Chapter 6
Banking in Poland

6.1. The Polish banking sector

6.1.1. Overview

The Polish banking environment – like that of many other countries in Eastern Europe - has changed dramatically over the last 15 years. Significant and successful reforms, including the privatisation of the greater part of the banking sector[previously characterised by the state monopoly], together with creating the proper legal and infrastructural framework have produced a two-tier system comprising the National Bank of Poland – Narodowy Bank Polski (NBP) – and a number of commercial banks.

At the end of 2004, a total of 650 domestic banks (54 commercial and 596 co-operative banks) and three branches of foreign credit institutions were operating in Poland. Further, there were 19 representative offices of foreign banks present in Poland. While consolidation has already greatly reduced the number of banks over the past couple of years, further rationalisation is still required. This particularly applies to the co-operative banking sector, in which, despite a fall of 50% (from 1,189 banks in 1999 to 596 in 2004), room for consolidation remains.

Consolidation of the commercial banking sector is, to a large extent, a consequence of the situation in the global banking market, as vast majority of Polish banks are controlled by foreign investors. In December 2004, investors from 17 countries were present in the banking market. Compared with the previous year, the capital involvement of investors from Belgium, the United Kingdom and Japan increased, whereas that of German, French and US investors decreased.

Since Poland joined the European Union on May 1, 2004, the principle of the “single banking passport” has come into force. This means that a credit institution from another member state can provide services in Poland with no need for a banking license from the Commission for Banking Supervision. From the date of accession to the end of February 2005, the Commission was notified by four credit institutions about the planned establishment of their branches in Poland. Further, 70 foreign financial institutions gave notice that they intended to provide cross-border services in the Republic of Poland.

6.1.2. The National Bank of Poland

Narodowy Bank Polski [the National Bank of Poland - NBP] has experienced an increase in its powers and autonomy, in accordance with EU membership requirements. This followed a 1997 modification of relevant legislation as stipulated in article 227 of the Constitution, ‘The Banking Act’ and ‘The Act on the National Bank of Poland’.
The National Bank of Poland is responsible for implementing monetary policy, whose basic objective is to maintain the price stability. Within the framework of this strategy, the Monetary Policy Council defines the inflation target and then adjusts the NBP basic interest rates in order to maximize the probability of achieving the target. Since the beginning of 2004, the National Bank of Poland has pursued a continuous inflation target at the level of 2.5% with a permissible fluctuation band of +/- 1 percentage point.

Other responsibilities of the National Bank of Poland include the issuing of the national currency, the management of the country's foreign currency reserves, the regulation of bank sector liquidity and the provision of refinancing facilities to the banking sector. The NBP is also charged with maintaining the stability of the financial sector through banking supervision as well as the maintenance and developing of efficient payment systems in Poland. Thus, the Polish central bank is responsible for issuing payment systems regulations and exercising payment systems supervision. It both owns and operates the real-time gross settlement system (SORBNET) and acts as settlement agent for both clearing and securities settlement systems (See 6.4).

Before Poland potentially adopts the Euro the NBP will also be striving to meet the European Monetary Union entry criteria, i.e. the conditions which must be fulfilled prior to this adoption. Further, NBP plays a significant role as an economic research centre, both domestically as well as within the European System of Central Banks.

6.1.3. Banking/ Financial Institutions’ Supervision

Founded in 1997, the Commission for Banking Supervision has been responsible for both the regulation and supervision of the Polish banking sector since 1 January 1998. The General Inspectorate of Banking Supervision (GINB) is the Commission’s executive agency which operates autonomously within the NBP. The GINB continually checks that all banks comply with prudential requirements, such as capital adequacy requirements and restrictions on the exposure of banks to banking risk (including liquidity risk, foreign exchange risk and credit risk).

6.1.4. The Polish Bank Association

The Polish Bank Association (Związek Banków Polskich or ZBP) was established under the 1989 Chamber of Commerce Act. The ZBP is a public, autonomous organisation. Its principal objective is to promote the Polish banking sector, improve banking operations in Poland and enhance interbank co-operation. It plays an active part in the development and improvement of banking legislation. The ZBP represents its members (commercial banks and co-operative banks licensed to operate in Poland and established under Polish law) domestically and internationally (principally as a correspondent member of the EU’s European Banking Federation).
6.1.5. Leading Banks

As the largest banking market in Central Europe, Poland has attracted numerous foreign investors. As a result, foreign or foreign-owned banks account for a significant proportion of the banking sector in Poland. In 2004, at least 67% of the total assets of Poland’s banking sector and nine of the ten largest banks in Poland were controlled by non-Polish shareholders. At the end of 2004, there were 13 domestic commercial banks (out of total 54) with majority Polish equity. This group included 5 banks controlled by the Treasury (2 out of them directly). The state-owned PKO Bank Polski S.A. is the only major institution still under Polish majority ownership (it is the country’s largest bank in terms of total assets, ahead of the foreign-owned Pekao S.A. – a part of the Italian Unicredito Group).

Given the fragmented nature of the Polish banking sector, consolidation is inevitable, especially now when the privatisation process is coming to an end. As 75% of the commercial banking sector in Poland is owned by foreign investors, mergers of Western European financial institutions force their Polish subsidiaries to merge as well. A prime example of this situation is the recent acquisition of German HypoVereinsbank by Italian group Unicredito. As a consequence of this transaction HypoVereinsbank’s subsidiary in Poland, Bank BPH (already being a result of the merger between Powszechny Bank Kredytowy and Bank Przemysłowo-Handlowy) will be merged with Pekao SA, an institution controlled by Unicredito Group, subject to approval by the Polish authorities.

Several Scandinavian banks have established a presence in Poland as part of their pan-regional coverage. Among them are Danske Bank, Nordea, the SEB group (still as a minority shareholder in BOŚ Bank S.A.) and Svenska Handelsbanken. A newly created joint-venture of German NordLB and DnB NOR (49% and 51% of shares, respectively) is planned to commence its operations in Poland in January, 2006.

Leading Polish Banks

At the end of 2004 the ten largest banks in Poland held 71.9% of total banking sector assets and had taken 78.7% of total deposits form non-financial customers. Despite the drop in total number of banks, the level of concentration lowered in recent years. This situation is related to small and medium-sized banks expanding much more swiftly than large ones.

<table>
<thead>
<tr>
<th>Bank</th>
<th>Total Assets end of 1H2005 (PLN m)</th>
<th>Equity end of 1H2005 (PLN m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PKO Bank Polski</td>
<td>86,685</td>
<td>7,862</td>
</tr>
<tr>
<td>Bank Pekao</td>
<td>60,159</td>
<td>6,867</td>
</tr>
<tr>
<td>Bank BPH</td>
<td>58,024</td>
<td>6,027</td>
</tr>
<tr>
<td>ING Bank Słaski</td>
<td>37,771</td>
<td>2,867</td>
</tr>
<tr>
<td>Bank Handlowy w Warszawie</td>
<td>35,220</td>
<td>5,035</td>
</tr>
<tr>
<td>BRE Bank</td>
<td>30,674</td>
<td>2,114</td>
</tr>
<tr>
<td>Bank Zachodni WBK</td>
<td>28,048</td>
<td>2,802</td>
</tr>
<tr>
<td>Bank Millennium</td>
<td>21,425</td>
<td>1,794</td>
</tr>
<tr>
<td>Kredyt Bank</td>
<td>20,995</td>
<td>2,202</td>
</tr>
</tbody>
</table>
6.2. Legal aspects

6.2.1. Exchange Controls

The Polish zloty (PLN) is the official currency of the Republic of Poland.

The PLN has been allowed to float and trade freely against all currencies since the abandonment of the crawling peg policy in April 2000.

Based on Foreign Exchange Law of October 5, 2002 [the FX Law], the Polish legislation ensures the free flow of capital, opening of accounts, investing and borrowing as far as EU and OECD countries are concerned.

The FX Law introduces, however, some restrictions with respect to particular types of transactions, which, in consequence, require a foreign exchange permit. The above-mentioned restrictions (including account opening, investing and borrowing) relate mainly to transactions of Polish residents with non-OECD-based entities or entities from countries with which Poland has not concluded an agreement on the mutual promotion and protection of investments.

The restrictions on direct investment by non-residents in real estate have been greatly liberalised since Poland’s accession to the EU; however, there are still some restrictions with respect to acquisition of the second homes and acquisition of the agricultural properties by non-residents. In addition, there are specific restrictions on investments in various strategic state-protected sectors.

All payments between residents and non-residents (as well as all non-residents’ cash transactions) are subject to a control of payment title. In case of transactions above the threshold of EUR 10,000, the bank must be presented with copies of the source documents such as invoices or agreements (or in their absence, with the written obligation made by the account holder stating that the above-mentioned documents will be delivered within three months of the transaction date).

Additionally, banks are obliged to control whether the payments ordered in favour of a non-resident that constitute the non-resident’s proceeds or income were appropriately taxed prior to their transfer from the account.

6.2.2. Central Bank Reporting Requirements

The National Bank of Poland maintains statistical records of the balance of payments, of indebtedness and foreign liabilities on the basis of bank and non-bank reports. To that end, payment transactions between residents and non-residents above 12,500 EUR must be reported.

The reporting is the bank’s responsibility (except from some specific cases, e.g. the resident holding an account abroad or Polish company participating in the intra-group netting). The banks will normally report to the Central Bank on a monthly basis.
6.2.3. Legislation on Money Laundering

Polish legislation is in accordance with the European directive on money laundering and the recommendations from the OECD's special task force (FATF). Following the enactment of the ‘Act on Countering the Introduction into Financial Circulation of Property Values Derived from Illegal or Undisclosed Sources’ in June 2001, all transactions exceeding EUR 10,000 (this can be under the form of a single transaction or as a series of linked transactions) have to be recorded in a Transaction Register and the ordering customer identified.

In addition, all cash transactions, transfers of ownership rights and assets as well as all claims-for-shares or claims-for-stock-swaps have to be reported and the customer identified, regardless of their size. This obligation also applies to any other suspicious transaction.

The Act applies to banks, brokerage houses, entities conducting gambling activities, insurance companies, investment funds, leasing and factoring companies, the Polish Post office, real estate agents and public notaries. The Act also led to the creation of a specialised FIU (Financial Intelligence Unit), the General Inspectorate of Financial Information.

6.2.4. Legal Issues Relating to Electronic/Internet Banking and electronic fund transfers.

Electronic signature issue is regulated by the Electronic Signature Act, which was approved on August 16, 2002, being in line with European law (Directive 1999/93/EC). According to the above-mentioned act, electronic signature is considered to be equal to a handwritten signature, provided that it is secured and verified through a qualified certificate.

Poland has also implemented the EU Cross-Border Payments Directive (1997/5/EC) and follows the EU Regulation on Low-Value Cross-border EUR Payments (EC Regulation 2560/2001).

6.3. Payment (and Collection) Instruments

The dominant cashless payment instruments used in Poland are credit transfers, an increasing number of which are processed electronically, particularly among corporate users. Card payments are also making substantial inroads, at the expense of cash payments, particularly among consumers and small businesses for whom they are the second most popular payment instrument after paper-based credit transfers. Cheque usage, on the other hand, never took off in Poland and remains fairly marginal. Direct debits are available but are only slowly catching on. Like in all former communist economies, cash continues to play a significant role in the payment system, particularly in terms of retail transactions. Transfers in currencies other than PLN, except for EUR payments executed through domestic Euro-clearing, are always considered international payments.
6.3.1. Credit Transfers

Credit transfers are the most popular cashless payment instruments in Poland both from a corporate and a consumer point of view. Their share of total volume and value of payments processed exceeds 90% and 80%, respectively.

Low-value credit transfers (below PLN 1.0 million), as well as payment messages directed to Social Insurance Institution and Tax Offices (regardless of their amounts) are processed on a same-day basis via the fully automated ELIXIR system. Credit transfers exceeding PLN 1.0 million threshold are cleared through SORBNET, Poland’s central bank operated RTGS system.

6.3.2. Direct debit

The first direct debit transactions were executed in July 1998. This payment method can be used for electronic payments in the range 0 – 1,000 / 50,000 EUR (individuals / legal entities) through ELIXIR only. The transaction can be revoked by the debtor within 5 business days (legal entities) or 30 calendar days (individuals). In accordance with the Banking Law, direct debits are permitted subject to that:

- “Both the creditor and the debtor hold a bank account with a bank that has entered into the agreement on direct debits;
- The debtor has authorised the creditor to debit his / her account on agreed payment dates and in connection with specified liabilities, and;
- The creditor and the bank have entered into an agreement on direct debits”.

New business-to-business direct debit system – GOBI – has been recently introduced in Poland. Unlike the classic direct debit system, there is no amount threshold applicable to GOBI transactions. Furthermore, the transactions cannot be revoked.

The usage of direct debits is growing slowly, but still does not play any significant role in retail payments. According to KIR the number of direct debit transactions in 2004 increased by 70% (compared to 2003), however it still constituted only 1.1% of the total number of transactions cleared within ELIXIR system.

6.3.3. Cheques

The usage of cheques as a payment method has never been widespread, and with the rapid expansion of the payment card market, their relevance has decreased even further. Consequently, banks often choose not to accept the cheques of non-customers. The only exception is the cashiers’ cheque, which is a popular mean for withdrawing cash. However, given that cashiers’ cheques are essentially cash withdrawal instruments (unlike normal settlement cheques) and cannot be used as an account transfer method, they are legally defined as a method of cash payment.
6.3.4. Card Payments

The payment card is one of the fastest growing payment methods in Poland. Nearly 16.9 million cards issued by commercial banks were in use at the end of 2004, an increase of 11.8% compared to year-end 2003. Customers had over 8000 ATM's at their disposal. Debit cards still dominate the market, although their share of that market is steadily declining, coming down to 84.5% in 2004. The share of credit cards rose from 7.8% to 11.8%, whereas the share of charge cards fell down to 3.7%.

Payment cards - especially debit cards - will definitely play a major role in the further development of the Polish retail banking market. Their share of payment transactions is still not impressive, though. PolCard is the leading card processing company, with a retail network of almost 40,000 point-of-sale terminals. The company has relationships with many of the leading card-issuing banks and financial institutions. The majority of shares in PolCard was acquired by GTECH's in 2003. GTECH is a U.S. information technology company that provides software, networks, and transaction processing solutions.

The majority of cards issued by Polish banks have links with international payment card schemes such as VISA International, Eurocard/MasterCard International American Express or Diners Club.

There is currently no e-purse (stored-value) card scheme operating in Poland. However, regional pilot programs with chip card technology have been implemented at a local/regional level.

6.3.5. Postal Instruments

The Polish Post Office is permitted to carry out postal transfers (which can be used for transferring money between consumers having no bank accounts), cash payments into bank accounts as well as processing pension and disability allowance payments. The postal network consists of approximately 7,600 Post Office branches throughout Poland. Most of these branches do not have bank accounts, but instead hold accounts with larger Post Office branches [holding bank accounts]. As stated above, the Post Office is able to process cash payments into bank accounts with the National Clearing House (KIR) effecting the settlement of such payments.

6.4. Payment Systems

6.4.1. SORBNET - HighValue/Urgent Clearing

Real-time gross settlement system (SORBNET) is operated and owned by the National Bank of Poland. SORBNET commenced its operations in March 1996.
Prior to that, banks could only present their payment instructions on paper or a floppy disk.

**Participants & Access Criteria**
Currently SORBNET system has got 56 participants: 54 commercial banks, the Polish Automated Clearing House – KIR (See 6.4.2.), and the National Depository for Securities.

All participants in SORBNET are also direct members of KIR. There is open access to SORBNET for banks in Poland, however, all candidates must meet the following requirements:

- Settlement account with the NBP,
- Operational activity for at least 6 months,
- Financial stability considered appropriate,
- Additional technical requirements enabling electronic exchange of payment instructions.

**Transaction Types Processed**
SORBNET is meant for individual, urgent, same-day-value payments instructions in PLN related to money market, foreign exchange and securities market transactions, transactions between banks and NBP (from other clearing systems) and customer payments exceeding PLN 1 million. Customer transactions for lower amounts are processed upon request.

The total number of transactions executed through SORBNET exceeds 4,200 per day, while their daily average value reaches PLN 123,233.5 million.

**Operating Hours/Clearing System Holidays**
SORBNET operates from 07:30 until 18:00CET. Customer payments however can only be processed until 16:00.

SORBNET is closed on weekends and all official National Bank of Poland holidays.

**Clearing Cycle Details**
SORBNET accepts payment messages from KIR, the NBP or other banks via electronic messaging (within TELBANK network following the EDIFACT standard) or, in case of technical failure, floppy disk or paper. The payment instructions are settled in a precisely defined order, with the highest priority given to the KIR.

**6.4.1.1. SORBNET-EURO**

In March 2005, NBP introduced the new SORBNET-EURO system supporting the banks’ current accounts denominated in euro and catering for payments between Polish and European Union banks. The link to TARGET\(^1\) is established through a dedicated link with Banca d’Italia’s RTGS system BIREL. Communication between SORBNET-EURO and BIREL is based on SWIFT. As of March 7, 2005, SORBNET-EURO had 35 participants.
6.4.2. ELIXIR- Low-Value

ELIXIR, the Polish low-value clearing system, is owned and operated by the National Clearing House, KIR (Krajowa Izba Rozliczeniowa SA). KIR itself is owned by Poland’s leading banks, the Polish Bankers’ Association (ZBP) and the National Bank of Poland (NBP). Besides the KIR head office in Warsaw, there are 17 regional clearing houses (BRIRs) located in Poland’s major cities. Each and every bank branch of a clearing participant is connected to one of these regional BRIRs.

In 2000, KIR commenced the development of the IMBIR optional scanning system, which replaced the SYBIR system in 2004. The IMBIR system allows the processing of cheques on a fully automated basis thus it has eliminated all paper-based documents from the clearing process, since IMBIR converts all paper-based items into electronic messages. Consequently, introduction of the IMBIR system has led to a considerable shortening of the clearing cycle for cheques and other paper-based items.

Participants & Access Criteria
All banks in Poland must participate directly or indirectly in KIR and each KIR participant must in turn participate in ELIXIR. In July 2005, there were 54 banks participating directly in the system. Banks without direct access (e.g. cooperative banks) are able to participate indirectly via any direct participant. All banks participating in the Elixir system must have settlements accounts with the NBP, place a collateral agreement with the NBP, obtain approval of the KIR’s supervisory board, meet the necessary technical and economical criteria, as well as participate in the SORBNET system.

Transactions Types Processed
ELIXIR is a net settlement system used to carry out low-value credit transfers under the PLN1 million threshold in addition to direct debits and, since January 2001, cheques below PLN1,000 drawn on savings accounts. The cheques are firstly converted by the receiving bank into electronic payment messages using the new IMBIR system. Additionally ELIXR always processes tax payments and social insurance payments regardless of the amount. The daily average number of ELIXIR transactions reaches 7,559 while the daily value increased to PLN 12,600 million.

In July of 2004 the validation of NRB standard was implemented. If the sending bank does not stop a payment containing invalid NRB, it can still be processed through Elixir, but only until February 1st, 2006, after which date all the payments containing beneficiary account number in format other than NRB will be returned by the clearing house to the sending bank.

Operating Hours/Clearing System Holidays
ELIXIR operates 24 hours a day except for weekends and all official National Bank of Poland holidays.

Clearing Cycle Details
ELIXIR clears transactions on a same-day basis and, for credit transfers, there are three daily clearing cycles (18:30–09:30, 10:00–13:30 and 14:30–18:00CET) in addition to three settlement sessions per day: a morning session (10:30–11:00), an afternoon session (14:30–15:00) and an evening session (17:00–17:30).
Debit transfers are sent by the receiving bank (using a special message type) to KIR for the morning session. The debit transfer instructions are then forwarded by KIR to the debtor’s branch, so as to allow the debtor to refuse payment on any of the grounds given in the agreement. If, by 16:00CET, no refusal has been forthcoming, KIR will consider the payment as effective and settle it during the evening session.

Payment instructions are transferred electronically between ELIXIR participants using the TELBANK network or by means of floppy disk. Transactions are settled three times a day (after each settlement session) via participants’ settlement accounts at the National Bank of Poland.

Banks have online access to their ELIXIR positions reducing the risk of uncovered exposures. Additionally, since November 2004 the functionality of the ELIXIR system has been enriched by the mechanism of settlement finality. It ensures the completion of the clearing process on time within one session in the case of inability to pay liabilities by any participant or participants.

6.4.2.1. EURO ELIXIR

The Euro-ELIXIR system was activated in March 2005, enabling all banks operating in Poland to process EUR payments. The system allows both domestic as well as international payments in EUR (through STEP 2). In 4th quarter of 2005 there were 34 banks participating in Euro-ELIXIR settlements.

**Domestic Euro payments**

There are no amount limitations as far as domestic Euro payments are concerned. Further, all cost options (BEN, SHA and OUR) are allowed.

**Cross border Euro payments**

There are certain requirements applicable to cross-border Euro payments cleared through Euro-ELIXIR channel:
- the amount of a single transfer cannot exceed 12,500 EUR (the minimum threshold will be raised to EUR 50,000 on 1st of January, 2006),
- only SHA cost option is allowed,
- payment order must contain both IBAN account number and beneficiary’s BIC code.

6.4.3. Electronic Banking

Due to the influence of foreign banks and companies in Poland, the usage of electronic banking services is becoming increasingly popular. There is no nationwide bank-independent norm. However, usage of the bank-independent package MultiCash is widespread among the larger Polish companies. The system, however, can only access accounts with the banks which offer the MultiCash system in Poland (approximately 20 banks). The majority of electronic banking packages available in Poland offer account statement retrieval and end-of-day reporting. In some cases, intra-day balance reporting is available.

Integration with local and international ERP systems is becoming increasingly important. A number of Polish IT companies offer such services.
Internet-based banking services are also widely available in Poland and offer account balance and transaction reporting in addition to transaction initiation. The major banks are strengthening their market position, both by expanding their customer networks through small customer service offices and ATMs and by developing electronic banking services. Electronic banking services are available both as Internet and WAP (mobile phone) solutions.

6.4.4. Other Payment Systems

Three systems currently process card transactions. KSR, operated by PolCard, PNNSS, operated by Visa and EDCSS, operated by Europay/MasterCard. These are all net systems, and the final balances of the participating banks are settled in the KIR system, through a settlement agent which is one of the Polish commercial banks.

6.5. Bank Accounts

Current accounts can be held by both residents and non-residents, in PLN and all convertible currencies. All bank accounts in Poland must comply with IBAN standard. IBAN format is used when an international payment is made; in case of a domestic transfer NRB standard (being a 26-digit numeric account number composed of check-digits, bank's settlement code and individual client's account identifier) is used. Unlike IBAN, NRB does not include PT ISO country code; apart for that the entire number is exactly the same in both cases. NRB format has been mandatory since July 1st, 2004, thus it's already well-known to all the banks, corporates and consumers.

Account opening forms are available in Polish and English. Some banks have electronic access to bank account opening forms.

6.6. Liquidity Management

As there are no specific regulations, which directly address cash pooling some uncertainty with regards to the legal framework prevails. This is true both in respect of notional cash pooling schemes and co-mingling of funds solutions. No doubt however, that the banks present on the Polish market all have the expertise and technology to offer the solutions.

6.6.1. Notional Pooling

Compulsory reserve cost (related to the fact, that all the banks in Poland are obliged to put 3.5% of each deposit amount on a non-interest bearing account at National Bank of Poland), capital adequacy requirements and risk-related issues is a challenge for the banks with regards to offering notional pooling. Together with above mentioned legal uncertainties notional pooling is not widely offered, nor used, although some banks offer interest enhancement / compensation models.
6.6.2. Cash Concentration

As in other markets the most straight-forward cash pooling product, zero-balancing, is the preferring solution for optimising liquidity. However, as already mentioned above, establishment of zero-balancing cash pool in Poland may result in potential risks, both to the participants in the structure and to the bank. Therefore the cash pool agreement must to the extent possible comply with several regulations, relating especially to tax on civil act transactions and transfer pricing rules. Although the legal concept of the particular agreement can minimise the above mentioned risks, it is always based on the interpretation of the existing law, therefore it cannot be guaranteed that the assumptions made would not be questioned by any authority. The bank offering cash pooling solutions usually have obtained legal opinions from the legal and tax advisors, however regardless of that an additional opinion should always be sought.

6.6.3. Intra-Group Netting

Group netting in Poland was not easy to establish in the past due to strict Foreign Exchange Law - the company intending to implement such a solution was required to obtain an individual permission from The National Bank of Poland. It was probably the reason why most of the international groups decided not to enter into group netting agreement with their Polish subsidiaries. As the F/X law has been recently eased, no special permission is required anymore. However, all payments between residents and non-residents exceeding EUR 10,000 are still subject to control of a payment title. In case of transfers related to netting settlement, the following documents need to be delivered to the bank:

- group netting agreement, stipulating the entity acting as the netting centre, counterparties of netting transactions, settlement dates (frequency) etc.
- monthly statement comprising the net amount calculation.

In addition to the requirements described above, the Polish company participating in group netting is obliged to report the netting transactions to the National Bank of Poland. First, the company has to inform NBP within 20 days after the netting agreement has been signed. For this purpose a special form, containing the basic information on the agreement, should be completed. Additionally, such a company is obliged to report the netting transactions on a quarterly basis (the report must be presented within 20 days after the end of each quarter). If the total amount of the transactions that have been set off during a calendar quarter is equal to or higher than EUR 100,000, all the receivables/payables used for netting calculations need to be quarterly reported as well.

Introduction if intra-group netting may result in potential tax implications as far as tax-deductible costs are concerned. This issue should be then investigated before group netting agreement has been concluded.
6.7. Financing

6.7.1. Bank financing

Most Polish banks offer a wide range of financing products for corporate customers, such as

- Overdraft facilities,
- Short-term loans,
- Investment loans and project finance,
- Guarantees.

The customer is usually asked to specify and explain the objective for the funding required. In addition, the customer is asked to provide collateral for the credit facility.

Short-term funding is essentially obtained through bank overdrafts. Rates vary but are all based on the Warsaw Interbank Offered Rate (WIBOR). Leasing and factoring are available.

6.7.2. Inter-company funding

Tax on inter-company loan applies to all intra-group loans and currently levels at 2% of the loan amount. However, if a loan is granted by the direct shareholder of the borrower, is provided by the foreign company, if this company’s activity is to grant loans, or is meant for starting up or continuing the core business activity of the company, such a loan is exempt from tax on civil act transactions.

Additionally, inter-company loans have to observe thin capitalisation and transfer pricing requirements.

Under Polish transfer pricing rules, transactions between related entities should be concluded taking into account the arm’s length principle – i.e. at prices which would have been set in this given type of transactions between unrelated companies.

Based on the Polish thin capitalisation rules, interest paid on certain loans/credits drawn from qualified lenders (specifically related entities) cannot be recognised as a fully tax deductible cost. The part of interest paid on such restricted loans/credits is not deductible for corporate income tax purposes in relation to the part of the Polish entity’s total debt to specific companies exceeding three times the value of the share capital. The term “loan” includes also the issue of bonds and other debt instruments as well as deposits.

A qualified lender is defined as:

- a shareholder holding at least 25% of the debtor’s shares,
- two or more shareholders holding together at least 25% of the debtor’s shares,
- “sister” companies, if the same shareholder holds at least 25% of the shares in the creditor and the debtor company.
6.7.3. Financing investments in Poland

Foreign investment in Poland has increased significantly since the appearance of the first signs of the collapse of the centralised model. The Nordic countries are encouraging direct investment through a variety of institutions, each of which promotes investment via their respective business areas.

The following section lists some of the possibilities available from the different sources. Although the list and descriptions may not be exhaustive, we hope that they will provide inspiration to utilise one or more of these sources, either individually or in combination.

6.7.3.1. Nordic Sources

The Environmental Investment Facility for Central and Eastern Europe

The Environmental Investment Facility for Central and Eastern Europe (known locally by its Danish initials, MIØ) was established in 1995 as a separate facility under the Investment Fund for Central and Eastern Europe. This facility provides share capital, loans and/or guarantees for investment projects in this region under the operational rules and regulations of the investment fund.

The facility was created to help finance environmental improvements in Central and Eastern Europe. The object is to transfer the necessary environmental technology to the region or to create it locally by investing in environmental projects in co-operation with Danish trade and industry.

Some projects are financed by a combination of funds taken from the environmental investment facility and funds provided by the Investment Fund for Central and Eastern Europe for broader purposes.

Contact:

The Environmental Investment Facility for Central and Eastern Europe (MIØ)
Copenhagen
Tel. +45 33 63 75 00
Fax: +45 33 32 25 24
E-mail: ioe@ioe.dk
Web site: www.ifu.dk

Investment Guarantee Facility for Central and Eastern Europe

The aim of this facility is to promote reform in Central and Eastern Europe in order to increase economic and commercial growth.

The Investment Guarantee Facility is available to Danish companies that wish to invest in existing companies or to set up a joint venture or a subsidiary in a country in Central and Eastern Europe. The Danish company must have a majority shareholding.
The investment guarantee covers political risks only.

Contact:
Royal Danish Ministry of Foreign Affairs
Secretariat for Investment Guarantee Facility for Central and Eastern Europe
Copenhagen
Tel. +45 33 92 00 00

**Investment Insurance**

Eksport Kredit Fonden (The Danish State Export Credit Agency) provides insurance against the political risks faced by Danish companies that invest in emerging markets.

This insurance can cover all kinds of equity investments and any financing not covered by ordinary Danish export credit guarantees.

Investment insurance coverage may be extended to include breach of contract by a public body.

Contact:
Eksport Kredit Fonden
Copenhagen
Tel. + 45 35 46 61 00
Fax: +45 35 46 61 11
Web site: www.ekf.dk

**Swedfund International AB**

Swedfund is a risk capital company that provides capital and know-how for investments in developing countries and in Central and Eastern Europe – primarily in partnership with Swedish companies. Swedfund is owned by the Swedish State.

Swedfund invests in projects that it considers potentially profitable. These projects may involve setting up in new markets or expanding existing businesses. Generally, collaboration takes the form of a joint venture company formed by a Swedish company and its local partner in the host country, for example Poland, with both parties contributing capital.

At the end of 2003 Swedfund had only invested in 1 project in Poland. This was in 1994 with the partner Nordiska Ekofiber.

Contact:
Swedfund International AB
Stockholm
Tel. +46 8 725 94 00
Fax: +46 8 20 30 93
FINNFUND

FINNFUND is an investment finance company that backs profitable enterprises in emerging countries, including Poland.

The company’s objective is to promote dynamic and innovative private undertakings in collaboration with Finnish and foreign companies.

FINNFUND provides equity participation, loans and guarantees and collaborates closely with both domestic and international banks and finance companies.

Contact:

FINNFUND
Helsinki
Tel. +358 9 348 434
Fax: +358 9 3484 3346
Web site: www.finnfund.fi

Nordic Investment Bank (NIB)

The NIB is the joint international financial institution of the Nordic countries and forms part of The Nordic Finance Group. The other institutions in The Nordic Finance Group are the Nordic Environmental Finance Corporation (NEFCO), the Nordic Project Fund (Nopef) and the Nordic Development Fund (NDF). The facilities made available through NEFCO and Nopef will be described separately.

The NIB finances export and investment projects both within and outside the Nordic region – particularly in neighbouring regions. The NIB gives priority to investment and environmental loans for private sector projects and loans to governments such as the Polish government.

The Nordic Finance Group co-operates extensively with other financial institutions.

Contact:

Nordic Investment Bank
Helsinki
Tel. +358 9 18 001
Fax: +358 9 1800 210
Web site: www.nib.fi
Other offices:

Copenhagen
Tel. +45 33 14 42 42
Fax: +45 33 32 26 76

Oslo
Tel. +47 2201 2201
Nordic Environmental Finance Corporation (NEFCO)

NEFCO is one of four multilateral finance institutions in the Nordic Finance Group, which is owned by the five Nordic countries.

NEFCO backs financially viable projects in Central and Eastern Europe. Its purpose is to facilitate the implementation of environmentally beneficial projects in the region. Projects must be joint ventures between local and Nordic enterprises.

NEFCO participates in the financing of projects through equity investment, loans on market terms, loans with equity features, subordinated or mezzanine financing, or guarantees. Moreover, NEFCO regularly collaborates with other financial institutions in putting together financial packages with the emphasis on the environmental aspects of the projects.

Contact:

NEFCO
Helsinki
Tel. +358 9 18001
Fax: +358 9 630 976
E-mail: info@nefco.fi
Web site: www.nefco.fi

Nordic Project Fund (Nopef)

Nopef grants favourable loans to Nordic companies to pay for feasibility studies of project-export deals and internationalisation projects outside the EU and EFTA. Loans are available for the purposes of developing a business plan, making own-investment studies, drawing up co-operation agreements, investigating joint ventures, and carrying out project-export studies.

In the case of internationalisation projects – such as acquisitions and setting up wholly-owned subsidiaries or joint ventures with a local partner – Nopef grants loans to cover 40% of acceptable pre-investment expenses. In certain circumstances, the loan may later be converted into a grant. Successful internationalisation projects in countries around the Baltic Sea, such as Poland, are eligible for an additional 20% grant.

For project exports, the loan may not exceed 50% of budgeted expenses. If the feasibility study suggests that the project should not be implemented, the loan can be converted into a grant, on condition that reporting requirements have been fulfilled and that expenses have been audited. Loans are interest-free and must be repaid if the project is implemented.
6.7.3.2. International sources

European Bank for Reconstruction and Development (EBRD)

The EBRD seeks to help Central and East European countries to implement structural and sector-specific economic reforms and to promote privatisation and entrepreneurship. The bank encourages private sector activity through investment and financing.

The EBRD provides a wide range of financial products and takes a flexible approach to structuring these.

As a rule, the EBRD’s standard minimum involvement is EUR 5 million, but the bank can be flexible if the project is of fundamental benefit to the country.

EBRD supports SMEs (Small and Medium-sized Enterprises) through a number of financial intermediaries.

Contact:

European Bank for Reconstruction and Development
London
Tel. +44 20 7338 6000
Fax: +44 20 7338 6100
Web site: www.ebrd.org

Local office in Poland:
Warsaw
Tel. +48 22 520 5700
Fax: +48 22 520 5800

European Investment Bank (EIB)

In Central and Eastern Europe, the EIB helps implement the EU’s development aid and co-operation policies through long-term loans from its own resources or subordinated loans and risk capital from the budgetary funds of the EU or its member states.

Contact:

European Investment Bank
Luxembourg
Tel. +352 43 79 1
Fax: +352 43 77 04
Web site: www.eib.org
International Finance Corporation (IFC)

The IFC is a member of the World Bank Group and is the largest multilateral source of loan and equity financing for private sector projects in developing countries.

The IFC offers a full array of financial products and services to companies in its developing member countries. These include, but are not limited to, long-term loans in major and local currencies – at fixed or variable rates – and equity investments.

The IFC can provide financial instruments singly or in a wide range of combinations. It can also help to structure financial packages, co-ordinating financing from foreign and local banks and companies and from export credit agencies.

The IFC’s standard investment is between USD 1 million and USD 100 million. However, the standard investment for SMEs is between USD 100,000 and USD 1 million.

The IFC charges market rates for its products and does not accept government guarantees.

Contact:

International Finance Corporation
Washington D.C
Tel. +1 202 473 7711
Fax: +1 202 974 4384
Web site: www.ifc.org

Poland:
Warsaw
Tel. +48 22 520 6100
Fax: +48 22 520 6101

International Bank for Reconstruction and Development (IBRD)

As a member of the World Bank Group, the IBRD provides market-based loans and development assistance to help middle-income countries and creditworthy poorer countries reduce poverty.

One of the bank’s top priorities is to help stimulate the private sector, which is the main source of economic growth, creating jobs and boosting income.

The IBRD deals extensively with governments in its member countries, mainly because the bank can only lend to a government or under the guarantee of a member government. The IBRD encourages member governments to work closely with non-governmental organisations and the private sector.

Poland has been a member of the IBRD since 1946.
Contact:

International Bank for Reconstruction and Development
Washington D.C
Tel. +1 202 458 1122
Fax: +1 202 522 3264
Web site: www.worldbank.org

6.7.3.3. Local sources

National Fund for Environmental Protection and Water Management

The main objective of this fund is to finance projects designed to protect the environment. These projects are described in the "National Environmental Policy" adopted by the Polish Parliament in 1991 and specified in the "Implementation Programme for the National Environmental Policy by the year 2000".

The National Fund for Environmental Protection co-operates with a number of foreign institutions.

Contact:

National Fund for Environmental Protection and Water Management
Warsaw
Tel. +48 22 849 00 79
Fax: +48 22 849 72 72
Web site: www.nfosigw.gov.pl

6.8. Danske Bank Polska S.A.

Danske Bank Polska S.A., a subsidiary of Danske Bank A/S was founded in 2000.

The Bank’s office is seated in the centre of Warsaw, however thanks to the IT-solutions and our service concept it successfully serves the customers having its offices located all over Poland.

Danske Bank Polska is offering its services mainly to North European companies operating in Poland. So far the Bank in Poland has accumulated business with approximately 400 corporate clients, being subsidiaries of Danish, Swedish, Finish, Norwegian, English and German companies.

Danske Bank Polska is able to provide corporate customers with a broad range of financial products tailored to the Polish market. The local expertise, combined with the international profile of the Danske Bank Group ensures the highest quality of products and services.

Contact details:
Danske Bank Polska S.A.
Warsaw Corporate Center
Ul. Emili Plater 28, 3rd floor
00-688 Warsaw, Poland

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SWIFT: DABAPLPW
Web site: www.danskebank.com/pl