



CEE Banking

“Buckle up, We’re Going Downhill”



CEE Banks

Buckle Up, We are Going Downhill

After the dust settles, survivors emerge and losses are counted, the market might once again focus on company fundamentals. In this report, we try to identify potential losses from the economic slowdown in the CEE region:

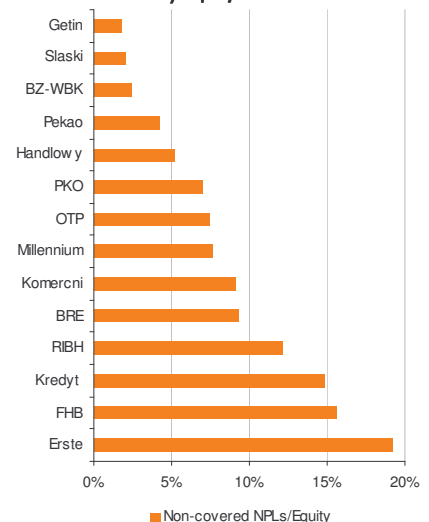
- ✓ Apart from Hungary's OTP, the slowdown is still yet to come for most CEE banks. Thanks to sound macroeconomic environment and few imbalances, however, the pressure should be mild and CEE banks are likely to have no major problems to overcome the slowdown.
- ✓ Asset quality will come under the spotlight and the cost of risk might double to 50-100 bp. Corporate-exposed banks (BRE, Komerční, Austrians) and banks in more open economies (OTP, Komerční, and the Austrian banks) should be watched carefully.
- ✓ Austrian banks, BRE, Millennium and Kredyt Bank are the most exposed to asset quality deterioration as a 1% default on their loan book would erase about 10% of their equity.

CEE banks have already been punished alongside their West-European and US peers, though earnings have held steady. Even though they are cheaper than ever, we recommend going back selectively, namely into PKO BP and Bank Slaski.

Wood's Key Assumptions for 2009

- Czech and Hungarian economies will get under increased pressure from Eurozone slowdown
- CEE loan growth will drop below 20% in 2009-2010
- Cost of risk will double to 70 bp in the CR and Poland and 100 bp in Hungary
- Polish mutual fund business will remain under pressure

Non-covered NPLs/Equity



	Market price	Market cap (EUR mil.)	Rating	Fair price	Upside	2008	PER 2009	2010	2008	P/BV 2009	2010
Erste Bank	35.0	11,159	HOLD	40.0	12.5%	5.8	6.3	5.3	1.1	1.0	0.8
Raiffeisen	51.0	7,919	HOLD	63.0	19.0%	7.3	5.8	4.6	1.4	1.2	1.0
OTP Bank	6,262	7,256	HOLD	7,100	11.8%	5.0	6.7	6.1	1.6	1.4	1.3
FHB Bank	1,001	272	SELL	900	-11.2%	9.6	9.0	7.5	1.7	1.5	1.3
Komerční Banka	3,658	5,647	HOLD	3,900	6.2%	11.1	10.2	9.3	2.5	2.3	2.0
PKO BP	42.0	12,255	BUY	48.0	12.5%	11.3	9.4	7.8	2.9	2.4	2.0
Pekao	167	12,915	SELL	150	-11.3%	11.5	10.9	9.4	2.6	2.4	2.1
BZ-WBK	153	3,286	HOLD	150	-2.0%	11.3	10.1	8.8	2.2	1.9	1.6
BRE	312	2,735	SELL	300	-4.0%	9.0	8.1	7.0	2.2	1.8	1.4
Bank Handlowy	65.0	2,508	HOLD	70.0	7.1%	10.6	9.2	7.8	1.5	1.4	1.3
Bank Slaski	500	1,920	BUY	620.0	19.4%	9.3	8.3	7.2	1.6	1.4	1.3
Bank Millennium	6.2	1,557	SELL	5.8	-7.1%	10.4	8.8	7.6	1.8	1.6	1.4
Kredyt Bank	13.6	1,091	SELL	11.0	-23.6%	10.0	9.1	8.2	1.5	1.3	1.2

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Closing Prices as of September 29, 2008

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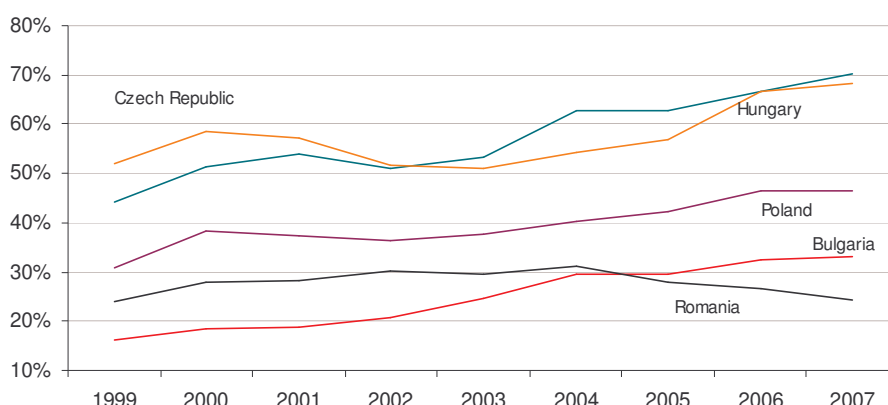
Investment Summary

Slowdown finally arrives to CEE...

With loans growing 25% yoy, profit soaring by 20% and asset quality at all-time lows, CEE banks have yet to feel the pain from the financial crisis and economic slowdown in the west.

However, with the CEE region increasingly reliant on the Eurozone's economy (with half of the region's exports sold there), it's only a question of time until worse times arrive. The relatively open Czech and Hungarian economies will suffer more than Poland's:

Exports as % of GDP

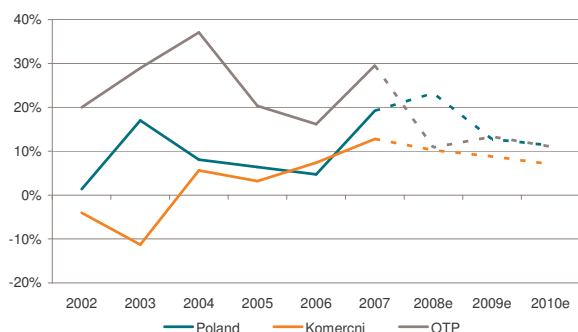


Source: Eurostat, Wood & Company

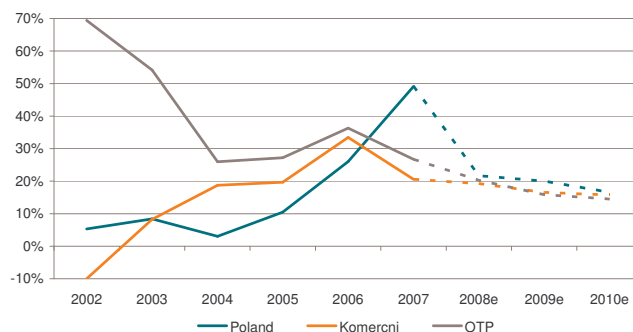
...creating pressure on growth...

This will slow growth, both in revenues as well as assets. We expect revenue growth to drop to around 10% in the coming years while lending growth will slow to a still-solid 15-20% until 2010 from the current 20-30%:

CEE - Revenue growth



CEE - Lending momentum



Source: Company data, Wood & Company.

...and mainly on asset quality

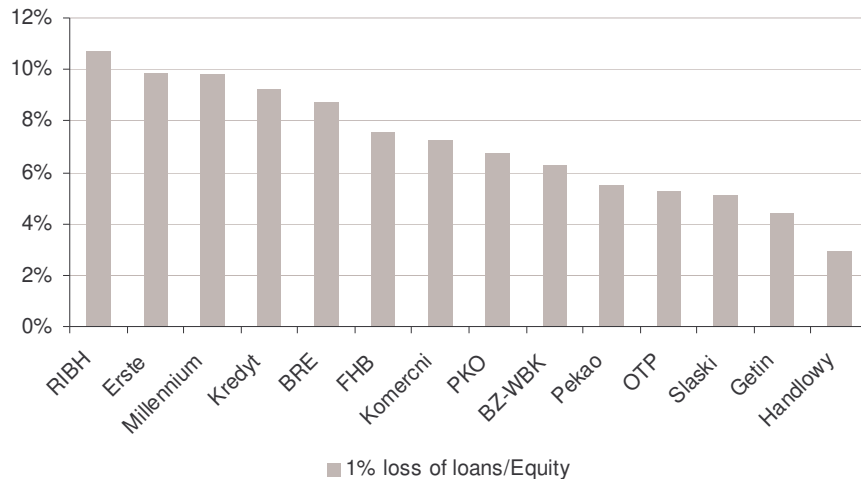
Increased pressure on asset quality and the resulting higher cost of risk will be the key features to watch for as banks' profits remain highly sensitive to that figure.

We expect the cost of risk (provisions as of average loans) to nearly double to a more normalized level of around 50-100 bps in the coming years, with Czech and Hungarian banks coming under more pressure than their Polish

counterparts.

With the highest proportion of loans to equity, Austrian banks, Millennium, Kredyt Bank and BRE are the most exposed to asset quality deterioration, potentially losing up to 10% of their equity assuming 1% of loans are not repaid:

Equity reduction if 1 % of loans default



Source: Company data, Wood & Company, based on 1H08 figures

Despite the turmoil and equity market sell-off, CEE economies and CEE banks are well positioned to withstand the pressure without big damage, in our view.

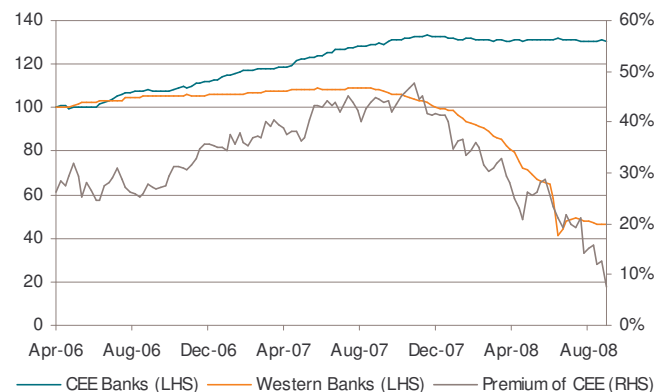
Valuation starting to reflect the risk

Although outperforming their West-European and US peers by around 15% this year, CEE banking stocks now trade at less than a 10% premium, down from an average 40% until the end of last year:

Current-year PER (May 05–Sep 08)



Change in current-year EPS forecast



Source: Bloomberg, Wood & Company

This means that CEE Banks are oversold because of country risk re-assessment, or a momentum slowdown is being priced in as some earnings downgrades might arrive in the coming months. In our view, however, the share price drop was overdone and some of the CEE premium should return.

Taking all of the above into consideration, we would recommend going selectively back into CEE banking stocks with Bank Slaski and PKO BP being our top picks.

Economic Slowdown At the Door

CEE Banks haven't suffered from the mortgage crisis and should remain relatively safe...

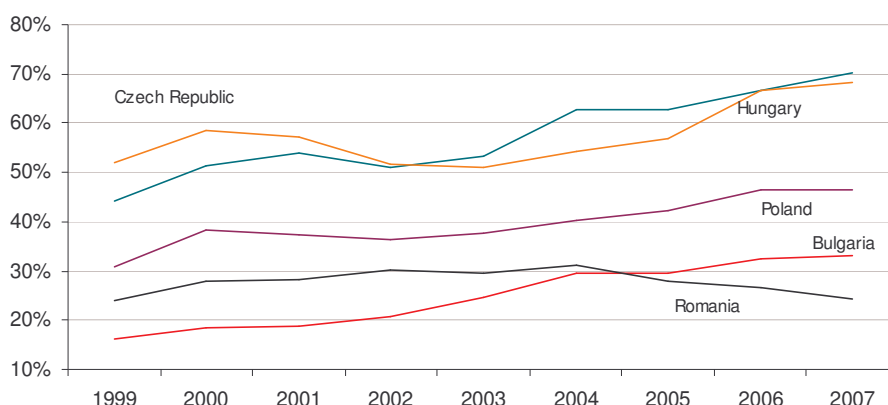
...but they will not be able to avoid slowdown in Western Europe

Czech Republic and Hungary being very open economies will only start feeling the pressure

Unlike their Western peers, CEE banks haven't yet felt pressure from structured products and the mortgage lending crisis in their balance sheets and profitability. Although we believe that CEE should remain a safe haven due to its minimal exposure, CEE banks however will not be able to avoid importing the economic slowdown from Western Europe in the coming quarters.

With exports accounting for nearly 70% of Czech and Hungarian GDP and their openness being greater than some years ago, CEE economies are only about to start feeling the pain:

Exports as % of GDP

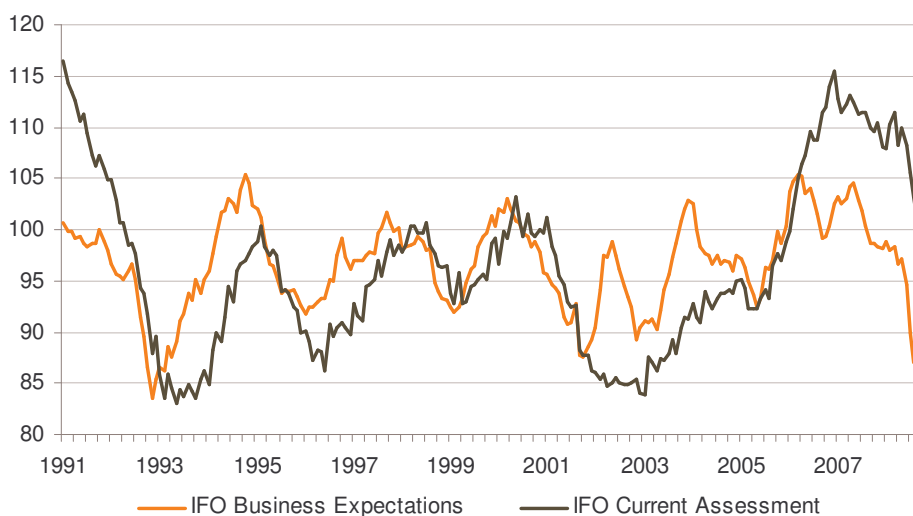


Source: Company data, Wood & Company

And a slowdown is coming, and one that looks to be faster than many thought a few months ago. The German economy is expected to grow only 1% in 2009, half the level seen a year ago, while the divergence in Germany's IFO indices (current and expected) is the highest since 1991 suggesting bad news is still to come:

Germany's IFO

Slowdown is coming faster than many predicted, as seen on the divergence in Germany's IFO indices -- the highest since 1991...

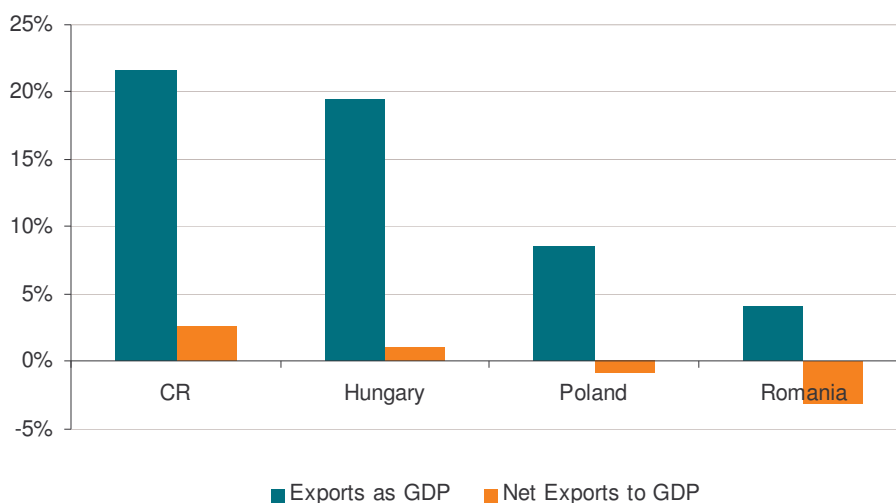


Source: Wood & Company

Germany is the single biggest export destination for CEE companies, accounting for about a third of CEE exports, so news flow should be watched carefully, especially by Czech and Hungarian companies in the coming months:

Foreign Trade with Germany

... and Germany is the main destination for Czech and Hungarian exports



Source: Eurostat, Wood & Company

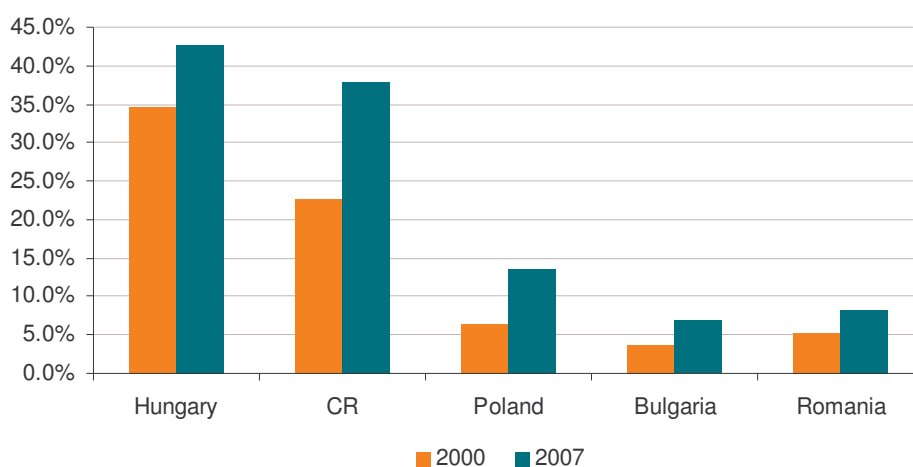
In addition, Slovakia, Hungary and Czech Republic have become dependent on a single type of export...

While Germany represents the single biggest market for CEE exporters, cars represent the single biggest export product. With about a million cars to be produced a year in the Czech Republic and Slovakia from next year on (the highest figure per capita in the world), these economies have been becoming increasingly dependent on a single product and market.

This was great thing to do when production was being shifted from the West to the East – more than half of export growth between 2000-2007 came from the machinery and transport segments:

... transport vehicles and machinery, which contribute as much as 40% to Hungarian and Czech GDP.

Exports of Machinery & Transport vehicles as of GDP



Source: Company data, Wood & Company

On the other hand, Poland, being a relatively closed economy, should feel less of an impact from the economic slowdown than its CEE peers.

On the other hand, this means these countries (CR, Hungary and Slovakia) will suffer more (compared to Poland or Romania, for example) when Western economies cool down, as is currently being witnessed.

Although difficult to quantify, we guess that Czech automobile production represents around 10% of Czech GDP. Assuming 90% of automobiles are exported, a 10% decline in demand for cars made in the Czech Republic could reduce Czech GDP by around 0.9% excluding secondary effects such as increased unemployment, for example.

With 16% yoy slump in the sale of new cars in Western Europe in August (following 7% in July), the pressure seems like it's still on the way.

Germany and cars are indeed examples only and a great simplification, but nicely demonstrate the reliance of Czech and Hungarian economies on the Eurozone slowdown (as opposed to Poland, for example).

Despite first signs only (such as slowing growth of industrial production, exports or retail sales, or stagnating real estate prices), we believe the increased pressure is only about to come to CEE in spite of the overall strong picture in 1H08.

With this basic idea in our minds, we raise four basic questions in this report:

- ✓ How much the slowdown has already been felt in the banking sector– we will look at momentum and asset quality.
- ✓ How much it might be felt – i.e. looking at cost of provisioning and asset quality?
- ✓ What are the most endangered species within our CEE universe?
- ✓ Are these concerns already reflected in the valuation of banking stocks?

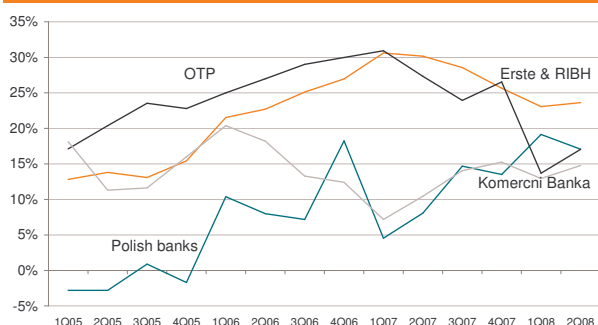
Momentum Slowdown

No signs of a slowdown yet...

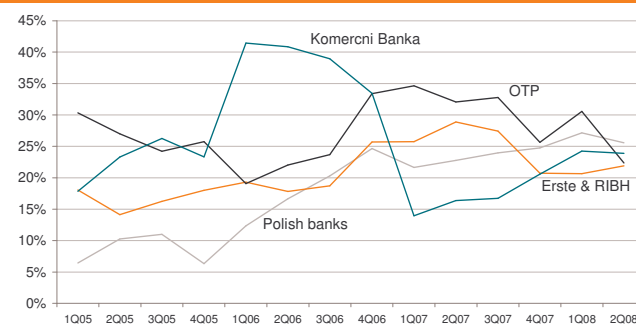
With 20% profit growth, a slowdown is not visible yet

With loans growing around 25% yoy, profits soaring over 20% and asset quality still at all-time lows in 1H2008, CEE banks seem to be living on a different planet when compared to their western peers:

CEE - Revenue growth



CEE - Lending growth

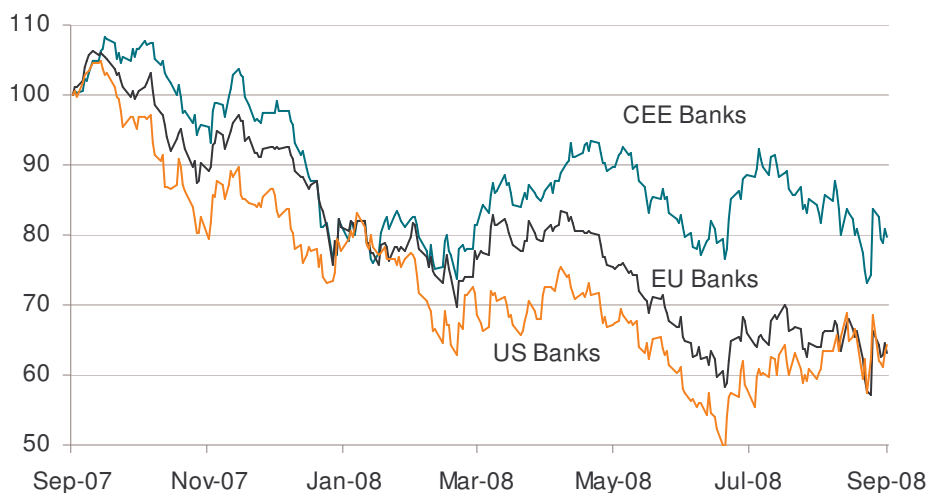


Source: Company data, Wood & Company. Note: Poland data adjusted for asset management fees

When looking at share price performance, CEE Banks did fall in recent months, but not as much as their Western peers:

Share Price Performance – East vs. West

Despite relatively stable earnings outlook, CEE Banks fell some 20% since the beginning of the year in EUR terms



Source: Czech National Bank, Wood & Company

As we will show in the valuation section, the premium at which CEE banks were trading at the beginning of the year (40% based on 2008 earnings multiple) has nearly disappeared. This might suggest that:

- ✓ CEE banks were oversold for the “wrong reason”, such as risk re-assessment, or
- ✓ The slowdown is only about to arrive in the coming years

While we do not want to comment in more detail on the former assumptions (since we do not cover West European banks), we focus on the latter momentum idea in the following chapters.

...though worse times are coming

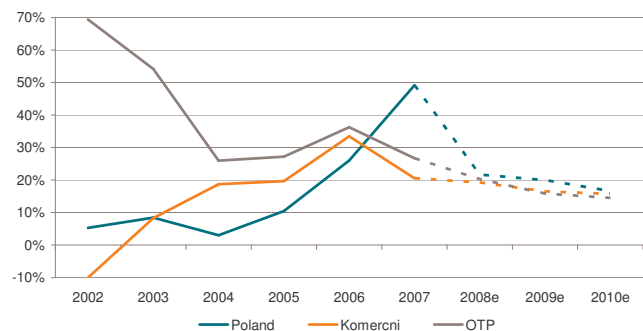
When looking at consensus data, a deterioration in all areas is already widely expected by the market. Loan, deposit and profit growth is forecast to slow down, asset quality is expected to deteriorate and the cost of risk should be rising in the coming years.

Having said that, the scale of the deterioration is rather mild. Revenue growth is expected to slow down to around 10% until 2010 while loan growth will decline to a still respectable 15-20% a year in the coming years, according to market estimates:

CEE - Revenue growth



CEE - Lending momentum

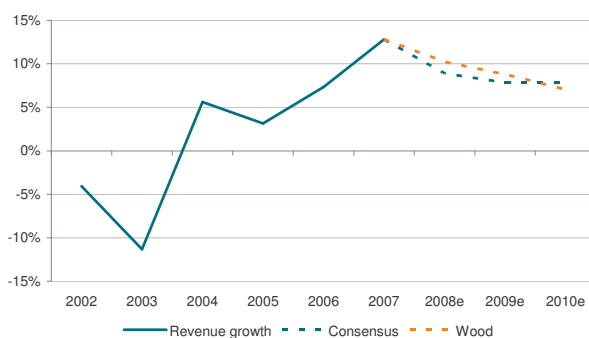


Source: Company data, Wood & Company.

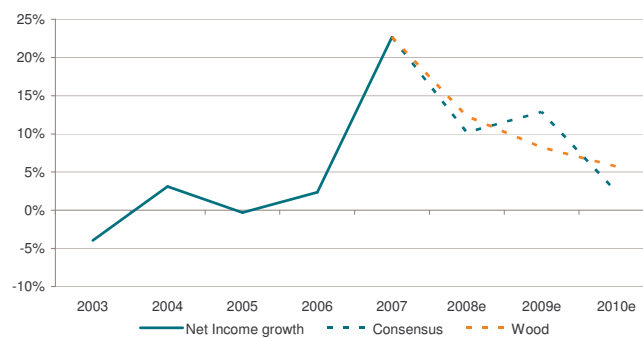
Our numbers are roughly similar to the market consensus. The main difference (which is reflected in our recommendations and profit estimates) is that we are more bearish on Hungarian and Czech banks, and are more bullish on Polish banks.

Komerční Banka's momentum

Komerční Banka revenue growth



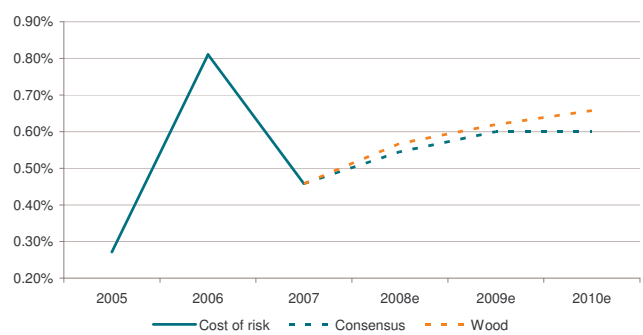
Komerční's Net profit momentum



Loans and Deposits



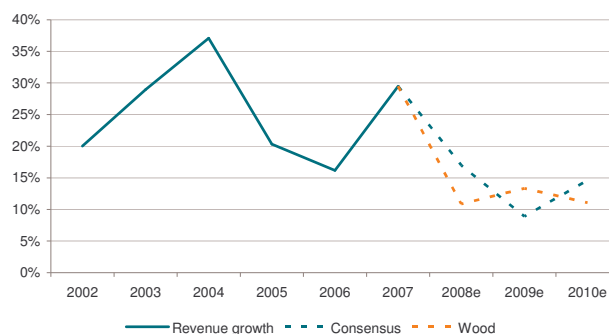
Cost of risk



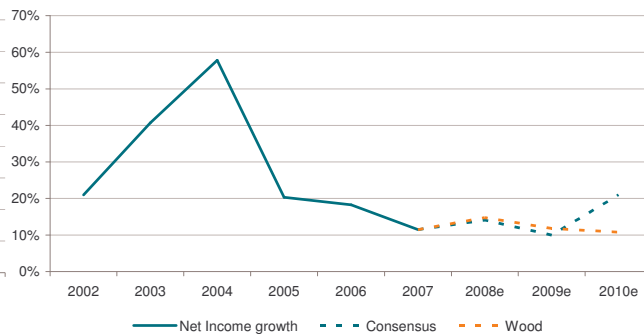
Source: Company data, Wood & Company.

OTP's momentum

OTP revenue growth



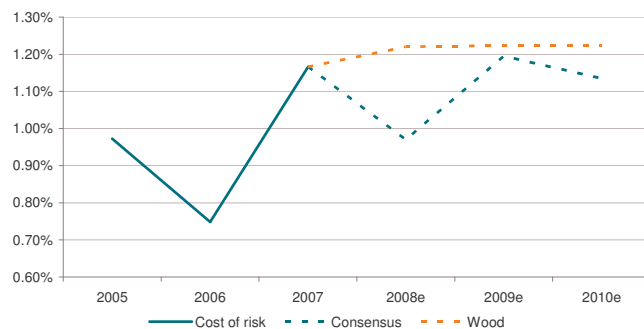
OTP's Net profit momentum



Loans and deposits momentum



Cost of risk



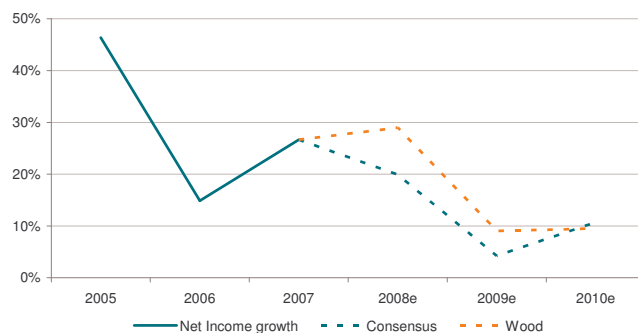
Source: Company data, Wood & Company.

Momentum of Polish Banks

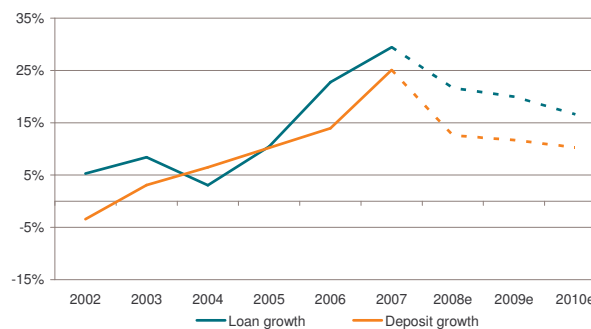
Polish Banks revenue growth



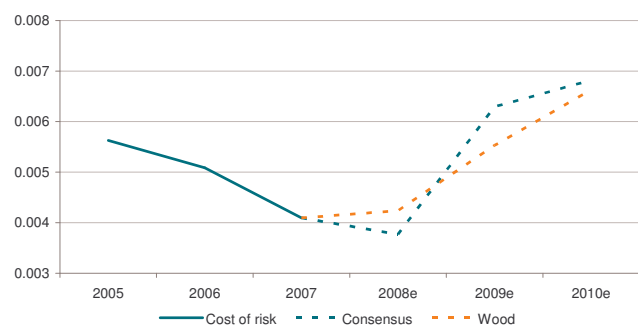
Net profit momentum



Loans and deposits momentum



Cost of risk



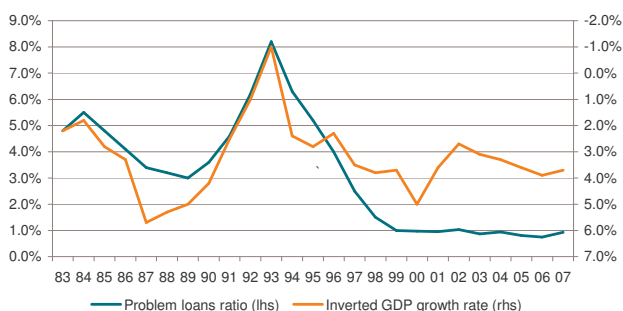
Source: Company data, Wood & Company.

Cost of Risk – where the risk lies

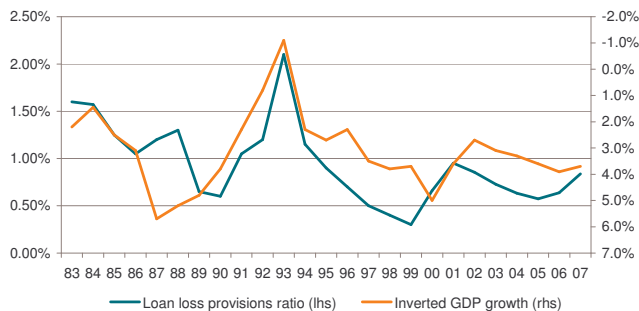
We pick the most sensitive risk – the cost of provisioning

Although the economic slowdown will affect all areas of the banking business, we pick only the most sensitive one – the cost of provisioning -- when assessing potential damage for CEE banks. As the example of Spain suggests, the cost of provisioning is highly correlated with the economic slowdown expressed in GDP growth:

Spain - Bad loans vs GDP growth



Spain - Loan provisions vs GDP growth



Source: Bank of Espana, Wood & Company

We try to answer the question of which bank is most exposed to the slowdown in two steps:

We expect more asset quality deterioration in Czech Republic and Hungary than in Poland

- ✓ Based on macroeconomic forecasts, i.e. we anticipate a bigger deterioration of asset quality in the Czech Republic than in Poland. Having said that, the risk of both markets is well below other markets such as Hungary, Romania, Bulgaria and Ukraine.
- ✓ Based on the loan book structure, i.e. to reflect various risk profiles of each bank

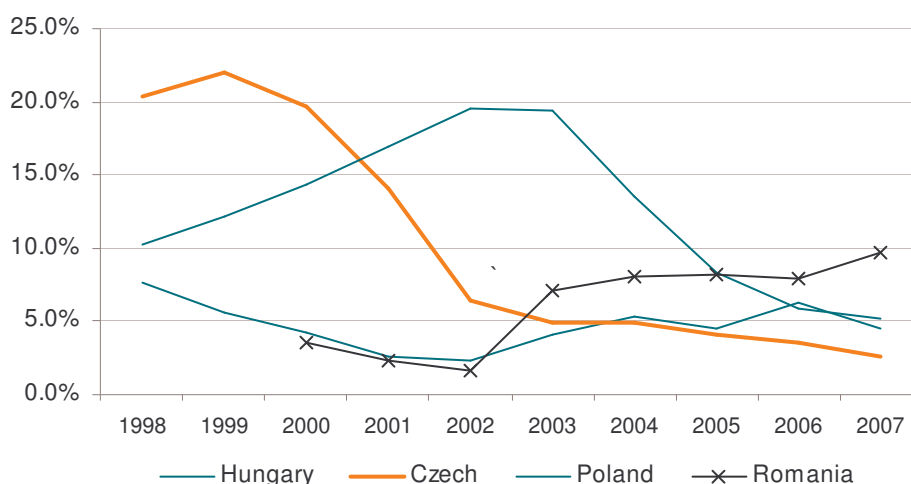
When applicable, we present a sensitivity analysis looking at how much of profits or equity would be wiped out for each bank assuming an increased cost of risk or provision coverage.

Asset Quality Deterioration

As seen on the chart below, asset quality improved impressively in the CEE region as a result of the strong economic growth in recent years with Czech non-performing loans being well below 5% of the total:

CEE – NPLs to Total Loans

Asset quality has improved impressively over the last decade



Source: Company data, Wood & Company

Banks such as BRE and PKO BP signaled that the positive trend is likely to change...

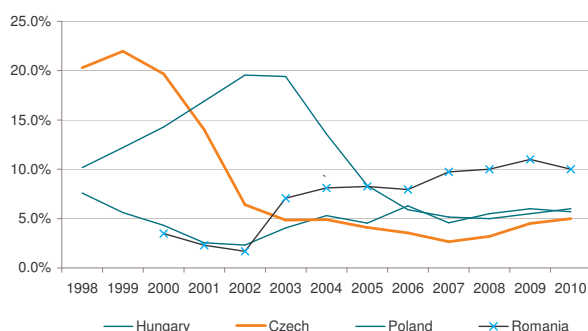
... as the economy will slow and asset quality has been unsustainably good

As already signaled by a few banks in their 1H2008 results (such as BRE and PKO BP), these rosy days seem to be over and we are likely to see a change in the positive trend in the coming quarters.

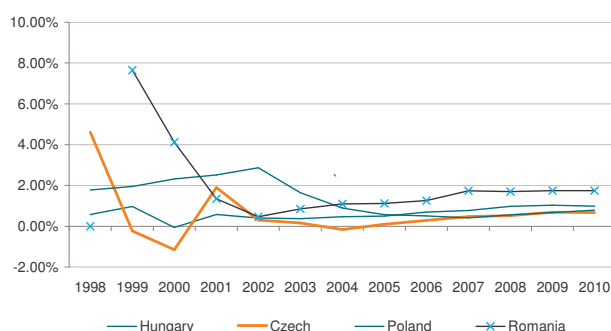
First, CEE economies are going to slow down. Secondly, asset quality is unsustainably good in areas that are only about to start feeling the pain from the global crisis (such as real estate lending with NPLs at an all-time low of 1.3% in 1Q08 in the CR). Third, currency appreciation (CZK and PLN being up 12% yoy against EUR) and the slowdown in the Eurozone could hit some exporters in particular, as already seen in the Czech Republic this year.

Therefore, we expect asset quality and the cost of provisioning to deteriorate/increase in the coming quarters at CEE banks:

CEE - Share of Bad loans



CEE - Cost of Provisioning

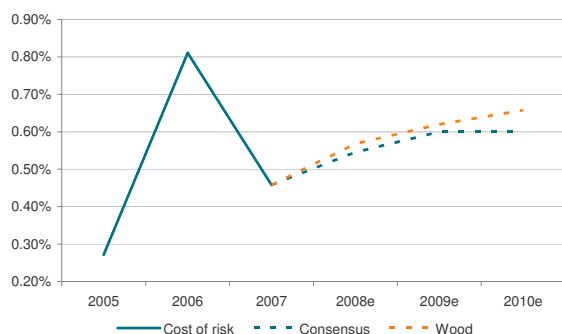


Source: Central Banks, Wood & Company

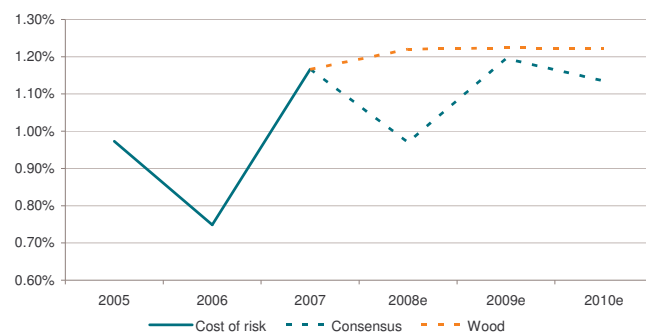
Czech banks will feel more pain than their Polish or Hungarian peers, in our view. This is due partly to the open nature of the Czech economy as well as the fact that Czech banks enjoyed a period of extremely low provisions and superior asset quality in the past.

Having said that, the deterioration is already largely reflected in market estimates, as the average cost of risk is expected to rise to around 63 bp in 2009 in Poland (from 40 bp in 2008), 60 bp in Komerční (from 55 bp in 2008) and 122 bp at OTP (120 bp in 2008). While we are more bullish on Polish banks than the market, we are more negative on Hungarian and Komerční Banka:

Komerční - cost of risk



OTP - cost of risk



Source: Company data, Wood & Company.

Individual banks' provision needs

Although every bank claims to have a good scoring system in place, is strict towards lending or has adequate loan collateral for risky exposure, the past proved otherwise in a number of cases -- especially, when the economy turns south.

We do not assess the differences between individual banks in terms of risk management (which is impossible anyway) but, we try to calculate possible future provision needs for each bank based on three main features:

We calculated possible future provisioning needs based on the following:

1) loan book structure

2) loan book maturity

3) provision coverage

- ✓ **Loan book structure** – for each bank to reflect the specific cost of risk for each loan category (riskier for consumer than mortgage, for instance)
- ✓ **Loan book maturity** – where we take into account how aggressive banks were over the last 18 months (i.e. more than half of Getin's loan book was granted over the last 18 months compared to only 12% at Pekao)
- ✓ **Provision coverage** – where we look at the volume of non-provisioned bad loans to reflect the track record of each bank

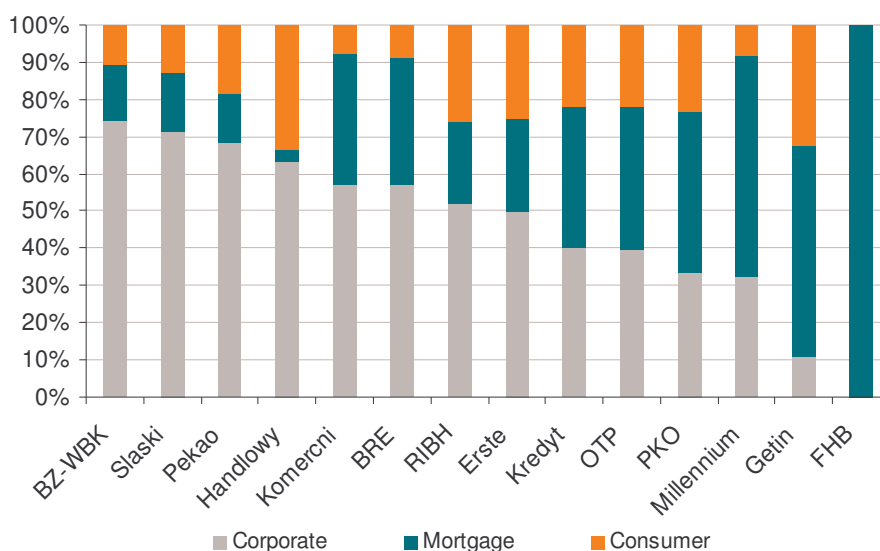
Ad 1) Banks like BZ-WBK, Slaski, Pekao or Komercni are more vulnerable to a deterioration in corporate loans, while Millennium, Getin or PKO are much more exposed to mortgages.

For each category, we apply a different cost of risk to reflect a different risk profile (ranging from 20-30 bp for mortgage loans to up to 200 bp for consumer loans, for example):

Structure of the Loan Book

BZ-WBK, Slaski Pekao or Komercni are exposed to deterioration in corporate loans...

... while Millennium, Getin or PKO BP are most exposed to a mortgage slowdown

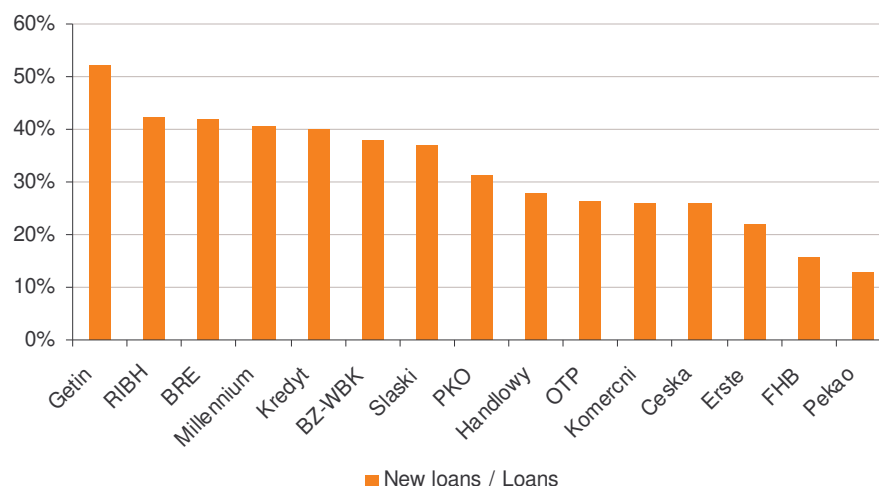


Source: Company data, Wood & Company, 1H2008 figures

Ad 2) Raiffeisen, BRE, Millennium, or Kredyt Bank have granted more than 40% of their loans over the last 18 months. This makes their risk profile much more aggressive than those of Pekao, or Komercni, for example, something we reflect in our provisioning forecast:

What percentage of loans were granted after 2006?

Getin, Raiffeisen and BRE have been the most aggressive lenders, with 40-50% of their loan book granted in the last two years

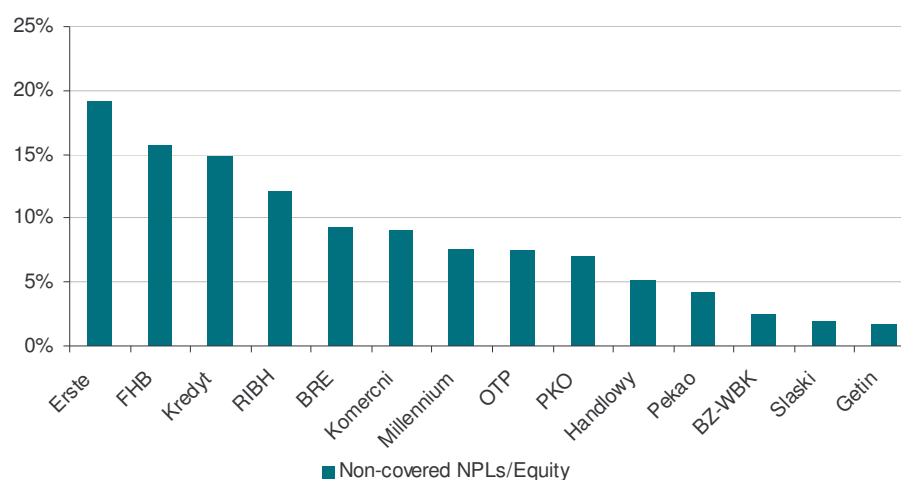


Source: Company data, Wood & Company

As Erste, Kredyt Bank and Raiffeisen have the highest portion of NPLs uncovered by provisions, they would lose 15-20% of their equity to reach a 100% coverage

Ad 3) Erste Bank, Kredyt Bank and Raiffeisen Int. have the highest volume of bad loans not covered by provisions (as a proportion of their equity). Assuming provision coverage would have to reach 100%, Erste Bank would lose nearly 20% of its equity. Bank Slaski (with NPLs at 1.8% and provisions to NPLs at 78%) is on the other end of the spectrum being one of the safest banks:

How much equity would be lost to see 100% NPL coverage?



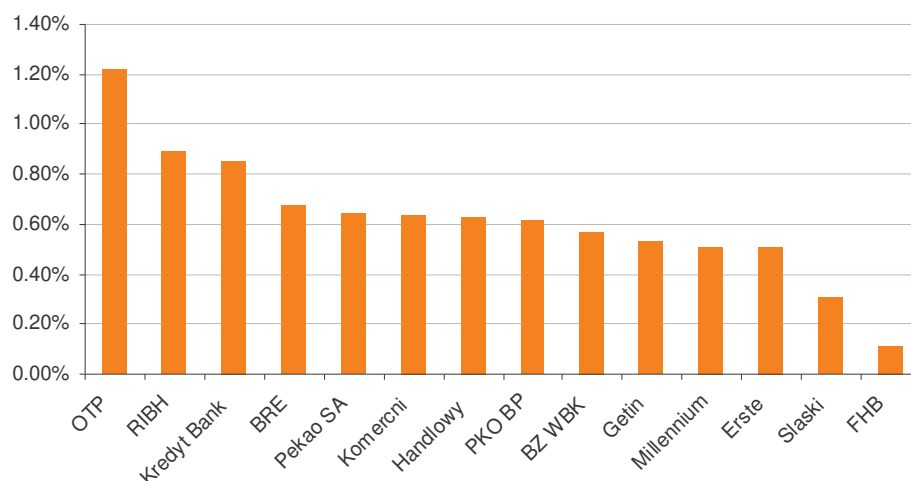
Source: Company data, Wood & Company

Taking all the above into account, we arrive at the following cost of risk for each bank in our coverage. With large exposure to consumer loans and riskier markets (such as Russia, Ukraine, Bulgaria or struggling Hungary), OTP Bank stands out with the highest cost of risk. On the other end are Bank Slaski and Erste Bank:

Banks with the highest exposure to riskier markets such as Russia, Ukraine or Bulgaria have higher average cost of risk in our model.

On the other side are banks with mortgage exposure and stable loan portfolio.

Avg. Cost of Risk (2009E-2010E)



Source: Company data, Wood & Company

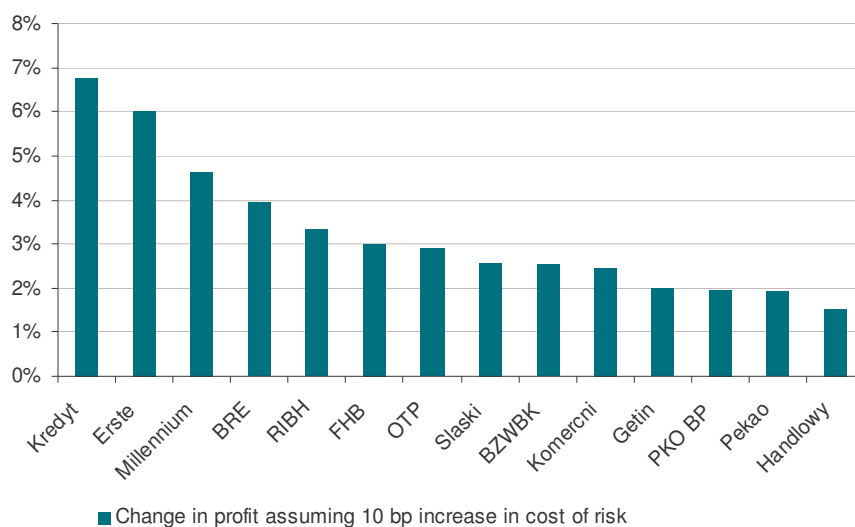
Sensitivity to asset quality deterioration

The banks with the i) lowest profit margins, ii) highest proportion of loans to equity and iii) the currently lowest-expected provisioning needs are the ones most exposed to profitability deterioration if needs for additional provisions arise.

Kredyt Bank, having i) low margins, ii) high proportion of loans to equity and iii) low expected provisioning needs, is the bank most sensitive to asset quality deterioration.

The chart below shows that profit at Kredyt Bank would drop by 6.5% if the cost of risk were to be 10 bps higher than we expect in 2009 (78 bps). On the other hand, Pekao, PKO and Handlowy seem to be relatively immune:

Profit decline assuming cost of risk rising 10 bp



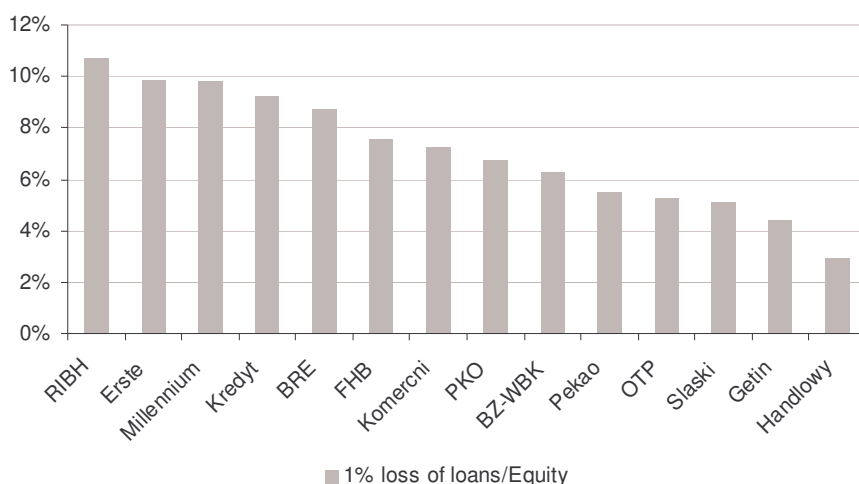
Source: Company data, Wood & Company, based on 2009 profit estimates

In case of severe asset quality deterioration, we assumed 1% loan loss and its effects on equity

Raiffeisen, Erste and Millennium, the most aggressive banks in past quarters, and the banks with the highest level of loans to equity, are at the greatest risk

If asset quality deteriorates significantly (for example, 1% of loans default), Austrian banks Raiffeisen and Erste Bank will be hardest hit, potentially losing around 10% of their equity. Among CE3 banks, Millennium, Kredyt Bank and BRE seem to be the most exposed to asset quality deterioration. Handlowy is again the safe haven here:

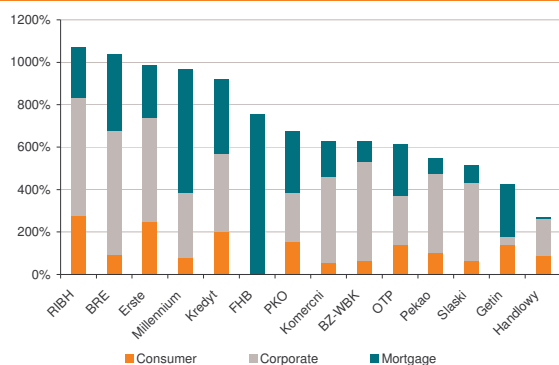
Equity reduction if 1 % of loans default



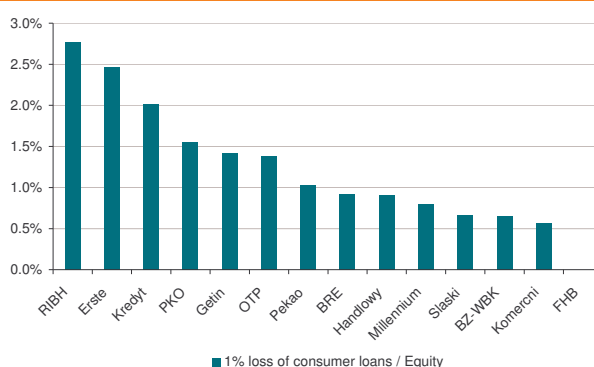
Source: Company data, Wood & Company, based on 1H08 figures

To gain a better idea of where actual risk lies, i.e. how much each bank is exposed to a particular loan category, see below. BRE and Raiffeisen are the most exposed to the risk of corporate loan deterioration, Raiffeisen and Erste Bank to consumer and FHB and Millennium should be aware of asset quality deterioration in mortgage loans:

Loans to Equity



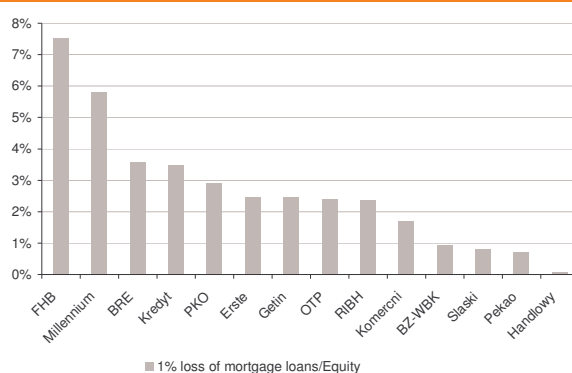
1 % loss of consumer loans / Equity



1 % loss of corporate loans / Equity



1 % loss of mortgage loans / Equity

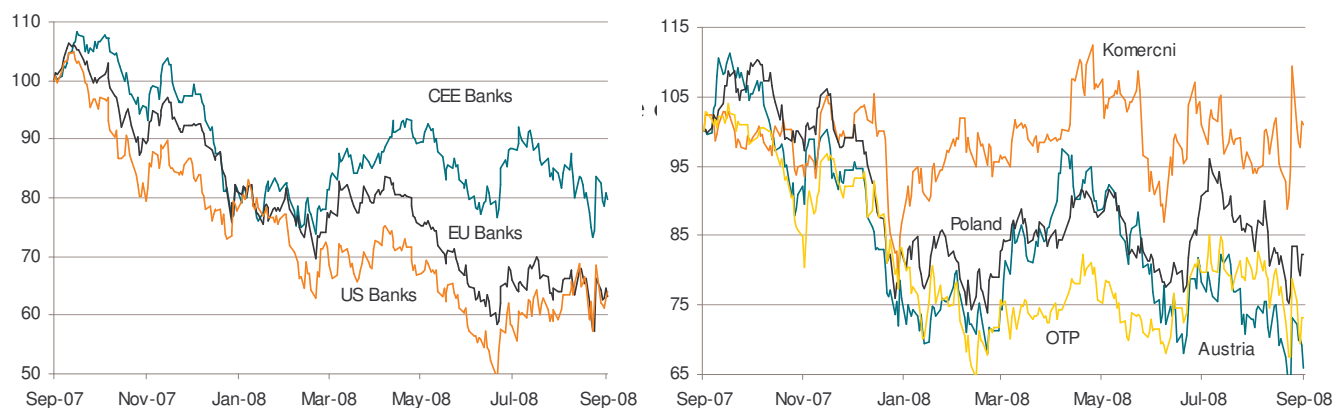


Source: Companies, Wood & Company

Valuation – CEE premium vanishes

CEE Banks fell less than their Western Peers

CEE banking stocks fell some 18% in EUR terms since the beginning of the year, but less than US Banks (-24%) and European Banks (-32%). It would seem that CEE Banks have either 1) been oversold for the wrong reasons or 2) the market expects a significant reduction in CEE banks' earnings (not reflected in consensus numbers), or 3) CEE banks are paying for a risk reassessment and flight to safety:



Source: Bloomberg, Wood & Company

The pricing chart above shows that Komercni Banka and Polish banks have been performing relatively well; on the other hand, OTP and Austria's Erste and Raiffeisen have been punished for their exposure to riskier markets and reliance on external funding.

Premium diminishes despite stable earnings outlook

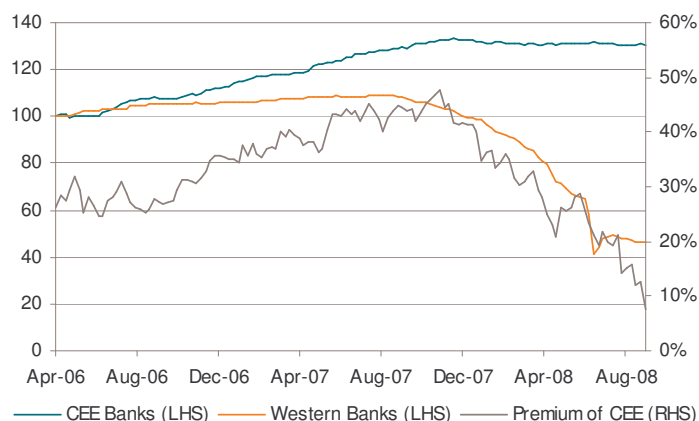
Historically, CEE banks have traded at a 30-50% premium to their mature Western peers. Although since the beginning of 2008 the premium started shrinking to the current 10% on 2008 earnings, the earnings outlook for CEE Banks remains stable.

This suggests, 1) being oversold for the "wrong reasons" i.e. risk reassessment and 2) market has started to price in the increasing risk profile and momentum slowdown.

Current-year PER (May 05–Sep 08)



Change in current-year EPS forecast



Source: Bloomberg, Wood & Company

On average CEE banks traded at around 15-18x earnings throughout much of

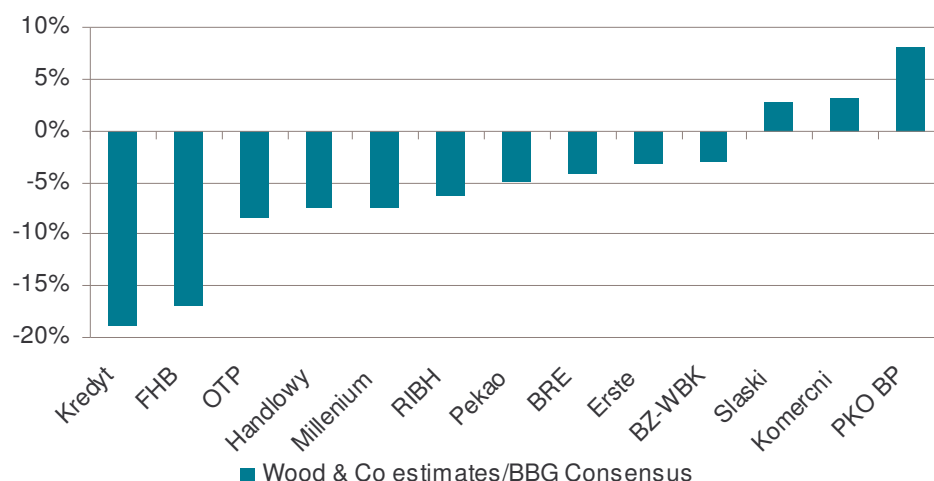
the last year, but due to their sharp decline in stock prices they are trading roughly at 9-10x earnings today:

	Last Price	Mcap (EUR mil.)	P/E			P/BV			ROE		
			2008	2009	2010	2008	2009	2010	2008	2009	2010
Western Banks											
Deutsche	51.2	27,185	12.2	6.2	5.6	0.8	0.7	0.7	6.7	12.4	12.9
Citi	20.3	76,727	10.0	8.9	6.4	1.0	1.0	0.9	-5.6	12.1	16.4
SocGen	60.9	35,961	9.4	7.4	6.5	1.0	0.9	0.9	13.1	14.1	14.9
BNP	65.5	59,748	9.0	8.2	7.4	1.2	1.1	1.0	13.4	14.0	13.8
Barclays	334	35,046	6.8	6.8	6.3	1.0	1.0	0.9	14.3	14.7	15.2
RBS	181	37,514	10.8	5.4	4.9	0.5	0.6	0.5	7.8	9.2	10.4
Commerzbank	11.6	8,418	4.9	4.7	4.3	0.5	0.5	0.5	11.3	8.8	10.8
KBC	57.4	20,382	8.3	7.0	6.1	1.1	1.1	1.0	14.3	17.0	17.4
Intesa	3.82	48,364	9.4	8.1	7.2	0.9	0.9	0.9	11.3	12.6	11.8
HSBC	865	130,606	11.4	10.4	8.9	1.5	1.4	1.4	12.8	13.1	14.6
Unicredit	2.98	39,781	6.3	5.5	4.9	0.7	0.6	0.6	11.7	12.6	12.8
Eastern Banks											
Erste Bank	35	11,159	7.4	6.6	5.6	1.1	1.0	0.9	17.5	16.9	17.1
Raiffeisen	51	7,919	7.3	6.0	4.9	1.2	1.0	0.9	17.2	18.2	18.7
PKO BP	42	12,255	11.5	10.3	9.2	2.9	2.5	2.1	27.4	25.6	24.4
PEKAO	167	12,915	11.8	11.1	9.8	2.8	2.6	2.4	24.3	23.6	24.7
BZ-WBK	153	3,286	11.1	10.0	8.6	2.2	1.9	1.6	21.1	20.2	19.9
BRE	312	2,735	9.7	9.6	8.3	2.2	1.8	1.5	25.5	20.5	19.4
Handlowy	65	2,508	10.7	9.4	8.0	1.5	1.4	1.3	14.4	16.1	17.0
Bank Slaski	500	1,921	9.4	9.1	7.7	1.5	1.3	1.2	17.0	15.4	16.0
Getin	9.16	1,920	11.8	10.2	8.0	1.8	1.6	1.3	17.3	17.4	17.2
Millenium	6.21	1,557	10.6	9.2	7.8	1.9	1.6	1.4	18.3	18.6	19.0
Kredyt Bank	13.6	1,091	11.6	10.1	8.9	1.5	1.4	1.2	13.8	14.0	14.7
Komerčni	3,658	5,647	11.2	10.5	9.8	2.5	2.3	2.1	24.1	22.9	22.5
OTP	6,262	7,256	7.3	6.6	5.6	1.5	1.2	1.0	26.8	20.6	20.1
FHB	1,001	272	10.2	9.4	8.0	1.7	1.5	1.3	18.4	17.7	17.6
Averages											
Western Banks			9.0	7.1	6.2	0.9	0.9	0.8	10.1	12.8	13.7
CEE Banks			10.1	9.1	7.9	1.9	1.6	1.4	20.2	19.1	19.2
Premium of CEE Banks to West			11%	22%	21%	50%	46%	42%	50%	33%	28%
Source: Bloomberg											

Source: Bloomberg

Trimming earnings by 5-10% to reflect slowdown

In order to reflect 1) the higher cost of provisioning, 2) momentum slowdown and 3) margin pressure from scarce funding, we have trimmed 5-10% off of our 2009-2010 estimates on most CEE Banks. We remain bullish on PKO BP and Bank Slaski relative to the market consensus (which is also reflected in our recommendations); on the other hand, we remain well below the market in case of Kredyt Bank and FHB:



Source: Company data, Wood & Company estimates, Bloomberg. Based on 2009E data..

Which banks to buy then?

Generally, given current market conditions, we like banks with established branch networks (i.e. without massive expansion plans such as PKO, Komercni, Slaski), banks with a little need of external funding (Slaski, PKO, Komercni, Handlowy) and banks with a conservative provisioning strategy (Komercni, Slaski). Therefore PKO BP and Slaski are our top picks in the region.

Which banks to avoid?

Apart from illiquid Kredyt Bank and FHB, we have been recommending selling for a long time and Pekao SA, which we downgraded to Sell in August, we add BRE and Millennium to the unwanted list. Although both are well-managed banks, we think room for positive surprises has shrunk significantly while risks (in terms of asset quality deterioration, funding or capitalization) are above average.

CEE Banks - Valuation Summary

	Market price	Market cap (EUR mil.)	Rating	Fair price	Upside	PER			P/BV			ROE		
						2008	2009	2010	2008	2009	2010	2008	2009	2010
Poland						11.0	9.7	8.3	2.4	2.1	1.8	24%	23%	24%
PKO BP	42.0	12,255	BUY	48.0	12.5%	11.3	9.4	7.8	2.9	2.4	2.0	28%	28%	28%
Pekao	167	12,915	SELL	150	-11.3%	11.5	10.9	9.4	2.6	2.4	2.1	24%	23%	24%
BZ-WBK	153	3,286	HOLD	150	-2.0%	11.3	10.1	8.8	2.2	1.9	1.6	21%	20%	20%
BRE	312	2,735	SELL	300	-4.0%	9.0	8.1	7.0	2.2	1.8	1.4	27%	24%	22%
Handlowy	65.0	2,508	HOLD	70.0	7.1%	10.6	9.2	7.8	1.5	1.4	1.3	14%	16%	17%
Bank Slaski	500	1,920	BUY	620	19.4%	9.3	8.3	7.2	1.6	1.4	1.3	17%	18%	19%
Millennium	6.21	1,557	SELL	5.80	-7.1%	10.4	8.8	7.6	1.8	1.6	1.4	19%	19%	19%
Kredyt Bank	13.6	1,091	SELL	11.0	-23.6%	10.0	9.1	8.2	1.5	1.3	1.2	15%	15%	15%
Czech Republic						11.1	10.2	9.3	2.5	2.3	2.0	24%	23%	23%
Komercni Banka	3,658	5,647	HOLD	3,900	6.2%	11.1	10.2	9.3	2.5	2.3	2.0	24%	23%	23%
Hungary						5.2	6.8	6.1	1.6	1.4	1.3	35%	22%	22%
OTP	6,262	7,256	HOLD	7,100	11.8%	5.0	6.7	6.1	1.6	1.4	1.3	36%	22%	22%
FHB	1,001	272	SELL	900	-11.2%	9.6	9.0	7.5	1.7	1.5	1.3	19%	17%	18%
Austria						6.5	6.1	5.0	1.2	1.1	0.9	21%	19%	20%
Erste Bank	35.0	11,159	HOLD	40.0	12.5%	5.8	6.3	5.3	1.1	1.0	0.8	20%	16%	17%
Raiffeisen Int.	51.0	7,919	HOLD	63.0	19.0%	7.3	5.8	4.6	1.4	1.2	1.0	22%	23%	24%
CEE TOTAL / AVERAGE						9.1	8.4	7.2	2.0	1.8	1.5	24%	22%	22%

Source: Company data, Wood & Company

Erste Bank

Hold

(Downgrade from Buy)

Price: EUR 35.2

Price Target: EUR 40.0

(Down from EUR 55.0)

Outside of management's control

Despite having a focused and well-defined strategy, good management and an impressive restructuring track record, Erste Bank continues paying a hefty price for its expensive acquisition in Romania and EUR 2.7 bil exposure to structured products.

Although both areas under the spotlight are doing relatively well (with BCR's restructuring going in the right direction and risks related to the CDO/ABS portfolio being manageable), news flow on both might be negative and the market will likely remain suspicious for quarters to come.

The sale of Erste Bank's insurance business comes at the right time and will bring a gain of EUR 1 bil (or 9% of the bank's market capitalization) boosting the bank's Tier1 capital by 70 bp to a solid 8% -- although this has not been big enough to change the overall negative trend of the share price.

With a PE of less than 7x and PBV of less than 1.0x expected in 2009 (we are some 5% below the consensus), Erste Bank represents one of the best CEE value stocks, with a growth premium attached (we expect 16% earnings growth until 2010).

However, negative news flow from Romanian macro, West European shareholder base and EUR 2.7 CDO/ABS exposure—lead us to cautious until the worst is over. We therefore downgrade the stock to Hold, with a new target price of EUR 40.

Expected Events

Q3 results	October 30, 2008
Capital markets day	December 12, 2008
2008 preliminary results	February 27, 2009

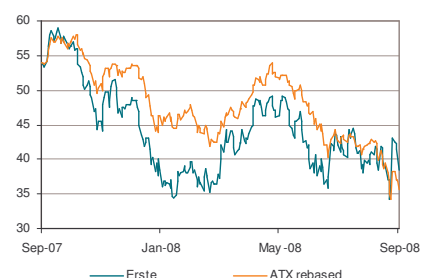
Key Data

Market Cap	EUR 12,332 mil
Free Float	55%/EUR 6,783 mil
Shares outstanding	316 mil
Average daily volume	EUR 61.6 mil
Major Sh'holder	AVS (29.7%)
	Austria Versicherer (4.9%)
Reuters Code	ERST.VI
Bloomberg Code	EBS AV
ATX Index	2,998

Price Performance

52-w range (EUR)	34.3 -59.0
YTD EUR Performance	-16.8 %
Relative YTD EUR Performance	15.0 %

Erste Price Performance



Year	Revenues (EUR mil)	Net Profit (EUR mil)	EPS (EUR)	Adj. EPS (EUR)	Adj. EPS growth	PE (x)	Adj. PE (x)	BVPS (EUR)	PBV	ROE
2010E	8,559	1,845	5.83	5.77	13.1%	6.0	6.1	41.0	0.86	15.1%
2009E	7,822	1,634	5.17	5.10	18.5%	6.8	6.9	36.1	0.97	15.2%
2008E	7,064	1,847	5.84	4.31	14.6%	6.0	8.2	31.8	1.11	20.0%
2007	6,155	1,175	3.76	3.76	21.4%	9.4	9.4	26.7	1.32	13.8%
2006	4,913	932	3.09	3.09	4.6%	11.4	11.4	27.2	1.29	14.7%
2005	4,293	717	2.96	2.96	35.5%	11.9	11.9	17.0	2.07	19.0%
2004	4,012	521	2.18	2.18	47.0%	16.1	16.1	14.2	2.48	16.8%

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INCOME STATEMENT (consolidated IFRS)

(EUR mil)	2003	2004	2005	2006	2007	2008E	2009E	2010E
Net interest income	2,587	2,660	2,794	3,189	3,946	4,705	5,240	5,727
Non-interest income	1,211	1,352	1,499	1,724	2,235	2,384	2,608	2,859
net commission income	997	1,135	1,257	1,446	1,858	2,033	2,238	2,465
net FX gains	117	127	145	174	220	204	215	229
securities income	98	90	97	104	158	147	155	165
Total banking revenue	3,798	4,012	4,293	4,913	6,155	7,064	7,822	8,559
Total costs	(2,461)	(2,595)	(2,670)	(2,945)	(3,642)	(3,980)	(4,220)	(4,503)
personnel costs	(1,422)	(1,480)	(1,583)	(1,751)	(2,189)	(2,242)	(2,311)	(2,369)
depreciation	(347)	(340)	(335)	(347)	(382)	(381)	(390)	(400)
other costs	(692)	(772)	(759)	(848)	(1,071)	(1,356)	(1,520)	(1,734)
Operating income	1,337	1,417	1,623	1,968	2,513	3,084	3,602	4,056
Net provisions	(406)	(406)	(422)	(439)	(455)	(685)	(839)	(1,041)
Pretax profit	762	997	1,222	1,522	1,928	2,158	2,532	2,785
Income tax	(224)	(278)	(302)	(340)	(378)	(412)	(471)	(504)
Net income	353	521	717	932	1,175	1,847	1,634	1,845

GROWTH RATIOS

Net interest income growth	5.0%	2.8%	5.0%	14.1%	23.7%	19.2%	11.4%	9.3%
Net fee growth	5.5%	13.9%	10.7%	15.0%	28.5%	9.4%	10.1%	10.1%
Total income growth	6.2%	5.6%	7.0%	14.5%	25.3%	14.8%	10.7%	9.4%
Cost growth	1.2%	5.4%	2.9%	10.3%	23.7%	9.3%	6.0%	6.7%
Operating profit growth	17.0%	6.0%	14.5%	21.3%	27.7%	22.7%	16.8%	12.6%
Pre-tax profit growth	14.6%	30.9%	22.6%	24.6%	26.6%	12.0%	17.3%	10.0%
Net profit growth	38.5%	47.4%	37.6%	30.1%	26.0%	57.3%	(11.6%)	12.9%

BALANCE SHEET (consolidated IFRS)

(EUR mil)	2003	2004	2005	2006	2007	2008E	2009E	2010E
Cash	2,549	2,723	2,728	7,378	7,615	8,666	9,274	9,873
Due from banks	13,140	15,684	16,858	16,616	14,937	12,473	10,162	7,178
Debt securities	39,092	42,521	47,681	50,209	52,553	56,757	60,730	64,374
Customer loans	64,994	70,039	77,602	93,974	110,659	130,738	152,765	176,863
Fixed assets	3,682	3,546	3,599	8,257	8,251	8,581	9,010	9,461
Other assets	5,117	5,299	4,192	5,269	6,503	7,553	8,672	9,863
Total assets	128,575	139,812	152,660	181,703	200,519	224,768	250,614	277,612
Due to banks	25,704	28,551	33,911	37,688	35,165	36,382	39,126	41,678
Customer deposits	64,839	68,213	72,793	90,849	100,116	110,038	119,280	128,627
Certified debt	20,482	22,704	25,581	27,024	36,667	46,858	58,067	70,398
Total Equity	2,791	3,424	4,129	8,590	8,452	10,062	11,427	12,972
Equity and Liabilities	128,575	139,812	152,660	181,703	200,519	224,768	250,614	277,612

GROWTH RATIOS

Customer loans growth	5.8%	7.8%	10.8%	21.1%	17.8%	18.1%	16.8%	15.8%
Customer deposits growth	5.8%	5.2%	6.7%	24.8%	10.2%	9.9%	8.4%	7.8%
Total assets growth	6.1%	8.7%	9.2%	19.0%	10.4%	12.1%	11.5%	10.8%

KEY RATIOS

Total Income/Earning Assets	6.5%	5.9%	6.1%	6.6%	8.3%	10.4%	9.8%	9.8%
Interest Expense/Int-bearing Liabs.	2.4%	2.2%	2.4%	2.7%	3.5%	4.7%	4.3%	4.3%
NIM on Total Assets	2.07%	1.98%	1.91%	1.91%	2.06%	2.21%	2.20%	2.17%
Cost/income ratio	64.8%	64.7%	62.2%	59.9%	59.2%	56.3%	54.0%	52.6%
Cost/assets ratio	1.97%	1.93%	1.83%	1.76%	1.91%	1.87%	1.78%	1.70%
Provisions/Net Interest Income	15.7%	15.3%	15.1%	13.8%	11.5%	14.6%	16.0%	18.2%
NPLs/Loans	6.0%	5.3%	4.8%	4.0%	4.4%	4.4%	4.8%	4.9%
Provisions/NPLs	70.1%	72.5%	75.3%	76.9%	72.0%	68.6%	64.4%	64.6%
ROE	13.4%	16.8%	19.0%	14.7%	13.8%	20.0%	15.2%	15.1%
<i>- adjusted for goodwill</i>	<i>13.4%</i>	<i>16.8%</i>	<i>19.0%</i>	<i>14.7%</i>	<i>13.8%</i>	<i>14.7%</i>	<i>15.0%</i>	<i>15.0%</i>
ROA	0.28%	0.39%	0.49%	0.56%	0.61%	0.87%	0.69%	0.70%
Customer loans/Assets	50.5%	50.1%	50.8%	51.7%	55.2%	58.2%	61.0%	63.7%
Customer deposits/Assets	50.4%	48.8%	47.7%	50.0%	49.9%	49.0%	47.6%	46.3%
Loans/Deposits	100.2%	102.7%	106.6%	103.4%	110.5%	118.8%	128.1%	137.5%
Equity/Assets	2.2%	2.4%	2.7%	4.7%	4.2%	4.5%	4.6%	4.7%

PER SHARE FIGURES

(EUR)	2003	2004	2005	2006	2007	2008E	2009E	2010E
EPS	1.49	2.18	2.96	3.09	3.76	5.84	5.17	5.83
DPS	0.38	0.50	0.55	0.65	0.75	0.85	0.95	1.00
BVPS	11.64	14.18	16.98	27.24	26.72	31.81	36.13	41.01
P/E	23.7	16.1	11.9	11.4	9.4	6.0	6.8	6.0
Dividend Yield	1.1%	1.4%	1.6%	1.8%	2.1%	2.4%	2.7%	2.8%
P/BV	3.0	2.5	2.1	1.3	1.3	1.1	1.0	0.9
ROE/CoE	1.6	2.0	2.2	1.7	1.6	2.3	1.8	1.8

Raiffeisen Int.

Hold

(Maintained)

Price: EUR 51.2

Price Target: EUR 63.0

(Down from EUR 95.0)

Pure emerging market play

Due mainly to its exposure to risky areas (Russia, Ukraine, SEE), a non-dedicated investors' structure (40% of the bank's free float is held by West European or US investors) and sentiment towards the sector, Raiffeisen Int. has been hammered, falling more than 50% from this year's peak in April.

While we share most of the market's concerns (including a lack of pricing power, low capitalization, slowing momentum, or declining asset quality coverage), which led us to downgrade the stock following the bank's 1Q08 results, the recent sell-off (the stock is down 32% this month) seems to be overdone.

Similar to Erste Bank, the news flow Raiffeisen Int. will be facing in the coming months will likely remain negative. This mainly concerns the macro-economic situation in Russia, Ukraine, Romania and the bank's funding (with loans to deposits at 130%).

Despite a PE of 6x and PBV of 1.0x expected in 2009, and no exposure to structured products, the bank's exposure to risky and overheated markets in Russia, Ukraine and Romania make us cautious and so we maintain our Hold recommendation for now.

Expected Events

Q3 results	November 6, 2008
2008 annual report	March 26, 2009
Q1 results	May 14, 2009

Key Data

Market Cap	EUR 9,170 mil
Free Float	35%/EUR 3,209 mil
Shares outstanding	10,092 mil
Average daily volume	EUR 27.1 mil
Major Sh'holder	RZB (64.6%)
Reuters Code	RIBH.VI
Bloomberg Code	RIBH AV
ATX Index	2,998

Price Performance

52-w range (EUR)	55.7 -117.0
YTD EUR Performance	-41.5 %
Relative YTD EUR Performance	-9.6 %

RIBH Price Performance



Year	Revenues (EUR mil)	Net Profit (EUR mil)	EPS (EUR)	EPS growth	PE	BVPS (EUR)	PBV	ROE	Dividend (EUR)	Dividend Yield
2010E	6,758	1,414	9.14	15.3%	5.6	56.8	0.90	17.2%	2.3	4.5%
2009E	5,738	1,226	7.93	12.2%	6.5	49.7	1.03	17.0%	2.0	3.9%
2008E	4,835	1,093	7.06	24.9%	7.2	43.5	1.18	17.4%	1.8	3.4%
2007	3,757	841	5.66	-31.7%	9.1	37.7	1.36	17.1%	1.2	2.4%
2006	2,975	1,182	8.28	209.2%	6.2	27.9	1.83	34.8%	1.6	3.2%
2005	1,921	382	2.68	38.3%	19.1	19.6	2.61	16.5%	0.4	0.9%
2004	1,332	209	1.94	0.0835	26.4	14.7	3.48	14.2%	0.3	0.6%

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INCOME STATEMENT (consolidated IFRS)

(EUR mil)	2004	2005	2006	2007	2008E	2009E	2010E
Net interest income	803	1,202	1,764	2,419	3,182	3,754	4,442
Non-interest income	1,116	919	1,456	1,392	1,693	1,984	2,312
net commission income	300	407	933	1,250	1,513	1,822	2,136
trading income	606	627	418	0	0	0	0
Total banking revenue	1,332	1,921	2,975	3,757	4,835	5,738	6,758
Total costs	(823)	(1,163)	(1,694)	(2,184)	(2,725)	(3,252)	(3,774)
personnel costs	(381)	(552)	(825)	(921)	(1,031)	(1,155)	(1,294)
depreciation	(95)	(130)	(181)	(252)	(264)	(298)	(337)
other costs	(348)	(480)	(688)	(1,011)	(1,430)	(1,800)	(2,142)
Operating income	508	758	1,282	1,573	2,110	2,485	2,985
Net provisions	(138)	(167)	(309)	(357)	(473)	(646)	(862)
Pretax profit	341	569	1,480	1,238	1,631	1,830	2,111
Income tax	(71)	(109)	(205)	(264)	(326)	(366)	(422)
Minorities	(60)	(77)	(92)	(132)	(212)	(238)	(274)
Net income	209	382	1,182	841	1,093	1,226	1,414

GROWTH RATIOS

Net interest income growth	42.5%	49.6%	46.7%	37.1%	31.5%	18.0%	18.3%
Net fee growth	40.6%	35.8%	129.4%	33.9%	21.0%	20.4%	17.2%
Total income growth	30.8%	44.2%	54.9%	26.3%	28.7%	18.7%	17.8%
Cost growth	25.0%	41.2%	45.7%	29.0%	24.8%	19.3%	16.0%
Operating profit growth	41.3%	49.2%	69.0%	22.8%	34.1%	17.8%	20.1%
Pre-tax profit growth	23.2%	66.8%	160.2%	(16.4%)	31.8%	12.2%	15.3%
Net profit growth	17.2%	82.6%	209.2%	(28.8%)	29.9%	12.2%	15.3%

BALANCE SHEET (consolidated IFRS)

(EUR mil)	2004	2005	2006	2007	2008E	2009E	2010E
Cash	1,895	2,908	4,064	3,664	4,137	4,317	4,380
Due from banks	4,779	5,794	8,202	11,053	6,220	5,563	4,566
Debt securities	160,679	189,212	252,505	304,500	363,222	423,297	489,916
Customer loans	16,242	24,714	35,043	48,880	59,847	71,974	85,613
Fixed assets	618	1,619	2,276	2,290	2,629	3,080	3,571
Other assets	312	522	688	899	1,086	1,234	1,382
Total assets	28,907	40,695	55,867	72,743	76,612	88,205	100,675
Due to banks	6,620	10,236	13,814	19,927	14,310	15,455	16,303
Customer deposits	18,169	24,890	33,156	40,457	48,627	57,495	67,301
Certified debt	663	760	1,422	2,320	2,487	2,688	2,928
Total Equity	1,840	2,801	3,986	5,827	6,729	7,682	8,789
Equity and Liabilities	28,907	40,695	55,867	72,743	76,612	88,205	100,675

GROWTH RATIOS

Customer loans growth	38.7%	52.2%	41.8%	39.5%	22.4%	20.3%	19.0%
Customer deposits growth	50.4%	37.0%	33.2%	22.0%	20.2%	18.2%	17.1%
Total assets growth	44.1%	40.8%	37.3%	30.2%	5.3%	15.1%	14.1%

KEY RATIOS

Total Income/Earning Assets	8.8%	8.4%	9.6%	9.6%	9.6%	9.7%	9.6%
Interest Expense/Int-bearing Liabs.	3.5%	2.9%	3.5%	3.9%	3.3%	2.8%	2.5%
NIM on Total Assets	3.28%	3.45%	3.65%	3.76%	4.26%	4.56%	4.70%
Cost/income ratio	61.8%	60.5%	56.9%	58.1%	56.4%	56.7%	55.8%
Cost/assets ratio	3.4%	3.3%	3.5%	3.4%	3.6%	3.9%	4.0%
Provisions/Net Interest Income	17.1%	13.9%	17.5%	14.8%	14.9%	17.2%	19.4%
NPLs/Loans	2.3%	1.7%	2.1%	2.1%	2.7%	3.8%	4.8%
Provisions/NPLs	104.2%	161.0%	118.3%	105.2%	94.8%	77.9%	72.8%
ROE	14.2%	16.5%	34.8%	17.1%	17.4%	17.0%	17.2%
ROA	0.9%	1.1%	2.4%	1.3%	1.5%	1.5%	1.5%
Customer loans/Assets	56.2%	60.7%	62.7%	67.2%	78.1%	81.6%	85.0%
Customer deposits/Assets	62.9%	61.2%	59.3%	55.6%	63.5%	65.2%	66.8%
Loans/Deposits	89.4%	99.3%	105.7%	120.8%	123.1%	125.2%	127.2%
Equity/Assets	6.4%	6.9%	7.1%	8.0%	8.8%	8.7%	8.7%

PER SHARE FIGURES

(EUR)	2004	2005	2006	2007	2008E	2009E	2010E
EPS	1.9	2.7	8.3	5.7	7.1	7.9	9.1
DPS	0.3	0.4	1.6	1.2	1.8	2.0	2.3
BVPS	14.7	19.6	27.9	37.7	43.5	49.7	56.8
P/E	26.4	19.1	6.2	9.1	7.2	6.5	5.6
Dividend Yield	0.6%	0.9%	3.2%	2.4%	3.4%	3.9%	4.5%
P/BV	3.48	2.61	1.83	1.36	1.18	1.03	0.90
ROE/CoE	1.4	1.7	3.6	1.7	1.7	1.7	1.6

OTP Bank

Hold

(Maintained)

Price: HUF 6,262

Price Target: HUF 7,100

(Down from HUF 8,000)

Juggling too many balls

Similar to Raiffeisen Int., OTP is exposed to risky markets - struggling Hungary, overheated Bulgaria, slowing Ukraine and suffering Russia.

Unlike Raiffeisen, however, with experienced management resources (who have learned from their mistakes in the 1990's in Russia) and strategic partner (providing liquidity when needed), OTP is left on its own in its struggle for survival.

Despite doing the right things such as disposing its insurance business and potentially its Serbian and Slovak subsidiaries, management is left to fight on too many difficult fronts with limited resources.

With Hungary being one of the most open CEE economies (with exports accounting for 70% of GDP, most of that to Eurozone), we still believe there is more bad news to come on the home market as West European economies slow down.

Despite an attractive valuation (with PE of 7x and PBV of 1.2x expected in 2009), potential takeover story and disposal of non-core assets, we remain only HOLDERS of OTP stock.

Expected Events

Q3 results

November 14, 2008

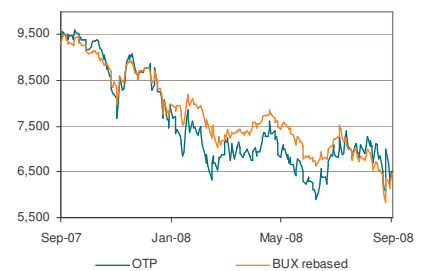
Key Data

Market Cap	EUR 7,634 mil
Free Float	91%/EUR 6,947 mil
Shares outstanding	280 mil
Average daily volume	EUR 37.3 mil
Major Sh'holder	Julius Baer (9.0%)
Reuters Code	OTPB.BU
Bloomberg Code	OTP HB
BUX Index	19,403

Price Performance

52-w range (HUF)	5,911-9,601
YTD EUR Performance	-22.5 %
Relative YTD EUR Performance	-1.7 %

OTP Price Performance



Year	Revenues (HUF bil)	Net Profit (HUF bil)	Adj. EPS (HUF)	EPS growth	Adj. PE	BVPS (HUF)	PBV	ROE	Dividend (HUF)	Dividend yield
2010E	958.7	280.9	1,010	14.3%	6.2	6,184	1.01	17.6%	300	4.8%
2009E	830.9	244.9	884	10.1%	7.1	5,347	1.17	18.0%	175	2.8%
2008E	719.4	386.5	803	6.7%	7.8	4,463	1.40	36.3%	0	0.0%
2007	654.9	208.5	753	5.4%	8.3	3,213	1.95	24.9%	143	2.3%
2006	505.7	187.1	714	19.3%	8.8	2,834	2.21	28.1%	197	3.1%
2005	435.3	158.2	599	18.5%	10.5	2,080	3.01	32.3%	211	3.4%
2004	361.8	131.5	505	56.3%	12.4	1,654	3.79	35.3%	156	2.5%

INCOME STATEMENT (consolidated IFRS)

(HUF mil)	2004	2005	2006	2007	2008E	2009E	2010E
Net interest income	260,889	297,225	355,944	431,692	464,038	530,418	605,123
Non-interest income	100,917	138,099	149,738	223,187	255,404	300,521	353,595
net commission income	71,037	98,954	112,900	152,885	172,318	204,961	240,056
other income	29,880	39,145	36,838	70,302	83,087	95,560	113,539
Total banking revenue	361,806	435,324	505,682	654,879	719,442	830,939	958,719
Total costs	(189,734)	(215,205)	(258,521)	(347,743)	(384,334)	(446,916)	(515,254)
personnel costs	(79,538)	(95,235)	(106,804)	(147,831)	(160,663)	(174,962)	(191,496)
depreciation	(29,150)	(21,897)	(26,465)	(35,627)	(39,771)	(43,984)	(49,757)
other costs	(81,046)	(98,073)	(125,252)	(164,285)	(178,353)	(204,502)	(235,551)
Operating income	172,072	220,119	247,161	307,136	335,108	384,024	443,465
Net provisions	(16,048)	(28,042)	(28,559)	(58,184)	(76,083)	(95,078)	(112,930)
Pretax profit	156,024	192,077	218,602	248,952	423,024	288,945	330,535
Income tax	(24,506)	(33,803)	(31,506)	(40,404)	(36,528)	(44,088)	(49,630)
Net income	131,506	158,235	187,096	208,548	386,497	244,858	280,905

GROWTH RATIOS

Net interest income growth	48.2%	13.9%	19.8%	21.3%	7.5%	14.3%	14.1%
Total income growth	37.1%	20.3%	16.2%	29.5%	9.9%	15.5%	15.4%
Cost growth	26.1%	13.4%	20.1%	34.5%	10.5%	16.3%	15.3%
Operating profit growth	51.6%	27.9%	12.3%	24.3%	9.1%	14.6%	15.5%
Net profit growth	57.8%	20.3%	18.2%	11.5%	85.3%	(36.6%)	14.7%

BALANCE SHEET (consolidated IFRS)

(HUF mil)	2004	2005	2006	2007	2008E	2009E	2010E
Cash	465,887	483,191	532,625	353,243	380,142	417,542	464,498
Due from banks	286,200	438,768	602,615	654,788	789,488	782,562	810,283
Debt securities	613,674	747,802	868,106	1,077,377	1,205,582	1,379,645	1,602,542
Customer loans	2,538,195	3,229,168	4,401,314	5,576,862	6,572,974	7,867,237	9,401,884
Total assets	4,162,359	5,215,902	7,097,426	8,456,299	9,835,904	11,465,891	13,459,661
Due to banks	254,125	364,124	660,417	798,154	908,658	1,057,785	1,249,711
Customer deposits	2,929,205	3,453,095	4,278,164	5,038,372	5,664,416	6,512,850	7,600,954
Certified debt	331,546	590,483	1,032,041	1,286,429	1,528,142	1,848,415	2,244,254
Total Equity	433,260	546,981	785,103	890,224	1,236,570	1,481,427	1,713,360
Equity and Liabilities	4,162,359	5,215,902	7,097,426	8,456,299	9,835,904	11,465,891	13,459,661

GROWTH RATIOS

Customer loans growth	26.0%	27.2%	36.3%	26.7%	17.9%	19.7%	19.5%
Customer deposits growth	8.2%	17.9%	23.9%	17.8%	12.4%	15.0%	16.7%
Total assets growth	20.3%	25.3%	36.1%	19.1%	16.3%	16.6%	17.4%

KEY RATIOS

Interest Expense/Int-bearing Liab:	5.3%	4.1%	3.6%	4.8%	2.8%	2.8%	2.8%
NIM on Total Assets	6.84%	6.34%	5.78%	5.55%	5.07%	4.98%	4.86%
Cost/income ratio	43.9%	41.6%	44.4%	47.6%	47.0%	53.8%	53.7%
Cost/assets ratio	3.7%	3.3%	3.2%	3.6%	3.3%	4.2%	4.1%
Provisions/Net Interest Income	6.2%	9.4%	8.0%	13.5%	16.4%	17.9%	18.7%
NPLs/Loans	3.5%	3.6%	4.5%	4.2%	4.6%	4.9%	5.2%
Provisions/NPLs	87.5%	89.4%	63.2%	73.8%	74.2%	74.9%	74.7%
ROE	35.3%	32.3%	28.1%	24.9%	36.3%	18.0%	17.6%
ROA	3.5%	3.4%	3.0%	2.7%	4.2%	2.3%	2.3%
Customer loans/Assets	61.0%	61.9%	62.0%	65.9%	66.8%	68.6%	69.9%
Customer deposits/Assets	70.4%	66.2%	60.3%	59.6%	57.6%	56.8%	56.5%
Loans/Deposits	86.7%	93.5%	102.9%	110.7%	116.0%	120.8%	123.7%
Equity/Assets	10.4%	10.5%	11.1%	10.5%	12.6%	12.9%	12.7%

PER SHARE FIGURES

(HUF)	2004	2005	2006	2007	2008E	2009E	2010E
EPS	505	599	714	753	1,395	884	1,010
DPS	156.5	210.7	196.9	143.4	0.0	174.9	299.9
BVPS	1,547	1,954	2,804	3,179	4,416	5,291	6,119
P/E	12.4	10.5	8.8	8.3	4.5	7.1	6.2
Dividend Yield	2.5%	3.4%	3.1%	2.3%	0.0%	2.8%	4.8%
P/BV	3.79	3.01	2.21	1.95	1.40	1.17	1.01
ROE/CoE	2.8	2.7	2.4	2.2	3.3	1.7	1.7

FHB Mortgage Bank

Sell

(Maintained)

Price: HUF 1,001

Price Target: HUF 900

(Down from 1,050)

Expensive, illiquid, under pressure

FHB, Hungary's specialized mortgage lender, hasn't been performing well this year, largely confirming our Sell recommendation on the bank. Despite a 17% underperformance to OTP so far this year, it still represents a more expensive, less liquid (with only EUR 300,000 of average daily turnover) and less profitable alternative to its Hungarian sister OTP.

With a business model that is under pressure and a difficult macroeconomic environment, a takeover story remains the only reason to step into the stock. Although a reasonable topic to raise, the low visibility of the process, minimal liquidity of the stock and demanding valuation make this speculation only marginally attractive at current prices.

The transformation of the bank from a specialized mortgage refiner into a more universal bank has brought some results, such as a more diversified funding structure. However, we don't think FHB will ever get big enough to be highly profitable.

Despite the share price fall and potential takeover story, we remain SELLers of the bank stock. We continue to prefer OTP at current prices.

Expected Events

Q3 results November, 2008

Key Data

Market Cap	EUR 313 mil
Free Float	34%/EUR 106 mil
Shares outstanding	58 mil
Average daily volume	EUR 0.3 mil
Major Sh'holder	Treasury (60.5%) Bear Sterns (6.0%)
Reuters Code	FHBK.BU
Bloomberg Code	FHB HB
BUX Index	19,403

Price Performance

52-w range (HUF)	975 – 2,167
YTD EUR Performance	-34.0%
Relative YTD EUR Performance	-13.2%

FHB Price Performance



Year	Revenues (HUF mil)	Net Profit (HUF mil)	EPS (HUF)	EPS growth	PE	BVPS (HUF)	PBV	ROE	Dividend (HUF)	Dividend yield
2010E	26,850	6,799	103	30.2%	9.7	656	1.53	16.6%	41.2	4.1%
2009E	23,931	5,223	79	4.8%	12.7	584	1.71	14.1%	31.7	3.2%
2008E	21,360	4,985	76	-6.2%	13.3	535	1.87	14.7%	30.2	3.0%
2007	19,971	5,316	81	-30.4%	12.4	492	2.03	17.2%	32.0	3.2%
2006	18,711	7,639	116	-9.8%	8.6	447	2.24	28.7%	26.9	2.7%
2005	17,791	8,466	128	12.5%	7.8	360	2.78	41.1%	17.7	1.8%
2004	14,587	7,523	114	78.1%	8.8	265	3.78	51.4%	20.0	2.0%

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INCOME STATEMENT (consolidated IFRS)

(HUF mil)	2004	2005	2006	2007	2008E	2009E	2010E
Net interest income	14,926	16,555	17,111	16,584	17,322	19,497	21,919
Non-interest income	(340)	1,236	1,599	3,387	4,038	4,434	4,931
net commission income	239	405	636	1,574	1,832	2,096	2,393
other income	(579)	831	963	1,812	2,205	2,338	2,538
Total banking revenue	14,587	17,791	18,711	19,971	21,360	23,931	26,850
Total costs	(5,697)	(6,862)	(8,457)	(13,051)	(14,735)	(16,303)	(17,880)
personnel costs	(2,399)	(3,173)	(3,429)	(4,570)	(4,991)	(5,497)	(6,049)
depreciation	(304)	(450)	(462)	(1,255)	(1,612)	(1,851)	(2,071)
other costs	(2,994)	(3,239)	(4,566)	(7,226)	(8,133)	(8,955)	(9,759)
Operating income	8,890	10,929	10,254	6,920	6,625	7,628	8,970
Net provisions	(158)	(228)	(411)	(350)	(393)	(1,100)	(472)
Pretax profit	8,732	10,701	9,843	6,570	6,231	6,528	8,499
Income tax	(1,209)	(2,235)	(2,204)	(1,254)	(1,246)	(1,306)	(1,700)
Net income	7,523	8,466	7,639	5,316	4,985	5,223	6,799

GROWTH RATIOS

Net interest income growth	54.7%	10.9%	3.4%	(3.1%)	4.5%	12.6%	12.4%
Net fee growth	(130.2%)	69.4%	57.1%	147.5%	16.4%	14.4%	14.2%
Total income growth	41.0%	22.0%	5.2%	6.7%	7.0%	12.0%	12.2%
Cost growth	(0.5%)	20.4%	23.2%	54.3%	12.9%	10.6%	9.7%
Operating profit growth	101.1%	22.9%	(6.2%)	(32.5%)	(4.3%)	15.1%	17.6%
Pre-tax profit growth	102.2%	22.6%	(8.0%)	(33.3%)	(5.2%)	4.8%	30.2%
Net profit growth	119.7%	12.5%	(9.8%)	(30.4%)	(6.2%)	4.8%	30.2%

BALANCE SHEET (consolidated IFRS)

(HUF mil)	2004	2005	2006F	2007F	2008F	2009F	2010F
Cash	10,165	29,129	19,388	679	(445)	(1,823)	(3,469)
Due from banks	18,744	11,403	20,063	11,892	8,166	8,649	9,627
Debt securities	3,854	3,420	5,395	27,999	19,226	20,365	22,666
Customer loans	373,095	431,176	480,872	559,665	628,568	699,237	769,535
<i>market share</i>	<i>19.5%</i>	<i>18.9%</i>	<i>17.7%</i>	<i>17.8%</i>	<i>16.9%</i>	<i>16.0%</i>	<i>15.1%</i>
bank-originated loans	132,015	171,264	211,682	264,945	327,288	399,859	483,174
refinanced loans	241,080	259,912	269,190	294,720	301,280	299,378	286,361
Total assets	415,586	481,875	537,302	616,865	678,837	752,798	827,635
Due to banks	8,989	31,496	44,749	31,346	33,399	35,826	37,965
Certified debt	367,279	421,113	455,657	541,083	597,140	664,275	731,058
Total Equity	17,497	23,741	29,487	32,465	35,338	38,567	43,277
Equity and Liabilities	415,586	481,875	537,302	616,865	678,837	752,798	827,635

GROWTH RATIOS

Customer loans growth	25.0%	15.6%	11.5%	16.4%	12.3%	11.2%	10.1%
- of which bank-originated loan growth	24.5%	29.7%	23.6%	25.2%	23.5%	22.2%	20.8%
- of which refinanced loan growth	25.2%	7.8%	3.6%	9.5%	2.2%	(0.6%)	(4.3%)
Total assets growth	34.4%	16.0%	11.5%	14.8%	10.0%	10.9%	9.9%

KEY RATIOS

Total Income/Earning Assets	11.5%	11.4%	10.9%	10.6%	10.5%	10.2%	10.2%
Interest Expense/Int-bearing Liabs.	9.7%	8.8%	8.1%	8.2%	7.7%	7.4%	7.1%
NIM on Total Assets	4.12%	3.69%	3.36%	2.87%	2.67%	2.72%	2.77%
Cost/income ratio	39.1%	38.6%	45.2%	65.4%	69.0%	68.1%	66.6%
Cost/assets ratio	1.6%	1.5%	1.7%	2.3%	2.3%	2.3%	2.3%
Provisions/Net Interest Income	1.1%	1.4%	2.4%	2.1%	2.3%	5.6%	2.2%
NPLs/Loans	0.3%	0.4%	0.7%	1.2%	1.3%	1.3%	1.4%
Provisions/NPLs	27.3%	25.6%	13.9%	12.8%	14.7%	18.6%	18.5%
ROE	51.4%	41.1%	28.7%	17.2%	14.7%	14.1%	16.6%
ROA	2.1%	1.9%	1.5%	0.9%	0.8%	0.7%	0.9%
Customer loans/Assets	89.8%	89.5%	89.5%	90.7%	92.6%	92.9%	93.0%
Loans/Debt Securities	101.6%	102.4%	105.5%	103.4%	105.3%	105.3%	105.3%
Equity/Assets	4.2%	4.9%	5.5%	5.3%	5.2%	5.1%	5.2%

PER SHARE FIGURES

(HUF)	2004	2005	2006F	2007F	2008F	2009F	2010F
EPS	114.0	128.3	115.7	80.5	75.5	79.1	103.0
DPS	20.0	17.7	26.9	32.0	30.2	31.7	41.2
BVPS	265	360	447	492	535	584	656
P/E	8.8	7.8	8.6	12.4	13.3	12.7	9.7
Dividend Yield	2.0%	1.8%	2.7%	3.2%	3.0%	3.2%	4.1%
P/BV	3.78	2.78	2.24	2.03	1.87	1.71	1.53
ROE/CoE	3.9	3.4	2.5	1.5	1.3	1.3	1.6

Komercni Banka

Hold

(Maintained)

Price: CZK 3,660

Price Target: CZK 3,900

(Down from 4,200)

Safe haven²

With 2% yoy share price performance YTD, Komercni Banka represents one of the best-performing banking plays in the CEE region.

It is also one of the safest bets in the region. Despite impressive loan growth and a generous dividend policy, the bank remains highly liquid (with loans to deposits at 64%) and well capitalized (with CAR at 12.5%), is exposed to one of the strongest macro plays and has no structured products.

Thanks mainly to a cautious lending strategy (less aggressive than most of its peers), the bank should withstand the slowdown in the Czech economy (and corporate sector) relatively well. Although we expect cost of risk to increase to 60-70 bp in 2009-2010 and asset quality to deteriorate to around 5% (from a very low level), profitability should remain strong with ROE over 20%.

With a PE of 11x and profit growth at around 9% until 2010, Komercni Banka seems to be fairly priced despite losing 10% ytd.

If you are looking for a conservative play in a positive sense, a bank with minimal excitement but hefty support, go for this one. We would enter the stock at below CZK 3,400 per share.

Expected Events

Q3 results

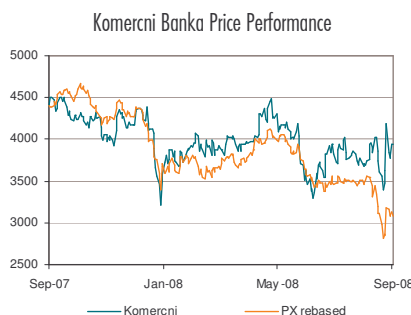
November, 2008

Key Data

Market Cap	EUR 6,130 mil
Free Float	31%/EUR 1,900 mil
Shares outstanding	38 mil
Average daily volume	EUR 15.9 mil
Major Sh'holder	Societe Generale (60.4%)
	Investors Bank & Trust Co. (9.2%)
Reuters Code	BKOM.WA
Bloomberg Code	KOMB CP
PX Index	1,274

Price Performance

52-w range (PLN)	3,220-4,505
YTD EUR Performance	1.6 %
Relative YTD EUR Performance	23.4 %



Year	Revenues (CZK mil)	Net Profit (CZK mil)	EPS (CZK)	EPS growth	PE	BVPS (CZK)	PBV	ROE	Dividend (CZK)	Dividend yield
2010E	38,099	14,377	378	5.7%	9.7	1,803	2.03	22.1%	210	5.7%
2009E	35,587	13,598	358	8.2%	10.2	1,624	2.25	23.2%	200	5.5%
2008E	32,709	12,565	331	12.3%	11.1	1,457	2.51	23.9%	190	5.2%
2007	29,671	11,188	294	22.7%	12.4	1,306	2.80	22.5%	180	4.9%
2006	26,302	9,120	240	2.3%	15.2	1,316	2.78	18.0%	150	4.1%
2005	24,502	8,911	234	-0.3%	15.6	1,350	2.71	18.5%	250	6.8%
2004	23,752	8,938	235	3.1%	15.6	1,179	3.10	20.7%	96	2.6%

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INCOME STATEMENT (unconsolidated IFRS)

(CZK mil)	2004	2005	2006	2007	2008E	2009E	2010E
Net interest income	13,264	14,643	16,155	18,790	21,263	23,548	25,335
Non-interest income	9,782	9,859	10,147	10,881	11,446	12,039	12,765
net commission income	8,936	8,736	8,769	7,757	8,150	8,558	9,071
net FX gains	606	627	418	0	0	0	0
securities income	30	611	855	2,982	3,116	3,319	3,518
Total banking revenue	23,752	24,502	26,302	29,671	32,709	35,587	38,099
Total costs	(12,475)	(12,135)	(12,400)	(13,653)	(14,917)	(16,015)	(17,076)
personnel costs	(5,138)	(5,032)	(5,170)	(5,910)	(6,344)	(6,840)	(7,263)
depreciation	(1,811)	(1,801)	(1,660)	(1,474)	(1,763)	(1,952)	(2,155)
other costs	(4,809)	(4,934)	(5,153)	(6,269)	(6,810)	(7,223)	(7,658)
Operating income	11,277	12,367	13,902	16,018	17,792	19,572	21,024
Net provisions	1,350	(471)	(1,790)	(1,275)	(1,896)	(2,437)	(3,002)
Pretax profit	13,235	11,565	11,833	14,328	15,597	16,820	17,679
Income tax	(3,912)	(2,654)	(2,695)	(3,103)	(2,932)	(3,112)	(3,182)
Net income	8,938	8,911	9,120	11,188	12,565	13,598	14,377
<i>Adjusted for one-offs</i>	<i>7,387</i>	<i>8,800</i>	<i>9,705</i>	<i>11,127</i>	<i>12,349</i>	<i>13,579</i>	<i>14,483</i>

GROWTH RATIOS

Net interest income growth	9.0%	10.4%	10.3%	16.3%	13.2%	10.7%	7.6%
Net fee growth	(1.5%)	(2.2%)	0.4%	(11.5%)	5.1%	5.0%	6.0%
Total income growth	5.6%	3.2%	7.3%	12.8%	10.2%	8.8%	7.1%
Cost growth	1.2%	(2.7%)	2.2%	10.1%	9.3%	7.4%	6.6%
Operating profit growth	13.2%	9.7%	12.4%	15.2%	11.1%	10.0%	7.4%
Net profit growth	3.1%	(0.3%)	2.3%	22.7%	12.3%	8.2%	5.7%

BALANCE SHEET (unconsolidated IFRS)

(CZK mil)	2004	2005	2006	2007	2008E	2009E	2010E
Cash	10,259	9,328	15,000	11,000	10,084	9,797	9,308
Due from banks	233,436	246,785	208,696	203,700	186,671	184,726	178,391
Debt securities	56,170	53,534	98,798	109,300	100,163	99,119	95,720
Customer loans	158,085	189,212	252,505	304,500	363,222	423,297	489,916
Total assets	473,411	513,856	597,555	661,800	692,614	751,990	810,890
Due to banks	20,547	32,824	14,594	13,600	13,578	14,121	14,886
Customer deposits	373,371	388,431	480,107	540,800	549,831	599,545	649,052
Certified debt	13,955	26,989	36,385	33,902	38,902	42,902	45,902
Total Equity	44,814	51,303	50,018	49,640	55,365	61,743	68,520
Equity and Liabilities	473,411	513,856	597,555	661,800	692,614	751,990	810,890

GROWTH RATIOS

Customer loans growth	18.7%	19.7%	33.5%	20.6%	19.3%	16.5%	15.7%
Customer deposits growth	5.6%	4.0%	23.6%	12.6%	1.7%	9.0%	8.3%
Total assets growth	3.7%	8.5%	16.3%	10.8%	4.7%	8.6%	7.8%

KEY RATIOS

Total Income/Earning Assets	6.8%	6.2%	6.3%	7.2%	8.3%	8.0%	8.0%
Interest Expense/Int-bearing Liabs.	1.9%	1.5%	2.0%	2.8%	3.7%	3.5%	3.5%
NIM on Total Assets	2.85%	2.97%	2.91%	2.98%	3.14%	3.26%	3.24%
Cost/income ratio	52.5%	49.5%	47.1%	46.0%	45.6%	45.0%	44.8%
Cost/assets ratio	2.7%	2.5%	2.2%	2.2%	2.2%	2.2%	2.2%
Provisions/Net Interest Income	(10.2%)	3.2%	11.1%	6.8%	8.9%	10.3%	11.8%
NPLs/Loans	5.8%	4.9%	4.4%	4.1%	4.3%	4.8%	4.8%
Provisions/NPLs	77.7%	69.3%	72.2%	75.3%	67.0%	59.2%	59.1%
ROE	20.7%	18.5%	18.0%	22.5%	23.9%	23.2%	22.1%
<i>underlying ROE</i>	<i>17.1%</i>	<i>18.3%</i>	<i>19.2%</i>	<i>22.3%</i>	<i>23.5%</i>	<i>23.2%</i>	<i>22.2%</i>
ROA	1.9%	1.8%	1.6%	1.8%	1.9%	1.9%	1.8%
Customer loans/Assets	33.4%	36.8%	42.3%	46.0%	52.4%	56.3%	60.4%
Customer deposits/Assets	78.9%	75.6%	80.3%	81.7%	79.4%	79.7%	80.0%
Loans/Deposits	42.3%	48.7%	52.6%	56.3%	66.1%	70.6%	75.5%
Equity/Assets	9.5%	10.0%	8.4%	7.5%	8.0%	8.2%	8.4%

PER SHARE FIGURES

(CZK)	2004	2005	2006	2007	2008E	2009E	2010E
EPS	235.1	234.4	239.9	294.3	330.6	357.7	378.2
DPS	96	250	150	180	190	200	210
BVPS	1,179	1,350	1,316	1,306	1,457	1,624	1,803
P/E	15.6	15.6	15.2	12.4	11.1	10.2	9.7
Dividend Yield	2.6%	6.8%	4.1%	4.9%	5.2%	5.5%	5.7%
P/BV	3.10	2.71	2.78	2.80	2.51	2.25	2.03
ROE/CoE	2.2	2.0	1.9	2.4	2.6	2.5	2.4

Source: Company data, Wood & Co estimates

PKO BP

Buy

(Maintained)

Price: PLN 42.0

Price Target: PLN 48.0

(Up from PLN 58.0)

Waiting for November

Despite being down 21% ytd, PKO BP has been the best-performing Polish banking stock this year. This is due partly due to the work of the previous management, which sped up restructuring and improved the bank's transparency.

PKO BP still offers all the right ingredients for success – a vast and low-cost deposit and client base, plenty of room for cost savings and revenue enhancement -- all things we have already seen at a turnaround of Hungary's OTP or Czech Ceska Sporitelna.

Political interference remains the only distracting element, especially, as approval of the bank's new strategy is being delayed. Until that happens and until 3Q08 results are presented (confirming 2Q provision increase was a one-off only), we do not believe PKO BP will outperform its peers significantly.

Having said that, PKO BP offers one of the simplest receipts for success and some of the best profit growth prospects in the long-term. We maintain our Buy rating and with a new target of PLN 48.

Expected Events

Q3 results

November 11, 2008

Key Data

Market Cap	EUR 13,356 mil
Free Float	43%/EUR 5,743 mil
Shares outstanding	1,000 mil
Average daily volume	EUR 23.1 mil
Major Sh'holder	Treasury (51.5%) BZ WBK Fund (1.0%)
Reuters Code	PKOB.WA
Bloomberg Code	PKO PW
WIG20 Index	2,458

Price Performance

52-w range (PLN)	39.1 -56.5
YTD EUR Performance	-3.6 %
Relative YTD EUR Performance	16.7 %

PKO BP Price Performance



Year	Revenues (PLN mil)	Net Profit (PLN mil)	EPS (PLN)	EPS growth	PE	BVPS (PLN)	PBV	ROE	Dividend (PLN)	Dividend yield
2010E	12,077	4,924	4.92	13.4%	8.5	20.6	2.04	26.0%	1.97	4.7%
2009E	10,716	4,341	4.34	14.2%	9.7	17.4	2.42	27.2%	1.74	4.1%
2008E	9,418	3,800	3.80	30.9%	11.1	14.6	2.88	28.7%	1.52	3.6%
2007	7,744	2,904	2.90	35.1%	14.5	11.9	3.52	26.4%	1.16	2.8%
2006	6,518	2,149	2.15	23.9%	19.5	10.1	4.17	22.8%	0.86	2.0%
2005	6,466	1,735	1.73	15.1%	24.2	8.8	4.79	19.8%	0.79	1.9%
2004	5,959	1,507	1.51	26.3%	27.9	8.8	4.78	20.5%	1.00	2.4%

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INCOME STATEMENT (consolidated IFRS)

(PLN mil)	2004	2005	2006	2007	2008E	2009E	2010E
Net interest income	3,514	3,544	3,832	4,644	6,046	6,785	7,587
Non-interest income	2,446	2,921	2,686	3,100	3,372	3,931	4,489
net commission income	1,583	1,218	1,866	2,335	2,408	2,850	3,329
net FX gains	473	612	544	530	740	787	852
securities income	(63)	325	(37)	(62)	(10)	37	30
Total banking revenue	5,959	6,466	6,518	7,744	9,418	10,716	12,077
Total costs	(3,944)	(4,161)	(3,812)	(4,083)	(4,264)	(4,687)	(5,086)
personnel costs	(1,933)	(2,053)	(2,255)	(2,289)	(2,400)	(2,634)	(2,854)
depreciation	(520)	(467)	(318)	(381)	(430)	(462)	(504)
other costs	(1,478)	(1,642)	(1,239)	(1,413)	(1,434)	(1,590)	(1,728)
Operating income	2,016	2,305	2,706	3,662	5,154	6,030	6,991
Net provisions	(169)	(161)	(1)	(57)	(390)	(626)	(861)
Pretax profit	1,869	2,167	2,701	3,609	4,785	5,409	6,136
Income tax	(362)	(411)	(494)	(668)	(950)	(1,028)	(1,166)
Net income	1,507	1,735	2,149	2,904	3,800	4,341	4,924

GROWTH RATIOS

Net interest income growth	1.5%	0.9%	8.1%	21.2%	30.2%	12.2%	11.8%
Net fee growth	18.7%	(23.1%)	53.2%	25.1%	3.1%	18.4%	16.8%
Total income growth	5.9%	8.5%	0.8%	18.8%	21.6%	13.8%	12.7%
Cost growth	12.9%	5.5%	(8.4%)	7.1%	4.4%	9.9%	8.5%
Operating profit growth	4.3%	14.3%	17.4%	35.3%	40.8%	17.0%	16.0%
Pre-tax profit growth	14.9%	16.0%	24.7%	33.6%	32.6%	13.1%	13.4%
Net profit growth	26.3%	15.1%	23.9%	35.1%	30.9%	14.2%	13.4%

BALANCE SHEET (consolidated IFRS)

(PLN mil)	2004	2005	2006	2007	2008E	2009E	2010E
Cash	3,525	3,895	4,628	4,683	4,961	5,247	5,420
Due from banks	13,232	12,663	13,431	5,292	5,651	5,922	6,624
Debt securities	25,191	23,929	20,480	16,790	17,927	18,787	21,015
Customer loans	40,037	46,875	58,907	76,417	92,626	109,424	125,355
Total assets	85,954	91,865	102,026	108,569	126,310	145,084	164,607
Customer deposits	73,096	76,748	83,507	86,611	98,390	109,492	119,329
Total Equity	8,792	8,775	10,078	11,921	14,559	17,380	20,568
Equity and Liabilities	85,954	91,865	102,026	108,569	126,310	145,084	164,607

GROWTH RATIOS

Customer loans growth	4.3%	17.1%	25.7%	29.7%	21.2%	18.1%	14.6%
- of which corporate loan growth	(21.6%)	15.9%	13.5%	26.5%	23.7%	21.6%	19.6%
- of which mortgage loan growth	40.1%	20.5%	27.9%	37.4%	15.3%	16.5%	11.2%
- of which consumer loan growth	9.7%	19.2%	20.2%	20.2%	29.8%	16.1%	13.1%
Customer deposits growth	2.2%	5.0%	8.8%	3.7%	13.6%	11.3%	9.0%
Total assets growth	1.6%	6.9%	11.1%	6.4%	16.3%	14.9%	13.5%

KEY RATIOS

Total Income/Earning Assets	7.3%	7.4%	6.7%	7.5%	7.8%	7.7%	7.6%
Interest Expense/Int-bearing Liabs.	2.4%	2.8%	2.1%	2.1%	2.6%	2.7%	2.8%
NIM on Total Assets	4.1%	4.0%	4.0%	4.4%	5.1%	5.0%	4.9%
Cost/income ratio	66.2%	64.4%	58.5%	52.7%	45.3%	43.7%	42.1%
Cost/assets ratio	4.6%	4.7%	3.9%	3.9%	3.6%	3.5%	3.3%
Provisions/Net Interest Income	4.8%	4.5%	0.0%	1.2%	6.4%	9.2%	11.4%
NPLs/Loans	8.9%	6.3%	4.3%	3.4%	3.1%	3.8%	4.2%
Provisions/NPLs	66.6%	93.3%	92.6%	89.5%	108.3%	97.1%	95.9%
ROE	20.5%	19.8%	22.8%	26.4%	28.7%	27.2%	26.0%
ROA	1.8%	2.0%	2.2%	2.8%	3.2%	3.2%	3.2%
Customer loans/Assets	46.6%	51.0%	57.7%	70.4%	73.3%	75.4%	76.2%
Customer deposits/Assets	85.0%	83.5%	81.8%	79.8%	77.9%	75.5%	72.5%
Loans/Deposits	54.8%	61.1%	70.5%	88.2%	94.1%	99.9%	105.1%
Equity/Assets	10.2%	9.6%	9.9%	11.0%	11.5%	12.0%	12.5%

PER SHARE FIGURES

(PLN)	2004	2005	2006	2007	2008E	2009E	2010E
EPS	1.51	1.73	2.15	2.90	3.80	4.34	4.92
DPS	1.00	0.79	0.86	1.16	1.52	1.74	1.97
BVPS	8.79	8.77	10.08	11.92	14.56	17.38	20.57
P/E	27.9	24.2	19.5	14.5	11.1	9.7	8.5
Dividend Yield	2.4%	1.9%	2.0%	2.8%	3.6%	4.1%	4.7%
P/BV	4.8	4.8	4.2	3.5	2.9	2.4	2.0
ROE/CoE	2.2	2.3	2.6	3.0	3.2	2.9	2.7

Pekao SA

Sell

(Upgrade from Sell)

Price: PLN 150
Price Target: PLN 160

(Down from PLN 169)

As bad as it gets

Pekao represents one of the most conservative and defensive plays on the Polish market, much like the case with Komerční Banka in the Czech Republic. With loans to deposits at 82%, capital adequacy at 11% and low appetite for FX lending, Pekao fulfils a dream of any risk manager.

Low expectations, especially, compared to PKO BP are also the biggest opportunity of the bank. Pekao's 2009 earnings have been downgraded already 17% this year (compared to PKO's 8% jump) and most people we speak to are already fairly negative. This could be a great start, especially as management will be re-focusing on the business following a long bout of dealing with internal matters related to the BPH merger.

Despite losing a lot of market share, its IR manager and the position of best bank in Poland, the bank has most of the weapons to get all back – such as economies of scale, a strong client base, and strong foreign partner.

Before we would consider changing our negative view, we would like to first see tangible proof that a positive change is happening. We therefore maintain our Sell recommendation, with a target price of PLN 150.

Expected Events

Q3 results	November 12, 2008
Q4 results	February 20, 2009

Key Data

Market Cap	EUR 13,632 mil
Free Float	27%/EUR 3,680 mil
Shares outstanding	261.8 mil
Average daily volume	EUR 20.3 mil
Major Sh'holder	Unicredit (59.4%) Treasury (2.6%)
Reuters Code	BAPE.WA
Bloomberg Code	PEO PW
WIG20 Index	2,458

Price Performance

52-w range (PLN)	147.1-270.5
YTD EUR Performance	-10.3 %
Relative YTD EUR Performance	9.4 %



Year	Revenues (PLN mil)	Net Profit (PLN mil)	EPS adj. (PLN)	EPS growth	PE adj. (x)	BVPS (PLN)	PBV	ROE (%)	Dividend (PLN)	Dividend yield
2010E	9,459	4,038	15.4	7.3%	10.8	73.2	2.28	22.2%	7.7	4.6%
2009E	8,817	3,762	14.4	15.5%	11.6	65.7	2.54	22.9%	7.9	4.7%
2008E	8,095	3,612	12.4	7.6%	13.4	59.6	2.80	24.0%	8.3	5.0%
2007	5,369	2,157	11.6	13.4%	14.4	55.5	3.01	18.4%	9.3	5.6%
2006	4,658	1,788	10.2	13.1%	16.4	53.3	3.13	20.7%	9.0	5.4%
2005	4,413	1,538	9.02	22.8%	18.5	50.5	3.31	19.0%	7.4	4.4%
2004	4,059	1,252	7.35	32.4%	22.7	46.9	3.56	16.7%	6.4	3.8%

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INCOME STATEMENT (consolidated IFRS)

(PLN mil)	2004	2005	2006	2007	2008E	2009E	2010E
Net interest income	2,170	2,350	2,379	2,706	4,761	5,131	5,446
Non-interest income	1,889	2,063	2,279	2,662	3,335	3,687	4,015
net commission income	1,481	1,587	1,856	2,167	2,506	2,763	3,013
net FX gains	289	265	256	333	501	566	622
securities income	70	139	124	55	140	122	111
Total banking revenue	4,059	4,413	4,658	5,369	8,095	8,818	9,461
Total costs	(2,333)	(2,346)	(2,347)	(2,734)	(3,891)	(3,937)	(4,060)
personnel costs	(1,156)	(1,203)	(1,203)	(1,393)	(1,940)	(2,032)	(2,088)
depreciation	(322)	(323)	(318)	(336)	(424)	(436)	(453)
other costs	(845)	(811)	(825)	(1,005)	(1,527)	(1,469)	(1,520)
Operating income	1,726	2,067	2,311	2,635	4,204	4,880	5,401
Net provisions	(316)	(237)	(222)	(177)	(343)	(481)	(673)
Pretax profit	1,446	1,874	2,199	2,629	4,441	4,626	4,967
Income tax	(197)	(339)	(409)	(464)	(818)	(853)	(915)
Net income	1,252	1,538	1,788	2,157	3,612	3,762	4,039

GROWTH RATIOS

Net interest income growth	(7.6%)	8.3%	1.2%	13.7%	75.9%	7.8%	6.1%
Net fee growth	5.6%	7.1%	16.9%	16.7%	15.6%	10.3%	9.1%
Total income growth	(0.7%)	8.7%	5.5%	15.3%	50.8%	8.9%	7.3%
Cost growth	10.2%	0.6%	0.0%	16.5%	42.3%	1.2%	3.1%
Operating profit growth	(2.5%)	19.8%	11.8%	14.0%	59.5%	16.1%	10.7%
Net profit growth	36.2%	22.8%	16.2%	20.7%	67.4%	4.2%	7.4%

BALANCE SHEET (consolidated IFRS)

(PLN mil)	2004	2005	2006	2007	2008E	2009E	2010E
Cash	3,948	3,581	3,580	5,122	4,986	5,311	5,593
Due from banks	5,961	6,966	10,506	16,791	15,185	13,801	12,209
Debt securities	20,072	19,274	17,547	26,590	24,046	21,855	19,334
Customer loans	26,296	28,970	32,745	69,718	76,565	90,085	103,361
Total assets	59,536	61,972	67,704	124,051	126,511	136,604	146,297
Due to banks	3,484	3,948	4,055	10,324	10,239	10,554	11,136
Customer deposits	45,822	46,848	51,794	90,113	88,494	95,097	101,055
Certified debt	23	0	716	5,906	7,906	9,406	10,406
Total Equity	7,812	8,407	8,876	14,538	15,600	17,195	19,165
Equity and Liabilities	59,536	61,972	67,704	124,051	126,511	136,604	146,297

GROWTH RATIOS

Customer loans growth	(2.4%)	10.2%	13.0%	112.9%	9.8%	17.7%	14.7%
- of which corporate loan growth	3.2%	9.5%	4.7%	89.1%	9.7%	16.5%	14.2%
- of which mortgage loan growth	24.3%	21.6%	33.8%	74.8%	19.8%	24.1%	19.2%
- of which consumer loan growth	(5.2%)	19.8%	17.9%	201.1%	17.2%	19.1%	16.1%
Customer deposits growth	(2.8%)	2.2%	10.6%	74.0%	(1.8%)	7.5%	6.3%
Total assets growth	(5.5%)	4.1%	9.2%	83.2%	2.0%	8.0%	7.1%

KEY RATIOS

Total Income/Earning Assets	7.2%	7.5%	7.2%	4.5%	6.7%	6.7%	6.7%
Interest Expense/Int-bearing Liabs.	3.1%	3.0%	2.7%	2.4%	3.9%	3.9%	3.9%
NIM on Total Assets	3.5%	3.9%	3.7%	2.8%	3.8%	3.9%	3.9%
Cost/income ratio	57.5%	53.2%	50.4%	50.9%	48.1%	44.7%	42.9%
Cost/assets ratio	3.8%	3.9%	3.6%	2.9%	3.1%	3.0%	2.9%
Provisions/Net Interest Income	14.5%	10.1%	9.3%	6.6%	7.2%	9.4%	12.4%
NPLs/Loans	19.9%	15.6%	11.8%	7.8%	5.6%	5.2%	4.7%
Provisions/NPLs	67.0%	83.9%	89.3%	84.2%	85.0%	85.7%	91.4%
ROE	16.7%	19.0%	20.7%	18.4%	24.0%	22.9%	22.2%
ROA	2.0%	2.5%	2.8%	2.3%	2.9%	2.9%	2.9%
Customer loans/Assets	44.2%	46.7%	48.4%	56.2%	60.5%	65.9%	70.7%
Customer deposits/Assets	77.0%	75.6%	76.5%	72.6%	69.9%	69.6%	69.1%
Loans/Deposits	57.4%	61.8%	63.2%	77.4%	86.5%	94.7%	102.3%
Equity/Assets	13.1%	13.6%	13.1%	11.7%	12.3%	12.6%	13.1%

PER SHARE FIGURES

(PLN)	2004	2005	2006	2007	2008E	2009E	2010E
EPS	7.53	9.24	10.74	12.37	13.79	14.37	15.43
DPS	6.41	7.40	9.00	9.28	8.28	7.90	7.71
BVPS	46.93	50.50	53.31	55.52	59.57	65.66	73.19
P/E	22.2	18.1	15.6	13.5	12.1	11.6	10.8
Dividend Yield	3.8%	4.4%	5.4%	5.6%	5.0%	4.7%	4.6%
P/BV	3.6	3.3	3.1	3.0	2.8	2.5	2.3
ROE/CoE	1.9	2.3	2.4	2.1	2.7	2.5	2.4

BZ-WBK

Hold

(Maintained)

Price: PLN 153

Price Target: PLN 150

(Down from PLN 180)

Victim of its own success

Due mostly to its reliance on asset management and brokerage businesses, BZ-WBK has been one of the worst-performers among Polish banks this year with a 29% share price drop.

This is a pity, especially as BZ-WBK remains one of the best-managed and most innovative banks in Poland (not only because of the great advert with John Cleese) and has done all the key things right in the past (some of them too well).

Although the reliance on asset management will be declining, BZ-WBK's hefty exposure towards corporate lending and the bank's young portfolio (38% of its loans were granted since 2006) might translate into higher provisions, especially, as BZ-WBK might be more exposed towards exporters.

We like the bank, though would still recommend avoiding its stock. Bullish view on BZ-WBK means a call on mutual fund redemptions, something we want to avoid. We remain HOLDERS of the stock.

Expected Events

Q3 results November 6, 2008

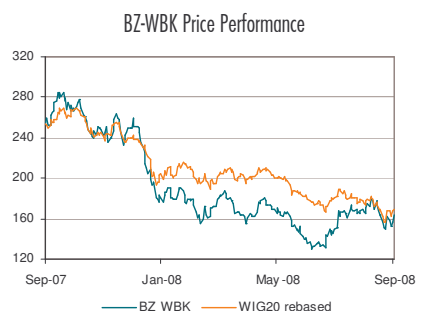
Q4 results February 24, 2009

Key Data

Market Cap	EUR 3,538 mil
Free Float	27%/EUR 955 mil
Shares outstanding	72.96 mil
Average daily volume	EUR 3.7 mil
Major Sh'holder	AIB (70.5%)
	Julius Baer Bank (1.3%)
Reuters Code	BZWB.WA
Bloomberg Code	BZW PW
WIG20 Index	2458

Price Performance

52-w range (PLN)	130 - 285
YTD EUR Performance	-28.6 %
Relative YTD EUR Performance	-8.8 %



Year	Revenues (PLN mil)	Net Profit (PLN mil)	EPS (PLN)	EPS growth	PE (x)	BVPS (PLN)	PBV	ROE	Dividend (PLN)	Dividend yield
2010E	4,256	1,220	16.7	12.8%	9.2	94.3	1.62	19.0%	4.2	2.7%
2009E	3,779	1,081	14.8	11.4%	10.3	81.3	1.88	19.6%	3.7	2.4%
2008E	3,323	970	13.3	1.6%	11.5	69.8	2.19	20.6%	3.3	2.2%
2007	2,955	955	13.1	25.9%	11.7	59.5	2.57	23.0%	3.0	2.0%
2006	2,374	758	10.4	47.6%	14.7	54.3	2.82	20.7%	6.0	3.9%
2005	1,913	514	7.0	12.7%	21.7	46.3	3.30	16.0%	6.0	3.9%
2004	1,866	456	6.2	n.m.	24.5	41.4	3.70	16.4%	2.4	1.6%

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INCOME STATEMENT (consolidated IFRS)

(PLN mil)	2004	2005	2006	2007	2008E	2009E	2010E
Net interest income	874	909	1,032	1,287	1,651	1,999	2,304
Non-interest income	992	1,003	1,342	1,668	1,672	1,779	1,952
net commission income	639	694	1,191	1,545	1,482	1,600	1,769
net FX gains	197	218	0	0	0	0	0
securities income	144	71	142	109	159	142	140
Total banking revenue	1,866	1,913	2,374	2,955	3,323	3,779	4,256
Total costs	(1,153)	(1,165)	(1,290)	(1,559)	(1,840)	(2,104)	(2,326)
personnel costs	(531)	(574)	(684)	(843)	(1,004)	(1,161)	(1,314)
depreciation	(199)	(186)	(159)	(135)	(121)	(141)	(147)
other costs	(417)	(399)	(442)	(576)	(708)	(794)	(857)
Operating income	713	748	1,084	1,395	1,483	1,675	1,930
Net provisions	(131)	(62)	(28)	(4)	(118)	(181)	(264)
Pretax profit	588	687	1,065	1,391	1,366	1,494	1,666
Income tax	(115)	(144)	(221)	(281)	(276)	(291)	(316)
Net income	456	514	758	955	970	1,081	1,220

GROWTH RATIOS

Net interest income growth	5.5%	4.0%	13.5%	24.7%	28.3%	21.1%	15.2%
Net fee growth	20.1%	8.6%	71.6%	29.7%	(4.1%)	7.9%	10.6%
Total income growth	13.4%	2.5%	24.1%	24.5%	12.5%	13.7%	12.6%
Cost growth	10.2%	1.0%	10.7%	20.9%	18.0%	14.3%	10.6%
Operating profit growth	78.9%	4.8%	45.0%	28.7%	6.3%	12.9%	15.2%
Net profit growth	253.5%	12.7%	47.6%	25.9%	1.6%	11.4%	12.8%

BALANCE SHEET (consolidated IFRS)

(PLN mil)	2004	2005	2006	2007	2008E	2009E	2010E
Cash	1,200	572	1,534	2,206	1,045	1,198	1,351
Due from banks	2,800	3,608	3,155	2,577	2,699	2,832	3,083
Debt securities	7,873	9,667	9,146	11,063	11,589	12,161	13,238
Customer loans	14,052	14,197	17,620	23,950	31,673	39,012	46,860
Total assets	27,546	29,604	32,992	41,332	49,121	57,509	67,024
Due to banks	1,302	1,693	2,608	4,484	2,450	2,835	3,249
Customer deposits	19,317	20,839	24,222	29,766	36,076	40,650	45,084
Certified debt	1,933	1,840	888	1,357	2,842	5,070	8,411
Total Equity	3,019	3,382	3,960	4,342	5,093	5,931	6,881
Equity and Liabilities	27,546	29,604	32,992	41,332	49,121	57,509	67,024

GROWTH RATIOS

Customer loans growth	2.5%	1.0%	24.1%	35.9%	32.2%	23.2%	20.1%
- of which corporate loan growth	(0.3%)	(0.1%)	22.3%	36.9%	22.0%	20.0%	18.0%
- of which mortgage loan growth	3.4%	7.7%	26.3%	42.2%	41.7%	28.7%	23.4%
- of which consumer loan growth	n.a.	22.8%	31.2%	47.1%	41.8%	32.4%	25.0%
Customer deposits growth	9.1%	7.9%	16.2%	22.9%	21.2%	12.7%	10.9%
Total assets growth	14.0%	7.5%	11.4%	25.3%	18.8%	17.1%	16.5%

KEY RATIOS

Total Income/Earning Assets	7.2%	6.8%	7.5%	7.4%	7.1%	6.8%	6.6%
Interest Expense/Int-bearing Liabs.	2.9%	3.2%	2.4%	2.6%	3.1%	3.2%	3.3%
NIM on Total Assets	3.4%	3.2%	3.3%	3.5%	3.7%	3.8%	3.7%
Cost/income ratio	61.8%	60.9%	54.3%	52.8%	55.4%	55.7%	54.7%
Cost/assets ratio	4.5%	4.1%	4.1%	4.2%	4.1%	3.9%	3.7%
Provisions/Net Interest Income	15.0%	6.8%	2.7%	0.3%	7.1%	9.1%	11.5%
NPLs/Loans	8.5%	6.9%	4.9%	2.8%	2.5%	2.9%	3.9%
Provisions/NPLs	51.3%	62.4%	60.7%	65.3%	68.7%	63.9%	54.1%
ROE	16.4%	16.0%	20.7%	23.0%	20.6%	19.6%	19.0%
ROA	1.8%	1.8%	2.4%	2.6%	2.1%	2.0%	2.0%
Customer loans/Assets	51.0%	48.0%	53.4%	57.9%	64.5%	67.8%	69.9%
Customer deposits/Assets	70.1%	70.4%	73.4%	72.0%	73.4%	70.7%	67.3%
Loans/Deposits	72.7%	68.1%	72.7%	80.5%	87.8%	96.0%	103.9%
Equity/Assets	11.0%	11.4%	12.0%	10.5%	10.4%	10.3%	10.3%

PER SHARE FIGURES

(PLN)	2004	2005	2006	2007	2008E	2009E	2010E
EPS	6.24	7.04	10.39	13.09	13.30	14.82	16.72
DPS	2.43	5.97	5.97	3.00	3.32	3.70	4.18
BVPS	41.38	46.35	54.28	59.51	69.80	81.30	94.31
P/E	24.5	21.7	14.7	11.7	11.5	10.3	9.2
Dividend Yield	1.6%	3.9%	3.9%	2.0%	2.2%	2.4%	2.7%
P/BV	3.7	3.3	2.8	2.6	2.2	1.9	1.6
ROE/CoE	1.8	1.9	2.4	2.6	2.3	2.1	2.0

BRE Bank

Sell

(Downgrade from Hold)

Price: PLN 312

Price Target: PLN 300

(Down from PLN 400)

As good as it gets

In contrast to Pekao, BRE Bank is already one of the most transparent, best-managed but also one of the most stretched banks in Poland. Although we have been (and still are) one of the biggest fans of BRE's unique business model, this is not a bank for a slowing environment.

BRE is the least capitalized and one of the most stretched Polish banks in terms of funding with a capital adequacy ratio of 9.2% and loans to deposits at 110%. The bank is one of the most exposed in the region to corporate and mortgage loan asset quality deterioration, especially as BRE has been one of the most aggressive lenders over the last 18 months.

With most of the equity disposal being completed now and market expectations towards the bank staying high, room to surprise has comprised massively and moved to the downside, in our view.

We therefore downgrade BRE to Sell from Hold and would recommend switching to more conservative plays such as PKO BP or Bank Slaski.

Expected Events

Q3 results October 30, 2008

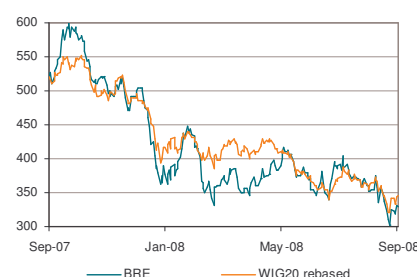
Key Data

Market Cap	EUR 2,912 mil
Free Float	23%/EUR 669 mil
Shares outstanding	29.66 mil
Average daily volume	EUR 3.7 mil
Major Sh'holder	Commerzbank (69.9%) BZ WBK Asset mgmt (4.7%)
Reuters Code	BREP.WA
Bloomberg Code	BRE PW
WIG20 Index	2,458

Price Performance

52-w range (PLN)	301.8 - 600
YTD EUR Performance	-29.1 %
Relative YTD EUR Performance	-9.4 %

BRE Bank Price Performance



Year	Revenues (PLN mil)	Net Profit (PLN mil)	Adj. Net Profit	EPS (PLN)	EPS growth	Adj. EPS growth	PE	Adj. PE	BVPS (PLN)	PBV	ROE
2010E	3,838	1,011	1,011	34.1	-0.2%	5.5%	9.1	9.1	206	1.51	18.1%
2009E	3,243	1,013	920	34.2	0.5%	22.1%	9.1	10.0	172	1.81	21.8%
2008E	2,665	1,007	753	34.0	41.6%	16.2%	9.2	12.3	142	2.20	26.8%
2007	2,202	710	647	24.0	67.1%	57.3%	13.0	14.2	112	2.78	24.3%
2006	1,625	421	408	14.4	49.9%	49.9%	21.7	21.7	86	3.64	18.5%
2005	1,431	277	277	9.6	n.m.	n.m.	32.5	32.5	70	4.46	14.3%
2004	1,086	-294	-294	-11.4	n.m.	n.m.	n.m.	n.m.	64	4.86	-17.2%

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INCOME STATEMENT (consolidated IFRS)

(PLN mil)	2004	2005	2006	2007	2008E	2009E	2010E
Net interest income	486	651	724	1,028	1,350	1,652	2,002
Non-interest income	600	780	901	1,174	1,315	1,590	1,836
net commission income	382	399	416	564	628	796	1,019
net FX gains	221	212	354	435	487	568	667
securities income	8	143	85	58	63	76	93
Total banking revenue	1,086	1,431	1,625	2,202	2,665	3,243	3,838
Total costs	(880)	(940)	(1,044)	(1,280)	(1,500)	(1,747)	(2,158)
personnel costs	(350)	(424)	(476)	(622)	(732)	(834)	(1,046)
depreciation	(149)	(140)	(165)	(176)	(188)	(223)	(319)
other costs	(375)	(373)	(400)	(476)	(580)	(689)	(793)
Operating income	206	491	581	922	1,164	1,496	1,680
Net provisions	(443)	(123)	(46)	(77)	(175)	(289)	(409)
Extraordinary items	0	0	36	87	214	115	50
Pretax profit	(237)	368	571	932	1,203	1,322	1,321
Income tax	(36)	(70)	(124)	(185)	(148)	(251)	(251)
Net income	(294)	277	421	710	1,007	1,013	1,011
Adj. Net income	(294)	277	408	647	753	920	971

GROWTH RATIOS

Net interest income growth	89.3%	33.9%	11.3%	41.9%	31.4%	22.4%	21.2%
Net fee growth	53.0%	4.5%	4.4%	35.5%	11.3%	26.7%	28.1%
Total income growth	17.4%	31.8%	13.6%	35.5%	21.0%	21.7%	18.4%
Cost growth	41.1%	6.8%	11.1%	22.5%	17.3%	16.4%	23.5%
Operating profit growth	103.3%	138.8%	18.2%	58.9%	26.2%	28.5%	12.3%
Net profit growth	n.a.	n.a.	52.0%	68.6%	41.9%	0.5%	(0.2%)
Adj. Net profit growth	n.a.	n.a.	47.2%	58.7%	16.4%	22.1%	5.5%

BALANCE SHEET (consolidated IFRS)

(PLN mil)	2004	2005	2006	2007	2008E	2009E	2010E
Due from banks	6,990	4,668	2,844	2,094	2,491	2,912	3,796
Customer loans	14,330	15,464	23,045	33,707	43,397	51,667	60,134
Total assets	31,182	33,150	42,331	56,007	69,580	81,985	103,358
Due to banks	5,562	4,337	7,972	12,287	14,442	16,672	19,461
Customer deposits	16,898	20,443	24,670	32,426	41,020	47,935	55,677
Certified debt	4,123	4,094	6,191	6,754	7,704	9,653	12,143
Total Equity	1,845	2,035	2,531	3,325	4,195	5,093	6,104
Equity and Liabilities	31,182	33,150	42,331	56,007	69,580	81,985	103,358

GROWTH RATIOS

Customer loans growth	(6.5%)	7.9%	49.0%	46.3%	28.7%	19.1%	16.4%
Customer deposits growth	39.4%	21.0%	20.7%	31.4%	26.5%	16.9%	16.2%
Total assets growth	2.1%	6.3%	27.7%	32.3%	24.2%	17.8%	26.1%

KEY RATIOS

NIM on Total Assets	1.57%	2.02%	1.92%	2.09%	2.15%	2.18%	2.16%
Cost/income ratio	81.1%	65.7%	64.3%	58.1%	56.3%	53.9%	56.2%
Cost/assets ratio	2.9%	2.9%	2.8%	2.6%	2.4%	2.3%	2.3%
NPLs/Loans	11.8%	7.8%	4.2%	3.7%	3.2%	3.8%	4.5%
Provisions/NPLs	51.9%	61.3%	72.2%	56.7%	64.4%	61.1%	60.4%
ROE	(17.2%)	14.3%	18.5%	24.3%	26.8%	21.8%	18.1%
Adj. ROE	(17.2%)	14.3%	17.9%	22.1%	20.0%	19.8%	17.3%
ROA	(1.0%)	0.9%	1.1%	1.4%	1.6%	1.3%	1.1%
Customer loans/Assets	46.0%	46.6%	54.4%	60.2%	62.4%	63.0%	58.2%
Customer deposits/Assets	54.2%	61.7%	58.3%	57.9%	59.0%	58.5%	53.9%
Loans/Deposits	84.8%	75.6%	93.4%	103.9%	105.8%	107.8%	108.0%
Equity/Assets	5.9%	6.1%	6.0%	5.9%	6.0%	6.2%	5.9%

PER SHARE FIGURES

(PLN)	2004	2005	2006	2007	2008E	2009E	2010E
EPS	-11.4	9.6	14.4	24.0	34.0	34.2	34.1
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BVPS	64.25	69.98	85.74	112.28	141.68	172.00	206.15
P/E	-27.4	32.5	21.7	13.0	9.2	9.1	9.1
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/BV	4.9	4.5	3.6	2.8	2.2	1.8	1.5
ROE/CoE	-1.8	1.6	2.0	2.6	2.8	2.2	1.8

Bank Handlowy

Hold

(Maintained)

Price: PLN 65.0

Price Target: PLN 70.0

(Down from PLN 85.0)

Safe but without catalysts

With limited exposure to mortgage lending, a liquid and over-capitalized balance sheet (with loans to deposits at 69% and equity at 14% of assets) and a relatively attractive valuation, Bank Handlowy might have been the best defensive investment among Polish banks.

However, the bank has disappointed, with hefty trading losses in 2Q08, and we have capitulated with our bullish view on the stock during the summer months (along with the market, as the bank's 2009 earnings were downgraded 14% following the results).

Despite good cost control (additional cost savings are about to come at year-end) and improving momentum in the balance sheet (with loans and deposits growing 20% and 11% yoy) and increasing management openness, the overall improvement is not good enough to re-enter the stock.

With PE and PBV of 10x and 1.4x expected in 2009) and attractive dividend yield of up to 7% in the years to come, Bank Handlowy is well supported at current prices. We however still lack a catalyst or excitement to go back into the stock, and thus maintain our HOLD rating for now.

Expected Events

Q3 results

November 6, 2008

Key Data

Market Cap	EUR 2,604 mil
Free Float	25%/EUR 651 mil
Shares outstanding	130.7 mil
Average daily volume	EUR 0.8 mil
Major Sh'holder	Citibank (75%)
Reuters Code	BAHA.WA
Bloomberg Code	BHW PW
WIG20 Index	2,458

Price Performance

52-w range (PLN)	61.0-125.6
YTD EUR Performance	-23.4%
Relative YTD EUR Performance	-3.6%

Handlowy Price Performance



Year	Revenues (PLN mil)	Net Profit (PLN mil)	EPS (PLN)	EPS growth	PE	BVPS (PLN)	PBV	ROE	Dividend (PLN)	Dividend yield
2010E	2,986	909	7.0	8.7%	9.3	9.3	1.36	15.0%	4.52	7.0%
2009E	2,740	837	6.4	4.8%	10.2	45.2	1.44	14.5%	4.48	6.9%
2008E	2,580	798	6.1	-3.4%	10.6	43.4	1.50	14.2%	4.58	7.0%
2007	2,510	826	6.3	25.8%	10.3	42.9	1.52	15.0%	5.26	8.1%
2006	2,185	657	5.0	6.3%	12.9	41.5	1.57	12.3%	4.10	6.3%
2005	2,314	618	4.7	24.9%	13.7	40.2	1.62	10.8%	3.60	5.5%
2004	2,068	495	3.8	66.9%	17.2	47.7	1.36	8.1%	11.97	18.4%

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INCOME STATEMENT (consolidated IFRS)

(PLN mil)	2004	2005	2006	2007	2008E	2009E	2010E
Net interest income	978	1,028	1,026	1,204	1,330	1,452	1,573
Non-interest income	1,091	1,286	1,159	1,306	1,252	1,290	1,413
net commission income	548	596	618	737	680	682	767
net FX gains	360	353	316	423	446	462	480
securities income	90	246	136	84	61	72	80
Total banking revenue	2,068	2,314	2,185	2,510	2,582	2,742	2,986
Total costs	(1,455)	(1,546)	(1,502)	(1,516)	(1,513)	(1,598)	(1,708)
personnel costs	(575)	(686)	(702)	(697)	(716)	(754)	(806)
depreciation	(143)	(140)	(130)	(109)	(101)	(106)	(111)
other costs	(729)	(719)	(670)	(710)	(697)	(739)	(791)
Operating income	614	768	683	994	1,068	1,143	1,278
Net provisions	(9)	30	23	56	(52)	(96)	(142)
Pretax profit	622	796	832	1,042	999	1,047	1,136
Income tax	(127)	(178)	(175)	(215)	(200)	(209)	(227)
Net income	495	618	657	826	799	838	909

GROWTH RATIOS

Net interest income growth	31.2%	5.2%	(0.2%)	17.4%	10.4%	9.2%	8.4%
Net fee growth	0.1%	8.8%	3.6%	19.2%	(7.7%)	0.3%	12.5%
Total income growth	6.9%	11.9%	(5.6%)	14.9%	2.8%	6.2%	8.9%
Cost growth	42.3%	6.2%	(2.9%)	0.9%	(0.2%)	5.6%	6.9%
Operating profit growth	(13.9%)	25.2%	(11.1%)	45.5%	7.4%	7.0%	11.8%
Pre-tax profit growth	35.5%	28.0%	4.5%	25.2%	(4.1%)	4.9%	8.5%
Net profit growth	66.9%	24.9%	6.3%	25.8%	(3.3%)	4.9%	8.5%

BALANCE SHEET (consolidated IFRS)

(PLN mil)	2004	2005	2006	2007	2008E	2009E	2010E
Cash	841	923	536	3,322	584	645	710
Due from banks	8,287	5,883	9,319	8,719	9,592	9,785	10,145
Debt securities	11,409	13,638	12,804	11,702	12,873	13,133	13,616
Customer loans	10,484	9,539	10,197	12,487	15,861	18,829	21,863
Total assets	34,080	32,878	35,991	38,920	42,119	45,856	50,057
Due to banks	3,339	5,224	6,407	7,085	6,970	7,434	7,961
Customer deposits	16,948	17,240	18,880	19,811	21,743	24,466	27,463
Certified debt	5,835	4,020	3,317	4,391	3,591	3,591	3,591
Total Equity	6,239	5,249	5,418	5,605	5,670	5,909	6,231
Equity and Liabilities	34,080	32,878	35,991	38,920	42,119	45,856	50,057

GROWTH RATIOS

Customer loans growth	(20.9%)	(9.0%)	6.9%	22.5%	27.0%	18.7%	16.1%
- of which corporate loan growth	(25.2%)	(4.8%)	(21.6%)	18.2%	22.7%	17.3%	15.3%
- of which consumer loan growth	12.9%	62.5%	33.0%	35.3%	35.5%	27.1%	20.5%
Customer deposits growth	(8.5%)	1.7%	9.5%	4.9%	9.7%	12.5%	12.2%
Total assets growth	0.1%	(3.5%)	9.5%	8.1%	8.2%	8.9%	9.2%

KEY RATIOS

Total Income/Earning Assets	6.7%	7.7%	6.7%	6.9%	6.6%	6.5%	6.4%
Interest Expense/Int-bearing Liabs.	2.9%	2.5%	2.2%	2.6%	3.0%	3.1%	3.3%
NIM on Total Assets	2.9%	3.1%	3.0%	3.2%	3.3%	3.3%	3.3%
Cost/income ratio	70.3%	66.8%	68.7%	60.4%	58.6%	58.3%	57.2%
Cost/assets ratio	4.3%	4.6%	4.4%	4.0%	3.7%	3.6%	3.6%
Provisions/Net Interest Income	0.9%	(2.9%)	(2.2%)	(4.6%)	3.9%	6.6%	9.0%
NPLs/Loans	19.0%	18.0%	15.3%	11.8%	11.9%	10.7%	9.4%
Provisions/NPLs	73.0%	81.0%	86.0%	84.0%	65.6%	64.4%	66.6%
ROE	8.1%	10.8%	12.3%	15.0%	14.2%	14.5%	15.0%
ROA	1.5%	1.8%	1.9%	2.2%	2.0%	1.9%	1.9%
Customer loans/Assets	30.8%	29.0%	28.3%	32.1%	37.7%	41.1%	43.7%
Customer deposits/Assets	49.7%	52.4%	52.5%	50.9%	51.6%	53.4%	54.9%
Loans/Deposits	61.9%	55.3%	54.0%	63.0%	72.9%	77.0%	79.6%
Equity/Assets	18.3%	16.0%	15.1%	14.4%	13.5%	12.9%	12.4%

PER SHARE FIGURES

(PLN)	2004	2005	2006	2007	2008E	2009E	2010E
EPS	3.79	4.73	5.03	6.32	6.11	6.41	6.96
DPS	11.97	3.60	4.10	5.26	4.59	4.49	4.52
BVPS	47.75	40.17	41.47	42.90	43.40	45.22	47.69
P/E	17.2	13.7	12.9	10.3	10.6	10.1	9.3
Dividend Yield	18.4%	5.5%	6.3%	8.1%	7.1%	6.9%	7.0%
P/BV	1.4	1.6	1.6	1.5	1.5	1.4	1.4
ROE/CoE	0.8	1.2	1.3	1.6	1.5	1.5	1.5

Bank Slaski

Buy

(maintained)

Price: PLN 500

Price Target: PLN 620

(Up from PLN 600)

Opening up

With a strong brand name, a large and high quality franchise and client base and the most liquid balance sheet in Poland, ING Bank Slaski has all the right ingredients to move into double-digit profit growth territory in the coming years.

The 2Q08 numbers (showing the bank has been more aggressive on the lending side) and our recent visit to the bank (showing the management is becoming more open) make us optimistic that the bank's vast potential will be better utilized in the near future.

With loans to deposits at only 43%, the lowest among CEE banks, and NPLs at less than 2%, Bank Slaski's downside risk is fairly limited. Assuming a loan book deterioration or provision coverage to be raised to 100% of NPLs, Slaski would lose the least equity among CEE banks.

With PE of 9x and PBV at 1.3x expected in 2009, improving momentum and openness of the management and very few risks, Bank Slaski represents one of two Buy recommendations among Polish banks, alongside the bigger and more liquid PKO BP.

Expected Events

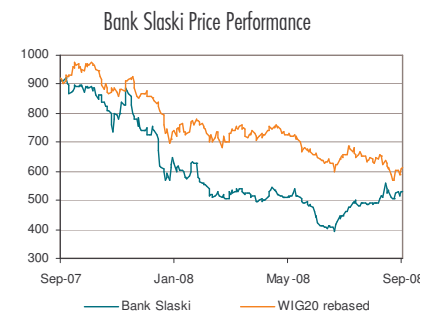
Q3 results	November 12, 2008
Q4 results	February 18, 2009

Key Data

Market Cap	EUR 2,055 mil
Free Float	19%/EUR 390 mil
Shares outstanding	13.01 mil
Average daily volume	EUR 0.7 mil
Major Sh'holder	ING Bank (75%) CU OFE (5.4%)
Reuters Code	SLAS.WA
Bloomberg Code	BSK PW
WIG20 Index	2,458

Price Performance

52-w range (PLN)	395 - 920
YTD EUR Performance	-22.8%
Relative YTD EUR Performance	-3.0%



Year	Revenues (PLN mil)	Net Profit (PLN mil)	EPS (PLN)	EPS growth	PE	BVPS (PLN)	PBV	ROE	Dividend (PLN)	Dividend yield
2010E	2,969	834	64.1	13.1%	7.8	424.9	1.18	16.0%	19.2	3.8%
2009E	2,663	737	56.6	4.9%	8.8	377.8	1.32	15.8%	17.0	3.4%
2008E	2,378	703	54.0	11.4%	9.3	337.4	1.48	17.1%	16.2	3.2%
2007	2,024	631	48.5	6.7%	10.3	295.1	1.69	16.6%	11.7	2.3%
2006	1,782	591	45.5	7.7%	11.0	288.7	1.73	16.2%	27.9	5.6%
2005	1,648	549	42.2	38.9%	11.8	274.0	1.82	16.3%	27.5	5.5%
2004	1,661	396	30.4	n.a.	n.a.	242.6	2.06	13.5%	20.5	4.1%

INCOME STATEMENT (consolidated IFRS)

(PLN mil)	2004	2005	2006	2007	2008E	2009E	2010E
Net interest income	834	721	936	1,049	1,146	1,343	1,522
Non-interest income	827	926	846	975	1,233	1,323	1,451
net commission income	509	528	736	931	889	986	1,127
net FX gains	251	176	0	0	0	0	0
securities income	78	216	80	29	327	318	302
Total banking revenue	1,661	1,648	1,782	2,024	2,379	2,666	2,973
Total costs	(1,029)	(1,101)	(1,234)	(1,385)	(1,579)	(1,734)	(1,886)
personnel costs	(474)	(528)	(579)	(687)	(758)	(836)	(912)
depreciation	(128)	(130)	(142)	(155)	(142)	(156)	(168)
other costs	(422)	(437)	(553)	(543)	(679)	(742)	(805)
Operating income	632	547	548	638	800	932	1,087
Net provisions	(186)	125	166	105	28	(67)	(119)
Pretax profit	470	698	753	787	877	921	1,029
Income tax	(76)	(137)	(155)	(150)	(167)	(175)	(195)
Net income	396	549	591	631	704	739	827

GROWTH RATIOS

Net interest income growth	(5.2%)	(13.5%)	29.8%	12.0%	9.3%	17.2%	13.4%
Net fee growth	(3.2%)	3.6%	39.4%	26.5%	(4.4%)	10.9%	14.3%
Total income growth	12.2%	(0.8%)	8.2%	13.6%	17.6%	12.1%	11.5%
Cost growth	32.9%	7.0%	12.1%	12.2%	14.0%	9.8%	8.8%
Operating profit growth	24.7%	(13.5%)	0.2%	16.6%	25.3%	16.6%	16.6%
Pre-tax profit growth	373.3%	48.5%	8.0%	4.5%	11.4%	5.0%	11.7%
Net profit growth	1194.8%	38.9%	7.7%	6.7%	11.6%	5.0%	11.8%

BALANCE SHEET (consolidated IFRS)

(PLN mil)	2004	2005	2006	2007	2008E	2009E	2010E
Cash	895	1,176	1,148	1,842	2,079	2,290	2,498
Due from banks	10,749	12,599	13,514	15,184	16,618	15,771	14,497
Debt securities	11,999	17,134	19,686	17,300	19,030	20,743	22,403
Customer loans	10,408	9,833	12,868	16,379	22,333	28,033	34,326
Fixed assets	1,073	1,072	1,035	996	1,113	1,213	1,308
Other assets	412	379	135	224	245	262	277
Total assets	35,607	42,268	48,476	52,022	61,420	68,312	75,309
Due to banks	2,505	1,358	2,097	1,810	2,018	2,193	2,360
Customer deposits	27,638	35,391	38,561	44,502	50,862	56,694	62,628
Certified debt	0	0	3,121	1,215	1,215	1,215	1,215
Total Equity	3,157	3,565	3,756	3,839	4,390	4,919	5,524
Equity and Liabilities	35,607	42,268	48,476	52,022	61,420	68,312	75,298

GROWTH RATIOS

Customer loans growth	(15.6%)	(5.5%)	30.9%	27.3%	36.4%	25.5%	22.4%
Customer deposits growth	32.7%	28.1%	9.0%	15.4%	14.3%	11.5%	10.5%
Total assets growth	23.1%	18.7%	14.7%	7.3%	18.1%	11.2%	10.2%

KEY RATIOS

Total Income/Earning Assets	4.9%	4.0%	3.8%	4.0%	4.0%	4.0%	4.0%
Interest Expense/Int-bearing Liabs.	3.1%	3.4%	2.6%	3.1%	3.6%	3.7%	3.7%
NIM on Total Assets	2.6%	1.9%	2.1%	2.1%	2.0%	2.1%	2.1%
Cost/income ratio	61.9%	66.8%	69.3%	68.5%	66.4%	65.0%	63.4%
Cost/assets ratio	3.2%	2.8%	2.7%	2.8%	2.8%	2.7%	2.6%
Provisions/Net Interest Income	22.3%	(17.3%)	(17.7%)	(10.0%)	(2.5%)	5.0%	7.8%
NPLs/Loans	9.8%	8.4%	5.1%	3.0%	2.8%	3.0%	3.2%
Provisions/NPLs	85.1%	77.6%	87.4%	89.7%	67.7%	57.7%	54.7%
ROE	13.5%	16.3%	16.2%	16.6%	17.1%	15.9%	15.8%
ROA	1.2%	1.4%	1.3%	1.3%	1.2%	1.1%	1.2%
Customer loans/Assets	29.2%	23.3%	26.5%	31.5%	36.4%	41.0%	45.6%
Customer deposits/Assets	77.6%	83.7%	79.5%	85.5%	82.8%	83.0%	83.2%
Loans/Deposits	37.7%	27.8%	33.4%	36.8%	43.9%	49.4%	54.8%
Equity/Assets	8.9%	8.4%	7.7%	7.4%	7.1%	7.2%	7.3%

PER SHARE FIGURES

(PLN)	2004	2005	2006	2007	2008E	2009E	2010E
EPS	30.40	42.22	45.45	48.48	54.10	56.83	63.55
DPS	20.50	27.50	27.90	11.70	16.23	17.05	19.07
BVPS	242.63	274.00	288.68	295.06	337.46	378.06	424.56
P/E	16.4	11.8	11.0	10.3	9.2	8.8	7.9
Dividend Yield	4.1%	5.5%	5.6%	2.3%	3.2%	3.4%	3.8%
P/BV	2.1	1.8	1.7	1.7	1.5	1.3	1.2
ROE/CoE	1.4	1.8	1.8	1.8	1.8	1.6	1.6

Bank Millennium

Sell

(Downgraded from Hold)

Price: PLN 6.2

Price Target: PLN 5.8

(Down from 7.3)

Good but risky

Alongside BRE, Bank Millennium has been probably one of the most impressive turnaround stories in the Polish banking sector in recent years. Impressive collection of new deposits since 3Q07 (39% growth) confirmed the franchise is of a high quality and that management is aware of the bank's weaknesses.

Despite the hefty improvement in funding (with loans to deposits declining from 115% in 3Q07 to 98% in 1H08), Millennium remains one of the riskiest plays among listed banking stocks. This is mainly from maturity and FX mismatches (unlike BRE, Bank Millennium funds its long-term loans with short-term deposits using FX swaps).

Also, thanks to aggressive branch expansion and heavy reliance to the mortgage loan market, the bank is more exposed to the slowdown, something that will be more visible in the coming quarters.

Even though we think the management has been doing a good job, Millennium is not a bank to hold over the economic slowdown and financial turmoil. We therefore downgrade Millennium back to Sell (from Hold) and set a new target price of PLN 5.8, implying 9x multiple of 2009 earnings.

Expected Events

Q3 results	October 20, 2008
Q4 results	January 22, 2009

Key Data

Market Cap	EUR 1,670 mil
Free Float	34%/EUR 567 mil
Shares outstanding	849.2 mil
Average daily volume	EUR 0.9 mil
Major Sh'holder	Banco Commercial Portugal (65.5%) BZ WBK Asset mgmt (0.7%)
Reuters Code	BIGW.WA
Bloomberg Code	MIL PW
WIG20 Index	2,458

Price Performance

52-w range (PLN)	6.0-14.6
YTD EUR Performance	-37.8 %
Relative YTD EUR Performance	-18.0 %

Millennium Price Performance



Year	Revenues (PLN mil)	Net Profit (PLN mil)	EPS (PLN)	EPS growth	PE	BVPS (PLN)	PBV	ROE	Dividend (PLN)	Dividend yield
2010E	2,501	606	0.71	14.0%	8.7	4.4	1.42	17.5%	0.14	2.3%
2009E	2,201	532	0.63	12.1%	9.9	3.8	1.63	17.6%	0.16	2.5%
2008E	1,909	475	0.56	2.8%	11.1	3.3	1.86	17.7%	0.17	2.7%
2007	1,709	462	0.54	53.5%	11.4	3.0	2.09	19.5%	0.19	3.1%
2006	1,268	301	0.35	-47.0%	17.5	2.6	2.38	13.1%	0.17	2.7%
2005	1,481	567	0.67	109%	9.3	2.8	2.20	25.5%	0.54	8.7%
2004	1,461	271	0.32	n.m.	n.a.	2.4	2.57	14.3%	0.00	0.0%

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INCOME STATEMENT (consolidated IFRS)

(PLN mil)	2004	2005	2006	2007	2008E	2009E	2010E
Net interest income	598	480	642	772	973	1,158	1,344
Non-interest income	863	1,001	626	938	936	1,043	1,157
net commission income	225	265	365	543	498	555	637
net FX gains	0	93	182	241	237	263	283
securities income	0	627	65	93	160	177	185
Total banking revenue	1,461	1,481	1,268	1,709	1,909	2,201	2,501
Total costs	(1,009)	(756)	(857)	(1,057)	(1,224)	(1,400)	(1,556)
personnel costs	(309)	(326)	(413)	(539)	(651)	(754)	(844)
depreciation	(339)	(86)	(61)	(87)	(80)	(91)	(100)
other costs	(360)	(341)	(380)	(431)	(492)	(554)	(611)
Operating income	452	725	410	652	685	801	945
Net provisions	(61)	(15)	(40)	(68)	(92)	(136)	(187)
Pretax profit	391	710	371	585	593	665	758
Income tax	(120)	(143)	(70)	(123)	(119)	(133)	(152)
Net income	271	567	301	462	475	532	606

GROWTH RATIOS

Net interest income growth	7.2%	(19.7%)	33.6%	20.3%	26.1%	19.0%	16.1%
Net fee growth	2.9%	17.9%	37.9%	48.8%	(8.3%)	11.3%	14.8%
Total income growth	46.8%	1.4%	(14.4%)	34.9%	11.7%	15.3%	13.6%
Cost growth	44.7%	(25.1%)	13.4%	23.3%	15.8%	14.4%	11.1%
Operating profit growth	359.6%	60.3%	(43.4%)	59.0%	5.1%	16.9%	18.0%
Net profit growth	563.7%	108.9%	(47.0%)	53.5%	2.8%	12.1%	14.0%

BALANCE SHEET (consolidated IFRS)

(PLN mil)	2004	2005	2006	2007	2008E	2009E	2010E
Cash	873	511	966	1,257	1,526	1,692	1,842
Due from banks	3,362	2,603	1,123	4,406	5,872	6,795	8,397
Debt securities	7,301	8,543	6,805	1,923	2,020	2,121	2,227
Customer loans	7,103	9,592	14,938	22,027	26,702	31,817	36,737
Fixed assets	601	232	297	355	440	498	555
Other assets	342	671	563	556	691	785	877
Total assets	19,581	22,151	24,692	30,530	37,250	43,708	50,635
Due to banks	1,201	1,067	3,600	3,156	2,372	2,429	2,359
Customer deposits	13,388	13,994	16,069	21,801	27,414	31,527	35,662
Certified debt	2,088	3,440	1,741	2,403	3,653	5,403	7,653
Total Equity	2,052	2,391	2,215	2,520	2,833	3,223	3,696
Equity and Liabilities	19,581	22,151	24,692	30,530	37,250	43,708	50,635

GROWTH RATIOS

Customer loans growth	(30.5%)	35.0%	55.7%	47.5%	21.2%	19.2%	15.5%
- of which corporate loan growth	(22.7%)	5.6%	16.0%	16.3%	21.8%	19.1%	17.4%
- of which mortgage loan growth	65.1%	123.8%	117.3%	72.4%	26.6%	18.0%	13.6%
- of which consumer loan growth	n.a.	66.8%	97.4%	46.4%	29.8%	24.0%	19.0%
Customer deposits growth	13.9%	4.5%	14.8%	35.7%	25.7%	15.0%	13.1%
Total assets growth	(6.0%)	13.1%	11.5%	23.6%	22.0%	17.3%	15.8%

KEY RATIOS

Total Income/Earning Assets	7.8%	7.0%	5.3%	5.8%	5.3%	5.2%	5.1%
Interest Expense/Int-bearing Liabs.	7.2%	4.1%	3.3%	3.5%	2.7%	2.7%	2.8%
NIM on Total Assets	3.0%	2.3%	2.7%	2.8%	2.9%	2.9%	2.9%
Cost/income ratio	69.0%	51.0%	67.6%	61.8%	64.1%	63.6%	62.2%
Cost/assets ratio	5.0%	3.6%	3.7%	3.8%	3.6%	3.5%	3.3%
Provisions/Net Interest Income	10.2%	3.2%	6.2%	8.8%	9.5%	11.8%	13.9%
NPLs/Loans	16.9%	10.0%	5.7%	3.4%	3.1%	3.5%	3.9%
Provisions/NPLs	0.0%	65.1%	75.0%	79.0%	79.7%	69.7%	65.9%
ROE	14.3%	25.5%	13.1%	19.5%	17.7%	17.6%	17.5%
ROA	1.3%	2.7%	1.3%	1.7%	1.4%	1.3%	1.3%
Customer loans/Assets	36.3%	43.3%	60.5%	72.1%	71.7%	72.8%	72.6%
Customer deposits/Assets	68.4%	63.2%	65.1%	71.4%	73.6%	72.1%	70.4%
Loans/Deposits	53.1%	68.5%	93.0%	101.0%	97.4%	100.9%	103.0%
Equity/Assets	10.5%	10.8%	9.0%	8.3%	7.6%	7.4%	7.3%

PER SHARE FIGURES

(PLN)	2004	2005	2006	2007	2008E	2009E	2010E
EPS	0.32	0.67	0.35	0.54	0.56	0.63	0.71
DPS	0.00	0.54	0.17	0.19	0.17	0.16	0.14
BVPS	2.42	2.82	2.61	2.97	3.34	3.80	4.35
P/E	19.4	9.3	17.5	11.4	11.1	9.9	8.7
Dividend Yield	0.0%	8.7%	2.7%	3.1%	2.7%	2.5%	2.3%
P/BV	2.6	2.2	2.4	2.1	1.9	1.6	1.4
ROE/CoE	1.5	2.8	1.4	2.1	1.8	1.8	1.8

Kredyt Bank

Sell

(Maintained)

Price: PLN 13.6

Price Target: PLN 11.0

(Down from 14.3)

Expensive, illiquid and risky

Alongside Bank Millennium, Kredyt Bank has been the worst performer among Polish banking stocks this year being down 42% ytd.

The poor share price performance is fully justified, as Kredyt Bank's performance has been clearly disappointing. Despite aggressive growth, the bank's profitability and efficiency (with ROE at 12% and cost to income at close to 70%) remain well below the market average.

In addition, the bank still represents one of the riskiest plays among Polish banks. First, it has been one of the most aggressive Polish banks in lending as 40% of its loans were granted after 2006. Secondly, it is one of the least capitalized banks with a capital adequacy ratio of below 10%. Third, the bank has been becoming stretched with loans to deposits now exceeding 100%.

Despite the aggressive expansion and high leverage, Kredyt Bank's profitability remains well below that of its peers suggesting it had been competing on price and not quality.

We have been Sellers of the bank stock for two years now and can't see anything to change our view for now.

Expected Events

Q3 results	November 11, 2008
Q4 results	February 12, 2009

Key Data

Market Cap	EUR 1,115 mil
Free Float	9.5%/EUR 106 mil
Shares outstanding	271.66 mil
Average daily volume	EUR 0.1 mil
Major Sh'holder	KBC (80%)
	Pioneer Pekao Invst Mgmt (5.0%)
	Sofina (5.5%)
Reuters Code	BKRE.WA
Bloomberg Code	KRB PW
WIG20 Index	2,458

Price Performance

52-w range (PLN)	13.0 - 25.3
YTD EUR Performance	-36.3%
Relative YTD EUR Performance	-16.6%

Kredyt Bank Price Performance



Year	Revenues (PLN mil)	Net Profit (PLN mil)	EPS (PLN)	EPS growth	PE	BVPS (PLN)	PBV	ROE	Dividend (PLN)	Dividend yield
2010E	2,058	297	1.09	0.1%	12.4	10.6	1.29	10.7%	0.44	3.2%
2009E	1,839	297	1.09	3.2%	12.4	9.9	1.38	11.5%	0.38	2.8%
2008E	1,624	288	1.06	-26.3%	12.8	9.1	1.50	12.1%	0.32	2.3%
2007	1,445	391	1.44	-16.5%	9.5	8.4	1.62	17.9%	0.36	2.6%
2006	1,370	468	1.72	13.9%	7.9	7.7	1.77	24.9%	0.37	2.7%
2005	1,129	410	1.51	132%	9.0	6.1	2.23	25.8%	0.22	1.6%
2004	1,382	159	0.65	n.a.	20.9	5.6	2.44	14.7%	0.00	0.0%

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INCOME STATEMENT (consolidated IFRS)

(PLN mil)	2004	2005	2006	2007	2008F	2009F	2010F
Net interest income	634	696	780	871	1,015	1,162	1,308
Non-interest income	748	433	590	574	608	677	749
net commission income	514	236	270	310	337	382	436
net FX gains	139	96	139	179	207	225	238
securities income	44	42	163	57	19	17	14
Total banking revenue	1,382	1,129	1,370	1,445	1,624	1,839	2,058
Total costs	(1,055)	(851)	(930)	(975)	(1,134)	(1,281)	(1,415)
personnel costs	(431)	(362)	(438)	(493)	(568)	(650)	(744)
depreciation	(167)	(126)	(112)	(111)	(107)	(120)	(127)
other costs	(453)	(313)	(379)	(371)	(459)	(511)	(544)
Operating income	327	278	439	470	489	558	642
Net provisions	(148)	30	19	30	(125)	(187)	(275)
Pretax profit	179	308	460	502	364	371	367
Income tax	(20)	102	7	(111)	(77)	(74)	(70)
Net income	159	410	468	391	288	297	297

GROWTH RATIOS

Net interest income growth	(12.3%)	9.7%	12.1%	11.7%	16.5%	14.4%	12.6%
Net fee growth	1.1%	(54.0%)	14.3%	14.6%	9.0%	13.1%	14.3%
Total income growth	(0.7%)	(18.3%)	21.3%	5.5%	12.4%	13.3%	11.9%
Cost growth	8.1%	(19.4%)	9.3%	4.8%	16.4%	12.9%	10.5%
Operating profit growth	51.5%	(14.9%)	57.9%	7.1%	4.0%	14.1%	15.1%
Pre-tax profit growth	(112.8%)	72.2%	49.5%	9.1%	(27.4%)	1.9%	(1.1%)
Net profit growth	(110.0%)	158.6%	13.9%	(16.5%)	(26.3%)	3.2%	0.1%

BALANCE SHEET (consolidated IFRS)

(PLN mil)	2004	2005	2006	2007	2008F	2009F	2010F
Cash	1,513	607	641	612	747	845	944
Due from banks	2,697	2,227	2,204	2,454	2,608	2,116	1,822
Debt securities	4,506	6,710	6,833	6,442	6,847	5,555	4,783
Customer loans	11,366	9,873	11,556	16,622	20,913	27,223	33,221
Fixed assets	646	452	471	464	564	634	705
Other assets	295	952	516	522	626	693	758
Total assets	21,021	20,912	22,232	27,128	32,305	37,067	42,233
Due to banks	3,007	2,562	2,167	6,403	6,538	6,937	7,137
Customer deposits	14,061	14,593	15,807	17,089	21,174	24,277	27,520
Certified debt	1,137	1,361	1,752	919	1,419	2,419	3,919
Total Equity	1,517	1,660	2,092	2,276	2,467	2,677	2,871
Equity and Liabilities	21,021	20,912	22,232	27,128	32,305	37,067	42,233

GROWTH RATIOS

Customer loans growth	(24.0%)	(13.1%)	17.0%	43.8%	25.8%	30.2%	22.0%
Customer deposits growth	(3.2%)	3.8%	8.3%	8.1%	23.9%	14.7%	13.4%
Total assets growth	(12.0%)	(0.5%)	6.3%	22.0%	19.1%	14.7%	13.9%

KEY RATIOS

Total Income/Earning Assets	6.9%	5.8%	6.4%	5.5%	5.2%	5.1%	5.0%
Interest Expense/Int-bearing Liabs.	3.4%	3.8%	2.9%	3.3%	2.8%	2.9%	3.0%
NIM on Total Assets	2.8%	3.3%	3.6%	3.5%	3.4%	3.4%	3.3%
Cost/income ratio	76.3%	75.4%	67.9%	67.4%	69.9%	69.7%	68.8%
Cost/assets ratio	4.7%	4.1%	4.3%	3.9%	3.8%	3.7%	3.6%
Provisions/Net Interest Income	23.4%	(4.3%)	(2.4%)	(3.5%)	12.3%	16.1%	21.0%
NPLs/Loans	30.1%	28.2%	13.5%	6.6%	5.0%	5.5%	6.0%
Provisions/NPLs	64.5%	75.1%	60.2%	69.3%	80.3%	67.5%	64.5%
ROE	14.7%	25.8%	24.9%	17.9%	12.1%	11.5%	10.7%
ROA	0.7%	2.0%	2.2%	1.6%	1.0%	0.9%	0.7%
Customer loans/Assets	54.1%	47.2%	52.0%	61.3%	64.7%	73.4%	78.7%
Customer deposits/Assets	66.9%	69.8%	71.1%	63.0%	65.5%	65.5%	65.2%
Loans/Deposits	80.8%	67.7%	73.1%	97.3%	98.8%	112.1%	120.7%
Equity/Assets	7.2%	7.9%	9.4%	8.4%	7.6%	7.2%	6.8%

PER SHARE FIGURES

(PLN)	2004	2005	2006	2007	2008F	2009F	2010F
EPS	0.65	1.51	1.72	1.44	1.06	1.09	1.09
DPS	0.00	0.22	0.37	0.36	0.32	0.38	0.44
BVPS	5.58	6.11	7.70	8.38	9.08	9.85	10.57
P/E	20.9	9.0	7.9	9.5	12.8	12.4	12.4
Dividend Yield	0.0%	1.6%	2.7%	2.6%	2.3%	2.8%	3.2%
P/BV	2.4	2.2	1.8	1.6	1.5	1.4	1.3
ROE/CoE	1.5	2.9	2.7	1.9	1.3	1.2	1.1

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Appendix I – Czech Republic country model

	2002	2003	2004	2005	2006	2007	2008F	2009F	2010F
Macroeconomic assumptions									
Population, m	10.20	10.21	10.22	10.25	10.29	10.35	10.42	10.17	10.16
GDP, real growth rate	1.9%	3.6%	4.5%	6.3%	6.8%	6.6%	4.1%	3.6%	3.5%
GDP, EUR million	80,004	80,924	88,262	100,190	113,459	127,498	154,667	173,538	187,425
GDP per capita, EUR	7,841	7,925	8,636	9,774	11,029	12,319	14,836	17,059	18,451
Interbank interest rate	3.6%	2.3%	2.4%	2.1%	2.5%	3.0%	4.0%	3.8%	4.0%
LCR/EUR, avg.	30.8	31.8	31.9	29.8	28.3	27.8	25.5	24.3	24.0
Penetration as % of GDP									
Banking assets	101%	98%	94%	99%	98%	106%	108%	113%	116%
Deposits	64%	62%	59%	62%	63%	67%	68%	71%	72%
Loans	36%	37%	36%	39%	44%	50%	55%	61%	66%
- mortgage loans	4.5%	6.0%	7.4%	9.4%	11.5%	14.4%	16.0%	18.0%	20.3%
- consumer loans	2.8%	3.2%	3.7%	4.4%	7.2%	8.7%	11.2%	12.8%	13.6%
Growth rates									
Asset growth	0%	2%	4%	12%	7%	19%	12%	11%	10%
Deposit growth	11%	2%	4%	11%	9%	17%	12%	10%	9%
Loan growth	-5%	7%	6%	17%	20%	26%	21%	16%	15%
- corporate	-18%	-1%	7%	14%	21%	17%	17%	14%	12%
- mortgage	45%	54%	47%	45%	43%	40%	23%	20%	22%
- consumer	47%	24%	25%	31%	23%	26%	26%	23%	20%
Ratios									
ROE	27.4%	23.7%	17.8%	19.0%	16.8%	19.2%	20.6%	20.0%	19.4%
ROA	1.2%	1.2%	1.3%	1.4%	1.2%	1.4%	1.4%	1.4%	1.3%
Net interest margin	2.2%	2.2%	2.2%	2.3%	2.4%	2.4%	2.3%	2.3%	2.2%
Cost to Income	51.4%	52.6%	56.8%	54.7%	54.8%	50.3%	48.6%	48.1%	48.6%
Costs to Assets	1.9%	1.9%	2.2%	2.1%	2.0%	1.8%	1.8%	1.8%	1.8%
Loans to Deposits	57%	60%	61%	64%	70%	75%	81%	86%	91%
Provisions to Loans	0.30%	0.16%	-0.17%	0.10%	0.29%	0.48%	0.53%	0.68%	0.67%
Income statement, EUR million									
Net interest income	1,792	1,705	1,874	2,150	2,525	3,052	3,971	4,741	5,245
Fee income	763	827	982	1,069	1,162	1,291	1,557	1,787	1,959
Total income	2,965	2,835	3,168	3,732	4,125	4,842	6,089	7,167	7,899
Operating costs	-1,525	-1,492	-1,798	-2,041	-2,259	-2,435	-2,959	-3,447	-3,837
Operating profit	1,441	1,342	1,370	1,691	1,866	2,407	3,130	3,720	4,062
Provisions	-90	-47	52	-37	-131	-274	-407	-656	-758
Pre-tax income	1,351	1,296	1,422	1,654	1,734	2,133	2,723	3,064	3,304
Tax	-364	-348	-392	-340	-393	-440	-545	-597	-628
Net profit	987	948	1,030	1,314	1,342	1,693	2,178	2,466	2,676
- yoy growth	95.9%	-3.9%	8.6%	27.6%	2.1%	26.2%	28.7%	13.2%	8.5%

Appendix II– Poland country model

	2002	2003	2004	2005	2006	2007	2008F	2009F	2010F
Macroeconomic assumptions									
Population, m	38.20	38.19	38.16	38.12	38.13	38.04	38.00	37.95	37.90
GDP, real growth rate	1.4%	3.9%	5.3%	3.6%	6.2%	6.6%	5.1%	4.2%	4.2%
GDP, EUR million	209,617	191,644	204,237	244,420	272,089	308,638	369,723	422,761	456,110
GDP per capita, EUR	5,487	5,018	5,352	6,411	7,137	8,113	9,730	11,139	12,035
Interbank interest rate	9.4%	5.8%	6.0%	5.3%	4.1%	4.7%	6.2%	5.5%	4.8%
LCR/EUR, avg.	3.84	4.38	4.40	4.02	3.90	3.72	3.47	3.33	3.30
Penetration as % of GDP									
Banking assets	61%	60%	61%	73%	77%	84%	89%	94%	99%
Deposits	39%	38%	38%	39%	41%	43%	46%	49%	51%
Loans	31%	32%	30%	32%	36%	43%	49%	56%	61%
- mortgage loans	2.6%	3.6%	4.0%	5.4%	7.7%	10.7%	12.8%	15.0%	16.8%
- consumer loans	9.1%	8.9%	9.0%	9.7%	10.9%	12.4%	14.4%	15.9%	17.1%
Growth rates									
Asset growth	-0.7%	4.8%	10.0%	27.8%	12.9%	18.2%	14.5%	13.1%	12.5%
Deposit growth	-3.4%	3.1%	6.5%	10.2%	14.0%	13.9%	14.9%	13.9%	11.7%
Loan growth	5%	8%	3%	10%	23%	29%	25%	21%	18%
- corporate	1%	3%	-4%	1%	13%	23%	22%	20%	18%
- mortgage	42%	48%	21%	41%	54%	50%	30%	25%	20%
- consumer	2%	4%	10%	13%	21%	24%	25%	18%	15%
Ratios									
ROE	5.2%	4.7%	13.1%	13.6%	13.7%	14.1%	14.5%	14.3%	14.1%
ROA	0.5%	0.5%	1.4%	1.5%	1.5%	1.5%	1.5%	1.4%	1.4%
Net interest margin	3.4%	3.1%	3.2%	3.0%	2.8%	2.9%	2.8%	2.8%	2.7%
Cost to Income	63.5%	68.3%	64.9%	62.9%	60.3%	57.8%	56.1%	55.0%	53.6%
Costs to Assets	4.0%	3.8%	3.6%	2.9%	2.7%	2.6%	2.6%	2.5%	2.4%
Loans to Deposits	79%	83%	80%	81%	87%	99%	107%	113%	120%
Provisions to Loans	2.87%	1.65%	0.89%	0.56%	0.51%	0.41%	0.56%	0.67%	0.79%
Income statement, EUR million									
Net interest income	4,130	3,427	3,785	4,610	5,317	6,535	7,997	9,301	10,404
Fee income	1,745	1,727	1,891	1,875	2,347	2,964	3,827	4,531	5,238
Total income	7,596	6,186	6,720	7,862	9,022	11,139	13,781	16,050	18,053
Operating costs	-4,822	-4,223	-4,360	-4,943	-5,438	-6,441	-7,738	-8,827	-9,672
Operating profit	2,773	1,963	2,360	2,919	3,584	4,698	6,044	7,223	8,381
Provisions	-1,737	-936	-529	-393	-429	-457	-852	-1,288	-1,833
Pre-tax income	995	1,027	1,831	2,526	3,155	4,241	5,191	5,935	6,548
Tax	-387	-429	-376	-261	-408	-922	-1,038	-1,157	-1,244
Net profit	608	535	1,657	2,265	2,747	3,319	4,153	4,778	5,304
- yoy growth	-47.4%	-12.0%	209.8%	36.7%	21.3%	20.8%	25.1%	15.0%	11.0%

Appendix III– Hungary country model

	2002	2003	2004	2005	2006	2007	2008F	2009F	2010F
Macroeconomic assumptions									
Population, m	10.18	10.15	10.12	10.10	10.08	10.07	10.05	9.99	9.96
GDP, real growth rate	4.4%	4.2%	4.8%	4.1%	3.9%	1.4%	2.0%	2.5%	3.3%
GDP, EUR million	70,714	74,682	82,326	88,863	90,045	101,077	112,259	122,717	130,162
GDP per capita, EUR	6,949	7,358	8,132	8,800	8,936	10,041	11,176	12,284	13,069
Interbank interest rate	9.2%	8.5%	11.5%	6.7%	7.2%	7.9%	8.3%	8.1%	7.8%
LCR/EUR, avg.	243.0	253.5	247.9	248.0	264.1	252.1	246.5	241.6	242.3
Penetration as % of GDP									
Banking assets	80%	86%	87%	94%	100%	104%	111%	117%	122%
Deposits	41%	42%	43%	45%	48%	47%	48%	49%	51%
Loans	43%	47%	49%	53%	58%	60%	62%	65%	68%
- mortgage loans	4.7%	8.1%	9.4%	10.5%	11.5%	12.2%	13.0%	13.7%	14.7%
- consumer loans	4.0%	4.5%	5.5%	6.9%	8.7%	10.7%	11.0%	12.3%	13.5%
Growth rates									
Asset growth	-1%	19%	9%	17%	15%	14%	13%	12%	11%
Deposit growth	8%	15%	11%	12%	15%	8%	7%	9%	11%
Loan growth	16%	21%	14%	16%	19%	13%	9%	11%	12%
- corporate	6%	20%	13%	14%	14%	12%	9%	10%	10%
- mortgage	143%	91%	27%	20%	18%	17%	13%	12%	14%
- consumer	22%	25%	32%	36%	22%	33%	23%	19%	17%
Ratios									
ROE	15.5%	17.8%	23.0%	21.7%	20.9%	16.8%	16.6%	16.2%	16.0%
ROA	0.9%	1.2%	1.6%	1.7%	1.6%	1.3%	1.3%	1.2%	1.2%
Net interest margin	2.9%	3.1%	3.3%	3.3%	3.2%	2.8%	2.8%	2.7%	2.7%
Cost to Income	60.5%	56.7%	50.6%	48.3%	49.1%	50.1%	50.3%	50.6%	51.0%
Costs to Assets	2.5%	2.4%	2.4%	2.3%	2.2%	2.2%	2.2%	2.1%	2.1%
Loans to Deposits	105%	111%	114%	119%	123%	128%	130%	132%	133%
Provisions to Loans	0.40%	0.37%	0.47%	0.49%	0.70%	0.77%	0.98%	1.04%	0.99%
Income statement, EUR million									
Net interest income	1,585	1,785	2,217	2,514	2,642	2,841	3,251	3,664	3,998
Fee income	531	666	730	836	871	972	1,105	1,242	1,350
Total income	2,323	2,709	3,333	3,923	4,052	4,650	5,303	5,967	6,497
Operating costs	-1,405	-1,537	-1,686	-1,894	-1,990	-2,329	-2,667	-3,021	-3,313
Operating profit	918	1,172	1,648	2,028	2,063	2,321	2,636	2,945	3,184
Provisions	-112	-117	-176	-215	-334	-447	-642	-769	-816
Pre-tax income	635	843	1,299	1,536	1,612	1,524	1,730	1,882	2,050
Tax	-109	-155	-189	-270	-262	-218	-277	-301	-328
Net profit	526	688	1,110	1,267	1,351	1,306	1,454	1,581	1,722
- yoy growth	12.5%	30.7%	61.3%	14.2%	6.6%	-3.3%	11.3%	8.7%	9.0%

Important disclosures

IMPORTANT DISCLOSURES

The Company hereby informs that if a specific investment recommendation does not contain all information required by the relevant legislation (i.e. Public Notice 114/2006 Coll. on the honest presentation of investment recommendations), then such information is freely available on the website of WOOD & Company Financial Services, a.s. at http://www.wood.cz/web/services/research/public_notice. The Company recommends that the recipients of this announcement thoroughly review the appropriate sections of its website.

VALUATION & RISKS

Economic slowdown, further provisioning needs are the main risks for all Central and Eastern European financials. Further redemptions in mutual fund assets, rapid slowdown in mortgage lending growth are specific risks on the Polish banks, while further negative global sentiment towards financials represent the biggest risks, in our view.

For details of the methodologies used to determine our price targets and risks related to the achievement of the targets refer to main body of report or at http://www.wood.cz/web/services/research/public_notice

SECURITIES PRICES

Prices are taken as of the previous day's close on the home market unless otherwise stated. Closing prices as of September 29, 2008.

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WOOD & Company Financial Services, a.s. manages conflict of interest arising as a result of the preparation and publication of research through its use of internal databases, notifications by the relevant employees and Chinese Walls as monitored by Compliance. For further details see our websites at http://www.wood.cz/web/services/research/public_notice

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