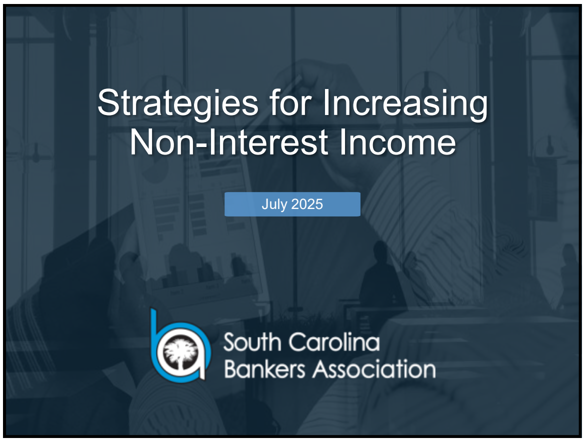


1

John Chappelle

Consultant

With over 20 years of banking experience, John brings a wealth of knowledge to PRI from his tenure with community banks. He excels in leading organizational change, digital transformation, IT, bank operations, fraud and loss prevention, strategic planning and execution, sales management, and data-driven decision-making to achieve strategic goals.

Treasury Management

Strategic Planning

Digital Transformation

Operations

pri
PROFIT RESOURCES
INCORPORATED

2

Course Outline

Banking Strategy

Deposit-Related NII

- **Products**
- **Interchange Income**

Loan-Related NII

Additional NII Sources

NII and Bank Culture

3

Banking Strategy

A strategic plan should answer these four questions:

- Where are we now?
- Where do we want to be?
- How do we get there?
- How do we measure our progress?

4

4

Banking Strategy

- Three Year Plan
- Aspirational Goals
- Nimble Action Plans

5

5

Current Trends

- Does fee satisfaction matter?
- Does service matter?
- How is this different now and going forward?

6

Deposit Products

Customer relationships have traditionally been built around the checking account

All deposit products must be:

- Simple
- Competitive
- Flexible

The majority of customers that switch for promotional reasons are willing to switch again in the next few months

7

Deposit Products

Free Checking is not dead! Why?

- Consumers hate monthly maintenance fees!

2025 notable trends:

- Checking account fees have decreased in last 6 months
- Checking accounts with no maintenance fee: 37%+
- Online accounts:
  - 70% have no maintenance fee
  - Lower OD and ATM fees
- Average overdraft fee dropped to $30.82

MoneyRates.com survey, May 2025

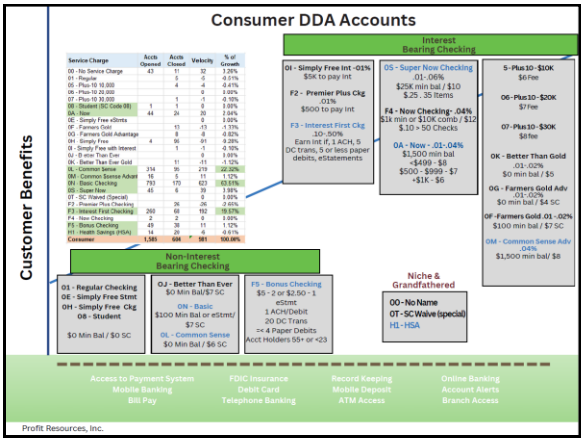
8

Deposit Products

Checking Improvement Outline

1. Add/keep free checking product
   - No frills, if they want additional features and benefits they need to pay for them
2. Design 2 – 3 additional checking accounts
3. Focus on **small business**
4. Obtain or build a simple customer profitability model

9



10

Deposit Growth Focus

Table 1

Large Bank and Noncommunity Bank Deposit Growth Fell Behind Other Groups

Bank Size	Year-Over-Year Deposit Growth, Adjusted for Mergers (Percent)						Number of Banks
	2019	**2020**	**2021**	**2022**	**2023**	**2018 to 2023**	**2023**
Assets Greater Than $250 Billion	3.1	24.5	9.6	4.6	–6.8	37.1	14
Assets $10 Billion to $250 Billion	4.9	19.6	11.4	4.8	–4.1	40.5	142
Assets $1 Billion to $10 Billion	6.3	18.4	12.7	8.8	1.2	56.1	840
Assets Less Than $1 Billion	4.5	16.0	13.5	7.3	–0.1	47.6	3,649
Bank Designation							
Noncommunity Banks	3.9	22.6	10.3	4.8	–5.6	38.9	455
Community Banks	5.5	16.5	13.5	8.4	1.0	52.8	4,190

Source: FDIC Summary of Deposits, June 30, 2018, to June 30, 2023.
Note: Bank count is as of the June 30, 2022, to June 30, 2023, period.

FDIC Quarterly, 2024 Volume 1

11

Miscellaneous Fee Income

Do you have an income culture?

- Revenue committee
- Publish / disclose all possible fees
  - Service charges are not shopped
- Fees to pay attention to:
  - Wire transfers
  - CD early withdrawal penalty
  - Returned deposited items
  - NSF/Returns and Stop Payments
  - New payment and capture technology ?

12

Miscellaneous Fee Income

Market Compare

- Build a database of all competitors in market
  - Identify "non-bank" competition
  - Identify "true" competition
- Compare products and pricing
- Make location considerations
- Update the grid at least annually

13

Miscellaneous Fee Income - List

ATM Foreign Usage	Holiday Savings Close
Bond Collection	Inactive Debit Card
Bounce/Courtesy/ODP	IRA Transfer
Closing Acct by Mail	Mailed Paper Statement
Close Acct within xxx days	NSF Per Item
Collection Items	Non-Customer Check Cashing
Copies (per page)	Official Checks
Counter Check	Order Foreign Currency
Customer Check Cashing	Research/Acct Recon
Daily/Continuous OD	Returned Deposited Items
Debit Card Replacement	Snapshot/Spec Statement
Custom Debit Card	Stop Payment
Dormant Acct	Sweep Transfer
Excess MMDA/Savings WD	Telephone Transfer
Fax	Wire Transfer (In and Out)
Fresh Start Set-up	Safe Deposit Boxes
Garnishment/Levy	

14

Miscellaneous Fee Income

Offer OD services your customers want

- Automated programs
- Comply with FDIC/OCC guidance and inform the customer
- Ensure continued opt-in success
- **Focus on Reg E opt-in**
- Dynamic OD limits
- Discontinue continuous overdraft fee

15

Miscellaneous Fee Income

Enhance fee tracking and collection

- General ledger should track waivers and refunds
- Build incentives for revenue all the way to the teller line
- Enhance front line training and scripting:
  - Banking 101 topics about costs and why fees
  - Overdraft protection options and benefits
  - Identifying financial counseling candidates

16

Interchange Income

- #1 deposit-based source of NII
- Organic growth based on "spend"
- Consumer debit spend normalizing post-Covid but still growing (like always):
  - 2021: 20%+ YOY growth
  - 2022: 14%+
  - 2023: 4%
  - 2024: ???

17

Interchange Income

2024 Debit Issuer Study: Key Takeaways

Debit is increasingly important to account holders and critical to issuer economics

4% growth year-over-year-(YOY) in both **debit transactions and dollar** volume in 2023

34.6 transactions performed by active cardholders per month, on average, about **90% of which are POS purchases**

$162 generated by exempt issuers per active debit card per year in gross revenue, on average, **compared with $91 for covered[1] issuers**

Digital and mobile devices account for a growing share of transactions

45% of 2023 debit spend was card-not-present (CNP)

7% of debit transactions were initiatied with **mobile phones**

Digital debit card issuance is the top new capability issuers plan to introduce

18

18

Interchange Income

Utilize BIN structure properly

– Consumer BIN
  - HSA BIN
– Business BIN
  - Include Small Business
  - Ensure customer placement
– **NO ATM ONLY CARDS!**
– HELOC access?

19

Interchange Income

Explore Interchange Network Alternatives

- 2 types of point-of-sale (POS)
  - Signature & PIN-entry
  - Sub-types: PIN-less, CNP, bill-pay (COF), cash-back, etc.

– Interchange Foundation
  - Card Brand (SIG)
  - PIN Network (PIN)

– Not all networks are created equal!

20

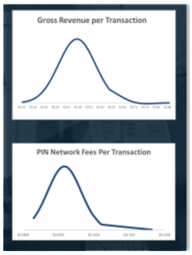
Interchange Networks

SIG Network / Card Brand
Impacts all transaction types

PIN POS and ATM
Brand unaffiliated, Processor Owned

21

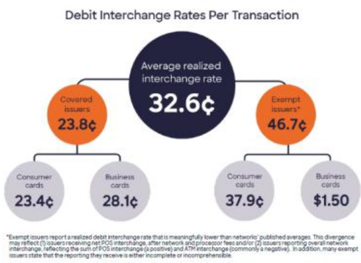
Interchange Networks



- Not all PIN Networks are created equal
- Your processor is NOT the only answer
- There are wide ranges of expense structures and multiple places to hide those expenses
- Interchange fluctuates regularly – don't commit for too long
- **You can change PIN networks without cardholder impact!**

22

Interchange Networks



23

Metrics & Measurement

Average Gross Interchange

- Exempt PIN = $0.27
  SIG = Consumer $0.55; Business $2.10; HSA $1.74
- >$10B PIN / SIG = $0.24 ($0.21 + .05% of tr. amt)

P.A.U.

Card Type	Penetration (%)	Active Rate (%)	Utilization
Personal	78 / 101	67 / 85	24.6 / 32.8
Business	38 / 78	45 / 68	14.5 / 29.55
HSA	89 / 102	46 / 90	2.8 / 10.76

24

Interchange Income

Debit Portfolio KPIs

	Penetration rate	Active rate	Usage*	Average ticket	Spend**
Overall	80.5% (+0.6%/year)	66.3% (-0.2%/year)	30.7 (+4.4%/year)	$46.89 (+3.4%/year)	$17,274 (+8.1%/year)
Consumer cards	82.9%	67.6%	31.2	$43.82	$16,406
Business cards	52.2%	51.3%	25.2	$107.34	$32,469
Covered issuers	81.1%	62.9%	31.8	$47.27	$18,038
Exempt issuers	79.6%	71.6%	28.9	$46.29	$16,053

*Monthly POS transactions per active card **Spend per active card per year

25

Interchange Income

- Increase P.A.U.
  - -Penetration, Active Rate, Utilization
- Top of wallet
  - -Early adoption; set buyer behavior
  - -Declines are a killer!
  - -Instant Issue; Contactless
- Culture

26

Interchange Income

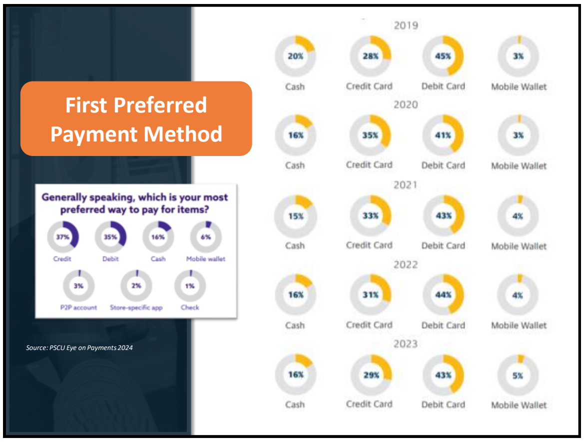
Debit KPI Benchmarking

	Opportunities exist	Good performance	High performance	Best in class
Penetration rate	<76%	76-82%	82-84%	>84%
Active rate	<59%	59-66%	66-78%	>78%
Usage*	<25	25-28	28-32	>32
	1st quartile	2nd quartile	3rd quartile	4th quartile

*Monthly POS transactions per active card

27

27



28

Payments Income Trends

– Digital banking / bill pay
– Mobile app
– P2P; A2A
– FedNow/RTP?
– Card Controls
– Technology based services
  - Credit card loan payment capability
  - App-based lending / approval

29

Loan Related NII

Pricing Model

- Self-made vs. outside party
- Negotiable Factors
- Price maker vs. price taker
- Fractional Pricing

30

Loan Related NII

Fees

- Commitment fee
- Origination fee
- Process/Documentation Fee

Not the same

31

Loan Related NII

Fee Considerations

- Know your customers
- Ask for more than you expect
- Tier fees based upon amount
- Get fees upfront

32

Commercial Lending Fees

Application Fee	Line of Credit – Non-usage Fee
Commitment Fee	Collateral Substitution
Underwriting / Processing Fee	Payoff Letters
Origination Fee	Prepayment Fee
Document Prep Fee	Copy Charge
Renewal Fee	Amortization Schedule Fee
Letter of Credit Fees	Recording Fees
Collateral Audit Fee	Release Fees
Inventory Floor Plan / Checks	Wire Fee - Loan Disbursement
Loan Modification / Extension	UCC Fees
Bank Evaluation	Unused Commitment Fee
Construction Mgmt / Setup Fee	Subordination Fee
Construction Inspection Fee	Guarantor Release Fee
Construction Draw Fee	Loan Covenant Waiver Fee
Annual Fee	Credit Inquiry Fee
Courier Fee	Credit Reference Fee
Flood Cert Fee	Appraisal Review
Late Payment Fee	Environmental Assessment Review
NSF Returned Check Fee	Internal Inspection Assessment

33

Mortgage Lending Fees

- Pre-approval Fee
- Origination Fee
- Rate Lock Fee
- Non-Escrow Fee
- Closing Fee
- Funding Fee/Wire Fee
- Gain on Sale – Secondary Market Sale
- Set-Up Fee (construction)
- Inspection Fee (construction)
- Extension Fee (construction)
- Modification Fee
- NSF Payment Fee
- Late Fee
- Document/Statement Copy Fee
- Amortization Schedule Fee
- Payment History Fee
- Payoff Letter Fax Fee
- VOM/VOD Fee

34

Consumer Lending Fees

- Application / Setup Fee
- Indirect Application / Setup Fee
- Application / Setup Fee
- Document Prep Fee
- RE Origination Fee - Balloon
- Lot Loans
- HELOC Origination - Investment Property
- Construction Loan Origination
- CD/Savings, Car, Unsecured, Stock, Life Ins. Origination Fees
- Inspection Fee
- Annual Fee for Overdraft LOC
- Auto Debit Off
- Coupon Book Replacement
- ACH Transaction & Setup
- Bank Evaluations
- Courier Fee
- Flood Cert Fee
- Late Payment Fee
- Late Payment Fee - Interest Only
- NSF Returned Check Fee
- HELOC - Annual Fee
- HELOC - Non Usage Fee
- Payoff Letters
- Prepayment Fee - HELOC
- Copy Charge
- Amortization Schedule Fee
- Recording Fees
- Release Fees
- Wire Fee-Loan Disbursement
- Skip A Payment
- UCC Fees
- Collateral Substitution
- VSI Auto
- HELOC Fixed Rate Option
- Change in Payment Due Date
- Subordination Fee

35

Additional NII Sources

ATM Fee Income

- Foreign transaction fee income basics
- Customer foreign ATM fees?
- Surcharge-free / Alliance networks
- Opportunity Costs!!!
  - Debit usage
  - Cash sitting uninvested

36

Additional NII Sources

Deposit Account Add-ons

- Cell phone insurance
- Identity theft insurance
- Mobile deposit
- Others?

37

Additional NII Sources

Small Business Sense

- 29.6 million business with <100 employees; 99.9% of American businesses
- Revenues: $47,000 - $6 million
- Checking balances are 3x more than consumer accounts
- Digital Banking and Payments as differentiators
- 76% use same bank for business and personal
- Community banks succeeded in issuing PPP

Source: *U.S. Small Business Administration Office of Advocacy*

38

Additional NII Sources

Business Client Opportunity

83%

of your current commercial clients
DO NOT use any Treasury Services

5 Steps to Better Treasury Management
SouthState Correspondent Banker to Banker Blog

39

Additional NII Sources

Strategic Goals for TM:

- Diversification
- Fees
- Deposit Balances
- Fraud Mitigation
- Profitability

40

Additional NII Sources

Treasury Management

- Fraud Mitigation: Positive Pay (Check and ACH), ARP
- Business Mobile Deposit and Remote Deposit Capture
- Payments
- Lockbox
- Debit / Credit Cards
- Spend and Cash Analytics

<u>Account Analysis Fee Structure</u>

41

Additional NII Sources

Insurance

- Buy an agency and leave it alone
- Implement or fine tune credit life
- Additionally offer:
  - Payment protection
  - Gap insurance
  - Identity theft insurance
- Implement an aggressive referral and database sharing program

42

Additional NII Sources

Brokerage & Wealth Management

- Select an outsourced service and share fees
- Get over the fear of core deposit loss
- Do not go overboard with licenses
- Offer full trust services if possible within Wealth Management

43

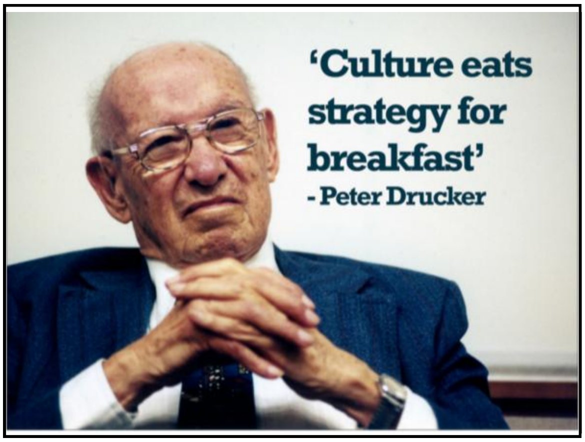
Additional NII Sources

Others to consider?

44

But what about…

45



46

NII and the Effect on Bank Culture

Heard in the halls…
- We are a community bank
- We are the low-cost provider
- We have never charged the school district
- We are getting just like the big banks
- We tried that once and our phones rang off the hook with complaints
- Customers will never give up their passbooks, Christmas club, etc…
- Seniors don't want eStatements or online banking
- You can't charge minors

47

NII and the Effect on Bank Culture

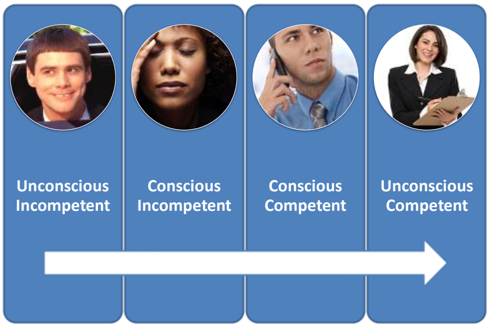
How are your associates acting?

- Explain fees?
- Understand services?
- Believe in value?
- Understand fees' necessity?

Will they recognize the opportunity to serve

48

Training



49

NII and the Effect on Bank Culture

What is Service Culture and why is it important?

- The capacity and willingness to provide service
- The recognition of the opportunity to serve
- The recognition of one’s own service limitations
- Internal customer service is reflected in the External customer service
- We are good, we provide value, and we know it!

50

NII and the Effect on Bank Culture

How well do you know your customers?

- What account aspects are customers using?
- Focus on account retention
- Provide added value (and added shareholder value)

51

Conclusion

As leaders in your bank you are expected to know what to do…

– Optimize profitability and revenue
– Find and execute the best strategies
– Sponsor/champion the change in culture

52

53