17 October 2012 | 88 pages

Banks (Citi)
CEEMEA | Poland

Polish Financials

Time To Turn Negative

- **Slowdown is Coming** — All major economic indicators (PMI, Pengab, unemployment, industrial production, retail sales, etc.) show that the Polish economy is slowing, comparable to the decline in 2009 when GDP decelerated to 1.6% from 5.1% in 2008 and banking sector results dropped 39% yoy.
- **Lower Sales** — We expect that the slowdown will lead to lower demand for loans, insurance and investment products and lower activity of clients (negative for all financial companies, but most for financial intermediaries and less for insurers).
- **Higher Provisions** — Weak GDP growth usually means more defaulted loans and more provisions for banks. To a lower extent it also negatively affects insurers via higher insurance claims.
- **Lower Rates and Weaker Zloty** — Lower short-term rates are negative for interest income (negative for banks and, to a lesser extent, for insurers). A weaker Zloty may put further pressure on banks' funding cost due to increased competition for deposits from banks with FX-denominated assets funded by Zloty deposits.
- **Consensus Downside Risk** — Despite these headwinds the Street still forecasts earnings growth of c +3% for Pekao and +2%% for PKO BP next year (I/B/E/S). This looks optimistic in our view; we are 7% and 12% below consensus on these two stocks.
- **Reduce Financials** — Polish banks appear expensive vs. GEM peers on a 2013E P/BV vs. Real ROE basis (see Fig. 61 and 62). Trading at an average 2013E P/E of 13x, the coming slowdown doesn't appear priced in. We thus turn negative on financial stocks. As it is more insulated from the weakening macro outlook, we prefer the insurer PZU to banks (out of which we most like PKO BP and least Millennium). For details of changes in ratings, target prices and estimates see the table below.

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		Rating		Target Price		Current Year Earnings Estimates	
Company	**Ticker**	**Old**	**New**	**Old**	**New**	**Old**	**New**
BRE	BREP.WA	3	3	ZL273.00	ZL273.00	ZL26.67	ZL26.67
ING Bank Slaski	BSK.WA	2	2	ZL88.20	ZL88.20	ZL6.19	ZL6.19
Bank Zachodni	BZW.WA	1	1	ZL264.00	ZL263.00	ZL17.66	ZL17.66
Getin Noble	GNB.WA	2	2	ZL1.82	ZL1.82	ZL0.15	ZL0.15
GPW	GPW.WA	2H	2H	ZL42.10	ZL42.10	ZL2.71	ZL2.71
Getin Hld	GTN.WA	2H	2H	ZL3.06	ZL3.06	ZL0.76	ZL0.76
Kredyt Bank	KRB.WA	1H	1H	ZL18.40	ZL18.30	ZL0.47	ZL0.78
Bank Millennium	MILP.WA	1	3	ZL3.85	ZL3.85	ZL0.35	ZL0.35
OPEN FINANCE	OPF.WA	1H	1H	ZL22.10	ZL22.10	ZL1.99	ZL1.99
Bank Pekao	PEO.WA	2	2	ZL152.00	ZL152.00	ZL10.62	ZL10.62
PKO BP	PKO.WA	1	1	ZL40.70	ZL40.70	ZL3.01	ZL3.01
PZU	PZU.WA	1	1	ZL421.00	ZL421.00	ZL33.47	ZL33.47

Contents

Time to Turn Negative

All major economic indicators are showing that the Polish economy is slowing down

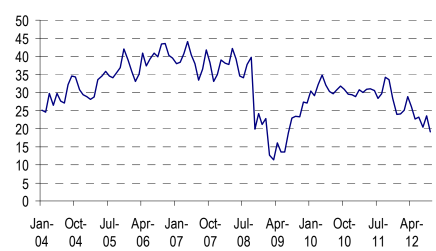
All major economic indicators are showing that the Polish economy is slowing:

- In September PMI was below 50 points for the sixth month in the row ;
- Pengab (the banking confidence index) declined to 19.1 points in September (vs. its recent peak in September 2011 at 34.2 points) and reached its lowest level since August 2009;
- Consumer confidence slightly improved recently but is at one of its lowest readings since 1H09;
- Seasonally adjusted unemployment is at its highest point since March 2007;
- growth in industry production in September was close to zero (+0.5%) – the lowest reading since October 2009;
- wide-defined retail sales (sale in all shops, in contrast to GUS-reported sales in shops employing more than 9 persons) has been close to zero since May 2011.

Figure 1. Poland – PMI, Jan00-Aug12

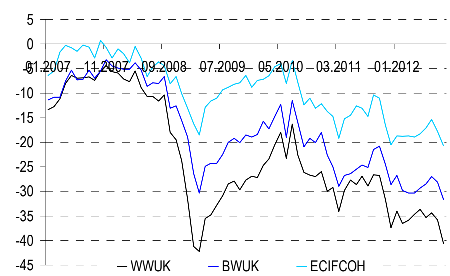
Source: Reuters, Citi Research

Figure 2. Poland – Pengab, Jan04-Sep12



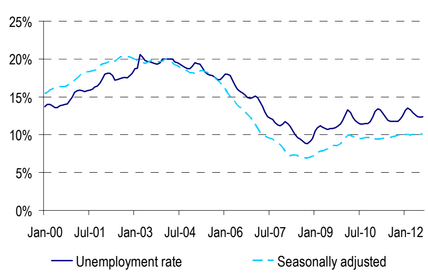
Source: ZBP, TNS, Citi Research

Figure 3. Poland – Consumer's confidence indexes, Jan07-Aug12



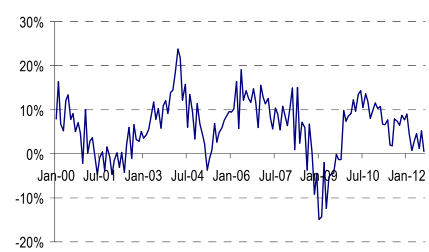
Source: GUS, Citi Research

Figure 4. Poland – Unemployment Rate (%), Jan00-Aug12 (Percentage)



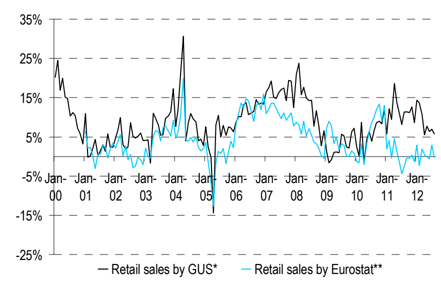
Source: GUS, Citi Research

Figure 5. Poland – Industrial Production Yoy Growth, Jan00-Aug12 (Percentage)



Source: GUS, Citi Research

Figure 6. Poland -- Retail Sales Yoy Growth (broad definition)*, Jan00-Aug12 (Percentage)



* includes stores with employment exceeding 9 employees

** includes all stores, adjusted by working days, does not include motor vehicles and motorcycles

Source: Eurostat, GUS, Citi Research

Figure 7. Poland – Selected Macro Data, 2007 – 2013E

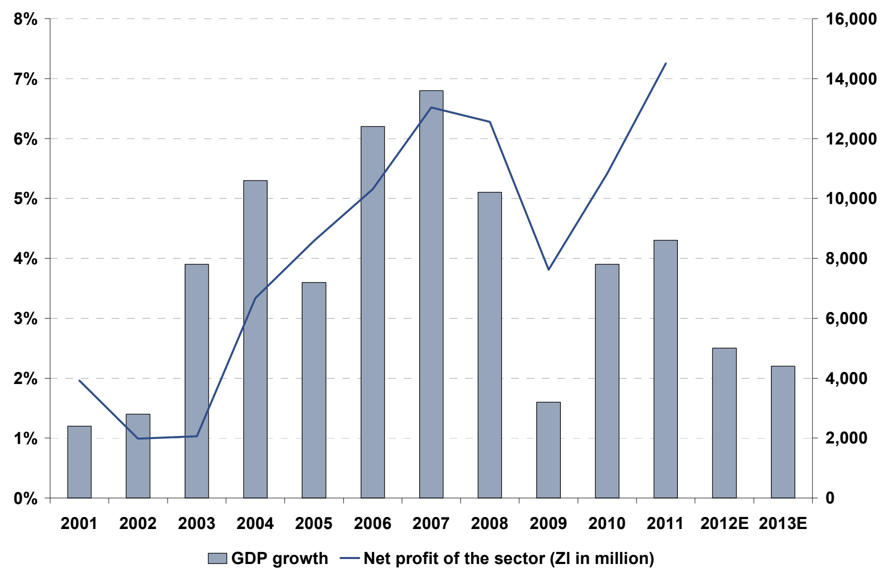
	2007	2008	2009	2010	2011	2012E	2013E
GDP growth (%, yoy)	6.8%	5.1%	1.6%	3.9%	4.3%	2.4%	2.2%
Export (%, yoy)	9.1%	7.1%	-6.8%	12.1%	7.5%	2.0%	2.3%
Import (%, yoy)	13.7%	8.0%	-12.4%	13.9%	5.8%	-1.3%	0.1%
Unemployment rate (%)	11.2%	9.5%	11.9%	12.2%	12.5%	13.1%	13.5%
CPI (%, yoy)	3.9%	3.4%	3.7%	3.2%	4.6%	2.9%	2.8%
Reference rate (%)	5.00%	5.00%	3.50%	3.50%	4.50%	4.25%	3.75%
USD/PLN	2.45	3.00	2.87	2.96	3.41	3.31	3.51
EUR/PLN	3.58	4.17	4.11	3.96	4.41	4.20	4.18

Source: GUS, NBP, Citi Research

In 2009, when GDP declined to +1.6% from +5.1% in the pervious year, banks earnings dropped 39%

The decline seems comparable to the decline in 2009 when GDP decelerated to +1.6% from +5.1% in 2008 but then rebounded to +3.9% the following year. Banking sector results followed GDP, dropping 39% yoy in 2009 and rising 42% in 2010. However, it may be like the deceleration in early 2000's when GDP growth was below +2% for two years (+1.2% in 2001 and +1.4% in 2002) and net profit of the banking sector, with a year delay, halved in 2002 and remained at that level in 2003, before rebounding 223% in 2004.

Figure 8. Poland – GDP Growth vs. Banking Sector Earnings, 2001-2013E (Percentage/Polish Zloty in million)



Source: GUS, Citi Research

Weak Economy = Lower Sales

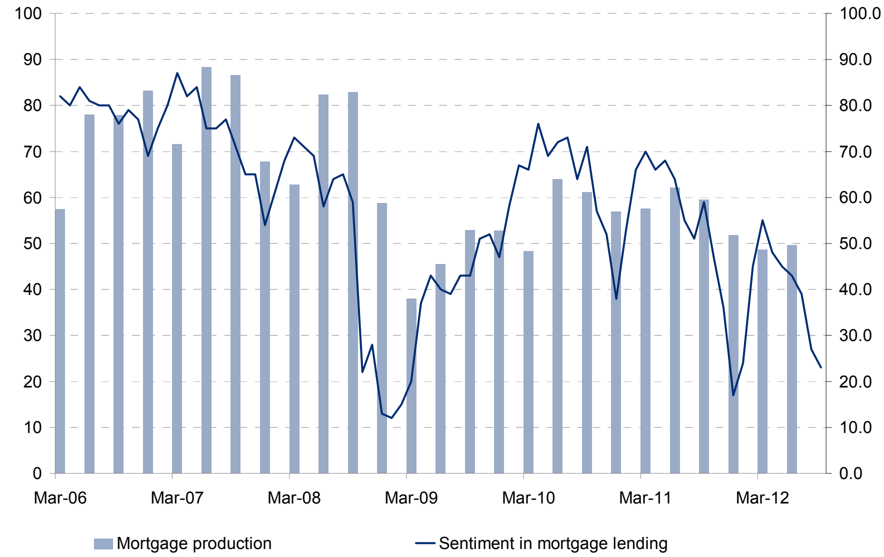
We expect that the slowdown will lead to lower demand and lower sale of financial products, including loans, insurance and investment products.

Hard Landing in Mortgage Lending

The "Pengab" banking confidence index predicts a severe decline in mortgage production

The Pengab banking confidence index appears to predict a severe decline in new production of mortgages. We fully agree: Mortgage production was weak in 1H12 but we expect it to decline even more in 2013.

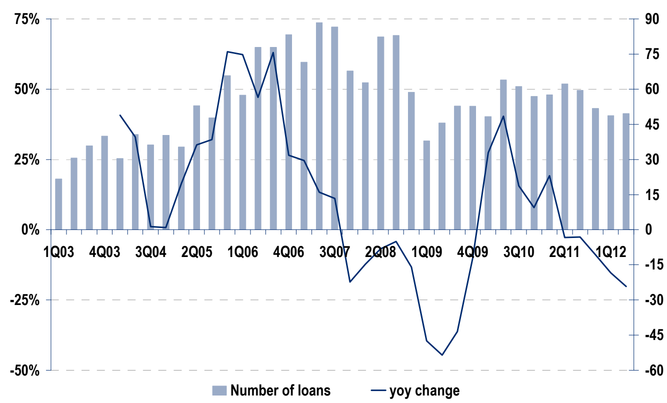
Figure 9. Polish Banks – Pengab Mortgage Sub-index vs. Actual Mortgage Production, Mar 2006-Sep 2012 (Points/Polish Zloty in million)



Source: ZBP, NBP, Citi Research

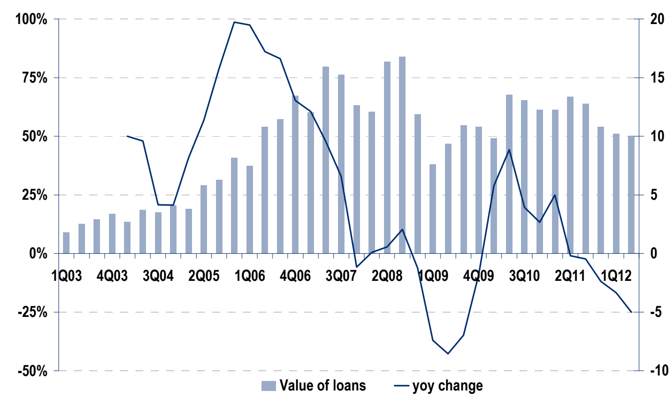
State of Affairs

Figure 10. Polish Banks – Number of New Mortgage Loans, 1Q03-2Q12 (Polish Zloty in billion)



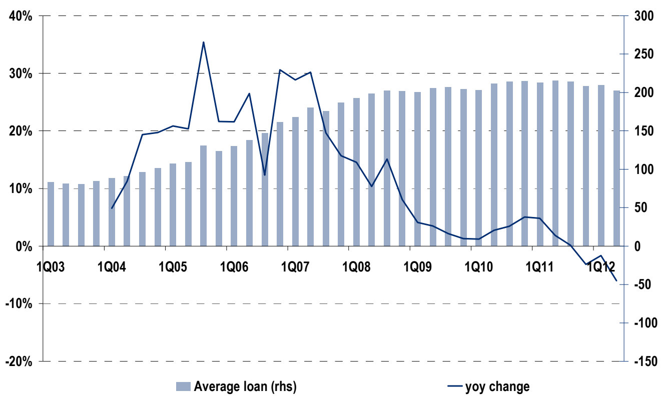
Source: ZBP, Citi Research

Figure 11. Polish Banks – Value of New Mortgage Loans, 1Q03-2Q12 (Polish Zloty in billion)



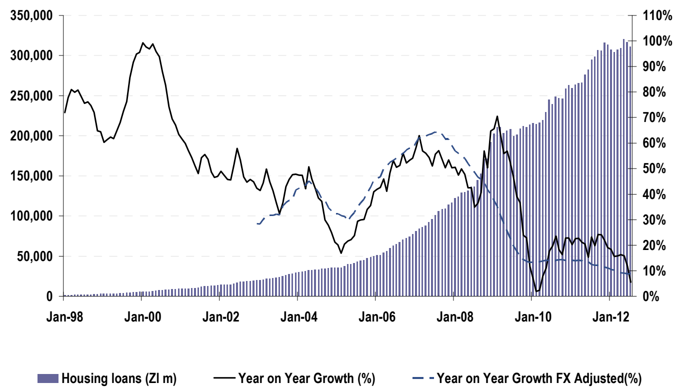
Source: ZBP, Citi Research

Figure 12. Polish Banks – Average Value of Mortgages (New Lending), 1Q03-2Q12 (Polish Zloty in thousands)



Source: ZBP, Citi Research

Figure 13. Polish Banks – Volume and Growth of Mortgage Loans, Jan98-Jul12 (Polish Zloty in million)



Source: NBP, Citi Research

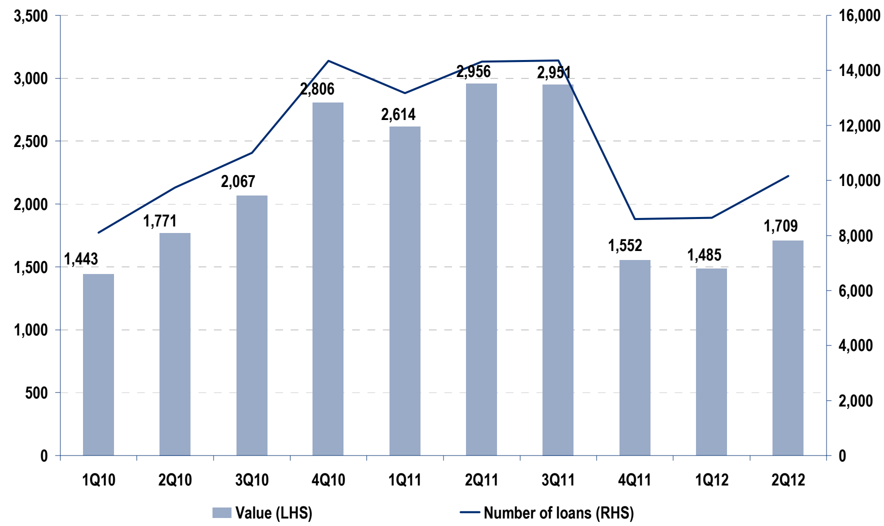
In 2Q12 the value of granted mortgage loans declined 25% yoy to Zl 10bn…

In 2Q12 the value of granted loans declined 25% yoy to Zl 10.0bn. Since 1Q06 quarterly sales of mortgages has been lower only three times: in 1Q09 (Zl 7.6bn), 2Q09 (Zl 9.4bn) and 1Q10 (Zl 9.8bn).

…and an even higher decline was observed in subsidized loans granted within the "Rodzina na swoim" programme (-42% yoy in 2Q12),

An even higher decline was observed in subsidised loans granted within the "Rodzina na swoim" programme (-42% yoy in 2Q12), negatively affected by changes in regulations that came into force in September 2011. The most significant change implemented in the subsidised mortgage programme was a reduction in the price-cost limit coefficient from 1.4 (for all markets) to 1.0 for primary market properties and to 0.8 for secondary market properties. As a result of the new limits, in 3Q12 the square meter price available within the programme declined in Warsaw to Zl 5,904 from Zl 9,816 prior the change for primary market properties and to Zl 4,723 for secondary market properties. We remind that the programme will be terminated at the end of 2012 (the deadline for new loan applications is at year-end 2012 and the last loans will be paid out at the beginning of 2013). It will be replaced but the new program targeting young families with children but the new programme will be implemented not sooner than in mid 2013.

Figure 14. Polish Banks – Value and Number of Subsidized Mortgage Loans ("Rodzina na Swoim" Programme), 1Q10-2Q12 (Polish Zloty in billion)



Source: ZBP, Citi Research

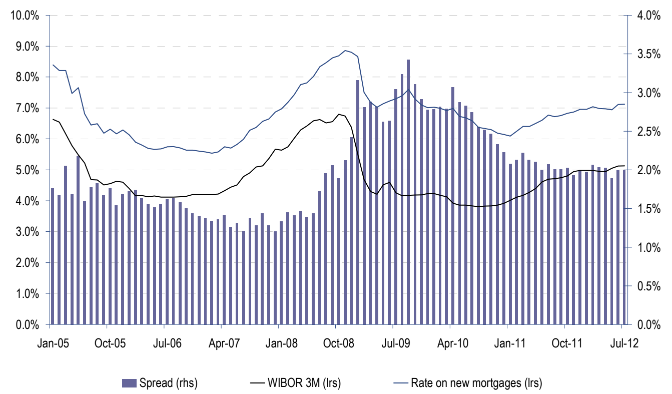
Outlook for the Market

Unsupportive macro data, low availability of loans and uncertain real estate outlook negatively influence the mortgage market.

The mortgage market is negatively affected by several factors:

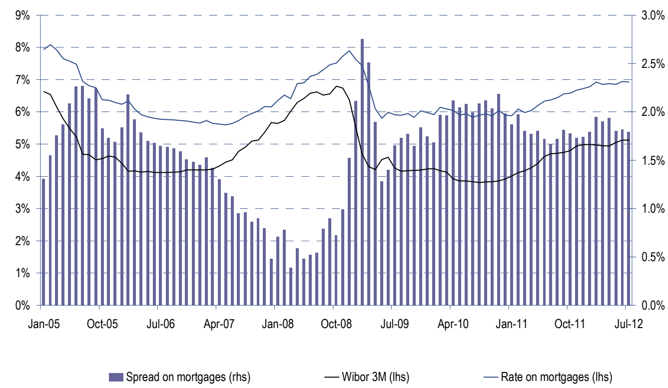
- Macro headwinds (rising unemployment, low growth in the wage bill, low confidence);
- Low availability of loans due to:
  - High cost of loans because cheap FX loans are practically not available while the average interest on new Zloty mortgages is about 7.1% (WIBOR of 5.1% and relatively high lending spread of about 2% vs. the lowest about 1.2% in December 2007 reflecting the banks' high cost of funding and the expected increase in cost of risk);
  - A tightening of under-writing standards by banks, partly driven by the regulator's recommendations and partly the banks' own decision to limit activity due to funding and capital constrains and low profitability of the segment;
- Negative equity of the majority of FX mortgage loans taken in 2007-2008, which has shrunk the pool of potential clients;
- The uncertain outlook of the real estate market (apartment prices in Warsaw are 5% lower yoy and 16% lower than the peak price reached in 1Q2008, but potential buyers may wait for the further declines).

Figure 15. Polish Banks – Interest Rate on Zloty-Denominated Mortgage Loans (New Lending), Jan05-Jul12 (%)



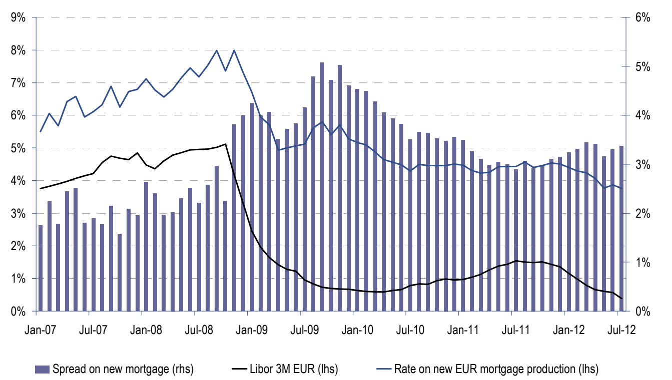
Source: NBP, Citi Research

Figure 16. Polish Banks – Interest Rate on Zloty-Denominated Mortgage Loans (Outstanding Lending), Jan05-Jul12



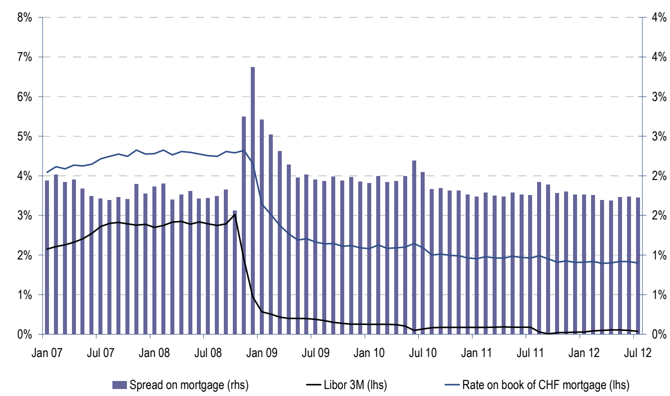
Source: NBP, Citi Research

Figure 17. Polish Banks – Interest Rate on EUR-Denominated Mortgage Loans (New Lending), Jan07-Jul12 (%)



Source: NBP, Citi Research

Figure 18. Polish Banks – Interest Rate on CHF-Denominated Mortgage Loans (Outstanding Lending), Jan07-Jul12 (%)

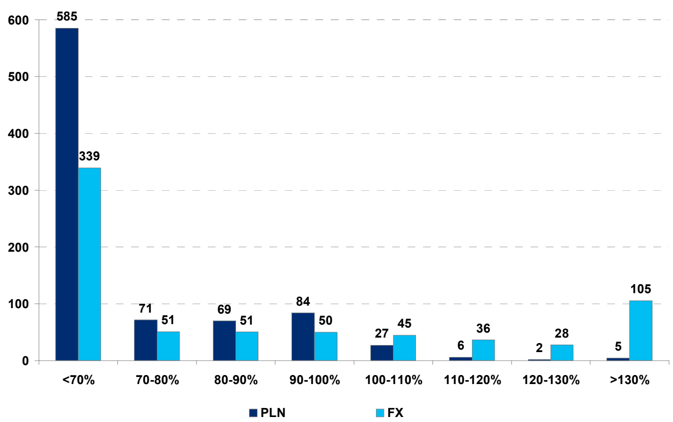


Source: NBP, Citi Research

Imprisoned in Your Own House

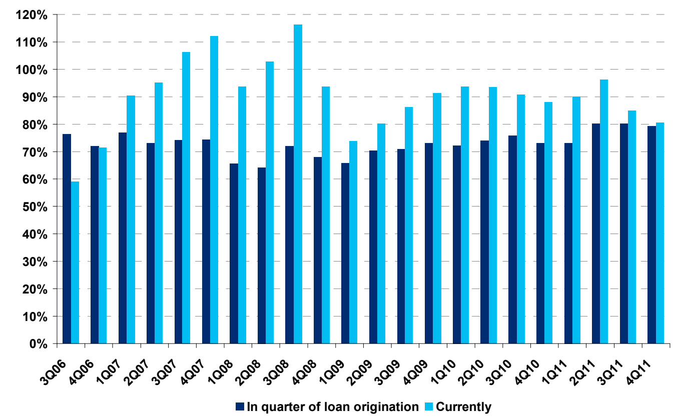
We view the high number of households with negative equity on their mortgage loans as one of the main headwinds for the Polish mortgage market. According to a KNF (Polish FSA) survey among banks, about 252,900 of loans (c16% of total) have a loan-to-value (LTV) ratio above 100% (out of which 39,200 are Zloty-denominated and 213,800 are FX-denominated loans). For 181,100 loans (12,000 Zloty and 169,200 FX-denominated) the LTV ratio exceeds 110%. The main driver of this has been Zloty weakness against CHF and EUR (vs. 2008 peak levels), but the decline in flat prices has also negatively affected the ratio.

Figure 19. Polish Banks – Loan-to-Value Structure (by Number of Loans), 2011 (in thousand)



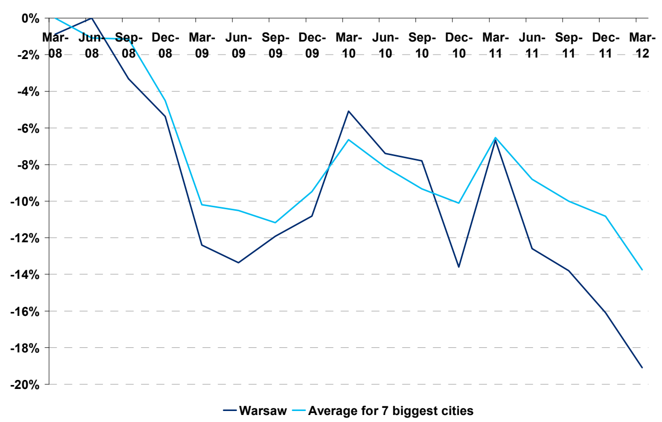
Source: KNF, Citi Research

Figure 20. Polish Banks – Average Loan-to-Value by the Quarter of Origination (Percentage)



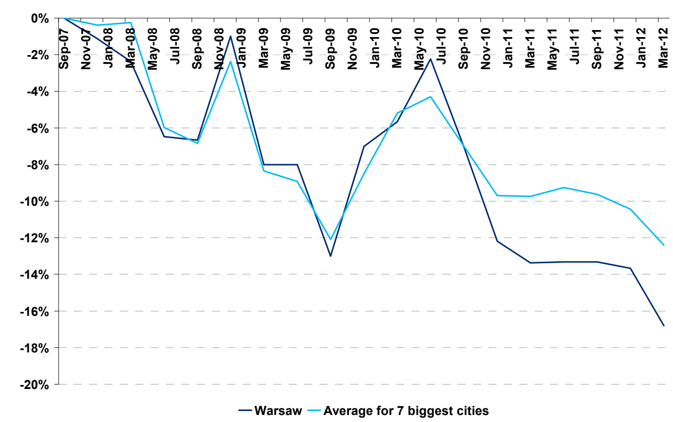
Source: NBP, Citi Research

Figure 21. Poland – Accumulated Decline in Flat Prices (Primary Market), 1Q08-1Q12 (Percentage)



Source: NBP, Citi Research

Figure 22. Poland – Accumulated Decline in Flat Prices (Secondary Market), 3Q07-1Q12 (Percentage)



Source: NBP, Citi Research

Negative equity on more than 250,000 mortgage loans is a key headwind for the Polish mortgage market

The average value of a FX loan with a LTV above 100% is about Zl 400,000. This means that for households that have 10% negative equity will owe c Zl 40,000 more than the value of their house. In our opinion many of households that are in such a situation cannot afford to pay that amount to move houses. It means that even if such a household's financial situation could afford to make payments on a larger mortgage to buy a new bigger flat/house, they have to stay in the old flat/house because they cannot get rid of the old real estate investment with negative equity.

Even clients with a LTV below 100% may be reluctant to exchange their flat/house for a new one because the transaction would mean cashing an FX loss on the FX mortgage taken to fund the purchase (we note that due to lack of the offer of new FX mortgages clients are not able to roll-over their FX short position through taking a new FX loan). On average we estimate that clients looking to upgrade their housing would have to cash in an FX loss of between Zl c30,000 (on loans granted in 2005) to c Zl150,000 (on loans granted in 2008); this may be difficult from a psychological perspective for many households (the average loss is about twice higher than the average savings per household).

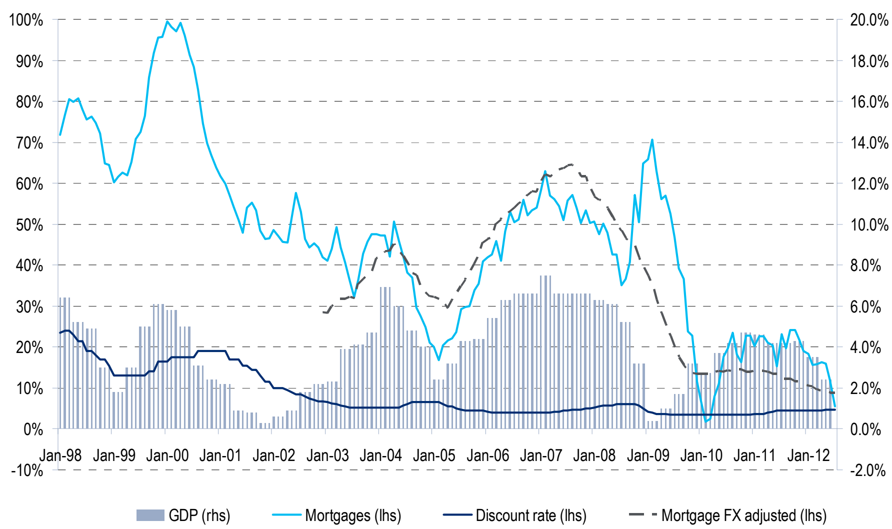
Thus we believe between 181,000 (the number of mortgage loans with a LTV above 110%) and 712,000 (the total number of FX loans) of households are effectively shut out of the mortgage market because they have negative equity and/or the necessity to realize losses on their FX debt.

Lower Interest rates should help, but will only partly offset the end of mortgage subsidy programme

Citi economists expect interest rates to be cut by 100bp over the next 9 months. If our economists are right and if the lower rates lead to a commensurate reduction in WIBOR, i.e. are passed on to clients, and assuming no change to lending spreads, lower rates should provide some relief to local currency mortgage borrowers (the vast majority of local currency mortgages are floating rate). We estimate that a 100bp cut would lead to a Zl 120 (c9%) lower monthly installment on a Zl 200,000 25 year maturity mortgage loan. This is positive but it will only partially off-set the end of the "Rodzina na swoim programme" (which reduces the monthly installment by Zl c400 in the first 8 years and by Zl c120 in the next 17 years on a Zl 200,000 loan), the decelerating economy, and weak sentiment. Lower rates will thus not completely resolve the problem of losses on FX loans in our view.

We note that historically growth in mortgage loans was highly correlated with GDP dynamics.

Figure 23. Poland – GDP growth(quarterly) and Mortgage Loans Yoy Growth, Jan98-July12 (Percentage)



Source: GUS, NBP, Citi Research

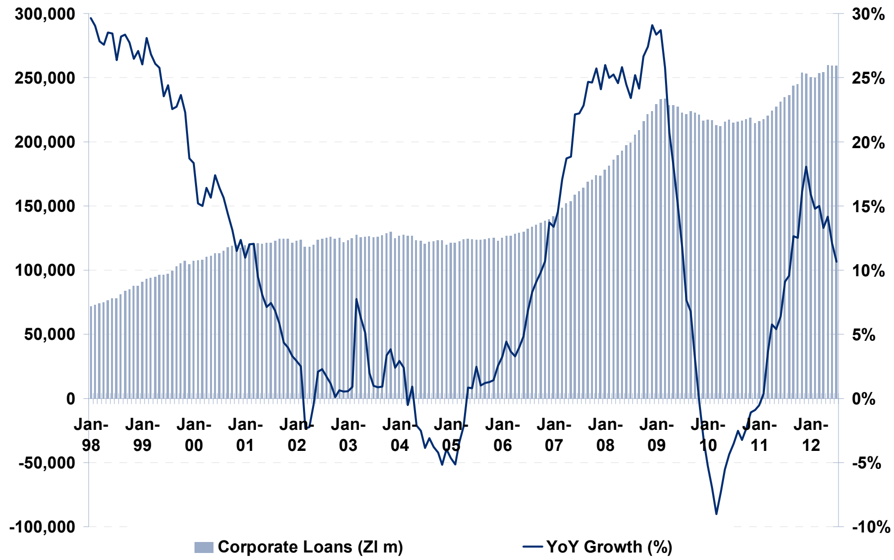
Summing up, we think that deceleration in mortgage lending will continue and that the stock of mortgage loans will post c mid-single digit growth (excluding FX fluctuations) in 2013.

Headwinds for Corporate Lending

Next year we expect stock of corporate loans to rise mid-single digit

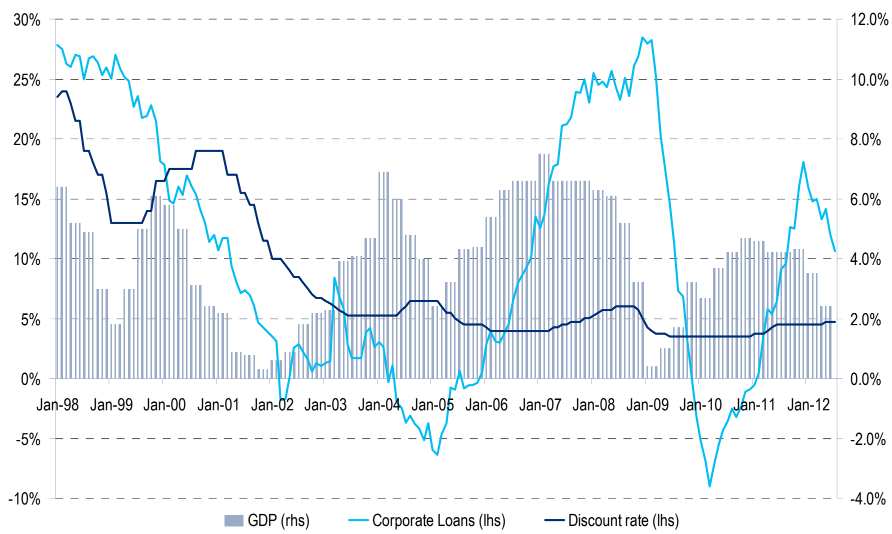
Following the rapid increase in corporate lending in 2H11 (partly driven by leveraged M&As, e.g. Polkomtel Zl 18.1bn and Tradis Zl 1.1bn deals), the stock of corporate loans has practically not risen in 2012 (just +2% ytd). We see low chances that this will change in the foreseeable future due to lower business activity (leading to lower needs for operational loans) and declining investments (lower demand for investment loans). Historically the growth in corporate loans lagged GDP dynamics. We expect the stock of corporate loans to rise by mid-single digits next year.

Figure 24. Polish Banks – Corporate Loans, Jan 98 – Jul 12 (Polish Zloty in million)



Source: NBP, Citi Research

Figure 25. Poland – GDP Growth (quarterly) and Corporate Loans Yoy Growth, Jan98-July12 (Percentage)



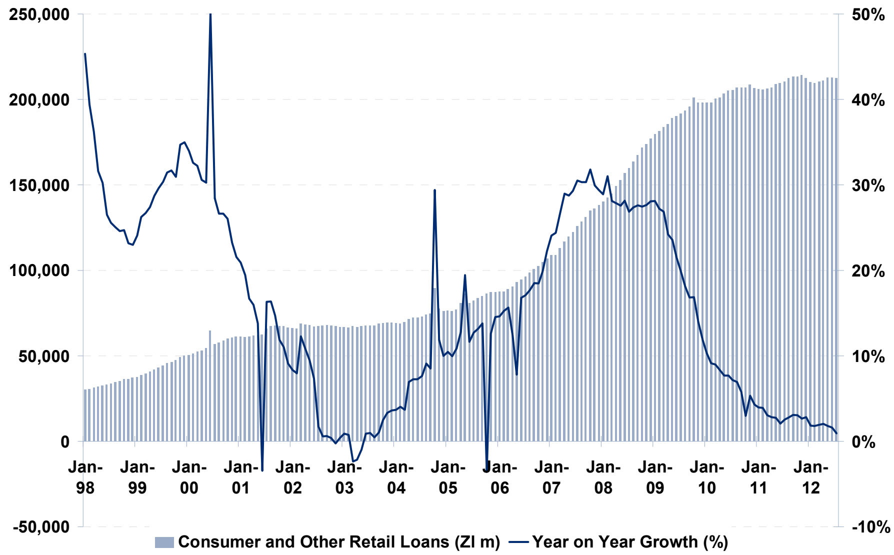
Source: GUS, NBP, Citi Research

Consumer Lending - Looking For a Bottom

We expect that consumer loans may start to post low-single digit growth next year

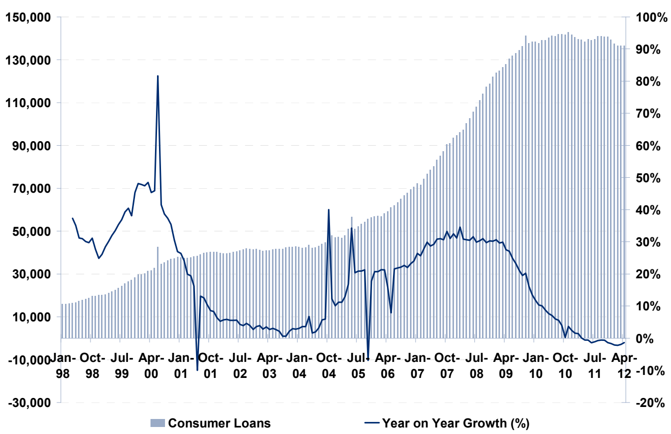
We expect some support to loan growth from consumer loans. The trend in broadly defined consumer loans (all non-mortgage loans to households) is still decelerating (+0.9% yoy growth in July 2012 vs. +1.6% yoy in June 2012 and +2.8% yoy December 2011), negatively affected by declining narrowly defined consumer loans (i.e. excluding loans to private entrepreneurs and farmers) that declined -2.8% yoy in July (vs. -2.2% in June 2012 and -1.7% in December 2011) and decelerating loans to private entrepreneurs (+8.3% yoy vs. +9.5% yoy and +14.3% yoy, respectively).

Figure 26. Polish Banks – Consumer And Other Non-Mortgage Loans, Jan 98 – Jul 12 (Polish Zloty in million)



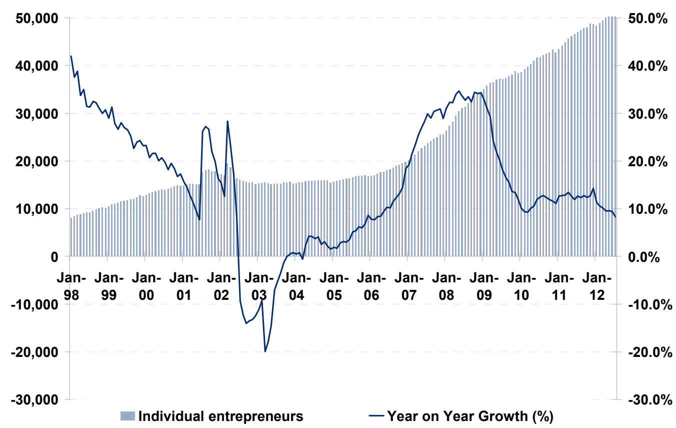
Source: NBP, Citi Research

Figure 27. Polish Banks – Consumer Loans, Jan 98 – Jul 12 (Polish Zloty in million)



Source: NBP, Citi Research

Figure 28. Polish Banks – Loans to Private Entrepreneurs, Jan 98 – Jul 12 (Polish Zloty in million)

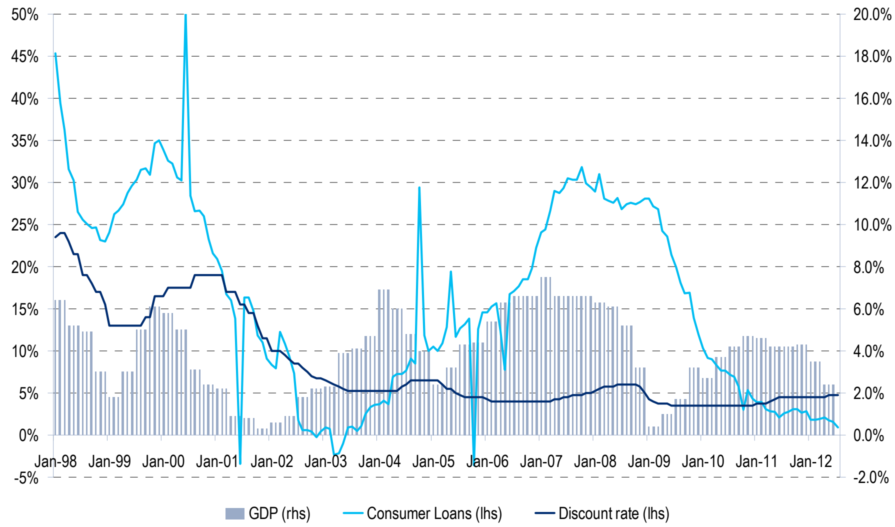


Source: NBP, Citi Research

Historically dynamics in consumer loans materially lagged GDP growth

We note that historically dynamics in consumer loans materially lagged GDP growth: Consumer lending remained high during periods of economic slowdown and bottomed in the first stage of the economic recovery, driven by deterioration in asset quality. This time we enter the slowdown with close to zero growth in consumer loans, which makes forecasting especially difficult, but given improving quality of new consumer lending and the regulator's declaration to ease regulation of consumer finance (recommendation T), we think that narrowly defined consumer loans may start to rise by low single digits next year.

Figure 29. Poland – GDP growth (quarterly) and Consumer Loans Yoy Growth, Jan98-July12 (Percentage)



Source: GUS, NBP, Citi Research

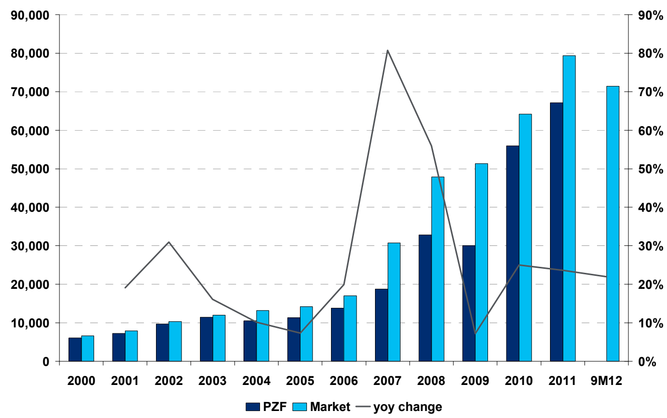
Factoring and Leasing

Lower economic growth should also affect dynamics in other financial products like factoring and leasing but the impact will be much different:

- Factoring is more resistant to the macro situation: volumes are, of course, affected by the dynamics in total turnover in the economy but, on the other hand, during a slowdown demand for factoring products often increases because it provides liquidity. And given its lower risk it is an attractive substitute of bank loans;
- Leasing, being the preferred way of funding investments by SMEs, is early cyclical and declines first (as demonstrated by the -1% decline in sector leasing volumes seen in 2008, when GDP still grew 5.1% yoy).

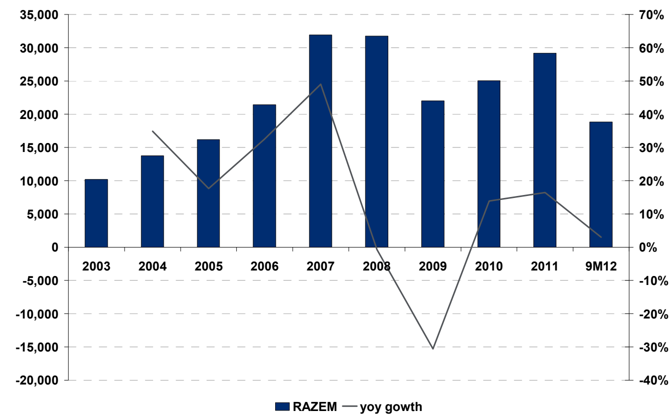
In 2013 we expect factoring turnover to increase 10% yoy and new leasing to decline about 20%.

Figure 30. Poland – Turnover of Factoring Companies, 2000-9M12 (Polish Zloty in million)



Source: PZF, Rzeczpospolita daily, Citi Research

Figure 31. Poland – Turnover of Leasing Companies, 2003-9M12 (Polish Zloty in million)



Source: ZPL, Rzeczpospolita daily, Citi Research

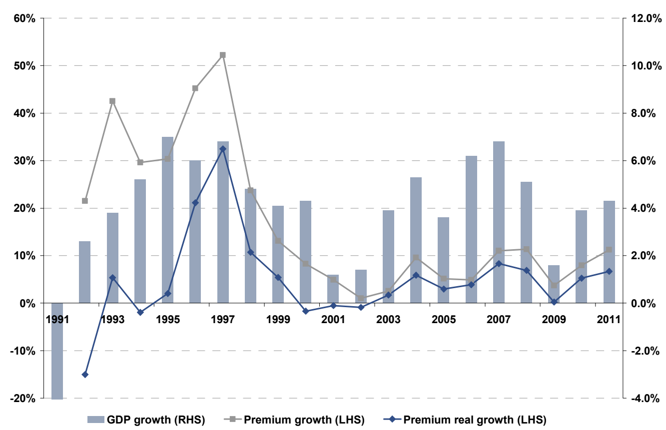
Insurance Premium

GDP growth is less of a driver of insurance premium growth

Insurance premium growth, especially in non-life products, but to some extent also in non-life segments, is driven by GDP dynamics. We note, however, that:

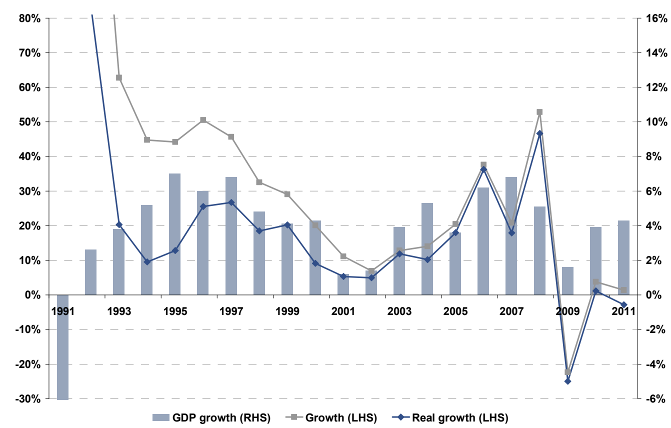
- In non-life insurance the real (inflation-adjusted) growth in premium hasn't exceeded 10% since 1998 and since 2003 has never been negative, thus fluctuations in GDP growth in a range of 0-10% has a relatively low impact on profitability of insurers;
- Premium in PZU's main cash cow business line (group and continued life insurance) is much more stable than total life premium (nominal growth in group life premium varied in a range of between 3% and 7% while in continued insurance between 1% and 4%) and is not correlated with GDP growth (it depends more on the wage bill than on growth in GDP).

Figure 32. Polish Non-Life Insurers – Premium vs. GDP Growth, 1991-2011 (Percentage)



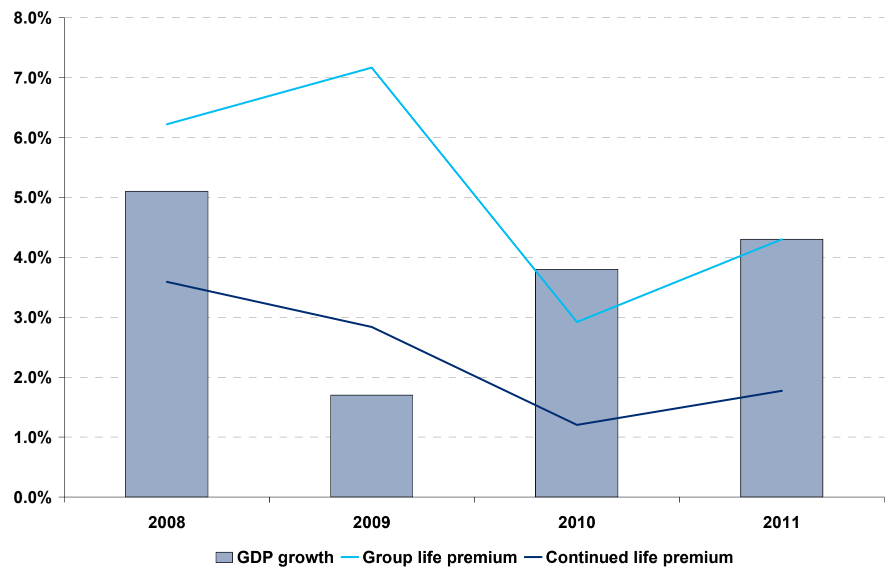
Source: KNF, GUS, Citi Research

Figure 33. Polish Life Insurers – Premium vs. GDP Growth, 1991-2011 (Percentage)



Source: KNF, GUS, Citi Research

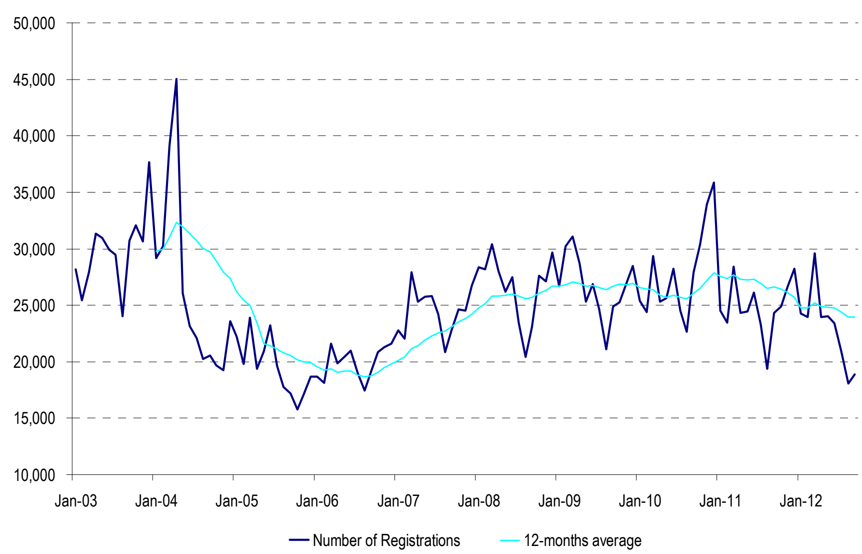
Figure 34. PZU – Group and Continued Life Premium vs. GDP Growth, 2008-2011 (percentage)



Source: Company reports, Citi Research

Growth in motor insurance premium (especially in own damage insurance) is negatively affected by declining sales of new car.

Figure 35. Poland – New Passenger Cars Registrations, Jan03-Sep12



Source: www.acea.be, PZPM, Citi Research

Lower Activity of Clients

Lower economic growth may also negatively affect revenues of financial companies:

Lower GDP growth leads to lower demand for trade finance,…

- Lower business activity may lead to lower volume of transfers and lower demand for guarantees and other trade finance products;

…for investment products,…

- Negative dynamics in wage bill may further reduce clients' demand on investment fund and other investment products that even now remains sluggish due to risk-aversion mood;

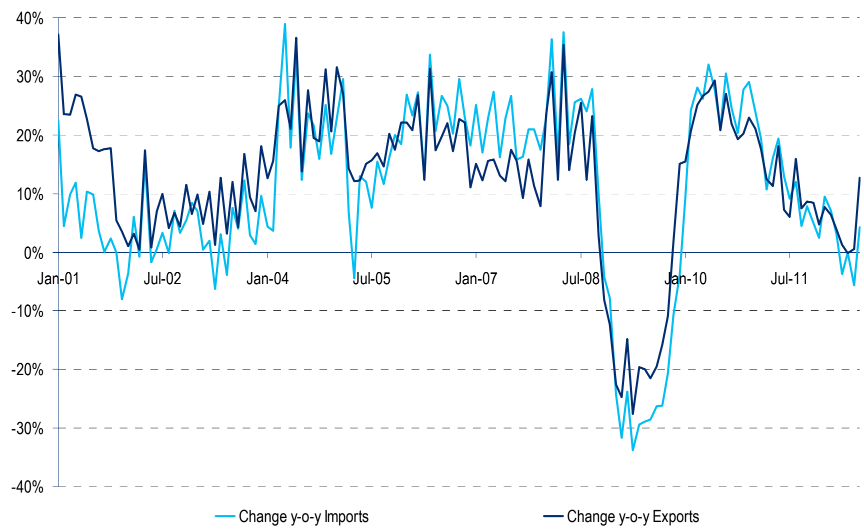
…and lower current account ….

- Retail clients, looking for savings, may close unused accounts and change accounts for cheaper ones, e.g. for internet accounts or promoted products (within the same institution or changing the bank);

…and card usage

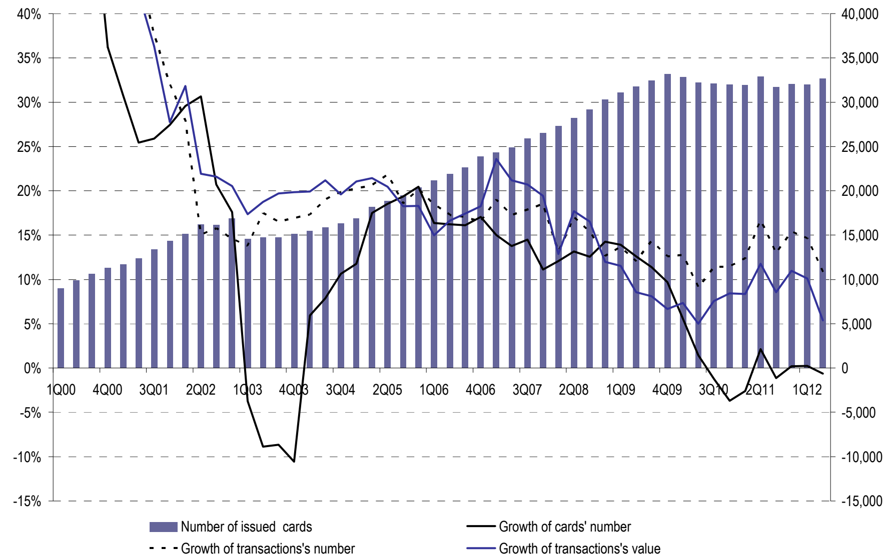
- Lower retail sales may negatively affect card usage – in 2Q12 the growth in number of card transaction was still relatively high at +11% yoy but decelerated significantly from +15% yoy in 1Q12 while value of card transactions grew just +5.4% yoy – lower growth was only reported in 2Q10 (+5.0% yoy) since the beginning of the card market in Poland.

Figure 36. Poland – Export and Import Yoy Change, Jan01-Jul12 (Percentage)



Source: GUS, Citi Research

Figure 37. Polish Banks – Banking Card: Stock and Transactions, 1Q00-2Q12 (Thousand/Percentage)



Source: NBP, Citi Research

Open Finance Most Exposed

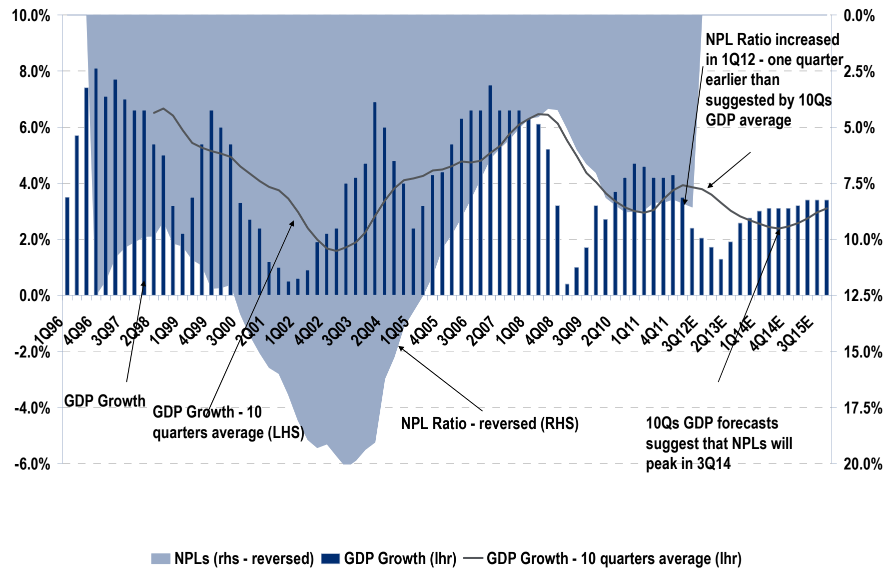
We believe the lower flow of transactions is negative for all financial companies, mostly for financial intermediaries (living mostly from transactional fees), less for banks (which earn interest on the stock of existing loans that is impacted by new sales but the impact is lower in mortgage and long-term investment loans than in short-term consumer and operational corporate loans) and least for insurers (due to the long-term nature of life insurance contracts and the obligation to buy Third Party Liability (TPL) motor insurance, the influence of lower new sale on the balance sheet is lower than in banks).

Higher Provisions

The economic slowdown has already led to an increase in the number of bankruptcies and higher corporate NPLs

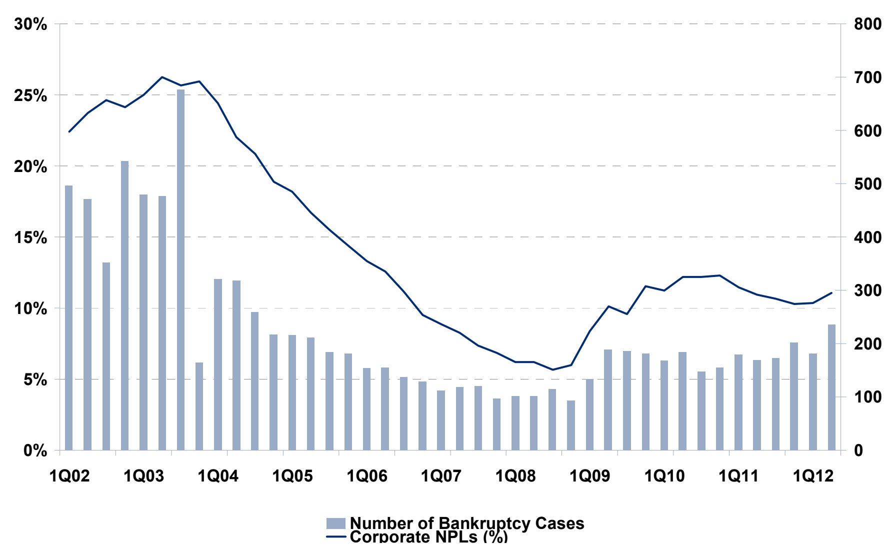
Weak GDP growth usually means more bankruptcies and higher unemployment, which leads to more loan defaults and more provisions for banks. This time is no different. The first signs of the economic slowdown in 1H12 also came with an increase in the number of bankruptcies (including high profile bankruptcies in the construction sector) and an increase in the NPL ratio, driven by corporate NPLs.

Figure 38. Polish Banks – GDP Growth vs. NPL Ratio (Reversed Axis), 1Q96-4Q15E (Percentage)



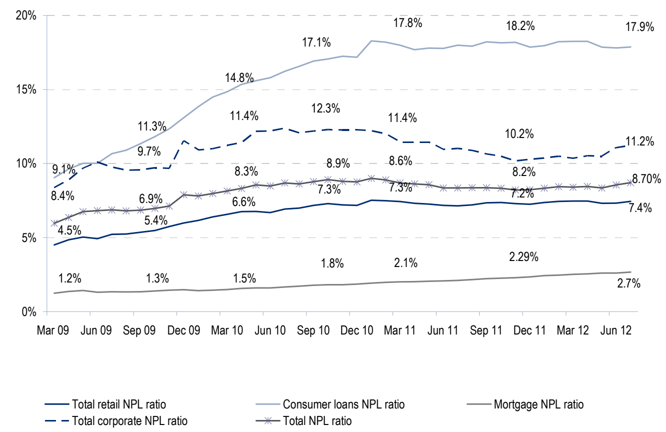
Source: GUS, NBP, Citi Research

Figure 39. Polish Banks – Number of Bankruptcies vs. Corporate NPL Ratio, 1Q02-2Q12



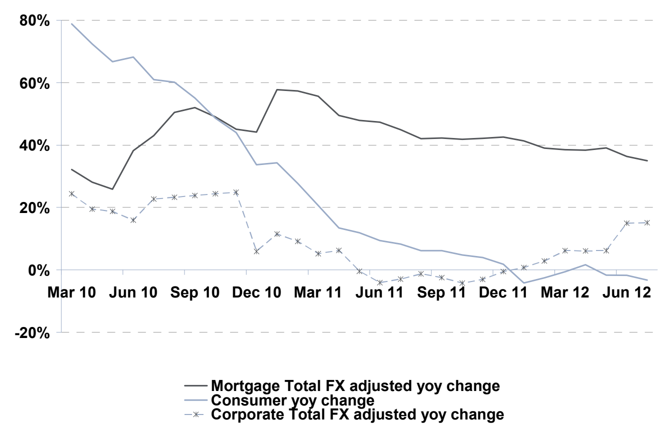
Source: NBP, Coface Poland, Citi Research

Figure 40. Polish Banks – NPL Ratios, Mar 09 – Jul 12 (Percentage)



Source: NBP, Citi Research

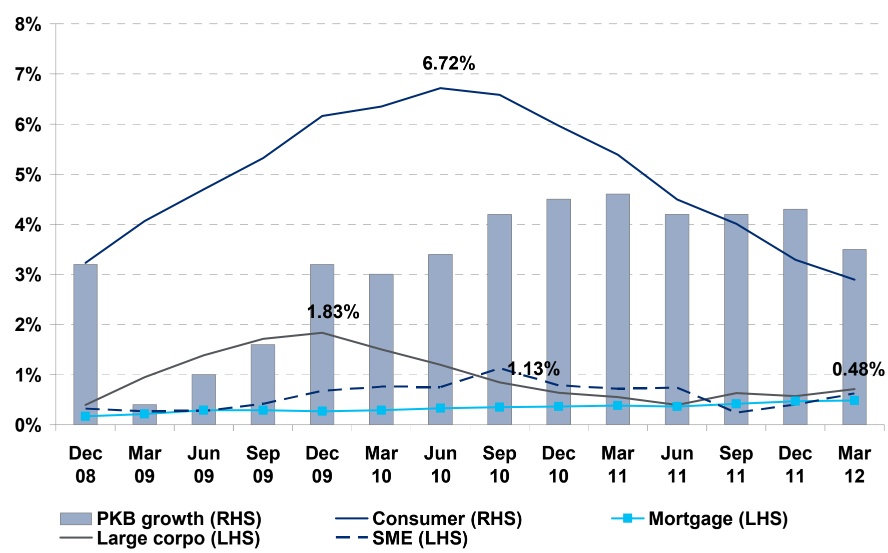
Figure 41. Polish Banks – Increase in Stock of Impaired Loans by Category, Mar 10 – Jul 12 (Percentage)



Source: NBP, Citi Research

We note that in the last slowdown the cost of risk in corporate loans peaked first (in 4Q09, 3 quarters after the bottom in GDP growth), followed by consumer loans (2Q10, 5 quarters after the bottom in the economy) and Mid-Size Enterprises (3Q10, 6 quarters after the bottom).

Figure 42. Polish Banks -- Cost of Risk, 4Q08-1Q12 (Percentage)

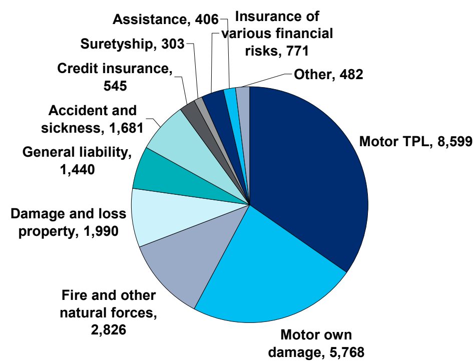


Source: NBP, GUS, Citi Research

Decelerating macro to some extend also affects insurers

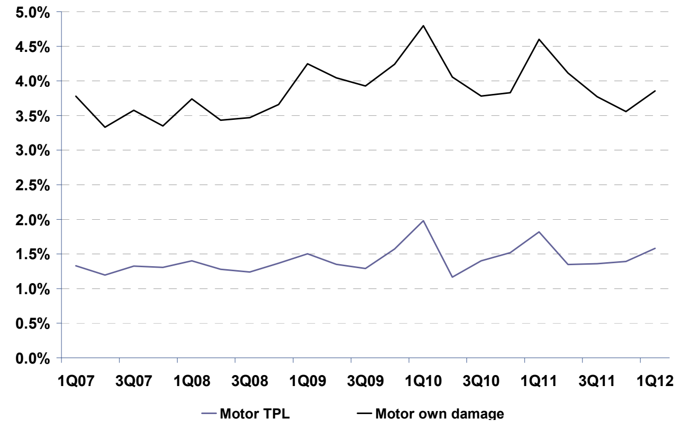
Decelerating macro to some extend also affects insurers. Claims may rise in financial insurance (e.g. in credit insurance, unemployment insurance or insurance of the value of the real estate as well as in guarantees) but these products are relatively small portion of the total market (7% in terms of 2011 premium). Tougher economical environment may also lead to higher claim frequency in motor insurance (in boom time more clients pay for small losses on their own to not lose bonuses for lack of registered claims) and the increase in frauds. Weaker Zloty causes the growth in cost of EUR-denominated spare parts.

Figure 43. Polish Insurers – Structure of Non-Life Premium, 2011 (Polish Zloty in million)



Source: KNF, Citi Research

Figure 44. Polish Insurers – Claim Frequency in Motor Insurance, 1Q07-1Q12 (Percentage)



Source: KNF, Citi Research

Lower Rates and Weaker Zloty

Lower Short-Term Rates

Lower short-term interest rates are negative for interest income

Decelerating GDP is expected to lead the Monetary Policy Council (MPC) to cut interest rates. Citi economists anticipate a 100bp in cuts over the next 9 months. The first interest rate cut was expected to happen in October but the MPC decided to keep rates unchanged so we expect first 25bp reduction in November 2012. Lower short-term rates puts pressure on interest income, thus negatively impacting primarily banks but lower rates also negatively impact insurers.

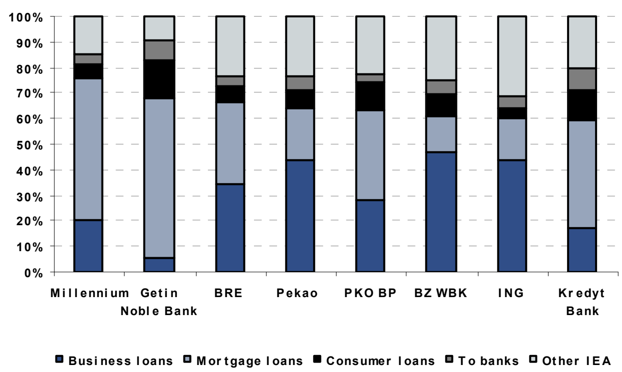
Estimating the impact of lower interest rates on banks' NIM, net interest income and net income we grouped assets and liabilities into five groups:

- Re-pricing in less than 3 months (no assets, saving accounts and half of corporate current accounts on the liability side of the balance sheet);
- Re-pricing between 3 and 12 months (business loans and mortgage loans plus lending to banks on assets side and two thirds of term deposits and other debt);
- Re-pricing between 12 and 24 months (half of consumer loans and half of other interest-earning assets and one third of term deposits);
- Re-pricing in more than 2 years (half of consumer loans and half of other interest-earning assets),
- Not re-pricing at all (no assets, retail current accounts, half of corporate current accounts and equity).

In longer term we find BRE and Pekao the most exposed to risk of lower interest rates and Kredyt Bank and Getin Noble Bank the least exposed

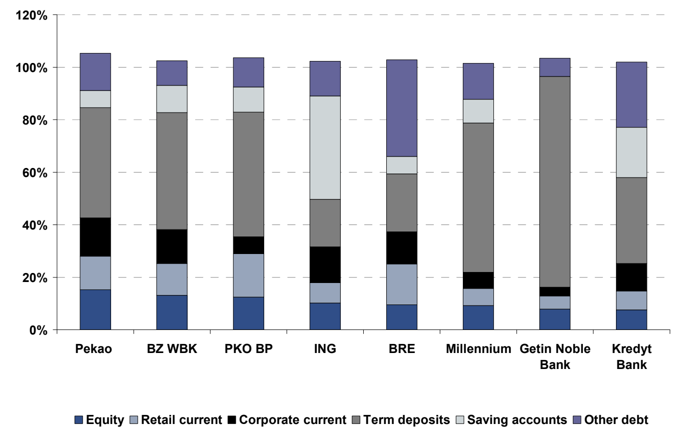
Looking at the impact of lower rates on net interest income (NII) in 12+ months perspective we find that BRE and Pekao the most exposed (due to the relatively low share of consumer loans in assets and the high share of current retail deposits at BRE's and strong capitalization in the case of Pekao). On the other hand, Kredyt Bank and Getin Noble Bank seems the least exposed to the risk of low interest rates, mainly due to the low share of retail current accounts and equity plus the relatively high share of consumer loans in assets. Near term (3 to 12 months) the most exposed are Millennium and BRE (due to the high share of mortgages) and the least exposed are Kredyt Bank and ING BSK, benefiting from the high share of savings accounts in liabilities and the high share of fixed rate consumer loans (in case of Kredyt Bank) and bonds (in case of ING BSK).

Figure 45. Polish Banks – Structure of Interest Earnings Assets, 2Q12 (Percentage)



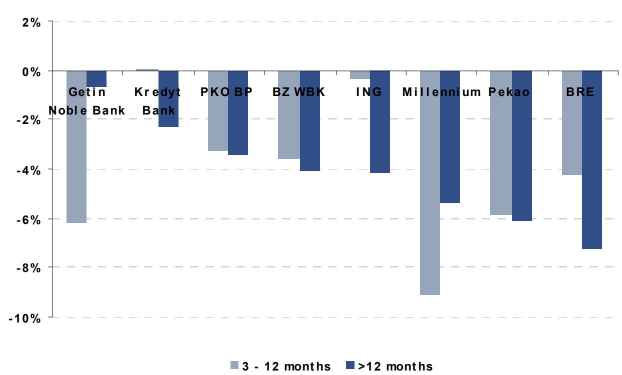
Source: Banks, Citi Research

Figure 46. Polish Banks – Interest Bearing Liabilities as % of Interest Earnings Assets, 2Q12 (Percentage)



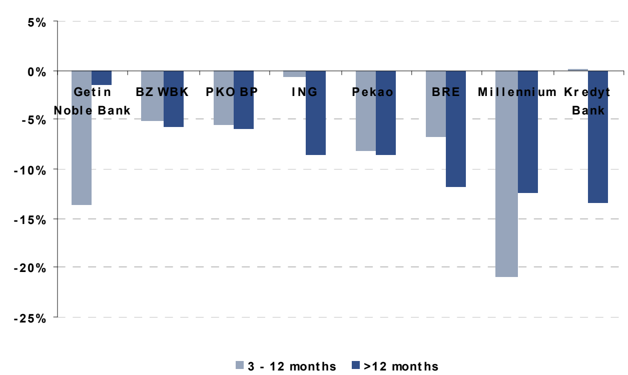
Source: Banks, Citi Research

Figure 47. Polish Banks – Impact of 100bp Interest Cut on Net Interest Income, 2012 (Percentage)



Source: Banks, Citi Research

Figure 48. Polish Banks – Impact of 100bp Interest Cut on Net Income, 2012 (Percentage)



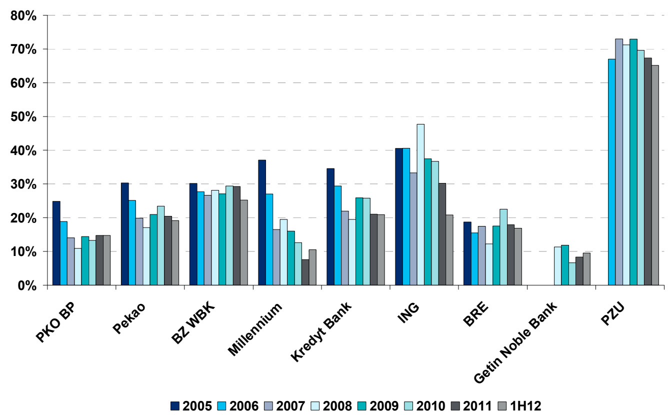
Source: Banks, Citi Research

Higher Bond Yields

Higher yields on T-bonds are negative in short term and positive in long term

Potentially higher yields on T-bonds are negative in the short term and positive in long term for investment results. In previous years, due to rising lending, the share of bonds in total assets of Polish banks declined materially. The share of bonds in the trading book shrank even more and thus the impact of declining valuation of bonds on banks' profits should not be significant.

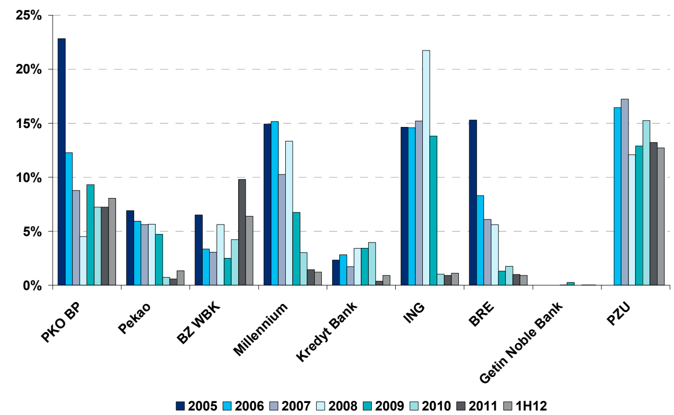
Figure 49. Polish Financials – Share of Fixed-income Securities* in Balance Sheet, 2005-1H12 (Percentage)



Note: *For banks estimate based on stock of total securities

Source: Citi Research

Figure 50. Polish Financials – Share of Fixed-income Securities* in Trading and FVO Book in Balance Sheet, 2005-1H12 (Percentage)



Note: *For banks estimate based on stock of total securities

Source: Citi Research

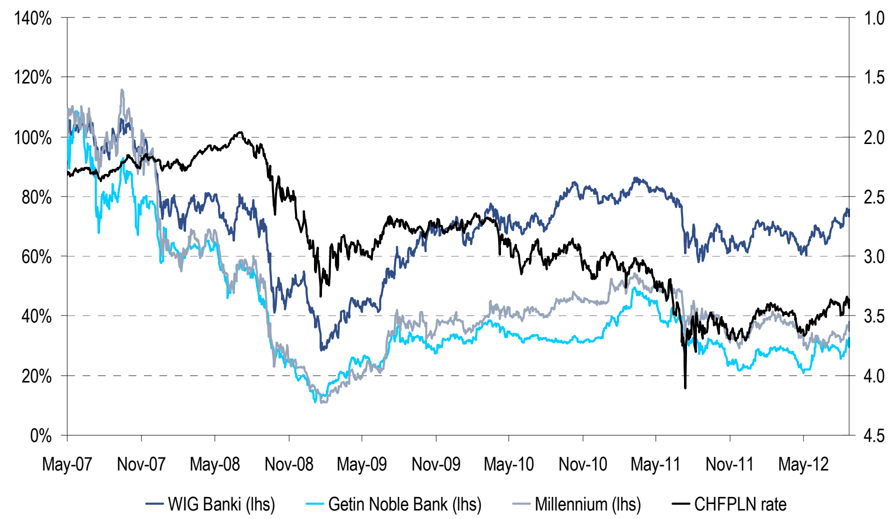
Bond valuation is much more important for the insurer PZU. Out of Zl 1,524m investment gains in 1H12 about Zl 256m (17%) came from gains on valuation of debt instruments while Zl 1,030m from interest income.

Weaker Zloty

Weakening Zloty pushes banks with FX loans to increase deposits

Citi economists expects the slowdown in the Polish economy to lead to a weaker Zloty (Poland Macro View - PLN – And what after the rally?). A depreciating Zloty pushes banks with FX-denominated loans (namely CHF-denominated mortgages) funded by Zloty-denominated deposits to increase deposit collection because they need to offset the growth in FX assets with a respective increase in deposits. Deposits are an extremely price-sensitive product so they increase the rate on deposits. This leads to rising cost of funding also for banks without material exposure to FX mortgages as they compete to maintain their deposit base.

Figure 51. Polish Banks – Getin Noble Bank, Millennium and WIG Banks index vs. CHF/PLN rate, May07-Sep12



Source: dataCentral, Citi Research

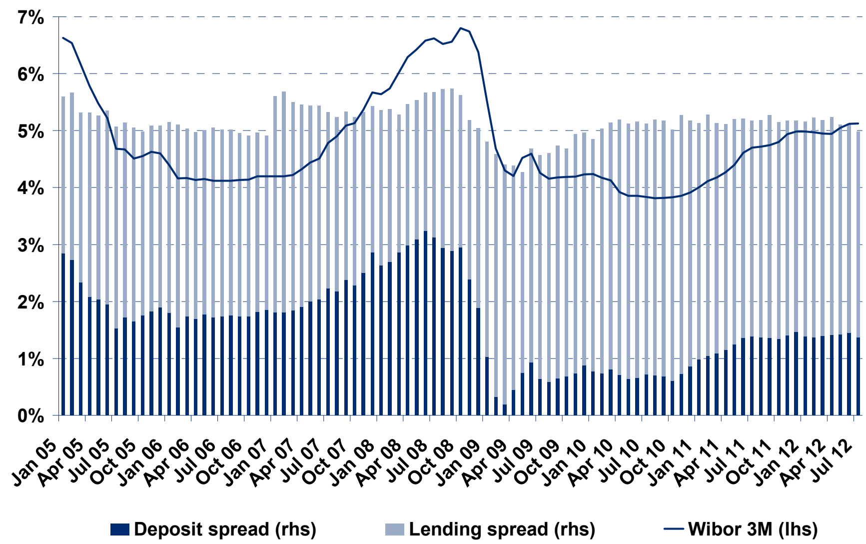
We Don't Expect A Repetition of the 2009 NIM Drop

The huge drop in NIM in 2009 was caused by the coincidence of four factors

It is difficult to precisely estimate the impact of a weaker Zloty on banks' NIM but we remind that the material drop in NIM in 2009 was caused by four factors:

- The closing of wholesale funding markets post the bankruptcy of Lehman;
- Zloty depreciation and increased deposit collection by banks with FX assets, triggering a "deposit war" in the sector;
- The material increase in the cost of FX swaps/CIRS;
- The sharp decline in interest rates (WIBOR dropped more than 250bp in less than 6 months).

Figure 52. Polish Banks – Deposit and Lending Spread vs. Wibor, Jan 05-Jul 12 (Percentage)



Source: NBP, Citi Research

We see several material differences between now and end 2008

There are several material differences between now and the end of 2008. Firstly, the starting point is different. In 2008:

- deposit spreads were high (above 300bp vs. about 140bp now);
- wholesale funding was cheap and plentiful;
- FX swaps and CIRS were practically free (vs. about 100bp cost in 1H12);
- interest rates were high (WIBOR was close to 6.8% vs. about 5% now) so there was significant room for interest rate cuts.

Figure 53. Basis Swap PLNEUR 2Y, Jul08-Jul12

Source: Reuters, Citi Research

The banks have adapted to an environment of expensive deposits, less available wholesale funding and a weaker Zloty

Over recent years the banks have learned to live in a much different environment. Not only are deposits more expensive, wholesale funding less available, the Zloty weaker and interest rates lower but banks are also run with a further deterioration in the operating environment in mind. Indeed, the banks operate under the assumption that the Zloty may depreciate further, that funding cost may increase further and that it may become difficult (or very expensive) to roll-over FX swaps. As such they keep higher liquidity buffers and have emergency plans ready to implement if the market environment deteriorates.

On the other hand, we now have another factor negatively affecting competition for deposits – a withdrawal of funding by foreign owners of Polish banks. The best example of that process and the destructive impact this can have on the bank's profitability is Kredyt Bank. Over the last 3 quarters Kredyt Bank replaced part of its funding from its parent, KBC, with local deposits. Its loan-to-deposit ratio declined from 110% in 3Q11 to 99% in 2Q12 but net interest margin dropped from 2.7% to 1.7%, respectively.

The Burden of Pre-Crisis Loans

Pre-crisis FX mortgage loans are the biggest burden for balance sheets…

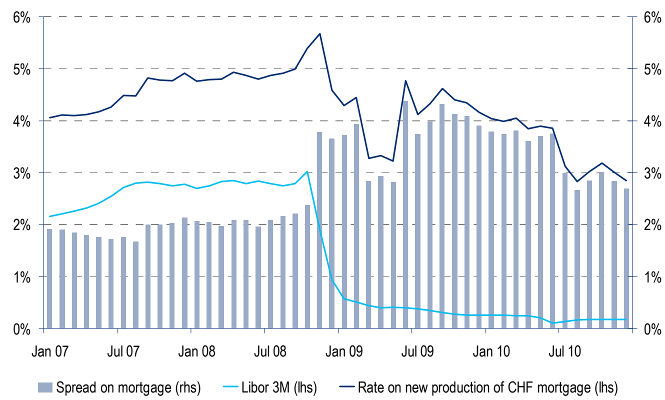
The large stock of FX-denominated loans undermines monetary policy. For the majority of mortgage clients lower Zloty rates don't mean lower monthly instalments but actually gives rise to a risk of higher instalments as lower rates may lead to a weaker Zloty and a higher monthly instalment in Zloty terms on FX denominated loans. It is also destructive for the sector as the negative equity on FX mortgages practically excludes a big group of individuals from the housing and mortgage markets as upgrading housing would effectively require these individuals to cash in a FX loss on their existing property. Furthermore, the necessity to manage liquidity risk arising from the stock of FX mortgages forces many banks to keep extensive liquidity buffers and leads to increased cost of funding for all banks. As such we view FX mortgage loans as a significant burden for those banks that have them on their balance sheet.

We view all pre-crisis (i.e. granted before end of 2008) low-margin mortgage loans as a burden for banks. The average spread on FX mortgage granted during boom times (2006-2008) was about 120-170bp and currently it barely covers the cost of funding (FX swaps cost about 60-100bp recently, cost of wholesale Euro funding for the biggest and safest bank PKO BP was 185bp over midswaps in 2010 and 2.75% for BRE in 2012) and cost of risk (about 40-50bp). FX lending was a driver of banks' profits in the short term as banks booked a significant FX spread in the moment of the loan granting (the loan is nominated in FX but was paid out in Zloty) but the regulator has forced banks to stop FX new lending so this source of earnings has evaporated. All that coupled with increased risk weight for FX mortgages (100% starting from June 2012) makes FX mortgage lending unprofitable business.

…but pre-Lehman Zloty mortgages are also a problem for banks

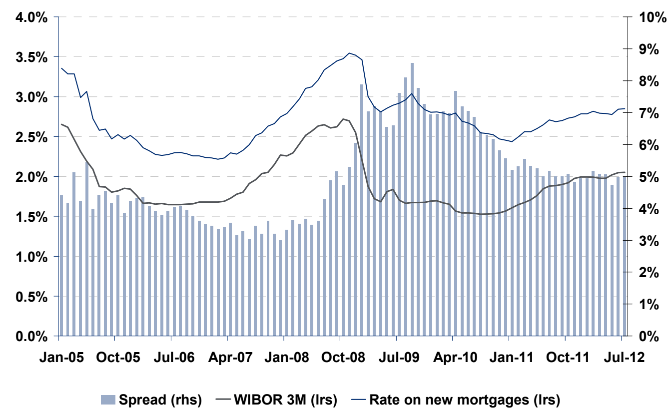
In our opinion pre-Lehman Zloty mortgages may also pose a problem for banks as the average spread on them is quite low at slightly above 100bp. However, due to lower funding cost (no need to use FX swaps or CIRS) and lower risk weight they remain the profitable products.

Figure 54. Polish Banks – Spread on New CHF Mortgages, Jan 07 – Dec 10 (Percentage)



Source: NBP, Citi Research

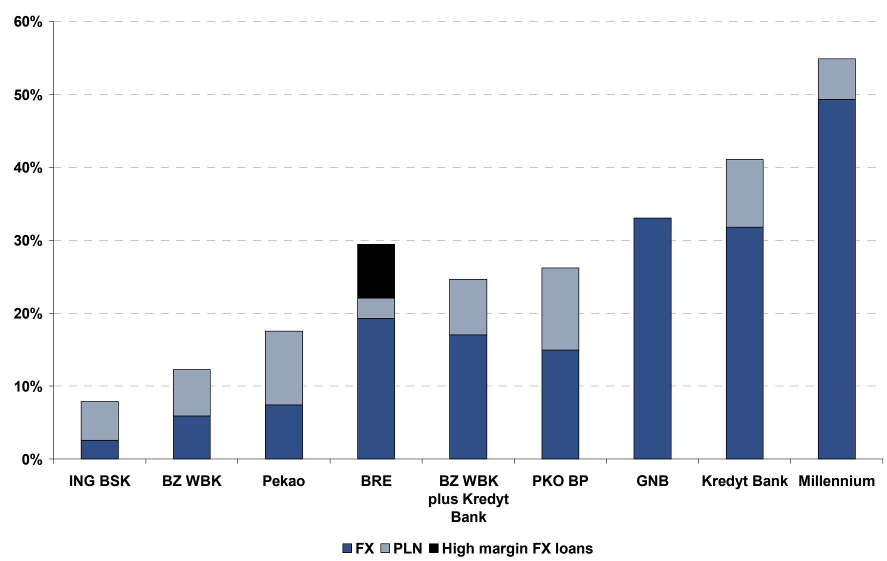
Figure 55. Polish Banks – Spread on New Zloty Mortgages, Jan 05 – Jul 12 (Percentage)



Source: NBP, Citi Research

After the merger of BZ WBK with Kredyt Bank there will be two banks with a small share of pre-crisis low-margin loans in their total loans (ING BSK and Pekao), three banks with medium share (BRE, PKO BP and new BZ WBK) and two banks with material exposure to the problem (Getin Noble bank and Millennium).

Figure 56. Polish Banks – Pre-crisis* Low Margin Loans as % of Total Loans, 2Q12 (Percentage)



Note: * Granted before end of 2008

Source: Banks, Citi Research

Consensus Too Bullish

We see downside risk to 2013 consensus forecasts…

Consensus forecast still assume growth in earnings in 2013 (e.g. +2.5% in Pekao and +2.2% in PKO BP according to I/B/E/S). Given the macro headwinds we see material downside risk to these forecasts (we are 6% and 12% below consensus for these two key stocks).

Figure 57. Polish Banks – Citi vs. Consensus Net Profit Estimates, 2012-2013 (Polish Zloty in million/Percentage)

	Consensus		Citi		Citi vs. consensus		Growth vs. consensus		Growth vs. Citi	
	2012E	2013E	2012E	2013E	2012E	2013E	2012E	2013E	2012E	2013E
PKO BP	3,879	3,965	3,762	3,479	-3%	-12%	2%	2%	-1%	-8%
Pekao	2,864	2,938	2,787	2,739	-3%	-7%	-1%	3%	-4%	-2%
BZ WBK	1,292	1,402	1,312	1,215	2%	-13%	9%	9%	11%	-7%
Millennium	440	439	419	318	-5%	-28%	-6%	0%	-10%	-24%
Kredyt Bank	216	271	211	41	-2%	-85%	-34%	25%	-36%	-81%
ING BSK	873	910	805	685	-8%	-25%	-1%	4%	-8%	-15%
BRE	1,107	1,096	1,123	953	1%	-13%	-2%	-1%	-1%	-15%
Getin Noble Bank	395	449	409	496	4%	11%	66%	14%	72%	21%
Total	**11,066**	**11,469**	**10,828**	**9,926**	**-2%**	**-13%**	**1%**	**4%**	**-1%**	**-8%**

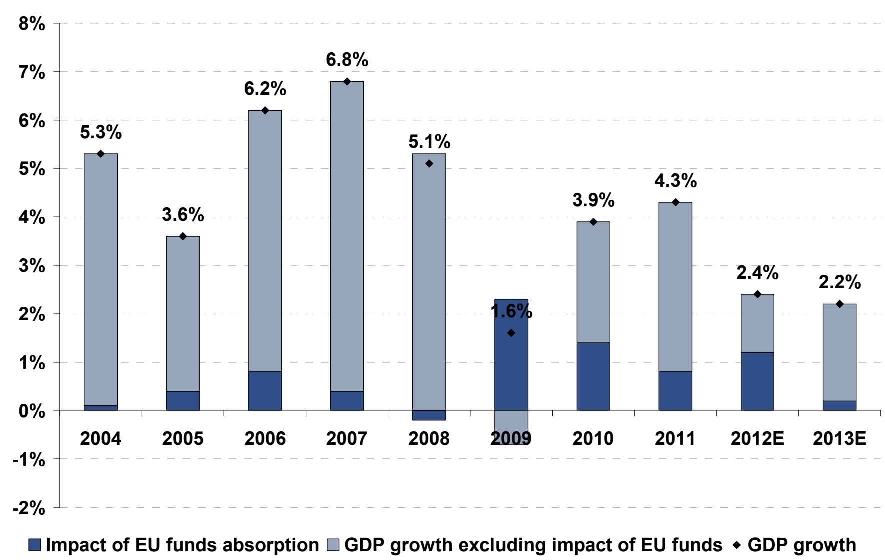
Source: IBES, Citi Research

Given faster than expected deceleration of the economy in 2Q12 and 3Q12 and unsupportive monetary policy (e.g. no interest rate cut in October 2012) we also see downside risk to our macro forecasts.

…partly due to potentially underestimation of the lower impact of EU funds

We note that GDP growth in 2013 should be negatively affected by lower yoy absorption of EU funds. According to studies of Instytut Badan Strukturalnych EU funds will contribute to 0.2% GDP growth in 2013 vs. 1.2% in 2012. Citi economists expect GDP to decelerate by 0.2pp (from 2.4% in 2012 to 2.2% in 2013) – it means that to offset the lower impact of EU funds absorption "ex-EU funds" GDP growth has to increase by 0.8pp.

Figure 58. Poland – GDP Real Growth, 2004-2013E (Percentage)



Source: Instytut Badan Strukturalnych, Citi Research

Devil's Advocate

But maybe we are wrong…

Contrasting the bearish view presented above, we try to find reasons to be more optimistic.

- Firstly, we may be to pessimistic on the economy growth. Macroeconomic forecasts may not take into account the positive impact of microeconomic trends, namely:

…and Polish exporters may benefit more than expected from contractor focus on costs and development of technology …

  – The growing export of industry leaders, taking advantage of competitors weakness, price competiveness and improved quality (for example recently the Polish company PESA signed a contract to deliver up to 470 diesel trains worth up to Zl 5bn Deutsche Bahn);

…and international groups may shift production to low-cost Polish subsidiaries…

  – The decisions of international groups to move production to Polish units (for example in September 2012 Volvo announced plans to close a Swedish factory and transfer production to a Polish factory) or look for local Polish suppliers (according to Rzeczpospolita daily the export of aviation companies located in Southeastern Poland in the so called "aviation valley" reached USD 1.5bn in 2011 while European retailers increase the export of Polish goods to its foreign shops, e.g. in 2011 Lidl increased exports by 40% to Zl 1bn while Tesco, on average, supplies its UK business with Polish goods worth Zl 1.5bn annually).

- Secondly, we may overestimate the impact of the economic slowdown on corporate lending.

…while demand for loans may be driven by debt-funded acquisitions,…

  – The Polish economy enters a stage of consolidation and a crisis creates attractive M&A opportunities for market leaders. Deals or parts of deals can be funded or co-funded by bank loans or issuance of debt securities that might also be acquired by banks;

…government and government-stimulated investments and,…

  – Corporate lending may be positively affected by planned investments in the power sector (Zl 60bn out to 2020) and shale gas (up to Zl 55bn out to 2016) and the Prime Minister's recently announced plan to further invest in highways (Zl 43bn by 2015) and railways (Zl 30bn by 2015);

…PPP projects …,

  – Given budget constraints, the government and municipalities are going to structure many new projects as Public Private Partnerships (PPP) (in the most popular structure the public investment is funded, completed and operated for some time by the private investor and later is transferred to the public partner). If PPP projects finally kick-off, it will be another boost for bank lending;

  – After closing the "Rodzina na swoim" programme at the end of 2012, the government announced its intention to launch a new program to support mortgage lending to young families with children (to be launched in mid-2013 or in 2014).

…as well as investments in flats encouraged by improved rental yields…

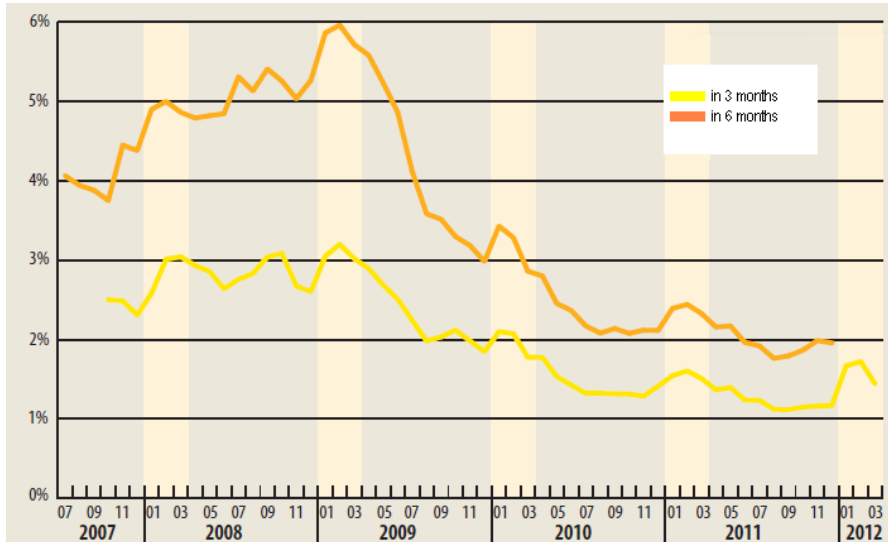
  – Declining prices of flats and rising rents may encourage investors to purchase flats and let them (real-estate investments seem be the best shelter for potential global hyperinflation).

- Impact of the slowdown on the economy may be lower than we anticipate.

…while quality of loans may deteriorate less than we expect due to recent tightening in lending and…

  – Credit Bureau data shows that the quality of consumer loans materially improved in the past two years, indicating that more conservative lending practices have had a significant positive impact on asset quality. The same process of improvement in risk assessment could take place in corporate and SMEs lending.

Figure 59. Polish Banks – Share of 30-Day Overdue Cash Loans 3 and 6 Months After Loans Were Granted in Total Consumer Loans, Jul 07 – Mar 12 (Percentage)



Source: Kredyt Trendy (www.bik.pl)

- Comparing asset quality with production volume, both in specific banks or products, we find a strict, and intuitive, relation: lower lending means better lending. Lower growth rates in consumer and corporate loans in the last three years bode well for future quality of these loans.

…NIM may decline less than we think due to potentially lower competition for deposits

- The decline in NIM may be lower than we think.
  - Given constitutional limits on the budget deficit the supply of government bonds is effectively capped. Thus Polish government bonds may remain attractive for investors and this time the slowing economy may not lead to Zloty depreciation. If this is the case, declining rates may be less negative for banks margin's than currently anticipated as a stable to rising Zloty could lower the need of banks to maintain high liquidity buffers.
  - Lower growth in lending could lead to lower funding needs while client risk aversion may cause that savings will be flowing to deposits rather than to investment funds or other higher risk products.
- The banks may implement new innovative products and, in that way, offset macro headwind. In the last 10 years innovation in the banking industry predominantly involved regulation arbitrage but really innovative ideas are also possible. We present below a few projects, still in the initial stage but looking promising:

Simultaneously mobile payments…

  - Puls Biznesu reports that in mid-January 2013 PKO BP will launch its new mobile payment system. Due to its opened architecture (for PKO BP clients it will be linked to their current accounts but on a pre-paid basis it will be available also for non-clients, being a application-centric solution it will be available for clients of all mobile operators) it may be a game changing innovation for Polish mobile payments (although we note that other banks also work on mobile payment projects). For PKO BP it may become an effective tool to acquire both retail and SMEs clients.

…and innovative approach to SME lending…

- – Successful implementation of Idea Bank concept to offer SME clients tax and accountant advice (firstly to bind them with the bank and secondly to reduce risk by lending to well-know clients) may increase the bank's revenues and decrease provisioning.

…plus reduced administrative costs may offset the decline in other revenues

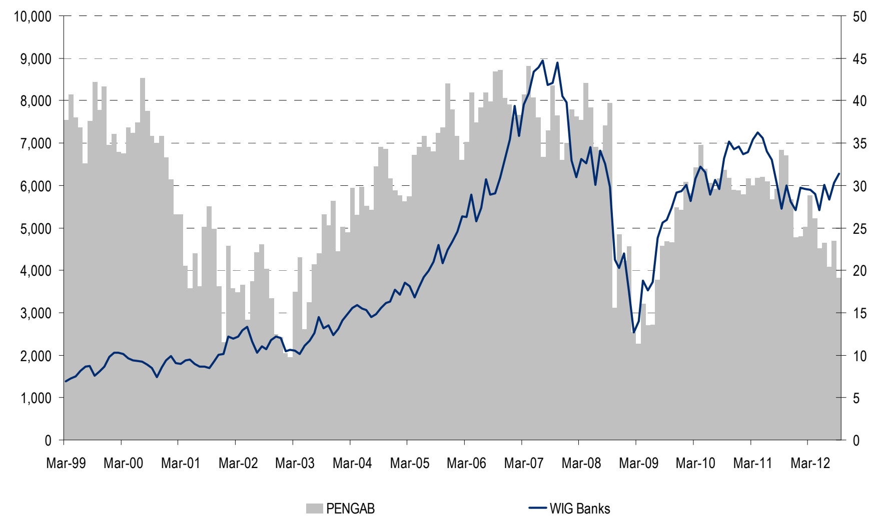
- Banks may off-set lower revenues by reducing administrative costs. Currently we expect administrative costs, excluding the impact of the expected introduction of the banking levy, to rise by 2% in 2013 but we think that banks may decide on cots cutting. We see four areas were costs may be reduced mostly:
  - – rents and other real-estate costs – given lower sale of retail products banks may close some branches, reduce size of others and shorten the opening time;
  - – staff costs – reduced distribution network (in terms of number of branches, branch size and time of opening) will reduce the demand for workforce so further (on top of already announced by some banks restructurisation plans) headcount cuts or average salary reductions (due to lower overtime remuneration and lower sale-related bonuses) should be expected;
  - – IT, telecommunication and other acquired services or goods – the banks may negotiate lower prices utilizing its purchasing power and taking advantage of suppliers weakness;
  - – Cash handling optimizing (lower cash in branches, less frequent cash transport to branches, etc).

Reduce Polish Financials

In the past Pengab index (currently at the lowest level since 2009) was a good indicator of performance of banks stocks

Nevertheless, despite the above mentioned potential positive surprises, we stick to our pessimistic view. Additionally we note that in the recent 10 years the Pengab banking sector confidence index was a good leading indicator of changes in trends in the banking sector and in the performance of banks stocks (measured by the WIG-Banks subindex). Thus we think that the recent divergence (rising banking stocks vs. declining Pengab) is temporary. Given the slowing macro environment we see a higher risk that a convergence of these two indices will be driven by a decline in banks share prices rather than by a rebound in the banking sentiment index.

Figure 60. Polish Banks – Pengab vs. Wig- Banks, Mar 99 – Sep 12

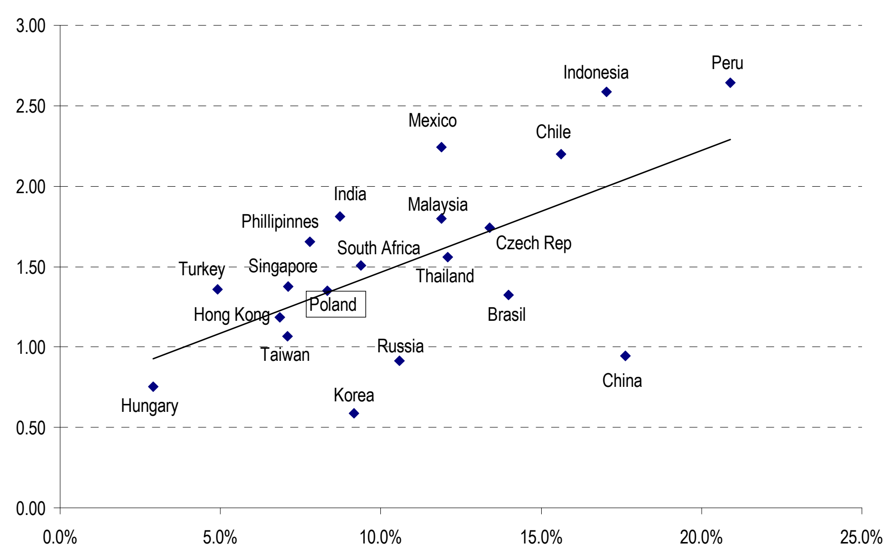


Source: ZBP, Citi Research

Polish banks look fairly valued on 2012E P/BV vs. ROE vis-à-vis global EM peers, but expensive on 2013E forecasts

In a GEM context, Polish banks appear fairly valued on a 2012E P/BV compared with real (inflation-adjusted) ROE but are expensively valued on the same metric on 2013 forecasts. This is largely driven by the fact that we expect median ROE for Polish banks to decline to 9.4% in 2013 from 12.2% in 2012 and real ROE to fall to 6.8% from 8.3%, respectively.

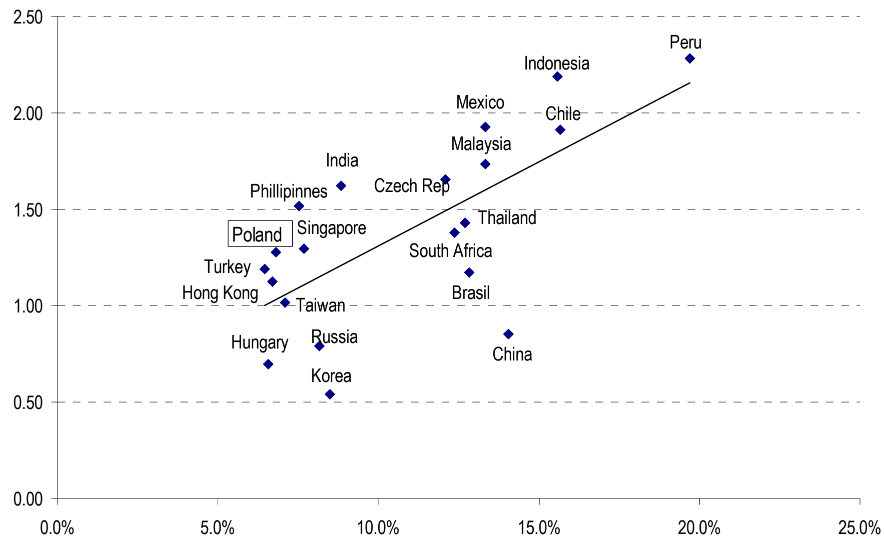
Figure 61. GEM Banks – Real P/BV and Real ROE*, 2012E



* At median, inflation adjusted

Source: dataCentaral, Citi Research

Figure 62. GEM Banks – P/BV and Real ROE*, 2013E



* At median, inflation adjusted

Source: dataCentral, Citi Research

Polish banks trade at an average 2013E PE of 13x

Polish financials look expensive trading at an average 2013E PE of 13.3x (for 11 financials under our coverage – excluding Kredyt Bank, BGZ and TU Europa). We thus don't think the coming slowdown is priced-in and thus turn negative on Polish financial stocks.

Given its lower exposure to macro, we prefer the insurer PZU to banks

Due to its lower exposure to macro headwinds, we prefer insurer PZU to banks (out of which we most like PKO BP and prefer least Bank Millennium) and other financials (but still rate Open Finance Buy/High Risk due to management efforts to better monetize the company's position as the leading financial advisor in the country).

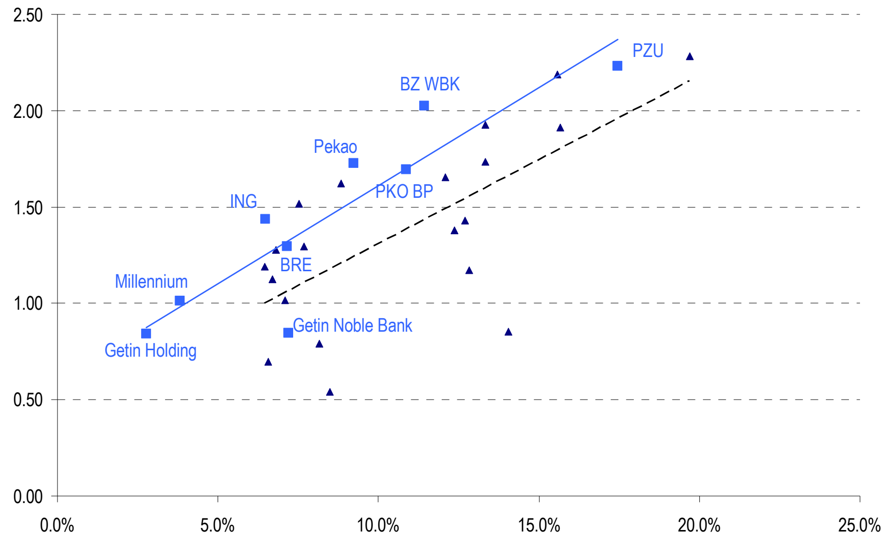
PZU Remains Top Pick Among Financials

PZU (Buy, TP Zl 421)

We prefer the insurer PZU (Buy, TP Zl 421) to the Polish banks due to its high dividend yield (we expect 6.9% from 2012 and 9% from 2013 earnings), which is a result of high returns achieved due to the firm's strong market position, especially in high-margin group life insurance (for details see PZU (PZU.WA) - Steady As She Goes – Maintaining Buy).

PKO BP Preferred Bank

Figure 63. Polish Banks – P/BV and ROE*, 2013E



* For comparative purposes triangles indicate relation of P/BV to ROE for GEM Banks (see Figure above)

Source: dataCentaral, Citi Research

PKO BP (Buy, TP Zl 40.7)

PKO BP (Buy, TP Zl 40.7) remains our top pick among Polish banks due to the stock's relatively attractive valuation (2012E P/E of 12.1x) and good positioning against expected slowdown thanks to high net interest margin, low cost-to-income ratio and, in our opinion, more conservative provisioning vs. its closest peer, Pekao. Trading at a P/BV of 1.6x in 2013E P/BV we find the bank more attractively valued than Pekao, which trades at a 2013E P/BV of 1.8x vs. a 14% ROE in 2011 and 13% expected in 2012E. (see PKO BP (PKOB.WA) - Sense and Sensitivity - Maintaining Buy)

BZ WBK (Buy, TP Zl 263)

We continue to attribute BZ WBK's (Buy, TP Zl 263) high ROE (16.5% in 2012E vs. 15.8% in PKO BP and 12.6% in Pekao) to management's ability to, on the one hand, to exploit fully market opportunities and, on the other hand, its diversified business. We expect the bank to remain one of the most attractive investment in Poland after the merger with Kredyt Bank (see Bank Zachodni WBK (BZWB.WA) - Good, Better, BZ WBK – Maintaining Buy). We recommend taking a position in the new bank via Kredyt Bank (Buy/High Risk, TP Zl 18.3) as it trades at a discount to the valuation implied by the merger (Zl 15 vs Zl 16.4).

Kredyt Bank (Buy/High Risk, TP Zl 18.3)

Pekao (Neutral, TP Zl 152)

We see little chance that Pekao (Neutral, TP Zl 152) will utilize its surplus capital (c.Zl 8-9bn assuming normalized capital at a Tier 1 of 10%) for extra dividends, accelerated organic growth or acquisitions and thus we view the stock as being fairly valued (2012E PE 14.7, P/B 1.8 vs. expected ROE 15.8%). (See Bank Pekao SA (BAPE.WA) - Surplus Capital Conundrum: Downgrading to Neutral).

ING BSK (Neutral, TP Zl 88.2)

We like ING BSK's (Neutral, TP Zl 88.2) long-term business model but we think higher than expected provisioning (a consequence of higher lending in 2008-2012 and macro slowdown expected in 2H12-2013) may be a negative surprise for the market (ING Bank Slaski SA (SLAS.WA) - Going Neutral on Costly Stadiums, Clicks, Bricks and Cash Loans).

Getin Noble Bank (Neutral, TP Zl 1.82)

Getin Noble Bank is the cheapest bank in our universe of Polish banks (2012E P/BV 1.0) but not without reason: its cost of risk, despite a recent material decline (2.38% in 2Q12 vs. 3.57% in 2Q11), remains high (mainly due to weak quality of FX mortgages) and NIM is under pressure due to the need to build a liquidity buffer against a potential material Zloty depreciation. We view the bank as a good play for a “Risk-on” scenario and Zloty strengthening but it isn’t our main scenario (in fact we expect Zloty to weaken). Given macro headwinds we remain cautious and rate it Neutral (Getin Noble Bank (GNB.WA) - Back to the Future – Downgrading to Neutral).

BRE (Sell, TP Zl 273)

In our opinion BRE (Sell, TP Zl 273) is a well run bank with a relatively weak balance sheet (high share of FX mortgage loans). Paradoxically, its current business advantage (lack of expensive branches) may become a relative disadvantage in the future vs. peers that will be able to reduce costs through branch network optimisation. But the main reason why we rate the bank Sell is that valuation remains unattractive (2012E P/BV 1.4) vs. the management 2015 ROE target (>12.2%) (BRE Bank SA (BREP.WA) - “One Bank”, Many Questions – Downgrading to Sell).

Millennium (Sell, TP Zl 3.85)

The balance sheet of Millennium (Sell, TP Zl 3.85), like at Getin Noble Bank, is burdened by the high share of FX mortgages and therefore we think that Millennium will not improve its ROE materially in the coming years. It thus deserves to trade at a discount to BV (currently 2012E P/BV is 1.0), in our view (Bank Millennium SA (BIGW.WA) - Too Cheap to Ignore: Upgrading to Buy). Given the recent strong share performance we downgrade the stock to Sell from Buy (TP unchanged at Zl 3.85)

Figure 64. CEEMEA Banks – Valuation Table, 2011-2013E (Prices as of October 15, 2012)

Company	Share Price	Rating/Risk	Mkt Cap	P/E (x)			P/BV (x)			ROE		
			USD (M)	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E
Central Europe Banks												
BGZ	PLN 71.90	2	1,164	24.21	21.38	23.10	1.18	1.11	1.05	4.99%	5.33%	4.67%
Komercni Banka	CZK 4,145.00	1	8,188	16.63	11.10	11.72	1.99	1.74	1.66	12.31%	16.74%	14.50%
BRE	PLN 306.50	3	4,087	11.03	11.49	13.54	1.60	1.39	1.26	15.64%	12.96%	9.78%
ING Bank Slaski	PLN 84.50	2	3,479	12.49	13.65	16.06	1.71	1.50	1.43	14.59%	11.71%	9.10%
Bank Zachodni	PLN 236.80	1	5,593	14.70	13.41	14.63	2.35	2.07	2.03	16.95%	16.49%	14.06%
Getin Noble	PLN 1.68	2	1,271	4.51	10.89	8.97	0.38	0.93	0.84	25.27%	9.06%	9.83%
Getin Hld	PLN 2.29	2H	531	1.65	3.00	16.03	0.30	0.89	0.84	19.90%	14.82%	5.40%
Intl Prsnl Fin	GBP 3.20	1	1,300	10.81	12.20	9.78	2.51	2.35	2.02	24.03%	18.71%	21.96%
Kredyt Bank	PLN 15.00	1H	1,290	12.45	19.31	NM	1.33	1.22	1.21	11.10%	6.59%	1.21%
Bank Millennium	PLN 4.28	3	1,643	11.13	12.38	16.33	1.13	1.07	1.03	10.75%	8.89%	6.44%
Nova Kreditna Bk	EUR 1.38	1	70	7.60	2.52	1.55	0.11	0.10	0.10	1.27%	4.16%	6.47%
OTP Bank	HUF 4,293.00	2H	5,618	13.76	9.05	6.77	0.81	0.76	0.70	6.12%	8.65%	10.73%
Bank Pekao	PLN 152.00	2	12,622	13.76	14.31	14.57	1.87	1.74	1.71	13.99%	12.63%	11.86%
PKO BP	PLN 36.11	1	14,284	11.86	12.00	12.97	1.98	1.82	1.68	17.23%	15.79%	13.48%
PZU	PLN 380.00	1	10,384	16.92	11.35	11.64	2.57	2.36	2.23	18.34%	22.80%	20.08%
Austria Banks												
Erste Bank	EUR 18.85	1	9,631	-8.27	20.17	9.00	0.69	0.69	0.65	-8.43%	3.36%	7.40%
Raiffeisen Bank Intl	EUR 31.49	2	7,972	8.04	5.91	7.95	0.84	0.78	0.73	10.82%	13.70%	9.46%
CIS Banks												
Bank Georgia	GBP 11.82	1	633	7.53	6.11	5.25	1.22	1.14	0.95	18.45%	22.46%	21.65%
Bank St Petersburg	RUB 64.50	1	626	4.42	19.38	5.71	0.49	0.47	0.52	15.02%	3.01%	9.59%
Halyk Bank	USD 7.00	1	1,909	10.02	5.97	4.96	1.22	1.03	0.88	12.32%	18.73%	19.10%
Kazkommertsbank	USD 2.27	2H	884	6.26	5.79	3.05	0.35	0.33	0.30	5.71%	5.88%	10.35%
Nomos-Bank	USD 13.03	2	2,409	7.25	5.09	5.59	1.20	0.97	0.83	18.34%	21.08%	15.98%
Sberbank	RUB 91.28	1	65,697	6.25	5.52	5.44	1.56	1.25	1.05	28.15%	25.20%	20.96%
Bank VTB	USD 3.42	1	17,668	6.20	7.96	5.55	0.92	0.84	0.74	15.44%	11.00%	14.20%
Bank Vozrozhdenie	RUB 598.00	1	458	8.92	5.73	4.81	0.77	0.68	0.60	9.02%	12.60%	13.19%
Israel Banks												
Israel Discount	ILS 5.26	2	1,446	6.54	8.46	8.49	0.50	0.48	0.45	8.13%	5.76%	5.45%
Bank Leumi	ILS 12.49	2	4,799	9.73	12.12	12.40	0.79	0.73	0.69	8.11%	6.21%	5.72%
Bank Hapoalim	ILS 15.70	1	5,405	7.12	9.07	9.70	0.87	0.80	0.75	12.77%	9.32%	8.09%
Turkey Banks												
Bank Asya	TRY 1.97	1	979	7.99	8.50	6.53	0.83	0.75	0.67	10.60%	9.31%	10.86%
Garanti	TRY 8.34	1	19,336	10.53	9.91	8.89	1.99	1.72	1.49	18.03%	17.08%	16.54%
Halkbank	TRY 15.05	2	10,385	9.28	9.11	8.22	2.18	1.79	1.51	25.43%	21.81%	20.25%
Isbank	TRY 5.84	3	14,507	11.57	11.23	10.96	1.47	1.31	1.17	15.27%	13.06%	12.28%
Vakifbank	TRY 4.11	3	5,672	7.88	8.65	7.40	1.11	0.98	0.87	13.74%	11.69%	11.77%
Yapi Kredi	TRY 4.52	2	10,847	8.60	8.66	7.75	1.68	1.43	1.23	16.87%	14.97%	14.57%
South Africa Banks												
African Bank	ZAR 30.33	1	2,772	9.87	8.17	7.05	1.79	1.62	1.44	18.85%	20.80%	21.64%
ABSA Grp	ZAR 137.40	1	11,216	10.18	10.19	7.92	1.58	1.47	1.34	16.31%	14.77%	17.84%
FirstRand	ZAR 27.01	1	17,307	13.32	10.96	9.29	2.47	2.20	1.92	19.84%	21.13%	21.95%
Investec	GBP 3.58	1	5,084	11.00	10.35	8.37	0.93	0.91	0.86	7.81%	8.77%	10.90%
Nedbank Ltd	ZAR 178.60	2	10,302	13.33	10.76	8.89	1.66	1.51	1.37	13.31%	15.03%	16.46%
Standard Bank	ZAR 105.25	2	19,203	12.35	11.28	9.75	1.63	1.53	1.41	13.45%	14.07%	15.14%

Source: Citi Research

Open Finance Preferred Among Other Financials

Open Finance (Buy/High Risk rating, TP Zl 22.1)

Mortgage sales, being the main source of income, is decelerating (-17% yoy in 1Q12 and -25% yoy in 2Q12). Demand for investment products is negatively affected by low growth in wage bills, global uncertainty, and weak historical performance. There are also regulatory headwinds: The KNF (Polish FSA) is considering implementing regulation of certain investment products like bancansurance and structured products. Thus environment for financial intermediaries is tough. Despite that we remain positive on Open Finance because the company has reacted quickly to the market challenges. In 2011 it started to change its business model and build a holding group consisting of Home Broker (the acquired financial advisor and real-estate agent), Open Life (the established life insurer) and Open TFI (fund manager to be launched in 2H12). Management continues to work on increasing revenues of the parent, Open Finance, through enhancing the work of advisors, stimulating them to sell more and to maintain relationships with clients. In our opinion, in the short term management efforts will only partly reduce the negative impact of the unfavorable market, but longer term they should allow Open Finance to strengthen the position of the industry leader and thus we maintain a Buy/High Risk rating (TP of Zl 22.1) (Open Finance (OPF.WA) - Litmus Test for Management: Maintaining Buy/High Risk).

Getin Holding (Neutral/High Risk, TP 3.06)

Post spin-off of Getin Holding is an investment company specialised in investing in start-ups and high-growth financial companies operating in Poland and other Central and Eastern Europe countries. Most of Getin Holding's value is in Idea Bank Poland, the start-up bank focused on SMEs and their owners. We like its unique business model of acquiring and retaining SME clients by offering them accounting and tax advisory services. But recent results were disappointing and there is little evidence that this strategy is working. We still think the bank will start to deliver improved profits in 2013 and 2014, but execution risk is mounting. At the same time, we note increased funding constraints on growth in the Ukraine. The shares now trade at a 23% discount to our assessment of the fair value of Getin Holding's investments (Zl 2.98 per share). We rate the stock Neutral/High Risk (TP 3.06), as we see insufficient upside potential to justify a Buy rating given the risks (Getin Holding (GTN.WA) - Good 'Idea', Time to Deliver – Downgrading to Neutral/High Risk).

GPW (Neutral/High Risk, TP Zl 42.1)

GPW is traded at a premium to Western European exchanges (25%) and at discount to GEM peers (42% at 2013E PE). Given higher growth potential than in Western Europe on one hand and higher regulatory risk than in non-EU countries on the other hand, we view that valuation as justified. We expect weak 2012 earnings (-15 % yoy; in September YTD cash equity and derivatives turnover was respectively -26% and -29% lower yoy) and highlight, that despite consolidation of Polish Power Exchange, still half of the company's revenues comes from cash equity and derivatives trading. This brings risk, that ongoing uncertainty on global markets and high risk aversion may result in lower than expected growth in turnover and in the company's earnings in 2013 (we forecast net profit to increase +11% yoy). We believe though, that the risk is reflected in the price and thus rate the stock Neutral/High Risk (GPW (GPW.WA) - Volume Analysis – September 2012: Rebounding Derivatives; Downgrade to Neutral on Strong Price Performance) (see also GPW (GPW.WA) - Upgrading Warsaw Stock Exchange to Buy Due to Lower Competition Pressure).

Company Focus

PZU (PZU.WA)

Perpetual Dividend - Buy

- Company Update

Buy	**1**
Price (15 Oct 12)	ZL380.00
Target price	ZL421.00
Expected share price return	10.8%
Expected dividend yield	6.3%
Expected total return	**17.1%**
Market Cap	ZL32,814M
	US$10,384M

Price Performance
(RIC: PZU.WA, BB: PZU PW)

- **Buy PZU** — Despite strong stock performance we remain buyers of PZU stock (TP Zl 421) due to the company's impressive profitability (ROE of 23% in 2012E) and its strong capital position (Zl 3bn surplus capital or Zl 35 per share) which leads us to expect a sustainable high dividend yield (at least 7% expected for 2012).
- **EPS Dynamics** — We think that insurer's earnings will be more resistant to economical slowdown than banks profits and we expect EPS to increase 30% in 2012 (driven by low claims in non-life insurance and rebounded investment profits in life insurance) and decline only 6% in 2013. We are, respectively, +7.5% and -0.3% vs. consensus (according to IBES).
- **Upside Risks** — Change in the company's dividend policy and payment of dividend higher than 2012 stand-alone may allow PZU to pay up to Zl 33 dividend per share (vs. our estimate of Zl 24 assuming unchanged dividend policy).
- **Downside Risks** — The company's M&A strategy is the biggest risk to owning PZU. But as long as the value of an acquisition does not exceed Zl 3bn new investments should not threaten the dividend and have a relatively low impact on the company's earnings.
- **What's Next** — The State Treasury plans to reduce its stake in PZU from 35% to 25% by the end of 2013 and may do so via an accelerated offering any day. PZU will publish 3Q12 earnings on November 14.
- **Recent Research** — In our recent note (PZU (PZU.WA) - Steady As She Goes – Maintaining Buy) we analyzed the structure of PZU investment profits and provided an update on the company's M&A plans, while in our previous note (PZU (PZU.WA) - Dividend Story Intact – Maintaining Buy) we made (an unsuccessful) attempt to find growth drivers.

PZU (PLN)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Profit Before Tax (ZLM)	2,509.2	2,501.5	3,626.7	3,514.0	3,563.6
Diluted EPS (ZL)	22.22	22.46	33.47	32.65	33.22
Diluted EPS (Old) (ZL)	22.22	22.46	33.47	32.65	33.22
PE (x)	17.1	16.9	11.4	11.6	11.4
DPS (ZL)	26.00	22.43	24.00	31.00	31.00
Net Div Yield (%)	6.8	5.9	6.3	8.2	8.2
Embedded Value Per Share (ZL)	294.00	297.81	309.82	320.36	324.27
Price / EVPS (x)	1.3	1.3	1.2	1.2	1.2

Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	17.1	16.9	11.4	11.6	11.4
P/E reported (x)	13.5	14.0	10.8	11.4	11.4
P/BV (x)	2.6	2.6	2.4	2.2	2.2
P/BV adjusted (x)	2.6	2.6	2.4	2.2	2.2
Dividend yield (%)	6.8	5.9	6.3	8.2	8.2
P/Embedded Value (x)	1.3	1.3	1.2	1.2	1.2
Per Share Data (ZL)					
EPS adjusted	22.22	22.46	33.47	32.65	33.22
EPS reported	28.25	27.16	35.21	33.22	33.22
BVPS	148.23	148.03	160.81	170.04	172.26
BVPS adjusted	148.23	148.03	160.81	170.04	172.26
DPS	26.00	22.43	24.00	31.00	31.00
Embedded Value per share	294.00	297.81	309.82	320.36	324.27
Profit & Loss (ZLM)					
Pre-tax profit	**3,029**	**2,908**	**3,777**	**3,564**	**3,564**
Tax	-590	-564	-736	-695	-695
Extraord./Min. int./Pref. div.	0	1	0	0	0
Reported net income	**2,439**	**2,345**	**3,040**	**2,869**	**2,869**
Adjusted earnings	1,919	1,939	2,890	2,819	2,869
Growth Rates (%)					
Pre-tax profit	-33.6	-4.0	29.9	-5.6	0.0
EPS adjusted	-20.8	1.1	49.0	-2.5	1.8
Dividend	-83.6	-13.7	7.0	29.2	0.0
Balance Sheet (ZLM)					
Total assets	**50,534**	**52,129**	**54,208**	**55,047**	**58,041**
Investments	47,384	49,044	50,942	51,651	54,509
Goodwill/intangibles	109	166	183	201	221
Other Assets	3,041	2,919	3,084	3,195	3,311
Separate Account Assets	0	0	0	0	0
Total liabilities	**37,734**	**39,260**	**40,236**	**40,277**	**43,080**
Life policy reserves	16,867	16,895	17,547	18,264	19,031
Non-life policy reserves	14,616	15,628	16,051	16,505	17,012
Total Debt	0	0	10	10	10
Other Liabilities	6,251	6,737	6,627	5,498	7,026
Separate Account Liabilities	0	0	0	0	0
Shareholders' funds	**12,800**	**12,870**	**13,973**	**14,769**	**14,961**
Profitability/Solvency Ratios (%)					
ROE adjusted	15.9	15.2	21.7	19.7	19.4
ROA adjusted	3.7	3.8	5.4	5.2	5.1
Total debt to capital	0.0	0.0	0.1	0.1	0.1
Total debt to equity	0.0	0.0	0.1	0.1	0.1

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Company Focus

PKO BP (PKO.WA)

Prepared for Tough Times - Buy

- Company Update

Buy	**1**
Price (15 Oct 12)	ZL36.11
Target price	ZL40.70
Expected share price return	12.7%
Expected dividend yield	3.5%
Expected total return	**16.2%**
Market Cap	ZL45,138M
	US$14,284M

Price Performance
(RIC: PKO.WA, BB: PKO PW)

- **Buy PKO** — We think it still makes sense to buy PKO BP despite the decelerating economy. First, this is because we think the deteriorating macro picture is already reflected in the stock price. Second, the bank's management seems to have prepared PKO BP for tough times by reducing lending, increasing provisioning and looking for alternative business opportunities. The bank's strong retail franchise, economies of scale, and adequate capitalization lead us to expect the bank to sustain a 16% ROE (vs. 17% in 2011 and Citi's forecast of 16% this year).

- **EPS Dynamics** — We expect broadly flat earnings in 2012 (-1% yoy) followed by a more significant decline in 2013 (-8% yoy), driven by lower NIM (due to lower interest rates and lower share of consumer loans), declining net fees (partly due to lower interchange fee), higher administrative costs (affected by banking levy) and rising provisioning. We are, respectively, 1% and 8% below consensus.

- **Upside Risks** — More aggressive cost containment than expected (currently we forecast cost growth, excluding the bank levy, of 2.6% yoy in 2013) may be a source of positive earnings surprises. Another would be a significant success of the bank's new mobile payment system.

- **Downside Risks** — Larger than expected pressure on NIM, lower net fees and, above all, higher cost of risk are the main risk factors. In contrast to many investors, we don't see a risk that bank will make a foreign acquisition.

- **What's Next** — PKO BP will publish 3Q12 results on 12 November. The lock-up period on State Treasury shares ends in January 2013.

- **Recent Research** — In our recent note (PKO BP (PKOB.WA) - Sense and Sensitivity - Maintaining Buy) we discuss the bank's preparations for the deteriorating macro environment while in our previous note (Bank Pekao SA (BAPE.WA) - Second Among Titans – Maintaining Buy) we compared PKO BP to its closest peer, Bank Pekao.

PKO BP (PLN)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (ZLM)	3,216.9	3,807.2	3,762.5	3,479.2	4,483.3
Diluted EPS (ZL)	2.57	3.05	3.01	2.78	3.59
Diluted EPS (Old) (ZL)	2.57	3.05	3.01	2.78	3.59
PE (x)	14.0	11.9	12.0	13.0	10.1
P/BV (x)	2.1	2.0	1.8	1.7	1.5
DPS (ZL)	1.98	1.27	1.20	1.67	2.15
Net Div Yield (%)	5.5	3.5	3.3	4.6	6.0
ROE (%)	15.4	17.2	15.8	13.5	16.0

Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	14.0	11.9	12.0	13.0	10.1
P/E reported (x)	14.0	11.9	12.0	13.0	10.1
P/BV (x)	2.1	2.0	1.8	1.7	1.5
P/Adjusted BV diluted (x)	2.1	2.0	1.8	1.7	1.5
Dividend yield (%)	5.5	3.5	3.3	4.6	6.0
Per Share Data (ZL)					
EPS adjusted	2.57	3.05	3.01	2.78	3.59
EPS reported	2.57	3.05	3.01	2.78	3.59
BVPS	17.09	18.26	19.86	21.43	23.35
Tangible BVPS	15.64	16.82	18.27	19.69	21.43
Adjusted BVPS diluted	17.09	18.26	19.86	21.43	23.35
DPS	1.98	1.27	1.20	1.67	2.15
Profit & Loss (ZLm)					
Net interest income	6,516	7,609	7,999	8,142	8,670
Fees and commissions	3,143	3,101	3,029	2,986	3,216
Other operating Income	539	432	491	457	484
Total operating income	**10,198**	**11,142**	**11,519**	**11,585**	**12,370**
Total operating expenses	-4,249	-4,411	-4,570	-4,820	-4,975
Oper. profit bef. provisions	**5,948**	**6,731**	**6,949**	**6,765**	**7,395**
Bad debt provisions	-1,868	-1,930	-2,249	-2,400	-1,769
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**4,080**	**4,801**	**4,700**	**4,365**	**5,626**
Tax	-866	-976	-948	-874	-1,126
Extraord./Min. Int./Pref. Div.	3	-17	10	-12	-16
Attributable profit	**3,217**	**3,807**	**3,762**	**3,479**	**4,483**
Adjusted earnings	3,217	3,807	3,762	3,479	4,483
Growth Rates (%)					
EPS adjusted	24.1	18.4	-1.2	-7.5	28.9
Oper. profit bef. prov.	28.6	13.2	3.2	-2.6	9.3
Balance Sheet (ZLm)					
Total assets	**169,661**	**190,748**	**195,304**	**206,365**	**221,439**
Avg interest earning assets	156,802	173,884	186,486	193,903	206,520
Customer loans	135,525	147,293	152,202	162,071	174,972
Gross NPLs	10,887	11,797	13,698	15,397	15,747
Liab. & shar. funds	**169,661**	**190,748**	**195,304**	**206,365**	**221,439**
Total customer deposits	132,981	146,474	149,941	159,134	172,252
Reserve for loan losses	4,857	5,658	6,599	7,533	7,695
Shareholders' equity	**21,358**	**22,823**	**24,819**	**26,793**	**29,189**
Profitability/Solvency Ratios (%)					
ROE adjusted	15.4	17.2	15.8	13.5	16.0
Net interest margin	4.16	4.38	4.29	4.20	4.20
Cost/income ratio	41.7	39.6	39.7	41.6	40.2
Cash cost/average assets	2.6	2.4	2.4	2.4	2.3
NPLs/customer loans	8.0	8.0	9.0	9.5	9.0
Reserve for loan losses/NPLs	44.6	48.0	48.2	48.9	48.9
Bad debt prov./avg. cust. loans	1.5	1.4	1.5	1.5	1.0
Loans/deposit ratio	101.9	100.6	101.5	101.8	101.6
Tier 1 capital ratio	11.3	11.2	11.6	11.9	12.1
Total capital ratio	12.5	12.4	12.6	12.8	12.9

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Company Focus

- **Company Update**

Neutral	**2**
Price (15 Oct 12)	ZL152.00
Target price	ZL152.00
Expected share price return	0.0%
Expected dividend yield	5.7%
Expected total return	**5.7%**
Market Cap	ZL39,885M
	US$12,622M

Price Performance
(RIC: PEO.WA, BB: PEO PW)

Bank Pekao SA (PEO.WA)

Waiting For Godot - Neutral

- **Neutral Pekao** — Given the significant difference between valuing the bank using reported capital and normalised capital the key question remains will the bank ever be able to deploy or return surplus capital? We do not expect the regulator to consent to Pekao paying extra dividends but we are more optimistic that the capital may be deployed via M&A . However, most potential acquisition targets have significant FX exposure. Will Pekao take such risk? We assume a 40% probability that surplus capital is deployed and set our target price at Zl 152.
- **Earnings Dynamics** — We expect earnings to decline 4% in 2012 and 2% in 2013 (-8% yoy), driven by higher provisioning while we expect that the potential weakness in revenues will be off-set by administrative cost control. We are, respectively, 4% and 2% below consensus.
- **Upside Risks** — An acquisition of Polish medium size bank at a reasonable price (valuation based on assumption that surplus capital is efficiently deployed implies a potential target price of Zl 174).
- **Downside Risks** — We expect cost of risk to increase from 64bp in 2011 to 79bp in 2012 and 90bp in 2013, but due to historically lower provisioning than the sector, this remains below the average of our Polish banks universe (135bp) Higher than anticipated cost of risk may negatively affect not only the bank's earnings but also its reputation as a conservatively-run institution, this has been a justification of Pekao's valuation premium to local peers and would be in jeopardy.
- **What's Next** — Pekao will publish 3Q12 results on 13 November. The potential rumors on the talks to acquire medium-size Polish banks may a catalyst for the stock price to rise.
- **Recent Research** — In our recent note (Bank Pekao SA (BAPE.WA) - Surplus Capital Conundrum: Downgrading to Neutral) we discussed the ways the bank may deploy surplus capital and analyzed the bank's credit quality while in our previous note (Bank Pekao SA (BAPE.WA) - Second Among Titans – Maintaining Buy) we compared Pekao to its closest peer, PKO BP.

Bank Pekao SA (PLN)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (ZLM)	2,525.6	2,899.4	2,786.9	2,739.0	3,395.0
Diluted EPS (ZL)	9.63	11.05	10.62	10.44	12.94
Diluted EPS (Old) (ZL)	9.63	11.05	10.62	10.44	12.94
PE (x)	15.8	13.8	14.3	14.6	11.8
P/BV (x)	2.0	1.9	1.7	1.7	1.6
DPS (ZL)	6.80	5.38	8.60	8.60	10.00
Net Div Yield (%)	4.5	3.5	5.7	5.7	6.6
ROE (%)	13.1	14.0	12.6	11.9	14.2

Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	15.8	13.8	14.3	14.6	11.8
P/E reported (x)	15.8	13.8	14.3	14.6	11.8
P/BV (x)	2.0	1.9	1.7	1.7	1.6
P/Adjusted BV diluted (x)	2.0	1.9	1.7	1.7	1.6
Dividend yield (%)	4.5	3.5	5.7	5.7	6.6
Per Share Data (ZL)					
EPS adjusted	9.63	11.05	10.62	10.44	12.94
EPS reported	9.63	11.05	10.62	10.44	12.94
BVPS	76.89	81.07	87.12	88.96	93.30
Tangible BVPS	74.24	78.39	84.36	86.11	90.37
Adjusted BVPS diluted	76.86	81.05	87.09	88.93	93.27
DPS	6.80	5.38	8.60	8.60	10.00
Profit & Loss (ZLm)					
Net interest income	4,104	4,558	4,809	5,015	5,431
Fees and commissions	2,368	2,449	2,320	2,349	2,525
Other operating Income	807	739	758	803	849
Total operating income	**7,279**	**7,746**	**7,887**	**8,167**	**8,804**
Total operating expenses	-3,656	-3,679	-3,731	-3,931	-4,025
Oper. profit bef. provisions	**3,622**	**4,067**	**4,156**	**4,236**	**4,779**
Bad debt provisions	-589	-544	-750	-908	-655
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**3,034**	**3,523**	**3,406**	**3,329**	**4,124**
Tax	-571	-684	-663	-645	-799
Extraord./Min. Int./Pref. Div.	63	60	44	56	70
Attributable profit	**2,525**	**2,899**	**2,787**	**2,739**	**3,395**
Adjusted earnings	2,526	2,899	2,787	2,739	3,395
Growth Rates (%)					
EPS adjusted	4.7	14.7	-3.9	-1.7	24.0
Oper. profit bef. prov.	4.3	12.3	2.2	1.9	12.8
Balance Sheet (ZLm)					
Total assets	**134,090**	**146,590**	**152,792**	**162,742**	**173,970**
Avg interest earning assets	126,246	132,477	141,848	149,732	159,782
Customer loans	84,859	99,961	102,223	110,328	119,253
Gross NPLs	5,714	6,320	7,462	8,275	7,751
Liab. & shar. funds	**134,090**	**146,590**	**152,792**	**162,742**	**173,970**
Total customer deposits	99,807	108,437	111,065	119,042	127,592
Reserve for loan losses	4,052	4,423	4,892	5,490	5,774
Shareholders' equity	**20,174**	**21,271**	**22,858**	**23,341**	**24,479**
Profitability/Solvency Ratios (%)					
ROE adjusted	13.1	14.0	12.6	11.9	14.2
Net interest margin	3.25	3.44	3.39	3.35	3.40
Cost/income ratio	50.2	47.5	47.3	48.1	45.7
Cash cost/average assets	2.8	2.6	2.5	2.5	2.4
NPLs/customer loans	6.7	6.3	7.3	7.5	6.5
Reserve for loan losses/NPLs	70.9	70.0	65.6	66.3	74.5
Bad debt prov./avg. cust. loans	0.7	0.6	0.8	0.9	0.6
Loans/deposit ratio	85.0	92.2	92.0	92.7	93.5
Tier 1 capital ratio	17.6	17.0	19.0	18.3	18.1
Total capital ratio	17.6	17.0	19.0	18.3	18.1

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Company Focus

- **Company Update**
- **Target Price Change**

Buy	**1**
Price (15 Oct 12)	ZL236.80
Target price	ZL263.00
from ZL264.00	
Expected share price return	11.1%
Expected dividend yield	5.9%
Expected total return	**17.0%**
Market Cap	ZL17,674M
	US$5,593M

Price Performance
(RIC: BZW.WA, BB: BZW PW)

Bank Zachodni WBK (BZW.WA)

Looking At Spain - Buy

- **Buy BZ WBK** — We think BZ WBK's shares fully reflect the stand alone value of the bank's high quality franchise (Zl 219). But, as we see little risk that the merger with Kredyt Bank will not go ahead, we set our target price based on the valuation of the merged entity. We slightly reduce our TP to Zl 263 from Zl 264 previously due to lowered (in line with assumption for other banks) long-term growth assumption to 4.5% from 5% previously and maintain our Buy rating.

- **Earnings Dynamics** — We expect BZ WBK earnings to rise 11% yoy in 2012 (positively affected by lower administrative costs) and to decline 7% yoy in 2013 (driven by higher provisioning). We are, respectively, +2% and -13% vs. consensus.

- **Upside Risks** — Lower than expected increase in cost of risk is the main short-term upside risk while in longer term the main positive surprise might be higher than expected merger synergies (e.g. we are expecting Zl 50m revenue synergies annually vs. Santander's forecast of Zl 114m).

- **Downside Risks** — We think that the only reason why the deal may be rejected by the KNF (Polish FSA) is a collapse in the Spanish banking system undermining Santander's stability. This is not expected and thus we expect the merger to be approved this year, but a material delay or a rejection of the acquisition are the main risk factors of buying the shares.

- **What's Next** — According to Puls Biznesu daily the decision on the merger will be granted in December 2012. BZ WBK will publish 3Q12 results on October 25.

- **Recent Research** — In our recent note (Bank Zachodni WBK (BZWB.WA) - Good, Better, BZ WBK – Maintaining Buy) we discussed the drivers of the above-average profitability of the bank, while in our previous note (BZ WBK and Kredyt Bank - A Good Marriage: Upgrading BZ WBK and Kredyt Bank to Buy) we assessed potential synergies coming from the merger of BZ WBK with Kredyt Bank.

Bank Zachodni WBK (PLN)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (ZLM)	974.2	1,184.3	1,311.6	1,214.9	1,448.1
Diluted EPS (ZL)	13.25	16.11	17.66	16.19	19.30
Diluted EPS (Old) (ZL)	13.25	16.11	17.66	16.19	19.30
PE (x)	17.9	14.7	13.4	14.6	12.3
P/BV (x)	2.6	2.4	2.1	2.0	1.9
DPS (ZL)	8.00	8.00	14.06	13.02	15.52
Net Div Yield (%)	3.4	3.4	5.9	5.5	6.6
ROE (%)	15.5	16.9	16.5	14.1	16.2

BZ WBK – Kredyt Bank - Pro-Forma Forecasts

Figure 65. BZ WBK – Kredyt Bank – Pro Forma Income Statement, 2010-2015E (Polish Zloty in million)

	2010	2011	Yoy	2012E	Yoy	2013E	Yoy	2014E	Yoy	2015E	Yoy
Net Interest Income	2,950	3,219	9.1%	3,095	-3.8%	3,222	4.1%	3,635	12.8%	3,630	-0.1%
Net Fee & Commission Income	1,675	1,673	-0.1%	1,715	2.5%	1,725	0.6%	1,867	8.3%	1,964	5.2%
Financial Income	-338	324	na	424	30.7%	335	-20.9%	318	-5.0%	505	58.6%
Other Income	848	183	-78.4%	211	15.2%	181	-14.3%	188	3.8%	205	9.2%
Total Revenue	**5,134**	**5,399**	**5.1%**	**5,444**	**0.8%**	**5,463**	**0.3%**	**5,907**	**8.1%**	**6,304**	**6.7%**
Labour Costs	-1,376	-1,420	3.2%	-1,425	0.3%	-1,387	-2.7%	-1,363	-1.7%	-1,362	-0.1%
General Costs	-1,052	-1,149	9.2%	-1,143	-0.5%	-1,217	6.4%	-1,200	-1.3%	-1,159	-3.4%
Depreciation	-230	-306	33.0%	-214	-30.0%	-319	49.1%	-208	-34.8%	-205	-1.5%
Operating Expenses	**-2,657**	**-2,875**	**8.2%**	**-2,782**	**-3.2%**	**-2,923**	**5.0%**	**-2,771**	**-5.2%**	**-2,726**	**-1.6%**
Operating Profit	**2,477**	**2,524**	**1.9%**	**2,662**	**5.5%**	**2,540**	**-4.6%**	**3,135**	**23.4%**	**3,577**	**14.1%**
Provision Charge	-893	-566	-36.6%	-691	22.2%	-1,003	45.1%	-732	-27.0%	-811	10.8%
Associate Income	8	15	96.4%	12	-22.9%	9	-24.8%	9	0.0%	10	14.3%
Profit Before Tax	**1,592**	**1,974**	**24.0%**	**1,983**	**0.5%**	**1,546**	**-22.0%**	**2,412**	**56.0%**	**2,776**	**15.1%**
Minorities	-66	-43	-35.9%	-28	-35.3%	-34	23.6%	-50	47.1%	-54	8.1%
Tax	-365	-419	14.8%	-432	3.1%	-315	-27.1%	-490	55.4%	-531	8.4%
Net Profit	**1,160**	**1,512**	**30.3%**	**1,523**	**0.7%**	**1,196**	**-21.4%**	**1,872**	**56.5%**	**2,190**	**17.0%**
EPS (Zl)	12.6	16.4	30.4%	16.2	-0.9%	12.7	-21.4%	19.9	56.5%	23.3	17.0%
DPS (Zl)	0.00	0.00	na	13.02	na	10.23	-21.4%	16.01	56.5%	18.73	17.0%

Source: Company reports, Citi Research

Figure 66. BZ WBK – Kredyt Bank – Pro Forma Balance Sheet, 2010-2015E (Polish Zloty in million)

GROUP	2010	2011	Yoy	2012E	Yoy	2013E	Yoy	2014E	Yoy	2015E	Yoy
Cash and NBP Balances	4,478	2,210	-50.6%	2,384	7.9%	2,348	-1.5%	2,983	27.1%	2,975	-0.3%
Interbank placements	2,171	2,432	12.0%	2,594	6.7%	2,772	6.8%	2,967	7.0%	3,179	7.1%
Financial Assets & Securities	27,299	27,577	1.0%	27,911	1.2%	28,878	3.5%	29,861	3.4%	31,996	7.2%
Net client lending	60,033	67,103	11.8%	69,535	3.6%	71,431	2.7%	75,050	5.1%	80,504	7.3%
Fixed assets	838	760	-9.4%	820	8.0%	887	8.2%	961	8.3%	1,032	7.4%
Other assets	1,709	1,794	5.0%	1,566	-12.7%	1,616	3.2%	1,668	3.2%	1,789	7.3%
Total Assets	**96,528**	**101,876**	**5.5%**	**104,812**	**2.9%**	**107,931**	**3.0%**	**113,490**	**5.1%**	**121,476**	**7.0%**
Interbank borrowing	14,905	11,043	-25.9%	10,621	-3.8%	7,976	-24.9%	6,288	-21.2%	5,911	-6.0%
Client deposits	67,631	74,873	10.7%	76,341	2.0%	82,633	8.2%	89,945	8.8%	97,873	8.8%
Other liabilities	4,390	5,412	23.3%	5,863	8.3%	5,323	-9.2%	4,068	-23.6%	3,952	-2.8%
Minorities	151	127	-15.4%	92	-27.5%	126	36.8%	176	39.6%	230	30.7%
Equity (ex Minorities)	9,451	10,421	10.3%	11,894	14.1%	11,872	-0.2%	13,012	9.6%	13,509	3.8%
Total liabilities & Equity	96,528	101,876	5.5%	104,812	2.9%	107,931	3.0%	113,490	5.1%	121,476	7.0%
BVPS (Zl)	104	114	9.9%	128	11.7%	130	2.0%	138	6.3%	146	5.9%

Source: Company reports, Citi Research

Figure 67. BZ WBK – Kredyt Bank – Pro Forma Key Ratios, 2010-2015E (Percentage)

GROUP	2010	2011	2012E	2013E	2014E	2015E
NIM on AIEA	**3.30%**	**3.31%**	**3.09%**	**3.13%**	**3.37%**	**3.14%**
NIM on Total Ave. Assets	3.11%	3.24%	2.99%	3.03%	3.28%	3.09%
Net Fee & Commission Income/Total Income	32.6%	31.0%	31.5%	31.6%	31.6%	31.2%
Net Fee & Commission Income/Deposits	2.5%	2.2%	2.2%	2.1%	2.1%	2.0%
Cost/Income	**51.8%**	**53.2%**	**51.1%**	**53.5%**	**46.9%**	**43.2%**
Cost/Avg. Assets	2.8%	2.9%	2.7%	2.7%	2.5%	2.3%
Effective tax rate	23.0%	21.3%	21.8%	20.4%	20.3%	19.1%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Provisions/Avg Net Loans	**1.48%**	**0.89%**	**1.01%**	**1.42%**	**1.00%**	**1.04%**
Equity/Assets	9.8%	10.2%	11.3%	11.0%	11.5%	11.1%
Loans/Deposits	**88.8%**	**89.6%**	**91.1%**	**86.4%**	**83.4%**	**82.3%**
Loans/Total Assets	62.2%	65.9%	66.3%	66.2%	66.1%	66.3%
ROE	**12.9%**	**15.2%**	**13.6%**	**10.1%**	**15.0%**	**16.5%**
ROA	1.22%	1.52%	1.47%	1.12%	1.69%	1.86%
NPLs/Total Loans	8.1%	6.7%	7.0%	7.0%	6.1%	5.9%
Provision Coverage of NPLs	64.4%	60.2%	57.8%	57.5%	59.3%	59.5%
RWA/Total Assets	41.0%	45.4%	48.6%	50.4%	51.3%	51.7%
CAR	**14.4%**	**14.1%**	**14.8%**	**14.6%**	**14.6%**	**13.4%**

Source: Company reports, Citi Research

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Buy/High Risk	1H
Price (15 Oct 12)	ZL15.00
Target price	ZL18.30
from ZL18.40	
Expected share price return	22.0%
Expected dividend yield	0.0%
Expected total return	**22.0%**
Market Cap	ZL4,075M
	US$1,290M

Price Performance
(RIC: KRB.WA, BB: KRB PW)

Kredyt Bank SA (KRB.WA)

Counting Down Time to the Merger -- Buy

- **Buy Kredyt Bank** — Despite weak underlying earnings in 2Q12 (the bottom line was positively affected by a Zl 64m change in provision calculation and a Zl 17m gain from selling the stake in KBC TFI but recurring net profit was about Zl 20m) we maintain our Buy/High Risk rating as we still see little risk that the merger with BZ WBK will not go ahead and we set our target price based on the valuation of the merged entity. We slightly reduce our TP to Zl 18.3 from Zl 18.4 previously due to lowered (in line with assumption for other banks) long-term growth assumption to 4.5% from 5% previously.

- **Earnings Estimate** — Taking into account 2Q12 results and lower than expected net interest income, higher than projected non-interest income and higher than expected positive impact of changes in provisioning methodology on cost of risk, we increased EPS estimates by 65% this year and reduced by 2% the next year (for details see the next page).

- **Upside Risks** — Lower than expected increase in cost of risk (in BZ WBK and Kredyt Bank) is the main short-term upside risk while in longer term the main positive surprise might be higher than expected merger synergies (e.g. we are expecting Zl 50m revenue synergies annually vs. Santander's forecast of Zl 114m).

- **Downside Risks** — We think that the only reason why the deal may be rejected by the KNF (Polish FSA) is a collapse in the Spanish banking system undermining Santander's stability. This is not expected and thus we expect the merger to be approved this year, but a material delay or a rejection of the acquisition are the main risk factors of buying the shares.

- **What's Next** — According to Puls Biznesu daily the decision on the merger will be granted in December 2012. Kredyt Bank will publish 3Q12 results on November 8.

- **Recent Research** — In our recent note (BZ WBK and Kredyt Bank - A Good Marriage: Upgrading BZ WBK and Kredyt Bank to Buy) we assessed potential synergies coming from the merger of BZ WBK with Kredyt Bank.

Kredyt Bank SA (PLN)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (ZLM)	185.9	327.2	211.1	40.6	242.7
Diluted EPS (ZL)	0.68	1.20	0.78	0.15	0.89
Diluted EPS (Old) (ZL)	0.68	1.20	0.47	0.15	0.81
PE (x)	21.9	12.5	19.3	100.4	16.8
P/BV (x)	1.4	1.3	1.2	1.2	1.1
DPS (ZL)	0.37	0.00	0.00	0.00	0.00
Net Div Yield (%)	2.5	0.0	0.0	0.0	0.0
ROE (%)	6.9	11.1	6.6	1.2	6.9

Changes in Estimates

Taking into account 2Q12 results and lower than expected net interest income, higher than projected non-interest income and higher than expected positive impact of changes in provisioning methodology on cost of risk, we increased EPS estimates by 65% this year and reduced by 2% the next year.

Figure 68. Kredyt Bank – Changes in Income Statement Estimates, 2012E – 2014E (Polish Zloty in million)

	2012E			2013E			2014E		
GROUP	**OLD**	**NEW**	**Chg.**	**OLD**	**NEW**	**Chg.**	**OLD**	**NEW**	**Chg.**
Net Interest Income	922.9	789.6	-14.4%	966.9	831.0	-14.1%	1,039.9	923.6	-11.2%
Net Fee & Commission Income	327.7	340.3	3.8%	335.3	335.3	0.0%	362.9	362.9	0.0%
Financial Income	158.1	255.8	61.8%	128.1	240.1	87.4%	126.3	238.3	88.7%
Other Income	109.2	115.1	5.4%	115.9	95.9	-17.3%	117.7	97.7	-17.0%
Total Revenue	**1,518.0**	**1,500.7**	**-1.1%**	**1,546.2**	**1,502.3**	**-2.8%**	**1,646.8**	**1,622.5**	**-1.5%**
Labour Costs	-457.3	-465.6	1.8%	-459.3	-464.7	1.2%	-461.4	-465.6	0.9%
General Costs	-465.6	-446.5	-4.1%	-507.8	-473.9	-6.7%	-517.3	-482.8	-6.7%
Depreciation	-74.9	-75.8	1.3%	-77.9	-79.2	1.7%	-81.1	-82.5	1.7%
Operating Expenses	**-997.8**	**-988.0**	**-1.0%**	**-1,045.0**	**-1,017.8**	**-2.6%**	**-1,059.9**	**-1,030.9**	**-2.7%**
Operating Profit	**520.2**	**512.7**	**-1.4%**	**501.2**	**484.5**	**-3.3%**	**587.0**	**591.6**	**0.8%**
Provision Charge	-357.1	-216.4	-39.4%	-452.9	-434.5	-4.1%	-314.2	-289.7	-7.8%
Share of Profits (Losses) of Companies Consolidated by Equity Accounting	3.3	1.4	-58.0%	3.3	0.8	-77.4%	3.3	0.8	-77.4%
Profit Before Tax	**166.4**	**297.7**	**78.9%**	**51.6**	**50.7**	**-1.7%**	**276.1**	**302.6**	**9.6%**
Minorities and discontinued operations	0.0	0.0	na	0.0	0.0	na	0.0	0.0	na
Tax	-38.2	-86.6	126.9%	-10.3	-10.1	-1.7%	-55.2	-59.9	8.5%
Net Profit	**128.2**	**211.1**	**64.7%**	**41.3**	**40.6**	**-1.7%**	**220.9**	**242.7**	**9.9%**
EPS (Zl)	0.5	0.8	64.7%	0.2	0.1	-1.7%	0.8	0.9	9.9%
DPS (Zl)	0.0	0.0	na	0.1	0.0	na	0.3	0.0	na
Average Diluted Number of Shares (m)	271.7	271.7	0.0%	271.7	271.7	0.0%	271.7	271.7	0.0%

Source: Citi Research

Figure 69. Kredyt Bank – Changes in Balance Sheet Estimates, 2012E – 2014E (Polish Zloty in million)

Balance Sheet	2012E			2013E			2014E		
GROUP	**OLD**	**NEW**	**Chg.**	**OLD**	**NEW**	**Chg.**	**OLD**	**NEW**	**Chg.**
Cash and NBP Balances	800	800	0.0%	817	817	0.0%	833	833	0.0%
Interbank placements	1,212	1,212	0.0%	1,236	1,236	0.0%	1,261	1,261	0.0%
Financial Assets & Securities	10,980	11,635	6.0%	11,467	12,149	5.9%	11,975	12,684	5.9%
Net client lending	29,599	28,968	-2.1%	30,801	28,968	-5.9%	32,051	28,968	-9.6%
Fixed assets	265	265	0.0%	270	270	0.0%	276	276	0.0%
Other assets	756	590	-22.0%	793	596	-24.8%	830	602	-27.5%
Total Assets	**43,613**	**43,471**	**-0.3%**	**45,384**	**44,036**	**-3.0%**	**47,227**	**44,624**	**-5.5%**
Interbank borrowing	7,553	7,553	0.0%	6,571	6,571	0.0%	5,454	5,454	0.0%
Client deposits	30,249	29,923	-1.1%	32,742	32,389	-1.1%	35,441	35,059	-1.1%
Other liabilities	2,583	2,658	2.9%	2,801	1,698	-39.4%	2,858	494	-82.7%
Minorities	0	0	na	0	0	na	0	0	na
Equity (ex Minorities)	3,228	3,337	3.4%	3,269	3,378	3.3%	3,473	3,618	4.2%
Total liabilities & Equity	43,613	43,471	-0.3%	45,384	44,036	-3.0%	47,227	44,624	-5.5%
Risk Weighted Assets	31,401	31,299	-0.3%	32,676	31,706	-3.0%	34,003	32,130	-5.5%
BVPS (Zl)	11.88	12.28	3.4%	12.03	12.43	3.3%	12.79	13.32	4.2%

Source: Citi Research

Figure 70. Kredyt Bank – Changes in Key Ratios Estimates, 2012E – 2014E (Percentage)

	2012E		2013E		2014E	
GROUP	**OLD**	**NEW**	**OLD**	**NEW**	**OLD**	**NEW**
NIM on AIEA	**2.21%**	**1.89%**	**2.23%**	**1.94%**	**2.30%**	**2.13%**
NIM on Total Ave. Assets	2.16%	1.85%	2.17%	1.90%	2.25%	2.08%
Net Fee & Commission Income/Total Income	21.6%	22.7%	21.7%	22.3%	22.0%	22.4%
Net Fee & Commission Income/Deposits	1.1%	1.1%	1.0%	1.0%	1.0%	1.0%
Cost/Income	**65.7%**	**65.8%**	**67.6%**	**67.7%**	**64.4%**	**63.5%**
Cost/Avg. Assets	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
Effective tax rate	23.0%	29.1%	20.0%	20.0%	20.0%	19.8%
Dividend Payout Ratio	0.0%	0.0%	40.0%	0.0%	40.0%	0.0%
Provisions/Avg Net Loans	**1.2%**	**0.7%**	**1.5%**	**1.5%**	**1.0%**	**1.0%**
Equity/Assets	7.4%	7.7%	7.2%	7.7%	7.4%	8.1%
Loans/Deposits	**97.9%**	**96.8%**	**94.1%**	**89.4%**	**90.4%**	**82.6%**
Loans/Total Assets	67.9%	66.6%	67.9%	65.8%	67.9%	64.9%
ROE	**4.1%**	**6.6%**	**1.3%**	**1.2%**	**6.6%**	**6.9%**
ROA	0.30%	0.49%	0.09%	0.09%	0.48%	0.55%
NPLs/Total Loans	8.7%	8.7%	8.7%	8.7%	8.0%	8.0%
Provision Coverage of NPLs	57.7%	53.9%	54.0%	51.5%	51.7%	49.7%
RWA/Total Assets	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%
CAR	**12.5%**	**12.9%**	**12.1%**	**12.8%**	**12.2%**	**13.4%**
Group Employees	4,741	4,795	4,647	4,606	4,555	4,514

Source: Citi Research

Company Focus

- **Company Update**

Sell	3
Price (15 Oct 12)	ZL306.50
Target price	ZL273.00
Expected share price return	-10.9%
Expected dividend yield	0.0%
Expected total return	**-10.9%**
Market Cap	ZL12,915M
	US$4,087M

Price Performance
(RIC: BREP.WA, BB: BRE PW)

BRE Bank SA (BREP.WA)

Strong Management, Weak Balance Sheet - Sell

- **Sell BRE** — We think BRE is one of Poland's best managed banks. We like management's focus on tight cost management, its low exposure to the most troubled construction companies, and mBank's business model of consumer finance (based on lending to current clients). But these positives are offset by the high share of low-margin but capital-intensive FX mortgage loans in the balance sheet that we expect will be a continuous drag on future ROE (we assume a sustainable ROE of 12%). We rate the bank Sell (TP Zl 273).
- **Earnings Dynamics** — We expect net profit to decline 4% yoy 2012 and 15% yoy 2013 due to 69% yoy and 35% yoy, respectively, higher provisioning. We are, correspondingly, +1% and -15% vs. consensus.
- **Upside Risks** — Increased cross-sell of consumer finance and other products to mBank clients due to utilization of Multibank branches, lower than anticipated cost of risk and exceptionally successful launch of renewed mBank's internet banking are the key upside risks to our negative view.
- **Downside Risks** — Changes in management board and higher than expected growth in costs of funding would be the main downside risks.
- **What's Next** — BRE Bank will publish 3Q12 results on October 30.
- **Recent Research** — In our recent note (BRE Bank SA (BREP.WA) - "One Bank", Many Questions – Downgrading to Sell) we discussed the new strategy of BRE based on replacing the three existing brands with one (mBank) and branch network unification.

BRE Bank SA (PLN)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (ZLM)	641.6	1,169.7	1,122.8	953.4	1,266.0
Diluted EPS (ZL)	16.95	27.79	26.67	22.64	30.07
Diluted EPS (Old) (ZL)	16.95	27.79	26.67	22.64	30.07
PE (x)	18.1	11.0	11.5	13.5	10.2
P/BV (x)	1.9	1.6	1.4	1.3	1.2
DPS (ZL)	0.00	0.00	0.00	18.12	24.06
Net Div Yield (%)	0.0	0.0	0.0	5.9	7.8
ROE (%)	11.6	15.6	13.0	9.8	12.1

Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	18.1	11.0	11.5	13.5	10.2
P/E reported (x)	18.1	11.0	11.5	13.5	10.2
P/BV (x)	1.9	1.6	1.4	1.3	1.2
P/Adjusted BV diluted (x)	1.9	1.6	1.4	1.3	1.2
Dividend yield (%)	0.0	0.0	0.0	5.9	7.8
Per Share Data (ZL)					
EPS adjusted	16.95	27.79	26.67	22.64	30.07
EPS reported	16.95	27.79	26.67	22.64	30.07
BVPS	164.20	191.17	220.23	242.88	254.83
Tangible BVPS	154.04	180.80	208.82	230.32	241.02
Adjusted BVPS diluted	164.20	191.17	220.23	242.88	254.83
DPS	0.00	0.00	0.00	18.12	24.06
Profit & Loss (ZLm)					
Net interest income	1,811	2,168	2,250	2,352	2,475
Fees and commissions	746	840	914	951	1,017
Other operating Income	568	590	556	511	578
Total operating income	**3,125**	**3,598**	**3,720**	**3,814**	**4,071**
Total operating expenses	-1,617	-1,723	-1,678	-1,763	-1,801
Oper. profit bef. provisions	**1,507**	**1,875**	**2,043**	**2,051**	**2,270**
Bad debt provisions	-635	-373	-632	-854	-682
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**873**	**1,502**	**1,410**	**1,197**	**1,587**
Tax	-212	-323	-286	-239	-317
Extraord./Min. Int./Pref. Div.	-19	-9	-2	-4	-4
Attributable profit	**642**	**1,170**	**1,123**	**953**	**1,266**
Adjusted earnings	642	1,170	1,123	953	1,266
Growth Rates (%)					
EPS adjusted	342.1	64.0	-4.0	-15.1	32.8
Oper. profit bef. prov.	15.4	24.4	8.9	0.4	10.7
Balance Sheet (ZLm)					
Total assets	**90,051**	**98,876**	**97,465**	**102,059**	**107,716**
Avg interest earning assets	83,031	92,032	95,615	97,031	102,016
Customer loans	61,820	70,240	71,856	76,371	81,688
Gross NPLs	3,285	3,287	3,808	4,200	4,084
Liab. & shar. funds	**90,051**	**98,876**	**97,465**	**102,059**	**107,716**
Total customer deposits	47,420	54,244	54,831	61,113	67,448
Reserve for loan losses	2,450	2,388	2,602	2,871	2,909
Shareholders' equity	**6,909**	**8,049**	**9,272**	**10,226**	**10,729**
Profitability/Solvency Ratios (%)					
ROE adjusted	11.6	15.6	13.0	9.8	12.1
Net interest margin	2.18	2.36	2.35	2.42	2.43
Cost/income ratio	51.8	47.9	45.1	46.2	44.2
Cash cost/average assets	1.9	1.8	1.7	1.8	1.7
NPLs/customer loans	5.3	4.7	5.3	5.5	5.0
Reserve for loan losses/NPLs	74.6	72.7	68.3	68.3	71.2
Bad debt prov./avg. cust. loans	1.1	0.6	0.9	1.2	0.9
Loans/deposit ratio	130.4	129.5	131.1	125.0	121.1
Tier 1 capital ratio	10.4	9.6	9.9	10.7	10.7
Total capital ratio	15.9	15.0	14.6	14.3	13.3

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Company Focus

ING Bank Slaski SA (BSK.WA)

Ups and Downs of New Lending - Neutral

- Company Update

Neutral	2
Price (15 Oct 12)	ZL84.50
Target price	ZL88.20
Expected share price return	4.4%
Expected dividend yield	2.9%
Expected total return	**7.3%**
Market Cap	ZL10,993M
	US$3,479M

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

- **Neutral ING BSK** — We appreciate the direction in which ING BSK's business model is evolving but everything has its price: We expect that increased lending in 2009-2011 and recently launched projects to boost cash lending will lead to higher cost of risk while promotion of ING Direct will cause further decline in net fee income. We await cost cutting initiatives following client migration to low cost Internet banking platforms and to bring down the bank's cost-to-income ratio from 58% towards the industry standard of c 50%. We rate the stock Neutral (TP Zl 88.2).

- **Earnings Dynamics** — Similar to other banks, we expect ING BSK's net profit to decline 8% in 2012 and 15% in 2013, driven by higher provisioning (+161% and 29%, respectively). We are 8% and 25% below consensus, correspondingly.

- **Upside Risks** — Lower than expected increase in cost of risk and more radical cost cuts are the main short-term upside risks while the success in cash lending might boost earnings in medium term.

- **Downside Risks** — More pronounced margin pressure (potentially driven by the increased pricing of saving accounts and deposits due to the bank's deteriorating loan-to-deposit ratio relative to its history) and weaker than anticipated net fee income (affected by faster than we expected migration to inexpensive on-line banking platforms) and higher than projected administrative costs are the main downside risks.

- **What's Next** — ING BSK will publish 3Q12 results on November 7.

- **Recent Research** — In our recent note (ING Bank Slaski SA (SLAS.WA) - Going Neutral on Costly Stadiums, Clicks, Bricks and Cash Loans) we analysed the trends in the bank's cost of risk, fees and administrative costs

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	6.19	5.26	8.47
PE (x)	14.6	12.5	13.6	16.1	10.0
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	2.9	2.5	6.0
ROE (%)	14.3	14.6	11.7	9.1	13.6

Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	14.6	12.5	13.6	16.1	10.0
P/E reported (x)	14.6	12.5	13.6	16.1	10.0
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	2.9	2.5	6.0
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

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Company Focus

- Company Update
- Rating Change

Sell	**3**
from Buy	
Price (15 Oct 12)	ZL4.28
Target price	ZL3.85
Expected share price return	-10.0%
Expected dividend yield	2.8%
Expected total return	**-7.2%**
Market Cap	ZL5,192M
	US$1,643M

Price Performance
(RIC: MILP.WA, BB: MIL PW)

Bank Millennium SA (MILP.WA)

Balance Sheet Full of Low-Margin Loans – Downgrading to Sell

- **Sell Millennium** — Given the high burden of pre-Lehman, low-margin, mortgage loans (about 55% of total loans) we remain sceptical of the bank's ability to improve profitability. We maintain our assumption of sustainable ROE at 11% (vs. our forecast of 11.3% in 2014 and 11.2% in 2015) and cost of equity at 11.5%. In our opinion the bank should be traded with a discount to BV and we maintain Zl 3.85 TP. Given the recent strong share performance we downgrade the stock to Sell from Buy previously.

- **Earnings Dynamics** — We expect net profit to decline 10% yoy in 2012 and 24% yoy in 2013, negatively affected by provisions rising 73% yoy and 47%, respectively. We are 5% and 28% below consensus, correspondingly.

- **Upside Risks** — Lower provisioning (the management's risk cost guidance for 2012 is 55bp vs. our forecast 72bp) is the main upside risk. We think it is unlikely that speculation that BCP will again try to sell the bank will be a positive catalyst for the shares. This is because it is highly unlikely that the purchase price will be acceptable to BCP. Note that PKO BP's CEO recently indicated that he would consider buying Millennium but only at a price lower than expected by BCP in 2011.

- **Downside Risks** — Millennium's quality of mortgage loans (constituting 68% of total loans) remains better than the industry average (2Q12 NPL ratio 1.1% and 2.6%, respectively). Any sign of a material deterioration in mortgage asset quality and/or cost of risk (potentially driven by rising unemployment in big cities, where most of Millennium's clients live or Zloty weakness against the Swiss Franc) remains the main risk factor.

- **What's Next** — Bank Millennium will publish 3Q12 results on October 29.

- **Recent Research** — In our recent note (Bank Millennium SA (BIGW.WA) - Too Cheap to Ignore: Upgrading to Buy) we discussed drivers of Millennium earnings and explained why we are sceptical of the bank's ability to improve profitability.

Bank Millennium SA (PLN)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (ZLM)	326.0	466.5	419.4	318.0	599.7
Diluted EPS (ZL)	0.30	0.38	0.35	0.26	0.49
Diluted EPS (Old) (ZL)	0.30	0.38	0.35	0.26	0.49
PE (x)	14.3	11.1	12.4	16.3	8.7
P/BV (x)	1.3	1.1	1.1	1.0	0.9
DPS (ZL)	0.10	0.00	0.12	0.13	0.25
Net Div Yield (%)	2.3	0.0	2.8	3.1	5.8
ROE (%)	9.5	10.8	8.9	6.4	11.3

Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	14.3	11.1	12.4	16.3	8.7
P/E reported (x)	14.3	11.1	12.4	16.3	8.7
P/BV (x)	1.3	1.1	1.1	1.0	0.9
P/Adjusted BV diluted (x)	1.3	1.1	1.1	1.0	0.9
Dividend yield (%)	2.3	0.0	2.8	3.1	5.8
Per Share Data (ZL)					
EPS adjusted	0.30	0.38	0.35	0.26	0.49
EPS reported	0.30	0.38	0.35	0.26	0.49
BVPS	3.37	3.78	4.00	4.14	4.64
Tangible BVPS	3.35	3.75	3.97	4.11	4.61
Adjusted BVPS diluted	3.37	3.78	4.00	4.14	4.64
DPS	0.10	0.00	0.12	0.13	0.25
Profit & Loss (ZLm)					
Net interest income	927	1,142	1,196	1,212	1,429
Fees and commissions	565	562	561	550	594
Other operating Income	224	186	191	248	263
Total operating income	**1,716**	**1,889**	**1,948**	**2,010**	**2,286**
Total operating expenses	-1,063	-1,105	-1,105	-1,152	-1,186
Oper. profit bef. provisions	**654**	**784**	**843**	**858**	**1,100**
Bad debt provisions	-227	-174	-301	-443	-332
Non-operating/exceptionals	-19	-19	-19	-19	-19
Pre-tax profit	**408**	**591**	**523**	**396**	**748**
Tax	-82	-125	-108	-79	-150
Extraord./Min. Int./Pref. Div.	0	0	4	1	1
Attributable profit	**326**	**466**	**419**	**318**	**600**
Adjusted earnings	326	466	419	318	600
Growth Rates (%)					
EPS adjusted	nm	28.5	-10.1	-24.2	88.6
Oper. profit bef. prov.	44.0	19.9	7.6	1.7	28.2
Balance Sheet (ZLm)					
Total assets	**46,984**	**50,838**	**53,392**	**56,920**	**60,689**
Avg interest earning assets	45,251	48,178	51,300	54,331	57,926
Customer loans	37,926	42,550	44,065	47,491	51,017
Gross NPLs	2,195	2,104	2,380	2,660	2,653
Liab. & shar. funds	**46,984**	**50,838**	**53,392**	**56,920**	**60,689**
Total customer deposits	35,395	37,428	41,499	44,920	48,623
Reserve for loan losses	1,187	1,217	1,142	1,485	1,707
Shareholders' equity	**4,091**	**4,586**	**4,854**	**5,025**	**5,625**
Profitability/Solvency Ratios (%)					
ROE adjusted	9.5	10.8	8.9	6.4	11.3
Net interest margin	2.05	2.37	2.33	2.23	2.47
Cost/income ratio	61.9	58.5	56.7	57.3	51.9
Cash cost/average assets	2.3	2.3	2.1	2.1	2.0
NPLs/customer loans	5.8	4.9	5.4	5.6	5.2
Reserve for loan losses/NPLs	54.1	57.9	48.0	55.8	64.4
Bad debt prov./avg. cust. loans	0.6	0.4	0.7	1.0	0.7
Loans/deposit ratio	107.1	113.7	106.2	105.7	104.9
Tier 1 capital ratio	12.3	11.4	10.9	10.6	11.2
Total capital ratio	14.4	13.2	11.5	11.2	11.7

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Company Focus

■ **Company Update**

Getin Noble Bank (GNB.WA)

Back to the Future – Neutral

Neutral	**2**
Price (15 Oct 12)	ZL1.68
Target price	ZL1.82
Expected share price return	8.3%
Expected dividend yield	0.0%
Expected total return	**8.3%**
Market Cap	ZL4,015M
	US$1,271M

Price Performance
(RIC: GNB.WA, BB: GNB PW)

- **Neutral** — We view positively the strategic changes that have led Getin Noble Bank (GNB) to provide fewer mortgages, grant more cash loans and improve its funding mix. But we don't expect the bank to be able to maintain its current momentum. We maintain our view that the bank's sustainable ROE (11%) will remain below its cost of equity (11.5%). After recent strong share performance, at 1x P/BV 2012E we view the stock as fairly valued and rate it Neutral.
- **Earnings Dynamics** — We expect net profit (excluding gains on disinvestments) to rise 6% yoy in 2012 (mainly due to 19% yoy lower provisioning) and increase 53% yoy in 2013 (driven by improved NIM leading to 17% higher NII). We are 4% and 11% above consensus, respectively.
- **Upside Risks** —The stronger Zloty may positively impact NIM as this would likely lead the bank to reduce the size of its liquidity buffer and will be positive for the cost of risk (it will be easier for clients to pay back FX-denominated mortgage loans).
- **Downside Risks** — Zloty depreciation against Swiss Franc (due to Zloty weakening vs. Euro or Swiss Franc appreciating against Euro) is the main business risk.
- **What's Next** — Getin Noble Bank will publish 3Q12 results on November 14.
- **Recent Research** — In our recent note (Getin Noble Bank (GNB.WA) - Back to the Future – Downgrading to Neutral) we analysed the bank's progress in its main initiatives scheduled for 2012, including a capital increase, lowering cost of risk, changing business model (for the deep description of the bank see initiation note (Getin Noble Bank (GNB.WA) - Two Steps Ahead, One Step Back — Initiating With a Buy).

Getin Noble Bank (PLN)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (ZLM)	450.1	950.1	408.8	496.3	623.9
Diluted EPS (ZL)	0.18	0.37	0.15	0.19	0.24
Diluted EPS (Old) (ZL)	0.18	0.37	0.15	0.19	0.24
PE (x)	9.2	4.5	10.9	9.0	7.1
P/BV (x)	0.5	0.4	0.9	0.8	0.8
DPS (ZL)	0.00	0.00	0.00	0.00	0.16
Net Div Yield (%)	0.0	0.0	0.0	0.0	9.8
ROE (%)	14.6	25.3	9.1	9.8	11.1

Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	9.2	4.5	10.9	9.0	7.1
P/E reported (x)	9.2	4.5	10.9	9.0	7.1
P/BV (x)	0.5	0.4	0.9	0.8	0.8
P/Adjusted BV diluted (x)	1.3	1.1	0.9	0.8	0.8
Dividend yield (%)	0.0	0.0	0.0	0.0	9.8
Per Share Data (ZL)					
EPS adjusted	0.18	0.37	0.15	0.19	0.24
EPS reported	0.18	0.37	0.15	0.19	0.24
BVPS	3.45	4.43	1.81	2.00	2.23
Tangible BVPS	3.22	4.29	1.76	1.95	2.18
Adjusted BVPS diluted	1.34	1.59	1.81	2.00	2.23
DPS	0.00	0.00	0.00	0.00	0.16
Profit & Loss (ZLm)					
Net interest income	1,052	1,344	1,340	1,563	1,770
Fees and commissions	962	869	853	898	938
Other operating Income	145	202	87	103	100
Total operating income	**2,159**	**2,415**	**2,281**	**2,564**	**2,807**
Total operating expenses	-733	-833	-875	-935	-966
Oper. profit bef. provisions	**1,426**	**1,582**	**1,406**	**1,629**	**1,841**
Bad debt provisions	-1,057	-1,208	-980	-1,009	-1,062
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**369**	**374**	**426**	**620**	**780**
Tax	12	-66	-87	-124	-156
Extraord./Min. Int./Pref. Div.	69	643	69	0	0
Attributable profit	**450**	**950**	**409**	**496**	**624**
Adjusted earnings	450	950	409	496	624
Growth Rates (%)					
EPS adjusted	36.9	102.9	-58.6	21.4	25.7
Oper. profit bef. prov.	28.9	10.9	-11.1	15.9	13.1
Balance Sheet (ZLm)					
Total assets	**42,798**	**54,488**	**57,356**	**60,220**	**62,665**
Avg interest earning assets	37,023	47,231	54,186	56,953	59,525
Customer loans	36,033	44,733	46,833	50,240	52,547
Gross NPLs	3,676	5,495	5,386	5,778	6,043
Liab. & shar. funds	**42,798**	**54,488**	**57,356**	**60,220**	**62,665**
Total customer deposits	37,026	47,059	48,964	50,443	51,457
Reserve for loan losses	2,579	3,678	4,142	4,771	5,232
Shareholders' equity	**3,294**	**4,225**	**4,800**	**5,296**	**5,920**
Profitability/Solvency Ratios (%)					
ROE adjusted	14.6	25.3	9.1	9.8	11.1
Net interest margin	2.84	2.85	2.47	2.74	2.97
Cost/income ratio	33.9	34.5	38.4	36.5	34.4
Cash cost/average assets	1.9	1.7	1.6	1.6	1.6
NPLs/customer loans	10.2	12.3	11.5	11.5	11.5
Reserve for loan losses/NPLs	70.2	66.9	76.9	82.6	86.6
Bad debt prov./avg. cust. loans	3.3	3.0	2.1	2.1	2.1
Loans/deposit ratio	97.3	95.1	95.6	99.6	102.1
Tier 1 capital ratio	9.9	9.6	9.9	10.1	10.9
Total capital ratio	9.9	10.1	12.1	12.2	12.8

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Company Focus

- **Company Update**

Buy/High Risk	**1H**
Price (15 Oct 12)	ZL16.25
Target price	ZL22.10
Expected share price return	36.0%
Expected dividend yield	6.2%
Expected total return	**42.2%**
Market Cap	ZL882M
	US$279M

Price Performance
(RIC: OPF.WA, BB: OPF PW)

Open Finance (OPF.WA)

Leaders Will Survive – Buy/High Risk

- **Buy Open Finance** — Declining sales of new mortgages and difficult market conditions, negatively impacting sales of investment products, make life difficult for financial advisors. A restructuring of the business model started in 2011 should alleviate some, but not all, the impact of negative market trends Nevertheless, at 2012E P/E of 8.1x and 14% discount to European peers, we view the pressure on earnings fully priced-in and maintain our Buy/High Risk rating.

- **Earnings Dynamics** — We forecast Open Finance earnings to rise 10% in 2012 (driven by acquisition of Home Broker and the growth in Open Life) and to decline 5% in 2013 due to negative sector trend leading to 25% yoy lower revenues from mortgage sale and 11% yoy from real estate agency, partly offset by the company's new initiatives including restructuring of the sale process (we expect revenues from sale of investment products to increase 19% yoy) and launching fund manager (we are looking for Zl 11m revenues from asset management in 2013).

- **Upside Risks** — Lower than expected decline in mortgage sales is the main sector-wide upside risk while faster than we anticipate growth in the asset management business (we assume Zl 500m AUM at the end of 2013 vs. the company's plan of about Zl 700-800m) is the main company-specific upside risk..

- **Downside Risks** — Given weak sale of savings plans in 3Q12 (Zl 28m vs. our forecast of Zl 37m) it may turn out that we are being too optimistic in our forecasts of revenues from investment products.

- **What's Next** — Open Finance will publish 3Q12 results on November 14. Recently published volume data suggest earnings lower qoq and yoy in the range of Zl 20m.

- **Recent Research** — In our recent note (Open Finance (OPF.WA) - Litmus Test for Management: Maintaining Buy/High Risk) we analysed the impact of weaker mortgage growth at the Open Finance business and commented on the initiatives of company's management to alleviate the macro headwinds. We looked also at the HomeBroker acquisition and tried to estimate what will be the final price for the acquisition (for other details of the HomeBroker acquisition see Open Finance (OPFP.WA) - Diamonds and Ashes: Maintaining Buy).

Open Finance (PLN)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (ZLM)	77.6	90.1	108.2	102.8	110.8
Diluted EPS (ZL)	1.55	1.73	1.99	1.89	2.04
Diluted EPS (Old) (ZL)	1.55	1.73	1.99	1.89	2.04
PE (x)	10.5	9.4	8.1	8.6	8.0
P/BV (x)	9.2	3.4	2.5	2.2	1.9
DPS (ZL)	0.00	0.27	1.00	0.95	1.02
Net Div Yield (%)	0.0	1.7	6.1	5.8	6.3
ROE (%)	101.0	52.1	35.5	27.3	25.7

Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	10.5	9.4	8.1	8.6	8.0
P/E reported (x)	10.5	9.4	8.1	8.6	8.0
P/BV (x)	9.2	3.4	2.5	2.2	1.9
P/Adjusted BV diluted (x)	na	na	na	na	na
Dividend yield (%)	0.0	1.7	6.1	5.8	6.3
Per Share Data (ZL)					
EPS adjusted	1.55	1.73	1.99	1.89	2.04
EPS reported	1.55	1.73	1.99	1.89	2.04
BVPS	1.76	4.75	6.49	7.38	8.48
Tangible BVPS	1.70	-2.03	1.79	2.68	3.78
Adjusted BVPS diluted	na	na	na	na	na
DPS	0.00	0.27	1.00	0.95	1.02
Profit & Loss (ZLm)					
Net interest income	na	na	na	na	na
Fees and commissions	na	na	na	na	na
Other operating Income	na	na	na	na	na
Total operating income	**na**	**na**	**na**	**na**	**na**
Total operating expenses	na	na	na	na	na
Oper. profit bef. provisions	**na**	**na**	**na**	**na**	**na**
Bad debt provisions	na	na	na	na	na
Non-operating/exceptionals	na	na	na	na	na
Pre-tax profit	**96**	**113**	**133**	**128**	**137**
Tax	-19	-23	-25	-26	-26
Extraord./Min. Int./Pref. Div.	na	na	na	na	na
Attributable profit	**na**	**na**	**na**	**na**	**na**
Adjusted earnings	78	90	108	103	111
Growth Rates (%)					
EPS adjusted	19.5	11.4	15.4	-5.1	7.8
Oper. profit bef. prov.	na	na	na	na	na
Balance Sheet (ZLm)					
Total assets	**135**	**599**	**588**	**612**	**735**
Avg interest earning assets	na	na	na	na	na
Customer loans	na	na	na	na	na
Gross NPLs	na	na	na	na	na
Liab. & shar. funds	**135**	**599**	**588**	**612**	**735**
Total customer deposits	na	na	na	na	na
Reserve for loan losses	na	na	na	na	na
Shareholders' equity	**88**	**258**	**352**	**401**	**460**
Profitability/Solvency Ratios (%)					
ROE adjusted	101.0	52.1	35.5	27.3	25.7
Net interest margin	na	na	na	na	na
Cost/income ratio	na	na	na	na	na
Cash cost/average assets	na	na	na	na	na
NPLs/customer loans	na	na	na	na	na
Reserve for loan losses/NPLs	na	na	na	na	na
Bad debt prov./avg. cust. loans	na	na	na	na	na
Loans/deposit ratio	na	na	na	na	na
Tier 1 capital ratio	na	na	na	na	na
Total capital ratio	na	na	na	na	na

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Company Focus

■ Company Update

Neutral/High Risk	2H
Price (15 Oct 12)	ZL2.29
Target price	ZL3.06
Expected share price return	33.6%
Expected dividend yield	0.0%
Expected total return	**33.6%**
Market Cap	ZL1,677M
	US$531M

Price Performance
(RIC: GTN.WA, BB: GTN PW)

Getin Holding (GTN.WA)

Idea Is Not Enough – Neutral/High Risk

- **Neutral/High Risk** — Following recent strong performance (+43%) since the beginning of September, the share price is now equivalent to stand-alone BVPS (Zl 2.49 as end of 2Q12) and close to our estimate of NAV (Zl 2.70). The shares now trade at a 19% discount to our assessment of the fair value of Getin Holding's investments (Zl 2.98 per share). At the same time, we note increased execution risk in the Polish business and funding constraints on growth in the Ukraine and thus we rate the stock Neutral/High Risk (TP Zl 3.06).
- **Earning Dynamics** — We forecast net profit (excluding Zl 359m gain on TU Europa sale and Zl 113m earnings on discontinued activity) at Zl 87m in 2012, followed by Zl 105m in 2013 but given the early stage of Idea Bank project we view current earnings as relatively irrelevant for the Getin Holding valuation.
- **Upside Risks** — Capitalising on Idea Bank's (Poland) business model of close cooperation with tax and accountant company (to bind clients and reduce credit risk) and improved macro stability in Ukraine and Belarus are the main upside risks (we note that currently we value Belarusian Sombelbank at zero).
- **Downside Risks** — The failure of Idea Bank's business concept (e.g. lack of advantages from cooperation with TaxCare or the potential problem of Taxcare with quality of service), increased economic and political turbulences in Ukraine, Belarus and Russia or poor usage of net cash (Zl 164m at the end of 3Q12E) are the main downside risks.
- **What's Next** — Getin Holding will publish 3Q12 results on November 14.
- **Recent Research** — In our recent note (Getin Holding (GTN.WA) - Good 'Idea', Time to Deliver – Downgrading to Neutral/High Risk) we presented our forecasts and valuations of the main investments of the holding, including Idea Bank Poland, Idea Bank Ukraine and Carcade (Russia).

Getin Holding (PLN)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (ZLM)	421.1	1,004.8	559.9	104.9	173.3
Diluted EPS (ZL)	0.59	1.39	0.76	0.14	0.24
Diluted EPS (Old) (ZL)	0.59	1.39	0.76	0.14	0.24
PE (x)	3.9	1.6	3.0	16.0	9.7
P/BV (x)	0.4	0.3	0.9	0.8	0.8
DPS (ZL)	0.00	0.00	0.00	0.00	0.00
Net Div Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	10.2	19.9	14.8	5.4	8.3

Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	3.9	1.6	3.0	16.0	9.7
P/E reported (x)	3.9	1.6	3.0	16.0	9.7
P/BV (x)	0.4	0.3	0.9	0.8	0.8
P/Adjusted BV diluted (x)	0.4	0.3	0.9	0.8	0.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Per Share Data (ZL)					
EPS adjusted	0.59	1.39	0.76	0.14	0.24
EPS reported	0.59	1.39	0.76	0.14	0.24
BVPS	6.21	7.74	2.58	2.72	2.95
Tangible BVPS	4.63	6.24	1.90	1.97	2.13
Adjusted BVPS diluted	6.21	7.74	2.58	2.72	2.95
DPS	0.00	0.00	0.00	0.00	0.00
Profit & Loss (ZLm)					
Net interest income	1,273	1,712	392	466	549
Fees and commissions	556	627	252	353	441
Other operating Income	613	722	40	54	74
Total operating income	**2,443**	**3,061**	**684**	**873**	**1,064**
Total operating expenses	-917	-1,223	-495	-580	-666
Oper. profit bef. provisions	**1,526**	**1,838**	**189**	**292**	**399**
Bad debt provisions	-1,055	-1,249	-58	-135	-157
Non-operating/exceptionals	-17	-24	-12	-10	0
Pre-tax profit	**455**	**565**	**119**	**147**	**241**
Tax	-9	-102	-27	-28	-46
Extraord./Min. Int./Pref. Div.	-24	542	468	-14	-22
Attributable profit	**421**	**1,005**	**560**	**105**	**173**
Adjusted earnings	421	1,005	560	105	173
Growth Rates (%)					
EPS adjusted	52.3	135.4	-45.0	-81.3	64.9
Oper. profit bef. prov.	26.8	20.4	-89.7	54.4	36.4
Balance Sheet (ZLm)					
Total assets	**46,854**	**61,804**	**9,006**	**10,581**	**12,047**
Avg interest earning assets	38,881	51,248	8,010	8,325	9,981
Customer loans	36,138	45,042	3,964	5,199	6,331
Gross NPLs	3,744	5,475	238	312	380
Liab. & shar. funds	**46,854**	**61,804**	**9,006**	**10,581**	**12,047**
Total customer deposits	37,459	50,019	4,944	5,834	6,418
Reserve for loan losses	2,631	3,490	174	272	419
Shareholders' equity	**4,433**	**5,663**	**1,891**	**1,996**	**2,169**
Profitability/Solvency Ratios (%)					
ROE adjusted	10.2	19.9	14.8	5.4	8.3
Net interest margin	3.28	3.34	4.89	5.60	5.50
Cost/income ratio	37.5	40.0	72.3	66.5	62.5
Cash cost/average assets	2.2	2.3	1.4	5.9	5.9
NPLs/customer loans	10.4	12.2	6.0	6.0	6.0
Reserve for loan losses/NPLs	70.3	63.7	73.3	87.2	110.3
Bad debt prov./avg. cust. loans	3.3	3.1	0.2	2.9	2.7
Loans/deposit ratio	96.5	90.0	80.2	89.1	98.7
Tier 1 capital ratio	na	na	na	na	na
Total capital ratio	na	na	na	na	na

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Company Focus

■ Company Update

Neutral/High Risk	2H
Price (15 Oct 12)	ZL36.56
Target price	ZL42.10
Expected share price return	15.2%
Expected dividend yield	3.7%
Expected total return	**18.8%**
Market Cap	ZL1,534M
	US$486M

Price Performance
(RIC: GPW.WA, BB: GPW PW)

GPW (GPW.WA)

Downside Risk to Forecasts – Neutral/High Risk

- **Neutral/High Risk GPW** — GPW is traded at a premium to Western European exchanges (25%) and at discount to GEM peers (42% at 2013E PE). Given higher growth potential than in Western Europe on one hand and higher regulatory risk than in non-EU countries on the other hand, we view that valuation as justified and we rate the stock Neutral/High Risk.
- **Earning Dynamics** — We expect that lower revenues from cash derivative (as of September 2012 YTD turnover was respectively 26% and 29% lower yoy) will be only partly offset by consolidation of recently acquired TGE (Energy Exchange) and we forecast 2012 earning to decline 15% yoy. In 2013, on the back of rebounding turnover and higher trading revenues, we expect earnings to increase +11% yoy. In 2012 and 2013 we are respectively +1% and +6% above consensus.
- **Upside Risks** — Recovering turnover driven by improving economies and rising risk appetite would be a positive surprise.
- **Downside Risks** — Ongoing uncertainty relating to global macro situation resulting in declining turnover is the biggest downside risk to our forecasts. In longer term as risk factors we see also regulatory changes in the energy trading business as well as competition from Multilateral Trading Facilities (MTFs) putting pressure on fees.
- **What's Next** — GPW will publish 3Q12 results on November 12. We expect 3Q12 earnings to be supported by higher cash equity revenues (cash equity turnover increased +21% qoq) that will more than offset declining derivatives trading income (trading volumes decreased -17% qoq). As operating expenses are expected to remain broadly flat qoq, we estimate that net profit will reach a range of Zl 27-30m (vs. Zl 26m in 2Q12 and Zl 38m in 3Q11).
- **Recent Research** — In our recent note (GPW (GPW.WA) - Volume Analysis – September 2012: Rebounding Derivatives; Downgrade to Neutral on Strong Price Performance) we analysed turnover on the Warsaw Stock Exchange in the last month of 3Q12, while in our previous note (GPW (GPW.WA) - Upgrading Warsaw Stock Exchange to Buy Due to Lower Competition Pressure) we analyzed the potential impact of a new trading platform (UTP) on the company's revenues.

GPW (PLN)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (ZLM)	94.7	133.7	113.7	125.8	131.0
Diluted EPS (ZL)	2.26	3.19	2.71	3.00	3.12
Diluted EPS (Old) (ZL)	2.26	3.19	2.71	3.00	3.12
PE (x)	16.2	11.5	13.5	12.2	11.7
P/BV (x)	2.9	2.9	3.0	2.6	2.4
DPS (ZL)	3.21	1.44	1.35	1.62	1.77
Net Div Yield (%)	8.8	3.9	3.7	4.4	4.8
ROE (%)	18.1	25.5	22.0	23.0	21.4

GPW.WA: Fiscal year end 31-Dec — Price: ZL36.56; TP: ZL42.10; Market Cap: ZL1,534m; Recomm: Neutral/High Risk

Profit & Loss (ZLm)	2010	2011	2012E	2013E	2014E
Sales revenue	226	269	285	325	333
Cost of sales	-132	-134	-161	-178	-186
Gross profit	93	135	124	147	147
Gross Margin (%)	41.3	50.2	43.5	45.2	44.2
EBITDA (Adj)	**123**	**165**	**159**	**184**	**185**
EBITDA Margin (Adj) (%)	54.3	61.3	55.7	56.6	55.7
Depreciation	-13	-14	-12	-13	-14
Amortisation	-4	-2	-4	-10	-11
EBIT (Adj)	**92**	**134**	**131**	**146**	**146**
EBIT Margin (Adj) (%)	40.7	49.7	45.9	45.0	44.0
Net interest	9	14	-3	-4	-2
Associates	14	15	12	15	15
Non-op/Except	0	0	0	0	0
Pre-tax profit	**115**	**163**	**140**	**156**	**159**
Tax	-21	-29	-25	-30	-28
Extraord./Min.Int./Pref.div.	0	0	-2	-1	-1
Reported net profit	**95**	**134**	**114**	**126**	**131**
Net Margin (%)	42.0	49.8	39.9	38.8	39.4
Core NPAT	95	134	114	126	131

Per share data	2010	2011	2012E	2013E	2014E
Reported EPS (ZL)	2.26	3.19	2.71	3.00	3.12
Core EPS (ZL)	2.26	3.19	2.71	3.00	3.12
DPS (ZL)	3.21	1.44	1.35	1.62	1.77
CFPS (ZL)	2.15	3.10	2.35	3.32	3.40
FCFPS (ZL)	1.27	2.49	0.15	2.56	2.64
BVPS (ZL)	12.48	12.47	12.20	13.84	15.35
Wtd avg ord shares (m)	42.0	42.0	42.0	42.0	42.0
Wtd avg diluted shares (m)	42.0	42.0	42.0	42.0	42.0

Growth rates	2010	2011	2012E	2013E	2014E
Sales revenue (%)	13.1	19.1	5.9	14.0	2.5
EBIT (Adj) (%)	15.4	45.7	-2.1	11.6	0.2
Core NPAT (%)	-6.0	41.2	-15.0	10.6	4.1
Core EPS (%)	-6.0	41.2	-15.0	10.6	4.1

Balance Sheet (ZLm)	2010	2011	2012E	2013E	2014E
Cash & cash equiv.	138	348	324	373	417
Accounts receivables	81	30	96	96	96
Inventory	0	0	0	0	0
Net fixed & other tangibles	120	129	193	205	217
Goodwill & intangibles	60	61	223	217	210
Financial & other assets	159	166	174	189	203
Total assets	**559**	**733**	**1,010**	**1,080**	**1,144**
Accounts payable	17	28	21	21	21
Short-term debt	11	4	217	217	217
Long-term debt	0	170	245	245	245
Provisions & other liab	5	5	7	7	7
Total liabilities	**34**	**208**	**490**	**490**	**490**
Shareholders' equity	524	523	512	581	644
Minority interests	1	1	8	9	10
Total equity	**525**	**524**	**520**	**590**	**654**
Net debt	**-127**	**-173**	**138**	**89**	**45**
Net debt to equity (%)	-24.2	-33.0	26.6	15.2	6.9

Valuation ratios	2010	2011	2012E	2013E	2014E
PE (x)	16.2	11.5	13.5	12.2	11.7
PB (x)	2.9	2.9	3.0	2.6	2.4
EV/EBITDA (x)	9.9	7.4	8.5	8.0	7.6
FCF yield (%)	3.5	6.8	0.4	7.0	7.2
Dividend yield (%)	8.8	3.9	3.7	4.4	4.8
Payout ratio (%)	142	45	50	54	57
ROE (%)	18.1	25.5	22.0	23.0	21.4

Cashflow (ZLm)	2010	2011	2012E	2013E	2014E
EBITDA	108	149	146	169	170
Working capital	-58	55	-65	0	0
Other	40	-74	17	-30	-28
Operating cashflow	**90**	**130**	**99**	**139**	**143**
Capex	-37	-25	-92	-32	-32
Net acq/disposals	0	0	-69	0	0
Other	167	44	0	0	0
Investing cashflow	**130**	**19**	**-161**	**-32**	**-32**
Dividends paid	-597	-135	-60	-57	-68
Financing cashflow	**-597**	**35**	**27**	**-73**	**-85**
Net change in cash	**-377**	**183**	**-36**	**34**	**26**
Free cashflow to s/holders	**53**	**105**	**6**	**107**	**111**

Revenues (ZLm)	2010	2011	2012E	2013E	2014E
Listing	20.2	23.4	21.5	23.5	22.5
Equities Trading	115.4	143.1	109.9	119.5	109.6
Fixed Income Trading	8.6	13.5	15.7	19.0	20.9
Derivatives Trading	40.1	40.3	29.2	37.7	44.8
Other Trading	4.6	6.1	7.1	7.1	7.1
Information Services	32.6	36.6	37.0	36.9	41.0
Other	4.1	5.9	64.2	81.0	86.8
Total revenues	225.6	268.8	284.8	324.6	332.6

Expenses (ZLm)	2010	2011	2012E	2013E	2014E
Staff costs	-43.9	-51.8	-60.2	-61.1	-63.0
External services	-42.1	-36.2	-43.8	-50.6	-53.1
Rent and other maintenance	-6.3	-6.9	-9.9	-10.9	-11.4
Fees and taxes	-16.0	-15.7	-20.2	-19.0	-20.0
Other operating expenses	-7.3	-7.7	-9.2	-10.4	-10.9
Depreciation and amorization	-16.7	-15.6	-17.6	-25.8	-27.1
Total expenses	-132.3	-134.0	-160.9	-177.8	-185.5

Equity Turnover (ZLm)	2010	2011	2012E	2013E	2014E
Total, of which:	234,288	285,087	218,520	285,892	304,376
EOB	206,857	250,589	188,520	255,892	274,376

Derivatives Turnover (m)	2010	2011	2012E	2013E	2014E
Total, of which:	15.3	17.4	12.3	15.0	17.2
WIG20 futures	13.1	13.7	9.4	11.7	13.4

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For definitions of the items in this table, please click here.

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PZU

Company description

PZU is Poland's biggest insurance group by gross written premiums and one of the biggest insurers in the CEE region. In 2011, 56% of premiums (according to IFRS, i.e. excluding revenues from investment contracts without insurance protection) came from P&C insurance and 44% from life. In non-life insurance the main product is motor insurance (62% of non-life premium and 35% of total premium in 2011), while in life insurance the main product is employee protection group insurance (group life insurance, predominantly employee protection products plus insurance individually continued by former employees of insured enterprises, constituted 92% of life premium and 40% of total premium in 2011).

Investment strategy

In the long term, we expect PZU to benefit from rising Polish insurance premium income and its leading position in the domestic insurance market. In the medium term, the company's profitability should be driven by re-pricing in motor insurance, more than offsetting the negative impact of lower release of reserves in life group insurance. Short-term results may be negatively impacted by weak investment gains due to the declining equity markets, but the company should still be able to pay attractive dividends. We rate the company Buy.

Valuation

For valuation purposes we use Standard Warranted Equity Valuation (WEV) based on normalised capital as well as WEV based on reported equity. Conservatively we set our target price at Zl 421, at the lower value from these two valuation methods.

Our Standard Warranted Equity Valuation of Zl 421 per share is based upon the formula: Price / Book value = (Sustainable ROE - growth) / (Cost of equity - growth). We assume a sustainable return on equity of 20% and use a cost of equity of 10.5% and a sustainable growth rate of 4.5%.

In a Warranted Equity Valuation based on normalised equity we assume normalised capital at 250% of the consolidated solvency margin, and calculate an adjusted return on capital (deducting the investment gain on estimated surplus capital from the reporting earnings) and separately value the insurance business (assuming a 24.5% ROE vs. our estimate of 24.6% ROE in 2014) and surplus capital (at P/BV=1). This method arrives at a valuation of Zl 445 per share.

Risks

PZU is exposed to industry- and company-specific risk factors. The main downside risks that could prevent the shares from reaching our target price relate to (1) weather and catastrophe losses, (2) return to price competition in motor insurance, (3) reserving in life insurance and (4) investment yield achieved on investments held on own risk, mainly Polish T-bonds and listed equities.

PKO BP

Company description

PKO BP is Poland's largest bank, with c1,250 branches. It has about 12% market share of total banking assets and is dominant in retail banking with c.27% retail deposit market share and c35% mortgage lending market share. PKO BP is 44% owned (directly and through state-controlled bank BGK) by the Polish state.

Investment strategy

We like the bank's strategy to base the growth of the business on growing lending coupled with its strong retail franchise, giving it the access to relatively cheap and stable funding. We note, however, that in the short term the aggressive lending strategy may lead to high provisioning but we view that risk as more than priced in. We rate the stock Buy.

Valuation

Our Standard Warranted Equity Valuation of Zl 40.7 per share is based on the formula: Price / Book value = (Sustainable RoE - growth) / (Cost of equity - growth). Our sustainable ROE estimate is 16%. We use a cost of equity of 10.5% and a sustainable growth rate of 4.5%. Our Economic Value Added Valuation of Zl 45.6 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). We set our target price at Zl 40.7 using the more conservative short-term approach.

Risks

The following risk factors might impede the share price from reaching 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. Specific to the bank: 1) state ownership may constrain management's ability to restructure the business, particularly its ability to decrease employee levels, and impact the bank's capitalisation; 2) the bank was active in extending FX-denominated loans to retail customers, who could face repayment difficulties; and 3) margin developments have been volatile recently and future margin development could be better or worse than we expect.

Bank Pekao SA

Company description

Bank Pekao is Poland's second-largest bank, 59.4% owned by UniCredit. The bank has c.12% asset market share, 1,058 outlets, and serves c.5m customers.

Investment strategy

Given Pekao's overcapitalization (Core Tier 1 of 18.5% in 2Q12) the crucial question is if and when Pekao’s surplus capital (c.Zl 8-9bn assuming normalized capital at Tier 1 equals 10%) is utilized and how it will be used. Given the slowdown in the economy, we doubt that the bank will be able to achieve significant loan growth. Taking into account global uncertainties, we see also a low likelihood of the regulator allowing high dividends. More likely, in our view, is Pekao taking

advantage of M&A opportunities, if they appear. Hence we maintain our assumption of a 40% probability that surplus capital will be used. Given that we see this as already reflected in the price, we rate the stock Neutral.

Valuation

Our Standard Warranted Equity Valuation of Zl 137 per share is based on the formula: Price / Book value = (Sustainable ROE - growth) / (Cost of equity - growth). We assume sustainable return on equity of 14.0%, a sustainable growth rate of 4.5% and a cost of equity of 10.5%. Given the bank's overcapitalization (Tier 1 at 18%), we value the bank also on the capital-adjusted base and, assuming capital normalised ROE of 21%, arrive at fair value of Zl 174 per share on this basis. Our Economic Value Added Valuation of Zl 184 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). We set our target price at Zl 152 using a weighted average of our standard Warranted Equity Valuations based on reported (60% weight) and capital-normalised (40% weight) ROE.

Risks

The following risk factors could cause the share price to deviate significantly from our target price: 1) the bank's conservative risk and capital management may lead to lower lending growth and dividend payment than we anticipate and 2) provisioning, low in the last slowdown (2009), could surprise negatively in the next slowdown/recession period due to a lower buffer of over-provisioning.

Bank Zachodni WBK

Company description

Bank Zachodni WBK SA is Poland's fifth-largest bank by assets, with a market share of 5%. It has historically focused on servicing medium-sized companies and retail clients. In 2011 Allied Irish Banks PLC sold its 70.5% strategic stake in Bank Zachodni WBK to Santander.

In February 2012 Santander and KBC announced plans to merge their Polish subsidiaries, BZ WBK and Kredyt Bank to create the third biggest in assets bank in Poland. The merger is expected at the end of 2012-beginning of 2013.

Investment strategy

We like BZ WBK's income diversification but note the bank's continued weakness in investment fund business, in the past being one of the core businesses for the bank. However, as we expect the upcoming merger with Kredyt Bank may bring significant synergies (mainly on cost side) we rate the stock Buy.

Valuation

Our Standard Warranted Equity Valuation of Zl 219 per share is based upon the formula: Price / Book value = (Sustainable RoE - growth) / (Cost of equity - growth). We set our assumption of sustainable ROE at 16% and use a cost of equity of 10.5% and a sustainable growth rate of 4.5%. Our Economic Value Added Valuation of Zl 283 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).

Due to the announced merger of BZ WBK with Kredyt Bank, our target price of Zl 263 per BZ WBK share is based on the parity and our valuation of the merged bank (assuming sustainable ROE at 17%, cost of equity at 10.5% and sustainable growth rate at 4.5%).

Risks

Risks to the Polish banking market include: (1) the possibility of adverse movements in interest rates and bond yields, which could affect earnings; and (2) 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 Bank Zachodni WBK, we highlight risks that may affect the achievement of our target price: (1) the bank's large exposure to the real estate and construction sectors; (2) that earnings are sensitive to mutual fund inflows/outflows and the financial results of the bank may be better or worse than our forecasts depending on the development of the bank's mutual fund business. Additionally, the achievement of our target price depends on successful completion of the merger process and achieving expected synergies. If the impact on the company from any of these factors proves to be less/more negative than we anticipate, the stock could materially outperform/underperform our target price.

Kredyt Bank SA

Company description

Kredyt Bank, 80% owned by KBC Group, is Poland's ninth-largest bank by assets. In February 2012 Santander and KBC announced plans to merge their Polish subsidiaries, BZ WBK and Kredyt Bank to create the third biggest in assets bank in Poland.

Investment strategy

Currently Kredyt Bank's main weakness is its balance sheet structure (high share of low-margin pre-crisis FX mortgage loans funded by funding from the parent) and low number of clients in the close banking relation, generating recurring fee income. But we believe the upcoming merger with BZ WBK, one of the best managed banks in Poland, creates significant upside potential and therefore we rate the stock Buy/High Risk. We rate the stock High Risk as we see the achievement of the TP depends significantly on the achievement of forecast merger synergies.

Valuation

Our Standard Warranted Equity Valuation of Zl 7.5 per share is based upon the formula: Price / Book value = (Sustainable RoE - growth) / (Cost of equity - growth). We assume sustainable return on equity of 9.0% and use a cost of equity of 11.5% and a sustainable growth rate of 4.5%. Our Economic Value Added Valuation of Zl 7.1 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).

Due to the announced merger at an exchange ratio 6.96 BZ WBK shares for 100 Kredyt Bank shares, our target price of Zl 18.3 per Kredyt Bank share is based on the parity and our valuation of the merged bank.

Risks

Risks relating to the Polish banking market include: (1) the Polish banking market is rather fragmented and increased competition could put more pressure on margins and earnings than we currently expect. (2) The macro economy may perform better or worse than anticipated and lead to higher or lower provisioning and slower or faster loan growth than anticipated. Specific to the bank we outline that: (1) historically profitability was lower than its peer group; (2) due to its lower market share, there is a risk that Kredyt Bank will be more affected by rising competition than peers; (3) the bank is heavily dependent on KBC support. Additionally, the achievement of our target price depends on successful completion of the merger process and achieving expected synergies.

BRE Bank SA

Company description

BRE Bank (70% owned by Commerzbank) is the third-largest Polish bank, with a market share of approximately 8% of banking assets. Historically, it has focused on commercial banking, although since 2001 it has been expanding its retail business, from 8% of its lending in 2000 to 50% in 2008.

Investment strategy

What we like in the bank is the focus on tight cost management, its low exposure to the most troubled construction companies and mBank’s business model of consumer finance (based on lending to current clients). However, these positives are offset by the high share of low-margin but capital-intensive FX mortgage loans in the balance sheet that we expect will be a continuous drag on future ROE. We perceive the market price as too high and rate the stock Sell.

Valuation

Our Standard Warranted Equity Valuation of Zl 273 per share is based upon the formula: Price / Book value = (Sustainable RoE - growth) / (Cost of equity - growth). We assume a sustainable return on equity of 12.0%, a cost of equity of 11% and a sustainable growth rate of 4.5%. Our Economic Value Added Valuation of Zl 289 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, assuming no capital increase) and the proposed value of capital increase. In line with the approach we adopt for the rest of our coverage universe, our target price is based upon the shorter-term approach, and is set at Zl 273.

Risks

The following risk factors might cause the share price to deviate from our target price. The macro economy may perform worse or better than anticipated and lead to higher/lower provisioning and slower/faster loan growth than anticipated. Specifically for BRE Bank, we highlight that: 1) the bank's loan book is heavily weighted towards FX mortgage loans and a weaker zloty could negatively impact

asset quality; and 2) the bank remains highly dependent on funding from parent Commerzbank, which could constrain the bank's growth outlook unless the operating environment improves dramatically. If the impact on the company from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. Likewise, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

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 Zl 88.2 per share is based on the formula: Price / Book value = (Sustainable RoE - growth) / (Cost of equity - 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 Zl 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 Zl 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.

Bank Millennium SA

Company description

Bank Millennium, majority owned by Banco Comercial Portugues, is a medium-sized Polish bank with over 1 million customers and a strong market position in retail mortgage loans, credit cards and leasing services.

Investment strategy

Over the past several years, Bank Millennium has built a strong position in CHF-denominated mortgage lending, increased the sale of consumer finance products and developed a successful customer deposit collection franchise. In 4Q08, Millennium's CHF mortgage business model collapsed as a result of decreased availability of FX swaps and significantly rising FX swap costs. As a result, we anticipate that the profitability of the bank (we assume 11% sustainable ROE) will remain below the bank's cost or risk (11.5%) and thus we rate the stock Sell.

Valuation

Our Standard Warranted Equity Valuation of Zl 3.85 per share is based upon the formula: Price / Book value = (Sustainable RoE - growth) / (Cost of equity - growth). We assume a sustainable ROE of 11.0% and use a cost of equity of 11.5% and a sustainable growth rate of 4.5%. Our Economic Value Added Valuation of Zl 4.95 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). In line with the approach we adopt for the rest of our coverage universe, our target price is based upon the shorter-term approach at Zl 3.85.

Risks

The economy may perform better or worse than anticipated and lead to higher or lower provisioning and slower or higher loan growth than anticipated. Additionally, the Polish banking market is rather fragmented and increased competition could put more pressure on margins and earnings than currently expected. Specifically for Bank Millennium: (1) it is more dependent on short-term retail funding than its Polish peers, leaving it exposed to higher funding costs; and (2) the bank is the most exposed in our Polish banking coverage universe to CHF-denominated mortgages and thus vulnerable to continued zloty weakness. If the impact on the company from any of these factors proves to be less/more negative than we anticipate, the stock could materially outperform/underperform our target price.

Getin Noble Bank

Company description

In 2011 Getin Noble Bank was the 7th biggest Polish bank by assets, 5th by loans and 5th by deposits. GNB specialises in retail lending (namely mortgage, car and cash loans), and was the parent company for the group consisting of an asset manager, brokerage and leasing company as well as owner of a 48.85% stake in financial intermediary Open Finance.

In June 2012 Getin Noble Bank was merged with the parent company, Get Bank (former Allianz Bank, acquired by Getin Holding in 2011). From a legal point of view the new bank is the successor of Get Bank but it was re-named as Getin Nobel Bank and continues the business of the former Getin Noble Bank (prior to the merger Get Bank practically hadn't conducted any banking activity).

Investment strategy

We view positively the strategic changes that have led Getin Noble Bank (GNB) to provide fewer mortgages, grant more cash loans and improve its funding mix. But we don't expect the bank will be able to maintain its current momentum; indeed, recent positive results are not unprecedented and performance has just returned to where it was in the past. We maintain our view that the bank's sustainable ROE (11%) will remain below its cost of equity. After the recent strong share performance, we view the stock as fairly valued and thus we rate GNB Neutral.

Valuation

We value Getin Noble Bank using a Standard Warranted Equity Valuation and an Economic Value Added Valuation. These are standard methods that we use when valuing our coverage universe of listed Polish banks.

Our Standard Warranted Equity Valuation model is based upon the formula: Price / Book value = (Sustainable RoE - growth) / (Cost of equity - growth). Our WEV approach suggests a valuation of Zl 1.82 per share. When valuing Getin Noble Bank we assume a sustainable ROE of 11.0% close to our estimate of 2014 ROE (11.1%). We assume a cost of equity of 11.5% (in line with our methodology of setting cost of equity for Polish banks within a range of 10.5% to 11.5%, depending on the bank's exposure to CHF lending) and a sustainable growth rate of 4%. Based on these inputs, we arrive at a valuation of Zl 1.82 per share for Getin Noble Bank.

Our Economic Value Added (EVA) model arrives at a valuation by adding discounted EVA flows (adjusted profits minus required capital charges) to adjusted starting book value. A terminal value is calculated using a standard perpetuity formula using forecast EVA flows to 2015 and an assumption of discount rate and a perpetual growth rate. Assuming a discount rate of 11.5% and perpetual growth at 4.5%, we arrive at a valuation of Zl 2.03 per share.

As with other Polish banks, we set our target price of Zl 1.82 on the basis of the more conservative Standard Warranted Equity Valuation.

Risks

The following risk factors might cause the share price to deviate from our target price. The macro economy may perform worse or better than anticipated and lead to higher/lower provisioning and slower/faster loan growth than anticipated. Specifically for Getin Noble Bank, we highlight that: 1) the bank's loan book is heavily weighted towards FX mortgage loans such that a weaker zloty could negatively impact asset quality; 2) the bank remains highly dependent on revenues from selling insurance products which could be affected by the potential regulation of the bancassurance market; 3) the bank remains highly dependent on revenues from selling insurance products of TU Europa, which could be affected by the potential regulation of the bancassurance market; 4) due to the importance of mortgage loans within its business mix (mortgages consist about 74% of Getin Noble Bank's loans), the bank carries above-average exposure to property price risks in Poland. If the impact on the company from any of these factors proves to be

more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. Conversely, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target price.

Open Finance

Company description

Open Finance is the leading financial advisor in Poland. It is the biggest mortgage broker (with 41% market share in 2011) and an active distributor of investment products. Its distribution network consists of 114 outlets: 64 branches located mainly on high streets and 50 Open Direct branches, which are offices for mobile advisors. The company has 1337 advisors (including 390 from Home Broker).

Investment strategy

We rate Open Finance Buy/High Risk. We have liked the simplicity of the company's business model to date (based on up-front fees from the sale of third-party financial products) and the fact that it is not 'a balance sheet company'. The lack of on-balance-sheet risk, coupled with the lack of leverage needs, leads to no capital requirements (regulatory or market-driven). Given that its branches are not highly capital-intensive, almost all of its net profit can be distributed to shareholders. The recent changes in the company's strategy (acquisitions of a life insurer and financial and real-estate market intermediary Home Broker) may be positive in the long term, but could negatively affect dividends and increase operational risk short term. Nevertheless, with the stock trading at a discount to its domestic and European peers, its valuation appeal outweighs these risks, in our view.

Valuation

We value Open Finance using a three-stage Discounted Cash Flow (DCF) model and complement this with a comparative multiple analysis (comparison of P/E and P/BV multiples).

In our DCF model, we take 2012-15 free cash flows (FCF) from our medium-term earnings model. For 2016-20 our FCF forecasts are based on an abbreviated model of key line items including revenues, costs, net other operating income, depreciation and capex growth (we assume 6%, 6%, 3%, 4% and 4%, respectively). We use a sustainable perpetual growth rate in FCF of 0% and a cost of equity of 10.5%. Our DCF model implies a valuation of Zl 22.1 per share.

Comparative valuation indicates, that Open Finance trades at P/E discounts of 17%, 14% and 9% to its European peers for 2012E, 2013E and 2014E, respectively. On P/BV, it trades at a respectively 2%, 3% and 2% premium, which we consider justified in light of its superior ROE

We set our target price in line with our DCF valuation of Zl 22.1 per share.

Risks

We rate Open Finance High Risk based on our assessment of industry- and company-specific risk factors. The following risk factors might cause the share price to deviate from our target price. The macro economy may perform worse or better than anticipated and lead to higher/lower demand for mortgage loans and investment products. Specifically for Open Finance, we highlight that: 1) the

company is highly dependent on the sale of Getin Noble Bank products; 2) its revenues depend on factors that are outside its control (e.g. banks' appetite for risk and clients' demand for lending and investment products); and 3) planned changes in the company's business model could bring risk to its profitability. If the impact on the company from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. Conversely, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Getin Holding

Company description

Getin Holding is a financial group conducting banking, insurance and other financial services in Poland, Ukraine, Russia and Belarus. The group is controlled by Mr. Leszek Czarnecki, holding 55.56% of the shares in Getin Holding. In terms of contributions to the consolidated P&L and balance sheet, the main companies of Getin Group are Idea Bank (Poland), Idea Bank (Ukraine), Carcade and Sombelbank.

Investment strategy

We rate Getin holding Neutral/High Risk. After the completion of the spin-off process Getin Holding returned to its roots and is a group specialized in creating value through acquiring or founding financial companies and helping them to grow - hence it will be ‘bank maker' rather than just ‘bank'. Given Getin’s track record in creating new companies we like that business idea. In particular, we like Polish Idea Bank, a start-up bank focused on SMEs and their owners, basing its strategy on close cooperation with an accounting company, Tax Care.

The shares now trade at a 19% discount to our assessment of the fair value of Getin Holding’s investments (Zl 3.10 per share). At the same time, we note increased execution risk at the Polish business and funding constraints on growth in the Ukraine.

Valuation

We value Getin Holding based on a Sum of the Parts (SOP) Valuation and a Standard Warranted Equity Valuation (WEV).

Our Sum of the Parts Valuation implies a fair value of Zl 3.06 per share and values TU Europa at the price offered in the public tender; Getin Noble Bank at the price implied by our TP for the stock; MW Trade at market; Idea Bank (Poland), Idea Bank (Ukraine) and Carcade according to a Standard Weighted Equity method based on our models for these banks; and other subsidiaries, including Sommelbank, at Zl 0. From our current fair value estimate for the holding's investments we deduct a holding company discount (based on a multiple of 10x applied to our estimated holding annual operation cost of Zl 20m) and then derive a 12-month forward target price (based on an 11.5% cost of equity assumption).

Our Standard Warranted Equity Valuation of Zl 1.98 per share is based upon the formula: Price / Book value = (Sustainable RoE - growth) / (Cost of equity - growth). We assume a sustainable return on equity of 10%, a cost of equity of 11.5% and a sustainable growth rate of 5.0%.

We set our target price in line with our Sum of the Parts Valuation because, in our opinion, this valuation method better reflects Getin Holding's business model (an investment holding company rather than an integrated financial group).

Risks

We rate Getin Holding High Risk based on our assessment of industry- and company-specific risk factors. The following risk factors might cause the share price to deviate from our target price. The macro economy may perform worse or better than anticipated and lead to higher/lower provisioning and slower/faster loan growth than anticipated. Specifically for Getin Holding, we highlight that: 1) Getin Holding is exposed to start-up risk through Idea Bank and 2) due to its investments in Poland, Ukraine, Belarus and Russia, the company is exposed to material geopolitical risks. If the impact on the company from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. Conversely, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

GPW

Company description

GPW (the Warsaw Stock Exchange, WSE) is Central Europe's largest exchange by market capitalisation and by turnover in cash equities and derivatives. Till 2011 GPW's main business activities comprised: a) listing (9% of the exchange's revenues in 2011); b) trading of equities (53%); c) derivatives trading (15%); d) fixed income trading (5%); and e) information services (14%). As in February 2012 GPW purchased 80% stake in Polish Power Exchange, its revenues are now supported by commodity revenues (that in 2Q12 constituted 25% of total revenues). GPW has also a 33% stake in domestic central clearing, settlement and depository entity KDPW.

Investment strategy

We expect GPW to benefit from rising Polish equity market capitalisation and increasing turnover velocity. We also expect the company to take advantage of internalisation process and growth in derivative and fixed income markets. We also see growth potential in newly acquired Towarowa Gielda Energii (Polish Power Exchange) and believe that implementation of a new trading system (UTP) will support turnover. We think also that low volumes of trading observed in 1H12 and expected in 2H12 will imply lower risk of new entrants (MTFs) underminig monopolistic position of GPW. That said, we think the stock is fully valued and have a Neutral/High Risk (2H) rating.

Valuation

Our target price of Zl 42.1 is based on a comparative trading multiple valuation approach (P/E), cross-checked against a DCF valuation. These are standard methods for valuing exchanges. Our valuation based on the comparative approach is Zl 42.1 per share (based on Global Exchanges' average P/E for 2012E, 2013E and 2014E, with weights of 30%, 50% and 20% respectively), while our DCF model implies a slightly lower valuation of Zl 40.6 per share (WACC 10.5%, terminal growth rate 3%). As DCF valuation is very sensitive depending on assumed terminal growth rate and cash equity fees, our target price is based on the comparative approach.

Risks

GPW is exposed to industry- and company-specific risk factors. The main risks to our target price relate to (1) GPW's high dependence on cash equities for revenues and its strong correlation with the domestic economic cycle, (2) competition from Multilateral Trading Facilities and (3) regulatory risk. Additional risks include (4) cost pressures, (5) the high degree of concentration in the Polish market, and (6) corporate governance (State Treasury retains 51% of voting rights). The acquisition of TGE brings additional risk (7) as energy trading business is strongly dependent on the regulator. Additionally, further potential purchases (increasing stake in KDPW) may result in lower dividend payout.

Thus we set a High risk rating. If the impact from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. However, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Appendix A-1

Analyst Certification

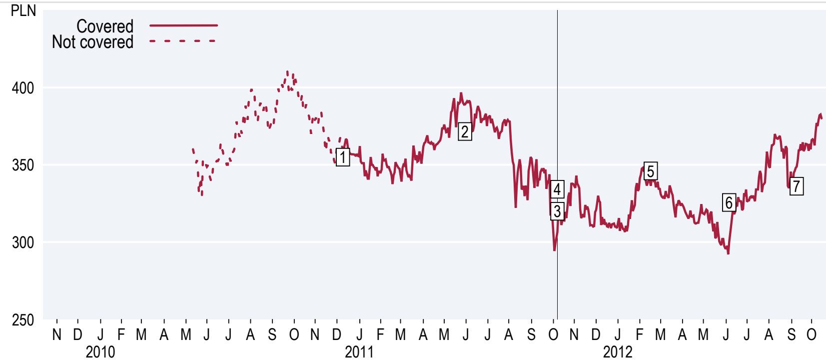
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each 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

PZU (PZU.WA)

Ratings and Target Price History
Fundamental Research

Analyst: Andrzej Powierza
Covered since December 9 2010



	Date	Rating	Target Price	Closing Price
1	9-Dec-10	*1L	*431.00	360.00
2	31-May-11	1L	*449.00	389.00
3	7-Oct-11	Stock rating system changed		
4	7-Oct-11	*1	449.00	306.50
5	16-Feb-12	1	*436.00	336.40
6	6-Jun-12	1	*430.00	300.00
7	10-Sep-12	1	*421.00	348.80

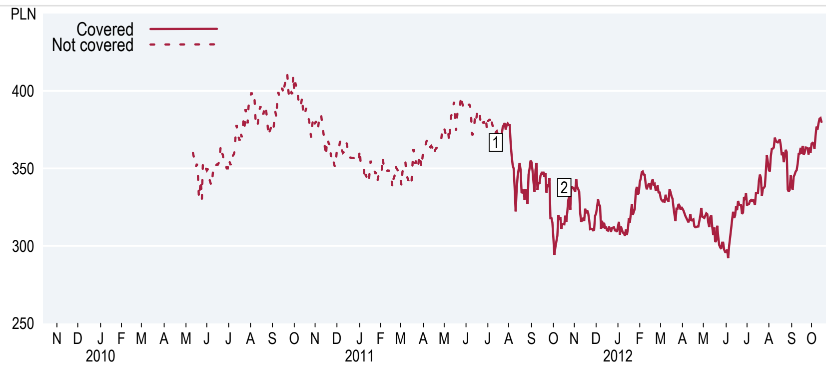
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

PZU (PZU.WA)

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

Analyst: Andrzej Powierza
Covered since December 9 2010



	Date	Rating	Target Price	Closing Price
1	13-Jul-11	*ADD MP	-	373.30
2	18-Oct-11	*REM MP	-	313.90

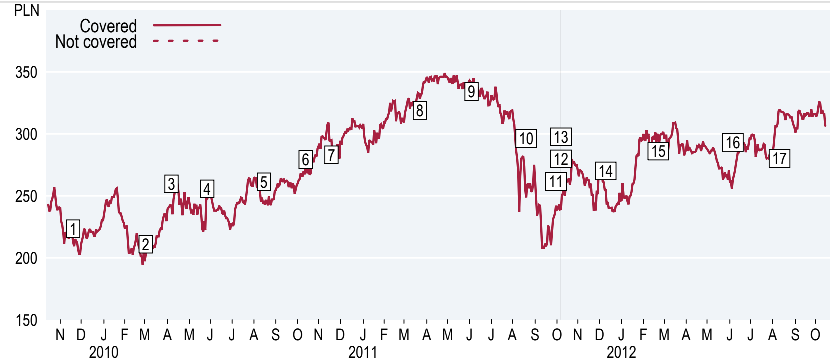
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

BRE Bank SA (BREP.WA)

Ratings and Target Price History
Fundamental Research

Analyst: Andrzej Powierza
Covered since March 2 2011



	Date	Rating	Target Price	Closing Price
1	19-Nov-09	3M	*231.29	212.49
2	2-Mar-10	*1M	*242.77	201.90
3	7-Apr-10	*2M	*268.37	241.00
4	27-May-10	*1M	*279.00	247.20
5	16-Aug-10	*2M	*273.00	245.00
6	13-Oct-10	*3M	273.00	274.50

	Date	Rating	Target Price	Closing Price
7	18-Nov-10	*2M	*337.00	294.90
8	23-Mar-11	2M	*364.00	328.00
9	3-Jun-11	2M	*351.00	338.90
10	19-Aug-11	2M	*318.00	248.60
11	30-Sep-11	*1M	*298.00	242.00
12	7-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
13	7-Oct-11	*1	298.00	239.30
14	9-Dec-11	*3	*243.00	254.70
15	22-Feb-12	3	*268.00	295.60
16	6-Jun-12	*2	*266.00	262.90
17	10-Aug-12	*3	*273.00	319.50

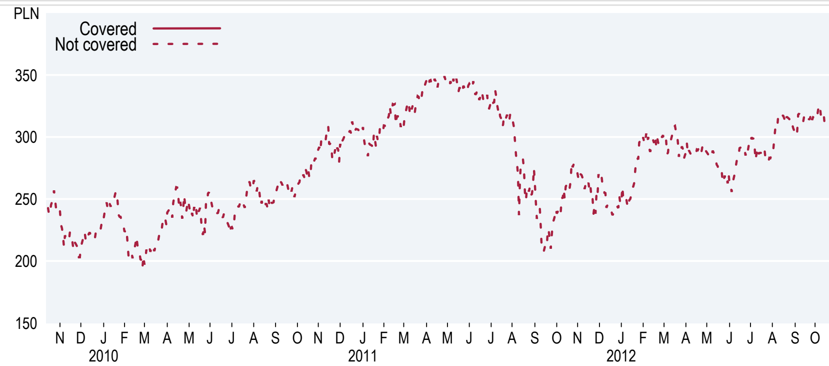
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

BRE Bank SA (BREP.WA)

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

Analyst: Andrzej Powierza
Covered since March 2 2011



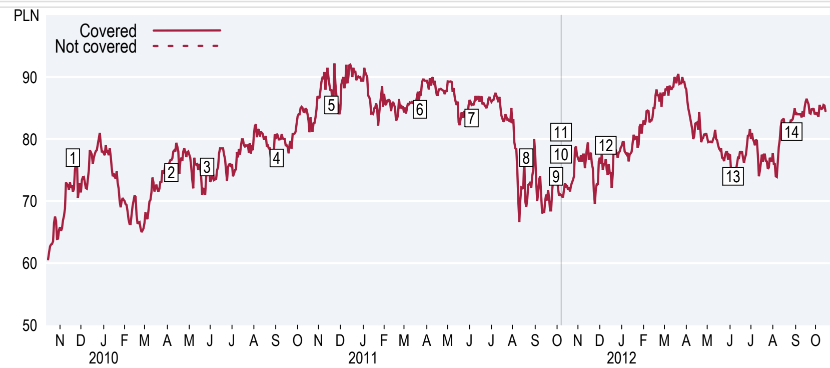
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

ING Bank Slaski SA (BSK.WA)

Ratings and Target Price History
Fundamental Research

Analyst: Andrzej Powierza
Covered since March 2 2011



	Date	Rating	Target Price	Closing Price
1	19-Nov-09	3M	*74.70	71.50
2	7-Apr-10	3M	*77.70	76.60
3	27-May-10	*2M	*80.90	75.50
4	2-Sep-10	*3M	*82.30	80.85
5	18-Nov-10	3M	*92.00	88.00

	Date	Rating	Target Price	Closing Price
6	23-Mar-11	3M	*89.50	87.70
7	3-Jun-11	3M	*89.90	85.50
8	19-Aug-11	*1M	*93.00	69.05
9	30-Sep-11	1M	*88.60	74.00
10	7-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
11	7-Oct-11	*1	88.60	71.00
12	9-Dec-11	1	*92.00	76.75
13	6-Jun-12	1	*89.00	74.00
14	28-Aug-12	*2	*88.20	83.00

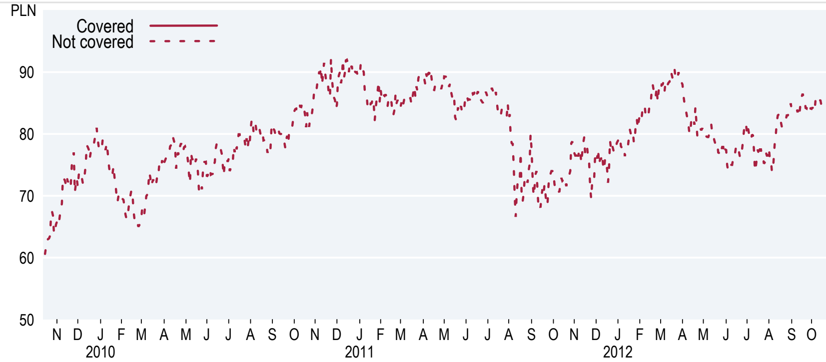
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

ING Bank Slaski SA (BSK.WA)

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

Analyst: Andrzej Powierza
Covered since March 2 2011



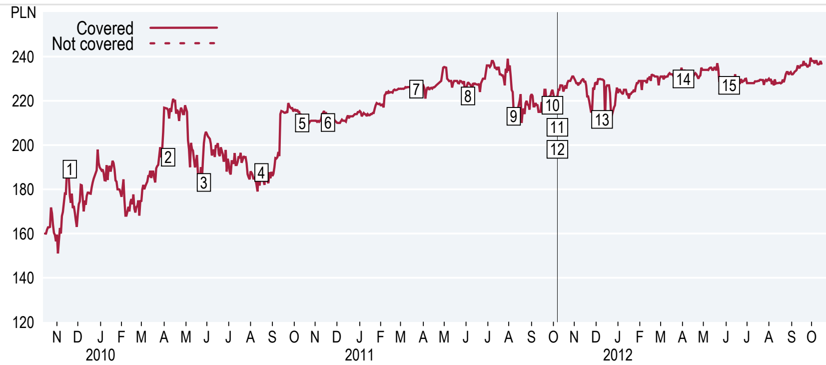
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Bank Zachodni WBK (BZW.WA)

Ratings and Target Price History
Fundamental Research

Analyst: Andrzej Powierza
Covered since March 2 2011



	Date	Rating	Target Price	Closing Price
1	19-Nov-09	*2M	*206.00	177.00
2	7-Apr-10	*3M	*216.00	215.70
3	27-May-10	*1M	*222.00	200.90
4	17-Aug-10	*2M	*216.00	184.40
5	13-Oct-10	*3M	216.00	213.00
6	18-Nov-10	*2M	*233.00	210.20
7	23-Mar-11	2M	*251.70	225.70
8	3-Jun-11	2M	*248.00	228.40
9	8-Aug-11	2M	*253.00	215.00
10	30-Sep-11	2M	*239.00	225.00
11	7-Oct-11	Stock rating system changed		
12	7-Oct-11	*2	239.00	222.00
13	9-Dec-11	2	*229.00	229.70
14	3-Apr-12	*1	*270.00	233.00
15	6-Jun-12	1	*264.00	227.90

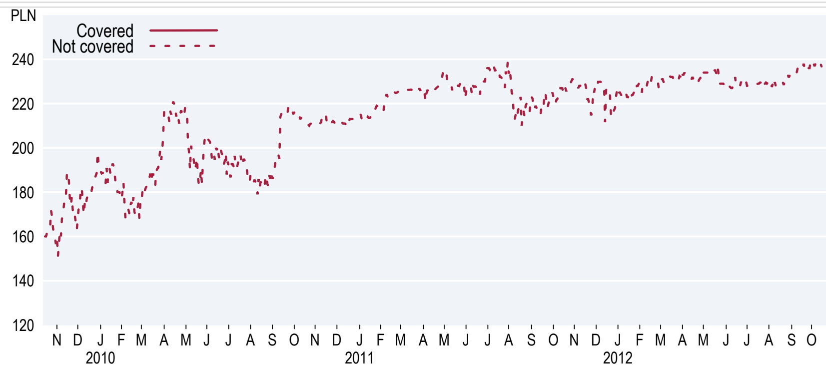
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Bank Zachodni WBK (BZW.WA)

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

Analyst: Andrzej Powierza
Covered since March 2 2011



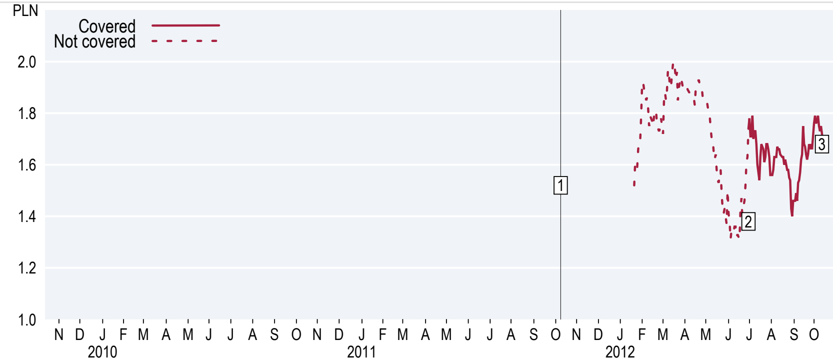
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Getin Noble Bank (GNB.WA)

Ratings and Target Price History
Fundamental Research

Analyst: Andrzej Powierza
Covered since June 29 2012



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	29-Jun-12	*1	*1.95	1.74
3	11-Oct-12	*2	*1.82	1.72

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Getin Noble Bank (GNB.WA)

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

Analyst: Andrzej Powierza
Covered since June 29 2012

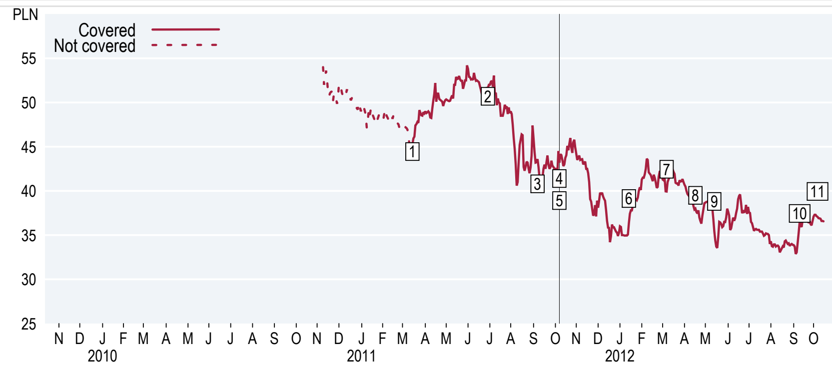
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

GPW (GPW.WA)

Ratings and Target Price History
Fundamental Research

Analyst: Andrzej Powierza
Covered since March 15 2011



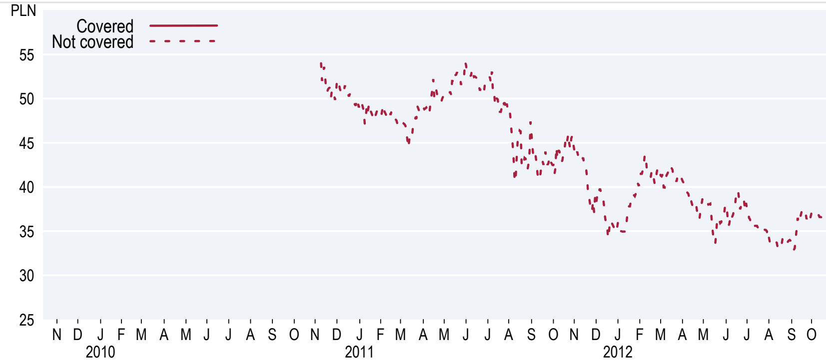
	Date	Rating	Target Price	Closing Price
1	15-Mar-11	*2M	*44.90	45.27
2	29-Jun-11	2M	*49.50	51.65
3	7-Sep-11	2M	*44.50	43.60
4	7-Oct-11	Stock rating system changed		
5	7-Oct-11	*2	44.50	43.20
6	13-Jan-12	*1H	*45.20	36.36
7	7-Mar-12	*2H	45.20	39.93
8	17-Apr-12	2H	*44.00	38.00
9	14-May-12	2H	*40.00	35.47
10	11-Sep-12	*1H	*42.10	36.50
11	5-Oct-12	*2H	42.10	37.07

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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

Analyst: Andrzej Powierza
Covered since March 15 2011

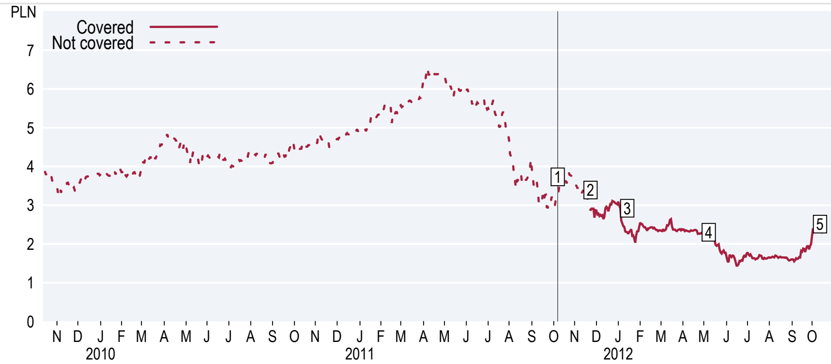


* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Getin Holding (GTN.WA)
Ratings and Target Price History
Fundamental Research

Analyst: Andrzej Powierza
Covered since November 24 2011



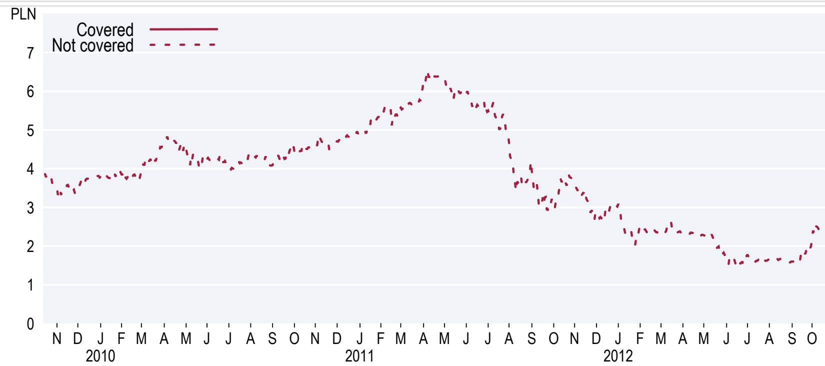
	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	23-Nov-11	*2H	*3.86	2.86
3	13-Jan-12	2H	*2.50	2.30
4	8-May-12	*1H	*3.45	2.24
5	11-Oct-12	*2H	*3.06	2.35

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Getin Holding (GTN.WA)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Andrzej Powierza
Covered since November 24 2011



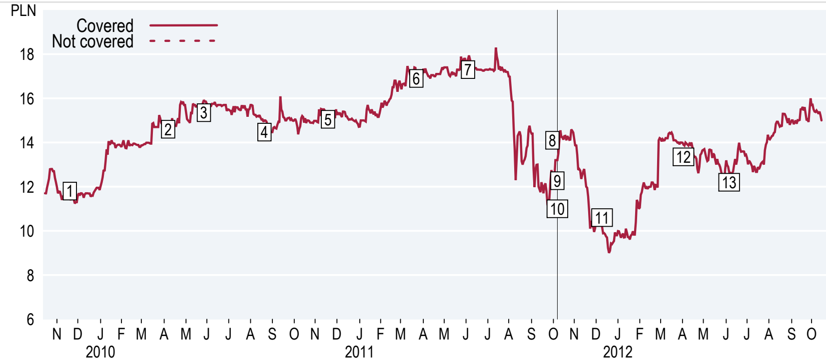
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Kredyt Bank SA (KRB.WA)

Ratings and Target Price History
Fundamental Research

Analyst: Andrzej Powierza
Covered since March 2 2011



	Date	Rating	Target Price	Closing Price
1	19-Nov-09	*2M	*12.80	11.50
2	7-Apr-10	*3M	*15.60	14.80
3	27-May-10	3M	*16.00	15.92
4	20-Aug-10	3M	*15.10	15.00
5	18-Nov-10	3M	*16.00	15.40
6	23-Mar-11	3M	*16.40	17.01
7	3-Jun-11	3M	*16.10	17.78
8	30-Sep-11	3M	*12.00	12.50
9	7-Oct-11	Stock rating system changed		
10	7-Oct-11	*3	12.00	13.20
11	9-Dec-11	3	*9.20	10.19
12	3-Apr-12	*1H	*18.80	13.90
13	6-Jun-12	1H	*18.40	12.66

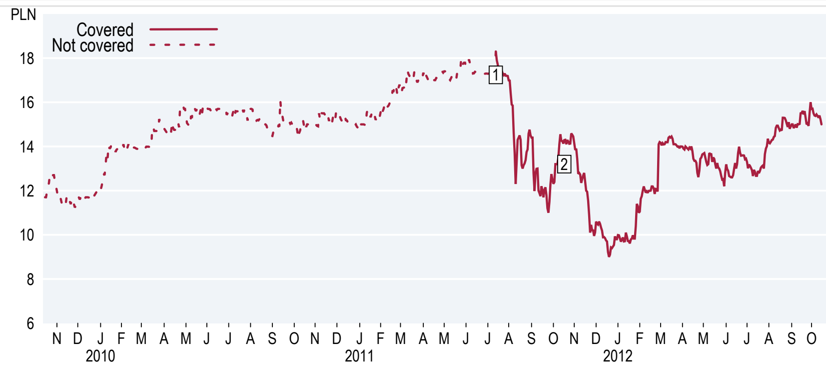
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Kredyt Bank SA (KRB.WA)

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

Analyst: Andrzej Powierza
Covered since March 2 2011



	Date	Rating	Target Price	Closing Price
1	13-Jul-11	*ADD LP	-	18.30
2	18-Oct-11	*REM LP	-	14.29

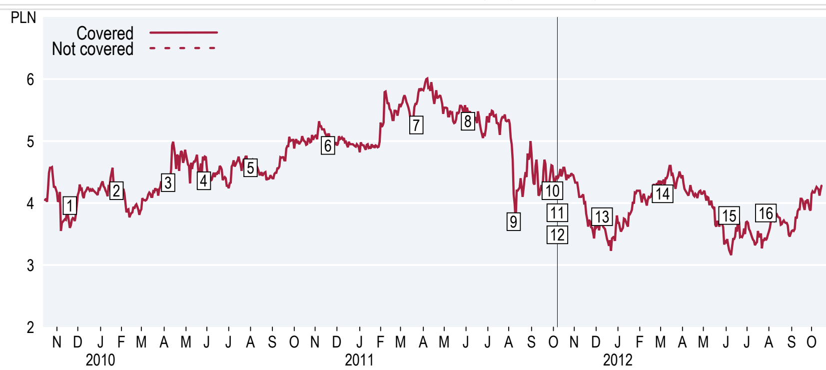
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Bank Millennium SA (MILP.WA)

Ratings and Target Price History
Fundamental Research

Analyst: Andrzej Powierza
Covered since March 2 2011



	Date	Rating	Target Price	Closing Price
1	19-Nov-09	3M	*3.61	3.60
2	25-Jan-10	3M	*3.89	4.28
3	7-Apr-10	3M	*4.40	4.44
4	27-May-10	3M	*4.70	4.69
5	2-Aug-10	3M	*4.65	4.69
6	18-Nov-10	3M	*5.14	5.11
7	23-Mar-11	3M	*5.49	5.60
8	3-Jun-11	3M	*5.67	5.46
9	8-Aug-11	3M	*5.00	4.14
10	30-Sep-11	3M	*4.53	4.60
11	7-Oct-11	Stock rating system changed		
12	7-Oct-11	*2	4.53	4.39
13	9-Dec-11	2	*3.80	3.69
14	5-Mar-12	*3	*4.10	4.33
15	6-Jun-12	*2	*3.82	3.24
16	27-Jul-12	*1	*3.85	3.40

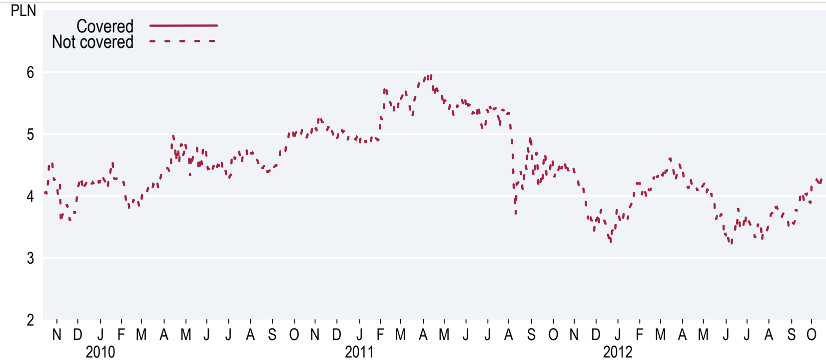
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Bank Millennium SA (MILP.WA)

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

Analyst: Andrzej Powierza
Covered since March 2 2011



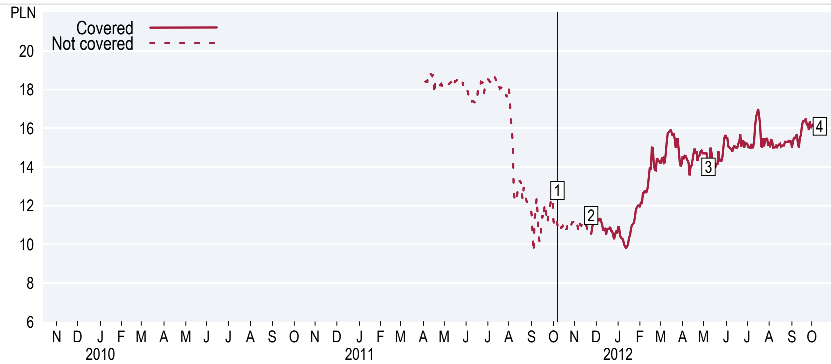
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Open Finance (OPF.WA)

Ratings and Target Price History
Fundamental Research

Analyst: Andrzej Powierza
Covered since November 24 2011



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	24-Nov-11	*1H	*18.40	10.54
3	8-May-12	1H	*19.60	14.39
4	11-Oct-12	1H	*22.10	16.10

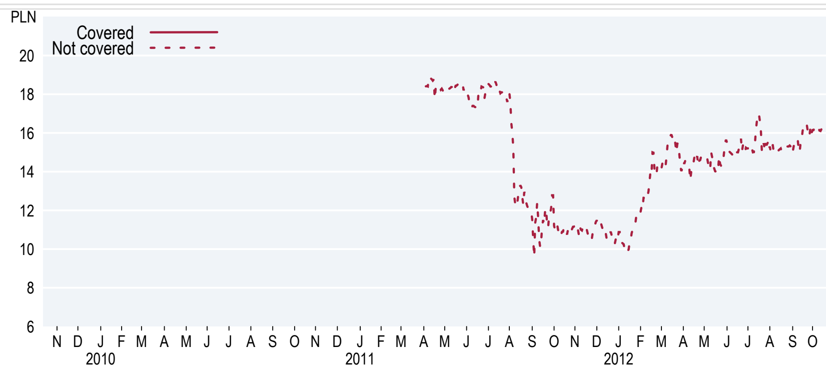
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Open Finance (OPF.WA)

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

Analyst: Andrzej Powierza
Covered since November 24 2011



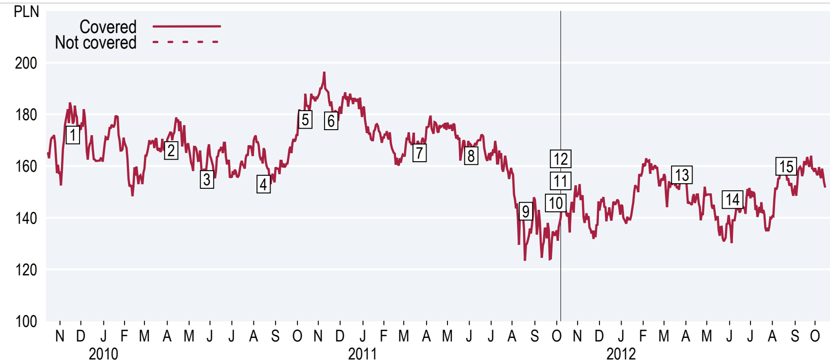
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Bank Pekao SA (PEO.WA)

Ratings and Target Price History
Fundamental Research

Analyst: Andrzej Powierza
Covered since March 2 2011



	Date	Rating	Target Price	Closing Price
1	19-Nov-09	2L	*190.00	176.40
2	7-Apr-10	2L	*192.00	172.90
3	27-May-10	*1L	*179.50	161.60
4	16-Aug-10	1L	*183.00	166.90
5	13-Oct-10	*2L	183.00	188.00

	Date	Rating	Target Price	Closing Price
6	18-Nov-10	2L	*201.00	185.00
7	23-Mar-11	*1L	*195.30	166.50
8	3-Jun-11	1L	*186.00	168.00
9	19-Aug-11	1L	*190.00	129.60
10	30-Sep-11	1L	*171.00	134.20

	Date	Rating	Target Price	Closing Price
11	7-Oct-11	Stock rating system changed		
12	7-Oct-11	*1	171.00	140.00
13	27-Mar-12	1	*173.00	156.60
14	6-Jun-12	1	*157.00	139.00
15	21-Aug-12	*2	*152.00	157.00

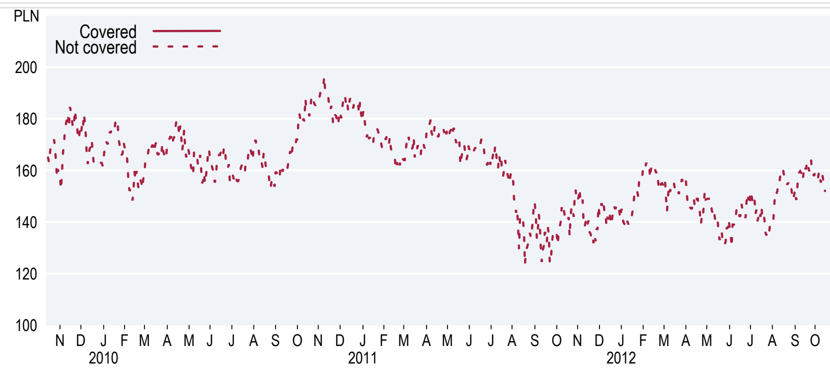
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Bank Pekao SA (PEO.WA)

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

Analyst: Andrzej Powierza
Covered since March 2 2011



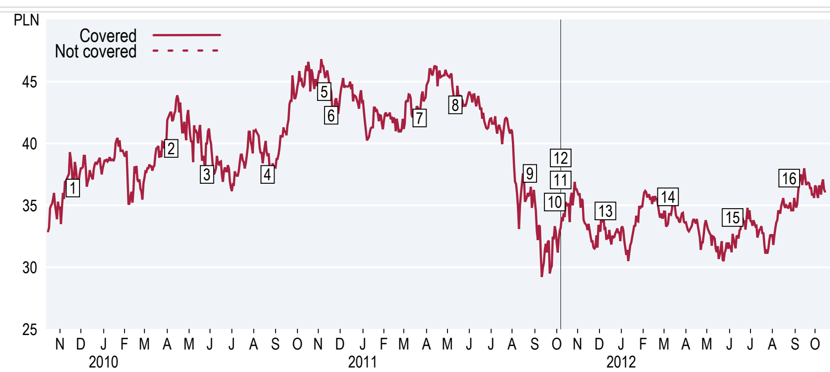
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

PKO BP (PKO.WA)

Ratings and Target Price History
Fundamental Research

Analyst: Andrzej Powierza
Covered since March 2 2011



	Date	Rating	Target Price	Closing Price
1	19-Nov-09	*1M	*46.00	36.40
2	7-Apr-10	*1L	*48.40	42.50
3	27-May-10	1L	*49.00	40.00
4	20-Aug-10	1L	*54.00	38.98
5	9-Nov-10	1L	*55.00	45.76
6	18-Nov-10	1L	*60.00	44.19

	Date	Rating	Target Price	Closing Price
7	23-Mar-11	1L	*55.50	42.40
8	12-May-11	*2L	*47.70	43.35
9	25-Aug-11	*1L	*42.90	35.90
10	29-Sep-11	1L	*41.00	33.32
11	7-Oct-11	Stock rating system changed		
12	7-Oct-11	*1	41.00	33.20

	Date	Rating	Target Price	Closing Price
13	9-Dec-11	1	*41.80	33.15
14	7-Mar-12	1	*42.70	33.52
15	6-Jun-12	1	*39.70	32.70
16	24-Aug-12	1	*40.70	34.99

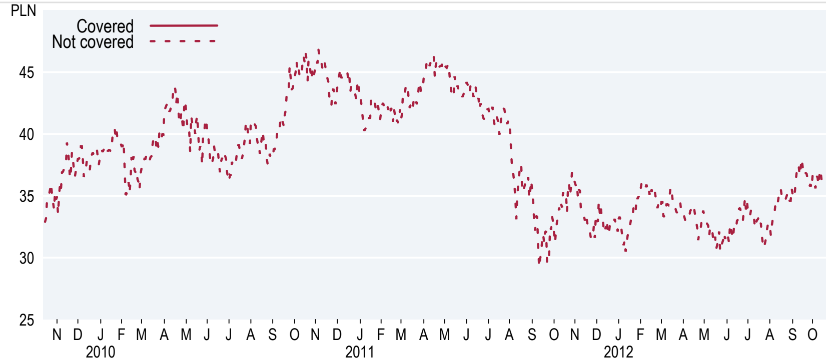
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

PKO BP (PKO.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

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DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30th September 2012 is as follows: Buy (1) representing 59% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 24% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 17% 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 September 2012 is as follows: Buy (1) representing 59% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 24% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 17% 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 rating distribution versus Investment Banking service provision in the past 12 months as at 30th September 2012 is as follows: Buy (1) representing 59% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 24% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 17% of the DMBH coverage 0% of which are IB clients.

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Cornette Van Zyl, Analyst, holds a long position in the securities of Standard Bank Group.

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

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	12 Month Rating			*Relative Rating*		
Data current as of 4 Oct 2012	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
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