



Transfer of experiential and innovative teaching methods for business education

Leonardo da Vinci Project

Transfer of Innovation

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Company X

Case study

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“What a beautiful neighbourhood. It would be nice to live here”

Mark Kaczmarek, Credit Risk Director of Corporate Banking for the Wielkopolska and Kujawski Region at Raiffeisen Bank Poland S.A., had been persuaded to visit the site by his colleague, Jack Kowalski, who had submitted a lending proposal to assist one of the bank’s corporate clients to acquire the land for property development.

Company X had been offered the opportunity to purchase the land for 1.8 million PLN. According to research undertaken by Jack, the land could be sold for twice as much, once the ground had been prepared for housing development and parcelled up into separate plots.

Mark wanted to see the land for himself to be better able to appraise the lending proposition, but also to assess the judgment of Jack, as he was a relatively new credit analyst for the bank and had little experience of dealing in proposals of this size and nature. After the visit Mark promised he would support the proposal and endeavour to put it before the Credit Committee by the end of the month. He had some reservations about the client’s financial position, but felt sure that the land offered adequate security for the loan proposed.

Company X, which is based in Poznan, operates out of rental accommodation. It has specialised in financial intermediation for small and medium sized businesses since its inception in March 2000. It is one of many such companies in the western part of Poland. The majority of the company's revenue is earned by way of commission for introducing business to leasing companies. For each company that becomes a client, the company receives a commission of around 0.2-1% of the leasing agreement, provided that the transaction is completed. The company sources some of its business through other intermediaries, who in turn receive a commission for business ultimately transacted by the leasing company.

In addition, Company X provides insurance brokerage services for the leasing companies with which it works. The company has only two full-time employees, the President and Vice President. It has gradually increased the range of activities in which it is involved and has achieved impressive growth in turnover and profits. The rate of revenue growth for the two years preceding the loan application was nearly 103% per cent, while net profit in 2008 exceeded 5.5 million PLN.

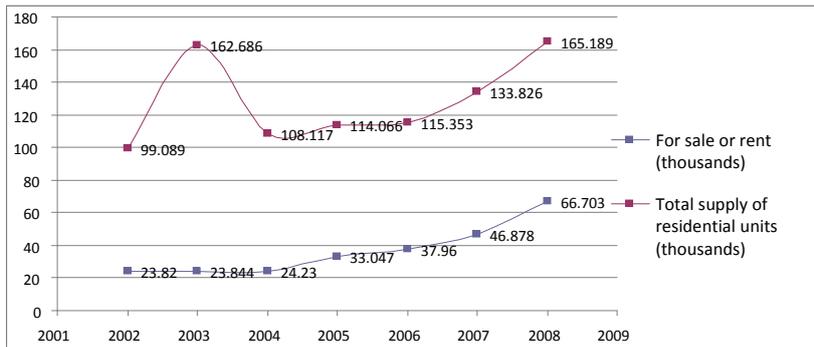
Investment activities

Up to now, the company has used all its profits to invest in the shares of companies publicly traded on the Warsaw Stock Exchange. At the beginning of 2009 the owner of the company decided to "diversify" the portfolio of investments and sought to purchase land plots in order to resell them to real estate developers. The property that is at the centre of the lending proposal extends to an area of 15000 m² and is situated in Komorniki, 2 km from Poznan. Access to the site is good, being located only 800 metres from the highway. Two sides of the plot are bordered by forest and fields, with the other sides being adjacent to some residential cottages and a large complex of modern apartment blocks. A primary school and secondary school, plus a sports and rest centre were completed two years ago for the residents of the neighbourhood. There are also a lot of new shops and various amenities in the area.

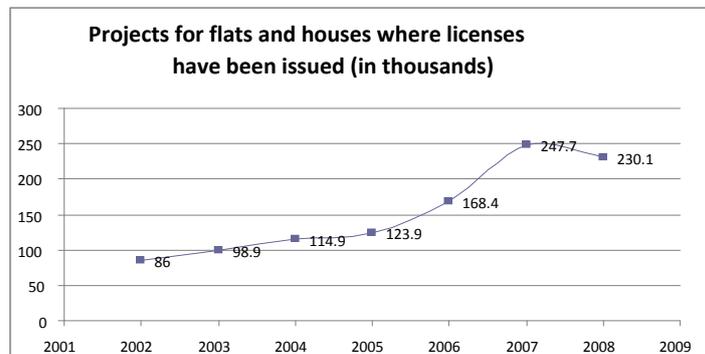
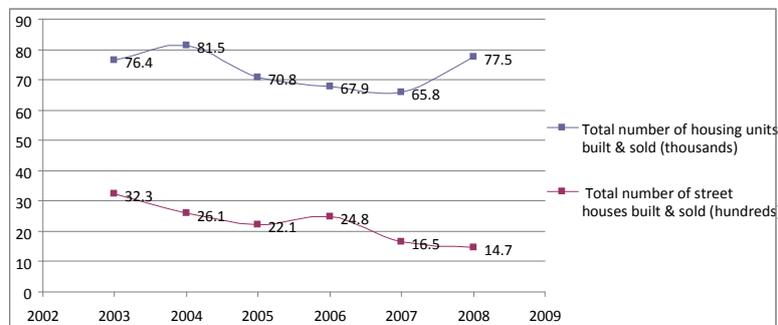


The situation in the property market

Over the past few years the Polish real estate market has developed very rapidly, especially in and around various major cities such as Poznan. The price of new housing has increased rapidly and the price of building land only slightly less so. Many companies have done business selling prepared plots to property development companies that build houses and flats for sale or for rent on them.



However, for some time there had been a slowdown in the construction market. A symptom of this was a reduction in the number of building permits issued, as well as the number of street houses being built and sold.



Raiffeisen Bank Polska

Raiffeisen Bank Poland S.A., based in Warsaw, is part of the Austrian banking group Raiffeisen Bank International AG, with its headquarters in Vienna. It has nearly 20 years of experience on the Polish market. The Bank is classified as medium-sized, with an annual turnover 1081 million PLN. It specializes in servicing medium and large businesses, leasing services and factoring.

Credit proposal

John Doe, the President of Company X, approached the bank to provide financing for a “bridging loan” of 1.5 million PLN. It was established that the term of the loan would be 16 months, with the repayment of capital at the end of this period, following sale of the property by the company. Monthly interest instalments would be paid at a variable rate (WIBOR + 2.5%). The company estimated a rate of return on the investment (before interest and tax) of about 30%.

Since its inception, the company has been using the services of the bank. However, until now cooperation has been limited to operating a current account. Up until now the company had not required, nor sought financial support from any other bank.

Jack Kowalski had prepared the loan proposal for consideration by Mark. Although the strength of Mark’s support for the proposal was crucial, Jack knew that its acceptance was subject to the scrutiny of the bank’s Credit Risk Department and ultimately by the decision of the Credit Committee. Moreover, the Credit Committee receives an application prepared by a bank analyst. This is an important element in the decision making procedure by the Credit Committee.

Opinion of the Department

Mark felt that the loan proposal had merit and he wanted to be seen to be encouraging Jack. Jack had limited experience in property development funding, but this opportunity to extend the banking relationship with Company X was worth considering by the Credit Committee. He knew that the Credit Committee had sanctioned similar deals and that property development loans now represented only 2% of the bank’s loan portfolio. Mark had seen many less attractive proposals and the financial position of Company X appeared good. Much also depended on the opinion of the analyst, but in Mark’s opinion everything should be OK.

On the down-side Company X had not had much experience in property development activities. Its diversification into property development activities could be viewed as speculative by the Credit Committee. The amount of the loan meant that the bank was taking a sizeable risk for quite a modest return. Realisation of the return would be dependent upon

the successful sale of the land in 16 months' time. The Credit Committee's support for the loan proposal appeared to hinge on an appraisal of the company's financial position and its ability to raise additional finance to repay the property loan should there be a delay in completing the development of the site. Although the loan requested was only 83% of the purchase price, no-one could foresee the extent to which the recent downturn in the housing market would undermine the security value of the land being acquired.

Jack anticipated the Credit Committee asking for further information and an explanation of some entries in the company's accounts, but he remained hopeful that the deal would go through eventually.

Annex

| | Dec-07 | Dec-08 |
|--|-----------|------------|
| | PLN thou. | PLN thou. |
| Total Revenues | 5 761.64 | 6 560.06 |
| CoS/ CoGS / Cost of Materials & Consumables TCM | 2 623.61 | 187.43 |
| Gross Profit | 3 138.03 | 6 372.63 |
| Personnel Expenses TCM | 0.95 | 11.11 |
| Rental and Lease Expenses | - | - |
| SG&A-Expenses, Other Operating Expenses | 3.74 | 55.21 |
| EBITDA | 3 133.34 | 6 306.31 |
| Depreciation and Amortization TCM | 0.00 | 5.56 |
| EBIT | 3 133.34 | 6 300.76 |
| Interest Income | 0.07 | - |
| Income from Investm. in Subsidiaries/Affiliates | - | - |
| FX Gains | - | - |
| Other Ordinary Financial Income | - | - |
| Financial Income | 0.07 | - |
| Interest Expenses | 222.12 | 4.87 |
| Loss from Investm. in Subsidiaries/Affiliates | - | - |
| FX Losses | - | - |
| Other Ordinary Financial Expenses | 8.16 | - |
| Financial Expenses | 230.27 | 4.87 |
| Ordinary Income | 2 903.13 | 6 295.89 |
| Extraordinary Income | 0.01 | 455.69 |
| <i>thereof gain on disposal of fix. ass. & investm.</i> | - | - |
| <i>thereof revaluation of fixed ass. & investm.</i> | - | - |
| <i>thereof FX gains</i> | - | - |
| <i>thereof adjustments to current assets</i> | - | - |
| <i>thereof release of provisions</i> | - | - |
| <i>thereof positive effects of accounting change</i> | - | - |
| Extraordinary Expenses | 455.69 | 0.82 |
| <i>thereof loss on disposal of fixed ass. & investm.</i> | - | - |
| <i>thereof write-down of fixed ass. & investm.</i> | - | - |
| <i>thereof FX losses</i> | - | - |
| <i>thereof adjustments to current assets</i> | 455.69 | - |
| <i>thereof transfer to provisions</i> | - | - |
| <i>thereof negative effects of accounting changes</i> | - | - |
| <i>thereof amort. of goodwill (not stable in value)</i> | - | - |
| <i>thereof restructuring charges</i> | - | - |
| Extraordinary Results | - 455.68 | 454.87 |
| Pre-Tax Profit / Loss | 2 447.45 | 6 750.76 |
| Income Tax | - 566.84 | - 1 111.80 |
| Net Profit / Loss | 1 880.62 | 5 638.95 |