



110 BRICKELL AVE., SUITE 820  
MIAMI, FLORIDA 33131  
(305) 371-8183

PAJ-ABL-593

1/21/82

## THE INTERAMERICAN MANAGEMENT CONSULTING CORPORATION

February 17, 1982

Agency for International Development  
American Embassy  
Tegucigalpa, D.C.  
Honduras, C. A.

Attention Mr. Eric Zallman

REF: Review of the Honduran Banking System.

Dear Sirs:

Attached please find our report on the captioned subject. The report is made up of an overview on the Honduran Banking System and several appendixes as follows:

- 1). The Honduran Banking System
- 2). Appendix I Interview Guide
- 3). Appendix II Financial Statements
- 4). Appendix III Bank by Bank Analysis
- 5). Appendix IV Bank Classification Table
- 6). Appendix V The Marginal Cost of Funds and the Market Rate of Interest
- 7). Appendix VI Criteria for Allocating Funds to the Potential Lenders.
- 8). Appendix VII Financial Mechanisms/Policies to Increase Savings Mobilization and to Increase Lending to Small Borrowers by Private Banks in Honduras.

It has been a pleasure working with you during the past four weeks.

Very truly yours,



Onofre Torres  
President

OTORRES:dec

## THE HONDURAN BANKING SYSTEM

**BACKGROUND:** USAID/Honduras is developing a major project designed to strengthen Honduras' financial intermediation process in order to increase credit for the agricultural sector. Since credit will be channeled to private business and cooperatives through private commercial banks, this study will serve to complement the project paper and shed some light on the functioning of the commercial banking system in Honduras.

**PURPOSE:** This study will review the functioning of the banking system and present an analysis of the financial health of each of the potential participating lenders. In view of the fact that the project loan will be made to the Central Bank who will in turn disburse to the financial institutions, the direct obligor to A.I.D. under the project loan will be the Central Bank of Honduras. Strictly speaking, credit risk under the project loan therefore rests with the GOH through the Central Bank. For this reason, the final conclusions of this study will be based on the participating banks' ability to properly manage the A.I.D. funds channelled through them in addition to presenting the results the financial aspects of bank quality analysis.

### DEVELOPMENT OF FINANCIAL AND ADMINISTRATIVE CRITERIA FOR BANK QUALITY ANALYSIS

The inherent nature of the banking business, and the lack of detailed published financial information makes an evaluation of bank creditworthiness less susceptible to precise analysis than similar studies of companies in other industries. Because of the relatively lower level of sophistication of the Honduran banking system and the fact that most of the banks are closely-held family businesses the above problem is magnified somewhat. For these reasons qualitative factors assume greater importance in the analysis. Of these factors management is the most important. Because we are stressing the Bank's ability to effectively manage A.I.D. funds as they pass through the banks in the intermediation process the first area of analysis is CREDIT PROCESS MANAGEMENT.

One of the objectives of the project loan is "to strengthen the financial system in order to provide increased credit to the Agricultural Sector." To meet this objective the strategy focuses on the key issue of mobilization of internal of resources throughout the banking system. For this reason the second area for analysis is the banks' MANAGEMENT OF THE LIABILITY PORTFOLIO.

The remaining areas of analysis are looked at from a more quantitative perspective. Ratio analysis is used due to its advantages of conciseness and comparability. Ratios are used to compare values between banks for the same period and they are used to compare values of

the same bank over a period of time in an attempt to identify possible trends.

The third area of analysis is LIQUIDITY, which is a measure of the banks' ability to handle the needs arising in meeting the demand for funds upon them. These include meeting the minimum legal reserve requirement against deposits, providing cash to meet withdrawals of deposits, and providing funding for loan portfolio growth.

SOLVENCY, as measured by the ability of the bank to absorb portfolio losses or other asset shrinkage without creating undue risk to the depositors is our fourth area of analysis.

The fifth area is PROFITABILITY. This is a measure of the overall long-term viability of the bank and serves as the quantitative measure of bank managerial capacity.

#### METHODOLOGY FOR ANALYSIS

The methodology for this study is largely empirical and can be described as consisting of an information gathering phase and an analysis phase.

Information Gathering Process - Based on the financial and administrative criteria outlined above, certain areas of interest were identified and compiled into an interview guide to be used as a basis for obtaining specific qualitative information from the upper level management of each interviewee bank. Specific areas of credit process management and liability portfolio management were addressed in addition to other areas of general interest. (The interview guide is attached to this report as Appendix I). Due to time constraints full interviews were not conducted with three of the banks. Because the banks involved are small and because it was possible to arrive at overall conclusions about the banks without a formal interview, this discrepancy does not materially affect the results of the study.

Interviews were also held with the Superintendency of Banks. The Superintendency is a semi-independent government agency which reports to the President of the Central Bank, and whose mission is to monitor and enforce banking regulations in the country. In addition they are charged with the responsibility for monitoring the financial health of the banking system and taking appropriate action where needed.

The purpose of the meetings with the Superintendent was to determine how the Superintendency actually carries out the tasks described above and, to assess the degree of competency with which the Superintendency functions.

Other informal meetings were held with prominent members of the financial community for the purpose of obtaining general information on

the Honduran Banking System. For example, at least two interviews were performed with World Bank staffers who are actively involved in the World Bank Cattle Program. Other informal interviews include meetings with officers of the two U.S. banks operating in Honduras: Citibank and Bank of America. In addition, attendance at a general meeting of the bankers association provided valuable insight into the thinking of the Honduran bankers.

Information for the quantitative facet of the analysis was gathered in the following manner:

After an initial attempt to secure financial statements directly from each bank in order to perform financial analysis on the banks, it was decided that it would be preferable for purposes of uniformity and comparability between banks to use the published, although unaudited figures prepared by the Superintendency of Banks. Balance sheet information was obtained for December 31, during the years 1978, 1979 and 1980. For 1981, the closest information available was as of November 30. Because of time constraints and a pervasive reluctance on the part of the banks it was not possible to obtain data on earnings for most of the banks. Nevertheless it is felt that this lack of data does not materially affect the conclusions of the study. The information obtained was translated into US\$ and spread according to the computer output data listing shown in Appendix II. From this standardized output it was possible to analyze each bank for liquidity, solvency and profitability.

Analysis Process. The information obtained was analyzed on a bank-by-bank basis as shown on the Bank Summary Statements attached (Appendix III). Both the quantitative and qualitative data were examined to determine areas of weakness and strength and an overall assessment of each bank's performance over the past four years was made. Finally the bank by bank results were summarized on the Bank Classification Table (Appendix VI).

## CONCLUSIONS

Background. The Honduran banking system is in the midst of a very difficult period which is the result of a combination of several factors both political and economic.

On the one hand, the political problems which affect the region, notably Nicaragua, El Salvador and Guatemala and the balance of payments problems which all of the Central American countries have suffered, to include Costa Rica, have caused the international private banking community to retrench and cut lines of credit to their correspondent banks in Honduras. European banks have also cut back somewhat but appear more willing to maintain reduced credit lines to certain sectors of the economy with emphasis on their traditional business of financing short-term loans for coffee exports. Because a great deal of this activity is off balance sheet and because it is beyond the scope of this

study the exact impact of this phenomenon has not been measured. However, it would appear that U.S. dollar credit availability to the Honduran banking system has been reduced by more than \$50 million over the last two years. Problems for the U.S. banking community in Central America have increased so much recently that many banks are simply collecting their portfolios as they come due causing decreased credit availability in the banking system and balance of payments problems for the Central Bank. Exacerbating an already difficult situation, local depositors have reacted to political fears by transferring assets to banks in the U.S. Recent exchange restrictions have not helped much since Hondurans can still find ways to export capital. Most bankers interviewed reported notable increases in underinvoicing by exporters and overinvoicing by importers.

Additionally, the failure of the Banco Financiera Hondurena and the well known problems of Corporación Nacional de Inversiones have further contributed to the foreign banking community's reluctance to lend to Honduran banks.

Finally, the financial pressures upon the Honduran Government have forced the Honduran Central Bank to allocate proportionately higher and higher levels of credit to the Central Government at the expense of the banking system.

The net result of the above is a banking system operating under increasingly difficult liquidity constraints and with little or no immediate hope for improvement in the situation.

Against this backdrop the Superintendency of Banks has reacted by tightening up in their audit process. In past years their supervision of the banking system was limited to enforcing Central Bank portfolio and reserve requirements and in performing very superficial reviews of bank financial health.

The demise of Banco la Financiera Hondurena and the subsequent repercussions in the financial community prompted an upgrading of the bank review process.

Several specific improvements in the audit process have been noticed:

a) Complete in depth reviews performed every 12 to 18 months on each bank with emphasis on areas such as i) bank liquidity ii) capital adequacy iii) credit administration.

b) An attempt to upgrade bank credit process management by requiring certain minimum standards of information in credit files and by requiring banks to receive audited financial statement for any loans over \$/5,000.00.

c) Increased emphasis on remedial action for banks which persistently violate reserve and liquidity requirements of the Central Bank.

The increased awareness by the Superintendency of the need to improve banking standards could not be more timely. Typically, liquidity problems will first be felt by the banking system which will react by reducing loan portfolio growth. This causes general illiquidity among the borrowing community and the banks will feel the impact again through increased credit write offs and collection problems which affect bank solvency and profitability.

Because the proceeding political events in Nicaragua, El Salvador and Guatemala have occurred with one to two years lead time, the decrease has been relatively gradual and most of the banks have been able to keep asset growth down. In general, the results of this study show that the banks that have been most successful at keeping loan growth down to a level compatible with the growth (or decline) of their liability portfolio are suffering the least liquidity problems. A few banks have aggressively forged ahead making new loans in the face of declining deposit levels and have found themselves funding these loans with Central Bank emergency funds at rates above the yields on their loans. Without exception all of the banks classified as "Banks with problems" find themselves in this situation.

Because of the normal retention of earnings over the last four years and the generally slow growth in deposits the prevailing trend in the system has been for an overall decrease in leverage particularly among the four or five older banks. This is seen as a healthy phenomenon, particularly since a weakening of portfolios is expected if the liquidity situation continues to deteriorate.

As a result, none of the banks examined seemed to have problems with capital adequacy. The big question which arises is: how healthy is each bank's asset portfolio and to what extent should reserves be created against each bank's capital? This is difficult to determine in a study of this scope. In general, clues to asset quality can be found in the ratio of interest earned not collected to total loan portfolio. A low percentage would indicate proportionably less accrued interest in arrears. On the average for the Honduran banking system it appears that a ratio of 5.0% or less is acceptable whereas anything higher than 5% would indicate a portfolio problem.

Another indicator of asset quality is the percentage of past due loans. This information was useful in the analysis of some of the banks. However, in most cases the definition of "past due" varied so much from bank to bank that it was not a comparable figure. Additionally some banks actually had difficulty in providing reliable data on past due loans.

The results of the study are summarized in Appendix IV. The banks have been ranked from one to fourteen in declining order of financial health and have been classified into three categories:

1) Clearly Healthy

These are the banks which have very strong and relatively sophisticated credit approval and administration procedures. There is good management depth and, in general, all financial ratios are good. In addition, there is no doubt as to capital adequacy or as to the ability of the banks to withstand a major blow to its capital structure. Because of this last criteria the only banks which qualify as "clearly healthy" are the branches and subsidiaries of major foreign banks. Their ability to withstand sustained asset shrinkage through the existence of vastly greater parent capital set these banks in a class apart.

2) Healthy Banks

These banks generally demonstrate good or satisfactory ratings in all categories analysed with no clearly alarming areas of weakness. It is interesting to note that all of the larger and older institutions are included in this group. In general the older and larger banks also seemed to manage their liquidity better than some of the newer and more aggressive banks. One relatively small and new bank made it to the list of healthy institutions: the Banco de las Fuerzas Armadas. It is interesting to note that this bank is headed up by Capt. San Martín who managed Banco La Capitalizadora Hondureña for many years. Banco Financiera Centro-Americana is rated at the bottom of the list of healthy banks. If this bank does not reduce asset growth to a level more in line with its deposit growth it will find itself with liquidity problems soon.

3) Banks with Problems

Two small banks. Banco Mercantil and Banco de los Trabajadores head up this list. Both are covering their asset growth with costly funds borrowed from the Central Bank and the inter-bank market. In view of their low leverage it would appear that their rate of profitability must be low. The three banks at the bottom of the list are the ones with major problems. Of particular concern in the case of Banco del Occidente and Banco Continental are the extremely high ratios of interest earned-not collected to loans. In addition to having liquidity problems these banks appear to be having a tough time with their loan collections. A full portfolio analysis would be required in order to determine the degree of deterioration of the credit portfolio. The Superintendency of Banks is aware of the weaknesses of these banks.

In summary, therefore, it appears that there are three banks which deserve closer scrutiny. All of the banks in the system are capable of handling the A.I.D. funds to be disbursed as part of the project loan.

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At the present time it would appear imprudent to lend directly to Banco Continental, Banco del Occidente or Banco Sogeria without a Central Bank guarantee..

## APPENDIX I

### INTERVIEW GUIDE

I. Obtain as much information as possible on how bank is organized, directors, stockholders groups - organigram.

#### II. Lending Policy

##### A. CREDIT INITIATION

- a) What forms are used in obtaining information from your client for a loan.
- b) What factors do you weigh in the loan analysis process? What degree of emphasis is placed on which factors?
  - 1) company earnings
  - 2) collateral
  - 3) character
  - 4) capacity/management
  - 5) capital
  - 6) liquidity
  - 7) purpose of the loan
  - 8) cash flow for payback
  - 9) pricing of loan
  - 10) overall environment
- c) Do you have a special policy or program to enable small borrowers to obtain loans?

##### B. CREDIT ADMINISTRATION

- a) In what manner do you use your technical staff?
- b) To what extent do you perform collateral inspections? How is it done? Frequency? Who does it?

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- c) Typically, what are the reporting requirements of the borrower while the loan is outstanding?

C. REMEDIAL MANAGEMENT

- a) How do you use legal counsel?
- b) Is there an organized suspense unit?
- c) What internal process is followed to place a reserve against a loan? Is there a formula for determining valuation reserves?

III. Balance Sheet

- 1) Request P&L.
- 2) Discuss any specifics of balance sheet.
- 3) Discuss "other real estated owned" and collateral taken in payment.
- 4) What is the composition of the contingent liabilities?

IV. POLICY

- 1) Do you lend to financial intermediaries such as cooperatives etc.?
- 2) How much diversion of credit do you estimate may exist in agriculture portfolio?
- 3) If interest rate and commission schedule restrictions were lifted how would the bank adapt its strategy?
- 4) What reaction would you have if reserve requirements were lowered or if higher interest were paid on the reserves held at the Central Bank.
- 5) Have you used special inducements to attract savings? i.e., prizes, raffles, campaigns?
- 6) Would it be useful to have outside technical assistance with the promotion of time and savings deposits? If so, what kind?

**APPENDIX II**  
**FINANCIAL STATEMENTS FOR HONDURAS**  
**COMMERCIAL BANKS 1978-1981**

**FINANCIAL STATEMENTS FOR HONDURAN COMMERCIAL BANKS, 1978**  
(In Thousands of Dollars)

	<u>BANCATLAN</u>	<u>HONDURAS</u>	<u>LONDRES</u>	<u>BANCAHORRO</u>	<u>AMERICA</u>	<u>OCCIDENTE</u>	<u>BANCAHSA</u>
<b><u>ASSETS</u></b>							
Cash and Due from Banks	41,634	6,295	6,393	24,486	11,419	12,158	25,950
Government Securities	1,663	-	2	652	-	343	876
Riskless Assets	<u>43,297</u>	<u>6,295</u>	<u>6,395</u>	<u>25,138</u>	<u>11,419</u>	<u>12,501</u>	<u>26,826</u>
Loans and Discounts	85,892	13,015	13,611	45,700	15,207	27,448	50,045
Sundry Receivables	2,656	1,558	19	860	2,487	677	2,453
Interest Earned Not Collected	866	140	258	1,553	192	1,424	1,688
Collateral Taken In Liquidation	63	181	-	2,746	-	813	1,391
Customer's Liabilities for Acceptances	3,372	409	630	956	436	1,983	1,103
Other Miscellaneous Assets	2,773	592	256	648	62	1,174	2,273
Total Normal Risk Assets	<u>9,730</u>	<u>2,880</u>	<u>1,163</u>	<u>6,763</u>	<u>3,177</u>	<u>6,071</u>	<u>8,908</u>
Fixed Assets	7,162	717	499	1,689	627	1,068	3,573
<b>TOTAL ASSETS</b>	<b>146,081</b>	<b>22,907</b>	<b>21,668</b>	<b>79,290</b>	<b>30,430</b>	<b>47,088</b>	<b>89,352</b>
<b><u>LIABILITIES</u></b>							
Demand Deposits	57,486	9,179	9,051	26,087	15,311	14,907	35,274
Time Deposits	55,468	5,940	9,357	42,116	11,627	21,299	35,417
Total Deposits	<u>112,954</u>	<u>15,119</u>	<u>18,408</u>	<u>68,203</u>	<u>26,938</u>	<u>36,206</u>	<u>70,691</u>
Due to Central Bank	532	291	-	1,820	-	1,194	1,489
Due to Other Banks	20,937	1,000	-	1,871	-	5,069	6,737
Other Liabilities	2,435	763	1,017	2,850	1,372	734	5,361
Various Reserves	2,947	583	413	1,296	620	1,322	1,870
<b>TOTAL LIABILITIES</b>	<b>139,805</b>	<b>17,756</b>	<b>19,838</b>	<b>76,040</b>	<b>28,930</b>	<b>44,525</b>	<b>86,148</b>
<b><u>CAPITAL</u></b>							
Capital Stock	5,000	1,500	1,750	1,500	1,500	1,779	2,000
Capital Surplus	-	-	-	-	-	720	-
Capital Reserves	1,276	3,651	80	1,750	-	62	1,204
<b>TOTAL CAPITAL</b>	<b>6,276</b>	<b>5,151</b>	<b>1,830</b>	<b>3,250</b>	<b>1,500</b>	<b>2,561</b>	<b>3,204</b>
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>146,081</b>	<b>22,907</b>	<b>21,668</b>	<b>79,290</b>	<b>30,430</b>	<b>47,086</b>	<b>89,352</b>
<b>CONTINGENT LIABILITIES</b>	<b>23,135</b>	<b>48,181</b>	<b>20,952</b>	<b>15,239</b>	<b>102,051</b>	<b>20,908</b>	<b>17,511</b>

FINANCIAL STATEMENTS FOR HONDURAN COMMERCIAL BANKS, 1978  
(In Thousands of Dollars)

	<u>TRABAJADORES</u>	<u>COMERCIO</u>	<u>CONTINENTAL</u>	<u>SOGERIN</u>	<u>FICENSA</u>	<u>BANFFAA</u>	<u>BAMER</u>
<u>A S S E T S</u>							
Cash and Due from Banks	5,688	11,589	4,867	9,673	4,131		
Government Securities	31	241	2	484	57		
Riskless Assets	<u>5,719</u>	<u>11,830</u>	<u>4,869</u>	<u>10,157</u>	<u>4,188</u>		
Loans and Discounts	18,669	23,576	11,758	28,142	9,771		
Sundry Receivables	18	301	489	443	422		
Interest Earned Not Collected	279	484	214	1,277	225		
Collateral Taken In Liquidation	27	185	19	8	-		
Customer's Liabilities for Acceptances	1,220	285	521	1,655	279		
Other Miscellaneous Assets	259	940	175	62	655		
Total Normal Risk Assets	<u>1,803</u>	<u>2,195</u>	<u>1,418</u>	<u>3,445</u>	<u>1,581</u>		
Fixed Assets	1,076	1,147	217	1,000	233		
<b>TOTAL ASSETS</b>	<b>27,267</b>	<b>38,748</b>	<b>18,262</b>	<b>42,744</b>	<b>15,773</b>		
<u>L I A B I L I T I E S</u>							
Demand Deposits	6,785	23,768	6,648	8,520	5,968		
Time Deposits	8,788	7,844	2,494	17,417	6,946		
Total Deposits	<u>15,573</u>	<u>31,612</u>	<u>9,142</u>	<u>25,937</u>	<u>12,914</u>		
Due to Central Bank	2,139	357	615	4,027	-		
Due to Other Banks	3,705	1,088	2,004	8,417	1,572		
Other Liabilities	1,508	2,048	3,151	1,678	175		
Various Reserves	852	1,386	412	470	127		
<b>TOTAL LIABILITIES</b>	<b>23,777</b>	<b>36,491</b>	<b>15,324</b>	<b>40,529</b>	<b>14,788</b>		
<u>C A P I T A L</u>							
Capital Stock	2,500	1,406	2,000	2,000	971		
Capital Surplus	-	-	-	-	-		
Capital Reserves	990	851	938	215	14		
<b>TOTAL CAPITAL</b>	<b>3,490</b>	<b>2,257</b>	<b>2,938</b>	<b>2,215</b>	<b>985</b>		
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>27,267</b>	<b>38,748</b>	<b>18,262</b>	<b>42,744</b>	<b>15,773</b>		
<b>CONTINGENT LIABILITIES</b>	<b>13,258</b>	<b>8,169</b>	<b>33,174</b>	<b>18,629</b>	<b>3,670</b>		

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FINANCIAL STATEMENTS FOR HONDURAN COMMERCIAL BANKS, 1979  
(In Thousands of Dollars)

	<u>BANCATLAN</u>	<u>HONDURAS</u>	<u>LONDRES</u>	<u>BANCAHORRO</u>	<u>AMERICA</u>	<u>OCCIDENTE</u>	<u>BANCAHSA</u>
<u>A S S E T S</u>							
Cash and Due from Banks	51,373	5,164	7,992	25,251	9,849	14,537	20,870
Government Securities	2,093	-	4	414	-	387	595
Riskless Assets	<u>53,466</u>	<u>5,164</u>	<u>7,996</u>	<u>25,665</u>	<u>9,849</u>	<u>14,924</u>	<u>21,465</u>
Loans and Discounts	83,075	14,118	13,492	47,819	16,345	35,229	55,214
Sundry Receivables	3,023	1,209	52	700	1,321	1,104	2,811
Interest Earned Not Collected	1,255	210	307	1,701	336	1,972	1,611
Collateral Taken In Liquidation	120	160	-	1,800	-	293	1,711
Customer's Liabilities for Acceptances	1,331	641	565	1,094	124	1,574	1,133
Other Miscellaneous Assets	6,749	782	330	1,329	64	781	3,043
Total Normal Risk Assets	<u>12,478</u>	<u>3,002</u>	<u>1,254</u>	<u>6,624</u>	<u>1,845</u>	<u>5,724</u>	<u>10,309</u>
Fixed Assets	9,025	770	593	1,842	653	1,400	3,696
<b>TOTAL ASSETS</b>	<b>158,044</b>	<b>23,054</b>	<b>23,335</b>	<b>81,950</b>	<b>28,692</b>	<b>57,277</b>	<b>90,684</b>
<u>L I A B I L I T I E S</u>							
Demand Deposits	68,856	8,154	8,951	26,733	14,448	19,328	37,200
Time Deposits	60,448	7,061	10,010	42,115	8,627	26,638	34,496
Total Deposits	<u>129,304</u>	<u>15,215</u>	<u>18,961</u>	<u>68,848</u>	<u>23,075</u>	<u>45,966</u>	<u>71,696</u>
Due to Central Bank	900	571	-	2,509	-	1,516	1,656
Due to Other Banks	12,000	1,000	950	3,439	2,000	2,748	5,578
Other Liabilities	6,014	181	1,132	1,476	1,266	2,800	5,429
Various Reserves	3,043	495	436	1,855	851	1,484	2,266
<b>TOTAL LIABILITIES</b>	<b>151,261</b>	<b>17,462</b>	<b>21,479</b>	<b>78,127</b>	<b>27,192</b>	<b>54,514</b>	<b>86,625</b>
<u>C A P I T A L</u>							
Capital Stock	5,000	1,500	1,750	1,500	1,500	2,400	3,500
Capital Surplus	-	-	-	-	-	100	-
Capital Reserves	1,783	4,092	106	2,323	-	263	559
<b>TOTAL CAPITAL</b>	<b>6,783</b>	<b>5,592</b>	<b>1,856</b>	<b>3,823</b>	<b>1,500</b>	<b>2,763</b>	<b>4,059</b>
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>158,044</b>	<b>23,054</b>	<b>23,335</b>	<b>81,950</b>	<b>28,692</b>	<b>57,277</b>	<b>90,684</b>
<b>CONTINGENT LIABILITIES</b>	<b>36,944</b>	<b>42,348</b>	<b>35,088</b>	<b>23,007</b>	<b>154,261</b>	<b>27,672</b>	<b>20,984</b>

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FINANCIAL STATEMENTS FOR HONDURAN COMMERCIAL BANKS, 1979  
(In Thousands of Dollars)

	<u>TRABAJADORES</u>	<u>COMERCIO</u>	<u>CONTINENTAL</u>	<u>SOGERIN</u>	<u>FICENSA</u>	<u>BANFFAA</u>	<u>BAMER</u>
<u>A S S E T S</u>							
Cash and Due from Banks	6,660	10,157	3,961	6,913	3,747	2,560	
Government Securities	31	241	4	494	1	-	
Riskless Assets	<u>6,691</u>	<u>10,398</u>	<u>3,965</u>	<u>7,407</u>	<u>3,748</u>	<u>2,560</u>	
Loans and Discounts	24,032	25,506	14,726	33,153	10,416	7,503	
Sundry Receivables	34	640	314	755	1,196	97	
Interest Earned Not Collected	441	597	1,529	1,319	253	62	
Collateral Taken In Liquidation	17	177	19	580	-	-	
Customer's Liabilities for Acceptances	1,732	672	1,198	498	1,326	74	
Other Miscellaneous Assets	291	961	363	373	195	127	
Total Normal Risk Assets	<u>2,515</u>	<u>4,047</u>	<u>3,429</u>	<u>3,535</u>	<u>2,970</u>	<u>360</u>	
Fixed Assets	1,216	1,793	324	1,896	328	243	
<b>TOTAL ASSETS</b>	<b>34,454</b>	<b>40,744</b>	<b>22,444</b>	<b>45,991</b>	<b>17,462</b>	<b>10,666</b>	
<u>L I A B I L I T I E S</u>							
Demand Deposits	7,683	26,126	5,890	5,934	6,319	3,197	
Time Deposits	<u>10,826</u>	<u>5,999</u>	<u>2,263</u>	<u>17,333</u>	<u>5,829</u>	<u>4,036</u>	
Total Deposits	<u>18,509</u>	<u>32,125</u>	<u>8,153</u>	<u>23,267</u>	<u>12,148</u>	<u>7,233</u>	
Due to Central Bank	5,891	911	1,213	4,842	2,000	-	
Due to Other Banks	2,935	824	1,722	13,153	1,955	-	
Other Liabilities	2,035	2,416	7,346	1,457	128	426	
Various Reserves	933	1,585	847	772	180	7	
<b>TOTAL LIABILITIES</b>	<b>30,303</b>	<b>37,861</b>	<b>19,281</b>	<b>43,491</b>	<b>16,411</b>	<b>7,666</b>	
<u>C A P I T A L</u>							
Capital Stock	2,500	2,000	2,000	2,000	1,000	3,000	
Capital Surplus	-	-	-	-	-	-	
Capital Reserves	1,651	883	1,163	500	51	-	
<b>TOTAL CAPITAL</b>	<b>4,151</b>	<b>2,883</b>	<b>3,163</b>	<b>2,500</b>	<b>1,051</b>	<b>3,000</b>	
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>34,454</b>	<b>40,744</b>	<b>22,444</b>	<b>45,991</b>	<b>17,462</b>	<b>10,666</b>	
<b>CONTINGENT LIABILITIES</b>	<b>14,354</b>	<b>7,851</b>	<b>47,490</b>	<b>24,714</b>	<b>8,270</b>	<b>1,501</b>	

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FINANCIAL STATEMENTS FOR HONDURAN COMMERCIAL BANKS, 1980  
(In thousands of Dollars)

	BANCATLAN	HONDURAS	LONDRES	BANCAHORRO	AMERICA	OCCIDENTE	BANCAHSA
<u>A S S E T S</u>							
Cash and Due from Banks	53,744	5,909	11,013	26,876	10,647	13,725	26,412
Government Securities	1,819	-	4	511	489	416	620
Riskless Assets	55,563	5,909	11,017	27,387	11,136	14,141	27,032
Loans and Discounts	70,828	15,593	15,746	47,436	16,677	41,295	53,194
Sundry Receivables	6,073	1,318	87	926	2,947	2,902	4,539
Interest Earned Not Collected	973	237	535	1,761	407	2,949	2,187
Collateral Taken In Liquidation	119	124	-	1,516	-	628	625
Customer's Liabilities for Acceptances	3,869	601	2,253	3,146	357	1,948	1,456
Other Miscellaneous Assets	9,341	882	552	2,557	77	484	3,297
Total Normal Risk Assets	20,375	3,162	3,427	9,908	3,788	8,911	12,104
Fixed Assets	9,914	898	573	2,311	673	1,813	4,048
TOTAL ASSETS	156,680	25,562	30,763	87,042	32,274	66,160	96,378
<u>L I A B I L I T I E S</u>							
Demand Deposits	75,098	8,574	13,919	28,179	16,518	16,328	40,237
Time Deposits	61,118	9,457	13,079	41,680	11,207	25,274	32,177
Total Deposits	136,216	18,031	26,998	69,859	27,725	41,602	72,414
Due to Central Bank	1,871	621	-	4,337	-	10,651	3,043
Due to Other Banks	6,970	515	154	4,917	-	7,241	5,597
Other Liabilities	1,893	531	1,321	1,173	2,630	2,125	8,149
Various Reserves	2,628	479	405	2,219	419	1,567	2,621
TOTAL LIABILITIES	149,578	20,177	28,878	82,505	30,774	63,186	91,824
<u>C A P I T A L</u>							
Capital Stock	5,000	1,500	1,750	1,500	1,500	2,500	3,500
Capital Surplus	-	-	-	-	-	-	-
Capital Reserves	2,102	3,885	135	3,037	-	474	1,054
TOTAL CAPITAL	7,102	5,385	1,885	4,537	1,500	2,974	4,554
TOTAL LIABILITIES & CAPITAL	156,680	25,562	30,763	87,042	32,274	66,160	96,378
CONTINGENT LIABILITIES	47,527	49,950	30,670	12,341	152,942	27,007	21,907

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FINANCIAL STATEMENTS FOR HONDURAN COMMERCIAL BANKS, 1980  
(In Thousands of Dollars)

	TRABAJADORES	COMERCIO	CONTINENTAL	SOGERIN	FICENSA	BANFFAA	BAMER
<u>ASSETS</u>							
Cash and Due from Banks	7,162	12,148	8,397	7,550	5,874	4,844	1,804
Government Securities	32	241	4	550	1	-	-
Riskless Assets	<u>7,194</u>	<u>12,389</u>	<u>8,401</u>	<u>8,100</u>	<u>5,875</u>	<u>4,844</u>	<u>1,804</u>
Loans and Discounts	28,936	31,156	9,787	34,859	10,541	13,499	5,779
Sundry Receivables	426	565	777	2,273	746	44	489
Interest Earned Not Collected	631	907	1,551	1,607	239	152	81
Collateral Taken In Liquidation	17	212	19	811	-	-	-
Customer's Liabilities for Acceptances	1,879	293	2,662	235	1,077	269	21
Other Miscellaneous Assets	733	1,167	706	359	364	157	1,336
Total Normal Risk Assets	<u>3,686</u>	<u>3,144</u>	<u>5,715</u>	<u>5,285</u>	<u>2,426</u>	<u>622</u>	<u>1,927</u>
Fixed Assets	1,570	2,488	392	2,141	340	594	264
<b>TOTAL ASSETS</b>	<b>41,566</b>	<b>49,177</b>	<b>24,295</b>	<b>50,385</b>	<b>19,182</b>	<b>19,559</b>	<b>9,774</b>
<u>LIABILITIES</u>							
Demand Deposits	8,847	31,060	5,569	9,970	6,913	6,836	2,586
Time Deposits	14,487	6,684	2,375	13,852	6,513	8,374	3,699
Total Deposits	<u>23,334</u>	<u>37,744</u>	<u>7,944</u>	<u>23,822</u>	<u>13,426</u>	<u>15,210</u>	<u>6,285</u>
Due to Central Bank	5,424	2,352	4,419	12,175	1,400	-	150
Due to Other Banks	1,744	543	2,548	9,500	2,690	-	65
Other Liabilities	5,209	3,165	4,419	1,090	328	1,161	246
Various Reserves	1,509	1,714	538	997	233	109	28
<b>TOTAL LIABILITIES</b>	<b>37,220</b>	<b>45,518</b>	<b>19,868</b>	<b>47,584</b>	<b>18,077</b>	<b>16,480</b>	<b>6,774</b>
<u>CAPITAL</u>							
Capital Stock	2,500	2,000	3,000	2,000	1,000	3,000	2,000
Capital Surplus	-	-	-	-	-	-	1,000
Capital Reserves	1,666	1,659	1,427	801	105	79	-
<b>TOTAL CAPITAL</b>	<b>4,166</b>	<b>3,659</b>	<b>4,427</b>	<b>2,801</b>	<b>1,105</b>	<b>3,079</b>	<b>3,000</b>
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>41,386</b>	<b>49,177</b>	<b>24,295</b>	<b>50,385</b>	<b>19,182</b>	<b>19,559</b>	<b>9,774</b>
<b>CONTINGENT LIABILITIES</b>	<b>15,374</b>	<b>10,483</b>	<b>16,647</b>	<b>21,706</b>	<b>12,755</b>	<b>4,251</b>	<b>5,679</b>

FINANCIAL STATEMENTS FOR HONDURAN COMMERCIAL BANKS, 1981  
(In Thousands of Dollars)

	<u>BANCATLAN</u>	<u>HONDURAS</u>	<u>LONDRES</u>	<u>BANCAHORRO</u>	<u>AMERICA</u>	<u>OCCIDENTE</u>	<u>BANCAHSA</u>
<u>A S S E T S</u>							
Cash and Due from Banks	36,687	6,839	8,425	21,451	19,949	10,619	20,556
Government Securities	1,526	-	3	511	378	427	721
Riskless Assets	<u>38,213</u>	<u>6,839</u>	<u>8,428</u>	<u>21,962</u>	<u>20,327</u>	<u>11,046</u>	<u>21,277</u>
Loans and Discounts	68,856	18,916	17,515	49,979	24,918	41,217	55,576
Sundry Receivables	7,774	1,297	42	1,486	5,038	4,230	4,703
Interest Earned Not Collected	2,410	368	517	2,305	714	4,456	2,426
Collateral Taken In Liquidation	207	126	-	1,903	-	845	771
Customer's Liabilities for Acceptances	8,216	200	2,063	2,264	328	2,520	2,313
Other Miscellaneous Assets	6,526	340	722	2,384	175	1,061	2,881
Total Normal Risk Assets	<u>25,133</u>	<u>2,331</u>	<u>3,344</u>	<u>10,342</u>	<u>6,255</u>	<u>13,112</u>	<u>13,094</u>
Fixed Assets	11,490	1,925	595	2,634	718	2,122	5,092
<b>TOTAL ASSETS</b>	<b>143,692</b>	<b>30,011</b>	<b>29,882</b>	<b>84,917</b>	<b>52,218</b>	<b>67,493</b>	<b>95,039</b>
<u>L I A B I L I T I E S</u>							
Demand Deposits	54,512	7,715	12,913	27,313	24,808	12,512	36,277
Time Deposits	65,522	15,507	12,682	39,768	23,274	25,845	34,122
Total Deposits	<u>120,034</u>	<u>23,222</u>	<u>25,595</u>	<u>67,081</u>	<u>48,082</u>	<u>38,357</u>	<u>70,349</u>
Due to Central Bank	3,989	1,051	-	1,552	456	20,742	3,504
Due to Other Banks	5,967	-	-	6,985	-	2,185	4,399
Other Liabilities	2,881	367	1,766	1,345	1,352	410	8,870
Various Reserves	3,410	596	598	2,855	828	2,673	2,838
<b>TOTAL LIABILITIES</b>	<b>136,281</b>	<b>25,236</b>	<b>27,959</b>	<b>79,818</b>	<b>50,718</b>	<b>64,367</b>	<b>89,960</b>
<u>C A P I T A L</u>							
Capital Stock	5,000	1,500	1,750	5,000	1,500	2,500	3,500
Capital Surplus	-	-	-	-	-	-	-
Capital Reserves	2,411	3,275	173	99	-	626	1,579
<b>TOTAL CAPITAL</b>	<b>7,411</b>	<b>4,775</b>	<b>1,923</b>	<b>5,099</b>	<b>1,500</b>	<b>3,126</b>	<b>5,079</b>
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>143,692</b>	<b>30,011</b>	<b>29,882</b>	<b>84,917</b>	<b>52,218</b>	<b>67,493</b>	<b>95,039</b>
<b>CONTINGENT LIABILITIES</b>	<b>29,920</b>	<b>65,800</b>	<b>30,612</b>	<b>9,330</b>	<b>136,751</b>	<b>16,487</b>	<b>16,425</b>

FINANCIAL STATEMENTS FOR HONDURAN COMMERCIAL BANKS, 1981  
(In Thousands of Dollars)

<u>A S S E T S</u>	<u>TRABAJADORES</u>	<u>COMERCIO</u>	<u>CONTINENTAL</u>	<u>SOGETEL</u>	<u>FICENSA</u>	<u>BANFFAA</u>	<u>BAMER</u>
Cash and Due from Banks	6,738	11,494	7,053	3,095	2,435	6,207	2,519
Government Securities	48	610	4	550	1	646	12
Riskless Assets	<u>6,786</u>	<u>12,104</u>	<u>7,057</u>	<u>3,645</u>	<u>2,436</u>	<u>6,853</u>	<u>2,531</u>
Loans and Discounts	28,130	30,337	10,121	36,705	13,435	15,036	5,622
Sundry Receivables	1,049	1,042	591	1,611	705	106	1,407
Interest Earned Not Collected	1,319	1,330	1,363	2,005	519	228	230
Collateral Taken In Liquidation	19	583	19	870	-	-	-
Customer's Liabilities for Acceptances	2,208	430	2,328	167	2,723	91	396
Other Miscellaneous Assets	382	<u>1,570</u>	<u>835</u>	<u>1,138</u>	<u>124</u>	<u>177</u>	<u>1,487</u>
Total Normal Risk Assets	<u>4,977</u>	<u>4,955</u>	<u>5,136</u>	<u>5,791</u>	<u>4,071</u>	<u>602</u>	<u>3,520</u>
Fixed Assets	1,717	2,819	427	2,568	410	684	373
<b>TOTAL ASSETS</b>	<b>41,610</b>	<b>50,215</b>	<b>22,741</b>	<b>48,709</b>	<b>20,352</b>	<b>23,175</b>	<b>12,046</b>
<u>L I A B I L I T I E S</u>							
Demand Deposits	7,801	28,575	4,808	7,414	6,532	7,070	2,382
Time Deposits	15,418	8,479	1,158	13,175	7,511	11,946	2,774
Total Deposits	<u>23,219</u>	<u>37,054</u>	<u>5,966</u>	<u>20,589</u>	<u>14,043</u>	<u>19,016</u>	<u>5,156</u>
Due to Central Bank	4,443	3,391	5,112	13,723	1,699	128	2,287
Due to Other Banks	5,221	450	898	8,813	1,640	-	1,048
Other Liabilities	1,726	2,850	4,730	991	1,639	609	440
Various Reserves	1,993	2,381	768	1,593	331	289	60
<b>TOTAL LIABILITIES</b>	<b>36,602</b>	<b>46,126</b>	<b>17,474</b>	<b>45,709</b>	<b>19,352</b>	<b>20,042</b>	<b>8,991</b>
<u>C A P I T A L</u>							
Capital Stock	2,500	2,000	3,000	2,000	1,000	3,000	2,000
Capital Surplus	-	-	-	-	-	-	1,000
Capital Reserves	2,508	2,089	2,267	1,000	-	133	55
<b>TOTAL CAPITAL</b>	<b>5,008</b>	<b>4,089</b>	<b>5,267</b>	<b>3,000</b>	<b>1,000</b>	<b>3,133</b>	<b>3,055</b>
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>41,610</b>	<b>50,215</b>	<b>22,741</b>	<b>48,709</b>	<b>20,352</b>	<b>23,175</b>	<b>12,046</b>
<b>CONTINGENT LIABILITIES</b>	<b>9,665</b>	<b>8,169</b>	<b>17,710</b>	<b>20,277</b>	<b>12,154</b>	<b>3,199</b>	<b>6,882</b>

8

**APPENDIX III**  
**BANK SUMMARY STATEMENTS**

Bank of America NT&SA

BANK SUMMARY STATEMENT

Q Credit Process Management:  
U U.S. standards of credit administration are applied at this full branch  
A of N. of A. Credit procedures are audited at least once per year by Head  
L office inspection teams and periodically by Federal Reserve bank  
I examiners, excellent upper and middle management.

T Liability Management:  
A Good deposit generating capacity. Has not tried any innovative savings  
I mobilization strategies but has been the most successful bank at  
V mobilizing deposits. Success is partly due to political fears which  
E encourage depositors to use U.S. banks. Uses marginal cost of funds  
concept for liability management. No use of expensive Central Bank &  
Interbank funds sources.

	1978	1979	1980	1981
Liquidity:				
a) Loans to Deposits	: 0.56 :	: 0.71 :	: 0.60 :	: 0.52 :
	: :	: :	: :	: :

Excellent Liquidity.

	1978	1979	1980	1981
b) Quick Assets to Deposits	: 0.42 :	: 0.43 :	: 0.40 :	: 0.42 :
	: :	: :	: :	: :

Liquidity in excess of that  
necessary to meet Central Bank  
reserve requirement.

	1978	1979	1980	1981
Solvency:				
a) Free Capital as a % of Risk Assets	: 4.60 :	: 4.50 :	: 3.91 :	: 2.45 :
	: :	: :	: :	: :

Good—slightly negative trend.

	1978	1979	1980	1981
b) Deposits to Capital (leverage)	: 17.96 :	: 15.38 :	: 18.48 :	: 32.05 :
	: :	: :	: :	: :

High Leverage.

	1978	1979	1980	1981
Profitability:				
a) Net Profit to Capital	: NA :	: NA :	: NA :	: NA :
	: :	: :	: :	: :

	1978	1979	1980	1981
b) Return on Total Assets	: NA :	: NA :	: NA :	: NA :
	: :	: :	: :	: :

Overall Assessments:  
As a full branch of Bank of America NT&SA the branch receives full  
financial and administrative support from Head Office in San Francisco.  
Therefore, although leverage is high, it is not a cause for worry, since  
its capital base is really the bank in San Francisco. The high leverage  
and excellent deposit generating capacity practically insure a high rate  
of profitability against the capital at risk in Honduras. Portfolio  
quality, as measured by interest earned not collected vs. loans appears  
very good at 2.87%. Past due obligations are less than 5% of portfolio.

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**FINANCIAL STATEMENTS FOR BANK OF AMERICA, N.T. & S.A.**  
(In Thousands of Dollars)

<u>A S S E T S</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Cash and Due from Banks	11,419	9,849	10,647	19,949
Government Securities	-	-	489	378
Riskless Assets	<u>11,419</u>	<u>9,849</u>	<u>11,136</u>	<u>20,327</u>
Loans and Discounts	15,207	16,345	16,677	24,918
Sundry Receivables	2,487	1,321	2,947	5,038
Interest Earned Not Collected	192	336	407	714
Collateral Taken In Liquidation	-	-	-	-
Customer's Liabilities for Acceptances	436	124	357	328
Other Miscellaneous Assets	62	64	77	175
Total Normal Risk Assets	<u>3,177</u>	<u>1,845</u>	<u>3,788</u>	<u>6,255</u>
Fixed Assets	627	653	673	718
<b>TOTAL ASSETS</b>	<b>30,430</b>	<b>28,692</b>	<b>32,274</b>	<b>52,218</b>
<u>L I A B I L I T I E S</u>				
Demand Deposits	15,311	14,448	16,518	24,808
Time Deposits	<u>11,627</u>	<u>8,627</u>	<u>11,207</u>	<u>23,274</u>
Total Deposits	<u>26,938</u>	<u>23,075</u>	<u>27,725</u>	<u>48,082</u>
Due to Central Bank	-	-	-	456
Due to Other Banks	-	2,000	-	-
Other Liabilities	1,372	1,266	2,630	1,352
Various Reserves	620	351	419	828
<b>TOTAL LIABILITIES</b>	<b>28,930</b>	<b>27,192</b>	<b>30,774</b>	<b>50,718</b>
<u>C A P I T A L</u>				
Capital Stock	1,500	1,500	1,500	1,500
Capital Surplus	-	-	-	-
Capital Reserves	-	-	-	-
<b>TOTAL CAPITAL</b>	<b>1,500</b>	<b>1,500</b>	<b>1,500</b>	<b>1,500</b>
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>30,430</b>	<b>28,692</b>	<b>32,274</b>	<b>52,218</b>
<b>CONTINGENT LIABILITIES</b>	<b>102,051</b>	<b>154,261</b>	<b>152,942</b>	<b>136,751</b>

Banco de Londres y Montreal Ltdo.

BANK SUMMARY STATEMENT

**Q Credit Process Management:**

**U** As a full branch of Bank of London and South America (Lloyds Banking  
**A** Corp-London), full financial and administrative support is received  
**L** from the parent organization. Credit policies are monitored closely  
**I** from Head Office and lending practices are conservative. The branch  
**T** is regularly inspected by the international audit team.

**A**  
**T**

**I Liability Management:**

**V** The branch has demonstrated good deposit mobilization capabilities by  
**E** increasing deposits by 39% over the last 4 years. The mix between demand  
 deposits and more expensive time deposits is 50:50 which insures a low  
 average cost of funds. There is No use of expensive Central Bank or Inter-  
 bank funding.

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**Liquidity:**

a) Loans to Deposits

	1978	1979	1980	1981
	0.74	0.71	0.58	0.68
	:	:	:	:

Good-very conservative.

b) Quick Assets to Deposits

	1978	1979	1980	1981
	0.35	0.42	0.41	0.33
	:	:	:	:

Good-liquidity in excess of that  
 required by Central Bank.

**Solvency:**

a) Free Capital as a % of  
 Risk Assets

	1978	1979	1980	1981
	8.71	8.22	6.63	6.19
	:	:	:	:

Good.

b) Deposits to Capital  
 (leverage)

	1978	1979	1980	1981
	10.06	10.22	14.32	13.31
	:	:	:	:

Leverage is increasing but is  
 well within acceptable range for  
 a bank with a good portfolio.

**Profitability:**

a) Net Profit to Capital

	1978	1979	1980	1981
	NA	NA	NA	NA
	:	:	:	:

b) Return on Total Assets

	1978	1979	1980	1981
	NA	NA	NA	NA
	:	:	:	:

**Overall Assessments:**

This bank is well run and appears to be properly structured for  
 continued growth in the marketplace. Increasing leverage, at the current  
 levels, with a good credit portfolio and excellent liability management  
 make for a very profitable bank. Due to this branch's traditional  
 activity of promoting fee based business such as letters of credit,  
 foreign exchange trading and collections, return on capital must be very  
 good. Portfolio quality appears satisfactory since interest earned not  
 collected vs. loans is only 2.95%.

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**FINANCIAL STATEMENTS FOR BANCO DE LONDRES Y MONTREAL, LTDO.**  
(In Thousands of Dollars)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<b>A S S E T S</b>				
Cash and Due from Banks	6,393	7,992	11,013	8,425
Government Securities	2	4	4	3
Riskless Assets	<u>6,395</u>	<u>7,996</u>	<u>11,017</u>	<u>8,428</u>
Loans and Discounts	13,611	13,492	15,746	17,515
Sundry Receivables	19	52	87	42
Interest Earned Not Collected	258	307	535	517
Collateral Taken In Liquidation	-	-	-	-
Customer's Liabilities for Acceptances	630	565	2,253	2,363
Other Miscellaneous Assets	256	330	552	722
Total Normal Risk Assets	<u>1,163</u>	<u>1,254</u>	<u>3,427</u>	<u>3,344</u>
Fixed Assets	499	593	573	595
<b>TOTAL ASSETS</b>	<b>21,668</b>	<b>23,335</b>	<b>30,763</b>	<b>29,882</b>
<b>L I A B I L I T I E S</b>				
Demand Deposits	9,051	8,951	13,919	12,913
Time Deposits	9,357	10,010	13,079	12,682
Total Deposits	<u>18,408</u>	<u>18,961</u>	<u>26,998</u>	<u>25,595</u>
Due to Central Bank	-	-	-	-
Due to Other Banks	-	950	154	-
Other Liabilities	1,017	1,132	1,321	1,766
Various Reserves	413	436	405	598
<b>TOTAL LIABILITIES</b>	<b>19,838</b>	<b>21,479</b>	<b>28,878</b>	<b>27,959</b>
<b>C A P I T A L</b>				
Capital Stock	1,750	1,750	1,750	1,750
Capital Surplus	-	-	-	-
Capital Reserves	80	106	135	173
<b>TOTAL CAPITAL</b>	<b>1,830</b>	<b>1,856</b>	<b>1,885</b>	<b>1,923</b>
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>21,668</b>	<b>23,335</b>	<b>30,763</b>	<b>29,882</b>
<b>CONTINGENT LIABILITIES</b>	<b>20,952</b>	<b>35,088</b>	<b>30,670</b>	<b>30,612</b>

Banco de Honduras S.A.

BANK SUMMARY STATEMENT

**Q Credit Process Management:**

**U** This bank is 98% owned by Citibank N.A. and for all practical purposes  
**A** is run like a branch of Citibank New York. Upper management has had  
**L** experience in the Citibank international network. Citibank credit  
**I** procedures and credit policy are applied and U.S. credit inspection teams  
**T** regularly audit the credit portfolio.

**A**  
**T**

**I Liability Management:**

**V** Uses marginal cost of funds concept in liability management. Has  
**E** recently begun a campaign to attract savings and has been very successful  
in attracting over \$2 million in the last 3 months. Uses little or no high  
cost Central Bank funds.

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**Liquidity:**

a) Loans to Deposits

1978	1979	1980	1981
0.86	0.93	0.86	0.81

Acceptable, no trend.

b) Quick Assets to Deposits

1978	1979	1980	1981
0.42	0.34	0.33	0.29

Trend shows increase in efficiency in use of cash as ratio approaches Central Bank reserve requirement.

**Solvency:**

a) Free Capital as a % of Risk Assets

1978	1979	1980	1981
28%	19%	23%	12.3%

Very Good.

b) Deposits to Capital (leverage)

1978	1979	1980	1981
2.94	2.72	3.35	4.86

Very low leverage - Bank is overcapitalized.

**Profitability:**

a) Net Profit to Capital

1978	1979	1980	1981
NA	NA	NA	NA

b) Return on Total Assets

1978	1979	1980	1981
NA	NA	NA	NA

**Overall Assessments:**

This bank is clearly healthy. As a subsidiary of Citibank N.A. it draws complete financial and administrative support from its parent in New York. Bank is overcapitalized but has no major liquidity problems. Banco de Honduras' ratio of interest earned not collected to loans is very low at 1.95% indicating a sound credit portfolio.

lit

**FINANCIAL STATEMENTS FOR BANCO DE HONDURAS, S.A.**  
(In Thousands of Dollars)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<b>A S S E T S</b>				
Cash and Due from Banks	6,295	5,164	5,909	6,839
Government Securities	-	-	-	-
Riskless Assets	<u>6,295</u>	<u>5,164</u>	<u>5,909</u>	<u>6,839</u>
Loans and Discounts	13,015	14,118	15,593	18,916
Sundry Receivables	1,558	1,209	1,318	1,297
Interest Earned Not Collected	140	210	237	368
Collateral Taken In Liquidation	181	160	124	126
Customer's Liabilities for Acceptances	409	641	601	200
Other Miscellaneous Assets	592	782	882	340
Total Normal Risk Assets	<u>2,880</u>	<u>3,002</u>	<u>3,162</u>	<u>2,331</u>
Fixed Assets	717	770	898	1,925
<b>TOTAL ASSETS</b>	<b>22,907</b>	<b>23,054</b>	<b>25,562</b>	<b>30,011</b>
<b>L I A B I L I T I E S</b>				
Demand Deposits	9,179	8,154	8,574	7,715
Time Deposits	5,940	7,061	9,457	15,507
Total Deposits	<u>15,119</u>	<u>15,215</u>	<u>18,031</u>	<u>23,222</u>
Due to Central Bank	291	571	621	1,051
Due to Other Banks	1,000	1,000	515	-
Other Liabilities	763	181	531	367
Various Reserves	583	495	479	596
<b>TOTAL LIABILITIES</b>	<b>17,756</b>	<b>17,462</b>	<b>20,177</b>	<b>25,236</b>
<b>C A P I T A L</b>				
Capital Stock	1,500	1,500	1,500	1,500
Capital Surplus	-	-	-	-
Capital Reserves	3,651	4,092	3,885	3,275
<b>TOTAL CAPITAL</b>	<b>5,151</b>	<b>5,592</b>	<b>5,385</b>	<b>4,775</b>
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>22,907</b>	<b>23,054</b>	<b>25,562</b>	<b>30,011</b>
<b>CONTINGENT LIABILITIES</b>	<b>48,181</b>	<b>42,348</b>	<b>49,950</b>	<b>65,800</b>

Banco del Comercio S.A.

BANK SUMMARY STATEMENT

Q Credit Process Management:  
U This bank has a good formal credit initiation process whereby 100% of  
A loan requests are presented before a credit committee in San Pedro Sula.  
L Repayment capacity is prime criteria for loan approval. Collateral is  
I the second most important criteria. Conservative credit philosophy.  
T Good upper and middle management.

I Liability Management:  
V This has been the most successful bank at promoting specialized  
E lottery-type savings programs. Savings increases of over \$700,000 per  
month result from that program alone. Moderate use of expensive Central  
Bank funding. Generally good liability management.

Liquidity:	1978	1979	1980	1981
a) Loans to Deposits	: 0.75 :	: 0.79 :	: 0.83 :	: 0.82 :
	: :	: :	: :	: :

Good level of liquidity-  
slightly negative trend.

b) Quick Assets to Deposits	1978	1979	1980	1981
	: 0.38 :	: 0.32 :	: 0.33 :	: 0.40 :
	: :	: :	: :	: :

Good. Cash maintained in excess  
of that required by Central  
Bank.

Solvency:	1978	1979	1980	1981
a) Free Capital as a % of Risk Assets	: 4.13 :	: 3.58 :	: 2.77 :	: 3.33 :
	: :	: :	: :	: :

Good.

b) Deposits to Capital (leverage)	1978	1979	1980	1981
	: 14.01 :	: 11.14 :	: 10.32 :	: 9.06 :
	: :	: :	: :	: :

Leverage achieved is good.  
Solvency is strengthening.

Profitability:	1978	1979	1980	1981
a) Net Profit to Capital	: NA :	: NA :	: NA :	: NA :
	: :	: :	: :	: :

b) Return on Total Assets	1978	1979	1980	1981
	: NA :	: NA :	: NA :	: NA :
	: :	: :	: :	: :

**Overall Assessments:**

This bank has shown steady and continuous growth over four year period studied. Conservative but innovative management has maintained good profitability (exact figures not available). This appears to be the only bank currently engaged in truly serious savings mobilization. Loan portfolio appears to be healthy as shown by low level of interest earned not collected (4.38% of loans) and low past due portfolio. Bank has good credit administration procedures. Slightly negative trend in liquidity is not serious but should be watched.

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**FINANCIAL STATEMENTS FOR BANCO DEL COMERCIO**  
(In Thousands of Dollars)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<b>A S S E T S</b>				
Cash and Due from Banks	11,589	10,157	12,148	11,494
Government Securities	241	241	241	610
Riskless Assets	<u>11,830</u>	<u>10,398</u>	<u>12,389</u>	<u>12,104</u>
Loans and Discounts	23,576	25,506	31,156	30,337
Sundry Receivables	301	640	565	1,042
Interest Earned Not Collected	484	597	907	1,330
Collateral Taken In Liquidation	185	177	212	583
Customer's Liabilities for Acceptances	285	672	293	430
Other Miscellaneous Assets	940	961	1,167	1,570
Total Normal Risk Assets	<u>2,195</u>	<u>3,047</u>	<u>3,144</u>	<u>4,955</u>
Fixed Assets	1,147	1,793	2,488	2,819
<b>TOTAL ASSETS</b>	<b>38,748</b>	<b>40,744</b>	<b>49,177</b>	<b>50,215</b>
<b>L I A B I L I T I E S</b>				
Demand Deposits	23,768	26,126	31,060	28,575
Time Deposits	7,844	5,999	6,684	8,479
Total Deposits	<u>31,612</u>	<u>32,125</u>	<u>37,744</u>	<u>37,054</u>
Due to Central Bank	357	911	2,352	3,391
Due to Other Banks	1,088	824	543	450
Other Liabilities	2,048	2,416	3,165	2,850
Various Reserves	1,386	1,585	1,714	2,381
<b>TOTAL LIABILITIES</b>	<b>36,491</b>	<b>37,861</b>	<b>45,518</b>	<b>46,126</b>
<b>C A P I T A L</b>				
Capital Stock	1,406	2,000	2,000	2,000
Capital Surplus	-	-	-	-
Capital Reserves	851	883	1,659	2,089
<b>TOTAL CAPITAL</b>	<b>2,257</b>	<b>2,883</b>	<b>3,659</b>	<b>4,089</b>
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>38,748</b>	<b>40,744</b>	<b>49,177</b>	<b>50,215</b>
<b>CONTINGENT LIABILITIES</b>	<b>8,169</b>	<b>7,851</b>	<b>10,483</b>	<b>8,169</b>

Banco de las Fuerzas Armadas

BANK SUMMARY STATEMENT

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**Credit Process Management:**

Not interviewed.

**Liability Management:**

Very good liability management. Little or no use of expensive funding. Has increased deposits by 163% in 3 years.

**Liquidity:**

a) Loans to Deposits

1978	1979	1980	1981
: : 1.04	: 0.89	: 0.79	:
: :	:	:	:

Improving.

b) Quick Assets to Deposits

1978	1979	1980	1981
: : 0.35	: 0.32	: 0.36	:
: :	:	:	:

O.K. Willing reserve requirement.

**Solvency:**

a) Free Capital as a % of Risk Assets

1978	1979	1980	1981
: : 34.01	: 16.89	: 15.01	:
: :	:	:	:

Very low - negative trend.

b) Deposits to Capital (leverage)

1978	1979	1980	1981
: : 2.41	: 4.94	: 6.07	:
: :	:	:	:

Increasing ratio will make bank more profitable. Well within acceptable range.

**Profitability:**

a) Net Profit to Capital

1978	1979	1980	1981
: : :	: :	: :	:
: :	:	:	:

b) Return on Total Assets

1978	1979	1980	1981
: : :	: :	: :	:
: :	:	:	:

**Overall Assessments:**

For a bank with a very short time in existence the trends for healthy growth seem very promising. In spite of constrained liquidity in the market, Banffas has managed to mobilize deposits very effectively and to increase its leverage to a point where it will show a reasonable profitability.

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**FINANCIAL STATEMENTS FOR BANCO DE LAS FUERZAS ARMADAS, S.A.**  
(In Thousands of Dollars)

A S S E T S	1978	1979	1980	1981
Cash and Due from Banks		2,560	4,844	6,207
Government Securities		-	-	646
Riskless Assets		2,560	4,844	6,853
Loans and Discounts		7,503	13,499	15,036
Sundry Receivables		97	44	106
Interest Earned Not Collected		62	152	228
Collateral Taken In Liquidation		-	-	-
Customer's Liabilities for Acceptances		74	269	91
Other Miscellaneous Assets		127	157	177
Total Normal Risk Assets		360	622	602
Fixed Assets		243	594	684
<b>TOTAL ASSETS</b>		<b>10,666</b>	<b>19,559</b>	<b>23,175</b>
<b>L I A B I L I T I E S</b>				
Demand Deposits		3,197	6,836	7,670
Time Deposits		4,036	8,374	12,946
Total Deposits		7,233	15,210	19,016
Due to Central Bank		-	-	128
Due to Other Banks		-	-	-
Other Liabilities		426	1,161	609
Various Reserves		7	109	289
<b>TOTAL LIABILITIES</b>		<b>7,666</b>	<b>16,480</b>	<b>20,042</b>
<b>C A P I T A L</b>				
Capital Stock		3,000	3,000	3,000
Capital Surplus		-	-	-
Capital Reserves		-	79	133
<b>TOTAL CAPITAL</b>		<b>3,000</b>	<b>3,079</b>	<b>3,133</b>
<b>TOTAL LIABILITIES &amp; CAPITAL</b>		<b>10,666</b>	<b>19,559</b>	<b>23,175</b>
<b>CONTINGENT LIABILITIES</b>		<b>1,501</b>	<b>4,251</b>	<b>3,199</b>

Banco Atlántida S.A.

BANK SUMMARY STATEMENT

Q Credit Process Management:  
 U Have an explicit policy manual - monthly control of past due obligations  
 A Adequate technical staff to police loan portfolio. Good management at  
 L upper and middle levels.

A Liability Management:  
 T Bank does an excellent job at generating low cost deposits through its  
 I wide branch network. Use of high cost Central Bank loans and loans from  
 V other banks is kept to a minimum. Good liability management.  
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Liquidity:	1978	1979	1980	1981
a) Loans to Deposits	0.76	0.64	0.52	0.57

Appears to easily provide deposit growth to fund loan portfolio.

b) Quick Assets to Deposits	1978	1979	1980	1981
	0.38	0.41	0.41	0.32

Liquidity in excess of that required by reserve requirement.

Solvency:	1978	1979	1980	1981
a) Free Capital as a % of Risk Assets	-0.86	-2.14	-2.78	-3.87

Vary low - negative trend.

b) Deposits to Capital (leverage)	1978	1979	1980	1981
	18.00	19.06	19.18	16.19

Leverage is high, but may not be excessive due to dominance of bank in marketplace

Profitability:	1978	1979	1980	1981
a) Net Profit to Capital	NA	46%	40%	NA

Very good profitability.

b) Return on Total Assets	1978	1979	1980	1981
	NA	1.99	1.78	NA

Very good profitability.

**Overall Assessments:**

Qualified Statements - Auditor mentions some \$5.4 million in doubtful loans against which there are inadequate loss reserves. In addition there are \$1.4 million in investments in shares of companies whose net worth is in doubt. It would appear that due to relatively low capitalization and high leverage the bank shows signs of potential weakness in terms of solvency. A more detailed review of the quality of loan portfolio would be in order. Liquidity and Profitability are excellent. Due to overall size of the bank and extended branch network, Banco Atlántida continues to operate profitably.

**FINANCIAL STATEMENTS FOR BANCO ATLANTIDA, S.A.**  
(In Thousands of Dollars)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<b>A S S E T S</b>				
Cash and Due from Banks	41,634	51,373	53,744	36,687
Government Securities	1,663	2,093	1,819	1,526
Riskless Assets	<u>43,297</u>	<u>53,466</u>	<u>55,563</u>	<u>38,213</u>
Loans and Discounts	85,892	83,075	70,828	68,856
Sundry Receivables	2,656	3,023	6,073	7,774
Interest Earned Not Collected	866	1,255	973	2,410
Collateral Taken In Liquidation	63	120	119	207
Customer's Liabilities for Acceptances	3,372	1,331	3,869	8,216
Other Miscellaneous Assets	<u>2,773</u>	<u>6,749</u>	<u>9,341</u>	<u>6,526</u>
Total Normal Risk Assets	9,730	12,478	20,375	25,133
Fixed Assets	7,162	9,025	9,914	11,490
<b>TOTAL ASSETS</b>	<b>146,081</b>	<b>158,044</b>	<b>156,680</b>	<b>143,692</b>
<b>L I A B I L I T I E S</b>				
Demand Deposits	57,486	68,856	75,098	54,512
Time Deposits	<u>55,468</u>	<u>60,448</u>	<u>61,118</u>	<u>65,522</u>
Total Deposits	112,954	129,304	136,216	120,034
Due to Central Bank	532	900	1,871	3,989
Due to Other Banks	20,937	12,000	6,970	5,967
Other Liabilities	2,435	6,014	1,893	2,881
Various Reserves	<u>2,947</u>	<u>3,043</u>	<u>2,628</u>	<u>3,410</u>
<b>TOTAL LIABILITIES</b>	<b>139,805</b>	<b>151,261</b>	<b>149,578</b>	<b>136,281</b>
<b>C A P I T A L</b>				
Capital Stock	5,000	5,000	5,000	5,000
Capital Surplus	-	-	-	-
Capital Reserves	1,276	1,783	2,102	2,411
<b>TOTAL CAPITAL</b>	<b>6,276</b>	<b>6,783</b>	<b>7,102</b>	<b>7,411</b>
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>146,081</b>	<b>158,044</b>	<b>156,680</b>	<b>143,692</b>
<b>CONTINGENT LIABILITIES</b>	<b>23,135</b>	<b>36,944</b>	<b>47,527</b>	<b>29,920</b>

Banco El Ahorro Hondureno S.A.

BANK SUMMARY STATEMENT

**Q U A N T I T A T I V E**  
**Credit Process Management:**

This bank generally engages in asset based lending. Collateral is the prime consideration for granting of a loan. Has only two agronomists. Relatively mediocre middle management. Fairly rudimentary credit procedures.

**Liability Management:**

Basically generates deposits through time deposits. Very limited attempts at implementing special savings programs. Uses average cost of funds concept for liability management. Relatively low use of expensive Central Bank funds. Has had to increase high cost interbank borrowings recently which will affect profitability.

**Liquidity:**

a) Loans to Deposits

1978	1979	1980	1981
0.67	0.69	0.68	0.75

High liquidity - no trends.

b) Quick Assets to Deposits

1978	1979	1980	1981
0.37	0.37	0.39	0.33

Good liquidity - above Central Bank requirements.

**Solvency:**

a) Free Capital as a % of Risk Assets

1978	1979	1980	1981
2.89	3.52	3.73	3.92

O.K.

b) Deposits to Capital (leverage)

1978	1979	1980	1981
20.99	18.01	15.40	13.16

High leverage trending toward a satisfactory level.

**Profitability:**

a) Net Profit to Capital

1978	1979	1980	1981
NA	NA	NA	NA

b) Return on Total Assets

1978	1979	1980	1981
NA	NA	NA	NA

**Overall Assessments:**

This bank continues to operate profitably through an extensive branch network and relies heavily on long term experience in the marketplace. The bank has done nothing new in the past four years and appears financially sound. The principal area of uncertainty is in judging the quality of the credit portfolio. The ratio of interest earned not collected to loans is 4.61 which is on the high side but acceptable. The bank is basically healthy.

**FINANCIAL STATEMENTS FOR BANCO DE EL AHORRO HONDURENO, S.A.**  
(In Thousands of Dollars)

	1978	1979	1980	1981
<b><u>A S S E T S</u></b>				
Cash and Due from Banks	24,486	25,251	26,876	21,451
Government Securities	652	414	511	511
Riskless Assets	25,138	25,665	27,387	21,962
Loans and Discounts	45,700	47,819	47,436	49,979
Sundry Receivables	860	700	926	1,486
Interest Earned Not Collected	1,553	1,701	1,761	2,305
Collateral Taken In Liquidation	2,746	1,800	1,516	1,903
Customer's Liabilities for Acceptances	956	1,094	3,148	2,264
Other Miscellaneous Assets	648	1,329	2,557	2,384
Total Normal Risk Assets	6,763	6,624	9,908	10,342
Fixed Assets	1,689	1,842	2,311	2,634
<b>TOTAL ASSETS</b>	<b>79,290</b>	<b>81,950</b>	<b>87,042</b>	<b>84,917</b>
<b><u>L I A B I L I T I E S</u></b>				
Demand Deposits	26,087	26,733	28,179	27,313
Time Deposits	42,116	42,115	41,680	39,768
Total Deposits	68,203	68,848	69,859	67,081
Due to Central Bank	1,820	2,509	4,337	1,552
Due to Other Banks	1,871	3,439	4,917	6,985
Other Liabilities	2,850	1,476	1,173	1,345
Various Reserves	1,296	1,855	2,219	2,855
<b>TOTAL LIABILITIES</b>	<b>76,040</b>	<b>78,127</b>	<b>82,505</b>	<b>79,818</b>
<b><u>C A P I T A L</u></b>				
Capital Stock	1,500	1,500	1,500	5,000
Capital Surplus	-	-	-	-
Capital Reserves	1,750	2,323	3,037	99
<b>TOTAL CAPITAL</b>	<b>3,250</b>	<b>3,823</b>	<b>4,537</b>	<b>5,099</b>
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>79,290</b>	<b>81,950</b>	<b>87,042</b>	<b>84,917</b>
<b>CONTINGENT LIABILITIES</b>	<b>15,239</b>	<b>23,007</b>	<b>12,341</b>	<b>9,330</b>

Banco de la Capitalizadora Hondurena S.A.

BANK SUMMARY STATEMENT

**Q U A N T I T A T I V E**  
Credit Process Management:  
Uses asset based lending philosophy. Value of collateral is prime consideration for loan approval. Only one agronomist appears inadequate for size of agricultural loan portfolio. Has a computerized loan tracking system.

Liability Management:  
Initiated lottery system for mobilizing savings but discontinued programs as a result of labor problems. Basically funds portfolio growth with increases in savings and time deposits. Good use of compensating deposits to increase yields on loans. Relatively little use of expensive central bank and interbank sources of funds.

Liquidity:

	1978	1979	1980	1981
a) Loans to Deposits	0.71	0.77	0.73	0.79

Good liquidity.

**Q U A N T I T A T I V E**

	1978	1979	1980	1981
b) Quick Assets to Deposits	0.38	0.30	0.37	0.30

Efficient use of cash-maintains cash required by Central Bank.

Solvency:

	1978	1979	1980	1981
a) Free Capital as a % of Risk Assets	-0.59	0.52	0.78	-0.02

Low-Overextended in fixed assets

	1978	1979	1980	1981
b) Deposits to Capital (leverage)	22.06	17.66	15.90	13.85

High leverage declining to very satisfactory levels.

Profitability:

	1978	1979	1980	1981
a) Net Profit to Capital	NA	NA	NA	NA

	1978	1979	1980	1981
b) Return on Total Assets	NA	NA	NA	NA

**Overall Assessments:**

Financially, Bancahsa has very good liquidity and solvency ratios. Although profit figures are not available, the combination of a good funding strategy and appropriate leverage imply that the bank is operating profitably. A good relationship has been maintained between loan and deposit growth.

Portfolio quality, as evidenced by acceptable interest earned-not collected to loans (4.37%) appears satisfactory.

FINANCIAL STATEMENTS FOR BANCO DE LA CAPITALIZADORA HONDURENA, S.A.  
(In Thousands of Dollars)

	1978	1979	1980	1981
<b>A S S E T S</b>				
Cash and Due from Banks	25,950	20,870	26,412	20,556
Government Securities	876	595	620	721
Riskless Assets	26,826	21,465	27,032	21,277
Loans and Discounts	50,045	55,214	53,194	55,576
Sundry Receivables	2,453	2,811	4,539	4,703
Interest Earned Not Collected	1,688	1,611	2,187	2,426
Collateral Taken In Liquidation	1,391	1,711	625	771
Customer's Liabilities for Acceptances	1,103	1,133	1,456	2,313
Other Miscellaneous Assets	2,273	3,043	3,297	2,881
Total Normal Risk Assets	8,908	10,309	12,104	13,094
Fixed Assets	3,573	3,696	4,048	5,092
<b>TOTAL ASSETS</b>	89,352	90,684	96,378	95,039
<b>L I A B I L I T I E S</b>				
Demand Deposits	35,274	37,200	40,237	36,227
Time Deposits	35,417	34,496	32,177	34,122
Total Deposits	70,691	71,696	72,414	70,349
Due to Central Bank	1,489	1,656	3,043	3,504
Due to Other Banks	6,737	5,578	5,597	4,399
Other Liabilities	5,361	5,429	8,149	8,870
Various Reserves	1,870	2,266	2,621	2,838
<b>TOTAL LIABILITIES</b>	86,148	86,625	91,824	89,960
<b>C A P I T A L</b>				
Capital Stock	2,000	3,500	3,500	3,500
Capital Surplus	-	-	-	-
Capital Reserves	1,204	559	1,054	1,579
<b>TOTAL CAPITAL</b>	3,204	4,059	4,554	5,079
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	89,352	90,684	96,378	95,039
<b>CONTINGENT LIABILITIES</b>	17,511	20,984	21,907	16,425

Banco FICENSA

BANK SUMMARY STATEMENT

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**Credit Process Management:**

Has back up of Banco de América Central Group (ex Banco de América-  
Nicaragua). Seems to have fairly good approval and monitoring procedures  
as evidenced by low level of interest earned not collected.

**Liability Management:**

Has managed to increase deposits by about 9% over the last four years and  
has not made excessive use of expensive funding sources. Loan portfolio  
cannot continue to grow unless new funding sources are developed.

**Liquidity:**

a) Loans to Deposits

1978	1979	1980	1981
0.76	0.86	0.79	0.96

Deteriorating trend.

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b) Quick Assets to Deposits

1978	1979	1980	1981
0.32	0.31	0.44	0.17

Sudden drop in liquidity in 1981

**Solvency:**

a) Free Capital as a % of Risk Assets

1978	1979	1980	1981
6.58	5.28	5.74	3.28

b) Deposits to Capital (leverage)

1978	1979	1980	1981
13.11	11.56	12.15	14.04

Solvency is acceptable.

**Profitability:**

a) Net Profit to Capital

1978	1979	1980	1981

b) Return on Total Assets

1978	1979	1980	1981

**Overall Assessments:**

Ficensa is an aggressive bank which has reached its limit of asset  
growth. Unless additional deposits can be mobilized, it would appear that  
growth will have to be curtailed. Leverage is acceptable but should not  
increase further. Based on present financial structure, it would seem  
that the bank must be profitable. Asset quality appears acceptable.  
Serious liquidity problems may develop in 1982!

**FINANCIAL STATEMENTS FOR FINANCIERA CENTROAMERICANA, S.A.**  
(In Thousands of Dollars)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<b>A S S E T S</b>				
Cash and Due from Banks	4,131	3,747	5,874	2,435
Government Securities	57	1	1	1
Riskless Assets	<u>4,188</u>	<u>3,748</u>	<u>5,875</u>	<u>2,436</u>
Loans and Discounts	9,771	10,416	10,541	13,435
Sundry Receivables	422	1,196	746	705
Interest Earned Not Collected	225	253	239	519
Collateral Taken In Liquidation	-	-	-	-
Customer's Liabilities for Acceptances	279	1,326	1,077	2,723
Other Miscellaneous Assets	655	195	364	124
Total Normal Risk Assets	<u>1,581</u>	<u>2,970</u>	<u>2,426</u>	<u>4,071</u>
Fixed Assets	233	328	340	410
<b>TOTAL ASSETS</b>	<b>15,773</b>	<b>17,462</b>	<b>19,182</b>	<b>20,352</b>
<b>L I A B I L I T I E S</b>				
Demand Deposits	5,968	6,319	6,913	6,532
Time Deposits	6,946	5,829	6,513	7,511
Total Deposits	<u>12,914</u>	<u>12,148</u>	<u>13,426</u>	<u>14,043</u>
Due to Central Bank	-	2,000	1,400	1,699
Due to Other Banks	1,572	1,955	2,690	1,640
Other Liabilities	175	128	328	1,639
Various Reserves	127	180	233	331
<b>TOTAL LIABILITIES</b>	<b>14,788</b>	<b>16,411</b>	<b>18,077</b>	<b>19,352</b>
<b>C A P I T A L</b>				
Capital Stock	971	1,000	1,000	1,000
Capital Surplus	-	-	-	-
Capital Reserves	14	51	105	-
<b>TOTAL CAPITAL</b>	<b>985</b>	<b>1,051</b>	<b>1,105</b>	<b>1,000</b>
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>15,773</b>	<b>17,462</b>	<b>19,182</b>	<b>20,352</b>
<b>CONTINGENT LIABILITIES</b>	<b>3,670</b>	<b>8,270</b>	<b>12,755</b>	<b>12,154</b>

Banco Mercantil S.A.  
BANK SUMMARY STATEMENT

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Credit Process Management:

Not Interviewed.

Liability Management:

Poor liability management. Hard to make a judgement because it is only 2nd year of operations of bank. Use of expensive funding is very high for small size of bank.

Liquidity:

a) Loans to Deposits

1978	1979	1980	1981
:	:	0.92	1.09
:	:	:	:

Illiquid-worsening trend.

b) Quick Assets to Deposits

1978	1979	1980	1981
:	:	0.29	0.49
:	:	:	:

O.K. - too much cash for reserve requirement.

Solvency:

a) Free Capital as a % of Risk Assets

1978	1979	1980	1981
:	:	34.33	28.21
:	:	:	:

b) Deposits to Capital (leverage)

1978	1979	1980	1981
:	:	2.10	1.69
:	:	:	:

Too low for bank to be profitable.

Profitability:

a) Net Profit to Capital

1978	1979	1980	1981
:	:	:	:
:	:	:	:

b) Return on Total Assets

1978	1979	1980	1981
:	:	:	:
:	:	:	:

Overall Assessments:

This is a small bank that is getting started at the beginning of difficult times for the system. From its first year and its second, deposits have declined 18%. Almost all of its funding to offset deposit losses have come from expensive Central Bank funds. In view of low volume, it would appear difficult for the bank to remain viable unless substantial deposit mobilization occurs.

FINANCIAL STATEMENTS FOR BANCO MERCANTIL, S.A.  
(In Thousands of Dollars)

	1978	1979	1980	1981
<b>A S S E T S</b>				
Cash and Due from Banks			1,804	2,519
Government Securities			-	12
Riskless Assets			1,804	2,531
Loans and Discounts			5,779	5,622
Sundry Receivables			489	1,407
Interest Earned Not Collected			81	230
Collateral Taken In Liquidation			-	-
Customer's Liabilities for Acceptances			21	396
Other Miscellaneous Assets			1,336	1,487
Total Normal Risk Assets			1,927	3,520
Fixed Assets			264	373
<b>TOTAL ASSETS</b>			9,774	12,046
<b>L I A B I L I T I E S</b>				
Demand Deposits			2,586	2,382
Time Deposits			3,699	2,774
Total Deposits			6,285	5,156
Due to Central Bank			150	2,287
Due to Other Banks			65	1,048
Other Liabilities			246	440
Various Reserves			28	60
<b>TOTAL LIABILITIES</b>			6,774	8,991
<b>C A P I T A L</b>				
Capital Stock			2,000	2,000
Capital Surplus			1,000	1,000
Capital Reserves			-	55
<b>TOTAL CAPITAL</b>			3,000	3,055
<b>TOTAL LIABILITIES &amp; CAPITAL</b>			9,774	12,046
<b>CONTINGENT LIABILITIES</b>			5,679	6,882

Banco de los Trabajadores

BANK SUMMARY STATEMENT

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Credit Process Management:

Not Interviewed.

Liability Management:

Poor. Proportionately heavy use of expensive funding. Relationship between demand and time is skewed toward time deposits which cost more.

Liquidity:

a) Loans to Deposits

1978	1979	1980	1981
1.20	1.30	1.24	1.21

Illiquid.

b) Quick Assets to Deposits

1978	1979	1980	1981
0.37	0.36	0.31	0.29

Trend shows tendency to meet minimum requirement of Central Bank.

Solvency:

a) Free Capital as a % of Risk Assets

1978	1979	1980	1981
11.20	10.58	7.59	9.61

Good.

b) Deposits to Capital (leverage)

1978	1979	1980	1981
4.46	4.40	5.60	4.64

Very low leverage

Profitability:

a) Net Profit to Capital

1978	1979	1980	1981
			NA

b) Return on Total Assets

1978	1979	1980	1981
			NA

Overall Assessments:

This bank shows signs of illiquidity. Deposits and loans have remained stable during the last two years and the bank's ability to generate cash is minimal. Leverage is low under the circumstances and therefore profitability must be very low. Portfolio quality is acceptable as measured by interest earned-not collected to loans (4.69%).

**FINANCIAL STATEMENTS FOR BANCO DE LOS TRABAJADORES**  
(In Thousands of Dollars)

	1978	1979	1980	1981
<b>A S S E T S</b>				
Cash and Due from Banks	5,688	6,660	7,162	6,738
Government Securities	31	31	32	48
Riskless Assets	5,719	6,691	7,194	6,786
Loans and Discounts	18,669	24,032	28,936	28,130
Sundry Receivables	18	34	426	1,049
Interest Earned Not Collected	279	441	631	1,319
Collateral Taken In Liquidation	27	17	17	19
Customer's Liabilities for Acceptances	1,220	1,732	1,879	2,208
Other Miscellaneous Assets	259	291	733	382
Total Normal Risk Assets	1,803	2,515	3,686	4,977
Fixed Assets	1,076	1,216	1,570	1,717
<b>TOTAL ASSETS</b>	<b>27,267</b>	<b>34,454</b>	<b>41,386</b>	<b>41,610</b>
<b>L I A B I L I T I E S</b>				
Demand Deposits	6,785	7,683	8,847	7,801
Time Deposits	8,788	10,826	14,487	15,418
Total Deposits	15,573	18,509	23,334	23,219
Due to Central Bank	2,139	5,891	5,424	4,443
Due to Other Banks	3,705	2,935	1,744	5,221
Other Liabilities	1,508	2,035	5,209	1,726
Various Reserves	852	933	1,509	1,993
<b>TOTAL LIABILITIES</b>	<b>23,777</b>	<b>30,303</b>	<b>37,220</b>	<b>36,602</b>
<b>C A P I T A L</b>				
Capital Stock	2,500	2,500	2,500	2,500
Capital Surplus	-	-	-	-
Capital Reserves	990	1,651	1,666	2,508
<b>TOTAL CAPITAL</b>	<b>3,490</b>	<b>4,151</b>	<b>4,166</b>	<b>5,008</b>
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>27,267</b>	<b>34,454</b>	<b>41,386</b>	<b>41,610</b>
<b>CONTINGENT LIABILITIES</b>	<b>13,258</b>	<b>14,354</b>	<b>15,374</b>	<b>9,665</b>

Banco Sogerin S.A.

BANK SUMMARY STATEMENT

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**Credit Process Management:**

Family impassive management staff - credit monitoring done by staff of 3 agronomists. Perhaps too aggressive in credit approval. Seem to have picked up some marginal clients. Good control of past due obligations.

**Liability Management:**

Very poor deposit generation. Has had to borrow at high rates from Central Bank and from interbank market at proportionately high volumes in order to fund asset growth. Deposit growth is proportionately high in expensive time deposit money. 21% drop in deposits over 4 year period.

**Liquidity:**

a) Loans to Deposits

	1978	1979	1980	1981
	: 1.09 :	: 1.42 :	: 1.46 :	: 1.78 :
	: :	: :	: :	: :

Illiquid.

b) Quick Assets to Deposits

	1978	1979	1980	1981
	: 0.39 :	: 0.32 :	: 0.34 :	: 0.18 :
	: :	: :	: :	: :

Illiquid - 1982 will be a difficult year.

**Solvency:**

a) Free Capital as a % of Risk Assets

	1978	1979	1980	1981
	: 3.73 :	: 1.57 :	: 1.56 :	: 0.96 :
	: :	: :	: :	: :

Rapidly declining.

b) Deposits to Capital (leverage)

	1978	1979	1980	1981
	: 11.71 :	: 9.31 :	: 8.50 :	: 6.86 :
	: :	: :	: :	: :

Good leverage - improving.

**Profitability:**

a) Net Profit to Capital

	1978	1979	1980	1981
	: :	: :	: 30.4 :	: 8.83 :
	: :	: :	: :	: :

b) Return on Total Assets

	1978	1979	1980	1981
	: :	: :	: 1.69 :	: 0.53 :
	: :	: :	: :	: :

**Overall Assessments:**

This bank has embarked on a program aggressive loan expansion in the middle market. Loan portfolio appears to have some problems as seen by an increasing ratio of interest earned-not collected to loans (5.46%) liquidity ratios indicate severe problems for 1982 unless deposit mobilization takes place. Increases in expensive incremental funds sources have seriously eroded profitability.

FINANCIAL STATEMENTS FOR BANCO SOGERIN, S.A.  
(In Thousands of Dollars)

	1978	1979	1980	1981
<b>A S S E T S</b>				
Cash and Due from Banks	9,673	6,913	7,550	3,095
Government Securities	484	494	550	550
Riskless Assets	10,157	7,407	8,100	3,645
Loans and Discounts	28,142	33,153	34,859	36,705
Sundry Receivables	443	755	2,273	1,611
Interest Earned Not Collected	1,277	1,319	1,607	2,005
Collateral Taken In Liquidation	8	590	811	870
Customer's Liabilities for Acceptances	1,655	498	235	167
Other Miscellaneous Assets	62	373	359	1,138
Total Normal Risk Assets	3,445	3,535	5,285	5,791
Fixed Assets	1,000	1,896	2,141	2,568
<b>TOTAL ASSETS</b>	42,744	45,991	50,385	48,709
<b>L I A B I L I T I E S</b>				
Demand Deposits	8,520	5,934	9,970	7,414
Time Deposits	17,417	17,333	13,852	13,175
Total Deposits	25,937	23,267	23,822	20,589
Due to Central Bank	4,027	4,842	12,175	13,723
Due to Other Banks	8,417	13,153	9,500	8,813
Other Liabilities	1,678	1,457	1,090	991
Various Reserves	470	772	957	1,593
<b>TOTAL LIABILITIES</b>	40,529	43,491	47,584	45,709
<b>C A P I T A L</b>				
Capital Stock	2,000	2,000	2,000	2,000
Capital Surplus	-	-	-	-
Capital Reserves	215	500	801	1,000
<b>TOTAL CAPITAL</b>	2,215	2,500	2,801	3,000
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	42,744	45,991	50,385	48,709
<b>CONTINGENT LIABILITIES</b>	18,629	24,714	21,706	20,277

Banco de Occidente

BANK SUMMARY STATEMENT

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**Credit Process Management:**

This bank has the highest percentage of past due loans (25%). Management highly concentrated in one man. The bank is a big agricultural lender and it has only 3 agronomists. Credit decisions are largely made on a personal basis.

**Liability Management:**

Poor. Credit portfolio has continued to increase while deposits were actually dropping. Marginal source of funds is Central Bank at 21%. Maximum loan rate is 19%. 100% increase in Central Bank borrowings in 1981.

**Liquidity:**

a) Loans to Deposits

1978	1979	1980	1981
0.76	0.77	0.99	1.07

Negative trend in liquidity.

b) Quick Assets to Deposits

1978	1979	1980	1981
0.35	0.32	0.34	0.29

OK - but hovers on minimum required by reserve requirement.

**Solvency:**

a) Free Capital as a % of Risk Assets

1978	1979	1980	1981
4.31	3.22	2.23	1.78

Good but deteriorating.

b) Deposits to Capital (leverage)

1978	1979	1980	1981
14.14	16.64	13.99	12.27

Good improving trend.

**Profitability:**

a) Net Profit to Capital

1978	1979	1980	1981
			NA

b) Return on Total Assets

1978	1979	1980	1981
			NA

**Overall Assessments:**

Banco de Occidente must consolidate its asset growth and begin to restructure marginal loans while it embarks on a program to mobilize deposits. Loan quality appears very poor with past due loans of up to 25% and interest-earned not collected ratio as high as 10.8% of loan portfolio. If a change in managerial emphasis does not occur immediately, this bank will be in serious trouble soon. Management should concentrate on improving portfolio quality and liability management.

**FINANCIAL STATEMENTS FOR BANCO DE OCCIDENTE**  
(In Thousands of Dollars)

	1978	1979	1980	1981
<b>A S S E T S</b>				
Cash and Due from Banks	12,158	14,537	13,725	10,619
Government Securities	343	387	416	427
Riskless Assets	12,501	14,924	14,141	11,046
Loans and Discounts	27,448	35,229	41,295	41,217
Sundry Receivables	677	1,104	2,902	4,230
Interest Earned Not Collected	1,424	1,972	2,949	4,456
Collateral Taken In Liquidation	813	293	628	845
Customer's Liabilities for Acceptances	1,983	1,574	1,948	2,520
Other Miscellaneous Assets	1,174	781	484	1,061
Total Normal Risk Assets	6,071	5,724	8,911	13,112
Fixed Assets	1,068	1,400	1,813	2,122
<b>TOTAL ASSETS</b>	47,088	57,277	66,160	67,493
<b>L I A B I L I T I E S</b>				
Demand Deposits	14,907	19,328	16,328	12,512
Time Deposits	21,299	26,638	25,274	25,845
Total Deposits	36,206	45,966	41,602	38,357
Due to Central Bank	1,194	1,516	10,651	20,742
Due to Other Banks	5,069	2,748	7,241	2,185
Other Liabilities	734	2,800	2,125	410
Various Reserves	1,322	1,484	1,567	2,673
<b>TOTAL LIABILITIES</b>	44,525	54,514	63,186	64,367
<b>C A P I T A L</b>				
Capital Stock	1,779	2,400	2,500	2,500
Capital Surplus	720	100	-	-
Capital Reserves	62	263	474	626
<b>TOTAL CAPITAL</b>	2,561	2,763	2,974	3,126
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	47,086	57,277	66,160	67,493
<b>CONTINGENT LIABILITIES</b>	20,908	27,672	27,007	16,487

Banco Continental

BANK SUMMARY STATEMENT

Q Credit Process Management:  
U Credit process and general management concentrated in one man in San  
A Pedro Sula. Use of internal auditors to make collateral inspections but it  
L appears very few inspections are made. There is an organized response  
I unit. Use of outside lawyers for collections. Practically no middle  
T management.

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I Liability Management:  
V This bank may be headed for problems as a result of low deposit  
E generations and high use of expensive funding for portfolio growth. Has  
to rely heavily on sister companies of Continental Groups for deposit  
support. Has experienced a 35% drop in deposits over last 4 years.

Liquidity:

	1978	1979	1980	1981
a) Loans to Deposits	! 1.29 !	! 1.81 !	! 1.23 !	! 1.70 !
	! !	! !	! !	! !

Very illiquid.

b) Quick Assets to Deposits

	1978	1979	1980	1981
	! -0.53 !	! -0.49 !	! 1.06 !	! 1.18 !
	! !	! !	! !	! !

Excessively high ratios are the result of large drops in deposit levels rather than good cash generation.

Solvency:

	1978	1979	1980	1981
a) Free Capital as a % of Risk Assets	! 20.31 !	! 15.36 !	! 25.39 !	! 30.86 !
	! !	! !	! !	! !

Good.

b) Deposits to Capital (leverage)

	1978	1979	1980	1981
	! 3.11 !	! 2.58 !	! 1.79 !	! 1.13 !
	! !	! !	! !	! !

Bank is overcapitalized.

Profitability:

	1978	1979	1980	1981
a) Net Profit to Capital	! !	! !	! !	! !
	! !	! !	! !	! !

b) Return on Total Assets

	1978	1979	1980	1981
	! !	! !	! !	! !
	! !	! !	! !	! !

**Overall Assessments:**

Although we have not seen profit figures for this bank, the quality of earnings, if any, are suspect due to the indication of poor portfolio quality (ratio of interest earned-not collected to loans is 13.47%) and due to heavy reliance on expensive incremental funding sources. Bank is seriously overcapitalized for adequate profitability, however, excess capital will be useful in cushioning credit losses resulting from a sub standard credit portfolio.

Remedial action is required to clean up portfolio and to improve deposit generation capability.

**FINANCIAL STATEMENTS FOR BANCO CONTINENTAL, S.A.**  
(In Thousands of Dollars)

	1978	1979	1980	1981
<b>A S S E T S</b>				
Cash and Due from Banks	4,867	3,961	8,397	7,053
Government Securities	2	4	4	4
Riskless Assets	4,869	3,965	8,401	7,057
Loans and Discounts	11,758	14,726	9,787	10,121
Sundry Receivables	489	314	777	591
Interest Earned Not Collected	214	1,529	1,551	1,363
Collateral Taken In Liquidation	19	19	19	19
Customer's Liabilities for Acceptances	521	1,198	2,662	2,328
Other Miscellaneous Assets	175	369	706	835
Total Normal Risk Assets	1,418	3,429	5,715	5,136
Fixed Assets	217	324	392	427
<b>TOTAL ASSETS</b>	18,262	22,444	24,295	22,741
<b>L I A B I L I T I E S</b>				
Demand Deposits	6,648	5,890	5,569	4,808
Time Deposits	2,494	2,263	2,375	1,158
Total Deposits	9,142	8,153	7,944	5,966
Due to Central Bank	615	1,213	4,419	5,112
Due to Other Banks	2,004	1,722	2,548	898
Other Liabilities	3,151	7,346	4,419	4,730
Various Reserves	412	847	538	768
<b>TOTAL LIABILITIES</b>	15,324	19,281	19,868	17,474
<b>C A P I T A L</b>				
Capital Stock	2,000	2,000	3,000	3,000
Capital Surplus	-	-	-	-
Capital Reserves	938	1,163	1,427	2,267
<b>TOTAL CAPITAL</b>	2,938	3,163	4,427	5,267
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	18,262	22,444	24,295	22,741
<b>CONTINGENT LIABILITIES</b>	33,174	47,490	16,647	17,710

APPENDIX IV

BANK CLASSIFICATION TABLE

<u>CLEARLY HEALTHY</u>	<u>CREDIT PROCESS MANAGEMENT</u>	<u>LIABILITY MANAGEMENT</u>	<u>LIQUIDITY</u>	<u>SOLVENCY</u>	<u>PROFITABILITY</u>	<u>PORTFOLIO</u>
1. Bank of America	: excellent	: excellent	: excellent	: excellent	:	: 2.87%
2. Bank of London & Montreal	: excellent	: excellent	: excellent	: excellent	:	: 2.95%
3. Banco de Honduras	: excellent	: excellent	: good	: overcapitalized:	:	: 1.95%
<u>HEALTHY</u>	:	:	:	:	:	:
4. Banco del Comercio	: good	: excellent	: good	: good	:	: 4.38%
5. Banco de las Fuerzas Armadas	: not evaluated	: excellent	: excellent	: good	:	: 1.52%
6. Banco Atlantida	: good	: excellent	: excellent	: Potential	:	:
	:	:	:	: weakness	: excellent	: 3.50%
7. Banco del Ahorro Hondureno	: satisfactory	: good	: excellent	: satisfactory	:	: 4.61%
8. Banco La Capitalizadora Hondurena	: satisfactory	: good	: excellent	: satisfactory	:	: 4.37%
9. Financiera Centroamericana	: satisfactory	: good	: potential	:	:	:
	:	:	: weakness	: acceptable	:	: 3.86%
<u>BANKS WITH PROBLEMS</u>	:	:	:	:	:	:
10. Banco Mercantil	: not evaluated	: poor	: weak	: overcapitalized:	:	: 4.09%
11. Banco de los Trabajadores	: not evaluated	: poor	: weak	: acceptable but	:	: 4.69%
	:	:	:	: overcapitalized:	:	:
12. Banco Scgerin	: satisfactory	: poor	: weak	: good	: severe decline:	: 5.46%
	:	:	:	:	: in profits	:
13. Banco del Occidente	: weak	: poor	: weak	: satisfactory	:	: 10.81%
14. Banco Continental	: weak	: poor	: weak	: overcapitalized:	:	: 13.47%

## APPENDIX V

### THE MARGINAL COST OF FUNDS AND THE MARKET RATE OF INTEREST IN HONDURAS

Because the local currency of Honduras is pegged at 2:1 by the Central Bank there is practically no way in which the Central Bank can promote an independent interest rate policy for the country, particularly if the Central Bank moves toward an environment of free market interest rates. Theoretically, interest rates for lempira denominated assets should have yields equivalent to yields for free market international financial assets plus a differential to compensate for perceived differences in risk. In practice this means that the eurodollar rate plus a spread (for risk) should equal the lempira interest rate. Under free market conditions, therefore, the incremental or market interest rate in Honduras should approximate LIBOR plus some spread.

At this moment two important factors distort the theoretical reality somewhat.

1) Central Bank imposed local currency interest rate restrictions maintain rates below international or eurodollar rates creating the distortion of excess demand for local currency.

2) For political reasons foreign banks are no longer providing substantial incremental funding to the private banking sector.

Hence, the eurodollar market is not a significant incremental source of funds in the market today.

At this moment, there are two sources of incremental funds used by the banks:

1) Central Bank advances to cover liquidity losses. These funds are generally made available at penalty rates of 21% p.a.

2) Inter-bank loans (generally very short-term call money) at rates varying from 16% to 19%. These rates reach these levels because of the overall interest rate restrictions currently in place.

Neither of these sources of funding should be used for funding long-term asset growth by the banks. Nevertheless, due to the growing and pervasive illiquidity situation, what should be a temporary source of funds has in fact become a longer term source for maintaining loan portfolios which for one reason or another are not being reduced.

In trying to determine an appropriate market rate of interest at which to disburse the A.I.D. project loan from the Central Bank to the banking system

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we note that the theoretical rate should be LIBOR plus a spread. The market, even through it is distorted, is indicating that the incremental source of funds rate hovers between 16 to 19%. Furthermore the higher time deposit rates paid by banks are in the 13% range. Taking the reserve requirement into account this means that the effective marginal cost to the banks is approximately 18% p.a.

Since LIBOR is currently at approximately 16% one can conclude empirically that the incremental source of funds rate in Honduras is LIBOR plus approximately 2%.

Since A.I.D. wants to find a market rate that is both independent (i.e., derived by market forces) and rapidly adaptable to world economic conditions it would seem appropriate to use a market interest rate of LIBOR + 2% to be quoted and adjusted by the Central Bank based on 90 day LIBOR. In the event that A.I.D. wants to insure more rapid disbursement of the funds, the spread can be reduced to 1% or zero.

## APPENDIX VI

### CRITERIA FOR ALLOCATING FUNDS TO THE POTENTIAL LENDERS

A great part of the thrust of the project loan is to achieve major changes in financial and monetary policy. The emphasis is on developing money markets which respond more freely to forces of supply and demand. For this reason it is important that the criteria for allocating funds to the potential lenders not in itself be another source of market distortion. By the same token, since the loan will be disbursed through at least fourteen lenders and coordination will be required between the Central Bank, the Superintendent of Banks and A.I.D., it is important to keep the criteria for allocation as simple as possible. Finally, the criteria should be easy to understand by the bankers. Since this loan is being disbursed as an agricultural loan it would be appropriate for the criteria to be related to agricultural lending.

For all the above reasons it is felt that the allocation of funds between the banks should be based on the present volumes of agricultural lending currently outstanding for each bank. Since the loan is expected to be disbursed rapidly no substantial tracking or fine tuning of the allocation system over time will be worthwhile.

Since the project loan also contemplates loans to agro-industry as well as agriculture it would be appropriate that the size of the total agriculture and agro-industrial loan portfolio be used as the basis for allocating the loan funds between banks. The Superintendent of banks should be able to provide a bank-by-bank breakdown of the total percentage of participation in combined agricultural and agro-industrial lending for the banking system.

## APPENDIX VII

### FINANCIAL MECHANISMS/POLICIES TO INCREASE SAVINGS MOBILIZATION AND TO INCREASE LENDING TO SMALL BORROWERS BY PRIVATE BANKS IN HONDURAS

#### A) Savings Mobilization

The two key financial objectives to be achieved by Project 522-01/8 - Agriculture Credit are:

- 1) Complete elimination of interest rate restrictions to include elimination of all pricing restrictions on banks. In general, all Central Bank subsidies to the banks made effective through different rediscount rates for different loan programs should be eliminated by bringing all rediscount rates to one single market rate equal to the "marginal cost for funds in the marketplace".
- 2) Elimination of the effective tax on depositors inherent in the present reserve requirement system through a mechanism which would permit the banking system to earn "a market rate of interest" on the required reserves.

Assuming there is competition in the banking system a movement toward a free market system based on the above changes to the banking law will very rapidly bring savings rates of interest up to a point where savers would earn a positive real rate of interest on their investment. As the incentive to save will be increased Honduran propensity to prefer financial investment instruments will also increase. Some technical assistance to the banks in the area of savings mobilization may be useful, however, it is felt that in a relatively short period (1 to 2 years) the move toward a free market environment will effectively accomplish most of the desired savings mobilization goals.

The assumption of competition is a key consideration in this analysis. There seems to be ample evidence that competition does in fact exist. The four year study performed on the banking system shows some banks have been very successful at maintaining or increasing market share of deposits using a variety of advertising and promotional techniques. Some banks have adopted the strategy of penetrating the market through extensive branching networks while others have preferred to use door-to-door salesmen and collectors to solicit deposits under complicated but effective lottery-type savings programs. Ironically, the principal evidence of cartel activity among the banks lies in the implied agreement to charge for services (including loans) according to schedules approved and published by the Central Bank. In effect the government is in the role of enforcing a price fixing arrangement. Eliminations of interest rate and pricing ceilings should prevent this market distortion.

B) Mechanisms and Policies to Increase Lending to Small Borrowers by the Private Banks.

Assuming the aforementioned changes in financial regulations occur, the appropriate policies to encourage banks to lend to non-traditional borrowers would have to focus on the need to overcome:

- 1). the banker's aversion to risk
- 2). higher costs associated with lending to non-traditional borrowers.

Given the free market scenario set by the changes in regulations the following considerations are appropriate. Typically, incentive programs to encourage banks to enter non-traditional areas have concentrated on providing guarantees or various forms of insurance to offset the increased risk associated with lending to non-traditional or marginal borrowers. Additionally, the programs are usually designed to allow the bank the minimum rate of return necessary to induce it to make the guaranteed loan. The rationale is that the bank should not be permitted to make excessive profits at the expense of a marginal borrower and that a reduced financial burden to the borrower will increase the probability that the borrower will prosper.

There are several fallacies in this approach.

- 1). The bank will make relatively superficial attempt to evaluate loan repayment capacity or creditworthiness of the borrower at the inception of the loan, concentrating instead on the security of the guarantee.
- 2). When loan repayment ceases the bank will concentrate its efforts first on collecting under the guarantee rather than going after the borrower.
- 3). If the guarantor makes it difficult for the bank to collect under the guarantee as a way of stimulating the bank to take remedial action with the borrower, the bank will discontinue the program. At this point administration costs have eaten up whatever margin the bank had in the transaction when the loan was granted.

A more productive approach, and more in line with the free market changes to be implemented by the Central Bank would be an incentive program for the banks along the following lines:

- 1). Define non-traditional or marginal borrower or the type of loan to be promoted.
- 2). Provide A.I.D. funding; through a Central Bank rediscount program where banks can tap sources at a market rate.

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3). Allow banks to negotiate pricing (whatever the market will bear), collateral and terms (within the framework of the type of loan being promoted) directly with the borrower.

4). From the interest differential between the A.I.D. loan rate (2% to 4%) and the market rate at which funds are made available by the Central Bank (13% to 15%) create a fund which will be used to provide a flat additional incentive fee payment to the bank upon granting of the loan. This fee could vary from 3% to 4% of loan amount and would cover the bank's costs of lending to marginal or non-traditional borrower.

By placing credit risk directly upon the banks the incentives for the bank, during the structuring period, disbursement and the life of the loan will be correctly placed and there will be a better probability of reaching the target market with a much reduced volume of bad loans.

Since the borrower will in fact be paying a market rate of interest only the more efficient and more productive will be able to survive under the program which makes for healthy economic growth. After all, the objective is to reach non-traditional borrowers with the potential to be productive. It is not an objective to make loans to sub-standard borrowers.

Finally, high interest costs should not be a major setback for marginal or non-traditional borrowers. Typically these borrowers have been at the mercy of street lenders or loan sharks who charge effective interest rates 3 to 4 times higher than what the banks will charge under this program. Bringing the marginal borrower into the banking system, albeit at high market rates, is what the program must accomplish. Once the borrower has been a successful borrower at normal market rates, he will no longer be non-traditional and will remain a client of the bank.

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