

CHAPTER V
CAPITAL AND RESOURCES COMPUTATION

1. Capital Funds = x (see A - attached)
2. Net Working Funds = y (see B - attached)
3. Risk Weights = m (see C - attached)
4. Conversion Factors = a or b (see D & E attached)
5. Total Weighted Risk Assets = (i) + (ii) + (iii) = n
- (i) On Balance Sheet items X m
 - (ii) Off Balance Sheet Items X a X m
 - (iii) Foreign Exchange and
Interest Contracts X b X m or 50%*
6. Risk Weighted Capital Ratio = $\frac{x/y}{n} \times 100$

* 50% applicable to counterparties which would otherwise attract a 100% weight since the counterparties in these markets are usually first class names.

A - CAPITAL FUNDS

The constituents of capital funds

In principle, a constituent of capital funds should possess the following characteristics:-

- i) fully paid-up and permanently available;
- ii) freely available and not earmarked to particular assets or banking activities;
- iii) able to absorb losses occurring in the course of an on-going business; and
- iv) represents no fixed charge on the earnings of an institution.

A two-tier system is used in the determination of capital funds. Tier 1 capital (also known as core capital) consists of elements which satisfy the four criteria stated above. They represent resources that can be used to meet current losses while enabling the financial institution to continue operating as a going concern. Tier 2 capital (also known as supplementary capital), on the other hand, comprises elements which are available to meet losses, but which have certain drawbacks compared with the core capital, for example, in the case of a subordinated loan, it cannot be utilised to absorb on-going losses, it can only do so in the event of liquidation. Taking cognizance of the drawbacks, Tier 2 capital components are, in aggregate, limited to no more than the amount of core capital, besides being subject to various other restrictions. In arriving at the final amount of capital funds, certain deductions are made. Goodwill, which cannot be used to support losses on an on-going basis, is deducted from Tier 1 capital. Investments in subsidiaries and other financial institutions' capital are also deducted in assessing capital adequacy on an institutional or global basis (unconsolidated subsidiaries in the case of a consolidated assessment), in order to prevent double-leveraging of capital resources in the system.

Thus, the capital funds would consist of:-

Tier 1 capital: -

- i) Ordinary paid-up share capital;
- ii) Non-cumulative perpetual preference shares;
- iii) Share premium;
- iv) Statutory reserve fund;
- v) General reserve fund,
- vi) Retained profits as in last audited accounts less any accumulated losses, including current unaudited losses;
- vii) After tax surplus arising from the sale of fixed assets and long-term investments in the current financial year;
- viii) Current unadjusted net profits on a half-yearly basis subject to certification by approved external auditors; and
- ix) Minority interests consistent with the Tier 1 capital components (applicable only in the case of consolidated assessment).

Less: Goodwill

Plus: Tier 2 capital (limited to no more than Tier 1 capital):-

- i) Hybrid capital instruments, for example, cumulative perpetual preference shares, perpetual loan stocks and mandatory convertible loan stocks, approved by the Central Bank on a case-by-case basis;

- ii) Minority interests arising from consolidation of the preference shares issued by subsidiaries. (applicable only in the case of consolidated assessment);
- iii) Subordinated term debt approved by Central Bank (eligible amount restricted to 50% of core capital);
- iv) Revaluation reserves of premises; and
- v) General provisions for bad and doubtful debts.

Less:

- i) Investment in unconsolidated subsidiaries; and
- ii) Holdings of other licensed financial institutions' capital.

B - NET WORKING FUNDS

Composition of Net Working Funds

- i) Net amount due to Head Office and Branches Outside Malaysia, denominated in ringgit.
- ii) Retained profit brought forward from previous financial year (as in last audited accounts) arising from their operations in Malaysia (less accumulated losses, including current unadjusted and unaudited losses). However, Bank Negara will permit the following items to be included:-
 - (a) current unaudited profits on a half-yearly basis subject to certification by the bank's approved external auditor; and
 - (b) any surplus after tax, arising from the sale of fixed and long-term investments in the course of the bank's current financial year.

iii) General provision for bad and doubtful debts (as reported in last audited accounts) arising from their operations in Malaysia, provided specific provisions are not staggered.

iv) Reserves arising from the revaluation of premises.

Deduct:

v) Net amount due from Head Branches outside Malaysia in foreign currency.

vi) Net amount due from other banks and financial institutions in and outside Malaysia in foreign currency.

Less

Net amount due to Head Office and branches outside Malaysia in foreign currency (applies only in the case where (v) above is a net inflow).

vii) Net amount due from other banks and other financial institutions outside Malaysia dominated in ringgit.

viii) Net other assets outside Malaysia in all currencies (excluding foreign trade bills).

Risk weights by category of on-balance-sheet assets

- 0%
- a) Cash¹
 - b) Claims on central governments and central banks denominated in national currency and funded in that currency.
 - c) Other claims on OECD², central governments³, and central banks.
 - d) Claims collateralised by cash or OECD central government

0%, 10%, 20% or 50% (at national discretion)	<ul style="list-style-type: none"> e) securities³ or guaranteed by OECD central governments⁴. a) Claims on domestic public-sector entities, excluding central-government, and loans guaranteed⁴ by such entities.
20%	<ul style="list-style-type: none"> a) Claims on Multilateral development banks (IBRD; IADB; AsDB; AfDB; EIB)⁵ and claims guaranteed by, or collateralised by securities issued by such banks⁴. b) Claims on banks incorporated in the OECD and loans guaranteed⁴ by OECD incorporated banks. c) Claims on banks incorporated in countries outside the OECD with a residual maturity of up to one year and loans with a residual maturity of up to one year guaranteed by banks incorporated in countries outside the OECD. d) Claims on non-domestic OECD public-sector entities, excluding central government, and loans guaranteed⁴ by such entities. e) Cash items in process of collection.
50%	<ul style="list-style-type: none"> a) Loans fully secured by mortgage on residential property that is, or will be, occupied by the borrower or that is rented.
100%	<ul style="list-style-type: none"> a) Claims on the private sector. b) Claims on banks incorporated outside the OECD with residual maturity of over one year. c) Claims on central governments outside the OECD (unless denominated in national currency - and funded in that currency - see above.) d) Claims on commercial companies owned by the public sector. e) Premises, plant and equipment and other fixed assets. f) Real estate and other investments (including non-consolidated investment participations in other companies). g) Capital instruments issued by other banks (unless deducted from capital). h) All other assets.

Notes:

- 1 Includes (at national discretion) gold bullion held in own vaults or on an allocated basis to the extent backed by bullion liabilities.
- 2 The OECD comprises countries which are full members of the OECO or which have concluded special lending arrangements with the IMF associated with the Fund's General Arrangements to Borrow.
- 3 Some member countries interact to apply weights to securities issued by OECO central governments to take account of investment risk. These weights would for example be 10 percent for all securities or 10percent for those maturing in up to one year and 20 per cent for those maturing in over one year.
- 4 Commercial loans partially guaranteed by these bodies -will attract equivalent low -weights on that part of the loan which is fully covered. Similarly. loans partially collateralised by cash or securities issued by OECD central governments and multilateral development banks will attract low weights on that part of the loan which is fully covered.
- 5 Claims on other multilateral development banks in which G-10 countries are shareholding members may at national discretion, also attract a 22 per cent weight.

D - CONVERSION FACTORS

Credit conversion factors for off-balance-sheet items

The framework takes account of the credit risk on off-balance-sheet exposures by applying credit conversion factors to the different types of off-balance-sheet instruments or transactions. With the exception of foreign and interest rate related contingencies, the credit conversion factors are set out in the table below. They are derived from the estimated size and likely occurrence of the credit exposure, as well as the relative degree of credit risk as

identified in the Committee's paper "The management of banks' off-balance-sheet exposures: a supervisory perspective" issued in March 1986. The credit conversion factors would be multiplied by the weights applicable to the category of the counterparty for an on-balance-sheet transaction.

Instruments

	Credit Conversion Factors
1. Direct credit substitutes, eg. general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptances).	100%
2. Certain transaction-related contingent items (eg. performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions).	50%
3. Short-term self-liquidating trade-related contingencies (such as documentary credits collateralised by the underlying shipments).	20%
4. Sale and repurchase agreements and asset sales with recourse ¹ . where the credit risk remains with the bank.	100%
5. Forward asset purchases, forward deposits and partly-paid shares and securities ¹ which represent commitments with certain drawdown.	100%
6. Note issuance facilities and revolving under-writing facilities.	50%
7. Other commitments (e.g. formal standby facilities and credit lines) with an original ² maturity of over one year.	50%

¹ These items are to be weighted according to the type of asset and not according to the type of counterparty with whom the transaction has been entered into. Reverse repos (i.e. purchase and resale agreements - where the bank is the receiver of the asset) are to be treated as collateralised loans, reflecting the economic reality of the transaction. The risk is therefore to be measured as an exposure on the counterparty. Where the asset temporarily acquired is a security which attracts a preferential risk weighting, this would be recognised as collateral and the risk weighting would be reduced accordingly.

² See footnote 5 in the main text.

8. Similar commitments with an original² maturity of up to one year or 0% which can be unconditionally cancelled at any time.

(N.B. Member countries will have some limited discretion to allocate particular instruments into items 1 to 8 above according to the characteristics of the instrument in the national market.)

Foreign exchange and interest rate related contingencies

The treatment of foreign exchange and interest rate related items needs special attention because banks are not exposed to credit risk for the full face value of their contracts, but only to the potential cost of replacing the cash flow (on contracts showing positive value) if the counterparty defaults. The credit equivalent amounts will depend inter alia on the maturity of the contract and on the volatility of the rates underlying that type of instrument.

Despite the wide range of different instruments in the market, the theoretical basis for assessing the credit risk on all of them has been the same. It has consisted of an analysis of the behaviour of matched pairs of swaps under different volatility assumptions. Since exchange rate contracts involve an exchange of principal on maturity, as well as being generally more volatile, higher conversion factors are proposed for those instruments which feature exchange rate risk. Interest rate contracts³ are defined to include single-currency interest rate swaps; basis-swaps; forward rate agreements; interest rate futures, interest rate options purchased and similar instruments. Exchange rate contracts³ include cross-currency interest rate swaps, forward foreign exchange contracts, currency futures, currency options purchased and similar instruments. Exchange rate contracts with an original maturity of 14 calendar days or less are excluded.

³ Instruments traded on exchanges may be excluded where they are subject to daily margining requirements. Options purchased over the counter are included with the same conversion factors as other instruments, but this decision might be reversed in the light of future experience.

A majority of G-10 supervisory authorities are of the view that the best way to assess the credit risk on these items is to ask banks to calculate the current replacement cost by marking contracts to market, thus capturing the current exposure without any need for estimation, and then adding a factor (the "add-on") to reflect the potential future exposure over the remaining life of the contract. It has been agreed that, in order to calculate the credit equivalent amount of its off-balance-sheet interest rate and foreign exchange rate instruments under this current exposure method, a bank would sum:

- the total replacement cost (obtained by "marking to market") of all its contracts with positive value and;
- an amount for potential future credit exposure calculated on the basis of the total notional principal amount of its book, split by residual maturity as follows:

Residual maturity	Interest Rate Contracts	Exchange Rate Contracts
Less than one year	nil	1.0%
One year and over	0.5%	5.0%

No potential credit exposure would be calculated for single currency floating / floating interest rate swaps: the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market value.

A few G-10 supervisors believe that this two-step approach, incorporating a "mark to market" element, is not consistent with the remainder of the capital framework. They favour a simpler method whereby the potential credit exposure is estimated against each type of contract and a notional capital weight allotted, no matter what the market value of the contract might be at a particular reporting date. It has therefore been agreed supervisory authorities should have discretion⁴ to apply the alternative method of calculation described below, in which credit conversion factors are derived without reference to the current market price of the instruments. In deciding on what those notional credit conversion factors should

⁴ Some national authorities may permit individual banks to choose which method to adopt, it being understood that once a bank had chosen to apply the current expenditure method, it would not be allowed to switch back to the original exposure method.

be, it has been agreed that a slightly more cautious bias is justified since the current exposure is not being calculated on a regular basis.

In order to arrive at the credit equivalent amount using this original exposure method, a bank would simply apply one of the following two sets of conversion factors to the notional principal amounts of each instrument according to the nature of the instrument and its maturity:

Maturity⁵	Interest Rate Contracts	Exchange Rate Contracts
Less than one year	0.5%	2.0%
One year and less than two years	1.0%	5.0% (ie. 2% =3%)
For each additional year	1.0%	3.0%

It is emphasised that the above conversion factors, as well as the "add-ons" for the current expenditure method, should be regarded as provisional and may be subject to amendment as a result of changes in the volatility of exchange rates and interest rates.

Careful consideration has been given to the arguments put forward for recognising netting, i.e. for weighting the net rather than the gross claims arising out of swaps and similar contracts with the same counter-parties. The criterion on which a decision has been based is the status of a netting contract under national bankruptcy regulations. If a liquidator of a failed counterparty has (or may have) the right to unbundle the netted contracts, demanding performance on those contracts favourable to his client and defaulting on unfavourable contracts, there is no reduction in counterparty risk. Accordingly, it has been agreed that:

- banks may net contracts subject to novation⁶ since it appears that counter-party risk is genuinely reduced by the substitution of a novated contract which legally extinguishes

⁵ For interest rate contracts, there is national discretion as to whether the conversion factors are to be based on original or residual maturity. For exchange rate contracts, the conversion factors are to be calculated according to the original maturity of the instrument.

⁶ Netting by novation as defined in this context is a bilateral contract between two counter-parties under which any obligation to each other to deliver a given currency on a given date is automatically amalgamated with all

the previous obligation. However, since under some national bankruptcy laws liquidators may have the right to unbundle transactions undertaken within a given period under a charge of fraudulent preference, supervisory authorities will have national discretion to require a phase-in period before a novation agreement can be recognised in the weighting framework;

- banks may not for the time being net contracts subject to close-out clauses⁷ The effectiveness of such agreements in an insolvency has not yet been tested in the courts, nor has it been possible to obtain satisfactory legal opinion that liquidators would not be able to overturn them. However, the Committee does not wish to discourage market participants from employing clauses which might well afford protection in certain circumstances in some national jurisdictions and would be prepared to reverse its conclusion if subsequent decisions in the courts support the integrity of close-out netting agreements⁸. In any event, the Committee will continue its work to assess the acceptability of various forms of netting.

Once the bank has calculated the credit equivalent amounts, whether according to the current or the original exposure method, they are to be weighted according to the category of counter-party in the same way as in the main framework, including concessionary weighting in respect of exposures backed by eligible guarantees and collateral. In addition, since most counter-parties in these markets, particularly for long-term contracts, tend to be first-class names, it has been agreed that a 50 per cent weight will be applied in respect of counter-parties, which would otherwise attract a 100 percent weight⁹. However, the Committee will

other obligations for the same currency and value date, legally substituting one single net amount for the previous gross obligations.

⁷ Close-out as defined in this context refers to a bilateral contract which provides that, if one of the counterparties is wound up, the outstanding obligations between the two are accelerated and netted to determine the counterparty's net exposure.

⁸ The other principal form of netting, payments netting, which is designed to reduce the counterparty risk arising out of daily settlements, will not be recognised in the capital framework since the counterparty's gross obligation are not in any way affected.

⁹ Some member countries reserve the right to apply the full 100 percent weight.

keep a close eye on the credit quality of participants in these markets and reserves the right to raise the weights if average credit quality deteriorates or if loss experience increases.

E CONVERSION FACTORS

Conversion of foreign exchange and interest rate related contracts

Special treatment is given to these items since banks are not exposed to credit risk for the full face value of their contracts, but only to the potential cost of replacing the cash-flow difference if the counterparty defaults. The credit equivalent amount will depend, inter alia, on the maturity of the contract and on the volatility of the rates underlying that type of instrument. To determine the credit equivalent amount of a contract using the "original exposure method", the notional principal amount of such contracts is multiplied by one of the following conversion factors determined according to the nature of the instrument and its maturity:-

Original Maturity	Interest Rate Related Contracts	Exchange Rate Contracts*
Less than one year	0.5%	2.0%
One year and less than two years	1.0%	5.0%
For each additional year	1.0%	3.0%

*Contracts with an original maturity of 14 calendar days or less are excluded.

The credit equivalent of the foreign exchange and interest rate related contracts is weighted according to the category of counterparty or nature of obligor, except that a 50% weight will be applied in respect of counterparties which would otherwise attract a 100% weight in view that the counterparties in these markets are usually first class names.

The minimum standard and transitional requirements

All domestic financial institutions in Malaysia are expected to comply with a minimum risk-weighted capital ratio of 8% by end-1992, while the target minimum ratio for the foreign banks is set at 10% to reflect the fact that net working funds rather than "genuine" capital funds are used. Further; the foreign banks are not subject to the two-tier system applicable to the domestic financial institutions in the computation of the capital base. The "risk, - weighted capital ratio is calculated based on the formula enumerated below:

$$\text{Risk Weighted Capital Ratio (\%)} = \frac{\text{Capital Funds / Net Working Funds}}{\text{Total Weighted Risk Assets}} \times 100$$

$$\text{Total Weighted Risk Assets} = [\text{On-balance sheet items} + (\text{Off-balance sheet items} \times \text{Conversion factor})] \times \text{Risk Weights}$$

To ensure that the financial institutions are able to meet the target minimum standard of 8% (10% in the case of foreign banks), the Central Bank has set out the following transitional requirements:-

- (i) Commencing from end-September 1989, Financial institutions which have a risk-weighted capital ratio below the target ratio of 8% (10% in the case of foreign banks) would not be allowed to dilute the ratio as at that date, and would be required to achieve 7.25% (9.25% for foreign banks) by end-1990; and
- (ii) Financial institutions which have a ratio of 8% or more (10% or more for foreign banks) as at the end of September 1989 would not be allowed to dilute the ratio to below the 1992 target.

Depending on the availability of figures, the ratios for the above would appear as follows:

1. Notation

- CA: Cash (and due from banks)
 CS: Capital Stock/Paid up capital
 DC: Debt Capital (Long-Term Subordinated Debt)
 EC: Equity Capital
 FA: Fixed Assets
 NI: Net Income
 RA: Risks Assets (total assets less cash and government securities)
 RL: Reserves on Loans and Securities
 TA: Total Assets
 TC: Total Capital (EC + DC + RL)
 TD: Total Deposits

2. Ratios

- (a) TC / TD
 (b) TC / TA
 (c) TC / RA
 (d) Loans / TD
 (e) Provision / Average Lending or loans
 (f) Liquid Assets / Average TC
 (g) Liquid Assets / Average Deposits or TD
 (h) Net Loan / Average Deposits or TD
 (i) NI / TC
 (j) NI / TA
 (k) $NI / \text{Total Operating Income}$
 (l) $\text{Interest Income} / \text{Total Operating Income}$
 (m) $\text{Non-Interest Income} / \text{Total Operating Income}$
 (n) Staff / NI
 (o) $\text{Non Interest Expense} / \text{Total Operating Expenses}$
 (p) $\text{Interest Expenses} / \text{Total Operating Expenses}$
 (q) Capital Formation Rate =

$$\frac{\text{Net Income} - \text{Dividends Paid}}{\text{Total Capital}}$$

Equity Capital (year start)

3. Definitions

- (a) Capital consists of
 - (i) Permanent shareholder's equity (issued and- fully paid ordinary shares/common stock and perpetual non-cumulative preference shares),
 - (ii) Disclosed reserves (created or increased by appropriations of retained earnings or other surplus, eg. share premiums, general reserves and legal reserves)
 - (iii) Minority interests in the equity of subsidiaries, which are less than wholly owned (consolidated accounts only)
- (b) Liquid assets comprise shortest-term assets such as cash, bullion, due from banks (short term deposits with other banks) and investment in securities and other dealing assets.
- (c) Other definitions can be found in a sample bank balance sheet and profit and loss account in Table 2(i) & 2(ii).

Table 2(i)A bank balance sheet and profit and loss account

Consolidated Statement of Condition
as at December 31, 1987

	1987	1986
Assets		
Cash and Due from Banks	5,425,282	6,096,278
Certificates of Deposit	1,983,805	1,411,698
Investment in Securities and Other Dealing Assets	2,054,389	1,596,592
Loans and Advance (less provision for loan losses)	9,224,882	7,568,114
Accrued Interest	351,820	297,702
Investment in Affiliates	75,365	95,554
Property and Equipment	239,393	203,273
Other Assets	<u>288,06.4</u>	<u>210,695</u>
Total Assets	<u>19,643,000</u>	<u>17,479,906</u>
Liabilities		
Demand Deposits	2,990,813	2,891,912
Savings and Time Deposits	12,448,424	10,893,531
Due to Banks	2,010,987	1,586,962
Floating Rate Notes	50,000	50,000
Accrued Interest on Deposits & Other Funds	<u>224,278</u>	<u>214,327</u>
Total Deposits and Other Funds	17,724,502	15,636,732
Provision for Taxes	46,745.	59,261
Other liabilities	<u>402,571</u>	<u>337,476</u>
Total Liabilities	<u>18,173,818</u>	<u>16,033,469</u>
Capital Fund		
Issued and Paid up Shares	660,000	599,169
Proposed Stock Dividend	66,000	60,831
Legal Reserves	48,316	44,649
Retained Earnings and Other Reserves	<u>206,701</u>	<u>336,212</u>
Shareholders' Equity	981,017	1,040,861

Subordinated Capital Notes	389,000	310,500
Minority Interests	<u>99,165</u>	<u>95,076</u>
Total Capital Fund	<u>1,469,182</u>	<u>1,446,437</u>
Capital Fund and Total liabilities	<u>19,643,000</u>	<u>17,479,906</u>
Contra Accounts		
Acceptances	323,556	310,458
Letters of Credit	2,122,327	1,780,757
Letters of Guarantee	<u>2,107,926</u>	<u>2,022,824</u>
	<u>4,553,809</u>	<u>4,114,039</u>

Table 2 (ii)**Consolidated Statement of Earnings**

For the year ended December 31, 1987

	1987	1986
	US\$'000	US\$'000
Income		
Interest Income	1,581,185	1,487,442
Interest Expense	(1,195,456)	(1,136,876)
Net Interest Income	<u>385,729</u>	<u>350,556</u>
Other Operating Income	293,130	347,784
Total Income	<u>678,859</u>	<u>698,350</u>
Operating Expenses		
Salaries and Related Costs	230,536	202,980
Occupancy Expenses	81,550	67,214
Depreciation on Property and Equipment	29,908	27,778
Other Expenses	151,424	168,744
Total Expenses	<u>493,418</u>	<u>466,716</u>
Net Operating Profit	185,441	231,634
Loan Loss Provision	(70,000)	(112,221)
Profit before Taxation	<u>115,441</u>	<u>119,413</u>
Taxation for the year	(60,000)	(68,207)
Profit after Taxation	<u>55,441</u>	<u>51,206</u>
Minority Interests	(17,998)	(29,025)
Profit Attributable to Shareholders	<u>37,453</u>	<u>22,181</u>
Statement of Retained Earnings and Other Reserves		
At beginning of the year	336,212	218,324
Adjustment to provisions brought forward	(100,000)	—
Profit for the year	<u>37,453</u>	<u>22,181</u>
	273,665	240,505
Premium on issue of shares	—	187,500

Other Reserve Movements	12,371	(19,783)
Appropriations		
Proposed Stock Dividends	(66,000)	(60,831)
Transfer to Legal Reserves	(4,766)	(4,222)
Other Appropriations	(8,569)	(6,957)
Carried forward at end of the year	<u>206,701</u>	<u>336,212</u>

Trend Analysis

The above ratios would be analysed for a number of years to observe the performance and management in terms of trends or changes over those years.

Such ratios would be compared with other similar banks or against the norm of financial institutions if available, to reach a meaningful conclusion of the financial health of the bank evaluated.

Basle Capital Accord

As frequently noted, the role of bank capital is to provide a fund against which to charge off temporary and unexpected loss. It is also a more sound primary indicator of a bank's strength.

In this connection, the Basle Capital Accord adopting the weighted risk asset approach can be used to measure capital adequacy in line with the set minimum.

Appendix A provides an account of the Basle Capital Accord on Capital Adequacy Requirement Risk-weight capital Ratio and also the New Capital Adequacy Requirement of BNM**

In determining the capital adequacy, if figures are available, comparison will be made against the standard set under the Basle Capital accord and also that of BNM's Capital Adequacy Requirement.

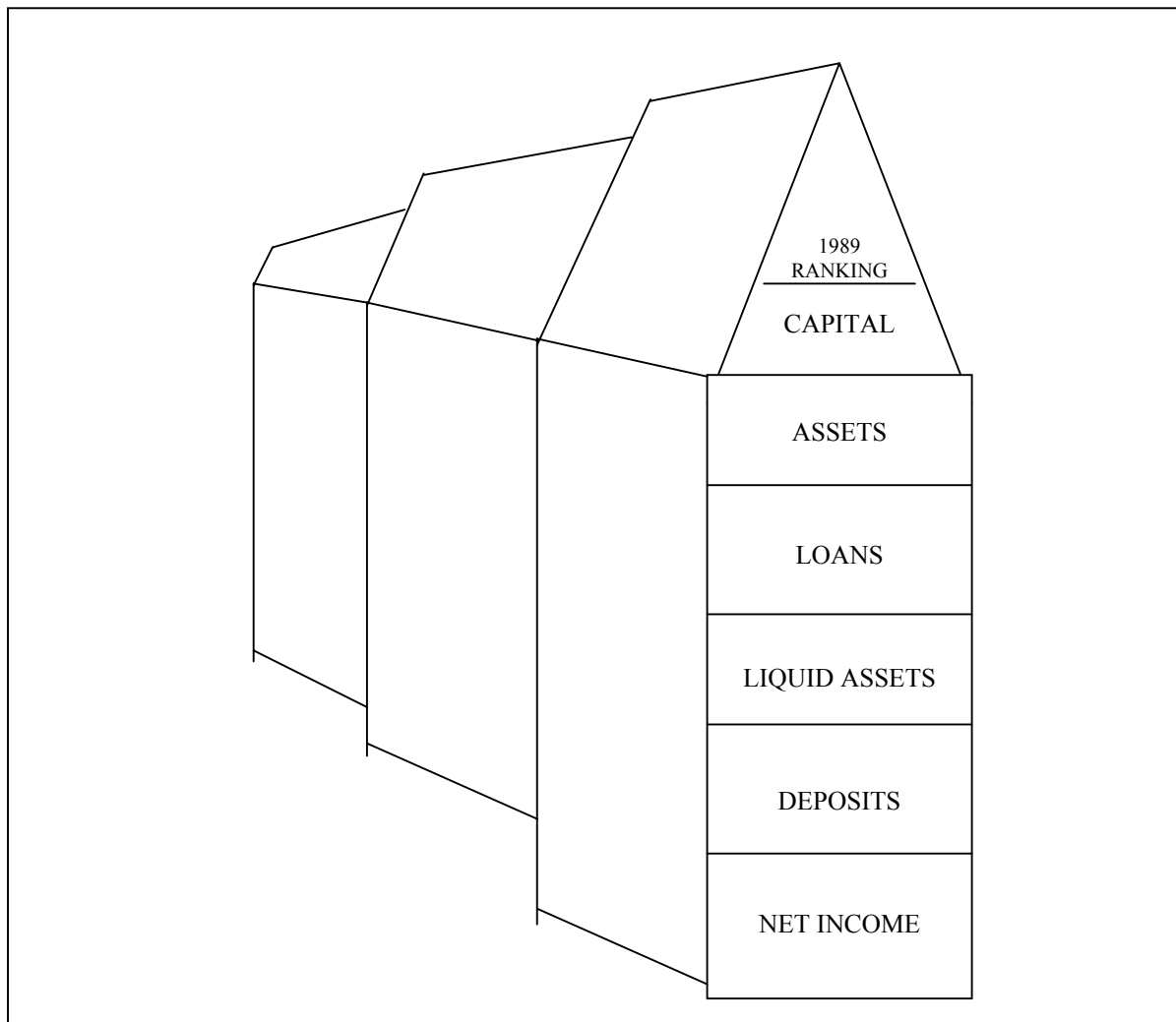
Decision

For the purpose of an analysis to support bank to add confirmation on L/C from a foreign bank, a less complex evaluation can be carried out as indicated in Table 3.

This will be sufficient to enable the analyst to reach his decision whether the risk perceived is acceptable or not.

* Bank Negara Malaysia

Table 3 Profile and basic performance indicators



For a decision to encompass a revolving or operational relationship, it will require an in-depth appraisal on the performance and management.

Credit Limit Submission Sheet

In view of the above, the attached credit limit submission sheet adopted from underwriting a buyer's credit limit will be used to evaluate the financial health of the L/C issuing bank and the fixing of a credit limit.

Capital Adequacy Requirement (CAR)

The computation of CAR on a foreign L/C issuing bank could be made if information for such purpose is available. The basic for CAR however would follow the paper on CAR Risk weighted Capital Ratio see Appendix II on CAR. The CAR is based on a concept of

weighting assets according to their perceived level of risk (categorised into five risk weights of 0%, 10%, 20%, 50% and 100%) and assessing the adequacy of capital on the risk-adjusted assets. The weighted risk asset approach weights both on and off balance sheet exposures of a financial institution to credit risk. The categories of risk weights are broad-brush in their judgement of the riskiness of various types of assets and are not meant to be a substitute for assessment of creditworthiness based on the evaluation of ratios as explained in the above paragraphs.

The risk weighted capital ratio is calculated based on the formula enumerated below:

$$\text{Risk weighted capital ratio} = \frac{\text{Capital Funds/Net working funds} \times 100}{\text{Total Weighted Risk Assets}}$$

$$\text{Total Weighted Risk Assets} = [\text{On-Balance Sheet Items} + (\text{off-Balance Sheet Items} \times \text{Conversion Factor})] \times \text{Risk Weights}$$

How To Obtain Financial Information On L/C Issuing Bank (LCIB)

1. All applications for approval on L/C to be confirmed is required to be accompanied with a latest annual report or financial information especially when the LCIB is the applicant's correspondence bank.
2. A reference will be made to Polk's or other Bankers' Directories to extract relevant financial or other information if available.
3. A direct request will be made to the banker or its parent. This is necessary in connection with the preparation of pre-approved list.
4. BI Group library or other libraries (BNM) may be approached to obtain the required information.
5. If possible or established, to obtain comments from BNM in respect of bank whose L/C is to be confirmed.

APPENDIX I

CASE STUDIES

Case Study 1

Introduction

HKECIC received a credit limit application from its policyholder, AAA Co. Ltd. on an Australian buyer, XYZ Pty. Ltd. The application amount was USD1.5 million DP 30 days. According to the policyholder, he had received USD1.2 million worth of orders from this buyer. The product involved was baby garment. This was a new buyer to the policyholder.

Policyholder's background

The policyholder is one of HKECIC's largest customers who joined the Corporation in 1979 with an annual declaration of over USD25 million. The loss ratio since inception of policy is 22% but the last claim paid dated back to ten years ago. The major insurable markets are Australia, United Kingdom, France and the Netherlands. Most of its insured buyers are large companies. However, almost 80% of its insured business concentrated on one major buyer in Australia, which is a large retail chain store of casual wear.

Buyer's information

The buyer, XYZ Pty. Ltd. is a wholesaler and retailer of children's clothing and footwear started in 1986 with 18 employees. Suppliers reported that payment experience of this buyer has been satisfactory. Usually the buyer would pay in 30 to 50 days. It imports 60% from Hong Kong and Thailand and sells to general public, retailers and also exports to New Zealand. A check on internal records showed no court actions against the buyer and its management.

The Policyholder was able to obtain the buyer's unaudited financial statements for 1993 and 1994. Brief financial extracts are shown below.

	<u>Financial Year 1995</u> <u>(USD)</u>	<u>Financial Year 1994</u> <u>(USD)</u>
Operating profit before abnormal items	381,355	233,028
Abnormal items	0	307,930
Operating profit (loss)	381,335	(74,902)
Retained profit (accumulated loss) at the beginning of the financial year	(164,589)	(128,823)
Retained profit at the end of the financial year	126,561	(164,589)
*	*	*
Current assets	2,513,945	1,068,553
Non-current assets	538,224	305,286
Current liabilities	1,828,378	521,693
Long term liabilities	587,165	1,016,674
Networth	636,625	(164,528)

STOP!
ACTION REQUIRED - GO TO QUESTION 1

Additional buyer information

The Underwriter paid a visit to the policyholder in an effort to gather more information on the buyer. The Policyholder advised during the meeting that the buyer had obtained the licence from OBG Inc. to sell its "OB" brand items. "OB" brand is an established brand enjoying good reputation in the children's clothing industry. The Underwriter subsequently obtained information on OBG Inc. and found out that OBG Inc. is a large public listed company in the USA engaging in manufacturing of children's sportswear and casual wear with 7,000 employees. It started business in 1895 and as at 31 December 1996, it had a networth of USD340 million. So far OBG had been operating profitably with steady sales and profit trends.

Under the licence agreement, the buyer can sell "OB" products but all goods from the policyholder have to be checked and approved by the liaison office of OBG Inc. in Hong Kong.

The policyholder was also able to supply more up-to-date unaudited financial statement of the buyer for the year ended 1996 for reference. Extracts of the financial data are shown below for reference.

	<u>Financial Year 1996</u>
	<u>(USD)</u>
Operating profit	342,782
Retained profits at the end of the year	152,185
*	*
Current assets	3,252,398
Non current assets	181,163
Current liabilities	2,190,605
Long term liabilities	580,711
Networth	662,245

STOP!

ACTION REQUIRED~ GO TO QUESTION 2

New credit limit application

Six months later, another policyholder, BBB Co Ltd. applied for a credit limit for USD1 million DA90 on the same buyer, XYZ Pty. Ltd. and said to have obtained USDO.5 million orders. BBB Co. Ltd. also did not have any trading experience with this buyer before. This PH joined HKECIC in 1987 with no claims record. There was no declaration in the past 12 months.

STOP!
ACTION REQUIRED - GO TO QUESTION 3

ACTIONS REQUIRED

Question 1

- a) Based on the information provided, please decide what credit limit you would issue on this buyer. Please explain the factors you have taken into account.

- b) What additional information you may ask, if any in order to make the credit limit decision.

Question 2

With the additional information obtained, would your credit limit indication in Question 1 above vary? If yes, what credit limit would you issue and why? If not, why not?

Question 3

How would you handle this credit limit application and state your rationale. What additional information may be helpful for your decision?

- END -

Case Study 2.

CLA for \$16mn on 0A30 days terms on a Hong Kong buying office

The Policyholder

- PH joined us in July 1992. It is a manufacturer of toys, Total declarations since inception amount to \$3mn and total premium \$31,000. Claims record is clean.

The Buyer

- The buying office was established in 1977. Its paid up capital is \$463,000 and turnover for the year ended 31-12-1993 was \$310mn. There are 200 staff in the office.
- Its parent was founded in 1912. It is a publicly listed company in the USA. It is one of the world's leading toy companies and has subsidiaries in many countries. Below are some extracts of the consolidated figures of the group

	<u>Year ended 31-12-95</u> (US Mn.)	<u>Year ended 25-12-1994</u> (US Mn.)
Sales	2,858	2,670
Net Profit	156	175
Cur. Assets	1,425	1,252
Cur. Liabilities	870	763
L.T. Liabilities	221	219
Networth	1,052	915

- Questions:**
- (a) Do you need any additional information on PH and/ or the buyer ? If yes, please specify.**
 - (b) What will be the terms of your CL decision and the reasons for it?**

*(*Please feel free to make possible assumptions.)*

Case Study 3.

Buyer Risk Management Case Study

The following request was received on 30th Aug 95 a PH for approval to change payment terms and to extend due dates of three shipments made to XYZ Ltd., a buyer in U.K.:

Shipment Date	Shipment Amount (US\$)	Original Payment Terms	Original Due Date	Extended Due Date / New Payment Terms
10 Jul 95	96,000	DA 45	6 Sep 95	21 Oct 95
15 Jul 95	120,000	DA 45	12 Sep 95	28 Oct 95
21 Aug 95	120,000	DP	-	DA 60

The buyer told PH that the reason for the request was a cashflow problem.

PH has been trading with the buyer for a few years. Payment experience so far is fair. Similar request was received in Aug 93 for the extension of due dates of a few shipments. The Corp approved the request, and the relevant shipments were subsequently paid.

Additional information:

Goods: Halloween items

CL: \$2.5m. DA 60

O/S: No other outstanding shipments apart from the above three

Questions:

- (1) Would you accept PH's request?
- (2) What other information, if any, would you require to make the decision?

APPENDIX II

SPECIMEN DOCUMENT CREDIT LIMIT APPLICATION

To:		9 Full name and address of Policy holder	
In respect of firm business or a current inquiry in excess of the discretionary limit			
1 Full name and address of buyer (Block Letters)		Policy No.	
MECIB's Buyer No.		10 This application is: <input type="checkbox"/> a new application <input type="checkbox"/> for review of condition 1 <input type="checkbox"/> or 2 <input type="checkbox"/> <input type="checkbox"/> for increase in limit <input type="checkbox"/> for change of payment terms	
2 Full name and address of buyer's banker (Block Letters)		11 If a buyer is old or new (Please complete as requested and available)	
3 Goods		1. We have been trading with this buyer since _____ Payments during the last twelve months have been * prompt/regular/delay or please specify _____	
4		2. Amount currently outstanding with the buyer is RM _____	
Country of Supply	Export to	3. We have* firm orders/are negotiating for order of RM _____ Terms of Payment _____	
		Shipping programme effective from	
5 Limit applied for (Highest value of exports outstanding at any one time)		Month	
RM		Value (RM)	
6 Precise Terms of Payment		_____	
<input type="checkbox"/> ILC Sight/___days*		_____	
<input type="checkbox"/> DSD/CAD/DP Sight ___days*		_____	
<input type="checkbox"/> DA/OA ___days*		_____	
7		4. We include a detailed description of our past trading and payment experience in FORM OVERLEAF (At least 2 years)	
Please obtain express report and charge priority costs to us. <input type="checkbox"/> Yes <input type="checkbox"/> No		12	
8		Date of Application	
Please confirm whether the buyer is a subsidiary or associate <input type="checkbox"/> Yes <input type="checkbox"/> No		Policyholder's Signature and Company Stamp	

FOR MECIB's USE			
Correct Style And/Or Address of Buyer (Policy holder should verify the correctness if different from that applied).		Date Received by	
		Date Received by	
		INFORMATION SOURCED	
		Name Date Sent Reminder Date Received	
		Bank Agency	
A Credit Limit is approved/not approved on this buyer for RM _____ Subject to Terms of Payment _____ _____		As recommended for RM _____ As recommended or specify:	
and the Credit Limit Conditions _____ _____ overleaf and/or attached		As recommended or specify:	
Recommended/Approved		Approved	
Head/Executive Date: _____		GENERAL MANAGER Date: _____	

Tick where applicable
* Delete where inapplicable

Terms of Payment ILC = Irrevocable Letter of Credit
DSD = Documentary Sight Draft

DP = Documents Against Payment
 DA = Documents Against Acceptance
 CAD = Cash Against Documents

CREDIT LIMIT CONDITION - forming part of the Credit Limit Approved Overleaf

- (1) We are awaiting further information on this buyer. When it is received, our decision will be reviewed and if it is necessary to revise the limit and/or modify the conditions, you will be advised accordingly.
- (2) The Credit Limit Decisions shall apply only to Shipments/Contracts made up to and includingwhen a fresh application should be submitted to the Company accompanied by full details of your trading experience plus your forward shipping programme.
- (3) Notwithstanding any provisions to the contrary stated in this Credit Limit Decision, this Credit Limit Decision shall apply in respect of goods dispatched on or after
- (4) Paragraph 1(x) of the Comprehensive Policy (Shipments) or Paragraph 1(xi) of the Comprehensive Policy (Contracts) shall attach to any contracts to which this Credit Limit Decision applies.
- (5)(a) The Contract Limit shall not exceed the approved Credit Limit shown overleaf.
 (b) The amount of the Contract Limit shall be RM
- (6) (a) The Company shall have no liability unless payment is made under an Irrevocable Letter of Credit established before shipment of the goods.
 (b) The Company shall have no liability in respect of any loss sustained by reason of a cause of loss occurring after the date on which the issuing bank ceases to be liable for payment in accordance with the terms of the Letter of Credit.
- (7) The Policyholder must obtain the written consent of the Company before he can extend any Due Date of Payment in respect of transactions with this buyer.
- (8) Your application is not approved but the provision of Paragraph 11(ii) and (iv)(Discretionary Limit) of the Policy shall continue to be available to you in respect of transactions with this buyer.
- (9) Any contracts or shipments you may make with/to this buyer shall be for your own account and need not be declared to the Company.
- (10) This Credit Limit has been approved on condition that the Company's liability would be restricted to the extent and value of the goods accepted by the buyer.

POLICYHOLDER TO COMPLETE IF AVAILABLE*						
TRADING EXPERIENCE						
SHIPMENT			PAYMENT			REASON(S) FOR LATE/NON PAYMENT
Invoice No.	Date	Value (RM)	Terms	Due Date	Date Received* (in M'sias)	

--	--	--	--	--	--	--

* If space inefficient, please attach separate SIGNED attachments.

APPENDIX III

CREDIT LIMIT SUBMISSION SHEET FOR BANK OPENING L/C

Bank Ref No:

Claim No:

PARTICULARS OF APPLICATION

BANK'S NAME <input style="width: 90%; height: 20px;" type="text"/>	COUNTRY <input style="width: 90%; height: 20px;" type="text"/>
--------------------------------------------------------------------	----------------------------------------------------------------

INSURED'S NAME <input style="width: 90%; height: 20px;" type="text"/>	COUNTRY GRADING & SCC <input style="width: 90%; height: 20px;" type="text"/>
-----------------------------------------------------------------------	------------------------------------------------------------------------------

TERMS APPLIED <input style="width: 90%; height: 20px;" type="text"/>	AMT APPLIED <input style="width: 90%; height: 20px;" type="text" value="RM"/>
----------------------------------------------------------------------	-------------------------------------------------------------------------------

GOODS <input style="width: 90%; height: 20px;" type="text"/>	CLA DATED <input style="width: 90%; height: 20px;" type="text"/>
--------------------------------------------------------------	------------------------------------------------------------------

Reasons* New Application Increase in Limit Change in Payment Terms Review of Cond 2

CURRENT EXPOSURE & COMMITMENTS

AS AT:	<input style="width: 90%; height: 20px;" type="text"/>	CURRENT EXPOSURE LEVEL AMOUNT	<input style="width: 90%; height: 20px;" type="text" value="RM"/>
--------	--------------------------------------------------------	-------------------------------	-------------------------------------------------------------------

IN FAVOUR OF:	<input style="width: 90%; height: 20px;" type="text"/>	Terms	<input style="width: 90%; height: 20px;" type="text" value="RM"/>
---------------	--------------------------------------------------------	-------	-------------------------------------------------------------------

<input style="width: 90%; height: 20px;" type="text"/>	Terms	<input style="width: 90%; height: 20px;" type="text"/>
--------------------------------------------------------	-------	--------------------------------------------------------

COMMENTS & RECOMMENDATION

Agency's Credit Opinion* Insured's Credit Opinion* Insured's Financing Experience with Issuing Bank Assessor's Opinion: AMOUNT : RM TERMS : CONDITION(S) :	Good/Satisfactory/Fair/Adverse/Others Good/Satisfactory/Fair/Adverse/Others TOTAL L/C Value Confirmed RM _____ Period From _____ to _____ Outstanding RM _____ Paying Record: Good/Satisfactory/Fair/Regular _____ NAME & SIGNATURE OF ASSESSOR DATE: _____
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Department head's decision	General manager's approval
	Approved/not approved** _____ SIGNATURE OF GENERAL MANAGER DATE:

Tick, *Delete or Circle as applicable

REG NAME <input style="width: 90%; height: 20px;" type="text"/>	L/C ISSUING BANKER	YEAR STARTED <input style="width: 90%; height: 20px;" type="text"/>
-----------------------------------------------------------------	--------------------	---------------------------------------------------------------------

AUTH. CAPITAL <input style="width: 90%; height: 20px;" type="text" value="RM"/>	PAID UP CAPITAL <input style="width: 90%; height: 20px;" type="text" value="RM"/>	EMPLOYEES <input style="width: 90%; height: 20px;" type="text"/>
---------------------------------------------------------------------------------	-----------------------------------------------------------------------------------	------------------------------------------------------------------

LEGAL STATUS* Government Owned Partnership Private Limited Company

Public Company Co-operative Others _____

TYPE OF BUSINESS* Commercial Bank Finance Company Others _____

FINANCIAL POSITION* Not Available Available Incomplete/
As follows Agency/Bank Report
/Both Received on

From Other Source _____

RATIO ASSESSMENT

Ratios	Formula	Yr	Yr	Yr	Comments
TC/TD	26/14				
TC/TA	26/9				
TC/RA	26/9(Less 1+2+3)				
Loans/TD	4/14				
Prov/Loans	P/14				
LA/TC	1+2+3/26				
LA/TD	1+2+3/14				
Net Loans/TD	4/14				
NI/TC	P/26				
NI/TA	P/9				
NI/TOI	P/C+1				
Int/TOI	D/C+1				
Non Int/TOI	1-D/C+1				
Staff/NI	K/P				
Non Int Exp/TOE	O/C+O				
Int Exp/TOE	C/C+O				
Capital Formation Ratio	P-DP/EC (Year Start)				

NOTATION:

TC	- Total Capital	NI	- Net Income
TC	- Total Deposits	TOI	- Total Operating Income
TA	- Total Assets	TOE	- Total Operating Expense
RA	- Risk Assets	Non Int	- Non Interest
PROV	- Loan Provisions	Exp	- Expenses
LA	- Liquid Assets	DP	- Dividend Paid
INT	- Interest Assets	EC	- Equity Capital

Checked & Verified by _____

Date _____

(*) Tick/Delete where applicable

APPENDIX IV

SPECIMEN CREDIT REPORT

Report Dated: 13 January 1995

We have great pleasure in submitting, per your request, our

Status Silver Report - SUPPLEMENTARY

On

BRENTAPAC U K PLC

Which is a

British Registered Company

Company number E1458075

Service Requested	:	PRIORITY
Opinion Requested	:	US \$160,000
Valid for Insurance Purposes	:	YES

Free Prompt and Constant Update Service

Please return this form if you do not require the free prompt (notification of filing next accounts)

Please tick below and return if you do require the subject to be added to our Constant Update Service.

Level 1

Level 2

Level 3

(Non Corporate only)

BRENTAPAC U K PLC

Address	BRENTAPAC HOUSE CHRISTY WAY SOUTHFIELDS BUSINESS PARK BASILDON ESSEX SS15 6TF
Telephone Number	0268 540560
Fax Number	0268 540565
Telex Number	99454
VAT NUMBER	311991269
The "Status" Rating: (Maximum Exposure)	£150,000

STATUS OPINION

Amount of Enquiry: US \$160,000
Date of Analysis: 13 January 1995

The subject company was incorporated 15 years ago, it operates from a substantial capital base.

The latest accounts filed by the subject are for year ending the 31 December 1992, sight of later accounts is preferred and we have therefore deliberately suppressed our Status Rating pending sight of 1993 accounts.

These latest filed accounts indicate that the subject company achieved a very small pre-tax profit on a moderate turnover, during the year, the company paid some of its long term liabilities at a cost to its working capital which has reduced.

The company only retains fair liquidity, nothing however adverse relating to it is on file pending sight of 1993 accounts and with due supervision being applied to the account in view of its modest liquidity, dealings of up to the Status Rating, including your figure are deemed an acceptable risk.

Signed.

Director

Statutory Information

Registered Number:	E1458075
Legal Status:	PRIVATE
The subject was incorporated in:	1979
The subject changed its name from:	BRENTAPAC U K CO LTD
The latest Annual Return on file is made up to:	1/04/94
Registered Address	BRENTAPAC HOUSE CHRISTY WAY SOUTHFIELDS BUSINESS PARK BASILDON ESSEX SS15 6TF

DATE CREATED 30/01/86
 DATE REGISTERED 3/02/86
 MORTGAGOR NAME UNITED OVERSEAS BANK LIMITED,
 LONDON
 MORTGAGE TYPE DEBENTURE
 AMOUNT SECURED ALL MONIES DUE
 REFERENCE 3

DATE CREATED 10/08/88
 DATE REGISTERED 17/08/88
 MORTGAGOR NAME UNITED OVERSEAS BANK LIMITED,
 LONDON
 MORTGAGE TYPE MORTGAGE ASSIGNMENT
 AMOUNT SECURED,- ALL MONIES DUE
 REFERENCE 176

DATE CREATED 8/06/89
 DATE REGISTERED 9/06/89
 MORTGAGOR NAME UNITED OVERSEAS BANK LIMITED, LONDON

MORTGAGE TYPE
AMOUNT SECURED
REFERENCE

LEGAL CHARGE
ALL MONIES DUE
201

Capital Structure

ISSUED CAPITAL AMOUNT 2000000
ISSUED -

SHARE TYPE	NO. SHARES	VALUE
ORDINARY	2000000	1.00

Directors:

DIRECTOR NAME	RITA LAURIER
DIRECTOR ADDRESS	61 CRANBOURNE GARDENS LONDON NW110JB (ALSO CO. SECRETARY)

DIRECTOR SHAREHOLDING	
SHARE TYPE	NO. SHARES
ORDINARY	269119

OTHER DIRECTORSHIPS	BRENTAPAC U.K. PLC BRENTWOOD SACK & BAG CO. LTD LOWESTOFT SACK & BAG CO. LTD. GREAT YARMOUTH PAPER & PACKING LTD
---------------------	---------------------------------------------------------------------------------------------------------------------------------------

DIRECTOR NAME	JOAN VIOLET HALLIDAY
DIRECTOR ADDRESS	26 BRACKEN DRIVE CHIGWELL IG7 5RF

DIRECTOR NAME	LIONEL LAURIER
DIRECTOR ADDRESS	61 CRANBOURNE GARDENS LONDON NW119JB

DIRECTOR SHAREHOLDING	
SHARE TYPE	NO. SHARES
ORDINARY	817593

OTHER DIRECTORSHIPS	BRENTAPAC U.K. PLC GREAT YARMOUTH PAPER & PACKING LTD BRENTWOOD SACK & BAG CO. LTD BRENTSAC ENTERPRISES LTD
---------------------	----------------------------------------------------------------------------------------------------------------------

LOWESTOFT SACK & BAG CO. LTD.

DIRECTOR NAME
DIRECTOR ADDRESS

MICHAEL NORMAN LAURIER
17 BARHAM AVENUE
ELSTREE
BOREHAM WOOD
WD6 3PW

DIRECTOR SHAREHOLDING
SHARE TYPE
ORDINARY

NO. SHARES
779985

OTHER DIRECTORSHIPS

BRENTAPAC U.K. PLC
GREAT YARMOUTH PAPER & PACKING LTD
BRENTSAC ENTERPRISES LTD
LOWESTOFT SACK & BAG CO. LTD
BRENTWOOD SACK & BAG CO. LTD

Company Secretary:

RITA LAURIER

SHARE HOLDERS NAME

PHILLIP BENJAMIN LAURIER

SHARE HOLDERS ADDRESS

49 HOPTON GARDENS
MARINERS PARK
HOPTON ON SEA
GREAT YARMOUTH

SHARE TYPE
ORDINARY

NO. SHARES
102023

SHARE HOLDERS NAME
SHARE HOLDERS ADDRESS

JULIEN DAVID LAURIER
1A OAKTREE CLOSE
ELSTREE
BOREHAMWOOD

SHARE TYPE
ORDINARY

NO- SHARES
31280

Subsidiary Names:

BRENTSAC ENTERPRISES LTD BRENTWOOD SACK
AND BAG CO LTD GREAT YARMOUTH PAPER AND
PACKING LTD LOWESTOFT SACK AND BAG CO
LTD

Accounts Commentary

Date Of Accounts:

31 December 1992

Number of Months:

12

Type of Accounts: Full
Auditors Report: Clean and Unqualified

Profit and Loss Account

Turnover: Reduced by more than £230,000 and totalled £5,1220,000.

Operating Profit: Totalled £351,700, this represents an increase of more than £100,000 on the Profit achieved in the prior year.

Pre-Tax Profit: After accounting for interest payable, and also a prior year adjustment whereby bad debts were written off, profits reduced to a very modest £1,550.

Profit after Taxation: A tax credit was utilised increasing profit for the year to £3,530.

Extraordinary Items: None

Dividends: None were proposed or paid.

Retained Profit: Totalled £3,530.

Balance Sheet

Fixed Assets: Total £3,014,000, a net increase of £47 in the year.

Working Capital: Reduced by approximately £100,000 and totals £36,400.

Deferred Liabilities/ Creditors: Reduced by £56,300 and totals £909,000.

Deferred Liabilities None

Other:

Share Capital: Unchanged at £2,000,000

Revaluation Reserve: None

Net Worth: Very marginally increased in the year and totals £2,142,000.

Comments: These are acceptable but extremely modest results for the year.

Notes to the Accounts

1. The Directors consider that it is not appropriate to apply depreciation to its goodwill or freehold properties, this being contrary to statements of standard accounting practice. Had this been done, an additional charge of £53,000 should be made. During the year, the company's freehold properties were re-valued and that valuation has been utilised in these accounts.
2. The company's bank overdraft increased by £320,000 in the year and totals £1,140,000. There are also deferred loans of £890,000, these having reduced b £20,000 period. Bank borrowings are secured by fixed and floating charges over the assets of the company.
3. The company has contingent liabilities in respect of bills of exchange, letters of credit, performance guarantees to its bankers the liability at the last balance sheet date in this respect total £101,500.

Operations

ACTIVITIES STOCKISTS & MANUFACTURERS OF ALL TYPES OF PLASTIC & PACKAGING PRODUCTS

SIC CODES 6540 4835

VAT TRADE CODES AND 8149 OTHER GOODS
DESCRIPTION

Auditors

HARTLEY LAWRENCE MARKS & CO LONDON

Credit Register

A search of the Credit Register revealed the following credit transactions.

9/11/94	Total amount repayable in 37 equal monthly instalments of £152 FINANCE HOUSE
11/01/91	£38,848 OVER 48 MONTHS FINANCE HOUSE
24/07/89	£35,010 OVER 60 MONTHS FINANCE HOUSE

TOTAL = 7 (LAST 3 REPORTED)

NO defaults in payments have been recorded.

Bankers

UNITED OVERSEAS BANK LTD, 19 GREAT WINCHESTER ST, LONDON EC2
SORT CODE 23-35-04

CCJ Searches

A search of the County Court Judgement Register has been conducted. No judgements have been recorded in the last six years.

REF: RJS/MRV

Annual Accounts

ACCOUNTS DATE	31/12/92	31/12/91	31/12/90
NUMBER OF MONTHS	12	12	12
CONSOLIDATED ACCOUNTS	<i>NO</i>	<i>NO</i>	<i>NO</i>
PROFIT AND LOSS SUMMARY			
TURNOVER	5220918	5452963	5765397
PRE-TAX PROFIT/LOSS	1554	5146	-31955
BALANCE SHEET SUMMARY			
WORKING CAPITAL	36377	135475	294393
NET ASSETS/LIABILITIES	3050666	3103405	3147110
NET WORTH	2141685	2138153	2117007
BALANCE SHEET ITEMS			
FIXED ASSETS	3014289	2967930	2752717
STOCKS	981658	794855	1028905
DEBTORS	500	16235	9619
TRADE DEBTORS	1254581	1347944	1562949
CURRENT ASSETS	2238987	2161033	2603380
TOTAL ASSETS	5253276	5128963	5456097
LONG TERM LIABILITIES	908981	965252	1030103
CREDITORS	1282908	937783	1202479
TRADE CREDITORS '	919702	1087775	1106508
CURRENT LIABILITIES	2202610	2025558	2308987
TOTAL LIABILITIES	3111591	2990810	3339090
SHARE CAPITAL	2000000	2000000	2000000
TOTAL ALL RESERVES	141685	138153	117007
TAKEN FROM A.R. DATED	1/04/94		
REG'D INDEBTEDNESS	NOT STATED		
FINANCIAL ANALYSIS (PERCENTAGES)			
CURRENT RATIO	101.65	106.69	112.75
QUICK RATIO	57.08	67.45	68.19
SALES:CAPITAL EMPLOYED	171.14	175.71	183.20
RETURN ON CAP EMPLOYED	0.05	0.17	-1.02
PROFIT:SALES	0.03	0.09	0.55
ASSETS:LIABILITIES	168.83	171.49	163.40
SALES:FIXED ASSETS	173.21	183.73	202.10
SALES:TOTAL ASSETS	99.38	106.32	105.67
SALES:NET CURR ASSETS	9999.99	4025.07	1958.40

APPENDIX V

CREDIT EVALUATION

SOURCES OF INFORMATION

- *TRADE REFERENCES
- *BANK REFERENCES
- *INDEPENDENT ENQUIRIES
- *COMPETITORS
- *AGENCY RATING BOOKS
- *AGENCY'S REPORTS
- *CUSTOMER VISIT
- *FINANCIAL PRESS REPORTS
- *TRADE PRESS REPORTS
- *BUYER'S ANNUAL. ACCOUNTS
- *TRADE COMMISSIONERS'R-REPORTS
- *GENERAL COUNTRY INFORMATION