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MANUAL FOR OFF-SITE ANALYSIS OF FINANCIAL INSTITUTIONS IN DEVELOPING COUNTRIES

Submitted to:

Office of Investment
Bureau For Private Enterprise
Agency for International Development

Under USAID Contract No. PDC-2002-C-00-7184-00

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EXECUTIVE SUMMARY

This manual is intended to provide a framework for analysis of financial institutions in developing countries. The principles described are based on off-site analysis as it has evolved within American bank supervision. While a comprehensive picture of the financial condition of any bank or other type of financial institution is usually not possible without an on-site examination, off-site analysis can provide fairly clear indicators of the likely degree of risk that would exist in guarantee programs or a direct financing relationship.

The manual is the final portion of a three part exercise undertaken at the conclusion of the bank analysis task for FY89 applications under PRE/I's Small Business Loan Portfolio Guarantee Program (LPG). The three projects are closely interrelated, and the first two are included as annexes to this manual.

The first project was a proposed revision to the financial information questionnaire (Part IV) of the LPG application form. This is shown as Annex B. It expands upon previously called for data and should provide sufficient information for an analyst to do an off-site analysis. This annex is referred to several times in the text.

The second project was a set of guidelines for use by PRE/I investment officers and other personnel during field visits to financial institutions. These guidelines consist of two parts: a series of suggested questions to pose to management of the financial institution and a set of financial ratios that can be calculated on-site in order to provide a basic financial evaluation of the institution being visited. The guidelines for

investment officers are shown as Annex C. It should be stressed that Chapter II of these guidelines gives very basic details as to key ratios including how they are calculated and various aspects to note. The text of the manual goes into greater depth as to how to determine financial factors but does not repeat, per se, all the basic ratio calculations given in Annex C. Thus, they should be viewed together for a complete understanding the use of various ratios in off-site analysis.

The first two chapters of the manual give background information as to how off-site analysis has evolved in American bank supervision along with the significant increase of financial disclosure now made by U.S. bank These American concepts of off-site supervision can be largely applied t financial institutions in developing countries provided sufficient and accurat information is available. Chapters III through VI of the manual explain ho a determination can be made for both of the four objective financial criteri in U.S. bank analysis. These are asset quality, capital adequacy, profitabilit and liquidity. Chapter VII looks at qualitative factors, includin management, which should be factored into the overall analysis. Chapte VIII explains the criteria to be used for a three scale rating of low, mediun and high risk to summarize the analysis.

Throughout the text, the manual emphasizes that analysis of financia institutions in developing countries is not simply a straightforward numerica exercise that leads to an unambiguous conclusion. While broad benchmark are provided and certain trends stressed, individual judgment will always be an important part of this type of analysis. The manual is intended to help the analyst form these judgments using criteria now widely accepted by bank supervisors in both developed and developing financial sectors of the world.

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CHAPTER I

INTRODUCTION TO THE PRINCIPLES OF OFF-SITE ANALYSIS

A. The Public's Interest in Sound Financial Institutions and the Role of Bank Supervision

Throughout the world, virtually everyone has an interest in sound financial institutions. Interested parties include individual depositors, corporations and small businesses, parastatals, and units of government that place funds on deposit. In addition, entities that lend to financial institutions such as other banks, central banks, and international or donor agencies all share the same vested interest in the financial soundness of a bank or other type of financial institution. This same concern for safety and soundness also applies to entities which provide guarantees to banks, regardless of the form of the guarantee.

The massive and increasing public concern over the health of financial institutions has spawned the field of bank supervision. While bank supervision has existed in the U.S. since the 1860s, its formalized role has emerged since the depression. The public visibility of bank supervision has risen considerably in the 1980s, due to several significant bank failures or near failures and the related savings and loan crisis. The interest in bank supervision has also mushroomed globally in the past 15 years. While the advanced financial sectors of Europe and Japan have also long supervised their banks to varying degrees, the field is only emerging among developing countries, and international cooperation in bank supervision, which did not exist until 1974, is now very active on both a worldwide and regional basis.

While bank supervision often attempts to achieve a wide variety of goals, its primary responsibility is prudential supervision, which calls for a determination of the financial health of an institution followed by corrective measures when necessary. Since a major portion of prudential supervision is the diagnostic task of determining which banks are weak and why, new methods for such analysis have emerged in recent years. This had led bank supervisors to increasingly rely on off-site analysis of banks. The techniques of this analysis can, in principle, be applied to any bank in any country, provided that sufficient and accurate financial data are available. In order to show how an off-site analysis can be used with banks in developing countries, it is first useful to look at how off-site analysis has evolved in American bank supervision.

B. The Traditional Emphasis of U.S. Bank Supervision on On-Site Examinations Until the Mid-1970s

The American approach to supervising its banks has traditionally been to rely on an on-site examination of the bank. All insured commercial banks, of which there have been approximately 14,000 for several decades, are subject to an on-site review by a supervisory authority. This would be one of three federal agencies (depending on charter and Federal Reserve membership) and the State banking authority (if chartered by a state). Examinations were traditionally done on a surprise basis once each calendar year. This meant up to 20 or more months could elapse between examinations.

While examinations were quite thorough, little or no attention was paid to the condition of the bank between visits. Also, banks had minimal reporting requirements. Four times a year a bank submitted

a call report which consisted of little more than a basic balance sheet which fit on both sides of a single sheet of paper.

Bank failures were minimal from the post-war period to the early 1970s, thus the system of on-site examinations was not changed during those years. However, two significant bank failures in 1973 and 1974 prompted a critical review of the on-site approach. Both the U.S. National Bank in San Diego and the Franklin National Bank of New York were nationally chartered. Thus, their supervision was conducted by the Office of the Comptroller of the Currency (OCC) which operates under the Treasury Department. These two failures led the OCC to reevaluate its basic method of supervision.

C. The Growth and Use of Off-Site Analysis as Part of the Supervisory Process

The OCC review of its approach to supervision of the 4,000 plus nationally-chartered banks was done in conjunction with a large consulting firm. The major conclusion was that the system was flawed by lack of attention to banks between examinations and lack of a comparative data base for all national banks on a periodic basis. The response to this finding was the establishment of a monitoring system for national banks called the National Bank Surveillance System (NBSS). By expanding the required information submitted in call reports, the OCC was able to monitor key financial ratios on a quarterly basis for more than 4,000 banks.

The uses of NBSS quickly became apparent to the OCC staff. The system enabled all banks to be monitored, through ratios, as to trends and as compared to the bank's peers. This enabled the OCC to

target its examinations toward banks whose ratios indicated deterioration or weaknesses compared to its peer group.

The advantages of monitoring banks through NBSS became readily apparent to the other two federal agencies, the Federal Reserve, which supervised state chartered member banks, and the FDIC, which supervised state chartered non-member banks. By 1982, the three agencies had agreed to standardize and greatly expand reporting requirements for banks. The NBSS was expanded to include all commercial banks and was renamed the Uniform Bank Performance Report (UBPR). Throughout the 1980s, the bank supervision agencies have tailored their on-site examinations to findings from analysis of the UBPR.

The present thinking of American bank supervisors is that neither on-site examinations nor off-site analysis is sufficient by itself. On-site examinations are not frequent enough to quickly detect emerging problems, nor do they provide a detailed comparison to other banks with similar characteristics. In turn, off-site analysis cannot substitute for the detailed review of the loan portfolio and other risk assets done by experienced bank examiners. These loan reviews still often disclose emerging asset quality problems well before they appear on reported data. Also, on-site examinations are necessary to verify that reported information is accurate. Finally, the physical presence in the bank of an examination team enables experienced examiners to appraise the capability of bank management.

D. The Implementation and Uses of the CAMEL Rating System to Analyze the Financial Condition of Banks

Along with the coordinated effort among the three federal banking agencies to standardize a monitoring system, similar efforts have been made to assign a standard rating for each bank at the conclusion of on-site examinations. Previously, each agency had its own rating formula, thus causing inconsistency among banks that had different supervisors. In 1978, the three agencies agreed on five factors to determine an overall bank rating. The system is referred to by its acronym, CAMEL, which stands for the following:

- Capital adequacy;
- Asset quality;
- Management;
- Earnings; and
- Liquidity.

Each of the five factors is rated on a 1 to 5 basis with 1 being strong, 2 being satisfactory, 3 being fair, 4 being marginal, and 5 being unsatisfactory. Once each of the five factors is assigned a numerical rating, the ratings are averaged to determine a composite rating. The composite rating is the determinant of problem banks, as all banks with composite 4 or 5 ratings are placed on "problem bank" lists. Such a status naturally prompts increased supervisory attention.

Of the five factors, only the management rating is determined subjectively, and even this is influenced by the ratings in the other four areas. For example, if a bank has strong or satisfactory ratings in capital, asset quality, earnings and liquidity, management will almost

certainly be rated as strong or satisfactory as well. To varying degrees, each of the other four CAMEL components are determined by broad ratio based benchmarks, though examiner discretion is allowed in all cases.

In determining CAMEL ratings for the four objective factors, ratios can best provide a clear-cut determination in capital and earnings (profitability). While measurement of capital is moving toward a complex ratio taking into account weighted risk both on and off the balance sheet, the basic capital ratio which measures capital funds to total assets is still considered useful in that it is both straightforward and easy to calculate. Thus, a bank's capital rating has traditionally been determined by how its basic capital ratio compares to broad benchmarks and to its peer group of banks.

The same approach is used in determining the earnings rating. Here the key ratio is return on average assets which is calculated by dividing net income after tax by the average level of total assets in the year which such income was earned. Again, this ratio is compared to established benchmarks and the bank's peer group.

The primary determinant for asset quality is based on on-site examination findings instead of reported data. Problem loans discovered during the examination are classified by degrees into substandard, doubtful, and loss. The ratio used to determine the asset quality rating divides 20 percent of substandard loans plus 50 percent of doubtful loans plus 100 percent of losses by capital, and this ratio is compared to benchmarks.

American bank supervisors have chosen not to rate liquidity on any one ratio as most liquidity ratios are too simplistic. Instead emphasis is placed not only on the level of liquid assets but the volatility of deposits and the access to money markets when liquidity becomes tight.

With regard to off-site analysis in determining CAMEL ratings, capital and earnings can be fully determined from reported data. The asset quality rating relies on examination findings and liquidity is a mixture of factors. Thus, the CAMEL rating system reflects the combined use of on-site examinations and off-site analysis by supervisors.

E. Ratio Analysis of U.S. Banks Using Trends and Peer Groups in the Uniform Bank Performance Report

The value of bank analysis using the UBPR is primarily due to the vast number of banks (approximately 14,000) upon which comparisons can be made. As a result, banks are segregated into peer groups based both on size and location, and all ratios calculated are placed into a percentile within the peer group. For example, peer group 22 includes banks with assets between $10 million and $25 million with one banking office and located in a non-metropolitan area.

Trends are equally important. A UBPR is generated four times each year as reporting data is submitted at the end of each quarter. Comparisons are possible between the quarter just ended and the same quarter from the previous year. In addition, comparisons can be made to the three previous year-ends. Thus, an analyst can take into account both percentile ranking within the peer group and the trend, either favorable or adverse, dating back three plus years.

Annex A is a blank copy of a UBPR. After the introductory page, the key data is displayed on page 1, summary ratios. These are the key ratios for analysis of (in the order shown) earnings, asset quality, capital, and liquidity, plus growth rates. As previously stated, the CAMEL ratings for asset quality and liquidity are not determined as such from reported data in the UBPR. However, the UBPR does contain various ratios which are indicators of the quality of assets and the level of liquidity.

The remaining pages give detailed breakdowns as to income statement and balance sheet information. Of particular note are pages 7 and 8 which provide data for asset quality analysis. Page 7 gives a full breakdown of the reserve for loan loss (general provisions) which includes net loan losses, transfers to the provisions, and 10 ratios relating to provisions. Page 8 breaks out "non-current" loans and leases by the standardized definition of 90 days past-due plus loans on which interest is no longer accrued. Information is also provided on restructured loans where interest rates or payment terms have been relaxed.

F. The Use of Off-Site Analysis from Public Information by Rating Agencies and Others

In addition to bank supervisors, several private firms and rating agencies make full use of all publicly available data on banks for their clients. These analysts provide opinions and recommendations on U.S. banks for a variety of interested parties. The private firms do not have access to supervisory examination reports which are confidential findings between the supervisory authority and bank

management. However, all other analysis tools such as annual reports, Form 10K for the SEC, quarterly call reports, and especially the UBPR can be obtained by private analysts. The lack of access to examination reports by these private analysts is not as significant as it may seem. Examination reports primarily contain details on all major problem loans and an analysis of key policies plus confidential comments (not sent to the bank) commenting on the ability and performance of management. The examination findings on asset quality are likely to parallel the UBPR trend in past-due loans. Also, if the examination results in a supervisory call for increased provisions due to weak asset quality, this will be reflected in UBPR data within six months. Thus the lag between examination findings and its impact on financial ratios is quite short.

In summary, the combination of detailed reporting of financial information and the sophisticated comparative ratios giving trends and comparisons to peer groups in the UBPR has enabled off-site analysis to evolve in recent years. The UBPR allows any analyst to determine with a high degree of precision the financial condition of an American bank. However, it is important to note that the reliability of the UBPR is due in large part to the on-site examination which enforces corrective measures concerning asset quality (increased provisions and charge offs of uncollectible loans) and ensures reported data are accurate. As a result, the U.S. is, by far, the "best case" model for off-site analysis of the financial condition of a bank. This is not to say a useful off-site analysis cannot be done on a financial institution in a developing country, but various limitations and constraints exist. These will be discussed in subsequent sections.

CHAPTER II

DISCLOSURE OF FINANCIAL INFORMATION

A. The Growth in the Amount of Public Financial Disclosure by U.S. Banks

As recently as 20 years ago, the public was kept largely in the dark as to the condition of banks in which they placed deposits. The creation of deposit insurance through the FDIC in 1933 and the supervision of banks by federal and state agencies was felt to be sufficient to maintain public confidence. Also the prevailing view was that the less the public knew about "problem" banks, the better. This attitude changed in the 1970s and early 1980s when the concept of "market discipline" became popular. By providing extensive disclosure of operations in publicly available reports, well managed and sound banks would be easily recognized as such by those who closely followed bank performance. Deposit insurance, with its $100,000 limit, would still protect the general public.

While the merits of market discipline through financial disclosure can be debated, U.S. banks, especially large ones, now reveal far more of their activities than was done in the past. The annual reports alone of major banking organizations such as Citicorp and Chase Manhattan provide a wealth of information that a trained analyst can use to determine the overall financial condition. As a result of this increased disclosure, detailed and technical analysis of American banks is available to a far broader field than just bank supervisors.

B. A Description of the Key Financial Elements Contained in Annual Published Accounts of U.S. Banks

The increased level of disclosure by American banks has primarily been in asset quality. Major banks now disclose in their annual reports the amount and percentage of loans that are "non-performing" under a standard definition. Also, extensive detail is given with regard to the reserve for loan losses (general provisions) from which a calculation of net loan losses (loans charged off less recoveries made on previous charge-offs) can be made.

From this information, the analyst can determine: a projected trend of asset quality through the non-performing percentage, the past history of asset quality through net loan losses as a percentage of total loans, and the capacity of the bank to absorb future losses through the level and transfers to the reserve for loan losses.

Increased disclosure has also helped analysts determine the reasons for profit levels, whether they be high or low. The income statement is broken down into interest income and interest expense resulting in net interest income. After showing transfers to provisions, non-interest income (fees, commissions, foreign exchange profits, etc.) and non-interest expenses (staff costs, premises, etc.) are also detailed. Thus, the causes for improved or deteriorating performance can be determined.

C. The Limitation of Disclosure in Published Accounts in Most Developing Countries

If the same degree of disclosure as is now required for U.S. banks existed for financial institutions in developing countries, a basic analysis of these institutions would be straightforward. However, publicly available financial reports on financial institutions in many, if not most, developing countries contain far less information than present U.S. standards. This is particularly true in countries with a British tradition of banking, but it also exists elsewhere.

Published accounts on a financial institution in a developing country will seldom disclose past-due information. In some cases, past-due information not exist due to the form of lending, especially if a large portion of advances are in the form of overdrafts which lack repayment terms.

A second shortcoming regarding disclosure from developing countries concerns provisions for loan losses. Quite often the balance sheet does not show provisions, nor are they disclosed in footnotes. In addition, income statements often fail to disclose amounts transferred to provisions. Where a combined lack of data on past-due loans and provisions exists in financial statements, it is not possible to estimate asset quality.

The other area where financial disclosure is often lacking concerns the income statement. While U.S. banks must provide details as to how income is derived, financial statements from developing countries often begin with operating income before tax and provide little or no

breakdown of income and expense items. While overall profit ratios can be calculated, it cannot be determined how or why profit levels are strong or weak or improving or declining.

Finally, balance sheets themselves on banks in developing countries often give much less detail than U.S. banks provide. Only four or five items may be shown on each side of the balance sheet. In some cases, however, further details may be provided in footnotes, and these should be studied with care.

D. The Use of Financial Information in Part IV of the LPG Questionnaire in Conjunction with Audited Accounts

Part IV of the LPG Questionnaire, shown as Annex B, calls for all the information needed to do a financial analysis on asset quality, capital, profitability, and liquidity. Where audited financial statements clearly provide information called for in Part IV, it can be so indicated. Thus, in countries where financial disclosure is extensive, most, if not all, of the requested data are in annual reports. In turn, Part IV calls for additional information from financial institutions where disclosure is limited, especially with regard to asset quality and profits. Thus, the combined use of audited financial statements and Part IV information should provide sufficient data for analysis of asset quality, capital, profitability, and liquidity, each of which is discussed in subsequent sections. It should be noted that management, one of the CAMEL components, is not discussed in a separate section due to its subjective nature. However, management is frequently referred to in Part VII, Qualitative Factors.

CHAPTER III

DETERMINATION OF ASSET QUALITY

A. The Definitions of Past-due and Non-Performing Loans and the Uses of This Ratio

The terms past-due, non-performing, or non-current all mean loans or other types of advances (leases, etc.) that have fallen delinquent with regard to payment of interest and/or principal. Use of the term past-due or non-performing presupposes that all loans have scheduled payment terms of interest and amortizing loans have scheduled payment terms of principal. Overdraft financing however lacks such terms, and banks using this method of lending, especially those with a British tradition, are less apt to provide a purely quantitative measurement of past-due. This potential problem is addressed in Sections II(A) and II(D) of Part IV of the LPG application (Annex B) where the volume of overdrafts is called for as well as criteria, if any, for classifying overdrafts as non-performing.

Aside from the potential problem with overdrafts, it is essential to learn the definition of past-due as used either by the supervisory authority or bank management's internal standards. After years of differing standards, the U.S. supervisory authorities agreed in the 1980s to a definition of non-performing loans. Non-performing is defined as all loans (leases, etc.) 90 days or more in arrears plus those placed on a non-accrual (cash basis) due to management's determination of their doubtful status. In addition, the definition includes renegotiated loans in which payment terms or interest rates

have been restructured due to financial difficulties of the borrower. This latter category assumes that without such restructuring original payment terms would not be met. With this standardized non-performing definition, all U.S. banks can be objectively compared as to levels and trends of this key ratio. Supervisory experience has shown that the past-due percentage is the best indicator of emerging asset quality problems in commercial banks.

Several developing countries, especially those whose banking systems are closely modeled after the U.S., use virtually the same non-performing definition. The key aspect is the 90 day time frame with regard to interest and/or principal payments. Most commercial banks in developing countries will not have significant amounts of non-accrual or renegotiated loans.

Item II(B) in Annex B asks for the criteria used for past-due or non-performing loans. These can, in theory, vary from as rigid as 1 day on a time loan to 180 days. Clearly, the stricter the definition, the higher the percentage of past-due. Thus an understanding of the definition and/or criteria used is essential.

The use of a past-due percentage is clearest with regard to trend. This is called for in II(E) in Annex B, as the schedule asks for three years of past-due data. Obviously, an increasing trend is adverse and is the best indicator of a deterioration of asset quality. In turn, a reducing percentage should be viewed as favorable. If the percentage is volatile (sharply up or down or both) in the three years called for, it may indicate changes in status of some of the larger loans in the portfolio.

TABLE 1

EXAMPLE OF NON-PERFORMING LOAN TOTALS, PERCENTAGE AND DEFINITION AS SHOWN IN A BANK'S ANNUAL REPORT

Cash Basis and Renegotiated Commercial Loans

IN MILLIONS OF DOLLARS AT YEAR END	1988	1987[1]	1986[1]	1985[1]	1984[1]
In Domestic Offices:					
Commercial and Industrial[2]	**$ 566**	$ 629	$ 582	$ 393	$ 302
Real Estate	**548**	251	304	101	233
In Overseas Offices:					
Refinancing Countries[3]	**4,016**	4,641	853	1,036	1,557
Other Overseas	**401**	525	844	723	390
TOTAL[4][5]	**$6,331**	$6,046	$2,583	$2,283	$2,482
As a % of Commercial Loans	**10.8%**	10.4%	4.2%	3.8%	4.1%
As a % of Total Loans	**4.2%**	4.4%	2.0%	2.0%	2.4%

(1) Restated to conform with current year's presentation.
(2) Includes loans not otherwise separately categorized.
(3) Represents cash basis loans, including both local and foreign currency loans, and also includes cash basis bank placements of $1,152 million in 1988 and $1,125 million in 1987.
(4) Includes renegotiated loans of $42 million in 1988, $14 million in 1987, $19 million in 1986, $46 million in 1985, and $50 million in 1984.
(5) Real estate acquired in settlement of loans, included in other assets in the financial statements and not included in the above amounts, at year end totaled $310 million in 1988, $286 million in 1987, $274 million in 1986, $250 million in 1985, and $186 million in 1984.

Cash Basis and Renegotiated Commercial Loans

Cash basis (nonaccrual) loans are those on which, as a result of doubt as to collection, income is recognized only to the extent that cash is received. Renegotiated loans are those on which the rate of interest has been reduced as a result of the borrower's inability to meet the original terms.

Citicorp's policy of placing loans on a cash basis embraces all commercial loans on which interest or principal is 90 days past due, as well as those on which payment of interest or principal is determined to be doubtful of collection. Even if a cash payment may be anticipated, accrued interest is reversed, and the loan is put on a cash basis after a 90-day period.

SOURCE: CITICORP, 1988 ANNUAL REPORT

While it may not always be known, the trend of past-due should reflect, in part, economic circumstances. A recession will almost certainly lead to higher levels of arrears, and an economic recovery should reduce the percentage. In turn, an increasing past-due percentage in a generally healthy economy is a worrisome signal with regard to lending policies.

B. Benchmarks for Past-due Ratios for Various Types of Financial Institutions

Three main variables exist in determining benchmarks for a past-due ratio. These are the definition used, the economic environment, and the type of financial institution. As mentioned, a strict definition will obviously result in a higher past-due percentage than a generous one such as 180 days. Using a 90 day time frame as the emerging standard, allowance should be made for criteria that are either stricter or more relaxed. Also, as mentioned, adverse economic circumstances, including natural factors such as drought, etc., may heavily influence past-due levels. While economic aspects will have a systemic impact, it will be difficult, if not impossible, to obtain comparative data on past-due percentages of a wide number of banks in the same class. In most developing countries, such data, if collected at all, is closely guarded by the supervisory authority.

Particular attention should, however, be paid to the third variable mentioned, that being the type of financial institution. The risk profiles of loan portfolios vary considerably among commercial banks, finance companies,and development banks. Each is discussed in turn with broad benchmarks and other indicators.

Commercial banks usually have, in theory, the best class of borrower. This should result in a lower past-due percentage than other types of financial institutions. Credit judgments are largely based on the borrower being well established, in sound financial condition, and having a satisfactory borrowing record. While commercial banks often do take security, their focus should be to only use collateral as a last resort, and the advance should be based on the viability of the project financed. Since commercial banks generally operate with higher credit standards, a high past-due percentage is actually more worrisome than it would be in other types of financial institutions, in part because delinquent loans may be unsecured or only partially secured.

A conventional rule of thumb for a past-due percentage of a U.S. commercial bank is that a level of 5 percent or more is traditionally considered high. As indicated, many variables can affect this percentage, but a commercial bank whose trend of past-due is rising and the level is more than 5 percent, may soon be experiencing asset quality problems, if they don't already exist.

Past-due data from a finance company will normally be clear-cut as all advances should be on an amortizing basis, usually with monthly payments, though seasonal adjustments may be made. Finance companies place much greater emphasis on security than do commercial banks, as the credit quality of their borrowers is lower. Thus, it is not unusual for a finance company to show a past-due percentage well into double figures. In turn, however, a well managed finance company will probably show low levels of actual losses as liquidation of security should cover outstanding balances.

Still, a past-due percentage above 15 percent to 20 percent and rising is a warning signal, but the analysis should be coupled with the track record of actual losses, as will be discussed in section D below.

Another set of circumstances exists for a development bank. Its normal function is, of course, to provide longer term higher risk financing for priority sectors in the economy (agriculture, small business, etc.) that do not have access to commercial credit. As with finance companies, the past-due percentage may well be in the 15 percent to 20 percent range or higher. However, development banks seldom have the same degree of comfort from security, and loan losses are apt to be higher. While the trend should be emphasized, a development bank will normally, by its very nature, have a lower quality of assets than commercial banks, and the analysis must reflect this.

C. The Functions of a General Provision and Aspects of its Analysis

A general provision is a reserve created in anticipation of bad or doubtful debt that will occur in the normal course of lending. In the United States, it is usually called reserve for loan losses or allowance for loan losses. In most other countries, "reserve" implies a part of capital funds, thus the word provision has broader use.

A general provision is created in anticipation of possible future credit losses. It is important to distinguish this from specific provisions which offset presently identified problem loans. In theory, a transfer to a general provision, which is an expense, is a prudent safeguard for the future, and such unencumbered general provisions have been

internationally determined to be part of supplementary capital (discussed in Chapter III, Section F).

In some systems, the level of general provisions may be set either by statutory requirement or by a rigid internal guideline. For example, a development bank may automatically be required to establish and maintain a general provision at 2 percent of its loan portfolio, regardless of the quality of its loans. In turn, a commercial bank may always maintain a general provision at a fixed percentage of loans or risk assets. The latter will likely only occur when there is also a specific provision in use.

While the above examples do exist in developing countries, the more common use of a general provision is to establish it as an estimate of possible future credit losses and subsequently charge losses, as they are identified, to the provision. The accounting entries for such losses are usually referred to as charge-offs. If subsequent collection efforts on a charged off loan result in payments, the amount received is credited to the general provision as a recovery. Thus, a reconciliation of accounting entries to a general provision would appear as follows:

BEGINNING BALANCE:
<u>LESS:</u> Loans charged off
<u>ADD:</u> Recoveries on loans previously charged off
<u>ADD:</u> Transfers to the provision (expense item)
ENDING BALANCE

Judging what is an adequate amount of general provisions depends on several factors. Assuming that the general provision is truly

unencumbered and intended for possible future losses, the larger the provision (as a percentage of total loans) the better. Under these circumstances, a large provision represents a cushion to absorb losses that will occur in the normal risk taking area of lending. However, more often than not, a large transfer to general provisions is in anticipation of near term charge-offs. As a result, a large general provision, usually over 2 percent of total loans and certainly over 3 percent, may well be in recognition of asset quality problems, either already present or about to emerge. Examples of such transfers to general provisions occurred among many major multinational banks in 1987 in recognition of credit problems in their large exposures to certain LDC countries.

Given the variables described above, the best signal with regard to general provisions may be the pattern of transfers to the provision. A steady annual amount of transfers which keeps the provision at a fairly consistent percentage (usually between 1 percent and 2 percent) of total loans is favorable. In turn, a volatile swing in amounts transferred to a general provision probably indicates problems have existed within the loan portfolio, and management has built up general provisions in anticipation of significant charge-offs to follow. It is this uncertainty with regard to general provisions that makes it necessary to review net loan losses as described below.

TABLE 2

EXAMPLE OF CONCISE PRESENTATION OF GENERAL PROVISIONS (RESERVE FOR POSSIBLE CREDIT LOSSES)

NOTE 4. RESERVE FOR POSSIBLE CREDIT LOSSES

Changes in the Reserve for Possible Credit Losses for the three years ended December 31, 1988 are shown below:

($ in thousands)	1988	1987	1986
Balance at Beginning of Year	$2,719,152	$1,064,764	$ 907,672
Additions:			
Provision Charged to Expenses	750,000	2,150,000	595,000
Reserves of Acquired (Disposed) Subsidiaries	(1,267)	(35,408)	13,763
Deduction:			
Charge-Offs	819,389	617,950	574,216
Less: Recoveries	105,328	140,261	99,476
Net Charge-Offs	714,061	477,689	474,740
Foreign Exchange Translation Adjustments	(11,264)	17,485	23,069
Balance at End of Year	$2,742,560	$2,719,152	$1,064,764

The 1987 provision includes the 1987 second quarter special addition of $1.6 billion to the Reserve for Possible Credit Losses, which was made as a result of the Corporation's view of changing worldwide economic conditions and the difficulties being encountered in the structural adjustment process by the refinancing countries.

SOURCE: CHASE MANHATTAN, 1988 ANNUAL REPORT

D. The Determination of Net Loan Losses from General Provisions

A loan loss occurs when management determines that all or part of an outstanding loan is no longer collectible, and as such the asset is no longer viable at its present outstanding balance. Sometimes management's determination is either influenced or forced by examination of the portfolio by an external auditor or bank supervisor. This outside review is often considered essential to ensure asset quality is not solely judged by overly optimistic management.

Loan losses reduce profits which, in turn, reduces capital. Since a general provision is established and replenished by transfers which are an expense, the actual charge-off does not lower profits but the transfer to restore the balance of provisions will do so.

A charge-off is simply an accounting entry which writes down the carrying balance of the loan while also reducing the general provision.

As an example, assume a bank has total loans of $100 million and a general provision of $1.5 million:

Loans		General Provision	
Dr.	Cr.	Dr.	Cr.
100,000,000			1,500,000

Management determines that loans totaling $800,000 will not be collected and chooses to charge them off. The entry is a credit to loans and a debit to provisions as follows:

Loans		General Provision	
Dr.	Cr.	Dr.	Cr.
100,000,000	800,000	800,000	1,500,000

The resulting entry has reduced both loans (to $99,200,000) and general provisions (to $700,000).

Banks, however, do not usually cease collection efforts once loans have been charged off. If collection efforts result in even partial success, the funds received are called recoveries (on previous charge-offs). The loan balance is not reinstated on a recovery, but is instead reflected in cash and in the general provision. For example, assume an eventual $200,000 recovery on loans charged off above.

Cash		General Provision	
Dr.	Cr.	Dr.	Cr.
200,000		800,000	1,500,000
			200,000

Even after the recovery, general provisions are only $900,000. Given the need to restore the general provision to the prior level and perhaps increase it to reflect loan growth, management decides to transfer $700,000 to the provision which comes out of the income statement as an expense. The entries to the general provision now show:

General Provision	
Dr.	Cr.
800,000	1,500,000
	200,000
	700,000

The year-end balance is $1,600,000 derived as follows:

BEGINNING BALANCE:	$1,500,000
LESS: Charge-offs	800,000
ADD: Recoveries	200,000
ADD: Transfers to the provision	700,000
ENDING BALANCE:	$1,600,000

To calculate the net loan losses, simply subtract recoveries from charge-offs. In this case it is $600,000. Net loan losses give credit to amounts recovered from previously charged off loans and are a more accurate measurement of asset quality, on an historical basis, than charge-offs alone.

While net loan losses do not predict future asset quality (only the past-due loan percentage provides such an indicator) they do give the best reading of prior asset quality when measured as a percentage of average total loans. Though a wide variety of factors can affect net loan losses ranging from economic conditions to the rigidity of external auditors and supervisors, a 1 percent of total loan benchmark is commonly used. Thus, if net loan losses exceed 1 percent of total loans, asset quality has probably had weaknesses. Again, an upward trend in this ratio is adverse, while a volatile ratio may indicate the bank "cleaned house" on its problem loans in a given year.

E. The Use of Specific Provisions as Compared to General Provisions and Combined Methods of These Types of Provisions

While usage of general provisions as described above is predominant in U.S. banking and developing countries which have adopted American banking systems and methods, many banks rely on specific provisions. Unlike general provision which are for unidentified and potential future credit losses, specific provisions are created against individual loans where management has determined that all or a portion thereof is now unlikely to be collected. A bank's total of specific provisions is the sum of provisions made on these individual loans; thus specific provisions do not provide any cushion or protection against potential future credit losses.

In part, creation of a specific provision against a loan is tantamount to charging it off against a general provision, since it is at that time that the determination is made (in an accounting sense) that the loan, or a portion of it, is not collectible. However, a specific provision does not result in reduction of the loan balance. The book value is instead offset by the specific provision. Thus external auditors and bank supervisors reviewing a loan portfolio with specific provisions simply note that the bank's remaining exposure to such a problem loan is the gross balance less the specific provision.

Since specific provisions reflect management's estimate as to what portion of the portfolio is not collectible, the total of specific provisions will rise and fall in relation to overall asset quality (again, it is preferable that external auditors, supervisors or both have a role in approving the level of provisions). As such, a sharp rise in the

TABLE 3

EXAMPLE OF DETAILED PRESENTATION OF GENERAL PROVISION INCLUDING NET LOAN LOSSES AS A PERCENTAGE OF LOANS.

DETAIL OF CREDIT LOSS EXPERIENCE

IN MILLIONS OF DOLLARS	1988	1987	1986	1985	198
ALLOWANCE FOR POSSIBLE CREDIT LOSSES AT BEGINNING OF YEAR	**$4,618**	$1,698	$1,235	$ 917	$77
Deductions					
GROSS CREDIT LOSSES					
Consumer					
In Domestic Offices	**$1,352**	$1,075	$1,050	$ 642	$32
In Overseas Offices	**200**	196	122	77	6
Commercial					
Mortgage and Real Estate:					
In Domestic Offices	**15**	4	—	2	
In Overseas Offices	**9**	33	33	15	
Governments and Official Institutions (In overseas offices)	**218**	136	37	44	4
Loans to Financial Institutions (In overseas offices)	**27**	29	19	19	
Commercial and Industrial:					
In Domestic Offices	**89**	107	100	84	8
In Overseas Offices	**246**	308	300	278	13
	$2,156	$1,888	$1,661	$1,161	$66
CREDIT RECOVERIES					
Consumer[1]					
In Domestic Offices	**$ 219**	$ 184	$ 174	$ 111	$ 8
In Overseas Offices	**85**	63	40	23	1
Commercial					
Mortgage and Real Estate:					
In Domestic Offices	**—**	—	1	2	6
In Overseas Offices	**3**	14	3	1	4
Governments and Official Institutions (In overseas offices)	**1**	20	4	8	—
Loans to Financial Institutions (In overseas offices)	**2**	6	—	—	—
Commercial and Industrial:					
In Domestic Offices	**30**	40	27	25	25
In Overseas Offices	**64**	64	41	29	21
	$ 404	$ 391	$ 290	$ 199	$156
NET CREDIT LOSSES					
In Domestic Offices	**$1,207**	$ 962	$ 948	$ 590	$296
In Overseas Offices	**545**	535	423	372	211
	$1,752	$1,497	$1,371	$ 962	$507
Additions					
Provision for Possible Credit Losses	**$1,330**	$4,410	$1,825	$1,243	$619
Other (Principally from allowance balances of acquired companies and translation of overseas allowance balances)	**9**	7	9	37	34
	$1,339	$4,417	$1,834	$1,280	$653
ALLOWANCE FOR POSSIBLE CREDIT LOSSES AT END OF YEAR	**$4,205**	$4,618	$1,698	$1,235	$917
Ratio of Consumer Net Credit Losses to Average Consumer Loans	**1.50**	1.43	1.57	1.22	.78
Ratio of Commercial Net Credit Losses to Average Commercial Loans	**.84**	.78	.69	.63	.37

SOURCE: CITICORP, 1988 ANNUAL REPORT

year-end level of specific provisions indicates recognition of problem loans and thus deterioration of asset quality. When a problem loan improves in status, a previously made specific provision may be reduced or eliminated. The reduction in specific provisions goes to profits, just as an addition to specific provisions is an expense. As a result, a net decrease in specific provisions normally indicates a favorable trend in asset quality. This occurs when reductions in specific provisions (on improved loans) exceed increases in such provisions on loans in a deteriorating status.

A loan in which a specific provision has been established may eventually be charged off. Normally, this occurs years later after all legal and other collection efforts have failed. A charge-off to a specific provision has no impact on profits; it simply reduces the loan balance and the amount of provision. However, it is important to distinguish charge-offs to a specific provision from reductions due to improved status. This breakdown is provided in the II(J) schedule of the LPG Part IV questionnaire in Annex B.

Like general provisions, specific provisions only give indications of prior asset quality and do not project the future. Also, many variables go into their determination, not the least of which is management's degree of conservatism in determining what loans are not collectible. Still, if total specific provisions exceed 3 percent of total loans, the level is high and indicates prior asset quality problems.

A greater degree of insight is possible using the trend of specific provisions. After separating the charge-offs to the provision, the net increase to specific provisions is, in effect, net loan losses for the year,

and a rising trend is adverse. This is unlike general provisions where a rise may reflect a prudent management policy. In turn, a trend of decreasing specific provisions would normally be seen as favorable.

Since specific provisions provide no cushion for future losses, some banks using specific provisions also maintain a general provision. Under such a system, the general provision is usually set at between 1 percent and 2 percent of total loans or risk assets as defined. Since specific provisions exist, there is no need to charge off loans against the general provision. Thus, the bank has the benefit of two sets of provisions, one to recognize present problems in the portfolio and another as a contingency for a large and unforeseen future problem. Such a combined system of provisions should normally be viewed favorably.

F. Drawing Conclusions from Asset Quality Ratios

As previously stated, a full determination of asset quality requires an on-site review of the loan portfolio. Such reviews determine if there are problem loans which management has yet to recognize. For example, a financial analysis of an individual loan may disclose imminent problems even if the payment status is current.

Short of an on-site examination, an indication of asset quality can be determined through: past-due/non-performing data, the level of provisions (either general or specific), and the recent history of net loan losses. Of these, only the past-due/non-performing ratio provides any indication of the future trend of asset quality. Data on provisions and net loan losses can only give a look back at recent history.

While reported data and ratios do not provide a definitive answer to asset quality, the combined use of these ratios provides useful insight. Any financial institution showing high and increasing ratios of past-due/non-performing combined with significant increases in transfers to provisions and high and increasing levels of net loan losses is virtually certain to be experiencing asset quality problems. It is important to combine these indicators, especially the past-due/non-performing percentage, with net loan losses as certain types of financial institutions (especially finance companies) rely heavily on security, and actual losses may be very low in relation to the levels of arrears.

Since so many variables exist with asset quality data, strict reliance on benchmarks with regard to ratios can be misleading. Still, Table 4 provides some broad indicators with regard to level and trend. In most cases, more emphasis should be placed on the trend than on levels taken in isolation.

TABLE 4

BROAD BENCHMARKS FOR ASSET QUALITY RATIOS

TYPE	LEVEL OF CONCERN	TREND
Past-due/Non-Performing: (90 day standard definition)		
Commercial Banks	5 percent or higher	Upward is adverse
Finance Companies	15 percent to 20 percent or higher	Upward is adverse
Development Banks	15 percent to 20 percent or higher	Upward is adverse
General Provisions (all institutions)	Less than 1 percent, or more than 3 percent*	Steady pattern is favorable, sharp changes usually adverse
Specific Provisions	3 percent or higher	Upward is usually adverse
Net Loan Losses (charge-offs less recoveries on general provisions or net annual increase in specific provisions)	1 percent or higher	Upward is adverse

CHAPTER IV

DETERMINATION OF CAPITAL ADEQUACY

A. The Importance of Adequate Capital

Capital, also known as shareholders' equity, serves a variety of roles for financial institutions. However, from a prudential point of view, its purpose is as a cushion to protect depositors. Since banks and other types of financial institutions engage in risk, primarily through lending, capital absorbs losses that otherwise would be borne by depositors. Since the bank supervisor's prudential function is to insure depositors funds are safe, the supervisor normally views capital on a "the more the better" basis. Capital is, of course, measured in terms relative to the size of the financial institution. Thus, a well capitalized bank is a bank whose amount of capital is large in comparison to its size.

While it is simplistic to state that well capitalized banks are good banks and poorly capitalized banks are weak, the capital ratio is usually the indicator supervisors and analysts will look at first in determining a financial institution's overall strength. Thus, while there are exceptions, well capitalized banks are usually stronger overall than banks with marginal capital.

It is important to note that new financial institutions will almost always have strong capital ratios in their first few years as the capital to assets ratio is 100 percent on the first day of business. As deposits and other types of borrowing accumulate over time, the capital ratio

will naturally decline. Normally, this intentional leveraging takes up to five years, and high capital ratios of banks younger than that should be partially discounted.

The adequacy of capital cannot be separated from asset quality and profits. Banks with high asset quality will not have capital impaired to any extent from high loan losses. Also, highly profitable banks have the capacity to generate capital internally, provided that a large portion of earnings is not paid out in dividends. These relationships among financial factors are part of the reason supervisors and analysts usually equate well capitalized banks with well run banks.

B. The Various Types of Statutory Capital Requirements

Most banking laws in developing countries include a capital requirements. It usually consists of two parts. The first part is a minimum or initial amount of capital needed to open for business. In countries where the laws have not been recently revised or high inflation exists, these minimum levels are usually quite inadequate. Thus, the significant requirement is the second part where capital, as defined, must equal a certain percentage of either liabilities to the public, total liabilities, or total assets.

Some of these statutory capital requirements have become outdated as measurements of capital have evolved. In some countries, not all forms of freely available equity capital can be included in meeting the legal requirement. In turn, measuring capital liabilities to the public excludes many types of borrowed funds and does not properly reflect risk.

Statutory capital requirements are, however, very important because they so heavily influence banks' capital levels. Banks will seldom choose to be capitalized well above legal requirements. Thus, a country with low capital ratios in its law is likely to have banks that are, in general, highly leveraged, especially in comparison to banks in a country where the legal standards for capital are stiff.

C. Capital as Viewed by Supervisors as Compared to Shareholders

Part of the reason banks tend not to build capital levels well in excess of statutory requirements is that it often runs against the interests of existing shareholders. Bank capital is usually increased in one of two ways. The first is through retention of net income as opposed to paying out profits to stockholders. Thus, stockholders will receive less in cash dividends if the bank chooses to build up capital through retained earnings. The second is through new share issues which dilute the value of existing shares. This is because return on equity (net income as compared to capital) and earnings per share are reduced when the number of shares outstanding is increased.

As a result, it is the role of the bank supervisor to determine what is a minimum level of capital adequacy for banks and other deposit taking institutions in a financial sector. While supervisors always view additional capital as being favorable, the capital requirements must also take into account the ability to raise new funds within the financial environment, and, to some extent, the interests of existing shareholders.

D. Benchmarks for Basic Capital Ratios

While a considerable amount of recent work has been done toward creating a standardized international capital measurement which takes risk into account (as discussed in Sections E through G below), capital adequacy is still most commonly measured by a basic capital ratio which compares stockholders' equity to total assets. Stockholders' equity consists of paid-in shares (common stock plus certain types of preferred stock), surplus, retained earnings, and other freely available reserves such as statutory reserves (retained earnings required by law). The advantage of the basic capital ratio is that it can be quickly calculated from any balance sheet. This allows a straightforward comparison of capital to other banks in the same country and globally, as well as providing a clear trend.

While calculating the basic capital ratio is simple, determining what is an adequate level is not. The ratio varies widely even among countries with well developed banking sectors as shown in Table 5.

Among the 21 countries shown, banks in Japan and West Germany rank at or near the bottom, yet few analysts would doubt that these are highly developed financial sectors dominated by well run banks. Their low capital ratios are generally the result of low statutory requirements, stiff competition which has reduced retained profits, and undisclosed or "hidden" reserves which would boost capital if included in stockholders' equity.

Given the variances in well developed financial sectors, it is simply not possible to set a meaningful benchmark for the basic capital ratio

TABLE 5

BASIC CAPITAL RATIO

IN WELL DEVELOPED FINANCIAL SECTORS

AVERAGE CAPITAL/ASSETS RATIOS

Country	Number of Banks in World's Largest 1000	Capital/ Assets (percent)
Singapore	5	10.76
Australia	10	7.11
Denmark	16	6.37
Spain	37	6.21
UK	31	5.92
US	205	5.85
Ireland	2	5.79
New Zealand	1	5.71
Switzerland	35	5.66
Sweden	12	5.54
Italy	110	5.44
Canada	8	5.14
Hongkong	7	4.67
Portugal	10	4.63
Greece	6	4.52
Netherlands	9	4.18
France	30	3.35
Luxembourg	7	3.24
West Germany	103	3.22
Belgium	11	2.83
Japan	109	2.67

SOURCE: The Banker, July 1989

of banks in developing countries. In general, however, banks in developing countries have higher basic capital ratios than banks in the countries shown above. A very broad benchmark for a basic capital ratio for banks in a developing country would be 5 percent to 6 percent. Lower than 5 percent usually implies a marginal position, while higher than 6 percent is normally satisfactory. It is, however, more useful to compare a bank's basic capital ratio to other banks in the same country. A high rank in the basic capital ratio within the same country is usually more significant than comparisons to banks in other countries.

Finally, the trend in the basic capital ratio is significant. The ratio measures whether or not the growth in capital funds is keeping pace with asset growth. A downward trend in the ratio is adverse and indicates capital growth, usually through earnings retention, is not sufficient and measures to boost capital will eventually be needed.

E. The Modern Risk Based Approach to Capital Adequacy Both On and Off the Balance Sheet

While the basic capital ratio has simplicity and ease of comparison as its major attributes, supervisors and analysts have been well aware that it is not a perfect measurement. The major shortcoming is its inability to measure the degree of risk being taken by the bank both on and off the balance sheet. With regard to the balance sheet, two banks of the same size may have vastly different risk profiles. A bank with a high portion of its assets in cash, balances with other banks, and government obligations will have a lower level of risk than a peer whose assets are largely in unsecured loans and premises.

Since capital, in a prudential sense, is intended to protect depositors against losses arising from risk, the second bank should be required to have a higher capital base given its greater risk profile on the balance sheet.

The second shortcoming is that the basic capital ratio ignores risks taken off the balance sheet. In recent years banks have looked increasingly to off balance sheet activities to improve earnings. These include guarantees, letters of credit, trading activities, and complex financial arrangements such as interest rate swaps. Since the basic capital ratio only measures capital to total assets, the risk impact of these expanding activities needed recognition.

During the 1980s, the impact of widely differing capital requirements among major countries with internationally active banks became an issue. The goal was to create a "level playing field" for the major banks with regard to capital requirements. The task for creating an international capital adequacy standard was assumed by the Basic Committee on Banking Regulations and Supervisory Practices, which is composed of bank supervisors from 10 countries with large financial sectors and internationally active banks. The committee's work took several years and was intended to provide a standardized capital requirement for internationally active banks and to quantify capital needed based on risk. This second goal led to a complex but far more precise capital ratio. While it is intended for major multinational banks, its use, at least in part, extends to banks worldwide.

F. The New International Capital Adequacy Standard and its Calculation

The agreement by the Basle Committee on a capital adequacy has become known as capital convergence. Capital convergence has serious implications for the major multinational banks, some of which will have to improve their capital positions to meet the year-end 1992 final implementation. While not legally binding, the capital convergence agreement has been sent to all bank supervisors including those in developing countries. Since there is a wide consensus of cooperation among all bank supervisors, the agreement is likely to have an impact in certain developing countries. At a minimum, most supervisors will choose to determine how their banks compare to this international standard.

The worksheet shown in Table 6 gives an example of how the new ratio can be calculated. Capital is divided into two tiers, core and supplementary. Core capital is virtually the same as equity capital and includes both paid-in capital and disclosed reserves. Supplementary capital includes revaluation reserves on assets reflecting current value, unencumbered general provisions, and hybrid capital instruments which have characteristics of both equity and debt.

Once calculated, both core capital and total capital (core plus supplementary) are compared to on and off balance sheet items each of which has been assigned a risk factor ranging from 0 percent for cash and balances with the central bank to 100 percent for private sector loans. The capital ratio is thus based on capital as a percentage of the weighted risk of both on and off balance sheet

items. Thus, banks with large amounts of lower risk items will show higher capital ratios.

In addition to the risk weighting concept, capital convergence draws a distinction between core (equity) capital and other forms deemed to have lower value. Preliminary reaction to the agreement indicates more emphasis will be given to the core capital ratio, and some countries are of the view that core capital should be the only form of eligible capital.

G. Benchmarks for Risk Based Capital Adequacy Standards

As shown on the sample worksheet, the calculation for the capital convergence ratio is complex. Also, the data called for in making this determination may not be available in financial information provided. In turn, preliminary calculations of the new ratio for major banks indicates those with a high basic capital ratio also show a high ratio under this risk weighted approach. As such, it is probably not necessary to calculate the capital convergence ratio on banks which already show a strong or satisfactory basic capital ratio. Instead, use of this ratio should probably be confined to banks whose basic capital ratios appear marginal at best and have provided sufficient detail to complete, at least in part, the sample worksheet. It should be noted that Sections III and IV(B) of Part IV of the LPG application (Annex B) do call for information needed to calculate the risk weighted capital ratio.

The appropriate benchmark should be the ones given in the agreement. Thus, if core capital alone equals 4 percent of the

TABLE 6

SAMPLE WORKSHEET FOR RISK WEIGHTED CAPITAL RATIO UNDER CAPITAL CONVERGENCE

ASSETS AND OFF-BALANCE SHEET ITEMS

TYPE	BALANCE	RISK FACTOR	TOTAL
ASSETS			
Cash	____	0%	____
Due from Central Bank	____	0%	____
Loans guaranteed by government	____	0%	____
Due from domestic banks	____	20%	____
Due from foreign banks under 1 year	____	20%	____
Cash items in process of collection	____	20%	____
Loans to parastatals	____	50%	____
Real estate (owner occupied)	____	50%	____
Private sector loans	____	100%	____
Due from foreign banks (more than 1 year)	____	100%	____
Bank premises	____	100%	____
Other real estate	____	100%	____
Other assets	____	100%	____
Sub-Total - Total Assets	____	____	____
OFF-BALANCE SHEET			
Guarantee and acceptance (direct credit substitutute)	____	100%	____
Performance bonds, etc. (transaction related)	____	50%	____
Self-liquidating: trade-related	____	50%	____
Formal commitments, credit lines (original maturity over 1 year)	____	50%	____
Commitments under 1 year or can be cancelled	____	0%	____
Forward foreign exchange contracts (over 7 days an under 1 year)	____	2%	____
Total - Weighted risk			____

CAPITAL ELEMENTS

Paid-up share capital	____
Share premium	____
Share capital reserves	____
Statutory reserves	____
Retained income	____
Sub-Total Core capital	____
Asset revaluation reserves	____
Unencumbered general provisions	____
Sub-Total Supplementary capital	____
Total Capital (core + supplementary)	____

RATIOS

Core capital + weighted risk (minimum to be 4%) ____

$$\frac{\text{Core capital}}{\text{Weighted risk}} = ____$$

Total capital + weighted risk (minimum to be 8%)

$$\frac{\text{Total capital}}{\text{Weighted risk}} = ____$$

weighted risk total and if total capital equals 8 percent of the same total, the bank should not be considered undercapitalized. However, if these ratios are barely met, the capital rating should probably be only fair.

CHAPTER V

DETERMINATION OF PROFITABILITY

A. The Role of Profits as a Source of New Capital

The major source of new capital for a financial institution is the profits retained after taxes and dividends paid to shareholders. While capital can also be increased through new share issues or a capital injection from owners or a parent organization, most additional capital comes from retention of earnings. Thus, supervisors and analysts look closely at profits to see if the level is sufficient to enable capital to keep pace with asset growth.

In addition to being a source of new capital, profits are considered the primary measurement of overall bank performance. Banks with high profit ratios are considered to be top performers. Like any other type of business, maximization of profits is a primary goal of management, and banks that consistently show profit levels above their peers are usually deemed to be well managed.

B. Measuring Overall Profitability Through Return on Average Assets

In recent years, supervisors and analysts have generally reached a consensus on the best ratio for evaluating bank profits. Like the basic capital ratio, it is both simple to calculate and easily compared to other banks. It is known as return on assets or ROA. It is simply net income after tax divided by total assets. However, the preferred ratio is return on average assets since a return on year-end assets will

show a distortion with banks that have rapid growth during the year in which the profits were earned. Average assets are calculated on a daily basis in some sophisticated banks, but when such information is not available, the financial year-end total assets and the prior year-end total assets may be averaged.

Some countries emphasize pre-tax profits as compared to total assets under the assumption that management cannot control or influence tax rates. However, since only net income after tax results in amounts available for dividend payout and retention, return on average assets is becoming the standard norm.

The other profit ratios sometimes calculated are similar to those used in other types of business. These are earnings per share and return on equity (capital). Earnings per share is, of course, dependent on number of shares outstanding and is thus only of keen interest to stockholders. Return on equity obviously gives an indication of how well the bank has performed in relation to funds invested. But in turn, it rewards poorly capitalized or highly leveraged banks. For example, if two banks both have $100 million in assets and each earn $1 million in a year, their return on assets is each 1 percent. However, if Bank A has $10 million in equity capital and Bank B has only $5 million, the return on equity for Bank A is 10 percent, while it is 20 percent for Bank B. Thus, Bank B shows a better return on equity simply because it is more highly leveraged (poorly capitalized) than Bank A.

While return on average assets is preferable to return on equity, it still does not take into account earnings derived from off the balance

sheet. Banks which are able to generate significant amounts of income from fee related or trading activities do so without adding on new assets. Thus, non-interest income has become a high priority for most competitive banks. While supervisors and analysts are well aware of this trend and closely study the levels of non-interest income, the return on average asset ratio remains the industry standard for measuring profitability.

C. The Composition of Profits Through Net Interest Income, Non-Interest Income, and Non-Interest Expense

While the return on assets ratio measures overall profitability, supervisors and analysts want to understand what aspects of operations were key in determining earnings performance, regardless of whether profits are high, low, or average. In order to provide a clear analysis, most income statements of banks will show a breakdown as follows:

1) Interest income;
2) Interest expense;
3) Net interest income (1 less 2);
4) Provision for loan losses;
5) Net interest income after provisions (3 less 4);
6) Non-interest income;
7) Non-interest expense;
8) Pre-tax income (5 plus 6 less 7);
9) Taxation; and
10) Net income (8 less 9).

TABLE 7

EXAMPLE OF INCOME STATEMENT WITH BREAKDOWN OF NET INTEREST INCOME, TRANSFERS TO PROVISIONS, NON-INTEREST INCOME AND NON-INTEREST EXPENSE

	1988	1987
INTEREST INCOME		
Interest and fees on loans	₱578,945,520	₱360,980,951
Interest on:		
Trading account securities	136,754,409	64,067,632
Deposits with banks	95,892,059	63,241,441
Interbank loans and securities purchased under agreements to resell	31,372,070	18,608,906
Investment securities	15,746,735	19,571,933
	858,710,793	526,470,863
INTEREST EXPENSE		
Interest on:		
Deposit liabilities	440,618,653	238,309,782
Bills payable and other borrowings	23,431,849	12,278,805
Interbank loans and securities sold under agreements to repurchase	8,600,518	3,369,595
	472,651,020	253,958,182
NET INTEREST INCOME	386,059,773	272,512,681
PROVISION FOR LOAN LOSSES	85,800,372	54,857,488
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	300,259,401	217,655,193
OTHER INCOME		
Foreign exchange profit	91,457,946	74,330,075
Service charges, fees and commissions	78,073,333	62,821,189
Miscellaneous	44,821,084	42,650,155
	214,352,363	179,801,419
OTHER EXPENSES		
Compensation and fringe benefits (Note 8)	152,872,017	139,052,260
Taxes and licenses	59,821,938	42,119,654
Occupancy and equipment related expenses (Note 11)	57,768,980	62,215,203
Other operating expenses	93,691,458	77,928,193
	364,154,393	321,315,310
INCOME BEFORE INCOME TAX	150,457,371	76,141,302
PROVISION FOR INCOME TAX (Note 7)	250,680	541,035
NET INCOME	₱150,206,691	₱ 75,600,267

SOURCE: SOLIDBANK, PHILIPPINES 1988 ANNUAL REPORT

This format allows a separate analysis of each major component of bank profitability. The lending component and the cost of funding such lending are shown in net interest income. This provides an analyst with net interest margins when net interest income is divided by total earning assets (interest bearing assets) and/or average total assets. Since amounts transferred to provisions relates to the lending function, it is shown after net interest income and often a caption is given for net interest income after provisions.

As previously mentioned, increasing attention is being given to non-interest income which primarily consists of fees, service charges, and trading income such as foreign exchange. Banks whose profitability is well above the norm for their peers usually have exceptional levels of non-interest income.

Non-interest expense is composed of salaries and other staff costs plus expenses involving premises and all other miscellaneous costs. Just as highly profitable banks tend to show high levels of non-interest income, banks with weak earnings often display high levels of non-interest expense. Such expenses usually become the prime focus of management since they can be controlled or reduced more easily than interest expense.

As is true with asset quality and capital, the components of the income statement can be made into ratios and analyzed as to trend and in comparison to banks. However, this process is usually more difficult with developing countries as details on the income statement are often not disclosed. As a result, Section V(B) in LPG Part IV

in Annex B calls for the basic components of the income statement for the past 3 years.

D. Benchmarks for Return on Average Assets

For the vast majority of banks in developing countries, the earnings analysis can be confined to the return on average assets ratio. As shown above, components of the income statement can disclose why a bank has been profitable or unprofitable, but this degree of analysis usually requires comparative data on other banks and may often not be necessary.

As is true with the basic capital ratio, the trend of the return on average assets ratio is likely to be at least as significant as the level. Also when comparative data is available for other banks within the country, emphasis should be given to the ranking of a bank within its own country rather than to a broad global benchmark. Major factors dictating the level of bank profits within a given country would include the health of the economy, the degree of competition within the financial sector, and the extent of deregulation.

On average, banks in developing countries show a higher return on average assets than banks in industrial countries. This is primarily due to lack of stiff or genuine competition in many financial sectors.

Taking into account all of the above variables, the following can be used as a broad benchmark for the return on average assets ratio:

LEVEL	RATING
Below 0.5 percent	Marginal to unsatisfactory and indicative of a clear earnings weakness
0.5 percent to 1.0 percent	Fair, though above average in some competitive financial sectors
1.0 percent to 2.0 percent	Satisfactory even though this level may be below the average in certain developing countries
2.0 percent to 3.0 percent	Strong by any measure, though possibly due to lack of competition
Over 3.0 percent	Strong to excessive and indicative of lack of competition or windfall (one time only) profits

CHAPTER VI

DETERMINATION OF LIQUIDITY

A. The Role of Liquidity in Financial Analysis

Bank liquidity, in a prudential context, is the ability to rapidly convert assets into cash without loss to meet obligations. Banks fail in one of two ways, either they are declared insolvent (usually by the supervisory authority) or they fail to meet an obligation to depositors or other creditors. The former concerns capital, the latter concerns liquidity. Insolvency is analogous to cancer as a slow deterioration, usually through asset quality. A liquidity crisis is more like a heart attack, sudden panic on the part of depositors who have lost faith in a financial institution. The most severe form of a liquidity squeeze is a run on the bank. These are, however, usually caused by public awareness of other problems, most often asset quality.

Supervisors wish to insure that financial institutions have sufficient liquidity to meet normal and even unforeseen obligations. Such determinations are usually imprecise as no one can predict the level of liquidity needed if there is a loss of public confidence in a specific institution or the financial sector in general. Still, supervisors will judge liquidity through monitoring of reported data and from on-site examinations. At the end of an on-site examination, liquidity is rated along with the other CAMEL components.

For an outside analysis of a financial institution such as an LPG guarantee program or direct lending, liquidity is usually less significant

than asset quality, capital, and earnings. Financial institutions that are sound in those three areas are unlikely to mismanage their liquidity or be victims of depositor panic. No institution can be fully protected from a systemic banking panic, but well managed institutions will, of course, be the least affected. Thus, banks which encounter liquidity problems usually either have had other weaknesses or the squeeze is a system-wide concern.

Adequate liquidity is also very difficult to measure through off-site analysis. Liquidity ratios do exist, of course, but the American supervisory experience shows that most liquidity ratios do not take into account certain key factors that are explained below.

B. The Pitfalls of Simplistic Liquidity Ratios and Liquid Asset Requirements

Most developing countries rely on ratios and requirements to ensure bank liquidity. These requirements usually have a monetary policy role as well as serving a prudential purpose. Most banking laws allow the authorities to raise or lower liquid asset requirements (as well as reserve requirements) for monetary policy purposes. In the U.S., reserve requirements serve a monetary policy function only, and there is no liquid asset requirement for prudential purposes.

The typical liquid asset requirement in a developing country defines cash, balances with the central bank and other banks, and government obligations (treasury bills, etc.) as liquid assets. These liquid assets must be at least equal to a percentage of deposit liabilities to the public. The percentage varies by type of deposit with the highest for

current accounts (demand deposits), next highest for savings accounts, and a decreasing percentage for time deposits as maturities lengthen. A liquid asset requirement can be designed for all types of financial institutions and is usually lower for those which do not accept demand deposits.

In countries where such liquid asset requirements are in law, the authorities tend to presume any financial institution which meets the requirement is sufficiently liquid. When such requirements are met with a surplus, excess liquidity is thought to exist.

While determination of liquidity through a liquid asset requirement is straightforward, it is usually too simplistic. The major flaw is the assumption that potential obligations (deposits and borrowings) can be quantified through the maturity structure. Also, such ratios and requirements ignore the institution's capacity to raise funds on very short notice. These aspects are explained below.

C. The Impact of Funding Volatility on Bank Liquidity

Recent experience has led American bank supervisors to place emphasis on the volatility of the funding base in determining a bank's liquidity rather than the maturity structure. Events involving major banks in weakened conditions in the 1980s have shown that banks with a large base of "core" deposits can generally withstand adversity far better than banks which rely on volatile funds. Core deposits are usually defined as the average level of demand deposits, all savings deposits, and small time deposits. Banks with an extensive branch network which produce a large number of depositors maintaining relatively small average balances are considered to have a large core

deposit base. In turn, banks without branch networks and those which rely heavily on time deposits over $100,000 and other forms of "purchased funds" have a volatile funding base. Experience has shown that these volatile funds are the first to be withdrawn when adverse financial circumstances become known.

This emphasis on the volatility of funding has led to a "volatile liability dependence" ratio used in the UBPR (Annex A). In general, this ratio alerts supervisors as to banks which may be susceptible to rapid withdrawals of funds due to their reliance on volatile liabilities.

D. The Importance of Access to Money Markets and Other Sources of Liquidity

Liquid asset ratios cannot measure how rapidly a financial institution can acquire funds to meet various obligations. In sophisticated financial sectors such as the United States, banks and other types of financial institutions usually only have to pick up the phone to acquire funds to met liquidity needs. The Federal funds market connects banks in an excess liquidity position with banks in temporary need of funds, usually on an overnight basis. In addition, many if not most financial institutions have lines of credit they can draw upon instantly.

While such sophisticated money markets usually do not exist in developing countries, management of banks and other types of financial institutions are expected to have contingent sources of liquidity available. In many cases, this will be the central bank itself. The discount windows of central banks are primarily intended to provide short term liquidity needs for financial institutions. In

developing countries where shortfalls in bank liquidity are common, the central bank, usually through the bank supervision function, will closely monitor liquidity of financial institutions in order to be prepared for usage of discount window facilities.

E. Methods of Off-Site Analysis of Liquidity

The above sections have explained that liquidity will usually be of less importance than asset quality, capital, and earnings in analysis of financial institutions for most guarantee and direct lending programs, and liquidity ratios do not give the full picture of whether or not liquidity is sufficient. Keeping this in mind, the analysis of liquidity should primarily rely on the institution's liquidity as compared to required levels and on the trend shown in basic liquidity ratios.

Section VI of Part IV of the LPG Questionnaire (Annex B) asks for the liquid asset requirement imposed by the supervisory authority as well as internal policies, guidelines, and ratios used by management. It is best to calculate liquidity using the same formula as these external and internal standards and compare the actual to the requirement. As indicated, no liquidity ratio covers all aspects of liquidity, but indications are best drawn taking into account the liquidity standards for that particular institution.

The other approach is to look at the trend of liquidity. Two broad ratios can be used. The first is to calculate liquid assets, usually defined as cash, due from the central bank and other banks, and government obligations as compared to deposits and other borrowed funds. This ratio will not tell if liquidity is sufficient, but an upward

trend does indicate an increased level of liquidity and is thus favorable. The second ratio is to compare loans (and leases) to either deposits and borrowings or to total assets. Since loans are generally not liquid, an upward trend in this ratio shows a tighter liquidity position and would normally be adverse.

In summary, the measurement of liquidity is more difficult to determine than capital or profitability as no single ratio is comprehensive. Thus, off-site liquidity analysis can only be partial and must rely on liquidity as compared to requirements and the trend of liquidity.

CHAPTER VII

QUALITATIVE FACTORS

A. Bank Ownership and Its Implications

Any attempt to look beyond the numbers in analyzing a bank or other type of financial in a developing country should begin with ownership. A seemingly weak quantitative position can be virtually negated with strong ownership, while apparently strong ratios can soon deteriorate under weak or misdirected owners.

Many leading banks in developing countries are tied to major multinational banks through their ownership. The strongest link is when the bank is organized as a branch of a major multinational bank. Under this arrangement, the activities of the branch are secondary to the policies and reputation of the overall bank. Major American and European banks with wide experience in a variety of developing countries obviously add financial strength and management to their branch operations.

When a bank is a majority owned subsidiary of a major multinational bank, the tie is nearly as strong as a branch. However such banks are legally incorporated in the developing country, and the Board of Directors usually has local representation. Still, major policies and management of majority or wholly owned subsidiaries are controlled by the parent bank.

Less control exists in joint venture banks where the foreign bank holds 50 percent or less of shares. In such joint ventures, policies may not fully reflect the foreign bank's approach, but senior management is usually seconded from it. Finally, a major bank may have little or no ownership in a bank in a developing country but may be providing management through either a management contract or technical assistance agreement. Such an arrangement allows the Board of Directors to implement policies that are suited to the local environment but with management that has a broad banking background.

When no foreign bank presence exists either through ownership or management arrangements, the financial institution must obviously be viewed as a purely indigenous entity. Many such local institutions may be as strong or stronger than those with links to a foreign bank, especially those with a long established tradition and close ties to top tier businesses. In general, however, greater weight has to be given to the quantitative factors, particularly asset quality and capital, in analyzing an indigenous financial institution.

B. The Value of Bank Checks and Other References

Since qualitative aspects involve opinions, a logical source is a major U.S. bank (usually a New York based bank) that has or had a correspondent relationship with the bank being analyzed. Normally, this type of reference is only of value in analyzing commercial banks, as such relationships seldom exist with other types of institutions.

The nature of the relationship between the multinational bank and the bank being reviewed is important. Most are normally confined to trade related financing which is short-term and self-liquidating. Banks which are active in these operations are normally willing to provide general comments on the specific institution and the financial sector in which it operates. The best source for such a reference check is the desk officer assigned to that particular country. This officer will probably have responsibility for all banks in a certain country so his or her opinions may be made in a comparative context. Normally, the officer is willing to discuss how satisfactory the correspondent relationship has been, the extent of the relationship (and whether it includes a lending component), his opinion of management, and his view of where the bank is placed within the market as to size and reputation (first tier, middle level, etc.). Usually, such desk officers will not be able to comment on quantitative data, such as why a capital ratio appears low, etc., but information may be provided as to economic or overall financial conditions that have affected a bank's asset quality or performance.

These references from bank checks will tend to portray the bank being analyzed in a favorable light assuming a correspondent banking relationship continues. It should be noted that very few trade related correspondent banking relationships go sour, and a direct lending relationship is far more significant and will give greater insight. Still, a desk officer with an in-depth knowledge of a country's financial sector and the individual bank under review can provide useful comments.

References beyond desk officers at major banks are scarce. Most bank rating agencies confine their work to major countries. Obviously if a contact exists with another bank in the same country, it should be pursued. One other logical source is the USAID mission in the particular country if an individual there has familiarity with the financial sector.

C. Comments by the Supervisory Authority

Normally the best possible source for comments on a financial institution in a developing country is the supervisory authority. If supervision of financial institutions is being done thoroughly, the supervisor will have a professional opinion about each financial institution under his supervision. Such opinions will probably be based on both quantitative and qualitative aspects.

While such insight can, of course, be very valuable, many if not most supervisors in developing countries are highly reluctant to give opinions on institutions to anyone outside the supervisory process. The relationship between supervisors and the financial institutions they supervise remains confidential. In addition, the first priority of bank supervisors is maintain public confidence in the institutions they supervise, and disclosing unfavorable information runs counter to that role. Still in recent years, supervisors have moved toward a more open dialogue on their institutions with other supervisors in other countries. This is in line with the international consensus on the need for cooperation in bank supervision. While this does not as yet formally extend to international agencies or donor organizations, the "taboos" on discussing individual institutions are not as strong as they

once were. Still any discussion with a bank supervisor regarding a specific institution should be done in a very tactful manner.

Bank supervisors will, however, be quite open in discussing their procedures of supervision and aspects of prudential requirements and banking law. Thus, if questions cannot otherwise be answered with regard to, for example, how provisions are determined and who must approve them, the supervisor is obviously an excellent source.

In summary, contact with the supervisory authority should be done with care, if at all, and the confidentiality between supervisor and financial institution should be respected. However, in certain cases, the supervisor can answer questions or provide information not easily available from other sources.

D. New Institutions as Compared to Well Established Ones

Since many developing countries have licensed a significant number of new financial institutions in recent years, it is important to be aware of certain aspects of new banks as compared to those that have long been established.

As mentioned in Part IV, new banks will almost always show strong capital ratios as it takes several years to build up a deposit base. The capital ratio will certainly decline in the early years of operation. Also, asset quality data will differ for new banks (normally defined as those with less than five years of operation). Since all loans are, in theory, good loans at the time of origin, problem assets usually do not appear for several years. Thus, past-due and loan loss amounts

normally will appear very low. Also, provisions for loan losses may not yet exist, or only token amounts will have been set aside. Finally, new banks, in their eagerness to develop business, will often finance borrowers who previously have been rejected by established banks. Again, the potential asset quality problems from such policies may not appear for several years.

While the above aspects should not rule out relationships with new banks in developing countries, less reliance can be given to quantitative data. In turn, particular emphasis should be placed on ownership and the experience and capability of management.

CHAPTER VIII

FORMING CONCLUSIONS AND RECOMMENDATIONS

A. Establishing Priorities Among Financial Factors and Ratios

Chapter I explained the use of the five financial factors in the CAMEL rating system which consists of capital, asset quality, management, earnings, and liquidity. Since management is subjective, the quantitative aspects focus on the other four factors. In using the CAMEL system, bank supervisors normally place equal weight on each component, in large part because of the close interrelation of these factors. Supervisors, of course, are primarily concerned with protection of depositors' funds and avoidance of bank failures. In making an analysis of a financial institution for a guarantee program such as LPG, the four quantitative factors should be prioritized.

Asset quality is clearly the most important area as indicators involving past-due loans, provisions, and loan losses provide insight as to lending policy and management's ability to make sound lending judgments. A financial institution with worrisome asset quality indicators should be viewed with caution even if ratios in all other areas look strong.

Capital adequacy should be considered second only to asset quality. While there are exceptions, banks with strong capital positions are normally soundly managed and well regarded. In addition, a build-up of capital indicates the commitment of ownership to the financial institution. Next in order would be earnings, as profitability measures

overall bank performance. Also, there is normally a strong correlation between profitability and asset quality as provisioning and loan losses affect the income statement. While liquidity should not be ignored, it is less significant than the other three factors and is often dependent upon economic factors beyond the control of management. Also banks with satisfactory asset quality, capital, and earnings will seldom find themselves in a liquidity squeeze unless the problem is systemic.

B. Placing Quantitative and Qualitative Factors Within the Context of the Country and its Financial System

The focus of this manual excludes the vital aspect of country risk. Any program involving credit exposure to a developing country must take into account the macroeconomic conditions which will affect private sector borrowers. The best possible bank management will still face asset quality problems if economic conditions severely deteriorate. In turn, the process of analysis that has been explained is intended to provide a gradation of risk within the financial and economic context of a given country. To illustrate by example, the very best bank in Mozambique is probably going to involve greater risk than the weakest bank in Switzerland due primarily to macroeconomic circumstances. However, within virtually all countries there exists a vast range in quality of financial institutions, and the financial analysis process should clearly be able to distinguish between low, medium, and high risk institutions within the macroeconomic and financial context of a given country.

The process is greatly aided when comparative data is available on similar institutions and/or at least several institutions are being analyzed within the same country. The analysis of a single institution in a country without any comparative data necessitates much more guesswork. Section IX of the LPG Questionnaire (Annex B) is an optional request for banking surveys which, if in existence, are likely to provide useful comparative data regarding size, capital, and profits.

Where data are sufficient and financial information is seemingly reliable, the primary emphasis should be on quantitative factors, especially asset quality. One general exception, as discussed in Chapter VIII, is the analysis of new financial institutions where standard financial ratios are usually less applicable. As a broad rule, qualitative factors (opinions) tend to be more generous or favorable than numerical ratios. In turn, a qualitative viewpoint can help explain or justify worrisome financial data.

All of the above emphasizes the need for judgment in weighing various quantitative and qualitative aspects. While ratios and other indicators have their use, a clear-cut and foolproof system for evaluating and rating banks does not exist either in the U.S. or in the smallest developing country.

C. Criteria for a Low, Medium, and High Risk Rating System

At the outset of the 1989 bank analysis task for LPG, it was agreed that each financial institution reviewed would be assigned a risk rating of low, medium, or high risk. The criteria used for these ratings are as follows:

Low Risk: These are banks with strong reputations and/or affiliated with well regarded multinational banks through ownership or management contracts. They may also be indigenous banks which are highly regarded and well managed within their country. Low risk banks will also show favorable indicators of asset quality (where data is available), have strong or satisfactory capital and profit ratios, and indicate no worrisome levels or trends of liquidity.

Medium Risk: These banks may be viewed as acceptable within their circumstance but are not "first tier" in their country and lack affiliations with major multinationals. These are likely to be banks which show adequate capital and profit ratios, but may give indications of some asset quality concerns. Also, banks which appear satisfactory, but sufficient information simply is not available on asset quality, etc., will probably be rated as medium risk.

High Risk: Banks with clear weaknesses in asset quality, capital, or profits will be rated as high risk. In some circumstances, these problem areas may not be the fault of bank management. Instead they may be due to outside factors such as adverse economic conditions. A high risk rating represents a view that including the bank in the LPG Program should be done with the understanding that substantial claims under the guarantees are more likely given the financial position as presently analyzed.

In summary, the criteria shown above for LPG can also be made applicable to other programs involving extension of credit (either direct or through guarantees) to financial institutions in developing

countries. The analysis process for such institutions is far from an exact science as quantity and accuracy of financial information in most developing countries is far less than exists in the United States. Still, the American method of bank analysis involving a quantitative approach on asset quality, capital, profitability, and liquidity plus qualitative judgments on management is now widely accepted in developing countries, and analysis based on these concepts should provide a reasonable indication of the financial condition of institutions under review.

ANNEX A

Sample Form of a Uniform
Bank Performance Report
Used by U.S. Bank Supervisors

CERT # 99999 DSB # 99999999 XXXXXXXXXXXXXXXXXXXXXXXX(BANK NAME)XXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXX(CITYST)XXXXXXXXXXXXXX
CHARTER # 99999

XXXXXXXXX, 19YY UNIFORM BANK PERFORMANCE REPORT

INFORMATION

INTRODUCTION

THIS UNIFORM BANK PERFORMANCE REPORT COVERS THE OPERATIONS OF YOUR BANK AND THAT OF A COMPARABLE GROUP OF PEER BANKS. IT IS PROVIDED FOR YOUR USE AS A MANAGEMENT TOOL BY THE FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL. DETAILED INFORMATION CONCERNING THIS REPORT IS PROVIDED IN " A USER'S GUIDE FOR THE UNIFORM BANK PERFORMANCE REPORT " FORWARDED TO YOUR BANK UNDER SEPARATE COVER. ADDITIONAL COPIES OF THE USER'S GUIDE CAN BE OBTAINED USING THE 'ORDERING INSTRUCTIONS AND ORDER BLANK' ATTACHED TO THIS REPORT.

AS OF THE DATE OF PREPARATION OF THIS REPORT, YOUR BANK'S FEDERAL REGULATOR WAS THE XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

YOUR CURRENT PEER GROUP # 99
INCLUDES ALL INSURED COMMERCIAL BANKS HAVING ASSETS
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

FOR THE DEFINITION OF OTHER UBPR PEER GROUPS, REFER TO THE UBPR USER'S GUIDE.

ADDRESSEE

CHIEF EXECUTIVE OFFICER
XXXXXXXXXXXXXXXXXX(BANK NAME)XXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXX(BANK ADDRESS)XXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXX(CITYST)XXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXX 99999

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XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
(HOLDING CO. # 99999)
XXXXXXXXXXXXXXXXXXXXXXXXXXXX XX

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THE REPORTS OF CONDITION AND INCOME FOR THIS BANK CONTAIN ADDITIONAL INFORMATION NOT INCLUDED IN THIS PERFORMANCE REPORT, SUCH AS AN OPTIONAL NARRATIVE STATEMENT BY THE BANK.

CERT # 99999 OSB # 99999999 XXXXXXXXXXXXXXXXXXXXXXXXX(BANK NAME)XXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXX(CITYST)XXXXXXXXXXXX
CHARTER # 99999 SUMMARY RATIOS PAGE 01

	MM/DD/YY			MM/DD/YY			MM/DD/YY			MM/DD/YY			MM/DD/YY		
AVERAGE ASSETS ($000)	$999999999			$999999999			$999999999			$999999999			$999999999		
NET INCOME ($000)	$999999999			$999999999			$999999999			$999999999			$999999999		
NUMBER OF BANKS IN PEER GROUP	$999999999			$999999999			$999999999			$999999999			$999999999		
EARNINGS AND PROFITABILITY	BANK	PEER 99	PCT	BANK	PEER 99	PCT	BANK	PEER 99	PCT	BANK	PEER 99		BANK	PEER 99	
PERCENT OF AVERAGE ASSETS:															
INTEREST INCOME (TE)	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
- INTEREST EXPENSE	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
NET INTEREST INCOME (TE)	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
+ NON-INTEREST INCOME	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
- OVERHEAD EXPENSE	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
- PROVISION: LOAN&LEASE LOSSES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
= PRETAX OPERATING INCOME (TE)	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
+ SECURITIES GAINS (LOSSES)	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
= PRETAX NET OPERATING INC(TE)	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
NET OPERATING INCOME	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
ADJUSTED NET OPERATING INCOME	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
ADJUSTED NET INCOME	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
NET INCOME	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
MARGIN ANALYSIS:															
AVG EARNING ASSETS TO AVG ASSTS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
AVG INT-BEARING FUNDS TO AV AST	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
INT INC (TE) TO AVG EARN ASSETS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
INT EXPENSE TO AVG EARN ASSETS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
NET INT INC-TE TO AVG EARN ASST	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
LOAN & LEASE ANALYSIS															
NET LOSS TO AVERAGE TOTAL LN&LS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
EARNINGS COVERAGE OF NET LOSS(X)	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
LOSS RESERVE TO NET LOSSES (X)	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
LOSS RESERVE TO TOTAL LN&LS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
% NONCURRENT LOANS & LEASES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
LIQUIDITY															
VOLATILE LIABILITY DEPENDENCE	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
NET LOANS & LEASES TO ASSETS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
CAPITALIZATION															
PRIMARY CAP TO ADJ AVG ASSETS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
CASH DIVIDENDS TO NET INCOME	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
RETAIN EARNS TO AVG TOTAL EQUITY	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
GROWTH RATES															
ASSETS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
PRIMARY CAPITAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
NET LOANS & LEASES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
VOLATILE LIABILITIES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	

note: this UBPR page layout is for the FFIEC 031 call reporter
CERT # 99999 DSB # 99999999 XXXXXXXXXXXXXXXXXXXXXXXXX(BANK NAME)XXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXX(CITYST)XXXXXXXXXXXXXX
CHARTER # 99999 INCOME STATEMENT - REVENUES AND EXPENSES ($000) PAGE 02

	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY	PERCENT CHANGE 1 YEAR
INTEREST AND FEES ON LOANS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
INCOME FROM LEASE FINANCING	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
FULLY TAXABLE	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
TAX-EXEMPT	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
ESTIMATED TAX BENEFIT	$999999999	$999999999	$999999999	$999999999	$999999999	
INCOME ON LOANS & LEASES (TE)	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
U.S. TREAS & AGENCY SECURITIES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
TAX-EXEMPT SECURITIES INCOME	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
ESTIMATED TAX BENEFIT	$999999999	$999999999	$999999999	$999999999	$999999999	
OTHER SECURITIES INCOME	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
INVESTMT INTEREST INCOME (TE)	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
INTEREST ON DUE FROM BANKS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
INT ON FED FUNDS SOLD & RESALES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
TRADING ACCOUNT INCOME	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
TOTAL INTEREST INCOME (TE)	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
INT ON DEPOSITS IN FOREIGN OFF	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
INTEREST ON CD'S OVER $100M	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
INTEREST ON ALL OTHER DEPOSITS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
INT ON FED FUNDS PURCH & REPOS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
INT BORROWED MONEY (+NOTE OPT)	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
INT ON MORTGAGES & LEASES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
INT ON SUB NOTES & DEBENTURES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
TOTAL INTEREST EXPENSE	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
NET INTEREST INCOME (TE)	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
NON-INTEREST INCOME	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
ADJUSTED OPERATING INC (TE)	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
OVERHEAD EXPENSE	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
PROVISION FOR LOAN&LEASE LOSSES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
PROV: ALLOCATED TRANSFER RISK	$999999999	$999999999	$999999999	$999999999	$999999999	
PRETAX OPERATING INCOME (TE)	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
SECURITIES GAINS (LOSSES)	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
PRETAX NET OPERATING INC (TE)	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
APPLICABLE INCOME TAXES	$999999999	$999999999	$999999999	$999999999	$999999999	
CURRENT TAX EQUIV ADJUSTMENT	$999999999	$999999999	$999999999	$999999999	$999999999	
OTHER TAX EQUIV ADJUSTMENTS	$999999999	$999999999	$999999999	$999999999	$999999999	
APPLICABLE INCOME TAXES (TE)	$999999999	$999999999	$999999999	$999999999	$999999999	
NET OPERATING INCOME	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
NET EXTRAORDINARY ITEMS	$999999999	$999999999	$999999999	$999999999	$999999999	
NET INCOME	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
CASH DIVIDENDS DECLARED	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
RETAINED EARNINGS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99
MEMO: NET INTERNATIONAL INCOME	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99

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note: this UBPR page layout is for the FFIEC 031 call reporter
CERT # 99999 DSB # 99999999 XXXXXXXXXXXXXXXXXXXXXXXXX(BANK NAME)XXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXX(CITYST)XXXXXXXXXXXXXX
CHARTER # 99999 NON-INTEREST INCOME AND EXPENSES ($000) AND YIELDS PAGE 03

NON-INTEREST INCOME & EXPENSES	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY
FIDUCIARY ACTIVITIES	$999999999	$999999999	$999999999	$999999999	$999999999
DEPOSIT SERVICE CHARGES	$999999999	$999999999	$999999999	$999999999	$999999999
TRADING COMMISSIONS & FEES	$999999999	$999999999	$999999999	$999999999	$999999999
FOREIGN EXCHANGE TRADING	$999999999	$999999999	$999999999	$999999999	$999999999
OTHER FOREIGN TRANSACTIONS	$999999999	$999999999	$999999999	$999999999	$999999999
OTHER NONINTEREST INCOME	$999999999	$999999999	$999999999	$999999999	$999999999
NONINTEREST INCOME	$999999999	$999999999	$999999999	$999999999	$999999999
PERSONNEL EXPENSE	$999999999	$999999999	$999999999	$999999999	$999999999
OCCUPANCY EXPENSE	$999999999	$999999999	$999999999	$999999999	$999999999
OTHER OPER EXP(INCL INTANGIBLES)	$999999999	$999999999	$999999999	$999999999	$999999999
TOTAL OVERHEAD EXPENSE	$999999999	$999999999	$999999999	$999999999	$999999999
:INCLUDING INT ON MORTG & LEASE	$999999999	$999999999	$999999999	$999999999	$999999999
DOMESTIC BANKING OFFICES (#)	$999999999	$999999999	$999999999	$999999999	$999999999
FOREIGN BRANCHES (#)	$999999999	$999999999	$999999999	$999999999	$999999999
AVG ASSETS PER DOMESTIC OFFICE	$999999999	$999999999	$999999999	$999999999	$999999999
NUMBER OF EQUIV EMPLOYEES	$999999999	$999999999	$999999999	$999999999	$999999999

PERCENT OF AVERAGE ASSETS	BANK	PEER 99	PCT	BANK	PEER 99	PCT	BANK	PEER 99	PCT	BANK	PEER 99	BANK	PEER 99
PERSONNEL EXPENSE	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
OCCUPANCY EXPENSE	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
OTHER OPER EXP(INCL INTANGIBLES)	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
TOTAL OVERHEAD EXPENSE	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
:INCLUDING INT ON MORTG & LEASES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
OVERHEAD LESS NON-INT INCOME	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
OTHER INCOME & EXPENSE RATIOS:													
AVG PERSONNEL EXP PER EMPL($000)	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
AVG ASSETS PER EMPL ($MILLION)	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
MARGINAL TAX RATE	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
YIELD ON OR COST OF:													
TOTAL LOANS & LEASES (TE)	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
LOANS IN DOMESTIC OFFICES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
REAL ESTATE	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
COMMERCIAL & INDUSTRIAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
INDIVIDUAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
AGRICULTURAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
LOANS IN FOREIGN OFFICES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
TOTAL INVESTMENT SECURITIES (TE)	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
U.S. TREASURIES & AGENCIES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
TAX-EXEMPT MUNICIPALS (BOOK)	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
TAX-EXEMPT MUNICIPALS (TE)	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
OTHER SECURITIES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
INTEREST-BEARING BANK BALANCES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
FEDERAL FUNDS SOLD & RESALES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
TOTAL INT-BEARING DEPOSITS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
TRANSACTION ACCOUNTS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
MONEY MARKET DEPOSIT ACCOUNTS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
OTHER SAVINGS DEPOSITS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
LARGE CERTIFICATES OF DEPOSIT	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
ALL OTHER TIME DEPOSITS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
FOREIGN OFFICE DEPOSITS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
FEDERAL FUNDS PURCHASED & REPOS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
OTHER BORROWED MONEY	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
SUBORDINATED NOTES & DEBENTURES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
ALL INTEREST-BEARING FUNDS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99

CERT # 99999 DSB # 99999999 XXXXXXXXXXXXXXXXXXXXXXXXX(BANK NAME)XXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXX(CITYST)XXXXXXXXXXXXXX
CHARTER # 99999 BALANCE SHEET - ASSETS, LIABILITIES AND CAPITAL ($000) PAGE 04

ASSETS:	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY	PERCENT CHANGE 1 QTR	PERCENT CHANGE 1 YEAR
REAL ESTATE LOANS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
COMMERCIAL LOANS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
INDIVIDUAL LOANS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
AGRICULTURAL LOANS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
OTHER LN&LS IN DOMESTIC OFFICES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
LN&LS IN FOREIGN OFFICES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
GROSS LOANS & LEASES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
LESS: UNEARNED INCOME	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
RESERVES	$999999999	$999999999	$999999999	$999999999	$999999999		
NET LOANS & LEASES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
U.S.TREASURY & AGENCY SECURITIES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
MUNICIPAL SECURITIES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
FOREIGN SECURITIES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
ALL OTHER SECURITIES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
INTEREST-BEARING BANK BALANCES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
FEDERAL FUNDS SOLD & RESALES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
TRADING ACCOUNT ASSETS	$999999999	$999999999	$999999999	$999999999	$999999999		
TOTAL INVESTMENTS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
TOTAL EARNING ASSETS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
NON-INT CASH & DUE FROM BANKS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
ACCEPTANCES	$999999999	$999999999	$999999999	$999999999	$999999999		
PREMISES, FIX ASSTS, CAP LEASES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
OTHER REAL ESTATE OWNED	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
INV IN UNCONSOLIDATED SUBS	$999999999	$999999999	$999999999	$999999999	$999999999		
OTHER ASSETS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
TOTAL ASSETS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
AVERAGE ASSETS DURING QUARTER	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
LIABILITIES:							
DEMAND DEPOSITS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
ALL NOW & ATS ACCOUNTS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
MMDA ACCOUNTS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
OTHER SAVINGS DEPOSITS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
TIME DEPOSITS UNDER $100M	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
CORE DEPOSITS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
TIME DEPOSITS OVER $100M	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
DEPOSITS HELD IN FOREIGN OFFICES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
FEDERAL FUNDS PURCHASED & RESALE	$999999999	$999999999	$999999999	$999999999	$999999999		
OTHER BORRROWINGS (+NOTE OPT)	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
VOLATILE LIABILITIES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
ACCEPTANCES & OTHER LIABILITIES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
TOTAL LIABILITIES (INCL MORTG)	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
SUBORDINATED NOTES & DEBENTURES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
ALL COMMON & PREFERRED CAPITAL	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
TOTAL LIABILITIES AND CAPITAL	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
MEMORANDA							
OFFICER, SHAREHOLDER LOANS (#)	$999999999	$999999999	$999999999	$999999999	$999999999		
OFFICER, SHAREHOLDER LOANS ($)	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
REAL ESTATE ACQ FOR INVESTMENT	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
TOTAL CURRENT RESTRUCTURED DEBT	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99

CERT # 99999 DSB # 99999999 XXXXXXXXXXXXXXXXXXXXXXXX(BANK NAME)XXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXX(CITYST)XXXXXXXXXXXXXX
CHARTER # 99999 COMMITMENTS AND CONTINGENCIES PAGE 05

	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY	PERCENT CHANGE 1 QTR	PERCENT CHANGE 1 YEAR
LOAN & LEASE COMMITMENTS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
FUTURES BUY CONTRACTS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
FUTURES SELL CONTRACTS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
STANDBY OPTIONS BUY CONTRACTS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
STANDBY OPTIONS SELL CONTRACTS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
COMMIT TO PURCH FOREIGN CURRENCY	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
GROSS STANDBY LETTERS OF CREDIT	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
COMMERCIAL LETTERS OF CREDIT	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
COMMIT: BUY SECURITY WHEN ISSUED	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
COMMIT: SELL SECURITY WHEN ISSUE	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
PARTICIPATIONS IN ACCEPTANCES:							
ACQUIRED BY THE BANK	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
CONVEYED TO OTHERS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
SECURITIES BORROWED	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
SECURITIES LENT	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
OTH COMMITMENTS & CONTINGENCIES	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
MEMO: LOANS SOLD DURING QUARTER	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
LOANS PURCHASED DURING QUARTER	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99
NOTIONAL VALUE OF INT RATE SWAPS	$999999999	$999999999	$999999999	$999999999	$999999999	$999.99	$999.99

	MM/DD/YY			MM/DD/YY			MM/DD/YY			MM/DD/YY		MM/DD/YY	
PERCENT OF TOTAL ASSETS	BANK	PEER 99	PCT	BANK	PEER 99	PCT	BANK	PEER 99	PCT	BANK	PEER 99	BANK	PEER 99
LOAN & LEASE COMMITMENTS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
FUTURES BUY CONTRACTS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
FUTURES SELL CONTRACTS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
STANDBY OPTION BUY CONTRACTS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
STANDBY OPTION SELL CONTRACTS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
COMMIT TO PURCH FOREIGN CURRENCY	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
GROSS STANDBY LETTERS OF CREDIT	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
COMMERCIAL LETTERS OF CREDIT	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
COMMIT: BUY SECURITY WHEN ISSUED	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
COMMIT: SELL SECURITY WHEN ISSUE	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
PARTICIPATIONS IN ACCEPTANCES:													
ACQUIRED BY THE BANK	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
CONVEYED TO OTHERS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
SECURITIES BORROWED	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
SECURITIES LENT	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
OTH COMMITMENTS & CONTINGENCIES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
NOTIONAL VALUE OF INT RATE SWAPS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99

CERT # 99999 DSB # 99999999
CHARTER # 99999

XXXXXXXXXXXXXXXXXXXXXXXXX(BANK NAME)XXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXX(CITYST)XXXXXXXXXXXXXX
BALANCE SHEET - PERCENTAGE COMPOSITION OF ASSETS AND LIABILITIES

	MM/DD/YY			MM/DD/YY			MM/DD/YY			MM/DD/YY		MM/DD/YY	
ASSETS, PERCENT OF AVG ASSETS	BANK	PEER 99	PCT	BANK	PEER 99	PCT	BANK	PEER 99	PCT	BANK	PEER 99	BANK	PEER 99
TOTAL LOANS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
LEASE FINANCING RECEIVABLES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
LESS: RESERVES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
NET LOANS & LEASES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
SECURITIES OVER 1 YEAR	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
SUBTOTAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
INTEREST-BEARING BANK BALANCES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
FEDERAL FUNDS SOLD & RESALES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
TRADING ACCOUNT ASSETS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
DEBT SECURITIES 1 YEAR & LESS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
TEMPORARY INVESTMENTS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
TOTAL EARNING ASSETS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
NON-INT CASH & DUE FROM BANKS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
PREMISES, FIX ASSTS & CAP LEASES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
OTHER REAL ESTATE OWNED	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
ACCEPTANCES & OTHER ASSETS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
SUBTOTAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
TOTAL ASSETS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
STANDBY LETTERS OF CREDIT	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
LIABILITIES, PERCENT OF AVG ASST													
DEMAND DEPOSITS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
ALL NOW & ATS ACCOUNTS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
MMDA SAVINGS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
OTHER SAVINGS DEPOSITS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
TIME DEPOSITS UNDER $100M	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
CORE DEPOSITS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
TIME DEPOSITS OVER $100M	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
DEPOSITS IN FOREIGN OFFICES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
FEDERAL FUNDS PURCH & REPOS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
OTHER BORROWINGS (+NOTE OPT)	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
VOLATILE LIABILITIES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
ACCEPTANCES & OTHER LIABILITIES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
TOTAL LIABILITIES(INCL MORTG)	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
SUBORDINATED NOTES & DEBENTURES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
ALL COMMON & PREFERRED CAPITAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
TOTAL LIABILITIES & CAPITAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
TOTAL BROKERED DEPOSITS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99

CERT # 99999 OSB # 99999999 XXXXXXXXXXXXXXXXXXXXXXXX(BANK NAME)XXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXX(CITYST)XXXXXXXXXXXXXX
CHARTER # 99999 ANALYSIS OF LOAN & LEASE LOSS RESERVE AND LOAN MIX

CHANGE: LOAN&LEASE RESERVE($000)	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY
BEGINNING BALANCE	$999999999	$999999999	$999999999	$999999999	$999999999
GROSS LOAN & LEASE LOSSES	$999999999	$999999999	$999999999	$999999999	$999999999
RECOVERIES	$999999999	$999999999	$999999999	$999999999	$999999999
NET LOAN & LEASE LOSSES	$999999999	$999999999	$999999999	$999999999	$999999999
PROVISION FOR LOAN & LEASE LOSS	$999999999	$999999999	$999999999	$999999999	$999999999
OTHER ADJUSTMENTS	$999999999	$999999999	$999999999	$999999999	$999999999
ENDING BALANCE	$999999999	$999999999	$999999999	$999999999	$999999999
NET ATRR CHARGE-OFFS	$999999999	$999999999	$999999999	$999999999	$999999999
OTHER ATRR CHARGES (NET)	$999999999	$999999999	$999999999	$999999999	$999999999
AVERAGE TOTAL LOANS & LEASES	$999999999	$999999999	$999999999	$999999999	$999999999

ANALYSIS RATIOS	BANK	PEER 99	PCT	BANK	PEER 99	PCT	BANK	PEER 99	PCT	BANK	PEER 99	BANK	PEER 99
LOSS PROVISION TO AVERAGE ASSETS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
LOSS PROVISION TO AVG TOT LN&LS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
NET LOSS TO AVERAGE TOTAL LN&LS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
GROSS LOSS TO AVERAGE TOT LN&LS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
RECOVERIES TO AVERAGE TOT LN&LS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
RECOVERIES TO PRIOR PERIOD LOSS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
LOSS RESERVE TO TOTAL LN&LS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
LOSS RESERVE TO NET LOSSES (X)	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
LOSS RESV TO NONACCRUAL LN&LS(X)	$999.99	$999.99		$999.99	$999.99		$999.99	$999.99		$999.99	$999.99	$999.99	$999.99
EARN COVERAGE OF NET LOSSES (X)	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
LOAN MIX, % AVERAGE GROSS LN&LS													
CONSTRUCTION & DEVELOPMENT	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
1 - 4 FAMILY RESIDENTIAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
HOME EQUITY LOANS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
OTHER REAL ESTATE LOANS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
TOTAL REAL ESTATE	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
FINANCIAL INSTITUTION LOANS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
AGRICULTURAL LOANS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
COMMERCIAL & INDUSTRIAL LOANS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
LOANS TO INDIVIDUALS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
MUNICIPAL LOANS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
ACCEPTANCES OF OTHER BANKS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
FOREIGN OFFICE LOANS & LEASES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
ALL OTHER LOANS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
LEASE FINANCING RECEIVABLES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
MEMORANDUM (% OF AVG TOT LOANS):													
COMMERCIAL PAPER IN LOANS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
LOAN & LEASE COMMITMENTS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
LOANS SOLD DURING THE QUARTER	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
OFFICER, SHAREHOLDER LOANS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
OFFICER, SHAREHOLDER LNS TO ASST	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
NET LOSSES BY TYPE OF LN&LS													
REAL ESTATE LOANS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
COMMERCIAL AND INDUSTRIAL LOANS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
LOANS TO INDIVIDUALS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
ALL OTHER LOANS & LEASES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99

note: this UBPR page layout is for the FFIEC 031 or 032 call reporters

CERT # 99999 OSB # 99999999
CHARTER # 99999

XXXXXXXXXXXXXXXXXXXXXXXX(BANK NAME)XXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXX(CITYST)XXXXXXXXXXXXXX

ANALYSIS OF PAST DUE, NONACCRUAL & RESTRUCTURED LOANS & LEASES

NON-CURRENT LN&LS ($000)	MM/DD/YY			MM/DD/YY			MM/DD/YY			MM/DD/YY			MM/DD/YY		
90 DAYS AND OVER PAST DUE	$999999999			$999999999			$999999999			$999999999			$999999999		
TOTAL NONACCRUAL LN&LS	$999999999			$999999999			$999999999			$999999999			$999999999		
TOTAL NON-CURRENT LN&LS	$999999999			$999999999			$999999999			$999999999			$999999999		
LN&LS 30-89 DAYS PAST DUE	$999999999			$999999999			$999999999			$999999999			$999999999		
% OF NON-CURRENT LN&LS BY TYPE	BANK	PEER 99	PCT	BANK	PEER 99	PCT	BANK	PEER 99	PCT	BANK	PEER 99		BANK	PEER 99	
REAL ESTATE LN-90+ DAYS P/D	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
-NONACCRUAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
-TOTAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
COML & INDUST LNS-90+ DAYS P/D	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
-NONACCRUAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
-TOTAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
LOANS TO INDIVDLS-90+ DAYS P/D	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
-NONACCRUAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
-TOTAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
AGRICULTURAL LNS-90+ DAYS P/D	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
-NONACCRUAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
-TOTAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
OTHER LN&LS-90+ DAYS P/D	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
-NONACCRUAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
-TOTAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
TOTAL LN&LS-90+ DAY P/D	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
-NONACCRUAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
-TOTAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
OTHER PERTINENT RATIOS:															
NON-CURRENT LN&LS TO TOTAL ASSTS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
-LN LOSS RESV	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
-PRIMARY CAP	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
%TOTAL P/D LN&LS-INCL NONACCURAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
IENC-LOANS TO TOTAL LOANS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
NON-CURR RESTRUCT DEBT/GR LN&LS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
CURR+NON-CURR RESTRUCT/GR LN&LS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
NONCURR RESTRUC DEBT/TOT NONCURR	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
NONCURR RESTRUC DEBT/TOT RESTRUC	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
% CURRENT RESTRUCT DEBT BY TYPE:															
LOANS SECURED BY REAL ESTATE	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
COMMERCIAL AND INDUSTRIAL LNS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
AGRICULTURAL LOANS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
ALL OTHER LOANS & LEASES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	
FOREIGN OFFICE LOANS & LEASES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99		$999.99	$999.99	

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XXXXXXXXXXXXXXXXXXXXXXXXX(BANK NAME)XXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXX(CITYST)XXXXXXXXXXXXXX
MATURITY AND REPRICING DISTRIBUTION AS OF MM/DD/YY

	ITEM TOTAL AS A PERCENT OF ASSETS			CUMULATIVE PERCENT OF ITEM: PERCENT REPRICED WITHIN 3 MONTHS			PERCENT REPRICED WITHIN 12 MONTHS			PERCENT REPRICED WITHIN 5 YEARS		
ASSETS	BANK	PEER 99	PCT	BANK	PEER 99	PCT	BANK	PEER 99	PCT	BANK	PEER 99	PCT
LOANS AND LEASES (EXCL NONACC)	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99
FIXED RATE BY MATURITY	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99
FLOATING RATE BY REP INTERVAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99
DEBT SECURITIES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99
FIXED RATE BY MATURITY	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99
FLOATING RATE BY REP INTERVAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99
FEDERAL FUNDS SOLD (OVERNIGHT)	$999.99	$999.99	99	100.00	100.00							
SECURITIES PURCHASED UNDER AGREEMENT TO RESELL*	$999.99	$999.99	99									
INTEREST-BEARING BANK BALANCES*	$999.99	$999.99	99									
TRADING ACCOUNT ASSETS	$999.99	$999.99	99	100.00	100.00							
TOTAL INTEREST-BEARING ASSETS	$999.99	$999.99	99									
LIABILITIES												
DEPOSITS IN FOREIGN OFFICES*	$999.99	$999.99	99									
CD'S OF $100,000 OR MORE	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99
FIXED RATE BY MATURITY	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99
FLOATING RATE BY REP INTERVAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99
OTHER TIME DEPOSITS*	$999.99	$999.99	99	$999.99	$999.99	99						
MONEY MARKET DEPOSIT ACCOUNTS	$999.99	$999.99	99	100.00	100.00							
OTHER SAVINGS DEP (EXCL MMDA)*	$999.99	$999.99	99									
NOW ACCOUNTS	$999.99	$999.99	99	100.00	100.00							
FEDERAL FUNDS PURCH (OVERNIGHT)	$999.99	$999.99	99	100.00	100.00							
SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE*	$999.99	$999.99	99									
OTHER BORROWED MONEY*	$999.99	$999.99	99									
SUBORDINATED NOTES & DEBENTURES*	$999.99	$999.99	99									
TREASURY NOTES	$999.99	$999.99	99	100.00	100.00							
TOTAL INTEREST-BEARING LIABS	$999.99	$999.99	99									

*INDICATED ITEMS ARE NOT REPORTED BY MATURITY/REPRICING INTERVAL AS OF MARCH 31, 1988.
OTHER TIME DEPOSITS ARE NOT BROKEN DOWN BEYOND THREE MONTHS.

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LIQUIDITY AND INVESTMENT PORTFOLIO

	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY
TEMPORARY INVESTMENTS ($000)	$999999999	$999999999	$999999999	$999999999	$999999999
CORE DEPOSITS ($000)	$999999999	$999999999	$999999999	$999999999	$999999999
VOLATILE LIABILITIES ($000)	$999999999	$999999999	$999999999	$999999999	$999999999

PERCENT OF TOTAL ASSETS	BANK	PEER 99	PCT	BANK	PEER 99	PCT	BANK	PEER 99	PCT	BANK	PEER 99	BANK	PEER 99
TEMPORARY INVESTMENTS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
CORE DEPOSITS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
VOLATILE LIABILITIES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
LIQUIDITY RATIOS													
VOLATILE LIABILITY DEPENDENCE	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
TEMP INV TO VOLATILE LIABILITIES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
BROKERED DEPOSITS TO DEPOSITS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
TEMP INV LESS VOL LIAB TO ASSETS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
NET LOANS & LEASES TO DEPOSITS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
NET LN&LS TO CORE DEPOSITS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
NET LOANS & LEASES TO ASSETS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
NET LN&LS & SBLC TO ASSETS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
SECURITIES MIX													
PERCENT OF TOTAL SECURITIES:													
U.S. TREAS & AGENCY SECURITIES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
MUNICIPALS SECURITIES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
FOREIGN SECURITIES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
ALL OTHER SECURITIES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
DEBT SECURITIES UNDER 1 YEAR	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
DEBT SECURITIES 1 TO 5 YEARS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
DEBT SECURITIES OVER 5 YEARS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
OTHER SECURITIES RATIOS:													
SEC APP (DEP) TO INV SEC	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
SEC APP (DEP) TO PRIMARY CAP	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
PLEDGED SECURITIES TO TOT SEC	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99

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XXXXXXXXXXXXXXXXXXXXXXXXX(BANK NAME)XXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXX(CITYST)XXXXXXXXXXXXXX

CAPITAL ANALYSIS

END OF PERIOD CAPITAL ($000)	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY
COMMON EQUITY	$999999999	$999999999	$999999999	$999999999	$999999999
LOAN & LEASE LOSS RESERVE	$999999999	$999999999	$999999999	$999999999	$999999999
PERPETUAL PREFERRED STOCK	$999999999	$999999999	$999999999	$999999999	$999999999
MINORITY INT IN CONSOLIDATED SUB	$999999999	$999999999	$999999999	$999999999	$999999999
LESS: INTANGIBLE ASSETS	$999999999	$999999999	$999999999	$999999999	$999999999
QUALIFYING INTANGIBLE ASSETS	$999999999	$999999999	$999999999	$999999999	$999999999
QUALIFYING MANDATORY CONV DEBT	$999999999	$999999999	$999999999	$999999999	$999999999
TOTAL PRIMARY CAPITAL	$999999999	$999999999	$999999999	$999999999	$999999999
SECONDARY CAPITAL COMPONENTS:					
LIMITED LIFE PREFERRED STOCK	$999999999	$999999999	$999999999	$999999999	$999999999
QUALIFYING SUBORDINATED DEBT	$999999999	$999999999	$999999999	$999999999	$999999999
TOTAL PRIMARY & SECONDARY CAP	$999999999	$999999999	$999999999	$999999999	$999999999
MEMO:RESID LIM LIFE PFD&SUB DBT	$999999999	$999999999	$999999999	$999999999	$999999999
MORTGAGE SERVICING RIGHTS	$999999999	$999999999	$999999999	$999999999	$999999999
OTHER IDENTIFIABLE INTANGIBLES	$999999999	$999999999	$999999999	$999999999	$999999999
GOODWILL	$999999999	$999999999	$999999999	$999999999	$999999999
INT ASSETS BOOKED BEF 4/15/85	$999999999	$999999999	$999999999	$999999999	$999999999
SPECIAL CATEGORY NET CHG-OFF	$999999999	$999999999	$999999999	$999999999	$999999999
TOTAL MANDATORY CONV DEBT	$999999999	$999999999	$999999999	$999999999	$999999999
DEFERRED AGRICULTURAL LN LOSS	$999999999	$999999999	$999999999	$999999999	$999999999
CHANGES IN TOTAL EQUITY ($000)					
BALANCE AT BEGINNING OF PERIOD	$999999999	$999999999	$999999999	$999999999	$999999999
NET INCOME	$999999999	$999999999	$999999999	$999999999	$999999999
SALE OR PURCHASE OF CAPITAL	$999999999	$999999999	$999999999	$999999999	$999999999
MERGER & ABSORPTIONS	$999999999	$999999999	$999999999	$999999999	$999999999
LESS: CASH DIVIDENDS	$999999999	$999999999	$999999999	$999999999	$999999999
NET OTHER INCREASES (DECREASES)	$999999999	$999999999	$999999999	$999999999	$999999999
BALANCE AT END OF PERIOD	$999999999	$999999999	$999999999	$999999999	$999999999

CAPITAL RATIOS	BANK	PEER 99	PCT	BANK	PEER 99	PCT	BANK	PEER 99	PCT	BANK	PEER 99	BANK	PEER 99
PERCENT OF ADJ AVERAGE ASSETS:													
PRIMARY CAPITAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
PRIMARY & SECONDARY CAPITAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
PERCENT OF RISK ASSETS:													
PRIMARY CAPITAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
PRIMARY & SECONDARY CAPITAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
PERCENT OF TOTAL EQUITY:													
NET LOANS & LEASES (X)	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
SUBORD NOTES & DEBENTURES	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
LONG TERM DEBT	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
PERCENT OF AVERAGE TOTAL EQUITY:													
NET INCOME	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
DIVIDENDS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
RETAINED EARNINGS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
OTHER CAPITAL RATIOS:													
QUALIFYING INTANG TO PRIM CAP	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
DIVIDENDS TO NET OPER INCOME	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
EQUITY CAPITAL TO ASSETS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
PRIMARY CAPITAL TO TOTAL LN&LS	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
GROWTH RATES:													
TOTAL EQUITY CAPITAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
PRIMARY CAPITAL	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99
EQUITY GROWTH LESS ASST GROWTH	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	99	$999.99	$999.99	$999.99	$999.99

ANNEX B

LPG Application Part IV: Financial Information to Be Submitted By the Financial Institution

PART IV

FINANCIAL INFORMATION TO BE SUBMITTED BY THE FINANCIAL INSTITUTION

Note:

As stated in Part I, A.I.D. promptly reviews the application for acceptance (or rejection). The review process includes a financial analysis based on both quantitative and qualitative aspects. The data called for below are essential for the quantitative analysis. However, because banking standards and methods vary substantially throughout the world, management is urged to describe or clarify responses, where useful, to enhance understanding of the data provided.

I. Financial Statements

Provide annual audited statements, with footnotes, for the preceding three (or available) years. (Where audited statements clearly provide information called for below, this can be indicated in place of the question or schedule.)

II. Asset Quality

A. Provide approximate percentages of the loan portfolio (total advances) by type as follows:

Amortizing (scheduled payments of principal and interest)	_____%
Demand (scheduled payments of interest only)	_____%
Authorized Overdrafts	_____%
Other (describe)	_____%
Total	100% %

B. Explain criteria used by supervisory authority to determine past due and/or non-performing loans (advances).

C. If no criteria under (B) exists, explain internal management criteria for determination of past due and/or non-performing loans (advances).

D. If credit facilities are provided by means of authorized overdrafts, explain supervisor's and/or management's criteria for determination of non-performing status.

E. Schedule of past due/non-performing loans (as of financial year-end, past 3 years)

	198_	198_	198_
Balance outstanding of past due/ non-performing loans			
Total outstanding loans (gross of provisions)	_____	_____	_____
Past due/non-performing percentage	%	%	%

(If overdrafts are excluded from this schedule, so indicate)

F. Describe criteria for placing interest in suspense, if such account is used, and provide financial year-end balances of interest in suspense for past 3 years.

G. Describe method of provisioning for loan losses indicating if provisions are general (for potential and undetermined future credit losses) or specific (for loans or advances where all or a portion outstanding is presently deemed uncollectible) or a combination of both.

H. Describe how provisions are determined and/or approved including role of external auditor and/or supervisory authority.

I. Schedule of general provisions (as of financial year-end, past 3 years)

	198_	198_	198_
Beginning Balance			
Transfers to the provision			
Gross Charge-offs			
Gross Recoveries			
Other Entries (describe)			
Ending Balance			

J. Schedule of specific provisions (as of financial year-end, past 3 years)

	198_	198_	198_
Beginning Balance			
Net increase in specific provision			
Net decrease in specific provision*			
Amounts written off against the provision**			
Ending Balance			

* To be shown only when reductions in loans specifically provided (due to improved status) exceed additions to specific provision (for deteriorating loans)

** Represents reductions in specific provision due to a write-off of outstanding balance on loan previously provided for (usually after exhaustion of all legal/collection efforts)

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III. Off-Balance-Sheet Items (As of latest financial year-end.) Complete if not clearly presented in audited financial statements.

A. Direct credit substitutes (guarantees, standy letters of credit, acceptances not on balance sheet, etc.) _____

B. Transaction-related contingent items (performance bonds, bid bonds, warranties, etc.) _____

C. Self-liquidating trade related (documentary credits, commercial letters of credit) _____

D. Formal credit commitments _____

E. Other significant off-balance-sheet items (describe) _____

IV. Capital Adequacy

A. Describe capital requirements, either statutory or regulations imposed by the supervisory authority, for your class of financial institution (bank, finance company, etc.)

B. Capital elements (as of latest financial year-end). Complete if not clearly presented in audited financial statements)

Core Capital:

Paid-in shares (common stock) _____

Share premiums (surplus) _____

Statutory reserves _____

Retained profits _____

Total-Core Capital _____

Supplementary Capital:

Undisclosed reserves (approved by supervisory authority) _____

Asset revaluation reserves _____

Unencumbered general provisions _____

Other (describe) _____

Total-Supplementary Capital _____

V. Profitability

A. If calculated, provide average balances for total assets for the past 3 financial years and define how calculated (daily, monthly, quarterly, etc.).

B. Schedule of income and expense (as of financial year-end, past 3 years).

	198_	198_	198_
Interest income			
Interest expense			
Provision for bad debts			
Non-interest income			
Non-interest expense			
Extraordinary items (describe)			
Pre-tax income			
Taxation			
Net income			
Dividends			

VI. Liquidity

A. Specifically describe mandatory liquid asset ratios or other liquidity requirements, either statutory or regulations imposed by the supervisory authority, for your class of financial institution.

B. Describe internal policies, guidelines, and/or specific rations used by management to ensure sufficient liquidity.

VII. Ownership

Provide a list of owners (by name and percentage of ownership) and principal officers.

VIII. Small Business Lending

A. Provide a brief statement of current credit policy for lending to small businesses.

B. Provide a projection of the small business loans to be made under the guarantee, including:

a general description
number of loans
value of the loans in local currency

IX. Banking Surveys [OPTIONAL]

Provide, if available, any recent surveys conducted of financial institutions of your class (type) which include publically available information, especially if such surveys contain information on size (total assets), capital funds, and profits for your peer group of institutions. Such surveys may include studies by your supervisory authority or a private study group.

(End of Part IV)

ANNEX C

Financial Institutions in Developing Countries: Guidelines for Investment Officers

FINANCIAL INSTITUTIONS IN DEVELOPING COUNTRIES:

GUIDELINES FOR INVESTMENT OFFICERS

INTRODUCTION

The purpose of these guidelines is to assist Investment Officers and PRE personnel with regard to analyzing the financial condition of banks or other financial institutions in developing countries. These guidelines are particularly aimed at making the best use out of on-site visits to the financial institution in order to enable the Investment Officer to make a preliminary assessment of the institution's financial condition.

Part I gives a series of suggested questions to ask management during an on-site visit. Part II explains some key ratios for a basic financial analysis which can be done quickly and on-site. While the use of these guidelines may go beyond the LPG program, they should be used in conjunction with the revised Part IV of the LPG application (financial information). Part IV calls for comprehensive information in order to do a complete off-site financial analysis. While these guidelines are directed toward a more concise on-site assessment, the overall approach is similar. Also, the on-site visit should determine what information, if any, in Part IV cannot be provided.

PART I

SUGGESTED QUESTIONS FOR MANAGEMENT

A. GENERAL INFORMATION

1) Under what type or class of financial institution are you licensed?

The major categories of financial institutions would traditionally include commercial banks, development banks, finance companies, and merchant or investment banks. While the definitions of these types of institutions may vary from country to country and region to region, the various regulations and prudential requirements will clearly differ for each type of institution. Also, financial ratios should be within the context of the type of institution, otherwise the comparison of say, a commercial bank to a development bank, may be of "apples to oranges."

2) Who is your supervisory authority?

Quite often this will be the central bank, but in many countries a separate agency exists. Also, the supervisory authority may not be the authority that licenses new financial institutions. In some countries where supervision is shared by several entities (Central Bank, Ministry of Finance, Superintendent of Banks, etc.), supervision may be less effective due to jurisdictional disputes or differing policies. For example a central bank's supervision may be severely hampered if it has no say in licensing, and licenses are based on political considerations.

3) Are on-site examinations conducted by your supervisory authority?

This will give a good indication of the intensity of supervision. Active supervision, often modeled after the U.S., will emphasize on-site examinations, preferably annually, with particular focus on review of the loan portfolio. Passive supervision, similar to the British approach, places emphasis on information reports (known as returns or call reports) and on findings of external auditors. Passive supervision is not ineffective, as such, but it often fails to keep the supervisor abreast of emerging asset quality problems, thus, the trend has been for supervisory authorities in developing countries to establish their own on-site examination function. If the answer to this question is yes, the frequency and scope (does it include a loan review, etc) should be determined. If the answer is no, more emphasis has to be given to the role of external auditor.

4) Does your external auditor review your loan portfolio and who approves your provisions?

This question is especially important if the supervisory authority does not conduct on-site examinations. It is important to understand if an outside entity has powers, or at least a role, in examining the loan portfolio and determining provisions. If this is not the case, management may well be tempted to portray asset quality as being better than the reality. Also, if there is no supervisory examination, the quality of the external audit becomes more significant. In general, more confidence can be placed in audits conducted by affiliates of major "big 8" firms than indigenous auditors. It is also good to know if the external auditor must be approved by the supervisor.

5) What are the key prudential requirements imposed by your banking act or other type of financial legislation?

If available, a copy of the applicable law should be obtained. The central bank is usually a good source for obtaining such laws. Important prudential requirements such as minimal capital, legal lending limits, liquid asset requirements, etc. will be discussed under appropriate headings, but it is useful to learn what regulations or requirements etc. bank management feels are important.

B. ASSET QUALITY

1) Has your supervisory authority established objective criteria for determination of past due/non-performing advances for your type of financial institution and, if so, what are they?

Short of a full on-site review of the loan portfolio, the best indicator of the quality of advances is what portion has not performed in accordance with original terms. This measurement has far greater value if it is done on objective terms, i.e. time periods in which payment of interest and/or principal must be met. Such objective criteria are usually more difficult if advances are made in the form of overdrafts which, as such, have no repayment terms. It is also useful to know what reporting, if any, the financial institution must make to the supervisor on past due/non-performing loans.

2) What are your management criteria and systems for monitoring advances that are not performing?

This is especially important if there are no supervisory criteria for past due/non-performing loans. Also, conservative bank management may set performance standards that are stiffer than supervisory norms. If the response is a vague sounding "watch list" of problem loans as determined by lending officers or branch managers, a further question may be needed as to how management determines a problem loan and what subsequent action is taken. The intent is to ensure that the system detects problem loans at an early stage, and appropriate action is taken. This is best determined by an objective standard of loan performance which triggers a problem status when payment terms are not met.

3) Is a provision for loan losses maintained? If so, are the provisions general (for potential future losses) or specific (for presently identified losses)?

The absence of provisions in all but the newest of financial institutions is an indication of unwillingness to recognize the risks inherent in lending. If properly understood, provisions can be a useful indicator of asset quality.

It is essential to distinguish the motives behind the creation of, or addition to, provisions. If a general provision exists solely as a cushion against potential future losses (not yet identified), a large cushion is better than a small one. However, if a large transfer to general provisions is made due to management's recognition of present weakness in the portfolio, it is tantamount to a specific provision for presently identified losses.

Specific provisions are made against all or part of existing loans, depending upon judgment as to what portion, if any, is ultimately collectible. The total of specific provisions is simply the sum of provisions against individual loans. A sharp rise in specific provisions indicates recognition of an increased level for problem loans. Such an increase often lags behind a rise in the level of past due/non-performing loans. In turn, a reduction in the total of specific provisions probably indicates management's overall judgment that the portfolio has improved. When a loan improves in status, specific provisions against it may be reduced. If such loans exceed others to which provisions have been made, the net effect is a reduction on in the total of specific provisions.

Perhaps the most conservative approach to provisions is a combination of specific and general. In such a system, specific provisions exist as offsets to problem loans and a general provision is also established, usually as a set percentage up to 2% of total loans. Thus, general provisions will automatically increase as loans grow, while specific provisions will fluctuate according to overall asset quality.

4) Who approves of provisions before annual accounts are finalized?

While bank management should have the initial and primary role in determining an adequate level of provisions, outside approval is virtually essential. The external auditor normally performs this function, and an unqualified opinion of the accounts indicates the auditor is satisfied as to the level of provisions. If a "cloud" of some sort exists or the auditors and management disagree, the auditor may qualify the accounts and explain his concern in the introduction to the financial statements.

On-site examinations by the supervisory authority will usually result in judgment as to whether or not provisions are adequate. This is a key part of U.S. bank supervision as examinations of weak banks often disclose the need to significantly increase provisions. In turn, many banking laws require that the supervisor "be satisfied" as to the level of provisions before accounts are finalized. This is often in consultation with the external auditor. The important aspect is that either the external auditor, supervisor, or preferably both, have a role in determining an adequate level of provisions for loan losses.

C. CAPITAL ADEQUACY

1) What is the statutory capital requirement for your type of financial institution and what other capital regulations or guidelines must you follow?

Ensuring that financial institutions are adequately capitalized is perhaps the most important responsibility of the supervisory authority. This is because capital is the cushion which protects depositors from losses arising out of operations. Thus, from a prudential perspective, the higher the capital ratio the better. Shareholders, however, tend to have a vested interest in a highly leveraged bank which will produce a larger return on their investment. Thus, it is often the responsibility of supervisors to insist on high capital standards to protect depositors.

2) Are capital requirements based solely on leveraging (gearing) or is there a risk based determination such as the new international capital measurement and capital standards?

Most statutory capital requirements are simple gearing ratios where capital, as defined, must be a certain percentage of assets, or of liabilities to the public, etc. There is however, growing worldwide recognition that bank capital must be measured against the risks encountered both on and off the balance sheet. If management responds that it makes use of risk weighted methods and/or is familiar with the new international standards, it indicates greater sophistication and emphasis on capital adequacy, probably by both the bank and its supervisory authority.

3) Are there legal lending limits for credit exposures to one borrower or related borrowers based on capital?

This is a significant prudential requirement affecting both capital adequacy and asset quality and is especially important in developing countries where banks tend to lend large amounts to a small number of choice borrowers. A legal lending limit, in addition to forcing diversification of risk, adds a large incentive to raise new capital (either through new shares, capital injections or earnings retention) in order to be able to provide large amounts credit to "prime" borrowers.

D. PROFITABILITY

1) What factors, either positive or negative, have heavily affected your institution's profits in recent years?

Earnings are probably the easiest financial factor to measure overall. While there are several different ratios showing levels of profits, a highly profitable bank will almost certainly look good on all of them. However, determination of why a bank is performing well or not is much more complex.

Bank management will certainly have a view as to why their institution is doing well or not doing well. Their answer will fall into two main areas: economic factors and market forces. Banks, of course, will prosper from a strong economy. Loss losses will be low and loan demand for viable projects will be high in an expanding economy. Market forces are composed of two components, the level of competition and the degree of regulation, especially on interest rates.

When a significant number of new financial institutions enter a market in a short period of time (a decade or less), the competitive impact will be felt keenly by all (except possibly large well-established first tier banks) and profit ratios will fall. In turn, a country where profit ratios are high for all banks probably lacks sufficient competition within its system.

A high degree of regulation on rates and bank charges (fees, commissions, etc.) usually ensures healthy bank profits. Bankers seem often able to influence the authorities as to minimum spreads needed in a rate controlled system, even if they have no input on nominal levels. Also, many systems allow banks, often through directives or the blessing of the central bank, to set minimum charges or fees for various services. Such cartels contribute heavily to high profit levels in many developing countries.

In summary, a banker's response as to what has caused the bank's recent profit performance (either good or bad) is likely to include comments on the economy, the level of banking competition, interest rate regulation (or deregulation), and the structure of fees and other charges.

E. LIQUIDITY

1) What are the liquidity requirements imposed by the central bank or supervisory authority?

The analysis of liquidity is likely to be of less financial significance than asset quality, capital, and profits in LPG type programs (loan guarantee) and most direct lending arrangements. However, a basic understanding of an institution's liquidity is useful, and it should be based on the requirements imposed in the local currency. In addition to reserve requirements, most financial institutions in developing countries are subject to some form of liquidity or liquid asset requirement. Like reserve requirements, these may have a monetary policy purpose, but they are also supposed to ensure financial institutions have a sufficient level of liquid assets to meet even unexpected obligations. In most cases, the requirement will call for liquid assets, as defined, to be at least equal to certain percentages of deposit liabilities. The percentages vary by types, with longer term deposits having lower requirements. While such requirements are often simplistic, the degree of

bank liquidity in the financial system is usually measured by these requirements. Thus, when liquid asset requirements are easily met with large amounts to spare, there is thought to be excess liquidity in the financial sector.

2) What access does your institution have to markets or discount window privileges when liquidity become tight?

Ratios seldom tell the whole story as to overall liquidity. Access to markets through firm credit lines with other banks, etc. and the ability to use the discount facilities of the central bank are often more important than balance sheet ratios. Also in many instances, seasonal arrangements are made for banks in anticipation of tight liquidity periods. Bankers should always be aware of what the primary and "last resort" options are when liquidity shortfalls appear. Still, it is important to recognize that liquidity, unlike capital and profits, is often too complex to measure in a few simple ratios, and access to liquidity is every bit as important as a high volume of liquid assets.

F. STATISTICAL COMPARISON

1) Does your institution have any recent surveys or statistical data comparing all financial institutions of your type or class, especially with regard to size, capital, and profits?

This question should be raised tactfully and not pursued if their is any hesitation in the response. Still, banks that look strong on a comparative basis will be more than happy to provide such data if it exists.

A quantitative analysis based on financial ratios relies on both trend and levels. For the latter, it is extremely helpful to have data by peer group, that is other institutions within the same class in that particular country. Most such surveys will include information on three key areas that can be objectively measured: size (usually total assets), capital funds, and profits (either net income after tax or pretax profits).

Such a survey allows ratios that appear to be quite high or low by international standards to be put in perspective through comparison to peers. In general, more reliance should be placed on peer comparisons within a country than international ones. To give a theoretical example, "Bank ABC shows a capital to total assets ratio of 4.97%, which appears low, but is the 3rd best of 17 licensed commercial banks in country X." Without the peer comparison, capital of this bank might be viewed as marginal, with it, the rating might be as high as satisfactory.

PART II

KEY RATIOS FOR BASIC FINANCIAL ANALYSIS

The following ratios can be calculated from basic financial information. They are provided along with very broad based norms which would apply to commercial banks, but not normally to other types of financial institutions. These norms, however, would, in most cases, be less significant than the trend and where the institution ranks within its peers.

A. ASSET QUALITY RATIOS

1. Past due (non-performing) loans

Calculation: $\frac{\text{Past Due Loans (as defined)}}{\text{Gross Loans (net loans plus provisions)}}$

Aspects To Note:

The definition of past due or non-performing loans is essential. The most commonly used at present is 90 days or more in arrears with regard to interest and/or principal plus those on non-accrual (cash basis) plus those where the payment terms have been renegotiated. However, past due standards can be as strict as one day after maturity or as generous as 180 days in arrears. Obviously, the stricter the definition, the higher the percentage. Also, overdrafts, which by their nature lack repayment terms, may not be factored into past due totals. Past due totals that are not determined by objective criteria (payment due dates, etc.) usually have little value.

Trends and Levels:

A past due ratio that is increasing is obviously adverse. Such a trend is especially worrisome if it is not due to worsening economic conditions or other factors beyond management's control. For a commercial bank (which should be dealing with better quality borrowers and less reliance on security) a past due ratio of five percent or more is usually considered high. For a higher risk loan portfolio, such as is held by a finance company, a higher ratio would be expected, and more emphasis should be placed on net loan losses as explained below.

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2. General Provisions

Calculation: $\frac{\text{General Provisions}}{\text{Gross Loans}}$

Aspects to Note:

A true general provision is intended to provide against future and undetermined losses. However, amounts transferred to such a provision are often barely one step ahead of charge-offs to the provisions. Thus, when annual amounts transferred to the provision fluctuate sharply, the provisi is likely to be more a reflection of the present quality of the portfolio. In turn, if the amounts added show a steady trend and the ratio is consistent, the provision is probably intended for potential future losses.

Trends and Levels:

On the assumption that the general provision is a true cushion for future loss, a steady ratio with increases reflecting growth in the loan portfolio is favorable, as mentioned. The level of such provisions may be mandated either by statute (though not usually for commercial banks) or intern policy as a fixed percentage of total loans or risk assets. Given normal banking conditions, genera provisions will tend to range between one percent and two percent of total loans. A lower ratio might indicate a bank with a long history of minimal losses or a new bank which has yet to build up such a reserve. A high ratio may indicate a very cautious policy, but often a large general provision, especially if due to recent and large transfers, indicates recognition of asset quality problems. Overall, a consistent ratio and steady levels of transfers to a general provision are positive, while sharp changes indicate problems may exist.

3. Specific Provisions

Calculation: $\frac{\text{Specific Provisions}}{\text{Gross Loans}}$

Aspects to Note:

Establishing a specific provision against a loan is tantamount to charging the loan off against a general provision. This is because the financial impact on profits (and ultimately capital) occurs at the time the specific provision is made. Loans for which specific provisions have been made still retain their outstanding balance. However, loans with specific provisions can be eventually charge off. This usually occurs years later after all collection and legal efforts have been exhausted. In turn, specific provisions can be reduced if individual loans improve in status. The important point to remember regarding specific provision are that they provide no cushion for future losses (since they only recognize present problems), and they are not indicative of any future trend. Instead, they only reflect past judgments on loans which were deemed uncollectible.

Trends and Levels:

A sharp rise in specific provisions shows management's recognition of problem loans that existed at the time. In theory, gross loans less specific provisions equals viable (collectible) loans. Only an on-site examination of the loan portfolio can determine if more specific provisions are needed. A reduction in specific provisions will often, but not always, mean asset quality is improving. If the bank only uses specific provisions, the year-to-year increase can be viewed as net loan losses, and a percentage larger than one percent is usually considered high. Overall however, specific provisions are a less reliable indicator of asset quality than past due loans and movements within general provisions.

4. Net Loan Losses

Calculation: $\frac{\text{Loans Charged Off less Recoveries (on previous charge-offs)}}{\text{Average Gross Loans}}$

Aspects to Note:

It is important to understand if a general provision (also called reserve for loan losses) is used with uncollectible loans being charged to the provision and recoveries on previous charge-offs being credited to it. If so, the above ratio is valid and will give the best indication of asset quality on an historical basis. Net loan losses will not, however, predict future asset quality. Again, if specific provisions are used alone, the measurement of net loan losses is the net increase to the provision as described above, but this is a less reliable indicator. Unless a more precise method is available, average gross loans can be calculated by the average of present and prior year-end balances of gross loans.

Trends and Levels:

Clearly an increase in net loan losses to average total loans indicates the bank has experienced deteriorating asset quality. While this ratio does not predict future asset quality problems, a combination of a high past due percentage plus high levels and an adverse trend of net loan losses is worrisome. In commercial banks, a high level of past due is often followed by substantial loan losses. A very broad benchmark for net loan losses to average gross loans is one percent. A ratio much above that probably indicates asset quality has been a problem.

In non-bank financial institutions, especially finance companies, high levels of past due often do not result in high net loan losses. This is because the financing is to higher risk customers and is heavily based on security which can be liquidated. Such institutions downplay the high levels of arrears and point to their ability to ultimately collect outstandings through sale of security. If such a pattern does exist over a period of years, concerns over past due levels can be partially mitigated.

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5. Earnings Coverage of Net Loan Losses

Calculation: $\frac{\text{Net Income(after tax)}}{\text{Net Loan Losses}}$

Aspects to Note:

This ratio is only valid if net loan losses can be accurately determined (see above).

Trends and Levels:

The earnings coverage ratio is a multiple and shows the bank's historical capacity to absorb the impact of loan losses. The higher the multiple the better. In effect, a highly profitable bank is far better able to withstand the impact of a high level of loan losses than a bank with mediocre or poor earnings. A multiple of three times or higher would normally be considered good and indicates the bank has the earnings capacity to easily offset its level of loan losses.

B. CAPITAL ADEQUACY RATIOS

1. Basic Capital Ratio

Calculation: $\frac{\text{Core Capital(as defined)}}{\text{Total Assets}}$

Aspects to Note:

The recent international agreement on capital adequacy standards defined capital into two tiers, core and supplementary. Core, the more important of the two, is basic equity capital and should include fully paid-in common stock, surplus or share premiums, statutory reserves, and retained income (undivided profits). It should not include preferred stock (unless it is clearly both non-cumulative and perpetual) and revaluation reserves on fixed or other types of assets. The latter may be only disclosed in footnotes to the financial statements. While the term core capital will be gaining recognition, most financial statements will show it as equity capital or stockholders' equity.

Trends and Levels:

The trend of the basic capital ratio is clear-cut and important. An upward trend shows an improved capital position as capital growth is more than keeping pace with asset growth. A downward trend should be viewed as adverse regardless of the reasons behind it.

While it is essential to learn the capital requirement the financial institution operates under and how its capital ratio compares to its peers, a very broad benchmark for the basic capital ratio is six

percent for commercial banks and eight percent for other types of financial institutions, though the ratios will vary widely between countries and different types of institutions.

It is also important to understand that the basic capital ratio is somewhat simplistic since it does not take into account the varying degrees of risk existing both on and off the balance sheet. The new international capital standard does rely on risk weighted measurement, but this calculation is quite complex. The basic capital ratio, while not ideal, will give a clear trend and overall indication whether or not capital is adequate.

2. Total Capital to Total Assets

Calculation: $\frac{\text{Core Capital plus Supplementary Capital (as defined)}}{\text{Total Assets}}$

Aspects to Note:

If the basic capital ratio, as explained above, is satisfactory, there is no need to calculate a total capital ratio which includes elements known as supplementary capital. Supplementary capital includes revaluation reserves (as mentioned above), general provisions (provided they are truly unencumbered), most preferred shares and subordinated debt or capital notes. All of these elements add protection to depositors' funds but are of lower quality than the pure equity included in core capital.

Trends and Levels:

As with the basic capital ratio, an increasing trend is favorable. A broad benchmark for total capital to total assets would be eight percent for commercial banks. Non-bank financial institutions are not likely to have significant amounts of supplementary capital.

The key element regarding supplementary capital is that it only provides a partial reassurance to a mediocre or weak core capital position. A bank with a marginal basic capital ratio should not be viewed as adequately capitalized due to large amounts of supplementary capital.

3. Dividend Payout Ratio

Calculation: $\frac{\text{Dividends (as defined)}}{\text{Net Income}}$

Aspects to Note:

Dividends must only represent amounts paid out of net income (after tax) to shareholders. Normally this is only cash dividends either declared or already paid. Dividends in the form of stock normally would be excluded from this ratio. Financial statements often include a reconciliation of

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capital which shows the impact of dividends on reducing the amount of earnings being retained. Dividends shown in such reconciliations should be used in this ratio.

Trends and Levels:

The dividend payout ratio shows what portion of profits are being paid out to shareholders instead of being retained to build-up capital. Except for very unusual or extraordinary items (such as a direct withdrawal of capital), the inverse of the dividend payout ratio is earnings retention. Thus a downward trend in the dividend payout ratio results in higher earnings retention and is favorable.

Setting even a broad benchmark for a dividend payout ratio is difficult since it largely depends on capital. For example, a well capitalized bank with low growth in assets can afford to pay out a higher portion of profits in dividends. In turn, a high dividend payout ratio is a significant indicator in a profitable bank with a low capital ratio. If a bank is not well capitalized and is paying out more than fifty percent of its net income in dividends, its dividend policy would appear to be hampering capital growth.

C. PROFITABILITY RATIO

1. Return on Average Assets

Calculation: $\frac{\text{Net Income (after tax)}}{\text{Average Total Assets}}$

Aspects to Note:

This is a clear-cut ratio, however, it is important to use average total assets instead of year-end total assets as the latter will distort the ratio, especially in a year of rapid growth. If a more frequent averaging method is not available, use the average of the present year-end and the prior year-end.

Trends and Levels:

The return on average assets is now widely accepted as the best overall measurement for earnings performance. It is a better measurement than return on capital (equity) which rewards banks that are highly leveraged. The use of return on average assets as a measure of performance has encouraged banks to seek ways of enhancing profits off the balance sheet, often referred to as non-interest income.

An upward trend is, of course, considered positive. In general, banks in developing countries show higher profit ratios than banks in industrial countries. This is primarily due to lack of stiff and/or genuine competition. While emphasis should be placed on profit levels within the particular country

and among peer institutions, general profit benchmarks do exist. A one percent return on average assets is satisfactory, and many, if not most, major banks in industrial countries are well below this level. A two percent level or higher is very good in any banking system, while three percent or more is likely to be excessive due to extraordinary factors or negligible competition.

D. LIQUIDITY

While basic liquidity ratios can be calculated from a balance sheet, they are usually simplistic and sometimes misleading. Thus, the best approach to a quick analysis of liquidity is to learn the institution's liquidity requirement imposed by the supervisory authority and calculate how easily it is being met. As previously stated, such liquidity requirements usually define liquid assets, and such liquid assets must equal a certain percentage of deposits, which varies by type of deposit.

The two liquidity ratios used in the LPC analysis were only intended to reveal a trend and did not judge whether liquidity was sufficient. The first was cash and other short term funds as a percentage of deposits and borrowing (purchased funds). An upward trend in this ratio indicates improving liquidity. The second ratio used was gross loans as a percentage of deposits and borrowings. Since loans are normally illiquid assets, an upward trend in this ratio is usually adverse with regard to liquidity. Again however, neither ratio takes into account access to liquidity on short notice through available credit lines or discount facilities at the central bank. Also such ratios do not measure the volatility of deposits, as a large number of small depositors (especially savings accounts) provides a base of core depositors. Liquidity studies have shown that a large core deposit base significantly reduces vulnerability to sudden liquidity crises.

Summary of Suggested Questions for Management

GENERAL INFORMATION

1) Under what type or class of financial institution are you licensed?

2) Who is your supervisory authority?

3) Are on-site examinations conducted by your supervisory authority?

4) Does your external auditor review your loan portfolio and who approves your provisions?

5) What are the key prudential requirements imposed by your financial legislation?

ASSET QUALITY

1) Has your supervisory authority established objective criteria for determination of past due/non-performing advances for your type of financial institution and, if so, what are they?

2) What are your management criteria and systems for monitoring advances that are not performing?

3) Is a provision for loan losses maintained? If so, are the provisions general (for potential future losses) or specific (for presently identified losses)?

4) Who approves of provisions before annual accounts are finalized?

CAPITAL ADEQUACY

1) What is the statutory capital requirement for your type of financial institution and what other capital regulations or guidelines must you follow?

2) Are capital requirements based solely on leveraging (gearing) or is there a risk based determination such as the new international capital measurement and capital standard?

3) Are there legal lending limits for credit exposures to one borrower or related borrowers based on capital?

PROFITABILITY

1) What factors, either positive or negative, have heavily affected your institution's profits in recent years?

LIQUIDITY

1) What are the liquidity requirements imposed by the central bank or supervisory authority?

2) What access does your institution have to markets or discount window privileges when liquidity becomes tight?

STATISTICAL COMPARISONS

1) Does your institution have any recent surveys or statistical data comparing all financial institutions of your type or class, especially with regard to size, capital and profits?