19 January 2012

Update

BRE Bank Securities

Banks

Poland

Banks

Outlook for Retail Remains Tough

FY12E P/E*	**12.6x**
FY12E P/BV*	**1.25x**
WIG Banki Index	**5 556**

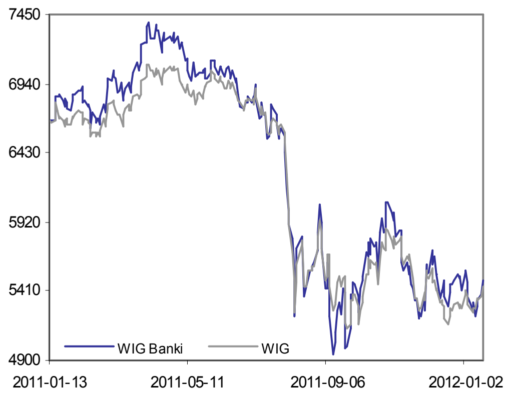
**average*

	Price (PLN)*	9MTP (PLN)	Upside/ downside
Get Bank	1.33	1.55	16.5
Handlowy	73.95	72.0	-2.6
ING BSK	80.70	80.0	-0.9
Kredyt Bank	9.61	9.10	-5.3
Millennium	3.82	3.30	-13.6
Pekao	145.90	135.0	-7.5
PKO BP	32.89	35.0	6.4

* closing prices as of 18 January 2011

	9MTP	Rating
Get Bank	1.55	Buy
Handlowy	72.0	Hold
ING BSK	80.0	Hold
Kredyt Bank	9.10	Reduce
Millennium	3.30	Reduce
Pekao	135.0	Reduce
PKO BP	35.0	Accumulate

WIG-Banki vs. WIG & WIG20



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We expect 2012 to be a tough year for the banking industry, not merely due to the expected slowdown in Poland's GDP growth from 4.2% in 2011 to 2.8%, but also because of incoming regulatory changes with a negative impact on the retail segment. Following a 13-14% downward revision to our earnings forecasts for 2012-2013, we project a 7% reduction in the banks' aggregate net income in 2012. Although the current average 2012F P/E of 12.6x is close to fair value, we note that individual valuations are not balanced. Thus, given that PKO BP is 13% cheaper than Pekao on 2012F P/E, we recommend accumulating the former and reducing the latter. Moreover, we recommend buying Get Bank and reducing Millennium, since the former is trading at a 30% discount to the latter on 2011F P/BV.

Expansion in retail loans as the industry's main challenge

We believe that in addition to a pressure on the cost of financing (resulting from tighter competition rather than falling market interest rates) and higher costs of risks (mostly on mortgages and SME loans), the biggest challenge for the industry in 2012 will be loan volume expansion in the retail segment. A 25-30% drop in the supply of mortgage loans to ca. PLN 40bn driven by changes to the Financial Supervision Authority's Recommendation S and changes to the government's mortgage subsidy program, coupled with persistently low demand for consumer credit, will slow retail loan growth to just 2% following 13% growth in 2011 and 14% growth in 2010.

In Q4 2011 earnings growth will decelerate further

According to our projections, the industry's net income continued to grow in Q4'11 on Y/Y basis, albeit at a slower pace (+5% vs. +13% in the preceding quarter). In line with seasonal patterns, we also expect an 8% q/q drop in earnings. The best performers will be Bank Handlowy (+3% q/q) and ING BSK (flat q/q), with the worst showing on the part of Kredyt Bank (-32% q/q) and Getin Noble Bank (-22% q/q).

Key ratings: Accumulate PKO BP and reduce Pekao; Buy Get Bank but reduce Millennium and Kredyt Bank

We are lowering our 9-month target prices by 15% on average, with the biggest cut for Millennium and Kredyt Bank (-31% for both); on the opposite end of the scale, there is Bank Handlowy (no change) and Get Bank (-5%). Moreover, we are downgrading our ratings from hold to reduce for Pekao, Millennium and Kredyt Bank, from buy to hold for ING BSK and from buy to accumulate for PKO BP. Our ratings for Handlowy (Hold) and Get Bank (Buy) remain unchanged.

	FY11F P/E*	FY12F P/E*	FY11F P/BV	FY12F P/BV	FY11F ROE	FY12F ROE
Getin Noble Bank	11.3	11.9	0.80	0.77	25.0	6.6
Handlowy	13.7	13.3	1.51	1.42	10.9	11.0
ING BSK	11.9	12.2	1.64	1.46	14.7	12.6
Kredyt Bank	8.8	12.2	0.85	0.79	11.0	7.1
Millennium	10.0	12.4	1.02	0.94	10.7	7.9
Pekao	13.3	14.0	1.80	1.69	13.9	12.5
PKO BP	11.0	12.2	1.80	1.69	16.9	14.3
Average	**11.4**	**12.6**	**1.34**	**1.25**	**14.7**	**10.3**

* *Net income adjusted for one-offs*

2012 Outlook for the Bank Sector

- **We expect 2012 to be a tough year for the bank industry, not only due to the expected slowdown in GDP growth to 2.8% from 4.2%, but also because of regulatory changes.**
- **With retail lending experiencing a sharp deceleration, fee income pressured by weak capital markets, and costs of financing and cost of risk on the rise, the aggregate FY2011 net income of Polish banks is expected to decline 7% in 2012.**
- **Changes to the Financial Supervision Authority's *Recommendation S* will lead to a 25-30% y/y drop in mortgage lending to ca. PLN 40bn. Moreover, with a few exceptions, banks are not likely to pay dividends for 2011, and they should prepare for an increase in the risk weight of FX mortgages from 75% to 100%.**
- **In the medium term, the industry's profitability may also be affected by the following: 1) the potential introduction of an EU-wide tax on financial transactions, 2) the introduction of the 'prudence fee' (a.k.a. 'bank tax'), and 3) a reduction in interchange fees from the current 1.6%.**

Key ratings: Get Bank (Buy), PKO BP (Accumulate), Pekao (Reduce), Millennium (Reduce), Kredyt Bank (Reduce)

In our view, the new legislation in force since 2012 will have a much stronger impact on lending volumes than the expected GDP slowdown from 4.2% to 2.8%. We anticipate that the *Recommendation S* lending restrictions, combined with changes in the housing subsidies offered under the governmental "Rodzina na swoim" program, will lead to 25-30% shrinkage to about PLN 40 billion in mortgage loan sales this year. If we add to this the accelerating amortization of the old mortgage portfolio, the rate of expansion in mortgage lending will drop from 19% in 2011 to just 1% in 2012 (due to a 10% increase in zloty lending combined with a 4% decrease in foreign-currency lending). For retail loans other than mortgages (mainly consumer loans), we assume continued growth at a modest rate of 4%. Combined, retail loans will expand by an estimated 2% in 2012 compared to 13% in 2011. A stronger momentum is anticipated in corporate lending even after a slowdown to 6% from 17% in 2011, fueled by subdued but still rising investment (expected to decelerate to 4.0% from 8.2%). Summing up, we anticipate a slowdown to 4% in 2012 from 14% in 2011 in overall bank lending.

Alongside loans, we also predict a deceleration in deposit growth from 12% in 2011 to 4% in 2012. The strong growth recorded in 2011 was boosted by divestitures of the mobile operator Polkomtel by former shareholders which provided the bank sector with a cash infusion to the tune of PLN 13 billion last November. Much of this cash will be spent in 2012 on taxes and dividends, and we estimate next year's increase in corporate deposits at only 1%. As for retail deposits, we predict a slowdown from 12% in 2011 to 5% in 2012. With lending and savings expanding at similar rates, the industry's ratio of loans to deposits should remain at a steady average of 104%.

BRE Bank macroeconomists expect two 25bp cuts in the central bank reference rate this year, bringing the rate down from 4.5% to 4.0%. Given that the NBP raised its reference rate by a combined 100 bps last year, this year's downfall in the average market rate will be by a symbolic 10bps to 4.34%. This would mean that our predicted 11bp contraction in the bank industry's interest margins this year will be brought on by competitive pressures rather than macroeconomic conditions.

We anticipate a slowdown to 3% from 12% in this year's interest income, and an even sharper deceleration in fee income caused by slower retail lending and reduced brokerage and investment fund activity. In future, fee income growth may be hampered even further by the possible introduction of a financial transaction tax across the EU and a reduction in interchange fees from the current 1.6%.

The share of non-performing loans in total loans is expected to remain at a steady level of 8.2% in 2012, resulting from continued improvement in corporate loans combined with continued deterioration in mortgage loans. We assume banks will have to raise higher provisions against SME and mortgage loan losses this year, leading to an increase in costs of risk by 13bps to 128bps.

On flat operating income and 19% higher loan loss reserves, the Polish bank sector will see a 7% drop in its aggregate 2012 net income. The downturn will be led by Kredyt Bank (expected to suffer a 28% y/y drop in net income) and Millennium (-19% y/y). Handlowy will stand out from among other sector members with 3% bottom-line growth.

Revisions to adjusted* net income estimates for the bank sector

(PLN m)	2011F		Pct. change	Y/Y change	2012F		Pct. change	Y/Y change	2013F		Pct. change	Y/Y change
	New	Old			New	Old			New	Old		
PKO BP	3 743	3 870	-3	14	3 374	4 092	-18	-10	3 749	4 484	-16	11
Pekao	2 876	2 835	1	12	2 741	2 973	-8	-5	2 940	3 204	-8	7
Getin Noble Bank	304	322	-5	-15	306	304	1	1	487	481	1	59
ING BSK	886	901	-2	18	859	988	-13	-3	946	1 074	-12	10
Millennium	461	468	-1	42	375	512	-27	-19	454	556	-18	21
Handlowy	703	673	4	-10	727	721	1	3	778	775	0	7
Kredyt Bank	296	328	-10	59	214	351	-39	-28	266	422	-37	25
Total	**9 270**	**9 397**	**-1**	**13**	**8 597**	**9 941**	**-14**	**-7**	**9 621**	**10 996**	**-13**	**12**

*Source: Banks, BRE Bank Securities; * adjusted for one-time events*

Q4 2011 Estimates

Estimating 5% y/y increase and 8% q/q drop in average net income

We predict a continued uptrend in the quarterly net incomes of the seven banks in our coverage, with average year-on-year growth at 5% in Q4 2011 after a 13% increase recorded in Q3 20112 and an 18% surge posted in Q2 2011. Compared to Q3 2011, however, earnings will drop 8% led by seasonal patterns combined with increased competition for deposits.

Handlowy will be the leader, and Kredyt Bank the laggard of the Q4 2011 earnings season

Handlowy is the only bank in our coverage expected to show quarter-on-quarter growth in the Q4 2011 bottom line. Solid quarterly results will be reported by ING BSK and Pekao.
On the other end of the spectrum is Kredyt Bank, whose fourth-quarter earnings will be depressed by a one-time PLN 35m charge. Moreover, a 22% net income drop from a high Q3 2011 base boosted by one-time gains is anticipated at Getin Noble Bank.

Q4 2011 net income forecast summary

(PLN m)	Earnings announcement	4Q11F	3Q11	Q/Q (%)	4Q10	Y/Y (%)
Millennium	31 Jan. 12	120	125	*-4*	112	*7*
Handlowy	6 Feb. 12	188	183	*3*	195	*-4*
ING Bank Śląski	9 Feb. 12	219	220	*0*	192	*14*
Kredyt Bank	9 Feb. 12	41	61	*-32*	57	*-28*
PKO BP	1 Mar. 12	888	1 017	*-13*	868	*2*
Getin Noble Bank	20 Mar. 12	70	90	*-22*	108	*-35*
Pekao	n/a	747	766	*-2*	644	*16*
Total		**2 274**	**2 462**	***-8***	**2 175**	***5***

Source: Banks, BRE Bank Securities

Key trends shaping the sector

Our expectations with respect to the different income components are as follows:

- Corporate deposits will display strong, 11% Q/Q growth driven by the divestment proceeds raked in by the former shareholders of Polkomtel (ca. PLN 13bn), and retail deposits will rise by a solid 4%;
- A ca. 2% Q/Q expansion in overall loans will be a result of a ca. 3% increase in corporate loans combined with slower, 2% growth in retail loans. For the first time in three quarters, foreign exchange effects will not add to the value of foreign-currency loans;
- Interest margins will be under pressure due to increasing competition for retail deposits even after a 19bp rise in the 3M WIBOR rate to 4.81%; all told, the bank sector's interest income will increase 2% relative to Q3 2011;
- Fee income will decline 1% from the average Q3 2011 level due to weaker activity in capital markets;
- Seasonal patterns will drive up the operating expenses of PKO BP, and bring the operating expenses of Millennium, Kredyt Bank, and Handlowy down from their Q3 2011 highs;
- Loan loss reserves will increase at all banks except Getin Noble Bank, either as an effect of low Q3 2011 base, or due to additional allowances set aside at the end of the year.

Valuation

Relative Valuation

Average 2012 P/E is 12.6x, and P/BV is 1.25

Polish banks are trading at an average 2012 P/E of 12.6x. The average price-to-book ratio estimated for 2012 is 1.25x compared to an average ROE of 10.3%. Assessed based on a 13% premium displayed on the 2012E P/E ratio, Pekao is the most expensive of our seven banks. The most undervalued stock is Getin Noble Bank, trading 6% below the average sector P/E.

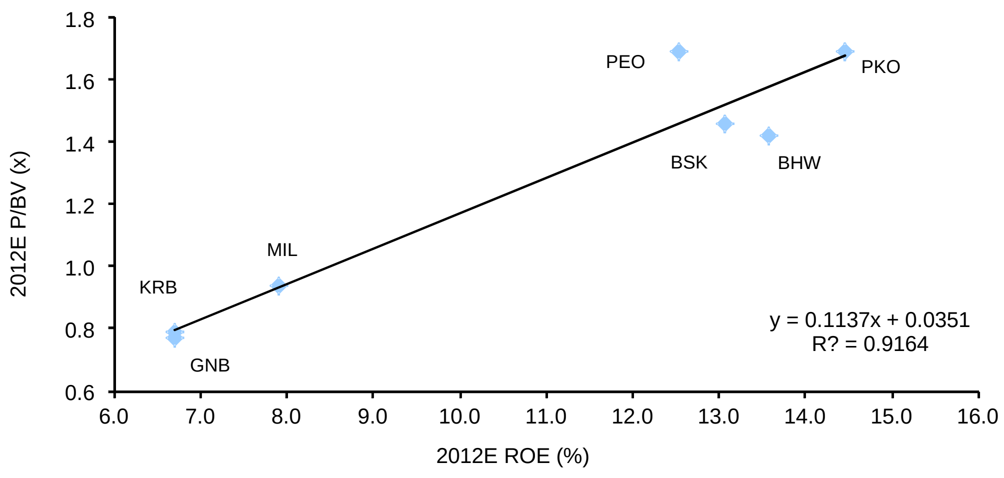
Relative valuation of Polish banks

	Adjusted P/E (x)*			P/BV (x)			ROE (%)		
	2011F	2012F	2013F	2011F	2012F	2013F	2011F	2012F	2013F
Getin Noble Bank	11.3	11.9	7.9	0.80	0.77	0.70	25.0	6.6	9.2
Handlowy	13.7	13.3	12.4	1.51	1.42	1.41	10.9	11.0	11.4
ING BSK	11.9	12.2	11.1	1.64	1.46	1.33	14.7	12.6	12.6
Kredyt Bank	8.8	12.2	9.8	0.85	0.79	0.73	11.0	7.1	7.8
Millennium	10.0	12.4	10.2	1.02	0.94	0.86	10.7	7.9	8.8
Pekao	13.3	14.0	13.0	1.80	1.69	1.62	13.9	12.5	12.7
PKO BP	11.0	12.2	11.0	1.80	1.69	1.56	16.9	14.3	14.8
Average	**11.4**	**12.6**	**10.8**	**1.34**	**1.25**	**1.17**	**14.7**	**10.3**	**11.0**
Premium / discount to averages (%)									
Getin Noble Bank	-2	-6	-30	-45	-42	-44	92	-40	-18
Handlowy	24	7	18	14	16	25	-29	8	4
ING BSK	4	-3	4	26	20	16	0	28	16
Kredyt Bank	-26	-3	-10	-40	-41	-41	-28	-34	-33
Millennium	-14	-2	-6	-27	-28	-30	-31	-26	-23
Pekao	20	13	25	42	44	47	-7	26	18
PKO BP	-5	-4	2	42	43	40	18	49	42

*Source: Bloomberg, the banks, BRE Bank Securities; * adjusted for one-time events*

A comparison of expected returns on equity with 2012E P/BV multiples reveals that Pekao is overpriced relative to PKO BP. The two banks are trading at comparable price-to-book multiples (1.7x), but Pekao's ROE in 2012 is expected to be 1.8ppt lower. Moreover, Handlowy seems somewhat undervalued compared to ING BSK.

2012E PBV vs. ROE



Source: Banks, BRE Bank Securities

Income-Based Valuation

Residual Income Valuation Model

In additional to multiples comparison, we use the residual income model to measure the value of Polish banks. The model is based on adding the combined present value of excess return on capital over the cost of capital (calculated for the forecast period of 2012 and 2013 and the transitional period of 2014 through 2020), and the present value of the residual value (after the forecast period), to estimated equity as at the end of 2011.

Residual value calculations are based on the following assumptions:

- Risk-free rate is 5.85% (equivalent to the yield on 10Y T-bonds).
- Risk premium is 5.0%.
- Beta is 1.0x for all the banks except for Getin Noble Bank and Kredyt Bank for which we assume a beta of 1.1x;.
- The resulting cost of capital is 10.9%, except in case of Getin Noble Bank and Kredyt Bank for which it is set at 11.4%.
- Long term return on capital (ROE) ranges from 10.0% to 15.5%.
- The long-term income growth rate (g) is 4.0%.
- The target dividend payout ratios as calculated using the formula 1-(g/ROE) range between 60.0% and 74.2%.

Summary of residual income valuation

(PLN m)	GNB	GTB	BHW	BSK	KRB	MIL	PEO	PKO
Risk-free rate (%)	5.9		5.9	5.9	5.9	5.9	5.9	5.9
Risk premium (%)	5.0		5.0	5.0	5.0	5.0	5.0	5.0
Beta (x)	1.1		1.0	1.0	1.1	1.0	1.0	1.0
Cost of capital (%)	11.4		10.9	10.9	11.4	10.9	10.9	10.9
Long-term ROE (%)	10.3		14.2	13.6	10.3	10.0	14.5	15.5
Long-term earnings growth rate (%)	4.0		4.0	4.0	4.0	4.0	4.0	4.0
Target payout ratio (%)	61.1		71.8	70.6	61.0	60.0	72.5	74.2
Equity as of year-end 2011	4 312		6 414	6 414	3 074	4 554	21 282	22 836
PV of residual income (2012F-2020F)	-526		731	1 224	-490	-449	4 178	7 120
Present value of residual value	-535		1 523	1 883	-297	-381	6 871	10 169
Fair value	3 251	3 212	8 669	9 521	2 287	3 724	32 331	40 125
Number of shares (millions)		2 246	131	130	272	1 213	262	1 250
Fair value per share (PLN)		1.43	66.3	73	8.4	3.07	123	32.1
9-month target price (PLN)		**1.55**	**72.0**	**80.0**	**9.1**	**3.3**	**135.0**	**35.0**
Current price (PLN)		1.33	73.95	80.70	9.61	3.82	145.90	32.89
Upside/Downside (%)		16.5	-2.6	-0.9	-5.3	-13.6	-7.5	6.4
Rating		**Buy**	**Hold**	**Hold**	**Reduce**	**Reduce**	**Reduce**	**Accumulate**

Source: Banks, Bloomberg, BRE Bank Securities

We are lowering our 9-month target prices for the bank sector by 15% on average, with the biggest cut taken by Millennium and Kredyt Bank (-31% each), and the smallest reductions affecting Handlowy (no change) and Get Bank (-5%). Moreover, we are downgrading our ratings from hold to reduce for Pekao, Millennium and Kredyt Bank, from buy to hold for ING BSK and from buy to accumulate for PKO BP. Our ratings for Handlowy (Hold) and Get Bank (Buy) remain unchanged.

Summary of target price and rating revisions

	New 9M TP	Old 9MTP	Pct. change	New rating	Old rating	Change
Get Bank	1.55	1.63	-5	Buy	Buy	↔
Handlowy	72.0	72.0	0	Hold	Hold	↔
ING BSK	80	90	-11	Hold	Buy	↓
Kredyt Bank	9.10	13.10	-31	Reduce	Hold	↓
Millennium	3.30	4.80	-31	Reduce	Hold	↓
Pekao	135	160	-16	Reduce	Hold	↓
PKO BP	35.0	41.0	-15	Accumulate	Buy	↓

Source: BRE Bank Securities

Key assumptions for the bank sector

Interest rate forecast

%	2008	2009	2010	2011	2012F	2013F
NBP reference rate (at period end)	5.00	3.50	3.50	4.50	4.00	4.00
NBP reference rate (period average)	5.72	3.77	3.50	4.22	4.19	4.00
Y/Y change	*1.32*	*-1.95*	*-0.27*	*0.72*	*-0.04*	*-0.19*
3M WIBOR (period average)	6.26	4.32	3.84	4.44	4.34	4.15
Y/Y change	*1.63*	*-1.94*	*-0.48*	*0.60*	*-0.10*	*-0.19*
Spread (period average)	0.54	0.55	0.34	0.22	0.15	0.15

Source: BRE Bank Securities, Bloomberg

Deposit and loan forecast

(PLN bn)	2008	2009	2010	2011F	2012F	2013F
Total deposits	**584**	**647**	**705**	**788**	**820**	**870**
Y/Y pct. change	***20***	***11***	***9***	***12***	***4***	***6***
corporate deposits	151	166	183	203	205	215
Y/Y pct. change	*5*	*10*	*10*	*11*	*1*	*5*
retail deposits	328	377	413	461	484	518
Y/Y pct. change	*26*	*15*	*10*	*12*	*5*	*7*
other	105	104	109	125	131	137
Y/Y pct. change	*28*	*-1*	*5*	*14*	*5*	*5*
Total loans	**620**	**665**	**723**	**823**	**852**	**889**
Y/Y pct. change	***37***	***7***	***9***	***14***	***4***	***4***
corporate loans	216	207	204	239	253	268
Y/Y pct. change	*29*	*-4*	*-2*	*17*	*6*	*6*
retail loans	367	411	468	527	539	558
Y/Y pct. change	*45*	*12*	*14*	*13*	*2*	*3*
home loans	193	215	264	315	319	324
Y/Y pct. change	*65*	*12*	*23*	*19*	*1*	*2*
zloty home loans	59	75	98	119	131	145
Y/Y pct. change	*12*	*28*	*30*	*22*	*10*	*11*
FX home loans	134	140	166	196	188	179
Y/Y pct. change	*108*	*4*	*19*	*18*	*-4*	*-5*
non-home retail loans	174	196	204	212	220	234
Y/Y pct. change	*28*	*12*	*4*	*4*	*4*	*6*
other	37	47	51	57	60	63
Y/Y pct. change	*15*	*26*	*10*	*11*	*5*	*5*

Source: NBP, BRE Bank Securities, Bloomberg

Non-performing loan forecast

	2008	2009	2010	2011F	2012F	2013F
Non-performing loans (PLN bn)	**27.6**	**50.7**	**62.3**	**67.1**	**69.8**	**70.2**
corporate	14.1	25.6	27.1	26.9	26.0	24.9
retail	13.0	24.9	34.0	40.0	43.6	45.1
home	n/a	3.2	4.9	7.5	9.8	11.6
non-home	n/a	21.7	29.1	32.6	33.9	33.6
other	0.4	0.3	1.1	0.2	0.2	0.2
Y/Y pct. change in NPL	**20**	**84**	**23**	**8**	**4**	**1**
corporate	17	81	6	-1	-3	-4
retail	24	91	37	18	9	3
home	n/a	n/a	53	51	31	18
non-home	n/a	n/a	34	12	4	-1
other	-9	-29	268	-85	5	5
NPL/Loans (%)	**4.4**	**7.6**	**8.6**	**8.2**	**8.2**	**7.9**
corporate	6.5	12.3	13.3	11.3	10.3	9.3
retail	3.6	6.1	7.3	7.6	8.1	8.1
home	n/a	1.5	1.9	2.4	3.1	3.6
non-home	n/a	11.1	14.3	15.4	15.4	14.4
other	1.2	0.7	2.2	0.3	0.3	0.3
Y/Y pct. change in NPL/Loans ratio	**-0.6**	**3.2**	**1.0**	**-0.5**	**0.0**	**-0.3**
corporate	-0.6	5.8	1.0	-2.0	-1.0	-1.0
retail	-0.6	2.5	1.2	0.3	0.5	0.0
home	n/a	n/a	0.4	0.5	0.7	0.5
non-home	n/a	n/a	3.2	1.1	0.0	-1.0
other	-0.3	-0.5	1.5	-1.9	0.0	0.0

Source: NBP, BRE Bank Securities

19 January 2012

Update

BRE Bank Securities

Banks

Poland

Current price*	**PLN 1.33**
Target price	**PLN 1.55**
Market cap	PLN 3.0bn
Free float	PLN 1.3bn
Avg daily trading volume (3M)	N/A

* price calculated based on Getin Holding stock price of PLN 6.81 per share on 4 January 2012

Shareholder Structure

Leszek Czarnecki	53.1%
Getin Holding	4.6%
Others	42.3%

Company profie

Get Bank is a group of banking companies with operations in Poland only. Leszek Czarnecki is its main shareholder. The Bank's main asset is a 94% stake in Getin Noble Bank. In addition, it owns a 100% stake in Allianz Bank. Getin Noble Bank was created through a merger of Getin Bank (a retail-oriented bank specializing in mortgages and cash loans) and Noble Bank (private banking, financial brokerage). The Bank focuses on the local market, primarily through deposits. A challenge it faces is the cost of financing (much higher than for peers), the cost of risk (higher than for other banks) and a relatively low capital adequacy ratio.

Get Bank

GTB PW; GTBP.WA

Buy

(Reiterated)

Buy Upon Debut in Spite of SPO

On 20 January Get Bank will make its WSE debut at PLN 1.33 per share. Our 9-month target price of PLN 1.55 per share (down 5% from PLN 1.63 per share to reflect PLN 300-400m share capital increase plans) entails a 17% upside over this theoretical opening price, which is why we recommend buying the stock upon debut. According to our estimates, the theoretical opening price entails a 2011 P/BV of 0.71x (i.e. 30% below Millennium's current multiple and 16% below Kredyt Bank's), and our target price entails a 2011 P/BV of 0.83x.

Get Bank is planning a PLN 300-400m share capital increase...

On 12 January Getin Noble Bank announced that immediately following the registration of the merger of Get Bank and Getin Noble Bank it would carry out a PLN 300-400m rights issue aimed at improving capital adequacy so that rapid growth can continue in line with the 2012-2014 strategy. According to our estimates, the fresh capital will improve Getin Noble Bank's standalone capital ratios by ca. 81-108bps. Note that this increase will nearly fully offset the negative impact of the increase in the risk weight of retail mortgages mandated by the Financial Supervision Authority.

...which reduces our valuation by 5% to PLN 1.55 per share

Our valuation of Get Bank is based on the sum of its parts, i.e. 100% stake in Get Bank, valued at PLN 166m in line with the estimate of its net assets in Q3 2011, and a 94% stake in Getin Noble Bank, valued at PLN 3245m based on the residual income model. Our forecasts for Getin Noble Bank factor in a PLN 400m share capital increase in 2012, which has a two-pronged effect on the valuation of Getin Noble Bank, and therefore Get Bank as well. On the one hand, the Bank's return on equity will go down, reducing valuation; on the other, the higher capital base reduces the Bank's risk profile (beta), boosting valuation. These two factors combined have led to a 5% drop in our valuation of Getin Noble Bank and Get Bank, from PLN 1.63 per share to PLN 1.55 per share.

The forecasts and multiples below assume Getin Noble Bank stock price of PLN 3.60 per share.

(PLN m)	2009	2010	2011F	2012F	2013F
Interest income	784	1 052	1 348	1 546	1 701
Income f. banking oper.	1 714	2 233	2 416	2 455	2 632
Operating income*	1 106	1 525	2 274	1 558	1 683
Net income	309	450	952	306	487
Interest margin (%)	b.d.	2.77	2.77	2.71	2.78
Costs / Income (%)	36.1	32.5	27.3	36.6	36.1
ROE (%)	b.d.	14.6	25.0	6.6	9.2
EPS (PLN)	0.32	0.47	1.00	0.30	0.45
BVPS (PLN)	3.03	3.45	4.52	4.69	5.14
DPS (PLN)	0.00	0.00	0.00	0.00	0.00
P/E (x)	11.1	7.6	3.6	11.9	7.9
P/BV (x)	1.19	1.04	0.80	0.77	0.70
Dividend yield (%)**	0.0	0.0	0.0	0.0	0.0

before provisions; * dividend paid out in the following year*

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Q4 2011 earnings estimates

PLN 70m net profit, without one-offs this time

We expect Getin Noble Bank to post a PLN 70m net profit for Q4 2011, representing a 22% q/q drop brought about primarily by a lack of one-offs (in Q3 2011, the Bank recorded a PLN 57.5m gain on swap valuation and a PLN 22m gain on account of the loss of control over Idea Bank, but it also created an IBNR reserve for its mortgage loan portfolio in the amount of ca. PLN 50m).

We expect very rapid growth for loans and deposits alike (3% q/q and 4% q/q, respectively). We believe that the interest margin will narrow down by 10bps q/q to 2.68% in consequence of a higher pricing of deposits. As a result, we project just a marginal q/q increase in interest income by 2% to PLN 360m. We believe that fee income will fall by 4% q/q to PLN 205m in consequence of reduced sales of investment products, and that trading income will decline to a normalized level of PLN 24m (the 74% q/q drop being the consequence of a high base, because in Q3 2011 the Bank recorded a PLN 57.5m gain on swap valuation). In other operating income, we assume the Bank to report a 'zero', i.e. –PLN 24m q/q (in Q3 2011, the Bank recognized here a gain on account of the loss of control at Idea Bank).

As far as costs are concerned, we expect a slight q/q increase to PLN 227m in consequence of higher marketing expenses. In provisions, we project a major decline by 23% q/q (-PLN 83m). We expect above all a reduction in provisions for mortgages following the one-off creation of an INBR reserve in Q3 2011 (PLN 50m). We expect that the cost of risk will amount to 272bps (-96bps q/q).

Getin Noble Bank: Q4 2011 earnings estimates

(PLN m)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11F	Y/Y	Q/Q
Interest income	242	264	261	284	296	340	353	360	*26%*	*2%*
Fee income	221	246	252	243	243	212	215	205	*-16%*	*-4%*
Trading income	25	64	103	28	29	50	90	24	*-16%*	*-74%*
Income from banking operations	**488**	**574**	**616**	**556**	**568**	**602**	**658**	**589**	***6%***	***-11%***
Other net operating income	4	8	-1	12	0	689	24	0	*-96%*	*-98%*
Non-interest income	**250**	**318**	**353**	**284**	**272**	**951**	**328**	**229**	***-19%***	***-30%***
Total income	**492**	**582**	**615**	**568**	**568**	**1 290**	**682**	**589**	***4%***	***-14%***
Payroll expenses	-65	-68	-72	-92	-79	-86	-94	-94	*2%*	*0%*
D&A expenses	-12	-13	-14	-15	-15	-14	-16	-16	*10%*	*1%*
Non-payroll expenses	-88	-101	-96	-97	-111	-101	-112	-116	*20%*	*4%*
Total costs	**-165**	**-183**	**-182**	**-203**	**-205**	**-201**	**-223**	**-227**	***11%***	***2%***
Operating income before provisions	**327**	**399**	**433**	**365**	**363**	**1 090**	**459**	**362**	***-1%***	***-21%***
Provisions	-281	-292	-262	-222	-235	-319	-365	-282	*27%*	*-23%*
Equity in profits/losses of associates	0	0	0	0	0	0	7	3	*+/-*	*-62%*
Pre-tax profit	**46**	**108**	**171**	**143**	**128**	**771**	**101**	**83**	***-42%***	***-18%***
Tax	62	-4	-34	-31	-26	-78	-17	-16	*-48%*	*-6%*
Minority interests	-1	-2	-3	-4	-2	-2	6	3	*+/-*	*-40%*
Net profit	**106**	**102**	**134**	**108**	**100**	**691**	**90**	**70**	***-35%***	***-22%***
Interest margin (on total assets) (%)	2.83	2.90	2.72	2.78	2.69	2.89	2.78	2.68		
Non-interest income/Total income (%)	50.8	54.6	57.5	49.9	47.9	73.7	48.2	38.9		
Costs/Income (%)	33.5	31.4	29.6	35.8	36.1	15.6	32.6	38.5		
Cost of risk (bps)	425	407	339	270	269	343	367	272		
Effective tax rate	-134.8	3.6	19.7	21.6	20.1	10.1	16.7	19.2		
Net loans	26 845	30 504	31 456	34 193	35 733	38 667	40 903	42 162	*23%*	*3%*
Total assets	35 267	37 792	38 991	42 798	45 102	48 995	52 718	54 663	*28%*	*4%*
Deposits	30 878	33 092	34 331	37 026	39 063	41 323	44 535	46 282	*25%*	*4%*
Equity	2 965	3 051	3 159	3 294	3 350	4 079	4 241	4 312	*31%*	*2%*
Loans/Assets (%)	76.1	80.7	80.7	79.9	79.2	78.9	77.6	77.1		
Deposits/Assets (%)	87.6	87.6	88.1	86.5	86.6	84.3	84.5	84.7		
Loans/Deposits (%)	86.9	92.2	91.6	92.3	91.5	93.6	91.8	91.1		
Equity/Assets (%)	8.4	8.1	8.1	7.7	7.4	8.3	8.0	7.9		
ROA (%)	1.24	1.12	1.40	1.05	0.91	5.88	0.71	0.52		
ROE (%)	14.5	13.6	17.3	13.3	12.0	74.4	8.7	6.6		

Source: Getin Noble Bank, BRE Bank Securities

Get Bank's capital increase plans

Get Bank is planning a PLN 300-400m share capital increase in late Q2 / early Q3 2012...

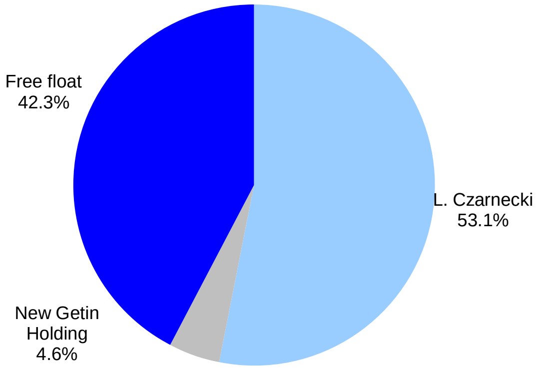
On 12 January, Getin Noble Bank announced that immediately following the registration of the merger of Get Bank and Getin Noble Bank (expected in Q2 2012), it would carry out a PLN 300-400m rights issue aimed at improving capital adequacy so that rapid growth can continue in line with the 2012-2014 strategy. We expect the rights issue in late Q2 or early Q3 2012 after an Extraordinary General Meeting of Shareholders has been held.

... but most likely only half of the funds will come from the market

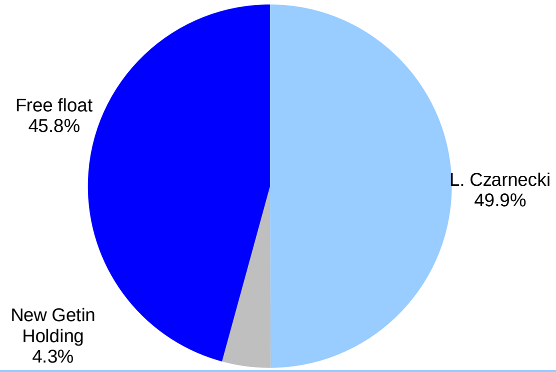
According to our estimates, once the merger of Get Bank and Getin Noble Bank has been registered (i.e. after the Get Bank share issue to minority shareholders of Getin Noble Bank), Leszek Czarnecki will control a 49.9% stake in the Bank, with a further 4.3% owned by Getin Holding. Assuming that both Mr. Czarnecki and Getin Holding subscribe for new shares in proportion to their current holdings, the Bank will have to collect ca. PLN 137-183m from the market, or 46% of the total value of the offering.

Note however that as of the current date, we have not received information indicating that either Mr. Czarnecki or Getin Holding are planning to subscribe for new shares in proportion to their current equity interest.

Estimated current shareholder structure of Get Bank



Estimated shareholder structure of Get Bank following the buyout of minority shareholders in Getin Noble Bank



Source: BRE Bank Securities

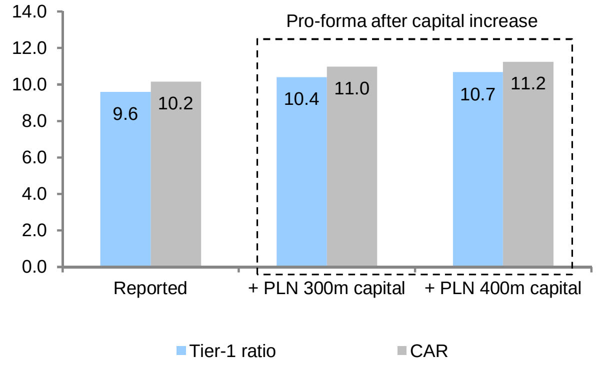
Impact of capital increase on capital adequacy

The planned share capital increase will offset the higher risk weight for retail F/X loans

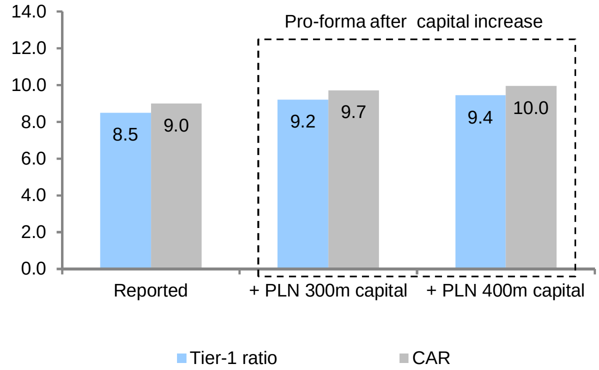
A share capital increase by PLN 300-400m is equivalent to 7.1-9.4% of the Bank's equity as of the end of Q3 2011. According to our estimates, the fresh capital will improve Getin Noble Bank's standalone capital ratios by ca. 81-108bps, i.e. from 10.2% as of the end of Q3 2011 to 11.0-12.% for the capital adequacy ratio and from 9/6% to 10.4-10.7% for the Tier-1 ratio. Note that this increase will nearly fully offset the negative impact of the increase in the risk weight of retail mortgages which will come into force on 30 June 2012.

Getin Noble Bank: Standalone capital adequacy ratios for Q3 2011...

... as reported

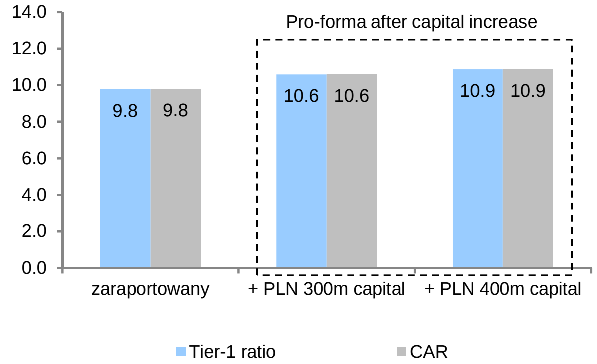


... adjusted for increased risk weight of retail F/X mortgages*

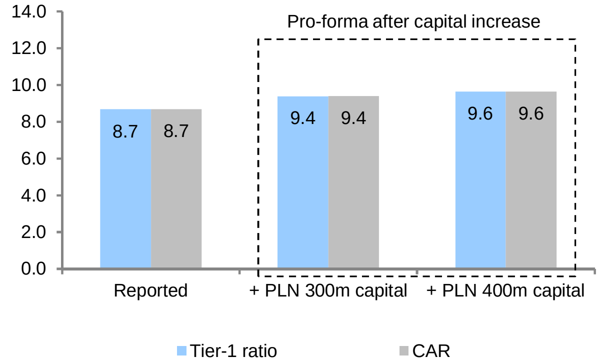


Getin Noble Bank: Consolidated capital adequacy ratios for Q3 2011...

... as reported



... adjusted for increased risk weight of retail F/X mortgages*



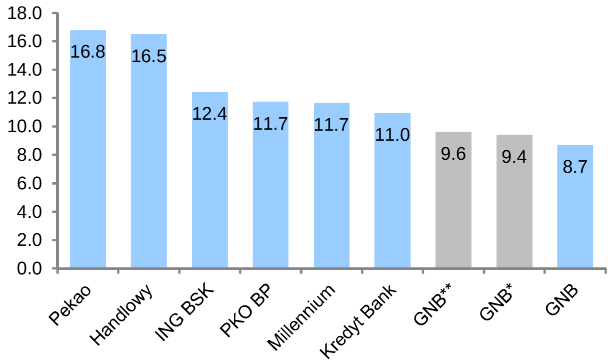
*Source: Getin Noble Bank, BRE Bank Securities; *from 75% to 100%, the change comes into force on 30 June 2012*

Getin Noble Bank's standing within the bank industry will not change

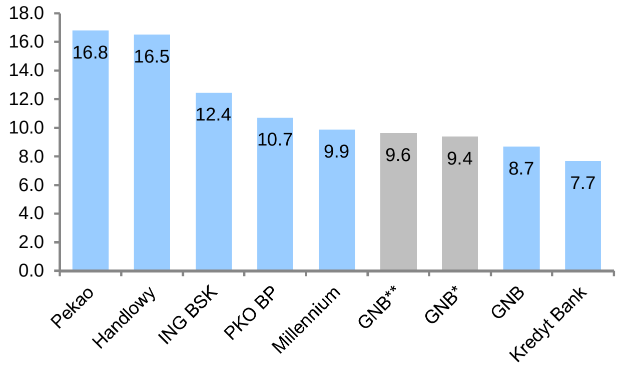
Note that in spite of the positive impact of the share capital increase on Getin Noble Bank's capital adequacy ratio, the Bank's pro-forma ratio remains the lowest in our coverage universe, some 1.3-1.6pp lower than the ratio of Kredyt Bank, which has the second-lowest ratio in our peer group. The Tier-1 ratio will be the second-lowest among the banks covered by us, ca. 1.7-1.9pp higher than Kredyt Bank's, but 0.2-0.5pp lower than Millennium's, which the third-lowest bank in our peer group.

Getin Noble Bank's capital ratios compared to other listed banks (Q3 2011 consolidated and pro-forma after adjustment for increased risk weight of F/X mortgages)

CAR (%)



Tier-1 ratio (%)



*Source: Banks, BRE Bank Securities; *Getin Noble Bank's capital increased by PLN 300m; **Getin Noble Bank's capital increased by PLN 400m*

Impact of capital increase on profitability

Because 95% of our valuation of Get Bank is its 93.7% stake in Getin Noble Bank, we simplify calculations assuming that the share capital increase will be carried out by Getin Noble Bank. In addition, our estimates assume that the Bank will obtain PLN 400m in additional capital.

EPS dilution reaching 10% in 2013

Because Getin Noble Bank is planning to use the funds to improve its capital ratios, we assume that the SPO will not boost is net income generation capacity. This means that the rights issue will reduce net income per share by 5% in 2012 and by 10% in 2013, the ROE by 0.2pp in 2012 and 0.6pp in 2013, and the P/E by 5% in 2012 and by 11% in 2013.
Because we have assumed that the shares will be offered at fair value (PLN 3.41 apiece), i.e. below book value (PLN 4.52 apiece at the end of 2011), the capital increase dilutes book value per share in 2012-2013 by 4%, which reduces the P/BV multiple by 4%.

Impact of PLN 400m capital increase on Getin Noble Bank's core multiples

	2011	2012	2013
Net income: old forecast (PLN m)	969	304	481
Net income: new forecast (PLN m)	952	306	487
pct. difference	*-2*	*1*	*1*
Equity: old forecast (PLN m)	4 329	4 633	5 114
Equity: new forecast (PLN m)	4 312	5 018	5 505
pct. difference	*0*	*8*	*8*
EPS: old forecast (PLN)	1.02	0.32	0.50
EPS: new forecast (PLN)*	1.00	0.30	0.45
pct. difference	*-2*	*-5*	*-10*
BVPS: old forecast (PLN)	4.54	4.86	5.36
BVPS: new forecast (PLN)*	4.52	4.69	5.14
pct. difference	*0*	*-4*	*-4*
ROE: old forecast (%)	25.4	6.8	9.9
ROE: new forecast (%)	25.0	6.6	9.2
ppt. difference	*-0.4*	*-0.2*	*-0.6*
P/E: old forecast (x)**	3.5	11.3	7.1
P/E: new forecast (x)**	3.6	11.9	7.9
pct. difference	*2*	*5*	*11*
P/BV: old forecast (x)**	0.79	0.74	0.67
P/BV: new forecast (x)**	0.80	0.77	0.70
pct. difference	*0*	*4*	*4*

*Source: BRE Bank Securities; *since this is a rights issue, we assume the price will be fair value estimated at PLN 3.41 per share; **multiples calculated for Getin Noble Bank at current price of PLN 3.60 per share*

Impact of capital increase on valuation

Two-pronged impact of share capital increase on the valuation of Getin Noble Bank and Get Bank

The planned capital increase will have a two-pronged effect on our valuation of Getin Noble Bank, and therefore also Get Bank. On the one hand, the Bank's return on equity will go down, reducing valuation (by ca. 15%); on the other, the higher capital base reduces the Bank's risk profile (beta), boosting valuation (by ca. 9%). Until now, we have assumed a beta of 1.2 for Get Bank, i.e. 20% above the usual figure for banks, in order to reflect its relatively low capital adequacy (the lowest ratios among peers).

Residual income valuation of Getin Noble Bank yields PLN 3.25bn

Our income-based valuation of Getin Noble Bank is based on the discounted residual income model. It is based on adding the sum of discounted excess return on capital over the cost of capital (within the forecast horizon, 2012-2013 and in the transitional period, 2014-2020) and discounted residual value (after the forecast horizon) to equity as at the end of 2011.
Our terminal value calculations are based on the following assumptions:

- Risk-free rate is 5.85% (yield on 10Y Treasury bonds);
- Risk premium is 5.0%;
- Beta is 1.1x, down from 1.2x previously;
- The resulting cost of equity is 11.4%;
- Long term return on capital (ROE) is 10.2;
- Long-term profit growth is 4.0%;
- The long-term dividend payout ratio is 61.0%, as determined using the formula: 1-(g/ROE).

Residual income valuation of Getin Noble Bank

(PLN m)	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	+	FV
Net profit	952	306	487	588	681	762	830	883	926	963		
Y/Y pct. change	111.5	-67.8	58.8	20.9	15.9	11.9	8.9	6.4	4.9	4.0	4.0	
Equity	4 312	5 018	5 505	6 093	6 723	7 366	7 997	8 590	9 131	9 609		
Dividend payout rate (%)	0.0	0.0	0.0	8.7	17.4	26.2	34.9	43.6	52.3	61.1	61.1	
ROE (%)	25.0	6.6	9.2	10.1	10.6	10.8	10.8	10.6	10.4	10.3	10.3	
Cost of equity (%)	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	
Excess return (%)		-4.8	-2.1	-1.2	-0.7	-0.6	-0.6	-0.7	-0.9	-1.1	-1.1	
Residual income		-224	-112	-72	-48	-39	-44	-61	-82	-104	-1 404	
Discount factor		0.90	0.81	0.73	0.65	0.59	0.53	0.47	0.42	0.38	0.38	
Present value of residual income		**-202**	**-91**	**-52**	**-31**	**-23**	**-23**	**-29**	**-35**	**-39**	**-535**	
Equity at year-end 2011												4 312
Present value of expected 2012F-2013F residual income												-293
Present value of expected 2014F-2020F residual income												-233
Present value of terminal value												-535
Fair value												**3 251**

Source: Getin Noble Bank, BRE Bank Securities

We estimate the fair value of Get Bank at PLN 3.2bn

Our valuation of Get Bank is based on the sum of its parts:

1. We estimate the value of Allianz Bank based on the value of its net assets at the end of Q3 2011, i.e. PLN 166m;
2. We value the 93.7% stake in Getin Noble Bank based on the residual income model at PLN 3 047m.

In consequence, we have determined the fair value of Get Bank to be PLN 3 212m, or PLN 1.43 per share.

Sum of the parts valuation of Get Bank

(PLN m)	Fair value of 100% of equity	Equity stake attributable to Get Bank	Valuation
Allianz Bank	166	100.0%	166
Getin Noble Bank	3 251	93.7%	3 047
Total fair value			**3 212**
Number of shares in Get Bank (millions)			2 246
Fair value per share (PLN)			1.43
9M Target Price (PLN)			**1.55**
Current price of Get Bank* (PLN)			1.33
Upside potential (%)			17

*Source: BRE Bank Securities; * theoretical opening price of Get Bank on 20 January 2012*

We have lowered our target price by 5% to PLN 1.55 per share while reiterating our Buy rating

Taking into account the planned capital increase by PLN 400m, we have lowered our 9-month price target for Get Bank by 5% to PLN 1.55 per share. This being 17% above the theoretical opening price of PLN 1.33 per share, we are reiterating a Buy rating.

Getin Noble Bank: Income Statement

(PLN m)	2009	2010	2011F	2012F	2013F
Interest income	**784**	**1 052**	**1 348**	**1 546**	**1 701**
Fee income	714	962	875	827	841
Trading income	215	219	193	82	90
Income from banking operations	**1 714**	**2 233**	**2 416**	**2 455**	**2 632**
Other net operating income	19	24	713	1	1
Non-interest income	**948**	**1 205**	**1 781**	**910**	**933**
Total income	**1 732**	**2 258**	**3 129**	**2 456**	**2 633**
Payroll expenses	-225	-297	-353	-371	-392
D&A expenses	-48	-54	-62	-68	-73
Other administrative expenses	-353	-382	-440	-459	-486
Operating expenses	**-626**	**-733**	**-855**	**-898**	**-951**
Operating income before provisions	**1 106**	**1 525**	**2 274**	**1 558**	**1 683**
Provisions	-795	-1 057	-1 201	-1 186	-1 089
Equity in profits /losses of associates	0	-1	10	0	0
Pre-tax profit	**311**	**467**	**1 083**	**372**	**594**
Tax	3	-7	-136	-71	-113
Minority interests	-5	-10	5	5	6
Net profit	**309**	**450**	**952**	**306**	**487**
Adjusted net income	*95*	*356*	*304*	*306*	*487*
Retained earnings	309	450	952	306	487

Source: Getin Noble Bank, BRE Bank Securities

Getin Noble Bank: Rates of growth of key P&L items

(%)	2010	2011F	2012F	2013F
Interest income	34	28	15	10
Non-interest income	27	48	-49	2
Total income	30	39	-22	7
Operating expenses	17	17	5	6
Operating income before provisions	38	49	-32	8
Net profit	46	111	-68	59

Source: Getin Noble Bank, BRE Bank Securities

Getin Noble Bank: Key P&L ratios

(%)	2010	2011F	2012F	2013F
Net interest margin (on total assets)	2.77	2.77	2.71	2.78
Net interest margin (on interest-bearing assets)	2.86	2.86	2.81	2.87
Interest spread	2.43	2.36	2.28	2.33
Non-interest income / Total income	53.4	56.9	37.1	35.4
Costs / Income	32.5	27.3	36.6	36.1
Costs / Assets	1.93	1.75	1.58	1.55
Provisions / Net loans	3.50	3.15	2.72	2.37
Effective tax rate	1.4	12.6	19.0	19.0
ROE	14.6	25.0	6.6	9.2
ROA	1.19	1.95	0.54	0.79

Source: Getin Noble Bank, BRE Bank Securities

Getin Noble Bank: Balance sheet

(PLN m)	2009	2010	2011F	2012F	2013F
Cash and central bank balances	909	1 976	1 620	1 749	1 866
Financial sector receivables	1 069	2 601	5 768	6 871	8 354
Loans	**26 152**	**34 193**	**42 162**	**45 077**	**46 985**
Debt securities	3 849	2 838	3 264	3 591	3 950
Equities, shares, and other investments	0	0	680	714	750
Fixed assets	138	179	152	160	168
Intangible assets	96	100	35	37	38
Other assets	913	912	982	1 058	1 107
Total assets	**33 127**	**42 798**	**54 663**	**59 257**	**63 218**
Financial sector payables	738	713	820	861	861
Deposits	**28 237**	**37 026**	**46 282**	**49 985**	**53 308**
Outstanding securities	901	81	420	441	463
Subordinated loans	0	0	400	400	400
Other liabilities	362	1 684	2 429	2 552	2 681
Total liabilities	**30 237**	**39 504**	**50 351**	**54 239**	**57 713**
Equity	**2 890**	**3 294**	**4 312**	**5 018**	**5 505**
Equity and liabilities	**33 127**	**42 798**	**54 663**	**59 257**	**63 218**

Source: Getin Noble Bank, BRE Bank Securities

Getin Noble Bank: Rates of growth of key balance sheet items

(%)	2010	2011F	2012F	2013F
Loans	31	23	7	4
Total assets	29	28	8	7
Deposits	31	25	8	7
Equity	14	31	16	10

Source: Getin Noble Bank, BRE Bank Securities

Getin Noble Bank: Key balance sheet ratios

(%)	2009	2010	2011F	2012F	2013F
NPL / Total loans	7.6	10.0	12.7	14.5	14.1
Provisions / NPL	76.2	70.2	63.1	67.4	79.9
Loans / Assets	78.9	79.9	77.1	76.1	74.3
Deposits / Assets	85.2	86.5	84.7	84.4	84.3
Loans / Deposits	92.6	92.3	91.1	90.2	88.1
Equity / Assets	8.7	7.7	7.9	8.5	8.7
CAR	11.1	9.5	9.5	10.5	10.6
Tier-1 Ratio (%)	11.1	9.5	8.5	9.7	9.8

Source: Getin Noble Bank, BRE Bank Securities

19 January 2012

Update

BRE Bank Securities

Banks

Poland

Handlowy

BHW PW; BAHA.WA

Hold

(Reiterated)

Current price	**PLN 73.95**
Target price	**PLN 72.00**
Market cap	PLN 9.7bn
Free float	PLN 2.4bn
Avg daily trading volume (3M)	PLN 11.31m

Shareholder Structure

Citigroup	75.0%
Others	25.0%

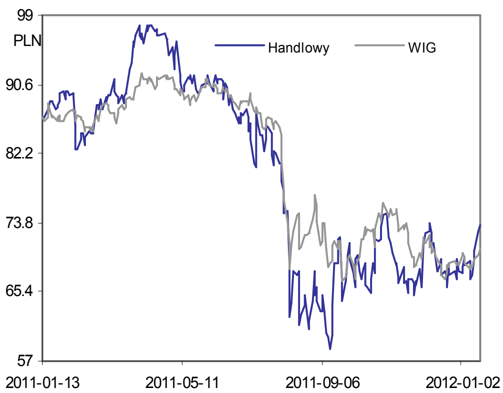
Company Profile

Handlowy is Poland's eight biggest bank with a 3.5% share of assets. It focuses on big, international corporations, which is reflected by the fact that both deposits and loans are dominated by the corporate segment. In retail, the Bank focuses on cards and services for wealthy individuals. With a capital adequacy ratio at 18%, its capital base is among the strongest for Polish listed banks. According to the medium-term strategy announced in early 2010, the target for 2012 is a ROE above 18%, a ROA of no less than 2.5% and a cost/income ratio below 50%.

Important dates

06.02.2012 - Q4 2011 report
16.03.2012 - FY 2011 report
10.05.2012 - Q1 2012 report

Handlowy vs. WIG



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Go Neutral

We are reiterating our 9-month target price of PLN 72.0 per share and our hold rating for Bank Handlowy. Although we believe Handlowy may turn out to be the only bank in our coverage universe to record an increase in its net profit in 2012 (by 3% compared to 7% drop for peers), we believe its current valuation of 13.3x 2012 P/E has already factored this in. In our opinion the Bank's 8% premium over peer average is justified by the expected dividend yield (3.6%).

We expect strong lending in 2012, much above the market

Given our conservative approach to mortgage lending growth in the Polish banking industry in 2012 (+1% y/y following 19% growth in 2011) and the fact that Handlowy has practically no such loans on its books (less than 4% of all loans), the Bank should stand out among its peers with a relatively fast lending growth. Although we do expect a slowdown vs. the very good 2011, which Handlowy is likely to have closed with a 14% y/y expansion in loans, we are still projecting a 7% increase, a result nearly double the overall banking sector performance.

We expect 3% earnings growth in 2012 after the weak 2011

2011 was clearly not a good year for Bank Handlowy. We expect that its net income declined by 7% to PLN 703m driven by shrinking interest income, although fee and trading income played a part as well. In 2012 last year's low base may work to the Bank's advantage, leading to growth in revenues as well as profits.

Lower dividend in 2012, but future potential remains

With its Tier-1 ratio for Q3 2011 at 16.5%, the Bank is able to build shareholder value through high dividends. Unfortunately, in 2012 it may have to pay a smaller dividend than it can afford because the Financial Supervision Authority (KNF) recommends that all banks boost their capital cushion. Using the KNF's guidelines, we have estimated that Handlowy will only pay out 50% of its profits for 2011, i.e. PLN 2.69 per share (3.6% yield). We nonetheless believe that it has considerable potential for high dividend payouts in the future. We expect that 100% of the profit for 2012 will be paid out to shareholders, which currently entails a 7.5% yield.

(PLN m)	2009	2010	2011F	2012F	2013F
Interest income	1 505	1 497	1 419	1 472	1 500
Banking income	2 423	2 563	2 402	2 492	2 589
Operating income*	1 201	1 184	983	1 025	1 074
Net income	504	755	703	727	778
Interest margin (%)	3.75	3.99	3.70	3.72	3.71
Costs / Income (%)	53.5	53.7	59.2	58.9	58.6
ROE (%)	8.5	11.9	10.9	11.0	11.4
EPS (PLN)	3.86	5.78	5.38	5.56	5.95
BVPS (PLN)	47.45	49.69	49.09	51.96	52.35
DPS (PLN)**	3.77	5.72	2.69	5.56	5.95
P/E (x)	19.2	12.8	13.7	13.3	12.4
P/BV (x)	1.56	1.49	1.51	1.42	1.41
Dividend yield (%)**	5.1	7.7	3.6	7.5	8.1

**before provisions; **dividends for the year, paid out the next year*

4Q 2011 earnings estimates

Another strong quarter with PLN 188m net profit after 3% q/q increase

We expect Bank Handlowy to report a net income of PLN 188m, some 3% above the Q3 2011 figure thanks to a strong interest income and in-check operating expenses.

We believe that the Bank's balance-sheet figures will be marked by strong seasonal patterns, Q4'11 being a weaker quarter in corporate loans and a very strong quarter in corporate deposits. In the retail segment, we expect flat q/q performance of both loans and deposits. We expect a sharp increase in interest income, by 3% q/q to PLN 367m. We believe that a 4pp interest rate hike on credit cards, which was carried out in September, will finally be reflected in higher interest income. We are less optimistic for fee income, and we project a 4% q/q drop due to the more difficult situation in financial markets (stock brokerage, sales of investment and insurance products). In trading income, we expect an 8% drop to PLN 92m from the high base of Q3 2011. As far as operating expenses are concerned, we project a 3% q/q reduction to PLN 350m, thanks to lower-than-planned annual bonuses. In provisions, we project a 53% q/q increase to PLN 25m. We do not expect the Bank to show net provision reversals in the corporate segment for a third straight month.

4Q 2011 earnings estimates

(PLN m)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11F	Y/Y	Q/Q
Interest income	**373**	**374**	**379**	**372**	**347**	**348**	**357**	**367**	***-1%***	***3%***
Fee income	151	166	164	175	170	168	156	150	*-14%*	*-4%*
Trading income	81	141	118	71	86	61	100	92	*31%*	*-8%*
Income from banking operations	**605**	**682**	**660**	**617**	**603**	**577**	**612**	**609**	***-1%***	***-1%***
Other net operating income	-5	8	7	-13	7	-1	-4	3	*+/-*	*+/-*
Non-interest income	**227**	**315**	**288**	**232**	**263**	**228**	**252**	**245**	***6%***	***-3%***
Total income	**600**	**689**	**667**	**603**	**611**	**576**	**608**	**612**	***1%***	***1%***
Payroll expenses	-158	-174	-174	-161	-171	-171	-171	-161	*0%*	*-5%*
D&A expenses	-17	-16	-15	-15	-14	-15	-15	-16	*4%*	*2%*
Non-payroll expenses	-151	-161	-159	-176	-161	-182	-173	-173	*-1%*	*0%*
Total costs	**-326**	**-351**	**-348**	**-351**	**-347**	**-368**	**-359**	**-350**	***0%***	***-3%***
Operating income before provisions	**274**	**339**	**319**	**252**	**264**	**208**	**249**	**262**	***4%***	***5%***
Provisions	-77	-89	-63	-13	-42	-15	-16	-25	*93%*	*53%*
Equity in profits/losses of associates	0	0	0	0	0	0	0	-1	*+/-*	*+/-*
Pre-tax profit	**197**	**250**	**257**	**240**	**222**	**192**	**233**	**237**	***-1%***	***2%***
Tax	-46	-51	-46	-45	-41	-41	-50	-49	*10%*	*-2%*
Minority interests	0	0	0	0	0	0	0	0	*+/-*	*+/-*
Net profit	**151**	**198**	**211**	**195**	**181**	**151**	**183**	**188**	***-4%***	***3%***
Interest margin (on total assets) (%)	3.96	3.85	3.72	3.77	2.71	2.67	3.68	3.80		
Non-interest income/Total income (%)	37.9	45.7	43.2	38.4	43.1	39.6	41.4	40.0		
Costs/Income (%)	54.3	50.9	52.1	58.2	56.7	63.9	59.0	57.1		
Cost of risk (bps)	263	308	219	45	142	51	52	77		
Effective tax rate	23.3	20.6	17.9	18.7	18.5	21.3	21.5	20.7		
Net loans	11 580	11 482	11 586	11 593	12 112	12 207	13 015	13 162	*14%*	*1%*
Total assets	37 714	40 136	41 300	37 518	64 957	39 357	38 194	39 088	*4%*	*2%*
Deposits	18 294	21 174	18 930	20 423	17 342	17 773	18 059	19 962	*-2%*	*11%*
Equity	6 481	6 132	6 349	6 493	6 648	6 096	6 226	6 414	*-1%*	*3%*
Loans/Assets (%)	30.7	28.6	28.1	30.9	18.6	31.0	34.1	33.7		
Deposits/Assets (%)	48.5	52.8	45.8	54.4	26.7	45.2	47.3	51.1		
Loans/Deposits (%)	63.3	54.2	61.2	56.8	69.8	68.7	72.1	65.9		
Equity/Assets (%)	17.2	15.3	15.4	17.3	10.2	15.5	16.3	16.4		
ROA (%)	1.60	2.04	2.07	1.98	1.41	1.16	1.88	1.94		
ROE (%)	9.5	12.6	13.5	12.1	11.0	9.5	11.9	11.9		

Source: Handlowy, BRE Bank Securities

Residual income valuation model

(PLN m)	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	+	FV
Net profit	703	727	778	831	883	934	983	1 030	1 074	1 117		
Y/Y pct. change	-6.9	3.4	7.0	6.8	6.3	5.8	5.3	4.8	4.3	4.0	4.0	
Equity	6 414	6 790	6 841	6 894	6 979	7 101	7 264	7 469	7 720	8 022		
Dividend payout rate (%)	50.0	100.0	100.0	96.0	91.9	87.9	83.9	79.9	75.8	71.8	71.8	
ROE (%)	10.9	11.0	11.4	12.1	12.7	13.3	13.7	14.0	14.1	14.2	14.2	
Cost of equity (%)	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	
Excess return (%)		0.2	0.6	1.2	1.9	2.4	2.8	3.1	3.3	3.3	3.3	
Residual income		11	39	86	131	170	204	231	250	263	3 833	
Discount factor		0.91	0.82	0.74	0.67	0.60	0.54	0.49	0.44	0.40	0.40	
Present value of residual income		**10**	**32**	**63**	**87**	**102**	**111**	**113**	**110**	**104**	**1 523**	
Equity at year-end 2011												6 414
Present value of expected 2012F-2014F residual income												41
Present value of expected 2014F-2020F residual income												690
Present value of terminal value												1 523
Fair value												8 669
Number of shares (millions)												130.7
Fair value per share (PLN)												66.3
9M Target Price (PLN)												**72.0**
Current price (PLN)												73.95
Upside/downside (%)												-2.6%

Source: Handlowy, BRE Bank Securities

Income Statement

(PLN m)	2008	2009	2010	2011F	2012F	2013F
Interest income	**1 366**	**1 505**	**1 497**	**1 419**	**1 472**	**1 500**
Fee income	619	561	655	643	662	709
Trading income	328	357	411	340	358	380
Income from banking operations	**2 313**	**2 423**	**2 563**	**2 402**	**2 492**	**2 589**
Other net operating income	93	161	-3	6	3	3
Non-interest income	**1 040**	**1 079**	**1 062**	**988**	**1 023**	**1 092**
Total income	**2 405**	**2 585**	**2 560**	**2 407**	**2 495**	**2 592**
Payroll expenses	-697	-646	-666	-674	-691	-708
D&A expenses	-97	-79	-62	-60	-62	-64
Other administrative expenses	-702	-659	-647	-690	-717	-746
Operating expenses	**-1 496**	**-1 384**	**-1 375**	**-1 424**	**-1 470**	**-1 518**
Operating income before provisions	**910**	**1 201**	**1 184**	**983**	**1 025**	**1 074**
Provisions	-153	-546	-243	-99	-116	-102
Equity in profits /losses of associates	3	0	1	0	0	0
Pre-tax profit	**759**	**655**	**943**	**884**	**909**	**973**
Tax	-159	-151	-188	-181	-182	-195
Minority interests	0	0	0	0	0	0
Net profit	**600**	**504**	**755**	**703**	**727**	**778**
Retained earnings	600	12	7	351	0	0

Source: Handlowy, BRE Bank Securities

Key P&L item CAGR projections

(%)	2008	2009	2010	2011F	2012F	2013F
Interest income	13	10	-1	-5	4	2
Non-interest income	-21	4	-2	-7	4	7
Total income	-4	7	-1	-6	4	4
Operating expenses	-2	-7	-1	4	3	3
Operating income before provisions	-8	32	-1	-17	4	5
Net profit	-27	-16	50	-7	3	7

Source: Handlowy, BRE Bank Securities

Key profit and loss ratios

(%)	2008	2009	2010	2011F	2012F	2013F
Net interest margin (on total assets)	3.35	3.75	3.99	3.70	3.72	3.71
Net interest margin (on interest-bearing assets)	3.60	4.05	4.32	3.99	4.01	3.99
Interest spread	2.63	3.45	3.89	3.50	3.48	3.46
Non-interest income / Total income	43.2	41.8	41.5	41.0	41.0	42.1
Costs / Income	62.2	53.5	53.7	59.2	58.9	58.6
Costs / Assets	3.67	3.45	3.66	3.72	3.72	3.75
Provisions / Net loans	1.16	4.22	2.06	0.80	0.85	0.70
Effective tax rate	20.9	23.0	19.9	20.5	20.0	20.0
ROE	10.7	8.5	11.9	10.9	11.0	11.4
ROA	1.47	1.26	2.01	1.84	1.84	1.92

Source: Handlowy, BRE Bank Securities

Balance Sheet

(PLN m)	2008	2009	2010	2011F	2012F	2013F
Cash and central bank balances	3 531	4 113	3 207	1 397	985	1 016
Financial sector receivables	3 696	4 803	2 950	3 005	3 153	2 865
Loans	**13 886**	**11 975**	**11 593**	**13 162**	**14 080**	**15 017**
Debt securities	18 700	13 687	17 025	18 728	18 915	19 104
Equities, shares, and other investments	68	81	80	80	80	80
Fixed assets	572	505	475	490	504	530
Intangible assets	37	37	40	41	42	44
Other assets	2 061	2 432	2 147	2 186	2 211	2 259
Total assets	**42 550**	**37 633**	**37 518**	**39 088**	**39 971**	**40 915**
Financial sector payables	7 922	5 716	6 007	6 308	6 434	6 562
Deposits	**19 935**	**20 572**	**20 423**	**19 962**	**19 704**	**20 326**
Outstanding securities	0	0	12	0	0	0
Subordinated loans	0	0	0	0	0	0
Other liabilities	9 067	5 146	4 583	6 405	7 043	7 185
Total liabilities	**36 925**	**31 434**	**31 025**	**32 674**	**33 181**	**34 074**
Equity	**5 626**	**6 199**	**6 493**	**6 414**	**6 790**	**6 841**
Equity and liabilities	**42 550**	**37 633**	**37 518**	**39 088**	**39 971**	**40 915**

Source: Handlowy, BRE Bank Securities

Key balance sheet item CAGR projections

(%)	2008	2009	2010	2011F	2012F	2013F
Loans	11	-14	-3	14	7	7
Total assets	9	-12	0	4	2	2
Deposits	1	3	-1	-2	-1	3
Equity	0	10	5	-1	6	1

Source: Handlowy, BRE Bank Securities

Key balance sheet ratios

(%)	2008	2009	2010	2011F	2012F	2013F
NPL / Total loans	12.2	16.5	15.1	11.1	10.5	9.6
Provisions / NPL	74.3	63.9	67.2	79.2	85.1	94.1
Loans / Assets	32.6	31.8	30.9	33.7	35.2	36.7
Deposits / Assets	46.9	54.7	54.4	51.1	49.3	49.7
Loans / Deposits	69.7	58.2	56.8	65.9	71.5	73.9
Equity / Assets	13.2	16.5	17.3	16.4	17.0	16.7
CAR	12.1	16.7	18.8	17.1	17.9	17.4
Tier-1 Ratio (%)	12.1	16.7	18.8	17.1	17.9	17.4

Source: Handlowy, BRE Bank Securities

19 January 2012

Update

BRE Bank Securities

Banks
Poland

ING BSK
Hold

BSK PW; SLAS.WA

(Downgraded)

Current price	**PLN 80.70**
Target price	**PLN 80.00**
Market cap	PLN 10.5n
Free float	PLN 2.6bn
Avg daily trading volume (3M)	PLN 4.43m

Shareholder Structure

ING	75.0%
Others	25.0%

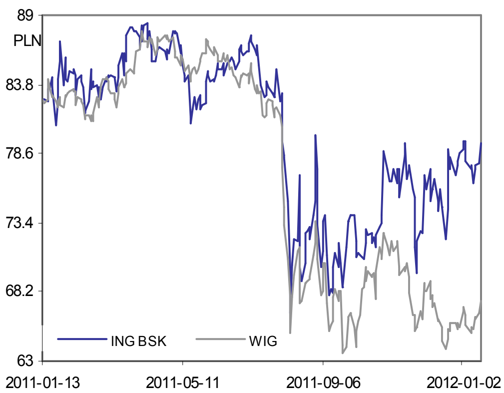
Company Profile

ING Bank Śląski is Poland's fifth biggest bank asset-wise, with a ca. 5.5% market share. The Bank has a broad product range directed to both retail and corporate clients. It has one of the lowest loans/ deposits ratios among listed banks (ca. 78%). Surplus liquidity is located in debt securities, primarily Polish treasury bonds. In deposits, retail savings predominate, in loans, corporate loans, although the Bank is gradually increasing its market shares in retail loans, especially mortgages.

Important dates

09.02.2012 - FY 2011 report
31.03.2012 - Q1 2012 report

ING BSK vs. WIG



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Reasonable Valuation, Balanced Risks

Following downward revisions by 13% and 12% to our 2012 and 2013 net income forecasts for ING BSK, we are reducing our 9-month price target on the stock by 11% to PLN 80. Because the current downside potential is a mere 1%, we are downgrading our rating from buy to hold. Although we expect that the Bank's net profit will shrink less rapidly than for the industry as a whole, it is trading at a P/E of 12.2x, just 3% below peer average. Note also that following the acquisition of ING ABL, ING BSK is likely to pay only a nominal dividend for 2011 with a payout ratio under 1%.

Market share in loans will continue to climb
Since ING BSK stopped offering foreign currency mortgages already in early 2009, and because it did not offer state-subsidized mortgages, the decline in its mortgage lending in 2012 may be less pronounced than for the industry as a whole. Coupled with the fact that ING BSK is the third-biggest corporate bank in our coverage universe, we expect that its loan growth will outpace market average. Lending will be further supported by the Bank's liquid balance sheet with a loans / deposits ratio of 78%, lack of external financing and satisfactory financial standing of the parent.

Income set for growth except for fee income
With the loan portfolio expanding and the interest margin leveling off at 2.6%, we expect that ING BSK will generate satisfactory interest income growth in 2012 (+5% y/y). However, we are skeptical as far as the prospects for fee income growth are concerned, as it will be under pressure from shrinking account management fees as well as fees from the stock brokerage and investment fund businesses. All in all, we expect a 3% increase in total income and income from core operations in 2012.

Only symbolic dividend likely for 2011
Although ING BSK has met the Financial Supervision Authority's requirements and has been mentioned as one of the banks that might pay a dividend, we believe the payout will be merely symbolic due to the acquisition of ING ABL. Our forecasts assume a 10% dividend payout ratio for 2011, or PLN 0.68 per share and a yield under 1%.

(PLN m)	2009	2010	2011F	2012F	2013F
Interest income	1 402	1 628	1 851	1 942	2 040
Banking income	2 488	2 683	2 907	2 993	3 130
Operating income*	991	1 097	1 253	1 287	1 361
Net income	595	753	886	859	946
Interest margin (%)	2.17	2.62	2.68	2.61	2.63
Costs / Income (%)	60.0	59.1	57.1	57.2	56.8
ROE (%)	13.1	14.3	14.7	12.6	12.6
EPS (PLN)	4.57	5.79	6.81	6.61	7.27
BVPS (PLN)	37.54	43.43	49.30	55.22	60.51
DPS (PLN)**	0.00	1.50	0.68	1.98	3.64
P/E (x)	17.6	13.9	11.9	12.2	11.1
P/BV (x)	2.15	1.86	1.64	1.46	1.33
Dividend yield (%)**	0.0	1.9	0.8	2.5	4.5

**before provisions; **dividends for the year, paid out the next year*

4Q 2011 earnings estimates

PLN 219m net income, flat q/q

We are forecasting a PLN 219m net profit for ING BSK in Q4 2011, i.e. with no change vs. the preceding quarter. We do not rule out further valuation losses on derivatives in trading income and additional provisioning towards the end.

We are forecasting a sharp expansion of the loan portfolio, by 3% q/q thanks to strong corporate lending. In deposits as well we are projecting rapid growth (+3% q/q), driven partly by an increase in interest rates paid on savings accounts (+25pp) and partly by a seasonal strength in corporate savings. Interest income will be practically flat q/q at PLN 479m. We are worried about possible pressure on the deposit margin driven by increased competition in the market for retail deposits and by interest rate hikes. In fee income, we project a slight q/q decline by 1% due to the tougher situation in the equity market. In trading income we expect just PLN 8m, because losses on the valuation of financial instruments cannot be ruled out. We expect operating expenses to be stable q/q at PLN 420m. We believe that 2% q/q growth in payroll expenses will be offset by a 3% q/q drop in administrative expenses. In provisions, we expect 126% q/q growth to PLN 61m as the base was low in Q3 2011 after the Bank released PLN 26m worth of corporate provisions. The resulting cost of risk will be 61bps (+32bps q/q).

4Q 2011 earnings estimates

(PLN m)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11F	Y/Y	Q/Q
Interest income	**390**	**405**	**410**	**422**	**435**	**460**	**477**	**479**	***14%***	***0%***
Fee income	228	247	256	256	251	258	261	258	*1%*	*-1%*
Trading income	26	11	17	14	29	15	-24	8	*-44%*	*+/-*
Income from banking operations	**645**	**663**	**683**	**692**	**715**	**732**	**715**	**745**	***8%***	***4%***
Other net operating income	10	5	-6	-12	8	2	3	3	*+/-*	*19%*
Non-interest income	**264**	**263**	**267**	**258**	**288**	**275**	**240**	**269**	***4%***	***12%***
Total income	**654**	**668**	**677**	**680**	**723**	**734**	**717**	**748**	***10%***	***4%***
Payroll expenses	-179	-187	-196	-259	-201	-206	-213	-218	*-16%*	*2%*
D&A expenses	-29	-29	-30	-32	-31	-32	-34	-33	*2%*	*-3%*
Non-payroll expenses	-186	-187	-169	-99	-177	-182	-175	-169	*72%*	*-3%*
Total costs	**-394**	**-403**	**-395**	**-390**	**-409**	**-420**	**-422**	**-420**	***8%***	***0%***
Operating income before provisions	**260**	**265**	**282**	**290**	**314**	**315**	**295**	**328**	***13%***	***11%***
Provisions	-48	-39	-55	-61	-57	-38	-27	-61	*0%*	*126%*
Equity in profits/losses of associates	7	11	11	12	10	13	8	7	*-43%*	*-13%*
Pre-tax profit	**219**	**236**	**237**	**241**	**267**	**290**	**277**	**274**	***14%***	***-1%***
Tax	-42	-45	-45	-49	-55	-56	-56	-55	*11%*	*-3%*
Minority interests	0	0	0	0	0	0	0	0	*+/-*	*+/-*
Net profit	**178**	**192**	**192**	**192**	**213**	**234**	**220**	**219**	***14%***	***0%***
Interest margin (on total assets) (%)	2.56	2.62	2.65	2.66	2.67	2.76	2.70	2.60		
Non-interest income/Total income (%)	40.3	39.3	39.4	38.0	39.9	37.4	33.4	36.0		
Costs/Income (%)	60.2	60.4	58.4	57.4	56.5	57.2	58.8	56.1		
Cost of risk (bps)	63	51	68	72	65	42	28	61		
Effective tax rate	19.1	18.9	18.9	20.5	20.4	19.4	20.4	20.0		
Net loans	30 160	31 781	33 321	34 509	35 332	37 095	39 790	41 042	*19%*	*3%*
Total assets	62 089	61 583	62 166	64 518	65 840	67 501	73 696	73 440	*14%*	*0%*
Deposits	46 184	45 954	47 668	47 400	46 462	48 286	50 759	52 472	*11%*	*3%*
Equity	5 132	5 280	5 530	5 651	5 782	5 951	6 195	6 414	*14%*	*4%*
Loans/Assets (%)	48.6	51.6	53.6	53.5	53.7	55.0	54.0	55.9		
Deposits/Assets (%)	74.4	74.6	76.7	73.5	70.6	71.5	68.9	71.4		
Loans/Deposits (%)	65.3	69.2	69.9	72.8	76.0	76.8	78.4	78.2		
Equity/Assets (%)	8.3	8.6	8.9	8.8	8.8	8.8	8.4	8.7		
ROA (%)	1.16	1.24	1.24	1.21	1.30	1.40	1.25	1.19		
ROE (%)	14.2	14.7	14.2	13.7	14.9	15.9	14.5	13.9		

Source: ING BSK, BRE Bank Securities

Residual income valuation model

(PLN m)	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	+	FV
Net profit	886	859	946	1 057	1 168	1 275	1 375	1 466	1 543	1 605		
Y/Y pct. change	17.6	-3.0	10.1	11.8	10.5	9.2	7.9	6.6	5.3	4.0	4.0	
Equity	6 414	7 184	7 873	8 457	9 065	9 688	10 313	10 929	11 524	12 085		
Dividend payout ratio (%)	10.0	30.0	50.0	52.9	55.9	58.8	61.8	64.7	67.6	70.6	70.6	
ROE (%)	14.7	12.6	12.6	12.9	13.3	13.6	13.8	13.8	13.7	13.6	13.6	
Cost of equity (%)	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	
Excess return (%)		1.8	1.7	2.1	2.5	2.7	2.9	3.0	2.9	2.8	2.8	
Residual income		122	129	171	217	258	290	313	325	325	4 739	
Discount factor		0.91	0.82	0.74	0.67	0.60	0.54	0.49	0.44	0.40	0.40	
Present value of residual income		**110**	**106**	**126**	**145**	**155**	**157**	**153**	**143**	**129**	**1 883**	
Equity at year-end 2011												6 414
Present value of expected 2012F-2013F residual income												216
Present value of expected 2014F-2020F residual income												1 008
Present value of terminal value												1 883
Fair value												9 521
Number of shares (millions)												130.1
Fair value per share (PLN)												73.2
9M Target Price (PLN)												**80.0**
Current price (PLN)												80.7
Upside/downside (%)												-0.9%

Source: ING BSK, BRE Bank Securities

Income Statement

(PLN m)	2008	2009	2010	2011F	2012F	2013F
Interest income	**1 253**	**1 402**	**1 628**	**1 851**	**1 942**	**2 040**
Fee income	890	964	987	1 029	1 012	1 048
Trading income	-82	121	68	27	40	42
Income from banking operations	**2 060**	**2 488**	**2 683**	**2 907**	**2 993**	**3 130**
Other net operating income	27	-10	-3	16	15	17
Non-interest income	**835**	**1 076**	**1 052**	**1 072**	**1 067**	**1 107**
Total income	**2 087**	**2 478**	**2 679**	**2 923**	**3 008**	**3 147**
Payroll expenses	-783	-717	-822	-837	-860	-892
D&A expenses	-134	-124	-121	-129	-135	-140
Other administrative expenses	-591	-647	-640	-704	-727	-754
Operating expenses	**-1 507**	**-1 488**	**-1 583**	**-1 670**	**-1 721**	**-1 786**
Operating income before provisions	**580**	**991**	**1 097**	**1 253**	**1 287**	**1 361**
Provisions	-66	-304	-204	-183	-246	-215
Equity in profits /losses of associates	48	52	41	38	20	21
Pre-tax profit	**563**	**738**	**934**	**1 108**	**1 061**	**1 168**
Tax	-118	-143	-181	-222	-202	-222
Minority interests	0	0	0	0	0	0
Net profit	**445**	**595**	**753**	**886**	**859**	**946**
Retained earnings	445	595	558	797	602	473

Source: ING BSK, BRE Bank Securities

Key P&L item CAGR projections

(%)	2008	2009	2010	2011F	2012F	2013F
Interest income	20	12	16	14	5	5
Non-interest income	-14	29	-2	2	-1	4
Total income	3	19	8	9	3	5
Operating expenses	9	-1	6	6	3	4
Operating income before provisions	-9	71	11	14	3	6
Net profit	-29	34	27	18	-3	10

Source: ING BSK, BRE Bank Securities

Key profit and loss ratios

(%)	2008	2009	2010	2011F	2012F	2013F
Net interest margin (on total assets)	2.06	2.17	2.62	2.68	2.61	2.63
Net interest margin (on interest-bearing assets)	2.11	2.22	2.68	2.75	2.67	2.69
Interest spread	1.87	2.03	2.48	2.52	2.41	2.43
Non-interest income / Total income	40.0	43.4	39.3	36.7	35.5	35.2
Costs / Income	72.2	60.0	59.1	57.1	57.2	56.8
Costs / Assets	2.48	2.30	2.54	2.42	2.31	2.30
Provisions / Net loans	0.31	1.08	0.63	0.49	0.59	0.49
Effective tax rate	20.9	19.4	19.4	20.1	19.0	19.0
ROE	11.1	13.1	14.3	14.7	12.6	12.6
ROA	0.73	0.92	1.21	1.28	1.15	1.22

Source: ING BSK, BRE Bank Securities

Balance Sheet

(PLN m)	2008	2009	2010	2011F	2012F	2013F
Cash and central bank balances	1 370	2 657	2 394	1 837	1 866	1 975
Financial sector receivables	7 787	1 184	1 181	3 335	5 213	6 596
Loans	**25 743**	**30 593**	**34 509**	**41 042**	**43 170**	**45 357**
Debt securities	33 180	24 001	24 825	25 570	23 524	23 995
Equities, shares, and other investments	107	116	157	141	148	156
Fixed assets	544	549	544	517	538	559
Intangible assets	92	104	118	130	134	141
Other assets	787	681	788	868	882	897
Total assets	**69 610**	**59 883**	**64 518**	**73 440**	**75 474**	**79 676**
Financial sector payables	11 993	3 974	4 039	9 088	9 361	9 641
Deposits	**47 067**	**47 585**	**47 400**	**52 472**	**53 301**	**56 438**
Outstanding securities	5 147	2 192	5 974	3 584	3 656	3 656
Subordinated loans	0	0	0	0	0	0
Other liabilities	1 182	1 249	1 454	1 882	1 973	2 067
Total liabilities	**65 388**	**54 999**	**58 867**	**67 027**	**68 290**	**71 803**
Equity	**4 222**	**4 884**	**5 651**	**6 414**	**7 184**	**7 873**
Equity and iabilities	**69 610**	**59 883**	**64 518**	**73 440**	**75 474**	**79 676**

Source: ING BSK, BRE Bank Securities

Key balance sheet item CAGR projections

(%)	2008	2009	2010	2011F	2012F	2013F
Loans	57	19	13	19	5	5
Total assets	34	-14	8	14	3	6
Deposits	6	1	0	11	2	6
Equity	10	16	16	14	12	10

Source: ING BSK, BRE Bank Securities

Key balance sheet ratios

(%)	2008	2009	2010	2011F	2012F	2013F
NPL / Total loans	1.9	3.7	4.2	3.9	4.0	4.0
Provisions / NPL	100.0	75.7	72.0	75.7	83.1	90.9
Loans / Assets	37.0	51.1	53.5	55.9	57.2	56.9
Deposits / Assets	67.6	79.5	73.5	71.4	70.6	70.8
Loans / Deposits	54.7	64.3	72.8	78.2	81.0	80.4
Equity / Assets	6.1	8.2	8.8	8.7	9.5	9.9
CAR	10.4	12.0	13.1	12.2	13.3	13.8
Tier-1 Ratio (%)	10.4	12.0	13.1	12.2	13.3	13.8

Source: ING BSK, BRE Bank Securities

19 January 2012

Update

BRE Bank Securities

Banks

Poland

Kredyt Bank Reduce

KRB PW; BKRE.WA (Downgraded)

Current price	**PLN 9.61**
Target price	**PLN 9.10**
Market cap	PLN 2.6bn
Free float	PLN 0.5bn
Avg daily trading volume (3M)	PLN 4.19m

Shareholder Structure

KBC	80.0%
Pioneer FIO	7.4%
Others	12.6%

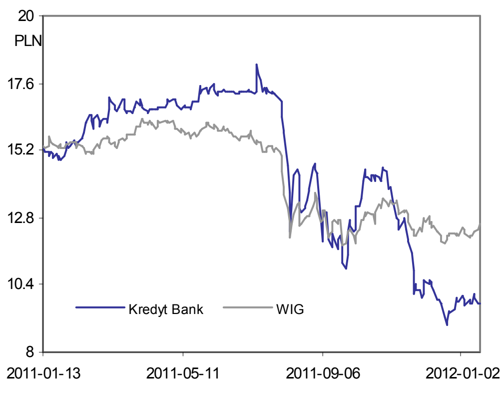
Company profile

Kredyt Bank is the number-seven bank in Poland with a market share of ca. 3.5% in assets. Its asset base is made up primarily of retail loans and deposits, with mortgage loans (of which 65% are foreign-currency loans) accounting for over one half of the loan portfolio. Toward the end of 2008, the bank launched a cost-cutting exercise which resulted in a reduction in the cost/income ratio below 60%. Kredyt Bank has recently sold its consumer finance broker, Żagiel. Kredyt Bank relies on the support of its owner KBC, which provides it with access to subordinated debt as well as credit lines.

Important dates

09.02.2012 - Q4 2011 report
24.02.2012 - FY2011 report

Kredyt Bank vs. WIG



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KRB Faces Challenges In 2012

Following downward revisions of 35-37% to our 2012-2013 earnings forecasts, we are lowering our nine-month price target for Kredyt Bank by 31% to PLN 9.1 per share, and we are downgrading the stock from reduce to hold. We see a number of significant challenges ahead of Kredyt Bank in 2012. On the business front, the challenge is to at least sustain sales of mortgage loans – one of the main drivers of customer acquisition. On the financing front, the bank faces increasing costs related to the rollover of loans issued by KBC in 2007. On the equity front, the challenge is Kredyt Bank's lowest Tier-1 capital ratio in the sector. In our view, with 2012 return on equity estimated at 7.1%, Kredyt Bank is trading at an unattractive price-to-book ratio of 0.85x.

Income under pressure from tighter interest margins and fees

We predict a deterioration in Kredyt Bank's interest income this year due to flat loan growth combined with rising costs of debt (affecting both the KBC loan rollover scheduled for September, and new deposits). Moreover, subdued financial market activity is bound to put a dent in the bank's fee income which is not likely to display much growth even relative to the low 2011 base. Finally, 2012 trading income will be affected by lower income from foreign exchange transactions related to foreign-currency mortgage loans.

Cost of risk expected to rise after good 2011 supported by a one-off

We expect Kredyt Bank's reported 2011 cost of risk to be only 68bps (-109bps y/y) thanks to the sale of non-performing loans. For 2012, we predict the adjusted cost will increase by ca. 35 bps to 105bps from 80 bps in 2011, driving provisions up by 74% to PLN 336m. We believe Kredyt Bank will have to raise additional provisions for its mortgage portfolio as well as the loans issued to small and mid-sized corporate customers.

Sale by KBC

Our negative rating on Kredyt Bank may be undermined by its sale – KBC continues to look for a buyer through process which is rather lacking in transparency. Given the shortage of Tier-1 capital among European banks, we think it unlikely that KBC could get a premium for its Polish unit.

(PLN m)	**2009**	**2010**	**2011F**	**2012F**	**2013F**
Interest income	1 061	1 128	1 173	1 163	1 207
Income f/banking oper.	1 530	1 588	1 541	1 549	1 602
Operating income*	848	703	619	619	640
Net income	35	186	324	226	266
Interest margin (%)	2.73	2.74	2.61	2.48	2.50
Costs / Income (%)	54.7	56.9	61.9	62.1	61.8
ROE (%)	1.3	6.9	11.0	7.1	7.8
EPS (PLN)	0.13	0.68	1.19	0.83	0.98
BVPS (PLN)	9.53	10.41	11.32	12.15	13.13
DPS** (PLN)	0.00	0.37	0.00	0.00	0.29
P/E (x)	75.5	14.0	8.1	11.5	9.8
P/BV (x)	1.01	0.92	0.85	0.79	0.73
Dividend yield** (%)	0.0	3.9	0.0	0.0	3.1

**before provisions **dividends on the profits from the given year, paid out the following year*

4Q 2011 earnings estimates

Very weak quarter with just PLN 41m net income

We expect Kredyt Bank to post a low net income of PLN 41m for Q4 2011 after a 32% q/q drop caused by a PLN 35m provision for Żagiel and a q/q drop in core income.

We expect slight positive q/q growth in loans and a sharp q/q increase in deposits (+6%). Promotional campaigns for deposits will not only lead to a strong inflow of funds, but also to a 13bps q/q decline in interest margin. As a result, we project a 2% q/q drop in interest income to PLN 219m. We believe that fee income will be weak as well (-3% q/q to PLN 76m) due to the tough situation in capital markets. We believe that trading income will look the best, with a PLN 33m q/q increase to PLN 25m. In Q4'11, the Duda stock gained 3%, which entails a PLN 0.6m gain for Kredyt Bank. We also expect strong foreign-currency mortgage lending, which will boost F/X gains.

In operating expenses, we expect a 4% q/q drop because the Q3 2011 base was high (the Bank recognized PLN 15m in additional provisions for bonuses). We believe that provisions may surge by a staggering 116% q/q to PLN 108m driven by a provision for Żagiel (for a potential contractual penalty on account of its sale beyond the KBC group below PLN 315m) in the amount of PLN 35m. We also expect retail provisions to level off, and a slight growth in corporate provisions (after PLN 16.5m net reversals in Q3 2011). As usual, we expect a higher effective tax rate, which reflects the so-called thin capitalization (not all interest expenses on financing from KBC are tax deductible).

4Q 2011 earnings estimates

(PLN m)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11F	Y/Y	Q/Q
Interest income	**277**	**271**	**284**	**297**	**285**	**298**	**298**	**291**	*-2%*	*-2%*
Fee income	80	76	84	89	80	81	79	76	*-14%*	*-3%*
Trading income	28	34	48	22	20	13	-7	25	*17%*	*+/-*
Income from banking operations	**385**	**380**	**415**	**408**	**386**	**393**	**370**	**393**	*-4%*	*6%*
Other net operating income	16	7	16	4	12	28	22	23	*-*	*4%*
Non-interest income	**124**	**117**	**148**	**115**	**112**	**122**	**94**	**125**	*8%*	*33%*
Total income	**400**	**388**	**432**	**412**	**397**	**420**	**392**	**416**	*1%*	*6%*
Payroll expenses	-101	-101	-105	-109	-105	-108	-123	-111	*2%*	*-10%*
D&A expenses	-26	-25	-25	-24	-24	-24	-23	-24	*-4%*	*3%*
Non-payroll expenses	-97	-100	-105	-108	-103	-125	-118	-121	*11%*	*2%*
Total costs	**-225**	**-227**	**-235**	**-241**	**-232**	**-256**	**-264**	**-255**	*5%*	*-4%*
Operating income before provisions	**176**	**161**	**197**	**170**	**165**	**164**	**128**	**161**	*-5%*	*26%*
Provisions	-98	-141	-122	-111	11	-46	-50	-108	*-3%*	*116%*
Equity in profits/losses of associates	1	1	1	1	1	1	1	0	*-54%*	*-54%*
Pre-tax profit	**79**	**20**	**76**	**60**	**177**	**120**	**79**	**53**	*-12%*	*-33%*
Tax	-19	-6	-21	-3	-43	-32	-18	-12	*-*	*-36%*
Minority interests	0	0	0	0	0	0	0	0	*+/-*	*+/-*
Net profit	**60**	**14**	**56**	**57**	**134**	**88**	**61**	**41**	*-28%*	*-32%*
Interest margin (on total assets) (%)	2.81	2.64	2.66	2.75	2.54	2.63	2.67	2.54		
Non-interest income/Total income (%)	30.9	30.2	34.3	27.9	28.2	29.0	23.9	30.0		
Costs/Income (%)	56.2	58.5	54.4	58.6	58.5	60.9	67.3	61.3		
Cost of risk (bps)	152	217	180	164	-17	66	71	148		
Effective tax rate	24.3	31.0	27.1	4.9	24.4	26.6	23.1	22.1		
Net loans	25 156	26 967	27 166	27 282	27 953	27 379	29 157	29 404	*8%*	*1%*
Total assets	39 636	42 245	43 095	43 374	46 366	44 340	45 094	46 491	*7%*	*3%*
Deposits	24 505	25 652	25 758	25 661	26 696	26 154	26 247	27 739	*8%*	*6%*
Equity	2 755	2 727	2 816	2 828	2 911	2 956	3 033	3 074	*9%*	*1%*
Loans/Assets (%)	63.5	63.8	63.0	62.9	60.3	61.7	64.7	63.2		
Deposits/Assets (%)	61.8	60.7	59.8	59.2	57.6	59.0	58.2	59.7		
Loans/Deposits (%)	102.7	105.1	105.5	106.3	104.7	104.7	111.1	106.0		
Equity/Assets (%)	7.0	6.5	6.5	6.5	6.3	6.7	6.7	6.6		
ROA (%)	0.61	0.13	0.52	0.53	1.19	0.78	0.54	0.36		
ROE (%)	8.9	2.0	8.0	8.1	18.7	12.0	8.1	5.4		

Source: Kredyt Bank, BRE Bank Securities

Residual income valuation model

(PLN m)	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	+	FV
Net profit	324	226	266	314	361	406	449	487	518	539		
Y/Y pct. change	74.3	-30.1	17.7	18.0	15.0	12.5	10.5	8.5	6.5	4.0	4.0	
Equity	3 074	3 301	3 567	3 801	4 055	4 320	4 593	4 866	5 130	5 376		
Dividend payout rate (%)	0.0	0.0	30.0	34.4	38.9	43.3	47.7	52.2	56.6	61.0	61.0	
ROE (%)	11.0	7.1	7.8	8.5	9.2	9.7	10.1	10.3	10.4	10.3	10.3	
Cost of equity (%)	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	
Excess return (%)		-4.2	-3.6	-2.8	-2.2	-1.6	-1.3	-1.1	-1.0	-1.1	-1.1	
Residual income		-135	-123	-104	-85	-69	-57	-50	-49	-57	-779	
Discount factor		0.90	0.81	0.73	0.65	0.59	0.53	0.47	0.43	0.38	0.38	
Present value of residual income		**-122**	**-100**	**-76**	**-55**	**-40**	**-30**	**-24**	**-21**	**-22**	**-297**	

Equity at year-end 2011	3 074
Present value of expected 2012F-2013F residual income	-222
Present value of expected 2014F-2020F residual income	-268
Present value of terminal value	-297
Fair value	2 287
Number of shares (millions)	271.7
Fair value per share (PLN)	8.42
9M Target Price (PLN)	**9.10**
Current price (PLN)	9.61
Upside/downside (%)	-5.3%

Source: Kredyt Bank, BRE Bank Securities

Income Statement

(PLN m)	2008	2009	2010	2011F	2012F	2013F
Interest income	**1 060**	**1 061**	**1 128**	**1 173**	**1 163**	**1 207**
Fee income	293	304	330	317	314	321
Trading income	233	165	131	51	73	75
Income from banking operations	**1 586**	**1 530**	**1 588**	**1 541**	**1 549**	**1 602**
Other net operating income	50	342	43	85	84	73
Non-interest income	**576**	**811**	**504**	**452**	**470**	**468**
Total income	**1 636**	**1 872**	**1 632**	**1 626**	**1 633**	**1 675**
Payroll expenses	-536	-457	-417	-446	-449	-458
D&A expenses	-104	-115	-101	-94	-94	-97
Other administrative expenses	-465	-453	-410	-466	-471	-480
Operating expenses	**-1 105**	**-1 024**	**-928**	**-1 007**	**-1 014**	**-1 035**
Operating income before provisions	**531**	**848**	**703**	**619**	**619**	**640**
Provisions	-108	-803	-472	-193	-336	-307
Equity in profits /losses of associates	-2	2	3	3	0	0
Pre-tax profit	**421**	**47**	**235**	**429**	**283**	**333**
Tax	-96	-12	-49	-105	-57	-67
Minority interests	0	0	0	0	0	0
Net profit	**325**	**35**	**186**	**324**	**226**	**266**
Retained earnings	325	35	85	324	226	187

Source: Kredyt Bank, BRE Bank Securities

Key P&L item CAGR projections

(%)	2008	2009	2010	2011F	2012F	2013F
Interest income	22	0	6	4	-1	4
Non-interest income	11	41	-38	-10	4	0
Total income	18	14	-13	0	0	3
Operating expenses	13	-7	-9	9	1	2
Operating income before provisions	28	60	-17	-12	0	3
Net profit	-17	-89	438	74	-30	18

Source: Kredyt Bank, BRE Bank Securities

Key profit and loss ratios

(%)	2008	2009	2010	2011F	2012F	2013F
Net interest margin (on total assets)	3.22	2.73	2.74	2.61	2.48	2.50
Net interest margin (on interest-bearing assets)	3.32	2.80	2.80	2.67	2.54	2.56
Interest spread	2.90	2.50	2.59	2.44	2.30	2.33
Non-interest income / Total income	35.2	43.3	30.9	27.8	28.8	28.0
Costs / Income	67.5	54.7	56.9	61.9	62.1	61.8
Costs / Assets	3.35	2.63	2.25	2.24	2.16	2.14
Provisions / Net loans	0.50	3.04	1.77	0.68	1.15	1.05
Effective tax rate	22.8	25.9	20.8	24.5	20.0	20.0
ROE	13.2	1.3	6.9	11.0	7.1	7.8
ROA	0.99	0.09	0.45	0.72	0.48	0.55

Source: Kredyt Bank, BRE Bank Securities

Balance Sheet

(PLN m)	2008	2009	2010	2011F	2012F	2013F
Cash and central bank balances	828	1 175	1 944	1 248	1 007	1 070
Financial sector receivables	339	188	1 464	1 978	2 659	3 605
Loans	**26 733**	**26 054**	**27 282**	**29 404**	**29 000**	**29 387**
Debt securities	9 859	10 696	11 650	12 815	13 456	14 129
Equities, shares, and other investments	10	12	15	17	17	17
Fixed assets	422	354	290	261	288	316
Intangible assets	61	51	50	58	64	70
Other assets	479	547	679	709	727	745
Total assets	**38 731**	**39 077**	**43 374**	**46 491**	**47 218**	**49 339**
Financial sector payables	13 238	12 403	12 151	11 786	11 197	11 197
Deposits	**20 275**	**22 469**	**25 661**	**27 739**	**28 777**	**30 579**
Outstanding securities	9	0	229	1 545	1 591	1 639
Subordinated loans	280	806	911	1 037	1 037	1 037
Other liabilities	2 283	810	1 595	1 310	1 315	1 320
Total liabilities	**36 085**	**36 488**	**40 546**	**43 417**	**43 917**	**45 772**
Equity	**2 646**	**2 589**	**2 828**	**3 074**	**3 301**	**3 567**
Equity and liabilities	**38 731**	**39 077**	**43 374**	**46 491**	**47 218**	**49 339**

Source: Kredyt Bank, BRE Bank Securities

Key balance sheet item CAGR projections

(%)	2008	2009	2010	2011F	2012F	2013F
Loans	61	-3	5	8	-1	1
Total assets	43	1	11	7	2	4
Deposits	19	11	14	8	4	6
Equity	16	-2	9	9	7	8

Source: Kredyt Bank, BRE Bank Securities

Key balance sheet ratios

(%)	2008	2009	2010	2011F	2012F	2013F
NPL / Total loans	4.9	8.6	9.7	7.6	8.6	9.3
Provisions / NPL	68.7	66.3	67.8	61.1	66.9	71.0
Loans / Assets	69.0	66.7	62.9	63.2	61.4	59.6
Deposits / Assets	52.3	57.5	59.2	59.7	60.9	62.0
Loans / Deposits	131.9	116.0	106.3	106.0	100.8	96.1
Equity / Assets	6.8	6.6	6.5	6.6	7.0	7.2
CAR	8.8	11.8	12.5	12.0	12.5	13.0
Tier-1 Ratio (%)	7.3	8.8	8.9	8.4	9.1	9.6

Source: Kredyt Bank, BRE Bank Securities

19 January 2012

Update

BRE Bank Securities

Banks
Poland

Current price	**PLN 3.82**
Target price	**PLN 3.30**
Market cap	PLN 4.6bn
Free float	PLN 1.6bn
Avg daily trading volume (3M)	PLN 6.38m

Shareholder Structure

BCP	65.5%
ING OFE	5.0%
Others	30.0%

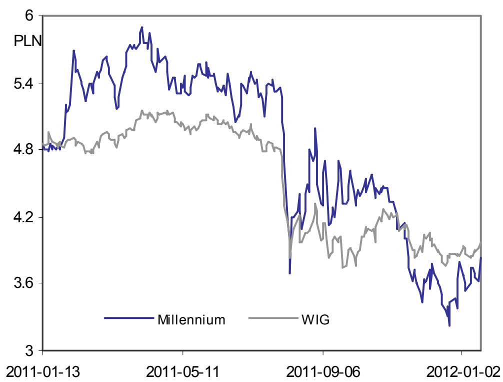
Company Profile

Millennium is Poland's number-six bank with a market share of ca. 4% asset-wise. The bank is focused primarily on retail customers, but is has plans to expand in the SME segment in the future. About 65% of its loan portfolio are mortgage loans, of which 80% are nominated in foreign currencies. Millennium's financial targets for FY2012 include a ROE of 15%, a cost/income ratio below 60%, and a capital adequacy ratio over 11%.

Important Dates

31.01.2012 - 4Q 2011 report
29.02.2012 - FY2011 report
27.04.2012 - 1Q 2012 report

Millennium vs. WIG



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Millennium

Reduce

MIL PW; BIGW.WA (Downgraded)

Price-to-Book Too High Relative To ROE

Now that BCP has shelved plans to sell Millennium, at least for the time being, we have removed an assumed 10% takeover premium from our valuation. Moreover, we have considerably lowered our 2012 and 2013 net income forecasts for Millennium (by 27% and 18%, respectively). Consequently, we are reducing our nine-month price target for the bank by 31% to PLN 3.3 per share, and downgrading our rating to reduce. MIL is trading at 12.4x 2012E price-to-earnings, which does not seem much, but a 2011 price-to-book ratio of 1.02x is not justified by the low return on equity of 7.9% which we expect to see in 2012.

Slowdown in loans, pickup in deposits

We anticipate a considerable slowdown to 1% in 2012 from 13% in 2011 in the rate of Millennium's loan expansion. One of the factors contributing to the deceleration will be the mortgage portfolio (accounting for 67% of total loans), where we expect accelerated amortization of Swiss franc loans and a decline in the sales of zloty loans brought about by tighter credit restrictions. We predict some growth in corporate lending, particularly loans issued to small and mid-sized businesses. While lending falters, we expect Millennium to continue the efforts aimed at acquiring customer savings, resulting in a 6% increase in deposits in 2012.

Slow income

On nearly flat loans and downward pressure on deposit margins, we predict only a marginal, 1% increase in Millennium's interest income in 2012. Fee income will most likely show a 2% decline this year due to decreased business generated by the bank's brokerage unit and investment funds. Moreover, we do not think Millennium is inclined to raise account fees this year after selling over 200 thousand fee-free accounts in 2011.

Cost of risk as main source of profit pressure

Millennium managed to lower its cost of risk to the very low level of 45 bps in 2011. We believe the bank achieved this by not recognizing virtually any new provisions for its mortgage portfolio – a feat which is impossible to repeat in 2012 given the zloty's 20% depreciation relative to the Swiss franc in the course of 2011. In addition to mortgages, higher provisions will also have to be set aside for SME loans. Accordingly, we anticipate an increase by 25 bps to 70 bps in Millennium's cost of risk in 2012, implying a 66% increase in provisions and a 19% drop to PLN 375m in annual net income.

(PLN m)	2009	2010	2011F	2012F	2013F
Interest income	691	1 010	1 198	1 214	1 283
Income f/banking oper.	1 434	1 714	1 901	1 905	1 986
Operating income*	431	633	761	764	804
Net income	1	326	461	375	454
Interest margin (%)	1.50	2.20	2.45	2.33	2.34
Costs / Income (%)	70.4	63.1	59.6	59.5	59.1
ROE (%)	0.1	9.5	10.7	7.9	9.1
EPS (PLN)	0.00	0.28	0.38	0.31	0.37
BVPS (PLN)	3.28	3.37	3.75	4.06	4.44
DPS** (PLN)	0.00	0.10	0.00	0.00	0.13
P/E (x)	-	13.5	10.0	12.4	10.2
P/BV (x)	1.16	1.13	1.02	0.94	0.86
Dividend yield** (%)	0.0	2.6	0.0	0.0	3.4

** before provisions; ** dividends on profits for the given year, paid out the following year*

Q4 2011 Earnings Forecast

Net income expected to decline only 4% Q/Q on much weaker revenues

We expect Millennium to post a 4% quarter-on-quarter decline to PLN 120m in its Q4 2011 net income. The bottom-line downturn will be much less severe than in the case of other banks, but the income composition will be unsatisfying.

We expect to see a marginal uptick in loans compared to the third quarter, led by corporate lending. Deposits will grow at a much faster rate of 4%. The promotional campaign for a savings account completed in the fourth quarter will boost volumes while lowering the interest margin, and interest income which is expected to decrease 3% Q/Q to PLN 307m. Fee income is expected to drop 7% Q/Q to PLN 130m as a consequence of weaker results generated by the Millennium investment funds, securities brokerage, and insurance sales. Thanks to higher market swap rates, trading income may display a 31% Q/Q surge to PLN 49m.

We expect falling income to go hand in hand with tight cost control, including payroll and other costs, resulting in a 2% Q/Q decline to PLN 280m. Loan loss provisions should not increase more than 8% from the preceding quarter. Any additional allowances for credit exposure to Poldim should be nearly entirely offset by proceeds from NPL sales.

Q4 2011 Earnings Forecast

(PLN m)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11F	Y/Y	Q/Q
Interest income (incl. swaps)	233	240	261	275	273	301	317	307	*12%*	*-3%*
Fee income	148	136	135	145	150	144	139	130	*-11%*	*-7%*
Trading income	41	27	22	50	18	36	37	49	*-2%*	*31%*
Income from banking operations	**422**	**404**	**419**	**470**	**441**	**481**	**493**	**486**	***3%***	***-1%***
Other income (net)	2	0	-1	2	-2	-8	-4	-5	*+/-*	*19%*
Non-interest income	**190**	**163**	**156**	**197**	**166**	**172**	**172**	**173**	***-12%***	***1%***
Total income	**423**	**403**	**418**	**472**	**439**	**473**	**488**	**480**	***2%***	***-2%***
Payroll expenses	-122	-133	-135	-135	-133	-135	-136	-134	*0%*	*-1%*
D&A expenses	-19	-19	-18	-20	-18	-16	-16	-16	*-21%*	*1%*
Non-payroll expenses	-113	-117	-120	-131	-122	-130	-134	-130	*-1%*	*-3%*
Total costs	**-255**	**-269**	**-274**	**-286**	**-273**	**-281**	**-286**	**-280**	***-2%***	***-2%***
Operating income before provisions	**169**	**134**	**144**	**186**	**166**	**192**	**203**	**200**	***8%***	***-1%***
Provisions	-83	-47	-51	-45	-37	-44	-47	-50	*13%*	*8%*
Equity in profits/losses of associates	0	0	0	0	0	0	1	0	*+/-*	*+/-*
Pre-tax income	**85**	**88**	**93**	**141**	**129**	**147**	**157**	**150**	***6%***	***-5%***
Tax	-17	-18	-17	-29	-28	-32	-32	-30	*2%*	*-7%*
Minority interests	0	0	0	0	0	0	0	0	*+/-*	*+/-*
Net income	**68**	**70**	**76**	**112**	**101**	**115**	**125**	**120**	***7%***	***-4%***
Interest margin (on total assets) (%)	2.07	2.10	2.29	2.40	2.35	2.55	2.58	2.44		
Non-interest income / Total income (%)	44.9	40.4	37.5	41.7	37.9	36.4	35.2	36.0		
Costs/Income (%)	60.2	66.7	65.5	60.6	62.1	59.5	58.5	58.4		
Cost of risk (bps)	100	54	56	49	41	47	47	48		
Effective tax rate (%)	20.3	20.7	18.2	20.7	21.8	21.8	20.5	20.0		
Net loans	33 006	36 776	35 813	36 794	36 358	38 666	41 328	41 739	*13%*	*1%*
Total assets	45 278	46 317	44 796	46 984	45 963	48 340	50 012	50 779	*8%*	*2%*
Deposits	33 136	33 512	34 973	36 066	35 725	37 284	37 163	38 714	*7%*	*4%*
Equity	3 913	3 970	4 022	4 091	4 009	4 135	4 434	4 554	*11%*	*3%*
Loans/Assets (%)	72.9	79.4	79.9	78.3	79.1	80.0	82.6	82.2		
Deposits/Assets (%)	73.2	72.4	78.1	76.8	77.7	77.1	74.3	76.2		
Loans/Deposits (%)	99.6	109.7	102.4	102.0	101.8	103.7	111.2	107.8		
Equity/Assets (%)	8.6	8.6	9.0	8.7	8.7	8.6	8.9	9.0		
ROA (%)	0.60	0.61	0.67	0.98	0.87	0.98	1.02	0.95		
ROE (%)	8.1	7.1	7.6	11.1	10.0	11.3	11.7	10.7		

Source: Millennium, BRE Bank Securities

Residual Income Model

(PLN m)	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	+	FV
Net income	461	375	454	516	577	633	684	725	755	785		
Y/Y pct. change	41.5	-18.7	21.2	13.6	11.7	9.8	7.9	6.0	4.1	4.0	4.0	
Equity	4 554	4 930	5 384	5 741	6 119	6 509	6 903	7 291	7 662	8 021		
Dividend payout ratio (%)	0.0	0.0	35.0	38.6	42.2	45.7	49.3	52.9	56.5	60.0	60.0	
ROE (%)	10.7	7.9	8.8	9.3	9.7	10.0	10.2	10.2	10.1	10.0	10.0	
Cost of equity (%)	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	
Excess return (%)		-2.9	-2.0	-1.6	-1.1	-0.8	-0.7	-0.6	-0.8	-0.8	-0.8	
Residual income		-139	-105	-87	-67	-52	-44	-45	-57	-66	-959	
Discount factor		0.91	0.82	0.74	0.67	0.60	0.54	0.49	0.44	0.40	0.40	
Present value of residual income		**-126**	**-86**	**-64**	**-44**	**-31**	**-24**	**-22**	**-25**	**-26**	**-381**	
Equity as of year-end 2011												4 554
Present value of residual income (2012F-2013F)												-212
Present value of residual income (2014F-2020F)												-237
Present value of residual value												-381
Fair value												3 724
Number of shares (millions)												1 213
Fair value per share (PLN)												3.07
9-month target price (PLN)												**3,30**
Current price (PLN)												3.82
Upside/downside potential												-13.6%

Source: Millennium, BRE Bank Securities

Income Statement

(PLN m)	2008	2009	2010	2011F	2012F	2013F
Interest income (incl. swaps)	**1 135**	**691**	**1 010**	**1 198**	**1 214**	**1 283**
Fee income	472	494	565	562	551	564
Trading income	220	249	140	140	140	139
Income from banking operations	**1 827**	**1 434**	**1 714**	**1 901**	**1 905**	**1 986**
Other net operating income/expenses	21	20	2	-20	-20	-20
Non-interest income	**713**	**763**	**707**	**683**	**671**	**682**
Total income	**1 848**	**1 454**	**1 716**	**1 881**	**1 885**	**1 965**
Payroll expenses	-609	-471	-526	-539	-528	-547
D&A expenses	-73	-80	-76	-66	-66	-69
Other administrative expenses	-510	-472	-481	-515	-527	-546
Operating expenses	**-1 192**	**-1 023**	**-1 083**	**-1 120**	**-1 121**	**-1 162**
Operating income before provisions	**656**	**431**	**633**	**761**	**764**	**804**
Provisions	-135	-436	-225	-178	-295	-236
Equity in profits/losses of associates	0	7	0	1	0	0
Pre-tax income	**521**	**2**	**408**	**584**	**469**	**568**
Tax	-108	0	-82	-122	-94	-114
Minority interests	0	0	0	0	0	0
Net income	**413**	**1**	**326**	**461**	**375**	**454**
Undistributed profit/loss	413	1	205	461	375	295

Source: Millennium, BRE Bank Securities

Annual rates of growth of key income lines

(%)	2008	2009	2010	2011F	2012F	2013F
Interest income	38	-39	46	19	1	6
Non-interest income	-20	7	-7	-3	-2	2
Total income	8	-21	18	10	0	4
Operating expenses	13	-14	6	3	0	4
Operating income before provisions	1	-34	47	20	0	5
Net income	-11	-	-	42	-19	21

Source: Millennium, BRE Bank Securities

Key P&L ratios

(%)	2008	2009	2010	2011F	2012F	2013F
Net interest margin (on total assets)	2.92	1.50	2.20	2.45	2.33	2.34
Net interest margin (on interest-bearing assets)	3.00	1.53	2.24	2.49	2.37	2.38
Interest spread	2.66	1.25	1.95	2.02	1.88	1.93
Non-interest income / Total income	38.6	52.5	41.2	36.3	35.6	34.7
Costs / Income	64.5	70.4	63.1	59.6	59.5	59.1
Costs / Assets	3.07	2.22	2.36	2.29	2.15	2.12
Provisions / Net loans	0.48	1.29	0.64	0.45	0.70	0.55
Effective tax rate (%)	20.8	20.3	20.1	21.0	20.0	20.0
ROE	15.5	0.1	9.5	10.7	7.9	9.1
ROA	1.06	0.00	0.71	0.94	0.72	0.83

Source: Millennium, BRE Bank Securities

Balance Sheet

(PLN m)	2008	2009	2010	2011F	2012F	2013F
Cash and central bank balances	1 803	2 191	2 051	1 936	1 438	1 531
Financial sector receivables	1 580	696	1 486	3 221	2 850	4 723
Loans	**33 809**	**33 694**	**36 794**	**41 739**	**42 144**	**43 090**
Debt securities	9 194	7 196	5 938	3 000	6 000	6 000
Equities and other investments	5	12	12	12	12	12
Fixed assets	385	347	242	206	216	227
Intangible assets	22	23	30	27	28	30
Other assets	317	756	432	638	662	688
Total assets	**47 115**	**44 914**	**46 984**	**50 779**	**53 351**	**56 300**
Financial sector payables	3 061	4 909	2 084	1 959	2 018	2 079
Deposits	**33 204**	**33 901**	**36 066**	**38 714**	**41 095**	**43 741**
Outstanding securities	5 327	1 707	1 945	1 900	1 957	2 016
Subordinated loans	961	946	912	624	624	624
Other payables	1 747	663	1 886	3 027	2 727	2 457
Liabilities	**44 300**	**42 126**	**42 893**	**46 225**	**48 421**	**50 917**
Equity	**2 815**	**2 787**	**4 091**	**4 554**	**4 930**	**5 384**
Total liabilities	**47 115**	**44 914**	**46 984**	**50 779**	**53 351**	**56 300**

Source: Millennium, BRE Bank Securities

Annual rates of growth of key balance-sheet items

(%)	2008	2009	2010	2011F	2012F	2013F
Loans	53	0	9	13	1	2
Total assets	54	-5	5	8	5	6
Deposits	47	2	6	7	6	6
Equity	12	-1	47	11	8	9

Source: Millennium, BRE Bank Securities

Key balance sheet ratios

(%)	2008	2009	2010	2011F	2012F	2013F
NPL / Loans	3.4	5.8	5.8	4.9	5.1	5.0
Provisions / NPL	64.4	54.4	54.1	62.5	72.5	81.2
Loans / Assets	71.8	75.0	78.3	82.2	79.0	76.5
Deposits / Assets	70.5	75.5	76.8	76.2	77.0	77.7
Loans / Deposits	101.8	99.4	102.0	107.8	102.6	98.5
Equity / Assets	6.0	6.2	8.7	9.0	9.2	9.6
Capital adequacy ratio	10.2	11.3	14.4	14.3	12.7	12.2
Tier 1 capital ratio	7.9	8.9	12.3	12.5	11.3	11.1

Source: Millennium, BRE Bank Securities

19 January 2012

Update

BRE Bank Securities

Banks
Poland

Pekao

Reduce

PEO PW; BEPE.WA

(Downgraded)

Current price	**PLN 145.9**
Target price	**PLN 135.0**
Market cap	PLN 38.3bn
Free float	PLN 15.6bn
Avg daily trading volume (3M)	PLN 131.38m

Shareholder Structure

UniCredit	59.2%
Other	40.8%

Company Profile

Pekao is Poland's second-biggest bank with a 12% market share in assets. It has the country's biggest portfolio of corporate deposits and loans, second-biggest portfolio of retail deposits and fourth-biggest portfolio of retail loans. It has the highest capital levels of all the listed banks, with its Tier-1 ratio exceeding 18%. The Bank is planning to use its surplus capital for both organic growth and acquisitions. It owns a stake in a Ukrainian banks OJSC UniCredit, whose loans account for ca. 2% of the consolidated loan portfolio.

The Most Expensive Financial Stock

Since BCP is no loner selling Millennium, and there are no more equally sizeable assets available for sale at the moment in the Polish market, investors will probably stop attaching a premium to Pekao's stock price in anticipation of a more profitable allocation of its PLN 6.5bn capital surplus. Further, we do not think Pekao can remain immune to economic pressures, and we expect its loan portfolio, particularly SME loans, will require higher provisions. Accordingly, we are lowering our price target for the bank by 16% to PLN 135, and we are downgrading the stock to reduce. We view Pekao as a less attractive investment than PKO BP which is 13% cheaper on the estimated 2012 price-to-earnings ratio, and which offers a higher dividend yield, even though the returns it delivered in 2011 were 4ppts lower on average tan Pekao's.

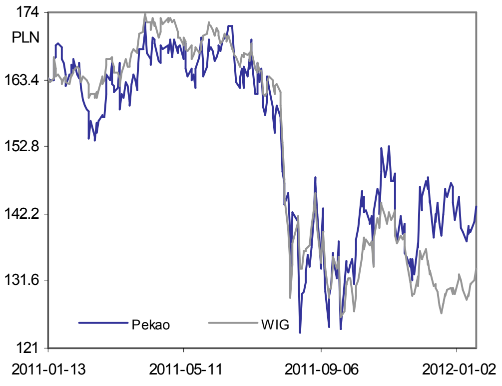
Anticipating dividend after UniCredit's EUR 7.5bn equity raise

Pekao has the strongest capital levels of all Polish banks, but the recent dividend guidelines issued by the Financial Supervision Authority would have excluded it from the group of banks that can afford to share their profits with shareholders because of the capital needs of its parent company. Fortunately, UniCredit has recently completed a EUR 7.5 billion rights issue (its post-issue ownership structure is still sorting itself out), and it will probably successfully complete the registration of the new shares by June 2012, leaving Pekao free to distribute 50% of its 2011 earnings as dividends. Such a distribution would imply per-share dividend of PLN 5.48 and dividend yield of 3.8%.

Demanding valuation with the sector's highest 2012E P/E of 14.0x

Trading at 14.0x 2012E P/E, Pekao is the most expensive financial stock at the moment, showing a 14% premium to peer averages and a 21% premium relative to PZU. Meanwhile, both PKO BP and PZU offer higher dividend yields of 4.6% and 7.8%, respectively. Finally, Pekao's expected 2012 ROE of 12.5% does not justify a 2011 price-to-book ratio of 1.80x.

Pekao vs. WIG



(PLN m)	2009	2010	2011F	2012F	2013F
Interest income	4 018	4 227	4 610	4 766	4 952
Banking income	7 278	7 197	7 670	7 735	8 033
Operating income*	3 683	3 563	4 030	4 016	4 191
Net income	2 628	2 525	2 876	2 741	2 940
Interest margin (%)	3.06	3.19	3.30	3.24	3.23
Costs / Income (%)	49.9	50.6	47.8	48.5	48.2
ROE (%)	15.3	13.1	13.9	12.5	12.7
EPS (PLN)	10.02	9.63	10.96	10.45	11.21
BVPS (PLN)	69.71	76.89	81.11	86.08	89.97
DPS (PLN)**	2.90	6.80	5.48	7.31	7.84
P/E (x)	14.6	15.2	13.3	14.0	13.0
P/BV (x)	2.09	1.90	1.80	1.69	1.62
Dividend yield (%)**	2.0	4.7	3.8	5.0	5.4

**before provisions; **dividends for the year, paid out the next year*

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Q4 2011 Earnings Forecast

Predicting 2% Q/Q net income decline to PLN 747m

At an estimated PLN 747m, Pekao's Q4 2011 net income will display a 2% decline relative to Q3 2011 and a 16% surge from the year-ago level. We are not anticipating any major one-offs. Loans are expected to grow 2%, and deposits will expand by an estimated 5% Q/Q, thanks to the corporate business. With the interest margin down 5 bps to 3.43%, the interest income will decrease 3% to PLN 1232m. Fee income will display flat quarter-on-quarter growth at PLN 613m. Any downturn in the income generated by the securities brokerage and investment funds should be offset by the all-encompassing "other" line which was surprisingly low in Q3 2011. Finally, trading income is expected to fall 16% to PLN 144m.

Operating expenses will rise 2% compare to Q3 2011, driven by end-of-year employee bonus settlements rather than by seasonal factors like in the case of PKO BP. At an estimated PLN 144m, loan loss provisions will grow at a moderate rate of 5%, resulting in a 1bp higher cost of risk of 64bps.

Q4 2011 Earnings Forecast

(PLN m)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11F	Y/Y	Q/Q
Interest income (incl. swaps)	1 005	1 003	1 031	1 065	1 061	1 125	1 192	1 232	*16%*	*3%*
Fee income	572	588	591	617	597	645	612	613	*-1%*	*0%*
Trading income	171	171	204	179	147	130	173	144	*-19%*	*-16%*
Income from banking operations	**1 748**	**1 762**	**1 825**	**1 861**	**1 805**	**1 900**	**1 976**	**1 990**	***7%***	***1%***
Other income (net)	17	13	24	-39	8	15	23	9	*+/-*	*-59%*
Non-interest income	**760**	**773**	**819**	**757**	**752**	**789**	**807**	**767**	***1%***	***-5%***
Total income	**1 765**	**1 775**	**1 850**	**1 822**	**1 813**	**1 915**	**1 999**	**1 999**	***10%***	***0%***
Payroll expenses	-468	-476	-482	-524	-490	-501	-495	-517	*-1%*	*4%*
D&A expenses	-108	-99	-98	-87	-96	-93	-93	-94	*8%*	*1%*
Non-payroll expenses	-328	-327	-337	-315	-314	-332	-340	-332	*5%*	*-2%*
Total costs	**-904**	**-902**	**-918**	**-926**	**-899**	**-926**	**-928**	**-942**	***2%***	***2%***
Operating income before provisions	**862**	**873**	**932**	**896**	**914**	**988**	**1 070**	**1 057**	***18%***	***-1%***
Provisions	-141	-136	-134	-127	-134	-135	-138	-144	*13%*	*5%*
Equity in profits/losses of associates	21	26	21	8	21	29	17	10	*27%*	*-43%*
Pre-tax income	**742**	**764**	**820**	**776**	**801**	**882**	**950**	**922**	***19%***	***-3%***
Tax	-137	-142	-158	-135	-150	-166	-181	-174	*29%*	*-4%*
Minority interests	-2	-2	-3	2	-3	-2	-2	-1	*+/-*	*-49%*
Net income	**603**	**619**	**660**	**644**	**648**	**714**	**766**	**747**	***16%***	***-2%***
Interest margin (on total assets) (%)	3.11	3.07	3.08	3.17	3.17	3.40	3.48	3.43		
Non-interest income / Total income (%)	43.1	43.5	44.3	41.6	41.5	41.2	40.4	38.4		
Costs/Income (%)	51.2	50.8	49.6	50.8	49.6	48.4	46.4	47.1		
Cost of risk (bps)	73	69	65	62	66	65	63	64		
Effective tax rate (%)	18.4	18.6	19.2	17.4	18.7	18.8	19.1	18.8		
Net loans	75 735	81 908	82 822	80 843	81 892	84 643	89 391	91 251	*13%*	*2%*
Total assets	127 928	133 428	134 622	134 090	133 361	131 153	142 466	145 068	*8%*	*2%*
Deposits	93 582	99 509	100 984	99 767	97 271	97 269	103 795	109 420	*10%*	*5%*
Equity	19 099	18 924	19 629	20 174	20 699	19 796	20 534	21 282	*5%*	*4%*
Loans/Assets (%)	59.2	61.4	61.5	60.3	61.4	64.5	62.7	62.9		
Deposits/Assets (%)	73.2	74.6	75.0	74.4	72.9	74.2	72.9	75.4		
Loans/Deposits (%)	80.9	82.3	82.0	81.0	84.2	87.0	86.1	83.4		
Equity/Assets (%)	14.9	14.2	14.6	15.0	15.5	15.1	14.4	14.7		
ROA (%)	1.86	1.90	1.97	1.92	1.94	2.16	2.24	2.08		
ROE (%)	12.9	13.0	13.7	12.9	12.7	14.1	15.2	14.3		

Source: Pekao, BRE Bank Securities

Residual Income Model

(PLN m)	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	+	FV
Net income	2 876	2 741	2 940	3 215	3 490	3 760	4 022	4 269	4 497	4 676		
Y/Y pct. change	13.9	-4.7	7.2	9.4	8.6	7.8	7.0	6.2	5.4	4.0	4.0	
Equity	21 282	22 585	23 606	24 763	25 991	27 284	28 634	30 031	31 464	32 897		
Dividend payout ratio (%)	50.0	70.0	70.0	70.4	70.7	71.1	71.4	71.8	72.1	72.5	72.5	
ROE (%)	13.9	12.5	12.7	13.3	13.8	14.1	14.4	14.6	14.6	14.5	14.5	
Cost of equity (%)	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	
Excess return (%)		1.6	1.9	2.4	2.9	3.3	3.5	3.7	3.8	3.7	3.7	
Residual income		362	434	591	736	870	988	1 087	1 161	1 184	17 289	
Discount factor		0.91	0.82	0.74	0.67	0.60	0.54	0.49	0.44	0.40	0.40	
Present value of residual income		**328**	**355**	**436**	**490**	**522**	**535**	**531**	**512**	**471**	**6 871**	

Equity as of year-end 2011	21 282
Present value of residual income (2012F-2013F)	683
Present value of residual income (2014F-2020F)	3 496
Present value of residual value	6 871
Fair value	32 331
Number of shares (millions)	262.4
Fair value per share (PLN)	123
9-month target price (PLN)	**135**
Current price (PLN)	145.9
Upside/downside potential	-7.5%

Source: Pekao, BRE Bank Securities

Income Statement

(PLN m)	2008	2009	2010	2011F	2012F	2013F
Interest income (incl. swaps)	**4 642**	**4 018**	**4 227**	**4 610**	**4 766**	**4 952**
Fee income	2 342	2 289	2 368	2 467	2 376	2 458
Trading income	702	972	602	593	593	623
Income from banking operations	**7 686**	**7 278**	**7 197**	**7 670**	**7 735**	**8 033**
Other net operating income/expenses	596	77	16	55	56	57
Non-interest income	**3 640**	**3 337**	**2 986**	**3 116**	**3 025**	**3 139**
Total income	**8 282**	**7 356**	**7 212**	**7 726**	**7 791**	**8 091**
Payroll expenses	-1 875	-1 856	-1 950	-2 002	-2 055	-2 132
D&A expenses	-414	-439	-392	-376	-376	-384
Other administrative expenses	-1 513	-1 378	-1 307	-1 318	-1 344	-1 385
Operating expenses	**-3 802**	**-3 673**	**-3 649**	**-3 696**	**-3 775**	**-3 900**
Operating income before provisions	**4 480**	**3 683**	**3 563**	**4 030**	**4 016**	**4 191**
Provisions	-263	-535	-538	-551	-688	-620
Equity in profits/losses of associates	128	65	76	76	69	72
Pre-tax income	**4 346**	**3 213**	**3 102**	**3 555**	**3 396**	**3 643**
Tax	-805	-576	-571	-670	-645	-692
Minority interests	-13	-10	-5	-9	-10	-11
Net income	**3 528**	**2 628**	**2 525**	**2 876**	**2 741**	**2 940**
Undistributed profit/loss	3 528	1 867	741	1 438	822	882

Source: Pekao, BRE Bank Securities

Annual rates of growth of key income lines

(%)	2008	2009	2010	2011F	2012F	2013F
Interest income	71	-13	5	9	3	4
Non-interest income	45	-8	-11	4	-3	4
Total income	58	-11	-2	7	1	4
Operating expenses	38	-3	-1	1	2	3
Operating income before provisions	81	-18	-3	13	0	4
Net income	78	-26	-4	14	-5	7

Source: Pekao, BRE Bank Securities

Key P&L ratios

(%)	2008	2009	2010	2011F	2012F	2013F
Net interest margin (on total assets)	3.63	3.06	3.19	3.30	3.24	3.23
Net interest margin (on interest-bearing assets)	3.88	3.23	3.35	3.50	3.41	3.40
Interest spread	3.57	2.95	3.06	3.18	3.08	3.08
Non-interest income / Total income	43.9	45.4	41.4	40.3	38.8	38.8
Costs / Income	45.9	49.9	50.6	47.8	48.5	48.2
Costs / Assets	2.97	2.80	2.76	2.65	2.56	2.54
Provisions / Net loans	0.35	0.66	0.67	0.64	0.74	0.64
Effective tax rate (%)	18.5	17.9	18.4	18.9	19.0	19.0
ROE	23.0	15.3	13.1	13.9	12.5	12.7
ROA	2.76	2.00	1.91	2.06	1.86	1.92

Source: Pekao, BRE Bank Securities

Balance Sheet

(PLN m)	2008	2009	2010	2011F	2012F	2013F
Cash and central bank balances	9 934	9 620	5 969	3 830	3 881	4 110
Financial sector receivables	7 909	7 203	6 259	11 653	12 516	13 613
Loans	**82 515**	**79 484**	**80 843**	**91 251**	**94 736**	**99 104**
Debt securities	22 586	29 830	32 938	30 632	30 632	32 776
Equities and other investments	309	240	215	204	204	210
Fixed assets	1 906	1 822	1 822	1 749	1 801	1 855
Intangible assets	691	654	643	578	578	596
Other assets	6 090	1 763	5 402	5 171	5 171	5 171
Total assets	**131 941**	**130 616**	**134 090**	**145 068**	**149 520**	**157 436**
Financial sector payables	14 993	8 479	7 641	7 259	8 493	8 748
Deposits	**90 889**	**97 250**	**99 767**	**109 420**	**110 877**	**117 423**
Outstanding securities	7 616	3 624	2 770	2 687	3 143	3 238
Subordinated loans	0	0	0	0	0	0
Other payables	2 495	2 975	3 738	4 420	4 421	4 421
Liabilities	**115 993**	**112 328**	**113 916**	**123 786**	**126 935**	**133 830**
Equity	**15 947**	**18 288**	**20 174**	**21 282**	**22 585**	**23 606**
Total liabilities	**131 941**	**130 616**	**134 090**	**145 068**	**149 520**	**157 436**

Source: Pekao, BRE Bank Securities

Annual rates of growth of key balance-sheet items

(%)	2008	2009	2010	2011F	2012F	2013F
Loans	18	-4	2	13	4	5
Total assets	6	-1	3	8	3	5
Deposits	1	7	3	10	1	6
Equity	9	15	10	5	6	5

Source: Pekao, BRE Bank Securities

Key balance sheet ratios

(%)	2008	2009	2010	2011F	2012F	2013F
NPL/Loans	5.2	6.4	6.3	6.4	6.6	6.6
Provisions/NPL	88.2	78.7	76.2	73.1	79.2	83.6
Loans / Assets	62.5	60.9	60.3	62.9	63.4	62.9
Deposits / Assets	68.9	74.5	74.4	75.4	74.2	74.6
Loans / Deposits	90.8	81.7	81.0	83.4	85.4	84.4
Equity / Assets	12.1	14.0	15.0	14.7	15.1	15.0
Capital adequacy ratio	12.3	16.0	17.6	16.8	17.5	17.5
Tier 1 capital ratio	12.3	16.0	17.6	16.8	17.5	17.5

Source: Pekao, BRE Bank Securities

19 January 2012

Update

BRE Bank Securities

PKO BP

Accumulate

PKO PW; PKOB.WA

(Downgraded)

Banks

Poland

Current price	**PLN 32.89**
Target price	**PLN 35.00**
Market cap	PLN 41.1bn
Free float	PLN 20.0bn
Avg daily trading volume (3M)	PLN 196.60m

Shareholder Structure

State Treasury	41.0%
BGK	10.2%
Other	48.8%

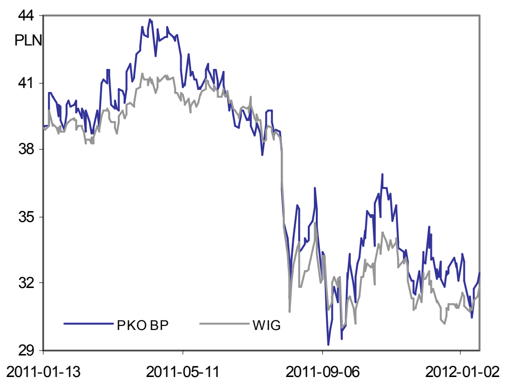
Company Profile

PKO BP is the number-one bank in Poland with a market share of ca. 14%. It has accumulated the largest portfolio of retail loans and deposits, and the second-largest portfolio of corporate loans and deposits after Pekao. The bank boasts a healthy balance sheet and solid capital adequacy ratios. PKO BP is a 99.6% owner of Ukrainian bank Kredobank, which is responsible for about 1% of its assets. The bank's financial targets for FY2012 include a net income over PLN 4 billion, a ROE ahead of 16%, and a cost/income ratio below 45%.

Important dates

01.03.2012 - FY2011 report

PKO BP vs. WIG



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Attractive Valuation, High Dividend

We lowered our 2012 and 2013 net income forecasts for PKO BP by 16%, and we consequently reduced our price target for the bank by 15% to PLN 35.0, but we remain positive about the bank's performance in the coming months. We expect PKO BP shares to continue gaining momentum going forward, particularly compared to rival Pekao, on the back of an anticipated temporary improvement in investor confidence and a small appreciation of the zloty. Moreover, the bank is trading at an attractive 2012 P/E ratio of 12.2x given an expected 4.6% dividend yield on this year's distribution to shareholders.

Anticipating growing interest income, moderate pressure on margins

We expect moderate downward pressure on PKO BP's margins in 2012. After four reference rate hikes by 25 bps each in 2011, we anticipate two reductions by a combined 50 bps to 4% in 2012, suggesting that the average market rate this year will remain virtually unchanged. If these predictions come true, PKO BP faces only limited risk of a major contraction in interest margins in 2012. Accordingly, we expect a 2% increase the bank's interest income combined with 2% expansion in the loan portfolio. As for fee income, like in the case of all other banks, PKO BP faces a downturn due to subdued activity in financial markets.

10% earnings decline in 2012 consistent with sector averages

We expect a 10% drop from PLN 3743 to PLN 3374m in PKO BP's 2012 net income, in line with the earnings slowdown projected for the bank sector as a whole. Note that the assumption of falling profits is based solely on conservative expectations with respect to costs of risk and provisions. Our 2012 cost of risk estimate is 162 bps (+20 bps Y/Y), more even than reported in 2009.

Dividend expectations supported by budget objectives

PKO BP complies with Financial Supervision's dividend guidelines, so it is expected to make a distribution to shareholders this year. PKO BP's dividend policy puts the payout ratio at 40%, but we are more optimistic in our expectations and assume the bank will pay out 50% of 2011 earnings to its shareholders, who include the Polish State Treasury. A PLN 1.50-a-share dividend implies a yield of 4.6% – the highest in the sector.

(PLN m)	2009	2010	2011F	2012F	2013F
Interest income	5 051	6 516	7 552	7 721	7 951
Banking revenue	8 607	10 022	10 908	10 986	11 285
Operating income*	4 624	5 948	6 615	6 532	6 686
Net income	2 306	3 217	3 743	3 374	3 749
Interest margin (%)	3.47	4.00	4.22	4.03	3.95
Costs / Income (%)	47.9	41.7	40.1	41.3	41.5
ROE (%)	13.4	15.4	16.9	14.3	14.8
EPS (PLN)	2.06	2.57	2.99	2.70	3.00
BVPS (PLN)	16.34	17.09	18.27	19.47	21.12
DPS (PLN)**	1.90	1.98	1.50	1.35	1.95
P/E (x)	16.0	12.8	11.0	12.2	11.0
P/BV (x)	2.01	1.92	1.80	1.69	1.56
Dividend yield (%)**	5.8	6.0	4.6	4.1	5.9

**before provisions; **dividends for the year, paid out the next year*

Q4 2011 Earnings Forecast

Net income drop to PLN 888m led by higher loan loss reserves

We expect a 13% quarter-on-quarter drop to PLN 888m in PKO PB's Q4 2011 net income, caused by seasonally higher operating expenses and an increase in additional loan loss reserves related to associates and subsidiaries.

Loans will expand 2% compared to Q3 2011, driven by mortgages and corporate lending. Deposits will increase 3% on higher retail savings. With the interest margin flat at Q3 2011 level of 4.3%, interest income will be 2% higher at PLN 2013m. Fee income will display a 1% Q/Q uptick spurred by loans. There will be a 26% downturn in trading income caused by lower F/X gains.

Q4 2011 costs will show a 9% increase resulting from seasonally higher payroll expenses (employee bonuses) and other costs. Loan-loss provisions will expand 16% (or PLN 78m) to PLN 566m, including PLN 60-70m additional allowances for subsidiaries and associates (Kredobank, Bank Pocztowy).

Q4 2011 Earnings Forecast

(PLN m)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11F	Y/Y	Q/Q
Interest income	1 474	1 592	1 719	1 731	1 719	1 855	1 964	2 013	16%	2%
Fee income	725	802	798	818	737	804	768	775	-5%	1%
Trading income	117	68	111	67	78	42	87	65	-4%	-26%
Income from banking operations	**2 317**	**2 461**	**2 627**	**2 616**	**2 535**	**2 701**	**2 820**	**2 852**	**9%**	**1%**
Other income (net)	29	48	63	36	46	34	32	22	-38%	-29%
Non-interest income	**872**	**917**	**971**	**921**	**861**	**880**	**887**	**862**	**-6%**	**-3%**
Total income	**2 346**	**2 509**	**2 690**	**2 652**	**2 581**	**2 735**	**2 851**	**2 875**	**8%**	**1%**
Payroll expenses	-567	-571	-598	-638	-580	-565	-614	-678	6%	10%
D&A expenses	-119	-120	-123	-151	-124	-127	-134	-137	-9%	3%
Non-payroll expenses	-329	-330	-337	-367	-350	-377	-355	-387	5%	9%
Total costs	**-1 014**	**-1 021**	**-1 057**	**-1 157**	**-1 054**	**-1 069**	**-1 103**	**-1 202**	**4%**	**9%**
Operating income before provisions	**1 332**	**1 488**	**1 633**	**1 496**	**1 527**	**1 666**	**1 749**	**1 673**	**12%**	**-4%**
Provisions	-425	-458	-559	-426	-438	-443	-488	-566	33%	16%
Equity in profits/losses of associates	-4	-1	0	4	-3	0	1	0	-97%	-83%
Pre-tax income	**903**	**1 029**	**1 074**	**1 073**	**1 085**	**1 222**	**1 262**	**1 108**	**3%**	**-12%**
Tax	-184	-248	-228	-207	-214	-256	-245	-220	6%	-10%
Minority interests	1	1	1	2	0	1	0	1	-73%	63%
Net income	**720**	**782**	**847**	**868**	**871**	**967**	**1 017**	**888**	**2%**	**-13%**
Interest margin (on total assets) (%)	3.77	3.95	4.14	4.11	4.02	4.22	4.30	4.30		
Non-interest income / Total income (%)	37.2	36.6	36.1	34.7	33.4	32.2	31.1	30.0		
Costs/Income (%)	43.2	40.7	39.3	43.6	40.8	39.1	38.7	41.8		
Cost of risk (bps)	145	151	178	133	133	132	142	161		
Effective tax rate (%)	20.3	24.1	21.2	19.3	19.8	20.9	19.4	19.9		
Net loans	117 892	124 665	126 715	130 668	132 420	135 680	139 695	141 841	9%	2%
Total assets	156 696	165 699	166 859	169 661	172 694	178 702	186 997	187 940	11%	1%
Deposits	122 951	129 259	131 631	132 981	135 565	139 093	143 952	147 851	11%	3%
Equity	21 175	22 144	22 828	21 358	22 058	20 641	21 948	22 836	7%	4%
Loans/Assets (%)	75.2	75.2	75.9	77.0	76.7	75.9	74.7	75.5		
Deposits/Assets (%)	78.5	78.0	78.9	78.4	78.5	77.8	77.0	78.7		
Loans/Deposits (%)	95.9	96.4	96.3	98.3	97.7	97.5	97.0	95.9		
Equity/Assets (%)	13.5	13.4	13.7	12.6	12.8	11.6	11.7	12.2		
ROA (%)	1.84	1.94	2.04	2.06	2.04	2.20	2.22	1.89		
ROE (%)	13.8	14.4	15.1	15.7	16.0	18.1	19.1	15.9		

Source: PKO BP, BRE Bank Securities

Residual Income Model

(PLN m)	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	+	FV
Net income	3 743	3 374	3 749	4 066	4 385	4 703	5 016	5 319	5 609	5 836		
Y/Y pct. change	16.4	-9.9	11.1	8.5	7.9	7.3	6.7	6.1	5.5	4.0	4.0	
Equity	22 836	24 338	26 400	28 029	29 719	31 457	33 231	35 027	36 831	38 581		
Dividend payout ratio (%)	50.0	50.0	65.0	66.3	67.6	68.9	70.2	71.5	72.8	74.2	74.2	
ROE (%)	16.9	14.3	14.8	14.9	15.2	15.4	15.5	15.6	15.6	15.5	15.5	
Cost of equity (%)	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	
Excess return (%)		3.5	3.9	4.1	4.3	4.5	4.7	4.7	4.8	4.6	4.6	
Residual income		815	997	1 113	1 252	1 384	1 507	1 616	1 711	1 745	25 478	
Discount factor		0.91	0.82	0.74	0.67	0.60	0.54	0.49	0.44	0.40	0.40	
Present value of residual income		**742**	**818**	**824**	**837**	**834**	**819**	**793**	**757**	**697**	**10 169**	
Equity as of year-end 2011												22 836
Present value of residual income (2012F-2013F)												1 560
Present value of residual income (2014F-2020F)												5 560
Present value of residual value												10 169
Fair value												40 125
Number of shares (millions)												1 250
Fair value per share (PLN)												32.1
9-month target price (PLN)												**35,0**
Current price (PLN)												32.89
Upside/downside potential												6.4%

Source: PKO BP, BRE Bank Securities

Income Statement

(PLN m)	2008	2009	2010	2011F	2012F	2013F
Interest income	**6 127**	**5 051**	**6 516**	**7 552**	**7 721**	**7 951**
Fee income	2 412	2 583	3 143	3 084	2 996	3 054
Trading income	558	973	363	272	268	280
Income from banking operations	**9 097**	**8 607**	**10 022**	**10 908**	**10 986**	**11 285**
Other net operating income/expenses	292	261	176	134	135	148
Non-interest income	**3 261**	**3 817**	**3 681**	**3 490**	**3 399**	**3 482**
Total income	**9 388**	**8 868**	**10 198**	**11 042**	**11 120**	**11 433**
Payroll expenses	-2 429	-2 308	-2 375	-2 437	-2 543	-2 623
D&A expenses	-430	-469	-512	-523	-538	-560
Other administrative expenses	-1 437	-1 467	-1 362	-1 468	-1 506	-1 564
Operating expenses	**-4 296**	**-4 244**	**-4 249**	**-4 427**	**-4 588**	**-4 747**
Operating income before provisions	**5 092**	**4 624**	**5 948**	**6 615**	**6 532**	**6 686**
Provisions	-1 130	-1 681	-1 868	-1 935	-2 317	-2 003
Equity in profits/losses of associates	16	0	-1	-3	0	0
Pre-tax income	**3 977**	**2 943**	**4 079**	**4 677**	**4 215**	**4 683**
Tax	-838	-631	-866	-935	-843	-937
Minority interests	-19	-6	4	2	2	3
Net income	**3 121**	**2 306**	**3 217**	**3 743**	**3 374**	**3 749**
Undistributed profit/loss	2 121	-69	742	1 872	1 687	1 312

Source: PKO BP, BRE Bank Securities

Annual rates of growth of key income lines

(%)	2008	2009	2010	2011F	2012F	2013F
Interest income	32	-18	29	16	2	3
Non-interest income	7	17	-4	-5	-3	2
Total income	22	-6	15	8	1	3
Operating expenses	6	-1	0	4	4	3
Operating income before provisions	39	-9	29	11	-1	2
Net income	7	-26	40	16	-10	11

Source: PKO BP, BRE Bank Securities

Key P&L ratios

(%)	2008	2009	2010	2011F	2012F	2013F
Net interest margin (on total assets)	5.04	3.47	4.00	4.22	4.03	3.95
Net interest margin (on interest-bearing assets)	5.29	3.62	4.16	4.38	4.17	4.08
Interest spread	5.06	3.31	3.85	4.07	3.86	3.77
Non-interest income / Total income	34.7	43.0	36.1	31.6	30.6	30.5
Costs / Income	45.8	47.9	41.7	40.1	41.3	41.5
Costs / Assets	3.53	2.92	2.61	2.48	2.39	2.36
Provisions / Net loans	1.27	1.54	1.51	1.42	1.62	1.37
Effective tax rate (%)	21.1	21.5	21.2	20.0	20.0	20.0
ROE	24.1	13.4	15.4	16.9	14.3	14.8
ROA	2.57	1.58	1.97	2.09	1.76	1.86

Source: PKO BP, BRE Bank Securities

Balance Sheet

(PLN m)	2008	2009	2010	2011F	2012F	2013F
Cash and central bank balances	5 837	7 094	6 182	5 175	5 306	5 646
Financial sector receivables	3 364	2 023	2 307	4 127	5 970	8 416
Loans	**101 108**	**116 573**	**130 668**	**141 841**	**144 250**	**148 161**
Debt securities	18 264	24 557	24 200	30 251	33 276	38 267
Equities and other investments	247	229	173	164	161	161
Fixed assets	2 965	2 778	2 576	2 576	2 576	2 654
Intangible assets	1 188	1 308	1 572	1 557	1 634	1 716
Other assets	1 663	1 918	1 981	2 249	2 310	2 372
Total assets	**134 636**	**156 479**	**169 661**	**187 940**	**195 483**	**207 393**
Financial sector payables	6 991	5 153	5 237	5 709	5 880	5 880
Deposits	**102 939**	**125 073**	**132 981**	**147 851**	**151 597**	**161 320**
Outstanding securities	6 362	1 834	5 704	7 304	9 304	9 304
Subordinated loans	1 619	1 612	1 612	1 612	1 612	1 612
Other payables	2 773	2 379	2 769	2 629	2 752	2 877
Liabilities	**120 684**	**136 050**	**148 303**	**165 104**	**171 144**	**180 993**
Equity	**13 952**	**20 429**	**21 358**	**22 836**	**24 338**	**26 400**
Total liabilities	**134 636**	**156 479**	**169 661**	**187 940**	**195 483**	**207 393**

Source: PKO BP, BRE Bank Securities

Annual rates of growth of key balance-sheet items

(%)	2008	2009	2010	2011F	2012F	2013F
Loans	32	15	12	9	2	3
Total assets	24	16	8	11	4	6
Deposits	19	22	6	11	3	6
Equity	17	46	5	7	7	8

Source: PKO BP, BRE Bank Securities

Key balance sheet ratios

(%)	2008	2009	2010	2011F	2012F	2013F
NPL/Loans	4.4	8.3	8.5	8.7	9.2	9.3
Provisions/NPL	63.9	39.3	42.0	48.0	61.0	71.3
Loans / Assets	75.1	74.5	77.0	75.5	73.8	71.4
Deposits / Assets	76.5	79.9	78.4	78.7	77.5	77.8
Loans / Deposits	98.2	93.2	98.3	95.9	95.2	91.8
Equity / Assets	10.4	13.1	12.6	12.2	12.5	12.7
Capital adequacy ratio	11.3	14.8	12.5	12.0	12.2	12.5
Tier 1 capital ratio	9.9	13.5	11.3	10.9	11.2	11.5

Source: PKO BP, BRE Bank Securities

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List of abbreviations and ratios contained in the report:
EV *– net debt + market value*
EBIT *– Earnings Before Interest and Taxes*
EBITDA *– EBIT + Depreciation and Amortisation*
P/CE *– price to earnings with amortisation*
MC/S *– market capitalisation to sales*
EBIT/EV *– operating profit to economic value*
P/E *– (Price/Earnings) – price divided by annual net profit per share*
ROE *– (Return on Equity) – annual net profit divided by average equity*
P/BV *– (Price/Book Value) – price divided by book value per share*
Net debt *– credits + debt papers + interest bearing loans – cash and cash equivalents*
EBITDA margin *– EBITDA/Sales*

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Previous ratings issued for Get Bank

rating	Buy
rating day	2012-01-05
price on rating day	1.33
WIG on rating day	38726.6

Previous ratings issued for Handlowy

rating	Accumulate	Hold
rating day	2011-09-05	2011-10-06
price on rating day	64.35	69.45
WIG on rating day	40544.28	37496.93

Previous ratings issued for ING BSK

rating	Accumulate	Buy	Buy
rating day	2011-05-09	2011-05-20	2011-09-05
price on rating day	892.00	833.00	73.15
WIG on rating day	49321.53	48747.55	40544.28

Previous ratings issued for Kredyt Bank

rating	Hold	Reduce	Hold	Reduce	Hold
rating day	2011-06-03	2011-09-05	2011-10-06	2011-11-04	2011-12-06
price on rating day	17.60	14.40	13.20	13.90	10.50
WIG on rating day	49824.93	40544.28	37496.93	41313.92	39144.14

Previous ratings issued for Millennium

rating	Hold
rating day	2011-09-05
price on rating day	4.49
WIG on rating day	40544.28

Previous ratings issued for Pekao

rating	Accumulate	Accumulate	Hold
rating day	2011-08-16	2011-09-05	2011-11-04
price on rating day	142.50	142.10	153.00
WIG on rating day	39910.95	40544.28	41313.92

Previous ratings issued for PKO BP

rating	Buy	Buy
rating day	2011-05-23	2011-09-05
price on rating day	42.99	34.54
WIG on rating day	48486.49	40544.28