Branch Profitability

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FCN BANK

February 21, 2018

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Executive Summary

FCN Bank is a community bank with $444 million in assets with 6 locations. The main branch is in Brookville, Indiana with branches surrounding the area. The current branch reporting is not clear on how the branch is doing. The reports are not giving senior management and the Board of Directors a clear picture. Since the branches vary in asset size, changes to the inputs of the reports should be examined and updated. Key Ratios should be used to compare branches.

Once the inputs and processes have been updated, the report will provide a more accurate look at the branches. Training will be provided by the Controller to the supervisors of the Loan Operations, Deposit Operations, and Human Resources departments.

After the inputs have been updated, Profit Stars Branch and Organizational PROFITability software should be looked at. A cost analysis and risk assessment should be completed prior to the purchase of this software or any other branch profitability analysis product. Any new software will not be beneficial until the inputs have been corrected and new processes put in place.

The financial impact will be huge. The branch profitability analysis would provide a clearer picture of revenues and expenses leading to better data driven decisions with management. It will also provide a more comparable branch analysis between branches. It will help set goals with branch managers to generate more revenue and control expenses. It will provide branch utilization of staff. It will also provide a trend analysis for loans, deposits, and personnel costs to make future decisions.

There will also be a non-financial impact. These changes will create a better customer service experience with known branch utilization analysis. Wait times and transaction times can be analyzed to provide the best customer service for the front line. Branch managers will also have more knowledge of branch financials after the training provided by the Controller. There will also be a continued working relationship with Accounting staff and Branch Management Staff.

Overall, these changes are the start to more analysis on a branch level. These changes and training will help to improve the overall understanding of how each branch is performing. This is a start to better branch profitability analysis and data driven decisions by senior management and the Board of Directors.

Introduction and Background

Branch profitability analysis will provide a detailed look at each branch. Currently, FCN Bank's branches are different sizes and it is hard to compare. An analysis of each branch would help branch managers, senior management and directors make better assessments and decisions based on the data. The CEO has requested this analysis from Accounting as a start to holding Branch Managers accountable for branch profitability.

On September 14, 1900 shareholders purchased a total of 250 shares of Franklin County National Bank for $100 a share. The bank opened on Tuesday January 2, 1901. The first day of business ended with $54,484.11 in total assets. The first year was not easy but Franklin County National Bank ended in the black.

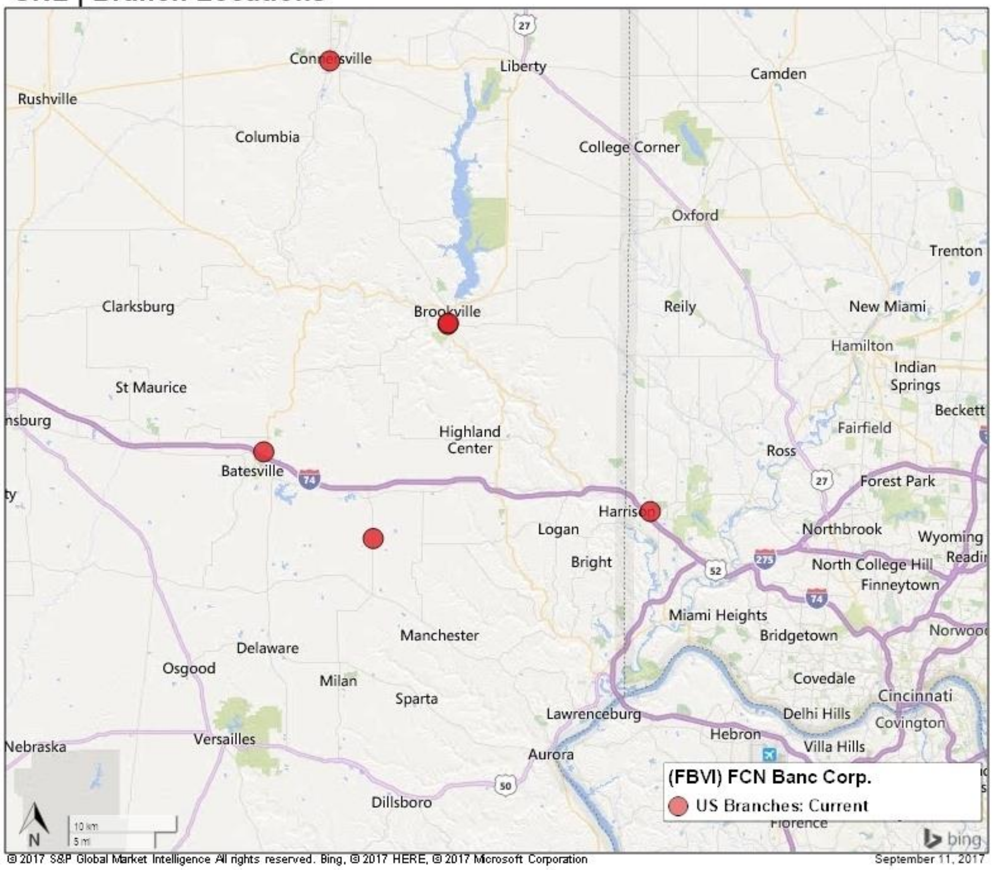
In 1977, Franklin County National Bank opened a drive thru location a block away from the main branch on Main Street in Brookville, Indiana. The main branch was located on main street and did not have drive thru access. The new location built in 1977 provided off-street parking and drive-thru lanes.

In November 1985, The Franklin County National Bank became the subsidiary of the holding company – FCN Banc Corp. In 1986, FCN Banc Corp. instituted a quarterly dividend distribution to be paid to shareholders rather than the historical semiannual payment.

Franklin County National Bank only had two locations in Brookville, Indiana for 91 years. In October 1992, Franklin County National Bank purchased a branch from Star Bank in Everton, Indiana. In 1997, Jane C. Ludwig took the Oath of Office of National Bank Director. Jane was the first and only woman on the Board of Directors to date. In the fall of 1997, the land was purchased to build a new branch in Batesville, Indiana. In June 1998, the Batesville branch was opened. Expanding the footprint of Franklin County National Bank caused the bank to change the name of the bank to FCN Bank. In 2003, the Sunman, Indiana branch was built and opened. In 2007, FCN Bank moved across the state line to build and open a branch in Harrison, Ohio. In 2016, the Everton branch was closed and a new branch was built in Connersville, Indiana.

FCN Bank is a community bank with 6 locations and $444 million in assets. FCN Bank has a main office in Brookville, Indiana along with an additional Drive-Up location a block away. FCN has full service branches in Connersville, Batesville and Sunman, Indiana and Harrison, Ohio. FCN currently has 104 employees. The slogan "Your Friendly, Convenient, Neighborhood Bank" is what FCN strives to be for shareholders and customers. The map below shows the current FCN Bank branches.

SNL | Branch Locations



 September 11, 2017

FCN Bank's strategic objective is to grow bank assets to $750 million by the end of 2026. The plan is to accelerate asset growth through structural change, process improvement, focusing on culture and maintaining community bank identity. FCN plans to grow within its current markets by utilizing internal data sources as well as external data to more effectively target marketing efforts and offers. Leveraging available technology with enhanced product features and integrated product lines will help drive this growth in current markets. FCN plans to grow into new markets in targeted surrounding markets. To meet this objective, FCN may have to establish de novo branches and loan production offices or pursue strategic acquisition opportunities.

FCN Bank's financial condition overall is good and the bank has been very fortunate with its earnings. FCN Bank has $444 million in assets with gross loans of $228 million. FCN Bank has an investment subsidiary in Nevada with 72% of the $152 million portfolio. The remaining 28% of the investment portfolio is held in the Brookville Indiana portfolio.

FCN Bank has a laid-back culture that is based on a non-sales culture. FCN has been fortunate with walk-in customers for loans and deposits. FCN has a marketing budget but most ads consist of "feel good" ads instead of advertising products or rates. FCN sells secondary market loans to Freddie Mac and Federal Home Loan Bank of Indianapolis. The loan to deposit ratio has been hovering in the high 50's to low 60's since the recession. The loan to deposit ratio continues to be low due to low in-house loan growth and selling loans on the secondary market. FCN is on track to make $3.5 million net income for 2017.

The bank is very conservative when it comes to lending and the Allowance for Loan Loss and Leases. The Loan Loss Reserve to Gross Loans Ratio is currently 2.04% and has been as high as 2.25% in 2014.

FCN Bank's capital ratios are in the "well-capitalized" categories. The chart below lists the ratios from the June 2017 call report. FCN has achieved its goal of growing Tier 1 Leverage Ratio the last couple of years to position itself for potential growth by a merger or acquisition.

Common Equity Tier 1 Capital Ratio	17.35%
Tier 1 Capital Ratio	17.35%
Total Capital Ratio	18.39%
Tier 1 Leverage Ratio	9.69%

FCN Banc Corp pays dividends on a quarterly basis. Dividends are declared by the Board of Directors and have been more of a steady income for shareholders. Even when profits were down in the most recent recession, dividends were still declared and payed out at $.26 a share. In 2017, shareholders enjoyed dividend payments of $.28 a share for the first two quarters and now the third quarter.

FCN Banc (FBVI stock symbol) is traded on the pink sheets. FCN processes stock transfers in house still with paper stock certificates. Most of the shareholders are older with stock having transferred down through families. Sometimes it is hard to find FCN Banc stock available for sale. Most transfers are completed without a broker and any commission fees. As the shareholders are aging, new strategic objectives have risen. To increase shareholder value, the bank would like to increase liquidity by using an outside vendor. This would allow on-line shareholder relations and an account management website. With these changes, the Bank hopes to attract younger shareholders as the current shareholders age.

In December 2016, FCN Banc Corp created a captive insurance company. FCN Risk in Nevada was created to help cover insurance gaps and provide risk management for the bank and the holding company. FCN Risk provides a focused risk management center and greater awareness of loss exposures.

FCN Bank's market share table is listed below. FCN's competitors are similar small community banks. Most of the areas in FCN's markets are rural except for Harrison, Ohio. The Harrison, Ohio branch is in Hamilton County and closer to Cincinnati, Ohio. FCN is trying to expand the Ohio branch by capturing more of the east side towards Cincinnati. FCN is also trying to expand the Connersville Branch by capturing more rural and agriculture customers in the northern and western counties around Connersville. FCN has the capacity and capability to grow in these current markets.

U.S. Deposit Market Share Summary Report									
FCN Banc Corp.									
Market	Company Total Active Branches 2016	Company Total Deposits 2016 ($000)	Company Total Deposit Market Share 2016 (%)	Company YoY Deposit Growth 2016 (%)	Company 5-Year Deposit CAGR 2016 (%)	Market Total Active Branches 2016	Market Total Deposits 2016 ($000)	Market YoY Deposit Growth 2016 (%)	Market 5-Year Deposit CAGR 2016 (%)
Franklin, IN	3	239,615	55.89	0.95	3.55	6	428,734	1.95	1.00
Ripley, IN	1	75,742	10.72	8.37	4.28	17	706,345	1.17	0.84
Hamilton, OH	1	42,346	0.05	0.89	1.79	292	88,037,645	21.05	13.82
Fayette, IN	1	12,130	3.87	1.14	(2.18)	10	313,148	4.76	(0.69)
Decatur, IN	0	-	-	-	-	9	564,386	3.32	0.43
Total	***6***	***369,833***	***0.41***	***2.39***	***3.26***	***334***	***90,050,258***	***20.57***	***13.38***
Analysis current as of 9/11/2017									
Source: SNL Financial									

Strategy and Implementation

“Garbage in, garbage out” is reported currently. Data is everywhere. Decisions can be based more on data if the branch profitability reports were revised and improved. However, the data entered must be correct to get accurate results.

The branch profitability reports will be prepared by the Accounting Department. However, there are many other departments that must enter the data correctly in order to get accurate results. This will require training in loan operations, deposit operations and human resources. The Accounting Department will also need additional training on the revised reporting.

Branch expense and income allocations can be overwhelming. The Bank currently uses a branch allocation spreadsheet to help allocate some of the expenses based on a percentage of loans, deposits or employees. However, the current report doesn’t provide the necessary information for Branch Managers. These reports are going to the Board of Directors monthly but may not be helpful to the Branch Managers. Since there are so many details, this implementation will focus on three major components. This analysis will consist of loans, deposits and personnel costs. To analysis accurate results, the inputs must be reviewed.

Financial Compass is the software currently used monthly for Asset Liability Management Reports. Monthly data is uploaded on a detailed branch level from the core system including details on every deposit and loan account. A detailed investment portfolio is also uploaded monthly from the Bond Accountant. Financial Compass can provide the key ratios prior to any adjustments on a branch level. This report will provide an overall trend line.

Each Branch Manager should know how the branch is performing. The current process for branch analysis is processed by the Accounting Clerk II. The previous CFO created these spreadsheets and reports that are sent to the Board of Directors monthly. The accounting clerk runs queries at month end to download the balance sheet and income statement by branch. This data is exported to excel to create the Branch Earnings Report. The Reports show 13 months of data so a year over year comparison can be made. While most of the expenses and income are branch specific and entered the proper branch general ledgers, there are some adjustments made after the general ledger download.

The report starts off by listing the Average Liabilities, Average Capital, Average Assets and Investable Balance. The next section is the Earnings Credit Rate and Investment Credit. The Earnings Credit Rate is an annualized percentage calculated by monthly interest income of the Investment Portfolio and Correspondent Bank Accounts. The formula for calculating the Investment Credit is as followings:

(Investment Balance x Earnings Credit Rate) / 365 x Number of days in month.

The third section consists of branch adjustments. The first adjustment is the Enterprise Expense Allocation. This expense allocation consists of enterprise level depreciation and enterprise level salary expense. The enterprise level depreciation is derived from a group of fixed assets such as computer servers and network assets that are shared throughout the Bank. The enterprise level salary expense is a query of specific department numbers that include the salary expense of employees shared throughout the Bank such as Executive Management, IT and Operations. The second adjustment is the Tax Allocation. The tax payments are booked at the Brookville Branch. Therefore, each branch is charged a tax expense based on the net income from the general ledger.

A shortened version (3 months) of the current report is shown below.

	Jul 17	Aug 17	Sep 17
Average Liabilities	14,381,153	14,473,251	14,443,326
Average Capital	922,086	936,297	958,095
Average Assets	22,736,047	23,061,308	23,459,900
Investable Balance	(7,432,808)	(7,651,760)	(8,058,478)
Earnings Credit Rate	1.88%	1.94%	2.12%
Investment Credit	(11,458)	(12,611)	(14,066)
Enterprise Expense Allocation	(5,329)	(3,756)	(3,695)
Tax Allocation	(2,979)	(1,011)	(2,860)
Branch Adjustments	(8,308)	(4,766)	(6,555)
Net Income - YTD	153,074	173,065	200,575
Investment Credit -YTD	(81,886)	(94,497)	(108,563)
Branch Adjustments-YTD	(40,658)	(45,425)	(51,979)
Adjusted Net Income-YTD	30,530	33,143	40,033

To a branch manager, the current report is hard to read and understand especially without any explanations. The current report does not provide the information needed at a branch level to make a good decision. It doesn't provide a good visual of how the branch is doing with loans, deposits and net income. It is hard to see from the current report, how the branch is doing. Branch managers should be analyzing the deposits, loans and personnel costs at the branch. This change in reporting will help to open communication between the branches and the Accounting department. The Bank expects to hold Branch Managers accountable for the loan, deposit and personnel expenses at the branch. These three items are a good start and can be reported without any adjustments after exported from the core system.

Along with the change in accountability, branch managers will be involved in the annual budget process. In the past, the CFO provided a budget based on the Asset Liability Management Software model. The proposed budget was reviewed by senior management but never reviewed by branch managers. It is hard to make the branch managers accountable for a budget they were not involved with.

The Controller (acting CFO) will play a significant role in the proposed branch profitability reporting. While the reporting will be completed by the accounting department, support from other departments will be needed.

The Controller must setup the reporting in Financial Compass (Asset Liability Management Software) for each branch. Key ratios for each branch will help for an overall comparison. The branches vary in size and it is hard to determine which one is the best and which one needs improvement. The starting report will contain the following numbers and ratios monthly:

- End of Month Loans
- End of Month Deposits
- Loan/Deposit Ratio
- Net Interest Margin
- Efficiency Ratio

- Return on Average Assets
- Return on Average Equity.

The Controller will meet with each Branch Manager to discuss the individual performance of the branch. The Controller will make any adjusts to the reports as requested from the branch managers keeping in mind these reports will help measure branch profitability.

Once the reports have been developed, the Controller will have quarterly town hall meetings at each branch. Town hall meetings in the past have been well received. However, the last town hall meetings were held in the last quarter of 2016. These meetings are critical to help branch employees know the financials of the Bank and the overall health of the Bank. Employees may not understand all the numbers but they like to be informed on a very high level. Overall, employees like to hear if the bank is doing good. Employees are also very interested to hear the status of profit sharing in December. These meetings also allow employees to ask questions in a smaller setting which can be less intimidating.

The Controller will also run queries to pull the loan and deposit portfolios. The Controller will work with the Loan Operations Supervisor and Deposit Operations Supervisor to establish guidelines for entering correct branch data for deposits and loans. The data will be scrubbed and changes will be made if necessary.

The Controller will also work with Human Resources to make sure employees are in the correct departments and branches. The Controller will train the Human Resources Specialist to explain the departments numbers and the accounting behind the department numbers. Any suggested changes to employee departments will be discussed and approved by senior management prior to Human Resources making any changes. For example, the Bank hires a new

Ag loan officer located at the Connersville Branch. The loan officer should be classified in the Connersville Loan Officer department. Any loans made by this loan officer, should be booked in the core system as Connersville Branch loans. The correct classifications help to create accurate branch profitability. The expense from the loan officer's salary and the income from his loan portfolio should be in the same branch. The loan officer should be generating enough income to cover his salary expense.

The branch profitability analysis changes would fit with the bank's overall strategy of growing the Bank and Assets to $750 million by the end of 2026, developing a sales culture, developing competitive loan and deposit product sets to generate additional income for the bank, and develop pay for performance compensation program to enhance cultural change.

The first strategic objective is to grow the bank and assets to $750 million by end of 2026. The Bank is currently at $444 million in assets. This is a huge goal for the Bank but the Board of Directors and Senior Management believe this can be accomplished. The Bank can obtain this objective by strategic growth or organic growth.

The strategic growth would target strategic mergers and/or acquisitions. However, there are certain criteria for mergers in the strategic plan. First, the merger will be immediately accretive to shareholders. Next, the merger must provide a strong probability of increased dividends. Traditionally, the Bank has paid a good quarterly dividend. During the recession, the Bank did not reduce the dividend. Currently, the dividend yield is 3.90%. The merger must also maintain adequate capital levels at the Bank and Holding Company. The last criteria for a merger is that the merger be relatively close to the existing geographic footprint. The Bank prides itself on adding shareholder value and providing a good return for shareholders.

The organic growth is going to be driven by loan growth and retail growth. To accomplish this loan growth, the Bank must push out of geographic boundaries of the existing branch network and increase business development reaching into surrounding territories. New cash development products such as Remote Deposit Capture and Desktop Treasury Management will help drive organic loan and deposit growth. Offering these new products will give the Bank a competitive advantage. Technology is going to be a critical part of the Bank's growth but the employees must know how to sell these products to the customers.

Sales training is going to be part of the growth. The Bank currently has a non-sales culture. The loan officers wait for customers to come in the door. To obtain the growth goal and additional strategic objections, loan officers will have go after customers. Loan officers will have to seek potential customers. The Bank has been very fortunate and has always been profitable but the non-sales culture is going to have to change. On the deposit side, Customer Service Representatives will have to sell the deposit products. The CSRs will have to seek out potential customers too. Loans and deposit employees will also require sales training on cross selling. Currently, the loan and deposit departments are siloed. These two departments do not work together to cross sell any products.

As the Bank continues to grow, data integrity for branch profitability analysis will become more and more important. It is better to establish guidelines and standard operating procedures for data entry before this growth. As the Bank grows with new branches and new employees, the standard operating procedures can be used for training and help to resolve any uncertainly during the data entry process.

Branch profitability analysis will help provide measurements for the additional growth in the loan and deposit departments. Branch managers and loan officers will be involved with the budgeting process so realistic goals for growth can be set. The branch profitability analysis will help achieve the Bank's growth goal of $750 million by the end of 2026.

The next strategic objective to assist in loan and deposit growth is to develop a Pay for Performance Compensation program to enhance cultural change. The Pay for Performance Compensation program is an incentive program for the loan and deposit departments. An incentive program will help change the non-sales culture at the Bank. Data integrity will be critical for this program to work correctly. This incentive program will encourage loan officers and Customer Service Representatives to manage their portfolios and ensure data integrity by branch and loan officer. Employees have a vested interest in the accuracy of the data.

While the startup of the incentive compensation program is for the loan and deposit departments, the incentive compensation program can be transitioned to include all employees. For example, every department can set goals and then be compensated on meeting those goals. This may take a few years to roll out but money is a strong motivational tool. The branch profitability analysis could help provide measurement of the goals set at each branch. The goals would be determined by senior management and branch managers. However, the Controller will help measure and analyze these goals through branch profitability reporting.

Overall, the branch profitability analysis will help the Bank reach the strategic objectives by providing data and analysis to the Board of Directors, senior management and branch managers. The branch profitability analysis will help to measure the goals but also help to drive decisions based on data. The Bank could provide more analysis and be more data driven with decision but it will take time to change this culture. This change is not only an Accounting department change but a change overall on how senior management and branch managers look at branch profitability.

The change in the branch profitability analysis could open many future opportunities. First, the change will give branch managers and senior management a better understanding of the branch profitability because it will be in a simpler format and provide useful data.

The data scrub will help to ensure the loans and deposits are booked in the correct branch and assigned to the correct employee for better portfolio management. Currently, the core system has old loan and deposit account officers assigned to accounts. Once assigned to a current employee, the responsible employee will oversee the account. This is a great opportunity to manage a portfolio on the loan or deposit side. Current customers could be contacted with the development of new products and customer needs could be met better with a central contact person.

The data scrub will help the Bank to know current customers better. With this knowledge of current customer, specific market customers can be targeted. The Bank can then manage the customer base better. This opens so many opportunities by defining the current customers and what the Bank wants as future customers especially as our customer base is aging.

The branch profitability analysis will also provide a better knowledge of net interest margin. Once there is a better understanding of the net interest margin, the Bank can determine if the loan and deposit pricing is where it should be. Knowing the net interest margin can help the Bank to be more competitive with loan and deposit pricing. This future opportunity can help to achieve the Bank growth strategic objectives.

A detailed branch profitability analysis will help the branch managers and senior management understand how the branch is profitable and what is driving an expense or revenue. This is a good opportunity to teach branch managers more details on the expenses and revenues in the branch. Branch managers can monitor the progress of meeting the branch goals. These results can be presented to the branch employees as well to keep everyone informed on branch performance. To start out, branch managers will be responsible for loan growth, deposit growth and personnel expenses. Once these three categories are understood, then more categories will be added.

This change will allow branch managers an opportunity to be part of the budget process. Currently, branch managers are not involved in the budget process. The budget should be determined on a branch level by senior management and the branch manager. Each branch manager should have input and understand the Bank's over strategic plan and how their branch fits into the plan.

To take this change a step further, data analysis could be used more throughout the Bank. The Bank could have a more aggressive management style with additional data analysis. The data could help to grow the Bank to $750 million by end of 2026. This change is not just about the actual reporting but also how employees are involved in meeting the Bank's strategic plan. This change could impact many areas of the bank. The Bank should be more data driven before making decisions.

On the negative side, there could be some negative competitiveness with the branches. Branches could fight over customers and how accounts are booked in the core system. Branches could be too focused on achieving the Bank's goals that the employees forget what the Bank is about. The Bank prides itself on being a community bank. Incentive compensation could backfire and the Bank would end up on the news like Wells Fargo. Wells Fargo was in the news for creating unauthorized customer accounts to meet incentive goals. On the loan side, credit standards could be loosened to make more loans and meet loan growth goals. However, this puts the Bank at a higher risk of credit quality.

Overall, implementing the branch profitability analysis has more positive impact than negative. Starting with loans, deposits, and personnel expenses will help the branch managers get adjusted to reading and understanding the reports.

There will be changes in Accounting, Deposit Operations, Loan Operations and Human Resources Departments. First, there will be a process change in the Accounting department with the reports. The finished branch profitability reports will be e-mailed out to branch managers and senior management. For the first couple of months, the Controller will meet one on one with each branch manager to discuss the current month report and progress. After the branch managers are comfortable reviewing and analyzing the reports on their own, the Controller will meet with the branch managers on a quarterly basis. Also, the Controller will have town hall meetings at each branch on a quarterly basis to update all branch employees.

A change in standard operating procedures for data entry and training will result from the investment in Deposit Operations and Loan Operations. The Controller will work will the Deposit Operations Supervisor and Loan Operations Supervisor on the changes for determining which branch an account will be booked under. The SOPs will be updated in both departments to reflect the changes. Specific criteria to determine where an account should be booked will be listed in the SOP. The supervisors will make these changes and provide training in the departments immediately.

On a semi-annual basis, a scrub of the loan and deposit portfolios should be completed by the accounting department or by each department as this become normal practice. This continued scrub will help make the data more accurate and determine if accounts are assigned to the proper branch. This scrub also gives portfolio managers a more personal customer service experience with customers. The data scrub will also help determine if the changes made in the

SOP for data entry is working. If there are continued discrepancies, then the SOP may need to be changed and additional training provided to data entry employees.

The Controller with work with the Human Resources Specialist to change the standard operating procedure for entering new employees. A data scrub review of employee departments will also be conducted on a semi-annual basis. Continued monitoring of this process will ensure more accurate data.

A huge process change for everyone will be the budget process. The Controller will work with branch managers and senior management to develop the next year's budget. This is a new process to the Bank as the former CFO, calculated the budget based on the Asset Liability Management model. This process will open more communication between senior management and branch managers. Branch managers will be held accountable for meeting the branch budgets in the future. The Bank has been very laid back in the past about the budget and budgeting process. The Controller will request feedback from senior management and branch managers on how to improve the budgeting process. This is going to be a new experience for everyone.

While these changes are going to be driven by the Accounting Department, additional support from senior management, branch managers, deposit operations, loan operations and human resources will be required. This is going to be a bank wide project that will take some time to implement. Once the three categories of loans, deposits and personnel costs are understood, more line items can be added and the project can continue to grow.

An implementation schedule for the changes in branch profitability is shown below.

Task	Due Date	Person Responsible
Setup new reports per branch in Financial Compass.	4/1/2018	Controller
Conference call with senior management and branch managers to discuss timelines and implementation of process.	4/15/2018	Controller
Q1 Town Hall meetings at all branches.	4/30/2018	Controller
Scrub deposit portfolio query and discuss any reclassifications with Deposit Operations Supervisor.	4/30/2018	Controller
Scrub loan portfolio query and discuss any reclassifications with Loan Operations Supervisor.	4/30/2018	Controller
Scrub employee department numbers data with Human Resources Specialist.	4/30/2018	Controller
Meet with branch managers individually to discuss April report.	5/15/2018	Controller
Discuss recommended changes of employee department numbers with senior management.	5/15/2018	Controller
Make changes to deposit accounts based on scrub of data.	5/31/2018	Deposit Operations Supervisor
Make changes to loan accounts based on scrub of data.	5/31/2018	Loan Operations Supervisor
Make change to employees department numbers based on recommended changes by senior management.	5/31/2018	Human Resources Specialist
Meet with branch managers individually to discuss May report.	6/15/2018	Controller
Meet with branch managers individually to discuss June report.	7/15/2018	Controller
Q2 Town Hall meetings at all branches.	7/31/2018	Controller
Scrub depost and loan portfolios.	10/31/2018	Controller
Scrub employee department numbers data.	10/31/2018	Controller
Q3 Town Hall meetings at all branches.	10/31/2018	Controller
Q4 Town Hall meetings at all branches.	1/31/2019	Controller
Budgeting Process		
Start discussions on 2019 Budget with branch managers and senior management.	8/1/2018	Controller
Schedule strategic planning and budget meeting and lunch onsite.	8/15/2018	Controller
Provide model projected 2019 budget to branch managers and senior management.	8/31/2018	Controller
Get feedback for any changes to assumptions and suggested 2019 budget.	9/30/2018	Controller
Present preliminary budget to Asset Liability Management Committee and make any necessary changes.	10/31/2018	Controller
Present preliminary budget to Board of Directors.	11/15/2018	Controller
Present final budget to Board of Directors.	12/15/2018	Controller

The upper section of the schedule starts after the first quarter of 2018. Additional year end reporting and financial auditors will make it hard to start in the first quarter. The lower section of the schedule is for the budgeting process. While the budgeting process is scheduled to start in August 2018, these dates may change due to senior management and branch manager availability. The earlier, the better since this is a new process for many employees involved in the budgeting process.

Financial Impact

While the thought of branch profitability seems rather simple, this project will be a large undertaking. There are some issues that must be addressed before branch profitability is correctly reported. The information reported is only good and of value when the information inputted is correct. Therefore, this change is going to require a big investment of personnel time and resources to make this happen. The branch profitability changes will also address some issues with data integrity in the core system.

The financial impact of more accurate branch profitability will provide a clearer picture of revenues and expenses leading to better data driven decisions. It will also provide a more comparable branch analysis between branches. The branch profitability can also help to set goals with branch managers to generate more revenue and control expenses. Additionally, branch managers can be held accountable and assist with the annual budgeting process.

Branch profitability can provide branch utilization analysis by more accurately reporting employee expenses and usage of employees. A better branch analysis can be provided to senior management, the board of directors and branch managers by trending loan growth, deposit growth, and personnel costs to make future decisions.

While writing and researching this paper, the Controller started looking for software for branch profitability. Organizational PROFITability Analysis System by Profit Stars would provide an accurate picture of where revenues and expenses are derived. The next logical step after the data integrity and training will be to thoroughly look at this product and similar competitive products.

Most of the investment is going to be time from the Controller and accounting staff. Additional time will also be required from the Human Resources Specialist, Loan Operations Supervisor and Deposit Operations Supervisor for the setup of scrubbing data and writing standard operating procedures. Once the SOP's are established in the corresponding departments, the department supervisors will be responsible for training the department staff. The supervisors will continue to monitor and adjust the standard operating procedures as processes change.

Additional time will be required for all employees for quarterly town hall meetings. There will also be training provided by the Controller with all branch managers to review the branch's financials.

The Controller will provide training to branch managers and discuss the key ratios to start measuring branch profitability. This training will help to provide a clearer picture of revenues and expenses that could lead to better data driven decisions. The town hall meetings should improve the communication between the Controller and Branch Manager. The budgeting process should flow easier as the Controller is communicating at least on a quarterly basis with the branch managers. The branch managers will help to establish branch goals to generate more revenue and control expenses.

For the budgeting process, additional time will be required of senior management to discuss the strategic plan and 2019 budget. Personnel time is the largest investment for this major undertaking change.

While most of these changes for branch profitability do not require any additional expenses because the employees involved are salary employees, the financial impact of branch profitability offers a more comparable branch analysis between branches. The branches are very different from each other based on asset size. The main branch has more agriculture loans because it is more agricultural in Brookville, Indiana than some of the other branch locations. This branch comparative analysis would allow a deeper dive into what products on the loan or deposit side are working or not working. Personnel costs would also be analyzed. Why are there 3 full time tellers at the main branch when transactions are down? The sky is the limit when it comes to analyzing and measuring each individual branch.

The biggest financial impact will be providing a trend analysis for loans, deposits and personnel costs. This trend analysis will help to make future decisions. If a branch is continually declining in loans and deposits and losing income, would it be the right decision to close the branch? What steps or actions need to be taken to change the downward trend? Without the trend analysis, does the board of directors, senior management and the branch manager know this branch maybe in trouble? The trend analysis between branches can help determine what is working and what is not working.

Branch profitability could open many opportunities for the bank. This is only the start of what can be analyzed and accomplished by creating accurate branch profitability. After the basics outlined in this project are implemented on branch profitability, the Controller will take a thorough look at purchasing an Organizational PROFITability Analysis System by Profit Stars.

The Organizational PROFITability Analysis System is a customized accounting system that provides post-allocated financial results at the branch, department, and organizational levels. This product offered through Profit Stars has built in features for:

- Funds Transfer Pricing
- Revenue and Expense Allocation Rules
- Capital Allocation Methods
- Profit Forecasting
- Report Wizard
- User-Defined Graphs.

The Accounting Clerk II is currently reporting the funds transfer pricing and revenue and expense allocation in an Excel spreadsheet. However, the funds transfer pricing needs to be modified. Therefore, when looking at the branch financials, these reports are not heavily used. Currently, the Connersville branch has a loan to deposit ratio higher than 100% and now they are being penalized for funds transfer pricing of around 3%. These reports are provided to the board of directors monthly. There are so many variables and this is not the most accurate way to report branch profitability. Using an excel spreadsheet could provide incorrect information to the board. Decisions are made based on these reports. This product would provide more accurate data than the spreadsheet allowing the branch managers, senior management and board of directors to make data driven decisions. The costs for the Organizational PROFITability Analysis System is shown below.

- $630/month (based on 5-year term)
- $3,780 implementation fee (includes WebEx Training)

There could be huge risks with not making these changes to branch profitability. This would be a great benefit for the bank and would provide better analysis at the branch level. Even without the Organizational PROFITability Analysis System, correcting some of the data integrity issues would be a great start to help reduce the risk of not accurately reporting branch profitability. With the implementation of processes described above and the purchase of the Organizational PROFITability Analysis System by Profit Stars, this would help to reduce the risk. There would be a reduced risk of inaccurate data by using the Organizational PROFITability Analysis System. There is a continued risk by using Excel to analyze and report branch profitability data and make decisions based on that data.

This investment is worthwhile. The sky is the limit. This analysis could continue to grow and develop with further analysis. This analysis could provide more detailed information on the branch level. The Bank currently does not use branch level reporting because of the inaccurate data. The Bank would be able to determine which branch is the most profitable along with calculating ROA and ROE. Key financial ratios along with a funds transfer pricing could be established along with goals for the branch managers. Calculating an accurate funds transfer price would allow more accurate reporting and pricing of loans. This would also be a good way to measure the financial impact of a product or employee change. Overall, this project and changes would benefit the bank. The continued growth of the project would help the bank to make more data driven decisions.

Non-Financial Impact

Implementing these changes with branch profitability can also have a non-financial impact. While most of the changes are driven by the financial impact, the non-financial impact is just as important. The non-financial impact will affect customer service, branch manager financial knowledge, and internal working relationships. These changes will also be a culture change and have an impact on the community.

First, scrubbing the data and assigning deposit and loans portfolio to officers will help to provide better customer service. Currently, some accounts are not assigned to a current employee. Updating officers on loan and deposit accounts will help to provide a more individualized customer experience. If FCN Bank wants to be known as a community bank, then the bank must take pride and ownership of the customer service experience. Assigning portfolio managers allow the customer to have a more personalized experience with the bank. These portfolio managers would help promote and guide the customer on the products the bank offers.

A query of the data and customer surveys could be used as a measurement of this process change. A query would be able to look at the account portfolio changes. As employees leave or move to another position in the bank, the account portfolio should also be updated. Customer surveys could be used to capture the change in customer service. These surveys could be sent to external and internal customers. The surveys would provide feedback and suggestions on what is working and what will need to be changed.

The branch will be able to better utilize branch staff with accurate data providing the correct amount of staff at peak times. This will also lead to better customer service. This data can help to provide efficient staffing and be monitored in the future. More accurate decisions can be made with this data and provide exceptional customer service. These decisions could be measured by teller transaction counts. The teller transaction report would allow comparisons between branches on average teller transactions.

There will also be a growth of the branch management's financial knowledge. The Controller will provide quarterly town hall meetings to help explain the financials to all employees. However, the Controller will meet one on one with each branch manager. The increased communication between the accounting department and branch managers will help to grow this working relationship. These growing relationships will also help with the budget process. The increased communication will help facilitate a good working relationship though out the year. When issues arise, these departments can tackle them together.

There will also be a culture change with the branch profitability changes. Some employees will resist the proposed changes. Resisting change at the Bank is strong especially with the older employees. However, to achieve and meet our future goals, changes need to be made. The Controller has the support of the President/CEO. Making these changes from the top down will help to get everyone on board with the changes.

There is also a non-financial impact to the community. The Bank is a community bank and the bank prides itself on helping and supporting the community. However, these changes could help provide the services that the community wants and needs.

A worst-case scenario would be closing a branch based on inaccurate data. There could be a tremendous impact on the community especially the communities where there is only one financial institution.

Overall, these changes would help in many areas of the Bank. While these changes are made internally, there will be an impact externally. Knowing and understanding each branch's profitability will continue to make the Bank a stronger community bank for many years.

Conclusion

It is going to take time to make these changes and process improvements. However, with the Controller leading this project and working with the branch managers, these changes can be beneficial. Once the inputs have been updated, more accurate reports can be analyzed. This will be a learning process for everyone involved but will continue to develop these working relationships with the Accounting staff and Branch Managers. The more knowledge, analysis and reporting on the branch level will help senior management make data driven decisions and improve the profitability of each branch. The budget process will have more branch manager input since the managers will have more financial knowledge and understanding of each branch.

In conclusion, branch profitability analysis would be beneficial to the Bank in so many ways. It will take time and effort but once it is implemented, it will be very useful and profitable to the Bank.

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