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### **CHAPTER 7**

### SHOULD POLISH BANKS BE DOMESTICATED?

### Introduction

For many years now we have seen the process of introducing EU regulations aimed at integrating the banking systems of the Member States. Now, the work which was undertaken because of the recent financial crisis with a view to enhancing the banks' safety is coming to an end. Polish banks are members of international capital groups as subsidiaries and this fact gives rise to problems resulting from the centralization of capital and liquidity management at the level of the group as well as the centralization of supervision in the European Union. The recent financial crisis has highlighted these issues and sparked a debate concerning the fact that most Polish banks are dependent on their foreign headquarters. The question is whether the current ownership structure of banks operating in Poland is beneficial for the Polish economy and whether there is an alternative solution to this situation. The ownership structure of these banks has lately been questioned. There are many arguments in favour of making these banks independent rather than subsidiaries of other banks. This alternative is known as bank domestication. Re-Polonization of banks is also discussed. The domestication of banks is understood as the process by which the share of locally controlled and managed banks in the assets of the banking sector will increase [Kawalec, 2011, pp. 7, 12].

Therefore, domestication does not exclude foreign capital in the ownership structure of banks, but it does exclude the dominant position of foreign capital. Therefore, a dispersed ownership structure is possible (with participation of foreign capital) as well as a concentrated structure, but with a dominant position of domestic capital. Then, re-Polonization is understood as a replacement of a foreign dominant shareholder by a domestic investor, which is associated with a concentrated ownership structure based on domestic capital. The term "domestication of banks" contains more possibilities for shaping the ownership structure of banks, and therefore this concept will be discussed from the point of view of corporate governance. From

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this perspective, possible transformations of the ownership structure of banks operating in Poland as subsidiaries of foreign banks will be assessed.

In order to provide a more complete picture, I deal with the problem of relations between subsidiaries and parent companies in capital groups. I draw attention to the need to define the interests of individual companies and capital groups in view of company law applicable to capital groups and regulations developed at the level of the European Union. The effects of current and future regulations pertaining to the operation of capital groups are also presented. These issues are shown from the point of view of the Polish banking sector.

#### 1. Polish banks as subsidiaries

Banks operating in Poland are subsidiaries within foreign capital groups. Subsidiaries not only benefit from their membership in the capital group, but are also exposed to dangers resulting from the activities of their parent companies – activities dictated by the interests of the group. It is therefore advisable to place the problem of bank subsidiaries operating in Poland but dependent on international banking groups in a broader context.

Corporate governance in capital groups is considered primarily from the point of view of relations between the parent company and its subsidiaries. Subsidiaries are examples of companies with concentrated ownership. The main problem of corporate governance in structures with concentrated ownership is that the dominant shareholders exploit their position at the expense of other shareholders. <sup>1</sup> This problem is referred to as the horizontal agency problem (dispersed ownership structures face the vertical agency problem, involving a conflict of interest between shareholders and managers) [Roe, 2004, pp. 3-4]. This conflict also takes place in capital groups. It occurs with varying intensity depending on the form of the group. This takes place to the greatest extent in capital groups which were established as a result of leveraging votes (through subsidiaries) in relation to the capital involved in the parent company. These are groups of pyramidal structure. This very structure involves the phenomenon of tunnelling (value transfer) from a given company to its controlling shareholder. Such structures are not present in foreign bank holding companies within which the said banks operate in Poland. While there are some cases of the use of dominant position by the owners of banks in Poland which can be described as tunnelling 2, tunnelling as such is not the objec-

<sup>&</sup>lt;sup>1</sup> A wide description of these practices is presented in Postrach [2006].

A. Stopczyński, director of the banking supervision department of the Polish Financial Supervision Authority said that "when it is necessary to reduce dividends, the owners might try to transfer profits in another way, for example by raising costs of service agreements between the parent company and the subsidiary."

tive of their actions, in contrast to pyramidal structures. Bank holding companies are most closely related to capital operating groups [Trocki, 2004, p. 77]. In these groups, actions are dictated by the interests of the entire group or the parent company. Therefore, those bank subsidiaries operating in Poland which are dependent on international bank holdings are exposed to the adverse effects of such decisions. The risk limits imposed by the foreign parent company on its subsidiaries in a particular country are an example of such decisions. These limits restrict investing surplus liquidity in Treasury securities. In the case of Poland, this means that foreign banks, instead of investing surplus liquidity in Treasury bonds, are forced to invest it in short-term NBP securities with lower interest [Kawalec, 2011 p. 6].

Theoretically, the activity of capital groups should be profitable both for the dominant shareholders and their subsidiaries. They can still implement common market goals, accelerate technological progress, disperse investment risk, and achieve synergy effects. In practice, however, the allocation of these benefits is sometimes uneven; the dominant company often benefits by undermining the subsidiaries, other shareholders, and creditors [Jeżak, 2010, p. 71]. We are faced with dilemmas arising from the autonomy of companies in capital groups. This autonomy is stressed by the doctrine of the law, which orders each company to pursue its own interests, while sometimes these interests do not coincide with the interest of the group of companies. The autonomy of the capital company's interest leads to the "paralysis" of the concept of the capital group as one economic organism [Romanowski, 2010].

It is important to clarify what a company's interest is, which is fairly easy to determine<sup>3</sup>; however, it is harder to determine the interest of the capital group, unless it is assumed that it is the interest of the dominant company (the Code of Commercial Companies defines the interest of a company but does not define the interest of the capital group). Attempts have been made to decide this issue on the basis of the national and EU law applicable to groups of companies.<sup>4</sup> These regulations will decide the permissible range of interference of dominant companies in the activities of their subsidiaries, which, from the formal point of view, are in-

<sup>&</sup>lt;sup>3</sup> A.S. Nartowski described this interest in a simple way: a company's interest is defined by the resolutions of the general meeting of shareholders [Nartowski, 2010].

<sup>&</sup>lt;sup>4</sup> For several years, on and off, work has been done to amend the Polish Commercial Companies Code to include the law on groups of companies. At the level of the European Union, the latest document devoted to company law, the report of the reflection group set up by the European Commission in December 2010, considers the issue of groups of companies as one of the most important problems. The main requirement in this regard concerns normative distinction of the interest of a group of companies in order to ensure greater legal security to members of the bodies of the dominant company and its subsidiaries. This will not only let the managers of the dominant company manage the group and companies owned by the group in accordance with the interests of the whole group, but actually this will become their responsibility [European Commission, 2011].

dependent legal entities and should pursue their own interest. These are important decisions because they will affect the way a member of a group of companies is directed and thus, they will affect the operation of subsidiaries.

After all, managers of a subsidiary and members of its supervisory board must take into account civil and criminal liability linked to the obligation to act in the interest of the company. They may be sued by aggrieved parties (minority shareholders, creditors). They may find themselves in a difficult situation if they are forced to pursue the interests of the dominant company which are incompatible with those of the subsidiary.

We are witnessing the development of regulations which should be of interest to management sciences. For the success of the group, it is important to define an appropriate balance between centralization and decentralization of decision-making. The question arises: to what extent and how can the dominant company optimize the performance of the group. As can be seen, the legal aspects of operation of capital groups are linked to issues that should be of interest to management sciences. Unfortunately, these aspects, as noted by J. Jeżak, are underestimated in the Polish literature in the field of management studies [Jeżak, 2010, p.76]. They should also be an important area within corporate governance because they concern the dominance-dependence relationship, and the interests of entities within the capital group – the classic issues of corporate governance.

It should be noted that the issue under consideration is of particular relevance to public companies with minority shareholders. If the adopted solutions do not sufficiently protect the interests of minority shareholders, giving priority to the interests of the group of companies, this will introduce an element of uncertainty and unpredictability in relation to the operation of subsidiaries listed on the stock exchange, resulting in a loss of confidence in these companies. And confidence is crucial for the functioning of the capital market. The level of confidence affects evaluation of companies and their ability to raise capital, and thus determines the development of the stock market and the efficient performance of its essential functions. It is therefore a problem of great practical importance. Only a few companies among those listed on the Warsaw Stock Exchange are without capital ties. The same is true in other EU countries, where public companies are characterized by concentrated ownership structures. This problem concerns banks, which are of interest to us because the vast majority of banks listed on the Warsaw Stock Exchange are subsidiaries of foreign banks.

## 2. New capital requirements in the banking sector

The banking system in Poland has been dominated by foreign banking groups. Consequently, banks which operate in Poland as subsidiaries within these groups may constrain their lending activity. The financial crisis, ongoing since 2008, has brought about new regulations, agreed by international institutions and governments. This time, these changes mean the greatest transformation in the banking sector in decades. The changes result from the Basel Agreement, a.k.a. Basel III, which postulate to increase the capital of banks [BCBS, 2010a] (requirements concerning the volume of capital which should be at the banks' disposal in case of losses) and to improve the liquidity of banks [BCBS, 2010b] (higher liquidity requirements). EU regulations are designed on the basis of this framework. The consequences of these regulations will also concern banks operating in Poland which are subsidiaries within capital groups of foreign banks. It is therefore appropriate to quote the main provisions of Basel III<sup>5</sup> and drafts of EU regulations.

Of particular note are those provisions of Basel III which are aimed at strengthening the security of banks. These regulations can be divided into two main groups [Morawski, 2011, p. 2]:

- Regulations on the amount and "quality" of banks' core equity capital. The
  Tier 1 Ratio (the ratio of a bank's core equity capital to its total risk weighted
  assets (RWA) is to be higher.<sup>6</sup> These changes will be introduced gradually
  from 2013 to 2019. In 2018, the principle will be introduced which will limit
  the leverage level on basic capital to a factor of 33.
- Regulations regarding the liquidity of banks. They ensure appropriate funds
  in the event clients withdraw their money. If clients do so, the bank must sell
  its assets. Then, if the assets are not sufficiently liquid (few transactions in
  the market), the bank sells its assets at ever-lower prices. At some point the
  value of the bank's assets may be lower than that of its liabilities, which would automatically make the bank bankrupt. Therefore, banks must maintain

The Basel Committee on Banking Supervision was established in 1974 and has been engaged in the development of rules which are to ensure stable functioning of the banking system. New regulations were introduced as a response to subsequent crises in the banking sector. In 1988 an agreement was reached which was called Basel I. However, Basel I did not prevent the financial crises of the late 1990s. In 2004, the New Capital Accord (Basel II) was concluded. The provisions of Basel II were implemented in the coming years, but proved to be inadequate, which was demonstrated by the collapse of Lehman Brothers Bank, which had met all the requirements of those provisions. The recent crisis has forced the Committee to develop subsequent regulations, which are referred to as Basel III.

<sup>&</sup>lt;sup>6</sup> The minimum level of this ratio is 4.5 per cent (previously it was 2 per cent.) In addition, banks will have to maintain a capital safety buffer of 2.5 per cent and a counter-cyclical buffer ranging from 0 to 2.5 per cent of their assets.

a sufficient amount of liquid assets to ensure financing for a period of 30 days of a potential liquidity crisis. Long-term assets, such as mortgages, will be adequately financed by liabilities with maturities greater than one year. The number of assets classified as the most liquid has been reduced.

The Basel III provisions will be implemented in the European Union although not in their entirety, based on the CRD (Capital Requirements Directive), the European Commission package IV. The package will consist of a directive (CRD IV) and a regulation (CRR IV). The task of the CRD IV is to introduce uniform regulations for credit institutions which are meant to prevent problems with the quality of the portfolio and with liquidity. The directive will require the national supervisors, as part of monitoring of the banking market, to impose immediate sanctions on those entities which do not observe the provisions of the CRD IV. In the aftermath of the public finance crisis in several countries of the Euro zone, the European Banking Authority (EBA) acted on the proposal for a CRD IV Directive and subjected 71 large European banks to a so-called stress-tests in order to determine whether they need to increase their equity (based on data as of 30 September 2011). Among them, 31 banks were required to strengthen their capital position. Total recapitalization amounted to Euro 114 billion and banks were required to remedy this capital shortfall by the end of June 2012 (the national supervisory authorities may, following consultation with the EBA, allow the banks to reach the required Core Tier 1 ratio of 9% gradually.)

# 3. Centralization of supervision and management of capital

The above-mentioned increased requirements for capital and liquidity will be a problem not only for the banks that do not meet these requirements, but will also have an impact on those banks that do. Prudential requirements apply to capital groups and, consequently, subsidiary banks can be used to improve the indicators calculated at a consolidated level. This is a problem which should be considered not only in relation to the period of banks' adjustment to higher standards. As it was shown earlier, the mere fact of being in a capital group as a subsidiary may pose a risk to those companies, their minority shareholders and creditors. In the case of banks, it is a much larger problem because it affects the financial system and the economy. The problem is aggravated by the EU regulations on financial supervision. From the point of view of the concept of banks' independence, regulations concerning supervision over banking groups are essential. Evaluation of these regulations will be conducted from the perspective of the host countries, which include Poland.

In 2007, a significant change took place with regard to supervision of international groups. This was because the CRD Directive, implementing the provisions of Basel III, came into force. Previously, a single bank was an entity subjected to regulation and supervision. National supervision authorities could take binding decisions with regard to a bank member of a group, even if such decisions were contrary to the expectations of the parent bank [Reich, 2011, p. 2]. The said Directive introduced consolidated supervision standards and supervision on a consolidated basis. In this way, the supervisors started to deal with banking groups. This means that a consolidated supervisor may make decisions concerning members of a banking group without taking responsibility for the safety of banks situated in other countries.

Supervision at the European Union level was implemented by the college of supervisors consisting of supervisors from the home country and local supervisors from the countries hosting the banks belonging to the group. In 2011, the European System of Financial Supervisors was established, with sectoral supervisory agencies working under it. They (councils of supervisors, represented by supervisors from all member countries) can make binding decisions, which were previously reserved for national supervisors [Reich, 2011, p. 3]. The transfer of the powers of group supervisors to these bodies was dictated by the need to create strong European supervision. They are a more representative body than the former colleges of supervisors, where final decisions were made by the group supervisor. Supervisors from host countries are concerned that these bodies shall be dominated by supervisors from the countries where the parent companies of banking groups reside (the so-called old EU countries) and that the decisions taken will favour the parent companies [Kluza, 2010, p. 12].

Supervising capital groups on the basis of consolidated supervisory standards along with the unification of prudential regulations of the European Union (Single Rule Book) will make it difficult for local supervision to influence the banking system. This presents a special difficulty for financial supervision in Poland due to the fact that it would have to consult its decisions with supervision in the country where the parent company has its seat. For such supervisors, consolidated supervising standards are the basis for making decisions in relation to the level and quality of capital. Within such centralized supervision, there is no room for taking into account the specifics of the local market, e.g., differences in the course of the business cycle and in the fact that the host countries may take anti-cyclical measures at different moments than the home markets [Kluza, 2010].

Supervision of a banking group with uniform standards for the whole area of the group's operation in the European Union must have implications for the operations of the parent banks. Of special note is, in its present form, the provision specified in the draft CRD IV on the management of liquidity and capital at a capital group level. One of the most disadvantageous provisions, from the point of view of the host countries, is the proposal authorizing the subsidiary bank to refuse to comply with a higher capital buffer set by a country in which the subsidiary resides. When this provision is adopted, it will have far-reaching consequences for the safe functioning of the banking sector in Poland.

The impact of parent companies on their subsidiaries in Poland in terms of improvement of the situation in the group regarding capital and liquidity requirements will have an adverse effect on banks operating in Poland and, most of all, on the national economy. Centralized management of liquidity and capital will allow for transferring funds within the banking group. In this situation, subsidiaries will resemble branches of foreign banks. This will seriously reduce the powers of local supervision.

It appears that the threat to banks subsidiaries involves not only the possibility of transferring funds from one bank to another. Improvement of capital ratios at the level of the group does not necessarily involve transfer of funds (collecting dividend, cash transfers). The parent company may reduce or inhibit the growth of assets in subsidiaries by reducing their lending activity. The surplus left with subsidiaries will improve capital adequacy in the group.

As can be seen, the draft regulations for banking groups are consistent with the above demands of the new laws on groups of companies. Regardless of such threats, resulting from the development of new regulations forced by the financial crisis, it is necessary to take into account other consequences of the position of Polish banks as subsidiaries of foreign capital groups. This concerns the previously mentioned problem characteristic of capital groups, that is, parent companies affecting subsidiaries while implementing the interest of the capital group.

# 4. Threats to lending activity

It is a widely shared opinion that when the CRD IV Directive comes into force it will limit the subsidiaries' lending activity. Given that the vast majority of large banks operating in Poland are owned by foreign investors, this is a threat not only to the Polish banking sector, but also to Poland's economy.

Balancing within a group is beneficial for home countries, and that is why politicians from the countries that have the largest European banks opt for this.

Before the crisis, many foreign entities present in the Central and Eastern Europe financed their subsidiaries so that the subsidiaries could extend their local lending activity with these funds. This was also partially the case in Poland. 8 The foreign liabilities of Polish banks (mainly what the subsidiaries owe to the parent banks, but not only) amount to approximately PLN 240 billion. This figure represents 18 per cent of the assets of the banking sector. In the face of the new capital requirements imposed on the largest European banks, the banks were obliged to reach best quality capital at the level of 9 per cent of risk weighted assets by mid-2012. Since under the present circumstances it is extremely difficult to raise additional capital, many banks are going to achieve this objective by reducing their total balance sheet. In this situation, the number of banks interested in acquiring new assets has plummeted. The buyers require the sellers to participate further in financing the existing credit portfolio (especially in foreign currency) of local subsidiaries, but the present owners are not interested. For the sellers, a sale makes sense, from the point of view of deleveraging the group, if it releases the funds lent to the bank. It should be assumed that if such sales do not take place, the bank owners will change their market strategies for their subsidiaries in Poland. The main objective of subsidiaries would be to repay the lines of credit that had been granted to them. In the case of these banks, their market activity would be concentrated on acquiring new deposits, but these deposits would be used to replace the lines of credit repaid, rather than grant new loans. This would adversely affect the dynamics of the whole sector [Kornasewicz and Halesiak, 2011, pp. 11-12]. This action can be defined, as it was earlier mentioned, as optimizing the results of the whole group. Of similar nature are activities aimed at reducing lending activity in subsidiaries and using the released capital in other markets, where the group is short of capital.

Considering the ownership structure of banks in Poland, we have to adopt a longer perspective and take into account not only the risks described above, associated with the transition period during which the banks will adapt to the new prudential requirements, but also some major threats resulting from the transfer of risk from external markets to local markets. This opinion seems to be confirmed by the declining importance of parent banks in internal financing of the lending activity of their foreign subsidiaries over the last four years. On the other hand, the share of funds acquired by bank subsidiaries in their own markets is growing. It turns out, however, that they are not able to adequately replace the loss of internal

Not all banks can expect such financing under normal conditions. For example, BZ WBK, owned by Santander, or Bank Śląski of ING Group do not receive funds to increase their lending activity from their owners.

financing. The study on the lending activity and deposits of bank subsidiaries (foreign banks, dependent on large international banking groups) and domestic banks, conducted between 1992 and 2009, has shown that during the financial crisis the lending activity of foreign banks in relation to domestic banks in host markets was significantly lower (it grew slightly in the years 1992–1997 and in 1999) [Haas and Lelyveld, 2011, p. 6].

This is mainly explained by the much lower funds received from the parent banks. Since late 2008, the phenomenon of reverse flow inside banking groups has been observed, i.e., capital has flowed from foreign bank subsidiaries to the parent banks [Zarazik, 2011, p. 5]. In Poland, foreign banking groups have limited lending to Polish companies while at the same time PKO BP has increased the loan portfolio for enterprises by 23 per cent in real terms (Table 1). In 2009, out of 10 major banks, PKO BP was the only bank that was willing to lend to new corporate customers [Kawalec, 2011, p. 3].

Table 1. Growth of loans in Poland in the years 2009-2010

Total real growth in 2009–2010, in per cent.	
Poland's GDP	5.6
Growth of loans to businesses across the banking sector	-6.3
Growth of loans to businesses granted by PKO BP	22.7
Growth of loans to businesses granted by co-operative banks	36.5
Growth of loans to businesses granted by other commercial banks (i.e., without PKO BP)	-11.0

Source: Kawalec [2011, p. 3].

### 5. Rationale for domestication of banks

Nearly 70% of the assets of the Polish banking sector is owned by entities that are subsidiaries of foreign entities [Kluza, 2010, p. 12]. Having this in mind, and given the course of the global financial crisis, the growing government debt crisis in the EU, as well as the expected effects of the implementation of Basel III, S. Kawalec proposed to take a new perspective on the structure of the Polish banking sector and to make Polish banks independent [Kawalec, 2011]. The concept of this transformation is termed, as mentioned in the introduction, as domestication of banks. It can be described as follows [Kawalec, 2011]:

<sup>&</sup>lt;sup>9</sup> This paper started a lively discussion on ownership transformations in the Polish banking sector.

- The conditions for the operation of the Polish banking sector, dominated by the foreign-controlled banks, are not conducive to a stable and efficient performance of the financial intermediation function by this sector and do not reduce the country's macroeconomic risk.
- Almost all banking systems in the largest EU economies, with the exception of Poland, are dominated by banks with decision-making centres in particular countries.
- In the early period of transformation in Poland there was a shortage of bank management competencies in a market economy and a deficiency of Polish investors with adequate capital who could become competent and reliable shareholders controlling banks.
- In the process of privatization, reliable foreign strategic investors were sought to support banks with capital, appropriate management, and transfer of know-how.
- Currently, the Polish financial market is well developed and there is no need for it to be based on management exercised by foreign institutions because:
- There are a large number of Polish managers who are capable of managing banks and have gained practical experience.
- There is a wide group of professional institutional investors, primarily OFE and TFI, with large sums of money and management teams capable of professional judgment, which are ready to participate in a professional system of corporate governance.
- Furthermore, there exists a strong and relatively competent supervisory infrastructure
- A bank which is part of an international banking group is guided in its activities in the Polish market not only by assessing the situation and prospects of Poland's economy as well as its own financial situation, but also by the situation of the whole banking group. As a result, the problems in the economy of the group's home country or the financial problems of the group can significantly affect the financial intermediation function performed by banks in Poland.
- In order to effectively stop booms in particular segments of the market it may be necessary to adapt the parameters of banks' operation to the situation on the local domestic market. These parameters involve: capital requirements, maximum ratio of credit to the value of real estate or income, etc., but it will be difficult if the so-called "maximum harmonization" of supervisory rules proposed by the European Commission is introduced. The only body with authority to influence a bank's policy through prudential parameters will be

- supervision at the level of the banking group, and the parameters will be uniform for the entire area of the banking group's operations in the EU.
- The expected centralization of management of capital and liquidity in large international banking groups will mean in practice the abolition of requirements ensuring liquidity and a stable capital base in particular bank subsidiaries operating in other countries than the parent bank.

Guided by these premises, S. Kawalec proposes that the share of banks controlled and managed locally in the assets of the banking sector in Poland should be increased. However, the objective of the regulators' policy should not be to eliminate banks dependent on foreign banking groups, but to reduce, to a reasonable size, the share of their assets in the assets of the banking sector. It would be reasonable to reverse the present structure, in which banks dependent on foreign financial institutions hold two-thirds of the sector's assets, while locally controlled banks account for only about one-third.

In order to get a full picture one should also discuss the opinions of the opponents and sceptics of the concept of domestication of banks, who point out that:

- Such a model precludes the possibility of obtaining support from the owner in difficult situations.
- OFE investment funds will prefer a short-term approach.
- Polish banks still have little capital, which should not be used to pay off foreign capital.

With regard to the first objection, it should be noted that all the world's largest banks have an ownership structure as the one proposed. The Hungarian OTP bank is similar to foreign bank subsidiaries in Poland in terms of size and after privatization it has been working without strategic investor. In Canada, there is a rule that the bank which collects domestic deposits must not have a shareholder holding more than 20 per cent of its shares (previously the threshold was 10 per cent).

In the last two years, four European banking groups have decided to sell their banks in Poland. In the light of the arguments quoted above it would be advisable to take advantage of this situation and change the structure of the Polish banking system.

### Conclusion

At the time when Polish banks were privatized, EU regulations did not provide any special treatment for EU banking groups, the relationships between parent and subsidiary banks, or between home and host supervision. The course of the global financial crisis, the increasing crisis of government indebtedness in EU

countries, as well as the expected effects of the implementation of Basel III and the proposed CRD IV regulations incline one to make proposals for changes in the ownership structure of the Polish banking sector. Banks operate as subsidiaries within international banking groups. The resulting problem is not so much the risk of tunnelling as the fact that bank subsidiaries are subjected to the process of optimizing the results of the capital group. In the case of banks, this process is not only important for minority shareholders, but, most of all, for the economy. Its negative consequences for the economy (in the form of reduced lending activity of subsidiary banks) will be followed by the centralization of capital and liquidity management processes at the level of banking groups. Therefore the problem concerns not only the transitional period when banking groups will be adapting to new capital requirements. Importantly, Polish banking supervision will be subject to restrictions in setting prudential parameters in relation to banks which are members of banking groups with head offices in other EU countries. As can be seen, it is an unfavourable situation from the point of view of the national economy to have banks which are not managed or controlled locally. Therefore, it would be advisable to request relevant institutions (the Polish Financial Supervision Authority, the National Bank of Poland, and the government) to increase the share of locally controlled banks in the assets of the Polish banking sector, which can be described as domestication of banks

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