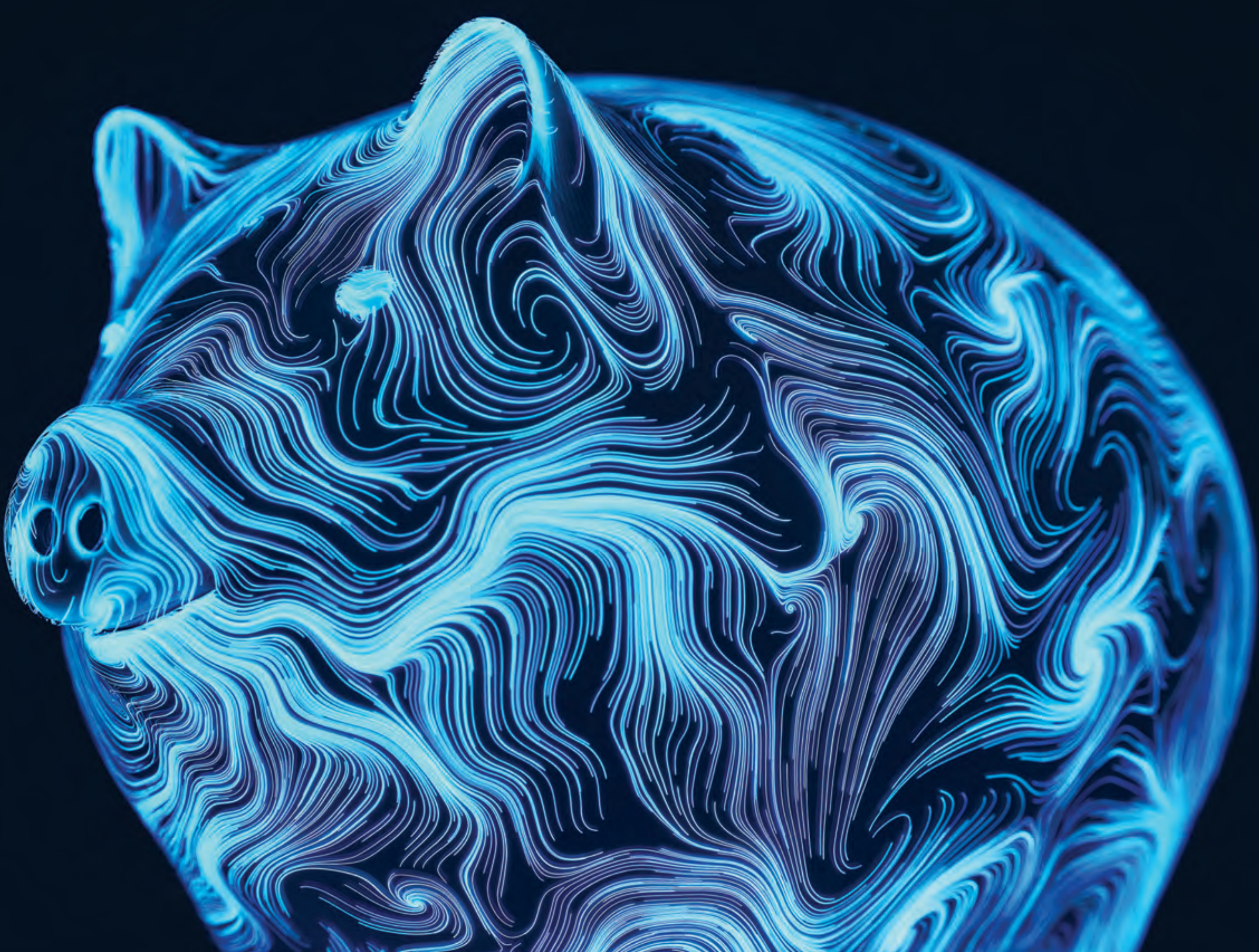
2021 SPECIAL SESSION SUMMARY PAGE 32

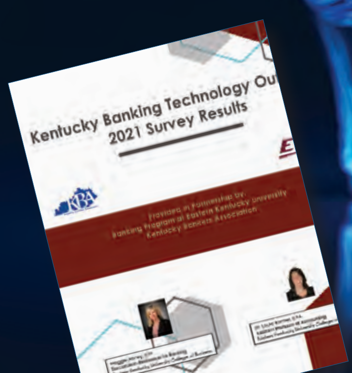
KENTUCKY BANKER

Kentucky Banker Magazine
Official KBA Publication
FALL 2021



FREE! INSERT FROM THE KBA & EKU INSIDE THIS ISSUE

KY Banking Tech Outlook



2021 BANKING INNOVATION CONFERENCE GALLERY PAGES 16-17

Bankers' Agricultural Finance Service

HELPING COMMUNITY BANKS GROW

Bankers' Agricultural Finance Service, a division of BBKY, has partnered with one of the leading providers of Farmer Mac Loans to offer a **Fixed Rate Loan Option** for your agricultural property owners.

Bankers' Agricultural Finance Service helps Community Banks grow by providing the products, expertise, and support they need to originate, process, and close more Fixed Rate Farm Mortgage loans quickly and efficiently with little or no investment.

LOAN PRODUCTS:

Land Loan Financing for Acquisitions

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BBKY

For a personal appointment, email solutions@bbky.com or phone Paul Loxley, Account Executive at (270) 952-2633.

Kentucky Bankers Association

WHO WE ARE: The KBA is a nonprofit trade association that has been providing legislative, legal, compliance and educational services to its member institutions since 1891. KBA's directors and staff work together with its members to make the financial services industry a more effective and successful place to work. The strength of the KBA is bankers unifying as an industry to speak as one voice.

WHAT WE DO: The purpose of the Kentucky Bankers Association is to provide effective advocacy for the financial services industry both in Kentucky and on a national level; to serve as a reliable and responsive source of information and education about areas of interest to the industry; and to provide a catalyst and forum for collective industry action. The KBA does this in 4 ways:

1. Government relations & industry advocacy
2. Information interchange
3. Education
4. Products and services

kybanks.com

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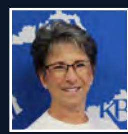

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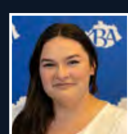

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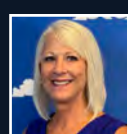

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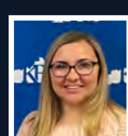

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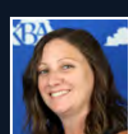

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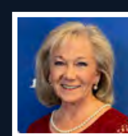

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Bold frame denotes management team member. Please feel free to email us, we are here to help!

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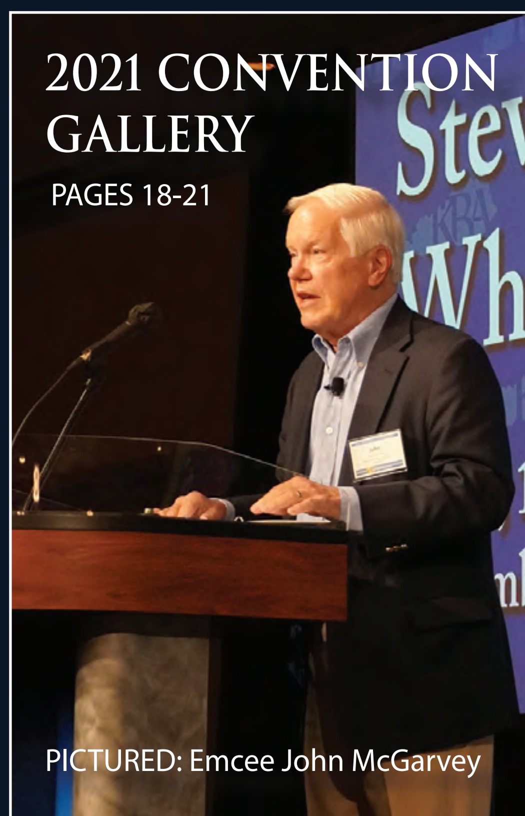
KENTUCKY BANKER

FALL 2021



PICTURED: Emcee John McGarvey

KBA CHAIRMAN'S CORNER by James A. Hillebrand
Chairman & CEO, Stock Yards Bank & Trust Co.
2021-2022 KBA Chairman

WHAT BEING A KENTUCKY BANKER MEANS TO ME

I've known the importance of relationship-building and giving back to my community from a young age. My family owned and ran a local business, Hillebrand Electric Company, where I would have worked had I had any talent as an electrician (I guess you could say I wasn't wired that way). Still, I saw firsthand how small businesses make real impacts on the people they serve and dedicate themselves to the betterment of their communities.

Being one of eight kids also gave me a strong sense of paying things forward and doing the right thing. So instead of stringing wires or digging trenches, I went to school to learn how to run a business like my father ran with the hopes of giving back to the people and community that helped raise me. I first started in banking more than 30 years ago. While studying at Bellarmine University, I took a part-time job as a teller at a local community bank to help pay my tuition. That job led to a management training program opportunity that changed the course of my life.

Had that local bank not invested in me, I wouldn't be where I am today. Being a Kentucky banker has given me a chance to be involved to help others on their path and support programs that make Kentucky better. It also allows me to serve on the boards of nonprofits, sponsor charitable events and be involved in projects that drive our economy forward and "practice what I preach."

Being a community banker in Kentucky hinges on the relationships we make – with our colleagues, with our customers and with each other.

I had the honor of speaking to many of you recently at the annual Kentucky Bankers Association convention, an event I hope to never miss. Year after year, I get more out of this incredible gathering. Spending time there as both the incoming chairman of the KBA and a proud Kentucky banker, it really hit me how much we gain from being together. Everywhere I looked I saw comradery, networking, and the sharing of ideas – helping our fellow bankers even though we're often competitors. Bankers have weathered a massive storm the past few years and this little taste of 'normal' was the perfect way to jumpstart my time as your chairman.

Being a banker allows me to practice the values instilled in me from my family and the family business. Banking is a way to make a real impact on individuals and communities and should be celebrated. Banks are a vital part of some of the most exciting times in the lives of Kentuckians like buying a house, starting a business, saving for college or planning retirement.

"Being a community banker in Kentucky hinges on the relationships we make – with our colleagues, with our customers and with each other."

We're also a part of some of the most trying times. We as bankers shined when we stepped up to facilitate millions of dollars in PPP loans during the pandemic. We were quick, we were effective, and we were efficient to get money in the hands of people who needed it. That deserves a lot of credit and recognition.

It's impossible to measure the value of what bankers do. I see how banks grow deep roots in their communities and create ripple effects through charitable donations, involvement, and action. We can also impact the rules and regulations that dictate how we do business through outreach and relationship building with legislators and other decision makers.

As chairman of the KBA, I want to be your ally and advocate. With growing regulations on our industry, rising costs of technology and constantly evolving customer expectations, we must remain vocal working alongside regulators and elected officials to protect the future of banking in Kentucky and make sure they understand what we do and why. I want you to be able to prioritize serving your customers because that's what matters most. This group is filled with passionate leaders that can work together to help us continue to be a vital part of every community in Kentucky – and more people should know that.

It's clear that while we as bankers compete, we have the same goals in the end. We want to support our communities. We want to help people and businesses meet their goals. We want to be advocates for positive change. And we want to be better bankers. I am honored to be your new chairman and can't wait to see what we can accomplish this year!

Banc Consulting Partners can help your bank analyze how BOLI can increase bottom line earnings. BOLI has been used for decades as a high earning, credit worthy asset for community banks. When you want the best for your institution and a dedicated long-term partner, talk to Lou Moore and Lon P. Haines at Banc Consulting Partners.

KBA Kentucky Bankers Association ENDORSED

WHEN IT COMES TO

BANK OWNED LIFE INSURANCE (BOLI)

You Need A Long-Term Partner.

"CUB began working with Banc Consulting Partners in 2020 on a strategic BOLI implementation. BCP was knowledgeable and professional every step of the way and anticipated our every need. They were able to make a relatively complex issue easy to understand and quick to implement. Their experience with any regulatory issues or concerns was also important. We recommend them highly."

— DAVID M. BOWLING, CEO CITIZENS UNION BANK

"The relationship that Farmers Bank & Trust Company's Management Team and Board of Directors has with Lou Moore and his team at Banc Consulting Partners is one of the closest and most valuable relationships that we have. Our partnership with Lou consistently produces highly efficient earnings while helping us recruit and retain key employees and offset rising benefits costs. For nearly 20 years, Lou has consistently exceeded our expectations of performance, service, and character. I highly recommend Lou Moore and Banc Consulting Partners to Kentucky's community banks."

— J. WADE BERRY, PRES. & CEO, FARMERS BANK & TRUST CO.

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BCP
BANC CONSULTING PARTNERS

YOUR BOLI & BENEFIT PARTNERS

STRAIGHT TALK by Ballard Cassady
KBA President & CEO
bcassady@kybanks.com

AROUND THE HORN

CONVENTION

We just wrapped up a wonderful convention in Asheville at the Grove Park Inn. (See our 2021 Convention Gallery starting on page 18.) A big thank you to all our banker attendees and to our vendors who are so instrumental is putting our conventions on. With over 450 in attendance, our survey feedback rated our speakers an average of 4.2 out of 5, the highest being the banker panel on general issues (4.5). The overall convention approval rating of right at 90% matched up with nine out of ten respondents that are planning to be with us at Marco Island, Florida in 2022. We'll take those numbers every year! The hunt is already on for presenters that top even this year's excellent lineup.

LEGISLATIVE

We continue to write letters and monitor the current administration's efforts to turn the banking system into the social issue police station for day-to-day operations. Speaker Nancy Pelosi has vowed to continue to try and put IRS reporting of all transactions over a cumulative $600 in the budget reconciliation package. The compliance cost alone of this will create amazing problems for community banks. Remember that in the same breath they talk about IRS reporting, they dare to chastise the industry about reaching out to the "unbanked." Go figure.

Environmental, social and corporate governance (ESG) continues to be pushed on ALL businesses. The ABA has signed off on this effort. The KBA has not! Our (KBA) belief is that whatever an individual bank wants to implement in their operations is up to them. However, as an industry representative we would never try to force banks into doing something that would increase regulatory cost and government oversight on our industry. We're hoping the ABA will wake up eventually and realize they represent banks and not social justice warriors. We are awake but we are not WOKE!

Tax proposals that will negatively affect banks will continue to be monitored. As you all know when our customers suffer, we suffer and the new tax proposal will create a lot of new suffering, all the way up and down the income scale.

The SBA and USPS are attempting to go direct to our customers with lending platforms. What are the prospects for that working out well? No better than the way either of them already run their own shops. You'd think banks would get some credit for the PPP program. Instead, we have a federal government happy to punish us for helping them look good.

I sometimes believe all this "stuff" is just to see how much this country will take as they march us toward a totalitarianism state. Judging from this administration's numbers, about 38% of the people would agree to go there and judging from Congress's numbers 14% think they are doing a bang-up job. Wouldn't you like to meet those people just so you could see what they look like?

REGULATORY

Section 1071 of Dodd/Frank - amended the Equal Credit Opportunity Act (ECOA) to direct the CFPB to require financial institutions to collect and report loan data on women-owned, minority-owned, and small businesses (collectively, "Small Businesses") in connection with applications for credit. Under the Proposed Rule, covered financial institutions would be required to disclose application data from Small Businesses and demographic information about credit applicants.

The vaccination mandate is sure to bring a ton of law suits and additional shortages as soon as they implement it. I'm trying to figure out if there is anything these guys touch that hasn't turned to ……. well shall we say, it appears they could screw up a one-car funeral.

CAPTAIN OBVIOUS

This is going to be my last political article for a while because I believe like Benjamin Franklin when he said, "Those who would trade a little freedom for a little safety deserve neither freedom nor safety."

Bernie's Progressives are killing the country: Free education, free day care, free phones, free health care, no gas-powered cars, and last but not least they will pay you NOT to work and then use the 'labor shortage' to justify a crisis that needs crippling tax increases to "fix."

Immigration is broken: At a minimum 1.5 million illegal immigrants have entered the United States since January 2021. I say minimum because we can't count the "getaways" - those that freely sneak in. It is estimated that over 25% are unvaccinated and being scattered across the US by the state Department, yet we demand United States citizens get vaccinated or lose their jobs (go figure).

continued on the next page

AROUND THE HORN continued from previous page

Afghanistan withdrawal was disastrous: If I have to explain this you probably don't read any way.

The FBI unleashed on anyone who resists? This latest outrage is a threat that the FBI could be loosed on parents at school board meetings to protest the indoctrination that parades as curriculum these days. I'd better limit comment on this one to "elections matter."

Bumper sticker of the month: "I'm pro pipeline because my truck doesn't run on unicorn pee!"

National debt matters: When President Obama took office the entire debt from George Washington to George Bush was $10 Trillion. He doubled that with Obamacare to over $20 Trillion in TWO years. We now stand at $27 Trillion and looking to expand that by another $7 Trillion in the two bills before Congress today. Can anyone spell inflation?

"DUH!" The sound heard around the world when the Fed said that inflation might not be transitory.

FINAL THOUGHT

Imagine if you helped start a company and you hired people who said they would work for you and help you build your company. Then after you hire them, they don't do what you tell them, they steal your company credit card and run it up to the max and when their contract comes up for renewal, they tell you they deserve a raise. Would you put up with that? I think not! But that is exactly what Congress is doing today. Oh well, maybe time will pass faster than normal and we can get to another election quickly. What do you say that we start electing people who care a little more about this country and its citizens instead of about holding on to their power — or turning us into a different country all together? A good start would be coming up with a balanced budget, cutting operational cost and regulations. It's not that hard to fix! But what do I know? I'm just an ole country boy trying to put a roof over my family's head and food on the table. Sort of like the rest of America.

I hope everyone had a good Halloween. It couldn't be any scarier than what is happening in this country daily.

Fighting Counterfeit Check Crime

Operation Homeless Financial Fraud Prevention Program

In January of 2017 Central Bank & Trust Co. initiated a partnership with the Lexington Division of Police, The U.S. Postal Inspector and the Lexington area homeless shelters to provide financial crime education to members of our homeless population. Lexington, KY has over 1,000 homeless men and women that are often targeted by organized criminal groups to conduct crimes on their behalf. Counterfeit check cashing groups from out of state regularly visit the homeless shelters and entice homeless men and women to travel with them throughout the area to cash checks. They‘re offered $50-$100 in exchange for doing this, and often don’t realize they’re committing crimes. The criminals will supply them with nice clothes and dress them to appear to be employed by the company listed on the counterfeit check. For example, they may wear a safety vest or hard hat if the checks are drawn on a construction company, or a button up with a tie for business checks.

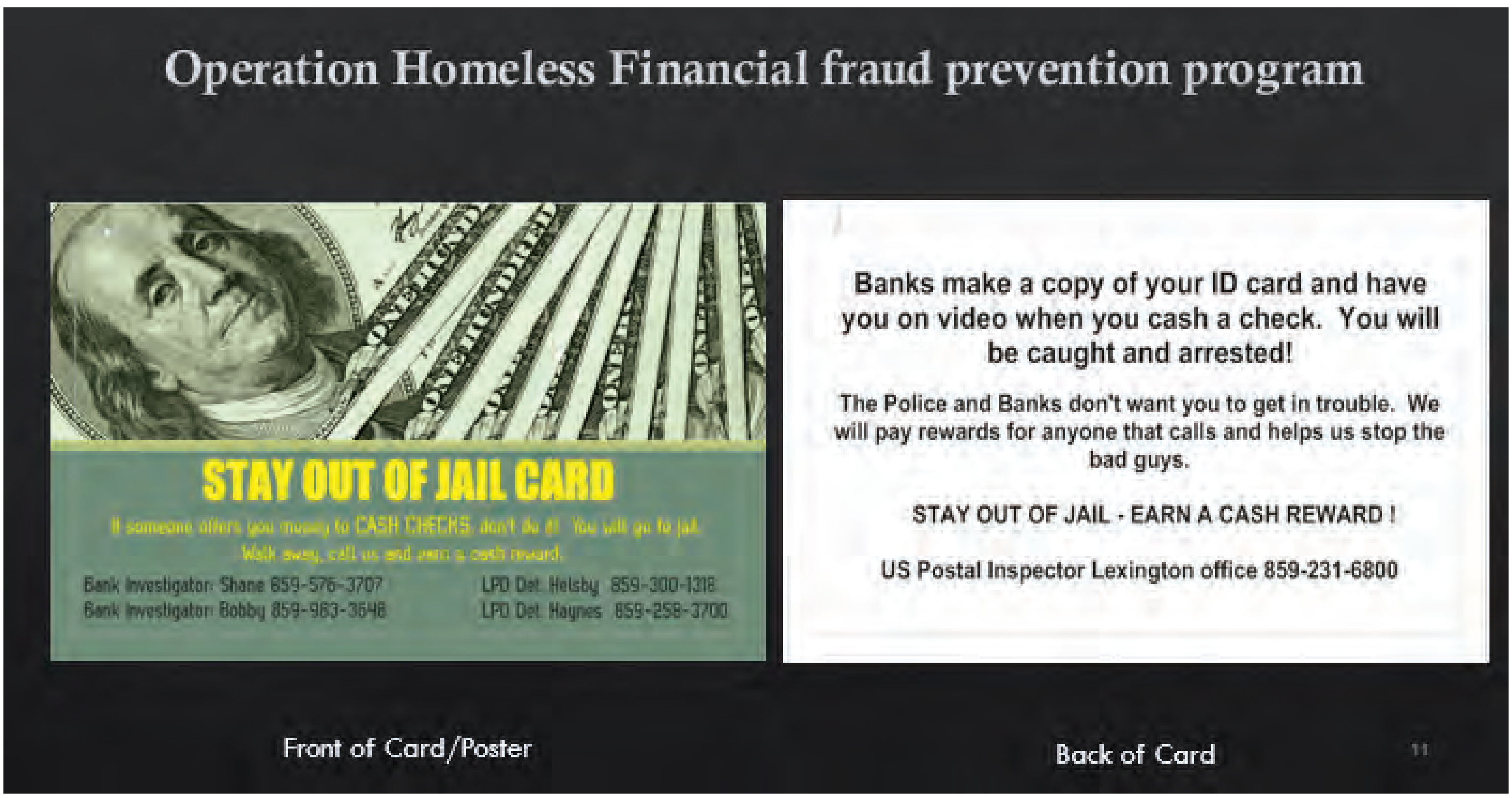
Ultimately, the subjects cashing the checks are paid much less than promised and left to face criminal charges after the checks have been discovered to be counterfeit. They are easily identified, located and charged with multiple felonies while the real criminals are long gone and never identified or punished.

Central Bank has taken tens of thousands in dollars of losses due to this type of activity, as have most of the banks in our market area. This partnership was created to educate the homeless so they wouldn’t fall for this scam and provide them with an avenue to immediately notify the police when the criminals show up to recruit them.

All homeless shelters in the Lexington, KY area joined in and allowed posters, flyers and business cards with contact information to be posted at their facilities. Members of the shelters are now receiving cash rewards for reporting this type of criminal activity instead of committing the crimes and going to jail.

Each homeless shelter displays the posters and cards pictured here that list the details of the program and contact numbers to report the criminal activity. Since this program started. numerous out of state criminals have been arrested while trying to recruit homeless subjects and much of the counterfeit check cashing has greatly decreased. The criminal activity still occurs on a regular basis, but due to the partnerships with our shelters, police and the FISOA, FISOAL and LABSO groups we’re often able to stop losses before they occur.

If your bank is interested in starting this type of program in your area feel free to contact Shane Ensminger at sensminger@centralbank.com



KBA

The Sun Shines Bright

130th Annual Convention

September 19-22, 2021
The Grove Park Inn
Asheville, NC

Ballard Cassady
KBA PRESIDENT & CEO

Too Much Liquidity? Panel Discussion
Chad McKeithen, Managing Director of Depository Strategies, Duncan-Williams
Lon Haines, Managing Principal, Banc Consulting Partners
Catherine Cawthon, President & CEO, OCCH

visit **kbaconvention.com** to review all the 2021 sponsors and exhibitors who support KBA events!

2021 KBA Convention | The Grove Park Inn

2021-2022 KBA CHAIRMAN
Ja. Hillebrand, Chairman & CEO
Stock Yards Bank & Trust Co.

2021-2022 KBA Past Chairman
Wade Berry President & CEO
Farmers Bank & Trust Co.

A "crowning achievement" for
Wade Berry and Ja. Hillebrand

"Choose adventure, choose your dream, but most of all, every day make the decision to choose. And when you do, choose kindness."

Leon Logothetis, Kindness Diaries

KBA Board Member and Bank of Edmonson County
CEO Michelle Coleman stares down a putt.

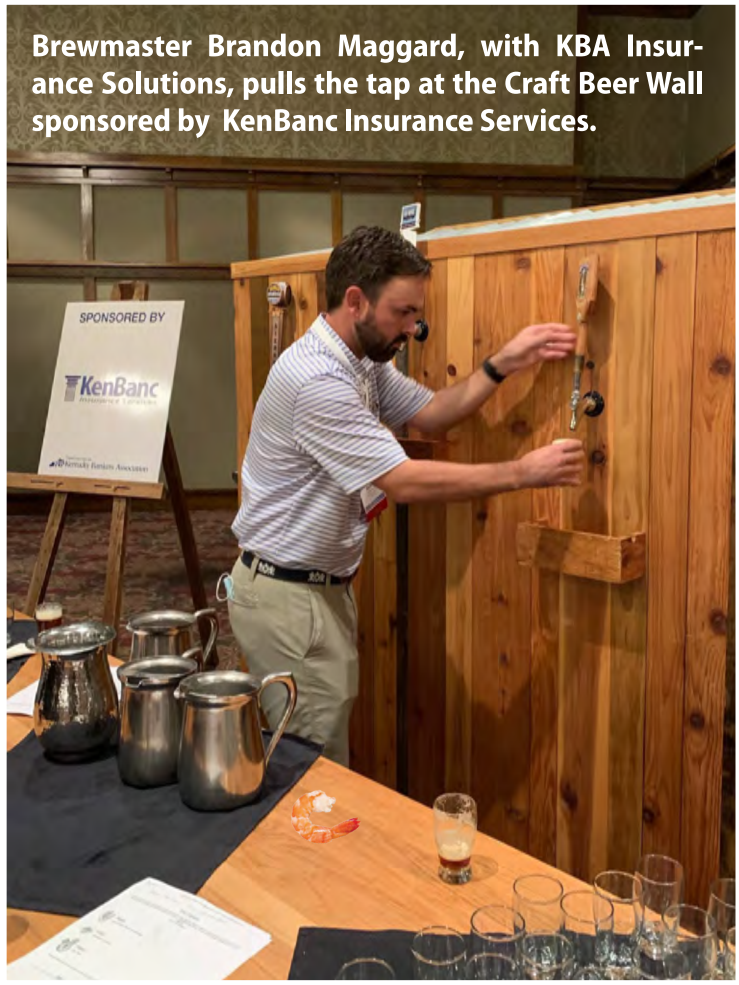
Tuesday's Keynote Speaker
Leon Logothetis, Netflix's Kindness Diaries

THANK YOU OUTGOING BOARD MEMBERS!

LEFT TO RIGHT: Ballard Cassady (KBA President & CEO); Andrew Jones (Rep Group 9) Community Trust Bank, Ashland; David Hobbs (Rep Bank with Assets at least $200M less than 1B) River City Bank, Louisville; Jason Hawkins (Rep Group 2) First United Bank and Trust Company, Madisonville; Wade Berry (KBA Chairman 2020-2021) Farmers Bank & Trust Company, Marion; John Key (Rep Group 3) Commonwealth Bank & Trust Company, Louisville.

General Session I of the 130th Annual KBA Convention
The Grove Park Inn, Asheville, NC

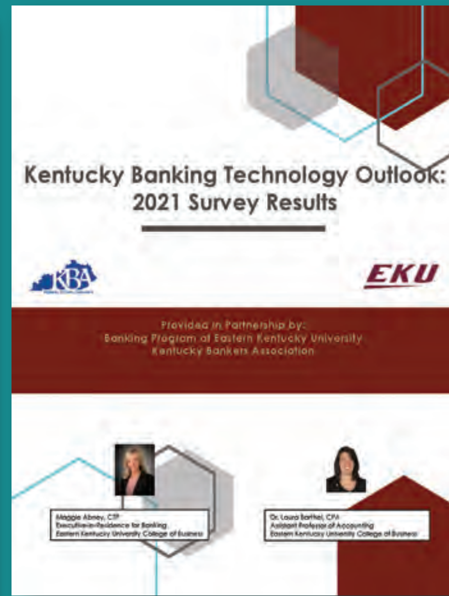
Chuck Maggard (left) and Brandon Maggard (right), with KBA Insurance Solutions, man the Craft Beer Wall sponsored by KenBanc Insurance Services.



Brewmaster Brandon Maggard, with KBA Insurance Solutions, pulls the tap at the Craft Beer Wall sponsored by KenBanc Insurance Services.

ON STAGE
Milton Bartley (ImageQuest) presenting Shrinking the Target on Your Back: Maximize Your Bank's Security Posture

Presenting Kentucky Bank Technology Survey Results:
Maggie Abney, CTP / Executive-in-Residence for Banking
Eastern Kentucky University College of Business



Kentucky Bank Technology Survey Results inserted in this issue.

Would you like a PDF emailed to you?
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Presenting Kentucky Bank Technology Survey Results:
Dr. Laura Barthel, CPA /Assistant Professor of Accounting
Eastern Kentucky University College of Business


U.S. Representative Andy Barr addresses the Banking Innovation Co


Shawn O'Keefe with Presenting Sponsor The Bankers' Bank of Kentucky, kicks off the first annual conference!


Julie Stackhouse, retired EVP of the Federal Reserve Bank of St. Louis.

Conference held on the campus of Eastern Kentucky University.

Conference Crowd Gets Hyped Up

Commissioner Charles Vice
Kentucky Department of Financial Institutions

Windows 11 is Here. Should You Upgrade?

"Windows 11 will be great, but right now the juice isn't worth the squeeze."

by Ben Lawrence, Managing Partner, Louisville Geek

Work in technology for any extended period of time and you'll find yourself making observations and grouping people into sectors based on how they react to certain technological situations. Take my parents, for example. If a new iOS update is released for the iPhone, my mother smashes the update button like an overly excited game show contestant. My dad, on the other hand, foregoes updates for months and typically waits for me to give him the green light. Neither parent is right or wrong, but as their son (and pseudo-IT advisor), I can tell you firsthand the majority of service requests I receive come from my mom shortly after an update.

Now that Microsoft's highly anticipated Windows 11 has finally been released, most of us will soon be faced with a similar question:

To update or not to update?

Before you go smashing the update button (mom, I'm looking at you!), here are a few things to consider.

Will Windows 11 Break the Good/Bad Release Cycle?

Since Windows' early days, the general consensus among IT professionals is Windows releases follow a good/bad cycle. IT pros believe some versions of Windows are really good, while others are, to put it bluntly, terrible. And, ironically, those good/bad versions seem to alternate between releases. While I don't necessarily agree with the list, it's certainly something to monitor as organizations upgrade. Judge for yourself (at right):

Ensure your Computer is Compatible

Windows 11's requirements are a little tricky, so much so Microsoft recently released its own tool for determining compatibility. To use the tool, simply Google "Windows 11 PC Health Check App." The utility will tell you if your computer meets the requirements to run Windows 11. Conveniently, if your system doesn't meet requirements, the app will explain why not and provide links for support.

Currently, Windows 11 system requirements include a 1GHz or faster CPU, 4GB of RAM, 64GB of storage and a version 2.0 Trusted Platform Module (TPM). That last item, the TPM chip, is the bear; many older Windows computers don't possess the required security component required to run the new version.

Ensure that your Antivirus Supports Windows 11

Before upgrading to Windows 11 (or any new OS for that matter), you should always ensure that the antivirus program you are using is fully up to date and compatible with the new OS.

Check your Files and Backups

Whether you're going to install Windows 11 on your primary device or a secondary one, we always recommended performing a full backup of your files and creating a system restore point. Should you hit a snag, the backup will help you recover more quickly. We recommend backing up to an external drive and the cloud, by the way, which complies with the recommended (3-2-1) approach in which data is properly safeguarded from inadvertent loss.

Check your Installed Software

Not all Windows 10 features and native tools are going to make it to Windows 11. For a list of features that didn't make the cut, please scan the QR code at the end of the article. To check everything currently installed on your system, simply click the Apps entry on the Windows Settings pane for a list.

FINAL CALL: Hold off for the time being.

Having tested Windows 11 for the past week, unless you're a power user comfortable troubleshooting Windows issues or you have a compelling business need to upgrade, you're better putting it off for a few months. The operating system isn't feature-complete yet. Some of the most exciting features—including Android-app support, third-party widgets and a universal mute control, are still unavailable. While it's common to see software updated with patches and new features post-release, Windows 11 seems similar to Windows 10.5 at this point. In time, Windows 11 will be great, but right now the juice isn't worth the squeeze.

Kentucky Bankers Association ENDORSED

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Kentucky Banking Technology Outlook: 2021 Survey Results

Provided in Partnership by:
Banking Program at Eastern Kentucky University
Kentucky Bankers Association

Maggie Abney, CTP
Executive-in-Residence for Banking
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Kentucky Banking Technology Outlook: 2021 Survey Results

Provided in Partnership by:
Banking Program at Eastern Kentucky University
Kentucky Bankers Association

As we navigate the most rapid period of technological innovation in banking history, community banks across the nation are adopting new strategies to modernize the community banking model. Many third-party vendors, including startup companies, are offering cutting edge technology that allows community banks to manage data more effectively, streamline internal processes, increase income opportunities, and enhance the customer experience. However, many of these technologies are not offered by core providers, and due to the differences in culture and business model of a community bank and an early-stage or startup third-party technology provider has made the partnership of the two unlikely in the past. But as regulation evolves and the benefits of technology are undeniable motivators for remaining relevant, community banks across the nation are establishing creative partnerships with startup third-party providers to obtain the technology necessary to achieve their strategic goals.

The Banking Program at Eastern Kentucky University partnered with Kentucky Bankers Association to survey Kentucky bank leaders to gauge perspectives about utilizing technology from third-party providers to achieve strategic goals. We asked banks if they feel prepared to pursue opportunities with technology start-ups, what expectations they have, and if they have the resources to do so. Below we outline the responses from 81 individuals representing bank leadership from 79 banks across Kentucky (participant overview in sidebar). The results show that overall, Kentucky bank leaders are regularly discussing bank technology and how it fits into the strategic plan. However, there are some perceived barriers preventing many banks from pursuing these opportunities.

Who Responded

81 Individual respondents, representing **79 banks**

35% Chief Executive Officer

19% Operations Management

10% Bank/Market President

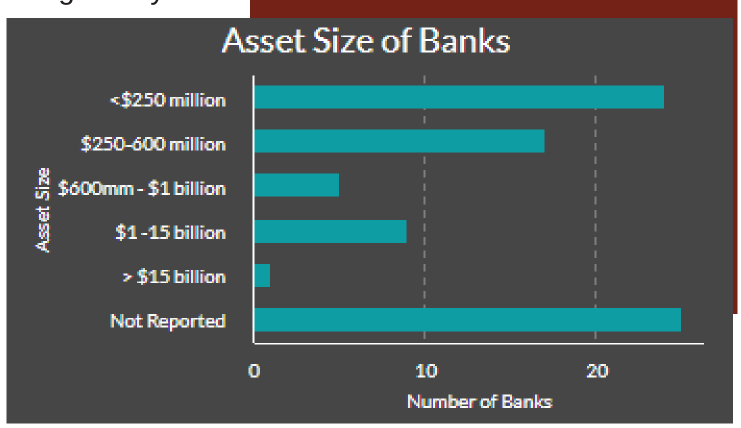
9% IT Management

7% Commercial Lending

6% Compliance Management

5% Other Management

3% Board Member



Strategic Alignment

Banks of all sizes indicated that increased operational efficiency and enhanced customer service were the top strategic initiatives for the bank. When asked separately about the expected benefit of partnering with a third-party technology startup provider, nearly half of banks selected increased operational efficiency as the greatest benefit. This shows that there is a strong alignment between the top strategic initiatives of community banks and the belief that third-party technology startup providers can help banks achieve these initiatives.

Barriers with Current Core Providers

Individual community banks have historically had difficulty managing contracts with core providers and implementing new technology offered by the core provider. The most significant barriers reported in implementing new tech offered by core providers are: cost, integration of technology, and implementation time.

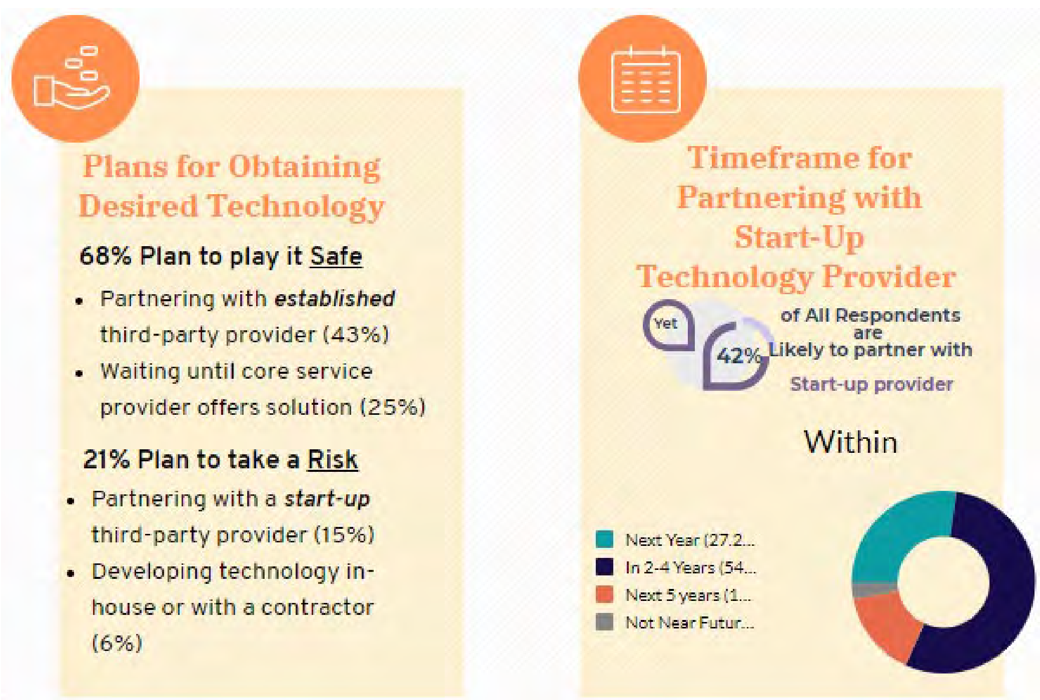
Desired Technology Solutions

KY banks reported that the top five desired technology solutions not currently provided by their core providers are: online account origination, lead generation, data analytics, small business lending, and application programming (API).

Plans for Obtaining Desired Technology Solutions

Banks seem to be making plans to play it safe, yet also seem to understand the likelihood of needing to partner with a third-party technology startup provider within the next five years. When asked if banks plan to partner with a third-party technology startup provider, 68% of banks say they plan to play it safe by working with a third-party provider that is established (not a startup third-party provider), or wait for their core provider to offer the desired solution. Some banks (21%) did indicate that they are making plans to either partner with a third-party technology startup provider or work with a contractor to develop an in-house solution to implement desired technology. The other 11% indicated the desired technology was not a current priority or that they had other plans for achieving.

Even though the majority of the banks indicated they plan to play it safe, 42% of all respondents said they would likely partner with a startup provider at some point over the next five years. This indicates that even though plans are not in place to partners with third-party technology startup providers, it might be a likely route they end up taking due to fast-paced technology changes.



Why More KY Banks Aren't Partnering with Third-Party Technology Providers

The most noted three challenges in partnering with third-party technology startup providers are: IT Integration, reliability, and regulatory compliance. When asked what keeps them from partnering with third-party provider startups, banks cited IT Integration/incompatible with core, risk tolerance, and regulatory compliance.

When diving deeper into the topic of risk, 49% of banks reported that third-party technology startup providers would not be a strategic fit for their bank due to risk, with the most pressing risks ranked as 1) strategic risk, 2) financial risk, and 3) security risk. However, the benefit banks believe third-party startups can provide does match banks strategic goals. But 32% of banks said they are unsure whether partnering with a third-party startup would be a good strategic fit, and 43% said they don't know if partnering with a third-party startup could lead to loss.

In summary, Kentucky bank leaders feel that startup third-party providers offer technology solutions that will help them achieve the top strategic initiatives of the bank. However, they do not feel that startup third-party providers are a strategic fit for the bank due to lack of core compatibility, risk tolerance and regulatory compliance.

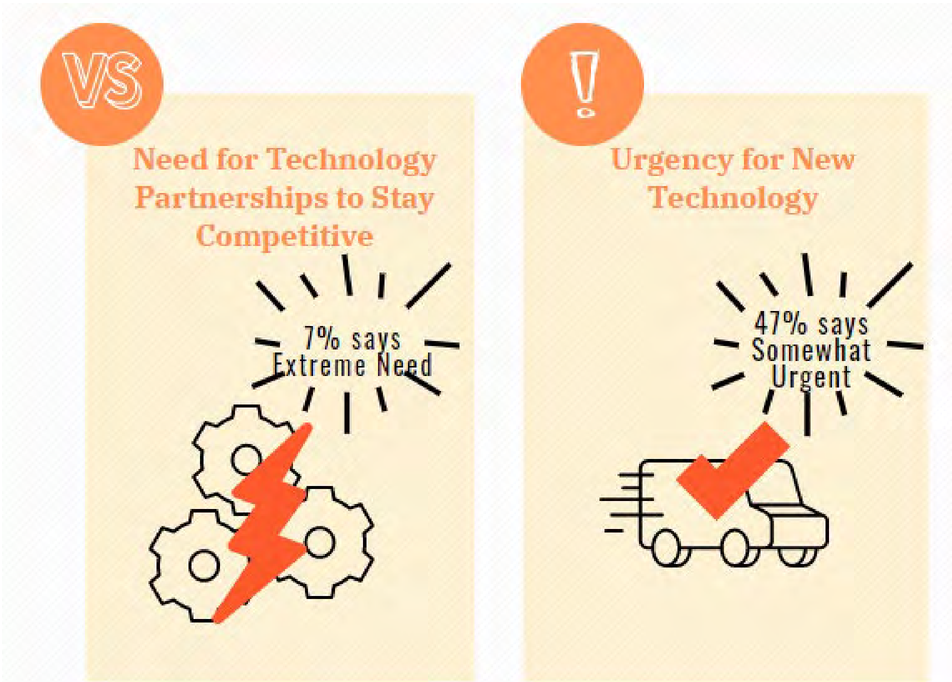
These mixed responses indicate that training could provide some guidance on understanding the risk-benefit analysis of partnering with third-party technology startup providers, as well as understanding these transactions and partnerships altogether.

What Technologies are Worth It

Kentucky banks are more likely to partner with a startup third-party provider if they are providing data analytics, AI/machine learning, marketing, sales and customer channel management, or online account origination/deposit gathering. All of these would drive increased operational efficiencies, which is the top strategic initiative, as well as the expected benefit banks expect to receive from implementing these technology solutions.

Necessity of Technology to Remain Competitive

The survey identified a gap in feeling a necessity for technology partnerships to remain competitive. Only 7% of bank leaders reported an extreme need to partner with third-party startup providers. Yet, only 16% of the responding banks consider their current bank technology plan extremely adequate to remain competitive. Additionally, 89% reported the need for new bank technology is at least slightly urgent. The results translate into an urgent need for new technology, but not a strong desire to partner with startup third-party startup providers.



Incentives for Investing in Third-Party Technology Provider

Oftentimes, state and federal tax incentives exist to help offset the expense and the risk of the investor for investments in startups. In the survey we conducted an experiment to determine if a tax credit incentive for investments made in the technology startups would increase the likelihood of banks to partner with third-party technology startups. Of the 35 respondents that were offered a tax incentive, 77% of them indicated they were likely to invest. Compared to the group without an incentive, only 36% were willing to invest. This is statistically significant and shows that if a tax incentive were offered it would increase the likelihood of banks investing in or partnering with third-party technology startup providers.

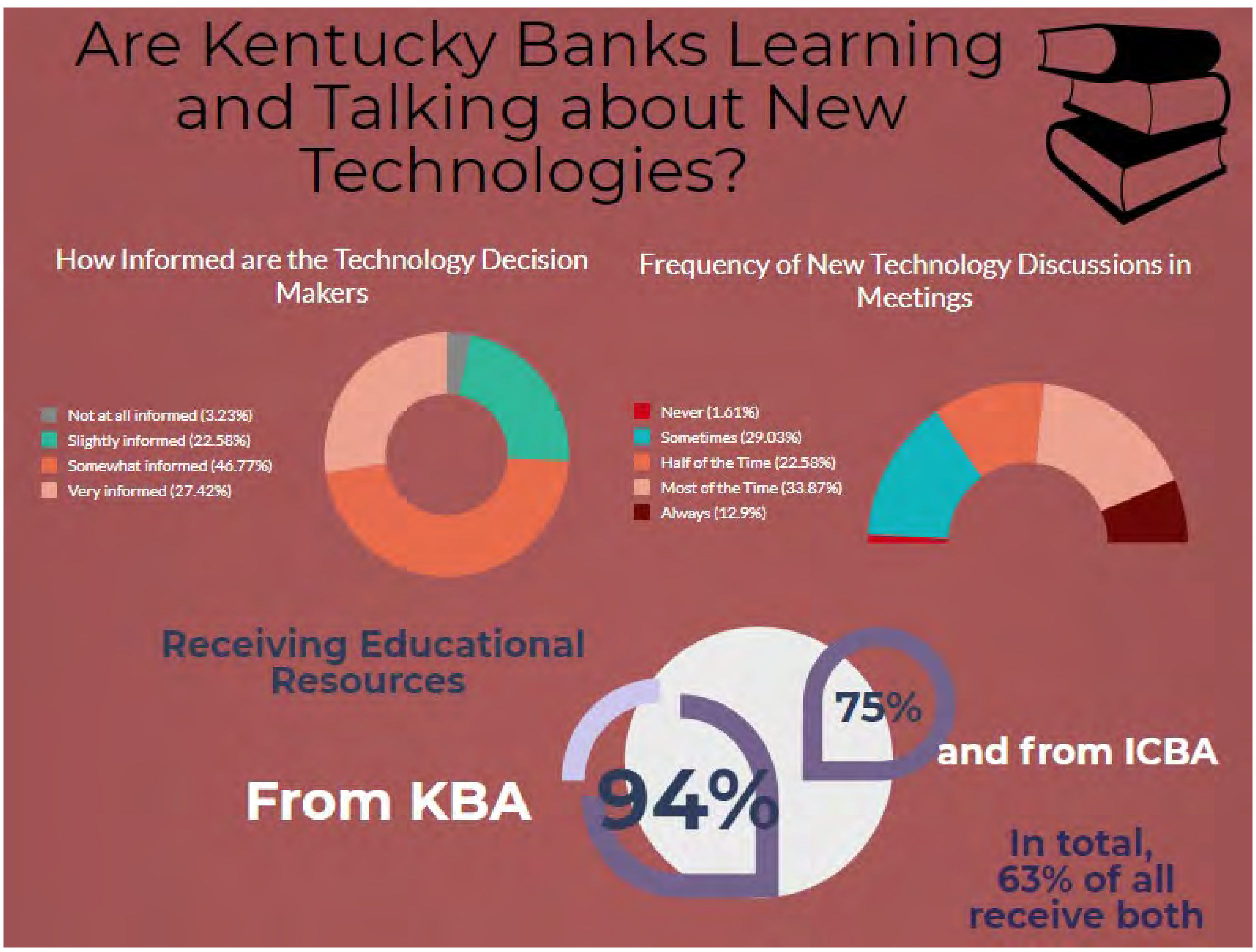
Multiple options exist for banks to partner with third-party technology startup providers. Some community banks are collaborating with peer banks to create investment funds that invest in one or more third-party technology startup providers. In many cases, this allows the banks a seat on the board of the provider/vendor for control over policy decisions and product development, in addition to a return on the investment. Other banks are making equity investments in third-party startup providers on their own.

With the multiple ways to partner with third-party startup providers, banks can determine ways to replace the high sunk cost with an investment opportunity. While also achieving the strategic initiatives they desire, with the benefits they expect technology startups can provide. However, the uncertainty of strategic, financial, and operational risks hinder banks' pursuit of partnerships with third-party startup providers to help them meet strategic initiatives.

Education is Taking Place in Kentucky Banks

Education related to opportunities, approaches to partnership with technology startups, and mitigating potential risks is important for banks to be able to take advantage of opportunities that might exist. To gain this education, it is important for our banks to continue discussions about technology, receive regular updates on regulatory guidance on strategic partnerships to implement new technology, and review case studies of banks that have adopted new technology with success.

We asked bank leaders if they are learning about fintech, and if they are talking about new technology regularly. Over half of banks report that their decision makers are informed or very informed. The frequency of discussions about technology and fintech is 'most of the time' or 'always'. This is the first step in moving toward implementation. We found that 94% of banks are receiving educational resources about technology from KBA, and of those, 75% are receiving education on fintech partnerships from the ICBA.



Opportunity to Learn More

While our banks do have access to resources, there is indication that there is a need for training on how to access the different resources and how to develop and implement fintech strategy (e.g., partnership with third-party technology startup providers).

To address this need, KBA and EKU have partnered to create the first annual *2021 Banking Innovation Conference* to provide our bank leaders and emerging leaders with the knowledge to make informed decisions about technology partnerships. Attendees will hear directly from regulatory experts, community bank fintech strategists, and community banks that have successfully implemented new technology or investment funds in partnership with third-party startup providers. We hope you will join us on October 14th!

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Ask the vCISO

How do we create a Cybersecurity Program?

Does the thought of creating a Cybersecurity Program for your bank seem overwhelming? Are you having trouble building a viable, documented program?
A Cybersecurity Program should be part of your bank's Risk Management efforts – as well as a critical element of your board's fiduciary responsibilities. A Cybersecurity Program should:

Be Right-Sized for your Bank.

You need to build the most robust cyber security program based on the acceptable risks for the entire organization. A cybersecurity program provides a strategic roadmap for effective security management practices and controls based upon your organization to get leadership agreement on information security plans, processes, and budget.

Align with your business strategy.

Strong alignment enables organizations to make wise cyber investments, optimize constrained resources, make progress on strategic goals, and manage business risk. In a cyber-business aligned program, CISOs and CIOs are actively involved throughout business strategy development and budgeting cycles across business units, providing security input and sparking discussions.

Meet your board of directors' risk management goals.

What is the board's stated view on risk tolerance? Will every risk be mitigated without thought to cost? Of course not. But what is the level of risk your bank is willing to take to meet its objectives? Your Cybersecurity Program needs to reflect those decisions.

Use financial metrics to track your program's effectiveness.

In other words – how much cybersecurity makes financial sense? If your bank avoids a $20 million data breach by spending $500,000 a year on cyber measures, is that a good return on investment? Does the cost meet financial goals?

Include a comprehensive Crisis Management plan.

Have you written a comprehensive Incident Response plan? Is it up-to-date with the latest legal, law enforcement, and forensics contacts? Have you completed a Tabletop Exercise to ensure incorrect assumptions – or problems – aren't built into it?

Ensure employees follow best security practices.

Your employees should consistently follow best security practices, including password management, phishing awareness, device management, and Clean Desk policies. You can achieve this through ongoing training measures.

Include expert advice on the details.

An expert can ensure you cover all the details by bringing an experienced eye, a detached third-party perspective - and credibility for your plans.

MYRON GROVER
CISO, IMAGEQUEST

To explore how a vCISO might benefit your bank, call

(502) 400-3300

or email *jmallory@imagequest.com*

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GSBC Graduates Five Kentucky Bankers

The Graduate School of Banking at Colorado (GSBC) is proud to announce the graduation of five Kentucky financial professionals (pictured below) who have completed the school's state-of-the-art graduate school of banking program.

The graduates include:

- Christina Cook, Citizens Guaranty Bank, Irvine
- James Ensminger, Central Bank & Trust Co.
- Heidi Estes, Franklin Bank & Trust, Franklin
- Katina Mickens, First Federal Savings Bank of KY
- Brandy Wiser, Citizens National Bank of Lebanon

Graduates receive their GSBC diplomas upon successfully completing three annual two-week sessions of classroom training on the University of Colorado Boulder campus in Boulder, Colo. The above individuals were among 141 students honored in a ceremony on July 29, 2021.

GSBC's curriculum is community banking-focused, delivered by expert faculty which covers four tracks: financial management, general management & technology, leadership & human resources, and lending. The students also complete six immersive intersession research projects throughout their time in the program.

The program's capstone course is an in-depth bank management simulation, where students assume the roles of senior management of a commercial bank, involving themselves in the group dynamics and managerial skills of managing a bank in a competitive environment with changing economic conditions.

GSBC celebrated its milestone 70th annual school session July 18-30, 2021, hosting students both in person and virtually from across the U.S.

COMPLIANCE CORNER with Timothy A. Schenk
KBA Assistant General Counsel
tschenk@kybanks.com

COMPLIANCE QUESTIONS & ANSWERS

Regulation, regulation, regulation. As I reviewed the list of proposed banking regulations, both in Congress and through agencies, it is clear that banks could be reaching an unprecedented level of regulation. With these proposed changes, we are encouraging bankers to review their current procedures to ensure their compliance is in order before the potential addition of new regulations. As a result, we have been receiving many questions on how to respond to these issues. We wanted to share highlights of those discussions and answers.

If we begin scanning all of our loan files, mortgage and all the others, are there documents we must keep as originals?

This generally comes down to a business decision for the bank. This question really turns to the rules of evidence and not a regulatory standard. The rule, formerly titled the "Best Evidence Rule", and now titled "Requirement of Original", governs the use of copies in proving the contents of a writing. Kentucky Rule of Evidence 1002 states, "To prove the content of a writing, recording or photograph, the original writing, record or photograph is required, except as otherwise provided in these rules."

Kentucky Rule of Evidence 1003 states, "A duplicate is admissible to the same extent as the original unless (1) a genuine question is raised as to the authenticity of the original; or (2) In the circumstances it would be unfair to admit the duplicate in lieu of the original."

The purpose of this rule is to assure the most relevant evidence to prove the contents of a writing or document and to prevent errors. There are two kinds of evidence used to prove writings under these rules:

> (1) primary evidence, such as the writing itself, a duplicate, or original copy thereof; and
>
> (2) secondary evidence, consisting of copies and oral testimony.
>
> The order of admissibility is:
> 1. the original;
> 2. copy of original;
> 3. copy from original;
> 4. copy from copy;
> 5. oral evidence from written notes; and
> 6. oral evidence from memory.

Ultimately, it is a business decision. In most cases, copies suffice. However, in some cases, borrowers will challenge the validity of a signature, which may be more difficult to prove without the original document. This is a judgment determination in weighing whether you want to be more conservative in retaining significant numbers of original documents or less conservative in managing space, time and functionality in maintaining only copies. You can also take a middle approach in maintaining originals of certain documents and copies of others.

Either way, from a regulatory perspective, the larger concern is document retention. For example, if a loan is paid off, you would still need to keep copies of certain documents in accordance with your regulators' retention schedule. The KBA sells a comprehensive retention schedule if you would like to purchase a copy.

We have several ITMs across our branch network, and soon we will be shortening the hours during which customers will have access to a live teller. I haven't found any federal regulation regarding how far in advance we must notify customers about a reduction in hours. Are you aware of any state requirements for this? We obviously want to give our customers as much notification as possible, but also wanted to make sure we meet any legal/regulatory requirements.

While not directly addressed by state law, most banks follow the state holiday law for purposes of changing hours under KRS § 286.3-193. There is an argument that the notice of change could be conspicuously placed with as little as five (5) days' notice but generally speaking, most banks provide thirty (30) days' notice to provide as much notification as possible.

I had question regarding the Notice of Free Choice. For years (since 2009) we have only given the disclosure for consumers and not commercial loans. Today, if I understood correctly, the statute requires disclosure for both consumer and commercial loans. Which practice is correct?

> The statute you are referring to is KRS § 304.12-150 which states:
>
> *Every debtor, borrower, or purchaser of property with respect to which insurance of any kind is required in connection with a debt or loan on the property shall be informed by the creditor or lender of his or her right of free choice in the selection of the agent and insurer through or by which*

COMPLIANCE QUESTIONS & ANSWERS continued from previous page

such insurance is to be placed. There shall be no interference either directly or indirectly with the borrower's, debtor's, or purchaser's free choice of an agent and of an insurer, the creditor or lender shall not collect a separate charge for the handling of insurance required in connection with a loan or extension of credit based on the consumer's choice of agent or insurer, and the creditor or lender shall not refuse an adequate policy so tendered by the borrower, debtor, or purchaser.

The statute does not distinguish between consumer and commercial credit. While there may be a legislative change in the future, it is considered best practice to provide the notice of free choice to both consumer and commercial borrowers based on the statute.

Do you happen to know if we are compliant only listing the available balance on our atm receipts? We have removed the ledger/current (end of day) balance and just wanted to double check.

12 CFR § 1005.9 titled Receipts at Electronic Terminals, Periodic Statements, states:

(a) Receipts at electronic terminals--General. Except as provided in paragraph (e) of this section, a financial institution shall make a receipt available to a consumer at the time the consumer initiates an electronic fund transfer at an electronic terminal. The receipt shall set forth the following information, as applicable:

(1) Amount. The amount of the transfer. A transaction fee may be included in this amount, provided the amount of the fee is disclosed on the receipt and displayed on or at the terminal.

(2) Date. The date the consumer initiates the transfer.

(3) Type. The type of transfer and the type of the consumer's account(s) to or from which funds are transferred. The type of account may be omitted if the access device used is able to access only one account at that terminal.

(4) Identification. A number or code that identifies the consumer's account or accounts, or the access device used to initiate the transfer. The number or code need not exceed four digits or letters to comply with the requirements of this paragraph (a)(4).

(5) Terminal location. The location of the terminal where the transfer is initiated, or an identification such as a code or terminal number. Except in limited circumstances where all terminals are located in the same city or state, if the location is disclosed, it shall include the city and state or foreign country and one of the following:

(i) The street address; or

(ii) A generally accepted name for the specific location; or

(iii) The name of the owner or operator of the terminal if other than the account-holding institution.

(6) Third party transfer. The name of any third party to or from whom funds are transferred.

Your ATM provider should be meeting these requirements, but it always a best practice to ensure your provider is complying with current regulatory standards.

CONTACT ME

Please feel free to reach out to me at tschenk@kybanks.com if you have any questions.

2021 FROM YOUR KBA LEGISLATIVE TEAM

SPECIAL SESSION SUMMARY

Governor Andy Beshear called the Kentucky General Assembly into Special Session in September to address the rapidly spreading Covid-19 Delta variant and included economic development incentive legislation as well. The General Assembly passed four pieces of legislation as well as a joint resolution which carries the weight of law.

Highlights of Bills and Resolutions passed:

Senate Bill 1:

- Would eliminate the state's mask mandate in K-12 schools and specifies when districts could close to in-person learning.
- Declares the regulations requiring masks in schools and daycare centers null and void.
- Individual school boards would be free to decide their own policies about masking in schools.
- Makes it easier for retired teachers to return to the classroom to help out with staff shortages.
- Includes measures that a school district could use to temporarily assign students at the school, grade, classroom, or student group level to remote instruction due to significant absences of students or staff related to COVID19 until Dec. 31, 2021.
- Remote instruction would be allowed up to 20 days per district.
- Calendar flexibility for meeting only the 1062 hours of instruction.
- Some quarantining flexibility through the Test and Stay Program.

Senate Bill 2:

- Any mask mandates would fall to local governments and businesses
- Specific visitors that are allowed inside nursing homes
- Media outreach strategy to inform public dangers of Covid-19 and encourage vaccination

Senate Bill 3:

- Allows the Executive Cabinet to access $69M from Federal American Rescue Plan Act to fight issues arising from the pandemic.

Senate Bill 5:

- Transfers $1.9 billion from the state's "rainy day" fund to the Cabinet for Economic Development to use in recruiting companies to KY. Companies would be eligible for the incentives only if they invest at least $2 billion in Kentucky

House Joint Resolution 1 (HJR1) extends emergency orders enacted earlier this year by Gov. Beshear. HJR1 highlights include:

- Extends liability protection to organizations/businesses, acting in good faith, from pandemic-related litigation.
- Waives licensing requirement for out-of-state medical professionals.
- Protects against price gouging.
- Extends time frame by which medical professionals must complete continuing education requirements.
- Continues eligibility for use of Federal resources during emergencies.

HJR1 does not:

- Give the Governor the ability to close businesses, churches, and schools.
- Allow the Governor the authority to enact vaccine mandates. Late Thursday night, the Governor vetoed SB 1 and SB 2 only to be overridden by the General Assembly. Therefore, SB1, SB2, SB3, SB5 and HJR1 all now are Kentucky law.

The General Assembly will be back in January 2022 to address any new issues and reexamine laws and resolutions passed this week along with several hundred other pieces of legislation that will be filed, including the State Biennial Budget. We will continue to keep you posted on new developments and should you have questions and/or need additional information.

KBA STAFF PROFILE
BRANDON MAGGARD

Financial Institution Specialist, KBA Insurance Solutions
KenBanc Insurance Services

"What did 2020 and the pandemic teach you? *To slow down.*

Hometown: London, KY

College and Degree: Western Kentucky University, Marketing

Family: Alison (wife, at right); kids (bottom right), Caroline (daughter, 3.5) and Charles (son, 10 weeks) and, Larkin (dog).

Teams: Kentucky Wildcats, Cincinnati Reds, Cincinnati Bengals

Hobbies: Golf

Favorite Movie: Gladiator

Favorite Quote:

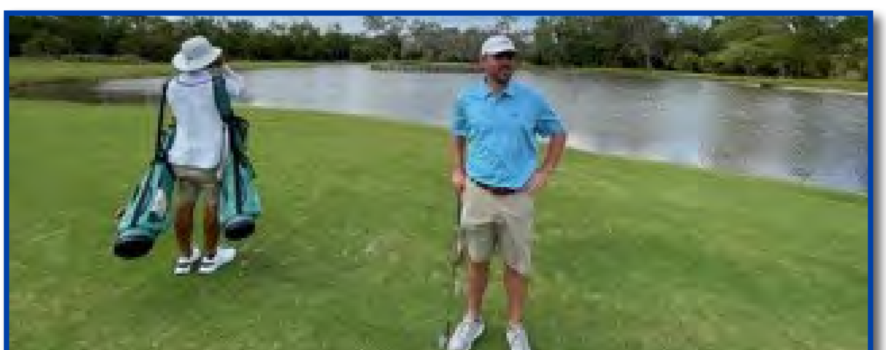
> *"No matter how good you get, you can always get better."*
> - Tiger Woods

What did 2020 and the pandemic teach you? To slow down.

How long have you been with the KBA? 9 years

How do you like the KBA? Love it - great team, great people.

What is your favorite KBA memory? Playing in the Spring Conference Golf outing in a snow storm @ Griffin Gate with Shawn Heck.



Resolution Recognizing the Service and Life of Mr. Leonard H. Brashear

WITNESSETH, THAT WHEREAS, the Board of Directors of Middlefork Financial Group, Inc. and its subsidiaries, Hyden Citizens Bank, Inc., Farmers State Bank, Inc. and Farmers & Traders Bank of Campton, Inc., wish to express our Gratitude for the service to our Company by our close friend, Shareholder, Director and Legal Counsel, Leonard H. Brashear, who departed from this life on September 8th, 2021 and

WHEREAS, Leonard H. Brashear served as Director with diligence and faithfulness for 35 years, and through his years of devoted service and leadership, he made a significant and lasting contribution to the growth, stability, and success of our Company, and the benefit of his knowledge and leadership in the conduct of the affairs of the Company will be greatly missed; and

WHEREAS, Leonard H. Brashear will be remembered for many things which include his steely determination in the court room, his sense of humor which could captivate a room, his business acumen which helped drive success throughout our Company and communities and, most of all, his deep and abiding love for his family, specifically his brother, W. Fred Brashear II, his daughter, Mary Katherine Brashear and his wife, Kimberly.

NOW THEREFORE, be it resolved that Middlefork Financial Group, Inc., Hyden Citizens Bank, Inc., Farmers State Bank, Inc., and Farmers & Traders Bank of Campton, Inc., through their Board of Directors, do hereby extend our deepest appreciation and gratitude to the memory of Leonard H. Brashear for the many years of faithful service and numerous contributions to our Directorate, management, employees, customers, and communities.

BE IT FURTHER RESOLVED, that as a tribute to Leonard H. Brashear and as a reminder of the high esteem in which we hold his memory, this resolution be entailed in the permanent records of each Corporation, copies furnished to his Family, and the Kentucky Bankers Association.

Adopted this 15th day of September 2021, at the regular Board of Directors meeting for Hyden Citizens Bank, Inc., Farmers State Bank, Inc. and Farmers & Traders Bank of Campton, Inc. and on October 20th, 2021 at the regular Board of Directors meeting for Middlefork Financial Group, Inc.

The Peoples Bank, Taylorsville, KY

RESOLUTION - IN HONOR OF

Larry Cheek

WHEREAS Larry Cheek became a Member of the Board of Directors of The Peoples Bank in 1991; and

WHEREAS Larry has retired as a Member of the Board of Directors of The Peoples Bank; and

WHEREAS, through his 30 years of service to this institution, Larry has always been a strong advocate for our institution as we have grown and strengthened to serve our customers and community.

WHEREAS the Board of Directors of The Peoples Bank wish to express their gratitude for Larry's long and faithful service, dedication, hard work, friendship, and devotion.

THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE PEOPLES BANK AS FOLLOWS:

1. That the retirement of Larry Cheek is acknowledged and accepted with regret;
2. That Larry's leadership, good advice and counsel will be greatly missed and his continued devotion and loyalty to our bank will continue to be appreciated;
3. That we wish Larry much happiness in the years to come;
4. That a copy of this Resolution be placed in the minutes of The Peoples Bank with a copy given to our dear friend.

Unanimously adopted this 9th day of September 2021

Jack C. Porter
Chairman

Steve G. Bowman
CEO

What a Big Blue Disco Ball Can Teach Us About Strategy & Risk Management

by Michael Berman, NContracts

There's a flaw in just about every book about strategic planning I've ever read.

It's not that every book seems to talk about the same handful of Fortune 500 companies, though I'll admit the stories do get a little old. By now we all know that Southwest distinguishes itself as "the low-cost airline," Apple aims to dominate with simple, intuitive, and innovative designs, and Starbucks wants to "elevate and redefine the premium coffee experience." Message received loud and clear.

No, the problem isn't the companies. It's the conversation. Many books on strategic planning focus on vision, innovation, and inspiration, which encourages entrepreneurs and executives to seek out new answers to old questions. Others tackle practical, hands-on considerations like profits, assets, growth, and people. These are all important topics that contribute to strategic success.

Yet one critical element is commonly left out of the narrative: risk.

I'm not talking about the legend of how a company's founders spent their personal savings, maxed out credit cards, and borrowed money from their families, putting homes and retirement funds at stake, to start up. That's a personal risk, one that can have disastrous consequences for one's finances and family relationships, but it is ultimately one small element of a much bigger picture.

When I talk about risk, I mean enterprise risk and the importance of having an ongoing process to assess, monitor, and control all risk within an organization to promote thoughtful decision making. It's knowing where both trouble and opportunity might lay and how it could affect the business.

Innovation, profits, assets, growth, and people are all critical elements of strategic planning. But to create the conditions necessary for success, risk must be a prominent factor. Strategic planning and risk management are not separate activities. They are intertwined, complementing each other like two wings on an airplane. Lose a wing and a plane simply can't fly.

The biggest obstacle to strategic success is failing to understand risk.

A thorough risk management program includes voices from across the institution working together to recognize likely pitfalls and consider ways to avoid them by designing and implementing controls to mitigate the inherent risk. Risk management invites ideas from all areas of the institution, revealing potential weaknesses and also hidden strengths.

An in-depth approach to risk management not only mitigates the probability or impact of unfortunate events, it also helps maximize the realization of opportunities.

Strategic success is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and mitigate the probability and/or impact of unfortunate events or maximize the realization of opportunities. It's having systems in place to measure and monitor risk and using that data to adjust plans and controls as needed. Strategic success is not just about how, it's about why.

It reminds me of a story Shelly Palmer, CEO of The Palmer Group, told in AdAge4 about a blue disco ball. Palmer was once a gofer on a movie set. His job was to get whatever was needed. One day the director told him he needed a 60-inch blue disco ball for an upcoming scene. Gofers don't ask why, they just do as they are told, so he set about on an exhaustive search of Hollywood. With no 60-inch blue disco balls in sight, he got permission to custom order one from a vendor at an astronomical cost of $10,000, which today is about $36,000.

On the day of the shoot, the delivery was running late, and the director was getting angry. When the studio's prop master came by and asked what the problem was the director said he needed a "huge" disco ball. Then the prop master asked a very good question: "What are you trying to accomplish?"

It turns out the director wasn't planning on including the ball in the shot. He simply wanted to see small "dancing blue dots of light" on the floor. The prop master instructed his team to put blue gel on the lights aimed at a silver disco ball, accomplishing the same effect for next to nothing.

The studio still had to pay for the ball, though, which was delivered shortly after.

continued on the next page

Big Blue Disco Ball continued from previous page

This story can teach us a lot about strategic planning. Sometimes we look at our goals and assume we know the solution to our problem. We want to increase revenue 10 percent, so we raise fees. We want to offer new mobile technologies, so we just use whatever our core processor is offering. We want to control our image in the public, so we prohibit employees from using social media even in their off hours.

Are these the best choices? They may be, but there is no way of estimating their impact without considering risk. Maybe the blowback from fee increases will damage the institution's reputation or anger customers enough for them to look for a new place to bank. Maybe the fees will be high enough to draw regulatory scrutiny. Perhaps the core processor's solution isn't innovative enough to be worth the investment. It's possible that a blanket policy prohibiting social media use will be enough to make employees seek out new employment or discourage new employees from coming aboard in an industry with a shortage of top talent. You don't know if you don't take the time to ask.

You also want to ask the right people. Too often an institution blows the opportunity to plan ahead and talk about critical issues when all the institution's best and brightest minds are in the room because no one took the time to do the homework in advance. I'm sure there were plenty of meetings about sets, props, and costumes long before the director even stepped on a sound stage. You'd have thought that someone would have gone through the script and drafted a list of props, special effects, and other needs specifically mentioned in the script. Had someone taken notice of the "dancing blue dots of light" early on, it would have been brought up in a meeting with the prop master with decades of experience instead of being addressed last minute by a director with other talents, priorities, and concerns. It would have saved $10,000 and hours of the gofer's time as he called every prop house in town in search of an unnecessary and very specific 60-inch blue disco ball. After all, wouldn't a 59-inch disco ball have worked too?

I don't know what movie was being filmed or how it performed at the box office, but if the blue disco ball is any indicator of how the picture was produced, I doubt it was a strategic success. Clearly there were gaping holes in any coordinated effort or economical application of resources to limit negative events or realize opportunities.

Risk management decisions need to influence strategic planning. If they aren't, your institution might have to eat the cost of a proverbial giant blue disco ball it doesn't need.

About the Author

Michael Berman is the founder and CEO of Ncontracts, a leading provider of risk management and compliance solutions. His extensive background in working at Regtech and Fintech firms on legal and regulatory matters has afforded him unique insights into solving operational risk management challenges and drives Ncontracts' mission to efficiently and effectively manage operational risk. Mr. Berman is a subject matter expert on Regtech with such notable presentations as: featured speaker at American Bankers Association, Independent Community Bankers of America, as well as numerous state association conferences; well-regarded host of monthly webinar series with up to 800 registrants; and published author of national and regional banking publications, including a regular contributor to the ABA Bank Compliance magazine. He is the author of a book about strategic risk management, The Upside of Risk: Transforming Complex Burdens into Strategic Advantages for Financial Institutions, which is available on Amazon. Michael received his undergraduate degree from Cornell University and holds a J.D. degree from the University of Tennessee.

MCM CPAs & ADVISORS

FDICIA Regulatory Requirements for Banks Reaching $500 Million or $1 Billion

In recent years, many banks have seen significant balance sheet growth. Contributing factors include mergers and acquisitions, the Paycheck Protection Program (PPP), and deposit growth from government stimulus checks.

Banks approaching $500 million or $1 billion in assets may face new regulatory requirements in 2022. Over the past 18 months, 329 banks have reached $500 million in assets, and 208 banks have reached $1 billion. Many others are rapidly approaching those thresholds.

FDICIA OVERVIEW

The purpose of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) was to require the least-cost resolution of insured depository institutions, to improve supervision and examinations, and to provide additional resources to the Bank Insurance Fund. In June of 1993, the FDIC issued 12 CFR Part 363 to implement the provisions of Section 36 of the FDI Act, including annual reporting and other requirements for covered institutions.

Part 363 applies to each FDIC-insured depository institution with total assets of $500 million or greater at the beginning of its fiscal year ("covered institutions"). For example, if a bank reported total assets of $500 million or more as of December 31, 2021, it would be considered a covered institution and would have to comply with the applicable requirements of FDICIA for 2022.

FDIC TEMPORARY RELIEF DUE TO THE COVID-19 PANDEMIC

In October 2021, the FDIC approved an interim final rule to provide temporary relief from Part 363 audit and reporting requirements. In this rule, they stated that institutions that have experienced growth due to recent disruptions in economic conditions can determine whether they are subject to the requirements of Part 363 for fiscal years ending in 2021 based on the consolidated total assets as of December 31, 2019. This allowed many banks to delay the FDICIA implementation process by one year. This temporary relief is ending, and those banks that are over $500 million in assets on December 31, 2021 will be considered a covered institution for 2022.

REQUIREMENTS FOR ALL INSTITUTIONS WITH $500 MILLION OR MORE IN TOTAL ASSETS

<u>Audit Committee</u>

Covered institutions are required to establish an audit committee of their board of directors. Requirements and duties of the audit committee can be found in Part 363.

<u>Annual Audit of Financial Statements</u>

Covered institutions shall engage an independent public accountant to audit and report on their financial statements in accordance with generally accepted auditing standards or the PCAOB's auditing standards, if applicable.

<u>Independence</u>

The independent public accountant must comply with the independence standards and interpretations of the AICPA, the SEC, and the PCAOB. The independence standards of the SEC and PCAOB are more restrictive than the standards of the AICPA. Examples of non-audit services that are prohibited under the independence standards of the SEC and PCAOB are financial statement preparation, preparation of the annual tax provision, and performing outsourced internal audit services. Covered institutions that were previously using their external auditors for any of these services will be required to bring those tasks in-house or find a different service provider to assist with these services.

<u>Annual Reporting Requirements</u>

Covered institutions with at least $500 million but less than $1 billion in total assets are required to file an Annual Report that must include the following:

- Audited financial statements; and
- A signed management report that must contain the following:
    - A statement of management's responsibilities for preparing the institution's annual financial statements, for establishing and maintaining an adequate internal

control structure for financial reporting, and for complying with laws and regulations relating to safety and soundness, and

- An assessment by management of the institution's compliance with the laws and regulations during the fiscal year. The assessment must state management's conclusion as to whether the insured depository institution has complied with the designated safety and soundness laws and regulations during the fiscal year and disclose any noncompliance with these laws and regulations.

ADDITIONAL REQUIREMENTS FOR ALL INSTITUTIONS WITH $1 BILLION OR MORE IN TOTAL ASSETS

Additional requirements have been announced for institutions with $1 billion or more in total assets, including several annual reporting requirements and Internal Controls Over Financial Reporting (ICFR).

<u>Internal Control Over Financial Reporting (ICFR)</u>

For covered institutions with total assets of $1 billion or more, the independent public accountant who audits the financial statements shall examine, attest to, and report separately on the assertion of management concerning the effectiveness of the institution's internal control structure and procedures for financial reporting.

<u>Annual Reporting Requirements</u>

Covered institutions with more than $1 billion in total assets are required include the following additional items in the Annual Report:

- Independent public accountant's attestation report concerning the effectiveness of the institution's ICFR;
- A statement identifying the internal control framework used by management to evaluate the effectiveness of the institution's ICFR;
- A statement that the assessment included controls over the preparation of regulatory financial statements in accordance with regulatory reporting instructions; and
- A statement expressing management's conclusion as to whether the institution's ICFR is effective as of the end of its fiscal year. Management must disclose all material weaknesses in ICFR, if any, that it has identified that have not been remediated prior to the fiscal year-end. Management is precluded from concluding that the institution's ICFR is effective if there are one or more material weaknesses.

TAKEAWAYS

<u>Planning</u>

The key to ensuring a successful implementation of the FDICIA requirements is to start the planning process early, well in advance of the effective date. Effective project planning can avoid pitfalls including:

- Unintentionally crossing over the $500 million or $1 billion thresholds
- Lack of independence for auditors

<u>Implementation Team</u>

ICFR requirements are not solely the responsibility of Internal Audit. We recommend an FDICIA Implementation Team comprised of leaders from different departments to create buy-in throughout the organization.

<u>Communication</u>

We recommend frequent and open communication with your auditors. They will be testing the key controls to reach their opinion on the effectiveness of ICFR, so this open communication will help to minimize any surprises along the way.

FINAL THOUGHTS

The FDICIA implementation process can be challenging and time-consuming; however, we have observed financial institutions find themselves stronger on the other side.

MCM is a trusted partner in the FDICIA readiness process. Our team of advisors can provide training to your board of directors and management team, perform a FDICIA Gap Analysis, assist in implementing and documenting internal controls over financial reporting, and assist with testing internal controls over financial reporting.

For more information, please get in touch with the authors or visit www.mcmcpa.com.

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KBOPAC
Kentucky Banker Political Action Committee

The Sporting Club at the Farm
New Albany, IN

2021 CHAIRMAN'S CUP CLAY SHOOT

WINNERS FROM OCT. 1 EVENT

FIRST PLACE INDIVIDUAL MALE
Lytle Thomas, First National Bank

FIRST PLACE INDIVIDUAL FEMALE
Amanda Nevitt, Meade County Bank

FIRST PLACE TEAM
Lytle Thomas, First National Bank
Hank Seltman, First National Bank
Skip Seltman, Guest
Tommy Taylor, Guest

SECOND PLACE TEAM
Patrick Coleman, Bank of Edmonson County
Michael Meredith, Bank of Edmonson County
Larry Skaggs, Bank of Edmonson County
Spike Harmon, Bank of Edmonson County

THIRD PLACE TEAM
David Hobbs, River City Bank
Tony Westphal, River City Bank
Brent Fentress, First State Bank
Atom Ward, Guest

Citizens Guaranty Bank "Partners in Education"

Commits Annually to Help Support Estill County Area Technology Center

In 2022, Citizens Guaranty Bank will be proudly celebrating 50 years of service to its friends, families, and fellow neighbors in Estill County. In those 50 years the bank has been dedicated supporters and actively involved in the Estill County School System, helping to mold and build the students in our community. Locally owned and operated, the bank currently has over 75 dedicated team members in seven different locations with a unifying mission - to serve its friends and neighbors to enhance their lives and achieve their dreams while actively supporting our local communities where we live and work.

Chief Executive Officer Kathy Samples shared, "When the concept of the Estill County Area Technology Center was presented, this was a project we knew we wanted to support and be a part of helping to give the community in Eastern Kentucky the best opportunities and easy access to academic and technical skills where they can experience work-based learning to implement career pathways for students, as well as adults, to 'enhance their lives and achieve their dreams.' We are honored to be a Partner In Education on this project and look forward to all the success stories we will be able to celebrate in the coming years."

The Estill County Area Technology Center (ATC) will serve around 300 students from Estill, Powell and surrounding counties. The 40,000-square-foot ATC will house six different career and technical programs and will also be the new home of the Estill County Success/Virtual Academy.

Construction funding for this facility in the amount of $14.7 million consisted of:

- $5M in District Building Funding financed by local tax dollars through the passage of the "Recallable Nickel";
- $5.7M from the State Work Ready Skills Initiative Grant; and
- $4M from federal U.S. Economic Development Admin grant.

"Today's celebration is the culmination of a dream that started over 30 years ago," said Estill County Superintendent Jeff Saylor. "This facility will provide Estill and Powell County students with training opportunities in high wage/high demand careers available right here in Central and Eastern Kentucky."

The ATC will provide several program areas and career pathways for high school students which include:

- Advanced Manufacturing/Maintenance Mechanic;
- Construction/Industrial Electrician;
- Diesel Mechanics/Small and Medium Truck Repair;
- Engineering/Project Lead the Way;
- Health Sciences/Nurse Aid; and
- Informational Technology/Computer Science and Networking.

Citizens Guaranty Bank has committed $5,000 annually in funding to the Estill County Area Technology Center which held its Grand Opening ceremony earlier this past summer.

Pictured below (L to R): ATC Principal Coy Hall, IT Instructor Jason Rose, CEO Kathy Samples and Superintendent Jeff Saylor.


2022 KBA CONVENTION SEPTEMBER 17-20
SEE YOU HERE, NEXT YEAR
JW Marriott Marco Island, Florida
KBA Kentucky Bankers Association