

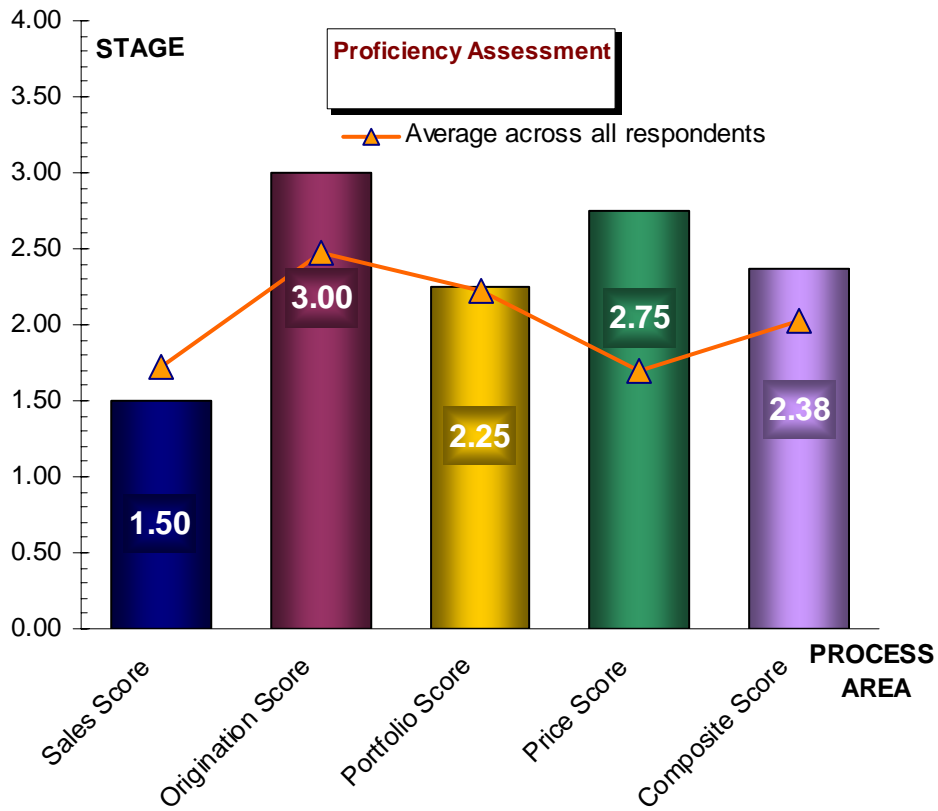
SAMPLE ORGANIZATION

SAMPLE PROFICIENCY ASSESSMENT

Assessment Results:

Overall, your organization is assessed at **Stage 2**. More than 60% of all organizations fall within this stage. Significant efficiencies can be achieved by developing the specific capabilities associated with each Process Area, and progressing towards a more mature Stage 2 or Stage 3 level of performance. Typically this entails modifying current approach and selectively adopting those Best Practices that fit within your strategic vision and organizational goals.

Scores by Process Area, including a Composite Score (average of all scores), and Average Scores across All Respondents, are presented in the chart below. Our comments, organized by Process Area, follow.



Pricing and Profitability Process Area

Assessed at Stage 3

Organizations in Stage 3 are able to allocate costs and economic capital to product lines and their tools include a risk-based component for credit and market risks. Profit analysis can be conducted for multiple products at the relationship level and relationships can be ranked by risk-adjusted profitability. Models are relied upon across the organization and results are entrenched in the Loan Submission Package, enabling profit-aware sales strategizing. Lenders leverage the model to conduct profit simulation calculations and pricing and accumulated profitability results can be used for officer measurement.

Points for Review

Our analysis suggests the entity is well underway in support pricing from a strategic and informational perspective. Responses indicate the use of tools that provide well-founded desktop risk-adjusted profit

information to lending staff. Resulting pricing and profit information can also be available to management for loan approval consideration and to support other risk management and financial initiatives.

Due to the brevity of the survey, further discussion of actual practices, might add some clarity to specific recommendations.

Other areas for discussion include the need for periodic revalidation of model configuration to insure the guidance is synchronized with bank direction and actual financial performance, and continual linking of loan pricing logic to other key risk management, credit, financial and ALM considerations.

Portfolio Management Process Area

Assessed at Stage 2

Organizations in Stage 2 typically are in the process of forming centralized structures usually starting with Loan Operations for servicing and doc prep. There is some standardization of processes, often localized on a departmental basis. Tracking systems are manual or home-grown and managed by lending or loan administration. Management reporting capabilities are limited and data integrity remains an issue.

Points for Review

Strengths include exposure reporting based on potential exposure and strong pre-closing documentation processes. However, specific areas of concern indicate that institution has no defined portfolio management process methodology. The lack of consistent lending processes across lending personnel has resulted in creating communication issues among various lending personnel and questionable data integrity. Constant “chasing” of documentation and/or loan files is creating inefficiencies among various loan departments. Accountability is also a concern. Specific process review and remediation is highly recommended.

Origination Process Area

Assessed at Stage 3

Stage 3 organizations are focused on performance and earnings. Further market segmentation is evident with emergence of a distinct, centrally supported, small business segment having specific policies and processes and employing a credit scoring methodology. Pricing is tied to profitability and ROE/ROA targets by *product* with clearly defined exception parameters. Centralization facilitates document automation and enhances portfolio management capabilities, including deployment of early warning systems in the consumer area, and segmentation of reviews by product type and amount.

Points for Review

Strengths include proactive reporting of tracking items. However, specific areas of concern indicate that institution has no defined portfolio management process methodology. The lack of consistent lending processes across lending personnel has resulted in creating communication issues among various lending personnel and questionable data integrity. Report automation is creating inefficiencies along with constant “chasing” of documentation and/or loan files. Accountability is also a concern. Specific process review and remediation is highly recommended.

Sales Management Process Area

Assessed at Stage 1.50

Stage 1 organizations typically lack a defined business development/sales methodology, taking a reactive stance and relying heavily on drop-in traffic, client inquiries and informal relationships. Referral and cross-sell practices are similarly not optimized. Core system as well as other client relationship information is not easily accessible, or often available. Client/portfolio profitability models have not been developed. Most organizations in Stage 1 would self-report that they have not begun to **focus on developing** a sales culture.

Points for Review

As indicated above, institutions that score at this stage are truly just beginning to examine their sales processes. In this example, manual capture and reporting of pipeline and calling activity demonstrates a

desire to proactively manage the business development process. The potential concern here will be to ensure that there is consistency in both reporting as well as review.

Secondly, the bank's response to Question 3 raises significant concern, reliance on the RM's Centers of Influence as the primary driver for business development is neither a sustainable, nor comprehensive strategy. Consistent/effective business development strategies should be built using both active and passive strategies to ensure that growth is not linked to any one factor.

It is critical that the institution recognize that your existing "corporate culture" is **not the same** as your "corporate identity". Successfully instilling this difference will be the key to managing the resistance and obstacles to change.

Conclusion

Can you improve your processes? The good news is that organizations can become more proficient through systematically assessing their capabilities and applying proven best practices appropriately. Much of the challenge lies in determining which capabilities to master in order to improve, then developing both a strategic and tactical roadmap to get there.

As mentioned above, a majority of our clients fall within Stage 2. And while there may be a broad range of capabilities to master, that means correspondingly greater potential to improve efficiencies, practices and procedures within the Stage or even progress to Stage 3.

Baker Hill Advisory Services can help. Hopefully the information provided above demonstrates our approach and prompts your curiosity to find out more.

Thank you for your participation.

-- Baker Hill's Advisory Services team