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TECHNICAL ASSISTANCE ON PRIVATIZATION AND RESTRUCTURING FOR THE CZECH SAVINGS BANK

FINAL REPORT

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PROJECT REVIEW

This report presents a detailed description of the work performed and the specific accomplishments of the Technical Assistance on Privatization and Restructuring for the Czech Savings Bank (CSB or the Bank). The report is organized according to the specific requirements for final reports under U.S. Agency for International Development contract number EUR-0014-I-00-1057-00.

The exhibits included with this report are copies of documents, including reports, training materials and presentation booklets that were developed and delivered to CSB during the course of this project. A Project Report in two volumes was prepared by the Policy Economics Group of KPMG Peat Marwick in January, 1993. Many of the exhibits from the January Project Report are also referenced in this report; the exhibits from the January Report have not been reproduced in this report. The January Report should be referenced to review these exhibits. All new exhibits are designated with a (B-_) preceding the exhibit number and are included here. In addition to the exhibits, a series of 15 specific reports were prepared by KPMG Peat Marwick since the January Report; these reports were prepared under separate cover and are not reproduced here. A list of these documents is included as Exhibit B-1).

It should be noted that much of KPMG Peat Marwick's work involved the review and evaluation of confidential information of CSB, including undisclosed financial information, specific comments on investment or lending strategy and specific reviews of issues involving the Bank. In a few cases these reports are included here but confidential information has been deleted. It should be stressed that the information about CSB contained in this report is confidential and must not be disclosed without the prior permission of the Bank.

TECHNICAL ASSISTANCE FOR PRIVATIZATION AND RESTRUCTURING OF THE CZECH SAVINGS BANK

A. Accomplishments Under The Delivery Order

A.1 KPMG Peat Marwick's Mission

The institution of the Czech Savings Bank was targeted for technical assistance under the United States Agency for International Development's program for Privatization and Enterprise Restructuring in Central and Eastern Europe because of the Czech Savings Bank's key role in the privatization program and the banking sector of the Czech Republic[1]. The objectives of the technical assistance project performed by KPMG Peat Marwick[2] were:

1. To provide technical assistance to CSB in the establishment and management of one or more investment funds that will be used as the mechanism for privatizing state-owned enterprises;

2. To assist in the design and implementation of appropriate credit risk management procedures that will be central to the financing of privatization proposals, and training Bank staff in the application of these procedures;

3. To assist in the development and implementation of procedures for processing foreign payments and other trade financing capabilities; and

4. To review and restructure the financial management and accounting procedures of the Bank to strengthen its ability to support the privatization process.

A.2 Business Environment

1992 and the first six months of 1993 have been a period of major change for the Czech Republic and CSB. Some fundamental issues were:

1. Privatization continued at a rapid pace. Major firms were sold and/or foreign investors were being sought.

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[1] Due to the division of Czechoslovakia, the term " Czech Republic" refers to Czechoslovakia prior to 1993 and the new Czech Republic after January 1, 1993.

[2] Or KPMG

Ownership in the form of common shares of 1,489 companies were transferred from the State to individuals via the voucher privatization process. Thousands of small businesses were either given back to prior owners or sold at auctions by the Government. CSB itself was privatized in the voucher privatization process. The ownership of CSB comprises 37% individuals and mutual funds, 20% numerous municipalities in the Czech Republic, 40% the Czech Government and 3% various others.

2. Financial analysis of firms proved very difficult. With the collapse of the markets in the former East Bloc, firms had to find new markets for products. In prior years, products were sold or allocated to Eastern Bloc countries. Now goods had to compete with products made by Western firms in markets that were not well understood. Many companies were created from large enterprises formerly owned by the Government. These firms had no financial or operating history in a competitive market environment and generally had management that was without experience in this type of environment. Large amounts of intercompany debt were uncollectible which caused major liquidity and solvency problems for most firms. Business condition forecasting was almost impossible given all the changes and unknowns in the economy.

3. The legal and political situation were constantly changing. For example:

   A. On January 1, 1993, Czechoslovakia divided into the Czech Republic and the Slovak Republic. During the first months of 1993, almost all the effort of the new Czech Government went toward establishing itself. The result was a standstill situation for almost all government activity.

   B. During 1992, the Czech Republic adopted a Western approach to accounting and approved a new Accounting Act. However, most of the details were not released until the spring of 1993. This delay will negatively effect the quality of financial statements prepared in 1993.

   C. The Investment Company Act was approved after mutual funds had already been formed and shares had been sold. This made investing very difficult and in some cases required rewriting prospectuses that had already been issued.

   D. In early 1992, the Bankruptcy Act was approved. However, its implementation was suspended until April 1993. The main reason for the delay was to add to the Bankruptcy Act an Amendment that would allow time for a company in Bankruptcy to

negotiate a settlement with its lenders. The full impact of the Act will be only felt in the fall of 1993.

E. A process was established that will help firms net amounts due to and due from the same companies because of the large amount of money firms owe to each other. One requirement of the Bankruptcy act is to require firms seeking bankruptcy protection to join in this scheme. If successful, billions of Kcs of corporate liabilities will be netted against the companies' assets.

F. In January of 1993, a new Tax Act was implemented. As a result, a Value Added Tax was added and a high income tax rate was set. The added taxes caused an increase in inflation as companies passed on the tax to the end consumer. The fear of inflation led the Government to keep a tight control over the economy. This caused a decrease in overall economic activity. This in turn increased the lending risk to corporations.

G. The Securities Act was approved late in 1992 by the Czech Republic. Until this Act was passed, it was impossible to establish firm brokerage and investment standards.

H. Due to a breakdown in negotiations between the Czech and Slovak Republics, The Czech Government refused to distribute shares of Czech companies to people in Slovakia. These shares were the result of the voucher privatization process. With no shares issued, the stock market could not start to trade these securities. In May of 1993 the Czech Government agreed to release the ownership shares which allowed the stock market to start equity operations.

4. The area of bank regulation was rapidly changing. For the first part of the year, CSB had a very strict limit on the size of its loan portfolio. In 1992, the National Bank[3] introduced Risk Based Capital Regulations, Liquidity Management and maximum lending limits. During the year, several issues of Government Bonds were marketed. This market provided an alternative investment to the interbank market. Banks had to learn to manage banking business with a different set of rules.

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[3] The National Bank was the State Bank prior to 1993.

5. The development of an active stock market proved to take longer than originally planned. The Prague Stock Exchange, which had been scheduled to start trading by mid-1992 was not active until the spring of 1993. Also, shares of stock had not yet been issued from the voucher privatization process. The shares are to be issued by mid 1993.

6. The splitting of Czechoslovakia into two Republics caused many problems for business in the Czech Republic. First, trade was materially reduced. This was the result of added import and export restrictions and regulations. Many Czech firms had to turn to alternate sources of supply. Additionally, Czech exports fell due to the slow Slovak economy. In February 1993 the Czech and Slovak governments issued separate currencies. The situation also subjected many of CSB's customers to foreign currency risks as Czech firms sell or buy products to/from firms in Slovakia.

A.3 Summary of Accomplishments

This technical assistance project has contributed significantly to the success thus far of the Czech Savings Bank in making the many complex adjustments that have been required to cope with the dramatic changes occurring in the economic, political and business environment of the Czech Republic during 1992. The project has helped to begin laying the groundwork for the Bank to continue along the path of an effective transition to operating as a universal bank[4] within a market economy over the next several years. Some of the major areas in which KPMG has assisted the Bank under this technical assistance program include:

1. Formation and structuring of two investment companies with focus on organizational planning, staffing and training;

2. Creation and offering of three new open end mutual funds in a new business market for these products;

3. Development of analytical tools and techniques for portfolio management;

4. Implementation of strategies for privatization fund management with CSB possessing the largest fund in the voucher process;

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[4] A universal bank is a bank with the combined powers of both a commercial and investment bank.

5. Development of systems and operational control requirements for all aspects of securities trading plus assistance in the actual review of specific vendor capabilities;

6. Issuance of CSB's first letter of credit;

7. Process and management of interbank interest rate risk with KPMG building and providing a customized computer program;

8. Structuring of a computer based model to aid CSB in its management of its liquidity;

9. Training of over 100 District Credit Officers;

10. The design and implementation of a continuing education series of three credit courses ranging from entry level to advanced risk management;

11. The design and test-implementation of standardized analysis guidelines and procedures for corporate loan requests;

12. The design and test-implementation of a standardized risk rating system for corporate credit exposure;

13. A detailed plan for the restructuring of the credit approval function including suggested policy and procedures;

14. Technical assistance in implementing a Bankruptcy Department;

15. Recommendations for, and implementation of, the organization of personnel and physical control of negotiable instruments and customer files in the Documentary Credits Department of CSB;

16. Training of all personnel of the Documentary Credit Department in, and implementation of, the issuance and negotiation of letters of credit;

17. Recommendations for subsidiary ledger accounting and general ledger accounting procedures and controls (on and off balance sheet) for letters of credit, International Collections, and guaranteed (pour aval) bills of exchange, and Bankers Acceptances;

18. Recommendations for subsidiary ledger accounting and general ledger accounting procedures and controls (on and off balance sheet) for guarantees, international loans and a' forfait paper;

19. Recommendations for subsidiary ledger accounting and general ledger accounting procedures and controls (on and off balance sheet) for foreign exchange spot and forward transactions;

20. Recommendations for subsidiary ledger accounting, general ledger accounting, and reconciliation of nostro accounts;

21. Recommendation for a cash management study for CSB's position in foreign bank notes and foreign currency cash items in process of collection;

22. Recommendation for integration of the Czech Crown Treasury function and the Foreign Exchange Division;

23. Recommendation for a participative planning process that encourages the cooperative efforts of all relevant departments of the Bank together with a Project Planning and Responsibility Schedule;

24. Creation of liquidity management department;

25. Creation of interdepartmental credit and asset/liability management committee;

26. Training in capital, liquidity and interest rate risk management;

27. Formulation of plan to completely restructure corporate management to focus on banking products, customers and risks;

28. Beginning process of creating Western-style Financial division;

29. Beginning process of creating Western-style Treasury division;

30. Improving company-wide budgeting/planning process;

31. Improving financial management reporting systems;

32. Training of the Bank's portfolio accounting and custodial departments;

33. Development of the billing procedures between CSB and its investment subsidiaries;

34. Beginning process of developing the Bank's securities index; and

35. Training the Bank's portfolio analysts utilizing

a stock market simulation.

In addition to the above items, KPMG offered assistance in areas beyond the Initial Project Plan, such as:

1. Development of a brokerage and underwriting capability within CSB considered critical to the overall development of the Czech economy;

2. Providing initial plans for loan repackaging for aiding profitability and liquidity of CSB's portfolio;

3. Analyzing the direction CSB should take with respect to CSB corporate governance of over 400 companies recently privatized;

4. Commenting on the strategic and overall 1993 organizational plan of the Bank; and

5. Providing education regarding Western style audits.

Beyond CSB, KPMG has attempted to extend the transfer of our professional expertise and knowledge of the local business environment to other key players in the privatization process. These activities involved:

1. Discussions with the National Bank and other officials regarding security processing issues;

2. Meetings with Ministry officials to present views on regulatory procedures;

3. Assistance in the creation of the selection criteria and candidate review for the USAID sponsored "Bankers Abroad Program"; and

4. Assistance to other USAID grantees.

B. Overall Description of the Activities Under the Delivery Order

B.1 Investment Funds Management

B.1.1 Overview

The primary focus of KPMG's early work was assisting the Bank in establishing its investment subsidiaries and in managing all of its investment mutual funds. Given the pace of the privatization program, and the lack of an existing infrastructure within CSB to handle all aspects of such investment funds, these activities were given the highest priority of the Bank. Specific KPMG accomplishments during this time period included:

1. Commentary on the legislative and regulatory guidelines set forth by the government leading to modifications essential to the Bank's fund management success. Documents reviewed by both KPMG staff on-site at the Bank and in the United States and discussed with Czech Savings Bank senior management included:

   A. The Investment Company Act;

   B. proposed Stock Exchange Rules and Regulations;

   C. proposed Accounting legislation;

   D. proposed Bankruptcy legislation;

   E. proposed Securities and Trading Laws; (Exhibit 3A);

   F. The Banking Law;

   G. The Commercial Code;

   H. Voucher Program Rules and Regulations; and

   I. prospectus' for the open-end non-voucher funds of the Czech Savings Bank and other major funds (Exhibit 3B).

2. KPMG conducted a detailed review of the current and proposed capabilities, plans, procedures, systems and infrastructure of the Bank to manage the investment funds and provided a wide range of technical assistance and advice on all aspects of fund management. This review has become an ongoing process involving weekly, and often more frequent, discussions with senior Bank management. The review and advisory effort in these areas included the following:

A. Avising on the management, operation, record-keeping and accounting methods for mutual funds;

B. Commenting on proposed plans for systems and controls of the funds (Exhibit 4);

C. Commenting on the plans for procurement and development of hardware and software for account management and control (Deliverable: Securities Systems Options Overview for Management);

D. Assisting in developing techniques for investment decision making;

E. Assessing alternative investment strategies for the Bank under different assumptions regarding the market share of its funds;

F. Preparing work plans and schedules for implementation activities associated with the establishment of the investment funds; and

G. Advising on the establishment of investment objectives and alternatives for portfolio strategy.

3. KPMG advised the Bank on the establishment and organization of the Investment Division and the two investment subsidiaries, SIS and SP a.s., established to manage the investment funds. This effort included:

A. Reviewing the initial plan for the organization and establishment of the investment subsidiaries;

B. Assessing the proposed organization based upon detailed interviews with 14 management level personnel and the experience of the KPMG team;

C. Commenting on the proposed structure to the Bank's Board of Directors (Exhibit 5A); and

D. Providing an organizational plan for the structure of the individual portfolio management units, the backroom operations for securities trading activities and the Bankwide system's installation team (Exhibits 5B, B-2, B-2B).

4. KPMG conducted numerous interviews with government officials in the Ministries and The National Bank to assist in the evaluation of the financial, legal and economic environment that the Bank would operate. Several meetings were also conducted with officials of the Stock Exchange and other institutions for this purpose (Exhibit 6).

5. KPMG identified for the Bank typical expenses associated with fund management. KPMG held discussions with Senior Bank Officers on the financial management of investment subsidiaries so as to assist management in estimating the cost of their investment operations (Exhibits 7, B-3). KPMG also provided guidance on the estblishment of internal billing procedures between the Bank and its investment subsidiaries (Deliverable: Mutual Fund Internal Billing Procedures).

6. KPMG conducted site visits to review operations, procedures, management information systems and facilities at sample branches associated with the distribution and processing of the mutual funds.

7. KPMG reviewed and commented on the specific features of the CSB mutual fund processing system for the open end mutual funds on-site at the CSB training center.

8. KPMG arranged for a visit by a member of CSB Board of Directors to the United States for an overview of the securities industry. Discussions were held with the senior management of a major custodian bank, transfer agent, several leading mutual fund management companies, a leading mutual fund systems provider, a leading brokerage house, NASDAQ and the New York Stock Exchange.

B.1.2 Portfolio Management and Investment Decisions

The task of analyzing and choosing the investments for the voucher privatization fund was a complex and difficult challenge for the Czech Savings Bank. The lack of reliable financial data on the companies whose shares were available in exchange for voucher points during the first wave of privatization increasingly forced the Bank to rely on the information and opinions supplied by management staff in the Bank's outlying branches.

The large size of the CSB fund combined with the legal restraints on the amount of ownership any fund could have in one company resulted in Bank analysts researching numerous investment options to eventually invest all the fund's vouchers.

In order to assist the Bank in its investment decisions for the privatization and non-voucher funds:

1. KPMG prepared a mathematical analysis for the Bank's privatization fund managers which applied investment theory to the characteristics and constraints of the Bank's privatization fund. This analysis was used by the Bank as one tool in defining their investment strategy for the privatization program (Exhibit 8).

2. KPMG commented on the data base system utilized by the privatization fund analytical team to gather information on companies and quality of investment rating determination.

3. KPMG provided comparative information from various countries regarding the relationship between company /industry book values and actual market value. This information was utilized by CSB to compare known book values of companies in the Czech Republic to their industries for choosing of investments (Exhibit 11).

4. KPMG held 12 meetings with CSB and investment company senior management to discuss corporate governance by CSB of the companies in which the funds were invested. KPMG provided samples of internal corporate ethics statements utilized by other companies and the legal regulations utilized in Germany to regulate corporate governance (Exhibits 12A, 12B).

5. KPMG developed and provided to CSB a portfolio evaluation model to assist in the forecasting of portfolio income based on duration analysis (Exhibit 13).

6. KPMG advised on the development of new and future products for the Bank such as sector funds and money market funds, considered by KPMG to have great potential in the Czech financial markets (Exhibit 14).

7. KPMG advised on the development of a CSB stock index similar to the Standard & Poors in the United States (Deliverable: Stock Market Indices Manual and Exhibit B-4A).

8. KPMG advised on the possible aquisition of an outside individual mutual fund versus the aquisition of a investment management company (Exhibit B-4B).

9. KPMG provided portfolio management training to 25 analysts through the utilization of a stock market simulation model (Deliverable: Stock Market Simulation and Manual and Exhibit B-4C).

B.1.3 Portfolio Accounting and Administration

The unique characteristics of open-end mutual funds such as the CSB non-voucher funds require unique applications of standard Western accounting procedures which have not been developed in Central European countries. KPMG has completed the following in the instituting of these accounting principles in the CSB procedures:

1. Developed and presented an overview of portfolio accounting for investment subsidiary senior management

(Deliverable: Portfolio Accounting Training and Handbook and Exhibit 15).

2. Provided explanations regarding the concept of net asset value and its importance in the determination of a mutual fund share price (Exhibits 16A, 16B).

B.1.4 Custody and Safekeeping

One of the key operational elements in the establishment of mutual funds is the determination of a custodian to protect investor assets. Typically the primary functions of the custodian are safekeeping of the physical securities of the fund, the monitoring of buys and sells within the fund to include the settlement of these trades, and the income collection of dividends earned by the fund as a result of the fund's investments. KPMG has assisted CSB in the defining of these functions in the Bank's service to the investment subsidiaries as their custodian. In addition, CSB has made the business decision to market its custodian capabilities to the 400 other privatization funds to service their custodian needs and will be offering clearing services to other broker organizations. CSB is also offering custodian or administrative services on a customer retail level to individual clients of the Bank who desire safekeeping and income collection services. Specific KPMG activities in the custodian area have been;

1. Providing 12 seminars regarding the role and responsibilities of the custodian in the securities market (Exhibit 17).

2. Providing of a prototype contract that the Bank may utilize between its own mutual funds and the Bank and with any third party mutual funds (Exhibit 18).

B.1.5 Shareholder Recordkeeping

The development of shareholder recordkeeping systems was the focus of numerous internal and political discussions in the Czech Republic in 1992. The end result was the creation of a legal entity known as the Center of Securities. Its function is to keep a record of each book entry security transaction of each individual in the country. It remains uncertain, however, whether the Center will eventually develop the systems and technical knowledge to process all necessary transactions which occur in an active capital market. This uncertainty remains a major problem. As a result, CSB has initiated the development of its own recordkeeping systems. In this aspect:

1. KPMG made a presentation to Bank management on the recordkeeping aspects of mutual fund and securities trading. A business plan defining who should have responsibility for maintaining various records has been recommended by KPMG and accepted by the Bank

KPMG completed the following in assisting the Bank in this activity:

1. Conducted a week long study with a securities expert from the United States to determine the feasibility of this business activity and the direction CSB should take in pursuing the establishment of a successful underwriting and investment banking unit (Exhibit 23A).

2. Provided an overview of capital requirements for institutions engaged in brokerage activities (Exhibit 23B).

B.1.8 Sales and Marketing

The key to a successful brokerage and investment banking unit of CSB will be the ability to sell the offerings bought on the Bank's own account. KPMG has provided guidance in this area through the study referenced above and through seminars with capital markets personnel of the Bank (Exhibit 24).

B.1.9 Capital Markets Interface

In order for the capital markets to operate efficiently in the Czech Republic, it is critical that the proper technical means be available so that trading and brokerage institutions may send and receive transaction data to and from the Stock Exchange and the over-the-counter markets. In the Czech Republic, financial institutions will also require links with the Center of Securities to report trading activity. The lack of development of the capital markets has limited the work of CSB and KPMG in developing the required communication systems for trading. KPMG has attempted however to provide education within CSB regarding the flow of securities transactions. To date:

1. KPMG met with several representatives of the Finance Ministry and Stock Exchange to discuss the financial services infrastructure of the Czech Republic. KPMG utilized the knowledge gained on centralized processing and trading plans to assist the Bank in developing its systems.

2. KPMG provided monthly seminars on CSB's interface with the capital markets and the role of each major institution including brokers, Stock Exchange, over-the-counter markets, and Center of Securities (Exhibit 25).

3. KPMG analyzed and discussed the detailed computer formats for the Center of Securities and Stock Exchange interface with systems personnel within the Bank.

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B.2 Credit Risk Management

B.2.1 Overview

Prior to 1990, CSB had virtually no experience in commercial lending. CSB's loan portfolio consisted primarily of so-called social loans extended to individuals. These small denomination loans were made at the request of the Government in support of social/political objectives. Repayment of the loan was deducted from the borrower's salary. Defaults were rare because of the borrower's guaranteed employment by the former government, low interest rates between 1.5% and 2.7% p.a., and monthly payments which could easily be met by the payroll deduction plan. In addition, the loans were usually guaranteed and secured.

During the period 1990 to 1991, lending was kept under control through the continued utilization of very conservative loan underwriting standards by CSB management, as well as by the tight loan ceiling placed on CSB by the National Bank. This formal limit has now been eliminated by the National Bank and political forces are encouraging more lending to help the capital-poor industries obtain needed funds. Beginning in 1992, larger and more complex lending opportunities were being considered and often approved without a full understanding of the risks involved.

When the current CSB was created it was granted a Universal Banking License and it now has full lending powers. The environment of having large amounts of funds to lend and no experience in lending; coupled with the internal CSB misconception, because the Bank had relatively low loan losses previously (in a heavy regulated lending market under the old system) that CSB personnel possessed well developed lending skills, created a potentially dangerous situation of large loan losses in the future. This is especially true given the strong demand for funds combined with the high level of associated risk in the Czech Republic in 1992 and 1993.

In order for KPMG to create an effective credit risk management system within CSB, external obstacles had to be overcome and internal practices and procedures significantly improved.

B.2.2 Training

There were four main obstacles to effective credit training. First, there was virtually no experience with granting loans based on financial and/or cash flow analysis. Additionally, there was little understanding about the basic principals of corporate finance or capital markets. Second, the enormous size of the Bank meant that literally thousands of people needed training; this presented significant staffing and resource problems. Third, there was a geographical obstacle in that CSB branches were located throughout the Czech Republic and therefore physically transporting the CSB staff to a central area for training posed a logistical problem. Finally, virtually none of

the branch staff are English-speaking. This required that all instruction and teaching materials be in Czech; again, a logistics as well as a translation problem in that many common Western credit and financial terms do not have equivalent Czech word(s).

The KPMG solution to the immediate problem was to concentrate credit education at the Regional and District level and not at the bottom of the credit approval hierarchy.

By way of explanation, all of CSB's branches report to 72 District Offices and each of these report to 8 Regional Offices. Each of the district and regional levels have credit approval officers with varying levels of credit approval authority. Therefore, it was decided that the best strategy was to train the intermediate and senior levels within the credit approval structure in the belief that improved credit standards could be forced from the top down.

Accordingly, numerous types of training were held for these credit officers:

1. Credit topics were discussed in seminars with the Regional Credit Officers. Much of the emphasis was placed on the concepts of risk measurement, how to derive a risk rating system and the measurement of return on risk (Exhibit 26A).

2. Initial off-site credit analysis training was held for a total of 9 days with over 100 Divisional Credit Officers. The sessions included both hands-on training as well as theoretical work. These classes were taught by KPMG using simultaneous translation (Exhibit 26B).

3. A continuing education series of three one-week inter-related credit courses to be taught off-site were designed and implemented. The complete program was designed to take the participant from an entry level knowledge of credit analysis through advanced training in risk identification and management (Exhibit B-5A). Additionally, the program is continued to be used to introduce at the working level the KPMG-designed credit analysis format (Deliverable: Standardized Credit Analysis and Presentation Guidelines) and the KPMG-designed risk rating system (Deliverable: Design for a Credit Risk Rating System for Loan Assets). This will enable CSB and its subsidiaries to employ the same analytical techniques and methodology and to establish the same level of credit standards. Although the availability to offer these courses under the USAID contract will end with Course I, Course II and Course III will be taught under the existing short term advisory contract between KPMG and CSB.

4. KPMG designed a spread sheet in Czech in mid 1992 for CSB. The spread sheet uses Czech accounting and is presented in the Western Format of accounting (Exhibit 27A). Until that time CSB was not using a financial spreadsheet, the fundamental starting place for the quantitative analysis of a company. This spread sheet was then amended to conform with the changes in the Accounting Act which were released in early 1993. Beginning in mid-1993, the use of the spread sheet will be a required part of loan analysis procedures at CSB.

5. Numerous training products were prepared by KPMG and presented to CSB. These included:

   A. Various types of questions to ask when reviewing a new credit proposal (Exhibit 27B);

   B. Case studies and problems in Czech, for the analysis of corporate cash flow (Exhibit 27C);

   C. An introduction to debt priorities according to the Czech Bankruptcy Act including a break up analysis (Exhibit 27D);

   D. An introduction and examination of industry conditions and analysis (Exhibit 27E);

   E. An explanation of techniques for forecasting corporate cash flow and debt capacity including a case study (Exhibit 27F);

   F. A case study in Czech involving a complete company analysis, using a computerized spread sheet program (Exhibit 27G); and,

   G. A case study in Czech based on an actual loan request presented to CSB involving the proper analysis of collateral and guarantees and including a recommended structure (Exhibit B-5B).

6. For the various groups in CSB interested in providing financing to municipalities, a workshop was conducted that included specifics on how municipalities borrow, how to assess the credit risks and how to underwrite the debt (Exhibit 27H).

B.2.3 Credit Management Skills

Previously, CSB has operated under a very basic credit management process which was sufficient for controlling the types of social loans made in the past. However, there is a need for major improvement as larger and more risky commercial loans are made. KPMG has worked throughout the time frame of this project

with members of the Board of Directors and the senior credit staff to construct a reorganized credit management system that would be appropriate for the type of lending activities and associated levels of risk in which CSB is now engaged. The results and achievements are discussed in the following sections.

B.2.4 Credit Management Systems

In order to administer the credit function of a large bank, the Management Information System (MIS) must be able to give details about the macro-risk levels of the credit portfolio. This includes information on the quality of existing loans as well as changes in risk, and a breakdown of the credit portfolio by factors such as industry, type of facility, currency, maturity, pricing, etc. The current MIS of CSB is based on the consolidation of information contained on individual hand-prepared ledger cards. Virtually no information other than the size of the loan portfolio is available at the senior management level.

During this time period, CSB has been actively involved in the installation of new automated systems Bankwide. In this area, CSB's first priority is to prepare a timely general ledger. In this area, KPMG's main task was deemed to be to help CSB's management to define and explain the types of information needed to manage the credit risk portfolio. For example, KPMG developed a unique numerical risk rating system for CSB. A main problem in developing the risk rating system was how to quantify the value of collateral in reducing the level of risk in a loan made to a specific company. The solution was to combine the borrower rating with a collateral rating to establish an overall risk rating (Deliverable: Design for a Credit Risk Rating System for Loan Assets). Once fully implemented, this system will allow CSB's central management to keep track of macro-risk in the credit portfolio as well as manage the level of risk desired in new loans.

B.2.5 Credit Management Structure

As a result of the diagnostic performed by KPMG, it was decided that the existing credit management structure of CSB was not adequate to meet anticipated challenges. Therefore, a complete reorganization of the credit risk management structure was designed by KPMG and presented to the members of the Board of Directors of CSB (Deliverable: Plan for the Credit Approval Function and Process). The proposed reorganization included the differentiation of retail and wholesale lending activity, the establishment of the Office of the Chief Credit Officer, the establishment of a Credit Policy and Procedures Committee, the establishment of a Senior Loan Committee, a credit approval structure that separates the loan generation function from the approval function and provided for ascending levels of authority based on the loan amount and level of risk, and the establishment of a Problem Loan Department and a Loan Review Department.

The Bank is now in the process of restructuring its organization and it has indicated that it will include many of KPMG's suggestions. For example, a Credit and Capital Committee has been implemented to function as both a Senior Loan Committee and a Policy and Procedures Committee. Rather that go forward with the establishment of a Problem Loan Department, a department to deal solely with customer bankruptcy has been implemented with the assistance of KPMG (Exhibit B-6A). New credit approval authorities are being designed and implemented along the line of KPMG's recommendations (Exhibit B-6B). Finally, KPMG is actively working on the details of the complete restructuring with the Board of Directors, and the Board has indicated that CSB will probably implement the concepts of differentiated retail and wholesale lending, as well as a differentiated credit approval structure (Exhibit 28B).

B.2.6 Credit Policies and Procedures

CSB had in place an intricate set of regulations and procedures, often bureaucratic for approving credits and booking loans. KPMG made some specific comments on proposed approval procedures (Exhibit 28C). These regulations also involve how to treat past due loans, registration of collateral, and the execution of guarantees as well as control procedures. However, after reviewing these regulations, KPMG identified that policies concerning quality issues were missing (Exhibit B-7A). For example, the regulations and procedures did not deal with such topics as the standards of analysis that should be applied in order to justify a credit, how to identify and quantify risk, standardized definitions of risk levels and guidelines on how to evaluate and monitor the value of collateral (Exhibit B-7B).

KPMG has provided details of appropriate credit policies and procedures. As an example, a credit analysis format, along with instructions for its use, was prepared which will form the basis for the analysis of requests for new or extended corporate credit (Deliverable: Standardized Credit Presentation and Analysis Guidelines). This was introduced in the Credit Courses given to the Divisional Credit Officers (Exhibit 28D) and will be introduced at the loan origination level in the continuing education series of courses (Exhibit B-5A). A risk rating system (Deliverable: Design for a Credit Risk Rating System for Loan Assets) has been designed and presented to senior management. It will also be introduced at the working level in the continuing education series of credit courses. This will enable CSB and its subsidiaries to employ the same analytical techniques and methodology and to establish the same level of credit standards throughout the organization.

B.3 Letters of Credit, Trade Finance and Foreign Payments

B.3.1 Overview

Prior to the development of a market economy in the Czech Republic, foreign trade finance and foreign exchange transactions were performed by the Foreign Trade Bank. CSB dealt primarily with retail customers and therefore had no need for, nor experience with, these types of transactions. CSB has realized that many of its current customers and its future customers are, or will be, very active in importing and exporting, and that CSB must be prepared to efficiently service documentary credits of all types, international discounted bills of exchange, notes, advances, guarantees, spot and forward foreign exchange transactions, and euro-currency loans and deposits. In the past, if CSB desired to provide these services to its customers, it was forced to use the correspondent banking services of three domestic banks and two locally domiciled foreign banks. The inability to process these transactions presented a competitive disadvantage and loss of potential income to CSB.

In recognition of the need to offer full-service international banking capabilities, CSB began to build an international staff, which totalled 20 by July 1991. In November 1992, when KPMG provided a resident advisor in CSB's Documentary Credit Department, there were over 90 international personnel, but no letters of credit had been issued directly by the Bank, and only 5 to 10 spot foreign exchange transactions per day were being completed by 4 traders. (For comparative purposes, a comparable size bank -- US$ equivalent of 10 billion in Total Assets -- in an active market, can trade 100 to 125 spot and forward transactions daily.)

Currently, there are 103 persons in five functional areas in the International and Foreign Exchange Division. The Office of the Director has three members. The five areas are the International Trade Department(21), the Assets and Liabilities Department(19), the Clean Payments Department(47), the Foreign Exchange Division(6), and the S.W.I.F.T. (Society for Worldwide International Financial Telecommunications) Department(7).

Following a Plan of Work (Exhibits B-8A,B-8B) agreed to with CSB senior management by KPMG, line supervisors and staff have had consistent access to KPMG expertise and advice.

B.3.2 Documentary Credit Department

The Documentary Credit Department is a unit operating within the International Trade Department, which also includes the Guarantee Department and Correspondent Banking. The main goals in the Documentary Credit Department are to:

1. Advise on the organization of the Department in order to achieve the most efficient and effective processing of letters of credit; and

2. To establish and teach department personnel the specific technical procedures for the issuance, confirmation and negotiation of letters of credit.

KPMG assisted the Bank when CSB issued its first letter of credit in December, 1992, and its subsequent negotiation and payment. To date, 28 letters of credit have been opened directly, several export letters of credit advised and many sets of documents examined. Specific recommendations were made in the following areas:

1. Physical control of documents associated with letters of credit and international collections (Exhibits 29A, B-9A).

2. The design/redesign of documentary credit applications, letter of credit issuance formats and transmittal letters (Exhibit B-9B).

3. Organization of filing systems, customer records and accounting (Deliverable: Evaluation of Foreign Payments System and Related Credit Management Procedures, and Exhibit 29A).

4. Inter-departmental control and reporting; customer requirements and competition (Exhibit 29C).

During November/December, 1992, daily classes were conducted on procedures for issuing commercial letters of credit, and documentary examination of import letters of credit (Exhibits 29B, 29C, 29D). This training was continued in 1993, but in a more relevant situation with real documents and customers (Exhibits B-9C, B-9D, B-9E). Members of the Department, with advice and counsel from KPMG, have worked through typical reimbursement problems, documentary discrepancies and collection problems. In addition, negotiation of export credits has been implemented, back-to-back and transferable credits discussed, and various complicated import credits structured, including a documentary payment order for the importation of breeder cattle.

In addition, KPMG has provided advice in the preparation of the Bank's written Operating Procedures for international documentary collections currently being prepared for senior management approval and revisions to CSB Operating Procedure No. 155 for letters of credit. (Deliverable: Procedures Manual for Managing Foreign Payments)

B.3.3 Guarantee Department

The Guarantee Department is also a part of the International Trade Department. It is primarily concerned with issuing all guarantees on behalf of the Bank, coordinating a' forfait transactions, and approving all guarantees received in favor of the Bank in foreign currencies, whether or not such guarantees are issued from domestic or foreign entities.

KPMG reviewed operating procedures, including policies related to credit approvals, and provided several recommendations in accounting and control (Deliverable: Procedures Manual for Managing Foreign Payments and Exhibit B-10A). An analysis (Exhibit B-10B) of risk and the cost/benefit of a' forfait transactions has been presented to the Bank and KPMG has provided technical assistance during the decision making phase of two such transactions that the Bank has chosen to enter. (KPMG noted that there were more attractive, less risky investment alternatives, but that the Bank had to make its own decisions in these matters.)

The availability of KPMG has allowed members of the Guarantee Department to seek specific advice on the wording of certain guarantees being structured in English, and to seek advice on the impact of phraseology in guarantees to the benefit of the Bank. Coordination between the domestic funding side of the Bank, the Foreign Exchange Division and the Guarantee Department has been encouraged in these discussions by KPMG.

Benefit in these discussions and in structuring guarantees can be measured in the following manner:

1. Ambiguities in verbiage have been eliminated and thereby prevented disadvantages for, and potential loss to, the Bank;

2. The Bank has become fully aware of the commitment it is undertaking or the worth of the guarantee it is accepting. As a result of such discussions, some guarantees have been rejected, others rewritten;

3. Certain mathematical and banking concepts such as, present valuation, discount to yield, floating and fixed rates, interest and foreign exchange risk have been taught and applied; and

4. Concepts of alternative funding costs, gross and net income, and net interest margin have been discussed. "Net Profit" after the impact of administrative costs associated with each transaction has been discussed and understood.

B.3.4 Assets and Liabilities Department

The Assets and Liabilities Department is responsible for a number of accounting, control and reporting functions for the International and Foreign Exchange Division. Among these are:

1. "Back Office" support for the trading activities of the Foreign Exchange Division. This accounting includes spot and forward foreign exchange transactions and euro-currency placings and takings;

2. External reporting to the National Bank for the whole of CSB; and

3. Nostro accounting and miscellaneous support activity for accounting for loans and discounts and other non-routine matters.

KPMG has made a number of extremely important recommendations for systems and control procedures in the Assets and Liabilities Department. (Deliverables: Evaluation of Foreign Payments System and Related Credit Management Procedures; Procedures Manual for Managing Foreign Payments; Development and Implementation of Foreign Payment Management System Plan and Exhibits B-11A, B-11B, B-11C). Among these are:

1. Establishment of a Nostro account subsidiary ledger accounting system;

2. Key operational changes in the reconcilement procedure; and

3. Establishment of a foreign exchange accounting system for both spot and forward foreign exchange transactions.

The benefit accruing to the Bank by following these recommendations is substantial. Expected benefits will include reduction in penalties that CSB now pays other banks due to operational errors, better control of cash and more efficient management of foreign exchange positions.

B.3.5 Clean Payments Department

The Clean Payments Department is responsible for all cross-border incoming and outgoing payments of CSB. It is also responsible for processing all clean collections, such as travellers checks, credit card vouchers, foreign checks and Eurocheques. Systems and procedures in this Department provide a critical interface between branch accounts and the General Ledger for CSB.

The installation of the new system for branch accounting will impact this area more than any of the other Departments in the International and Foreign Exchange Division. This installation begins on June 1, and will require close monitoring. Recommendations made by KPMG in the areas of Nostro accounting (Deliverables: Procedures Manual for Managing Foreign Payments, Development and Implementation of Foreign Payment Management System Plan and Exhibits B-11B, B-12) will be affected in the timing and implementation by the system. It is also anticipated that the implementation of cash management for bank notes and cash items in process of collection will be affected by the new system.

Personnel of the Department and Management understand and are aware of the value of KPMG's recommended changes, but must wait for the implementation of the new system to determine how to best implement these changes, which include:

1. Revision of the Nostro reconciliation procedure (Exhibits B-11A, B-12);

2. Establishing/revising payments deadlines and increasing the turnover, timeliness and processing efficiency of cross-border payment transactions. (Deliverable: Procedures Manual for Managing Foreign Payments); and

3. Evaluating the efficiency of the branch/general ledger accounting interface and outside vendor providing this service (Exhibits B-11A, B-12)

The most important benefit of these changes will be an enhanced competitive position for CSB through better customer service. Just as importantly, the changes will give the Bank better control over potential operational errors and internal or external fraud in the payment system.

B.3.6 The Foreign Exchange Division

The Foreign Exchange Division is responsible for the purchase and sale of foreign currency for the Bank in the spot and forward markets. The division establishes Bank exchange rates for foreign bank notes and foreign currency cash items. The Division is also responsible for eurocurrency deposits placed and received.

Policies and procedures of the Foreign Exchange Division were reviewed by KPMG. Recommendations in this area include:

1. Establishing credit lines for bank and corporate customers. (Deliverable: Evaluation of Foreign Payments System and Related Credit Management Procedures and Exhibit B-13).

2. Establishing appropriate integration with the Czech crown based domestic treasury function. (Deliverable: Development and Implementation of Foreign Payment Management System Plan)

3. Establishing appropriate profit taking accounting. (Deliverable: Development and Implementation of Foreign Payment Management System Plan)

The benefits associated with these recommendations will be:

1. Accounting control over the Foreign Exchange Division and proper recognition of profit or loss due to trading operations;

2. Competitive customer service; and

3. Integration of the domestic and foreign resources of CSB.

B.3.7 S.W.I.F.T. Department

After a six month's delay, due to non-performance of the initial hardware vendor, the S.W.I.F.T. System became operational on March 1, 1993 after a new hardware vendor was engaged. Since then payments and documentary credit capabilities have been implemented. Nostro statements are being received and foreign exchange messages utilized.

Indirectly, in the process of working through some payments problems, KPMG has advised the Assets and Liabilities Department on the responsibilities of S.W.I.F.T., the Bank as user/shareholder and the customer.

B.4. Financial Management

B.4.1 Overview

The necessity for implementation of appropriate internal financial management systems for the Czech Savings Bank must be viewed as a function of the economic transition in the Czech economy. Prior to 1990, stability was maintained through the systematic use of government mandated economic plans. At the level of the individual firm, adherence to these plans was of primary importance with little attention paid to profit maximization or risk. A number of these externally imposed factors affected behavior within the Czech Savings Bank to include:

1. The real cost of money was held constant by government subsidization, causing interest rates to remain constant. As a result, interest rate risk did not exist for the Bank and appropriate systems and controls were never necessary;

2. The lack of any capital adequacy guidelines directly affected the approach of Bank management to the management of capital. The government was the primary shareholder, it would simply inject additional funds as needed; and

3. The Bank never had to adhere to any specific liquidity ratios. There was no competition for deposits and the stability of the system assured no risk of a run on the Bank.

These historical factors have not yet been totally erased from the ideology of the Czech Savings Bank. While KPMG continually stresses profit maximization and risk quantification, management is only just beginning to comprehend and use these concepts in formulating their decisions. Greater competition and accountability coupled with proper training will drive this process much further than it now stands.

In addition to the needed changes to the basic philosophical approaches to business practices the Bank must continue to improve its overall infrastructure as CSB continues to operate in an environment with outmoded equipment and operational weaknesses.

By far the most important infrastructure deficiency is the lack of both mainframe and microcomputer based standard bank data processing systems. Currently, customer deposit and loan accounting are, for the most part, processed manually. The Bank is in the process of converting to an automated system, but completion of the project is not expected until 1995. Further, the first systems scheduled to be implemented are general ledger and customer accounting modules. Financial management systems have the lowest priority, and are not expected to be functional until late 1995, at the earliest. Over the last year, KPMG has consistently tried to transfer to Bank management the knowledge they will need to design and use these systems.

Areas of the Bank are still structured for a non market economy. Although many changes have been made, executive management plans to continue substantive reorganization, in order to realign management along functional and product lines and to help the Bank react more quickly to its changing environment. KPMG is highly involved in the reorganization, but the project is still in the planning stage and is scheduled to be implemented between 1993 - 1995.

Having established working relationships with both executive and senior management, KPMG's input has been solicited and integrated into all of the projects discussed above.

B.4.2 Financial Reporting

B.4.2.1 Accounting and Control

CSB's current accounting system, which was developed years ago, was primarily established to account for assets and liabilities rather than to measure profitability. KPMG has developed and produced seminars for the Bank, detailing the differences between the old Czech accounting standards versus those in the West. The 1993 change to a Western-style chart of accounts and the recently completed 1992 audit have further reinforced the lessons of these seminars.

Before privatization, profit, capital, risk and efficiency were not highly emphasized in the Czech Republic. Consequently

Western-style financial reporting in CSB was virtually non-existent. There is no centralized financial reporting function. Management receives few detailed financial management reports emphasizing functional profitability or the risk/reward relationship. Most of the controllable non-interest expense items remain consolidated in the income statement. KPMG has recommended that the Bank create the position of Controller, along with a centralized accounting and financial reporting function. The Bank has indicated it will integrate these recommendations in the second half of 1993.

B.4.2.2 Financial Board Reports

KPMG has created and provided to the Bank a representative set of microcomputer based Board Reports (Exhibit 30A), which depict balance sheet, income statement and various ratio data (both actual and budget) in a typical Western format. These reports focus management attention on financial analysis and have emphasized the Bank's need to create a centralized data gathering and reporting function (Accounting and Control) as recommended by KPMG. KPMG continues to refine the reports, as it trains Bank management, so that both will be ready when the Management Accounting Department is formed which will be responsible for Bankwide data gathering, collection and dissemination.

B.4.3 Asset/Liability Management

B.4.3.1 Asset/Liability Management Committee ("ALCO")

As described previously, before privatization the Bank had little reason to actively manage its profit, liquidity, interest rate risk or capital. Therefore no structure for doing so existed. Through KPMG's efforts, the Bank has created an asset/liability management department within the Economics Division. Likewise, following KPMG's advice to the Bank of the necessity of creating an Asset/Liability Management Committee, consisting of all major department heads (Finance, Lending, Investments, Deposits, etc.), the Bank is formulating such a committee for the purpose of managing these risks. KPMG is in the process of educating these departments as to the existence of these risks, and methods of analyzing and managing them.

KPMG has worked very closely with the Economics Division to develop the reports and skills necessary for them to provide relevant information and recommendations regarding liquidity, capital and interest rate risk management to the ALCO.

B.4.3.2 Interbank Placements Income Simulation Model

The Czech Savings Bank, as the leading financial institution in the country, is the largest participant for interbank placements in the Czech Republic. An interbank placement is a

deposit with another bank for terms ranging from one week to four years. Many of the largest banking institutions in the Czech Republic rely on the Bank for this type of funding and it is vital for the financial system as a whole that the Bank use its excess deposits for the purposes of lending to the market in an efficient manner. Interbank placements constituted 70% and 62% of all the Bank's assets on December 31, 1991 and December 31, 1992 respectively. Since day-to-day balance sheet reporting does not exist at the Bank, it needed to make more accurate balance sheet projections and extensively track maturing placements. KPMG therefore developed a microcomputer program (Exhibit 30B) which simulates income streams of the interbank portfolio.

The interbank placements income simulation takes data input by the user and provides a twelve month interest income simulation for the interbank placements. Upon execution of the program the computed data is organized into easily modifiable formats. The model is designed to:

1. Help the Bank evaluate interbank placements strategies, liquidity, interest rate risk;

2. Assist in the calculation of payments; and

3. Provide data for financial planning.

Along with projections based on the actual portfolio, the model also produces projections of various scenarios based on a number of assumptions, such as maturity changes, balance changes and interest rate changes.

KPMG provided documentation of the model to the Bank (Deliverable: Interbank Deposit Model and Documentation)

B.4.3.3 Liquidity Report

On a quarterly basis the Bank prepares a "Liquidity Report" (Exhibit 30C) for the National Bank. This report spreads the Bank's assets and liabilities across a series of time intervals, according to the maturities of the respective balances. Because of the Bank's lack of an automated database, it does not have the ability to spread loan and deposit balances in any way other than on a statistically estimated basis. Given that these calculations were performed manually, the report preparation took approximately 3-4 management work days. Consequently, management concentrated on production of the report, rather than analysis of the data within the report.

KPMG has created for the Bank an electronic model version of the Liquidity Report. This program significantly reduces the time spent to produce the report. Its main purpose is to focus management attention on liquidity analysis and management issues while work continues on improving the data collection process. Discussion of assumptions used and the purposes of the report leads to further thought and questions by CSB management of more

general ALM questions, such as interest rate risk, which serves not only to educate management on these topics, but also to help them prepare their data requirements for the new MIS.

KPMG prepared a procedures and training manual for the Liquidity Report (Deliverable: Automated National Bank Liquidity Report and Documentation), as well as providing extensive training in its use. KPMG has also had extensive discussions with personnel in the newly created Liquidity department regarding the evolution of this report into a standard GAP model and for its use in interest rate risk management.

B.4.3.4 Net Interest Income Projector

KPMG also developed a Net Interest Income Projector program (Exhibit 30D). This program uses imported data from the aforementioned Liquidity Report, along with certain assumptions input by the user, to project net interest income for a time period chosen by the user. Again, given the poor quality of the original raw data used to produce the Liquidity Report, the main benefits of this program are educational and developmental in nature.

B.4.3.5 Analysis of Social Loans

The Bank's portfolio of social loans comprises 82.4% and 69.5% of all loans to individuals as of year end 1991 and 1992. These are thirty year socially-oriented loans meant to encourage marriage and increase population in the Czech Republic, on which the Bank is reimbursed interest at the discount rate (which is much lower than a market rate) by the National Bank. KPMG analyzed the future demand for these loans, based on demographic trends (Exhibit 30E), which showed that they would, in the near future (assuming the continuation of current trends), severely hamper the Bank's ability to lend to emerging entrepreneurs and enterprises. The Bank has since decided to eliminate the making of new social loans.

KPMG also conducted a seminar for the Bank on the possible securitization of these loans (Exhibit 30F). Additionally, KPMG prepared written arguments for the National Bank to support securitization. The main purpose is to give specific ways that CSB can manage the size and type of its assets.

KPMG also provided the Bank with methods to analyze the current value of these loans (Exhibit B-14) to use in negotiations with the National Bank.

B.4.3.6 Risk-Based Capital

The Bank is under pressure to conform to BIS capital adequacy guidelines as well as to abide by new directives issued by the National Bank, whereby risk-adjusted capital cannot

decrease for any successive quarter until minimum levels are met. The Financial Board of Directors Reports for management of assets/liabilities and liquidity described above contain various risk-based capital ratios, which has led to much discussion with Bank management concerning risk-based capital and its implications. KPMG also conducted a seminar for the Board of Directors to educate them both on the risk-based capital rules and on managing capital effectively (Exhibit 30F).

B.4.4 Strategic and Financial Planning

Based on KPMG's work in 1992, the Bank, in December of 1992, requested that KPMG become involved in its strategic and financial planning process. Given the dynamic nature of the Czech economy in the near future and the reorganization of the management structure of the Bank, this is a process that will be important to the Bank's survival.

Currently, all major areas of the Bank submit their individual strategic plans, which are combined into one document. Very little cross-checking is done to ensure viability and consistency. The annual financial plan has heretofore been created manually, in very little detail, at headquarters. Although certain individual operating units of the Bank have also submitted financial plans, they did not use consistent formats, and the Bank did not consolidate them into the over-all plan. Again, cross-checking for viability and consistency was not performed, and management is not accountable for results.

KPMG helped the Bank prepare its 1993 Budget (not included here for reasons of confidentiality) and prepared an analysis of the budget and summary of improvements which should be made to the budgeting process (Deliverable: Development of CSB's Automated 1993 Budget and Financial Reports).

KPMG has discussed the 1993-1995 strategic plan with the Board of Directors, particularly in regards to the proposed reorganization and capital plan (specific recommendations cannot be disclosed here for reasons of confidentiality). KPMG and the Bank have modified the automated Financial Board Reports (Exhibit 30A) to be used as a financial planning model for the Bank as it, prepares the 1994 financial plan.

B.4.5 Corporate Reorganization

In addition to the lack of automated systems, a major impediment to the implementation of functional financial management systems at the Bank has been its overall corporate structure. Profit, capital and risk management reporting are nearly impossible when responsibility for these functions is either non-existent or spread through many divisions and departments throughout a company. KPMG has, therefore, spent considerable effort to convince executive management of the Bank to fundamentally change the corporate structure of the Bank.

These efforts have included regular meetings with the Bank's Organization department, several presentations to leading members of the Board of Directors and discussions and presentations within specific departments of the Bank, particularly within the financial, treasury, and credit functions.

KPMG's approach to the proposed reorganization has been to align major divisions of the Bank along the lines of products, customers and risks, with particular emphases on professionalism and accountability (Exhibits B-15A, B-15B and B-15C). Bank management has informed KPMG that it plans to implement substantially all of KPMG's plan, beginning in the third quarter of 1993.

B.5 Locations and Individuals Involved

This technical assistance program was performed primarily on-site at the Czech Savings Bank in Prague. Support was provided by the local office of KPMG, as well as by KPMG Peat Marwick's Policy Economics Group, which is based in Washington, D.C. At times throughout the project, advisors accompanied bank officials to branch offices throughout the Czech Republic to collect information, review operations, or to present proposals and recommendations to bank staff from regional or district offices. The project team also arranged a visit to the United States for a member of the Board of Directors of the Czech Savings Bank whose primary responsibility was the establishment and operation of the Bank's investment fund and coordinating its relationship with the Prague Stock Exchange and other banks. This trip included meetings with officials from the New York Stock Exchange, the National Association of Securities Dealers, Securities firms, and financial institutions in New York, Boston and Washington, D.C.

The personnel who worked on this project included: Mr. Carlton Haswell, senior banking advisor and project manager; Mr. Joseph Drake, senior bank operations advisor; Mr. Fred Zamon, senior international payments advisor; Mr. Michael Harlan, senior treasury advisor; Mr. Steven Graybill, senior credit advisor; consultants Mr. Michael Felix, Ms. Melanie Hrybowych, Ms. Patricia Messina, Ms. Deborah Smith, and Mr. Vladimir Dvorcek. Management and administrative support was provided under the direction of Mr. Ran Farmer, Country Director for the Policy Economics Group in the Czech and Slovak Republics, and also by Mr. Lior Samuelson, Mr. Roger Leeds, and Mr. Clifford Lewis, who are partners in the Washington, D.C. office of the Policy Economics Group of KPMG Peat Marwick.

C. Methods of Work Used

C.1 KPMG'S Approach

KPMG established a team of banking specialists to provide technical assistance and advice to the Czech Savings Bank. These advisors include senior banking professionals with broad experience in all of the mission areas described above. The focus of this project was to work directly with senior management of the Bank acting as advisors on a day-to-day basis as well as providing specific technical assistance on development, training and implementation activities.

Before giving advice to the Bank, KPMG made a full assessment of the business environment in the Czech Republic and CSB. This included:

1. Conducting numerous interviews with all levels of management and staff of CSB;

2. Gathering and studying all types of information from procedures to details of loans and investments;

3. Learning the technical details of doing business in the Czech Republic, including learning the policies and procedures of Czech accounting;

4. Calling on government officials in all of the Ministries that affect banking and privatization;

5. Meeting with the Prague Stock Exchange officials and assessing the status of the capital markets;

6. Traveling to many of CSB' branches to understand the quality of the staff and learn the issues that they perceived face the newly or about to be privatized firms;

7. Translating and studying major documents such as the proposals of the Investment Company Act, Stock Exchange Regulations, Banking Act Regulations, Investment Fund Prospectuses;and

8. Training a core team of KPMG Czech staff on Western financial concepts and terms to act as translators and analysts.

After an introductory fact finding period, an Initial Project Plan (Exhibit 1) was prepared and reviewed with the Management of CSB. The basis for this plan was summarized in the KPMG diagnostic report (Exhibit B-16). The Project Plan was reassessed with CSB periodically and modified based on agreement with CSB and KPMG. This process ensured that both parties understood the work assignment and the priority of each project.

A Progress Report was prepared twice each month. This was reviewed with senior management of the Bank. This report provided a quick feed back about project status, issues and results.

By having Professionals on site, KPMG has been able to give timely day-to-day advice on all types of issues. Our meetings ranged from formal presentations to the Board of Directors to meetings with staff members of the Letter of Credit Department to discuss the meaning of certain documentary phrases. This daily contact at all levels has been a critical element in the success of the project to date.

On many occasions KPMG accompanied CSB Management, to meet Government or Central Bank officials to jointly give opinions on proposed regulations. As many of these officials had no experience with capital markets, it was important that advice be given so that new regulations would allow the markets to function effectively and at the same time provide necessary controls needed in a market driven economy.

Often, CSB management would ask KPMG for general advice on daily operational and financial management issues. One example was a request for advice on what a Western type audit would entail. KPMG addressed a special session of the Board of Directors on this topic (Exhibit 2).

One of the most effective vehicles for conveying information was by conducting workshops. A large number of seminars and workshops were conducted continuously throughout the project covering a very broad range of topics related to banking and capital markets. Topics for the workshops were recommended either by CSB or KPMG and are listed in the Training section of this report.

As in all bank development projects underway throughout Central and Eastern Europe, basic communication between bank staff and Western advisors is a major factor. The striking differences between banking as practiced under a centrally planned economy and a market driven economy have led to problems with language translation. Many of the financial and investment terms have no direct translation into Czech, and bank staff are not schooled in Western banking. Therefore KPMG had to begin by teaching concepts, defining terms or even creating the new terminology in the Czech language. The outputs of the project represent a significant contribution to the transfer of Western banking terminology and skills.

D. Training

D.1 Overview

KPMG provided a combination of both detailed and general training to the staff of the Czech Savings Bank. Training sessions were both formal and informal; many times provided by KPMG on very short notice by the Bank of an interest in a specific topic. In total, KPMG provided training to approximately 300 individuals Bankwide during the project in investment funds management, credit risk management, trade finance, and financial management.

Formal sessions were by the means of KPMG conducting numerous workshops, roundtables and seminars including a weekly 2 hour session on corporate finance to 25 individuals. The formal sessions included:

1. Municipal Bond Finance
   April, 1992
   Attendees: 22

   Seminar given at the request of CSB Board member to review all aspects of municipal bond finance. Attendees were senior level management from the CSB municipal finance area and the Investment Division (Exhibit 27H).

2. US Securities Market/Debt Instruments
   April, 1992
   Attendees: 8

   This was an introduction to the U.S. Government Securities Market. One major focus was on the bidding techniques used for Treasury Bills.

3. Banks and the New Stock Market
   May, 1992
   Attendees: 20

   Seminar given by KPMG to define the different institutions involved in securities transactions and monetary clearings compared to bank transactions. Intent also to assist CSB management in deciding whether they wished to become a servicing agent to other investment companies (Exhibit 19).

4. Custody Seminar
   June, 1992
   Attendees: 20

   Seminar conducted to explain the various functions

of the custodian for mutual funds (Exhibit 17).

5. Portfolio Accounting
August, 1992
Attendees: 6

Instruction given to staff members responsible for the portfolio accounting for the investment funds (Exhibit 15).

6. Portfolio Accounting
February, 1993
Attendees: 6
Duration: 7 days

7-day seminar to 3 members of the investment subsidiaries and 3 members from the custody department of CSB more intensive training in portfolio accounting (Deliverable: Portfolio Accounting Training and Handbook).

7. Corporate Governance
August, 1992
Attendees: 6

Three roundtable discussions given to the Director of the Investment Subsidiary (SIS) and members of the analytical team regarding issues associated with the Bank's intent to participate in the management of companies the mutual funds are invested (Exhibit 12A, 12B).

8. Liquidity Management
August, 1992
Attendees: 3

Seminar given to explain the techniques utilized in the management of open end funds compared to closed end (Exhibit 9).

9. Portfolio Management
August, 1992
Attendees: 3

Focus of seminar was on equity management techniques for the privatization and open end growth funds (Exhibit 10).

10. Operational Seminars
October/November, 1992
Attendees: 8
Duration: 36 hours

A series of 12 seminars to review and discuss the CSB securities systems and processing needs. KPMG prepared documents utilized as basis of discussion. (Exhibits 4, 21B).

11. Money Market Roundtable
November, 1992
Attendees: 18

Presentation given at Board Member request to discuss the technical and operational needs for operating a US type money market fund. Also discussed was possible financial disintermediation within CSB as a result of offering a money market product (Exhibit 14).

12. Capital Markets Interface Operations
December, 1992
Attendees: 25

Presentation intended to explain the intended workflow of securities trades in the Czech Republic (Exhibit B-17).

13. Credit Risk and the effect on bond values.
April 1993
Attendees: 30

Many aspects of how the market place puts a value on credit risk and how this risk translates into movements in bond prices were considered.

14. Portfolio Philosophy
April 1993
Attendees: 27
Duration: 6.5 hours (This was a two session roundtable)

During these sessions many types of technical and value investing were reviewed. Goal setting was stressed. Ways on how to match portfolio investments against these goals were presented (Exhibit 10).

15. Regional Credit Officer Presentation
May, 1992
Attendees: 20

Seminar given to highlight and summarize new tax law changes, cash flow analysis, leverage and risk.

16. Risk Management
June, 1992
Attendees: 18

Seminar focused on how changes in the risk of the assets the Bank owns influence the value of those assets. The object was to get the Bank to consider risk when selecting assets (Exhibit 26A).

17. Credit Training
September/October, 1992
Attendees: 100 plus
Duration: 3 days

A series of three seminars lasting three full days each to the CSB District Credit Officers on all aspects of loan and credit analysis (Exhibit 28B).

18. Czech and Western Accounting
February 1993
Attendees: 25
Duration: 6 hours (This was a two session roundtable)

This Roundtable looked at the differences between the two types of accounting. Specific areas covered Inventory accounting, contract accounting, deferred taxes and consolidation accounting (Exhibit 27A).

19. Cash Flow Analysis
February 1993
Attendees: 26

This session dealt with the analysis of cash flow and how to prepare a source and applications table (Exhibit 27C).

20. Ratio Analysis and the Use of Footnotes

March 1993
Attendees: 24

Different types of ratio analysis were reviewed. The pros and cons of ratio analysis were also

discussed. Sample ratio formulas were given to the participants.

21. Industry Analysis
March 1993
Attendees: 26

Various techniques of industry analysis were introduced. A method was introduced to define the major risk areas in an industry. Four industries were reviewed in detail (Exhibit 27E).

22. Loan Securitization
July, 1992
Attendees: 10

Presentation given to board level to provide options for the Bank's financial management.

23. Risk Based Capital
November, 1992
Attendees: 12

Presentation given to the CSB Board of Directors at their request to discuss risk based capital and other issues related to the management of Bank assets (Exhibit 28B).

24. Issues in the Audit Process
November, 1992
Attendees: 15

Presentation to the CSB Board of Directors and selected senior staff. The purpose was to review what takes place during a Western style audit of a bank (Exhibit 2).

25. What is a Bank and How Does It Deal with Income and Risk?
May, 1993
Attendees: 21

Case studies were reviewed as to why banks fail during two sessions of the seminar.. The conflict between safety for depositors and the need to earn a high return to the shareholder was evaluated (Exhibits B-18A, B-18B).

26. How Does a Bank Set It's Dividend Policy?
March 1993
Attendees: 2

The companies in the Czech Republic will have to make decisions on how to structure a dividend policy. For banks, it is very hard to set a dividend policy as they also have to worry about the required amounts of capital to meet regulatory requirements and to support new business. All of these aspects were discussed and illustrations given (Exhibit B-19).

27. Major Concepts to Remember in Bond Investments
May 1993
Attendees: 25

This was a reflective session that combined the major principals taught in prior sessions. The main emphasis was to add perspective in investment recommendations (Exhibit B-20).

28. The analysis of consolidated financial statements
February 1993
Attendees: 27

Under the new accounting regulations introduced in the Czech Republic in 1993, companies with a 20%+ ownership of another company will have to prepare consolidated financial statements. Techniques used in the analysis of consolidated statements were presented (Exhibit B-21).

29. Management of a Public Company
March 1993
Attendees: 23

Various issues that will confront the management of a public company were addressed. Among the items covered was the compensation of management and how an annual meeting is conducted (Exhibit B-22).

30. Real Estate as Collateral
May 1993
Attendees: 31

The factors used in valuing collateral were presented. Emphasis was placed on factors and assumptions used in the valuing real estate. A basic model format was presented for the valuation of real estate (Exhibit B-23).

31. The Use of Ratios in Credit Analysis
January 1993
Attendees: 23

The main focus was the proper use of ratios in credit analysis. First the basic types of ratio analysis was presented. After this, the main emphasis was placed on developing necessary ratios to aid in the analysis of a specific point. The limitations of ratios in analysis was discussed at length (Exhibit B-24).

32. Analysis of the Structure of a Loan
May 1993
Attendees: 31
Duration: 5 hours (three sessions and case study)

The main purposes of this case study was to have the analysts understand the analysis of the structure of an investment. This analysis must then be used in the review of the loan transaction (Exhibit B-5B).

E. Future Direction

E.1 Overview

Although there have been many significant joint accomplishments by CSB and KPMG in 1992 and 1993, there remains much work for the Bank in the future. Many work plans, procedures and ideas that were developed must now be successfully implemented. New answers and solutions to earlier questions and problems created many new issues that must be addressed. In addition, CSB will face many unforeseen situations as the capital markets trading volumes and commercial banking activities, both domestic and international, increase in 1993.

The plans of CSB to increase its underwriting activities will have to be managed very closely. In order to finance needed improvements to their operations, many Czech companies will have to issue public bonds and/or new common stock and will seek CSB's assistance in the underwriting of these issues. Municipalities will have similar needs for financing public projects. Underwriting can be very profitable, but also carries some high risks for CSB. Basic CSB needs in this area will include help in analyzing corporations and municipalities considering issuing new debt or equity, and once approved, how to best structure the new issue. This will be particularly difficult for the analysis of some complex and specialized municipal projects such as airports and utilities. Additionally, CSB must develop a strong capacity to sell the issues that have been underwritten by the Bank. This will require developing a first class sales force for both retail and professional investors.

To date, the investment strategy of the voucher privatization fund has been in bidding points for shares. Once the market starts to actively trade shares, the fund managers will have to constantly review the investments in the portfolio to see that they are still valid given that conditions in the market will change over time. CSB will need assistance in defining investment strategies for all of the funds, how to achieve proper diversification and the proper risk/reward balance. Numerous decisions will have to be made on individual security holdings and potential new purchases. More than 1500 companies will have to be followed continuously. Each will have to be rated a buy, hold or sell. These recommendations will change based on the price of shares from time to time. Analytical techniques and analysts will have to be further developed to make these assessments. In addition, officers of the Bank will be sitting on the Supervisory Boards of over 300 companies. They will have to make some very significant decisions about finance, management and operations -- areas in which most of them still need much further training as they enter the second wave of mass privatization.

While good progress has been made in developing various systems, many areas will need to be modified or changed to fit the requirements of the new market place. It is critical for the Bank's systems to be operational when the rapidly approaching period of large volumes securities trading on the capital markets is reached to avoid major failures and the loss of market share. Links with various trading/brokerage systems yet defined will have to be developed. Shareholder record keeping systems will have to be enhanced as the market place demands further new products which will have unique system needs. In addition, the development of CSB as a provider of custodian and other financial services to voucher and open end mutual funds will require specific systems and operations implementation.

Over the next several years the need for credit from CSB will be extremely high from current clients and new companies. Many of these borrowers will be short of capital and will have high credit risk. Lending skills have to be developed to prudently analyze and lend to these companies. Overall credit policies and procedures will require constant review and updating. Direct advice will be required for the implementation of:

1. A Chief Credit Policy Officer;
2. A Credit Policy Committee;
3 A Risk Rating System;
4. A Loan Review Group;
5. A Problem Loan Management Group;
6. Management techniques for the loan loss reserve;
7. Industry analysis;
8. Credit risk management reporting; and
9. Analysis and management of concentration risks.

The Bank is entering many new financial areas that need to be managed. For example, interest rates will be changing,

more capital will be needed, and returns on risk will have to be measured in the very near future. The Bank financial management requires further advice in the areas of:

1. Establishment of an active Asset/Liability Committee;
2. Developing necessary management reporting;
3. The use of the Bank Simulation Model;
4. Management of liquidity;
5. Scarce resource allocation;
6. Capital returns by function;
7. Strategic and annual planning;
8. Interbank investing; and
9. Alternative investments.

A strong foundation has been laid by KPMG through the USAID Technical Assistance Program in the past year. Ongoing support will be needed to fully integrate these achievements into the curlture and operations of the Bank. Continuing effort will be needed in all areas of financial management and securities activities not only to educate Bank management in what systems are needed, but also how to use those systems, to ensure the viability of the Bank.

E.2 Investment Funds Management

During 1993, CSB plans will focus on the following priorities in regard to developing the financial and technical talents in its investment funds' management:

1. To continue with efforts in designing and implementing the necessary hardware and software systems, accounting and recordkeeping procedures, and portfolio management techniques necessary to support its investment management responsibilities.

2. To continue and expand training activities related to the specialized requirements of the investment division staff in order to increase their preparation for managing the fund's operations. This must include the hiring of 30 - 50 more analysts in the portfolio staffs.

3. To develop special emphasis and training programs for capital markets staff to increase their underwriting and investment banking activities. This will become vital to the entire nation as the capital markets increase in activity and new investment offerings are made available.

4. Work increasingly closer with the technical staffs of the Stock Exchange, OTC markets and the Center for Securities to develop the proper short and long term systems and controls for the successful operation of trading activities.

E.3 Credit Management

The credit risk management process of CSB continues to have significant weaknesses and will require considerable advice and technical assistance in order to implement a modern credit management process. As evidence of the Board of Directors understanding of the depth of the problems and the time required to achieve corrective results, CSB has retained KPMG as an advisor under a short-term contract for the following:

1. Continuing test-implementation of the Standardized Credit Presentation and Analysis Guideline;

2. Continuing test-implementation of the Credit Risk Rating System for Loan Assets;

3. The design and test implementation of a standardized methodology for analyzing projections and forecasts in support of corporate credit requests;

4. Technical assistance in the initial establishment of a Bankruptcy Department; and

5. The implementation of the second and third level of the continuing education series of credit courses designed under the USAID contract.

While the above will be beneficial to CSB, additional work needs to be done in the following crucial areas:

1. Technical assistance in guiding the various stages of implementation of the restructuring of the credit approval function, including policy and procedures.

2. Technical assistance in developing the analytical skills necessary to apply modern credit analysis principals, particularly as it relates to sensitivity analysis and the testing of assumptions (i.e., the development of an analytical culture within CSB).

3. Technical assistance through the use of an on-site advisor in providing day-to-day guidance in the analysis of corporate credit requests.

4. Technical assistance in developing both a systems capability and the necessary management skills to manage the macro-risk profile of CSB's credit portfolio.

E.4 Foreign Payments

While KPMG's work in the International and Foreign Exchange Division has also accomplished much, here too there

remains a great deal more to accomplish (Exhibit B-25). Recommendations made will require substantial Bank personnel and financial resources. Senior Management will have to be involved. The Correspondent Bank Unit in the International Trade department will have to be involved.

1. Implementation of the new retail banking and general ledger accounting system will impact every area of international activity in ways that cannot yet be determined. Opinion is that the system will have to add modules in order to perform accounting and control functions recommended by KPMG and critical to foreign payments system of the Bank. As a result, there will have to be recommendations on the addition of system's modules or analysis, review and recommendations of additional systems that may be sourced from the vendor. Either situation will require interfaces that will affect accounting and controls currently in place.

2. Substantial investment has been made in fixed assets and a new on-line active trading system for the Foreign Exchange Division. While this department did not develop as quickly as CSB had originally planned, it is now facing a potentially very steep upward slope in trading volume, but with a weak "Back Office". A relatively large trading staff has been hired. This must now be supported by a capable "Back Office" accounting and foreign exchange control system. Appropriate manual accounting and control procedures must be implemented if trading of any significant volume is to be done safely. Simultaneously, the back office hardware and software requirements must be evaluated, recommendations made and implemented. With over 130,000 reported foreign currency accounts in eight different convertible currencies from CSB customers, it is not possible for the Bank to avoid this issue, or the potential for trading income.

3. Subsidiary ledger accounting and control in the Documentary Credit, Guarantee, Assets and Liabilities Departments and in the Foreign Exchange Division must be implemented for the Bank and for customers of the Bank. Manual and computerized solutions to this problem is critical.

4. The interface of all the above systems must be made for reporting to the Czech National Bank.

5. Another critical computer and accounting interface that must be considered is that with the Branches and Headquarters. This arises from the fact that no demand deposit accounts are in Head Office.

6. Additional internal training sessions in Documentary Credits has been requested by the Bank, with particular emphasis on including Branch personnel. These should be developed immediately for presentation in the Fall of 1993, after the Unisys implementation has had a chance to settle down.

These are some of the immediately identifiable needs of the Bank in the International and Foreign Exchange Division. One more area needs to be addressed. That is the area of management training at a first line/middle management level.

To the greatest extent possible, concepts of authority, responsibility and accountability have been incorporated into the Development and Implementation of Foreign Payment Management System Plan. Focus must be given on the variety of policy and procedural changes required on the one hand, and the need for inter- and intra-departmental cooperation and communication required for implementation on the other.

E.5 Financial Management

The financial management process of CSB continues to have significant weaknesses and will require considerable advice and technical assistance in order to implement a modern financial management process. As evidence of the Board of Directors' understanding of the depth of the problems and the time required to achieve corrective results, CSB has requested additional assistance from KPMG for the following:

1. Assistance in the implementation of the asset/liability management department;

2. Assistance in the improvement of the financial reporting function;

3. Assistance in the improvement of the treasury function; and

4. Implementation of an improved profit planning system.

CSB will need continuing assistance as it makes the transition to a free market economy. In terms of financial management, the most critical needs will be in the following areas:

1. Technical assistance in both the financial management and treasury functions to ensure that proposed mainframe-based systems are designed to be adequate to properly manage CSB;

2. Corporate-wide assistance in restructuring CSB to allow for adequate cost accounting, quality measurement and accountability;

3. Continuing training in accounting, financial analysis and risk management; and

4. Technical assistance in guiding the implementation of the financial risk control function, including policy and procedures.

LIST OF EXHIBITS

Exhibit	Title
B-1	Deliverables for the No Cost Extension
B-2A	Securities Trading/Backroom Operation
B-2B	Bankwide System's Installation Team
B-3	Financial Management of SIS
B-4A	Czech Equity Market Index
B-4B	Purchase of a Mutual Fund Portfolio Versus a Mutual Fund Company
B-4C	Results of Stock Market Simulation
B-5A	Recommendation for Continuing Credit Training
B-5B	Flow East Case Study
B-6A	Review of Bankruptcy Procedures
B-6B	Review of Proposed Credit Approval Systems
B-7A	Review of the Draft Format for Presentations to the Credit Committee
B-7B	Review of CSB's Analysis Format
B-8A	Documentary Credit Department - Terms of Reference
B-8B	Foreign Exchange Division - Plan of Work
B-9A	Documentary Credit Department - General Controls and Department Security
B-9B	Status of Documentary Credit Department
B-9C	Documentary Credits - Negotiation Procedures (Export Credits)
B-9D	Import Letter of Credit Issuance Guide
B-9E	Negotiation Worksheet
B-10A	Guarantee Department - Key Issues
B-10B	A' Forfait Analysis Worksheet
B-11A	Nostro Accounting and Statement Reconciliation Process and Procedures - Key Issues
B-11B	Reconcilement Procedures for Foreign Nostro Accounts/Procedures for Incoming Payments - Key Issues
B-11C	Foreign Exchange Division/Assets and Liabilities Department - Key Issues
B-12	Clean Payments Department - Key Issues
B-13	Questionnaire on Foreign Exchange
B-14	Value of Social Loans
B-15A	Initial Approach to CSB Reorganization
B-15B	CSB Restructuring
B-15C	CSB Restructuring Operations
B-16	Diagnostic Report
B-17	Capital Markets Interface Operations
B-18A	Bank Analysis Roundtable
B-18B	Bank Analysis Roundtable Part II/Bank Capital Management
B-19	Dividend Policy
B-20	Major Concepts for Credit Analysis
B-21	Corporate Consolidation
B-22	Management of a Public Company
B-23	Collateral Roundtable
B-24	Corporate Performance Ratios
B-25	Foreign Exchange Division - Key Issues

Exhibit B–1

Deliverables for the No Cost Extension

Deliverables for the No-Cost Extension of USAID Technical Assistance to the Czech Savings Bank

Credit Function

1) Plan for the Credit Approval Function and Process

A written and verbal presentation outlining the suggested restructuring of the overall credit function, both conceptually and procedurally. The presentation will introduce and explain the concepts of the Chief Credit Officer, Senior Credit Committee, a Credit Policy and Procedures Committee, a Credit Review Department, a Problem Loan Department, and escalating levels of credit review and approval authorities. Further, the concept of having differentiated approval streams for retail and wholesale credit will be introduced as well as the concept of separating business development and customer contact functions from the credit approval functions.

Due Date: March 15, 1993

2) Design for a Credit Risk Rating System for Loan Assets

A Risk Rating System memorandum detailing the concept of a such a system, explain the logic and presenting instructions for the use of the system will be provided. The Risk Rating System quantifies the risk inherent in any credit transaction, and presents the measurement of the risk in a consistent and standardized format. It is a prerequisite to the implementation of many of the modern Western-style credit and risk management and control techniques necessary for the Czech Savings Bank.

Due Date: April 30, 1993

3) Standardized Credit Analysis and Presentation Guidelines

A Standardized Credit Analysis and Presentation Guidelines memorandum detailing the structure,logic and use of such guideline will be presented. Standardized guidelines are critical to the development of credit analysis and decision-making skills with the Czech Savings Bank. It will provide guidance in the financial analysis of credit requests, as well as provide an overall credit presentation structure to help ensure that established policies and procedures are meet.

Due Date: May 15, 1993

SV

Financial Management

4) **Automated National Bank Liquidity Report and Documentation**

The final version of a micro - computer generated National Bank Liquidity Report will be completed along with a program manual. This model will require the Czech Savings Bank to establish assumptions regarding various maturities in the portfolio. This report will also serve as a basis for a financial gap model for the Bank's asset/liability management needs.

Due Date: April 26, 1993

5) **Interbank Deposit Model and Documentation**

This is the final version of a micro - computer generated Interbank Model and accompanying documentation. The model projects future income streams and balances taking into consideration possible changing interest rate scenarios. This model is also important in the management of the Bank's liquidity.

Due Date: May 6, 1993

6) **Development of CSB's Automated 1993 Budget and Financial Reports**

This task is designed to introduce accountability and consolidation into the budgeting process, and to serve as a bridge in establishing western-style budgeting and financial control procedures for the 1994 process. KPMG will automate the first generation of the CSB's annual budget and prepare financial reports for the Board.

Due Date: May 15, 1993

Investment Fund Management

7) **Expanded Securities Systems Requirements**

Document will be more comprehensive study of the Czech Savings Bank securities processing and capital markets systems needs based on original KPMG 1992 requirements document. Further study requested by CSB to address new changes in regulatory and trading environment. In addition, study will also be needed to assist the Bank in the development and/or purchase of new securities processing systems in 1993.

Due Date: April 15, 1993

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8) **Portfolio Accounting Training and Handbook**

Manual will be initial guide to staff in the investment management and custody divisions of the Czech Savings Bank to provide instructions for the daily portfolio accounting of the investment funds. Topics to be included in the handbook will be definitions of fund and securities types, responsibilities of portfolio accountants and detailed accounting procedures for income accruals, long and short term debt, equity investments, daily reporting, trial balances and the calculation of net asset values.

Due Date: March 22, 1993

9) **Mutual Fund Internal Billing Procedures**

Procedures manual will explain the various systems and methodologies utilized by custodians, transfer agents, distributors and investment advisors in the determination of fee billing to the investment company. Forms and other documentation utilized in billing cycles will be provided.

Due Date: May 1, 1993

10) **Securities Systems Options Overview for Management**

Document will examine the various securities systems and capital markets processing options the Bank will consider in the first quarter of 1993. Review will include a detailed discussion of the pros and cons of each option and how each would address the short and long term needs of the Czech Savings Bank.

Due Date: May 15, 1993

11) **Stock Market Indices Manual**

Manual will focus on the explanation and utilization of stock and financial indices for the portfolio managers and analysts of the Czech Savings Bank investment subsidiaries. Examples will be provided to explain the methodology for the calculation of one index factor and the variations for the Dow Jones, Financial Times 100, DAX and Standard and Poors indices. This document will assist the Bank in developing criteria to measure investment performance once the trading markets are operational.

Due Date: March 26, 1993

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12) **Stock Market Simulation and Manual**

Document will provide the instructions and forms developed by KPMG for participation in a capital markets investment game utilizing the New York, London and Frankfurt trading markets. Purpose of original session of game during a eight week period in 1993 was to provide instruction to investment analysts regarding basic investment techniques for equity and debt instruments. Additional objectives of game are to provide portfolio construction and effects of foreign exchange on cross border investments instruction.

Due Date: May 15, 1993

Foreign Payments

13) **Evaluation of the Foreign Payments System and Related Credit Management Procedures**

Evaluation will focus on the organizational structure and procedures of the foreign payments system and related credit management procedures of the International and Foreign Exchange Division of the Czech Savings Bank. Current production and delivery procedures for fee based trade finance services will be discussed and recommendations for improving organizational structure, accounting and control will be presented.

Due Date: April 6, 1993

14) **Development and Implementation of Foreign Payment Management System Plan**

Plan will focus on the foreign payment system and how best to integrate it with the domestic branch system and approximately 130,000 foreign currency accounts held by depositors as well as the urgent need to manage the large inventory of foreign currency bank notes. The plan will also focus on the management of the Bank's foreign currency accounts in foreign and domestic banks(Nostro Banks), and how best to integrate the Czech-crown-based treasury operations with the Foreign Exchange Division. Implementation will highlight Bank resources and responsibilities in this effort, paths of communication and coordination required.

Due Date: May 1, 1993

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15) **Procedures Manual for Managing Foreign Payments**

Manual will focus on procedures, accounting entries and controls necessary to manage foreign payments. This manual will focus on current procedures and concentrate on facilitating the coordination of the Branches, the S.W.I.F.T. system and the foreign Payments Department of the Bank.

Due Date: May 1, 1993

Exhibit B–2A

Securities Trading /Backroom Operation

To: Richard Herbich
From: Joseph P. Drake
Date: May 11, 1993
Re: Securities Processing
Backroom Operations

The increase in sophistication and volumes of securities transactions has pinpointed the need for the formulation of a plan to develop a dedicated backroom operation for the trading and investment activity at the Czech Savings Bank.

Attached are three organizational charts prepared by KPMG which address this issue. Explanations for these attachments are below.

The main purpose of this memo is to explain in general terms the KPMG suggestions for the overall organization of a securities backroom operation. It should be assumed that each department and area described would most likely have many more separate areas than depicted here as sub departments of the main departments shown.

Attachment 1

Attachment 1 depicts the current distribution of operations and backroom responsibilities for securities transactions within CSB.

Attachment 2

Attachment 2 is an outline of a KPMG suggested organization for securities trading and backroom operations at CSB. As depicted, the KPMG recommended organization divides the division into two primary departments:

1) Computer/Systems
2) Processing

The meaning of the additional dotted line for the Computer/Systems area indicates that KPMG in the long term suggests that this responsibility be placed under a bankwide Computer/Systems area as depicted in Attachment 3.

The Processing area is divided into four primary departments:

1) Shareholder Recordkeeping
2) Custody/Administration/Safekeeping
3) Portfolio Accounting
4) Clearing/Reconcilement

The Shareholder Recordkeeping Department is responsible for the full accounting and non-branch customer service of individual

customer accounts for both the investment funds and brokerage service. The types of functions performed for all these products are very similar and they should be grouped together. T h e Interface Branch/Broker area in the Shareholder Recordkeeping Department is primarily responsible for solving all processing problems experienced by the branches or other brokerage companies selling the CSB investment funds. The Interface External Institutions in the Shareholder Recordkeeping Department primary responsibilities would be to resolve problems and issues associated with CSB's daily transaction activities with the Center of Securities and capital markets such as the Stock Exchange, RMS and other trading markets that develop.

The Custody/Administration/Safekeeping departments would operate in a similar manner as in the current environment for both individual customers (retail) and the investment funds.

The Portfolio Accounting department is responsible for the accounting of assets and liabilities plus the calculation of the price or net asset value per share for the mutual funds. This area is currently organized in SIS however because of the close relationship between the custody department and portfolio accounting area it is recommended that this department be organized in this division.

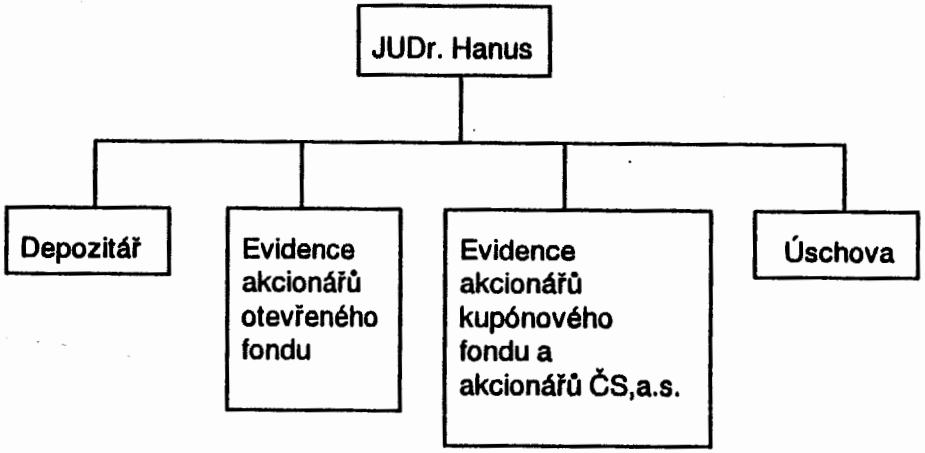
The Clearing/Reconcilement Department would continue to operate as it currently does. It is recommended that this area develop two independent units to individually concentrate on internal clearing , such as the debiting of a client savings account to pay for a trade, and external clearing such as monetary settlement with the Stock Exchange.

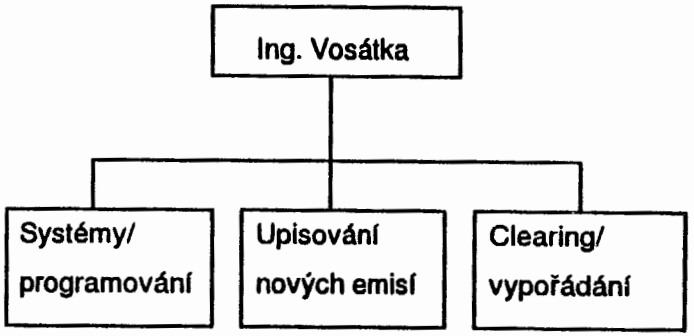
Attachment 3

Attachment 3 depicts the long term recommendation of KPMG that all operations and processing be organized under one division in the Czech Savings Bank. This concept has been presented to CSB Senior Management and will be discussed further in the future.

Zpracování cenných papírů v ČS,a.s.

Příloha 1





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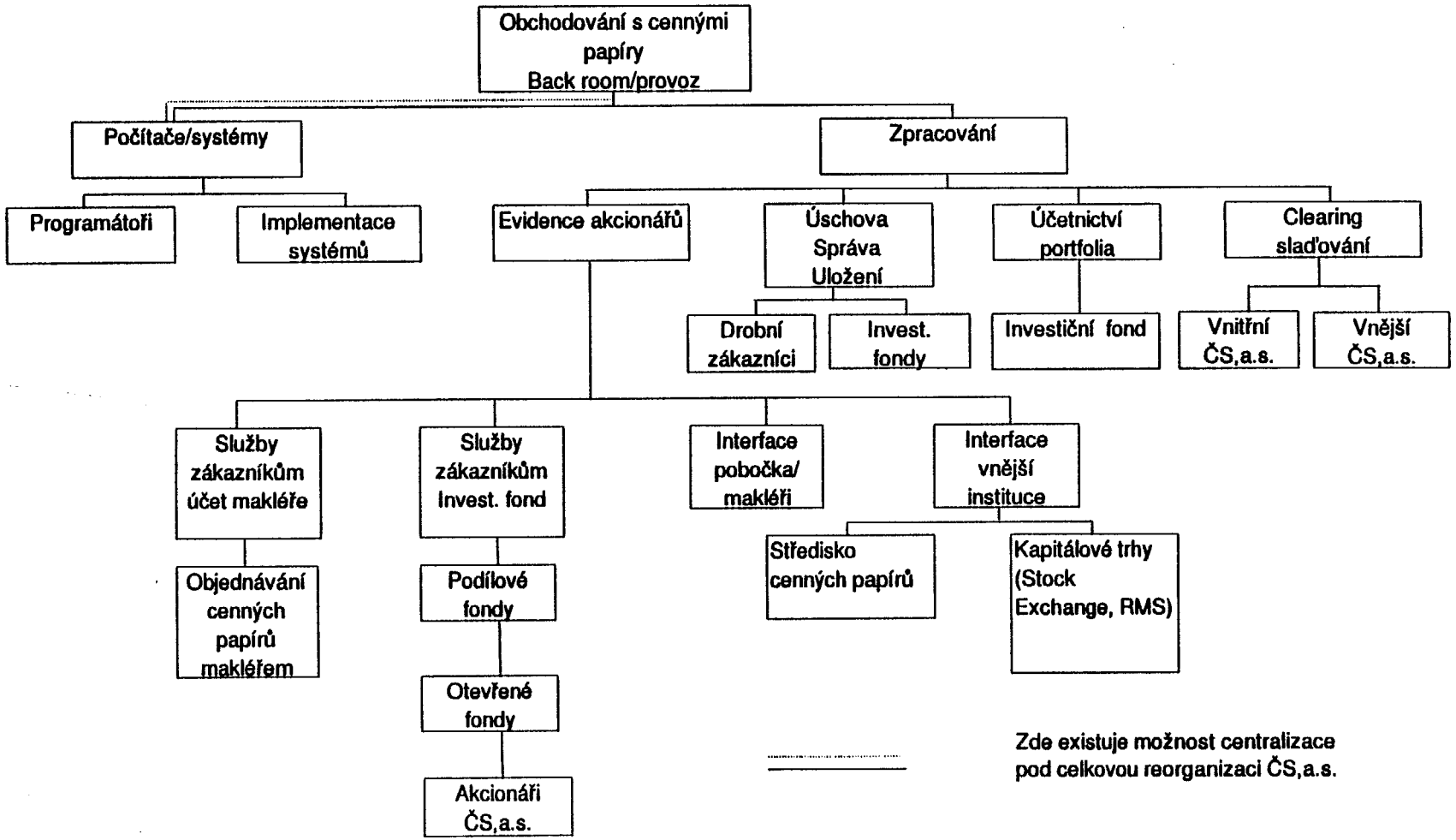
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Počítače/systémy
Zpracování
Programátoři
Implementace systémů
Evidence akcionářů
Úschova Správa Uložení
Účetnictví portfolia
Clearing slaďování
Drobní zákazníci
Invest. fondy
Investiční fond
Vnitřní ČS,a.s.
Vnější ČS,a.s.
Služby zákazníkům účet makléře
Služby zákazníkům Invest. fond
Interface pobočka/ makléři
Interface vnější instituce
Objednávání cenných papírů makléřem
Podílové fondy
Otevřené fondy
Akcionáři ČS,a.s.
Středisko cenných papírů
Kapitálové trhy (Stock Exchange, RMS)
Zde existuje možnost centralizace pod celkovou reorganizaci ČS,a.s.

To: Richard Herbich
From: Joseph P. Drake
Date: June 8, 1993
Re: TIS Project Organization

I have reviewed the proposed TIS Project Organization and have the following comments:

1. Overall there are too many individual direct reports to the project manager. It would be a very difficult task to effectively manage 11 staff members and all the variety of issues that will arise from these departments.

2. The proposal does not contain input for credit management or the bank treasury department.

3. I believe the most effective area to manage the foreign currency department would be the wholesale banking division because the largest and therefore, the trades with the greatest risk would be made by institutions and not small retail customers.

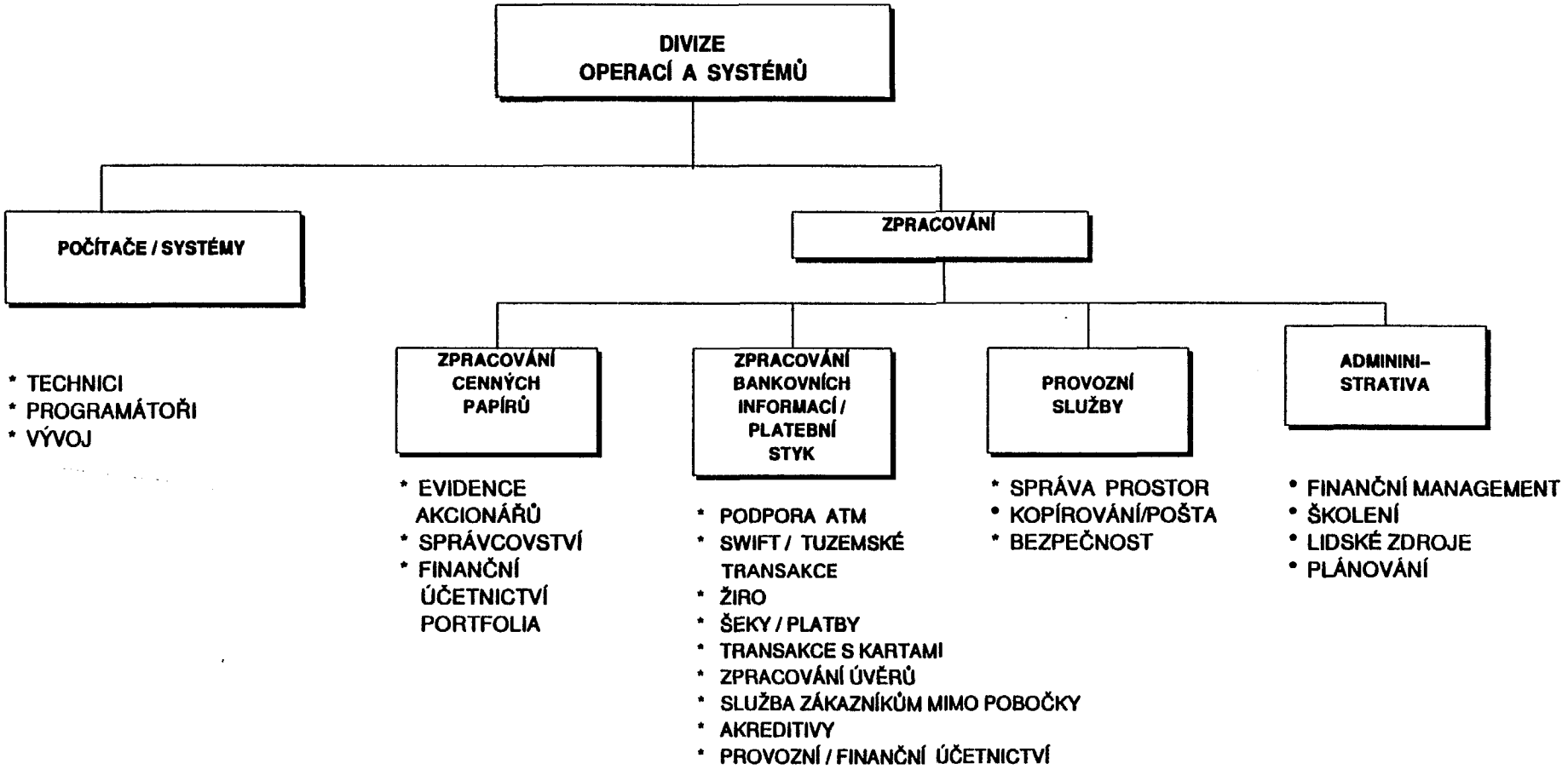
4. The securities trading systems development must also include all aspects of the capital markets to include brokerage and the investment funds. This responsibility should be separated from the wholesale banking area because of the unique nature of the securities trading functions.

In order to address these issues, I have developed a suggested TIS project organization (Attached).

Overall, there are three other issues that must be taken into consideration.

1. The job of serving on the systems installation team is a full time responsibility in order to be done properly. Whenever it is attempted to place the senior management of any organization on systems installation teams (although this seems to be the only option or the option that makes the most sense) most of the time these individuals do not have enough time or the specific operating knowledge of their own departments to do the job effectively. Senior management should have major input into the building of a system from a business requirements standpoint but they should not have the daily responsibility to serve on this committee.

2. The major consideration that must be the ultimate vision of the installation team is that a system should be built which easily (on-line) determines the Bank's exposure to any client at a specific point in time. For example, if a client has a large loan outstanding with the Bank and wishes to send an electronic transfer plus requests a documentary letter of credit on the same day, management in each one of


DIVIZE
OPERACÍ A SYSTÉMŮ
POČÍTAČE / SYSTÉMY
ZPRACOVÁNÍ
* TECHNICI
* PROGRAMÁTOŘI
* VÝVOJ
ZPRACOVÁNÍ CENNÝCH PAPÍRŮ
* EVIDENCE AKCIONÁŘŮ
* SPRÁVCOVSTVÍ
* FINANČNÍ ÚČETNICTVÍ PORTFOLIA
ZPRACOVÁNÍ BANKOVNÍCH INFORMACÍ / PLATEBNÍ STYK
* PODPORA ATM
* SWIFT / TUZEMSKÉ TRANSAKCE
* ŽIRO
* ŠEKY / PLATBY
* TRANSAKCE S KARTAMI
* ZPRACOVÁNÍ ÚVĚRŮ
* SLUŽBA ZÁKAZNÍKŮM MIMO POBOČKY
* AKREDITIVY
* PROVOZNÍ / FINANČNÍ ÚČETNICTVÍ
PROVOZNÍ SLUŽBY
* SPRÁVA PROSTOR
* KOPÍROVÁNÍ/POŠTA
* BEZPEČNOST
ADMININI-STRATIVA
* FINANČNÍ MANAGEMENT
* ŠKOLENÍ
* LIDSKÉ ZDROJE
* PLÁNOVÁNÍ

H

Exhibit B–3

Financial Management of SIS

MEMO

TO: Mr. Hanus
FROM: Carleton R. Haswell / Joseph P. Drake
RE: Profitability Measurement
DATE: January 25, 1993

During our last meeting we briefly discussed performance measurement of the mutual funds. You asked for KPMG's ideas. These are listed below. It is suggested that a formal analysis using this methodology is prepared jointly between someone on your staff and KPMG. From this trial analysis, you can determine if this type of analysis should be done for all business activities of the Investment Subsidiaries.

There are three main elements that effect the performance of a mutual fund. These will be discussed separately, however they are all interlinked.

1) The Return on CSB's Investment: The main reason CSB made an investment in the Investment Subsidiaries was to earn a return on the funds it invested. To help CSB determine the value of its investment, the total returns on this activity should be measured against the capital invested. This figure can then be used by CSB to determine new or continued levels of investment. Both actual and projected returns must be looked at. Returns will be looked both on a cash and equity basis.

2) Profitability of the Investment Company: The main revenues come from fees earned by the Mutual Funds. These fees are based on the size of the funds. As most expenses are fixed, the greater the size of the fund, the larger the revenues and the resulting net income. It is suggested that one of the funds be analyzed to determine the break even point and project future revenues and expenses. Once the format of the analysis is completed and agreed on, it can be used to measure the income from the entire Investment Subsidiary. This information will allow the needed information in Paragraph 1 to be calculated.

3) Fund Performance: As the revenue a mutual fund earns for the investment company is a function of the size of the fund it is necessary to look at the performance of each fund. Performance of each fund is the result of {the change in asset value less expenses of the fund}. Investors buy funds based on the performance of the fund. Therefore it is important to keep expenses low to increase the performance. If investment performance happens to be poor, some investment companies may choose to absorb expenses of operating a mutual fund in the investment company. This helps investment performance,

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however it lowers the income of the Investment Company and in turn the return on capital of the owner(s) of the investment company. The suggested analysis, will look at actual and projected performance and expenses of the fund.

It is important that the financial information system can continuously provide the above type of information so that informed decisions can be made, performance targets set and results measured.

The determination and monitoring of the income and expenses discussed above and the calculation of the actual operating profit and loss (P and L) of the individual funds and the entire management company would be the role of a Controller's Department in SIS. The Controller's Department should also produce regular reports for review by management to determine negative financial trends which may have to be addressed. Profit and loss statements do not indicate how well the portfolio is performing for shareholders but rather how profitable the fund is to the Investment Company.

Attached (see exhibit A) is an explanation of the categories which would be included in a profit and loss statement which may be utilized by the individual funds in SIS. As the company grew and management became more aware of its expenses, the P and L would be adjusted to meet the needs of the new financial environment. Also, management may want more information expressed in different formats (i.e. monthly vs. quarterly reports) or may want reports which highlight certain elements (i.e. comparison of expenses between bond funds and equity funds). Although the Controller would be responsible for the production of many other official reports to Ministries, etc., P and L reports are for the benefit of management and should be created with the motivation that they should convey information in a clear manner so management can make correct analysis and good decisions.

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EXHIBIT A

P and L Statements

P and L statements will summarize the total income and expenses of each individual fund. Included under the expense category will also be sub categories of direct and allocated expenses. Direct expenses are those costs that can easily be identified as only belong to that fund while allocated expenses are those costs that each fund must share a percentage. For example if one portfolio manager works only for one fund, it is obvious that the entire salary should be listed as a direct expense item for that fund. However, if that person's boss is the chief investment manager and has responsibility for many funds then a system must be determined to share that salary as an allocated expense item in many funds.

Many different systems can be utilized to determine the proper allocation of expense. In the mutual fund industry allocation of expense between funds by management companies is usually based on one of the following categories:

1. Assets
2. Accounts
3. Number of people dedicated to that fund

Example

The chief investment manager has a salary of 300,000 KCS per year. Fund A has 1,000,000 KCS in assets, Fund B has 4,000,000 KCS in assets and Fund C has 5,000,000 in assets. The managers salary expense would be divided amongst the funds utilizing the percentage of assets each fund has to the total as a guideline.

Fund	Assets	% to Total	X	300,000 KCS	=	Salary Expense
A	1,000,000	10%				30,000
B	4,000,000	40%				120,000
C	5,000,000	50%				150,000
Total	10,000,000	100%				300,000

Similar calculations would be utilized with either percentage of accounts to total accounts or percentage of employees to total employees for some expense categories. For example, the allocation of space expense would be done by employees dedicated to each fund if known. If not, number of accounts would be the next best system since the more accounts a fund possesses, usually indicates more work effort and thus more employees to process the transactions.

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Example

Profit and Loss

Czechoinvest

Income

- Administration Fee (1.5% of Average Assets)
- Brokerage Fees
- Redemption Fees
- Other

Total Income

Expense

Direct

- Salaries
- Tax on Salaries
- Other Employee Expense
- Brokers Fees
- Interest on Loans
- Printing Cost for Fund Reports
- Audit
- Legal

Allocated

- Salaries	(Based on Assets)
- Tax on Salaries	(Based on Assets)
- Other Employee Expense	(Based on Assets)
- Depreciation on Equipment	(Based on Employees or Accounts)
- Space	(Based on Employees or Accounts)
- Supplies	(Based on Employees or Accounts)
- Travel/Entertainment	(Based on Assets)
- Training	(Based on Employees or Accounts)

Total Expenses

Total Income less Total Expenses = Net Income Before Tax

Exhibit B–4A

Czech Equity Market Index

MEMO

TO: Mr. Schut
FROM: Carleton R. Haswell
RE: Czech Equity Market Index
DATE: March 16, 1993

Your concept about having the Czech Savings Bank create and publish a Czech Equity Index is excellent. Our group discussed the issues involved with establishing an index and make the recommendations listed below:

1. It is suggested that CSB creates and publishes a Czech equity index. For an index to be recognized, it must both be valid and created by a respected institution. Using the CSB name in the index would add recognition both to the index and the Bank. SIS is not as well know and some might think SIS could have a vested interest in the results of the index.

2. The index should be ready when the market opens and should be given enough publicity (see paragraph 6 below) so it will become THE index for equities in the Czech Republic. This will require the model for the index to be created and tested prior to the opening of the market. The fact that an index is being created should not be disclosed to the market prior to its introduction. Hopefully, CSB will be the first index published.

3. The sample of companies should be as large as possible to represent a true market index. The number of companies in the index should allow for diversification of the sample. However, if two many companies are in the index, frequent changes in the index will have to be made if companies in the sample have to be dropped due to mergers, bankruptcy, etc. Numerous changes in the base companies is both time consuming and can invalidate the index. It will be necessary to compute the sample's correlation with the entire market to examine the validity of the sample. This correlation should be as close to 1 as possible. This of course can only be done after the market opens.

4. To get the best measure of the entire market, a weighing scheme based on expected market capitalization is recommended.

5. It is recommended that you do not use the performance of the SIS Privatization Fund (the Fund) to be the market index. This is based on:

A. The performance of the Fund cannot be measured because it will be the same as the index.

B. The portfolio of holdings in the Fund will change frequently based on investment decisions made by the Management of the Fund. If the index is based on the holdings in the Fund, the base of the index will also change frequently. This will undermine the value of the index.

C. Since CSB will have to publish all pertinent data regarding the index in order to validate it, the Fund will have to make public all changes in its portfolio. This would place the Fund in a competitive disadvantage with other funds.

D. The Fund cannot structure its portfolio vs. the index in order to adjust the weighted beta.

6. To market the index, it is suggested that:

A. All information regarding the index computation is published and is available for distribution to interested parties.

B. Contact the press and financial publications regarding the listing of the index on a daily (or at least frequent) basis.

C. Publicity will have to be given to the Czech public about the index and its use. Articles will have to be written for the press.

If you desire, KPMG would be glad to offer specific advice and information on how to create an index.

Exhibit B–4B

Purchase of a Mutual Fund Portfolio
Versus
a Mutual Fund Company

To: Ing. Petr Schut

From: Michael Harlan

Date: 11 March, 1993

Subject: Certain issues regarding the purchase of a competitor's mutual fund *portfolio* versus buying the mutual fund *company*

Acquisition of Mutual Fund ***Portfolio***	**Acquisition of Mutual Fund** ***Company***
• Invests *Customer* funds	• Invests *Investment Company* funds
• Relatively larger purchase price	• Relatively smaller purchase price than acquisition of portfolio
• Does not increase market share	• Increases market share of mutual fund business
• Immaterial marginal increase of Investment Company profitability	• Increases Investment Company profitability
• Does not significantly increase Investment Company risk	• Could significantly increase Investment Company risk, through retained contingent liabilities or promises
• Does not significantly increase overhead	• Does not significantly increase overhead, but more so than portfolio acquisition
• Does not affect unit costs	• May lower unit costs
• May help competitor survive	• Eliminates competitor
	• Might increase/improve staff talents
	• Might increase/improve distribution network
	• Acquisitions may be easier now, before regulation increases

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Exhibit B–4C

Results of Stock Market Simulation

To: Mr. Klapal
From: Carleton R. Haswell
Re: Results of the Stock Market Game
Date: 25 March, 1993

Yesterday, the Stock Market Game that we have been playing in the weekly round tables ended. The results are shown on the attached charts. The average team earned an annual return of 23.46% vs. an average market return of 19.47%. This was a very good performance. Most money managers around the world would be thankful to beat the average market by 4%. The winning team had an average return of 64.7%.

At the start of the game each member of the class put in 50kcs into a pool. The winning team received all of the money which amounted to 1,250kcs. Not much, but it got the point across that the purpose of investing is to make a profit.

In addition to following the stock market, the game also made participants focus on the risks of investing in various currencies.

Attached: 3 charts

Výsledky soutěže "Burza 1993"

Pořadí	Název skupiny	Hodnota portfolia	% změna k minulému kolu *	% změna celkem
		(v mil. Kč)		
1.	Alba & Tross	111,09	- 1,13	11,09
2.	London Group	107,90	1,53	7,90
3.	CLNTN	104,86	1,89	4,86
4.	3 S+H	103,52	-6,3	3,52
5.	Balcar a spol.	103,26	-0,88	3,26
6.	Žák, Veverková	101,90	-3,64	1,90
7.	Švorc Invest	101,89	-6,22	1,89
8.	Pudlák a spol.	101,27	-5,21	1,27
9.	DP 613	100,89	-4,78	0,89

* bez částek penále/bonusu a dividend/úroků

Analýza investování do burzovních indexů v období od 26.1.1993 do 23.3.1993

Původní částka k investování ve výši 100 000 000 Kčs (nyní Kč)	Hodnota portfolia v Kč ke dni 22.3.1993 (v Kč mil.)	% nárůst hodnoty portfolia k základu 100 000 000 Kč	% nárůst indexu v domácích měnách	% změna způsobená pohybem kursů
USD-*Dow Jones*	105,6	5,6 %	4,9 %	0,7 %
DEM-*DAX*	103,7	3,7 %	5,9 %	- 2,2 %
GBP-*FT-SE 100*	100,8	0,8 %	3,3 %	- 2,5 %

Komparativní analýza výsledků hry "Burza"

	% změna za období 9 týdnů	% změna p.a
Vítězný tým	11,09 %	64,07 %
Půměrný nárůst burzovních indexů a změna devizového kurs Kč	3,37 %	19,47 %
Průměrný výnos za všechny týmy	4,06 %	23,46 %
Úroková sazba na 3-měsíční depozita		13,00 %

Exhibit B–5A

Recomendation for Continuing Credit Training

TO: JUDr. Olga Polanecka
Commercial Division
Czech Savings Bank

FROM: Steven C.Graybill
KPMG Peat Marwick
Policy Economics Group

DATE: March 24, 1993

SUBJECT: Credit Training

In response to your request that KPMG help structure and provide basic, intermediate and advanced credit training to your staff, we would like to offer the following courses and suggested scheduling. These courses incorporate the instruction in the new accounting format as discussed with Frank Destalick, cash flow analysis, instruction in using the new standardized presentation and analysis guidelines(one for large wholesale customers and one for entrepreneurial customers), and instruction in using the new Risk Rating System.

KPMG is prepared to offer three courses. Each course would last for one week beginning Sunday afternoon and ending Friday. Course I, which would be offered three times, is a basic introductory credit analysis course which would also introduce and provide instruction in the use of the standardized presentation and analysis guidelines, provide instruction in the analysis of the new accounting format and provide instruction in cash management analysis.

Course II, which would also be offered three times, presents intermediate credit analysis and is a continuation of the information presented in Course I. Course II also introduces and provides instruction in the use of the Risk Rating System. Extensive practice is provided in the use of the standardized presentation and analysis guidelines. A case study is used in the later part of the course.

Course III, which would only be offered twice, is the more advanced of the three credit courses and it is structured for attendance by a limited number of selected individuals. Extensive use is made of case studies.

The instruction methodology requires that all individuals, regardless of their position or experience level, start with Course I and progress through Course II. All individuals must attend Course I prior to attending Course II. This ensures that all individuals within the credit function have the same instruction

and understanding in the new accounting format, the use of the standardized presentation and analytical format and the use of the Risk Rating System.

Course III would be attended by those individuals identified as having senior credit responsibility and therefore have the need for more advanced training. Since Course III would only be presented twice, attendance must be on a select basis. We would suggest that attendance be based on the following criteria: (1) prior attendance at Credit Courses I and II, (2) a minimum necessary skill level as demonstrated in a pre-attendance test and (3) recommendation of either the District or Region Branch Director, or the Director of the Commercial Division.

Each class would accommodate 10 to 15 individuals from the Commercial Department. The suggested scheduling is as follows:

Course I:	May 9 - 14
Course I:	May 23 - 28
Course II:	September 4 - 9
Course I:	September 18 - 23
Course II:	October 3 - 8
Course III:	October 23 - 28
Course II:	November 7 - 12
Course III:	November 28 - December 3

KPMG would provide the instructors as well as all course material. The Czech Savings Bank would provide the premises and required logistical support.

KPMG believes that it would be a good idea if you took this opportunity to also train a few individuals that could function as instructors for these or similar courses in the future. This would give the Bank the ability to continue to offer training courses as the need arises, and to make the training self-sustaining.

Since the start date of May 9 is very near, we would appreciate your cooperation in finalizing the schedule and making the necessary arrangements as soon as possible.

Attached is the outline for Course I. In the near future we will provide you with the outlines for Courses II and III.

CURRICULUM FOR THE FOUR DAY
EXTENSIVE CREDIT TRAINING COURSE
FOR
THE CZECH SAVINGS BANK

DAY 1 (all day):

UNDERSTANDING THE PREPARATION OF FINANCIAL STATEMENTS:

I. INCOME STATEMENT

A. Revenues on Outputs.

1. When are revenues recognized.

B. Revenue on Financial Items; Revenue on Extraordinary Items; Revenue of Other Items.

1. What are they.
2. What amount.
3. Why did they occur; what activity do they reflect.
4. Frequency of occurrence.

C. Expenses on Outputs.

1. What comprises expenses.
2. How and when are expenses recognized.
3. How are expenses related to Inventory as carried on the Balance Sheet.

D. Expenses on Financial Items; Expenses on Extraordinary Items; Expenses on Other Items.

1. Of what are they comprised.
2. When are expenses recognized.
3. Why did they occur?
4. Frequency of occurrence?

E. Non-Cash Items.

1. What are they.

2. When are they recognized.

F. Taxes.

1. VAT.

2. Deductible and non-deductible corporate tax.

3. Custom duties, etc.

G. Net Income After Tax

II. Balance Sheet.

A. Assets.

1. Receivables from Shareholders.

2. Investments and Securities.

a. What do they represent.

b. How are they valued.

c. How liquid are they.

d. How are they valued.

3. Inventory.

a. How is it valued.

b. How is obsolescence determined.

c. When and how are write-downs taken.

4. Accounts Receivable.

a. How are they generated.

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b. Aging.

c. Reserve for bad debt.

5. Other Current Assets.

a. What are they.

b. How are they valued.

6. Fixed Assets; Tangible and Intangible.

a. How are they valued.

b. What is the method of depreciation.

c. How do they relate to the activity of the company.

7. Goodwill.

a. What does it represent.

b. How is it valued.

c. How is it depreciated.

8. Deferred Expenditures.

a. What do they represent.

b. How are they amortized.

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B. Liabilities.

1. Share Capital.

2. Reserves.

   a. Purpose.

   b. Adequacy.

3. Long-term liabilities.

   a. How much.

   b. To whom.

   c. Terms and conditions.

   d. Collateral.

   e. Subordinated.

4. Accounts payable.

   a. How much.

   b. To whom.

   c. Aging.

   d. Collateral.

5. Loans payable.

   a. How much.

   b. To whom.

   c. Terms and conditions.

   d. Collateral.

   e. Purpose.

6. Deferred and Accruals.

III. Auditors's Position and Report.

IV. Reporting Standards and Requirements.

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DAY 2/MORNING:

-INTRODUCTION TO THE STANDARDIZED CREDIT PRESENTATION AND ANALYSIS FORMAT.

-INTRODUCTION TO CREDIT ANALYSIS:

I. How Financing Needs Arise.

A. Cash Cycle.

1. Operating flows.

a. Outflows.

(1) Purchase inventory.

(2) Carry receivables.

(3) Pay operating expenses.

(4) Pay interest.

(5) Pay taxes.

b. Inflows.

(1) Sales for cash.

(2) Collection receivables.

(3) Accounts payable.

2. Investing.

a. Outflows; purchase plant and equipment.

b. Inflows; sales of plant and equipment.

3. Financing.

a. Outflows.

(1) Payment of debt.

(2) Dividends.

b. Inflows.

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(1) Borrowing.

(2) New equity.

**** B. Typical Borrowing Needs:

1. Purchase current assets.
2. Acquire fixed assets.
3. Take advantage of non-recurring opportunities.
4. Bridge regular outflows and irregular inflows of cash.
5. Fund operating losses.
6. Fund stock purchases of recapitalization.
7. Refinance existing liabilities.
8. Fund growth.

C. Typical Source of Repayment.

1. Only cash repays loans.
2. Conversion of current assets (normal course).
3. Sale of non-current assets.
4. refinance with another creditor.
5. Profits retained.
6. Capital infusion.

**** D. Sources of Financing.

1. Accounts payable.
2. Borrowing.
   a. Seasonal.
   b. Bridge.
   c. Term.
   d. Revolving.

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3. Contributed capital.

4. Profits retained.

DAY 2/AFTERNOON:

II. Evaluating Financial Performance.

**** A. Five "C's" of Credit.

1. Character.

2. Capacity.

3. Conditions.

4. Collateral.

B. Key Variables.

1. Definition.

a. Primary sources/uses of cash.

b. Controllable by management.

c. Can be monitored by lender.

2. Elements.

a. Level of sales.

b. Gross margin.

(1) Price.

(2) Cost of goods sold.

c. General sales and administrative expenses.

d. Owners' withdrawals.

e. Accounts receivable.

f. Inventory.

g. Fixed assets.

h. Accounts payable.

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i. Financial leverage/debt structure.

j. Growth rate.

DAY 3/ MORNING;

C. Income Statement/Balance Sheet Analysis.

1. Component analysis.

2. Comparative analysis.

a. Three years statements.

(1) Trends.

(2) Management testing.

b. Internal.

c. External.

********* 3. Common size analysis (exercise).

4. Ratio analysis.

a. Liquidity.

(1) Current.

(2) Quick.

(3) Sales/working capital.

b. Financial leverage.

(1) Debt/capital.

(2) Capital/assets.

(3) Assets/capital.

c. Profitability.

(1) Return on sales.

(2) Return on assets.

(3) Return on capital.

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d. Utilization.

(1) Asset utilization.

(2) Sales efficiency.

(3) Receivables turnover (days).

(4) Inventory turnover (days).

(5) Payables turnover (days).

e. Expenses.

(1) Depreciation, depletion/sales.

(2) Lease and rental expense/sales.

(3) Salaries/sales.

f. Coverage.

(1) Times (x) interest earned.

(2) Current maturities of long-term debt.

DAY 3/ AFTERNOON;

D. Cash flow analysis.

1. Direct.

2. Indirect.

3. Break-even analysis.

a. Profit.

b. Cash.

4. Operating leverage.

5. Contingent liabilities.

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E. Projecting Financial Performance.

1. Tools.

a. Proforma.

b. Projections.

c. Cash projection.

d. Underlying assumptions.

2. Interpretation.

a. Financing requirements.

b. Peak debt analysis.

c. Repayment capacity.

3. Sensitivity analysis.

DAY 4/ MORNING:

F. Evaluating Management.

1. Role.

a. Planning.

b. Organization.

c. Implementation.

d. Control.

e. Motivation.

2. Elements.

a. Character.

b. Strategy.

c. Structure.

d. Systems.

3. How management appears versus how management really

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is.

4. Tools.

   a. Interview.

   b. Background check.

   c. Financial statements.

   d. Projections.

   e. Site visit.

   f. References.

DAY 4/ AFTERNOON:

**** G. Lending Decisions/Comprehensive Case Study.

(***** Can be deleted at the instructor's option)

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Exhibit B–5B

Flow East Case Study

FLOW EAST a.s.
CASE STUDY ANSWER KEY

Prepared by

KPMG Peat Marwick
Washington, D.C.

for the
Czech Savings Bank
and
SIS

May, 1993

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FLOW EAST, a.s.

INTRODUCTION:

Flow East is an actual request for credit that was recently presented to SIS. You are requested to analyze the credit request based on the information contained in the attached Information Memorandum.

In performing your analysis please follow the attached Standardized Presentation and Analysis Format. You should provide information, analysis and your opinions for each section and sub-section in the Format. In some sub-sections there are specific questions pertaining to Flow East that you should answer. These questions are set within the parenthesis.

After completing your analysis and answering the questions contained in the Analysis Format you should answer the following two questions:

1. Do you approve of the purchase of any of these Notes? Why or why not?

2. Are you satisfied with the terms and conditions? If not, how would you change them?

FLOW EAST a.s.

STANDARD PRESENTATION AND ANALYSIS FORMAT
ANSWER KEY

I. DESCRIPTION, PURPOSE AND SOURCE OF REPAYMENT.

A. Description of Facility.

1. Type of Instrument: Fixed rate secured notes.

   (Is this bond issue a public issue? No.)

2. Amount: Kcs 120,000,000

3. Tenor: Maximum of five years; callable at the issuers option after 3 years and with a premium paid to the note holders.

4. Interest Rate:

   (Would the owner of a note prefer to have an interest period of less than one year? Why? Yes; because partial years are calculated on the basis of a 360 day year which gives the holder a higher yield.)

   (What will be the real rate of interest paid? The real rate of interest will vary. For a complete year it will be 15%; for less than one year it will be higher.)

5. Repayment Schedule: Repayment will be made not more than five years after issue. There is no scheduled repayment prior to that time.

6. Collateral: The note holders do not have collateral.

7. Guarantor: The note holders are guaranteed by Flow East a.s. and the Agent.

B. Purpose:

(What will the loan be used for? General corporate purposes, working capital, and possible

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future property investments.)

C. Anticipated Source of Repayment.

(From what source will the principal of the Notes be paid? Although it is not stated explicitly, repayment would have to come from the after tax net income resulting from the projected rental revenue of Flow East Realty, a.s.)

D. Loan Structure and Documentation.

(Do you agree that all of the important information is contained in the Information Memorandum? If not, what is missing? Do not list more than 5 items. Not all information is contained; the following should be included: (1) more information on the corporate structure and ownership; (2) information on properties currently owned by FE Reality and which ones will be pledged as collateral; (3) the amount of the Swiss Bank Corp guarantee, and the terms and conditions under which it was issued; (4) more information on management; (5) more complete and detailed financial projections; (6) information about Ryden and the property valuations; and, (7) information about the Agent.)

(Is it necessary to read the Paying Agency and General Agreement dated December 1992? Yes.)

(Where can you read a copy of the Agency Agreement. What information would be in the Agency Agreement? Is it necessary to read the Agency Agreement when doing an analysis of the Notes? Why? The Paying Agency and General Agreement can be read at the specified offices of the Agent; since the Agent has not been identified, we do not know where these offices are. It is necessary to read the Paying Agency and General Agreement because the notes are issued subject to the terms and conditions contained in the Paying Agency and General Agreement, and it governs the relationship between the issuer, Flow East, a.s. as guarantor and the Agent. The information memorandum states that it is assumed that the note holders have read and understand the Paying Agency and General Agreement.)

(What duties of the Agent are of concern to you? How can an Agent be changed? Do you feel comfortable with this? The Agent acts as both the secured and guaranteed party. In the event of default, the Agent has the responsibility to liquidate mortgages and divide the proceeds, less

the Agent's expenses, among the note holders; and it has the responsibility to collect from Swiss Bank Corp the amount of interest guaranteed under the guarantee and distribute that amount, less the Agent's expenses, among the note holders. The Agent can allow the issuer to sell any property held by the Agent as collateral. The Agent may declare an event of default if requested to do so by the note holders, but the Agent is not required to inform note holders if there has been a breach of the covenants. The Agent can be changed at any time for whatever reason by the Issuer and Flow East, a.s. as guarantor; a note holder should feel uncomfortable with this.)

(How would the Bank fund the loan? The Bank would probable have to fund this loan on an mis-matched maturity basis and this would create an interest rate exposure for the Bank.)

(How stringent is the covenant that gross annual rental income of the Issuer shall equal or exceed 150% of the annual interest due on the Notes. This is a very unrestrictive covenant because it based on gross revenue and not net revenue.)

II. BUSINESS AND INDUSTRY BACKGROUND.

A. Description of the Business Activity of the Borrower.

(Will Flow East have full vacant possession of the properties? Do they have all permissions to refurbish the properties? Flow East does not have vacant possession. It is not clear if Flow East has all premissions necessary to refurbish the properties and this could be a problem. Both of these conditions are necessary to relet at open market rental rates which is assumed in the projection of rental revenues.)

B. Description of the Corporate Structure of the Borrower and Related Companies.

(Construct a corporate organization chart. Include:
F.E. Reality a.s.
a Flow East Company
FE Realty a.s.
Flow East a.s.
Parent company of FE Reality a.s.
Underwood PLC
Disam Systems
M + J Genuine Design a.s.
Group consolidated
Flow East Limited)

(What is an "indirect wholly owned subsidiary"? I have no idea.)

(What do the companies M + J Genuine Design a.s. and Disam Systems have to do with this credit analysis? Nothing. They could trigger the cross default clause.)

C. Evaluation of the Product and Markets.

D. Borrower's Competitive Position.

III. MANAGEMENT.

(What do you know about management? Very little is known about management. Most appear to be British citizens, some are related. Management's ability to profitably manage a commercial property in Prague is untested.)

IV. INTERPRETATION AND ANALYSIS OF FINANCIAL INFORMATION FOR BORROWER AND GUARANTOR.

(What financial figures are given? Projected consolidated Income Statements for the Group are given for the years 1992 through 1997; the identity of the Group is not specified. A projected Group consolidated Balance Sheet for August 31, 1992 is also provided. For FE Reality, which is probably the issuer, a projected Income statement is provided for the years 1992 through 1997. There are no historic nor audited figures provided.)

A. Operations.

1. Income.

(How well did the shareholder group do in their property investments in central London between 1962 and 1989? It is stated that

the group sold its properties at a profit, although no data is provided that substantiates this claim nor gives the amount.)

2. Profitability.

3. Industry Comparisons

4. Foreign Exchange and Interest Rate Exposure.

B. Cash Flow.

C. Financial Condition (Comment on the following items as appropriate).

1. Accounts Receivable.

2. Inventory.

3. Liquidity.

4. Fixed Assets.

5. Other Assets.

6. Accounts Payable.

7. Contingent Liabilities.

8. Subordinated Debt.

9. Net Worth.

10. Leverage.

11. Trends.

12. Expansion Plans.

D. Projections and Forecasts.

(What will annual interest payment be? Kcs 18,000,000)

(Which company's figures are given in the financial forecasts? An unspecified consolidated Group, and FE Reality, which

may or may not be the issuer.)

(Are the figures given in Table 2 helpful for the analysis of the loan? Why or why not? No, because they are (1) projected, (2) Group consolidated rather than be specific to the issuer.)

(Does the cash flow from FE Reality repay the loan? The cash flow from FE Reality does not repay the loan. Cumulative projected net pre-tax profit for the years 1992 through 1997 is Kcs 104,210,000, a shortage of Kcs 15,790,000 to repay the loan if FE Reality does not have to pay taxes. Tax consequences would make the deficit even larger. Also, the projected cash flow shows the wrong amount of interest expense for the years 1993 thorough 1997; Kcs 16,500,000 rather than the correct amount of Kcs 18,000000)

(What do you think of the projections given in Table 3? The projections are incomplete, lack the required detail on revenue and expenses, and given an inaccurate amount for interest expense. They do not indicate that the issuer would be able to repay the notes.)

V. RELATED ANALYTICAL AREAS.

A. Collateral.

("The notes constitute secured obligations of the Issuer." What are they secured by? They are unsecured!)

(What basis will the independent valuer of the property use to establish market value? Details are not given. However, the agreement calls for a valuation to be made by an independent and suitably qualified body or person appointed by the Issuer.)

(What do you know about Ryden who did the market valuation of the Portfolio on 15 August? Nothing for sure. However, a Robert Neale, age 28, is a member of the Supervisory Board of F. E. Reality and he established Ryden's office in Prague and has been responsible for building their commercial agency business.)

(Are there any mortgages on the properties that will be the "collateral" for this loan? Yes.

Should you be concerned about them? Yes. **Why?** The document states there are 3 small mortgages. They will be repaid only two weeks after this loan is made. If they are not prepaid they will rank ahead of the proposed "collateral". The balance sheet shows borrowings of Kcs 50 million.)

(Who appoints the independent person that will determine the market value of the properties that will be given as collateral under the Mortgage? F.E. Reality a.s.)

(What are the weaknesses of the mechanics of how collateral will be substituted? If a Property is sold it will be at "Market Value" which will be established by a Valuation. The Market Value does not have to be the actual sale price. New Properties can be substituted with properties of equal or greater value. The value is determined by the valuation. The basis for a valuation is not given. It could happen that poor or even worthless properties could be substituted but could have a high valuation if certain assumptions are used.)

(Does the fact that the notes have a provision that if any subsidiary goes bankrupt, does not pay its debts, etc. give the loan agreement much strength? No. **Why?** The guarantor is only obligated to pay amounts it receives from the sale of the property subject to the Mortgage.)

B. Guarantees.

(The credit will be guaranteed. Discuss the terms and any limits to the guarantee. The guarantees are limited as follows: (1) Flow East a.s. guarantees the Agent that it will be responsible for repayment of FE Reality's debt; (2) the Agent will hold a mortgage on certain property owned by FE Reality which the Agent may sell if necessary for repayment of the notes and the Agent guarantees to distribute this amount to the note holders, less the Agent's expenses, to the note holders; (3) Swiss Bank Corp has issued a guarantee for a certain amount to the Agent to cover interest due but unpaid by the issuer and the Agent guarantees to distribute this amount, less the Agent's expenses to the note holders. In no event do the note holders have a direct guarantee from the issuer or SBC. The Agent only guarantees that it will distribute whatever money is left after its expenses and there is no recourse for the note holders if the Agent does not honor its guarantee.)

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(What problem do you see in the paragraph that talks about Security Arrangements? Comment on the guarantee the Agent makes about exercising its power of sale under the Legal Mortgages. The problems are (1) there is no amount stipulated for the value of the mortgages to be held as collateral, and (2) any proceeds from the sale of the property could be directed to reimburse the Agent for expenses incurred in the sale. The Agent guarantees only to exercise its power of sale if the issuer is unable to repay principal when due, and then to apply the proceeds, less the Agent's expenses, to the note holders.)

(What do you know about the ability of the guarantor to honor its obligations under the guarantee? Since the Agent is unnamed, we do not know anything about the ability of the Agent to honor its guarantee.)

Informační dopis
....Ledna 1993

F.E. Reality a.s.

[15] % směnek splatných v r. 1998

120 000 000 KČS	ZAJIŠTĚNÉ SMĚNKY SPLATNÉ V R. 1998
EMISNÍ CENA:	100% jejich základního množství
KUPÓN:	[15] % ročně, k placení s ročním zpožděním
TERMÍN:	Maximálně 5 let
OMEZENÍ PRODEJE:	Česká a Slovenská federativní republika
EMITENT:	Emitentem je F.E.Reality a.s., společnost vlastněná Flow East

Žádost o emisi směnek byla předložena ke schválení Ministerstvu financí České republiky.

SPOLUŘÍDÍCÍ ČINITELÉ

Wood & Company spol. s r.o. [ ]

ZAŘIZOVATEL
Case & Co.

Toto informativní memorandum bylo připraveno jak v češtině, tak v angličtině. V případě rozporu mezi oběma verzemi bude směrodatná česká verze.

EMITENT

Emitentem úpisu je: FE REALITY a.s., náležitě organizovaná společnost, platně existující a co do postavení podléhající zákonům České republiky a nepřímo zcela vlastněnou pobočkou společnosti, která je zaregistrovaná v Jersey, Channel Islands, Velká Británie.

Emitemt bere na sebe zodpovědnost za informce, keré jsou v tomto informativním dokumentu obsaženy. Emitent zpracoval informace podle nejlepšího vědomí a svědomí (a bylo učiněno vše, co bylo možné, aby tento případ skutečně nastal a tím jsou veškeré informace obsažené v tomto dokumentu ve shodě se skutečností a neopomíjí nic, co by pravděpodobně ovlivnilo důležitost takových informací.

Ředitelé Emitenta a jejich náležité základní činnosti jsou:

James Lewis Woolf: Ředitel. Věk 28 let, kvalifikoval se jako diplomovaný účetní u Price Waterhouse v Londýně.

Steven Davies: Vedoucí konstrukce a rozvoje. Věk 33 let, byl ředitelem různých společností obchodujícími s nemovitostmi v Anglii než se přestěhoval v roce 1990 do Prahy.

Simon John Case: Věk 33 let, kvalifikoval se jako notář u Linklaters & Paines v Londýně a potom pracoval jako podnikový finančník u Morgan Grenfell & Co. Limited. (spol. s r.o.) Před založením Case & Co. byl ředitelem finančního oddělení u Carlton Communications Plc (veřejná obchodní společnost).

Dozorčí představenstvo F.E. Reality, které je zodpovědné za dohlížení na činnost společnosti a schvalování ročních finančních zpráv, které jsou předkládány Výroční valné hromadě, je složeno jak níže uvedeno:

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Harry Woolf: Věk 58 let, byl předsedou Underwood Plc dokud tento podnik nebyl prodán Boots Plc v roce 1988.

Robert Neale: Věk 28 let, založil Ryden's office v Praze a byl zodpovědný za budování jejího obchodu jako komerční agentury.

JUDr. M. Cilinkova: Věk 49 let, je československá právnička s vlastní firmou situovanou v Praze.

Žádná osoba není oprávněna poskytovat jakékoliv informace nebo popisy, které by nebyly uvedeny v tomto dokumentu v souvislosti s nabízením směnek a, pakliže by k tomu došlo, pak tyto informace nebo popisy nesmí být považovány za Emitentem nebo Case & Co. nebo některým z obou ředitelů Emitenta za oprávněné. Z poskytnutí takové informace v žádném případě nevyplývá, že zde obsažené informace jsou správné a to platí pro veškerou dobu počínaje datem doručení tohoto dokumentu.

Emise směnek není veřejnou emisí. Ani Emitentem, ani Case & Co., ani hlavními řediteli dohromady nebyla, není a nebude prováděna činnost, která by dovolila veřejnou emisi směnek nebo cirkulaci či distribuci tohoto informativního dopisu, nebo zveřejňování jakéhokoliv materiálu v souvislosti s Emitentaem či Směnkami v jakékoliv zemi, kde by činnost pro tento účel byla vyžadována.

Ministerstvo financí souhlasilo s emisí těchto směnek jak požadováno Zákonem o obligacích z 26. listopadu 1990.

Tyto Směnky nejsou určené pro distribuci mimo Českou a Slovenskou republiku.

SOUHRNNÉ LHŮTY A PODMÍNKY PRO SMĚNKY

Směnky v hodnotě 120.000.000 Kčs splatných 1998 (Směnky) budou emitovány jestliže bude mezi Emitentem a [ ] jako platební kanceláří, matrikářem a všeobecnou agenturou podepsána Dohoda o platební agentuře a obecných podmínkách datovaná ** prosince 1992, kterou budou příslušné činnosti podřízeny.

EMITENT: F.E. Reality a.s. ( ) ("Emitent")

NÁZEV SMĚNEK: F.E. Reality [15]% 1998

SÍDLO: Klimentská 52, 110 00 Praha 1

VEDOUCÍ ČINITELÉ: Wood & Company; [ ]

AGENT: [ ]

ÚHRNNÁ ZÁKLADNÍ ČÁSTKA: 120.000.000 Kčs

FORMA A NOMINACE: Registrované zajištěné Směnky, každá v základní částce 100.000 Kčs

ÚROK: [15] procent ročně, k placení s ročním zpožděním

EMISNÍ CENA: 100 procent základní částky za Směnky

PODOBA SMĚNEK: Pro dodržení podmínek článku 1(5) Zákona o obligacích 530/1990 budou Směnky emitovány v nehmotné podobě. Vlastnictví je Směnkám přisouzeno zapsáním do registru vlastnictví spravovaného Agentem v zastoupení Emitenta. Při převodu vlastnictví směnek pošle Agent držiteli Směnky certifikát ("Certifikát držitele Směnky") evidující zápis jména příslušných držitelů směnek do registru.

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STAV SMĚNEK: Směnky ustanovují zajištěné obligace Emitenta a (v souladu se zde uvedenými podmínkami) ve všech případech mají rovnocenné postavení (tzv. pari pasu) a bez jakýchkoli předností před sebou navzájem.

KONEČNÁ SPLATNOST: Emitent se zavazuje splatit všechny Směnky v původní hodnotě [par] bez dalších oznámení dne ..... 1998, za předpokladu, že Směnky nebudou předplaceny v souladu s klauzulí *.

SPLÁCENÍ ZÁKLADNÍ ČÁSTKY: Emitent potvrzuje, že bude dlužit držitelům směnek plnou základní částku směnek jimi vlastněných a bude splácet takovou základní částku jak uvedeno v těchto podmínkách a okolnostech.

PLATBY: Emitent potvrzuje, že bude provádět platby ve prospěch držitelů směnek ve vztahu k datům uvedeným v těchto podmínkách a okolnostech a že platby budou prováděny převodem na účet v Českých korunách spravovaný držitelem směnek spolu s bankou v České republice jak naposledy oznámeno držitelem směnek Agentovi.

RUČENÍ: Flow East a.s. bezpodmínečně ručí za konečné splacení směnek Emitentem a splacení veškerých úroků splatných Emitentem.

[ ] jako Agent pro držitele směnek má bezpodmínečnou záruku od Swiss Bank Corporation po dobu, po kterou nebudou Směnky zaplaceny, stejně tak jako za splacení splatných úroků v případě neplnění závazku buď Emitentem či Flow East a.s. jako ručitelem. V případě povolání jako ručitele ručí [ ] držitelům směnek dát výtěžky ze zmíněné záruky na splacení úroku splatného držitelům směnek v poměru k jejich podílům.

BEZPEČNOSTNÍ OPATŘENÍ: Emitent poskytne [ ] první právně podloženou hypotéku na nemovitost k zajištění dodržení smlouvy předložené Emitentem. Jestliže Emitent selže v termínu splatnosti při splácení základní částky, pak Agent ručí Držitelům směnek, že použije svého práva na prodej v rámci této právně podložené hypotéky, uskuteční prodej a použije výtěžek z těchto prodejů ke splacení plné výše základní částky splatné Držitelům Směnek v poměru k jejich podílům a k jejich uspokojení touto částkou a zbytek, bude–li nějaký, bude převeden Emitentovi.

SPECIFICKÉ SMLOUVNÍ PODMÍNKY

Emitent zabezpečí, že po dobu, po kterou jakákoliv ze směnek zůstane nesplacena:

(i) Úhrnná nesplacená základní částka by neměla převyšovat množství rovnající se 75 procentům nezávislého ohodnocení portfolia v libovolném okamžiku. Nezávislé znovu–ohodnocení nebude prováděno méně než jednou za rok mezinárodně uznávanou firmou z oblasti odhadů nemovitostí a kopie bude dodána Agentovi.

(ii) Hrubý roční příjem z nájmu Emitenta by měl být rovný nebo vyšší než 150 procent ročního úroku splatného ze směnek.

(iii) Dokud Směnky nebudou znovu plně zváženy, nebudou Emitentem zaplaceny žádné dividendy.

BRZKÁ PLATBA: Podle možností Emitenta mohou být Směnky splaceny 60 dní před písemnou zmínkou k třetímu výročí Směnky. Jestliže dojde ke splacení před ** 1997, pak bude splátka 101 procent ze základní částky a jestliže před ** 1998, pak bude splátka 100,5 procent ze základní částky spolu s narostlým úrokem.

POSTUPY PŘI NEPLNĚNÍ ZÁVAZKŮ

Agent může podat Emitentovi písemné oznámení, že Směnky jsou, a že by se měly podle dále uvedeného textu stát, neprodleně splatnými ve výši své základní částky spolu s narostlým úrokem při kterémkoliv z následujících případů:

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(i) Pokud nejsou plněny závazky ve splácení jakékoliv základní částky splatné s ohledem na Směnky a pokud toto neplnění trvá po dobu 7 dnů nebo více po právoplatném uvědomění; nebo

(ii) Pokud dojde k neplnění závazků při splácení jakýchkoliv splatných úroků ze směnek a pokud toto neplnění trvá po dobu 7 dnů a více po právoplatném uvědomění; nebo

(iii) Pokud Emitent selže v dodržování jakýchkoliv svých závazků nebo smluv ohledně směnek a pokud toto selhání trvá po dobu 14 dnů následujících po právoplatném uvědomění Agentem vyžadujícím to samé k odstranění nedostatku (je-li odstranění nedostatku možné); nebo

(iv) Pokud jakákoliv jiná půjčka nebo jiné zadlužení za půjčené peníze od Flow East a.s. nebo jakákoliv jiná dceřiná společnost se stane splatnou ještě před naplněním důvodu pro neplnění závazků v celkové výši ne méně než 1.000.000 Kčs nebo pokud záruka či zajištění poskytnuté Flow East a.s. nebo dceřinou společností ohledně půjčky či jiného zadlužení za půjčené peníze ve výši ne méně než 1.000.000 Kčs není zaplacena při splatnosti a je požadována; nebo

(v) Pokud má být učiněn jakýkoliv pořádek kompetentním soudem nebo má být učiněno usnesení pro likvidaci obchodu nebo rozpuštění Flow East a.s. nebo dceřiné společnosti mimo účely sloučení, spojení, konsolidace, reorganizace a podobných opatření schválených Agentem nebo pokud má být učiněn jakýkoliv pořádek ohledně Flow East nebo dceřiné společnosti; nebo

(vi) Pokud nějaký administrativní nebo jiný příjemce, nebo nějaký administrátor nebo jiný podobný úředník bude dosazen ve vztahu k Flow East a.s. nebo dceřiné společnosti nebo, ve vztahu k celkové či značné části jmění kterékoliv z nich.

NÁHRADA

Emitentovi bude povoleno prodávat nemovitosti z portfolia se souhlasem Agenta za předpokladu, že takový prodej bude učiněn v tržních cenách dosvědčených nezávislým ohodnocením a budou nahrazeny nemovitostí nebo nemovitostmi s ne nižší hodnotou než dle dosvědčení dalším nezávislým ohodnocením mezinárodně uznávanou poradenskou firmou v oblasti nemovitostí.

Emitentovi bude povoleno s jednomyslným souhlasem držitelů směnek prodávat nemovitost a znovu investovat (nebo ne) výnosy z obchodu do další nemovitosti nebo nemovitostí bez nabízení tohoto vždy jako předmět náhrady na základě smluv podepsanými Emitentem.

ŘÍDÍCÍ PRÁVO A SOUDNÍ PRAVOMOC (pro Směnky): Právo České republiky a pražských soudů.

ZDAŇOVÁNÍ: Úroky ze směnek budou předmětem daně vybírané srážkou a dalších uplatněných daní v souladu s uplatněnou legislativou.

PŘEVOD SMĚNEK: Převod směnek může být uskutečněn prodávajícím držitelem směnek prostřednictvím podpisu a vyplnění převodního formuláře natištěného na opačné straně certifikátu držitele Směnky. Certifikát držitele Směnky a vyplněný převodní formulář musejí být potom odeslány Agentovi na adresu obsaženou na převodním formuláři, spolu se základní částkou směnek, které byly nakoupeny. Agent příslušně opraví rejstřík a během tří všedních dní pošle nový certifikát držitele směnek prokazující takový nový záznam kupujícímu a tam, kde je to vhodné, prodávajícímu držiteli směnek pokud se týče množství neprodaných nebo nepřevedených směnek.

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Převod se stane uskutečněným na základě vystavené příjemky Agentem potvrzující správné vyplnění a podepsání převodního formuláře. Za účelem poskytnutí Agentovi čas učinit administrativní opatření, musí být převod směnek oznámen Agentovi nejméně 15 dní před datem platby jakéhokoliv úroku či základní částky, jelikož takové platby budou uskutečněny ve prospěch držitele směnek, který je zapsán do rejstříku 15-tého dne před datem pro takové platby.

ZÁZNAMY NA BURZÁCH: Směnky nebudou zpočátku uváděny v záznamech na burzách. Záměrem pomocných vedoucích manažerů je zřídit pro Směnky trh na základě vyrovnané výhodnosti.

VYROZUMĚNÍ DRŽITELŮM: Vyrozumění držitelům směnek a výroční finanční zprávy Emitenta budou zasílány poštou držitelům směnek na jejich adresy uvedené v rejstříku.

ÚDAJE O UTVÁŘENÍ EMITENTA:

POPIS EMITENTA:

FE REALITY vlastní nemovitosti (budovy spolu s pozemky) skupiny ("portfolio"). Portfolio sestává z 9 různých dobře situovaných komerčních a rezidenčních nemovitostí v centru Prahy. Podrobný popis portfolia je uveden v ohodnocení společností Ryden na straně *.

Portfolio je aktivně spravováno vlastním profesionálním týmem společnosti a restaurování a modernizace jsou uskutečňována jak vlastními zaměstnanci, tak místními dodavateli.

Plánovaná roční zpráva ohledně příjmů a výdajů k 31. prosinci 1992 ukazuje celkový příjem 11,31 miliónů Kčs. Předpověď pro rok končící 31, prosincem 1993 ukazuje tuto hodnotu zvýšenou na 33,25 miliónů. Sklizeň z tohoto portfolia bude pokračovat jak společnost bude získávat plně neobsazené nemovitosti a bude schopna zmodernizovat a znovu pronajmout za otevřené tržní nájemní ceny.

Nezávislé otevřené tržní ohodnocení portfolia provedené společností Ryden dne 15. srpna 1992 představovalo 173 miliónů.

Úvod k zákonu o mimosoudních restitucích na nemovitý majetek pro české občany umožnil řádně získat břemeny nezatížené budovy spolu s pozemky v Praze. Veškeré nemovitosti jsou ve formě vlastnictví budov současně s pozemky a majetek Emitenta je zaregistrován v pozemkové knize v Praze.

POPIS RUČITELE

Flow East a.s. ("Flow East"), přímá mateřská společnost Emitenta, byla založena z některých původních hlavních akcionářů britské veřejné obchodní společnosti Underwood PLC ("Underwood") následované úspěšným prodejem této společnosti firmě Boots PLC ("Boots") v roce 1988. Společnost Underwood byla založena v roce 1962 jako maloobchodní drogerie ve středu Londýna. Během období 30 let se rozrostla na celkem 55 obchodů, každý o průměrné rozloze 1000 metrů čtverečních. Před prodejem firmě Boots byla společnost Underwood uvedena v seznamech Mezinárodní burzy. Harry Woolf, ředitel rady představenstva Emitenta, býval předsedou společnosti Underwood až do prodeje firmě Boots.

Tatáž skupina akcionářů byla od roku 1962 do 1989 zapojena do investiční činnosti do nemovitostí v centru Londýna. Všechny tyto investice byly ke konci roku 1989 se ziskem prodány.

V roce 1990 se skupina akcionářů rozhodla investovat ve Východní Evropě a založila Flow East a.s. jako svoji investiční základnu v Praze, Československu. James Woolf, ředitel Flow

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East, se přestěhoval do Prahy poté, co se kvalifikoval jako diplomovaný účetní u Price Waterhouse v Londýně.

Prvním pokusem Flow East v Československu bylo založení partnerské firmy pro Science Systems, počítačovou softwarově orientovanou společnost. Tato společnost, Disam Systems, je vlastněna z 25 procent československými řídícími pracovníky a zaměstnanci, z 8 procent Flow East a zůstatek společností Science Systems. Zaměstnává kolem 70 pracovníků a úspěšně obchoduje.

Mimo Emitenta vlastní Flow East 50% maloobchodní společnosti M + J GENUINE DESIGN a.s. Tato společnost se zabývá vyrobou, velkoobchodem a maloobchodem pro turistický průmysl. Jejich výrobky zahrnují vlastní publikace knih o umění a historii, potištěná trika, zboží z křiš»álového skla a další typické turistické předměty. Československo navštívilo v roce 1991 přibližně 65 miliónů cizinců, z nichž velká většina navštívila Prahu, jednu z nejrychleji rostoucích turistických atrakcí na celém světě. Společnost v současné době provádí distribuci do zhruba 100 odbytiš» a provozuje šest svých vlastních prodejen.

Účty této společnosti pro rok končící 31. prosincem 1992 předvídají nezdaněné zisky ve výši 15,4 miliónů Kčs na základě obratu 46,4 miliónů Kčs. Podle plánu toto stoupne na nezdaněné zisky na výši 44,3 miliónů Kčs na základě obratu 110,4 miliónů Kčs v roce 1993. V současné době zaměstnává zhruba padesát lidí a má svou vlastní řídící a vykazovací strukturu.

INVESTIČNÍ FILOSOFIE

Praha je malé město se silně kontrolovaným centrem města. Je zřejmé, že dostupnost komerčních prostorů ve středu města je značně omezená. Zákony týkající se plánování a pražské památkové úřady omezují příležitosti pro rozvoj ve velkém měřítku. Plán na straně ... ukazuje umístění nemovitého majetku portfolia demonstrující jeho centrální polohu. Rovněž ukazuje umístění některých významných mezinárodních společností a profesionální klientely mající v Praze kanceláře, což vyvolalo silnou poptávku na kancelářské prostory a na byty pro bydlení pro cizozemské zaměstnance. Program privatizace spolu s projekty Joint Venture mezi českými a zahraničními společnostmi tuto poptávku ještě dále zvýší.

Praha je velmi atraktivním městem a ředitelé Flow East věří, že centrálně umístěné ubytování, jak komerčního, tak i rezidenčního charakteru, bude více vyhledáváno nežli případné nově rozvinuté oblasti na periferiích města.

Jelikož je mnohý nemovitý majetek portfolia umístěn v ulicích, které jsou vhodné pro zřízení maloobchodních jednotek v úrovni přízemí, lze dosáhnout dobrého počátečního výtěžku, zatímco bude probíhat renovace zbylých částí budovy. Práce potřebná k dotažení většiny nemovitého majetku portfolia na nezbytnou standardní úroveň je za normálních okolností dostupná rychle a s omezenými výdaji za využití místních dodavatelů a vlastních zaměstnanců společnosti. Společnost těsně spolupracuje s úřady pro plánování a s památkovými úřady, aby bylo zajištěno, že její nemovitý majetek budou zrestaurovány přiměřeným způsobem.

FINANCOVÁNÍ

Získávání portfolia bylo hrazeno z akcií poskytovaných akcionáři společnosti Flow East nebo z půjček od společností, na kterých se skupina investorů majetkově podílí. Na určitý nemovitý majetek byly vystaveny tři hypotéky, které budou v plné výši splaceny v průběhu čtrnácti dní po uzavření této emise.

Ředitelé věří, že je přiměřené v této době opatrně zvýšit poměr zadlužení a celkového jmění, který tato emise pro FE Reality představuje.

POUŽITÍ VÝTĚŽKŮ

Celkové výtěžky emise směnek po odpočítání provizí a výdajů spojených s emisí budou použity pro všeobecné účely společnosti, pracovní kapitál a bude-li to přiměřené, pro další investice do nemovitostí v Praze.

OCEŇOVÁNÍ

Následující text je textem ocenění portfolia provedeného společností Ryden ze dne 15. srpna 1992, což je publikace, ve které společnost Ryden potvrdila písemně svůj souhlas. Rovněž potvrdila, že neexistují žádné okolnosti, kterých by si byla vědoma, které by vedly k vypracování kvalifikačního posudku ke své zprávě, kdyby ji měla podepsat dnes.

ÚČETNÍ ZPRÁVA

Následující text je výtažek z auditorské zprávy seskupených společností zpracované firmou Lubbock Fine March (CS) spol. s r.o., diplomovaní účetní, Na Strži 63, 140 62 Praha 4.

"Podle našeho názoru dávají výsledovka a rozvaha podle československých účetních konvencí materiálně správný obraz finančních výsledků aktiv a pasiv společnosti za období ke 31. prosinci 1991.

FINANACE

Tabulka 1: Skupina sloučila předpokládané výsledovky pro roky končící 31. prosincem 1992–1997

	1992	1993	1994	1995	1996	1997
	Kčs (milióny)					
Tržby:						
Prodej	46,4	110,4	110,5	110,5	110,5	110,5
Tržby z nájmů	11,4	29,9	43,0	52,4	61,3	70,1
Náklady na tržby	13,8	33,8	35,1	35,4	35,6	35,8
Hrubý zisk	44,0	106,5	118,4	127,5	136,2	144,8
Provozní náklady	19,5	34,5	36,5	38,9	41,6	44,6
Zisk před zdaněním a zúročením	24,5	72,5	81,9	88,6	94,6	100,2
Úrok	2,9	16,5	16,5	16,5	16,5	16,5
Zisk před zdaněním	21,6	56,0	65,4	72,1	78,1	83,7

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Veškeré předpoklady jsou založeny na očekáváních ředitelů pokud se jedná o prodeje a výdaje, které jsou založené na výkonu společnosti do října 1992. Tyto předpoklady jsou zahrnuty pouze pro ilustrativní účely a nejsou ani myšleny jako záruky pro výkon společnosti, ani nejsou myšleny jako předpovědi.

Tabulka 2: Navržená skupina sloučila rozvahy jako ke dni 31. srpna 1992

AKTIVA

	Kčs '000
Pevné/dlouhodobé:	
Nemovitý majetek	179.115
Vozový park	654
Investice	
Současné:	
Akcie	16.976
Předplacený nájem	525
Peníze v hotovosti	15.288
	212.558
PASÍVA A KAPITÁL	
Věřitelé:	
Výpůjčky:	
Bankovní	43.956
Ostatní dlužníci	6.118
Závazky (obchodní)	9.990
Závazky (mzdy)	1.683
Závazky (daně)	186
	61.933
Čisté jmění	150.625
Kapitál & rezervy	
Kapitál ve vydaných akciích	25
Neemisní upsaný kapitál	107.977
Rezervní (nevydané) akcie	10
Revalvační rezerva	30.000
Zadržený zisk	12.563
	150.576
Zájem menšiny	50
	150.625

Tabulka 3: FE Reality – Předpokládané výsledovky pro roky končící 1992–1997 spolu s podrobnými plány příjmů z nájmů a výdaje na stavební práce a dovolené.

Kčs (mil.)	1992	1993	1994	1995	1996	1997
Příjmy z nájmů	8,94	33,01	38,76	48,31	57,35	66,21
Služby	0,17	0,24	0,27	0,28	0,30	0,32

Další příjmy	2,20					
ÚHRNNÉ PŘÍJMY	11,31	33,25	39,03	48,59	57,65	66,53
NÁKLADY						
úroky	2,92	16,50	16,50	16,50	16,50	16,50
mzdy	2,00	3,08	4,31	5,17	6,21	7,45
daně	0,86	2,63	3,98	4,22	4,46	4,65
odpisy	0,72	0,71	0,78	0,86	0,95	1,05
pojištění	0,45	0,50	0,55	0,61	0,66	0,73
různé	1,08	1,32	1,45	1,60	1,76	1,93
CELKEM	8,03	24,74	27,57	28,96	30,54	32,31
Zisk před zdaněním	3,28	8,51	11,46	19,63	27,11	34,22

DIAGRAM ZOBRAZUJÍCÍ STRUKTURU SKUPINY FLOW EAST SPOL. S R.O.

FLOW EAST SPOL. S R.O.

100%

FLOW EAST a.s. 95%

50% 5%

M&J GENUINE DESIGN a.s. FE REALITY a.s.

Registrovaná kancelář Emitenta: FE REALITY a.s.
Klimentská 52, 110 00 Praha 1
Československo

Ručitel: Flow East a.s.
Klimentská 52, 110 00 Praha 1
Československo

Platební kancelář, matrikář & všeobecná agentura: [ ]

Spoluřídící jednotky: Wood & CO.
[ ]

Zařizovatel: Case & Co.

Pravní poradci zařizovatele:
Pro československé právo: Balcar, Polanský & spol., Národní 32, 116 66 Praha 1

Pro anglické právo: Linklaters & Paines, Barrington House, 59–67 Gresham Street, London EC2V 7JA.

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LHŮTY A PODMÍNKY PRO SMĚNKY

Směnky byly emitovány dne [•] a jsou předmětem dohody s platební agenturou ze dne [•] ("Dohoda s agenturou") mezi Emitentem, FLOW EAST A.S. jako ručitelem ("Ručitel") a [•] jako platební agenturou a matrikářem ("Agent"). Výtisky Dohody s agenturou jsou pro účely inspekce dostupné během běžné úřední doby v uvedených kancelářích Agenta. Předpokládá se, že držitelé směnek budou mít zprávy o všech ustanoveních Dohody s agenturou, které se jich budou týkat.

1. FORMA, DENOMINACE A VLASTNICTVÍ

(a) Forma a denominace: Směnky jsou v nehmotné formě v denominaci 100.000 Kčs.

(b) Vlastnictví a Certifikát držitele Směnky: Vlastnictví je Směnkám přisouzeno zápisem do rejstříku, přičemž Emitent zajistí, aby tento byl uchováván u Agenta. Za těchto podmínek "držitel Směnky" a "držitel" představuje osobu, na jejíž jméno je v tomto rejstříku připsána Směnka, což může nastat. Emitent zařídí, aby Agent vystavil certifikáty držitelům směnek, kteří v té době dosvědčí zápis jména příslušného Držitele Směnky do rejstříku, a takové certifikáty ("Certifikáty Držitelů směnek") budou uvádět počet směnek registrovaných na jméno příslušného držitele směnek a budou mít na rubu natištěný převodní formulář. S držitelem jakékoliv Směnky bude (s výjimkou, bude-li dle zákona nebo Podmínky 2 vyžadováno jinak) nakládáno jako s jejím absolutním vlastníkem ve všech případech (a» je či není dávno splatná a nezávisle na jakémkoliv oznámení o vlastnictví na příslušném Certifikátu držitele Směnky či na podílu na ní, na jakémkoliv zápisu v něm, nebo na jeho ukradení nebo ztrátě) a žádná osoba za takové nakládání s držitelem nebude zodpovědná.

2. PŘEVOD SMĚNEK

(a) Převod směnek: Směnka může být převedena, vzdá-li se někdo příslušného Certifikátu držitele směnek spolu s převodním formulářem natištěným na rubu listu, který bude náležitě vyplněn údaji obsahujícími adresu osoby, na kterou se převádí a počet směnek k převedení a k provedení, což bude provedeno v kanceláři Agenta. V případě převodu pouze části směnek bude vzhledem k nepřevedenému zůstatku vystaven osobě, která převádí, nový Certifikát držitele směnek.

(b) Dodání nových Certifikátů držitele směnek: Každý nový Certifikát držitele směnek vydaný na základě převodu směnek bude během tří všedních dnů od obdržení převodního formuláře poslán doporučenou poštou na riziko držitele uvedeného v Certifikátu držitele směnek na adresu, jaká bude uvedena na požádání nabo na převodním formuláři.

(c) Bezplatné formální záležitosti: Výměna Certifikátů držitele směnek při převodu nebude zatížena poplatkem vůči držiteli ani ze strany, ani ve prospěch Emitenta, Ručitele nebo Agenta, avšak toto se netýká daní či jiných státních poplatků (nebo podobných poplatků, které musel zaplatit Agent), které v souvislosti s tímto mohou být uloženy.

(d) Uzavřená období: Žádný držitel směnek nesmí od Agenta požadovat zaregistrování převodu Směnky během období trvajícího 15 dní a končícího v den splatnosti pro jakoukoliv platbu té které Směnky.

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3. STAV

(a) Směnky představují zajištěné obligace Emitenta a ve všech případech mají rovnocenné postavení (tzv. pari pasu) a bez jakýchkoli předností mezi sebou navzájem.

(b) Emitent vypsal hypotéku ("Hypotéka") na několik nemovitostí jím v Praze vlastněných ("Nemovitosti") ve prospěch [•] ("[•]") jako hmotnou záruku na závazky ze strany [•] držitelům směnek v rámci ručení platby Emitenta jím poskytnutým. Na základě této záruky budou závazky ze strany [•] – provést platbu držitelům směnek – omezeny výší částky, kterou [•] zrealizuje prosazením těchto hypoték, sníženou o náklady, které si tímto [•] přivodil.

(c) Navíc Swiss Bank Corporation zaručila ve prospěch [•] platbu úrokových částek splatných pokud jde o Směnky do výše DM [ ]. [•] poskytl držitelům směnek podobnou záruku s výjimkou, že závazky ze strany [•] v rámci tohoto ručení budou omezeny výší částky, kterou [•] zrealizuje prosazením těchto hypoték, převedenou v souladu s běžnými praktikami [•] do Kčs, sníženou o náklady, které si v souvislosti s tímto prosazením nebo převodem [•] přivodil.

(d) Emitent může prodat některé ze všech nemovitostí, které jsou předmětem Hypotéky, za předpokladu, že:–

(i) každá z nemovitostí bude prodána za tržní hodnotu, přičemž tato hodnota bude stanovena oceněním provedeným nezávislou a přiměřeně kvalifikovanou právnickou nebo fyzickou osobou, vybranou Emitentem ("Ocenění").

(ii) každá z prodaných Nemovitostí bude nahrazena nemovitostí nebo nemovitostmi o stejné nebo vyšší hodnotě, přičemž tato hodnota bude stanovena Oceněním; a

(iii) Agent s prodejem souhlasí;

(e) Jestliže držitelé směnek dospějí k jednomyslnému souhlasu a bude–li splněna podmínka 9, pak může Emitent prodat některé ze všech svých Nemovitostí, které jsou předmětem Hypotéky a znovu investovat výnosy z prodeje do další nemovitosti nebo dalších nemovitostí, (aniž by tyto nabízel pro účely nahrazování) které by nebylo předmětem Hypotéky.

4. ÚROKY

Směnky vynášejí úroky ode [DNE UZÁVĚRKY] se sazbou 15 procent za rok, dosahující výše [•] Kčs za 100.000 Kčs základní částky směnek, k placení vždy s ročním zpožděním v [KUPÓNOVÝ DEN] každoročně [(včetně DNE KONEČNÉ SPLATNOSTI)]. Každá Směnka přestane vynášet úroky počínaje dnem splatnosti, nedojde–li k tomu, že splatná platba základní částky bude v době splatnosti nepatřičně odepřena nebo odmítnuta. V takovém případě bude Směnka pokračovat ve vynášení úroku za stejné sazby dokud nenastane kterýkoliv z dřívějších dnů: (a) den, kdy všechny splatné částky v souvislosti s touto Směnkou budou do tohoto dne obdrženy ze strany nebo ve prospěch příslušného držitele, nebo (b) den, kdy uplynulo sedm dní poté, co Agent oznámil držitelům směnek přijetí všech částek splatných v souvislosti se všemi Směnkami do tohoto sedmého dne (s výjimkou, kdyby došlo k chybě při následující platbě příslušným držitelům v rámci těchto podmínek). Bude–li požadován výpočet úroků za období kratší jednoho roku, bude vypočítán na základě roku s 360 dny obsahujícího 12 měsíců, každý po 30 dnech a v případě nedokončeného měsíce počet prošlých dní.

5. SPLACENÍ A KOUPĚ

(a) Závěrečné splacení: Nebyly-li Směnky předčasně splaceny, odkoupeny nebo zrušeny, budou splaceny ve své základní částce v [DEN KONEČNÉ SPLATNOSTI]. Směnky nesmějí být spláceny podle volby Emitenta jinak, než v souladu s touto Podmínkou.

(b) Splácení podle možností Emitenta: Emitent může, kdykoliv nebo po [DNU UZÁVĚRKY + 3 LETECH] s podáním neodvolatelného písemného oznámení držitelům směnek ne více než 120 a ne méně než 60 dní předem, splatit všechny Směnky, avšak ne pouze některé:-

(i) jestliže budou splaceny [přesně nebo] před [• prosincem 1996] ve výši 101 procent své základní částky;

(ii) jestliže budou splaceny po [• prosinci 1996], avšak [přesně nebo] před [• prosincem 1997] ve výši 100,5 procent své základní částky

(iii) jestliže budou splaceny později ve své základní výši [společně pro každý případ s úroky narostlými ke stanovenému datu splatnosti].

(c) Koupě: Emitent a Ručitel smějí kdykoliv nakoupit Směnky v otevřených tržních cenách nebo v jakýchkoliv jiných cenách.

(d) Zrušení: Všechny Směnky takto splacené nebo nakoupené budou zrušeny a nesmějí být znovu emitovány nebo znovu prodány.

(e) Oznámení o splacení: Všechny Směnky, ohledně kterých bylo vydáno jakékoliv oznámení o splacení, budou splaceny v termínu uvedeném na tomto oznámení v souladu s touto Podmínkou.

6. PLATBY

(a) Platby provedené převodem: Platby za Směnky budou placeny osobám uvedeným jako Držitelé směnek v rejstříku v okamžiku ukončení pracovní doby patnáctého dne před datem splatnosti platby úroků ("Den zápisu"). Platby budou provedeny převodem na korunový účet spravovaný příjemcem u takové banky v Praze, jakou příjemce oznámil Agentovi ne méně než 15 dní před datem splatnosti jakékoliv platby v souvislosti se Směnkami. Pochybí-li příjemce oznámit Agentovi bankovní účet, na jaký by platba měla být provedena, oznámením tohoto v termínu spadajícím do období méně než 15 dní před datem platby, může toto způsobit zpoždění provedení příslušné platby, aniž by Emitent byl zavázán platit dodatečné úroky ze splatné částky.

(b) Agent: Původní Agent a jeho původně uvedené kanceláře jsou vymezeny v Dohodě s agenturou. Emitent a Ručitel si vyhrazují právo kdykoliv změnit nebo ukončit dojednání s Agentem a určit dalšího nebo jiného Agenta, za předpokladu, že budou mít vždy k dispozici nějakého Agenta v Praze. Oznámení o jakékoliv změně ohledně Agenta nebo ohledně uvedené kanceláře bude neprodleně podáno Držitelům směnek.

7. ZDANĚNÍ

Všechny platby ohledně Směnek nebo v rámci Ručení budou předmětem srážky daní uložených nebo zadržených jakýmkoliv způsobem ze strany nebo v rámci České republiky nebo jakoukoliv institucí v nebo z České republiky mající pravomoc ke zdaňování.

8. PŘÍPADY NEPLNĚNÍ ZÁVAZKŮ

Jestliže se objeví a bude trvat jakýkoliv z následujících případů:-

(a) Neplacení: došlo k nedodržení závazků ohledně platby jakýchkoliv úroků z libovolných Směnek, jsou-li splatné a toto nedodržení závazků trvá po dobu 7 dní; nebo

(b) Porušení jiných závazků: Emitent neplní nebo se nepodrobuje jednomu nebo více ze svých závazků ze Směnek, přičemž toto pochybení není možno napravit nebo nebylo napraveno během 14 dnů poté, co oznámení o tomto pochybení bylo předáno jakýmkoliv Držitelem směnek Emitentovi v uvedené kanceláři Agenta; nebo

(c) Neplnění závazků vůči jiným věřitelům: (i) jakékoliv jiné současné nebo budoucí zadlužení Emitenta nebo Ručitele nebo jakékoliv jiné pobočky Ručitele za nebo ohledně půjčených nebo opatřených peněz splatných ještě před jejich uvedeným termínem splatnosti jinak než prostřednictvím volby Emitenta, nebo prostřednictvím volby Ručitele, což může nastat, nebo (ii) žádné takové zadlužení nebude splaceno v termínu splatnosti, nebo v průběhu jakéhokoliv snesitelného období 'milosti', což může nastat, nebo (iii) Emitent nebo Ručitel nebo jakákoliv další pobočka Ručitele pochybí při splacení jakékoliv jimi splatné částky v termínu splatnosti v rámci jakýchkoli současných nebo budoucích záruk nebo náhrad za jakékoliv vypůjčené nebo opatřené peníze za předpokladu, že celková částka příslušného zadlužení, záruk a odškodnění, ohledně kterých jeden nebo více z výše uvedených případů v tomto paragrafu (c), které se objevily, se rovnají nebo převyšují částku 1.000.000 Kčs nebo její ekvivalent (na základě středního kursu příslušné měny proti koruně v tom daném okamžiku podle údajů Státní banky a.s. (a pochybí-li tato, pak podle údajů jiného podobného oficiálního zdroje) toho dne, kdy bude tento paragraf použit), za předpokladu, že takový případ nenastane pouze z důvodu, že Státní banka a.s. (nebo jiná podobná instituce, která bude v příslušné době zodpovědná za poskytování výměny zahraniční měny), která pochybí v tom, že neumožní provést pro Emitenta výměnu zahraniční měny; nebo

(d) Vynucovací prostředky: dojde k zabavování, vynucování nebo žalování, jako je zabavení majetku, obstavení majetku, exekuce nebo jiné právní procesy proti části nemovitého majetku, jmění nebo výnosů Emitenta nebo Ručitele nebo jakékoliv z jejich dotyčných poboček a nedojde během 30 dní ke zproštění obžaloby či odložení; nebo

(e) Vynucování záruky: dojde k vymáhání jakékoliv záruky či hypotéky, současné či budoucí, vytvořené či předpokládané Emitentem nebo Ručitelem nebo jakoukoliv z jejich dotyčných poboček a jsou učiněna veškerá opatření k jejich vynucení (včetně odebrání majetku nebo jmenování likvidátora); nebo

(f) Insolventnost: Emitent nebo Ručitel nebo jakákoliv z jejich dotyčných poboček je (nebo je, nebo by mohla být, považována zákonem nebo soudem za takovou, že je) insolventní nebo v bankrotu nebo neschopna splatit svoje dluhy, pozastaví, přeruší nebo hrozí pozastavit nebo přerušit platby všech nebo podstatnou část svých (nebo část konkrétních) dluhů, navrhne nebo provede celkový převod vlastnictví nebo dohodu nebo kompromis s příslušnými věřiteli či ve prospěch příslušných věřitelů v souvislosti s jakýmikoliv z těchto dluhů, nebo je dohodnuto či vyhlášeno příročí týkající se či ovlivňující všechny či nějaké z částí (či konkrétní části) dluhů Emitenta nebo Ručitele nebo jakékoliv z jejich dotyčných poboček; nebo

(g) Likvidace: je vysloven příkaz nebo je provedeno účinné rozhodnutí pro likvidaci nebo pro zrušení Emitenta nebo Ručitele nebo jakékoliv z jejich dotyčných poboček, nebo Emitent či Ručitel ustane nebo hrozí ustat v pokračování ve všech nebo v podstatné části své obchodní činnosti či provozu, s výjimkou účelu nebo následně po rekonstrukci, splynutí, reorganizaci, sloučení nebo konsolidaci v termínech schválených Agentem; nebo

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(h) Obdobné události: nastane jakýkoliv případ, který má ve smyslu zákonů jakéhokoliv právního systému obdobný efekt na případy, na které bylo odkázováno v jakémkoliv z předcházejících odstavců;

pak všechny, avšak ne pouze některé ze Směnek, mohou být na základě písemného oznámení předaného držitelem či držiteli, vlastnícími základní částku alespoň 2.000.000 Kčs, Agentovi do jeho uvedené kanceláře prohlášeny za okamžitě splatné, načež se Směnky stanou okamžitě splatnými ve výši své základní hodnoty spolu s narostlými úroky bez dalších formalit, avšak za předpokladu, že tato událost nebo pochybení bylo napraveno ještě před obdržením takového oznámení Agentem.

9. SMLOUVY EMITENTA A RUČITELE

Kdykoliv před splacením Směnek ve výši jejich základní částky, a» už byly splaceny dne [•] nebo před ještě tímto datem nebo byly odkoupeny nebo zrušeny;

(i) celková dosud nesplacená základní částka za Směnky nepřekročí částku rovnou 75 procentům hodnoty nemovitého majetku v Kčs, tato hodnota bude stanovena oceněním ("Výroční ocenění") Nemovitostí provedeném dne 15. srpna 1992 a vždy jednou v každém následujícím kalendářním roce nezávislou a přiměřeně kvalifikovanou právnickou nebo fyzickou osobou určenou Emitentem;

(ii) Emitent dodá Agentovi výtisky Výročního ocenění během 10 dnů od dodání Výročního ocenění Emitentovi

(iii) hrubý roční příjem Emitenta v Kčs z nájmů z nemovitostí se bude rovnat nebo bude převyšovat částku rovnou 150 procentům z hrubých ročních úroků splatných ze Směnek;

(iv) Emitent neuzná nebo nezaplatí dividendy nebo neprovede jakoukoliv distribuci ve prospěch jakýchkoliv svých akcionářů, a zajistí, aby žádná jiná osoba v jeho jménu takto rovněž neučinila;

(v) Agent vyhotoví kopie posledních Výročních ocenění a ročních účetních zpráv, které obdržel, aby byly připraveny pro prověření Držiteli směnek; a

(vi) Emitent poskytne Agentovi kopie svých zauditovaných ročních účetních zpráv, a to neprodleně po jejich vydání.

10. ÚPRAVY DOHODY S AGENTUROU

Emitent a Ručitel povolí jakékoliv úpravy Dohody s agenturou, nebo jakékoliv zřeknutí se práv nebo oprávnění k jakémukoliv porušení či návrhu porušení Dohody s agenturou nebo přizpůsobení se jakémukoliv pochybení, jen tehdy, jestliže by toto nemohlo být důvodně očekáváno jako škodící zájmům Držitelů směnek.

11. OZNÁMENÍ

Oznámení držitelům Směnek jim budou zasílány na jejich dané adresy v Rejstříku a budou považovány jako předané sedmého dne po datu odeslání.

12. ŘÍDÍCÍ PRÁVO

Řídící právo: Dohoda s agenturou a Směnky budou podřízeny a postaveny v souladu s právem České republiky.

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Exhibit B–6B

Review of Proposed Credit Approval Systems

TO: JUDr. Olga Polanecka
Commercial Division
Czech Savings Bank

FROM: Steve Graybill
KPMG Peat Marwick
Policy Economics Group

DATE: March 26, 1993

SUBJECT: Review of the Proposal for the Credit and Capital Committee and System of Authorities for Approving Active Trades.

You requested that KPMG review the "Proposal for the Credit and Capital Committee and System of Authorities for Approving Active Trades". Our comments are as follows.

The draft proposal is a major improvement over the existing system. However, we believe that there is room for further improvement. We present the following suggestions and comments for your consideration.

I. LEVELS OF AUTHORITY FOR APPROVAL.

A. The draft proposal sets levels of authority for approval based only on the Kc amount of a transaction. For example, if a transaction is for Kc 10 million, it could be approved at the District Branch level. We suggest that the levels of authority also consider the complexity and Risk Rating of a transaction so that those transactions that are more complex and/or are more risky would be elevated to a higher authority for approval (we realize that the Risk Rating System has not yet been fully designed nor implemented, however we suggest that the approval system be prepared to incorporate the concept). For example:

1. Transactions up to Kc 10 million and a Risk Rating of 1, 2, or 3 (i.e., the three best ratings) could be approved at the District Branch level.

2. A transaction for Kc 10 million but with a Risk Rating of 4 or 5 (i.e., more risky) would have to be approved at the Regional level.

3. A transaction for Kc 10 million but with a Risk Rating of 6 or higher (i.e., the most risky transactions) would have to be approved at the

Headquarters level.

B. For a more accurate computation of credit exposure, the level of authority for approval for any transaction should be based on the aggregate credit extended by the Bank to that customer. This would include FX, Letters of Credit, Underwriting, etc. For example:

1. Assume that a customer requests from his District Branch a credit of kc 10 million.

2. Assume that this customer also has a Letter of Credit for Kc 10 million.

3. Thus, the Bank has an aggregate exposure to this customer of Kc 20 million, so the appropriate level of authority for approval would be at least Kc 20 million (and could possibly be a higher level depending upon the Risk Rating).

C. The proposal suggests certain approval limits for the District and Regional Branches. While KPMG does not intend to comment on the appropriateness of these limits, we would like to point out that they should be based on the following three factors:

1. Is the amount consistent with the experience and skill level available within that unit? For example, if a District Branch were to have an approval limit of Kc 10 million, would the Branch Director and members of the committee have the skills necessary to accurately evaluate and approve a credit request for that amount. It is extremely important that the approval limits do not exceed the skill level and abilities within the unit. You might want to consider allocating approval limits to <u>individuals</u> within the units (for example, the District Branch Director) rather than to a unit.

2. Does the amount make sense when considering the average size of the credit request received by the unit; does it make efficient use of Director's and committee member's time and effort, or would approvals for this amount be better handled at another level.

3. Would this level create a "bottleneck" for review or approval at a higher or lower level.

II. FUNCTIONING OF THE CREDIT COMMITTEES.

A. The proposal recommends that there be a three person committee at the District Branch, Regional Branch and Headquarters level. Each committee would have permanent members appointed to it, and each member would have a designated deputy to attend in their absence. The proposal also recommends that deputies do not attend unless the primary member is absent. We suggest changing this recommendation as follows:

1. Deputy members should be encouraged to attend committee meetings as non-voting members, even though the primary member is also attending. This provides the deputy members the opportunity to gain necessary experience and to better understand the workings of the committee.

2. In general, Divisional and Regional Branch committee meetings should be open to all officers within those units so that they can take advantage of learning from the discussion between committee members.

B. The proposal recommends that a unanimous decision of all three members is required. It is anticipated that in many cases only two of the three members will be in agreement which would result in a credit being rejected when it should have been approved. It would be a good idea to have an appeal process, or an alternative if unanimous agreement cannot be reached. For example, if two of the three members agree on approving a request, then it might be appropriate to refer the request to the next higher authority level. Both the members that support the request and the member that would reject the request should list their reasons and logic in writing.

C. As we have discussed in other KPMG memos, it would be advisable to have a process that would allow for a review of both the approvals and declinations of the Divisional and Regional Branches Committees. This would make the committees accountable for explaining and documenting credits that they decline as well as the credits that they approve. Equally important, if Alternative 2 is implemented which would allow a Branch Director to overrule the recommendation of a committee, there should be a review process to examine the Director's decisions.

Exhibit B–6A

Review of Bankruptcy Procedures

TO: Mrs. Olga Polanecka

FROM: Steve Graybill
KPMG Peat Marwick

DATE: June 4, 1993

SUBJECT: Review of Bankruptcy Procedures for the Czech Savings Bank.

In response to your request that KPMG review the Czech Savings Bank's (CSB) "Proposal of Internal Accounting Policy for Bankruptcy and Settlement", we are pleased to provide the following comments.

Overall, the Proposal presents a complete study of the contents of the Bankruptcy Act and its Amendments. The Proposal clearly outlines the various provisions and regulations within the Act, and correctly identifies the various limitations on creditor rights. The Proposal also identifies the important points to be considered by creditors in asserting their rights in the event of bankruptcy under the Act.

The Proposal makes some very important points about procedures within CSB. One of the most important is the statement in V. 1) which says that the best way to protect the loan assets of CSB is to try and avoid events of bankruptcy through proper credit analysis at the time of origination, the appropriate evaluation and identification of risk and the continuing monitoring of the changes in risk associated with a borrower. In other words, the strategy is to prevent problems before they occur. KPMG believes that the best way to help prevent problems is to develop a specialized Problem Loan/Bankruptcy Department.

Three other points which are also important is the suggestion contained in V. 3) that the CSB use diskettes available from the Commercial Bulletin to monitor potential bankruptcy filing by customers; that selected customers should go through a review process now in order to attempt to identify potential bankruptcies involving large amounts of money; and that, based on identified level of risk, appropriate reserves be established against potential charge-offs.

Section V. 10) lists a number of activities within CSB that will need to coordinated and managed in order to effectively control bankruptcy proceedings and KPMG agrees with most of these activities. However, the Proposal does not discuss how the monitoring, coordination, and decision-making should be done. This formulating of the actual policy and procedures is the area that

still needs the most work.

As you know, KPMG will soon deliver a draft memorandum detailing our recommendations for the bankruptcy function. However, it may be helpful at this stage to review the basic objectives and strategy for the bankruptcy function.

The overriding objective of those individuals and departments involved in the bankruptcy function is to aggressively resolve "problem loans" before a loss occurs ("minimize losses") and to be able to liquidate collateral for the highest possible value when required. Protection of CSB's loan assets is always the first priority. The ability to accomplish these objectives will require a specialized staff of experienced credit analysts, customer-relations officers who have well-developed skills in negotiations and a complete understanding of the Bankruptcy Act, lawyers, etc.

KPMG recommends that as a customer passes thorough certain well-defined stages (Stage I though Stage III), various departments and individuals assume assigned responsibilities. The following outline gives a brief description of the Stages, the individuals and departments that would be involved, and the action and procedures to be taken by each of them.

I. STAGE I

A. Definition: A Stage I customer has been identified as deteriorating in quality. The overall borrower risk rating has deteriorated by at least two levels (e.g., from a 2 to a 4, or a 3 to a 5), but it has an overall risk rating of 5 or better. It does not yet present a danger of a loss, but sever problems could arise if the borrower does not improve its operations.

B. Overall Strategy: In Stage I the objective is to make sure that the changing conditions of the borrower have been accurately recognized by the CSB, and that the CSB begins to take appropriate action. The CSB may decide that this borrower is important to the CSB and that the CSB should play an active role in the turnaround of the borrower's operations. Action would include the following:

1. In-depth discussion between the CSB and the borrower regarding the financial condition of the borrower and the borrower's plans for improvement.

2. A review within the CSB to insure that all legal documentation is in order and that the CSB has all anticipated legal options open to it.

3. A review of the collateral, including an assessment of the market value, and how easily could CSB take

possession of the collateral, if necessary.

4. A review of other potential creditors.

5. The planning of an "exit strategy".

C. Departments and/or Individuals Involved.

1. The District Branch Account Officer (primary contact): conducts the credit analysis, is the primary contact with the customer.

2. The District Credit Approval Officer: reviews the credit analysis, and with the District Branch Officer, conducts interviews and meetings with the customer to determine the severity of the problem. Reviews the collateral position and the market value of the collateral.

3. The District Branch Manager: Reviews the results of the credit analysis and the customer interviews with the District Branch Account Officer and the District Credit Approval Officer. Prepares with the concurrence of the District Credit Approval Officer a detailed recommended short-term strategy including an "exit strategy".

4. The Regional Director. Reviews the short-term strategy and "exit strategy" as recommended by the District Branch Manager and the District Credit Approval Officer. Concurs and recommends the strategy to the Regional Credit Approval Officer.

5. The Regional Credit Approval Officer: Reviews and approves the recommended strategy. In conjunction with the Regional Director decides whether to put the "exit strategy" into effect. Informs the Senior Credit Officer/Senior Credit Committee (Credit and Capital Committee) at the Headquarters level.

6. Legal Department: Reviews all legal documents.

II. STAGE II.

A. Definition: A Stage II customer has been identified as having sever deterioration in quality and is now risk rated a 6 or worse and/or there is reason to believe that the customer may file for bankruptcy. Although a loss may not necessarily occur, there is little evidence of

the borrower's ability to improve the situation in the short-term.

B. Overall Strategy: In Stage II the objective is to make sure that the CSB protects its assets. Little, if any, priority is given to keeping a relationship with this borrower. The "exit strategy" would be put into effect and preparations would be made to take possession of the collateral. Action would include the following:

1. In-depth discussions and negotiations between the CSB and the borrower regarding termination of the banking relationship and repayment of loans.

2. The legal department prepares all necessary documentation and is prepared to act to so that the CSB can exercise all legal options open to it.

3. CSB takes physical possession of the collateral, but may not liquidate it if the collateral is necessary to the ongoing business of the borrower.

4. There is a careful review of all of other potential creditors. Depending upon circumstances, the CSB may want to begin negotiation with other creditors.

5. A detailed strategic plan is prepared for the CSB in the event the customer files bankruptcy. It is at this stage that a detailed plan for coordinated action must be generated; it is too late once the borrower has actually filed for bankruptcy. This plan would include such considerations as:

   a. Preparation of a financial plan that would include an analysis of whether to continue to support the borrower, or to take a loss and exit the relationship.

   b. An analysis of the probable action of other creditors and the preparation of strategy for negotiations by CSB with other creditors.

   c. Preparation of a strategy for dealing with the Bankruptcy court and/or the Administrator.

   d. Preparation of a plan for the liquidation of collateral.

C. Departments and/or Individuals Involved.

1. The Bankruptcy/Problem Loan Officer: Located at the Headquarters of Regional level, this individual

now takes direct responsibility for the borrower and implements the "exit strategy". In coordination with the Regional Credit Approval Officer and the Legal Department prepares and recommends a bankruptcy plan.

2. The District Branch Account Officer: supports the Bankruptcy/Problem Loan Officer.

3. The District Credit Approval Officer: supports the Bankruptcy/Problem Loan Officer and assists in implementing the "exit strategy". Assists the Legal Department in taking possession of the collateral.

4. The District Branch Manager: assists and supports the Bankruptcy/Problem Loan Officer and the District Credit Approval Officer as required.

5. The Regional Director: assists and supports the Bankruptcy/Problem Loan Officer and the District Credit Approval Officer as required.

6. The Regional Credit Approval Officer: responsible for overseeing the implementation of the "exit strategy". Reviews and concurs in the recommended bankruptcy plan.

7. Legal Department: prepares all necessary documentation and is prepared to take action so that the CSB can exercise all legal options open to it. Reviews the bankruptcy plan.

8. The Senior Credit Officer/Senior Credit Committee Credit and Capital Committee): reviews and approves the bankruptcy plan.

III. STAGE III.

A. Definition: A Stage III borrower has filed for bankruptcy.

B. Overall Strategy: The bankruptcy plan is implemented with the objective that the CSB protects as much of its assets as possible.

C. Departments and/or Individuals Involved.

1. The Bankruptcy/Problem Loan Officer: located at the Headquarters of Regional level, this individual continues to have direct responsibility for the

borrower. Coordinates the implementation of the bankruptcy plan with the Regional Credit Approval Officer and the Legal Department.

2. The District Branch Account Officer: supports the Bankruptcy/Problem Loan Officer.

3. The District Credit Approval Officer: supports the Bankruptcy/Problem Loan Officer.

4. The District Branch Manager: supports the Bankruptcy/Problem Loan Officer.

5. The Regional Director: supports the Regional Credit Approval Officer.

6. The Regional Credit Approval Officer: along with the Bankruptcy/Problem Loan Officer and the Legal Department, is responsible for implementing the bankruptcy plan. Makes recommendations to the Senior Credit Officer/Senior Credit Committee for any decisions that deviate from the approved bankruptcy plan.

7. Legal Department: along with the Regional Credit Approval Officer and the Bankruptcy/Problem Loan Officer is responsible for implementing the bankruptcy plan. Specifically responsible for all relations and dealing with the Bankruptcy Court.

8. The Senior Credit Officer/Senior Credit Committee Credit and Capital Committee): oversees the implementation of the bankruptcy plan. Approves any deviation from the plan.

Exhibit B-7A

Review of the Draft Format for Presentations to the Credit Committee

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TO: JUDr. Olga Polanecka
Commercial Division
Czech Savings Bank

FROM: Steve Graybill
KPMG Peat Marwick
Policy Economics Group

DATE: March 16, 1993

SUBJECT: Review of the Draft Format for Presentations to the Credit Committee

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You requested that KPMG review the "Draft Format For Processing Positions Concerning Credit Facilities Which Are To Be Discussed in The Credit Committee".

Overall, this format represents a major improvement. While we do not recommend making substantial changes in the format at this stage, we would suggest that you consider adding the following information, explanations and analysis. Please keep in mind that under the existing USAID contract, KPMG will deliver to the Czech Savings Bank by April 15 a fully developed format which we suggest be used in credit analysis and presentations.

Our review is as follows:

I. Characteristics of an Applicant

A. How long has the client been in business.

B. Is the client a profitable business and, if so, for how many years.

C. Are there related companies (e.g. subsidiaries or sister companies) and, if so, are they also borrowers.

II. Information Concerning Credit Facilities

A. Risk Rating for the client, the guarantor and the collateral.

B. What is the primary source of repayment.

III. Other Credit Facilities at CSB and Other Financial Institutions

A. Status of the credit facility (e.g. are repayments made on time).

B. Collateral.

1. Value.

2. Description.

C. Type and total amount of other credit facilities (e.g., FX, L/C's, etc.).

IV. Analysis of Client's Repayment Moral

A. Information concerning owner's repayment history.

B. Information concerning any legal action (e.g. bankruptcy) in which the client or its owners have been involved.

V. Analysis of Applicant's Business Project

A. Information on business and industry.

1. Client's position within the industry.

2. Competitive factors.

3. Future trends for the industry.

B. Risk analysis.

1. Risk Ratings.

2. Why were these ratings selected.

3. What are the risks and how will they be managed.

C. Financial analysis.

1. Analysis of historical financial statements.

a. Balance Sheets.

b. Income Statements.

c. Source and use of cash.

d. Ratio analysis.

2. Analysis of projected financial performance.

a. Operating performance during the life of the loan.

b. Source of repayment.

c. Operating performance.

d. Testing of "what if" assumptions; i.e., analysis of financial projections on a "worst case" basis.

D. Terms and conditions of the credit facility.

E. What are both the positive and negative factors to this credit.

VI. Collateral

A. How was the value decided?

B. Who has legal control of the collateral?

C. Who has possession or access to the collateral?

D. What is the liquidation (i.e. "worst case") value of the collateral and how was this value determined?.

Pro : JUDR. Olgu Poláneckou
Obchodní úsek
ČS a.s.

Od Steve Graybill
KPMG Peat Marwick
Policy Economics Group

Datum : 16.března 1993

Věc: Posouzení navrhovaného formátu pro prezentaci na úvěrovém výboru.

Požádali jste nás, abychom posoudili "Navrhovaný formát pro zpracování postupů týkajících se úvěrových obchodů , o kterých se bude diskutovat na úvěrovém výboru."

Všeobecně tento formát představuje značné zlepšení. Protože nedoporučujeme provádění podstatných změn ve formátu v této fázi, navrhujeme , abyste uvážili připojení následujících informací, vysvětlení a analýz. Prosím, mějte na zřeteli, že podle existujícího kontraktu USAID dodá KPMG Spořitelně do 15. dubna kompletně dopracovaný formát návrhu pro použití v úvěrových analýzách a prezentacích.

Naše stanovisko je následující :

I. Charakteristiky žadatele
   A. Jak dlouho klient podniká
   B. Jedná se o ziskový podnik a pokud ano, kolik let je ziskový
   C. Má nějaké připojené podniky (pobočky, sesterské společnosti) a pokud ano, zda jsou také vypůjčovateli.

II. Informace týkající se úvěrových obchodů
   A. Určování stupně rizikovosti klienta, ručitele a zajištění
   B. Co je prvotním zdrojem splácení

III. Jiné úvěrové obchody mezi CS a.s. a jinými finančními institucemi
   A. Stav úvěrových obchodů (např. zda jsou splátky spláceny včas)
   B. Jištění
      1. Hodnota
      2. Popis
   C. Typ a celková hodnota ostatních úvěrových obchodů (např. akreditivy, devizové obchody, atd.)

IV. Analýza platební morálky klienta
   A. Informace týkající se průběhu majitelových splátek
   B. Informace týkající se právních skutečností (př. konkurs), ve kterých byli zákazník nebo jeho majitel zahrnuti

V. Analýza podnikatelského záměru žadatele
   A. Informace o podnikání a odvětví
      1. Zákazníkova pozice v rámci odvětví
      2. Konkurenční faktory
      3. Budoucí trendy odvětví
   B. Analýza rizika
      1. Ukazatele rizikovosti
      2. Proč byl tyto ukazatele vybrány
      3. Jaká jsou rizika a jak budou řízena
   C. Finanční analýzy
      1. Analýza předchozích finančních výkazů
         a. Rozvahy
         b. Výsledovky
         c. Zdroj a užití hotovosti
         d. Analýza pomocí ukazatelů
      2. Analýza plánovaných hospodářských výsledků
         a. Provozní výsledky po dobu trvání půjčky
         b. Zdroje splátek
         c. Provozní výsledky
         d. Testování předpokladů "co – kdyby" tzn. analýza finančních plánů v nejhorším možném případě.
   D. Termíny a podmínky úvěrových obchodů
   E. Jaké jsou pozitivní a negativní faktory tohoto úvěru

VI. Zajištění
   A. Jak byla stanovena jeho hodnota ?
   B. Kdo právně vlastní zajištění ?
   C. Kdo má zájem a přístup k jištění
   D. Jaká je likvidační (v nejhorším případě) hodnota jištění a jak byla určena.

Exhibit B–7B

Review of CSB´s Analysis Format

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TO: Petr Schut

FROM: Steven Graybill

DATE: April 8, 1993

SUBJECT: Analysis Format

In response to your request, KPMG's review and comments on SIS's analysis format are as follows:

While the current analysis format is a step in the right direction, there is room for significant improvement. More thought should be given to the underlying causes of events and trends, rather than just reporting the results. For example, if sales declined for the year there should be an explanation as to why they declined and what action is management taking to correct the situation. Greater emphasis needs to be placed on the analysis of the company's competitive position within the industry and its potential for improving of worsening its position in the short-term. There should also be an in-depth discussion of management's strengths and weaknesses.

As you know, KPMG is in the process of designing a standardized Credit Presentation and Analysis Format for the Czech Savings Bank which would be used in connection with large corporate credits. KPMG recommends that SIS use this Format in a slightly modified form as a guideline for its analysis procedure. At a minimum, KPMG recommends that the existing SIS format be modified to include a discussion and analysis of the following items:

I. Overall Risk Analysis Summary of the Following Major Areas:

   A. General Economic and Political Risks.

   B. Products and Markets.

      1. Characteristics of the product.

      2. Customer base.

      3. Market share.

      4. Marketing methods.

      5. Competition.

6. Development of new markets.

7. Production and supply strategies.

C. Management's Strength and Weaknesses.

D. Current Financial Performance.

1. Operations.

a. Income.

b. Profitability.

c. Industry comparisons.

d. Foreign exchange and interest rate exposure.

2. Cash Flow.

3. Financial Condition.

a. Accounts receivable.

b. Inventory.

c. Liquidity.

d. Fixed assets.

e. Other assets.

f. Contingent liabilities.

g. Subordinated debt.

h. Net worth.

i. Leverage.

j. Trends in the following areas:

(1) sales.

(2) operating profits.

(3) receivables.

(4) plant and equipment.

(5) investments.

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(6) liabilities.

(7) major financial ratios.

k. Expansion Plans.

E. Projected Financial Performance.

1. What are the underlying assumptions and are they realistic.?

2. Are the forecasts overly optimistic in sales volume? Has there been consideration of the impact of accounts receivable growth, inventory growth and the funding of these requirements from a balance sheet perspective?

3. Does sensitivity analysis indicate potential for serious impact on the company due to a decline in sales or a rise in costs?

F. Source of Repayment.

G. Collateral.

II. Capital Markets.

Market capitalization should be compared with tangible new worth and appropriate comments made.

III. Summary of Positive and Negative Aspects.

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Exhibit B–8A

Documentary Credit Department–
Terms of Reference

CESKA SPORITELNA, a.s.
DOCUMENTARY CREDIT DEPARTMENT
NOVEMBER 19 - DECEMBER 18, 1992

TERMS OF REFERENCE

TO ADVISE THE DOCUMENTARY CREDIT DEPARTMENT IN THE AREAS OF MANAGEMENT AND DOCUMENTATION.

A. To advise on the proper organization of the department in order to achieve the most efficient and effective processing of letters of credit.

B. To teach the department personnel the specific technical procedures for preparing and proofreading/confirming each letter of credit.

ACCOMPLISHMENTS

A. Twelve recommendations in five major areas of the Documentary Credit Department. These recommendations affect the organization and procedures of the Department. The five major areas are:

1. Physical control of documents associated with letters of credit and international collections.

2. Personnel assignments and responsibilities.

3. Design/redesign of Documentary Credit applications; letter of credit issuance forms and transmittal letters.

4. Organization of filing system for both letters of credit and international collections.

5. Important areas for inter-departmental and branch coordination and collaboration in order to meet internal control and reporting; customer demands and competition.

B. Provided training in the procedures for issuing commercial letters of credit.

C. Began training on documentary examination for export letters of credit and documentary examination under import letters of credit.

D. Made a first visit to the Guarantee Department.

E. Reviewed problems and procedures surrounding the reconcilement of foreign currency accounts from Documentary Credits Department.

Initial Proposed Action

1. 27 November: Arrange appointments with accounting personnel to determine their requirements as regards:

   a. Customer liability control
   b. Branch accounting
   c. Reconcilement of branch/head office accounts
   d. Foreign exchange controls/communications
   e. Income/Expense accounting and profit center allocations

2. 4 December: Complete simulated issuance of letter of credit.

3. 11 December: Complete simulated examination/negotiation of set of documents.

4. 18 December: Completion of review and recommendations as regards guarantees.

ACTIONS TO FINALIZE, START OR INVESTIGATE

A. Development of coordination with Foreign Exchange.
   1. Transactional activity, spot and forward.
   2. Foreign Exchange marketing activity.
   3. Accounting procedures.

B. Development of additional coordination with Branch lending officers.
   1. Updating procedures.
   2. Review of credit approval procedure for letters of credit, counter-indemnity agreement with customer, controls for collateral and other documentation necessary to control customer liability.
   3. Marketing activity.

C. Complete design and printing of issuance forms/formats for issuance of letters of credit. It is possible to do this initially on the personal computer, but forms should be formatted put on safety paper. S.W.I.F.T. formats must be learned by Telecommunications Department.

D. Advise correspondents that we are capable of advising, confirming and negotiating export letters of credit. Choose a few willing correspondents to advise credits through.

E. Implement issuance of a Ceska Sporitelna letter of credit.
   1. Issue based on PC generated letter of credit.
   2. Finalize design and obtain issuance forms.
   3. Design and implement bankers acceptance accounting, discounts and rediscounts, where appropriate.
   4. Complete training in documentary negotiation, reimbursement procedures.

F. Cross-train the personnel of the Documentary Credit Department to insure consistent, high quality service to

customers during personnel vacations and illness, customer calls and training activity.

G. Review the Guarantee Department.
   1. Examine controls.
   2. Examine counter-guarantee agreements.
   3. Develop standard formats for bid, advance payment, performance, and warranty type demand guarantees.

Exhibit B–8B

Foreign Exchange Division – Plan of Work

KPMG PEAT MARWICK
POLICY ECONOMICS GROUP

PLAN OF WORK — FREDERICK J. ZAMON, ADVISOR

INTERNATIONAL and FOREIGN EXCHANGE DIVISION CESKA SPORITELNA, a.s.

February 1 to 5, 1993 — Review of Documentary Credits Department , status of tasks suggested in December 1992 and meetings to establish schedule for Plan of Work through July, 1993.

February 8 to 12, 1993 — International Trade Department — Documentary Credits Group.

Installation of Lotus and begin design of statistical programs.

Design procedures for issuance and negotiation of transferable and back to back letters of credit.

Discuss Branch/Head Office communication and training.

Revision of product fees and commissions, including charges for foreign correspondent banks.

Continue training in issuance of letters of credit, forms design and negotiation of export letters of credit.

February 15 to 26, 1993 — Review of Assets and Liabilities Department. Preliminary questionnaire is attached.

Primary task is to evaluate organizational structure, interdepartmental communications necessary to provide efficient operations, reporting and control.

March 1 to 5, 1993 — Review of Foreign Exchange Department

General overview of Department in order to determine the extent of work to be done to establish foreign exchange lines of credit for spot and forward foreign exchange transactions, money market operations (euro–currency trading/funding); establishment of gap exposure limits; corporate trading possibilities, and finally, foreign exchange profit (loss) accounting procedures.

Also to be included in the above is the relationship of the Bank's aggregate treasury requirements, hedging of interest rate risk for foreign currency loans, a look at the Bank's policy on other derivative transactions and consideration of pricing strategy based upon customer profitability and other relationship issues.

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March 8 to April 2, 1993 Review of Guarantee Section of the International Trade Department

First objective is to evaluate organizational structure, credit control process and procedures. This should include collateral control, counter–indemnity agreements and a forfait transactions and procedures. Cost/income analysis procedures for a forfait transactions should be standardized on a simple worksheet.

Second objective is to build a file of standardized wording for the issuance of guarantees.

April 5 to 28, 1993 Return to Assets and Liabilities Department

Purpose will be to follow–up on the recommendations determined to be critical during the Overview of February 15 to 26, 1993.

May 1 to 28, 1993 Return to Foreign Exchange Division

Purpose will be to follow–up on the recommendations determined to be critical during the Overview of March 1 to 5, 1993.

May 31 to June 11, 1993 Clean Payments Department

Purpose will be to review organizational structure and procedures with particular emphasis on S.W.I.F.T and Check Processing activity. Other areas will be determined as required.

June 14 to July 23, 1993 Revisions/Refinements and other tasks to document above policy and procedure.

The above referenced schedule is intended to be flexible and only a best estimate of work to be accomplished. Coordination with other areas of the Bank and the Correspondent Banking Department are, for example, two other areas that need to be addressed and coordinated in process of accomplishing the above tasks.

The subject of how best to coordinate Branches into the International Trade and Foreign Exchange Division should also be addressed in due course.

Exhibit B-9A

Documentary Credit Department – General Controls and Department Security

Memo: Observation File: Documentary Credit Department
Ceska Sporitelna, a.s.
From: F. Zamon
Date: December 2, 1992
Subject: General Controls and Department Security

1. Aggregate liability control of applicants for documentary credits is not evident from records maintained in the department.

   Recommendation

   It is recommended that the application form for each documentary credit include a designated area for the aggregate outstanding liability of the applicant. This should be the sum of outstanding credit plus the amount of the application. Where the applicant requests that the amount be "approximately" or "about" a designated amount, the credit liability for the documentary credit must be recorded as 110% of the amount requested.

2. The Documentary Credit Department does not have written evidence of the authority of the signatory on the application to approve applications for the amount shown. It must be assumed, therefore, that Branch personnel approving the application have knowledge of the signatory's authority. If the Documentary Credit Department is delegated the responsibility to verify applicant signatures, then the lending officer should do so in writing and submit a sample of the applicant's authorized signature(s) and their limits, if any.

   Verification of the signature authority of the account officer or branch officer approving the application is performed. However, without an indication of the aggregate amount of liability outstanding for the applicant, it is not known whether or not the signature authority is adequate. Implementation of the above recommendation defining aggregate liability together with routine comparison of credit authority of the lending officer should be instituted. Current signature verification practice does indicate whether or not the applicant's account is blocked for the amount of the credit. A statement to this effect is typed on the application and initialed by the person in the department.

3. Authorized signatures of the Bank are not consistently maintained in a controlled environment.

   Recommendation

   It is recommended that signatures be kept in a locked cabinet when not in use. At a time when volume requires, a specific staff person should be

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designated for the purpose of signature verification, liability control.

4. Date stamping and noting the time of receipt of application forms for documentary credits and other bank mail has not been a practice. This practice has now been implemented. Procedures should be documented.

5. Individual documentary credit file folders are not functional. Documentation is loose and no specific method of filing documentation is defined.

Recommendation

It is recommended that file folders be identified by a unique documentary credit number. This number, once utilized, may not be used again, even if the credit is cancelled. The number should distinguish an import letter of credit from an export letter of credit, and a confirmed export letter of credit.

This number should be maintained in a separate register. This register should be maintained in a controlled environment. Data should include: the number; applicant; advising bank; amount; application date, and beneficiary.

Each file folder should show: the original amount of the credit in local and foreign currency; the expiry date of the credit; each drawing; each amendment, whether an increase or decrease, and any changes in the expiry date; the date of each action, and finally a record of fees/commissions due and date actually paid.

The contents of the file should be fastened to the file in chronological order. On the left of the file should be copies of credits and amendments issued by the Bank to beneficiaries. On the right should be the application form and all subsequent communication between the Bank and any party to the credit, including copies of documents presented under the credit for payment.

Each file should contain a brief written record of conversations with the applicant, or others when appropriate. The date of the conversation and short summary should be on this sheet. The initials of the staff member having the discussion should be on this sheet.

Files should be maintained in separate sections. One section for Open files, another for Closed files and a third for files awaiting final documentation, such as approvals, original application forms or other unsettled circumstances requiring special

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monitoring.

6. Deadlines should be established for various activities.

   A recommended sample of one such deadline should be: Letters of credit will be issued for applications received no later than 12:00 noon, and are found to be in order, no later than the close of business, the next business day. For applications received after 12:00 noon, issuance of the letter of credit will occur no later than noon the second business day from receipt. Where applications are in need of corrections, the deadline will not apply.

   Cut-off times involving services from other departments must be coordinated with the Documentary Credit Department. For example, to meet the issuance objective above, the services of the telex department must be coordinated. Foreign exchange transactions must be coordinated with the traders in a similar manner.

7. Verification procedures must be established; certain personnel designated as having primary and secondary responsibility for specific functions. Position descriptions should be prepared. For example, the person who prepares the letter of credit must have his/her work checked for accuracy. Initials evidencing this action should be found in a standardized place on documents. Authorized signatures must be provided as appropriate. Telex transmissions of letters of credit issued must be verified for typographical errors immediately after transmission confirmations are received. Transmission errors must be corrected immediately to protect the assets of the bank and customer relations.

8. Forms must be designed and filing/accounting procedures established and/or documented.

9. Management information as well as accounting information must be designed and implemented. Lotus 1-2-3 or Quattro-Pro and/or Paradox are types of statistical and spread-sheet computer software programs that should be utilized until such time as a letter of credit system is required. For example, the gathering of reciprocal business information between Ceska Sporitelna and correspondent banks is an important marketing technique.

10. Negotiable documents and other documents of title are not maintained in fireproof cabinets. Nor are they kept in cabinets under dual control.

<u>RECOMMENDATION</u>

It is recommended that at least one fireproof file

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cabinet with a lock be made available for negotiable documents. A metal bar across the front through the drawer handles with a padlock welded to the top of the cabinet can then provide the necessary dual control feature.

11. International collections should be maintained in separate files, also identified by unique numbers as indicated in Number 5., above. Files should be separated by incoming collections(imports), and outgoing collections(exports). File folders need not be maintained if each collection is stapled with a cover letter and "fact sheet" evidencing the current status of the item.

RECOMMENDATION

It is recommended that international collections remaining in the file for more than three months, be charged additional processing fees for each additional month and the drawer and drawee be notified accordingly. On a monthly basis, the remitting bank or our export customer should receive an announcement of status. After six months, if the collection is not paid or accepted by the drawee, the item should be returned to the remitting bank requesting all our charges and returning the item "without responsibility on our part".

12. Access to the Department should be restricted, to the greatest extent possible, to necessary personnel. Any clients, or other non-bank employees admitted to the Department, must be accompanied at all times by Bank employee.

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Exhibit B–9B

Status of Documentary Credit Department

Memo: Zuzana Vyskocilova

From: Fred Zamon

Subject: Status of Documentary Credit Department

In my memorandum of December 14, 1992, on the subject of General Controls and Department Security, we agreed upon a number of actions to be accomplished in the Documentary Credit Department. Below is an update on the status of those actions. Comments are in order of presentation in the December 14 memo, which is attached for easy reference.

1. Aggregate liability control in the department has not been implemented. This is because of the pending implementation of the UNISYS loan system. In addition, a need to determine how and under whose authority the Documentary Credit Department can request aggregate liability information on customers whose primary relationship is in the various branches of Ceska Sporitelna.

ACTION TO BE TAKEN

An example of the aggregate liability stamp to be put on the letter of credit application form should be shown to Mr. Krislo and Mr. Horyna for approval. They should decide how best to implement this procedure.

Z. Vyskocilova to complete draft of recommended change in Operating Procedure No. 155 for approval by February 15, 1993.

2. The draft revision in Operating Procedure No. 155 to more clearly indicate the responsibility of the approving officer has not been done. This revision should indicate that the officer approving the signature of an applicant is approving two distinct facts. First, the validity of the signature, and second, the authority of the signatory to obligate the applicant for the amount indicated on the letter of credit.

ACTION TO BE TAKEN

Z. Vyskocilova to complete draft of recommended change in Operating Procedure No. 155 as indicated above by February 15, 1993.

2a. Completion of an appropriate counter indemnity agreement/Documentary Credit Agreement is in process. The legal staff of the Bank will be consulted. Revision of Operating Procedure No. 155 will be drafted accordingly. Completion date remains set for March 31, 1993.

3. Completed.

4. Completed.

5. Completed and implemented.

6. Cross-training is an on-going process. Completion of position descriptions and final training will be completed by May 31, 1993.

ACTION TO BE TAKEN

Z. Vyskocilova to draft position descriptions for approval.

7. Lotus installation done incorrectly. To be corrected. Statistical data will be prepared as soon as system up and running. Correspondent Banking Department will be consulted as appropriate.

8. Budgetary conditions affecting control situation.

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ACTION TO BE TAKEN

Z. Viskcilova to discuss control situation with Mr. Krislo and Mr. Horyna

9. Filing system completed. Correspondent fees and client fees need revision. This is true for all fees for international products.

ACTION TO BE TAKEN

Z. Viskocilova to draft revised fee schedule. Competition will be taken into account. Recommendations will be reviewed by Correspondent Banking Department. Final draft will be submitted to Mr. Krislo and Mr. Horyna for approval and revision of Correspondent Schedule of Terms and Conditions. Completion date set for March 31, 1993.

10. Facilities for customers are subject to budgetary constraints. Space issues cannot be addressed outside the overall situation for space in the Bank.

11. and 12. Forms design not complete.

ACTION TO BE TAKEN

Z. Viskocilova to make recommendation to Mr. Krislo for forms design by March 31, 1993.

Exhibit B–9C

Documentary Credits – Negotiation Procedures (Export Credits)

DOCUMENTARY CREDITS - NEGOTIATION PROCEDURES - EXPORT CREDITS

TASK	RESPONSIBILITY	INSTRUCTIONS
Receive documents.	Negotiation section.	Apply date stamp and indicate time on each transmittal or letter of instruction. Do not apply date or time stamp on documents required under the documentary credit unless specifically required as a condition under the credit.
Read transmittal letter from beneficiary and/or negotiating bank.	Negotiation section.	Complete any "acknowledgement" forms required by the presenter and return as instructed.
If we are avising/confirming bank, obtain export letter of credit file from cabinet and compare original credit presented to bank with the copy in our file. If we do not have an account with the issuing bank, verify we that we have reimbursement acknowledgement from reimbursing bank in file. Prepare "worksheet" by filling in all appropriate information.	Negotiation section.	Original credit must be identical with copy in our file, except that there may be information or endorsements on the reverse of the original credit indicating transfers or assignments of proceeds. Any differences must be referred to the Manager of Documentary Credits. No payment can be made without a reimbursing bank acknowledgement.

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TASK	RESPONSIBILITY	INSTRUCTIONS
Compare documentary requirements of the credit to each document submitted and to each other. Number and list each discrepancy on the worksheet. Review all points in Guide to Document checking attached. If there is anything that you do not understand, discuss it with your Supervisor. There are no "minor" misunderstandings when negotiating documents.	Negotiation section.	Documentary examination must include verification of extensions of unit prices to totals; summation of amounts; document to document comparisons and document to credit comparison in accordance with requirements of the credit and International Chamber of Commerce Publication governing documentary credits currently in circulation. (I.C.C. Publication 400, 1983 version as of December 1992). Examination of documents must take place in reasonable time. This is currently three to five business days. Failure to meet this deadline and notify the presenter of the status of documents could result in monetary penalties for the Bank.
Calculate and record on worksheet negotiation commissions and any other fees.	Negotiation section.	Foreign exchange rates must be obtained from the appropriate department of the bank. Discount rates for time drafts (bills of exchange) must be obtained from lending officers and/or such other department of the Bank designated to quote such rates.

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TASK	RESPONSIBILITY	INSTRUCTIONS
Notification and/or,discussion of discrepancies with presentor. Correction of discrepancies or rejection of documents.	Negotiation section.	Publication 400 puts liability of accptance/rejection of documents on negotiating bank. Failure to notify presentor within "reasonable time", say 3-5 business days, could subject Bank to severe financial loss.
Second documentation checking.	Negotiation section.	The second checker will do the same examination as the first checker. All extensions and rate calculations will be verified. The person making the second check of documents must initial, date and note the time of completion of checking.
Preparation of all accounting entries and submission to Manager of Department for signature.	Negotiation section.	Other areas of the Bank may have to be consulted in completing this task.
Delivery of documents to the applicant.	Negotiation section.	Delivery of negotiable instruments should be against written receipt from the applicant or his known agent. Written acceptance of all discrepancies should be obtained prior to delivery of documents or payment to beneficiary.

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TASK	RESPONSIBILITY	INSTRUCTIONS
Mailing or delivering payment instructions to the telecommunications department.	Negotiation section.	Coordination with other departments will be required, including careful attention to cut-off times for entries. Telex payment requires that the transmitted copy of payment instructions be compared to the original instruction. All errors must be corrected immediately.
Filing of all department copies and mailing of advices, including delivery of documents to applicant.	Negotiation section.	The letter of credit file must show all entries and be marked closed. Letter of credit register should show date of final payment of the credit. File should be filed in "closed" files.

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Exhibit B-9D

Import Letter of Credit Issuance Guide

IMPORT LETTER OF CREDIT ISSUANCE GUIDE
CZECH SAVINGS BANK, A.S.

KPMG PEAT MARWICK
POLICY ECONOMICS GROUP

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IMPORT LETTER OF CREDIT ISSUANCE GUIDE

APPLICATION PROCESSING

1. Have you stamped the date the application was received and indicated the time on the application?

2. Does the Bank have an approved reimbursement agreement with the applicant? This may be on a continuing basis or for the specific application received.

3. Is the application dated and signed by the applicant?

4. Has the Branch/credit officer approved the applicant's signature for authenticity and authority to execute the transaction?

5. Has the application been assigned a letter of credit number and all data entered into the Letter of Credit Register?

6. Is there enough time to issue and deliver the letter of credit within the specified shipment and expiry date? In order to determine this you will have to think about time constraints associated with the transaction. For example, are we to telex the credit or mail it?

APPLICANT AND BENEFICIARY INFORMATION

7. Has the applicant provided clear instructions as to how the Bank is to deliver the letter of credit to the beneficiary? (Telex, mail, courier).

8. Is the name and address of the applicant sufficient?

9. Is the name and address of the beneficiary sufficient for identification and delivery?

10. Are two or more beneficiaries indicated? If so, does the credit application give sufficient instructions as to who and how presentation(s) under the credit is/are to be made?

11. Does the application contain the name of a bank through which to advise or request confirmation of the credit?

    If not, select one of the Bank's correspondents and which is closest to the beneficiary.

    If the advising/confirming bank has been selected by the applicant, route the credit to that bank unless we do not have a correspondent relationship with that bank. If a correspondent relationship does not exist, then route the credit through a

correspondent bank with whom we(CS) and the advising/confirming bank have a mutual relationship. For example: the applicant wants us to advise the credit through the State Bank of India. We have no relationship. By examining the International Bankers' Almanac, we see that State Bank of India has a relationship with American Express Bank. Since CS has a relationship with American Express Bank, we can route the credit through American Express Bank to State Bank of India.

INFORMATION ON THE AMOUNT

12. Does the application state a specific amount available to the beneficiary?

13. Does the application indicate the amount is "about", or "circa", "around", or "approximately"? If so, then the liability to the Bank and the applicant can be plus or minus 10% of the amount indicated.

14. Is the amount available under the credit equal to all the value extensions stated in the credit, namely, the price extension in description of merchandise, freight extension, insurance, etc.?

15. Is the letter of credit in foreign exchange?

16. If the credit is in foreign exchange, is the conversion rate correct?

17. Is the letter of credit a "revolving" letter of credit?

    If so, clearly indicate on the credit the basis upon which the credit will revolve:

    Around time
    Around value
    Whether it is cumulative or non-cumulative
    Whether it revolves automatically or some other way

LIABILITY ACCOUNTING

18. Are liability entries prepared for the Bank's and the customer's maximum liability under the credit?

    a. If the credit is for an "about," "circa," or "approximate" amount, have you increased the liability by 10%?

    b. If the credit revolves around time, have you prepared your entries for the amount available per period <u>multiplied by</u> the number of periods?

c. If the credit revolves around value, have you specified a maximum amount available to the beneficiary?

d. If the credit revolves "non-cumulative", have you set up a monitoring system to periodically reduce the amount not utilized in a specific period?

19. Are foreign currency amounts monitored so that they may be revalued if the rates change more than 10% from the current value?

TERMS OF THE CREDIT

20. A letter of credit must have a specific expiry date, or if it contains an automatic extension clause, it must have a provision for cancellation upon specific notification. Verify that this is the case.

21. Does the application contain specific instructions regarding a time period for latest presentation of documents? If so, does this time fall inside the expiry date of the letter of credit?

22. Is the tenor(usance) of the bill of exchange/draft clearly defined? (e.g.: sight, 30 days sight, 180 days B/L date, 60 days date of invoice, etc.)

23. If the tenor of the draft is "x" days from the date of the B/L or invoice, has the credit been written to show:

QUOTE

> even though the credit calls for a draft "x" days from the B/L date (invoice date, etc.),the date on the draft(s) must correspond to the on board date of the bill(s) of lading (or other document specified in the credit application).

UNQUOTE

24. If the credit may be presented and negotiated, or the draft is drawn on a bank other than CS, are reimbursement instructions to the paying bank clearly indicated?

25. Are all of the applicant's requirements expressed by documentary evidence? If not, counsel the client to leave out the information, or use the clause, "For information only" and then quote the information.

26. Are all documentary requirements consistent with the required shipping terms? For example:

    a. F.O.B. Port of Shipment should show freight collect and insurance for applicant.

    b. C.I.F. Named Point of Delivery should show freight prepaid with insurance document required.

    If you are in doubt as to terms, refer to 1990 Incoterms. If documentary requirements are not consistent, consult with the applicant to obtain clarification. Then add explanation to the credit so the correspondent bank and the beneficiary will understand the inconsistency. For example: Insurance may be payable in excess of the letter of credit if properly documented, or payable outside of the letter of credit.

27. Are all documentary requirements consistent with each other?

28. Has the applicant clearly evidenced by whom insurance will be effected? If not, ask the applicant if he understands the danger of an uninsured shipment?

29. If an insurance document is called for, has the applicant expressly stated the type of insurance coverage and any additional risks to be covered?

30. Has the merchandise description been done without excessive details, quoting a purchase order number or sales contract number whenever possible?

31. If the application called for terms such as "first class", "well known," or "qualified" to describe the issuers of documents, have these vague and unverifiable words been deleted from the credit?

32. If the applicant has requested bills of lading consigned to himself, consigned to the order of himself or, has requested the overseas negotiating bank to forward one set of original bills of lading to his forwarder, have you determined that CS is willing to extend credit to this applicant without retaining control over the merchandise?

33. If the applicant has requested an air waybill of lading, it must be a straight bill. It cannot be "to order" or "to the order of". Correct in the credit if required.

34. Have the applicants special instructions concerning the delivery of negotiable documents been carefully indicated and followed?

35. Does the Bank have the applicant's approval to any changes on the application documented in writing?

36. Unless specifically instructed by the applicant, or unless the letter of credit is revocable, or of a "stand-by" nature, have you issued the credit in negotiable form?

37. Unless the credit is issued through S.W.I.F.T., does it specifically indicated that it is subject to the current revision of the International Chamber of Commerce Uniform Customs and Practice for Documentary Credits?

38. In the case of time credits and the applicant has requested that the bill of exchange be discounted at his expense, is it clearly indicated on the credit that the credit is payable "as if" at sight with discount charges for the account of the applicant?

TRANSFERABLE LETTERS OF CREDIT

39. If the applicant requests that the credit be transferable, is that clearly indicated on the credit?

40. Are terms and conditions of the credit consistent with the transferable nature of the credit? For example: Are partial shipments allowed when transfers are made to more than one supplier?

41. Have we clearly indicated any transfer fees required and that we be notified in the event of transfer?

PRE-ADVISED LETTERS OF CREDIT and OTHER TELETRANSMISSION CREDITS

42. On short-form pre-advised letters of credit, has the following information been included?

    a. Credit reference number
    b. Name and address of beneficiary
    c. Name and address of applicant
    d. Amount
    e. Expiry date for latest shipment and presentation/negotiation
    f. Short description of merchandise
    g. Statement that full details are to follow

43. Have all other requirements been completed, including the accounting entries?

44. Has the copy of the actual telex/S.W.I.F.T. message been verified against the credit typed in the Documentary Credit Department?

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REIMBURSEMENT PROCEDURES AND INSTRUCTIONS

45. If the credit is payable at the counters of a bank with whom CS does not have an account relationship, have we selected a reimbursing bank, or provided other reimbursement instructions?

46. If we have nominated a reimbursing bank, have we verified that we have an account in the correct currency with them and notified them by sending them a reimbursement notification? A copy of the credit is not necessary.

47. Have we instructed the reimbursing bank to confirm to us that they have received our instructions?

AMENDMENTS

48. Have all the credit approval procedures applicable to issuing a credit been followed for amendments that affect the amount, tenor and expiry date of the letter of credit?

49. Has the signature of the applicant been verified on any request for amendment?

50. If an amendment is requested to reduce the amount of the credit, has written acceptance of this amendment been received from the beneficiary and the confirming bank(if any)? DO NOT REDUCE LIABILITY ENTRIES UNTIL SUCH WRITTEN AGREEMENT HAS BEEN OBTAINED.

Exhibit B–9E

Negotiation Worksheet

NEGOTIATION CHECKSHEET
DOCUMENTARY CREDITS DEPARTMENT ČESKÁ SPOŘITELNA a.s.

(1) Account Party/Opening Bank — Account No.

Our L/C No.

Opening Bank No.

Amount of Draft

Draft Presented by: — Account No.

Payable Date:

Amount Due (debit)

Amount Due (credit)

Ref. No.

Draft Drawn By:

For Account Of:

Covering Shipment of :

On Board — B/L No.

Dated

From: — To:

Commission and Charges

Exchange Rate of Draft:

Advising Commission:

Confirmation Comm.:

Payment Comm.:

Negotiation Comm.:

Acceptance Comm.:

Discount: No. of Days: Amount:

Postage:

Telex:

Other:

DISCREPANCIES

Documents	Inv.	constr. inv.	cust. inv.	insurance	insp. cert.	cert. of orig.	packing list	original B/L	copies B/L	air waybill	fit fwdr cert	other
1st Mail												
2nd Mail												

Written confirmation obtained on the following:

EXPORT L/C's

____ Correct discrepancies - New documents are in order.
____ Send documents on approval basis.
____ Cable for approval. We are to hold documents.
____ Return documents to _____ for correction.

IMPORT L/C's

First Checker _____

____ Pay/Accept despite discrepancies.
____ Refuse Payment/Acceptance because of discrepancies.

Second Checker _____

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Settlement for "Amount Due (credit)" was made. See "X" below:	Reimbursement for payment, "Amount Due (debit)", made or to be made for your account is shown by the "X" below.
___ We credited your account No.** _____ ___ We enclose our check. ___ We have remitted for your credit to Bank "*" below. ___ On "Payable Date" above, we will credit your account No.** above. ___ On "Payable Date" we will remit for your credit to Bank"*" below. ___ On "Payable Date" we will forward our check to you. ___ We note that you have obtained settlement from Bank "*" below. *BANK	___ We charged your account No.** _____ ___ Please send us your check for "Amount Due (debit)". ___ We will charge your account No. "**" above on "Payable Date" for "Amount Due (debit)". ___ Please send us your check before "Payable Date" for "Amount Due (debit)" ___ We have claimed reimbursement for "Amount Due (debit)" from Bank "*". ___ We will claim reimbursement on "Payable Date" from Bank "*" for "Amount Due (debit)".

Exhibit B–10A

Guarantee Department – Key Issues

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KPMG PEAT MARWICK
POLICY ECONOMICS GROUP

Memo: Guarantee Department

Date: March 26, 1993

From: Frederick J. Zamon, Advisor

Subject Policy and Procedure for Issuance of Guarantees by the Czech Savings Bank and also Policy and Procedure for Accepting Guarantees Issued by Other Institutions as Collateral for Credit Facilities Granted by the Czech Savings Bank.

1. What are the policies and procedures associated with obtaining credit approval for the issuance of guarantees?

ANS. Credit approvals are obtained from the area with responsibility for the relationship and with the delegated authority adequate to approve the amount of the guarantee requested. This authority usually resides in the Branches. This means that a Branch Office can approve an application for a guarantee if:

a. it is responsible for the relationship,

b. it has performed the required financial analysis of the applicant and decided that the applicant is credit worthy, and

c. the Branch possesses the required level of authority to approve the size of the facility requested.

The Branch must check the payment conditions of the contract before issuing the guarantee and payment conditions of the contract must be included in the financial analysis. A copy of the contract must be sent to the Guarantee Department with the application.

2. What are the policies and procedures associated with obtaining credit approval for accepting the guarantee of another party in favor of the Czech Savings Bank, whether or not that party is a bank or some other corporate organization or an individual?

ANS: The Head Office, Guarantee Department is responsible for the review and approval of all guarantees issued in favor of the Bank in foreign currencies and all guarantees issued by guarantors resident outside the Czech Republic. Specifically, the Foreign Business Contacts Department is required to collaborate with

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the area of primary credit responsibility. This Department must verify signatures and determine the legal ability of the guarantor to extend its guarantee. The specific wording must also be approved by the Guarantee Department. Clients are encouraged to contact the Foreign Business Contacts Department prior to issuance of guarantees so that the Bank can suggest any improvements in wording.

3. What types of guarantees are granted?

ANS: Guarantees are issued for bid bonds, performance bonds, advance payment bonds and warranty bonds. Guarantees are issued as part of contracts or they stand alone. In the latter case, they are payable on demand. Guarantees are also issued to induce other banks to issue their guarantee. In this case, the Bank indemnifies the institution issuing the guarantee. Guarantees are also issued as security for custom's bonds and payment of court outlays.

4. Who is responsible for determining the fee to be charged for the guarantee?

ANS: Fees are determined by the Branch or Office responsible for the relationship. Head Office will be involved when it is appropriate.

5. Who is responsible for collecting fees on a timely basis?

ANS: The Branch or Office responsible for the relationship. Fees are paid quarterly in advance on a per annum rate. It is possible for the Branch to collect the entire fee in advance.

6. Is there a standard agreement form between the Bank and the Client of the Bank that provides a counter-indemnity from the Client to the Bank?

ANS: Yes, this is called a BANK GUARANTEE PROVISION AGREMENT. A sample is attached as Appendix No.2 on the Bank Guarantee Policy and Procedures statement. It includes, as an integral part of the form, another, more detailed form for providing the counter-indemnity agreement.

7. Is there a procedure for reviewing the adequacy of guarantors of the Bank on an annual basis?

ANS: No, but one is being discussed.

8. Is there a central file that totals the outstanding guarantees to the Bank on an annual basis?

ANS: Yes, the total outstanding amount of guarantees is reported by the Department every time a change occurs and on a weekly basis.

9. Are there procedures for allocating capital under risk-asset to capital ratios by the type of guarantee and is there a procedure for calculating the cost associated with that allocation?

ANS: The amount of guarantees outstanding is reported to the Assets and Liabilities Department for regular reporting to the National Bank. The National Bank monitors the total capital adequacy of the Bank. Those responding to this question did not know if costs associated with this allocation were known.

10. Is the cost of allocation of capital included in the fee structure charged for guarantees?

ANS: Fees are usually determined by competitive circumstances and the Bank's relationship with the customer.

Exhibit B–10B

A´ Forfait Analysis Worksheet

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KPMG PEAT MARWICK
POLICY ECONOMICS GROUP
CZECH SAVINGS BANK A.S.

A' FORFAIT ANALYSIS WORKSHEET

Introduction

The export of capital equipment depends significantly upon the exporter's ability to provide financing to, or to find financing for, the importer(buyer) of that equipment. Exporters prefer cash sales. Any financing arrangement that eliminates recourse to the exporter should the buyer fail to pay as agreed will satisfy the exporter's preference for a cash sale.

From the buyer's point of view, credit purchases are generally perceived to cost more than cash purchases. The buyer who uses credit, generally prefers a fixed rate obligation so as to be certain of the extra cost. He also prefers a debt repayment schedule that best matches the income generation cycle of the equipment being purchased. That way the buyer is able to build the purchase price(principal and interest) into the cost of goods produced by means of the capital equipment purchased.

The a' forfait market developed from this demand, not supplied by the banking community, for medium-term, non-recourse, fixed rate financing for capital equipment. Debt obligations in the form of bills of exchange or promissory notes are created to include the interest cost of up to five-year financing(on occasion the market is open for shorter or longer periods) in the invoice value of the equipment. The exporter then sells the debt obligation of the buyer, without recourse, to a willing investor at a discount. The discount is such that the exporter receives the total value of the equipment he sold(cash price) and the investor receives the face value of the debt instrument as or when it matures, thereby earning the interest component. When the name of the buyer is not sufficiently well-known to interest investors in such export obligations, the addition of a bank guarantee or aval is requested.

A' forfait houses make markets in this paper. In so doing they may take the paper into their own portfolio position. To make room for additional paper and to realize income, they are interested in selling portions of their portfolio. They earn income from fees in the process of structuring financing for exporters and also whenever they can sell paper at a discount less than the original purchase. When they find that they have obligations from importers in the Czech Republic that they want to sell, they logically contact those whom they believe are willing Czech investors. The Czech Savings Bank is one of their logical choices as a potential investor. The question that must be answered is whether a' forfait paper is an acceptable investment for a banking institution based upon a risk/reward analysis and as compared to alternative investments.

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By definition, the a' forfait market accepts and makes its profit on the extension of credit with higher risk than that normally assumed by a bank. Measuring risk is a complex process and can only be an estimation until a borrower actually fails to pay as agreed. Then it is realized. The following discussion of risk is not intended to be a measurement of risk associated with the obligor in an a' forfait transaction, but rather a comparison of the Bank's ability to recover advances made from more normal loans, to the Bank's ability to recover advances made through an a' forfait transaction in the event of a borrower's weakened financial position, inability or unwillingness to pay, or bankruptcy.

1. In normal loan documentation a bank includes covenants that allow for acceleration of repayment should the borrower encounter financial difficulty. For example, these covenants may forbid the borrower to do certain things outside its normal course of business, or include a variety of financial ratios that a borrower must maintain. If the borrower breaks these covenants, the bank will have the right to demand immediate repayment. A' forfait transactions do not normally allow for covenants that give the Bank the right to accelerate payment. The buyer of a' forfait paper simply purchases a promissory note or bill of exchange to be paid at a certain date in the future with no right to demand earlier repayment. In a bankruptcy situation, it is not totally clear how a bankruptcy court would treat the obligation if it was not yet due for payment. Any guarantor would likely refuse liability until a failure to pay on maturity occurred.

2. A' forfait paper generally arises from a trade transaction. However, the purchaser of the obligation, the Bank, incurs a financial asset with no tie to the trade transaction and has no written collateral claim against the equipment purchased by the obligor.

3. The Bank does not have any rights of acceleration against the guarantor, who will in all cases present as many defenses against payment as allowable under existing law.

4. Under current bankruptcy law, claims against obligations in other than the Czech language are not allowed. A' forfait paper must be in Czech to meet this criterion of the bankruptcy court for eligibility. Most paper in the a' forfait market is in English.

5. There is no precedent as to how the foreign exchange liability would be handled, but in any case, it is likely that any settlement would be in terms of the present value of the obligations.

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Financial Cost/Benefit Calculation

Information required by the Bank to determine whether or not investing in a' forfait paper is a reasonable alternative to other investments is presented in the "Worksheet" attached. Also attached is a list of questions to which the Bank should seek answers in order to determine issues of credit risk associated with the underlying transaction and the credit worthiness of the forfait house selling the paper.

A' FORFAIT ANALYSIS WORKSHEET

1. OBLIGOR:

2. GUARANTOR:

3. FORM OF DEBT INSTRUMENT:

   ___ PROMISSORY NOTE

   ___ BILL OF EXCHANGE

   ___ BOND

   ___ OTHER (SPECIFY):_____

4. FORM OF GUARANTEE:

   ___ AVAL

   ___ GUARANTEE AGREEMENT

   ___ ENDORSEMENT

   ___ OTHER (SPECIFY):_____

5. ORIGINAL DATE OF DEBT INSTRUMENT:

6. FINAL MATURITY DATE:

7. REPAYMENT SCHEDULE ON INSTALLMENT DEBT:

AMOUNT	MATURITY DATE	BALANCE

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8. ORIGINAL (FACE) RATE, IF ANY:

9. OFFERING RATE AND BASIS:

___ STRAIGHT DISCOUNT:_____ %
BASIS: ___ 365\360; ___ 365/365; ___ 360/360

___ DISCOUNT TO YIELD:____ %
BASIS: ___ 365\360; ___ 365/365; ___ 360/360

10. GROSS INCOME CALCULATION VERIFICATION:

STRAIGHT DISCOUNT GROSS INCOME:

DISCOUNT TO YIELD GROSS INCOME:

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NET INCOME CALCULATION

11. GROSS INCOME(From No.10 above): _____

LESS:
- COST OF FUNDS: _____
- COST OF FOREIGN EXCHANGE HEDGE: _____
- COST OF CAPITAL: _____
- OPERATING EXPENSES: (excluding loan loss provision expense) _____
- RISK PROVISION: _____

NET INCOME AFTER FUNDING AND ADMIN.COSTS: _____

LESS:
- TAXES(AT CURRENT RATE): _____

NET INCOME AFTER TAXES: _____

In order to compare alternative investment yields, a similar calculation as above must be done for each investment the Bank has an opportunity to purchase. Investments should be of similar risk and like maturity for fair comparison. It is important to recognize that a' forfait paper is usually drawn in foreign currency.

Cost of Funds

The cost of funds is the price paid for buying a deposit necessary to fund the asset. Since a' forfait paper is normally medium term financing (1 to 5 years), a deposit of like maturity will be required to avoid an interest rate risk. If the deposit is of shorter maturity than the paper purchased, this creates what is called a "gap" risk. Finding deposits of like maturity may be expensive, if not impossible. Covering "gap" risks may require more sophisticated financing vehicles in the "derivatives" market. This will add costs and additional credit and operating risks.

Cost of Foreign Exchange Hedge

To avoid the addition of foreign currency risk, the

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deposit purchased must be in the same currency as the paper purchased. If however the Bank chooses to fund the transaction by converting crowns at the current spot rate, a forward foreign exchange risk created. This arises from conversion back to crowns upon maturity of the paper. This should be hedged, and the cost of the hedge added to the cost of funds.

To avoid "gap" risk in this case, the forward contract must match the maturity of the paper. Unfortunately the forward foreign exchange market does not usually extend beyond one year. Foreign currency swaps will have to be arranged to cover this risk, and at additional cost.

Cost of Capital

Capital may defined most simply as the amount remaining after all liabilities are subtracted from all assets. Capital provides a resource to cushion an unpredictable drop in the value of assets or the availability of deposits. The "cost of capital" is the cost associated with attracting capital to the Bank. Shareholders assume a subordinated position to depositors and other creditors and therefore assume higher risk for providing this cushion. The "cost of capital" can therefore be imputed to be more (possibly between 2 to 5 percent more) than the rate at which the Bank borrows. It is the Bank's most expensive source of funds. In an advanced free market economy with equity markets the cost may be computed based upon the dividends and retained earnings growth needed to attract capital. The allocation should be 100% of the 8% allocation required under the Basel Agreement. A simple "cost of capital" calculation for a one year obligation of 5 million US dollars could be:

Cost of Capital = Principal X .08 X R

where: R = Average bank borrowing costs for one year maturities + 2%

Average borrowing cost is 18% p.a.

Then, substituting: US$5,000,000(.08)(.20)=US$80,000

Operating Expenses

For simplicity, operating expenses may be calculated as a ratio of Non-Interest Operating Expenses(excluding loan loss provision expense) to Average Earning Assets. Multiplying this ratio times the amount advanced will give an approximation of the operating expenses associated with the transaction. The reason for excluding the "loan loss provision expense" is that this expense is usually a percentage of the principal amount ideally arrived at upon a rigorous risk rating assessment of the loan portfolio including the estimated recoverable

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value of impaired assets. It is included in the Risk Provision below.

Risk Provision

This provision should be established by the credit and loan committee responsible for assessing the risk associated with the asset under consideration and its relative recoverability in the event of default. **A' forfait** transactions should be considered among the most risky assets for the reasons noted above. No attempt is made here to quantify this amount, but this cost must not be excluded from the comparative analysis with other asset alternatives.

OTHER QUESTIONS

1. Is the a' forfait house a known institution in the market?

2. What procedures do they follow to validate the legality of the paper being sold?

3. Is the paper being sold without recourse, or is there some remaining recourse to some previous holder of the paper?

4. What is the financial strength of the Guarantor and the country in which the Guarantor is domiciled?

5. Will there be foreign currency available at the maturity of the obligation(s) being purchased?

6. How will the obligor be told to remit payment to the Bank as the paper matures? Whose responsibility is it? How will the Bank verify that these instructions were received?

7. Has the Bank reviewed the Guarantee in its entirety before we purchase the paper? Is the wording acceptable?

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Exhibit B–11A

Nostro Accounting and Statement Reconcilation Process and Procedures – Key Issues

KPMG PEAT MARWICK
POLICY ECONOMICS GROUP
ČESKÁ SPOŘITELNA, a.s.

Memo: Assets and Liabilities Department

From: Frederick J. Zamon, Advisor

Date: February 16, 1993

Subject: Meeting with Ms. Olga Novotná, Ms. Hana Tichavská and Tomáš Šamánek, Translator, on February 15 and 16, 1993.

The purpose of the above referenced meeting was to discuss the questions presented to Mr.Fejt and Ms. Novotná in my memorandum of February 4, 1993. Responses are shown below each question.

NOSTRO ACCOUNTING AND STATEMENT RECONCILIATION : PROCESS AND PROCEDURE

1. How many bank account (nostro) statements do you reconcile during the month?

ANS.: 507 statements. This is because we have 38 nostro banks and 60 nostro accounts.

2. How many statements do you receive that cover a one week accounting period, a two week accounting period and a one month accounting period?

ANS.: 22 Banks send us daily statements; 22 banks send us weekly statements and 4 banks send us monthly statements. The problem is that they all arrive on a one to two week delayed basis.

3. Do you stamp the time and date of receipt on each statement when it arrives in the bank?

ANS.: The Distribution Department stamps the date received on the statements. The Assets and Liabilities Department does not do this function. No time is stamped on the statements.

4. Based upon your experience during the last year, how long from the date of the statement does it take to receive **each** statement from the correspondent bank?

ANS.: Without looking at each statement, delivery from most countries in Europe is from 7 to 10 days. Mail from Great Britain, the U.S.A.. and Canada take about 14 days.

5. Is the statement received by post, or does the correspondent send the statement to the bank by telex or other electronic means? (S.W.I.F.T.)

ANS.: Bankers Trust sends statements by telex, one from New York and one from Frankfurt. Indo-Suez, Zurich sends two statements by fax.. All others are by post.

6. Based upon your experience during the last year, how long does it take to reconcile each statement from the day it is received in the bank? I understand this will be different for each account. It is important that we know which accounts take a long time to reconcile and which ones do not take a long time to reconcile.

ANS.: It is possible to answer this question, but only by examining each statement. The response varies by statement and by activity on each statement and the speed with which the mail functions. If a lot a statements are received in a single mail delivery with a lot of transactional activity, it may take longer on a particular statement than at another time on the same account.

7. How many people are assigned to the reconcilement function?

ANS.: 7.

8. How are the statements allocated among the personnel in the reconcilement function?

ANS.: By experience and the number of statements that must be checked.

9. In my experience, a reconcilement worksheet is usually divided into four major areas:

a. We Debit , They do not credit.
b. They Debit, We do not credit.
c. We Credit, They do not debit.
d. They Credit, We do not debit.

Does such a sheet exist in the Reconcilement Department?

ANS.: There is no reconcilement worksheet of the type referenced in question "8" above.

Individual statements are reconciled against separate lists of entries reported to the Reconcilement Department by various areas of the bank originating entries over these accounts. For example: The Clean Payments Department processes entries for the Regional Offices and various other Departments. A list of transactions originated by Clean Payments Department is used to reconcile the nostro bank statements. This list is reported to arrive as late as two weeks after the entries are passed. The Documentary Credit Department submits a list of nostro entries on a daily basis. This list is primarily intended for the purpose of making sure that there are adequate balances in the respective accounts, and only incidentally as a source nostro transactions. Foreign exchange and bank-to-bank transactions are reported by separate lists to the Reconcilement Department by the Forex "Back Office " resident in the Assets and Liabilities Department. Back Office is responsible for preparing entries for the Financial Accounting Department to record the foreign exchange activities of the Bank.

This procedure makes the reconcilement process difficult. Without the apparent availability of a reciprocal subsidiary ledger for each nostro bank account, there is no single place where all entries can be found. This makes liquidity control difficult, if not impossible. The consequence is that there are reportedly frequent overdrafts on the nostro accounts and subsequent interest charges or payments which are not honored by the nostro bank. These delays will affect customer relations and the reputation of the Bank in foreign markets. In an effort to avoid such overdrafts, the Bank keeps excess balances in the active nostro accounts. It is not known how large these excesses, if there are any, may be. It is imperative that this data be gathered to properly control the bank's foreign exchange liquidity while keeping costs at an efficient minimum.

Items outstanding for more than two reporting periods generally represent serious problems. How may items are outstanding on each statement for each of the following periods?

0 to 14 days?	20%
15 to 30 days?	3%
31 to 45 days?	2%
45 to 60 days?	1%
More than 60 days?	1%

The total koruna equivalent of the above entries is not calculated, monitored and reported on a regular basis.

10. What procedure is used to trace these outstanding items?

ANS.: Unreconciled items are traced inside the Bank and outside the Bank. When items appear on the statement from the foreign bank, but not on any of the lists from Česká spořitelna departments, items are traced through the foreign bank. See Exhibit "1" attached to this memorandum to see the type of form letter used. Items traced inside the Bank are noted on a list and sent to the manager of the department believed to be responsible for the outstanding item. See Exhibit "2" for a typical internal communication form.

11. Who has primary responsibility for tracing each outstanding item?

ANS.: Outstanding items are investigated by the Reconcilement Department. Items that do not appear on the nostro bank statements are traced inside the Bank by sending an inquiry to the head of the department originating the entry. It is the head of the department who is considered responsible. Except for notification, there does not appear to be any sanctions applied if outstanding entries are not resolved on a timely basis. (See memo of February 28 on Assets and Liabilities and Mr. Fejt's point in No. 1 wherein he comments that customer inquiries concerning non-receipt of payments are processed by a special investigator that reports directly to him.)

12. How are communications prepared between the reconcilement department and the departments that are generating the entries on nostro accounts? For example: In communications with the foreign exchange department, branches, or the payments department, are they in writing or verbal? How are these communications monitored and controlled?

ANS.: Lists of nostro entries are prepared by the various departments making such entries. These lists are given to the Reconcilement Department. Clean Payments Department appears to have the greatest volume. Since the lists are prepared manually, they may not be delivered for two weeks after the entries are made. Other departments provide information only after investigations reveal that entries have not been made on a timely basis.

13. If items remain outstanding more than 30 days, who will be responsible for any compensation claims submitted by customers and/or clients?

ANS.: The department committing the error.

14. Who has authority to approve payment of valid compensation claims?

ANS.: The Director of the Bank in charge of the area.

15. What is the average aggregate outstanding balance in all nostro accounts?

ANS.: This is not known, although the statistical area of the Bank does compile a report on a daily basis of all the Bank's Assets and Liabilities, including aggregate nostro account balances. The accuracy of this data in view of the delay in compiling and reconciling account information appears to need refinement.

16. Do you think that this is too high?

ANS.: Respondents are not in a position to judge whether or not the aggregate balances are too high.

17. Do certain accounts have frequent overdrawn balances even though the reconcilement worksheets do not indicate this to be the case?

ANS.: Yes.

18. Has there been communication and coordination with that part of the International Trade Department that is preparing for S.W.I.F.T. implementation?

ANS.: Yes.

COMMENTS

Respondents seem to indicate that there are no subsidiary ledgers posted for each nostro account. This must be verified as the case. Standard accounting requires that there exist a separate journal ledger for each bank account owned by Česká spořitelna, and that the entries to each of those accounts be the "mirror" image of the deposit(loro) account maintained on the books of the foreign correspondent bank. It is these two accounts that must be reconciled. The aggregate of these individual nostro accounts must equal the outstanding balance of the General Ledger account that records foreign demand deposit assets owned by the Bank. Any lists submitted to the Reconcilement Department should only be related to the process of resolving outstanding items. Lists controlling the daily liquidity in each account fulfill a different function than reconcilement, although they may be useful in the reconcilement process.

REPORTING FUNCTIONS

RESPONSES TO THE QUESTIONS IN THIS SECTION WERE OBTAINED IN AN INTERVIEW WITH MGR. JAROSLAV HADRAVA AND ING. IRENA LICKOVÁ OF THE FOREIGN EXCHANGE STATISTICS DEPARTMENT. THEY ARE PRIMARILY CONCERNED WITH MAKING EXTERNAL REPORTS TO THE NATIONAL BANK OF THE CZECH REPUBLIC AND INTERNAL REPORTS TO VARIOUS SENIOR MANAGERS OF THE BANK.

1. List the reports that you must prepare in the following format and number them. The numbers will be used in preparing answers to some of the following questions.

Daily

Management reports
Accounting and Control reports
External (Government and other agency/company) reports
Internal audit reports

Weekly
- Management reports
- Accounting and Control reports
- External (Government and other agency/company) reports
- Internal audit reports

Bi-Weekly
- Management reports
- Accounting and Control reports
- External (Government and other agency/company) reports
- Internal audit reports

Monthly
- Management reports
- Accounting and Control reports
- External (Government and other agency/company) reports
- Internal audit reports

Semi-Annually
- Management reports
- Accounting and Control reports
- External (Government and other agency/company) reports
- Internal audit reports

Annually
- Management reports
- Accounting and Control reports
- External (Government and other agency/company) reports
- Internal audit reports

ANS.: Reports of the Bank's foreign exchange assets and liabilities reflect:

- Foreign exchange purchases and sales
- Foreign currency placed and taken.
- Foreign currency loans.
- Foreign currency commitments such as letters of credit and others.
- Foreign currency nostro balances.
- Foreign currency payments and reimbursements
- Purchase and sale of checks
- Foreign currency interest – received and paid
- Profits and losses from foreign currency exchanges
- Profits and losses from exchange rate differences and ranges

EXTERNAL REPORTS

The above listed reports are required by the National Bank. The format and content are determined by the National Bank. They are changed frequently. For this reason, it is often difficult to obtain the data required, and in some cases in the past it has been impossible to provide the information. Circumstances leading to the difficulty in obtaining accurate and timely information have included the following:

- Information requested is new and has not been previously gathered before.
- Changes in the accounting systems and procedures that have not been coordinated with the reporting requirements.
- Difficulty in gathering information from Regional Offices due to a variety of reasons.
- Lack of manpower to re-program existing systems to generate data for the reports.

National Bank reports require that all foreign currency assets and liabilities be divided as to domestic or foreign ownership. It is anticipated that income reports will also be required by domestic or foreign source in the near future. There are no special weekly, monthly, quarterly, semi-annual or annual reports required by the National Bank.

INTERNAL REPORTS

Weekly and monthly position reports are required by Management. These reports include similar information as to assets and liabilities denominated in foreign currency. They also require certain graphic representations. The necessitates that input, which is gathered manually, be re-keyed into a personal computer in Quattro Pro. There are no permanent daily internal reports required from the Liquidity Department, Assets and Liabilities Group(DAP), but there was a time during which the weekly information, for example, was required on a daily basis.

Executive management does require a monthly report of loans, collateral and letters of credit that exceed Kcs 100 million. From this data the Accounting Department prepares liquidity reports.

COMMENTS

Statistical reports, both internal and external, are becoming increasingly important in the functioning and management of the Bank. The greater the degree of computerization used in the compiling of data and the transmission of data, the greater the degree of accuracy of, and timeliness in, the delivery of reports. It is critical that reporting requirements be considered independently from accounting data.

In more specific terms: Statistical reports for financial reporting, management reporting and market analysis must not be considered a simple off-shoot from the accounting system. Statistical reporting serves many other functions than that of accounting. It requires special coordination with the accounting system, and will utilize data from the accounting system. Failure to consider it separately will result in the loss of critical data whenever the accounting system is revised based solely upon accounting requirements.

2. List the number of each report that is prepared from data that is given to you from another department immediately prior to report preparation, and name the department. If several departments must provide such information, list them.

ANS.: Single items are being delivered from regional branches through OEC. Other information is delivered from the Account Administration Department, Back Office, Accounting, Foreign Exchange, Foreign Payment Contact Department and the Foreign Business Contact Department.

3. Do these departments provide the information on a timely basis, or are there delays? If there are delays, why do you think that happens?

ANS.: Delays occur. Accounting systems are changed without considering reporting requirements. New requirements are given for which no data base has been established, and the external programmer cannot keep up with the work required to sort existing data.

4. What suggestions do you have for improving the report preparation process?

ANS.: One of the most important suggestions is to coordinate any changes in accounting systems and programs with the Financial Statistics Department.

5. How many of these reports must be prepared manually?

ANS.: All of them. Data is gathered manually and then re-keyed into a personal computer.

6. Do you have any suggestions for computerizing reporting?

ANS. Until the Unisys system is operational, we are cooperating with Mr. Herbich's department (computer area) in order to facilitate management of the manual work load. (By using available personal computer software like Quattro Pro.) This reduces the probability of making mistakes in the reports. Larger programming products would require intensive cooperation with an efficient programmer who would have time and be willing to cooperate with us.

7. If possible, estimate how long it takes to prepare each report.

ANS.: Not possible at this time.

FOREIGN EXCHANGE DEPARTMENT (FOREX DEPT.)

THE FOLLOWING QUESTIONS WERE RESPONDED TO BY MRS. OLGA NOVOTNÁ.

1. How many trade transactions are conducted on a daily basis?

ANS.: Currently because of the change in the koruna between the Czech and Slovak republic, there are few transactions. In more normal circumstance there were about 20 transactions a day. These were all spot transactions. Only two forwards were done last year. There are about 3 to 5 euro-currency transactions on a daily basis There are five dealers. (5)

2. How many "due from" foreign bank entries (nostro/vostro) entries are received from departments other than the Forex Department?

ANS.: The foreign exchange "back office" does not see all the entries on the nostro accounts. Clean Payments Department does most of them. The only entries seen in the Back Office is from Letters of Credit and Forex.

3. How many Eurocurrency time deposit transactions (placed and taken) occur on a daily basis?

ANS.: Three to five.

4. Is a position sheet prepared by the Traders? Is a position sheet prepared by the Assets/Liabilities Department? Are these sheets compared and proven to agree on a daily basis, before anyone leaves for the day?

ANS.: A position sheet is prepared by the Traders. There is no comparable position sheet prepared by the Back Office. There are sheets for several individual high volume banks which appear to be a kind of position sheet. However, there is no beginning balance or ending balance. The information is only useful as a shorthand memo of activity during the day. (See Reconcilement Department memo of February 23, 1993, Item "E".)

5. How is each trade conducted by the Forex Dept. verified by the Assets/Liabilities Dept.?

ANS.: Each trade, whether for foreign exchange, money deposit or bank notes is recorded on a dealer's sheet. (See Exhibits 2,3,4 attached.) Back Office verifies by fax or telex with the counterpart to the transaction. (See Exhibits 5 and 6 attached.) Exhibit "4" for Bank Notes is sent to the Reconcilement Department for use in reconciling the cash transaction over the appropriate nostro account.

6. Are outstanding "audit copies" of trade transactions added and proven to the general ledger and journal accounts on a daily, weekly, monthly or quarterly basis?

ANS.: There is nothing called an "audit" copy. Each spot transaction is a unique file available for audit. Since there are only a few forward transactions a year, there has been no need to design complex trading forms.

7. Are credit limits by customer known by the Assets/Liabilities Department?

ANS.: There is no current system for establishing or monitoring credit limits. This is done on a case by case basis by senior management. Plans are being made to establish such limits.

8. If a client exceeds established foreign exchange/euro-currency limits, how is the exception reported? Who must approve such violation?

ANS.: No violations have occurred. All trades are done only with approved banks.

9. Are traders allowed to conduct transactions from their home or other places than on Bank property during normal business hours?

ANS.: All trade are done in the bank. Trades may be done outside of normal business hours for the domestic Branches and Headquarters. "Business Hours" for the foreign exchange market are 24 hours.

10. Are traders allowed to conduct transactions from their home or other places than on Bank property during times before or after normal business hours?

ANS.: Traders are not allowed to trade from places other than in the Bank. They can stay in the Bank and do trades before or after normal business hours.

11. If trades are conducted before or after normal business hours, do the transactions get reported and processed in the same or next business day?

ANS.: Yes. However, the traders are not required to use pre-numbered trading sheets.

12. Do traders do forward contracts? If so, what are standard processes and procedures applied to these transactions?

ANS.: Yes, but on only rare occasions. Then both the traders and Back Office personnel monitor the transaction.

13. How is the profit(loss) accounting done? How frequently is profit(loss) performed?

ANS.: NOSTRO account profit or loss is done on a monthly basis. Back Office has not been involved in any foreign currency loans that have not been match funded. Since no forwards are outstanding, no profit(loss) procedures are documented.

GENERAL

1. How are the risk asset to capital ratios computed for the various assets of the bank that the Asset/Liability Department is responsible for monitoring?

ANS.: The concept is not known to respondents.

2. Have there been any discussions with the S.W.I.F.T. project leader as regards how the S.W.I.F.T. system will affect the Assets/Liabilities Department?

ANS.: There have been preliminary discussions and training in use of the S.W.I.F.T. system. No formal discussions as to the impact of S.W.I.F.T. on the Assets and Liabilities have occurred.

3. What discussions have occurred concerning the UNISYS system to be installed?

ANS.: None at this time.

4. How will loan funding be affected by the UNISYS and S.W.I.F.T. systems and how will that affect the operations of the Asset/Liability Department?

ANS.: Unknown.

EXHIBIT "1"

ČESKÁ SPOŘITELNA a.s.
centrála v Praze

Václavské nám.42
Praha 1 113 98

Our Account:

Your Ref. *Yours dated* *Please reply to/Ref.* *Telephone Date*

Our/Your Payment Order

Beneficiary:

Account with:

We inform you as follows (the notes marked X will apply):

	We are not yet in receipt of your answer to our letter/telex/fax dated
	The beneficiary is said to have not yet received the amount. Please advise us of the date of payment.
	We would ask you to effect payment-if not already done so -on the strenght of this letter, avoiding, however,duplication of payment
	It appears that up to the date our account with you has not been debited/credited for the order in question
	The beneficiary's address indicated by you is incomplete. Kindly advise full address and account relationship.
	According to our principals' information, the exact address of the payee reads as follows:
	The payee maintains an accoount with:
	We hereby cancel our payment order and ask you to re-credit our account with the amount
	Please cancel your payment order. We authorize you to debit our account with you.

Yours truly

Česká spořitelna, a.s.

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"Exhibit 2"

Příloha č. 3

1	2	3	4	5	6
Banka	Měna	Stav na účtě k	suma nezúčt. obratů	zúčt. obraty které nejsou ve výpise	úroky z účtu zahrn. v pol.3

Zpracoval:

Datum:

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Exhibit B-11B

Reconcilement Procedures for Foreign Nostro Accounts / Procedures for Incoming Payments - Key Issues

KPMG PEAT MARWICK
POLICY ECONOMICS GROUP
ČESKÁ SPOŘITELNA

Memo: Reconcilement Department

Date: February 23, 1993

From: Frederick J. Zamon, Advisor

Subject: Reconcilement procedures for foreign nostro accounts.
Procedures for incoming payments.

On February 22, Mr. F. Zamon, Advisor, with translation assistance of Tomaš Šamánek, KPMG, met with Mrs. Daniela Neuwirthová, Reconcilement Department, to discuss procedures for reconciling nostro accounts. Subsequently we were joined by Ms. Helena Riedelová, Chief Manager International Payments Department. Major points in our discussion were as follows:

1. There are three reconcilement personnel responsible for reconciling the statements of the 38 foreign banks within which Česká spořitelna keeps funds ("Nostro Banks").

2. These personnel are also responsible for authorizing payment to payees of all incoming payments. They do not prepare accounting entries; only initial the incoming instruction thereby authorizing the relevant department to pass the correct credit to the customer receiving the funds. This important control function is centralized here in order to prevent duplicate payments. This risk occurs because foreign banks frequently send original payment orders to Head Office and copies to other operating areas of the Bank for information purposes. Failure to recognize duplicate instructions could result in payment to a payee two or more times. There is, however a "fringe benefit" to this activity for the reconcilement person. Since incoming credits do not have a corresponding Česká spořitelna reference number on the foreign Nostro Bank statement, familiarity with the entry allows for easier recognition of credits to the statement of the Nostro Bank.

3. Statements received in the mail are stamped with the date, usually on the reverse side of the statements. In addition to the statement itself, there are often individual debit and credit advices with details as to commissions and fees associated with each transaction.

4. As indicated in the initial interview with Ms.Hana Tichavská, the statements are reconciled against several lists available to the reconcilement person.
One such list originates from the Clean Payments Department. Other lists originate from Assets and Liabilities and Documentary Payments departments. Incoming credits, as noted above, are recorded on a separate sheet kept by the reconcilement person with copies of the original and duplicate incoming cables, etc., in a file.
It was agreed that it would be of significant help if all debits and credits that must be reconciled to the Nostro Bank statement were located on a single ledger and received on a daily basis. Further discussion on this topic led to the need to consult with Ms. Helena Riedelová in order to understand the procedures utilized in making Clean Payments. It is appropriate that that discussion be recounted here.

CLEAN PAYMENTS PROCEDURES AND PROBLEMS

A. All international payments are sent through Headquarters. Certain branch offices of the Bank accept requests for payments. Upon application, the applicant's account is charged and a suspense account is credited.

B. The Branch authenticates applicant signatures and then sends the written payment order to Headquarters. Branch signatures are verified by Head Office personnel and payments are then typed in S.W.I.F.T. format, tested and telexed to the paying correspondent bank.

C. Data from each payment order is then entered into a computer system that sorts the information by branch, individual amount, value date and Czech crowns at two different rates to indicate the sale price to the client and the price of cover. The difference is a Česká spořitelna foreign exchange profit on each transaction. A copy of this form is attached for reference labeled Exhibit "A".

D. Data from this system is extremely, (and one must stress that word, "extremely") critical to the entire payments function in the Bank. Data from this report is used to debit the suspense account that each branch office credited at the time of charging their client's account. A failure of this system, or a change in the system that affects the output can seriously impact the accounting of payments.

Output from the system is also utilized to report the foreign currency position of the Bank to the National Bank and for internal reports of that position to Senior Management. (Refer to the Assets and Liabilities memorandum dated 16 February 1993 with special reference to External and Internal Reports generated by the Financial Statistics area.)

E. The form referenced in "C" above and data required in "D" above is the output of a computer system that is owned and operated by an outside contractor. It is reported that this system is only operated by a single person who is the only one capable of programming this system for new accounting or statistical reports. Moreover, this individual is unwilling to delegate any responsibility in this regard to any other person. Requests for data necessary for External Reporting to the National Bank has been reported delayed due to inadequate programming. This situation should be investigated to see what improvements can be made in programming the system, the the security surrounding the system and the back-up required should the vendor fail to perform for any reason.

F. Data from this report, together with data from the payment orders sent from clients, is used by the International Payments Department to prepare the list of Nostro Bank debits used by Reconcilement Department personnel to reconcile the Nostro Bank accounts.

G. The above method for controlling inter-office entries, i.e., the suspense account system, effectively eliminates the urgency to provide a single Nostro Bank ledger for each Nostro Bank account. As a result, the reconcilement lists may take two weeks to reach Reconcilement personnel. In addition, there is no single Nostro Bank ledger against which to measure the liquidity status(level of working balances) of each Nostro Account.

E. To solve the liquidity management problem, the Reconcilement person must manually maintain a nostro ledger. This is accomplished by recording the beginning balance for each Nostro Bank and subtracting the daily aggregate debits gathered from several departments. Since a number of overdraft positions are reported regularly, the efficiency of the system does not appear to be very effective.

1. **WHO CONTROLS THE SUSPENSE ACCOUNT?**
2. **ARE THERE ANY FAX ORDERS FROM BRANCHES RECEIVED AT HEAD OFFICE?**
3. **ARE THERE TEST KEYS USED TO AUTHENTICATE TELEX OR FAX MESSAGES SENT TO HEAD OFFICE FROM THE BRANCHES?**
4. **WHICH BRANCHES ARE AUTHORIZED TO ISSUE PAYMENT ORDERS?**
5. **ARE ALL AUTHORIZED, OR ONLY THE 80 OR SO REGIONAL SUBSIDIARIES?**
6. **IS IT POSSIBLE TO PRE-NUMBER PAYMENT ORDERS?**
7. **ARE VERIFICATION CALLS MADE TO THE BRANCH ORIGINATING THE PAYMENT ORDER FOR AMOUNTS OVER A CERTAIN SIZE?**
8. **HOW ARE FOREIGN EXCHANGE RATES DETERMINED AND APPLIED?** .

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*DIFFERENCE BETWEEN #1 and #2 is profit resulting from sale rate and AVERAGE RATE FOR NOSTRO ENTRY.

Exhibit "A"

Datum convertent: 21-02-93 Strana: 1

Testa.e f-1101 Prehled konverzí, zaúčet kourzu: SF301108

Ú	Mena	PAYMENT Fixed Val dle vnitsu banky	Valuta dle.vyc banky	Kod	MD účet	castka v kcs	Branch #1	DAL účet	castka v kcs	Nostro #2	Var symbol
19	USD	2000.00	09/02/93	2	2092894-018	97774.00	34833	2340199-908	97726.00		300.00
19	USD	[illegible]	[illegible]	2		[illegible]		[illegible]	[illegible]		[illegible]
19	USD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
19	USD	[illegible]	10/02/93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
19	USD	[illegible]	[illegible]	2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
28	USD	45.00	05/02/93	2	2092894-028	132.96	4833	2340199-908	134.41		4300
28	USD	45.00	05/02/93	2		0.00		7720393-908	0.00		4500
28	USD	45.00	05/02/93	2	34833 2259091-908	132.41	1994	2259091-908	134.41		4500
28	USD	[illegible]	29/01/93	2	[illegible]	[illegible]	34833	2340199-908	135[illegible].00		130000
28	USD	[illegible]	29/01/93	2		0.00		7720393-908	[illegible]		130000
28	USD	[illegible]	29/01/93	2	34833 2259091-908	[illegible]	1994	2259091-908	[illegible]		130000
28	USD	6500.00	01/02/93	2	2092894-032	199994.38	34833	2340199-908	193[illegible].4		693000
28	USD	6500.00	01/02/93	2		0.00		7720393-908	497.92		693000
28	USD	6500.00	01/02/93	2	34833 2259091-908	198796.47	1994	2259091-908	192946.44		693000
28	USD	[illegible]	01/02/93	2	2092894-032	209119.30	34833	2340199-908	208075.28		724800
28	USD	7248.00	01/02/93	2		0.00		7720393-908	1.43.72		724800
28	USD	7248.00	01/02/93	2	34833 2259091-908	208[illegible].31	1994	2259091-908	2[illegible].53		724800
28	USD	8051.00	01/02/93	2	2092894-038	232412.88	34833	2340199-908	231242.94		805500
28	USD	8051.00	01/02/93	2		0.00		7720393-908	1169.92		805500
28	USD	8051.00	01/02/93	2	34833 2259091-908	231242.94	1994	2259091-908	231242.94		805500
28	USD	[illegible]	01/02/93	2	2092894-038	119447.18	34833	2340199-908	119851.12		414000
28	USD	[illegible]	1/02/93	2		0.00		7720393-908	396.16		414000
28	USD	4140.00	01/02/93	2	34833 2259091-908	118851.12	1994	2259091-908	118851.12		414000
28	USD	20000.00	01/02/93	4	34833 2938191-038	574160.00	34833	2340199-908	574160.00		0317269100
[illegible]	USD	20000.00	01/02/93	4	34833 2259091-908	574160.00	1994	2259091-908	574160.00		0317269100
	USD	400.62	03/02/93	2	2092894-038	11496.93	34833	2340199-908	11538.31		40062
28	USD	400.62	03/02/93	2		0.00		7720393-908	53.09		40062
28	USD	400.62	03/02/93	2	34833 2259091-908	11538.31	1994	2259091-908	11538.31		40062
28	USD	6273.80	08/02/93	2	2092894-038	178313.76	34833	2340199-908	178011.93		607380
28	USD	6273.80	08/02/93	2		0.00		7720393-908	372.85		607380
28	USD	6273.80	08/02/93	2	34833 2259091-908	178010.93	1994	2259091-908	178010.93		607380
28	USD	10000.00	08/02/93	2	2092894-038	294330.00	34833	2340199-908	293080.00		1000000
28	USD	10000.00	08/02/93	2		0.00		7720393-908	1470.00		1000000
28	USD	10000.00	08/02/93	2	34833 2259091-908	293080.00	1994	2259091-908	293080.00		1000000
28	USD	[illegible]	08/02/93	2	2092894-038	22904.36	34833	2340199-908	22889.55		78100
28	USD	[illegible]	08/02/93	2		0.00		7720393-908	114.81		78100
28	USD	781.00	08/02/93	2	34833 2259091-908	22889.55	1994	2259091-908	22889.55		78100
28	USD	[illegible]	08/02/93	2	2092894-038	84361.59	34833	2340199-908	83767.42		286500
28	USD	[illegible]	08/02/93	2		0.00		7720393-908	421.16		286500
28	USD	2865.00	08/02/93	2	34833 2259091-908	83767.42	1994	2259091-908	83767.42		286500
28	USD	[illegible]	08/02/93	2	2092894-038	1089835.00	34833	2340199-908	1084376.00		3700000
28	USD	[illegible]	08/02/93	2		[illegible]		7720393-908	5439.00		3700000
28	USD	37000.00	08/02/93	2	34833 2259091-908	1084376.00	1994	2259091-908	1084376.00		3700000
49	USD	[illegible]	[illegible]	2	2092894-048	24974.40	34833	2340199-908	24854.00		86000
49	USD	860.00	02/01/93	2		0.00		7720393-908	120.40		86000
49	USD	860.00	02/01/93	2	34833 2259091-908	24854.00	1994	2259091-908	24854.00		86000
48	USD	3054.35	25/01/93	2	2092894-048	88606.69	34833	2340199-908	88179.08		305435
48	USD	3054.35	25/01/93	2		0.00		7720393-908	427.61		305435
48	USD	3054.35	25/01/93	2	34833 2259091-908	88179.48	1994	2259091-908	88179.08		305435

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Exhibit B-11C

Foreign Exchange Division / Assets and Liabilities Department – Key Issues

KPMG PEAT MARWICK
ČESKÁ SPOŘITELNA

Memo: Assets and Liabilities Department

From: Frederick J. Zamon, Advisor

Date: February 28, 1993

Subject: Meeting with Mr. Roman Fejt, Manager, Assets and Liailities Department, and Mr.Tomáš Šamánek, Translator, on February 25 and 26, 1993.

Mr. Fejt went over the memoranda which describes the Asset and Liability Department and filled in the gaps in our understanding of the workings of that Department. He shed some light upon the operations of the Clean Payments Department as well. A summary of these conversations follow. Items already covered in previous memoranda are not repeated here.

1. It is correct that the authorization of incoming payments is a function being performed by personnel in charge of reconcilement. This was a request of Ms. Riedelová. My query on the potential for collusion between the reconcilement person and a clean payments person was understood, but Mr. Fejt pointed out that problem credit items for clients are processed by a separate individual who reports to him directly. Credits that go astray are checked personnally by that person on the nostro statements.

2. We agreed that the S.W.I.F.T. system will go a long way toward facilitating nostro accounting and reconcilement. Currently there may be as long as seven days from the time a client requests an outgoing payment (the day the client's account is debited) and when the payment is value dated at its destination.

3. The TIS (UNISYS) system is supposed to solve the delay from the originating office (branch) to Head Office. From Head Office, S.W.I.F.T. should take care of the transfer.

4. WHAT IS SERIOUSLY LACKING IS A FOREIGN EXCHANGE ACCOUNTING SYSTEM BETWEEN THE BRANCHES AND THE HEAD OFFFICE. IT WILL HAVE TO INTERFACE WITH S.W.I.F.T. AND TIS.

5. The magnitude of this problem is reflected in the fact that there are 130,000 foreign currency accounts held by clients of Česká spořitelna TIS will handle the branch conversion, but the totals and Nostro Account entries must be input into a foreign exchange system, and TIS is not, as currently configured, going to fulfill this function.

6. Information that is necessary to report the Bank's foreign exchange position to the National Bank and to Senior Management is being routed through Assets and Liabilities Department into a FoxPro database. The database can do in a few hours what it took several days to do last year. The system also consolidates Branch totals indicating assets and liabilities of the Branch and its clients. Data are submitted on Tuesday and Friday of each week. The system stands alone. It is not tied into any datasource and all the input must be re-keyed.

7. A new Nostro Account reporting form has been designed and will soon be implemented. A copy is attached as Exhibit "A". It will provide a Nostro Account balance on a daily basis. It will still be subject to input from various departments and be subject to the accuracy and time constraints of each department. Nostro Account reporting forms have also been redesigned to facilitate standardization to the greatest extent possible. Exhibits "B", "C", and "D" are attached as well.

Exhibit B–12

Clean Payment Department – Key Issues

KPMG PEAT MARWICK
POLICY ECONOMICS GROUP
CZECH SAVINGS BANK, A.S.

Memo: Clean Payments Department File

Date: April 14, 1993

From: F. Zamon, Advisor

Subject: Meetings with Ms. Helena Riedelova, Chief Manager, Clean Payments Department.

On April 8 and again on April 14, the writer met with Ms. H. Riedelova, Chief Manager of the Clean Payments Department. Translator in attendance on April 8, was Mr. Karel Englis and on April 14, Ms. Irena Zitova. Major points discussed concerning workflow are as follows.

1. Applications for foreign payments from customers of the Bank are received in the Branch. These are in written form on 4-part S.W.I.F.T. formatted application forms. Signatures on the form are verified by Branch personnel and sent either by mail or fax to Head Office in Prague to the Clean Payments Department(CPD). It is in the Branches where the account is domiciled. No accounts are domiciled at Head Office.

   a. Mail time is three to five days, depending upon the location of the Branch.

   b. Fax instructions are not tested, but written confirmation on an original payment form is sent to Head Office. The form is marked to show that it is confirmation of the fax of a certain date shown on the top of the form and not to be duplicated.

2. The customer's account is debited in the equivalent of Czech crowns and the corresponding credit is passed to a "Transit Account" under general ledger 209.

3. Applications are date-stamped when received in the CPD and entered into a registration book. Signatures of branch personnel are verified in the CPD.

4. The payments clerk determines the correspondent bank (Nostro bank) that will actually make the payment to the Payee's bank and enters the name and S.W.I.F.T. code on the Application form. The clerk also enters the S.W.I.F.T. code of the payees bank if it is a member of the S.W.I.F.T. system.

5. The completed original S.W.I.F.T. form 100 (Payment protocol) is sent to the S.W.I.F.T. Department for processing. This is the first copy of the application form.

6. The second copy of the application form is used to enter the data into the AFU processing system(computer system No.1, for purposes of this memorandum). In this system, payment instructions are formatted to match input requirements of another system(computer system No.2) used to access the Bank's mainframe computer(computer system No. 3) located at Vaclavske namesti. AFU operates on a personal computer that allows "off-line" formatting of payments (30 to a diskette) so that they may be verified for conformity with the payment application, corrected when necessary, and then entered into computer system No.2. System No.2 formats the data for use by Assets and Liabilities Department. Assets and Liabilities uses this information for foreign currency position reporting to the National Bank. Information received from System No.1 is reformatted and integrated with information on System No.2 to make it compatible with the Bank's mainframe computer. The Bank's mainframe computer makes debit entries required to clear credit entries made by the branches to the Transit Account 209.

   It is the clearing of account 209 that provides notification to the branch that the payment has been acted upon, but it is important to remember that only the reconcilement of the nostro account entry can prove payment was actually made.

IT IS REPORTED THAT STEPS 3,4,5 AND 6 MAY TAKE UP TO FIVE DAYS TO COMPLETE BEFORE A DISKETTE COPY OF PAYMENTS ARE DELIVERED TO PERSONNEL RESPONSIBLE FOR INPUTTING DATA INTO THE VENDOR'S SYSTEM.

THEREFORE, WHILE IT IS POSSIBLE THAT THE S.W.I.F.T. OR TELEX PAYMENT IS COMPLETED ON THE DAY OF ARRIVAL OF THE PAYMENT INSTRUCTION, IT MAY BE AS MUCH AS 10 DAYS BEFORE THE TRANSIT ACCOUNT IS CLEARED OF THE ENTRY.

7. Data generated from System No.2 is also sent to financial accounting.

KPMG PEAT MARWICK
POLICY ECONOMICS GROUP
CZECH SAVINGS BANK, A.S.

Memo: Clean Payments Department File

Date: April 18, 1993

From: F. Zamon, Advisor

Subject: Meeting with Ms. Helena Riedelova, Chief Manager, Clean Payments Department.

On April 15, the writer met with Ms. H. Riedelova, Chief Manager of the Clean Payments Department. Translator in attendance was Ms. Irena Zitova. A review of my memorandum of April 14 generated revisions which are made below. Additional points are made beginning with No. 8.

1. Applications for foreign payments from customers of the Bank are received in the Branch. These are in written form on 4-part S.W.I.F.T. formatted application forms. Signatures on the form are verified by Branch personnel and sent either by mail or fax to Head Office in Prague to the Clean Payments Department(CPD). It is in the Branches where the account is domiciled. No clients' accounts are domiciled at Head Office.

   a. Mail time is three to five days, depending upon the location of the Branch.

   b. Fax instructions are not tested, but <u>a telephone call is received from the branch sending the fax to confirm receipt.</u> The original payment form is sent to Head Office. This form is marked on the top to show that it is confirmation of the fax of a certain date and that it must not be duplicated. This fax is compared to the mail confirmation. <u>The Bank allows customers to have foreign currency accounts in eight (8) convertible currencies.</u>

2. The customer's account is debited in the equivalent of Czech crowns <u>or in foreign currency when the client has such accounts</u> and the corresponding credit is passed to a "Transit Account" under general ledger 209.

   Entries when a currency exchange occurs are as follows:

   <u>Branch</u>

   debit: Client in Kc
   credit: Transit account 209xy-OP in Kc at the selling rate for the currency.

   When Central Office in Prague receives the payment

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instruction, it passes these corresponding entries:

<u>Head Office</u>

debit: Nostro account 226...
credit: Transit account 209xy-OP in Kc at the mid-rate for the currency. The difference between the mid-rate and the selling rate is a profit to the Branch for the foreign currency sold.

Similar accounting entries are passed for transactions when only foreign currencies are involved. The internal entries in crowns are passed at the mid-rate in both the Branch and at Head Office so no profit or loss is taken.

3. Applications are date-stamped when received in the CPD and entered into a registration book. Signatures of branch personnel are verified in the <u>Distribution Department, which, while not part of the Clean Payments Department, is under Ms. Riedelova's direct supervision</u>.

4. The payments clerk determines the correspondent bank (Nostro bank) that will actually make the payment to the Payee's bank and enters the name and S.W.I.F.T. code on the Application form. The clerk also enters the S.W.I.F.T. code of the payees bank if it is a member of the S.W.I.F.T. system.

5. The completed original S.W.I.F.T. form 100 (Payment protocol) is sent to the S.W.I.F.T. Department for processing. This is the first copy of the application form.

6. (Revised in its entirety from April 14th memorandum.) The second copy of the application form is used to enter the payment data into a personal computer program (System No. 1) that codes the information prior to being put into the "Pardubice Program"(System No. 2), used to access the Bank's mainframe computer(System No. 3, or AFU), located at Vaclavske namesti. (The "Pardubice Program" gets its name from the location of the vendor who wrote and maintains this system. It is a critical interface between the AFU and the Branches. It is through this system that foreign payment transactions , are entered to the general ledger of the Bank on a daily basis.)

System No. 1 allows "off-line" formatting of payments (30 to a diskette) so that they may be verified for conformity with the payment application, corrected when necessary, prior to entry to System No. 2.

System No. 2 does two things: First it prepares a diskette that allows data to be entered into the AFU. This is where all off-setting entries are passed to the Branches to clear the Transit Account 209 as described in

point No. 2. above. Second, it is used to generate reports used by Assets and Liabilities Department for reporting on the Bank's foreign currency position to the National Bank.

IT IS REPORTED THAT STEPS 3,4,5 AND 6 MAY TAKE UP TO FIVE DAYS TO COMPLETE BEFORE A DISKETTE COPY OF PAYMENTS ARE DELIVERED TO PERSONNEL RESPONSIBLE FOR INPUTTING DATA INTO THE VENDOR'S SYSTEM.

THEREFORE, WHILE IT IS POSSIBLE THAT THE S.W.I.F.T. OR TELEX PAYMENT IS COMPLETED ON THE DAY OF ARRIVAL OF THE PAYMENT INSTRUCTION, IT MAY BE AS MUCH AS 10 DAYS BEFORE THE TRANSIT ACCOUNT IS CLEARED OF THE ENTRY.

7. Data generated from System No. 3 is also sent to financial accounting. Any exceptions and errors showing on these reports are investigated and resolved in financial accounting. All errors must be cleared within 60 days. Currently there are about 20 items outstanding that are older than 60 days.

8. All branches are authorized to take instruction for foreign payments from clients. However, only the 80 regional branches are allowed to effect the payments. Thus the Pardubice Program only has to deal with a limited number of branches.

9. Each payments clerk processes about 50 payments per day. It is true that if one of the ten entries prepared in System No. 1 is incorrect, then all other nine must wait until it is fixed. About 150 to 200 payments per day are processed.

10. The biggest problem facing Clean Payments is the reconcilement function. Part of the problem involves jurisdiction over accounts and the inadequacy of the accounting system to generate a Nostro Ledger for each currency at each Nostro bank. A proper ledger should appear as follows:

NOSTRO BANK LEDGER

Debit Fx	Debit Kc	Credit Fx	Credit Kc	Balance Fx	Balance Kc

The above ledger would be posted on a daily basis. On a cycle to match the cut-off date of the Statement received from the foreign correspondent bank, the ledger would be printed to be used in reconciling each account. At least at the end of every month, the crown value of the ledger would be revalued to the current spot rate in order to recognize profit or loss. This would show as a separate entry to the "Balance" column and be in crowns only.

11. It is reported that the June 1, implementation of the UNISYS program will take into consideration Nostro accounting. If this is the case, then it may be that the Pardubice System may be replaced. If not, then the interface of these two systems will have to be addressed.

KPMG PEAT MARWICK
POLICY ECONOMICS GROUP
CZECH SAVINGS BANK, A.S.

To: Clean Payments Department File

Date: April 25, 1993

From: F. Zamon, Advisor

Subject: Trip to Liberec Regional Branch

The purpose of this trip was to view the payment procedures in the branch and the relationship to Head Office. Translator assisting was Ms. Irena Zitova. Mrs. H. Riedelova of CS headquarters accompanied us and made introductions. We met briefly with the Manager, Ing. Jan Vondrasek and then were introduced to the supervisor of the payments area for a tour of the facility.

Main impressions were as follows:

1. The Branch appears well organized and personnel knowledgeable in payments functions.

2. Security within Branch appears effective with electronic access to required areas.

3. Branch personnel indicated that the transit account to which payments are made clears in about seven days. Since there have only been 100 foreign payments since January 1, there have been no problems. It is easy to trace items that may go astray from the Branch point of view. There are delays in financial accounting. That may take two weeks.

4. There are 1200 foreign currency accounts in the Branch, with more than 2000 in the Region for which the Branch is responsible. Most are from middle size customers. The Region does not have big businesses. Mostly new entrepreneurs.

5. There was an interest in the way fees are charged to payers and payees in foreign banks. The Branch is currently thinking about revising their schedule of fees.

6. It is reported that it takes one month to six weeks to collect travellers' checks; two weeks for euro-checks. If the branch honors a credit card for an advance through Zivnostenska Banka, it takes a month to collect. Service fee for cashing travellers' checks and honoring a credit card is 1% flat.

Exhibit B–13

Questionnaire on Foreign Exchange

KPMG PEAT MARWICK
POLICY ECONOMICS GROUP
ČESKÁ SPOŘITELNA

Memo: Foreign Exchange Division

Date: February 28, 1993

From: Frederick J. Zamon, Advisor

Subject: Questionnaire on Foreign Exchange

ANSWERS TO THE QUESTIONNAIRE NOTED BELOW WERE PROVIDED BY DR. MARTIN STRAUCH, MANAGER OF THE FOREIGN EXCHANGE DIVISION.

1. Has Senior Management provided written policies covering the purchase and sale of foreign currencies and placing and taking euro–currencies to the Division?

ANS.: Senior Management has not provided written instructions for Forex and Euro trading. However, Management has requested Mr. Strauch to prepare various guidelines governing the Forex Division and its ability to trade. A copy of these guidelines is attached for information purposes. **They are to be considered strictly confidential**. The responses below are a reflection of these policies, except as specifically noted.

2. Are the following trades allowed?

- Domestic Banks
- Foreign Banks in the CR
- Foreign Banks outside the CR
- Corporate Clients: Domestic or Foreign
- Brokers

ANS.: All of the above trades are allowed. However, only trading with the first three institutions is being carried out. The Bank prefers not to trade with brokers. Trading directly with corporate clients is encouraged; in particular since the Investment Subsidiary of the Bank through the Mutual Fund should provide a natural access to large corporate clientele. However, for certain practical reasons, direct trading with corporate clientele is not being done. Corporate clients require state of the art services and the lack of communications infrastructure between the Branches and Headquarters and customers does not allow the Bank to meet these standards. Specifically:

- Corporate credit relationships are governed at the Branch level with assistance and approval from Headquarters in Prague when required. Communications concerning credit lines and the availability of credit under these lines to corporate clients are not yet sufficiently developed to allow easy trading.

- Corporate clients require forward, forward option and options trading as well as spot transaction capabilities. The Forex Division is unable to provide adequate forward trading facilities because of a delay in the installation of the Reuters active trading system and Forex's ability to easily access adequate Czech crown accounts to implement such transactions.

- Physical communication in the form of fax/telephone and telex are lacking in sophistication in some cases as well. This adds risk to transactions that can only be overcome at a price that makes the service uncompetitive.

COMMENT

Establishing a procedure that allows an allocation to the Forex Division of a portion of an aggregate credit line established for a client for purpose of trading is a logical solution to the first constraint mentioned above. Reuter's access is scheduled by the end of April, 1993. This should provide more opportunities to the Bank to trade in the forward markets. This will require closer coordination and cooperation with the Czech crown managers of Česká spořitelna. Infrastructure improvements in the communications sector will have to be addressed on a case–by–case basis. The implementation of access to the S.W.I.F.T. System will assist this problem from the aspect of Nostro reconciliation and foreign exchange position management in general. A lot of work will have to be done in coordinating the payments processes of the Bank and Forex Division activity.

3. Are the following trades allowed?

- Spot transactions
- Forward Transactions
- Forward Options
- Options
- Swaps

ANS.: All of the above transactions are allowed. However, as a practical matter, only spot transactions are performed. The reasons for this are as follows:

- The Forex Division does not have access to the Czech crown treasury operations. This is an organizational problem within the Bank that must be sorted out, and it is believed that this is currently under consideration.

- The physical isolation of Forex and Treasury personnel is not conducive to mutual understanding and cooperation.

4. Are any other transactions allowed?

ANS.: None at this time. Senior Management would have to approve any additional trading authority. Policy requires a thorough analysis and understanding of any new trading activity.

5. What maturities are allowed for euro–currency trading?

ANS.: Tomorrow/Next, two week, one, three, six months and one year are normally allowed.

6. Are there established overall volume and settlement limits for trading partners?

ANS.: Trading partners are limited to known banking institutions. Trading limits have been recommended and are being followed in the Forex Division based upon recommendations of the Manager and review by Senior Management. Specific limits are noted for the three main trading currencies: Deutsche marks, U.S. dollars and Austrian shillings. Limits for other currencies are based upon the equivalent not to exceed U.S. dollars 1 million.

7. Are there daily settlement limits for trading partners?

ANS.: Daily limits have been recommended and are being followed in the Forex Division.

8. Are there overall settlement limits for the Bank's total position?

ANS.: Overall limits are regulated by the National Bank and also within the Bank. The Assets and Liabilities Department, Liquidity Control Group monitor the Bank's total foreign exchange position. To the extent that they must balance that statutory position, they may request the Forex Division to purchase or sell currencies without limit as to amount. Such request must be in writing.

9. How are settlement limits established?

ANS.: The Manager of the Trading Division has evaluated the Banks based upon size, reputation and his personal knowledge of selected banks in the market place. As is normal in a trading area, current events are monitored closely and are considered in establishing and operating such limits. Senior Management has reviewed a written list of these recommendations, and it is this list that is followed.

10. How are settlement limits reviewed?

ANS.: Daily in the Forex Division and in the Back Office. There are no formal reviews scheduled. However, the credit review function of the Bank is currently being organized and it is anticipated that it will be responsible for this activity. Correspondent Banking will likely play a relevant part.

11. How are violations of limits managed/approved?

ANS.: Violations of limits are managed between Back Office and the Manager of the Forex Division.

12. Is collateral taken on foreign currency transactions?

ANS.: Not in the Forex Division. Since there is no active Corporate trading in the forward market, this has not been an issue.

13. What are control procedures for collateral?

ANS.: Not applicable at this time.

14. Are there total currency trading limits?

ANS.: Yes. They are established and approved based upon National Bank regulation and internal guidelines.

15. Are there overnight limits by currency?

ANS.: No, overnight limits are established by bank in amounts at U.S. dollar equivalents. The Manager of the Forex Division is responsible to manage currency positions to prevent loss to the Bank.

16. Are there intra–day limits?

ANS.: There are no specific limits during a single work day established.

17. Are there gap limits established for currency positions?
How are gap limits monitored?

ANS.: There are no gap limits established at this time. There are no forward transactions taking place. Plans are to establish these limits as required.

18. How is Nostro position managed from point of view of Forex Division?

ANS.: Management of the Nostro position is in need of improvement. The Forex Division specifies certain banks over which dealers may conduct trades. Each dealer is responsible for entering transactions that affect the Bank's position at each Nostro bank. The Manager of the Division approves each transaction. Back Office must monitor each transaction. Traders are strictly prohibited from giving payment instructions affecting Nostro accounts, except as part of the settlement instruction communicated by a trading slip.

19. How are daily rates set for bank notes, travelers checks, bank checks set?

ANS.: The Czech National Bank quotes rates for bank notes. Banks are allowed to adjust their rates to make reasonable profit. Non–bank exchange traders are also allowed to mark up the rate of bank notes and prices for travelers' checks. Their profits are usually much higher than for the banks. Regional branches set their own rates for bank notes. Rates for travelers' checks and for other bank checks are set by Mrs. Zuzana Novaková. She should be consulted for methodology.

20. How long can a Bank check be outstanding before it is considered void?

ANS.: Not known. Consult with Mrs. Novaková.

21. How are country limits established?

ANS.: None at this time. Manager of Forex Division monitors country situations and considers in his decisions.

22. Are traders' slips pre–numbered for audit control?

ANS.: Not at this time. Plans are to implement such control.

23. Do traders maintain a position sheet?

ANS.: Yes. Each trader must enter transactional data on sheets kept by designated settlement bank. Maturity lists are also kept for any euro–currency takings or placements.

24. Does the Back Office maintain a separate position sheet?

ANS.: No.

25. Are both position sheets compared and balanced daily before the close of business.

ANS.: Not applicable, and since there are no forward deals, this has not been considered necessary.

26. How are trades confirmed by the Back Office?

ANS.: By telex, fax and now, since March 1, 1993, by S.W.I.F.T.

27. How are discrepancies resolved?

ANS.: Investigation is immediate between the dealers and the Back Office. Corrections are made accordingly.

28. Are there individual ledgers for customers maintained?

ANS. None at this time.

29. Are there audit slips for all trades?

ANS.: Not necessary since all transactions are spot deals. Euro–currency placements and takings do not have audit copies as such.

30. Are customer ledgers balanced on a regular basis for all outstanding items and balanced to the General Ledger?

ANS.: Not applicable.

31. Is there a system for measuring and assessing the cost of capital for all foreign exchange transactions?

ANS.: No.

32. Is profit(loss) taken on a regular basis?

ANS.: Yes. Back Office does profit on Nostro accounts. There is no formal system established for forward transactions. Manager of Forex Division keeps manual records of estimated profit and loss on each transaction.

33. Is profit(loss) on foreign currency loans taken on a regular basis?

ANS.: No. Foreign currency loans are matched.

34. What is the policy for recognizing unrealized profit(loss)?

ANS.: Not applicable.

35. How are foreign exchange transactions reported to the traders from other departments within the bank?

ANS.: Various forms. Standardization should be implemented.

Exhibit B–14

Value of Social Loans

To: Ing. Petr Schut, CSc.

From: Michael Harlan

Date: 25 March, 1993

Subject: Social Loans

The following outlines KPMG's comments regarding the Czech Savings Bank's possible strategies in negotiating with the Czech Government regarding the "Social Loans". These comments fall under three broad categories:

1) A recommendation regarding the method used to determine the opportunity cost of carrying these loans, which cost the Bank will try to recover from the Government.
2) A brief discussion of some of the capital and accounting issues which could affect the value received by the Bank and its shareholders.
3) A possible structure for the transaction.

Opportunity Cost

The opportunity cost of the Social Loans is equal to their current book value, less their present value. In KPMG's opinion, this opportunity cost should be the starting point for negotiation with the Government; this amount, in cash or equivalents, is what the Bank should attempt to receive in order to be recompensed for the market value of the loans.

The present value calculation is relatively straightforward, as the variables are: current balance, weighted average yield, amortization rate, and a projected discount rate. The first three variables can be derived from historical data, and the discount rate should reflect an opportunity rate, that is, a rate the Bank would expect to earn on an alternate investment (for instance, the inter bank rate). A preliminary analysis by KPMG (using rough data) has determined the present value of the Social Loans to be approximately 15 billion Kc, indicating a (pre-tax) opportunity cost of roughly the same amount. If the Bank agrees with this methodology, KPMG can obtain fresher data on the social loans, consult with Bank

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personnel regarding assumptions, and obtain a more accurate present value for the loans.

Capital and Accounting Considerations

Assuming that the Bank has any flexibility as to what kind of asset it might receive from the Government as remuneration for the Social Loans, the regulatory risk weighting should be borne in mind during negotiations. For example, if the Bank were to receive 15 billion Kc face-value of common stock, it would probably account for the transaction by (in essence) adding 15 billion Kc to investments and deducting (charging off) 15 billion Kc from loans. This transaction would therefore result in the Bank maintaining the same risk-adjusted capital ratio (which is less than the regulatory minimum) it had before the transaction. This is because bank regulators require the same amount of capital (8%) for equity investments as for loans. On the other hand, if the Bank were to receive 15 Kc in cash, it would improve its regulatory capital ratio, because regulators require no capital reserves against cash. Then if the Bank invested the cash in the interbank market, its capital position would still be improved, because the regulatory requirement for that asset is only 1.6%.

The Bank should also assure that the transaction will be, at worst, tax neutral. Again assuming a 15 billion Kc "contribution" from the Government, if there is no off-setting loss (as against the Social Loans), the transaction might be viewed as taxable by the Czech taxing authorities, reducing the value of the transaction by the Bank's effective tax rate. It is therefore imperative that the Bank determine the tax effects of the transaction before reaching an agreement.

Intangible Transaction

While there are many ways in which the Government might be able to compensate the Bank for holding the Social Loans, one structure which KPMG believes may be worth pursuing is one which does not involve the transfer of hard assets. Perhaps the Bank should try to negotiate for future tax credits. Assume, for example, that the Bank successfully negotiated for 15 billion Kc in tax credits, which were usable for the tax years 1993 - 1997. Then if the Bank has a 1993 tax liability of 4.2 billion Kc (as projected in the Bank's Strategic Concept), it uses 4.2 billion Kc of its earnings to reduce the book value of the Social Loans, *instead* of paying

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the 4.2 billion Kc to the Government. The Bank would then retain a 10.8 billion Kc tax credit for the years 1994 - 1997.
The first benefit of this structure would be that its value would be easily defined (as opposed to the Property Fund). Secondly, it would allow the Bank to decrease its total assets, without decreasing after-tax income, which would, in turn, improve the Bank's capital position. From the Governments standpoint, it might be easier to give away a future tax receipt than hard assets which could have other buyers, or cash. The major risk to the Bank of this structure is that it must have sufficient taxable income over the period of the tax credit to fully utilize the benefit.

Summary

KPMG does not currently know who at the Bank, other than you, is involved in the analysis and negotiation of the above issues. We would suggest that a meeting of all the involved parties be called, to discuss possible strategies. KPMG would, of course, be happy to attend such a meeting to offer any help the Bank needs.

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CURRENT BALANCE OF SOCIAL LOANS	30000 MILLION KCS
AMORTIZATION RATE	0.075 PER YEAR
ESTIMATED RATE ON SOCIAL LOANS	0.027
REINVESTMENT RATE	0.16
PRESENT VALUE OF FUTURE INTEREST RATE LOSSES FOR CSB ON SOCIAL LOANS	16289 MILLIONS

YEAR	LOAN BALANCE	INTEREST LOST	PV OF LOST INTEREST
1993	30000	3990	3522
1994	27750	3691	2875
1995	25500	3392	2332
1996	23250	3092	1877
1997	21000	2793	1496
1998	18750	2494	1179
1999	16500	2195	916
2000	14250	1895	698
2001	12000	1596	519
2002	9750	1297	372
2003	7500	998	253
2004	5250	698	156
2005	3000	399	79
2006	750	100	17
2007		0	0
2008		0	0
2009		0	0
2010		0	0
2011		0	0
2012		0	0
2013		0	0
2014		0	0
2015		0	0
2016		0	0
2017		0	0
2018		0	0
2019		0	0
2020		0	0
2021			
2022			

Exhibit B–15B

CSB Restructuring

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KONCEPCE REORGANIZACE ČESKÉ SPOŘITELNY

NÁVRH

KPMG

10. KVĚTEN 1993

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OBSAH

A. PROČ RESTRUKTURALIZOVAT
KRITÉRIA PRO REORGANIZACI
HLAVNÍ ZÁSADY REORGANIZACE

B. DOPORUČENÁ ORGANIZAČNÍ STRUKTURA

C. JAK TATO STRUKTURA FUNGUJE

D. JAKÉ KROKY JE TŘEBA DÁLE PODNIKNOUT

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VÝCHOZÍ POZICE PRO DOPORUČENÍ

A. ZNALOST ČESKÉ SPOŘITELNY
   1. SOUČASNÉ METODY PROVOZU
   2. VEDENÍ A ZAMĚSTNANCI
   3. VÝSLEDEK JEDNOROČNÍHO SLEDOVÁNÍ

B. PODMÍNKY V ČESKÉ REPUBLICE
   1. BANKOVNÍ ZÁKONY / KONKURENCE
   2. POLITICKÁ SITUACE
   3. EKONOMIKA

C. VLASTNÍ BANKOVNÍ ZKUŠENOSTI KPMG
   1. CELOSVĚTOVÁ PŮSOBNOST
   2. VLASTNÍ ZKUŠENOST TÝMU KPMG V ČESKÉ SPOŘITELNĚ
   3. UNIKÁTNÍ (NEKONZERVATIVNÍ) PŘÍSTUP

PROČ RESTRUKTURALIZOVAT?

VYHOVĚT POŽADAVKŮM TRŽNÍ EKONOMIKY

A. ČS JE NYNÍ UNIVERZÁLNÍ BANKOU, NE POUZE SPOŘITELNOU

B. NOVÁ RIZIKA - PŘEDEJÍT NEZDARU BANKY

C. NOVÍ VLASTNÍCI (AKCIONÁŘI)

D. KONKURENCE
   1. TUZEMSKÉ BANKY
   2. ZAHRANIČNÍ BANKY

E. NOVÉ PRODUKTY
   1. INVESTICE DO AKCIÍ
   2. VELKÉ KOMERČNÍ ÚVĚRY
   3. MEZINÁRODNÍ TRANSAKCE

NÁVRH

STAROSTI S RIZIKEM - PROČ BANKY CHYBUJÍ!

A. ÚVĚROVÉ RIZIKO

B. ÚROKOVÉ RIZIKO

ZPŮSOBY REORGANIZACE

A. ÚPRAVA SOUČASNÉ ORGANIZACE

B. ZÁSADNÍ ZMĚNA (ČISTÝ LIST)

C. PRŮBĚŽNÁ PŘEMĚNA

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KRITÉRIA PRO REORGANIZACI

A. PROFESIONALITA

B. ZAMĚŘENÍ NA ZÁKAZNÍKA

C. ODPOVĚDNOST

D. MAXIMÁLNÍ RIZIKOVĚ OČIŠTĚNÉ VÝNOSY PRO VLASTNÍKY

E. BEZPEČNOST BANKOVNÍCH VKLADŮ

F. UCHOVÁNÍ BANKOVNÍHO KAPITÁLU

- ŘÍZENÍ HLAVNÍCH RIZIK

G. OCHRAŇOVAT A ZLEPŠOVAT VÝSADNÍ POZICI SPOŘITELNY

H. EFEKTIVNÍ VEDENÍ / DELEGOVÁNÍ

I. VYVÁŽENOST RIZIK

JAK KPMG KONSTRUOVALO DOPORUČENOU ORGANIZACI

A. ZÁKLADNÍ OBCHODNÍ SFÉRY BANKY

B. ZÁKAZNÍCI BANKY

C. POŽADOVANÉ PRACOVNÍ SCHOPNOSTI

D. HLAVNÍ DETERMINANTY ZISKU

E. RIZIKA

DIVIZE VELKOBANKOVNICTVÍ

HLAVNÍ ODPOVĚDNOSTI	ÚVĚRY VELKÝM PODNIKŮM UPISOVÁNÍ OBLIGACÍ A AKCIÍ ČINNOSTI V INVESTIČNÍM BANKOVNICTVÍ
ZÁKAZNÍCI	VELKÉ PODNIKY VLÁDA ČESKÉ REPUBLIKY MĚSTSKÉ ÚŘADY BANKY
KLÍČOVÉ DOVEDNOSTI	PROFESIONÁLNÍ ZNALOST FINANČNÍ A ÚVĚROVÉ PROBLEMATIKY SCHOPNOST JEDNAT ZA BANKU S ŘÍDÍCÍMI PRACOVNÍKY ZE STRANY ZÁKAZNÍKŮ MUSÍ SLEDOVAT AKTUÁLNÍ STAV TRHU A TECHNIK DOBRÉ ZVLÁDNUTÍ ROZSÁHLÝCH JEDNÁNÍ
HLAVNÍ ČINITELE ROZHODUJÍCÍ O ZISKU	VYSOKÉ ÚROKOVÉ SAZBY A POPLATKY NÍZKÉ ZTRÁTY Z PŮJČEK
UMÍSTĚNÍ	V SÍDLE DIVIZE VELKOOBANKOVNICTVÍ V PRAZE A PODLE POTŘEBY V HLAVNÍCH POBOČKÁCH V RÁMCI ČR

DIVIZE MALOBANKOVNICTVÍ

HLAVNÍ ODPOVĚDNOSTI	PŘJÍMÁNÍ VKLADŮ POSKYTOVÁNÍ PŮJČEK JEDNOTLIVCŮM PŮJČKY A SLUŽBY DROBNÝM PODNIKATELŮM VZTAHY S MÍSTNÍ VEŘEJNOSTÍ
ZÁKAZNÍCI:	JEDNOTLIVCI DROBNÍ PODNIKATELÉ
KLÍČOVÉ DOVEDNOSTI:	SCHOPNOST EFEKTIVNĚ A PŘESNĚ ZVLÁDNOUT VELKÉ MNOŽSTVÍ VKLADOVÝCH OPERACÍ SCHVÁLIT A RYCHLE ZPRACOVAT DROBNÉ ŽÁDOSTI O PŮJČKY ZPRACOVAT RYCHLE, PŘESNĚ A S NÍZKÝMI NÁKLADY ÚDAJE PRO BANKOVNÍ ÚČETNÍ SYSTÉM DOBRÉ VZTAHY S MÍSTNÍ VEŘEJNOSTÍ/PRODEJ DOBRÉHO IMAGE SPOŘITELNY
HLAVNÍ ČINITELE ROZHODUJÍCÍ O ZISKU	NÍZKÉ ÚROKOVÉ SAZBY Z VKLADŮ VYSOKÝ PŘÍJEM Z PŮJČEK NÍZKÉ REŽIJNÍ NÁKLADY
UMÍSTĚNÍ	ZPOČÁTKU V PROSTORÁCH SOUČASNÝCH POBOČEK. NOVÁ STRUKTURA UMOŽNÍ ÚPLNÝ FINANČNÍ ROZBOR ZISKOVOSTI STÁVAJÍCÍCH A NOVÝCH POBOČEK

DIVIZE TREASURY

HLAVNÍ ODPOVĚDNOSTI	OPTIMÁLNÍ INVESTICE VŠECH AKTIV, KTERÉ NEMAJÍ CHARAKTER PŮJČEK ZÍSKÁVÁNÍ ZDROJŮ PŘI NEJNIŽŠÍCH NÁKLADECH ŘÍZENÍ LIKVIDITY BANKY ŘÍZENÍ VEŠKERÉHO OBCHODOVÁNÍ SE ZŘETELEM NA RIZIKO A SPLATNOST
ZÁKAZNÍCI	VELCÍ INVESTOŘI POJIŠŤOVNY/PENZIJNÍ FONDY INVESTIČNÍ FONDY BANKY
KLÍČOVÉ DOVEDNOSTI	SCHOPNOST OBCHODOVAT • S KRÁTKODOBÝMI VKLADY • S OBLIGACEMI A AKCIEMI • V OBLASTI ZAHRANIČNÍ MĚN PRODEJ VHODNÉHO UPSANÉHO PORTFOLIA JINÝM INVESTORŮM
HLAVNÍ ČINITELÉ ROZHODUJÍCÍ O ZISKU	VÝNOSY V HODNOTĚ INVESTIC ČISTÝ ZISK Z ÚROKŮ ČISTÝ ZISK Z OBLASTI ZAHRANIČNÍCH MĚN
UMÍSTĚNÍ	PRAHA

NÁVRH

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DIVIZE INVESTIČNÍCH FONDŮ / MAKLÉŘI

HLAVNÍ ODPOVĚDNOSTI	EFEKTIVNÍ HOSPODAŘENÍ S PENĚZI INVESTORŮ VYTVÁŘENÍ DOSTATEČNÉHO ZISKU Z VLOŽENÉHO KAPITÁLU ČESKÉSPOŘITELNY
ZÁKAZNÍCI	INVESTOŘI - JEDNOTLIVCI
KLÍČOVÉ DOVEDNOSTI	PRODEJ AKCIÍ INVESTIČNÍCH FONDŮ A JINÉ INVESTICE PROVÁDĚNÍ DOBRÝCH INVESTIC ŘÍZENÍ PORTFOLIA ŘÍZENÍ PODNIKU
HLAVNÍ ČINITELE ROZHODUJÍCÍ O ZISKU	VELIKOST FONDU VZHLEDEM KE ZVÝŠENÍ PŘIJÍMANÝCH POPLATKŮ NÍZKÉ PROVOZNÍ NÁKLADY
UMÍSTĚNÍ	PRAHA A KLÍČOVÉ POZICE VE VELKÝCH POBOČKÁCH

NÁVRH

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DIVIZE ÚVĚRŮ

HLAVNÍ ODPOVĚDNOSTI	ZAVEDENÍ ÚVĚROVÉ POLITIKY A ŘÍZENÍ ÚVĚROVÉHO PORTFOLIA TAK, ABY KONTROLA RIZIK BYLA NA POŽADOVANÉ ÚROVNI SCHVALOVÁNÍ ÚVĚRŮ SCHVÁLENÍ KONCENTRACE RIZIK VYTVOŘENÍ ÚČELNÉ PODPŮRNÉ STRUKTURY ZAHRNUJÍCÍ ODDĚLENÍ ÚVĚROVÉ KONTROLY A ODDĚLENÍ PROBLÉMOVÝCH PŮJČEK
KLÍČOVÉ DOVEDNOSTI	VYNIKAJÍCÍ ANALYTICKÉ SCHOPNOSTI ŘÍZENÍ PORTFOLIA ROZHODOVACÍ SCHOPNOSTI
UMÍSTĚNÍ	ZATÍMCO VEDOUCÍ ÚVĚROVÉ OBLASTI BUDE V PRAZE, ÚVĚROVÍ ŘEDITELÉ BUDOU ROZMÍSTĚNI PO HLAVNÍCH JEDNOTKÁCH ZABÝVAJÍCÍCH SE PŮJČKAMI

FINANČNÍ DIVIZE

HLAVNÍ ODPOVĚDNOSTI	ŘÍZENÍ RIZIKA V OBLASTI TREASURY • RIZIKO ÚROKOVÝCH SAZEB • RIZIKO LIKVIDITY MĚŘENÍ ZISKOVOSTI FINANČNÍ VÝKAZY KAPITÁLOVÁ PŘIMĚŘENOST PODPŮRNÝCH OPERACÍ STRATEGICKÉ PLÁNOVÁNÍ
KLÍČOVÉ DOVEDNOSTI	ŘÍZENÍ ÚROKOVÉHO A LIKVIDNÍHO RIZIKA KAPITÁLOVÉ TRHY MANAŽERSKÉ ÚČETNICTVÍ BANKOVNICTVÍ / PRODUKTY
UMÍSTĚNÍ	PRAHA

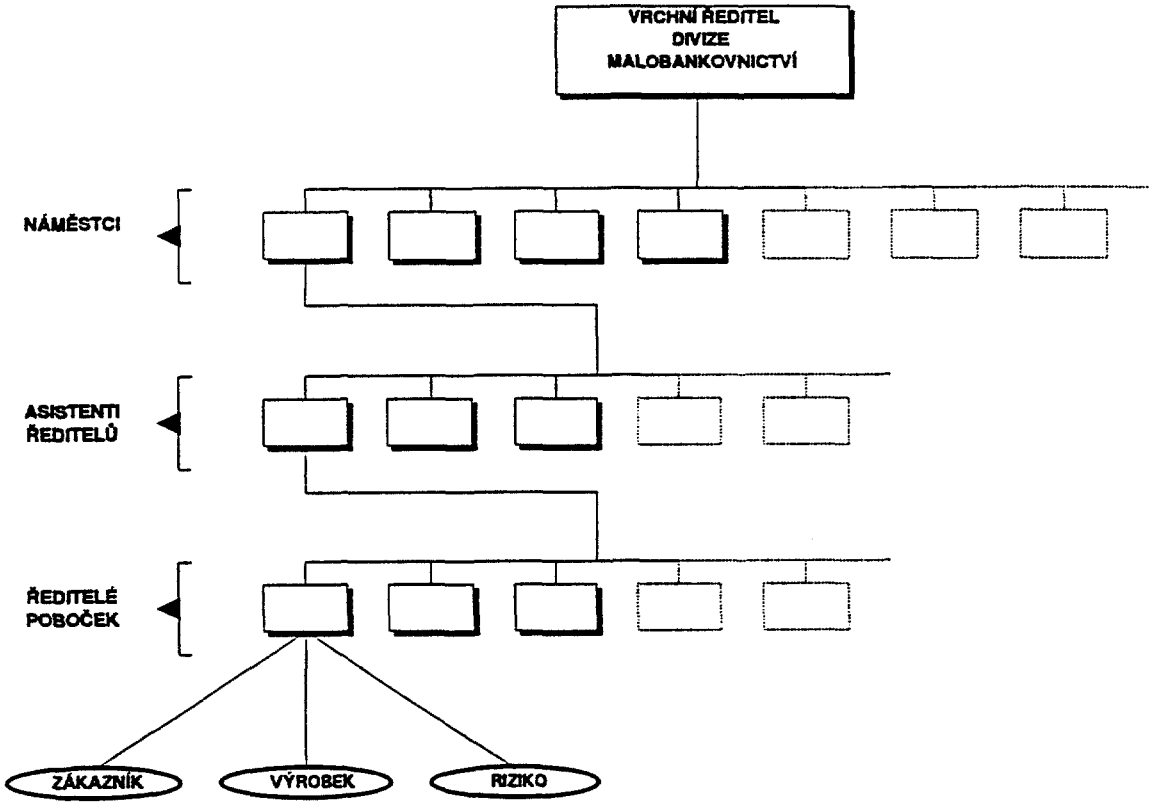
DIVIZE OPERACÍ A SYSTÉMŮ

HLAVNÍ ODPOVĚDNOSTI	STANOVIT NORMY PRO ČINNOST ZPRACOVÁNÍ DAT ZNALOST VŠECH ASPEKTŮ AUTOMATIZOVANÝCH OPERACÍ SPRAVOVAT A MODERNIZOVAT ZPŮSOB ZPRACOVÁNÍ DAT BANKY
KLÍČOVÉ DOVEDNOSTI	PŘESNÉ ZPRACOVÁNÍ TRANSAKČNÍCH OPERACÍ PŘI NÍZKÝCH JEDNOTKOVÝCH NÁKLADECH PROVOZOVAT BANKOVNÍ POČÍTAČOVÝ SYSTÉM TAK, ABY ŽÁDANÉ INFORMACE BYLY RYCHLE A PŘI NÍZKÝCH JEDNOTKOVÝCH NÁKLADECH K DISPOZICI ZÁKAZNÍKŮM, ZAMĚSTNANCŮM A VEDENÍ
UMÍSTĚNÍ	PRAHA, POBOČKY

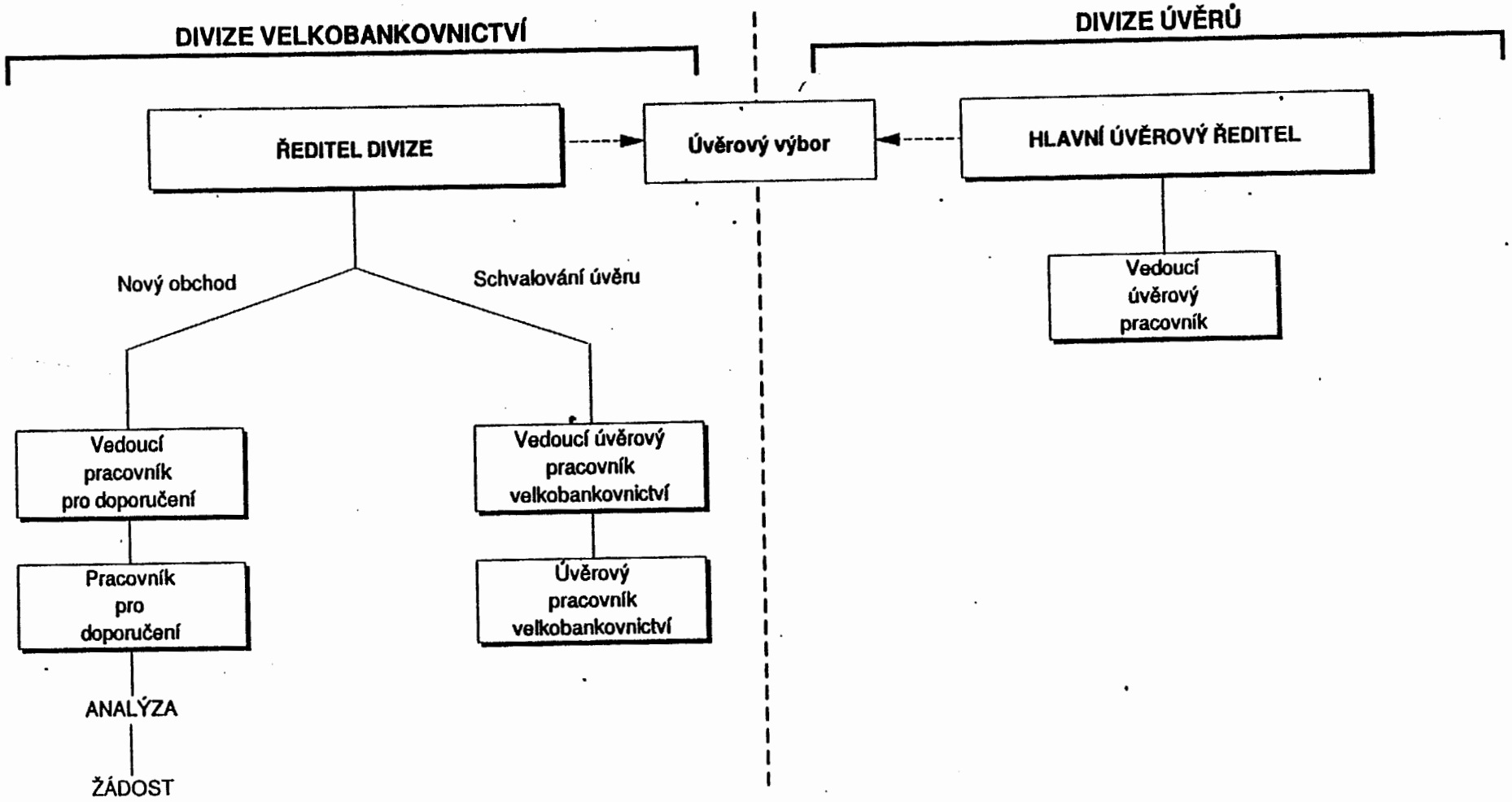
DIVIZE PODPŮRNÝCH SLUŽEB

HLAVNÍ ODPOVĚDNOSTI	OBSLUHOVAT VŠECHNY OBLASTI BANKY • LIDSKÉ ZDROJE • PRÁVNÍ OTÁZKY • PUBLIC RELATIONS • JINÉ SLUŽBY V RÁMCI BANKY
KLÍČOVÉ DOVEDNOSTI	VYSOCE KVALITNÍ PROFESIONÁLNÍ DOVEDNOSTI
UMÍSTĚNÍ	PRAHA

STRUKTURA VEDENÍ V DIVIZI MALOBANKOVNICTVÍ



SKUTEČNÝ POČET NÁMĚSTKŮ A ŘEDITELŮ USTANOVÍ
VRCHNÍ ŘEDITEL MALOBANKOVNICTVÍ


DIVIZE VELKOBANKOVNICTVÍ
DIVIZE ÚVĚRŮ
ŘEDITEL DIVIZE
Úvěrový výbor
HLAVNÍ ÚVĚROVÝ ŘEDITEL
Nový obchod
Schvalování úvěru
Vedoucí úvěrový pracovník
Vedoucí pracovník pro doporučení
Vedoucí úvěrový pracovník velkobankovnictví
Pracovník pro doporučení
Úvěrový pracovník velkobankovnictví
ANALÝZA
ŽÁDOST

VÝBORY VEDOUCÍCH PRACOVNÍKŮ

A. VÝBOR PRO ÚVĚROVOU POLITIKU

1. GLOBÁLNÍ ÚVĚROVÁ POLITIKA
2. KONTROLA BANKOVNÍ STRATEGIE PŮJČEK
3. ANALÝZA MAKRA NEBO KONCENTRACE ÚVĚROVÝCH RIZIK

B. VÝBOR PRO ŘÍZENÍ AKTIV A PASIV

1. ŘÍZENÍ RIZIKA Z ÚROKOVÝCH SAZEB
2. RIZIKO SPLATNOSTI
3. LIKVIDITA
4. RIZIKO / NÁVRATNOST A KAPITÁLOVÁ NÁVRATNOST

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NÁVRH

BODY K PROMYŠLENÍ

- MNOHO OBLASTÍ BUDE S REORGANIZACÍ BOJOVAT, NEBOŤ ZMĚNÍ ÚROVNĚ ODPOVĚDNOSTÍ. NĚKTERÉ DIVIZE BUDOU MÍT VÍCE LIDÍ, NĚKTERÉ VĚTŠÍ MÍRU RIZIKA, NĚKTERÉ VĚTŠÍ ZISK. KLÍČOVÁ JE VŠAK VÝKONNOST CELÉ DIVIZE, NE JEJÍ VELIKOST AŤ UŽ JE MĚŘENA KTERÝMKOLIV UKAZATELEM.

- VEŠKERÉ REORGANIZACE PŘINÁŠEJÍ PRO ZAMĚSTNANCE STRESOVÉ SITUACE. ZAMĚSTANCI PŘIJMOU ZMĚNY, JEN POKUD MAJÍ LOGIKU. ZAMĚSTNANCŮM BY SE MĚLY PŘEDÁVAT PRŮBĚŽNÉ A PRAVDIVÉ INFORMACE, ABY VĚDĚLI, CO SE V BANCE PRÁVĚ DĚJE.

- POPISY PRÁCE A ZODPOVĚDNOSTI SE V MNOHA OBLASTECH ZMĚNÍ. POKUD JE TO MOŽNÉ, MĚLI BY STÁVAJÍCÍ ZAMĚSTNANCI DOSTAT ŠANCI OBSADIT NOVÁ MÍSTA. PŘEMĚNIT REORGANIZACI V POZITIVNÍ UDÁLOST PRO ZAMĚSTNANCE.

- DŮKLADNÁ PŘÍPRAVA NA ZÁSADNÍ REORGANIZACI ZNAMENÁ VELKÉ ÚSILÍ. MUSÍ BÝT VYPRACOVÁNY VŠECHNY DETAILY.

BUDOU SE NĚJAKÁ PRACOVNÍ MÍSTA MĚNIT?

ANO!

JAK SE BUDOU MĚNIT?

MNOHO NOVÝCH DOVEDNOSTÍ A FUNKCÍ

NAPŘÍKLAD:

- INVESTIČNÍ BANKOVNICTVÍ
- ŘÍZENÍ JEDNOTEK MALOBANKOVNICTVÍ
- OBCHODNÍCI
- FINANČNÍ ÚČETNICTVÍ
- VELKÉ PŮJČKY
- ANALYTYCI PRO PODNIKOVÉ INVESTICE

JAKÉ KROKY BY MĚLY BÝT DÁLE UČINĚNY?

A. SOUHLAS PŘEDSTAVENSTVA S NÁVRHEM A FILOSOFIÍ REORGANIZACE ČS

B. USTANOVENÍ PORADENSKO PRACOVNÍHO TÝMU

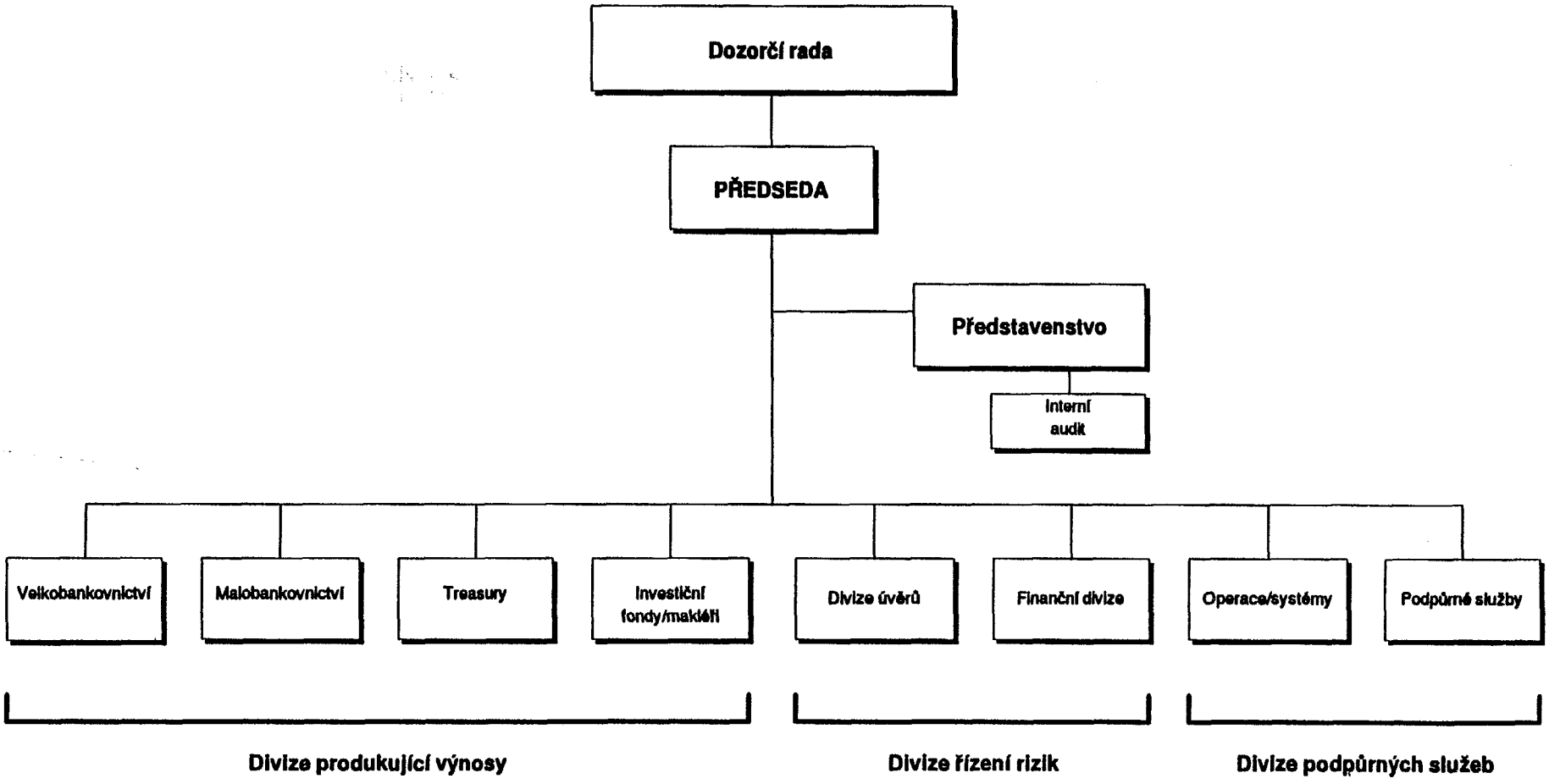
C. JMENOVÁNÍ ŘEDITELŮ DIVIZÍ

D. VYTVOŘENÍ TRANSFORMAČNÍHO TÝMU

- ČASOVÉ ROZVRHY A KOORDINACE
- SPECIFICKÉ DETAILY
- NAŘÍZENÍ A PŘEDPISY
- PŘIDĚLENÍ ZÁKAZNÍKŮ
- SYSTÉMY
- ROZMÍSTĚNÍ ZAMĚSTNANCŮ
- BUDOVY
- KOMUNIKACE SE ZAMĚSTNANCI

E. VLASTNÍ PROVEDENÍ

JAKÝM ZPŮSOBEM
MŮŽE
POMOCI KPMG?


Dozorčí rada
PŘEDSEDA
Představenstvo
Interní audit
Velkobankovnictví
Malobankovnictví
Treasury
Investiční fondy/makléři
Divize úvěrů
Finanční divize
Operace/systémy
Podpůrné služby
Divize produkující výnosy
Divize řízení rizik
Divize podpůrných služeb

A

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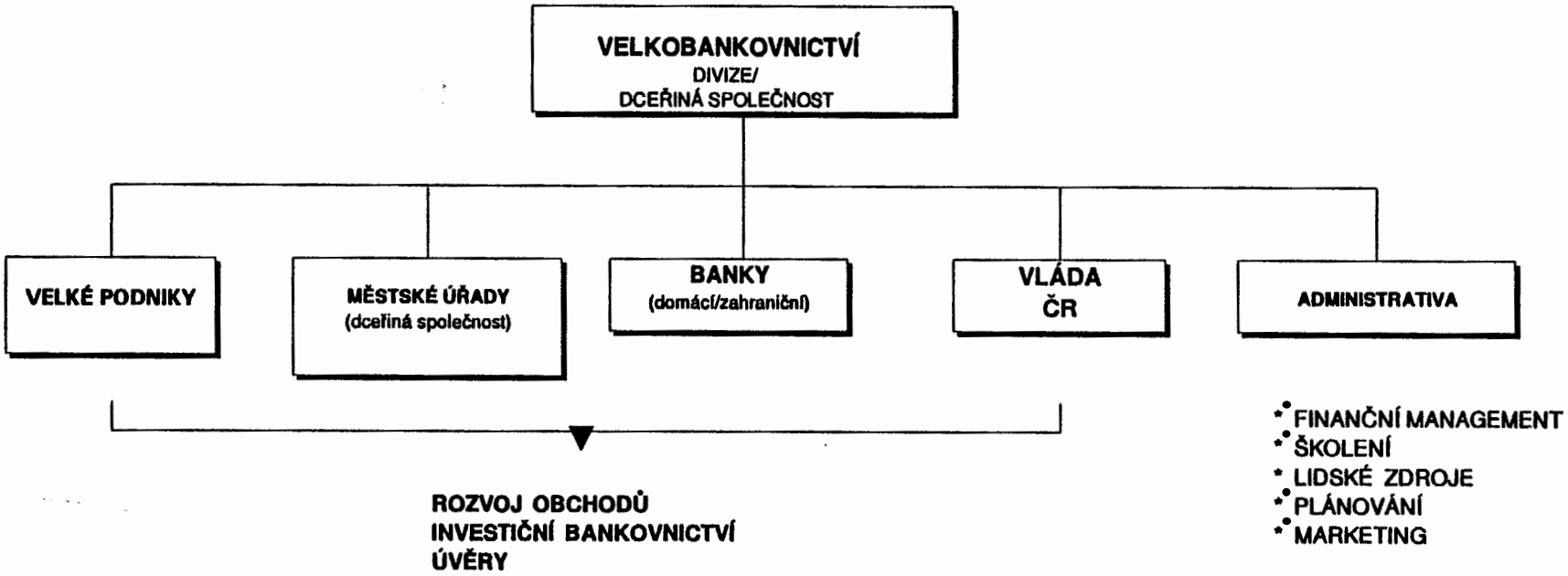
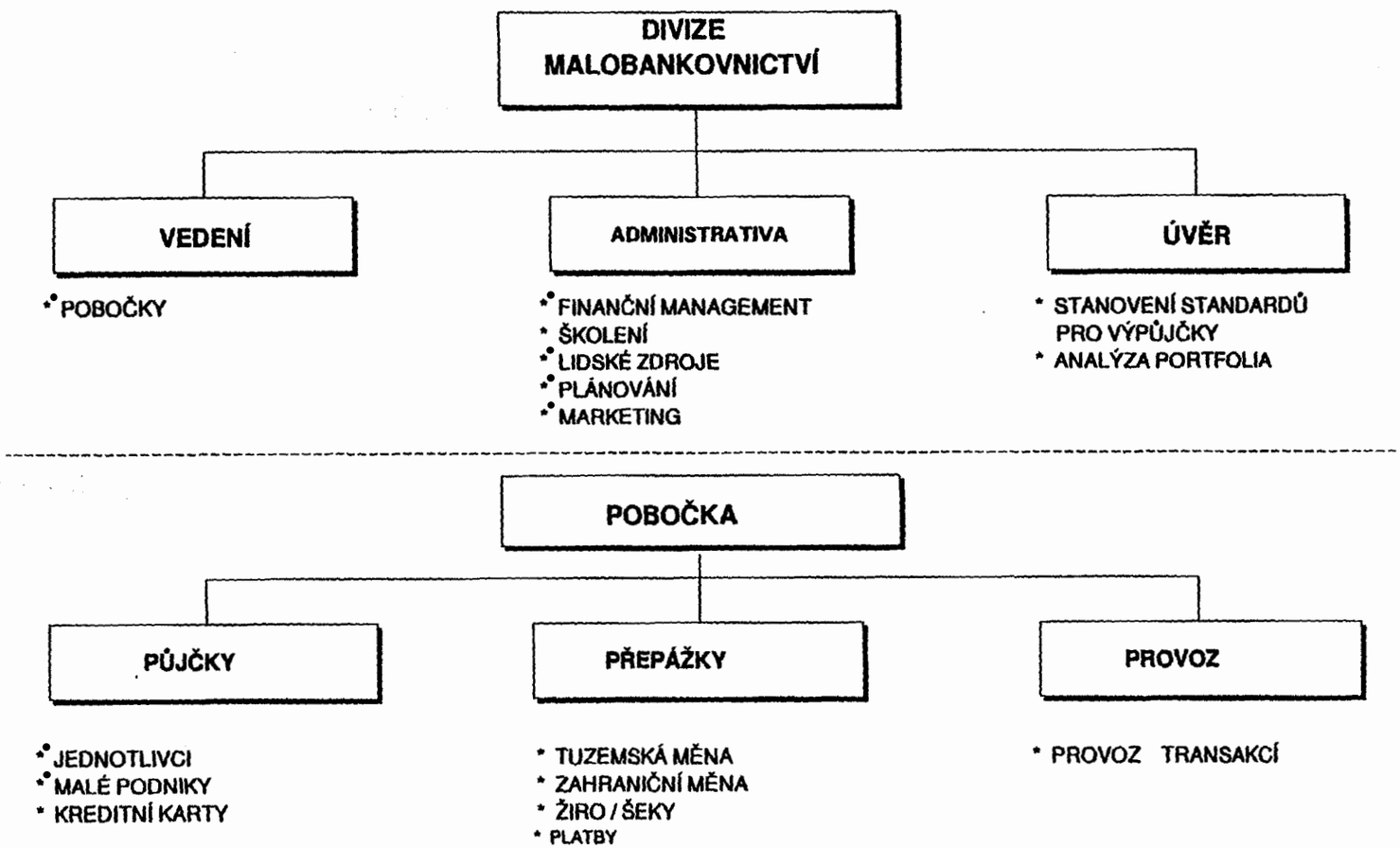
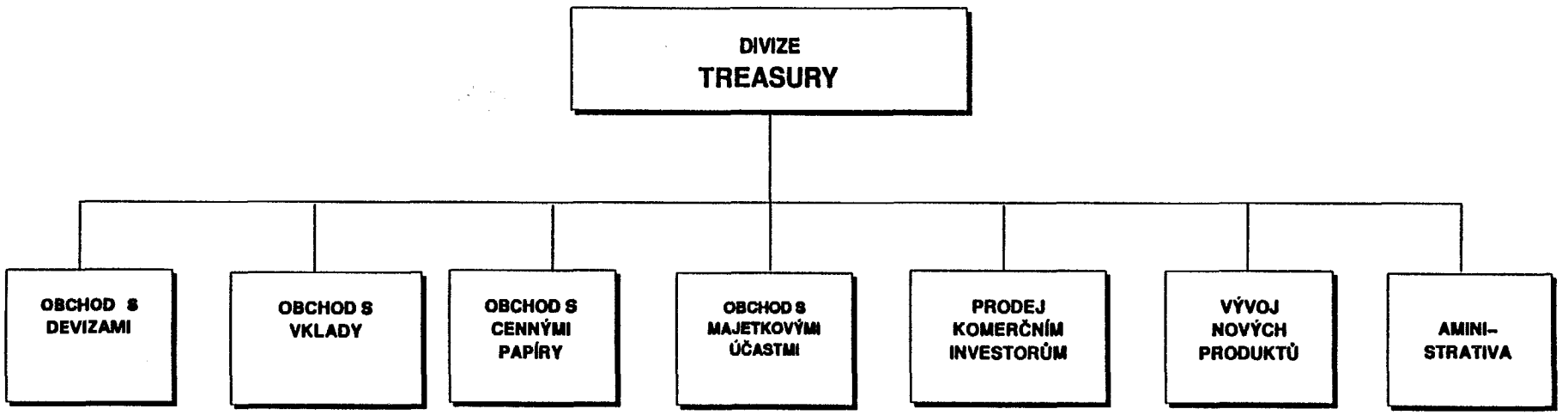

VELKOBANKOVNICTVÍ
DIVIZE/
DCEŘINÁ SPOLEČNOST
VELKÉ PODNIKY
MĚSTSKÉ ÚŘADY
(dceřiná společnost)
BANKY
(domácí/zahraniční)
VLÁDA
ČR
ADMINISTRATIVA
ROZVOJ OBCHODŮ
INVESTIČNÍ BANKOVNICTVÍ
ÚVĚRY
* FINANČNÍ MANAGEMENT
* ŠKOLENÍ
* LIDSKÉ ZDROJE
* PLÁNOVÁNÍ
* MARKETING

B


DIVIZE
MALOBANKOVNICTVÍ
VEDENÍ
* POBOČKY
ADMINISTRATIVA
* FINANČNÍ MANAGEMENT
* ŠKOLENÍ
* LIDSKÉ ZDROJE
* PLÁNOVÁNÍ
* MARKETING
ÚVĚR
* STANOVENÍ STANDARDŮ PRO VÝPŮJČKY
* ANALÝZA PORTFOLIA
POBOČKA
PŮJČKY
* JEDNOTLIVCI
* MALÉ PODNIKY
* KREDITNÍ KARTY
PŘEPÁŽKY
* TUZEMSKÁ MĚNA
* ZAHRANIČNÍ MĚNA
* ŽIRO / ŠEKY
* PLATBY
PROVOZ
* PROVOZ TRANSAKCÍ

C

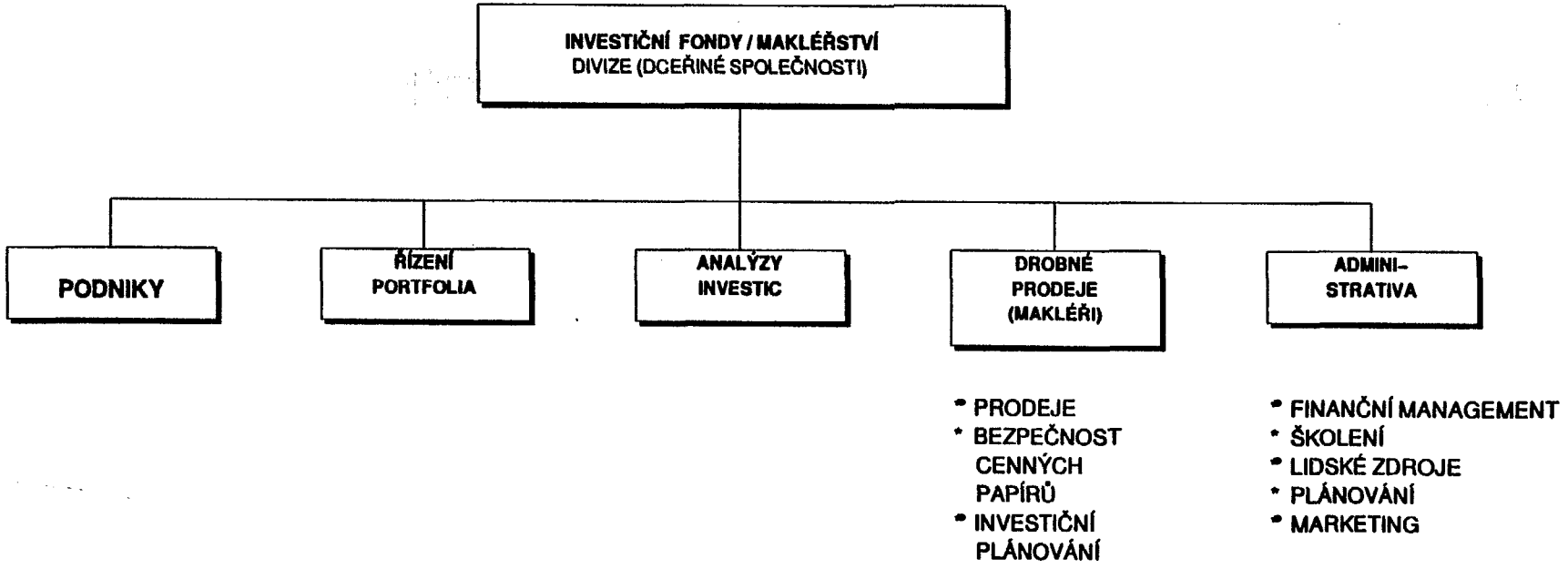
246



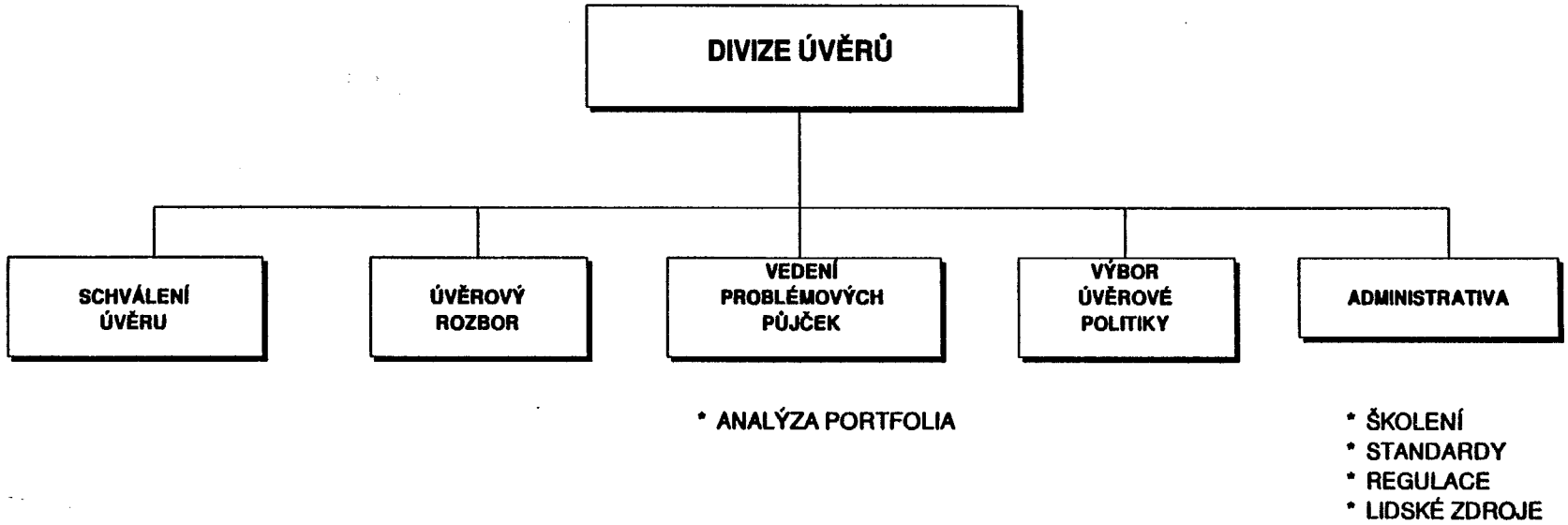
- SLEDOVÁNÍ POVINNÝCH MINIMÁLNÍCH REZERV

- FINANČNÍ ADMINISTRATIVA
- ŠKOLENÍ
- LIDSKÉ ZDROJE

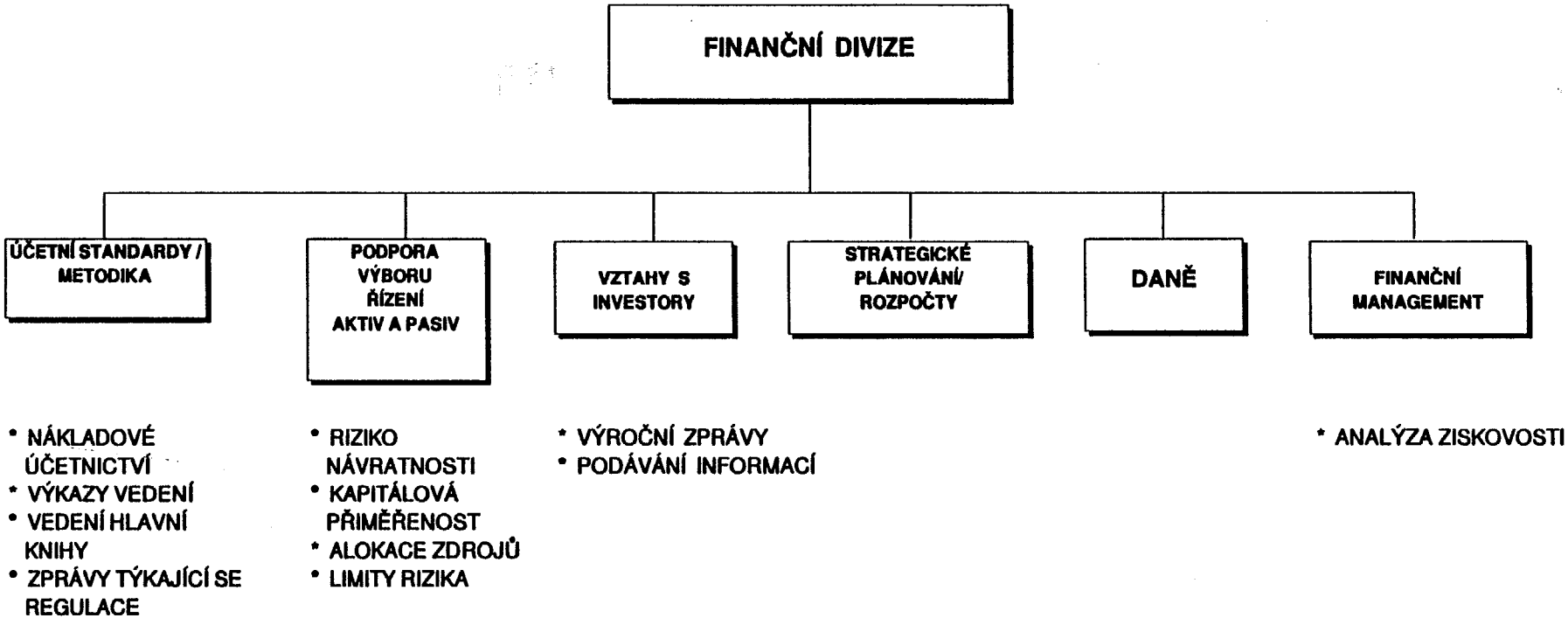
D


INVESTIČNÍ FONDY / MAKLÉŘSTVÍ
DIVIZE (DCEŘINÉ SPOLEČNOSTI)
PODNIKY
ŘÍZENÍ PORTFOLIA
ANALÝZY INVESTIC
DROBNÉ PRODEJE (MAKLÉŘI)
ADMINI-STRATIVA
• PRODEJE
• BEZPEČNOST CENNÝCH PAPÍRŮ
• INVESTIČNÍ PLÁNOVÁNÍ
• FINANČNÍ MANAGEMENT
• ŠKOLENÍ
• LIDSKÉ ZDROJE
• PLÁNOVÁNÍ
• MARKETING

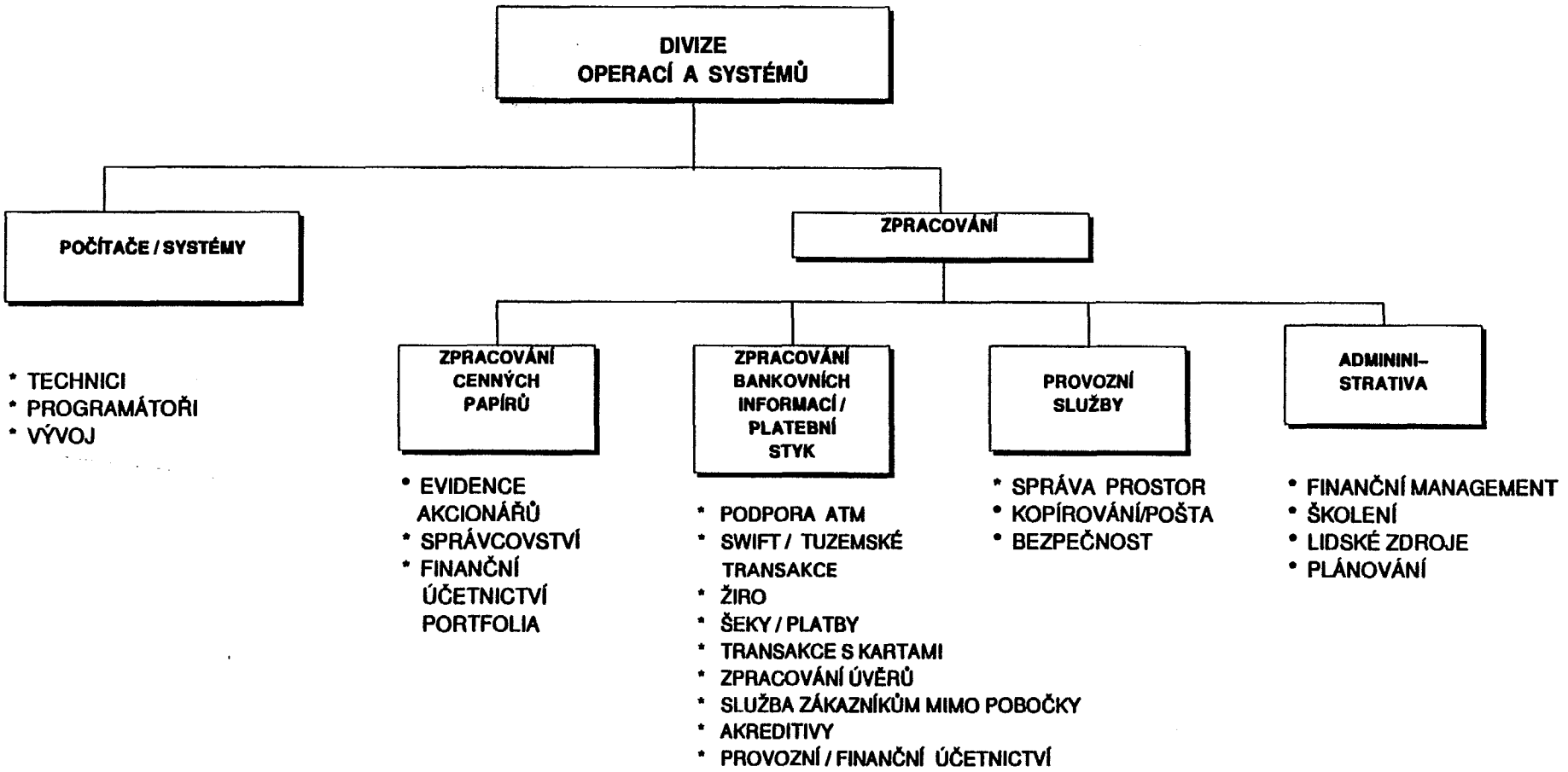
E


DIVIZE ÚVĚRŮ
SCHVÁLENÍ ÚVĚRU
ÚVĚROVÝ ROZBOR
VEDENÍ PROBLÉMOVÝCH PŮJČEK
VÝBOR ÚVĚROVÉ POLITIKY
ADMINISTRATIVA
* ANALÝZA PORTFOLIA
* ŠKOLENÍ
* STANDARDY
* REGULACE
* LIDSKÉ ZDROJE

F


FINANČNÍ DIVIZE
ÚČETNÍ STANDARDY / METODIKA
PODPORA VÝBORU ŘÍZENÍ AKTIV A PASIV
VZTAHY S INVESTORY
STRATEGICKÉ PLÁNOVÁNÍ/ ROZPOČTY
DANĚ
FINANČNÍ MANAGEMENT
• NÁKLADOVÉ ÚČETNICTVÍ
• VÝKAZY VEDENÍ
• VEDENÍ HLAVNÍ KNIHY
• ZPRÁVY TÝKAJÍCÍ SE REGULACE
• RIZIKO NÁVRATNOSTI
• KAPITÁLOVÁ PŘIMĚŘENOST
• ALOKACE ZDROJŮ
• LIMITY RIZIKA
• VÝROČNÍ ZPRÁVY
• PODÁVÁNÍ INFORMACÍ
• ANALÝZA ZISKOVOSTI

G


DIVIZE
OPERACÍ A SYSTÉMŮ
POČÍTAČE / SYSTÉMY
ZPRACOVÁNÍ
* TECHNICI
* PROGRAMÁTOŘI
* VÝVOJ
ZPRACOVÁNÍ CENNÝCH PAPÍRŮ
* EVIDENCE AKCIONÁŘŮ
* SPRÁVCOVSTVÍ
* FINANČNÍ ÚČETNICTVÍ PORTFOLIA
ZPRACOVÁNÍ BANKOVNÍCH INFORMACÍ / PLATEBNÍ STYK
* PODPORA ATM
* SWIFT / TUZEMSKÉ TRANSAKCE
* ŽIRO
* ŠEKY / PLATBY
* TRANSAKCE S KARTAMI
* ZPRACOVÁNÍ ÚVĚRŮ
* SLUŽBA ZÁKAZNÍKŮM MIMO POBOČKY
* AKREDITIVY
* PROVOZNÍ / FINANČNÍ ÚČETNICTVÍ
PROVOZNÍ SLUŽBY
* SPRÁVA PROSTOR
* KOPÍROVÁNÍ/POŠTA
* BEZPEČNOST
ADMININI-STRATIVA
* FINANČNÍ MANAGEMENT
* ŠKOLENÍ
* LIDSKÉ ZDROJE
* PLÁNOVÁNÍ

H

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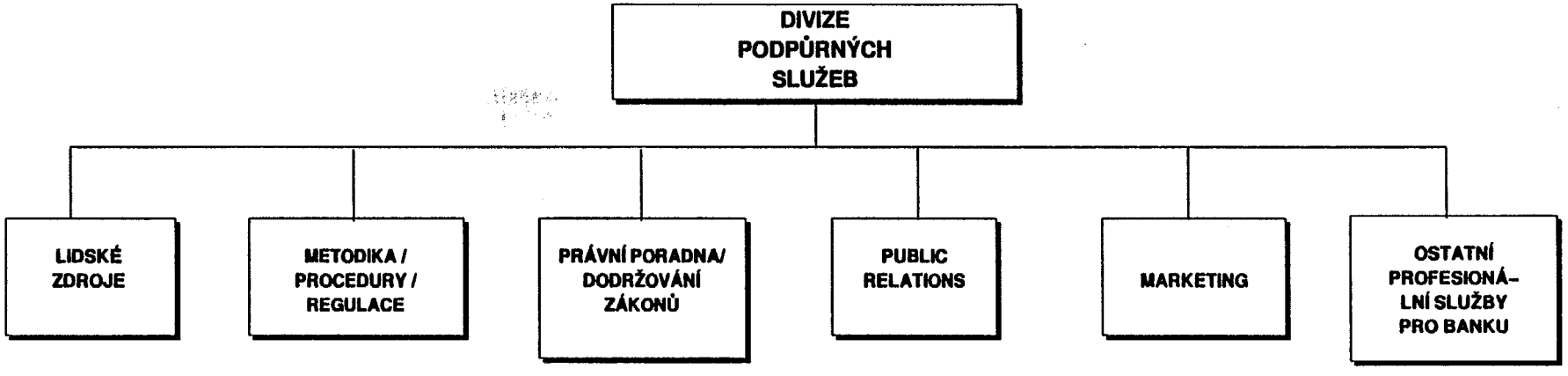
DIVIZE PODPŮRNÝCH SLUŽEB
LIDSKÉ ZDROJE
METODIKA / PROCEDURY / REGULACE
PRÁVNÍ PORADNA/ DODRŽOVÁNÍ ZÁKONŮ
PUBLIC RELATIONS
MARKETING
OSTATNÍ PROFESIONÁ- LNÍ SLUŽBY PRO BANKU

Exhibit B–15C

CSB Restructuring Operations

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Definition of Branch products

The primary purpose of the Branches is to collect deposits at a reasonably low cost. - Ancillary to deposit collection is personal lending.

The secondary purpose of the Branches is as a platform for the generation of fee income (on deposits, brokerage services, financial planning, insurance, etc.).

Benefits of vesting responsibilities for all Branches in one Director

Allows focus on retail customers and Branch products.

Allows other Directors to focus on their responsibilities (by taking responsibility for many decisions currently requiring Board action).

Eliminates layer of management, allowing faster decision-making, communication, and reaction to competition.

Allows one person to assess all Branch management and move good people around, where needed.

Allows easier homogenization of Branch services.

Let's say you are one of eight passengers in a coach being pulled by eight horses. *One* of the eight passengers is an expert at driving horses, and the rest of you drive occasionally. Will you arrive at your destination more quickly if each of you drives one of the horses pulling the wagon, or if the expert drives all of the horses?

RETAIL DIVISION

Headed by Director of Retail Services

Primary Customers:

- Individuals
- Small Entrepreneurs

Primary Areas of Responsibility:

- Deposit Collection Services
- Small Loans

Key Performance Indicators:

- Fully-loaded Cost of Deposits (relative to industry benchmarks)
- Customer Satisfaction
- Divisional ROE

WHOLESALE DIVISION

Headed by Director of Wholesale Services

Primary Customers:

- Corporate Organizations
- Government Sub-divisions

Primary Areas of Responsibility:

- Commercial Lending
- Investment Banking

Key Performance Indicators:

- Divisional ROE
- Customer Satisfaction
- Market Share

256

TREASURY DIVISION

Headed by Director of Treasury

Primary Customers:

- Financial Division
- Retail Division
- Wholesale Division

Primary Areas of Responsibility:

- Trading
- Investments

Key Performance Indicators:

- Divisional ROE
- Net Interest Margin

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INVESTMENT COMPANY DIVISION

Headed by Director of Investment Companies

Primary Customers:

- High Net Worth Individuals
- Other Brokers

Primary Areas of Responsibility:

- Mutual Fund Subsidiaries

Key Performance Indicators:

- ROE
- Portfolio Performance
- Customer Satisfaction
- Market Share

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OPERATIONS DIVISION

Headed by Director of Operations

Primary Customers:

- All Other Bank Divisions

Primary Areas of Responsibility:

- Automated Data Processing Systems and Data Entry (including Unisys)
- Electronic Transfer
- Investment/Brokerage/Mutual Fund Operations
- Property Management/Supplies

Key Performance Indicators:

- Cost per Transaction (versus Industry Benchmarks)
- Computer Down-time
- Error Rates
- Customer Satisfaction

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CREDIT DIVISION

Headed by Director of Credit

Primary Customers:

- Wholesale Division
- Treasury Division
- Retail Division
- Financial Division

Primary Areas of Responsibility:

- Credit Policies and Procedures
- Credit Risk Management
- Credit Approval
- Loan Review
- Problem Loans
- Loan Loss Reserve

Key Performance Indicators:

- Classified Loans (versus Industry Benchmarks)
- Overdue Loans (versus Industry Benchmarks)
- Loan Losses (versus Industry Benchmarks)
- Internal versus External Credit Classifications

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FINANCIAL DIVISION

Headed by Director of Finance

Primary Customers:

- Treasury Division
- Wholesale Division
- Retail Division
- Operations Division
- Shareholders

Primary Areas of Responsibility:

- Capital Planning
- Interest Rate and Liquidity Risk Management
- Accounting Policies and General Ledger
- Investment Policies and Procedures
- Internal and External Financial Reporting
- Tax Planning
- Economic Analysis
- Shareholder Relations

Key Performance Indicators:

- Capital Adequacy
- Liquidity Adequacy
- ROE
- Net Interest Margin
- Timeliness and Accuracy of Financial Reports

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INTERNAL AUDIT DEPARTMENT

Headed by Internal Auditor

Responsible for reporting on company-wide compliance to corporate policies and procedures to Board of Directors

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SUPPORT SERVICES

Personnel Department

Legal Department

Public Relations

Marketing

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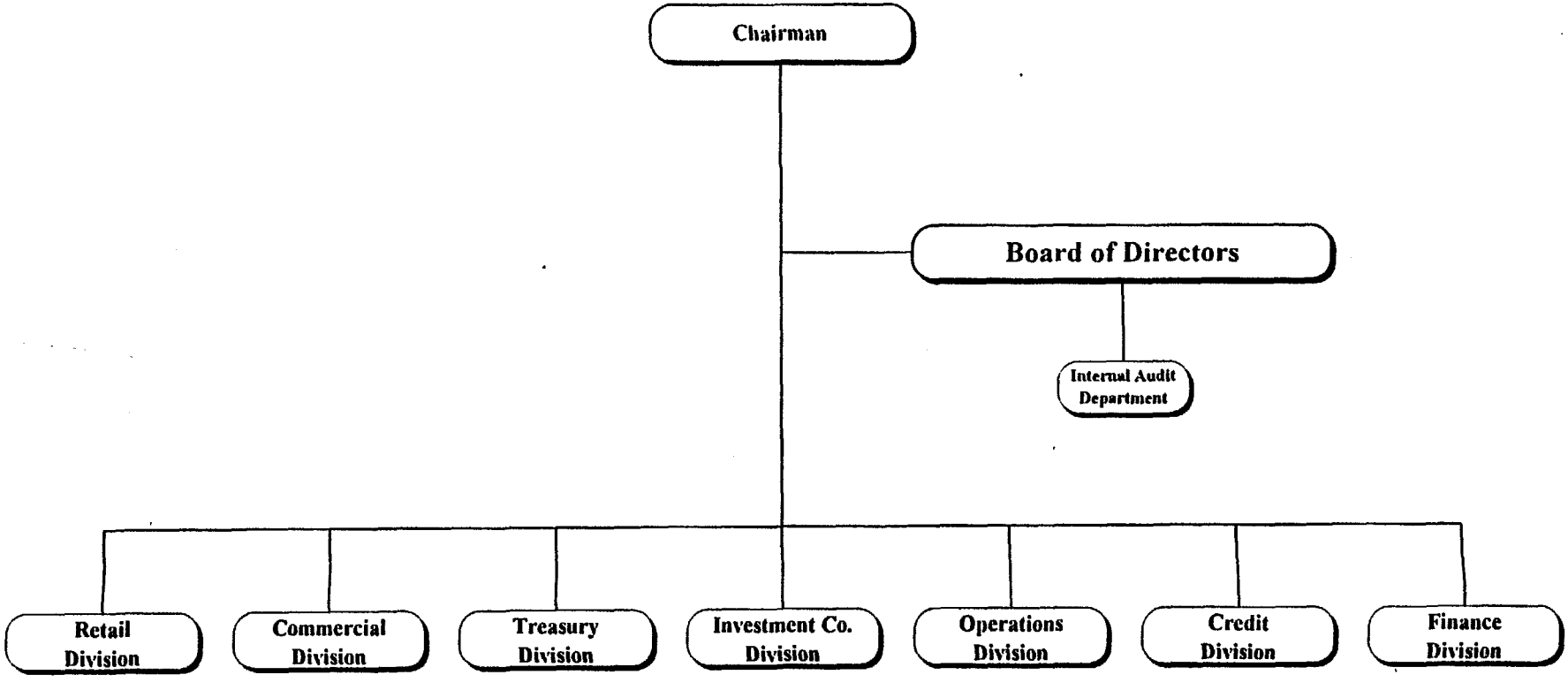
Chairman
Board of Directors
Internal Audit Department
Retail Division
Commercial Division
Treasury Division
Investment Co. Division
Operations Division
Credit Division
Finance Division

Exhibit B–15A

Initial Approach to CSB Reorganization

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Initial Approach to Czech Savings Bank Reorganization

KPMG Peat Marwick
Policy Economics Group

Michael W. Harlan
Carleton R. Haswell

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20 January, 1993

Why do companies reorganize?

Companies generally reorganize for one or more of the following reasons:

1) They need to significantly reduce expenses
2) Their markets have changed significantly
3) They have out-grown their existing management structures

Cause 1) usually involves abandoning unprofitable activities and scaling back in all areas of the company.

Cause 2) usually involves shifting resources from shrinking market segments to growing market segments.

Cause 3) usually involves redistributing existing activities in a more rational manner than they have evolved with growth.

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Why reorganize the Czech Savings Bank?

The main reason for the Czech Savings Bank to reorganize is that **the Bank now exists in a free market economy.** This change from a centrally planned, socialist economy means that the Bank needs to design an organization structure that will:

1) accomplish the goals of the Bank's new owners;
2) effectively and efficiently serve the Bank's customers;
3) allow the Bank to gain a better understanding of its product profitability;
4) include systems to ensure management accountability and performance measurement;
5) dedicate resources to new market segments; and,
6) effectively manage the risks involved in operating in a competitive, free market economy.

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How to reorganize the Czech Savings Bank?

KPMG's approach to the reorganization of the Czech Savings Bank proceeds in steps, as follows:

1) Determine the major businesses of the Savings Bank (how does it make money?).
2) Structure the organization around those major profit centers, so that management can focus on, and be accountable for, each major market segment.
3) Separate activities where conflicts of interest can easily arise.
4) Group support areas, where economies of scale can be realized, together, to provide low-cost operations.
5) Define new structures to control the risks inherent in a free market economy.

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RETAIL DIVISION

Headed by Director of Retail Services

Responsible for all retail customers

Primary areas of responsibility:

- Deposit Collection Services
- Individuals
- Retail Securities Brokerage Services
- Individual Custody Services
- Credit/Debit Cards
- Retail Marketing

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COMMERCIAL DIVISION

Headed by Director of Commercial Services

Responsible for all commercial customer relations

Primary areas of responsibility:

- Commercial Lending
- Correspondent Banking
- Underwriting
- Mergers & Acquisitions
- Government & Municipal Services
- Commercial Marketing
- Corporate Governance

TREASURY DIVISION

Headed by Director of Treasury

Responsible for investing and maximizing income on all non-loan earning assets

Primary areas of responsibility:

- Interbank
- Foreign Exchange
- Equities
- Government Debt
- Reserve Position

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INVESTMENT COMPANY DIVISION

Headed by Director of Investment Companies

Responsible for management of investment company subsidiaries

Primary areas of responsibility:

- Mutual Fund Marketing
- Mutual Fund Investment Analysis
- Mutual Fund Portfolio Management
- Mutual Fund Compliance

OPERATIONS DIVISION

Headed by Director of Operations

Responsible for all support operations

Primary areas of responsibility:

- Data Processing (including Unisys)
- Book-keeping
- Check Processing
- Automated Teller Machines
- Telephone Systems
- Wire Transfer
- Investment/Brokerage/Mutual Fund Operations
- Security
- Property Maintenance
- Supplies

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SUPPORT SERVICES

Personnel Department

Legal Department

Public Relations

CREDIT DIVISION

Headed by Director of Credit

Responsible for all credit risk

Primary areas of responsibility:

- Credit Policies and Procedures
- Credit Risk Management
- Credit Approval
- Loan Review
- Problem Loans
- Loan Loss Reserve

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FINANCIAL DIVISION

Headed by Director of Finance

Responsible for all non-credit risk limits and capital planning

Primary areas of responsibility:

- Capital Planning
- Interest Rate and Liquidity Risk Management
- Accounting Policies and General Ledger
- Investment Policies and Procedures
- Internal and External Financial Reporting
- Tax Planning
- Economic Analysis
- Shareholder Relations

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INTERNAL AUDIT DEPARTMENT

Headed by Internal Auditor

Responsible for reporting on company-wide compliance to corporate policies and procedures to Board of Directors

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Exhibit B–16

Diagnostic Report

DIAGNOSTIC REVIEW OF OPERATIONS AT THE CZECH SAVINGS BANK

Prepared by

KPMG Peat Marwick
Washington, D.C.

for

U.S. Agency for International Development
United States Department of State
Washington, D.C.

March, 1993

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DIAGNOSTIC REVIEW OF OPERATIONS AT THE CZECH STATE SAVINGS BANK

INTRODUCTION

This report presents the results of the initial review and evaluation of the operations of the Czech State Savings Bank (CSB or Bank) conducted by KPMG Peat Marwick. This work was conducted under a contract with the United States Agency for International Development to provide technical assistance related to the privatization and restructuring of the Bank. The information presented in this report is a compilation of the results of a series of operational evaluations conducted over a period of approximately six months during 1992. This review covered four major areas within the Bank which were the focus of the technical assistance program:

(1) Credit analysis and risk management;

(2) Investment fund operations;

(3) Financial management and controls; and

(4) Foreign exchange and foreign payments.

An initial review of the Bank's operations in each of these areas was conducted in two stages at the beginning of the project: First, a review team visited the bank over a two-week period in February, 1992; this was followed by a more detailed review in April and May of 1992. These reviews were designed to identify the areas where the resources of the technical assistance program should be focused and to establish the priorities for the program.

The initial review resulted in a plan for focusing the early activities under the technical assistance program which heavily targeted the newly-created Investment Division of the Bank. This particular focus of the work was based upon the unprecedented voucher privatization program that was being implemented in what was then Czechoslovakia, and the Bank's position as one of the institutions that would clearly emerge as a major player in this process. The relative rapidity with which the voucher privatization program was being implemented, coupled with the almost complete lack of infrastructure or experience in investment fund management and operations at the Bank, placed this program at the center of the technical assistance effort.

More detailed diagnostic evaluations in each of the four areas listed above were conducted over time as work was initiated in these sections of the Bank. These evaluations were based upon:

(1) In-depth interviews with the staff at all levels of the

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Bank;

(2) Reviews of financial and operating information provided by the Bank; and

(3) Site visits to District, Regional and Branch offices.

The information collected during these diagnostic reviews is described in the following sections of this report. Each major section is organized into five major parts:

- Organization
- Staffing
- Systems and Procedures
- Workload
- Conclusions

This information represents the baseline from which the technical assistance program can be measured.

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CREDIT ANALYSIS AND RISK MANAGEMENT

Overview:

The diagnostic review of the credit function within the Czech Savings Bank began in April, 1992. The review process started with in-depth discussions with the Director of the Commercial Division (the de facto senior credit officer within the Bank) and staff at the headquarters level. This was followed by visits to two Divisional Branches and a Regional office. During these visits credit files, presentation formats, and credit analysis were reviewed. There was also a review of both national banking regulations and the Bank's internal regulations and procedures governing credit approval.

During the 3rd quarter 1992, continuing discussions were held at the headquarters level concerning the credit review and problem loan workout functions as well as observing the credit approval process in action. In the 4th quarter 1992, there were two visits to Divisional Branches for a more in-depth review of credit approval procedures and controls at the branch level.

In the first quarter of 1992, the Bank did not place a high priority on technical assistance in the credit area. This was due to a number of environmental factors, including that much of the banks lending activity was focused on interbank lending, that business loans comprised very little of the portfolio at the time, and that there was a credit limit imposed on the Savings Bank by the State Bank which was effectively placing a moratorium on further lending. A summary of the Bank's assets at the end of 1991 with changes for the year is presented in the tables on the following page.

I. Organization of the Credit Function

A. Findings

The credit approval function within the CSB is based on loan origination at one of the 73 District Branches, or in exceptional cases at one of the 8 Regional levels or the Headquarters level. Loans can be approved at the District, Regional or Headquarters level depending upon the amount of the request; the largest requests have to

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CSSB Balance Sheet, Year End 1991

Asset Type	KCS	US$	Percent of	Percent
	Millions	Millions	Total	Annual Growth
Individual Loans	Kcs 6,242	$ 219	3%	(8)%
Social Loans	29,517	1,036	12	18
Business Loans	29,173	1,024	12	289
TOTAL	Kcs 64,932	$ 2,279	27	13
Loan/Deposit to Banks	169,477	5,947	69	11
Other Assets	11,161	391	4	450
Total Assets	245,570	$ 8,617	100%	27%

Source: Czech State Savings Bank Annual Report for 1991 and information provided by Bank management.

Average loan size of individual loans	Kcs 3,470	$ 122
Average loan size of business loans	Kcs 884,000	$ 31,000
Number of loans to individuals	1,612,000	
Number of loans to business	33,000	

Source: Czech State Savings Bank Annual Report for 1991 and information provided by Bank management.

be approved by the Board of Directors. Although the Director of the Commercial Division is the nominal head of the credit function, in fact the Divisional Branches and the Regions run independent credit approval operations within their respective delegated authorities. The current structure does not have, nor could it most likely accommodate a Credit Review Department, a Problem Loan Workout Department, or a Credit Policies and Procedures Committee.

The current structure is also a function of historic divisions and political control within the Bank. These attitudes may prove difficult to overcome.

B. Conclusions:

The current overall structure is both ineffective and inefficient. The credit process is understaffed (e.g. the Director of the Commercial Division has a professional staff of only two persons). In most cases the members of the Board of Directors do not have the skill levels necessary to approve large and complex credits. In order for the Czech Savings Bank to be able to meet the challenges of the changing economy, a complete restructuring of the credit approval and risk management process will be required.

II. Staffing

A. Findings

1. Number of Staff

There are approximately 120 individuals with various levels of credit approval authority. The majority of these individuals are located in the 73 District Branches. There are three individuals at the Headquarters level, including the Director of the Commercial Division.

2. Experience

Prior to 1991, the Czech State Savings Bank did not engage in large scale, wholesale lending, therefore the experience level of the credit officers is understandably concentrated on the retail end of lending activity. For example, approximately half of the Bank's loan portfolio was in low denominated so-called "Social Loans", repayment for which was automatically deducted from the borrower's paycheck

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plus being supported by a guarantee from another family member. There is an almost complete lack of experience in analyzing credit risk, interest rate exposure, and foreign exchange risk. A few individuals have been brought in from outside of the Bank, but the experience level has not measurably improved.

There are virtually no English language skills in the Department. Lack of English speakers and discomfort with foreign advisors due to lack of western-style credit experience among the credit staff were frequently sifted as reasons for proceeding slowly with the technical assistance effort in the credit area.

3. Training

Training has been either non-existent or inadequate for an organization about to engage in universal banking. Part of this is a result of the previous system as it existed under a centrally-planned economy and state ownership of the means of production; individual credit risk did not exist and thus analytical skills were not required.

B. Conclusions

Staffing is inadequate in terms of number, experience, and training for an organization that has begun to offer universal banking products and is now engaged in large, wholesale corporate lending. While senior management recognizes there are inadequacies and desires to increase the skill level of its personnel, it is not certain that they recognize the depth and severity of the situation.

III. Systems and Procedures

A. Findings

The current credit approval system allows for credit requests to be approved within the 73 District Branches or at one of the eight Regional levels depending upon the amount of the credit request. If the request is more than the originating unit can approve, it must then be elevated to the next higher level. However, within the level of their approval authority, the District Branches and Regions operate as de facto independent credit approval systems. The credit approval limits vary from district to district and region to region, however, at the district level they range from 10 million kcs to 30

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million kcs; at the regional level the approval limit ranges from 30 million kcs to 50 million kcs; credit applications in excess of 50 million kcs are referred to the headquarters office.

There is no downward monitoring or checks and balances on what happens within either District or Regional levels; basically, each level is self-contained. Past due interest can be rolled-over into a "restructured loan" without any notification of the next higher level.

Approval levels are set according to the amount of the loan only; there is no recognition of levels of complexity or risk as a reason to elevate a request to a higher authority.

Perhaps most importantly, the Bank does not have a system that allows the aggregation of total credit to any one borrower. That is, because District Branches and Regional authorities do not have to report loans made within their approval limits, the Bank does not have a system that allows the Bank to know the total amount of credit it has extended to any one borrower or a related group of borrowers. This also means that the Bank cannot access data that would allow it to review its loan portfolio in its entirety. Thus the Bank cannot analyze overall concentrations of risk.

There is no Risk Rating System that would function as a common, Bank-wide definition of levels of risk. Nor is there a standardized presentation format to be used for credit requests. As a result, credit analysis, background information and industry analysis is often missing or inadequate.

Several requests were made to review a sample of existing credit files, but no files have been provided to the project team to date. Therefore, it has not been possible yet to look at the type of information that is contained in these files or the format used. Anecdotal information suggests that the typical file contains little supporting analysis or detailed financial information, and that there is not standard formation for its presentation.

B. Conclusions

The current credit approval process is not only inadequate for the business activities in which the Czech Savings Bank wishes to engage, but it is also inadequate to meet the challenges of a modern bank operating in a

free-market economy. A complete reorganization of the system is required along with the installation of checks and balances, a Credit Review Department and a Problem Loan Workout Department. It is also recommended that a Credit Policies and Procedures Department be created.

IV. Workload

A. Findings

The workload throughout the credit approval process is too high for the various individuals to adequately perform their duties. As an example, Bank officers at the District Branch level often have between 300 to 400 accounts. Regional officers are expected to process 18 to 20 credit requests per week.

B. Conclusions

A realignment of workloads is required, along with the recruitment of additional, skilled credit officers.

V. Conclusions

A. KPMG has identified four broad categories in which improvement is needed in order for the CSB to meet the challenges of the changing banking environment. These are:

1. Credit approval authority and responsibility.
2. A methodology for analyzing and quantifying credit risk.
3. A methodology for formulating and monitoring credit policies.
4. Protection of bank assets.

B. Clearly, immediate improvement cannot be made in all areas at once. In some cases there needs to be not only a change in historic attitudes, but political realities within the bank must also be taken into consideration. In order to make the desired improvement in these categories, it is necessary to set out specific Tasks that will provide a systemic approach to achieving a series of related, but "stand alone" changes.

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The bank has expressed reluctance to proceed with major changes at the present time in the credit management area. Throughout the review process, the project team has been told that the bank is not ready to begin work in the credit area, and that the technical assistance effort should focus on what are considered to be the more immediate needs of the Investment Division first. This can be attributed to several factors, including (a) the fact that commercial loans are not a major part of the bank's assets, and (b) the state bank has imposed a credit limit which the bank has reached and which has therefore caused a moratorium on new lending.

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INVESTMENT FUND OPERATIONS

Overview:

In 1992, having recently been granted a Universal Banking License to provide both banking and securities underwriting services, the Czech State Savings Bank (CSSB) was making plans to become very active in all areas of capital markets activities. Other than investment analysis and strategy for the voucher privatization fund, however the Bank was considering plans for large scale entry into the areas of brokerage, underwriting, trading and financial services provider.

At this time, the entire financial sector was operating in a vacuum. There was:

1. No stock exchange or stock exchange rules;

2. No Investment Company Act;

3. No Securities Laws or clearly defined regulatory commission;

4. No Banking Regulations, Commercial Codes and Accounting Rules;

5. Paralysis by the major financial institutions and governmental ministries over the political situation of Czechoslovakia; and

6. Poor or no financial information regarding all companies involved in the first round of privatization.

The following was undertaken to gain a better understanding of the needs of CSB and the financial sector in the capital markets area;

1. Interviews with CSB management in all areas of securities trading and processing;

2. Interviews with management of the State Bank, Finance Ministries, and Stock Exchange; and

3. Translation and analysis of drafts of all official documents.

The findings and conclusions of the initial diagnostic review conducted by KPMG Peat Marwick in April, 1992 are described below.

I. Organization of the Investment Funds

A. Findings

All capital markets activities, including the investment funds, are organized under the newly established Investment Division of the Bank. This Division also includes the Letter of Credit and Foreign Exchange Departments. There are immediate plans to create separate corporate subsidiaries for the voucher privatization fund and the open end mutual funds. Other capital markets activities such as brokerage and underwriting are to remain directly part of the Bank.

Complete control of all capital markets activities is under one member of the CSB Board of Directors. There is little formal organization below him with one other senior executive controlling most daily operations. Most of the employees in the Division are part of the voucher privatization fund area and operate in some sort of analytical capacity.

B. Conclusions

A formal organization needs to be put into place immediately within the Bank with clear and precise reporting structures. Senior management will need to remove themselves from the daily operations and concentrate fully on the strategic planning of the capital markets functions within the Bank. Focus has to be given to the setting of financial and operational goals, investment objectives, work standards and staff training.

II. Staffing

A. Findings

1. Number by Function

Investment Fund and Capital Markets functions have a staff of approximately 30 individuals. Although not formally organized, the functions they perform include:

- Investment Fund Portfolio Management and Analysts - 15 staff members
- Investment Fund and Capital Markets Operations - 12 staff members
- Systems and Programming - 3 staff members

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2. Experience

Virtually none of the staff in place have had formal training or experience in the specific duties for which they are responsible. Most had a peripheral knowledge of their functions from text books or other readings. Some staff in key positions have been with the Bank for as little as one to three months. The Board Member responsible for the Division has only been with the Bank for 8 months and has no previous investment experience.

3. Training

No formal training program exists for staff in the Investment Division. Some staff members have visited correspondent bank partners of CSSB for a day. One has participated in a 3 week securities trading program organized by the Know How Fund in London.

B. Conclusions

The staffing situation in the CSB Investment division is very poor. Although eager to learn, staff at all levels have little realization of what they don't know and the time commitment that will be required to learn. Many maintain the work habits and outlooks on their jobs as they did under the old regime. With the start of capital markets trading, the Bank could be in a position of great financial risk as staff members with little or no training would be participating in securities trading -- placing both Bank and Investment Fund monies in jeopardy. Operationally, the Bank is not in a position to technically interface with the trading markets since systems staff are not available to focus on the issues.

There are no immediate plans for formal staff training or hiring due to office space shortages within the Bank.

III. Systems and Procedures

A. Findings

The Czech State Savings Bank as well as the other investment funds are looking to the government to provide answers for most operational and systems requirements. There appears to be little leadership by the financial community on processing or systems issues.

Within the CSSB there is little systems and automation coordination among the operating groups. Each department is talking to computer vendors independently without any thought of how these systems will interact, whether they will be compatible with current and future systems or whether there is an actual need for the system that is being considered. The Bank has made progress in the development of their own system to send orders for the open end funds from the branches to headquarters and subsequent recordkeeping. This system is very simple and does not have the capability to perform most basic functions for proper investment processing and recordkeeping.

The Bank is on the verge of signing a major multimillion dollar contract with the systems provider Unisys. The general perception of most staff members at this time is that the Unisys system would address and resolve most systems needs. The project team has offered to review the proposed contract to provide technical advice and guidance, but this offer has not been accepted.

B. Conclusions

The CSSB Investment Division needs to bring some organization and focus to their systems and processing needs. One individual should be given the responsibilities of systems director to coordinate systems analysis, development, purchase and implementation. Contact should be made with the overall CSB systems coordinator to discuss time frames and system's requirements for the implementation of the Unisys system.

Plans need to made for the coordination and establishment of procedures for the following functions:

1. Shareholder recordkeeping for shareholders of the voucher fund, the open end funds and the shareholders of the Czech Savings Bank;

2. Custody and Administration for the investment funds and retail customers;

3. Safekeeping for the investment funds, retail customers and CSB's own account;

4. Portfolio accounting for the investment funds and CSB's own account;

5. Portfolio management MIS for the investment

funds and CSB's own account;

6. Security ordering for the branches and headquarters on the primary and secondary markets;

7. Trading and underwriting;

8. Internal monetary settlement within CSB for securities transactions and;

9. External clearing system settlement for CSB with the trading markets and State Bank.

IV. Workload

A. Findings

1. Portfolio Management and Analysis

An analysis of the over 1,200 companies to be privatized during the first wave of privatization must be completed within a two month period of time. In addition, portfolio management and bidding strategies need to be developed to ensure the utilization of all voucher points allocated to the CSB privatization fund.

CSB is also in the process of developing open end funds and has just completed a first draft of the prospectus for fund implementation in July.

2. Systems/Programming

The primary responsibility of the systems area is the internal development of the open end fund order entry and recordkeeping system. This group is also responsible for the set up and support of all personal computers and related software within the Investment Division.

3. Trading/Underwriting

The capital markets are not active. Staff in these areas currently assist in the analysis work for the privatization funds.

4. Operations

Staffs in the areas of shareholder transaction processing, portfolio accounting and custody are

attempting to understand and clarify the various securities regulations for the proper set up of their departments.

B. Conclusions

The workload facing the Investment Division is very heavy. The inexperience and lack of knowledge of the issues they are confronted with adds to the difficulty currently facing the division.

The problem of how to analyze the large number of companies with limited staff is a major constraint.

It is recognized by Bank management that work loads will increase as the trading markets start operating and products become more sophisticated.

V. Conclusions

Immediate technical assistance should focus on training management of the Investment Division in basic business and operational principles. Primary focus would be on the development of processes to address the following :

(1) Staffing requirements

(2) Training requirements

(3) Equipment requirements

(4) Division expense

(5) Division revenues

(6) Division performance standards

(7) Project management

(8) Financial asset needs

Technical assistance in the Investment Division should be in the following major areas:

(1) Investment analysis and portfolio management

(2) Operations and systems

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(3) Trading and underwriting

1. Investment Analysis and Portfolio Management

Training is needed in all areas of basic financial analysis similar to the training to be developed in the credit functions.

2. Operations and Systems

A systems requirement document needs to be developed for all areas of processing to include:

- Shareholder recordkeeping
- Custody
- Safekeeping
- Portfolio accounting
- Portfolio management
- Security ordering
- Settlement systems

In addition, evaluations should be made of the processing procedures for all operating areas.

3. Trading and Operations

Basic technical training is needed in the operations of new equity and debt offerings. Focus should also be given to the sale of these new issues and proper risk analysis for CSB dealing on its own account.

FINANCIAL MANAGEMENT AND CONTROLS

Overview:

KPMG's initial evaluation of the CSB's Financial Management functions began in February, 1992. This evaluation was accomplished through interviews with CSB Directors and personnel within their Prague headquarters and by site visits to various branches in Czechoslovakia. KPMG also requested and received the following information from the CSB.

1. Summary balance sheet projection - 1992
2. Summary income statement projection - 1992
3. Summary change in capital projection - 1992
4. Summary source and uses of funds projection - 1992
5. Summary sources and uses of funds for fixed assets projection - 1992
6. Detail of planned capital investment projects - 1992
7. Monthly report of assets and liabilities at the branches - year-to-date 1992
8. Annual Report
9. Strategic plan for 1991 - 1994
10. Regulations on internal management system for 1992
11. Economic Plan of the CSB for 1992

I. Organization

A. Findings

1. The Bank's Economics Department is the closest equivalent of a financial division. It is responsible for reporting to the Bank's major regulator, the State Bank, for developing economic forecasts and headquarter's budget, and for the investment of the Bank's interbank portfolio.

2. Unlike a western-style financial division, the Bank appears to have no centralized accounting and control department. Different areas of the Bank

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are responsible for their own parts of the general ledger.

3. There also does not exist an asset/liability management department. Interest rate and liquidity risk are neither reported on nor managed.

4. Each of the 72 district branches functions as a nearly autonomous entity, with the headquarters acting much as an upstream correspondent, providing services and systems to the districts, rather than managing them.

5. Bank "regulations" (which are basically procedures manuals) are updated and maintained by the Bank's Organization Department, part of headquarters. The Bank's Internal Audit Department assures that these procedures are followed.

B. Conclusions

1. Without a centralized accounting and control department, Bank management cannot receive timely, relevant financial data needed to determine the profitability of products and services and to effectively manage the Bank's capital and resources.

2. Without an asset/liability management function, the Bank cannot assess or manage its interest rate and liquidity risk.

3. The Bank's organizational structure limits its ability to determine the profitability of products and services and to ascertain the effectiveness of management.

II. Staffing

A. Findings

1. The Bank has had a difficult time hiring and nurturing qualified staff. Salary levels at the CSSB are somewhat lower than at its smaller competitors and are regulated by the government. Foreign companies pay much higher salaries to skilled Czech workers, who are in particular demand if they have had experience in the West, or if they speak English.

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2. The financial analysis and reporting experience levels of the Bank's personnel reflect its history. Before the revolution, when the Bank's only function was to gather deposits throughout the country and distribute them as dictated by the government, the Bank's main reporting needs related to numbers of accounts, transactions, and people. This general lack of profitability focus is seen at every level of management.

3. Within the Economics Department, most of the staff are veterans of the pre-revolution days, and have little to no direct experience in a for-profit enterprise. They are also unfamiliar with Western accounting methods.

4. The staff's ability to use micro computers is also lacking, as computers have only recently become available, and are still very expensive.

5. Much of the Bank's efforts regarding training are directed toward setting up a training institute in Brno; the early focus of this training will concentrate on using the proposed new Unisys system.

6. Managers do attend western-sponsored training seminars on an ad hoc basis, but there is no systematic training in financial management.

B. Conclusions

1. Sufficient qualified staff will be a continuing problem for the CSB, in all levels of financial management.

2. Senior and executive managers do not have sufficient experience in a free market to know what type of financial reporting to ask for, and more junior-level staff have no base of information to provide.

3. As competition drives the CSSB into more new lines of business, their inability to analyze profitability, risk, and management could seriously threaten the Bank's financial health.

III. Systems and Procedures

A. Findings

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1. In terms of automated systems, the Bank is at least thirty years behind like-sized Western banks. With 15 million deposit accounts, most of the deposit accounting is still performed manually. An employee at the branch level makes entries onto manual ledgers, which in some cases are then mailed to a larger branch; the branch then enters the transactions onto floppy disks, which are delivered to one of three data processing locations; here the transactions are finally entered into a mainframe system.

2. Because of this and other untimely systems, the Bank only produces a full balance sheet on a month-end basis, a process which usually takes at least three weeks, and nearly always has outstanding research items.

3. The income statement that the Bank uses has only a very small number of non-interest expense line items, too few to make reasonable decisions. The interest income and expense accounts do not correspond to the balance sheet accounts in such a way as to be able to compute yields and money costs.

4. Although each of the regional branches and the headquarters produces an annual budget, they do not necessarily relate to one another. The budgets are all prepared in different formats, manually, and are not consolidated or cross-checked for reasonableness.

5. Once the budgets are prepared, they are basically filed; there is no system of budget versus actual review, and no accountability for financial performance.

6. The financial reports that the Board of Directors receives on a monthly basis are completely inadequate as a tool for financial oversight of the Bank.

7. From senior to lower levels of management, financial reporting is virtually non-existent.

8. Even within the Economics department, the construction of a detailed month-end balance sheet and income statement is very difficult.

9. The Bank has entered into a contract with a major American computer company to install mainframe

hardware and general ledger software for the Bank and its major branches. The general ledger is supposed to begin functioning in early 1993, and the system is to be fully installed by the end of 1994. Apparently, add-on systems, like financial management software, are not included in the original contract.

B. Conclusions

1. Because of the lack of automated systems, by the time management gets any financial data it is usually at least three months old; this time must be reduced if the Bank is to be able to effectively manage itself.

2. Accountability needs to be introduced into the Bank's management system. Certain areas are able to invest large amounts of the Bank's funds, without automatically sending up red flags on cyclical reports.

3. While the new data processing system is being created, micro-computer-based automated financial reports should be used to the extent possible. This can serve to educate staff in the data which will be required to define the new mainframe-based MIS, as well as begin the process of defining management structures based on financial accountability and profitability analysis.

IV. Workload

A. Findings

1. In general, the workload of the financial staff is fairly heavy, both because of the constantly changing situation in Czechoslovakia, and because of the inefficiencies in the infrastructures of both the Bank and the external environment in which it must operate.

2. Because of the untimeliness of raw financial information, the financial staff is always behind in accomplishing their tasks, further adding to their workloads.

B. Conclusions

1. With the advent of further automation, the financial staff will become more efficient, in many cases reducing processing times by factors of over

one hundred.

2. On the other hand, external factors in Czechoslovakia will remain dynamic for some time, and the Bank continues to increase in complexity.

IV. Conclusions

What the Bank needs is to completely reorganize its management structure, retrain its staff, and install automated data processing. With all of the changes taking place in the Bank and Czechoslovakia, however, a realistic approach would appear to be to make certain seed projects (as outlined below) within the Economics Department which will grow to demonstrate to executive management what kinds of new management changes are needed. At the same time, these seed projects can train staff and management in the design and use of automated financial reporting, preparing them for their mainframe system. These can also serve to help the Bank better manage itself, while the mainframe system is being created.

The seed projects might include:

1. Develop an automated interbank investments model which can be used to project cashflows of the interbank portfolio.

2. Develop a set of automated financial board reports.

3. To the extent possible, automate regulatory financial reports.

4. Assist the Bank in developing its 1993 budget and strategic plan.

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FOREIGN EXCHANGE AND FOREIGN PAYMENTS

Overview:

The Foreign Payments Department of the Czech Savings Bank is actually composed of several functionally separate areas. These are:

- The letter of credit department
- The foreign payments department
- The foreign exchange department
- The foreign guarantee department.

The review of these departments began in February 1992. In fact most of these departments existed in name only and were just being organized. Prior to 1991, the Bank was only involved in domestic transactions. Therefore the Bank had absolutely no experience in any of the areas mentioned above. The Czech Savings Bank is now a universal bank and plans to be active in all banking areas. The Bank plans to develop commercial business and foreign trade will be important to these clients. Thus the Bank wants to develop necessary skills to operate internationally on a professional and safe basis.

I. Organization

A. Findings:

All of the departments within the foreign payments area report to one manager who reports to a Director of the Bank. While all of the departments are located on one floor in a relative small building, there is very little communication between the departments. For example, no staff meetings are held to talk about common problems. The State Bank of Czechoslovakia is concerned that banks that have little experience in foreign transactions be qualified prior to undertaking any live transactions. The goal is to have only professional work coming from Czechoslovak Banks. Therefore most of the transactions that the Czech State Savings Bank is involved in are with other Czech banks.

Overall activity in this area is very limited. For example the entire letter of credit department processes on average 20 applications per month. The department's role is to review the credit application that is filled out in one of the Bank's branches. After the information is checked, the Bank passes it on to one of the other Czech Banks so the Letter of Credit can be issued. The

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Czech State Savings Bank actually guarantees the payment of any amounts due under the letter of credit to the issuing Czech Bank.

Activity in the Foreign Exchange Department is very low. The State Bank does not allow any positions to be taken in foreign exchange. Consequently, this department lays off all FX risk with corresponding trades at other banks.

B. Conclusions

The whole foreign payments/foreign exchange operation is in a start up phase. Complete training will be needed. Additionally, correspondent bank relationships will have to be established so transactions can be processed. However the pace at which the Czech State Savings Bank will develop these activities will be very slow. The Bank places a fairly low priority on this area because its customer base currently has only a limited need for international transactions. Additionally, because of the small volume of transactions, the departments are being established to learn rather than make an immediate profit.

II. Staffing

A. Findings

1. Number of Staff

As all of these departments are new and have a very low number of transactions; staff is very limited. For example, there is only one foreign exchange dealer, 4 staff in the letter of credit area, 2 in guaranty department and there are several in the other areas.

2. Experience

The Czech State Savings Bank has hired its foreign exchange dealer from another bank and the head of the letter of credit department has had some experience with another bank. The rest of the staff has come from other areas of the Bank and know basic bank operations.

3. Training

All types of training are needed for these departments. For the present, most of the training will come from working with the other Czech banks

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that have experience in these areas. The State Bank plans to offer formal training. Because the transactions have to be issued by other banks, the staff learns whenever they make an error and after another Czech bank rejects an item.

B. Conclusions

This department needs all types of specific training. However, these departments have been given a fairly low priority for attention given the large and quickly growing risks in other areas and the relatively low customer demand. None the less, the Czech State Savings Bank feels that training is important and should be arranged latter in the year.

III. Systems and Procedures

A. Findings

Record keeping is rudimentary. It is based upon the practical experience of the department personnel and requirements of the accounting department. There are no specifically defined responsibilities. Accounting in the foreign exchange department is very limited. While the accounting department of the Bank keeps records, all foreign exchange transactions are kept in Czechoslovak Crowns. Therefore, the foreign exchange position in each currency cannot be managed. The foreign exchange trader keeps his own records in the department, however they are not audited and probably not complete.

Another problem is the way foreign currency deposits are managed. The current procedure is that weekly, the FX department sends a list of deposit rates to the branches that are authorized to take foreign currency deposits. The list gives a rate for various maturities. However, while the branch is obligated to tell the FX department the amount of the deposit, the branch is allowed to give a maturity date other than what the depositor received. Thus, each branch can, if it desires, take a time position in foreign exchange. The FX dealer is aware of this and is trying to modify the regulation. The Bank does not keep books in foreign currency.

Reconciliation also offers problems. Various areas can make deposits and charges to the Bank's foreign currency accounts with other Czech Banks. Also, the other Czech banks often take weeks to notify the Bank that there has been a drawing on a letter of credit or that funds have

been deposited in an account. Much tighter controls are needed.

B. Conclusions

It will be necessary to install proper control systems in this area. The bank will have to write procedures and set standards for the handling and monitoring of bank accounts.

IV. Workload

A. Findings

Overall the volume in all of the departments is very low. Consequently, staff levels are adequate to handle current volume. However, as volume increases, new staff will have to be hired. Plans are being made to hire trained people from other banks in the Czech Republic. However, this may not be easy, as there are few bank staff that have experience in foreign payment products.

B. Conclusions

Currently, the staff have time to correct errors and be very careful in their work. However, this will change as activity picks up. Therefore, additional procedures, training and controls are needed.

V. Conclusions

While the foreign payments department is important to the Bank, it is currently a relatively small problem as the current volume of activity is low. Additionally, the Bank is still hiring staff. If full training starts soon, many of the staff still to be hired will not get the benefit of training.

It was agreed that system planing and training of staff would be done in two levels:

(1) First, self learning texts would be provided. The staff would read and study this material.

(2) Second, expert help in foreign payment systems should be sent later in the year. By this time, the focus of the departments would be know and staff hired.

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Exhibit B–17

Capital Markets Interface Operations

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Organizace investičních fondů a operace na trhu akcií v České republice

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Hlavní účastníci obchodů s cennými papíry
ČESKÁ REPUBLIKA

- Cenné papíry
  - Druh obchodu (nákup / prodej)
  - Majetkové (akcie podniku nebo investičního fondu)
  - Dluhové (obligace)

- Investor
  - Nakupuje a prodává CP
  - Podnik nebo investiční fond

- Broker
  - Vykonává příkazy investorů na nákup a prodej

- Účetní pro portfolio
  - Vede záznamy o c.p. v portfoliu investičního fondu
  - Provádí výpočet celkových dividend / kapitálových výnosů pro investiční fond
  - Prověřuje denní obchodování

- Správce
  - Jednotlivec nebo investiční fond
  - Úschova a vypořádání
  - Výběr hotovosti
  - Pohyb hotovosti

- Dozorčí orgány
  - Ověřování, zda všichni investoři mají stejná práva

- Dealer
  - Obchoduje na vlastní účet

- Burza / mimoburzovní trh
  - Místo, kde se obchoduje
  - "Market maker"
  - Záznam ceny transakce

- Středisko pro cenné papíry
  - Uložení záznamu o každém obchodu

- Registr akcionářů
  - Vede záznamy o každém akcionáři
  - Poskytuje služby klientovi
  - Provádí výpočet dividend

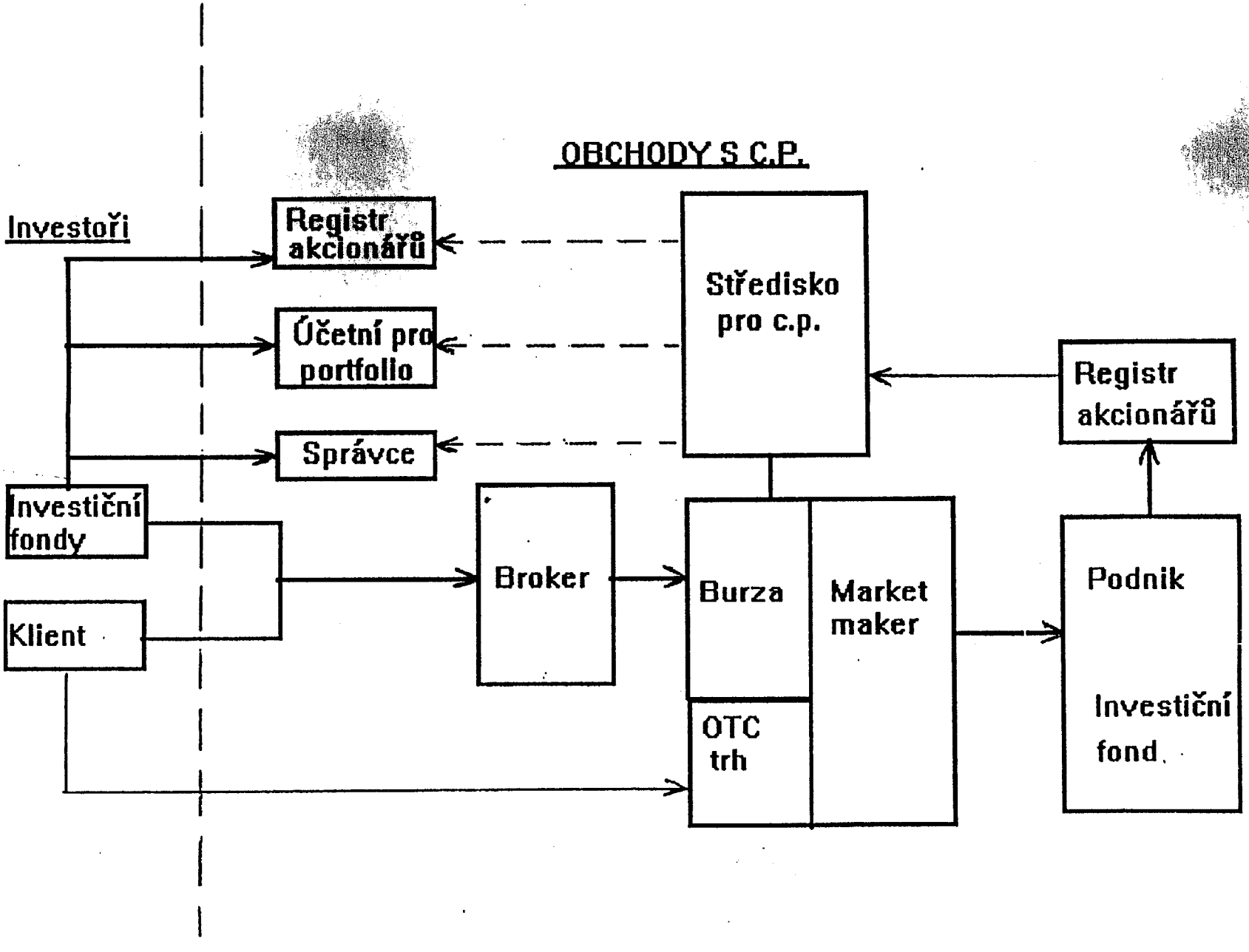
OBCHODY S C.P.
Investoři
Registr akcionářů
Účetní pro portfolio
Správce
Investiční fondy
Klient
Středisko pro c.p.
Registr akcionářů
Broker
Burza
OTC trh
Market maker
Podnik
Investiční fond

Exhibit B–18A

Bank Analysis Roundtable

BANKHAUS I.D. HERSTATT SRPEN 1974

CONTINENTAL ILLIONOIS BANK KVĚTEN 1984

3/2

1) PODNIKY PRODÁVAJÍ ZBOŽÍ A DOSTÁVAJÍ ZA NĚ ZAPLACENO.

2) BANKA PRODÁVÁ UŽITÍ PENĚZ A MUSÍ DOSTAT PENÍZE ZPÁTKY.

3) OPM

ROZVAHA

BĚŽNÁ BANKA

HOTOVOST	5	VKLADY	93
KRÁTKODOBÉ INVESTICE	20		
ÚVĚRY	65		
INVESTICE OSTATNÍ	10	KAPITÁL	7
	100		100

VÝSLEDOVKA

BĚŽNÁ BANKA

VÝNOSOVÉ ÚROKY	10
NÁKLADOVÉ ÚROKY	(7)
ČISTÉ ÚROKOVÉ VÝNOSY	3
POPLATKY PŘIJATÉ	1
VÝDAJE	(1)
ZTRÁTY Z PŮJČEK	.5
ZISK PŘED ZDANĚNÍM	2.5
DAŇ	1.3
ZISK PO ZDANĚNÍ	1.2

$$\frac{\text{ZISK PO ZDANĚNÍ}}{\text{KAPITÁL}} = \frac{1.2}{7} = 17\%$$

$$\frac{\text{ZISK PO ZDANĚNÍ}}{\text{AKTIVA}} = \frac{1.2}{100} = 1.2\ \%$$

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RIZIKA

1. ÚVĚROVÁ
2. INVESTIČNÍ
3. LIKVIDNÍ
4. MIS – MATCH (NESHODA)

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KONFLIKT BANKY

RIZIKO VS. ODMĚNA

VÝNOSOVÉ ÚROKY	NÁKLADOVÉ ÚROKY
ZISK Z INVESTIC	NÁKLADY
POPLATKY	RIZIKO

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Exhibit B–18B

Bank Analysis Roundtable Part II / Bank Capital Management

ŘÍZENÍ BANKY V SOULADU

S OPATŘENÍM PRO KAPITÁLOVOU

PŘIMĚŘENOST

OBSAH

I. ÚVOD

II. KALKULACE

III. ŘÍZENÍ AKTIV PODLE "OPATŘENÍ O KAPITÁLOVÉ PŘIMĚŘENOSTI BANK"

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BANKY BYLY HISTORICKY REGULOVÁNY POMOCÍ UKAZATELŮ "LEVERAGE"

PŘÍKLAD:

PASÍVA (DEPOZITA)
KAPITÁL

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	UKAZATEL LEVERAGE
JAPONSKO	100:1
FRANCIE, ITÁLIE	50:1
GB, U.S.A., NĚMECKO	12:1

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VYSOKÁ ÚROVEŇ "LEVERAGE" UMOŽŇOVALA BANKÁM, ABY DOSAHOVALY VYSOKÉ VÝNOSNOSTI Z KAPITÁLU PŘI NÍZKÉM ZISKOVÉM ROZPĚTÍ MEZI ZDROJI FINANCOVÁNÍ A POSKYTNUTÝMI ÚVĚRY.

PŘÍKLAD:

	VYSOKÉ	STŘEDNÍ	NÍZKÉ
LEVERAGE (PASÍVA/KAPITÁL)	100 : 1	50 : 1	12 : 1
VÝNOSNOST Z AKTIV (ZISK/AKTIVA)	0,2%	0,2%	0,2%
VÝNOSNOST Z KAPITÁLU (ZISK/KAPITÁL)	20%	10%	3%

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BANKY ZAMĚŘILY POZORNOST NA "PODROZVAHOVÉ PRODUKTY" JAKO NAPŘ. ZÁRUKY A DEVIZOVÉ TERMÍNOVANÉ OBCHODY, PROTOŽE SE TYTO PRODUKTY NEZAHRNOVALY DO KALKULACE ÚROVNĚ "LEVERAGE".

REAKCE ZE STRANY BANKOVNÍHO DOHLEDU A ZÁKONŮ:

- ZAJIŠTĚNÍ STEJNÝCH PRAVIDEL HRY
- JE ZAPOTŘEBÍ URČITÁ ÚROVEŇ KAPITÁLU ODPOVÍDAJÍCÍ VŠEM TYPŮM RIZIKA VČETNĚ RIZIKA PLYNOUCÍHO Z PODROZVAHOVÝCH PRODUKTŮ

OPATŘENÍ O KAPITÁLOVÉ PŘIMĚŘENOSTI BANK

KAPITÁL MUSÍ DOSAHOVAT VÝŠE ALESPOŇ 8% DEFINOVANÉHO RIZIKA

V ČESKOSLOVENSKU ČSB VYŽADUJE, ABY ÚROVEŇ 8% BYLA DOSAŽENA KE DNI 31.12. 1996 A ÚROVEŇ 6,25% KE DNI 31.12. 1993. DÁLE NENÍ POVOLENO SNÍŽENÍ KAPITÁLU PŘED DOSAŽENÍM POŽADOVANÉ 8% ÚROVNĚ.

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KALKULACE KAPITÁLOVÉ PŘIMĚŘENOSTI JE PROCESEM O 4 FÁZÍCH

1. VÝPOČET KAPITÁLU

2. KVANTIFIKACE PODROZVAHOVÝCH POLOŽEK

3. RIZIKOVĚ VÁŽENÁ AKTIVA

4. KALKULACE PODLE VZORCE PRO KAPITÁLOVOU PŘIMĚŘENOST

FÁZE Č.1 – KALKULACE KAPITÁLU

VLASTNÍ KAPITÁL:	
AKCIOVÝ KAPITÁL	30
ZÁKONNÉ REZERVY	6
NEROZDĚLENÝ ZISK	3
MINUS: VELKÉ INVESTICE V JINÝCH BANKÁCH	(5)
MINUS: ZTRÁTY	0
MINUS: GOODWILL	(2)
VLASTNÍ KAPITÁL	32
DODATKOVÝ KAPITÁL:	
REZERVA NA NEDOBYTNÉ POHLEDÁVKY (MAX. 1,25% Z RIZIKOVĚ VÁŽENÝCH AKTIV)	3
PODŘÍZENÝ DLUH (MAX. 50% VLASTNÍHO KAPITÁLU)	4
KAPITÁL CELKEM (VLASTNÍ + DODATKOVÝ)	39

FÁZE Č.2 – KVANTIFIKACE PODROZVAHOVÝCH POLOŽEK

POLOŽKA	ZŮSTATEK	FAKTOR KONVERZE	HODNOTA EKVIVALENTU
PLATEBNÍ ZÁRUKY	100	.5	50
DOKUMENTÁRNÍ AKREDITIVY	100	.2	20
DEVIZOVÝ KONTRAKT 3 ROKY (FORWARD)	100	0.08	8
SMLOUVY O ZPĚTNÉM NÁKUPU	100	1.00	100
CELKEM	400		178

FÁZE Č.3 – RIZIKOVĚ VÁŽENÁ AKTIVA

POLOŽKA	ZŮSTATEK	RIZIKOVÁ VÁHA	HODNOTA AKTIVA
HOTOVOST	100	.0	0
POHLEDÁVKY ZA VLÁDOU ČR	100	.0	0
POHLEDÁVKY ZA BANKAMI	100	.2	20
PŮJČKY ZAJIŠTĚNÉ NEMOVITOSTMI	100	.5	50
JINÉ PŮJČKY	100	1.0	100
JINÁ AKTIVA	100	1.0	100
CELKEM	600		270

FÁZE Č.4 – KALKULACE PODLE VZORCE PRO KAPITÁLOVOU PŘIMĚŘENOST

$$\frac{\text{VLASTNÍ KAPITÁL + DODATKOVÝ KAPITÁL}}{\text{HODNOTA EKVIV. AKTIV + RIZ.VÁŽENÁ AKTIVA}} = \frac{39}{270 + 178} = 8.55\%$$

KAPITÁLOVÁ PŘIMĚŘENOST NENÍ ZALOŽENA NA RIZIKU ZTRÁTY!

POROVNÁVÁ RŮZNÉ TYPY AKTIV KE KAPITÁLU.

RIZIKO ZTRÁTY SE OBVYKLE NEZVAŽUJE.

POZNÁMKA: RIZIKO ZTRÁTY JE PRAVDĚPODOBNOST, ŽE NĚJAKÉ AKTIVUM NEBUDE PLNĚ INKASOVÁNO V OKAMŽIKU JEHO SPLATNOSTI.

JAK BANKY REAGOVALY NA OPATŘENÍ TÝKAJÍCÍ SE KAPITÁLOVÉ PŘIMĚŘENOSTI

1. INVESTOVALY DO AKTIV S NEJVYŠŠÍM RIZIKEM NÁVRATNOSTI.
   - VÝNOSY NEBYLY RIZIKOVĚ OČIŠTĚNÉ
   - VYTVOŘENO PŘÍLIŠ RIZIKA, COŽ JE PRO MNOHO BANK HLAVNÍM PROBLÉMEM

2. JELIKOŽ BYL NÁRŮST AKTIV Z KRÁTKODOBÉHO HLEDISKA OMEZEN, INVESTOVALY DO AKTIV S VYŠŠÍM RIZIKEM S CÍLEM DOSAŽENÍ VYŠŠÍCH HRUBÝCH VÝNOSŮ.

3. VYVINULY ROZSÁHLÝ SEKUNDÁRNÍ TRH ZA ÚČELEM NÁKUPŮ A PRODEJŮ PŮJČEK S CÍLEM MAXIMALIZACE NÁVRATNOSTI.
   - PRODEJE PŮJČEK
   - PŘEMĚNA PŮJČEK V CENNÉ PAPÍRY

VÝNOSNOST KAPITÁLU PŘI KONSTANTNÍ ÚROVNI AKTIV

DRUH AKTIVA	KČ	ÚROKOVÁ SAZBA	NÁKL. NA ZDROJE	ČISTÝ ÚROKOVÝ VÝNOS	RIZIK. VÁHA	RIZIKOVĚ UPRAVEN AKTIVUM	ŽÁDANÝ KAPITÁL (8%)	VÝNOS Z KAPITÁLU
MEZIBANKOVNÍ DEPOZITA	100	13	9	4	0,2	20	1,6	250%
2 LETÉ HYPOTEČ. ÚVĚRY	100	11,5	9	2,5	0,5	50	4,0	63%
ÚVĚRY	100	15	9	6	1,0	100	8,0	75%

ÚVAHY

1. VYVINOUT PROCES SLEDOVÁNÍ KAPITÁLOVÉ VÝNOSNOSTI Z RŮZNÝCH TYPŮ AKTIV.

2. NALÉZT ZPŮSOBY, JAK ŘÍDIT STRUKTURU ROZVAHY PROSTŘEDNICTVÍM PRODEJŮ A NÁKUPŮ PŮJČEK.

3. NEMYSLETE SI, ŽE OPATŘENÍ PRO KAPITÁLOVOU PŘIMĚŘENOST MĚŘÍ SKUTEČNÉ RIZIKO NESPLACENÍ PŮJČKY.

Exhibit B–19

Dividend Policy

TO: MR. KLAPAL
FROM: CARLETON HASWELL, KPMG
DATE: 18 JAN. 1993
RE: DIVIDEND POLICY

SETTING DIVIDEND POLICY IS:

CONTROVERSIAL,
AN ART NOT A SCIENCE,
HAS IMPORTANT IMPLICATIONS FOR THE INVESTOR, AND
AFFECTS SHARE PRICE
SAFETY (CAPITAL ADEQUACY) OF THE CORPORATION

BEST TO LOOK AT THE PROBLEM FROM THREE SIDES:

THE INVESTOR
THE MARKET PLACE
THE CORPORATION

WHAT IS A CASH DIVIDEND? A PAYMENT IN CASH TO THE OWNERS OF A CORPORATION. THE PAYMENT OF A DIVIDEND REDUCES THE CAPITAL OF A CORPORATION.

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WHAT HAPPENS WHEN A DIVIDEND IS PAID?

THE DAY THE DIVIDEND IS DECLARED, THE MARKET VALUE OF EACH SHARE WILL DROP THE SAME AMOUNT OF THE DIVIDEND. THUS IN TERMS OF ASSET VALUE THE INVESTOR IS THE SAME WITH OR WITHOUT RECEIVING A DIVIDEND. HOWEVER, INSTEAD OF ONLY HOLDING A COMMON SHARE, THE INVESTOR HAS SHARE WORTH LESS PLUS CASH FROM THE DIVIDEND PAYMENT.

	STOCK VALUE BEFORE DIVIDEND	VALUE AFTER DIVIDEND
MARKET VALUE/SHARE	100	90
DIVIDEND	-	10
SHAREHOLDER VALUE	100	100

AFTER TAX RETURNS:

	STOCK VALUE BEFORE DIVIDEND	VALUE AFTER DIVIDEND
SHARE VALUE	100	90
DIVIDEND	-	10
LESS TAXES	-	(4)
SHAREHOLDER VALUE	100	96

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IS THE SHAREHOLDER BETTER OFF WITH A DIVIDEND?

INVESTORS BUY STOCK TO MAKE A PROFIT.

AN INVESTOR'S RETURN IS BASED ON THE SUM OF:

DIVIDENDS + CHANGES IN MARKET VALUE

	COMPANY A		COMPANY B	
MARKET PRICE/SHARE 1/1/92	100		100	
MARKET PRICE/SHARE 31/12/92	120		105	
% INCREASE PER SHARE		20%		5%
DIVIDEND PER SHARE	2	2%	10	10%
INCOME TAX PAID	(1)	(1%)	(4)	(4%)
TOTAL VALUE OF HOLDINGS	121	21%	111	11%
TOTAL RETURN	21	21%	15	11%

IN THEORY - THE DECISION ABOUT DIVIDENDS DEPENDS ON WHICH PARTY CAN EARN THE MOST ON THE FUNDS. IF AN INVESTOR CAN EARN 10% AFTER TAX ON INVESTMENTS, AND THE COMPANY HE INVESTS IN CAN EARN 30% ON ITS CAPITAL, IT IS BETTER TO HAVE THE CORPORATION KEEP THE FUNDS AND NOT PAY A DIVIDEND AS THE LONG TERM RETURN TO THE INVESTOR WILL BE HIGHER. IN THE LONG RUN, THE INVESTOR WILL BE REWARDED BY LARGER INCREASES IN THE SHARE PRICE THAN THE INVESTOR WOULD HAVE MADE BY COLLECTING, PAYING TAXES AND INVESTING DIVIDENDS.

THIS THEORY IS BASED ON THE FACT THAT THE VALUE OF A SHARE OF STOCK WILL BE BASED ON FUTURE AND CURRENT EARNINGS PER SHARE. IF EARNINGS PER SHARE GROW BY SAY 20% PER YEAR, THE STOCK PRICE SHOULD INCREASE PROPORTIONALLY.

IN FACT CSB, IN THE STRATEGIC PLAN EXPECTS AN EARNINGS AFTER TAX/SHAREHOLDERS CAPITAL OF BETWEEN 38% AND 48% PER YEAR. IF THIS IS A GOOD FORECAST, INVESTORS WOULD BE MUCH BETTER OFF IF CSB DOES NOT PAY A DIVIDEND, BECAUSE INVESTORS DO NOT HAVE ANY INVESTMENTS THAT CAN EARN SUCH A HIGH A RETURN.

GENERALLY, COMPANIES THAT GROW FAST PAY NO OR ONLY A VERY SMALL DIVIDEND YET THESE SHARES SELL AT MUCH HIGHER PRICES RELATIVE TO EARNINGS PER SHARE THAN FIRMS THAT PAY LARGE DIVIDENDS. THIS IS BECAUSE GROWTH COMPANIES HAVE A VERY HIGH RETURN ON CAPITAL. MATURE FIRMS THAT ARE NOT GROWING QUICKLY TEND TO PAY HIGH DIVIDENDS AS EARNINGS ON CAPITAL ARE LOW AND THEY DON'T NEED THE EXTRA CAPITAL TO EXPAND.

THE MARKET PLACE PLACES A HIGH VALUE ON CONSISTENCY. A DIVIDEND CUT WILL BE A VERY NEGATIVE FACTOR ON THE MARKET PRICE OF A SHARE OF STOCK. BEFORE A CORPORATION PAYS ANY DIVIDEND, IT MUST FEEL COMFORTABLE IT CAN MAINTAIN THE SAME AMOUNT OF DIVIDEND PAYMENT IN FUTURE YEARS.

THIS MEANS THAT IF CSB PAYS A DIVIDEND, IT MUST BE QUITE SURE THAT THE AMOUNT OF THE DIVIDEND WILL NOT HAVE TO BE CUT IN THE FUTURE.

INVESTORS NORMALLY VALUE A CONSTANT DIVIDEND BASED IN MONETARY TERMS RATHER THAN AN AMOUNT BASED ON EARNINGS OR SOME OTHER FACTOR SUCH AS A FIXED PERCENT OF AFTER TAX NET INCOME.

INVESTORS THAT BUY A STOCK MAINLY FOR DIVIDEND INCOME LOOK AT THE DIVIDEND AS A % RETURN ON CAPITAL.

$$\text{DIVIDEND YIELD} = \frac{\text{DIVIDEND AMOUNT}}{\text{SHARE PRICE}} \quad \frac{1.20 \text{ KCS}}{15.00 \text{ KCS}} = 8.0\%$$

A MAJOR PROBLEM FOR CSB IS THAT AS THE MARKET VALUE IS NOT KNOWN, THE DIVIDEND YIELD CAN'T BE COMPUTED. THEREFORE AT THIS TIME, THE DIVIDEND RETURN CAN'T BE COMPARED TO OTHER INVESTMENTS.

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ISSUES FROM CSB POINT OF VIEW

1) CSB SHOULD PREPARE A DETAILED CAPITAL PLAN FOR THE NEXT 3 TO 5 YEARS. THIS PLAN SHOULD BE VERY SPECIFIC ABOUT SOURCES OF CAPITAL AND BE SPECIFIC IF CAPITAL INCREASES WILL COME FROM INTERNAL OR EXTERNAL SOURCES. CAPITAL MUST BE ABLE TO SUPPORT PROJECTED ASSET GROWTH.

AS THE PAYMENT OF A DIVIDEND REDUCES CAPITAL, CSB SHOULD HAVE A CLEAR LONG RANGE PLAN FOR ITS CAPITAL. ASSET GROWTH OR EVEN TRANSFERRING ASSETS MIX FROM INTERBANK TO LOANS REQUIRES MORE CAPITAL. CSB SHOULD VIEW A DIVIDEND AS REDUCING CAPITAL AND THEREFOR GROWTH IN ASSETS, UNLESS CSB PLANS TO REPLACE CAPITAL FROM OTHER SOURCES, SUCH AS SELLING ADDITIONAL SHARES. THE ABILITY TO DO THIS AT THIS TIME IS HIGHLY SPECULATIVE. IT APPEARS FROM THE STRATEGIC PLAN THAT CSB WILL STILL BE UNDER THE 8% CAPITAL RATIO BY THE END OF 1995. HOW WILL REQUIRED CAPITAL BE RAISED?

UNDER THE RISK BASED CAPITAL GUIDELINES, EACH KCS OF CAPITAL SUPPORTS 12.5 KCS OF LOANS OR 62.5 KCS OF INTERBANK ASSETS. LACK OF CAPITAL WILL REDUCE ASSET GROWTH AND RELATED EARNINGS.

2) HOW DOES CSB WANT THE MARKET TO PERCEIVE IT? IS CSB A GROWTH OR A MATURE COMPANY? WHAT ABOUT CAPITAL ADEQUACY? FOREIGN BANKS PLACE A VALUE ON HIGHLY CAPITALIZED BANKS WHEN EXTENDING CREDIT LINES.

3) WHAT ABOUT COMPETITION? WHAT IS EXPECTED ABOUT ITS DIVIDEND POLICIES. DOES CSB WANT TO BE INDEPENDENT OR CONSISTENT WITH OTHER BANKS?

4) THERE ARE OTHER OPTIONS TO PAYING A STRAIGHT CASH DIVIDEND. IF IT IS DECIDED TO PAY A DIVIDEND, CSB COULD CONSIDER:

A SHAREHOLDER REINVESTMENT PLAN - CSB WOULD OFFER A PLAN TO SHAREHOLDERS AND WOULD TRY TO CONVINCE SHAREHOLDERS TO USE THE PROCEEDS OF THE DIVIDEND TO BUY NEW SHARES OF CSB. PERHAPS THESE NEW SHARES COULD BE PURCHASED AT A SLIGHT DISCOUNT TO ENCOURAGE NEW SHARE PURCHASE. THIS IS QUITE A COMMON TECHNIQUE IN MANY COUNTRIES.

ISSUE SUBORDINATED BONDS IN PLACE OF DIVIDENDS - ANOTHER METHOD MIGHT BE TO OFFER A LONG TERM SUBORDINATED BONDS TO RECEIVERS OF THE DIVIDEND. THE SUBORDINATED DEBT WOULD COUNT AS CAPITAL FOR THE RISK BASED CAPITAL GUIDELINES AND WOULD NOT DILUTE SHAREHOLDERS VALUE AS WOULD STOCK SOLD BELOW MARKET. THESE BONDS WOULD ONLY BE AVAILABLE TO SHAREHOLDERS OF CSB AND WOULD OFFER THE INVESTOR A HIGHER RETURN THAN WHAT WOULD BE AVAILABLE TO THEM IN THE MARKET PLACE.

ISSUE A STOCK DIVIDEND INSTEAD OF A CASH DIVIDEND - MANY COMPANIES ISSUE STOCK DIVIDENDS IN PLACE OF CASH DIVIDENDS. AS AN EXAMPLE, IF A 5% STOCK DIVIDEND ISSUED, A HOLDER OF 100 SHARES WOULD RECEIVE AN ADDITIONAL 5 SHARES BRINGING TOTAL SHARES OWNED TO 105. MANY INVESTORS LIKE THIS. THE NICE THING IS THAT IT DOES NOT REDUCE THE CAPITAL OF THE COMPANY. IF A SHAREHOLDER NEEDS MONEY, THEY CAN SELL SOME SHARES TO RECEIVE CASH.

5) AS THE MARKET PRICE OF CSB'S STOCK IS STILL UNKNOWN, IT IS IMPOSSIBLE TO COMPUTE THE MARKET YIELD OF THE DIVIDEND. CAN THE DIVIDEND BE DECLARED QUARTERLY? THIS WAY CSB WOULD HAVE THE BENEFIT TO SEE THE MARKET VALUE OF ITS STOCK AND COMPUTE THE YIELD BE FORE DECLARING A DIVIDEND.

KPMG WILL BE GLAD TO HELP WITH SPECIFICS ABOUT THE FUTURE DIVIDEND POLICY. HOWEVER, TO DO MORE DETAILED CALCULATIONS, WE WILL NEED MORE INFORMATION THAN CURRENTLY AVAILABLE ABOUT CSB'S CAPITAL PLAN AND NEED UNDERSTAND CSB'S PHILOSOPHY ON DIVIDENDS.

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Exhibit B–20

Major Concepts for Credit Analysis

K ZAPAMATOVÁNÍ !

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1. KVALITA ÚVĚRU JE DŮLEŽITĚJŠÍ NEŽ VYUŽITÍ NOVÝCH PŘÍLEŽITOSTÍ.

2. KAŽDÁ PŮJČKA BY MĚLA MÍT DVĚ VARIANTY SPLACENÍ, KTERÉ NEJSOU NAVZÁJEM PROPOJENÉ A EXISTUJÍ PŘI POSKYTNUTÍ ÚVĚRU.

3. CHARAKTER DLUŽNÍKA MUSÍ BÝT BEZ POCHYBNOSTÍ, POKUD SE TÝČE VEDENÍ.

4. NEROZUMÍŠ–LI OBCHODU, NEPŮJČUJ.

5. JE TO VAŠE ROZHODNUTÍ A VY MUSÍTE MÍT DOBRÝ POCIT. ODPOVĚDNOST!

6. ÚČEL KAŽDÉHO ÚVĚRU BY MĚL OBSAHOVAT ZÁKLADNU PRO JEHO SPLACENÍ.

7. MÁTE-LI VŠECHNA FAKTA, NEPOTŘEBUJETE BÝT GÉNIUS, ABYSTE SE MOHL ROZHODNOU SPRÁVNĚ. – PTEJTE SE.

8. OBCHODNÍ CYKLUS JE NEPŘEVÍDATELNÝ.

9. PRO DOBROU INVESTICI JE DŮLEŽITÉ OHODNOCENÍ PODNIKOVÉHO VEDENÍ.

10. ZÁSTAVA NENÍ NÁHRADA ZA SPLÁTKY.

11. JE–LI PŘIJATA ZÁSTAVA, MUSÍ BÝT ZÍSKÁNO JEJÍ FINANČNÍ A TRŽNÍ OCENĚNÍ.

12. NEPŘEHLÍŽEJTE DETAILY, ÚVĚROVÁ ADMINISTRATIVA ZKAZÍ I JINAK DOBŘE VYPADAJÍCÍ ÚVĚR.

13. ŽÁDÁ–LI DLUŽNÍK RYCHLOU ODPOVĚĎ, PAK JE TO "NE".

14. SLEDUJTE, ZA CO SE UTRATÍ PENÍZE BANKY.

15. KDYŽ POSKYTUJEME ÚVĚR, PTEJME SE, "PŮJČIL BYCH SVÉ VLASTNÍ PENÍZE?".

16. KISS

17. TINSTAAFL

18. TECHOLOGIE NEMŮŽE NAHRADIT OBYČEJNÝ POCIT.

19. TRH STANOVUJE CENY.

20. GARBAGE IN, GARBAGE OUT.

21. JEDNODUCHÉ POZOROVÁNÍ MŮŽE PŘEDPOVĚDĚT PROBLÉMY.

22. NEPŘECEŇUJTE SVOJI DŮLEŽITOST.

23. PENÍZE JSOU VŠECHNO.

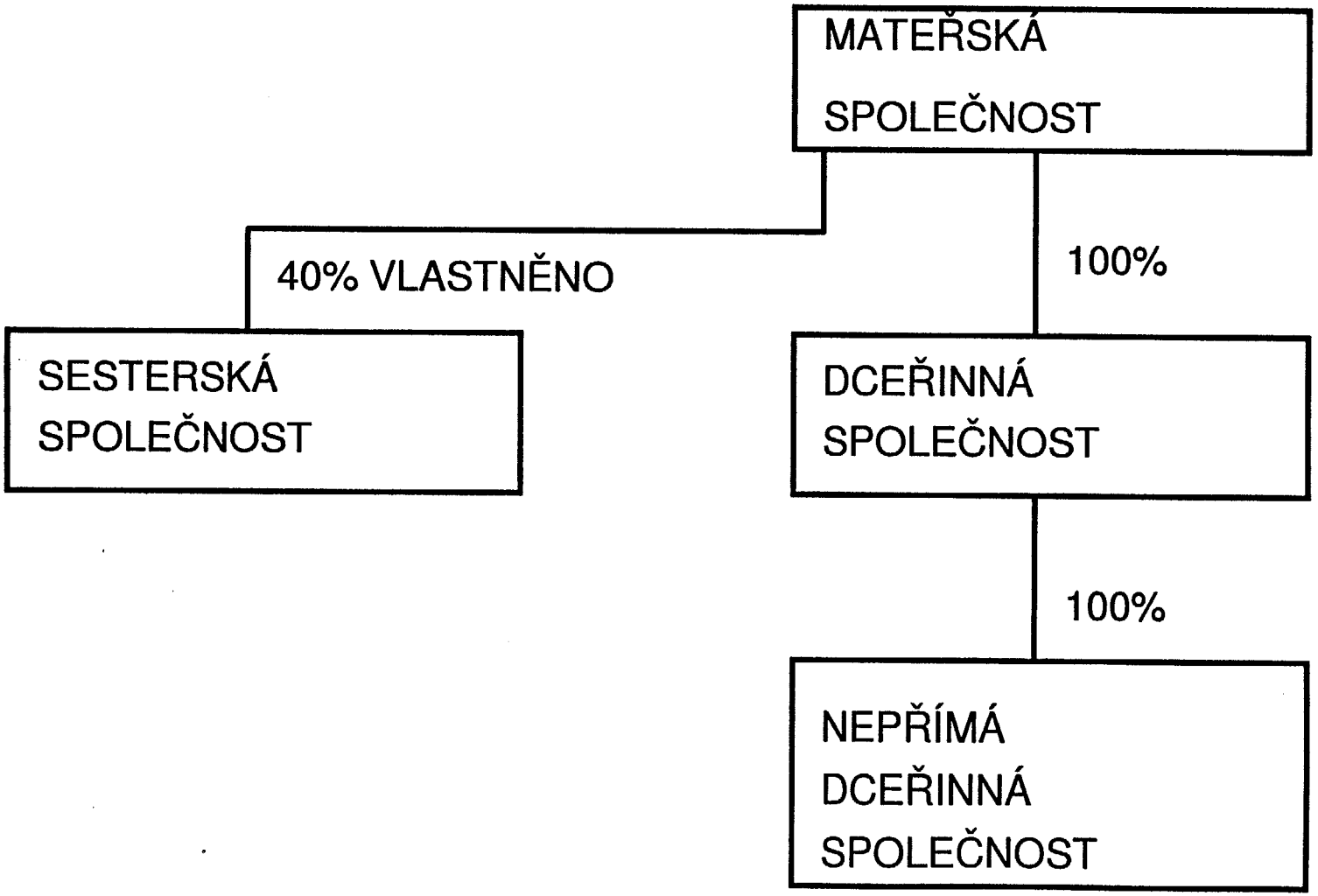
24. VŠE S HUMOREM A HODNĚ ZÁBAVY!!!!

26. KVĚTNA 1993
C.R. HASWELL

Exhibit B–21

Corporate Consolidation

STRUKTURA SPOLEČNOSTI



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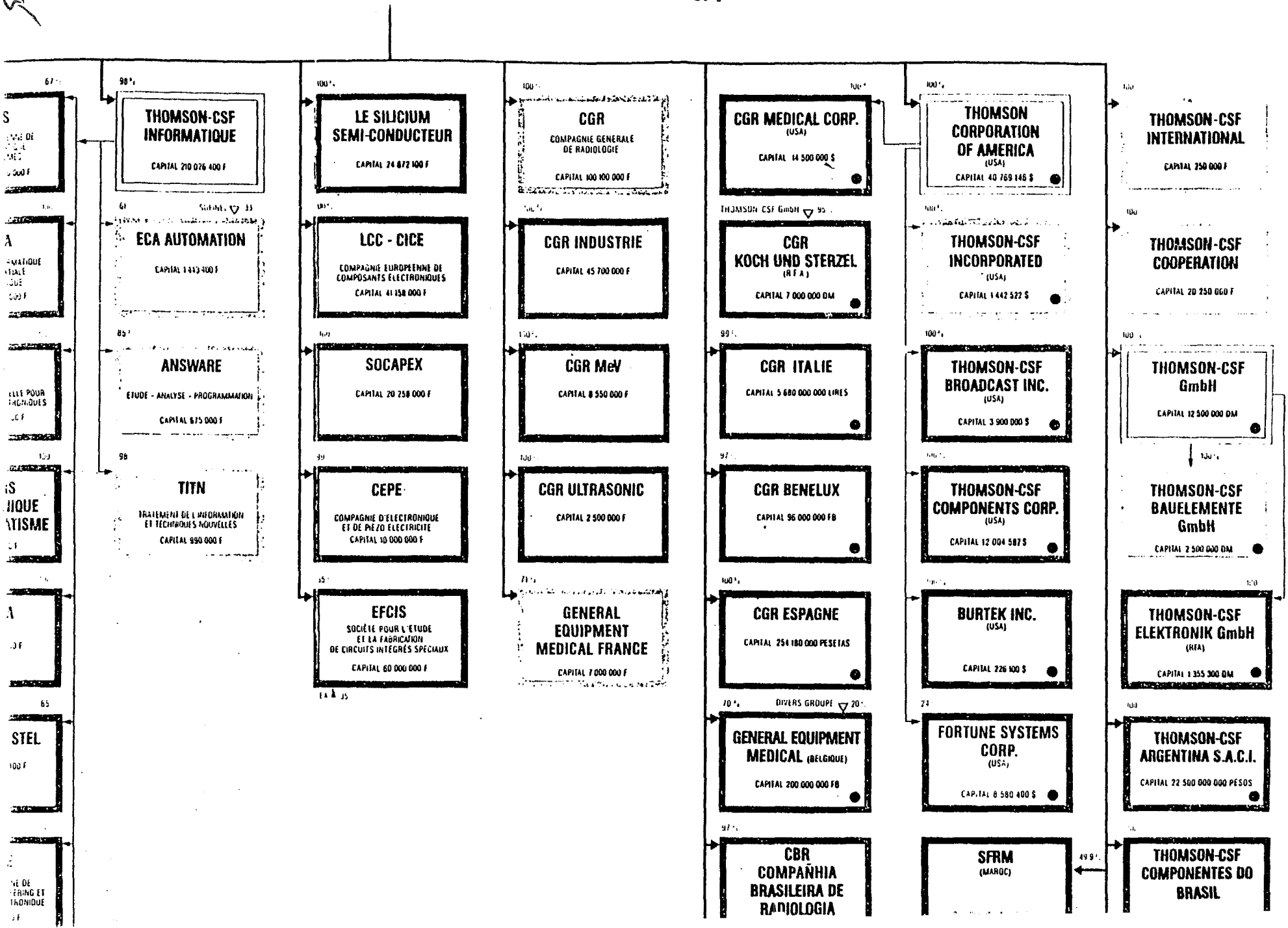

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Firma Z

Tržby	150
Čistý zisk	30
Dividendy	10

Firma A vlastní 40% firmy Z. Cena pořízení této účasti byla 100.
Jak může firma A vykázat svůj podíl na zisku firmy Z ?

1. V ceně pořízení
2. Metoda vlastního jmění
3. Konsolidace

KONSOLIDACE

A + B – vnitropodnikové transakce = konsolidovaný výkaz

ČISTÝ ZISK

	1990	1991	1992
podnik A	100	100	100
podnik B	100	100	100

Podnik A kupuje 100 procent podniku B 30. června 1991 a konsoliduje podnik B k tomuto datu. Při ukazování vývoje čistého zisku podniku A budou výkazy vypadat následovně:

	1990	1991	1992
podnik A	100	100	100
podnik B	0	50	100
konsolidované	100	150	200

KONSOLIDACE

	podnik A	podnik B	celkem A+B	zrušení	konsolidovaný podnik A
běžná aktiva	100	50	150		150
fixní aktiva	100	50	150		150
investice podniku A do podniku B	50	—	50	(50)	0
celková aktiva	250	100	350	(50)	300
pasíva	150	50	200		200
vlastní jmění	100	50	150	(50)	100
celkem	250	100	350	(50)	300

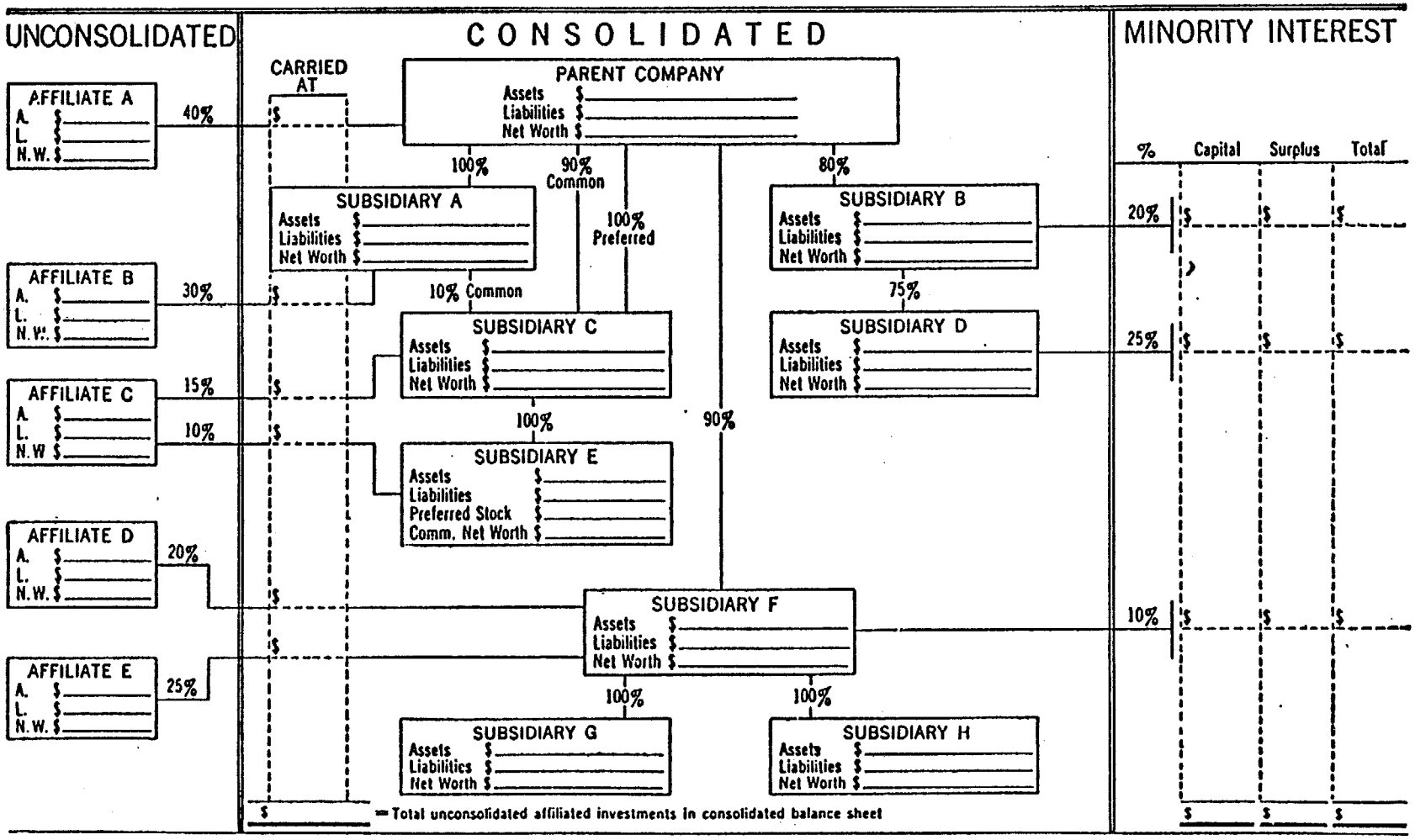
Jesliže podnik A vlastní pouze část podniku B, používá se při konsolidaci podniku A s podnikem B speciální účet nazvaný menšinový podíl.

KONSOLIDACE

	podnik A	podnik B	celkem A+B	zrušení	konsolidovaný podnik A
běžná aktiva	100	50	150		150
fixní aktiva	100	50	150		150
investice podniku A do podniku B 90%	45	—	45	(45)	—
celková aktiva	245	100	345	(45)	300
pasíva	150	50	200		200
menšinový podíl				5	5
vlastní jmění	95	50	145	(50)	145
celkem	245	100	345	(45)	300

PARENT COMPANY AND SUBSIDIARIES AND AFFILIATES

AS OF _____ 19__



Cvičení na problematiku konsolidovaných výkazů

1. Podnik A prodává jednu knihu podniku B za 100 na úvěr splatný za 1 rok.
2. Podnik B prodává jinou knihu podniku A za 100 na úvěr splatný za 1 rok.
3. Podnik B prodává podniku C jinou knihu za 10 a platba je v hotovosti.

Poznámka: na každou knihu byly vynaloženy výrobní náklady ve výši 1.

Jediným aktivem, které vlastnil podnik A na začátku období byla 1 kniha a to byla také hodnota jeho vlastního jmění.

Jediným aktivem, které vlastnil podnik B na začátku období byly 2 knihy a to byla také hodnota jeho vlastního jmění.

Podniky A a B jsou vlastněny jednou firmou. Majitel této firmy chce mít vypracovanou výsledovku i rozvahu pro podnik A i podnik B jednak odděleně pro každý z nich, jednak konsolidovaně pro oba podniky. Jediným aktivem této firmy, která oba podniky vlastní, jsou akcie podniků A a B, které mají stejnou hodnotu jako je hodnota výše uvedeného vlastního jmění u obou podniků na počátku období. Všechny podniky užívají metodu FIFO pro ocenění zásob.

Konsolidované výkazy

Podnik A

	Počáteční stav	1.	2.	3.	Konečný stav
Peníze	0				0
Zásoby	1	–1	+100		100
Pohledávky		+100			100
Aktiva celkem	1	+99	+100		200
Závazky	0		+100		100
Nerozdělený zisk					99
Jmění	1				1
Pasíva celkem	1				200
Tržby		+100			100
Náklady na prod. zboží		–1			1
Zisk		+99	+100		99

Podnik B

	Počáteční stav	1.	2.	3.	Konečný stav
Peníze	0			+10	10
Zásoby	2	+100	–1	–1	100
Pohledávky			+100		100
Aktiva celkem	2	+100	+99	+9	210
Závazky	0	+100	+100		100
Nerozdělený zisk					108
Jmění	2				2
Pasíva celkem	2	+100			210
Tržby			+100	+10	110
Náklady na prod. zboží			–1	–1	–2
Zisk			+99	+9	108

Konsolidované výkazy

	Stav na podnik A	konci roku podnik B	Celkem	1.	2.	Celkem	Konso-lidováno
Peníze	0	10	10				10
Zásoby	100	100	200	A+1 B–100	A–100 B+1	–198	2
Pohledávky	100	100	200	A–100	B–100	–200	0
Aktiva celkem	200	210	410	–199	–199	–398	12
Závazky	100	100	200	B–100	A–100	–200	0
Nerozdělený zisk	99	108	207				9
Jmění	1	2	3				3
Pasíva celkem	200	210	410				12
Tržby	100	110	210	A–100			10
Náklady na prod. zboží	1	2	3	A+1			1
Zisk	99	108	207				9
Úpravy celkem				–199	–199	–398	

Exhibit B–22

Management of a Public Company

ROBERTO C. GOIZUETA
PŘEDSEDA – SPOLEČNOST COCA–COLA

PŘÍJMY A NÁHRADY – 1992

	$
PLAT	1.401.000
BONUS	1.800.000
DLOUHODOBÝ BONUS	
HMOTNÉ ZAINTERESOVANOSTI	1.254.236
OSTATNÍ	131.815
CELKEM	4.587.051

POČET VLASTNĚNÝCH PODÍLŮ COCA–COLY		36.533.385
TRŽNÍ HODNOTA	$	1.529.831.900

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X Please mark your votes as in this example.

0282

This proxy when properly executed will be voted in the manner directed herein. If no direction is made, this proxy will be voted "FOR" all of the Board of Directors' nominees and "FOR" proposal 2.

The Board of Directors recommends a vote FOR Proposals 1 and 2.

	FOR	WITHHELD
1. Election of Directors (see reverse)	☐	☐

For, except vote withheld from the following nominee(s):

_____

	FOR	AGAINST	ABSTAIN
2. Ratification of the appointment of Ernst & Young as Independent Auditors.	☐	☐	☐

Do you plan to attend the Annual Meeting? ☐ Yes ☐ No

Please sign exactly as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

_____

SIGNATURE(S) DATE

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Exhibit B–23

Collateral Roundtable

CO JE ZÁSTAVA ?

"AKTIVUM ZASTAVENÉ VĚŘITELI DO DOBY, DOKUD NENÍ ÚVĚR SPLACEN. JESTLIŽE DLUŽNÍK ÚVĚR NESPLATÍ, VĚŘITEL MÁ PRÁVO ZÁSTAVU ZADRŽET A PRODAT JI, ABY BYL ÚVĚR SPLACEN."

PROČ BRÁT ZÁSTAVU?

KE SNÍŽENÍ ÚVĚROVÉHO RIZIKA Z PŮJČEK.

ZÁSTAVA

- NEDĚLÁ ŠPATNÝ ÚVĚR DOBRÝM.
- NEZLEPŠUJE PODNIKOVÝ CASH FLOW.
- NEZVYŠUJE SCHOPNOST PODNIKU ÚVĚR SPLATIT.

MÁTE–LI ZÁSTAVU, MUSÍTE:

A. URČIT JEJÍ PENĚŽNÍ HODNOTU.

B. URČIT JAK JI ZÍSKAT, ABY MOHLA BÝT PRODÁNA.

C. ZABEZPEČIT VAŠE PRÁVA.

D. UDRŽOVAT JEJÍ HODNOTU.

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OCEŇOVACÍ TERMÍNY A POJMY

I. TRŽNÍ HODNOTA – CENA, KTEROU MŮŽETE ZA URČITÉ AKTIVUM SKUTEČNĚ OČEKÁVAT. OČIŠTĚNÁ OD PRODEJNÍCH VÝDAJŮ.

II. POTENCIONÁLNÍ KUPEC A POTENCIONÁLNÍ PRODEJCE

III. ČASOVÝ RÁMEC PRO NALEZENÍ POTENCIONÁLNÍHO KUPCE

IV. VOLNÝ A PRÁZDNÝ MAJETEK

V. REGISTRACE – PODNIKNOUT PRÁVNÍ KROKY, REGISTROVAT A DÁT "SVĚTU VĚDĚT", ŽE MÁTE NA MAJETEK LEGÁLNÍ NÁROK

VI. VÝNOS Z PRODEJE AKTIVA

VII. PŘÍJEM AKTIVA

VIII. PRODEJ AKTIVA

METODY OCENĚNÍ ZÁSTAVY

NÁKLADOVÁ

KOMPARATIVNÍ

ČESKÁ METODA

KAPITALIZACE PŘÍJMŮ

A. NÁKLADOVÁ

1. REPRODUKČNÍ NÁKLADY

A. POUŽÍVÁ SE PRO ÚČELY POŽÁRNÍHO POJIŠTĚNÍ

B. NESOUVISÍ S TRŽNÍ HODNOTOU

2. POŘIZOVACÍ NÁKLADY (CENA PLACENÁ PŘI NABYTÍ MAJETKU, POPLATKY, NÁKLADY NA REKONSTRUKCI)

A. NĚKDY VHODNÉ PRO NEDÁVNO NABYTÝ MAJETEK NEBO MÁLO UŽÍVANÝ MAJETEK KOUPENÝ PŘED MNOHA LETY

B. KDO MŮŽE ŘÍCI, ZDA-LI PŘEDCHOZÍ KUPEC NEZAPLATIL VÍCE NEŽ MĚL?

B. **KOMPARATIVNÍ** – (ZA KOLIK BYL PODOBNÝ MAJETEK PRODÁN NEDÁVNO)

1. DOBRÁ METODA PRO PRODEJE NEMOVITOSTÍ PODOBNÝCH VLASTNOSTÍ. NORMÁLNĚ POUŽÍVANÉ PRO PRODEJ DOMŮ.

2. PROBLÉMEM JE NAJÍT PODOBNÝ MAJETEK

C. **ČESKÁ METODA** – ZÁKON # 393 STANOVÍ, ŽE "TRŽNÍ" CENA NEMOVITOSTI BUDE STANOVENA S OHLEDEM NA TECHNICKÉ OCENĚNÍ URČENÉ MINISTERSTVEM FINANCÍ

1. NUTNÁ PŘI ŽÁDOSTI O ÚVĚR

2. NEMÁ NIC SPOLEČNÉHO S TRŽNÍ HODNOTOU

3. UŽÍVANÁ PŘI DAŇOVÝCH ODHADECH

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D. KAPITALIZACE PŘÍJMŮ

TOTO JE NEJOBVYKLEJŠÍ METODA UŽÍVANÁ PRO OBCHODNÍ MAJETEK JAKO JSOU KANCELÁŘSKÉ BUDOVY.

1. ZALOŽENA NA PŘEDSTAVĚ, ŽE INVESTOR BUDE KUPOVAT BUDOVU KVŮLI ZISKU. PROTO BUDE ODHADNUT CASH FLOW PLYNOUCÍ Z BUDOVY. ABY SE ZÍSKALA SOUČASNÁ HODNOTA, BUDOUCÍ CASH FLOW MUSÍ BÝT DISKONTOVÁN.

2. POTÉ BY INVESTOR POROVNÁVAL HODNOTU INVESTICE S OSTATNÍMI INVESTICEMI, ABY URČIL, CO MÁ KOUPIT.

ZÁKLADNÍ MODEL

POLOŽKA		ROKY 1993	1994	XXXX
PŘÍJEM				
NÁJEM				
OSTATNÍ POPLATKY				
VÝDAJE				
ELEKTŘINA				
MZDY				
DANĚ Z NEMOVITOSTÍ				
OPRAVY A UDRŽOVÁNÍ				
ATD.				
ATD.				
ZISK PŘED ZDANĚNÍM				
DANĚ ZE ZISKU				
ČISTÝ ZISK				
SOUČASNÁ HODNOTA ČISTÉHO ZISKU	=			
SOUČASNÁ HODNOTA ČISTÉHO PRODEJE MAJETKU	=	____	____	____
HODNOTA MAJETKU PRO INVESTORA	=			

KDYŽ OCEŇUJETE MAJETEK,

MUSÍTE!

1. ROZUMĚT VŠEM PŘEDPOKLADŮM UŽITÝM V PROJEKCI

2. OTESTOVAT PŘEDPOKLADY

3. VIDĚT, V JAKÉM BODĚ ZAČNE HODNOTA KLESAT POD POŽADOVANOU HODNOTU

PRAVIDLO: **NEDOMNÍVEJTE SE, ŽE SE BUDE PŘÍJEM ČASEM ZVYŠOVAT.**

- **OCEŇUJTE MAJETEK V SOUČASNÝCH SAZBÁCH**

- **MĚLI BYSTE ZNÁT OCEŇOVATELE A POUŽITÉ PŘEDPOKLADY**

- **VYTVOŘTE SI OCEŇOVACÍ MODEL**

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Exhibit B–24

Corporate Performance Ratios

Poměrné ukazatele

1. Porovnávání podniků různé velikosti
2. Srovnávání podniků
3. Analýza směru vývoje
4. Dávání příslušných položek do vzájemného vztahu
5. Analýza konkurence
6. Absolutní hodnoty
7. Speciální ukazatele

Který ukazatel je nejvýznamnější ?

Porovnávání podniků různé velikosti

	Velký podnik	Malý podnik
Tržby	10 461	298
Provozní zisk	4 237	137
$\frac{\text{Provozní zisk}}{\text{Tržby}}$	40.5 %	45.9 %

Srovnávání podniků

	Podnik		
	A	B	C
Běžný ukazatel	2.1 x	2.6 x	1.8 x
Čistý zisk / Hmotné čisté jmění	12.3 %	15.6 %	8.2 %

Analýza směru vývoje

	1984	1985	1986	1987	1988
Čistý zisk / Základní prostředky	6.4 %	6.1 %	5.7 %	5.0 %	4.3 %

Dávání příslušných položek do vzájemného vztahu

Ukazatel rentability	$\frac{\text{Čistý zisk}}{\text{Tržby}}$
Ukazatel "leverage"	$\frac{\text{Celkové závazky}}{\text{Hmotné čisté jmění}}$
Ukazatel likvidity	$\frac{\text{Běžná aktiva}}{\text{Běžná pasíva}}$
Ukazatel výkonů	$\frac{\text{Čistý zisk}}{\text{Hmotné čisté jmění}}$

Analýza konkurence

– podíl na trhu

– $\frac{\text{prodejní náklady}}{\text{tržby}}$

Absolutní hodnoty

	Podnik	
	A	B
Peníze	1 %	3 %
Pohledávky	10 %	45 %
Zásoby	50 %	40 %
Běžná aktiva	61 %	88 %
Základní prostředky	35 %	10 %
Ostatní	4 %	2 %
Aktiva celkem	100 %	100 %

Speciální ukazatele

Ukazatel využití hotelové kapacity	$\frac{\text{Obsazené pokoje}}{\text{Celkový počet pokojů}}$	82%
Ukazatel využití kapacity letadla	$\frac{\text{Počet cestujících}}{\text{Celkový počet míst}}$	76%
Ukazatel využití prodejní plochy	$\frac{\text{Tržby}}{\text{Prodejní plocha}}$	4.67 Kčs /m^2
Využití ropného těžebního zařízení	$\frac{\text{Počet dnů využití v roce}}{\text{Celkový počet dnů v roce}}$	38.9 %

Exhibit B–25

Foreign Exchange Division – Key Issues

KPMG PEAT MARWICK
POLICY ECONOMICS GROUP
CZECH SAVINGS BANK, A.S.

Memo: Plan of Work File

Date: April 1, 1993

From: Frederick J. Zamon, Advisor

Subject: Meeting of March 31, 1993 to discuss Initial Report of Findings and Draft Recommendations for the International and Foreign Exchange Division("Report").

The above meeting was requested and chaired by Miroslav Horyna, Director of the International and Foreign Exchange Division. Also in attendance were: Ing. Roman Fejt, Manager, Assets and Liabilities Department; Dr. Michal Krislo, Manager, International Trade Department; Dr. Martin Strauch, Manager, Foreign Exchange Division; F. Zamon, Advisor and Ms. Magda Hudcova, KPMG Reviconsult s.r.o.

Mr. Horyna indicated that the purpose of the meeting was to discuss the recommendations made in the Report. The Report had previously been distributed to, and discussed by, the various managers present. Mr. Horyna apologized for the absence of Ms. Riedelova, Manager of Clean Payments. Major points made were as follows:

DOCUMENTARY CREDIT DEPARTMENT

1. It is not possible at this time to establish a central liability control system. It may be that over the 3-year program to install the TIS computer system that such control may be developed.

2. As regards the aggregate of customer subsidiary ledgers equalling the General Ledger of the Bank, Mr. Horyna indicated concern for double counting if both Head Office and each individual branch accounted for the letter of credit contingent liability. Zamon indicated that is a common problem in his experience where multi-bank holding companies centralize letter of credit processing. An accounting solution can be found to this problem.

3. Messrs. Krislo and Zamon agreed to work together with Ms. Z. Vyskocilova, Head of Documentary Credit Department to confirm outstanding letter of credit balances with Branches and to address the above accounting problem. It may be that no "General Ledger" can be easily created, but that regular verification, say weekly or monthly, and written responses from the branches of amounts of letters of credit outstanding will effectively control the outstanding balances throughout the Bank and its various affiliates.

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4. Messrs. Krislo and Zamon will coordinate with Ms. Vyskocilova to draft a standard counter-indemnity form for the issuance of documentary credits.

5. Establishing a computerized reporting capability for reporting documentary credits outstanding to Assets and Liabilities is perceived as too complex at this time. On the other hand, Zamon and Krislo are to discuss the TIS concepts with the Division coordinator, Mrs. Ruzickova.

ASSETS AND LIABILITIES DEPARTMENT

1. Establishing a Nostro account subsidiary ledger accounting system is very difficult because of the number of branches. Beginning June 1, 1993 there will be an Octagon Project that may help bring this problem under control. It is hoped that this project will bring several difficult accounting and reporting area under control.

2. Mr. Horyna requested Mr. Zamon to suggest a method for the Back Office to report to him any exceptions to Foreign Exchange Trading guidelines.

FOREIGN EXCHANGE DIVISION

1. It will be difficult to establish trading lines for commercial customers. The branches control credit and they will have to learn to understand the concept of allocating portions of credit lines to the Foreign Exchange Division. The concept includes the allocation of credit and all associated risk and corresponding income and expense.

   Mr. Krislo indicated this will not be a problem for correspondent banks. He is working on having a Western-style trained credit analyst for correspondent banking and building a data base that will support such analysis for all the foreign banks. This will take a few more months to organize.

   Mr. Strauch raised the question of Branch limits. These must be addressed. There are some practical limits the Traders apply on the amount branches can trade. These limits need to be formalized.

2. The meeting ended on the question of access to the Czech crown domestic base of the Bank. Mr. Zamon suggested this was an accounting problem that may have already been solved. He suggested that if you imagine the total of all foreign payments made through Clean Payments as belonging to one customer in a single branch, the accounting is already in place to access the Czech crown part of the Bank. This topic needs further discussion.

The Next meeting should consider the following issues:

- Details of the Clean Payments System and the implications on Nostro accounting, Nostro account control and the Clean Payments affect on managing the Nostro positions of the Bank by the Foreign Exchange Division.

- Cut-off times for clean payments and foreign exchange transactions.

- Cash management study of the Bank's position in foreign bank notes.

- Such other issues as need discussion.

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