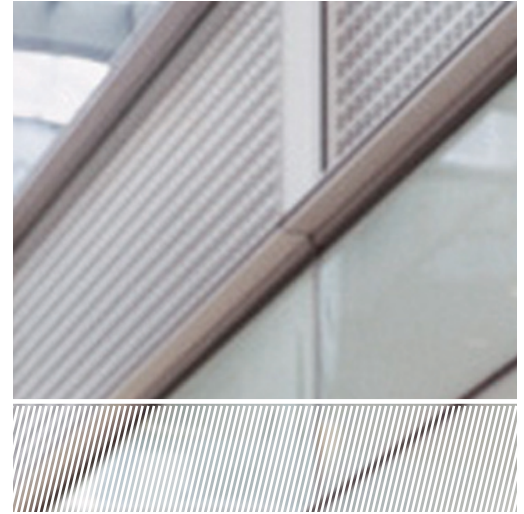




PROFIT RESOURCES
I N C O R P O R A T E D



CASE STUDY: Increasing Profits in a Declining Rate Environment

CHALLENGE: A Midwestern Bank with assets of \$1.1 billion needed to find ways to increase profits in the face of declining rates.

This Midwestern Bank had a very successful overdraft program and was at or above peers in non-interest income measures. The Bank had acquired five banks in a six-year time period and continued to work to consolidate and standardize bank practices.

The Midwestern Bank was feeling the pressure created by low rates—net interest margin was going down and the value of demand deposits was reduced. Furthermore, declining rates accompanied a slow or negative growth economy (making high quality earning assets harder to find) and the bank incurred higher loan losses with increased provisions.

Despite this environment, the Bank CEO recognized that by strategically and intentionally improving non-interest income and reducing expense, the Bank could improve profits.

Like many astute bankers, the executive officers acknowledged a need for assistance outside of their walls; they knew that income would be better enhanced by partnering with a company with a broad market perspective, bank-wide experience and objectivity. Thus, PRI was engaged.

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SOLUTION: PRI implements a bank-wide best practice review with detailed revenue enhancement and non-interest expense review.

After completing a thorough assessment of the entire bank, PRI began the project with a detailed plan that outlined every task to be completed and the length of time required. For this Midwestern Bank, PRI reviewed all functional processes, capacity planning in specific functional areas, all outsourced/external operating expenses, and non-interest income.

The functional process review included Accounting, Branches, BSA, Commercial Lending, Credit Analysis/Underwriting, Deposit Operations, Loan Operations, Mortgage Processing and Mortgage Servicing. PRI consultants completed analysis and submitted a detailed set of specific recommended changes. As the PRI team found processes to be changed, the step-by-step changes were outlined and presented to management immediately. Any approved recommendations that could be implemented immediately were quickly put in place to accelerate the value they created.

After completing the thorough functional process reviews for deposit and loan operations, PRI consultants immediately created and implemented capacity plans for both areas. This approach allowed for the benefits of improved processes to be factored into the productivity analysis. These capacity plans included Bank-specific assumptions obtained by timing different activities, observing all steps involved in a task and recognizing which systems/software were being used. The capacity plans gave department managers a tool to use when determining appropriate staffing levels, cross-training and workload distribution. Additionally, PRI team members conducted a high-level productivity validation for the Bank's branches and lending. This compared key statistics from the Bank's branches and lending reports to market standards to ensure that the Bank was on target.

The final process-oriented phase of the project included a complete re-engineering of the commercial loan workflow. End-to-end, this piece took two months to implement. A PRI consultant with 20 years of loan expertise worked side-by-side with the Bank's officers to consolidate processes that were occurring in three different regions. The re-engineered process eliminated the need for 7 FTE, improved credit procedures and identified a credit analysis system.

In addition to the process-oriented analysis, PRI consultants with expertise in non-interest income and non-interest expense conducted full evaluations of all NII and NIE line items related to pricing and external expenses. Non-interest income analysis included customer service fees, NSF charges and a detailed look specifically at savings account fees. Non-interest expense analysis covered items such as postage, courier services, vendor contracts, etc. The analysis in each of these areas made comparison to local and national peer banks. A detailed review uncovered recommendations for improvement up to \$2.3MM.

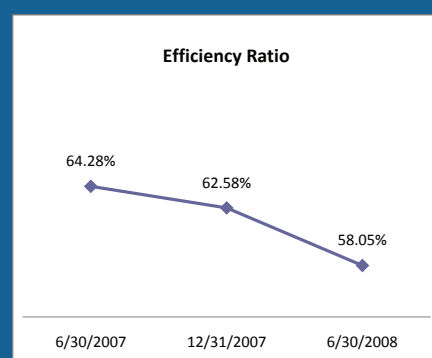
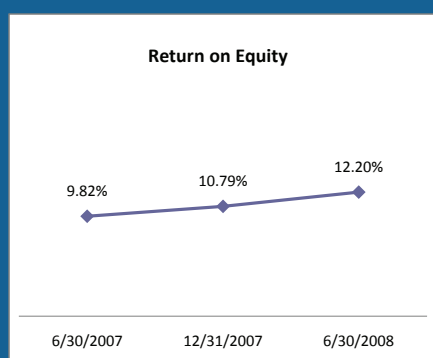
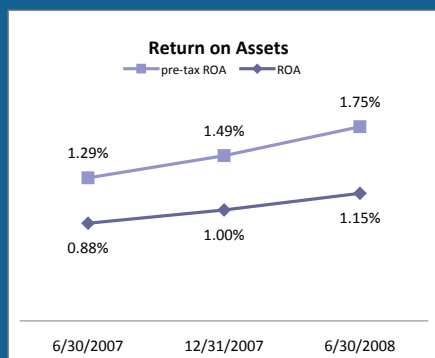
While PRI supported the Bank for several months in implementing the initiatives, benefits were realized almost immediately.



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RESULTS: A Midwestern Bank improves profits by 20% in only 6 months representing \$2MM annually.

The bank saw an increase in profits of 20% within 6 months of the project start date. One year after the start of the project, this Midwestern Bank's return on assets (ROA) put them in the top 10% of their state with an ROA of 1.75%. The trend in earnings after the initiatives is shown in the following charts:



Highlights of the results of the PRI initiatives include:

- **Improved service charge income by \$1MM annually within five months of the project start date.** Specific improvements to the overdraft program, fee waiver analysis and fee collection process improvement, along with implemented changes to savings account service charges led to these improvements.
- **Reduced FTE by 34 over 12 months. This was an 8.5% reduction.** PRI understands this impact to the community and recommends staff reduction through attrition whenever possible.
- **Overall, the cost of the project was recaptured within six months of the project start date.** The bank realized a profit increase of five times the PRI fee.
- **One year later, the Bank's numbers continue to improve.**

How do you know if your bank is ready for profit enhancement from PRI? Ask yourself and your leadership team how to answer the following questions:

- How do I know when I've pushed the envelope with Non-Interest Income?
- How do I maintain the community banking model AND operate at the most efficient level without destroying the bank's image?
- Of my bank's employees, who has the time, knowledge and objectivity required to evaluate every job description, day-to-day task and productivity level in the bank?
- I know that I should improve efficiency, but how do I accomplish this in a way that reduces true excess without impacting critical production areas?

