



Providing Microfinance Services Through a Commercial Banking Operation

Centenary Bank's Experience

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Presentation Topics:

1. **Overview – Uganda Financial Sector (pages 3 – 6)**
2. **Centenary Bank’s Operational History & Experiences**
 - Why the bank was established (page 8)
 - The bank’s Mission (page 9)
 - A short History of the bank (pages 11 to 13)
3. **Challenges in Moving Up-Market**
 - External Challenges (Page 14)
 - Internal Challenges (page 15 & 16)
4. **Centenary Bank’s Current Status**
 - Shareholders (page 18)
 - Loan products (pages 19 & 20)
 - Deposit products (pages 21 & 22)
5. **Summary (pages 23 to 25)**



Overview: Uganda Financial Sector

Where Ugandans save and borrow (% of adult population) :

- **Bank of Uganda Regulated institutions (Commercial Banks, Credit Institutions, Microfinance Deposit-taking Institutions [MDI's]) = 21%** (Urban = 35%; Rural = 15%)
- **Microfinance Institutions (MFI's) / NGO's = 2%**
- **Savings and Credit Cooperatives (SACCO's) = 2%**
- **Informal Groups = 17%**
- **None = 58%**

Overview: Uganda Financial Sector:

Regulated Financial Institutions (Dec 2006):

In \$ billion @ 1,700	No	Outlets	Assets	Loans	Deposit	Net Income	Loan to Deposit	ROE	ROA
Commercial Banks	15	155	\$2.60 b 92.6%	\$1.0 b 88.9%	\$1.74 b 94.8%	\$80 m 94%	57%	25.7%	3.1%
Credit Inst.	5*	42	\$131 m 4.7%	\$79 m 7%	\$82.9 m 4.5%	\$3 m 3.4%	95%	13.3%	2.3%
MDI's	4^	76	\$76 m 2.7%	\$47 m 4.1%	\$13.6 m .7%	\$1.9 m 2.2%	na	8.16%	1.4%
INDUSTRY	24	273	\$2.83 b	\$1.13 b	\$1.84 b	\$85 m			
* Capital Finance, Commercial Microfinance, Housing Finance, Mercantile Credit Bank, PostBank ^FINCA, PRIDE, Uganda Finance Trust, Uganda Microfinance Ltd.									

Overview: Uganda Financial Sector Largest Regulated Institutions (Dec 2006):

In \$ Million @ 1,700	Assets		Capital		Branch Network
	TOTAL	Market Share	Market Share	Market Share	
	\$2.83 b		\$315 m		
Stanbic	\$744 m	26.3%	\$59 m	18.8%	70
Standard Chartered	\$470 m	16.6%	\$52 m	16.4%	7
Barclay/ Nile	\$365 m	12.9%	\$42 m	13.2%	26
Citibank	\$187 m	6.6%	\$35 m	11.0%	1
Centenary	\$159 m	5.6%	\$22 m	6.9%	27
Crane Bank	\$126 m	4.5%	\$22 m	6.9%	9

Overview: Uganda Financial Sector

Largest Regulated Institutions (Dec 2006):

In \$ Million @ 1,700	Loans		Deposits		Loan to Deposit %	Profit after Tax	Profit after Tax%
	\$1.13 b	Market Share	\$1.84 b	Market Share			
TOTAL					59.6%	\$85 m	
Stanbic	\$200 m	17.7%	\$525 m	28.6%	38%	\$23 m	27%
Standard Chartered	\$194 m	17.2%	\$347 m	18.9%	56%	\$21 m	25%
Barclay/ Nile	\$216 m	19.1%	\$248 m	13.5%	87%	\$10 m	12%
Citibank	\$51 m	4.5%	\$118 m	6.4%	43%	\$3.8 m	4.5%
Centenary	\$85 m	7.5%	\$126 m	6.9%	67%	\$5.1 m	6%
Crane	\$69 m	6.1%	\$101 m	5.5%	68%	\$6.8 m	8%



Challenges in Market Re-Positioning:

Is there any difference between a Commercial Bank going “Down-market” into Microfinance products, or a Microfinance Institution going “Up-market” into Commercial Banking products?

From Centenary Bank’s experience (as the latter), the answer to that question is definitely “YES!”

There are significant challenges in moving “Up-Market” into Commercial banking.

Let’s look at Centenary’s operational history and experiences:



The Founding of Centenary Bank:

1960's: Various Catholic Dioceses started NGO-like organizations to aid people who did not have access to formal banking institutions. Their limited success started them thinking of how to expand the program.

1970's: Idi Amin era – no further thoughts of expansion of the program.

Early 1980's: Plans are developed; Microfinance and Banking experts consulted.

1983: Centenary Rural Development Trust Registered. Shareholders were the 14 Catholic Dioceses.

1986: Operations begun.



The Mission & Vision of Centenary Bank:

Mission: To provide appropriate financial services, especially Microfinance, to all people in Uganda, particularly in rural areas, in a sustainable manner.

The Bank was created as a finance institution to serve the economically disadvantaged people, especially in rural areas, and contribute to the overall economic development of the country.

However, over time, the bank has diversified its activities to include lending to small and medium enterprises as well as to large corporations.

Although Centenary Bank is a licensed full-service commercial bank, it can be (and often is), described as a “Commercial Micro Bank.”

Why did Centenary Bank move 'Up-Market' into SME and Commercial Lending?

- **This move was NOT in its mission statement.**
- **Was it a deliberate decision?**
- **Has Centenary reached 'scale' in SME and Commercial lending, and if not, why not?**
- **What challenges has it faced (and is facing now?)**

A short history of Centenary Bank:

Year	Profit (Loss)	Accumulated Losses
1989		(4.4 m)
1990	1.7 m	(2.7 m)
1991	1.0 m	(1.7 m)
1992	(275 m)	(277 m)
<p>Consultants from several agencies brought in to save the bank; additional shareholders with similar vision & mission invited to invest.</p> <p>In 1993 the Trust was transformed into a Commercial Bank</p>		
1993	(1.4 bn)	(1.6 bn)
1994	(376 m)	(2.0 bn)

A short history of Centenary Bank:

Year	Deposits	Loans	Cash & Invest	Loan / Dep	Profits
1995	8.5 bn	5.8 bn	1.4 bn	67%	325 m
1996	10.8 bn	6.3 bn	2.2 bn	58%	300 m
1997	14.0 bn	8.8 bn	3.6 bn	63%	260 m
1998	20.1 bn	11.5 bn	9.0 bn	57%	1.0 bn
1999	40.5 bn	15.9 bn	26.6 bn	39%	1.4 bn
2000	51.5 bn	18.2 bn	36.4 bn	35%	3.0 bn
2001	68.5 bn	23.9 bn	53.4 bn	35%	3.2 bn

A short history of Centenary Bank:

Year	Deposits	Gross Loans	Cash & Invest	Loan / Dep	Profits
2000	51.5 bn	18.2 bn	36.4 bn	35%	3.0 bn
2001	68.5 bn	23.9 bn	53.4 bn	35%	3.2 bn
2002	91.6 bn	42.8 bn	56.5 bn	47%	3.1 bn
2003	115.0 bn	66.4 bn	58.6 bn	58%	4.7 bn
2004	142.8 bn	77.0 bn	77.9 bn	54%	7.5 bn
2005	179.0 bn	93.5 bn	107.5 bn	52%	5.3 bn
2006	215.1 bn	144.8 bn	100.9 bn	67%	8.6 bn
June 2007	226.5 bn	172 bn		75.9%	

Centenary's challenges in moving "Up-Market"

External Challenges:

- **Competing with better-known banks for prime borrowers**
- **Dealing with new (and unknown) customers (some new applicants are the other bank's 'cast-offs')**
- **Need to 'spread the word' and change perceptions**
- **Need to convince customers of capacity**
- **Commercial banks coming 'down-market' are competing for our traditional customers that we have 'migrated' upwards**
- **These same banks are also 'Cherry Picking' – mining the very best (and most profitable) customers.**
- **Competition is now 360 degrees**



Centenary's challenges in moving "Up-Market"

Internal Challenges:

- **Loan officer skill-set is different than MF lending**
- **Longer-term SME & Commercial loans being supported from a short-term deposit base (Time deposits only represent 7% of our deposit base; industry average = 20%)**
- **Resistance from Loan officers to graduate MF customers to SME (loss of incentives)**
- **Approval at Head Office = delays**
- **Board resistance to 'abandonment' of core market**

Centenary's challenges in moving "Up-Market":

Internal Challenges (continued):

- High volume, low value transactions = high labor costs
- MF Loan portfolio is short term (1 year or less). This means that the entire MF portion of the portfolio must be replaced every year just to stay at the same level.

The bank's Mission & Vision:

- Limits what we can charge our poor depositors:
 - Savings Account monthly maintenance fee = \$0.60;
 - ATM Withdrawal fee = \$0.12
- Requires out-reach, especially in rural areas. For a Commercial bank, that means branches, which are VERY expensive. How do we recover that money?



Centenary's current status:

So, where are we now?

Centenary's current status – Shareholders:

- **38.6% = 19 Individual Dioceses of the Uganda Catholic Church**
- **31.3% = Uganda Catholic Secretariat**
- **18.3% = Stichting Hivos-Triodos (Holland)**
- **11.6% = S.I.D.I (France)**
- **0.2% = Individual Shareholders**

Centenary's Loan Products (June 30th):

Loan Types	Range	No. Accounts	Average bal.	PAR
Micro Business (includes small-holder agricultural)	\$60 to \$3,000	40,614	\$550	2.76
Consumer (HIL, Salary, Staff, MP)	na	34,355	\$1,286	.66
Small Business	\$3,001 to \$9,000	2,769	\$3,950	1.00
Commercial (SME)	\$9,001 to \$60,000	942	\$15,500	.55
Corporate	Over \$60,000	65	\$139,000	23.2
TOTAL		78,745	\$1,284	3.15



Centenary Bank's Loan Structure (June

30):

		# ACCOUNTS		BALANCES			
	Shs	# Accounts	% of Total		Bal. Shs	% of Total	
Micro Bus	\$60 to \$3000	40,614	51.6%	95.2%	\$22.4 m	22.2%	66%
Salary, HIL, Staff, MP Salary		34,357	43.6%		\$44.2 m	43.7%	
Small Bus.	\$3,001 to \$9,000	2,769	3.5%	4.7%	\$10.9 m	10.8%	25%
Comm. / SME	\$9,001 to \$60,000	942	1.2%		\$14.6 m	14.4%	
Corp.	Over \$60,000	63	<1%		\$ 9 m	9%	
TOTAL		78,745			\$101 m		

Centenary's Deposit Products:

Deposit Types (Includes Dormant Accounts)	Portfolio Balance	No. Accounts	Average balance
Savings Accounts	\$91,904,000	573,289	\$160
Current Accounts	\$33,900,000	25,600	\$1,325
Time Deposits	\$10,124,000	2,994	\$3,381
TOTAL	\$135,928,000	601,883	\$226
Dormant	\$3,640,000	191,900	\$19

Centenary Bank's Deposit Structure

(June 30):

	Shs	# ACCOUNTS			BALANCES			
		Accounts	% of Total		Bal. Shs	% of Total		
Micro Business & Consumer	Up to \$6	241,000	40%	75%	\$823,000	< 1%	3.5%	
	\$6.01 to \$60	210,000	35%		\$3.9 m	3%		
	\$60 to \$600	116,000	19%	94%	\$21.7 m	16.3%	20%	
Small Business	\$601 to \$3,000	27,692	4.6%	98.6%	\$31.1 m	23.3%	43.3%	
SME / Comm	\$3,001 to \$9,000	5,408	< 1%	1.4%	\$32.4 m	24.3%	56.7 %	
Corp	Over \$9,000	1,900	< 1%		\$43.3 m	32.5%		
	TOTAL	602,000			\$133 m			



What is the way Forward?

Should Centenary exit the Commercial Market and concentrate on its core business – Microfinance?

1. **Relatively Small Commercial portfolio = no economy of scale = high cost / income ratio compared to other banks.**
2. **As shown by our recent increasing Loan-to-Deposit ratio, SME / Corporate Loans consume deposits at a very high rate, therefore Corporate / Institution / Government Deposits are desirable.**
3. **But these depositors require other Corporate products, especially Corporate loans, which consume deposits at an enormous rate, which require even more deposits.**

So...the answer is obvious. Or is it?



Centenary's Funding Dilemma:

Classification of Accounts	DEPOSITS			LOANS	Funding (Shortfall) / Excess
	Deposit Balances	Funding use (at 75.9% loan-to-Deposit ratio)		Portfolio Balances	
		Liquidity	Available for Loans		
Micro Business & Consumer Deposits up to \$600 Loans up to \$3,000	\$26.4 m	\$6.4 m	\$20.0 m	\$66.6 m	(\$46.6 m)
Small Business Deposits \$601 to \$3,000 Loans \$3,001 to \$9,000	\$31.1 m	\$7.5 m	\$23.6 m	\$10.9 m	\$12.7 m
Commercial (SME) Deposits \$3,001 to \$9,000 Loans = \$9,001 to \$60,000	\$32.4 m	\$7.8 m	\$24.6 m	\$14.6 m	\$10 m
Corporate Deposits over \$9,001 Loans over \$60,000	\$43.3 m	\$10.4 m	\$32.9 m	\$9 m	\$23.9 m
TOTAL Portfolio	\$133.2 m	\$32.1 m	\$101.1 m	\$101.1 m	0 24

Why the decision to go “Up-Market” is such a critical decision:

SUMMARY:

1. A bank with a Microfinance background has a large number of small-balance accounts (poor people’s money). You cannot quickly source substantial new funds from this market.
2. Larger loans create deposit pressure because of their higher fund-absorption rate.
3. If you move “Up-market” and are successful in overcoming the internal and external challenges, and your SME / Commercial / Corporate lending begins to accelerate, then you eventually will have to make a choice - either
 - a) Stop lending, or
 - b) Source new deposits from Corporate / Institutional depositors.

Can you successfully compete for this business, and can you deliver efficient and cost-effective products that they demand?

KEEP IN MIND – THERE IS NO TURNING BACK FROM A DECISION TO GO UP-MARKET!



Centenary's challenges in moving "Up-Market"

THANK YOU.