BANK PRIVATIZATION AND IMPACT ON THE SHAREHOLDER WEALTH IN THE CZECH REPUBLIC AND SLOVAKIA

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Master of Science in Investment Analysis

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ABSTRACT

This paper examines bank privatization in the Czech Republic and Slovakia and its impact on the stock value of target’s and bidder’s shareholders. For each bank privatization the paper analyses two important event date: the announcement of the best bidder and the approval of the government in the privatizing country. The empirical analysis shows that privatization brings positive abnormal returns to the shareholders of the bidding banks and negative abnormal returns to shareholders of the target banks, both in the Czech Republic and in Slovakia. Both event dates exhibit very similar qualitative results, with the approval dates having smaller magnitudes.

Keywords: Privatization, Banks, Mergers and Acquisitions
JEL classification: G21, G34
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I am grateful to all my friends from Tilburg University for being the surrogate family during the great year I stayed there and for their continued moral support thereafter.

Lastly, and most importantly, I will like to thank my parents, Marta Svecova and Marian Svec. They bore me, raised me, supported me, taught me, and loved me. To them I dedicate this thesis.
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INTRODUCTION

After the fall of communism in the early nineties, countries of Central and Eastern Europe have started to implement political and economic changes on their way to democratic free market system. Former Czechoslovakia, in 1993 divided into the Czech Republic and Slovakia, was the leader in implementation of these changes. One of the largest challenges was the privatization of the state-owned enterprises, including the largest companies. The privatization process of the banking sector, as one of the largest sectors and the most important part of the economy, begun in the late 1990s.

Despite the historical changes in this region, there has been only little empirical research in this field. Beitel et al. (2004) and Cybo-Ottone and Murgia (2000) study European mergers and acquisitions in the banking industry, but their focus is on Western Europe. My sample has two main differences compared to these studies. First, the banking sector was not that developed as in the Western Europe and second, the government was on the selling side in the privatization process.

The rest of the paper is organized as follows. Section 2 presents the historical background. Following two sections lay out the used data and the methodology of my research. Section 5 presents the results of this study and Section 6 concludes.
I. LITERATURE REVIEW

Throughout the history, a mixture of private and public ownership was always present in the means of production and commerce. Disappointment with state owned enterprises (SOEs) started to grow in the late 1970’s, with the declining performance of SOEs and a growth slowdown in the socialist countries. In relatively competitive industries, the advantages of state ownership were put in question. Historically, Margaret Thatcher’s government launched the most important privatization program, when also the “privatization” label was adopted (Yergin and Stanislaw, 1998). The successful privatization process in Great Britain contributed to launching similar programs in France, Germany, Italy and Sweden, followed by privatization programs in countries of Central and Eastern Europe (CEE) in the early 1990s. As described in Price Waterhouse (1998a), the goals of privatization usually are: (1) raising revenues for the state, (2) promoting economic efficiency, (3) reducing government interference in the economy, (4) providing the opportunity to introduce competition and (5) subjecting SOEs to market discipline. Studies regarding the impact of privatization in CEE countries done by Dyck (1997), Weiss and Nikitin (1998), Claessens, Djankov (1999b) and Frydman, Hessel, Rapaczynski (2000) find that private ownership, as opposed to state ownership, results in better firm-level performance. They also find that, foreign ownership is associated with greater post-privatization improvement in firm performance.

In my study I focus on the privatization of the banking sector. The banking sector plays an important role in the development of any economy, as it is central in the capital allocation process. A number of recent empirical studies emphasize the detrimental role
of government-owned banks on economic growth. Shleifer and Vishny (1998) argue that governments do not have incentives to support socially desirable investments; they soften budget constraints and support the financing of politically attractive, but economically inefficient projects. As discussed in La Porta, Lopez-de-Silanez, Shleifer (2000), government ownership of banks is associated with slower financial and economic development mostly due to politicized resource allocation process and reduced efficiency. According to Barth et al. (2002), government ownership of banks is negatively correlated with favorable banking outcomes and positively correlated with corruption.

Privatization of banks is a complex and difficult process even in mixed capitalistic systems, where most of the economy is privately owned. In the transition countries of the CEE there were also other factors that affected this process. Several papers analyze the main difficulties encountered by governments in the region and blame them as the main reasons for the weak and noncompetitive banking system in the whole region. According to Meyendorff and Snyder (1997) these difficulties were caused by socialist system of monobanks preserved almost a decade after the free market reforms have started, severely restricted foreign competition and no new capital and talent brought in by previous partial voucher and insider sale privatization process¹. Perotti (1993) discusses another problem. Publicly owned banks in transition countries have more incentives to finance former debtors, primarily SOEs, than private banks and it brings more risk and less efficiency to the banking system. According to La Porta, Lopez-de-Silanes and

¹ Voucher privatization and insider sales were the main privatization methods used for privatization of small and medium state owned enterprises in the former Czechoslovakia. Minor stakes in the large enterprises including banks were sold using these two methods.
Zamarripa (2003), banks need to keep a closer look on unrelated borrowers than on related ones, resulting to lower interest rates and longer maturities for the related borrowers. They also show that related loans are strongly correlated with the fraction of non-performing loans.

The literature also focuses on comparisons between bank privatization to domestic and foreign investors. It shows that banks sold to foreign investors perform better than those sold to domestic owners. Openness of the privatization to foreign investors is supported by almost all empirical studies and exhibits the highest productivity increases. Another advantage of foreign investors presence in the privatization process, mentioned by Guriev and Meggison (2005), is higher competitiveness of the bidding process resulting to higher price for the privatized assets raised by the government. Bonin and Wachtel (2003) show that foreign participation in bank privatization is an effective way to create independent strong banks since banks privatized to foreign investors achieve higher profits than state-owned banks. On the other hand, a study done by Claessens, Demirgüç-Kunt and Huizinga (2001) warns about potential risks from foreign entry. In particular, the increased competition from foreign banks decreases the profitability and the margins of domestic banks, making them more vulnerable. If domestic regulation and supervision are not strong, the usual case in transitional countries, it may have destabilizing effect on the financial system. However, in the long run, the presence of foreign banks improves the functioning of national banking system and has positive effects on consumer welfare. Giannetti and Ongena (2006), in study of large sample of listed and unlisted companies in CEE, show that foreign lending increases growth in firm sales, assets, and leverage. They
explain that foreign banks are more willing to make harder choices about lending than domestic banks.

The literature about privatization usually focuses on the impacts on the economy, to find the best method and its advantages. I am not aware of any event study that analyzes the impact of privatization on shareholder wealth in the Czech Republic or Slovakia. Hence, this study tries to fill this gap. In particular, in order to analyze the capital market reaction to bank privatization I rely on the traditional acquisition framework. Acquisition studies were done for many countries. Typically the results suggest that in successful takeovers, the target companies experience increases in their stock price around the announcement day that cannot be explained by increases in the overall index (i.e., these companies have positive abnormal returns). As reported in Servaes (1991), Kaplan and Weisbach (1992), Danbolt (2004), US target shareholders have abnormal returns that range from 19% to 27%. However, there is no consensus in the literature about abnormal returns for the bidder shareholders. Some empirical evidence from the United States suggests that the abnormal returns for the shareholders of the bidder are not statistically and economically different from zero (e.g., Andrare et al. (2001), Franks et al. (1991), Moeller and Schlingemann (2005) and Schwert (2001)). In contrast, European studies find that bank acquisitions bring significant stock market gains, both for the target and for the bidder (e.g., Cybo-Ottone and Murgia, 2000). They argue that the different results are due to different structure and regulation of EU banking markets, which are shown to be more similar between them. As an example they mention banking/insurance deals and less rigorous antitrust enforcement, leading to more liberal regime regulating product diversification in Europe.
(2004) find higher positive share price reactions of targets for cross-border acquisitions than domestic ones.

II. DATA

The dataset consists of banks privatized in the Czech Republic and Slovakia and acquiring banks. The acquiring banks were selected by the “privatization committee” as the best investors for the privatized banks and they were approved by the governments of the selling countries. For the analysis, I investigate the existence of abnormal returns for two events: i) the day of announcement of the investor that will be acquiring the bank, and ii) the day of approval by the government. The day of the announcement of the foreign investor and the day when the contracts were signed were collected from economics magazines in the Czech Republic and Slovakia and from the websites of the Ministries of Finance in the respective countries. Table 1 provides the names of the target banks and their acquirers, the percentage share of the privatized assets, and the year of the acquisition.
Table 1: Summary of Privatization Transactions included in the sample

<table>
<thead>
<tr>
<th>Target Acquirer</th>
<th>Acquirer</th>
<th>Acquired</th>
<th>Acquisition year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Komercni Banka a.s.</td>
<td>Socite Generale Group</td>
<td>60%</td>
<td>2001</td>
</tr>
<tr>
<td>Ceskoslovenska Obchodni Banka a.s.</td>
<td>KBC</td>
<td>66%</td>
<td>1999</td>
</tr>
<tr>
<td>Ceska Sporitelna a.s.</td>
<td>Erste Bank</td>
<td>52%</td>
<td>2000</td>
</tr>
<tr>
<td>Investicni a Postovni Banka a.s.</td>
<td>Nomura Holding</td>
<td>51%</td>
<td>1996</td>
</tr>
<tr>
<td>Vseobecna Uverova Banka a.s.</td>
<td>Intesa BCI</td>
<td>70%</td>
<td>2001</td>
</tr>
<tr>
<td>Slovenska Sporitelna a.s.</td>
<td>Erste Bank</td>
<td>87%</td>
<td>2001</td>
</tr>
<tr>
<td>Investicna a Rozvojova Banka a.s.</td>
<td>OTP Bank</td>
<td>93%</td>
<td>2001</td>
</tr>
<tr>
<td>Polnobanka a.s.</td>
<td>Unicredito</td>
<td>51%</td>
<td>2000</td>
</tr>
</tbody>
</table>

To study abnormal returns, using a market model approach, acquiring and acquired banks had to be publicly traded for at least 120 days before and 20 days after the announcement of the privatization decision. The event window was set, similarly to other acquisition event studies, 20 days before and 20 days after the event took place. Another requirement for a bank to be included in the study is that the acquiring bank took over more than 50% of the ownership rights in the target bank, which means having majority control of the financial institution. These conditions limit the sample to 4 acquirers in each country, 7 from the European Union and 1 from Japan. The requirement, being traded on the stock market at least 120 days before the event, resulted to 4 privatized banks covered by the event study, 3 in the Czech Republic and 1 in Slovakia. Daily stock prices of the acquiring and the target banks and the stock indexes of stock exchanges where these banks are listed were obtained from DataStream.
A privatization is slightly different from a simple acquisition as it involves two event days instead of one. In particular, the first event day is when the best bidder is announced and the second day is when the deal is signed between the government and the acquiring bank. Hence, each bank privatization sample is studied for two events. In order to compare effects on stockholder wealth created by the bank privatization, this study uses the methodology employed by studies that investigated the effect of acquisition on the shareholders. The methodology assumes that capital markets are efficient to evaluate the impact of new information and stock price reactions imply firm value changes. This methodology involves the following steps:

Steps involved are: 1. identification of the event and an “event window” 2. selection of the banks included in the analysis 3. prediction of a normal return during the event period 4. estimation of the abnormal return 5. testing whether the abnormal return is statistically different from zero
The diagram below presents the entire event study time-line:

The estimation period starts 120 days and continues until the 21st day before the event took place. This period is also called a “clean period” and is used to estimate normal returns, defined as the expected returns without conditioning on the event taking place. After obtaining parameters $\alpha_j$ and $\beta_j$, separately for each stock during the estimation period, the market model was used to estimate daily abnormal returns ($AR_{jt}$) for each security $j$ as follows:

$$AR_{jt} = R_{jt} - (\alpha_j + \beta_j R_{mt}), \quad (1)$$

where $AR_{jt}$ is the abnormal return for stock $j$ at the day $t$ inside the event window, $\alpha$ and $\beta_j$ are ordinary least-square parameter estimates, expected daily stock return is $(\alpha + \beta_j R_{mt})$ and $R_{jt}$ is the actual daily return for the stock $j$ at the day $t$.

The aggregation over the securities in each sample group of acquiring and privatized banks is performed by calculating average abnormal return (AAR) for each day in the
event period, as the sum of abnormal returns \((AR_{jt})\), divided by the number of banks included in the sample \((N)\). Cumulative average abnormal return (CAR) is the sum of all average abnormal returns covered by the event period.

\[
AAR_t = \frac{1}{N} \sum_{j=1}^{N} AR_{jt} 
\]

\[
CAR_t = \sum_{j \in k} AAR_t 
\]

In the sensitivity analysis I experiment with alternative windows used in the literature and show that the paper’s main results are robust to a number of modifications. In particular, I calculate cumulative abnormal returns (CARs) over the following event windows: \([0; 0]\), \([-1; 1]\), \([-2; 2]\), \([-5; 5]\), \([-10; 10]\), \([-20; 20]\). The possible noise affecting the price of the security before the event and the behavior of the security after the event is the reason behind testing event windows up to 41 days.

In the aggregation of abnormal returns, it is assumed, that there is no overlap of the securities in the event window, also called clustering.\(^2\) The absence of an overlap implies that the abnormal returns will be independent across securities. Setting the covariance

\(^2\) Event clustering refers to a situation when the event being considered happens at the same time for all the firms in the sample. Event clustering is known to reduce the power of the event study methods (Dyckam et.al, 1984)
terms to zero can be done, using the assumption that there is no clustering in the sample.

To interpret the results of abnormal returns, I have to test the null hypothesis \( H_0 \), that the CAR is not statistically different from zero. Using data from the estimation period of the market model, we can estimate the standard deviation of the residuals averaged over all banks. The estimated sample standard deviation is calculated using the following formula:

\[
S(AR) = \left[ \frac{1}{99} \sum_{t=120}^{21} (AR_t - \overline{AR})^2 \right]^{1/2}
\] (4)

The corresponding statistic for the cumulative average residual is calculated as follows:

\[
\frac{CAR}{S(CAR)} = \frac{\sum_{t=11}^{20} AR_t}{\sqrt{41} S(AR)}
\] (5)

Using the methodology we can investigate whether the measures of abnormal returns are significantly different from zero at a certain level of significance.
IV. EMPIRICAL FINDINGS

A. Announcement of the best bidder

The stock return reactions of the privatized and acquiring banks surrounding the announcement of the best bidder are shown in the Figure 1.

*Figure 1: CAR around the day of the announcement of the best bidder*

Horizontal axis represents days surrounding the event and the cumulative average abnormal returns are shown on the vertical axis. Cumulative average abnormal return for target shareholders is negative. It starts decreasing at the first day and is negative throughout the whole event window. All target banks show similar abnormal return performance except the only studied bank in Slovakia, Vseobecná úverová banka, as it
can be seen in the Table 2. The largest drop in the average abnormal returns was experienced after the announcement and continued until the tenth day, when the prices have stabilized. Significance test shows that abnormal returns are different from zero at the 5% level of significance.

At the first stage of the privatization process, the majority of the acquiring banks show positive abnormal returns, except of Intesa BCI. The stock price of Intesa BCI was most likely affected by another merger with an Italian bank and caused stock price decrease before the studied event, continuing during the 41 days event period. Average abnormal return for shareholders is 5.8%. Excluding the Italian outlier bank, sample average abnormal return is 8.3% and it is statistically significant at the 5% level. Abnormal stock performance begins 8 days before the announcement and continues until the last day of the event window, suggesting that there were leakages of information about the best bidder. This finding is consistent with the literature as previous M&As studies have found evidence of such leakages. Table 2 reports similar results using alternative windows.

3 As it is discussed in Bonin and Wachtel (1999), determining prices by tender offers runs the risk of underpricing, because the prospective buyers might be cautious.
B. Approval of the privatization by the government

Figure 2 documents the stock return reactions of the privatized and acquiring banks surrounding the event of approval of the investor by the government.

*Figure 2: CAR around the day of approval by the government*

For the approval by the government, the cumulative abnormal returns for both the target and the acquirer are smaller than those found for the announcement date, but follow a similar pattern with those reported earlier. In particular, the target shareholders receive negative abnormal returns ranging from -5% to -10% and the average abnormal return is -7.6%. The decline starts around three days before the event day and keeps declining sharply until the tenth day after the event. However, these abnormal returns are not found to be statistically different from zero. The acquirer abnormal returns follow the opposite path. The abnormal return growth starts at the day of the announcement and keeps increasing until the fifth day following the announcement day. The cumulative abnormal
return equals 1.5% at the end of the event period and is not statistically different from zero. Table 3 reports similar results using alternative windows.

If we break up our results in two by acquisitions in each country, results of abnormal returns in Slovakia have shown better performance for successive bidders at the time of approval by the government, when compared to their Czech counterparts. Abnormal returns range from 6 to almost 10 per cent, except of the OTP bank, that might be explained by a difficult privatization process and the very low market share of the target bank. In comparison, acquiring banks in the Czech Republic have shown negative abnormal performance ranging from 6.7 to 10 percent. Positive abnormal returns of 15.3% were found only in Erste Bank using the 41 days event window. This supports the theory of Erste Bank becoming the regional leader in the banking sector. The different results in the two countries could be explained by higher trust in the Czech government and the Czech Republic is a more economically and politically developed country.
Table 2: Announcement of the best bidder: Alternative Windows

<table>
<thead>
<tr>
<th>Bidder</th>
<th>[-20, +20]</th>
<th>[-10, +10]</th>
<th>[-5, +5]</th>
<th>[-2, +2]</th>
<th>[-1, +1]</th>
<th>[0]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Erste Bank</td>
<td>16.37%</td>
<td>8.08%</td>
<td>7.81%</td>
<td>12.51%</td>
<td>8.22%</td>
<td>2.04%</td>
</tr>
<tr>
<td>Societe Generale Group</td>
<td>-2.20%</td>
<td>-4.90%</td>
<td>-2.18%</td>
<td>-1.85%</td>
<td>-3.96%</td>
<td>-2.49%</td>
</tr>
<tr>
<td>Nomura Holding</td>
<td>18.93%</td>
<td>13.45%</td>
<td>4.91%</td>
<td>1.70%</td>
<td>2.72%</td>
<td>2.88%</td>
</tr>
<tr>
<td>KBC</td>
<td>-0.79%</td>
<td>0.40%</td>
<td>-5.20%</td>
<td>0.05%</td>
<td>0.81%</td>
<td>2.95%</td>
</tr>
<tr>
<td>Intesa BCI</td>
<td>-11.35%</td>
<td>1.74%</td>
<td>1.50%</td>
<td>0.69%</td>
<td>1.89%</td>
<td>1.07%</td>
</tr>
<tr>
<td>Erste Bank</td>
<td>10.12%</td>
<td>4.84%</td>
<td>0.69%</td>
<td>-1.70%</td>
<td>0.51%</td>
<td>2.59%</td>
</tr>
<tr>
<td>OTP</td>
<td>5.37%</td>
<td>3.83%</td>
<td>-0.71%</td>
<td>0.64%</td>
<td>-0.07%</td>
<td>1.68%</td>
</tr>
<tr>
<td>Unicreditco</td>
<td>9.80%</td>
<td>11.32%</td>
<td>8.75%</td>
<td>4.32%</td>
<td>1.68%</td>
<td>0.80%</td>
</tr>
<tr>
<td>CAR</td>
<td>5.78%</td>
<td>4.85%</td>
<td>1.95%</td>
<td>2.04%</td>
<td>1.47%</td>
<td>1.44%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Target</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ceska Sporitelna a.s.</td>
<td>-30.13%</td>
<td>-8.42%</td>
<td>-0.65%</td>
<td>4.31%</td>
<td>5.99%</td>
<td>3.68%</td>
</tr>
<tr>
<td>Komercni Banka a.s.</td>
<td>-20.67%</td>
<td>-17.89%</td>
<td>-10.30%</td>
<td>-6.74%</td>
<td>-4.51%</td>
<td>0.42%</td>
</tr>
<tr>
<td>Investicni a Postovni Banka a.s.</td>
<td>-18.94%</td>
<td>-16.02%</td>
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<td>8.74%</td>
<td>4.23%</td>
</tr>
<tr>
<td>Vseobecn a Uverova Banka a.s.</td>
<td>20.38%</td>
<td>18.80%</td>
<td>14.00%</td>
<td>2.83%</td>
<td>4.39%</td>
<td>3.70%</td>
</tr>
<tr>
<td>CAR</td>
<td>-12.34%</td>
<td>-5.88%</td>
<td>1.77%</td>
<td>3.51%</td>
<td>3.65%</td>
<td>3.01%</td>
</tr>
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</table>
Table 3: Approval of the privatization by the government: Alternative Windows

<table>
<thead>
<tr>
<th>Bidder</th>
<th>[-20, +20]</th>
<th>[-10, +10]</th>
<th>[-5, +5]</th>
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<th>[-1, +1]</th>
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</thead>
<tbody>
<tr>
<td>Erste Bank</td>
<td>15,32%</td>
<td>7,03%</td>
<td>5,06%</td>
<td>0,43%</td>
<td>2,57%</td>
<td>3,37%</td>
</tr>
<tr>
<td>Societe Generale Group</td>
<td>-12,04%</td>
<td>-2,57%</td>
<td>0,16%</td>
<td>2,27%</td>
<td>0,02%</td>
<td>1,53%</td>
</tr>
<tr>
<td>Nomura Holding</td>
<td>-9,45%</td>
<td>-5,53%</td>
<td>-5,35%</td>
<td>-1,48%</td>
<td>-0,40%</td>
<td>0,32%</td>
</tr>
<tr>
<td>KBC</td>
<td>-7,26%</td>
<td>1,89%</td>
<td>-0,40%</td>
<td>-1,60%</td>
<td>-1,07%</td>
<td>-0,78%</td>
</tr>
<tr>
<td>Intesa BCI</td>
<td>6,17%</td>
<td>3,86%</td>
<td>8,47%</td>
<td>11,93%</td>
<td>3,56%</td>
<td>4,56%</td>
</tr>
<tr>
<td>Erste Bank</td>
<td>8,34%</td>
<td>6,57%</td>
<td>6,57%</td>
<td>7,44%</td>
<td>2,26%</td>
<td>3,82%</td>
</tr>
<tr>
<td>OTP</td>
<td>1,25%</td>
<td>-4,92%</td>
<td>-0,05%</td>
<td>2,75%</td>
<td>-1,67%</td>
<td>-0,14%</td>
</tr>
<tr>
<td>Unicredito</td>
<td>9,69%</td>
<td>6,81%</td>
<td>8,95%</td>
<td>6,26%</td>
<td>-2,70%</td>
<td>1,91%</td>
</tr>
<tr>
<td>CAR</td>
<td>1,50%</td>
<td>1,64%</td>
<td>2,92%</td>
<td>3,50%</td>
<td>0,32%</td>
<td>1,82%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Target</th>
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<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ceska Sporitelna a.s.</td>
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<td>-18,46%</td>
<td>-11,91%</td>
<td>-6,72%</td>
<td>0,86%</td>
<td>2,31%</td>
</tr>
<tr>
<td>Komercni Banka a.s.</td>
<td>-4,31%</td>
<td>6,65%</td>
<td>1,06%</td>
<td>0,93%</td>
<td>-0,81%</td>
<td>0,44%</td>
</tr>
<tr>
<td>Investicni a Postovni Banka a.s.</td>
<td>-10,27%</td>
<td>-3,87%</td>
<td>-4,00%</td>
<td>2,64%</td>
<td>4,62%</td>
<td>2,24%</td>
</tr>
<tr>
<td>Vseobecnac Uverova Banka a.s.</td>
<td>-0,43%</td>
<td>-1,38%</td>
<td>3,14%</td>
<td>0,63%</td>
<td>0,11%</td>
<td>2,85%</td>
</tr>
<tr>
<td>CAR</td>
<td>-5,14%</td>
<td>-4,27%</td>
<td>-2,93%</td>
<td>-0,63%</td>
<td>1,19%</td>
<td>1,96%</td>
</tr>
</tbody>
</table>
V. CONCLUSIONS

In this study, I investigate stock market valuations of bank privatization in the Czech Republic and Slovakia with the focus on the target and bidding banks.

For privatization, I study two event dates, what is different from the acquisition methodology in the earlier studies. Contrary to studies focused on bank acquisitions performed in different countries and regions, my research indicates that bank privatization creates wealth for bidding, but not for the target shareholders. My results document, that there is a negative and significant decrease in value for the average privatized bank shareholders. Both studied events show negative abnormal returns, with smaller magnitude at the date of approval by the government. Bidding shareholders receive positive abnormal gains, but they were not statistically significant.

My research on bank privatization in the Czech Republic and Slovakia reaches different conclusions from those on bank acquisitions in Europe. I explain the different results arising from the government being on the selling side and possible underpricing, mentioned in the previous privatization studies.\(^5\)

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