

11 October 2012 | 30 pages

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

Getin Noble Bank (GNB.WA)

Back to the Future – Downgrading to Neutral

- **Back to the Future** — We view positively the strategic changes that have led Getin Noble Bank (GNB) to provide fewer mortgages, grant more cash loans and improve its funding mix. But we don't expect the bank to be able to maintain its current momentum; indeed, performance has just returned to where it was in the past.
- **Fairly Valued at 1x Book** — We maintain our view that the bank's sustainable ROE (11%) will remain below its cost of equity (11.5%). After recent strong share performance, at 1x P/BV 2012E we view the stock as fairly valued and we downgrade our rating to Neutral. We reduce our TP to ZL 1.82 from 1.95 previously due to lower EPS estimates (-28% this year and -23% next year).
- **Capital Increase** — According to our estimates recent rights issues have lifted the bank's CAR to above 12% and its Tier 1 to about 10% – decent levels but still low relative to peers and not impressive vs. GNB's own history.
- **Cost of Risk is Still High** — In 2Q12 provisioning declined 24% yoy driven by low provisioning on consumer loans but at 238bp risk cost remained high in absolute terms driven by mortgage bad debts. In 2013 provisioning may be positively affected by stabilisation of asset quality of mortgages granted in 2008-09 and negatively by deterioration in quality of all other loans as the economy stalls.
- **Cost of Funding is Still High** — Despite lower growth in funding needs, the bank's net interest margin (NIM) dropped to 2.4% in 2Q12 from 3.0% in 2Q11 because the bank, due to global uncertainties and its high exposure to FX loans, maintained a high liquidity buffer (loan-to-deposit ratio 86% vs. 91% in 2Q11).
- **"Risk On" Play?** — Due to its high share of FX loans, of the Polish financials stocks in our coverage universe GNB is usually one of the best ways to play increased investor appetite for risk but at the current price we view that story as played out. Sberbank (SBER.MM; Rbl92.25; 1) remains our preferred regional "risk on" play.

Getin Noble Bank (PLN)

| Year to 31 Dec | 2010A | 2011A | 2012E | 2013E | 2014E |
|------------------------|-------|-------|-------|-------|-------|
| Net Income (ZLM) | 450.1 | 950.1 | 408.8 | 496.3 | 623.9 |
| Diluted EPS (ZL) | 0.18 | 0.37 | 0.15 | 0.19 | 0.24 |
| Diluted EPS (Old) (ZL) | 0.20 | 0.40 | 0.21 | 0.24 | 0.26 |
| PE (x) | 9.4 | 4.6 | 11.2 | 9.2 | 7.3 |
| P/BV (x) | 0.5 | 0.4 | 1.0 | 0.9 | 0.8 |
| DPS (ZL) | 0.00 | 0.00 | 0.00 | 0.00 | 0.16 |
| Net Div Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 9.5 |
| ROE (%) | 14.6 | 25.3 | 9.1 | 9.8 | 11.1 |

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

| | |
|------------------------------|-------------|
| Neutral | 2 |
| <i>from Buy</i> | |
| Price (10 Oct 12) | ZL1.73 |
| Target price | ZL1.82 |
| <i>from ZL1.95</i> | |
| Expected share price return | 5.2% |
| Expected dividend yield | 0.0% |
| Expected total return | 5.2% |
| Market Cap | ZL4,135M |
| | US\$1,308M |

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



Andrzej Powierza

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

Simon Nellis

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

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

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| Fiscal year end 31-Dec | 2010 | 2011 | 2012E | 2013E | 2014E |
|------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Valuation Ratios | | | | | |
| P/E adjusted (x) | 9.4 | 4.6 | 11.2 | 9.2 | 7.3 |
| P/E reported (x) | 9.4 | 4.6 | 11.2 | 9.2 | 7.3 |
| P/BV (x) | 0.5 | 0.4 | 1.0 | 0.9 | 0.8 |
| P/Adjusted BV diluted (x) | 1.3 | 1.1 | 1.0 | 0.9 | 0.8 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 9.5 |
| Per Share Data (ZL) | | | | | |
| EPS adjusted | 0.18 | 0.37 | 0.15 | 0.19 | 0.24 |
| EPS reported | 0.18 | 0.37 | 0.15 | 0.19 | 0.24 |
| BVPS | 3.45 | 4.43 | 1.81 | 2.00 | 2.23 |
| Tangible BVPS | 3.22 | 4.29 | 1.76 | 1.95 | 2.18 |
| Adjusted BVPS diluted | 1.34 | 1.59 | 1.81 | 2.00 | 2.23 |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | 0.16 |
| Profit & Loss (ZLm) | | | | | |
| Net interest income | 1,052 | 1,344 | 1,340 | 1,563 | 1,770 |
| Fees and commissions | 962 | 869 | 853 | 898 | 938 |
| Other operating Income | 145 | 202 | 87 | 103 | 100 |
| Total operating income | 2,159 | 2,415 | 2,281 | 2,564 | 2,807 |
| Total operating expenses | -733 | -833 | -875 | -935 | -966 |
| Oper. profit bef. provisions | 1,426 | 1,582 | 1,406 | 1,629 | 1,841 |
| Bad debt provisions | -1,057 | -1,208 | -980 | -1,009 | -1,062 |
| Non-operating/exceptionals | 0 | 0 | 0 | 0 | 0 |
| Pre-tax profit | 369 | 374 | 426 | 620 | 780 |
| Tax | 12 | -66 | -87 | -124 | -156 |
| Extraord./Min. Int./Pref. Div. | 69 | 643 | 69 | 0 | 0 |
| Attributable profit | 450 | 950 | 409 | 496 | 624 |
| Adjusted earnings | 450 | 950 | 409 | 496 | 624 |
| Growth Rates (%) | | | | | |
| EPS adjusted | 36.9 | 102.9 | -58.6 | 21.4 | 25.7 |
| Oper. profit bef. prov. | 28.9 | 10.9 | -11.1 | 15.9 | 13.1 |
| Balance Sheet (ZLm) | | | | | |
| Total assets | 42,798 | 54,488 | 57,356 | 60,220 | 62,665 |
| Avg interest earning assets | 37,023 | 47,231 | 54,186 | 56,953 | 59,525 |
| Customer loans | 36,033 | 44,733 | 46,833 | 50,240 | 52,547 |
| Gross NPLs | 3,676 | 5,495 | 5,386 | 5,778 | 6,043 |
| Liab. & shar. funds | 42,798 | 54,488 | 57,356 | 60,220 | 62,665 |
| Total customer deposits | 37,026 | 47,059 | 48,964 | 50,443 | 51,457 |
| Reserve for loan losses | 2,579 | 3,678 | 4,142 | 4,771 | 5,232 |
| Shareholders' equity | 3,294 | 4,225 | 4,800 | 5,296 | 5,920 |
| Profitability/Solvency Ratios (%) | | | | | |
| ROE adjusted | 14.6 | 25.3 | 9.1 | 9.8 | 11.1 |
| Net interest margin | 2.84 | 2.85 | 2.47 | 2.74 | 2.97 |
| Cost/income ratio | 33.9 | 34.5 | 38.4 | 36.5 | 34.4 |
| Cash cost/average assets | 1.9 | 1.7 | 1.6 | 1.6 | 1.6 |
| NPLs/customer loans | 10.2 | 12.3 | 11.5 | 11.5 | 11.5 |
| Reserve for loan losses/NPLs | 70.2 | 66.9 | 76.9 | 82.6 | 86.6 |
| Bad debt prov./avg. cust. loans | 3.3 | 3.0 | 2.1 | 2.1 | 2.1 |
| Loans/deposit ratio | 97.3 | 95.1 | 95.6 | 99.6 | 102.1 |
| Tier 1 capital ratio | 9.9 | 9.6 | 9.9 | 10.1 | 10.9 |
| Total capital ratio | 9.9 | 10.1 | 12.1 | 12.2 | 12.8 |

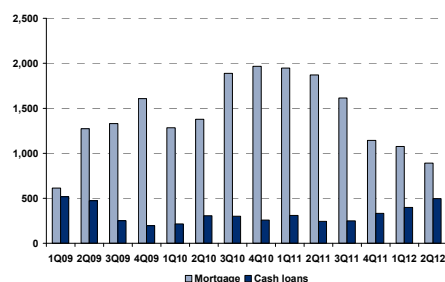
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Back to the Future

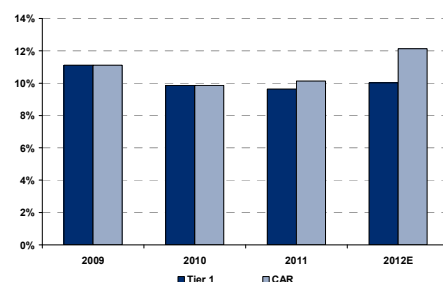
Getin Noble Bank (GNB) is changing. The bank is granting fewer mortgages and selling more cash loans. It has also started to improve its funding mix by opening more current accounts. It has acquired a part of the Polish business of DNB Nord consisting of branches, employees and loans excluding retail mortgage loans and non-performing loans. Capital has been raised and the cost of risk has declined. All of this is good news. But it doesn't represent much of a departure from the bank's history. GNB granted more cash loans in 1Q09 (which later led to high provisions) than it does now. It also promoted current accounts and credit cards in 2009. Historically it had an even higher Tier 1 ratio and at the end of 2010 it managed to reduce cost of risk to a similar level as now but kept it low for only two quarters. Thus, while we assess positively recent changes, we don't take it for granted that the bank will manage to sustain its current momentum and further reduce cost of risk and materially lower its cost of funding. As such we maintain our view that the bank's sustainable ROE (11%) will remain below its cost of equity (11.5%). After the recent strong share performance, at 1x P/BV 2012E we think the stock is fairly valued and we downgrade our rating to Neutral (TP ZI 1.82). We think the bank used to be one of the best ways to play increased investor appetite for risk. The stronger Zloty may positively impact NIM as this would likely lead the bank to reduce the size of its liquidity buffer and will be positive for the cost of risk (it will be easier for clients to pay back FX-denominated mortgage loans). However, at the current share price we view that upside risk as priced-in.

Figure 1. Getin Noble Bank – Mortgage vs. Cash Loan Production, 1Q09-2Q12 (Polish Zloty in million)



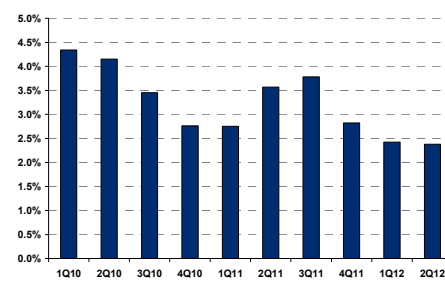
Source: Company reports, Citi Research

Figure 2. Getin Noble Bank – Tier 1 and CAR, 2009-2012 (Percentage)



Source: Company reports, Citi Research

Figure 3. Getin Noble Bank – Cost of Risk, 1Q10-2Q12 (Percentage)



Source: Company reports, Citi Research

Figure 4. Getin Noble Bank – Share Price vs. CHF/PLN Rate, May 07 – Oct 12 (Polish Zloty)



Source: dataCentral

Valuation

We value Getin Noble Bank using a Standard Warranted Equity Valuation and an Economic Value Added Valuation. These are standard methods that we use when valuing our coverage universe of listed Polish banks. Both these methods are based on 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 bank's ability to generate a return on the capital determines the level of future growth and dividend payout.

Figure 5. Getin Noble Bank – Summary of Valuations

| | |
|----------------------------|-------------|
| EVA | 2.03 |
| Warranted Equity Valuation | 1.82 |
| Average | 1.93 |
| Price Target | 1.82 |
| Current share price | 1.73 |
| Upside / (Downside) | 5.2% |
| DPS (2012E) | 0.00 |
| Dividend yield (%) | 0.0% |
| Total Return | 5.2% |

Source: Citi Research

As in case of other Polish banks, we set our target price on the basis of the more conservative Standard Warranted Equity Valuation (ZI 1.82) and rate the bank Neutral.

Standard Warranted Equity Valuation

Our TP of ZI 1.82 per share is based on Standard Warranted Equity Valuation...

Our Standard Warranted Equity Valuation model is based upon the formula: $\text{Price / Book value} = (\text{Sustainable RoE} - \text{growth}) / (\text{Cost of equity} - \text{growth})$. When valuing Getin Noble Bank we assume a sustainable ROE of 11.0% in line with our estimate of 2014 ROE (11.1%). We assume a cost of equity of 11.5% (in line with our methodology of setting cost of equity for Polish banks within a range of 10.5% to 11.5%, depending on the bank's exposure to CHF lending) and a sustainable growth rate of 4.0% (the same as for other Polish banks). Based on these inputs, we arrive at a valuation of ZI 1.82 per share for Getin Noble Bank.

Figure 6. Getin Noble Bank – Warranted Equity Valuation (Polish Zloty)

| | |
|--------------------------------|--------------|
| Sustainable ROE | 11.0% |
| 2014E COE | 11.50% |
| Growth | 4.00% |
| Target P/BV multiple | 0.93 |
| 2014E BVPS | 2.2 |
| 2014E Target Value Per Share | 2.1 |
| Months to Discount to Sep 2013 | 15 |
| Discounted | 1.82 |
| 2013E DPS | 0.0 |
| Discounted | 0.0 |
| Value per share | 1.82 |
| Upside / (Downside) | 5.2% |

Source: Citi Research

Economic Value Added Model

... while EVA approach suggests a valuation ZI 2.03 per share

We also apply 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 2015 and an assumption of discount rate and a perpetual growth rate. Assuming a discount rate of 11.5% and perpetual growth at 4.5%, we arrive at a valuation of ZI 2.03.

Figure 7. Getin Noble Bank – Economic Value Added Model

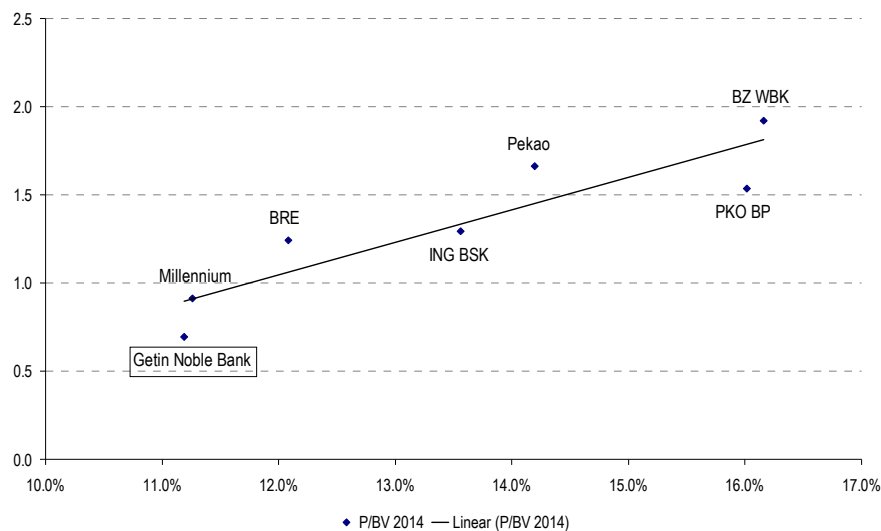
| | 2010 | 2011 | 2012E | 2013E | 2014E | 2015E | |
|----------------------------------------------------|---------------|------------|------------|------------|------------|------------|-------|
| Average Risk Free Rate | 5.8% | 5.8% | 5.8% | 5.8% | 5.8% | 5.8% | |
| Required Equity/Required Tier I Capital | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | |
| Required Tier I Ratio | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | |
| Required Equity | 2,434 | 3,052 | 3,584 | 3,763 | 3,916 | 4,149 | |
| Forecast Equity | 3,294 | 4,225 | 4,800 | 5,296 | 5,920 | 6,150 | |
| Excess Equity | 859 | 1,173 | 1,216 | 1,533 | 2,004 | 2,001 | |
| Earnings on Excess Equity | 50 | 68 | 71 | 89 | 116 | 116 | |
| Forecasted Net Profit | 450 | 950 | 409 | 496 | 624 | 667 | |
| Deduct Earnings on Excess Equity | -50 | -68 | -71 | -89 | -116 | -116 | |
| Add Back Tax on Earnings on Excess Equity | -2 | 12 | 14 | 18 | 23 | 23 | |
| Adjusted Earnings | 399 | 894 | 353 | 425 | 531 | 574 | |
| Adjusted ROE (ex excess equity) | 16.4% | 32.6% | 10.6% | 11.6% | 13.8% | 14.2% | |
| Capital charge | 280 | 315 | 382 | 422 | 442 | 464 | |
| EVA | 119 | 579 | -29 | 3 | 89 | 110 | 1,645 |
| NPV | | | -29 | 2 | 72 | 80 | 1,442 |
| Years out | | | 0 | 1 | 2 | 3 | 3 |
| Discount factor (discount to end-07) | 5 | 5.00 | 1.00 | 0.90 | 0.80 | 0.72 | 0.88 |
| Discount rate | 11.50% | | | | | | |
| Long-term growth rate (capital and profits) | 4.50% | | | | | | |
| Current book value (2010) | 4,225 | | | | | | |
| EVA flows 2011-2015 | 125 | | | | | | |
| Terminal value | 1,442 | | | | | | |
| Less capital increase | 400 | | | | | | |
| Total | 5,391 | | | | | | |
| Number of shares | 2,650 | | | | | | |
| Value per share (ZI) | 2.03 | | | | | | |
| Upside | 17.6% | | | | | | |

Source: Citi Research

Comparison to Polish Peers

Due to the bank's size in terms of market capitalisation and free float we think Getin Noble Bank should be compared to local peers (other Polish banks) rather than to big CEEMEA and GEMs banks.

Figure 8. Polish Banks – P/BV vs. ROE, 2014E



Source: Citi Research

Figure 9. Polish Banks – Valuation Table (Prices as of October 9)

| | Current Price | Rating | Target Price | P/E | | | P/BV | | | ROE | | |
|------------------|---------------|--------|--------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | | | | 2012E | 2013E | 2014E | 2012E | 2013E | 2014E | 2012E | 2013E | 2014E |
| PKO BP | 35.9 | 1 | 40.7 | 11.9 | 12.9 | 10.0 | 1.8 | 1.7 | 1.5 | 15.8% | 13.5% | 16.0% |
| BZ WBK | 236.6 | 1 | 264.0 | 13.4 | 14.6 | 12.3 | 2.1 | 2.0 | 1.9 | 16.5% | 14.1% | 16.2% |
| BANK MILLENNIUM | 4.24 | 1 | 3.85 | 12.3 | 16.2 | 8.6 | 1.1 | 1.0 | 0.9 | 8.9% | 6.4% | 11.3% |
| PEKAO | 155.3 | 2 | 152.0 | 14.6 | 14.9 | 12.0 | 1.8 | 1.7 | 1.7 | 12.6% | 11.9% | 14.2% |
| ING BSK | 84.85 | 2 | 88.2 | 13.7 | 16.1 | 10.0 | 1.5 | 1.4 | 1.3 | 11.7% | 9.1% | 13.6% |
| Getin Noble Bank | 1.73 | 2 | 1.82 | 11.2 | 9.2 | 7.3 | 1.0 | 0.9 | 0.8 | 9.1% | 9.8% | 11.1% |
| BRE | 316.1 | 3 | 273.0 | 11.9 | 14.0 | 10.5 | 1.4 | 1.3 | 1.2 | 13.0% | 9.8% | 12.1% |

Source: Citi Research. Other banks discussed in this report: Kredyt Bank SA (KRB.WA; ZL15.41; 1H)

Checking the Boxes

The bank had a busy agenda for 2012 with a number of strategic initiatives, including:

- Merging Get Bank with Getin Noble Bank;
- Increasing CAR to 12%;
- Lowering the cost of risk;
- Lowering the cost of funding; and
- Changing the business mix.

We assess below how the bank has progressed on these initiatives.

Merger and Capital Increase – Done

The spin-off of Getin Holding and the merger of Get Bank were completed in 1H12

In 1H12 the spin-off of Getin Holding and the merger of Get Bank (former Allianz Bank) with Getin Noble Bank were completed.

- In January 2012 Get Bank issued ZI 2,142m new shares to Getin Holding shareholders in exchange for a 94% stake in Getin Noble Bank.
- In June Get Bank merged with Getin Noble Bank, issuing 145m new shares to minority shareholders of Getin Noble Bank and the merged entity was named Getin Noble Bank.

The bank has raised a new capital of ZI 296m

In September 2012 Getin Noble Bank increased its capital via a rights issue in two tranches, issuing:

- 200m shares at ZI 1 per share (J issue) to increase the capital base of the bank; and
- 60m shares at ZI 1.6 per share (K issue) to fund potential acquisitions.

Both tranches were offered to current shareholders (shareholders as of 7 September had pre-emptive rights which were traded on the WSE between 7 - 14 September).

Getin Holding increasing its stake up to 5.66%

On 18 September Getin Holding, the sister company of GNB also controlled by Mr. Leszek Czarnecki, indicated that it would purchase 30.3m of Getin Noble Bank shares from Mr. Czarnecki and his subsidiaries at a price of c ZI 1.60 per share. Getin Holding paid an advance immediately and will get GNB's shares 40 days after registration of the K issue. The sale agreement will not come into force if the K issue is not registered. This suggests that Getin Holding is in fact buying half of K issue shares even if formally the new shares are acquired by Mr. Czarnecki and his subsidiaries and later a similar number of GNB shares are sold to the holding. Following registration of the capital increase, Getin Holding's stake in Getin Noble Bank will rise to 5.66% from 4.42% previously.

We expect Tier 1 to increase by c70bp to c10%...

According to our calculations a capital increase by ZI 296m will increase the bank's Tier 1 ratio by 67bp and the ratio, excluding impact of acquisitions, will broadly reach 10% (10.2% on a stand-alone basis, and 9.9% on a consolidated basis).

...while Total CAR will exceed 12%

Simultaneously, further issuance of subordinated debt (in August 2012 the bank issued ZI 172m of 7-year bonds and started a new programme of subordinated bonds with an upper limit of ZI 500m) will bring the Capital Adequacy Ratio to 12%, in line with the previous declaration of the bank's CEO, Krzysztof Rosinski.

Announced on 2 October 2012, the acquisition of loans (ZI 975m at the end of May 2012) of the Polish unit of DNB Nord will decrease the Tier 1 ratio by 21bp and Total CAR by 26bp. It seems that the K issue was calibrated to match the capital needs coming from the acquisition of DNB Nord banking business.

We note that starting from 3Q12 the first tranches of 6-year subordinated bonds issued in 3Q11 will start to amortise (20% in the fifth year before maturity, 40% in the fourth year, etc.)

Figure 10. Getin Noble Bank – Capital Ratios, 2011-2012E (Polish Zloty in million/Percentage)

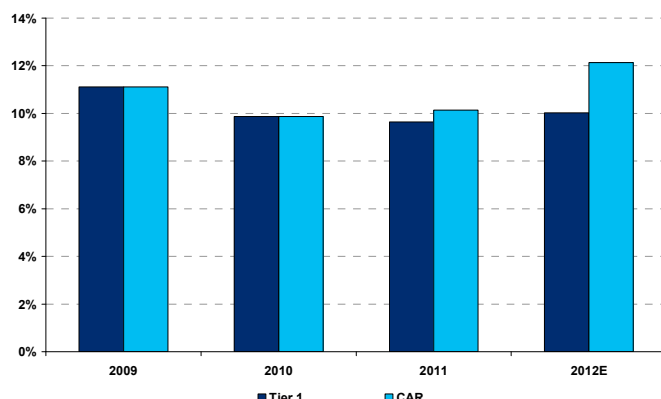
| | Consolidated | | | Stand-alone | | |
|--------------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2011 | 1H12 | 2012E | 2011 | 1H12 | 2012E |
| Tier 1 | 3,642 | 4,010 | 4,454 | 3,693 | 3,989 | 4,557 |
| as % of Total equity | 86% | 93% | 93% | 90% | 95% | |
| Tier 1 before deductions | 4,696 | 4,617 | 5,089 | 4326.8 | 4687.0 | 5144.5 |
| Share capital | 103 | 2,390 | 2,650 | 103 | 2,390 | 2,650 |
| Supplementary capital | 3,762 | 2,057 | 2,093 | 3,743 | 2,129 | 2,165 |
| Other reserve capital | 37 | 37 | 37 | 37 | 37 | 37 |
| Minority capital | 2 | 2 | 2 | | | |
| Own shares | | | 0 | | | 0 |
| Revaluation gains | 27 | -97 | 27 | | | |
| Stock option | 16 | 19 | 16 | | | |
| Current year profit audited | 791 | 130 | 307 | 443 | 130 | 292 |
| Current year profit unaudited | 188 | 109 | 102 | | | |
| Deductions | -1,054 | -607 | -635 | -634 | -698 | -587 |
| Intangible assets | -135 | -109 | -138 | -105 | -104 | -105 |
| Unrealised losses on AFS fixed-income securities | -5 | -1 | -1 | -5 | -1 | -5 |
| Unshared loss from the previous years | -701 | -317 | -317 | -400 | -504 | -400 |
| Stakes in financial institutions | -213 | -180 | -180 | -124 | -89 | -77 |
| Tier 2 | 188 | 706 | 952 | 276 | 798 | 1,054 |
| as % of subordinated debt | | | 82% | | | 91% |
| Tier 2 before deductions | 401 | 886 | 1,132 | 400 | 887 | 1,131 |
| Subordinated debt booked as Tier 2 | 400 | 877 | 1,131 | 400 | 879 | 1,131 |
| Unrealised gains on AFS fixed-income securities | 0 | 8 | 0 | | 8,032 | 0 |
| FX | 1 | 1 | 1 | | | |
| Deductions | -213 | -180 | -180 | -124 | -89 | -77 |
| Stakes in financial institutions | -213 | -180 | -180 | -124 | -89 | -77 |
| Tier 3 | 4 | 5 | 0 | 2 | 1 | 0 |
| Total funds | 3,833 | 4,721 | 5,406 | 3,971 | 4,789 | 5,611 |
| Credit risk requirement | 2,823 | 3,262 | 3,310 | 2,828 | 3,271 | 3,310 |
| Counterparty risk | 1 | 1 | 1 | 0 | 0 | 0 |
| Operation risk | 225 | 258 | 270 | 208 | 237 | 250 |
| Interest rate risk | 1 | 1 | 1 | 1 | 1 | 1 |
| Other risks | 2 | 3 | 2 | 1 | 0 | 1 |
| Total capital requirement | 3,052 | 3,526 | 3,584 | 3,038 | 3,509 | 3,562 |
| Tier 1 ratio | 9.55% | 9.10% | 9.94% | 9.72% | 9.10% | 10.23% |
| CAR | 10.05% | 10.71% | 12.07% | 10.45% | 10.92% | 12.60% |

Source: Citi Research, Company Reports

Nevertheless it still remains one of the lowest capitalised Polish listed banks.

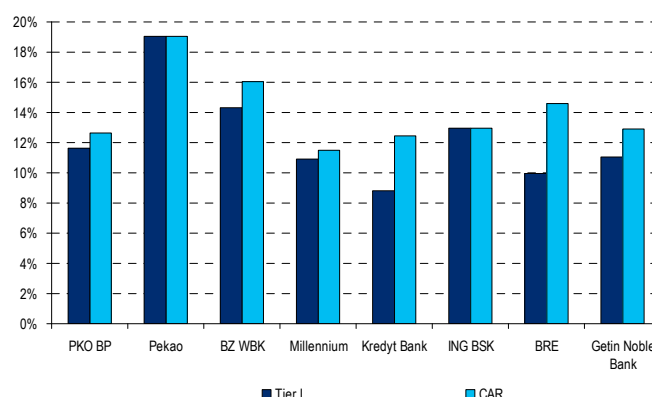
After the capital increase Getin Noble Bank will still remain as one of the weakest capitalised Polish listed banks and its estimated 2012E ratios (Tier 1 about 10% and CAR above 12%) will be not be materially higher than its historical ratios. Nevertheless, the bank's capital position should be adequate and we believe the bank's ability to offset the increase in capital requirement driven by Zloty depreciation vs. the Swiss franc and new higher risk weights for FX mortgages (in June 2012 the risk weight on FX mortgages was increased to 100% from 75% previously) proves the bank's effectiveness in capital management.

Figure 11. Getin Noble Bank – Tier 1 and CAR, 2009-2012 (Percentage)



Source: Company reports, Citi Research

Figure 12. Polish Banks – Expected Tier 1 and CAR, 2012E (Percentage)



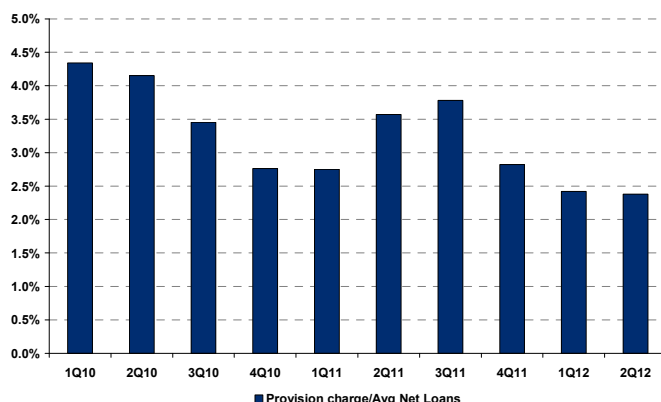
Source: Banks, Citi Research

Cost of Risk – Half Way to Cleaning the Portfolio

The bank managed to reduce the cost of risk in cash and car loans, but...

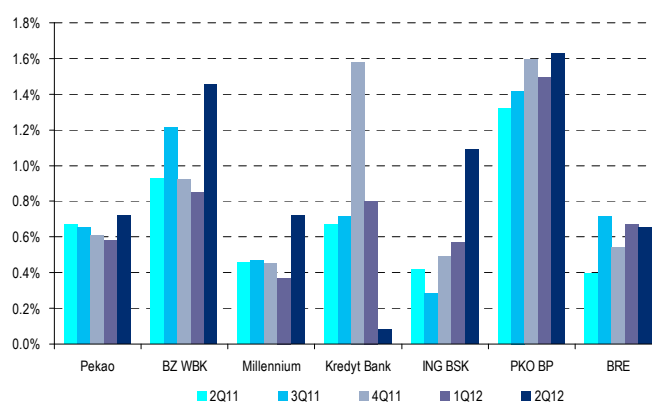
In 2Q12 net provisioning (Zl 246m) declined 1% qoq and 24% yoy and was 33% below the peak quarterly charge recorded in 3Q11 (Zl 365m). On the other hand, the cost of risk is still high vs. other Polish peers and not materially lower than that reported by the bank in 4Q10 and 1Q11.

Figure 13. Getin Noble Bank – Cost of Risk, 1Q10-2Q12 (Percentage)



Source: Company reports, Citi Research

Figure 14. Polish Banks – Cost of Risk, 2Q11-2Q12 (Percentage)



Source: Banks, Citi Research

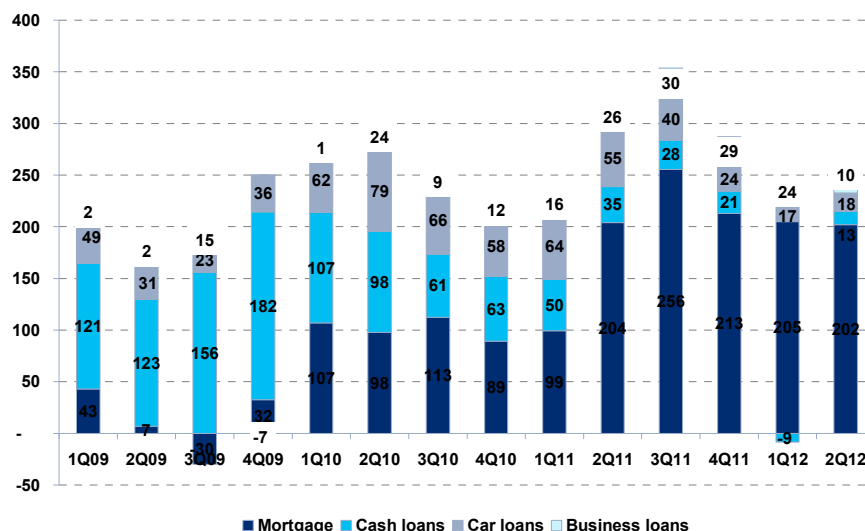
The decrease was achieved mainly due to lower provisions on consumer loans:

- Provisioning of car loans declined to Zl 18m in 2Q12 from Zl 55m in 2Q11 and the highest ever Zl 79m in 2Q10;
- Cash loan provisioning dropped to Zl 13m in 2Q12 from Zl 35m in 2Q11 and the peak level of Zl 182m in 4Q09.

...still faces high cost of risk in mortgage loans.

It seems that the bank managed to clean up after the “cash loan bubble” that led to high provisioning in 2008, 2009 and 2010. It has also successfully reduced the cost of risk in car loans, which increased materially in 2010 and 2011. Unfortunately the bank still faces a high cost of risk in mortgage loans: excluding 3Q11 (when provisioning was negatively affected by rapid Zloty depreciation), provisioning in this segment is broadly flat since 2Q11.

Figure 15. Getin Noble Bank – Provisioning by Product, 1Q09-2Q12 (Polish Zloty in million)



Source: Company reports, Citi Research

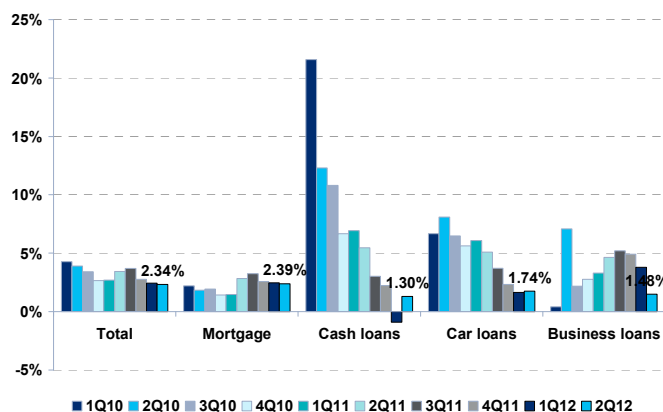
In our opinion the outlook for the cost of risk at Getin Noble Bank is driven by two opposing drivers: working through poor quality mortgage loans written in 2008/09 (a stock-specific driver) and containing the negative impact of the weakening macro-economy on the loan book (a sector-specific driver).

FX mortgage book will require three more quarters to clean

In 2Q12 the cost of risk for mortgages reached 239bp and was much higher than peers

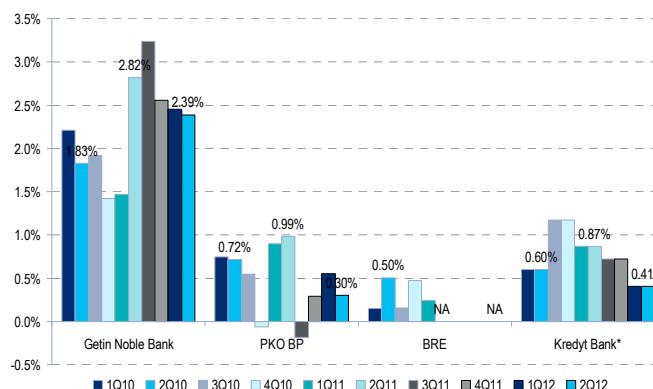
In 2Q12 provisioning of mortgage loans constituted more than 80% of total new provisions created in the quarter and the cost of risk in mortgage lending reached 239bp – more than in consumer lending (130bp in cash and 174bp in car loans) and much higher than peers; cost of risk in mortgage loans at PKO BP and Kredyt Bank in 2Q12 reached 30bp and 41bp respectively.

Figure 16. Getin Noble Bank – Cost of Risk by Product, 1Q10-2Q12 (Percentage)



Source: Company reports, Citi Research

Figure 17. Polish Banks – Cost of Risk in Mortgages, 1Q10-2Q12 (Percentage)



* Kredyt Bank presents data on mortgage loans provisions on a semi-annual basis

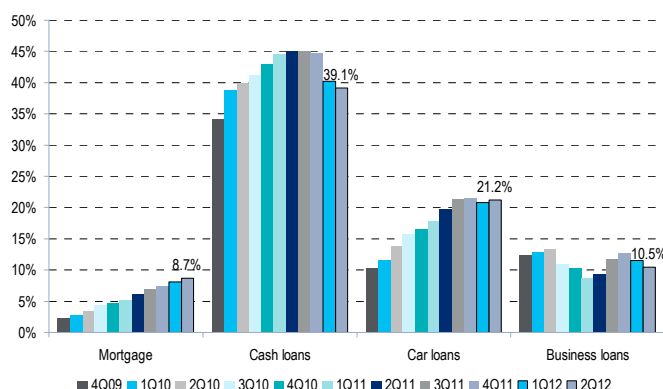
Source: Banks, Citi Research

Mortgage provisions reached the current level in two steps: firstly in 2010 quarterly provisions increased to cZł 100m and then jumped to cZł 200m in 2Q11. From discussions with the company it appears the first jump was attributed to Złoty-denominated consumer loans granted in 2009 that were collateralised with real estate. The second increase appears to be driven by deterioration in the quality of FX-denominated mortgage loans as a result of the depreciation of the Złoty vs. CHF and the end of a period of lowered monthly installments (at the beginning of 2009 the bank offered its clients in 2009 the option to fix monthly payments at a lower FX rate for two years).

We think GNB needs to "top up" mortgage provisions by c Zł 600m; but then mortgage provisioning is likely to decline around 2Q13

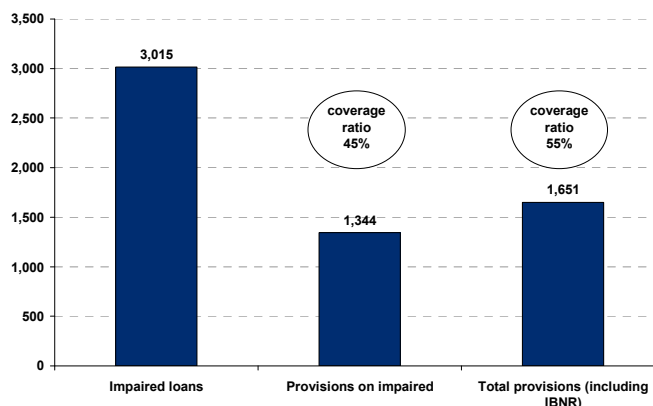
According to the bank's representatives, high provisions on the mortgage portfolio will last "rather a few quarters than a few years". At the end of 2Q12 the mortgage NPL ratio was 8.7%. Assuming the Złoty mortgage NPL ratio at 6% (vs. the highest 4.6% mortgage NPL ratio at Kredyt Bank, the other listed bank with relatively weak asset quality) we estimate that the NPL ratio of the FX mortgage portfolio is c 11%. We think that the FX mortgage NPL ratio may reach 20%. Assuming required coverage of 50% vs. the current level of 45% (55% including IBNR provisions) this implies further required provisioning at cZł 600m provisions, i.e. roughly three more quarters of c Zł 200m provisioning against the mortgage book.

Figure 18. Getin Noble Bank – NPL Ratios, 4Q09-2Q12 (Percentage)



Source: Company reports, Citi Research

Figure 19. Getin Noble Bank – Mortgage NPLs and Provisions 4Q09-2Q12 (Polish Złoty in million)



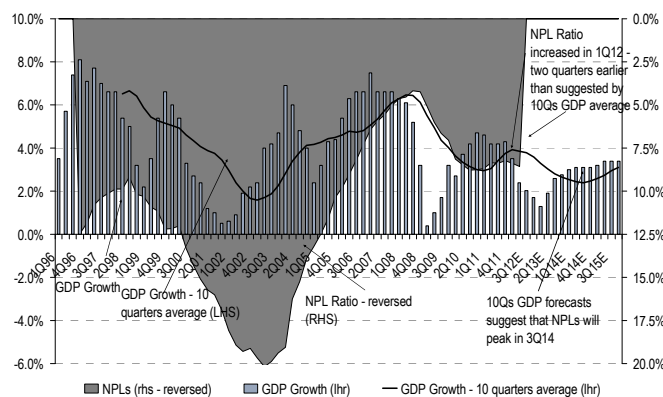
Source: Company reports, Citi Research

Macro Headwinds

Historically, lower GDP growth led to a higher NPL ratio in the sector

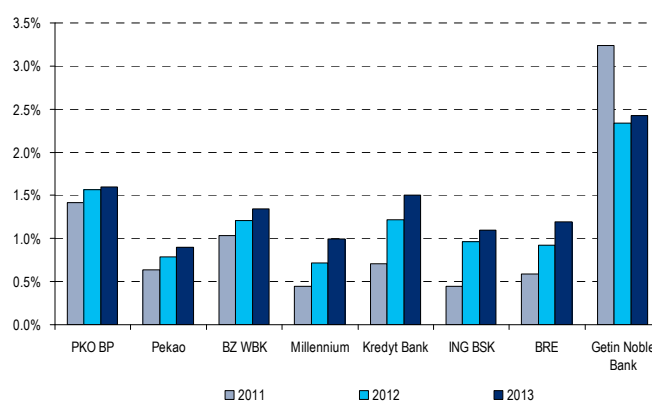
Historically lower GDP growth has led to a higher NPL ratio. Citi economists expect Polish GDP growth to decelerate from 4.3% in 2011 to 2.4% in 2012 and 2.2% in 2013. As a result we project an increase in the cost of risk in 2013 across the sector. Despite anticipating a reduction in the cost of risk on mortgages, we still see downside risks to the outlook for provisions at GNB. We think that even if cost of risk declines in mortgage loans, it will rise in cash loans as the current level (130bp in 2Q12) is unsustainably low longer term.

Figure 20. Poland – NPL Ratio vs. GDP Growth 10-Quarters Average (Percentage)



Source: NBP, Citi Research

Figure 21. Polish Banks – Cost of Risk, 2011-2013E (Percentage)



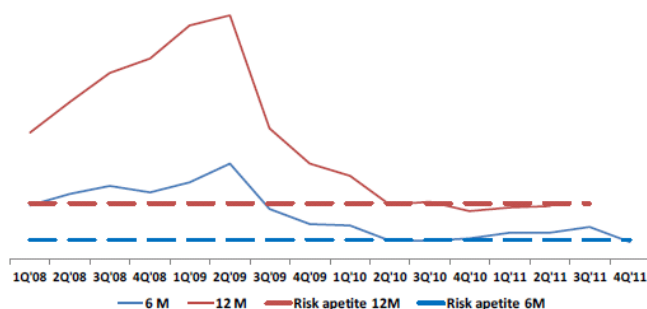
Source: Banks, Citi Research

Has the Quality of New Lending Changed?

In line with the sector trend, the quality of new consumer lending at Getin Noble Bank has improved

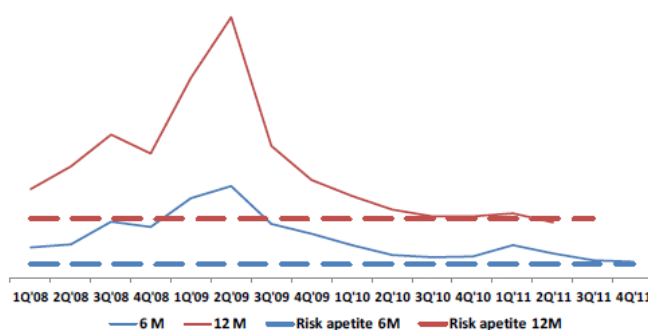
In its 1H12 presentation materials, Getin Noble Bank has shown a material decline in 90-day overdue loans 6 and 12 months after granting loans. But we note that a similar improvement has been achieved by other banks as well. According to the BIK (Credit Bureau), the quality of new lending started to improved from 2Q09: the share of 30-day overdue loans 6 months after a loan was granted declined to 1.8% (September 2011 loan production) from 2.5% (end of 2010-beginning of 2011) and 6% (end of 2008-beginning of 2009).

Figure 22. Getin Noble Bank – 90-Day Overdue Cash Loans, 1Q08-4Q11 (Percentage)



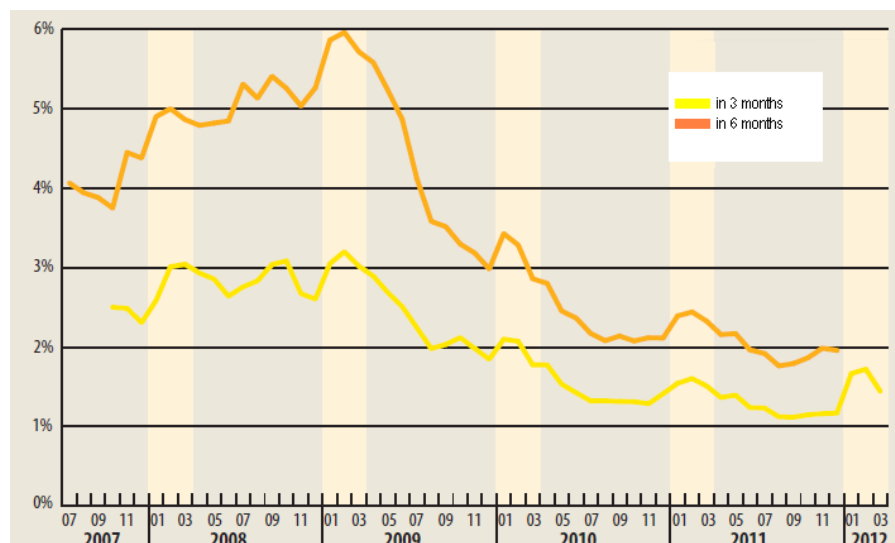
Source: Getin Noble Bank

Figure 23. Getin Noble Bank – 90-Day Overdue Car Loans, 1Q08-4Q11 (Percentage)



Source: Getin Noble Bank

Figure 24. Polish Banks – Share of 30-Day Overdue Cash Loans 3 and 6 Months After Loans Were Granted in Total Consumer Loans, Jul 07 – Mar 12 (Percentage)



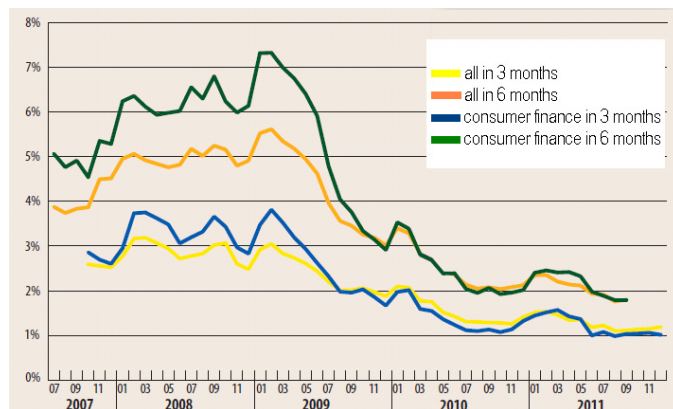
Source: Kredyt Trendy (www.bik.pl)

We expect GNB's cost of risk for cash loans to increase from 130bp in 2Q12 to c700bp (i.e. 1Q10 level) in 2013 and to offset the decline in mortgage cost of risk (from 239bp to 100bp, respectively)

In 2008-09 banks specialised in consumer finance (the closest peers to Getin Noble Bank) had worse quality of new lending than universal banks but this has improved and now they even have a marginally lower share of overdue loans than universal peers. Given the lack of fully comparable data (90-day overdue data for GNB vs. 30-day for the sector) and the short time series for GNB we cannot precisely compare the improvement in the bank's and the sector's asset quality trends but it seems that the progress achieved by Getin Noble Bank was broadly in line with industry trends. Thus we don't see any reason to expect the future provisioning of cash loans in GNB to diverge from the sector trend. We expect GNB's cash loans cost of risk to increase from 130bp in 2Q12 to c700bp (i.e. 1Q10 level) in 2013 and to offset the decline in mortgage cost of risk (from 239bp to 100bp, respectively).

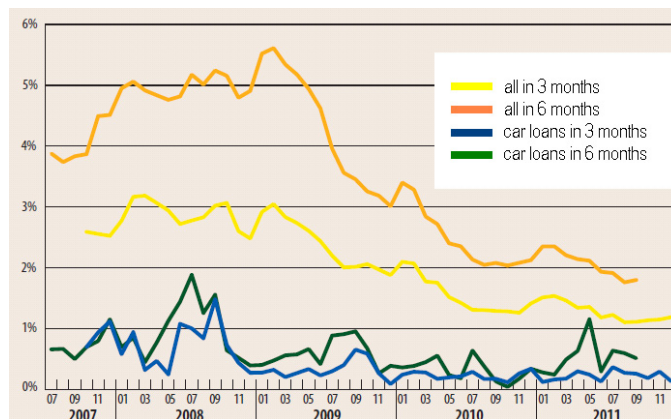
We note that historical trends in the quality of GNB's and the sector new car lending are not the same: for the sector the share of 30-day overdue loans 3 and 6 months after granting peaked in 2008 while for GNB they peaked later in 2009.

Figure 25. Polish Banks – Overdue Consumer Finance Loans 3 and 6 Months After Granting, 2007-2011 (Percentage)



Source: Kredyt Trendy (www.bik.pl)

Figure 26. Polish Banks – Overdue Car Loans in 3 and 6 Months After Granting, 2007-2011 (Percentage)



Source: Kredyt Trendy (www.bik.pl)

Business Remodelling – In Progress

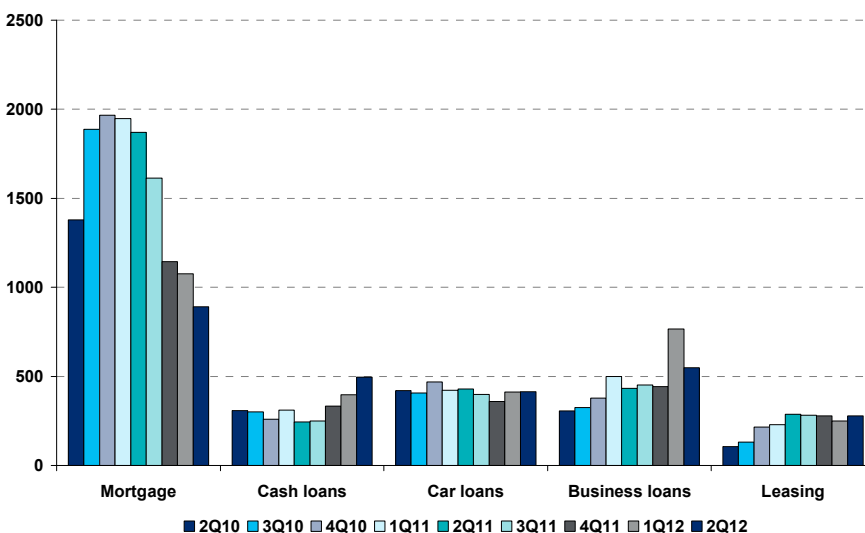
At the end of 2011 GNB's management announced plans to reduce mortgage lending to lower the bank's funding needs and thus reduce funding cost. Simultaneously, it wanted to increase production of (less funding-intensive) cash loans to increase yield on assets and offset the negative impact of mortgage sales on cross-sell of insurance products. It wanted also to increase the share of corporate loans and to transform itself into a truly universal bank.

Less Mortgage, More Cash Lending

The change in sales structure was delivered: Getin Noble Bank halved mortgage lending (-52% yoy in 2Q12) and doubled production of cash loans (+103% yoy). The bank's market share in production of mortgage loans dropped to 8.9% in 2Q12 and 9.7% in 1Q12 from a record high of 17.4% in 1Q11. At the same time the bank's share in cash and car loan production rose to c5.4% in 2Q12 from c4.3% in 2Q11.

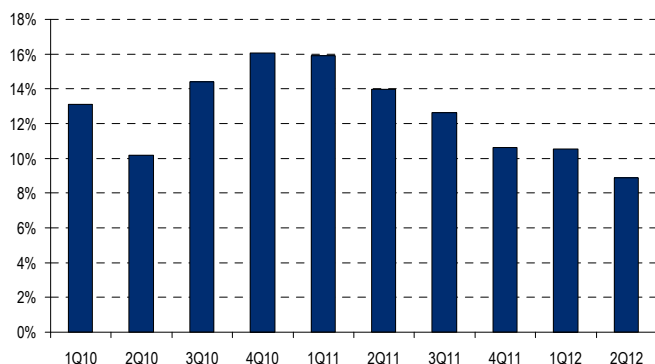
In 2Q12 GNB halved mortgage lending and doubled cash loan production

Figure 27. Getin Noble Bank – New Loan Production, 2Q10-2Q12 (Polish Zloty in million)



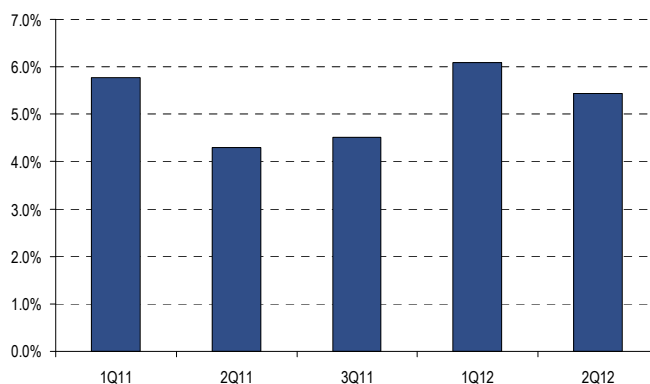
Source: Company reports, Citi Research

Figure 28. Getin Noble Bank – Share in New Mortgage Production, 1Q10-2Q12 (Percentage)



Source: ZBP, Getin Noble Bank, Citi Research

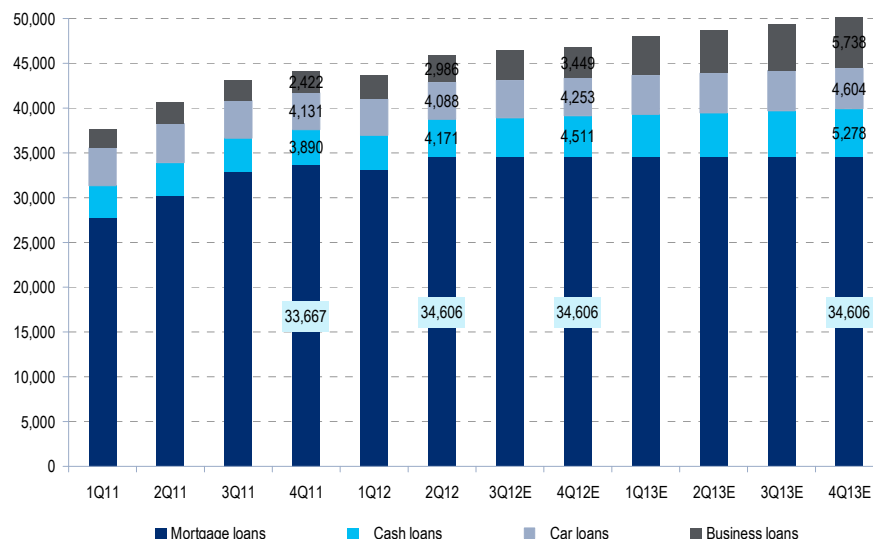
Figure 29. Getin Noble Bank – Share in New Consumer Loans Production, 1Q11-2Q12 (Percentage)



Source: BIK, Getin Noble Bank, Citi Research

We note, however, that due to the term structure of loans (average maturity of mortgage loans is above 20 years) the change in sale mix will only marginally impact the structure of the loan stock in the short term. Assuming stable FX rates, we expect that the share of mortgage loans will decline from 76% of total loans in 4Q11 to 70% in 4Q13.

Figure 30. Getin Noble Bank – Loan Structure, 2Q10-2Q12 (Polish Zloty in million)



Source: Company reports, Citi Research

Competing for Current Accounts

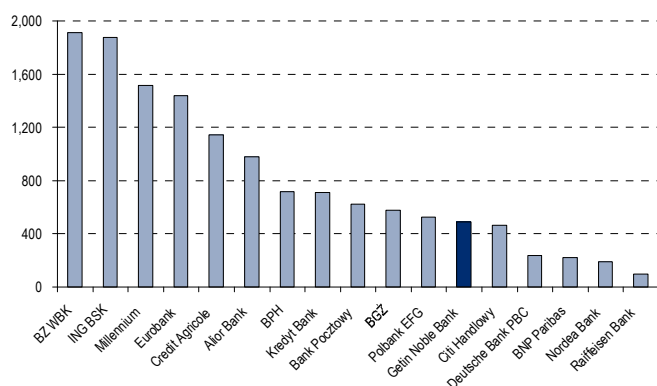
The bank also plans to focus on the acquisition of current accounts in order to:

- Increase transactional fees that are extremely low at the bank (9% of total fee income in 1H12); and
- Lower the cost of funding by increasing the share of inexpensive (interest rate close to zero) and relatively stable current retail accounts in total deposits (6% vs. 21% average of 8 banks under our coverage in 2Q12).

The bank plans to focus on acquisition of current accounts to increase transactional fees and to lower the cost of funding

In 1H12 Getin Noble Bank hasn't managed to achieve material growth in the number of current accounts (54k) but it intensified efforts in 3Q12 and we expect it to increase the number of accounts to 600,000 from 490,000 in 2Q12. We don't rule out that one channel used to jump start current account acquisition could be Open Finance which, according to its new approach to the sale of investment products, will take a more holistic approach to client service and will, through lower-margin products like term deposits or current accounts, try to build relationships with all clients entering its branches.

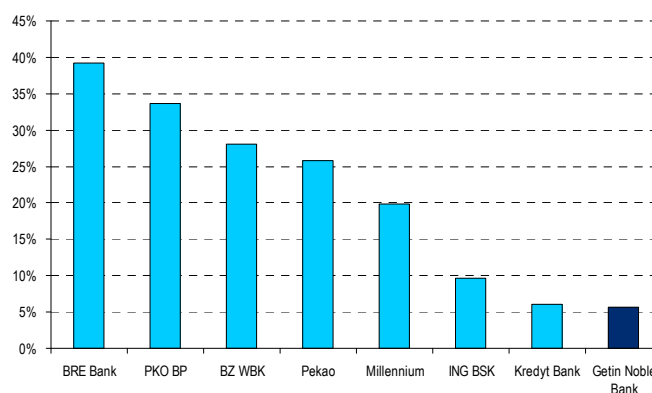
Figure 31. Polish Banks – Number of Current Accounts*, 2Q12 (in thousands)



* excluding the three biggest PKO BP, Pekao and BRE

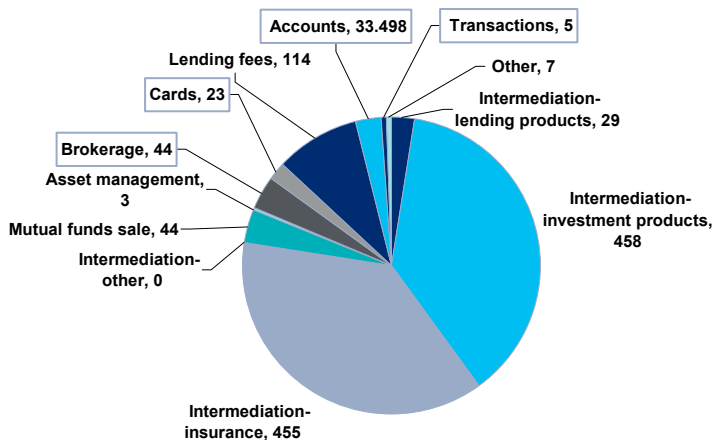
Source: PrNews, Citi Research

Figure 32. Polish Banks – Share of Current Retail Deposits in Total Deposits, 2Q12 (Percentage)



Source: Banks, Citi Research

Figure 33. Getin Noble Bank – Structure of Fee Income, 2012 (Polish Zloty in million)



Source: Company reports, Citi Research

Diversifying through Acquisition of DNB Nord

On 2 October 2012 Getin Noble Bank announced a conditional agreement to purchase part of the Polish banking unit of DNB Nord, including:

- About 40 branches;
- Employees of these branches;
- Loans, excluding retail mortgages and non-performing loans (Zl 975m as of end of May 2012); and
- Deposits.

The completion of the transaction depends on getting:

- An authorisation from UOKiK (Antimonopoly Office);
- An approval from KNF (Polish FSA);
- Positive binding interpretations of tax law (by both the seller and the buyer);
- Consents for transfer of rental contracts from owners of the building where branches are located (for a minimum number of branches specified in the agreement); and
- Approvals from the majority of clients for loan, deposit and current account transfer.

If all clients agree and all loans and deposits covered by the preliminary agreement are acquired, Getin Noble Bank will pay ZI 5m.

The loans of the acquired banking unit of DNB Nord consist of:

- Loans to condominiums and housing cooperatives;
- Loans to SMEs; and
- Non-mortgage retail loans.

We think that loans and deposits of condominiums and housing cooperatives are the most valuable part of the acquired business. We treat the transaction as diversification rather than a growth initiative as the volume of acquired loans is not significant vs. the total loan book of Getin Noble Bank (about 2%).

Cost of Funding – Pending

The bank has not managed to lower its cost of funding...

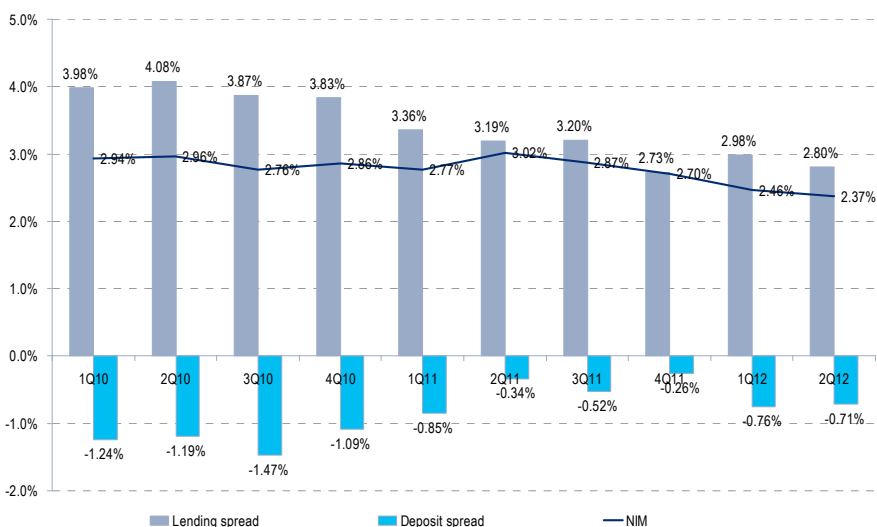
...but has kept its loan-to-deposits ratio down in case of Zloty depreciation

In contrast to expectations, the change in sales mix hasn't led to lower cost of funding and higher net interest margin (NIM). Cost of funding even increased in 1H12 because the bank continues to keep its loan-to-deposit ratio at a relatively low level (86% in 2Q12 and 84% in 1Q12). This liquidity buffer is maintained to protect the bank in case of a sudden depreciation of the Zloty. Given the bank's cCHF 4.8bn stock of mortgage loans, a depreciation of the Zloty vs. the Swiss Franc by 10 grosz (ZI 0.10) leads to a ZI c480m increase in funding needs (1% of total deposits).

Over the past 5 years the monthly change in the CHF/PLN exchange rate varied between ZI 0.002 and ZI 0.37 (0.1% and 15%). The current ZI 7bn surplus of deposits over loans (a rough but imperfect measure of the bank's liquidity) is enough to offset the depreciation of Zloty vs. Swiss Franc by 40%. We fully understand that the bank favours the stability of the business over short-term profitability but given the continued uncertainty in the global economy we see a risk that profitability will remain suppressed for longer by the need to maintain such a conservative buffer. Only long-lasting stabilisation in the global economy and more confidence that the Zloty will be stable against the Euro and the Euro against the Swiss Franc may pave the way for a material improvement in the bank's net interest margin, in our view.

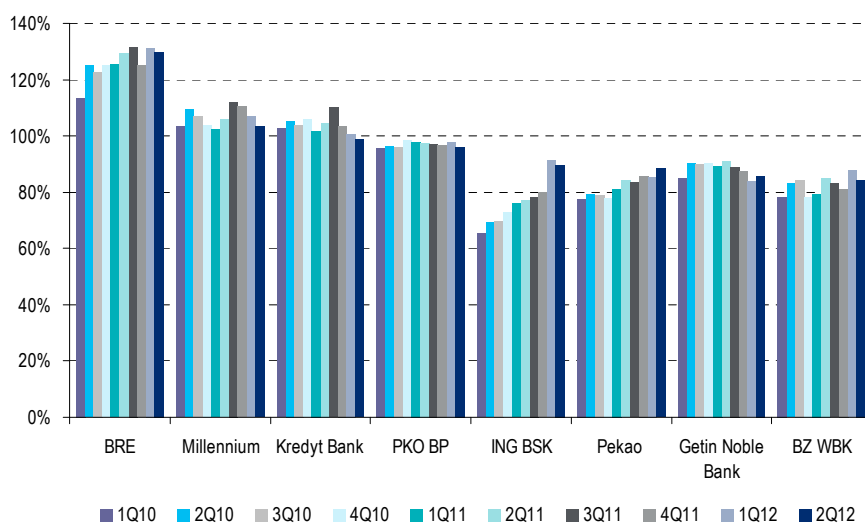
On the other hand, we are impressed with that the bank managed to stop the decline in its yield on assets, at least partly achieved thanks to higher sales of high-margin cash loans.

Figure 34. Getin Noble Bank – Cost of Funding, Yield on Spread and NIM, 1Q10-2Q12 (Percentage)



Source: Company reports, Citi Research

Figure 35. Polish Banks – Loan-to-Deposit ratio, 1Q10-2Q12 (Percentage)



Source: Banks, Citi Research

Changes in Forecasts

Taking into account the 2Q12 results, market trends and management guidance, we have made following changes to 2012-2014 estimates:

- Due to lower-than-expected NIM and net fee income in 2Q12, we decrease net interest income estimates by 9% in 2012, 8% in 2013 and 2% in 2014 and net fee forecasts by 4%, 11% and 12%, respectively;

- We expect that lower revenues will prompt the bank management to look more for cost control and thus we have reduced cost projections by 3% this year, 6% next year and 7% in 2014.
- Following analysis of the bank's cost of risk we slightly reduce provisioning estimates (by 1% in 2012, 9% in 2012 and 8% in 2013).
- Summing up, we reduce EPS estimates by 28% this year, 23% next year and 11% in 2014.

Figure 36. Getin Noble Bank – Changes in Income Statement Estimates, 2012E-2014E (Polish Zloty in million)

| GROUP | 2012E | | | 2013E | | | 2014E | | |
|-----------------------------------------|--------------|--------------|---------------|--------------|--------------|---------------|---------------|--------------|--------------|
| | OLD | NEW | Chg (%) | OLD | NEW | Chg (%) | OLD | NEW | Chg (%) |
| Net Interest Income | 1,473 | 1,340 | -9.0% | 1,696 | 1,563 | -7.9% | 1,813 | 1,770 | -2.4% |
| Net Fee & Commission Income | 892 | 853 | -4.3% | 1,011 | 898 | -11.3% | 1,061 | 938 | -11.6% |
| Financial Income | -50 | -43 | -15.2% | -16 | -16 | 0.0% | -16 | -16 | 0.0% |
| Other Income | 119 | 108 | -9.3% | 106 | 95 | -10.0% | 98 | 92 | -6.4% |
| Total Revenue | 2,434 | 2,259 | -7.2% | 2,798 | 2,540 | -9.2% | 2,956 | 2,783 | -5.8% |
| Labour Costs | -380 | -371 | -2.5% | -402 | -383 | -4.7% | -426 | -398 | -6.5% |
| General Costs | -458 | -441 | -3.7% | -521 | -487 | -6.7% | -546 | -500 | -8.4% |
| Depreciation | -63 | -63 | -0.5% | -66 | -65 | -0.7% | -68 | -68 | -0.7% |
| Operating Expenses | -901 | -875 | -2.9% | -989 | -935 | -5.5% | -1,040 | -966 | -7.1% |
| Operating Profit | 1,532 | 1,384 | -9.7% | 1,808 | 1,605 | -11.3% | 1,916 | 1,817 | -5.1% |
| Provision Charge | -989 | -980 | -0.9% | -1,109 | -1,009 | -9.0% | -1,160 | -1,062 | -8.5% |
| Share of Profits (Losses) of Associates | 44 | 22 | NM | 60 | 24 | NM | 66 | 24 | NM |
| Profit Before Tax | 588 | 426 | -27.5% | 760 | 620 | -18.3% | 822 | 780 | -5.1% |
| Minorities | -11 | -14 | 26.0% | 0 | 0 | NA | 0 | 0 | NA |
| Tax | -125 | -87 | -30.7% | -152 | -124 | -18.3% | -164 | -156 | -5.1% |
| Other | 84 | 84 | 0.0% | 0 | 0 | NA | 0 | 0 | NA |
| Net Profit | 535 | 409 | -23.6% | 608 | 496 | -18.3% | 658 | 624 | -5.1% |
| Diluted EPS (Zl) | 0.21 | 0.15 | -28.1% | 0.24 | 0.19 | -23% | 0.26 | 0.24 | -11% |
| DPS (Zl) | 0.00 | 0.00 | NA | 0.00 | 0.00 | NA | 0.19 | 0.16 | -13.1% |
| Average Diluted Number of Shares (m) | 2,427 | 2,650 | 9.2% | 2,427 | 2,650 | 9.2% | 2,427 | 2,650 | 9.2% |

Source: Citi Research

Figure 37. Getin Noble Bank – Changes in Balance Sheet Estimates, 2012E-2014E (Polish Zloty in million)

| GROUP | 2012E | | | 2013E | | | 2014E | | |
|---------------------------------------|---------------|---------------|-------------|---------------|---------------|-------------|---------------|---------------|-------------|
| | OLD | NEW | Chg (%) | OLD | NEW | Chg (%) | OLD | NEW | Chg (%) |
| Cash and NBP Balances | 2,438 | 2,472 | 1.4% | 2,487 | 2,522 | 1.4% | 2,537 | 2,573 | 1.4% |
| Interbank placements | 3,367 | 3,380 | 0.4% | 3,435 | 3,448 | 0.4% | 3,504 | 3,517 | 0.4% |
| Financial Assets & Securities | 8,230 | 7,496 | -8.9% | 8,119 | 7,385 | -9.1% | 8,560 | 7,797 | -8.9% |
| Net client lending | 41,127 | 42,691 | 3.8% | 43,116 | 45,469 | 5.5% | 44,866 | 47,315 | 5.5% |
| Fixed assets | 167 | 175 | 4.5% | 175 | 183 | 4.5% | 184 | 192 | 4.5% |
| Other assets | 1,041 | 1,143 | 9.8% | 1,084 | 1,214 | 11.9% | 1,137 | 1,271 | 11.9% |
| Total Assets | 56,371 | 57,356 | 1.7% | 58,417 | 60,220 | 3.1% | 60,789 | 62,665 | 3.1% |
| Interbank borrowing | 552 | 550 | -0.3% | 524 | 523 | -0.3% | 498 | 496 | -0.3% |
| Client deposits | 47,634 | 48,964 | 2.8% | 48,592 | 50,443 | 3.8% | 49,569 | 51,457 | 3.8% |
| Other liabilities | 2,984 | 3,039 | 1.9% | 3,493 | 3,956 | 13.3% | 4,256 | 4,790 | 12.5% |
| Minorities | 261 | 2 | -99.2% | 261 | 2 | -99.2% | 261 | 2 | -99.2% |
| Equity (ex Minorities) | 4,939 | 4,800 | -2.8% | 5,547 | 5,296 | -4.5% | 6,205 | 5,920 | -4.6% |
| Total liabilities & Equity | 56,371 | 57,356 | 1.7% | 58,417 | 60,220 | 3.1% | 60,789 | 62,665 | 3.1% |
| BVPS (Zl) | 1.86 | 1.81 | -2.8% | 2.09 | 2.00 | -4.5% | 2.34 | 2.23 | -4.6% |

Source: Citi Research

Figure 38. Getin Noble Bank – Changes in Key Ratios Estimates, 2012E-2014E (Percentage)

| GROUP | 2012E | | 2013E | | 2014E | |
|------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | OLD | NEW | OLD | NEW | OLD | NEW |
| NIM on AIEA | 2.74% | 2.47% | 3.05% | 2.74% | 3.14% | 2.97% |
| NIM on Total Ave. Assets | 2.68% | 2.40% | 2.96% | 2.66% | 3.04% | 2.88% |
| Net Fee & Commission Income/Total Income | 36.7% | 37.8% | 36.2% | 35.3% | 35.9% | 33.7% |
| Net Fee & Commission Income/Deposits | 1.9% | 1.7% | 2.1% | 1.8% | 2.1% | 1.8% |
| Cost/Income | 37.0% | 38.7% | 35.4% | 36.8% | 35.2% | 34.7% |
| Cost/Avg. Assets | 1.6% | 1.6% | 1.7% | 1.6% | 1.7% | 1.6% |
| Effective tax rate | 21.3% | 20.4% | 20.0% | 20.0% | 20.0% | 20.0% |
| Dividend Payout Ratio | 0.0% | 0.0% | 0.0% | 0.0% | 70.0% | 70.0% |
| Provisions/Avg Net Loans | 2.42% | 2.34% | 2.63% | 2.29% | 2.64% | 2.29% |
| Equity/Assets | 9.2% | 8.37% | 9.9% | 8.80% | 10.64% | 9.45% |
| Loans/Deposits | 86.3% | 87.2% | 88.7% | 90.1% | 90.5% | 92.0% |
| Loans/Total Assets | 73.0% | 74.4% | 73.8% | 75.5% | 73.8% | 75.5% |
| ROE | 11.9% | 9.1% | 11.6% | 9.8% | 11.2% | 11.1% |
| ROA | 0.97% | 0.7% | 1.06% | 0.8% | 1.1% | 1.0% |
| RWA/Total Assets | 76.7% | 78.1% | 11.1% | 10.1% | 12.0% | 10.9% |
| Tier I Ratio (%) | 11.1% | 9.9% | 76.7% | 78.1% | 76.7% | 78.1% |
| CAR | 12.9% | 12.1% | 13.8% | 12.2% | 14.6% | 12.8% |
| Bank Employees | 5,408 | 5,408 | 5,408 | 5,408 | 5,408 | 5,408 |

Source: Citi Research

Annual Financials

Figure 39. Getin Noble Bank – Income Statement , 2008-2014E (Polish Zloty in million)

| IFRS Group | 2008 | 2009 | chg (%) | 2010 | chg (%) | 2011 | chg (%) | 2012E | chg (%) | 2013E | chg (%) | 2014E | chg (%) |
|--------------------------------------|--------------|--------------|---------------|--------------|--------------|--------------|---------------|--------------|---------------|--------------|--------------|--------------|--------------|
| Net Interest Income | 601 | 784 | 30.5% | 1,052 | 34.2% | 1,344 | 27.7% | 1,340 | -0.3% | 1,563 | 16.6% | 1,770 | 13.2% |
| Net Fee & Commission Income | 444 | 714 | 61.0% | 962 | 34.6% | 869 | -9.6% | 853 | -1.8% | 898 | 5.2% | 938 | 4.5% |
| Financial Income | 512 | 215 | -57.9% | 121 | -43.8% | 199 | 64.6% | 57 | -71.3% | 75 | 31.5% | 72 | -4.8% |
| Other Income | 15 | 19 | 27.7% | 24 | 27.9% | -7 | NA | 8 | NA | 4 | -51.7% | 4 | 0.0% |
| Total Revenue | 1,571 | 1,732 | 10.2% | 2,159 | 24.6% | 2,405 | 11.4% | 2,259 | -6.1% | 2,540 | 12.4% | 2,783 | 9.6% |
| Labour Costs | -262 | -225 | -14.2% | -297 | 32.0% | -351 | 18.4% | -371 | 5.5% | -383 | 3.3% | -398 | 3.9% |
| General Costs | -302 | -353 | 16.7% | -382 | 8.4% | -422 | 10.4% | -441 | 4.7% | -487 | 10.2% | -500 | 2.8% |
| Depreciation | -39 | -48 | 22.7% | -54 | 10.9% | -60 | 11.5% | -63 | 4.9% | -65 | 3.9% | -68 | 4.1% |
| Operating Expenses | -604 | -626 | 3.7% | -733 | 17.0% | -833 | 13.7% | -875 | 5.0% | -935 | 6.8% | -966 | 3.3% |
| Operating Profit | 967 | 1,106 | 14.4% | 1,426 | 28.9% | 1,572 | 10.3% | 1,384 | -12.0% | 1,605 | 15.9% | 1,817 | 13.2% |
| Provision Charge | -332 | -795 | 139.7% | -1,057 | 32.9% | -1,208 | 14.3% | -980 | -18.9% | -1,009 | 2.9% | -1,062 | 5.3% |
| Associate Income | 0 | 0 | NA | 0 | NA | 10 | NA | 22 | 119.3% | 24 | 12.0% | 24 | 0.0% |
| Profit Before Tax | 636 | 311 | -51.1% | 369 | 18.6% | 374 | 1.4% | 426 | 14.0% | 620 | 45.6% | 780 | 25.7% |
| Tax | -112 | 3 | NA | 12 | 345.8% | -66 | NA | -87 | 30.8% | -124 | 43.1% | -156 | 25.7% |
| Profit After Tax | 524 | 314 | -40.1% | 381 | 21.4% | 307 | -19.3% | 339 | 10.4% | 496 | 46.3% | 624 | 25.7% |
| Minorities | -4 | -5 | 11.3% | -10 | 118.2% | 0 | NA | -14 | NA | 0 | NA | 0 | NA |
| Discontinued activity | 0 | 0 | NA | 80 | NA | 642 | 707.2% | 84 | -87.0% | 0 | NA | 0 | NA |
| Net Profit | 519 | 309 | -40.5% | 450 | 45.7% | 950 | 111.1% | 409 | -57.0% | 496 | 21.4% | 624 | 25.7% |
| Diluted EPS (Zl) | 0.53 | 0.13 | -74.7% | 0.18 | 36.9% | 0.37 | 102.9% | 0.15 | -58.6% | 0.19 | 21.4% | 0.24 | 25.7% |
| Average Diluted Number of Shares (m) | 979 | 2,305 | 135.4% | 2,453 | 6.4% | 2,552 | 4.0% | 2,650 | 3.9% | 2,650 | 0.0% | 2,650 | 0.0% |

Source: Company reports, Citi Research

Figure 40. Getin Noble Bank – Balance Sheet, 2008-2014E (Polish Zloty in million)

| IFRS Group | 2008 | 2009 | chg (%) | 2010 | chg (%) | 2011 | chg (%) | 2012E | chg (%) | 2013E | chg (%) | 2014E | chg (%) |
|-------------------------------|---------------|---------------|--------------|---------------|--------------|---------------|--------------|---------------|-------------|---------------|-------------|---------------|-------------|
| Cash and NBP Balances | 647 | 909 | 40.6% | 1,976 | 117.3% | 2,423 | 22.7% | 2,472 | 2.0% | 2,522 | 2.0% | 2,573 | 2.0% |
| Interbank placements | 2,648 | 1,069 | -59.6% | 2,601 | 143.2% | 3,313 | 27.4% | 3,380 | 2.0% | 3,448 | 2.0% | 3,517 | 2.0% |
| Financial Assets & Securities | 3,364 | 4,261 | 26.7% | 2,887 | -32.2% | 4,650 | 61.1% | 5,249 | 12.9% | 4,597 | -12.4% | 4,308 | -6.3% |
| Net client lending | 21,497 | 25,584 | 19.0% | 33,454 | 30.8% | 41,056 | 22.7% | 42,691 | 4.0% | 45,469 | 6.5% | 47,315 | 4.1% |
| Fixed assets | 154 | 138 | -10.5% | 179 | 30.0% | 159 | -11.3% | 175 | 10.0% | 183 | 5.0% | 192 | 5.0% |
| Other assets | 425 | 1,248 | 193.9% | 1,702 | 36.3% | 2,905 | 70.7% | 3,389 | 16.6% | 4,001 | 18.1% | 4,760 | 19.0% |
| Total Assets | 28,733 | 33,208 | 15.6% | 42,798 | 28.9% | 54,488 | 27.3% | 57,356 | 5.3% | 60,220 | 5.0% | 62,665 | 4.1% |
| Interbank borrowing | 1,276 | 738 | -42.2% | 713 | -3.3% | 579 | -18.8% | 550 | -5.0% | 523 | -5.0% | 496 | -5.0% |
| Client deposits | 20,017 | 28,237 | 41.1% | 37,026 | 31.1% | 47,059 | 27.1% | 48,964 | 4.0% | 50,443 | 3.0% | 51,457 | 2.0% |
| Other liabilities | 4,758 | 1,260 | -73.5% | 1,763 | 40.0% | 2,622 | 48.7% | 3,039 | 15.9% | 3,956 | 30.2% | 4,790 | 21.1% |
| Minorities | 9 | 3 | -63.4% | 2 | -35.5% | 2 | 17.2% | 2 | -16.0% | 2 | 0.0% | 2 | 0.0% |
| Equity (ex Minorities) | 2,673 | 2,890 | 8.1% | 3,294 | 14.0% | 4,225 | 28.3% | 4,800 | 13.6% | 5,296 | 10.3% | 5,920 | 11.8% |
| Total liabilities & Equity | 28,733 | 33,208 | 15.6% | 42,798 | 28.9% | 54,488 | 27.3% | 57,356 | 5.3% | 60,220 | 5.0% | 62,665 | 4.1% |
| Interest Earning Assets | 28,154 | 32,390 | 15.0% | 41,656 | 28.6% | 52,806 | 26.8% | 55,566 | 5.2% | 58,341 | 5.0% | 60,710 | 4.1% |
| BVPS (Zl) | 2.7 | 1.3 | -54.1% | 1.3 | 7.1% | 1.6 | 18.7% | 1.8 | 13.6% | 2.0 | 10.3% | 2.2 | 11.8% |

Source: Company reports, Citi Research

Figure 41. Getin Noble Bank – Key Ratios, 2008-2014E (Percentage)

| IFRS Group | 2008 | 2009 | 2010 | 2011 | 2012E | 2013E | 2014E |
|------------------------------------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|
| NIM on AIEA | 2.82% | 2.59% | 2.84% | 2.85% | 2.47% | 2.74% | 2.97% |
| NIM on Total Ave. Assets | 2.09% | 2.53% | 2.77% | 2.76% | 2.40% | 2.66% | 2.88% |
| Net Fee & Commission Income/Total Income | 28.2% | 41.2% | 44.5% | 36.1% | 37.8% | 35.3% | 33.7% |
| Net Fee & Commission Income/Deposits | 2.2% | 2.5% | 2.6% | 1.8% | 1.7% | 1.8% | 1.8% |
| Cost/Income | 38.4% | 36.1% | 33.9% | 34.6% | 38.7% | 36.8% | 34.7% |
| Cost/Avg. Assets | 2.1% | 2.0% | 1.9% | 1.7% | 1.6% | 1.6% | 1.6% |
| Effective tax rate | 17.6% | -0.9% | -3.3% | 17.7% | 20.4% | 20.0% | 20.0% |
| Provisions/Avg Net Loans | 2.10% | 3.38% | 3.58% | 3.24% | 2.34% | 2.29% | 2.29% |
| Equity/Assets | 9.3% | 8.7% | 7.7% | 7.8% | 8.4% | 8.8% | 9.5% |
| Loans/Deposits | 107.4% | 90.6% | 90.4% | 87.2% | 87.2% | 90.1% | 92.0% |
| Loans/Total Assets | 69.7% | 85.0% | 86.5% | 75.3% | 74.4% | 75.5% | 75.5% |
| ROE | 25.4% | 11.1% | 14.6% | 25.3% | 9.1% | 9.8% | 11.1% |
| ROA | 1.8% | 1.0% | 1.2% | 2.0% | 0.7% | 0.8% | 1.0% |
| CAR (%) | 13.8% | 11.1% | 9.9% | 10.1% | 12.1% | 12.2% | 12.8% |
| Group Employees | 3,945 | 4,409 | 5,640 | 5,408 | 5,408 | 5,408 | 5,408 |

Source: Company reports, Citi Research

Getin Noble Bank

Company description

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

In June 2012 Getin Noble Bank was merged with the parent company, Get Bank (former Allianz Bank, acquired by Getin Holding in 2011). From a legal point of view the new bank is the successor of Get Bank but it was re-named as Getin 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).

Investment strategy

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

Valuation

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

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

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

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

Risks

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

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.

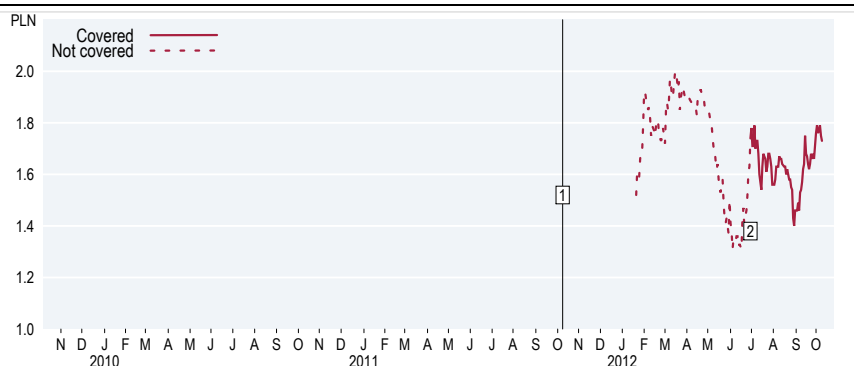
IMPORTANT DISCLOSURES

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 | | |

* Indicates change

| Date | Rating | Target Price | Closing Price |
|-------------|--------|--------------|---------------|
| 2 29-Jun-12 | *1 | *1.95 | 1.74 |

Rating/target price changes above reflect Eastern Standard Time

Getin Noble Bank (GNB.WA)

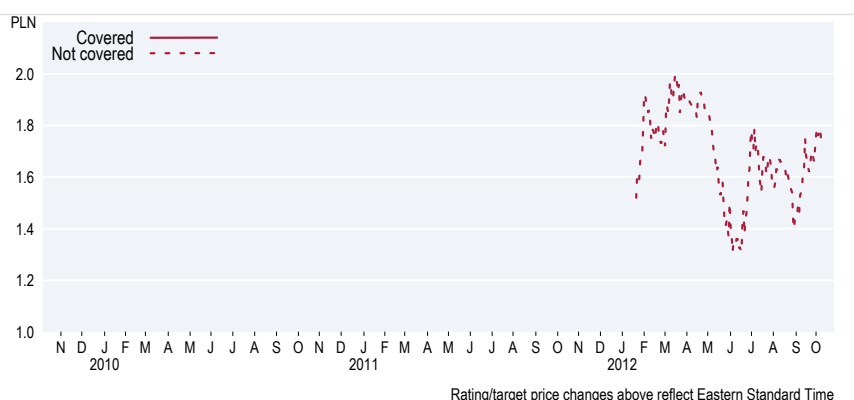
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Andrzej Powierza

Covered since June 29 2012



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

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

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

DMBH has received compensation from Bank Zachodni WBK for providing market maker services in the past 12 months. DMBH is a market maker in the publicly traded equity securities of Bank Zachodni WBK. DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30th September 2012 is as follows: Buy (1) representing 59% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 24% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 17% of the DMBH coverage 0% of which are IB clients.

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Deutsche Bank AG

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

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

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

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

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|----------------------------------------------------------------------------|------------------------|-------------|-------------|------------------------|-------------|-------------|
| | Buy | Hold | Sell | Buy | Hold | Sell |
| Citi Research Global Fundamental Coverage | 51% | 38% | 11% | 7% | 85% | 7% |
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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

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Dom Maklerski Banku Handlowego SA

Andrzej Powierza

Citigroup Global Markets Ltd

Simon Nellis; Florent Nitu; Stefan Nedialkov; Kinner Lakhani

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The subject company's share price set out on the front page of this Product is quoted as at 09 October 2012 04:30 PM on the issuer's primary market.

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