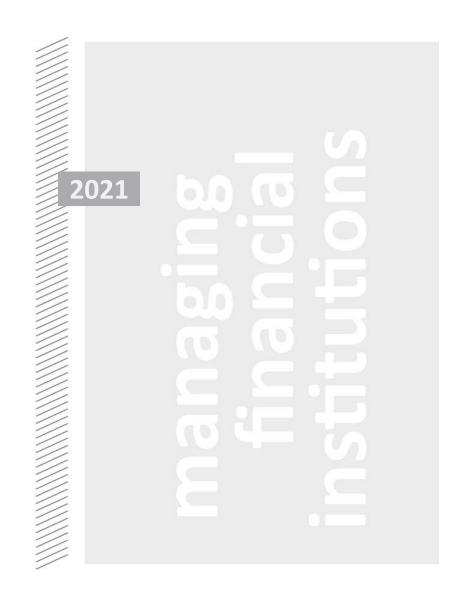
Profitability Analysis

Service Offer









Profitability Analysis



Background

Current Context

- → The covid pandemic continues to accelerate, with manifold effects on the real economy and financial sector
- → Increased credit losses, shrinking portfolios, and reduced margins and earnings often lead to lower profitability/negative results for businesses and FIs
- → It cannot be expected that economies will return to pre-covid output or sustainable growth levels in the near future
- → To achieve financial stability and sustainability, many financial institutions may need to rethink their business models and strategies
- → This requires a deep understanding of profit and loss drivers, areas of weak financial performance, and potential areas where improvements can be made, for which a thorough analysis is crucial

Key Challenges

- → A simple analysis of financial statements and ratios is insufficient. It is important to establish a set of tools and indicators that provide an in-depth understanding of the factors influencing profitability
- → It is necessary to split the overall business into segments/units and to understand the profitability of each segment and unit and its key products
- → The financial performance of many business segments/products, albeit good in the past, may have weakened: it is important to identify which profitability components can be improved and how
- An in-depth assessment of margins and pricing and their components is crucial for institutions to be able to identify drivers
- Institutions with established tools and profitability analysis may need to review and adjust their models and approach in order to reflect the current environment
- → Having in place a system of regular financial analysis and reporting, on both a segment or unit and institutional level, allows stakeholders to make well-informed decisions to better steer the institution forward.



Profitability Analysis



Our Solutions

Profitability Analysis: Institutional Level

- → Review/development of tools for profitability analysis; setting of adequate indicators and reporting tools
- → Review of main cost items and efficiency indicators as key profitability factors, comparison with best practice benchmarks, recommendations for improvement
- Review/(re)establishment of organizational setup for the purpose of conducting profitability analysis and monitoring

Segment/Product Analysis

- → Review/development of tools for segment/product profitability analysis
- → (Re)definition of client segments (and sub-segments) and products for the purpose of profitability analysis
- → Establishment of rules and tools for allocating income and costs (direct and indirect) to client segments/products
- → Definition of targeted or acceptable profitability levels
- → Calculation of profitability of client segments/products
- → Identification of loss-making or low-margin products and client segments, and identification of sources of improvement

Branch Profitability

- Review/development of tools for branch profitability calculation and analysis
- → Establishment of rules and tools for allocation of income and direct and indirect costs to branches
- → Setting financial and efficiency indicators to identify areas of weak performance and make branches comparable
- → Definition of targeted or acceptable profitability levels

Funds Transfer Pricing (FTP)

- → Implementation of FTP
- → Setting of rules and tools for computation of key components (FTP curve, commercial contribution margin, maturity transformation margin)
- → Provision of guidance on interpreting results

Product Pricing

- → Development of pricing methodology and setting of pricing components
- → Setting of rules for computation of cost of funding, risk premium, operating cost margin, capital charge and profit margin
- Provision of guidance on segmenting clients or products for which different prices should be set



Implementation



Our Approach

Review and Analysis

- → Initial desk-based review of:
 - Existing tools, reports and indicators being used for profitability analysis
 - Operational and financial data on key client segments/products
 - Key efficiency indicators; comparison with benchmarks
 - Key processes

Development of (New) Tools and Analysis

- → Setting up new tools, analysis and profitability and efficiency indicators based on:
 - Interviews with key managers to understand their needs and challenges in managing the financial performance of their respective segments
 - Discussion with managers and staff members on key processes and the work division between staff, to define profitability centers and set models for distribution of income and expenses

Implementation Support

- → Support management in setting up an organizational framework for a new profitability analysis and proper handling of the results by:
 - Redesigning the process of regular analysis of profitability and its components, and developing related reports
 - Setting of target values for key profitability and efficiency indicators by (staff) position or client segment
 - Developing policies, procedures, and concept papers on profitability analysis and monitoring
 - Holding workshops with key staff members to explain the analysis methodology and results, (new) profitability and efficiency targets set by segments/products, and their role in achieving those targets



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We would be glad to discuss your specific requirements and to provide:

- → Further information on our services and approach
- → Possible service packages to address specific needs
- \rightarrow An individualized quote



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