

TERMS OF CREDIT AND LENDING PROCEDURES OF SLOVENSKÁ BANKA TILL THE YEAR 1914

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Slovenská banka, účastinná spol., Bratislava ranked among the oldest financial institutions in Slovakia that were controlled by Slovak national capital. It was formed in 1879 at the initiative of Ružomberok traders and business persons, notably Peter and Daniel Makovický and Jozef Houdek, under the name of the Ružomerský účastinnársky úverový spolok (Ružomberok Joint-Stock Credit Society). At its general meeting of 3 June 1879, Daniel Makovický became the governor of the new institution. As was stated in its prospectus, the society aimed "to encourage thrift on the one hand, and, on the other hand, to refine the economy, industry and trade through the provision of the necessary groschen in cash on credit".

According to its first bylaws, the business activity of the society mainly focused on acquiring deposits with the aim of making them bear interest and approving the borrowing, as well as discounting the drafts. At its first meeting on 22 June 1879, the committee of the credit society elected a narrower committee and two loan committees,

which were to hold regular meetings. The bank's business conditions were determined by the society's committee, which, at its next meeting of 9 July 1879, set a 10% debit rate on loans of up to 200 zlatys (zl.), while requiring an interest rate of 9% at higher amounts. The credit rate, i.e., the interest on deposits, was set as follows: deposits taken for an indeterminate period bore a 6% interest rate, deposits fixed for a period of 18 months bore a 7% interest rate, and deposits of financial institutions bore an interest rate of 7.5%. The deposits taken were disbursed without notice only up to the amount of 50 zl. A notice had to be filed for higher amounts; and its length depended on the amount of the deposit. Interest rates frequently changed, since the committee had to calculate a number of objective and subjective factors of the national economy when forming the terms of credit and lending procedures.

The core of the society's business line consisted of lending. According to the first bylaws of 1879, the society could make loans on precious metals, state-



The first seat of Slovenská banka, úč. spol., was located in the private apartment of its governor, Daniel Makovický, in Ružomberok.

guaranteed securities, land, drafts and commercial paper. The loans were made for a period of ten years at the maximum (mortgages) and for one-half of a year at the shortest (loans on securities and drafts). As for the techniques of the lending operations itself, their framework was formed of the credit and debit conditions. The profitability of the society's lending policy as such resulted from the difference between the credit and debit (lending) rates. These percentages represented a capital gain, from which the society's operating costs were covered. Provided that the loans were repaid smoothly, satisfactory frequency of further business activity was generated and, last but not least, the potential profit was also ensured. Up until 1914, the lack of available funding to be used for lending was a big problem for the society. As early as 1879, the society applied for a rediscount loan with several financial institutions, which was finally approved by Zvolenská sporiteľňa, úč. spol., Banská Bystrica (the Zvolen Savings Bank, j.s.c.) in the amount of 15,000 zl., at the rate of 6% in 1880. Personal liability was assumed for the loan, approved by the governor Daniel Makovický, the vice-governor Karol Krčméry, and Gustav Klein, a member of the committee.

The investigation of loans was comparatively strict, and caution was applied in their approval. They were chiefly loans covered by urban dwellings and farm



estates entered in the land register. In the event of loans not covered by such real estate, the society also demanded, in addition to the signature of the direct borrower, the signatures of two other solid suretys. At the beginning, loans were made particularly to the traders, craftsmen, and small free-holding farmers of the Liptov administrative region. These mainly consisted of short-term, so-called draft loans (at the beginning, they were mostly farmer drafts provided for a period of 6 months) and overdrafts (current account loans). Mortgage loans were made only to a small extent. The credit society tried to attract clientele by offering higher deposit rates and lower debit rates on loans. The creation of the credit society resulted in the lowering of the interest rates of Ružomerská sporiteľňa, úč. spol. (the Ružomberok Savings Bank, j.s.c.) Ružomberok, from 12 % to 9 – 10% in 1880, depending on the type of loan. The level of the interest rates was the means of tough competition between local financial institutions.

At the start, the society's chief source of income was the discounting of drafts. As contained in its balance sheet for 1881, of the society's gross profit of 16,726 zl., 16,392 zl. were ascribable to the interest income, with the interest on drafts amounting to 16,208 zl. An overall view of the society's financial management at its outset can be inferred from the 1885 balance sheet: own resources of 40,239 zl., deposits on passbooks of 449,885 zl., total assets of 500,048 zl. (of which 415,874 zl. were invested in drafts), and mortgage loans of 72,610 zl. The society's liquidity was good; the cash reserve of 5,933 zl. was, however, low, accounting for only 1.5% of the vested deposits. This suggested a high intensity of credit. That is why, in 1885, the society had to apply for a relatively expensive rediscount loan from Piešťanská vlastenecká prvá sporiteľňa (the First Piešťany Patriotic Savings Bank), which approved the rediscount loan subject to personal and joint guarantees from all the members of the governance and committee.

A critical situation occurred in 1888, when several members of the board of directors seceded and founded a competitor, Ružomerská priemyselná banka (the Ružomberok Industrial Bank), on which occasion 50% of the deposits were withdrawn.

Beginnings of Lending to Industrial Enterprises

Following the year 1890, the society's position gradually improved. The general meeting of 1893 approved an increase in the registered capital to 50,000 zl. In the same year, its name was changed to Ružom-

berský úverný spolok, úč. spoloč. (the Ružoberok Crediting Society, the j.s.c), and its first sub-branch was founded in Trstenná. The society was involved in the foundation of several Slovak banks, such as Hornouhorská banka Tatra (the Upper Hungarian Bank) in Martin in 1884, in which it held 40 shares of 100 zl. each. At the beginning of the 1890s, it was involved, together with Tatra banka, Žilinská pomocnica and Martinská sporiteľňa, in the foundation, governance and crediting of enterprises in the light, especially wood-processing industries. Leaders of the Slovak national life at that time strived to create foundations for their political and cultural goals by boosting their activities in the economic area.

In 1892, the society purchased 40 shares in the Timber Factory in Ružomberok, whose overdraft of 15,000 zl. was, as early as in 1884, approved by Peter Makovický, the society's governor and concurrently president of the factory's board of directors.

Another investment was the purchase of 50 shares of the Helios firm, a mechanic and electro-technical engineering j.s.c. in Žilina in December 1893. During the whole of its existence, however, the enterprise reported a loss, and so it was terminated through bankruptcy in 1906. The society's claim against Helios arising from loans made since 1899, totalling 52,000 korunas, was only settled in 1911. Beginning in 1900, all accounts had to be maintained in koruna, the new currency (with one zlaty equal to two korunas)

In 1900, the society contributed capital of 10,000 korunas towards the foundation of the Žilina Cement and Lime Factory with registered capital of 350,000 korunas. Nevertheless, it lost its position in this company in 1906.

Forming New Lending Policy and Strategy in 1904 – 1914

From the outset of the 20th century, the focus in the society's business policy shifted from making loans to small applicants (although not forgetting about them) to lending to industrial enterprises, which was reflected in the new bylaws of 1904. The bank set as one of its main objectives "the foundation and crediting of industrial, economic and trading undertakings" therein. In 1904, the society's name was changed into Úverná banka, účast. spol., (the Credit Bank, j.s.c. company) Ružomberok, and Vladimír Makovický became its governor. An increase in the bank's business also necessitated an increase in its registered capital to 500,000 korunas, with the share capital rising to 2 million korunas by 1914. Úverná banka strived to penetrate big industry through its business



connections to the Vienna affiliate of Živnostenská banka (the Sole Traders' Bank) in Prague. It started to make loans to a greater extent (the majority of which were syndicated loans made together with other financial institutions) and provide capital to be invested in the foundation and construction of larger factories, notably in the paper and pulp industry. In 1902, it was involved, together with Tatra banka in Martin and Živnostenská banka in Prague, in the foundation of a pulp mill in Martin with share capital of 1 million korunas through the subscription of 20 shares worth 200 korunas each, and in 1906, in the foundation of a pulp mill in Žilina with a shareholding of 5,000 korunas.

It covered the funding needed to operate the companies in which it had an interest mostly by draft loans or overdrafts in the nature of long-term or mid-term loans. When funding more capital-intensive investments (primarily for upgrading and expansion of production), it applied funds to increase the share capital or syndicated loans. The level of interest rates at that time was derived from the official rate of the Austrian Hungarian Bank. From 1910 onwards, the level of interest rates was determined by the board of directors; it fluctuated between 1 – 2% above the official rate. The bank usually requested a commission within a range of 0.2 – 1% for the loan made.

One of the major business activities of Úverná banka until 1918 was the foundation of the Great Hungarian Paper Mill, the j.s.c. Ružomberok in 1906 with share capital of 1,600,000 korunas, in which it held shares, as the founder, worth 100,000 korunas. Úverná banka provided the paper mill with a comparatively large draft loan and overdraft, which it largely did "based on good will expressed jointly by its governance and regularly endorsed drafts". When, in 1910, production was expanded, it addressed the situation by increasing the registered capital (by floating 6% of the priority shares for 500,000 korunas). At the same time, it agreed with the Vienna affiliate of Živnobanka, that both "institutions shall underwrite the shares issued in the proportion of 60 : 40 in return for an adequate commission". In due course, Úverná banka was, however, not able to cover the borrowing requirements of the paper mill on its own. As shown by the minutes of the board of directors dated 19 July 1913, the paper mill exceeded its line of credit, with its indebtedness standing at 1,560,000 korunas. The bank therefore made a decision "not to make any more loans thereto, except for bills of exchange". As a result, the bank's board of directors was frequently forced to apply for a loan needed for operations at other banks.

The lack of disposable funding and of investment

capital required for the financing of industrial enterprises fully showed especially in the years 1912 –1914. The Glass-making Mill, j.s.c. in Žilina, producing chemical glass, with share capital of 600,000 korunas, founded by Úverná banka in 1912 with the help of the Vienna affiliate of Živnostenská banka, could be given as an example. Úverná banka, as its founder, underwrote its shares worth approximately 140,000 korunas, and other shares worth 100,000 korunas were underwritten by a syndicate lead by Dr. E. Gyuriss. With a view to purchasing these shares, Úverná banka provided the syndicate with a loan under preferential terms. Upon the launch of production, it approved, together with Zemská průmyslová banka (the Land Industrial Bank) in Budapest, an operating loan of 150,000 korunas in April 1913. In July of the same year, however, it was forced to reject other investment and operating loans on the grounds of lacking disposable funds and poor financial situation. On the breakout of war, the glass-making mill had to be closed on 9 December 1914, and, in July 1918, it was sold to the Czech firm Bratři Benešové (the Beneš Brothers) for 1,200,000 korunas.

Problems with Getting the Rediscount Loan

As a result of its comparatively extensive lending and business activities and an increasing demand for cheap loans made thereby, Úverná banka itself was forced to apply for a rediscount loan. Efforts by Slovak financial institutions to get rediscount loans from the Austrian-Hungarian Bank under the same terms as Austrian and Hungarian institutions usually failed. That is why, in 1911, representatives of Úverná banka in Ružomberok, Sporiteľňa (the Savings Bank) in Martin and Ľudová banka (the People's Bank) in Nové mesto nad Váhom presented to the Governor of the Austrian-Hungarian Bank a memorandum demanding that the discrimination be removed.

When seeking for the rediscount loan, they found the management of Czech savings banks, but notably of Živnostenská banka, to be of help. Živnostenská banka provided rediscount loans via its affiliate in Vienna, usually at a rate that was 1% above the official interest rate of the Austrian-Hungarian Bank. Živnostenská banka took advantage of the heightened rediscount indebtedness to install its own representatives in governance bodies of Úverná banka. According to the minutes dated 15 June 1912, the rediscount obligation towards Živnostenská banka reached the amount of 4,888,075.93 korunas, due to which the authorized line of credit was overdrawn by 4.5 million korunas. The board of directors of Úverná banka therefore decided not to authorize any new



business, demand repayment on prolongations and “ask Živnobanka to continue its support”. Over the period 1912 – 1915, Živnostenská banka frequently raised interest rates and lowered the rediscount loan amount, such as in December 1912, when it reduced the rediscount loan of Úverná banka by 500,000 korunas. In the years 1914 to 1915, the board of directors of Úverná banka, headed by Vladimír Makovický, frequently complained about too high interest rates charged by Živnostenská banka and demanded that these rates be reduced “to at least 5.5% at the Austrian-Hungarian Bank’s rate of 5%, since the hitherto rate of 6.5% is neither agreeable, nor justified”.

Úverná banka itself made rediscount loans to 16 Slovak financial institutions. It granted applications for rediscount loans even in emergencies, such as in the case of Tatra banka in Martin in the years 1911 – 1913 and of Myjavská banka (the Myjava Bank) in 1912.

Indebtedness of Slovak banks as of 15 June 1912 stood at 2,868,564.44 korunas.

Conclusion

Even though Úverná banka made several mistakes and exhibited several shortcomings in its lending activities till 1914, due to having to struggle with a number of objective and subjective problems, it is undeniable that it gradually made its way, from a small family undertaking to one of the most preeminent banks in Slovakia.

Upon the creation of Czechoslovakia, its scope of business was expanded under the new name of Slovenská banka, úč. spol. (the Slovak Bank, j.s.c.), Bratislava. It became a member of a syndicate of banks catering to sovereign and lending operations; it built its own industrial concern; and as time progressed, it held interests in 47 industrial and trading enterprises. Through mergers it took possession of several Slovak financial institutions, and, together with Tatra Banka, it played an important role in concentrating the Slovak banking business.