

23 May 2011

Update


Banks
Poland

PKO BP

PKOB.WA; PKO PW

Buy

(Reiterated)

Current price	PLN 42.99
Target price	PLN 49.00
Market cap	PLN 53.7bn
Free float	PLN 26.2bn
Avg daily trading volume (3M)	PLN 232.13m

Shareholder Structure

State Treasury	41.0%
BGK	10.2%
Other	48.8%

Company Profile

PKO BP is the number-one bank in Poland with a market share of ca. 14%. It has accumulated the largest portfolio of retail loans and deposits, and the second-largest portfolio of corporate loans and deposits after Pekao. The bank boasts a healthy balance sheet and solid capital adequacy ratios. PKO BP is a 99.6% owner of Ukrainian bank Kredobank, which is responsible for about 1% of its assets. The bank's financial targets for FY2012 include a net income over PLN 4 billion, a ROE ahead of 16%, and a cost/income ratio below 45%.

Important dates

11.08 - H1 2011 report
03.11 - Q3 2011 report

Slower But Steady Growth

Though lower than expected, PKO BP's Q1 2011 results confirmed that the bank's deposit margins are benefitting from rising interest rates. Accordingly, we stand by our prediction of interest margin growth going forward, however, the growth will be slower than originally thought because of downward pressure on credit margins. Downward revisions in the range of 8% to 12% to our earnings forecasts for 2011 through 2013 have led to a reduction in our price target for PKO BP to PLN 49 from PLN 53.0 a share. At the same time, given a 4% share price decline since the first-quarter announcement, our investment rating for the bank remains a buy. PKO BP is the second cheapest bank after ING BSK, trading at 13.6x 2011E price-to-earnings ratio which shows a 3% discount to the peer average even with a 2.6% dividend yield still factored in the current price.

Weaker-than-expected Q1 2011 results...

PKO BP's first-quarter net income of PLN 871m showed flat quarter-on-quarter growth and missed our PLN 980m estimate by 11%. The main reason behind the disappointing result was a quarter-on-quarter contraction in the interest margin to 4.0% combined with steady costs of risk at 133 bps.

...prompted downward revisions in net-income forecasts

Based on the weak Q1 2011 earnings, we are lowering our net-income forecasts by 8% to 12% to PLN 4.0bn in 2011, PLN 4.7bn in 2012, and PLN 5.3bn in 2013. Our new estimates are 4% lower than the consensus estimates.

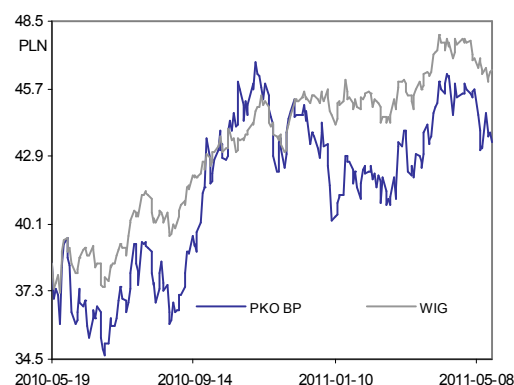
Slower interest margin growth

The growing interest margins reported for Q1 2011 proved that PKO BP is benefitting from rising interest rates by generating higher deposit margins. On the other hand, an increased WIBOR rate led to a contraction in credit margins which start reflecting higher market rates with a delay of about three months.

PKO BP continues conservative credit risk management

PKO BP is planning to continue utilizing a conservative approach to credit risk management by continuing to recognize loan-loss provisions in spite of a falling amount of non-performing loans (which are on a decline even without taking into account the change in methodology) to maintain a safe coverage ratio.

PKO BP vs. WIG



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(PLN m)	2009	2010	2011F	2012F	2013F
Interest income	5 051	6 516	7 220	8 128	8 840
Banking revenue	8 607	10 022	10 880	11 949	12 833
Operating income*	4 624	5 948	6 600	7 362	7 947
Net income	2 306	3 217	3 965	4 701	5 319
Interest margin (%)	3.47	4.00	4.08	4.21	4.20
Costs / Income (%)	47.9	41.7	40.4	39.4	39.3
ROE (%)	13.4	15.4	17.6	18.7	19.2
EPS (PLN)	2.06	2.57	3.17	3.76	4.26
BVPS (PLN)	16.34	17.09	19.02	21.20	23.19
DPS (PLN)**	1.90	1.10	1.59	2.26	2.98
P/E (x)	20.9	16.7	13.6	11.4	10.1
P/BV (x)	2.63	2.52	2.26	2.03	1.85
Dividend yield (%)**	4.4	2.6	3.7	5.2	6.9

*before provisions; **dividends for the year, paid out the next year

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Q1 2011 Results

Bottom line falls short of expectations

PKO BP reported a net profit of PLN 871m for Q1'11 (flat q/q, +21% y/y), which was 11% below our forecasts (PLN 980m) and 8% below market consensus (PLN 947m). It was the income side that disappointed, with a weak interest and fee income and higher-than-expected provisions (+3% q/q). On the other hand, operating expenses turned out lower than expected, thanks primarily to payroll expenses.

Overview of quarterly results

(PLN m)	Q1'10	Q2'10	Q3'10	Q4'10	Q1'11	Y/Y	Q/Q	Q1'11F	Diff.
Interest income	1 474	1 592	1 719	1 731	1 719	17%	-1%	1 801	-5%
Fee income	725	802	798	818	737	2%	-10%	794	-7%
Trading income	117	68	111	67	78	-34%	16%	90	-13%
Banking income	2 317	2 461	2 627	2 616	2 535	9%	-3%	2 685	-6%
Other net income	29	48	63	36	46	59%	28%	40	16%
Non-interest income	872	917	971	921	861	-1%	-7%	924	-7%
Total income	2 346	2 509	2 690	2 652	2 581	10%	-3%	2 725	-5%
Payroll expenses	-567	-571	-598	-638	-580	2%	-9%	-606	-4%
D&A expenses	-119	-120	-123	-151	-124	5%	-18%	-154	-19%
Non-payroll expenses	-329	-330	-337	-367	-350	6%	-5%	-342	2%
Total costs	-1 014	-1 021	-1 057	-1 157	-1 054	4%	-9%	-1 102	-4%
Operating income before provisions	1 332	1 488	1 633	1 496	1 527	15%	2%	1 623	-6%
Provisions	-425	-458	-559	-426	-438	3%	3%	-393	12%
Equity in profits/losses of associates	-4	-1	0	4	-3	-24%	+/-	0	-
Pre-tax profit	903	1 029	1 074	1 073	1 085	20%	1%	1 230	-12%
Tax	-184	-248	-228	-207	-214	17%	3%	-252	-15%
Minority interests	1	1	1	2	0	-53%	-80%	2	-81%
Net profit	720	782	847	868	871	21%	0%	980	-11%
Net interest margin (on total assets) (%)	3.77	3.95	4.14	4.11	4.02			4.21	
Non-interest income/Total income (%)	37.2	36.6	36.1	34.7	33.4			33.9	
Costs/Income (%)	43.2	40.7	39.3	43.6	40.8			40.5	
Cost of risk (bps)	145	151	178	133	133			120	
Effective tax rate	20.3	24.1	21.2	19.3	19.8			20.5	
Net loans	117 892	124 665	126 715	130 668	132 420	12%	1%	130 689	1%
Total assets	156 696	165 699	166 859	169 661	172 694	10%	2%	172 161	0%
Deposits	122 951	129 259	131 631	132 981	135 565	10%	2%	134 171	1%
Equity	21 175	22 144	22 828	21 358	22 058	4%	3%	22 337	-1%
Loans/Assets (%)	75.2	75.2	75.9	77.0	76.7			75.9	
Deposits/Assets (%)	78.5	78.0	78.9	78.4	78.5			77.9	
Loans/Deposits (%)	95.9	96.4	96.3	98.3	97.7			97.4	
Equity/Assets (%)	13.5	13.4	13.7	12.6	12.8			13.0	
NPL/Loans (%)	8.3	8.5	8.7	8.5	8.0			-	
Provisions/NPL (%)	42.8	41.3	42.3	42.0	47.6			-	
Capital Adequacy Ratio (%)	15.2	13.0	12.8	12.5	13.4			-	
Tier-1 Ratio (%)	14.0	11.8	11.6	11.3	12.3			-	
ROA (%)	1.84	1.94	2.04	2.06	2.04			2.29	
ROE (%)	13.8	14.4	15.1	15.7	16.0			17.9	

Source: PKO BP, BRE Bank Securities

Satisfactory expansion on balance sheet

Loans increased by 1% q/q, as expected, driven by the corporate segment (+4% q/q); retail loans were flat q/q (with mortgages expanding by 1% q/q and consumer loans contracting by 1% q/q).

Loans

(PLN m)	Q1'10	Q2'10	Q3'10	Q4'10	Q1'11	Y/Y	Q/Q
Gross loans	122 255	129 191	131 531	135 525	137 653	13%	2%
Mortgages	53 335	57 993	59 291	62 441	62 898	18%	1%
Consumer credit	24 169	24 763	25 520	25 446	25 222	4%	-1%
Corporate	44 161	45 812	46 053	46 912	48 761	10%	4%
Other	590	623	668	725	772	31%	6%
Net loans	117 892	124 665	126 715	130 668	132 420	12%	1%
Provisions	-4 362	-4 525	-4 816	-4 857	-5 233	20%	8%

Source: PKO BP, BRE Bank Securities

Deposits rose somewhat faster than net loans (+2% q/q) driven by 2% growth in retail deposits (especially current accounts, +4% q/q).

Deposits

(PLN m)	Q1'10	Q2'10	Q3'10	Q4'10	Q1'11	Y/Y	Q/Q
Deposits	122 951	129 259	131 631	132 981	135 565	10%	2%
Current accounts	52 030	58 018	56 899	60 370	60 750	17%	1%
Term deposits	70 921	71 242	74 732	72 611	74 815	5%	3%
Retail	91 049	92 815	92 170	95 108	97 345	7%	2%
Corporate	23 830	28 461	30 022	31 827	31 917	34%	0%
State agencies	8 072	7 983	9 439	6 047	6 304	-22%	4%

Source: PKO BP, BRE Bank Securities

Disappointing interest income

Interest income was a disappointment, falling 1% q/q to PLN 1719m. Interest margin declined by 10bps q/q to 4.02% because the decline in the margin on interest-bearing assets was greater than the increase in the margin on interest-bearing liabilities (-32bps q/q to 2.60% vs. +24bps to 1.28%, respectively). According to the Management, increases in market interest rates get reflected in the Bank's interest income with a delay of three months or so. In addition, the Bank's representatives maintain that it "lost" ca. PLN 35m of interest income relative to Q4 2010 due to a lower number of interest-bearing days (-2 days q/q).

Fee income under pressure of weak retail loan sales

Fee income also disappointed at PLN 737m (-10% q/q), due to disappointing income from cards (-13% q/q), insurance (-17% q/q) and investment funds (-12% q/q). According to the Management, income from cards conformed to the typical seasonal pattern, with the year's weakest quarter following in the footsteps of the strongest one. The cause of the weak insurance income was a reduction in retail lending (-23% q/q), especially for consumer loans (-9% q/q).

Fee income

(PLN m)	Q1'10	Q2'10	Q3'10	Q4'10	Q1'11	Y/Y	Q/Q
Fee income	725	802	798	818	737	2%	-10%
Accounts	234	228	229	232	232	-1%	0%
Cards	149	168	173	181	157	6%	-13%
Loans	115	132	138	144	139	22%	-3%
Insurance	123	142	127	111	93	-24%	-17%
Asset management	70	75	77	94	82	17%	-12%
Cash transactions	42	47	45	44	42	0%	-6%
Transactions in securities	13	21	20	20	15	20%	-22%
Foreign transactions	10	11	11	12	11	8%	-6%
Acquisition costs	-36	-37	-36	-35	-34	-7%	-4%
Other	6	17	12	15	-1	+/-	+/-

Source: PKO BP, BRE Bank Securities

Operating expenses in check

Operating expenses looked better than expected, declining by 9% q/q to PLN 1054m. We are particularly impressed with payroll expenses, which improved by 9% q/q. Despite the relatively weak income side, the overall decline in income was lower than the overall decline in expenses, which led to an improvement in the cost/income ratio by 277bps q/q to 40.8%.

Operating expenses

	Q1'10	Q2'10	Q3'10	Q4'10	Q1'11	Y/Y	Q/Q
Operating expenses (PLN m)	-1 014	-1 021	-1 057	-1 157	-1 054	4%	-9%
Payroll (PLN m)	-567	-571	-598	-638	-580	2%	-9%
Number of employees (thousand)	31.0	30.7	30.2	29.8	29.7	-4%	0%
Average monthly remuneration (PLN thousand)	-6.1	-6.2	-6.5	-7.1	-6.5	7%	-8%
Administrative (PLN m)	-329	-330	-337	-367	-350	6%	-5%
Number of branches	1 224	1 222	1 211	1 208	1 205	-2%	0%
Average monthly costs per branch (PLN thousand)	-89.4	-89.9	-92.2	-101.1	-96.6	8%	-4%
Depreciation (PLN m)	-119	-120	-123	-151	-124	5%	-18%
As percent of property, plant and equipment	17.3	17.7	18.5	23.3	19.4		

Source: PKO BP, BRE Bank Securities

Q1'11 provisions inflated by one-offs

Provisions were higher than expected and increased by 3% q/q to PLN 438m, leading to a 133bps cost of risk (flat q/q). Provisions were driven up by the retail segment (+121% q/q), in particular mortgages. Corporate provisions surprised on the upside (-51% q/q). During the earnings conference, the Management revealed that consumer loan provisions had been inflated by two one-offs: the creation of additional provisions for a portfolio earmarked for securitization in Q2-Q3 2011, and a write-off on a private banking loan obtained by fraud. The Bank did not discuss the impact of these developments on earnings.

Provisions and the cost of risk

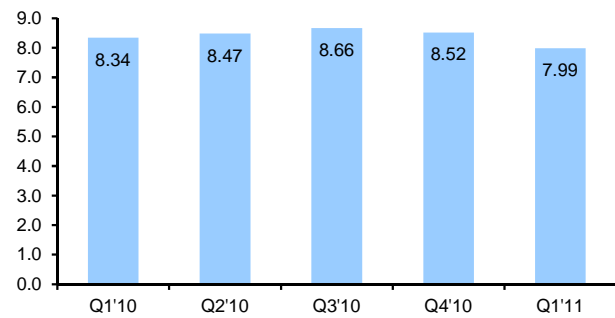
	Q1'10	Q2'10	Q3'10	Q4'10	Q1'11	Y/Y	Q/Q
Provisions (PLN m)	-425	-458	-559	-426	-438	3%	3%
Retail	-342	-271	-289	-154	-341	0%	121%
Consumer credit	-252	-179	-215	-163	-210	-17%	29%
Mortgages	-90	-92	-74	9	-131	46%	'+/-
Corporate	-66	-109	-208	-166	-81	23%	-51%
Other	-19	-35	-20	-88	-16	-16%	-82%
Consolidation	2	-43	-42	-18	0	'+/-	-98%
Cost of risk (bps)	145	151	178	133	133		
Retail	178	135	138	71	155		
Consumer credit	423	293	342	256	332		
Mortgages	68	66	50	-6	84		
Corporate	60	97	181	121	-18		

Source: PKO BP, BRE Bank Securities

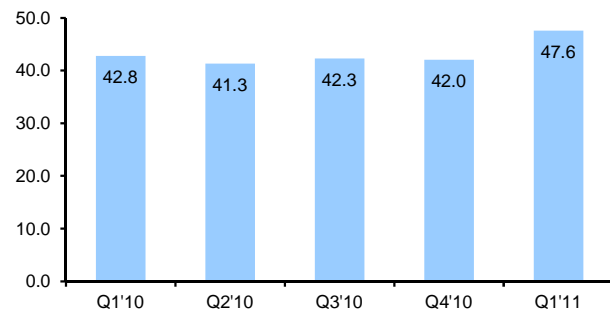
Loan quality improving even without changes in measurement methods

The share of NPLs in total loans improved by 54bps to 8.0%. At the same time, the coverage ratio (coverage of NPLs with provisions) improved by 556bps q/q to 47.6%. However, the Bank has changed its definition of a non-performing loan in the corporate segment. "G-rated" loans, until now all classified as NPLs, were divided into sub-segments, and some of these are now considered performing loans. According to the Bank, this change was responsible for 40bps of the improvement in the NPL ratio (i.e., without it the NPL ratio would have improved by a mere 10bps q/q).

Share of non-performing loans in total loans



Coverage of NPLs with provisions (%)

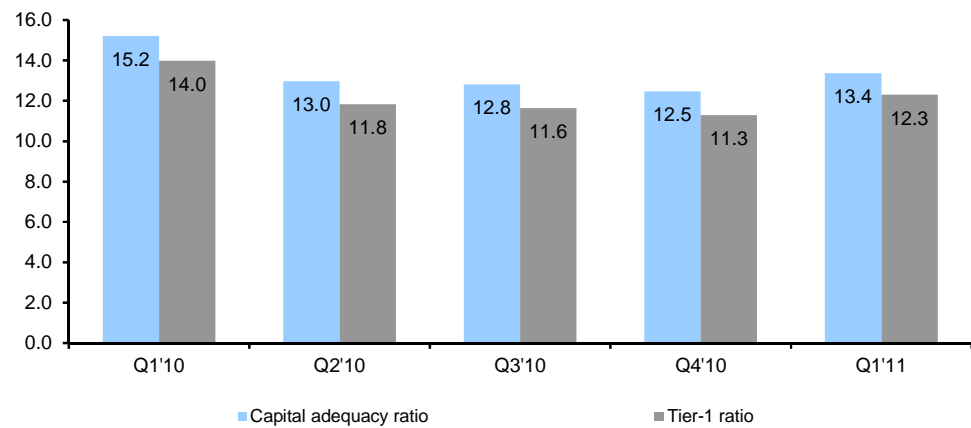


Source: PKO BP, BRE Bank Securities

Improving capital adequacy ratio

The capital adequacy ratio improved by 91bps q/q to 13.4%, and the Tier 1 ratio increased by 101bps q/q to 12.3%. The improvement was a consequence of the regulatory capital growing faster than risk-weighted assets (+10% q/q vs. +2% q/q). PKO BP counted 2010 retained profits (net profit less the recommended dividend payout) as regulatory capital.

Capital Adequacy Ratio (%)



Source: PKO BP, BRE Bank Securities

Revised forecasts for 2011 - 2013

We are raising our net profit forecasts for 2011-2013 by 8-12%

After disappointing earnings for Q1'11, we are revising our net income forecasts (by 8% for 2011 to PLN 4.0bn, by 12% to PLN 4.7bn for 2012 and by 10% for 2013 to PLN 5.3bn) in expectation of a lower loan margin and a higher cost of risk. As a result, our forecasts are now 4% below the current market consensus.

Net income forecasts for 2011-2013

(PLN m)	2009	2010	2011F	2012F	2013F
Net profit (new forecast)	2 306	3 217	3 965	4 701	5 319
y/y change	-26%	40%	23%	19%	13%
Net profit (old forecast)	2 306	3 217	4 301	5 314	5 880
Difference	0%	0%	-8%	-12%	-10%
Net profit (consensus)	2 306	3 217	4 128	4 899	5 528
Difference	0%	0%	-4%	-4%	-4%

Source: PKO BP, Bloomberg, BRE Bank Securities

Interest income reacts with a delay of three months to interest rate hikes

In Q1'11, we were negatively surprised by the profitability of interest-bearing assets, which declined by 32bps q/q to 2.6%. Although we have been observing a pressure on loan margins in the market, we believe it is not strong enough to explain such a big quarter-on-quarter drop. The Bank's Management has explained that increases in market interest rates tend to take some three months to bring about an increase in interest income. In consequence, in order to take this delay into account, we are revising our expectations with regard to the loan margin. We now expect that in the upcoming quarters the margin will decline only due to new loans (mostly mortgages), which are less profitable than existing loans on average.

Margins on liabilities improve in line with expectations

In Q1 2011, the margin on interest-bearing liabilities improved as expected (+24bps q/q to 1.3%). According to our calculations, as market interest rates increase, not merely current accounts, but term deposits as well become more profitable. The Bank is yet to raise interest rates on term deposits, which means that increases in market rates were translated into improved profitability of such deposits in their entirety. In our opinion, such a pricing policy is only viable for the short term. In the medium and long term, the Bank will have to share some of the increase in market rates with depositors. We expect that margins on term deposits will fail to grow at the same rate as market interest rates in the upcoming quarters. In our forecasts we assume that the margin on term deposits will remain negative through 2013 (-0.6% in 2013 vs. -1.1% in 2010 on average).

Interest income forecast

(PLN m)	2009	2010	Q1' 2011	2011F	2012F	2012F
Interest income	9 031	10 415	2 720	11 677	13 476	14 702
Y/Y pct. change	0	15	10	12	15	9
Interest-bearing assets	150 247	163 358	166 205	177 714	195 438	212 439
Y/Y pct. change	17	9	10	9	10	9
Margin on interest-bearing assets* (%)	2.16	2.80	2.60	2.38	2.22	2.26
Interest expenses	-3 980	-3 899	-1 001	-4 457	-5 348	-5 861
Y/Y pct. change	37	-2	0	14	20	10
Interest-bearing liabilities	133 671	145 534	147 766	157 498	172 501	187 130
Y/Y pct. change	13	9	11	8	10	8
Margin on interest-bearing liabilities* (%)	1.15	1.05	1.28	1.53	1.76	1.69
Interest income	5 051	6 516	1 719	7 220	8 128	8 840
Y/Y pct. change	-18	29	17	11	13	9
Assets	156 479	169 661	172 694	184 173	202 031	219 252
Y/Y change	16	8	10	9	10	9
Interest margin (%)	3.47	4.00	4.02	4.08	4.21	4.20
Spread (%)	3.31	3.85	3.88	3.91	3.98	3.95

Source: PKO BP, BRE Bank Securities; * relative to 3M WIBOR

**PKO BP will continue with its conservative credit risk assessment policy**

In our opinion, the Management is planning to continue with the Bank's conservative credit risk assessment policy. Its objective is to "smoothen" the cost of risk over the entire cycle. In consequence, even though the quality of the loan portfolio is improving (and NPLs are declining in nominal terms), the Bank is creating considerable provisions in order to boost its coverage ratio. We are therefore increasing our expectations with regard to the coverage ratio and, consequently, the cost of risk.

Forecasted cost of risk, provisions

(PLN m)	2009	2010	Q1' 2011	2011F	2012F	2013F
Gross loans	120 510	135 525	137 653	147 745	163 991	180 615
Performing loans	110 708	123 974	126 661	136 234	152 490	168 918
Non-performing loans	9 802	11 550	10 992	11 511	11 501	11 696
Provisions	-3 937	-4 857	-5 233	-6 445	-7 938	-9 244
Net loans	116 573	130 668	132 420	141 300	156 053	171 371
Y/Y pct. change in non-performing loans	8.1%	8.5%	8.0%	7.8%	7.0%	6.5%
Coverage ratio	40.2%	42.0%	47.6%	56.0%	69.0%	79.0%
Provisions	-1 681	-1 868		-1 650	-1 493	-1 306
Costs of risk (bps)	154	151	133	121	100	80

Source: PKO BP, BRE Bank Securities

Revised valuation

We are lowering our target price to PLN 49.0 per share...

Our income-based valuation of PKO BP is based on the discounted residual income model. It is based on adding the excess of comprehensive income over net income recorded since the start of the year, the sum of discounted excess return on capital over the cost of capital (within the forecast horizon, 2011-2013 and in the transitional period, 2014-2020) and discounted residual value (after the forecast horizon) to equity as at the end of 2010.

Our terminal value calculations are based on the following assumptions:

- Risk-free rate is set at 6.0% (yield on 10Y Treasury bonds);
- Risk premium is 5.0%;
- Beta is 1.0x.
- The resulting cost of capital is 11.0%;
- Long term return on capital (ROE) is 19.5%;
- Long-term profit growth (g) is 4.0%;
- The target dividend payout ratio is 79.5%. as determined by 1-(g/ROE).

... but we are reiterating a buy rating

Following the Bank's disappointing performance in Q1'11 and a downward revision to our net profit forecasts for 2011-2013 (by 8% for 2011, 12% for 2012 and 10% for 2013), we are lowering our 9-month target price to PLN 49.0 per share from PLN 53.0 per share (by 8%). However, seeing that the price of the stock has fallen by 4% since the publication of Q1'11 earnings, we are reiterating a buy rating.

Valuation: Sensitivity Analysis

Sensitivity Analysis															
		Long-term ROE							Cost of capital						
		-2.0pp	-1.0pp	-	+1.0pp	+2.0pp			+1.0pp	+0.5pp	-	-0.5pp	-1.0pp		
		17.5%	18.5%	19.5%	20.5%	21.5%			12.0%	11.5%	11.0%	10.5%	10.0%		
Earnings growth	-2.0pp	2.0%	41.3	42.9	44.6	46.2	47.9	Earnings growth	-2.0pp	2.0%	39.3	41.8	44.6	47.7	51.2
	-1.0pp	3.0%	42.8	44.6	46.4	48.3	50.2		-1.0pp	3.0%	40.5	43.3	46.4	50.0	54.0
	-	4.0%	44.6	46.7	49.0	51.0	53.1		-	4.0%	42.1	45.2	49.0	53.0	57.9
	+1.0pp	5.0%	47.1	49.6	52.1	54.6	57.1		+1.0pp	5.0%	44.1	47.8	52.1	57.2	63.3
	+2.0pp	6.0%	50.6	53.6	56.6	59.6	62.7		+2.0pp	6.0%	46.8	51.3	56.6	63.2	71.4

Source: BRE Bank Securities



Discounted residual income valuation

(PLN m)	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	+	FV
Net profit	3 965	4 701	5 319	5 830	6 334	6 822	7 282	7 705	8 079	8 402		
Y/Y pct. change	23.2	18.6	13.2	9.6	8.7	7.7	6.8	5.8	4.9	4.0	4.0	
Equity	23 776	26 495	28 994	31 100	33 275	35 491	37 722	39 935	42 100	44 192		
Dividend payout ratio (%)	50.0	60.0	70.0	71.4	72.7	74.1	75.4	76.8	78.1	79.5	79.5	
ROE (%)	17.6	18.7	19.2	19.4	19.7	19.8	19.9	19.8	19.7	19.5	19.5	
Cost of equity (%)	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	
Excess return (%)	6.6	7.7	8.2	8.4	8.7	8.8	8.9	8.8	8.7	8.5	8.5	
Residual income	1 482	1 936	2 267	2 525	2 794	3 040	3 256	3 434	3 567	3 656	52 223	
Discount factor	0.95	0.85	0.77	0.69	0.62	0.56	0.51	0.46	0.41	0.37	0.37	
Discounted residual income	1 401	1 648	1 739	1 745	1 739	1 705	1 645	1 563	1 463	1 351	19 293	
Equity as at year-end 2010												21 358
Dividends paid in the current year												0
YTD excess of comprehensive income over net income												-171
PV of residual income, 2011F-2013F												4 788
PV of residual income, 2014F-2020F												11 210
Present value of the terminal value												19 293
Fair value												56 478
Number of shares (millions)												1 250
Fair value per share (PLN)												45.18
9M Target Price (PLN)												49.00
Current price (PLN)												42.99
Upside/downside (%)												14.0

Source: PKO BP, BRE Bank Securities

**Income Statement**

(PLN m)	2008	2009	2010	2011F	2012F	2013F
Interest income	6 127	5 051	6 516	7 220	8 128	8 840
Fee income	2 412	2 583	3 143	3 278	3 427	3 558
Trading income	558	973	363	381	393	435
Banking income	9 097	8 607	10 022	10 880	11 949	12 833
Other net operating income	292	261	176	190	206	258
Non-interest income	3 261	3 817	3 681	3 850	4 027	4 251
Total income	9 388	8 868	10 198	11 070	12 155	13 091
Payroll expenses	-2 429	-2 308	-2 375	-2 416	-2 603	-2 807
D&A expenses	-430	-469	-512	-538	-570	-604
Other administrative expenses	-1 437	-1 467	-1 362	-1 516	-1 619	-1 733
Operating expenses	-4 296	-4 244	-4 249	-4 470	-4 793	-5 144
Operating income before provisions	5 092	4 624	5 948	6 600	7 362	7 947
Provisions	-1 130	-1 681	-1 868	-1 650	-1 493	-1 306
Equity in profits/losses of subsidiaries	16	0	-1	0	0	0
Pre-tax profit	3 977	2 943	4 079	4 950	5 869	6 641
Tax	-838	-631	-866	-990	-1 174	-1 328
Minority profits	-19	-6	4	5	5	6
Net profit	3 121	2 306	3 217	3 965	4 701	5 319
Retained earnings	2 121	-69	1 842	1 982	1 880	1 596

Source: PKO BP, BRE Bank Securities

Annual rates of growth of key income lines

(%)	2008	2009	2010	2011F	2012F	2013F
Interest income	32	-18	29	11	13	9
Non-interest income	7	17	-4	5	5	6
Total income	22	-6	15	9	10	8
Operating expenses	6	-1	0	5	7	7
Operating income before provisions	39	-9	29	11	12	8
Net profit	7	-26	40	23	19	13

Source: PKO BP, BRE Bank Securities

Key profit and loss ratios

(%)	2008	2009	2010	2011F	2012F	2013F
Net interest margin (total assets)	5.04	3.47	4.00	4.08	4.21	4.20
Net interest margin (interest-bearing assets)	5.29	3.62	4.16	4.23	4.36	4.33
Interest spread	5.06	3.31	3.85	3.91	3.98	3.95
Non-interest income / Total income	34.7	43.0	36.1	34.8	33.1	32.5
Costs / Income	45.8	47.9	41.7	40.4	39.4	39.3
Costs / Assets	3.53	2.92	2.61	2.53	2.48	2.44
Provisions / Total net loans	1.27	1.54	1.51	1.21	1.00	0.80
Effective tax rate	21.1	21.5	21.2	20.0	20.0	20.0
ROE	24.1	13.4	15.4	17.6	18.7	19.2
ROA	2.57	1.58	1.97	2.24	2.43	2.53

Source: PKO BP, BRE Bank Securities

**Balance Sheet**

(PLN m)	2008	2009	2010	2011F	2012F	2013F
Cash and central bank operations	5 837	7 094	6 182	4 999	5 406	5 887
Receivables from the financial sector	3 364	2 023	2 307	2 738	2 434	1 427
Loans	101 108	116 573	130 668	141 300	156 053	171 371
Debt securities	18 264	24 557	24 200	28 678	31 545	33 753
Equities, shares and other investments	247	229	173	173	169	169
Fixed assets	2 965	2 778	2 576	2 602	2 602	2 680
Intangible assets	1 188	1 308	1 572	1 651	1 733	1 820
Other assets	1 663	1 918	1 981	2 033	2 087	2 143
Total assets	134 636	156 479	169 661	184 173	202 031	219 252
Liabilities to the financial sector	6 991	5 153	5 237	5 761	5 934	5 756
Deposits	102 939	125 073	132 981	142 822	154 452	168 209
Securities issued	6 362	1 834	5 704	7 304	10 504	11 554
Subordinated loans received	1 619	1 612	1 612	1 612	1 612	1 612
Other	2 773	2 379	2 769	2 899	3 035	3 128
Total liabilities	120 684	136 050	148 303	160 397	175 536	190 258
Equity	13 952	20 429	21 358	23 776	26 495	28 994
Total equity and liabilities	134 636	156 479	169 661	184 173	202 031	219 252

Source: PKO BP, BRE Bank Securities

Annual rates of growth of key balance-sheet items

(%)	2008	2009	2010	2011F	2012F	2013F
Loans	32	15	12	8	10	10
Total assets	24	16	8	9	10	9
Deposits	19	22	6	7	8	9
Equity	17	46	5	11	11	9

Source: PKO BP, BRE Bank Securities

Key balance sheet ratios

(%)	2008	2009	2010	2011F	2012F	2013F
Provisions / Non-performing loans	4.4	8.3	8.5	7.8	7.0	6.5
Loans / Assets	63.9	39.3	42.0	56.0	69.0	79.0
Deposits / Assets	75.1	74.5	77.0	76.7	77.2	78.2
Loans / Deposits	76.5	79.9	78.4	77.5	76.4	76.7
Equity / assets	98.2	93.2	98.3	98.9	101.0	101.9
Capital adequacy ratio (%)	10.4	13.1	12.6	12.9	13.1	13.2
Tier-1 ratio (%)	11.3	14.8	12.5	12.7	12.6	12.4
Provisions / Non-performing loans	9.9	13.5	11.3	11.6	11.7	11.6

Source: PKO BP, BRE Bank Securities



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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**Recommendations of BRE Bank Securities**

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Previous ratings issued for PKO BP

Rating	Accumulate	Hold	Accumulate	Buy	Buy
Date issued	2010-09-15	2010-10-05	2010-11-10	2011-01-18	2011-04-13
Price on rating day	40.90	44.99	45.76	41.30	45.90
WIG on rating day	44147.39	45542.07	47738.65	47457.37	49680.67