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"Best Practices" Budgeting Boot Camp

- Session 1: Forecasting Growth
- Session 2: Pricing Models
- Session 3: Prepayments
- Session 4: Final Tips & Client Checklist

FORECASTING GROWTH

I. BUDGET PREPARATION

II. BUDGET CREATION

III. BUDGET VERIFICATION

I. BUDGET PREPARATION

 A. Copy and Paste the Plan.mdb and RateWorks.mdb from the Live Data folder into a newly created archive folder, ie. 2012 Budget.



OR

Use the 'File/Save As' option within Compass and save the plan in the archive folder under a new name.

FORECASTING GROWTH

I. BUDGET PREPARATION

- B. In the Utilities\Options Menu:
 - 1. Change the 'Status Bar' Item to File Name.



Preferences - General 🛛 🗙					
General	Chart of Accounts	Dividends	Reports		
Models	Last Files List	Fonts	Date Formats		
Status bar item: Filename Bank name: Comment Min Equity Ratio: Filename Yield Scenario Updates: Always prompt first					
		OK	Cancel		

2. Check 'Re-Invest Net Income' in the Chart of Accounts Tab

C. Restructure Chart of Accounts by Adding, Moving or Renaming Accounts

I. BUDGET PREPARATION

D. Enter your budget directly into the Projections Tab

The Projections Tab is where forecasting is performed, models are built and instantaneous calculations are made in response to change. Once your budget is built, you can 'lock' it into place by performing the Lock Budget routine. This function copies the values from the Projections into the Budget Tab.

E. Use Notes Tab to enter Assumptions Strategies

The Notes Tab is available in each account to provide an area for documenting the bank's strategic approach for growth and pricing assumptions. These notes will appear collectively in the Plan Notes report, located in the Assumptions Report folder within the Reports Directory where you are encouraged to print them for discussion with ALCO and Examiners. FORECASTING GROWTH

II. BUDGET CREATION

A. FORECASTING BALANCE SHEET GROWTH

B. FORECASTING NON-INTEREST INCOME / NON INTEREST EXPENSE FORECASTING GROWTH

II. BUDGET CREATION

A. FORECASTING BALANCE SHEET GROWTH

1. Manual

- 2. Quick Models
- 3. New Models
- 4. Trend Data

A. FORECASTING BALANCE SHEET GROWTH

1. Manual

a. Select the Manual button under the EOM Balance heading and click OK.

Growth Model	
Model Selection	<u>0</u> k
C Quick Model	<u>C</u> ancel
C New Model	<u>S</u> ave
	Save <u>A</u> s
	<u>D</u> elete
	C <u>h</u> art

- **b.** Change the account forecast as you would using a spreadsheet or copy and paste directly from Excel.
- c. Enter data for each month, directly or through the use of Quick Edits.

A. FORECASTING BALANCE SHEET GROWTH

1. Manual

c. Quick Edits

Quick Edit	
Select a Quick Edit Option:	<u>0</u> k
Annual growth rate Bamp to a value	<u>C</u> ancel
C Ramp from/to a value C Offset	
 Aggregating Offset Distribute (replace existing) Distribute (as offset) 	
Constant: 0	
Last Calculation Results:	
Total: 0	
Trend: 0.00	

- i. Constant
- ii. Annual growth rate
- iii. Ramp to a value
- iv. Ramp from/to a value
- v. Offset
- vi. Aggregating Offset
- vii. Distribute (replace existing)
- viii. Distribute (as offset)

A. FORECASTING BALANCE SHEET GROWTH

1. Manual

- c. Quick Edits
 - i. Constant

Places a constant value in each highlighted cell; takes the value from the input box.

A. FORECASTING BALANCE SHEET GROWTH

1. Manual

- c. Quick Edits
 - ii. Annual growth rate

Growth rates are always expressed as annual rates. When you place a growth rate in the input box, Compass will use 1/12 of this value to grow each highlighted month from the previous month's value.

A. FORECASTING BALANCE SHEET GROWTH

1. Manual

- c. Quick Edits
 - iii. Ramp to a value

This option allows the user to target a specific amount in a future month by evenly dividing the monthly growth from a starting to the ending value. The first highlighted value will be the starting point and the last highlighted cell will contain the value stated in the Ramp to: box. The cells between these two will grow incrementally. This is handy if

A. FORECASTING BALANCE SHEET GROWTH

1. Manual

- c. Quick Edits
 - iv. Ramp from/to a value

Same as Ramp to a value except that you can set both the starting point and the ending point. Compass evenly divides the values in between.

A. FORECASTING BALANCE SHEET GROWTH

1. Manual

- c. Quick Edits
 - v. Offset

This function will add/subtract the specified amount to/from the existing number in each highlighted cell. Use a - sign to subtract an amount.

A. FORECASTING BALANCE SHEET GROWTH

1. Manual

- c. Quick Edits
 - vi. Aggregating Offset

This is similar to the Offset except that the amount will compound each month. For example, if the Aggregating Offset is 100, then the first highlighted month will be increased by 100, the second by 200, the third by 300 and so forth.

A. FORECASTING BALANCE SHEET GROWTH

1. Manual

- c. Quick Edits
 - vii. Distribute (replace existing)

This option works much like the Offset option except it *replaces* the values in each cell. If you know a total amount and want that amount to be spread over several months, then this option will perform that function. For example, if the known total growth will be 770 for the next 7 months (the highlighted months), this option would place 110 in each month.

A. FORECASTING BALANCE SHEET GROWTH

1. Manual

c. Quick Edits

viii. Distribute (as offset)

This is the same function as above but instead of replacing the value, it adds (or subtracts) the calculated value to/from the existing values in each cell.

A. FORECASTING BALANCE SHEET GROWTH

2. Quick Models

a. Apply at branch level for SBU plans.

Growth Model	
Model Selection	<u>k</u>
Quick Model	Cancel
C New Model	Save
Enter an annual growth rate:	Save <u>A</u> s
2 %	<u>D</u> elete
	C <u>h</u> art

- b. Start at Asset and Liabilities folder and drill down into sub-folders, then individual accounts.
- c. Enter an annual growth rate that will automatically re-forecast the balance with each monthly download.

A. FORECASTING BALANCE SHEET GROWTH

3. New Models

- a. Specify growth rates per month
- **b.** Apply at branch level for SBU plans.

Growth Model				
Model Selection				
C Quick Model		<u>C</u> ancel		
New Model				
0	~	<u>Dave</u>		
	Constitution	Save <u>A</u> s		
	Rate	Delete		
2010 Jan	0.00			
Feb	0.00	Chart		
Mar	0.00			
Apr	0.00			
May	0.00			
Jun	0.00			
Jul	0.00			
Aug	0.00			
Sep	0.00			
Oct	0.00			
Nov	0.00			
Dec	0.00 -			
	0.00			

- c. Start at Asset and Liabilities folder and drill down into sub-folders, then individual accounts.
- d. Enter an annual growth rate that will automatically re-forecast the balance with each monthly download.

A. FORECASTING BALANCE SHEET GROWTH

3. Trend Data

a. Uses historical experience to forecast future activity.

Projections		Budget		Maturity		Var
		EC Balan	IM ce	New Balance	Of	fering Rate
2010		Manual	[L	JserEdit]	Man	ual
	Dec	13,2	31			
2010	Jan	21,5	42			
	Feb	21,5	26			
	Mar	21,8	11			
	Apr	18,8	93			
	May	18,8	70			
	Jun	18,9	45			
	Jul	18,9	60			
	Aug	2	Ouick E	:dit		
	Sep	2	Applu 1	rond Trond		
	Oct	2	мррту т Сільки	renu		[
	Nov	2	Ciear			[
	Dec	2	Сору			[
2011	Jan	2	Paste			_
	Feb	2	Calc. T	otal, Avg,	& Tren	nd

b. Trend is equal to the average dollar change per month.

- B. FORECASTING NON-INTEREST INCOME / NON-INTEREST EXPENSE
 - 1. Manual
 - 2. Fee Models
 - 3. Annual Growth Rate
 - 4. New Month from Previous Month

B. FORECASTING NON-INTEREST INCOME / NON-INTEREST EXPENSE

1. Manual

Quick Edit		
Select a Quick Ed Constant Annual grow Ramp to a v Ramp from/ Offset Aggregating Distribute (re Distribute (as	tit Option: th rate alue to a value Offset place existing) s offset)	<u>Q</u> k <u>C</u> ancel
Constant:	0	
Last Calculation F	esults:	
Total:	0	
Average: Trend:	0.00 0.00	

a. Use the same Quick Edit Options as detailed in Forecasting Balance Sheet Growth.

B. FORECASTING NON-INTEREST INCOME / NON-INTEREST EXPENSE

2. Fee Model

Income/Expense Model	
Model Selection	<u>0</u> k
C Manual	
Fee Model	<u>C</u> ancel
C Annual Growth Rate	
C New Month from previous Month	Save
	Save <u>A</u> s
	Delete
Draw from: All Demand Deposit Accourt	nts
Balance Sheet	~
Assets	
Demand Deposits	=
Interest Bearing Deposits	
Fed Funds Purchased	
Borrowed Funds	
⊕	
	M
By taking: 0 % of EOM balan	ces 💌

- a. Applies non interest income / noninterest expense based as a percentage of EOM, AVG or the New Balances from a Balance Sheet account.
- **b.** Automatically re-forecasts after each monthly update or whenever the attached account is re-forecasted.

B. FORECASTING NON-INTEREST INCOME / NON-INTEREST EXPENSE

3. Annual Growth Rate

Income/Expense Model	
Model Selection	<u>0</u> k
C Fee Model	<u>C</u> ancel
Annual Growth Rate	
C New Month from previous Month	<u>Dave</u>
C I	Save <u>A</u> s
Enter an annual gro w th rate:	<u>D</u> elete
 %	

- a. Applies a growth percentage to last year's actual balance.
- **b.** Projected annual balance is calculated and distributed evenly among each month.
- c. Calculated and applied to all remaining years in the forecast.

B. FORECASTING NON-INTEREST INCOME / NON-INTEREST EXPENSE

4. New Month from Previous Month

Income/Expense Model					
Model Selection —		<u>D</u> k			
C Fee Model		<u>C</u> ancel			
C Annual Growth Rai	te				
New Month from p	revious Month	Save			
0	_	Save <u>A</u> s			
2010 Jan Feb Mar Apr Jun Jul Aug Sep Oct Nov Dec	Growth ▲ Rate 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.	Delete			

- a. Applies a growth percentage from month to month
- **b.** Monthly growth is added to the last year/current month's balance to project next year's forecast.

A. COMPUTE THE PLAN

Plan Compute #54				
Select a scenario:	<1> Plan			
E Step 1 - Diagnostics				
📕 Step 2 - Changing scena	rios			
Step 3 - Computing individual accounts				
Step 4 - Analyzing the plan				
📕 Step 5 - Summary data				
User has Excel AddIn (compute time is slower)				
	<u>Compute</u> C <u>a</u> ncel			

B. VIEW / PRINT REPORTS

1. Properties

a. Select Next Year for the Date Range

Report Properties	- Balance Sh	eet			
Level of Detail: Data Type: Reporting Period: Calculate Mix:	Full (Account) EOM Balance Monthly	• • •	Date Range: Jan ▼ 2012 ▼	Next Year Last Year Last month This quarter Next Quarter LastYear This year	
Page break after as Budget: Exclude Swaps: Header	ssets: <u>C</u> ancel	Yes No No	ave <u>A</u> s	All periods Custom	

B. VIEW / PRINT REPORTS

Properties *b.* Select 'No' for Budget

Report Properties - Balance Sheet											
Level of Detail:	Full (Account)	•	Date Range:	Next Yea							
Data Type:	EOM Balance	-	Jan 🔽 2012 🗖	This quar	Last Year Last month A						
Reporting Period:	Monthly	•		Next Qua LastYear	Next Quarter						
Calculate Mix:		No 💌		This year	This year E						
Page break after assets:		Yes 💌		All period	s –						
Budget:		No 💌		Custom	×						
Exclude Swaps:		No 💌									
<u>H</u> eader	<u>C</u> ancel	S	ave <u>A</u> s	ave	Preview						

B. VIEW / PRINT REPORTS

1. Properties

c. Select 'Save As' 2012 Budget or Preview only

Report Properties - Balance Sheet								
Level of Detail:	Full (Account)	-	Date Range:	Next Year	•			
Data Type:	EOM Balance	•	Jan 🔻 2012 🔻	Last Year Last month This quarter				
Reporting Period:	Monthly	-		Next Quarter LastYear				
Calculate Mix:		No 💌		This year	Ξ			
Page break after assets:		Yes 💌		All periods				
Budget:		No 💌		Lustom	<u> </u>			
Exclude Swaps:		No 🔻						
<u>H</u> eader	<u>C</u> ancel	S	ave <u>A</u> s <u>S</u>	ave <u>P</u> review	~			



THANK YOU FOR ATTENDING

"Best Practices" Budgeting Boot Camp Session 1: Forecasting Growth

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