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# The Changing Role of Soviet-Owned Banks in the West



An Intelligence Assessment

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December 1984

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# The Changing Role of Soviet-Owned Banks in the West [Redacted]

An Intelligence Assessment

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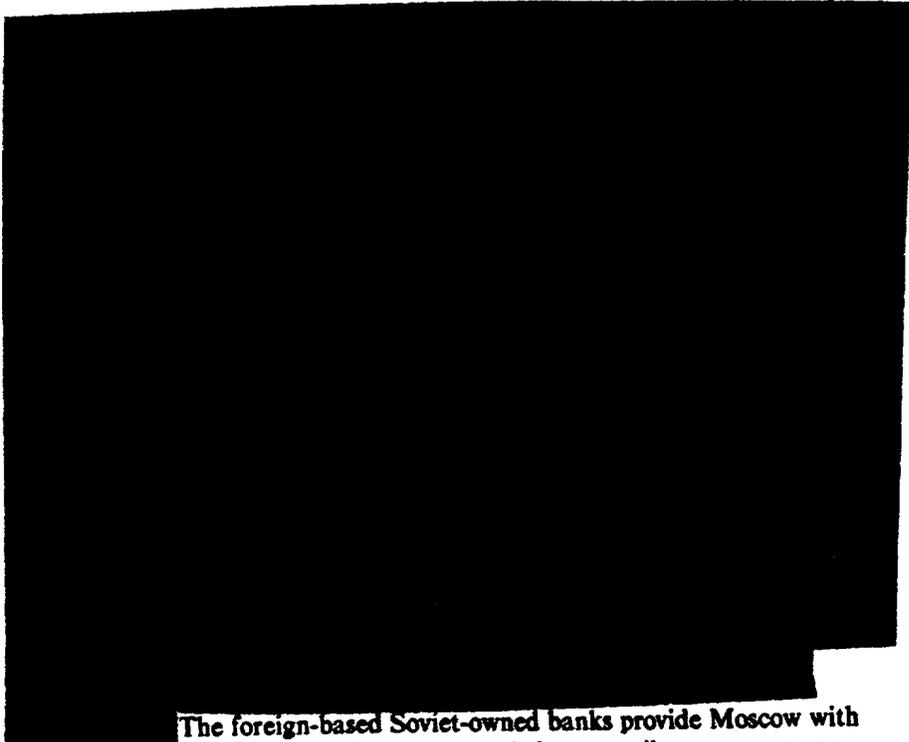
**The Changing Role of  
Soviet-Owned Banks  
in the West**

**Key Judgments**

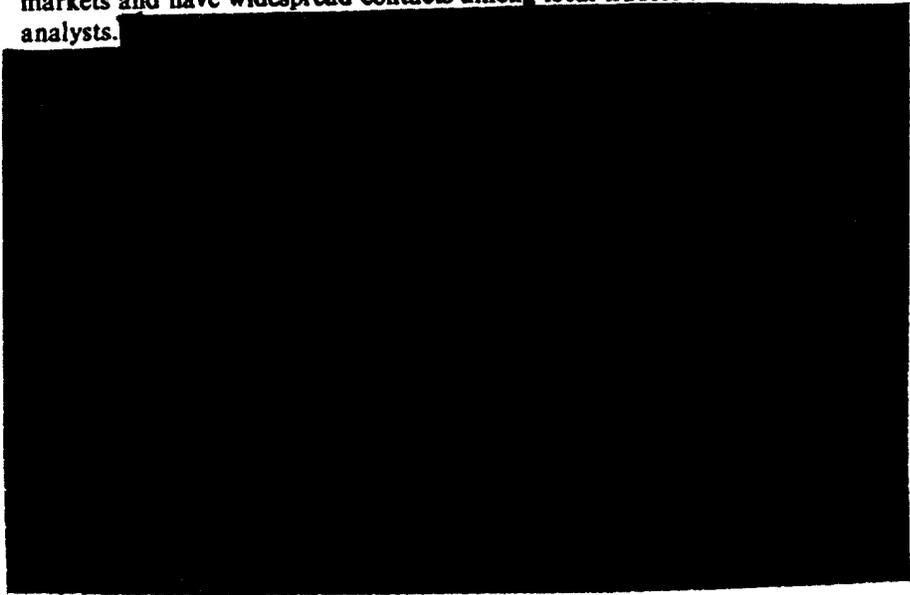
*Information available  
as of 15 November 1984  
was used in this report.*

The Soviets have maintained a small but important string of banks in the West since the Russian revolution.

Their main purpose is to promote, facilitate, and finance East-West trade.



The foreign-based Soviet-owned banks provide Moscow with windows to the West through which knowledge, as well as money, passes—and in both directions. They inform local business people of Soviet import needs and products available for export. The banks are in an excellent position to collect economic and trade intelligence; they participate in local markets and have widespread contacts among local traders and market analysts.



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### Historical Overview

The USSR initiated its overseas banking operations in 1919 with the purchase of Moscow Narodny Bank (MNB) in London. By 1923 the USSR had three banks operating abroad, having opened Banque Commerciale pour l'Europe du Nord in Paris (Eurobank or BCEN) and Bank Russo-Iran in Tehran. In 1926 MNB opened its first branch in Berlin. During the 1920s, the banks' primary purpose was to help Soviet trading organizations reestablish foreign commercial ties, which had been disrupted by the revolution. With the onset of the 1930s and the depression, bank activity was reduced to a de facto caretaker status. The MNB Berlin branch was closed in 1935 in response to the anti-Bolshevik attitude of the German Government, and Eurobank closed in 1940 when the Germans invaded Paris.

### Postwar Years

Following World War II, several factors worked to further restrict the banks' activities and effectiveness. Initially, the USSR was preoccupied with promoting trade with Eastern Europe and thus was only marginally interested in reestablishing its prewar ties with the West. The tensions of the then beginning Cold War period further discouraged dealings with Soviet banks. This does not mean that the Soviet record was all negative, however. When left to their own devices, the Soviet banks managed some clear successes. Eurobank, for instance, reopened after the war and was able to expand its presence and become a leading force in the emerging Eurodollar market. As a result, by 1960 it and MNB had developed into modern, diversified commercial banks. During the mid-1960s, the banks were able to capitalize on their positions as Soviet commercial outposts in the West and the blossoming of East-West trade as they became focal points for Western corporations wishing to do business with the USSR or other CEMA countries. They established solid reputations in this period, which has facilitated growth since then.

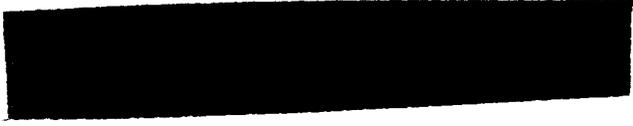
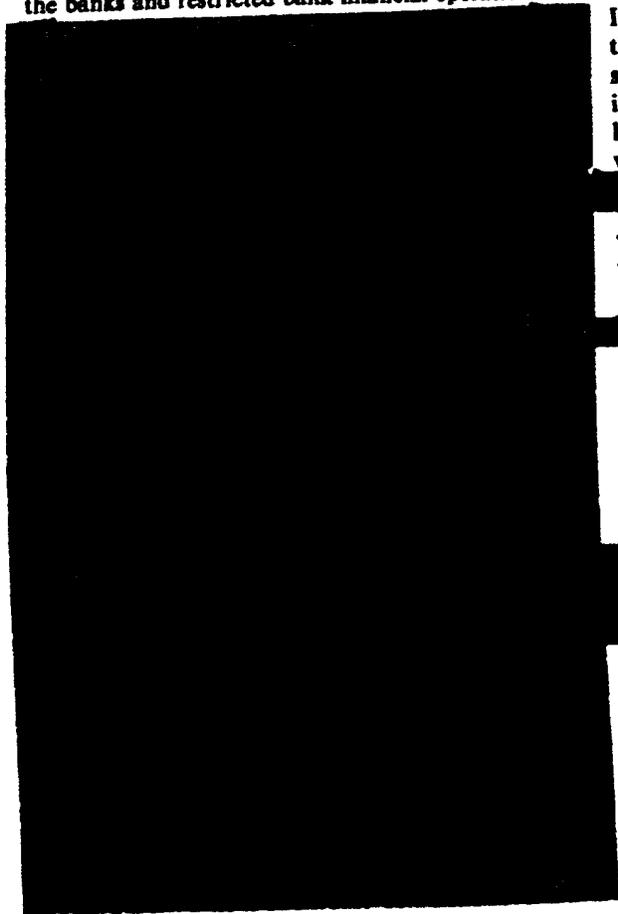
Building on the financial strength and reputation of the older banks, Moscow doubled the size of its overseas financial network in the sixties and seventies. The additions of Wozchod Handelsbank and

Ost-West Handelsbank gave the USSR entree to the Swiss international gold market and to the Frankfurt international diamond markets, respectively. Moscow Narodny Bank's two new branches in Beirut and Singapore were able to tap into the growing Arab and Asian dollar markets and greatly increased Moscow's flexibility in financing trade. After Donaubank opened in Vienna in 1974, the Soviet overseas banking network remained fairly stable until the nationalization of the Russo-Iran Bank in 1980. Most recently, in August 1984 MNB established a small financial subsidiary in the Netherlands to facilitate the issuance of a \$50 million Eurobond.

# The Changing Role of Soviet-Owned Banks in the West

## Introduction

The Soviet Union currently maintains six banks and several branches in major international financial centers. This foreign-based banking network, which formally began with the chartering of Moscow Narodny Bank (MNB) in London in 1919, has played a major role in Soviet commercial relations with the West, both as a conduit of hard currency into the USSR and as a promoter of East-West trade. In recent years, however, the financial viability of the Soviet-owned banks has been strained. Initially—in the 1970s—poor business decisions damaged the reputations of the banks and restricted bank financial operations.



## The Soviet Banking Network

In the post-World War II period, the growth of the Soviet overseas banking network generally has paralleled Soviet interest in trading with the West. Moscow Narodny Bank opened a branch in Beirut in 1963 and another in Singapore in 1971. Four additional Soviet-owned banks were established in Europe from 1966 to 1974, and Bank Russo-Iran opened a branch in Isfahan in 1975. Thus, at its peak in the late 1970s, the USSR's overseas banking system consisted of seven banks and three associated branches, all located in major international financial centers. In 1980, however, the USSR lost its banking operation in Iran when the government nationalized foreign businesses.

## The Operating Environment

The Soviet-owned banks in the West vary widely with respect to size, asset structure, and scope of activity.

All of the banks are chartered in the countries in which they are located and operate subject to the laws and regulations of those countries. Thus, Moscow Narodny Bank is legally a British bank rather than a Soviet one. In fact, MNB, Wozchod, and OWHB maintain business representative offices in Moscow just as any other Western corporation might.

<sup>2</sup> A representative banking office functions as a liaison between the parent bank and the business and financial community where the office is located. Thus, although it cannot make loans or accept deposits, it serves to make and maintain contacts, promote trade, and otherwise "represent" the parent bank.



**Table 1**  
**USSR: Soviet-Owned Banks in the West**

Bank	Location	Date Established	Assets * (million US \$)	
Moscow Narodny Bank (MNB)	London	1919	3,187.0	[REDACTED]
	Beirut (branch)	1963		
	Singapore (branch)	1971		
Banque Commerciale pour l'Europe du Nord (BCEN)—Eurobank	Paris	1921	4,728.8	[REDACTED]
Russo-Iran Bank	Tehran	1923	—Nationalized in 1980—	
	Isfahan (branch)	1975		
Wozchod Handelsbank (WHB)	Zurich	1966	[REDACTED]	[REDACTED]
Ost-West Handelsbank (OWHB)	Frankfurt	1971	687.7	
Donaubank	Vienna	1974	482.1	
East-West United Bank (EWUB)	Luxembourg	1974	487.1	

\* Values are for yearend 1983 except for WHB and Donaubank (1982). Value for MNB represents combined assets.

[REDACTED]

Like other Western companies, the Soviet-owned banks are publicly held corporations with ownership legally unrestricted and held in the form of stock. In practice, however, the Soviet-owned banks in the West remain just that—Soviet owned. Stock ownership is retained solely by various organizations within the Soviet foreign trade infrastructure [REDACTED]

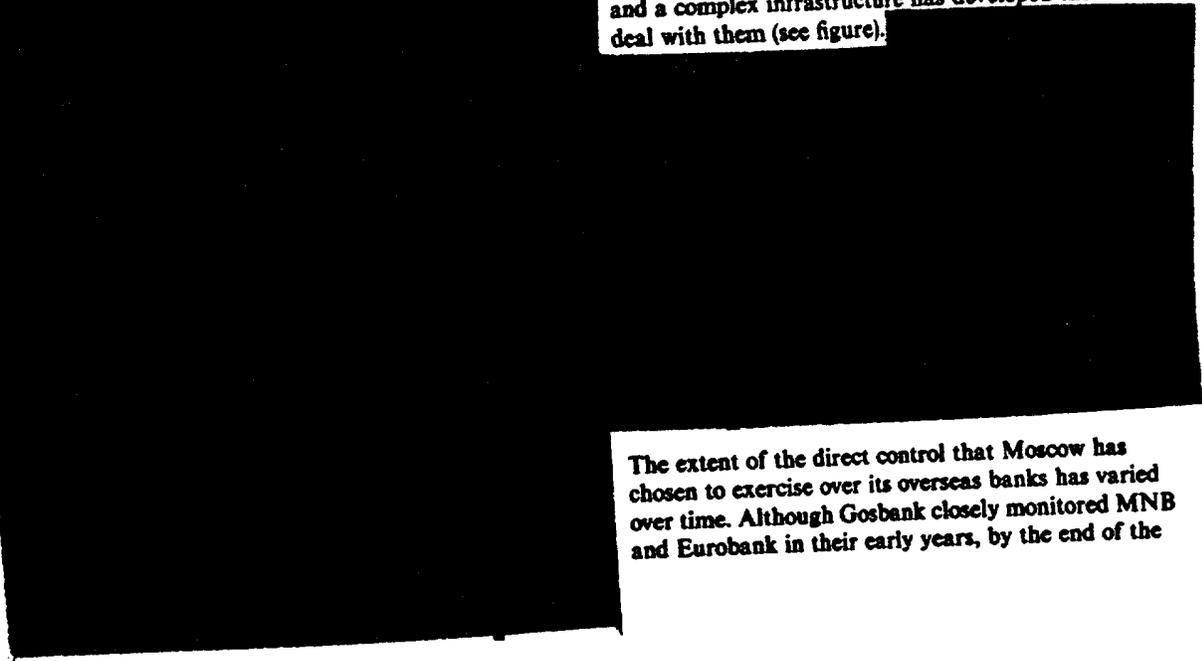
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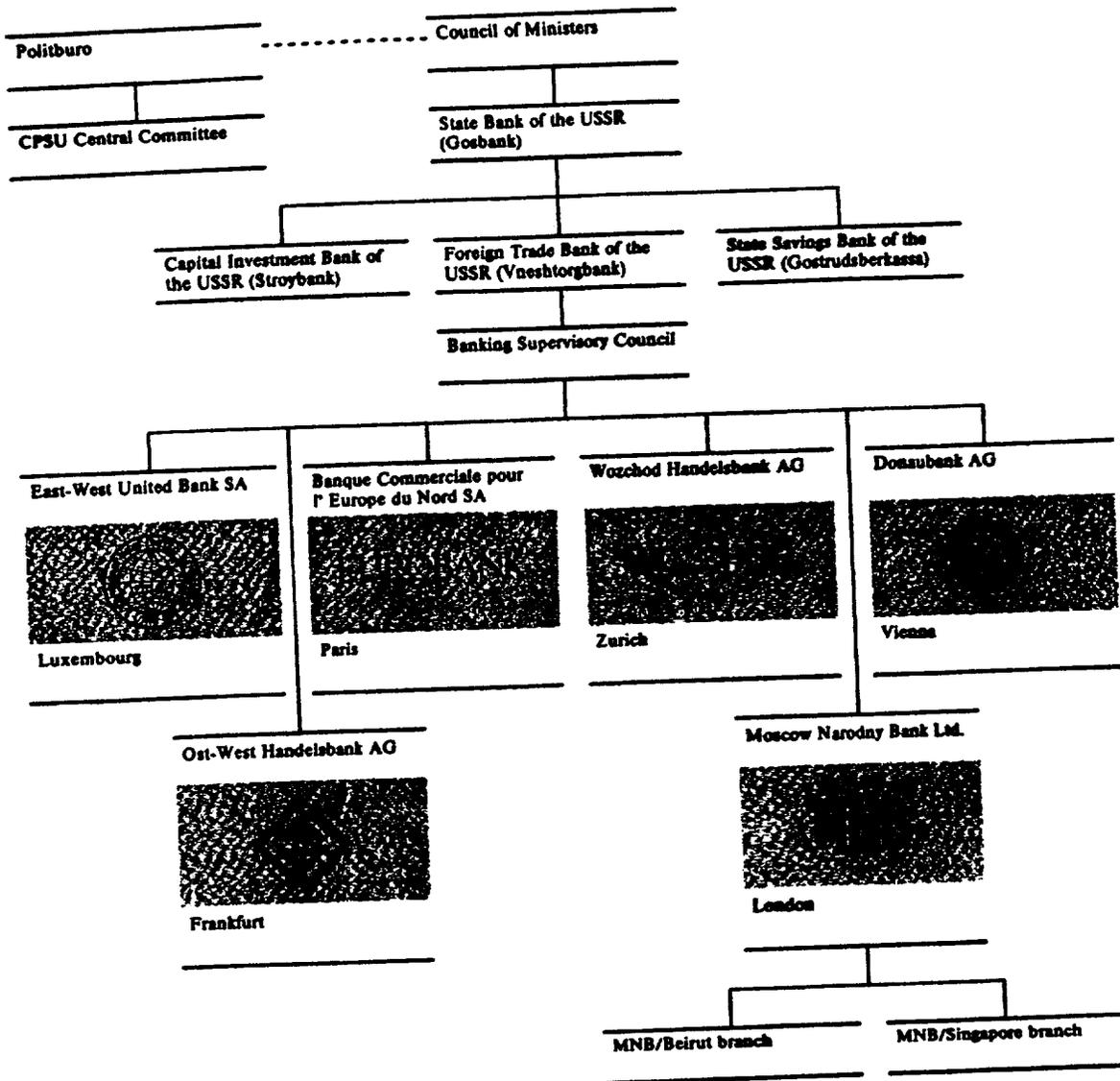
**Span of Control**

The Soviet-owned banks in the West are closely tied to Moscow, despite their physical distance from it, and a complex infrastructure has developed there to deal with them (see figure).



The extent of the direct control that Moscow has chosen to exercise over its overseas banks has varied over time. Although Gosbank closely monitored MNB and Eurobank in their early years, by the end of the

### USSR: Foreign Financial Apparatus\*



\* This figure represents the chain of command for actual banking operations. Several of the Soviet-owned banks in the West maintain representative offices in Moscow or elsewhere, or are part or full owners of other businesses.

[Redacted]

fifties the two banks had proved themselves capable of self-management.



bad luck, several of the banks experienced major financial setbacks. MNB Singapore was defrauded of about US \$300 million in 1974 by a real estate speculator, a setback that the branch is still laboring to overcome. Donaubank invested in a plastics firm and a local private bank, both of which folded very soon after opening.



**Bank Activities**

The primary role of the Soviet-owned banks in the West has been to foster and finance East-West trade. In addition to carrying on the normal business activities of all banks—accepting commercial deposits and

making loans, providing financial analysis and advice—they make special efforts to encourage trade with the USSR and Eastern Europe.

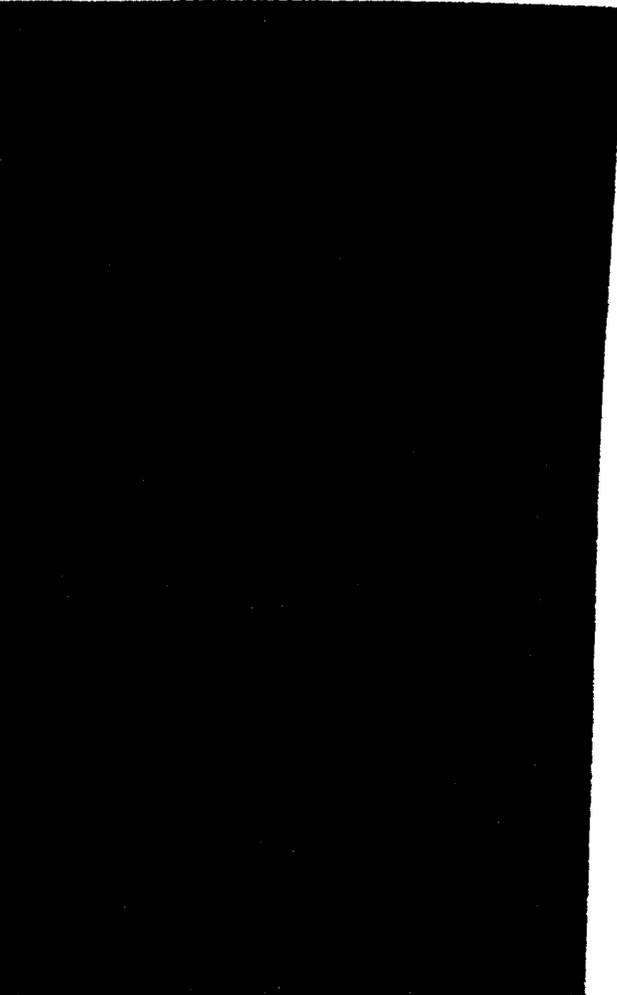
Some of the banks took on additional, more specific functions in the late 1970s.

Most of the Soviet-owned banks have also traded heavily in Soviet and East European commercial paper in the 'forfait' market, relying heavily on this market to encourage trade with the East.

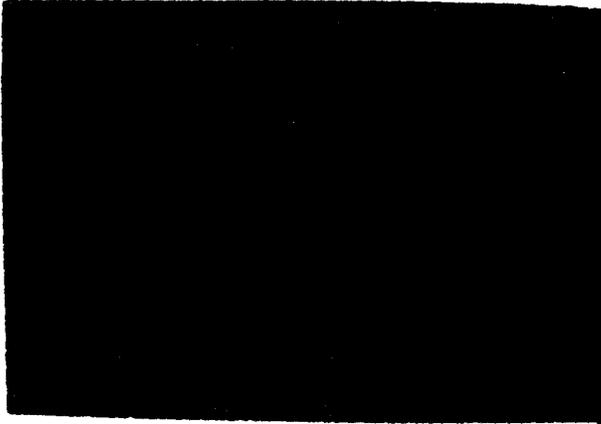
The banks also fulfill important nonfinancial roles:

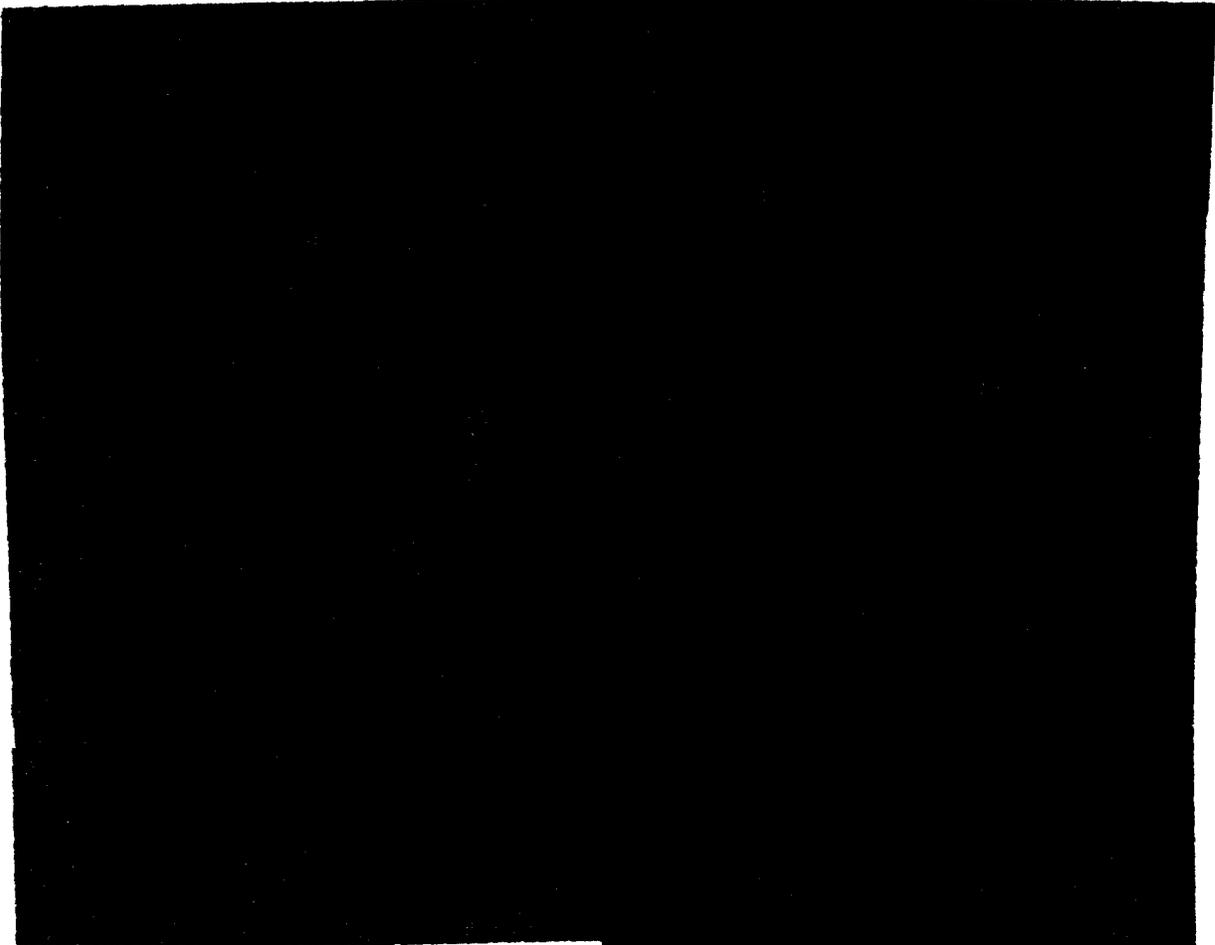
- The foreign-based banks are a major source of *economic intelligence*. Wozchod and MNB in London are especially involved in analyzing the international gold markets; Ost-West Handelsbank and MNB in Singapore do the same for diamonds; MNB's new subsidiary in the Netherlands is well positioned to monitor the world spot oil market in Rotterdam; and all the banks monitor Eurocurrency markets.
- The Soviet overseas banking network is also a valuable source of *trade intelligence*. All the banks observe and report on import and export needs of potential trading partners, and analyze conditions in various local or international commodity markets (for example, petroleum products or agricultural machinery).

<sup>1</sup> *Forfaiting* (*a' forfait*, *Forfaitierung*) is generally used to define the purchase of financial obligations falling due at some future date, arising from deliveries of goods and services—mostly export transactions—without recourse to any previous holder of the obligation.



#### Recent Trends





**Risky Loans**

As the USSR's hard currency trade deficits grew in the mid-1970s, the overseas banks came under pressure from Moscow to increase their hard currency earnings. The banks responded by deemphasizing their traditional and relatively risk-free activities in financing East-West trade and turned instead to far riskier—if potentially more lucrative—investments in real estate and other local lending. One Western observer noted at the time that the banks "suddenly began engaging in and tolerating reckless operations. They made all the mistakes the capitalists made. In addition, they made mistakes all their own."



Pages: 8-9

Exemptions: (b)(1), (b)(3)

**Financial Analysis of Overseas Banks**

Bank analysts have at their disposal several dozen indicators of the soundness of a financial institution. Banks are usually examined according to standard criteria and in comparison with their financial "peers"—other banks of similar asset size—in the same market or industry. Unfortunately, straightforward ratio analysis of the Soviet-owned banks in the West is hampered by the dearth of financial data available on them, especially prior to 1981. We have performed a bank analysis for the recent period to study the banks' prospects for the future in a purely financial context. We believe the gaps in the data have not substantially biased the financial analysis.

Overall, the Soviet foreign-based banks are undercapitalized, less liquid than their peers, and not very profitable (see tables 3 and 4). Deposits in the four largest Soviet-owned banks in Europe fell in the most recent period, probably because of East-West tensions, while capital also declined at three of them because of unprofitable operations. As a group, total assets of the network have also been declining—from a peak of \$12.2 billion in 1980 to about \$10 billion at yearend 1982.

Throughout our analysis the assumption is made that each bank holds all of its assets and liabilities in the currency in which the accounts are reported—that is, all of BCEN's assets in French francs. In fact, we know that bank assets are held in some unknown mix of currencies. We assume, therefore, that appreciation in any one currency will be offset by depreciation of another, netting to zero.

**Financial Analysis Criteria**

Liquidity can be viewed in two related ways: (1) how well assets cover liabilities—using a ratio of loans (medium- and long-term assets) to deposits (short- and medium-term liabilities); and (2) nearness of assets to cash—using a ratio of quick assets (nearest to cash; that is, readily salable) to deposits. Each indicator measures the ability of a financial institution to pay off its creditors in the event of a financial crisis.

Capital serves three basic functions—to cushion against temporary losses, to protect creditors in the event of liquidation, and as an indicator of how well a bank's operations can be sustained. Capital adequacy—the ratio of capital to total assets—is constantly being evaluated by the financial markets. If it becomes insufficient in the eyes of the market watchers, the bank could find it increasingly difficult to attract new funds.

The ratio of net income to total revenue—a profitability measure—indicates the portion of its revenue that a bank can add to capital or free reserves or distribute to its owners as dividends after all expenses are paid. Another criterion of profitability is change in deposits, which reflects the market's aggregate opinion of the soundness of a bank.

Peer-group analysis consists of comparing the ratios described above for the subject institutions to the same ratios for institutions of like asset size and market. This examination of a bank's standing relative to its peers helps to account for apparently large ratio shifts, which are in fact the result of widespread market conditions. Each Soviet bank was compared where possible to four such banks of like asset size in its home country and four banks of like asset size worldwide. A rank of "1" in this paper will always denote the highest standing in a given peer group.



**Liquidity**



Although MNB showed a small improvement in liquidity during 1981 and 1982, it nonetheless continues to hold less than a fourth of its assets as cash or near cash—well below the average for either of its peer groups. Furthermore, MNB also has a loan-to-deposit ratio that is well above average, which suggests that it would have a hard time liquidating assets quickly enough to cover a major run on its deposits.



**Table 3**  
**USSR: 1982 Peer Group Analysis Summary \***

	Liquidity		Capital Adequacy (Capital/ Assets Ratio)	Profitability	
	Loans/Deposits Ratio	Quick Assets/ Deposits Ratio		Net Income/ Revenue Ratio	One-Year Change in Deposits
Moscow Narodny Bank (percent)	82.2	22.6	4.3	NA	-10.4
Rank in British Peer Group	3	5	2	NA	4
Rank in International Peer Group	4	5	4	NA	4
Eurobank (percent)	24.9	74.4	1.9	1.4	-13.2
Rank in French Peer Group	1	1	1	2	4
Rank in International Peer Group	1	1	3	3	3
East-West United Bank (percent)	8.7	94.6	4.3	0.5	-20.5
Rank in Luxembourg Peer Group	1	1	1	3	4
Ost-West Handelsbank (percent)	71.4	32.9	3.6	0.8	-9.1
Rank in German Peer Group	1	1	2	3	4
Wozchod Handelsbank (percent)	98.8	9.0	7.5	9.5	-12.2
Rank in Swiss Peer Group	5	5	3	1	3
Donaubank (percent)	58.4	44.0	3.6	0.2	15.9
Rank in Austrian Peer Group	2	2	2	4	1

\* A full breakdown of the peer group financial data used to generate this table is available in the appendixes to this paper. Rank refers to the Soviet-owned bank's rank in a peer group of five where one always denotes the best standing.

**Capital Adequacy**

Although Soviet foreign-based banks are about average in the capital/assets ratio for their markets, it also suggests that the banks are having difficulty attracting deposits. During 1982 bank deposits dropped an average of 11.4 percent, more than three times the average 3.2-percent drop in country peer group deposits. East-West United Bank experienced the worst decline—



Pages: 13-14

Exemptions: (b)(1), (b)(3)

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**Country Risk Versus Commercial Risk**

*Financial institutions assess loan applicants—individuals, companies, other banks, or governments—according to commercial or credit risk criteria. These institutions attempt to determine, on the basis of past credit behavior and future earning potential, the likelihood of repayment of the loan. In the case of individuals, this evaluation of personal commercial risk is called a credit rating and resides in the data base of one or more credit bureaus who provide the information to businesses for a fee. No set formula exists for assessing a country's credit risk, however. A basket of indicators—based on foreign debt or debt service payments as a share of GNP, total exports, or another baseline indicator—is frequently used, but incomplete or untimely data—especially from Bloc countries—make it difficult to perform even this rudimentary analysis.*

*The evaluation is further complicated when the loan is international in scope, however, because a second criterion—that of country or political risk—is also taken into account. This assessment evaluates the probability that political upheaval external to the loan recipient itself will affect or prevent the repayment of the loan. To illustrate, if Renault, a French company, planned to build a new plant in Brazil and sought financing for the project from a French bank,*

*the bank would evaluate Renault for commercial risk and either Brazil or France or both for political risk. The question of political risk is even more complex in a multipartner case. If, for example, a Renault subsidiary unit in Argentina wanted to build a factory in Brazil, the French bank would have to decide whether to evaluate the country risk of Brazil, Argentina, or France.*

*For example, East-West United Bank, which has been left without funds that it used to place into syndication, has been largely dormant since 1980, and had a profit of only 0.5 percent in 1982.*

**Prospects for the Future**

[REDACTED] Soviet bank operations are also being hampered by perceptions among Western bankers that:

- The banks are not independent financial entities but rather political extensions of Moscow.
- Soviet managerial personnel sent to the banks in the West are generally not selected on the basis of professionalism and quality of training.

## Appendix A

### Moscow Narodny Bank (MNB)

#### History

The London-based Moscow Narodny Bank (MNB)—the flagship of the USSR's overseas banking network—was founded in November 1915 as a branch of Moscow's Moskovskiy Narodny Bank. In 1919, following the Russian revolution, MNB was incorporated as an independent British bank and remained under the direction of White Guard sympathizers until 1924, when the new Soviet Government successfully wrested control away. MNB flourished under the new economic policy of the late twenties, and, by the end of its first decade, it had opened branches in Paris, New York, and Berlin. Business began to fall off sharply in the depression, forcing closure of all the new branches. World War II and the Cold War tensions in its aftermath kept business activity depressed until the late 1950s.

The expansion of East-West trade during the 1960s led to a rebound in MNB's asset position, but by the mid-1970s the Singapore branch's reckless lending again slowed MNB's overall growth. Toward the end of that decade, MNB reduced its presence in the syndicated loan market but continued to be active in the foreign exchange markets and in sponsoring loans to Eastern Europe. Since 1981 MNB has also cut back this activity and now concentrates primarily on routine operations associated with East-West trade financing and gold marketing.

#### MNB in Beirut

In October 1963 MNB opened a branch in Beirut—the first Communist-owned bank in the then-thriving financial center—to facilitate trade and financial operations in the Middle East. Ten years later the Beirut branch was reported to be the third-largest bank in Lebanon.

#### MNB in Singapore

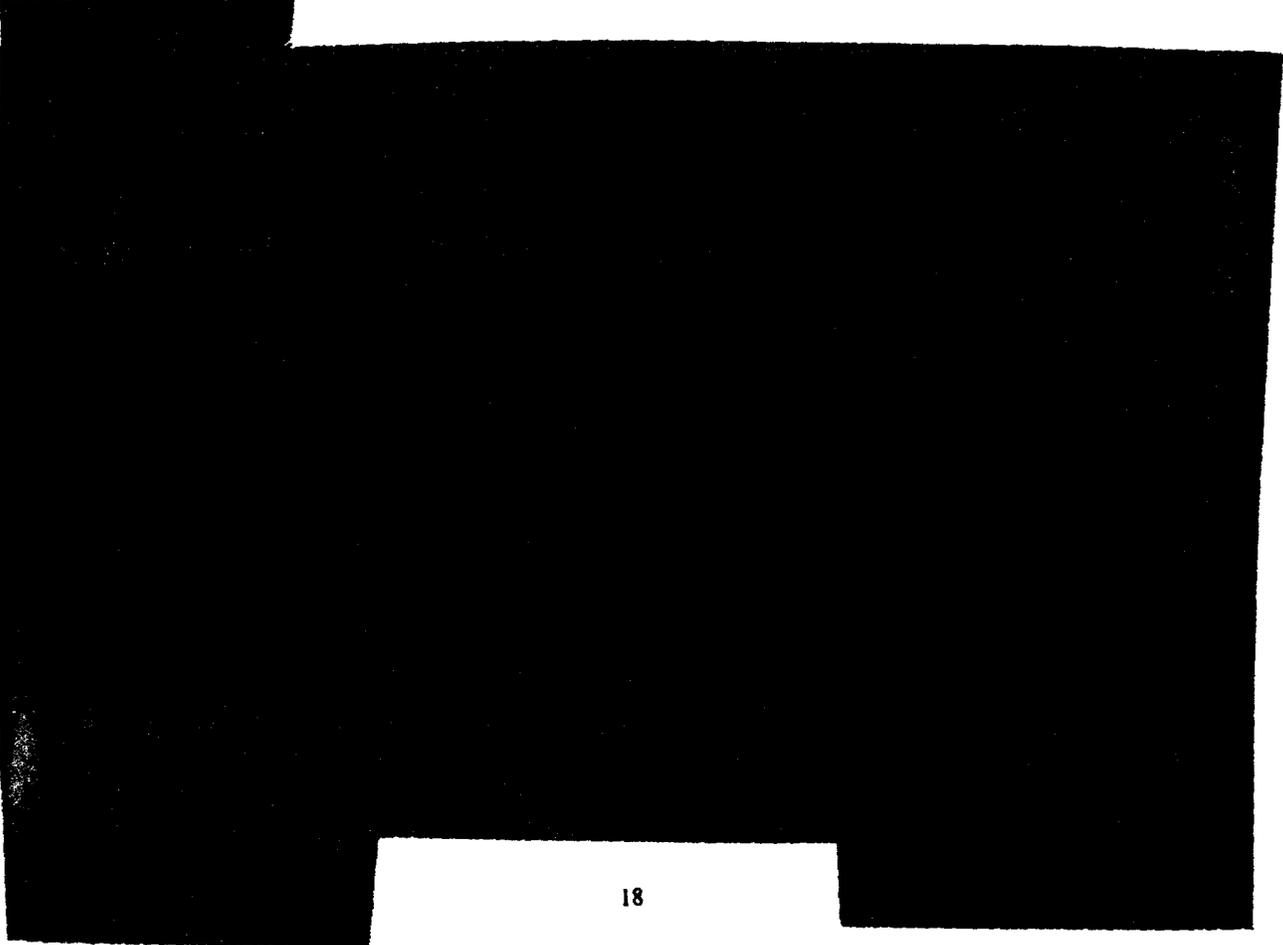
A second MNB branch was opened in Singapore in 1971, primarily to tap the burgeoning Asian dollar market and to facilitate Soviet trade with Southeast Asia and, to a lesser extent, with Australia and New Zealand. Initially, the bank in Singapore grew rapidly—by 1973 the branch reportedly was one of the three largest foreign-owned banks in the country. The branch ran into trouble in part when it started deemphasizing relatively risk-free East-West trade financing in favor of more profitable but high-risk, and undersecured, real estate loans. The bank's loose credit policy led to major loan writeoffs that may have amounted to as much as US \$300 million. In recent years, the bank has maintained a decidedly more conservative profile and concentrated on marketing Soviet gold and diamonds and financing Soviet-Asian trade.

**Table A-1**  
**Moscow Narodny Bank Balance Sheet—**  
**Combined Branches \***

*Million US \$*

	1979	1980	1981	1982	1983
<b>Assets</b>					
Cash and notes due from banks	830.3	971.9	553.3	571.6	847.8
Loans and advances	2,646.1	2,722.5	2,412.2	2,079.4	2,307.8
Investments	23.2	25.2	20.9	14.7	20.7
Other assets	15.2	17.3	15.0	16.5	10.9
<b>Total</b>	<b>3,514.8</b>	<b>3,736.9</b>	<b>3,001.4</b>	<b>2,682.1</b>	<b>3,187.0</b>
<b>Liabilities and net worth</b>					
Deposits and notes due to banks	3,385.5	3,560.6	2,823.8	2,530.6	3,017.7
Other liabilities	3.9	8.2	10.3	6.2	9.5
Capital	100.1	135.9	137.4	116.2	129.7
Surpluses, profits, and reserves	25.3	32.2	29.9	29.1	30.1
<b>Total</b>	<b>3,514.8</b>	<b>3,736.9</b>	<b>3,001.4</b>	<b>2,682.1</b>	<b>3,187.0</b>

\* Yearend data; because of rounding, components may not add to totals shown. Data for 1979-82 are audited according to generally accepted accounting principles (GAAP); 1983 data are unaudited.



**Table A-3**  
**Moscow Narodny Bank Peer Group Comparison, 1982 \***

	Total Deposits		Total Capital		Liquidity		Capital Adequacy (Capital/Assets)	Returns on Income (Net Income/ Revenue)	Returns on Equity (Net Income/ Capital)
	Million US \$	Rank in Peer Group	Million US \$	Rank in Peer Group	Quick Assets/ Deposits	Loans/ Deposits			
<b>United Kingdom Peer Group</b>									
Moscow Narodny Bank	2,531	1	116.2	1	23	82	4	NA	NA
Banque National de Paris	2,463	2	97	4	43	69	4	NA	NA
Libra Bank	2,194	3	105	2	29	85	4	NA	NA
Johnson Matthey Bankers	468	4	112	3	NA	55	6	NA	NA
Smith St. Aabyn Holdings	73	5	17	5	NA	NA	1	NA	NA
<b>International Peer Group</b>									
Moscow Narodny Bank, London	2,531	2	116.2	4	23	82	4	NA	NA
Canara Bank, Bangalore	3,152	1	21	5	44	59	1	2	23
Arab-African International Bank, Cairo	2,082	3	196	2	55	56	8	8	12
Banca della Svizzera- Italiana, Lugano	2,032	4	173	3	34	59	7	7	9
Banco Real, Sao Paulo	837	5	239	1	59	159	11	6	15

\* Peer groups were generated on the basis of total assets at yearend 1981.



Text not applicable

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## Appendix B

### Banque Commerciale pour l'Europe du Nord (BCEN)—Eurobank

#### History

Eurobank was founded in 1921 by white Russian emigres opposed to the new Soviet Government and sold to the Soviet Government in 1925. After a period of initially rapid growth, operations of the bank declined sharply during the 1930s, reflecting both the bank's inability to attract Western deposits and its difficulty in generating lending opportunities. The bank closed with the onset of World War II and the occupation of Paris in 1940.

In 1948 BCEN reopened and grew rapidly, due largely to its pioneer role in the emerging Eurodollar market on behalf of Soviet and East European central banks. Because of this aggressive money-market activity, it grew more rapidly than MNB and quickly surpassed it to become the largest of the Soviet-owned banks in the West and one of the top 10 banks in Paris. Eurobank is also very likely the most profitable of the Soviet overseas banks, probably because of its highly professional management. It maintains extensive correspondent relationships with Western banks, to which it provides profitable opportunities to engage in East-West trade financing. Perhaps because of this, BCEN enjoys the best reputation of the Soviet-owned banks in the West.

**Table B-1**  
**Eurobank Balance Sheet \***

Million US \$

	1979	1980	1981	1982	1983
<b>Assets</b>					
Cash and notes due from banks	3,868.1	4,288.3	4,196.6	3,420.1	2,919.5
Loans and advances	1,071.8	1,204.4	1,063.6	1,147.3	1,710.0
Investments	363.7	339.0	219.2	220.6	39.8
Other assets	155.6	164.3	149.0	106.8	59.5
<b>Total</b>	<b>5,459.2</b>	<b>5,996.0</b>	<b>5,628.4</b>	<b>4,894.8</b>	<b>4,728.8</b>
<b>Liabilities and net worth</b>					
Deposits and notes due to banks	5,132.5	5,628.7	5,299.0	4,599.8	4,432.4
Other liabilities	213.6	257.0	220.2	193.9	189.5
Capital	92.6	88.6	97.4	89.2	96.8
Surpluses, profits, and reserves	20.5	21.7	11.7	11.8	10.1
<b>Total</b>	<b>5,459.2</b>	<b>5,996.0</b>	<b>5,628.4</b>	<b>4,894.8</b>	<b>4,728.8</b>

\* Yearend data; because of rounding, components may not add to the totals shown. Data for 1979-82 are audited according to generally accepted accounting principles (GAAP); 1983 data are unaudited.

**Table B-2**  
**Eurobank Income Statement \***

Million US \$

	1980	1981	1982
Banking revenue	661.3	707.3	567.4
Other revenue	0.2	0.2	0.3
<b>Total revenue</b>	<b>661.6</b>	<b>707.4</b>	<b>567.6</b>
Payroll expense	16.0	14.4	14.1
Banking expense	609.9	664.5	517.1
Occupancy expense	1.9	1.7	1.2
Loan loss provisions	10.5	9.1	18.7
Other expenses	5.4	4.8	4.5
<b>Total expenses</b>	<b>643.7</b>	<b>694.5</b>	<b>555.5</b>
Operating income	17.8	13.0	12.1
Taxes and other	7.2	4.3	4.2
<b>Net income</b>	<b>10.5</b>	<b>8.8</b>	<b>8.0</b>

\* Bank data audited according to generally accepted accounting principles (GAAP); because of rounding, components may not add to the totals shown.

Million US \$

**Table B-3  
Eurobank Peer Group Comparison, 1982\***

	Total Deposits		Total Capital		Liquidity		Capital Adequacy (Capital/Assets)	Return on Income (Net Income/ Revenue)	Return on Equity (Net Income/ Capital)
	Million US \$	Rank in Peer Group	Million US \$	Rank in Peer Group	Quick Assets/ Deposits	Loans/ Deposits			
<b>French Peer Group</b>									
Eurobank	4,600	1	89	1	74	25	2	1	9
Societe Generale Alsacienne de Banque	4,367	2	59	4	48	58	1	1	8
Banque Worms	3,756	3	88	2	68	52	2	1	3
Societe Lyonnaise de Banque	3,107	4	63	3	57	58	2	1	8
Banque de L'Union Europeenne	2,171	5	55	5	67	128	1	6	NA
<b>International Peer Group</b>									
Eurobank, Paris	4,600	3	89	4	74	25	2	1	9
Bank fur Arbeit und Wirtschaft, Vienna	4,843	1	72	5	33	79	1	1	3
Sureiga Bank, Numazu	4,688	2	210	2	19	64	4	3	5
Istituto Bancario Italiano, Milan	4,009	4	96	3	34	51	2	1	8
Commercial Bank of Korea, Seoul	3,766	5	243	1	36	101	4	2	6

\* Peer groups were generated on the basis of total assets at yearend 1981.

Text not applicable

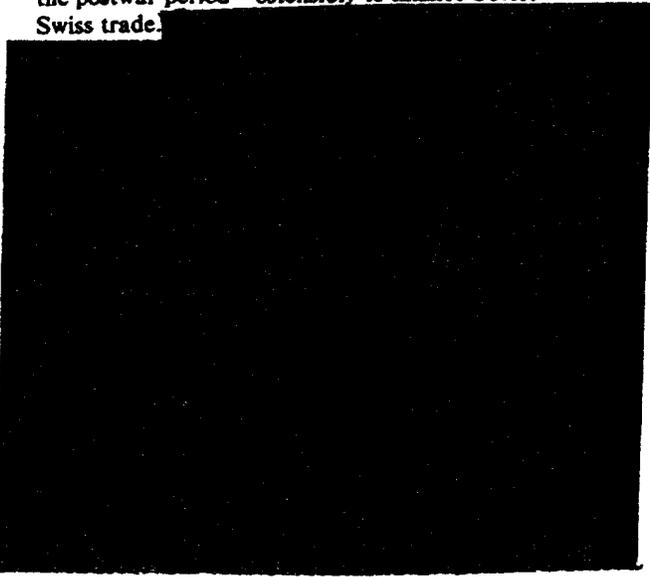
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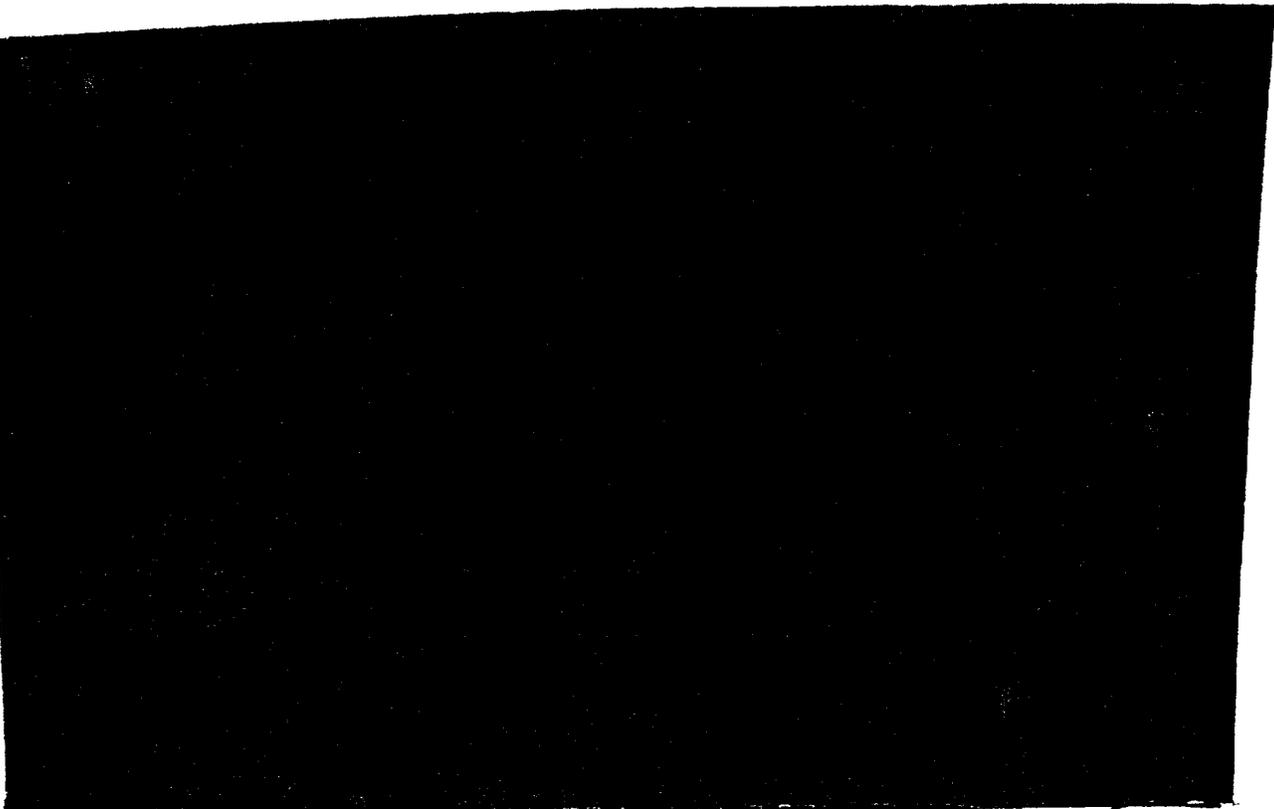
**Appendix C**

**Wozchod Handelsbank (WHB)**

**History**

The USSR opened Wozchod Handelsbank in Zurich in 1966—the first “independent” banking addition in the postwar period—ostensibly to finance Soviet-Swiss trade.





**Table C-2**  
**Wozchod Handelsbank Income Statement <sup>a</sup>**

*Million US \$*

	1980	1981	1982
Interest income	37.9	54.4	40.5
Securities income	0.5	0.7	2.4
Commission income	1.1	1.4	1.1
Foreign exchange and precious metals income	11.5	9.2	10.0
<b>Total revenue</b>	<b>51.0</b>	<b>65.7</b>	<b>53.9</b>
Interest expense	39.5	53.5	36.8
Commission expense	0.7	1.0	0.7
Payroll expense	2.2	2.4	2.3
Occupancy expense	1.8	1.8	1.5
Depreciation and loan loss provisions	0.1	0.1	5.9
<b>Total expenses</b>	<b>44.3</b>	<b>58.8</b>	<b>47.2</b>
Operating income	6.7	6.9	6.7
Taxes	1.8	2.1	1.6
<b>Net income</b>	<b>4.8</b>	<b>4.8</b>	<b>5.1</b>

<sup>a</sup> 1980 and 1981 data are audited according to generally accepted accounting principles; 1982 data are unaudited; because of rounding, components may not add to the totals shown.



**Table C-3**  
**Wozchod Handelsbank Peer Group Comparison, 1982 \***

	Total Deposits		Total Capital		Liquidity		Capital Adequacy (Capital/Assets)	Return on Income (Net Income/ Revenue)	Return on Equity (Net Income/ Capital)
	Million US \$	Rank in Peer Group	Million US \$	Rank in Peer Group	Quick Assets/ Deposits	Loans/ Deposits			
<b>Swiss Peer Group</b>									
Wozchod Handelsbank	398	2	32	4	9	99	8	10	16
Arab Bank Overseas	441	1	39	2	52	38	7	7	10
Banque Compafina	387	4	51	1	28	97	11	3	4
Rothschild Bank	297	5	35	3	70	33	9	9	15
Glarner Kantonal Bank	389	3	17	5	12	92	4	7	10

\* Peer groups were generated on the basis of total assets at yearend 1981.



## Appendix D

### Ost-West Handelsbank (OWHB)

#### History

Ost-West Handelsbank opened in Frankfurt in 1971 with the stated mission of financing West German-Soviet trade in particular, and East-West trade in general. There probably were two additional but undeclared motives for Moscow placing a bank in Frankfurt. First, it gave the USSR ready access to the nearby international diamond market. Second, the Frankfurt locale provided additional access to Eurocurrency markets. The appointment of Andrey Dubonosov as chairman underscored the unstated Eurocurrency trading goals of the bank. Dubonosov, while chairman of MNB from 1959 to 1967, earned a reputation in Western banking circles as an expert in Euromarket trading. (His recall from retirement to fill this post also underscores the relative scarcity of competent Soviet banking personnel in the 1970s. [REDACTED])

Ost-West grew rapidly throughout the 1970s, in part because of flourishing West European-Soviet trade. [REDACTED]

[REDACTED] Although Ost-West was able to avoid involvement in the major banking scandals that affected its sister banks—MNB and Donau—in the mid-1970s, it did make at least one disastrous venture. In 1975 the Frankfurt-based bank financed the construction and operations of a new West German diamond exchange that went bankrupt in 1976, resulting in considerable bad press for the bank as well as loan losses. [REDACTED]

**Table D-1**  
**Out-West Handelsbank Balance Sheet <sup>a</sup>**

Million US \$

	1979	1980	1981	1982	1983
<b>Assets</b>					
Cash and notes due from banks	278.6	165.5	233.6	242.5	111.8
Loans and advances	823.9	838.8	615.2	526.2	573.8
Investments	13.2	8.1	1.8	6.3	1.4
Other assets	3.8	2.1	1.5	0.8	0.7
<b>Total</b>	<b>1,119.5</b>	<b>1,014.4</b>	<b>852.1</b>	<b>775.9</b>	<b>687.7</b>
<b>Liabilities and net worth</b>					
Deposits and notes due to banks	1,068.4	968.4	810.9	736.9	653.0
Other liabilities	0.1	0.1	0.1	0.1	0.1
Capital	37.6	33.2	28.8	27.4	23.9
Surpluses, profits, and reserves	13.4	12.7	12.4	11.6	10.5
<b>Total</b>	<b>1,119.5</b>	<b>1,014.4</b>	<b>852.1</b>	<b>775.9</b>	<b>687.7</b>

<sup>a</sup> Unaudited yearend data; because of rounding, components may not add to the totals shown.

**Table D-2**  
**Out-West Handelsbank Income Statement <sup>a</sup>**

Million US \$

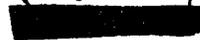
	1981	1982	1983
Loan income	91.0	88.9	53.6
Security income	2.3	3.0	2.8
Commission income	2.5	2.1	2.0
Foreign exchange income	1.0	0.8	1.1
<b>Total revenue</b>	<b>96.7</b>	<b>94.7</b>	<b>59.5</b>
Payroll expense	3.5	3.2	3.1
Commission expense	0.1	0.1	0.1
Interest expense	82.9	80.8	45.5
Occupancy expense	0.2	0.1	0.2
Other expenses	1.9	1.8	1.7
<b>Total expenses</b>	<b>88.4</b>	<b>85.9</b>	<b>50.5</b>
Operating income	8.3	8.8	9.0
Taxes and extraordinary items	7.5	8.0	8.2
<b>Net income</b>	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>

<sup>a</sup> Unaudited data as reported by the bank; because of rounding, components may not add to the totals shown.

**Table D-3**  
**Ost-West Handelsbank Peer Group Comparison, 1982 \***

	Total Deposits		Total Capital		Liquidity		Capital Adequacy (Capital/Assets)	Return on Income (Net Income/ Revenue)	Return on Equity (Net Income/ Capital)
	Million US \$	Rank in Peer Group	Million US \$	Rank in Peer Group	Quick Assets/ Deposits	Loans/ Deposits			
<b>West German Peer Group</b>									
Ost-West Handelsbank	737	3	27	1	33	71	4	1	3
Karl Schmidt Bankgesellschaft	767	1	34	1	20	83	4	NA	NA
Stadt-Sparkasse Solingen	743	2	28	5	9	97	3	3	8
Handelsbank in Lubeck	663	4	32	3	17	96	4	2	5
Effectenbank-Warburg	605	5	30	4	31	86	5	1	3

\* Peer group was generated on the basis of total assets at yearend 1981.



## Appendix E

### Donaubank

#### History

The Donaubank opened in Vienna in 1974 after nearly a decade of intergovernmental negotiations. The Austrians welcomed the bank because it enhanced Vienna's reputation as a major center for East-West trade. Donaubank was, however, issued only a limited charter to conduct bank operations. Donau was restricted in terms of local activities; it was not allowed to offer savings accounts, issue mortgage bonds, or trade in mutual funds. The bank was, however, allowed to operate freely in trade financing, foreign exchange, and Eurocurrency operations. [REDACTED]

Donau got off to a bad start, losing its entire capital of about \$5 million in the first 10 months of operation in transactions unrelated to East-West trade. The loans causing this catastrophe were made to two Austrian concerns—a plastics firm and a private bank—both of which folded soon after the loans were made. Following these episodes, Donau's shareholders—Gosbank and Vneshtorgbank—issued additional capital to keep the bank afloat and replaced several senior Soviet bank officials including the chairman of the board. Since that initial year, the bank has more conservatively concentrated on the direct financing of and documentary services related to Austrian trade with the USSR and other CEMA member countries. [REDACTED]

**Table E-1**  
**Donaubank Balance Sheet \***

Million US \$

	1979	1980	1981	1982	1983 <sup>b</sup>
<b>Assets</b>					
Cash and notes due from banks	175.2	91.3	176.4	198.6	216.5
Loans and advances	119.8	183.1	227.1	264.0	287.8
Investments	9.6	7.5	10.1	14.0	14.7
Other assets	6.9	5.8	6.6	5.5	16.0
<b>Total</b>	<b>311.5</b>	<b>287.7</b>	<b>420.2</b>	<b>482.1</b>	<b>535.2</b>
<b>Liabilities and net worth</b>					
Deposits and notes due to banks	294.9	271.8	389.9	451.7	501.9
Other liabilities	8.0	7.8	12.3	13.2	14.6
Capital	8.1	7.5	17.4	16.5	17.9
Surpluses, profits, and reserves	0.5	0.6	0.6	0.7	0.8
<b>Total</b>	<b>311.5</b>	<b>287.7</b>	<b>420.2</b>	<b>482.1</b>	<b>535.2</b>

\* Unaudited yearend data as reported by the bank; because of rounding, components may not add to the totals shown.  
<sup>b</sup> 1983 data are estimated on the basis of 1980-82 trends.



**Table E-2**  
**Donaubank Income Statement \***

Million US \$

	1980	1981	1982
Interest income	37.1	47.3	53.4
Commission income	1.1	0.8	1.0
<b>Total revenue</b>	<b>38.1</b>	<b>48.1</b>	<b>54.3</b>
Interest expense	34.6	44.1	48.0
Payroll expense	1.4	1.4	1.6
Occupancy expense	0.3	0.2	0.2
Depreciation and reevaluation	1.2	1.6	3.5
<b>Total expenses</b>	<b>37.5</b>	<b>47.3</b>	<b>53.3</b>
Operating income	0.1	0.1	0.1
Taxes and extraordinary items	0.0	0.0	0.0
<b>Net income</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>

\* Unaudited yearend data as reported by bank; because of rounding, components may not add to the totals shown.



**Table E-3**  
**Donaubank Peer Group Comparison, 1982 \***

	Total Deposits		Total Capital		Liquidity		Capital Adequacy (Capital/Assets)	Return on Income (Net Income/ Revenue)	Return on Equity (Net Income/ Capital)
	Million US \$	Rank in Peer Group	Million US \$	Rank in Peer Group	Quick Assets/ Deposits	Loans/ Deposits			
<b>Austrian Peer Group</b>									
Donaubank	452	1	17	1	44	58	4	0.2	0.6
Adria Banking	103	2	5	3	70	48	5	1.0	1.0
Bank Gebrüder Gutmann	28	3	1	5	30	60	4	0.0	7.0
Internationale Bank für Aussenhandel	25	4	4	4	NA	NA	1	1.0	6.0
Central Wechsel and Creditbank	15	5	6	2	NA	NA	2	1.0	3.0

\* Peer group was generated on the basis of total assets at yearend 1981.

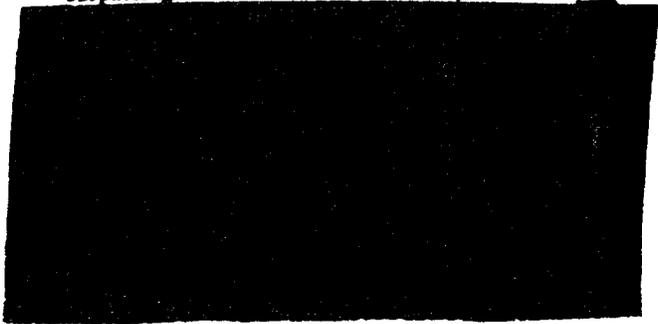


## Appendix F

### East-West United Bank (EWUB)

#### History

The Luxembourg-based bank—chartered as Banque Unie Est-Ouest—is the newest of the Soviet-owned banks in the West, having opened its doors in 1974. This bank's purpose was to finance Soviet trade with the Benelux countries and other European Economic Community (EEC) members. Able to take advantage of its location in the rapidly expanding EEC financial center—home to the EEC currency fund, the Euro-bank clearing system, and primary and secondary foreign exchange markets—EWUB demonstrated rapid growth in assets, mostly interbank deposits, surpassing even its sister banks during the mid-1970s.



**Table F-1**  
**East-West United Bank Balance Sheet \***

Million US \$

	1979	1980	1981	1982	1983
<b>Assets</b>					
Cash and notes due from banks	448.3	533.7	581.3	478.9	444.6
Loans and advances	72.6	65.7	62.1	44.0	27.0
Investments	6.1	10.8	10.1	7.3	4.1
Other assets	16.7	21.9	24.6	17.3	11.4
<b>Total</b>	<b>543.7</b>	<b>631.9</b>	<b>677.9</b>	<b>547.5</b>	<b>487.1</b>
<b>Liabilities and net worth</b>					
Deposits and notes due to banks	503.8	589.2	636.6	506.4	447.6
Other liabilities	8.9	11.1	16.9	10.5	7.0
Capital	27.5	28.3	22.0	22.6	20.2
Surpluses, profits, and reserves	3.5	3.3	2.4	8.0	12.3
<b>Total</b>	<b>543.7</b>	<b>631.9</b>	<b>677.9</b>	<b>547.5</b>	<b>487.1</b>

\* Unaudited yearend data as reported by the bank; because of rounding, components may not add to the totals shown.



**Table F-2**  
**East-West United Bank Income Statement \***

Million US \$

	1981	1982	1983
Interest and commission revenue	91.5	90.6	54.5
Other revenue	1.6	1.5	0.6
<b>Total revenue</b>	<b>93.0</b>	<b>92.1</b>	<b>55.2</b>
Payroll expense	1.2	1.2	1.1
Interest and commission expense	88.4	84.8	46.7
Depreciation	0.2	0.2	0.1
Loan loss provisions	1.7	4.4	5.8
Other expenses	0.5	0.4	0.5
<b>Total expenses</b>	<b>91.9</b>	<b>90.9</b>	<b>54.1</b>
Operating income	1.1	1.2	1.1
Taxes and extraordinary items	0.6	0.7	0.7
<b>Net income</b>	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>

\* Unaudited yearend data as reported by the bank; because of rounding, components may not add to the totals shown.



**Table F-3**  
**East-West United Bank Peer Group Comparison, 1982 \***

	Total Deposits		Total Capital		Liquidity		Capital Adequacy (Capital/Assets)	Return on Income (Net Income/ Revenue)	Return on Equity (Net Income/ Capital)
	Million US \$	Rank in Peer Group	Million US \$	Rank in Peer Group	Quick Assets/ Deposits	Loans/ Deposits			
<b>Luxembourg Peer Group</b>									
East-West United Bank	506	4	23	1	95	9	4	1	2
Westfalenbank International	553	1	16	4	34	3	3	0	1
Trinkaus and Burkhardt International	553	1	14	5	40	71	2	1	6
Societe Europeenne de Banque	515	3	19	3	68	48	4	2	7
Provincbanken International	505	5	22	2	29	66	4	4	10

\* Peer group was generated on the basis of total assets at yearend 1981.

