
Efficiency Audit

Overview of Process and Sample Reports

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December 2006



Project Objectives

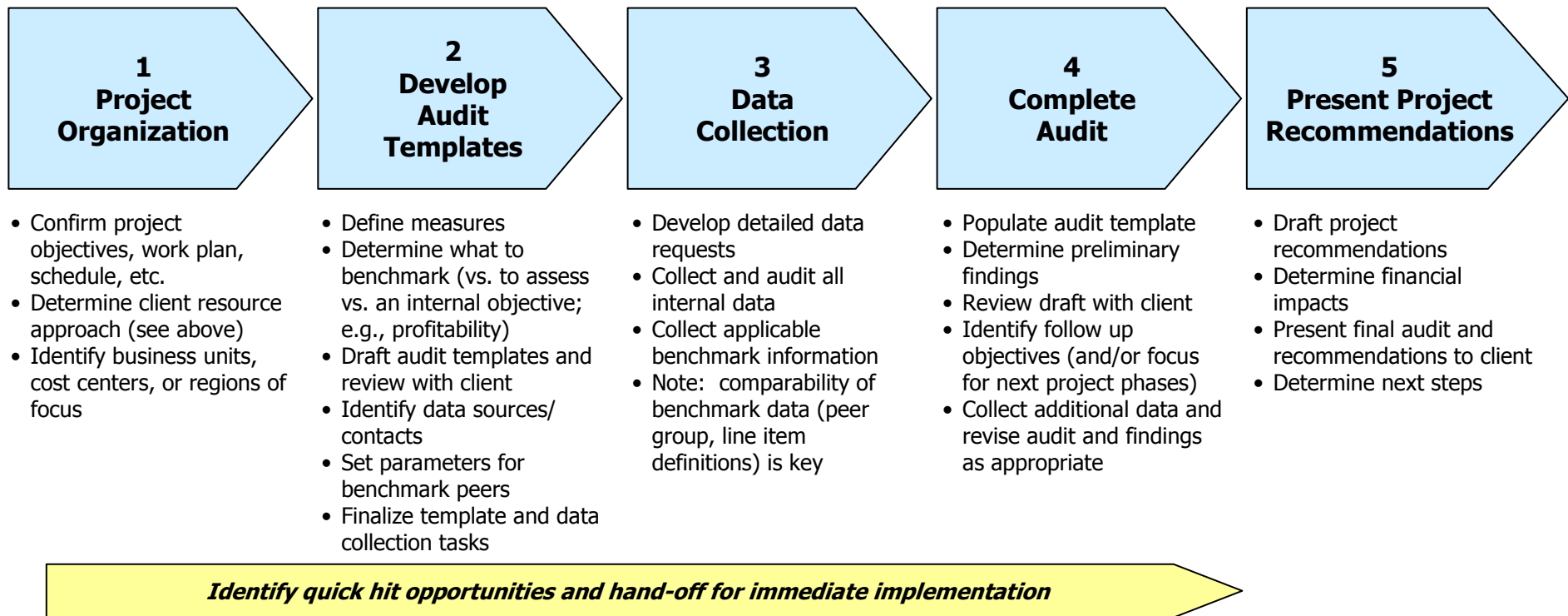
- ◆ This process is designed to provide senior bank executives with an objective, fact-based approach for identifying efficiency and productivity improvement opportunities across multiple business units and/or regions.
- ◆ The audit is intended to provide a relatively quick and high-level assessment of current performance levels relative to applicable peer benchmarks and internal standards (e.g., profitability, stated business plan objectives).
- ◆ The process is also designed to identify quick-hit opportunities particularly early to ensure immediate implementation and realization of performance improvement benefits.
- ◆ In addition, the Efficiency Audit often helps to identify opportunities to:
 - Reengineer frontline business processes to free time for selling efforts in high potential markets (and enable rightsizing or resource reallocation in low opportunity markets);
 - Identify potential outsourcing opportunities;
 - Restructure incentive pay and benefits programs;
 - Identify potentially over- and understaffed units based upon throughput volumes and overhead ratios and suggest opportunities for organizational realignment as well as more sophisticated analysis (e.g., staffing models);
 - Reengineer key processes to increase turnaround times and improve service levels;
 - Create/redefine internal performance scorecards and performance objectives.

Project Deliverables

- ◆ Recommendations on the specific efficiency improvement opportunities to pursue.
- ◆ Action plans so that progress can be made quickly.
- ◆ Identification of all financial impacts associated with the audit recommendations.
- ◆ Tools and processes that can be used on an ongoing basis, including:
 - Customized audit template, with definitions of each measure/component and relevant industry benchmarks;
 - Baseline measurements, a tool (the audit), and guidelines for conducting ongoing/future audits;
 - Project implementation recommendations, including where to focus resources going forward based upon high-level assessments of the risk, implementation complexity, and financial costs and benefits associated with each recommendation.

Project Approach

- ◆ Normally, the Efficiency Audit is comprised of 5 key work steps. However, the project can be structured in multiple phases—i.e., a first phase high-level scan across all desired business units followed by one or more concurrent phases of detailed analyses concentrating on high-opportunity areas of the Bank identified in Phase I.
- ◆ In addition, while we find data collection is faster and less political if we conduct the analysis ourselves, we can also structure the project so that we facilitate teams of client staff from each key business unit. We work with each client to determine the most appropriate approach as part of Step 1.



Analysis Example: Financial Performance Assessment

Initial steps may include a financial diagnostic to identify critical business areas for deeper focus.

Opportunities/ Potential Programs	Metric	Actual	Target
Interest Income			
Change the deposit mix	Portion of noninterest DDA deposits to total deposits is low relative to peers	7%	14%
	Ratio of interest bearing funds to average assets is high relative to peers	86%	81%
Deposit growth strategies	Core deposit growth is low relative to peers	3%	10%
New business development in loans	Growth in loans is lagging plan	8.0%	9.6%
Cross-sell strategies	Average services per retail household is low	2.9	TBD
	Average services per business client	1.7	TBD
Retail retention programs	Percentage of closed retail checking accounts to opened checking accounts is high	86%	TBD
Business retention programs	Percentage of closed commercial checking accounts to opened checking accounts is high	90%	TBD
Overhead Expense			
Personnel and staffing opportunities	Personnel cost to revenue is high relative to peers	37%	33%
	Ratio of overhead expense less non-interest income is high relative to peers	1.84%	1.55%
	Assets per finance FTE are low relative to the industry	\$149,828	\$328,000
Commercial underwriting process redesign	Ratio of support staff to commercial lenders is high relative to the industry	0.75	0.7
Noninterest Income			
Fee based growth strategies	Level of noninterest income with "normalized" loan sale gains as a proportion of total revenue is low relative to peers	23%	26%
Trust sales strategies	Growth in income from trust is below plan	6%	8%
Insurance sales strategies	Growth in income from insurance is below plan	-3%	6%

Analysis Examples: Retail Banking

Retail business line efficiency analyses typically consider transaction, sales, and service efficiency levels relative to benchmarks.

Scope	Measure	Data	Benchmarks		Implications
			Peer Median	Peer 75th Percentile	
Teller Teller Teller Teller	Transactions per teller per month Average time per teller transaction Sales referrals per teller per month ...				
Platform Platform Platform Platform Platform Platform Platform Platform Platform Platform	Consumer (core) deposit sales per salesperson per month Consumer (core) deposit balances per salesperson per month Business (core) deposit sales per salesperson per month Business (core) deposit balances per salesperson per month Consumer loan applications received per salesperson per month Approval rate for consumer loans submitted Business loan applications received per salesperson per month Approval rate for business loans submitted ...				
Branch Branch Branch	Direct expenses per branch per year Operational losses per branch per year ...				

Analysis Examples: Consumer Lending

Assessments can be organized by line of business, product, or function.

Product	Measure	Data	Benchmarks		Implications
			Small Portfolio	Large Portfolio	
Installment Lending	Average number of accounts per FTE				
Installment Lending	Average number of accounts per servicing FTE				
Installment Lending	Average number of applications processed per origination FTE				
Installment Lending	Average number of new loans booked per origination FTE				
Installment Lending	Average number of new loans booked per marketing FTE				
Installment Lending	Average number of minutes to decision loan				
Installment Lending	...				
Mortgage	...				
Home Equity	...				
Credit Card	...				

Function	Measure	Data	Benchmarks		Implications
			Small Portfolio	Large Portfolio	
Collections	Average number of delinquent accounts per collections FTE				
Collections	Average number of days past due before initiating collections				
Collections	Automated processing				
Collections	Manual processing				
Collections	Average number of accounts handled per month per FTE				
Collections	Automated processing				
Collections	Manual processing				
Collections	...				

Analysis Examples: Business Banking Credit Productivity and Performance

Credit assessments can focus on frontline and back office activities.

	Business Credit Balances Outstanding per Commercial Lender (MM)	Business Portfolio Growth, 2002-2003 (\$ in MM)		Loan Accounts per Commercial Lender	Net Average Portfolio Growth per Commercial Lender, 2003 (MM)	Loan Accounts per Support Staff	Loan Accounts Closed (Booked) per Support Staff per Month	Business Credit Charge-off Rate (1999-2003)
Bank Aggregate	\$19.558	11.20%	\$67.484	176	\$2.184	222	5.7	0.10%
Region 1	\$17.019	4.73%	\$9.814	172	\$1.191	223	5.9	0.14%
Region 2	\$20.154	9.15%	\$10.074	181	\$1.838	323	4.7	0.07%
Region 3	\$18.758	11.66%	\$32.578	159	\$2.609	232	6.8	0.09%
Region 4	\$16.663	9.00%	\$15.017	202	\$1.203	203	4.1	0.05%
Peer Median	\$36.000	N/A	N/A	140	\$16.000	210	7.0	0.24%
Peer 75th Percentile	\$50.000	N/A	N/A	190	\$21.000	230	9.0	0.20%

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