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**Article**

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## PUBLIC ISSUE OF BANK BONDS CASE STUDY OF BANK POCZTOWY S.A.

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### Abstract

This article concerns the financing of banking in Poland through public bond issues addressed to individual investors. It is a case study of Bank Pocztowy, which, as one of three banks in Poland, decided to raise capital through the public issue of bonds, the buyers of which were to be individual investors. This article uses the research methodology of case study analysis. In addition, a questionnaire with open questions was used. The purpose of the article is to examine the role of bonds in the public issue process in the financing of private banks in Poland. The results of the research show that it is possible to say that individual investors are interested in diversifying their savings by acquiring bank bonds.

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## INTRODUCTION

Bonds are an important part of the financial system of every financial market and are one of the most important instruments used for subsidized financing. Both public entities such as the national or local government as well as private entities use bonds.

A bond is a kind of a loan for the repayment of which its issuer is obliged under terms of the issue (Sławiński, 2006, p. 30). Provision can have both a monetary and non-monetary form, one example may be convertible bonds (Pastusiak, 2009, p. 90). The possibility of modeling the structure of the issue directly affects the cost of capital, while encouraging coverage of the actual demand for capital. This is achieved e.g. when the company splits the issue into tranches under the programme of issuing (Podedworna-Tarnowska, 2009, p. 499).

The purpose of the article is to examine the role of bonds in the public issue process of in the financing of private banks in Poland. This is a specific type of issue, which is implemented on the basis of a prospectus subject to approval by the Polish Financial Supervision Authority. The paper hypothesizes that the public issue of bonds due to the specifics of the banks will be the source of their long-term financing but will also allow individual investors to place their surplus funds. In order to verify the hypothesis, a case study was carried out on Bank Pocztowy which decided to raise capital in this way. In addition, the paper used a questionnaire with open questions where an interview with a representative of the Bank was conducted.

## BONDS AS A FINANCING INSTRUMENT

The capital market in Poland, which began to grow along with the launch of the stock exchange in 1991, was regarded as a symbol of introduced economic reforms (Pietrzak, Dzierżanowski & Sowinski, 1998, p. 5). In addition, the privatization process was linked to its development (Czekaj & Owsiak, 1999, p. 19). In the Anglo-Saxon model of the system of financing, debt securities are a major source of raising capital and debt trading is developed. In Poland however, prior to the creation of the Catalyst market, it was difficult to talk about a fully operating organized trading market (Kordela, 2012, p. 170).

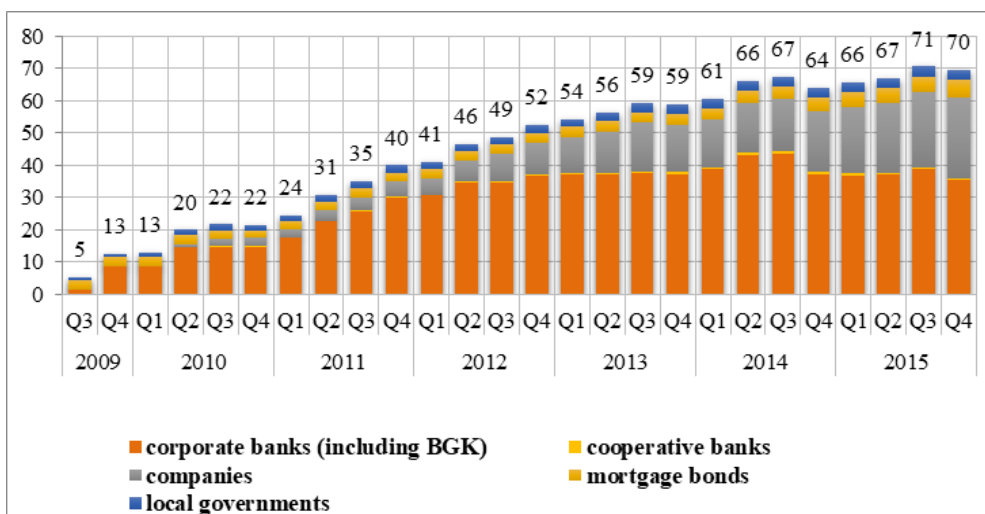
In the 1990s, the corporate bond market in Poland had just emerged. Bonds convertible into shares constituted a dominating group of instruments. There was no secondary market, as investors held bonds until maturity or conversion into shares (Antkiewicz, 2012, p. 148). Almost all the issues were of a private nature and a key player in the bond market was the Central Table of Offers, which later evolved into the MTS CeTO.

Only the creation of an organized bond trading market in Poland can be regarded as an impulse to the development of the bond market. Catalyst was launched on September 30, 2009. It is worth noting that at that time the rebound in global stock markets had already lasted for a few months and investors began to look for new investment opportunities. In addition, the companies still had problems with loans, hence the new platform for debt instruments turned out to be an opportunity for all. The Catalyst market is still small and inexperienced, but it is developing rapidly (Czerwinski, 2011, p. 63). It is worth noting that in 2010-2014 companies raised from the issue of bonds PLN 70.7 billion, compared to PLN 23.8 billion raised in 2002-2009, when the Catalyst market did not exist (National Bank of Poland in 2015, Warsaw).

With the start of its operations, Catalyst introduced to trading bonds of such entities as the capital city of Warsaw, Electus and the city of Radlin. Instruments of the European Investment Bank, BRE Bank Hipoteczny, the European Mortgage Fund, Pekao Bank Hipoteczny and the cities of Ostrów Wielkopolski, Poznań and Rybnik were transferred from the main floor (Gemra, 2014, p.336). Turnover in the first day amounted to PLN 66 thousand. Although the number seems to have a symbolic value, the start of the new market was successful, because earlier such non-Treasury bond turnovers were rare on the main trading floor. At the same time Catalyst paved a new way, because it was the first such market in Central and Eastern Europe (Gemra, 2013, pp. 277-280).

Catalyst is the youngest organized market in our country. The dynamics of its development, especially in the initial phase, is impressive. Since its inception, the organizer of the market counted on the increase in the value of available non-Treasury debt paper. Of course, in the first quarters, the so-called low base effect helped, which contributed to increases of the value of listed instruments. We can say that since 2014 the rate of growth has slowed, but the volume of available bonds is still growing. The data is demonstrated in Chart 1.

**Chart 1: The value of non-Treasury issues listed on the Catalyst market, data in PLN billion, from 30.09.2009 to 31.12.2015**



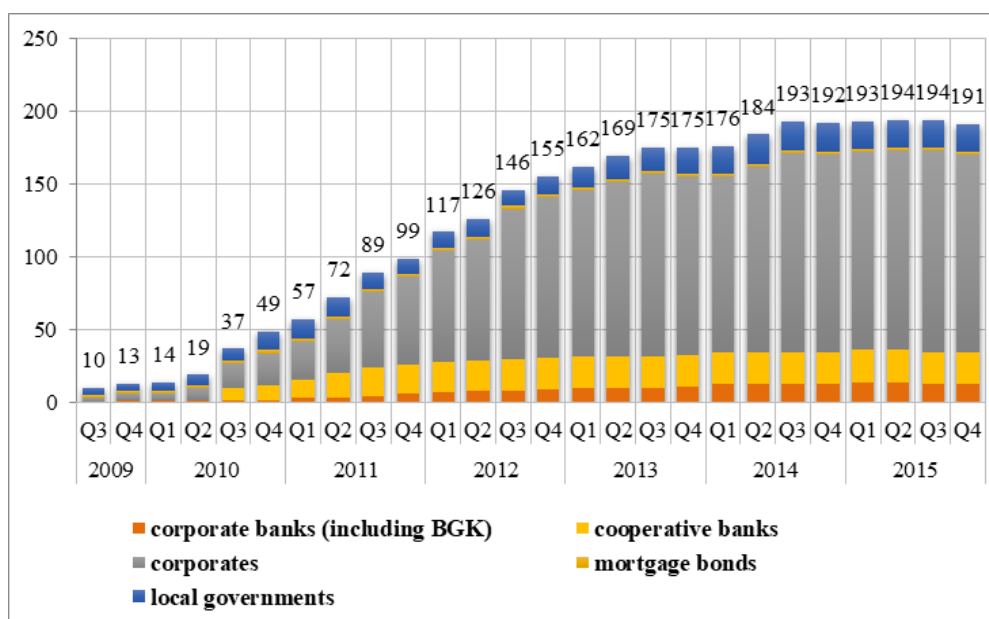
Source: Own study based on the data received from the Warsaw Stock Exchange

Along with the increase of the value of available non-Treasury bonds, the number of issuers on the Catalyst market increased as well. It is clear that from the second half of 2014, there has been a stabilization of the number of issuers. Certainly it was caused by the fact that in the earlier stages there had been a lot of companies aiming to raise capital from bonds. It was not without significance that some issuers after having redeemed their bonds do not issue new bonds and leave Catalyst. The same applies to insolvencies of issuers. These factors made the number

of issuers in 2015 remain stable, after earlier dynamic growth. The data is presented in Chart 2.

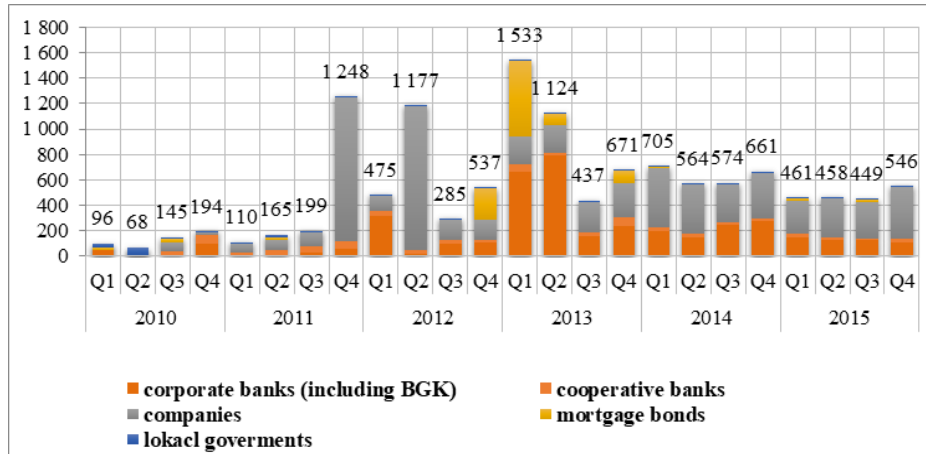
Turnover information, however, does not show dynamic growth and development of Catalyst. From the very beginning, low turnover on Catalyst has been indicated as the problem of this market. In the years 2012-2013 there were quarters when turnover exceeded one billion zlotys. At that time it meant a very high value for the market. Of course, if you compare the quarterly turnover on Catalyst to the daily turnover on the stock

**Chart 2: The number of issuers of non-Treasury bonds listed on Catalyst, data from 30.09.2009 to 31.12.2015**



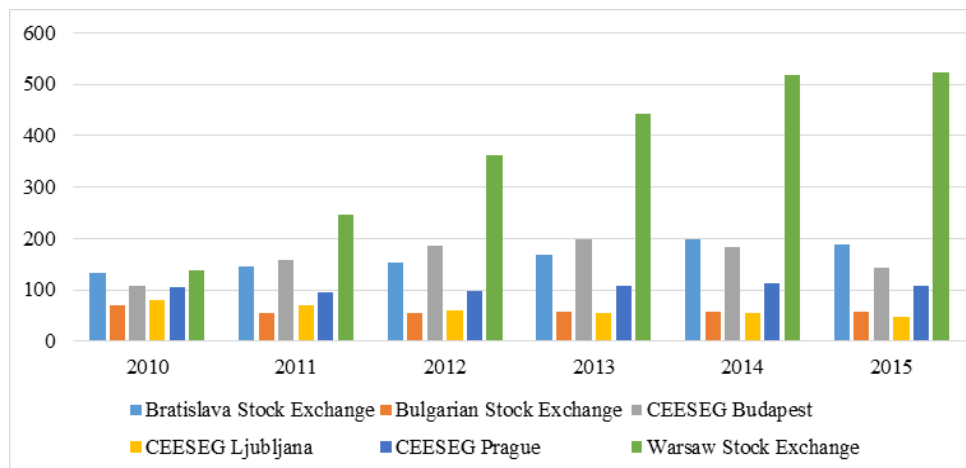
Source: Own study based on the data received from the Warsaw Stock Exchange

**Chart 3 Turnover of non treasury bonds listed on Catalyst, data from 30.09.2009 to 31.12.2015**



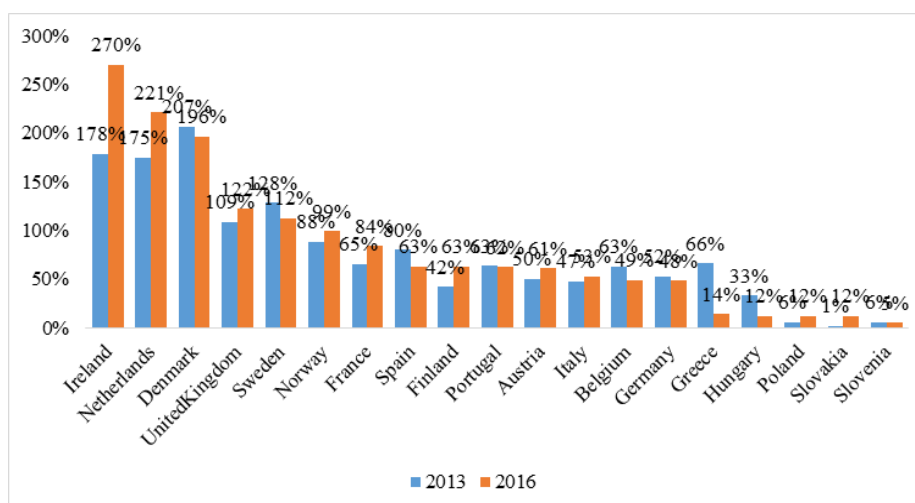
Source: Own study based on the data received from the Warsaw Stock Exchange

**Chart 4: The number of bond issuers in Central Europe, data from 31.12.2010 to 31.12.2015**



Source: Own study on the basis of the data from FESE (The Federation of European Securities Exchanges)

**Chart 5: The value of issued bonds in relation to GDP**



Source: Own study based on the WSE annual report for 2016

market, then the latter are sometimes higher. In contrast, the years 2014 and 2015 are the time of a sharp reduction in turnover, especially in 2015, when just one quarter exceeded over half a billion zlotys. The detailed data is presented in Chart 3.

The development of Catalyst should be compared to similar bond trading markets in the region. Even if we look at the data on the cumulative number of bond issuers it is clear that the Catalyst market is a leader in our region (Gemra, 2016, p. XXX).

While estimating the potential of the growth of the domestic bond market, it is worth looking at data presenting the value of all the issued non-Treasury bonds in the country in relation to its GDP. Chart 5 shows data for 2013 and 2016. It is clear that the bond segment in Poland is becoming increasingly important. Over these 3 years, the relation of bonds issued in Poland to GDP has doubled. At the same time, we have caught up with other countries of the region such as Hungary, where the aforementioned index has fallen sharply. The data is presented in Chart 5.

## LEGAL BASIS OF SUCH PUBLIC ISSUES

Historically, the first regulations for bonds in Poland date back to the interwar period (Gruszczyńska-Broźbar, 2002, p. 97).

In 2015, the adoption and implementation of the amendments to the Law on Bonds was one of the most important events for the financial market legislation, on 1 July 2015 it replaced the existing law in force for the previous 20 years. Both the new and the previous Act on Bonds allowed fairly free shaping of the contractual relationship arising from the bonds.

Therefore, the market developed many types of bonds differing from each other in the rights and obligations of both parties involved. Moreover, the differences between businesses make the bonds diversified in terms of the level of risk and offered a possibility of earnings for investors (Jagielnicki, 2013, p. 67).

According to the legal status on 31 December 2016, issuance of bonds can be conducted within the framework of a private placement or a public issue.

A public offering includes the provision to at least 150 persons or to an unspecified addressee, in any form and in any manner, of the information about the securities and the conditions for the acquisition thereof

representing a sufficient basis for a decision to purchase these securities. The public offering requires issuing a public information document, e.g. the prospectus or information memorandum, obtaining an approval by the Financial Supervisory Commission and making it available to the public.

A public offer requires a separate contract with a brokerage house which will act as the Offeror. Such an entity prepares and conducts the process of issuing and coordinates activities of other entities involved in the process, such as a consulting company, a law firm, an auditor, an advertising agency. The Offeror accepts subscriptions for the bonds through its customer service points. It can also form a distribution consortium, which increases the chance of success of the issue.

A non-public (private) placement means the offering of securities to a maximum of 149 people identified by name. In this case it is not required to prepare a prospectus or an information memorandum. The issuer prepares a proposal to buy in accordance with the Law on Bonds and provides it to selected individuals. The adoption of the proposal becomes effective with the deposit of a declaration of will and the payment to the designated account subscription. The principles of secondary trading on the ASO Catalyst are the same for the bonds which were offered to the public or in a private placement (Mazurek, 2011, pp. 19-38).

The dominant group of the bonds on the Catalyst market consists of bonds issued under private placement.

## CHARACTERISTICS OF BANK POCZTOWY

Bank Pocztowy is a specific and unique bank operating in Poland. It is a retail bank, the mission of which is to provide simple, secure financial services at a good price for the customer. The Bank maintains a strategic partnership with Poczta Polska, so it has access to its wide distribution network. This network consists of 4.6 thousand post offices, including nearly 800 bank branches, microbranches and the Postal Financial Zones dedicated exclusively to the sale of financial products. Thanks to it, the bank, in addition to the access to the sales network, has access to the wide range of clients of Poczta Polska and can count on long-term support in sales, but above all it has a unique low-cost model of new customer acquisition. Due to its ownership structure, the bank is characterized by low credit risk. 75% minus

10 shares in the shareholding structure is fully controlled by the Treasury and the remaining 25% plus 10 shares is held by the bank PKO BP, the majority shareholder of which is also de facto the Treasury. Bank Pocztowy never granted Swiss franc loans so we can say that this is one of the safest commercial banks operating on the domestic market.

The history of the Bank dates back to 1990 when it began its operations of a clearing and depository character. In 2006 they began the project of retail banking services. Since 2009, successive and successful transformation of the settlement bank into a mass retail bank has been conducted with a dedicated offer for micro-enterprises serving more than 1.5 million customers.

The public offering of bonds of Bank Pocztowy was held shortly after the public offering of Alior Bank bonds. Therefore, it is also worth looking at the second bank that carried out a similar project within the similar period.

Alior Bank is a relatively young bank on the Polish market. It was founded on the basis of a notarial deed on April 21, 2008. On April 18, 2008, the Financial Supervision Commission granted permission to establish the bank and on September 1, 2008, the bank issued a permit to start operations. What is worth emphasizing is that Alior Bank is a greenfield venture founded by Wojciech Sobieraj - President of the Bank, together with the management and in cooperation with the Italian investment fund, Carlo Tassara. It is a company controlled by the Zaleski family of Polish immigrants of the early twentieth century. At the start they invested in Alior EUR 400 million.

Alior Bank is a universal deposit and credit bank offering services to retail, corporate and other both domestic and foreign entities. The core business of the Bank includes maintaining bank accounts, granting credits and loans, issuing bank securities and purchasing and selling foreign exchange. It also conducts brokerage, consulting, and financial intermediation services and provides other financial services. In addition, the bank offers its services to customers of T-Mobile in Poland and Romania and develops products addressed to customers of the retail giant Tesco in Poland.

The floatation on the Warsaw Stock Exchange on December 14, 2012, was an important date in the history of Alior Bank. Thus Alior joined the other largest banks in Poland, moreover, existing investors sold some of their shares leaving the investment.

In order to accelerate its development, Alior began

searching for targets for acquisition. This became possible on February 20, 2015, when Alior Bank acquired 97.9 percent of the shares of Meritum Bank ICB, also a universal bank with the offer addressed to retail customers.

However, the exit from the investment of the Carlo Tassara fund and the sale of 25 percent of shares of the bank to the largest insurer in Poland, namely the company PZU controlled by the Treasury, was an event that changed the way we look at Alior Bank. The transaction took place on May 30, 2015. PZU later increased its shareholding and at the end of June 2016, it had 29.22 percent of the shares of the bank.

The new owner assumed the strengthening of the position of the Bank and in April 2016, Alior Bank took over Bank BPH. The transaction excludes mortgages, including loans in Swiss francs, and investment funds of BPH. The value of the transaction amounted to PLN 1.2 billion. Thereby Alior approaches in size the leading banks in Poland, such as Getin and Millennium.

Both banks opted for public bond issues in the second quarter of 2016. It was necessary to obtain the approval of the prospectus by the Financial Supervision Commission. In the case of Alior Bank, such approval was granted on April 12, 2016, and the prospectus of Bank Pocztowy was approved on May 16, 2016. Subscription for Alior Bank bonds was accepted at the brokerage office of the bank. However, because of the fact that neither Bank Pocztowy nor Poczta Polska conducts brokerage business, the subscriptions for this issue were recorded by an external entity. Bank Pocztowy appointed the brokerage house Ipopema Securities as an Offeror, which does not have an extensive structure of retail distribution. Therefore, the brokerage house used its Agent of the Investment Company, which was the financial advisor Expander. It is the largest independent financial advisory firm with a more than 15-year history in the business. The aim of Expander was to reach out to people that have not yet invested in the Catalyst bond market. It was to be done through direct contact with potential investors in the stationary facilities of Expander. In the case of Alior Bank, the subscriptions for bonds could be submitted in the offices of the brokerage house Alior Bank and online. It is worth noting that the subscriptions for the bonds of Bank Pocztowy could not be done online. The comparison of the two offers is given in Table 1.

**Table 1: Comparison of the main parameters of the two bond offerings**

	<b>Alior Bank</b>	<b>Bank Pocztowy</b>
<b>The value of the public issue</b>	Up to PLN 0.8 billion	Up to PLN 1 billion
<b>Subscription</b>	The basis of first come first served, because the price of the bonds is growing on a daily basis.	Guarantee of subscription without reduction with subscriptions up to PLN 30,000 until the exhaustion of the batch worth PLN 30 million. Subscriptions of over PLN 30,000 are subject to a proportional reduction.
<b>Number of issued series as of June 30, 2016.</b>	2	1
<b>The value of issued series of bonds</b>	Series P1A – PLN 150 million, series P1B – PLN 70 million	Series P1 – PLN 50 million
<b>Interest</b>	Series P1A - permanent in the first interest period equal to 5 percent per year, in subsequent periods variable interest rates determined on the basis of WIBOR6M rate plus 3.25 percent margin. Series P1B - permanent in the first interest period equal to 5 percent per year, in subsequent periods variable interest rates determined on the basis of WIBOR6M rate plus 3 percent margin.	Permanent in the first interest period equal to 4.5 percent per year, then variable interest rates determined on the basis of WIBOR 6M rate plus 2.8 percent margin.
<b>Dividend payment</b>	Every six months	Every six months
<b>Duration</b>	P1A – 6 years, P1B – 8 years	10 years
<b>The deadline for subscriptions</b>	P1A – from 14.04.2016 to 28.04.2016, Series P1B – from 21.04.2016 to 28.04.2016.	From 23.05.2016 to 3.06.2016
<b>Summary of subscriptions</b>	P1A - the average value of the subscription amounted to PLN 308.9 thousand, available bonds worth PLN 150 million were distributed to 1,402 investors, which gives the average amount of PLN 107 thousand. The average reduction rate in this period amounted to more than 66 percent. The subscription ended the first day. P1B - Average value of a subscription amounted to PLN 225.4 thousand. The offer worth PLN 70 million was allocated to 1145 investors, which gives an average value of covered debt at the level of PLN 61.1 thousand. The average reduction rate amounted to 73.61 percent at the time. The subscription ended the first day.	The public offering was attended by 709 investors and the average subscription price was PLN 70,522. The reduction rate of the series not subject to guarantee amounted to 10.71%. Interestingly, the median of the subscriptions was exactly PLN 30,000, which is equal to the upper limit of the subscription in the series without reduction

Source: Own work



Both banks decided to issue subordinated bonds, which can be classified as equities after obtaining permission from the Financial Supervision Authority. However, the way to subscribe was different.

Alior Bank decided to introduce the principle of “first come, first served” because the price of the bonds grew on a daily basis, therefore, it was most effective to sign up the first day. Then the investors had the best return on investment. Therefore, the first batch of bonds was exhausted on the first day of subscription. After such a success the Bank decided to immediately issue the second batch of bonds.

In contrast, Bank Pocztowy approached the records differently. It wanted to avoid excessive reduction of subscriptions and encourage smaller investors to take interest in the offer. Therefore a guarantee of subscription to the value of PLN 30,000 was introduced.

The interest in both offerings differed significantly. It can be assumed that this is mainly due to credit risk assessment of both banks, with Bank Pocztowy having lower parameters in this regard. The success of the first issue of bonds of Alior Bank made the bank offer another series of bonds with lower interest rates, which still resulted in great interest amongst investors.

In turn, Bank Pocztowy offered much longer debt securities with maturity up to 10 years. So far, such corporate bonds had not appeared on the Catalyst market.

Without a doubt, the public offering of bonds of Alior Bank attracted more interest from investors than the offer of Bank Pocztowy. However, it should be noted that institutional investors could subscribe to the bonds of Alior Bank whereas it was impossible for the issue of Bank Pocztowy. Perhaps this resulted in the significantly higher average value of subscription for those issues. In terms of the number of investors interested in bonds, Alior gathered twice as many. It is worth noting that only once in several years of history of the public issue of bonds, the number of submitted subscriptions was higher. In June, when PKN Orlen ranked series B at PLN 200 million, 2026 investors were interested.

Certainly the subscription procedure of Bank Pocztowy was a great success, it eliminated the risk of excessive reduction as was the case with Alior Bank. In addition, the subscription lasted its scheduled time and did not end on the first day. This gave the opportunity for individual investors to become better acquainted with the conditions, thanks to which Bank Pocztowy reached

investors who so far had not been present on the Catalyst market.

## **SUMMARY OF THE ISSUE IN THE LIGHT OF QUALITATIVE RESEARCH**

In order to summarize the issue, a survey with open questions was used. The interview was conducted with Marcin Dudek - Director of the Treasury Department of Bank Pocztowy, who is responsible for the Public Bond Issue Program.

### ***What prompted you to the public issue of bonds addressed to individual investors?***

*For some time in the financial market in Poland, record levels of bank deposits have been observed, with record low interest rates. In such an environment, investors are also looking for low risk investments. Public bond issues of large banks in Poland are the answer to this demand. Therefore, we decided to issue bonds addressed to individual investors. In addition, we are a retail bank focused on this group of clients. The public issue of bonds also offers the opportunity to diversify the sources of financing of banking activities.*

### ***Was your decision influenced by Alior Bank's success?***

*Of course, we observe what happens in our competition and what products it offers but please note that the procedure for approving the prospectus in Poland lasts several weeks, so we decided before the success of Alior.*

### ***Why did you decide to issue to individual investors?***

*So far we had been present in the Catalyst market, our bonds had been directed to institutional investors. We wanted, however, to broaden our bondholders' group in order to include individual investors who had come up with questions about the possibility of investing in bank instruments. Moreover, looking at the demand of individual investors, we may be dealing with a situation where the capital from this group of investors is simply cheaper. This is undoubtedly an important factor.*

### ***Unlike Alior Bank, you have proposed a new way to subscribe in order to protect individual investors. How did you come up with such a proposal?***

*We had heard that in the case of many public issue bonds, large investors subscribed by asset management*

**Table 2: Value of bonds issued on the basis of prospectus in the period from 01.01.2015 to 30.09.2016**

1.01.2015 - 31.12.2015			1.01.2016 - 30.09.2016		
Issuer	Series	Value of the issue (in PLN)	Issuer	Series	Value of the issue (in PLN)
Best	K3	35000000	Best	L2	40000000
Best	K4	20000000	Ghelamco Invest	PPE	50000000
Capital Park	E	11100000	Kruk	AB1	65000000
Getin Noble Bank	SP-I	50000000	Ghelamco Invest	PPF	30000000
Murapol	P	30000000	Getin Noble Bank	PP5-II	35000000
Capital Park	F	35000000	Best	L3	50000000
Ghelamco Invest	PPB	50000000	Alior Bank	P1A	150000000
Kruk	W1	20000000	Ghelamco Invest	PPG	50000000
PCC Rokita	CA	20000000	Getin Noble Bank	PP5-III	35000000
Polnord	M1	50000000	Alior Bank	P1B	70000000
Ghelamco Invest	PPC	30000000	PCC Rokita	DA	25000000
Capital Park	G	1883700	PCC Rokita	DB	20000000
Best	L1	60000000	Kruk	AB2	135000000
Murapol	R	30000000	Getin Noble Bank	PP5-IV	50000000
Ghelamco Invest	PPD	50000000	Bank Pocztowy	P1	50000000
Kruk	W2	30000000	PCC Exol	A1	20000000
Getin Noble Bank	PP5-I	35000000	Kruk	AB3	65000000
			Ghelamco Invest	PPH	30000000
			Ghelamco Invest	PPI	50000000
			Getin Noble Bank	PP5-V	60000000
			PCC Rokita	DC	25000000
			Getin Noble Bank	PP5-VI	40000000
			PCC Exol	A2	25000000
			Kruk	AB4	35000000
			Ghelamco Invest	PPJ	20000000
			Best	R1	50000000
			Getin Noble Bank	PP6-I	40000000
			PCC Rokita	DD	25000000
			Ghelamco Invest	PPK	25000000
			Ghelamco Invest	PPL	35000000
			Getin Noble Bank	PP6-II	40000000
			Kruk	AF1	40000000
			Getin Noble Bank	PP6-III	40000000
Total		557,983,700	Total		1,520,000,000

Source: Own study

**Table 3: Interest on bonds issued on the basis of prospectus in the period from 01.01.2016 to 30.09.2016**

Issuer	Series	Interests
Best	L2	variable WIBOR 3M + 3.8%
Ghelamco Invest	PPE	variable WIBOR 6M + 4%
Kruk	AB1	variable WIBOR 3M + 3.15%
Ghelamco Invest	PPF	variable WIBOR 6M + 4%
Getin Noble Bank	PP5-II	variable WIBOR 6M + 5%
Best	L3	variable WIBOR 3M + 3.5%
Alior Bank	P1A	variable WIBOR 6M + 3.25%
Ghelamco	PPG	variable WIBOR 6M + 4%
Getin Noble Bank	PP5-III	variable WIBOR 6M + 5%
Alior Bank	P1B	variable WIBOR 6M + 3%
PCC Rokita	DA	fixed 5%
PCC Rokita	DB	fixed 5%
Kruk	AB2	variable WIBOR 3M + 3.15%
Getin Noble Bank	PP5-IV	variable WIBOR 6M + 5%
Bank Pocztowy	P1	variable WIBOR 6M + 2.8%
PCC Exol	A1	fixed 5.5%
Kruk	AB3	variable WIBOR 3M + 3.15%
Ghelamco Invest	PPH	variable WIBOR 6M + 4%
Ghelamco Invest	PPI	variable WIBOR 6M + 4%
Getin Noble Bank	PP5-V	variable WIBOR 6M + 5%
PCC Rokita	DC	fixed 5%
Getin Noble Bank	PP5-VI	variable WIBOR 6M + 5%
PCC Exol	A2	fixed 5.5%
Kruk	AB4	variable WIBOR 3M + 3.15%
Ghelamco Invest	PPJ	variable WIBOR 6M + 4%
Best	R1	variable WIBOR 3M + 3.30%
Getin Noble Bank	PP6-I	variable WIBOR 6M + 5%
PCC Rokita	DD	fixed 5%
Ghelamco Invest	PPK	variable WIBOR 6M + 4%
Ghelamco Invest	PPL	variable WIBOR 6M + 4%
Getin Noble Bank	PP6-II	variable WIBOR 6M + 5%
Kruk	AF1	variable WIBOR 3M + 3.15%
Getin Noble Bank	PP6-III	variable WIBOR 6M + 5%

Source: Own study

companies. As a result, there are significant reductions in terms for subscription for everyone, which is in our opinion economically inefficient for investors. We have decided that we will eliminate this problem by offering subscription promoting smaller investors. In addition, the goal was to popularize bond investments.

**You are a bank with a very wide distribution network, but you did not use it during the public bond issue. Your bonds could not be bought for example at the Post Office, which for many would be a natural step. Why such a decision?**

The Bank, or even the Polish Post Office, does not conduct brokerage activities, so it cannot provide such services. In the ongoing process, we decided to choose an experienced partner in this field, which is the brokerage house Ipopema Securities, who together with their partner, who was also their Investment Agent, kept the records for our bonds. It is not excluded that with possible further bond issues we will decide to change the way to subscribe.

**In addition to the novelty in the way of subscription you have offered bonds with unprecedented ten year terms for individual investors. Why such a decision?**

The characteristic of the Polish bond market is that it is dominated by short-term, 2- or 3-year securities. The specificity of banking activities requires raising capital for a longer period, hence the decision for ten-year securities. We have managed to introduce our bonds relatively quickly on Catalyst, because the process took a few weeks after the issue. We have also employed a market maker for the series so that the bonds are highly liquid. These actions are aimed at enabling investors to effectively exit our bonds.

## **BANK POCZTOWY AGAINST THE BACKGROUND OF OTHER PUBLIC BOND ISSUES**

The public issue of Bank Pocztowy bonds was compared with a similar issue of Alior Bank bonds. It is worth looking more broadly at public bond issues addressed to individual investors. The value of the capital raised by companies in this way should be analyzed. The data is presented in Table 2.

The presented data indicate the dynamic development of this form of financing by enterprises. In

this way, nearly 558 million PLN was raised in 2015, but a year later the capital acquired amounted to 1.52 billion PLN. Also, the number of issuers increased who wanted to diversify the origin of equity by public issue of bonds addressed to individual investors.

It is also important to look at the cost of capital that companies have to bear. The data is presented in Table 3.

Apart from PCC Rokita, other issuers in 2016 decided to offer to investors variable rates of interest. It is constructed based on WIBOR three or six months plus the margin. When analyzing the margins offered to investors in 2016, it is clear that Bank Pocztowy was able to raise the capital in the cheapest way. At the same time in the public issue the most expensive capital was obtained by another bank - Getin Noble Bank. This shows a very different perception of credit risk of both institutions.

## **CONCLUSION**

Public bond issues addressed to individual investors are gaining in popularity. In 2016, nearly 3 times more capital was generated in that way compared to 2015. Industrial companies, debt collection companies, developers and banks are deciding to carry out such issues. So far three banks have decided to raise capital in this way. These were Getin Noble Bank, Alior Bank and Bank Pocztowy. Getin Noble Bank acquires financing through public issues on a regular basis, while Alior and Bank Pocztowy decided to issue in the second quarter of 2016. As far as the cost of capital is concerned, Getin Noble Bank has a much higher rate of interest to offer to investors. This is the highest interest rate of all public bond issues. At the same time, Bank Pocztowy acquired the cheapest capital of all issues. It may be related to the fact that it is treated as a low risk state bank. In the case of public issue of bonds, attention should be paid to the period for which bonds are issued. Alior Bank issued six- and eight-year bonds, while Bank Pocztowy offered ten-year bonds. Individual investors have been interested in this type of debt because thanks to Catalyst they will have the opportunity to exit earlier. The problem of banks in Poland is that they find it difficult to raise long-term deposits, so public bond issues to individual investors can help solve this problem. Therefore, returning to the aim of the article, it should be stated that the role of this type of issue should increase due to the possibility of obtaining long-term capital.

The paper hypothesizes that the public issue of bonds due to the specifics of the banks will be the source of their long-term financing but will also allow individual investors to place their surplus funds. Based on the analysis of data on public issue of banks and the questionnaire survey, it should be assumed that this hypothesis is true. Of course, as of 31 December 2016, only three banks opted for this type of issue, but at the same time, such emissions are met with great interest by individual investors. It is worth noting the statement of a representative of the Bank Pocztowy who also points out that the issue addressed

to individual investors may be attractive from the perspective of the bank because the capital acquired in this way is cheaper.

The problem of lack of long-term liabilities in banks in Poland is known. Bonds that individual investors will be able to buy can be a solution. To encourage the investors, banks will offer interest rates slightly more attractive than on bank deposits. An additional incentive could be tax incentives for long-term savers. In particular, this could be the abolition or reduction of the rate of capital gains tax.

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