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CONSULTANCY REPORT ON
REGIONAL COOPERATIVE BANK OF WARSAW (BUG)
FOR THE
COOPERATIVE BANK DEVELOPMENT PROJECT (POLAND)

Prepared by
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Special appreciation is also felt for the information and hospitality received from Bank Board (Council) Chairman Michal Gacek, other members of the Board, and from a large number of Cooperative Bank officials and staff members I met during visits in the region.

I am grateful also for the assistance and encouragement provided by Jon Greeneisen and his staff in the Warsaw ACIDI office and especially to Mrs. Greeneisen who typed my report. And, of course, I am indebted to Teresa Kachniarz, my interpreter, translator, and able assistant, without whom I could not have completed this most pleasant assignment.

Don Hovendick

FOREWORD

In the development of this report, terminology used to identify Cooperative System bank officials is taken from the U.S. model. Polish terms are changed as follows:

Polish	to	U.S.
Council (elected by Shareholders)		Board of Directors
Board of Directors (Pres., V. Pres., etc.)		Management (Pres., (V. Pres., etc.)
Audit Committee		Audit Committee

The Polish monetary system is based on the zloty. At the date of this report the rate of exchange was Zl 13,000 to U.S. \$1.00.

SCOPE OF WORK

The stated mission of the ACDI Cooperative Bank Development Project in Poland is "to assist in developing a private system of member-owned cooperative banks and its ability to finance private farmers."

A key element in the further development of the cooperative bank system is the establishment of regional banks, owned by the local banks, which will function primarily as bankers' banks providing coordination, supervision, and a full range of other services to the cooperative banks in their region.

The Regional Bank of Wroclaw was established in January, 1992. This consultancy was arranged with a scope of work as follows:

1. Analyze the situation faced by the Bank and determine steps needed to start operations as soon as possible.
2. Set priorities for needed action.
3. Counsel the president and officers on managing the start-up process including such activities as hiring staff, obtaining facilities and equipment, establishing operation policies and procedures, designing services for member banks, and setting up credit operations.

The contents of this report are intended to describe as clearly as possible the findings and recommendations of the consultant, aimed at accomplishing the tasks described above.

EXECUTIVE SUMMARY

The 1665 cooperative banks of Poland are positioned to serve every corner of the country. They trace their beginnings to the 1860's. Most are rather strong, a few are weak, but generally they have a "family" relationship and help each other in times of need. They are full-service banks, taking deposits, making loans, and providing other basic bank services, mostly to small town and rural users.

These banks have been operating under the service and supervision umbrella of the government Bank for Food Economy (BFE). They have become increasingly frustrated with BFE and have recently begun to break away to join new Regional Banks which have been established in the cities of Poznan, Warsaw, and Wroclaw. These new Regional Banks have been designed to take over the umbrella position of BFE and provide services, support and supervision for their member coop banks. A National Union of Cooperative Banks has been formed. The overall intent of these activities is to form a cooperative system.

The Regional Bank of Poznan began operations in 1991, the banks in Warsaw and Wroclaw are in the start-up phase of development now. One or two other new regional banks are being considered in organizational discussions now. In the meantime, BFE is working hard to hold its position.

This consultancy was arranged to provide start-up advice and counsel to the president of the Wroclaw Regional Bank serving Southwest Poland. It was established in January, 1992, has 115

coop bank shareholders, about 75 more ready to join, and a total potential of perhaps 225. The bank has 20 employees, an administrative office in Wroclaw, a branch in Opole, and is considering establishment of 7 or 8 other branches. A computer system is being installed now.

This Regional Bank plans to open for business in a few weeks but there are many problems (weaknesses) to overcome. It needs a good business plan, a better organizational structure, more staff, more capital, additional bank office facilities, policy and procedure manuals, a coop bank audit and supervisor program, and a host of other programs and procedures. Small steps have been taken toward addressing these start-up needs but much remains to be done. The "Recommendations" section of this report contains the consultant's prioritized list of things to do to help assure a successful start-up.

A major strength of the Wroclaw bank is found in its shareholders, and potential shareholders, the cooperative banks of Southwest Poland. There is reason to believe they are among the best in the country, are strongly motivated to join this new banking system, and will be pressing forward to make sure the Regional Bank and the "System" succeeds.

FINDINGS

I. START-UP OF NEW COOP BANKING "SYSTEM"

Gospodarczy Bank Poludniowo-Zachodni S.A. (GBPZ S.A.), referred to in this report as the Regional Bank of Wroclaw, was established on January 9-10, 1992, to provide modern financial services and support for, and with, cooperative banks in Southwest Poland and to coordinate activities of those banks in the region. It is intended that a total of 4 to 6 such regional banks will be established to serve the 1665 cooperative banks located throughout Poland. One such bank began operations in the summer of 1991 at Poznan in west-Northwest Poland, and another serving cooperative banks in the central region is preparing to start soon in Warsaw. Discussions and organizational steps which will lead to the formation of two or three other regional banks are on-going.

In the meantime the cooperative banks are trying to decide whether to remain under the often frustrating government umbrella of the Bank for Food Economy (BFE) or to join the emerging regional banks to develop their own independent cooperative bank system. The 3 banks now organized will each serve between 150 and 300 cooperative banks when fully operative, perhaps one half of the total in their respective areas, with plans to eventually serve all of them. The Wroclaw Bank has 115 cooperative bank shareholders who have purchased a total of 400 shares of stock for Zl 20 billion, about 40 more have expressed the desire to join, and the total number located within the rather loosely defined boundaries of the region exceeds 200.

It is evident that the development of this new cooperative banking system is entering a critical state, and the urgency for accomplishing an early and successful start-up of the Regional Bank of Wroclaw, and the others being organized, is readily apparent.

II. COOP BANK OPERATIONS

Cooperative banks in Poland were first organized in the 1860's. Some now existing trace their origin almost back to that time while others were organized more recently. While some are quite weak or insolvent, others are very strong, having good facilities, staff, and reserves.

In many areas there is a kind of family relationship with the strong helping those having problems. For example, a small bank in Southwest Poland visited by this consultant reported deposits of ZL 6 billion and loans of ZL 10 billion. When asked where the shortfall of deposits was coming from the answer was "neighboring cooperative banks." Further discussion revealed these were rather informal lending arrangements among friends.

Eight cooperative banks were visited during the course of this consultancy, ranging from small to large and weak to strong, reportedly a good cross section of the 200 in the region. The smallest employed 10 persons, the largest employed 53. Assets of the 8 ranged from Zl 12 billion to Zl 250 billion, loans from Zl 5 billion to Zl 58 billion, number of accounts from 6,000 to 31,000 (net depositors and borrowers). All the bank headquarters buildings were owned by the banks. Some have branches and cash counters (paying and receiving windows) in other locations.

Services of these eight cooperative banks include deposits, some checking service, personal and business loans. Some offer currency exchange, one especially wants to establish international banking connections, and another recently installed safe deposit box facilities.

All of the banks visited have computers and it is said that 85% of the 200 in the region are so equipped. In general, other equipment is adequate, not fancy. The bank buildings and offices are attractive, employees appear quite professional, and the overall impression is that the banks are community leaders.

III. REGIONAL BANK OF WROCLAW (GBPZ)

On the other hand, the newly established Regional Bank of Wroclaw is housed in inadequate temporary quarters, is staffed by 15 employees who are over-all quite experienced (but not necessarily in banking), is now implementing a new Zl 1 billion computer system, all of this being almost overshadowed by a host of necessary start-up activities. A new branch facility is being constructed in Southeast Wroclaw which will cost Zl 9 billion, and a new Zl 1.8 billion branch in Opole is already open with 4 employees now in training.

Management of the Regional Bank consists of President Pawel Siano, and vice presidents Cezary Lebiecki and Wlodzimierz Olbromski. The 18-person board of directors (council) is headed by coop bank president Michal Gacek, and the 5-person audit committee chairman is Anna Hussar. See Appendix I.

Services to be offered by the Regional Bank are deposits, some

checking, loans, foreign currency exchange (soon), international accounts (soon), and safe deposit boxes (later, when the bank can afford them). Top priority, however, will be given to supporting and supervision services for the participating cooperative banks. The Regional Bank does not plan to compete with the coop banks but will supplement their services with those listed above.

Eight or nine other branches are being considered, at locations desired by local groups of coop banks. About half of these would be in space made available by the coop banks.

The management meets daily, the board on a quarterly basis, the audit committee will conduct quarterly reviews, the shareholders will meet annually (in March), and all can meet more often when necessary.

IV. STRENGTHS (HELPING GBPZ)

A. POLISH COOPERATIVE BANK PERFORMANCE

The 130-year history of relatively successful cooperative banking in Poland through times of political and economic turmoil, and the banks' obvious leadership position in most places certainly must be considered a strength. It is interesting to note that the new cooperative banking system starting in Poland represents the first time such a system has been started from the "grass roots." All others in the world were organized from the top (government) down to the local level.

B. SOUTHWEST POLAND COOP BANK PERFORMANCE

In addition to the above, there is reason to believe the coop banks in the area served by GBPZ are stronger than those elsewhere in Poland. The economy is generally stronger here and more stable. The various resources of the region are a strength--not only for banks but for their customers.

C. COOPERATIVE BANK "FAMILIES"

Groups of large and small and strong and weak neighboring banks help each other in times of need. This is evidenced by the informal lending/borrowing done by banks within these groups, to the extent that weaker banks are sometimes not allowed to go out of business even though they are insolvent.

D. STRONG DESIRE OF COOP BANKS TO HAVE REGIONAL BANK

Driven by frustrations with their present umbrella bank, the government Bank for Food Economy (BFE), many of the banks are desperately anxious to form their own service and supervisory banks. BFE has been autocratic, its service poor, and by design it has often drained the resources (deposits) of the coop banks from their area for use elsewhere in the country.

E. REGIONAL BANK STAFF

The management team, comprised of the president, 2 vice presidents, and the other 16 employees, appears to be generally very well qualified. The president and one vice president are former coop bank managers, the other vice president worked in a coop bank, and many of the other employees have good banking and

academic backgrounds.

F. COOP BANK AND GBPZ BOARD, MANAGEMENT, AND EMPLOYEE TEAM SPIRIT

At this point, there is evidence of a strong sense of commitment among all of these key groups. This is the main driving force behind the move to develop this Regional Bank.

G. INTERNATIONAL SUPPORT

Although there are times of doubt, there can be no question that the development and support of governments and other organizations outside Poland must be considered a strength for this new System.

V. WEAKNESSES (GBPZ PROBLEMS)

A. STRATEGIC AND OPERATIONAL PLANNING

Some of the forecasting and projections required for this kind of planning was done at the time the bank was authorized but there is a serious need for a detailed business plan now. Hiring, purchasing, marketing, and rate-setting decisions are being made on the basis of inadequate information.

B. CAPITAL NEEDS

Not surprisingly, the Regional Bank is poorly capitalized at this early stage of development. At June 30, 1992, base shareholder stock was Zl 20 billion and deposits were Zl 7.5 billion with accumulated losses of Zl 3.7 billion, leaving a net of Zl 23.8 billion. See Appendix II. Bank office facilities and

equipment already purchased or on order have cost more than Zl 12 billion and the banking rule is to limit such outlays to 20 percent of base capital. An infusion of Zl 35 billion is now being received from the Capital Fund Foundation (U.S. and Polish monies) but what kind of "capital" this will be is unclear at this time.

C. STAFFING NEEDS

Until final plans are developed to determine the number of bank branches, supervisory teams, and bank support staff needed, and more forecasting is done relative to the volume of commercial bank services to be offered, it will be impossible to do orderly and timely recruiting of employees.

D. BUILDING AND EQUIPMENT NEEDS

As in item B above, until a complete business plan is developed the risks of making these kinds of expenditures is great and the consequences are serious if a wrong decision is made.

E. NEEDS FOR OPERATIONAL POLICIES, PROGRAMS, AND PROCEDURES

There is an urgent need for a communications program, a coop bank supervisory program, a "sound" credit policy, a coop bank audit program, a loan grading system, a GBPZ-coop bank service-sharing policy and agreement, and the establishment of a schedule for beginning service and supervision of the 115 coop banks who are shareholders and those ready to join. Also urgently needed are improved personnel programs for recruiting, screening, training, and performance and salary reviews. Most of these are needed before success could be predicted for the national debt

restructuring program now being discussed, and before any other program could be put in place.

G. THE ECONOMIC PROBLEMS OF POLAND

Admittedly, this should probably be first on the list of weaknesses. With interest rates at 55-65 percent and inflation around that same level it is almost impossible to be a successful borrower or banker. The problem may be best illustrated by a loan described to this consultant by a coop bank president. Two years ago a farmer borrowed Zl 100 million (\$7,500) to buy the land, machinery, livestock, and growing crop from an owner who was moving to Western Europe. After harvest he repaid Zl 20 million and promised to pay the balance June 30, 1992. Prices fell, costs increased, June 30 came and he couldn't pay. Now he owes the bank Zl 200 million (\$15,000) including interest--65 percent plus a 35 percent penalty! Such is the economic environment of the Regional Bank.

RECOMMENDATIONS

.... To Pawel Siano, President

To the extent possible in the time allotted for this assignment, the consultant is making specific recommendations. In some instances, drafted policies and procedures are provided in the appendices. It is believed bank management and staff have the expertise needed to follow-on with the development of fully detailed programs and procedures to accomplish them. Each recommendation addresses an area of weakness identified as to priority (order of importance), with the following code:

(*) First
(**) Second
(***) Third

I. WEAKNESS--STRATEGIC AND OPERATIONAL PLANNING

A. (*) PERSONAL OBJECTIVES OF THE CEO

The first recommendation, and given the highest priority, is a challenge to President Siano as the Chief Executive Officer (CEO) of the bank to clearly establish for himself the following personal objectives:

1. Plan strategically (establish the VISION for the bank's future).
2. Acquire, organize, and maximize the benefit of resources (human and financial).
3. Set clear priorities.
4. Delegate responsibility.
5. Protect the bank.

It is not suggested that an action plan should be developed to

accomplish these objectives. Rather, it is intended that they be kept always in mind--"painted on the wall"--as a constant reminder of the principal responsibilities of the bank CEO. They should be used as a check-list against which the CEO continually evaluates his own performance, and if he finds his (or the bank's) performance is substandard, every effort should be made to improve it. In this case, the bank is in the start-up phase of development. Certainly all of these objectives are important now, but of the utmost importance is number one, strategic planning, which can only be led by the president. A formal strategic planning process, and plan, involving also the staff, should be developed by December, 1992. In the meantime such planning must be done, on an informal basis, to guide the development of the bank.

B. (*) DELEGATION OF RESPONSIBILITY AND AUTHORITY

There is an urgent need for the development of specific job descriptions for the president and vice presidents, in the next few days, and for all other positions as soon as possible. For the three top positions this can best be started by general discussions by this group, led by the president, with each then developing his own list of responsibilities, subject to final approval by the CEO. Coordination and assistance should be given by the personnel specialist who would also lead the development of the job descriptions for staff. Each supervisor, beginning with the president, should then delegate authority--or reserve it for himself--for all of the responsibilities on the job descriptions for those reporting to him, again with occasional assistance from

the personnel specialist. The CEO should retain final approval authority for all job descriptions.

Again, with the help of the personnel specialist, an organization chart should be developed, approved by the president, and widely distributed among directors, staff, and shareholders as soon as possible.

An early completion target date for the job descriptions and organization chart should be set by the president.

C. (*) BUSINESS AND FINANCIAL PLAN

The bank must have an operating budget and business plan, again, as soon as possible. Decisions are being made relative to office facilities, computer systems, staffing, and major service programs without adequate information about projected bank income and expenses, business forecasts, and potential means of increasing base capital. Although inexact and uncertain, develop financial operation scenarios based on income and expense estimates, for example, 3, 6, and 12 months after start-up. This will help the bank avoid cash-flow problems and other traps, and help determine the feasibility of purchases and programs being considered. The responsibility for developing the operating budget/business plan should go to the vice president in charge, with assistance from the chief accountant or financial manager. This should be accomplished in the next 30 days.

D. (*) BANK COMMUNICATIONS PROGRAM

Be sure a person on the management team has direct

responsibility for this. During this beginning stage of bank development, it is suggested the president be primarily responsible, assisted by a member of the staff who may be qualified, or by a professional added to staff. There is a great "need to know" as the bank starts operations, among the shareholders, board, employees, coop banks, the press, and general public. Various means are available: newsletters, "electronic mail," and presentations at various meetings of the foregoing groups.

II. WEAKNESS--CAPITAL NEEDS

A. () SHAREHOLDERS' INVESTMENT IN ADDITIONAL CAPITAL**

In addition to the anticipated investments by new shareholders, a plan should be devised to ask for increase in the minimum capital required, not only to be sure the now \$1 75 billion bank capital minimum is reached, but to assure adequate resources are available to provide the services the coop banks are wanting and expecting. It is recommended that a proposal be developed for presentation to the board for approval, then announced to the shareholders for their acceptance.

This recommendation is made in the expectation that accomplishing recommendation I-C above (Business Plan) will prove the need for additional capital from all sources available.

B. (*) BANK CAPITAL "HUNTER"

It is recommended that the responsibility for finding new sources of capital be specifically assigned to the vice president

in charge of finance and that he be assisted by a well qualified financial person, perhaps now on the staff, who would look for grant and loan programs and find ways to participate in them. Examples are the present Capital Fund (U.S.-Poland) to capitalize regional banks, the E.C. fund for auditing coop banks, and the World Bank fund for the "privatization and development of agriculture." There are, or will be, internal Polish sources of capital also. The management team simply does not have time to do an effective job of trail-finding and hunting and assignment of a staff member or a qualified new employee is strongly recommended.

III. WEAKNESS--STAFFING NEEDS

A. () MASTER PLAN FOR STAFFING**

It is recommended that the CEO and vice presidents, and other key people build a total bank staff needs plan, section by section (answering the questions "who, when, and why?"), for management to discuss, revise, and adopt. The personnel specialist should be assigned to this task working at the direction of the officer responsible for staffing, with final approval to be given by the president. This cannot be satisfactorily accomplished until I-C (Business Plan) above is completed.

B. () TRAINING NEEDS ASSESSMENT**

This is given a lower priority simply because it is assumed present employees, including those recently hired are either experienced or well-trained, or the need for training has been identified already. However, as the foregoing recommendations are

accomplished new training needs are certain to arise. Every employee should be required to report his, or his subordinates', perceived needs for training to the personnel specialist. In turn, a detailed "training needs assessment" for the bank should be prepared by the specialist for consideration of the officer responsible for personnel. This program should be announced and started as soon as the Business Plan is completed.

IV. WEAKNESS--BUILDING AND EQUIPMENT NEEDS

A. (*) CAPITAL INVESTMENT CONSIDERATION

It is strongly recommended that no further major investments in buildings or equipment be made until the Business Plan, again recommendation I-C, is accomplished. At this point in time the consultant does not have enough information to answer the question, "What can we afford?", nor does management, it appears. On the assumption that the bank's capital position will continue to be weak, it is suggested that leasing space will be a much better alternative than buying.

B. () DETERMINATION OF THE NUMBER OF BRANCHES**

Again, it is recommended that the study of possible branch locations be continued but that final decisions be postponed until the Business Plan is available. A few cautionary words: 1) don't establish more branches than absolutely necessary and, 2) don't try to start operations in all of them at the same time.

V. WEAKNESS--NEEDS FOR OPERATIONAL POLICIES, PROGRAMS, AND PROCEDURES

A. () ADOPTION OF BASIC BANK POLICIES**

Policy development so far has been on an "as needed" basis. It is recommended that all policies now existing be collected, reviewed, and filed in a policy manual, using as a pattern the "Model Policies for Regional Banks" developed last year (see Appendix III). It is further recommended that the model policies not now covered by others developed by the bank be adopted by the board. Send the board a copy for study prior to their next meeting, with management revisions if necessary, so they can also suggest changes. With the passage of time, it will be found that events will expand and sharpen these policies. In the meantime, there will be a rather complete set in place.

B. (*) COOP AUDITS

The bank's financial manager has been working on matters pertaining to this subject. It is recommended that independent auditors be asked to bid on conducting the first round of audits, and that the E.C. fund for audits of regional and coop banks (\$1.2 million) be sought out and asked for help. This fund is to be used this year so this needs to be followed up immediately. For the future, it is suggested that continuing the use of outside auditors be considered.

A policy question: What will be done with coop banks that are broke? This needs to be discussed by bank management, key people on the staff, and the board. When the audits begin there will no

doubt be a need for a policy with addresses the issues involved.

C. () BRANCH OFFICE START-UP**

It is recommended that an implementation team be named, consisting of three or four bank specialists, with one in charge, and that this team begin planning its work now. As suggested earlier, carefully selecting locations and starting operations one at a time would enable such a team to become skilled at such a start-up process and reduce the stress that is certain to occur throughout the bank.

D. (*) COOP BANK SUPERVISION**

Based on what is now known, and what is learned while accomplishing V-B (Coop Audits), V-C (Branch Start-Up), and several other recommendations, work needs to be started also on the development of a coop bank supervisory program. It is recommended that the supervisory specialist be carefully selected and that this person--if not a member of the implementation team helping start the branches--be instructed to work closely with them while they prepare to do their work so as to develop a supervisory program that is coordinated with, or by, the branches. This supervisory specialist needs to be appointed now and directed to begin planning such a program immediately.

E. (*) REGIONAL BANK-COOP BANK PARTICIPATION AGREEMENT

Work has started on such an agreement, using as an example a U.S. Farm Credit Bank Policy. In keeping with the bank's announced policy, the agreement will help assure that the bank does not

compete with the coop banks, and that its services support and supplement those they offer. This is a very sensitive issue. The policy will require the consent of the bank's board, as well as a good explanation to the coop banks to assure understanding and acceptance.

F. (*) A "SOUND" CREDIT POLICY

The foundation stone of a successful bank operation is its lending philosophy and policy. The proposed statement of policy contained in this report is recommended (see Appendix V). It should be reviewed by the bank's management, revised if necessary, forwarded to the board for review prior to their next meeting, and adopted along with policies considered in V-A above. It then should be made available to the coop banks at an appropriate time, eventually becoming perfected and made a standard policy throughout the region.

G. (*) LOAN CLASSIFICATION PROGRAM**

Again, a proposed program outline, which relates to the credit policy in V-F above, is recommended for adoption by the bank. It would be used in connection with regional bank and coop bank loans. (See Appendix VI.)

It is also recommended that a coop bank classification program, patterned after the loan grading program, be adopted and made a part of the supervisory program described in V-D above.

H. (*) DEBT RESTRUCTURING

Although not actually considered within the scope of work of

this consultancy, the farm loan debt restructuring program now being developed in Poland "invites" a recommendation. Continue to work with the other regional banks, the National Union of Coop Banks, and ACIDI to assure procedures are developed that will make this a successful program for all concerned--the Regional Bank, coop banks, and the farmers who need it. The program expires soon so this requires immediate attention.

VI. WEAKNESS--REGIONAL BANK TERRITORIAL BOUNDARIES

(***) This is an issue that no one really wants to talk about but the consultant nevertheless makes the following recommendations. Continue to keep the subject open, be ready to negotiate, and press for territorial lines that will lead to efficient regional bank operations. The continued development of regional bank service in unorganized areas of Poland will require that everyone stand ready to adjust his position. (See Appendix IV.)

FOOTNOTE TO THE RECOMMENDATIONS: Within hours of receiving the consultant's verbal report on the recommendations the management team was at work on some of them, including delegations, senior job descriptions, and the staff needs analysis. With this kind of response, the consultant feels that this long list of high priority activities can be dealt with well before year-end 1992.

APPENDICES

APPENDIX I

THE COUNCIL OF THE BANK
(BOARD OF DIRECTORS)

RADA BANKU

Nazwisko Imię	Funkcja	Bank Spółdzielczy w	Adres prywatny
Chełkowski Mikołaj	<i>member</i> członek	Swiebodzice	
Chęciński Zbigniew	członek	Swidnica	58-100 Swidnica ul. Dębowa 1/3
Gacek Michał	<i>Przewod- Chairman niczący</i>	Bystrzyca Kł.	57-541 Trzebieszowice St. Waliszów 66
Kwalczyk Ryszard	członek	Bierutów	Bierutów ul. Wodna 2C
Lis Zdobysław	członek	Ząbkowice Sl.	57-200 Ząbkowice Sl. Oś. 20-lecia 29/15
Maćkowiak Mieczysław	<i>Przewod- Chairman</i> członek	Jelenia Góra	58-500 Jelenia Góra ul. Kopernika 4/31
Maciejewski Andrzej	<i>Przewod- Chairman</i> członek	B Rz. Wrocław	50-550 Wrocław ul. Sliczna 60/4
Handziuk Adolf	członek	Gaworzycę	67-200 Głogów ul. Dziadoszan 4/4
Nowakowska Elżbieta	<i>Sekre- Secretary tarz</i>	Dzierżoniów	Bielawa Oś. 25-lecia 21/83
Paluch Czesława	członek	Wołczyn	46-100 Namysłów ul. Makowa 12
Pigłás Mirosława	członek	B. Komunalny Zielona-Góra	67-016 Czerwińsk Odrz ul. Zieionogórska 75/6
Smoliński Franciszek	członek	Łosiów	49-300 Lewin Brzeski ul. Moniuszki 31D/4
Strojny Roman	członek	Długoleka	56-411 Długoleka Szczodre 81
Strzała Lucjan	członek	Twardogóra	56-400 Oleśnica ul. Klonowa 6A/3
Walczak Kazimierz	członek	Legnica	Legnica ul. Gwiezdna 23/12
Witkowski Ferdynand	członek	Lubniany	46-024 Lubniany ul. Dworcowa 18
Zubek Zygmunt	<i>Przewod- Chairman</i>	Namysłów	46-100 Namysłów ul. Okrzei 22
Zuk Stanisława	<i>Sekre- Secretary tarz</i>	Lubań	59-800 Lubań ul. Skłodowskiej 10/1

KOMISJA REWIZYJNA

NAZWISKO IMIĘ	FUNKCJA	BANK SPÓŁDZIELCZY	ADRES PRYWATNY
Feduszczyk Jan	<i>member</i> członek	Iłowa	68-120 Iłowa ul. Borowska 3B/6
Gadzińska Maria	<i>Sekre-</i> <i>secretary</i> tarz	Sroda Śląska	55-300 Sroda Śląska ul. Legnicka 47D/4
Hussar Anna	<i>Przewod-</i> <i>chairman</i> nicząca	Duszniki Zdr.	57-340 Duszniki Zdr. Swierczewskiego 1E/2
Jarzębińska- Herda Anna	<i>Zastępca</i> <i>vice chairman</i> Przewodn	Strzelce Opolskie	47-100 Strzelce Op. ul. Topazowa 10
Maciaszek Szczepan	<i>member</i> członek	Kamienna Góra	58-400 Kamienna Góra ul. Tkaczy 31.38/2

LISTA PRACOWNIKÓW

STAFF

IMIE HAZWISKO	STANOWISKO
SIANO <u>PAWEŁ</u>	PREZES ZARZĄDU- PREZES BANKU <i>the President of the Bank</i>
LEBIECKI <u>CEZARY</u>	WICEPREZES ZARZĄDU- WICEPREZES BANKU <i>Vice - President (Financial Management)</i>
OLBROMSKI WŁODZIMIERZ	CZŁONEK ZARZĄDU- WICEPREZES BANKU <i>Vice President (Administrative Management)</i>
PRZEBIERAŁA <u>MARIANNA</u>	GŁÓWNY KSIĘGOWY CENTRALI BANKU <i>the Main Accountant of the Central Bank (Gospodarczy Bank Pld - Zach SA)</i>
WŁASZCZYK FRANCISZEK	GŁÓWNY SPECJALISTA D/S ADMINISTRACJI <i>The Main Specialist of Administration</i>
WOJTASIAK <u>REGINA</u>	GŁÓWNY SPECJALISTA D/S PRACOWNICZYCH <i>The Main Specialist - Personnel</i>
KOSTUREK ANDRZEJ	INFORMATYK <i>Computer Programming</i>
URSEL ANDRZEJ	INFORMATYK <i>Computer Programming</i>
BORECKI HENRYK	SPECJALISTA D/S ZABEZPIECZEN <i>Secret Service Specialist</i>
MISIEWICZ MICHAŁ	INSPEKTOR D/S INWESTYCJI <i>Investment Inspector</i>
KLIMOWICZ ZYTA	KSIEGOWY OPERATOR <i>Accountant Operator</i>
JANAS KATARZYNA	SEKRETARKA <i>Secretary</i>
BŁASZCZYK MARGORZATA	ADMINISTRATOR SYSTEMU EPD <i>Administrator EPD system Electronic Process Data</i>

KOCIK WIEŚLAWA	RADCA PRAWNY <i>lawyer</i> - advisor
SWITAJA DANUTA	KSIĘGOWY <i>Accountant</i>
Młostko ursula (or.)	Financial mgr. (considering, and being considered for, job (academic background))

Regional Bank of Wroclaw
Wroclaw, Poland

APPENDIX II

FINANCIAL STATEMENT

.... From Printout of June 30, 1992

	Zlotys
Assets	
Short-term Deposits	944
Time Deposits	18,000
Accounts Receivable	202
Buildings and Equipment	4,564
Computer Programs, etc.	86

Total	23,796
Liabilities	
Deposits--Other Banks	4,060
Deposits--Shareholders	3,478
* Shares of Capital	20,000
Operating Loss--1992	-- 1,551
Organizing Costs--1991	-- 2,191

Total	23,796

* Share capital is impaired (reduced) by Zl 3,742 costs/losses for 1991-92.

MODEL POLICIES FOR REGIONAL COOPERATIVE BANKS

The following policy statements are draft model policies being considered for recommendation by the National Union of Cooperative Banks to boards of directors of the new regional banks. They are intended to help the new boards of directors establish clear operating policies and help assure regional banks operate in a consistent way across Poland.

MISSION OF THE REGIONAL BANK

I. REGIONAL BANK OPERATING POLICIES

- I-1. Scope of Business.
- I-2. Capitalization.
- I-3. Earnings.
- I-4. Lending Philosophy.
- I-5. Human Resources.
- I-6. Stockholder Relations.
- I-7. Advertising, Marketing and Customer Relations.
- I-8. Business with Other Banks.
- I-9. Cooperative Development.

II. BUSINESS RELATIONS WITH LOCAL BANKS

- II-1. Service to Local Banks.
- II-2. Competition with Local Banks.
- II-3. Large Loan Structuring and Servicing.
- II-4. Coordinating Local Bank Activities.
- II-5. Local Bank Audits.
- II-6. Representation.
- II-7. Communications.
- II-8. Integrated Data Processing.

III. RELATIONS WITH THE NATIONAL UNION

- III-1. Representaton.
- III-2. National Coordination.
- III-3. Assistance Coordination.
- III-4. Budgetary Contributions.

IV. GOVERNMENT RELATIONS

- IV-1. Relations with Agencies and Parliament.
- IV-2. Governmental Functions and Tasks.
- IV-3. Reporting to Government Agencies.
- IV-4. Relations with the Bank for Food Economy.

MISSION OF THE REGIONAL BANK

As a user-owned financial institution, the Regional Bank operates to serve, assist, and supplement the local cooperative banks (our stockholders) in effectively meeting the banking needs of individuals, businesses, and cooperative organizations in the local community.

I. REGIONAL BANK OPERATING POLICIES

I-1. Scope of Business.

The Regional Bank will actively seek opportunities for prudent growth and develop in ways that will increase benefits to stockholders while achieving the Bank's mission. The Bank will focus on financial and related services and only in unusual circumstances take an equity position in a non-financial business.

I-2. Capitalization.

The Regional Bank will become sufficiently capitalized to withstand an economic recession, assume reasonable credit risk, meet regulatory requirements, and retain ownership in the hands of its cooperative bank stockholders. The bank will have a capital plan that is easily understood and accepted by the stockholders.

I-3. Earnings.

The Regional Bank will have as its goal to achieve sufficient earnings each year to provide for growth, help capitalize the bank and generate a reasonable return on the stockholders' equity.

I-4. Lending Philosophy.

In making loan decisions, the Regional Bank will consider loan quality, earnings potential, the Bank's capital, and normal credit factors. The bank will seek to provide customers with constructive, sound loans that contribute to their business success.

I-5. Human Resources.

The Regional Bank will invest in highly qualified people, administer fairly the policies affecting them, and challenge them with business objectives that stimulate professional growth. The Bank expects its people to increase their knowledge and skills, contribute to decisions affecting their work and take responsibility for their performance. In return, the bank will reward them accordingly.

I-6. Stockholder Relations.

While it has been necessary for cooperative bank managers to take a leadership role in organizing the Regional Banks, it is the intent of the Bank that shareholders on the local bank boards of directors will represent the local banks at the GB assembly of shareholders and local bank shareholders will be elected to the GB board of directors.

I-7. Advertising, Marketing and Customer Relations.

The Regional Bank will carry out an effective program of advertising and marketing to optimize cooperative banks' market share. The Bank will sponsor or conduct activities which improve its image with customers and the community.

I-8. Business with Other Banks.

The Regional Bank will conduct normal banking business with other cooperative banks (domestic and foreign), commercial banks, the National Bank of Poland, and foreign banks. All long-term or contractual relations with such banks will be approved by the board of directors.

I-9. Cooperative Development.

Within financial constraints, the Regional Bank will contribute to the development of successful cooperative businesses in the region. This may include assistance to cooperatives in preparing loan requests training for cooperative directors, managers and employees; and cooperation with national and international organizations seeking to enhance cooperative businesses in Poland.

II. BUSINESS RELATIONS WITH LOCAL BANKS

II-1. Services to Local Banks.

The Regional Bank will provide a variety of high quality services required by the local banks. After absorbing reasonable startup costs, such services must be cost effective and the Bank may charge for the services.

II-2. Competition with Local Banks.

The Regional Bank will at no time initiate, enter into, or carry on any business activity in direct competition with local banks. The Bank will, however, develop and offer to the public financial services which supplement those of the local banks (ie. in territories not served by local banks or services not offered by local banks. If a potential customer contacts the Regional Bank for a service offered by a local bank in his community, the Regional Bank will direct him to his local bank and will provide service only with the written consent of the local bank.

II-3. Making Large Loans.

The Regional Bank will become a partner with the local bank in making large loans that exceed the lending or technical capacity of the local bank. Such loans will be structured and serviced in ways that are mutually agreeable to both banks.

II-4. Coordinating Local Bank Activities.

The Regional Bank will coordinate local bank activities where coordination will benefit the local banks. This includes such activities as advertising, external relations, legal services, and procurement.

II-5. Local Bank Audits.

As directed by the National Bank of Poland, the Regional Bank will conduct financial audits of local banks. Costs of such audits (staff time and expenses) will be charged to the audited bank and reports will be provided to the National Bank as well as to the local bank.

II-6. Representation.

The Regional Bank will represent (speak for) local cooperative banks in the region. This will include public statements to the media; communications with the Government, banks and organizations; and other messages as appropriate.

II-7. Communications.

The Regional Bank will report regularly to the local banks on business activities of the Regional Bank. At the same time, the Bank will foster communications between the local banks and provide means for local banks to give feedback, advice and counsel to the Regional Bank.

II-8. Integrated Data Processing.

Working closely with local banks, the Regional Bank will develop an integrated plan for data processing by the regional and local banks and manage its implementation. Objectives of the integrated data processing plan will be to automate accounting systems, provide current financial reporting, and minimize costs of information management.

III. RELATIONS WITH THE NATIONAL UNION OF COOPERATIVE BANKS

III-1. Representation.

The Regional Bank authorizes the National Union of Cooperative Banks to speak for and represent cooperative banks at the national and international levels. Such representation should not jeopardize interests of the Bank.

III-2. National Coordination.

The National Union of Cooperative Banks will coordinate operating policies, business activities (i.e. data processing systems, international bank relations, advertising and marketing), training, and legislative initiatives for cooperative banks for the Regional Bank to obtain maximum business advantage as part of a national banking system.

III-3. Assistance Coordination.

The Regional Bank requests the National Union of Cooperative Banks to coordinate technical and financial assistance provided by national and international organizations. The National Union should manage such assistance in ways that will be fair and equitable to all regions.

III-4. Budgetary Contributions.

The Regional Bank will contribute its share of the budget required for effective operation of the National Union of Cooperative Banks. The Union Board should allocate the Union's operating budget to member banks on a fair and equitable basis.

IV. GOVERNMENT RELATIONS

IV-1. Relations with Agencies and Parliament.

The Regional Bank will work to maintain good contacts and cooperation with the Parliament and the Government, particularly the Ministry of Agriculture and Food Economy and the Ministry of Finance.

IV-2. Governmental Functions and Tasks.

The Regional Bank will cooperate with the Government fully on all matters that will contribute to accomplishment of the Bank's mission. It will refrain, however, from assuming functions or responsibilities that clearly must be carried out by government agencies, particularly supervision and inspection of local cooperative banks, our stockholders.

IV-3. Reporting to Government Agencies.

The Regional Bank will gather from local cooperative banks in the region financial and operating information, consolidate such information and submit reports to appropriate government agencies.

IV-4. Relations with the Bank for Food Economy.

The Regional Bank will assist the shareholder banks in closing their operating relations with the Bank for Food Economy including assistance in obtaining full redemption of their stock in the BGZ.

U W A G A: Poniższe zasady określające politykę banku stanowią projekt do dyskusji. Projekt ten ma charakter modelu polityki, który byłby przyjęty przez wszystkie zarządy banków regionalnych w celu zapewnienia spójności ich działań w całej Polsce.

M I S J A B A N K U R E G I O N A L N E G O

Bank Regionalny, będąc instytucją finansową, której właściciele są jednocześnie jej użytkownikami, ma na celu świadczenie usług, pomoc i uzupełnienie działalności lokalnych banków spółdzielczych (swoich udziałowców). Działalność ta ma zapewnić zaspokojenie potrzeb na usługi bankowe osób, firm i organizacji spółdzielczych społeczności lokalnych.

P O D S T A W O W E Z A S A D Y D Z I A Ł A L N O S C I

I. ZASADY DZIAŁANIA BANKU REGIONALNEGO

1. Zakres działalności

Bank Regionalny będzie aktywnie poszukiwał możliwości i szans dla rozsądnego wzrostu i rozwoju, korzystając ze sposobów które zwiększą korzyści akcjonariuszy a jednocześnie umożliwią zrealizowanie misji banku. Bank będzie koncentrował się na usługach finansowych i pochodnych a tylko w nadzwyczajnych okolicznościach będzie angażował się kapitałowo w inne przedsięwzięcia.

2. Środki finansowe

Bank Regionalny zostanie wystarczająco wyposażony w środki finansowe dla przetrwania ekonomicznej depresji, przyjmując rozsądny poziom ryzyka kredytowania, przestrzeganie wymagań regulaminowych i utrzymanie praw własności w rękach banków spółdzielczych jako swoich udziałowców. Bank będzie opracowywał plan finansowy, łatwy do zrozumienia i zaakceptowania przez akcjonariuszy.

3. Dochody

Bank Regionalny będzie miał na celu osiągnięcie każdego roku dochodów umożliwiających wzrost, powiększanie środków finansowych banku i zwiększanie kapitału akcjonariuszy poprzez odpowiednie zyski.

4. Filozofia udzielania pożyczek

Podejmując decyzje o udzielenie kredytu Bank Regionalny będzie kierował się stopniem bezpieczeństwa kredytowego, przewidywanymi dochodami, środkami kapitałowymi banku a także normalnymi wymaganiami kredytowymi. Bank będzie dążył do zapewnienia klientom pożyczek umożliwiających im zrealizowanie swych przedsięwzięć gospodarczych z sukcesem.

5. Zasoby ludzkie

Bank Regionalny będzie inwestował w kwalifikacje swych pracowników, rzetelnie i sprawiedliwie zarządzał kadrami oraz stawiał im wymagania stymulujące ich profesjonalny rozwój. Dokonywane będą oceny przyrostu wiedzy i umiejętności, wkładu w rozwój Banku a także odpowiedzialności za wykonywaną pracę. Osiągnięcia pracowników będą odpowiednio wynagradzane.

6. Rola akcjonariuszy

Jakkolwiek konieczne jest aby dyrektorzy lokalnych banków spółdzielczych wzięli na siebie kierownicze role organizowania Banku Regionalnego, to celowe i niezbędne jest także by akcjonariusze lokalnych banków spółdzielczych reprezentowani byli w Zgromadzeniu Wspólników Banku Regionalnego a także by ich przedstawiciele zostali wybrani do Rady Nadzorczej Banku Regionalnego.

7. Reklama, marketing i stosunki z klientami

Kierownictwo Banku Regionalnego zorganizuje skuteczny program reklamy i marketingu mający na celu optymalizację udziału banków spółdzielczych w regionalnym rynku finansowym. Bank Regionalny będzie sponsorował lub podejmował działania kształtujące dobry jego wizerunek u klientów i w społeczności regionalnej.

8. Interesy z innymi bankami.

Bank Regionalny będzie prowadził normalne interesy z innymi bankami spółdzielczymi, bankami komercyjnymi, NBP i bankami zagranicznymi. Wszystkie długoterminowe lub kontraktowe porozumienia z w/w bankami wymagają akceptacji Rady Nadzorczej.

9. Rozwój spółdzielczości

W granicach posiadanych środków i możliwości, Bank Regionalny będzie wносил wkład w rozwój efektywnych spółdzielni w regionie. Wkład ten obejmować będzie m.in. pomoc spółdzielcom w opracowanie wniosków kredytowych, oferowanie szkoleń dla dyrektorów, kierowników oraz pracowników spółdzielni, pomoc w nawiązywaniu kontaktów gospodarczych w kraju i za granicą.

II. STOSUNKI EKONOMICZNE BANKU REGIONALNEGO Z BANKAMI LOKALNYMI

1. Usługi dla banków lokalnych

Bank Regionalny będzie świadczyć różnorodne i wysokiej jakości usługi na które banki lokalne zgłaszają zapotrzebowanie. Po rozliczeniu kosztów początkowych, usługi te powinny być opłacalne i Bank regionalny może pobierać opłaty za ich świadczenie.

2. Konkurencja z bankami lokalnymi

Bank Regionalny nie będzie podejmował, wchodził lub prowadził działań prowadzących do bezpośredniej konkurencji z bankami lokalnymi. Jednakże Bank Regionalny będzie oferował i rozwijał usługi finansowe dla klientów, które uzupełniają będą usługi świadczone przez banki lokalne (np. na obszarach nie obsługiwanych przez banki lokalne lub świadcząc usługi, których nie oferują banki lokalne). W przypadkach gdy potencjalny klient zgłosi się do Banku Regionalnego po usługę oferowaną przez bank lokalny w regionie zamieszkania klienta, Bank Regionalny skieruje go do banku lokalnego lub będzie świadczył wymaganą usługę ale po uzyskaniu pisemnej zgody banku lokalnego.

3. Udzielanie dużych pożyczek

Bank Regionalny będzie partnerem banku lokalnego w przypadkach udzielania dużych pożyczek, których wysokość lub warunki techniczne przekraczają będą możliwości banku lokalnego. Pożyczki te będą udzielane i obsługiwane w sposób uzgodniony wzajemnie pomiędzy obu bankami.

4. Koordynacja działalności banków lokalnych

Bank Regionalny będzie koordynował działalność banków lokalnych jedynie w tych przypadkach gdy przynosić to będzie korzyści dla banków lokalnych. Dziedziny koordynacji obejmować mogą reklamę, stosunki zewnętrzne (public relations), szkolenie, usługi prawne, zaopatrzenie.

5. Weryfikacja bilansów banków lokalnych

Zgodnie z obowiązkami nałożonymi przez NBP, Bank Regionalny prowadzić będzie weryfikację bilansów banków lokalnych. Koszty weryfikacji ponosić będzie bank lokalny a raporty będą przedkładane zarówno do NBP jak i do danego banku lokalnego.

6. Reprezentowanie

Bank Regionalny reprezentować będzie lokalne banki spółdzielcze danego regionu w zakresie oświadczeń dla środków masowego przekazu, kontaktów z organami rządowymi, innymi bankami i organizacjami.

7. Informowanie

Bank Regionalny będzie informował regularnie banki lokalne o swej działalności, jednocześnie stymulując banki lokalne do wzajemnych kontaktów bilateralnych. Ponadto tworzone będą warunki dla dwustronnego informowania, doradztwa i poradnictwa pomiędzy bankami lokalnymi a Bankiem Regionalnym.

8. Zintegrowane przetwarzanie danych

Współpracując ściśle z bankami lokalnymi Bank Regionalny opracuje plan zintegrowanego przetwarzania danych i kierować będzie jego wdrażaniem. Cele planu zintegrowanego przetwarzania danych obejmują: zautomatyzowany system rachunkowości, bieżące sporządzanie raportów finansowych i minimalizację kosztów zarządzania informacjami.

III. STOSUNKI Z KRAJOWYM ZWIĄZKIEM BANKÓW SPÓŁDZIELCZYCH

1. Reprezentowanie

Bank Regionalny upoważnia Krajowy Związek Banków Spółdzielczych do występowania w jego imieniu na forum ogólnopolskim i w kontaktach zagranicznych. Reprezentowanie Banku Regionalnego nie może powodować zagrożenia jego interesów.

2. Koordynacja na szczeblu krajowym

KZBS koordynować będzie funkcjonowanie i działalność bankową (np. system przetwarzania danych, międzynarodowe stosunki bankowe, reklamę i marketing), szkolenia i inicjatywy legislacyjne banków spółdzielczych zmierzając do uzyskania maksimum korzyści z krajowego systemu banków spółdzielczych.

3. Koordynacja pomocy finansowo-technicznej

Bank Regionalny przekazuje pełnomocnictwa KZBS do koordynacji pomocy finansowej i technicznej świadczonej bankom przez instytucje i organizacje krajowe oraz zagraniczne. KZBS powinien zarządzać uzyskiwaną pomocą w sposób rzetelny i sprawiedliwy dla wszystkich regionów

4. Udział w budżecie KZBS

Bank Regionalny będzie wносił swój wkład do budżetu KZBS. Zarząd KZBS powinien opracować rzetelne i sprawiedliwe wskaźniki udziału banków regionalnych w budżecie KZBS.

IV. STOSUNKI Z SEJMEM I RZĄDEM

1. Stosunki ogólne

Bank Regionalny będzie dążył do utrzymywania dobrych kontaktów i współpracy z Parlamentem i Rządem a zwłaszcza: NBP, Ministerstwem Finansów, Ministerstwem Rolnictwa i Gospodarki Żywnościowej.

2. Rządowe funkcje i zadania

Bank regionalny będzie w pełni współpracował z Rządem we wszystkich sprawach, które mogą mieć znaczenie dla osiągnięcia misji banku. Jednakże powstrzymać się będzie od przyjmowania na siebie funkcji i zadań, które powinny być wykonywane przez agendy rządowe, w szczególności w dziedzinie nadzoru i inspekcji spółdzielczych banków lokalnych, będących jego udziałowcami.

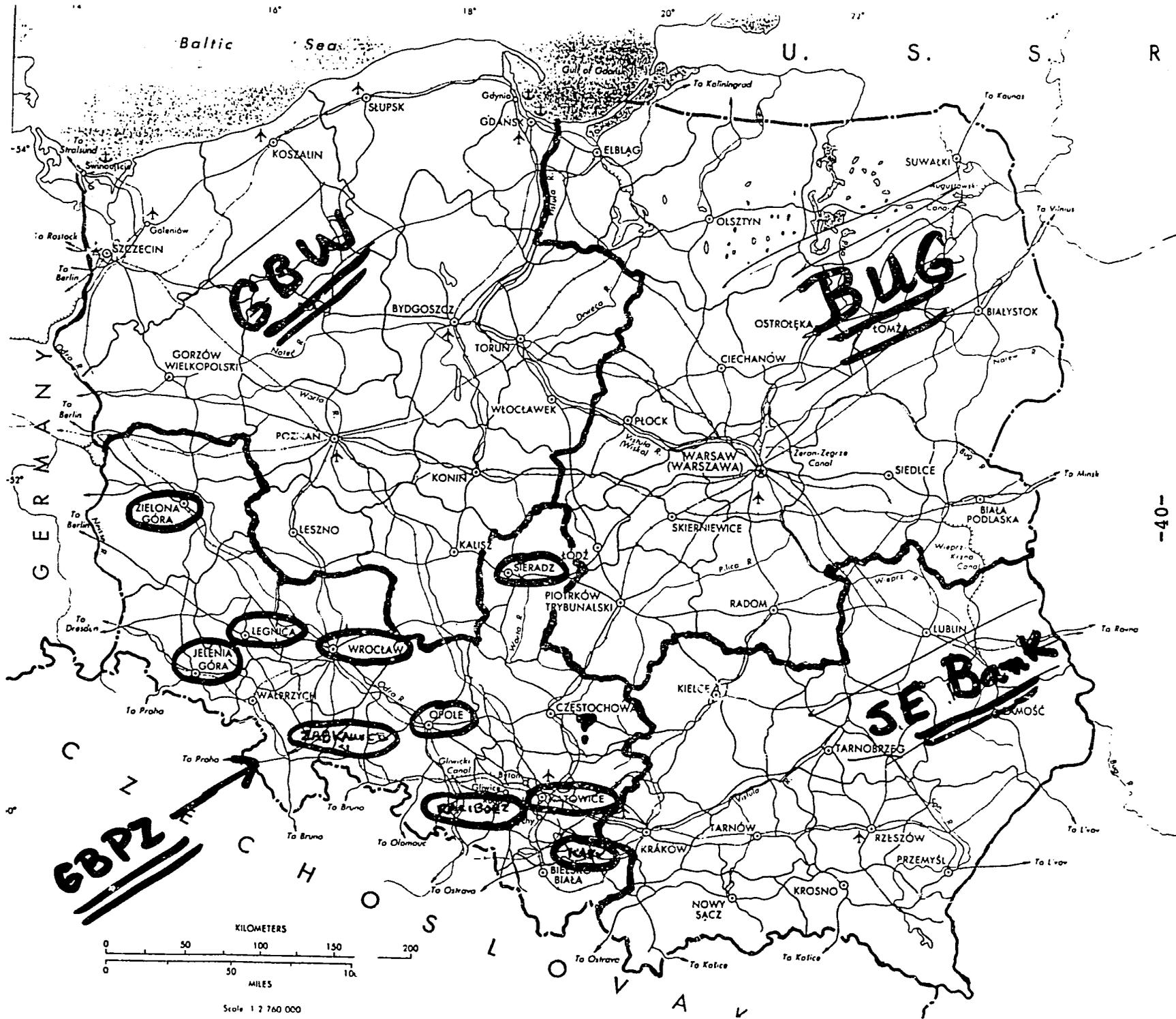
3. Sprawozdawczość

Bank Regionalny, zgodnie z przepisami zbierać będzie i odpowiednio opracowywać informacje z banków lokalnych, przedkładając informacje syntetyczne właściwym agendum rządowym.

4. Stosunki z Bankiem Gospodarki Żywnościowej

Bank Regionalny pomagać będzie lokalnym bankom spółdzielczym, będącym jego udziałowcami w likwidowaniu ich stosunków operacyjnych z BGZ, włączając w to odzyskanie ich udziałów w kapitale BGZ.

APPENDIX IV
REGIONAL BANK TERRITORIES



THE FUNDAMENTALS OF SOUND CREDIT

....a Statement of Policy

The Regional Bank of Wroclaw, hereinafter referred to as the Bank, is authorized to make loans and provide other financial services to local cooperative banks, and certain other businesses and individuals. The usefulness and permanency of the Bank depends largely upon extending credit on a sound and constructive basis, its ability to operate efficiently at a cost consistent with sound business practices, and the provision of a convenient and courteous service for its borrowers.

A beneficial banking relationship is based upon mutual confidence and trust. A general knowledge and understanding of the important factors involved is essential to the development of this trust. Therefore, each applicant should be informed of the credit facilities and requirements of the Bank, and the Bank should obtain a complete understanding of the applicant's business before it undertakes the financing of the operation.

Credit can be extended constructively and soundly only with complete and reliable facts concerning the applicant, while a fair appraisal of repayment capacity can be made only after a careful analysis of the loan application. Such an analysis will determine the applicant's past accomplishments and record, and in most instances will require an inspection to verify information obtained and the value of the assets, performed by a qualified representative of the Bank.

The Bank must be constantly aware of those factors which contribute to a sound lending program. In determining the acceptability of an application, the importance of giving careful thought first to soundness, and then to service, must be strongly emphasized. The actual credit needs of the borrower should be considered and when it is impossible to approve an application as initially presented, further analysis may indicate that a loan to provide for the necessary credit can safely be made on a different basis. However, if a loan for the amount necessary simply cannot be justified, it should be declined.

The Bank should bear in mind that when it provides credit for purposes that can and should be satisfied from the applicant's own resources, the result can be an unnecessary increase in debt and possible unwise uses of the borrower's cash resources for non-essential purchases. In such cases both the credit extension of the Bank and the cash management of the borrower can logically be termed unsound.

A. A Sound Loan System Defined

The foundation of the Bank is a sound loan policy, properly administered to assure each loan made is a sound loan, the definition of which may be stated as:

".....one made to a responsible cooperative bank, individual of other entity of established integrity having a credible record, or equivalent characteristics in the case of a new business, in a sufficient amount that will accomplish a useful purpose. It should be made under terms and conditions that will reasonably assure repayment without adversely affecting the borrower's financial position and should be supported by sufficient equity or collateral, or both, to afford the Bank reasonable protection against loss if adverse conditions occur."

Credit decisions on any loan must be based on facts, carefully determined and appropriately reviewed, leaving no question as to the merit of the approval on the basis offered. The loan documents provide the foundation for establishing these facts and should be supplemented by a proper investigation involving other creditors and business contacts who are acquainted with the applicant. Both the investigation and the information in the loan documents should directly support the five credit factors enumerated in the following section.

B. The Five Credit Factors

The five most important elements in the definition of a sound loan, each of which must receive consideration in determining the acceptability of an application, can be grouped under these main headings.

1. The man. In cooperative banks and other businesses, the character and management of the institution. A prerequisite for a sound loan is an applicant of established integrity. Responsible management must be willing to cooperate with the Bank. This factor is so important that it can outweigh all other credit factors.
2. Financial position and trends. Financial responsibility reflects the ability to meet obligations, continue to perform as a productive individual or business, and protect the Bank shareholder capital and resources against undue risk.
3. Repayment capacity. Repayment ability should be adequate to meet all obligations, provide a margin for contingencies, and meet day-to-day needs of the borrower. In certain instances, a financial feasibility study may be needed.

4. Loan purpose. A loan must be used for a constructive purpose, and provide practical repayment terms for both the borrowers and the Bank. Loan agreements, additional collateral, and insurance may be required under certain conditions.
5. Collateral. Collateral needs are dictated by the strengths and weaknesses of the other credit factors. The security required will reasonably protect the Bank, provide the necessary control of equity and repayment, and leave the borrower in a position to make financial progress.

A sound credit decision can be reached only after evaluating all of the data collected for each of the factors to determine their individual strength and influence on the ultimate outcome of the proposed loan. The ideal situation where all of the factors are strong is not the usual condition. Generally, some of the factors are weaker than others, and the weaker ones must be balanced against the stronger to determine whether the strong outweigh the weak, with the conclusion reached being evidenced by the final decision on the application.

LOAN CLASSIFICATION PROGRAM

(Early Warning System)

Basic Standards: Character Management, Record-History of Performance, Ability to Repay from Normal Income, Insurance, Collateral, Security, Guarantee, Loan Purpose. (Refer to Five Credit Factors.)

Grade	Code*	Target**	Requirements
A	Green	10%	Meets all standards, self-servicing loan, requires very little follow-up.
B	Yellow	80%	A good loan; may be weak in one standard, requires supervision and follow-up.
C	Red	10%	Not a strong loan but okay. At least meets minimum for each standard. CLOSE FOLLOW-UP. Try to improve to Grade B, or collect.)
D	Black	0-5%	Part, or all is not collectible. A doubtful or loss loan. Borrower can't or won't pay, in litigation or long past due, etc.

* Sticker on loan file

** Long range objective, by amount (not by number)

Notes: Implement on all existing loans, doing some each day, and on new ones as made. Grade established by loan officers handling the loans, concurred in by Loan Committee. Grades revised, if necessary during the year if a major event occurs (drought, fire, illness, etc). Quarterly Summary Report to President and Board, more often if necessary. All Loan Officers should know how to use Program and other staff familiar with it, so all employees can assist with supervision of credit as appropriate.

(Similar program should be developed to measure quality of Coop Banks.)