



March 9, 2016

## **Weekly Post: Budget Planning Redefined**

Dear Clients-

Budget planning is central to managing an institution. Traditionally, budgeting requires revising projected expenses, adjusting your outstanding loan balances to reflect the payments received on your loans, making a long list of assumptions on the reinvestment rate, and of course, targeting realistic volume growth. Many assumptions! This process can be frustrating, time consuming and arduous, and it is separated from risk analysis and reporting, thus not holistic.

Those days are gone. Today, many THC clients have integrated their budgeting process to include risk reporting, trade simulations (securities and loan transactions), and capital planning. The process is streamlined and simple to perform. Furthermore, this redefined budget planning ensures that you control the process and not the regulators. You have the ability to optimize your transactions from your base case and see how you can enhance performance.

### **Challenges**

- After making numerous assumptions in budget planning, how can the EaR, sources and uses of funds, and contingency funding planning reports take the planning into considerations?
- How can I determine the gross loan production and deposit growth needed to meet the budget planning projections?
- How can I use simulations to develop and communicate my ideas to the board using the THC reports?

### **Solution**

The THC budget planning approach is simple to implement, robust in modeling and comprehensive in risk analysis. The approach also meets your regulatory ALM requirements. By analyzing multiple scenarios almost interactively, you can see the impact of various strategies to enhance performance and choose the one that best fits your vision.

### *Getting Started*

Just send your draft or final version of a recent budget planning to THC.

Step 1. THC will copy your itemized non interest income/expenses to Input Data File. Likewise, using your projected balance sheet, THC will construct the monthly changes on your projected volumes.

Step 2. THC uploads the Input Data File in Financial Simulations and click on the Simulate button. Results are provided on the screen and in reports typically in minutes.

So simple is the process that you can generate the budget planning yourself if you want to. You can now generate EaR, Financial Simulation and other reports from our website. Or you can edit any input data on the screen and recalculate the numbers "on-the-fly." Analysis of your budgeting planning is so comprehensive that I do not have the space to itemize them here.



Going Forward

All your data is saved and can be retrieved for review and analysis. You can select any simulation that you have completed and download your input data file or reports. At month or quarter end, you can update your budget and generate the reports.

**Numerical Example**

I use a hypothetical institution to illustrate the THC budget planning below.

Current or Horizon Simulated Dashboard													
Economic Values			capital			NII and Earnings 12mo Projections			performance(%)		u400		
assets	loans	deposits	EVE	EVE ratio(%)	duration	NII	earnings	margin (%)	ROA	ROE	EVE u...	NII u400	
161,508	110,055	116,491	30,469	18.87	1.34	4,813	2,983	2.83	1.85	9.79	-16.00	8.32	
162,308	110,578	116,558	32,827	20.23	1.39	4,797	2,971	2.80	1.83	9.05	-14.09	8.11	
162,308	110,578	116,558	32,827	20.23	1.39	4,797	2,938	2.80	1.81	8.95	-14.09		

sh

reports first. [Download input File](#) [Upload FinSim/Input file](#) [Generate Reports/FinSim](#) [Copy to trade-simulation](#) [2year\(s\) quarterly simulation layout click to change](#)

Consider the buttons below the dark blue line.

- Down load the Input Data file
- Edit the Input Data file as described above and upload it to Risk Officer. Click on the Simulate button
- Typically in a few minutes, the simulated reports will appear in the Green Row and below the buttons
- You can generate other reports
- You can send your planning to trade simulations
- You can specify your planning horizon between 2 years to 5 years.

**Conclusions**

Ensuring budget planning as part of risk management is perhaps the most important aspect in managing any institution.

Budget planning should be

- simple to implement
- robust in modeling
- comprehensive in risk analysis
- consistent with regulatory ALM goal
- interactive in analyzing multiple scenarios to enhance performance.

*Please do not hesitate to contact me if you have any questions in doing your budget planning.*

Regards,  
Tom Ho



[Tom.ho@thomasho.com](mailto:Tom.ho@thomasho.com)

1-212-732-2878

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