

LIBERÁLNÍ INSTITUT PRAHA

**CONDITIONS FOR FOREIGN BANKS
IN CZECHOSLOVAKIA**

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Note: The findings, interpretations, and conclusions expressed in this publication do not necessarily represent the views of the International Finance Corporation.

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I. INTRODUCTION TO THE CZECHOSLOVAK BANKING SYSTEM

Before the banking reforms of 1990, the State Bank of Czechoslovakia fulfilled the dual role of central bank and commercial bank, keeping accounts of and lending money to State owned enterprises. Since then, the banking system has been divided into two tiers, with the State Bank acting as central bank and a growing number of commercial banks taking deposits and lending to industry and commerce. The State Bank exercises control over the banking system through its Bank Supervision Department¹⁾. In this capacity it is responsible for establishing the capital adequacy levels and other fiduciary criteria for banks.

A particular problem at present is associated with valuation of the assets of those commercial banks that assumed the commercial banking assets of the State Bank. Under the previous political regime, the State Bank lent considerable amounts of money at subsidized interest rates to State owned enterprises²⁾, many of which are now burdened with high levels of inter-company debt and thus insolvent. The commercial banks (mainly Komerční banka in the Czech Republic and Všeobecná úverová banka in Slovakia) inherited these debts, which now deteriorate the quality of their lending portfolios. These two banks recently received CSK 35 bln. and CSK 15 bln. respectively from privatization receipts. They can use this money to write off, based on their own selection, some of the noncollectible loans they have with state owned enterprises. Also a new "Konsolidační banka" was established in March 1991 to take over part of the nonperforming assets of these commercial banks. The loans will be restructured and will be repaid over eight years at a reduced (13%) interest rate. The Konsolidační banka has taken over some CSK 110 billion of such existing loans, an amount equivalent to almost one-fifth of all bank credit to Czechoslovak enterprises. At the same time, selected low-yielding, long maturity loans were assigned to a more specialized bank, the Investiční banka.

By comparison with most Western countries and in line with other former COMECON countries, the Czechoslovak banking sector is relatively underdeveloped and the

¹⁾Mr. Vlastimil Tesař is the head of the Bank Supervision Department.

²⁾Mainly in the form of permanently revolving credits for inventories extended to SOE's at 6% interest rates with no maturity dates.

use of checks and credit cards, especially by individual citizens, is not usual. Most payments by individuals are settled through the Post Office or through savings banks, while most intercompany transactions are done using money transfers. These transfers can be considered relatively reliable but are becoming more and more over-loaded with the increasing number of enterprises in the private sector and with the incomparably higher number of business transactions done in the economy. A chronic lack of investment in the banking sector means that transactions are labor-intensive and delays are frequent, mainly due to long float periods. One of the banks has introduced a VISA credit card for the citizens¹⁾ and foreigners with major credit cards or with Eurocheques may use them at an increasing number of shops, restaurants and hotels.

The banking sector provides also opportunities for foreign investment. Several Joint Venture Banks with foreign participation have been established in the course of the privatization process and more than 40 foreign banks have established representative offices in the country. The Joint Venture banks now offer selected CSK and foreign currency services to business entities, but most of them do not yet offer full range of banking facilities to the local population.

II. LEGAL FRAMEWORK

The legal framework for the presence of foreign banks on the Czechoslovak market is established by two principal laws:

1. Business Code

The first of them is the Act No. 513/1991 of November 5, 1991 (usually referred to as the **Business Code**), which took effect on January 1, 1992. The Code covers all major areas of business relations such as the forms of business enterprises, the way they are established and dissolved, the rules for their functioning, rules of

¹⁾From the technical point of view, this card is a debit card in this case rather than credit card, since it is available only to those citizens (or businesses) who have a minimum of US\$ 10,000 in hard currency in their account with this bank and who have a permanent income in a freely convertible currency.

business conduct, business contractual relations, etc. The Code also deals with the conditions for foreign firms; it says that both Czechoslovak and foreign legal entities and individuals may conduct business activities in Czechoslovakia and that the same protection of property is guaranteed to them. A foreigner (a company or an individual) can establish a 100% owned Czechoslovak firm in Czechoslovakia or may become a partner in either an existing or a newly set up enterprise. Similar provisions were previously incorporated in the Joint Venture Act (No. 173/1988 as amended by Act No. 112/1990), which was replaced by the Business Code.

2. The Act on Banks

The second important law is the **Act No. 21/1992 of December 20, 1990 on Banks** (previously Act. No. 158/1988). This new law on banks, which came into effect on February 1, 1992, differs from the previous law in several important aspects. The old law did not allow foreign banks to set up branches in Czechoslovakia. They could, however, enter as partners¹⁾ into newly set up Joint Venture banks²⁾, in which they could have an equity stake of up to 100%³⁾. Besides this way of entering the Czechoslovak banking market which still exists as one of the possibilities, the new banking law allows foreign banks to set up branches. All banks in Czechoslovakia have to be set up in the organizational form of joint-stock companies (corporations).

¹⁾This was done according to the old Joint Venture Act, which has been replaced by the corresponding provisions of the new Commercial Code.

²⁾They could enter as partners into existing (State owned) Czechoslovak banks, too - in the course of the privatization process (all banks used to be State owned under the Communist regime in Czechoslovakia). This process, however, is getting momentum in the banking sector only now. The first State owned bank being privatized (with participation of foreign partners) is Živnostenská banka. Several other banks are expected to be (partly) privatized in the first half of 1992.

³⁾The examples of such 100% owned "Joint Venture" banks include the Czechoslovak subsidiaries of Citibank, Creditanstalt, Österreichische Länderbank, etc. The "real" Joint Venture banks (where foreign banks have less than 100% stake) established by Czechoslovak banks together with foreign banks as partners are, for example Société Générale/Komerční banka, or Banque Suez/Investiční banka.

Besides subsidiaries and branches, foreign banks can have representation offices in Czechoslovakia. These can act to intermediate contacts for clients with their founding banks, advise the banks' clients on economic environment in Czechoslovakia, study market, gather and furnish information, but they are not allowed to conclude any banking transactions. All representations of foreign banks have to be registered with the State Bank of Czechoslovakia.

In addition, the old separation of functions, under which only savings banks were allowed to lend to individuals, is being eroded (the new law treats savings banks the same way as any other banks). Czechoslovakia is thus well on the way to having an integrated banking system with commercial banks free to take deposits from and to lend to customers of all types. A growing number of domestic banks have assumed the merchant and investment banking operations.

3. Banking Licence

A foreign bank intending to establish a subsidiary or a branch office in Czechoslovakia has to submit an application for a banking licence to the State Bank. The State Bank will decide about this application in coordination with the Finance Ministry of the republic, on the territory of which the subsidiary or the branch will be located. The approval of the application for a banking licence usually takes up to six months. The decision is made after considering the following criteria:

- a) The amount of equity and other financial resources to be provided to the subsidiary or to the branch by the founding foreign bank (minimum capital requirements are discussed later in the text);
- b) the technical and organizational capabilities for carrying out of the proposed activities;
- c) the professional competence and civil integrity of the persons suggested for managerial positions in the bank;
- d) feasibility of the economic projections and of the bank's business plan;

- e) the economic need for the activity of the branch on the Czechoslovak territory;
- f) whether there are reciprocal conditions for Czechoslovak banks in the country where the founding foreign bank has its headquarters.

The requirements concerning the contents of the applications as well as the minimum amount of capital required are promulgated by the State Bank of Czechoslovakia by a decree published in the Law Gazette (Sbírka zákonů). The State Bank also maintains a constantly updated list of banks and branches of foreign banks existing in Czechoslovakia. It is expected that the State Bank will issue about 10 banking licences for foreign banks every year and that there probably will be certain limitations regarding the number of banks coming from individual countries or regions. The same requirements and licensing procedure that apply to foreign banks apply also to newly created domestic banks. Some minor exceptions from this general rule include a requirement that proof should be submitted by a foreign bank intending to set up a branch in Czechoslovakia that the bank supervision authorities in the country where the bank has its headquarters approve the establishment of the branch in Czechoslovakia, but a proof of this permit is required only if such an approval is required by the authorities in the "home" country of the foreign bank.

The application for a banking licence should contain the following basic information:

- the proposed by-laws (statutes) for the bank being established;
- the information on the founder(s) of the bank, e.g. the excerpt from the company register or a copy of the articles of incorporation of the founder organization(s) certified by a public notary, list of shareholders of the founder entity who hold more than 10% of its equity, list of all equity stakes in other companies held by the founding entity (entities) if they exceed 10% of such companies' equity, financial statements of the founding entity (entities) for the last three years, including the auditors' reports and annual reports¹⁾. If the founder(s) intends to borrow money in order to make his contribution to the equity of the bank being established, the source and repayment conditions of such a loan have to be listed. If any of the founders is

¹⁾If the accounting standards used in these statements differ from those applied in Czechoslovakia, then the main differences should be explained.

a physical person and a Czechoslovak citizen, he/she has to submit a copy of his/her record from the so called "punishments register"¹⁾, as well as the information on the amount and source of the contribution to be made by such person in the equity of the bank being established. Also all capital holdings of such persons in other companies or cooperatives as well as their positions in the statutory organs (e.g. Boards of Directors) of other companies have to be listed in the application.

- the equity proposed for the bank being established (has to be CSK 300 mil. at least);
- the list of banking activities which the bank being established will carry out (e.g. what type of clientele the bank will concentrate on, whether the bank intends to trade in securities, etc.)

An integral part of the application for a banking licence should be a detailed business plan listing among other information also the reasons why the foreign bank intends to set up a subsidiary or a branch in Czechoslovakia. An important part of the business plan is a description of the internal controls to be taken by the bank being established with the aim to diversify and minimize the risks stemming from foreign exchange operations, from the lending exposure, and from the provision of bank guarantees to the bank's clients.

All of the above mentioned documents should be submitted in either the Czech or the Slovak language (i.e. with a translation into these languages; the translation has to be certified by a court translator).

The activities to which the banking licence applies include accepting deposits from the public, providing loans, investing in securities at the bank's own risk, financial leasing, payments settlement services, issuance of payment instruments, e.g. credit cards or travellers cheques, granting of guarantees, opening of Letters of Credit, collection of payments, trading at the bank's own or at client's account in foreign exchange, in futures and options, including transactions that involve exchange rates and interest, and in convertible securities, services related to issuance and flotation of shares, financial brokerage, business consulting services, portfolio management and related advisory services, custody and administration of securities

¹⁾This register is maintained by courts and includes all legal punishments of every Czechoslovak citizen.

and other valuables, depository services for mutual funds, operation of exchange offices, providing of banking information and rental of safe deposit boxes.

The banking licence is sometimes given to the bank only for some subset of the above mentioned activities (usually differences occur with the extent to which permission is given to the bank for carrying out of foreign exchange transactions).

4. The Procedure for the Establishment of a Bank as a Czechoslovak Corporation

The following steps are necessary to be made in order to establish a corporation (or joint-stock company) in Czechoslovakia:

- i) If two or more persons want to set up a corporation, they first have to sign a founders' agreement. If there is only one founder involved he has to sign a similar founding document. The founders' signatures have to be certified by a public notary. Part of these documents should be the proposed by-laws (statutes) for the corporation.
- ii) Subscription to the shares of the corporation. The minimum required capital of a non-banking corporation as it is set by the Business Code is CSK 1 million. In the case of a bank, however, this amount is CSK 300 million (approx. US\$ 10 million). On the date the corporation is established, a minimum of 30% of the above mentioned amount of equity has to be paid up¹⁾. If there is only one founder involved, he has to subscribe to all shares.
- iii) The first (constituent) shareholders' meeting has to take place. This step is not necessary in the case of the so called "single-act establishment", i.e. if all founders agree in the founders' agreement to pay up the entire amount of equity all by themselves in an agreed proportion. The first shareholders' meeting can be held only after all shares corresponding to the proposed equity of the company have been

¹⁾The subscriber has to pay up the whole nominal value of the shares subscribed by him within the time period specified in the company's by-laws, but within one year from the date of the establishment of the company at the latest (this provision does not apply to employee shares).

subscribed to and after at least 30% of the equity has been paid up by the shareholders (this requirement does not apply to in-kind contributions¹⁾ and to employee shares). The fact that the shareholders' meeting has been held must be proved with the minutes from the meeting certified by a public notary.

- iv) The first shareholders' meeting has to approve the proposed by-laws for the company and elect the Board of Directors and the Supervisory Board.
- v) The founders have to obtain the identification number (the so called "IČO" number) for their company from the Bureau of Statistics of the republic where the company will be located.
- vi) If required, the founders need to obtain a licence for carrying out of the specific business activity. In the case of a bank, this licence is issued by the State Bank of Czechoslovakia (see Section 3 above for details).
- vii) The corporation starts to exist on the day when it is recorded in the company register. The company registers are maintained by the registrar courts. The court will record the corporation in the company register after it has checked that all of the above mentioned conditions were met. The application for registration should be submitted by the Board of Directors of the company being established (all Board members have to sign the application).

¹⁾Whenever an in-kind contribution is to be made to the equity of a corporation, a valuation of the assets to be contributed has to be done or confirmed by an independent expert and attached to the application for registration with the company register.

III. THE ECONOMIC RULES FOR BANKS IN CZECHOSLOVAKIA

New banking regulations were adopted at the beginning of 1991. Some of the traditional domestic banks are likely to be treated as exceptions for some time due to the bad quality of their lending portfolios.

The following regulations apply to banks in Czechoslovakia:

1. Capital Adequacy

A capital asset ratio of 1.5% was required of banks existing at January 1, 1990, with a target of 2% by the end of 1991. All other banks are required to maintain a ratio of 8%.

2. Liquidity

Assets with residual maturity of over one year are limited to 125% of liabilities with a residual maturity of over one year. In addition, banks must have on deposit with the State Bank of Czechoslovakia an equivalent of 8% of all of their non-banking liabilities (currently at a rate of 4% per annum).

3. Foreign Exchange Exposure

Liabilities in freely convertible currencies cannot exceed 300% of the bank's capital and reserves. The net open position in foreign currencies is limited to 5% of the foreign currency liabilities.

4. Lending Rates

The maximum spread over the Central Bank discount rate on loans provided by commercial banks to their customers was abolished recently (previously it was

7.5%). This liberalization measure took effect on April 1, 1992¹⁾. The Central Bank discount rate is currently set at 9% and is changed from time to time by the Central Bank according to the tendencies in the macroeconomic indicators.

5. The Rules for Providing Credit to Banks

Commercial banks can draw (up to a quarterly set limit) a short-term refinancing loan from the Central Bank at the interest rate equivalent to the Central Bank discount rate. A bank with low equity cannot be granted a high refinancing loan. In excess of this limit the banks can either try to obtain an auction refinancing loan at a higher (auctioned) interest rate or a lombard refinancing loan secured with discounted corporate notes (bills of exchange). The maximum repayment term of a lombard refinancing loan is 6 months and the interest rate should not be higher than the discount rate.

6. Book-keeping and Accounting Audit

A bank as well as a branch of a foreign bank has to keep books and accounts in accordance with a special law²⁾. If a bank holds an equity interest of more than 20% in another company, its books and accounts have to contain the consolidated data on such a company. The bank has to retain auditors to have its annual financial statements audited and a report written on the results. The bank has to announce to the Central Bank the name of the auditing firm it chose for this job. The Central Bank has the authority to reject these auditors within 30 days after it has received such notification. The bank shall provide notification of new auditors within 15 days following the rejection by the Central Bank. If any shortcomings are detected during the audit, the auditors' report shall describe how these shortcomings affected the

¹⁾The Central Bank is, nevertheless, ready to restore this maximum allowed spread if commercial banks react to this liberalization measure by an inadequate increase in their lending rates.

²⁾Act No. 563/1991 Coll. on Accounting.

bank's economic performance and liquidity, as well as the creation and distribution of profit or loss.

7. Supervision by the Central Bank

The above mentioned rules as well as the definitions of the words "capital", "equity", "reserves", "assets" and "open foreign exchange position" and the extent to which these rules apply to individual banks are set forth by the Central Bank in an announcement published in the Law Gazette (Sbírka zákonů). Prior approval of the Central Bank is necessary for:

- the establishment of an equity interest by foreign persons in an already existing bank;
- a consolidation, merger or divestiture of a bank; the same applies to any decrease in a bank's equity unless the decrease is due to a loss;
- a transfer of equity interest in a bank of more than 15% of the bank's shares if such a transfer is to be executed in one or more transactions to any single person or to a group of persons acting in accord.

Without prior approval by the Central Bank, a bank is not allowed to:

- hold more than 10% of shares or other capital quotas of any non-banking company;
- hold shares or other capital quotas in non-banking companies the total value of which would exceed 25% of the bank's own equity and reserves.

These prohibitions do not apply in cases where acquisition of shares or other capital quotas is used to repay a granted loan. In such a case, however, the bank has to sell the securities acquired in such a way within two years following their acquisition, unless the Central Bank allows for an extension of this period. The

prohibitions mentioned above do not apply also if the shares are acquired by a bank for the purpose of their re-sale to other persons.

The share of an individual bank on its relevant market in providing commercial loans and consumer credits and in collecting savings deposits may not exceed 30%. In the case of an associated group of banks, this provision applies to the entire group. Banks are obliged to ensure their compliance with this provision within three years from the date on which the new banking law came into effect.

8. Anonymity of Deposits

Banks and branch offices of foreign banks have to file documentation on transactions executed. In the case of transactions the amount of which exceeds CSK 100,000 this documentation has to be kept on file for a period of at least five years. Banks have to demand proof of a client's identity for each transactions exceeding CSK 100,000 and for rental of a safe deposit box. Provision of services to a client on anonymous basis may be refused by a bank. Confidentiality applies to all banking transactions and financial services, including the information on the balances of accounts and deposits. All information that is subject to confidentiality has to be made accessible by the bank to persons authorized to perform banking supervision. A report on matters concerning a client and being subject to confidentiality has to be given by the bank without the client's consent only upon a written request of a court of law for the purposes of proceeding in civil law suits or to an authority engaged in criminal proceedings associated with criminal prosecution and or to tax authorities in proceedings concerned with taxes, to which the client is a party. This written request has to contain data, based on which the transaction in question can be identified by the bank.

9. Tax Considerations

The principal taxes that apply to banks in Czechoslovakia are the corporate income tax, the wages volume tax and the withholding taxes.

A substantial tax reform is expected to take effect on January 1, 1993. Significant changes will be made to the corporate income and wage taxes and a value added tax system similar to the one used in the EEC countries will be introduced.

The rate of corporate income tax is 55%, except for the first CSK 200,000 of profit, which is taxed at 20%. For companies with more than 30% foreign participation, the 55% rate is reduced to 40%. All profits of banking, insurance and financial institutions are taxed at the rate of 55%, regardless of the percentage of foreign participation.

The corporate income tax must be paid monthly in advance based on the estimated charge for the year. The monthly payment is adjusted following the end of each quarter after comparing tax paid with the tax payable from January 1 to the end of the quarter.

Representative offices as well as other permanent establishments of foreign firms in Czechoslovakia are subject to an income tax on attributable profits at the rate of 40%. The method of calculating these attributable profits has to be negotiated with the local financial authority.

Losses incurred in one tax year cannot be carried either forward or back against the profits of other years. A limited loss carry-forward regime is expected to be introduced as one of the components of the tax reform being prepared for January 1993.

The rates of depreciation are set by the Government on a straight-line basis. Land is not depreciable, and rates for buildings, plant and machinery are generally lower than in western Europe.

Czechoslovak companies must pay wages volume tax (in fact social security contributions) equal to 50% of gross payroll. This rate is reduced to 20% in the case of certain service industries. These social security payments are deductible for the income tax purposes. Representative offices are not obliged to pay the tax on the volume of wages but instead must pay health insurance contributions at the rate of 10% of gross wages and salaries paid to local employees only.

The tax on the volume of wages and health insurance contributions (in the case of representative offices) are accounted for monthly and paid over at the same time as income tax withheld from employee wages and salaries.

Dividends, interest, royalties and often also technical assistance fees paid to foreign recipients are subject to withholding tax. The rates are 25% in the case of dividends and interest and either 25% or 30% in the case of royalty payments (the 30% rate applies also to technical assistance and service fees). These rates are reduced under various double taxation treaties, which have been signed with Austria, Belgium, Brazil, Canada, China, Cyprus, Denmark, Finland, France, Germany, Greece, India, Italy, Japan, Morocco, The Netherlands, Nigeria, Norway, Portugal, Spain, Sri Lanka, Sweden, Tunisia, the United Kingdom and Yugoslavia.

Information on other taxes, which do not affect banks directly (e.g. the personal income tax, the tax on income from employment and the turnover tax) can be found in materials published by specialized foreign advisory firms who have offices in Czechoslovakia or from local tax consultants.

IV. PRIVATIZATION PROCESS

Practically all of Czechoslovakia's seven state-owned banks are to be privatized, although in most cases the state will retain effective control by keeping a significant equity stake.

1. Komerční banka and Všeobecná úverová banka

The state will maintain 44% and 45% respectively of the shares of the country's two leading commercial banks - Komerční banka in the Czech Republic and Všeobecná úverová banka (General Credit Bank) in the Slovak Republic. The remaining shares will be privatized using the coupon method (in both cases, like in any other privatization in Czechoslovakia, 3% of the shares will go to the restitution fund, which has been established with the aim to redeem people whose property was confiscated under the communist regime). In addition, both of these banks have established joint venture banks with foreign partners: Komerční

banka established a new joint venture with bank Société Générale of France in 1990, in which Société Générale holds 75% of the shares (Komerční banka holds the remaining 25%), and Všeobecná úverová banka recently set up a joint venture with Credit Lyonnais. Both banks are getting ready for the opening of the stock exchanges (one in Prague and one in Bratislava), which is expected to happen by the end of 1992. They have established privatization mutual funds through which they plan to gather vouchers from the public during the coupon privatization. Komerční banka is advised in its capital market activities by Barclays de Zoette Wedd and John Govett. Andersen Consulting advise Komerční banka on technical matters (systems, etc.). Komerční banka has also established a leasing joint-venture CAC Leasing with Creditanstalt of Austria. Všeobecná úverová banka is advised by Westdeutsche Landesbank Düsseldorf on the implementation of the automated information system. The Director General of Komerční banka is Mr. Richard Salzman, while Všeobecná úverová banka is managed by Mr. Jozef Mudrík in the position of a Director General.

2. Investiční banka

Investiční banka was divided into two banks in January 1992¹⁾, one located in the Czech Republic (Investiční banka, Praha), the other in the Slovak Republic (Investičná a rozvojová banka, Bratislava). In both of these banks, the state will retain 45% ownership, while the balance of the shares will be distributed to public through the coupon privatization scheme (leaving the obligatory 3% for restitutions). Before its division earlier this year, Investiční banka set up several joint ventures, the most significant of these being the investment banking JV with Banque Suez, called Suezinvestiční. Investiční banka also set up a mutual fund management subsidiary called První investiční, a.s. (The First Investment, Inc.). It now manages eight coupon privatization funds and several cash mutual funds. Investiční banka currently plays a significant investment banking and advisory role in many privatizations of Czechoslovak state-owned companies. The Director General of Investiční banka Praha is Mr. Jiří Tesař, while the Director General of Investičná a rozvojová banka, Bratislava is Mr. Jozef Tkáč. Investiční banka Praha is advised in its investment banking and fund management activities by Robert Fleming. It is expected that Flemings will become a

¹⁾The assets, equity and liabilities of the original Investiční banka were divided in the ratio 2:1 which reflects the proportion between the two republics' populations.

foreign partner of Investiční banka after privatization (Flemings will probably own 25% of the shares).

3. Československá obchodní banka (ČSOB)

The state will also maintain 51% control of the Československá obchodní banka (ČSOB). This bank specializes in foreign trade financing and guarantees foreign loans contracted by Czechoslovak companies. The remaining 49% of the Bank's shares is at present held by large state-owned foreign trade corporations, which are about to be privatized, too. For the moment, there is no change in the capital structure of this bank contemplated and the bank is resisting the idea of participating in the coupon scheme. It will probably be included in the second privatization wave, which is expected to begin in the second half of 1992. The Director General of the Československá obchodní banka is Mr. Rostislav Petráš.

4. Živnostenská banka

The most dramatic change has come at Živnostenská banka, which specializes in private and merchant banking and has always had an image of a bank providing high-quality services (relative to the other banks in Czechoslovakia) to the up-market personal clientele. Živnostenská banka has for many years maintained hard currency deposit accounts for Czechoslovak citizens. It is the only bank in the former East-bloc countries which has a branch in the City of London. Živnostenská banka has been granted by the Government an exemption from some of the rules otherwise applying to banks in the privatization process. The state does not insist on a 51% share and the 25% ceiling on foreign holdings does not apply either. Virtually all of the outstanding shares currently held by the state will be privatized using the coupon scheme. At the same time, the bank's equity will be increased by two foreign partners. The first of them will be the Berliner Handels- und Frankfurter bank (BHF), which is one of the biggest merchant banks in Germany. BHF will own 40% of the shares under the new capital structure. The second partner, playing a role of a neutral third party, will be the International Finance Corporation (IFC), the private sector affiliate of the World Bank. IFC will own 12% of the bank's shares after privatization. BHF was selected as a strategic partner in a competitive bidding, in which it defeated in the final round the Istituto Bancario San Paolo di Torino of Italy. Živnostenská was advised by IFC in the

selection process and Coopers & Lybrand audited its financial statements. Živnostenská banka is the first Czechoslovak commercial bank being privatized. Mr. Jiří Kunert is the General Director.

5. The Czech and Slovak Savings Banks

That leaves the Czech and Slovak Savings Banks. Both of them will be privatized with the participation of domestic investors only - the Czech Savings Bank in the first wave of privatization while the Slovak Savings Bank in the second wave. Nevertheless, both of them have been actively developing cooperation arrangements with Western banks. The Director General of the Czech Savings Bank is Mr. Miloslav Kohoutek. Mr. Alojz Ondra is the Director General of the Slovak Savings Bank.

6. Newly established banks

Apart from the state owned banks being currently privatized, there are several newly created banks which started activities on the Czechoslovak market during the last two years. Some of these banks are entirely domestic owned, some have foreign participation, and some are 100% owned subsidiaries of foreign banks. The list of the most important of them would include Agrobanka, Poštovní banka, Tatrabanka, Citibank Prague, Creditanstalt, BNP Dresdner Bank CSFR, etc. As far as foreign investment banks are concerned, the most active in Czechoslovakia are Credit Suisse First Boston, Bankers Trust London and Barclays de Zoette Wedd. More than 40 foreign banks have established representative offices in the country and many of them intend to open branch offices soon.



