7 May 2009

Update

BRE Bank Securities

Banks
Poland

Current price	**PLN 52.3**
Target price	**PLN 40.9**
Market cap	PLN 6.8bn
Free float	PLN 1.7bn
Avg daily trading volume (3M)	PLN 11.52m

Shareholder Structure

COIC	75.0%
Others	25%

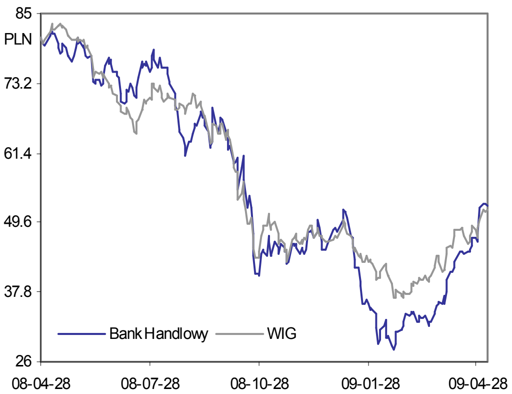
Sector Outlook

In the worst-case scenario (GDP growth at 0% in 2009), the earnings of the banking industry will drop by two-thirds this year. The banks themselves are more optimistic in their outlook. Bank valuations already factor in the expected surge in costs of financing (negative deposit spread on new sales, costs of risk above 2%, operating income before provisions down over 20% vs. 2008). The ratios of assets to equity are 12.7 for the banking industry as a whole, 10.4 for listed banks, and 18 for the Eurozone. There is no need for Polish banks to deleverage. The market is not discounting any growth prospects for the industry, whose assets constitute 83% of GDP (Eurozone 315%, CEE 137%).

Company Profile

Bank Handlowy is in the top ten of Polish banks. Looking at the structure of its loan and deposit portfolios, it is clear that the corporate banking business is the main earnings driver. Over the past few years, the Bank has built a considerable market share in consumer loans (cash loans and credit cards). At the end of 2008, the loans-to-deposits ratio stood at 70%, and the capital adequacy ratio was 11.7% at the end of 1Q09 (Tier 1).

Bank Handlowy vs. WIG



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Handlowy

Sell

BAHA.WA; BHW.PW

(Reiterated)

Counting Quarters of Gloom

The Bank recorded PLN 46.1m in net income in Q1'09. According to its CEO, the problems related to client derivatives have already peaked; the key risks in the ensuing quarters are declining revenues on the one hand and loan loss provisions on the other. We concur. Even though with provisions for derivatives ignored the Bank's Q1'09 pre-tax income amounts to the handsome PLN 228m (vs. PLN 67m in actuality), in the ensuing quarters we are expecting a deterioration in recurrent income, with provisions remaining at a high level. In Q1'09, the costs of risk amounted to 2.8% exclusive of derivative provisions and the staggering 4.4% including them. The decline in volumes, sales and client activity will dampen revenues, even if the profitability of individual products remains unchanged. We recommend selling Bank Handlowy. We set our target price at PLN 40.9 per share, which is 11% higher than our previous target, due to (1) change in the month of valuation, (2) slightly lower cost of equity, (3) increase in the long-term ROE from 10.5% to 11% based on revised earnings projections (the key factor here is interest income).

Dividends Have Not Been Decided Yet

The Supervisory Board has recommended that the entire FY2008 net income be retained, but the CEO believes that a payout of a part of the profits cannot be precluded until the shareholders cast their votes. Taking the FY2008 profits into account, the Bank's capital adequacy ratio would reach the staggering 13.2%. Q1'09 volumes show that, just as we expected, the Bank is not attempting to expand its risk-weighted assets. We consider it capable of paying dividends, but the Supervisory Board recommendation and KNF's approach are strong arguments to the contrary. Our forecasts do not take into account any dividends for FY2008. If the Bank does pay out half of the profits, '08 DPS will be PLN 2.3 and the gross dividend yield, 4.4%. Our rating remains negative even with this hypothetical '08 DPS added to the target price. Shareholders are meeting on 18 June.

Costs of Risk: Handlowy Will Be Affected

Bank Handlowy will eat up its entire operating income before provisions (as forecasted by us for FY2009) if its costs of risk reach 6.6% (the highest threshold in the sector). Nonetheless, due to the structure of its portfolio (59% in corporate loans, 39% in consumer loans), the costs of risk will be above the sector average (2.2%). We expect the Bank to create PLN 483m worth of provisions in FY2009 (3.6% of its loan portfolio), but of this amount, PLN 57m will be for unsettled client liabilities related to derivatives, recognized in Q1 2009. The costs of risk on the loan portfolio will amount to 3.2%, which has not changed since our previous forecast.

(PLN m)	2007	2008	2009F	2010F	2011F
Net interest income	1 204	1 366	1 467	1 450	1 546
Net interest margin	3.2%	3.4%	3.4%	3.3%	3.4%
Income. f/ banking oper.	2 447	2 313	2 290	2 324	2 440
Operating income*	990	910	895	883	921
Pre-tax income	1 034	759	411	539	848
Net income	824	600	327	428	674
ROE	15.0%	10.7%	5.6%	7.0%	10.5%
P/E	8.3	11.4	20.9	16.0	10.1
P/BV	1.2	1.2	1.1	1.1	1.0
D/PS**	4.75	0.00	1.25	1.80	3.09
Dividend yield	9.1%	0.0%	2.4%	3.4%	5.9%

** before provisions*
***dividends for the year, paid out the following year*

First-Quarter Results

- Bank Handlowy's (BH) CEO announced plans to sell overdue loan receivables within the next two quarters. He did not specify the amount earmarked for sale, but we do not expect a significant gain on the deal given the current economy and the fact that the bad debt which the bank plans to unload is considered non-recoverable. This will be the first NPL sale in Bank Handlowy's history, and, while it bring down the ratio of bad debt to total loans, it does not change our expectations with respect to future NPL and charge-off trends.

- BH was one of the first banks to announce layoffs in Q108, and, after completing this exercise at the end of 2008, it has no more plans to cut jobs. The downsizing will have a positive influence on 2009 results. Other savings measures that BH may undertake this year could include a freeze on hiring and salaries, and incentive revisions. Further downsizing may take place in 2010, in the unlikely scenario that the situation in the financial industry continues to deteriorate.

- BH claims that it saw the worst in derivatives losses in Q109, with charge-offs totaling PLN 161m (incl. a PLN 104.7m charge against trading income caused by heightened counterparty risk related to outstanding derivatives, and a PLN 56.8m charge against reserves related to unsettled trades).

Bank Handlowy's net income for Q109 missed our estimate (PLN 52m) at PLN 46m, and fell far short of the analysts' consensus of PLN 56m. The main factor weighing on profit were huge loan-loss reserves (which totaled PLN 152m, i.e. a staggering 4.4% of net loans). After adjustment for a PLN 56.8m provision against F/X option losses (which we expected to be charged against trading income), costs of risk decrease to a not-much-less alarming figure of PLN 96m (2.8% of net loans). If we exclude the total amount of the F/X option charges (PLN 161.5m through trading income and reserves), the Q109 pre-tax income amounts to PLN 228m. The high point of BH's first-quarter results was net interest income which increased versus Q408. Margins remained high, but cost BH some market share in deposits. Interest expenses, elevated by loyalty programs for top clients, were offset by higher loan margins. All in all, BH's first-quarter performance failed to meet expectations, and future earnings are under significant pressure due to a deteriorating quality of loan receivables.

Reported vs. forecasted results

(PLN m)	1Q09F	differ.	1Q09	change	1Q08	2009F	1Q09/2009F
Net interest income	382	2.3%	390	21.2%	322	1 467	26.6%
Net fee income	130	-4.1%	125	-24.8%	166	528	23.6%
NIM	3.6%		3.6%		3.4%	3.4%	
Income from banking operations	463	24.3%	576	-9.8%	639	2 290	25.2%
Total costs	-363	2.9%	-374	-9.0%	-411	-1 463	25.5%
Operating income*	133	65.7%	221	-10.5%	246	895	24.6%
Reserves	-69	119.6%	-152	653.8%	-20	-483	31.6%
Pre-tax income	64	4.9%	67	-70.6%	227	411	16.2%
Net income	52	-10.5%	46	-74.4%	180	327	14.1%

Source: BRE Bank Securities, Bank Handlowy
** before provisions*

Q109 interest income exceeded our estimate by PLN 8m at PLN 390m. BH managed to expand loan margins just enough to offset higher costs of financing. Costs of deposit finance increased mainly on a small group of selected accounts (the bank offers high-interest deals very sparingly), causing loss of volume in overall deposits.

Fee income fell PLN 5m short of our estimate, mainly because of lower-than-expected card fees and other shortfalls in transaction fees. The decrease was a consequence of a continuing shrinkage in the volumes of bank transactions carried out by businesses (e.g. international sales) as well as consumers.

Trading income was weighed down by more option losses (PLN 104.7m), and would have amounted to PLN 166m if it had not been for these charges. Trading income will remain weak in future quarters due to decreasing client activity, falling gains on F/X operations, and volatility in financial markets.

First-quarter income from banking operations exceeded expectations by PLN 113m because BH recognized a lower charge against “heightened counterparty risk” which weighed on trading income. The actual charge was reported at PLN 104.7m, while we (conservatively) forecasted PLN 210m. After adjustment for losses on customer derivatives, our estimate of BH’s income from banking operations was PLN 673m, and the actual amount figures to PLN 681m (i.e. in line).

Expenses were slightly higher than predicted, but did not raise our concerns in light of the savings that the bank has managed to make to date (total costs were down 9% y/y in Q109). The quarter-on-quarter climb in expenses was to be expected after reversals of sizable allowances against employee bonuses and restructuring.

Loan-loss reserves reached a shockingly high amount of PLN 152m, equivalent to 4.4% (!) of net loans, and included PLN 56.8m in F/X option charges. Total charge-offs amounted to PLN 161m, closer to our expected PLN 210m. After adjustment for option charges, Q109 charge-offs amount to PLN 96m, i.e. 2.8% of loans, which is still a very high ratio. The two areas with the highest exposure to loan-loss risks are corporate services and consumer lending. Reserves against corporate loan losses increase as the financial situation of customers worsens and they become unable to pay off option debt. So, BH’s reserves include both provisions against loan losses, and provisions against option default. The quality of receivables has deteriorated dramatically: the ratio of NPL to loans increased to a staggering 15.5% from 12.4% a quarter earlier. Non-performing loans surged by PLN 526 million in just one quarter.

Unlike many other banks, by not engaging in aggressive deposit acquisition, BH has managed to keep strong interest margins and increase interest income in the last two quarters. The downside of this policy is a shrinking deposit portfolio. BH has lost most market share in retail deposits, but corporate deposits are also falling.

Deposits

(PLN m)	2Q08	3Q08	4Q08	1Q09
corporations	13535	12971	13336	12992
households	7004	6850	6599	5977
TOTAL	**20539**	**19821**	**19935**	**18969**
Q/Q change				
corporations		-2.9%	2.8%	-2.6%
households		4.2%	-3.4%	-9.4%
TOTAL		**-0.3%**	**0.7%**	**-4.8%**

Source: BRE Bank Securities, Bank Handlowy

BH’s defensive approach to deposit acquisition is a result of a liquid balance sheet (loans/deposits at 73%), as well as a diminished supply of loans reflected in volumes. The bank recorded a 3% q/q decrease in household deposits and a 2.3% increase in corporate deposits, though most of this increase was owed to adjustments in FCY loan values. After adjustment for the first-quarter depreciation in the zloty, corporate loans display a decline relative to the quarterly levels recorded in 2008.

Loans

(PLN m)	2Q08	3Q08	4Q08	1Q09
corporations	8940	8677	8253	8444
households	5179	5397	5633	5445
RAZEM	**14119**	**14074**	**13886**	**13889**
Q/Q change				
corporations		-2.9%	-4.9%	2.3%
households		4.2%	4.4%	-3.3%
TOTAL		**-0.3%**	**-1.3%**	**0.0%**

Source: BRE Bank Securities, Bank Handlowy

Forecast of quarterly results

(PLN m)	1Q08	2Q08	3Q08	4Q08	1Q09	Q/Q	Y/Y
Net loans	13278	14120	14074	13886	13889	0.0%	4.6%
Deposits	21351	20539	19821	19935	18969	-4.8%	-11.2%
Assets	37394	38294	37069	42550	45273	6.4%	21.1%
Net interest income	322	325	335	384	390	1.7%	21.2%
Net fee income	166	164	150	139	125	-10.4%	-24.8%
Trading income	151	98	165	-85	61	-171.4%	-59.6%
Income f/ bank operations	639	586	650	438	576	31.6%	-9.8%
Other net operating income	18	25	13	37	18	-51.1%	1.0%
Banking income	657	611	662	475	594	25.1%	-9.5%
Costs	-411	-382	-367	-336	-374	11.1%	-9.0%
Operating income before provisions	246	230	295	139	221	59.1%	-10.5%
Provisions	-20	-16	-23	-94	-152	61.7%	653.8%
Operating income	226	214	273	44	68	53.5%	-69.9%
Pre-tax income	227	214	273	45	67	47.0%	-70.6%
Tax	-47	-44	-57	-11	-21	91.5%	-56.2%
Net income	180	170	216	35	46	33.2%	-74.4%

Source: BRE Bank Securities, Bank Handlowy

Valuation

Our valuation approach is the same as presented in the March 2009 Update on Bank Handlowy. We used the Gordon model formula: P/BV=(ROE-g)/(COE-g) to estimate the price-to-book value ratio for the bank. The P/BV ratio depends on our assumed return on equity (ROE), cost of equity (COE), which is the sum of the risk-free rate and the risk premium entailed in the purchase of the bank's shares, and long-term growth rate (g). Our forecast horizon extends to 2017. Long-term ROE is the ROE we expect the bank to achieve in 2017.

Dividends

Based on a recommendation by BH's Supervisory Board, we assume that the bank will retain FY2008 earnings in equity. For 2009, we predict a 50% payout ratio, and growing distributions in subsequent years increasing to a steady 65% in 2017.

In spite of the Supervisory Board's recommendation, we believe that Bank Handlowy is able to distribute a portion of 2008 earnings to shareholders given its equity and earnings results forecasted for future years. Assuming that the bank's shareholders (a general meeting is scheduled for June 18th, 2009) decide to pay out half of 2008 earnings, the FY08E DPS would be PLN 2.3.

Cost of Equity

Our estimated risk-free rate is based on the yield on 10-year Treasury bonds as of the date of the valuation. The risk-free rate remains 5%, and the beta for each bank in our coverage universe is set at 1.2.

10Y Treasury yield as of May 6th, 2009, is 6.254% (a decline from 6.3% in March). The resulting cost of equity for valuation purposes is 12.25%.

Changes in Valuation

The per-share price calculated using the discounted dividend model increased 11% compared to our previous estimates. The reasons for this increase are as follows:

- Higher long-term ROE (11%, up from 10.5%) calculated based on higher revenues forecasted for future years. The revenue revision stems from improved interest-income prospects and less conservative predictions as to trading income.
- A decline in the risk-free rate from 6.3% to 6.254%.
- A rollover of the valuation month from March to May.

DDM Valuation Summary

(PLN/share)	2008	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	+
Risk-free rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
Risk premium	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Beta	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Cost of equity	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%
EPS	4.60	2.50	3.28	5.15	5.81	6.35	6.75	6.97	7.05	7.14	
EPS (Y/Y pct change)	-27.2%	-45.6%	31.0%	57.3%	12.7%	9.4%	6.3%	3.1%	1.1%	1.4%	
BVPS	43.1	45.6	47.6	50.9	53.7	56.2	58.9	61.4	63.9	66.5	
BVPS (Y/Y pct change)	0.4%	5.8%	4.4%	7.0%	5.3%	4.8%	4.7%	4.4%	4.1%	4.0%	
ROE	10.7%	5.6%	7.0%	10.5%	11.1%	11.6%	11.7%	11.6%	11.2%	11.0%	
Long-term ROE											11.0%
Growth rate											4.0%
Implied P/BV											0.84
Equity at year-end 2017											56.0
Equity at year-end 2016											49.9
Equity at year-end 2015											44.4
Equity at year-end 2014											39.6
Equity at year-end 2013											35.3
Equity at year-end 2012											31.4
Equity at year-end 2011											28.0
Equity at year-end 2010											24.9
Equity at year-end 2009											22.2
Equity at year-end 2008											19.8
DPS	0.00	1.25	1.80	3.09	3.78	4.13	4.39	4.53	4.58	4.53	
DPS/EPS	0.0%	50.0%	55.0%	60.0%	65.0%	65.0%	65.0%	65.0%	65.0%	63.5%	
Discounted DPS	0.00	1.04	1.34	2.04	2.22	2.17	2.05	1.88	1.70	1.50	
Total discounted DPS											15.94
Fair Value at the end of May 2009											37.5
9MTP											40.9
current price											52.3
upside potential											-22%

Source: BRE Bank Securities
** risk-free rate = 10Y Treasury yield as of 6 May 2009*

Comparison of bank multiples

	P/BV				P/E				PBV/ROE			
	2008	2009F	2010F	2011F	2008	2009F	2010F	2011F	2008	2009F	2010F	2011F
BZ WBK	1.4	1.4	1.3	1.1	8.1	42.4	18.3	7.9	7.6	41.8	17.7	7.4
discount/premium to median	15.8%	18.6%	15.3%	7.7%	-4.8%	0.0%	0.0%	0.0%	-3.1%	0.0%	0.0%	0.0%
discount/premium to average	9.0%	10.8%	10.9%	8.8%	0.4%	-64.0%	-11.5%	0.5%	-1.3%	-64.4%	-12.3%	-0.5%
B. Handlowy	1.2	1.1	1.1	1.0	11.4	20.9	16.0	10.1	11.4	20.3	15.6	9.8
discount/premium to median	0.0%	0.0%	0.0%	0.0%	33.0%	-50.7%	-12.9%	28.1%	44.0%	-51.3%	-11.7%	32.3%
discount/premium to average	-5.9%	-6.6%	-3.9%	1.0%	40.3%	-82.2%	-22.9%	28.7%	46.8%	-82.6%	-22.5%	31.6%
ING BSK	0.9	0.9	0.8	0.7	8.7	46.9	9.7	6.3	8.4	46.5	9.3	5.9
discount/premium to median	-24.0%	-21.2%	-24.7%	-28.7%	2.2%	10.6%	-46.9%	-20.6%	5.9%	11.3%	-47.4%	-20.1%
discount/premium to average	-28.5%	-26.3%	-27.6%	-28.0%	7.8%	-60.2%	-53.0%	-20.2%	7.9%	-60.4%	-53.8%	-20.5%
Kredyt Bank	0.6	0.6	0.6	0.6	5.2	158.5	34.1	5.0	4.8	158.2	33.8	4.7
discount/premium to median	-47.9%	-45.1%	-43.7%	-46.4%	-39.8%	273.6%	86.2%	-36.9%	-39.3%	278.9%	91.1%	-36.3%
discount/premium to average	-51.0%	-48.7%	-45.9%	-45.9%	-36.5%	34.6%	64.8%	-36.6%	-38.1%	35.0%	67.7%	-36.7%
Millennium	0.8	0.8	0.8	0.7	5.6	505.6	29.9	6.3	5.3	505.2	29.5	6.0
discount/premium to median	-32.2%	-28.4%	-27.2%	-30.8%	-34.5%	1091.5%	63.4%	-19.9%	-32.6%	1109.9%	67.0%	-19.3%
discount/premium to average	-36.2%	-33.1%	-30.0%	-30.1%	-30.9%	329.2%	44.6%	-19.5%	-31.4%	331.1%	46.5%	-19.7%
Pekao	2.0	1.9	1.7	1.5	9.2	23.7	16.8	10.7	8.8	22.8	15.9	10.2
discount/premium to median	67.6%	63.5%	53.6%	48.5%	7.6%	-44.1%	-8.5%	35.1%	12.0%	-45.4%	-10.0%	37.3%
discount/premium to average	57.8%	52.7%	47.7%	50.0%	13.5%	-79.9%	-19.0%	35.8%	14.2%	-80.6%	-21.0%	36.5%
PKO BP	2.0	1.9	1.7	1.5	8.6	26.5	20.1	8.8	7.9	25.5	19.3	8.2
discount/premium to median	64.5%	61.8%	54.7%	42.8%	0.0%	-37.7%	9.6%	10.6%	0.0%	-38.9%	8.8%	9.9%
discount/premium to average	54.8%	51.2%	48.8%	44.2%	5.4%	-77.5%	-3.0%	11.2%	1.9%	-78.2%	-4.6%	9.4%
median	1.2	1.1	1.1	1.0	8.6	42.4	18.3	7.9	7.9	41.8	17.7	7.4
average	1.3	1.2	1.1	1.0	8.1	117.8	20.7	7.9	7.7	117.2	20.2	7.5

Source: BRE Bank Securities

INCOME STATEMENT

(PLN m)	2007	2008	2009F	2010F	2011F	2012F
Net interest income	1 204	1 366	1 467	1 450	1 546	1 673
Non-interest income	1 243	947	822	875	894	943
Net fee income	737	619	528	556	589	626
Trading income	506	328	294	319	305	318
Income from banking operations	2 447	2 313	2 290	2 324	2 440	2 616
Other net operating income	66	93	68	68	68	68
Total banking income	2 513	2 405	2 358	2 392	2 507	2 684
Non-interest expense	-1 523	-1 496	-1 463	-1 509	-1 587	-1 648
Payroll expenses	-704	-697	-692	-707	-750	-780
Amortization and depreciation	-109	-97	-87	-88	-94	-95
Other expenses	-709	-702	-684	-714	-743	-773
Operating income before provisions	990	910	895	883	921	1 036
Reserves	53	-153	-483	-344	-72	-80
Equity in income of associates	-9	3	0	0	0	0
Pre-tax income	1 034	759	411	539	848	956
Tax	-210	-159	-85	-111	-175	-197
Minority interests	0	0	0	0	0	0
Net income	824	600	327	428	674	759
Dividends paid	621	0	163	235	404	493

CORE RATIOS

Net interest margin (total assets)	3.2%	3.4%	3.4%	3.3%	3.4%	3.4%
Net interest margin (interest-bearing assets)	3.9%	4.2%	4.5%	4.4%	4.4%	4.4%
Interest spread	3.9%	4.5%	4.2%	4.2%	4.2%	4.2%
Costs / Income	60.6%	62.2%	62.1%	63.1%	63.3%	61.4%
Costs / Assets	4.1%	3.7%	3.4%	3.5%	3.4%	3.3%
Personnel costs / Income	28.0%	29.0%	29.4%	29.6%	29.9%	29.0%
Reserves / Operating income	5.3%	-16.8%	-54.0%	-38.9%	-7.9%	-7.7%
Provisions / Loans	0.5%	-1.2%	-3.6%	-2.5%	-0.5%	-0.5%
Non-interest income / Total income	49.5%	39.4%	34.9%	36.6%	35.7%	35.2%
Operating income / Assets	2.6%	2.2%	2.1%	2.0%	2.0%	2.1%
ROE	15.0%	10.7%	5.6%	7.0%	10.5%	11.1%
ROA	2.2%	1.5%	0.8%	1.0%	1.5%	1.5%

ANNUAL GROWTH RATE

Net income	25%	-27%	-46%	31%	57%	13%
Operating income before provisions	24%	-8%	-2%	-1%	4%	13%
Total banking income	9%	-4%	-2%	1%	5%	7%
Net interest income	17%	13%	7%	-1%	7%	8%
Non-interest income	16%	-24%	-13%	6%	2%	6%
Non-interest expense	1%	-2%	-2%	3%	5%	4%

BALANCE SHEET

(PLN m)	2007	2008	2009F	2010F	2011F	2012F
Cash and Central Bank balances	3 322	3 531	1 313	1 197	998	1 105
Receivables from financial institutions	8 719	3 696	3 448	3 990	4 992	5 525
Debt securities	7 592	12 063	14 482	14 492	15 184	15 867
Loans	12 487	13 886	13 165	13 802	15 184	16 702
Equity investments	4 092	6 705	7 996	8 102	8 599	9 116
Fixed assets*	1 910	1 891	1 912	1 915	1 979	1 983
Other assets	788	779	739	775	852	938
Total assets	38 908	42 550	43 054	44 274	47 788	51 235
Liabilities to financial institutions	7 085	7 922	8 763	8 777	9 250	9 679
Deposits	19 811	19 935	19 474	20 411	22 561	24 817
Securities outstanding	0	0	0	0	0	0
Subordinated debt	0	0	0	0	0	0
Other debt	6 408	9 067	8 864	8 869	9 322	9 729
Equity	5 603	5 626	5 952	6 217	6 655	7 010
Share capital	523	523	523	523	523	523
Total equity and liabilities	38 908	42 550	43 054	44 274	47 788	51 235

** incl. goodwill*

NPL / Loans	11.8%	12.4%	19.4%	24.2%	21.1%	16.5%
NPL /Assets	4.2%	4.5%	6.8%	8.8%	7.7%	6.1%
Reserves / NPL	83.5%	75.2%	63.4%	56.6%	61.7%	74.8%
Reserves / Loans	9.9%	9.3%	12.3%	13.7%	13.0%	12.3%
Reserves / Assets	3.5%	3.3%	4.3%	5.0%	4.7%	4.6%

ASSET ANALYSIS

Equity /Assets	14.4%	13.2%	13.8%	14.0%	13.9%	13.7%
Loans /Assets	32.1%	32.6%	30.6%	31.2%	31.8%	32.6%
Deposits / Assets	50.9%	46.9%	45.2%	46.1%	47.2%	48.4%
Loans / Deposits	63.0%	69.7%	67.6%	67.6%	67.3%	67.3%
Loan CAGR	22.5%	11.2%	-5.2%	4.8%	10.0%	10.0%
Deposit CAGR	4.9%	0.6%	-2.3%	4.8%	10.5%	10.0%
Asset CAGR	8.1%	9.4%	1.2%	2.8%	7.9%	7.2%

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List of abbreviations and ratios contained in the report:
EV *– net debt + market value*
EBIT *– Earnings Before Interest and Taxes*
EBITDA *– EBIT + Depreciation and Amortisation*
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*

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HOLD – we expect that the rate of return from an investment will range from –5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
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Previous recommendations issued for Bank Handlowy

Rating	Buy	Suspended	Accumulate	Buy	Accumulate	Hold	Sell
Rating date	2008-11-07	2009-01-06	2009-01-12	2009-02-03	2009-03-05	2009-04-02	2009-05-06
Price on rating day	43.90	50.00	50.50	34.00	34.50	35.99	52.80
WIG on rating day	27976.81	28331.88	27680.04	23908.36	22719.61	24145.69	29777.06