

VaBank

Business Plan

(Establishing a new banking facility in Yerevan, Armenia)

Final Report

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AMERICAN UNIVERSITY OF ARMENIA
(an affiliate of the University of California)
COLLEGE OF BUSINESS AND MANAGEMENT
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YEREVAN

Through the period from March-August 1993 the management team have accomplished a number of tasks necessary for writing a Business Plan for establishing a new banking facility in Yerevan, Armenia. Brief description of activities performed are as follows:

The management team has written a **Proposal** for establishing a new banking facility in Yerevan, however, the most of the efforts were put in writing the **Business plan**. The description of the project group activities is as followed:

Customers Research and Analysis

As an important part of the Business plan the group conducted the customers research and analysis.

The group has performed the following activities:

1. Identified market segments, such as business firms, not for profit organizations, and individuals.
2. Identified the most important segment with accordance with the VaBank's mission.
3. Prepared questionnaire and conducted a survey among the potential customers: The survey embraced about 35 % of all foreign organizations in Armenia including several embassies.
4. interviewed a number of officials in financial institutions (primarily the biggest banks) to acquire more specific information about the customers of the banking industry.

Findings (for details see the Business Plan)

The group analyzed the survey's results and revealed the customer needs in terms of desired services, volumes of operations in Armenia, as well as their level of satisfaction with the existing Armenian banks. On the basis of the information received, the management team estimated the volume of transactions being made by foreign organizations in Armenia. All the respondents indicated a desire to perform their financial operations through any bank, provided it is able to insure the security and timeliness of operations. A huge unsatisfied demand for international banking services in Armenia has been revealed. These results have confirmed the validity of the predictions of the research group about the potential of this market segment.

Competition Research and Analysis

The group conducted a thorough analysis of a competitive environment in the banking industry. The competition was assessed through analysis of data received from several sources such as official banking documents, publications, interviews with key people in the major Armenian banks.

In the process of acquiring and analyzing the information the team has performed the following activities:

1. Obtained and analyzed information from balance sheets of several biggest Armenian banks such as Ardshinbank (ASHB), State Commercial Bank (SCB), etc.
2. Acquired and analyzed the specific information on the volumes of operations with foreign currency, wire transfers, and other operations of different Armenian banks.
3. Studied more than one hundred other publications in CIS and local periodicals on the present situation in the banking industry.
3. Designed questionnaires which helped to interview officials at the Central bank, Ardshinbank and the Ministry of Finance and conducted several interviews.
4. Interviewed the customers about their experience in dealing with Armenian banks.
5. Prepared the list of strength and weaknesses of the major competitors.
6. Gathered data on industry structure, major competitors, their operations, interest rates, currency quotations, etc.
7. Additionally, the team prepared the list of all commercial banks, exchanges, and investment companies of Armenia.

Findings (for details see the Business Plan)

The banking industry can be characterized as an oligopoly of the 3 largest banks which play the dominant role in the industry. The most of the private banks play an insignificant role in Armenian banking system, and in particularly, in international transactions. However, they are active on the currency exchange market. The most of banks too heavily depend on the Central Bank loans: the major source of funds for the banks are loans from the Central Bank of Armenia(except the 2-3 biggest ones)

The competition in the area of international banking is not strong in Armenia. The quality of international services provided by Armenian banks is unsatisfactory. The majority of customers chose to bring and make payments in cash in Armenia and avoid any involvement of the banks in this process.

3. Collection And Analysis of Legal and Special Information.

Under this part of the Business Plan the group have scrutinized the issues related to the regulatory base and some specific banking activities. Several types of legal information were collected and analyzed for the needs of the project, including regulation concerning the establishment and operations of a banking institution. As the primary sources of legal information were the official documents issued by the Central Bank and official publications in the governmental press

In the process of acquiring and analyzing the information the team has performed the following activities.

1. Determined the type of information needed, and prepared the list of possible sources.
2. Collected the information mostly through usage of informal relationships with banking officials (received all the regulatory documents).
3. Analyzed the most important regulatory documents such as the law on Banking of Armenia, Regulation documents issued by the Central Bank such as licensing of operations with foreign currencies, taxation of banks, other governmental regulation in the sphere of finance.
4. Translated some important documents into English.
5. Analyzed the specific information obtained from the Central Bank and ASHB about the specifics of performing transactions (both local and international), about the existing problems with the international transfers, use of travelers checks and credit cards in Armenia. Analyzed the accounting methods and techniques currently used in Armenian banking system. (For conclusions and findings see the related section of the Business Plan.)

Operations Plan

The group accomplished writing the Operations plan which is an important part of the Business Plan.

The group have performed the following activities :

1. Described the most important services and operations, developed the strategy (timing of introduction of new services and operations) for the first 3 years of operations.
2. Described the operating cycle.
3. Prepared the list of the facilities needed, (determined equipment and labor needs) and discussed ways of their acquisition.
4. Elaborated the criterion for choosing the correspondent banks.
5. Designed strategies for assets, liabilities, and risks management.
6. Identified several possible locations in Yerevan for the bank's building (office).

Marketing Plan

The group has developed:

1. The overall marketing strategies differentiated by main banking services.
2. Pricing strategies.
3. Advertising and Promotion tactics.

Financial Projections and the economics of the business.

The group prepares the following financial documents:

1. Pro forma income statements (for 1994, 1995, and 1996).
2. Budgeted balance sheets on June 30, 1994; December 31, 1994; December 31, 1995; and December 31, 1996.
3. Pro forma cash flows (for 1994 monthly, 1995 quarterly, and 1996 quarterly).
4. Break-even calculations.
5. The Leverage, the Activity, the Debt, and the Profit ratios calculation.

Management Team

The project group has performed the following activities:

1. Described the organizational structure of the company.
2. Described 6 key managerial positions (President and 5 vice-presidents)
3. Described the rights and the duties of the Board of Directors
4. Identified 7 members of the Board of Advisors and described their rights and duties.
5. Created the chart of anticipated hiring and compensation for the bank's personnel
6. Elaborated a stock plan for the employee compensation
7. Identified other shareholders' rights and restrictions.

Proposed Company offering

Under this part of the Business plan the project group has considered all the questions related to the company's ownership and desired financing

The group performed the following activities:

1. Based on the cash flow projections estimated the amounts of money necessary for development and expansion purposes in the near 3 years
2. Prepared an offering plan.
3. Prepared the capitalization plan
4. Discussed the most significant expenditures.
5. Calculated the projected level of investor's net.

Budgeted Expenses

As of July 21 the group members have spent:

\$380 expenses on personnel (380 hours in developing the project and collecting information);

\$100 expenses on using PC/386 (100 hours have been spent working on personal computers);

\$40 on communication;

\$30 on transportation;

\$40 on supplies.

Total expense is \$590

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BUSINESS PLAN

EXECUTIVE SUMMARY

The VaBank is a start-up Armenian banking company that will operate on financial markets of the CIS.

The idea is to capitalize on the existing demand for various financial instruments and on the lack of qualified banking services in the CIS.

A. Description of the Business Concept and the Business

The idea of an innovation best describes what our company will do. Implementation of new financial services and the development of markets for them will provide leading positions for the company. Existing financial institutions offer the simplest and the least efficient services only. This is primarily because of the lack of knowledge and expertise among the market makers.

VaBank will aggressively pursue and specialize in servicing the needs of organizations and individuals who require international banking services, efficient investment and financing means under the unstable economic conditions and inflation in the CIS, particularly, in Armenia.

B. The Opportunity and Strategy

Over the next several years, financial markets and institutions in the CIS are expected by the founders of the venture to experience revolutionary changes and expansions as the result of transition of the former communist countries to the system of a free enterprise. This creates an opportunity for new entrants.

Founders believe that the key factors for the success are:

- Soundness,
- Innovation,
- Elaborated strategy for introduction of the new services,
- Smart marketing,
- Sufficient financing to achieve a critical mass of market recognition quickly.

C. The Target Market

The CIS business firms involved in international trade will become major borrowers from the bank. The foreign non business organizations in Armenia are defined as the main target segment for the VaBank in the near future.

D. The Competitive Advantages

The major advantage of the entrepreneurial group is its members, their knowledge of western business concepts, and ability to communicate effectively with foreign customers and partners.

The VaBank will offer services that will enable its clients to arrange their payments in the ways they used to use in the West. This will make the payment procedures faster, more reliable, and eventually cheaper.

E. The Economics, Profitability, and Harvest Potential

Profit margins earned on bank's operations vary from 5% to 50% per month. This allow return on equity from 5% in the worst case scenario (first year of operations) to the 200% in the best case scenario (third year).

F. The Team

The team includes six members of the first graduating class of the American University of Armenia. Together, they have a broad experience in various Armenian industries, and have abilities that complement each other perfectly.

G. The Offering

A corporation is to be established with 1,340 shares of common stock, which constitute \$134,000 of authorized capital. From this amount, 1,005 shares (75%) are to be sold under this offering.

THE BANKING INDUSTRY, THE BANK, AND ITS SERVICES

A. The Industry

Current status

As the whole Armenian economy, the banking industry in Armenia is in a transitory stage. The current banking structure does not satisfy to the demands of the market economy. Additionally, the muddle, existing in all areas of political and economic life, made the performance of banking transactions very difficult and inefficient. Instead of facilitating the development of the economy, the banking system makes the business life even more miserable.

Prospects

Prospects of the banking industry are tightly connected with those for the whole Armenian economy. Only the liquidation of the blockade can make it possible for Armenia to start to revive. There is a little sign that such a change may occur in the near future. However, some market segments are quite independent from the general conditions and promise favorable prospects for growth.

Industry structure

The banking industry in Armenia consists of the Central Bank of Armenia, which is the central bank of the republic, five major state commercial banks, and about forty non government commercial banks.

The industry structure can be characterized as pure competition (because there are almost no differences in the services offered by various banks) with elements of oligopoly (because five major banks provide 80% of banking services). However, this structure is somewhat artificial and based on the state subsidies to the state commercial banks.

In general the industry is in an embryo stage and drastic changes are to occur within it. This is partly because of low entry barriers. The only barrier currently is the authorized capital requirement (100 million Rubles). Because of low qualification of the banking personnel the competency in banking does not play a role of an entry barrier, as it can be seen from the fact that the most of the bankers are not professionals. However, in new regulation that is to be issued by the Bank of Armenia it is required that the president and the accountant general of the bank have three years of managerial experience in banking.

Market size and trends

The market for the banking operations is shrinking (in real terms) due to severe recession in the Armenian economy. The only markets that experience growth are those for foreign currency exchange and international transactions. Currently the daily volume of currency exchange in Yerevan is estimated at \$50,000. The annual volume of international money transfers is estimated at \$1,500,000.

Competitors

The Bank of Armenia, like other central banks, has the authority to license the banking activities, to establish mandatory normatives for the banks, to monitor their activities, and to shut a bank down in the case when the bank breaks the law permanently.

The state commercial banks are the successors of the former Soviet state banks in Armenia. These banks provide the majority of banking services to the Armenian companies. They also receive the majority of state subsidies.

Non government banks are very diverse in their characteristics. Some of them almost does not exist, some work fairly well. The area where they are most active is the foreign currency exchange.

The western known or Russian banks can be the major competitors for the VaBank. However, currently those banks have not expressed much interest toward opening their branches in Armenia. At the moment, there is a branch of Ukrain Bank, however, from its last operations and experience it is true to say that they are not interested to extend their services in the international area as to be a competitors for the VaBank. In case if the a western well knows bank opens a branch in Armenia, it will be very hard for VaBank to stand the competition, since the cost of their services will be lower then VaBank's, as well as the image of the western bank will help them to get the most of the foreign clients in Armenia.

Major problems

The major problems of Armenian banking industry are lack of knowledgeable professionals in functional areas, lack of managerial skills in general and knowledge of bank management specifically. Also, low technical level, lack of reliable communication means, and other external factors make the banking business in Armenia quite difficult.

New customers and markets

In recent years many foreign organizations have established offices in Armenia. Also, in a result of opening former closed soviet society, many Armenians got a chance to

travel abroad. Another process emerged in a result of deteriorating economic conditions. Many foreign Armenians help financially their relatives in Armenia.

New services

The appearance of foreign organizations in Armenia gives a raise to the demand for international banking services such as international money transfers, check clearing, travelers checks, and credit cards.

New requirements

Foreign customers require timely and reliable services. The banks should not default on performing services for the customers. Additionally, high inflation makes the timeliness very important.

B. The Bank and the Concept

The VaBank will be an Armenian based start up banking company that will operate internationally. It will be the leader in Armenian banking and finance industries. The bank's mission is to provide its customers with world-class services, set the standards for quality, safety, and business ethics in Armenia. The bank will facilitate the integration of Armenian businesses into the world economy. It will build an expanding, dynamic, and socially responsible company with a broad influence on the development of the Armenian society.

The Goal is to build an *internationally operating expanding banking firm*.

Accordingly, **Operational Objectives** can be stated as follows:

- Market share: The bank will perform 90% of international transactions, will hold 50% of foreign currency deposits (end of 2nd year), and will make 50% of currency exchange in Armenia.
- Profit:
 - 1st year - \$20,000
 - 2nd year - \$100,000
 - 3rd year - \$300,000
- Net Worth:
 - 1st year - \$110,000
 - 2nd year - \$200,000
 - 3rd year - \$400,000

Principal customers

The principal customers of the bank are foreign organizations in Armenia, private foreigners, Armenian ex-patriots, CIS businesses involved into the international trade, and later, when the Armenian economy will start to revive, Armenian businesses.

C. The Services

The bank is primarily going to offer a number of international banking services, including foreign currency exchange, international money transfers, international check clearing, travelers checks, letters of credit, etc.

It should be stressed that some of these services (e.g. check cashing, travelers checks) that are usual in most countries, are not available in Armenia, some others (e.g. money transfers) are not performed satisfactorily. Therefore, by introducing such services and keeping high quality standards, the VaBank will create a significant value for the customers.

For example, almost all foreign organizations in Armenia bring cash from their home countries in cases, keep the money in their offices, and make their payments in cash. The possibility of fast and reliable international money transfers and check processing will simplify and enhance significantly effectiveness of operations of foreign organizations in Armenia. Additionally, these organizations will earn interest if they keep the money on accounts with the bank. Since the bank can earn very high (compared with western rates) margin on its operations, it will be able to offer to the foreign organizations an interest higher than they can earn on the west. The only issue will be the trustworthiness of the bank. The management plan to acquire it through its actions. It is important to mention, that in other CIS countries, like Russia, the money transfers are done quickly (it takes only 36 hours to perform money transfers using computer networks connecting banks throughout the world).

Introduction of travelers checks will allow foreigners and local people convenient and safe way of keeping and transporting money.

Letters of credit and other banking services will simplify operations of the business firms and facilitate international trade.

Possible drawbacks of the service

Some problems for the bank during the starting period are connected with the necessity of high volume of each operation so that it become profitable. At the same time the demand will arise only when the bank will proof its ability to perform its operations properly. Therefore, the bank needs substantial capital investments to be able operate some period under the conditions of low sales volume.

Present state of development of the service

Currently, the ways of performing the described services are determined in general terms. However, these services are new only for Armenia. They exist in many countries and there are many sources of knowledge about how they should be performed. The team plans that in the period from August to December of 1993 the key personnel will be mobilized and the particularities of the operations will be studied by those who will perform them. Investments in equipment, software, communication means, and other facilities for performing the services are estimated at \$70,000.

Expansion and development of the services

There are good prospects for expansion and development of the services offered by the VaBank. This is due to the synergy effects. For example, the availability of international transfer and check cashing services will cause the clients to keep their funds with the VaBank. As a result they will likely to make all their currency exchange at the bank. Even their employees are likely to switch their exchange operations to the VaBank. Frequent money transfers will allow the bank to have substantial funds on the accounts abroad, which can be readily used to finance

international trade. These will allow the bank to become number one in international banking in Armenia, and to expand its services over the CIS.

The management plans to improve continuously the quality of its services and introduce new ones, so that by the end of the third year the VaBank could provide world class services to its clients.

D. Entry and Growth Strategy

Key success marketing variables

On the first stage the foreign organizations in Armenia are targeted as a primary market for the VaBank. Accordingly, the most important factors in VaBank's marketing strategy are innovativeness of its services, reliability, client-orientation, timing and quality advantages offered by the bank. These are the factors that should attract foreign organizations to become the clients of the bank. Pricing, distribution, advertising, and promotion play a subordinated role at this stage.

Later, another major market - Armenian expatriots will be approached. At this time reliability, distribution, advertising, promotion, and pricing will be an essential part of the marketing strategy.

Plans for growth

It is planned that the bank will have 20% in retained earnings after the first year, and will double its capital (internally generated growth) in the second and third years of operations. By the end of the third year the bank will attract additional investments and will open a branch in Moscow.

Entry and growth strategy

The weakness of competition in the area of international banking in Armenia creates an opportunity for the new bank to take over this emerging market. This allows to concentrate on adding value to the prospective customers. However, this situation will not last for a long time and the market should be captured quickly before other competitors will try to enter it.

III. MARKET RESEARCH AND ANALYSIS

A. Customers

Market segmentation

The total market for banking operations is divided into nine segments (Figure 1 represents the market segmentation).

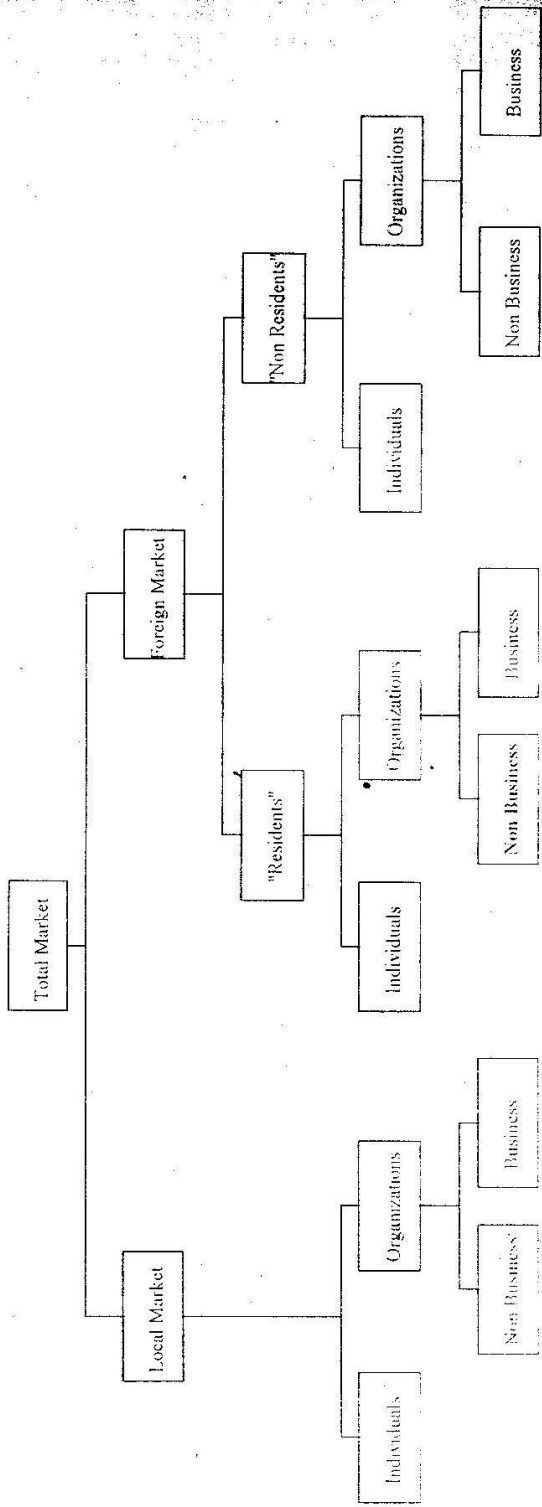


Figure 1

Target market segments

The CIS business firms involved in international trade will become major borrowers from the bank.

The foreign non business organizations in Armenia are defined as the main target segment for the VaBank in the near future. This is primarily because of the fact that this segment currently is the only growing one. It is relatively free of competition, and it does not depend much on economic conditions in Armenia. Also, the survey conducted by the research group among the target customers has indicated great interest in the services that the new bank will offer. Currently, these organizations are forced to bring the cash in cases and make all payments in Armenia in cash. Thus, by providing them with international banking services the bank plans to attract substantial amount of funds in the form of deposits.

The major concern of these customers are timeliness and reliability. Purchasing decisions in the organizations are made by local representatives. They had some negative experience in dealing with local banks, and substantial efforts will be needed to convince them that the VaBank is different.

Bargaining power of customers

Foreign organizations (e.g. embassies, international organizations) in Armenia currently represent the major group of customers for international banking services. Another potentially large group of customers are Armenian expatriots, who often send money to the relatives in Armenia. The third group are export/import oriented businesses.

1. Foreign organizations are quite powerful and dispose large amounts of funds.
2. Other customers are dispersed and small.
3. The cost of the banking services is a small fraction of the customer's total costs.
4. The customer loyalty in banking industry is quite high.
5. There is no any threat of backward integration on the part of the buyers.
6. In general banks have no ability to integrate forward into the customers' areas.

Net conclusion: Buyers can exert some power over the banks. However, the threat that buyers will exert a great deal of power is low.

B. Market Size and Trends

The survey of target market segment gave some insights to the group about the market size and trends. There is no doubt that a huge demand for international banking services in Armenia is unsatisfied. A conservative estimate of the annual volume of transactions being made by foreign organizations in Armenia in cash is \$1,500,000. These results confirm the validity of the predictions of the research group about the prospectiveness of this market segment. These funds can generate some \$300,000 of time and demand deposits.

Another major source of funds is Armenian Diaspora. Many people in Armenia receive some financial help from their relatives abroad. The annual volume of such

assistance is estimated at \$1,000,000. All these funds flow aside of the banking system. They could support some \$200,000 in deposits. However, substantial efforts are needed to attract them.

The group intentionally does not include possible deposits of Armenian firms and individuals, since their potential currently is very small and heavily depends on the development of political situation in the region.

Other activities of the bank include operations on CIS money markets (foreign currency, futures, options, short-term securities, etc.) and making loans to the CIS commercial firms. The conservative estimate of these markets is \$ 10 billion. The share of the VaBank on these markets will be negligible in the foreseen period (3 years). However, these activities will generate substantial part of the profits of the bank.

The major factor affecting market growth is the political situation in the region. Only after its normalization the Armenian economy will have a chance of revival. However, it is very unlikely that in the following three years essential improvements in the economy will take place. At the same time the humanitarian help will grow. That is why the group consider only market segments with foreign extraction.

The following table represents predictions for deposits and foreign currency exchange in Yerevan.

	Deposits	Currency Exchange
Market Size	\$500,000/year	\$50,000/day
Market Growth Trend	10%	10%
VaBank's Market Share at the end of		
1st year	50%	10%
2nd year	80%	25%
3rd year	90%	45%

C. Competition and Competitive Edges

International banking services historically have not been provided by Armenian banks. International banking services include foreign currency exchange, foreign currency accounts, international money transfers, international check clearing, travelers checks, international payments, etc. In the former Soviet Union these services were provided by the Vnesheconombank in Moscow. In a result of drastic political and economic changes, however, a need for such services emerged in Armenia. Banks started to move into the international banking area. Most of them, however, are involved primarily in currency exchange business. Only two banks (Ardshinbank and Impexbank) are doing international money transfers and other similar services.

Middle East ASIB Impex

Overall assessment of competition

The threat of substitute products:

Instead of using international banking services the customers can deliver money, keep it, and make payments in cash. Many of them are doing so because of lack of appropriate services in Armenia. However,

1. It is not fast.
2. It is not safe.
3. It adds a great deal of "headache" to the customers.

Net conclusion: There is no threat from substitute services to the international banking.

The threat of new entrants:

1. Economies of scale are significant in banking industry. In fact the banking is an example of a natural monopoly.
2. Capital requirements (currently \$100,000 for locals, and \$1,000,000 for foreigners) represent significant entry barrier.
3. Special knowledge and skills are also a barrier to entry.
4. Very low level of banking services in Armenia allows differentiation on quality and timing.

Net conclusion: International banking has high entry barriers.

The intensity of rivalry:

1. This is a growing new industry.
2. Currently it is possible to differentiate on quality of the services.
3. There is no real substitutes for the services.
4. High entry barriers.

Net conclusion: Price competition is not intense.

Overall conclusion:

Given high barriers to entry, lack of substitutes, and low level of competition, the profit potential in international banking industry is expected to be high.

Strengths of competition

The main advantage of the two major banks is the fact that they are the only ones that do offer foreign transactions and hence have some experience in the area. Another major advantage is that these banks receive support from the Armenian government and consequently the majority of western technical assistance goes to these banks. Both

are quite large, located in Yerevan downtown, and have established links with several western banks.

For the currency exchange business the most important advantage seems to be the location of the bank. Some private banks have quite good locations.

For foreign western banks the image and the name of their organizations give a good advantage to them to get the clients for their organizations. If a foreign bank opens a branch in Armenia, then a local existing Armenian or VaBank can not stand the competition in terms of foreign money transfer operations or money exchange.

Weaknesses of competition

The weaknesses of the two major banks include low quality of service, long lead times, lack of customer-orientation, lack of managerial knowledge, lack of incentives, etc. The fact that 90% of currency is brought in Armenia, kept, and paid in cash is the best illustration of the weakness of the competition.

One major deficiency of other existing banks is that they provide only one international banking service - currency exchange and therefore can not differentiate themselves.

Fundamental value added to customers

The Vabank will offer services that will enable its clients to arrange their payments in the ways they used to use in the West. This will make the payment procedures faster, more reliable, and eventually cheaper.

Competitor's actions

There is a threat that competitors will capture the market before the VaBank will do. This is likely if any foreign bank will establish a branch or an affiliate in Armenia. As to existing Armenian banks there is no much threat that they will be able to beat VaBank. However, the time issue is an important asset for the success. If a western bank opens its branch in two years then the VaBank will be already well established operating organization and it will be hard for that foreign bank to capture the clients of VaBank that it already has. If a western bank opens its branch currently than it will be very hard for VaBank to compete with the name and image of a western bank. In this case, the most appropriate action for VaBank will be the cooperation with that foreign bank. For the successful cooperation VaBank will provide the research and knowledge of the local market and environment to the western partner and the foreign part will provide its facilities and name of its organization.

D. Ongoing Market Evaluation

The VaBank will continue to evaluate its target market to assess customers' needs and services that will guide to service-improvement and new service programs. This will be done primarily through maintaining close relationships with the customers and frequent discussions with them on various issues.

Additionally, the bank will monitor general economy and various industry trends to be aware of opportunities that can arise in new market niches.

IV. THE ECONOMICS OF THE BUSINESS

A. Profit Potential and Durability

Margins, that can be earned on the different banking operations differ substantially.

Foreign currency exchange

The usual bid-ask spread quoted by Armenian banks is about 5%. Depending on the trend of exchange rates it can be as high as 10% (in the case of strong upward trend), and as low as 3% (in the case of strong downward trend). Assuming 5% spread and that the cash inventory (both the rubles and dollars) necessary to support the exchange is three times the daily volume, the gross monthly margin will be 50% (600% annually) on working capital.

The costs include 12% annual interest on deposits, and semivariable costs of maintaining exchange office. Assuming that one office can generate on average \$5,000 in daily sales, and the cost of maintaining it is \$2,500 per month, the contribution margin will be 32% monthly.

The profit potential of the described activities depends also on the volume of operations. The market for currency exchange in Armenia is limited and it will be very difficult to gain more than say 25% of this market without price competition, in which the management does not want to be involved in the near future. Therefore, the most likely attainable daily volume will be \$10,000, which will allow some \$10,000 of net margin per month. This amount will grow along with the market at an annual rate of 10%.

CIS money market operations

These include operations on CIS foreign currency markets, futures, options, short-term bonds and CDs markets. Observation of these markets have revealed the possibility for making 5% to 40% profit on two opposite transactions per week. However, due to long float times in banking operations in the CIS, each such transaction will take 2 to 4 weeks. Thus you can make 5% to 100% on working capital per month. On average, however, it is more realistic to assume 20% return per month.

The expenses are primarily variable and come out to 1%-2% of sales plus interest expense on deposits of 1% per month.

Business loans

Currently, Armenian banks make loans (in foreign currency) at 10% monthly (313.84% annually) interest. However, the market is depressed and 5% monthly (80% annually) interest seems to be more reasonable in order the loan to be actually made. With 12% interest expense this comes out to 68% net operating margin.

B. Fixed, Variable, and Semivariable Costs

Fixed costs include acquiring office space, equipment and other facilities for the bank. These amount to \$85,000 of initial investment.

Salaries of the personnel can be considered as semivariable costs that change only when major change in sales occur due to opening new office, etc. These expenses are

Fin. Plan - t 9/8/99

planned on the level of \$3,000 per month plus 0.5% of the sales for the first six months. They increase by another \$1,000 each six months.

Variable costs include interest expense on deposits and communication and other expenses connected with money transfers (0.5% of the volume of transaction).

V. MARKETING PLAN

A. Overall Marketing Strategy

The bank should be noticed and appreciated by its clients from the very beginning of its operations. Therefore it should be distinguished among the 50 other banks in Armenia. Thus, the most crucial problem for a newly established bank is building a good reputation. This is directly related to the number of clients the bank can attract. Since there is no much activity in the area of international banking in Armenia, the bank in essence, will operate in the niche which is almost free from competition.

Customer groups targeted for initial selling efforts

The initial intensive efforts will be concentrated on building a broad clientele - users of the bank's services.

The foreign organizations in Armenia represent the customer group targeted for initial selling efforts (in terms of providing them with international banking services and attracting their deposits).

Residents of the Yerevan (both locals and foreigners) are targeted for initial selling efforts in terms of currency exchange operations.

Customer groups targeted for later selling efforts

Armenians living abroad will be targeted for later (in 6 months) selling efforts (in terms of providing them with international banking services and attracting their deposits).

CIS export/import firms are targeted for later (in 6 months) selling efforts in terms of lending activities.

A comprehensive list of all foreign organizations in Armenia is created. These will be contacted through walk ins and personal contacts. At the very beginning it is important to facilitate the spread of a word of mouth about the bank. Each satisfied client will be asked for a letter of reference addressed to other potential clients.

Areas of compact living of Armenians throughout the world are identified. These will be contacted through various Armenian organizations abroad, such as AGBU, political parties, popular Armenian newspapers, etc.

Features to be emphasized

- Timeliness - guaranteed quick transfers in the time setting specified beforehand.
- Reliability - availability of the service without any delays and complications. Emphasis will be placed on both a reliable technical level of the bank's equipment (which will enable to make even complicated transfers) and the philosophy of the bank's management who's major concern is the clients' satisfaction.
- Convenience

The fact should be stressed that some kind of services can be attainable in Armenia through VaBank only.

Initial introduction of the service

The banking services at first will be introduced internationally for customers in Armenia, US, and Europe (France) because there the largest Armenian communities are located. Another factor is that both, the banking and communication systems are well developed in these countries.

B. Pricing

The bank will charge its customers with somewhat higher prices for the services that are not available from its competitors; also a higher price will be charged for the services of a substantially higher quality. When the services of the bank and its competitors are comparable, the bank will charge the average market price. In general the bank is going to compete on the basis of both, differentiation of its services and quick response rather than on the basis of price. Since there is a substantial lack of qualified international banking services in Armenia, Vabank will be able to charge quite high prices, however, a moderate price level seems more appropriate.

C. Advertising and Promotion

Different strategies will be used when promoting the bank's services into the different market segments. For example, foreign institutional clients do not need a service description, but instead the emphasis should be put on the reliability and trustworthiness of the bank. The direct contact with the customers should be used.

A good and professional presentation of the bank will be organized at the beginning operations. Personal invitations will be sent out to **all** the organizations included in the list as potential clients of the segment. Mass media will be invited and several articles and interviews in newspapers induced. The western type education of key management personnel and involvement of western partners in the business should be emphasized.

In all over the Diaspora should the good news about new service be spread. This is to be done through media used by Armenian communities. Prior one-two month to the starting the services a number of advertisements describing the new service should appear in major Armenian newspapers. Booklets describing the bank's services will be available at major hotels and in planes on international airlines.

The residents of Armenia will be reached through traditional advertising means. The location of the bank's headquarters in the banking and currency exchange area of the Yerevan will increase the bank's visibility.

Since different groups of customers will be approached sequentially, on each stage of development the existing clientele of the bank will be used to support the superiority of the bank over its competitors. All promotional efforts will be coordinated with the introduction of new services.

D. Distribution

The bank will provide its services from its central office in Yerevan. When the volume of operations is to be increased, additional offices will be established in other districts of Armenia and countries of CIS.

In order to provide international transfer services and participate in money market operations the bank should establish correspondent relationships with several banks throughout the CIS and major western countries.

VI. OPERATIONS PLAN

A. Operating Cycle

The lag between cashing the check, or allowing to withdraw the transferred money and delivering the foreign currency to the bank creates a problem. The problem is quite serious because of high opportunity cost for the bank to hold the funds on the West. The interest forgone as a result of shortage of funds for the bank's operations in Armenia is at least 10 times higher than that earned as a result of keeping deposits with say American banks.

Several possibilities exist to overcome the problem.

1. Deliver money as soon as possible using, for example, the following scheme - wire transfer to the correspondent account in Paris, and physical delivery of money by Paris - Yerevan flight
2. Sell the currency to the interested parties from the accounts abroad.
3. Use the money for arranging payments between CIS importers and their foreign counterparts
4. Loan the money from foreign accounts to interested parties
5. Create affiliated commercial import export firm and use the money on foreign accounts for arranging payments for imported goods, deliver goods, sell them, use proceeds for buying foreign currency

B. Location

There is a banking area in Yerevan downtown where most of the state banks are concentrated. So called "black market" on foreign currency exchanged is also located in this area. In order to switch some of the "black market" customers to the VaBank it will be nice to have an office there. Hotel "Sevan" represents a good place for such an office.

C. Facilities

The bank will need an office space for its headquarters and exchange office. The group has estimated the minimal (150m²) and optimal space (300m²) that will be needed for the bank premises¹. Additionally, some 20m² of vault is needed.

¹See Appendix 2 for detailed description of the space needed

There is also a number of software, computers, and other equipment to be bought for the bank. The minimal expenses for these are estimated at \$40,000 and the maximal expenses are estimated at \$100,000².

Leasing vs. acquiring

The following scheme will be used. A company will be established with the same ownership as the bank. This company will own all the capital assets used by the bank, and will lease them to the bank. This will allow to transfer part of the net income from the bank (that pays 45% profit tax) to another company (that pays 12-18-25-30% profit tax).

D. Strategy and Plans

The bank's policy is to expand the scope and the volume of its operations gradually. The volume of active operations will serve as a driving force for passive ones. The bank will start its activities with its own capital only. Additional funds (deposits, inter bank borrowings, etc.) will be attracted only when a shortage of funds for operations that earn interest (loans, money market operations, foreign exchange, etc.) is revealed. It will be the bank's strategy to start any operation conservatively, and gradually perform it in more aggressive way.

Foreign currency exchange

Foreign currency (primarily dollars) will be bought and sold at the central office of the VaBank in Yerevan. It has been revealed from the observation of the market that the usual bid-ask spread is 5%. Depending on trend of exchange rates it can be as high as 10%, and as low as 3%.

The daily volume of dollar exchange in Yerevan is estimated to be about \$50,000. About 80% of all transactions go through the banks. There are some 40 exchange offices in Yerevan. Thus, on average, each office sells and buys some \$1,000 per day.

The management plans to start with \$500 sales per day and end up with \$4,000 per day by the end of the first year of operation. The last figure seems reasonable taking into account that foreign institutions attracted by availability of international remittances will make their exchange at the VaBank.

The total commission earned by the bank on currency exchange during its first year of operations will amount to \$40,000.

Franchising strategy will be used to spread the service throughout Armenia.

CIS markets

The CIS's major foreign currency exchange market consists of seven Currency Exchanges in the following cities: Moscow, St.Petersburg, Yekaterinburg, Novosibirsk, Vladivostok (Russia), in Riga (Latvia), in Kiev (Ukraine). The market also includes an inter bank over-the-counter operations, exchange offices of the banks, and private persons who sells and buys on their own.

²See Appendix 3 for detailed description of equipment expenses.

The VaBank is going to trade currency on Exchanges and participate in over-the-counter inter bank market through correspondent banks.

Since the dollar appreciates 90% of the time, there is no much opportunities for speculation on relative movements of the dollar and ruble. However, speculations, and even arbitrage, are possible on different exchange rates in different cities in the CIS. Also cross-arbitrage opportunities often exist.

For example, on the week of May 17, 1993 an arbitrage opportunity exists for operation with 3 currencies: buying \$ for rubles, selling it in Ukraine for carbovanets, and selling the latter for rubles provides 41% return on initial investment.

Ruble transfers

Routine operation are to be done through the central banks of the CIS republics. However, these operations are too slow. To improve the efficiency, good working relationships with correspondent banks are needed.

Foreign currency transfers

To perform foreign currency transfers, the bank opens accounts with foreign correspondent banks. Any transfers from abroad should be made on these accounts. Any payments to abroad should be made from these accounts. This can be done by mail, cable, fax, or computer networks (SWIFT)

Inter bank borrowing and time deposits

Inter bank loans and deposit contracts are traded on several stock exchanges in Russia. The interest paid on these loans is usually somewhat lower than that paid on deposits with same maturities. For example, the inter bank annual interest rate was 120 - 150% for 1-3 month loans, while the annual interest paid on 1 - 3 month deposits was 80 - 110%. Apparently, it is possible to attract deposits and borrow from other banks directly.

The cost of cash deposits from the public in Armenia was 300 - 400% annually. However, it is becoming more difficult to attract the deposits even on these terms. High and unpredictable inflation makes it risky both for depositors and banks to agree on reasonable and mutually beneficial returns. To overcome this difficulty a \$ backed deposit can be offered. The depositor will have option to receive ruble or \$ equivalents (with different interest earned) of his/her investment.

Business loans

Severe inflation and deep recession made the extension of a credit very risky. Both the default and the price risks are very high. The bank can protect itself from the risk of client default requiring collateral on the loans. However, currently in Armenia there is no law which regulates these issues. In order to protect themselves from the inflation the banks currently require very high interest and make only short term loans. The risk can be reduced if the bank makes only loans denominated in some hard currency (e.g. dollars). This, however, increases the risk of the borrower, and reduces amount of the loans made.

Check clearing

The bank will accept the checks presented by the first-class customers with an impeccable reputation (e.g. embassies) without checking validity of the checks. Then the check will be presented to the correspondent bank in the West and further clearance will take place in a usual way. It is preferable to have correspondent accounts with the banks of the major customers.

Writing foreign currency options

The foreign currency exchange (in cash) in Yerevan will be complemented by writing call and put currency options for the public.

Travelers checks

In order to sell and buy travelers checks the bank should conclude agreement with the issuer. Usually this requires from the bank to buy a large block of the travelers checks and sell them later to the public. Also the travelers checks presented to the bank are bought and later presented to the issuer.

The travelers checks are to be sold to the Armenian tourists leaving for foreign countries, and bought from foreigners arriving to Armenia. However, they are not popular among Armenians. Therefore, the volume of travelers checks' trade in Armenia may appear to be not sufficient to justify expenses connected with such a subscription. Solution may be found if the bank will act as an agent of the larger, say Moscow, bank in selling and buying travelers checks in Armenia. This will reduce fixed costs and allow the bank to break even with small and achievable trade volume.

In order to increase the demand for travelers checks their attractive features (safety, convenience of carrying) should be emphasized and new not traditional applications should be developed.

For example, travelers checks can be used by tourists and even merchants for ruble payments within the CIS. Travelers checks can be used as a very liquid asset insuring savings against inflation (compared to rubles) and theft (compared to both ruble and dollar).

Small denomination private foreign remittances

Checks will be sent to the correspondent bank in, say, USA, which will clear them and credit the VaBank's correspondent account. The checks will be mailed to Yerevan. This can be done using services of one of existing travel agencies (Saberatour offers such service). The sums will be available for receivers in Armenia within ten days from the day the check was sent.

Money market operations include operations with

- 3 month CDs issued by some banks, however market is not developed and does not provide liquidity, additionally soundness of banks is low
- Short-term government bills - the Russian government just started issuing 3 month bills (currently provide 90% interest).
- Derivative securities, namely futures (currency futures allowed 5-20% profit per week during the May, 1993) and options

Foreign trade

- Arrangement of import/export payments using correspondent accounts and monetary resources kept on them;
- Loans to the importers from the CIS;
- Letters of credit;
- Indirect participation in international trade through the affiliated commercial firm with the same ownership as the bank's.

Accounting services

Both local and US-like accounting can be provided to foreign organizations in Armenia.

E. Regulatory and Legal Issues

The bank should be a legal entity (corporation or limited company) with at least three shareholders, each holding at most 35% of company's shares. The bank should acquire a banking license in order to start its operations. An additional license is needed for performing operations with foreign currency. The bank is prohibited to do any other non banking business (including insurance). (The bank can participate in equity financing other enterprises in amount not exceeding 20% of its authorized capital. The bank should comply with several normatives established by the Bank of Armenia. Most important of them are:

- bank's authorized capital should be at least 100 mil rubles;
for joint and foreign banks the authorized capital should exceed \$1 mil.
- the bank should keep reserves with the Bank of Armenia in amount equal to 10% of banks liabilities (except bank capital);

Licenses necessary to begin operations

A general banking license is needed to start banking activities.

If the bank is to be involved in operations with foreign currencies an appropriate license should be acquired.

Another license is needed if the bank is to be involved in intermediary operations with securities.

All licenses are provided by the Bank of Armenia.

Pending regulatory changes

The regulations of the Bank of Armenia (bylaws) are in the process of development

Also bylaws of the former Soviet Gosbank are still in force, even though they are to be changed by the Bank of Armenia.

VII. MANAGEMENT TEAM

A. Organization

Key management positions will be filled by the following persons:

- President Zakar Bojadjian
- VP International Banking Edward Manukian
- VP Exchange Operations
- VP CIS Banking
- VP Development and Marketing Marina Ghushchian
- VP Public Affairs and Staff Hasmik Gevondyan
- VP Overseas Operations Armen Hovakimian

The president and the five vice presidents have a lot of experience of working together while studying the MBA program in the American University of Armenia.

Board of Directors develops the overall policy of the bank. The Board consists of nine members, six of which are company executives.

Board of Advisors is a consulting body at the bank. It consists of seven members, organized as a group of experts. The board performs only advisory role.

B. Key Management Personnel

Complete resumes of the team members are attached in Appendices. Hereby career highlights are presented.

Zakar Boyadjian graduated with honor from Yerevan Institute of National Economy and will receive his MBA degree with specialization in Finance from the American University of Armenia by December, 1993. Having worked as an economist in the Bank of Armenia, in 1992 he was promoted to the position of the head of foreign currency department of the central bank. Currently he supervises two departments of the Bank of Armenia (foreign exchange rates and the foreign economic relations) Zakar Boyadjian puts in the VaBank his expertise and experience as well as a broad network of informal contacts in the banking world of Armenia.

Armen Hovakimian graduated from Yerevan Polytechnic Institute in 1984. He will earn his MBA from American University of Armenia by August, 1993. He is starting his study at Boston College's Ph.D. program in Finance in September, 1993. He has elaborated and implemented a concept of a small exchange on currency futures, contracts and run it successfully in the setting of the American University of Armenia. He has supervised a group of research assistants at the CBRD of AUA and coordinated a number of projects of both practical and research nature.

Edward Manukian graduated from Yerevan Institute of National Economy - the Department of Financial Accounting, MBA with specialization in Finance from

the American University of Armenia will be earned by December, 1993. He has an experience of working on the Stock and Commodity Exchanges of Yerevan, Alma-Ata, Ukraine and other regions of the former USSR. Edward has established and directed his own brokerage company "Hercules" in the Armenian Exchange of Stock, Commodity and Raw Materials. Prior the opening his own business worked as a chief Economist in enterprise Service, where managed accounting issues.

Hasmik Gevondian graduated with honor from Yerevan Polytechnic Institute in specialty of Management Information Systems. One year as an exchange students at the University of Michigan, USA. MBA American University of Armenia. Rich experience in supervising and public relations. From 1991- Executive director of Yerevan branch of TRIAD Consulting Group, Inc. From 1991 also worked as Project Manager for Textile Information Database in the Center for Business Research and Development-CBRD, AUA Supervised several other projects in the CBRD. In 1992- Assistant of the director of the Armenia Assembly of America.

Marine Ghushchian graduated with honor from Yerevan Institute of National Economy from the department of Public Professions. She is currently working as a graduate research assistant in the Center for Business Research and Development of the American University of Amen. Marine also worked as the chief economist of the loan management department of the joint stock Bank "INKO"

Duties and responsibilities

President:

All the executive power in the organization belong to The President who at the same time will serve as a Chairman of the Board of Directors of the bank. The President to be nominated and dismissed by the decision of the Board of Directors.

V.P on International Banking

- Elaboration of the strategy of the department
- Control over all the international money transfers for both individuals and organizations
- Services to foreign clientele
- Deposit management

V.P. on Exchange Operations

- Elaboration of the strategy of the department
- Direction of operations in the Exchange office in Yerevan
- Currency convertations on the financial markets of CIS

V.P. on CIS Banking

- Elaboration of the strategy of the department

- Management of Ruble accounts in the CIS banks
- Ruble transfers
- Deposit management
- Investments in monetary instruments of CIS financial market

V.P. on Development and Marketing

- Elaboration of the strategy of the department
- Markets monitoring and analysis
- Preparation Marketing Plans for the bank's other decisions
- Economic Analysis and Forecasting
- Services Development

V.P. on Staff and Public Affairs

- Elaboration of the strategy of the department
- Personnel recruitment and training
- Administrating of the staff personnel
- Public affairs and B's representation
- Conflict resolution and building clientele

V.P. Overseas Operations

- Marketing of the bank's services in US
- Management of VaBank's accounts in US banks

C. Management Compensation and Ownership

The table representing anticipated personnel compensations for the first 5 years of operations is presented in Appendices. Under this compensation plan starting salary of \$150 to be increased by \$50-\$70 semiannually, reaching at the end of 5th year to \$750-\$1000. In addition the management receives stock options on 24% of the total stocks of the company, to be bought within 4 years at par. Another 1% of stocks will be available for buying to the company employees.

D. Other Investors

The remaining 75% will be sold to other investors in the form of voting common stock. These shares should be sold as a part of efforts aimed to form the authorized capital of the bank

E. Board of Directors

The board of directors consists of seven senior executives (president and vice-presidents) of the company and five other members elected by the shareholders. It is

supposed that there will be at least one major western shareholder, who will provide several western members of the Board.

F. Supporting Professional Advisors and Services

The Board of Advisors consists of professionals with a reach experience in the banking, economics, and legal issues. They help the management team to grapple effectively with the many challenges of the early years. The Board members to be released from a legal liability for the consequences of their advices. On the other hand the bank's executives have no obligation to accept their opinion.

The pecuniary benefits will be made available to the Board members as a stimuli for a good performance. Token payments of \$30-\$50 per meeting plus 1% in company's stock called to keep them interested in the bank's problems and progress.

VIII. OVERALL SCHEDULE

The table of anticipated hirings for the 1st year of operations is presented in Appendices.

The following represents activities, the bank is going to be involved in, during the first year of its operations.

01.01.94

The bank starts operations using primarily its own monetary resources (about \$10,000).

The only active operation during the January will be the foreign currency exchange. This will include operations in cash from the exchange office in Yerevan, operations on the CIS foreign currency markets performed by correspondent banks (for 0.5-1.5% commission) on behalf of the VaBank, and currency exchange at correspondent banks in Western countries.

In order to conduct these activities the bank should establish correspondent relationships with several banks in CIS (Moscow, St. Petersburg, Riga, Minsk, Kiev, Alma-Ata, Tumen, Vladivostok). It will also open a correspondent account with at least one bank on the West.

In order to utilize potential benefits of foreign exchange operations the bank should be involved in money transfers both within the CIS (currently it takes at least 2-3 days) and internationally (some Russian banks perform them within 36 hours). This experience will help later to perform similar transactions for the bank customers.

The bank will also offer checking accounts (ruble) to the businesses (the highest interest offered is 60%). This will be done in a conservative manner, without trying to attract many such customers.

02.94

Inter bank borrowing both in Armenian (including The Bank of Armenia) and CIS market will be tried in order to increase financial resources available for active operations.

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The bank will also offer checking accounts (ruble) to the businesses (the highest interest offered is 60%). This will be done in a conservative manner, without trying to attract many such customers.

02.94

Inter bank borrowing both in Armenian (including The Bank of Armenia) and CIS market will be tried in order to increase financial resources available for active operations.

The bank will start opening accounts for private people and accepting time deposits. These operations will be performed conservatively.

Activities started in January will be elaborated further and expanded using additional financial resources. Also operations with money market securities (Russian 3 month government bonds, options, futures).

03.94

The bank starts to accept travelers checks.

The bank will start an aggressive campaign of attracting foreign institutional clients. As a primary attractive feature, the ability to perform international money transfers within specified time limits, will be emphasized. Strict time limits will be established for arranging payments and making cash available for withdrawal. For the initial period the total amount of transfers performed by one customer will be limited to \$10,000 per year. In exchange for these services the bank will require to keep 10% of annual volume of transactions as a time (1 year) deposit with the bank.

The management plans to attract some 20 organizations with total deposits of \$20,000.

These additional funds will be used by the bank in highly liquid operations on foreign exchange and money markets.

04.94

The bank will start making business loans. However, very conservative (high interest, collaterals) strategy should be used.

05.94

The bank starts to write options on US dollar using historical data gathered from bank's operations.

The bank will start to clear checks drawn on Western banks and presented by the customers with no default risk (e.g. embassies).

06.94

The bank sells travelers checks to the public, performs cash transfers to other countries.

07.94

Limits on transfers for international institutions will be abolished. As a result the time (1 year) deposits will increase to \$100,000.

08.94

Small denomination private foreign remittances (help from Diaspora) are accepted.

09.94

Participation in foreign trade financing, using letters of credit, documentary collections, bankers acceptances, etc.

10.94

Introduction of accounting services for the clients.

11.94 - 12.92

Expansion of services in terms of volumes and increase of their effectiveness.

IX. CRITICAL RISKS, PROBLEMS, AND ASSUMPTIONS

The plan is based on several assumptions, such as:

- there will not be new competitors on the market during the foreseen period;
- the Armenian economy will not revive within coming three years;
- the markets will grow as predicted;
- there will be no major changes in legislation and government economic policy

Major problems

- necessity to provide liquidity (dollars) to meet the demands of the clients;
- there used to be periodical cash (ruble) deficits in Armenia and the CIS, which can have an adverse effect on the bank's ability to fulfill its obligations to the customers;
- sales projections are not achieved.

To overcome these problems the bank should have access to sources of cash (both rubles and dollars). It should develop close relationships with such potential sources within Armenia (the central bank), CIS (major banks - Incombank, Mosbiznesbank, etc.), and abroad (the bank - shareholder). The bank should obtain lines of credits from these sources in order to be able to raise the cash in emergency situations.

X. THE FINANCIAL PLAN

All the presented financial projections are the best estimates of the VaBank management group and may not reflect actual earnings or losses. Pro forma balance sheets, income statements, and cash flow projections for the next three years under various scenarios are presented in the Appendices. The projections are based on the following assumptions.

	1994	1995	1996
Best case scenario:			
Deposits	150,000	300,000	450,000
Currency exchange			
daily volume	500-6,400	6,400-20,000	20,000-40,000
commission	5%	4%	3%
Money market operations			
monthly volume			
monthly margin	5-30%	35%	35%
Loans			
monthly volume			
monthly interest	10%	9%	8%
Most likely case scenario:			
Deposits	100,000	200,000	300,000
Currency exchange			
daily volume	500-4,000	4,000-8,000	8,000-13,000
commission	5%	4%	3%
Money market operations			
monthly volume			
monthly margin	5-20%	20%	20%
Loans			
monthly volume			
monthly interest	7%	6%	5%
Worst case scenario:			
Deposits	70,000	150,000	200,000
Currency exchange			
daily volume	500-2,500	2,500-5,000	5,000-8,000
commission	5%	4%	3%
Money market operations			
monthly volume			
monthly margin	5-15%	15%	15%
Loans			
monthly volume			
monthly interest	5%	4%	3%

XI. PROPOSED COMPANY OFFERING

A. Desired Financing

Based on the real cash flow projections, the net amount of capital to be raised for start-up purposes and conducting operations during the first year of activity amounts to \$100,500. This constitutes 75% of bank's authorized capital. Another 25% of the capital will be raised in following 4 years. The working capital needs will be satisfied through attracting deposits and borrowing short-term from other banks.

B. Offering

Under the Armenian banking law the bank should be a legal entity. The VaBank will be established as a corporation. The authorized capital in amount of \$134,000 will be raised in the form of 1,340 shares of common stock at \$100 par. From these 75% will be raised under this offering.

The shares being sold pursuant to this offering are restricted securities and may not be resold readily. The prospective investor should recognize that such securities might be restricted as to resale for an indefinite period of time. Each purchaser will be required to execute a Non-Distribution Agreement satisfactory in form to corporate counsel.

C. Capitalization

1005 shares of voting common stock will be offered to capital providers for their participation on the amount of \$100,500 which constitutes 100% of outstanding stock of the company. Another 25% of the stock will remain authorized but unissued after the offering and will be reserved for stock options for future key employees. The funds on this stock will be raised in the near 4 years of operations through purchases of the shares by bank's employees at par value.

D. Use of Funds

The majority of funds (85%) will be used for investments in fixed assets. The remainder (15%) will be used as a starting working capital in bank's operations in January, 1994.

E. Investor's Return

The financial analysis presented in this plan shows that the venture will be able to provide at least 5% return on equity in the worst case scenario. Under the conditions of best case scenario the bank will provide return varying from 70% in the first year of operations to 200% in the third year. In the most likely case the ROE will be equal 30% in the first year and 150% in the third year. It is planned that the investors will receive \$20,000 in dividends in the first year.

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Appendix 1

Office Requirements

Office	Min. space m ²	Max. space m ²
President's Office	20	20
Secretaries and Reception	20	25
Conference Room		40
General Office	40	70
Transactions Room	15	15
Technical and Administrative Personnel	20	20
Controller's Office	15	20
Cashiers Room	20	40
Snack Bar		40
Exchange Office		10
Total	150	300

Appendix 2

Equipment Needs

	min.	price (dollar)	max	price (dollar)
Hardware				
IBM PC/386	5	6,000	15	20,000
IBM PC/486 (file server)			1	5,000
LAN hardware (except file server)				1,500
Matrix printer	1	300	1	300
Laser printer			1	1,500
Scanner			1	1,500
Fax machine	1	500	1	500
Telex machine	1	200	1	200
Copier			1	1,000
Phones	5	100	20	500
Subtotal		7,100		31,000
Software				
General purpose (MS Windows, Excel, Word, etc.)		5,000		5,000
Special (banking transactions, accounting, etc.)		10,000		10,000
LAN				1,000
Subtotal		15,000		16,000
Communication means				
AT&T line		5,000		5,000
SWIFT				20,000
Subtotal		5,000		25,000
Special banking equipment				
Bank notes counters	1	150	2	300
Bank notes detectors	1	150	2	300

Subtotal		300		600
Security system				
Safes	4	1,000	10	2,500
Alarm system		2,000		2,000
Video control system		2,000		2,000
Anti fire system		500		500
Guns	2	1,000	6	3,000
Doors, windows, etc.		1,000		1,000
Subtotal		7,500		11,000
Furniture				
Desks	15	60	50	200
Chairs	20	60	70	210
Armchairs	4	40	10	100
Bookcases	4	40	10	100
Other		30		90
Subtotal		230		700
Power supply				
Generator	3kw	1,000	10kw	3,000
UPS	4	2,000	10	5,000
Subtotal		3,000		8,000
Total		38,130		92,300

Appendix 3

Compensations

THE PERSONNEL	Y1	Y2	Y3	Y4	Y5
President	200	350	580	850	1200
Vice - Presidents:					
V.P. #1	150	220	400	650	1000
V.P. #2	150	220	400	650	1000
V.P. #3	150	220	400	650	1000
V.P. #4	150	220	400	650	1000
V.P. #5	150	220	400	650	1000
Managerial Secretary		100	150	250	350
Chief Accountant	100	200	300	400	650
Accountant 1		100	150	200	300
Accountant 2			120	180	250
Accountant 3			120	180	250
Clerk 1		100	120	160	200
Clerk 2			120	160	200
Economist 1	90	120	160	200	250
Economist 2	90	120	160	200	250
Economist 3		120	160	200	250
Economist 4		120	160	200	250
Economist 5		120	160	200	250
Economist 6		120	160	200	250
Agent 1		80	120	160	200
Agent 2		80	120	160	200
Agent 3		80	120	160	200
Cashier 1	80	120	160	200	220
Cashier 2		80	120	170	200
Janitorial and Maintenance 1	40	65	85	100	120
Janitorial and Maintenance 1	40	85	85	100	120
Guard 1	65	90	110	130	150
Guard 2	65	90	110	130	150
Guard 3	65	90	110	130	150

Appendix 4

Hirings

Employee	01.01.94	04.01.94	08.01.94
President	✓		
V.P. #1	✓		
V.P. #2	✓		
V.P. #3	✓		
V.P. #4	✓		
V.P. #5	✓		
Managerial Secretary	✓		
Chief Accountant	✓		
Clerk		✓	
Economist 1	✓		
Economist 2		✓	
Agent		✓	
Cashier 1	✓		
Janitor	✓		
Guard 1			✓
Guard 2			✓
Guard 3			✓

Appendix 5

ARMEN HOVAKIMIAN

campus Address: The Wallace E. Carroll Graduate School of Management, Boston College
Fulton Hall, Room 114, 140 Commonwealth Ave., Chestnut Hill, MA 02167-3808
Phones: (011-7-8852) 460903, 270879

education: **BOSTON COLLEGE**
Wallace E. Carroll School of Management
Ph.D. in Management with concentration in Finance, 09/93 - present
Program Scholarship, Graduate Assistantship

AMERICAN UNIVERSITY OF ARMENIA
COLLEGE OF BUSINESS AND MANAGEMENT
MBA, 03/92 - 08/93
GPA 3.9/4.0
Coursework includes: Financial Management, Financial Investments,
Corporate Finance, Managerial Accounting, Money, Banking, and
Financial Institutions, Business Strategy, Marketing
Program Scholarship, Graduate Assistantship
Research Associate, Center for Business Research and Development

YEREVAN POLYTECHNIC INSTITUTE
Computer Science, 9/79 - 6/84
Fellowship
Research Assistant, Computer Systems Research Institute

experience: **CENTER FOR BUSINESS RESEARCH AND DEVELOPMENT**
AMERICAN UNIVERSITY OF ARMENIA
Research Associate, 2/92 - 8/93
Supervised 12 research assistants
Coordinated:

- Development of the concept of Business Information and Communication Center in Armenia
- Market Study of Transport in Armenia
- Market Study for Air Cargo Complex in Yerevan

Developed concept of Small Business Incubator in Armenia

COMPUTER SYSTEMS RESEARCH INSTITUTE, Yerevan, Armenia
Design Engineer, 11/84 - 3/92
Participated in design and implementation of large computer systems

additional information: Fluent in Armenian and Russian. Proficient in English.
Proficient in computer programming and following IBM PC software:
Wordperfect, Word for Windows, Lotus-123, Excel, dBase III-plus, etc.
Traveled extensively in Russia, Ukraine, Latvia, Lithuania, and Bulgaria.

RUBEN KARAKASHYAN

Agayan St. 13, Apt. 9

Yerevan, 375009, Armenia

Phones: 56-59-01 (H)

27-08-79,(W)

Phone/Fax 27-08-16 (W)

Fax: 0-11-7-885-2-15-10-48

EDUCATION:

Since 1991

AMERICAN UNIVERSITY OF ARMENIA

COLLEGE OF BUSINESS & MANAGEMENT Yerevan

MBA-November 1993

Graduate Research Associate, Center for Business Research & Development.
Financed education through fellowship.

**ARMENIAN INSTITUTE OF TECHNICAL CREATION AND
PATENTS** Yerevan

Specialist in intellectual property and innovation.

1981-1986

YEREVAN POLYTECHNIC INSTITUTE

Diploma with Honors-Mechanical Engineer-July 1986

Research Assistant, Chair of Theoretical Mechanics, Fellowship, Member of
student council, Group sub-cashier

EXPERIENCE:

Since 1992

CENTER FOR BUSINESS RESEARCH & DEVELOPMENT

AMERICAN UNIVERSITY OF ARMENIA Yerevan

Research Associate Participated in projects: " Evaluation Armenian Textile
Industry", "Evaluation of Yerevan electric bulb factory", " Market research
for tourism development in Armenia"

1986-1992

"ORBITA" INDUSTRIAL CONGLOMERATE, Yerevan

Designer/Research and Development Department

Managed design group. Coordinated activities of the design group & group
in industrial department Participated in negotiations with customers. Made
business trips throughout former USSR

**ADDITIONAL
INFORMATION:**

Computer languages-Basic, FORTRAN. Experienced with software
packages: WordPerfect, Microsoft Word, Lotus 1-2-3, Microsoft Excel,
dBase III+, FoxPro, Paradox, Minitab, India, Autocad 10.

One invention patented in USSR. Fluent in Armenian, Russian, English.
Familiar with German. Traveled extensively through CIS. Enjoy swimming,
chess and jazz music

EDWARD G. MANUKIAN

40 Marshall Bagramian Street
AUA, CBRD, Yerevan, Armenia, 375019
Tel. (885-2)27-08-79
Home tel. 65-03-33
Fax (885-2) 15-10-48

EDUCATION:

Since 1991

THE AMERICAN UNIVERSITY OF ARMENIA.

College of Business and Management. Graduate School,
(an affiliate of The University of California) Intensive courses in
Financial management, Money and Banking, Economics;

MBA with specialization in Finance

1983-1989

THE INSTITUTE OF NATIONAL ECONOMY IN YEREVAN

B.A. Diploma with specialization in Financial accounting / activity
analysis, **Dean's List 1983, Honor scholarship.**

1982 -1983

TECHNICAL SCHOOL. Diploma with honor in technic of radio-
electronic devices.

EXPERIENCE:

Since 1992

**CENTER FOR BUSINESS RESEARCH AND DEVELOPMENT
AMERICAN UNIVERSITY OF ARMENIA, Yerevan**

Graduate Research Assistant. Market Research for tourism development
in Armenia.

1991

Established a brokerage firm "Hercules" on "The Exchange of
commodities, raw materials and stocks" in Yerevan. **Administered**
business links with **more than 40 regions of former USSR.**

1989 - 1990

Enterprize "Service", consultant. Developed a financial plan, **reduced**
overhead expenses by 55%, coordinated receivables

**ADDITIONAL
INFORMATION:**

Fluent in **Russian** (native) **Armenian, English.** Familiar with **Ukrainian.**
Extensive business trips to Kazakhstan, Ukraine, Uzbekstan, Russia
(including Siberia).

Experienced in Lotus 123, Quick Quant, MiniTab, FoxPro, dBase III+,
Wordperfect.

Microsoft Windows 3.1, Word for Windows 2.0, Excel for Windows 4.0.

Interested in psychology, boxing, and jazz music.

Hasmik Gevondyan

Aigedzor 1, house 22, #31
Yerevan, Armenia, 375019
Tel. (011-7)(885-2) 22-77-96
Fax (011-7)(885-2) 15-10-59

EDUCATION

September 1991 - Present

American University of Armenia (AUA); Yerevan, Armenia
Master of Business Administration, November 1993.
Coursework includes: Finance, Marketing, Accounting, Human Resource Management, Organizational Behavior, Entrepreneurship.

1989 - 1990

University of Michigan, Ann Arbor, Michigan, USA
One year of study as an undergraduate academic exchange student.
Coursework included: Graduate level: Information Systems and Technology, Technical Information Management; Undergraduate level: Computer Science, Management, English, and Graphic Design.

1986 - 1991

Yerevan Polytechnic Institute, Yerevan, Armenia
Received Honors Diploma in the equivalent of Management Informatic Systems.

EXPERIENCE

August 1991 - Present

TRIAD Consulting Group, Inc.
Executive Director of the Yerevan office of this New York-based multinational consulting firm. Conduct economic and business research findings published in two reports; work as a liaison between various Ministries and the firm. This firm is the sole contractor for the Armenian Embassy in the U.S. for dispersion of economic data regarding Armenia.

March 1992 - Present

Center for Business Research and Development, AUA
Research Assistant. Project Manager for Textile information databases. Other responsibilities included conducting Tourism Promotion project preparing a business plan for establishing a Garment Factory in Armenia and conducting a Workshop on Procurement (The World Bank).

January 1992 - March 1992

Armenian Assembly of America, Yerevan, Armenia
Assistant to the Director of this US-based NGO. Conducted economic, political, and social research. Created directory of all governmental offices in English.

June 1991 - August 1991

Ministry of Foreign Economic Relations, Yerevan, Armenia
Research Assistant, Department of Marketing and Coordination. Assist two American consultants. Created English-language database of text and computer software industries in Armenia.

SPECIAL
QUALIFICATIONS

Computer Skills: **Programming** - Pascal, BASIC, FORTRAN. **Software:** FoxPro, dBase III+, WordPerfect, Lotus 1-2-3, Microsoft Windows, MiniTab.

Languages: Fluent in Armenian, Russian, and English.

Travel: Throughout the United States, Europe, and CIS.

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40 Marshall Bagramian Street,
Yerevan, 375019, Armenia
Tel. Int'l 011-7-885-2-15-10-49
Local 27-33-67
Fax 0-11-7-885-2-15-10-48

PROFESSIONAL
OBJECTIVE:

Position in Finance

EDUCATION:
1991- up
to present

AMERICAN UNIVERSITY OF ARMENIA
AFFILIATE UNIVERSITY OF CALIFORNIA
COLLEGE OF BUSINESS AND MANAGEMENT
MBA-Finance-November 1993,
Financed education through AUA Fellowship.

1990-1993

YEREVAN INSTITUTE OF NATIONAL ECONOMY
Post-Graduate Course, Banking Management
Specialization, Post-Graduate Student
Candidate of Economics, November 1993.

1983-1985
1987-1990

YEREVAN INSTITUTE OF NATIONAL ECONOMY
Honors Diploma-Engineer/Economics-June 1985
Labor Economy and Management Faculty.
Fellowship (Titled Stipendi), Yerevan Institute of
National Economy.

April-May
1993

BANK OF THAILAND, THAILAND.
Banking Seminar and Study Tour,
Special Certificate.

EXPERIENCE:

January 1993,
up to present

CENTRAL BANK OF ARMENIA, ARMENIA.
HEAD OF FOREIGN EXCHANGE AND FOREIGN ECONOMIC
RELATIONS DEPARTMENT.

August 1992-
January 1993

CENTRAL BANK OF ARMENIA, ARMENIA.
Economist of Foreign Exchange and Foreign Economic
Relations Department, August 1992 - January 1993.

ADDITIONAL
INFORMATION:

Fluent in Armenian, Russian, and English.
Computer language- Basic. Experienced with
Wordperfect, Lotus 1-2-3, dBaseIIIplus, FoxPro,
Minitab, Quick-Quant, MS-WinWord, MS-Project.
Traveled Extensively throughout former USSR.
Served in former Soviet Army in Russia in
1985-1987. Enjoy tennis, music, and reading.

MARINE GHUSHCHIAN
40 Marshall Bagramian Street
Yerevan, Armenia, 375019
Tel.Int'l (7-8852)-15-10-48
Local 27-08-79(office), 63-49-54(home)
Fax (7-8852)-15-10-48

EDUCATION:

1991-1993 **AMERICAN UNIVERSITY OF ARMENIA**
COLLEGE OF BUSINESS & MANAGEMENT, Yerevan
MBA - Finance
Graduate Research Assistant, Center for Business Research & Development
Financed education through tuition scholarship & assistantship

1987-1991 **YEREVAN INSTITUTE OF NATIONAL ECONOMY**
Diploma with Honors - Economist - July 1991, Fellowship
Department of Public Professions, 1988-1991

Summer 1989 Internship in Russia
Spring 1990 Pre diploma practice in the Ministry of Economy

EXPERIENCE:

February 1993 **JOINT STOCK "INKO" BANK, Yerevan**
July 1993 Chief economist at the loan management department. Conducted thorough financial, inter bank and economic analysis, a training program to the bank employees about contemporary international banking system. Preparation of prescribed loan management documents

1992 to present **CENTER FOR BUSINESS RESEARCH AND DEVELOPMENT**
AMERICAN UNIVERSITY OF ARMENIA, Yerevan
Graduate Research Assistant, Market Research on tourism development in Armenia
Participated in preparation of Country Brief, handbook ordered by Business Forum

ADDITIONAL INFORMATION:

Fluent in Armenian, Russian, English. Proficient in MS-DOS, WordPerfect, Lotus 1-2-3, dBase III+, FoxPro, QuickQuant, Minitab, Microsoft Windows, Word for Windows 2.0. Traveled throughout CIS, Latvia, Estonia.
Enjoys finance, music and table tennis.

VaBank

Pro Forma Income Statement (best case scenario)

For the Years Ended December 31, 1994, 1995, and 1996

	1994	1995	1996
Interest income:			
Income on loans	29,790	65,000	200,000
Income on money market operations	151,000	810,000	2,624,000
Commission on currency exchange	61,800	136,400	169,500
Total interest income	242,590	1,011,400	2,993,500
Interest expense:			
Deposits	(6,100)	(21,600)	(21,600)
Borrowings from other banks	(1,273)	(3,969)	(3,569)
Other			
Total interest expense	(7,373)	(25,569)	(25,169)
Net interest income	235,217	985,831	2,968,331
Non-interest income	3,600	7,600	8,800
Non-interest expense	(41,800)	(196,300)	(708,400)
Adjusted operating income	197,017	797,131	2,268,731
Overhead expenses	(62,400)	(140,700)	(308,000)
Provision loan loss	(9,000)	(22,000)	(77,000)
Pretax operating income	125,617	634,431	1,883,731
Income taxes (45%)	(56,528)	(285,494)	(847,679)
Net income	69,090	348,937	1,036,052
Cash dividends declared	(20,000)	(25,000)	(30,000)
Retained earnings	49,090	323,937	1,006,052

VaBank
Budgeted Balance Sheets
(best case scenario)

Assets	As of January 1, 1994	As of June 30, 1994	As of December 31, 1994	As of December 31, 1995	As of December 31, 1996
Cash and due from other banks					
Vault cash		7,000	25,000	39,667	92,404
Correspondent accounts	15,000	66,971	133,716	528,119	1,415,000
Reserves with the Bank of Armenia		3,300	15,700	41,700	56,700
Loans					
Commercial and industrial			79,860	116,600	314,900
Less: allowances for losses			(7,986)	(11,660)	(31,490)
Bank premises and fixed assets	85,000	85,000	85,000	85,000	85,000
Total assets	100,000	162,271	331,290	799,426	1,932,514
Liabilities					
Deposits					
Demand deposits		12,500	40,000	60,000	70,000
Time deposits		20,000	115,000	235,000	355,000
Total	0	32,500	155,000	295,000	425,000
Borrowings from other banks		7,000	27,200	31,400	28,436
Total liabilities	0	39,500	182,200	326,400	453,436
Equity capital					
Paid-in capital	100,000	100,000	100,000	100,000	100,000
Retained earnings		22,779	49,090	373,026	1,379,078
Total liabilities and equity capital	100,000	162,279	331,290	799,426	1,932,514

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
Financing Activities												
Bank equity	15,000											
Cash dividends			5,000	5,000	5,000	5,000	30,000	30,000	20,000	5,000	5,000	5,000
New time deposits												
Interest on time deposits			20,000	20,000	25,000	25,000	60,000	80,000	70,000	85,000	85,000	80,000
New demand deposits			(10,000)	(20,000)	(22,500)	(25,000)	(42,500)	(70,000)	(75,000)	(77,500)	(85,000)	(82,500)
Withdrawals			100	100	200	200	500	600	500	500	500	400
Net transfer commission			(1,500)	(500)	(800)	(500)	(4,800)	(4,000)	(1,500)	(1,300)	(500)	(300)
Reserves' decrease (incr.)			13,600	4,600	6,900	4,700	43,200	36,600	14,000	11,700	5,000	2,600
Total			0	0	(3,600)	0	(6,400)	0	(600)	0	(700)	(3,900)
Repayments (int. and princ.)			0	6,200	0	600	0	700	3,800	6,400	9,400	11,400
Borrowings			15,000	10,800	3,300	5,300	36,800	37,300	17,200	18,100	13,700	10,100
Net cash provided (used) by financial activities			15,000	10,800	3,300	5,300	36,800	37,300	17,200	18,100	13,700	10,100
Operating activities												
Currency exchange (Yer)												
Gross sales	15,000	30,000	45,000	60,000	75,000	90,000	110,000	125,000	145,000	160,000	175,000	200,000
Cash balance, beginning	1,500	3,000	4,500	6,000	7,500	9,000	11,000	12,500	14,500	16,000	17,500	20,000
Commission earned	800	1,500	2,300	3,000	3,800	4,500	5,500	6,300	7,300	8,000	8,800	10,000
Cash balance, ending	2,300	4,500	6,800	9,000	11,300	13,500	16,500	18,800	21,800	24,000	26,300	30,000
Net cash	(1,500)	(700)	0	800	1,500	2,300	2,500	4,000	4,300	5,800	6,500	6,300
Money market operations												
Cash balance, beginning	10,000	10,300	19,800	30,000	32,300	34,800	70,000	85,000	90,000	100,000	130,000	130,000
Gross sales	10,500	16,200	31,500	63,600	68,500	74,500	187,300	227,400	243,000	324,000	421,200	425,100
Margin earned	500	800	1,800	3,600	3,900	4,900	12,300	14,900	18,000	24,000	31,200	35,100
Transfer expenses	(200)	(300)	(600)	(1,300)	(1,400)	(1,500)	(3,700)	(4,500)	(4,900)	(6,500)	(8,400)	(8,500)
Cash balance, ending	10,300	10,800	21,000	32,300	34,800	38,200	78,600	95,400	103,100	117,500	152,800	156,600
Net cash	(10,000)	0	(9,000)	(9,000)	0	0	(31,800)	(6,400)	5,400	3,100	(12,500)	22,800
Loans												
Gross sales												
Cash balance, beginning								30,000		20,000	40,000	
Interest earned							0	30,000	0	20,000	40,000	0
Cash balance, ending							0	0	0	9,900	0	6,600
Net cash provided by crediting operations							0	0	0	39,900	0	26,600
Overhead expenses								(30,000)	0	(20,000)	(100)	0
Taxes	(3,100)	(3,200)	(3,500)	(3,700)	(3,900)	(4,000)	(5,900)	(6,500)	(6,400)	(7,000)	(7,600)	(7,600)
Cash balance beginning	15,000	16,500	28,900	39,700	44,600	52,300	88,500	134,000	131,400	143,025	195,125	189,225
Net cash provided (used) by bank's activities	(2,000)	(1,200)	0	1,600	2,400	(600)	8,200	(19,800)	(6,475)	38,400	(16,000)	24,055
Cash balance ending	13,000	15,300	28,900	41,300	47,000	51,700	96,700	114,200	124,925	181,425	179,125	213,280
Finance for the next period	3,500	13,600	10,800	3,300	5,300	36,800	37,300	17,200	18,100	13,700	10,100	12,200

Cash Flow Projections
For the Years Ended December 31, 1995 and 1996
(best case scenario)

	1995				1996			
	I	II	III	IV	I	II	III	IV
ing Activities								
nk equity								
sh dividends	(20,000)				(25,000)			
w time deposits	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
rest on time deposits	(6,100)				(21,600)			
w demand deposits	330,000	330,000	360,000	360,000	390,000	390,000	420,000	420,000
drawals	(315,000)	(330,000)	(355,000)	(360,000)	(385,000)	(390,000)	(415,000)	(420,000)
mission	1,800	1,800	2,000	2,000	2,100	2,100	2,300	2,300
ives' decrease (incr.)	(15,500)	(3,000)	(4,500)	(3,000)	(4,500)	(3,000)	(4,500)	(3,000)
	5,200	28,800	32,500	29,000	(14,000)	29,100	32,800	7,700
payments (int. and princ.)	(28,000)	(36,100)	(34,100)	(33,400)	(31,400)	(28,000)	(32,600)	(32,400)
owings	35,000	33,100	32,400	30,500	27,200	31,600	31,400	27,600
ash provided (used) by cial activities	12,200	25,800	30,800	26,100	(18,200)	32,700	31,600	2,900
g activities								
exchange (Yer)								
s sales	600,000	770,000	940,000	1,100,000	1,100,000	1,350,000	1,600,000	1,600,000
balance, beginning	20,000	25,667	31,333	36,667	36,667	45,000	53,333	53,333
mission earned	24,000	30,800	37,600	44,000	33,000	40,500	48,000	48,000
balance, ending	44,000	56,467	68,933	80,667	69,667	85,500	101,333	101,333
ash	10,000	18,333	25,133	32,267	44,000	24,667	32,167	48,000
arket operations								
balance, beginning	120,000	170,000	240,000	370,000	520,000	720,000	940,000	1,100,000
sales	1,308,000	1,853,000	2,618,000	4,033,000	5,616,000	7,776,000	10,152,000	11,980,000
n earned	108,000	153,000	216,000	333,000	416,000	576,000	752,000	880,000
fer expenses	(26,200)	(37,100)	(52,300)	(80,700)	(112,300)	(155,500)	(203,000)	(237,600)
balance, ending	228,000	323,000	458,000	703,000	936,000	1,296,000	1,692,000	1,980,000
ash	36,600	58,000	83,000	86,000	183,000	216,000	356,000	592,000
sales	20,000	40,000	70,000	90,000	120,000	150,000	250,000	250,000
balance, beginning	20,000	40,000	70,000	90,000	120,000	150,000	250,000	250,000
st earned	5,900	11,800	20,700	26,600	31,200	39,000	64,900	64,900
balance, ending	25,900	51,800	90,700	116,600	151,200	189,000	314,900	314,900
ash provided by g operations	59,800	(14,100)	(18,200)	700	(3,400)	1,200	(61,000)	64,900
expenses	(26,400)	(30,100)	(38,100)	(46,100)	(57,300)	(69,500)	(86,300)	(94,900)
	(39,025)	(57,925)	(82,670)	(98,980)	(148,015)	(205,100)	(272,510)	(222,015)
balance beginning	225,480	323,755	462,130	641,760	882,080	1,189,665	1,189,665	1,602,165
ash provided (used) by activities	72,475	107,575	153,530	258,520	274,885	380,900	506,090	675,985
balance ending	297,955	431,330	615,660	900,280	1,156,965	1,570,565	1,695,755	2,278,150
g for the next period	25,800	30,800	26,100	(18,200)	32,700	31,600	2,900	(61,536)

VaBank

Pro Forma Income Statement (moderate case scenario)

For the Years Ended December 31, 1994, 1995, and 1996

	1994	1995	1996
Interest income:			
Income on loans	18,205	17,100	38,600
Income on money market operations	81,900	333,400	1,062,000
Commission on currency exchange	40,900	86,400	113,400
Total interest income	141,005	436,900	1,214,000
Interest expense:			
Deposits	(4,050)	(14,200)	(14,200)
Borrowings from other banks	(548)	(3,157)	(3,282)
Other			
Total interest expense	(4,598)	(17,357)	(17,482)
Net interest income	136,407	419,543	1,196,518
Non-interest income	2,400	6,800	9,800
Non-interest expense	(24,300)	(110,300)	(375,300)
Adjusted operating income	114,507	316,043	830,018
Overhead expenses	(54,900)	(111,600)	(212,700)
Provision loan loss	(5,500)	(9,000)	(24,500)
Pretax operating income	54,107	195,443	592,818
Income taxes (45%)	(24,348)	(87,949)	(266,800)
Net income	29,759	107,493	326,018
Cash dividends declared	(20,000)	(25,000)	(30,000)
Retained earnings	9,759	82,493	296,018

9/20/96 - 2/20/97

VaBank
Budgeted Balance Sheets
(moderate case scenario)

Assets	As of January 1, 1994	As of June 31, 1994	As of December 31, 1994	As of December 31, 1995	As of December 31, 1996
Cash and due from other banks					
Vault cash		7,000	12,000	24,000	44,000
Correspondent accounts	15,000	58,404	92,990	254,212	605,025
Reserves with the Bank of Armenia		3,300	10,600	33,600	48,600
Loans					
Commercial and industrial			19,965	47,600	81,000
Less: allowances for losses			(1,997)	(4,760)	(8,100)
Bank premises and fixed assets	85,000	85,000	85,000	85,000	85,000
Total assets	100,000	153,704	218,559	439,652	855,525
Liabilities					
Deposits					
Demand deposits		12,500	30,000	65,000	70,000
Time deposits		20,000	75,000	155,000	275,000
Total	0	32,500	105,000	215,000	345,000
Borrowings from other banks		10,100	3,600	30,400	22,255
Total liabilities	0	42,600	108,600	147,400	367,255
Equity capital					
Paid-in capital	100,000	100,000	100,000	100,000	100,000
Retained earnings		11,104	9,759	92,252	388,270
Total liabilities and equity capital	100,000	153,704	218,559	439,652	855,525

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
Financing Activities												
Bank equity	15,000											
Cash dividends			5,000	5,000	5,000	5,000	15,000	15,000	10,000	5,000	5,000	5,000
New time deposits			20,000	20,000	25,000	25,000	40,000	40,000	50,000	50,000	60,000	60,000
Interest on time deposits			(10,000)	(20,000)	(22,500)	(25,000)	(32,500)	(40,000)	(45,000)	(50,000)	(55,000)	(60,000)
New demand deposits			100	100	200	200	300	300	300	300	300	300
Withdrawals			(1,500)	(500)	(800)	(500)	(2,300)	(1,500)	(1,500)	(500)	(1,000)	(500)
Net transfer commission			13,600	4,600	6,900	4,700	20,500	13,800	13,800	4,800	9,300	4,800
Reserves' decrease (incr.)			0	0	(3,600)	0	(3,500)	0	(6,600)	0	0	(1,000)
Total	15,000	3,500	13,600	8,000	3,300	11,100	17,000	13,800	8,200	5,500	11,400	4,800
Repayments (int. and princ.)			0	3,400	0	6,400	0	0	1,000	700	2,100	1,000
Borrowings			3,500	8,000	3,300	11,100	17,000	13,800	8,200	5,500	11,400	4,800
Net cash provided (used) by financial activities	15,000	3,500	13,600	8,000	3,300	11,100	17,000	13,800	8,200	5,500	11,400	4,800
Operating activities												
Currency exchange (Yer)												
Gross sales	15,000	30,000	40,000	45,000	55,000	60,000	70,000	80,000	90,000	100,000	110,000	120,000
Cash balance, beginning	1,500	3,000	4,000	4,500	5,500	6,000	7,000	8,000	9,000	10,000	11,000	12,000
Commission earned	800	1,500	2,000	2,300	2,800	3,000	3,500	4,000	4,500	5,000	5,500	6,000
Cash balance, ending	2,300	4,500	6,000	6,800	8,300	9,000	10,500	12,000	13,500	15,000	16,500	18,000
Net cash	(1,500)	(700)	500	1,500	1,300	2,300	2,000	2,500	3,000	3,500	4,000	4,500
Money market operations												
Cash balance, beginning	10,000	10,300	19,800	28,000	29,600	40,000	55,000	65,000	55,000	65,000	75,000	75,000
Gross sales	10,500	10,800	31,200	44,500	47,100	84,800	117,700	139,100	147,100	175,500	202,500	202,500
Margin earned	500	500	1,500	2,500	2,700	4,800	7,700	9,100	9,600	13,000	15,000	15,000
Transfer expenses	(200)	(200)	(600)	(900)	(900)	(1,700)	(2,400)	(2,800)	(2,900)	(3,500)	(4,100)	(4,100)
Cash balance, ending	10,300	10,600	20,700	29,600	31,400	43,100	60,300	71,300	61,700	74,500	85,900	85,900
Net cash	(10,000)	0	(9,200)	(7,300)	0	(8,600)	(11,900)	(4,700)	16,300	(3,300)	(500)	10,900
Loans												
Gross sales								5,000	15,000		15,000	20,000
Cash balance, beginning							0	5,000	15,000	0	15,000	20,000
Interest earned							0	0	0	1,100	3,400	0
Cash balance, ending							0	0	0	6,100	18,400	0
Net cash provided by crediting operations							0	(5,000)	(15,000)	0	(8,900)	(1,600)
Overhead expenses	(3,100)	(3,200)	(3,500)	(3,600)	(3,700)	(3,900)	(5,200)	(5,400)	(5,600)	(5,700)	(6,000)	(6,000)
Taxes						(1,755)			(9,990)			(12,595)
Cash balance beginning	15,000	16,500	28,700	36,100	39,700	51,700	69,145	86,545	94,645	80,755	107,055	125,655
Net cash provided (used) by bank's activities	(2,000)	(1,400)	(600)	300	900	445	3,600	(100)	(19,390)	14,900	13,800	(21,695)
Cash balance ending	13,000	15,100	28,100	36,400	40,600	52,145	72,745	86,445	75,255	95,655	120,855	103,960
Financing for the next period	3,500	13,600	8,000	3,300	11,100	17,000	13,800	8,200	5,500	11,400	4,800	20,950

Cash Flow Projections
For the Years Ended December 31, 1995 and 1996
(moderate case scenario)

	1995				1996			
	I	II	III	IV	I	II	III	IV
Activities								
Equity								
Dividends	(20,000)				(25,000)			
Time deposits	20,000	20,000	20,000	20,000	30,000	30,000	30,000	30,000
Investment on time deposits	(4,050)				(14,200)			
Demand deposits	270,000	300,000	330,000	360,000	390,000	390,000	420,000	420,000
Drawals	(255,000)	(295,000)	(325,000)	(355,000)	(385,000)	(390,000)	(415,000)	(420,000)
Commission	1,500	1,600	1,800	1,900	2,100	2,100	2,300	2,300
Reserves' decrease (incr.)	(12,500)	(3,500)	(3,500)	(3,500)	(4,500)	(3,000)	(4,500)	(3,000)
	(50)	23,100	23,300	23,400	(6,600)	29,100	32,800	15,100
Payments (int. and princ.)	(3,900)	(25,000)	(26,000)	(24,000)	(32,400)	(27,700)	(29,600)	(32,000)
Drawings	24,300	25,200	23,300	31,400	26,900	28,700	31,100	21,600
Cash provided (used) by special activities	20,350	23,300	20,600	30,800	(12,100)	30,100	34,300	4,700
Operating activities								
Exchange (Yer)								
Insurance sales	360,000	480,000	600,000	720,000	720,000	870,000	1,020,000	1,170,000
Balance, beginning	12,000	16,000	20,000	24,000	24,000	29,000	34,000	39,000
Commission earned	14,400	19,200	24,000	28,800	21,600	26,100	30,600	35,100
Balance, ending	26,400	35,200	44,000	52,800	45,600	55,100	64,600	74,100
Cash	6,000	10,400	15,200	20,000	28,800	16,600	21,100	25,600
Market operations								
Balance, beginning	80,000	105,000	150,000	210,000	280,000	390,000	550,000	550,000
Insurance sales	691,200	1,011,200	1,590,000	2,226,000	2,968,000	4,134,000	5,830,000	5,830,000
Gain earned	51,200	66,200	90,000	126,000	153,000	234,000	330,000	330,000
Transfer expenses	(13,800)	(20,200)	(31,800)	(44,500)	(59,400)	(82,700)	(116,600)	(116,600)
Balance, ending	131,200	171,200	240,000	336,000	448,000	624,000	880,000	880,000
Cash	5,900	26,200	21,200	30,000	56,000	58,000	74,000	330,000
Insurance sales		20,000	30,000	40,000	45,000	60,000	70,000	70,000
Balance, beginning	0	20,000	30,000	40,000	45,000	60,000	70,000	70,000
Invest earned	0	3,800	5,700	7,600	7,100	9,500	11,000	11,000
Balance, ending	0	23,800	35,700	47,600	52,100	69,500	81,000	81,000
Cash provided by writing operations	42,900	(20,000)	(6,200)	(4,300)	2,600	(7,900)	(500)	11,000
Operating expenses	(21,700)	(24,200)	(30,900)	(34,800)	(41,800)	(48,400)	(60,900)	(61,600)
	(10,535)	(15,680)	(19,950)	(41,735)	(33,425)	(46,475)	(67,935)	(116,865)
Balance beginning	124,310	180,975	250,895	350,545	424,310	575,885	575,885	782,910
Cash provided (used) by special activities	33,365	49,320	68,850	85,865	121,475	172,725	242,765	197,635
Balance ending	157,675	230,295	319,745	436,410	545,785	748,610	818,650	980,545
Financing for the next period	23,300	20,600	30,800	(12,100)	30,100	34,300	4,700	(53,055)

VaBank

Pro Forma Income Statement (worst case scenario)

For the Years Ended December 31, 1994, 1995, and 1996

	1994	1995	1996
Interest income:			
Income on loans	5,627	8,100	13,400
Income on money market operations	48,100	188,200	416,000
Commission on currency exchange	28,600	54,000	70,200
Total interest income	82,327	250,300	499,600
Interest expense:			
Deposits	(3,300)	(9,800)	(9,800)
Borrowings from other banks	(448)	(145)	(255)
Other			
Total interest expense	(3,748)	(9,945)	(10,055)
Net interest income	78,579	240,355	489,545
Non-interest income	1,800	4,200	6,200
Non-interest expense	(17,300)	(66,400)	(174,700)
Adjusted operating income	63,079	178,155	321,045
Overhead expenses	(51,000)	(93,900)	(152,100)
Provision loan loss	(1,700)	(7,500)	(14,500)
Pretax operating income	10,379	76,755	154,445
Income taxes (45%)	(4,670)	(34,540)	(69,500)
Net income	5,708	42,215	84,945
Cash dividends declared		(5,000)	(8,000)
Retained earnings	5,708	37,215	76,945

VaBank

Budgeted Balance Sheets (worst case scenario)

Assets	As of January 1, 1994	As of June 30, 1994	As of December 31, 1994	As of December 31, 1995	As of December 31, 1996
Cash and due from other banks					
Vault cash		5,000	7,500	15,000	19,000
Correspondent accounts	15,000	44,146	77,733	134,198	232,506
Reserves with the Bank of Armenia		3,300	8,600	21,600	33,600
Loans					
Commercial and industrial			15,972	22,500	43,700
Less: allowances for losses			(1,597)	(2,250)	(4,370)
Bank premises and fixed assets	85,000	85,000	85,000	85,000	85,000
Total assets	100,000	137,446	193,208	276,048	409,436
Liabilities					
Deposits					
Demand deposits		12,500	25,000	38,333	51,667
Time deposits		20,000	60,000	100,000	180,000
Total	0	32,500	85,000	138,333	231,667
Borrowings from other banks		1,900	2,500	500	824
Total liabilities	0	34,400	87,500	138,833	232,491
Equity capital					
Paid-in capital	100,000	100,000	100,000	100,000	100,000
Retained earnings		3,046	5,708	37,215	76,945
Total liabilities and equity capital	100,000	137,446	193,208	276,048	409,436

Cash Flow Projections
For the Year Ended December 31, 1994
(worst case scenario)

Activities	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
equity	15,000											
dividends												
time deposits			5,000	5,000	5,000	5,000	10,000	10,000	5,000	5,000	5,000	5,000
st on time deposits												
demand deposits			20,000	20,000	20,000	25,000	25,000	25,000	25,000	40,000	40,000	50,000
drawals			(10,000)	(20,000)	(20,000)	(22,500)	(25,000)	(25,000)	(25,000)	(32,500)	(40,000)	(45,000)
transfer commission	0	0	100	100	100	200	200	200	200	200	200	300
ees' decrease (incr.)			(1,500)	(500)	(500)	(800)	(1,000)	(1,000)	(500)	(1,300)	(500)	(1,000)
payments (int. and princ.)	15,000	0	13,600	4,600	4,600	6,900	9,200	9,200	4,700	11,400	4,700	9,300
avings	0	3,000	0	600	700	1,300	1,900	1,000	3,800	1,300	1,200	0
ash provided (used) by al activities	15,000	3,000	13,600	5,200	2,200	8,200	10,500	9,500	7,200	10,700	4,900	5,400
exchange (Yer)												
sales	15,000	25,000	30,000	35,000	40,000	45,000	50,000	55,000	60,000	65,000	70,000	75,000
alance, beginning	1,500	2,500	3,000	3,500	4,000	4,500	5,000	5,500	6,000	6,500	7,000	7,500
ission earned	800	1,300	1,500	1,800	2,000	2,300	2,500	2,800	3,000	3,300	3,500	3,800
alance, ending	2,300	3,800	4,500	5,300	6,000	6,800	7,500	8,300	9,000	9,800	10,500	11,300
ash	(1,500)	(200)	800	1,000	1,300	1,500	1,800	2,000	2,300	2,500	2,800	3,000
ket operations												
alance, beginning	10,000	10,000	20,000	25,000	25,800	33,000	42,000	46,000	50,000	50,000	62,000	65,000
sales	10,500	10,800	21,000	26,300	40,600	52,000	66,800	97,500	106,000	106,000	164,300	172,300
earned	500	500	1,000	1,300	1,900	2,500	3,800	5,500	6,000	6,000	9,300	9,800
er expenses	(200)	(200)	(400)	(500)	(800)	(1,000)	(1,300)	(2,000)	(2,100)	(2,100)	(3,300)	(3,400)
alance, ending	10,300	10,600	20,600	25,800	26,900	34,500	44,500	49,500	53,900	53,900	68,000	71,400
ash	(10,000)	0	(9,400)	(4,400)	0	(6,100)	(7,500)	(1,500)	(500)	3,900	(8,100)	3,000
ales												
alance, beginning								5,000		12,000		
earned							0	5,000	0	12,000	0	0
alance, ending							0	0	0	800	0	1,900
sh provided by crediting ions							0	0	0	5,800	0	13,900
xpenses	(3,100)	(3,200)	(3,400)	(3,400)	(3,500)	(3,600)	(4,800)	(5,000)	0	(12,000)	5,800	0
alance beginning	15,000	16,000	26,000	31,900	33,300	41,100	51,800	61,500	(3,960)			(705)
sh provided (used) by activities	(2,000)	(1,600)	(1,300)	(800)	(400)	200	200	(3,700)	(2,060)	(4,100)	4,100	17,895
alance ending	13,000	14,400	26,700	31,100	32,900	41,300	52,000	57,800	62,940	69,540	78,540	101,835
ng for the next period	3,000	13,600	5,200	2,200	8,200	10,500	9,500	7,200	10,700	4,900	5,400	4,233

Cash Flow Projections
For the Years Ended December 31, 1995 and 1996
(worst case scenario)

	1995				1996			
	I	II	III	IV	I	II	III	IV
g Activities								
k equity								
a dividends					(5,000)			
y time deposits	10,000	10,000	10,000	10,000	20,000	20,000	20,000	20,000
rest on time deposits	(3,300)				(9,800)			
y demand deposits	170,000	190,000	210,000	230,000	250,000	270,000	290,000	310,000
drawals	(166,667)	(186,667)	(206,667)	(226,667)	(246,667)	(266,667)	(286,667)	(306,667)
mission	900	1,000	1,100	1,200	1,400	1,500	1,600	1,700
ives' decrease (incr.)	(7,000)	(2,000)	(2,000)	(2,000)	(3,000)	(3,000)	(3,000)	(3,000)
al	3,933	12,333	12,433	12,533	6,933	21,833	21,933	12,233
payments (int. and princ.)	(2,600)	(3,000)	(1,300)	(100)	(500)	(2,800)	(3,100)	(2,000)
owings	2,900	1,300	100	500	2,700	3,000	1,900	800
cash provided (used) by								
ncial activities	4,233	10,633	11,233	12,933	9,133	22,033	20,733	11,033
g activities								
exchange (Yer)								
s sales	225,000	300,000	375,000	450,000	450,000	540,000	630,000	720,000
balance, beginning	7,500	10,000	12,500	15,000	15,000	18,000	21,000	24,000
mission earned	9,000	12,000	15,000	18,000	13,500	16,200	18,900	21,600
balance, ending	16,500	22,000	27,500	33,000	28,500	34,200	39,900	45,600
cash	3,800	6,500	9,500	12,500	18,000	10,500	13,200	15,900
arket operations								
balance, beginning	65,000	82,000	105,000	140,000	185,000	240,000	305,000	310,000
s sales	551,200	695,400	890,400	1,187,200	1,554,000	2,016,000	2,562,000	2,604,000
gin earned	31,200	39,400	50,400	67,200	74,000	96,000	122,000	124,000
fer expenses	(11,000)	(13,900)	(17,800)	(23,700)	(31,100)	(40,300)	(51,200)	(52,100)
balance, ending	96,200	121,400	155,400	207,200	259,000	336,000	427,000	434,000
cash	6,400	14,200	16,400	15,400	22,200	19,000	31,000	117,000
s sales	10,000	15,000	20,000	30,000	30,000	35,000	40,000	40,000
balance, beginning	10,000	15,000	20,000	20,000	30,000	35,000	40,000	40,000
est earned	1,200	1,900	2,500	2,500	2,800	3,200	3,700	3,700
balance, ending	11,200	16,900	22,500	22,500	32,800	34,867	40,367	43,700
ash provided by crediting								
tions	3,900	(3,800)	(3,100)	2,500	(7,500)	(2,200)	(5,133)	367
expenses	(19,800)	(21,100)	(25,500)	(27,500)	(32,500)	(35,400)	(41,700)	(42,500)
	(3,710)	(6,405)	(8,610)	(15,775)	(9,345)	(13,895)	(18,095)	(28,165)
balance beginning	106,068	134,592	171,620	218,343	271,902	342,390	342,390	425,895
ash provided (used) by								
s activities	17,890	25,795	33,790	44,425	48,455	62,772	81,472	78,635
balance ending	123,958	160,387	205,410	262,768	320,357	405,162	423,862	504,530
ing for the next period	10,633	11,233	12,933	9,133	22,033	20,733	11,033	46,009

