

## Sample Financial Budget Proposal

# **SAMPLE BANK LTD**

Budget Proposal for Fiscal Year Ending June 30, 2005

## **1 Executive Summary**

A review of the comparative figures of the local commercial banks as at fiscal year-end 2003 revealed that Sample Bank Ltd continues to hold the leading position in the industry with 39% of assets, 44% of loans and 40% of deposits. Despite its strong position in the industry however, Sample Bank could not achieve the level of profitability of its competitors. At the end of fiscal year 2000, for instance, Return on Assets (RAO) was only 0.65% compared with the average industry return of 0.81%. Since then the situation has gotten worse. As at last fiscal year end 2004 ROA was -1.03% and Return on Equity (ROE) was -16.44%. Further, because of the loss of \$4.998 million recorded in the last year primary capital reduced from \$33.897 million to \$28.899 million.

In a Memorandum of Understanding (MOU) between Sample Bank and the Central Bank executed on 20 May 2003, the Central Bank confirmed that the condition of the Bank was weak, and made several recommendations for its improvement. Corrective measures, including the reduction of the non-performing credit portfolio, were taken during the last 13 months to improve the condition of the Bank but still there remains a lot to be done. The records show however that the main causes for the poor performance are the high allowances for credit losses and the low net interest margin resulting from the large non-performing credit portfolio, the reduction in lending rates and the high cost of funds. Allowances for credit losses for the last five fiscal years ending 2000, 2001, 2002, 2003 and 2004 were \$4.7 million, \$3.5 million, \$3.2 million, \$9 million and \$9.3 million,

respectively. Net interest margin has been declining steadily from 5.7% in 2000 to 4.01% in 2004.

The budget this year has been prepared with the objective of steering the Bank on a course to improve profitability and to increase capital. In this regard, specific objectives have been set for the twelve months period. The focus this year is on reducing allowance for credit losses and increasing net interest margin. It should be noted that, apart from legal and professional expenses, planning did not take into consideration the effect of the merger of Sample Bank and First Country Bank and the Strategic alliance between Sample Bank and Highway Bank.

With a view to establishing the strategies necessary to accomplish these objectives, an analysis of the external and internal environments of the Bank was conducted and a SWOT analysis was done to identify the strengths, weaknesses, opportunities and threats. Targets for the various products and the various categories of income and expenses were then set, after which we tabled the implementation schedule and control mechanisms aimed at ensuring the desired results are achieved.

## **2. Purpose and Objectives**

The purpose of this budget is to steer the Sample Bank on a course that will enable it to improve profitability and primary capital, and thus, increase the level of stakeholder satisfaction and confidence in the Bank. To this end, the following specific objectives will be pursued:

- The achievement of net income after taxes of \$6.182, an increase of 224% over 2004.
- The improvement of Return on Assets (ROA) from -1.03% last year to 1.23%.

- The improvement of Return on Equity (ROE) from -16.44% last year to 18.14%.
- The increase in Net Interest Margin from 4.01% last year to 4.86%.
- The improvement of Efficiency with Provision from 119.82% last to 78.04%.
- The improvement of Efficiency without Provision from 82.90% last to 69.33%.
- The increase in primary capital from \$28.899 million to \$34.081 million.

### **3. Analysis of the Environment**

An analysis was carried out on both the external and internal environments of the bank with a view to identifying its strengths, weaknesses, opportunities and threats. The external analysis looked at the political, economic and technological environments, the market and the competition, while the internal analysis looked at the Bank's performance, management and staff, infrastructure and delivery, and its customers.

#### **3.1 External Analysis**

##### **3.1.1 The Political Environment**

- The Country is stable and conducive to foreign investments.
- The Government is comprised of a young vibrant team with exciting developmental plans for the country and this can open up the possibility for foreign currency funding.
- The country recently passed a new anti money laundering act which has helped to remove the Financial Actions Task Force (FATF) black listing and to improve the country's image internationally, and this is conducive to growth in the offshore financial services sector.

- The Caribbean Community (CARICOM) Single Market and Economy soon to be established across the region and will create some challenges as well as opportunities for the Bank.
- The other seven countries in the Currency Union also have stable governments.

### **3.1.2 The Economic Environment**

- Real GDP growth of -0.1% and 1.6% were recorded in 2001 and 2002 respectively, 3.6% estimated for 2003, and 3% forecast for 2004.
- Point to Point Inflation for the first six months of the 2004 calendar year averages 3.14 %
- The currency is stable and is pegged to the US\$ at a rate of 2.7.
- The economies of the other countries in the Currency Union are also stable and should not affect the value of currency in the near future.
- The financial sector is growing.
- Construction is on the rise.
- The main export product, banana, is declining.
- The fishing industry is growing.
- There is increased activity at the cruise ship berth and plans are underway for the construction of a new international airport.
- Tourism is growing and the hotel industry is developing.
- A securities exchange market (the securities market) was recent established across the eight member countries of the Currency Union to aid in the economic development of the region.

### **3.1.3 The Technological Environment**

- Modern telecommunication systems are available, including Internet, and the cost of such service is reducing.
- Modern technology, such as SWIFT, is available to facilitate the international payment system.
- ATMs are currently in operation at all the local commercial banks. The other four commercial banks provide online service through a network of ATMs in the region. Sample Bank for the time being provides only local ATM service. Year after year there is greater demand for ATM services by customers as they come to appreciate the convenience more and more.

### **3.1.4 The Market**

The market consists of the Government, other public sector bodies, corporate entities, insurance companies, professionals, public servants, teachers, other Nationals resident at home and abroad and foreign nationals. As at October 31, 2003 the total deposits held by the five commercial banks on the island was \$1,109 million. Of this total the public sector contributed \$254 million, business firms \$151 million and private individuals \$498 million. Loans of the commercial banks amount to \$801 million, of which the public sector contribute \$145 million, business firms \$247 million and private individuals \$387 million.

### **3.1.5 The Competition**

- There are three other Commercial banks on the island. These are First Caribbean International Bank, Scotia Bank, and RBTT Bank. Unlike Sample Bank, which is the only indigenous bank, they are all branches of banks whose head offices are located abroad, and only one has a second branch on the island.

- The non-bank financial sector including three credit unions, a savings & loans bank, a building & loans association and a number of insurance companies, all accepting deposits and providing an increased number of traditional banking services.
- There is competition from regional and international institutions as a result of globalisation.
- The Eastern Caribbean Securities Exchange (securities market), which was recently opened by the Central Bank across the eight member territories of the Currency Union, offers new and exciting opportunities for investors.
- Some customers prefer not to do business with Sample Bank because it is Government owned and change in Government and in Government policies can affect their business with the Bank.
- Sample Bank may be unable to attract certain customers, particularly the business community, because it is Government owned and there is the perception that their account information is open to the Government and its agencies.
- Many patriotic Nationals will bank with Sample Bank because they recognise that the profits of the Bank belong to the people and are used for the country's development.

## 3.2 Internal Analysis

### 3.2.1 Performance

Sample Bank is currently the industry leader in assets, loans and deposits. At the end of its financial year 2003 the Bank held 39% of assets, 44% of loans and 40% of deposits. Despite being the market leader for a number of years however, profitability has not come up to expectations. At the end of the fiscal year 2000 our ROA was only 0.65% compared with the industry average of 0.81%. This has worsened since then mainly as a

result of the high provisioning for credit losses. The year 2004 has seen a huge loss of \$4.998 million resulting in a ROA of -1.03 % (Appendix I).

### **3.2.2 Management and Staff**

- Sample Bank is the only commercial bank on the island with a local Board.
- Most of the staff are young and have the requisite capabilities, and are re-trainable for newer systems and technology and for new positions.
- All members of the staff are locals and have good contact with the community at large.
- Considering that Sample Bank has over the years served mainly the public sector and the low and middle income customers, the staff did not receive the necessary exposure and may not be as experienced and equipped as our competitors.
- Sample Bank is not as equipped as its international competitors with research departments and the qualified staff to keep their institutions in line with legal, technological, operational and other changes.

### **3.2.3 Infrastructure and Delivery**

- Sample Bank is the largest bank on the island with seven local branches, a mortgage finance Unit, four cash agencies and eight ATMs.
- The Bank is leading the local competition in information technology, and its core banking system has the capacity for further advancements.
- Sample Bank enjoys monopoly at some branch locations and is only collector of bills for various utility companies.
- The Bank does not have branches abroad but has a strong network of regional and international correspondent relationships. There is however always the fear that

correspondents might sever such relationships if there are issues pertaining to money laundering or terrorism.

### **3.2.4 Customers**

Sample Bank has the largest customer base. However, apart from the public sector accounts, which account for large percentages of its assets and liabilities, its customer base consists largely of the low and middle-income groups whose needs include home ownership, household items, transport and education for their children. Sample Bank has only 7% of corporate business.

## **4. SWOT Analysis**

An analysis of Sample Bank's strengths, weaknesses, opportunities and threats (a SWOT Analysis) was conducted to help in determining the strategies that should be employed to achieve the stated objectives.

### **4.1 Strengths**

- Sample Bank is the only commercial bank on the island with a local Board of Directors, a Board that can attract good business to the Bank as it consists of persons with a good mix of expertise and strong social links in the country. Approval of loans is faster with a local Board in place.
- Most of the staff are young and have the requisite capabilities, and can be trained to take up vacant positions.



- Members of staff are well known and have good contact with all sectors of the community. They will therefore be in a good position to attract more customers to the Bank.
- The network of branches and other outlets affords customers service from any point within the state as the computer mainframe is accessible from all branches, and will no doubt help to increase customer base.
- The monopoly some branches enjoy by being the only bank in the particular area and the only collector of bills for various utility companies is advantageous in increasing customer base.
- The Bank is leading the local competition in information technology, and its core banking system has the capacity for further advancements. Customers may prefer to open accounts at Sample Bank because statements and account information are produced faster than the competitors who on occasions will have to wait on their regional head offices to forward the information.
- The wide network of regional and international correspondent relationships places the Bank in a strong position in the execution of foreign exchange business.

## **4.2 Weaknesses**

- The Bank is currently too highly dependent on few large depositors for its funding and so can run into liquidity problems if there are large withdrawals at short notice. Further, the cost of these funds is very high and thus contributes to the decline in the net interest margin.
- The Bank is totally reliant on its correspondent banking relationships to conduct its international business and may find it impossible to survive against its international competitors if its correspondent banks should terminate such relationships.
- Although Sample Bank has the largest customer base, it has over the years had little success in attracting the business community because it is government owned and

there is the perception that there is Government interference and the divulgence of business information to Government agencies.

- Despite of its leading position in the industry, with respect to market shares of assets, loans and deposits, there is a danger of running into liquidity problems because of the high dependency on few large depositors.
- The Bank has for some time been prone to losses due to fraud and errors because of inadequate internal controls, separation of duties, systems and procedures.
- The Bank is weak and short at the senior level and so members of senior management have to spend most of their work time on operational matters instead of on strategic planning and decision making.

### **4.3 Opportunities**

- The Bank is very well placed with a good and assured customer base from the level of the government and the public sector business.
- Many patriotic Nationals will do business with Sample Bank because they know that the profits of the Bank belong to the people of the country and are used for the country's development.
- The availability of modern telecommunication systems and technology will facilitate the improvement and strengthening of the Bank's international business and ATM services, and the development of new services, such as telephone banking and debit cards.
- The tourism industry is growing - cruise ship berth is increasing in activity, airport development in the making, hotel industry developing, prospects for foreign investments- which should introduce more capital into the country and should spawn employment opportunities for locals.

- The political stability and the economic growth across the eight member countries of the Currency Union ensures the stability of the EC\$, and this is an encouragement for persons returning home and for foreigners to invest locally.
- The recently merged Barclays Bank and CIBC into First Caribbean International Bank (FCIB) still has not settled down as it still has internal problems including cultural differences to iron out. FCIB also had to reduce deposit rates recently because of excess liquidity. These circumstances may cause customers to move to Sample Bank.
- The Eastern Caribbean Securities Exchange (securities market), which was recently opened by the Central Bank across the eight member territories of the Currency Union, will provide the opportunity to make money from broker dealer services.

#### **4.4 Threats**

- There is now greater competition from banks and other financial institutions in the Organisation of Eastern Caribbean States (OECS) and abroad as a result of globalisation.
- First Caribbean International Bank (the new entity that was recently formed from the merger of Barclays Bank and CIBC) will be a stronger force to reckon with, as it will be able to reach a wider cross-section of the market due to the combining of strategic capabilities and competences, human and financial resources, and contacts and delivery networks.
- As the country was previously black-listed and under greater scrutiny from the eyes of the outside world, and as there is greater terrorism and anti money laundering control in North America and Europe, the Bank's correspondent banking

relationships can be affected at very short notice. Any severing of such relationship will curtail the bank's ability to handle customers' international business.

- The deterioration of the banana industry, one of the country's major industries, could result in a downturn in the economy and loss of foreign currency for the Bank.
- There is increased competition from the non-bank financial sector, the credit unions, the savings & loans bank, the building & loans association and the insurance companies. These institutions are not regulated by Central bank and hence they are not restricted in their operations. They have been paying very high rates on deposits and have also been offering more and more of the services which were traditionally offered by commercial banks.
- The Eastern Caribbean Securities Exchange (securities market), which was recently opened by the Central Bank across the eight member territories of the Currency Union, will present other investment opportunities to customers and can reduce the Bank's deposits, as well the chance to raise additional deposits.

## **5. Strategies**

- Strengthen the Credit Department and provide the necessary training for all lending officers to ensure the achievement of the requisite improvement in the quality of loans and advances booked at various branches.
- Expedite credit approval at Board level, committee level, and at individual level to ensure there is no loss of opportunity to book good credits, as the Bank seeks to restructure the credit portfolio and to replace the non-performing credits with productive ones.
- Maximize returns on investments through growth in investments and through improved funds management.
- Improve cost recovery by maximizing collection of fees and charges for services.

- Expand and improve broker dealer operation to maximize returns from increased activity on the securities market.
- Expand foreign exchange business and improve foreign exchange risk management to take full advantage of the foreign exchange business relative to funding for Government projects, the growth in tourism and in the offshore financial services sector, as well as from foreign investments.
- Pursue improvement in debt recovery by restructuring and strengthening of the Recoveries Unit.
- Train staff to prepare them for promotion and to enable them to provide quality customer service.
- Motivate staff to go out into our communities and attract more customers to the Bank.
- Embark on a system of process reengineering to streamline operations with a view to improving efficiency and to cut waste of time and material.
- Now that the other commercial banks have reduced deposit rates, make use of the opportunity to grow deposits to reduce the dependency on few large depositors and to reduce the cost of funds.
- Aggressively market services, including our online banking, ATMs, debit cards and telephone banking, as well as our competitive fees and charges.
- Promote our outstanding service delivery, our branches, agencies, ATM's, telephone banking, debit cards and our real-time on-line computer system, to increase our customer base and to cut operational cost.
- Maintain our strong correspondent banking relationships by providing our correspondents with up-to-date financial information and annual visits, to ensure we continue to provide our customers with a top quality international payments system

- Improve internal controls to prevent loss through illegal practices and through errors.

## 6. Net Income after Taxes

The Bank this year is targeting net income after taxes of \$6.182 million, (see **Appendix I**). This represents an increase of 224% over fiscal year 2004, and a decline of 11% compared with the year 2003. Our primary objectives are the improvement of Return on Assets (ROA) from -1.03% to 1.23%, the improvement of Return on Equity (ROE) from -16.44% to 18.14% and the increase in primary capital from \$28.899 million to \$34.081 million. We will be focusing on restructuring our credit portfolio by replacing the non-performing loans and advances with productive ones to make the portfolio more profitable. We will also be seeking to grow deposits by \$19 million at an average cost of 4% and to grow our investment portfolio by \$16 million at an average yield of 6.95%. Further, we are targeting a 1.5% reduction in the rate paid to \$100 million deposit of Customer X by mid September.

A simulation exercise was carried out and the interest rates were shocked by basis points movements between 150 basis points down and 150 basis points up, and as can be seen from **Appendix II**, net income after taxes can drop to as low as \$3.661 million or reach as high as \$8.709 million by the end of the year.

The net income before taxes by branch is as follows:

|            |             |   |                     |
|------------|-------------|---|---------------------|
| ➤ Branch A | \$5.167 m   | - | <b>Appendix III</b> |
| ➤ Branch B | \$(0.220) m | - | <b>Appendix IV</b>  |
| ➤ Branch C | \$0.515 m   | - | <b>Appendix V</b>   |
| ➤ Branch D | \$0.204 m   | - | <b>Appendix VI</b>  |

|                            |             |   |                      |
|----------------------------|-------------|---|----------------------|
| ➤ Mortgage Unit            | \$1.519 m   | - | <b>Appendix VII</b>  |
| ➤ Branch E                 | \$0.142 m   | - | <b>Appendix VIII</b> |
| ➤ Branch F                 | \$(0.434) m | - | <b>Appendix IX</b>   |
| ➤ Branch G                 | \$(0.292) m | - | <b>Appendix X</b>    |
| ➤ Securities Business Dept | \$0.760 m   | - | <b>Appendix XI</b>   |

It should be noted that since the Bank does not have a long-term strategic plan forecasting for the 12 months period has been limited to the Bank's current financial condition, historical data and short-term strategies. It should be further noted that apart from the inclusion of legal and professional costs, we have not quantified or included in the budget the effect of the merger of Sample Bank and First Country Bank and the planned strategic alliance between Sample Bank and Highway Bank.

Our targets for the year will not be easily achieved under the pressures of the changing global financial environment and the competition we now face locally as well as regionally, and as the Bank continues the process of restructuring it commenced in 2003 relative to the MOU. However, our objectives can be achieved or even surpassed through hard work and by pursuing the listed measures and strategies.

## **6.1 Interest Income**

Interest income normally comes from loans and advances and from investments, with the major part of the returns accruing from loans and advances. Over the last few years however, our yields on loans and advances have been lower than desired. One reason for this is the reduction of our mortgage rates over the last three to four years. The main factor causing the shortfall however is the high percentage of non-performing loans and advances in the credit portfolio. This year the Bank will seek to restructure its credit portfolio by replacing the non-performing loans with productive loans. This we hope to

achieve through the sale of \$5.5 million delinquent loans and advances to the recovery company, and by improving the credit and recovery functions within the Bank. The overall credit portfolio therefore is not expected to grow during the year although there will be some growth in certain loan products including mortgage loans and student loans. In fact the overall portfolio is projected to decline by \$3.5 million or 1%. By improving the credit portfolio however we are looking to improve our yield on lendings from 8.98% to 9.53% by the end of the fiscal year.

In 2004 interest earned from investments amounted to \$6.072 million, an increase of \$2.386 million or 65% over 2003. This year we will be seeking to increase our interest from investments by \$3.240 million or 53.37% by growing our portfolio by \$16 million. We are projecting an improvement in our average yield from 5.13% to 6.95%.

## **6.2 Interest Expense**

Sample Bank currently has four customers whose combined deposits amount to 45% of its total deposits. The high dependency on so few entities is cause for worry. To mitigate the risk of running into liquidity problems in the event there is an unexpected huge withdrawal the Bank must move to correct this situation. In this regard, the Bank will be seeking to grow its deposits this year by \$20 million from \$398 million to \$418 million at an average cost of 4%. Efforts will be made to grow golden years deposits by \$4 million, savings by \$2 million, private sector time deposits by \$6 million and customers' foreign currency deposits by equivalent EC\$6 million. And it appears that now is the right time to make the move as rates in the local market are still low, influenced by a major competitor, FCIB.

Despite the overall growth in deposits of 4.91%, deposit interest is expected to decrease by \$1.607 million or 8.79% because of the reduction of rates during the last fiscal year



and because we are proposing to reduce the rate paid to customer X time deposits from 6.5% to 5% per annum with effect from mid September. The reduction will result in saving of \$1.2 million.

Interest expenses for other liabilities are all projected to increase this year. Due to central bank will increase by \$46 k or 329% because of increased fixed deposit held for the Central Bank. Due to other banks will increase by \$459k or 167% as a result of our strategic decision to use inter-bank funds instead of customer deposits where possible to save interest levy and to reduce our reserve deposit requirement. Other borrowed funds will increase by \$668k or 185% because of the customer X \$10 million loan posted on June 30, 2003.

### **6.3 Commissions and Service Charges**

The 8.63% increase projected for commissions and service charges this year will be driven mainly by the charges introduced in the last year, and from increase broker dealer services on the securities market. The fees for overdraft facilities, property inspection, late submission of financial statements, and for NSF cheques, are expected to produce a full year's result this time around. The securities market is becoming more and more active, and we now have our own licensed representative so we hope to advance our broker dealer operation and make more money. We are projecting a \$76k increase in commissions from securities trading. We also expect some improvement in the following areas:

- Letters of credit and guarantee projected to increase by \$20k as we hope to increase our letters of credit service this year.
- Loans insurance will increase by \$20k as a result of the mortgage loans granted in the last year and additional loans that will be disbursed during this year.

- Miscellaneous commission will increase by \$16k due to increased hotel operations in branch 3.
- Service charges for overseas transfers are projected to increase by \$21k as a result of the growth expected in the offshore financial services sector.

Because cost recovery will be a major factor in achieving our target for the year, efforts will be made to maximize the collection of fees and charges for our services.

#### **6.4 Foreign Exchange Earnings**

In 2004 there was a 16% decline in foreign exchange earnings and we also fell below target because there was a decline in letters of credit and because the anticipated receipt of foreign currency funding for Government developmental projects did not materialize. We are projecting an increase of 13.63% this year that will be driven largely by funding from abroad for government projects, by growth in tourism and by efficient foreign exchange risk management.

#### **6.5 Dividend Income**

The Bank currently holds shares in the Company 1 Ltd, Company 2, Company 3, Company 4 and Company 5. To date dividends have only been received from Company 1, Company 3 and Company 5.

We are projecting an increase of \$23k or 8% this year in dividends to be raised mainly from Company 1 that has been showing improvement in profitability.

#### **6.6 Net Income from Trading Securities**

The Bank at the moment does not hold securities it purchased for trading. Further, it is not expected that we will get into this business before the next financial year as we do not have the manpower to devote to this activity therefore no income has been projected. Efforts will be made to prepare for this service in the 2006 financial year.

## **6.7 Net Income from Investment Securities**

In 2002 the Bank marked its shareholdings to market in accordance with the International Accounting Standards (IAS) 39 and recorded a net capital gain of \$2,451,229. In 2003 however, a net capital loss of \$18,971 was realised. The price of the Company 2 shares appreciated slightly at the end of the last financial year and a quantity of bonus shares were received from Company 1 however no gains were recognised in that year. We expect very little movements in share prices during 2004 as investors continue to hold tight their shares in these entities, so no gains or losses have been projected.

## **6.8 Allowance for Credit Losses**

In 2004 the Bank booked allowances totalling \$9.358 million in an effort to bring its provisions within guidelines and to improve the delinquency ratio. We anticipate that through aggressive recovery our net bad debts expenses this year will decline by 71%. The projected allowance for credit losses and direct write offs are expected to amount to a total of \$3.061 million, however, this amount is expected to be reduced by recovery of \$0.336 million to a net amount of \$2.725 million. Recovery of \$200k is projected to be received during this year from \$5.5 million non-performing credits proposed to be transferred to the Recovery Company by the end of September.

## **6.9 Staff Cost**

The 2.56% increase in staff cost this year will be driven mainly by the 2% across-the-board salary increase arranged with the Union for November, and incremental adjustment relative to the staff performance reviews due 1<sup>st</sup> September. Other significant changes are as follows:

- Displacement allowances will be increased by \$13k or 46% because one staff member has been transferred from the Branch F, his home base, to Branch A.
- Entertainment is projected to increase by \$4k or 11% as some officers in the last year did not use all the funds available to them.
- Gratuity is projected to increase by \$9k or 7% as the number last year included only nine months accrual for the CEO.
- We will be seeking to cut overtime this year by \$14k or 13% by streamlining operations, and by promoting greater customer use of our ATM, debit card and telephone banking services. Increased use of these services will result in a decrease in the number of vouchers staff will have to post, sort and file.
- Other staff cost expenses will be increased this year by \$10k to assist members of staff to participate in the annual indigenous banks Easter exchange.
- Training expenses are expected to increase by \$20k or 7.57% as greater emphasis will be placed on development of our human resources.
- Uniforms expenses are projected to decrease by \$76k or 40% as the next set of uniforms for female members of staff will not become due until fiscal year 2006.

## **6.10 Directors' Expenses and Audit fees**

An increase of \$73k or 24.33 in Directors' fees and expenses has been projected to cover fees and expenses, including Committee fees, for nine directors. Audit fees have been increased by \$40k or 50% to include the cost of the First Country Bank audit, and anticipated increase in audit fees this year.

## **6.11 Depreciation & Amortization**

Depreciation is expected to increase by only \$21k or 2.22% although there will be additional capital expenditure of \$1.37 million, because some items will become fully depreciated during the year. Amortization of leasehold improvements is projected to increase by \$35k mainly as a result of the off-site ATMs.

## **6.12 Occupancy Expenses**

The increase of 2.28% in occupancy expenses this year is mainly as a result of the merger of Sample Bank and First Country Bank. Computer expenses have been increased by \$131k to cover the cost of licence, installation and training for the inclusion of the First Country Bank as a branch on Core Director. Building maintenance and repairs will decrease by \$45k as the National Properties Co. now takes care of the repairs to the exterior of all the buildings. Office Toiletries and Expenses will be increased by \$10.7K or 33.94% to cover rental and disposal sanitary bins.

## **6.13 Other Operating Expenses**

The increase in other operating expenses of 4.95% is due mainly to the increase of \$215k in interest levy which will result from the projected growth in deposits. High targets have also been set for legal and professional fees to cover projected expenses for the merger of Sample Bank and First Country Bank and the strategic alliance with Highway Bank, for process reengineering, analysis of the core banking software, and for strategic planning. Some saving in telephone cost will be achieved through the reduction of call duration by the introduction of an access code system, however this will be offset by the line cost for the ATMs recently installed and the additional ones to be installed during the year.

Other areas that are projected to show significant change are as follows:

- Customers' cocktails/appreciation day expenses are expected to increase by \$21k, as efforts will be made to hold customer appreciation day during the Christmas season to improve customer relations and promote our services.
- As a means of marketing our products and services, and maintaining our good standing as a good corporate citizen, we will be increasing advertising and donations by a total of \$18k this year (see Appendix I (1) & (2)).
- There are some items of equipment with small balances that will be replaced during the year and will result in a loss of \$15k on disposal of fixed assets.
- Insurance on loans will increase by \$33k as a result of the mortgage loans granted during the last year and the additional loans to be disbursed this year.
- Legal fees are projected to increase by \$59k as a result of the merger of Sample Bank and First Country Bank
- We are hoping to reduce stationery cost by \$63k this year by cutting waste, and through the application of other cost saving techniques and the greater use of our ATM, debit card and telephone banking services by customers.
- A decrease of \$39k in sundry gains is projected for the period, as we do not expect that there will be a similar huge amount of un-presented drafts to be written off this year as we did last year.
- We expect participation fees to decrease by \$12k as a result of the decline in credit card business.

## **7. Implementation and Control**

Once approval has been obtained, we will move swiftly with implementation. We will also put controls in place to monitor and measure results against projections to ensure the desired objectives are achieved.

## 7.1 Implementation

Table 4 presents a work program for the implementation of the proposed measures.

**Table 4**

| ACTIVITY  | DATE / FREQUENCY       |
|---|------------------------|
| Raise an additional \$4 million in Golden Years deposits at 4.5% during the year  | Commencing immediately |
| Raise an additional \$2 million in savings during the year at 3.75% interest by marketing our new savings product, "Sample Bank Champions Savings Account"  | Commencing immediately |
| Raise an additional EC\$6 million equivalent in CFC USD deposits during the year at 4% interest   | Commencing immediately |
| Raise an additional \$6 million in private sector time deposits during the year at 5% interest  | Commencing immediately |
| Increase investments during the year by \$16 million at an average yield of 6.95%   | Commencing immediately |
| Reduce the interest rate on the balance of Customer X time deposits from 6.5% to 5%.  | September 15, 2004     |
| Transfer to the Recovery Company \$5.5 million delinquent loans that are already 100% provided for. The move will bring the ratio of non-performing credits to total credits to the 10% required by the Central Bank in the last MOU. The Recovery Company will pay the Bank 75% of amount recovered after legal cost. The Bank is projecting recovery of \$200k during the fiscal year | September 30, 2004     |

|   |   |
|---|---|
| Sensitize Branches/Departments staff of the deposit raising initiative and promotion of our ATM, debit card and telephone banking services. | Immediately   |
| Phone or visit prospective depositors to request them to place deposits with the Bank.  | Daily Commencing immediately  |
| Advertise our services and interest rates on local radio and television.  | Three times per week for first month<br>And then once per month after |
| Advertise our products and services by cassette replay in all our banking halls   | Daily commencing Immediately  |
| Distribute brochures to target groups   | Immediately   |
| Advertise our products and services in the local newspapers which are also distributed in the USA, Canada and Britton.                      | Twice per month   |

## 7.2 Control

Table 2 presents a work program to assist Management in keeping the Bank on the course to success.

**Table 2**

### Control Chart

| <b>Activity</b>   | <b>Performed by</b>  | <b>Date / Frequency</b>   |
|---|--|---------------------------|
| Measure financial results against projections   | Chief Financial Officer / Branch Managers                          | Daily/Monthly / Quarterly |
| Diagnose any gap / shortfall to identify the causes for such gap / shortfall and recommend/take corrective measures | Chief Financial Officer / Branch Managers / Board / Internal Audit | Monthly / Quarterly       |
| Measure results against targets to ensure advertising and brochure distribution are producing the desired results   | Chief Financial Officer / Branch Managers / Board / Internal Audit | Monthly / Quarterly       |
| Manage expenditure to ensure there  | Chief Financial Officer / Finance                                  | Daily                     |



is no unnecessary or untimely spending and that budgeted limits are not exceeded. To facilitate this process emphasis will be placed on adherence to the revised expenditure limits as per **Appendix XII**

Department

## **8. Conclusion**

Our objectives for the year will not be easily achieved under the pressures of the changing global financial environment and the competition we now face locally as well as regionally. We have however identified the strategies we will follow and the specific measures we will implement to help us in achieving our objectives. We are confident that by implementing these specific measures and through hard work and the effective employment of our available resources and prudent overall strategies our target can be met or even exceeded.