

SECOND
QUARTER
2018



THE KANSAS CORRESPONDENT

BANKERS' BANK OF KANSAS

RISKY BUSINESS

Regulatory expectations on financial institutions are higher than ever and managing a bank's risk requires an understanding of how each factor impacts the bank's overall risk profile. Today it is expected that bank strategies are created based on risk – not only traditional risk like financial, IT, compliance and BSA risk, but regulatory, personnel, systems, reputation, vendors, employees and cybersecurity.

It is just more.

Regulators continue to demand more in the areas of compliance and risk management. Bank audits are no longer a once-a-year obligation. They are process driven, require ongoing examination and perform multiple functions. A true risk-based audit continues to test policy, transactions and compliance, while evaluating and identifying emerging risks. Having a comprehensive risk and vendor management software provider, such as the one BBOK uses from Ncontracts, can help your bank be prepared, protected and positioned for opportunities.

Sharing information and gaining knowledge are important factors in managing risk. Whether your

bank has an individual or several risk management employees, communication is key, upstream and downstream, for examiners and external auditors. Training is mandatory, requiring each employee to know the bank's compliance responsibilities as well as understand the bank's greatest risk factors and how they can personally minimize risk.

BBOK discusses risk regularly across all departments and hierarchies. Employees train several times a year on various risk related topics such as information security and cybersecurity risks. Phishing tests are routinely performed using the KnowBe4 platform to internally launch tests and track results.

Staying current.

"Compliance isn't a competitive function when we all have to follow the same rules," says Peg Baldwin, BBOK's senior vice president enterprise risk manager. Peg serves as the chair of Heartland Compliance, a non-profit dedicated to providing an educational forum for open discussion and exchange of ideas and information for financial institutions.

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AUGUST 1988

BBOK Bancshares, Inc. received regulatory approval. Bankers' Bank of Kansas, N.A. was officially started.

A LETTER FROM BOK PRESIDENT/CEO CALVIN COADY

Financial results for the first half of 2018 were strong and continued to make gains. Results were driven by higher loan totals and non-interest income from customers adding new services.



We continue to reinvest in our people and our solutions to better serve you, our customers. 11 officers and staff recently participated in a **7 Habits of Highly Effective People** training to further develop our current and future generation of leaders. On the new products and services front, we are presently researching several solutions to complement our offerings and benefit Kansas banks.

This summer we again have two college interns. Their enthusiasm and zest for learning reminds us of the opportunities that lie ahead. 10 interns have graduated from our program over the past six years.

I would be remiss to not mention **Cheryl Warashina** for her 25 years of service to BOK. Make sure to read more about her on page five. I am the 3rd president that Cheryl has supported and guided, not to mention all the current and past directors she's served. Quality, committed employees like Cheryl are vital to our success. Thank you Cheryl!

RECOGNIZING EMPLOYEES

In recent months, the BOK Employee Recognition Committee reviewed the bank's recognition program to find new ways to foster a positive work environment where employees feel valued and rewarded. The committee recently added a social media platform called Bonusly that empowers employees to recognize one another for a job well done.

Each month, every BOK employee get 100 points, which equates to \$10, to share with others. Users log on to Bonusly, to write a short encouraging message and reason for recognition, via hashtag, to one or more peers, then gift points up to the employee's total allotment for the month. The recipient can trade points for gift cards or donate to charity.



BOK management likes Bonusly because the system is designed to give verbal and monetary recognition. Employees now look for even more ways to help one another and are complimenting a peer who goes above and beyond. In addition, the cost is relatively minimal as most of the investment goes directly back to the employees.

BOK employees have embraced the Bonusly system because of its ease of use, and its immediacy and personalization. Since introduction in January, 96% of employees have recognized at least one peer and 93% of employees have received a recognition. Expressing and receiving thanks creates an instant, positive feedback loop. Happy employees pass happiness along to their peers and customers, increasing productivity and cooperation among one another.

In addition to Bonusly, senior managers are prioritizing employee growth and development. By making adjustments based on expectations, BOK is focused on creating a healthy institution positioned to care for employees and customers.

CONDENSED STATEMENT OF CONDITION

JUNE 30 • 2018

ASSETS

Due from Banks	19,609,616.22
Securities & Time Deposits	8,294,339.07
Net Loans	126,322,365.24
Federal Funds Sold	4,352,000.00
FRB/FHLB Bank Stock	396,850.00
Net Fixed Assets	1,113,086.81
Other Assets	8,745,238.48

TOTAL ASSETS 168,833,495.82

LIABILITIES

Total Deposits	134,193,914.58
Federal Funds Purchased	0.00
FHLB Advances	6,000,000.00
Other Liabilities	2,495,342.44

TOTAL LIABILITIES 142,689,257.02

EQUITY CAPITAL

Common Stock	750,000.00
Surplus	3,478,000.00
Undivided Profits	21,954,368.55
Net Unrealized Gain (Loss) on Securities	(38,129.75)

TOTAL EQUITY CAPITAL 26,144,238.80

TOTAL LIABILITIES & EQUITY CAPITAL

168,833,495.82

Securities in Safekeeping	6,759,044,649.00
Agent Federal Funds/EBA Balances	396,964,000.00
Loans Sold	101,833,684.80

TOTAL FUNDS UNDER MANAGEMENT

7,426,675,829.62

YTD STATEMENT OF INCOME

	JUNE 2018	JUNE 2017
Net Interest Income	2,896,607.71	2,676,487.87
Other Income	3,972,745.53	3,925,851.22
Other Expense	5,146,563.96	5,265,983.37
Net Operating Income	1,722,789.28	1,336,355.72
Provision For Loan Losses	210,000.00	210,000.00
Provision For Taxes	368,536.52	378,705.64
Net Income After Provisions	1,144,252.76	747,650.08

CAPITAL RATIOS

	BBOK	WELL CAPITALIZED PER REG F
Total Risk-Based Capital Ratio	19.56%	11.88%
Tier 1 Risk-Based Capital Ratio	18.30%	9.88%
Common Equity Tier 1 Ratio	18.30%	8.38%
Leverage Ratio	14.82%	5.00%
Past Due & Non-Accrual Loans to Total Loans	0.03%	

Risky Business Continued.

Peg frequently sees bank officers spread thin trying to manage compliance, risk and auditing, often while performing a myriad of additional jobs and tasks. Networking with other financial professionals is invaluable, says Peg. "It is nice to have a sounding board of professionals who are doing the same things you are day in and day out. We discuss timely issues and exchange ideas on how to manage various situations."

Peg encourages all banks to participate in Heartland Compliance. The group meets quarterly and there is no membership fee. Compliance officers, regulators, internal auditors and even some CPAs find the meetings extremely beneficial. The next meeting is Tuesday, August 14 in Wichita. Regulatory experts will discuss hot topics and exam findings and provide insight into the examination environment. *To register visit heartlandcompliance.com*

DID YOU KNOW?

At BBOK.com your bank can download our compliance statement that includes BBOK's data security statement, business continuity plan and more.

This comprehensive document gives you everything needed for your bank's vendor due diligence. The reports are updated regularly in a password-protected area. *To obtain a password, please contact Peg Baldwin at 800.999.5725.*

PAYMENTS

As a member of the 10th District Payment Advisory Group, Chris Gilbert works closely with bankers around the district and the Federal Reserve Bank of Kansas City on strategies to ensure the payments system is safe and efficient while providing broad access.

VOICE OF THE CUSTOMER

Positive customer interactions are key to a bank's growth or erosion. It is predicted that by 2020, customer satisfaction, more than price and product, will be the key brand differentiator.* What would it be worth to capture customer opinion immediately after interaction occurs? With BBOK's endorsed partner, Harland Clarke, you can.

Harland Clarke's Voice of the Customer, powered by Customer Service Profiles (CSP), is a robust customer feedback system that tracks and measures the customer experience over a period of time. Surveys are custom designed to measure against your bank's strategic objectives and provide meaningful data. Using a variety of survey methodologies, including customer-based panel, web and mobile, telephone, and direct mail, customers give feedback on specific interactions over time.

"36% of customers are likely to add services with a bank when they have a good customer service experience versus a mediocre one," says Harland Clarke's Brandon Jameson.

Customer data gathered goes through research and analysis where trends are identified and improvement areas are defined. Coaches work with bank managers to help influence behavior changes. As new approaches are



HARLAND CLARKE®

implemented, your bank can see the correlation between change and customer satisfaction in real-time. The process of measuring, implementing change and remeasuring continues until your bank provides the level of service your customers expect.

Because Harland Clarke and CSP are financial industry focused, your bank's data is also compared to others in your geographic and peer group. The bank receives consultation with research experts on specific factors driving customer behavior. Actionable insight provided in these meetings are designed to build a consistent customer experience and ultimately lead to higher engagement. A happy customer has a deeper relationship with the bank and refers more often to friends and family. Even more important is the direct impact on the bank's bottom line, says Jameson. "Improving account holder satisfaction is proven to improve bank profit and customer retention rates and reduce first-year attrition."

To learn more about Harland Clarke's Voice of the Customer contact your BBOK relationship manager at 800.999.5725

*Customers 2020: A Progress Report by Walker

MISSION IN ACTION

JULIE LYMAN, BBOK INVESTMENTS MANAGER

“

I would like to take this opportunity to recognize Julie Lyman for her kindness and professionalism. I am the back-up person for public funds pledging. Since I do not do this on a regular basis, when I do, I always have questions. Julie has always been very kind and helpful. Julie is always very prompt when I am pledging securities. I just wanted to let you know how much I appreciate working with Julie.

”

PEGGY WAGHER, EMPRISE BANK

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APPLIED EXPERIENCE

Two college students were introduced to the banking world during a 10-week internship at BBOK. Neither had previous banking experience. Both were excited for hands-on learning outside the classroom. Both walked away with a better understanding of the industry and how their passions could translate into a banking career.



PAIGE TUREK is an agri-business major at Oklahoma State University. She's farmed since she could walk but has never been in an office environment. During her internship, Paige felt her time with the Bank Card department was especially educational, learning about what factors affect credit and how banks make credit decisions. Paige hopes her overall experience with BBOK along with her agriculture prowess and degree will help her stand apart when she begins her search for an ag lending job after graduation.

GARETT BEECHER is a business major at the University of St. Mary. Networking with professionals while learning about the different aspects of banking has been extremely beneficial, Garrett says. He believes the internship at BBOK has given him insight he couldn't get in school alone. It allowed him to gain first-hand knowledge to help him determine if a career in banking is a good fit.

Helping young people see that banking is a worthwhile, helping profession is at the heart of the BBOK internship program. Interns get a unique view inside every aspect of correspondent banking. "Many family banks in Kansas have upper management nearing retirement and limited succession options," says Peg Baldwin, who oversees the internship program at BBOK.

"We are trying to do our part to positively impact the future of our industry, and we've seen success as several past interns graduated college and immediately started making an impact in banking."

Celebrating **CHERYL**

Cheryl first walked through the doors of BBOK on April 19, 1993. Throughout her 25 years she has become an integral link within the organization. In her role as receptionist, and later administrative assistant, she has assisted nearly everybody in the bank, but she has made a substantial impact supporting the BBOK president/CEO and board of directors.



From delivering board materials to managing meeting accommodations, Cheryl ensures every detail is taken care of. Tom Fellers, retired president and chairman of Stockgrowers Banc Corporation, Ashland and BBOK director from 1990-1996, shared the importance of her efforts. "You can always count on Cheryl being there and more than willing to help." Cheryl is a quiet powerhouse for Bankers' Bank, working diligently in the background. We are pleased to honor her tenure. **HAPPY ANNIVERSARY CHERYL!**



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This BBOK newsletter includes pertinent information for key bank officers. Please route to the following department heads.

- OPERATIONS
- LENDING
- INVESTMENTS
- COMPLIANCE

Save-the-date CUSTOMER GOLF TOURNAMENT AND BBOK UPDATE

MONDAY, OCT. 1, 2018

Look for details coming soon.

