

28 August 2012 | 21 pages

Diversified Banks (GICS) | Banks (Citi)
CEEMEA | Poland

ING Bank Slaski SA (SLAS.WA)

Going Neutral on Costly Stadiums, Clicks, Bricks and Cash Loans

- **Downgrading to Neutral** — We appreciate the direction in which ING BSK's business model is evolving and make small increases to our EPS estimates (+2% in 2012, +4% in 2013 and +7% in 2014) driven by lower staff cost forecasts – these however are not enough to off-set the negative impact of a lower expected long-term growth rate; we lower our long term expected growth rate when valuing all Polish banks to 4.5% from 5.0%. This prompts us to reduce our target price to ZL 88.2 and downgrade the stock to Neutral from Buy.
- **Cost of Stadiums** — In 2Q12 the bank's financial results were negatively affected by ZL 80m provisions on exposure to PBG (the construction company struggling with unprofitable contracts to build roads and stadiums). In our opinion rising provisioning is an inevitable trend, caused by the increased share of loans in total assets, rather than a one-off event.
- **Cost of Clicks** — Fee income is under pressure not only due to sector-wide negative dynamics related to weak capital markets but also due to migrating clients to less expensive on-line channels. But this trend looks unavoidable and it is better for ING BSK to be the leader in this trend, rather than a laggard who loses not only fee revenues but also clients.
- **Cost of Bricks** — The bank's cost-to-income ratio of 58% is relatively high (e.g. similar-sized BRE has a cost-to-income ratio of 44%) but we expect the bank to address this issue in the coming quarters.
- **Cost of Cash Loans** — We appreciate the bank's plan to enter the consumer finance market more aggressively and we like the bank's idea do it through standardised ZL 5,000 cash loans. However, we do not expect the positive effects of the project to be visible immediately.

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Neutral	2
from Buy	
Price (27 Aug 12)	ZL83.00
Target price	ZL88.20
from ZL89.00	
Expected share price return	6.3%
Expected dividend yield	3.0%
Expected total return	9.3%
Market Cap	ZL10,798M
	US\$3,305M

Price Performance (RIC: SLAS.WA, BB: BSK PW)



ING Bank Slaski SA (PLN)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (ZLM)	753.1	880.1	805.4	684.6	1,101.4
Diluted EPS (ZL)	5.79	6.76	6.19	5.26	8.47
Diluted EPS (Old) (ZL)	5.79	6.76	6.09	5.04	7.92
PE (x)	14.3	12.3	13.4	15.8	9.8
P/BV (x)	1.9	1.7	1.5	1.4	1.3
DPS (ZL)	1.50	0.00	2.48	2.10	5.08
Net Div Yield (%)	1.8	0.0	3.0	2.5	6.1
ROE (%)	14.3	14.6	11.7	9.1	13.6

Andrzej Powierza

+48-22-690-3566
andrzej.powierza@citi.com

Simon Nellis

+44-20-7986-4012
simon.nellis@citi.com

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

Citi Research is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	14.3	12.3	13.4	15.8	9.8
P/E reported (x)	14.3	12.3	13.4	15.8	9.8
P/BV (x)	1.9	1.7	1.5	1.4	1.3
P/Adjusted BV diluted (x)	1.9	1.7	1.5	1.4	1.3
Dividend yield (%)	1.8	0.0	3.0	2.5	6.1
Per Share Data (ZL)					
EPS adjusted	5.79	6.76	6.19	5.26	8.47
EPS reported	5.79	6.76	6.19	5.26	8.47
BVPS	43.43	49.30	56.46	59.24	65.60
Tangible BVPS	40.80	46.52	53.51	56.12	62.29
Adjusted BVPS diluted	43.43	49.30	56.46	59.24	65.60
DPS	1.50	0.00	2.48	2.10	5.08
Profit & Loss (ZLm)					
Net interest income	1,628	1,852	2,045	2,165	2,401
Fees and commissions	987	1,021	1,010	1,028	1,115
Other operating Income	65	40	143	88	100
Total operating income	2,679	2,913	3,198	3,281	3,616
Total operating expenses	-1,583	-1,664	-1,811	-1,899	-1,957
Oper. profit bef. provisions	1,097	1,249	1,387	1,382	1,659
Bad debt provisions	-204	-172	-450	-583	-348
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	893	1,076	937	799	1,312
Tax	-181	-237	-172	-161	-258
Extraord./Min. Int./Pref. Div.	41	41	41	46	48
Attributable profit	753	880	805	685	1,101
Adjusted earnings	753	880	805	685	1,101
Growth Rates (%)					
EPS adjusted	26.6	16.9	-8.5	-15.0	60.9
Oper. profit bef. prov.	10.7	13.9	11.1	-0.4	20.1
Balance Sheet (ZLm)					
Total assets	64,518	69,783	73,395	79,445	87,200
Avg interest earning assets	60,769	70,213	69,988	74,703	81,450
Customer loans	35,594	43,444	52,295	56,638	62,270
Gross NPLs	1,508	1,553	2,510	2,832	2,491
Liab. & shar. funds	64,518	69,783	73,395	79,445	87,200
Total customer deposits	47,400	52,932	56,345	60,990	66,017
Reserve for loan losses	1,085	1,114	1,350	1,493	1,400
Shareholders' equity	5,651	6,414	7,345	7,707	8,535
Profitability/Solvency Ratios (%)					
ROE adjusted	14.3	14.6	11.7	9.1	13.6
Net interest margin	2.68	2.64	2.92	2.90	2.95
Cost/income ratio	59.1	57.1	56.6	57.9	54.1
Cash cost/average assets	2.5	2.5	2.5	2.5	2.3
NPLs/customer loans	4.2	3.6	4.8	5.0	4.0
Reserve for loan losses/NPLs	72.0	71.7	53.8	52.7	56.2
Bad debt prov./avg. cust. loans	0.6	0.4	0.9	1.1	0.6
Loans/deposit ratio	75.1	82.1	92.8	92.9	94.3
Tier 1 capital ratio	13.1	11.5	13.0	12.7	13.8
Total capital ratio	13.1	12.3	13.0	12.7	13.8

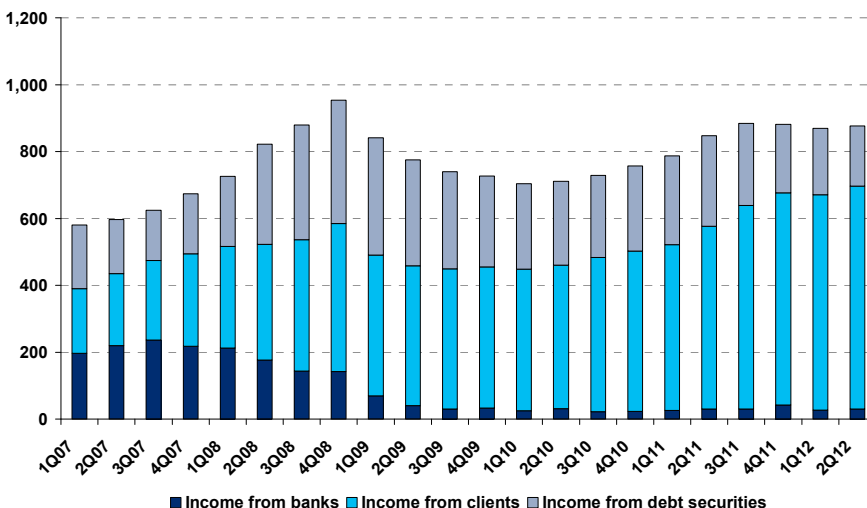
For further data queries on Citi's full coverage universe
please contact Citi Research Data Services at
CitiRsch.DataServices.Global@citi.com



ING Bank Slaski in Snapshots

The changing structure of interest income – more dependent on income from clients (read 'loans') – to lead to higher cost of risk

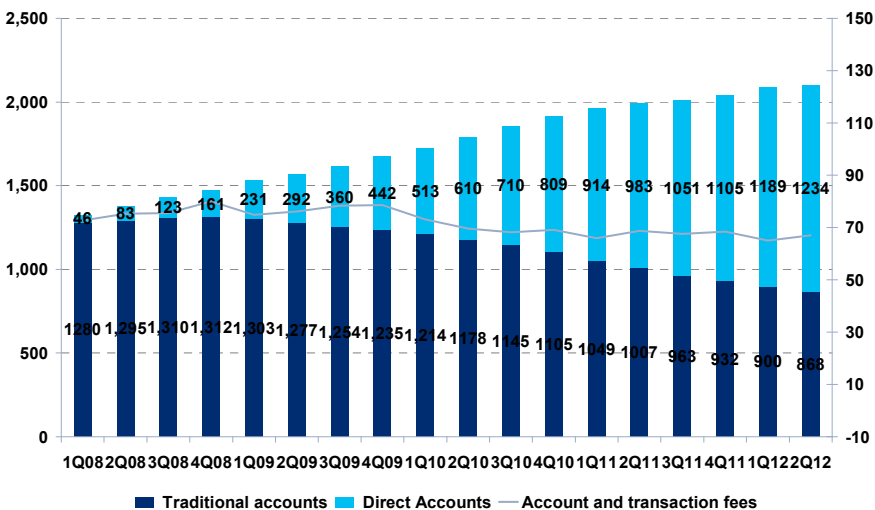
Figure 1. ING BSK – Structure of NII, 1Q07-2Q12 (Polish Zloty in million)



Source: Company reports, Citi Research

Clients are migrating to the Internet

Figure 2. ING BSK – Retail Accounts, 1Q08-2Q12 (in thousand/Polish Zloty in million)



Source: Company reports, Citi Research

Downgrading to Neutral

We set a target price of Zł 88.2

We maintain our assumptions that ING BSK can sustain an ROE of 13.5% and that cost of equity amounts to 10.5%. For all Polish banks we lower our expected growth rate (to 4.5% from 5.0%) due to lowered expectations of market growth. This, coupled with, on average, a 4% per annum upgrade to our 2012E-14E EPS forecasts leads us to decrease our warranted equity valuation (VEV) to Zł 88.2 from Zł 89.0. As in the case of other Polish banks, we set our target price using a WEV. Following recent share price performance and the reduction to our target price we downgrade our rating on the stock to Neutral from Buy.

Figure 3. ING BSK – Summary of Valuations (Polish Złoty)

EVA	106.8
Warranted Equity Valuation	88.2
Average	97.5
Price Target	88.2
Current share price	83.0
Upside / (Downside)	6.3%
DPS (2012E)	2.48
Dividend yield (%)	3.0%
Expected Total Return	9.3%

Source: Citi Research

Figure 4. ING BSK– Warranted Equity Valuation Model (Polish Złoty)

Sustainable ROE	13.5%
2014E COE	10.5%
Growth	4.5%
Target P/BV multiple	1.50
2014E BVPS	65.6
2014E Target Value Per Share	98.4
Months to Discount to Aug 2013	16
Discounted	86.1
2013E DPS	2.1
Months to Discount to Aug 2013	10
Discounted	2.0
Value per share	88.2
Upside / (Downside)	6.3%

Source: Citi Research

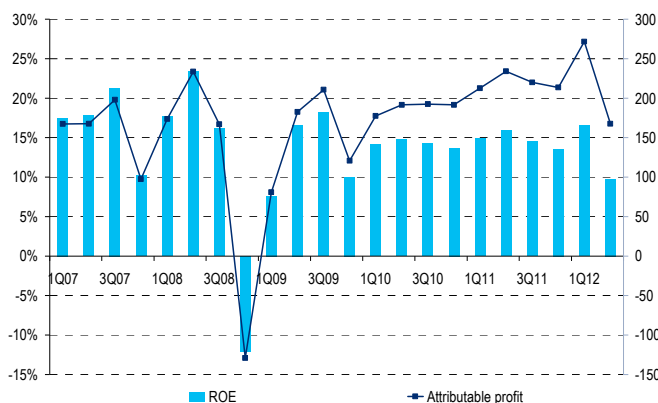
Figure 5. Polish Banks – Valuation Table (Prices in Polish Złoty)

	Current Price	Rating	Target Price	P/E			P/BV			ROE		
				2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
PKO BP	35.24	1	40.7	11.7	12.7	9.8	1.8	1.6	1.5	15.8%	13.5%	16.0%
BZ WBK	233.0	1	264.0	13.2	14.4	12.1	2.0	2.0	1.9	16.5%	14.1%	16.2%
BANK MILLENNIUM	3.7	1	3.9	10.6	14.0	7.4	0.9	0.9	0.8	8.9%	6.4%	11.3%
Getin Noble Bank	1.59	1	2.0	7.2	6.3	5.9	0.8	0.7	0.6	11.9%	11.6%	11.2%
KREDYT BANK	15.03	1H	18.4	31.9	98.9	18.5	1.3	1.2	1.2	4.1%	1.3%	6.6%
PEKAO	152.6	2	152.0	14.4	14.6	11.8	1.8	1.7	1.6	12.6%	11.9%	14.2%
ING BSK	83.0	2	88.2	13.4	15.8	9.8	1.5	1.4	1.3	11.7%	9.1%	13.6%
BGZ	71.6	2	72.5	21.3	23.0	9.9	1.1	1.0	0.9	5.3%	4.7%	10.1%
BRE	312.60	3	273.0	11.7	13.8	10.4	1.4	1.3	1.2	13.0%	9.8%	12.1%

Source: Powered by dataCentral (Prices as of August 27)

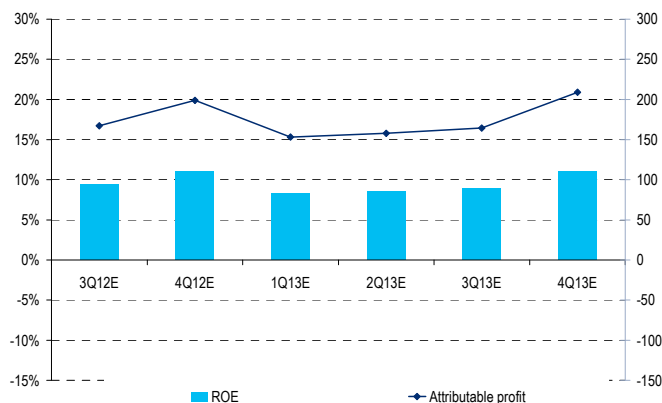
Let's Talk About Costs

Figure 6. ING BSK – Reported Net Profit and ROE, 1Q07-2Q12 (Polish Złoty in million/Percentage)



Source: Company reports, Citi Research

Figure 7. ING BSK – Forecast Net Profit and ROE, 3Q12E-4Q13E (Polish Złoty in million/Percentage)



Source: Citi Research

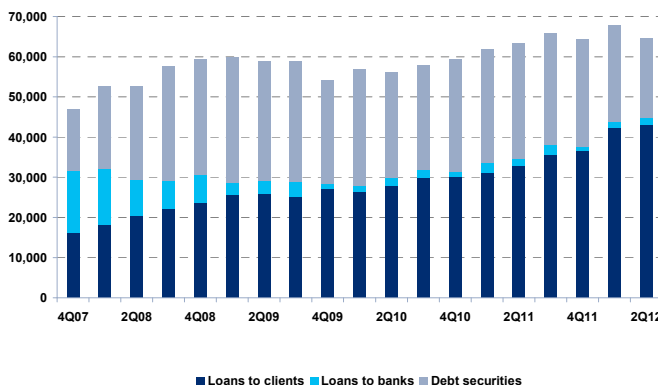
Increased Cost of Risk: The Cost of Growth

In 2Q12 net provisioning reached Zł 131m (109bp) (109bp)

In 2Q12 net provisioning materially increased and reached Zł 131m (109bp, including Zł c32m provisions on bonds) vs. Zł 64m (57bp) in 1Q12 and Zł 38 in 2Q11 (42bp), negatively affected by provisions on loans to PBG Group. But in our opinion, the problem lies not in the bank's exposure to the one client or to the one industry. Even if ING BSK had managed to avoid losses the PBG Group, we estimate that the cost of risk will grow significantly in 2012 due to combination of two factors:

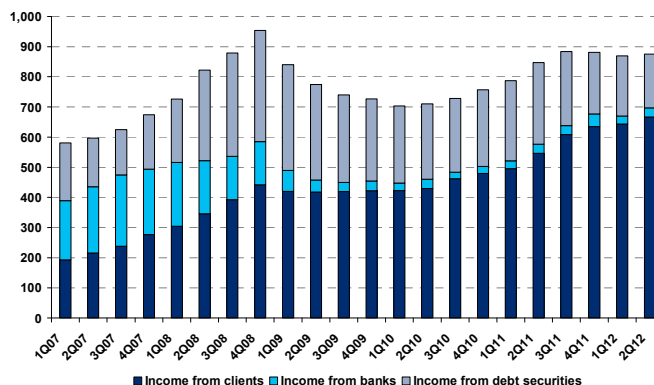
- An ongoing change in the structure of ING BSK's assets, and
- The economic slowdown in Poland.

Figure 8. ING BSK – Structure of Interest Earning Assets, 4Q07-2Q12 (Polish Złoty in million)



Source: Company reports, Citi Research

Figure 9. ING BSK – Structure of NII, 1Q07-2Q12 (Polish Złoty in million)



Source: Company reports, Citi Research

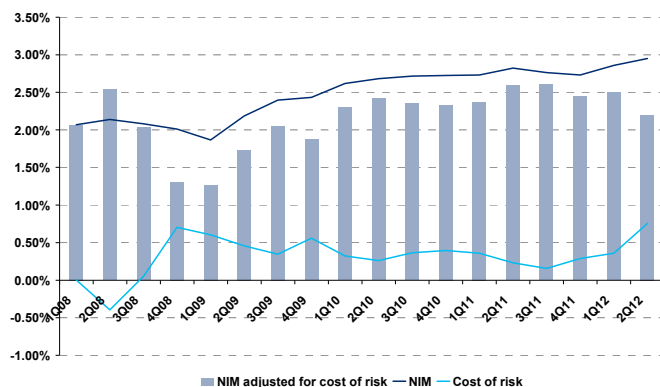
We expect higher lending...

In the last five years ING BSK's asset structure and, therefore its structure of interest income, has changed dramatically, leading to a material increase in balance sheet risk: the share of loans (excluding debt securities classified as loans) increased from 27% in 4Q06 to 52% in 4Q11 and (due to acquisition and consolidation of leasing and factoring subsidiaries of ING) to 61% in 2Q12. The loan-to-deposit ratio thus rose to 90% in 2Q12 from 77% in 2Q11 (but according to the bank, the loan-to-deposit ratio excluding ING Lease funding from ING Group is 80% in 2Q12).

...to lead to higher provisioning

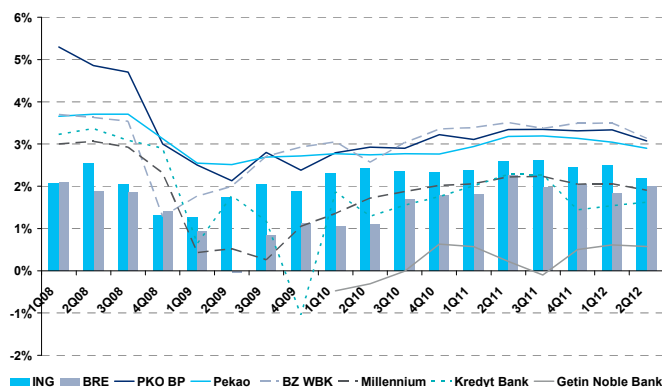
Increased lending has led to higher NIM but the cost of risk has remained low, leading to a relatively high net interest margin (NIM) adjusted for cost of risk, calculated on the base of interest earning assets (2.5% in 1Q12 vs. for example 1.8% in BRE). In 2011 low provisioning (cost of risk on average loans was 45bp) was caused by very low provisioning on corporate loans due to declining NPLs and several recoveries. Given maturing loans and the expected slowdown in the economy (Citi expects GDP growth in Poland to decline from 4.3% in 2011 to 2.6% in 2012 and 2.2% in 2014) an increase in provisioning seems inevitable.

Figure 10. ING BSK – NIM and Cost of Risk (on Interest Earning Assets), 1Q08-2Q12 (Percentage)



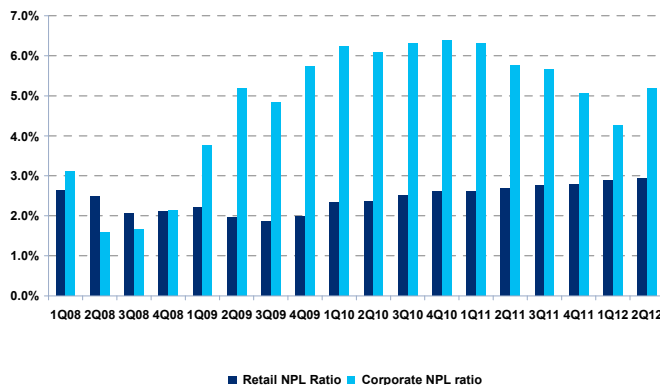
Source: Company reports, Citi Research

Figure 11. Polish Banks – NIM Less Cost Of Risk, 1Q08-2Q12 (Percentage)



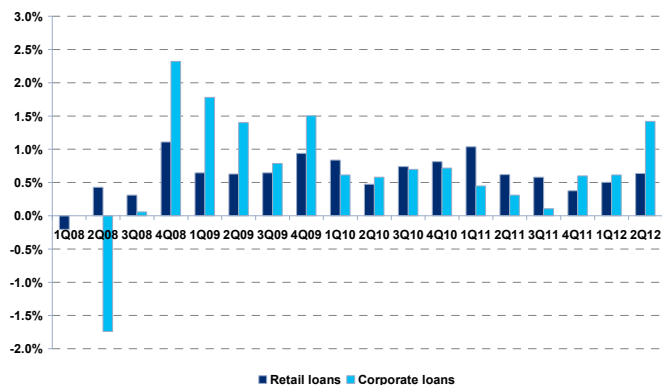
Source: Company reports, Citi Research

Figure 12. ING BSK – Retail and Corporate NPL Ratios, 1Q08-2Q12 (Percentage)



Source: Company reports, Citi Research

Figure 13. ING BSK – Retail and Corporate Cost of Risk, 1Q08-2Q12 (Percentage)



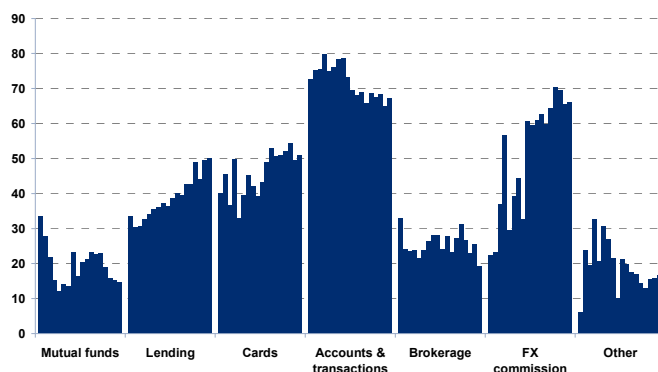
Source: Company reports, Citi Research

Cost of Client Migration to the Internet

Net fees affected by migrating its clients to Internet

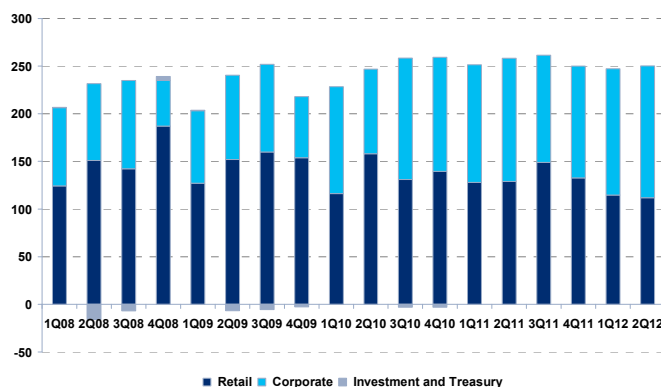
Another issue is the negative impact of client migration to less expensive on-line services (illustrated on Fig. 2) on net fees, namely retail fees. Coupled with the sector-wide negative trend in investment fund and brokerage fees it leads to flat net fees, despite positive performance of lending fees and FX commissions. But the trend is unavoidable and we think it is better for ING to be the leader in this trend, rather than the laggard facing the loss of not just fee revenues but also clients.

Figure 14. ING BSK – Breakdown of Fee Income, 1Q08-2Q12 (Polish Zloty in million)



Source: Company reports, Citi Research

Figure 15. ING BSK – Net Fees by Division, 1Q08-2Q12 (Polish Zloty in million)



Note: Since 1Q11 the bank has disclosed only retail and corporate net fees

Source: Company reports, Citi Research

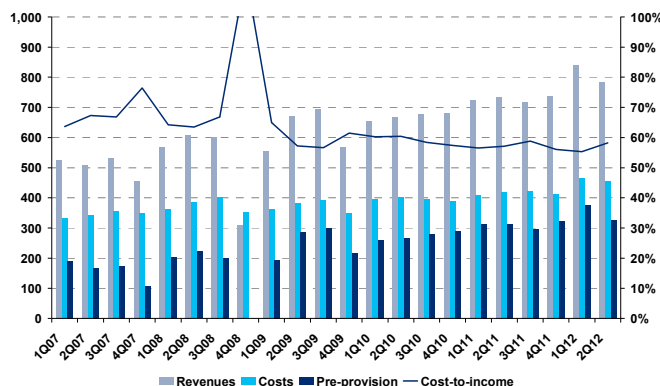
High Administrative Costs

Relatively high cost-to-income ratio (58%)

We expect the management to focus on costs in 2013

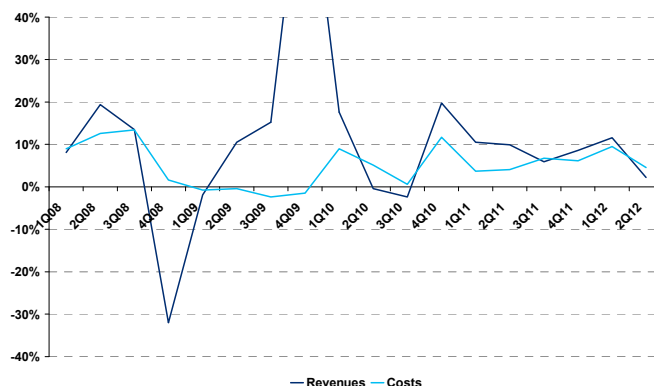
Due to the uncertain global economic situation and its unknown impact on the Polish economy in 2H12-2013, there is little visibility in earnings growth. Given the limited ability to impact 2013 revenues we believe banks should focus on reducing administrative costs. Lower cost-to-income makes banks less leveraged to changes in revenues. ING BSK's cost-to-income ratio hasn't improved over previous years and at 58% (2Q12) is one of the highest (worst) in our universe of 9 Polish banks. We note that the yoy growth in opex in 1H12 was affected by the acquisition and consolidation of leasing and factoring companies (the administrative costs of acquired companies was ZI 35m in 1H12). Adjusted for these acquisitions, administrative costs grew 9% yoy in 1Q12 and 5% yoy in 2Q12 (vs. revenues rising 12% yoy and 2% yoy, respectively). General costs were affected by a project to refurbish retail and corporate branches (completion is planned in 2014). We view the increase in costs as relatively high, both versus revenues dynamics and vs. peers, but we note management's intention to focus on cost cutting.

Figure 16. ING BSK – Revenues vs. Administrative Costs, 1Q07-2Q12
(Polish Zloty in million)



Source: Company reports, Citi Research

Figure 17. ING BSK – Revenues vs. Administrative Costs*, 1Q07-2Q12
(Percentage)



Note: * In 1Q12 and 2Q12 administrative costs excluding acquired leasing and factoring companies.

Source: Company reports, Citi Research

The Cost of Cash Loans

Focus on Cash Loans

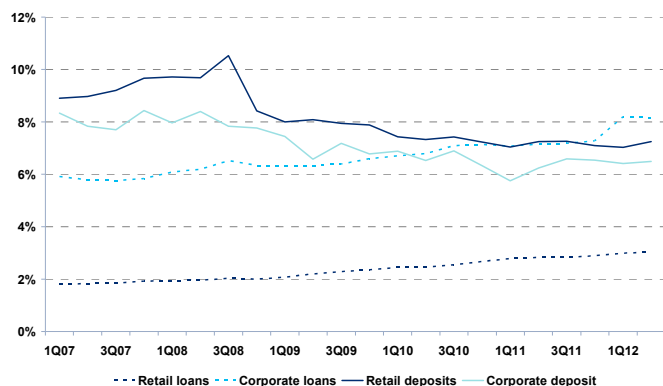
The bank increased sale of cash loans by 24% yoy...

ING BSK is focusing more energy on consumer lending and launched a marketing campaign of ZI 5,000 standardised cash loan. In 1H12 the new production of cash loans increased to ZI 555m (+24% yoy).

...to improve its NIM

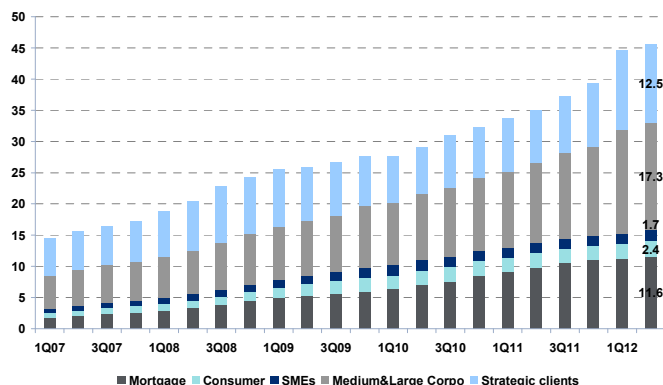
We appreciate why the bank is interested in this segment – to improve its net interest margin. ING BSK's market share in retail loans (3%) remains much lower than the bank's share in other products (e.g. 7% in retail deposits and 8% in corporate loans). Continued high growth in mortgage lending will gradually lead to a closing of the gap but the rising share of low-margin mortgages in total loans may negatively affect NIM and ROE. On the other hand, due to the combination of high yields and declining provisioning, the profitability of consumer lending improves. Currently the share of consumer loans to total loans is small (5.3%) and by increasing this share the bank hopes to increase its NIM and revenues. But how risky is it to enter the cash loans market more aggressively?

Figure 18. ING BSK – Market Share, 1Q07-2Q12 (Percentage)



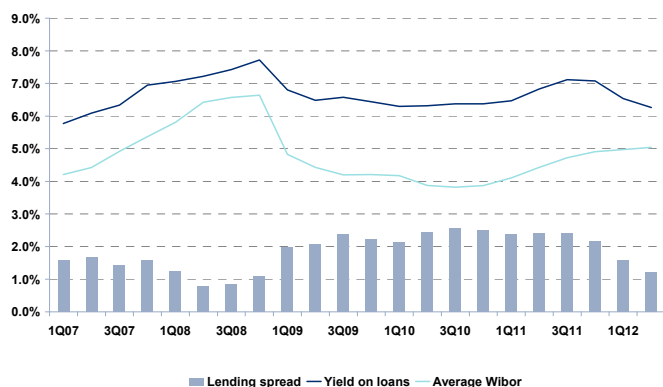
Source: Company reports, Citi Research

Figure 20. ING BSK – Structure of Loans, 1Q07-2Q12 (Polish Zloty in million)



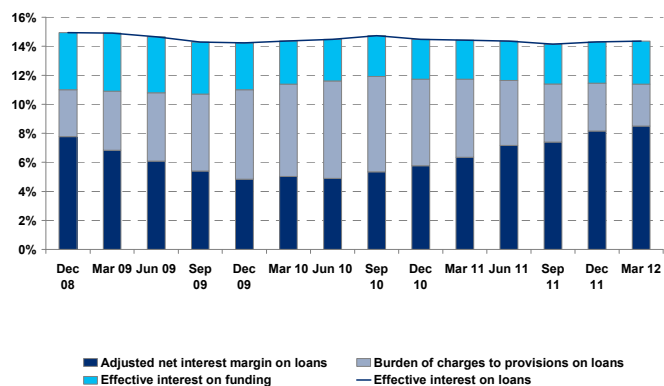
Source: Company reports, Citi Research

Figure 22. ING BSK – Spread on Loans, 1Q07-2Q12 (Percentage)



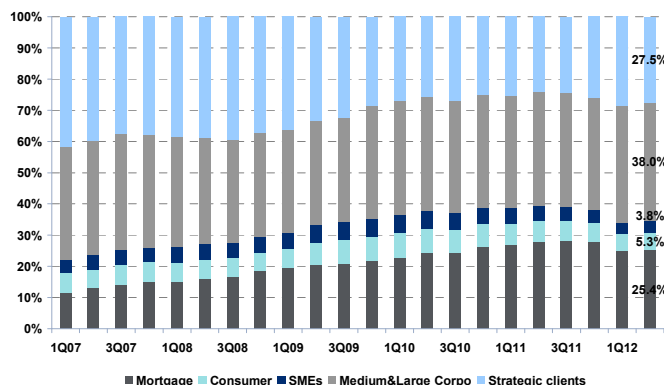
Source: Company reports, Citi Research

Figure 19. Polish Banks – Profitability of Consumer Lending, Dec 08 – Jan 12



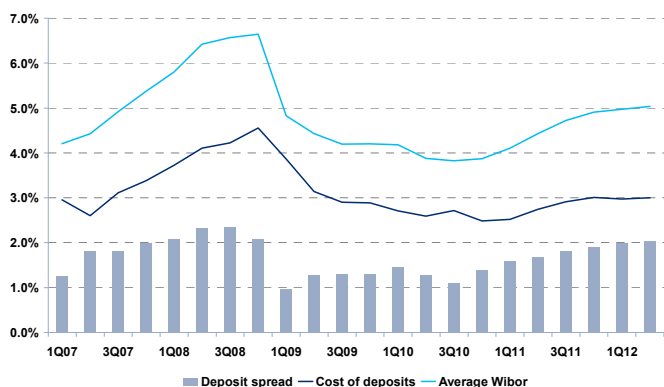
Source: NBP, Citi Research

Figure 21. ING BSK – Structure of Loans, 1Q07-2Q12 (Percentage)



Source: Company reports, Citi Research

Figure 23. ING BSK – ING BSK – Spread on Deposits, 1Q07-2Q12 (Percentage)



Source: Company reports, Citi Research

Changes in Consumer Lending Market

Rising sales of large consumer loans could signal deterioration in consumer loan quality going forward

According to BIK (Credit Bureau), in 1Q12 the value of new consumer loans grew by c5% yoy while the number of loans granted declined by c20%, implying a c30% yoy growth in the average size of consumer loans. BIK noted that the number of loans granted was reduced mainly, but not predominantly, by banks specialized in consumer finance that decreased activity in granting small loans. On the other hand other banks increased lending in the "big ticket" segment (loans above Zł 100,000 are the only part of the market with growth in the number of new loans). According to BIK, large consumer loans may be used to fund business activity or be used by clients to co-fund flat/house purchases (given the reduced availability of high Loan-to-Value mortgage loans). Interestingly, in the past the asset quality of large consumer loans was worse than average and thus the move to big ticket consumer loans may suggest we will see deterioration in consumer loan asset quality in the future.

Improving asset quality

Typically it becomes clear what the NPL ratio will be for a given vintage of consumer loan production 30-35 months after granting (for the majority of these products it is the maximum maturity). According to BIK, for loans granted in 2010 the share of 90 days overdue is 5.8% after 26 months since granting and given that in the last 9 months the share of overdue loans looks unlikely to rise by more than 1pp and the final share of NPLs will probably not exceed 7% (vs. 9.57% for loans granted in 2007, 11.96% for loans granted in 2008 and 11.46% for 2009 production). Taking into account that, to date, the 2011 and 2012 vintages perform in line with the 2010 vintage, we think it is probably safe to assume that 7% of these loans will also become 90 days overdue loans. Asset quality of consumer loans granted in consecutive quarters after 2Q09 gradually improved but in our opinion there is a risk that the shift to big ticket consumer loans may change this trend.

Better asset quality in banks focused on consumer loans than in universal banks

We note the material change in asset quality of consumer loans granted by banks specialized in consumer finance and universal banks: The quality of loans (measured by 30 days overdue loans 3 and 6 months after granting the loan) granted in 2008 and 2009 was much worse in specialized vs. universal banks while those granted in 2010 and 2011 were nearly the same (or being more precise, it was slightly better in specialized consumer banks than in universal ones).

Standardized Cash Loan – A Compelling Product

Highly profitable product unless...

Consumer loans are highly profitable products as long as you lend to clients that behave in line with your scoring models. Thus we see two biggest risks of ING BSK's expansion into the cash loan market:

...you suffer from adverse client selection...

- adverse selection of clients (in our opinion in the past this was a reason for GNB's problems with profitability of cash loans – see [Getin Noble Bank \(GNB.WA\) - Two Steps Ahead, One Step Back — Initiating With a Buy](#));

...or you lend to non-standard clients

- high share of non-standard clients, e.g.
 - over-leveraged clients (according to Credit Bureau, 73% of clients that have more than 10 consumer loans have overdue loans);
 - big ticket loans – according to Credit Bureau, the quality of big ticket loans is worse than for smaller ones and we see a risk that recently popular large cash loans used for business purposes or for flat/house purchase co-funding may bear higher risk than that estimated by scoring models).

Good product but not meaningful in the short-term

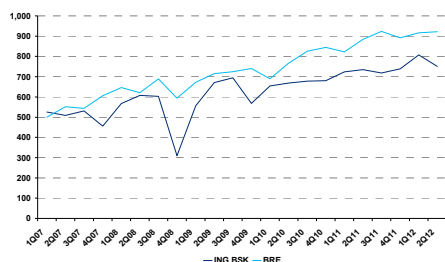
In our opinion ING BSK addressed both issues by focusing on a standardized, relatively small ZI 5,000 loan (available to new clients as well but due to a defined size and strict lending criteria the risk that it will attract the most risky clients is limited). Thus we think that expected growth in provisioning will be materially offset by the increase in interest income. Even so the positive impact on earnings is not expected to be material before 2014.

Benchmarking to BRE

BRE's costs grew in line with ING BSK but BRE managed to increase revenues more – in our opinion due to higher client acquisitions and cross-sell of consumer loans to them

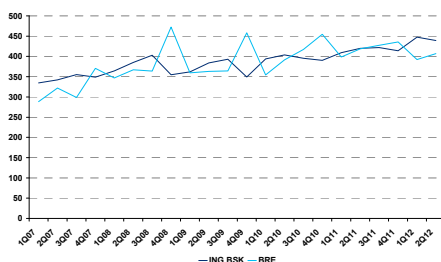
A comparison of ING BSK to BRE, a bank of similar size and, to some extent, with a similar business model, shows that in terms of administrative costs and 1Q07-2H12 dynamics both banks are nearly the same. However, they differ significantly in terms of revenues: in 1Q07-2Q12 BRE increased total revenues by 84% while ING BSK increased revenues by just 43%. BRE outperformed ING BSK mainly due to higher growth in net interest income (49% vs. 18%) and net fees (53% vs. 13%). We attribute BRE's success to higher acquisition of new clients (but we note that since 2009 ING BSK has started to close the gap to BRE in terms of number of total clients, mainly due to the launch of the ING Direct service) and higher growth in consumer loans (driving interest income and insurance fees).

Figure 24. ING BSK vs. BRE – Revenues, 1Q07-2Q12 (Polish Zloty in million)



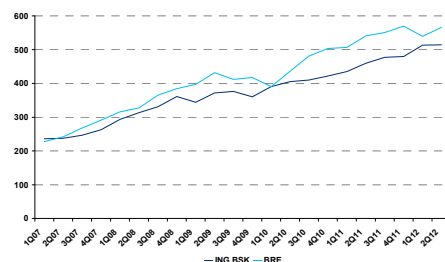
Source: Company reports, Citi Research

Figure 25. ING BSK vs. BRE – Administrative Costs, 1Q07-2Q12 (Polish Zloty in million)



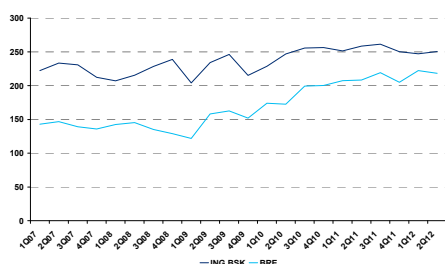
Source: Company reports, Citi Research

Figure 26. ING BSK vs. BRE – NII, 1Q07-2Q12 (Polish Zloty in million)



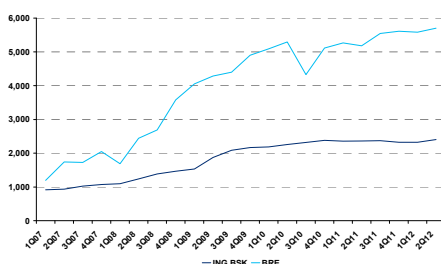
Source: Company reports, Citi Research

Figure 27. ING BSK vs. BRE – Net Fee, 1Q07-2Q12 (Polish Zloty in million)



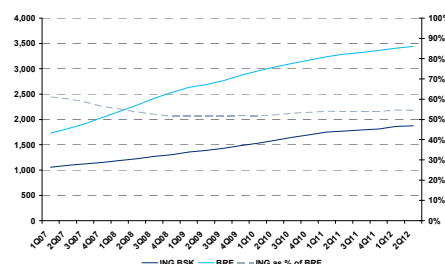
Source: Company reports, Citi Research

Figure 28. ING BSK vs. BRE – Consumer Loans, 1Q07-2Q12 (Polish Zloty in million)



Source: Company reports, Citi Research

Figure 29. ING BSK vs. BRE – Clients, 1Q07-2Q12 (in thousand)



Source: Company reports, Citi Research

Upgrading EPS by 2-7%

We increase our EPS estimate by 2% in 2012, 4% in 2013 and 7% in 2014

Taking into account 2Q12 results, the bank's guidance and the market trends, we make the following changes to our earning estimates:

- Given the declining stock of Treasury bonds held by the bank and the promising start of the cash loan campaign, we increased NIM estimates to 2.9% from 2.8% in 2013 and to 2.95% from 2.8% in 2014 but due to lowered projections of interest earning assets we reduced net interest income forecast by 2% this year, and by 1% the next year but increased by 1% in 2014;
- Taking into account the continuing weakness of capital market-related fees (investment fund fee declined 36% yoy in 2Q12 while brokerage fee by 38% yoy) we reduced net fee estimates by 1% in 2012, 2% in 2013 and 2% in 2014.
- Due to lower qoq administrative costs in 2Q12 and management's indication of stricter cost control we reduce our forecasts of staff costs by 6% this year, 6% the next year and 7% in 2014 – this leads us to decrease administrative costs estimates by 3%, 3% and 4%, from 2012-2014 respectively.
- Summing up, our EPS estimates rise by 2% in 2012, 4% in 2013 and 7% in 2014.

Summary of Changes in Estimates

Figure 30. ING BSK – Changes in Income Statement, 2012-2014E (Polish Zloty in million)

GROUP	2012E			2013E			2014E		
	OLD	NEW	Chg.	OLD	NEW	Chg.	OLD	NEW	Chg.
Net Interest Income	2,076.8	2,044.8	-1.5%	2,187.6	2,165.3	-1.0%	2,384.1	2,401.1	0.7%
Net Fee & Commission Income	1,021.0	1,010.4	-1.0%	1,043.3	1,027.5	-1.5%	1,132.3	1,115.2	-1.5%
Financial Income	122.5	120.2	-1.9%	64.0	64.0	0.0%	76.0	76.0	0.0%
Other Income	23.0	22.4	-2.6%	24.0	24.0	0.0%	24.0	24.0	0.0%
Total Revenue	3,243.3	3,197.8	-1.4%	3,318.9	3,280.9	-1.1%	3,616.4	3,616.4	0.0%
Labour Costs	-948.9	-895.4	-5.6%	-981.1	-918.4	-6.4%	-1,025.1	-950.7	-7.3%
General Costs	-781.9	-776.7	-0.7%	-835.1	-835.3	0.0%	-857.6	-855.3	-0.3%
Depreciation	-136.4	-138.7	1.7%	-142.0	-145.2	2.3%	-147.7	-151.1	2.3%
Operating Expenses	-1,867.3	-1,810.8	-3.0%	-1,958.2	-1,898.8	-3.0%	-2,030.4	-1,957.1	-3.6%
Operating Profit	1,376.0	1,387.0	0.8%	1,360.7	1,382.1	1.6%	1,586.0	1,659.3	4.6%
Provision Charge	-447.8	-450.4	0.6%	-586.4	-583.2	-0.5%	-349.7	-347.8	-0.5%
Share of Profits (Losses) of Companies Consolidated by Equity Accounting	32.6	40.7	25.1%	35.6	46.9	31.8%	37.0	48.8	31.8%
Minorities	-0.3	-0.2	-33.3%	-0.4	-0.4	0.0%	-0.4	-0.4	0.0%
Profit Before Tax	960.8	977.3	1.7%	809.9	845.7	4.4%	1,273.3	1,360.3	6.8%
Tax	-168.3	-171.7	2.0%	-153.9	-160.7	4.4%	-241.9	-258.5	6.8%
Net Profit	792.2	805.4	1.7%	655.6	684.6	4.4%	1,031.0	1,101.4	6.8%
EPS (Zl)	6.1	6.2	1.7%	5.0	5.3	4.4%	7.9	8.5	6.8%
DPS (Zl)	3.7	2.5	-32.2%	3.0	2.1	-30.4%	4.8	5.1	6.8%
Average Diluted Number of Shares (m)	130.1	130.1	0.0%	130.1	130.1	0.0%	130.1	130.1	0.0%

Source: Citi Research

Annual Financials

Figure 31. ING BSK – Income Statement, 2007-2014E (Polish Zloty in million)

GROUP	2007	2008	chg	2009	chg	2010	chg	2011	chg	2012E	chg	2013E	chg	2014E	chg
Net Interest Income	1,048	1,152	9.9%	1,442	25.2%	1,628	12.9%	1,852	13.8%	2,045	10.4%	2,165	5.9%	2,401	10.9%
Net Fee & Commission Income	899	890	-1.0%	900	1.1%	987	9.7%	1,021	3.4%	1,010	-1.1%	1,028	1.7%	1,115	8.5%
Financial Income	62	19	-69.8%	147	683.0%	80	-45.6%	56	-29.4%	132	134.1%	80	-39.3%	80	0.0%
Other Income	12	27	119.6%	-10	na	-3	-68.6%	18	na	22	27.3%	24	7.1%	24	0.0%
Total Revenue	2,021	2,087	3.3%	2,478	18.7%	2,679	8.1%	2,913	8.7%	3,198	9.8%	3,281	2.6%	3,616	10.2%
Labour Costs	-700	-783	11.7%	-717	-8.4%	-822	14.6%	-844	2.7%	-895	6.1%	-918	2.6%	-951	3.5%
General Costs	-525	-591	12.4%	-647	9.5%	-640	-1.0%	-688	7.5%	-777	12.9%	-835	7.5%	-855	2.4%
Depreciation	-155	-134	-13.6%	-124	-7.4%	-121	-2.4%	-133	9.6%	-139	4.6%	-145	4.6%	-151	4.1%
Operating Expenses	-1,381	-1,507	9.1%	-1,488	-1.3%	-1,583	6.4%	-1,664	5.1%	-1,811	8.8%	-1,899	4.9%	-1,957	3.1%
Operating Profit	640	580	-9.3%	991	70.7%	1,097	10.7%	1,249	13.9%	1,387	11.1%	1,382	-0.4%	1,659	20.1%
Provision Charge	103	-66	na	-304	364.1%	-204	-33.1%	-172	-15.3%	-450	161.2%	-583	29.5%	-348	-40.4%
Extraordinary Profit/(Loss)	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Associate Income	44	48	10.6%	52	8.0%	41	-20.8%	41	-0.1%	41	-1.1%	47	15.0%	49	4.1%
Minorities	-6	0	-99.9%	0	180.0%	0	178.6%	0	na	0	na	0	100.0%	0	0.0%
Profit Before Tax	787	563	-28.5%	738	31.1%	934	26.5%	1,118	19.6%	977	-12.5%	846	-13.5%	1,360	60.8%
Tax	-150	-118	-21.7%	-143	21.8%	-181	26.3%	-237	31.2%	-172	-27.7%	-161	-6.4%	-258	60.8%
Net Profit	631	445	-29.4%	595	33.6%	753	26.6%	880	16.9%	805	-8.5%	685	-15.0%	1,101	60.9%
EPS (Zl)	4.8	3.4	-29.4%	4.6	33.6%	5.8	26.6%	6.8	16.9%	6.2	-8.5%	5.3	-15.0%	8.5	60.9%
DPS (Zl)	1.2	0.0	na	0.0	na	1.5	na	0.0	na	2.5	na	2.1	-15.0%	5.1	141.3%
Average Diluted Number of Shares (m)	130.1	130.1	0.0%	130.1	0.0%	130.1	0.0%	130.1	0.0%	130.1	0.0%	130.1	0.0%	130.1	0.0%

Source: Company reports, Citi Research

Figure 32. ING BSK – Balance Sheet, 2007-2014E (Polish Zloty in million)

GROUP	2007	2008	chg	2009	chg	2010	chg	2011	chg	2012E	chg	2013E	chg	2014E	chg
Cash and NBP Balances	1,842	1,370	-25.6%	2,657	93.9%	2,394	-9.9%	1,493	-37.6%	1,613	8.0%	1,742	8.0%	1,881	8.0%
Interbank placements	15,184	7,787	-48.7%	1,184	-84.8%	1,181	-0.3%	1,025	-13.2%	1,045	2.0%	1,066	2.0%	1,087	2.0%
Financial Assets & Securities	17,300	33,377	92.9%	24,091	27.8%	24,930	3.5%	23,382	-6.2%	18,143	-22.4%	19,707	8.6%	21,403	8.6%
Net client lending	16,379	25,743	57.2%	30,593	18.8%	34,509	12.8%	42,330	22.7%	50,945	20.4%	55,145	8.2%	60,870	10.4%
Fixed assets	533	544	2.1%	549	0.9%	544	-0.8%	575	5.7%	610	6.0%	646	6.0%	685	6.0%
Other assets	773	790	2.2%	810	2.5%	959	18.4%	978	2.0%	1,040	6.2%	1,139	9.6%	1,274	11.9%
Total Assets	52,011	69,610	33.8%	59,883	-14.0%	64,518	7.7%	69,783	8.2%	73,395	5.2%	79,445	8.2%	87,200	9.8%
Interbank borrowing	1,810	11,993	562.5%	3,974	-66.9%	4,039	1.6%	4,962	22.8%	3,225	-35.0%	3,451	7.0%	4,314	25.0%
Client deposits	44,502	47,067	5.8%	47,585	1.1%	47,400	-0.4%	52,932	11.7%	56,345	6.4%	60,990	8.2%	66,017	8.2%
Other liabilities	1,858	6,326	240.4%	3,438	-45.6%	7,425	116.0%	5,473	-26.3%	6,478	18.3%	7,294	12.6%	8,331	14.2%
Minorities	2	2	33.7%	2	0.6%	2	1.7%	2	-2.4%	3	8.9%	3	16.0%	3	13.8%
Equity (ex Minorities)	3,839	4,222	10.0%	4,884	15.7%	5,651	15.7%	6,414	13.5%	7,345	14.5%	7,707	4.9%	8,535	10.7%
Total liabilities & Equity	52,011	69,610	33.8%	59,883	-14.0%	64,518	7.7%	69,783	8.2%	73,395	5.2%	79,445	8.2%	87,200	9.8%
Interest Earning Assets	50,705	68,276	34.7%	58,525	-14.3%	63,014	7.7%	68,230	8.3%	71,746	5.2%	77,660	8.2%	85,241	9.8%
BVPS (Zl)	30	32	10.0%	38	15.7%	43	15.7%	49	13.5%	56	14.5%	59	4.9%	66	10.7%

Source: Company reports, Citi Research

Figure 33. ING BSK – Key Ratios, 2007-2014E (Percentage)

GROUP	2007	2008	2009	2010	2011	2012E	2013E	2014E
NIM on AIEA	2.14%	1.94%	2.27%	2.68%	2.64%	2.92%	2.90%	2.95%
NIM on Total Ave. Assets	2.09%	1.89%	2.23%	2.62%	2.76%	2.86%	2.83%	2.88%
Net Fee & Commission Income/Total Income	44.5%	42.6%	36.3%	36.8%	35.1%	31.6%	31.3%	30.8%
Net Fee & Commission Income/Deposits	2.0%	1.9%	1.9%	2.1%	1.9%	1.8%	1.7%	1.7%
Cost/Income	68.3%	72.2%	60.0%	59.1%	57.1%	56.6%	57.9%	54.1%
Cost/Avg. Assets	2.7%	2.5%	2.3%	2.5%	2.5%	2.5%	2.5%	2.3%
Effective tax rate	19.1%	20.9%	19.4%	19.4%	21.2%	17.6%	19.0%	19.0%
Dividend Payout Ratio	24.1%	0.0%	0.0%	25.9%	0.0%	40.0%	40.0%	60.0%
Provisions/Avg Net Loans	-0.71%	0.31%	1.08%	0.63%	0.45%	0.97%	1.10%	0.60%
Equity/Assets	7.4%	6.1%	8.2%	8.8%	9.2%	10.0%	9.7%	9.8%
Loans/Deposits	36.8%	54.7%	64.3%	72.8%	80.0%	90.4%	90.4%	92.2%
Loans/Total Assets	31.5%	37.0%	51.1%	53.5%	60.7%	69.4%	69.4%	69.8%
ROE	16.6%	11.1%	13.1%	14.3%	14.6%	11.7%	9.1%	13.6%
ROA	1.26%	0.73%	0.92%	1.21%	1.31%	1.13%	0.90%	1.32%
NPLs/Total Loans	3.0%	1.9%	3.7%	4.2%	3.6%	4.8%	5.0%	4.0%
Provision Coverage of NPLs	110.8%	100.0%	75.7%	72.0%	71.7%	53.8%	52.7%	56.2%
RWA/Total Assets	43.7%	52.7%	58.2%	57.1%	64.0%	64.0%	64.0%	64.0%
CAR	13.1%	10.4%	12.0%	13.1%	12.3%	13.0%	12.7%	13.8%
Group Employees	8,074	8,577	8,291	8,472	8,409	8,712	8,712	8,712

Source: Company reports, Citi Research

ING Bank Slaski SA

Company description

ING Bank Slaski is Poland's fourth-largest bank by assets, with a market share of about 6%. It is a universal bank and has been operating since 1989. The bank is particularly strong in southern Poland, but is present nationwide. ING Bank NV holds a 75% stake in ING Bank Slaski. The bank cooperates closely with ING Group's investment management, life insurance and pension fund businesses in Poland.

Investment strategy

With the lowest loan-to-deposit ratio in Citi Research's CEEMEA universe and the third-largest retail deposit base in the sector, the bank has been particularly well positioned to benefit from the current environment where most banks were more focused on liquidity rather than on growing balance sheets. We believe though, that the bank's competitive advantages are already reflected in its share price and we rate the stock Neutral.

Valuation

Our Standard Warranted Equity Valuation of ZI 88.2 per share is based on the formula: $\text{Price} / \text{Book value} = (\text{Sustainable RoE} - \text{growth}) / (\text{Cost of equity} - \text{growth})$. Given higher regulatory charges, we set our assumption of sustainable ROE at 13.5% and use a cost of equity of 10.5% and a sustainable growth rate of 4.5%. Our Economic Value Added Valuation of ZI 106.8 per share is equal to the sum of the net present value of the bank's future economic value-added (earnings adjusted for excess equity, less a capital charge reflecting the opportunity cost of capital). Similar to other Polish banks, we set our target price using the short-term approach at ZI 88.2.

Risks

The following risk factors might cause the share price to deviate from our target price. The macro economy may perform better or worse than anticipated and lead to higher or lower provisioning and slower or higher loan growth than anticipated. Specifically for ING Bank Slaski, we highlight: (1) that despite the bank's strong liquidity its net interest margin may be more negatively affected by increased competition for deposits than we expect; and (2) despite focus on mortgage lending and lending to municipalities, the cost of risk may surprise negatively.

Appendix A-1

Analyst Certification

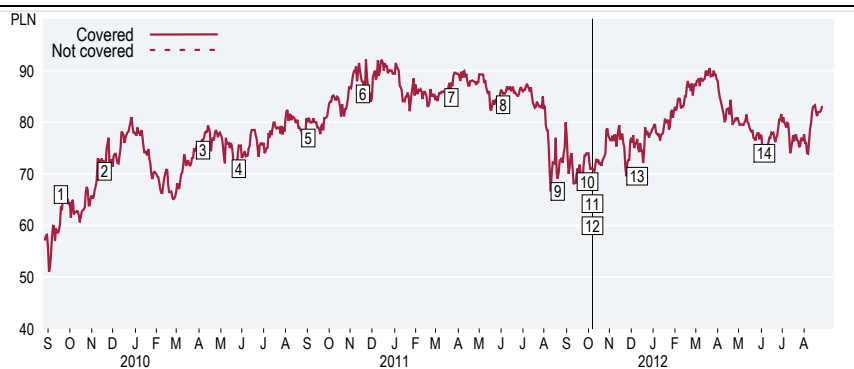
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

ING Bank Slaski SA (SLAS.WA)

Ratings and Target Price History Fundamental Research

Analyst: Andrzej Powierza
Covered since March 2 2011



Date	Rating	Target Price	Closing Price
1 18-Sep-09	3M	*50.50	63.75
2 19-Nov-09	3M	*74.70	71.50
3 7-Apr-10	3M	*77.70	76.60
4 27-May-10	*2M	*80.90	75.50
5 2-Sep-10	*3M	*82.30	80.85

* Indicates change

Date	Rating	Target Price	Closing Price
6 18-Nov-10	3M	*92.00	88.00
7 23-Mar-11	3M	*89.50	87.70
8 3-Jun-11	3M	*89.90	85.50
9 19-Aug-11	*1M	*93.00	69.05
10 30-Sep-11	1M	*88.60	74.00

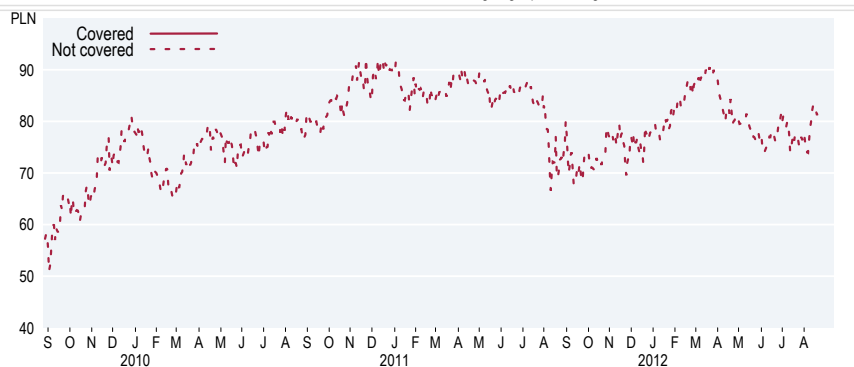
Date	Rating	Target Price	Closing Price
11 7-Oct-11	Stock rating system changed		
12 7-Oct-11	*1	88.60	71.00
13 9-Dec-11	1	*92.00	76.75
14 6-Jun-12	1	*89.00	74.00

Rating/target price changes above reflect Eastern Standard Time

ING Bank Slaski SA (SLAS.WA)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Andrzej Powierza
Covered since March 2 2011



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30th June 2012 is as follows: Buy (1) representing 51% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 41% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 8% of the DMBH coverage 0% of which are IB clients.

DMBH is a market maker in the publicly traded equity securities of Bank Pekao SA. DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30th June 2012 is as follows: Buy (1) representing 51% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 41% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 8% of the DMBH coverage 0% of which are IB clients.

DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30th June 2012 is as follows: Buy (1) representing 51% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 41% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 8% of the DMBH coverage 0% of which are IB clients.

DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30th June 2012 is as follows: Buy (1) representing 51% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 41% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 8% of the DMBH coverage 0% of which are IB clients.

DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30th June 2012 is as follows: Buy (1) representing 51% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 41% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 8% of the DMBH coverage 0% of which are IB clients.

DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30th June 2012 is as follows: Buy (1) representing 51% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 41% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 8% of the DMBH coverage 0% of which are IB clients. DMBH is a market maker in the publicly traded equity securities of BRE Bank SA.

DMBH has received compensation from Bank Zachodni WBK for providing market maker services in the past 12 months. DMBH is a market maker in the publicly traded equity securities of Bank Zachodni WBK. DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30th June 2012 is as follows: Buy (1) representing 51% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 41% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 8% of the DMBH coverage 0% of which are IB clients.

DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30th June 2012 is as follows: Buy (1) representing 51% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 41% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 8% of the DMBH coverage 0% of which are IB clients.

DMBH is a market maker in the publicly traded equity securities of PKO BP. DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30th June 2012 is as follows: Buy (1) representing 51% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 41% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 8% of the DMBH coverage 0% of which are IB clients.

A member of the household of Andrzej Powierza, Analyst, holds a long position in the securities of PKO BP.

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Bank Pekao SA, BGZ, Bank Zachodni WBK.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from ING Bank Slaski SA, Bank Pekao SA, BGZ, Bank Millennium SA, Kredyt Bank SA, BRE Bank SA, Bank Zachodni WBK, PKO BP.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from ING Bank Slaski SA, BRE Bank SA, Bank Zachodni WBK, Getin Noble Bank, PKO BP.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from ING Bank Slaski SA, Bank Pekao SA, BGZ, Bank Millennium SA, Kredyt Bank SA, BRE Bank SA, Bank Zachodni WBK, Getin Noble Bank, PKO BP in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): ING Bank Slaski SA, Bank Pekao SA, BGZ, Bank Millennium SA, Kredyt Bank SA, BRE Bank SA, Bank Zachodni WBK, Getin Noble Bank, PKO BP.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: ING Bank Slaski SA, Bank Pekao SA, BGZ, Bank Millennium SA, Kredyt Bank SA, BRE Bank SA, Bank Zachodni WBK, Getin Noble Bank, PKO BP.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, non-securities-related: ING Bank Slaski SA, Bank Pekao SA, BGZ, Bank Millennium SA, Kredyt Bank SA, BRE Bank SA, Bank Zachodni WBK, Getin Noble Bank, PKO BP.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Research product ("the Product"), please contact Citi Research, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Research Ratings Distribution

Data current as of 30 Jun 2012

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	53%	37%	10%	10%	80%	10%
% of companies in each rating category that are investment banking clients	44%	43%	40%	48%	43%	45%

Guide to Citi Research Fundamental Research Investment Ratings:

Citi Research stock recommendations include an investment rating and an optional risk rating to highlight high risk stocks.

Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.

Investment Ratings: Citi Research investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months. The Investment rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of Citi Research management not to assign a target price and, thus, not derive an ETR. Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

Relative three-month ratings: Citi Research may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings**, which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a

function of the Citi Research expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

NON-US RESEARCH ANALYST DISCLOSURES

Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Dom Maklerski Banku Handlowego SA

Andrzej Powierza

Citigroup Global Markets Ltd

Simon Nellis

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 27 August 2012 04:30 PM on the issuer's primary market.

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to PKO BP. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at www.citiVelocity.com.)

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers: Morgan Stanley & Co. LLC (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Research research report. Ask your Financial Advisor or use smithbarney.com to view any available Morgan Stanley research reports in addition to Citi Research research reports.

Important disclosure regarding the relationship between the companies that are the subject of this Citi Research research report and Morgan Stanley Smith Barney LLC and its affiliates are available at the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures.

For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.

This Citi Research research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of Citi Research. This could create a conflict of interest.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by.

The Product is made available in **Australia** through Citi Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of **Canada** by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in **France** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A. Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Via dei Mercanti, 12, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Citi Velocity website. If you have questions regarding Citi Velocity, please call (81 3) 6270-3019 for help. The Product is made available in **Korea** by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. <http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd=A03030&pageDiv=02>. The Product is made available in Korea by Citibank Korea Inc., which is regulated by the Financial Services Commission and the Financial Supervisory Service. Address is Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comisión Nacional Bancaria y de Valores. Reforma 398, Col. Juárez, 06600 Mexico, D.F. In **New Zealand** the Product is made available to 'wholesale clients' only as defined by s5C(1) of the Financial Advisers Act 2008 ("FAA") through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the **Russian Federation** through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any

information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in **Singapore** through Citigroup Global Markets Singapore Pte. Ltd. ("CGMSPL"), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 8 Marina View, 21st Floor Asia Square Tower 1, Singapore 018960, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold/Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the **Republic of South Africa** (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gasset, 4th Floor, Madrid, 28006, Spain. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Büyükdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the **U.A.E.**, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different Citi Research ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in **United Kingdom** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in **United States** by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority.

Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Research's Products can be found at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.

Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations.

The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product. With the exception of our product that is made available only to Qualified Institutional Buyers (QIBs) and other product that is made available through other distribution channels only to certain categories of clients to satisfy legal or regulatory requirements, Citi Research concurrently disseminates its research via proprietary and non-proprietary electronic distribution platforms. Periodically, individual Citi Research analysts may also opt to circulate research posted on such platforms to one or more clients by email. Such email distribution is discretionary and is done only after the research has been disseminated via the aforementioned distribution channels. Citi Research simultaneously distributes product that is limited to QIBs only through email distribution.

The level and types of services provided by Citi Research analysts to clients may vary depending on various factors such as the client's individual

preferences as to the frequency and manner of receiving communications from analysts, the client's risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with Citi and legal and regulatory constraints. Citi Research product may source data from dataCentral. dataCentral is a Citi Research proprietary database, which includes Citi estimates, data from company reports and feeds from Reuters and Datastream.

© 2012 Citigroup Global Markets Inc. Citi Research is a division of Citigroup Global Markets Inc. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc. and its affiliates and are used and registered throughout the world. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure of this report (the "Product"), including, but not limited to, redistribution of the Product by electronic mail, posting of the Product on a website or page, and/or providing to a third party a link to the Product, is prohibited by law and will result in prosecution. The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient to any third party. Where included in this report, MSCI sourced information is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, disseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST
