

Statement of the Czech National Bank on the “Concluding Report of the Chamber of Deputies Fact-finding Commission for Clarification of Decision-Making by the State in IPB from the Time of its Founding until the Imposing of Receivership and its Sale to ČSOB, for the Purposes of Deliberation by the CD PCR”¹

1. Summary statement on the wording of the report

The CNB welcomes the Report and some of its conclusions...

The CNB welcomes the efforts of the Chamber of Deputies of the Parliament of the Czech Republic to clarify the events in IPB throughout the period of transformation of the Czech economy. It also welcomes some of the conclusions of the Commission, in particular its opinion that the active procedure of the state and the use of public funds for addressing the crisis in June 2000 were necessary and prevented an economic catastrophe. The CNB also agrees with the recommendation of the Commission to draw lessons from this analysis for adjustments to the legal framework in the area of addressing the situation of problem banks.

... however, the Report is not generally balanced

However, from the general point of view, the Report is not balanced and some of its statements are not based on facts.

The lack of balance follows especially from the fact that the Commission concentrated only on the decision-making of the state and neglected the conduct of the management and shareholders, and took no account of the conditionality of the actions of the state upon the situation of the bank, banking sector and economic environment in the Czech Republic. Although, in the introduction to its Report, the Commission states that the essential cause of unsatisfactory financial management of the bank consists without any doubt in the conduct of the management and the main shareholders of IPB, it puts this conduct on the same level with the conduct of state institutions. It thus fails to distinguish between the causes and the consequences. **However, the decisions made by the state were conditional upon this context** and the resulting situation and decisions may not be objectively assessed without an analysis of the positions of all the parties involved.

This methodical shortcoming is especially apparent where the Commission criticises the activities of the state authorities without adequate clarification and justification of whether there was any other procedure available at the given time and with the given knowledge, leading to more favourable results.

Information clarifying the situation in IPB and explaining the activities of the CNB and the Government are the subject of the *Report for the session of the Chamber of Deputies of the Parliament of the Czech Republic on the situation at and course of action for stabilising Investiční a Poštovní banka, a.s.* drawn up by the Ministry of Finance and the Czech National Bank, which was taken into cognisance by the Chamber of Deputies last year. This document is available on the CNB website (see http://www.cnb.cz/_bd/ipb/dokumenty/zprava_ipb.pdf). The summary of this report is also given in Annex No. 1 to this “Statement of the CNB”.

The Commission has failed to take into account all the facts and information

The Commission incorrectly interprets the imposing of conservatorship and sale of the business as the objective of the action of the state. In fact, this was the sole means by which the Government and the CNB prevented the collapse of one of three largest banks in full private ownership and whose major shareholders were not willing to bear the consequences of their influence on the bank.

¹ In the text of this Statement of the CNB, the "Concluding Report" is hereinafter referred to as the "Report" and the "Chamber of Deputies Fact-finding Commission..." as the "Commission".

The conclusions of the Commission thus do not take adequate account of the necessity of imposing conservatorship following from the situation of the bank. Without support from the state, the bank would not have been able to fulfil all its obligations towards its depositors, who had begun to withdraw their deposits on a massive scale. Furthermore, the Commission fails to mention the fact that, as a consequence of a decrease in the capital adequacy confirmed by the auditor on 18 June 2000, the CNB had to commence administrative proceedings against the bank concerning revocation of its banking licence. If this situation had not been addressed immediately, the conservator would have had to promptly close all branches of the bank and stop payments to clients. These facts were essential to the decision-making of the state.

It is also not true that the imposing of conservatorship and issuing of a CNB guarantee for the obligations of IPB would have been sufficient and would have solved the problem. The CNB guarantee only secured the claims of creditors of IPB and did not address the poor financial situation of the bank and did not constitute a sufficient reason for stopping the administrative proceedings to revoke its banking licence.

The conclusions of the Commission concerning the events in 1999-2000 thus follow from an incomplete description of the events and from a simplified evaluation of certain selected facts and documents.

IPB had concealed its real financial condition

The Commission criticises the dilatory approach of CNB Banking Supervision and the sluggish addressing of IPB's problems. In this, it does not take adequate account of the fact, stated by the Commission itself, that IPB had been providing the CNB in the long term with distorted data and information that did not give a true and fair view of its financial situation. Thus, according to the CNB, IPB breached its legal obligations and its senior officers themselves therefore bear the main responsibility for the delayed addressing of the problems in the bank. In this connection, the CNB lodged in 2000 a criminal complaint accusing IPB of distorting the data on its finances and capital pursuant to Article 125 of the Criminal Code. Nor did the auditors provide timely notice of the true state of the bank. Moreover, the size and complexity of the problem clearly exceeded the abilities of the CNB to proceed using strictly the instruments of the regulator, and the possible manner of addressing the problem therefore depended on the direct support and collaboration of the Government.

There were no simple and cheap solutions to the IPB case

The search for a balanced solution to the extensive problems of IPB and their potential adverse effects on the economy required many complex analyses and considerable documentation. It was thus necessary to find a procedure that would be legally possible and technically feasible, and that would entail the smallest risks from the viewpoint of the stability of the banking sector and the economy.

The Commission calls into question the way in which the issue was addressed without providing any justification

The incorrect assumptions logically led to certain false conclusions that were ultimately reflected in the resolution approved in the Chamber of Deputies. Even though the Report does not offer any alternative or better solution to the situation that arose, it calls into question the entire transaction on the basis of alleged economic disadvantageousness for the state. In assessing the economic advantage for the state, the Commission has taken no account whatsoever of the risks for the investor, who entered a failing, untrustworthy and totally non-transparent bank whose market potential could not have been estimated at the time of the sale, or the costs of alternative solutions for the national economy, consisting in bankruptcy of the bank or prolonged conservatorship associated with a state rescue of the bank. For example, it is not correct to compare the forced rescue operation in IPB with the privatisation of ČSOB in 1999, where the state sold its share in a stabilised and transparent bank. It would be more appropriate to compare this procedure to the rescue of Agrobanka Praha, a.s,

which clearly demonstrated the magnitude of the costs and other problems associated with prolonged conservatorship in a bank.

The Report also fails to discuss the costs of a potential challenging of the transaction with ČSOB. According to the CNB, this would have led to serious systemic disturbances in the banking sector and to much higher costs for the national economy and direct costs for taxpayers.

The state was not the owner of IPB; the shareholders will receive the purchase price

The Commission neglects the fact that the state was not a shareholder of IPB. Thus it could not make any profit from selling IPB, but could rather only create conditions for implementing the sale of the business. The purchase price for the sale of the business will be received by IPB (or IP bank, a.s.) and thus indirectly by its shareholders, including those who were involved in the poor financial management and losses of the bank.

The following specific statements are broken down according to the structure of the Fact-finding Commission's Report.

2. Statements on the individual parts of the Report

Part I. Introduction

The Commission states that it was entrusted with the task of clarifying the decision-making by the state in IPB. In its Report, it deals with those facts which it considers fundamental from the viewpoint of the state's decision-making. The Commission also states that, in addition to this decision-making, an essential cause of the unsatisfactory financial management of the bank is the conduct of management and major shareholders. However, according to the Commission, the investigation of these circumstances falls within the competence of standard institutions.

However, the CNB believes that in examining the decision-making of the state in the IPB case, it is not possible to evaluate separately the decision-making of the state and its individual institutions and representatives, and the decision-making of management (major shareholders). These processes were interconnected and had a mutual effect on each other. Furthermore, from the moment of loss of the state's main decision-making position due to a decrease in its ownership interest, the state's influence on the processes in the bank and on its strategy was less substantial than the influence of other owners and managers of the bank. In this connection, it appears fundamental to distinguish more consistently the causes and consequences constituting the individual events. It is also entirely appropriate to emphasise the **responsibility of the statutory bodies of the bank for its financial results and financial soundness**. It does not ensue from either the Report or from any other facts that the state, through its decision-making, caused the poor financial management of the bank and the concealing thereof. A list of all persons who were active in the Board of Directors and the Supervisory Board of IPB is given in Annex No. 2 to this "Statement of the CNB".

Part II. Chronology

Here, the Commission provides a summary of events and decisions pertaining to the bank in the period from 1989 to 2000. The CNB considers it necessary to point out that while the majority of the events listed in the summary describe key decisions made by the individual state institutions (however, with the exception of Government Resolution No. 622 of 15 June 2000 and commencement of administrative proceedings to revoke the banking licence on 18 June 2000), the summary entirely lacks a chronological listing of events concerning IPB itself and its shareholders (e.g. results of audits, the letter sent to the CNB by IPB's management). The missing facts could help explain the conduct of the state and the CNB in the context of the objective development of the situation in the bank. A

recapitulation of the key developments in the situation in IPB and the addressing of this situation is given in Annex No. 1 to this “Statement of the CNB”.

Part III. Conclusions

Point 1)

The Commission considers the failure of the National Property Fund to participate in the capital increase on 1–10 December 1993 to be a serious mistake. The Commission lays responsibility for this non-participation of the state in the increase in IPB’s capital *inter alia* on the former Governor of the CNB.

This conclusion has neither any material grounds nor any basis in the legislation in force at that time, which provided the CNB with no instruments for positive decision-making in cases of capital increases in a bank. Assessment of changes in the shareholder structure of banks was then limited to provision of prior consent to the acquisition of holdings by foreign entities and consent to transfers of holdings exceeding 15% of the capital. However, the CNB has definitely never prevented any increase of the capital of a bank. The CNB is a regulator and thus in no case could it be responsible for implementation or non-implementation of a capital increase by the state, i.e. for the specific exercise of ownership rights by one of the shareholders.

Point 2)

In this paragraph, the Commission criticises the lack of a development or privatisation strategy for the banking sector until November 1996 and it lays the responsibility for this on the Government of the Czech Republic and the CNB Bank Board in the period from 1992 to 1996.

The approach of the state to the development and privatisation of the banking sector was conditional upon the chosen approach to transformation of the economy, which did not involve privatisation of banks to strategic investors in the first stage. A certain passive state strategy in the banking sector thus existed implicitly; this can be summarised as a strategy of “no privatisation”. This was a political decision which could not be directly influenced by the CNB (it held only an advisory position). Neither retrospectively does the CNB consider itself qualified to judge this decision. It can only state that it considers laying direct responsibility for this political decision on the Bank Board of the CNB to be incorrect.

Point 3)

The Commission criticises the passivity in exercise of ownership rights of the state in banks and lays the responsibility, *inter alia*, on the members of the “banking three/four”.

The “banking three/four” was an advisory body dealing with conceptual issues concerning the banking sector. It had no executive powers, including, without any doubt, the specific exercise of ownership rights of the state in banks. The primary responsibility for the passive nature of this exercise thus may not be laid on the “banking three/four”, but rather solely on the NPF and on the NPF-appointed representatives of the state in the bank’s statutory bodies .

Point 4)

This paragraph criticises the government decision of 4 March 1998 to change the privatisation terms and conditions in IPB.

This criticism is not adequately based on substantive arguments. On the contrary, it is based on speculation rather than conclusive information, or even on incorrect contentions and conclusions. In particular:

- The Government could not have decided to sell to a strategic investor, as it was only offering a minority share. It follows from the information given in the subsequent parts of the Report that no other investor than Nomura could have acquired sufficient influence on the bank through the purchase of the minority share;
- The negotiations on the sale were held with the Nomura group, and the specific acquirer was one of the entities within this group; in this sense, therefore, the legal form of the actual acquirer is not decisive. Using subsidiaries to acquire a holding in a bank is not unusual even for reputable investors. The difference between Nomura Europe, plc and Nomura Belgium S.A. is thus cosmetic rather than substantive;
- In no case can it be stated that the “risk of speculative behaviour almost equalled certainty”. This statement cannot be proven; on the contrary, the obligation of Nomura to increase the capital of the bank and its experience with restructuring as an investment bank constituted reasonable preconditions for addressing the financial situation of the bank without any effects on the state;
- The statement that “through the contractual terms and conditions” the Government “allowed an environment to be created where the interests of the investor did not coincide with the economic interests of the Czech Republic” is difficult to comprehend. Furthermore, according to the CNB, there was no reason to expect that Nomura would not strive to increase the value of its investments by enhancing their condition. Improvement of the situation of IPB, one of the most important banks in the Czech Republic, can undoubtedly be considered in conformity with the “economic interests of the Czech Republic”;
- The Government sold the state interest in a situation where the state was in the position of a minority shareholder. Any rescue of the bank without acquiring control would be difficult to justify, as only a small part of the assistance would be reflected in the agreed price. The Government’s position was thus incomparable to the privatisation of the other banks, in which the state held majority interests.

Point 5)

The Commission rates the exercise of banking supervision as “buck-passing”, inconsistent and ineffective.

This evaluation stems from a very simplified view of the three facts described below.

According to the Commission, the first substantial fact consisted in the granting of consent to the acquisition of IPB shares and, in particular, the request of the purchaser that the ultimate acquirer of the IPB shares within the Nomura Group be the Dutch company Saluka Investments B.V. Given the proposed ownership arrangement, **the CNB decided that any granting of prior consent to the acquisition of IPB shares to Saluka Investments B.V. would be conditional upon fulfilment of all obligations by Nomura Europe plc, as the first acquirer of the shares, with regard to increasing IPB’s capital, and furthermore, that it would be conditional upon all rights ensuing from holding IPB’s shares continuing to lie with Nomura. The CNB granted such consent in September 1998 only after fulfilment of all the obligations on the part of Nomura and following receipt of documents proving that the transfer of shares to Saluka Investments B.V. was only formal and that the shareholder rights remained with Nomura**, including representation in the Supervisory Board of IPB. After being granted the prior consent, Saluka Investments B.V. became a holder of 38.3% of IPB’s shares, while 8.3% of shares remained in the possession of Nomura Europe plc, i.e. Nomura controlled 46.6% of shares in total. The position of Nomura in IPB is also evidenced by the fact that Nomura is continuing to hold negotiations with the representatives of the state, and that its representatives have been and still are members of the Supervisory Board of the bank.

The Commission finds the second failure of banking supervision to consist in the fact that the “increase in equity capital in the form of subordinated debt took place in 1998 through the bank’s provision of credit to the investors for the purpose of purchasing subordinated bonds”, as indicated by documentation made available to the Commission. Even if one neglects the fact that not even the

Commission is certain about the aforementioned statement on the manner of financing the subordinated debt, it is not clear wherein, according to the Commission, lies the failure of banking supervision. For subordinated debt, the CNB assesses, in accordance with the relevant prudential rules for banks, whether the “subordination clause” meets the conditions laid down by the CNB provision (regulation) on capital adequacy. Fulfilment of these conditions is necessary for the granting of consent to inclusion in the regulatory capital of the bank. In the case of IPB, following careful verification of all the requested and submitted documents, the CNB notified the bank that the conditions laid down by the provision in force at that time had been met. The CNB granted its consent prior to the actual issuance of the subordinated bonds, so at the time of issuing of its standpoint the CNB had no information indicating that IPB would participate in financing the subordinated bonds, and the Commission has not proven the contrary. Subsequently, the CNB was unable to influence the manner of financing and further disposal of publicly tradable bonds, as, in the majority of cases, the subscribers or further owners of the bonds were entities not subject to the regulation and exercise of banking supervision. The CNB in co-operation with ČSOB is continuing to investigate this matter. If the suspicion of the Commission is proven right, this will be further evidence of dubious practices by the bank’s management and shareholders.

The third fact, and a serious mistake, consists, according to the Commission, in an “inconsistent and buck-passing response to the established fact that the sale of doubtful credits in 1999 was to a group dependent on IPB”. Nevertheless, the Commission itself further states that “banking supervision was hindered by the unwillingness of the management to provide sufficient information on the transactions implemented”. In this connection, the CNB provided the Commission with a number of documents indicating, conversely, how consistent and detailed had been the CNB’s assessment of the given transaction, as well as of a number of other questionable activities through which IPB had striven to conceal the inadequacy of its provisioning. Given the complexity of this issue and given that the bank had failed to provide the CNB with adequate documentation, the CNB decided to carry out series of informative visits to clarify certain implemented transactions. These visits took place between mid-April and the end of June 1999 and the resulting findings were used as the main grounds for additional investigation of these transactions during the comprehensive inspection of the bank performed in the third quarter of 1999. The findings concerning this transaction together with the first findings from the comprehensive inspection of the bank that had already been commenced at that time led to the conducting of an up-to-date analysis of the financial situation of IPB and the main risks to its further development. The result consisted in a written request of the CNB – addressed in October 1999 to both the bank and its major shareholders – that the equity capital of IPB be substantially increased. This was intended to allow for creation of a sufficient volume of provisions to cover credit risk without an adverse impact on the financial stability of IPB.

The Commission also failed to take into account other important facts:

- more fundamental measures of a punitive nature against banks are implemented within administrative proceedings, where the onus of proof lies on the CNB. IPB had consistently appealed against the decisions of the CNB and thus both delayed the formal completion of the on-site examination and weakened the position of the CNB in any administrative proceedings. For this reason, the ongoing statutory audit was of great importance;
- the necessity of evaluating the effectiveness of the steps taken by IPB and its shareholders, which were declared as remedial measures. These consisted, in particular, in changes to the bodies of the bank, attempts to increase the equity capital, attempts to negotiate with the Government and efforts to find an investor;
- the extent of the problem ascertained in IPB, which, in its consequences for the national economy, exceeded the CNB’s range of possibilities and could be addressed only in co-operation with the Government.

The consistent efforts of the CNB to establish a true view of the financial situation of the bank and its subsequent search for solutions thus cannot be considered a “buck-passing” approach. The conclusions

of the Commission are therefore fundamentally influenced by the fact that the above facts were not reflected in its evaluation.

Point 6)

The Commission considers the participation of the state and the use of public funds in dealing with the crisis in 2000 to be a necessary step to avoid an economic collapse.

In this relation, the CNB fully agrees with the conclusions of the Commission and welcomes them. However, the Report unfortunately fails to deduce appropriate consequences of this point when evaluating the suitability of the selected solution of the crisis in IPB.

Point 7)

The Commission concluded that the state institutions proceeded in the period from 16 June 2000 to 19 June 2000 according to ČSOB's scenario.

However, it is a fact that various scenarios for addressing the situation in the bank were prepared and submitted during the first half of 2000, both from the viewpoint of IPB, the main shareholder of the bank and potential investors, and from the viewpoint of the CNB, and these scenarios were analysed with regard to their feasibility and main risks. Subsequently, a number of negotiations took place where the main goal was to find in advance the most appropriate and feasible solution to the difficult situation in IPB so that the CNB and the state authorities were not overtaken by events. These negotiations were attended both by the main shareholder of IPB, the investor and the management of the bank, and by representatives of the state (the Government, MoF, CNB, NPF) and the auditors of the bank. The goal was not only to find the optimal procedure, but also to prepare for all critical eventualities.

The option of selling IPB to a strategic investor within the framework of conservatorship was evaluated by the CNB as posing the least risks and being the least costly from the viewpoint of national economy, in the event of it proving impossible to reach agreement with the shareholders of IPB.

Point 8)

In this point, the Commission criticises the members of the CNB Bank Board for exceeding their legal powers in charging the conservator with the task of selling the business to ČSOB as quickly as possible.

The Commission took no account of the fact that, unlike in other cases where the institute of conservatorship is used, according to the law the conservator is an employee of the CNB. Thus, the Bank Board, as the supreme management body of the CNB, is authorised to impose tasks on the conservator as an employee of the CNB. The decision of the Bank Board which is criticised in this part of the Report was based on the government decision of 15 June 2000 and reflected the preferences of the Government and the CNB as regards further progress. Nevertheless, the conservator refused to consider the resolution of the Bank Board as the imposition of a task and **this passage does not occur in the document on his appointment to the position of conservator.**

The CNB Bank Board further clarified this issue at its 41st meeting held on 9 November 2000. The minutes of this meeting include, among other things, the following statement: "Following discussion, the Bank Board stated that it could find no contradiction between the two documents (the decision of the Bank Board of 16 June 2000 and the document appointing the conservator). The Bank Board decision of 16 June 2000 was in accord with the Resolution of the Government of the Czech Republic of 15 June 2000 addressing the situation in IPB, a.s. Through this decision, the Bank Board expressed its idea of and preferences for dealing with the acute problems at IPB. The conservator, Mr Staněk,

with reference to the general legal regulation of his powers, accepted his functional authorisation in accordance with the wording of the law, being aware of the ideas and preferences of the Bank Board.”

Thus, according to the CNB, the Report correctly points out, in paragraph 8, the existence of a certain dichotomy in the position of the conservator of a bank, who on the one hand is an employee of the CNB, while on the other hand has the position of a statutory body of the bank with all the rights and duties ensuing from the generally valid legal regulations.

The CNB thus agrees with the recommendation of the Commission to prepare an amendment to the Act on Banks aimed at specifying more precisely the position and duties of the conservator. The CNB perceives this recommendation in a wider context of its efforts to ensure more an appropriate definition of the conditions for exit of problem banks from the sector. The CNB is currently working intensively on defining such conditions.

Point 9)

The Commission denotes the selection of the investor in the period from 16 June 2000 to 19 June 2000 as unprecedented and non-transparent.

The actual selection of the investor took place in accordance with the principles specified in detail in the Report for deliberations of the Chamber of Deputies of the Parliament of the Czech Republic concerning the development of the situation and the procedure for ensuring stabilisation of Investiční a Poštovní banka, a.s. presented by the Minister of Finance in the Chamber of Deputies in July 2000. Nomura had contacted a number of potential interested parties within the framework of searching for potential strategic investors. Although efforts were presented at various levels to motivate other banks to show interest in the transaction, it turned out that, even though some banks were interested in buying parts of the IPB group, they were unable to submit a proposal for a comprehensive transaction. Thus, during May, only two parties remained seriously interested: Allianz-Unicredito and ČSOB-KBC. Of these two, ČSOB was better prepared to implement the option of a quick sale of the business, which was found unambiguously to be the most favourable from the legal, economic and organisational points of view in the event of conservatorship. The selection of the investor therefore cannot be considered a process lacking transparency, but rather a climax of a long-term process. ČSOB-KBC had also never concealed their interest in acquiring an interest in IPB and had held negotiations to this end with the shareholders and management of the bank.

Point 10)

The Commission states that “at variance with his legal mission, the conservator entirely failed to administer the bank. He merely managed to take over the bank and sell it, without knowing anything about what he was selling.”

This opinion of the Commission is incorrect. Following his appointment to the bank, the conservator took a number of steps connected with acquiring control of the bank and management thereof. After taking over the bank, the conservator stabilised the current situation of the bank and made decisions with the aim of maintaining the core activities of the bank. Following implementation of these necessary measures, the conservator commenced negotiations with the auditor in order to establish the financial situation of the bank. After the auditor issued his report, in which he stated that the requirements for creation of provisions substantially exceeded the owner’s equity of the bank, and the CNB, in accordance with the Act on Banks, commenced administrative proceedings to revoke the banking licence, the conservator chose a solution that protected the depositors of the bank and prevented adverse impacts on the banking system. Had it not been possible to carry out a quick sale of the business, on Monday 19 June 2000, the conservator would have been forced to close the branches of the bank.

The conservator thus had enough information to decide on the sale of IPB and the construction of the purchase price ensured that the purchase price obtained by IPB and its shareholders was laid down as

transparently as possible and that it was based on the actual state of the bank. Through his actions, the conservator thus in no way harmed the bank and he proceeded with due diligence.

Following evaluation of the steps taken by the conservator, the CNB stopped the administrative proceedings to revoke the banking licence.

Point 11)

The Commission declares the transaction documents signed on 19 June 2000 to be unilaterally favourable for ČSOB at the expense of the state budget, and states that these documents are strictly contrary to morality.

The statement of the Commission on an unjustified advantage for ČSOB at the expense of the state budget amounting to many dozens of billions crowns is not based on realistic grounds and substantive explanation. It must be stated that through the purchase of IPB, ČSOB took over all obligations (liabilities) of IPB towards its depositors and other creditors. The state guaranteed only that the property of IPB (assets) that had been taken over would suffice for payment of the accepted liabilities. In brief, it may thus be stated that through the relevant state guarantees of the value of the accepted assets of IPB, ČSOB received no unilateral advantage at the expense of the state budget, but that the state rather “compensated” the value of the assets up to the amount of the accepted liabilities.

Moreover, as opposed to bankruptcy, a quick entry of a strategic investor provides the state with a substantial added value which greatly decreases the costs for the national economy. This value consists especially in maintaining banking activities and thus minimises the impact on the stability of the banking sector and the economy. Furthermore, this solution provides for much better valuation of assets than in the case of their realising during bankruptcy. Last but not least, the investor has better preconditions for finding assets and clarifying non-transparent legal and property relations.

Furthermore, the Commission has entirely neglected the fact that a standard entry of a strategic investor into the bank is always conditional upon a thorough, often several-month analysis of the financial and legal position of the bank. However, given the effort to minimise the risks and costs for the national economy, the action in IPB consisted in a quick rescue operation where the investor faced substantial risks. The risks accepted by ČSOB were of such a nature that the range of possible scenarios of further development was very wide in spite of the guarantees provided. Many of these risks could have had an adverse impact on ČSOB and its majority shareholder, Belgium’s KBC. The critical standpoints concerning the transactions which state its favourableness for ČSOB take into account only the most optimistic scenarios, and neglect the fact that any investor must deal with all eventualities, not only the optimistic ones. The problems of ČSOB to date connected with taking over the business, searching for assets and clarifying non-transparent legal relations prove that the concerns of the investors were justified.

If acquiring a bank, any prudent investor would request a certain degree of certainty in relation to whether he would also acquire, together with the deposits (i.e. obligations towards depositors), assets of adequate quality which he would be able to realise if necessary and use them for payment of the newly acquired obligations (deposits). According to the CNB, a balanced compromise was reached by the state and the investor given the economic and legal environment in the Czech Republic.

The statement of the Commission that the transaction documents were at variance with the valid legal rules and morality is not further specified. It is thus impossible to argue with the standpoint and it is only possible to express the opposite opinion: the transaction documents are in accord with the legal regulations and are not contrary to morality. In this regard it must only be pointed out that the transaction documents were prepared with the participation of reputable external legal advisors.

Part V. Substantiation report

A Environment

The description of the environment, i.e. the Czech banking sector, essentially says nothing more than that IPB was among the fastest developing entities in the Czech financial market of the 1990s. However, the Commission does not state the circumstances which, as is now becoming apparent, lay behind the “rapid” development of the IPB financial group, i.e. reckless conduct and decision-making by its management and major shareholders.

As regards the contribution of IPB to the creation of credit possibilities for businesses, it must be stated that, in contrast with other commercial banks, a major part of the credits provided by IPB did not serve for financing of businesses, but rather for acquiring property control of such businesses by companies related to the management of IPB and their key non-state shareholders. This is also one of the causes for the poor quality of the assets, as these credits became bad credits as a result of declining share prices. The importance of IPB for financing of businesses was thus lower than indicated by the Report.

The Commission also emphasises the fact that, in the late 1990s, IPB, unlike the other major banks, received no substantial state assistance. In this regard, it must be stated that the state had a different position in ČSOB, KB and ČS, where it ensured their stability as the main shareholder. In IPB the state had been a minority shareholder and from 1998 onwards it held no shares at all. The CNB has also no information indicating that, in the period following privatisation from 1998 to 1999, IPB or its shareholders requested any assistance from the state. On the contrary, they presented the bank as stabilised and dynamic.

B Founding and initial development of the bank, the circumstances of the state’s substantial loss of influence on its activities, and the further development of the bank

In the survey of development of IPB, the fact is missing that, within the framework of the voucher privatisation, 3% of IPB’s shares were allocated to the Restitution Investment Fund of the Czech Republic, whose founder and initial shareholder was the NPF. Initially, the state thus held a majority of votes at the General Meetings of the bank. It is also not stated that management of the Restitution Investment Fund of the Czech Republic was later entrusted to První investiční, a.s., a subsidiary of IPB.

The weakening of the influence of the state in IPB undoubtedly had an adverse impact on the possibilities of the state to sell its share in IPB to a strategic investor. Nevertheless, the statement of the Commission that the state’s possibility to acquire a majority share was lost “deliberately and as a consequence of an informally co-ordinated action of the management of IPB, a.s. and the state authorities” is not backed up by any relevant reasons or evidence.

It must also be emphasised that the loss of direct control of the state over the bank itself would not have inevitably led to problems in the bank provided that the managers and private owners of the bank had not failed in administering the property of the bank and in exercising their ownership rights. The main responsibility for the developments in the bank thus lies with its management and owners.

C Exercise of the ownership rights of the state in the period 1993–1998

The Commission comments broadly on the exercise of the shareholder’s rights of the state, on the one hand stating that the “state exercised its ownership rights in a totally passive manner”, but on the other hand criticising a similar wording contained in Resolution of the Government No. 162 of 4 March 1998. The justification of this criticism is based only on the fact that no specific responsibility was ever drawn from this statement and it would be “difficult to find a person more responsible from the viewpoint of the state’s decision-making regarding IPB, a.s. than Josef Tošovský, both as regards the duration of performance of duties and the extent of responsibility (owner, privatiser, regulator)”.

The above statement incorrectly combines the powers of the Governor as the representative of the regulator of the banking sector, with the responsibilities of representative of the Government for decision-making of the state in IPB, i.e. with the responsibility of the shareholder for exercising ownership rights. It must be pointed out that, as regards the duration of performance of duties, Josef Tošovský, in the position of the **Governor** of the central bank for a major part of the relevant period, was only the regulator of the banking sector rather than executor of ownership rights, and during this period, he thus could not bear the main responsibility. Josef Tošovský was the executor of ownership rights and the privatising party on the basis of his **governmental** position only for a short period of time, during which the Government directed by him completed the privatisation transaction, which had been, however, predetermined by the steps of the previous governments (see the comments on point D).

D Sale of the state interest in 1997–1998

The criticism of the Commission concentrates on a change in the conditions of privatisation of the state interest in IPB, as originally laid down in Resolution of the Government No. 468/97, through Resolution of the Government No. 162 of 4 March 1998. The Commission considers this change a controversial and non-transparent decision. In this connection, the CNB points out that through the aforementioned Resolution of the Government No. 162/1998, the conditions agreed upon with the investor were reflected in a governmental document in a situation where it had been previously decided, in May 1997, that the NPF and the Government, as appropriate, should carry out negotiations only with Nomura. Thus, Resolution of the Government No. 162/1998 was only a consequence of previous decisions made during 1997. We also state that the Government could not decide to sell to a strategic investor, as it could offer only a minority stake. This fact was specifically manifested as early as in 1997 in relation to the other party that was seriously interested in the state interest in IPB – ING Bank, which, among other things, requested from the Government as a condition *sine qua non* that it acquire a majority share. The Commission totally neglects the fact that the negotiations with this applicant were in fact terminated, in contrast with the other interested party – Nomura, whose offer was accepted by the Government of the Czech Republic on 23 July 1997. As regards the alleged softening of the privatisation conditions (non-inclusion of the possibility to purchase certain assets from IPB), it does not follow from the Report or from the cited Resolution of the Government No. 468 of 23 July 1997 that the increase in the net asset value would be fully reflected in the purchase price. Given that a minority share was sold, it could be expected rather that the clean-up of the bank would be only partly reflected in the purchase price and thus, from a narrower point of view, this procedure (achieving a higher purchase price) would be unfavourable for the state.

E Exercise of banking supervision

The Commission does not state any other or more detailed arguments than those given in Part III. Conclusions, Point 5).

An exception to the above is the statement that “the CNB has failed to use its powers laid down by the Act on Banks and failed to take any action against the minority shareholder...”. It must be stated that, according to the Act on Banks, the CNB may suspend exercise of shareholder’s rights if the conduct of the shareholder hinders proper and prudent operation of business by the bank or if such conduct of the shareholder can be reasonably expected. However, it could not have in its possession any such documents prior to bringing an action against a minor shareholder (challenging the decision of the General Meeting of IPB on increasing the equity capital). A rebuke in the sense that the CNB has failed to adopt any measures against a shareholder who had brought an action himself is totally ungrounded from the viewpoint of avoiding the consequences of the action – for the above reasons the CNB could not take any action and **subsequent intervention would have no effect in relation to actions that would have been already brought and that could be decided exclusively by the competent court**. The criticism of the Commission is thus incorrectly related to the CNB, despite the fact the problem clearly lies in the generally excessive duration of decision-making by the courts.

F Circumstances of the final development in IPB (imposing of conservatorship and subsequent sale to ČSOB)

The information given in this paragraph is not adequately put into the context of realistic evaluation of the situation and difficulties of IPB itself. The argument used of “media discussion of alarming reports on the worsening situation of large banks” is not directly relevant for IPB and this passage is also again very forbearing in relation to the former management of IPB and its main shareholders. It lacks any negative standpoint on the causes of the unsatisfactory financial management of the bank.

The procedure of the CNB against the bank and the reasons for it are thoroughly described in the Report for deliberations of the Chamber of Deputies of the Parliament of the Czech Republic concerning the development of the situation and the procedure for ensuring stabilisation of Investiční a Poštovní banka, a.s. presented by the Minister of Finance in the Chamber of Deputies in July 2000. It can be only emphasised that the bank used all its legal options to challenge the findings of the supervisory authority and to delay the procedure, and thus the opinion of the auditor was not insignificant in this context.

The Commission discusses in detail the “Paris document” and comes to the conclusion set forth in Part III. Conclusions, Point 7). Furthermore, the Commission states that this document must have been prepared also on the basis of confidential information acquired from IPB itself or from the banking supervision unit, which has not been proven by any credible arguments, but only through a general statement. The CNB strongly denies that ČSOB or any other investor would obtain any confidential information from CNB Banking Supervision.

The final paragraph of this Part states that “the irrevocable guarantee by the CNB for the creditors of IPB a.s. itself allowed for protection of the deposits of the clients and that the documents signed on 19 June 2000 constituted guarantees in favour of a private investor owned by foreign entities”. The CNB considers this statement misleading, as the guarantee of deposits by no means addressed the issue of quality and recoverability of assets that had been acquired for the deposits of the clients. If the guarantees had not been provided and the business sold, the CNB would have been forced to revoke IPB’s banking licence and subsequently to passively provide the outstanding payments to the creditors of the bank.

G Evaluation of the transaction documents

In its evaluation of the transaction documents, the Commission takes no account of the specific situation of the bank and thus comes to incorrect and misleading conclusions.

In particular, it takes no account of the fact that the state was not a shareholder of IPB. Therefore, the structure of transaction documents must be logically entirely different than in the case where the state sells shares. The state thus could not make any profit from the sale of IPB as the **purchase price for the sold business would have been obtained by IPB and subsequently by its shareholders, including the ones who substantially contributed to the bad situation of the bank.** The state could only create conditions for implementing the sale of the business. Therefore, the situation in question was legally and economically different than in the case of privatisation of banks where the state sells its share and receives the privatisation proceeds. These operations thus cannot be mechanically compared to each other.

The Commission has failed to take account of the fact that, in contrast, the state was in a situation where it had to find a way to avoid the closure of the third largest bank in the Czech market, which was in full private ownership and whose shareholders were not willing to bear the consequences of their influence on the bank. From the viewpoint of the state and the CNB, this was unambiguously an attempt to minimise the costs for the national economy connected with addressing the critical situation of the bank caused by its management and related shareholders, and the potential impact on the entire economy of the Czech Republic. In a situation where the Government considered proposals by the shareholders both economically and morally unacceptable, quick sale of the business to a strategic

investor was an optimal solution and the Commission gave no argument proving that any other procedure would be more favourable for the state.

As the state is not a shareholder, it would be economically senseless and unethical to provide for a rescue of IPB prior to the sale or to include the state guarantees in the purchase price, as it would have no profit from a higher purchase price. The state guarantee and a promise of indemnity by the CNB were thus provided directly to the investor who took over a failing bank rather than to the bank itself and its shareholders. Similar guarantees would be required by any investor, which was confirmed in negotiations with the other interested party. However, the Report totally ignores this fact.

While the Commission states in its Report that “alternative forms of transaction documents were readily available” it does not indicate their nature. It must be stated that although the structure of the transaction was a result of thorough legal and economical analyses, a number of legal problems were revealed during construction of the contractual documents. The feasibility of “alternative” methods is thus very questionable, as they have not been tested in practice.

The Commission also comes to an incorrect and misleading conclusion that ČSOB faced no risks and would acquire a cleaned-up bank as a gift.

First, it must be stated that ČSOB had not acquired a bank but rather a business. The difference lies in the fact that, in contrast with a business, a bank includes own capital. In privatising a share in a bank, the nominal amount of the capital constitutes an important part of the purchase price. A substantial cost for ČSOB and its shareholders consisted in the capital requirement following from taking over the IPB business, which had to be covered from ČSOB’s own funds.

Another important component of ČSOB’s costs and risks consisted in the costs of integration and the risk that, through the purchase of IPB, ČSOB would lose its good reputation and trust of clients. No one could guarantee to any of the investors that, in spite of all the confirmations, the loss of clients would not continue and affect the other activities of the investor in the Czech Republic.

The state also was not able to guarantee to any investor that it would acquire control of the entities within the “IPB Group”, and in what condition these entities would be.

Furthermore, given that the state was not the owner of the IPB business, it could not transfer the business to ČSOB, but rather ČSOB had to acquire the business through purchase from IPB. However, the purchase price is not an economically justifiable cost for ČSOB; from the substantive point of view, it is part of the costs of the state for the rescue of IPB.

Even though the above risks and costs were substantial, ČSOB and its major shareholder, KBC of Belgium, not only agreed to participate in the transaction, but also undertook to pay compensation to the state for the issuing of the state guarantee. However, given the above facts, they requested that the amount of compensation be decreased by ČSOB’s costs connected with payment of the purchase price.

It must again be stated that the transaction documents constitute a mutually interlinked documentation whose ungrounded impairment could have negated the goals achieved, as through a quick solution it was possible to prevent adverse economic impacts. The Commission has provided neither any evidence of it being possible to achieve a cheaper solution from the viewpoint of the state, nor any relevant argument demonstrating that ČSOB was provided with more favourable conditions than would be required by any other acceptable investor.

The illustrative case included in the Report takes no account of the difference between an entry of an investor to a stabilised, financially strong and transparent institution and salvage of a failing, untrustworthy and non-transparent bank in relation to which it is, furthermore, very unclear whether it would be possible to acquire control of the entities belonging to its financial group. It would be much more appropriate to compare this situation to the case of Agrobanka Praha, a.s. In that case it became apparent that it was very difficult to find a serious investor for a problem bank and that its requirements would be very high. Moreover, the Commission chose for illustration the case of ČSOB, rather than of Česká spořitelna or Komerční banka, as these banks provide an example of the fact that the price is not dependent only on the size of the bank.

The Commission has also neglected other possible scenarios and the risks for ČSOB, as not even all the state guarantees could and can ensure that, through participating in the rescue of IPB, ČSOB would not incur any harm. Owing to their unilateral nature and insufficient grounds, the conclusions of the Commission regarding the evaluation of the transaction documents are misleading. Furthermore, implementation of the recommendation of the Commission to challenge the transaction documents would lead to a loss of legal credibility and to serious systemic problems. Directly and indirectly, this in turn would lead to much higher costs for the state and taxpayers.

Recapitulation of the key developments in the situation in Investiční a Poštovní banka, a.s. and in the process of addressing that situation

1. The privatisation of IPB was launched with the inclusion of a part of the shares of the then Investiční banka, a.s. in the voucher privatisation scheme, with the Government remaining the majority shareholder. Because the Government did not participate in the subsequent increases in the bank's equity capital, its share decreased to 36.29%. At its meetings on 23 July 1997 and 4 March 1998, the Government decided to sell the state's 36.29% share in IPB to Nomura Europe plc ("Nomura") for CZK 3 billion. Nomura, in turn, strengthened the capital of the bank by increasing its equity capital by CZK 6 billion and by issuing CZK 6 billion in subordinated bonds. The capital injection was a necessary step, as the auditor had requested the creation of provisions for the bank's receivables, which gave rise to a loss of CZK 11 billion for IPB in 1997. In this manner, IPB's financial situation was temporarily stabilised. After meeting these conditions, Nomura's holding was formally transferred to Saluka Investments B.V. However, the shareholder rights, including representation in IPB's Supervisory Board, remained with Nomura.
2. As a result of Nomura's investment, IPB experienced a significant rise in client deposits. These amounted to about CZK 220 billion at the beginning of 1999. Nevertheless, the extent of the bank's non-performing loans, securities and other classified receivables gradually worsened. As the volume of these bad claims in the bank's balance sheet continued to rise, the bank responded by trying to find various short-term solutions (sale of the receivables, transfer of the securities, etc.). As the CNB gradually became aware of the situation, it started asking for explanations. The operations carried out by the bank at the end of 1998 and the beginning of 1999 – which induced conditions obviating the need to create provisions – was accepted by the auditors. In June 1999, the auditors' report for 1998 contained a statement without reservations. However, information requested by the CNB indicated that the operations could only be concealing a lack of provisions and that the risk of losses might remain.
3. On the strength of these developments, the CNB's banking supervisory group carried out a series of informative visits aimed at clarifying the situation with the transactions related to resolving the classified receivables and non-performing securities. In the second half of the year, a comprehensive examination directed at IPB's main areas of business was performed. After carrying out an analysis of IPB's financial position and assessing the partial results from the visit in October 1999, the banking supervisor also requested that the bank and its shareholders increase its equity capital to allow the creation of sufficient provisions to cover credit risk without any negative impact on the financial stability of the bank. The bank responded to the request with a resolution of the General Meeting of 16 November 1999 to increase the equity capital by CZK 2.6–6.69 billion. However, this was subsequently blocked by a lawsuit filed by a minority shareholder.
4. The supervisor's examination revealed serious shortcomings in the bank's activities, especially in the area of classified receivables and asset valuation. It was discovered that the bank had violated the regulations by recording artificially overvalued assets. The supervisory group calculated the need for additional provisions and reserves at CZK 40 billion for the examined asset sample only. IPB's results were therefore distorted by at least this amount, if not more. The examination report was submitted to the bank on 25 February 2000.²

²According to the Act on Banks, the CNB must comply with the provisions of the Government Inspection Act when performing on-site examinations. Among other things, this leads to excessive prolongation of the report completion procedures and, given the specific nature of banking activities, can in fact even mean invalidation of the findings owing to the long time period between carrying out the examination and completing the report procedures. During this time, of course, significant changes occur in the originally examined facts, and, for all practical purposes, it is necessary to re-verify the facts or to start the process over again in order to identify the differences arising during the appeal proceedings.

5. From the very beginning, IPB disagreed with the findings, arguing that the banking supervisor had not submitted all the documents and that the bank had already carried out operations to reduce the credit risk and the need to create provisions and was continuing to do so. In compliance with the Government Inspection Act, the bank submitted in March and April a number of written appeals against the individual parts of the report (overall, about 270 pages of text and 9,700 pages of appendices). In addition, the bank stated that steps had been taken to strengthen its capital through an equity increase of CZK 13.4 billion. In this particular situation, the banking supervisor did not have sufficient support in the Act on Banks for adopting measures. Furthermore, unwarranted application of such measures might have caused irreparable damage to the bank. The expected auditors' report for 1999 became the key factor for determining further steps in this direction.
6. It was clear from the results of the examination that if they were confirmed by the auditor, the CNB's legal responsibility would be to revoke IPB's banking licence owing to a drop in its capital adequacy below one third of the required threshold. Analyses showed that the economic impact of the failure of IPB would not only threaten the banking system, but that the situation would also have a substantial impact on the Czech economy as a whole (i.e. a drop of 2–4 percentage points in GDP). Given this reality, the stabilisation of IPB, even at the price of a state guarantee, would be a less costly option.
7. After an evaluation of the situation, parallel discussions were opened between the CNB and the bank and its auditor in March 2000 on the 1999 audit, and between representatives of the CNB and the MoF and the main shareholders of the bank, represented by Nomura, on the possibilities for a "co-operative solution" for stabilising the bank. Consensus was reached between the parties that a strategic investor was needed as a target solution. Nomura said at the very beginning that it would participate in resolving the bank's situation on "commercial terms" on condition that the Government guarantee the return on its future investment in IPB. The basic condition of the state representatives for providing public funds was the acquisition of enough control over the bank to ensure that the state aid would be used exclusively to stabilise the bank and protect depositors, and not to benefit shareholders.
8. In accordance with its statutory duties, the CNB also prepared a non-co-operative alternative, i.e. conservatorship, as a crisis scenario if agreement with the main shareholder failed. This alternative involved assessing the economic impact of conservatorship on the bank, the legal aspects of takeover of the bank by an investor, and the issue of selecting the investor. This assessment, in which an external law firm took part, clearly showed that the speed of the overall operation was of key significance.
9. Various options were discussed and assessed at the negotiations for a co-operative solution. The potential investors interested in taking over IPB (Alianz-Unicredito and ČSOB, who had held talks with IPB's management and Nomura as part of the search for a strategic investor) also took part. All the options, however, proved unacceptable either to Nomura (which wanted a commercial stake in the transaction), the state (which wanted to acquire sufficient control over the bank) or to the investors (who were interested in taking over IPB only through sale of the business and not by acquiring shares). Several of the options also carried significant legal risks in terms of feasibility. Moreover, the time horizon for finding a solution was fixed at 26 June 2000, i.e. the day on which the definitive auditors' statement was, at the latest, to be released, with IPB's General Meeting convened for 28 June.
10. The offers submitted by the two investors concurred in that both were requesting takeover through the sale of IPB's business or part thereof. However, they differed fundamentally in terms of the manner and speed of the takeover. Alianz-Unicredito, despite partial knowledge of the risks, wanted an immediate takeover of the bank's management, followed a few months later – once the bank's true condition had been ascertained – by a formal agreement to take over ownership of the bank. By contrast, ČSOB wanted an immediate takeover of the bank's ownership and management, with subsequent ascertainment of its condition. These different

approaches also stemmed from the fact that only a Czech bank with the relevant banking licence could immediately purchase the business from IPB and carry on banking activities.

11. The window of opportunity for deciding on the course of action for stabilising IPB was also limited by the bank's liquidity situation. Following significant outflows of deposits between February and the start of June (of around CZK 34 billion), withdrawals continued to strengthen, culminating in a run on the bank in the week starting 12 June. On 15 June, the bank informed the CNB that its liquidity situation had deteriorated significantly and that there was a danger it would not be able to meet its liabilities. On the basis of the information on IPB's liquidity, the Minister of Finance on the same day informed the Governor of the CNB by letter that he believed the legal conditions had occurred for imposing conservatorship. The bank's critical liquidity situation required an immediate decision regarding its stabilisation.
12. After assessing IPB's situation and the results of the negotiations with Nomura and with the potential investors, and with the aim of minimising the risk of destabilisation of the banking sector, the Government agreed at its meeting on 15 June to the imposition of conservatorship at IPB, with the intention of subsequently selling the business to ČSOB as a strategic investor. At the same time, the Government agreed to the granting of a guarantee to the strategic investor and advised the Governor of the CNB to proceed in accordance with this decree. On the morning of 16 June, the CNB obtained a request from IPB for a loan of up to CZK 10 billion in order to maintain the bank's liquidity. Conservatorship was introduced by CNB decision on 16 June with the agreement of the MoF.
13. On 18 June, the conservator received the auditors' report on IPB's 1999 accounts. This revealed the need to create provisions significantly exceeding the bank's owners' equity as well as its dependence on long-term financial support in order to continue its operations. In compliance with the Act on Banks, the conservator informed the CNB on the same day that the bank's capital adequacy had fallen below one third of the required threshold. In accordance with its statutory duties, the CNB initiated proceedings to revoke IPB's banking licence.
14. The auditors' statement concerning IPB's insolvency was the key factor in determining the conservator's subsequent steps. Given the continuing outflow of deposits and the threat of a further rapid fall in the bank's value during a prolonged period of conservatorship, the logical decision was to negotiate with ČSOB, which submitted an offer to the conservator to purchase the business. This was the only offer received. Under the circumstances, rapid sale of the business was a favourable solution in the interests of preserving the IPB banking network and protecting its creditors. Legal and economic analyses indicated that any other solution would not secure lower costs for the state or the stabilisation of the bank and might lead to revocation of its banking licence with subsequent liquidation. After receiving requests from IPB and ČSOB for the conclusion of a contract of sale of the business, the CNB issued the relevant approvals and the contract was signed on 19 June. On the basis of the sale, ČSOB took over all IPB's assets and liabilities, including its branches and staff, and took on the rights and duties relating to IPB's business.
15. On the same day, following the conclusion of the contract of sale of the business between IPB and ČSOB, agreements were concluded and guarantees and promises of indemnity were granted by the MoF and the CNB to ČSOB.

Annex No. 2

Composition of the Bodies of IPB

(according to the annual reports of the bank for the relevant years)

The joint-stock company Investiční banka a.s. was founded through a single act consisting in a foundation deed of 21 February 1992. The National Property Fund of the Czech Republic was the sole founder of the company. The joint-stock company was registered in the Commercial Register on 27 February 1992.

The **Board of Directors** is the statutory body of the joint-stock company; it manages its activities and acts on its behalf. It decides on all matters of the company, unless the Commercial Code or Articles assign such matters to the competence of the General Meeting or the Supervisory Board. The Board of Directors is entrusted with business management of the joint-stock company. The business management includes both decision-making in the matters of the joint-stock company and further activities in management of the company. Basic tasks of the Board include in this relation, in particular, provision for proper keeping of the books of the company, including drawing up of the ordinary, extraordinary and consolidated accounts. The Board submits to the General Meeting a proposal for distribution of profits or settlement of the losses of the company, a report on business activities of the company and on its stock of assets. The Board has a number of responsibilities in connection with convening and holding the General Meeting of the company and the obligation to convene the General Meeting of the company in cases laid down by the law. The Board implements resolutions of the General Meeting and fulfils other obligations following from the legal regulations, Articles of the company or resolutions of the General Meeting. The members of the Board are obliged to perform their duties with due diligence.

Board of Directors		
Name	Position	Term of Office (Year)
Václav Hoffmann	Chairman	1992
Jiří Tesař	Vice-Chairman	1992
	Chairman	1993 - 9.3.1998
Otakar Jurečka	Member	1992
	Vice-Chairman	1993 - 9.3.1998
Libor Procházka	Member	1992 - 9.3.1998
	Vice-Chairman	9.3.1998 - 31.5.2000
Aladár Blaas	Member	1992 - 31.5.2000
Jiří Fárek	Member	1992 - 1998
Jindřich Kapoun	Member	1992
Zdeněk Kruliš	Member	1992
Jan Klacek	Member	1992
	Chairman	9.3.1998 - 28.8.2000
Alfréd Šebek	Member	1994 - 1998
František Hruška	Member	1997
Eduard Onderka	Member	1997
Josef Horák	Member	9.3.1998 - 31.3.1999
Jiří Fabián	Member	9.3.1998 - 18.7.2000
Petr Beneš	Member	1.4.1999 - 4.8.2000
Antonín Jakubše	Member	1999 - 24.7.2000
Helena Jenšová	Member	1999 - 25.7.2000

The **Supervisory Board** oversees the performance of duties by the Board of Directors and the implementation of business activities of the joint-stock company. The members of the Supervisory Board are authorised to peruse all documents and records concerning the activities of the company and check whether the entries in the books are made properly in accordance with the facts and whether the business activities of the company are implemented in accordance with the legal regulations, Articles and instructions of the General Meeting. The Supervisory Board reviews the annual accounts and the proposal for distribution of profits or settlement of losses, and submits its standpoint to the General Meeting. The Supervisory Board convenes the General Meeting if required by the interests of the company, and proposes necessary measures to the General Meeting. The Supervisory Board is also authorised to elect and recall the Board of Directors if laid down by the Articles of the company and fulfils other obligations imposed thereon by the law or the Articles of the company

Supervisory Board		
Name	Position	Term of Office (Year)
Jiří Lobkowicz	Vice-Chairman	1992
	Member	1993 – 1996
Jana Bartůšková	Member	1992
Julius Jančáry	Member	1992
Robert Holman	Member	1992
Gustav Hojdysz	Member	1992 - 9.3.1998
Bohdan Bartoš	Member	1992
Martin Opatrný	Member	1992
Jiří Vilím	Member	1992
Irwin Schwartz	Member	1992
Jan Ježdík	Member	1992 - 4.9.2000
Štěpán Müller	Member	1992
Václav Hoffmann	Chairman	1993 - 9.3.1998
	Member	9.3.1998 – up to now
Jindřich Kapoun	Vice-Chairman	1993 – 1994
Michal Bernáth	Member	1993 - 9.3.1998
Jan Klacek	Member	1993 – 1995
Zdeněk Kruliš	Member	1993 – 1994
	Vice-Chairman	1995 - 9.3.1998
Jan Příbyl	Member	1993 – up to now
Jan Suchánek	Member	1993 - 9.3.1998
Alfréd Šebek	Member	1993
Miroslav Téra	Member	1993 – 1995
Miroslav Tuček	Member	1993 - 31.5.2000
Peter Vajda	Member	1993 – up to now
Jiří Weigl	Member	1993 – 1998
Oldřich Černoch	Member	1994 - 9.3.1998
Michal Hrubý	Member	1995 – 1998
Libuše Benešová	Member	1996 - 9.3.1998
Vladimír Kostka	Member	1996 - 6.10.2000
Jiří Tesař	Chairman	9.3.1998 - 25.4.2000
	Vice-Chairman	25.4.2000 - up to now
Randall Dillard	Vice-Chairman	9.3.1998 - 25.4.2000
	Chairman	25.4.2000 – up to now

Otakar Jurečka	Vice-Chairman	9.3.1998 – up to now
Eduard Onderka	Member	9.3.1998 - up to now
Mark Christopher Basten	Member	1998
Daniel Patrick Jackson	Member	1998 – up to now
Karl Martin Mierswa	Member	1998 - 23.5.2000