

Proven Performer: Pioneer Bank & Trust

“May you live in interesting times” is a fortune-cookie proverb that may sound like a blessing to some. But in the financial industry, the saying may be viewed as more of a curse. Especially during the last five years when banks have had to face some of the most “interesting” times since the Great Depression. However, some banks have managed to weather the storm and have emerged from the financial crisis and recession with a strong balance sheet and solid growth performance. Fiserv Bank Intelligence Solutions set out to identify the banks that were able to sustain performance over the last five years in order to discover their formulas for success.

First, some institutional and performance criterion had to be defined. To be considered, banks had to have a deposit focus and a significant percentage of lending revenue from loans other than credit cards. Then to be classified as a high performer, the banks had to:

- Demonstrate a strong risk management policy by meeting or exceeding the FDIC’s well capitalized classification.
- Meet or exceed the 85th percentile for profitability in 2010 and exceed the 70th percentile for the preceding four years (2009, 2008, 2007 and 2006).
- Achieve a compounded annual asset growth rate of 3 percent over the preceding five years (2006-2010).

Of the more than 5,000 banks considered, only 167 U.S. banks met the high performance requirements. Pioneer Bank & Trust, a \$419 million institution in South Dakota with six branches, was one of the high performing banks identified. An ICBA member bank, Pioneer uses Fiserv’s BancAnalyst Profit and BancAnalyst Growth online advisory tools to help manage performance and maximize franchise value.

Recently, Steve Cotton, President at Fiserv Bank Intelligence Solutions, spoke with CEO Kevin Whitelock to learn more about what’s behind his bank’s success.

Fiserv: Were you surprised that Pioneer Bank & Trust’s performance is so unique?

Kevin Whitelock (KW): Our market in western South Dakota isn’t really growing, so I was pleased that we met the annual growth requirement during the five-year period, given the economic cycle we went through, especially in 2008 and 2009.

Fiserv: What are your thoughts about the measurements used to gauge bank performance over the five-year period?

KW: A bank can be a “one-hit wonder” and do great one year, and not as good the next. The test really is to sustain performance over an extended time. Earnings are the best barometer of how well you perform as measured by return on assets (ROA) and return on equity (ROE). Due to economic conditions, many banks shrank their balance sheets to improve (ROA) and return on equity (ROE). However, the measurements used required that banks had to show performance in terms of income, franchise value and institutional growth. These measures show that if you do what you’re supposed to do, you can still manage through the worst of conditions.

Fiserv: Can you identify a specific turning point for your organization that led you to a period of sustained performance?

KW: You could look at twenty years of statistics for us. It wouldn't have made any difference. We have a culture of high performance on the income side. From an earnings standpoint, it wasn't an unusual five-year period for us. But our growth may be a surprise because of the economic conditions and the fact that we operate in a state of less than a million people, with relatively low rates of economic and job growth. Again, it points to the fact that if you focus on the right things, you can prosper.

Fiserv: Can you speak about how diversification helped you weather the storm?

KW: Non-interest income adds to your bottom line, sometimes with less expense than your normal banking products. We do things to diversify our income stream, so we're not dependent on one source of income. We concentrate on performance throughout every department and provide the complement of services customers need. In addition to deposits and lending, we also have a big trust department. People told us you can't make money in the brokerage business, but we do.

Fiserv: From a lending standpoint, do you have a diversified portfolio?

KW: We are a small business bank serving relatively diverse industries from agriculture to tourism to retail, so we're not solely dependent on one particular industry.

Fiserv: What's the hardest lesson you have had to learn as a bank CEO?

KW: Probably the hardest thing is the tendency to get caught up in what's outside of our control. The economic cycle we're going through has been the hardest of my banking career. Every morning, when I picked up the paper or turned on the news, it was all gloom and doom. The lesson for me was to focus on what you have control over. I believed that if our bank did that, we would be okay and the numbers prove that. For our bank, the three highest-earning years in our history were 2008, 2009 and 2010.



Kevin Whitelock, CEO, Pioneer Bank & Trust



Fiserv: What do you concentrate on at your bank?

KW: First, we have a long-term history and culture in our organization of focusing on asset quality. That means making sure we don't have a bunch of bad loans on the books. Because if you do, you end up concentrating all your time trying to fix them and sometimes you can't fix them. Also, if you have poor credits and the economy turns, they just become worse credits. We also concentrate heavily on managing non-interest expense to help us get through the bumps.

Fiserv: What makes Pioneer Bank & Trust different?

KW: Banking is a mature, highly regulated industry. We don't have many new things happening. So we're not going to come up with a product that is so different that it would be a competitive advantage for us. The only difference we have is our people, how we treat them, and get them to buy into our corporate culture and how we do business. We have customers who tell us that it feels different when they walk into our bank. That's because of our people. It's also important to make sure that our associates understand how important they are to the institution and that they are appreciated for their performance every day.

Fiserv: What contributes more to sustained performance – hard work or talent?

KW: As far as our institution goes, it's a combination of hard work, talent and knowing how we want to do things. There are certain core things that we know work and we concentrate on those. It's not that we don't change or adopt new products or services over time. But when we make a change, we always take a consistent approach, and we're confident that it's going to work.

Fiserv: Did you recognize some of the cultural attributes of Pioneer Bank when you joined the organization?

KW: When I first went to work for Pioneer Bank, what impressed me the most was that it's a family-owned entity. Our original bank charter was in 1913. The same family still owns the bank three generations later, and they have a true commitment to the market we serve, and the people that work for the bank.

Fiserv: What's new for Pioneer Bank?

KW: We are in the process of opening our sixth full-service location in a community that is new to us. In spite of the economy and all the bad news, we're moving forward.

Fiserv: What keeps you up at night?

KW: Probably as much as anything, it's figuring out how we're going to be able to do tomorrow what we did yesterday. I still worry about the economic cycle we're in, especially the interest rate cycle. Buying and selling money is the primary way that banks make money. Margins are so tight in this environment of near-zero interest rates, it's so difficult to make money. And 2011 is proving to be more difficult than 2010, so we're laser-focused on how we're going to sustain what we've accomplished in the past and continue that performance going forward.

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A copy of the full Proven Performers Study white paper can be downloaded at www.bankintelligence.fiserv.com/ppstudy11.

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