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*for a sustainable future*

## OCCASION

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WORKSHOP ON FINANCIAL PLANNING OF INDUSTRIAL PROJECTS  
Dar es Salaam, Tanzania  
16 October-25 November 1967

THE ANNUAL REPORT

prepared by

Chemical Bank New York Trust Company, New York

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The opinions expressed in this paper are those of the author and do not necessarily reflect the views of the United Nations Industrial Development Organization.

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.

## THE ANNUAL REPORT

### Introduction

Annual reports of American industry became more numerous year by year and in most cases more detailed and elaborate. All companies are not required by law to issue annual reports and some family, or closely-controlled businesses do not issue reports to the public. Banks, insurance companies, organizations that sell stock to the public and most large firms issue annual reports. In addition, many issue quarterly statements of condition.

As recently as twenty years ago annual reports were usually documents produced by and for accountants. The report would give a financial summary of the year's operations and a list of assets and liabilities at the year's end. There was little if any explanation of the bald figures and little attempt was made to interest the reader in the company.

The last two decades brought drastic changes in format, content and distribution. Management began to look upon the annual report as a means to acquaint the public with the company's operations and depending upon the industry, as an advertising tool. The reports of major companies are now carefully prepared and expensively produced.

### Purpose of Report

In planning an annual report the size, style and expense are determined by what the report is expected to achieve. For this analysis we will take a manufacturing company of moderate size, a 15-year history of good growth, distribution in the eastern part of the United States and stockholder-owned.

We will assume the company is looking forward to steady expansion, sales in other parts of the country, good stockholder relations and increased stock value.

Distribution enters into the report's purpose. The company described above would be interested in sending reports to the financial editors of newspapers, stock analysts who study industry, companies and financial institutions associated with the industry and, of course, stockholders and employees.

In addition to this general readership a report may be aimed at a specific situation, perhaps wider ownership of company stock, or to support listing on a stock exchange, or to attract executive personnel.

Whatever the purpose, a report should reflect a definite management point of view and present a coherent picture of the company.

#### Content - General

Annual reports have certain minimum requirements. There must be a profit and loss statement for the year and a statement of condition which shows what the company is worth and what its obligations and debts are.

Depending upon the organization and whether the subject applies, the following may be considered for inclusion:

Executive letter

Business review (summary, forecast)

Financial Review

Divisional Review

Executive Personnel

Statistical Summary - 10 years

General content should be determined by the readership. If the report is intended primarily for financial people, photographs, color, personnel activities may be kept to a minimum. If the average reader is to be considered, there should be more than a mere progression of charts and figures.

When photographs are used they should be integrated with the text

or used as supporting or supplemental material. Art work, such as live drawings or color spots should be employed judiciously so as not to detract from the content of the report.

#### Executive Statement

This letter to stockholders, signed by the president or chairman, or both, may be the most widely read portion of the report. Independent surveys by trade associations indicate that most stockholders, if they open the report at all do read the president's or chairman's statement. For a person not interested in charts or statistical summaries the president's letter can serve as a substitute provided the letter is informative and lucid. A thousand words or less is considered the proper length for the opening statement. A photograph often accompanies the letter.

A good letter contains the following elements:

A two-or-three sentence analysis of the year's earnings, i.e. high or low, relation to expenses etc.

Problems during the past year - sales, distribution, credit.

New business program - domestic, international.

New projects - research, new product etc.

Mergers or acquisitions.

Future - prospects for coming year - anticipated obstacles, favorable factors.

#### Business Review

The business or annual review carries the meat of the report. Except for the statistical charts the review is the most important feature of an annual report. Points mentioned in the president's letter are expanded here.

More specific and more detailed than the president's letter this section should, in effect, be a statement of company policy, plans and

prospects. As a major unit of the report, this section should deal with the economic or financial factors that influence the company's operations: international affairs if they affect the company, government actions that should be taken into account in company planning, full discussion of those factors that determined profits and losses in the year past.

Often in this section a company will give its views of a public issue, like increased taxes or changes in a tariff law. A large national or international organization is more likely than a small company to use this opportunity to inform its stockholders of the advantages or disadvantages to the company of an issue before the public

Shareholders can be a potent force and many companies have decided to use this portion of the report to inform stockholders of the company attitude.

### Financial Review

This section of the report is usually written with the specialist in mind rather than the average stockholder. Emphasis is on the financial details of the past year rather than on general explanations or plans for the future. The attached paragraph is a good example of financial exposition in that the discussion never leaves the area of finance for conjecture or window-dressing. (See Exhibit 1.)

An important characteristic of this section is that everything stated should be fully supported by the charts, statement of condition and statement of earnings, which are usually in the second half of the report. Without consulting the charts, a reader should be able to read the review and understand the company's operations for the year, its assets, liabilities, profits and losses.

EXHIBIT 1

**NET OPERATING EARNINGS REACH RECORD HIGH—UP 3 PER CENT**

Net operating earnings for 1966 were the highest in your Bank's history, reaching \$54.4 million or \$4.14 per share. This compares with \$52.8 million or \$4.01 per share in 1965.

Reported earnings are after a provision of \$1.6 million or 12 cents per share for the net cost of the New York City Income Tax imposed for the first time in 1966.

During most of 1966 earnings growth was inhibited by a faster rate of increase in rates paid for purchased money than in rates earned on invested assets. Relief from this pressure, however, is evident in the results for the fourth quarter in which net operating earnings rose 9.5 per cent from the comparable quarter of 1965.

The Consolidated Statement of Earnings on page 21 shows operating performance in detail compared to last year. Comparisons going back to 1956 are shown by the Statistical Summary on page 24. Since 1956, the Bank's net operating earnings have advanced \$26.6 million or 95.7 per cent.

**PAY \$27.6 MILLION—140TH CONSECUTIVE YEAR OF DIVIDENDS**

The Bank continued its quarterly dividend rate of 52½ cents per share during 1966. Total cash payments amounted to \$27.6 million and represented 50.7 per cent of net operating earnings after taxes. Chemical New York has paid cash dividends without interruption or reduction since 1827.

**PLACE \$50 MILLION OF 25-YEAR SUBORDINATED CAPITAL NOTES**

The Bank's total capital funds, including the reserve for contingencies, reached \$532 million on December 31, 1966, up from \$524 million the year before. Book value per share rose to \$40.52 at year-end from \$39.92 on the same date in 1965.

The Bank completed an agreement with investment bankers in December 1966 for the private placement of \$50 million of 5½ per cent, 25 year subordinated capital notes; of these, \$37,350,000 were delivered on January 10, 1967 and the balance will be delivered not later than May 2, 1967. These notes are not redeemable prior to January 1, 1977. Sinking fund provisions, beginning July 1, 1979, call for the retirement of 50 per cent of the issue prior to maturity. In addition, the Bank will have the non-cumulative optional right on each mandatory sinking fund payment date to retire at par an equal amount through operation of the sinking fund.

**AVERAGE DEPOSITS REACH RECORD HIGH FOR 6TH CONSECUTIVE YEAR**

For the sixth consecutive year average deposits reached new highs. During 1966, gross deposits averaged \$5,796 million, up 7.2 per cent from \$5,408 million in 1965. Given the slow growth in demand deposits characteristic

**EARNINGS**

**DIVIDENDS**

**CAPITAL FUNDS**

**DEPOSITS**



### Divisional Review

Depending upon the organization of the company a divisional review may be brief, lengthy or omitted. In companies like General Motors or General Electric, a divisional review may be desirable, or even required, in order to describe company operations. One division, for example, could easily have outstripped another in earnings or sales and this type of divisional information should be stated to inform the stockholders, to act as an incentive to other divisions and as recognition of a good record.

Divisional information need not be detailed in a financial sense. Many companies feel that a precise financial breakdown by division is competitive information which should not be made public. For example, a chemical company producing a number of products may very well consider the earnings of one division, or one chemical product, too revealing and consequently refuse to publish divisional figures.

In many reports divisions, such as national, international, eastern or Canadian are treated as separate units because there is no other logical way to describe company operations. The breakdown also serves as a means of recognizing capable performance.

The 1966 Chemical Bank New York Trust Company annual report reported separately on the following divisions: Metropolitan, Fiduciary, National, Bank Investment, International.

### Special Sections

Depending upon the industry there may be a need for a section dealing with an unusual project or development. As an example, the subject of electronics in banking received an unusual amount of space in the 1966 reports by the larger banks.

Utility companies devoted chapters to atomic energy plans while manufacturers in general emphasized new products.

Another section may be used to acquaint stockholders with the executives who are responsible for the company's performance. Often, photographs of the chief executives and the board of directors are included, occasionally with brief biographies.

### Charts

Charts, of course, are the core of the report. The two essential charts are Statement of Earnings for the year and the Statement of Condition for the year-end.

The earnings should illustrate as clearly as possible the factors involved in profit or loss. Samples attached. (Exhibit 2.)

The Statement of Condition shows assets and liabilities in balance so that the reader can determine what the company's net worth is and the relationship between assets and liabilities.

Other charts may be provided depending upon the industry and company history. If the organization has had a consistent growth a 10-year statistical chart may be useful. Such a chart will establish the company's growth pattern as a guide to future earnings.

Manufacturing companies publish sales charts; banks print charts showing deposit growth; railroads show traffic and freight flow. A chart, no matter what the subject, should be easy to understand.

### Auditor's or Accountant's Letter

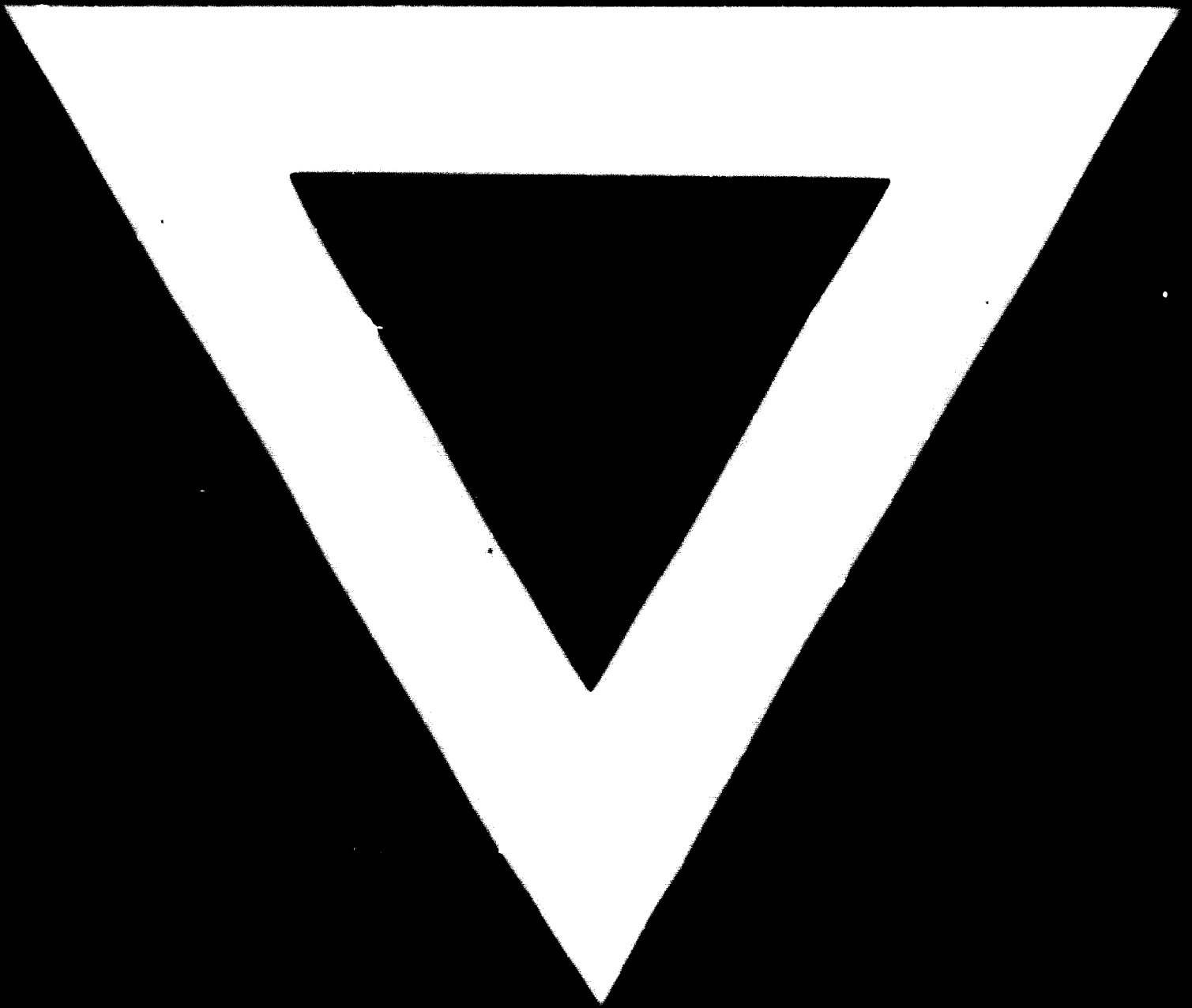
Many annual reports include, at the close, a statement by an auditor or accountant certifying to the accuracy of financial data in the report. In most cases, this is optional.

EXHIBIT 2

**Consolidated Statement of Earnings**

*Chemical Bank New York Trust Company and Subsidiaries  
As of December 31*

	1986	1985	Change
Interest and Fees on Loans	\$234,621,864	\$184,511,218	\$50,110,646
Interest on United States Government Obligations	22,905,627	21,631,254	1,274,373
Interest on State and Municipal Obligations and Other Securities	30,482,161	32,538,364	(2,056,203)
Trust Fees and Commissions	20,911,556	18,093,899	2,817,657
Other Operating Revenues	17,213,810	14,996,871	2,216,939
<b>TOTAL</b>	<b>326,135,018</b>	<b>272,063,607</b>	<b>54,071,411</b>
Staff Expenses:			
Salaries	61,831,166	55,323,182	6,507,984
Deferred Compensation	3,974,779	3,899,388	75,391
Pension, Social Security and Other Benefits	9,987,531	9,180,617	806,914
<b>TOTAL</b>	<b>75,793,476</b>	<b>68,403,187</b>	<b>7,390,289</b>
Interest Paid	130,248,097	94,668,185	35,579,912
Net Occupancy Expense of Bank Premises	14,548,377	14,048,867	499,510
Equipment Expense	5,200,814	4,659,547	541,267
Other Operating Expenses	18,812,038	16,859,873	1,952,165
<b>TOTAL</b>	<b>244,598,600</b>	<b>198,639,659</b>	<b>45,958,941</b>
Income Taxes on Operating Earnings	61,538,418	73,423,948	8,112,470
Income Tax Benefits	27,157,000	20,672,871	6,484,129
<b>TOTAL</b>	<b>54,379,418</b>	<b>52,751,077</b>	<b>1,628,341</b>
Per Share on 13,139,049 Shares Outstanding	\$4.14	\$4.01	\$0.13
Nonoperating Additions and (Deductions):			
Net Investment Securities Profits (Losses), After Income Tax Effect of \$15,455,719 in 1986 and \$165,220 in 1985	(14,826,848)	434,301	(15,261,149)
Provision for Possible Loan Losses, After Income Tax Reduction of \$4,340,367 in 1986 and \$13,030,170 in 1985	(3,959,633)	(13,869,830)	9,910,197
Other (Net), After Income Tax Effect of \$141,462 in 1986 and (\$154,074) in 1985	(118,466)	34,297	(152,763)
Net Nonoperating Deductions	18,904,977	13,401,232	5,503,745
<b>TOTAL</b>	<b>\$ 35,474,441</b>	<b>\$ 39,349,845</b>	<b>(\$3,875,404)</b>
<b>Consolidated Statement of Changes in Capital</b>	<b>1986</b>	<b>1985</b>	<b>Change</b>
Balance at Beginning of Year	\$524,480,098	\$512,684,518	\$11,795,578
Transferred from Consolidated Statement of Earnings:			
Net Operating Earnings	54,379,418	52,751,077	1,628,341
Less: Net Nonoperating Deductions	18,904,977	13,401,232	5,503,745
	35,474,441	39,349,845	(3,875,404)
Proceeds from Sale of 885 Shares of Capital Stock issued under Stock Options	-	37,460	(37,460)
	59,954,537	52,071,873	7,882,714
Dividends	27,592,323	27,591,727	596
Balance December 31st	\$532,362,214	\$524,480,096	\$7,882,118



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