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## Banks – 2018 Q3 Earnings Roundup

### Banks, Poland

Analyst: Michał Konarski +48 22 438 24 05, Mikołaj Lemańczyk

**A roundup of the Polish bank sector's performance in September and the whole third quarter of 2018, published by the financial regulator KNF, shows declines across the board in the monthly net interest income, coupled with a continued rise in costs and provisioning. Compared to the previous quarter, aggregate Q3 net income in the sector registered a 15% drop led by weaker fee income and higher risk reserves. Nevertheless the aggregate earnings for the nine months to 30 September 2018 were up by a creditable 11% compared to the same year-ago period, indicating the sector is on track to top the PLN 15 billion mark with 2018 FY earnings last crossed in 2014. When it comes to the banks in our coverage universe, which have all released third-quarter earnings except for Getin Noble Bank, their aggregate net income for Q3 2018 was up 2.9% quarter on quarter and 5.9% year over year, with further growth anticipated in Q4. All in all, Polish banks are trading at attractive multiples given their strong prospects, showing 20% upside potential to our price targets.**

### September Roundup

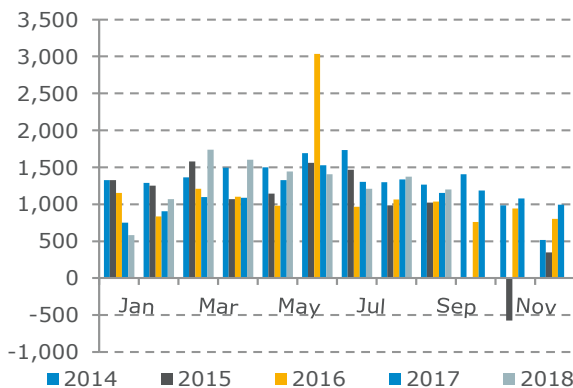
At PLN 1,202m, the aggregate net income of Polish banks for September as calculated by the KNF showed a 12.6% drop

from August, but it was up 4.0% relative to September 2017. The monthly contraction was driven mainly by falling net interest income, combined with rapid expansion in risk reserves. Interest revenues for the month were down 1.8% m/m (but up 7.7% y/y), but so were interest expenses, which posted a 1.1% m/m decline (+4.8% y/y). The monthly net interest margin widened by 1bp to 2.55%. As for costs, the aggregate payroll and administrative expenses grew 8% versus the same month in 2017, and the costs/income ratio increased to 55.5% from 53.9% in August. Cost of risk was 98bp as of 30 September 2018 vs. 71bp in August and 103bp in September 2017.

### 2018 Q3 Roundup

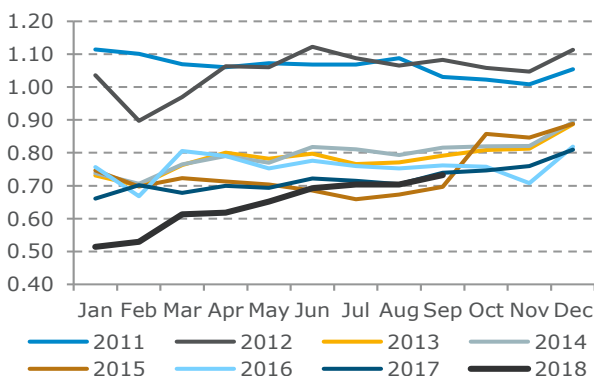
The bank sector generated aggregate net income of PLN 3,788m in the third quarter of 2018, an amount similar to the year-ago figure but down 14.9% from the quarter before after a drop led by a 4% fall in net interest income and a 6% rebound in risk reserves. NIM reached 2.53% in Q3 after expanding by 6bp q/q and 4bp y/y. Banks experienced a surge in cost of risk to 81bp in the period, the highest level since Q4'16 (100bp), however the increase was driven by one-time adjustments to better match risks associated with certain corporate loans, and in Q4 cost of risk should go back to normal.

### Net Income Evolution (PLN m)



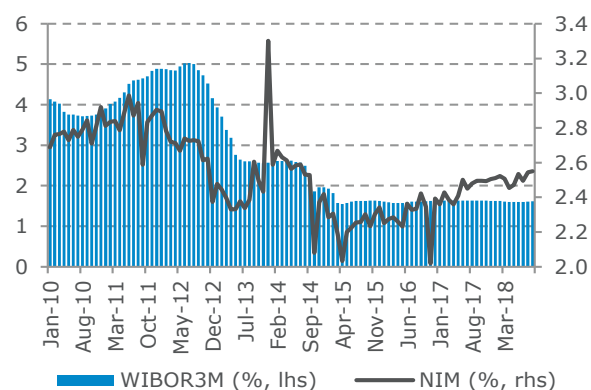
Source: KNF, Dom Maklerski mBanku

### Cumulative Cost of Risk (%)



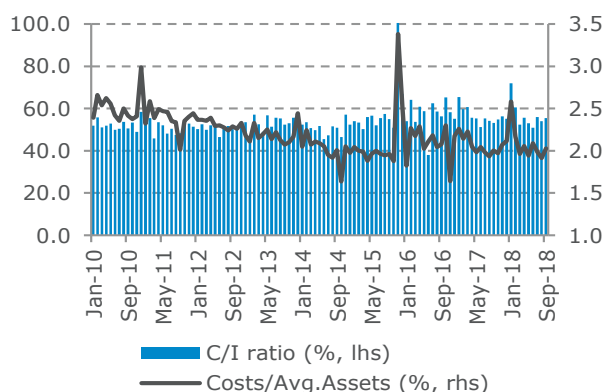
Source: KNF, Dom Maklerski mBanku

### Net Interest Margin vs. WIBOR 3M (%)



Source: KNF, Dom Maklerski mBanku

### Cost Ratios (%)



Source: KNF, Dom Maklerski mBanku

### Non-Consolidated financial results for 9M 2018

(PLN m)	Sep' 17	Aug'18	Sep'18	Y/Y	M/M	9M'17	9M'18	Y/Y
Interest revenue	4,862	5,331	5,237	7.7%	-1.8%	43,065	46,237	7.4%
Interest expenses	1,278	1,355	1,340	4.8%	-1.1%	11,570	12,015	3.9%
<b>Net interest income</b>	<b>3,584</b>	<b>3,976</b>	<b>3,897</b>	<b>8.7%</b>	<b>-2.0%</b>	<b>31,495</b>	<b>34,222</b>	<b>8.7%</b>
Fee income	1,145	972	1,032	-9.8%	6.2%	10,322	9,827	-4.8%
Dividends	8	21	130	n.m.	n.m.	1,096	1,572	43.4%
Other income	681	575	526	-22.8%	-8.5%	4,508	4,579	1.6%
<b>Noninterest income</b>	<b>1,834</b>	<b>1,568</b>	<b>1,688</b>	<b>-8.0%</b>	<b>7.6%</b>	<b>15,926</b>	<b>15,977</b>	<b>0.3%</b>
<b>Total income</b>	<b>5,418</b>	<b>5,544</b>	<b>5,585</b>	<b>3.1%</b>	<b>0.7%</b>	<b>47,421</b>	<b>50,199</b>	<b>5.9%</b>
Payroll costs	1,373	1,457	1,477	7.6%	1.3%	12,387	13,107	5.8%
Administrative expenses	1,253	1,283	1,348	7.6%	5.0%	12,261	13,012	6.1%
Other costs	254	248	276	8.7%	11.5%	2,173	2,216	2.0%
<b>Total costs</b>	<b>2,879</b>	<b>2,989</b>	<b>3,101</b>	<b>7.7%</b>	<b>3.7%</b>	<b>26,821</b>	<b>28,335</b>	<b>5.6%</b>
<b>Operating income before provisioning</b>	<b>2,539</b>	<b>2,555</b>	<b>2,484</b>	<b>-2.1%</b>	<b>-2.8%</b>	<b>20,600</b>	<b>21,864</b>	<b>6.1%</b>
Loan loss provisions	999	744	1,005	0.6%	35.1%	6,439	6,704	4.1%
<b>Operating income</b>	<b>1,540</b>	<b>1,811</b>	<b>1,479</b>	<b>-3.9%</b>	<b>-18.3%</b>	<b>14,160</b>	<b>15,160</b>	<b>7.1%</b>
Extraordinary gains/losses	0	-4	-1	n.m.	-66.5%	0	-28	n.m.
<b>Pre-tax income</b>	<b>1,540</b>	<b>1,808</b>	<b>1,478</b>	<b>-4.0%</b>	<b>-18.2%</b>	<b>14,160</b>	<b>15,132</b>	<b>6.9%</b>
Tax	368	399	270	-26.5%	-32.2%	3,711	3,293	-11.3%
Equity in profits of associates	17	24	15	-9.3%	-37.4%	-43	210	n.m.
Discontinued operations	0	9	-9	n.m.	n.m.	0	-1	n.m.
<b>Net income</b>	<b>1,155</b>	<b>1,375</b>	<b>1,202</b>	<b>4.0%</b>	<b>-12.6%</b>	<b>10,492</b>	<b>11,629</b>	<b>10.8%</b>

Source: KNF, Dom Maklerski mBanku, PAP

### Key monthly ratios

(%)	Sep' 17	Mar'18	Apr'18	May'18	Jun'18	Jul'18	Aug'18	Sep' 18
NIM (over avg. assets)	2.49	2.51	2.45	2.47	2.53	2.50	2.54	2.55
Cost or Risk	1.03	0.77	0.64	0.79	0.91	0.73	0.71	0.98
Costs / Income	53.15	52.37	55.55	53.09	50.86	55.98	53.91	55.52
Costs / Avg. Assets	2.00	1.96	2.06	1.94	2.09	1.98	1.91	2.03
ROE	7.19	10.22	9.65	8.40	8.49	7.07	7.94	7.12

Source: KNF, Dom Maklerski mBanku, PAP

# List of abbreviations and ratios contained in the report.

**EV** – net debt + market value (EV – economic value)  
**EBIT** – Earnings Before Interest and Taxes  
**EBITDA** – EBIT + Depreciation and Amortisation  
**PBA** – Profit on Banking Activity  
**P/CE** – price to earnings with amortisation  
**MC/S** – market capitalisation to sales  
**EBIT/ EV** – operating profit to economic value  
**P/E** – (Price/Earnings) – price divided by annual net profit per share  
**ROE** – (Return on Equity) – annual net profit divided by average equity  
**P/BV** – (Price/Book Value) – price divided by book value per share  
**Net debt** – credits + debt papers + interest bearing loans – cash and cash equivalents  
**EBITDA margin** – EBITDA/Sales

**OVERWEIGHT (OW)** – a rating which indicates that we expect a stock to outperform the broad market  
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**NAV** – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

## Dom Maklerski mBanku

Senatorska 18  
00-082 Warszawa  
<http://www.mbank.pl/>

## Research Department

**Kamil Kliszcz**  
director  
+48 22 438 24 02  
[kamil.kliszcz@mbank.pl](mailto:kamil.kliszcz@mbank.pl)  
energy, power generation

**Jakub Szkopek**  
+48 22 438 24 03  
[jakub.szkopek@mbank.pl](mailto:jakub.szkopek@mbank.pl)  
industrials, chemicals, metals

**Piotr Bogusz**  
+48 22 438 24 08  
[piotr.bogusz@mbank.pl](mailto:piotr.bogusz@mbank.pl)  
retail

**Michał Marczak**  
+48 22 438 24 01  
[michal.marczak@mbank.pl](mailto:michal.marczak@mbank.pl)  
strategy

**Paweł Szpigel**  
+48 22 438 24 06  
[pawel.szpigel@mbank.pl](mailto:pawel.szpigel@mbank.pl)  
media, IT, telco

**Aleksandra Szklarczyk**  
[aleksandra.szklarczyk@mbank.pl](mailto:aleksandra.szklarczyk@mbank.pl)  
construction, real-estate development

**Michał Konarski**  
+48 22 438 24 05  
[michal.konarski@mbank.pl](mailto:michal.konarski@mbank.pl)  
banks, financials

**Piotr Zybala**  
+48 22 438 24 04  
[piotr.zybala@mbank.pl](mailto:piotr.zybala@mbank.pl)  
construction, real-estate development

**Mikołaj Lemańczyk**  
[mikolaj.lemanczyk@mbank.pl](mailto:mikolaj.lemanczyk@mbank.pl)  
financials

## Sales and Trading

### Traders

**Piotr Gawron**  
director  
+48 22 697 48 95  
[piotr.gawron@mbank.pl](mailto:piotr.gawron@mbank.pl)

**Jędrzej Łukomski**  
+48 22 697 49 85  
[jedrzej.lukomski@mbank.pl](mailto:jedrzej.lukomski@mbank.pl)

**Andrzej Sychowski**  
+48 22 697 48 46  
[andrzej.sychowski@mbank.pl](mailto:andrzej.sychowski@mbank.pl)

**Krzysztof Bodek**  
+48 22 697 48 89  
[krzysztof.bodek@mbank.pl](mailto:krzysztof.bodek@mbank.pl)

**Adam Prokop**  
+48 22 697 47 90  
[adam.prokop@mbank.pl](mailto:adam.prokop@mbank.pl)

**Tomasz Galanciak**  
+48 22 697 49 68  
[tomasz.galanciak@mbank.pl](mailto:tomasz.galanciak@mbank.pl)

**Tomasz Jakubiec**  
+48 22 697 47 31  
[tomasz.jakubiec@mbank.pl](mailto:tomasz.jakubiec@mbank.pl)

**Szymon Kubka, CFA, PRM**  
+48 22 697 48 54  
[szymon.kubka@mbank.pl](mailto:szymon.kubka@mbank.pl)

**Magdalena Bernacik**  
+48 22 697 47 35  
[magdalena.bernacik@mbank.pl](mailto:magdalena.bernacik@mbank.pl)

## Sales, Foreign Markets

**Marzena Łempicka-Wilim**  
deputy director  
+48 22 697 48 82  
[marzena.lempicka@mbank.pl](mailto:marzena.lempicka@mbank.pl)

**Bartosz Orzechowski**  
+48 22 697 48 47  
[bartosz.orzechowski@mbank.pl](mailto:bartosz.orzechowski@mbank.pl)

## Private Client Sales

**Kamil Szymański**  
director  
+48 22 697 47 06  
[kamil.szymanski@mbank.pl](mailto:kamil.szymanski@mbank.pl)

**Jarosław Banasiak**  
deputy director  
+48 22 697 48 70  
[jaroslaw.banasiak@mbank.pl](mailto:jaroslaw.banasiak@mbank.pl)