

Polish Financial Weekly

First True Telecom Bank in Europe?

- **Strategic Alliance of Alior Bank and T-Mobile Polska** – On December 11, 2013 Alior Bank signed an agreement with T-Mobile Polska, one of the leading mobile operators in Poland, on future cooperation in the area of selling banking services to telecom's 16 million customers under the T-Mobile brand. According to Alior, the agreement will lead to the creation of the first true telecom bank in Europe. We note, however, that Mr. Zygmunt Solorz-Zak, who controls Polkomtel mobile operator and Invest Bank, also has plans to combine a mobile telecom with a bank.
- **100% Dividend Payout Ratio Allowed** – KNF (Polish FSA) published its recommendation on dividend payouts on 2013 earnings. In line with previous indications, well-capitalised banks and insurers will be allowed to pay out up to 100% of net profit (the upper limit last year for banks was 75%).
- **Positions Changes in mBank** – In January 2014 Paweł Kucharski, the head of marketing and development of retail banking, will be replaced by Michał Panowicz, who recently led the "new mBank" project. Starting from the beginning of the next year Mr Kucharski will be responsible for development of mBank's business in Czech Republic and Slovakia. According to Puls Biznesu daily the appointment of the new head of mBank's foreign operation may indicate the bank's intention to accelerate the growth of that division.
- **The Charts of the Week...** – ...present the similar trends in PKO BP's and GNB's net interest margin and cost of risk.
- **Other Publication** — Investors looking at Polish financials may find interesting our notes [Austrian Banks - Austria to Raise Bank Levy by €100m](#) and [Sberbank RF \(SBER.MM\) - Solid November RAS Results](#).
- **YTD and Weekly Performance** — In the previous week, the best performer among Polish financials was again Alior Bank, rising 1.5%. WIG Banks declined 1.6% wov (+20.9% YTD), while the WIG fell 1.8% wov (+9.1% YTD). The Zloty depreciated 2.4% YTD (0.2% appreciation over the week) vs. the Euro. WIBOR 3M was flat at 2.65% (vs. 2.65% a week ago and 4.11% at the beginning of the year).

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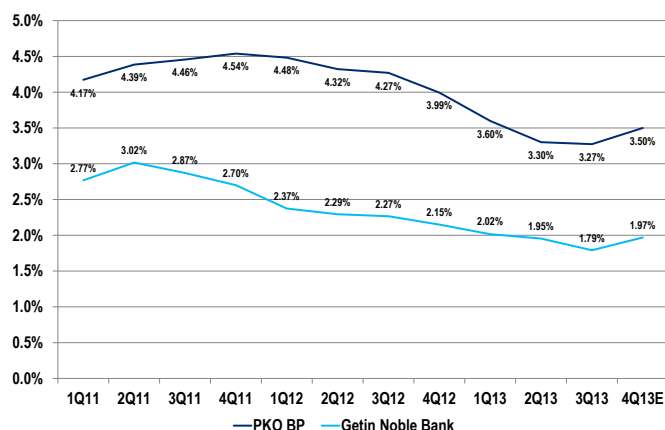
	Current Price	Last week	YTD
Alior Bank	77.99	1.5%	24.5%
PZU	455.85	0.4%	4.3%
Getin Noble Bank	2.81	-0.4%	57.0%
Millennium	7.30	-0.7%	65.2%
PKO BP	39.3	-1.1%	6.4%
Open Finance	16.70	-1.1%	19.3%
mBank	505.4	-1.6%	55.0%
Getin Holding	4.3	-2.5%	51.8%
Pekao	178.05	-2.8%	6.3%
ING BSK	110.7	-5.6%	21.6%
WIG Banks	8,037	-1.6%	20.9%
WIG	51,762	-1.8%	9.1%

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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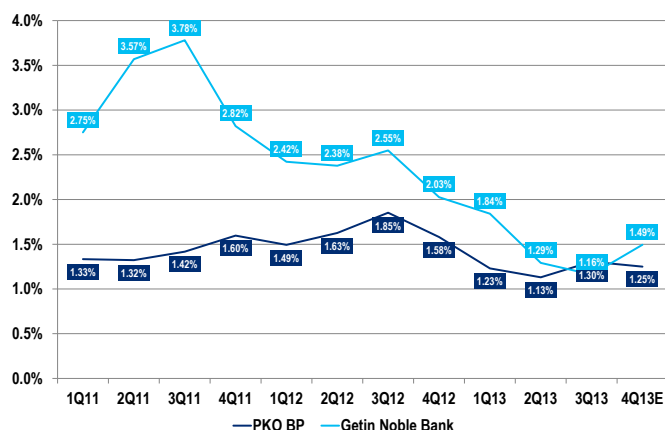
Charts of the Week

Figure 1. PKO BP, GNB – Net Interest Margin, 1Q11 – 4Q13E (Polish Zloty in Million, Percentage)



Source: Company Reports, Citi Research

Figure 2. PKO BP, GNB – Cost of Risk, 1Q11 – 4Q13E (Percentage)



Source: Company Reports, Citi Research

Summary of Stock and Sector News

- **Alior Bank and T-Mobile Alliance** – On December 11, 2013, Alior Bank and T-Mobile Polska, one of the leading mobile operators in Poland, agreed to cooperate in the area of selling banking services. T-Mobile Polska will distribute, under its own brand, banking services provided by a separate division of Alior Bank through its branches (1,000 outlets), mobile devices, the internet, a contact center and a virtual branch. According to Alior, this business model is unique to Europe and creates an option to expand the cooperation to other T-Mobile markets worldwide. In the first stage the alliance will provide a wide range of banking products like current accounts, deposits, loans and mobile payments to retail customers but in the next step products will be offered also to business clients. Alior aims to acquire 2 million clients out of 16 million T-Mobile customers (including 7 million post-paid) within five years and intends to reach 16% ROE in third year of the project and c.40% in the fifth year. The beginning of the sale is scheduled at 1H14.

T-Mobile's revenues will consist of three parts:

- an initial payment for a new customer (fulfilling certain criteria),
- a monthly fee depending on total number of acquired customers and
- 35% of Alior's "telecom branch" pre-tax profit.

The agreement will last five years with automatic prolongation option for subsequent five-year period. T-Mobile has a call option allowing a bank designated by the operator to purchase an organized part of Alior's banking enterprise comprising of the clients and products plus Alior Bank's resources directly linked to this business line. If T-Mobile decides to exercise its call option, the bank will receive ZI 400-500 per client. According to Alior's forecasts of the number of acquired clients (2 million) it will imply ZI 0.8-1bn income for the bank.

- **Plus Bank Launched** – Starting on December 6, Invest Bank began operating as Plus Bank. "Plus" is a brand name used by Polkomtel, the leading mobile operator in Poland, to sell its mobile services. Invest Bank will be authorised to use the Plus brand, due to a commercial agreement with Polkomtel. Plus Bank is going to

prepare a mobile banking offer for customers of the mobile operator Polkomtel and the satellite television Cyfrowy Polsat (all three companies, i.e. Invest Bank, Polkomtel and Cyfrowy Polsat are controlled by Zygmunt Solorz-Żak). According to *PRNews.pl* Polkomtel has 14m clients and Cyfrowy Polsat 3.5m clients. Plus Bank plans to present a new offer in 1Q14.

Our Take: Due to the better banking and marketing know-how of Alior we think that its alliance with T-Mobile has a better chance of success than the project of small Invest Bank but generally we are skeptical that telecoms' crowded point-of-sales and call-centres will be an effective distribution channel to sell banking products.

- **Managers' Changes in mBank** – According to *Puls Biznesu* daily since January 2014 Paweł Kucharski, one of the creators of mBank and currently the head of the marketing and retail business development division, will lead Czech Republic and Slovakia mBank's activities as a deputy director responsible for products and marketing. Mr. Kucharski will be replaced in Polish mBank's structures by Michał Panowicz who recently has led the "new mBank" project and has been the director of Client Lab division (before joining mBank two years ago Mr. Panowicz worked for Microsoft). Simultaneously Jacek Iljin, the current head of basic services and non-banking products division in mBank, will take the position of sales and business processes director. Mr Iljin has worked in mBank since 2002 and has been involved in the project of Czech Republic and Slovakia expansion and developing of CRM tools.

PRNews.pl speculates that Cezary Stypułkowski, mBank's CEO, may decide to replace managers related to Sławomir Lachowski, the founder on mBank online bank and one of the former bank's CEO, by persons hired by him. On the other hand, *Puls Biznesu* notes that Paweł Kucharski had asked for the new post for himself and according to the newspaper his appointment will be a new opening of mBank's foreign activities.

- **KNF's Dividend Recommendation** – KNF (Polish FSA) has published its recommendation on dividend payouts in the Polish financial sector. As indicated previously by KNF's representatives, the banks fulfilling the strict requirements (i.e. banks reporting CAR above 12% and Tier 1 above 9%, capital ratios above these thresholds according stress-tests at the end of 2014 and a strong BION [supervisory test] rating) will be authorised to pay out dividends of up to 100% of 2013 net profit.

Figure 3. Polish Banks – Dividend Forecasts, 2013E (Polish Zloty, Percentage)

	EPS	DPS	Expected Dividend Payout Ratio	Expected Dividend Yield
PKO BP	2.66	0.53	20%	1.4%
Pekao	10.32	10.00	97%	5.6%
Millennium	0.45	0.22	50%	3.1%
ING Bank Śląski	7.19	5.39	75%	4.9%
mBank	27.38	13.69	50%	2.7%
Getin Noble Bank	0.13	0.00	0%	0%
Alior Bank	3.10	0.00	0%	0%

Source: Citi Research and DataCentral, Prices on December 13, 2013.

- **Management Changes In Open Finance and GNB** – On December 6, 2013 Krzysztof Spyra resigned from his position as CEO of the company because KNF (Polish FSA) recommended that he should not be simultaneously Open Finance's CEO and a member of Getin Noble Bank's management board. Mr. Spyra was replaced as Open Finance CEO by Maurycy Khün, who was also a member of Getin Noble Bank's management board but resigned from that post. On December 13,

2013, Ms. Helena Kaminska, the company's executive director, was appointed as member of Open Finance's management board.

- **mBank Pulls The Plug** – According to *Rzeczpospolita* daily, starting on January 9, 2014 the previous transactional system will not be available for the first group (4,000) of mBank's clients and they will have to use the new system. The new transaction system in mBank will completely replace the former system by the end of 2014. Previously mBank informed clients that both systems would be used with no deadline set for the old transactional system. According to the company, 50% of customers log in via new platform. Former customers of Multibank will be able to use the new system starting with the end of 2014 or the beginning of 2015.
- **Alior Successfully Raised Capitals** – Alior Bank informed the public that the private placement issuance has been completed. All six million new shares were sold at ZI 73 per share and Alior raised capital by ZI 464m. The bank submitted a request to GPW in order to admit rights to issued shares to trading.
- **mBank Bonds Issuance** – According to Piotr Cyburt, the CEO of mBank Hipoteczny (the mortgage bank fully owned by mBank) as quoted by PAP, mBank Hipoteczny will issue mortgage-backed bonds (*listy zastawne*) at the end of 1Q14 or at the beginning of 2Q14. It will be a first in Poland for the issuance of mortgage-backed bonds backed by retail mortgages. For two months mBank has offered retail clients mortgage loans produced by its mortgage bank.
- **PKO BP to Launch Mortgage Bank** – According to Rafał Kozłowski, who is responsible for the mortgage bank project at PKO BP, as quoted by PAP, PKO BP is going to submit a mortgage bank application to KNF at the end of 2013 or at the beginning of 2014. Rafał Kozłowski confirmed that the mortgage bank will be based on Nordea Bank Polska assets and that PKO BP's aim is to sell 30% of mortgage loans by its mortgage bank starting from the end of 2014 or the beginning of 2015.
- **A Seasonal Increase in Claims in PZU** – According to PZU spokesman, Michał Witkowski, as quoted by PAP, the insurer has seen the increase in a number of claims for damages due to recent strong winds and snowfall in Poland but the scale of growth is usual for this season and covered by provisions.
- **Alior, GNB and PKO BP Leads in Current Account Acquisition** – According to *PRNews.pl*, the highest growth in number of current accounts in 9M13 noticed Alior Bank (+204k, both Alior Bank and Alior Sync), followed by Getin Noble Bank (+176k) and PKO BP (+148k).

Figure 4. Polish Banks – Number of Current Accounts, 4Q12-3Q13 (Thousands)

	4Q12	2Q13	3Q13	YTD	qoq
PKO BP	6 135	6 254	6 283	148	29
Pekao	3 414	3 442	3 495	81	53
mBank	2 534	2 609	2 644	110	35
ING	1 949	2 013	2 062	113	49
Millennium	1 573	1 465	1 467	-106	2
Eurobank	1 463	1 477	1 455	-8	-22
Alior Bank	1 212	1 333	1 415	204	82
Credit Agricole	1 199	1 199	1 055	-144	-144
Bank Pocztowy	727	849	824	97	-24
Getin Noble Bank	598	722	774	176	52
BGZ	601	626	635	34	9
Raiffeisen Polbank	483	459	437	-46	-22
Deutsche Bank PBC	265	278	280	15	3
BOŚ	202	208	214	13	6
Nordea Bank	192	197	204	12	7

Source: PRNews.pl

Figure 5. Polish Financials – Market Multiples, 2012-2014E

Company	RIC	Current Price	Rating	Target Price	P/E			P/BV			ROE		
					2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E
PKO BP	PKO.WA	39.26	1	47.00	13.0	14.7	14.0	2.0	1.9	1.7	16%	13%	13%
Pekao	PEO.WA	178.05	2	182.00	15.8	17.3	16.1	2.0	2.0	2.0	13%	12%	12%
Bank Millennium	MILP.WA	7.30	3	5.90	18.7	16.2	12.3	1.8	1.6	1.5	10%	11%	13%
ING BSK	INGP.WA	110.65	2	116.00	17.6	15.7	15.3	1.8	1.7	1.7	11%	11%	11%
mBank	MBK.WA	505.35	3	466.00	17.5	18.3	16.5	2.2	2.0	1.9	14%	12%	12%
Getin Noble Bank	GNB.WA	2.81	2H	2.90	20.1	21.2	12.2	1.6	1.5	1.4	8%	7%	12%
Alior Bank	ALRR.WA	77.99	3H	74.00	93.8	25.1	18.9	2.6	2.4	1.9	3%	10%	12%
Getin Holding	GTN.WA	4.28	2H	3.83	5.2	16.1	12.7	1.7	1.6	1.4	16%	10%	12%
PZU	PZU.WA	455.85	1	443.00	12.8	12.4	13.5	2.8	3.0	2.9	24%	24%	22%
GPW	GPW.WA	41.54	1	49.00	16.4	17.0	13.1	3.1	2.8	2.6	20%	17%	20%
Open Finance	OPF.WA	16.70	2H	18.20	7.4	15.5	12.3	2.5	2.2	1.9	40%	15%	17%

Source: DataCentral, December 13, 2013 prices

Appendix A-1

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Data current as of 30 Sep 2013

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