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Deloitte Touche Tohmatsu

Technical Proposal for Providing Consulting Services to Ceskoslovenska Obchodni Banka, A.S.
Monthly Progress Report for October, 1994

Delivery Order No. 31

Contract No. EUR-0014-I-00-1056-00
Eastern Europe Enterprise Restructuring and Privatization Project

USAID
U.S. Agency for International Development
EUR/RME

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20 November, 1994

Mr. Lawrence Camp, Project Officer
Agency for International Development
U.S. Department of State
320 21st Street, N.W.
Washington, D.C. 20523

Subject: Contract Number EUR-0014-I-00-1056-00, Delivery Order Number 31; Technical Assistance for Ceskosloveska Obchodni Banka; Monthly Progress Report for October, 1994

Dear Mr. Camp:

This is to provide you with a report on the progress of the technical assistance to Ceskoslovenska Obchodni Banka (CSOB) for the month of October.

Work continues under three of the four functions, which include: (1) Function A: Improvement of Treasury Function, (2) Function B: Strengthening the Problem Loan Department, and (3) Function C: Strengthening Audit and Operational Controls. The fourth function, which is to assist the bank in the development of its strategy in preparation for privatization, has been approved by AID and by the bank and is scheduled to begin on in early December. A description of the current status of work under each of the functions is presented below.

1. Progress by Task

Function A: Improvement of Treasury Function

The test system for the Valuta front end dealing system was installed by the vendors in early October, approximately two weeks behind schedule. Intensive testing of the system occurred throughout the month of October.

The Board of CSOB have sanctioned the testing of the Valuta system so far, but no final decision on purchase has yet been taken. Results of testing by Mr. Grumball have identified a number of inadequacies in this system and discussions concerning the approach to take with respect to a final decision are continuing. The primary concerns are (a) whether the front-end system selection is appropriate given that the back office operations are not being integrated into it, and (b) whether senior management of CSOB will be able to get the necessary information from this system to perform its oversight responsibilities.

During October, Mr. Grumball also attended regular weekly meetings of the Treasury Front End Dealing System Steering Committee, and worked directly with bank staff on an

individual basis. The group is now working on the interface functional definition. Several meetings were also held with senior bank management, including Mr. Kavanek and Mr. Tauber.

Function B: Strengthening the Problem Loan Department

During October, meetings were held with a wide range of departmental and functional heads. Visits have also been made to the Prague main branch and Bratislava, which is the main branch in Slovakia. Further meetings were arranged, including meetings with the bank's external legal advisors, to investigate a range of outstanding legal issues and it is hoped that the investigation process will be complete by the middle of November.

Meetings were also held with an asset management company and with Concilium, the new corporate finance joint venture between CSOB and NM Rothschild of the UK. It is possible that these entities may be able to assist CSOB in the workout process, particularly Concilium, with respect to corporate restructurings.

Advice and input has been provided to CSOB with regard to credit analysis training. Job descriptions have been drawn up and agreed with the HR expert. These were provided to CSOB on 14 October, and discussions regarding finalization of these job descriptions are proceeding.

A questionnaire for obtaining information from the branches was provided to CSOB on October 12. The questionnaire was sent our for testing at two branches on 31 October. Delays in dealing with the questionnaire by CSOB have put this activity behind schedule by about 2 weeks. Responses are due in mid November. The branches will then be investigated by the Head of Problem Loans and by Mr. Simon, to assess the accuracy of the responses and to decide if the questionnaire lacks clarity and or requires amendment.

Despite some delays on the part of CSOB, there has been a high level of co-operation from the Bank and sufficient information is now to hand in order that the writing of the policies and procedures, together with the design of forms, etc., may begin.

A short paper dated 28 October regarding the proposed layout of the workout guide or manual has been produced. This was provided to the Bank on 31 October.

Other assistance and advice has been provided to the Problem Loans Department on various issues, including:

- In-depth analysis of a major (US$13 million) problem loan. Close involvement with the restructuring of the facility and the provision of advice both as to structure and tactics, to the bank's officers during the negotiations.

- A front end fee fraud targeted at the Bank and/or a customer has been considered, advice provided and the attempt rendered harmless.

Function C: Strengthening Audit and Operational Controls

The heads of the internal audit function at CSOB completed a detailed review of the proposed plan for re-organization of the department, and procedures for conducting internal audit activities. These comments were discussed in detail with Mr. Douglas, and preparations were made for finalizing the program. The plan is expected to be finalized by mid November..

Function D: Bank Strategy for Expansion of its Deposit Base

Approval of the proposed modification to the scope of work to undertake a strategic assessment for CSOB was granted by AID. A candidate for the position of advisor on the retail banking strategy side was selected and a request for approval has been made to AID.

Also under Function D, a task was added to the scope of work to conduct an analysis of the funding base of the bank. This analysis was begun in October, and is being performed by Mr. Clive Grumball. The analysis is focusing on the nature and extent of the bank's dependency on inter-bank market funding by CSOB and the viability of "tapping" retail funding sources as an alternative means of meeting the bank's needs. A report on the findings of this analysis will be presented in late November.

2. Matrix of Activities as Planned and Implemented

See attachment A.

3. Bank Counterpart Staff Assigned to Each Task

Task	CSOB Counterpart	Title
Project Management	Ivan Rejzek	Head of Organization Dept.
Treasury and F/X Management	Roman Somol	Manager/Treasury
Problem Loan Department	Jiri Micalicka	Head of Loan Workout Dept
Audit and Operational Controls	Ladislav Kopecky	Head of Internal Audit Dept.
Strategy	Vera Svobodova/ William Dewey	Manager, Strategy Dept./ U.S.Treasury Advisor

4. Project Management by D&T and CSOB

Project management meetings have been held on a weekly basis with Mr. Ivan Rejzek of CSOB to review progress and discuss specific issues related to the requirements of the project team and the bank. Deloitte & Touche project team management meetings are held

internally, also on a weekly basis. Several additional meetings were held during the month with senior management of the bank to discuss project progress, and to discuss management's concerns about taking the project through to completion after the expiration of the delivery order. The bank has formally requested an extension of the project through 1995.

5. Estimate of Time Expended and Work Days Remaining

Name	Work Days Budgeted*	Days Worked During Oct.	Total Days Worked	Work Days Remaining
Ran Farmer	23	4.5	20.5	2.5
Clive Grumball	130	21	83	47
Stephen Alison	55	2.5	25	30
Eugene Douglas	45	2.5	7.8	37.2
David Simon	100	23	43	57
Tomas Horacek	81	6.2	37	44

*Note: includes work days reallocated under the modification to the scope of work.

6. Time and Attendance of Specialists with Tasks Performed

Specialist	Period of Performance	Time in Country	Tasks Performed
Clive Grumball	Oct. 1 - 31	Oct. 1 31	Review of requirements for dealing system Testing of Valuta dealing system Analysis of exposure to interbank funds
Stephen Alison	Oct. 1 - 31	N/A	Preparation of draft organization plan. Preparation of draft I/A procedures
Eugene Douglas	Oct. 1-31	Oct. 1-31	Preparation of draft organization plan. Preparation of draft I/A procedures

Specialist	Period of Performance	Time in Country	Tasks Performed
David Simon	Oct. 1-31	Oct.1-31	Prepare and distribute questionnaire to branches Meet with various officials to finalize policy assessment Draft layout of proposed workout guide Assist with specific cases.

7. Update of Bar Chart and Status of Each Activity

Attachment B presents the project plan (bar chart) for each activity along with time expended during the reporting period, time expended to date, and work days remaining for each function.

8. Counterpart Training

Counterpart training in the form of direct on-the-job training has continued under the direction of Mr. Clive Grumball in the foreign exchange area. In the audit and operational controls area, D&T has also continued to work closely with CSOB staff during September to begin preparation for training activities.

Please let me know if you need any additional information.

Sincerely,

Ran Farmer
Partner

Attachments - 2

cc: John Rogers, USAID Prague
Zdenek Frinta, USAID Prague

ATTACHEMENT A

MATRIX OF ACTIVITIES

FUNCTION	ORIGINAL PLAN	CURRENT STATUS
Treasury and FX/Management	1. Work plan 2. Policy recommendations for Treasury and F/X Management 3. Analysis of user needs and analysis of alternative front-end dealing systems 4. Recommendation to ČSOB on procedural changes 5. Interbank fund exposure analysis	1. Completed 2. Completed 3. Preliminary recommendations made 4. First report completed 5. Underway
Loan Work Out	1. Work plan 2. Policy recommendation for the Problem Loan Department 3. Policy recommendation for early detection of problem loans 4. Copies of recommended forms (action plans, approval memos, status reports, etc.)	1. Completed 2. Underway 3. Underway 4. Draft completed
Audit and Control	1. Work plan 2. Policy recommendations for Audit and Operational Controls 3. Proposed procedure manuals for Audit and Operational Controls	1. Completed 2. Review underway 3. Draft completed
Bank Strategy	1. Work plan 2. Strategic analysis 3. Strategic plan	Project scheduled to begin December 5.

ATTACHEMENT B

Project Plan for Technical Assistance to Ceskoslovenská Obchodní Banka

Project Plan

Weeks: 4 6 8 10 12 14 16 18 20 22 24 26 28 (Aug. 01, Sep. 01, Oct. 01, Nov. 01, Dec. 01, Jan. 01, Jan. 25)	Work Days Budgeted	Work Days During Oct.	Total Days Worked	Work days Remaining
Treasury/FX (Clive Grumball)	[illegible]	21	83	47
Loan Work Out (David Simon)	[illegible]	[illegible]	[illegible]	67
Audit/Operations Control (Alison; Alison; Alison; Alison)	55	2,5	25	30
(Eugene Douglas)	45	2,5	7,8	37,2
Bank Strategy	74	0	0	74
Other resources:				
Project Manager	23	4,5	20,5	2,5
Local Technical Assistance	81	6,2	37	44
Total:	518	57,2	216,3	301,7

Project start date: June 14