FINAL

BRAC - DONOR CONSORTIUM RDP II

BRAC BANK REVIEW

REPORT PREPARED BY:
MARY HOUGHTON AND RONALD GRZYWINSKI

OCTOBER 1992

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October 12, 1992

Memorandum

TO: Members of BRAC Governing Body and BRAC Donors

FROM: Mary Houghton and Ronald Grzywinski

RE: October, 1992 BRAC Bank Review

The primary purpose of the review was to advise BRAC and the Donor Consortium on a variety of issues relative to the formation and operation of the proposed BRAC bank. The major areas of concern are legal requirements, ownership, governance, management, and uses of capital.

During the seven days of the visit, we met daily with senior BRAC management, including the executive director, Fazle Abed. Group meetings were also held with two directors of BRAC, S. H. Kabir and Kazi Aminul Huque, and former deputy-governor of Bangladesh Bank, S. A. Kabir. An unofficial meeting was also held with Kamal Uddin Ahmed, currently Deputy Governor of BB. We also accompanied Mr. Abed on an informal visit to the BRAC Development Management Center in Gazipur.

Legal Requirements BRAC staff appear to be well versed on the legal requirements for a scheduled bank; they quote and refer easily to the published regulations. As a result of clarification by the central bankers, alternative computer-generated long term financial projections of the bank's balance sheet and income statement were run to show the effects of liquidity requirements, certain interest rate ceilings, investment portfolio constraints, and a long term cumulative, convertible, subordinated debenture that might be issued to BRAC.

The major areas of new knowledge were:

1. For the purpose of applying the 15% loan interest rate ceiling, BB defines "agriculture purposes" broadly to include fisheries, poultry, cattle raising, and other food production operations. As a result, approximately 30% of the BRAC Bank loan portfolio might earn at an interest rate that is 5% below current standards. However, it is generally expected that as part of the ongoing evolution toward unregulated markets, these interest rate ceilings might be removed within 3 years. Other short term expedients to increase income on agricultural purpose loans were also discussed.

2. Liquidity reserves are calculated on deposits only. Therefore, reserves would not have to be maintained against a BRAC debenture that might grow at a compounded rate of interest.

3. While the percentage of deposits which must be held in liquidity reserves is five percentage points lower than originally assumed, the list of "approved liquid assets" excludes higher yielding assets that had been projected initially such as fixed deposits in other banks.

During the course of the conversations, a number of presumptions were confirmed. Among these were the following:

-- BRAC Bank can establish in its by-laws, charter application, and securities prospectus that its primary purpose is serving low and moderate income persons through informal credit arrangements in small amounts. These provisions will also help to protect the interests of the donors who were the major initial source of funds for RCP and the BRAC Bank.

-- The examiners from BB will respect the aforesaid business purpose and tolerate the non-existence of traditional credit files and other conventions of the formal credit sector so long as delinquency rates, loss reserves, capital ratios, and other measures of "safety and soundness" conform to established guidelines.

-- Although the primary beneficiaries of BRAC Bank can be defined as landless, rural poor people, the charter purposes can be expressed more expansively to permit future expansion into urban markets, broad savings mobilization among better established traders and manufacturers, employment creation through commercial financing, etc.

-- The RCP branches that will be converted to BRAC Bank branches and all future branch sites will require prior approval by BB which evaluates local "need and convenience," competitive factors, capital adequacy, etc.

-- Foreign nationals may serve as directors of scheduled banks if they represent foreign shareholder interests and receive the prior approval of the Government of Bangladesh (GOB).

-- Current law limits directors to a six year term followed by a three year absence. This law has been contested and is being reviewed.

--GOB can be expected to exercise its customary "right" (not expressed in law) to purchase 5% of the ownership and to appoint one director for oversight purposes.

After considerable discussion about the relative advantages and disadvantages of a scheduled bank versus a "special charter" Grameen style bank it was again concluded that BRAC's social development purposes would best be served through a scheduled bank charter. The primary advantages are the opportunity to broadly mobilize savings that can be directed to the creation of economic opportunities for poor people and to demonstrate the latent capacity of the established banking system to serve the development needs of Bangladesh, including its landless rural poor citizens.

Ownership There was considerable discussion of ownership options by directors, BRAC managers, and central bank officials. The discussion occurred within the context of both existing law and anticipated imminent changes.

Although there is often ideological support for broad member ownership of economic institutions begun by organizations such as BRAC, it is not axiomatic that this is desirable in the governance of a bank. The major disadvantages of widespread individual ownership of BRAC Bank by its borrowers and savers are:

-- the administrative challenge and cost of issuing a million or so share certificates and maintaining a shareholder register;

-- the threat of "hijacking" the bank by an investor group that buys up shares of members and attempts to move it away from its primary developmental purposes;

-- the risk of not electing directors who are sufficiently experienced, wise, and prudent to insure safe and sound operation within a developmental context; and

-- the likelihood that a share in BRAC Bank will not make a return commensurate with the risk of the investment and will be difficult to convert to cash. Landless poor people may well need more certain and liquid investments.

The law limits both natural and legal persons to no more than a 5% voting position. In addition, all shares must have voting privileges, companies with 50 or more shareholders must have the shares listed with the Securities Commission and be freely tradeable, and no restrictions on ownership to BRAC members only may be applied. Further, it is common practice for brokers to solicit shareholder sales.

There was consensus that BRAC has a strong interest in insuring that the bank continue to serve the purposes of its constituency and not permit a situation to develop wherein control of the institution and its deposits could be wrested away from BRAC and diverted to purely commercial purposes. While some of the participants argued for always maintaining a 51%-60% control, others argued that 30% would suffice to insure control, while still others thought that 100% control by BRAC would be more prudent. At the end there was agreement that the following arrangements might best achieve BRAC's developmental objectives:

-- Initially, 70% to 100% of the shares would be owned and voted by BRAC and BRAC controlled entities, each exercising a 5% position.

-- If GOB and BB do not express a strong preference for broad ownership among BRAC members, BRAC will not pursue this course at the present time.

-- To discourage ownership by speculators and others, the offering prospectus would express clearly, but in broad and permissive terms, that the primary purpose of BRAC Bank is to advance the economic and social condition of poor people within Bangladesh and not to maximize financial return to shareholders.

--A part of the purchase price due to BRAC from BRAC Bank for the assets received from RCP would be paid in the form of a debenture that might carry an interest rate of approximately 9%. The interest would be allowed to compound, and if written in a form that would permit future conversion to BRAC Bank stock, might grow to such a size that if and as broad public shareholding increased over time, BRAC would always be able to convert if control is ever threatened.

-- A small number of external institutions knowledgeable in development finance (e.g. Calmeadow Foundation, Shorebank Corporation) might be invited to purchase shares.

During the next several weeks BRAC's lawyers will be consulted and consultations will be held with the person who drafted revisions to the Bangladesh Companies Act which are now awaiting enactment; eventually conversations will probably take place with the proposed Securities Commission. Thereafter, a final decision will be made on the initial form of ownership that will be incorporated in the charter application to BB.

Governance To properly manage the affairs of a highly leveraged scheduled bank which holds the savings of asset-less people requires competency and sound judgement. It is not the place to make an ideological stand in support of democratic governance until the members become qualified.

On the other hand, institutions designed to serve poor people but which are governed by economic and social elites run a considerable risk of unresponsive and even destructive behavior toward those who they are entrusted to serve. The BRAC management and board is acutely aware of this dilemma.

After considerable discussion, there appeared to be a general consensus that the directors would mostly be elected by the BRAC entities which owned controlling shares. Several outside BRAC Board members would be asked to also serve as members of the BRAC Bank board as would several senior BRAC staff officers. GOB would have a representative; one or two other Bangladesh nationals who are otherwise unrelated to BRAC but are "expert" in relevant fields and perhaps a representative of a foreign shareholder might also be invited to membership.

The interests of landless poor members might be represented through minority membership on the board and/or through a Directors Advisory Committee. Experience with the board membership approach suggests strongly that because such representatives have not shared life experiences with their fellow members, the level of communication and participation is generally low. Conversely, advisory committees are often ineffective and powerless since they lack voting power and are, therefore, easily ignored. However, this condition can be remedied through professional staffing of the committee, active participation by representatives of the board, and formal meeting agendas which reflect current board priorities.

Concerns about conflicts of interest, self-dealing, and unfitness are partially met through a BB regulatory mechanism wherein guidelines are set and member removal is the ultimate sanction for violations. However, BRAC Bank should consider the establishment of stronger by-laws and internal regulations as a means to establish an image and institutionalize behaviour that is above any suspicion.

There was no discussion of the form or content of an annual general meeting as that matter cannot be adequately discussed until the forms of ownership and governance are finally resolved. If ownership is limited to BRAC related entities, the annual meeting would be a "non-event." Conversely, it could also be an opportunity to invite representatives of the VOs for the purpose of receiving "first hand" information from the field and discussing current problems and opportunities.

Management BRAC has been working to improve the credit management skills of its RDP and RCP staff and to instill "bankerly' values in both. BRAC also intends to continue the practice of moving staff between both programs to maintain the "developmental" perspective of its credit managers.

The present thinking is that RCP personnel will be seconded to BRAC Bank, both to help achieve the aforesaid values objective but to also allow longer term employees to maintain their retirement and other benefits. We believe that this is a sound approach with potentially significant developmental benefits. Employees who identify themselves as "bankers" tend over time to become overly hardened and risk averse. The result is a loss of development advocacy and risk taking.

BRAC intends to hire a senior, experienced commercial banker to manage BRAC Bank; he will report to Mr. Abed in his role as Executive Director of BRAC and presumably Chairman of BRAC Bank. The manager of RDP and RCP will report to this new managing director on RCP/Bank matters and to Mr. Abed on RDP matters.

More sophisticated and informative reporting procedures have already been introduced into the RCP and RDP branches. Those improvements are expected to continue. Training has also been accelerated and will continue. The current thinking is that one or two members of the BRAC permanent training staff might receive several months of training at Shorebank in Chicago and/or at one of the Calmeadow development bank sites. They will bring those learned skills back to BRAC and then develop and enlarge the internal training program. Further,if one or both of the above foreign organizations invests in BRAC Bank, they will do so primarily to collaborate over the long term; they can also help install a permanent "banking culture" within BRAC Bank through routine participation as board members. Funds for "in-country" training are already adequately provided for in the RDP/RCP budgets; funds for international training will be sought by BRAC as required.

In the presence of relatively weak external regulation, BRAC Bank should adopt strong internal policies that severely restrict lending to BRAC or any organization that it controls or even partially owns. Generations of experience in diverse cultures and economic environments have demonstrated that credit granting decisions must be impartially made with no suggestion of self-interest, personally or institutionally. In a diverse organization like BRAC, there will be frequent temptations to use BRAC Bank credit resources to finance "promising" enterprises that are designed to increase desired development outputs, but are initially controlled by BRAC as a means to insure a successful start-up. The problem always is that there is no truly independent person or committee that can make a disinterested objective assessment of the risks involved. The lender is then forced into the compromising role of acting as both advocate and judge -- a situation highly susceptible to human frailty.

The most common approaches to restricting such insider lending are one or more of the following (in descending order of effectiveness):

1. Absolute prohibition;

2. Limited availability but only with a fully secured position collateralized by 125% or more of "money-good" highly liquid investments (e.g. GOB Treasury Bills, cash deposits in banks, etc.);

3. Limited availability but only with a fully secured position collateralized by tangible assets at a strictly monitored conservative advance rate (70% of appraised real estate value, 50% of appraised equipment value, etc.);

4. Aggregate limits as a percentage of BRAC Bank capital (e.g. all BRAC controlled entities combined could borrow no more than 10% of the Bank's capital); and

5. "High hurdle" approval procedures requiring advance approval by all of the respective boards of directors.

Another credit quality management principle that should be adopted is that of "lending limit to a single borrowing entity." The objective here is distribution of risk. By limiting the amount of loans that can be made to a single entity, or to multiple businesses controlled by a single entity (e.g. a VO), the default risk in the portfolio is diversified. Again, the most common technique is to adopt a percentage of capital (5% to 15%) as the maximum amount that can be loaned to a single borrowing entity.

Finally, to better achieve safe and sound bank management BRAC Bank needs to further improve its loan delinquency reporting, monitoring, and management. An ethic needs to be created that sets an absolute objective of loan delinquency of no more than 5% of total outstandings and losses of no more than 2%, both utilizing strict criteria which count any loan with a payment 30 days or more late as delinquent and any loan with a payment 90-180 days late as a loss. Further, the monitoring and audit procedures will require refinement to better meet bank (and not development) management needs.

<u>Uses of Capital</u> The balance of this memo discusses three issues related to the use of capital: the capital structure, the building, and an endowment.

> <u>Capital Structure</u> BRAC's application for a scheduled bank charter proposes initial share capital of TK. 250 million issued and Tk. 500 million authorized. These funds will be obtained through the transfer of funds that have been given for this purpose to the RCP program by the donors. The transferred funds will be split into two component parts, capital and debentures, and used to acquire the VO member loan assets and other assets from RCP.

The debentures are a form of loan that will grant to the holder (BRAC) the following rights and privileges:

-- conversion to increased share ownership;

-- accumulation and compounding of unpaid or purposefully deferred interest payments;

-- interest earnings at a rate that is "near-market" but is primarily "managed" to reduce tax liability to BRAC Bank.

The debenture will be subordinate to the claims of depositors but superior to the claims of shareholders.

The debenture helps BRAC to achieve several strategic objectives through its ownership of BRAC Bank, in addition to the objectives of mobilizing deposits and providing a permanent source of development credit. First, it creates an opportunity for BRAC to realize earnings from the efficient management of the Bank that can be used to help support social development activities. Second , it allows the earnings to accumulate and compound until needed, and then to be withdrawn without adversely affecting the bank's capital. Third, it is a potential route to reasserting control if the ownership is ever hijacked. Finally, it is a means to manage and thereby reduce the Bank's annual tax liability.

The intention is that the BRAC Bank will manage its profits to maintain a relatively low level of earnings to reduce its tax liability (at a 50% tax rate). The interest rate on the debenture will be a balancing factor set to achieve that objective. Ideally, the rate will fluctuate annually based on realized or projected earnings; for planning purposes it has been set at 9% per annum. However, long term projections are notoriously unreliable. Therefore, the actual rate might be higher or lower than projected with the understanding that it will be actively managed and that interest payments could be unilaterally forgiven or reduced by BRAC if future Bank earnings are inadequate. In no event will the existence of the debenture or any interest accruals or debt service on it be allowed to undermine the solvency of BRAC bank.

Projections run by the BRAC staff through year end 2010 show that BRAC will have sufficient earnings and capital retention power to support the projected growth and debenture interest payments. With the single exception of the 1997 calendar year, the bank operates profitably every year; the projected 1997 loss is Tk. 6 million (US$ $150,000). Statutory investments and deposits (secondary liquidity reserves) are maintained at required levels and the Capital to Liability ratio stays at or above a very healthy 11%.

Building After considerable discussion about alternative forms of ownership for the new BRAC headquarters building in Dhaka (which will also house the Bank headquarters staff), it was tentatively concluded that the building should be owned by the Bank and that space should be leased at market rates to BRAC and any other related entities. (Buildings in Dhaka generally earn about an 8% return on capital, the rate that has been projected by BRAC.) The funds will be transferred from the RCP program to BRAC Bank in the form of the above described debenture. This approach will have the advantages of helping to lower BRAC Bank's tax liability while also creating an endowment that can support future social development programs. (See discussion below.) There are sufficient liquid funds in RCP to complete construction, which has already begun. Considering the manner in which all BRAC programs are integrated to achieve maximum development output, including RCP and the successor Bank, and the recent and projected growth, there is little question but that operating efficiency requires staff consolidation into a single building.

Endowment The debenture will be held by BRAC as a form of endowment to finance future social development programs when donor funds become unavailable or inadequate to support the projected rapid expansion. To insure that the endowment is used only for acceptable social development purposes, and not for personal benefit or imprudent business ventures by BRAC itself, thought is now being given to the establishment of an independent foundation whose sole purpose would be to hold the debenture(s) as an endowment for BRAC and to make independent judgements on disbursements, if and as they might be requested. While no ownership structure can guarantee future behavior absolutely, such an arrangement should help to insure reflective, independent judgement in the distribution and utilization of funds.

New base case 1992 [illegible]

+18.5%(93/97) & 20% interest rate+8% Rental Income on Investment in Building, Tk 150 m+13% Interest on other Investment

In millions of taka

File Name:BASE93-5

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
ASSETS											
Cash	1.9	2.9	12.9	15.4	18.2	21.4	26.5	30.8	36.1	42.5	49.9
Investments	98.8	289.2	607.4	200.8	194.5	150.8	100.6	140.3	129.6	82.7	44.9
Statutory Investment at 7.5%	0.0	0.0	0.0	55.2	84.9	117.9	183.3	212.5	271.5	344.3	429.8
Investment in building at 8%	0.0	0.0	0.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0
Statutory deposits	0.0	0.0	0.0	18.4	28.9	39.3	54.8	70.9	90.5	114.8	143.9
Current assets	0.0	70.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
One Year Loans	59.7	201.0	420.6	640.2	862.8	1081.4	1377.0	1655.0	1965.1	2402.3	2877.5
Medium/Long Term Loans	25.6	86.2	180.2	274.4	360.8	463.5	590.1	709.3	859.7	1029.5	1233.2
Total Loans	85.3	287.2	600.8	914.6	1222.5	1544.9	1967.1	2364.3	2825.8	3431.8	4110.6
Less Loan Loss Reserve	-3.6	-14.8	-32.6	-56.1	-88.5	-127.1	-174.8	-230.1	-284.8	-371.4	-461.5
Net Loans	81.7	272.4	568.2	858.5	1134.0	1417.7	1792.3	2134.1	2541.1	3060.4	3649.1
Housing loan	0.0	0.0	30.0	60.0	90.0	110.0	130.0	150.0	170.0	200.0	230.0
Fixed Assets	13.1	38.4	86.9	119.9	153.0	193.9	251.6	301.8	380.2	435.0	518.6
Less Depreciation	-1.7	-4.1	-12.0	-22.7	-39.2	-58.5	-82.9	-109.1	-140.3	-177.1	-220.3
Net Fixed Assets	11.4	34.3	74.9	97.2	113.8	135.4	168.6	192.7	239.9	257.9	298.3
TOTAL ASSETS	193.8	678.4	1293.5	1535.4	1822.6	2142.6	2646.6	3081.4	3608.7	4252.6	4894.4
LIABILITIES											
Net Members own contribution	17.7	69.2	99.5	148.5	205.1	260.5	300.1	450.2	559.6	698.3	858.5
Net Group Tax Deposits	5.5	24.7	57.2	103.2	165.8	243.1	342.7	455.3	598.9	751.9	944.7
Non-Compulsory savings	6.1	28.0	64.9	116.5	188.0	273.6	365.6	511.8	652.0	845.7	1081.9
Net Total Deposits	29.4	121.9	221.6	368.2	558.9	776.1	1008.4	1417.2	1810.3	2295.5	2865.2
TOTAL LIABILITIES	29.4	121.9	221.6	368.2	558.9	776.1	1008.4	1417.2	1810.3	2295.5	2865.2
Current liabilities	0.0	15.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SS Debenture	169.5	520.3	774.0	821.8	879.3	994.0	1183.5	1282.8	1414.6	1547.9	1693.8
Share capital	0.0	0.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0
Retained earning	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cum. Net Profit/Loss	0.0	-5.1	12.8	82.8	107.8	118.9	126.0	127.6	121.3	146.9	172.3
Current Net Profit/Loss	-5.1	17.9	35.0	12.5	5.6	3.5	0.9	-6.3	12.4	13.1	13.1
Stock holder equity	-5.1	12.8	287.9	345.4	363.4	372.5	376.8	371.3	383.7	409.2	435.4
TOTAL LIABILITIES AND CAPITAL	193.8	678.4	1293.5	1535.4	1822.6	2142.6	2646.6	3081.4	3608.7	4252.6	4894.4

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
ASSETS										
Cash	57.2	64.2	71.5	79.0	86.8	94.5	102.6	110.8	119.3	128.0
Investments	276.2	695.6	1220.6	1822.0	2454.0	3112.2	3813.2	4526.5	5274.5	6045.3
Statutory Investment at 7.5%	510.7	584.8	650.2	733.8	808.1	880.1	953.2	1023.5	1093.9	1162.9
Investment in building at 8%	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0
Statutory deposits	170.2	194.9	219.7	244.5	269.4	293.4	317.3	341.3	364.8	387.6
Current assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
One Year Loans	3190.3	3343.7	3463.8	3553.6	3627.8	3696.6	3763.3	3829.7	3895.9	3962.0
Medium/Long Term Loans	1367.3	1433.0	1484.5	1523.0	1554.8	1584.3	1612.9	1641.3	1669.7	1698.0
Total Loans	4557.6	4776.8	4948.3	5076.6	5182.6	5280.9	5376.4	5471.0	5565.5	5660.0
Less Loan Loss Reserve	-558.8	-651.8	-746.0	-840.5	-935.0	-1029.5	-1124.0	-1218.5	-1313.0	-1407.5
Net Loans	3998.8	4125.0	4202.2	4236.0	4247.6	4251.4	4252.4	4252.5	4252.5	4252.5
Housing loan	260.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0
Fixed Assets	564.1	575.7	588.7	605.8	625.5	638.8	638.8	638.8	638.8	638.8
Less Depreciation	-266.2	-266.2	-266.2	-266.2	-266.2	-266.2	-266.2	-266.2	-266.2	-266.2
Net Fixed Assets	297.9	309.5	322.5	339.5	359.3	372.6	372.4	372.4	372.4	372.6
TOTAL ASSETS	5721.8	6423.7	7154.9	7904.9	8675.0	9452.3	10261.5	11078.8	11927.2	12798.7
LIABILITIES										
Net Members own contribution	987.1	1084.3	1181.5	1276.6	1370.8	1449.3	1534.9	1601.5	1668.4	1728.0
Net Group Tax Deposits	1138.1	1324.2	1512.7	1701.7	1890.7	2079.7	2268.7	2457.7	2646.7	2835.7
Non-Compulsory savings	1279.4	1488.8	1700.8	1913.4	2126.0	2338.6	2551.3	2763.9	2976.5	3189.1
Net Total Deposits	3404.6	3897.3	4394.9	4891.7	5387.5	5867.6	6354.9	6823.0	7291.6	7752.8
TOTAL LIABILITIES	3404.6	3897.3	4394.9	4891.7	5387.5	5867.6	6354.9	6823.0	7291.6	7752.8
Current liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SS Debenture	1853.4	2078.1	2219.3	2428.4	2687.3	2967.7	3181.7	3481.5	3809.6	4168.7
Share capital	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0
Retained earning	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cum. Net Profit/Loss	198.5	227.5	269.1	312.4	357.2	403.3	450.6	499.2	540.2	566.7
Current Net Profit/Loss	14.5	20.8	21.7	22.4	23.1	23.7	24.3	25.0	25.7	28.5
Stock holder equity	463.0	498.3	540.7	584.8	630.3	677.0	724.9	774.2	825.0	877.2
TOTAL LIABILITIES AND CAPITAL	5721.8	6423.7	7154.9	7904.9	8675.0	9452.3	10261.5	11078.8	11927.2	12798.7

INTEREST INCOME																					
Investment Income	1.7	21.3	49.3	82.8	43.4	38.8	39.7	42.6	45.0	46.9	49.0	84.9	108.5	164.5	272.1	305.0	381.5	461.8	544.9	630.5	719.2
Loan Interest Income	8.1	40.0	98.1	145.5	198.7	250.5	317.2	380.5	488.4	588.4	703.5	779.4	812.4	832.7	843.8	848.4	849.8	850.4	850.5	850.5	850.5
Interest on Housing loan 8%	0	0	1	3	5	6	7	8	10	11	13	15	17	18	18	18	18	18	18	18	18
TOTAL INTEREST INCOME	10.5	61.3	148.3	231.3	248.6	295.0	364.1	431.1	546.9	647.2	768.7	859.0	925.7	1015.2	1093.9	1171.4	1249.3	1330.8	1413.4	1499.1	1587.7
INTEREST EXPENSE																					
Interest on deposits	1.5	8.0	15.3	28.5	41.8	60.6	84.4	112.8	145.2	184.8	232.2	282.1	328.6	373.1	417.9	462.6	506.5	550.0	593.0	635.2	677.0
Interest on Debenture 9%	2.7	0.0	0.0	71.8	77.4	84.7	97.4	111.3	121.8	133.3	145.9	159.8	174.7	191.1	209.1	228.8	250.4	274.0	299.8	328.1	359.0
TOTAL INTEREST EXPENSE	4.2	8.0	15.3	99.3	119.2	145.3	181.8	224.1	267.1	318.1	378.1	441.9	503.3	564.2	627.0	691.4	756.9	824.0	892.8	963.3	1036.1
NET INTEREST INCOME	6.3	53.3	132.9	132.0	127.4	149.7	182.3	207.0	277.0	329.2	390.6	417.2	422.4	451.0	466.9	479.0	492.4	506.0	520.6	535.8	551.7
OPERATING EXPENSES																					
Branch operating expenses	7.9	24.2	28.1	55.3	68.6	85.8	106.7	125.7	148.6	179.1	213.4	220.6	220.6	220.6	220.6	220.6	220.6	220.6	220.6	220.6	220.6
Regional operating expenses	0.5	1.0	1.5	2.0	3.0	4.0	5.7	7.2	8.5	10.1	12.1	14.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5
Head office operating expenses	0.8	2.3	2.8	3.9	3.4	4.2	4.7	5.2	6.2	6.8	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7
Branch depreciation	0.4	1.1	6.0	9.3	10.7	13.1	16.7	19.5	23.2	29.0	33.2	35.7	35.7	35.7	35.7	35.7	35.7	35.7	35.7	35.7	35.7
Regional office depreciation	0.0	0.3	1.1	1.5	1.9	2.3	3.0	3.5	4.3	5.0	5.9	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4
Head office depreciation	0.2	0.3	0.8	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Loan Loss Provision	3.7	4.9	11.9	17.5	26.4	32.7	41.6	49.4	58.6	70.6	84.1	91.2	93.1	94.2	94.5	94.5	94.5	94.5	94.5	94.5	94.5
Staff Training	0.1	0.7	0.8	0.7	0.8	1.1	1.4	1.7	2.1	2.5	3.1	3.2	3.1	3.1	3.4	3.6	3.8	3.6	3.6	3.8	3.8
TOTAL OPERATING EXPENSE	13.3	35.4	52.7	87.9	116.3	142.7	180.7	229.3	252.2	302.9	360.3	388.1	390.9	407.6	422.0	433.8	445.1	457.4	470.6	484.3	498.7
NET OPERATING PROFIT (LOSS)	-5.1	17.9	70.1	24.9	11.1	7.1	1.6	-6.3	24.7	26.3	26.1	29.1	41.5	43.3	44.8	46.1	47.3	48.6	50.0	51.3	53.0
Less Income Tax 50%	0.0	0.0	35.0	12.5	5.6	3.5	0.8	0.0	12.4	13.1	13.1	14.5	20.8	21.7	22.4	23.1	23.7	24.3	25.0	25.7	26.5
NET PROFIT	-5.1	17.9	35.9	12.5	5.6	3.5	0.8	-6.3	12.4	13.1	13.1	14.5	20.8	21.7	22.4	23.1	23.7	24.3	25.0	25.7	26.5
KEY RATIOS																					
Total Deposits to Total Assets	15%	39%	17%	24%	31%	37%	41%	47%	50%	54%	57%	60%	61%	61%	62%	62%	62%	62%	62%	61%	61%
Total Loans to Total Deposits	278%	222%	271%	249%	220%	194%	177%	162%	150%	142%	135%	125%	114%	107%	99%	94%	78%	72%	67%	62%	59%
Investments/Total Deposits	370%	237%	274%	91%	54%	34%	30%	25%	22%	19%	17%	23%	33%	43%	52%	61%	68%	75%	81%	87%	93%
Total capital/Total Liabilities	-17%	31%	130%	84%	65%	47%	36%	29%	23%	19%	15%	14%	13%	12%	12%	12%	12%	11%	11%	11%	11%
Invest+Liq assets/Total liab	342%	280%	209%	100%	58%	42%	37%	33%	29%	25%	23%	30%	39%	50%	59%	67%	75%	82%	89%	94%	100%
Interest Income/Total Assets	5.4%	9.0%	11.5%	13.7%	13.8%	13.8%	13.9%	14.9%	15.1%	15.2%	15.3%	15.0%	14.6%	14.2%	13.8%	13.5%	13.2%	13.0%	12.8%	12.6%	12.4%
Interest Expense/Total Assets	2.2%	1.2%	1.2%	6.4%	6.5%	6.8%	6.9%	7.8%	7.4%	7.5%	7.6%	7.7%	7.9%	7.9%	7.9%	8.0%	8.0%	8.0%	8.1%	8.1%	8.1%
Net Interest Margin	3.2%	7.9%	10.3%	7.3%	7.0%	7.0%	6.9%	6.7%	5.7%	5.7%	5.7%	7.3%	6.7%	6.3%	5.9%	5.5%	5.2%	4.9%	4.7%	4.5%	4.3%
Operating Expenses/Total Assets	5.8%	5.2%	4.0%	5.1%	6.4%	6.7%	6.9%	8.1%	7.0%	7.1%	7.2%	6.8%	6.1%	5.7%	5.3%	5.0%	4.7%	4.5%	4.2%	4.1%	3.9%
Net Profit/Total Assets	-2.8%	2.8%	5.4%	1.0%	0.6%	0.3%	0.1%	-0.2%	0.7%	0.6%	0.5%	0.5%	0.6%	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.4%	0.4%