

## Equities

6 June 2012 | 88 pages

# Polish Banks

## Looking for Champions Post Euro Cup 2012 – PKO BP Top Pick

- **Despite A Strong Start, the Year Will be Tough...**— Net profit of our universe of 8 Polish banks (excluding Getin Noble Bank, being in the merger process with Get Bank) grew 14% yoy in 1Q11, showing better dynamics than the whole sector (+12% yoy) and 5 out of 9 banks beat consensus estimates. However, banks managers were rather cautious on FY2012, indicating that repeating record-high 2011 profits would be a challenge given declining net fees and deceleration in lending.
- **...Also Due to Problems in Construction Industry**— In our opinion, another reason why FY2012 results will be under pressure is deterioration in asset quality, which may lead to increased provisioning. The most spectacular sign of the problem is the decision of PBG management (the construction group with ZI c1.7bn bank debt and ZI 0.6bn debt issuance, one of the biggest builders of Euro Cup 2012 infrastructure) to start bankruptcy procedures.
- **Line by Line Earning Review**— We reduce estimates of our universe's net profit by 2% this year, 14% the next year and 7% in 2014.
  - We leave estimates of net interest income (NII) broadly unchanged in 2012 but decrease them by 1% in 2013 and 3% in 2014 on the back of reduced loan assumptions (-1% and -2%, respectively);
  - We reduce net fees forecasts by 3% this year, 7% the next year and 5% in 2014 due to continued weakness in investment fund fees and incorporating a planned cut in the interchange fee into forecasts;
  - Due to lower-than-anticipated cost of risk in 1Q12, we lower net provisioning estimates in 2012E (-2%) but, taking into account macro forecasts (Citi expects 2.4% GDP growth in 2013 vs. 2.7% in 2012), we raise them in 2013E (+12%).
- **PKO BP Remains Top Pick**— For tough times, we prefer attractively valued, cost-efficient banks with little burden from low-margin "pre-crisis" mortgage loans. PKO BP (TP ZI 39.7, Buy) screens well on these criteria, followed by ING BSK (TP ZI 89, Buy). To reflect current market conditions, we upgrade BRE (TP ZI 266) and Millennium (TP ZI 3.82) to Neutral from Sell and BGZ (TP ZI 72.5) to Neutral from Buy.

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Ticker	Rating		Target Price		Current Year Earnings Estimates		Next Year Earnings Estimates	
	Old	New	Old	New	Old	New	Old	New
BAPE.WA	1	1	ZL173.00	ZL157.00	ZL11.29	ZL10.75	ZL12.10	ZL10.55
BGZ.WA	1	2	ZL53.50	ZL72.50	ZL1.46	ZL3.36	ZL4.26	ZL3.11
BIGW.WA	3	2	ZL4.10	ZL3.82	ZL0.31	ZL0.32	ZL0.33	ZL0.24
BKRE.WA	1H	1H	ZL18.80	ZL18.40	ZL0.43	ZL0.47	ZL0.47	ZL0.15
BREP.WA	3	2	ZL268.00	ZL266.00	ZL23.58	ZL25.11	ZL20.80	ZL21.32
BZWB.WA	1	1	ZL270.00	ZL264.00	ZL16.40	ZL16.35	ZL17.91	ZL15.52
PKOB.WA	1	1	ZL42.70	ZL39.70	ZL3.28	ZL3.14	ZL3.40	ZL2.91
SLAS.WA	1	1	ZL92.00	ZL89.00	ZL6.13	ZL6.09	ZL6.65	ZL5.04

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

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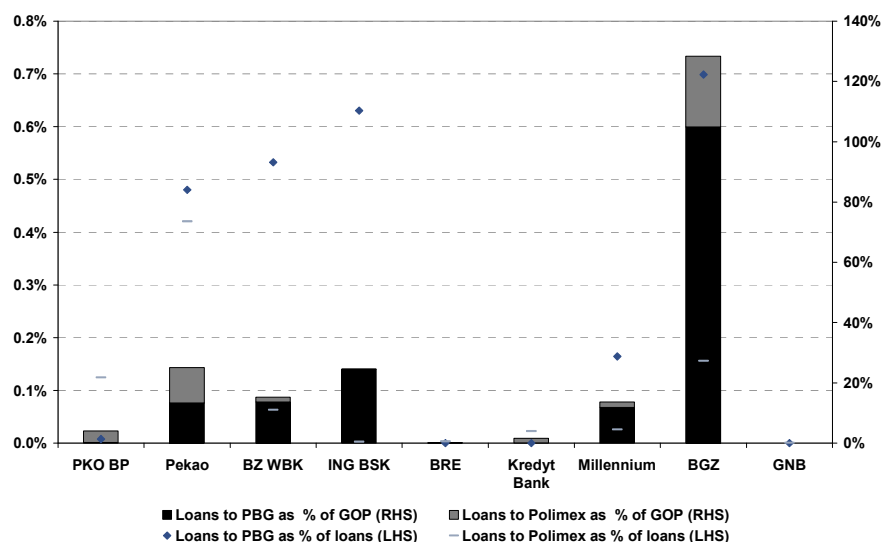
## Looking for Champions Post Euro Cup 2012

The facts speak for themselves. And numbers are the key facts for investors. Thus on that note, we have focused only on a detailed analysis of changes in our earning estimates. In the Appendix, we present our normal set of charts illustrating the banks' performance in recent quarters.

However, it is easy to get lost in lots of data, driven by seasonality and cyclicity. Trends in the Polish banking sector, from bird's-eye view, we would summarize as follows:

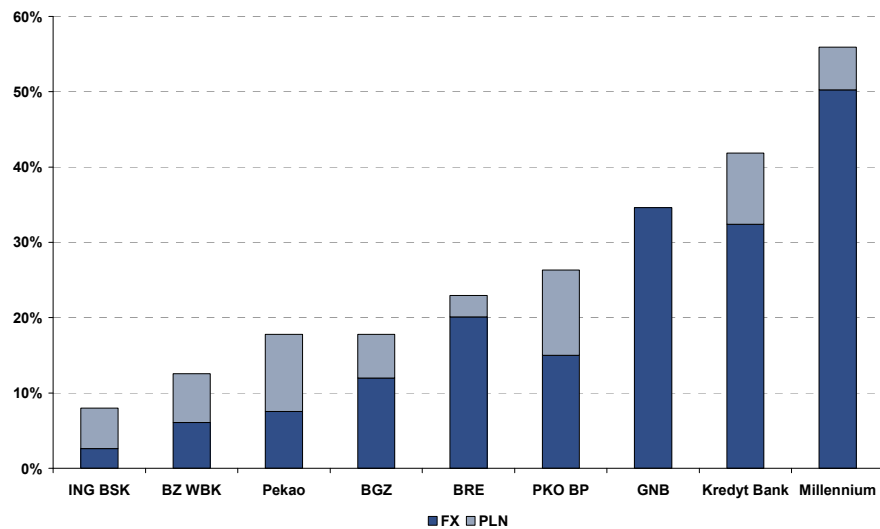
- A slowdown in the economy has started to impact volume growth in loans and deposits, which should shortly be visible also in asset quality, starting with loans to construction companies, as demonstrated by case of PBG, the construction group with ZI 1.7bn bank debt and ZI 0.6bn debt issuance, initiating bankruptcy procedures on June 4, 2012 (for more detail on the exposure on construction see [Polish Banks Big Picture - Construction Sector Exposure in the Spotlight; PKO BP Top Pick](#));
- The banks are entering these tougher times with different weights of problems; in our opinion, the biggest balance sheet burden is banks' floating rate mortgage loans granted before the credit crunch in 4Q08, as floating rate clients have benefited from lower interest rates (and partly due to that have avoided massive defaults on FX mortgages) but banks for 20-30 years are stuck with low-margin loans, consuming capital and funding – interestingly, there is close relationship between the share of “pre-crisis” loans in banks' total loans and their profitability (measured by comparing the recent EPS to 3Q08 EPS);
- In such a volatile global macro situation, revenues are uncertain and thus the banks' capacity to control costs is crucial but we view one quarter results, often affected by changes in allocation costs between quarters, as not enough of a sample to judge FY2012 trends; we note, however, that BRE's management seems determined to continuously control costs (we rank the stock Neutral because we expect the bank to be negatively affected by industry-wide deterioration in asset quality).

Figure 1. Polish Banks – Exposure to PBG and Polimex, 2011 (Percentage)



Source: Company reports, Citi Investment Research and Analysis

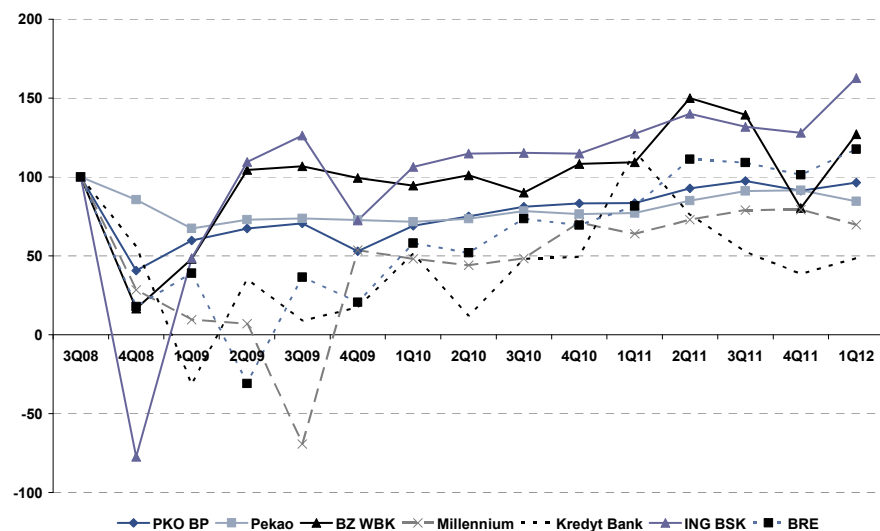
Figure 2. Polish Banks – “Pre-crisis” \* Mortgage Loans as % of 1Q12 Loans (Percentage)



Note: \* Granted before end of 2008

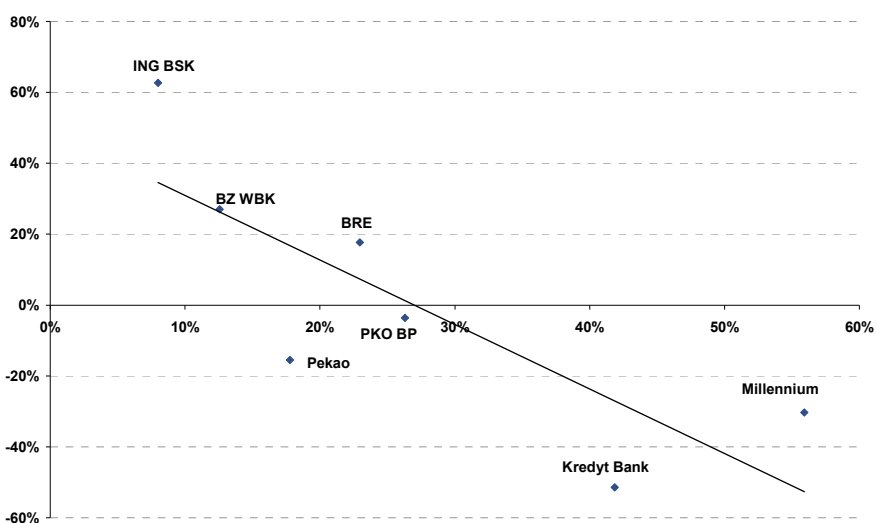
Source: Company reports, Citi Investment Research and Analysis

Figure 3. Polish Banks – EPS Performance (3Q08 = 100)



Source: Company reports, Citi Investment Research and Analysis

Figure 4. Polish Banks – “Pre-crisis” \* Mortgage Loans as % of 1Q12 Loans (x –axis) vs. EPS Change 1Q12 vs. 1Q08 (y – axis), (Percentage)



Source: Company reports, Citi Investment Research and Analysis

## Investment Summary

Figure 5. Polish Banks – Valuation Table

	Current price	Target Price	P/E			P/BV			ROE		
			2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
BANK MILLENNIUM	3.42	3.82	10.7	14.1	7.2	0.9	0.8	0.8	8.3%	6.0%	11.0%
BRE	261.50	266.00	10.4	12.3	9.3	1.2	1.2	1.1	12.3%	9.6%	12.1%
BZ WBK	227.90	264.00	13.9	14.7	12.2	2.0	2.0	1.9	15.4%	13.8%	15.9%
ING BSK	74.95	89.00	12.3	14.9	9.5	1.3	1.3	1.2	11.6%	8.9%	13.3%
KREDYT BANK	12.98	18.40	27.5	85.4	16.0	1.1	1.1	1.0	4.1%	1.3%	6.6%
PEKAO	136.00	157.00	12.7	12.9	10.4	1.6	1.5	1.5	12.8%	12.0%	14.6%
PKO BP	31.66	39.70	10.1	10.9	8.7	1.6	1.5	1.3	16.4%	14.0%	16.2%
BGZ	71.00	72.50	21.1	22.8	9.8	1.1	1.0	0.9	5.3%	4.7%	10.1%

Source: Citi Investment Research and Analysis, datacentral

We continue to value Polish Banks by two methods:

- Standard Warranted Equity Valuation based upon the formula: Price / Book value = (Sustainable RoE - growth) / (Cost of equity - growth).
- Economic Value Added Valuation equals 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).

Given decreased net profit estimates (described in detail in the next section) and lower ROE forecasts, we have reduced our assumptions of sustainable ROE, which has driven cuts in our target prices, as presented in the following table.

Figure 6. Polish Banks – Summary of Changes in Valuations

	Target Price		Standard WEV		Sustainable ROE		EVA	
	OLD	NEW	OLD	NEW	OLD	NEW	OLD	NEW
BANK MILLENNIUM	4.1	3.82	4.1	3.82	11.5%	11.0%	4.68	4.74
BRE	268.0	266.0	268	266	12.5%	12.0%	312	308
BZ WBK*	270.0	264.0	252	220	17.0%	16.0%	272	277
ING BSK	92.0	89.0	92.0	89.2	14.5%	13.5%	90.0	103.8
KREDYT BANK*	18.8	18.4	9.2	9.2	10.5%	10.5%	10.3	10.6
PEKAO**	173.0	157.0	161	147	15.0%	14.0%	173.0	195
PKO BP	42.7	39.7	42.7	39.7	17.0%	16.0%	47.0	46.3
BGZ	53.5	72.5	53.5	59.0	10.0%	10.0%	61.2	59.0

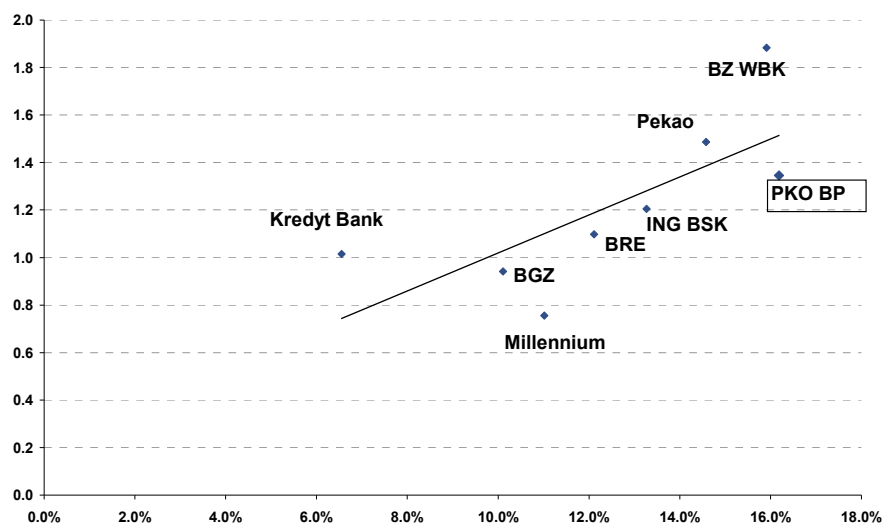
\* Target price for BZ WBK and Kredyt Bank based on the pro-forma valuation of the merged bank (sustainable ROE assumed at 17%). \*\* Target price based on average VEV valuation based on reported (60%) and normalized (40%) capital.

Source: Citi Investment Research and Analysis

**PKO BP (Buy, TP ZI 39.7) remains our Top Pick...**

PKO BP (Buy, TP ZI 39.7) remains our Top Pick among Polish banks. It is an attractively valued (10.1x PE 2012E), highly profitable bank (we view 2012E 16% ROE as sustainable in longer term), and a market leader with a strong (but in need of refurbishment) retail franchise and a reasonable appetite for risk.

Figure 7. Polish Banks – P/BV vs. ROE (2014E)



Source: Citi Investment Research and Analysis

**...followed by Kredyt Bank (Buy/High Risk, TP ZI 18.4)...**

We like Santander and KBC's plans to merge their Polish subsidiaries, BZ WBK (Buy, TP ZI 264) and Kredyt Bank (Buy/High Risk TP ZI 18.8), to create Poland's third-largest bank by assets, deposits, branches and equity. We see BZWKB as well managed, highly profitable and trading at high multiples, while Kredyt Bank currently achieves significantly lower levels of profitability, creating room for significant synergies (we expect ZI 322m cost synergies and ZI 0m revenues synergies in 2015). Kredyt Bank shares, due to trading at a discount due to proposed merger parity (0.0570 vs. 0.0696), allow for cheaper purchase of the shares in the future merged bank.

In 2011 we appreciated Pekao's (Buy, TP ZI 157) uncharacteristically strong loan growth and characteristically tight cost control and low cost of risk, but we note that the stock trades at a premium to its closest peer. Even if Pekao were to return all

surplus capital to shareholders, the bank would trade at a 14-22% premium to PKO BP on 2011-14E earnings.

We appreciate ING BSK's (Buy, TP ZI 89) conservative business model, its strong franchise in corporate and retail banking, and its positive leverage to low interest rates. We note, however, that given high growth in lending in 2009-2011, the expected slowdown in the economy should inevitably lead to higher provisioning that, due to the bank's low margin business model, will materially impact the bottom line. We note also that the bank, post acquisition and consolidation of the leasing and factoring subsidiaries, is no longer as liquid as it used to be (loan-to-deposit ratio 91% in 1Q12 vs. 76% in 1Q11 and 65% in 1Q10).

Rising consumer lending and improving deposit margin have been the main drivers of BRE's earnings growth in 2010 and 2011. However we see headwinds for both, leading us to remain cautious on the outlook for BRE shares. Additionally, we expect deterioration of the economy to negatively affect the bank's cost of risk. Nevertheless, due to the decline in market price, we raise the stock rating to Neutral from Sell (TP ZI 266).

We see no catalysts for the Bank Millennium stock: In our opinion, it is no longer an attractive (for minorities) M&A story, funding costs are rising, and the bank has not developed new products to exploit its branch sales capacity and dilute the share of low-margin FX mortgages granted before end of 2008 in total loans. However, the declining share price has led us to increase our rating to Neutral from Sell (TP ZI 3.82).

Our assessment of the fundamental value of BGZ (ZI 59 according to warranted equity valuation and EVA) is much lower than the price offered by Rabobank (ZI 72.5) in the public tender, thus we set our target price at the tender price, lowering our rating to Neutral from Buy due to the market price increase, and would recommend investors take advantage of the tender.

## Estimate Revision

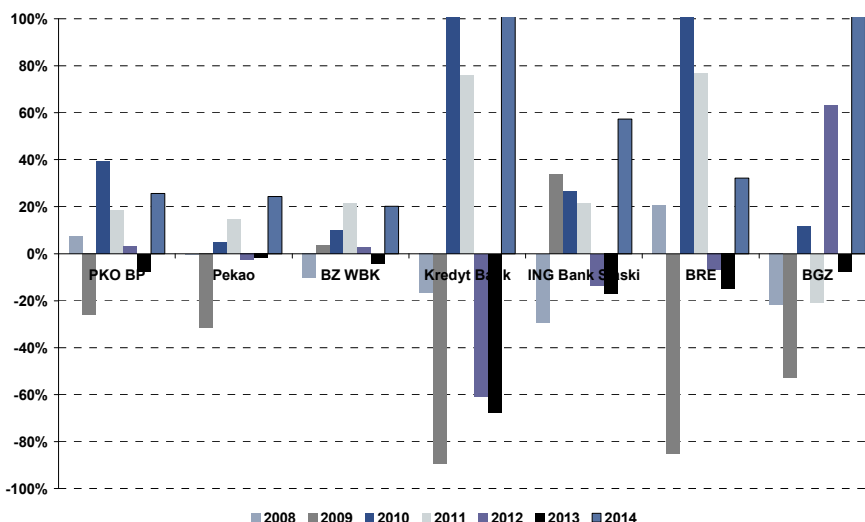
Figure 8. Polish Banks – Changes in Net Profit Estimates, 2012E-2014E (Polish Zloty in million)

	2012E			2013E			2014E		
	OLD	NEW	Chg.	OLD	NEW	Chg.	OLD	NEW	Chg.
PKO BP	4,103	3,930	-4.2%	4,245	3,637	-14.3%	5,064	4,569	-9.8%
Pekao	2,964	2,822	-4.8%	3,176	2,768	-12.9%	3,552	3,440	-3.2%
BZ WBK	1,218	1,214	-0.3%	1,344	1,165	-13.3%	1,491	1,400	-6.1%
Millennium	380	389	2.5%	400	293	-26.6%	634	573	-9.5%
Kredyt Bank	116	128	10.3%	128	41	-67.6%	342	221	-35.3%
ING Bank Slaski	798	792	-0.7%	865	656	-24.2%	1,115	1,031	-7.6%
BRE	993	1,057	6.5%	876	897	2.5%	1,222	1,186	-2.9%
BGZ	63	145	130.3%	184	134	-26.9%	305	313	2.6%
<b>Total</b>	<b>10,571</b>	<b>10,332</b>	<b>-2.3%</b>	<b>11,034</b>	<b>9,457</b>	<b>-14.3%</b>	<b>13,421</b>	<b>12,421</b>	<b>-7.4%</b>

Source: Citi Investment Research and Analysis



Figure 9. Polish Banks – Net Income Growth, 2008-2014E (Percentage)



Source: Citi Investment Research and Analysis

**Net profit estimates cut by 2% this year, 14% the next year and 7% in 2014**

Taking into account 1Q12 results and current trends in the industry, we reduce estimates of our universe of 8 Polish banks net profit by 2% this year, 14% next year and 7% in 2014. We estimate net profit of the 8 covered Polish banks to decline 4% in 2012E and 8% in 2013E, and rebound 31% in 2014E.

**GDP growth decelerating to 2.4% in 2013 from 2.7% in 2012 driving provision forecasts**

The higher reduction in 2013 estimates than in 2012 is a result of the changes in provisioning estimates. On the one hand, cost of risk in 1Q12 was lower than anticipated and the banks guidance for 2Q12 was also rather optimistic ("we see no deterioration in asset quality, as yet cost of risk has remained at 1Q12 level"). On the other hand, given the macro forecasts of Citi economists (GDP growth decelerating from 4.3% in 2011 to 2.7% in 2012 and further declining to 2.4% in 2013), we see no reason to expect asset deterioration to stop in the middle of 2013 (which was in our previous models). Thus we have decided to lower net provisioning estimates in 2012 (by 2%) but increase them in 2013 (by 12%).

Bankruptcies of construction companies are in focus due to the scale of some companies' problems in relation to infrastructure projects (e.g. stadiums, highways) planned to be completed before the kick-off of UEFA Euro Cup 2012. But we think rising defaults will happen not only in that industry, but also in related ones (like transport) and the snow-ball effect may impact all parts of the economy.

According to KUKE, in May 2012 82 bankruptcies were declared by Polish courts (+32% yoy) and over the 13 months trailing number of bankruptcies rose to 788 from 688 a year ago. Construction leads in terms of number of bankruptcy cases (17 in May 2012, +55% yoy). According to Euler Hermes Collection, out of the 10 biggest bankruptcies declared in May 2012, 3 were in the construction sector and 2 in the construction material sector. The company has reported a rising number of vindication cases against transport companies, pipe producers and other suppliers to the construction sector. A rising number of bankruptcies is also seen among retailers (11 cases, +175% yoy).

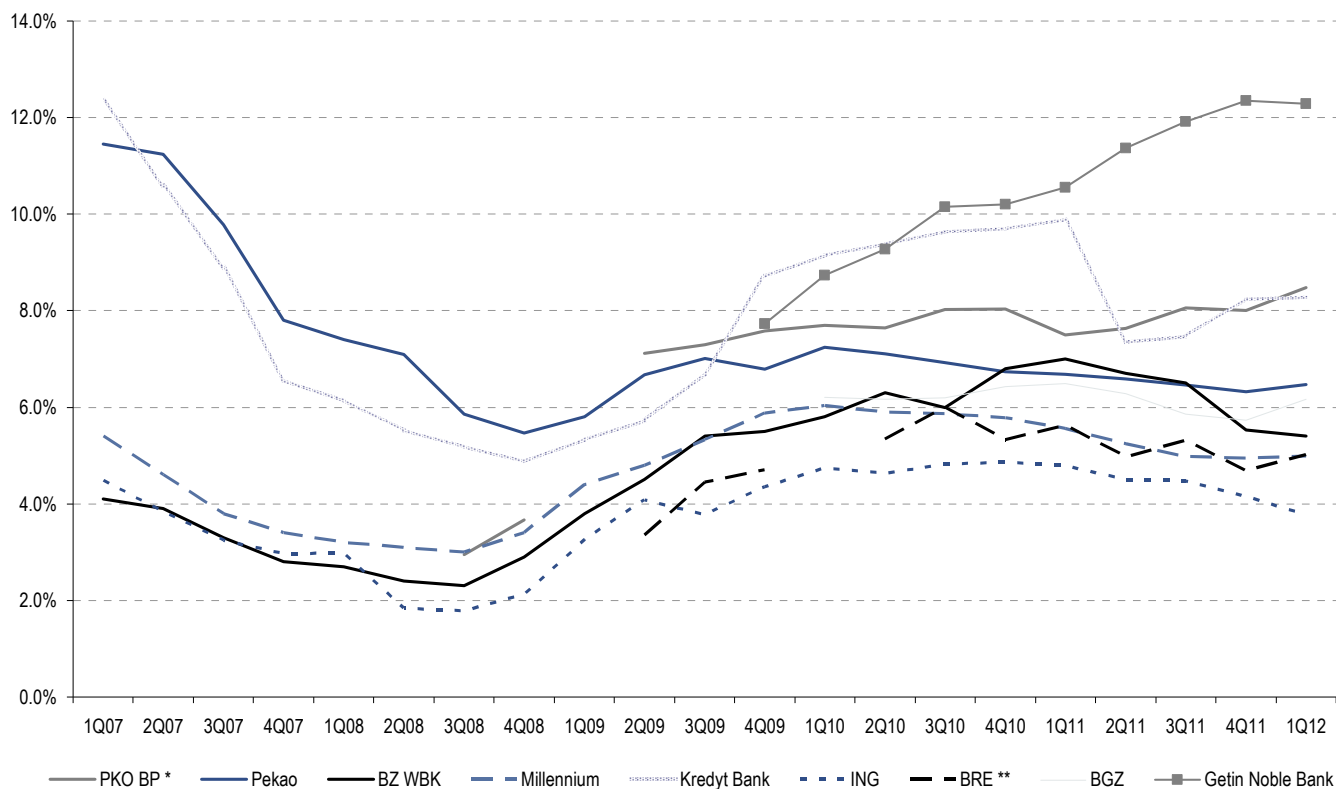
Figure 10. Polish Banks – Changes in Net Provisioning Estimates, 2012E-2014E (Polish Zloty in million)

	2012E			2013E			2014E		
	OLD	NEW	Chg.	OLD	NEW	Chg.	OLD	NEW	Chg.
PKO BP	-2,299	-2,264	-1.5%	-2,271	-2,442	7.5%	-1,900	-1,800	-5.3%
Pekao	-785	-760	-3.1%	-768	-926	20.6%	-720	-668	-7.2%
BZ WBK	-492	-472	-4.0%	-476	-562	17.9%	-459	-451	-1.7%
Millennium	-332	-310	-6.8%	-399	-443	11.2%	-343	-333	-3.0%
Kredyt Bank	-419	-357	-14.8%	-412	-453	9.9%	-318	-314	-1.2%
ING Bank Slaski	-444	-448	1.0%	-497	-586	17.9%	-420	-350	-16.7%
BRE	-628	-652	3.9%	-804	-864	7.6%	-730	-702	-3.9%
BGZ	-225	-229	1.7%	-230	-284	23.6%	-196	-191	-2.1%
<b>Total</b>	<b>-5,624</b>	<b>-5,493</b>	<b>-2.3%</b>	<b>-5,857</b>	<b>-6,560</b>	<b>12.0%</b>	<b>-5,086</b>	<b>-4,809</b>	<b>-5.4%</b>

Source: Citi Investment Research and Analysis

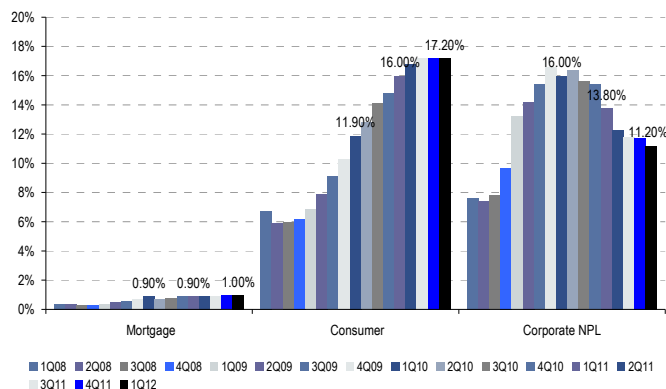
## NPL Ratios

Figure 11. Polish Banks – NPL Ratios, 1Q07-1Q12 (Percentage)



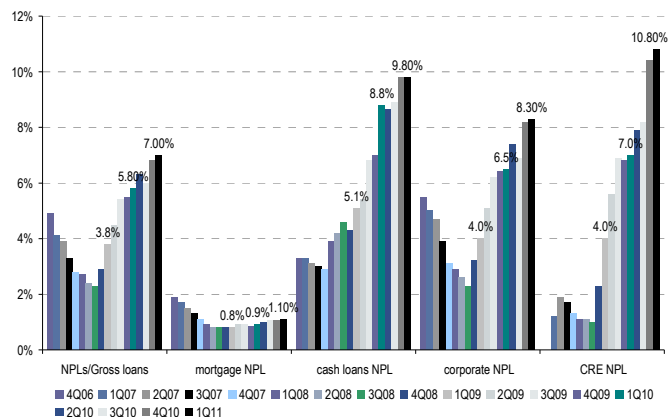
Source: Companies' reports, Citi Investment Research and Analysis

Figure 12. Bank Millennium – NPL Ratios, 1Q08-1Q12 (Percentage)



Source: Company reports, Citi Investment Research and Analysis

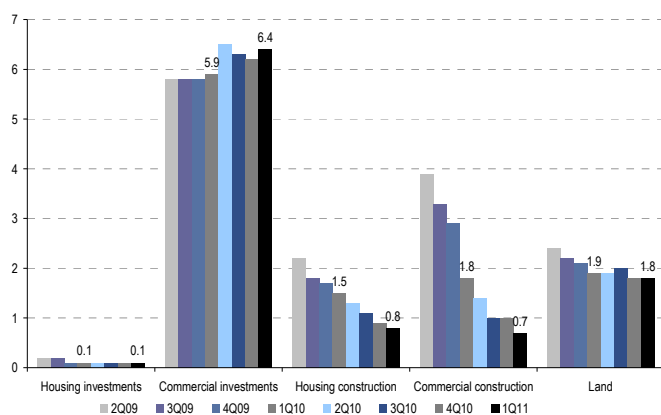
Figure 13. BZ WBK – NPL Ratios, 4Q06-1Q11 (Percentage)



Note: Since 2Q11 the bank discontinued presenting data on NPL ratios by products

Source: Company reports, Citi Investment Research and Analysis

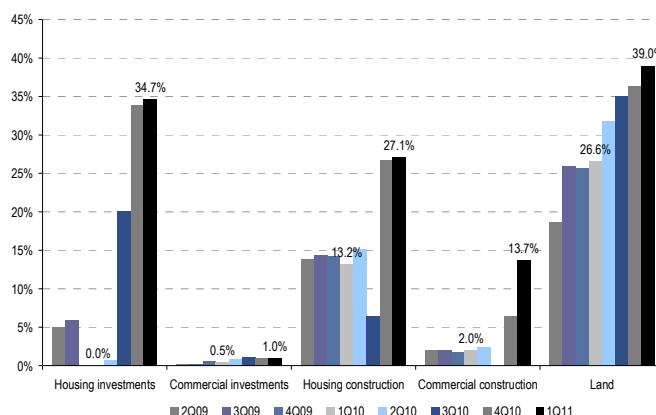
Figure 14. BZ WBK – CRE Loans, 2Q09-1Q11 (Polish Zloty in billion)



Note: Since 2Q11 the bank discontinued presenting data on CRE loans

Source: Company reports, Citi Investment Research and Analysis

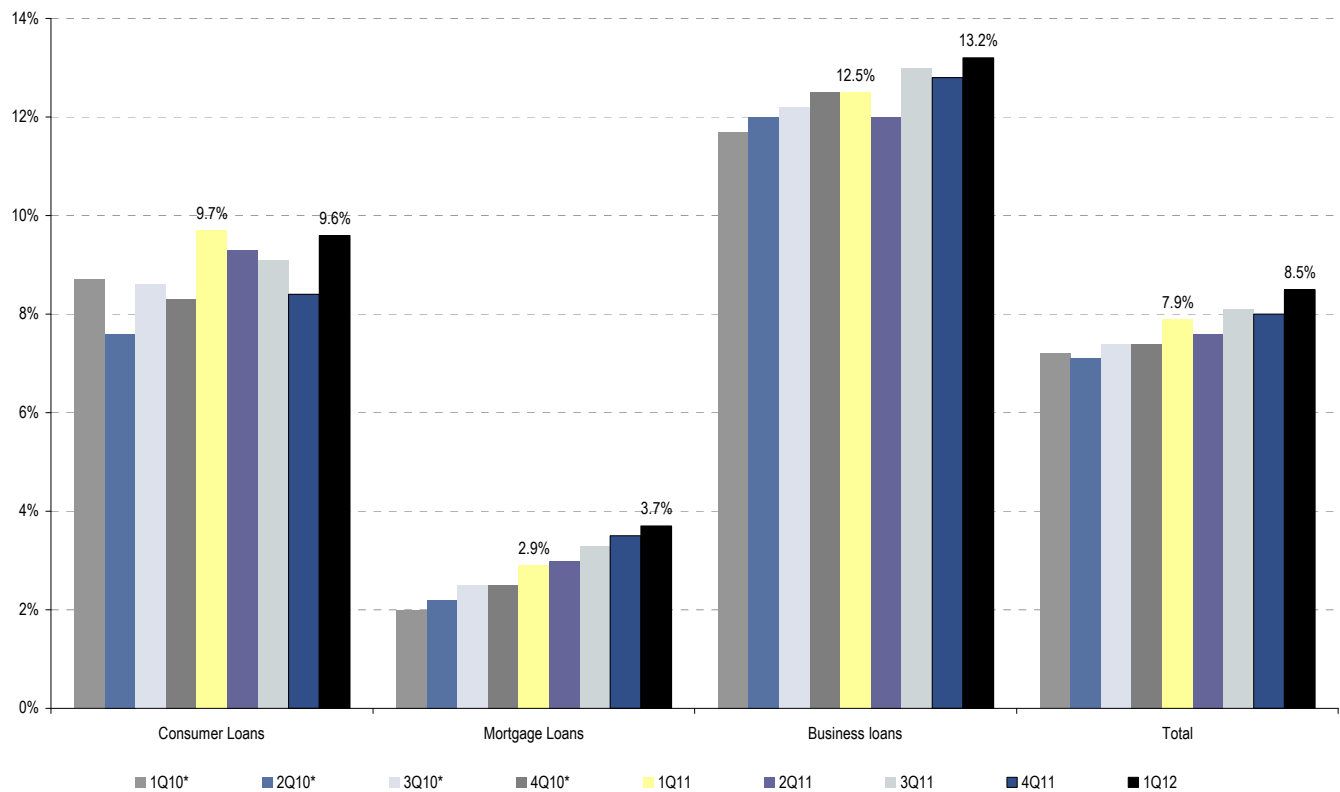
Figure 15. BZ WBK – NPL Ratio in CRE Loans, 2Q09-1Q11 (Percentage)



Note: Since 2Q11 the bank discontinued presenting data on CRE loans

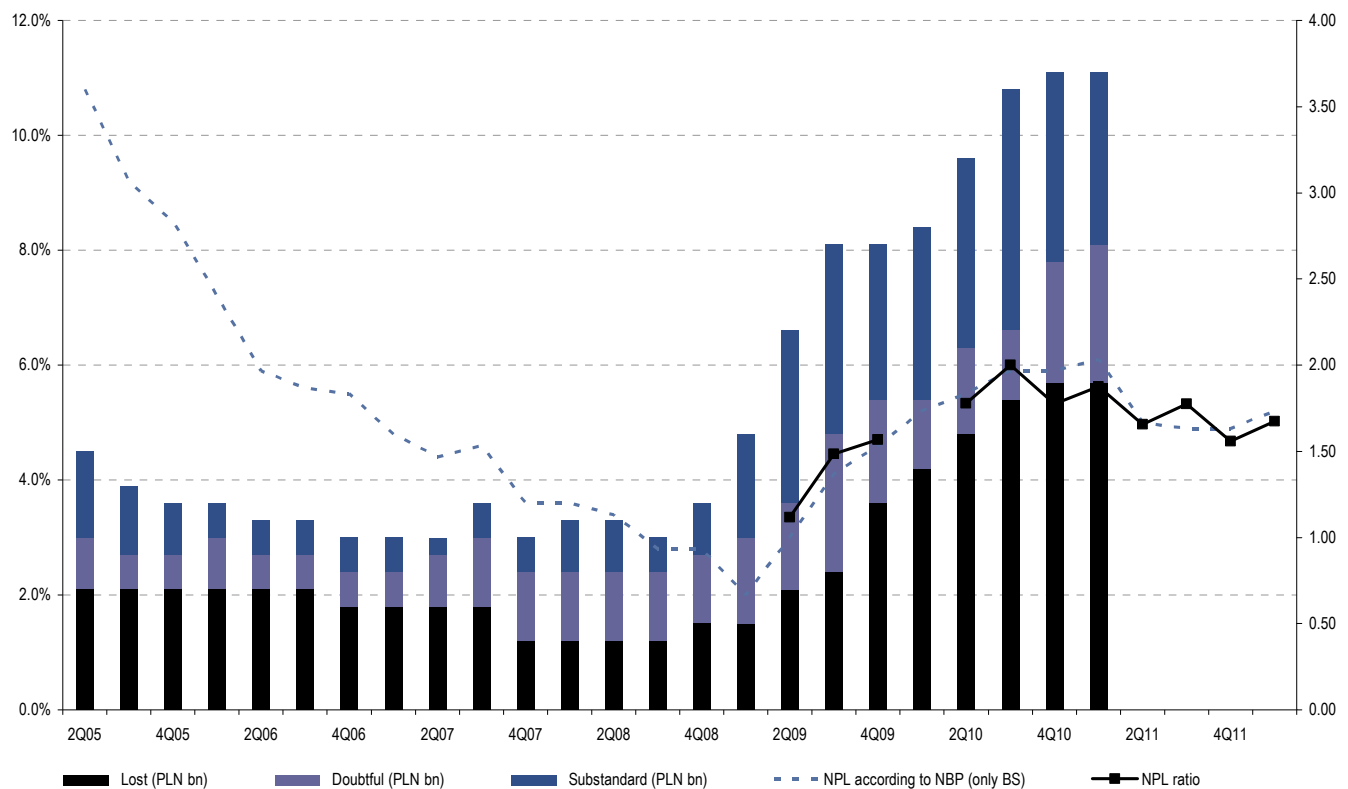
Source: Company reports, Citi Investment Research and Analysis

Figure 16. PKO BP – NPL Ratios\*\*, 1Q10-1Q12 (Percentage)



Note: \* Share of loans with impairment triggers in total loans; \*\* Share of loans with recognized loss in total loans;  
Source: Company reports, Citi Investment Research and Analysis

Figure 17. BRE Bank – Default Ratio and NPL Ratios According to NBP Classification, 2Q05-1Q12 (Percentage)

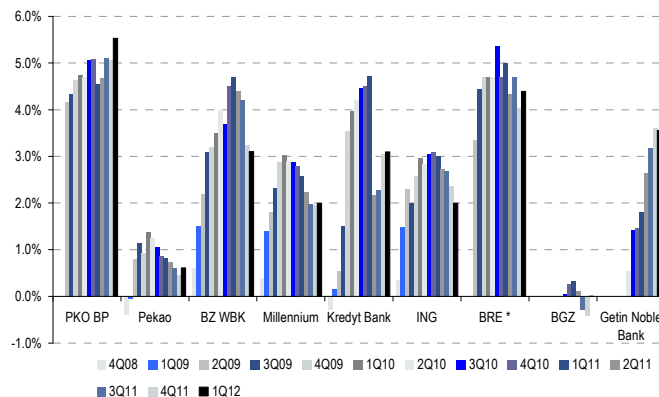


Note: Since 2Q11 the bank discontinued presenting data on lost, doubtful and substandard loans

Source: Company reports, Citi Investment Research and Analysis

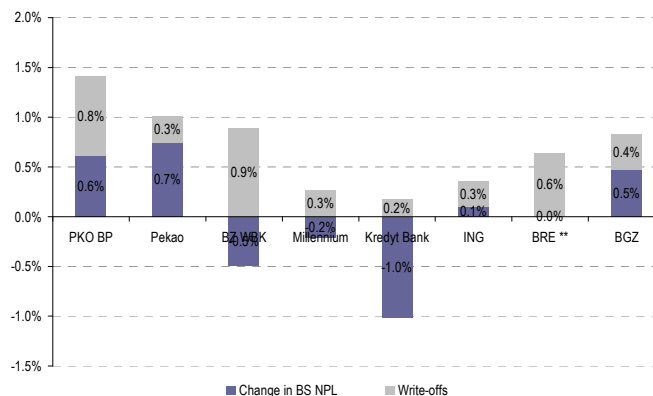
## NPL Formation

Figure 18. Polish Banks – Accumulated Balance Sheet NPL Formation Since 3Q08, 4Q08-1Q12 (Percentage)



Source: Company reports, Citi Investment Research and Analysis

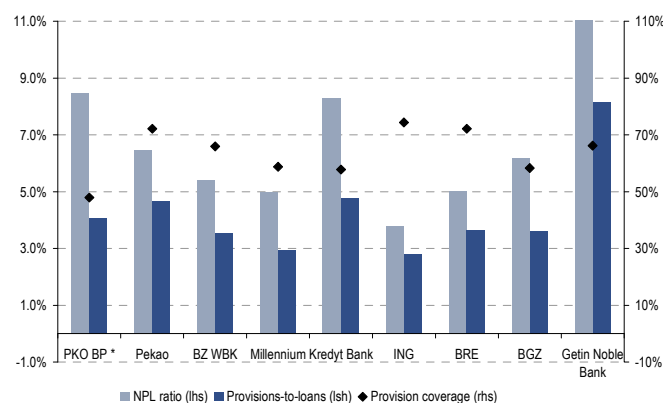
Figure 19. Polish Banks – Total NPL Formation as % of 2011 Loans, 2011 (Percentage)



Source: Company reports, Citi Investment Research and Analysis

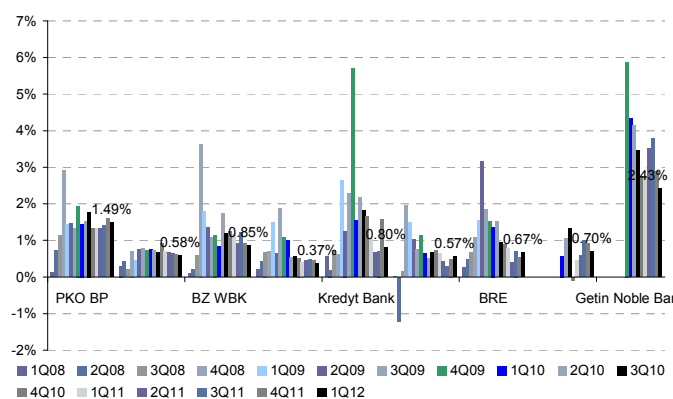
## Provisioning

Figure 20. Polish Banks – Summary of Provision and NPL, 1Q12 (Percentage)



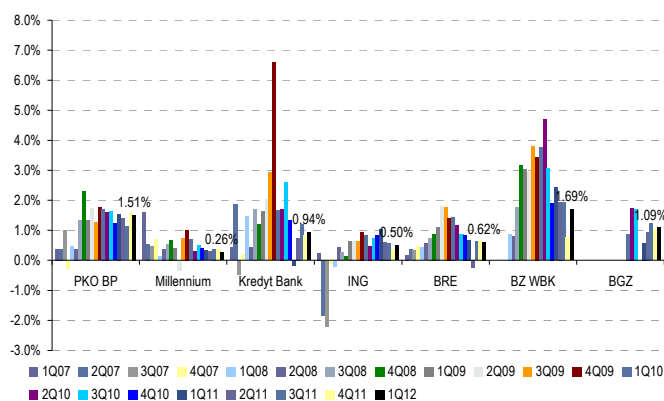
Source: Company reports, Citi Investment Research and Analysis

Figure 21. Polish Banks – Provision Charges on Total Loans, 1Q07-1Q12 (Percentage)



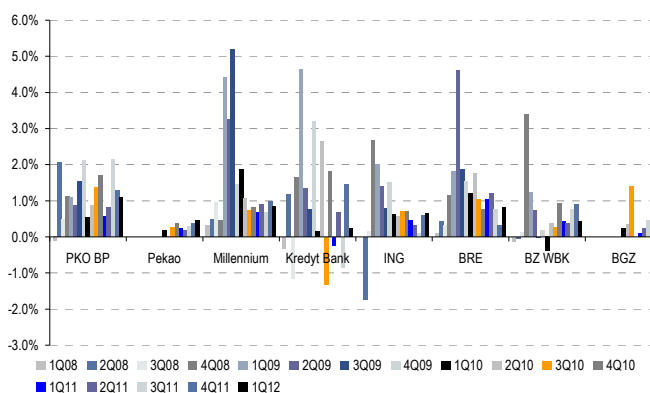
Source: Company reports, Citi Investment Research and Analysis

Figure 22. Polish Banks – Provision Charges on Retail Loans, 1Q07-1Q12 (Percentage)



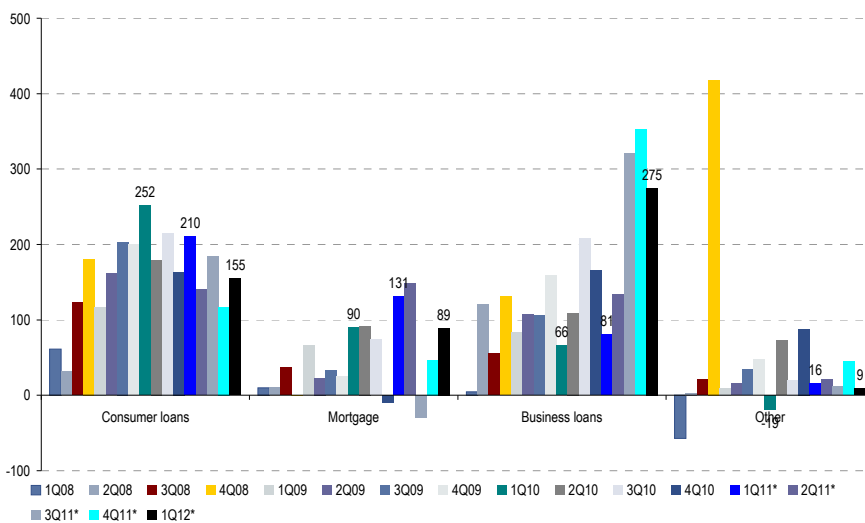
Source: Company reports, Citi Investment Research and Analysis

Figure 23. Polish Banks – Provision Charges on Corporate Loans, 1Q08-1Q12 (Percentage)



Source: Company reports, Citi Investment Research and Analysis

Figure 24. PKO BP – Provisioning Per Product (Unconsolidated), 1Q08-1Q12 (Polish Zloty in million)



Source: Company reports, Citi Investment Research and Analysis

\* consolidated data

## Volume Dynamics

Figure 25. Polish Banks – Changes in Loan Estimates, 2012E-2014E (Polish Zloty in million)

	2012E			2013E			2014E		
	OLD	NEW	Chg.	OLD	NEW	Chg.	OLD	NEW	Chg.
PKO BP	150,326	148,112	-1.5%	164,313	157,200	-4.3%	181,362	170,159	-6.2%
Pekao	98,497	98,824	0.3%	106,617	106,971	0.3%	115,406	115,788	0.3%
BZ WBK	40,748	40,059	-1.7%	44,106	43,361	-1.7%	47,742	46,935	-1.7%
Millennium	44,301	42,977	-3.0%	47,483	46,064	-3.0%	50,893	49,372	-3.0%
Kredyt Bank	29,967	29,599	-1.2%	31,184	30,801	-1.2%	32,450	32,051	-1.2%
ING Bank Slaski	45,238	51,220	13.2%	49,934	55,442	11.0%	55,118	61,198	11.0%
BRE	72,005	69,219	-3.9%	77,940	74,925	-3.9%	84,365	81,101	-3.9%
BGZ	26,734	27,232	1.9%	30,744	30,055	-2.2%	34,433	33,827	-1.8%
<b>Total</b>	<b>507,815</b>	<b>507,241</b>	<b>-0.1%</b>	<b>552,321</b>	<b>544,818</b>	<b>-1.4%</b>	<b>601,768</b>	<b>590,431</b>	<b>-1.9%</b>

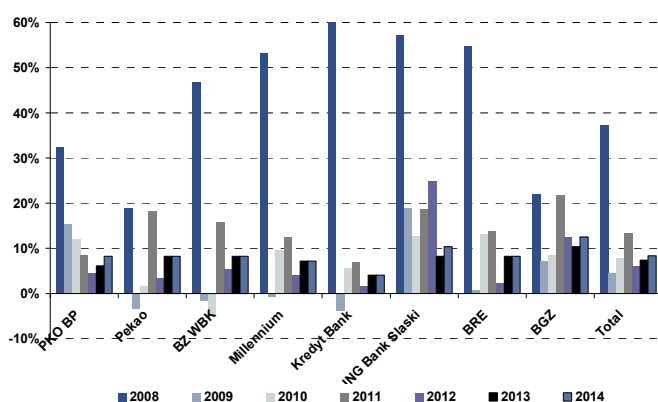
Source: Citi Investment Research and Analysis

Figure 26. Polish Banks – Changes in Deposit Estimates, 2012E-2014E (Polish Zloty in million)

	2012E			2013E			2014E		
	OLD	NEW	Chg.	OLD	NEW	Chg.	OLD	NEW	Chg.
PKO BP	155,455	153,029	-1.6%	166,619	164,019	-1.6%	180,354	177,540	-1.6%
Pekao	116,202	116,877	0.6%	124,548	125,271	0.6%	133,493	134,268	0.6%
BZ WBK	49,696	46,600	-6.2%	53,792	50,441	-6.2%	58,227	54,599	-6.2%
Millennium	40,513	40,255	-0.6%	43,853	43,573	-0.6%	47,468	47,165	-0.6%
Kredyt Bank	29,468	30,249	2.7%	31,897	32,742	2.7%	34,526	35,441	2.7%
ING Bank Slaski	55,492	56,195	1.3%	58,895	60,828	3.3%	62,506	65,842	5.3%
BRE	56,413	53,264	-5.6%	60,465	57,090	-5.6%	64,807	61,190	-5.6%
BGZ	23,967	25,567	6.7%	27,562	28,084	1.9%	31,697	30,999	-2.2%
<b>Total</b>	<b>527,207</b>	<b>522,036</b>	<b>-1.0%</b>	<b>567,631</b>	<b>562,048</b>	<b>-1.0%</b>	<b>613,077</b>	<b>607,044</b>	<b>-1.0%</b>

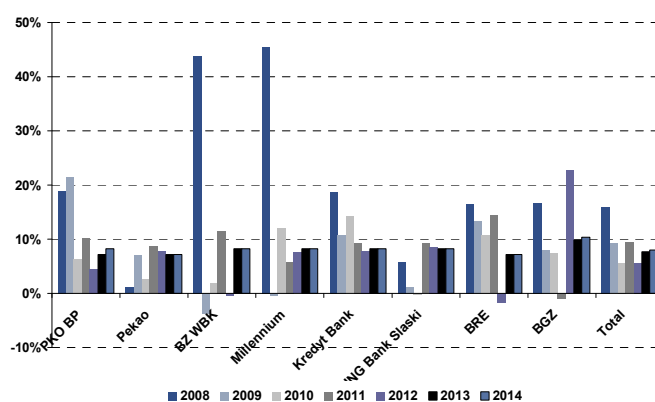
Source: Citi Investment Research and Analysis

Figure 27. Polish Banks – Loan Growth, 2008-2014E (Percentage)



Source: Company reports, Citi Investment Research and Analysis

Figure 28. Polish Banks – Deposit Growth, 2008-2014E (Percentage)



Source: Company reports, Citi Investment Research and Analysis

**We forecast net loans to grow 6% this year, 7% the next year and 8% in 2014...**

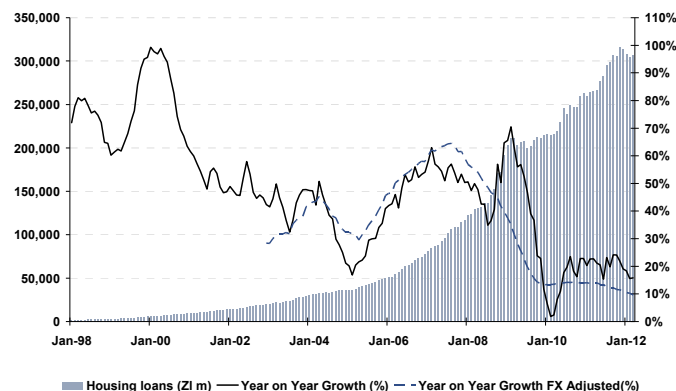
Given deceleration in lending, especially mortgage and consumer lending, we slightly reduce our lending estimates in 2013 (-1%) and 2014 (-2%). We forecast net loans of 8 Polish banks to grow 6% this year, 7% the next year, and 8% in 2014 (vs. 13% in 2011).



...and deposits by 6%, 8% and 8%, respectively

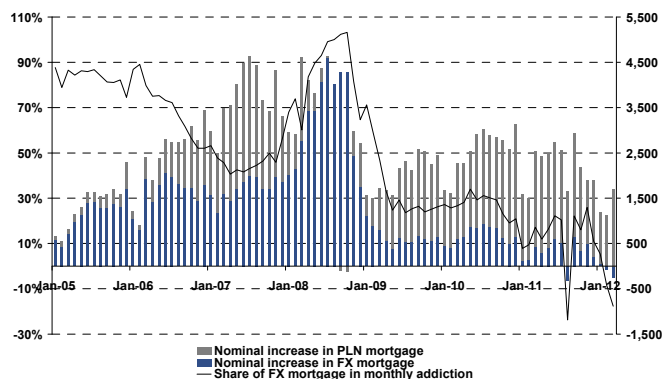
Due to the drop in corporate deposits in 1Q12 (partly caused by the funding of the foreign acquisition by KGHM), we reduce also deposit forecasts (by 1% in 2012, 2013 and 2014) and see deposit growth at 6%, 8% and 8%, respectively.

Figure 29. Polish Banks – Mortgage Loans, Jan 98 – Mar 12 (Polish Zloty in million)



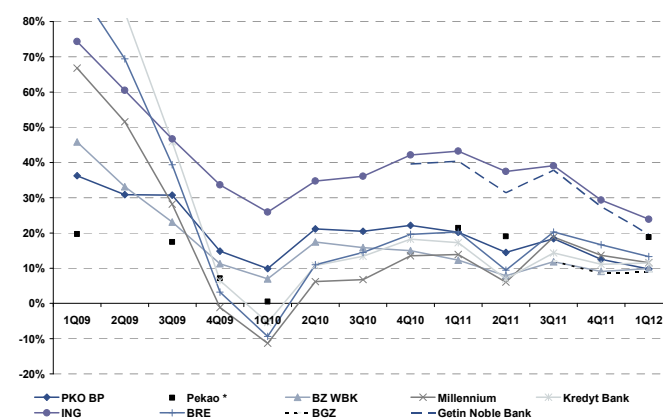
Source: NBP

Figure 31. Polish Banks – FX-adjusted Monthly Increase in Stock of Mortgage Loans, Jan 05 – Mar 12 (Polish Zloty in million)



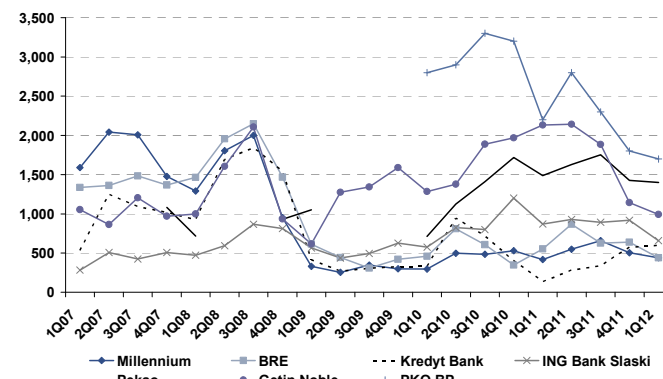
Source: NBP, Citi Investment Research and Analysis estimates

Figure 30. Polish Banks – Mortgage Loans Dynamics, 1Q09 – 1Q12 (Polish Zloty in million)



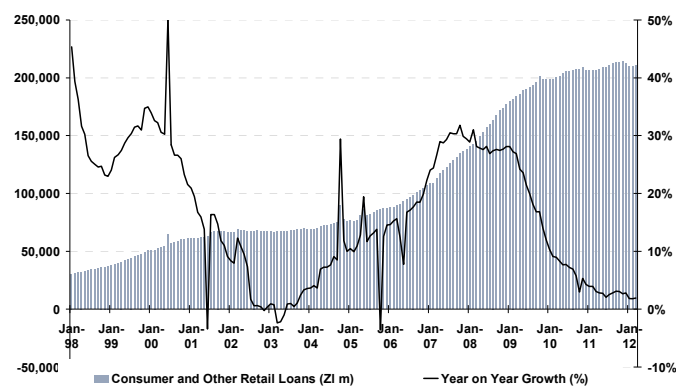
Source: Company reports

Figure 32. Polish Banks – Mortgage Production, 1Q09 – 1Q12 (Polish Zloty in million)



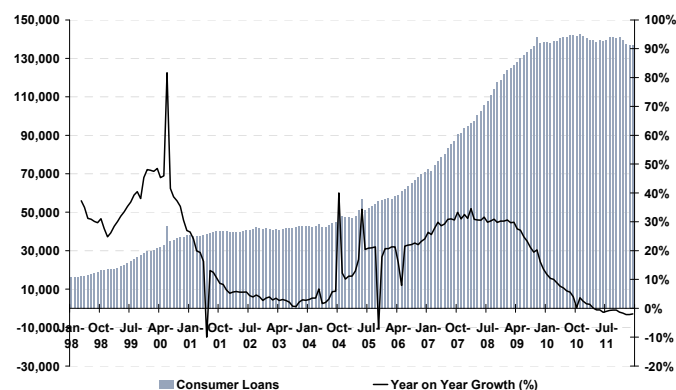
Source: Company reports

Figure 33. Polish Banks – Retail Non-Mortgage Loans, Jan 98 – Mar 12 (Polish Zloty in million)



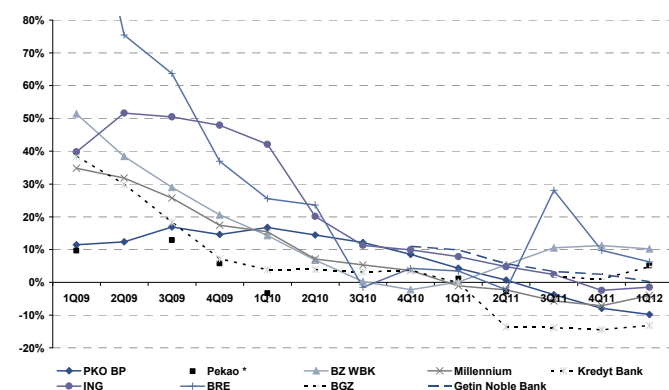
Source: NBP

Figure 34. Polish Banks – Consumer Loans, Jan 98 – Mar 12 (Polish Zloty in million)



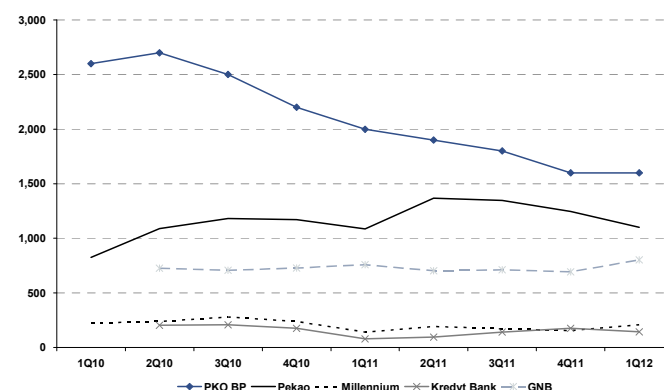
Source: NBP

Figure 35. Polish Banks – Retail Non-Mortgage Loans Dynamics, 1Q09 – 1Q12 (Polish Zloty in million)



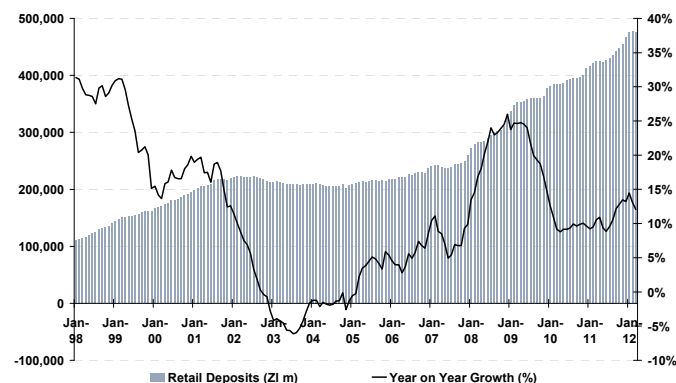
Source: Company reports

Figure 36. Polish Banks – Consumer Loans Production, 1Q10-1Q12 (Polish Zloty in million)



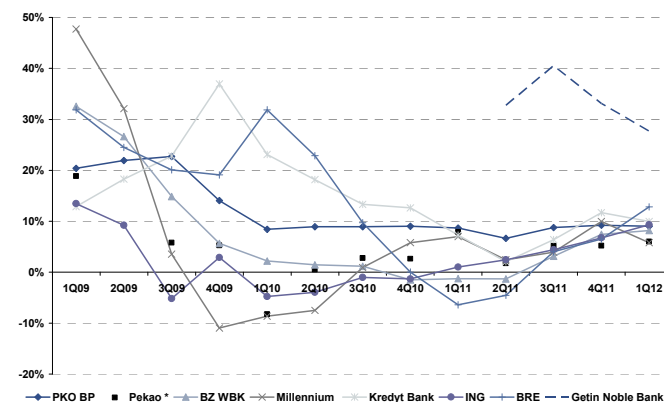
Source: Company reports

Figure 37. Polish Banks – Retail Deposits, Jan 98 – Mar 12 (Polish Zloty in million)



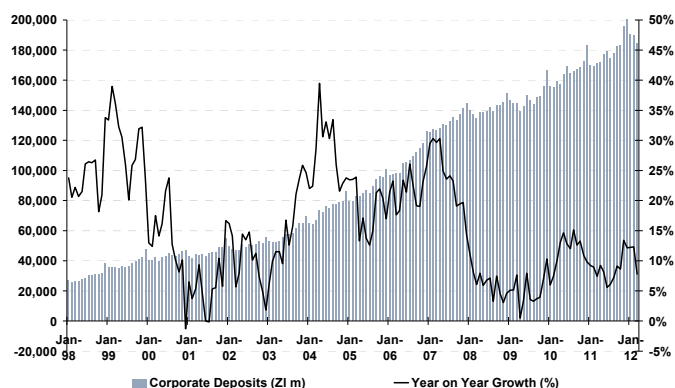
Source: NBP

Figure 38. Polish Banks – Retail Deposit Dynamics, 1Q09 – 1Q12 (Polish Zloty in million)



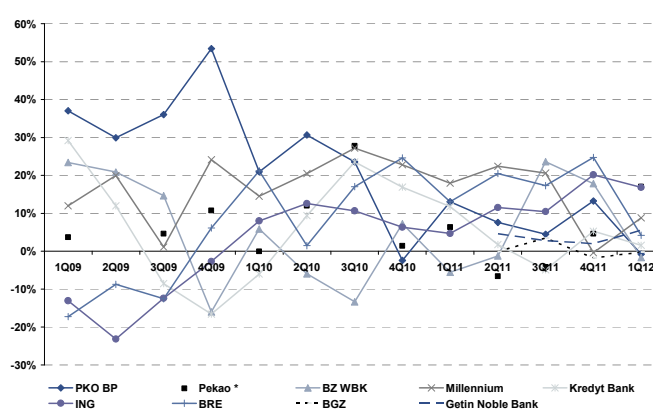
Source: Company reports

Figure 39. Polish Banks – Corporate Deposits, Jan 98 – Mar 12 (Polish Zloty in million)



Source: NBP

Figure 40. Polish Banks – Corporate Deposit Dynamics, 1Q09 – 1Q12 (Polish Zloty in million)



Source: : Company reports

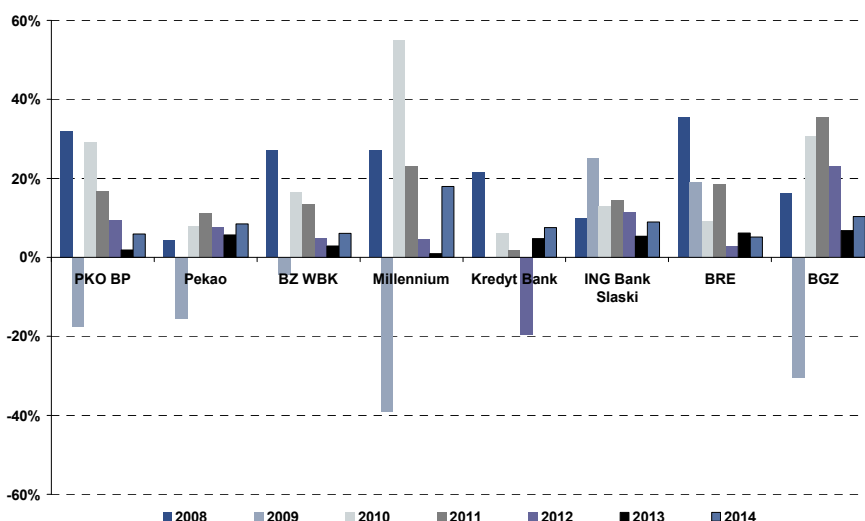
## Revenues Forecasts

Figure 41. Polish Banks – Changes in NII Estimates, 2012E-2014E (Polish Zloty in million)

	2012E			2013E			2014E		
	OLD	NEW	Chg.	OLD	NEW	Chg.	OLD	NEW	Chg.
PKO BP	8,368	8,332	-0.4%	8,667	8,490	-2.0%	9,419	8,990	-4.5%
Pekao	4,936	4,910	-0.5%	5,191	5,187	-0.1%	5,547	5,626	1.4%
BZ WBK	2,143	2,173	1.4%	2,288	2,234	-2.4%	2,444	2,371	-3.0%
Millennium	1,119	1,195	6.8%	1,195	1,206	0.9%	1,406	1,423	1.2%
Kredyt Bank	1,062	923	-13.1%	1,119	967	-13.6%	1,291	1,040	-19.5%
ING Bank Slaski	2,049	2,077	1.3%	2,206	2,188	-0.8%	2,376	2,384	0.4%
BRE	2,184	2,213	1.3%	2,330	2,349	0.8%	2,644	2,470	-6.6%
BGZ	869	1,008	16.0%	1,027	1,076	4.7%	1,148	1,187	3.4%
<b>Total</b>	<b>22,731</b>	<b>22,830</b>	<b>0.4%</b>	<b>24,022</b>	<b>23,697</b>	<b>-1.4%</b>	<b>26,274</b>	<b>25,491</b>	<b>-3.0%</b>

Source: Citi Investment Research and Analysis

Figure 42. Polish Banks – Net Interest Income Growth, 2008-2014E (Percentage)



Source: Company reports and Citi Investment Research and Analysis

We leave aggregate estimates of net interest income (NII) broadly unchanged in 2012 but decrease them by 1% in 2013 and 3% in 2014 on the back of reduce loan assumptions. We note, however, that we have made material changes in 2012 NII estimates in some banks, namely:

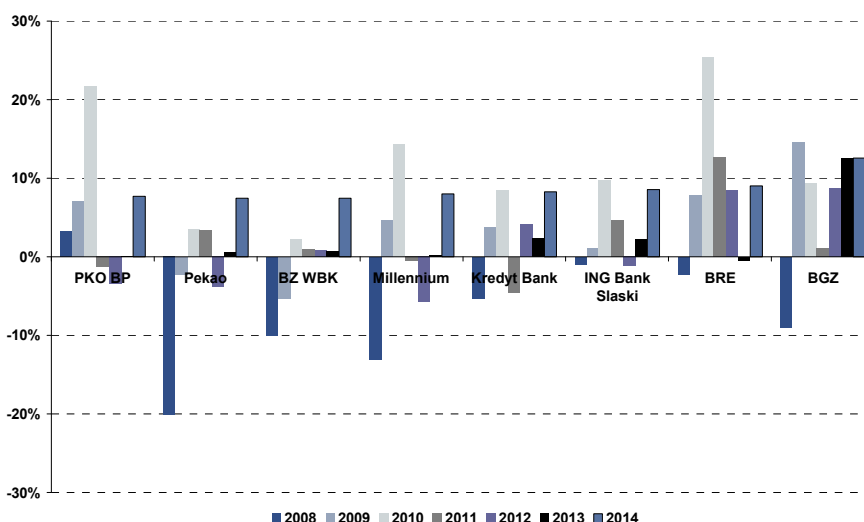
- in Kredyt Bank (-13%) due to a net interest margin (NIM) squeeze driven by the change in the bank's funding mix and replacing cheap funding from KBC by expensive retail deposits;
- in Millennium (+7%) due to higher-than-anticipated NIM in 1Q12, positively affected by rising number of current accounts;
- in BGZ (+16%) due to lower-than-anticipated funding cost in BGZ Optima and positive impact of raised NBP rates (by 25bp in May).

Figure 43. Polish Banks – Changes in Net Fees Estimates, 2012E-2014E (Polish Zloty in million)

	2012E			2013E			2014E		
	OLD	NEW	Chg.	OLD	NEW	Chg.	OLD	NEW	Chg.
PKO BP	3,085	2,994	-3.0%	3,206	2,995	-6.6%	3,336	3,226	-3.3%
Pekao	2,487	2,356	-5.3%	2,604	2,369	-9.0%	2,710	2,546	-6.1%
BZ WBK	1,390	1,368	-1.6%	1,465	1,378	-6.0%	1,536	1,481	-3.6%
Millennium	566	530	-6.4%	603	530	-12.1%	635	573	-9.9%
Kredyt Bank	318	328	3.1%	332	335	0.9%	359	363	0.9%
ING Bank Slaski	1,068	1,021	-4.4%	1,129	1,043	-7.6%	1,198	1,132	-5.5%
BRE	876	911	4.0%	923	907	-1.8%	987	988	0.2%
BGZ	337	299	-11.4%	404	336	-16.9%	465	378	-18.7%
<b>Total</b>	<b>10,127</b>	<b>9,806</b>	<b>-3.2%</b>	<b>10,667</b>	<b>9,894</b>	<b>-7.2%</b>	<b>11,226</b>	<b>10,687</b>	<b>-4.8%</b>

Source: Citi Investment Research and Analysis

Figure 44. Polish Banks – Net Fee Growth, 2008-2014E (Percentage)



Source: Company reports and Citi Investment Research and Analysis

We reduce net fee forecasts by 3% this year, 7% the next year and 5% in 2014...

We reduce net fee forecasts by 3% this year, 7% the next year and 5% in 2014 due to continued weakness in investment fund fees and incorporation into our forecasts of the planned cut in interchange fee.

...partly due to expected reduction in  
interchange fee

According to Rzeczpospolita daily, MasterCard hasn't accepted an agreement, prepared by NBP and preliminarily accepted by banks and Visa, on the reduction of the interchange fee from c 1.6% currently to c 1.1% starting from the beginning of 2013. MasterCard has decided to unilaterally lower its fee but we expect that due to the lack of MasterCard acceptance of the full programme of voluntary fee reduction, the agreement will not come into force. However, given Ministry of Finance indication that in such situations it would prepare a regulation forcing the interchange reduction, we have incorporated into our forecast a 30% reduction in interchange fee starting from January 2013.

Figure 45. Polish Banks – Impact of Interchange Reduction, 2013 (Polish Zloty in million/Percentage)

	Impact of 30% interchange reduction	as % of	
	Polish Zloty in million	net fee	total revenues
PKO BP	94	3%	0.8%
Pekao	85	4%	1.0%
BZ WBK	45	3%	1.1%
Millennium	25	5%	1.3%
Kredyt Bank	10	3%	0.7%
ING	38	4%	1.1%
BRE	47	5%	1.3%
BGŻ	7	2%	0.4%

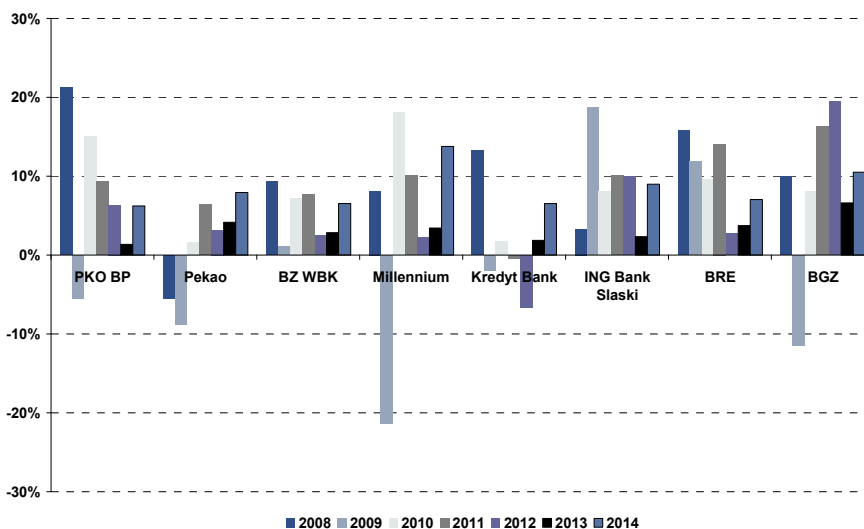
Source: Citi Investment Research and Analysis estimates

Figure 46. Polish Banks – Changes in Revenues Estimates, 2012E-2014E (Polish Zloty in million)

	2012E			2013E			2014E		
	OLD	NEW	Chg.	OLD	NEW	Chg.	OLD	NEW	Chg.
PKO BP	11,961	11,853	-0.9%	12,396	12,012	-3.1%	13,293	12,759	-4.0%
Pekao	8,219	7,992	-2.8%	8,639	8,324	-3.6%	9,155	8,983	-1.9%
BZ WBK	3,887	3,868	-0.5%	4,127	3,978	-3.6%	4,373	4,238	-3.1%
Millennium	1,962	1,931	-1.6%	2,111	1,997	-5.4%	2,373	2,272	-4.3%
Kredyt Bank	1,577	1,518	-3.7%	1,635	1,546	-5.4%	1,835	1,647	-10.2%
ING Bank Slaski	3,201	3,243	1.3%	3,418	3,319	-2.9%	3,658	3,616	-1.1%
BRE	3,630	3,660	0.8%	3,869	3,796	-1.9%	4,316	4,063	-5.9%
BGZ	1,341	1,457	8.6%	1,567	1,553	-0.9%	1,749	1,717	-1.9%
<b>Total</b>	<b>35,778</b>	<b>35,522</b>	<b>-0.7%</b>	<b>37,762</b>	<b>36,526</b>	<b>-3.3%</b>	<b>40,751</b>	<b>39,294</b>	<b>-3.6%</b>

Source: Citi Investment Research and Analysis

Figure 47. Polish Banks – Total Income Growth, 2008-2014E (Percentage)



Source: Company reports and Citi Investment Research and Analysis

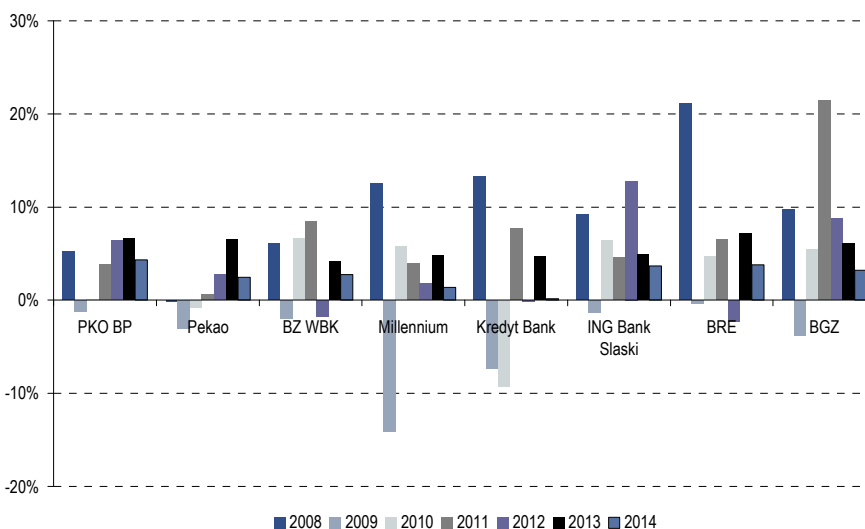
## Administrative Costs

Figure 48. Polish Banks – Changes in Administrative Costs Estimates, 2012E-2014E (Polish Zloty in million)

	2012E			2013E			2014E		
	OLD	NEW	Chg.	OLD	NEW	Chg.	OLD	NEW	Chg.
PKO BP	-4,606	-4,695	1.9%	-4,862	-5,009	3.0%	-5,118	-5,226	2.1%
Pekao	-3,823	-3,782	-1.1%	-4,011	-4,028	0.4%	-4,126	-4,128	0.0%
BZ WBK	-1,842	-1,843	0.1%	-1,927	-1,920	-0.4%	-1,985	-1,972	-0.6%
Millennium	-1,150	-1,145	-0.5%	-1,208	-1,199	-0.7%	-1,224	-1,216	-0.7%
Kredyt Bank	-1,017	-998	-1.9%	-1,068	-1,045	-2.1%	-1,079	-1,047	-3.0%
ING Bank Śląski	-1,807	-1,867	3.3%	-1,888	-1,958	3.7%	-1,897	-2,030	7.0%
BRE	-1,799	-1,684	-6.4%	-1,966	-1,804	-8.2%	-2,053	-1,873	-8.8%
BGZ	-1,038	-1,040	0.2%	-1,111	-1,103	-0.7%	-1,177	-1,139	-3.2%
<b>Total</b>	<b>-17,081</b>	<b>-17,053</b>	<b>-0.2%</b>	<b>-18,040</b>	<b>-18,066</b>	<b>0.1%</b>	<b>-18,659</b>	<b>-18,631</b>	<b>-0.2%</b>

Source: Citi Investment Research and Analysis

Figure 49. Polish Banks – Administrative Costs Growth, 2008-2014E (Percentage)



Source: Company reports and Citi Investment Research and Analysis

In such a volatile global macro environment, revenues are uncertain and thus the banks' capacity to control costs is crucial, but we view one quarter's results, often affected by changes in allocation costs between quarters, as not enough a sample to judge the FY2012 trend.

Some Polish banks (e.g. Nordea Bank Polska, DnB Nord Polska) have recently announced plans to reduce headcount or close some retail branches. Banks under our coverage haven't disclosed such plans: just the opposite, PKO BP and Pekao have said they want to add new branches: PKO BP targets big cities, while Pekao targets regions that are attractive from a business perspective where the bank is underrepresented (namely Western Poland, the home region of BZ WBK).

Some banks underline a constant focus on costs. In our opinion, BRE's management is extremely determined to continuously control costs and that, coupled with the changes in the reporting scheme (the transfer of depreciation costs related to leased assets from depreciation to other operating costs) and the amended proposition of the new bank levy, have led us to materially reduce estimates of BRE's administrative costs (-6% in 2012, -8% in 2013 and -9% in 2013)

#### Ministry of Finance continues to work on the bank levy

We remind that Ministry of Finance continues to work on the bank levy. According to the most recent version, the banks' contribution to the newly created "stability fund", commonly called "the bank levy", will not be a new tax but will be a part of the banks' contribution to the Bank Guarantee Fund (BFG). It means that the base for the calculation of the levy will be risk weighted assets (vs. the initial version proposition to base the levy on the value of non-retail funding). The change in the levy construction is positive for banks funded by parents (BRE and to lower extent Kredyt Bank) and negative for retail-funded banks (PKO BP, ING BSK, Getin Noble Funds, BZ WBK).

The rate of the levy is unknown and will be decided every year by BFG. Our working assumption is that in line with the indication of vice-minister Ludwik Kotecki and other representatives of the Ministry of Finance, the total size of banks' contributions to the "stability fund" will be about Zł 500-700m. Assuming Zł 700m, this would imply

about a 9bp rate (vs. the current rate of the contribution to BFG regular fund amounting to 9.9bp). We include the additional cost into our forecasts starting from 2013. In the table, we present our estimates of the “bank levy” on banks’ 2013E earnings.

Figure 50. Polish Banks – Estimate of the Bank Levy, 2013E (Polish Zloty in million)

	"Normal BFG" 0.099%	"New levy" 0.090%	"New levy" after tax	as % of 2013E net profit
PKO BP	147	133	108	3.0%
Pekao	102	93	75	2.7%
BZ WBK*	46	42	34	2.9%
Millennium	36	32	26	8.9%
Kredyt Bank	30	27	22	53.0%
ING BSK	44	40	33	5.0%
BRE	58	53	43	4.7%
BGZ	25	22	18	13.4%

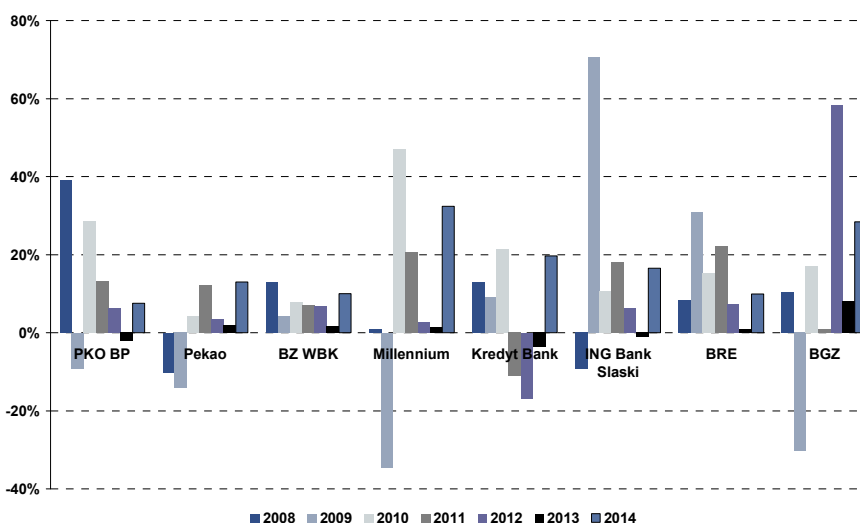
Source: Citi Investment Research and Analysis estimates

Figure 51. Polish Banks – Changes in Operating Income Estimates, 2012E-2014E (Polish Zloty in million)

	2012E			2013E			2014E		
	OLD	NEW	Chg.	OLD	NEW	Chg.	OLD	NEW	Chg.
PKO BP	7,355	7,158	-2.7%	7,533	7,004	-7.0%	8,176	7,533	-7.9%
Pekao	4,396	4,211	-4.2%	4,628	4,296	-7.2%	5,028	4,855	-3.4%
BZ WBK	2,046	2,026	-1.0%	2,200	2,059	-6.4%	2,388	2,265	-5.1%
Millennium	811	786	-3.1%	903	798	-11.7%	1,149	1,056	-8.1%
Kredyt Bank	560	520	-7.1%	567	501	-11.7%	755	600	-20.5%
ING Bank Slaski	1,395	1,376	-1.3%	1,530	1,361	-11.1%	1,761	1,586	-9.9%
BRE	1,831	1,976	7.9%	1,903	1,991	4.6%	2,263	2,190	-3.2%
BGZ	303	417	37.6%	457	450	-1.5%	572	578	1.0%
<b>Total</b>	<b>18,696</b>	<b>18,469</b>	<b>-1.2%</b>	<b>19,722</b>	<b>18,460</b>	<b>-6.4%</b>	<b>22,092</b>	<b>20,663</b>	<b>-6.5%</b>

Source: Citi Investment Research and Analysis

Figure 52. Polish Banks – Operating Income Growth, 2008-2014E (Percentage)



Source: Company reports and Citi Investment Research and Analysis

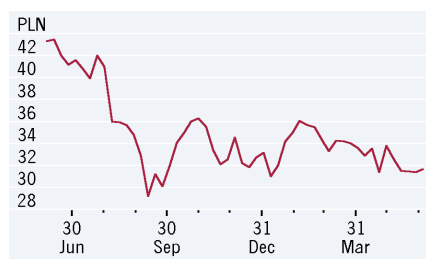


## Company Focus

- Company Update
- Target Price Change
- Estimate Change

<b>Buy</b>	<b>1</b>
Price (04 Jun 12)	ZL31.66
Target price	ZL39.70
from ZL42.70	
Expected share price return	25.4%
Expected dividend yield	4.0%
<b>Expected total return</b>	<b>29.4%</b>
Market Cap	ZL39,575M
	US\$11,270M

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



## PKO BP (PKOB.WA)

### The National Champion For Post Euro Cup 2012 – Maintaining Buy

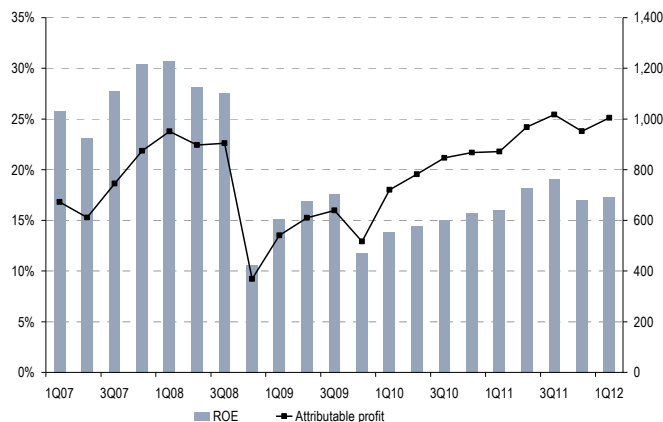
- **Top Pick** — We see PKO BP as attractively valued (10.1x PE 2012E), highly profitable (we view estimated in 2012 16% ROE as sustainable in longer term), and a market leader, with a strong (but in need of refurbishment) retail franchise and reasonable appetite for risk.
- **TP Reduced to ZI 39.7** — We have reduced our TP to ZI 39.7 from ZI 42.7 previously due to a reduction in the assumption of the sustainable ROE (to 16% from 17%, due to lowered 2014 ROE forecast).
- **EPS Lowered by 4% in 2012E and 13% in 2013E** — We have reduced EPS estimates by 4% in 2012, 13% in 2013 and 9% in 2014 on the back of:
  - Decreased net interest income (NII) forecasts, negatively affected by reduced lending estimates;
  - Lowered estimates of net fees (-3% in 2012E, -7% in 2013E and -3% in 2014E) due to decreased forecast of investment fund fees and planned interchange fee reduction;
  - Slightly increased administrative cost forecasts, driven by disappointing cost dynamics in 1Q12;
  - Increased cost of risk in 2013E (1.6% vs. 1.4% assumed previously) due to the macro environment.

### PKO BP (PLN)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (ZLM)	3,216.9	3,807.2	3,930.1	3,636.7	4,569.1
Diluted EPS (ZL)	2.57	3.05	3.14	2.91	3.66
Diluted EPS (Old) (ZL)	2.57	3.05	3.28	3.40	4.05
PE (x)	12.3	10.4	10.1	10.9	8.7
P/BV (x)	1.9	1.7	1.6	1.5	1.3
DPS (ZL)	1.98	1.27	1.26	1.75	2.92
Net Div Yield (%)	6.3	4.0	4.0	5.5	9.2
ROE (%)	15.4	17.2	16.4	14.0	16.2

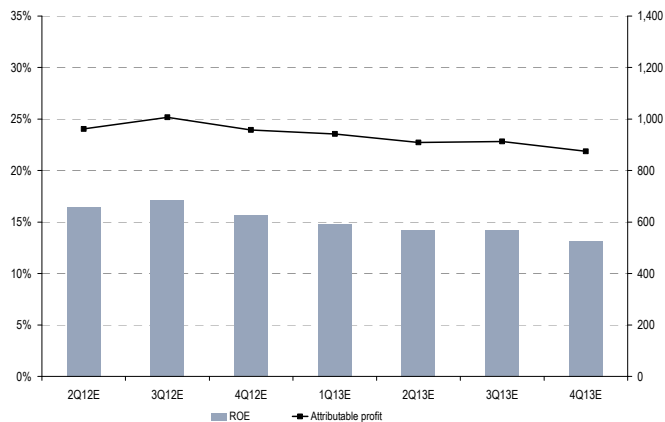
# PKO BP In Snapshots

**Figure 53. PKO BP – Reported Net Profit and ROE, 1Q07-3Q11 (Polish Zloty in million/Percentage)**



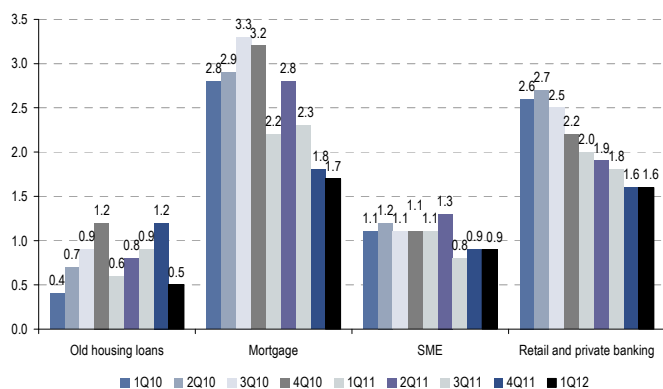
Source: Company reports, Citi Investment Research and Analysis

**Figure 54. PKO BP – Forecast Net Profit and ROE, 3Q11-4Q13E (Polish Zloty in million/Percentage)**



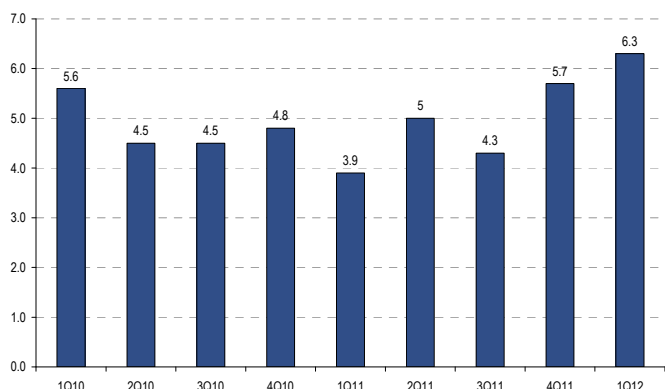
Source: Citi Investment Research and Analysis

**Figure 55. PKO BP – Sale of Retail Loans, 1Q10-1Q12 (Polish Zloty in billion)**



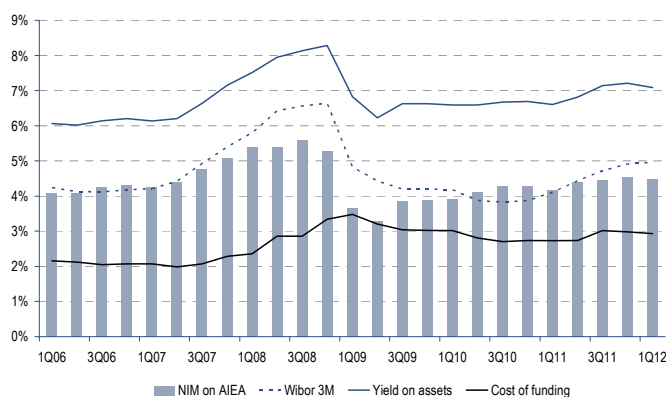
Source: Company reports, Citi Investment Research and Analysis

**Figure 56. PKO BP – Sale of Corporate Loans, 1Q10-1Q12 (Polish Zloty in billion)**



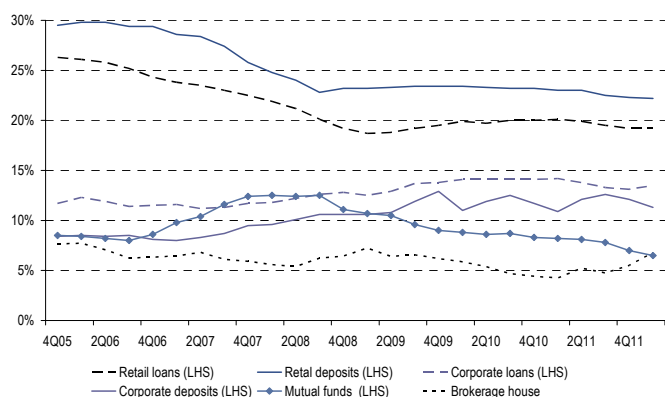
Source: Company reports, Citi Investment Research and Analysis

**Figure 57. PKO BP – Yield on Assets and Cost of Funding, 1Q06-1Q12 (Percentage)**



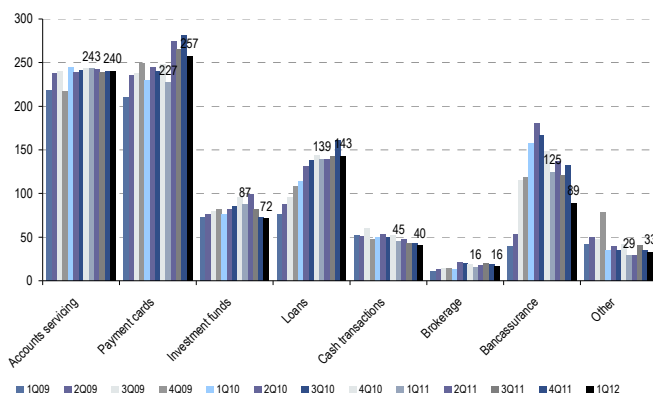
Source: Company reports, Citi Investment Research and Analysis

**Figure 58. PKO BP – Market Share, 4Q05-1Q12 (Percentage)**



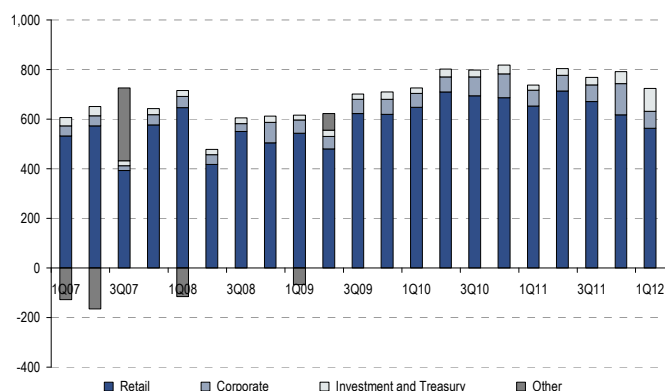
Source: Company reports, Citi Investment Research and Analysis

Figure 59. PKO BP – Breakdown of Net Fees, 1Q09-1Q12 (Polish Zloty in million)



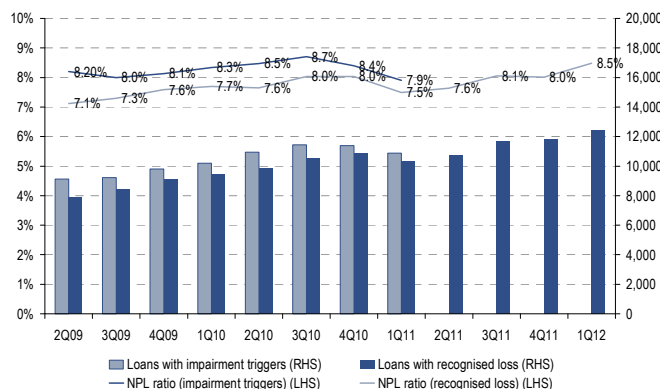
Source: Company reports, Citi Investment Research and Analysis

Figure 60. PKO BP – Net Fees by Divisions, 1Q07-1Q12 (Polish Zloty in million)



Source: Company reports, Citi Investment Research and Analysis

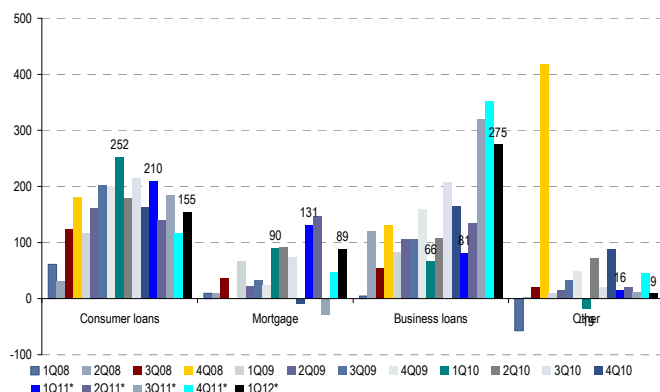
Figure 61. PKO BP – Consolidated Impaired Loans, 2Q09-1Q12



Note: Since 2Q11 the bank discontinued presenting data on loans with impairment triggers

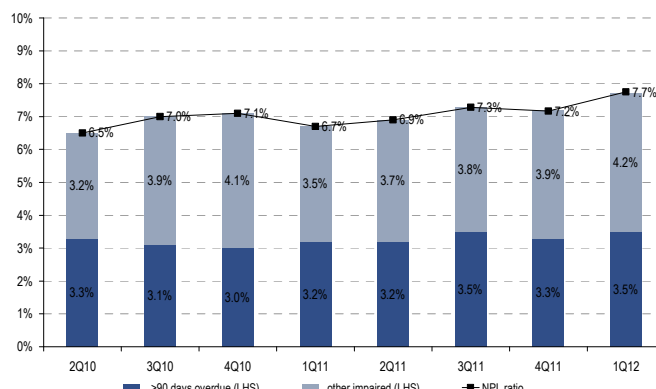
Source: Company reports, Citi Investment Research and Analysis;

Figure 63. PKO BP – Provisioning Breakdown, 1Q08-1Q12 (Polish Zloty in million)



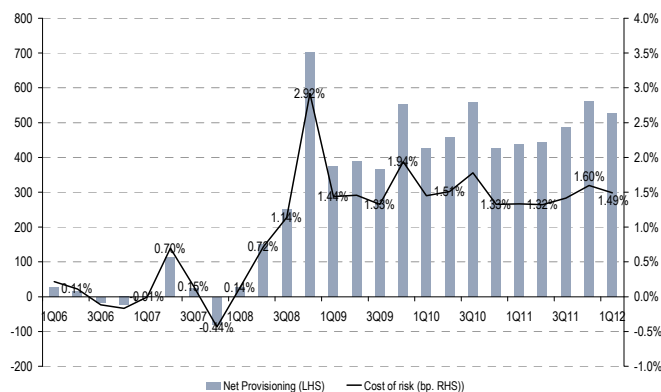
Source: Company reports, Citi Investment Research and Analysis

Figure 62. PKO BP – Unconsolidated Loans With Recognized Loss, 2Q10-1Q12



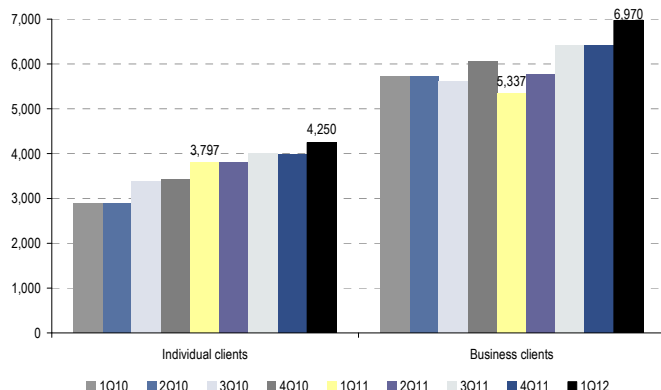
Source: Company reports, Citi Investment Research and Analysis

Figure 64. PKO BP – Cost of Risk, 1Q06-1Q12 (Polish Zloty in million/Percentage)



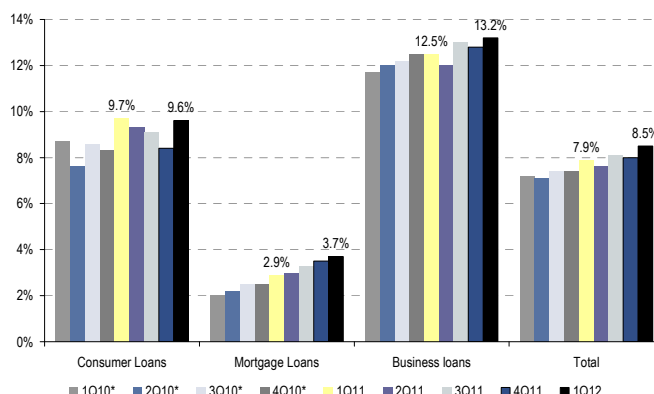
Source: Company reports, Citi Investment Research and Analysis

Figure 65. PKO BP --- NPL Volumes By Segment, 1Q10-1Q12



Source: Company reports, Citi Investment Research and Analysis

Figure 66. PKO BP --- NPL Ratios \*\*, 1Q10-1Q12 (Percentage)



\* Share of loans with impairment triggers in total loans; \*\* Share of loans with recognized loss in total loans;

Source: Company reports, Citi Investment Research and Analysis

## Annual Financials

Figure 67. PKO BP – Profit and Loss, 2007-2014E (Polish Zloty in million)

GROUP	2007	2008	chg (%)	2009	chg (%)	2010	chg (%)	2011	chg (%)	2012E	chg (%)	2013E	chg (%)	2014E	chg (%)
Net Interest Income	4,644	6,127	31.9%	5,051	-17.6%	6,516	29.0%	7,609	16.8%	8,332	9.5%	8,490	1.9%	8,990	5.9%
Net Fee & Commission Income	2,335	2,412	3.3%	2,583	7.1%	3,143	21.7%	3,101	-1.3%	2,994	-3.5%	2,995	0.0%	3,226	7.7%
Financial Income	-65	-166	155.3%	58	NA	10	-82.0%	-55	NA	-1	-97.8%	-20	1575%	-20	0.0%
Other Income	830	1,015	22.3%	1,175	15.8%	528	-55.1%	487	-7.8%	528	8.4%	548	3.8%	564	2.9%
<b>Total Revenue</b>	<b>7,744</b>	<b>9,388</b>	<b>21.2%</b>	<b>8,868</b>	<b>-5.5%</b>	<b>10,198</b>	<b>15.0%</b>	<b>11,142</b>	<b>9.3%</b>	<b>11,853</b>	<b>6.4%</b>	<b>12,012</b>	<b>1.3%</b>	<b>12,759</b>	<b>6.2%</b>
Labour Costs	-2,289	-2,429	6.1%	-2,308	-5.0%	-2,375	2.9%	-2,404	1.2%	-2,553	6.2%	-2,651	3.8%	-2,749	3.7%
General Costs	-1,413	-1,437	1.7%	-1,467	2.1%	-1,362	-7.2%	-1,487	9.2%	-1,588	6.8%	-1,758	10.7%	-1,829	4.0%
Depreciation	-381	-430	13.0%	-469	9.1%	-512	9.2%	-520	1.5%	-554	6.4%	-599	8.2%	-649	8.2%
<b>Operating Expenses</b>	<b>-4,083</b>	<b>-4,296</b>	<b>5.2%</b>	<b>-4,244</b>	<b>-1.2%</b>	<b>-4,249</b>	<b>0.1%</b>	<b>-4,411</b>	<b>3.8%</b>	<b>-4,695</b>	<b>6.4%</b>	<b>-5,009</b>	<b>6.7%</b>	<b>-5,226</b>	<b>4.3%</b>
<b>Operating Profit</b>	<b>3,662</b>	<b>5,092</b>	<b>39.1%</b>	<b>4,624</b>	<b>-9.2%</b>	<b>5,948</b>	<b>28.6%</b>	<b>6,731</b>	<b>13.2%</b>	<b>7,158</b>	<b>6.3%</b>	<b>7,004</b>	<b>-2.1%</b>	<b>7,533</b>	<b>7.6%</b>
Provision Charge	-57	-1,130	1896%	-1,681	48.7%	-1,868	11.1%	-1,930	3.3%	-2,264	17.3%	-2,442	7.8%	-1,800	-26.3%
Associate Income	4	16	256.7%	0	-97.8%	-1	NA	-20	2311%	11	NA	4	-63.7%	4	0.0%
<b>Profit Before Tax</b>	<b>3,609</b>	<b>3,977</b>	<b>10.2%</b>	<b>2,943</b>	<b>-26.0%</b>	<b>4,079</b>	<b>38.6%</b>	<b>4,781</b>	<b>17.2%</b>	<b>4,904</b>	<b>2.6%</b>	<b>4,566</b>	<b>-6.9%</b>	<b>5,737</b>	<b>25.7%</b>
Minorities	-38	-19	-51.0%	-6	-66.3%	4	NA	2	-39.9%	3	32.1%	-16	NA	-21	28.6%
Tax	-668	-838	25.5%	-631	-24.7%	-866	37.2%	-976	12.7%	-978	0.1%	-913	-6.6%	-1,147	25.7%
Other	0	0	NA	0	NA	0	NA	0	NA	0	NA	0	NA	0	NA
<b>Net Profit</b>	<b>2,904</b>	<b>3,121</b>	<b>7.5%</b>	<b>2,306</b>	<b>-26.1%</b>	<b>3,217</b>	<b>39.5%</b>	<b>3,807</b>	<b>18.4%</b>	<b>3,930</b>	<b>3.2%</b>	<b>3,637</b>	<b>-7.5%</b>	<b>4,569</b>	<b>25.6%</b>
EPS (ZI)	2.68	2.88	7.5%	2.07	-28.0%	2.57	24.1%	3.05	18.4%	3.14	3.2%	2.91	-7.5%	3.66	25.6%
DPS (ZI)	1.01	0.92	-8.3%	1.90	105.9%	1.98	4.2%	1.27	-35.9%	1.26	-1.0%	1.75	38.8%	2.92	67.5%
Average Diluted Number of Shares (m)	1,084	1,084	0.0%	1,112	2.6%	1,250	12.4%	1,250	0.0%	1,250	0.0%	1,250	0.0%	1,250	0.0%

Source: Company reports, Citi Investment Research and Analysis

Figure 68. PKO BP – Balance Sheet, 2007-2014E (Polish Zloty in million)

GROUP	2007	2008	chg (%)	2009	chg (%)	2010	chg (%)	2011	chg (%)	2012E	chg (%)	2013E	chg (%)	2014E	chg (%)
Cash and NBP Balances	4,683	5,837	24.6%	7,094	21.5%	6,182	-12.9%	9,142	47.9%	9,279	1.5%	9,418	1.5%	9,560	1.5%
Interbank placements	5,261	3,364	-36.1%	2,023	-39.9%	2,307	14.0%	2,396	3.9%	2,444	2.0%	2,493	2.0%	2,543	2.0%
Financial Assets & Securities	16,790	18,264	8.8%	24,557	34.5%	24,200	-1.5%	31,236	29.1%	31,114	-0.4%	32,665	5.0%	34,284	5.0%
Net client lending	76,417	101,108	32.3%	116,573	15.3%	130,668	12.1%	141,634	8.4%	148,112	4.6%	157,200	6.1%	170,159	8.2%
Fixed assets	4,004	4,317	7.8%	4,350	0.8%	4,378	0.6%	4,341	-0.8%	4,598	5.9%	4,874	6.0%	5,173	6.1%
Other assets	1,383	1,746	26.3%	1,881	7.8%	1,924	2.3%	1,998	3.8%	2,267	13.5%	2,380	5.0%	2,612	9.8%
<b>Total Assets</b>	<b>108,538</b>	<b>134,636</b>	<b>24.0%</b>	<b>156,479</b>	<b>16.2%</b>	<b>169,661</b>	<b>8.4%</b>	<b>190,748</b>	<b>12.4%</b>	<b>197,813</b>	<b>3.7%</b>	<b>209,031</b>	<b>5.7%</b>	<b>224,330</b>	<b>7.3%</b>
Interbank borrowing	4,704	6,991	48.6%	5,153	-26.3%	5,237	1.6%	6,243	19.2%	5,619	-10.0%	4,215	-25.0%	3,794	-10.0%
Client deposits	86,580	102,939	18.9%	125,073	21.5%	132,981	6.3%	146,474	10.1%	153,029	4.5%	164,019	7.2%	177,540	8.2%
Other liabilities	5,275	10,707	103.0%	5,817	-45.7%	10,082	73.3%	15,210	50.9%	14,202	-6.6%	13,754	-3.1%	13,550	-1.5%
Minorities	58	46	-20.4%	7	-84.1%	2	-72.8%	-1	NA	-4	175.9%	9	NA	26	177.3%
Equity (ex Minorities)	11,921	13,952	17.0%	20,429	46.4%	21,358	4.5%	22,823	6.9%	24,968	9.4%	27,033	8.3%	29,420	8.8%
Total liabilities & Equity	108,538	134,636	24.0%	156,479	16.2%	169,661	8.4%	190,748	12.4%	197,813	3.7%	209,031	5.7%	224,330	7.3%
<b>Interest Earning Assets</b>	<b>103,151</b>	<b>128,662</b>	<b>24.7%</b>	<b>150,247</b>	<b>16.8%</b>	<b>163,358</b>	<b>8.7%</b>	<b>184,409</b>	<b>12.9%</b>	<b>190,949</b>	<b>3.5%</b>	<b>201,777</b>	<b>5.7%</b>	<b>216,545</b>	<b>7.3%</b>
BVPS (Zl)	11.05	12.92	16.9%	16.35	26.6%	17.09	4.5%	18.26	6.8%	19.97	9.4%	21.63	8.3%	23.56	8.9%

Source: Company reports, Citi Investment Research and Analysis

Figure 69. PKO BP – Key Ratios, 2008-2014E (Percentage)

GROUP	2008	2009	2010	2011	2012E	2013E	2014E
<b>NIM on AIEA</b>	<b>5.29%</b>	<b>3.62%</b>	<b>4.16%</b>	<b>4.38%</b>	<b>4.44%</b>	<b>4.32%</b>	<b>4.30%</b>
NIM on Total Ave. Assets	5.04%	3.47%	4.00%	4.22%	4.29%	4.17%	4.15%
Net Fee & Commission Income/Total Income	25.7%	29.1%	30.8%	27.8%	25.3%	24.9%	25.3%
Net Fee & Commission Income/Deposits	2.3%	2.1%	2.4%	2.1%	2.0%	1.8%	1.8%
<b>Cost/Income</b>	<b>45.8%</b>	<b>47.9%</b>	<b>41.7%</b>	<b>39.6%</b>	<b>39.6%</b>	<b>41.7%</b>	<b>41.0%</b>
Cost/Avg. Assets	3.5%	2.9%	2.6%	2.4%	2.4%	2.5%	2.4%
Effective tax rate	21.1%	21.5%	21.2%	20.4%	19.9%	20.0%	20.0%
Dividend Payout Ratio	32.0%	103.0%	76.9%	41.7%	40.0%	60.0%	80.0%
<b>Provisions/Avg Net Loans</b>	<b>1.27%</b>	<b>1.54%</b>	<b>1.51%</b>	<b>1.42%</b>	<b>1.56%</b>	<b>1.60%</b>	<b>1.10%</b>
Equity/Assets	10.4%	13.1%	12.6%	12.0%	12.6%	12.9%	13.1%
<b>Loans/Deposits</b>	<b>98.2%</b>	<b>93.2%</b>	<b>98.3%</b>	<b>96.7%</b>	<b>96.8%</b>	<b>95.8%</b>	<b>95.8%</b>
Loans/Total Assets	75.1%	74.5%	77.0%	74.3%	74.9%	75.2%	75.9%
<b>ROE</b>	<b>24.1%</b>	<b>13.4%</b>	<b>15.4%</b>	<b>17.2%</b>	<b>16.4%</b>	<b>14.0%</b>	<b>16.2%</b>
ROA	2.57%	1.58%	1.97%	2.11%	2.02%	1.79%	2.11%
NPLs/Total Loans	3.67%	8.13%	8.03%	8.01%	8.00%	8.00%	7.00%
Provision Coverage of NPLs	76.4%	40.2%	44.6%	48.0%	53.4%	57.6%	62.5%
RWA/Total Assets	84.7%	77.1%	83.3%	77.8%	82.0%	82.0%	82.0%
Tier I Ratio (%)	9.9%	13.5%	11.3%	11.2%	11.5%	11.8%	12.0%
<b>CAR</b>	<b>11.3%</b>	<b>14.8%</b>	<b>12.5%</b>	<b>12.4%</b>	<b>11.5%</b>	<b>11.8%</b>	<b>12.0%</b>
Bank Employees	29,064	31,098	29,780	28,924	28,333	28,333	28,333

Source: Company reports, Citi Investment Research and Analysis

## Company Focus

- Company Update
- Target Price Change
- Estimate Change

<b>Buy</b>	<b>1</b>
Price (04 Jun 12)	ZL136.00
Target price	ZL157.00
	from ZL173.00
Expected share price return	15.4%
Expected dividend yield	4.0%
<b>Expected total return</b>	<b>19.4%</b>
Market Cap	ZL35,684M
	US\$10,162M

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



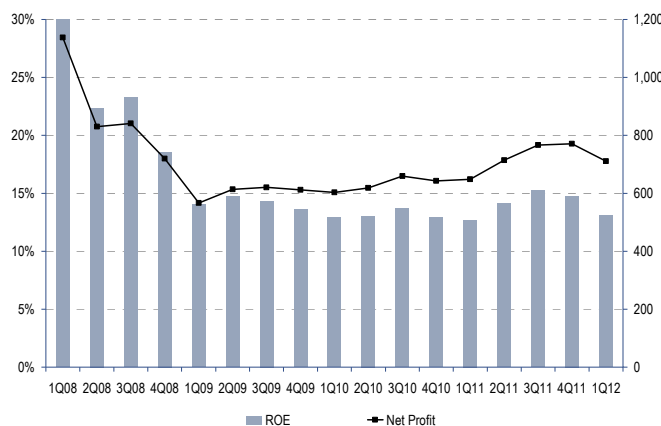
## Bank Pekao SA (BAPE.WA) Second Among Titans: Maintaining Buy

- **Buy Maintained** —In 2011 we appreciated Pekao's uncharacteristically strong loan growth and characteristically tight cost control and low cost of risk, but we note that the stock trades at a premium to its closest peer. Even if Pekao were to return all surplus capital to shareholders, the bank would trade at a 14-22% premium to PKO BP on 2011-14E earnings.

### Bank Pekao SA (PLN)

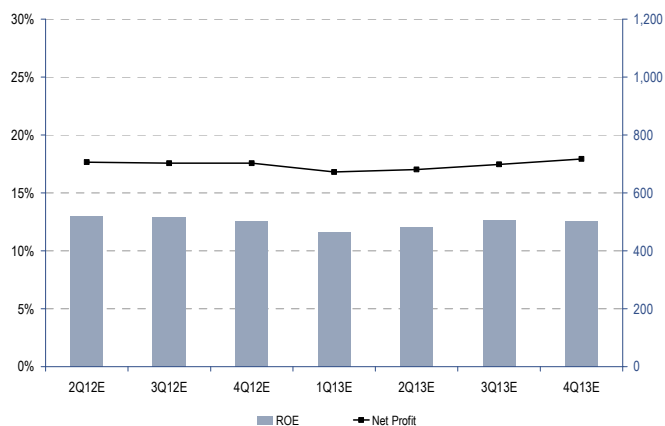
Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (ZLM)	2,525.6	2,899.4	2,821.5	2,767.9	3,440.3
Diluted EPS (ZL)	9.63	11.05	10.75	10.55	13.11
Diluted EPS (Old) (ZL)	9.63	11.05	11.29	12.10	13.54
PE (x)	14.1	12.3	12.7	12.9	10.4
P/BV (x)	1.8	1.7	1.6	1.5	1.5
DPS (ZL)	6.80	5.38	9.00	10.00	11.00
Net Div Yield (%)	5.0	4.0	6.6	7.4	8.1
ROE (%)	13.1	14.0	12.8	12.0	14.6

**Figure 70. Bank Pekao – Reported Net Profit and ROE, 1Q08-3Q11**  
(Polish Zloty in million/Percentage)



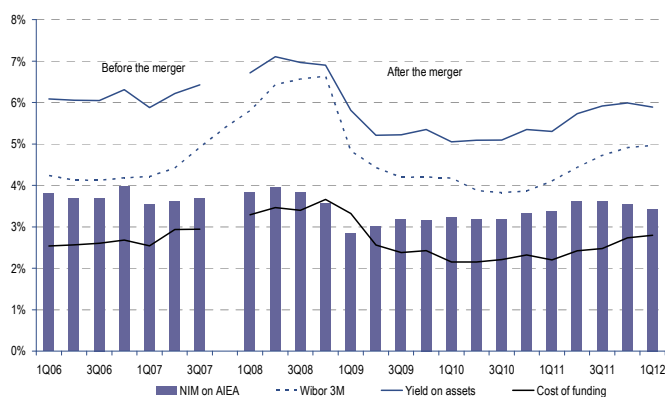
Source: Company reports, Citi Investment Research and Analysis

**Figure 71. Bank Pekao – Forecast Net Profit and ROE, 3Q11-4Q13E**  
(Polish Zloty in million/Percentage)



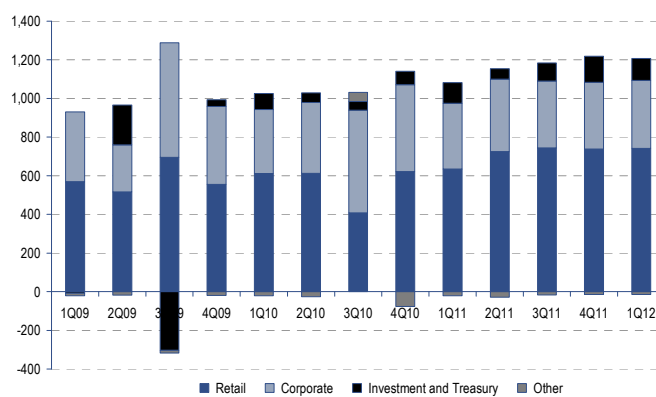
Source: Citi Investment Research and Analysis

**Figure 72. Bank Pekao – Yield on Assets and Cost of Funding, 1Q06-1Q12 (Percentage)**



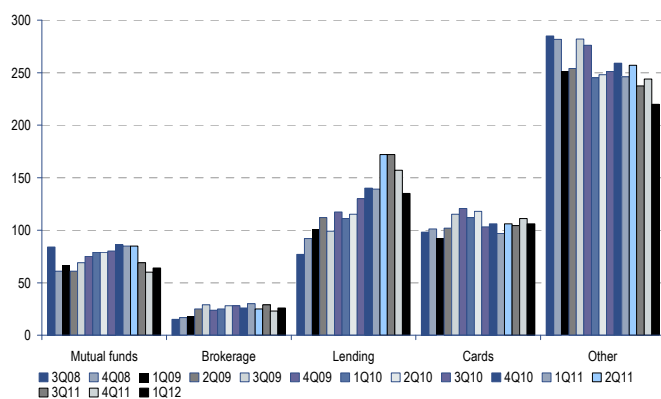
Source: Company reports, Citi Investment Research and Analysis

**Figure 73. Bank Pekao – NII by Divisions, 1Q09-3Q11 (Polish Zloty in million)**



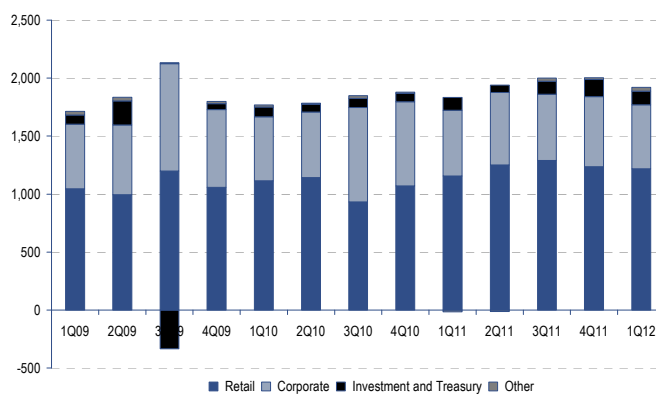
Source: Company reports, Citi Investment Research and Analysis

**Figure 74. Bank Pekao – Breakdown of Net Fees, 3Q08-1Q12 (Polish Zloty in million)**



Source: Company reports, Citi Investment Research and Analysis

**Figure 75. Bank Pekao – Total Revenues by Divisions, 1Q09-1Q12 (Polish Zloty in million)**



Source: Company reports, Citi Investment Research and Analysis

## Annual Financials

Figure 76. Bank Pekao – Profit and Loss, 2007-2014E (Polish Zloty in million)

GROUP	2007	2008	chg	2009	chg	2010	chg	2011	chg	2012E	chg	2013E	chg	2014E	chg
Net Interest Income	2,718	4,509	65.9%	3,802	-15.7%	4,104	7.9%	4,558	11.1%	4,910	7.7%	5,187	5.6%	5,626	8.5%
Net Fee & Commission Income	2,161	2,342	8.3%	2,289	-2.3%	2,368	3.5%	2,449	3.4%	2,356	-3.8%	2,369	0.6%	2,546	7.5%
Financial Income	390	649	66.5%	827	27.6%	740	-10.5%	589	-20.4%	590	0.2%	668	13.1%	711	6.5%
Other Income	89	351	295.8%	242	-31.3%	66	-72.5%	150	125.7%	136	-9.0%	100	-26.7%	100	0.0%
<b>Total Revenue</b>	<b>5,358</b>	<b>7,851</b>	<b>46.5%</b>	<b>7,160</b>	<b>-8.8%</b>	<b>7,279</b>	<b>1.7%</b>	<b>7,746</b>	<b>6.4%</b>	<b>7,992</b>	<b>3.2%</b>	<b>8,324</b>	<b>4.2%</b>	<b>8,983</b>	<b>7.9%</b>
Labour Costs	-1,397	-1,875	34.1%	-1,856	-1.0%	-1,950	5.1%	-1,946	-0.2%	-1,985	2.0%	-2,059	3.8%	-2,121	3.0%
General Costs	-1,000	-1,513	51.3%	-1,388	-8.2%	-1,314	-5.3%	-1,355	3.1%	-1,412	4.2%	-1,553	10.0%	-1,567	0.9%
Depreciation	-339	-414	22.2%	-441	6.6%	-392	-11.3%	-377	-3.6%	-385	1.9%	-417	8.2%	-440	5.6%
<b>Operating Expenses</b>	<b>-2,737</b>	<b>-3,802</b>	<b>38.9%</b>	<b>-3,686</b>	<b>-3.0%</b>	<b>-3,656</b>	<b>-0.8%</b>	<b>-3,679</b>	<b>0.6%</b>	<b>-3,782</b>	<b>2.8%</b>	<b>-4,028</b>	<b>6.5%</b>	<b>-4,128</b>	<b>2.5%</b>
<b>Operating Profit</b>	<b>2,621</b>	<b>4,050</b>	<b>54.5%</b>	<b>3,474</b>	<b>-14.2%</b>	<b>3,622</b>	<b>4.3%</b>	<b>4,067</b>	<b>12.3%</b>	<b>4,211</b>	<b>3.5%</b>	<b>4,296</b>	<b>2.0%</b>	<b>4,855</b>	<b>13.0%</b>
Provision Charge	-192	-263	36.7%	-535	103.3%	-589	10.1%	-544	-7.6%	-760	39.7%	-926	21.8%	-668	-27.8%
Associate Income	153	123	-19.5%	58	-52.8%	68	17.6%	70	2.5%	51	-27.7%	62	21.6%	75	21.6%
<b>Profit Before Tax</b>	<b>2,582</b>	<b>3,910</b>	<b>51.4%</b>	<b>2,997</b>	<b>-23.3%</b>	<b>3,102</b>	<b>3.5%</b>	<b>3,593</b>	<b>15.8%</b>	<b>3,502</b>	<b>-2.5%</b>	<b>3,432</b>	<b>-2.0%</b>	<b>4,262</b>	<b>24.2%</b>
Tax	-438	-722	64.9%	-576	-20.2%	-571	-0.9%	-684	19.7%	-669	-2.2%	-652	-2.5%	-810	24.2%
Profit After Tax	2,144	3,188	48.7%	2,421	-24.1%	2,531	4.5%	2,909	15.0%	2,833	-2.6%	2,780	-1.9%	3,452	24.2%
Extraordinary Income	18	353	na	0	na	0	na	0	na	0	na	0	na	0	na
Minorities	-7	-13	85.3%	-10	-25.9%	-5	-46.9%	-10	89.7%	-11	14.9%	-12	7.9%	-12	0.0%
<b>Net Profit</b>	<b>2,155</b>	<b>3,528</b>	<b>63.7%</b>	<b>2,412</b>	<b>-31.6%</b>	<b>2,525</b>	<b>4.7%</b>	<b>2,899</b>	<b>14.8%</b>	<b>2,822</b>	<b>-2.7%</b>	<b>2,768</b>	<b>-1.9%</b>	<b>3,440</b>	<b>24.3%</b>
Net Profit After Adjustments	2,137	3,175	48.6%	2,412	-24.0%	2,526	4.7%	2,899	14.8%	2,822	-2.7%	2,768	-1.9%	3,440	24.3%
EPS (Zl)	12.3	13.5	9.2%	9.2	-31.7%	9.6	4.7%	11.0	14.8%	10.8	-2.7%	10.5	-1.9%	13.1	24.3%
DPS (Zl)	9.6	0.0	na	2.9	na	6.8	134.5%	5.4	-20.9%	9.0	67.3%	10.0	11.1%	11.0	10.0%
Average Diluted Number of Shares (m)	175	262	49.9%	262	0.1%	262	0.0%	262	0.0%	262	0.0%	262	0.0%	262	0.0%

Source: Company reports, Citi Investment Research and Analysis

Figure 77. Bank Pekao – Balance Sheet, 2007-2014E (Polish Zloty in million)

GROUP	2007	2008	chg	2009	chg	2010	chg	2011	chg	2012E	chg	2013E	chg	2014E	chg
Cash and NBP Balances	5,122	9,934	93.9%	9,620	-3.2%	5,969	-38.0%	4,886	-18.1%	5,131	5.0%	5,387	5.0%	5,656	5.0%
Interbank placements	16,960	7,909	-53.4%	7,203	-8.9%	6,259	-13.1%	5,586	-10.7%	5,865	5.0%	6,159	5.0%	6,467	5.0%
Financial Assets & Securities	26,527	27,185	2.5%	29,917	10.1%	33,197	11.0%	32,535	-2.0%	34,738	6.8%	36,017	3.7%	37,341	3.7%
Net client lending	66,658	79,078	18.6%	76,380	-3.4%	77,804	1.9%	92,816	19.3%	98,824	6.5%	106,971	8.2%	115,788	8.2%
Fixed assets	2,021	1,906	-5.7%	1,822	-4.4%	1,822	0.0%	1,773	-2.7%	1,844	4.0%	1,918	4.0%	1,994	4.0%
Other assets	6,808	5,929	-12.9%	5,673	-4.3%	9,040	59.3%	8,994	-0.5%	9,370	4.2%	10,010	6.8%	10,696	6.9%
<b>Total Assets</b>	<b>124,096</b>	<b>131,941</b>	<b>6.3%</b>	<b>130,616</b>	<b>-1.0%</b>	<b>134,090</b>	<b>2.7%</b>	<b>146,590</b>	<b>9.3%</b>	<b>155,772</b>	<b>6.3%</b>	<b>166,461</b>	<b>6.9%</b>	<b>177,943</b>	<b>6.9%</b>
Interbank borrowing	9,942	14,993	50.8%	8,479	-43.4%	7,641	-9.9%	5,901	-22.8%	4,795	-18.7%	5,275	10.0%	5,802	10.0%
Client deposits	89,944	90,889	1.1%	97,250	7.0%	99,807	2.6%	108,437	8.6%	116,877	7.8%	125,271	7.2%	134,268	7.2%
Other liabilities	9,463	10,022	5.9%	6,516	-35.0%	6,385	-2.0%	10,896	70.7%	11,221	3.0%	12,617	12.4%	13,747	9.0%
Minorities	81	89	10.7%	83	-6.8%	83	-0.2%	85	3.1%	94	9.8%	106	12.8%	118	11.3%
Equity (ex Minorities)	14,667	15,947	8.7%	18,288	14.7%	20,174	10.3%	21,271	5.4%	22,785	7.1%	23,192	1.8%	24,008	3.5%
Total liabilities & Equity	124,096	131,941	6.3%	130,616	-1.0%	134,090	2.7%	146,590	9.3%	155,772	6.3%	166,461	6.9%	177,943	6.9%
<b>Interest Earning Assets</b>	<b>72,737</b>	<b>127,613</b>	<b>75.4%</b>	<b>126,224</b>	<b>-1.1%</b>	<b>126,267</b>	<b>0.0%</b>	<b>125,564</b>	<b>-0.6%</b>	<b>147,564</b>	<b>17.5%</b>	<b>157,689</b>	<b>6.9%</b>	<b>168,567</b>	<b>6.9%</b>
BVPS (Zl)	56	61	8.6%	70	14.7%	77	10.2%	81	5.4%	87	7.1%	88	1.8%	92	3.5%

Source: Company reports, Citi Investment Research and Analysis



Figure 78. Bank Pekao – Key Ratios, 2007-2014E (Percentage)

GROUP	2007	2008	2009	2010	2011	2012E	2013E	2014E
<b>NIM on AIEA</b>	<b>3.96%</b>	<b>3.67%</b>	<b>3.00%</b>	<b>3.25%</b>	<b>3.62%</b>	<b>3.60%</b>	<b>3.40%</b>	<b>3.45%</b>
NIM on Total Ave. Assets	3.66%	3.52%	2.90%	3.10%	3.25%	3.25%	3.22%	3.27%
Net Fee & Commission Income/Total Income	40.3%	29.8%	32.0%	32.5%	31.6%	29.5%	28.5%	28.3%
Net Fee & Commission Income/Deposits	2.4%	2.6%	2.4%	2.4%	2.3%	2.0%	1.9%	1.9%
<b>Cost/Income</b>	<b>51.1%</b>	<b>48.4%</b>	<b>51.5%</b>	<b>50.2%</b>	<b>47.5%</b>	<b>47.3%</b>	<b>48.4%</b>	<b>45.9%</b>
Cost/Avg. Assets	3.69%	2.97%	2.81%	2.76%	2.62%	2.50%	2.50%	2.40%
Effective tax rate	16.9%	18.5%	19.2%	18.4%	19.0%	19.1%	19.0%	19.0%
Dividend Payout Ratio	116.8%	0.0%	31.5%	70.6%	48.7%	83.7%	94.8%	83.9%
<b>Provisions/Avg Net Loans</b>	<b>0.52%</b>	<b>0.36%</b>	<b>0.69%</b>	<b>0.76%</b>	<b>0.64%</b>	<b>0.79%</b>	<b>0.90%</b>	<b>0.60%</b>
Equity/Assets	11.9%	12.2%	14.1%	15.1%	14.6%	14.7%	14.0%	13.6%
<b>Loans/Deposits</b>	<b>74.1%</b>	<b>87.0%</b>	<b>78.5%</b>	<b>78.0%</b>	<b>85.6%</b>	<b>84.6%</b>	<b>85.4%</b>	<b>86.2%</b>
Loans/Total Assets	53.7%	59.9%	58.5%	58.0%	63.3%	63.4%	64.3%	65.1%
<b>ROE</b>	<b>22.9%</b>	<b>23.0%</b>	<b>14.1%</b>	<b>13.1%</b>	<b>14.0%</b>	<b>12.8%</b>	<b>12.0%</b>	<b>14.6%</b>
ROA	2.91%	2.76%	1.84%	1.91%	2.07%	1.87%	1.72%	2.00%
NPLs/Total Loans	7.8%	5.5%	6.8%	6.7%	6.3%	6.6%	6.5%	6.0%
Provision Coverage of NPLs	84.1%	87.2%	76.8%	74.1%	73.2%	71.6%	75.5%	79.7%
<b>Tier 1 Ratio (%)</b>	<b>12.1%</b>	<b>12.2%</b>	<b>16.2%</b>	<b>17.6%</b>	<b>17.0%</b>	<b>17.2%</b>	<b>16.2%</b>	<b>15.8%</b>
Group Employees	22,926	21,992	20,874	20,783	20,357	20,256	20,256	20,256

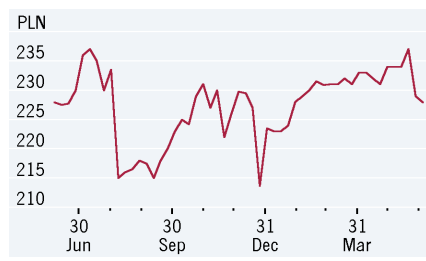
Source: Company reports, Citi Investment Research and Analysis

## Company Focus

- Company Update
- Target Price Change
- Estimate Change

<b>Buy</b>	<b>1</b>
Price (04 Jun 12)	ZL227.90
Target price	ZL264.00
	from ZL270.00
Expected share price return	15.8%
Expected dividend yield	5.7%
<b>Expected total return</b>	<b>21.6%</b>
Market Cap	ZL16,654M
	US\$4,743M

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



## Bank Zachodni WBK (BZWB.WA) Building The Bank Number Three: Maintaining Buy

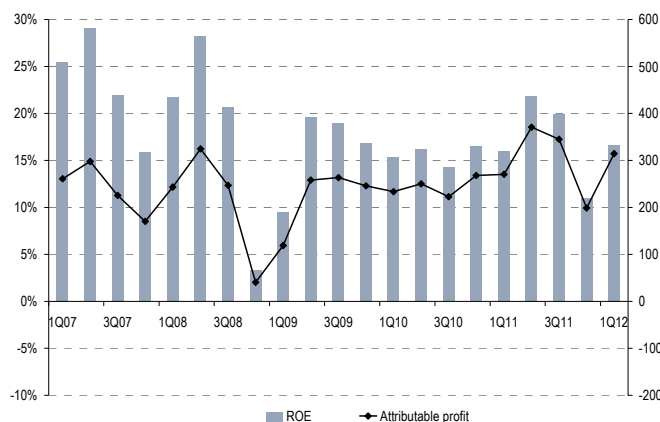
- **Buy Maintained** — We like Santander and KBC's plans to merge their Polish subsidiaries, BZ WBK (Buy, TP ZI 264) and Kredyt Bank (Buy/High Risk TP ZI 18.8) to create Poland's third-largest bank by assets, deposits, branches and equity. We see BZWBK as well managed, highly profitable and trading at high multiples, while Kredyt Bank currently achieves significantly lower levels of profitability, creating room for significant synergies (we expect ZI 322m cost synergies and ZI 0m revenues synergies in 2015).

### Bank Zachodni WBK (PLN)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (ZLM)	974.2	1,184.3	1,214.4	1,164.6	1,400.0
Diluted EPS (ZL)	13.25	16.11	16.35	15.52	18.66
Diluted EPS (Old) (ZL)	13.25	16.11	16.40	17.91	19.87
PE (x)	17.2	14.1	13.9	14.7	12.2
P/BV (x)	2.5	2.3	2.0	2.0	1.9
DPS (ZL)	8.00	8.00	13.02	12.48	15.01
Net Div Yield (%)	3.5	3.5	5.7	5.5	6.6
ROE (%)	15.5	16.9	15.4	13.8	15.9

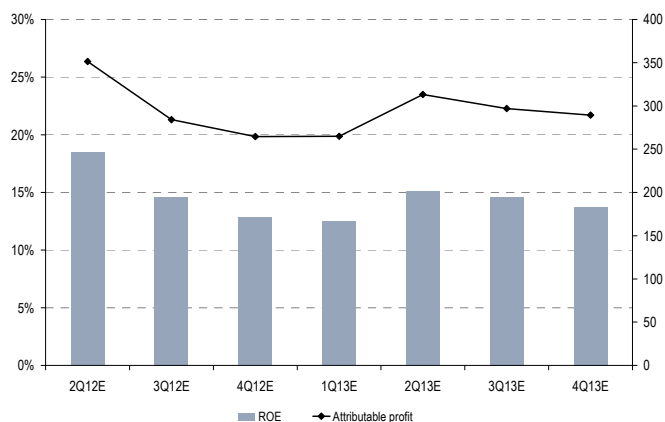
## BZ WBK in Snapshots

**Figure 79. BZ WBK – Reported Net Profit and ROE, 1Q07-3Q11 (Polish Zloty in million/Percentage)**



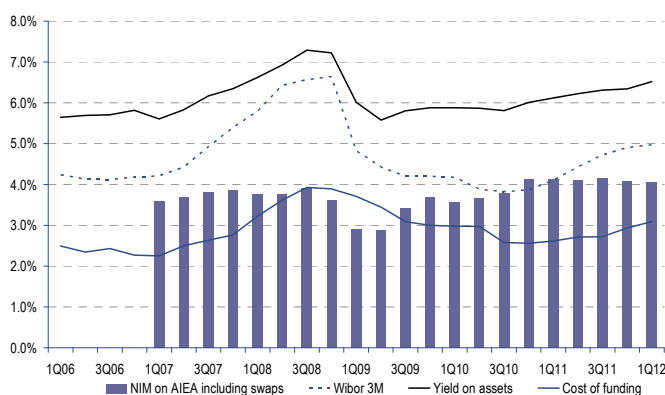
Source: Company reports, Citi Investment Research and Analysis

**Figure 80. BZ WBK – Forecast Net Profit and ROE, 4Q11E-4Q13E (Polish Zloty in million/Percentage)**



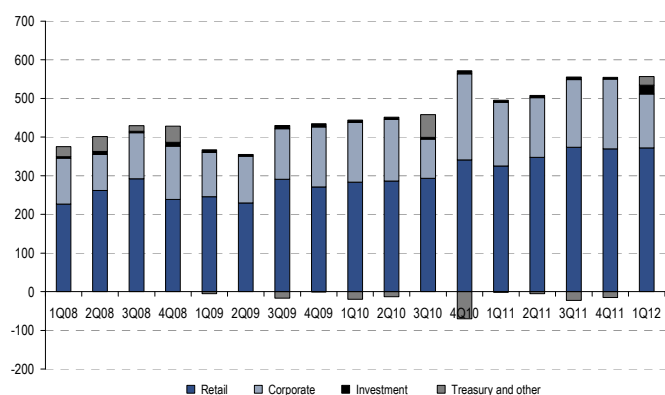
Source: Citi Investment Research and Analysis

**Figure 81. BZ WBK – Yield on Assets and Cost of Funding, 1Q06-1Q12 (Percentage)**



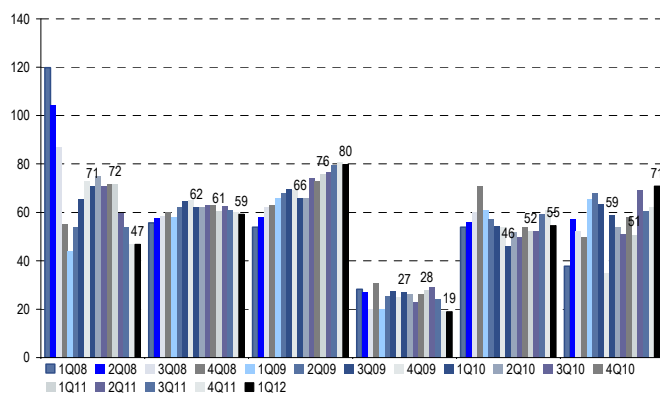
Source: Company reports, Citi Investment Research and Analysis

**Figure 82. BZ WBK – Net Interest Income by Divisions, 1Q08-3Q11 (Percentage)**



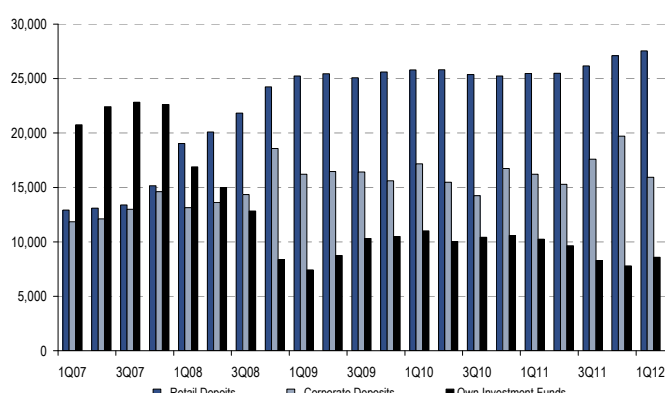
Source: Company reports, Citi Investment Research and Analysis

**Figure 83. BZ WBK – Breakdown of Fee Income, 1Q08-1Q12 (Polish Zloty in million)**



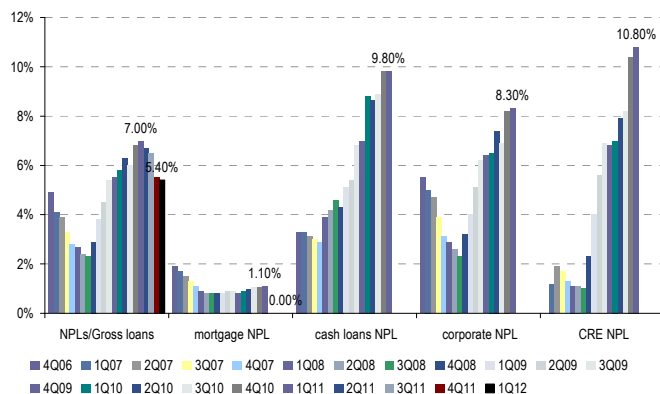
Source: Company reports, Citi Investment Research and Analysis

**Figure 84. BZ WBK – Deposits and Investment Fund AuM, 1Q07-1Q12 (Polish Zloty in million)**



Source: Company reports, Citi Investment Research and Analysis

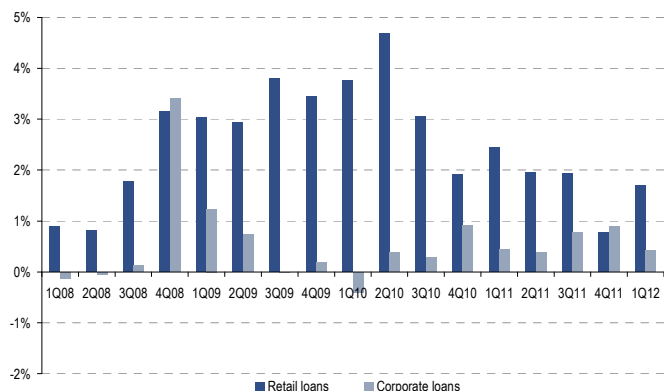
Figure 85. BZ WBK – NPL Ratios By Products, 4Q06-1Q12 (Percentage)



Note: Since 2Q11 the bank discontinued presenting data on NPLs by Products

Source: Company reports, Citi Investment Research and Analysis

Figure 86. BZ WBK – Retail and Corporate Cost of Risk, 1Q08-1Q12 (Percentage)



Source: Company reports, Citi Investment Research and Analysis

## Annual Financials

Figure 87. BZ WBK– Profit and Loss, 2007-2014E (Polish Zloty in million)

	2007	2008	chg	2009	chg	2010	chg	2011	chg	2012E	chg	2013E	chg	2014E	chg
Net Interest Income	1,287	1,635	27.1%	1,563	-4.4%	1,822	16.6%	2,069	13.5%	2,173	5.0%	2,234	2.8%	2,371	6.1%
Net Fee & Commission Income	1,545	1,390	-10.1%	1,315	-5.3%	1,345	2.2%	1,358	1.0%	1,368	0.8%	1,378	0.7%	1,481	7.5%
Financial Income	44	95	114.8%	264	178.4%	271	2.6%	279	2.8%	245	-12.2%	281	14.8%	296	5.3%
Other Income	79	111	40.7%	123	11.4%	65	-47.4%	68	5.1%	83	21.1%	85	2.9%	90	5.9%
<b>Total Revenue</b>	<b>2,955</b>	<b>3,230</b>	<b>9.3%</b>	<b>3,266</b>	<b>1.1%</b>	<b>3,503</b>	<b>7.2%</b>	<b>3,773</b>	<b>7.7%</b>	<b>3,868</b>	<b>2.5%</b>	<b>3,978</b>	<b>2.9%</b>	<b>4,238</b>	<b>6.5%</b>
Labour Costs	-843	-896	6.4%	-889	-0.8%	-959	7.8%	-977	1.9%	-978	0.1%	-1,000	2.3%	-1,027	2.6%
General Costs	-582	-651	11.8%	-609	-6.4%	-642	5.4%	-682	6.3%	-715	4.8%	-763	6.8%	-784	2.6%
Depreciation	-135	-107	-20.3%	-123	15.0%	-129	4.3%	-216	67.6%	-150	-30.7%	-156	4.1%	-162	4.1%
<b>Operating Expenses</b>	<b>-1,559</b>	<b>-1,655</b>	<b>6.1%</b>	<b>-1,622</b>	<b>-2.0%</b>	<b>-1,729</b>	<b>6.6%</b>	<b>-1,875</b>	<b>8.4%</b>	<b>-1,843</b>	<b>-1.7%</b>	<b>-1,920</b>	<b>4.2%</b>	<b>-1,972</b>	<b>2.7%</b>
<b>Operating Profit</b>	<b>1,395</b>	<b>1,576</b>	<b>12.9%</b>	<b>1,644</b>	<b>4.3%</b>	<b>1,773</b>	<b>7.9%</b>	<b>1,898</b>	<b>7.0%</b>	<b>2,026</b>	<b>6.7%</b>	<b>2,059</b>	<b>1.6%</b>	<b>2,265</b>	<b>10.0%</b>
Provision Charge	-4	-365	9162%	-481	32.0%	-421	-12.5%	-367	-12.8%	-472	28.7%	-562	18.9%	-451	-19.6%
Associate Income	0	-1	na	0	-57.0%	4	na	11	149.4%	9	-17.5%	8	-12.7%	8	0.0%
Profit Before Tax	1,391	1,211	-13.0%	1,163	-3.9%	1,357	16.7%	1,542	13.6%	1,562	1.3%	1,505	-3.7%	1,822	21.1%
Minorities	-156	-99	-36.6%	-54	-45.4%	-66	22.9%	-43	-35.9%	-26	-39.4%	-34	32.0%	-50	47.1%
Tax	-281	-256	-8.7%	-223	-13.1%	-317	42.1%	-316	-0.3%	-322	2.1%	-307	-4.8%	-372	21.4%
<b>Net Profit</b>	<b>955</b>	<b>855</b>	<b>-10.4%</b>	<b>886</b>	<b>3.6%</b>	<b>974</b>	<b>9.9%</b>	<b>1,184</b>	<b>21.6%</b>	<b>1,214</b>	<b>2.5%</b>	<b>1,165</b>	<b>-4.1%</b>	<b>1,400</b>	<b>20.2%</b>
EPS (Zl)	13.1	11.7	-10.7%	12.1	3.3%	13.2	9.9%	16.1	21.6%	16.4	1.5%	15.5	-5.1%	18.7	20.2%
DPS (Zl)	3.00	0.00	na	4.00	na	8.00	100.0%	8.00	0.0%	13.02	62.7%	12.48	-4.1%	15.01	20.2%
Average Diluted Number of Shares (m)	73.1	73.3	0.3%	73.5	0.3%	73.5	0.0%	73.5	0.0%	74.3	1.0%	75.0	1.1%	75.0	0.0%

Source: Company reports, Citi Investment Research and Analysis

Figure 88. BZ WBK – Balance Sheet, 2007-2014E (Polish Zloty in million)

GROUP	2007	2008	chg	2009	chg	2010	chg	2011	chg	2012E	chg	2013E	chg	2014E	chg
Cash and NBP Balances	2,206	3,178	44.0%	2,661	-16.3%	2,534	-4.7%	1,426	-43.8%	1,584	11.1%	1,759	11.1%	1,954	11.1%
Interbank placements	2,577	1,365	-47.0%	663	-51.4%	620	-6.5%	1,244	100.8%	1,382	11.1%	1,535	11.1%	1,706	11.1%
Financial Assets & Securities	11,063	16,141	45.9%	14,646	-9.3%	15,649	6.8%	17,666	12.9%	17,004	-3.8%	17,486	2.8%	17,964	2.7%
Net client lending	23,950	35,137	46.7%	34,571	-1.6%	32,838	-5.0%	38,017	15.8%	40,059	5.4%	43,361	8.2%	46,935	8.2%
Fixed assets	543	637	17.4%	596	-6.5%	548	-8.2%	500	-8.7%	555	11.1%	617	11.1%	685	11.1%
Other assets	993	974	-1.8%	922	-5.4%	965	4.7%	1,020	5.7%	1,017	-0.3%	1,063	4.5%	1,110	4.5%
<b>Total Assets</b>	<b>41,332</b>	<b>57,433</b>	<b>39.0%</b>	<b>54,058</b>	<b>-5.9%</b>	<b>53,154</b>	<b>-1.7%</b>	<b>59,873</b>	<b>12.6%</b>	<b>61,600</b>	<b>2.9%</b>	<b>65,821</b>	<b>6.9%</b>	<b>70,354</b>	<b>6.9%</b>
Interbank borrowing	4,484	5,338	19.1%	5,350	0.2%	2,526	-52.8%	2,557	1.2%	3,068	20.0%	2,853	-7.0%	2,283	-20.0%
Client deposits	29,766	42,811	43.8%	41,223	-3.7%	41,970	1.8%	46,829	11.6%	46,600	-0.5%	50,441	8.2%	54,599	8.2%
Other liabilities	2,506	4,072	62.5%	1,430	-64.9%	1,884	31.7%	3,004	59.5%	3,472	15.6%	3,838	10.6%	4,267	11.2%
Minorities	235	240	2.0%	108	-54.8%	151	38.9%	127	-15.4%	91	-28.9%	125	37.6%	175	40.2%
Equity (ex Minorities)	4,342	4,973	14.5%	5,947	19.6%	6,623	11.4%	7,356	11.1%	8,370	13.8%	8,563	2.3%	9,031	5.5%
Total liabilities & Equity	41,332	57,433	39.0%	54,058	-5.9%	53,154	-1.7%	59,873	12.6%	61,600	2.9%	65,821	6.9%	70,354	6.9%
BVPS (Zl)	60	68	14.5%	81	19.4%	91	11.4%	101	11.1%	112	11.4%	115	2.3%	121	5.5%

Source: Company reports, Citi Investment Research and Analysis

Figure 89. BZ WBK– Key Ratios, 2007-2014E (Percentage)

GROUP	2007	2008	2009	2010	2011	2012E	2013E	2014E
<b>NIM on AIEA</b>	<b>3.61%</b>	<b>3.42%</b>	<b>2.89%</b>	<b>3.47%</b>	<b>3.86%</b>	<b>3.79%</b>	<b>3.60%</b>	<b>3.57%</b>
NIM on Total Ave. Assets	3.46%	3.31%	2.80%	3.40%	3.66%	3.58%	3.51%	3.48%
Net Fee & Commission Income/Total Income	52.3%	43.0%	40.3%	38.4%	36.0%	35.4%	34.6%	34.9%
Net Fee & Commission Income/Deposits	5.2%	3.2%	3.2%	3.2%	2.9%	2.9%	2.7%	2.7%
<b>Cost/Income</b>	<b>52.8%</b>	<b>51.2%</b>	<b>49.7%</b>	<b>49.4%</b>	<b>49.7%</b>	<b>47.6%</b>	<b>48.2%</b>	<b>46.5%</b>
Cost/Avg. Assets	4.2%	3.4%	2.9%	3.2%	3.3%	3.0%	3.0%	2.9%
Effective tax rate	20.2%	21.2%	19.2%	23.3%	20.5%	20.6%	20.4%	20.4%
Dividend Payout Ratio	22.9%	0.0%	33.0%	60.0%	49.4%	80.0%	80.0%	80.0%
<b>Provisions/Avg Net Loans</b>	<b>0.02%</b>	<b>1.23%</b>	<b>1.38%</b>	<b>1.25%</b>	<b>1.04%</b>	<b>1.21%</b>	<b>1.35%</b>	<b>1.00%</b>
Equity/Assets	11.1%	9.1%	11.2%	12.7%	12.5%	13.7%	13.2%	13.1%
<b>Loans/Deposits</b>	<b>80.5%</b>	<b>82.1%</b>	<b>83.9%</b>	<b>78.2%</b>	<b>81.2%</b>	<b>86.0%</b>	<b>86.0%</b>	<b>86.0%</b>
Loans/Total Assets	57.9%	61.2%	64.0%	61.8%	63.5%	65.0%	65.9%	66.7%
<b>ROE</b>	<b>23.0%</b>	<b>18.4%</b>	<b>16.2%</b>	<b>15.5%</b>	<b>16.9%</b>	<b>15.4%</b>	<b>13.8%</b>	<b>15.9%</b>
ROA	2.57%	1.73%	1.59%	1.82%	2.10%	2.00%	1.83%	2.06%
NPLs/Total Loans	2.8%	2.9%	5.5%	6.9%	5.5%	5.8%	5.8%	5.0%
Provision Coverage of NPLs	85.2%	85.7%	58.2%	59.3%	65.0%	62.9%	64.2%	69.6%
RWA/Total Assets	68.9%	76.9%	77.1%	74.5%	77.2%	77.0%	77.0%	77.0%
<b>CAR</b>	<b>13.3%</b>	<b>10.7%</b>	<b>13.0%</b>	<b>15.8%</b>	<b>15.1%</b>	<b>15.3%</b>	<b>16.7%</b>	<b>16.4%</b>
Group Employees	9,086	10,221	9,453	9,840	9,383	9,180	9,180	9,180

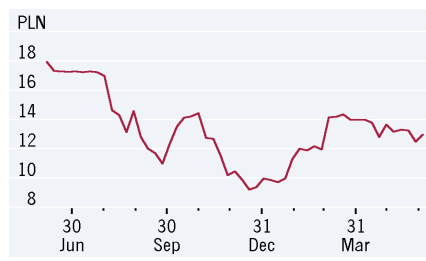
Source: Company reports, Citi Investment Research and Analysis

## Company Focus

- Company Update
- Target Price Change
- Estimate Change

<b>Buy/High Risk</b>	<b>1H</b>
Price (04 Jun 12)	ZL12.98
Target price	ZL18.40
	from ZL18.80
Expected share price return	41.8%
Expected dividend yield	0.0%
<b>Expected total return</b>	<b>41.8%</b>
Market Cap	ZL3,526M
	US\$1,004M

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



## Kredyt Bank SA (BKRE.WA) Below Merger Parity: Maintaining Buy

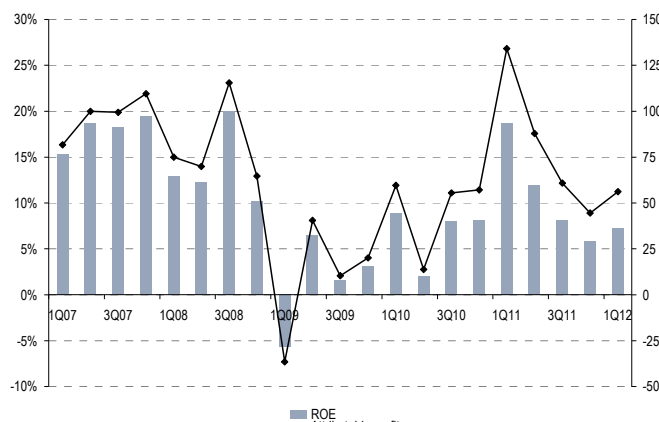
- **Buy Maintained** — We like Santander and KBC's plans to merge their Polish subsidiaries, BZ WBK (Buy, TP ZI 264) and Kredyt Bank (Buy/High Risk TP ZI 18.8) to create Poland's third-largest bank by assets, deposits, branches and equity. We view BZWBK as well managed, highly profitable and trading at high multiples while Kredyt Bank currently achieves significantly lower levels of profitability, creating room for significant synergies (we expect ZI 322m cost synergies and ZI 0m revenues synergies in 2015). Kredyt Bank shares, due to trading at a discount due to the proposed merger parity (0.0570 vs. 0.0696), allows for cheaper purchase of the shares in the future merged bank.

### Kredyt Bank SA (PLN)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (ZLM)	185.9	327.2	128.2	41.3	220.9
Diluted EPS (ZL)	0.68	1.20	0.47	0.15	0.81
Diluted EPS (Old) (ZL)	0.68	1.20	0.43	0.47	1.26
PE (x)	19.0	10.8	27.5	85.4	16.0
P/BV (x)	1.2	1.2	1.1	1.1	1.0
DPS (ZL)	0.37	0.00	0.00	0.06	0.33
Net Div Yield (%)	2.9	0.0	0.0	0.5	2.5
ROE (%)	6.9	11.1	4.1	1.3	6.6

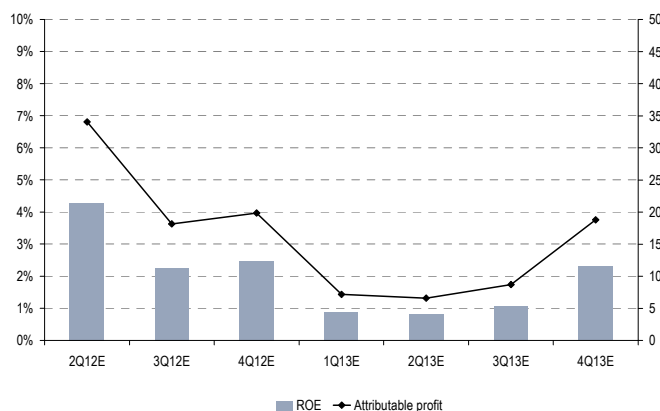
# Kredyt Bank in Snapshots

**Figure 90. Kredyt Bank – Reported Net Profit and ROE, 1Q07-3Q11**  
(Polish Zloty in million/Percentage)



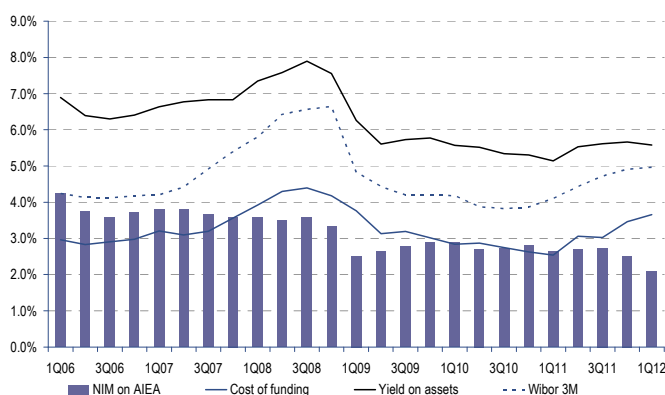
Source: Company reports, Citi Investment Research and Analysis

**Figure 91. Kredyt Bank – Forecast Net Profit and ROE, 4Q11E-4Q13E**  
(Polish Zloty in million/Percentage)



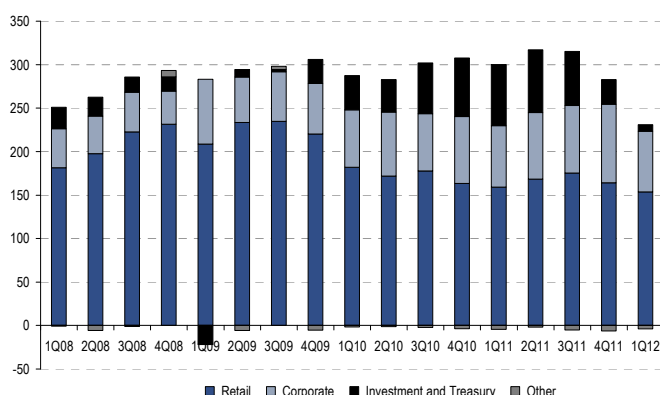
Source: Company reports, Citi Investment Research and Analysis

**Figure 92. Kredyt Bank – Yield on Assets and Cost of Funding, 1Q06-1Q12 (Percentage)**



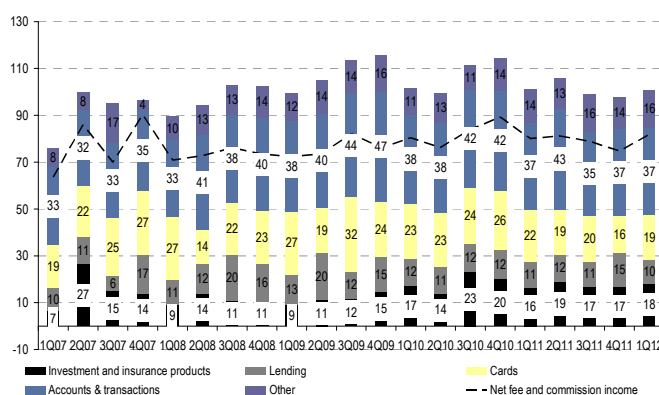
Source: Company reports, Citi Investment Research and Analysis

**Figure 93. Kredyt Bank – Net Interest Income by Divisions, 1Q08-3Q11 (Polish Zloty in million)**



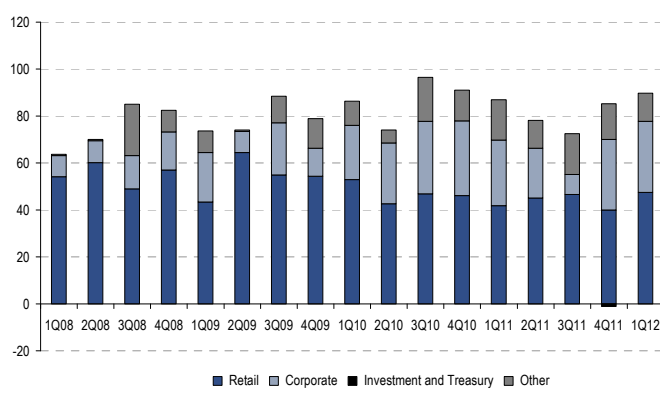
Source: Company reports, Citi Investment Research and Analysis

**Figure 94. Kredyt Bank – Breakdown of Fee Income, 1Q07-1Q12 (Polish Zloty in million)**



Source: Company reports, Citi Investment Research and Analysis

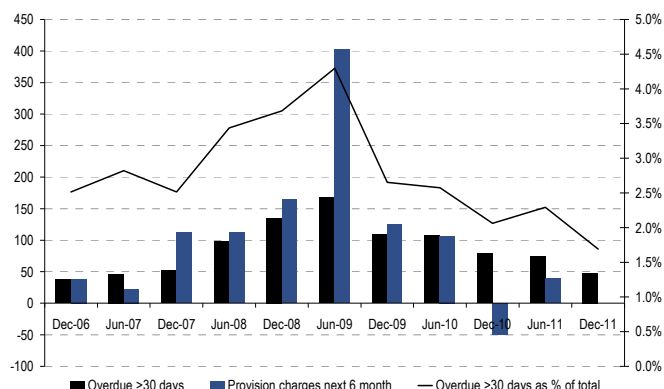
**Figure 95. Kredyt Bank – Net Fees by Divisions, 1Q08-1Q12 (Polish Zloty in million)**



Source: Company reports, Citi Investment Research and Analysis

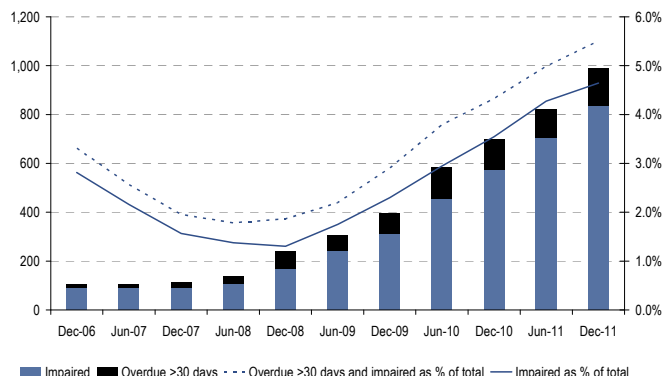


Figure 96. Kredyt Bank – Overdue Consumer Loans vs. Provisions, Dec 06-Dec 11 (Polish Zloty in million)



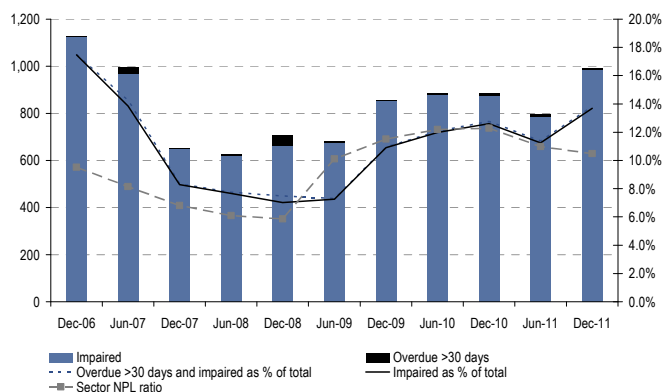
Source: Company reports, Citi Investment Research and Analysis

Figure 98. Kredyt Bank – Overdue and Impaired Mortgage Loans, Dec 06-Dec 11 (Polish Zloty in million)



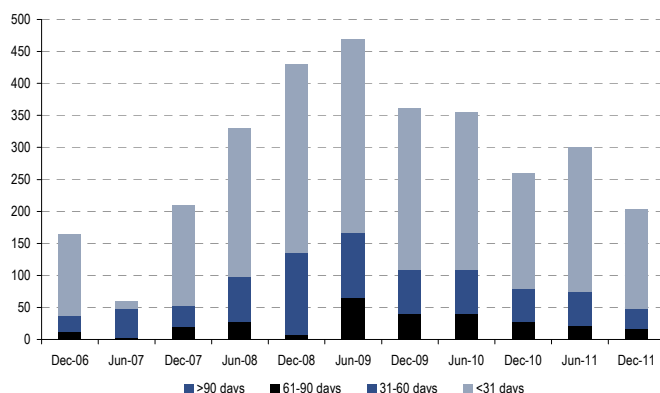
Source: Company reports, Citi Investment Research and Analysis

Figure 100. Kredyt Bank – Overdue and Impaired Corporate Loans, Dec 06-Dec 11 (Polish Zloty in million)



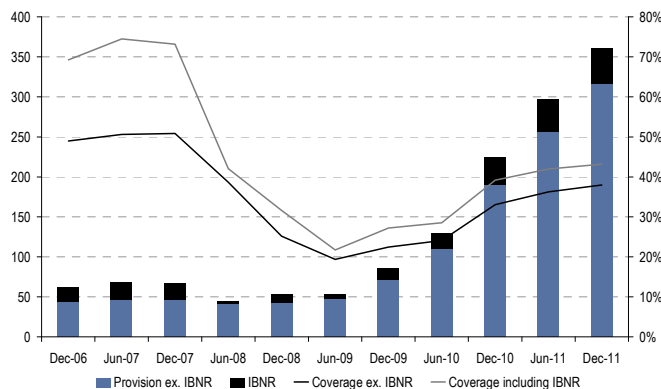
Source: Company reports, Citi Investment Research and Analysis

Figure 97. Kredyt Bank – Overdue Consumer Loans, Dec 06-Dec 11 (Polish Zloty in million)



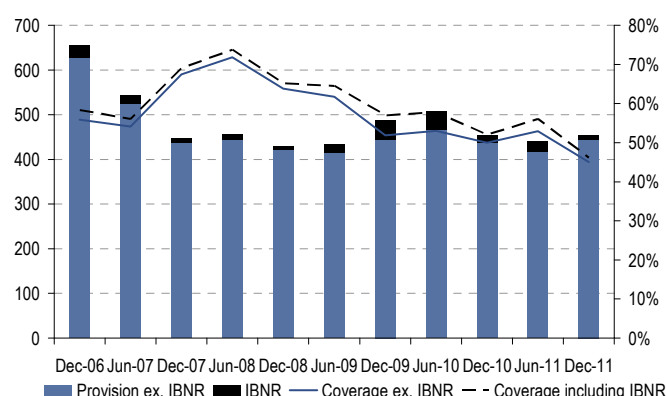
Source: Company reports, Citi Investment Research and Analysis

Figure 99. Kredyt Bank – Provision On Mortgage Loans, Dec 06-Dec 11 (Polish Zloty in million)



Source: Company reports, Citi Investment Research and Analysis

Figure 101. Kredyt Bank – Provision On Corporate Loans, Dec 06-Jun 11 (Polish Zloty in million)



Source: Company reports, Citi Investment Research and Analysis

## Annual Financials

Figure 102. Kredyt Bank – Profit and Loss, 2007-2014E (Polish Zloty in million)

GROUP	2007	2008	chg	2009	chg	2010	chg	2011	chg	2012E	chg	2013E	chg	2014E	chg
Net Interest Income	871.5	1,059.9	21.6%	1,061.2	0.1%	1,127.8	6.3%	1,150.1	2.0%	922.9	-19.8%	966.9	4.8%	1,039.9	7.5%
Net Fee & Commission Income	309.5	293.1	-5.3%	304.1	3.7%	329.9	8.5%	314.9	-4.5%	327.7	4.1%	335.3	2.3%	362.9	8.2%
Financial Income	47.9	-276.2	na	-176.5	-36.1%	-608.9	245.0%	45.4	na	158.1	248.5%	128.1	-19.0%	126.3	-1.4%
Other Income	216.1	559.1	158.7%	414.3	-25.9%	782.8	89.0%	115.1	-85.3%	109.2	-5.1%	115.9	6.2%	117.7	1.5%
<b>Total Revenue</b>	<b>1,445.0</b>	<b>1,635.9</b>	<b>13.2%</b>	<b>1,603.1</b>	<b>-2.0%</b>	<b>1,631.6</b>	<b>1.8%</b>	<b>1,625.5</b>	<b>-0.4%</b>	<b>1,518.0</b>	<b>-6.6%</b>	<b>1,546.2</b>	<b>1.9%</b>	<b>1,646.8</b>	<b>6.5%</b>
Labour Costs	-492.5	-536.2	8.9%	-454.1	-15.3%	-416.7	-8.2%	-443.1	6.3%	-457.3	3.2%	-459.3	0.4%	-461.4	0.5%
General Costs	-371.4	-464.7	25.1%	-454.7	-2.1%	-410.5	-9.7%	-466.6	13.7%	-465.6	-0.2%	-507.8	9.1%	-517.3	1.9%
Depreciation	-110.7	-103.7	-6.3%	-114.5	10.4%	-101.0	-11.8%	-89.8	-11.1%	-74.9	-16.6%	-77.9	4.1%	-81.1	4.1%
<b>Operating Expenses</b>	<b>-974.6</b>	<b>-1,105</b>	<b>13.3%</b>	<b>-1,023</b>	<b>-7.4%</b>	<b>-928.1</b>	<b>-9.3%</b>	<b>-999.5</b>	<b>7.7%</b>	<b>-997.8</b>	<b>-0.2%</b>	<b>-1,045</b>	<b>4.7%</b>	<b>-1,060</b>	<b>1.4%</b>
<b>Operating Profit</b>	<b>470.4</b>	<b>531.3</b>	<b>13.0%</b>	<b>579.8</b>	<b>9.1%</b>	<b>703.5</b>	<b>21.3%</b>	<b>626.0</b>	<b>-11.0%</b>	<b>520.2</b>	<b>-16.9%</b>	<b>501.2</b>	<b>-3.6%</b>	<b>587.0</b>	<b>17.1%</b>
Provision Charge	30.1	-108.2	na	-803.2	642.3%	-472.0	-41.2%	-198.8	-57.9%	-357.1	79.7%	-452.9	26.8%	-314.2	-30.6%
Extraordinary Profit/(Loss)	0.0	0.0	na	0.0	na	0.0	na	0.0	na	0.0	na	0.0	na	0.0	na
Associate Income	1.5	-2.0	na	1.8	na	3.2	76.8%	4.0	23.2%	3.3	-16.3%	3.3	0.0%	3.3	0.0%
<b>Profit Before Tax</b>	<b>502.0</b>	<b>421.1</b>	<b>-16.1%</b>	<b>-221.6</b>	<b>na</b>	<b>234.7</b>	<b>na</b>	<b>431.1</b>	<b>83.7%</b>	<b>166.4</b>	<b>-61.4%</b>	<b>51.6</b>	<b>-69.0%</b>	<b>276.1</b>	<b>435.1%</b>
Minorities and discontinued operations	0.0	0.0	na	228.6	na	0.0	na	0.0	na	0.0	na	0.0	na	0.0	na
Tax	-111.4	-96.1	-13.7%	27.6	na	-48.8	na	-103.9	113.0%	-38.2	-63.2%	-10.3	-73.0%	-55.2	435.1%
<b>Net Profit</b>	<b>390.5</b>	<b>324.9</b>	<b>-16.8%</b>	<b>34.6</b>	<b>-89.4%</b>	<b>185.9</b>	<b>438.0%</b>	<b>327.2</b>	<b>76.0%</b>	<b>128.2</b>	<b>-60.8%</b>	<b>41.3</b>	<b>-67.8%</b>	<b>220.9</b>	<b>435.1%</b>
EPS (Zl)	1.4	1.2	-16.8%	0.1	-89.4%	0.7	438.0%	1.2	76.0%	0.5	-60.8%	0.2	-67.8%	0.8	435.1%
DPS (Zl)	0.5	0.0	na	0.0	na	0.4	na	0.0	na	0.0	na	0.1	na	0.3	435.1%
Average Diluted Number of Shares (m)	271.7	271.7	0.0%	271.7	0.0%	271.7	0.0%	271.7	0.0%	271.7	0.0%	271.7	0.0%	271.7	0.0%

Source: Company reports, Citi Investment Research and Analysis

Figure 103. Kredyt Bank– Balance Sheet, 2007-2014E (Polish Zloty in million)

GROUP	2007	2008	chg	2009	chg	2010	chg	2011	chg	2012E	chg	2013E	chg	2014E	chg
Cash and NBP Balances	612	828	35.4%	1,175	42.0%	1,944	65.4%	785	-59.6%	800	2.0%	817	2.0%	833	2.0%
Interbank placements	2,454	339	-86.2%	520	53.5%	1,551	198.5%	1,188	-23.4%	1,212	2.0%	1,236	2.0%	1,261	2.0%
Financial Assets & Securities	6,442	9,859	53.0%	10,696	8.5%	11,650	8.9%	9,911	-14.9%	10,980	10.8%	11,467	4.4%	11,975	4.4%
Net client lending	16,622	26,733	60.8%	25,722	-3.8%	27,195	5.7%	29,086	7.0%	29,599	1.8%	30,801	4.1%	32,051	4.1%
Fixed assets	396	422	6.4%	354	-16.2%	290	-17.8%	260	-10.6%	265	2.0%	270	2.0%	276	2.0%
Other assets	602	550	-8.5%	610	10.8%	744	22.1%	774	4.0%	756	-2.3%	793	4.8%	830	4.8%
<b>Total Assets</b>	<b>27,128</b>	<b>38,731</b>	<b>42.8%</b>	<b>39,077</b>	<b>0.9%</b>	<b>43,374</b>	<b>11.0%</b>	<b>42,003</b>	<b>-3.2%</b>	<b>43,613</b>	<b>3.8%</b>	<b>45,384</b>	<b>4.1%</b>	<b>47,227</b>	<b>4.1%</b>
Interbank borrowing	6,403	13,247	106.9%	12,403	-6.4%	12,379	-0.2%	8,487	-31.4%	7,553	-11.0%	6,571	-13.0%	5,454	-17.0%
Client deposits	17,089	20,275	18.6%	22,469	10.8%	25,661	14.2%	28,043	9.3%	30,249	7.9%	32,742	8.2%	35,441	8.2%
Other liabilities	1,360	2,563	88.4%	1,615	-37.0%	2,506	55.1%	2,408	-3.9%	2,583	7.3%	2,801	8.4%	2,858	2.0%
Minorities	0	0	na	0	na	0	na	0	na	0	na	0	na	0	na
Equity (ex Minorities)	2,276	2,646	16.2%	2,589	-2.2%	2,828	9.3%	3,066	8.4%	3,228	5.3%	3,269	1.3%	3,473	6.3%
Total liabilities & Equity	27,128	38,731	42.8%	39,077	0.9%	43,374	11.0%	42,003	-3.2%	43,613	3.8%	45,384	4.1%	47,227	4.1%
<b>Interest Earning Assets</b>	<b>26,130</b>	<b>37,758</b>	<b>44.5%</b>	<b>38,113</b>	<b>na</b>	<b>42,340</b>	<b>11.1%</b>	<b>40,969</b>	<b>-3.2%</b>	<b>42,591</b>	<b>4.0%</b>	<b>44,321</b>	<b>4.1%</b>	<b>46,120</b>	<b>4.1%</b>
BVPS (Zl)	8.38	9.74	16.2%	9.53	na	10.41	9.3%	11.28	8.4%	11.88	5.3%	12.03	1.3%	12.79	6.3%

Source: Company reports, Citi Investment Research and Analysis

Figure 104. Kredyt Bank – Key Ratios, 2007-2014E (Percentage)

GROUP	2007	2008	2009	2010	2011	2012E	2013E	2014E
<b>NIM on AIEA</b>	<b>3.68%</b>	<b>3.32%</b>	<b>2.80%</b>	<b>2.80%</b>	<b>2.76%</b>	<b>2.21%</b>	<b>2.23%</b>	<b>2.30%</b>
NIM on Total Ave. Assets	3.53%	3.22%	2.73%	2.74%	2.69%	2.16%	2.17%	2.25%
Net Fee & Commission Income/Total Income	21.4%	17.9%	19.0%	20.2%	19.4%	21.6%	21.7%	22.0%
Net Fee & Commission Income/Deposits	1.8%	1.4%	1.4%	1.3%	1.1%	1.1%	1.0%	1.0%
<b>Cost/Income</b>	<b>67.4%</b>	<b>67.5%</b>	<b>63.8%</b>	<b>56.9%</b>	<b>61.5%</b>	<b>65.7%</b>	<b>67.6%</b>	<b>64.4%</b>
Cost/Avg. Assets	3.9%	3.4%	2.6%	2.3%	2.3%	2.3%	2.3%	2.3%
Effective tax rate	22.2%	22.8%	12.4%	20.8%	24.1%	23.0%	20.0%	20.0%
Dividend Payout Ratio	36.2%	0.0%	0.0%	54.1%	0.0%	0.0%	40.0%	40.0%
<b>Provisions/Avg Net Loans</b>	<b>-0.21%</b>	<b>0.50%</b>	<b>3.06%</b>	<b>1.78%</b>	<b>0.71%</b>	<b>1.22%</b>	<b>1.50%</b>	<b>1.00%</b>
Equity/Assets	8.4%	6.8%	6.6%	6.5%	7.3%	7.4%	7.2%	7.4%
<b>Loans/Deposits</b>	<b>97.3%</b>	<b>131.9%</b>	<b>114.5%</b>	<b>106.0%</b>	<b>103.7%</b>	<b>97.9%</b>	<b>94.1%</b>	<b>90.4%</b>
Loans/Total Assets	61.3%	69.0%	65.8%	62.7%	69.2%	67.9%	67.9%	67.9%
<b>ROE</b>	<b>17.9%</b>	<b>13.2%</b>	<b>1.3%</b>	<b>6.9%</b>	<b>11.1%</b>	<b>4.1%</b>	<b>1.3%</b>	<b>6.6%</b>
ROA	1.58%	0.99%	0.09%	0.45%	0.77%	0.30%	0.09%	0.48%
NPLs/Total Loans	6.6%	4.9%	8.7%	9.7%	8.2%	8.7%	8.7%	8.0%
Provision Coverage of NPLs	73.0%	68.7%	60.4%	67.8%	56.0%	57.7%	54.0%	51.7%
RWA/Total Assets	78.3%	78.5%	71.6%	65.7%	71.5%	72.0%	72.0%	72.0%
<b>CAR</b>	<b>9.7%</b>	<b>8.8%</b>	<b>11.8%</b>	<b>12.5%</b>	<b>12.5%</b>	<b>12.5%</b>	<b>12.1%</b>	<b>12.2%</b>
Group Employees	6,724	7,050	4,896	4,834	4,963	4,741	4,647	4,555

Source: Company reports, Citi Investment Research and Analysis

## Company Focus

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

<b>Neutral</b>	<b>2</b>
from Sell	
Price (04 Jun 12)	ZL261.50
Target price	ZL266.00
from ZL268.00	
Expected share price return	1.7%
Expected dividend yield	0.0%
<b>Expected total return</b>	<b>1.7%</b>
Market Cap	ZL11,010M
	US\$3,135M

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



## BRE Bank SA (BREP.WA)

### Potential and Challenges Fair Priced – Upgrading to Neutral

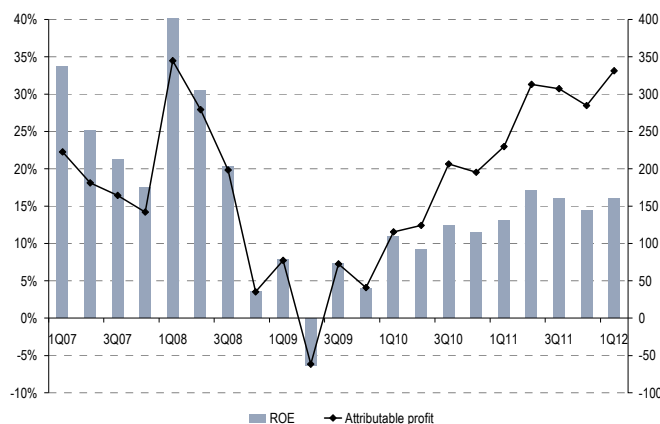
- **Upgrading to Neutral** — Rising consumer lending and improving deposit margin have been the main drivers of BRE's earnings growth in 2010 and 2011. However we see headwinds for both, leading us to remain cautious on the outlook for BRE shares. Additionally we expect deterioration economy to negatively affect the bank's cost of risk. Nevertheless, due to the decline in market price, we raise the stock rating to Neutral from Sell (TP ZI 266).

### BRE Bank SA (PLN)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (ZLM)	641.6	1,169.7	1,057.0	897.5	1,186.3
Diluted EPS (ZL)	16.95	27.79	25.11	21.32	28.18
Diluted EPS (Old) (ZL)	16.95	26.97	23.58	20.80	29.03
PE (x)	15.4	9.4	10.4	12.3	9.3
P/BV (x)	1.6	1.4	1.2	1.2	1.1
DPS (ZL)	0.00	0.00	12.55	17.05	22.54
Net Div Yield (%)	0.0	0.0	4.8	6.5	8.6
ROE (%)	11.6	15.6	12.3	9.6	12.1

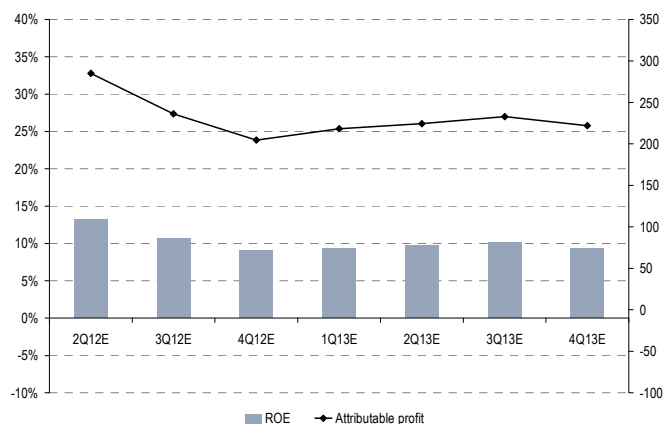
## BRE Bank in Snapshots

**Figure 105. BRE Bank – Reported Net Profit and ROE, 1Q07-3Q11**  
(Polish Zloty in million/Percentage)



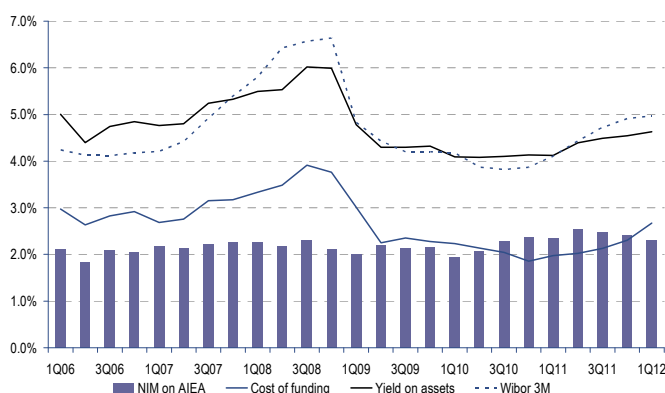
Source: Company reports, Citi Investment Research and Analysis

**Figure 106. BRE Bank – Forecast Net Profit and ROE, 4Q11E-4Q13E**  
(Polish Zloty in million/Percentage)



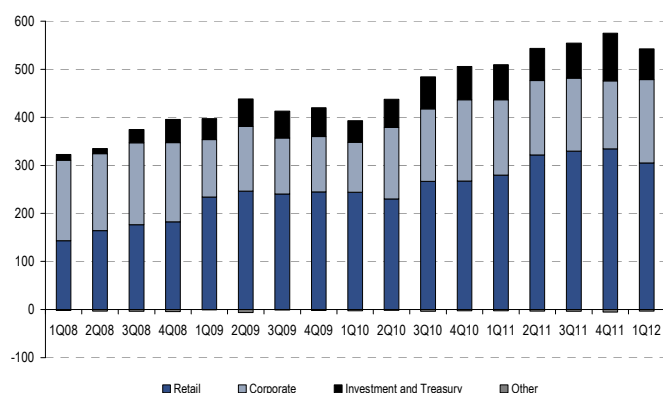
Source: Citi Investment Research and Analysis

**Figure 107. BRE Bank – Yield on Assets and Cost of Funding, 1Q06-1Q12 (Percentage)**



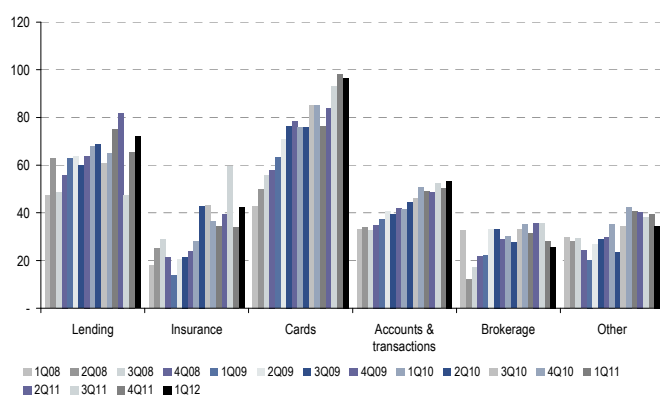
Source: Company reports, Citi Investment Research and Analysis

**Figure 108. BRE Bank – NII by Divisions, 1Q08-1Q12 (Polish Zloty in million)**



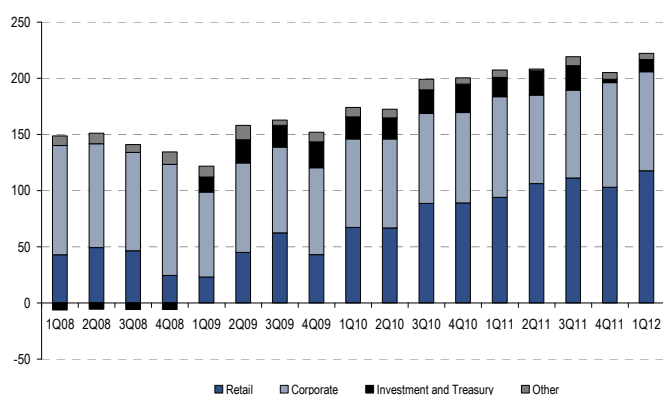
Source: Company reports, Citi Investment Research and Analysis

**Figure 109. BRE Bank – Breakdown of Net Fees, 1Q08-1Q12 (Polish Zloty in million)**



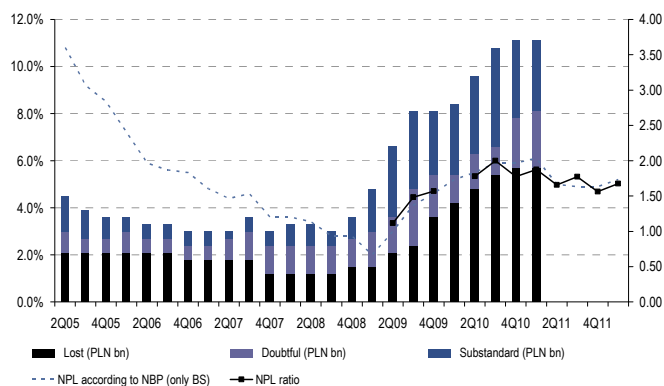
Source: Company reports, Citi Investment Research and Analysis

**Figure 110. BRE Bank – Net Fees by Divisions, 1Q08-1Q12 (Polish Zloty in million)**



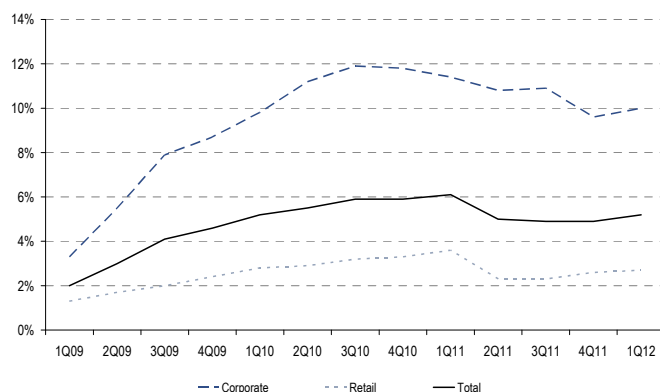
Source: Company reports, Citi Investment Research and Analysis

Figure 111. BRE Bank – NPL Ratios, 2Q05-1Q12



Source: Company reports, Citi Investment Research and Analysis

Figure 112. BRE Bank – Retail and Corporate NPL Ratios, 1Q09-3Q11



Source: Company reports, Citi Investment Research and Analysis

## Annual Financials

Figure 113. BRE Bank – Profit and Loss, 2007-2014E (Polish Zloty in million)

GROUP	2007	2008	chg	2009	chg	2010	chg	2011	chg	2012E	chg	2013E	chg	2014E	chg
Net Interest Income	1,028	1,392	35.5%	1,658	19.1%	1,811	9.2%	2,168	19.7%	2,213	2.1%	2,349	6.1%	2,470	5.2%
Net Fee & Commission Income	564	552	-2.3%	595	7.8%	746	25.4%	840	12.6%	911	8.5%	907	-0.5%	988	9.0%
Financial Income	55	-35	na	-9	-73.3%	86	na	42	-50.9%	45	6.4%	13	-71.0%	13	0.0%
Other Income	555	640	15.4%	608	-5.0%	482	-20.7%	548	13.8%	491	-10.5%	527	7.4%	591	12.1%
<b>Total Revenue</b>	<b>2,202</b>	<b>2,549</b>	<b>15.7%</b>	<b>2,851</b>	<b>11.9%</b>	<b>3,125</b>	<b>9.6%</b>	<b>3,598</b>	<b>15.2%</b>	<b>3,660</b>	<b>1.7%</b>	<b>3,796</b>	<b>3.7%</b>	<b>4,063</b>	<b>7.0%</b>
Labour Costs	-629	-739	17.6%	-645	-12.8%	-744	15.5%	-810	8.8%	-812	0.2%	-847	4.2%	-888	4.9%
General Costs	-475	-607	27.9%	-641	5.5%	-636	-0.7%	-661	4.0%	-674	1.9%	-748	11.0%	-762	1.9%
Depreciation	-176	-203	15.4%	-259	27.5%	-237	-8.7%	-251	6.1%	-198	-21.3%	-210	6.1%	-223	6.1%
<b>Operating Expenses</b>	<b>-1,280</b>	<b>-1,550</b>	<b>21.1%</b>	<b>-1,545</b>	<b>-0.3%</b>	<b>-1,617</b>	<b>4.7%</b>	<b>-1,723</b>	<b>6.5%</b>	<b>-1,684</b>	<b>-2.3%</b>	<b>-1,804</b>	<b>7.2%</b>	<b>-1,873</b>	<b>3.8%</b>
<b>Operating Profit</b>	<b>922</b>	<b>999</b>	<b>8.3%</b>	<b>1,307</b>	<b>30.8%</b>	<b>1,507</b>	<b>15.4%</b>	<b>1,875</b>	<b>24.4%</b>	<b>1,976</b>	<b>5.4%</b>	<b>1,991</b>	<b>0.8%</b>	<b>2,190</b>	<b>10.0%</b>
Provision Charge	-77	-269	250.4%	-1,097	307.6%	-635	-42.1%	-373	-41.2%	-652	74.7%	-864	32.5%	-702	-18.8%
Associate Income	0	0	na	0	na	0	na	0	na	0	na	0	na	0	na
<b>Profit Before Tax</b>	<b>846</b>	<b>730</b>	<b>-13.7%</b>	<b>209</b>	<b>-71.3%</b>	<b>873</b>	<b>316.7%</b>	<b>1,502</b>	<b>72.1%</b>	<b>1,324</b>	<b>-11.9%</b>	<b>1,127</b>	<b>-14.9%</b>	<b>1,488</b>	<b>32.0%</b>
Minorities	-38	-32	-15.0%	-2	-95.0%	-19	1108%	-9	-50.9%	-3	-67.3%	-4	29.2%	-4	0.0%
Tax	-185	-108	-41.3%	-79	-27.3%	-212	168.4%	-323	52.5%	-263	-18.4%	-225	-14.4%	-298	32.0%
Discontinued operations (after tax)	87	268	209.7%	0	na	0	na	0	na	0	na	0	na	0	na
<b>Net Profit</b>	<b>710</b>	<b>858</b>	<b>20.8%</b>	<b>129</b>	<b>-85.0%</b>	<b>642</b>	<b>397.6%</b>	<b>1,170</b>	<b>82.3%</b>	<b>1,057</b>	<b>-9.6%</b>	<b>897</b>	<b>-15.1%</b>	<b>1,186</b>	<b>32.2%</b>
EPS (Zl)	21.2	25.5	20.4%	3.8	-85.0%	16.9	342.1%	27.8	64.0%	25.1	-9.7%	21.3	-15.1%	28.2	32.2%
DPS (Zl)	0.0	0.0	na	0.0	na	0.0	na	0.0	na	12.6	na	17.1	35.8%	22.5	32.2%
Average Diluted Number of Shares (m)	33.5	33.6	0.3%	33.6	0.1%	37.9	12.6%	42.1	11.2%	42.1	0.0%	42.1	0.0%	42.1	0.0%

Source: Company reports, Citi Investment Research and Analysis

Figure 114. BRE Bank – Balance Sheet, 2007-2014E (Polish Zloty in million)

GROUP	2007	2008	chg	2009	chg	2010	chg	2011	chg	2012E	chg	2013E	chg	2014E	chg
Cash and NBP Balances	2,027	2,522	24.4%	3,796	50.5%	2,364	-37.7%	1,038	-56.1%	1,111	7.0%	1,189	7.0%	1,272	7.0%
Interbank placements	2,090	6,104	192.1%	2,531	-58.5%	2,511	-0.8%	4,009	59.7%	3,608	-10.0%	3,247	-10.0%	2,922	-10.0%
Financial Assets & Securities	12,062	15,760	30.7%	16,120	2.3%	21,555	33.7%	19,195	-10.9%	16,913	-11.9%	16,948	0.2%	16,895	-0.3%
Net client lending	33,683	52,142	54.8%	52,469	0.6%	59,370	13.2%	67,852	14.3%	69,219	2.0%	74,925	8.2%	81,101	8.2%
Fixed assets	670	814	21.5%	786	-3.4%	778	-1.1%	832	7.1%	916	10.0%	1,007	10.0%	1,108	10.0%
Other assets	5,451	5,262	-3.5%	5,323	1.1%	3,474	-34.7%	5,949	71.2%	6,494	9.2%	7,044	8.5%	7,645	8.5%
<b>Total Assets</b>	<b>55,983</b>	<b>82,605</b>	<b>47.6%</b>	<b>81,024</b>	<b>-1.9%</b>	<b>90,051</b>	<b>11.1%</b>	<b>98,876</b>	<b>9.8%</b>	<b>98,261</b>	<b>-0.6%</b>	<b>104,359</b>	<b>6.2%</b>	<b>110,943</b>	<b>6.3%</b>
Interbank borrowing	12,287	28,791	134.3%	27,024	-6.1%	28,727	6.3%	27,391	-4.7%	24,378	-11.0%	23,646	-3.0%	23,174	-2.0%
Client deposits	32,402	37,750	16.5%	42,791	13.4%	47,420	10.8%	54,244	14.4%	53,264	-1.8%	57,090	7.2%	61,190	7.2%
Other liabilities	7,853	12,016	53.0%	6,938	-42.3%	6,827	-1.6%	9,168	34.3%	11,402	24.4%	14,034	23.1%	16,518	17.7%
Minorities	117	154	31.5%	151	-1.7%	168	11.3%	24	-85.8%	27	12.9%	31	14.8%	35	12.9%
Equity (ex Minorities)	3,325	3,894	17.1%	4,120	5.8%	6,909	67.7%	8,049	16.5%	9,189	14.2%	9,558	4.0%	10,027	4.9%
Total liabilities & Equity	55,983	82,606	47.6%	81,024	-1.9%	90,051	11.1%	98,876	9.8%	98,261	-0.6%	104,359	6.2%	110,943	6.3%
<b>Interest Earning Assets</b>	<b>53,570</b>	<b>79,973</b>	<b>49.3%</b>	<b>78,431</b>	<b>-1.9%</b>	<b>87,631</b>	<b>11.7%</b>	<b>96,434</b>	<b>10.0%</b>	<b>95,624</b>	<b>-0.8%</b>	<b>101,559</b>	<b>6.2%</b>	<b>107,966</b>	<b>6.3%</b>
BVPS (Zl)	99	116	17.0%	123	5.8%	164	34.0%	191	16.4%	218	14.2%	227	4.0%	238	4.9%

Source: Company reports, Citi Investment Research and Analysis

Figure 115. BRE Bank – Key Ratios, 2007-2014E (Polish Zloty in million)

GROUP	2007	2008	2009	2010	2011	2012E	2013E	2014E
<b>NIM on AIEA</b>	<b>2.19%</b>	<b>2.09%</b>	<b>2.09%</b>	<b>2.18%</b>	<b>2.36%</b>	<b>2.30%</b>	<b>2.38%</b>	<b>2.36%</b>
NIM on Total Ave. Assets	2.09%	2.01%	2.03%	2.12%	2.30%	2.25%	2.32%	2.29%
Net Fee & Commission Income/Total Income	25.6%	21.6%	20.9%	23.9%	23.3%	24.9%	23.9%	24.3%
Net Fee & Commission Income/Deposits	1.7%	1.5%	1.4%	1.6%	1.5%	1.7%	1.6%	1.6%
<b>Cost/Income</b>	<b>58.1%</b>	<b>60.8%</b>	<b>54.2%</b>	<b>51.8%</b>	<b>47.9%</b>	<b>46.0%</b>	<b>47.5%</b>	<b>46.1%</b>
Cost/Avg. Assets	2.6%	2.2%	1.9%	1.9%	1.8%	1.7%	1.8%	1.7%
Effective tax rate	21.8%	14.9%	37.7%	24.3%	21.5%	19.9%	20.0%	20.0%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%	50.0%	80.0%	80.0%
<b>Provisions/Avg Net Loans</b>	<b>0.27%</b>	<b>0.63%</b>	<b>2.10%</b>	<b>1.14%</b>	<b>0.59%</b>	<b>0.95%</b>	<b>1.20%</b>	<b>0.90%</b>
Equity/Assets	6.1%	4.9%	5.3%	7.9%	8.2%	9.4%	9.2%	9.1%
<b>Loans/Deposits</b>	<b>104.0%</b>	<b>138.1%</b>	<b>122.6%</b>	<b>125.2%</b>	<b>125.1%</b>	<b>130.0%</b>	<b>131.2%</b>	<b>132.5%</b>
Loans/Total Assets	60.2%	63.1%	64.8%	65.9%	68.6%	70.4%	71.8%	73.1%
<b>ROE</b>	<b>24.3%</b>	<b>23.8%</b>	<b>3.2%</b>	<b>11.6%</b>	<b>15.6%</b>	<b>12.3%</b>	<b>9.6%</b>	<b>12.1%</b>
ROA	1.44%	1.24%	0.16%	0.75%	1.24%	1.07%	0.89%	1.10%
NPLs/Total Loans	2.3%	2.2%	4.7%	5.3%	4.7%	5.5%	5.5%	5.0%
Provision Coverage of NPLs	85.3%	73.5%	76.7%	74.6%	73.6%	66.4%	67.8%	70.4%
RWA/Total Assets	69.8%	71.3%	67.2%	62.6%	59.0%	59.0%	59.0%	59.0%
Tier I Ratio (%)	5.7%	5.6%	6.6%	10.4%	11.0%	13.0%	12.9%	12.8%
<b>CAR</b>	<b>10.2%</b>	<b>10.0%</b>	<b>11.5%</b>	<b>15.9%</b>	<b>16.2%</b>	<b>18.3%</b>	<b>17.8%</b>	<b>17.5%</b>
Group Employees	5,785	6,133	5,566	6,018	6,294	6,463	6,592	6,725

Source: Company reports, Citi Investment Research and Analysis

## Company Focus

- Company Update
- Target Price Change
- Estimate Change

<b>Buy</b>	<b>1</b>
Price (04 Jun 12)	ZL74.95
Target price	ZL89.00
from ZL92.00	
Expected share price return	18.7%
Expected dividend yield	4.9%
<b>Expected total return</b>	<b>23.7%</b>
Market Cap	ZL9,751M
	US\$2,777M

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



## ING Bank Slaski SA (SLAS.WA)

### Less Liquid, Less Low-Risk But Still Attractive: Maintaining Buy

- **Buy Maintained** — We appreciate ING BSK's (Buy, TP ZL 89) conservative business model, its strong franchise in corporate and retail banking, and its positive leverage to low interest rates. We note, however, that given high growth in lending in 2009-2011, the expected slowdown in the economy should inevitably lead to higher provisioning that, due to the bank's low-margin business model, will materially impact the bottom line. We note also that the bank, post acquisition and consolidation of the leasing and factoring subsidiaries, is no longer as liquid as it used to be (loan-to-deposit ratio 91% in 1Q12 vs. 76% in 1Q11 and 65% in 1Q10).

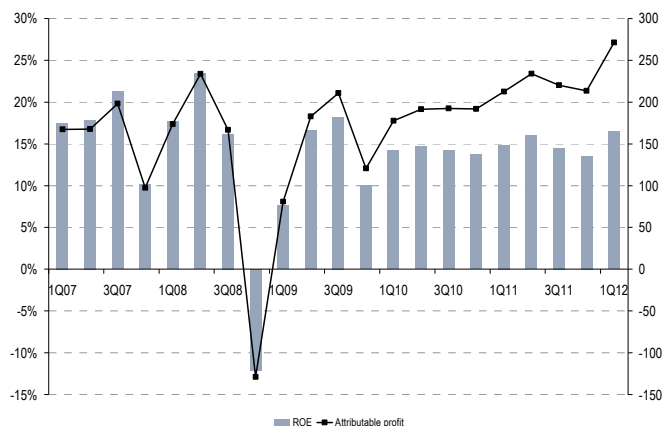
### ING Bank Slaski SA (PLN)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (ZLM)	753.1	880.1	792.2	655.6	1,031.0
Diluted EPS (ZL)	5.79	6.76	6.09	5.04	7.92
Diluted EPS (Old) (ZL)	5.79	7.04	6.13	6.65	8.57
PE (x)	12.9	11.1	12.3	14.9	9.5
P/BV (x)	1.7	1.5	1.3	1.3	1.2
DPS (ZL)	1.50	0.00	3.65	3.02	4.75
Net Div Yield (%)	2.0	0.0	4.9	4.0	6.3
ROE (%)	14.3	14.6	11.6	8.9	13.3



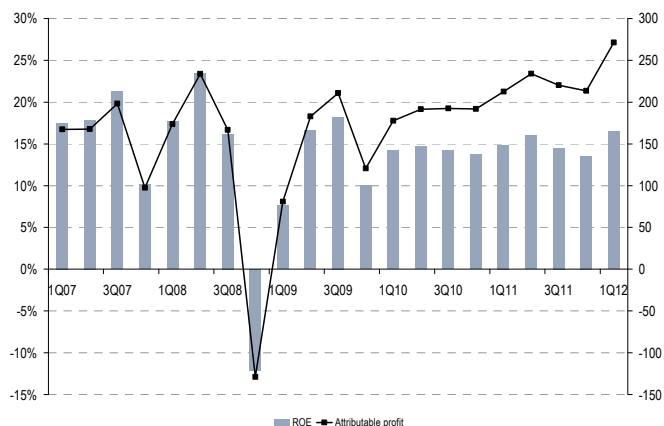
## ING BSK in Snapshots

**Figure 116. ING BSK – Reported Net Profit and ROE, 1Q07-3Q11 (Polish Zloty in million/Percentage)**



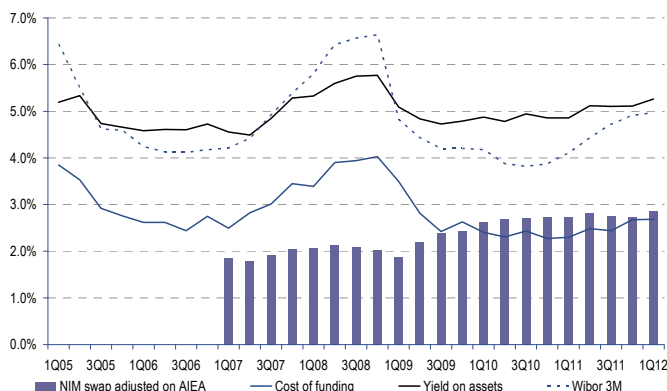
Source: Company reports, Citi Investment Research and Analysis

**Figure 117. ING BSK – Forecast Net Profit and ROE, 4Q11E-4Q13E (Polish Zloty in million/Percentage)**



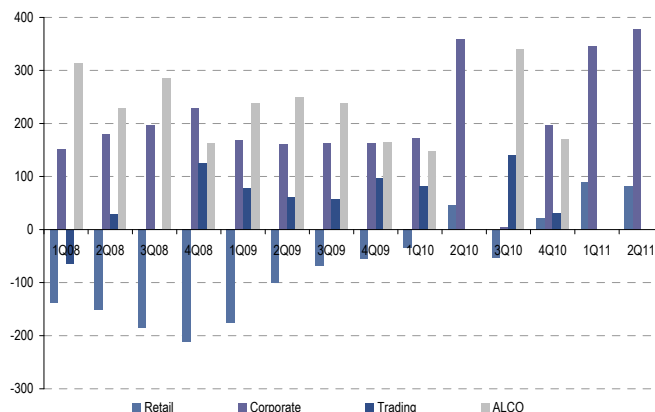
Source: Citi Investment Research and Analysis

**Figure 118. ING BSK – Yield on Assets and Cost of Funding, 1Q05-3Q11 (Percentage)**



Source: Company reports, Citi Investment Research and Analysis

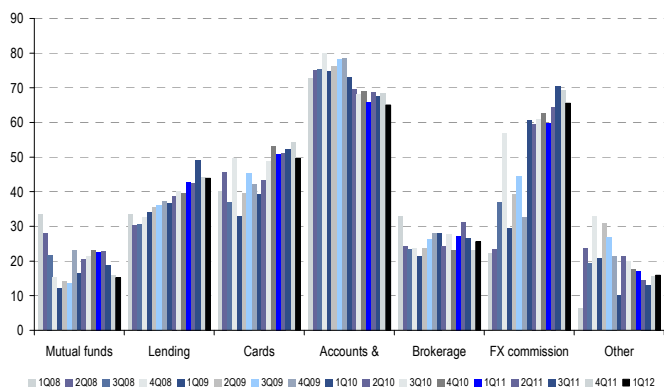
**Figure 119. ING BSK – External Net Interest Income by Divisions, 1Q08-2Q11 (Percentage)**



Note: Since 1Q11 the bank has disclosed only retail and corporate NII and since 3Q11 the bank discontinued presenting data on external net interest income

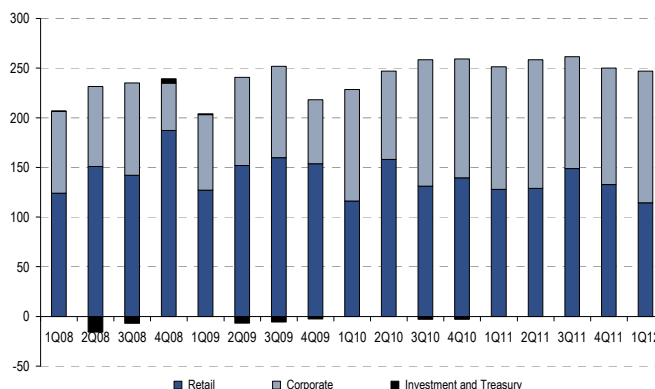
Source: Company reports, Citi Investment Research and Analysis

**Figure 120. ING BSK – Breakdown of Fee Income, 1Q08-1Q12 (Polish Zloty in million) corrected**



Source: Company reports, Citi Investment Research and Analysis

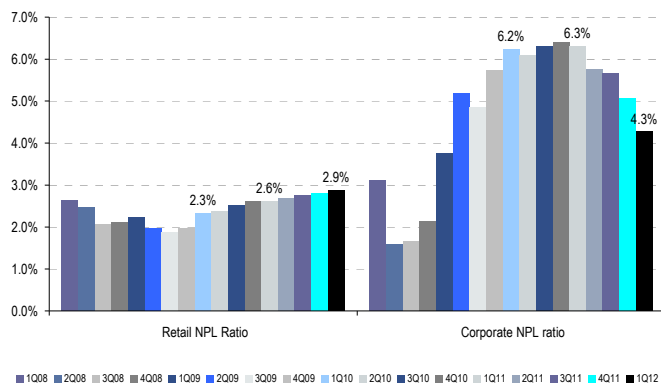
**Figure 121. ING BSK – Net Fees by Division, 1Q08-3Q11 (Polish Zloty in million)**



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

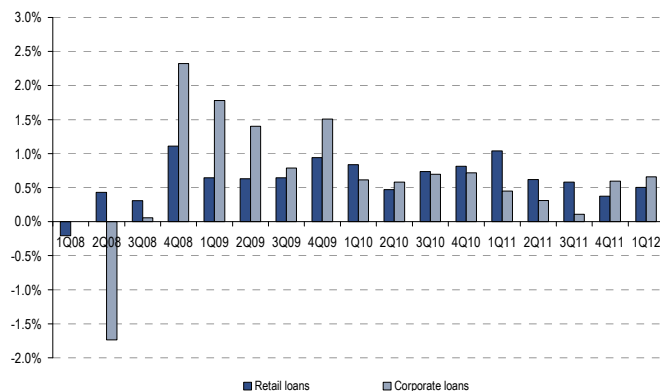
Source: Company reports, Citi Investment Research and Analysis

**Figure 122. ING BSK – Retail and Corporate NPL Ratios, 1Q08-1Q12 (Percentage)**



Source: Company reports, Citi Investment Research and Analysis

**Figure 123. ING BSK – Retail and Corporate Cost of Risk, 1Q08-1Q11 (Percentage)**



Source: Company reports, Citi Investment Research and Analysis

## Annual Financials

Figure 124. ING BSK – Profit and Loss, 2007-2014E (Polish Zloty in million)

GROUP	2007	2008	chg	2009	chg	2010	chg	2011	chg	2012E	chg	2013E	chg	2014E	chg
Net Interest Income	1,048	1,152	9.9%	1,442	25.2%	1,628	12.9%	1,852	13.8%	2,077	12.2%	2,188	5.3%	2,384	9.0%
Net Fee & Commission Income	899	890	-1.0%	900	1.1%	987	9.7%	1,021	3.4%	1,021	0.0%	1,043	2.2%	1,132	8.5%
Financial Income	62	19	-69.8%	147	683.0%	80	-45.6%	56	-29.4%	133	136.0%	80	-39.8%	80	0.0%
Other Income	12	27	119.6%	-10	na	-3	-68.6%	18	na	23	30.7%	24	4.3%	24	0.0%
<b>Total Revenue</b>	<b>2,021</b>	<b>2,087</b>	<b>3.3%</b>	<b>2,478</b>	<b>18.7%</b>	<b>2,679</b>	<b>8.1%</b>	<b>2,913</b>	<b>8.7%</b>	<b>3,243</b>	<b>11.3%</b>	<b>3,319</b>	<b>2.3%</b>	<b>3,616</b>	<b>9.0%</b>
Labour Costs	-700	-783	11.7%	-717	-8.4%	-822	14.6%	-844	2.7%	-949	12.5%	-981	3.4%	-1,025	4.5%
General Costs	-525	-591	12.4%	-647	9.5%	-640	-1.0%	-688	7.5%	-782	13.6%	-835	6.8%	-858	2.7%
Depreciation	-155	-134	-13.6%	-124	-7.4%	-121	-2.4%	-133	9.6%	-136	2.9%	-142	4.1%	-148	4.1%
<b>Operating Expenses</b>	<b>-1,381</b>	<b>-1,507</b>	<b>9.1%</b>	<b>-1,488</b>	<b>-1.3%</b>	<b>-1,583</b>	<b>6.4%</b>	<b>-1,664</b>	<b>5.1%</b>	<b>-1,867</b>	<b>12.2%</b>	<b>-1,958</b>	<b>4.9%</b>	<b>-2,030</b>	<b>3.7%</b>
<b>Operating Profit</b>	<b>640</b>	<b>580</b>	<b>-9.3%</b>	<b>991</b>	<b>70.7%</b>	<b>1,097</b>	<b>10.7%</b>	<b>1,249</b>	<b>13.9%</b>	<b>1,376</b>	<b>10.2%</b>	<b>1,361</b>	<b>-1.1%</b>	<b>1,586</b>	<b>16.6%</b>
Provision Charge	103	-66	na	-304	364.1%	-204	-33.1%	-172	-15.3%	-448	159.7%	-586	30.9%	-350	-40.4%
Extraordinary Profit/(Loss)	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Associate Income	44	48	10.6%	52	8.0%	41	-20.8%	41	-0.1%	33	-21.0%	36	9.2%	37	4.1%
Minorities	-6	0	-99.9%	0	180.0%	0	178.6%	0	na	0	na	0	33.3%	0	0.0%
<b>Profit Before Tax</b>	<b>787</b>	<b>563</b>	<b>-28.5%</b>	<b>738</b>	<b>31.1%</b>	<b>934</b>	<b>26.5%</b>	<b>1,118</b>	<b>19.6%</b>	<b>961</b>	<b>-14.0%</b>	<b>810</b>	<b>-15.7%</b>	<b>1,273</b>	<b>57.2%</b>
Tax	-150	-118	-21.7%	-143	21.8%	-181	26.3%	-237	31.2%	-168	-29.1%	-154	-8.6%	-242	57.2%
<b>Net Profit</b>	<b>631</b>	<b>445</b>	<b>-29.4%</b>	<b>595</b>	<b>33.6%</b>	<b>753</b>	<b>26.6%</b>	<b>880</b>	<b>16.9%</b>	<b>792</b>	<b>-10.0%</b>	<b>656</b>	<b>-17.2%</b>	<b>1,031</b>	<b>57.3%</b>
EPS (Zl)	4.8	3.4	-29.4%	4.6	33.6%	5.8	26.6%	6.8	16.9%	6.1	-10.0%	5.0	-17.2%	7.9	57.3%
DPS (Zl)	1.2	0.0	na	0.0	na	1.5	na	0.0	na	3.7	na	3.0	-17.2%	4.8	57.3%
Average Diluted Number of Shares (m)	130.1	130.1	0.0%	130.1	0.0%	130.1	0.0%	130.1	0.0%	130.1	0.0%	130.1	0.0%	130.1	0.0%

Source: Company reports, Citi Investment Research and Analysis

Figure 125. ING BSK – Balance Sheet, 2007-2014E (Polish Zloty in million)

GROUP	2007	2008	chg	2009	chg	2010	chg	2011	chg	2012E	chg	2013E	chg	2014E	chg
Cash and NBP Balances	1,842	1,370	-25.6%	2,657	93.9%	2,394	-9.9%	1,493	-37.6%	1,613	8.0%	1,742	8.0%	1,881	8.0%
Interbank placements	15,184	7,787	-48.7%	1,184	-84.8%	1,181	-0.3%	1,025	-13.2%	1,045	2.0%	1,066	2.0%	1,087	2.0%
Financial Assets & Securities	17,300	33,377	92.9%	24,091	-27.8%	24,930	3.5%	23,382	-6.2%	21,196	-9.3%	23,012	8.6%	24,980	8.6%
Net client lending	16,379	25,743	57.2%	30,593	18.8%	34,509	12.8%	42,330	22.7%	51,220	21.0%	55,442	8.2%	61,198	10.4%
Fixed assets	533	544	2.1%	549	0.9%	544	-0.8%	575	5.7%	610	6.0%	646	6.0%	685	6.0%
Other assets	773	790	2.2%	810	2.5%	959	18.4%	978	2.0%	1,027	5.0%	1,126	9.6%	1,259	11.8%
<b>Total Assets</b>	<b>52,011</b>	<b>69,610</b>	<b>33.8%</b>	<b>59,883</b>	<b>-14.0%</b>	<b>64,518</b>	<b>7.7%</b>	<b>69,783</b>	<b>8.2%</b>	<b>76,710</b>	<b>9.9%</b>	<b>83,034</b>	<b>8.2%</b>	<b>91,090</b>	<b>9.7%</b>
Interbank borrowing	1,810	11,993	562.5%	3,974	-66.9%	4,039	1.6%	4,962	22.8%	6,450	30.0%	6,902	7.0%	7,868	14.0%
Client deposits	44,502	47,067	5.8%	47,585	1.1%	47,400	-0.4%	52,932	11.7%	56,195	6.2%	60,828	8.2%	65,842	8.2%
Other liabilities	1,858	6,326	240.4%	3,438	-45.6%	7,425	116.0%	5,473	-26.3%	6,790	24.1%	7,849	15.6%	9,287	18.3%
Minorities	2	2	33.7%	2	0.6%	2	1.7%	2	-2.4%	3	13.3%	3	15.4%	3	13.3%
Equity (ex Minorities)	3,839	4,222	10.0%	4,884	15.7%	5,651	15.7%	6,414	13.5%	7,272	13.4%	7,452	2.5%	8,090	8.6%
Total liabilities & Equity	52,011	69,610	33.8%	59,883	-14.0%	64,518	7.7%	69,783	8.2%	76,710	9.9%	83,034	8.2%	91,090	9.7%
<b>Interest Earning Assets</b>	<b>50,705</b>	<b>68,276</b>	<b>34.7%</b>	<b>58,525</b>	<b>-14.3%</b>	<b>63,014</b>	<b>7.7%</b>	<b>68,230</b>	<b>8.3%</b>	<b>75,073</b>	<b>10.0%</b>	<b>81,262</b>	<b>8.2%</b>	<b>89,146</b>	<b>9.7%</b>
BVPS (Zl)	30	32	10.0%	38	15.7%	43	15.7%	49	13.5%	56	13.4%	57	2.5%	62	8.6%

Source: Company reports, Citi Investment Research and Analysis

Figure 126. ING BSK– Key Ratios, 2007-2014E (Percentage)

GROUP	2007	2008	2009	2010	2011	2012E	2013E	2014E
<b>NIM on AIEA</b>	<b>2.14%</b>	<b>1.94%</b>	<b>2.27%</b>	<b>2.68%</b>	<b>2.64%</b>	<b>2.90%</b>	<b>2.80%</b>	<b>2.80%</b>
NIM on Total Ave. Assets	2.09%	1.89%	2.23%	2.62%	2.76%	2.84%	2.74%	2.74%
Net Fee & Commission Income/Total Income	44.5%	42.6%	36.3%	36.8%	35.1%	31.5%	31.4%	31.3%
Net Fee & Commission Income/Deposits	2.0%	1.9%	1.9%	2.1%	1.9%	1.8%	1.7%	1.7%
<b>Cost/Income</b>	<b>68.3%</b>	<b>72.2%</b>	<b>60.0%</b>	<b>59.1%</b>	<b>57.1%</b>	<b>57.6%</b>	<b>59.0%</b>	<b>56.1%</b>
Cost/Avg. Assets	2.7%	2.5%	2.3%	2.5%	2.5%	2.5%	2.5%	2.3%
Effective tax rate	19.1%	20.9%	19.4%	19.4%	21.2%	17.5%	19.0%	19.0%
Dividend Payout Ratio	24.1%	0.0%	0.0%	25.9%	0.0%	60.0%	60.0%	60.0%
<b>Provisions/Avg Net Loans</b>	<b>-0.71%</b>	<b>0.31%</b>	<b>1.08%</b>	<b>0.63%</b>	<b>0.45%</b>	<b>0.96%</b>	<b>1.10%</b>	<b>0.60%</b>
Equity/Assets	7.4%	6.1%	8.2%	8.8%	9.2%	9.5%	9.0%	8.9%
<b>Loans/Deposits</b>	<b>36.8%</b>	<b>54.7%</b>	<b>64.3%</b>	<b>72.8%</b>	<b>80.0%</b>	<b>91.1%</b>	<b>91.1%</b>	<b>92.9%</b>
Loans/Total Assets	31.5%	37.0%	51.1%	53.5%	60.7%	66.8%	66.8%	67.2%
<b>ROE</b>	<b>16.6%</b>	<b>11.1%</b>	<b>13.1%</b>	<b>14.3%</b>	<b>14.6%</b>	<b>11.6%</b>	<b>8.9%</b>	<b>13.3%</b>
ROA	1.26%	0.73%	0.92%	1.21%	1.31%	1.08%	0.82%	1.18%
NPLs/Total Loans	3.0%	1.9%	3.7%	4.2%	3.6%	4.3%	4.3%	4.0%
Provision Coverage of NPLs	110.8%	100.0%	75.7%	72.0%	71.7%	59.6%	61.0%	56.0%
RWA/Total Assets	43.7%	52.7%	58.2%	57.1%	64.0%	64.0%	64.0%	64.0%
<b>CAR</b>	<b>13.1%</b>	<b>10.4%</b>	<b>12.0%</b>	<b>13.1%</b>	<b>12.3%</b>	<b>12.8%</b>	<b>12.2%</b>	<b>12.5%</b>
Group Employees	8,074	8,577	8,291	8,472	8,409	8,665	8,665	8,665

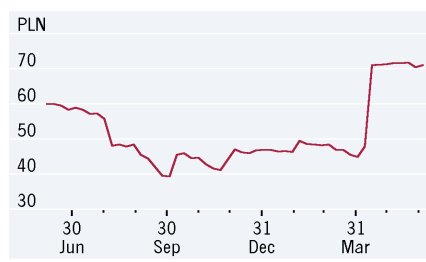
Source: Company reports, Citi Investment Research and Analysis

## Company Focus

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

<b>Neutral</b>	<b>2</b>
from Buy	
Price (04 Jun 12)	ZL71.00
Target price	ZL72.50
from ZL53.50	
Expected share price return	2.1%
Expected dividend yield	0.0%
<b>Expected total return</b>	<b>2.1%</b>
Market Cap	ZL3,063M
	US\$872M

### Price Performance (RIC: BGZ.WA, BB: BGZ PW)



## BGZ (BGZ.WA)

### Take advantage of the Tender – Downgrading to Neutral

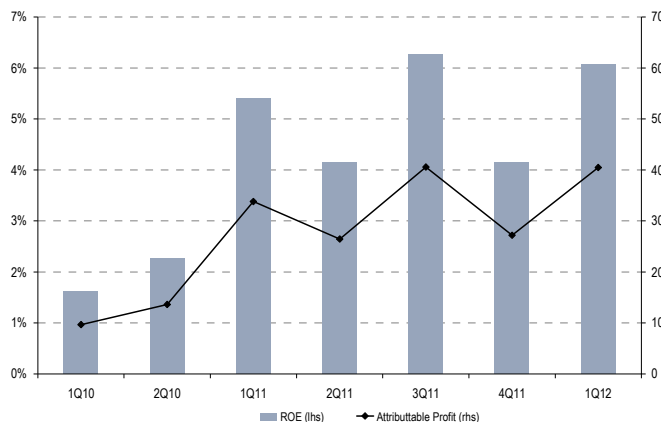
- **Downgraded to Neutral** — Our assessment of the fundamental value of BGZ (ZI 59 according to warranted equity valuation and EVA) is much below the price offered by Rabobank (ZI 72.5) in the public tender, thus we set our target price at the tender price, lower our rating to Neutral from Buy due to the market price increase, and recommend investors take advantage of the tender.

### BGZ (PLN)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (ZLM)	112.3	128.1	145.1	134.3	312.9
Diluted EPS (ZL)	2.60	2.97	3.36	3.11	7.25
Diluted EPS (Old) (ZL)	2.60	2.06	1.46	4.26	7.07
PE (x)	27.3	23.9	21.1	22.8	9.8
P/BV (x)	1.2	1.2	1.1	1.0	0.9
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 (%)	4.6	5.0	5.3	4.7	10.1

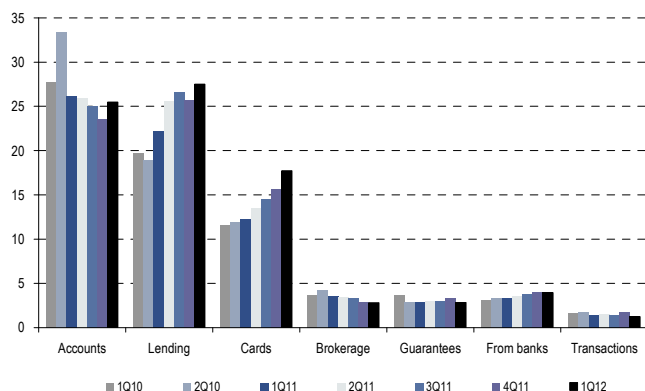
## BGZ in Snapshots

**Figure 127. BGZ – Reported Net Profit and ROE, 1Q10-3Q11 (Polish Zloty in million/Percentage)**



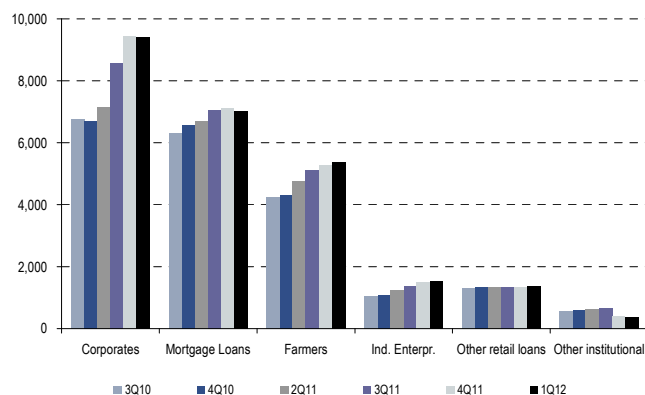
Source: Company reports, Citi Investment Research and Analysis

**Figure 129. BGZ – Breakdown of Fee Income, 1Q10-1Q12 (Polish Zloty in million)**



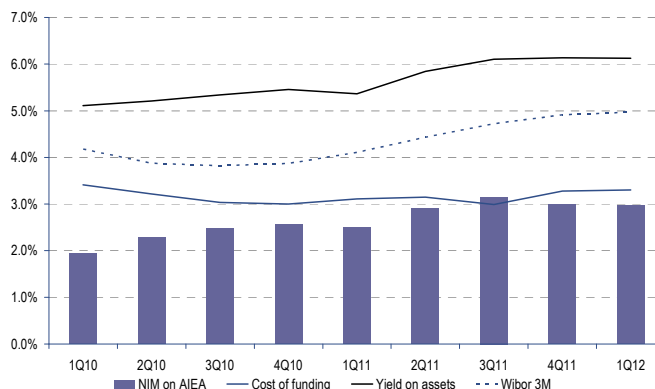
Source: Company reports, Citi Investment Research and Analysis

**Figure 131. BGZ – Breakdown of Loans, 3Q10-1Q12 (Polish Zloty in million)**



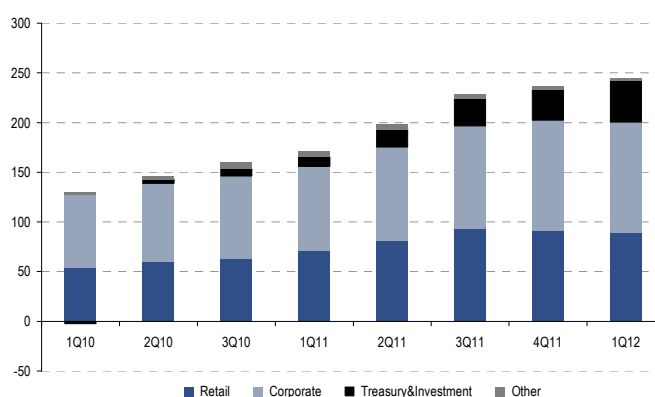
Source: Company reports, Citi Investment Research and Analysis

**Figure 128. BGZ – Yield on Assets and Cost of Funding, 1Q10-1Q12 (Percentage)**



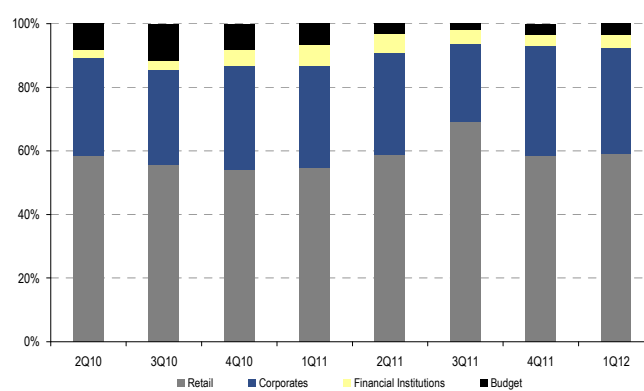
Source: Company reports, Citi Investment Research and Analysis

**Figure 130. BGZ – Net Interest Income by Divisions, 1Q10-1Q12 (Percentage)**



Source: Company reports, Citi Investment Research and Analysis

**Figure 132. BGZ – Deposits Structure, 2Q10-1Q12 (Polish Zloty in million)**



Source: Company reports, Citi Investment Research and Analysis

## Annual Financials

Figure 133. BGZ – Profit and Loss, 2007-2014E (Polish Zloty in million)

GROUP	2007	2008	chg	2009	chg	2010	chg	2011E	chg	2012E	chg	2013E	chg	2014E	chg
Net Interest Income	572	665	16.3%	462	-30.5%	604	30.8%	834	38.0%	1,008	20.8%	1,076	6.8%	1,187	10.4%
Net Fee & Commission Income	238	217	-9.0%	248	14.6%	272	9.3%	270	-0.6%	299	10.6%	336	12.6%	378	12.6%
Financial Income	95	129	35.8%	203	57.3%	144	-29.4%	102	-29.0%	103	1.5%	85	-17.7%	89	4.5%
Other Income	92	85	-7.3%	56	-34.3%	27	-51.4%	43	57.1%	46	8.2%	56	21.3%	62	10.7%
<b>Total Revenue</b>	<b>997</b>	<b>1,096</b>	<b>9.9%</b>	<b>970</b>	<b>-11.5%</b>	<b>1,047</b>	<b>7.9%</b>	<b>1,248</b>	<b>19.3%</b>	<b>1,456</b>	<b>16.6%</b>	<b>1,553</b>	<b>6.7%</b>	<b>1,717</b>	<b>10.5%</b>
Labour Costs	-388	-414	6.5%	-369	-10.8%	-382	3.5%	-456	19.5%	-516	13.0%	-535	3.8%	-551	3.0%
General Costs	-235	-294	25.2%	-305	3.6%	-332	8.9%	-399	20.1%	-434	9.0%	-475	9.2%	-490	3.3%
Depreciation	-84	-68	-18.8%	-73	6.9%	-73	0.6%	-83	13.3%	-90	8.3%	-94	4.1%	-97	4.1%
<b>Operating Expenses</b>	<b>-707</b>	<b>-776</b>	<b>9.7%</b>	<b>-747</b>	<b>-3.8%</b>	<b>-787</b>	<b>5.4%</b>	<b>-938</b>	<b>19.2%</b>	<b>-1,040</b>	<b>10.8%</b>	<b>-1,103</b>	<b>6.1%</b>	<b>-1,139</b>	<b>3.2%</b>
<b>Operating Profit</b>	<b>290</b>	<b>320</b>	<b>10.5%</b>	<b>223</b>	<b>-30.3%</b>	<b>259</b>	<b>16.3%</b>	<b>310</b>	<b>19.6%</b>	<b>416</b>	<b>34.0%</b>	<b>450</b>	<b>8.2%</b>	<b>578</b>	<b>28.4%</b>
Provision Charge	20	-45	na	-107	136.1%	-134	26.0%	-163	21.6%	-229	40.2%	-284	24.2%	-191	-32.6%
Associate Income	0	0	na	0	-87.4%	2	na	2	47.6%	1	-64.1%	0	na	0	na
<b>Profit Before Tax</b>	<b>310</b>	<b>275</b>	<b>-11.3%</b>	<b>117</b>	<b>-57.6%</b>	<b>127</b>	<b>8.8%</b>	<b>150</b>	<b>17.9%</b>	<b>188</b>	<b>25.6%</b>	<b>166</b>	<b>-11.7%</b>	<b>386</b>	<b>133.1%</b>
Minorities	0	0	na	0	na	0	na	0	na	0	na	0	na	0	na
Tax	-38	-62	63.5%	-16	-74.2%	-15	-8.8%	-21	47.8%	-43	98.9%	-31	-26.3%	-73	133.1%
<b>Net Profit</b>	<b>272</b>	<b>213</b>	<b>-21.7%</b>	<b>101</b>	<b>-52.8%</b>	<b>112</b>	<b>11.6%</b>	<b>128</b>	<b>14.0%</b>	<b>145</b>	<b>13.3%</b>	<b>134</b>	<b>-7.5%</b>	<b>313</b>	<b>133.1%</b>
Dividends	0	0	na	0	na	0	na	0	na	0	na	0	na	0	na
Average Diluted Number of Shares (m)	40.1	43.1	7.7%	43.1	0.0%	43.1	0.0%	43.1	0.0%	43.1	0.0%	43.1	0.0%	43.1	0.0%
EPS (Zl)	6.8	4.9	-27.3%	2.3	-52.8%	2.6	11.6%	3.0	14.0%	3.4	13.3%	3.1	-7.5%	7.3	133.1%
DPS (Zl)	0.0	0.0	na	0.0	na	0.0	na	0.0	na	0.0	na	0.0	na	0.0	na

Source: Company reports, Citi Investment Research and Analysis

Figure 134. BGZ – Balance Sheet, 2007-2014E (Polish Zloty in million)

GROUP	2007	2008	chg	2009	chg	2010	chg	2011E	chg	2012E	chg	2013E	chg	2014E	chg
Cash and NBP Balances	498	1,291	159.1%	1,279	-0.9%	1,380	7.8%	1,383	0.3%	1,439	4.0%	1,496	4.0%	1,556	4.0%
Interbank placements	1,717	799	-53.5%	357	-55.4%	281	-21.2%	221	-21.3%	199	-10.0%	179	-10.0%	161	-10.0%
Financial Assets & Securities	466	1,535	229.6%	797	-48.1%	2,688	237.3%	2,882	7.2%	2,594	-10.0%	2,334	-10.0%	2,101	-10.0%
Net client lending	13,988	17,066	22.0%	18,301	7.2%	19,869	8.6%	24,222	21.9%	27,232	12.4%	30,055	10.4%	33,827	12.6%
Fixed assets	427	449	5.2%	444	-1.1%	465	4.6%	486	4.5%	535	10.0%	572	7.0%	601	5.0%
Other assets	2,938	2,927	-0.4%	3,367	15.1%	3,947	17.2%	4,213	6.7%	4,932	17.1%	5,568	12.9%	6,227	11.8%
<b>Total Assets</b>	<b>20,034</b>	<b>24,067</b>	<b>20.1%</b>	<b>24,546</b>	<b>2.0%</b>	<b>28,630</b>	<b>16.6%</b>	<b>33,407</b>	<b>16.7%</b>	<b>36,930</b>	<b>10.5%</b>	<b>40,204</b>	<b>8.9%</b>	<b>44,473</b>	<b>10.6%</b>
Interbank borrowing	1,730	1,149	-33.6%	476	-58.6%	1,020	114.3%	4,447	335.8%	4,269	-4.0%	4,482	5.0%	4,617	3.0%
Client deposits	15,542	18,141	16.7%	19,599	8.0%	21,052	7.4%	22,942	9.0%	25,567	11.4%	28,084	9.8%	30,999	10.4%
Other liabilities	692	2,499	261.3%	2,085	-16.6%	4,062	94.9%	3,381	-16.8%	4,288	26.8%	4,697	9.5%	5,603	19.3%
Minorities	0	0	na	0	na	0	na	0	na	0	na	0	na	0	na
Equity (ex Minorities)	2,070	2,278	10.1%	2,386	4.7%	2,495	4.6%	2,638	5.7%	2,806	6.4%	2,941	4.8%	3,254	10.6%
Total liabilities & Equity	20,034	24,067	20.1%	24,546	2.0%	28,630	16.6%	33,407	16.7%	36,930	10.5%	40,204	8.9%	44,473	10.6%
<b>Interest Earning Assets</b>	<b>19,359</b>	<b>23,264</b>	<b>20.2%</b>	<b>23,728</b>	<b>2.0%</b>	<b>27,617</b>	<b>16.4%</b>	<b>32,333</b>	<b>17.1%</b>	<b>35,743</b>	<b>10.5%</b>	<b>38,912</b>	<b>8.9%</b>	<b>43,043</b>	<b>10.6%</b>
BVPS (Zl)	48	53	10.1%	55	4.7%	58	4.6%	61	5.7%	65	6.4%	68	4.8%	75	10.6%

Source: Company reports, Citi Investment Research and Analysis

Figure 135. BGZ– Key Ratios, 2007-2014E (Percentage)

GROUP	2007	2008	2009	2010	2011E	2012E	2013E	2014E
<b>NIM on AIEA</b>	<b>3.09%</b>	<b>3.12%</b>	<b>1.97%</b>	<b>2.35%</b>	<b>2.78%</b>	<b>2.96%</b>	<b>2.88%</b>	<b>2.90%</b>
NIM on Total Ave. Assets	2.97%	3.02%	1.90%	2.27%	2.69%	2.86%	2.79%	2.80%
Net Fee & Commission Income/Total Income	23.9%	19.8%	25.6%	25.9%	21.6%	20.5%	21.6%	22.0%
Net Fee & Commission Income/Deposits	1.5%	1.2%	1.3%	1.3%	1.2%	1.2%	1.2%	1.2%
<b>Cost/Income</b>	<b>70.9%</b>	<b>70.8%</b>	<b>77.0%</b>	<b>75.2%</b>	<b>75.2%</b>	<b>71.4%</b>	<b>71.0%</b>	<b>66.3%</b>
Cost/Avg. Assets	3.7%	3.5%	3.1%	3.0%	3.0%	3.0%	2.9%	2.7%
Effective tax rate	12.2%	22.5%	13.7%	11.4%	14.4%	22.7%	19.0%	19.0%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Provisions/Avg Net Loans</b>	<b>-0.2%</b>	<b>0.3%</b>	<b>0.6%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.9%</b>	<b>1.0%</b>	<b>0.6%</b>
Equity/Assets	10.3%	9.5%	9.7%	8.7%	7.9%	7.6%	7.3%	7.3%
<b>Loans/Deposits</b>	<b>90.0%</b>	<b>94.1%</b>	<b>93.4%</b>	<b>94.4%</b>	<b>105.6%</b>	<b>106.5%</b>	<b>107.0%</b>	<b>109.1%</b>
Loans/Total Assets	69.8%	70.9%	74.6%	69.4%	72.5%	73.7%	74.8%	76.1%
<b>ROE</b>	<b>15.2%</b>	<b>9.8%</b>	<b>4.3%</b>	<b>4.6%</b>	<b>5.0%</b>	<b>5.3%</b>	<b>4.7%</b>	<b>10.1%</b>
ROA	1.42%	0.97%	0.41%	0.42%	0.41%	0.41%	0.35%	0.74%
NPLs/Total Loans	3.9%	5.2%	5.8%	6.4%	5.7%	6.0%	6.0%	5.0%
Provision Coverage of NPLs	88.6%	56.6%	55.0%	52.9%	61.3%	63.6%	70.0%	81.5%
RWA/Total Assets	77.2%	79.9%	76.8%	71.5%	74.1%	74.1%	74.1%	74.1%
Tier I Ratio (%)	11.3%	10.6%	11.5%	11.0%	9.6%	9.1%	8.9%	8.4%
<b>CAR</b>	<b>11.3%</b>	<b>10.9%</b>	<b>11.6%</b>	<b>11.1%</b>	<b>9.7%</b>	<b>11.0%</b>	<b>10.6%</b>	<b>11.5%</b>

Source: Company reports, Citi Investment Research and Analysis

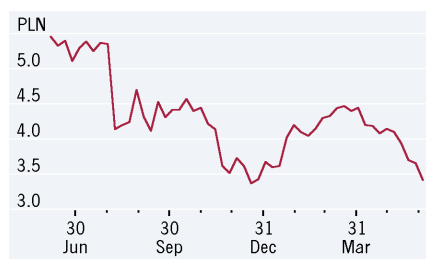


## Company Focus

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

<b>Neutral</b>	<b>2</b>
from Sell	
Price (04 Jun 12)	ZL3.42
Target price	ZL3.82
from ZL4.10	
Expected share price return	11.7%
Expected dividend yield	4.7%
<b>Expected total return</b>	<b>16.4%</b>
Market Cap	ZL4,149M
	US\$1,182M

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



## Bank Millennium SA (BIGW.WA) Cheap Enough – Upgrading to Neutral

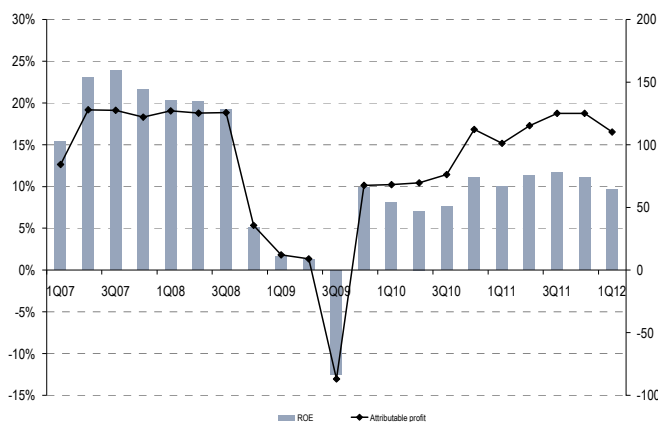
- **Upgraded to Neutral** — We see no catalysts for the Bank Millennium stock: In our opinion it is no longer an attractive (for minorities) M&A story, funding costs are rising, and the bank has not developed new products to exploit its branch sales capacity and dilute the share of low-margin FX mortgages granted before end of 2008 in total loans. However, the declining price leads us to increase our rating to Neutral from Sell (TP ZL 3.82).

### Bank Millennium SA (PLN)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (ZLM)	326.0	466.5	389.0	293.5	573.3
Diluted EPS (ZL)	0.30	0.38	0.32	0.24	0.47
Diluted EPS (Old) (ZL)	0.30	0.38	0.31	0.33	0.52
PE (x)	11.4	8.9	10.7	14.1	7.2
P/BV (x)	1.0	0.9	0.9	0.8	0.8
DPS (ZL)	0.10	0.00	0.16	0.12	0.24
Net Div Yield (%)	2.9	0.0	4.7	3.5	6.9
ROE (%)	9.5	10.8	8.3	6.0	11.0

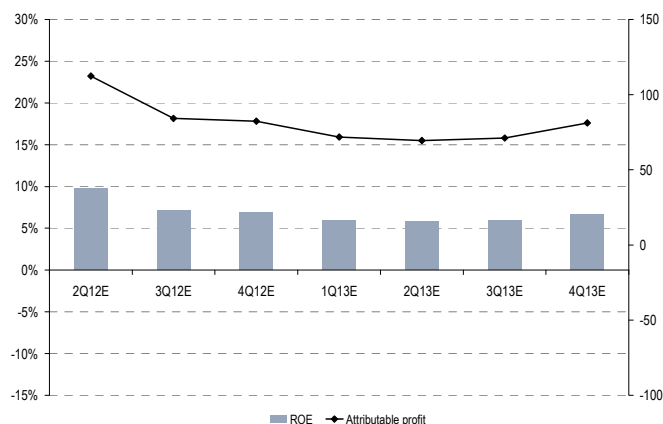
## Bank Millennium in Snapshots

**Figure 136. Bank Millennium – Reported Net Profit and ROE, 1Q07-3Q11 (Polish Zloty in million/Percentage)**



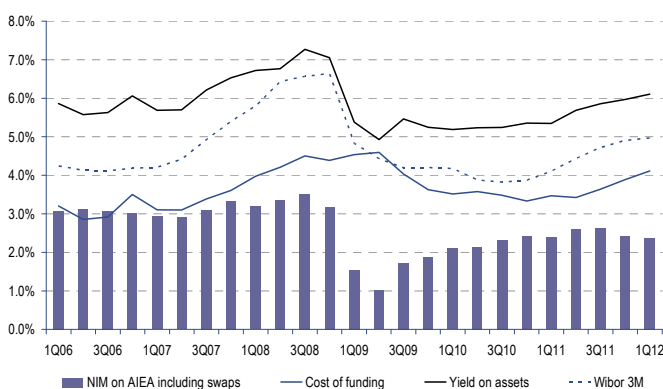
Source: Company reports, Citi Investment Research and Analysis

**Figure 137. Bank Millennium – Forecast Net Profit and ROE, 4Q11E-4Q13E (Polish Zloty in million/Percentage)**



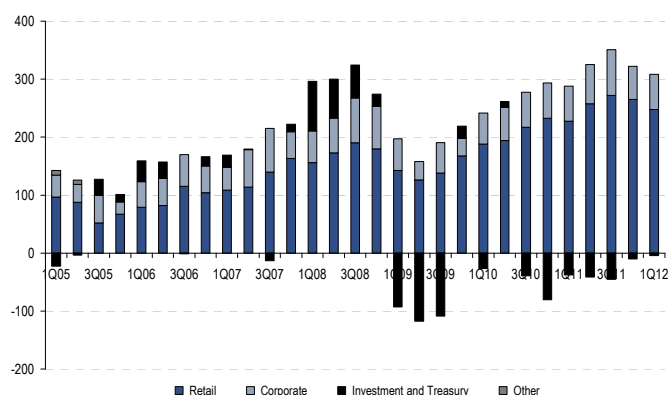
Source: Citi Investment Research and Analysis

**Figure 138. Bank Millennium – Yield on Assets and Cost of Funding, 1Q06-1Q12 (Percentage)**



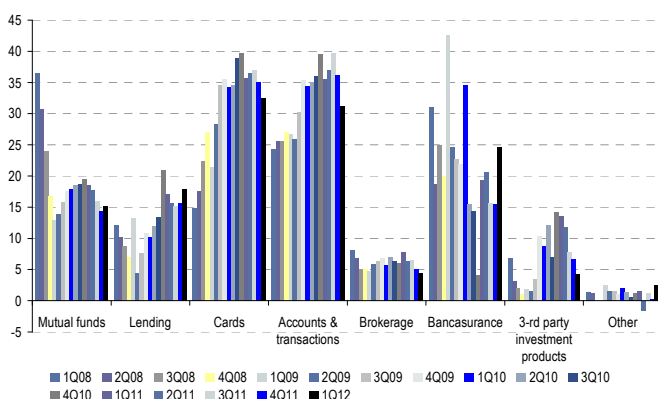
Source: Company reports, Citi Investment Research and Analysis

**Figure 139. Bank Millennium – Net Interest Income by Divisions, 1Q05-1Q12 (Polish Zloty in million)**



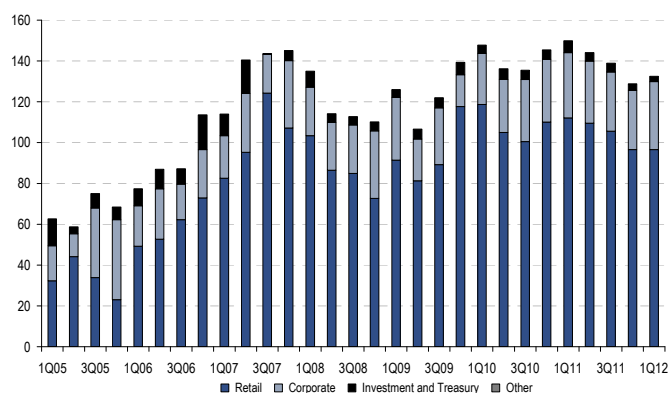
Source: Company reports, Citi Investment Research and Analysis

**Figure 140. Bank Millennium – Breakdown of Fee Income, 1Q08-1Q12 (Polish Zloty in million)**



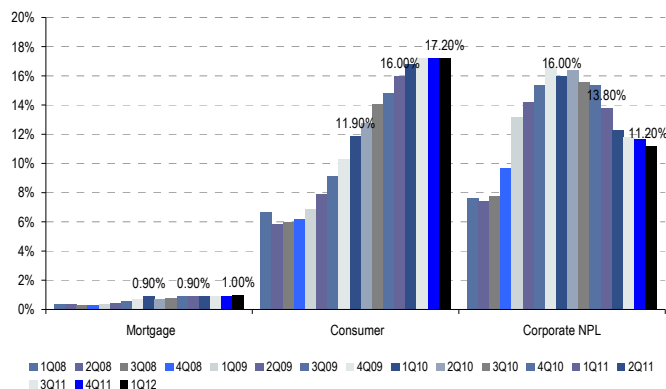
Source: Company reports, Citi Investment Research and Analysis

**Figure 141. Bank Millennium – Net Fees by Divisions, 1Q05-1Q12 (Polish Zloty in million)**



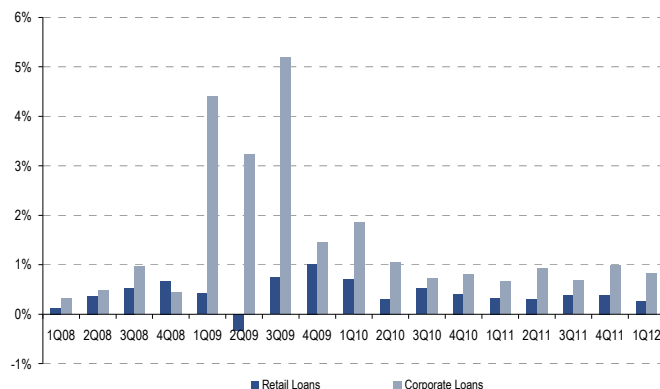
Source: Company reports, Citi Investment Research and Analysis

Figure 142. Bank Millennium – Mortgage, Consumer and Corporate NPL Ratios, 1Q08-1Q12 (Percentage)



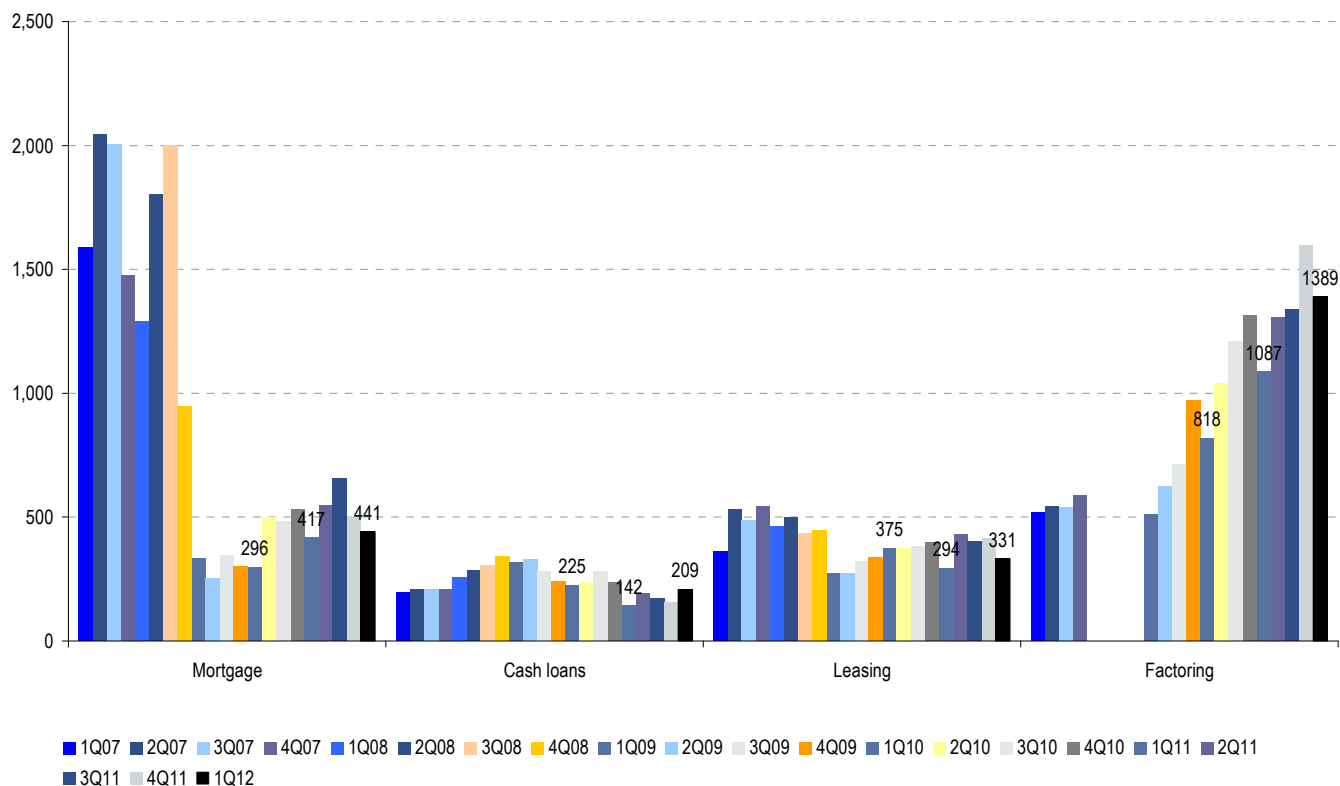
Source: Company reports, Citi Investment Research and Analysis

Figure 143. Bank Millennium – Retail and Corporate Cost of Risk, 1Q08-1Q12 (Percentage)



Source: Company reports, Citi Investment Research and Analysis

Figure 144. Bank Millennium – Quarterly Production, 1Q07-1Q12 (Polish Zloty in million)



Source: Company reports, Citi Investment Research and Analysis

## Annual Financials

Figure 145. Millennium – Profit and Loss, 2007-2014E (Polish Zloty in million)

GROUP	2007	2008	chg	2009	chg	2010	chg	2011	chg	2012E	chg	2013E	chg	2014E	chg
Net Interest Income	771.7	980.9	27.1%	598.5	-39.0%	927.5	55.0%	1,141.8	23.1%	1,195.1	4.7%	1,206.1	0.9%	1,422.7	18.0%
Net Fee & Commission Income	543.2	472.0	-13.1%	493.8	4.6%	564.9	14.4%	561.8	-0.6%	529.6	-5.7%	530.2	0.1%	572.5	8.0%
Financial Income	91.2	149.8	64.3%	274.5	83.2%	92.8	-66.2%	82.5	-11.0%	44.4	-46.2%	74.9	68.8%	76.7	2.4%
Other Income	303.3	245.9	-18.9%	87.1	-64.6%	131.1	50.6%	103.0	-21.4%	161.8	57.1%	185.7	14.7%	199.9	7.6%
<b>Total Revenue</b>	<b>1,709.4</b>	<b>1,848.6</b>	<b>8.1%</b>	<b>1,453.9</b>	<b>-21.4%</b>	<b>1,716.3</b>	<b>18.0%</b>	<b>1,889.1</b>	<b>10.1%</b>	<b>1,930.9</b>	<b>2.2%</b>	<b>1,997.0</b>	<b>3.4%</b>	<b>2,271.8</b>	<b>13.8%</b>
Labour Costs	-538.8	-609.0	13.0%	-470.7	-22.7%	-525.9	11.7%	-540.2	2.7%	-573.8	6.2%	-582.3	1.5%	-607.4	4.3%
General Costs	-431.1	-510.2	18.3%	-472.0	-7.5%	-481.1	1.9%	-519.1	7.9%	-514.1	-1.0%	-559.1	8.7%	-568.6	1.7%
Depreciation	-87.1	-70.4	-19.2%	-79.6	13.1%	-74.6	-6.3%	-64.8	-13.1%	-56.7	-12.6%	-57.8	2.0%	-59.0	2.0%
<b>Operating Expenses</b>	<b>-1,057</b>	<b>-1,190</b>	<b>12.5%</b>	<b>-1,022</b>	<b>-14.1%</b>	<b>-1,082</b>	<b>5.8%</b>	<b>-1,124</b>	<b>3.9%</b>	<b>-1,145</b>	<b>1.8%</b>	<b>-1,199</b>	<b>4.8%</b>	<b>-1,235</b>	<b>3.0%</b>
<b>Operating Profit</b>	<b>652.3</b>	<b>659.0</b>	<b>1.0%</b>	<b>431.5</b>	<b>-34.5%</b>	<b>634.7</b>	<b>47.1%</b>	<b>765.1</b>	<b>20.5%</b>	<b>786.3</b>	<b>2.8%</b>	<b>797.8</b>	<b>1.5%</b>	<b>1,036.8</b>	<b>30.0%</b>
Provision Charge	-67.8	-137.3	102.5%	-436.7	218.1%	-226.9	-48.0%	-173.8	-23.4%	-309.8	78.3%	-443.4	43.1%	-332.7	-25.0%
Extraordinary Profit/(Loss)	0.0	0.0	na	0.0	na	0.0	na	0.0	na	0.0	na	0.0	na	0.0	na
Associate Income	0.0	0.0	na	7.0	na	0.0	na	-0.2	na	12.5	nm	12.5	0.0%	12.5	0.0%
<b>Profit Before Tax</b>	<b>584.6</b>	<b>521.7</b>	<b>-10.7%</b>	<b>1.9</b>	<b>-99.6%</b>	<b>407.8</b>	<b>nm</b>	<b>591.1</b>	<b>44.9%</b>	<b>489.0</b>	<b>-17.3%</b>	<b>366.9</b>	<b>-25.0%</b>	<b>716.6</b>	<b>95.3%</b>
Minorities	0.0	0.0	na	0.0	na	0.0	na	0.0	na	0.0	na	0.0	na	0.0	na
Tax	-123.0	-108.3	-11.9%	-0.4	-99.6%	-81.8	nm	-124.6	52.3%	-99.9	-19.8%	-73.4	-26.6%	-143.3	95.3%
<b>Net Profit</b>	<b>461.6</b>	<b>413.4</b>	<b>-10.4%</b>	<b>1.5</b>	<b>-99.6%</b>	<b>326.0</b>	<b>nm</b>	<b>466.5</b>	<b>43.1%</b>	<b>389.0</b>	<b>-16.6%</b>	<b>293.5</b>	<b>-24.6%</b>	<b>573.3</b>	<b>95.3%</b>
EPS (Zl)	0.5	0.43	-10.4%	0.00	-99.6%	0.30	nm	0.38	28.5%	0.32	-16.6%	0.24	-24.6%	0.47	95.3%
DPS (Zl)	0.2	0.00	na	0.00	na	0.10	na	0.00	na	0.16	na	0.12	-24.6%	0.24	95.3%
Average Diluted Number of Shares (m)	965.7	965.7	0.0%	965.7	0.0%	1,089.4	12.8%	1,213.1	11.4%	1,213.1	0.0%	1,213.1	0.0%	1,213.1	0.0%

Source: Company reports, Citi Investment Research and Analysis

Figure 146. Millennium – Balance Sheet, 2007-2014E (Polish Zloty in million)

GROUP	2007	2008	chg	2009	chg	2010	chg	2011	chg	2012E	chg	2013E	chg	2014E	chg
Cash and NBP Balances	1,257	1,803	43.4%	2,191	21.6%	2,051	-6.4%	2,018	-1.6%	2,058	2.0%	2,100	2.0%	2,142	2.0%
Interbank placements	1,082	1,641	51.7%	904	-44.9%	1,541	70.4%	2,663	72.8%	2,716	2.0%	2,771	2.0%	2,827	2.0%
Financial Assets & Securities	5,247	9,204	75.4%	7,573	-17.7%	6,018	-20.5%	3,994	-33.6%	4,593	15.0%	4,877	6.2%	5,175	6.1%
Net client lending	22,027	33,748	53.2%	33,485	-0.8%	36,738	9.7%	41,332	12.5%	42,977	4.0%	46,064	7.2%	49,372	7.2%
Fixed assets	337	385	14.1%	347	-10.0%	242	-30.2%	212	-12.3%	214	1.0%	217	1.0%	219	1.0%
Other assets	579	334	-42.3%	413	23.5%	394	-4.6%	619	57.2%	589	-4.8%	640	8.7%	695	8.5%
<b>Total Assets</b>	<b>30,530</b>	<b>47,115</b>	<b>54.3%</b>	<b>44,913</b>	<b>-4.7%</b>	<b>46,984</b>	<b>4.6%</b>	<b>50,838</b>	<b>8.2%</b>	<b>53,148</b>	<b>4.5%</b>	<b>56,668</b>	<b>6.6%</b>	<b>60,429</b>	<b>6.6%</b>
Interbank borrowing	3,295	4,563	38.5%	7,252	58.9%	2,755	-62.0%	3,438	24.8%	3,507	2.0%	3,402	-3.0%	3,300	-3.0%
Client deposits	21,801	31,702	45.4%	31,559	-0.5%	35,395	12.2%	37,428	5.7%	40,255	7.6%	43,573	8.2%	47,165	8.2%
Other liabilities	2,915	8,035	175.7%	3,316	-58.7%	4,743	43.0%	5,386	13.5%	4,570	-15.2%	4,778	4.6%	4,476	-6.3%
Minorities	0	0	na	0	na	0	na	0	na	0	na	0	na	0	na
Equity (ex Minorities)	2,520	2,815	11.7%	2,787	-1.0%	4,091	46.8%	4,586	12.1%	4,816	5.0%	4,915	2.1%	5,489	11.7%
Total liabilities & Equity	30,530	47,115	54.3%	44,914	-4.7%	46,984	4.6%	50,838	8.2%	53,148	4.5%	56,668	6.6%	60,429	6.6%
<b>Interest Earning Assets</b>	<b>29,614</b>	<b>46,396</b>	<b>56.7%</b>	<b>44,154</b>	<b>-4.8%</b>	<b>46,349</b>	<b>5.0%</b>	<b>45,276</b>	<b>-2.3%</b>	<b>52,345</b>	<b>15.6%</b>	<b>55,812</b>	<b>6.6%</b>	<b>59,516</b>	<b>6.6%</b>
BVPS (Zl)	2.61	2.91	11.7%	2.89	-1.0%	3.37	16.8%	3.78	12.1%	3.97	5.0%	4.05	2.1%	4.52	11.7%

Source: Company reports, Citi Investment Research and Analysis

Figure 147. Millennium– Key Ratios, 2007-2014E (Percentage)

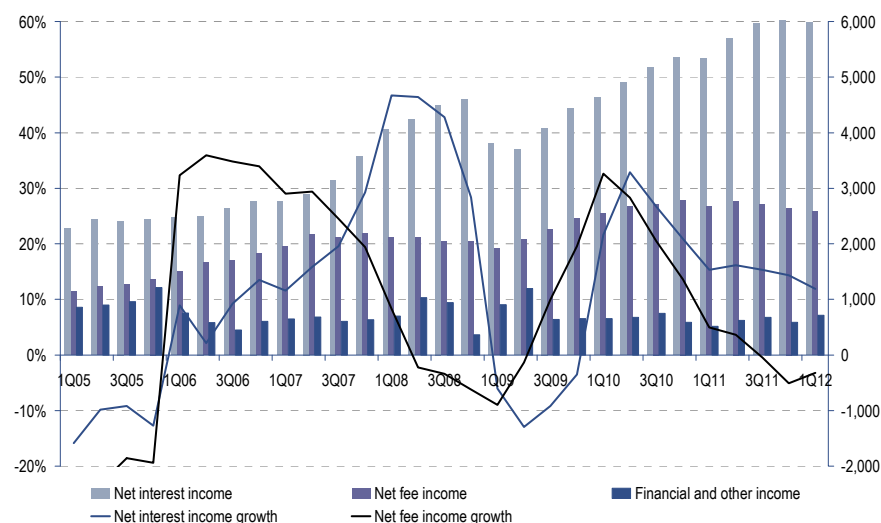
GROUP	2007	2008	2009	2010	2011	2012E	2013E	2014E
<b>NIM on AIEA</b>	<b>2.89%</b>	<b>2.58%</b>	<b>1.32%</b>	<b>2.05%</b>	<b>2.49%</b>	<b>2.45%</b>	<b>2.23%</b>	<b>2.47%</b>
NIM on Total Ave. Assets	2.79%	2.53%	1.30%	2.02%	2.33%	2.30%	2.20%	2.43%
Net Fee & Commission Income/Total Income	31.8%	25.5%	34.0%	32.9%	29.7%	27.4%	26.5%	25.2%
Net Fee & Commission Income/Deposits	2.5%	1.5%	1.6%	1.6%	1.5%	1.3%	1.2%	1.2%
<b>Cost/Income</b>	<b>61.8%</b>	<b>64.4%</b>	<b>70.3%</b>	<b>63.0%</b>	<b>59.5%</b>	<b>59.3%</b>	<b>60.1%</b>	<b>54.4%</b>
Cost/Avg. Assets	3.8%	3.1%	2.2%	2.4%	2.3%	2.2%	2.2%	2.1%
Effective tax rate	21.0%	20.8%	20.3%	20.1%	21.1%	20.4%	20.0%	20.0%
Dividend Payout Ratio	35.0%	0.0%	0.0%	37.2%	0.0%	50.0%	50.0%	50.0%
<b>Provisions/Avg Net Loans</b>	<b>0.37%</b>	<b>0.49%</b>	<b>1.30%</b>	<b>0.65%</b>	<b>0.45%</b>	<b>0.73%</b>	<b>1.00%</b>	<b>0.70%</b>
Equity/Assets	8.3%	6.0%	6.2%	8.7%	9.0%	9.1%	8.7%	9.1%
<b>Loans/Deposits</b>	<b>101.0%</b>	<b>106.5%</b>	<b>106.1%</b>	<b>103.8%</b>	<b>110.4%</b>	<b>106.8%</b>	<b>105.7%</b>	<b>104.7%</b>
Loans/Total Assets	72.1%	71.6%	74.6%	78.2%	81.3%	80.9%	81.3%	81.7%
<b>ROE</b>	<b>19.5%</b>	<b>15.5%</b>	<b>0.1%</b>	<b>9.5%</b>	<b>10.8%</b>	<b>8.3%</b>	<b>6.0%</b>	<b>11.0%</b>
ROA	1.67%	1.06%	0.00%	0.71%	0.95%	0.75%	0.53%	0.98%
NPLs/Total Loans	3.4%	3.4%	5.9%	5.8%	4.9%	5.3%	5.3%	5.0%
Provision Coverage of NPLs	79.5%	64.4%	54.4%	54.1%	57.9%	44.1%	54.0%	61.5%
RWA/Total Assets	68.4%	73.5%	68.8%	67.6%	70.9%	75.0%	75.0%	75.0%
<b>CAR</b>	<b>13.7%</b>	<b>10.2%</b>	<b>11.3%</b>	<b>14.4%</b>	<b>13.2%</b>	<b>11.5%</b>	<b>11.0%</b>	<b>11.4%</b>
Group Employees	6,067	7,049	6,245	6,135	6,289	6,147	6,086	6,086

Source: Company reports, Citi Investment Research and Analysis

## Appendix – 1Q12 Results Illustrated

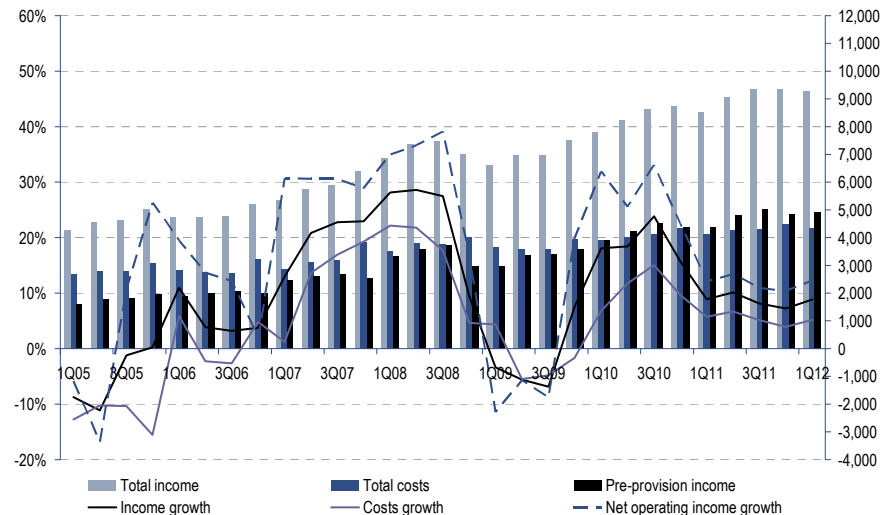
### Financial Results of CIRA Universe

Figure 148. Polish Banks – Revenues Trend, 1Q05-1Q12 (Polish Zloty in million)



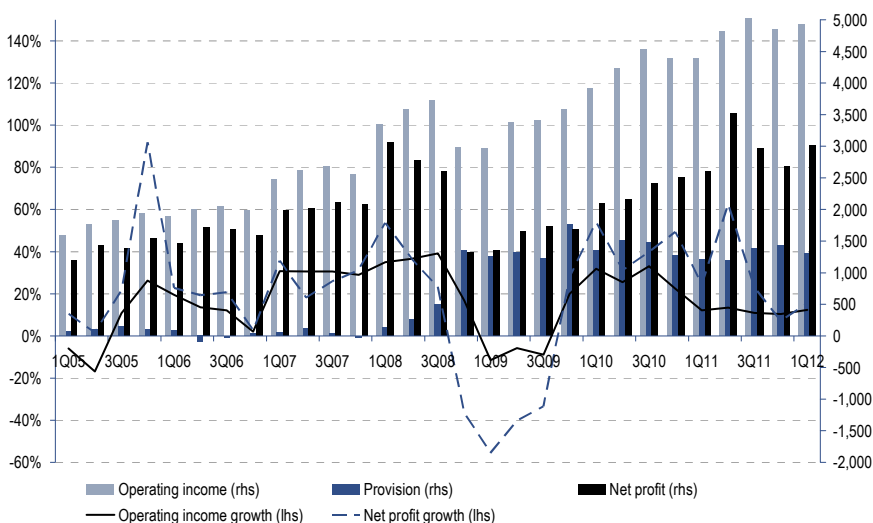
Source: Company reports, Citi Investment Research and Analysis

Figure 149. Polish Banks – Revenues, Costs and Pre-Provision Profit Trends, 1Q05-1Q12 (Polish Zloty in million)



Source: Company reports, Citi Investment Research and Analysis

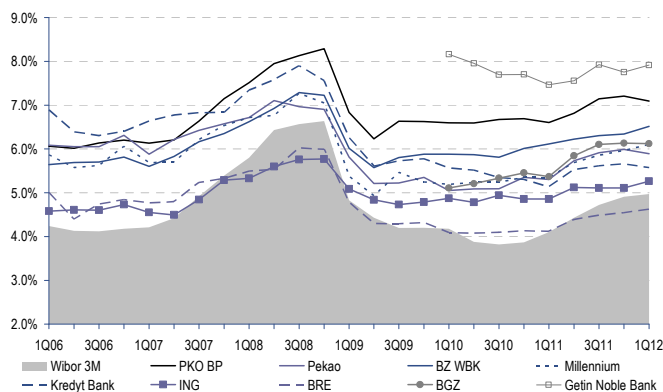
**Figure 150. Polish Banks – Pre-Provision Profits, Provision and Net Income Trends, 1Q05-1Q12 (Polish Zloty in million)**



Source: Company reports, Citi Investment Research and Analysis

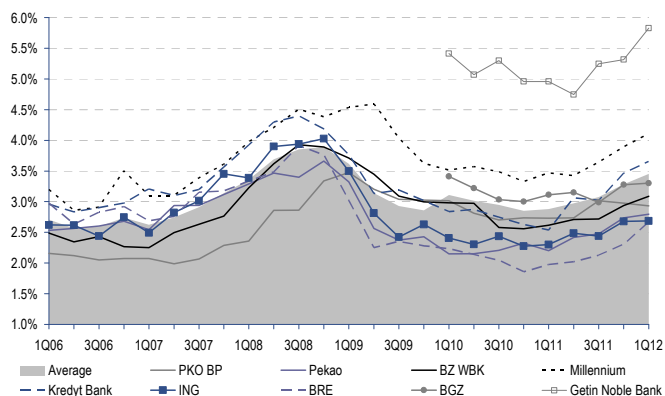
## Profitability and Main Ratios

**Figure 151. Polish Banks – Yield on Assets, 1Q06-1Q12 (Polish Zloty in million)**



Source: Company reports, Citi Investment Research and Analysis

**Figure 152. Polish Banks – Cost of Funding, 1Q06-1Q12 (Polish Zloty in million)**



Source: Company reports, Citi Investment Research and Analysis

Figure 153. Polish Banks – Net Profit, 1Q07-1Q12 (Polish Zloty in million)

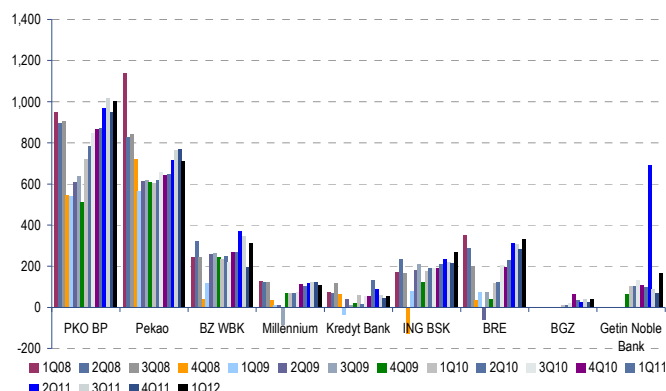


Figure 154. Polish Banks – ROE, 1Q07-1Q12 (Percentage)

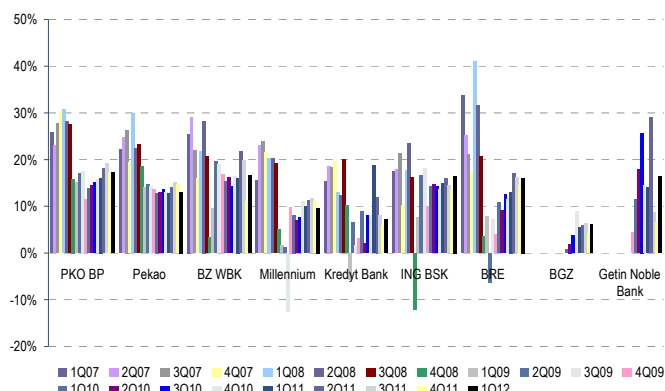
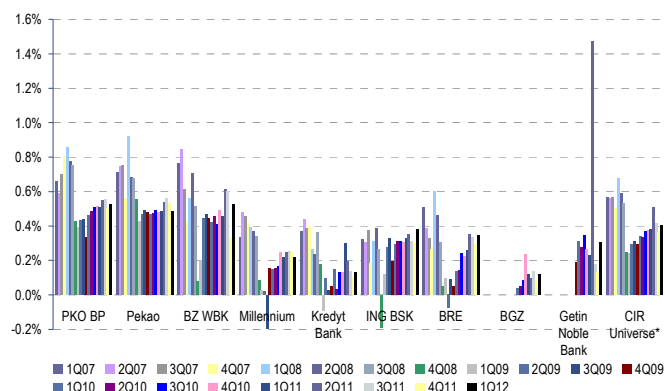
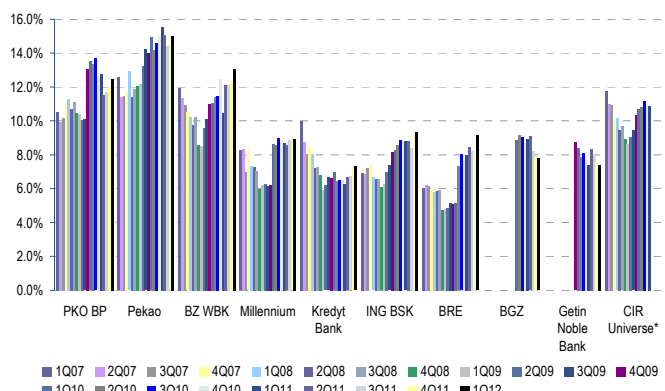


Figure 155. Polish Banks – ROA, 1Q07-1Q12 (Percentage)



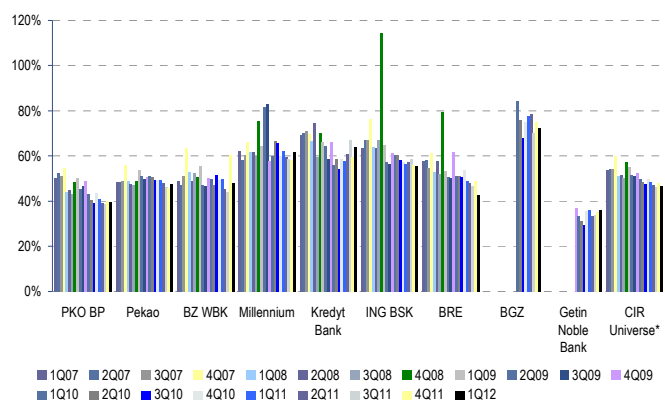
Source: Company reports, Citi Investment Research and Analysis

Figure 156. Polish Banks – Equity-to-Assets, 1Q07-1Q12 (Percentage)



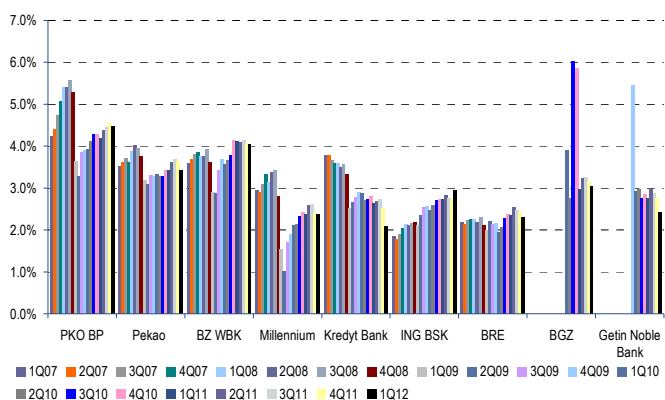
Source: Company reports, Citi Investment Research and Analysis

Figure 157. Polish Banks – Cost-to-Income, 1Q07-1Q12 (Percentage)



Source: Company reports, Citi Investment Research and Analysis

Figure 158. Polish Banks – NIM at Interest-Earning Assets, 1Q07-1Q12 (Percentage)



Source: Company reports, Citi Investment Research and Analysis



## Lending

Figure 159. Polish Banks – Loan Growth Rates, Jan 98 - Mar 12 (Percentage)

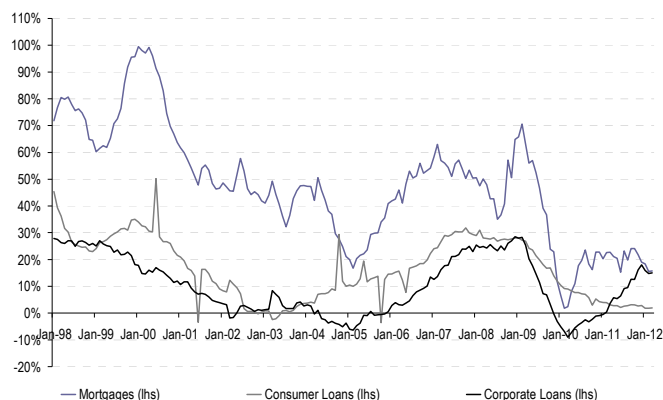


Figure 160. Polish Banks – Quarterly Change in Loans, 1Q12 (Percentage)

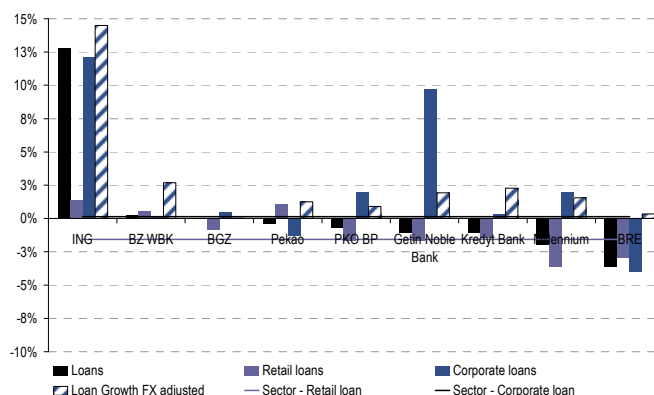


Figure 161. Polish Banks – Loan-to-Assets and Loan-to-Deposits, 1Q12 (Percentage)

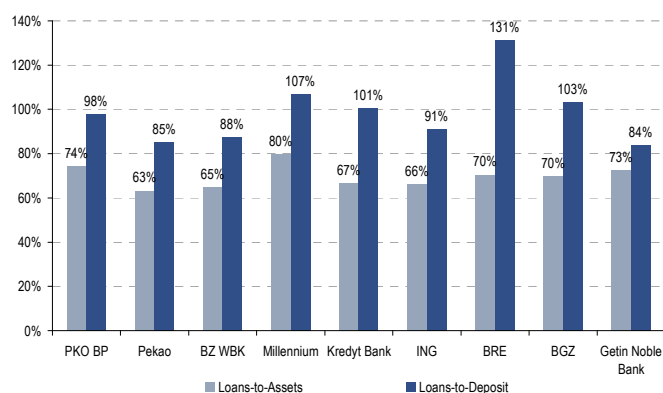


Figure 162. Polish Banks – Corporate Loans, 1Q12 (Polish Zloty in million)

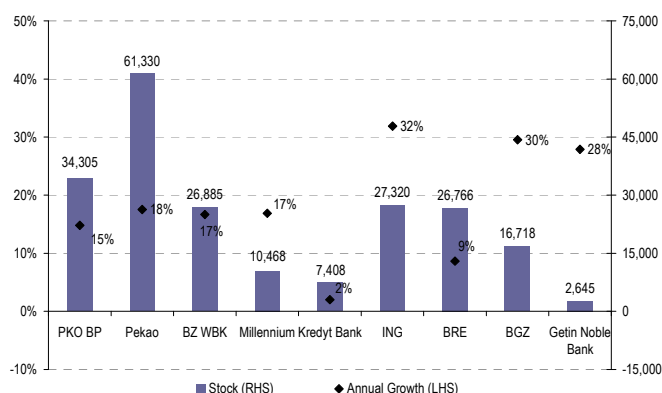


Figure 163. Polish Banks – Mortgage Loans, 1Q12 (Polish Zloty in million)

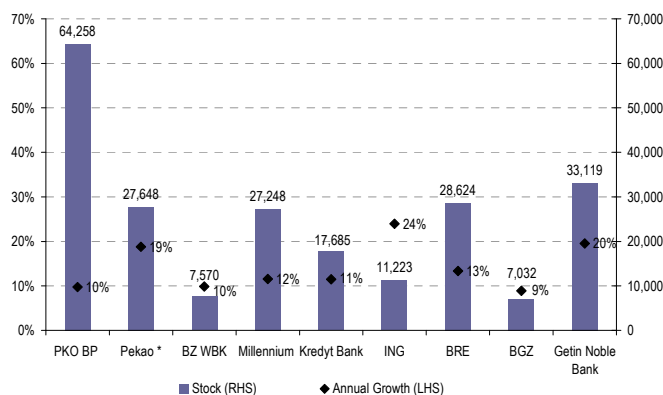
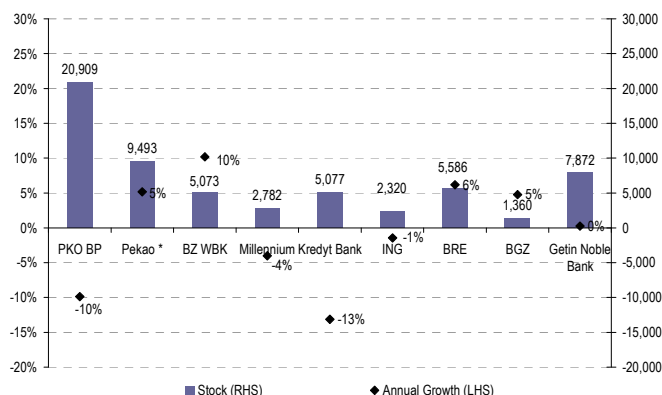


Figure 164. Polish Banks – Retail Loans Excl. Mortgage, 1Q12 (Polish Zloty in million)



Source for all: Company reports, Citi Investment Research and Analysis

## Deposits and AUM

Figure 165. Polish Banks – Funding Structure, 1Q12 (Percentage)

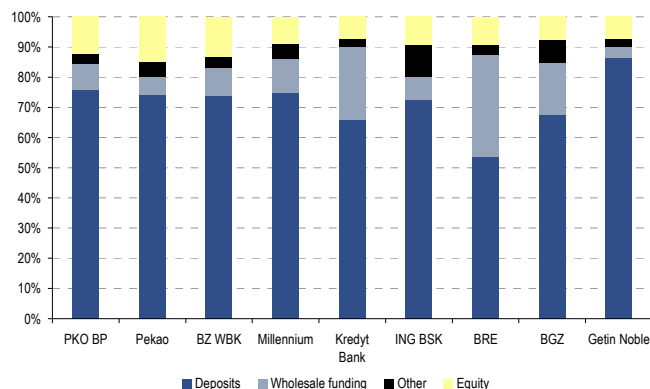


Figure 166. Polish Banks – Quarterly Change in Deposits, 1Q12 (Percentage)

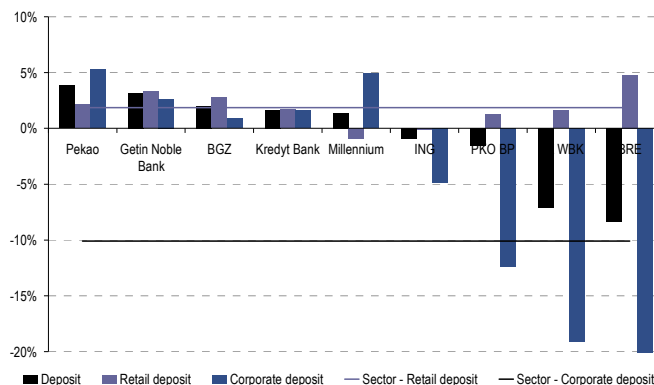


Figure 167. Polish Banks – Retail Deposits, 1Q12 (Polish Zloty in million)

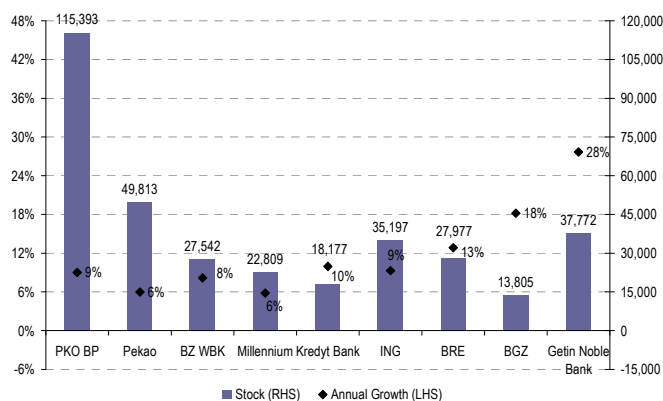


Figure 168. Polish Banks – Corporate Deposits, 1Q12 (Polish Zloty in million)

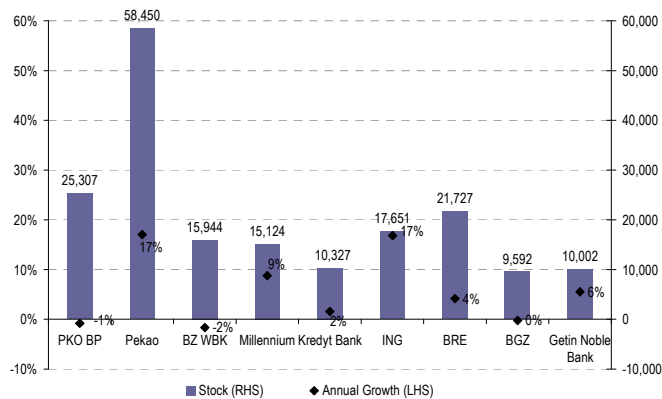


Figure 169. Polish Banks – Total Funds, 1Q12 (Polish Zloty in million)

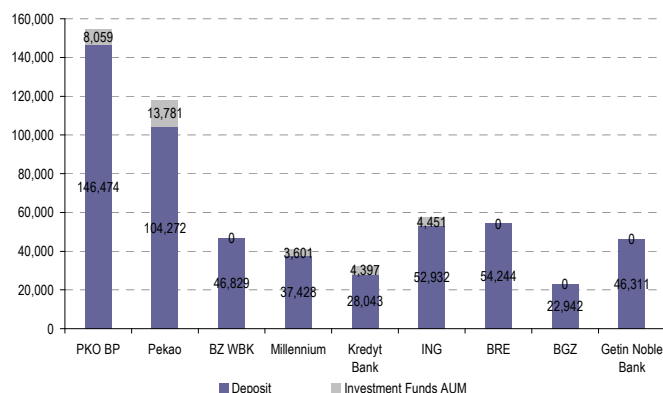
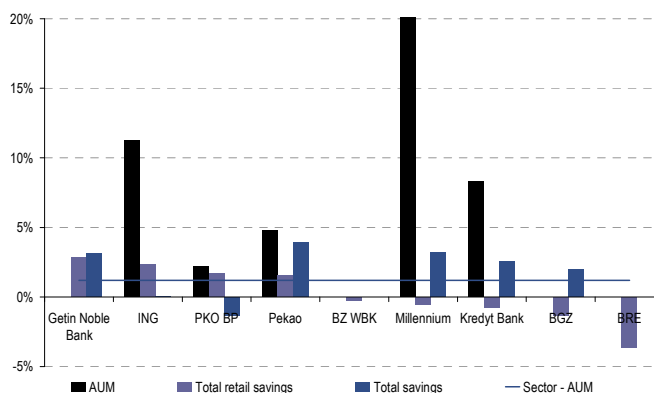


Figure 170. Polish Banks – Quarterly Change in Total Funds, 1Q12 (Percentage)



Source for all: Company reports, Citi Investment Research and Analysis

## Revenues

Figure 171. Polish Banks – Net Interest Income, 1Q07-1Q12 (Polish Zloty in million)

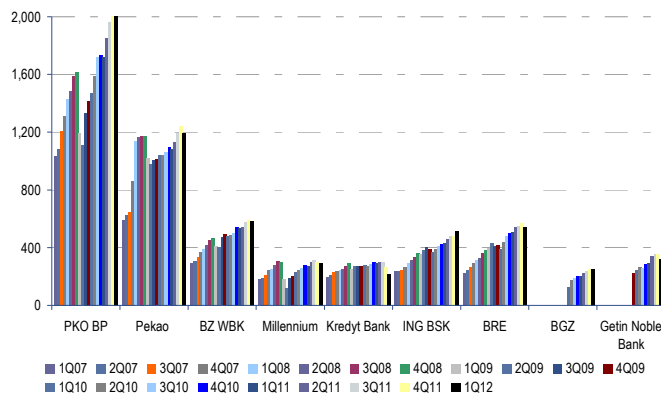


Figure 172. Polish Banks – Annual Change in Net Interest Income, 1Q07-1Q12 (Percentage)

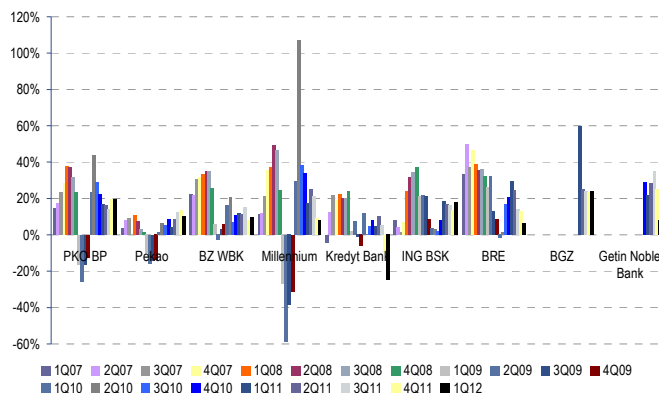


Figure 173. Polish Banks – Net Fee, 1Q07-1Q12 (Polish Zloty in million)

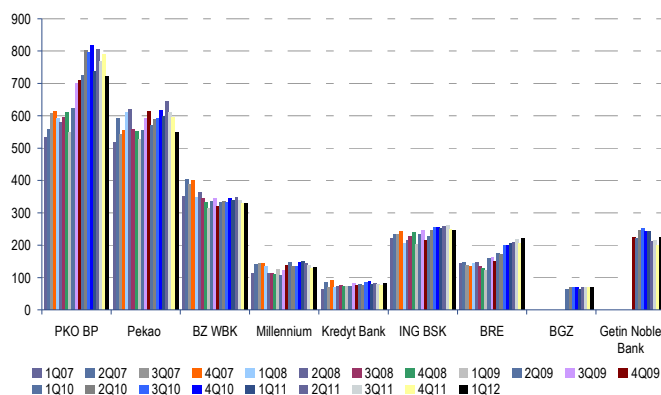


Figure 174. Polish Banks – Annual Change in Net Fees, 1Q07-1Q12 (Percentage)

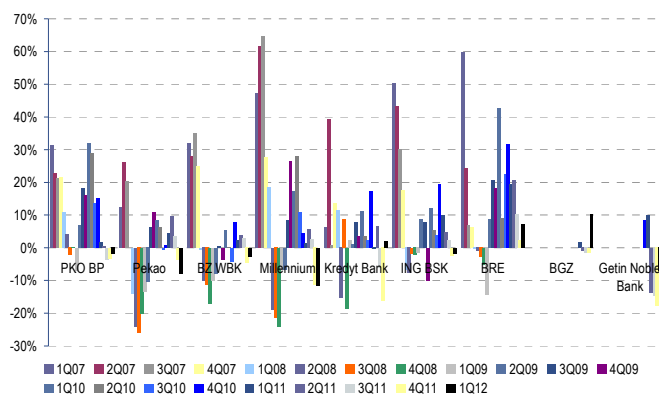


Figure 175. Polish Banks – Other and Financial Income, 1Q07-1Q12 (Polish Zloty in million)

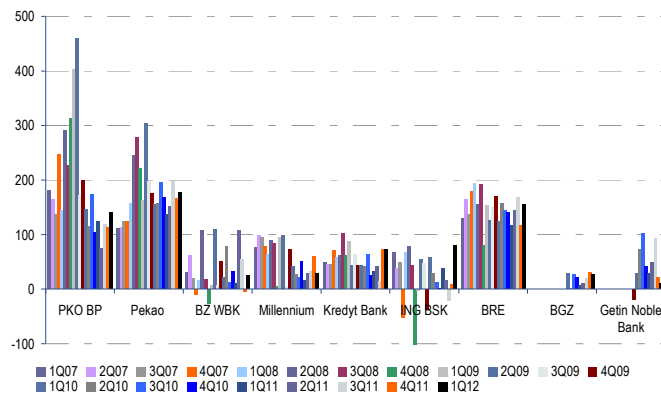
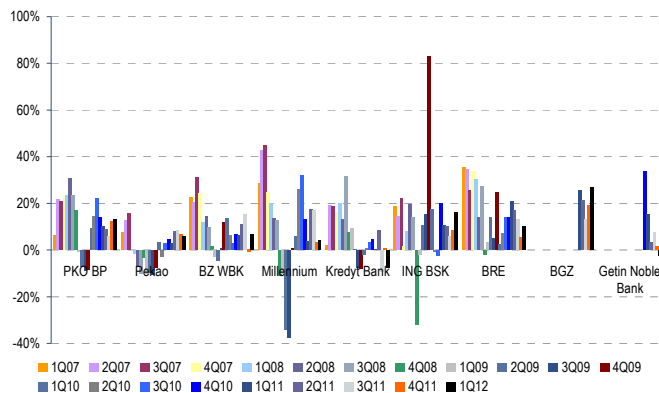


Figure 176. Polish Banks – Annual Change in Total Income, 1Q07-1Q12 (Percentage)



Source for all: Company reports, Citi Investment Research and Analysis

## Administrative Costs And Pre-Provision Income

Figure 177. Polish Banks – Administrative Costs, 1Q07-1Q12 (Polish Zloty in million)

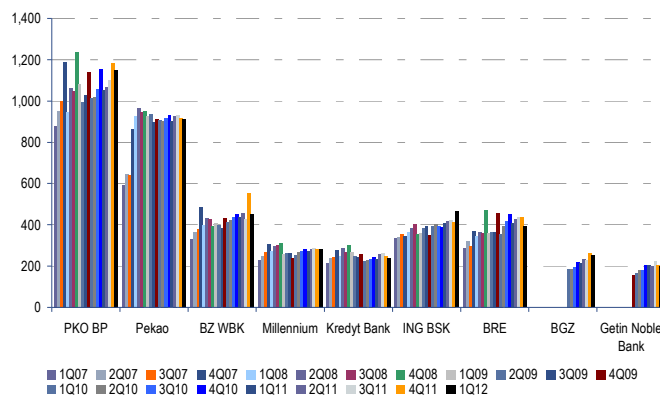


Figure 179. Polish Banks – Pre-Provision Income, 1Q07-1Q12 (Polish Zloty in million)

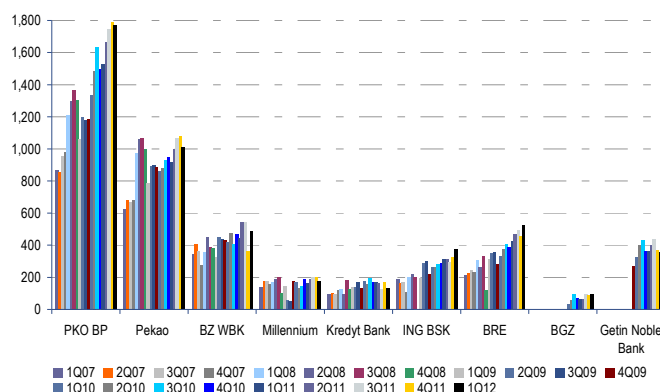


Figure 181. Polish Banks – Revenues-to-Assets, 1Q07-1Q12 (Percentage)

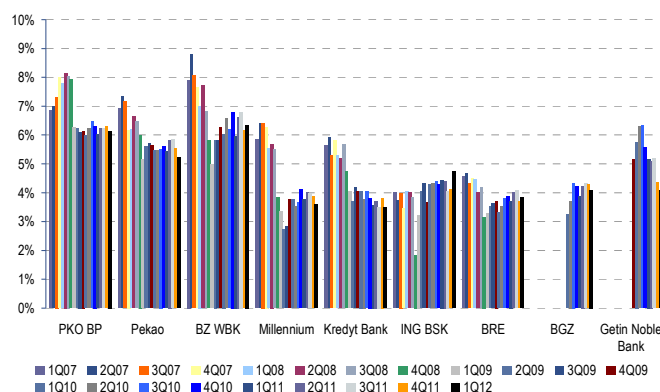


Figure 178. Polish Banks – Annual Change in Costs, 1Q07-1Q12 (Percentage)

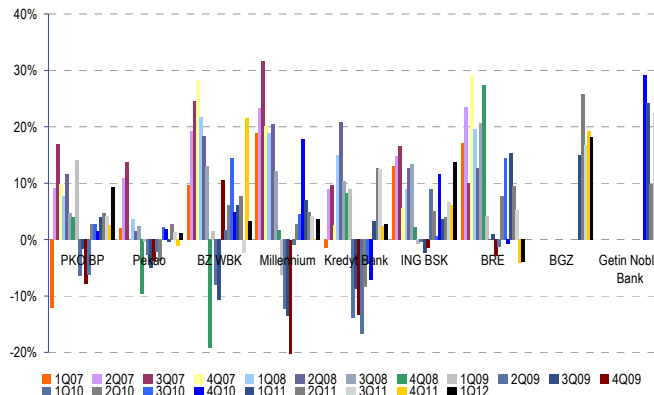


Figure 180. Polish Banks – Annual Change in Pre-Provision Income, 1Q07-1Q12 (Percentage)

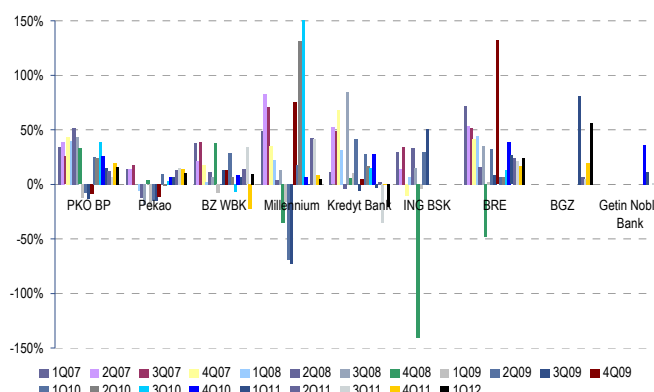
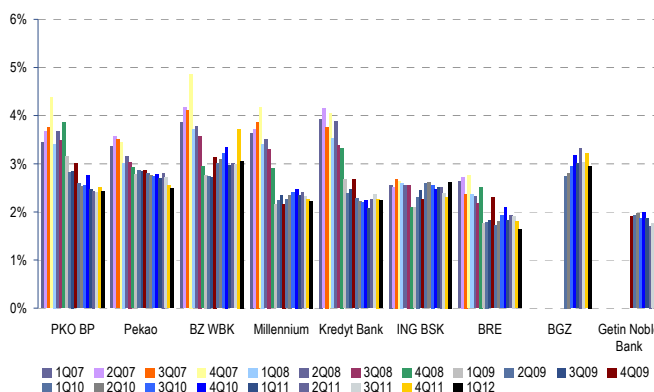


Figure 182. Polish Banks – Costs-to-Assets, 1Q07-1Q12 (Percentage)



Source for all: Company reports, Citi Investment Research and Analysis

## 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 51% 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 ZI 39.7 per share is based on the formula:  $\text{Price} / \text{Book value} = (\text{Sustainable RoE} - \text{growth}) / (\text{Cost of equity} - \text{growth})$ . Our sustainable ROE estimate is 16%. We use a cost of equity of 11% and a sustainable growth rate of 5.0%. Our Economic Value Added Valuation of ZI 46.3 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 ZI 39.7 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

Bank Pekao continues to enjoy high liquidity and a solid capital base. Owing to that, it looks well positioned to benefit from expected growth in corporate lending (especially in lending to the largest corporate clients). This potential is, in our opinion, not reflected in the market price, hence we rate the stock Buy.

## Valuation

Our Standard Warranted Equity Valuation of ZI 147 per share is based on the formula:  $\text{Price / Book value} = (\text{Sustainable ROE} - \text{growth}) / (\text{Cost of equity} - \text{growth})$ . We assume sustainable return on equity of 14.0%, a sustainable growth rate of 5.0% 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 19% we arrive at fair value of ZI 172 per share. Our Economic Value Added Valuation of ZI 195 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 ZI 157 using weighted average of the standard Warranted Equity Valuation based on reported (60% weight) and capital-normalised ROE (40% weight).

## Risks

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.

### 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 ZI 220 per share is based upon the formula:  $\text{Price / Book value} = (\text{Sustainable RoE} - \text{growth}) / (\text{Cost of equity} - \text{growth})$ . We set our assumption of sustainable ROE at 16% and use a cost of equity of 10.5% and a sustainable growth rate of 5%. Our Economic Value Added Valuation of ZI 277 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 announced merger of BZ WBK with Kredyt Bank, our target price of ZI 264 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 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. The bank has adopted KBC's bancassurance strategy and works in close co-operation with Warta, Poland's second-largest general insurance company, which is wholly owned by the KBC Group.

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

In recent years, Kredyt Bank has significantly improved its business model in retail banking, which has led to strong sales of consumer and mortgage loans, but this has not been followed by rising profitability. Recently, management has begun to implement a restructuring plan, achieved significant cost reduction and sold subsidiary Zagiel. We believe the upcoming merger with BZ WBK creates significant upside potential and therefore 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 ZI 9.2 per share is based upon the formula:  $\text{Price / Book value} = (\text{Sustainable RoE} - \text{growth}) / (\text{Cost of equity} - \text{growth})$ . We assume sustainable return on equity of 10.5% and use a cost of equity of 11.5% and a sustainable growth rate of 5.0%. Our Economic Value Added Valuation of ZI 10.6 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).

Due to the announced merger at an exchange ratio 6.96 BZ WBK shares for 100 Kredyt Bank shares, our target price of ZI 18.4 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; and (4) the sale of Kredyt Bank by KBC, if done via public tender for 100% of the shares at the 6-month average, would imply material upside for minorities. 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

Continued efforts to increase the bank's fee generation from retail and corporate business has led to an increase in net interest income and net fees in recent years, but think the process of improving NIM and raising the cross-sell ratio is close to completion, while the market price reflects the expectation of further rapid growth in core revenues. We view the stock fairly priced and rate it Neutral (2).

### Valuation

Our Standard Warranted Equity Valuation of ZI 266 per share is based upon the formula:  $\text{Price} / \text{Book value} = (\text{Sustainable RoE} - \text{growth}) / (\text{Cost of equity} - \text{growth})$ . We assume a sustainable return on equity of 12.0%, a cost of equity of 11% and a sustainable growth rate of 5%. Our Economic Value Added Valuation of ZI 308 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 ZI 266.

## 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 CIRA'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. This advantage has been reflected in recent financial results, which have been marked by impressive margin expansion. Thus we rate the shares Buy.

### Valuation

Our Standard Warranted Equity Valuation of ZI 89 per share is based on the formula:  $\text{Price} / \text{Book value} = (\text{Sustainable RoE} - \text{growth}) / (\text{Cost of equity} - \text{growth})$ . Given higher regulatory charges, we set our assumption of sustainable ROE at 13.5% and use a cost of equity of 10.5% and a sustainable growth rate of 5%. Our Economic Value Added Valuation of ZI 103.8 per share is equal to the sum of the net present value of the bank's future economic value-added (earnings adjusted for excess equity, less a capital charge reflecting the opportunity cost of capital). Similar to other Polish banks, we set our target price using the short-term approach at ZI 89.

### 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.

## BGZ

### Company description

Bank BGZ is a medium-sized Polish universal bank, specialising in Food and Agriculture (about 2/5 of loans are granted to farmers and food producers, 2/5 to retail clients and 1/5 to other corporate clients). The bank focuses on growth in smaller towns and intends to be "the local bank", combining the comprehensive

product offer of a commercial bank with close client relationships, characteristic of cooperative banks.

The bank is controlled by the Dutch cooperative bank Rabobank (59.35% shareholder), while the Polish State Treasury holds 25.2% of the bank's shares.

## Investment strategy

Currently, BGZ is Poland's 11th-largest commercial bank in terms of assets and loans, 10th-largest in terms of deposits, 12th-largest in terms of equity and 8th-largest in terms of number of branches. Due to its strong presence in less penetrated smaller towns, planned investments and continued growth in its core F&A division, we expect the bank to increase in scale over the medium term, which should allow it to improve its currently high cost-to-income ratio (75% in 2011) and low ROE (5%). We expect this to drive a convergence of the bank's ROE closer to the sector average by 2015, when we forecast the bank will generate an ROE of 10%. In our opinion the current market price, driven by the public tender announced by Rabobank at ZI 72.5, fully prices in the bank's potential to increase profitability and thus we rate the bank Neutral.

## Valuation

Our Standard Warranted Equity Valuation of ZI 59 per share is based upon the formula:  $\text{Price} / \text{Book value} = (\text{Sustainable RoE} - \text{growth}) / (\text{Cost of equity} - \text{growth})$ . We assume a sustainable ROE of 10% and use a cost of equity of 10.5% and a sustainable growth rate of 5.0%. Our Economic Value Added Valuation of ZI 59 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). As the price offered in the public tender announced by Rabobank is higher than our assessment of the bank's fundamental value, we set a target price at the tender price, i.e. at ZI 72.5.

## 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 faster loan growth than anticipated; (3) In recent years, the number of banks in Poland hasn't materially decreased as recent mergers between some third-tier banks have been largely offset by the launch of start-ups. Simultaneously, starting from 2010, many banks that previously focused on selected parts of the market (mainly on consumer finance) introduced new strategies to become universal banks, leading to competition risk; (4) There is a risk that, in the future, the regulator will try to reduce the banks' appetite for risk, which may make it more difficult for BGZ to implement its strategy; (5) The Polish Ministry of Finance is working on legislation that would introduce a bank levy. However, the detailed structure of the tax and its impact on the profitability of banks are unknown. Specifically, for BGZ, we highlight the following risk factor that could cause the share price to deviate significantly from our target price: (1) the bank's large exposure to the two closely related industries: farmers and food producers; (2) risk related to the planned launch of the direct bank in 4Q11/1Q12; (3) due to low profitability, earnings are more than averagely sensitive to revenue trends; (3) we note strategic shareholder risk as Rabobank, BGZ's majority shareholder (holding 59%), is a conservatively run bank and is managed based on a very long-term perspective. While we appreciate this strategy, we note that equity investors tend to

focus on short-term performance and that differences in investment strategies may lead to some conflict between Rabobank and minority shareholders

## 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 will be seriously impaired by an increase in the cost of funding. We are sceptical as to whether the strategy of diversification will enable the bank to achieve a 15% ROE in 2012. Following the recent price performance, we set our rating at Neutral.

### Valuation

Our Standard Warranted Equity Valuation of ZI 3.82per share is based upon the formula:  $\text{Price} / \text{Book value} = (\text{Sustainable RoE} - \text{growth}) / (\text{Cost of equity} - \text{growth})$ . We assume a sustainable ROE of 11.0% and use a cost of equity of 11.5% and a sustainable growth rate of 5.0%. Our Economic Value Added Valuation of ZI 4.74 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 ZI 3.82.

### 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 wholesale and 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.

**Notes**

**Notes**

## Appendix A-1

### Analyst Certification

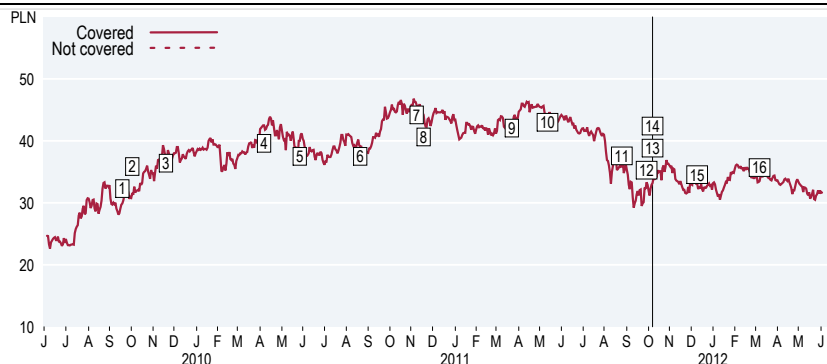
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each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

#### PKO BP (PKOB.WA)

##### Ratings and Target Price History Fundamental Research

Analyst: Andrzej Powierza  
Covered since March 2 2011



Date	Rating	Target Price	Closing Price
1 18-Sep-09	*1M	*35.16	29.90
2 2-Oct-09	*2M	*33.90	31.59
3 19-Nov-09	*1M	*46.00	36.40
4 7-Apr-10	*1L	*48.40	42.50
5 27-May-10	1L	*49.00	40.00
6 20-Aug-10	1L	*54.00	38.98

\* Indicates change

Date	Rating	Target Price	Closing Price
7 9-Nov-10	1L	*55.00	45.76
8 18-Nov-10	1L	*60.00	44.19
9 23-Mar-11	1L	*55.50	42.40
10 12-May-11	*2L	*47.70	43.35
11 25-Aug-11	*1L	*42.90	35.90
12 29-Sep-11	1L	*41.00	33.32

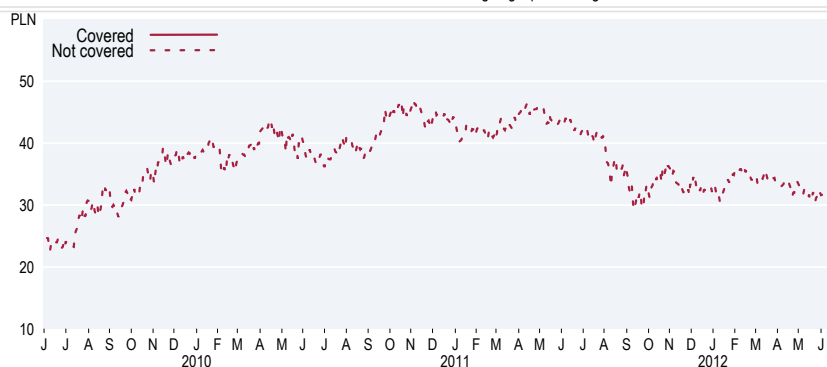
Date	Rating	Target Price	Closing Price
13 7-Oct-11	Stock rating system changed		
14 7-Oct-11	*1	41.00	33.20
15 9-Dec-11	1	*41.80	33.15
16 7-Mar-12	1	*42.70	33.52

Rating/target price changes above reflect Eastern Standard Time

#### PKO BP (PKOB.WA)

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

Analyst: Andrzej Powierza  
Covered since March 2 2011



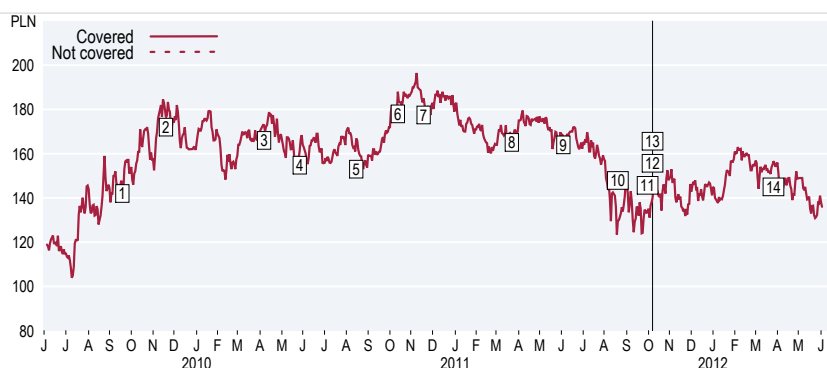
\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Bank Pekao SA (BAPE.WA)

### Ratings and Target Price History Fundamental Research

Analyst: Andrzej Powierza  
Covered since March 2 2011



	Date	Rating	Target Price	Closing Price
1	18-Sep-09	*2L	*151.50	144.40
2	19-Nov-09	2L	*190.00	176.40
3	7-Apr-10	2L	*192.00	172.90
4	27-May-10	*1L	*179.50	161.60
5	16-Aug-10	1L	*183.00	166.90

\* Indicates change

	Date	Rating	Target Price	Closing Price
6	13-Oct-10	*2L	183.00	188.00
7	18-Nov-10	2L	*201.00	185.00
8	23-Mar-11	*1L	*195.30	166.50
9	3-Jun-11	1L	*186.00	168.00
10	19-Aug-11	1L	*190.00	129.60

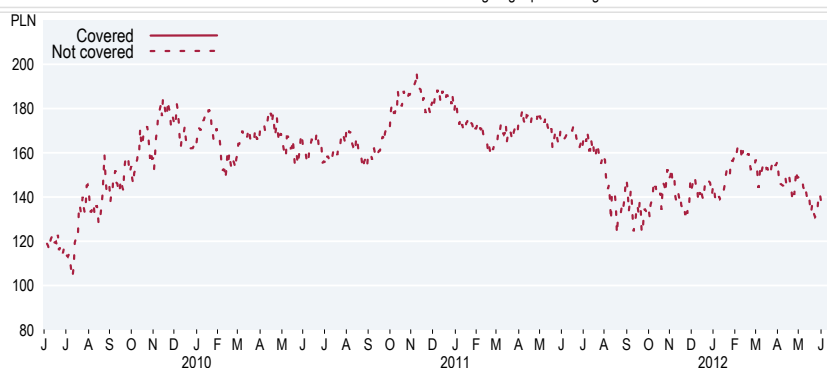
	Date	Rating	Target Price	Closing Price
11	30-Sep-11	1L	*171.00	134.20
12	7-Oct-11	Stock rating system changed		
13	7-Oct-11	*1	171.00	140.00
14	27-Mar-12	1	*173.00	156.60

Rating/target price changes above reflect Eastern Standard Time

## Bank Pekao SA (BAPE.WA)

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

Analyst: Andrzej Powierza  
Covered since March 2 2011



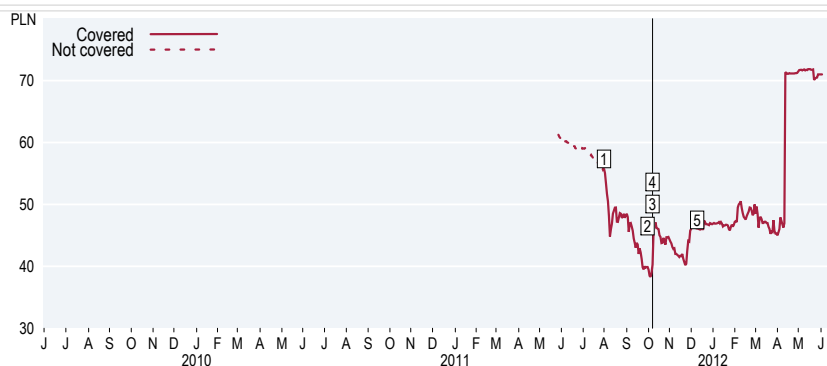
\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## BGZ (BGZ.WA)

### Ratings and Target Price History Fundamental Research

Analyst: Andrzej Powierza  
Covered since August 2 2011



	Date	Rating	Target Price	Closing Price
1	1-Aug-11	*1L	*66.80	55.80
2	30-Sep-11	1L	*60.30	39.89

\* Indicates change

	Date	Rating	Target Price	Closing Price
3	7-Oct-11	Stock rating system changed		
4	7-Oct-11	*1	60.30	40.29

	Date	Rating	Target Price	Closing Price
5	9-Dec-11	1	*53.50	46.10

Rating/target price changes above reflect Eastern Standard Time

## BGZ (BGZ.WA)

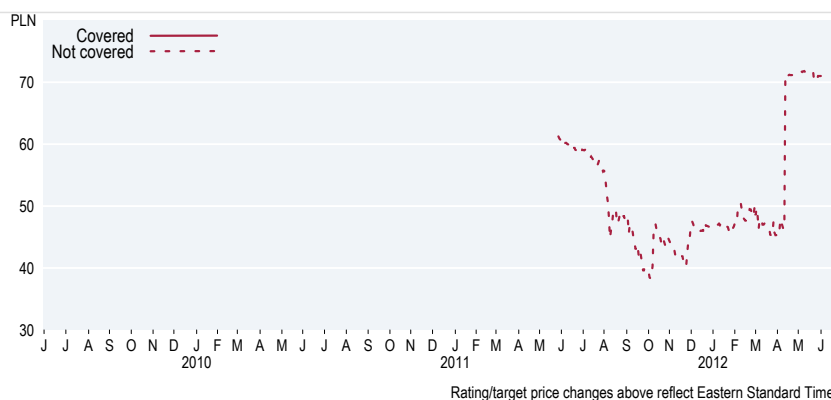
### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Andrzej Powierza

Covered since August 2 2011



## Bank Millennium SA (BIGW.WA)

### Ratings and Target Price History

#### Fundamental Research

Analyst: Andrzej Powierza

Covered since March 2 2011



	Date	Rating	Target Price	Closing Price
1	18-Sep-09	3M	*2.43	4.07
2	19-Nov-09	3M	*3.61	3.60
3	25-Jan-10	3M	*3.89	4.28
4	7-Apr-10	3M	*4.40	4.44
5	27-May-10	3M	*4.70	4.69

\* Indicates change

	Date	Rating	Target Price	Closing Price
6	2-Aug-10	3M	*4.65	4.69
7	18-Nov-10	3M	*5.14	5.11
8	23-Mar-11	3M	*5.49	5.60
9	3-Jun-11	3M	*5.67	5.46
10	8-Aug-11	3M	*5.00	4.14

	Date	Rating	Target Price	Closing Price
11	30-Sep-11	3M	*4.53	4.60
12	7-Oct-11	Stock rating system changed		
13	7-Oct-11	*2	4.53	4.39
14	9-Dec-11	2	*3.80	3.69
15	5-Mar-12	*3	*4.10	4.33

Rating/target price changes above reflect Eastern Standard Time

## Bank Millennium SA (BIGW.WA)

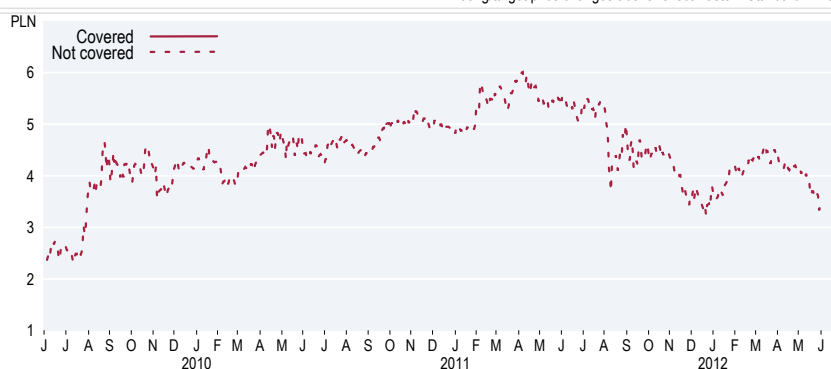
### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Andrzej Powierza

Covered since March 2 2011

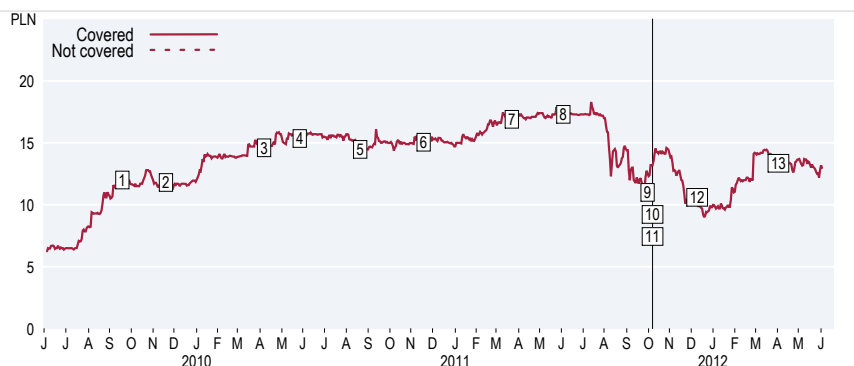




## Kredyt Bank SA (BKRE.WA)

### Ratings and Target Price History Fundamental Research

Analyst: Andrzej Powierza  
Covered since March 2 2011



	Date	Rating	Target Price	Closing Price
1	18-Sep-09	*3M	*9.60	11.70
2	19-Nov-09	*2M	*12.80	11.50
3	7-Apr-10	*3M	*15.60	14.80
4	27-May-10	3M	*16.00	15.92
5	20-Aug-10	3M	*15.10	15.00

\* Indicates change

	Date	Rating	Target Price	Closing Price
6	18-Nov-10	3M	*16.00	15.40
7	23-Mar-11	3M	*16.40	17.01
8	3-Jun-11	3M	*16.10	17.78
9	30-Sep-11	3M	*12.00	12.50
10	7-Oct-11	Stock rating system changed		

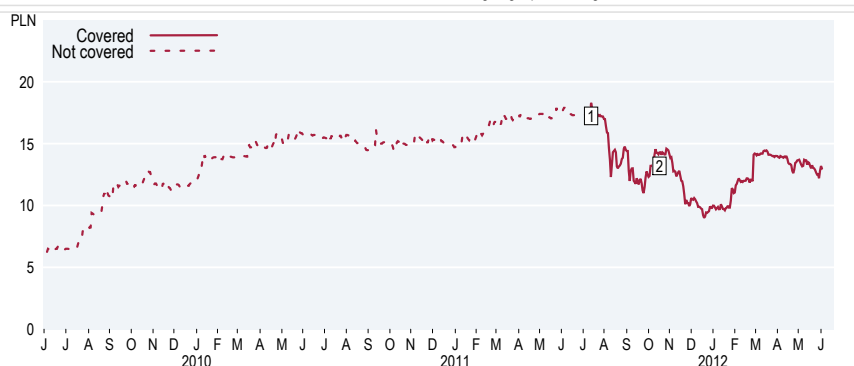
	Date	Rating	Target Price	Closing Price
11	7-Oct-11	*3	12.00	13.20
12	9-Dec-11	3	*9.20	10.19
13	3-Apr-12	*1H	*18.80	13.90

Rating/target price changes above reflect Eastern Standard Time

## Kredyt Bank SA (BKRE.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

\* Indicates change

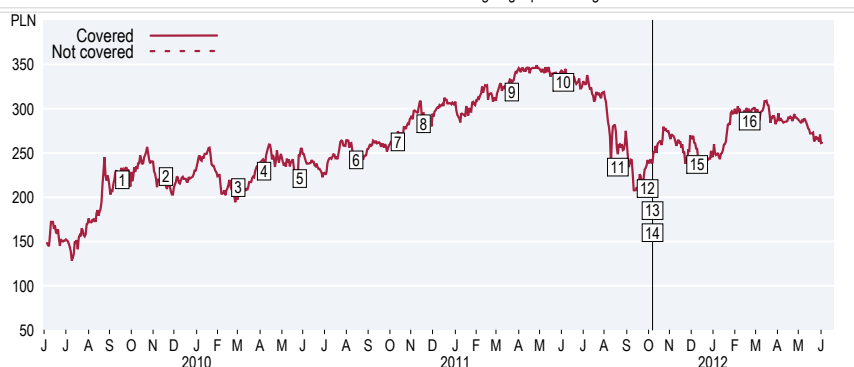
	Date	Rating	Target Price	Closing Price
2	18-Oct-11	*REM LP	-	14.29

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	18-Sep-09	3M	*169.41	230.76
2	19-Nov-09	3M	*231.29	212.49
3	2-Mar-10	*1M	*242.77	201.90
4	7-Apr-10	*2M	*268.37	241.00
5	27-May-10	*1M	*279.00	247.20
6	16-Aug-10	*2M	*273.00	245.00

\* Indicates change

	Date	Rating	Target Price	Closing Price
7	13-Oct-10	*3M	273.00	274.50
8	18-Nov-10	*2M	*337.00	294.90
9	23-Mar-11	2M	*364.00	328.00
10	3-Jun-11	2M	*351.00	338.90
11	19-Aug-11	2M	*318.00	248.60
12	30-Sep-11	*1M	*298.00	242.00

	Date	Rating	Target Price	Closing Price
13	7-Oct-11	Stock rating system changed		
14	7-Oct-11	*1	298.00	239.30
15	9-Dec-11	*3	*243.00	254.70
16	22-Feb-12	3	*268.00	295.60

Rating/target price changes above reflect Eastern Standard Time

## BRE Bank SA (BREP.WA)

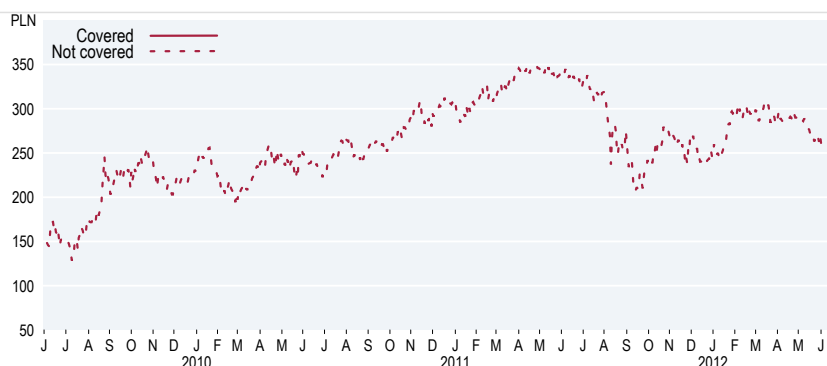
### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Andrzej Powierza

Covered since March 2011



\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

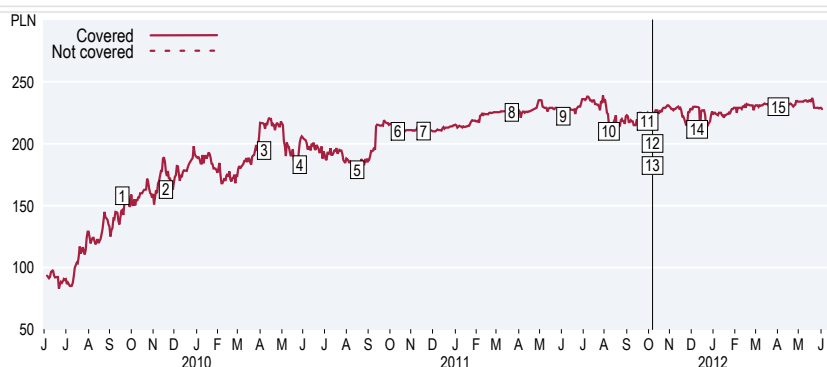
## Bank Zachodni WBK (BZWB.WA)

### Ratings and Target Price History

#### Fundamental Research

Analyst: Andrzej Powierza

Covered since March 2011



\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

	Date	Rating	Target Price	Closing Price
1	18-Sep-09	*3M	*135.60	146.50
2	19-Nov-09	*2M	*206.00	177.00
3	7-Apr-10	*3M	*216.00	215.70
4	27-May-10	*1M	*222.00	200.90
5	17-Aug-10	*2M	*216.00	184.40

	Date	Rating	Target Price	Closing Price
6	13-Oct-10	*3M	216.00	213.00
7	18-Nov-10	*2M	*233.00	210.20
8	23-Mar-11	2M	*251.70	225.70
9	3-Jun-11	2M	*248.00	228.40
10	8-Aug-11	2M	*253.00	215.00

	Date	Rating	Target Price	Closing Price
11	30-Sep-11	2M	*239.00	225.00
12	7-Oct-11	Stock rating system changed		
13	7-Oct-11	*2	239.00	222.00
14	9-Dec-11	2	*229.00	229.70
15	3-Apr-12	*1	*270.00	233.00

## Bank Zachodni WBK (BZWB.WA)

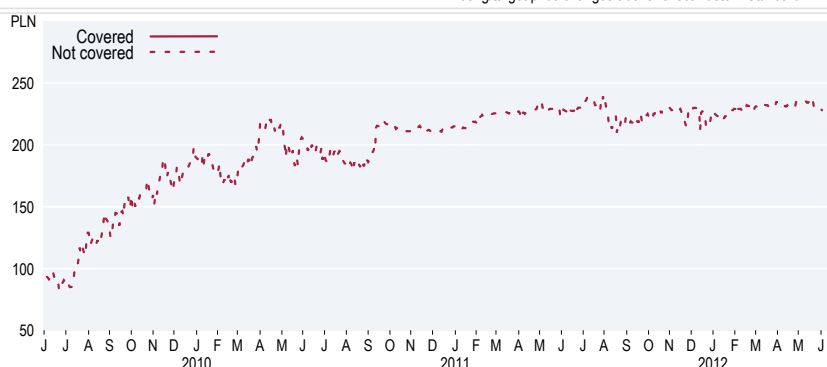
### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Andrzej Powierza

Covered since March 2011



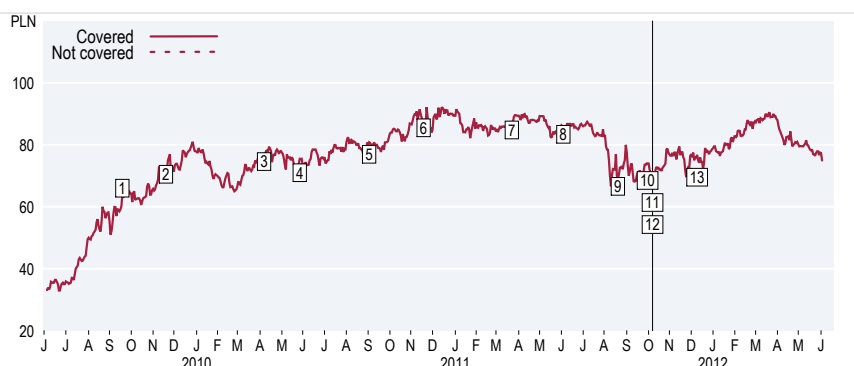
\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## ING Bank Slaski SA (SLAS.WA)

### Ratings and Target Price History Fundamental Research

Analyst: Andrzej Powierza  
Covered since March 2 2011



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

\* Indicates change

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

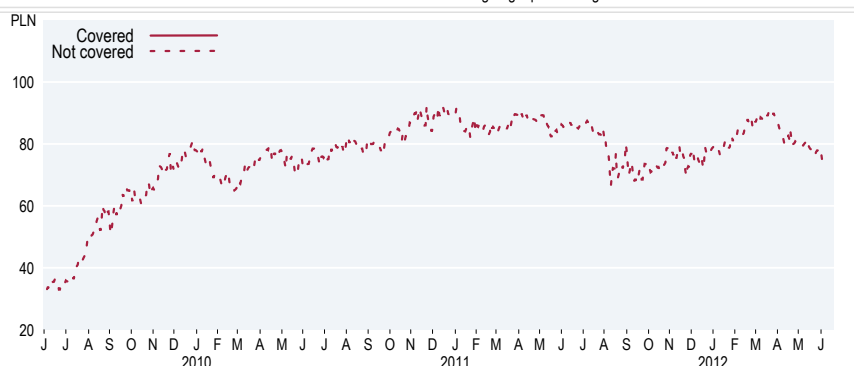
	Date	Rating	Target Price	Closing Price
11	7-Oct-11	Stock rating system changed		
12	7-Oct-11	*1	88.60	71.00
13	9-Dec-11	1	*92.00	76.75

Rating/target price changes above reflect Eastern Standard Time

## ING Bank Slaski SA (SLAS.WA)

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

Analyst: Andrzej Powierza  
Covered since March 2 2011



\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

DMBH is a market maker in the publicly traded equity securities of PKO BP. DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30th March 2012 is as follows: Buy (1) representing 54% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 33% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 13% of the DMBH coverage 0% of which are IB clients.

DMBH is a market maker in the publicly traded equity securities of Bank Pekao SA. DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30th March 2012 is as follows: Buy (1) representing 54% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 33% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 13% of the DMBH coverage 0% of which are IB clients.

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