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FEASIBILITY STUDY OF OPENING
A BRANCH OF BANK AL-MADINA
IN BAAKLIN

A Research Topic
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* Under different assumptions.

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CHAPTER ONE

INTRODUCTION

1.1. STATEMENT OF PURPOSE AND DESCRIPTION

The main purpose of this research project is to study the economic and financial feasibility of opening a branch of Bank Al-Madina in Baaklin, and the opportunity of this branch to continue as a profitable entity serving the needs of Baaklin and the neighboring areas.

The first step will be to test the market in order to determine the market share that could be captured. Accordingly we can estimate the expected sources and uses of funds to determine the cost and revenue streams of the proposed branch. Finally, the costs and revenues will be subjected to various forms of comparisons under different states of nature to test the economic viability of the project.

The study as a whole is composed of seven chapters. Chapter one, the Introduction, defines the issue and identifies the purpose of this project. Chapter two presents

the approaches used in formulating branch proposals and evaluating their profitability besides a review of the Bank of Lebanon requirements for bank branching. Chapter three is a presentation of market profile and a design of a questionnaire that helps in predicting the size of deposits the branch may capture. Chapter four shows the forecasted sources and uses of funds. Chapter five presents the various investment costs, fixed and operating costs incurred in the proposed branch, with the expected revenue streams and a projected profit or loss statement of the branch. Chapter six calculates some profitability indicators to draw out the financial results of the proposal. Chapter seven, the conclusion, is the statement of results with some recommendations to the Management of the bank.

1.2. METHODOLOGY OF STUDY

The research methodology involves a survey of literature about the banking industry and its growth through the years. Managers of several banks at Baaklin were interviewed in order to gather the necessary information concerning expected demand, the growth rate of deposits, and the services rendered.

Furthermore, a questionnaire is designed to collect the additional data on the market profile and the needs of potential clients. Then , to forecast the sources and uses

of funds of the proposed branch, the overall market size is determined by summing up all deposits of the existing branches in the area over the period 1985 to 1988. From the given data of these four years, the market size of deposits for each year is determined.

Considering 1985 as a base year, the market growth rate of deposits is calculated and it is assumed to be the growth rate of deposits of the proposed branch. This growth rate is applied to the deposits, as well as to its recorded cost through the period of operation in 1989, in order to formulate a ten years projection of deposits, costs and revenues. The growth rate and consequently the nominal projected sources and uses of funds are adjusted or deflated by the Consumer Price Index recognized by the Labor Union.

Given the above projected sources and uses of funds and their resulting costs and revenues a proforma profit and loss statement for the proposed branch is presented. Afterwards, the Net Present Value and the Internal Rate of Return are calculated to test the economic viability of the branch.

Finally a conclusive recommendation is presented supported by the profitability indicators tested.

1.3. DATA LIMITATIONS

In fact the study requires a lot of data pertaining to the economic situation, population, per capita income and the existing banking sector in the area. But nothing of the required data is published. Hence the data collected was mainly gathered through personal interviews with bankers and officials and from the economic survey prepared by Bank Al-Madina for this purpose.

CHAPTER TWO

REQUIREMENTS FOR OPENING NEW BRANCH IN LEBANON

2.1. AN OVERVIEW ON THE BANKING SECTOR

Commercial banks perform many interrelated functions that are necessary for the economy of the community of which they are a part. They bring into being the most important ingredient of money supply - demand deposit - through the creation of credits in the form of loans and investments. Actually, they are the suppliers of liquidity to the different economic sectors of the community - agricultural, industrial, commercial, and individuals - hence maintaining balanced financial affairs.

The banking sector, by selling credits and various services, helps to channel savings into productive uses and provides liquidity to other institutions and investment media. So the excess of liquidity in one institution is channeled into another which lacks liquidity through a mediator which is the banking sector. Thus allocation of funds in the economy paves the way for new projects that improve the economy of the country.

In Lebanon, and despite of the state of war since 1974 and the Israeli invasion in 1982 and the deterioration of the economy, the banking sector incurred a great expansion in the previous ten years. This expansion was implemented by the increase in the number of banks on one hand, and on the other hand the increase in the number of branches of existing banks. The severe competition in the banking sector directed banks towards branching in order to capture the maximum number of clients and consequently to increase their market share.

However the majority of the banks are located in Beirut and its suburbs. Yet, lately branches started to invade the rural communities in the provinces, and in other major cities.

In Ash-Shouf, the development and expansion of the community, the growing population, the improvement in transportation and communication, and the integration of businesses into large corporations have called for improved banking services. Meanwhile, four banks have branches in Baaklin - the center of Ash-Shouf area - which are Bank of Beirut and the Arab Countries, Al-Mawarid Bank, Adcom Bank and Bank Al-Madina.

2.2. PHENOMENON OF BRANCHING

There are many arguments in the strategic planning of commercial banks about expansion through branching. One argument refers to the economy of scale i.e. through branching banks can take advantage of economies that come from large scale operations.

Economy of scale is possible because the expansion of the corporate size is accompanied with the decrease of uncertainty related to deposits and loans. That is, the larger the bank the less need for liquidity reserves.

The second argument is the potential economic growth of an area which affects the demand for bank services. So the primary avenue for expansion by a bank is to move into a newly developing banking market where the potential for growth is more promising.

From the point of view of some bankers there are many motives behind establishing new branches especially in the suburbs and rural areas. Some believe that despite of its adverse consequences, the war had an important role in the expansion of the banking sector. The new demography, development of new economic areas and other political and social factors all contribute to the branching phenomenon.

The civil war resulted in the partition of the Lebanese areas and in a bi-directional immigration between these partitions. Thus, movement from one part to another becomes very difficult, and sometimes dangerous, hence costly and a waste of time. So, in order to overcome these obstacles, banks were motivated to branch to different areas to better serve their market and to save their clients the trouble of movement.

On the other hand, the partition and decentralization resulted in a development of new economic areas where population is high and income level is average and where there are a plenty of new established organizations. These areas are mainly the suburbs of Beirut and the center of provinces where there are a plenty of small depositors that are a good source of funds for banks.

The First National City Bank of New York (FNCB) formulates a framework for analyzing branch proposals with the objective of improving their decision making. The purpose of this formulation is first, to identify the market the branch will serve, second, to identify the staff and premises required to serve this market effectively, third, to identify incremental deposits and income necessary to break even and fourth, to project the branch's average

deposits, average lendable assets and before tax earnings for five years¹.

Management should identify the market to be served in terms of the customers, who are the suppliers and users of funds, and in terms of the services themselves². Customers within a geographic area should be classified according to the nature of their job, whether they are institutional borrowers, retailers, individual depositors and others. However the services to be offered should also be defined to support the objectives of the new branch.

Once the objectives are defined and clients to be served are classified, the number of staff and skills required could be accurately predicted. In the same manner the objectives of the branch also determine the size and specifications of the branch site. The proposal should include a list of the start-up expenditures for renovations, key money, advertising, furniture and equipments, the respective depreciation schedules and the annual rent.

The FNCB, in its formulation of a branch proposal, recommended the break even analysis in order to find the incremental income needed to cover all expenses and costs of the new branch. However, because the prediction of income is quite difficult, the City Corporation worked backwards by

¹ First National City Bank of New York, Proforma For Opening a Branch, 1968, p.1.

² Ibid, p.1.

forecasting the annual expenses for the new branch hence determining the income needed to break even and the average deposit levels required to produce this amount of income³.

Finally, for the FNCB to get a five-year period profit or loss statement, the average deposit projection is made for each year and the mix between current accounts and savings or term deposit accounts is specified. This would be essential for the estimation of interests payable against these deposits. Furthermore, any liquidity or reserves requirements should be subtracted from the branch's liquid assets in order to show the average lendable funds. However, only incremental deposits and expenses should be taken into account⁴.

2.3. BANK OF LEBANON REQUIREMENTS FOR OPENING A NEW BRANCH

The Bank of Lebanon imposed additional requirements on the expansion of existing banks, as well as on new entrants, in order to safeguard depositors and the banking sector in time of crisis.

The establishment of a new branch by any bank requires the approval of the Bank of Lebanon and the Banking Control Commission. In order to open a new branch, the bank in

³ Ibid, p.2.

⁴ Ibid, p.2.

question must fulfil the requirements of BDL decree number 2698 dated May 22, 1986. Article number 3 of that decree states that the bank should submit an application that contains information about the proposed branch. These information include branch location, kind of area to be served - whether industrial, commercial or agricultural - population and standard of living. Enclosed should be a rough study of the economic situation of the area and its resources in addition to a presentation of the initial investment costs, operating costs, an estimation of the expected sources and uses of funds and a proforma profit or loss statement for the first three years of operation.

However, article no. 6 of the same decree obliges banks to allocate a minimum capital of twenty million Lebanese Pounds for the bank's headquarter and ten million Lebanese Pounds for any other branch. Nevertheless, the bank should not violate article no. 153 of the Code of Money and Credit which depicts the following:

"The total of all the elements of any bank's assets representing its initial formation outlays, its equipment and furniture, its investment in real estate, and its share in partnership or shareholdings of whatever description in any enterprise regardless of its object, together with the aggregate credits granted by virtue of the

preceding article (article 152) shall not exceed the total of its all funds at any time".

"Fixed assets out of the total of all elements of these assets shall be represented only by property agreeable to the Bank of Lebanon in conformity with special rules to be framed by the Board of the Central Bank" 5.

But recently the Bank of Lebanon has followed a tougher policy in this concern. Decree no. 3455 issued on February 21, 1989 by circular no. 863 amended article no. 6 of decree 2698. This amendment requires prior to opening a branch, the raise of capital of the headquarter to two hundred million Lebanese Pounds, and the capital of other branches to fifty million Lebanese Pounds.

Furthermore, article no. 3 of the same Decree states that not more than one approval for establishing a new branch is given to the same bank within a period of six months.

The objective of the above regulations is primarily to limit the mushrooming of new branches in view of market saturation due to the presence of almost ninety banks in a country like Lebanon.

⁵ Bank of Lebanon, Code of Money and Credit, Article 153. p.45.

The approval is not guaranteed yet. It depends on BCC judgement whether the bank in question is a healthy one, has a safe credit policy and adequate capital and fulfils the requirements of the Code of Money and Credit.

The above restrictions is a move towards controlling the commercial banking sector in order to improve its overall monetary management and to raise the standards of banking practices so as to avoid the risk of a bank collapse which might severely damage the Lebanese economy and Lebanon's banking reputation.

CHAPTER THREE

ESTIMATED DEMAND FOR BANKING SERVICES IN BAAKLIN

3.1. MARKET PROFILE

Baaklin is situated in the midst of Ash-Shouf area. It has an interesting history , for it used to be a place where power and political struggle were competing. Baaklin is the biggest and most important town in its surrounding. Its population is about twenty thousands distributed among four thousand households. Trade is becoming the main source of living for most of its population in addition to being an important summer resort. Yet there is a quite good and worthwhile progress in the role of services especially tourism. Agriculture constitutes a very important source of living since it is the eldest economic sector in Mount Lebanon.

Demographically speaking, the obligatory and voluntary seggregation of the population made thousands of the Lebanese leave their homes to areas where they and their business can be safer. This caused the number of stores to increase many times and commercial necessities, such as factories were constructedas well as hotels and coffee

shops. Agriculture regained its glory, and the price of land increased sharply.

Unfortunately , in spite of this progress no accurate economic or statistical data about this area is found. In what follows we are going to present whatever information we have got about the status-cho in the main economic sectors in Ash-Shouf area.

First, the agricultural land in Ash-Shouf constitutes a major part of its total area with a yearly income equal to 15% of its total income. Despite the traditional means used, and being based on individual property important agricultural projects evolved. Also companies that only buy, market, and reproduce agricultural products were established. What made agriculture regain its importance is the rapid increase in the cost of living that was caused by the decrease in the purchase power of the Lebanese Pound and consequently the increase in prices of all agricultural products.

Second, internal trade developed a lot, for in Baaklin more than one thousand stores of various types were opened. The most important types of business are cooperatives, gift shops, beauty shops, clothes shops, textile stores, gas stations, food stores, jewelry shops, pharmacies and others.

Third, the industrial sector in Ash-Souf is composed mainly of small factories. This sector flourished lately to cope with the industrial progress in the country as a whole. Because Ash-Souf area lacks industrial companies that would help decrease the rate of unemployment in the rural areas, only part of the crop is manufactured in Green Field factories at Baaklin; the rest is imported. The income from industry constitutes 5% of the total income of the area. The main factories of the area are plastic industries, clothes industries, furniture and carpentry, refrigeaors and heaters assembly, canned food industries, chocolate industries, and cartridge industry.

Fourth, despite the unstable situation of the country, the Services and Tourism Sector constitutes 20% of the total income of the area. However, in the last few years the establishing of new hotels that well equipped was observed. These hotels form a good start for tourism and could help in developing the area especially if it were well managed and supported. The major touristic centers in the area are Mir Amin Palace (Beit Eddine), The Touristic Center of Baaklin, M. Maamari Palace in (Deir el-Kamar), Beit Eddine Palace, Ain Mershed Restaurant (Mukhtara), Kferheem Cave, Multaka Annahreïn restuarants, Al-Barouk coffee shops and As-Safa coffee shops.

Fifth, the banking sector started to progress rapidly to cope with the progress of other economic sectors. The banks that has branches in the area of Baaklin are: Bank of Beirut and the Arab Countries that has three branches, one at Baaklin another at Dmeet and the third at Bak'ata. Al-Mawarid Bank has two branches, one at Baaklin, the other at Kfeirheem. In addition there is a branch of Adcom Bank at Baaklin and a Branch of the Foreign Trade Bank at Deir El-Kamar. By the end of the year 1987 the deposits of BBAC was estimated to be five billion Lebanese Pounds and two billions at Al-Mawarid and 1.7 billions at Adcom and the Foreign Trade Bank.

During the last few years communication through transportation developed in Ash-Shouf area where villages became connected with one another by a network of wide roads.

The same thing applies to the public health sector that became very active due to needs imposed by the civil war in Lebanon. Thus we can count a big number of medicine doctors distributed among villages and clinics at a rate of one clinic for each village. The three hospitals found in the area are Al-Urfan Hospital in Simkanieh, Baaklin Medical Center and the Health Institution in Ain Wzein. This institution is considered one of the biggest hospitals due to its huge building and advanced equipments. Yet, it is

worth noticing that this institution was built from the money of volunteers, whether resident or immigrants, besides international committees.

We can also find in Ash-Shouf area a great deal of lawyers, Engineers and attorneys of whom a good part has benefited from scholarships (around 100 per year).

In addition there are schools and institutions that are under the control of one political party or another. These institutions play a role almost the same as governmental institutions.

As a conclusion, banks like any other companies, seek profit. So, it is natural for it to seek it in developing or developed areas. Yet, the banking sector has two main objectives in the developing areas: the first is to seek profit, and the second is national i.e. to help the developing areas grow more rapidly. The centralization of the economic activities in the capital and large cities has affected the rural areas and caused several serious economic problems and made it fully dependent on cities and prohibited the economy to develop at these areas.

3.2. DESIGNING A QUESTIONNAIRE

The demand for banking services in general and for Bank Al-Madina in specific in Ash-Shouf area is somehow difficult

to estimate. For this purpose a designed questionnaire was prepared and distributed to a sample of the population in the area in addition to direct interviews with branch managers of Baaklin banks. (A copy of the questionnaire is enclosed in appendix A). The questionnaire is designed in a way that helps to conclude some critical issues for the research provided that it is a representative one.

The first three questions help to find out the profession of the respondent, to which economic sector he belongs, and whether he belongs to the area that would be served by Baaklin banks or not. From the answers of the fourth and fifth questions, we can find out the percentage of the productive population out of the percentage of the total population of the area by excluding the percentage of dependents. However, questions number six and seven help in the estimation of the size and growth rate of the market in the area. Question number eight gives an idea about the allocation of money in different economic sectors and consequently the share received by the banking sector. Question number nine helps in figuring out the aspects that attract clients whether it is high interest rate, quick service, extra facilities, or may be because the client has one of his relatives or friends work at that bank, and may be other reasons that the respondent could state. From question number ten we can find out which banking services is mostly needed or demanded in the area. While the last

question was asked in order to know whether there is a demand for any kind of banking services that is not currently offered by the existing banks in the area. However, the last two questions would serve as a guide to Bank Al-Madina management to better serve the market by providing the non-existing services if possible and taking advantage from other banks weak points. The answers to this questionnaire are assumed to be accurate and the sample of respondents is also assumed to be representative. In addition to the direct answers of the the included questions there will be some cross tabulations (see Appendix B) that would be helpful in this study and that will be discussed later.

3.3. NATURE OF SAMPLE

In selecting the items that constitute the sample two main aspects were taken into consideration. The adequacy and representativeness of the sample. Adequacy refers to the size of the sample such that the the inferences to be made will be reliable to a certain acceptable level of confidence. However, representativeness of the sample refers to the degree of similarity between the characteristics of the sample and that of the universe from which the sample was drawn. Ideally, the characteristics with which the sample study is concerned should be found in the sample in

the same proportions as they occur in the universe⁶. Actually respondents were selected from different economic levels and different professions in order to get a sample that is a small replica of all cases and factors that exist in the area. Engineers, farmers, doctors, lawyers, merchants, owners of private businesses, simple employees and all others were contacted.

3.4. FINDINGS

The processing of the data collected by the questionnaire (Appendix B) shows that 29% of the respondents have no saving while 21% save between 5 and 10 thousands Lebanese Pounds per month, and 19% save between 10 and 20 thousands. However 17% of them deposit all their savings in banks and 11% deposit only 50% of these savings. It is concluded that the majority of depositors maintain accounts with a medium or even low balances. These depositors receive a medium or low interest rate on their deposits since interest rate is directly proportional to the balance of account maintained. Consequently, this factor decreases the operational cost of the banks of the area.

One can also notice that 29% of the respondents which is equivalent to 42% of depositors (about 28% of respondents have no savings), are attracted by banks that offer a higher

⁶ Vernon T. Clover and Howard L. Balsley, Business Research Methods, 2nd ed. (Columbus: Grid Publishing, Inc., 1979), p234.

interest rate on deposits than others. On the contrary 29% of respondents ie. 37% of depositors are aware of the slow service they are offered by the banks they deal with.

Another important issue that should be pointed is that there is a vital need for credit facilities which are not available in the banks of Baaklin area. About 24.5% of the total respondents, or 60% of those who deal with banks, are demanding such facilities. Keep in mind that offering Advances and Letter of Credits are the best way in which a bank could use its funds in a highly profitable manner.

CHAPTER FOUR

FORECASTED SOURCES AND USES OF FUNDS

4.1. FORECASTED SOURCES OF FUNDS

In forecasting the sources that composed the main bulk of funds for the proposed branch, four major steps are followed. The first important step is to identify Baaklin market size of deposits, i.e. to calculate the sum of deposits of all banks in Baaklin. The second step is to calculate the average growth rate of that size of deposits based on the historical data of Baaklin banks during the period 1985 to 1988. The third step is to identify the market share of deposits of the proposed branch and its growth rate. The fourth step is to project the sources of funds over the life span of the branch in question.

First, the deposits of Adcom Bank, Bank of Beirut and the Arab Countries, and Al-Mawarid Bank for the years 1985 to 1988 are classified in tables 4.1 , 4.2 and 4.3 according to their types ; demand deposits, sight savings and time savings both in local and foreign currencies. Foreign currency deposits are shown in their equivalent counter value in Lebanese Pounds at the average dollar rate

TABLE 4.1
DEPOSITS OF ADCOM BANK IN BAAKLIN
(IN THOUSANDS)

ITEM \ YEAR		1985	1986	1987	1988
<hr/>					
CURRENT ACCOUNTS	LL.	1900	4500	11000	19500
	FC.	900	2500	7500	11000
	TOTAL	2800	7000	18500	30500
SIGHT SAVING	LL.	14500	39000	65000	110000
	FC.	23000	62000	210000	225000
	TOTAL	37500	101000	275000	335000
TIME SAVING	LL.	27000	82000	85500	215000
	FC.	41000	109000	540000	575000
	TOTAL	68000	191000	625500	790000
<hr/>					
TOTAL DEPOSITS		108300	299000	919000	1155500
GROWTH INDEX		100.00	1.76	7.49	9.67
<hr/> <hr/>					

Source: Confidential information

TABLE 4.2
DEPOSITS OF BANK BEIRUT AND THE ARAB COUNTRIES
IN BAAKLIN
(IN THOUSANDS)

		1985	1986	1987	1988

CURRENT ACCOUNTS	LL.	8000	15000	98300	355000
	FC.	4000	9000	65000	205000
	TOTAL	12000	24000	163300	560000
SIGHT SAVING	LL.	28000	95000	222500	220000
	FC.	48000	175000	890000	658000
	TOTAL	76000	270000	1112500	878000
TIME SAVING	LL.	46500	103000	250000	450000
	FC.	69800	150000	1034000	1060000
	TOTAL	116300	253000	1284000	1510000

TOTAL DEPOSITS		204300	547000	2559800	2948000
GROWTH INDEX		100.00	1.68	11.53	13.43
=====					

Source : Confidential information

TABLE 4.3

DEPOSITS OF AL-MAWARID BANK IN BAAKLIN

(IN THOUSANDS)

		1985	1986	1987	1988
CURRENT ACCOUNTS	LL.	2300	7000	19500	38600
	FC.	1200	4000	16600	14400
	TOTAL	3500	11000	36100	53000
SIGHT SAVING	LL.	20500	57500	42000	133000
	FC.	38000	106500	530000	550000
	TOTAL	58500	164000	572000	683000
TIME SAVING	LL.	36000	98000	81500	438000
	FC.	52000	147000	780000	1104000
	TOTAL	88000	245000	861500	1542000
TOTAL DEPOSITS		150000	420000	1469600	2278000
GROWTH INDEX		1	1.80	8.80	14.19

Source : Confidential information

prevailed at the end of each year. Table 4.4 shows the dollar closing rates at the end of years 1985 to 1988.

TABLE 4.4
AVERAGE CLOSING RATE OF US DOLLAR V/S LEBANESE POUND

YEAR	LOW	HIGH	AVERAGE
1985	18.05	18.15	18.10
1986	86.00	88.00	87.00
1987	452.00	458.00	405.00
1988	529.00	531.00	530.00

Source : Bank of Lebanon bulletins, 1985 to 1988.

However Table 4.5 shows the sum of deposits of Baaklin banks that composed the overall market size. But note that the drastic increase of deposits from 462 million Lebanese Pounds in 1985 to 6.38 billions in 1988, that is approximately 12.8 times, was only a nominal increase due to the increase of foreign currency deposits and the devaluation of the Lebanese Pound due to the deterioration of the economic situation in Lebanon.

Second, the deposits growth index of each year was calculated by dividing the deposits of that year by the deposits of year 1985 since it is considered to be the base year.

But the average growth index of market size which is calculated to be 8.07 $\{(1.73 + 9.69 + 12.79)/3 = 8.07\}$ is

TABLE 4.5
 OVERALL MARKET SIZE OF BAAKLIN
 DEPOSITS IN THOUSANDS

BANK \ YEAR		1985	1986	1987	1988
B.B.A.C.	LL.	82500	213000	570800	1023000
	FC.	121800	334000	1989000	1925000
	TOTAL	204300	547000	2559800	2948000
MAWARID	LL.	58800	162500	142000	610100
	FC.	91200	257500	1327600	1667900
	TOTAL	150000	420000	1469600	2278000
ADCOM	LL.	43400	125500	161000	344500
	FC.	64900	173500	758000	811000
	TOTAL	108300	299000	919000	1155500
TOTAL DEPOSITS		462600	1266000	4948400	6381500
MARKET GROWTH INDEX		1.00	1.74	9.70	12.79

AVERAGE GROWTH INDEX OF DEPSITS IS 8.07

an inflated nominal index that should be deflated by the average CPI that corresponds to the same period in order to get the actual deposit growth of the market. The CPI abided by this research is that recognized by the Labor Union. Considering 1985 as the base year, the CPI was calculated to be 1.59, 8.10 and 12.52 for the years 1986, 1987 and 1988 respectively⁷.

Third, we have to figure out the most important point which is the deposits market share of Bank Al-Madina branch and its expected growth over the life span of the branch. What makes things easier is that the branch has been operating since March 1989. So we have a base to start with which is the actual deposits captured at the end of year 1989. Table 4.6 shows BAM deposits as at 31st of December 1989. This bulk of deposits composed about 8% of the total size of the market which is a good share of a starting branch. What should be mentioned is that the deposits of the Branch are all incremental deposits and there is no divergence of clients or transfer of deposits from other branches of the Bank to Baaklin branch because it is the only branch in Ash-Shouf area and all other branches of Al-Madina are located in Beirut.

⁷ Labor Union, Schedule No. 101, Economical Indicators 1984 - 1988.

TABLE 4.6

DEPOSITS OF BANK AL-MADINA - BAAKLIN BRANCH

(IN THOUSANDS)

ITEM \ YEAR		1889

CURRENT ACCOUNTS	LL.	34000
	FC.	18000
	TOTAL	52000
SIGHT SAVING	LL.	20000
	FC.	18000
	TOTAL	38000
TIME SAVING	LL.	260000
	FC.	200000
	TOTAL	460000

TOTAL DEPOSITS		550000
=====		

TABLE 4.7

EXPECTED NOMINAL SOURCES OF FUNDS OF BANK AL-MADINA - BAAKLIN BRANCH

(IN THOUSANDS)

	1889	1990	1991	1992	1993	1994	1995	1996	1997	1998
CURRENT ACCOUNTS										
LL.	34000	274591	2217650	17910186	1.4E+08	1.2E+09	9.4E+09	7.6E+10	6.2E+11	5.0E+12
FC.	18000	145372	1174050	9481864	76577426	6.2E+08	5.0E+09	4.0E+10	3.3E+11	2.6E+12
TOTAL	52000	419962	3391700	27392050	2.2E+08	1.8E+09	1.4E+10	1.2E+11	9.4E+11	7.6E+12
SIGHT SAVING										
LL.	20000	161524	1304500	10535403	85086029	6.9E+08	5.5E+09	4.5E+10	3.6E+11	2.9E+12
FC.	18000	145372	1174050	9481864	76577426	6.2E+08	5.0E+09	4.0E+10	3.3E+11	2.6E+12
TOTAL	38000	306896	2478550	20017267	1.6E+08	1.3E+09	1.1E+10	8.5E+10	6.9E+11	5.6E+12
TIME SAVING										
LL.	260000	2099812	16958502	1.4E+08	1.1E+09	8.9E+09	7.2E+10	5.8E+11	4.7E+12	3.8E+13
FC.	200000	1615240	13045001	1.1E+08	8.5E+08	6.9E+09	5.5E+10	4.5E+11	3.6E+12	2.9E+13
TOTAL	460000	3715052	30003503	2.4E+08	2.0E+09	1.6E+10	1.3E+11	1.0E+12	8.3E+12	6.7E+13
TOTAL SOURCES OF FUNDS	550000	4441910	35873754	2.9E+08	2.3E+09	1.9E+10	1.5E+11	1.2E+12	1.0E+13	8.0E+13

TABLE 4.8

EXPECTED DEFLATED SOURCES OF FUNDS OF BANK AL-MADINA - BAAKLIN BRANCH

(IN THOUSANDS)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
CURRENT ACCOUNTS										
LL.	34000	37400	41140	45254	49779	54757	60233	66256	72882	80170
FC.	18000	19800	21780	23958	26354	28989	31888	35077	38585	42443
TOTAL	52000	57200	62920	69212	76133	83747	92121	101333	111467	122613
SIGHT SAVING										
LL.	20000	22000	24200	26620	29282	32210	35431	38974	42872	47159
FC.	18000	19800	21780	23958	26354	28989	31888	35077	38585	42443
TOTAL	38000	41800	45980	50578	55636	61199	67319	74051	81456	89602
TIME SAVING										
LL.	26000	28600	31460	34606	38066	41873	46066	50666	55733	61306
FC.	20000	22000	24200	26620	29282	32210	35432	38974	42872	47159
TOTAL	46000	50600	55660	61226	67348	74083	81498	89640	98605	108465
TOTAL SOURCES OF FUNDS	55000	60500	66500	73205	80525	88578	97439	107179	117874	129687

Fourth, in projecting the future deposits of BAM new branch its growth index is assumed to be the average deflated growth index of the market which is found to be 1.09. This index is calculated by dividing the average nominal growth index by the average CPI. Tables 4.7 and 4.8 show respectively the nominal and deflated projection of sources of funds of BAM branch in Baaklin.

AVERAGE CPI : $(1.59 + 8.10 + 12.52)/3 = 7.405$

AVERAGE DEFLATED GROWTH INDEX : $8.0762 / 7.405 = 1.09$

4.2. FORCASTED USES OF FUNDS

Funds are channelled into five major uses. These are cash at vault, advances, Treasury Bills, Legal Reserves and deposits with the Head Office.

Cash at vault is the amount of bank notes kept in the banks' vault in order to serve clients demand for cash withdrawal. This amount of cash, both in local and foreign currencies, is kept idle. The records of Bank Al-Madina branch in Baaklin show a cash in service balance of 8 million Lebanese Pounds and a foreign currency balance which is equivalent to 8.5 million Lebanese pounds at the 31st of December 1989 (refer to table 4.9).

However, advances offered to the banks' clients are considered to be the major channel through which a bank can make a profitable use of its funds. But in Baaklin banks, as it is the case in almost all branches of rural areas, this kind of fund channelling is not available and it varies between 0.5 and 1.5 percent of the banks deposits. The ratio of advances to deposits in Adcom Bank, during the period 1985 to 1988, was almost 0.5 percent⁸, and it was between 1 and 1.5 percent in Al-Mawarid⁹ and about 1 percent at BBAC during the same period¹⁰. So this category of funds using is considered to be negligible. But on the other hand, there exists some facilities given to clients of good reputation which allow their balances to be accidentally debtor with a slightly higher debit interest rate.

Similarly, Letters of Credit and Letters of Guarantee are negligible or even non-existing in Baaklin banks. The reason behind this policy is the unsecure situation of the country. So this category is also assumed to be null for the proposed branch.

⁸ Personal interview with Wajdi Abdulbaki, Branch Manager of Adcom Bank in Baaklin.

⁹ Personal interview with Wahib Fayad, Regional Manager of Al-Mawrid Bank.

¹⁰ Personal interview with Ibrahim Abou Hamzeh, Branch Manager of BBAC in Baaklin.

On the other hand, banks have some obligations towards the Central Bank of Lebanon. These obligations are summarized by the Central Bank circular number 657, dated 10th of June 1986, to be as follows:

- 1 - A bank should have 13% of its total deposits as a legal reserves divided as follows:
 - a - 10% idle cash at the Central Bank without interest
 - b - 3% as special treasury bills at 6% interest rate
- 2 - Primary Market Treasury Bills at 18% interest rate. This category of Treaseury Bills is defined as follows:
 - a - 30 percent of the bank's deposits as at the 4th of June 1986
 - b - 60 percent of banks current deposits less its deposits at the 4th of December 1986.

So theoretically speaking, a proportion of Baaklin branch deposits should be allocated to Treasury Bills and Legal Reserves at the interest rates stated by the Central Bank. But Bank Al-Madina Management has its own policy towards its branches. All the branch deposits are invested at the Head Office at a rate of 8.5% for foreign currency deposits and 18% for local currency deposits and the H.O. takes care of the Central Bank obligations.

TABLE 4.9

EXPECTED NOMINAL USES OF FUNDS OF BANK AL-MADINA - BAAKLIN BRANCH

(IN THOUSANDS)

	1889	1990	1991	1992	1993	1994	1995	1996	1997	1998
CASH										
LL.	8000	64610	521800	4214162	34034411	2.7E+08	2.2E+09	1.8E+10	1.4E+11	1.2E+12
FC.	9000	72686	587025	4740932	38288713	3.1E+08	2.5E+09	2.0E+10	1.6E+11	1.3E+12
TOTAL	17000	137295	1108825	8955093	72323124	5.8E+08	4.7E+09	3.8E+10	3.1E+11	2.5E+12
PLACEMENT IN H.O.										
LL.	316000	2552079	20611102	1.7E+08	1.3E+09	1.1E+10	8.8E+10	7.1E+11	5.7E+12	4.6E+13
FC.	205000	1655621	13371126	1.1E+08	8.7E+08	7.0E+09	5.7E+10	4.6E+11	3.7E+12	3.0E+13
TOTAL	521000	4207700	33982228	2.7E+08	2.2E+09	1.8E+10	1.4E+11	1.2E+12	9.4E+12	7.6E+13
ACCIDENTAL DEBTORS										
LL.	1000	8076	65225	526770	4254301	34358589	2.8E+08	2.2E+09	1.8E+10	1.5E+11
FC.	11000	88838	717475	5794472	46797316	3.8E+08	3.1E+09	2.5E+10	2.0E+11	1.6E+12
TOTAL	12000	96914	782700	6321242	51051618	4.1E+08	3.3E+09	2.7E+10	2.2E+11	1.8E+12
TOTAL USE OF FUNDS	550000	4441910	35873753	2.9E+08	2.3E+09	1.9E+10	1.5E+11	1.2E+12	1.0E+13	8.0E+13

TABLE 4.10

EXPECTED DEFLATED USES OF FUNDS OF BANK AL-MADINA - BAAKLIN BRANCH

(IN THOUSANDS)

ITEM \ YEAR	1889	1990	1991	1992	1993	1994	1995	1996	1997	1998
CASH										
LL.	8000	8800	9680	10648	11713	12884	14172	15590	17149	18864
FC.	9000	9900	10890	11979	13177	14495	15944	17538	19292	21222
TOTAL	17000	18700	20570	22627	24890	27379	30117	33128	36441	40085
PLACEMENT IN H.O.										
LL.	316000	347600	382360	420596	462456	508921	559813	615795	677374	745111
FC.	205000	225500	248050	272855	300141	330155	363170	399487	439436	483379
TOTAL	521000	573100	630410	693451	762796	839076	922983	1015282	1116810	1228491
ACCIDENTAL DEBTORS										
LL.	1000	1100	1210	1331	1464	1611	1772	1949	2144	2358
FC.	11000	12100	13310	14641	16105	17716	19487	21436	23579	25937
TOTAL	12000	13200	14520	15972	17569	19326	21259	23385	25723	28295
TOTAL USE OF FUNDS	550000	605000	665500	732050	805255	885781	974359	1071794	1178974	1296871

The Bank's records (Table 4.9) show that the deposits of Baaklin branch at Head Office to be 316 millions L.L. and foreign currencies balance equivalent to 205 million LL.

Tables 4.9 and 4.10 show respectively a nominal and deflated projection for ten years of BAM uses of funds asuming the same growth rate of the projected sources of funds.

CHAPTER FIVE

COST AND REVENUE

STREAMS OF BAAKLIN BRANCH

5.1. COST STREAM

As previously mentioned, the costs of the project are classified into two main categories. The investment costs which are the initial costs incurred upon constructing the branch and that would be capitalized and amortized over the life time of the branch. The second category is the operating cost which comprises both fixed and variable costs. Fixed costs are those costs that would be incurred irrespective of the nature of operation. While the variable costs vary with the size of operations of the branch. In this research, investment and fixed costs are actual - and not estimated - taken from the books of the Bank. In order to reflect the actual value of costs incurred, the equivalent value of these costs in US Dollars, at the end of year 1988 exchange rate, are presented in all the tables of this chapter.

5.1.1 INVESTMENT COST

Costs grouped under this category are costs of furniture and fixtures, tools and equipments, and decoration

costs. No land and construction costs incurred in the project because the site is rented by the Bank.

First, the cost of all furniture and fixtures items that were furnished and installed in the branch are shown in Table 5.1. This group includes all kinds of desks and office sets, tables, chairs for employees, seats for customers, shelves, filing cabinets, safe and fireproof cabinets, fire extinguishers, alarm systems and others.

TABLE 5.1
COST OF FURNITURE AND FIXTURES

ITEM	COST IN LL	COST IN USD
Chairs	250,000	472
Vetrene	50,000	94
Boiler	50,000	94
Wooden Counter	260,000	490
Curtains	170,000	321
Wooden Cabinets	400,000	755
Air Conditioner	1,350,000	2,547
Alarm System	100,000	188
Fire Extinguisher	145,000	274
Safe Cabinets	1,000,000	1,887
Drawer Cabinets	225,000	425
<u>TOTAL</u>	LL 4,000,000	\$ 7,547

Source : Bank Al-Madina records.

Second, the cost of machines and equipments. This category comprises type-writers, desk-top calculators, a stamping machine, micro-film machine for archiving purposes, and telephone system. The costs of these items are shown in Table 5.2.

TABLE 5.2
COST OF MACHINES AND EQUIPMENTS

ITEM	COST IN LL	COST IN USD
Type Writers	600,000	1,132
Desk-Top Calculators	100,000	188
External Telephone System	400,000	755
Internal Telephone System	250,000	472
Cheque Stamping Machine	500,000	943
Micro-Film Machine	150,000	283
TOTAL	LL 2,000,000	\$ 3,773

Source : Bank Al-Madina records.

Third, the cost of computers and related equipments. The bank is furnished by a desk-top micro computer system. The main task of this micro computer is to handle the accounting work in addition to some other functions such as employees payroll and stock keeping. Subsequent equipments are also necessary to be installed which are an

uninterruptable power supply (UPS) and a power generator to support power during power cut. Table 5.3 presents the cost of this group of machines which totals up to ten million Lebanese Pounds.

TABLE 5.3
COST OF COMPUTER AND RELATED EQUIPMENTS

<u>ITEM</u>	<u>COST IN LL</u>	<u>COST IN USD</u>
Computer System	6,500,000	12,265
U.P.S.	1,000,000	1,887
Power Generator 20 KVA	2,500,000	4,717
TOTAL	LL 10,000,000	\$ 18,869

Source : Bank Al-Madina records.

Fourth, decoration costs that are not itemized but they are shown with miscellaneous fixtures and installations as a lump sum amount of L.L. 5,000,000 paid to a contracting company that executed the job according to a signed agreement with the management of the bank.

5.1.2. OPERATING FIXED COST

This category represents those costs that are incurred upon operation irrespective of the size and nature of the operation. Variable costs on the other side are those that

vary directly with the size of operations. In this research study the variable costs are assumed to be fixed because the bank will work continuously and the variance of these costs will be negligible. However, interest expenses are exempted from this assumption because interest rates are subject to market changes and interest expenses vary with the size of the bank's deposits and which are expected to vary from year to year. Following are the different items that fit under this category of costs.

First, salaries expenses. The staff of the new branch consists of fourteen employees including the manager and controller. The rest are distributed onto the different departments of the branch, which are actually small units, as follows. There are two employees serving the saving accounts counter and two serving the current account counter. There are also three employees that take care of the cambio and letters of credit operations, one accountant and a cashier. Besides there is a computer operator who is responsible for the data entry of executed transactions into the computer and doing the data processing. The secretary of the manager accomplish all typing and filing duties. Finally there is an office boy to serve the employees. Salaries that are paid on a fifteen month basis are presented in Table 5.4 according to the scale of wages in the bank.

TABLE 5.4
SALARIES

RANK	NUMBER	MONTHLY	YEARLY	YEARLY
		SALARY LL	SALARY LL	SALARY USD
Manager	1	165,000	2,475,000	4,670
Controller	1	90,000	1,350,000	2,547
Secretary	2	70,000	1,050,000	1,981
Cashier	1	50,000	750,000	1,415
Others	9	35,000	5,250,000	9,905
Office boy	1	25,000	375,000	707
TOTAL		750,000	11,250,000	21,225

Source : Bank Al-Madina records.

Second, the National Social Security Fund (NSSF) subscriptions. The collective contract of the Association of the Lebanese Banks requires that all employees of the banking sector should be registered in the NSSF. The bank would bear some subscription costs against the NSSF for each employee. These subscriptions are classified as follows:

Family Allowances which is 7.5% of the least of either the employee's basic salary or triple the minimum wage. Keep in mind that the minimum wage is twenty five thousand Lebanese Pounds.

Sickness and motherhood subscriptions which is 11% of the least of either the employee's salary or that of double the minimum wage.

End of Service Indemnity which is a provision of one monthly paid salary per year worked for each employee.

Also the NSSF pays married employees 14% of the minimum wage as wife allowance and 4% as per child allowance. However, the collective contract requires that the bank should pay, in addition to the NSSF, for each married employee 75% of the amount paid by the NSSF for the wife and 50% of that paid to each child. ie.

$$25000 \times (14\%) \times (75\%) = 2625 \text{ LL/wife and}$$

$$25000 \times (4\%) \times (50\%) = 500 \text{ LL/child.}$$

Because the bank has been operating for seven months, and all employees were already hired, all NSSF costs are found in the record of the bank to be as shown in Table 5.5.

Third, the maintenance costs of computers and UPS found to be a fixed ratio of 10% of the original price per year as per the maintenance contract between the bank and the company that supplied the computer. So these costs are classified as in Table 5.6.

TABLE 5.5
NATIONAL SOCIAL SECURITY FUND SUBSCRIPTIONS

ITEM	AMOUNT IN LL	AMOUNT IN US
Family Allowance	600,000	1,132
Sickness and Motherhood	770,000	1,453
Bank Family Allowance	265,000	500
End of Service Indemnity	750,000	1,415
Total	LL 2,385,000	\$ 3,500

Source : Bank Al-Madina records.

TABLE 5.6
COMPUTER MAINTENANCE

ITEM	PRICE LL.	PERCENTAGE	MAINTENANCE COST	
			LL	USD
Computer	6,500,000	10%	650,000	1,226
UPS	1,000,000	10%	100,000	188
Total:	7,500,000		750,000	1,414

Source : Bank Al-Madina records.

Fourth, the transportation allowances. The collective contract of the Association of the Lebanese Banks defined the transportation allowances for employees to be LL. 2500,

TABLE 5.9
ANNUAL DEPRECIATION OF FIXED ASSETS

ITEM	INITIAL COST	DEPRECIATION COST	
		L.L.	USD
Furniture and Fixtures	4,000,000	300,000	566
Machines and Equipments	2,000,000	200,000	377
Computer and related Equip.	10,000,000	1,500,000	2,830
Decoration	5,000,000	1,000,000	1,887
TOTAL		3,000,000	5,660

Source : Bank Al-Madina records

5.1.3. INTEREST PAID

Finally, the cost of interest paid to deposits. The size of this cost is subject to variation of market interest rates on one hand, and to the size of deposits of the branch on the other hand. The average interest cost paid to different types of deposits in both foreign and local currency are presented in Table 5.10. It is worth mentioning that the low average of interest rates paid to depositors are due to the high number of clients relative to the size of deposits. In Baaklin branch the number of accounts maintained is about 800 which make the average

TABLE 5.7
OTHER OPERATING COSTS

<u>ITEM</u>	<u>COST IN L.L.</u>	<u>COST IN USD</u>
Transportation	1,100,000	2,075
Telephone	10,000	19
Telex	10,000	19
Electricity	100,000	188
Fuel	400,000	755
Stationary	300,000	566
Office Supplies	500,000	943
Cleaning	40,000	75
Miscellaneous	400,000	755
TOTAL	LL 2,860,000	\$ 5,395

Source : Bank Al-madina records

TABLE 5.8
FIXED ASSETS DEPRECIATION PERCENTAGES

<u>ITEM</u>	<u>PERCENTAGE DEPRECIATION PER YEAR</u>
Preliminary expenses	20%
Machines & Equipments	10
Computer	15
Generators	10
Furniture & Fixtures	7.5

Source : Bank Al-Madina records.

4000, 5500, or 7000 according to the distance between the bank and the employee's residence. This allowance is paid on a twelve-month basis. The records of the bank show that the transportation expenses paid to employees in Baaklin branch amounted to one million one hundred thousand Lebanese Pounds during the period of operation in 1989.

Fifth, other miscellaneous costs such as water, electricity, repair, fuel, telephone and telex bills, stationary and office supplies, and cleaning are estimated based on previous experience in other branches of the bank. Table 5.7 shows these different costs.

Sixth, the depreciation percentages of fixed assets of the Branch are scheduled as in Table 5.8, while the annual depreciation costs are shown in Table 5.9.

TABLE 5.10

EXPECTED INTEREST PAYABLE ON DEPOSITS OF BANK AL-MADINA - BAAKLIN BARNCH

(IN THOUSANDS)

ITEM \ YEAR	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
INTEREST PAID TO CURRENT ACCOUNTS										
LL.	1190	1309	1440	1584	1742	1917	2108	2319	2551	2806
FC.	270	297	327	359	395	435	478	526	579	637
TOTAL	1460	1606	1767	1943	2138	2351	2586	2845	3130	3443
INTEREST PAID TO SIGHT SAVING										
LL.	1600	1760	1936	2130	2343	2577	2834	3118	3430	3773
FC.	810	891	980	1078	1186	1305	1435	1578	1736	1910
TOTAL	2410	2651	2916	3208	3528	3881	4269	4696	5166	5683
INTEREST PAID TO TIME SAVINGS										
LL.	38740	42614	46875	51563	56719	62391	68630	75493	83043	91347
FC.	14500	15950	17545	19300	21229	23352	25688	28256	31082	34190
TOTAL	53240	58564	64420	70862	77949	85744	94318	103750	114125	125537
TOTAL INTEREST PAID	57110	62821	69103	76013	83615	91976	101174	111291	122420	134662

balance per account about L.L. 60,000. And because the interest paid to deposits are directly proportional to the size of the of deposits per account, this justifies the low average of interest rate paid by the proposed branch. It also minimizes reserves and liquidity requirements.

5.2. REVENUE STREAMS

Revenues of the bank are composed of two main components. The first is interest receivables which is the major component and the second is charges and commissions received from inwards and outwards documents and from foreign exchange operations.

5.2.1 INTEREST RECEIVABLE

This category of revenues is composed of interest received from advance accounts, interest from creditors accidentally debtors, and from the deposits invested at the Head Office.

Interest received from advanced and bills is negligible because of the very limited amounts of loans given to clients. The amount of this kind of interest was only L.L. 300,000 during the period of operation in 1989. Some interest is also received from demand deposit accounts that are creditors by nature but due to overwithdrawals from these accounts they became debtors that are penalized by a high debit rate which goes up to 65% in some cases. These kinds of accounts are called creditors accidentally debtors

accounts. Interest received from these accounts showed a balance of approximately L.L. 5.5 million in the records of the branch under study at the end of 1989. Finally, the major bulk of interest received by the branch in Baaklin, is that received from the head office against the branch deposits. The bank's Head Office offers a rate of 18% on the branch's deposits in L.L. and a rate of 8.5% on foreign currency deposits. Table 5.11 shows a ten years projection for interest receivables of the branch.

5.2.2. CHARGES AND COMMISSIONS

Income from commissions and charges are collected from several types of operations and services rendered by the branch. One kind is the seasonal charges received from debtor and creditor accounts. Holders of such accounts are charged quarterly 0.3 percent on the highest debit balance shown on their statement of account through that quarter of the year. Besides, clients are also charged quarterly on the number of movements of each account which is a minimum of \$1.5 or its equivalent depending on the currency of that account.

The second type of charges are those received from cash deposits and withdrawals of foreign currencies which varies between 0.1 and 0.3 percent of the amount deposited or withdrawn.

TABLE 5.11

EXPECTED INTEREST RECEIVABLE TO BANK AL-MADINA - BAAKLIN BRANCH

(IN THOUSANDS)

ITEM \ YEAR	1889	1990	1991	1992	1993	1994	1995	1996	1997	1998
INTEREST RECEIVED LL.	5680	62568	68825	75707	83278	91606	100766	110843	121927	134120
FROM PLACEMENT IN FC.	17425	19168	21084	23193	25512	28063	30869	33956	37352	41087
H.O. TOTAL	74305	81736	89909	98900	108790	119669	131636	144799	159279	175207
INTEREST RECEIVED LL.	180	198	218	240	264	290	319	351	386	424
FROM ACCIDENTAL FC	935	1029	1131	1244	1369	1506	1656	1822	2004	2205
DEBTORS TOTAL	1115	1227	1349	1484	1632	1796	1975	2173	2390	2629
TOTAL INTEREST RECEIVABLE	75420	82962	91258	100384	110422	121465	133611	146972	161669	177836

Table 5.12

FIXED ASSETS DEPRECIATION SCHEDULE - BAKKLIN BRANCH

ITEM \ YEAR	1889	1990	1991	1992	1993	1994	1995	1996	1997	1998
FURNITURE AND FIXTURES	300	300	300	300	300	300	300	300	300	300
MACHINES & EQUIPMENTS	200	200	200	200	200	200	200	200	200	200
COMPUTER & RELATED EQUIP	1500	1500	1500	1500	1500	1500	1000	0	0	0
DECORATION	1000	1000	1000	1000	1000	0	0	0	0	0
TOTAL DEPRECIATION	3000	3000	3000	3000	3000	2000	1500	500	500	500

Table 5.13

PROFORMA PROFIT OR LOSS STATEMENT FOR BANK AL-MADINA - BAAKLIN BRANCH

ITEM \ YEAR	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
EXPENSES:										
SALARIES	11250	12375	13613	14974	16471	18118	19930	21923	24115	26527
FAMILY ALLOWANCE-NSSF	600	660	726	799	878	966	1063	1169	1286	1415
SICKNESS & MOTHERHOOD	770	847	932	1025	1127	1240	1364	1501	1651	1816
END OF SERV. INDEMNITY	750	825	908	998	1098	1208	1329	1462	1608	1768
FAMILY ALLOWANCE - BANK	265	292	321	353	388	427	469	516	568	625
TRANSPORTATION	1100	1210	1331	1464	1611	1772	1949	2144	2358	2594
MAINTENANCE	750	825	908	998	1098	1208	1329	1462	1608	1768
OTHER OPERATING EXPENSES	1860	2046	2251	2476	2723	2996	3295	3625	3987	4386
DEPRECIATION	3000	3000	3000	3000	3000	2000	1500	500	500	500
INTEREST PAID ON DEPOSITS	57110	62821	69103	76013	83615	91976	101174	111291	122420	134662
TOTAL EXPENSES	77455	84901	93091	102100	112010	121911	133402	145592	160101	176061
INCOME:										
INTEREST RECEIVABLES	75420	82962	91258	100384	110422	121465	133611	146972	161669	177836
CHARGES & COMMISSIONS	2000	2200	2420	2662	2928	3221	3543	3897	4287	4716
FOREIGN EXCHANGE	1100	1210	1331	1464	1611	1772	1949	2144	2358	2594
TOTAL INCOME:	78520	86372	95009	104510	114961	126457	139103	153013	168315	185146
NET PROFIT/(LOSS)	1,065	1,472	1,919	2,411	2,952	4,547	5,701	7,422	8,214	9,085

The third kind are charges on checks deposits or withdrawals. A certain amount is charged depending on the amount, currency and type of check issued or collected.

The fourth kind are those charges received from inward and outward money transfers. The amount charged on these transfers is a percentage of the amount transferred and which is about 0.1 percent.

Another source of revenue is the profit collected from the foreign exchange operations. In executing foreign exchange deals, sale or purchase of foreign currencies against Lebanese Pounds, the branch plays an intermediary role between the client and the dealing room in the Head Office, of course, against a certain margin of profit. The amount of commission received and income from foreign exchange are shown in Table 5.12.

5.3. PROFORMA PROFIT AND LOSS STATEMENT

After identifying all costs and revenues, a proforma profit and loss statement is presented in Table 5.13 in order to show the expected financial results of the new branch. In this statement all operating expenses are assumed to grow proportionally with the revenues except for the depreciation expenses which are fixed over the life span of the branch because they are fixed percentages of the historical cost of the assets.

The main bulk of expenses is the interest paid to deposits of the branch and which are previously presented in table 5.10.

Revenues, on the other hand, are mainly received from interest on the branch's deposits in the Head Office and the rest from charges and commission and foreign exchange operations. Although the Branch's profit and loss statement shows a successive profit through the ten years starting 1989, but this does not mean that the project is economically feasible. To test its viability, certain criteria are tested in chapter six.

CHAPTER SIX

FINANCIAL RESULTS

After estimating the sources and uses of funds in Chapter Four, we will try to present the economic evaluation of the branch as specified by two investment criteria, the Net Present Value and the Internal Rate of Return.

6.1. NET PRESENT VALUE INDICATOR

To test the economic feasibility of the proposed branch according to the NPV criterion, the cost of capital of the branch should be calculated. Because the Branch invests almost all its deposits in the Head Office, and because such investment does not hold a great deal of risk, then the cost of capital should be slightly higher than the opportunity rate of return on riskless assets, that is the rate of return on Treasury Bills which is 23%. So the cost of capital of the branch is considered to be 25%. This rate is used in NPV calculation to assess the economic evaluation of the branch. The NPV calculation is presented in Table 6.2 after discounting the difference between annual benefits and costs at a cost of capital equal to 25 percent. However Table 6.1 presents the salvage value of fixed assets at the end of the project's life.

TABLE 6.1
 SALVAGE VALUE OF FIXED ASSETS OF BAAKLIN BRANCH AT YEAR 1998
 (IN THOUSANDS)

TYPE OF ASSET	COST PRICE	ACCUMULATED DEPRECIATION	NET BOOK VALUE
FURNITURE AND FIXTURES	4000	3000	1000
MACHINES & EQUIPMENTS	2000	2000	0
COMPUTER & RELATED EQUIP	10000	10000	0
DECORATION	5000	5000	0
TOTALS	21000	20000	1000

TABLE 6.2

DISCOUNTED REVENUES AND COSTS OF BANK AL-MADINA - BAAKLIN BRANCH
(IN THOUSANDS)

YEAR	INVESTMENT COST (Co)	OPERATIONAL COSTS (Cn)	REVENUES (Rn)	NET RESULT (Rn - Cn)	PRESENT VALUE (Rn-Cn)/(1+r) ⁿ
1988	21000			(21,000)	(21,000)
1989		74,455	78,520	4,065	3,252
1990		81,901	86,372	4,472	2,862
1991		90,091	95,009	4,919	2,518
1992		99,100	104,510	5,411	2,216
1993		109,010	114,961	5,952	1,950
1994		119,911	126,457	6,547	1,716
1995		131,902	139,103	7,201	1,510
1996		145,092	153,013	7,922	1,329
1997		159,601	168,315	8,714	1,170
1998	1000	175,561	185,146	8,585	922
NET PRESENT VALUE :					(1,555)

According to the NPV investment criterion, a project is economically viable if its NPV is greater than zero. But the calculated NPV is found to be (1,555). So the proposed branch is not an economically viable project to adopt.

6.2. INTERNAL RATE OF RETURN INDICATOR

The Internal Rate of Return considers a project feasible if its IRR is greater than the cost of capital of the project. So if we try to calculate the IRR of the proposed branch by reducing the difference between discounted annual benefits and costs to zero, the IRR will be equal to 22.885% which is less than 25%, the cost of capital. So, according to the IRR investment criterion this project is also unfeasible.

6.3. SENSITIVITY ANALYSIS

It is known that one of the best channels in which a bank could have used its funds in a profitable manner is by offering credit facilities in the form of loans and bills. Currently, under the prevailing economic and political conditions, no loans are issued because there is no guarantee that these loans would be returned. If these conditions prevail over the life span of the branch, the branch is considered unfeasible as it is shown in Table 6.2.

Now let us study the feasibility of the branch under two different assumptions. The first is a higher growth index of the Branch's deposits and the second is offering some credit facilities in the form of guaranteed loans.

Because the owners of the Bank are from Baaklin and they have a lot of relatives and friends in the area, then they have an advantage over other banks in attracting more clients and to grow faster. If the growth index is assumed to be slightly higher than that of the market i.e. 0.13 instead of 0.10, then the branch is considered a feasible project to adopt since the NPV is calculated to be a positive 442000 and the IRR is 25.55% which is greater than the cost of capital. Corresponding results of this assumption concerning sources and uses of funds, interest payable and receivable, profit and loss statement and the net present value are shown in tables 6.3 to 6.8 respectively.

TABLE 6.3

EXPECTED DEFLATED SOURCES OF FUNDS OF BANK AL-MADINA - BAAKLIN BRANCH

(IN THOUSANDS)

	1889	1990	1991	1992	1993	1994	1995	1996	1997	1998
CURRENT ACCOUNTS										
LL.	34000	38420	43415	49058	55436	62643	70786	79989	90387	102137
FC.	18000	20340	22984	25972	29349	33164	37475	42347	47852	54073
TOTAL	52000	58760	66399	75031	84785	95807	108261	122335	138239	156210
SIGHT SAVING										
LL.	20000	22600	25538	28858	32609	36849	41639	47052	53169	60081
FC.	18000	20340	22984	25972	29349	33164	37475	42347	47852	54073
TOTAL	38000	42940	48522	54830	61958	70013	79114	89399	101021	114154
TIME SAVING										
LL.	260000	293800	331994	375153	423923	479033	541307	611677	691195	781051
FC.	200000	226000	255380	288579	326095	368487	416390	470521	531689	600808
TOTAL	460000	519800	587374	663733	750018	847520	957698	1082199	1222884	1381859
TOTAL SOURCES OF FUNDS	550000	621500	702295	793593	896760	1013339	1145073	1293933	1462144	1652223

TABLE 6.4

EXPECTED DEFLATED USES OF FUNDS OF BANK AL-MADINA - BAKKLIN BRANCH
(IN THOUSANDS)

ITEM \ YEAR	1889	1990	1991	1992	1993	1994	1995	1996	1997	1998
CASH										
LL.	8000	9040	10215	11543	13044	14739	16656	18821	21268	24032
FC.	9000	10170	11492	12986	14674	16582	18738	21173	23926	27036
TOTAL	17000	19210	21707	24529	27718	31321	35393	39994	45194	51069
PLACEMENT IN H.O.										
LL.	316000	357080	403500	453955	515230	582210	657897	743423	840068	949277
FC.	205000	231650	261764	295794	334247	377699	426800	482284	544981	615829
TOTAL	521000	588730	665265	751749	849477	959909	1084697	1225707	1385049	1565106
ACCIDENTAL DEBTORS										
LL.	1000	1130	1277	1443	1630	1842	2082	2353	2658	3004
FC.	11000	12430	14046	15872	17935	20267	22901	25879	29243	33044
TOTAL	12000	13560	15323	17315	19566	22109	24983	28231	31901	36049
TOTAL USE OF FUNDS	550000	621500	702295	793593	896760	1013339	1145073	1293933	1462144	1652223

TABLE 6.5

EXPECTED INTEREST PAYABLE ON DEPOSITS OF BANK AL-MADINA - BAAKLIN BRANCH

(IN THOUSANDS)

ITEM \ YEAR	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
INTEREST PAID TO CURRENT ACCOUNTS	1190	1345	1520	1717	1940	2192	2478	2800	3164	3575
LL.										
FC.	270	305	345	390	440	497	562	635	718	811
TOTAL	1460	1650	1864	2107	2380	2690	3040	3435	3881	4386
INTEREST PAID TO SIGHT SAVING	1600	1808	2043	2309	2609	2948	3331	3764	4254	4806
LL.										
FC.	810	915	1034	1169	1321	1492	1686	1906	2153	2433
TOTAL	2410	2723	3077	3477	3929	4440	5018	5670	6407	7240
INTEREST PAID TO TIME SAVINGS	38740	43776	49467	55898	63165	71376	80655	91140	102988	116377
LL.										
FC.	14500	16385	18515	20922	23642	26715	30188	34113	38547	43559
TOTAL	53240	60161	67982	76820	86806	98091	110843	125253	141536	159935
TOTAL INTEREST PAID	57110	64534	72924	82404	93116	105221	118900	134357	151824	171561

TABLE 6.6

EXPECTED INTEREST RECEIVABLE TO BANK AL-MADINA - BAAKLIN BRANCH

(IN THOUSANDS)

ITEM \ YEAR	1889	1990	1991	1992	1993	1994	1995	1996	1997	1998
INTEREST RECEIVED LL.	56880	64274	72630	82072	92741	104798	118421	133816	151212	170870
FROM PLACEMENT IN FC.	17425	19690	22250	25142	28411	32104	36278	40994	46323	52345
H.O. TOTAL	74305	83965	94880	107214	121152	136902	154699	174810	197536	223215
INTEREST RECEIVED LL.	180	203	230	260	293	332	375	423	479	541
FROM ACCIDENTAL FC	935	1057	1194	1349	1524	1723	1947	2200	2486	2809
DEBTORS TOTAL	1115	1260	1424	1609	1818	2054	2321	2623	2964	3350
TOTAL INTEREST RECEIVABLE	75420	85225	96304	108823	122970	138956	157021	177434	200500	226565

TABLE 6.7

PROFORMA PROFIT AND LOSS STATEMENT OF BANK AL-MADINA - BAAKLIN BRANCH

(IN THOUSANDS)

ITEM \ YEAR	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
EXPENSES:										
SALARIES	11250	12713	14365	16233	18343	20727	23422	26467	29907	33795
FAMILY ALLOWANCE-NSSF	600	678	766	866	978	1105	1249	1412	1595	1802
SICKNESS & MOTHERHOOD	770	870	983	1111	1255	1419	1603	1812	2047	2313
END OF SERV. INDEMNITY	750	848	956	1082	1223	1382	1561	1764	1994	2253
FAMILY ALLOWANCE - BANK	265	299	338	382	432	488	552	623	704	796
TRANSPORTATION	1100	1243	1405	1587	1794	2027	2290	2588	2924	3304
MAINTENANCE	750	848	958	1082	1223	1382	1561	1764	1994	2253
OTHER OPERATING EXPENSES	1860	2102	2375	2684	3033	3427	3872	4376	4945	5588
DEPRECIATION	3000	3000	3000	3000	3000	2000	1500	500	500	500
INTEREST PAID ON DEPOSITS	57110	64334	72924	82404	93116	105221	118900	134357	151824	171561
TOTAL EXPENSES	77455	87134	98072	110431	124397	139179	156512	175663	198434	224166
INCOME:										
INTEREST RECEIVABLE	75420	85225	96304	108823	122970	138956	157021	177434	200500	226565
CHARGES & COMMISSIONS	2000	2260	2554	2886	3261	3685	4164	4705	5317	6008
FOREIGN EXCHANGE	1100	1243	1405	1587	1794	2027	2290	2588	2924	3304
TOTAL INCOME:	78520	88728	100262	113296	128025	144668	163475	184727	208741	235877
NET PROFIT/(LOSS)	1,065	1,593	2,191	2,865	3,628	5,489	6,963	9,063	10,307	11,711

TABLE 6.8

DISCOUNTED REVENUES AND COSTS OF BANK AL-MADINA - BAAKLIN BRANCH

(IN THOUSANDS)

YEAR	INVESTMENT COST (Co)	OPERATIONAL COSTS (Cn)	REVENUES (Rn)	NET RESULT (Rn - Cn)	PRESENT VALUE (Rn-Cn)/(1+r) ⁿ
1988	21000			(21,000)	(21,000)
1989		74,455	78,520	4,065	3,252
1990		84,134	88,728	4,593	2,940
1991		95,072	100,262	5,191	2,658
1992		107,431	113,296	5,865	2,402
1993		121,397	128,025	6,628	2,172
1994		137,179	144,668	7,489	1,963
1995		155,012	163,475	8,463	1,775
1996		175,163	184,727	9,563	1,604
1997		197,934	208,741	10,807	1,450
1998	1000	223,666	235,877	11,211	1,204
NET PRESENT VALUE :					421

However, assume that the situation will get better and the bank would have the chance to issue some guaranteed loans, it is enough to allocate 5% of the bank's deposits to advances in order to get a NPV which is greater than zero 23,689,000 and an IRR which is equal to 52.64% which is also greater than 25% ,the cost of capital. The effects of this assumption on the profit and loss statement. net present value, uses of funds and the interest receivable of the Branch are all presented in tables 6.9, 6.10, 6.11 and 6.12 respectively.

Note that it is not difficult to issue such an amount in a form of loans especially because the area is still developing and as it is deduced from the questionnaire most of the respondents are complaining from the lack of credit facilities in the banks of Baaklin.

TABLE 6.9

PROFORMA PROFIT AND LOSS STATEMENT OF BANK AL-MADINA - BAKKLIN BRANCH

(IN THOUSANDS)

ITEM \ YEAR	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
EXPENSES:										
SALARIES	11250	12375	13613	14974	16471	18118	19930	21923	24115	26527
FAMILY ALLOWANCE-NSSF	600	660	726	799	878	966	1063	1169	1286	1415
SICKNESS & MOTHERHOOD	770	847	932	1025	1127	1240	1364	1501	1651	1816
END OF SERV. INDEMNITY	750	825	908	998	1098	1208	1329	1462	1608	1768
FAMILY ALLOWANCE - BANK	265	292	321	353	388	427	469	516	568	625
TRANSPORTATION	1100	1210	1331	1464	1611	1772	1949	2144	2358	2594
MAINTENANCE	750	825	908	998	1098	1208	1329	1462	1608	1768
OTHER OPERATING EXPENSES	1860	2046	2251	2476	2723	2996	3295	3625	3987	4386
DEPRECIATION	3000	3000	3000	3000	3000	2000	1500	500	500	500
INTEREST PAID ON DEPOSITS	57110	62821	69103	76013	83615	91976	101174	111291	122420	134662
TOTAL EXPENSES	77455	84901	93091	102100	112010	121911	133402	145592	160101	176061
INCOME:										
INTEREST RECEIVABLE	80668	88735	97609	107369	118106	129917	142909	157200	172920	190212
CHARGES & COMMISSIONS	2000	2200	2420	2662	2928	3221	3543	3897	4287	4716
FOREIGN EXCHANGE	1100	1210	1331	1464	1611	1772	1949	2144	2358	2594
TOTAL INCOME:	83768	92145	101360	111496	122645	134910	148401	163241	179565	197521
NET PROFIT/(LOSS)	6,313	7,245	8,269	9,396	10,636	12,999	14,999	17,649	19,464	21,460

TABLE 4.10

DISCOUNTED REVENUES AND COSTS OF BANK AL-MADINA - BAKKLIN BRANCH

(IN THOUSANDS)

YEAR	INVESTMENT COST (Co)	OPERATIONAL COSTS (Cn)	REVENUES (Rn)	NET RESULT (Rn - Cn)	PRESENT VALUE $(Rn-Cn)/(1+r)^n$
1988	21000			(21,000)	(21,000)
1989		74,455	83,768	9,313	7,451
1990		81,901	92,145	10,245	6,557
1991		90,091	101,360	11,269	5,770
1992		99,100	111,496	12,396	5,077
1993		109,010	122,645	13,636	4,468
1994		119,911	134,910	14,999	3,932
1995		131,902	148,401	16,499	3,460
1996		145,092	163,241	18,149	3,045
1997		159,601	179,565	19,964	2,679
1998	1000	175,561	197,521	20,960	2,251
NET PRESENT VALUE :					23,689

TABLE 6.11

EXPECTED DEFLATED USES OF FUNDS OF BANK AL-MAINA - BAAKLIN BRANCH

(IN THOUSANDS)

ITEM \ YEAR	1889	1990	1991	1992	1993	1994	1995	1996	1997	1998
CASH										
LL.	8000	8800	9680	10648	11713	12884	14172	15590	17149	18864
FC.	9000	9900	10890	11979	13177	14495	15944	17538	19292	21222
TOTAL	17000	18700	20570	22627	24890	27379	30117	33128	36441	40085
PLACEMENT IN H.O.										
LL.	300200	330220	363242	399566	439523	483475	531823	585005	643505	707856
FC.	194750	214225	235648	259212	285133	313647	345012	379513	417464	459210
TOTAL	494950	544445	598890	658778	724656	797122	876834	964518	1060969	1167066
ADVANCES										
LL.	15800	17380	19118	21030	23133	25446	27991	30790	33869	37256
FC.	10250	11275	12403	13643	15007	16508	18159	19974	21972	24169
TOTAL	26050	28655	31521	34673	38140	41954	46149	50764	55840	61425
ACCIDENTAL DEBTORS										
LL.	1000	1100	1210	1331	1464	1611	1772	1949	2144	2358
FC.	11000	12100	13310	14641	16105	17716	19487	21436	23579	25937
TOTAL	12000	13200	14520	15972	17569	19326	21259	23385	25723	28295
TOTAL USE OF FUNDS	550000	605000	665500	732050	805255	885781	974359	1071794	1178974	1296871

TABLE 6.12

EXPECTED INTEREST RECEIVABLE TO BANK AL-MADINA - BAAKLIN BRANCH

(IN THOUSANDS)

ITEM \ YEAR	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
INTEREST RECEIVED LL.	54036	59440	65384	71922	79114	87026	95728	105301	115831	127414
FROM PLACEMENT IN FC.	16534	18209	20030	22033	24236	26660	29326	32239	35484	39033
H.O. TOTAL	70590	77649	85414	93955	103350	113685	125054	137559	151315	166447
INTEREST RECEIVED LL.	7426	8169	8985	9884	10872	11960	13156	14471	15918	17310
FROM ADVANCES FC.	1538	1691	1860	2046	2251	2476	2724	2996	3296	3625
TOTAL	8964	9860	10846	11930	13123	14436	15879	17467	19214	21135
INTEREST RECEIVED LL.	180	198	218	240	264	290	319	351	386	424
FROM ACCIDENTAL FC.	935	1029	1131	1244	1369	1506	1656	1822	2004	2205
DEBTORS TOTAL	1115	1227	1349	1484	1632	1796	1975	2173	2390	2629
TOTAL INTEREST RECEIVABLE	80668	88735	97609	107369	118106	129917	142909	157200	172920	190212

CHAPTER SEVEN

CONCLUSION AND RECOMMENDATIONS

Without any doubt, under the prevailing conditions, the project is economically not feasible since it reveals a negative NPV equal to L.L. (1,555,000) and a 22.88% rate of return compared to 25% cost of capital.

Since this is a commercial profit seeking project, it should be rejected and other alternatives should be identified.

However, if the situation of Lebanon improves, the growth of deposits of the Branch - as well as that of the market - will be positively affected and the Bank can have the chance to change its policy towards offering additional credit facilities, the project can be considered as economically feasible if the percentage of its advances to deposits goes up to a minimum of 5 percent.

What can be concluded from the financial statements of the proposed branch is that, it could be a self financing branch as the profit and loss statement shows a successive profit over the branch life span and the revenues generated

from its operations are quite enough to meet all yearly operation costs.

It is recommended that the Management of the Bank should be aware of the fact that although the Branch is self financed and the profit and loss statement shows a successive profit, but it is not economically feasible and the capital invested in this branch could have been invested in another alternative profitable project.

It is also recommended that the Management should offer its services in a better standard than that of its competitors and to build up a good reputation for the future in order to attract additional clients and to capture a higher market share.

In addition to that, the Branch should offer additional services such as credit facilities in the form of letters of guarantees, bills and loans - of course against certain guarantees - which are not offered by the competitors in Baaklin and the area and which are highly demanded as shown by the results of the questionnaire distributed. Keeping in mind that this kind of services will generate additional profits and turns the investment in Baaklin Branch into an economically feasible one.

APPENDIX A

The information that will be extracted from this questionnaire will be used as a source of data in a Masters reseach study. Please give acurate answers. Thanks for your cooperation.

1 - Profession _____

2 - Residence Address _____

3 - Work Address _____

4 - Marital Status Single __ Married __ No. of child. __

5 - Monthly salary __ 25,000-40,000 __ 40,001-60,000
 __ 60,001-80,000 __ 80,001-100,000
 __ Above 100,000

6 - Monthly savings __ Nothing __ 5,000-10,000
 __ 10,001-20,000 __ 20,001-30,000
 __ 30,001-50,000 __ Above 50,000

7 _ How do you invest your savings(percentage)

Deposits in banks ___%

Investment in trade ___%

Investment in Real Estate ___%

Other investments ___%

Luxury ___%

8 - If you deposit your savings in a bank, on what basis do you choose the bank you are dealing with (you can point out more than one reason)?

- It offers a higher interest rate
- It offers quick service
- It offers additional services
- Special relation
- Other reasons

9 - What are the services you get from this bank?

- Deposits
- Checks issuance
- Foreign Exchange
- Letters of Credits
- Letters of Guarantee
- Credit facilities
- Other services

10- What are the services you demand which are not offered at Baaklin banks?

APPENDIX B

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X6 INCOME

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
20 to 40 Thousands income	1	4	7.5	7.5	7.5
40 to 60 Thousands income	2	10	18.9	18.9	26.4
60 to 80 Thousands income	3	8	15.1	15.1	41.5
80 to 100 Thousands income	4	13	24.5	24.5	66.0
Above 100 Thousands income	5	18	34.0	34.0	100.0
TOTAL		53	100.0	100.0	

Mean 3.585

Valid Cases 53 Missing Cases 0

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This procedure was completed at 19:04:08

**** Memory allows a total of 977 Values, accumulated across all Variables.
 There also may be up to 122 Value Labels for each Variable.

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X7 SAVINGS

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
	0	1	1.9	1.9	1.9
0	1	15	28.3	28.3	30.2
05 to 10 Thousands savings	2	11	20.8	20.8	50.9
10 to 20 Thousands savings	3	10	18.9	18.9	69.8
20 to 30 Thousands savings	4	4	7.5	7.5	77.4
30 to 50 Thousands savings	5	3	5.7	5.7	83.0
above 50 thousands savings	6	9	17.0	17.0	100.0
TOTAL		53	100.0	100.0	

Mean 2.868

Valid Cases 53 Missing Cases 0

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This procedure was completed at 19:04:15

**** Memory allows a total of 977 Values, accumulated across all Variables.
 There also may be up to 122 Value Labels for each Variable.

XB DEPOSITS IN BANKS

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
Deposits as a percentage of savings	0.0	15	28.3	28.3	28.3
	.05	1	1.9	1.9	30.2
	.10	2	3.8	3.8	34.0
	.15	1	1.9	1.9	35.8
	.20	8	15.1	15.1	50.9
	.25	2	3.8	3.8	54.7
	.30	1	1.9	1.9	56.6
	.35	1	1.9	1.9	58.5
	.40	2	3.8	3.8	62.3
	.50	6	11.3	11.3	73.6
	.55	1	1.9	1.9	75.5
	.60	2	3.8	3.8	79.2
	.70	1	1.9	1.9	81.1
	.75	1	1.9	1.9	83.0
	1.00	9	17.0	17.0	100.0
	TOTAL	53	100.0	100.0	

XB DEPOSITS IN BANKS

Mean .361

Valid Cases 53 Missing Cases 0

This procedure was completed at 19:04:26

***** Memory allows a total of 977 Values, accumulated across all Variables.
 There also may be up to 122 Value Labels for each Variable.

X13 REASONS FOR CHOICE

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
	0	15	28.3	28.3	28.3
	1	2	3.8	3.8	32.1
	10	2	3.8	3.8	35.8
	11	3	5.7	5.7	41.5
	100	2	3.8	3.8	45.3
	110	2	3.8	3.8	49.1
	111	1	1.9	1.9	50.9
	1000	4	7.5	7.5	58.5
	1001	1	1.9	1.9	60.4
	1010	1	1.9	1.9	62.3
	1100	2	3.8	3.8	66.0
	1110	2	3.8	3.8	69.8
	10000	1	1.9	1.9	71.7
	10001	2	3.8	3.8	75.5
	10010	4	7.5	7.5	83.0
	10100	2	3.8	3.8	86.8
	10110	3	5.7	5.7	92.5
	11000	3	5.7	5.7	98.1

X13 REASONS FOR CHOICE

11010	1	1.9	1.9	100.0
TOTAL	53	100.0	100.0	

Valid Cases 53 Missing Cases 0

This procedure was completed at 19:04:46

***** Memory allows a total of 977 Values, accumulated across all Variables.
There also may be up to 122 Value Labels for each Variable.

The above table corresponds to question number eight of the questionnaire. The column under "value" represents the different reasons behind the choice of the respondent; 1 means yes and 0 means no. For example, if the answer is 10110 it means that the respondent chooses that bank because it offers high interest rate on deposits, it offers additional services and the respondent has special relation with the staff of the bank.

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