

Equities

29 June 2012 | 60 pages

Getin Noble Bank (GNB.WA)

Two Steps Ahead, One Step Back — Initiating With a Buy

- Company Update
- Initiation of Coverage

- **Getin Noble Re-Born** — This month the bank formerly known as Getin Noble Bank (NBLA.WA) was taken over by Get Bank (GTBP.WA) and delisted, while Get Bank was re-named Getin Noble Bank and its RIC changed to GNB.WA. Prior to the merger Get Bank had conducted very little banking activity (it sold all branches and was only a book of previously granted loans) and thus the new bank from the business perspective is the successor of Getin Noble Bank, although from the legal point of view is the successor of Get Bank.
- **Partly Successful in Implementing New Strategy** — GNB's management addressed the weakness of the bank's previous business model, based on high growth in mortgage loans, and in 2012 started to implement a new strategy of reducing exposure to mortgage lending to lower funding needs and funding cost, simultaneously trying to reduce the cost of risk. In 1Q12 the bank was only partly successful in realising that strategy. It 1) lowered qoq cost of risk; 2) maintained fees despite reduced mortgage lending; but 3) its net interest margin shrank.
- **We Are Buyers ...** — Given the burden of mortgages granted in the past we expect GNB's sustainable ROE (11.0%) will remain below its cost of equity (11.5%) but at the current valuation at x0.8 P/BV this is more than reflected in the price. We set a target price at ZL 2.0 and, given the 21% expected total return (ETR), we rate the stock Buy.
- **... But We Prefer PKO BP to GNB** — Despite the high ETR we prefer lower risk banks like PKO BP (Buy, TP ZL 39.7) and non-banking financial stocks like the insurer PZU (Buy, TP 430) or GNB's subsidiary, the financial intermediary Open Finance (Buy/High Risk, TP ZL 19.6).

Buy	1
Price (28 Jun 12)	ZL1.65
Target price	ZL2.00
Expected share price return	21.2%
Expected dividend yield	0.0%
Expected total return	21.2%
Market Cap	ZL3,705M
	US\$1,085M

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



Getin Noble Bank (PLN)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (ZLM)	450.1	950.1	534.9	607.8	657.5
Diluted EPS (ZL)	0.20	0.41	0.22	0.25	0.27
Diluted EPS (Old) (ZL)	0.20	0.41	0.22	0.25	0.27
PE (x)	8.2	4.1	7.5	6.6	6.1
P/BV (x)	0.5	0.4	0.8	0.7	0.6
DPS (ZL)	0.00	0.00	0.00	0.00	0.19
Net Div Yield (%)	0.0	0.0	0.0	0.0	11.5
ROE (%)	14.6	25.8	11.9	11.6	11.2

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Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	8.2	4.1	7.5	6.6	6.1
P/E reported (x)	8.2	4.1	7.5	6.6	6.1
P/BV (x)	0.5	0.4	0.8	0.7	0.6
P/Adjusted BV diluted (x)	1.1	1.0	0.8	0.7	0.6
Dividend yield (%)	0.0	0.0	0.0	0.0	11.5
Per Share Data (ZL)					
EPS adjusted	0.20	0.41	0.22	0.25	0.27
EPS reported	0.20	0.41	0.22	0.25	0.27
BVPS	3.45	4.26	2.03	2.29	2.56
Tangible BVPS	3.22	4.12	1.98	2.23	2.50
Adjusted BVPS diluted	1.47	1.67	2.03	2.29	2.56
DPS	0.00	0.00	0.00	0.00	0.19
Profit & Loss (ZLm)					
Net interest income	1,052	1,344	1,473	1,696	1,813
Fees and commissions	962	869	892	1,011	1,061
Other operating Income	145	202	113	150	147
Total operating income	2,159	2,415	2,478	2,858	3,021
Total operating expenses	-733	-833	-901	-989	-1,040
Oper. profit bef. provisions	1,426	1,582	1,577	1,868	1,982
Bad debt provisions	-1,057	-1,208	-989	-1,109	-1,160
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	369	374	588	760	822
Tax	12	-66	-125	-152	-164
Extraord./Min. Int./Pref. Div.	69	643	72	0	0
Attributable profit	450	950	535	608	658
Adjusted earnings	450	950	535	608	658
Growth Rates (%)					
EPS adjusted	45.7	102.9	-45.8	13.6	8.2
Oper. profit bef. prov.	28.9	10.9	-0.3	18.5	6.1
Balance Sheet (ZLm)					
Total assets	42,798	53,542	56,371	58,417	60,789
Avg interest earning assets	37,023	47,231	53,748	55,682	57,826
Customer loans	36,033	44,099	45,193	47,909	50,220
Gross NPLs	3,676	5,292	5,197	5,510	5,775
Liab. & shar. funds	42,798	53,542	56,371	58,417	60,789
Total customer deposits	37,026	46,311	47,634	48,592	49,569
Reserve for loan losses	2,579	3,628	4,065	4,794	5,353
Shareholders' equity	3,294	4,059	4,939	5,547	6,205
Profitability/Solvency Ratios (%)					
ROE adjusted	14.6	25.8	11.9	11.6	11.2
Net interest margin	2.84	2.85	2.74	3.05	3.14
Cost/income ratio	33.9	34.5	36.4	34.6	34.4
Cash cost/average assets	1.9	1.7	1.6	1.7	1.7
NPLs/customer loans	10.2	12.0	11.5	11.5	11.5
Reserve for loan losses/NPLs	70.2	68.5	78.2	87.0	92.7
Bad debt prov./avg. cust. loans	3.3	3.0	2.2	2.4	2.4
Loans/deposit ratio	97.3	95.2	94.9	98.6	101.3
Tier 1 capital ratio	9.9	9.6	11.1	11.1	12.0
Total capital ratio	9.9	10.1	12.9	13.8	14.6

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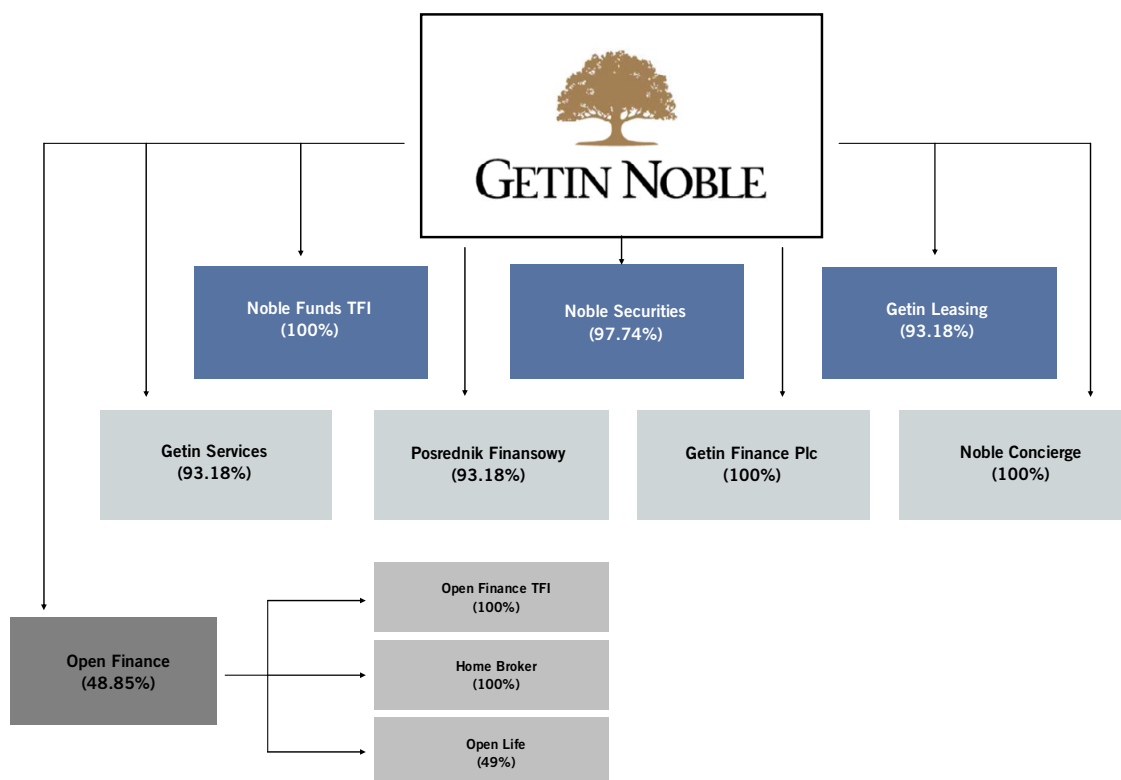
Two Steps Ahead, One Step Back

Getin Noble Bank's (GNB) new strategy to reduce exposure to mortgage lending, thereby reducing funding needs and funding costs, should, when coupled with declining cost of risk, lead to a material improvement in the bank's core profitability in 2013. But the first quarter of its implementation was not fully successful. In 1Q12 Getin Noble Bank managed to decrease cost of risk and maintain high fee revenues despite much reduced mortgage lending, but failed to improve net interest margin (NIM). NIM dropped in 1Q12 as the bank increased liquidity buffers due to the continued volatility in the CHF/PLN rate and changes in the taxation of deposits. We still see think that the bank will be more successful in the implementation of its new strategy in 2H12 and will increase ROE on banking activity (i.e. excluding gains on disinvestments) from 8.4% in 2011 to 10.0% in 2011, 11.6% in 2012 and 11.2% in 2013. We see 11% as the sustainable ROE of the bank and thus we view P/BV valuation of 0.8 as attractive. We set a target price at ZL 2.0, which gives an expected total return of c20% — as a result we have a Buy rating.

Seventh biggest Polish bank, focused on retail banking

Getin Noble Bank was the 7th biggest Polish bank by assets (2011), 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 asset manager, brokerage and leasing company as well as owner of a 48.85% stake in financial intermediary Open Finance (rated Buy/High Risk, the undisputed leader in financial intermediary business in Poland).

Figure 1. Getin Noble Bank — The Bank's Structure



Source: Getin Noble Bank, Citi Investment Research and Analysis

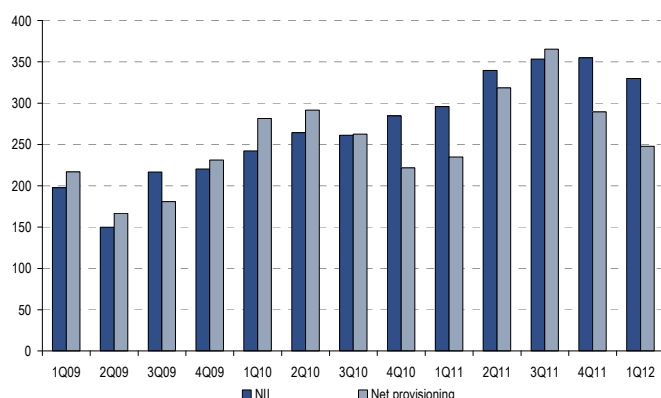
From a legal point of view the successor of the former Get Bank, but continuing the business of the old Getin Noble Bank (NBLA.WA)

For years the bank has struggled with a high cost of funding and high cost of risk ...

In June 2012 Getin Noble Bank (NBLA.WA) 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 to Getin Nobel Bank and continues the business of the former Getin Noble Bank (prior to the merger Get Bank had conducted very little banking activity).

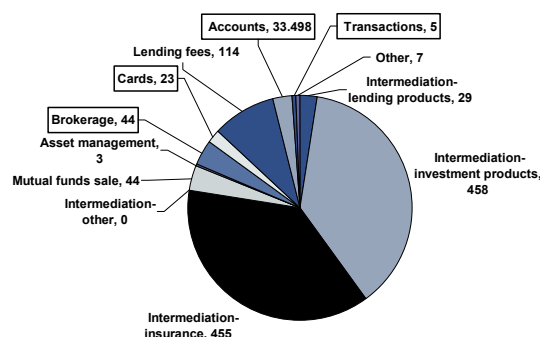
With a sales structure as effective as Getin's, it is relatively easy to increase lending every year. The key issue is how to profit from the growth. Rapidly rising lending was forcing GNB to compete aggressively for deposits, negatively affecting its cost of funding. This was partly offset by high lending spreads, but these in turn increased negative selection risk (and in fact GNB's cost of risk is well above the market average). Asset growth also caused an increase in capital requirements. If the growth rate is higher than the bank's ROE, this creates the need for a capital increase.

Figure 2. Getin Noble Bank — Net Interest Income vs. Net Provisioning, 1Q08-1Q12 (Polish Zloty in million)



Note: * Including Get Bank
Source: Company reports

Figure 3. Getin Noble Bank — Fee Structure, 2011 (Polish Zloty in million)



Source: Company reports

... but at the same time stood out in terms of cost effectiveness and fee generation

The bank partly offsets its extremely low profitability on lending activity (net interest income less net provisioning) through cost effectiveness (cost-to-income ratio, excluding gains on Open Finance floatation, at 35% in 1H11) and high fee generation, but we note that only 5% of fee income is recurring income such as card and account maintenance fees, while the rest is dependent on current sales of lending or investment products.

The new strategy starts to work

The bank's management is addressing the banks weaknesses and intends to reduce the pace of growth to boost profitability. But the first quarter of its implementation was only partly successful.

- In 1Q12 Getin Noble Bank (excluding Get Bank) managed to decrease cost of risk to ZI 244m (243bp) from ZI 290m (289bp) in 4Q11 and ZI 365m (378bp) in 3Q11, partly due to a sale of the portfolio of non-performing loans, but the downward trend on provisioning is visible.
- The bank maintained high fee revenues (ZI 225m vs. ZI 200m in 4Q11 and ZI 215m in 3Q11) despite much reduced mortgage lending (ZI 991m vs. ZI 1,144m and ZI 1,885m, respectively). This was achieved through increasing fees from the sale of investment products (ZI 157m vs. ZI 119m and ZI 108m, respectively).

We forecast sustainable ROE to grow from 8.4% in 2011 to 10.0% in 2012 and 11.6% in 2012 ...

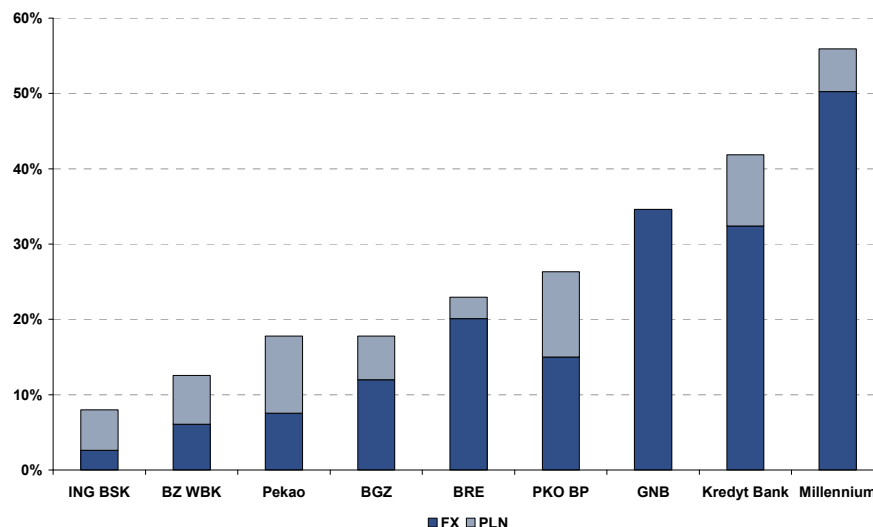
... but to remain below its cost of risk (11.5%) ...

... mainly due to the burden of pre-crisis FX mortgage loans

■ However, GNB failed to improve net interest margin (NIM). NIM dropped in 1Q12 as the bank increased liquidity buffers (loan-to-deposit ratio dropped to 84% from 87% in 4Q11 and 89% in 3Q11) due to the continued volatility in the CHF/PLN rate and changes in the taxation of deposits coming into force in April 2012 (the end of avoiding income tax on deposit interest by the daily accrual of interest and rounding the tax to zero).

Due to the continued volatility on the FX markets we expect GNB will maintain liquidity buffers in 2Q12 and assume it will lower cost of funding in 2H12 and 2013. We forecast this will lead to an increase in ROE on banking activity (i.e. excluding gains on disinvestments) from 8.4% in 2011 to 10.0% in 2012, 11.6% in 2012 and 11.2% in 2013 but we expect the bank's ROE to remain below its cost of risk (11.5%). The banks are entering these tougher times with different types of problems. In our opinion, the biggest balance sheet burden is banks' floating rate mortgage loans granted before the credit crunch in 4Q08, as floating rate clients have benefited from lower interest rates (and partly due to that have avoided massive defaults on FX mortgages) but banks for 20-30 years are stuck with low-margin loans, consuming capital and funding. Interestingly, there is a close relationship between the share of "pre-crisis" loans in banks' total loans and their profitability (measured by comparing the recent EPS to 3Q08 EPS). Getin Noble Bank is one of the bank's with the highest share of pre-crisis mortgage loans.

Figure 4. Polish Banks — "Pre-Crisis" * Mortgage Loans as % of 1Q12 Loans (Percentage)



Note: * Granted before end of 2008

Source: Company reports, Citi Investment Research and Analysis

Getin Noble Bank attractively valued at 0.8 P/BV ...

We see 11% as the sustainable ROE of the bank and thus we view a current P/BV valuation of 0.8x as attractive. Thus we think the weakness of GNB's business model is more than reflected in its share price. Our ZI 2.0 target price implies over 20% ETR. We view the recent decline in the stock price as unjustified and hence initiate with a Buy rating. We think, however, there is better value to be found elsewhere among the Polish bank stocks.

... but we prefer the safer PKO BP and non-banking financial stocks to GNB

Our Top Pick among the Polish banks is PKO BP (for details of our ratings for Polish banks see [Polish Banks - Looking for Champions Post Euro Cup 2012 – PKO BP Top Pick](#)) but to the banks we prefer other financial stocks, namely the insurer PZU (see [PZU \(PZU.WA\) - Dividend Story Intact – Maintaining Buy](#)) and GNB's subsidiary, the financial advisor Open Finance (see [Open Finance \(OPFP.WA\) - Diamonds and Ashes: Maintaining Buy](#)).

Figure 5. Polish Banks — Valuation Table, 28 June (Zloty)

	Current Price	Rating	Target Price	P/E			P/BV			ROE		
				2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
PKO BP	34.4	1	39.7	10.9	11.8	9.4	1.7	1.6	1.5	16.4%	14.0%	16.2%
Pekao	149.6	1	157.0	13.9	14.2	11.4	1.7	1.7	1.6	12.8%	12.0%	14.6%
BZ WBK	229.0	1	264.0	14.0	14.8	12.3	2.0	2.0	1.9	15.4%	13.8%	15.9%
ING BSK	80.20	1	89.0	13.2	15.9	10.1	1.4	1.4	1.3	11.6%	8.9%	13.3%
Getin Noble Bank	1.65	1	2.0	7.5	6.6	6.1	0.8	0.7	0.6	11.9%	11.6%	11.2%
Kredyt Bank	13.01	1H	18.4	27.6	85.6	16.0	1.1	1.1	1.0	4.1%	1.3%	6.6%
BRE	289.8	2	266.0	11.5	13.6	10.3	1.3	1.3	1.2	12.3%	9.6%	12.1%
BGZ	71.6	2	72.5	21.3	23.0	9.9	1.1	1.0	0.9	5.3%	4.7%	10.1%
Millennium	3.56	2	3.8	11.1	14.7	7.5	0.9	0.9	0.8	8.3%	6.0%	11.0%

Source: Citi Investment Research and Analysis

Figure 6. Other Financials — Valuation Table, 28 June (Zloty)

	Current Price	Rating	Target Price	P/E			P/BV			ROE		
				2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
PZU	329.2	1	430.0	10.9	10.3	10.1	2.1	2.0	2.0	21.5%	20.8%	20.1%
Open Finance	15.15	1H	19.6	7.4	6.8	6.4	2.3	2.1	1.9	36.2%	32.5%	31.3%
Getin Holding	1.68	1H	3.5	1.9	5.5	4.1	0.5	0.5	0.4	16.2%	9.3%	11.3%
GPW	38.1	2H	40.0	13.0	13.5	13.6	2.6	2.6	2.5	21.8%	19.4%	18.6%

Source: Citi Investment Research and Analysis

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 7. Getin Noble Bank — Summary of Valuations

EVA	2.39
Warranted Equity Valuation	2.00
Average	2.20
Price Target (PLUG)	2.00
Current share price	1.65
Upside / (Downside)	21.2%
DPS (2011E)	0.00
Dividend yield (%)	0.0%
Total Return	21.2%

Source: Citi Investment Research and Analysis

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

Standard Warranted Equity Valuation

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

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

Our WEV approach suggests a valuation
at ZI 2 per share

When valuing Getin Noble Bank we assume a sustainable ROE of 11.0% close to our estimate of 2014 ROE (11.2%). 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 5.0% (the same as for other Polish banks). Based on these inputs, we arrive at a valuation of ZI 2.0 per share for Getin Noble Bank.

Figure 8. Getin Noble Bank — Warranted Equity Valuation (Polish Zloty)

Sustainable ROE	11.0%
2014E COE	11.50%
Growth	5.00%
Target P/BV multiple	0.92
2014E BVPS	2.56
2014E Target Value Per Share	2.4
Months to Discount to Jun 2013	18
Discounted	2.0
2012E DPS	0.0
Discounted	0.0
Value per share	2.0
Upside / (Downside)	21.2%

Source: Citi Investment Research and Analysis

Figure 9. Getin Noble Bank – Sensitivity of WEV Valuation Per Share to Sustainable ROE and Cost of Equity Assumptions (Polish Zloty)

Price Per Share	Sustainable ROE				
	9%	10%	11.0%	12%	13%
Cost of Equity	9.5%	2.0	2.5	3.0	4.0
	10.5%	1.6	2.0	2.4	3.2
	11.5%	1.3	1.7	2.0	2.7
	12.5%	1.2	1.4	1.7	2.3
	13.5%	1.0	1.3	1.5	2.0

Source: Citi Investment Research and Analysis

Economic Value Added Model

Our EVA approach suggests a valuation
ZI 2.39 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 2.39.

Figure 10. Getin Noble Bank — Economic Value Added Model

	2010	2011	2012E	2013E	2014E	2015E	Terminal
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	3,458	3,584	3,729	3,977	
Forecast Equity	3,294	4,059	4,939	5,547	6,205	6,435	
Excess Equity	859	1,007	1,481	1,963	2,475	2,459	
Earnings on Excess Equity	50	58	86	114	144	143	
Forecasted Net Profit	450	950	535	608	658	691	
Deduct Earnings on Excess Equity	-50	-58	-86	-114	-144	-143	
Add Back Tax on Earnings on Excess Equity	-2	10	18	23	29	29	
Adjusted Earnings	399	902	467	517	543	577	
Adjusted ROE (ex excess equity)	16.4%	32.9%	14.4%	14.7%	14.8%	15.0%	
Capital charge	280	315	374	405	421	443	
EVA	119	587	93	112	122	134	2,000
NPV			93	100	98	97	1,752
Years out			0	1	2	3	3
Discount factor			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)	4,059						
EVA flows 2011-2015	388						
Terminal value	1,752						
Less capital increase	400						
Total	5,799						
Number of shares	2427.3						
Value per share	2.39						
Upside	44.8%						

Source: Citi Investment Research and Analysis

Investment Risks

We believe the following risks could prevent the shares from reaching our target price. We note the industry risks:

Getin Noble Bank's asset quality is below average

- **Credit risk:** Credit risk is the major risk faced by the banks. Currently Getin Noble Bank's asset quality is below average (NPL ratios of 12.3% in 1Q12 vs. market at 8.4%).

Rising competition due to trend toward universal banking

- **Competition risk:** In recent years the number of banks in Poland hasn't materially decreased as recent mergers between some third-tier banks have been largely offset by the launch of start-ups, e.g. Alior Bank. Simultaneously, starting from 2010 many banks that previously focused on selected parts of the market (mainly on consumer finance) introduced new strategies to become universal banks. This has led to rising competition, although as yet the appetite for risk has been restrained by the limited funding and capital position of many players and their foreign owners. If risk aversion decreases, we cannot rule out that in the future competition will increase further.

KNF recommendation limits bank appetite for risks

- **Regulatory risk:** In recent years the KNF (Polish FSA) has published two new recommendations, aiming at pushing banks to tighten lending policy in consumer lending and in foreign currency denominated mortgages. There is a risk that in the future the regulator will try to further reduce the banks' appetite for risk, which could make it more difficult for GNB to implement its strategy.

Bank levy expected in 2013

- **Tax risk:** The Polish Ministry of Finance continues to work on the bank levy. According to the most recent version, the banks' contribution to the newly created "stability fund", commonly called "the bank levy", will not be a new tax but will be a part of the banks' contribution to the Bank Guarantee Fund (BFG). This means that the base for the calculation of the levy will be risk weighted assets (vs. the initial version proposition to base the levy on the value of non-retail funding). The rate of the levy is unknown yet and will be decided every year by BFG. Our working assumption is that in line with the indication of vice-minister Ludwik Kotecki and other representatives of the Ministry of Finance, the total size of banks' contributions to the "stability fund" will be about Zł 500-700m. Assuming Zł 700m, this would imply about a 9bp rate (vs. the current rate of the contribution to the BFG regular fund amounting to 9.9bp). We estimate that, in such a scenario, in 2013 Getin Noble Bank will have to pay about Zł 34m for the 'stabilization fund' (or 3% of 2013E administrative costs). We note that the final version of the tax may differ from our estimate.

Specific to Get Bank, we see the following risks:

The bank's loan book is heavily weighted towards FX mortgage loans

- **High share of FX mortgages in the loan book:** The bank's loan book is heavily weighted towards FX mortgage loans. GNB funds FX mortgages by Złoty deposits and FX swaps and CIRS thus in case of Złoty weakness it has to increase its deposit base to match the growth in FX-denominated assets. Additionally, potentially a weaker złoty could negatively impact asset quality.

GNB remains highly dependent on revenues from selling insurance products which could be affected by the potential regulation

- **Leverage to bancassurance revenues:** The bank remains highly dependent on revenues from selling insurance products which could be affected by the potential regulation of the bancassurance market. Bancassurance activity is currently regulated by general insurance legislation plus by two sets of good practices prepared by the insurers and banks (one set for situations where the bank is insured and the second when clients are beneficiaries). The regulator indicated that it would like to see banks and insurers resigning from some practices leading to unfair, in the regulator opinion, costs borne by clients. We cannot rule out the possibility that special regulation of bancassurance activity is introduced in the future that includes strict disclosure requirements, the setting of a minimum claims ratio and/or setting of a maximum premium per product.

TU Europa disinvested by Getin Holding

- **Risks related to cooperation with TU Europa** — In 2011 43% of Getin Noble Bank's fee income was generated on sales of TU Europa products. After the spin-off of Getin Holding (completed in January 2012) and a sale of the majority stake in TU Europa by Getin Holding (May 2012) Getin Noble Bank and TU Europa will not be a part of one capital group (although Mr. Leszek Czarnecki, the main shareholder in Getin Noble Bank, will still have, through Getin Holding, the minority (17%) stake in TU Europa and Getin Holding will remain a part of agreement on cooperation with TU Europa). The cooperation with TU Europa, especially in developing new products, may become less successful than previously.

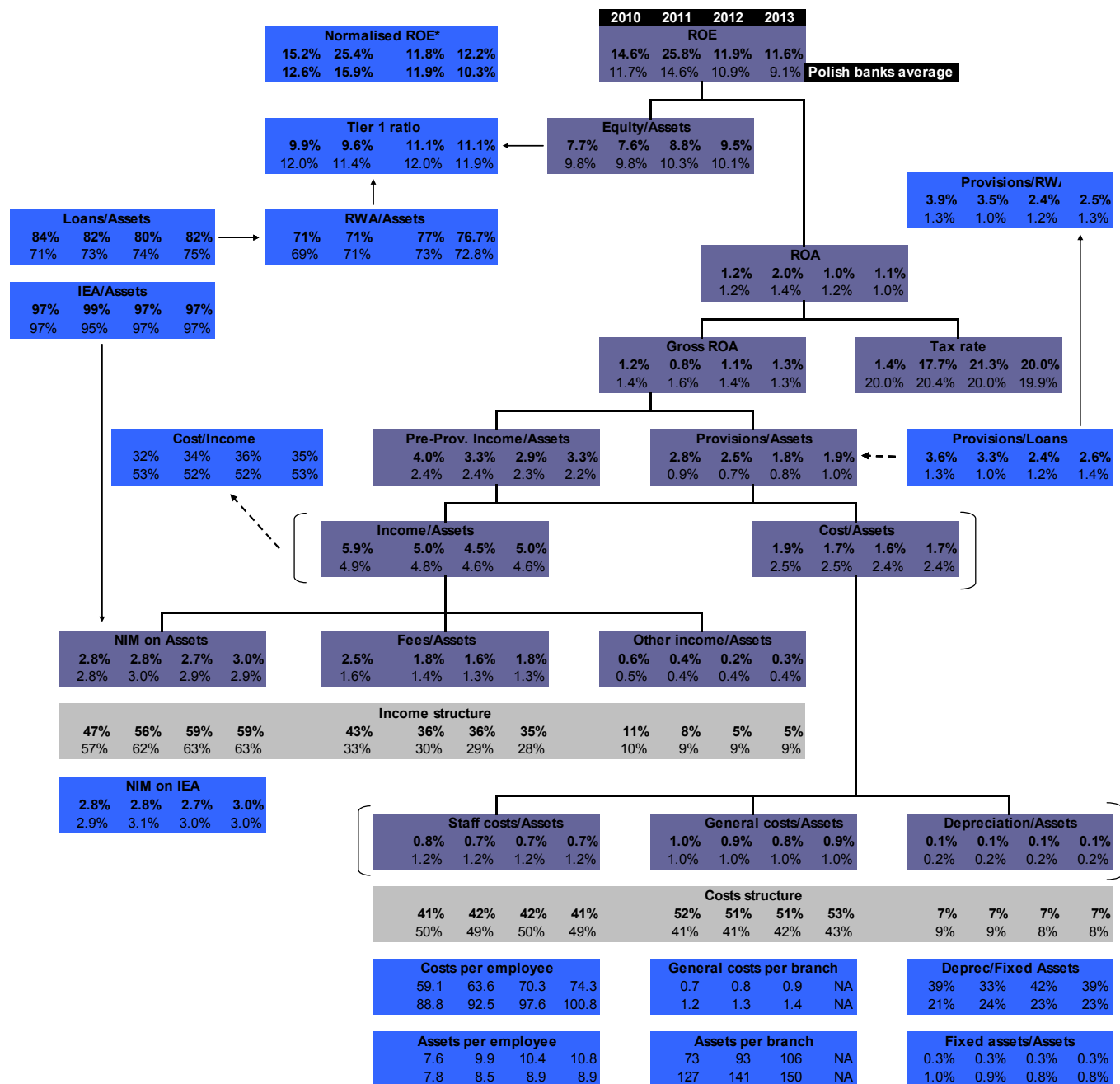
Housing market risk

- **Housing market risk** — Due to the importance of mortgage loans within their business mix (mortgages consist about 74% of Getin Noble Bank's loans), the bank carries above-average exposure to property price risks in Poland.

Lesson Learnt? Structural Weakness of Business Model

ROE Negatively Affected by High Cost of Risk and Cost of Funding

Figure 11. Getin Noble Bank — DuPont Analysis vs. Local Peers, 2010-2013E (Percentage)



* Assuming Tier 1 at 10%

Source: Company data, CIRA estimates (2011-13)

Without material improvements in cost of risk and cost of funding, we expect the bank will have problems increasing its currently low profitability

The bank's business model, effective if implemented on a small scale, is not scalable in our view

Getin's biggest competitive advantage is its entrepreneurial culture, which has led to outstanding sales growth ...

... but too high lending leads to rising funding needs and rising funding costs ...

... and deteriorating asset quality

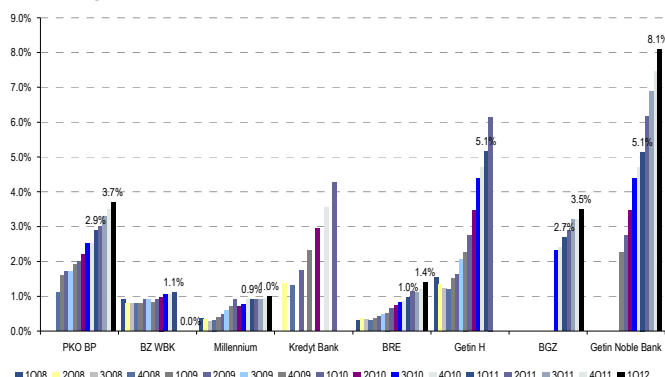
The bank's ROE is negatively affected by its high cost of risk (in 2011 327bp vs. 105bp aggregated cost of risk for our Polish banks coverage universe) and relatively high cost of funding, driving NIM down despite the high yield on assets. In 2010 and 2011 the bank achieved ROEs above the industry average only due to gains on divestments and a below statutory tax rate in 2010. In coming years we expect the bank's net-fees-to-assets to decline due to the lower lending growth (we note that gains on the sale of insurance products related to loans are booked upfront at the point at which the loans are granted). Lower volume growth also means less chance of further improvements in the cost-to-income ratio. Without material improvements in cost of risk and/or cost of funding, we expect the bank will have problems increasing its currently low profitability.

Key question about scalability of the business model

Both structural problems of the bank — ie its high cost of risk and high cost of funding — have the same root cause, in our opinion: the bank's business model, effective if implemented on a small scale, is not scalable and leads to much lower profitability when the business increases beyond a certain point.

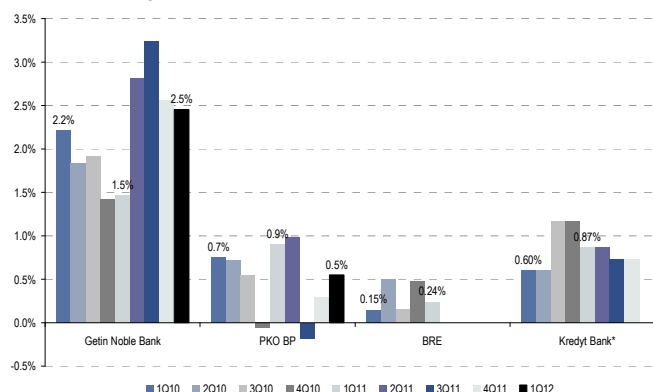
Getin's biggest competitive advantage is its entrepreneurial culture, which has led to outstanding sales growth, despite the bank pricing products above market average levels. However, we think there is a point beyond which this model doesn't work. The bank's management has admitted that high lending growth, leading to high funding needs, negatively affects the bank's cost of funding (put simply, the average cost of funding is much higher when the bank needs to attract ZI 10bn of new deposits annually vs. a scenario under which only ZI 1bn is needed). We argue that the high cost of risk, too, is due to the size of the bank's operation exceeding the optimal scale for such a business model: with lower sales the bank could explore market niches and grant loans to clients for whom fast processing is a greater priority than price. With growing market share, the risk of negative selection rises materially and the share of clients choosing Getin Noble's offer due only to a lack of other options (refusals by other banks) may increase significantly. Each factor feeds off the other: given a high cost of funding, the bank needs to focus even more on selling high-margin lending products, which may lead it to take on higher credit risk. Hence a key reason for the bank's declining profitability is its lack of access to cheap funding. In sum, post-Lehman we argue that it is unsustainable for a bank to be among the leaders in mortgage lending without stable funding from its clients or from its parent bank.

Figure 12. Polish Banks — Mortgage NPL Ratio, 1Q08-1Q12 (Percentage)



Source: Company data, Citi Investment Research and Analysis

Figure 13. Polish Banks — Cost of Risk in Mortgage Lending, 1Q10-1Q12 (Percentage)



*For Kredyt Bank only semi-annual data are available
Source: Company data, Citi Investment Research and Analysis

Upfront fees on cross-sell related with
new lending are fine ...

... but lending is a capital-incentive
business ...

... and to maintain current ROE the bank
should keep the current rate of growth in
new lending

Getin Noble Bank, as its predecessor
GBG, was successful practically only in
car loans

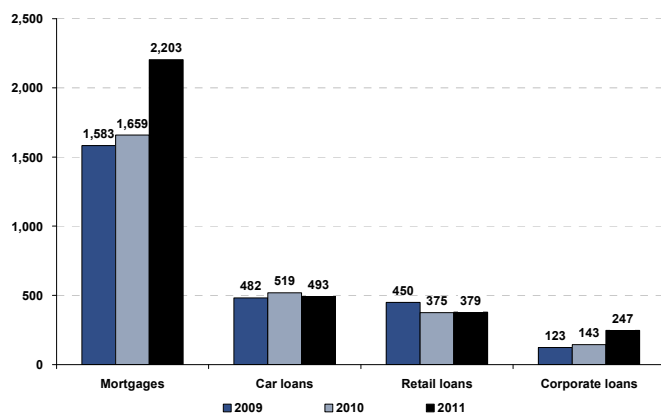
Maybe we should not be concerned with provisioning being equal to net interest income as the bank is able to make money from the clients it attracts in other ways: in the case of FX mortgage loans, for example, the bank earns an FX spread (i.e. the difference between bid and ask FX rates, with half earned when the loan is granted, and half earned over the loan repayment period) while in the case of all kinds of retail loans (mortgage, cash and car) the bank can derive high revenues from bancassurance. Are loans just entry products to hook clients with the bank's real business being to maximise cross-sell? Given GNB's close cooperation with a highly innovative provider of insurance products (TU Europa), such a business model may seem attractive but it carries the same disadvantage: it is not scalable. Lending is a capital-incentive business and pending regulations such as Basel III will make it even more so. Getin Noble Bank already sells its clients a wide range of insurance products and we struggle to see how it will be able to increase sales per client. Given that the vast majority of cross-sell is done at the point at which loans are granted, revenues depend on new sales whereas capital requirements depend on the stock of loans. This leads us to conclude that only by maintaining its pace of lending growth can the bank keep its return on capital unchanged. This can be delivered by the bank only up to a certain size.

Success only in car lending?

Gornoslaski Bank Gospodarczy (GBG), acquired by Getin Holding in 2004 and re-branded into Getin Bank (Getin Noble Bank after the merger with Noble Bank in 2010), specialised in car loans sold through car dealers. Getin Bank launched mortgage and cash lending and these new products outweigh car loans in terms of loan volume and revenues but in terms of profitability they are only modestly successful. We don't know the split of administrative costs on the main lending products but net revenues (interest revenues less provisioning and cost of funding) are a good indicator of the product profitability.

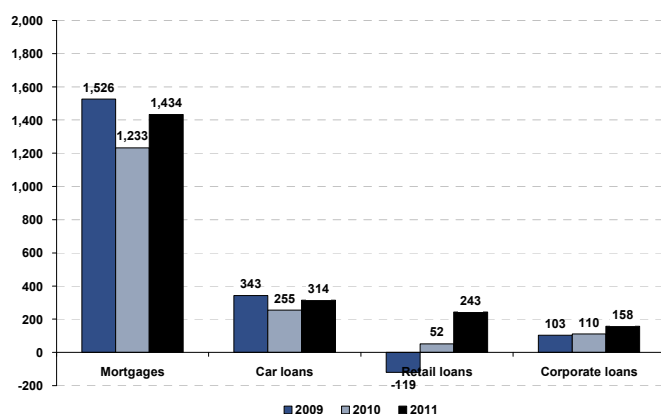
- Only in car lending are net revenues solid (above ZI 100m in 2009, 2010 and 2011).
- Net revenues in cash loans were negative in 2009 and 2010, the improvement due to lower provisioning came in 2011.
- Net revenues in mortgages declined from ZI 509m in 2009 to ZI 142m in 2010 and ZI 48m in 2011, driven by higher cost of risk.
- Net revenues in corporate loans were only slightly above zero.

Figure 14. Getin Noble Bank — Stand-Alone Revenues by Product, 2009-11 (Polish Zloty in million)



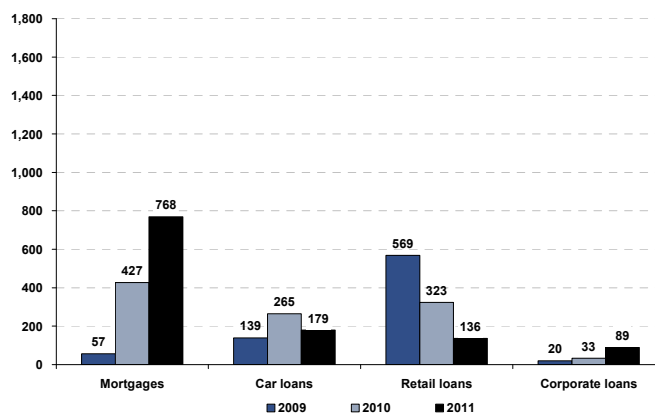
Source: Company reports, Citi Investment Research and Analysis

Figure 16. Getin Noble Bank — Stand-Alone Revenues less Provisioning by Product, 2009-11 (Polish Zloty in million)



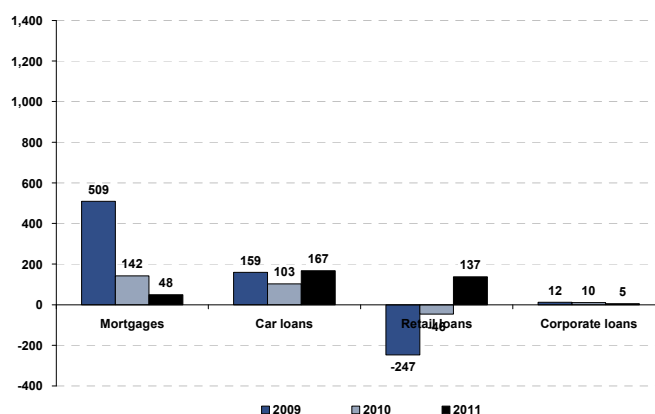
Source: Company reports, Citi Investment Research and Analysis

Figure 15. Getin Noble Bank — Stand-Alone Provisioning by Product, 2009-11 (Polish Zloty in million)



Source: Company reports, Citi Investment Research and Analysis

Figure 17. Getin Noble Bank — Stand-Alone Revenues less Provisioning and Funding Cost by Product, 2009-11 (Polish Zloty in million)



Source: Company reports, Citi Investment Research and Analysis

We note that in our analysis we have calculated the cost of funding as the proportional part of the total interest cost of the bank. However, in practice, cost of funding depends on the size of funding needs. High volume, low-margin mortgage loans should have a higher attributed cost of funding as in the absence of these loans Getin Nobel Bank wouldn't need to attract every year so many new deposits and would be more selective in pricing them.

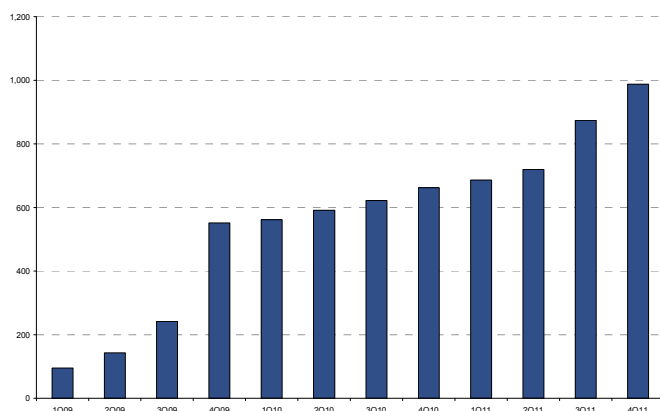
Benchmarking to Alior

Alior Bank, launched post-Lehman, avoided some mistakes of other Polish banks

Had Getin Noble Bank avoided low-margin mortgage lending we think it may have looked like Alior Bank, the green-field project of Wojciech Sobieraj, Niels Lundorff and Cezary Smorszczewski (former head of retail division in BPH, CFO in BPH and member of management board in Bank Pekao, respectively), funded by Italian holding group Carlo Tassara, controlled by Romain Zaleski, a French businessmen with Polish roots. Alior Bank launched its operations in November 2008, shortly after the Lehman collapse and due to awareness of the changed business environment and the end of the era of cheap and easy wholesale funding, it focused on consumer and business loans rather than on mortgage lending. Alior Bank based its strategy on organic growth coupled with selected acquisitions (book of consumer loans acquired from HSBC). It has built a network of 208 own and 320 franchise

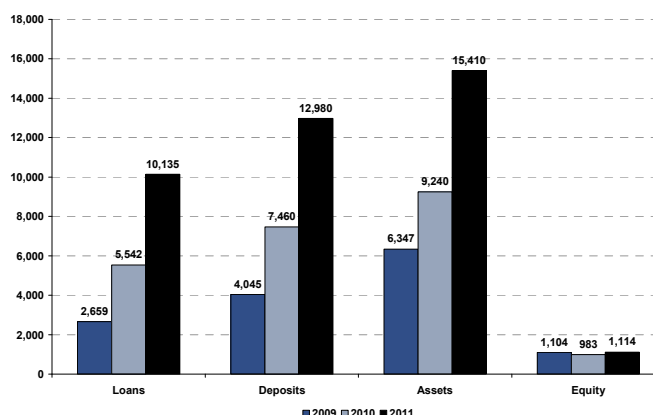
branches, located mostly on high streets in the biggest cities. It has attracted clients (the 1 million milestone was reached at the beginning of 2012) through the combination of effective brand positioning (coherent marketing, winning in many client surveys and bank ratings) and aggressive pricing. The bank offered money for account opening or for recommending the banks to colleagues, offered free of charge bill payments (under condition of opening an account in the bank), launched foreign currency exchange services in all branches and started real-estate agency services. In June 2012 it launched a new generation internet bank (AlierSync).

Figure 18. Alior Bank – Number of Clients, 1Q09-4Q11 (Thousands)



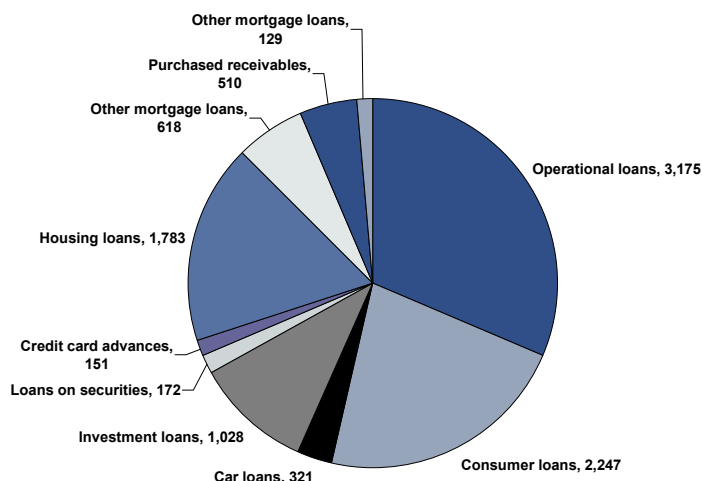
Source: Company reports

Figure 19. Alior Bank – Loans, Deposits, Assets and Equity, 2009-2011 (Polish Zloty in million)



Source: Company reports

Figure 20. Alior Bank — Structure of Loans, 2011 (Polish Zloty in million)



Source: Company reports

Alior strategy: to acquire a client first, to cross-sell later

Acquired clients were targeted by the bank, trying to sell them lending and deposit products and to increase usage of current account. Only in one marketing campaign (the promotion of a cash loan with the lowest interest rate guaranteed) did the bank use a loan product to attract clients, in all other promotions clients were attracted using different means. We think that risk profile of such clients is lower and more statistically predictable than in case of clients that start relations with a bank only with a loan.

Figure 21. Getin Noble Bank vs. Alior — Selected Data, 2011 (Polish Zloty in million)

	GNB	Alior
Mortgage loans	33,667	1,783
Consumer loans	8,021	3,509
Cash loans	3,890	2,247
Car loans	4,131	321
Other	0	941
Retail loans	41,688	5,292
Business loans	2,410	4,843
Total	44,098	10,135
less mortgage	10,431	8,352
Yield on assets	7.78%	7.23%
Cost of funding	4.70%	2.58%
Spread	3.08%	4.65%
NIM on AIEA	2.85%	4.20%
Cost of risk	3.58%	2.41%
Share of current deposits	9%	25%
ROE on core activity	8.4%	14.40%

Source: Company reports

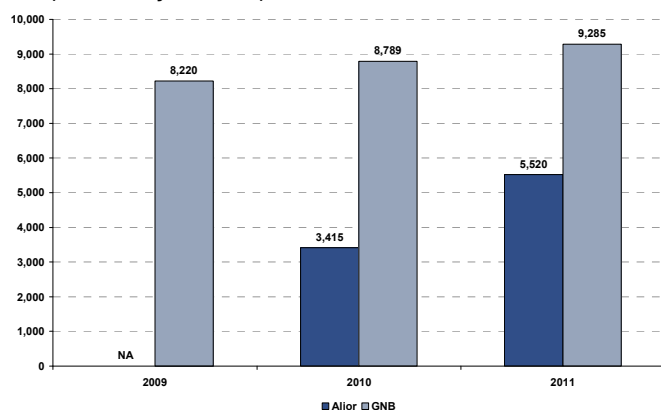
Interestingly, despite being established much later, Alior Bank is, excluding mortgage loans, only 20% smaller than Getin Noble Bank. It is also more profitable, with a 2011 ROE of 14% vs. GNB's ROE on core activity (excluding gains on Open Finance floating) of 8%.

Lower cost of funding and lower (at least up-to-date) cost of risk

Both Alior and GNB are cost effective and sales-oriented locally owned and locally managed financial institutions, so why they are so different in terms of profitability? We attribute the higher profitability of Alior Bank to two factors:

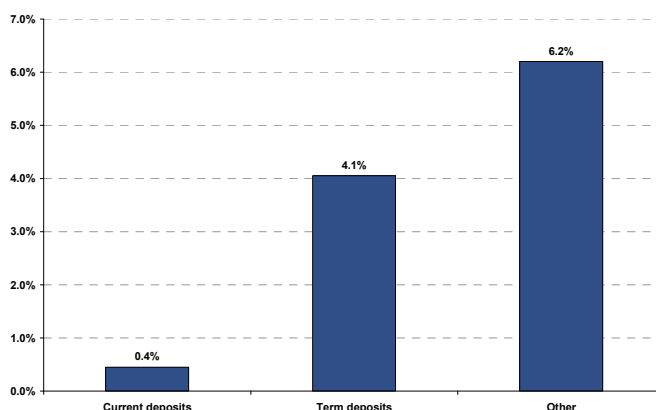
- Lower cost of funding, driven by lower funding needs and higher share of current account in deposit mix;
- Lower cost of risk, perhaps due to avoiding negative selection of clients (but we note that due to the bank's short history it cannot be ruled out that Alior Bank's low cost of risk is from less conservative provisioning).

Figure 22. Getin Noble Bank vs. Alior — Deposit Annual Growth, 2009-2011 (Polish Zloty in million)



Source: Company reports, Citi Investment Research and Analysis

Figure 23. Alior Bank — Cost of Funding, 2011 (Percentage)



Source: Company reports, Citi Investment Research and Analysis

New Strategy

Lending Less = Funding Cheaper

We like GNB's new strategy ...

In 2012 Getin Noble Bank started to implement a new strategy. The bank intends:

- To reduce mortgage lending and lower the bank's funding needs to lower its cost of funding;
- To increase the sale of short-term and high-margin consumer loans to offset lower income from mortgage loans (we note that both mortgage and consumer loan sales generate fee income from bancassurance products cross-sold with loans).

... but in 1Q12 it hasn't fully worked and NIM declined

The positive effects of lower mortgage lending on cost of funding will not be seen quickly as in 1H12 the bank faced the problem of increased rates on deposits due to changes in tax law (the end of tax-free low volume deposits due to amended rules on tax rounding). Getin Noble Bank had to offer attractive rates on normal (taxed) deposits and to launch new products (tax-free long-term deposits structured as pension products) to retain clients. We expect the cost of funding to start to decline in 3Q12 when the deposits collected in 1Q12 start to roll over at lower rates and the change in lending mix starts to affect the structure of loans (but due to the size of mortgage loans, constituting 76% of total loans, the change in asset mix will be insignificant this year). In the short term we may see net interest margin (NIM) shrinking, negatively affected by the end of tax-free deposits.

Avoiding Negative Selection

Increasing consumer lending without increasing the cost of risk

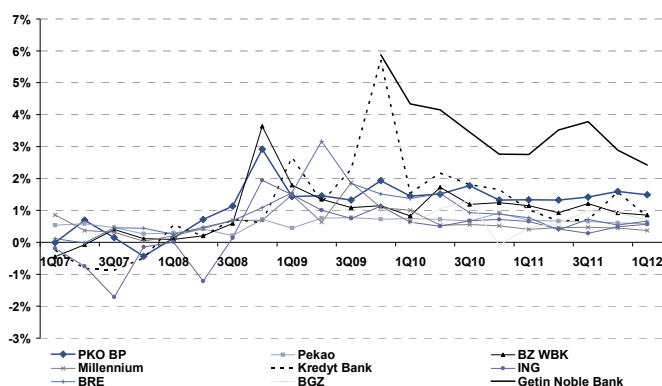
The key to the success of the new strategy will be the ability of the bank to increase consumer lending (to maintain fee generation) without increasing the cost of risk.

In our opinion it requires a change in the way the bank sells cash loans

Getin Noble Bank's representatives insist that the bank's new lending is of better quality than previously and that the share of 90 day overdue loans 6-12 months after loan origination are within the assumed appetite for risk. But given the bank's history of overpromising and under-delivering in terms of provisioning we are unconvinced. In our opinion the main reason why the bank has asset quality issues (it has the highest cost of risk among our universe of 9 Polish banks) is negative selection of clients. To structurally improve asset quality the bank needs, in our opinion, to change the way it sells cash loans. Given relatively high penetration of consumer loans in Poland the bank offering cash loans at above-market rates to new clients risks that it will attract clients that have a problem getting cheaper loans from other financial institutions (it is the bank of the last choice, when banks offering cheaper loans decline the loan). As the examples of Alior Bank and BRE Bank show, consumer lending can still be profitable but only if loans are sold to clients having a relationship with the bank before the cash loan is offered.

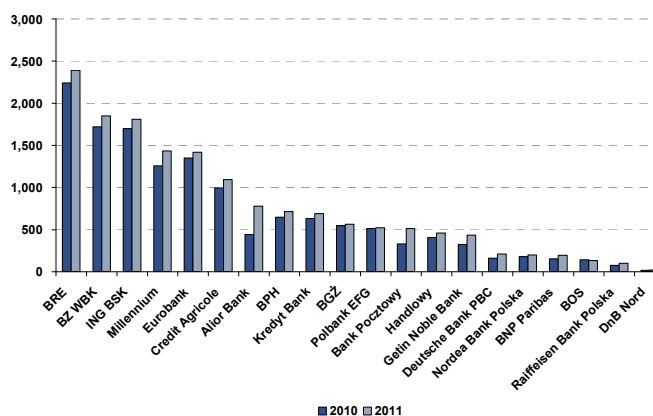
The examples of Alior Bank and BRE Bank show that consumer lending can still be profitable but only if loans are sold to clients having a relationship with the bank before

Figure 24. Polish Banks — Cost of Risk, 1Q07-1Q12 (Percentage)



Source: Company reports

Figure 25. Polish Banks (Excluding PKO BP and Pekao) — Retail Current Accounts, 2010-2011 (Polish Zloty in thousand)



Source: Company reports

Due to its small client base and lack of customer acquisition power (due to its historical focus on lending and deposit collection it may be perceived by clients as a bank without an attractive offer of current accounts and cards) GNB has a structural problem with increasing its consumer lending in a safe manner. The bank has tried to address this weakness (leading also to low share of recurring fees) by launching a new credit card and developing an attractive current account offers but it will take years to build a sufficient base of new clients for cross-sell of consumer loans in the future.

Market Overview

Polish Banking Market

The 2011 net profit of the banking sector was a record high and reached ZI 15.7bn (+37% yoy). Rising profitability of the sector was driven by higher net interest income (+13% yoy, driven by 15% yoy loan growth and improving net interest margin) and lower provisioning (-29% yoy). Net fees rose 4% and general costs increased by 5% yoy. Deposits of the sector grew 13% yoy. The first months of 2012 saw further growth of the banking sector. According to NBP data in April YTD the sector's net result was 13% higher than in first four months of 2011 driven by strong core revenues (net interest income +10% yoy, net fee income +2% yoy). Provisioning increased 4% yoy.

In this section we describe in more detail two core sub-markets of Getin Noble Bank (mortgage and car loans) and the recent changes in industry regulation. For insight on recent sector trends please see our note published on June 20, 2012: [Polish Banks Big Picture - Construction Exposure Still in the Spotlight Post PBG Bankruptcy](#)

2011 At a Glance

Net profit of Polish banks increased 37% yoy in 2011 due to higher NII (+13% yoy) and lower provisions (-29% yoy)

Polish banks increased operating profit before provisions by 9% in 2011 (vs. +14% in 2010), driven by strong net interest income (+13% yoy), as net fee income increased +4% yoy and administrative costs rose 5% yoy. Loans grew 14% yoy and deposits increased 12% yoy. Total NPL ratio of the sector declined to 8.2% from 8.8% in the previous year and provisioning came in significantly below 2010 levels at ZI 7.5bn vs. ZI 10.5bn in 2010. Net profit of the sector increased in 2011 by 37% yoy to ZI 15.7bn.

Figure 26. Polish Banks — Sector Results, 2008-2011 (ZI in m)

	2008	yoy chg	2009	yoy chg	2010	yoy chg	2011	yoy chg
Net interest income	30,089	24%	26,376	-12%	30,899	17%	34,968	13%
Net fee income	11,512	5%	12,459	8%	13,754	10%	14,295	4%
Total Income	48,311	17%	50,301	4%	53,452	6%	57,748	8%
Administrative costs	24,850	14%	24,815	0%	25,477	3%	26,771	5%
Depreciation	2,339	2%	2,544	9%	2,534	0%	2,587	2%
Provisions	5,323	211%	11,556	117%	10,545	-9%	7,471	-29%
Net profit	13,658	0%	8,278	-39%	11,420	38%	15,683	37%

Source: KNF, Citi Investment Research and Analysis

In 2011 mortgage, corporate and consumer loans grew +11% yoy, +18% yoy and +3% yoy respectively.

Mortgage loans adjusted for FX fluctuations grew by 11% yoy in 2011 vs. 14% in 2010, corporate loans rose 18% yoy (vs. decline of -1% yoy in 2010) and consumer loans rose 3% yoy after 4% growth in 2010.

In 2011 the growth rate of retail deposits increased to +13% yoy (vs. +10% yoy in 2010) and the annual growth rate of corporate deposits rose to +12% from +10% in the previous year. The sector loan-to-deposit ratio increased in 2011 to 112% from 110% in 2010.

The sector loan-to-deposit ratio increased to 112% in 2011 from 110% in 2010

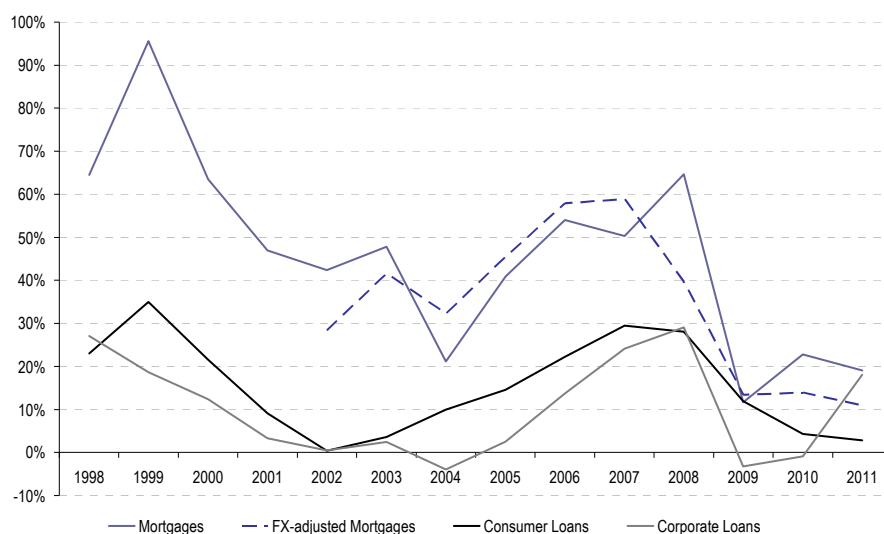
Assets Under Management (AUM) of investment funds declined 2% yoy in 2011 (vs. +24% yoy in 2010) and reached the level of ZI 114bn. According to our estimates net inflows in 1H11 reached ZI 1.7bn vs. ZI 13.7bn in 2010.

Figure 27. Banking Sector Overview, 2005-Apr 2012 (Zl bn)

	2005	chg yoy	2006	chg yoy	2007	chg yoy	2008	chg yoy	2009	chg yoy	2010	chg yoy	2011	chg yoy	Apr-12	chg yoy
Loans	288	12%	356	23%	463	30%	633	37%	686	8%	746	9%	848	14%	847	12%
Corporate Loans	123	3%	140	14%	173	24%	224	29%	217	-3%	215	-1%	253	18%	254	13%
Consumer Loans	87	15%	107	22%	138	29%	177	28%	198	12%	207	4%	213	3%	211	2%
Mortgage Loans	50	41%	78	54%	117	50%	192	65%	214	12%	263	23%	314	19%	310	16%
FX-adjusted mortgage growth		45%		58%		59%		40%		13%		14%		11%		9%
Zloty Loans	216	10%	262	22%	353	35%	425	20%	475	12%	511	8%	567	11%	581	11%
FX Loans	73	19%	94	29%	110	17%	208	89%	211	2%	235	11%	281	20%	265	15%
Share of FX Loans	25%		26%		24%		33%		31%		31%		33%		31%	
Deposits	362	10%	413	14%	469	14%	563	20%	622	10%	677	9%	756	12%	747	10%
Corporate Deposits	100	17%	126	26%	144	14%	151	5%	166	10%	183	10%	205	12%	179	4%
Retail Deposits	218	5%	237	9%	261	10%	328	26%	377	15%	413	10%	468	13%	475	12%
Zloty Deposits	307	9%	351	14%	412	17%	508	23%	566	11%	617	9%	684	11%	682	10%
FX Deposits	55	16%	61	11%	57	-6%	55	-3%	56	1%	59	6%	72	21%	65	7%
Share of FX Deposits	15%		15%		12%		10%		9%		9%		10%		9%	
AUM	61	67%	99	61%	134	36%	74	-45%	94	27%	116	24%	114	-2%	127	6%
Loans-to-Deposits	80%		86%		99%		112%		110%		110%		112%		113%	

Source: NBP, Citi Investment Research and Analysis

Figure 28. Polish Banks — Loan Growth YoY, 1998-Apr2012 (Percentage)

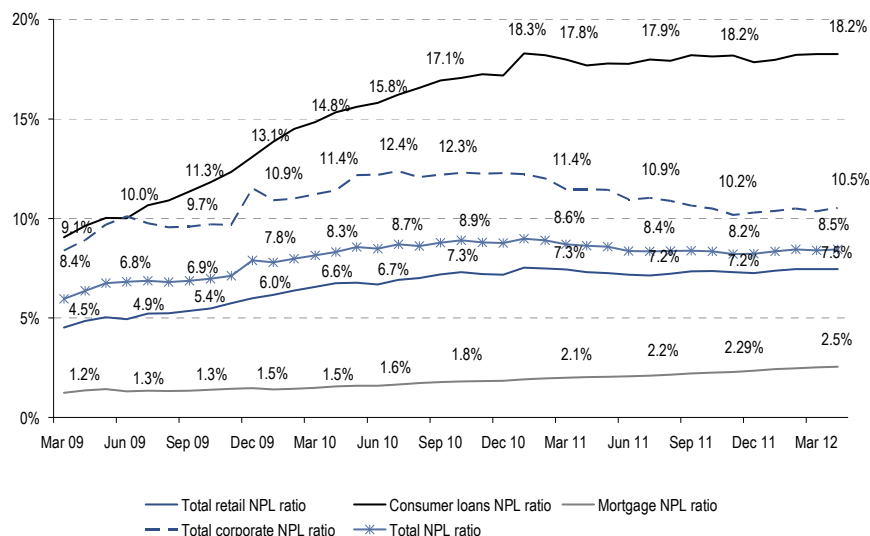


Source: NBP, Citi Investment Research and Analysis

In 2011 the quality of assets improved — total NPL ratio decreased to 8.2% from 8.8% in 2010

In 2011 the quality of assets improved (total NPL ratio decreased to 8.2% from 8.8% in 2010) driven by improvement in quality of corporate lending, as the corporate NPL ratio declined to 10.3% from 12.3% in 2010. In contrast to corporate, the quality of retail loans deteriorated — NPL ratio of mortgage loans increased to 2.4% from 1.8% in 2010 and the consumer NPL ratio rose to 17.9% from 17.2% in the previous year.

Figure 29. Polish Banks — NPL Ratios, Mar 2009-Apr 2012

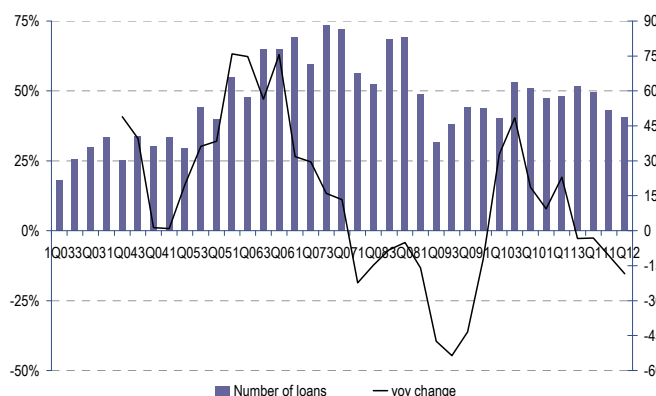


Source: Citi Investment Research and Analysis

Mortgage Lending

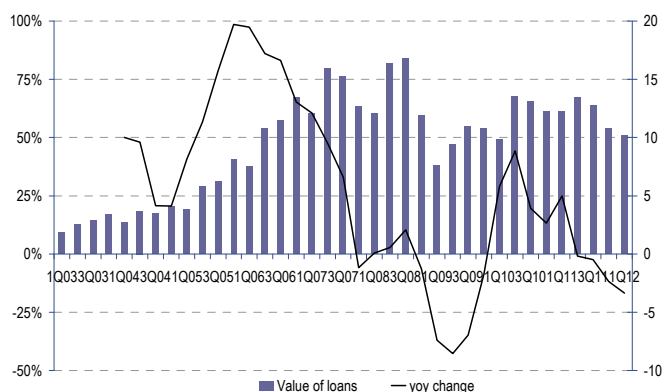
According to the Polish Banks Association (ZBP) the number of new mortgage loans decreased in 1Q12 to 48,723 (-6.0% qoq, -15.4% yoy) and the value of new production declined to Zł 10.2bn (-5.5% qoq, -16.7% yoy). In the first quarter of 2012 the share of Zloty denominated loans in newly granted loans increased to 84% from 77% in 4Q11 and the share of EUR-denominated loans declined to 15% from 17% in 4Q11. CHF loans constituted only 1% of new mortgage production (vs. 6% in 4Q11 and 10% in 3Q11).

Figure 30. Polish Banks — Number of New Mortgage Loans, 1Q03-1Q12 (Thousands)



Source: ZBP, Citi Investment Research and Analysis

Figure 31. Polish Banks — Value of New Mortgage Production, 1Q03-1Q12 (Polish Zloty in billion)



Source: ZBP, Citi Investment Research and Analysis

Car Loans

According to KNF (Polish FSA), car loans declined to ZI 7.1bn in the first three quarters of 2011 (-9% yoy) from ZI 7.7bn at the end of 2010 and ZI 7.8bn in September 2010 and constituted 5% of consumer loans. According to data selected by Open Finance, in 2010 only a few banks posted growth in car loans production and Getin Noble Bank was the only non-captive bank with a strong position in car lending that managed to increase loan production (due partly to the take-over of GMAC, the captive bank of GM).

Figure 32. Polish Banks — Car Loans, 2008-Sep2011 (Polish Zloty in billion)

	2008	2009	2010	Jan-Sep 2011	yoy change
Loans	8.3	7.9	7.7	7.1	-9%
NPLs	NA	0.8	1	1.1	10%
NPL ratio	NA	10.2%	12.7%	15.4%	
Interest Income	0.875	0.868	0.875	578	-11%
Yield on loans	11%	11%	11%		
Provisioning	0.093	0.191	0.19	0.128	-25%
Cost of risk	1.12%	2.42%	2.47%	1.80%	

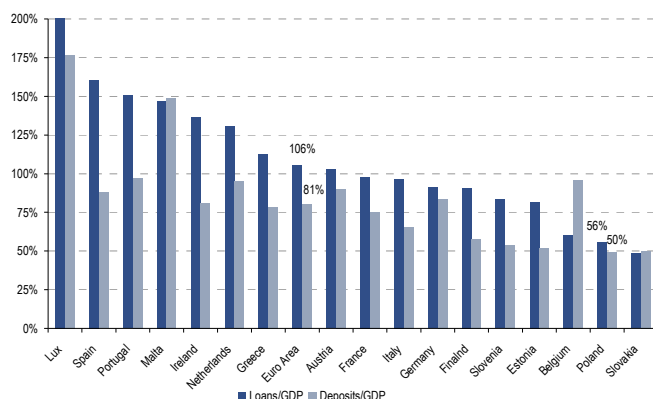
Source: KNF, Citi Investment Research and Analysis

The Industry Perspective

With loans-to-GDP ratio at 48% and deposits-to-GDP ratio at 50% Poland is still underpenetrated banking market

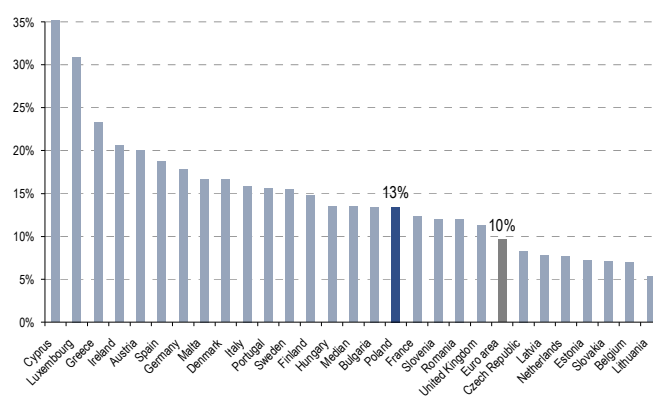
A comparison with other EU countries shows that Poland is still an underpenetrated banking market (loan-to-GDP at 56% in Poland vs. 106% in Euro Area, deposit-to-GDP 50% and 81%, respectively). Looking at the segments, it is apparent that the biggest potential for growth is in corporate loans (corporate loans constitute just 15% of GDP in Poland vs. 50% in EU) and loans for house purchases (19% and 39%, respectively) while in other retail loans the penetration in Poland is actually higher than in the total EU (13% and 10%, respectively).

Figure 33. EU Banks — Loans and Deposit to GDP, 2011 (Percentage)



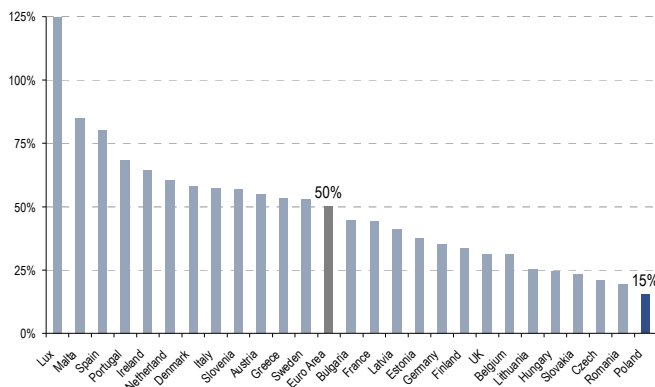
Source: ECB, Citi Investment Research and Analysis

Figure 34. EU Banks — Retail Non-Mortgage Loans to GDP, 2011 (Percentage)



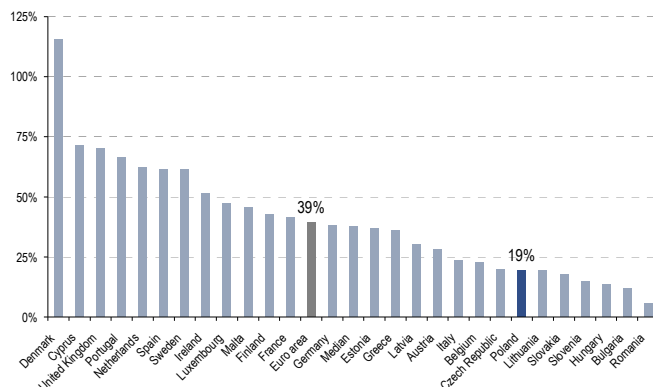
Source: ECB, Citi Investment Research and Analysis

Figure 35. EU Banks — Corporate Loans to GDP, 2011 (Percentage)



Source: ECB, Citi Investment Research and Analysis

Figure 36. EU Banks — Mortgage Loans to GDP, 2011 (Percentage)



Source: ECB, Citi Investment Research and Analysis

Financials and Forecasts

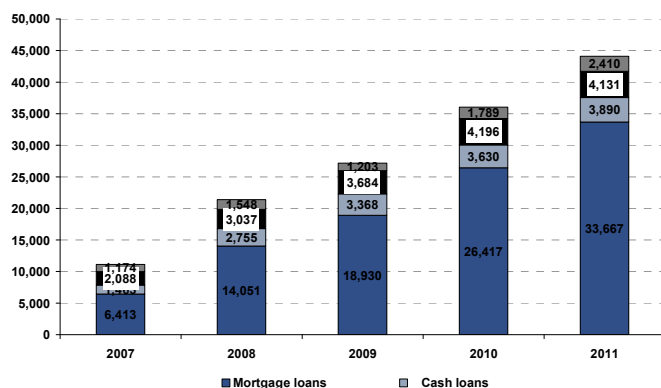
Balance Sheet

Lending

Retail loans (94% of total loans) grew at 43% CAGR in 2007-2011

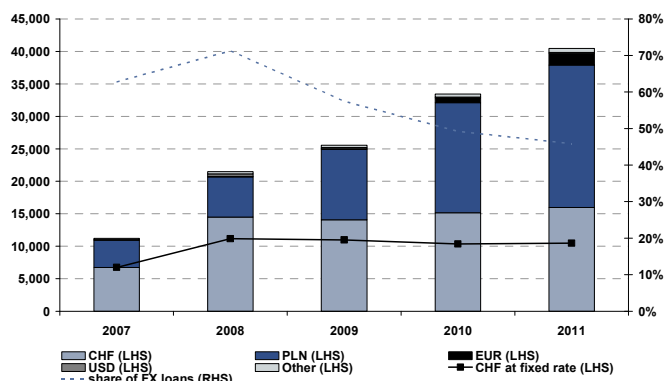
Due to the bank's focus on retail banking, Getin Noble Bank loans are predominantly retail loans (94% as of end of March 2012). In 2007-2011 total loans grew 4.0-fold (CAGR 41%) and retail loans 4.2-fold (CAGR 43%), driven by mortgage loans (CAGR 56%) but also other categories of loans growing at relatively high rates (cash loans CAGR 28%, car loans 19% and corporate loans 20%). We note that the growth in mortgage loans was partly affected by Zloty depreciation (before 2009 practically all mortgage loans were denominated in CHF or other FX and still about 50% of mortgages are FX-denominated) but, even excluding the effect of FX changes, the 2007-2011 CAGR is about 45% in mortgage loans and about 36% in total loans.

Figure 37. Getin Noble Bank — Lending, 2007-2011 (Polish Zloty in million)



Source: Company data, Citi Investment Research and Analysis

Figure 38. Getin Noble Bank — FX Structure of Loans, 2007-2011 (Polish Zloty in million)

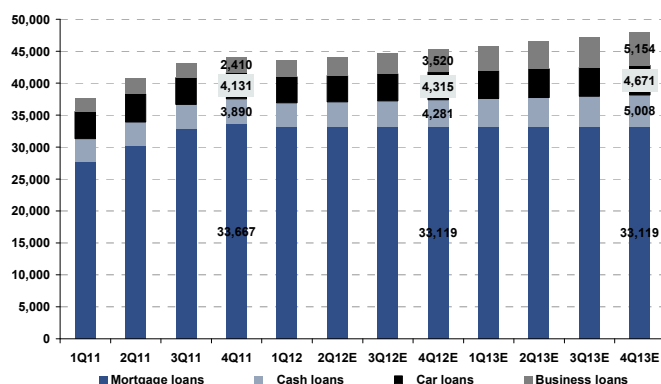


Source: Company data, Citi Investment Research and Analysis

We expect GNB to reduce the pace of growth in lending in the next few years and forecast loans to increase 2% in 2012 and 5% in 2013

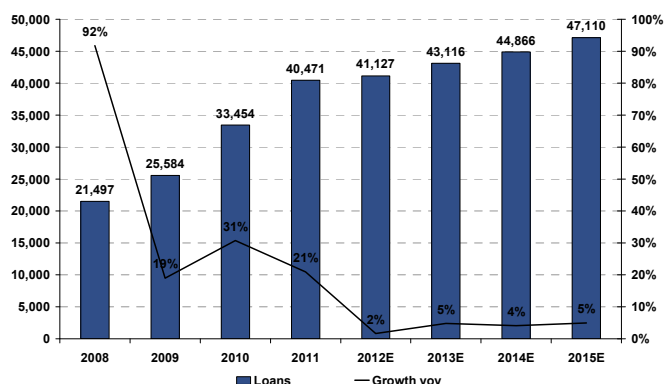
We expect GNB to reduce the pace of growth in lending in the next few years as the bank finds that very high growth leads to an increase in average cost of funding. We forecast loans to increase 2% in 2012 and 5% in 2013, with a stable mortgage book and rising cash and corporate lending (with a much lower contribution from car loans, as the growth prospects in that segment look weak and the bank's market position is the largest, implying limited scope for market share increases).

Figure 39. Getin Noble Bank — Lending Forecasts, 1Q11-4Q13E (Polish Zloty in million)



Source: Company data, CIRA estimates

Figure 40. Getin Noble Bank — Lending Forecasts, 2008-2015E (Polish Zloty in million)



Source: Company data, CIRA estimates

Other Assets

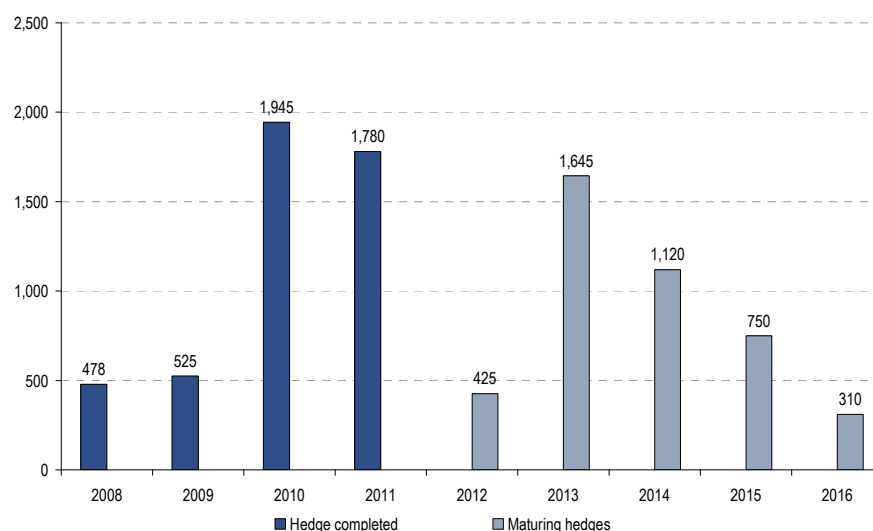
In 2011 the bank's intangible assets dropped by ZI 88m as a result of the deconsolidation of Open Finance. At the end of 2011 the biggest components of intangible assets were goodwill on Bank Przemysłowy (ZI 51m) and goodwill resulting from valuation of the put option of Noble Funds' minority shareholders (ZI 25m — the option was exercised in 1Q12 and GNB increased its stake in Noble Funds to 100%).

FX Swaps and CIRS

The bank funds its FX loans through Zloty deposits and FX swaps or CIRS

The bank funds its FX loans (ZI 18.6bn as of end of 2011, mainly CHF loans — ZI 16.0bn) through Zloty deposits and FX swaps or CIRS (Cross-currency Interest Rate Swaps). We note that there are no material hedges maturing in 2012 (CHF 425m) and due to the amortization of the loan stock (on average about 3% is paid every year) only CHF c100m hedges will have to be rolled forward.

Figure 41. Getin Noble Bank — CHF CIRS, 2008-2016 (Swiss Franc in million)



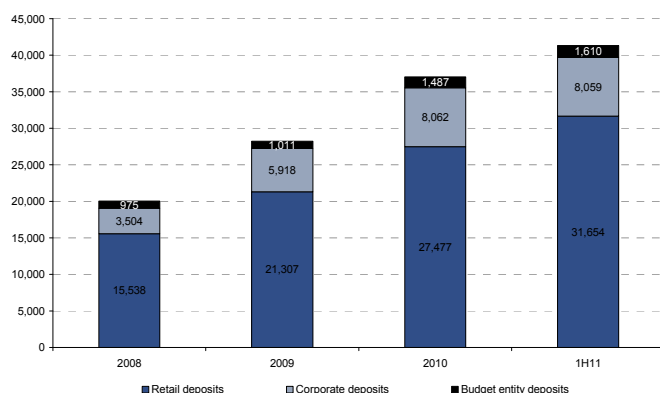
Source: Company data, Citi Investment Research and Analysis

Deposits

Retail deposits are 79% of total deposits

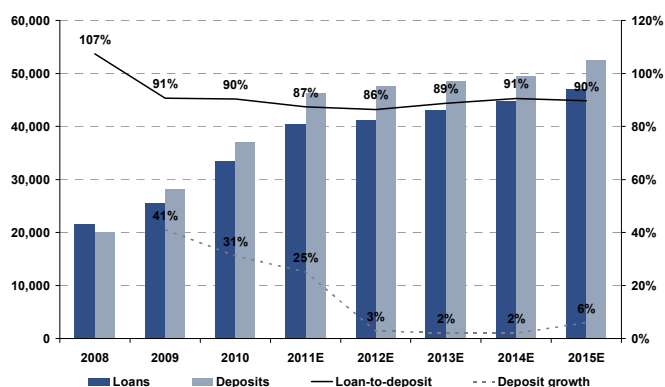
Before 2009 the bank funded its lending expansion partly through the wholesale market (it had issued bonds on the domestic market and eurobonds but it paid them back in 2009) but since the collapse of Lehman Brothers the bank has relied only on client deposits, predominantly retail deposits (these constituted 79% of total deposits as of end of March 2012). We expect the bank to keep its loan-to-deposit ratio about 90% in the coming years, such that we forecast 3% yoy growth in 2012 and 2% in 2013.

Figure 42. Getin Noble Bank — Deposit Structure, 2008-2011 (Polish Zloty in million)



Source: Citi Investment Research and Analysis

Figure 43. Getin Noble Bank — Loans and Deposits, 2008-2015E (Polish Zloty in million)



Source: Company data, CIRA estimates

Subordinated Debt

Subordinated bonds

The bank issues subordinated bonds within two programs:

- Up to ZI 400m program started in March 2011
- Up to ZI 1,000m program of public bonds (traded on Catalyst market), initiated in September 2011.

The third program of public bonds, up to ZI 500m, will be started in 2012.

In 2011 GNB issued 5 tranches of non-public bonds with a total value of ZI 400m (fully qualified to be included into Tier 2 — after the deductions of the half of the bank's investment in financial subsidiaries Tier 2 amounted to ZI 188m at the end of 2011).

Figure 44. Getin Noble Bank — Subordinated Bonds Issued in 2011

Issue	Issue date	Maturity date	Maturity (years)	Issued bonds	Value of bonds (ZI in million)	Issue value per single bond (ZI)
A	29/06/2011	29/06/2018	7	2,500	250	100,000
B	10/08/2011	10/08/2017	6	350	35	100,000
C	01/09/2011	01/09/2017	6	50,000	50	1,000
D	20/09/2011	20/09/2017	6	20,000	20	1,000
E	17/10/2011	17/10/2017	6	45,000	45	1,000
Total					400	

Source: Company reports

In 2012 the bank plans to issue up to ZI 500m but, given high demand, the size of the issue may be increased. Within the program of public bond issue GNB has issued year-to-date three tranches amounting to ZI 478.9m, out of which ZI 441.6m was cleared by KNF to be booked as Tier 2, the rest is awaiting regulator approval.

Figure 45. Getin Noble Bank — Subordinated Bonds Issued in 2011

	Issue date	Maturity date	Maturity (years)	Issued bonds	Value of bonds (ZI in million)	Issue value per single bond (ZI)	Spread to Wibor	Demand	Reduction rate	KNF Approval
PP-I	23/02/2012	23/02/2018	6	200,000	200.0	1000	375bp	282.3	29%	21/03/2012
PP-II	23/02/2012	23/02/2018	6	41,641	41.6	1000	375bp	41.6	0%	21/03/2012
PP-III	23/03/2012	23/03/2018	6	160,000	160.0	1000	355bp	160.7	0.4%	18/04/2012
PP-IV	27/04/2012	27/04/2018	6	40,000	40.0	1000	355bp	74.9	47%	16/05/2012
PP-V	23/05/2012	23/05/2018	6	37,283	37.3	1000	355bp	37.3	0%	
YTD					478.9					

Source: Company reports

Capital Adequacy

Given the bank's weak capital position (Consolidated Tier 1 at 9.7% and Total Capital Adequacy Ratio at 11.0% and stand-alone 9.8% and 11.3%, respectively, at the end of 1Q12), Getin Noble Bank before the merger with Get Bank undertook several actions to increase its capital ratios. The main planned actions are:

- Issuing up to ZI 400-600m subordinated bonds in 2012;
- Capital increase by ZI 300-600m in 2H12.

The bank's capital ratios will be positively affected by the merger with Get Bank (c15bp according to the bank's CEO, Krzysztof Rosinski) and negatively by the increased weight of FX mortgages, starting from June 2011 (c90bp according to our estimates).

According to Krzysztof Rosiński, the bank's CEO, GNB should reach at the end of the year a stand-alone CAR of 12%.

Capital Increase

In 2012, after the merger with Get Bank, the bank intended to increase its capital via a ZI 300m rights issue. Apart from that, the bank recently said that it is planning up to ZI 300m in an additional rights issue. According to Krzysztof Rosinski, CEO of the bank, the second issue is aimed for a potential acquisition. The final decision on the issues will be taken by EGM on July 10.

Gain on Sale of the Stake in Idea Bank

In 1Q12 Getin Bank sold its 37% stake in Idea Bank, valued at ZI 93m, to Getin Holding for ZI 198.5m and booked a ZI 94 pre-tax and ZI 84m net profit on the sale. According to our calculations, the deconsolidation of the bank's stake in Idea Bank added c 12bp to the bank's Tier 1 and 25bp to CAR while the gain on the sale, when the 1Q12 report is audited, will add an extra 23bp to both Tier 1 and CAR thus the total positive impact if the transaction will be +35bp on Tier 1 and +48bp on CAR.

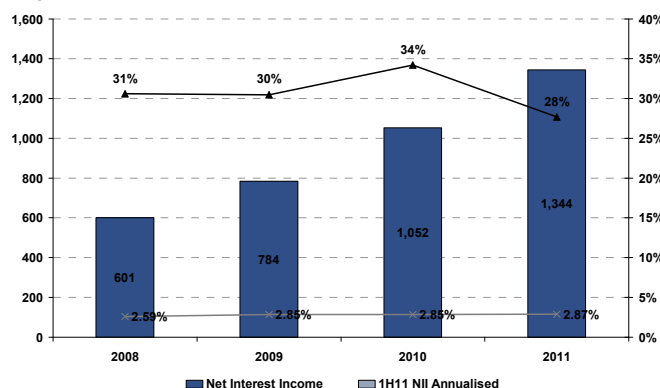
Higher Risk Weight of FX Mortgages

KNF (Polish FSA) decided that starting from June 2012 the risk weight for FX mortgages will be raised from 75% now to 100%. We estimate that it will increase GNB's risk-weighted assets by ZI c4bn, capital requirement by ZI c300m and will cause a c90bp decline in Tier 1 ratio.

Profit and Loss Statement

Net Interest Income

Figure 46. Getin Noble Bank — Net Interest Income, 2008- 2011 (Polish Zloty in million)



Source: Company data, Citi Investment Research and Analysis

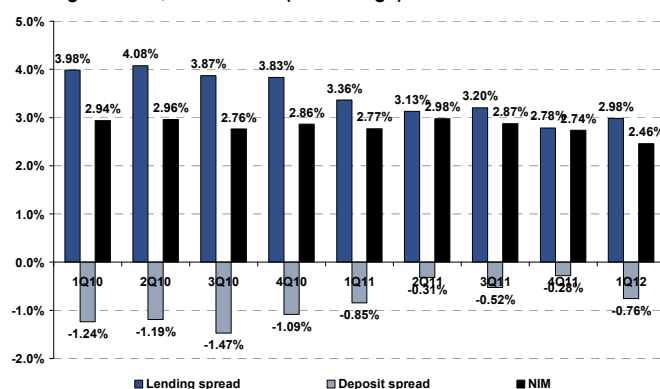
Pro-forma net interest income (NII) grew 31% yoy in 2008, 30% in 2009, 34% in 2010 and 28% in 2011

Pro-forma (e.g. including both Getin Bank and Noble Bank) net interest income (NII) grew 31% yoy in 2008, 30% in 2009, 34% in 2010 and 28% in 2011. The main driver was volumes, while net interest margin (NIM) since 2009 has been broadly flat at about 2.9%. Improving deposit spreads, due to successful efforts to collect deposits more efficiently, were offset by declining lending spreads, negatively affected by an increase in lower-margin mortgage loans.

We expect net interest income to rise 10% in 2012 and 15% in 2013

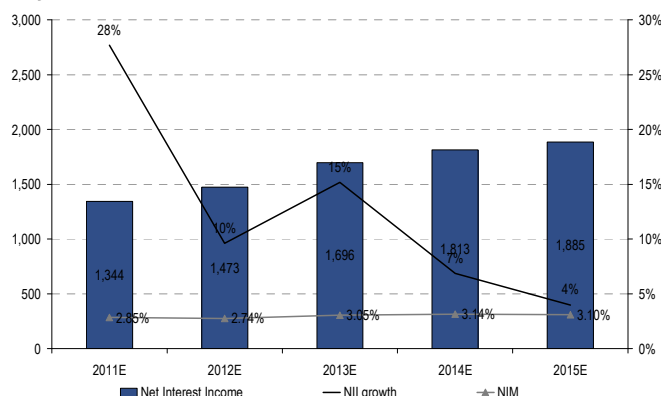
Due to the bank's plans to slow down in mortgage lending, we assume a declining share of mortgage loans in total loans, but given the announced strategy to reduce risk in both mortgage and consumer lending we forecast flat lending spreads. We expect an improving deposit spread and assume the NIM rises from 2.85% in 2012 to 3.05 in 2013E. As a result, we expect net interest income to rise 10% in 2012 and 15% in 2013.

Figure 48. Getin Noble Bank — Yield on Interest Earning Assets, Cost of Funding and NIM, 1Q10 -3Q11 (Percentage)



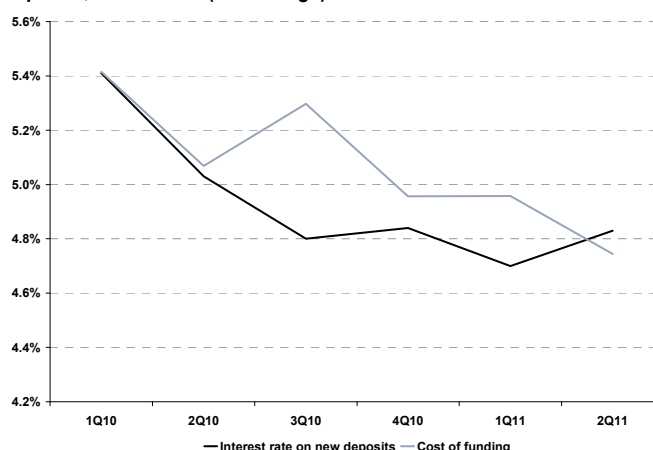
Source: Company data, Citi Investment Research and Analysis

Figure 47. Getin Noble Bank — Net Interest Income, 2011-2015E (Polish Zloty in million)



Source: Company data, Citi Investment Research and Analysis

Figure 49. Getin Noble Bank — Cost of Funding vs. Rate on New Deposits, 1Q10 -2Q11 (Percentage)

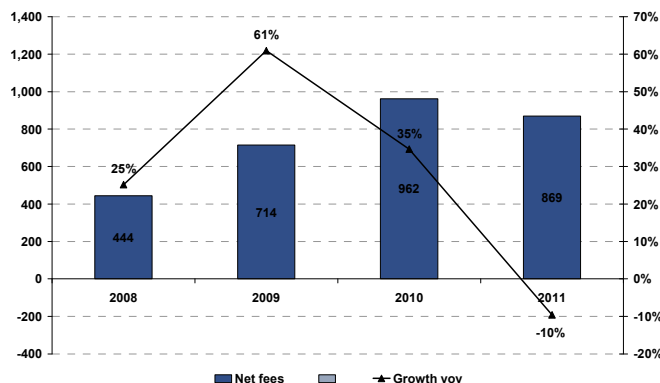


Source: Company data, Citi Investment Research and Analysis

We note that the results of the bank have been affected by revaluation of loans from BFG (Banking Guarantee Fund) received by Getin Bank to fund the acquisition of Bank Przemyslowy (negatively affected 2008 NII by ZI 16m).

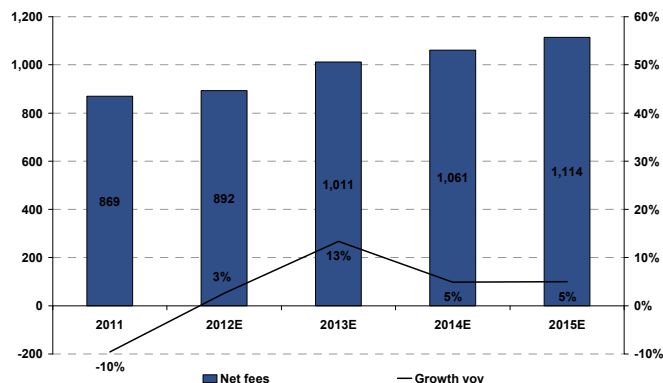
Net Fees

Figure 50. Getin Noble Bank — Net Fees, 2008-2011 (Polish Zloty in million)



Source: Company data, Citi Investment Research and Analysis

Figure 51. Getin Noble Bank — Net Fees, 2011-2015E (Polish Zloty in million)



Source: Company data, Citi Investment Research and Analysis

Net fees were driven by lending fees in 2009 and by intermediation fees in 2010

Net fees grew 61% in 2009 due to high fees arising from changes in loan conditions (lengthening of loan maturity, change in currency or fixing FX rate), presented by the bank as lending fees. In 2010 lending fees declined to Zł 194m from Zł 319m (due to a high base) but intermediation fees grew to Zł 947m from Zł 523m, leading to 35% growth in net fees. The main drivers of the intermediary fees were fees from the sale of investment products (increased by Zł 287m) and insurance (by Zł 131m).

Since 2Q11 Getin Noble Bank has not consolidate Open Finance

Since 2Q11 Getin Noble Bank has not consolidated Open Finance, which was a significant provider of net fees. In 2010 about Zł 271m of GNB's intermediary fees (20% of the bank's intermediary fees, 15% of total fee income) came from Open Finance: Zł 72m were from the sale of loans (96% of Getin Noble Bank Group's consolidated fees on lending products) and Zł 117m from investment products (28% of the bank's consolidated fees on investment products). We note that we don't include in these calculations Open Finance's fees earned on the sale of Getin Noble Bank loans and investment products (Zł 121m and Zł 11m, respectively, in 2010) as they are not excluded from the consolidated reports of GNB.

We forecast a small 3% increase in 2012 and then increases of 13% in 2013

As Getin Noble Bank no longer consolidated Open Finance, net fees dropped by 10% in 2011. We forecast a small 3% increase in 2012 (driven by further growth in sales of investment products) and then an increase of 13% in 2013.

The bank intends to utilize existing possibilities to increase recurring fee income, (e.g. by higher pricing on transfers and accounts) but its strategy doesn't emphasise growth in relationship-banking services, hence we expect GNB's net fees to remain highly dependent on sales-related fees such as financial intermediation fees and lending fees.

Figure 52. Getin Noble Bank — Fee Income and Expense, 2009-2013E (Polish Zloty in million)

	2009	2010	2011	2012E	2013E
Financial intermediary	523	947	942	968	1,053
-lending products	69	74	29	4	4
-investment products	127	413	458	608	693
-insurance	326	457	455	356	356
-other	1	2	0	0	0
Mutual funds sale	21	33	44	40	60
Asset management	3	4	3	3	4
Brokerage	0	24	44	40	58
Cards	15	19	23	27	32
Lending fees	319	194	114	96	112
Accounts	22	23	33	43	52
Transactions	4	4	5	0	0
Other	9	8	7	10	12
Total fee income	916	1,256	1,216	1,227	1,383
Financial intermediary	-173	-215	-231	-221	-239
-lending products	-64	-17	-18	-2	-2
-investment products	-54	-111	-132	-158	-173
-insurance	-27	-37	-81	-61	-64
-other	-28	-50	0	0	0
Mutual funds sale	0	0	0	-2	0
Brokerage	0	-5	-14	-13	-13
Structured products	0	0	0	0	0
Lending	-11	-33	-33	-30	-35
Cards	-13	-13	-16	-20	-25
Transactions	-1	-1	-3	0	0
Other	-4	-8	-51	-48	-60
Total fee costs	-202	-275	-347	-334	-372
Net fees	714	981	869	892	1,011

Source: Company reports, CIRA estimates

Financial and Other Income

The biggest contributor to other revenues is the FX result, coming predominantly from FX spreads earned on FX loans

The biggest contributor to other revenues is the FX result, coming predominantly from FX spreads (the difference between bid and ask FX rates) earned on FX loans. The other driver of changes in other income was the ZI 156m valuation gain on CIRS (Cross-currency Interest Rate Swaps) booked in 2009. We note that the implementation of hedge accounting in 2009 had two important implications:

- First, since then FX swap points have been booked through net interest income and not through the item line 'result on financial instruments at fair value'.
- Second, since then the bank has booked changes in the fair value of CIRS not through the P&L but through equity.

Earnings supported by ZI 98m, ZI 690m and ZI 94m pre-tax gains on disinvestments in 2010, 2011 and 2012

We note that the pre-tax ZI 98m gain on the sale of its 19.9% stake in TU Europa in 2010 and ZI 690m gain on Open Finance's listing in 2011 are also presented by the bank in total revenues but we show this gain as profit from discontinued activity and divestments below the pre-tax profit item line. In 1Q12 the bank booked a ZI 94 pre-tax and ZI 84m net profit on the sale of its stake in Idea Bank.

We note that the results of the bank were affected by other one-off items:

- Gains on a real estate sale completed by Getin Bank in 2008 (ZI 12m);
- Gains on acquisitions of own debt by Getin Bank (ZI 9m in 2008 and ZI 10m in 2009).

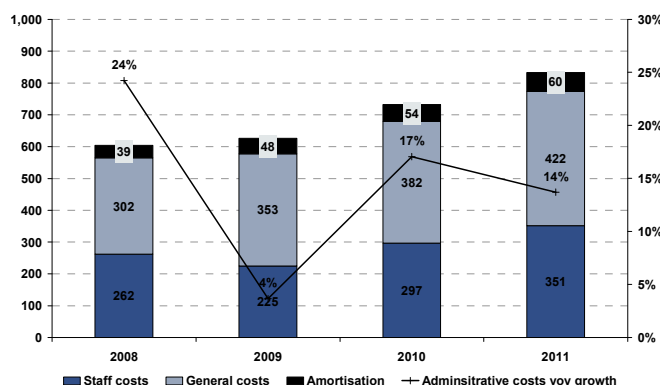
Figure 53. Getin Noble Bank — Financial and Other Income, 2008-2013E (Polish Zloty in million)

	2008	2009	2010	2011	2012E	2013E
Dividend income	1	2	3	4	0	0
Result on financial instruments at fair value	172	108	-15	37	-54	-20
Result on investment securities	1	-2	96	7	4	4
Foreign exchange result	338	107	136	150	110	102
Other operating income	45	68	104	0	0	0
Other operating expense	-30	-49	-80	0	0	0
Net other operating income	15	19	24	-7	9	4
Financial and other income	527	234	243	199	60	86

Source: Company reports, Citi Investment Research and Analysis

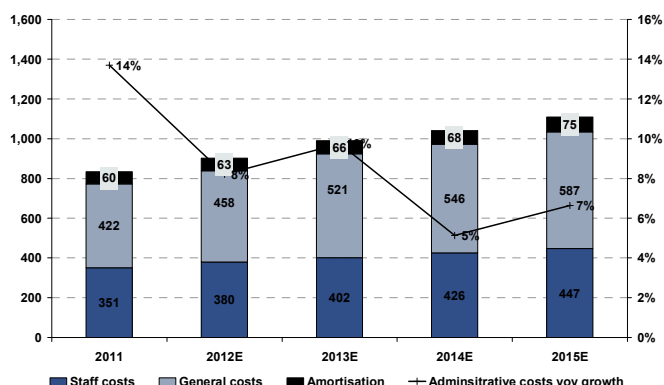
Administrative Costs

Figure 54. Getin Noble Bank — Administrative Costs, 2008-2011 (Polish Zloty in million)



Source: Company data, Citi Investment Research and Analysis

Figure 55. Getin Noble Bank — Administrative Costs, 2011-2015E (Polish Zloty in million)



Source: Company data, Citi Investment Research and Analysis

Administrative costs grew by 4% yoy in 2009, 17% yoy in 2010 and 14% yoy in 2011

In 2008 administrative costs grew 24%, driven by growth in the distribution network of both banks: Getin Bank and Noble. The growth decelerated in 2009 to +4% yoy due to a 14% decline in staff costs but accelerated again to +17% yoy in 2010, negatively affected by rebounding personnel expenses (+32%).

GNB's low administrative costs (ratio of administrative costs to assets at 1.6% in 2011 vs. our universe of 9 Polish banks median at 2.4%) is due mainly to low staff costs (just 0.7% of assets in 2011 vs. median at 1.2%), supported also by low amortisation (0.1% vs. 0.2%) and general costs (0.8% vs. 1.0%).

Low staff costs ...

We see three reasons for low staff costs:

- First, as the bank's remuneration system is highly leveraged to employee performance and salespeople are paid in relation to their sales, Getin Noble Bank is allowed to treat part of its staff costs as loan acquisition costs, amortising them through the life of the lending product and booking them through the interest income item line.
- Second, the bank sells products through franchise branches and external intermediaries and in these cases too is allowed to book costs through the net interest income item line;
- Third, the bank has a relatively high share of branches in smaller towns, where salaries are lower due to lower costs of living and higher unemployment.

... and amortization relative to assets

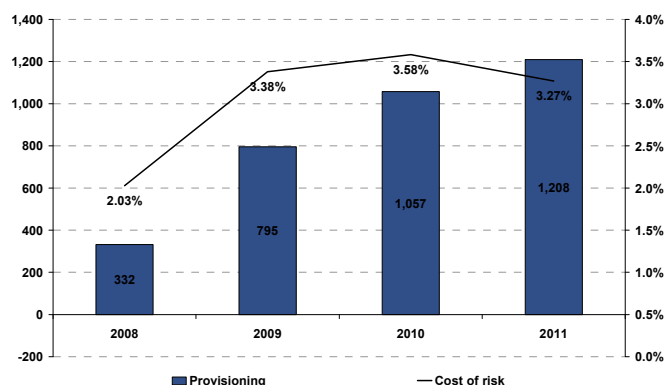
The lower-than-average amortisation is, in our opinion, the result of:

- The bank's relatively low investments in IT: it has spent on all licences, including a licence on central IT, just ZI 110m vs. ZI 411m spent by similar size Bank Millennium (of which half was on software) and ZI 296m spent by Kredyt Bank.
- The bank's high share of franchise branches (224 as of October 2011) and low-cost equipment of branches, leading to a low value of aggregated investments in tangible assets (ZI 393m as of end of 2010 vs. ZI 801m for Millennium and ZI 834m for Kredyt Bank).

On the other hand, general costs are negatively affected by high marketing spend (ZI 95m in 2011 vs. ZI 52m for Millennium and ZI 41m for Kredyt Bank).

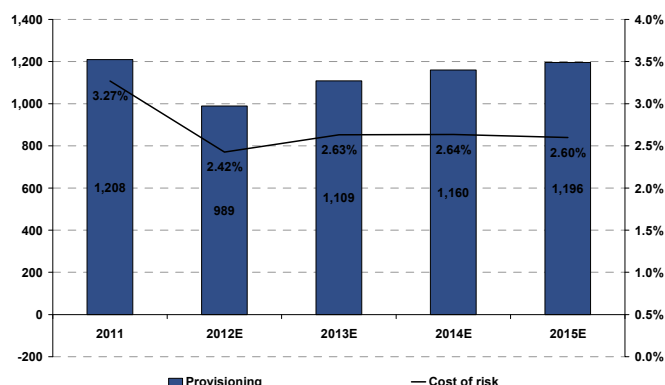
Provisioning

Figure 56. Getin Noble Bank — Provisioning, 2008-2011 (Polish Zloty in million)



Source: Company data, Citi Investment Research and Analysis

Figure 57. Getin Noble Bank — Provisioning, 2011-2015E (Polish Zloty in million)

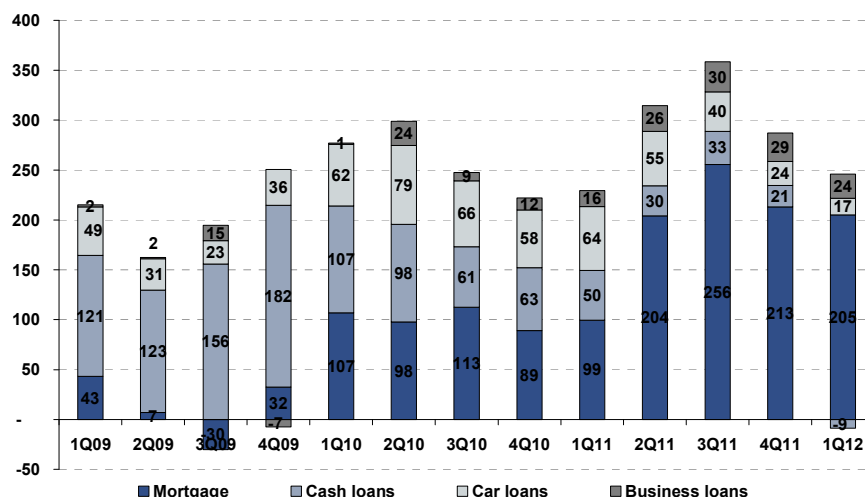


Source: Company data, Citi Investment Research and Analysis

High provisions on cash loans in 2009, on car loans in 2010 and mortgages in 2011

In 2009 the bank was hit by a higher cost of risk in cash loans (ZI 582m) but in 2010 and 2011 provisions on cash loans declined materially to ZI 328m and ZI 134m. Provisioning of car loans peaked in 2010 at ZI 265m (vs. ZI 139m in 2009 and ZI 183m in 2011). Provisions on mortgage loans grew from ZI 52m in 2009 to ZI 406m in 2010 and ZI 772m in 2011 but has declined qoq in 4Q11 and 1Q12. We expect total net provisioning to decline in 2012 (to ZI 989m from ZI 1,208m in 2011) on the back of a cleaned-up mortgage portfolio and improved quality of new loans granted (including consumer, car and mortgage loans).

Figure 58. Getin Noble Bank — Provisioning per Product, 1Q09-1Q12 (Polish Zloty in million)



Source: Company data, Citi Investment Research and Analysis

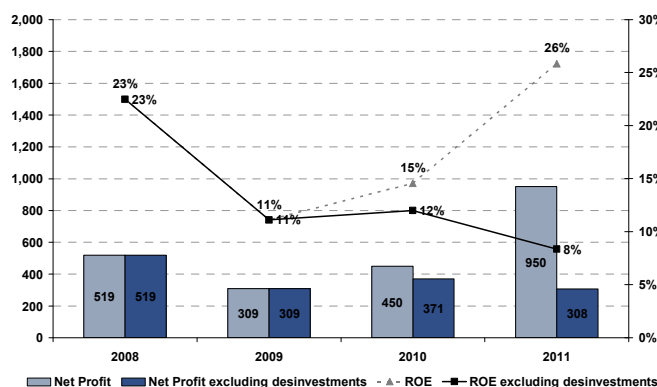
Taxation

Lower than statutory tax rate in 2009 and 2010

In 2009 Noble Bank received the official interpretation of the regulation of income tax on FX revaluation and was allowed to release ZI 64m of deferred tax assets. In 2010, due to a change in the methodology of the tax calculation, Getin Noble Bank did not need to pay tax on FX gains that happened before 2009 and as a result released ZI 89m of deferred tax assets.

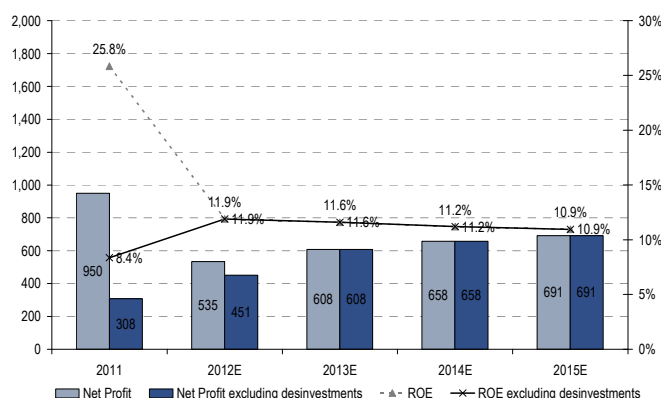
Net Profit and Profitability

Figure 59. Getin Noble Bank — Net Profit and ROE, 2008-2011 (Polish Zloty in million/Percentage)



Source: Company data, Citi Investment Research and Analysis

Figure 60. Getin Noble Bank — Net Profit and ROE, 2011-2015E (Polish Zloty in million/Percentage)



Source: Citi Investment Research and Analysis

Return on equity (ROE) calculated on the basis of business activity and excluding gains on divestments halved in 2009 (to 11% from 23% in 2008), remained broadly at this level in 2010 and declined further to 8% in 2011. We expect a small improvement to 10% in 2012 and 12% in 2013. In the following year we forecast stabilisation of ROE at about 10-11% as we see limited scope for a bank with a high cost of funding and lack of recurring fee income to generate higher ROE.

Annual Financials

Figure 61. Getin Noble Bank — Income Statement, 2008-2014E

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%	1,473	9.6%	1,696	15.2%	1,813	6.9%
Net Fee & Commission Income	444	714	61.0%	962	34.6%	869	-9.6%	892	2.6%	1,011	13.4%	1,061	4.9%
Financial Income	512	215	-57.9%	121	-43.8%	199	64.6%	60	-69.9%	86	43.3%	78	-9.2%
Other Income	15	19	27.7%	24	27.9%	-7	NA	9	NA	4	-55.4%	4	0.0%
Total Revenue	1,571	1,732	10.2%	2,159	24.6%	2,405	11.4%	2,434	1.2%	2,798	14.9%	2,956	5.7%
Labour Costs	-262	-225	-14.2%	-297	32.0%	-351	18.4%	-380	8.2%	-402	5.8%	-426	5.9%
General Costs	-302	-353	16.7%	-382	8.4%	-422	10.4%	-458	8.6%	-521	13.8%	-546	4.7%
Depreciation	-39	-48	22.7%	-54	10.9%	-60	11.5%	-63	5.4%	-66	4.1%	-68	4.1%
Operating Expenses	-604	-626	3.7%	-733	17.0%	-833	13.7%	-901	8.2%	-989	9.7%	-1,040	5.1%
Operating Profit	967	1,106	14.4%	1,426	28.9%	1,572	10.3%	1,532	-2.5%	1,808	18.0%	1,916	5.9%
Provision Charge	-332	-795	139.7%	-1,057	32.9%	-1,208	14.3%	-989	-18.2%	-1,109	12.1%	-1,160	4.6%
Associate Income	0	0	NA	0	NA	10	NA	44	351.6%	60	35.1%	66	9.4%
Profit Before Tax	636	311	-51.1%	369	18.6%	374	1.4%	588	57.2%	760	29.3%	822	8.2%
Tax	-112	3	NA	12	345.8%	-66	NA	-125	88.8%	-152	21.4%	-164	8.2%
Profit After Tax	524	314	-40.1%	381	21.4%	307	-19.3%	462	50.4%	608	31.4%	658	8.2%
Minorities	-4	-5	11.3%	-10	118.2%	0	NA	-11	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%	535	-43.7%	608	13.6%	658	8.2%
EPS (Zl)	2.41	0.32	-86.6%	0.47	45.7%	1.00	111.1%	0.32	-68.3%	0.25	-21.0%	0.27	8.2%
Average Diluted Number of Shares (m)	2,246	2,246	0.0%	2,246	0.0%	2,342	4.3%	2,438	4.1%	2,438	0.0%	2,438	0.0%

Source: Company reports, Citi Investment Research and Analysis

Figure 62. Getin Noble Bank — Balance Sheet, 2008-2014E

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%	2,390	21.0%	2,438	2.0%	2,487	2.0%	2,537	2.0%
Interbank placements	2,648	1,069	-59.6%	2,601	143.2%	3,301	26.9%	3,367	2.0%	3,435	2.0%	3,504	2.0%
Financial Assets & Securities	3,364	4,261	26.7%	2,887	-32.2%	4,461	54.5%	5,984	34.1%	5,332	-10.9%	5,071	-4.9%
Net client lending	21,497	25,584	19.0%	33,454	30.8%	40,471	21.0%	41,127	1.6%	43,116	4.8%	44,866	4.1%
Fixed assets	154	138	-10.5%	179	30.0%	152	-15.1%	167	10.0%	175	5.0%	184	5.0%
Other assets	425	1,248	193.9%	1,702	36.3%	2,785	63.6%	3,287	18.0%	3,872	17.8%	4,625	19.5%
Total Assets	28,733	33,208	15.6%	42,798	28.9%	53,542	25.1%	56,371	5.3%	58,417	3.6%	60,789	4.1%
Interbank borrowing	1,276	738	-42.2%	713	-3.3%	581	-18.5%	552	-5.0%	524	-5.0%	498	-5.0%
Client deposits	20,017	28,237	41.1%	37,026	31.1%	46,311	25.1%	47,634	2.9%	48,592	2.0%	49,569	2.0%
Other liabilities	4,758	1,260	-73.5%	1,763	40.0%	2,588	46.8%	2,984	15.3%	3,493	17.1%	4,256	21.9%
Minorities	9	3	-63.4%	2	-35.5%	4	73.3%	261	7038.8%	261	0.0%	261	0.0%
Equity (ex Minorities)	2,673	2,890	8.1%	3,294	14.0%	4,059	23.2%	4,939	21.7%	5,547	12.3%	6,205	11.9%
Total liabilities & Equity	28,733	33,208	15.6%	42,798	28.9%	53,542	25.1%	56,371	5.3%	58,417	3.6%	60,789	4.1%
Interest Earning Assets	28,154	32,390	15.0%	41,656	28.6%	52,806	26.8%	54,690	3.6%	56,675	3.6%	58,976	4.1%
BVPS (Zl)	12.4	3.0	-75.6%	3.5	14.0%	4.3	23.2%	2.0	-52.4%	2.3	12.3%	2.5	11.9%

Source: Company reports, Citi Investment Research and Analysis

Figure 63. Getin Noble Bank — Key Ratios, 2008-2014E

IFRS Group	2008	2009	2010	2011	2012E	2013E	2014E
NIM on AIEA	2.82%	2.59%	2.84%	2.85%	2.74%	3.05%	3.14%
NIM on Total Ave. Assets	2.09%	2.53%	2.77%	2.79%	2.68%	2.96%	3.04%
Net Fee & Commission Income/Total Income	28.2%	41.2%	44.5%	36.1%	36.7%	36.2%	35.9%
Net Fee & Commission Income/Deposits	2.2%	2.5%	2.6%	1.9%	1.9%	2.1%	2.1%
Cost/Income	38.4%	36.1%	33.9%	34.6%	37.0%	35.4%	35.2%
Cost/Avg. Assets	2.1%	2.0%	1.9%	1.7%	1.6%	1.7%	1.7%
Effective tax rate	17.6%	-0.9%	-3.3%	17.7%	21.3%	20.0%	20.0%
Provisions/Avg Net Loans	2.10%	3.38%	3.58%	3.27%	2.42%	2.63%	2.64%
Equity/Assets	9.3%	8.7%	7.7%	7.6%	9.2%	9.9%	10.6%
Loans/Deposits	107.4%	90.6%	90.4%	87.4%	86.3%	88.7%	90.5%
Loans/Total Assets	69.7%	85.0%	86.5%	75.6%	73.0%	73.8%	73.8%
ROE	25.4%	11.1%	14.6%	25.8%	11.9%	11.6%	11.2%
ROA	1.8%	1.0%	1.2%	2.0%	1.0%	1.1%	1.1%
CAR (%)	13.8%	11.1%	9.9%	10.1%	12.9%	13.8%	14.6%
Group Employees	3,945	4,409	5,640	5,408	5,408	5,408	5,408

Source: Company reports, Citi Investment Research and Analysis

Company Overview and Strategy

Company Profile

Getin Noble Bank is a universal but retail-focused

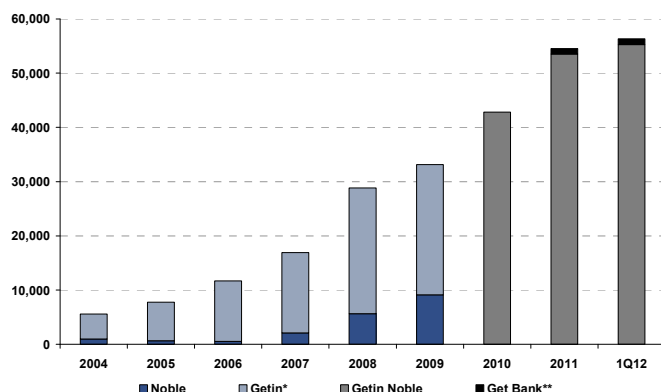
Getin Noble Bank is the effect of the merger of consumer finance-oriented Getin Bank and private banking focused Noble Bank

Getin Noble Bank is a universal but retail-focused bank (retail loans constitute about 95% of total loans in 2011). In 2011 it was the one of the biggest lenders in mortgages, the leader in car lending and one of the most active banks in cash loans in Poland. The bank has about 500 branches, concentrated in big cities and in the south and east of Poland.

As its name indicates, Getin Noble Bank is the result of the merger of consumer finance-oriented Getin Bank and private banking focused Noble Bank, that were merged at the beginning of 2010. However, the corporate history of the bank is more complicated. From a legal point of view Getin Noble Bank is the successor of Allianz Bank (the green-field project of Allianz Group, launched in 2008, sold to Getin Holding in 2011 and renamed then to Get Bank). As a result of the spin-off of Getin Holdings (completed in January 2012) Getin Holding's stake in Getin Noble Bank was transferred to Get Bank and on 1 June 2012 Get Bank merged with Getin Noble Bank. Formally Get Bank took over Getin Noble Bank but just after the merger was re-named to Getin Noble Bank. Due to much smaller scale of the Get Bank business (assets amounted to Z 1bn at end of 2011 vs. ZI 54bn in Getin Noble Bank, stand-alone net profit of ZI 1.2m in 1Q12 vs. ZI 167m in Getin Noble Bank), the merger was booked as a reverse takeover and the financial data of Getin Noble Bank are presented as the historical data.

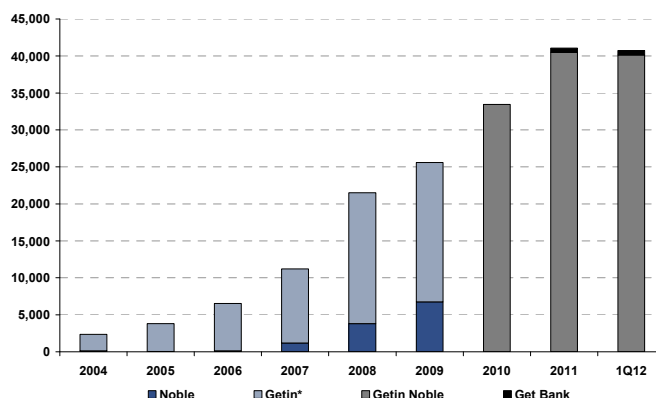
Getin Noble Bank still operates under two brands: Getin Bank (mass-market retail banking) and Noble Bank (private banking). In the past it used also other brands, e.g.: Dombank (mortgage lending in former Getin Bank), Metrobank (mortgage lending in former Noble Bank), Factor In bank (factoring in former Getin Bank) and Introbank (factoring in former Noble Bank).

Figure 64. Getin Noble Bank — Assets, 2004-1Q12 (Polish Zloty in million)



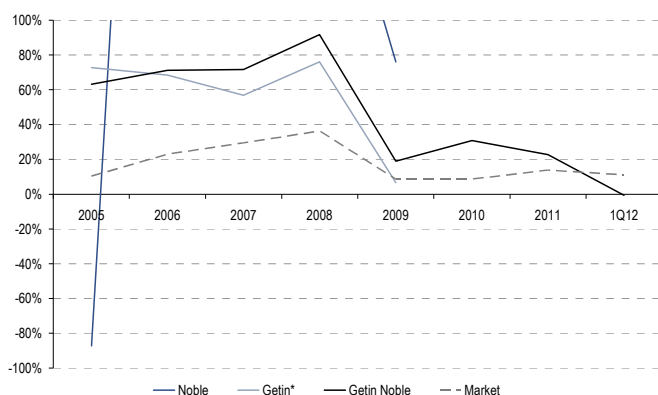
Note: * 2004-2006 according to PAS ** Get Bank without the stake in GNB
Source: Company data, Citi Investment Research and Analysis

Figure 65. Getin Noble Bank — Lending, 2004-1Q12 (Polish Zloty in million)



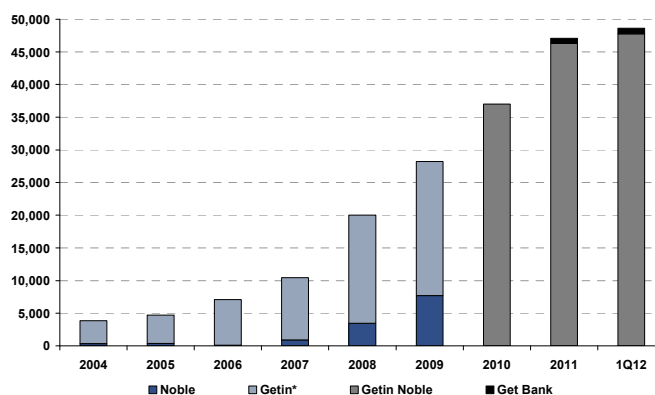
Note: * 2004-2006 according to PAS
Source: Company data, Citi Investment Research and Analysis

Figure 66. Getin Noble Bank — Lending yoy Growth, 2005-1Q12 (Polish Zloty in million)



Source: Company data, Citi Investment Research and Analysis

Figure 67. Getin Noble Bank — Deposits, 2004-1Q12 (Polish Zloty in million)



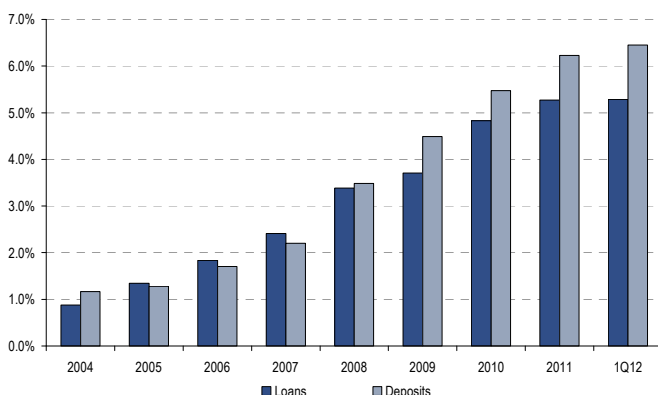
Note: * 2004-2006 according to PAS

Source: Company data, Citi Investment Research and Analysis

Due to high lending activity the banks increased their combined market share in lending to 5.3% in 1Q12 from 0.9% in 2004 and in deposits to 6.4% from 1.2%

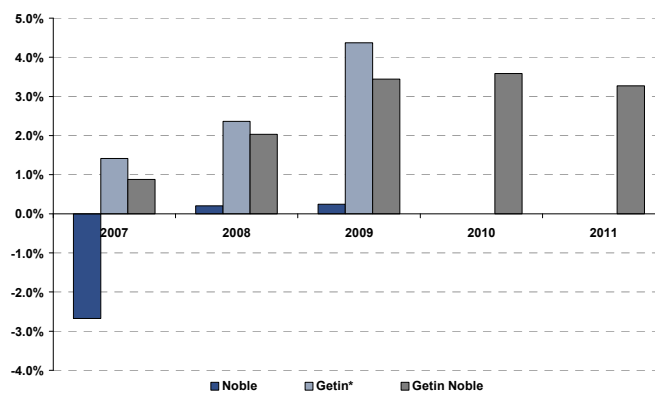
Due to high lending activity the banks increased their combined market share in lending to 5.3% in 1Q12 from 0.9% in 2004 and in deposits to 6.4% from 1.2%, respectively, but a large appetite for growth also led to a large appetite for risk. Since 2009, credit risk has started to materialize and provisioning rose to ZI 1,057m in 2010 and ZI 1,208m in 2011. The cost of risk (358bp in 2010 and 327bp in 2011) is the highest in our Polish banks coverage universe.

Figure 68. Getin Noble Bank — Market Share in Loans and Deposits, 2004-1Q12 (Percentage)



Source: Company data, Citi Investment Research and Analysis

Figure 69. Getin Noble Bank — Cost of Risk, 2007-1011 (Percentage)



Source: Company data, Citi Investment Research and Analysis

Being focused on lending growth and preferring a product-driven banking model to a relationship-driven banking model, GNB hasn't built up a large base of clients with continuous relationships with the bank

Being focused on lending growth and preferring a product-driven banking model to a relationship-driven banking model, GNB hasn't built up a large base of clients with continuous relationships with the bank (e.g. having current accounts with the bank, using its debit or credit cards, making transfers, etc). As a result, Getin Noble Bank has a low share of current deposits and in terms of funding it relies on retail term deposits (mainly short term, but owing to the sale of structural products, there is also a relatively high share of deposits with maturities of greater than one year). The low base of active clients also leads to an extremely low value of fees from accounts, cards or transfers (only 3% of total revenues) but the bank more than compensates for this by high fee generation from sales of insurance and investment products (18.9% and 19.0% of total revenues in 2011), produced mainly by TU Europa.

The History of the Group

Noble Bank

WBC taken over by Getin Holding in 2005

...

When Wschodni Bank Cukrownictwa (WBC), established in 1990 by a few Polish sugar factories, was at risk of bankruptcy in 2002, National Bank of Poland (NBP) placed the bank into receivership and in 2003 the 12 biggest banks in Poland took over WBC and recapitalised it. The turning point in the bank's history was 2005, when 99.95% of its shares were acquired by Getin Holding.

... and transformed into Noble Bank, ...

In 2006 Getin Holding transferred the banking business of WBC to another of its banking subsidiaries, Getin Bank, and used WBC's banking licence to build a bank specialising in private banking. WBC was renamed Noble Bank, acquired a 100% stake in financial intermediary Open Finance and established an asset manager (Noble Funds TFI). The bank's business model was the original idea of three founders of Open Finance (Jarosław Augustyniak, Maurycy Kuhn and Krzysztof Spyra), who took over Noble Bank management. The bank cooperated closely with Open Finance, using its network of branches and mobile salespeople to sell mortgage products (under Metrobank brand) and to collect deposits. It started to offer factoring products through subsidiary Introfactor under the Introbank brand. Noble Bank was also engaged in the collection of own and acquired receivables. Since 2007 the bank has been listed on WSE. As of end of 2009, the bank had 10 branches and 49 advisors while its subsidiary Open Finance had 44 branches, 35 Open Direct offices and 596 employed advisors.

... the bank specialized in private bank and closely cooperating with Open Finance financial advisor

The next milestone in Noble Group's history was the merger with Getin Bank, announced in January 2009 and finalized in January 2010.

Getin Bank

GBG acquired by Getin Holding in 2004 and re-named Getin Bank

Getin Bank was established as Górnośląski Bank Gospodarczy (GBG) in 1990. In 1995 a strategic stake in the bank was acquired by Powszechny Bank Kredytowy (PBK). GBG specialized in retail banking in the Silesia region and in car loans sold in the whole country through car dealers. In 2004 the bank was taken over by Getin Holding.

In subsequent years the bank's strategy was changed:

- It built a country-wide branch network;
- It intensified deposit collection;
- It offered mortgage loans (sold under the brand name DomBank, created and managed by Łukasz Bald, former CEO of GE Bank Mieszkaniowy, the leader in mortgage lending in Poland);
- It further developed car lending, becoming the leader in sales in 2007 and in car loan stock in 2008;
- It boosted the sale of cash loans; and
- It tried also to develop cards, leasing and factoring products (under the Factor in Bank brand).

The bank grew organically but also by selected acquisitions, focused on widening the deposit base and distribution network: in 2004 it acquired bankrupt Bank Przemysłowy and in 2006 the banking business of WBC. As of end-2009, before the merger with Noble Bank, Getin Bank had 532 branches.

Noble Bank and Getin Bank merged in January 2010

Getin Noble Bank

Before the beginning of 2009, Getin Holding proclaimed that a better strategy was to have two independent banks in the group as it stimulated internal competition and was positive for group growth. In 2009 the decision to merge was explained by an expected ZI 100m synergies until 2012, coming from:

- A simplification of the organizational structure;
- Improved competitive positioning in the market;
- Facilitation of full universalisation of bank services;
- Intensification of cross-selling;
- Broadening of the sales network;
- Cost synergies due to reduced costs of operation and management;
- Centralization of management and control; and
- Strengthening of the capital structure.

The legal merger was finalized on January 4, 2010. Since then the bank has operated as one legal entity (formally Noble Bank) but still uses two brands: Getin Bank in the mass-client segment and Nobel Bank in private banking.

Figure 70. Getin Noble Bank — Pro-Forma P&L, 2008-09 (Polish Zloty in million)

	2008			2009			2009-Proportion*	
	Noble	Getin	GNB - Pro Forma	Noble	Getin	GNB - Pro Forma	Noble	Getin
NII	72	529	601	20	764	784	3%	97%
Net fees	155	290	444	427	349	714	60%	49%
Other income	133	394	527	-29	278	234	-12%	119%
Total revenues	360	1213	1,571	419	1391	1,732	24%	80%
Administrative costs	-172	-432	-604	-261	-427	-626	42%	68%
Pre-provision income	189	780	967	157	964	1,106	14%	87%
Net provisioning	-5	-327	-332	-13	-797	-795	2%	100%
Pre-tax profit	184	453	636	144	167	311	46%	54%
Tax	-28	-84	-112	30	-28	3	1121%	-1025%
Minorities	-4		-4	-5		-5	95%	0%
Net profit	152	369	519	170	139	309	55%	45%

Note: Not summing to 100% due to consolidation adjustments

Source: Company data, Citi Investment Research and Analysis

The bank has managed to avoid share issuance owing to capital gains on the divestments

The bank continued its strategy of opportunistic acquisitions and in 2010 purchased for ZI 132m (5% below NAV) GMAC, the Polish captive bank of GM.

Due to high lending activity the growth in risk-weighted assets (RWAs) is higher than the bank's ROE, leading to declining capital ratios. The bank has managed to avoid share issuance owing to capital gains on two divestments:

- In 2010 the bank sold its c.20% stake in TU Europa..
- In March-April 2011 Getin Noble Bank floated its subsidiary, Open Finance (as a result of the capital increase in OF and the sale of shares by GNB, the bank's stake declined to 48.85% and it stopped consolidating the company).

Get Bank and Getin Holding Spin-Off

From a legal point of view Getin Noble Bank is the successor of Allianz Bank

From a legal point of view Getin Noble Bank is the successor of Allianz Bank (the greenfield project of Allianz Group, launched in 2008, sold to Getin Holding in 2011 and renamed then to Get Bank).

The merger of Getin Noble Bank with Get Bank was registered on June 1, 2012. Prior to the merger Get Bank had conducted little banking business: It had sold its branches to TaxCare, Idea Bank, HomeBroker and other entities indirectly controlled by Mr. Leszek Czarnecki, and has serviced clients through selected Getin Noble Bank branches and had just administrated a portfolio of old loans.

Figure 71. Get Bank — Key Financial Data, 2008-2011 (Polish Zloty in million)

	2008	2009	2010	2011	yoy
NII	5	1	29	50	76%
Net fees	0	0	-1	6	-826%
Other income	-24	3	1	-45	-7984%
Total revenues	-19	4	28	12	-58%
Administrative costs	-81	-164	-170	-168	-1%
Pre-provision income	-100	-160	-141	-156	NA
Provisioning	0	-4	-19	-28	50%
Pre-tax income	-100	-164	-161	-184	15%
Net Profit	-91	-126	-133	-154	NA
Loans	9	169	477	584	22%
Deposits	115	485	771	748	-3%
Equity	179	208	225	165	-27%
Assets	315	707	1,025	957	-7%

Source: Company reports

Before the merger of Get Bank and Getin Noble Bank, shareholders of Getin Holding received shares of Get Bank for a Getin Holding spin-off (started in 2011 and completed in January 2012).

Why has Getin started such a complicated operation, including spin-off and the merger of old Getin Noble Bank with Get Bank?

Why has Getin started such a complicated operation, including spin-off and the merger? The company has given the following reasons:

- Liquidity in Getin Noble Bank trading was increased, in line with Getin Holding's commitment to KNF (Polish FSA).
- Due to higher liquidity, Getin Noble Bank's market valuation should rise.
- Two banking groups, with different business characteristics, were created: the Getin Noble Bank group of more mature businesses and the Getin Holding group focused on financial start-ups.
- Last but not least, Getin Holding will not have to recognize material consolidation adjustments on the sale of TU Europa products through Getin Noble Bank and Open Finance.

**Getin Holding was obliged to increase
Getin Noble Bank's free-float**

**Getin Noble Bank has been valued at a
discount to Getin Holding**

**The reason why Get Bank is the company
to which GNB shares are being
transferred is its tax shield**

Indeed, Getin Holding was obliged to increase Getin Noble Bank's free-float (to >15% within 3.5 years of the Getin-Noble merger) and the spin-off is an attractive method of doing this as it is non-dilutive for GNB's shareholders and doesn't reduce Leszek Czarnecki's share in the bank. We also agree with the point that for some time Getin Noble Bank has been valued at a discount to Getin Holding, as demonstrated by the high valuation of Getin Holding's non-listed assets implied by the market caps of GNB, TU Europa and GH (ZI 2.6bn as of 28 June, i.e. prior to the spin-off announcement, vs. book value at 1bn and 1H11 net profit of foreign entities at ZI 26m). Making Getin Holding an investment company specialized in finding new business ideas and developing financial start-ups is a return to the roots of the company. We are least convinced by the last point as consolidation adjustments related to the sale of insurance products by distributors receiving upfront fees are necessary to reflect the real profitability of the group in the correct manner. Additionally, Getin Holding has found a method to avoid making consolidation adjustments on insurance products sold by Getin Noble Bank — instead of selling TU Europa products, the bank sells third-party insurance, re-insured by TU Europa.

In addition, however, we would make two observations:

First, the reason why Get Bank is the company to which GNB shares are being transferred is its tax shield (Get Bank, previously Allianz Bank, recently acquired by Getin Holding from Allianz Group, contained unsuccessful start-ups that since its foundation in 2008 have generated a ZI 510m net loss, creating a ZI 108m tax credit).

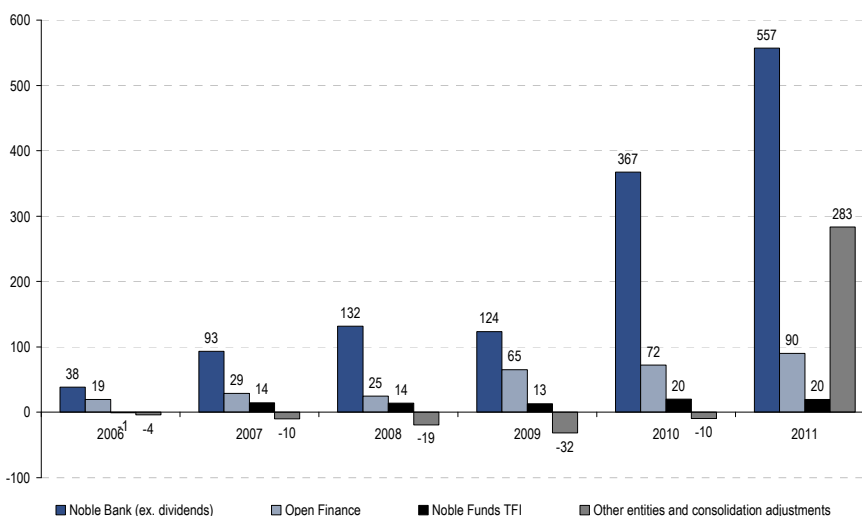
Second, if Getin Holding had sold its stake in Getin Noble Bank, it would have to pay income tax on the operation (the difference between the market and book values of the stake is ZI 2.8bn). After the spin-off, if Getin Noble Bank were sold to a strategic investor, every shareholder in the bank would have to pay this income tax directly. This doesn't mean that a sale of Getin Noble Bank should be expected soon, but we think the de-merger of GH could be viewed as a natural first step in that direction.

Structure of the Group

Getin Noble Group consists of one associated company (Open Finance) and 7 subsidiaries:

- Asset manager Noble Fund (owned in 100%);
- Leasing company Getin Leasing (93.18%);
- Brokerage house Noble Securities (97.74%);
- 4 small supporting companies: Noble Conciergetin, Ge Finance Plc, Getin Services and Posrednik Finansowy.

Figure 72. Getin Noble Bank – Structure of Group Net Profit, 2006-2011 (Polis Zloty in million)



Source: Company data, Citi Investment Research and Analysis

Noble Funds

Noble Funds is an asset management company that manages investment funds and the assets of wealthy investors as well

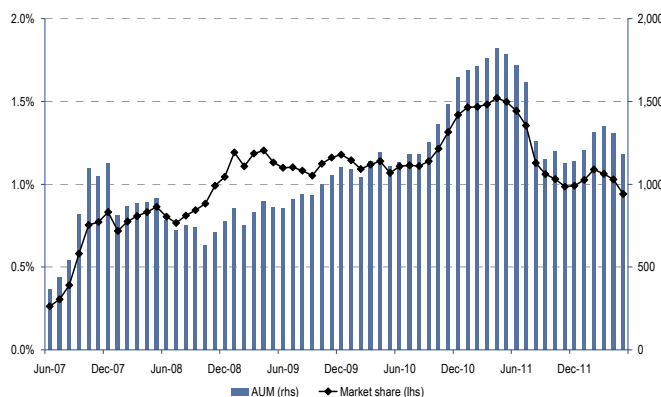
Noble Funds is an asset management company that manages investment funds and the assets of wealthy investors as well. Founded in 2006 by Noble Bank and experienced fund managers, Noble Funds's AUM reached a peak in April 2011. We note, however, that the company hasn't benefited materially from visible inflows into investments funds in 2010. Money has flowed mostly into smaller funds unconnected with banks as they have been more active in gathering assets than funds that are part of banking groups (probably because banks, focused on enhancing their liquidity, have tended to prefer deposit collection or sales of structured products to sales of investment funds).

It manages eight sub-funds with different strategies and offers asset management for wealthy investors with assets of more than ZI 2m. The company distributes its products through related and independent distributors, including several financial advisors, private banking departments of banks and brokerage houses.

At the end of May 2012 Noble Funds TFI managed ZI 1.2bn AUM

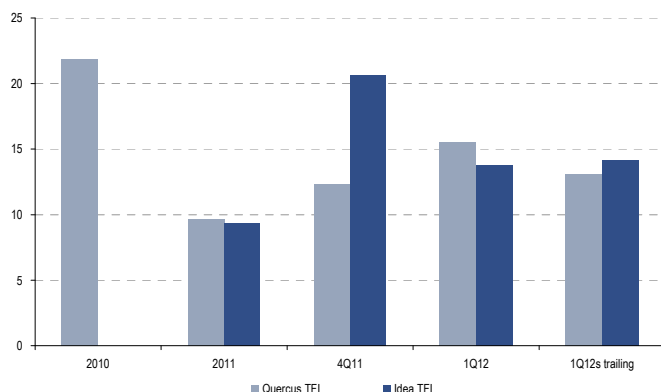
At the end of May 2012 Noble Funds TFI managed ZI 1.2bn AUM (-34% yoy), of which ZI 0.7bn were equity funds and ZI 0.4bn mixed funds. It was the 23-rd-ranked investment fund manager in terms of AUM, with a 0.9% market share (vs. a market share high of 1.5%, achieved in April 2011). In 2011 the company earned ZI 20m.

Figure 73. Noble Funds TFI — AUM and Market Share, Jun 2007-May 2012 (Polish Zloty in million)



Source: IZFiA, Citi Investment Research and Analysis

Figure 75. Polish Asset Managers — Historical PE

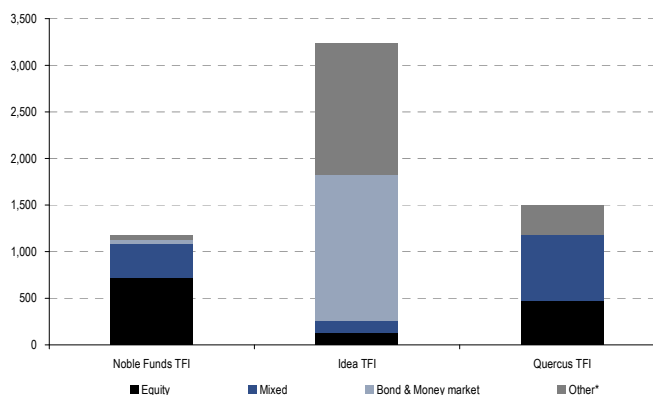


Source: Company data, Citi Investment Research and Analysis

In 2006-07 Noble Bank invested ZI 5.9m in Noble Funds and in subsequent years it has received back, in form of dividends, about ZI 43m.

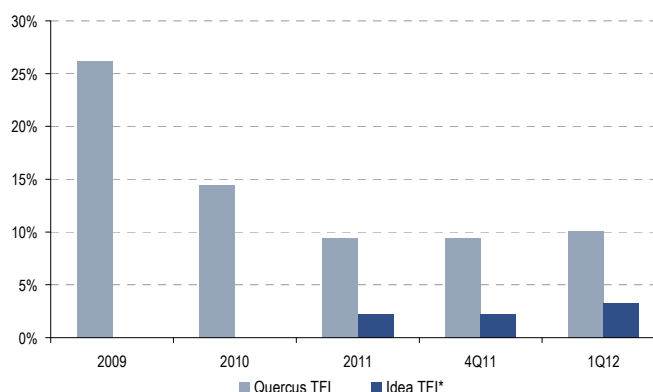
Due to low capital requirements, little credit risk and high cash generation potential we generally like the asset management business

Figure 74. Polish Asset Managers — AUM Structure, May 12 (Polish Zloty in million)



Source: IZFiA, Citi Investment Research and Analysis

Figure 76. Polish Asset Managers — Historical EV/AUM



Source: Company data, Citi Investment Research and Analysis

Noble Funds widened the range of products offered by the group and enabled it to react to clients' needs quickly in terms of new investment fund products. The bank's investment in the company was successful from a cash-flow perspective. In 2006-07 Noble Bank invested ZI 5.9m in Noble Funds and in subsequent years it has received back, in the form of dividends, about ZI 43m. Given the track record of the holding company and the bank of raising capital through floating successful subsidiaries, we see a chance that Noble Funds may also be floated at some point.

Due to low capital requirements, little credit risk and high cash generation potential we generally like the asset management business. There are two asset management companies traded on the WSE main market: equity-focused independent Quercus and more universal (albeit with a strong bias to money-market funds) Idea TFI (controlled by IDM, the listed brokerage house). If valued in line with these peers based on trailing P/E, Noble Funds' implied fair value would be ZI 300m-ZI 430m and the fair value of the bank's 70% stake ZI 200-300m. A valuation in line with peers based on AUM indicates EV at ZI 90-150m. We note that GNB has exhibited slower AUM growth vs. the above-mentioned peers in recent months but also has a more mature business model and higher profitability.

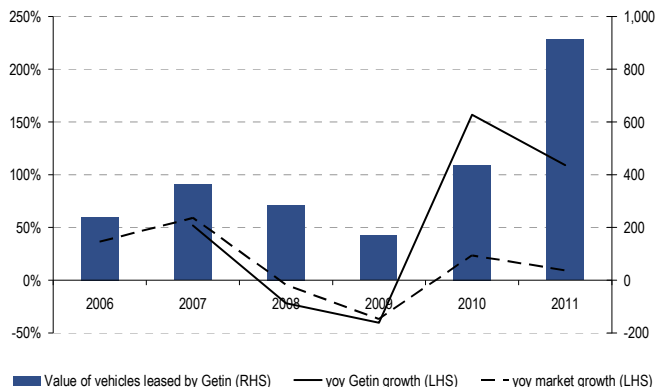
Getin Leasing

Getin Leasing has increased its market share from 2.0% in 2010 to 3.9% in 2011 and 4.1% in 1Q12

For several years Getin Leasing was a small leasing company with a market share of about 1% and lower growth than might have been expected, taking into account the leasing background of Getin Holding's main shareholders and many of its top managers. Recently, the company's activity has accelerated and Getin Leasing has increased its market share from 2.0% in 2010 to 3.9% in 2011 and 4.1% in 1Q12. Even more impressive growth in market share was achieved in the car leasing segment, where the company increased its market share from 2.7% in 2010 to 5.4% in 2011 and 5.6% in 1Q12. The balance sheet value of leasing liabilities grew to Zł 1,364m in 2011 from Zł 739m in 2010 and Zł 568m in 2009.

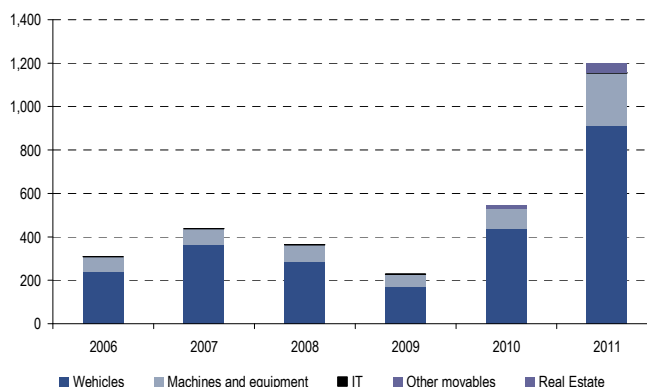
In 2011 the company earned Zł 4.9m due to increased leasing sales and higher profitability of its subsidiary selling insurance products.

Figure 77. Getin Leasing — Vehicles Leasing Sales, 2006-2011 (Polish Złoty in million)



Source: Company data, Citi Investment Research and Analysis

Figure 78. Getin Leasing — Structure of Leasing Sales, 2006-2011 (Polish Złoty in million)



Source: Company data, Citi Investment Research and Analysis

Due to balance sheet risk and funding needs, we do not consider the leasing business attractive for minority investors

Again, in case of the leasing subsidiary we cannot rule out a potential move to float the company on WSE. There are no listed leasing companies on the main market of WSE so there are no close peers. Due to balance sheet risk and funding needs, we do not consider the leasing business attractive for minority investors and would consider companies with strong market leadership positions as best placed to float successfully. As yet Getin Leasing hasn't achieved such a strong market position.

Noble Securities

Noble Securities is active in the corporate bond market

Noble Securities is a small brokerage house with a negligible share in equity trading and increasing activity in the corporate bond market. In 2008 Getin Holding acquired a 79.76% stake in brokerage house Polonia.net for Zł 11.9m, renamed the broker Noble Securities and in 2009 sold the stake (for a price equal to the acquisition price it had paid) to Getin Noble Bank.

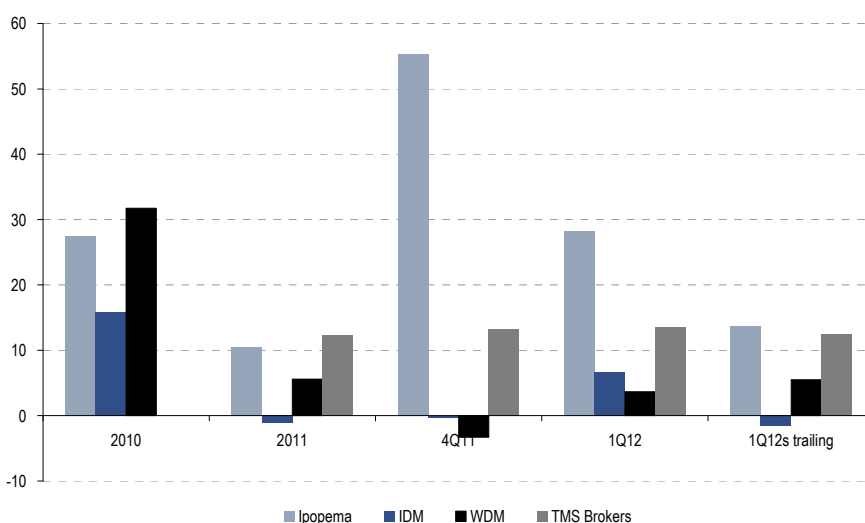
In 2011 Noble Securities increased net profit to Zł 22.6m, due mainly to continued growth in corporate finance activity, namely the sale of structured products and advisory in the issuance of corporate bonds and their distribution to private individuals through Noble Bank's and Open Finance's networks.

There are four brokerage houses listed on WSE:

- Ipopema Securities, with high revenues from equity trading due to a strong market position (10% market share in equity trading in 1H11), although corporate finance and advisory divisions are also important contributors to the company's earnings.
- IDM, having just 1% share in equity trading but specialised in advisory for companies entering WSE and being the parent company of the group consisting of hospital lender Electus, venture cap and listed asset manager Idea TFI.
- WDM, specialised in advisory for companies entering WSE and in pre-IPO investments.

None of the listed companies has the same business model as Noble Securities but we find IDM and WDM closer peers than institution-oriented Ipopema Securities.

Figure 79. TMS Brokers, Ipopema, WDM and IDM – Historical PE, 2010-1Q12



Source: Company data, Citi Investment Research and Analysis

Corporate Governance

Bank Management

The management consists of seven people who were previously members of management board of the Old Getin Noble Bank

The management consists of seven people who were previously members of management board of the Old Getin Noble Bank:

- Two former (i.e. before the merger of Getin Bank with Noble Bank) managers of Getin Holding: CEO Krzysztof Rosiński and CFO Radosław Stefurak;
- Two former managers and founders of Noble Bank: Krzysztof Spyra and Maurycy Kuhn (the third, Jarosław Augustyniak, was on the management board of the merged bank but resigned to become CEO of Idea Bank);
- One former manager of Getin Bank, responsible for car lending: Grzegorz Tracz;
- Maciej Szczechura, responsible for PR (who came from Eurobank in 2010); and
- Karol Karolkiewicz, head of the IT department (formerly IT specialist and advisor in many companies of Getin Group and in Expander Advisors).

Shareholder Structure

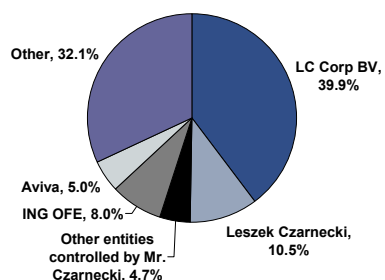
At the end of 2011, Get Bank was fully owned by Getin Holding but since then the bank's shareholders have changed diametrically:

- First, as a result of the Getin Holding spin-off, Getin Holdings shareholders received 2,142m Get Bank shares in exchange for the 93.7% stake in (Old) GNB transferred from Getin Holding to Get Bank;
- Second, as the result of the merger of Get Bank with Getin Noble Bank, the minority shareholders of Getin Noble Bank received 145m shares in Get Bank, re-named immediately to Getin Noble Bank. The merger parity (share swap ratio) was 2.411246052 shares of Get Bank for one GNB share.

Getin Noble Bank is still controlled by Mr. Leszek Czarnecki, holding 55.02%

Getin Noble Bank is still controlled by Mr. Leszek Czarnecki, holding 55.02% (10.5% directly, 39.9% through LC Corp BV and 4.7% by other controlled entities, including Getin Holding). The rest (45%) is a free float (8% of all shares are held by ING pension fund and 5% by Aviva pension fund).

Figure 80. Getin Noble Bank — Shareholder Structure, June 2012



Source: Citi Investment Research and Analysis

Figure 81. Getin Noble Bank — Shareholder Structure, June 2012

Shareholders	Get Bank	GNB	Merged bank*	%
LC Corp BV	946.2	7.1	953.3	39.9%
Leszek Czarnecki	245.7	4.7	250.4	10.5%
Other entities controlled by Mr. Czarnecki	108.5		111.5	4.7%
ING OFE	192.4		192.4	8.0%
Aviva	118.7		118.7	5.0%
Other	634.1	132.9	766.9	32.0%
Total	2,245.5	144.6	2,390.1	100.0%
Share in the new bank	94%	6%	-	-

Note: Including post-merger transactions

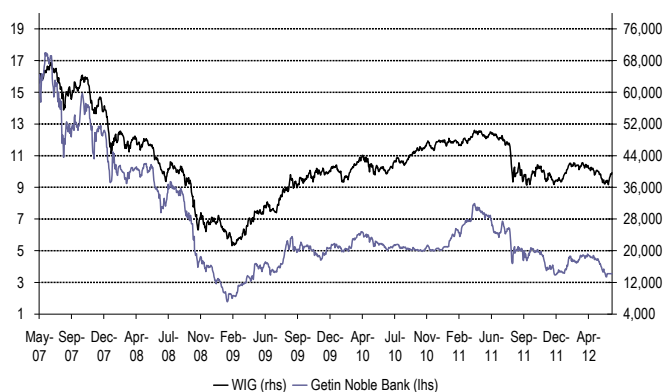
Source: Citi Investment Research and Analysis

Share price performance

The first day of listing of Get Bank shares took place on 20 January 2012. Between January 20 and June 26 Get Bank shares slightly underperformed the market (no change vs. +2.1% growth of WIG).

Prior to the merger Getin Noble Bank was listed on WSE since May 30, 2007 (at the beginning as Noble Bank). In its 5-year listing history the stock underperformed the market falling by -78% vs. -36% decline of WIG.

Figure 82. Getin Noble Bank — Share Price vs. WIG, May07-Jun12



Source: Powered by dataCentral

Figure 83. Getin Noble Bank at Share Parity and Get Bank — Share Price Performance, Jun11-Jun12



Source: Powered by dataCentral

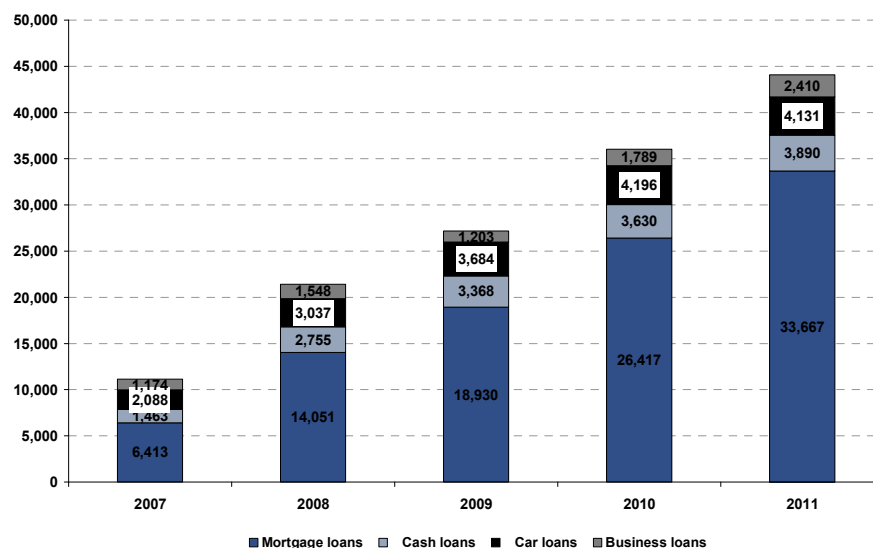
Bank Strategy

Main Products

The main lending products of the bank are:

- Mortgage loans (sold through own branches and mortgage brokers);
- Car loans (sold predominantly through car dealers);
- Other retail loans, predominantly cash loans (sold mostly through own branches and selected financial intermediaries) although the bank has recently entered the instalment loans market as well; and
- Corporate loans, addressed mainly to SMEs (including leasing, factoring and CRE loans).

Figure 84. Getin Noble Bank — Loans, 2007-2011 (Polish Zloty in million)



Source: Company reports

The bank offers also various savings and investment products, including term deposits, savings accounts, current accounts and structured products. It also distributes to its clients corporate bonds, including own subordinated bonds.

Getin Noble Bank vs. Peers

Banking group similar to others

Following the spin-off of Getin Holding and the sale of its stake in Idea Bank, Getin Noble Bank is similar to other banking groups operating in Poland, with the bank being the parent company for the brokerage house, asset manager and leasing company. But some differences will remain:

- It is a more retail-oriented bank than peers.
- It has managed to achieve a strong market share in lending (albeit at the cost of de-emphasising other source of revenues and high provisioning).
- The bank's strength lies in its close cooperation with TU Europa and high revenues from the sale of insurance products (both protective products related to loans and investment products).
- The bank has funded growth through divestments (sale of stake in TU Europa in 2010 and divestment of part of its stake in Open Finance in 1H11), avoiding the need for a capital increase.

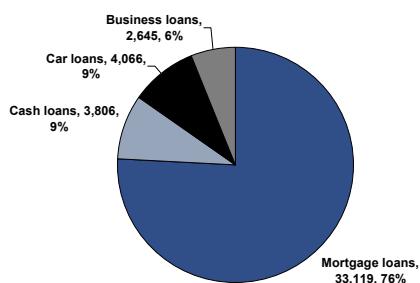
Retail Focus

GNB differs from its peers in terms of business mix as its business is predominantly retail-based

First, GNB differs from its peers in terms of business mix as its business is predominantly retail-based. Corporate loans are just 6% of total loans while corporate and budget deposits are 21% of total deposits. The bank intends to increase revenues from corporate banking and increase lending to corporate clients – e.g. it is offering loans to small developers – but still the majority of its loans are mortgage loans (Zł 33bn in 1Q12, 76% of total loans), followed by car loans (Zł 4.1bn, 11%) and cash loans (Zł 3.8bn, 9%).

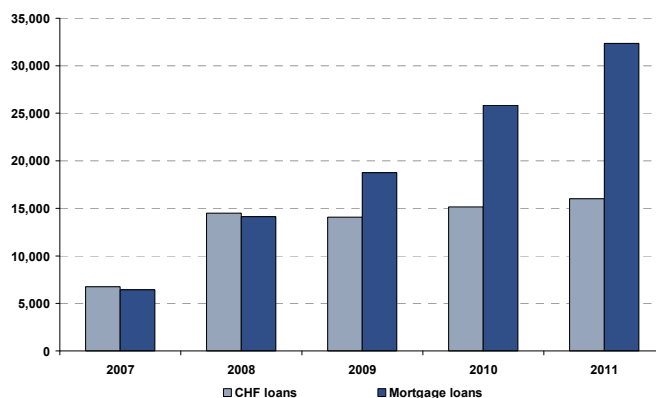
Before autumn 2008, following the market trend, the bank granted predominantly CHF-denominated mortgages (as indicated by the value of CHF-denominated loans nearly matching the total value of mortgage loans).

Figure 85. Getin Noble Bank — Loan Structure, 1Q12 (Polish Zloty in million/Percentage)



Source: Company data, Citi Investment Research and Analysis

Figure 86. Getin Noble Bank — CHF Loans vs. Mortgage Loans, 2007-2011 (Polish Zloty in million)



Source: Company data, Citi Investment Research and Analysis

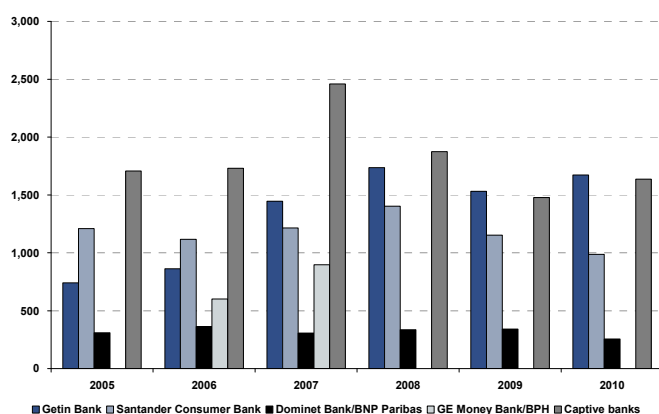
Lending giant

Gaining market share in lending

Second, the bank is focused on high growth in lending. The bank increased market share in lending to 5.2% in 1Q12 from 0.9% in 2004, mainly due to high mortgage lending both before autumn 2008 (when it lent predominantly in CHF and had c6% market share) and after, when lending only in Zloty gained 13% share in new lending and the bank became the second-biggest mortgage lender in Poland, behind only PKO BP (2010).

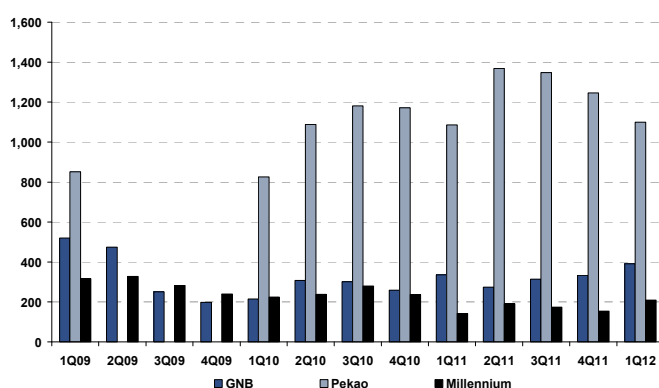
In 2007 and 2008 the bank significantly increased sales of cash loans (x3 yoy and +c50% yoy, respectively) and strengthened GNB's solid position in car lending.

Figure 87. Polish Banks — Sale of Car Loans, 2006-10 (Polish Zloty in million)



Source: Company data, Rzeczpospolita daily, Open Finance, CIRA

Figure 88. Polish Banks — Sale of Cash Loans, 1Q09-1Q12 (Polish Zloty in million)



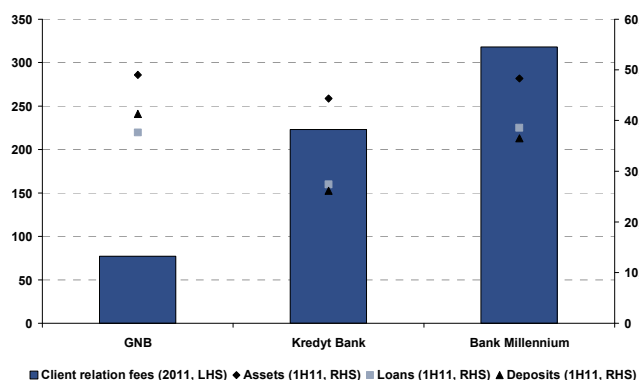
Source: Company data, Citi Investment Research and Analysis

Low number of clients with continuous banking relationships with GNB has resulted in extremely low fees coming from relationship banking

However, the flip side of the bank's focus of lending has been, and to some extent still is, that it has paid less attention to other area of banking activity. The bank has a low number of current accounts and generally a low number of clients with continuous banking relationships with GNB; this has resulted in extremely low fees coming from relationship banking (just ZI 77m in 2011 vs. ZI 223m at Kredyt Bank and ZI 318m at Bank Millennium). Deposit collection has simply been a way of funding rising lending and the share of retail current accounts is the lowest in our Polish banks coverage universe. Due to low concentration of retail banking, the bank receives very little revenue from treasury activity, aside from FX spreads on mortgage loans (historically on new production and monthly payments, now only on monthly payments).

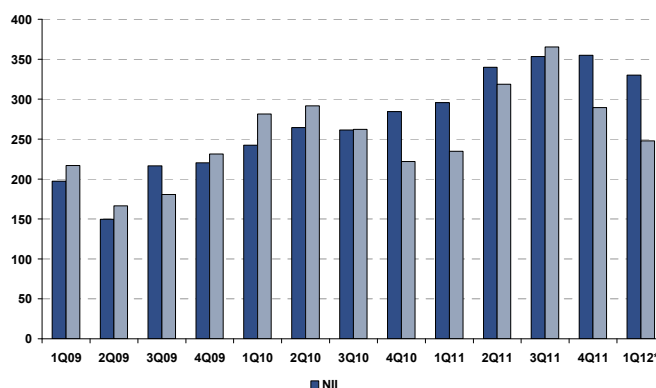
Additionally, the high pace of lending has led to much higher than industry average costs of risk and provisioning. The bank's NPL ratio has jumped to 12.4% in 2011, driven by very high NPL ratios in cash loans (44.8%) and mortgage loans (7.5%) and its cost of risk exceeded net interest income in some quarters.

Figure 89. Polish Banks — Client Relation Fees vs. Balance Sheet Size, 2011 (Polish Zloty in million)



Source: Company data, Citi Investment Research and Analysis

Figure 90. Getin Noble Bank — Net Interest Income vs. Net Provisioning, 1Q09-1H11 (Polish Zloty in million)



Note: * Including Get Bank

Source: Company data, Citi Investment Research and Analysis

Given the ongoing pricing competition in mortgage loans, leading to declines in margins on new lending, the bank decided to limit its mortgage lending to defend or even improve its lending margins and to grow mostly in cash loans and car loans.

Bancassurance specialist

The bank has a relatively high share of net fee income in total revenues due to the high share of insurance and investment product fees in total revenues

Despite its focus on lending, the bank has a relatively high share of net fee income in total revenues (about 40%) due to the high share of insurance (20%) and investment product fees (18%) in total revenues. The bank, in cooperation with TU Europa, offers its clients many different products, including insurance sold to borrowers ('bridge insurance' and low down payment insurance offered in connection with mortgage loans and life, accident and property insurance cross-sold with all types of loans) and structured products and multi-links sold to clients interested in investments.

Getin Noble Bank

Company description

Getin Noble Bank was the 7th biggest Polish bank by assets (2011), 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 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 to Getin Noble Bank and continues business of the former Getin Noble Bank (prior to the merger Get Bank practically hasn't conducted any banking activity).

Investment strategy

Getin Noble Bank's (GNB) new strategy to reduce exposure to mortgage lending and, thanks to that, to reduce funding needs and funding costs, should, when coupled with declining cost of risk, lead to a material improvement in the bank's core profitability in 2013. But the first quarter of its implementation isn't fully successful. In 1Q12 Getin Noble Bank managed to decrease cost of risk and to maintain high fee revenues despite much reduced mortgage lending but failed to improve net interest margin (NIM). NIM dropped in 1Q12 as the bank increased liquidity buffers due to continued volatility in CHF/PLN rate and changing in taxation of deposits. We still see chance that the bank will be more successful in implementation of its new strategy in 2H12 and will increase ROE on banking activity (i.e. excluding gains on disinvestments) from 8.4% in 2011 to 10.0% in 2011, 11.6% in 2012 and 11.2% in 2013. We see 11% as the sustainable ROE of the bank and thus we view P/BV valuation of 0.8 as attractive. We set TP at ZI 2.0 and initiate with Buy.

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: $\text{Price / Book value} = (\text{Sustainable RoE} - \text{growth}) / (\text{Cost of equity} - \text{growth})$. Our WEV approach suggests a valuation at ZI 2.0 per share. When valuing Getin Noble Bank we assume a sustainable ROE of 11.0% close to our estimate of 2014 ROE (11.2%). 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 5.0% (the same as for other Polish banks). Based on these inputs, we arrive at a valuation of ZI 2.0 per share for Getin Noble Bank.

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 2.39 per share.

As in case of other Polish banks, we set our target price 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 their 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.

Notes

Appendix A-1

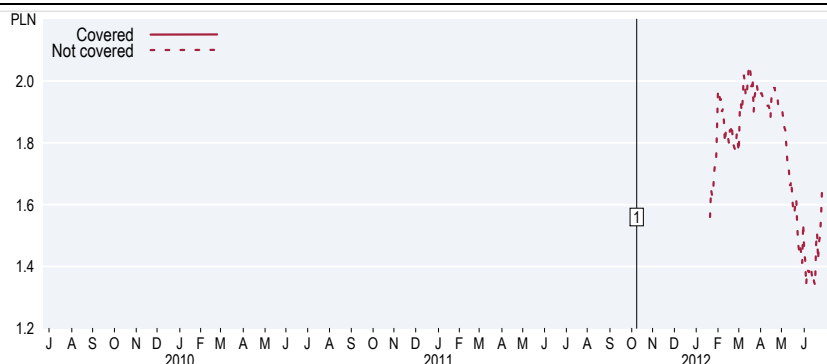
Analyst Certification

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

IMPORTANT DISCLOSURES

Getin Noble Bank (GNB.WA)

Ratings and Target Price History
Fundamental Research



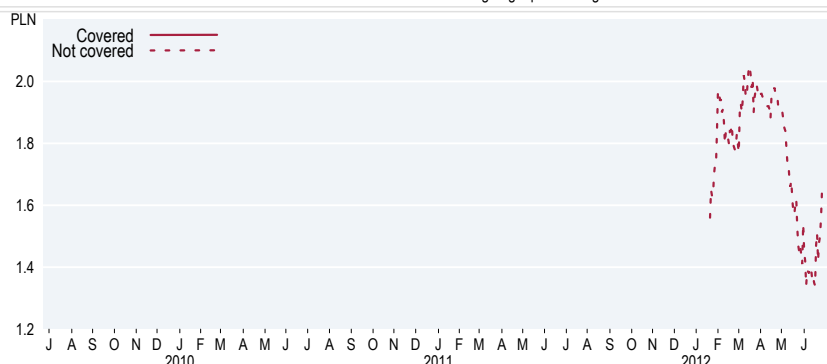
	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Getin Noble Bank (GNB.WA)

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



* 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 March 2012 is as follows: Buy (1) representing 54% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 33% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 13% of the DMBH coverage 0% of which are IB clients.

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

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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 March 2012 is as follows: Buy (1) representing 54% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 33% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 13% of the DMBH coverage 0% of which are IB clients.

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

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

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

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

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

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

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

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