

## Polish Banks

### Lower-Than-Expected 2013 and 2014 Bank Levy and Long-Term Positives Look in the Price for Now

- **Lower Than Expected 2013 and 2014 Bank Levy** — On November 22, 2013, the board of BFG (Bank Guarantee Fund) set the rate of the prudential fee, commonly called the bank levy, at 0.9bp for 2013 and at 3.7bp for 2014 vs. our assumption of 10bp for both years. In this note we update our EPS estimates for the new bank levy and maintain our view that, at a sector level, the improvement we expect in earnings (we forecast our universe of seven Polish banks to increase net profit by 11% yoy in 2014 and 16% yoy in 2015) is fully priced-in.
- **We see longer-term positives...** — for Polish banking sector performance in coming years, as we expect that macro and micro tailwinds (stronger economy and the changed asset mix) will materially outweigh regulatory headwinds.
- **...but we think this has been priced in** — as current sector valuations imply that banks will reach and maintain the record high profitability achieved in 2006-07 (at 1.9-2.6x P/BV Polish medium-sized banks have never been so expensive except at the top of the boom market in 2006-07). We think that this assumption is unrealistic hence we are cautious on the sector (for details see our sector note [Polish Banks - A Tale Of Two Halves: Long-Term Positives All In The Price For Now](#)).
- **How to Navigate?** — In this note we don't change our ratings or our target prices. We continue to prefer:
  - **Buy-Rated PKO BP to Neutral-Rated Pekao among “national champions”:** due to a lower valuation and higher leverage to a rising economy.
  - **ING BSK (Neutral) to mBank (Sell) among tier 2 banks:** due to a lower valuation, a lower risk profile and upside risk in consumer loans.
  - **Getin Noble (Neutral/High Risk) to Alior (Sell/High Risk) and Millennium (Sell) among ‘boom’ banks:** due to what we see as its potential to improve earnings through a lower cost of funding.

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

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

Company	Ticker	Rating		Target Price		Current Year Earnings Estimates	
		Old	New	Old	New	Old	New
Alior Bank	ALRR.WA	3H	3H	ZL74.00	ZL74.00	ZL2.94	ZL3.10
Getin Noble	GNB.WA	2H	2H	ZL2.90	ZL2.90	ZL0.12	ZL0.13
ING Bank Śląski	INGP.WA	2	2	ZL116.00	ZL116.00	ZL6.92	ZL7.19
mBank	MBK.WA	3	3	ZL466.00	ZL466.00	ZL26.32	ZL27.38
Bank Millennium	MILP.WA	3	3	ZL5.90	ZL5.90	ZL0.42	ZL0.45
Bank Pekao	PEO.WA	2	2	ZL182.00	ZL182.00	ZL10.03	ZL10.32
PKO BP	PKO.WA	1	1	ZL47.00	ZL47.00	ZL2.57	ZL2.66

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

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## Lower-Than-Expected 2013 and 2014 Bank Levy

Figure 1. Polish Banks – Market Multiples and Prices

	Current Price	Rating	Target Price	P/E			P/BV			ROE		
				2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
BANK MILLENNIUM	7.44	3	5.9	16.6	12.6	12.6	1.7	1.6	1.5	10.7%	12.9%	12.0%
mBank	540.00	3	466.0	19.7	17.8	15.3	2.2	2.1	1.9	11.5%	11.9%	12.9%
ING BSK	121.00	2	116.0	16.8	16.4	13.9	1.9	1.8	1.7	11.3%	11.1%	12.7%
PEKAO	183.00	2	182.0	17.7	16.5	14.9	2.0	2.0	2.0	11.6%	12.2%	13.4%
PKO BP	40.40	1	47.0	15.2	14.5	11.7	2.0	1.8	1.6	13.3%	12.9%	14.5%
Getin Noble Bank	2.92	2H	2.9	22.0	12.6	12.0	1.6	1.4	1.3	7.3%	11.8%	11.1%
Alior Bank	74.39	3H	74.0	24.0	18.1	14.5	2.3	1.8	1.6	10.2%	12.0%	12.2%

\*Prices as of December 2, 2013.

Source: Citi Research

## Changes in Our Forecasts

### Lower-than-expected 2013 and 2014 bank levy

In August 2013, Poland's President signed an act introducing a prudential fee, commonly called the bank levy. The new regulation came into force at the end of September. Each year the Bank Guarantee Fund (BFG) Board will decide on the level of the levy (according to the law, it cannot exceed 20bp of risk-weighted assets (RWAs)). On November 22, 2013, the board of BFG (Bank Guarantee Fund) set the rate of bank levy, at 0.9bp for 2013 and at 3.7bp for 2014 vs. our assumption of 10bp for both years. The base of the fees for both years are banks' risk-weighted assets (or more precisely, capital requirement multiplied by 12.5) at the end of 2013 (we previously assumed that for the 2013 fee the base would be risk-weighted assets at the end of 2012). The fee for the deposit guarantee fund was set in line with our expectation at 10bp.

According to the new law, the level of the bank levy should be set to be countercyclical. Being bullish on banks' earnings, we therefore expect growth in the levy rate, and we assume an 8bp levy in 2015 and 2016. Given the structure of the banking tax, the banks with the lowest returns on weighted assets (i.e. usually the banks with the lowest ROA) are the most affected.

Figure 2. Polish Banks – 2015E Net Profit Sensitivity to Banking Levy (Polish Zloty in million)

	4bp	6bp	8bp	10bp	12bp
PKO BP	1.9%	1.0%	0.0%	-1.0%	-1.9%
Pekao	1.4%	0.7%	0.0%	-0.7%	-1.4%
Millennium	2.3%	1.2%	0.0%	-1.2%	-2.3%
ING Bank Slaski	1.7%	0.9%	0.0%	-0.9%	-1.7%
mBank	1.9%	1.0%	0.0%	-1.0%	-1.9%
Getin Noble Bank	3.2%	1.6%	0.0%	-1.6%	-3.2%
Alior Bank	2.5%	1.3%	0.0%	-1.3%	-2.5%

Source: Citi Research

**We decrease our sector administrative cost forecasts by 2.9% in 2013 and 1.8% in 2014 and increase our sector net profit estimates by 3.8% and 2.3%, respectively**

The introduction to our model of the just announced bank levy rates (0.9bp in 2013 and 3.7bp in 2014) instead of our previous rates assumptions (10bp for each year) lead us to decrease our sector administrative cost forecasts by 2.9% in 2013 and 1.8% in 2014 and to increase our sector net profit estimates by 3.8% and 2.3%, respectively (the most impacted are banks with low return on risk weighted assets, i.e. Getin, Millennium, ING BSK and mBank). For 2015 we assume an 8bp levy (vs. our previous assumption that the nominal value of the levy would be flat yoy).

Figure 3. Polish Banks – Total Cost Forecast Changes, 2013E-2015E (Polish Zloty in Million)

	2013E			2014E			2015E		
	OLD	NEW	Chg.	OLD	NEW	Chg.	OLD	NEW	Chg.
PKO BP	-4,743	-4,601	-3.0%	-5,585	-5,489	-1.7%	-5,750	-5,736	-0.2%
Pekao	-3,566	-3,472	-2.6%	-3,559	-3,495	-1.8%	-3,678	-3,665	-0.4%
Millennium	-1,133	-1,096	-3.2%	-1,127	-1,102	-2.3%	-1,171	-1,165	-0.6%
ING Bank Slaski	-1,877	-1,834	-2.3%	-1,931	-1,899	-1.6%	-2,008	-2,000	-0.4%
mBank	-1,727	-1,671	-3.2%	-1,754	-1,717	-2.1%	-1,809	-1,804	-0.3%
Getin Noble Bank	-913	-874	-4.3%	-951	-925	-2.7%	-995	-992	-0.3%
Alior Bank	-846	-834	-1.5%	-921	-914	-0.8%	-960	-964	0.5%
<b>Total</b>	<b>-14,805</b>	<b>-14,382</b>	<b>-2.9%</b>	<b>-15,828</b>	<b>-15,540</b>	<b>-1.8%</b>	<b>-16,371</b>	<b>-16,327</b>	<b>-0.3%</b>

Source: Citi Research

Figure 4. Polish Banks – Operating Income Forecast Changes, 2013E-2015E (Polish Zloty in Million)

	2013E			2014E			2015E		
	OLD	NEW	Chg.	OLD	NEW	Chg.	OLD	NEW	Chg.
PKO BP	5,799	5,941	2.4%	6,443	6,539	1.5%	7,574	7,588	0.2%
Pekao	3,882	3,976	2.4%	4,187	4,252	1.5%	4,803	4,816	0.3%
Millennium	883	920	4.1%	1,134	1,160	2.2%	1,214	1,221	0.5%
ING Bank Slaski	1,369	1,412	3.1%	1,566	1,597	2.0%	1,889	1,896	0.4%
mBank	1,885	1,941	3.0%	2,152	2,190	1.7%	2,503	2,508	0.2%
Getin Noble Bank	996	1,036	4.0%	1,437	1,463	1.8%	1,637	1,640	0.2%
Alior Bank	625	637	1.9%	894	901	0.8%	1,149	1,145	-0.4%
<b>Total</b>	<b>15,440</b>	<b>15,862</b>	<b>2.7%</b>	<b>17,813</b>	<b>18,101</b>	<b>1.6%</b>	<b>20,770</b>	<b>20,814</b>	<b>0.2%</b>

Source: Citi Research

Figure 5. Polish Banks – Net Profit Forecast Changes, 2013E-2015E (Polish Zloty in Million)

	2013E			2014E			2015E		
	OLD	NEW	Chg.	OLD	NEW	Chg.	OLD	NEW	Chg.
PKO BP	3,214	3,329	3.6%	3,404	3,480	2.3%	4,300	4,311	0.3%
Pekao	2,651	2,727	2.9%	2,853	2,905	1.8%	3,213	3,223	0.3%
Millennium	515	544	5.6%	698	718	2.9%	711	716	0.7%
ING Bank Slaski	901	936	3.9%	933	958	2.7%	1,127	1,133	0.5%
mBank	1,109	1,154	4.0%	1,246	1,276	2.4%	1,478	1,482	0.3%
Getin Noble Bank	320	351	9.9%	591	612	3.5%	645	647	0.4%
Alior Bank	197	207	5.3%	295	300	1.9%	379	376	-1.0%
<b>Total</b>	<b>8,906</b>	<b>9,248</b>	<b>3.8%</b>	<b>10,019</b>	<b>10,250</b>	<b>2.3%</b>	<b>11,853</b>	<b>11,889</b>	<b>0.3%</b>

Source: Citi Research

## A Tale of Two Halves

Poland has double-digit growth in local-currency mortgages, in cash loans produced by universal banks and in card transactions, with below historical-average cost of risk, low cost-to-income ratios, high Tier 1 ratios and close to highest-ever sector earnings. It also has a rebounding economy, stimulated by awaited highest-ever EU transfers. However, Poland is also a country of unprofitable FX mortgages, materially lower yoy net interest margins and sector ROE has nearly halved vs. its 2007 peak. The next quarters will also bring reduced interchange fees and a bank levy.

## We Are Bullish on Economy and Bank Earnings

### Upside Risk to Economic Forecasts

**Our economists forecast 3.1% GDP growth in 2014 and 3.6% in 2015E, i.e. below the peak in the last cycle**

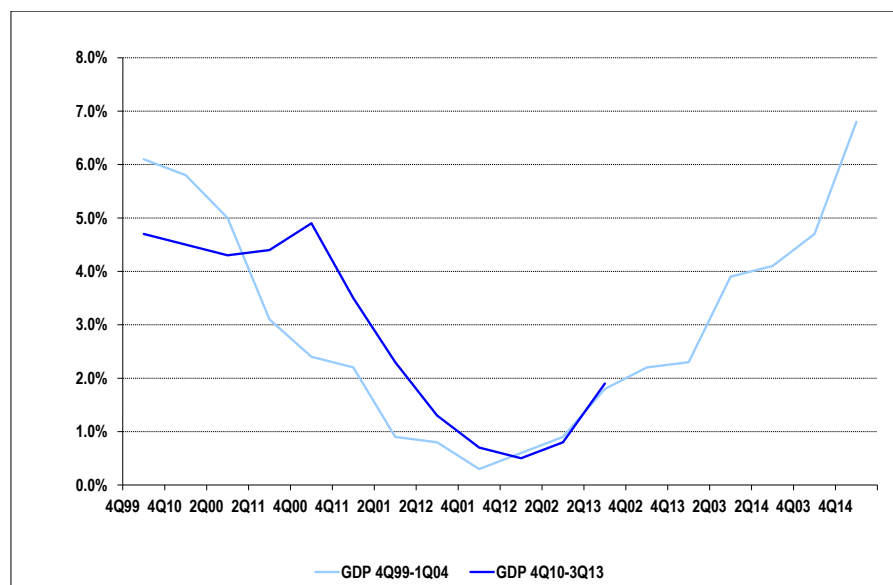
We see also upside to Citi's GDP forecasts. Our economists have just maintained their forecast of 3.1% Polish GDP growth in 2014 and increased their projection of 2015 GDP growth to 3.6% from 3.3% previously. However, their forecasts are still below the peak in the last cycle (4.5% in 2011) and less than half of the peak annual growth in the cycle before that (6.8% in 2007). Assuming lessening headwinds (improvement in Eurozone, end of European bank deleveraging) and new stimulus (in the new 2014-2020 EU budget Poland will get €72.9bn structural funds vs. €67.3bn in the 2007-2013 budget), we think this could be conservative. We note that a simple extrapolation of the GDP dynamics in the last 'big cycle' (i.e. in 1999-2004) suggests that, if this were repeated, there could be upside risk to our economists' forecasts.

Figure 6. Poland – Macro Data and Forecasts, 2005-2016E

	2006	2007	2008	2009	2010	2011	2012	2013F	2014F	2015F
<b>Summary Data</b>										
Nominal GDP, US\$ bn	342	426	533	432	470	517	490	509	568	625
Nominal GDP, local currency bn	1 060	1 175	1 273	1 342	1 417	1 528	1 594	1 628	1 704	1 804
GDP per capita, US\$	8 970	11 168	13 982	11 314	12 210	13 404	12 722	13 199	14 763	16 255
Population, mn	38.1	38.1	38.1	38.2	38.5	38.5	38.5	38.5	38.5	38.5
Unemployment, % of labour force	14.9	11.2	9.5	11.9	12.2	12.5	13.4	13.5	13.4	12.4
<b>Economic Activity</b>										
Real GDP, % yoy	6.2	6.8	5.1	1.7	3.9	4.5	1.9	1.4	3.1	3.6
Real investment growth % yoy	14.9	17.6	9.6	-1.1	9.3	11.2	-3.3	-4.0	7.8	4.5
Real consumption growth % yoy	5.2	4.6	6.1	2.0	3.4	1.6	0.6	1.0	2.1	3.0
Private consumption growth % yoy	5.0	5.0	5.9	2.1	3.2	2.6	0.8	0.9	2.3	3.2
Real export growth, % yoy	14.6	9.1	7.1	-6.8	12.1	7.7	2.8	3.8	6.1	6.5
Real import growth, % yoy	17.3	13.7	8.0	-12.4	13.9	5.5	-1.8	0.7	6.9	7.5
<b>Prices, Money &amp; Credit</b>										
CPI, % yoy	1.4	4.0	3.3	3.5	3.2	4.6	2.4	1.1	2.2	2.9
Nominal wages, % yoy	5.0	9.3	10.3	4.4	3.6	4.9	3.5	2.6	3.7	4.8
Policy interest rate, %, eop	4.00	5.00	5.00	3.50	3.50	4.50	4.25	2.50	3.00	4.00
1 month inter-bank rate, %, eop	3.96	5.37	5.41	3.56	3.46	4.57	4.01	2.62	3.32	4.07
PLN/EUR, avg	3.89	3.78	3.52	4.33	3.99	4.12	4.18	4.23	4.17	4.04

Source: National sources and Citi Economics forecasts

Figure 7. Poland – Real GDP Growth in 4Q99-1Q04 vs. 4Q10-3Q13



Source: GUS

**We still see a small risk of changes in insurance accounting at PKO BP and Getin Noble**

### Limited Bancassurance Risks

The change in Alior's methodology of insurance fee accounting enforced by the regulator has materially affected its profitability this year and due to retrospective implementation also led to lowering historical earnings and equity. Other banks, including Getin Noble, ING BSK and mBank, have also changed their bancassurance accounting method but the impact was much lower. We still see a small risk of changes in insurance accounting at PKO BP, as it books upfront about 50% of insurance commission vs. 0-25% at other banks, as well as further possible changes at Getin Noble. Getin Noble hasn't disclosed a detailed share of up-front booked commission but due to relatively high volume of insurance income even a small change in accounting methodology may have a material impact on its results; however, due to a long history of relatively stable fee income, the bigger potential impact could be on the bank's capital than on current earnings (the change in accounting completed in 2Q13 led to a ZI 50m downward correction of 2012 equity and just a ZI 5m deduction from 1H13 fee income).

The impact of the regulator's planned bancassurance recommendation on banks' cash revenues from insurance distribution should be limited because the banks have started to train employees to be able to sell investment products as individual insurance contracts (if the sale of general insurance contracts is prohibited). In loan-related products, banks may try to substitute insurance fees with increased lending fees, but it is difficult to predict whether clients will be willing to accept such a change in structure of the agreement. As regards the potential requirements to disclose the bank's remuneration, we think the best prepared for new regulation are those banks with existing (mBank) or planned (PKO BP) stakes in insurers because they will be able to book part of the profits at the level of the insurance company.

### Positive on Bank Earnings

We are bullish on Polish banks' earnings over the next three years, expecting that macro and micro tailwinds (stronger economy and the changed asset mix) will materially outweigh regulatory headwinds.

- We expect mortgages to rise c. 10% annually in 2014-15, consumer loan dynamics to accelerate to mid single digit in 2014 and to high single digit in 2015 and corporate loans to start to rise in 4Q14-1Q15 (with normal delay vs. GDP dynamics).
- We assume net fees to be negatively affected by lower interchange fees (which will be cut to 50bp in July 2014 from 120-130bp now) and positively by rising volumes of cashless transactions, increased fees for inactive clients and growing revenues from the sale of investment products.
- Summing up, we expect our universe of seven Polish banks to increase net profit by 11% yoy in 2014 and 16% yoy in 2015 (for details see our sector note [Polish Banks - A Tale Of Two Halves: Long-Term Positives All In The Price For Now](#)).

## Long-Term Positives Look in the Price for Now

### Expensive vs. Own History

On P/BV ratios, Polish banks have never been so expensive except at the top of the boom market in 2006-07

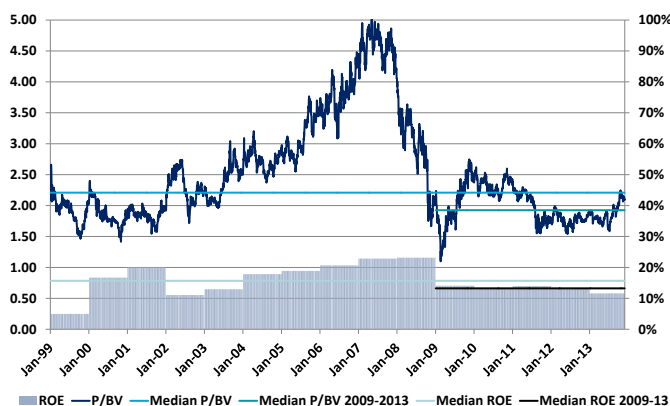
However, our conclusion is that, even if our forecasts of 11% net profit growth in 2014 and 16% in 2014 are too pessimistic, Polish banks still look expensive. They look expensive on our favourable valuation method, i.e. on Weighted Equity Valuation based on return on tangible equity (ROTE) as well on traditional WEV based on return on equity. But Polish banks also look expensive in comparison with their history. On P/BV ratios, Polish banks have never been so expensive except at the top of the boom market in 2006-07. On our estimates, current market valuations imply that banks will reach and maintain forever the record high profitability achieved in 2006-07. We think that assumption is unrealistic. We believe in rising earnings in the next few years, not in perpetuity, hence we are cautious on the sector's valuation.

Figure 8. PKO BP – P/BV vs. ROE, 1999-2013 (Multiple/Percentage)



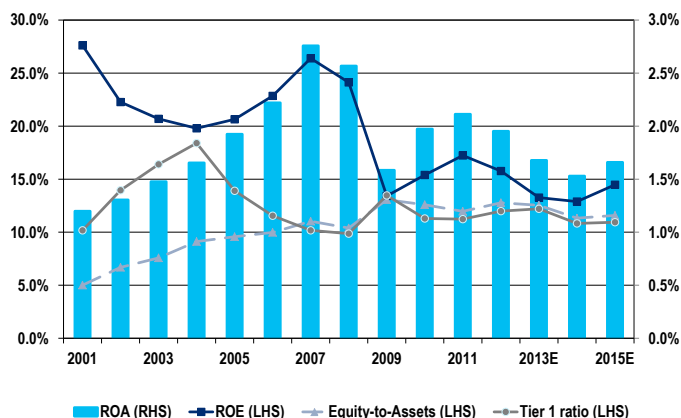
Source: Powered by dataCentral

Figure 10. Pekao – P/BV vs. ROE, 1999-2013 (Multiple/Percentage)



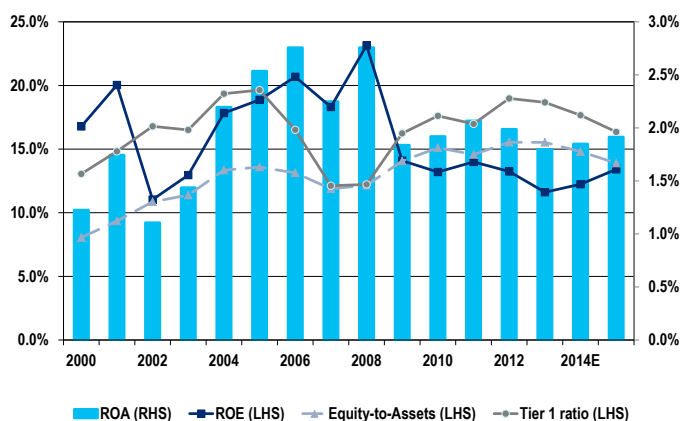
Source: Powered by dataCentral

Figure 9. PKO BP – ROA and Equity Leverage, 2001-2015E (Percentage)



Source: Company Reports, Citi Research Estimates

Figure 11. Pekao – ROA and Equity Leverage, 2001-2015E (Percentage)



Source: Company Reports, Citi Research Estimates

Figure 12. mBank – P/BV vs. ROE, 1999-2013 (Multiple/Percentage)



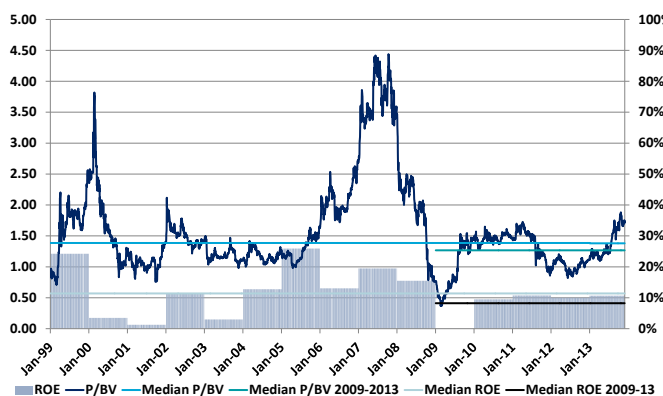
Source: Powered by dataCentral

Figure 14. ING BSK – P/BV vs. ROE, 1999-2013 (Multiple/Percentage)



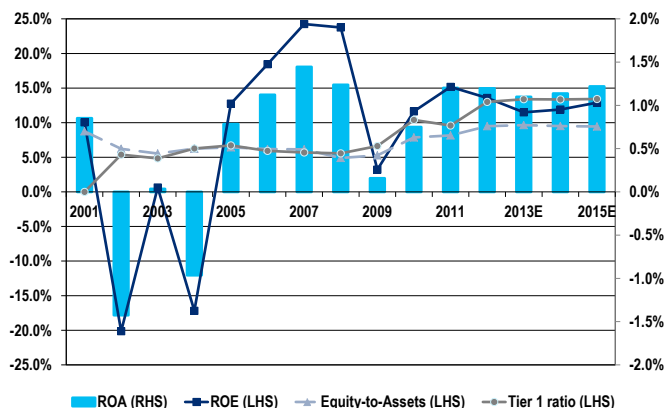
Source: Powered by dataCentral

Figure 16. Millennium -- P/BV vs. ROE, 1999-2013 (Multiple/Percentage)



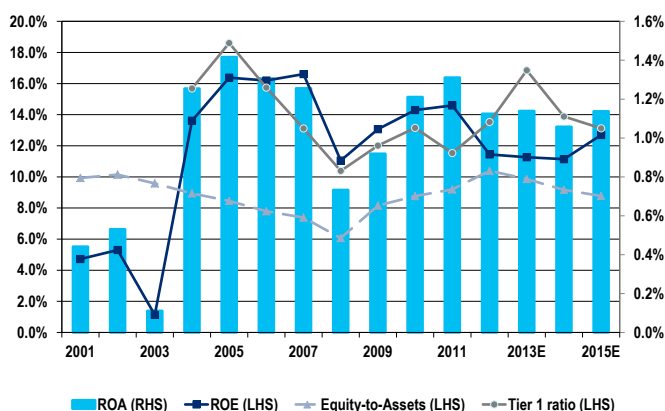
Source: Powered by dataCentral

Figure 13. mBank – ROA and Equity Leverage, 2001-2015E (Percentage)



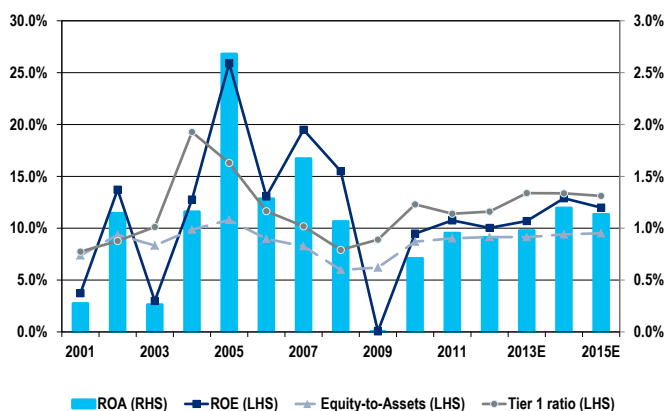
Source: Company Reports, Citi Research Estimates

Figure 15. ING BSK – ROA and Equity Leverage, 2001-2015E (Percentage)



Source: Company Reports, Citi Research Estimates

Figure 17. Millennium – ROA and Equity Leverage, 2001-2015E (Percentage)



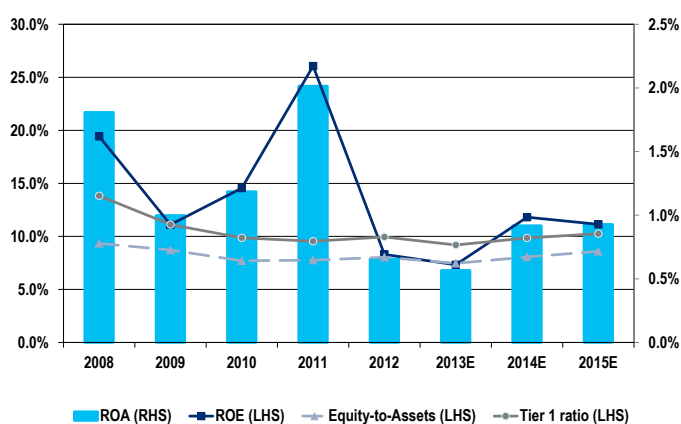
Source: Company Reports, Citi Research Estimates

Figure 18. GNB – P/BV vs. ROE, 1999-2013 (Multiple/Percentage)



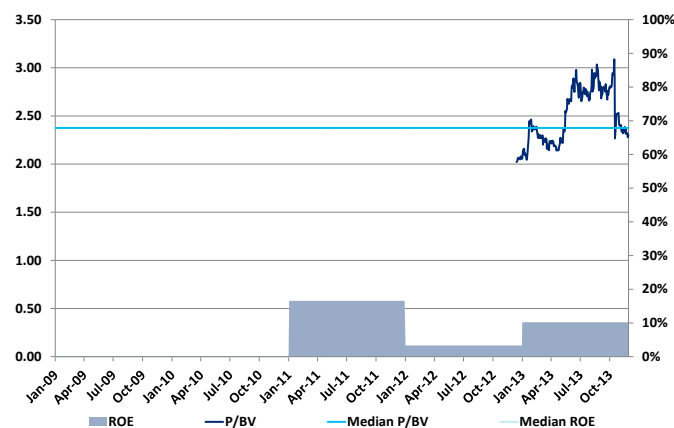
Source: Powered by dataCentral

Figure 19. GNB – ROA and Equity Leverage, 2001-2015E (Percentage)



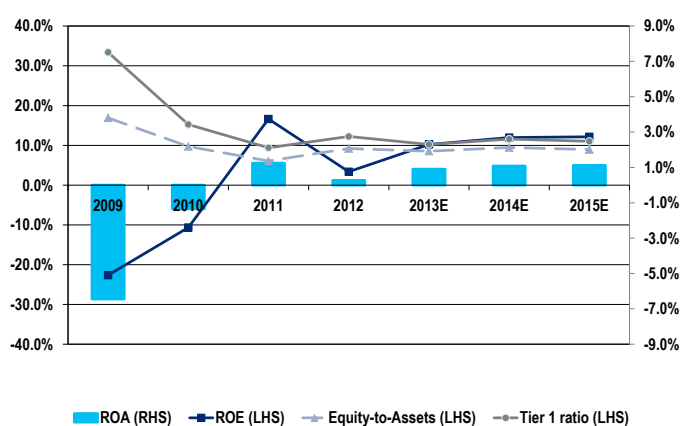
Source: Company Reports, Citi Research Estimates

Figure 20. Alior Bank – P/BV vs. ROE, 1999-2013 (Multiple/Percentage)



Source: Powered by dataCentral

Figure 21. Alior Bank – ROA and Equity Leverage, 2001-2015E (Percentage)



Source: Company Reports, Citi Research Estimates

We note also that currently, due to lower cost-to-income ratios than in 2005-06, Polish banks are much less leveraged to revenue growth than previously.

Figure 22. Polish Banks – Valuation and Key Profitability Ratios, 9M13 vs. 2005

	<u>P/BV</u>		<u>ROE</u>		<u>C/I</u>		<u>Prov./Operating Profit</u>	
	2005	9M13	2005	9M13	2005	9M13	2005	9M13
PKO BP	3.32	2.10	20.7%	12.4%	64.4%	44.4%	7.0%	32.4%
Pekao	3.46	2.20	18.9%	11.9%	53.2%	46.5%	11.5%	16.5%
mBank	2.39	2.26	12.8%	11.6%	68.0%	46.0%	16.3%	24.8%
ING	2.07	1.87	16.4%	11.6%	66.4%	56.9%	-20.0%	18.3%
Millennium	1.86	1.75	25.9%	10.5%	71.0%	55.0%	4.8%	25.6%
GNB		1.53		7.4%		46.2%		62.8%
Alior		2.31		10.0%		57.2%		57.2%

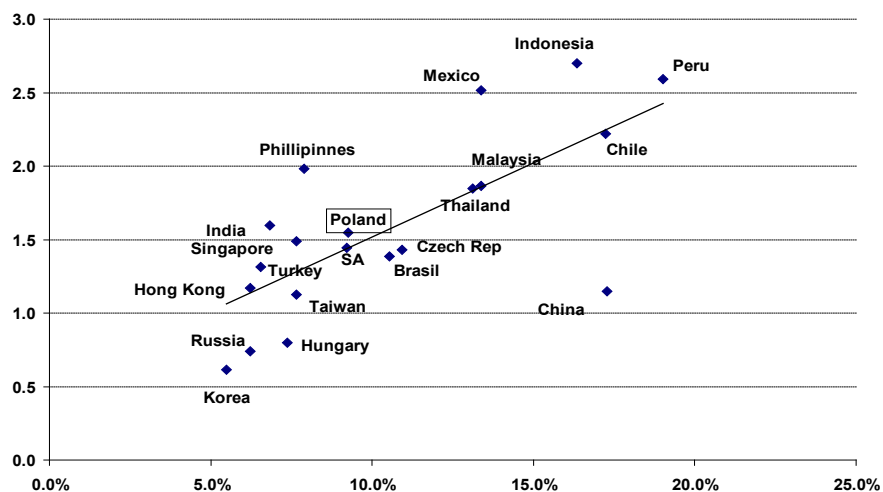
Source: Company reports and Citi Research

In contrast to the beginning of May,  
Polish banks also look expensive vs.  
global peers

## Expensive vs. Global Peers

Polish banks also look expensive vs. global peers. 'They have always been relatively expensive' is the general consensus of opinion on Polish banks. We don't agree. At the beginning of May 2013, we estimate Polish banks' P/BV was broadly at the point implied by the sector's real ROE (i.e. ROE less inflation).

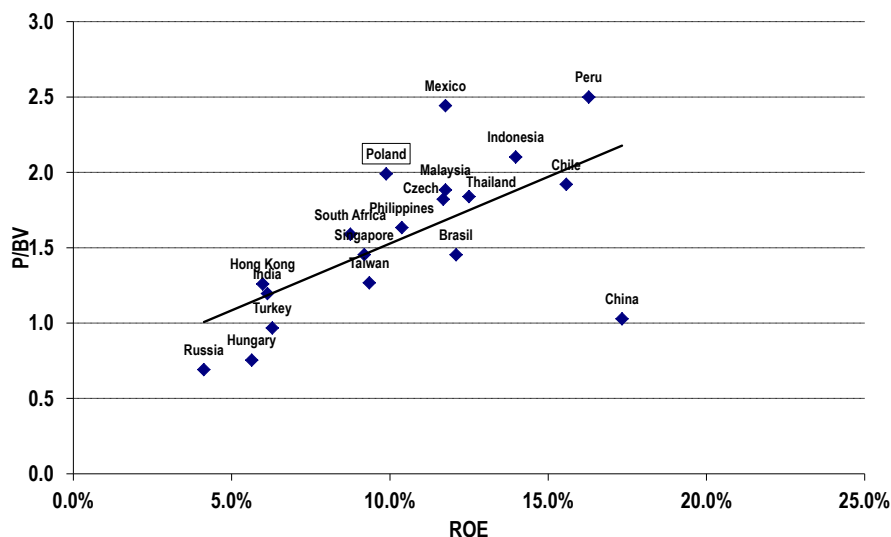
Figure 23. GEM Banks – P/BV and Real ROE\*, 2013E



\* At median, inflation adjusted Prices as of May 7, 2013.

Source: Citi Research estimates

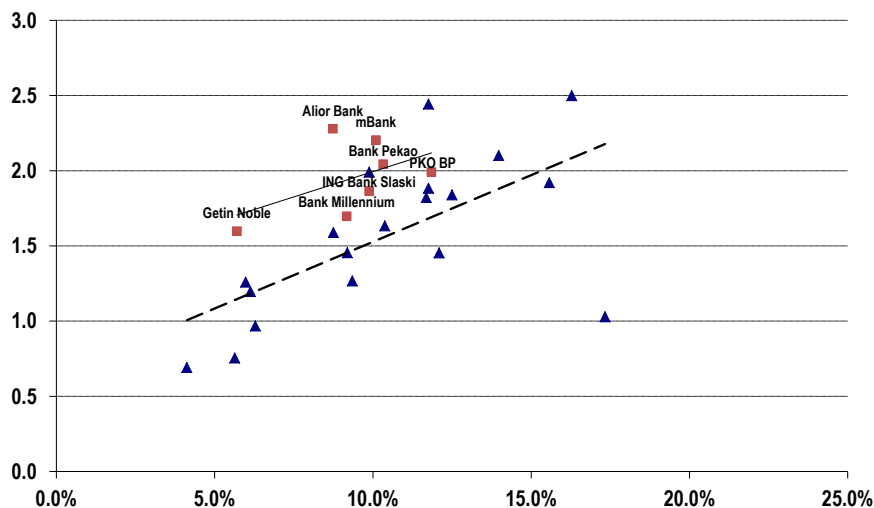
Figure 24. GEM Banks – P/BV and Real ROE\*, 2013E



\* At median, inflation adjusted Prices as of December 3, 2013.

Source: Citi Research Estimates

Figure 25. Polish Financials – P/BV and ROE\*, 2013E

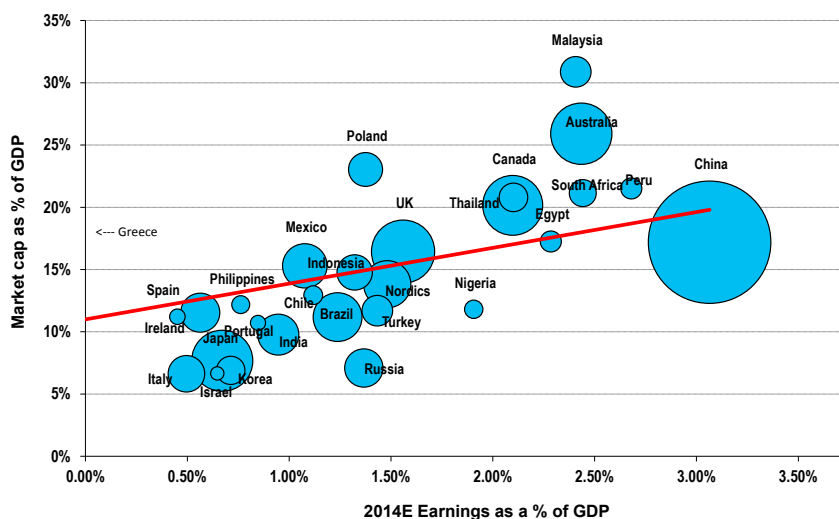


\* At median, inflation adjusted Prices as of December 3, 2013.

Source: Citi Research Estimates

We believe the Polish banking sector is also expensive vs. global peers in terms of sector market cap relative to GDP – at 25% Poland has the third-highest market cap, after Malaysia and Australia, but we note that in these countries banks' earnings constitute a materially higher share of GDP. In other words, the market seems to be pricing-in material improvements in Polish banks' profitability, which seems reasonable, but to reach this growth potential would require Poland to be one of the most profitable markets in the world, in our view. Given continued high competition, we do not see this as likely in the foreseeable future.

Figure 26. Global Banks – Banks' Earnings and Market Cap. Vs. GDP, 2014E (Percentage).



Source: Citi Research Estimates

## Valuation Methodology

We value Polish banks using three methods:

- an Economic Value Added (EVA) valuation;
- a standard Warranted Equity Valuation (WEV),
- and, we now introduce a Warranted Tangible Equity Valuation (being a modification of WEV but based on tangible equity, i.e. equity less intangible assets and goodwill, instead of reported equity).

All three methods are based on the estimated return on capital. In our opinion, such an approach is the appropriate method to value banks because, given the capital requirements set by regulators, the banks' ability to generate a return on capital determines the level of future growth and dividend payout. Out of three methods, we prefer a Warranted Tangible Equity Valuation because in our opinion it better reflects the banks return on capitals as the tangible equity is closer to the regulatory capital than reported capital is and thus we set our target prices at the base of a Warranted Tangible Equity Valuation.

### Standard Warranted Equity Valuation and Warranted Tangible Equity Valuation

Our Standard Warranted Equity Valuation model is based upon the formula:

$$\text{Price / Book value} = (\text{Sustainable RoE} - \text{growth}) / (\text{Cost of equity} - \text{growth})$$

while our Warranted Tangible Equity Valuation uses the formula:

$$\text{Price / Tangible Book value} = (\text{Sustainable RoTE} - \text{growth}) / (\text{Cost of equity} - \text{growth})$$

When valuing Polish banks we assume a sustainable growth rate of 4.5% and sustainable ROE equal to our estimate of 2016 ROE. We assume a cost of equity (COE) in a range of 10-10.5%, depending on the share of FX mortgages in the bank's loans but due to improved macro outlook currently we use an increased cost of risk only in Millennium and Getin Noble Bank, at 10.5%, while for mBank we apply the standard 10% cost of risk.

**Figure 27. Polish Banks -- Share of FX Mortgage Loans in Total Loans (2012) and Assumed Cost of Risk (Percentage)**

	Share of FX Mortgage Loans	Assumed COE
Millennium	47%	10.5%
GNB*	35%	10.5%
mBank	34%	10.0%
PKO BP	15%	10.0%
Pekao *	6%	10.0%
ING BSK	2%	10.0%
Alior	NA	10.0%

\* Citi estimates

Source: Company reports and Citi Research

## Economic Value Added Model

To value Polish banks we apply also an Economic Value Added (EVA) valuation model approach. This model arrives at a valuation by adding discounted EVA flows (adjusted profits minus required capital charges) to adjusted starting book value. A terminal value is calculated using a standard perpetuity formula using forecast EVA flows to 2018 and an assumption of discount rate and a perpetual growth rate. In valuing Polish banks we use discount rates in the range of 10-10.5% (the same as used in WEV) and perpetual growth assumptions of 4.5%.

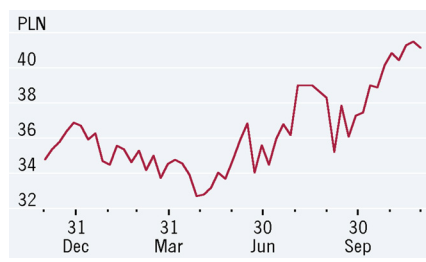
## Company Focus

### ■ Estimate Change

<b>Buy</b>	<b>1</b>
Price (02 Dec 13)	ZL40.40
Target price	ZL47.00
Expected share price return	16.3%
Expected dividend yield	1.3%
<b>Expected total return</b>	<b>17.6%</b>
Market Cap	ZL50,500M
	US\$16,292M

### Price Performance

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



## PKO BP (PKO.WA) Macro Play – Maintaining Buy

- **Macro Play** — We think PKO BP looks reasonably valued vs. its forecast earnings and it also looks relatively cheap vs. its history and local peers. Taking into account valuation and the improvement we expect in earnings (driven by later-than-expected re-pricing of deposits), we maintain our Buy rating and our ZL 47 target price. Given the bank's exposure to the Polish economy, its appetitive for risk and positive (but lower than market thinks, in our view) exposure to higher rates, we think PKO BP is the best play on an improving Polish macro.
- **We Increase 2013E EPS Estimate by 3.6%** — and 2015 EPS estimate by 2.3% due to lower-than-expected administrative costs, positively affected by the BFG decision to set the bank levy at a lower-than-anticipated level.
- **Catalysts:** — 1) Rebounding NIM, 2) Rising rates 3) Successful Nordea acquisition 4) Cheaper bond issuance than in 2012.
- **Main Risks** — 1) Foreign acquisitions (as Citi's banks analyst discussed in several "Boring is Beautiful" reports, the best DM retail/commercial banks are large market share players in a single country). 2) Losing market share due to the client demographic structure.

### PKO BP (PLN)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Net Income (ZLM)	3,807.2	3,748.6	3,329.1	3,480.4	4,311.2
Diluted EPS (ZL)	3.05	3.00	2.66	2.78	3.45
Diluted EPS (Old) (ZL)	3.05	3.00	2.57	2.72	3.44
PE (x)	13.3	13.5	15.2	14.5	11.7
P/BV (x)	2.2	2.0	2.0	1.8	1.6
DPS (ZL)	1.27	1.80	0.53	1.39	1.72
Net Div Yield (%)	3.1	4.5	1.3	3.4	4.3
ROE (%)	17.2	15.8	13.3	12.9	14.5

Figure 28. PKO BP – Key P&L Data, 2008-2016F (Polish Zloty in Million)

GROUP	2008	2009	chg (%)	2010	chg (%)	2011	chg (%)	2012	chg (%)	2013E	chg (%)	2014E	chg (%)	2015E	chg (%)	2016E	chg (%)
Net Interest Income	6 127	5 051	-17.6%	6 516	29.0%	7 609	16.8%	7 883	3.6%	6 552	-16.9%	8 388	28.0%	9 314	11.0%	9 929	6.6%
Net Fee & Commission Income	2 412	2 583	7.1%	3 143	21.7%	3 101	-1.3%	3 071	-1.0%	3 165	3.1%	3 307	4.5%	3 439	4.0%	3 646	6.0%
Financial Income	-166	58	NA	10	-82.0%	-55	NA	174	NA	106	-39.0%	76	-28.4%	90	18.4%	91	1.1%
Other Income	1 015	1 175	15.8%	528	-55.1%	487	-7.8%	442	-9.2%	718	62.6%	257	-64.2%	481	87.3%	481	0.0%
<b>Total Revenue</b>	<b>9 388</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>11 570</b>	<b>3.8%</b>	<b>10 541</b>	<b>-8.9%</b>	<b>12 028</b>	<b>14.1%</b>	<b>13 324</b>	<b>10.8%</b>	<b>14 146</b>	<b>6.2%</b>
Labour Costs	-2 429	-2 308	-5.0%	-2 375	2.9%	-2 404	1.2%	-2 508	4.3%	-2 476	-1.3%	-2 838	14.6%	-2 903	2.3%	-2 949	1.6%
General Costs	-1 437	-1 467	2.1%	-1 362	-7.2%	-1 487	9.2%	-1 569	5.5%	-1 530	-2.5%	-1 948	27.3%	-2 095	7.5%	-2 174	3.7%
Depreciation	-430	-469	9.1%	-512	9.2%	-520	1.5%	-541	4.1%	-595	9.9%	-703	18.2%	-738	5.0%	-775	5.0%
<b>Operating Expenses</b>	<b>-4 296</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>-4 618</b>	<b>4.7%</b>	<b>-4 601</b>	<b>-0.4%</b>	<b>-5 489</b>	<b>19.3%</b>	<b>-5 736</b>	<b>4.5%</b>	<b>-5 898</b>	<b>2.8%</b>
<b>Operating Profit</b>	<b>5 092</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>6 951</b>	<b>3.3%</b>	<b>5 941</b>	<b>-14.5%</b>	<b>6 539</b>	<b>10.1%</b>	<b>7 588</b>	<b>16.0%</b>	<b>8 248</b>	<b>8.7%</b>
Provision Charge	-1 130	-1 681	48.7%	-1 868	11.1%	-1 930	3.3%	-2 325	20.5%	-1 826	-21.5%	-2 104	15.2%	-2 210	5.0%	-2 150	-2.7%
Associate Income	16	0	-97.8%	-1	NA	-20	2311.3%	19	NA	-2	NA	4	NA	5	25.0%	6	20.0%
<b>Profit Before Tax</b>	<b>3 977</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>4 645</b>	<b>-2.8%</b>	<b>4 112</b>	<b>-11.5%</b>	<b>4 439</b>	<b>8.0%</b>	<b>5 383</b>	<b>21.3%</b>	<b>6 104</b>	<b>13.4%</b>
Minorities	-19	-6	-66.3%	4	NA	2	-39.9%	1	-51.9%	1	-44.6%	4	464.6%	5	23.9%	4	-12.3%
Tax	-838	-631	-24.7%	-866	37.2%	-976	12.7%	-898	-8.0%	-784	-12.7%	-963	22.8%	-1 077	11.8%	-1 221	13.4%
Other	0	0	NA	0	NA	0	NA	0	NA	0	NA	0	NA	0	NA	0	NA
<b>Net Profit</b>	<b>3 121</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>3 749</b>	<b>-1.5%</b>	<b>3 329</b>	<b>-11.2%</b>	<b>3 480</b>	<b>4.5%</b>	<b>4 311</b>	<b>23.9%</b>	<b>4 888</b>	<b>13.4%</b>
EPS (Zl)	2.88	2.07	-28.0%	2.57	24.1%	3.05	18.4%	3.00	-1.5%	2.66	-11.2%	2.78	4.5%	3.45	23.9%	3.91	13.4%
DPS (Zl)	0.92	1.90	105.9%	1.98	4.2%	1.27	-35.9%	1.80	41.7%	0.53	-70.4%	1.39	161.4%	1.72	23.9%	1.96	13.4%
Average Diluted Number of Shares (m)	1 084	1 112	2.6%	1 250	12.4%	1 250	0.0%	1 250	0.0%	1 250	0.0%	1 250	0.0%	1 250	0.0%	1 250	0.0%

Source: Company Reports, Citi Research Estimates

Figure 29. PKO BP – Key Balance Sheet Data, 2008-2016E (Polish Zloty in Million)

GROUP	2008	2009	chg (%)	2010	chg (%)	2011	chg (%)	2012	chg (%)	2013E	chg (%)	2014E	chg (%)	2015E	chg (%)	2016E	chg (%)
Cash and NBP Balances	5 837	7 094	21.5%	6 182	-12.9%	9 142	47.9%	10 289	12.5%	10 444	1.5%	9 608	-8.0%	10 569	10.0%	10 728	1.5%
Interbank placements	3 364	2 023	-39.9%	2 307	14.0%	2 396	3.9%	3 392	41.6%	3 460	2.0%	3 530	2.0%	3 600	2.0%	3 672	2.0%
Financial Assets & Securities	18 264	24 557	34.5%	24 200	-1.5%	31 236	29.1%	29 020	-7.1%	30 629	5.5%	36 468	19.1%	37 917	4.0%	40 291	6.3%
Net client lending	101 108	116 573	15.3%	130 668	12.1%	141 634	8.4%	143 876	1.6%	151 541	5.3%	194 096	28.1%	207 683	7.0%	222 221	7.0%
Fixed assets	4 317	4 350	0.8%	4 378	0.6%	4 341	-0.8%	4 585	5.6%	4 858	6.0%	5 616	15.6%	5 924	5.5%	6 191	4.5%
Other assets	1 746	1 881	7.8%	1 924	2.3%	1 998	3.8%	2 318	16.0%	2 472	6.7%	2 370	-4.2%	2 587	9.2%	2 882	11.4%
<b>Total Assets</b>	<b>134 636</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>193 480</b>	<b>1.4%</b>	<b>203 404</b>	<b>5.1%</b>	<b>251 688</b>	<b>23.7%</b>	<b>268 281</b>	<b>6.6%</b>	<b>285 985</b>	<b>6.6%</b>
Interbank borrowing	6 991	5 153	-26.3%	5 237	1.6%	6 243	19.2%	3 737	-40.1%	5 231	40.0%	20 913	299.8%	21 541	3.0%	24 556	14.0%
Client deposits	102 939	125 073	21.5%	132 981	6.3%	146 474	10.1%	146 194	-0.2%	152 366	4.2%	178 393	17.1%	189 096	6.0%	202 333	7.0%
Other liabilities	10 707	5 817	-45.7%	10 082	73.3%	15 210	50.9%	18 841	23.9%	20 316	7.8%	23 873	17.5%	26 569	11.3%	25 292	-4.8%
<b>Minorities</b>	<b>46</b>	<b>7</b>	<b>-84.1%</b>	<b>2</b>	<b>-72.8%</b>	<b>-1</b>	<b>NA</b>	<b>0</b>	<b>-73.8%</b>	<b>2</b>	<b>NA</b>	<b>-1</b>	<b>NA</b>	<b>-6</b>	<b>348.0%</b>	<b>-10</b>	<b>68.1%</b>
<b>Equity (ex Minorities)</b>	<b>13 952</b>	<b>20 429</b>	<b>46.4%</b>	<b>21 358</b>	<b>4.5%</b>	<b>22 823</b>	<b>6.9%</b>	<b>24 708</b>	<b>8.3%</b>	<b>25 490</b>	<b>3.2%</b>	<b>28 510</b>	<b>11.8%</b>	<b>31 081</b>	<b>9.0%</b>	<b>33 813</b>	<b>8.8%</b>
<b>Total liabilities &amp; Equity</b>	<b>134 636</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>193 480</b>	<b>1.4%</b>	<b>203 404</b>	<b>5.1%</b>	<b>251 688</b>	<b>23.7%</b>	<b>268 281</b>	<b>6.6%</b>	<b>285 985</b>	<b>6.6%</b>
<b>Interest Earning Assets</b>	<b>128 662</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>186 578</b>	<b>1.2%</b>	<b>196 074</b>	<b>5.1%</b>	<b>243 702</b>	<b>24.3%</b>	<b>259 769</b>	<b>6.6%</b>	<b>276 911</b>	<b>6.6%</b>
■VPS (Zl)	12.92	16.35	26.6%	17.09	4.5%	18.26	6.8%	19.77	8.3%	20.39	3.2%	22.81	11.8%	24.86	9.0%	27.04	8.8%

Source: Company Reports, Citi Research Estimates

Figure 30. PKO BP – Key Ratios (Percentage)

GROUP	2008	2010	2011	2012	2013E	2014E	2015E	2016E
<b>NIM on AIEA</b>	<b>5.29%</b>	<b>4.16%</b>	<b>4.38%</b>	<b>4.25%</b>	<b>3.42%</b>	<b>3.55%</b>	<b>3.70%</b>	<b>3.70%</b>
NIM on Total Ave. Assets	5.04%	4.00%	4.22%	4.10%	3.30%	3.69%	3.58%	3.58%
Net Fee & Commission Income/Total Income	25.7%	30.8%	27.8%	26.5%	30.0%	27.5%	25.8%	25.8%
Net Fee & Commission Income/Deposits	2.3%	2.4%	2.1%	2.1%	2.1%	1.9%	1.8%	1.8%
<b>Cost/Income</b>	<b>45.8%</b>	<b>41.7%</b>	<b>39.6%</b>	<b>39.9%</b>	<b>43.6%</b>	<b>45.6%</b>	<b>43.1%</b>	<b>41.7%</b>
Cost/Avg. Assets	3.5%	2.6%	2.4%	2.4%	2.3%	2.4%	2.2%	2.1%
Effective tax rate	21.1%	21.2%	20.4%	19.3%	19.1%	21.7%	20.0%	20.0%
Dividend Payout Ratio	32.0%	76.9%	41.7%	60.0%	20.0%	50.0%	50.0%	50.0%
Provisions/Avg Net Loans	1.27%	1.51%	1.42%	1.63%	1.24%	1.12%	1.10%	1.00%
Equity/Assets	10.4%	12.6%	12.0%	12.8%	12.5%	11.3%	11.6%	11.8%
<b>Loans/Deposits</b>	<b>98.2%</b>	<b>98.3%</b>	<b>96.7%</b>	<b>98.4%</b>	<b>99.5%</b>	<b>108.8%</b>	<b>109.8%</b>	<b>109.8%</b>
Loans/Total Assets	75.1%	77.0%	74.3%	74.4%	74.5%	77.1%	77.4%	77.7%
<b>ROE</b>	<b>24.1%</b>	<b>15.4%</b>	<b>17.2%</b>	<b>15.8%</b>	<b>13.3%</b>	<b>12.9%</b>	<b>14.5%</b>	<b>15.1%</b>
ROA	2.57%	1.97%	2.11%	1.95%	1.68%	1.53%	1.66%	1.76%
NPLs/Total Loans	3.67%	8.03%	8.01%	8.93%	9.50%	9.00%	8.00%	8.00%
Provision Coverage of NPLs	76.4%	44.6%	48.0%	50.4%	49.8%	46.3%	52.1%	48.2%
RWA/Total Assets	84.7%	83.3%	77.8%	81.0%	81.0%	83.0%	83.0%	83.0%
Tier I Ratio (%)	9.9%	11.3%	11.2%	12.0%	12.2%	10.8%	10.9%	11.2%
<b>CAR</b>	<b>11.3%</b>	<b>12.5%</b>	<b>12.4%</b>	<b>13.1%</b>	<b>13.2%</b>	<b>12.1%</b>	<b>12.1%</b>	<b>12.3%</b>
Bank Employees	29,064	29,780	28,924	28,556	27 675	29 675	29 275	28 875

Source: Company Reports, Citi Research Estimates

## Company Focus

### ■ Estimate Change

<b>Neutral</b>	<b>2</b>
Price (02 Dec 13)	ZL183.00
Target price	ZL182.00
Expected share price return	-0.5%
Expected dividend yield	5.5%
<b>Expected total return</b>	<b>4.9%</b>
Market Cap	ZL48,032M
	US\$15,496M

### Price Performance

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



## Bank Pekao SA (PEO.WA)

### Fair Probability of M&A Priced-In – Maintaining Neutral

- **Neutral** — We appreciate the bank's increased lending activity but given the regulator's stance on extra dividends, we think the bank's only chance to significantly improve ROE is to undertake a material acquisition. We continue to see a reasonable probability of the bank undertaking M&A and we set our target price as the weighted average of our warranted-equity valuation based on reported and capital-normalised tangible equity (see our note [Rebound in Earnings Fully Priced in – We Are Neutral](#) for more details). We maintain our ZI 182 target price and Neutral rating.
- **We Increase 2013E EPS Estimate by 2.9%** — and 2014E EPS by 1.8% due to lower-than-expected administrative costs, positively affected by the BFG decision to set the bank levy at a lower-than-anticipated level.
- **Main Catalysts** — A bank acquisition at a reasonable price.
- **Main Risks** — Dividend payout materially lower than 100%.

### Bank Pekao SA (PLN)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Net Income (ZLM)	2,899.4	2,955.7	2,709.6	2,905.2	3,223.3
Diluted EPS (ZL)	11.05	11.26	10.32	11.07	12.28
Diluted EPS (Old) (ZL)	11.05	11.26	10.03	10.87	12.24
PE (x)	16.6	16.3	17.7	16.5	14.9
P/BV (x)	2.3	2.1	2.0	2.0	2.0
DPS (ZL)	5.38	8.39	10.00	11.00	12.50
Net Div Yield (%)	2.9	4.6	5.5	6.0	6.8
ROE (%)	14.0	13.2	11.6	12.2	13.4

Figure 31. Pekao – Key P&L Data, 2008-2016E (Polish Zloty in Million)

GROUP	2008	chg	2009	chg	2010	chg	2011	chg	2012	chg	2013E	chg	2014E	chg	2015E	chg	2016E	chg
Net Interest Income	4,509	65.9%	3,802	-15.7%	4,104	7.9%	4,558	11.1%	4,678	2.6%	4 317	-7.7%	4 687	8.6%	5 281	12.7%	5 711	8.2%
Net Fee & Commission Income	2,342	8.3%	2,289	-2.3%	2,368	3.5%	2,449	3.4%	2,231	-8.9%	2 275	2.0%	2 365	4.0%	2 436	3.0%	2 582	6.0%
Financial Income	649	66.5%	827	27.6%	754	-8.8%	589	-21.9%	753	27.8%	738	-1.9%	594	-19.5%	655	10.3%	656	0.2%
Other Income	351	295.8%	242	-31.3%	66	-72.5%	150	125.7%	116	-22.3%	118	0.9%	100	-14.9%	110	10.0%	110	0.0%
<b>Total Revenue</b>	<b>7,851</b>	<b>46.5%</b>	<b>7,160</b>	<b>-8.8%</b>	<b>7,293</b>	<b>1.9%</b>	<b>7,746</b>	<b>6.2%</b>	<b>7,778</b>	<b>0.4%</b>	<b>7 448</b>	<b>-4.2%</b>	<b>7 746</b>	<b>4.0%</b>	<b>8 481</b>	<b>9.5%</b>	<b>9 059</b>	<b>6.8%</b>
Labour Costs	-1,875	34.1%	-1,856	-1.0%	-1,950	5.1%	-1,946	-0.2%	-1,867	-4.0%	-1 885	0.9%	-1 893	0.4%	-1 950	3.0%	-2 008	3.0%
General Costs	-1,513	51.3%	-1,388	-8.2%	-1,314	-5.3%	-1,355	3.1%	-1,315	-3.0%	-1 246	-5.3%	-1 259	1.1%	-1 359	7.9%	-1 417	4.3%
Depreciation	-414	22.2%	-441	6.6%	-392	-11.3%	-377	-3.6%	-362	-4.0%	-341	-5.9%	-343	0.6%	-357	4.0%	-371	4.0%
<b>Operating Expenses</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>-3,545</b>	<b>-3.6%</b>	<b>-3 472</b>	<b>-2.1%</b>	<b>-3 495</b>	<b>0.7%</b>	<b>-3 665</b>	<b>4.9%</b>	<b>-3 796</b>	<b>3.6%</b>
<b>Operating Profit</b>	<b>4,050</b>	<b>54.5%</b>	<b>3,474</b>	<b>-14.2%</b>	<b>3,636</b>	<b>4.7%</b>	<b>4,067</b>	<b>11.8%</b>	<b>4,233</b>	<b>4.1%</b>	<b>3 976</b>	<b>-6.1%</b>	<b>4 252</b>	<b>6.9%</b>	<b>4 816</b>	<b>13.3%</b>	<b>5 263</b>	<b>9.3%</b>
Provision Charge	-263	36.7%	-535	103.3%	-589	10.1%	-544	-7.6%	-651	19.7%	-666	2.3%	-719	8.0%	-897	24.7%	-986	10.0%
Associate Income	123	-19.5%	58	-52.8%	68	17.6%	70	2.5%	53	-24.4%	56	6.4%	69	22.9%	76	10.0%	84	10.0%
<b>Profit Before Tax</b>	<b>3,910</b>	<b>51.4%</b>	<b>2,997</b>	<b>-23.3%</b>	<b>3,116</b>	<b>3.9%</b>	<b>3,593</b>	<b>15.3%</b>	<b>3,635</b>	<b>1.2%</b>	<b>3 367</b>	<b>-7.4%</b>	<b>3 602</b>	<b>7.0%</b>	<b>3 996</b>	<b>10.9%</b>	<b>4 361</b>	<b>9.1%</b>
Tax	-722	64.9%	-576	-20.2%	-571	-0.9%	-684	19.7%	-707	3.3%	-647	-8.4%	-684	5.7%	-759	10.9%	-829	9.1%
<b>Profit After Tax</b>	<b>3,188</b>	<b>48.7%</b>	<b>2,421</b>	<b>-24.1%</b>	<b>2,545</b>	<b>5.1%</b>	<b>2,909</b>	<b>14.3%</b>	<b>2,929</b>	<b>0.7%</b>	<b>2 719</b>	<b>-7.1%</b>	<b>2 917</b>	<b>7.3%</b>	<b>3 236</b>	<b>10.9%</b>	<b>3 532</b>	<b>9.1%</b>
Extraordinary Income	353	na	0	na	0	na	0	na	37	na	17	na	0	na	0	na	0	na
Minorities	-13	85.3%	-10	-25.9%	-5	-46.9%	-10	89.7%	-10	-1.4%	-10	2.5%	-12	22.6%	-13	10.0%	-15	10.0%
<b>Net Profit</b>	<b>3,528</b>	<b>63.7%</b>	<b>2,412</b>	<b>-31.6%</b>	<b>2,539</b>	<b>5.3%</b>	<b>2,899</b>	<b>14.2%</b>	<b>2,956</b>	<b>1.9%</b>	<b>2 727</b>	<b>-7.7%</b>	<b>2 905</b>	<b>6.5%</b>	<b>3 223</b>	<b>10.9%</b>	<b>3 518</b>	<b>9.1%</b>
<b>Net Profit After Adjustments</b>	<b>3,175</b>	<b>48.6%</b>	<b>2,412</b>	<b>-24.0%</b>	<b>2,540</b>	<b>5.3%</b>	<b>2,899</b>	<b>14.2%</b>	<b>2,956</b>	<b>1.9%</b>	<b>2 710</b>	<b>-8.3%</b>	<b>2 905</b>	<b>7.2%</b>	<b>3 223</b>	<b>10.9%</b>	<b>3 518</b>	<b>9.1%</b>
<b>EPS (Zl)</b>	<b>13.5</b>	<b>9.2%</b>	<b>9.2</b>	<b>-31.7%</b>	<b>9.7</b>	<b>5.2%</b>	<b>11.0</b>	<b>14.1%</b>	<b>11.3</b>	<b>1.9%</b>	<b>10.3</b>	<b>-7.7%</b>	<b>11.1</b>	<b>6.5%</b>	<b>12.3</b>	<b>10.9%</b>	<b>13.4</b>	<b>9.1%</b>
<b>DPS (Zl)</b>	<b>0.0</b>	<b>na</b>	<b>2.9</b>	<b>na</b>	<b>6.8</b>	<b>134.5%</b>	<b>5.4</b>	<b>-20.9%</b>	<b>8.4</b>	<b>55.9%</b>	<b>10.0</b>	<b>19.2%</b>	<b>11.0</b>	<b>10.0%</b>	<b>12.5</b>	<b>13.6%</b>	<b>13.5</b>	<b>8.0%</b>
Average Diluted Number of Shares (m)	262	49.9%	262	0.1%	262	0.0%	262	0.0%	262	0.0%	262	0.0%	262	0.0%	262	0.0%	262	0.0%

Source: Company Reports, Citi Research Estimates

Figure 32. Pekao – Key Balance Sheet Data, 2008-2016E (Polish Zloty in Million)

GROUP	2008	chg	2009	chg	2010	chg	2011E	chg	2012	chg	2013E	chg	2014E	chg	2015E	chg	2016E	chg
Cash and NBP Balances	9,934	93.9%	9,620	-3.2%	5,969	-38.0%	4,886	-18.1%	9,207	88.4%	9 668	5.0%	10 151	5.0%	10 659	5.0%	11 192	5.0%
Interbank placements	7,909	-53.4%	7,203	-8.9%	6,259	-13.1%	5,586	-10.7%	4,054	-27.4%	4 257	5.0%	4 469	5.0%	4 693	5.0%	4 927	5.0%
Financial Assets & Securities	27,185	2.5%	29,917	10.1%	33,197	11.0%	32,535	-2.0%	32,353	-0.6%	30 682	-5.2%	31 770	3.5%	32 895	3.5%	34 057	3.5%
Net client lending	79,078	18.6%	76,380	-3.4%	77,804	1.9%	92,816	19.3%	95,081	2.4%	99 597	4.7%	106 750	7.2%	117 425	10.0%	129 167	10.0%
Fixed assets	1,906	-5.7%	1,822	-4.4%	1,822	0.0%	1,773	-2.7%	1,671	-5.8%	1 737	4.0%	1 807	4.0%	1 879	4.0%	1 954	4.0%
Other assets	5,929	-12.9%	5,673	-4.3%	9,040	59.3%	8,994	-0.5%	8,584	-4.6%	6 529	-23.9%	6 936	6.2%	7 481	7.8%	8 072	7.9%
<b>Total Assets</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>150,950</b>	<b>3.0%</b>	<b>152 469</b>	<b>1.0%</b>	<b>161 884</b>	<b>6.2%</b>	<b>175 031</b>	<b>8.1%</b>	<b>189 369</b>	<b>8.2%</b>
Interbank borrowing	14,993	50.8%	8,479	-43.4%	7,641	-9.9%	5,901	-22.8%	7,783	31.9%	7 705	-1.0%	10 016	30.0%	10 717	7.0%	11 468	7.0%
Client deposits	90,889	1.1%	97,250	7.0%	99,807	2.6%	108,437	8.6%	107,993	-0.4%	111 643	3.4%	116 176	4.1%	126 632	9.0%	138 029	9.0%
Other liabilities	10,022	5.9%	6,516	-35.0%	6,385	-2.0%	10,896	70.7%	11,716	7.5%	9 440	-19.4%	11 717	24.1%	13 358	14.0%	15 298	14.5%
<b>Minorities</b>	<b>89</b>	<b>10.7%</b>	<b>83</b>	<b>-6.8%</b>	<b>83</b>	<b>-0.2%</b>	<b>85</b>	<b>3.1%</b>	<b>92</b>	<b>7.9%</b>	<b>94</b>	<b>1.8%</b>	<b>106</b>	<b>12.8%</b>	<b>119</b>	<b>12.5%</b>	<b>134</b>	<b>12.2%</b>
<b>Equity (ex Minorities)</b>	<b>15,947</b>	<b>8.7%</b>	<b>18,288</b>	<b>14.7%</b>	<b>20,174</b>	<b>10.3%</b>	<b>21,271</b>	<b>5.4%</b>	<b>23,367</b>	<b>9.8%</b>	<b>23 588</b>	<b>0.9%</b>	<b>23 868</b>	<b>1.2%</b>	<b>24 204</b>	<b>1.4%</b>	<b>24 441</b>	<b>1.0%</b>
<b>Total liabilities &amp; Equity</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>150,950</b>	<b>3.0%</b>	<b>152 469</b>	<b>1.0%</b>	<b>161 884</b>	<b>6.2%</b>	<b>175 031</b>	<b>8.1%</b>	<b>189 369</b>	<b>8.2%</b>
<b>Interest Earning Assets</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>138,686</b>	<b>9.8%</b>	<b>143,414</b>	<b>3.4%</b>	<b>147 057</b>	<b>2.5%</b>	<b>156 137</b>	<b>6.2%</b>	<b>168 817</b>	<b>8.1%</b>	<b>182 646</b>	<b>8.2%</b>
<b>ROPS (Zl)</b>	<b>61</b>	<b>8.6%</b>	<b>70</b>	<b>14.7%</b>	<b>77</b>	<b>10.2%</b>	<b>81</b>	<b>5.4%</b>	<b>89</b>	<b>9.8%</b>	<b>90</b>	<b>0.9%</b>	<b>91</b>	<b>1.2%</b>	<b>92</b>	<b>1.4%</b>	<b>93</b>	<b>1.0%</b>

Source: Company Reports, Citi Research Estimates

Figure 33. Pekao – Key Ratios, 2008-2016E (Percentage)

GROUP	2008	2009	2010	2011E	2012	2013E	2014E	2015E	2016E
<b>NIM on AIEA</b>	<b>3.67%</b>	<b>3.00%</b>	<b>3.25%</b>	<b>3.44%</b>	<b>3.32%</b>	<b>2.97%</b>	<b>3.09%</b>	<b>3.25%</b>	<b>3.25%</b>
NIM on Total Ave. Assets	3.52%	2.90%	3.10%	3.25%	3.14%	2.85%	2.98%	3.13%	3.13%
Net Fee & Commission Income/Total Income	29.8%	32.0%	32.5%	31.6%	28.7%	30.5%	30.5%	28.7%	28.5%
Net Fee & Commission Income/Deposits	2.6%	2.4%	2.4%	2.3%	2.1%	2.0%	2.0%	1.9%	1.9%
<b>Cost/Income</b>	<b>48.4%</b>	<b>51.5%</b>	<b>50.1%</b>	<b>47.5%</b>	<b>45.6%</b>	<b>46.6%</b>	<b>45.1%</b>	<b>43.2%</b>	<b>41.9%</b>
Cost/Avg. Assets	2.97%	2.81%	2.76%	2.62%	2.38%	2.29%	2.22%	2.18%	2.08%
Effective tax rate	18.5%	19.2%	18.3%	19.0%	19.4%	19.2%	19.0%	19.0%	19.0%
Dividend Payout Ratio	0.0%	31.5%	70.3%	48.7%	74.5%	96.2%	99.4%	101.8%	100.7%
Provisions/Avg Net Loans	0.36%	0.69%	0.76%	0.64%	0.69%	0.68%	0.70%	0.80%	0.80%
Equity/Assets	12.2%	14.1%	15.1%	14.6%	15.5%	15.5%	14.8%	13.9%	13.0%
<b>Loans/Deposits</b>	<b>87.0%</b>	<b>78.5%</b>	<b>78.0%</b>	<b>85.6%</b>	<b>88.0%</b>	<b>89.2%</b>	<b>91.9%</b>	<b>92.7%</b>	<b>93.6%</b>
Loans/Total Assets	59.9%	58.5%	58.0%	63.3%	63.0%	65.3%	65.9%	67.1%	68.2%
<b>ROE</b>	<b>23.0%</b>	<b>14.1%</b>	<b>13.2%</b>	<b>14.0%</b>	<b>13.2%</b>	<b>11.6%</b>	<b>12.2%</b>	<b>13.4%</b>	<b>14.5%</b>
ROA	2.76%	1.84%	1.92%	2.07%	1.99%	1.80%	1.85%	1.91%	1.93%
NPLs/Total Loans	5.5%	6.8%	6.7%	6.3%	7.3%	7.5%	7.2%	6.5%	6.0%
Provision Coverage of NPLs	87.2%	76.8%	74.1%	73.2%	65.1%	63.9%	65.3%	69.9%	72.8%
Tier 1 Ratio (%)	12.2%	16.2%	17.6%	17.0%	19.0%	18.7%	17.7%	16.4%	15.1%
Group Employees	21,992	20,874	20,783	20,357	19,816	18,732	18,732	18,732	18,732

Source: Company Reports, Citi Research Estimates

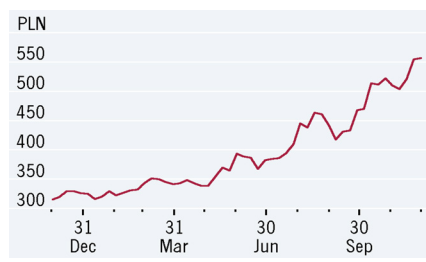
## Company Focus

### ■ Estimate Change

<b>Sell</b>	<b>3</b>
Price (02 Dec 13)	ZL540.00
Target price	ZL466.00
Expected share price return	-13.7%
Expected dividend yield	2.5%
<b>Expected total return</b>	<b>-11.2%</b>
Market Cap	ZL22,774M
	US\$7,347M

### Price Performance

(RIC: MBK.WA, BB: MBK PW)



## mBank SA (MBK.WA)

### “mBank” for “Mortgage Bank” or “Most Expensive Bank”? – Maintaining Sell

- **Sell** — While we continue to appreciate the bank's strategy (although we see risks of rebranding the entire bank as mBank), we continue to rate the stock Sell as we believe the stock is too expensive, and we maintain our ZI 466 target price.
- **We Increase Our 2013E EPS Estimates by 4.0%** — and 2014E EPS by 2.4% due to lower-than-expected administrative costs, positively affected by the BFG decision to set the bank levy at a lower-than-anticipated level.
- **Catalysts** — 1) Successful implementation of its business model to fund retail mortgages through mortgage-backed securities, which is a first in the Polish market. 2) Higher-than-expected dividend, potentially making mBank a dividend stock.
- **Main Risks** — 1) High lending, including mortgages, to private entrepreneurs (although the bank says that the asset quality of the products is materially better than in the past, we note that industry feedback suggests these loans have a higher risk profile than loans to individuals 2) Challenges related to migration of Multibank and BRE Bank clients to mBank brand (and Multibank's clients to mBank's internet platform); 3) Continued changes in funding mix, aimed at reducing dependence on funding from the parent.

### mBank SA (PLN)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Net Income (ZLM)	1,135.0	1,203.2	1,153.7	1,276.4	1,482.4
Diluted EPS (ZL)	26.97	28.57	27.38	30.29	35.18
Diluted EPS (Old) (ZL)	26.97	28.57	26.32	29.58	35.08
PE (x)	20.0	18.9	19.7	17.8	15.3
P/BV (x)	2.8	2.3	2.2	2.1	1.9
DPS (ZL)	0.00	10.00	13.69	15.14	17.59
Net Div Yield (%)	0.0	1.9	2.5	2.8	3.3
ROE (%)	15.2	13.6	11.5	11.9	12.9

Figure 34. mBank – Key P&L Data, 2008-2016E (Polish Zloty in Million)

GROUP	2008	chg	2009	chg	2010	chg	2011	chg	2012	chg	2013E	chg	2014E	chg	2015E	chg	2016E	chg
Net Interest Income	1,392	35.5%	1,658	19.1%	1,811	9.2%	2,149	18.6%	2,234	4.0%	2 164	-3.1%	2 454	13.4%	2 732	11.3%	3 026	10.8%
Net Fee & Commission Income	552	-2.3%	595	7.8%	746	25.4%	840	12.6%	840	0.0%	859	2.2%	905	5.4%	968	7.0%	1 065	10.0%
Financial Income	-35	na	-9	-73.3%	86	na	42	-50.9%	78	83.9%	118	51.8%	60	-49.0%	100	66.7%	100	0.0%
Other Income	640	15.4%	608	-5.0%	482	-20.7%	533	10.6%	427	-19.8%	472	10.5%	488	3.3%	511	4.8%	536	4.9%
<b>Total Revenue</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>3,564</b>	<b>14.0%</b>	<b>3,578</b>	<b>0.4%</b>	<b>3 613</b>	<b>1.0%</b>	<b>3 907</b>	<b>8.1%</b>	<b>4 312</b>	<b>10.4%</b>	<b>4 728</b>	<b>9.6%</b>
Labour Costs	-739	17.6%	-645	-12.8%	-744	15.5%	-810	8.8%	-808	-0.2%	-798	-1.3%	-806	1.0%	-830	3.0%	-855	3.0%
General Costs	-607	27.9%	-641	5.5%	-636	-0.7%	-661	4.0%	-657	-0.6%	-691	5.1%	-719	4.1%	-772	7.4%	-799	3.4%
Depreciation	-203	15.4%	-259	27.5%	-237	-8.7%	-251	6.1%	-196	-22.2%	-182	-7.0%	-191	5.2%	-201	5.0%	-211	5.0%
<b>Operating Expenses</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>-1,661</b>	<b>-3.6%</b>	<b>-1 671</b>	<b>0.6%</b>	<b>-1 717</b>	<b>2.7%</b>	<b>-1 804</b>	<b>5.1%</b>	<b>-1 865</b>	<b>3.4%</b>
<b>Operating Profit</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>1,841</b>	<b>22.1%</b>	<b>1,917</b>	<b>4.1%</b>	<b>1 941</b>	<b>1.3%</b>	<b>2 190</b>	<b>12.8%</b>	<b>2 508</b>	<b>14.5%</b>	<b>2 863</b>	<b>14.1%</b>
Provision Charge	-269	250.4%	-1,097	307.6%	-635	-42.1%	-373	-41.2%	-445	19.1%	-501	12.6%	-589	17.7%	-649	10.1%	-714	10.0%
Associate Income	0	na	0	na	0	na	0	na	0	na	0	na	0	na	0	na	0	na
<b>Profit Before Tax</b>	<b>730</b>	<b>-13.7%</b>	<b>209</b>	<b>-71.3%</b>	<b>873</b>	<b>316.7%</b>	<b>1,467</b>	<b>68.1%</b>	<b>1,472</b>	<b>0.3%</b>	<b>1 441</b>	<b>-2.1%</b>	<b>1 600</b>	<b>11.1%</b>	<b>1 859</b>	<b>16.1%</b>	<b>2 149</b>	<b>15.6%</b>
Minorities	-32	-15.0%	-2	-95.0%	-19	1107.7%	-9	-50.9%	-1	-93.9%	-3	420.7%	-4	32.2%	-5	16.1%	-5	15.6%
Tax	-108	-41.3%	-79	-27.3%	-212	168.4%	-323	52.5%	-268	-16.9%	-284	5.8%	-320	12.8%	-372	16.1%	-430	15.6%
Discontinued operations (after tax)	268	209.7%	0	na	0	na	0	na	0	na	0	na	0	na	0	na	0	na
<b>Net Profit</b>	<b>858</b>	<b>20.8%</b>	<b>129</b>	<b>-85.0%</b>	<b>642</b>	<b>397.6%</b>	<b>1,135</b>	<b>76.9%</b>	<b>1,203</b>	<b>6.0%</b>	<b>1 154</b>	<b>-4.1%</b>	<b>1 276</b>	<b>10.6%</b>	<b>1 482</b>	<b>16.1%</b>	<b>1 714</b>	<b>15.6%</b>
EPS (Zl)	25.5	20.4%	3.8	-85.0%	16.9	342.1%	27.0	59.1%	28.6	5.9%	27.4	-4.2%	30.3	10.6%	35.2	16.1%	40.7	15.6%
DPS (Zl)	0.0	na	0.0	na	0.0	na	0.0	na	10.0	na	13.7	36.9%	15.1	10.6%	17.6	16.1%	20.3	15.6%
Average Diluted Number of Shares (m)	33.6	0.3%	33.6	0.1%	37.9	12.6%	42.1	11.2%	42.1	0.1%	42.1	0.0%	42.1	0.0%	42.1	0.0%	42.1	0.0%

Source: Company Reports, Citi Research Estimates

Figure 35. mBank – Key Balance Sheet Data, 2008-2016E (Polish Zloty in Million)

GROUP	2008	chg	2009	chg	2010	chg	2011	chg	2012E	chg	2013E	chg	2014E	chg	2015E	chg	2016E	chg
Cash and NBP Balances	2,522	24.4%	3,796	50.5%	2,364	-37.7%	1,038	-56.1%	4,819	364.1%	3 855	-20.0%	4 125	7.0%	4 414	7.0%	4 723	7.0%
Interbank placements	6,104	192.1%	2,531	-58.5%	2,511	-0.8%	4,009	59.7%	3,945	-1.6%	3 550	-10.0%	3 195	-10.0%	2 876	-10.0%	2 588	-10.0%
Financial Assets & Securities	15,760	30.7%	16,120	2.3%	21,555	33.7%	19,195	-10.9%	23,947	24.8%	27 195	13.6%	29 398	8.1%	31 264	6.3%	33 170	6.1%
Net client lending	52,142	54.8%	52,469	0.6%	59,370	13.2%	67,852	14.3%	67,059	-1.2%	70 698	5.4%	77 276	9.3%	85 004	10.0%	93 504	10.0%
Fixed assets	814	21.5%	786	-3.4%	778	-1.1%	832	7.1%	774	-7.0%	851	10.0%	936	10.0%	1 030	10.0%	1 133	10.0%
Other assets	5,262	-3.5%	5,323	1.1%	3,474	-34.7%	5,949	71.2%	1,692	-71.6%	1 676	-1.0%	1 799	7.4%	1 935	7.6%	2 083	7.6%
<b>Total Assets</b>	<b>82,606</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>102,236</b>	<b>3.4%</b>	<b>107 825</b>	<b>5.5%</b>	<b>116 730</b>	<b>8.3%</b>	<b>126 523</b>	<b>8.4%</b>	<b>137 201</b>	<b>8.4%</b>
Interbank borrowing	28,791	134.3%	27,024	-6.1%	28,727	6.3%	27,391	-4.7%	21,111	-22.9%	18 578	-12.0%	15 791	-15.0%	13 738	-13.0%	11 265	-18.0%
Client deposits	37,750	16.5%	42,791	13.4%	47,420	10.8%	54,244	14.4%	57,984	6.9%	61 287	5.7%	67 639	10.4%	74 403	10.0%	81 844	10.0%
Other liabilities	12,016	53.0%	6,938	-42.3%	6,827	-1.6%	9,168	34.3%	13,432	46.5%	17 559	30.7%	22 194	26.4%	26 427	19.1%	31 160	17.9%
<b>Minorities</b>	<b>154</b>	<b>31.5%</b>	<b>151</b>	<b>-1.7%</b>	<b>168</b>	<b>11.3%</b>	<b>24</b>	<b>-85.8%</b>	<b>24</b>	<b>2.4%</b>	<b>28</b>	<b>12.4%</b>	<b>32</b>	<b>14.5%</b>	<b>36</b>	<b>14.7%</b>	<b>42</b>	<b>14.8%</b>
<b>Equity (ex Minorities)</b>	<b>3,894</b>	<b>17.1%</b>	<b>4,120</b>	<b>5.8%</b>	<b>6,909</b>	<b>67.7%</b>	<b>8,049</b>	<b>16.5%</b>	<b>9,685</b>	<b>20.3%</b>	<b>10 375</b>	<b>7.1%</b>	<b>11 074</b>	<b>6.7%</b>	<b>11 919</b>	<b>7.6%</b>	<b>12 891</b>	<b>8.2%</b>
<b>Total liabilities &amp; Equity</b>	<b>82,606</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>102,236</b>	<b>3.4%</b>	<b>107 825</b>	<b>5.5%</b>	<b>116 730</b>	<b>8.3%</b>	<b>126 523</b>	<b>8.4%</b>	<b>137 201</b>	<b>8.4%</b>
<b>Interest Earning Assets</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>99,770</b>	<b>3.5%</b>	<b>105 298</b>	<b>5.5%</b>	<b>113 994</b>	<b>8.3%</b>	<b>123 558</b>	<b>8.4%</b>	<b>133 986</b>	<b>8.4%</b>

Source: Company Reports, Citi Research Estimates

Figure 36. mBank – Key ratios, 2008-2016E (Polish Zloty in Million)

GROUP	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E
<b>NIM on AIEA</b>	<b>2.09%</b>	<b>2.09%</b>	<b>2.18%</b>	<b>2.33%</b>	<b>2.28%</b>	<b>2.11%</b>	<b>2.24%</b>	<b>2.30%</b>	<b>2.35%</b>
NIM on Total Ave. Assets	2.01%	2.03%	2.12%	2.27%	2.22%	2.06%	2.19%	2.25%	2.29%
Net Fee & Commission Income/Total Income	21.6%	20.9%	23.9%	23.6%	23.5%	23.8%	23.2%	22.5%	22.5%
Net Fee & Commission Income/Deposits	1.5%	1.4%	1.6%	1.5%	1.4%	1.4%	1.3%	1.3%	1.3%
<b>Cost/Income</b>	<b>60.8%</b>	<b>54.2%</b>	<b>51.8%</b>	<b>48.3%</b>	<b>46.4%</b>	<b>46.3%</b>	<b>43.9%</b>	<b>41.8%</b>	<b>39.4%</b>
Cost/Avg. Assets	2.2%	1.9%	1.9%	1.8%	1.7%	1.6%	1.5%	1.5%	1.4%
Effective tax rate	14.9%	37.7%	24.3%	22.0%	18.2%	19.7%	20.0%	20.0%	20.0%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	35.0%	50.0%	50.0%	50.0%	50.0%
Provisions/Avg Net Loans	0.63%	2.10%	1.14%	0.59%	0.66%	0.73%	0.80%	0.80%	0.80%
Equity/Assets	4.9%	5.3%	7.9%	8.2%	9.5%	9.6%	9.5%	9.4%	9.4%
<b>Loans/Deposits</b>	<b>138.1%</b>	<b>122.6%</b>	<b>125.2%</b>	<b>125.1%</b>	<b>115.7%</b>	<b>115.4%</b>	<b>114.2%</b>	<b>114.2%</b>	<b>114.2%</b>
Loans/Total Assets	63.1%	64.8%	65.9%	68.6%	65.6%	65.6%	66.2%	67.2%	68.2%
<b>ROE</b>	<b>23.8%</b>	<b>3.2%</b>	<b>11.6%</b>	<b>15.2%</b>	<b>13.6%</b>	<b>11.5%</b>	<b>11.9%</b>	<b>12.9%</b>	<b>13.9%</b>
ROA	1.24%	0.16%	0.75%	1.20%	1.20%	1.10%	1.14%	1.22%	1.30%
NPLs/Total Loans	2.2%	4.7%	5.3%	4.7%	5.2%	5.5%	5.3%	5.0%	4.5%
Provision Coverage of NPLs	73.5%	76.7%	74.6%	72.7%	69.6%	67.0%	69.0%	73.1%	77.9%
RWA/Total Assets	71.3%	67.2%	62.6%	66.8%	60.4%	60.4%	60.4%	60.4%	60.4%
Tier I Ratio (%)	5.6%	6.6%	10.4%	9.6%	13.0%	13.4%	13.4%	13.4%	13.6%
<b>CAR</b>	<b>10.0%</b>	<b>11.5%</b>	<b>15.9%</b>	<b>15.0%</b>	<b>18.7%</b>	<b>17.7%</b>	<b>16.4%</b>	<b>15.3%</b>	<b>14.9%</b>
Group Employees	6,133	5,566	6,018	6,294	6,138	6,022	5,962	5,962	5,962

Source: Company Reports, Citi Research Estimates

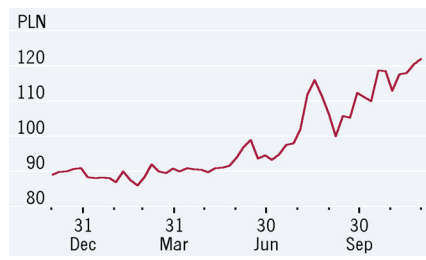
## Company Focus

### ■ Estimate Change

<b>Neutral</b>	<b>2</b>
Price (02 Dec 13)	ZL121.00
Target price	ZL116.00
Expected share price return	-4.1%
Expected dividend yield	4.5%
<b>Expected total return</b>	<b>0.3%</b>
Market Cap	ZL15,742M
	US\$5,079M

### Price Performance

(RIC: INGP.WA, BB: ING PW)



## ING Bank Slaski SA (INGP.WA) Lending and Stock Price Following BRE: Neutral

- **Neutral** — We like the bank's strategy to base the business's growth on the healthy deposit base and step-by-step enter the next segment of retail lending (mortgages in 2007-09, consumer loans in 2013), but we think that the bank's growth prospects are fully reflected in its market valuation and we maintain our Neutral rating and ZL 116 target price.
- **We Increase 2013E EPS Estimate by 3.9%** — and 2014E EPS by 2.7% due to lower-than-expected administrative costs, positively affected by the BFG decision to set the bank levy at a lower-than-anticipated level.
- **Next Catalysts** — Further growth in consumer lending.
- **Risks** — 1) Lower-than-expected dividend payout (we assume 75%); 2) default of any big corporate clients (due to the bank's low-margin business model being significantly affected quarterly profitability).
- **We Prefer ING BSK to mBank** — Due to what we see as a lower valuation, higher upside risk in consumer loans (due to lower base) and lack of FX-mortgage-related risks, we prefer ING BSK to Sell-rated mBank among tier 2 banks.

### ING Bank Slaski SA (PLN)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Net Income (ZLM)	880.1	832.3	935.5	957.8	1,132.9
Diluted EPS (ZL)	6.76	6.40	7.19	7.36	8.71
Diluted EPS (Old) (ZL)	6.76	6.40	6.92	7.17	8.66
PE (x)	17.9	18.9	16.8	16.4	13.9
P/BV (x)	2.5	1.9	1.9	1.8	1.7
DPS (ZL)	0.00	0.00	5.39	5.52	6.53
Net Div Yield (%)	0.0	0.0	4.5	4.6	5.4
ROE (%)	14.6	11.4	11.3	11.1	12.7

Figure 37. ING BSK – Key P&L Data, 2008-2016E (Polish Zloty in Million)

GROUP	2008	2009	chg	2010	chg	2011	chg	2012	chg	2013E	chg	2014E	chg	2015E	chg	2016E	chg
Net Interest Income	1,152	1,442	25.2%	1,628	12.9%	1,852	13.8%	2,049	10.7%	2 051	0.1%	2 425	18.2%	2 782	14.7%	3 100	11.4%
Net Fee & Commission Income	890	900	1.1%	987	9.7%	1,021	3.4%	1,004	-1.7%	970	-3.4%	995	2.6%	1 015	2.0%	1 035	2.0%
Financial Income	19	147	683.0%	80	-45.6%	56	-29.4%	110	95.7%	216	96.4%	80	-63.0%	85	6.3%	87	2.4%
Other Income	27	-10	na	-3	-68.6%	18	na	11	-38.1%	20	84.4%	20	-0.5%	20	0.0%	22	10.0%
<b>Total Revenue</b>	<b>2,087</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>3,161</b>	<b>8.5%</b>	<b>3 246</b>	<b>2.7%</b>	<b>3 496</b>	<b>7.7%</b>	<b>3 897</b>	<b>11.5%</b>	<b>4 241</b>	<b>8.8%</b>
Labour Costs	-783	-717	-8.4%	-822	14.6%	-844	2.7%	-901	6.8%	-925	2.7%	-953	3.1%	-991	4.0%	-1 031	4.0%
General Costs	-591	-647	9.5%	-640	-1.0%	-688	7.5%	-769	11.7%	-750	-2.5%	-784	4.5%	-838	7.0%	-874	4.3%
Depreciation	-134	-124	-7.4%	-121	-2.4%	-133	9.6%	-148	11.7%	-160	7.8%	-163	2.0%	-171	5.0%	-179	5.0%
<b>Operating Expenses</b>	<b>-1,507</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>-1,818</b>	<b>9.2%</b>	<b>-1 834</b>	<b>0.9%</b>	<b>-1 899</b>	<b>3.6%</b>	<b>-2 000</b>	<b>5.3%</b>	<b>-2 084</b>	<b>4.2%</b>
<b>Operating Profit</b>	<b>580</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>1,343</b>	<b>7.6%</b>	<b>1 412</b>	<b>5.1%</b>	<b>1 597</b>	<b>13.1%</b>	<b>1 896</b>	<b>18.8%</b>	<b>2 156</b>	<b>13.7%</b>
Provision Charge	-66	-304	364.1%	-204	-33.1%	-172	-15.3%	-363	110.4%	-289	-20.2%	-421	45.6%	-505	19.8%	-565	12.0%
Extraordinary Profit/(Loss)	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Associate Income	48	52	8.0%	41	-20.8%	41	-0.1%	36	-13.4%	35	-0.6%	8	-78.5%	8	0.0%	8	0.0%
Minorities	0	0	180.0%	0	178.6%	0	na	0	na	0	na	0	300.0%	0	18.3%	-1	14.2%
<b>Profit Before Tax</b>	<b>563</b>	<b>738</b>	<b>31.1%</b>	<b>934</b>	<b>26.5%</b>	<b>1,118</b>	<b>19.6%</b>	<b>1,016</b>	<b>-9.1%</b>	<b>1 158</b>	<b>14.0%</b>	<b>1 183</b>	<b>2.2%</b>	<b>1 399</b>	<b>18.3%</b>	<b>1 599</b>	<b>14.2%</b>
Tax	-118	-143	21.8%	-181	26.3%	-237	31.2%	-184	-22.6%	-222	20.9%	-225	1.1%	-266	18.3%	-304	14.2%
<b>Net Profit</b>	<b>445</b>	<b>595</b>	<b>33.6%</b>	<b>753</b>	<b>26.6%</b>	<b>880</b>	<b>16.9%</b>	<b>832</b>	<b>-5.4%</b>	<b>936</b>	<b>12.4%</b>	<b>958</b>	<b>2.4%</b>	<b>1 133</b>	<b>18.3%</b>	<b>1 294</b>	<b>14.2%</b>
<b>EPS (Zl)</b>	<b>3.4</b>	<b>4.6</b>	<b>33.6%</b>	<b>5.8</b>	<b>26.6%</b>	<b>6.8</b>	<b>16.9%</b>	<b>6.4</b>	<b>-5.4%</b>	<b>7.2</b>	<b>12.4%</b>	<b>7.4</b>	<b>2.4%</b>	<b>8.7</b>	<b>18.3%</b>	<b>9.9</b>	<b>14.2%</b>
<b>DPS (Zl)</b>	<b>0.0</b>	<b>0.0</b>	<b>na</b>	<b>1.5</b>	<b>na</b>	<b>0.0</b>	<b>na</b>	<b>0.0</b>	<b>na</b>	<b>5.4</b>	<b>na</b>	<b>5.5</b>	<b>2.4%</b>	<b>6.5</b>	<b>18.3%</b>	<b>7.5</b>	<b>14.2%</b>
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%	130.1	0.0%

Source: Company Reports, Citi Research Estimates

Figure 38. ING BSK – Key Balance Sheet, 2008-2016E (Polish Zloty in Million)

GROUP	2008	2009	chg	2010	chg	2011	chg	2012	chg	2013E	chg	2014E	chg	2015E	chg	2016E	chg
Cash and NBP Balances	1,370	2,657	93.9%	2,394	-9.9%	1,493	-37.6%	4,072	172.7%	4 397	8.0%	4 749	8.0%	5 129	8.0%	5 539	8.0%
Interbank placements	7,787	1,184	-84.8%	1,181	-0.3%	1,025	-13.2%	1,377	34.4%	1 405	2.0%	1 433	2.0%	1 461	2.0%	1 491	2.0%
Financial Assets & Securities	33,377	24,091	-27.8%	24,930	3.5%	23,382	-6.2%	22,370	-4.3%	25 307	13.1%	27 491	8.6%	28 766	4.6%	30 094	4.6%
Net client lending	25,743	30,593	18.8%	34,509	12.8%	42,330	22.7%	48,985	15.7%	53 147	8.5%	59 527	12.0%	66 671	12.0%	74 671	12.0%
Fixed assets	544	549	0.9%	544	-0.8%	575	5.7%	600	4.3%	660	10.0%	700	6.0%	742	6.0%	786	6.0%
Other assets	790	810	2.5%	959	18.4%	978	2.0%	862	-11.9%	1 102	27.8%	1 249	13.4%	1 392	11.4%	1 552	11.5%
<b>Total Assets</b>	<b>69,610</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>78,267</b>	<b>12.2%</b>	<b>86 018</b>	<b>9.9%</b>	<b>95 149</b>	<b>10.6%</b>	<b>104 161</b>	<b>9.5%</b>	<b>114 133</b>	<b>9.6%</b>
Interbank borrowing	11,993	3,974	-66.9%	4,039	1.6%	4,962	22.8%	4,555	-8.2%	4 646	2.0%	5 807	25.0%	7 259	25.0%	9 074	25.0%
Client deposits	47,067	47,585	1.1%	47,400	-0.4%	52,932	11.7%	57,858	9.3%	66 854	15.5%	72 365	8.2%	78 877	9.0%	85 976	9.0%
Other liabilities	6,326	3,438	-45.6%	7,425	116.0%	5,473	-26.3%	7,719	41.0%	6 037	-21.8%	8 255	36.7%	8 887	7.7%	9 501	6.9%
<b>Minorities</b>	<b>2</b>	<b>2</b>	<b>0.6%</b>	<b>2</b>	<b>1.7%</b>	<b>2</b>	<b>-2.4%</b>	<b>2</b>	<b>0.2%</b>	<b>2</b>	<b>4.3%</b>	<b>3</b>	<b>16.7%</b>	<b>3</b>	<b>16.9%</b>	<b>4</b>	<b>16.5%</b>
<b>Equity (ex Minorities)</b>	<b>4,222</b>	<b>4,884</b>	<b>15.7%</b>	<b>5,651</b>	<b>15.7%</b>	<b>6,414</b>	<b>13.5%</b>	<b>8,134</b>	<b>26.8%</b>	<b>8 479</b>	<b>4.2%</b>	<b>8 720</b>	<b>2.8%</b>	<b>9 134</b>	<b>4.8%</b>	<b>9 579</b>	<b>4.9%</b>
<b>Total liabilities &amp; Equity</b>	<b>69,610</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>78,267</b>	<b>12.2%</b>	<b>86 018</b>	<b>9.9%</b>	<b>95 149</b>	<b>10.6%</b>	<b>104 161</b>	<b>9.5%</b>	<b>114 133</b>	<b>9.6%</b>
<b>Interest Earning Assets</b>	<b>68,276</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>76,804</b>	<b>12.6%</b>	<b>84 256</b>	<b>9.7%</b>	<b>93 200</b>	<b>10.6%</b>	<b>102 027</b>	<b>9.5%</b>	<b>111 795</b>	<b>9.6%</b>
<b>WPS (Zl)</b>	<b>32</b>	<b>38</b>	<b>15.7%</b>	<b>43</b>	<b>15.7%</b>	<b>49</b>	<b>13.5%</b>	<b>63</b>	<b>26.8%</b>	<b>65</b>	<b>4.2%</b>	<b>67</b>	<b>2.8%</b>	<b>70</b>	<b>4.8%</b>	<b>74</b>	<b>4.9%</b>

Source: Company Reports, Citi Research Estimates

Figure 39. ING BSK – Key Ratios (Percentage)

GROUP	2008	2009	2010	2011	2012	2013E	2014E	2015E	2015E
<b>NIM on AIEA</b>	<b>1.94%</b>	<b>2.27%</b>	<b>2.68%</b>	<b>2.64%</b>	<b>2.75%</b>	<b>2.55%</b>	<b>2.73%</b>	<b>2.85%</b>	<b>2.90%</b>
NIM on Total Ave. Assets	1.89%	2.23%	2.62%	2.76%	2.77%	2.50%	2.68%	2.79%	2.84%
Net Fee & Commission Income/Total Income	42.6%	36.3%	36.8%	35.1%	31.8%	29.9%	28.5%	26.0%	24.4%
Net Fee & Commission Income/Deposits	1.9%	1.9%	2.1%	1.9%	1.7%	1.5%	1.4%	1.3%	1.2%
<b>Cost/Income</b>	<b>72.2%</b>	<b>60.0%</b>	<b>59.1%</b>	<b>57.1%</b>	<b>57.5%</b>	<b>56.5%</b>	<b>54.3%</b>	<b>51.3%</b>	<b>49.2%</b>
Cost/Avg. Assets	2.5%	2.3%	2.5%	2.5%	2.5%	2.2%	2.1%	2.0%	1.9%
Effective tax rate	20.9%	19.4%	19.4%	21.2%	18.1%	19.2%	19.0%	19.0%	19.0%
Dividend Payout Ratio	0.0%	0.0%	25.9%	0.0%	0.0%	75.0%	75.0%	75.0%	75.0%
Provisions/Avg Net Loans	0.31%	1.08%	0.63%	0.45%	0.79%	0.57%	0.75%	0.80%	0.80%
Equity/Assets	6.1%	8.2%	8.8%	9.2%	10.4%	9.9%	9.2%	8.8%	8.4%
<b>Loans/Deposits</b>	<b>54.7%</b>	<b>64.3%</b>	<b>72.8%</b>	<b>80.0%</b>	<b>84.7%</b>	<b>79.5%</b>	<b>82.3%</b>	<b>84.5%</b>	<b>86.9%</b>
Loans/Total Assets	37.0%	51.1%	53.5%	60.7%	62.6%	61.8%	62.6%	64.0%	65.4%
<b>ROE</b>	<b>11.1%</b>	<b>13.1%</b>	<b>14.3%</b>	<b>14.6%</b>	<b>11.4%</b>	<b>11.3%</b>	<b>11.1%</b>	<b>12.7%</b>	<b>13.8%</b>
ROA	0.73%	0.92%	1.21%	1.31%	1.12%	1.14%	1.06%	1.14%	1.19%
NPLs/Total Loans	1.9%	3.7%	4.2%	3.9%	4.1%	4.3%	4.0%	3.5%	3.5%
Provision Coverage of NPLs	100.0%	75.7%	72.0%	71.7%	75.4%	67.0%	71.7%	79.3%	71.9%
RWA/Total Assets	52.7%	58.2%	57.1%	64.0%	59.7%	49.1%	52.0%	52.0%	52.0%
<b>CAR</b>	<b>10.4%</b>	<b>12.0%</b>	<b>13.1%</b>	<b>12.3%</b>	<b>14.8%</b>	<b>17.3%</b>	<b>14.3%</b>	<b>13.5%</b>	<b>12.8%</b>
Group Employees	8,577	8,291	8,472	8,409	8,687	8 614	8 614	8 614	8 614

Source: Company Reports, Citi Research Estimates

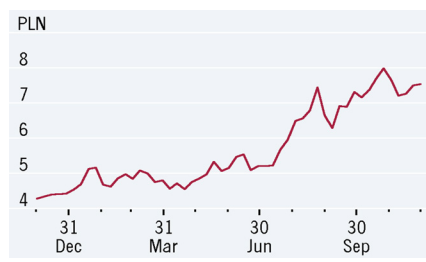
## Company Focus

### ■ Estimate Change

<b>Sell</b>	<b>3</b>
Price (02 Dec 13)	ZL7.44
Target price	ZL5.90
Expected share price return	-20.7%
Expected dividend yield	3.0%
<b>Expected total return</b>	<b>-17.7%</b>
Market Cap	ZL9,026M
	US\$2,912M

### Price Performance

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



## Bank Millennium SA (MILP.WA)

### Too Expensive: Maintaining Sell

- **Sell** —We maintain our ZI 5.9 target price and due to a still-negative ETR we maintain our Sell rating. We note that, given Millennium's high exposure to FX-denominated loans, in our model we use increased cost of risk (10.5% vs. standard 10.0% used for Polish banks with material book of FX mortgages).
- **We Increase Our 2013E EPS Estimate by 5.6%** — and 2014E EPS by 2.9% due to lower-than-expected administrative costs, positively affected by the BFG decision to set the bank levy at a lower-than-anticipated level).
- **New Catalyst** —The approved BCP strategy foresees the adoption of an open architecture distribution model in the asset management business. We think this could lead to Bank Millennium eventually disposing of its asset management business, although management has given no indication it is planning to do this. Consequently, we do not include any potential transaction gains in our model.
- **Risks** — Increased provisioning (we note that provisions to total loans are relatively low in the bank).

### Bank Millennium SA (PLN)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Net Income (ZLM)	466.5	472.2	544.0	718.2	716.3
Diluted EPS (ZL)	0.38	0.39	0.45	0.59	0.59
Diluted EPS (Old) (ZL)	0.38	0.39	0.42	0.58	0.59
PE (x)	19.3	19.1	16.6	12.6	12.6
P/BV (x)	2.0	1.9	1.7	1.6	1.5
DPS (ZL)	0.00	0.00	0.22	0.30	0.30
Net Div Yield (%)	0.0	0.0	3.0	4.0	4.0
ROE (%)	10.8	10.0	10.7	12.9	12.0

Figure 40. Millennium – Key P&L Data, 2008-2016E (Polish Zloty in Million)

GROUP	2008	2009	chg	2010	chg	2011	chg	2012	chg	2013E	chg	2014E	chg	2015E	chg	2016E	chg
Net Interest Income	980.9	598.5	-39.0%	927.5	55.0%	1,141.8	23.1%	1,161.2	1.7%	1 198.4	3.2%	1 363.7	13.8%	1 461.2	7.1%	1 534.3	5.0%
Net Fee & Commission Income	472.0	493.8	4.6%	564.9	14.4%	561.8	-0.6%	546.0	-2.8%	594.4	8.9%	665.0	11.9%	691.6	4.0%	740.0	7.0%
Financial Income	149.8	274.5	83.2%	92.8	-66.2%	82.5	-11.0%	79.9	-3.1%	76.0	-4.9%	96.9	27.4%	88.9	-8.2%	94.1	5.9%
Other Income	245.9	87.1	-64.6%	131.1	50.6%	103.0	-21.4%	165.5	60.6%	147.2	-11.0%	136.2	-7.5%	144.2	5.9%	146.2	1.4%
<b>Total Revenue</b>	<b>1,848.6</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>1,952.6</b>	<b>3.4%</b>	<b>2 016.0</b>	<b>3.2%</b>	<b>2 261.8</b>	<b>12.2%</b>	<b>2 385.9</b>	<b>5.5%</b>	<b>2 514.6</b>	<b>5.4%</b>
Labour Costs	-609.0	-470.7	-22.7%	-525.9	11.7%	-540.2	2.7%	-558.3	3.4%	-549.3	-1.6%	-557.5	1.5%	-579.8	4.0%	-603.0	4.0%
General Costs	-510.2	-472.0	-7.5%	-481.1	1.9%	-519.1	7.9%	-507.0	-2.3%	-492.3	-2.9%	-492.0	-0.1%	-530.1	7.7%	-547.6	3.3%
Depreciation	-70.4	-79.6	13.1%	-74.6	-6.3%	-64.8	-13.1%	-55.4	-14.6%	-54.7	-1.2%	-52.4	-4.2%	-55.1	5.0%	-57.8	5.0%
<b>Operating Expenses</b>	<b>-1,189.6</b>	<b>-1,022.4</b>	<b>-14.1%</b>	<b>-1,081.6</b>	<b>5.8%</b>	<b>-1,124.1</b>	<b>3.9%</b>	<b>-1,120.6</b>	<b>-0.3%</b>	<b>-1 096.4</b>	<b>-2.2%</b>	<b>-1 101.9</b>	<b>0.5%</b>	<b>-1 164.9</b>	<b>5.7%</b>	<b>-1 208.5</b>	<b>3.7%</b>
<b>Operating Profit</b>	<b>659.0</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>832.0</b>	<b>8.7%</b>	<b>919.6</b>	<b>10.5%</b>	<b>1 159.8</b>	<b>26.1%</b>	<b>1 221.0</b>	<b>5.3%</b>	<b>1 306.2</b>	<b>7.0%</b>
Provision Charge	-137.3	-436.7	218.1%	-226.9	-48.0%	-173.8	-23.4%	-238.2	37.1%	-234.1	-1.7%	-262.1	12.0%	-325.6	24.2%	-366.3	12.5%
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	0.0	na
Associate Income	0.0	7.0	na	0.0	na	-0.2	na	2.2	na	-1.7	na	0.0	na	0.0	na	0.0	na
<b>Profit Before Tax</b>	<b>521.7</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>596.0</b>	<b>0.8%</b>	<b>683.8</b>	<b>14.7%</b>	<b>897.7</b>	<b>31.3%</b>	<b>895.4</b>	<b>-0.3%</b>	<b>939.8</b>	<b>5.0%</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	0.0	na
Tax	-108.3	-0.4	-99.6%	-81.8	nm	-124.6	52.3%	-123.8	-0.7%	-139.8	12.9%	-179.5	28.5%	-179.1	-0.3%	-188.0	5.0%
<b>Net Profit</b>	<b>413.4</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>472.2</b>	<b>1.2%</b>	<b>544.0</b>	<b>15.2%</b>	<b>718.2</b>	<b>32.0%</b>	<b>716.3</b>	<b>-0.3%</b>	<b>751.9</b>	<b>5.0%</b>
EPS (Zl)	0.43	0.00	-99.6%	0.30	nm	0.38	28.5%	0.39	1.2%	0.45	15.2%	0.59	32.0%	0.59	-0.3%	0.62	5.0%
DPS (Zl)	0.00	0.00	na	0.10	na	0.00	na	0.00	na	0.22	na	0.30	32.0%	0.30	-0.3%	0.31	5.0%
Average Diluted Number of Shares (mn)	965.7	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%	1 213.1	0.0%	1 213.1	0.0%

Source: Company Reports, Citi Research Estimates

Figure 41. Millennium – Key Balance Sheet Data, 2008-2016E (Polish Zloty in Million)

GROUP	2008	2009	chg	2010	chg	2011	chg	2012	chg	2013E	chg	2014E	chg	2015E	chg	2016E	chg
Cash and NBP Balances	1,803	2,191	21.6%	2,051	-6.4%	2,018	-1.6%	2,466	22.2%	2 516	2.0%	2 566	2.0%	2 618	2.0%	2 671	2.0%
Interbank placements	1,641	904	-44.9%	1,541	70.4%	2,663	72.8%	1,410	-47.0%	1 438	2.0%	1 467	2.0%	1 497	2.0%	1 527	2.0%
Financial Assets & Securities	9,204	7,573	-17.7%	6,018	-20.5%	3,994	-33.6%	7,691	92.6%	11 328	47.3%	11 248	-0.7%	11 931	6.1%	12 650	6.0%
Net client lending	33,748	33,485	-0.8%	36,738	9.7%	41,332	12.5%	40,232	-2.7%	42 340	5.2%	45 381	7.2%	47 650	5.0%	50 033	5.0%
Fixed assets	385	347	-10.0%	242	-30.2%	212	-12.3%	185	-13.0%	186	1.0%	188	1.0%	190	1.0%	192	1.0%
Other assets	334	413	23.5%	394	-4.6%	619	57.2%	759	22.5%	719	-5.2%	765	6.4%	811	6.0%	859	5.9%
<b>Total Assets</b>	<b>47,115</b>	<b>44,914</b>	<b>-4.7%</b>	<b>46,984</b>	<b>4.6%</b>	<b>50,838</b>	<b>8.2%</b>	<b>52,742</b>	<b>3.7%</b>	<b>58 527</b>	<b>11.0%</b>	<b>61 616</b>	<b>5.3%</b>	<b>64 697</b>	<b>5.0%</b>	<b>67 932</b>	<b>5.0%</b>
Interbank borrowing	4,563	7,252	58.9%	2,755	-62.0%	3,438	24.8%	2,667	-22.4%	3 200	20.0%	2 144	-33.0%	1 286	-40.0%	1 351	5.0%
Client deposits	31,702	31,559	-0.5%	35,395	12.2%	37,428	5.7%	41,434	10.7%	46 133	11.3%	49 935	8.2%	53 930	8.0%	56 627	5.0%
Other liabilities	8,035	3,316	-58.7%	4,743	43.0%	5,386	13.5%	3,818	-29.1%	3 846	0.7%	3 742	-2.7%	3 328	-11.1%	3 409	2.4%
<b>Minorities</b>	<b>0</b>	<b>0</b>	<b>na</b>	<b>0</b>	<b>na</b>	<b>0</b>	<b>na</b>	<b>0</b>	<b>na</b>	<b>0</b>	<b>na</b>	<b>0</b>	<b>na</b>	<b>0</b>	<b>na</b>	<b>0</b>	<b>na</b>
<b>Equity (ex Minorities)</b>	<b>2,815</b>	<b>2,787</b>	<b>-1.0%</b>	<b>4,091</b>	<b>46.8%</b>	<b>4,586</b>	<b>12.1%</b>	<b>4,824</b>	<b>5.2%</b>	<b>5 349</b>	<b>10.9%</b>	<b>5 795</b>	<b>8.3%</b>	<b>6 152</b>	<b>6.2%</b>	<b>6 546</b>	<b>6.4%</b>
<b>Total liabilities &amp; Equity</b>	<b>47,115</b>	<b>44,914</b>	<b>-4.7%</b>	<b>46,984</b>	<b>4.6%</b>	<b>50,838</b>	<b>8.2%</b>	<b>52,742</b>	<b>3.7%</b>	<b>58 527</b>	<b>11.0%</b>	<b>61 616</b>	<b>5.3%</b>	<b>64 697</b>	<b>5.0%</b>	<b>67 932</b>	<b>5.0%</b>
<b>Interest Earning Assets</b>	<b>46,396</b>	<b>44,154</b>	<b>-4.8%</b>	<b>46,349</b>	<b>5.0%</b>	<b>50,007</b>	<b>7.9%</b>	<b>51,799</b>	<b>3.6%</b>	<b>57 622</b>	<b>11.2%</b>	<b>60 662</b>	<b>5.3%</b>	<b>63 696</b>	<b>5.0%</b>	<b>66 880</b>	<b>5.0%</b>
WPS (Zl)	2.91	2.89	-1.0%	3.37	16.8%	3.78	12.1%	3.98	5.2%	4.41	10.9%	4.78	8.3%	5.07	6.2%	5.40	6.4%

Source: Company Reports, Citi Research Estimates

Figure 42. Millennium – Key Ratios, 2008-2016E (Polish Zloty in Million)

GROUP	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E
<b>NIM on AIEA</b>	<b>2.58%</b>	<b>1.32%</b>	<b>2.05%</b>	<b>2.37%</b>	<b>2.28%</b>	2.19%	2.31%	2.35%	2.35%
NIM on Total Ave. Assets	2.53%	1.30%	2.02%	2.33%	2.24%	2.15%	2.27%	2.31%	2.31%
Net Fee & Commission Income/Total Income	25.5%	34.0%	32.9%	29.7%	28.0%	29.5%	29.4%	29.0%	29.4%
Net Fee & Commission Income/Deposits	1.5%	1.6%	1.6%	1.5%	1.3%	1.3%	1.3%	1.3%	1.3%
<b>Cost/Income</b>	<b>64.4%</b>	<b>70.3%</b>	<b>63.0%</b>	<b>59.5%</b>	<b>57.4%</b>	<b>54.4%</b>	<b>48.7%</b>	<b>48.8%</b>	<b>48.1%</b>
Cost/Avg. Assets	3.1%	2.2%	2.4%	2.3%	2.2%	2.0%	1.8%	1.8%	1.8%
Effective tax rate	20.8%	20.3%	20.1%	21.1%	20.8%	20.4%	20.0%	20.0%	20.0%
Dividend Payout Ratio	0.0%	0.0%	37.2%	0.0%	0.0%	50.0%	50.0%	50.0%	50.0%
Provisions/Avg Net Loans	0.49%	1.30%	0.65%	0.45%	0.58%	0.57%	0.60%	0.70%	0.75%
Equity/Assets	6.0%	6.2%	8.7%	9.0%	9.1%	9.1%	9.4%	9.5%	9.6%
<b>Loans/Deposits</b>	<b>106.5%</b>	<b>106.1%</b>	<b>103.8%</b>	<b>110.4%</b>	<b>97.1%</b>	<b>91.8%</b>	<b>90.9%</b>	<b>88.4%</b>	<b>88.4%</b>
Loans/Total Assets	71.6%	74.6%	78.2%	81.3%	76.3%	72.3%	73.7%	73.7%	73.7%
<b>ROE</b>	<b>15.5%</b>	<b>0.1%</b>	<b>9.5%</b>	<b>10.8%</b>	<b>10.0%</b>	<b>10.7%</b>	<b>12.9%</b>	<b>12.0%</b>	<b>11.8%</b>
ROA	1.06%	0.00%	0.71%	0.95%	0.91%	0.98%	1.20%	1.13%	1.13%
NPLs/Total Loans	3.4%	5.9%	5.8%	4.9%	5.1%	4.7%	5.2%	5.0%	5.0%
Provision Coverage of NPLs	64.4%	54.4%	54.1%	57.9%	58.6%	64.4%	58.3%	63.5%	66.8%
RWA/Total Assets	73.5%	68.8%	67.6%	70.9%	75.1%	65.0%	67.0%	69.0%	70.0%
<b>CAR</b>	<b>10.2%</b>	<b>11.3%</b>	<b>14.4%</b>	<b>13.2%</b>	<b>13.2%</b>	<b>13.9%</b>	<b>13.8%</b>	<b>13.5%</b>	<b>13.5%</b>
Group Employees	7.049	6.245	6.135	6.289	6.001	5 890	5 890	5 890	5 890

Source: Company Reports, Citi Research Estimates

## Company Focus

### ■ Estimate Change

<b>Neutral/High Risk</b>	<b>2H</b>
Price (02 Dec 13)	ZL2.92
Target price	ZL2.90
Expected share price return	-0.7%
Expected dividend yield	0.0%
<b>Expected total return</b>	<b>-0.7%</b>
Market Cap	ZL7,738M
	US\$2,497M

### Price Performance

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



## Getin Noble Bank (GNB.WA)

### Waiting For Lower Deposit Costs: Maintaining Neutral/High Risk

- **Neutral/High Risk** — We appreciate the bank's delivery on the provisioning side but we are disappointed by the lack of a visible impact from the cut in deposit rates on the bank's NIM. However, we still believe Getin Noble has material potential to improve its profitability without the need to acquire the new clients, just by lowering its cost of funding and increasing cross-sell and up-sale. We maintain our ZI 2.9 target price and our Neutral/High Risk rating.
- **We Increase Our 2013E EPS Estimate by 9.9%** — and 2014E EPS by 3.5% due to lower-than-expected administrative costs, positively affected by the BFG decision to set the bank levy at a lower than anticipated level.
- **Catalysts** — 1) Improved NIM; 2) Further potential acquisitions, as indicated by the company's management.
- **Risks** — 1) Tougher-than-expected new bancassurance regulation; 2) Growth in provisioning on new lending.

### Getin Noble Bank (PLN)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Net Income (ZLM)	979.7	371.1	351.5	611.9	647.3
Diluted EPS (ZL)	0.40	0.14	0.13	0.23	0.24
Diluted EPS (Old) (ZL)	0.40	0.14	0.12	0.22	0.24
PE (x)	7.4	20.9	22.0	12.6	12.0
P/BV (x)	1.8	1.6	1.6	1.4	1.3
DPS (ZL)	0.00	0.00	0.00	0.00	0.12
Net Div Yield (%)	0.0	0.0	0.0	0.0	4.2
ROE (%)	26.1	8.3	7.3	11.8	11.1

Figure 43. Getin Noble – Key P&L Data, 2008-2016E (Polish Zloty in Million)

IFRS Group	2008	2009	chg (%)	2010	chg (%)	2011	chg (%)	2012	chg (%)	2013E	chg (%)	2014E	chg (%)	2015E	chg (%)	2016E	chg (%)
Net Interest Income	601	784	30.5%	1 052	34.2%	1 372	30.3%	1 248	-9.1%	1 167	-6.5%	1 496	28.2%	1 686	12.7%	1 911	13.4%
Net Fee & Commission Income	444	714	61.0%	962	34.6%	871	-9.4%	769	-11.8%	600	-22.0%	793	32.2%	832	5.0%	874	5.0%
Financial Income	512	215	-57.9%	121	-43.8%	204	68.3%	111	-45.7%	112	1.4%	75	-32.8%	87	15.0%	100	15.0%
Other Income	15	19	27.7%	24	27.9%	18	-22.0%	7	-60.0%	23	206.7%	4	-82.4%	5	15.0%	5	15.0%
<b>Total Revenue</b>	<b>1 571</b>	<b>1 732</b>	<b>10.2%</b>	<b>2 159</b>	<b>24.6%</b>	<b>2 465</b>	<b>14.2%</b>	<b>2 135</b>	<b>-13.4%</b>	<b>1 901</b>	<b>-10.9%</b>	<b>2 368</b>	<b>24.6%</b>	<b>2 609</b>	<b>10.2%</b>	<b>2 891</b>	<b>10.8%</b>
Labour Costs	-262	-225	-14.2%	-297	32.0%	-364	22.5%	-364	0.0%	-377	3.6%	-388	2.9%	-403	4.0%	-419	4.0%
General Costs	-302	-353	16.7%	-382	8.4%	-441	15.4%	-406	-7.9%	-424	4.3%	-458	8.0%	-503	9.8%	-527	4.8%
Depreciation	-39	-48	22.7%	-54	10.9%	-63	16.4%	-64	2.0%	-73	14.6%	-80	8.9%	-86	8.0%	-93	8.0%
<b>Operating Expenses</b>	<b>-604</b>	<b>-626</b>	<b>3.7%</b>	<b>-733</b>	<b>17.0%</b>	<b>-867</b>	<b>18.4%</b>	<b>-834</b>	<b>-3.9%</b>	<b>-874</b>	<b>4.8%</b>	<b>-925</b>	<b>5.9%</b>	<b>-992</b>	<b>7.2%</b>	<b>-1 039</b>	<b>4.7%</b>
<b>Operating Profit</b>	<b>967</b>	<b>1 106</b>	<b>14.4%</b>	<b>1 426</b>	<b>28.9%</b>	<b>1 598</b>	<b>12.1%</b>	<b>1 301</b>	<b>-18.6%</b>	<b>1 028</b>	<b>-21.0%</b>	<b>1 443</b>	<b>40.4%</b>	<b>1 618</b>	<b>12.1%</b>	<b>1 852</b>	<b>14.5%</b>
Provision Charge	-332	-795	139.7%	-1 057	32.9%	-1 225	15.9%	-975	-20.4%	-643	-34.1%	-698	8.5%	-831	19.1%	-872	5.0%
Associate Income	0	0	NA	0	NA	10	NA	27	177.1%	8	-70.2%	20	141.1%	22	15.0%	26	15.0%
<b>Profit Before Tax</b>	<b>636</b>	<b>311</b>	<b>-51.1%</b>	<b>369</b>	<b>18.6%</b>	<b>382</b>	<b>3.7%</b>	<b>353</b>	<b>-7.8%</b>	<b>393</b>	<b>11.4%</b>	<b>765</b>	<b>94.7%</b>	<b>809</b>	<b>5.8%</b>	<b>1 005</b>	<b>24.2%</b>
Tax	-112	3	NA	12	345.8%	-45	NA	-58	27.9%	-62	8.0%	-153	144.8%	-162	5.8%	-201	24.2%
<b>Profit After Tax</b>	<b>524</b>	<b>314</b>	<b>-40.1%</b>	<b>381</b>	<b>21.4%</b>	<b>337</b>	<b>-11.5%</b>	<b>295</b>	<b>-12.5%</b>	<b>330</b>	<b>12.0%</b>	<b>612</b>	<b>85.2%</b>	<b>647</b>	<b>5.8%</b>	<b>804</b>	<b>24.2%</b>
Minorities	-4	-5	11.3%	-10	118.2%	0	NA	-15	NA	0	-97.1%	0	NA	0	NA	0	NA
Discontinued activity	0	0	NA	80	NA	642	706.8%	91	-85.8%	22	-76.3%	0	NA	0	NA	0	NA
<b>Net Profit</b>	<b>519</b>	<b>309</b>	<b>-40.5%</b>	<b>450</b>	<b>45.7%</b>	<b>980</b>	<b>117.7%</b>	<b>371</b>	<b>-62.1%</b>	<b>351</b>	<b>-5.3%</b>	<b>612</b>	<b>74.1%</b>	<b>647</b>	<b>5.8%</b>	<b>804</b>	<b>24.2%</b>
Diluted EPS (Zl)	0.23	0.13	-40.5%	0.20	45.7%	0.40	102.2%	0.14	-64.6%	0.13	-5.3%	0.23	74.1%	0.24	5.8%	0.30	24.2%
Average Diluted Number of Shares (m)	2 300	2 300	0.0%	2 300	0.0%	2 475	7.6%	2 650	7.1%	2 650	0.0%	2 650	0.0%	2 650	0.0%	2 650	0.0%

Source: Company Reports, Citi Research Estimates

Figure 44. Getin Noble – Key Balance Sheet Data, 2008-2016E (Polish Zloty in Million)

IFRS Group	2008	2009	chg (%)	2010	chg (%)	2011	chg (%)	2012E	chg (%)	2013E	chg (%)	2014E	chg (%)	2015E	chg (%)	2016E	chg (%)
Cash and NBP Balances	647	909	40.6%	1 976	117.3%	2 423	22.7%	2 907	20.0%	2 966	2.0%	3 025	2.0%	3 086	2.0%	3 148	2.0%
Interbank placements	2 648	1 069	-59.6%	2 601	143.2%	3 313	27.4%	2 105	-36.5%	2 147	2.0%	2 190	2.0%	2 235	2.0%	2 280	2.0%
Financial Assets & Securities	3 364	4 261	26.7%	2 887	-32.2%	4 650	61.1%	7 398	59.1%	9 892	33.7%	9 780	-1.1%	9 649	-1.3%	9 283	-3.8%
Net client lending	21 497	25 584	19.0%	33 454	30.8%	41 056	22.7%	42 394	3.3%	45 821	8.1%	47 681	4.1%	50 066	5.0%	52 569	5.0%
Fixed assets	154	138	-10.5%	179	30.0%	159	-11.3%	295	86.1%	310	5.0%	326	5.0%	342	5.0%	359	5.0%
Other assets	425	1 248	193.9%	1 702	36.3%	2 905	70.7%	3 712	27.8%	4 292	15.6%	5 082	18.4%	6 111	20.3%	7 425	21.5%
<b>Total Assets</b>	<b>28 733</b>	<b>33 208</b>	<b>15.6%</b>	<b>42 798</b>	<b>28.9%</b>	<b>54 488</b>	<b>27.3%</b>	<b>58 794</b>	<b>7.9%</b>	<b>65 428</b>	<b>11.3%</b>	<b>68 085</b>	<b>4.1%</b>	<b>71 489</b>	<b>5.0%</b>	<b>75 063</b>	<b>5.0%</b>
Interbank borrowing	1 276	738	-42.2%	713	-3.3%	579	-18.8%	795	37.3%	2 544	220.0%	2 569	1.0%	2 492	-3.0%	2 467	-1.0%
Client deposits	20 017	28 237	41.1%	37 026	31.1%	47 059	27.1%	50 185	6.6%	53 035	5.7%	54 101	2.0%	56 806	5.0%	59 647	5.0%
Other liabilities	4 758	1 260	-73.5%	1 763	40.0%	2 622	48.7%	3 092	17.9%	4 971	60.7%	5 924	19.2%	6 053	2.2%	6 331	4.6%
<b>Minorities</b>	<b>9</b>	<b>3</b>	<b>-63.4%</b>	<b>2</b>	<b>-35.5%</b>	<b>2</b>	<b>17.2%</b>	<b>3</b>	<b>20.3%</b>	<b>3</b>	<b>12.3%</b>	<b>3</b>	<b>0.0%</b>	<b>3</b>	<b>0.0%</b>	<b>3</b>	<b>0.0%</b>
<b>Equity (ex Minorities)</b>	<b>2 673</b>	<b>2 890</b>	<b>8.1%</b>	<b>3 294</b>	<b>14.0%</b>	<b>4 225</b>	<b>28.3%</b>	<b>4 719</b>	<b>11.7%</b>	<b>4 875</b>	<b>3.3%</b>	<b>5 487</b>	<b>12.6%</b>	<b>6 134</b>	<b>11.8%</b>	<b>6 615</b>	<b>7.8%</b>
<b>Total liabilities &amp; Equity</b>	<b>28 733</b>	<b>33 208</b>	<b>15.6%</b>	<b>42 798</b>	<b>28.9%</b>	<b>54 488</b>	<b>27.3%</b>	<b>58 794</b>	<b>7.9%</b>	<b>65 428</b>	<b>11.3%</b>	<b>68 085</b>	<b>4.1%</b>	<b>71 489</b>	<b>5.0%</b>	<b>75 063</b>	<b>5.0%</b>
<b>Interest Earning Assets</b>	<b>28 154</b>	<b>32 390</b>	<b>15.0%</b>	<b>41 656</b>	<b>28.6%</b>	<b>52 806</b>	<b>26.8%</b>	<b>54 459</b>	<b>3.1%</b>	<b>63 210</b>	<b>16.1%</b>	<b>65 777</b>	<b>4.1%</b>	<b>69 066</b>	<b>5.0%</b>	<b>72 519</b>	<b>5.0%</b>
■VPS (Zl)	1.2	1.3	8.1%	1.4	14.0%	1.6	11.3%	1.8	11.7%	1.8	3.3%	2.1	12.6%	2.3	11.8%	2.5	7.8%

Source: Company Reports, Citi Research Estimates

Figure 45. Getin Noble – Key Ratios, 2008-2016E (Percentage)

IFRS Group	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E
<b>NIM on AIEA</b>	<b>2.82%</b>	<b>2.59%</b>	<b>2.84%</b>	<b>2.90%</b>	<b>2.33%</b>	<b>1.98%</b>	<b>2.32%</b>	<b>2.50%</b>	<b>2.70%</b>
NIM on Total Ave. Assets	2.09%	2.53%	2.77%	2.82%	2.20%	1.88%	2.24%	2.42%	2.61%
Net Fee & Commission Income/Total Income	28.2%	41.2%	44.5%	35.3%	36.0%	31.5%	33.5%	31.9%	30.2%
Net Fee & Commission Income/Deposits	2.2%	2.5%	2.6%	1.9%	1.5%	1.1%	1.5%	1.5%	1.5%
<b>Cost/Income</b>	<b>38.4%</b>	<b>36.1%</b>	<b>33.9%</b>	<b>35.2%</b>	<b>39.1%</b>	<b>45.9%</b>	<b>39.1%</b>	<b>38.0%</b>	<b>35.9%</b>
Cost/Avg. Assets	2.1%	2.0%	1.9%	1.8%	1.5%	1.4%	1.4%	1.4%	1.4%
Effective tax rate	17.6%	-0.9%	-3.3%	11.8%	16.4%	15.9%	20.0%	20.0%	20.0%
Provisions/Avg Net Loans	2.10%	3.38%	3.58%	3.29%	2.34%	1.46%	1.49%	1.70%	1.70%
Equity/Assets	9.3%	8.7%	7.7%	7.8%	8.0%	7.5%	8.1%	8.6%	8.8%
<b>Loans/Deposits</b>	<b>107.4%</b>	<b>90.6%</b>	<b>90.4%</b>	<b>87.2%</b>	<b>84.5%</b>	<b>86.4%</b>	<b>88.1%</b>	<b>88.1%</b>	<b>88.1%</b>
Loans/Total Assets	69.7%	85.0%	86.5%	75.3%	72.1%	70.0%	70.0%	70.0%	70.0%
<b>ROE</b>	<b>25.4%</b>	<b>11.1%</b>	<b>14.6%</b>	<b>26.1%</b>	<b>8.3%</b>	<b>7.3%</b>	<b>11.8%</b>	<b>11.1%</b>	<b>12.6%</b>
ROA	1.8%	1.0%	1.2%	2.0%	0.7%	0.6%	0.9%	0.9%	1.1%
CAR (%)	13.8%	11.1%	9.9%	10.0%	12.2%	12.2%	12.8%	13.1%	13.8%
Group Employees	3 945	4 409	5 640	5 543	5 917	5 917	5 917	5 917	5 917

Source: Company Reports, Citi Research Estimates

## Company Focus

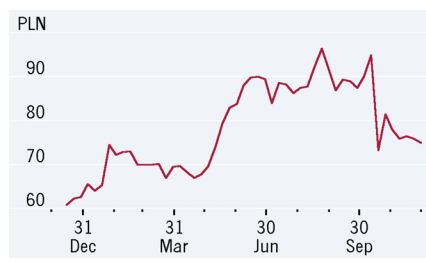
## Alior Bank (ALRR.WA)

### Only One Weak Quarter? We Doubt It – Sell

<b>Sell/High Risk</b>	<b>3H</b>
Price (02 Dec 13)	ZL74.39
Target price	ZL74.00
Expected share price return	-0.5%
Expected dividend yield	0.0%
<b>Expected total return</b>	<b>-0.5%</b>
Market Cap	ZL4,730M
	US\$1,526M

#### Price Performance

(RIC: ALRR.WA, BB: ALR PW)



■ **Sell/High Risk** — The bank's management has declared it feels comfortable with the market consensus (as collected by the bank) of ZI 385m net profit in 2014 and ZI 506m in 2015, but we are concerned by the combination of the accounting changes, weak quarterly results and capital increase. We maintain our ZI 74 target price and Sell/High Risk rating.

■ **We Increase Our 2013E EPS Estimate by 5.3%** — and 2014E EPS by 1.9% due to lower-than-expected administrative costs, positively affected by the BFG decision to set the bank levy at a lower than anticipated level.

■ **Catalyst** — The EGM, scheduled on 28 November, decided on a capital increase (up to 6.36 million shares, i.e. up to 9% of current number of shares). The issue price will be set by the bank's management.

■ **Risks** — FY 2013 earnings coming out below the consensus (and thus below the management guidance).

#### Alior Bank (PLN)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Net Income (ZLM)	152.2	48.4	207.2	300.3	375.5
Diluted EPS (ZL)	3.04	0.83	3.10	4.10	5.13
Diluted EPS (Old) (ZL)	3.04	0.81	2.94	4.02	5.18
PE (x)	24.4	89.8	24.0	18.1	14.5
P/BV (x)	4.0	2.4	2.3	1.8	1.6
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 (%)	16.6	3.4	10.2	12.0	12.2

Figure 46. Alior – Key P&L Data, 2009-2016E (Polish Zloty in Million)

GROUP	2009	2010	chg (%)	2011	chg (%)	2012	chg (%)	2013E	chg (%)	2014E	chg (%)	2015E	chg (%)	2016E	chg (%)
Net Interest Income	104	306	194.7%	495	62.0%	858	73.3%	995	15.8%	1 204	21.0%	1 455	20.9%	1 702	16.9%
Net Fee & Commission Income	41	159	289.0%	340	113.5%	147	-56.7%	199	35.9%	295	48.3%	322	9.1%	352	9.5%
Financial Income	13	18	41.4%	25	36.2%	70	183.2%	88	25.8%	72	-17.6%	76	5.0%	80	5.0%
Other Income	23	96	320.7%	135	40.5%	184	36.8%	189	2.6%	244	29.0%	256	5.0%	269	5.0%
<b>Total Revenue</b>	<b>180</b>	<b>579</b>	<b>221.2%</b>	<b>995</b>	<b>71.8%</b>	<b>1 259</b>	<b>26.6%</b>	<b>1 470</b>	<b>16.8%</b>	<b>1 815</b>	<b>23.4%</b>	<b>2 109</b>	<b>16.2%</b>	<b>2 402</b>	<b>13.9%</b>
Labour Costs	-248	-286	15.6%	-330	15.5%	-534	61.7%	-463	-13.3%	-522	12.7%	-541	3.6%	-562	4.0%
General Costs	-194	-226	16.7%	-253	11.9%	-315	24.6%	-296	-6.2%	-312	5.6%	-339	8.7%	-353	3.9%
Depreciation	-32	-49	49.8%	-56	15.7%	-73	29.1%	-75	3.0%	-79	6.3%	-84	6.0%	-89	6.0%
<b>Operating Expenses</b>	<b>-474</b>	<b>-561</b>	<b>18.4%</b>	<b>-640</b>	<b>14.0%</b>	<b>-922</b>	<b>44.1%</b>	<b>-834</b>	<b>-9.6%</b>	<b>-914</b>	<b>9.6%</b>	<b>-964</b>	<b>5.6%</b>	<b>-1 004</b>	<b>4.1%</b>
<b>Operating Profit</b>	<b>-293</b>	<b>18</b>	<b>NA</b>	<b>355</b>	<b>NM</b>	<b>352</b>	<b>-0.9%</b>	<b>637</b>	<b>80.7%</b>	<b>901</b>	<b>41.5%</b>	<b>1 145</b>	<b>27.0%</b>	<b>1 398</b>	<b>22.1%</b>
Provision Charge	-39	-141	262.6%	-189	33.9%	-278	47.0%	-375	35.1%	-530	41.1%	-681	28.4%	-798	17.3%
Associate Income	0	0	NA	0	NA	0	NA	0	NA	0	NA	0	NA	0	NA
<b>Profit Before Tax</b>	<b>-332</b>	<b>-123</b>	<b>-63.0%</b>	<b>166</b>	<b>NA</b>	<b>74</b>	<b>-55.6%</b>	<b>261</b>	<b>251.0%</b>	<b>371</b>	<b>41.9%</b>	<b>464</b>	<b>25.1%</b>	<b>600</b>	<b>29.3%</b>
Minorities	0	0	NA	0	NA	0	NA	0	NA	0	NA	0	NA	0	NA
Tax	61	19	-68.6%	-14	NA	-26	90.6%	-54	108.0%	-70	30.3%	-88	25.1%	-114	29.3%
Other			NA		NA		NA		NA		NA		NA		NA
<b>Net Profit</b>	<b>-271</b>	<b>-104</b>	<b>-61.7%</b>	<b>152</b>	<b>NA</b>	<b>48</b>	<b>-68.7%</b>	<b>207</b>	<b>327.8%</b>	<b>300</b>	<b>44.9%</b>	<b>376</b>	<b>25.1%</b>	<b>486</b>	<b>29.3%</b>
Diluted EPS (Zl)	-5.43	-2.08	-61.7%	3.04	NA	0.83	-73.3%	3.10	273.7%	4.10	32.4%	5.13	25.1%	6.63	29.3%
DPS (Zl)	0.00	0.00	NA	0.00	NA	0.00	NA	0.00	NA	0.00	NA	0.00	NA	0.00	NA
Average Diluted Number of Shares (m)	50	50	0.0%	50	0.0%	58	16.9%	67	14.5%	73	9.4%	73	0.0%	73	0.0%

Source: Company Reports, Citi Research Estimates

Figure 47. Alior – Key Balance Sheet Data, 2009-2016E (Polish Zloty in Million)

GROUP	2009	2010	chg (%)	2011	chg (%)	2012	chg (%)	2013E	chg (%)	2014E	chg (%)	2015E	chg (%)	2016E	chg (%)
Cash and NBP Balances	220	476	116.1%	449	-5.8%	1 030	129.6%	1 236	20.0%	1 483	20.0%	1 706	15.0%	1 961	15.0%
Interbank placements	93	242	159.8%	1 106	357.0%	414	-62.6%	496	20.0%	595	20.0%	685	15.0%	788	15.0%
Financial Assets & Securities	2 876	2 540	-11.7%	3 219	26.7%	4 494	39.6%	2 536	-43.6%	2 541	0.2%	2 923	15.0%	3 361	15.0%
Net client lending	2 639	5 438	106.1%	9 898	82.0%	14 158	43.0%	19 601	38.4%	24 746	26.2%	29 696	20.0%	34 150	15.0%
Fixed assets	268	325	21.3%	335	3.2%	373	11.2%	447	20.0%	537	20.0%	617	15.0%	710	15.0%
Other assets	141	215	52.5%	283	31.8%	578	104.1%	508	-12.1%	766	50.8%	936	22.2%	1 076	15.0%
<b>Total Assets</b>	<b>6 237</b>	<b>9 236</b>	<b>48.1%</b>	<b>15 290</b>	<b>65.5%</b>	<b>21 047</b>	<b>37.7%</b>	<b>24 825</b>	<b>17.9%</b>	<b>30 669</b>	<b>23.5%</b>	<b>36 562</b>	<b>19.2%</b>	<b>42 046</b>	<b>15.0%</b>
Interbank borrowing	891	210	-76.5%	71	-66.0%	629	783.2%	503	-20.0%	604	20.0%	634	5.0%	666	5.0%
Client deposits	4 045	7 460	84.4%	12 980	74.0%	16 807	29.5%	19 630	16.8%	23 860	21.6%	27 439	15.0%	31 555	15.0%
Other liabilities	247	667	169.9%	1 308	96.1%	1 674	28.0%	2 570	53.6%	3 305	28.6%	5 213	57.7%	6 064	16.3%
<b>Minorities</b>	<b>0</b>	<b>0</b>	<b>NA</b>	<b>0</b>	<b>NA</b>	<b>0</b>	<b>NA</b>	<b>0</b>	<b>NA</b>	<b>0</b>	<b>NA</b>	<b>0</b>	<b>NA</b>	<b>0</b>	<b>NA</b>
<b>Equity (ex Minorities)</b>	<b>1 054</b>	<b>899</b>	<b>-14.7%</b>	<b>930</b>	<b>3.6%</b>	<b>1 937</b>	<b>108.2%</b>	<b>2 122</b>	<b>9.5%</b>	<b>2 900</b>	<b>36.7%</b>	<b>3 276</b>	<b>12.9%</b>	<b>3 761</b>	<b>14.8%</b>
<b>Total liabilities &amp; Equity</b>	<b>6 237</b>	<b>9 235</b>	<b>48.1%</b>	<b>15. 90</b>	<b>65.6%</b>	<b>21 047</b>	<b>37.7%</b>	<b>24 825</b>	<b>17.9%</b>	<b>30 669</b>	<b>23.5%</b>	<b>36 562</b>	<b>19.2%</b>	<b>42 046</b>	<b>15.0%</b>
<b>Interest Earning Assets</b>	<b>5 829</b>	<b>8 696</b>	<b>49.2%</b>	<b>14 671</b>	<b>68.7%</b>	<b>20 096</b>	<b>37.0%</b>	<b>23 870</b>	<b>18.8%</b>	<b>29 366</b>	<b>23.0%</b>	<b>35 009</b>	<b>19.2%</b>	<b>40 260</b>	<b>15.0%</b>
WPS (Zl)	21.08	17.97	-14.7%	18.61	3.6%	30.47	63.7%	32.80	7.6%	40.85	24.6%	45.43	11.2%	51.38	13.1%

Source: Company Reports, Citi Research Estimates

Figure 48. Alior – Key Ratios (Percentage)

GROUP	2009	2010	2011	2012	2013E	2014E	2015E	2016E
<b>NIM on AIEA</b>	<b>2.65%</b>	<b>4.21%</b>	<b>4.24%</b>	<b>4.93%</b>	<b>4.52%</b>	<b>4.52%</b>	<b>4.52%</b>	<b>4.52%</b>
NIM on Total Ave. Assets	2.46%	3.95%	4.04%	4.72%	4.34%	4.34%	4.33%	4.33%
Net Fee & Commission Income/Total Income	22.7%	27.5%	34.2%	11.7%	13.5%	16.3%	15.3%	14.7%
Net Fee & Commission Income/Deposits	1.0%	2.1%	2.6%	0.8%	1.0%	1.2%	1.2%	1.1%
<b>Cost/Income</b>	<b>262.8%</b>	<b>96.9%</b>	<b>64.3%</b>	<b>72.1%</b>	<b>56.7%</b>	<b>50.3%</b>	<b>45.7%</b>	<b>41.8%</b>
Cost/Avg. Assets	11.3%	7.2%	5.2%	5.0%	3.6%	3.3%	2.9%	2.6%
Effective tax rate	18.4%	15.6%	8.2%	35.4%	20.7%	19.0%	19.0%	19.0%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Provisions/Avg Net Loans	2.9%	3.5%	2.5%	2.3%	2.2%	2.4%	2.5%	2.5%
Equity/Assets	16.9%	9.7%	6.1%	9.2%	8.5%	9.5%	9.0%	8.9%
<b>Loans/Deposits</b>	<b>65.2%</b>	<b>72.9%</b>	<b>76.3%</b>	<b>84.2%</b>	<b>99.9%</b>	<b>103.7%</b>	<b>108.2%</b>	<b>108.2%</b>
Loans/Total Assets	42.3%	58.9%	64.7%	67.3%	79.0%	80.7%	81.2%	81.2%
<b>ROE</b>	<b>-22.7%</b>	<b>-10.7%</b>	<b>16.6%</b>	<b>3.3%</b>	<b>10.2%</b>	<b>12.0%</b>	<b>12.2%</b>	<b>13.8%</b>
ROA	-6.4%	-1.3%	1.2%	0.3%	0.9%	1.1%	1.1%	1.2%
NPLs/Total Loans	2.23%	3.98%	4.37%	6.96%	7.00%	6.00%	5.50%	5.50%
Provision Coverage of NPLs	61.0%	73.9%	76.5%	54.7%	59.7%	57.5%	63.0%	69.8%
RWA/Total Assets	47.1%	60.3%	64.1%	67.9%	77.0%	77.0%	77.0%	77.0%
Tier I Ratio (%)	33.4%	15.3%	9.4%	12.2%	10.2%	11.6%	11.0%	11.1%
<b>CAR</b>	<b>33.6%</b>	<b>15.4%</b>	<b>9.8%</b>	<b>14.7%</b>	<b>12.0%</b>	<b>13.5%</b>	<b>13.0%</b>	<b>13.2%</b>
Bank Employees	2,325	3,200	3,694	4,873	6,154	6,353	6,353	6,353

Source: Company Reports, Citi Research Estimates

## PKO BP

### Company description

PKO BP is Poland's largest bank, with c1,200 branches. It is dominant in retail banking with a c22% retail deposit market share and a c20% retail lending market share but in recent years the bank has materially strengthened its position in corporate banking as well and reached 13% market share in corporate loans. PKO BP is controlled by the Polish state, holding a 31% stake in the bank

### Investment strategy

We like the bank's strategy of growing organically or through opportunistic acquisitions, and we view positively the purchase of Nordea Bank Poland. We think that the changes in risk management implemented by the new CRO will allow PKO to combine appetite for growth with conservative risk management. We view the stock as attractively valued and rate PKO BP Buy.

### Valuation

Our Standard Warranted Equity Valuation of ZI 45 per share is based on the formula:  $\text{Price} / \text{Book value} = (\text{Sustainable RoE} - \text{growth}) / (\text{Cost of equity} - \text{growth})$  and our sustainable ROE estimate of 15.1%. Our Warranted Equity Valuation based on Return on Tangible Equity (ROTE) arrives at a ZI 47 per share valuation and is based on the formula:  $\text{Price} / \text{Book value} = (\text{Sustainable RoE} - \text{growth}) / (\text{Cost of equity} - \text{growth})$ . We assume sustainable ROTE at 16.6%. In both models, we use a cost of equity of 10% and a sustainable growth rate of 4.5%. Our Economic Value Added Valuation of ZI 49 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 47 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 integration of Nordea Bank may go not as smoothly as we expect; and 3) margin developments have been volatile recently and future margin development could be better or worse than we expect; 4) the bank was active in extending FX-denominated loans to retail customers, who could face repayment difficulties.

## Bank Pekao SA

### Company description

Bank Pekao is Poland's second-largest bank, and is 50.1% owned by UniCredit. The bank has c.12% asset market share and 1,000 outlets, and serves c.5m customers.

### Investment strategy

Given Pekao's overcapitalization (Core Tier 1 of 18.5% in 2012) the crucial question is if and when Pekao's surplus capital (c.ZI 8-9bn assuming normalized capital at Tier 1 equals 10%) is utilized and how it will be used. Due to the regulator's restriction on capital returns to shareholders, we perceive M&A as key to improving the bank's capital structure. In our opinion, the bank is fairly valued, hence we rate the stock Neutral.

### Valuation

Our Standard Warranted Equity Valuation of ZI 160 per share is based on the formula:  $\text{Price} / \text{Book value} = (\text{Sustainable ROE} - \text{growth}) / (\text{Cost of equity} - \text{growth})$ . We assume sustainable return on equity of 14.5%, a sustainable growth rate of 4.5% and a cost of equity of 10%. Given the bank's overcapitalization (Tier 1 at 18.5%), we value the bank also on a capital-adjusted base and, assuming a capital normalised ROE of 19.2%, arrive at fair value of ZI 190 per share on this basis. Applying Warranted Equity Valuation based on reported ROTE, we arrive at a fair value of ZI 173 while basing valuation on capital-normalised ROTE at ZI 195. Our Economic Value Added Valuation of ZI 183 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 182 using a weighted average of our Warranted Tangible Equity Valuations based on reported (60% weight) and capital-normalised (40% weight) ROTE.

### Risks

The following risk factors could cause the share price to deviate significantly from our target price: 1) the bank's conservative risk and capital management may lead to lower lending growth and dividend payment than we anticipate and 2) provisioning, low in the last slowdown (2009), could surprise negatively in the next slowdown/recession period due to a lower buffer of over-provisioning. Upside risks include 1) utilization of surplus capital (most likely through attractive M/A), 2) better-than-expected quality of lending leading to lower provisioning and/or 3) a rebound in inflows to equity investment funds.

## mBank SA

### Company description

mBank (70% owned by Commerzbank) is the fourth-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 54% in 2012. In November 2013, the bank was re-branded to mBank (former BRE Bank).

### Investment strategy

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

### Valuation

Our Standard Warranted Equity Valuation of Zł 458 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 13.9%, a cost of equity of 10.0% and a sustainable growth rate of 4.5%. In Warranted Tangible Equity Valuation we assume 14.6% ROTE and arrive at Zł 466 fair value. Our Economic Value Added Valuation of Zł 444 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, the Warranted Tangible Equity valuation, and is set at Zł 466.

### 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 mBank, 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 fifth-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

ING BSK had been perceived as one of the most conservative Polish banks but since 2008 the bank changed track and it accelerated lending (2007-2012 CAGR 24.5%). In 2008-11 the growth was driven by low-margin mortgage and corporate lending, while in 2012 it was driven by acquisition of leasing and factoring companies from ING Group. In 2013 and 2014 we think the bank will accelerate consumer lending and we expect that this will drive growth in net interest income and fees but we think that improvement in earnings fully priced-in and thus rate ING BSK Neutral.

### Valuation

Our Standard Warranted Equity Valuation of ZI 113 per share is based on the formula:  $\text{Price / Book value} = (\text{Sustainable RoE} - \text{growth}) / (\text{Cost of equity} - \text{growth})$ . Given higher regulatory charges, we set our assumption of sustainable ROE at 14.6% and use a cost of equity of 10.0% and a sustainable growth rate of 4.5%. In our Warranted Tangible Equity Valuation we assume a 14.6% ROTE and arrive at a fair value of ZI 116.

Our Economic Value Added Valuation of ZI 102 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 ROTE approach at ZI 116.

### Risks

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

## Bank Millennium SA

### Company description

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

### Investment strategy

Over the past several years, Bank Millennium has built a strong position in CHF-denominated mortgage lending, increased the sale of consumer finance products and developed a successful customer deposit collection franchise. In 4Q08, Millennium's CHF mortgage business model collapsed as a result of decreased availability of FX swaps and significantly rising FX swap costs. Despite the bank's efforts to accelerate cash loans sale we anticipate that the profitability of the bank (we assume 10.4% sustainable ROE) will remain below the bank's cost of risk (11.0%) and thus we rate the stock Sell.

### Valuation

Our Standard Warranted Equity Valuation of ZI 5.87 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 11.8% and use a cost of equity of 10.5% and a sustainable growth rate of 4.5%. In our Warranted Tangible Equity Valuation we assume an 11.9% ROTE and arrive at a fair value of ZI 5.9. Our Economic Value Added Valuation of ZI 6.45 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 ROTE approach at ZI 5.9.

### Risks

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

## Getin Noble Bank

### Company description

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

In January 2013 Getin Noble Bank was the 7th biggest Polish commercial bank by assets, 6th by loans and 6th by deposits. GNB specialises in retail lending (namely mortgage, car and cash loans), and was the parent company for the group consisting of an asset manager, brokerage and leasing company as well as owner of a 48.85% stake in financial intermediary Open Finance.

### Investment strategy

We view positively the strategic changes that have led Getin Noble Bank (GNB) to provide fewer mortgages, grant more cash loans and improve its funding mix but given the high risk that the changes in bancassurance regulation will impact the bank's profitability, we view the stock as fairly valued and thus we rate GNB Neutral/High Risk.

### Valuation

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

Our Standard Warranted Equity Valuation model is based upon the formula:  $\text{Price / Book value} = (\text{Sustainable RoE} - \text{growth}) / (\text{Cost of equity} - \text{growth})$ . Our WEV approach suggests a valuation of ZI 2.86 per share. When valuing Getin Noble Bank we assume a sustainable ROE of 12.6%. We assume a cost of equity of 10.5% (in line with our methodology of setting cost of equity for Polish banks within a range of 10.0% to 11.0%, depending on the bank's exposure to CHF lending) and a sustainable growth rate of 4.5%. Based on these inputs, we arrive at a valuation of ZI 2.86 per share for Getin Noble Bank. In our Warranted Tangible Equity Valuation we assume a 12.9% ROTE and arrive at a fair value of ZI 2.9.

Our Economic Value Added (EVA) model arrives at a valuation by adding discounted EVA flows (adjusted profits minus required capital charges) to adjusted starting book value. A terminal value is calculated using a standard perpetuity formula using forecast EVA flows to 2018 and an assumption of discount rate and a perpetual growth rate. Assuming a discount rate of 11.0% and perpetual growth at 4.5%, we arrive at a valuation of ZI 2.58 per share.

As with other Polish banks, we set our target price of ZI 2.90 on the basis of the ROTE approach.

## Risks

We rate Getin Noble High Risk. The following risk factors might cause the share price to deviate from our target price. The macro economy may perform worse or better than anticipated and lead to higher/lower provisioning and slower/faster loan growth than anticipated. Specifically for Getin Noble Bank, we highlight that: 1) the bank's loan book is heavily weighted towards FX mortgage loans such that a weaker zloty could negatively impact asset quality; 2) the bank remains highly dependent on revenues from selling insurance products which could be affected by the potential regulation of the bancassurance market; 3) due to the importance of mortgage loans within its business mix, the bank carries above-average exposure to property price risks in Poland. If the impact on the company from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. Conversely, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target price.

## Alior Bank

### Company description

Alior Bank was founded in 2007-08 by a group of experienced bankers (mainly from former BPH), who brought with them the business model of the bank, and Carlo Tassara Group, which provided the capital (Zl 1.5bn). Break-even was reached in 22 months and, four years after the start of business, Alior has become a medium-size (2.1% market share in loans and 2.6% in deposits), universal (retail and corporate loans accounted for, respectively, 53% and 47% of total loans) and highly profitable bank (underlying 2012 ROE of 19%). It has the fourth biggest distribution network in Poland (209 own branches and 444 franchise outlets) and 1.6m of clients (1.63m retail and 0.1m corporate).

### Investment strategy

We note the successful start of Alior Bank and appreciate the bank's corporate culture, successful franchise creation and the bank's ability to acquire new clients. However, due to the declining trend in lending spread and the rising loan-to-deposit make us negative on the bank's earnings in future. We see a risk that the bank's management will prefer business growth to EPS increase and thus we rate Alior Sell/High Risk.

### Valuation

We value Alior Bank using a Standard Warranted Equity Valuation (WEV) and an Economic Value Added Valuation. These are standard methods that we use when valuing our coverage universe of listed Polish banks. Our Standard Warranted Equity Valuation model is based upon the formula:  $\text{Price} / \text{Book value} = (\text{Sustainable RoE} - \text{growth}) / (\text{Cost of equity} - \text{growth})$ . We assume a sustainable ROE of 13.8% (equal to our estimate of 2015 ROE), cost of equity of 10.0% and a sustainable growth rate of 4.5% (the same as for other Polish banks). We arrive at a valuation of Zl 71.2 per share for Alior Bank. Our Economic Value Added Valuation of Zl 62.4 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 with other Polish banks, we set our target price of Zl 74.0 on the basis of the shorter-term approach, the Warranted Tangible Equity valuation.

## Risks

We rate Alior Bank as High Risk. 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 lower or higher provisioning and higher or lower growth. Especially for Alior Bank we highlight: 1) The bank's high dependence on bancassurance income (KNF has declared its intention to improve market practices in this segment); 2) dependence on current management, which successfully launched the bank and made it profitable; 3) high sales through external channels; and 4) the bank has a relatively short history of risk management and its rating models have not been verified in the whole economic cycle.

## 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

#### Bank Millennium SA (MILP.WA)

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

Analyst: Andrzej Powierza  
Covered since March 2 2011



	Date	Rating	Target Price	Closing Price
1	23-Mar-11	3M	*5.49	5.60
2	3-Jun-11	3M	*5.67	5.46
3	8-Aug-11	3M	*5.00	4.14
4	30-Sep-11	3M	*4.53	4.60
5	7-Oct-11	Stock rating system changed		

\* Indicates change

	Date	Rating	Target Price	Closing Price
6	7-Oct-11	*2	4.53	4.39
7	9-Dec-11	2	*3.80	3.69
8	5-Mar-12	*3	*4.10	4.33
9	6-Jun-12	*2	*3.82	3.24
10	27-Jul-12	*1	*3.85	3.40

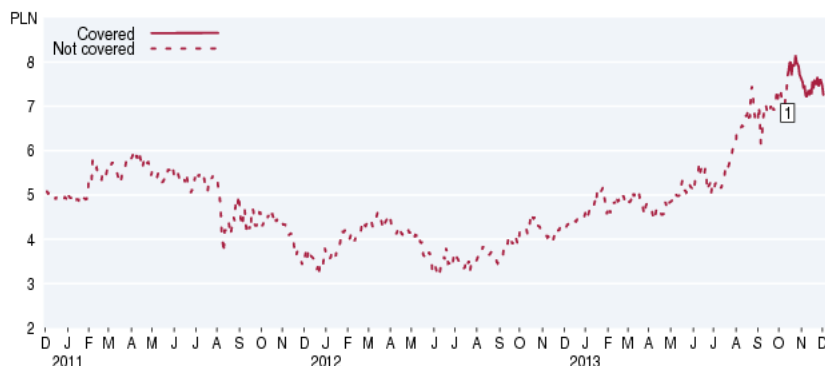
	Date	Rating	Target Price	Closing Price
11	17-Oct-12	*3	3.85	4.40
12	30-Nov-12	3	*3.70	4.29
13	4-Jul-13	3	*3.90	5.27
14	1-Aug-13	3	*4.20	6.21
15	25-Nov-13	3	*5.90	7.66

Rating/target price changes above reflect Eastern Standard Time

#### Bank Millennium SA (MILP.WA)

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

Analyst: Andrzej Powierza  
Covered since March 2 2011



	Date	Rating	Target Price	Closing Price
1	14-Oct-13	*ADD LP	-	7.70

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## ING Bank Slaski SA (INGP.WA)

### Ratings and Target Price History Fundamental Research

Analyst: Andrzej Powierza  
Covered since March 2 2011



	Date	Rating	Target Price	Closing Price
1	23-Mar-11	3M	*89.50	87.70
2	3-Jun-11	3M	*89.90	85.50
3	19-Aug-11	*1M	*93.00	69.05
4	30-Sep-11	1M	*88.60	74.00

\* Indicates change

	Date	Rating	Target Price	Closing Price
5	7-Oct-11	Stock rating system changed		
6	7-Oct-11	*1	88.60	71.00
7	9-Dec-11	1	*92.00	76.75
8	6-Jun-12	1	*89.00	74.00

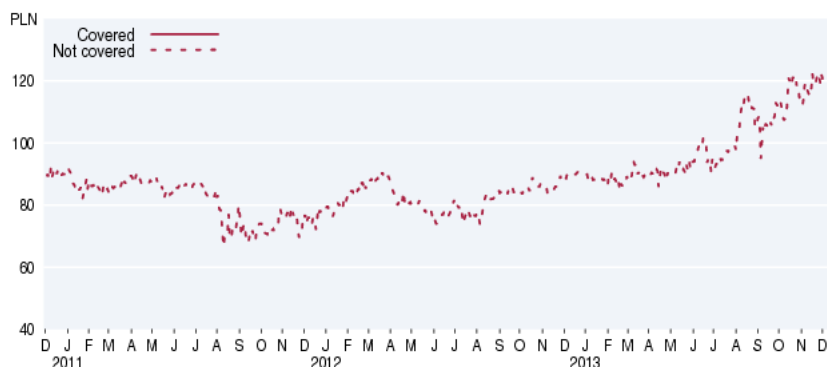
	Date	Rating	Target Price	Closing Price
9	28-Aug-12	*2	*88.20	83.00
10	30-Nov-12	2	*92.00	89.05
11	22-Mar-13	*1	*106.00	89.50
12	25-Nov-13	*2	*116.00	122.00

Rating/target price changes above reflect Eastern Standard Time

## ING Bank Slaski SA (INGP.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 (PEO.WA)

### Ratings and Target Price History Fundamental Research

Analyst: Andrzej Powierza  
Covered since March 2 2011



	Date	Rating	Target Price	Closing Price
1	23-Mar-11	*1L	*195.30	166.50
2	3-Jun-11	1L	*186.00	168.00
3	19-Aug-11	1L	*190.00	129.60
4	30-Sep-11	1L	*171.00	134.20
5	7-Oct-11	Stock rating system changed		

\* Indicates change

	Date	Rating	Target Price	Closing Price
6	7-Oct-11	*1	171.00	140.00
7	27-Mar-12	1	*173.00	156.60
8	6-Jun-12	1	*157.00	139.00
9	21-Aug-12	*2	*152.00	157.00
10	30-Nov-12	*3	*148.00	157.70

	Date	Rating	Target Price	Closing Price
11	3-Apr-13	*2	*156.00	155.00
12	4-Jul-13	2	*149.00	145.70
13	25-Nov-13	2	*182.00	191.50

Rating/target price changes above reflect Eastern Standard Time

## Bank Pekao SA (PEO.WA)

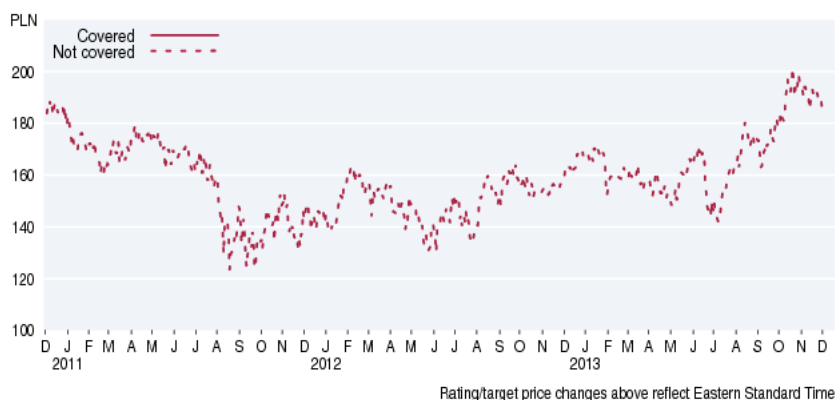
### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Andrzej Powierza

Covered since March 2 2011



\* Indicates change

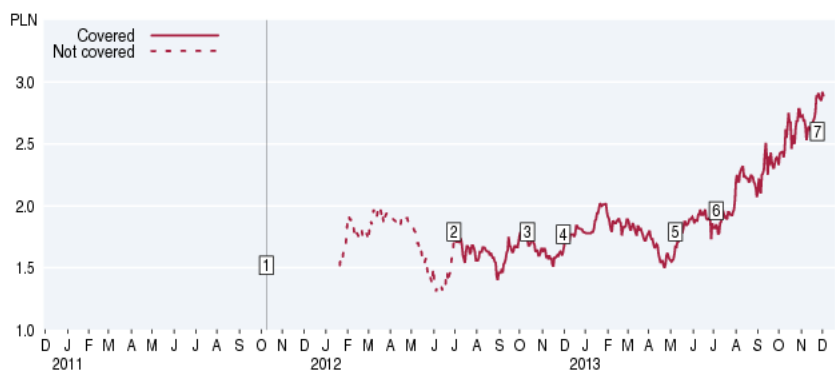
## Getin Noble Bank (GNB.WA)

### Ratings and Target Price History

#### Fundamental Research

Analyst: Andrzej Powierza

Covered since June 29 2012



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

\* Indicates change

	Date	Rating	Target Price	Closing Price
4	30-Nov-12	*2H	*1.81	1.64
5	8-May-13	*1H	*2.03	1.68
6	4-Jul-13	*2H	*2.20	1.85

	Date	Rating	Target Price	Closing Price
7	25-Nov-13	2H	*2.90	2.88

Rating/target price changes above reflect Eastern Standard Time

## Getin Noble Bank (GNB.WA)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Andrzej Powierza

Covered since June 29 2012



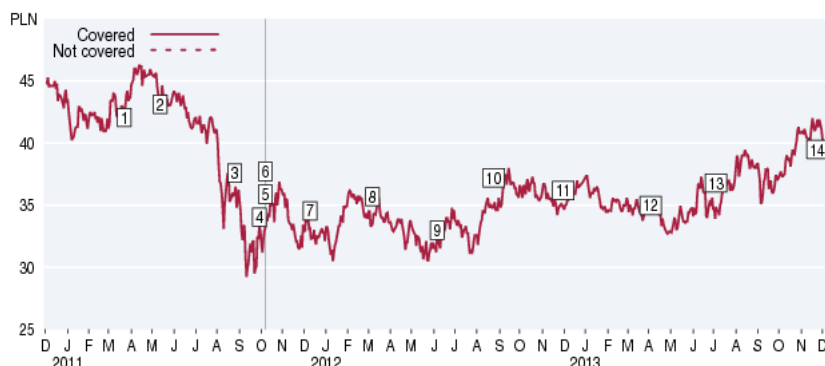
\* Indicates change

## PKO BP (PKO.WA)

### Ratings and Target Price History

### Fundamental Research

Analyst: Andrzej Powierza  
Covered since March 2 2011



	Date	Rating	Target Price	Closing Price
1	23-Mar-11	1L	*55.50	42.40
2	12-May-11	*2L	*47.70	43.35
3	25-Aug-11	*1L	*42.90	35.90
4	29-Sep-11	1L	*41.00	33.32
5	7-Oct-11	Stock rating system changed		

\* Indicates change

	Date	Rating	Target Price	Closing Price
6	7-Oct-11	*1	41.00	33.20
7	9-Dec-11	1	*41.80	33.15
8	7-Mar-12	1	*42.70	33.52
9	6-Jun-12	1	*39.70	32.70
10	24-Aug-12	1	*40.70	34.99

	Date	Rating	Target Price	Closing Price
11	30-Nov-12	*2	*38.10	34.80
12	3-Apr-13	2	*38.00	34.45
13	4-Jul-13	*1	*42.00	34.88
14	25-Nov-13	1	*47.00	41.90

Rating/target price changes above reflect Eastern Standard Time

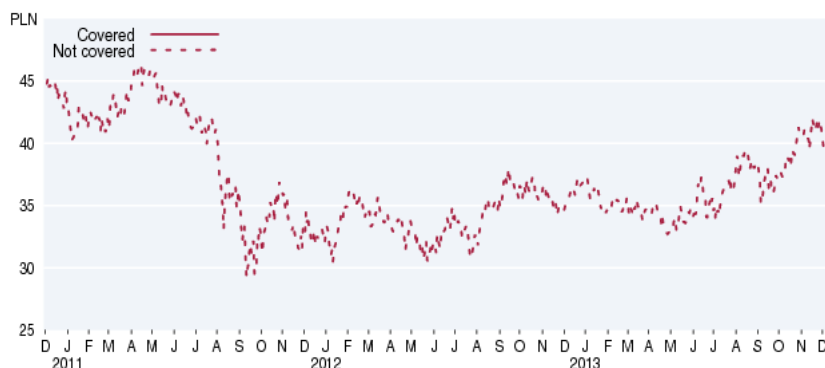
## PKO BP (PKO.WA)

### Ratings and Target Price History

### Best Ideas Research

### Relative Call (3 Month)

Analyst: Andrzej Powierza  
Covered since March 2 2011



\* Indicates change

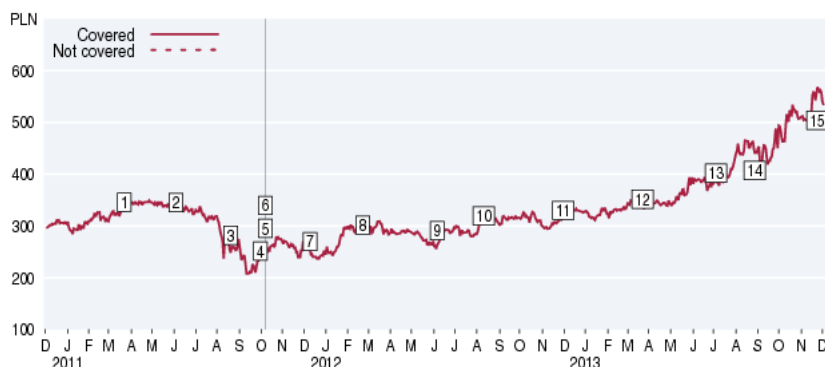
Rating/target price changes above reflect Eastern Standard Time

## mBank SA (MBK.WA)

### Ratings and Target Price History

### Fundamental Research

Analyst: Andrzej Powierza  
Covered since March 2 2011



	Date	Rating	Target Price	Closing Price
1	23-Mar-11	2M	*364.00	328.00
2	3-Jun-11	2M	*351.00	338.90
3	19-Aug-11	2M	*318.00	248.60
4	30-Sep-11	*1M	*298.00	242.00
5	7-Oct-11	Stock rating system changed		

\* Indicates change

	Date	Rating	Target Price	Closing Price
6	7-Oct-11	*1	298.00	239.30
7	9-Dec-11	*3	*243.00	254.70
8	22-Feb-12	3	*268.00	295.60
9	6-Jun-12	*2	*266.00	262.90
10	10-Aug-12	*3	*273.00	319.50

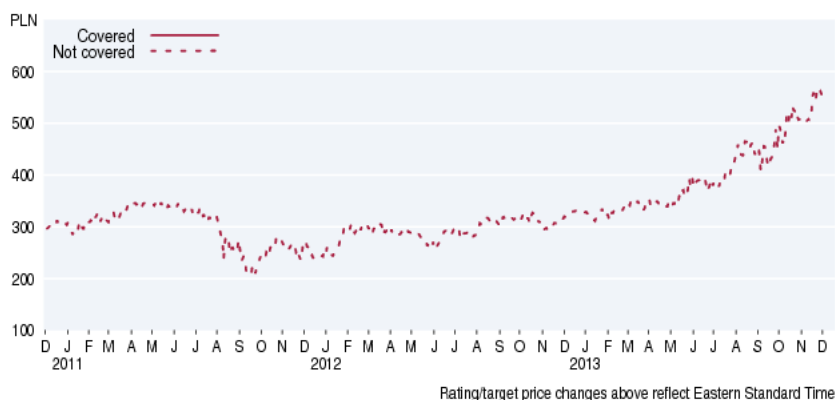
	Date	Rating	Target Price	Closing Price
11	30-Nov-12	3	*279.00	316.00
12	22-Mar-13	3	*325.00	345.00
13	4-Jul-13	3	*346.00	384.45
14	28-Aug-13	3	*363.00	440.00
15	25-Nov-13	3	*466.00	568.00

Rating/target price changes above reflect Eastern Standard Time

**mBank SA (MBK.WA)**  
**Ratings and Target Price History**  
**Best Ideas Research**  
**Relative Call (3 Month)**

Analyst: Andrzej Powierza  
Covered since March 2 2011

\* Indicates change

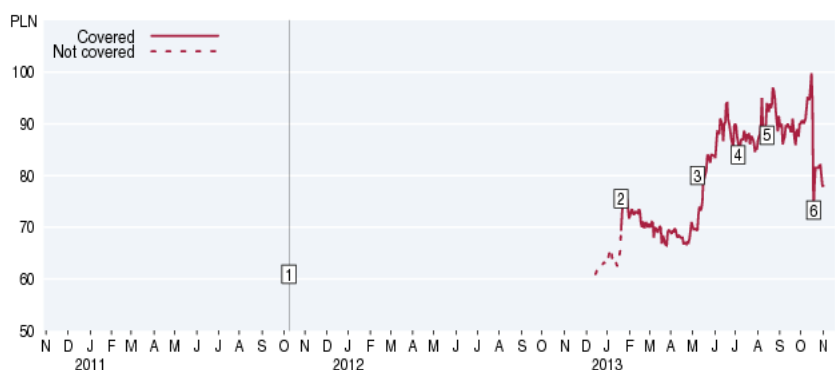


**Alior Bank (ALRR.WA)**  
**Ratings and Target Price History**  
**Fundamental Research**

Analyst: Andrzej Powierza  
Covered since January 22 2013

	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	21-Jan-13	*1H	*94.00	69.50

\* Indicates change



	Date	Rating	Target Price	Closing Price
3	8-May-13	1H	*97.00	69.49
4	4-Jul-13	*2H	*98.00	86.50

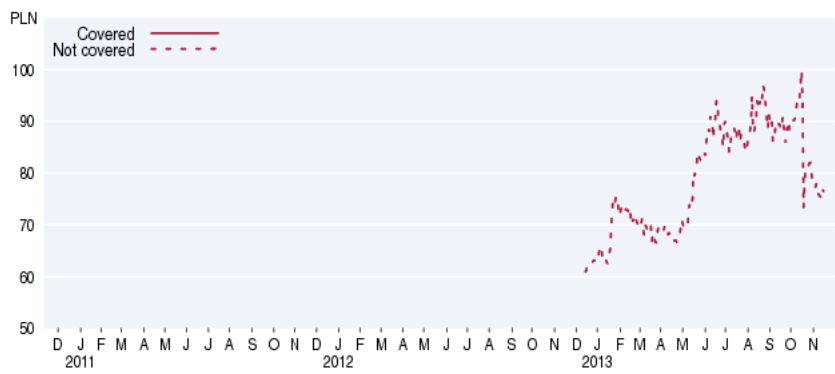
	Date	Rating	Target Price	Closing Price
5	14-Aug-13	2H	*101.00	94.00
6	18-Oct-13	2H	*100.00	73.30

Rating/target price changes above reflect Eastern Standard Time

**Alior Bank (ALRR.WA)**  
**Ratings and Target Price History**  
**Best Ideas Research**  
**Relative Call (3 Month)**

Analyst: Andrzej Powierza  
Covered since January 22 2013

\* Indicates change



Rating/target price changes above reflect Eastern Standard Time

DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30th September 2013 is as follows: Buy (1) representing 39% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 32% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 29% of the DMBH coverage 0% of which are IB clients

DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30th September 2013 is as follows: Buy (1) representing 39% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 32% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 29% of the DMBH coverage 0% of which are IB clients

Citigroup Global Markets Ltd is mandated as Joint Bookrunner on the announced sale of Unicredit's 9.1% stake in Bank Pekao. 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 September 2013 is as follows: Buy (1) representing 39% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 32% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 29% of the DMBH coverage 0% of which are IB clients

DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30th September 2013 is as follows: Buy (1) representing 39% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 32% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 29% of the DMBH coverage 0% of which are IB clients

Citigroup Global Markets Limited is currently mandated as Joint Global Co-ordinator in relation to the recently announced accelerated equity offering for PKO Bank Polski ('PKO BP'). DMBH is a market maker in the publicly traded equity securities of PKO BPG DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30th September 2013 is as follows: Buy (1) representing 39% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 32% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 29% of the DMBH coverage 0% of which are IB clients

DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30th September 2013 is as follows: Buy (1) representing 39% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 32% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 29% of the DMBH coverage 0% of which are IB clients DMBH is a market maker in the publicly traded equity securities of BRE Bank SA.

DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30th September 2013 is as follows: Buy (1) representing 39% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 32% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 29% of the DMBH coverage 0% of which are IB clients DMBH acts as a dealer and regularly trades in the securities of Alior Bank.

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

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

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Bank Millennium SA, ING Bank Slaski SA, Bank Pekao SA, Getin Noble Bank, PKO BP, mBank SA.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from PKO BP.

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

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

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

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

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

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#### Citi Research Equity Ratings Distribution

<b>Data current as of 30 Sep 2013</b>	<b>12 Month Rating</b>			<b>Relative Rating</b>		
	<b>Buy</b>	<b>Hold</b>	<b>Sell</b>	<b>Buy</b>	<b>Hold</b>	<b>Sell</b>
Citi Research Global Fundamental Coverage	48%	40%	12%	6%	87%	6%
% of companies in each rating category that are investment banking clients	55%	50%	43%	64%	51%	48%

#### Guide to Citi Research Fundamental Research Investment Ratings:

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

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

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

**Relative three-month ratings:** Citi Research may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration,

explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings**, which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of the Citi Research expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

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

#### NON-US RESEARCH ANALYST DISCLOSURES

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

Dom Maklerski Banku Handlowego SA

Andrzej Powierza

Citigroup Global Markets Ltd

Simon Nellis

#### OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 02 December 2013 04:30 PM on the issuer's primary market.

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

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