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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

APPRAISAL OF

NATIONAL INVESTMENT BANK FOR INDUSTRIAL DEVELOPMENT S.A.

GREECE

March 11, 1970

Development Finance Companies Department

APPRAISAL OF

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This report is based on the findings of a mission to Greece in February 1969 by Mr. C. Lethbridge, another mission in October 1969 by Messrs. C.Lethbridge and Edgar Su and on other information received from NIBID.

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SUMMARY

i. The National Investment Bank for Industrial Development S.A. (NIBID) was formed in 1963 by the National Bank of Greece (NBG) and a number of foreign banks. IFC became a shareholder in 1965. NIBID's first foreign exchange loan was obtained from IBRD in March 1968 (US$12.5 million) and had been fully committed as of the end of 1969.

ii. Greek economic growth, averaging 8% per annum in the 1960 to 1966 period, slowed down in 1967-68. Economic counter-measures by the Government produced some signs of recovery toward the end of 1968 and the situation continued to improve during 1969. A reduction in manufacturing investment was a feature of the recent recession but this is nevertheless expected to recover and grow modestly in the next five years although lack of fully articulated large projects makes the targets of the 1968-72 Five-Year Plan over-optimistic. Greek industry, presently characterized by a large number of small enterprises, must modernize, expand and increase efficiency and competitiveness if it is to derive full advantage from the country's associate status with EEC.

iii. NIBID's management is capable and energetic and its professional staff is gaining in competence and experience. The consulting company, jointly promoted by NIBID and Arthur D. Little Inc., has strengthened NIBID's appraisal capabilities particularly on engineering and production matters. Some strengthening of financial and economic analysis is still required.

iv. As of December 31, 1969, a total of 121 loans and equity operations had been approved by NIBID, amounting to US$67.4 million equivalent. NIBID's business reached its highest level in 1969. Its approvals during the year, totalling Dr 813.1 million (US$27.1 million equivalent), exceeded the aggregate of operations approved during NIBID's first four years, 1964-67, and were 56% higher than the approvals of 1968. A much larger portion of its loans was made in the latter half of 1969 after the Government had agreed to assume the foreign exchange risk on the sub-loans extended by NIBID out of the Bank funds.

v. Although NIBID's financing remains moderate (less than 10%) in proportion to gross private manufacturing investment, the company has made an important contribution in such matters as sponsoring joint ventures, promoting a consulting company and in introducing higher evaluation standards in Greece.

vi. NIBID's total assets, at December 31, 1969, stood at about US$43.3 million equivalent. NIBID's available resources totalling US$67.4 million equivalent had been largely utilized, on an approval basis, by the end of 1969. Further drachma funds will be obtained from the present sources (National Bank of Greece and the Bank of Greece) and a subordinated Government loan, but there is little prospect of further foreign exchange funds for NIBID, at the present moment, other than from IBRD. The existing Bank loan was fully committed by the end of 1969. NIBID has achieved only a moderate level of profitability, but this will improve in the next few years.

vii. NIBID must increase its borrowing capacity and lower the average cost of funds employed, in order to sustain a higher volume of business and to realize a higher return. To this end, NIBID initiated negotiations with the Government for low cost funds. In February 1970 the Government agreed to extend to NIBID a 3.5% loan ranking pari passu with share capital in the event of liquidation. The loan will be repayable in 15 years including a 10-year grace period. Approximately 50% of the maturities of this loan which fall due after the proposed Bank loan has been fully repaid should be eligible for inclusion in NIBID's borrowing base. Moreover, a higher debt/equity limitation is justified given NIBID's experience and it is recommended that the ratio be increased to 5:1.

viii. NIBID requires Dr 1,252 million (US$41.6 million equivalent) to finance its operations, on approval basis, to June 30, 1971, of which about US$28.5 million is a foreign exchange requirement. NIBID remains a suitable and creditworthy borrower for Bank funds and it is recommended that a Bank loan of US$20 million be extended to NIBID to help meet its foreign exchange and resource gap through mid-1971. The loan incorporates the terms applied generally to recent loans to development finance companies.

APPRAISAL OF

NATIONAL INVESTMENT BANK FOR INDUSTRIAL DEVELOPMENT S.A.

I. ECONOMIC AND FINANCIAL ENVIRONMENT

General

1. Following a period of impressive growth of GNP (8%) in the 1960-1966 period economic activity slackened in 1967-1968. This development was already beginning to show itself before the revolution of April 1967, and the political situation thereafter further disrupted and slowed investment activity. Counter-measures by the new Government, largely through heavy public sector expenditures, together with a cautious revival of confidence in economic stability, produced some signs of recovery by the second half of 1968 and this was maintained during 1969.

Industrial Sector and Investment

2. The manufacturing sector in Greece, employing 14% of the labor force and contributing 19% to GDP, grew by 8% per year in the five years to 1967. The highest growth rate in the manufacturing sector was registered by the building material industry although, with the help of heavy foreign capital imports, the chemical, mining and oil sectors also registered higher than average growth and investment records. In 1967 industrial investment fell sharply. Nevertheless, after only a partial recovery of investment in 1968, industrial production increased about 10.5% in the first ten months of 1969, and capital goods imports, a direct indicator of industrial investment totalled $ 389 million for 1969, an increase of 16% relative to 1968. Foreign investment has played an important role in Greece's recent industrial development. In the 1960-66 period for example, about half of total industrial investment was represented by foreign investment. Two large investments in the aluminium and petroleum fields were particularly important in boosting both the overall investment totals as well as the foreign investment levels during this period.

3. To date, industry has largely been of an import substitution nature. Exports account for only 5% of manufacturing output. However, in 1968 and 1969 exports of manufactured goods and minerals registered significant gains. Much of this increase has come from two large projects (the Pechiney aluminium complex and the Esso-Pappas petroleum/chemical concern). Textiles and other industries, however, also increased exports and evidence of the opportunities presented by Greece's association with EEC is provided by a doubling (to 48%) in the percentage of Greek manufactured exports which go to Common Market countries. Under the 1962 Agreement of Association, Greek manufactured products have enjoyed duty-free access to the EEC countries since 1968, while the Greek tariff on imports from EEC will not be fully phased out until 1984.

4. Government Incentives. The Government offers a number of measures designed to accelerate industrial development. Direct financial assistance to industry, shipbuilding and tourism is provided through the Hellenic Industrial Development Bank (HIDB). A number of fiscal and other incentives

have also been introduced to boost private investment, encourage exports and attract foreign capital. Tax incentives to shareholders, interest rebates on loans to exporters (allied to the proportion of output exported) and fiscal and other concessions to foreign investors are available.

Financial Environment

5. Credit and Interest Rates. The Greek economy has been characterized by high liquidity in the past two years. To help absorb this by stimulating private investment, the Government authorized in 1968 an expansion of credit facilities designed to channel funds, through the commercial and investment banks, to development. A reduction in cash holdings and some renewed confidence in savings was observed in 1968 but the credit situation remains free, although some tightening measures were instituted in May 1969 to curb import levels.

6. The banks in Greece are subject to regulation both as to the amounts and terms of bank credit. A recent improvement in these regulations was the abandonment in mid-1968, of a very complex system of interest rates on industrial loans. Since mid-1968, the basic long-term rate for industry has been 7-1/2% plus a 1% commission making an effective rate of 8-1/2%. Credits for working capital carry 8% interest plus the 1% commission. Modified rates are still available for exports, handicrafts and other special categories but in general a simplification of the structure has been achieved.

7. The Banks in Greece. The commercial banking system is by far the greatest supplier of funds, short- and long-term, to the manufacturing sector. Banks supplied something over 60% of gross private manufacturing investment in the period 1962-1967. The loans to this sector have been divided almost equally between short- and long-term. Manufacturing is the largest single private sector debtor to the banks, and outstanding loans to this sector had risen to Dr 39 billion (US$ 1.3 billion) by November 1969, an increase of over Dr 20 billion in the past six years.

8. The predominant role of the banking system in financing investment, particularly industrial investment, explains the continued imposition of lending controls designed to regulate the economy in accordance with Government policy. Obligatory interest rates are one aspect of this, as are regulations relating to the minimum amounts to be granted by way of long-term loans, special loans (such as to handicrafts) and other matters.

9. Among the commercial banks operating in Greece, the National Bank of Greece (NBG) is by far the most important. With a wide ownership among private and public organizations as well as individuals, the NBG is in most operational aspects an orthodox private commercial bank. Nevertheless, although the Government's shareholding in NBG is equivalent to less than 10% of the total share capital, it is the largest single shareholder and this enables the Government to exercise its influence in appointment of the Governor of the NBG. Since NBG's assets are equivalent to nearly two-thirds of total commercial bank assets in the country, the Government has a definite interest in seeing that NBG operates fairly closely in accordance with official policies.

10. The second largest bank is the Commercial Bank of Greece. Although not as large as NBG, it is an aggressive competitor. An important development in the Greek banking scene in recent years, however, has been the establishment of branch offices of foreign banks; five of these are now operating in Greece. Their operations are so far on a small scale compared to NBG and the Commercial Bank Group, but their arrival has been important because they have had a role in stimulating interest in Greece on the part of some of their foreign customers and, more importantly, they have brought to Greece a more modern approach to banking methods and management. Particularly during the present period of liquidity, the rather conservative Greek banks are being faced with hitherto unaccustomed competition and the resulting increase in efficiency and flexibility is apparent.

11. Although the commercial banks have traditionally provided long-term investment funds for industry, there are three banks (including NIBID) specializing in this field. The largest and most important channel for public financing of industry is the Hellenic Industrial Development Bank (HIDB). Formed in 1964 from a merger of three Government lending and investment agencies, HIDB now has a staff of about 400 (including 180 professionals) and assets with a book value of over US$250 million. HIDB's share capital of US$178 million is wholly owned by the Government, which has also provided (or arranged for) most of its debt resources.

12. Operations approved by HIDB's Board in 1968 had a total value of Dr 2.1 billion (US$70 million) compared to Dr 1.1 billion (US$36 million) in 1967. In the first seven months of 1969, approvals reached the level for all of 1968. Some 45% of the 1968 approvals were for industrial enterprises, representing a greater amount than the total 1968 approvals of the other two investment banks combined. More than half of HIDB's business, however, is in shipping and tourism. In these sectors, HIDB makes funds available at special interest rates and in effect follows administrative and policy directives laid down by Government. In this type of operation, HIDB is not in competition with the private banks. HIDB's outstanding loans at the end of 1968 amounted to about US$ 180 million.

13. In addition to its loans, HIDB has equity investments with a book value of some US$70 million, 80% of this in companies wholly owned and managed by HIDB. HIDB also has other semi-official responsibilities, such as providing industrial promotion services abroad, administering industrial estates and coordinating certain aspects of the public sector development program.

14. Despite a considerably lower interest rate than was charged by other banks, HIDB's operations were rather slow until 1967. Conservative management and a reputation for inneficiency were mostly to blame. New management made strenuous attempts to assist the Government to offset the fall in private industrial investment in 1967-1968 by increasing its activity, and HIDB's recent high approval level is a direct result of this drive.

15. In addition to NIBID there is one other private investment bank, the Investment Bank, S.A., a subsidiary of the Commercial Bank Group. A minority of its shares (13%) is held by a number of foreign banks. Total assets of the Investment Bank at the end of 1968 were Dr 476 million (US$15.9 million). Resources, in addition to its share capital (Dr 150 million) have come mainly from loans from the Commercial Bank of Greece. Its resources have been limited and its operations on a smaller scale than NIBID.

16. The recent emergence of HIDB as a more active organization has not been without its effect on the two other investment banks. Really serious competition was first felt in early 1968 when HIDB dropped its previous requirement that all its loans carry a foreign currency repayment clause. On the other hand, the previous advantage to HIDB, in being permitted to lend at a lower rate of interest than the private banks, was almost eliminated in late 1968 when the authorities increased HIDB's lending rate from 7% to 8%. The normal rate for long-term industrial loans from HIDB is thus only one-half per cent lower than from the other banks.

17. Capital Market. The capital market still plays a minor role in channeling private savings into manufacturing investment. The range and value of securities available through the Athens Stock Exchange remains limited; new issues and listings are infrequent. Transactions of the Stock Exchange in 1968 had a total value of Dr 1,885 million, a rise of 85% over the comparable volume in 1967. The first nine months of 1969 recorded an even greater volume of transactions, valued at Dr 2,030 million. Most of the securities traded are Government or other public sector bonds (on which dividends are tax free), although industrial shares accounted for 25% by value of the amounts traded in the first nine months of 1969. These, however, include Bank and insurance company stocks and industrial securities are still not widely available. The industrial stock price index moved up 32% in 1968, in contrast with the previous six years when very little growth was recorded. Prices in 1969 have risen dramatically, almost doubling in the first nine months. The paucity of shares available, the liquidity of the economy and the tax law modifications allowing tax free stock dividends from asset revaluations have resulted in a rising market.

18. Legislation has recently been enacted to stimulate the capital market. The measures adopted include tax incentives for shareholders, tighter audit regulations for listed companies and a minimum dividend distribution of 30% of net profits. Although these measures are helping to attract private savings, as evidenced by the 1969 market behaviour, the capital market is unlikely to contribute significantly to manufacturing investment for some time to come. Legislation has been proposed for the establishment of investment companies and two open-end mutual funds are in the planning stages.

Prospects for Industrial Growth

19. On one hand, the characteristics of Greek industry present problems for future growth. Greek industry consists largely of small, family owned, import substitution enterprises. Modernization and the ability to expand horizons beyond the local market are difficult for firms accustomed to traditional practices and hitherto protected from competition. Such firms will be hard put to export, and even to compete on the increasingly vulnerable home market, as the discipline of Greek's Common Market arrangements proceed.

20. On the other hand, there is evidence that Greek firms are becoming more interested in securing foreign collaboration. Also, the labor force is ample, readily trainable (as evidenced by the Greek labor force working abroad) and relatively inexpensive. Although hard statistical facts are not available on current foreign and domestic investment, the banking and industrial community in Greece indicate that foreign investor interest in Greece is fairly strong and that although no huge projects of the Pechiney or

Esso/Pappas size are anywhere near the implementation stage, industrial investment should continue to grow moderately in the next few years.

II. THE COMPANY

Purpose and Policies

21. The National Investment Bank for Industrial Development, NIBID, was formed in 1963 to provide financing for industrial and related enterprises, in the private sector. In addition to serving the manufacturing sector, NIBID has also financed projects in the tourism and shipping sectors. NIBID's Articles, which are similar to those of most private development finance companies, are amplified by a Shareholders' Agreement, which regulates such matters as the acquisition and disposal of shares, the appointment of directors and voting requirements. The original Agreement, which is renewable, expires in July 1971. New shareholders are required to become parties to the Agreement.

22. In June 1965 NIBID's directors adopted a Statement of Policies and Procedures (Annex 1). This sets out the objectives and scope of the institution and regulates certain aspects of its financial and managerial procedures. NIBID's operations have conformed to these policies. The only limitation that NIBID has approached is the one that sets a ceiling equivalent to 25% of NIBID's net worth on total commitments (Dr 87 million) to any one enterprise. This has meant that in a few cases, new loans to some of its larger clients whose earlier operations, with NIBID assistance, have provided a successful basis for expansion, have not been possible.

Ownership

23. NIBID's initial share capital was Dr 180 million, of which 55% was held by the National Bank of Greece and the balance by ten foreign banks. The present share capital is Dr 300 million, and its ownership is indicated in Annex 2. The increase was undertaken in two steps, the first in 1965 to bring in IFC with a 7% holding subscribed at book value (102.5% of par). Subsequently, a rights issue was subscribed proportionately by all shareholders and brought the capital to its present Dr. 300 million level. Apart from NBG and IFC, the remaining 38% of NIBID's shares is now held by 13 foreign banks from nine different countries. The largest foreign shareholder is the Chase International Investment Corporation whose 7% share equals the holding of IFC.

Board and Executive Committee

24. The composition of NIBID's 18-member Board of Directors is given in Annex 3. Nine directors are appointed by the National Bank of Greece and nine by the foreign shareholders. Since the establishment of the Bank, the Governor of the NBG has been Chairman of NIBID's Board. Since the Bank loan became effective, there have been two changes in the composition of the Board of Directors. Professor Koulis retired in October 1968 and was replaced by Mr. Gondicas, General Manager of NIBID. Mr. Esgo Kuiper who had represented IFC on NIBID's Board ever since IFC became a shareholder retired in May 1969. Mr. Nelson Schaenen was appointed in his place and served through 1969. Subsequently Mr. Harold F. Linder was nominated by IFC to NIBID's Board.

25. Full Board meetings are held only once or twice a year and normally deal with general matters. The responsiblilities of the Board as far as project approvals are concerned have been delegated to an Executive Committee consisting of seven members and one observer. In addition to the Chairman and one other NBG representative, the Executive Committee has four members representing foreign shareholders, one member without vote (Mr. Gondicas) and the IFC Director (Mr. Linder), who participates, also without voting, as an observer (Annex 3). The Executive Committee, which has been meeting in Athens about twice each year, has in turn delegated to its members resident in Greece (the two NBG representatives, a representative of Hambros Bank and the General Manager) the authority to approve investments below a certain size (See para. 32 below). Projects requiring an investment or loan exceeding this limit are circulated to the Executive Committee by mail (if no meeting is imminent) and require the written agreement of five of the six voting members before the General Manager is authorized to commit the company.

26. Originally the resident members had authority to approve operations up to Dr 6 million (US$200,000). However, as the volume and size of NIBID's applications grew, and particularly since 1968, the number of projects above the Dr 6 million became greater and the correspondence method of Executive Committee decision was found to be cumbersome. Rather than increase the number of its meetings, the Executive Committee decided upon further delegation to the resident members as the solution to this problem, reflecting their increased confidence in the experience of NIBID's management and staff. The limit of the members of the Committee resident in Athens was thus increased to Dr 15 million in November 1968. The bulk of the review of projects by the full Committee is still done by mail. This is not as satisfactory as discussing projects at meetings but some improvement in communications was made in that in 1968 when foreign members agreed to circulate among themselves comments or questions, which are not infrequent, raised on projects. The Board receives a quarterly report covering all operations approved, projects under consideration, new applications, cancelled proposals and a statement of NIBID's financial condition. These reports are also sent to the World Bank.

Management and Staff

27. NIBID's Senior Executive, Mr. George Gondicas, spent 14 years with the Bank and IFC before becoming NIBID's first General Manager in 1963. He is capable and experienced. He enjoys a good relationship with the NBG under Governor Cominos as well as with other persons of standing in Greek Government, banking and industrial circles. The senior professional staff, of whom the nucleus came from NBG, is also competent and is gaining in experience. Most have been with NIBID since its creation. An organization list for NIBID is reproduced in Annex 4.

28. Of NIBID's 30 professional staff, 13 are in the Operations Department which has the primary responsibility for the evaluation and negotiation of investments and loans. Projects are allocated to the two Groups within this Department according to industrial sector, each having built up a certain amount of expertise on a specific range of industries. Early in

1969, responsibility for follow-up of existing projects was transferred from the Operational Department to a new section, and two additional professionals have been recruited to take responsibility for this aspect of the company's business. For legal matters, NIBID's Counsel is assisted by three lawyers.

29. NIBID's Technical Advisor, a senior engineer, is responsible for the review of projects from the engineering standpoint. He has recently been joined by another full-time engineer. NIBID has deliberately refrained from building a sizeable technical staff, preferring to employ consultants where appropriate, or to make use of the specialist services of its associate, Arthur D. Little-Hellas S.A. (see para. 46).

Project Appraisal and Follow-up

30. Although NIBID's project appraisals have improved since the Bank Group first participated in the company in 1965, there are some aspects of NIBID's analyses that require further improvement. In most cases, appraisal reports deal satisfactorily with the project's management and past financial history (if it is an existing firm), but financial details, particularly pertaining to the future, are sometimes meagre. The association with ADL-Hellas has considerably improved the appraisal work, on engineering and marketing aspects, particularly on more complicated projects. However, in cases where there has been no consultant, this type of analysis is still weak; the appointment of a second engineer should improve this.

31. NIBID's Policy Statement stipulates that NIBID will finance only those projects which will contribute to the economic growth of the country, and it is true that, on balance, the majority of NIBID's business has been in areas that either earn foreign exchange for Greece or which produce manufactured items that are reasonably competitive with imported goods. Moreover, as mentioned earlier, Greece has adopted the discipline of declining protection as a result of its association with EEC and this will help to ensure movement towards competitiveness in general. However, NIBID has not, in most cases, explicitly focused on the economic aspects of the projects it finances to the extent which would be desirable and NIBID needs to strengthen its appraisals in this area. In those cases where the market mechanism is affected by any form of subsidy, protection or price control, this should be fully evaluated in NIBID's project appraisals. The Bank has advised NIBID of its general concern that projects should be scrutinized carefully to ensure that all economic factors are fully taken into account. NIBID has agreed to focus more directly on the economic aspects of its projects in order to ensure that only reasonably competitive projects will be financed.

32. Follow-up and supervision of existing clients has not been well organized, but recently substantial improvements have been made in this area. As mentioned above, follow-up has now been made the responsibility of a new department. A system of regular follow-up visits and reports has been instituted; senior staff hold a weekly meeting to discuss the reports

and initiate any action required. The follow-up reports have generally been of good quality. The procedures for advising management of overdue payments are well-established and action has been taken quickly to probe the reasons; nevertheless, the real test of an adequate follow-up system will come when problems are spotted and overcome before payments become overdue. As a final comment on evaluation, NIBID's arrearage experience does not so far indicate any serious defects in project appraisal work or supervision but NIBID is aware of areas requiring improvement and is making efforts to raise standards generally.

Relationship with Other Institutions

33. NIBID continues to have close working relationships with NBG, although it is now recognized in Greece as an important entity in its own right. NIBID has succeeded, particularly since its association with the Bank Group, in establishing a reasonable degree of independence and autonomy of management, vis-a-vis NBG, while at the same time retaining effective cooperation with its major shareholder. NBG continues to pass on to NIBID the long-term industrial finance applications suitable for NIBID's consideration, applications which, before NIBID's establishment, NBG might have dealt with itself. The supporting services of NBG (such as legal assistance and credit information) are still important to NIBID. While almost all NIBID's original staff came from NBG, more recent recruitment has been from outside. There has been a considerable increase recently in formal and informal consultation and contact between HIDB and the two private investment banks, to a large extent as the result of NIBID's efforts.

34. Despite some criticism that its requirements in evaluating projects and setting the terms of its loans are too strict, NIBID's approach to financing problems is recognized by NIBID's clients and other financial institutions as progressive, its management capable and its international character is respected. NIBID's portfolio now includes interests in many of the larger and better known Greek companies, as well as a cross section of the Greek projects recently sponsored by overseas concerns.

35. NIBID's relationships with the Government are also satisfactory. NIBID has become increasingly important as a source of finance for industrial development and its potential for attracting further investment through contacts with its shareholders and clients is respected by Government. Moreover, NIBID has been the recipient of the only World Bank loan to Greece and the Government is aware that the manner in which these funds are used is closely followed. As a result, NIBID's autonomy as a private financial institution has been maintained. NIBID has obtained certain concessions from the Government, in addition to the guarantee of the Bank loan. The most important of these, described in paragraphs 43 and 65 in this report, are the coverage of the foreign exchange risk and the provision of a subordinated, low interest loan. In negotiating these, NIBID has been careful to emphasize its private sector character; the Government, for its part, provides special treatment because NIBID is operating in a priority sector of development and because of NIBID's ability to attract foreign

investment. NIBID's management feels, however, that special concessions from the Government should, as a matter of principle, be sought only when absolutely necessary, and that the main objective must be to grow into a strong, profitable institution in accordance with normal commercial criteria. This attitude is one which NIBID's shareholders, and the Bank, fully support.

Resources

36. The resources acquired by NIBID up to December 31, 1969 are as follows:

	Dr million
Share capital	300.0
Reserves and provisions	69.7
Local currency loans:	
NBG Loan No. 1	300.0
NBG loan No. 2	300.0
Bank of Greece Loan No. 1	300.0
Bank of Greece Loan No. 2	300.0
Foreign currency loan:	
IBRD Loan 530-GR (US$12.5 million)	375.0
	1,944.7

The local currency loans are drawn down in tranches by NIBID as needed. As of December 31, 1969, the entire amounts of the first loans from NBG and the Bank of Greece, and Dr 145 million under the second NBG loan had been drawn. The first NBG loan is repayable over 12 years at 5% interest on the entire amount, while the first Bank of Greece loan is repayable over eight years at 4.5% on Dr 250 million and 5% on the remaining Dr 50 million. Both the second NBG loan and the second Bank of Greece loan have a term of 10 years including a grace period of two years, the former bearing interest at 5% and the latter 5.5%. The Bank of Greece loans are secured by NIBID assigning to the Bank of Greece a part of its loan portfolio. The World Bank shares equally in these security arrangements. The NBG loans are unsecured. As of December 31, 1969, the entire first IBRD loan had been credited to the loan account.

III. OPERATIONS

General Features of Operations

37. A summary of NIBID's operations is given in Annexes 5, 6 and 7. A total of 121 loan and equity operations (involving 110 borrowers) had been approved, amounting to Dr 2,020.5 million (US$67.4 million equivalent), from NIBID's creation in early 1964 to the end of 1969. The increase in NIBID's business since 1964 has been rapid and, despite a slight drop in 1967 due to the unsettled conditions following the military revolution, fairly steady. However the record shows that 1969 was a record year for

NIBID's business. Its approvals during the year, totalling Dr 813.1 million (US$27.1 million equivalent), exceeded the aggregate of operations approved during the first four years, 1964-67, and were 56% higher than the approvals of 1968. During the first half of 1969, the volume of business was very low, primarily because of the difficulty of negotiating foreign exchange clauses with its borrowers. However, its operations registered a very sharp rise in the second half of 1969, after the Government has agreed to assume the foreign exchange risk on the sub-loans extended by NIBID out of the Bank funds (see para. 43).

38. The average size of NIBID's operations up to December 31, 1969 has been Dr 16.7 million (US$557,000 equivalent). NIBID's policy statement restricts it to a maximum exposure equivalent to 25% of net worth in any one project: this now means an upper limit of about Dr 87 million (US$2.9 million equivalent). NIBID's Executive Committee is considering amending the limit to 20% of net worth plus the proposed Dr 300 million subordinated loan, an upper limit of about Dr 120 million (US$4 million equivalent). The largest operations to date are the two loans of Dr 75 million each, extended to Aluminium of Greece, S.A. and Goodyear-Hellas S.A. respectively, and the loan of Dr 60 million to and the investment of Dr 15 million in Owens Illinois Glass Co.

39. NIBID's lending and equity investments are well diversified, with no one industry dominating the portfolio. The textiles industry has received the largest amount of financing with 17% of the total. Building materials plants follow with 12%, food products factories 10% and chemical industry (including pharmaceutical producers) 9%. All other industrial classifications have each received less than 9% of NIBID's financing.

40. The location of projects assisted has followed closely the dispersion of industry in Greece. The geographical distribution of NIBID's loans is shown by the map in Annex 7. Fifty-four per cent of NIBID's financing has been for projects in the Athens/Piraeus area. While the capital area continues to dominate the Greek industrial scene, the financial incentives to locate elsewhere are beginning to attract industrialists to other localities. NIBID's three largest operations (Aluminium of Greece, Goodyear-Hellas and Owens Illinois Glass) are all located outside Athens.

41. Since Greece has a fairly long-established manufacturing sector, much of NIBID's business has been directed toward the modernization and expansion of existing companies. To this extent it has been financing established businesses and entrepreneurs. Nevertheless, 24% by number and 26% by value of its financing activity has gone to the setting up of new projects and companies. This split between old and new projects is not unreasonable, given the present stage of development of the Greek manufacturing sector.

Loan Operations

42. Loan Terms. During the two years, 1968-69, 96% of NIBID's approvals were straightforward loans, most of them for 10-year terms with interest at 8.5%. The basic interest rate permitted for investment bank funds is 8.5% plus a profit-tied increment

of up to 1.5% to bring total yield to 10%, which is the return NIBID was negotiating in 1966 and 1967. However, long-term lending in Greece became more competitive since early 1968 and the profit participation element became much more difficult to negotiate with borrowers. Only 32% of the loans extended during the past two years gave NIBID the right to the additional return and, for those that did, the increment was only 0.5%. In addition to straight loans, NIBID has also made debenture loans, some with conversion features. In some cases, NIBID combines more than one type of loan to one company. Six of the nine debenture loans made by NIBID since 1964 have conversion features on all or part of the loan; three others are loans made under the special terms of Law 3746, which gives privileges to holders of certain approved debentures for which the Government wishes to encourage public subscription. Interest on these "3746" bonds is tax-exempt. To date, NIBID has exercised its conversion rights with respect to two of the debenture loans and the shares so acquired amount to Dr 8.6 million.

43. Under the terms of the Bank Loan Agreement, NIBID is obliged to cover itself against the exchange risk in lending from the Bank loan. When it was the practice of HIDB to insist on a "dollar clause", regardless of the currency lent, and when money was tighter, NIBID had no difficulty in getting clients to accept this risk. However, since HIDB dropped this requirement and the tight credit situation eased in 1968, NIBID has been encountering difficulty in getting foreign exchange obligations in a situation where drachma is readily convertible for capital goods imports. NIBID ultimately obtained the Greek Government's agreement to bear the foreign exchange risk on NIBID's loans made from the proceeds of the first Bank loan. NIBID had already lent US$1.5 million of the Bank funds to clients which absorbed the risk, before the agreement was reached; the Bank of Greece therefore assumed the risk on the remaining US$11 million of the Bank loan. An agreement providing this guarantee was signed on January 20, 1970 between NIBID and the Bank of Greece. NIBID will not be charged for this. NIBID expects to negotiate similar arrangements on foreign exchange funds it will obtain in the future.

44. Quality of Loan Portfolio. Principal maturities and interest in arrears, over three months at December 31, 1969, aggregated approximately Dr 9.4 million. They relate to 13 loans whose outstanding principal amounts to Dr 98.5 million, corresponding to 9.5% of loan portfolio. (A total amount of Dr 3.5 million from four delinquent borrowers, representing 37% of total arrears as of December 31, 1969, had been collected during the first six weeks of 1970.) About half of these are tourism loans, particularly to hotel projects in Rhodes, which had a very poor tourist season in 1968. However, serious efforts were made to attract new bookings, and business has picked up a great deal in 1969. With some moderate rescheduling of repayments, the hotel projects should be able to meet their obligations. The remaining arrears relate to breweries, textiles, and chemical products manufacturers. NIBID is watching each case closely and, since all loans are well secured by mortgages, there are no projects in arrears in which NIBID seems likely to suffer any losses. Moreover, provisions that

have been made against possible losses are about Dr 48.1 million, which is more than sufficient to cover accounts in trouble. In the circumstances, NIBID's loan portfolio can be characterized as sound.

Equity Operations

45. As of December 31, 1969, NIBID's equity portfolio, consisting of shares in nine companies, had a book value of Dr 64.2 million, equivalent to 5.8% of the total outstanding portfolio. One investment (Titan Cement) accounted for Dr 40.5 million or 63% of the total. The shares of two companies (ETMA Rayon Manufacturing Company, Dr 7.45 million; Keramiki Cedit Ceramics Company, Dr 3.6 million) were acquired as a result of NIBID's exercising conversion rights. Six of the nine companies have been profitable and, of these, five have been distributing dividends. One company is still under construction and two others are not yet profitable. A tabulation of NIBID's equity portfolio at December 31, 1969 is shown in Annex 8. The relatively low volume of equity operations is in part explained by a disinclination of closely controlled, family companies to accept outside shareholders. On NIBID's part also, there has been reluctance to invest in equity in family-held firms where minority shareholders run heavy risks. But NIBID continues to seek opportunities for prudent equity investments, advantageous both to NIBID and its clients. At December 31, 1969, the market value of NIBID's equity portfolio was approximately 241% of acquisition value. Much of this is attributable to NIBID's holdings of Titan Cement shares for which there has been a heavy demand in 1969. Although NIBID is arranging to sell some of these shares, the thinness of the market indicates that this must be done with restraint in order to maintain a reasonable price. Dividends received by NIBID in the first half of 1969 were equivalent to an annual return on average portfolio of 4.2% compared with 2.8% realized in 1968. The general quality of the equity portfolio is good. Dividend yields on it are still low, however, and profits are likely to come more through sales of shares than through dividend payments.

Arthur D. Little-Hellas S.A.

46. From the start of its operations NIBID had recognized that technical (i.e. engineering and production) evaluation of projects was perhaps the weakest link in its operations. At the same time, NIBID's management felt that to develop its own staff to include the experience needed to analyze a wide variety of technical projects would be difficult and expensive. NIBID therefore explored the possibility of delegating the more complex engineering and related technical work to consultants. But no suitable firm existed in Greece. This lack of specialist consultants also appeared to be a disadvantage to the requirements of Greek industry for modernization and improvement. So NIBID interested Arthur D. Little, Inc. of Cambridge, Massachusetts, in jointly sponsoring a consulting company in Greece. NIBID subscribed 30% of the share capital (Dr 5 million) of Arthur D. Little-Hellas S.A. and Arthur D. Little, Inc. provided the remaining 70%. The company started business early in 1968 with two senior staff members of Arthur D. Little, Inc., seconded to Greece as manager and senior consultant.

ADL-Hellas renders consulting services of a wide variety using its own staff or, where necessary, hiring outside consultants either from ADL or elsewhere. The company accepts suitable assignments from any source but grants priority to consultancy work for NIBID and its clients. NIBID supplies ADL-Hellas with certain administrative services (for which NIBID is paid) and Arthur D. Little, Inc., Cambridge, has undertaken to pass to ADL-Hellas projects which it would normally have undertaken in Greece or the neighboring countries. ADL-Hellas charges fees for its services; where these relate to project evaluations on NIBID's behalf, the fee is passed on by NIBID to the client, wherever possible.

47. ADL-Hellas' first one and a half years of operations have been encouraging. The two original staff members have been augmented by four qualified Greek consultants and a total of 30 projects (worth US$400,000 in fees) have been completed or are in progress. Ten of these relate to projects financed by NIBID and nine were assignments outside Greece (Algeria, Switzerland and Abu Dhabi were among the countries in which work was done). This level of business was some 50% higher than the sponsors had forecast. Despite heavy establishment expenses, ADL-Hellas is breaking even and should make a modest profit from 1969 onwards.

48. NIBID's investment in ADL-Hellas may be counted as a successful start to an unusual experiment in solving some aspects of the technical evaluation problem of a development finance company. The financial attraction of the investment is modest, and is greatly outweighed both by the added dimension which has been given to NIBID's appraisal capabilities and particularly by the fact that ADL-Hellas' widening circle of clients is both an actual and potential source of new business for NIBID. With its ability to call on a wide range of skills from its parent company, ADL-Hellas is also helping to introduce a more modern outlook in production and marketing efforts to Greek business management and has already secured a number of assignments (particularly in electronic data processing and in marketing techniques) from important Greek organizations. ADL-Hellas has been particularly encouraged by the repeat business it is getting from some of its earlier clients; NIBID also benefits from this trend both as regards facilitating follow-up work and as keeping NIBID closely in the picture when clients are considering expansion plans. Finally, the physical proximity of ADL-Hellas, which rents office space from NIBID, has many advantages in enabling staff to meet and discuss projects informally and in arranging for joint meetings with clients.

Capital Market Work

49. NIBID is concerned with the need in Greece to stimulate and diversify the flow of capital and to develop an investing public for industrial shares particularly. NIBID's management believes that the company stands to benefit from a more active market for securities, and would be able to enhance its resources for new business if greater opportunities existed for sales from its portfolio. One idea that NIBID is exploring in this connection is the creation of a mutual fund. Jointly with the International Basic Economy Corporation (IBEC), which has experience in the operation of mutual funds,

particularly in Latin America and Spain, NIBID sponsored a study of the prospects for such a fund in Greece. This study concluded that scope exists for a mutual fund and IBEC has been sufficiently encouraged to continue discussions with NIBID and to submit draft legislation to the Greek Government. This legislation is now in final form and likely to become law within a few months. NIBID's management has been discussing, in outline, the form such a fund would take, and the possibility of an IFC investment in the managing company.

IV. FINANCIAL RECORD

Income, Expenses and Profitability

50. Income statements for NIBID's first six years, 1964-69, are given in Annex 10. Earnings before tax and provisions have increased about 50% in the three years between 1967 and 1969, and were equivalent to 10.4% on share capital in 1969, compared with 7% in 1967 and 8% in 1968. However, in terms of net profit on average net worth, NIBID's profitability was only 4% in 1969, compared with 3.8% in 1968. This is attributable to the fact that NIBID's leverage is still not large and it operates with fairly narrow margins between its borrowings and lending rates. Moreover, it has charged generous amounts to provisions for possible losses. Under the Greek tax law, investment banks are allowed to set aside each year an amount of up to 2% of average portfolio (increased from 1% to 2% in 1968) for a provision against possible losses, a tax deductible item. To reduce its tax liability NIBID has charged the full provision against income since 1965 but claims, with justification, that the amount exceeds a prudent requirement for possible losses. To this extent, NIBID profits have been understated each year. It is reasonable to consider that any such charges, which result in a cumulative provision for possible losses in excess of 2% of NIBID's loan and equity portfolio, constitute hidden profits. Consequently, on this basis, NIBID's real net profits for 1968 and 1969 would be Dr 21.7 million and Dr 22.8 million compared with the published profit figures of Dr 12.3 million and Dr 13.3 million, respectively. Returns on net worth and share capital before and after the hidden profit adjustments are compared as follows:

	1968	1969
Net profit (as published):		
As % of average net worth	3.8%	4.0%
As % of year-end share capital	4.1%	4.4%
Net profit (adjusted):		
As % of average net worth	6.6%	6.6%
As % of year-end share capital	7.2%	7.6%

51. The average yield from its loan portfolio is approximately 8.5%. The return from its equity investments is, as yet, insignificant. NIBID's borrowed funds as of the end of 1969 cost an average of 5.5%. Administrative

costs have fallen in relation to average total assets (from 2.2% in 1965 to 0.8% in 1969) but there seems little scope for further significant reductions in this ratio without impairing efficiency. NIBID operates, therefore, on a gross spread of only about 3% and, given fairly low leverage to date, NIBID's profitability cannot yet be considered attractive. NIBID paid its first dividend of 2% in 1968, out of 1967 earnings, and the pay-out ratio (based on real earnings) was 46%. A 3% dividend was paid in 1969 against the 1968 earnings. The pay-out ratio was 42%. The dividend rate is expected to be increased to 4% in 1970. Distributed profits are subject to tax only in the hands of the recipients.

Financial Position

52. Balance sheets from NIBID's first year of operation are given in Annex 9 and those as of December 31, 1967, 1968 and 1969 are summarized below (Dr million):

	December 31		
	1967	1968	1969
Assets			
Current assets	30.5	44.5	66.0
Temporary investments	155.0	150.0	150.0
Loans	497.7	632.6	1,040.1
Equity investments	42.2	44.7	64.2
Less provisions	(11.3)	(23.4)	(48.1)
Fixed assets	0.7	1.0	1.0
	714.8	849.4	1,273.2
Liabilities and Equity			
Current liabilities	30.5	30.5	35.6
Long-term debt	365.0	496.2	916.0
Share capital and reserves	319.3	322.7	321.6
	714.8	849.4	1,273.2

During 1969, NIBID's loan and equity portfolio grew by 63% compared with the increase of 25% in 1968. The disbursement rate during 1968 was slower than usual due to the bottleneck in finalizing commitments (see para 54), but the pace increased sharply in 1969. As of December 31, 1969, the entire amounts of the first Bank of Greece loan and the first NBG loan, Dr 300 million each, and Dr 145 million under the second NBG loan had been drawn. The IBRD loan started to be disbursed in early 1969 and the total disbursements reached US$5.4 million by the end of December. The ratio of total long-term borrowings to net worth at the end of 1969 was 2.6:1. NIBID's liquid funds, which have been maintained at approximately the same level as in the previous years, are mostly invested in 6% tax-free Treasury Bills.

53. Provisions and reserves at December 31, 1969 totalled Dr 69.7 million, equivalent to 6.3% of loan and equity portfolio value at that date, which is more than sufficient to cover any possible losses on doubtful accounts. The book value of NIBID's shares at that date stood at 116% of par, compared with 111% at the end of 1968 and 107% at the end of 1967.

V. FUTURE OPERATIONS

Operational Forecasts

54. Estimates for NIBID's future business cannot be realistically based on the investment targets given in the Greek Development Plan 1968-1972 since the plan is indicative only. Moreover, the level of investment activity since the beginning of the plan period, coupled with an evident lack of a reservoir of large industrial projects near the implementation stage, suggests that the plan is over-optimistic and its targets unlikely to materialize. Nevertheless, manufacturing investment has risen in 1968/69. According to official figures, projects under execution in the first nine months of 1969 were valued at Dr 7.2 billion, compared with Dr 4.2 billion for the whole of 1968. Given the present degree of investor confidence, investment should continue to grow and, given the necessary resources, NIBID should be able at least to maintain its share of the financing required. NIBID's share may in fact increase partly because NIBID itself is becoming better known and is capable of handling a higher volume. During the three years to 1967, NIBID's disbursements totalled Dr 650 million, approximately 6% of gross private manufacturing investment during that period. Disbursements in 1968 were unusually low, in comparison with the record level of approvals, because of a backlog of projects awaiting execution of loan documents late in the year; this situation has been reflected in much higher disbursements in 1969. Taking 1968/1969 together, disbursements will total approximately Dr 668 million. This represents between 8%-10% of manufacturing investment during these two years (excluding shipping).

55. The level of approvals forecast by NIBID is given in Annex 11. A detailed study of the projects currently being processed by NIBID, as well as the evidence of past growth, suggests that these assumptions are well founded (particularly so far as 1970 business is concerned). Such approval levels, taken with projects already approved but not disbursed, would result in disbursements over the years 1968-72 (the period of the Greek Development Plan) of Dr 3.2 billion. This represents 7.8% of the total private investment in manufacturing and mining forecast for the plan; if, as is evident, the plan figures are overstated, NIBID's disbursements seem likely to amount to nearer 10% of investments which confirms the experience of the most recent years.

56. As to the composition of future business between equity and loan approvals, NIBID hopes that equity operations will become more important as Greece's industrial base and capital market grow and expand. In absolute terms, NIBID expects its equity approvals in 1974 to reach an annual level of Dr 100 million.

57. Foreign Exchange Component. Prior to the first Bank loan, NIBID did not differentiate between the need of a client for domestic currency and his need for foreign exchange since the latter could readily be obtained by investors and since its own obligations were in drachmas. In appraising NIBID's business for the first loan, it was noted that over 50% of the cost of the projects financed at that time involved foreign exchange. Experience in 1968 and 1969 confirms that this figure remains valid. Moreover, on the basis of use of NIBID's funds, 67% of total 1968 and 1969 approvals were to be used to finance imported capital goods.

Resource Needs and Sources

58. Needs. Up to December 31, 1969, NIBID's resources totalled Dr 1,922.6 million comprising Dr 347.6 million share capital and reserves and Dr 1,575 million in loans. In addition, internal cash generation during NIBID's existence has totalled about Dr 100 million. Total net approvals by NIBID up to the end of 1969 amounted to Dr 2,020.5 million; therefore on the basis of approvals, NIBID's aggregate resources had been fully exhausted by the end of 1969.

59. As noted in paragraph 55, NIBID's forecasts appear reasonable. The detailed forecasts are given in Annex 11; the assumptions used in calculating the projections are given in Annex 13. In the light of its experience in the past, NIBID should be able to achieve these levels of business. Given the need to continue pressure on NIBID to seek resources from other sources, the Bank considers the period over which the proposed loan should be applied to be approximately 18 months from the time NIBID fully exhausted its existing resources. Given this time horizon NIBID's resource requirements to cover approvals (delays between commitments and approvals are not significant for the purposes of forecasting resource requirements) during the period January 1, 1970 to June 30, 1971 will be as follows (Dr million):

Total resource requirements for approvals during January 1,1970-June 30, 1971	1,250
Of which foreign exchange expenditure (67% of total)	834
	(US$ 28 million)

60. Consequently, NIBID's foreign exchange requirements for the above period total US$28 million. However, the Bank has never attempted to fully cover NIBID's foreign exchange disbursements in recognition of the facts that (a) as stated above, the Bank wants to encourage NIBID to look toward other foreign lenders and (b) the drachma is freely convertible as far as capital imports are concerned and thus NIBID can use local currency to cover some of its foreign exchange needs.

61. Sources. For its local currency requirements, NIBID will use the Government subordinated loan of Dr 300 million (see para. 65) and additional loans from NBG and the Bank of Greece. Assurances have been obtained from both banks that further funds will be available. NIBID also hopes to raise funds by issuing convertible bonds in the local market, but this would not be until 1972. At this time, however, the resources NIBID has firmly in sight are as follows:

Proposed subordinated loan	Dr 300 million
Internal cash generation through June 30, 1971	123 "
	Dr 423 million

This amount will cover the local currency component of NIBID's business up to mid-1971. Foreign exchange resources present more of a problem. Mr. Condicas has visited the principal European capital markets, as well as New York, to explore the possibilities of NIBID's raising a long-term loan.

He found that it was impossible to do so on terms that NIBID could afford. NIBID was to have received funds from the European Investment Bank at the time of the first IBRD loan, but EIB financing was withheld due to the 1967 revolution and is unlikely to resume in the near future. Although NIBID should and will continue to seek alternative sources of foreign exchange, the Bank, at this time, represents its only realistic source.

62. All things considered, a Bank loan of US$20 million is considered reasonable. This is well within NIBID's actual foreign exchange expenditures over the forecast period. It means that NIBID will have to line up additional resources of about Dr 230 million equivalent to cover its approvals over the next 18 months. If it remains difficult for NIBID to borrow abroad, this resource gap can most likely be covered by additional domestic borrowing.

Capital Structure

63. As has been noted above, NIBID's earnings are still modest and its spread small. There seems little scope for widening the latter. To improve the yield on net worth, NIBID will have to increase its leverage, increase its spread or both. With the present debt/equity ratio limitation of 4:1 and a net spread of less than 2%, the yield on equity could not improve much over 8%. Moreover, the 4:1 ratio will be exceeded (on a disbursement basis) by the end of 1970[1/]. Consequently, NIBID faced a situation where it either had to increase the 4:1 limit or broaden its borrowing base, or both, if it was to continue to undertake a high volume of business.

64. NIBID's Board and management considered an increase in the debt/equity ratio justified, but they also felt that a reasonable way to achieve increased leverage on share capital and an improvement in NIBID's margins would be to obtain additional low cost funds on terms which would permit their inclusion in NIBID's equity base for the purpose of calculating the debt limit. NIBID's management, supported by its Directors, believes that it is appropriate that the private investment banks in Greece should receive a measure of Government assistance in their efforts to help industrial development. The banks point out that a wide range of incentives is available to private investors, particularly foreign investors, and that banks able to mobilize foreign exchange resources should receive similar support.

65. In February 1970, these discussions resulted in an agreement, in principle, being reached whereby the Greek Government will provide NIBID with a loan of Dr 300 million carrying 3.5% interest and repayable in 15 years including a 10-year grace period. The loan will be drawn in two equal tranches in 1970 and 1971. The terms of the loan are such that it will rank subordinated to all other debts and pari passu with net worth in the event of liquidation. In accordance with the Bank's standard practice, the proportion of the loan maturing after the last maturity of the proposed Bank loan is eligible for inclusion in NIBID's equity for purposes of determining the company's borrowing limit. It is estimated that some 50% of the sub-

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1/ For purposes of calculating NIBID's net worth, it is reasonable to include provisions for possible losses in excess of 2% of the portfolio which are charged for tax reasons (see paragraphs 50 and 67 and Annex 9). The ratios discussed above incorporate this adjustment.

subordinated loan would not be due for payment until the proposed Bank loan is fully amortised. Accordingly, that portion would qualify for inclusion in NIBID's equity.

66. It is also reasonable, given NIBID's performance and the strength of its portfolio, to increase the debt limit ratio from 4:1 to 5:1. This would enable NIBID to operate on the basis of its present projections until about mid-1973 and to make firm commitments to its clients until the end of 1972. This borrowing limit would allow a total debt/net worth ratio of 7.5:1, a reasonable degree of leverage given the experience of NIBID, the quality of its portfolio and the environment in which it works.

Projected Financial Position

67. Profitability. Projected income statements for the years 1970 through 1974 are included in Annex 10. NIBID's profits before provisions and taxes are expected to grow from Dr 31.3 million (9.2% of average net worth) in 1969 to Dr 54 million (14.7% of average net worth) in 1971 and Dr 77 million (16.2% of average net worth) in 1974. Adjusting net profits to reflect the excess charges made for provisions (see para. 50), the profit figures for 1970, 1971 and 1972 would be as follows (Dr million):

	1969 (Actual)	1970	1971	1972
		-------- Forecast --------		
Net profit as per forecast income statements	13.3	19.0	22.0	22.0
Profit before provisions	31.3	41.0	54.0	62.0
Annual provision charges required to maintain cumulative provisions at 2% of year-end portfolio	8.5	14.8	12.4	11.0
Estimated real net profit	22.8	26.2	41.6	51.0
As % of average net worth	7.0%	7.5%	11.3%	12.4%
As % of share capital	7.6%	8.7%	13.9%	17.0%

68. Consequently, by 1971 NIBID will be approaching a reasonable level of earnings on its equity. Dividends of 5% are forecast for 1969 and 6% for 1970 and 1971 which, on the basis of estimated real earnings, represent a pay-out ratio of 57%, 43% and 35%, respectively. Administrative expenses, while increasing at an average of approximately 15 per annum in absolute terms, should decline relative to average total assets to about 0.5% in 1972 from 1.1% in 1968.

69. Debt Service Coverage. Projected cash flow statements for the years 1970 through 1974 are given in Annex 12. These and the projected income statements (Annes 10) show that the debt service cover would be adequate for the forecast period. Annual interest payments throughout the period range from 58% to 75% of NIBID's annual profits before financial expenses. Principal repayments by NIBID in any one year will at the most amount to 65% of the collections received by it during the same year. The over-all debt service cover was 2.0 times in 1969 and will be 1.6 times in 1970-72, and 1.5 times in 1973-74. Debt service cover beyond the period of the forecast would also remain satisfactory. Principal repayments by NIBID in respect of the Government subordinated loan will start from 1980. The cover is estimated at 1.3-1.4 times during 1975 and 1980. This will decline to about 1.2 times in 1981 and 1982 and 1.1 times in 1983 and 1984.

70. Projected Balance Sheets. Projected balance sheets through 1974 are shown in Annex 9. As a result of the rapid build-up in business since 1967, NIBID's total assets will more than double from the end of 1969 to the end of 1971, at which time NIBID will be about a US$88 million (equivalent) concern. NIBID's debt/equity borrowing ratio (as defined in para. 65) at the end of 1970 will be 3.6:1; this will increase to 4:1 by 1971, 4.7:1 by 1972 and 5.3:1 by 1973. The total debt/net worth ratio will increase from 1.5 at the end of 1968 to 6.9 at the end of 1973. The rapid build-up of provisions from Dr 23.4 million at the end of 1968 to Dr 135 million at the end of 1972 results from the fact that NIBID can now charge an annual amount of up to 2% of its portfolio as a tax deductible expense. NIBID intends to maintain its liquid funds in absolute terms at about its present level, although as a proportion of total assets they will decline.

VI. CONCLUSIONS AND RECOMMENDATIONS

71. Since the first Bank loan became effective, some 20 months ago, NIBID has continued to enjoy a fairly high volume of business. This level of business has been attained despite a cutback in Greek economic growth in 1967-68, particularly a fall in private industrial investment. NIBID has been able to achieve this through a combination of factors. It has gained the reputation of being an efficient and helpful partner and its management is resourceful and aggressive in its efforts to find good business. NIBID retains close and beneficial links with NBG, the most important financial institution in Greece. At the same time, supported by IFC and its other foreign shareholders, NIBID's identity as an autonomous institution has been maintained.

72. Some weaknesses in NIBID's organization, apparent at the time of the first loan, have been corrected or improved; others still need further effort. Technical evaluation of the larger and more technically complex projects has developed since ADL-Hellas was established. Follow-up of existing loans has now been systematically organized. There have been considerable improvements in NIBID's appraisal capability although some aspects of NIBID's written reports are still in need of improvement. In part this may be caused by constraints in revealing confidential information in reports with quite wide circulation. But the Bank's view has been conveyed to NIBID and, bearing in

mind the difficulty of obtaining and training staff, the response has been satisfactory. Notwithstanding these weaknesses, NIBID's portfolio is basically sound, the arrearage position satisfactory and no projects give cause for serious concern in terms of repayment. NIBID has also agreed that a more explicit analysis of the economic aspects of projects would be beneficial and such an analysis will be incorporated in NIBID's work in the future.

73. In purely financial terms, NIBID's impact on the Greek economy has so far been modest. Nevertheless, it has been making a steady and increasing contribution to industrial investment, it has been active in assisting joint ventures, it has introduced higher standards of project evaluation to many clients and through its efforts a new consulting company has been established. NIBID has undoubtedly made its mark on the Greek scene. The Bank Group's initiative in assisting it, both as shareholder and lender, has been a material factor in this achievement.

74. NIBID's volume of business will total about Dr 1,250 million (US$42 million equivalent) in approvals during the next 18 months. Two thirds of its operations typically represent imports of foreign goods and services. The recommended loan of US$20 million would be well within NIBID's actual foreign exchange expenditures. It would mean that NIBID would still have a resource gap of about Dr 240 million but NIBID should be able to cover the balance with either additional domestic loans, or if conditions change and foreign loan sources open up to NIBID on reasonable terms, with foreign loans.

75. NIBID's forecast of its future operations is realistic and, with sufficient resources, it should be able to achieve the projected levels. NIBID's financial position is sound. Earnings will improve in the future. NIBID remains a creditworthy borrower.

76. Under the first Bank Loan Agreement, the free limit was US$200,000 equivalent (based on NIBID's total commitment to a prject both in foreign exchange and local currency). Of the 21 projects totalling US$12.5 million credited to the loan account as of January 31, 1970, 18 projects amounting to US$12.1 million or 97.2% of the total has been reviewed by the Bank. In view of the quality of NIBID's management and staff, and of the improvement in its appraisal and follow-up work, an increase in the free limit is justified. On the basis of the projects' being processed by NIBID, it is estimated that with a free limit of US$500,000, 75% of the loans using Bank funds would go to projects requiring prior approval by the Bank. It is recommended, therefore, that the free limit be raised to US$500,000 equivalent (based on NIBID's total local and foreign currency commitment) with a limit on the aggregate amount to be used for projects below the free limit equivalent to 25% of the proposed loan (US$5 million). The free limit proposed would coincide with the limit given the local members of the Executive Committee by the full Committee. The other terms of the loan would conform to those normally applied to development finance company loans.

IBRD/DFC
March 11, 1970

NATIONAL INVESTMENT BANK FOR INDUSTRIAL DEVELOPMENT S.A.

Statement of Policies and Procedures

(Adopted by the Board, June 30, 1965)

I. Objectives of the Bank

(1) Promotion of industrial and related activities by providing finance for the establishment of new productive enterprises as well as for the modernization and expansion of existing ones, all in the private sector.

(2) Development of the capital market in Greece, by underwriting and distributing issues of shares and bonds and by distributing its own investments when they mature.

(3) Facilitating contracts and joint ventures of Greek and foreign entrepreneurs to promote the participation of foreign capital and technical and managerial skills in the development of the Greek economy.

(4) Supply of economic, technical and organizational advice to enterprises.

The Bank intends in carrying out its objective to adhere to the following broad policies.

II. Scope and Nature of Operation

A. Eligible Enterprises and Projects

(1) Financing is made available only for projects which will contribute to the economic growth of the country.

(2) Financing is restricted to private enterprises. The existence of a minority governmental or semi-governmental participation will not necessarily preclude an enterprise from being assisted by the Bank provided such participation does not result in effective control of such enterprise.

(3) Financing will be provided for the establishment of new enterprises, as well as for the expansion and improvement of existing ones.

(4) Eligible for assistance are productive enterprises engaged in industry, mining, shipping, tourism, and related activities.

B. Investment Policy

(1) Projects of the enterprises requesting financing will be considered on the basis of their economic, technical and financial merits and on the soundness of the management.

(2) Projects to be financed will refer to needs of capital for fixed assets and working capital of a permanent nature. The Bank will not finance working capital by means of short-term loans.

(3) The Bank provides finance according to the suitability of each project in the form of :

(a) direct long-term or medium-term loans with a duration not less than 5 years;

(b) loans participating in profits and loans with equity features;

(c) direct equity investments;

(d) guarantees;

(e) underwriting of public issues.

(4) In examining projects the Bank will consider whether the size of its financing constitutes a reasonable proportion of the total financing requirement of the project and whether the form of the financing from all sources will result in a sound capital structure of the enterprise.

(5) Since the Bank is a financial institution, its object is to finance productive enterprises, not to manage them. However, when the Bank considers it necessary, it may be represented in the Board of Directors of the enterprise concerned.

(6) The Bank is not seeking a controlling interest with any enterprise it finances but will leave the management and control in the hands of the entrepreneurs, except in special circumstances as those connected with an underwriting or the necessity of safe-guarding an investment already made.

C. Development of the Capital Market

(1) The Bank will try to rotate its investment portfolio to a reasonable extent.

Aiming at the development of the capital market in Greece and as a means of broadening direct participation of private savings in economic development the Bank will underwrite and distribute issues of shares and bonds of its clients and sell its own investments wholly or certain percentages of it, to

other private investors whenever it can do so on satisfactory terms, having due regard not only to its own interest but also to the interest of other participants in the investment sold, as well as to the steady and sound growth of the Stock Exchange.

(2) The Bank, in its endeavor to expand the domestic capital market, will promote public participation in investment through the issuing of its own bonds.

III. Other Assistance to the Enterprises

(1) The operation of the Bank will not be limited exclusively to the granting of financial assistance. It will also advise its clients, when necessary, on the solution of their economic and financial problems, thus increasing its contribution to the Greek economy and safeguarding recovery of its own investments.

(2) In connection with the above, the Bank will supply technical, financial and organizational assistance to enterprises of any nature for the establishment, organization and operation thereof.

IV. Financial Prudence

A. Security for Loans and Guarantees

(1) The Bank, in making financings through loans or guarantees, will, where necessary, seek adequate security or guarantees. However, recognizing the limitations of conventional security as a safeguard in industrial investment and recognizing also that the prestige of the Bank and its shareholders are bound up in the success of the venture, the Bank will place primary emphasis in reaching its judgments, not on the adequacy of the security available, but on the prospective profitability of the enterprise to cover repayments and making profits.

B. Diversification of Risks - Limits

(1) Financing will be diversified as far as possible regarding the types of industries and their ownership.

(2) Commitments for equity participation to any single enterprise will be limited to a sum not exceeding 20% of the Bank's share capital and surplus accounts. Total commitments to any single enterprise will not exceed 25% of the Bank's share capital and surplus accounts. However, this limit may be exceeded temporarily in special circumstances, such as those connected with an underwriting or the necessity of safeguarding an investment already made.

(3) Overall equity investments of the Bank will be limited to 100% of its unimpaired equity (paid-in capital and surplus accounts).

(4) In case that, by incurring external debt, the Bank must assume a foreign exchange risk, it will pass the risk on to its ultimate borrowers or find other suitable means to cover it.

C. Borrowing by the Bank

(1) The Bank, whenever it considers it necessary to broaden its own facilities for operations, will accept term deposits or obtain funds locally or abroad by the issue of bond loans and by entering into loan agreements. In this connection, the Bank will follow a prudent policy as far as debt acquisition is concerned. Total debt will not exceed four times the amount of the Bank's capital and surplus accounts.

(2) The Bank will arrange its borrowings so as to maintain a proper relationship between the duration of its liabilities and the duration of its assets, in order to safeguard its liquidity.

D. Profitability of Operations

(1) Operating costs of the Bank will be left to a minimum consistent with its purpose and the scope of its operations.

(2) The Bank will levy charges for its financings and services sufficient to earn profits which yield a satisfactory return on its investment and will provide for reserves consistent with sound financial practice.

In providing assistance to enterprises requiring advice in the formation, execution and operation of their projects, the Bank may charge its customers with the cost of such services.

E. Reserves and Dividend Policy

(1) In determining its dividends the Bank will give precedence to the establishment of adequate reserves, following a prudent reserve policy.

F. Audit

(1) The accounting supervision of the Bank's operations will be the responsibility of the official Auditors appointed at the Ordinary General Meeting. The annual audit of the Bank's accounts will be made by qualified and independent auditors.

V. Procedures and Organization

(1) The Bank will endeavor to have an efficient and balanced internal organization and staff which should be adequate to make the necessary appraisal of investment proposals, to assist its clients in the formulation and conduct of their projects and to follow closely the operations of the enterprises it finances, in order thereby to safeguard its own investments and to protect the interest of outside investors.

(2) When it is more economical to do so, the Bank will use the services of outside organizations rather than build up an expensive staff of specialists and technical personnel.

(3) The General Manager will prepare periodically for its Board of Directors brief reports covering the progress of the Bank's activities and its financial position.

IBRD/DFC
April 9, 1969

ANNEX 2

NATIONAL INVESTMENT BANK FOR INDUSTRIAL DEVELOPMENT S. A.

List of Shareholders
(December 31,1969)

	Dr million	% of Total
National Bank of Greece	165.0	55.0
Banca di Credito Financiario (Mediobanca)	13.5	4.5
Banque Lambert	6.8	2.3
Banque Nationale de Paris	4.5	1.5
Chase International Investment Corp.	21.1	7.0
Compagnie Financiere et Industrielle S.A.	6.7	2.3
Credit Commercial de France	4.5	1.5
Credit Lyonnais	4.5	1.5
Deutsche Bank	13.5	4.5
Hambros Bank	13.5	4.5
Manufacturers Hanover International Banking Corp.	12.7	4.2
Credit Suisse	4.2	1.4
Nordfinanz Bank	2.1	0.7
Svenska Handelsbanken	6.3	2.1
IFC	21.1	7.0
	300.0	100.0

IBRD/DFC
March 4, 1970

ANNEX 3

NATIONAL INVESTMENT BANK FOR INDUSTRIAL DEVELOPMENT S.A.

Board of Directors and Executive Committee

(December 31, 1969)

Board of Directors

Chairman - Achilles Cominos, Governor, National Bank of Greece

Members - Constantine Eliascos, National Bank of Greece

H. H. Friedl, Deutsche Bank

Bodossakis Athanassiadis, Industrialist

Edvard Brandstrom, Svenska Handelsbanken

Nicholas Dritsas, Industrialist

George Gondicas, General Manager, NIBID

Harold F. Linder, International Finance Corporation

D. Marinopoulos, Industrialist

Sando Lentati, Mediobanca

John M. Lyons, Chase International Investment Corporation

Gregory Livieratos, Industrialist

George Mitsopoulos, National Bank of Greece

Constantine Papacharalambous, National Bank of Greece

J. de Roquefenil, Credit Commercial de France

John Waage, Manufacturers Hanover International Banking Corp.

Michel d'ursel, Banque Lambert

Nicholas Chrissovelonis, Hambros Bank Limited

Executive Committee

Chairman - Achilles Cominos

Members - John M. Lyons
Edvard Brandstrom
Nicholas Chryssovelonis
Constantine Papacharalambous
John Waage

Observer - Harold F. Linder
Member without vote - George Gondicas

IBRD/DFC
March 4, 1970

NATIONAL INVESTMENT BANK FOR INDUSTRIAL DEVELOPMENT S.A.

Organization List as of December 31, 1969

	Professional Staff	Other
Management		
General Manager)		
Manager)	2	
		4
Advisers		
Legal Adviser)		
Technical Adviser)	3	
Operations Department (Project Appraisal)		
Group I	7	
Group II	6	
Engineers	1	
Legal Staff	3	
Finance Department (Accounts)	4	2
Follow-Up Department	2	
Secretarial & Administration Department	2	5
		11
Messengers, etc.		6
	30	17

IBRD/DFC

March 4, 1970

ANNEX 5

NATIONAL INVESTMENT BANK FOR INDUSTRIAL DEVELOPMENT S.A.

Approvals, Commitments and Disbursements, January 1, 1964-December 31, 1969

	1964	1965	1966	1967	1968	1969
Year by Year						
No. of projects approved	4	7	24	15	24	47
Value of approvals (Dr million)	56.6	123.4	280.8	224.3	522.3	813.1
Value of commitments (Dr million)	56.5	66.5	301.7	239.1	270.2	500.0
Value of disbursements (Dr million)	44.8	27.7	263.4	212.1	173.6	494.0
Cumulative						
No. of projects approved	4	11	35	50	74	121
Value of approvals (Dr million)	56.6	180.0	460.8	685.1	1,207.4	2,020.5
Value of commitments (Dr million)	56.6	123.0	424.7	663.8	934.0	1,434.0
Value of disbursements (Dr million)	44.8	72.5	335.9	548.0	721.6	1,215.6

IBRD/DFC

March 4, 1970

ANNEX 6

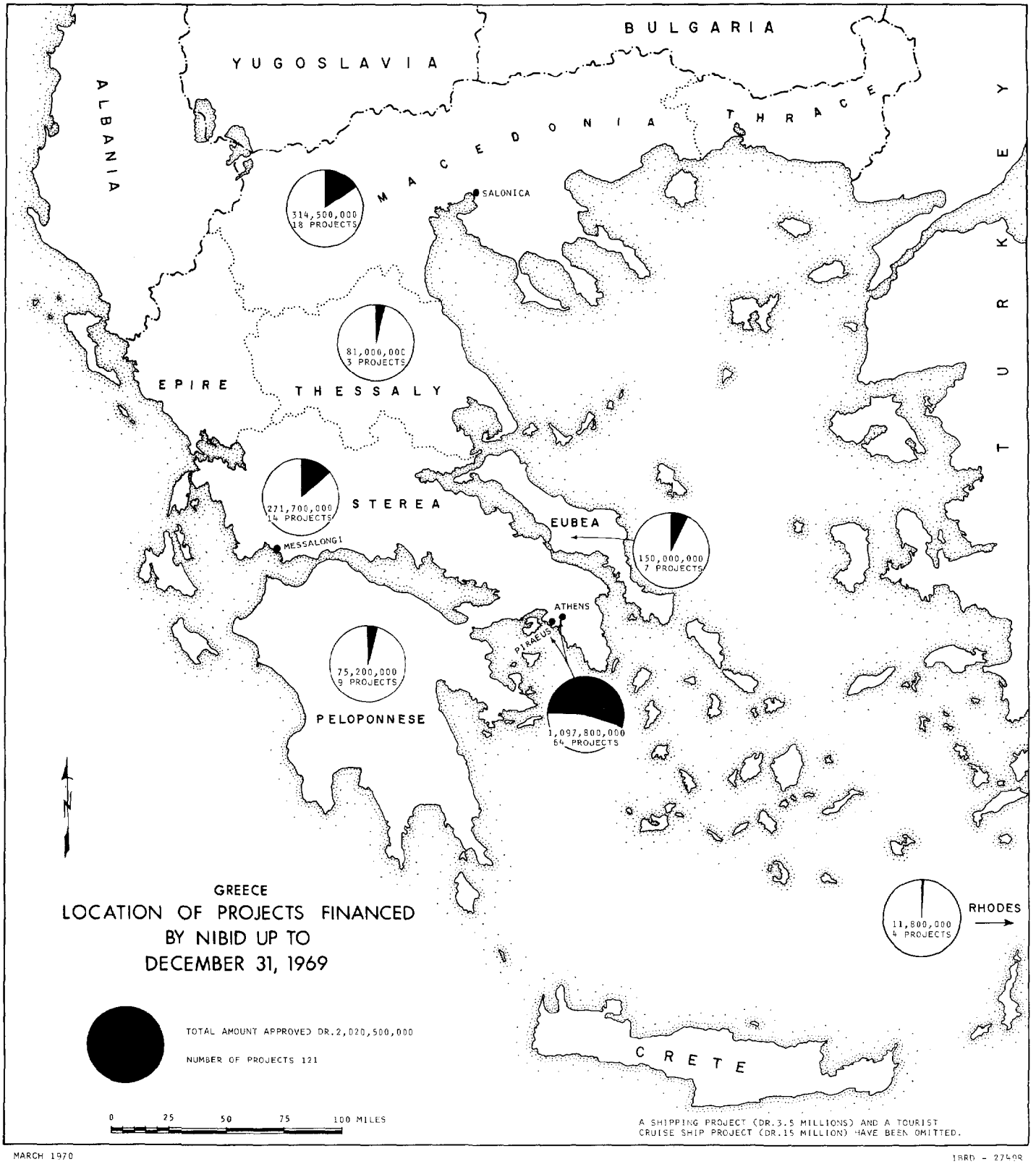
NATIONAL INVESTMENT BANK FOR INDUSTRIAL DEVELOPMENT S.A.

Characteristics of Operations 1/, January 1, 1964-December 31, 1969

	1964 - 1967			1968			1969			Total as of December 31, 1969		
	No.		%	No.		%	No.		%	No.		%
A. Analysis by Size												
Below Dr 6 million	25		50	6		25	15		32	46		38
Dr 6 to 15 million	12		24	6		25	18		38	36		30
Dr 16 to 30 million	4		8	7		29	8		17	19		16
Dr 30 to 60 million	8		16	3		13	4		9	15		12
Above Dr 60 million	1		2	2		8	2		4	5		4
	50		100%	24		100%	47		100%	121		100%
Average size (Dr million)	13.7			21.8			17.3			16.7		
B. Analysis by Purpose	No.	Amount (Dr million)	%	No.	Amount (Dr million)	%	No.	Amount (Dr million)	%	No.	Amount (Dr million)	%
New projects	15	121.4	17	6	209.5	40	8	193.2	24	29	524.1	26
Expansion of Existing Enterprises	35	563.7	83	18	312.8	60	39	619.9	76	92	1,496.4	74
	50	685.1	100%	24	522.3	100%	47	813.1	100%	121	2,020.5	100%
C. Analysis by Industrial Category												
Metal Products	6	110.1	16	1	25.1	5	2	28.0	4	9	163.2	8
Textiles	9	96.2	14	3	92.0	17	9	153.5	19	21	341.7	17
Paper and Printing	1	40.0	6	3	13.2	3	2	75.0	9	6	128.2	6
Building Materials	6	125.2	19	2	34.5	7	5	81.5	10	13	241.2	12
Hotels and Tourism	10	60.6	9	1	7.0	1	1	8.0	1	12	75.6	4
Electrical Goods	5	23.0	3	2	10.0	2	4	132.5	16	11	165.5	8
Shipping	1	3.5	-	-	-	-	-	-	-	1	3.5	0
Chemicals, pharmaceuticals	4	14.5	3	5	152.0	29	2	17.0	2	11	183.5	9
Food Products	3	87.0	12	1	20.0	4	10	91.5	11	14	198.5	10
Other	5	125.0	18	6	168.5	32	12	226.1	28	23	519.6	26
	50	685.1	100%	24	522.3	100%	47	813.1	100%	121	2,020.5	100%
D. Analysis by Types of Operation												
Ordinary Shares	5	36.1	5	4	34.2	7	1	2.5	0	10	72.8	4
Preferred Shares	1	1.1	-	-	-	-	-	-	-	1	1.1	-
Bond Loans	7	157.5	23	2	15.1	3	-	-	-	9	172.6	9
Straight Loans	37	490.4	72	18	473.0	90	46	810.6	100	101	1,774.0	87
	50	685.1	100%	24	522.3	100%	47	813.1	100%	121	2,020.5	100%

1/ Based on Executive Committee approvals, net of cancellations. Loans to and equity participations in one enterprise made during any calendar year are taken as one operation.

IBRD/DFC
March 4, 1970



GREECE
LOCATION OF PROJECTS FINANCED
BY NIBID UP TO
DECEMBER 31, 1969

MARCH 1970

IBRD - 2740R

NATIONAL INVESTMENT BANK FOR INDUSTRIAL DEVELOPMENT S.A.

Equity Portfolio as of December 31, 1969
(Dr million)

Company and Industry		Date of NIBID Investment	Total Cost to NIBID	% of Total Share Held by NIBID	Cost Price Per Share	Latest Net Profit Per Share 1/	Last Dividend/Share 1/ %	Current Market Price Per Share as of December 31, 1969
PROFITABLE COMPANIES DISTRIBUTING DIVIDENDS								
"Titan" S.A.	Cement	Dec. 1964 - Dec. 1969	40,472,500	10.6%	669.20 2/	36.70	3.6%	2,040.00
"Etma"	Textiles	Apr. 1969 - Dec. 1969	7,451,540	2.9%	250.50	16.90	6.9%	506.30
"Hellenit" S.A.	Cement	Nov. 1967	2,845,000	1.4%	2,845.00	551.00	7.0%	-
"Keramiki-Cedit" S.A.	Ceramics	Apr. 1967 - June 1969	3,600,000	20.2%	1,000.00	1,227.60	6.0%	-
Ach. Couppas & Co. S.A.	Machinery	Mar. 1966	1,155,500	8.7%	1,155.50	249.10	1.7%	-
PROFITABLE COMPANIES NOT DISTRIBUTING DIVIDENDS								
Hellenic Synthetic Fibres S.A.	Synthetic Fibers	Dec. 1964	2,184,000	39.0%	1,000.00	-	-	-
COMPANIES STARTING UP OR UNDER CONSTRUCTION								
ADL-Hellas S.A.	Technical Consulting	June 5, 1968	1,500,000	30.0%	1,000.00	-	-	-
UNPROFITABLE COMPANIES								
Panobel S.A.	Fiberboard	Aug. 3, 1964	1,800,000	6.0%	1,000.00	(61.30)	-	-
Aspioti-Elka	Printing	June 30, 1969	3,200,000	7.4%	1,000.00	(17.80)	-	-
			64,208,540					

1/ Average cost

2/ Year ended December 31, 1968

IBRD/DFC
March 9, 1970

NATIONAL INVESTMENT BANK FOR INDUSTRIAL DEVELOPMENT S.A.

Year-End Balance Sheets-Actual December 31, 1964-1969 and Projected December 31, 1970-1974
(Dr million)

	December 31						December 31				
	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
	(Audited)						(Projected)				
Assets											
Cash and short-term deposits	78.3	55.4	1.9	13.7	26.8	36.6	31.0	46.0	61.0	77.0	84.0
Greek Treasury Bills	60.0	95.0	155.0	155.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0
Receivables, accrued income, etc.	1.9	1.7	7.9	16.8	17.7	29.4	29.0	39.0	51.0	67.0	87.0
Total Current Assets	140.2	152.1	164.8	185.5	194.5	216.0	210.0	235.0	262.0	294.0	321.0
Loan and bond portfolio:											
Dr funded	29.0	43.1	301.9	497.7	632.6	869.1	1,078.0	1,296.0	1,480.0	1,741.0	2,039.0
Foreign currency funded	-	-	-	-	-	171.0	613.0	954.0	1,242.0	1,515.0	1,764.0
Less: provision for doubtful loans	-	(0.4)	(2.1)	(10.8)	(22.9)	(46.1)	(59.0)	(88.0)	(124.0)	(169.0)	(218.0)
Equity portfolio	15.7	29.4	33.0	42.2	44.7	64.2	155.0	215.0	295.0	375.0	475.0
Less: provision for doubtful investments	-	-	(0.5)	(0.5)	(0.5)	(2.0)	(4.0)	(7.0)	(11.0)	(16.0)	(22.0)
Total Loan & Equity Portfolio	44.7	72.1	332.3	528.6	653.9	1,056.2	1,783.0	2,370.0	2,882.0	3,446.0	4,038.0
Fixed assets (net)	0.2	0.3	0.5	0.7	1.0	1.0	21.0	46.0	46.0	46.0	46.0
Total Assets	185.1	224.5	497.6	714.8	849.4	1,273.2	2,014.0	2,651.0	3,190.0	3,786.0	4,405.0
Liabilities and Equity											
Tax payable	-	-	-	3.8	3.8	-	4.0	4.0	4.0	4.0	4.0
Dividends payable	-	-	-	6.0	9.0	12.0	15.0	18.0	18.0	18.0	18.0
Accounts payable and other current liabilities	1.2	4.7	30.8	20.7	17.7	23.6	31.0	38.0	45.0	52.0	62.0
	1.2	4.7	30.8	30.5	30.5	35.6	50.0	60.0	67.0	74.0	84.0
Long-term debt:											
NBG loans	-	-	90.0	200.0	246.2)	745.0	872.0	1,004.0	1,114.0	1,276.0	1,462.0
Bank of Greece loans	-	-	60.0	165.0	250.0)						
Other domestic loans	-	-	-	-	-	-	-	-	130.0	280.0	450.0
Foreign currency loans	-	-	-	-	-	171.0	613.0	954.0	1,242.0	1,515.0	1,764.0
Total Long-Term Debt	-	-	150.0	365.0	496.2	916.0	1,485.0	1,958.0	2,486.0	3,071.0	3,676.0
Government subordinated loan	-	-	-	-	-	-	150.0	300.0	300.0	300.0	300.0
Share capital	180.0	180.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0
Amount paid on capital increase and premium	-	33.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Reserves & unappropriated profit	3.9	6.5	16.4	18.9	22.3	21.2	28.6	32.6	36.6	40.6	44.6
Net Worth	183.9	219.9	316.8	319.3	322.7	321.6	329.0	333.0	337.0	341.0	345.0
Total Liabilities & Equity	185.1	224.5	497.6	714.8	849.4	1,273.2	2,014.0	2,651.0	3,190.0	3,786.0	4,405.0
Ratios											
Debt/equity borrowing ratio *	-	-	0.5	1.1	1.5	2.6	3.6	4.0	4.7	5.3	5.9
Total debt/equity (adjusted for excess provisions)	0	0	0.5	1.2	1.5	2.7	3.7	4.1	4.8	5.5	6.0
Reserves plus provisions as % of year-end portfolio	8.7%	10.1%	5.8%	5.7%	6.8%	6.3%	5.0%	5.2%	5.7%	6.2%	6.7%
Book value as % of par value	102.2%	103.2%	105.6%	106.6%	110.9%	115.9%	118.4%	126.2%	137.2%	151.1%	166.5%

* In calculating the debt/equity ratio and book value, cumulative provision in excess of 2% of loan and equity portfolio are treated as equity. Fifty percent of the subordinated loan is treated as equity and 50% as debt in arriving at the debt/equity ratio.

IBRD/DFC
March 5, 1970

NATIONAL INVESTMENT BANK FOR INDUSTRIAL DEVELOPMENT S.A.

Income Statements-Actual 1964-1969 and Projected 1970-1974
(Dr million)

	1963/64 1/	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
	(Audited)						(Projected)				
Income											
Interest on loans	0.2	2.5	13.4	33.3	45.5	70.9	114.0	161.0	208.0	254.0	300.0
Dividend income	-	0.1	1.3	1.6	1.2	1.7	3.0	6.0	11.0	15.0	19.0
Profit participation income	-	-	0.5	1.4	2.1	3.0	3.0	3.0	3.0	3.0	3.0
Commission, commitment fees, etc.	1.5	-	3.4	1.8	0.4	1.2	1.0	2.0	2.0	2.0	3.0
Interest for short-term investments	6.0	4.9	6.0	8.6	8.7	9.6	9.0	9.0	9.0	9.0	9.0
Total Income	7.7	7.5	24.6	46.7	57.9	86.4	130.0	181.0	233.0	283.0	334.0
Expenses											
Interest and other financial charges	-	0.1	6.0	17.8	25.2	45.3	76.0	112.0	154.0	192.0	235.0
Salaries and personnel	1.8	3.0	3.7	4.0	4.8	5.8	8.0	9.0	10.0	11.0	13.0
Administrative and general expenses	2.0	1.5	2.7	3.8	3.5	4.0	5.0	6.0	7.0	8.0	9.0
Total Expenses	3.8	4.6	12.4	25.6	33.5	55.1	89.0	127.0	171.0	211.0	257.0
Profit before provisions and tax	3.9	2.9	12.2	21.1	24.4	31.3	41.0	54.0	62.0	72.0	77.0
Provision for doubtful loans & investments	-	0.3	2.3	8.7	12.1	18.0	22.0	32.0	40.0	50.0	55.0
Corporate tax	-	-	-	3.8 2/	-	-	-	-	-	-	-
Net Profit	3.9	2.6	9.9	8.6	12.3	13.3	19.0	22.0	22.0	22.0	22.0
Appropriation											
Dividends	-	-	-	6.0	9.0	12.0	15.0	18.0	18.0	18.0	18.0
Reserves	3.9	2.6	9.9	2.6	3.3	0.3	4.0	4.0	4.0	4.0	4.0
Ratios											
1. Gross earnings before interest, tax and provisions as % of average total assets	2.1%	1.5%	5.0%	6.4%	6.3%	7.1%	7.4%	7.4%	7.5%	7.6%	7.6%
2. Profit before tax & provisions as % of average total assets	2.1%	1.4%	3.4%	3.5%	3.1%	2.9%	2.6%	2.4%	2.2%	2.1%	1.9%
3. Profit before tax & provisions as % of average net worth	2.1%	1.4%	4.5%	6.6%	7.6%	9.0%	12.5%	16.5%	18.5%	21.2%	22.4%
4. Profit after tax & provisions as % of average net worth	2.1%	1.3%	3.7%	2.7%	3.8%	4.0%	5.8%	6.6%	6.6%	6.5%	6.4%
5. Profit after tax & provisions as % of year-end share capital	2.2%	1.4%	3.3%	2.9%	4.1%	4.4%	6.3%	7.3%	7.3%	7.3%	7.3%

1/ December 10, 1963 to December 31, 1964.

2/ NIBID's net earnings record is complicated by its tax position. Income from Treasury Bills and certain special bonds is tax-free; the remainder is taxable. NIBID has been trying to obtain a ruling on how expenses related to these two income streams may be apportioned. In 1966 and 1967, NIBID would have incurred a tax liability under the then current practice of the tax authorities of allocating the proportion of expenses allowable against tax-free income in the same ratio as tax-free income bore to taxable income. NIBID claims that expenses should be allocated according to the cost generating each type of income. This contention has been upheld by the Courts, but the tax authorities are appealing. In the meantime, NIBID charged in 1967, the tax which would be payable for 1966 and 1967 in the event that its claim fails.

ANNEX 11

NATIONAL INVESTMENT BANK FOR INDUSTRIAL DEVELOPMENT S.A.

Projected Approvals, Commitments and Disbursements 1970-1974
(Dr million)

	1969	1970	1971	1972	1973	1974
	Actual	Forecast				
Approvals						
Loans	810	740	840	920	1,020	1,100
Equity investments	3	60	60	80	80	100
Total Approvals	813	800	900	1,000	1,100	1,200
Portion of total used for imports	545	536	603	670	737	804
Commitments						
Loans	497	718	815	900	995	1,080
Equity investments	3	60	60	80	80	100
Total Commitments	500	778	875	980	1,075	1,180
Disbursements						
Loans	474	662	766	858	947	1,038
Equity investments	20	60	60	80	80	100
Total Disbursements	494	722	826	938	1,027	1,138

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NATIONAL INVESTMENT BANK FOR INDUSTRIAL DEVELOPMENT S.A.

Projected Sources and Uses of Funds, 1970-1974
(Dr million)

	1969	1970	1971	1972	1973	1974
	Actual	----------	----------	Forecast	----------	----------
Sources						
Profit before tax	13	19	22	22	22	22
Non-cash charged provision, depreciation	18	22	32	40	50	55
Draw-down of foreign currency loans	171	358	408	395	391	417
NBG-BG loans	280	224	251	260	300	340
Greek Government loan	-	150	150	-	-	-
Other domestic loans	-	-	-	130	150	170
Loan collections: drachma	70	97	156	244	295	323
foreign	-	-	32	72	118	168
Increase in payables	5	6	7	7	7	10
	557	876	1,058	1,170	1,333	1,505
Uses						
Increase in fixed assets	-	20	25	-	-	-
Drachma loan disbursements	290	357	409	463	556	621
Foreign currency loan disbursements	171	358	408	395	391	417
Equity investments	20	60	60	80	80	100
Repayments (NBG-BG)	40	58	84	115	138	154
Repayments to foreign creditors	-	-	32	72	118	168
Payment of dividend	9	12	15	18	18	18
Increase in receivables	4	7	10	12	16	20
	534	872	1043	1,155	1,317	1,498
Cash increase (decrease)	23	4	15	15	16	7

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NATIONAL INVESTMENT FOR INDUSTRIAL DEVELOPMENT S.A.

Projection Assumptions

Income Statements (Annex 8)

(a) Income:

Interest rate on loans, 8.5%.
Interest rate on Treasury bills, 6%.
Dividend yield on average equity portfolio: 3% in in 1969 and 1970, 4% in 1971, 5% in 1972, 1973 and 1974.
Profit participation as negotiated on existingloans only.

(b) Expenses:

Interest rates on existing loans as charged and on future loans as follows:

NBG Loan (2nd)	-	5% on Dr 150 million
	-	5.5% on remaining
	-	Dr 150 million
Bank of Greece Loan (2nd)	-	5.5% on Dr 300 million
Gov't Subordinated Loan	-	3.5%
Other Domestic Loans	-	7%
IBRD Loan (2nd)	-	7%

Turnover Tax on Interest:

NBG Loans	-	3.6%
Bank of Greece Loans	-	none

Stamp Duty:

On interest:	NBG Loans	-	1.2%
	BG Loans	-	0.3%
On loan agreements:	NBG/BG	-	0.75%

Contribution to export subsidy fund: - 0.4% on local currency straight loans

Provision for doubtful loans and investments calculated as 2% on average gross portfolio for 1969 and 1.5% thereafter

Personnel and administrative expenses increase at average - 15% p.a.

Approvals, Commitments and Disbursements (Annex 11)

(a) Approvals: See paragraph 59

(b) Commitments: Commitments for the year will consist of approximately 75% of loan approvals of the current year, 25% of loan approvals of the previous year and 100% of equity approvals of the current year.

(c) Disbursements: Disbursements for the year will consist of approximately 50% of loan commitments of the current year, 50% of commitments of the previous year and 100% of equity commitments of the current year.

Sources and Uses of Fund (Annex 12)

(a) For loan collections, it is assumed that NIBID loans will have an average period of 10 years including a grace period of 2 years, with equal annual installments starting from the third year.

(b) For repayments to NBG/BG and IBRD, it is assumed that the loans from these institutions will have an average period of 10 years including a grace period of 2 years, with equal annual installments starting from the third year.

(c) The Government subordinated loan will have a term of 15 years, including a 10-year grace period, and equal annual installments will be made starting from the eleventh year.

(d) Dividends on share capital at the rate of 4% for 1969, 5% for 1970 and 6% for 1971-1974.

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