

Polish Banks

Time to Get On. Mind the Gaps, though!

Despite being down “only” 12% from a year ago, Polish bank stocks have become a lot cheaper – both compared to past valuations (when trading at a reasonable PE of 12x) and their industry peers. The key reason for this is that their profitability has been holding up relatively well.

In this report, we have quantified the impact of rising risks and constraints in the system such as mutual fund redemptions and mortgage loan slowdown:

- ✓ 1% reduction in mutual fund assets wipes out around 0.3% of banks’ profits. With 20-30% of their profits coming from the mutual fund business, BZ-WBK, Millennium and ING Slaski are the ones to worry about.
- ✓ Millennium and BRE are clearly the two most exposed banks to the mortgage lending slowdown. Each 10 bp drop in margin will erase 1% of Millennium’s profits.
- ✓ Millennium, BRE and Kredyt Bank are also the most exposed to capital and funding constraints and currency risks.

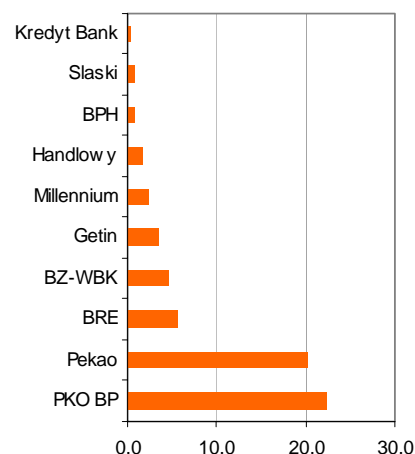
With some of the risks starting to bite, our ideal bank would not have much exposure to mutual funds, would be well-capitalized with a liquid balance sheet, cost inefficient with few expansion plans – PKO BP!

Kredyt Bank and Bank Millennium are again on the other side of the table rated as SELL.

Wood’s Key Assumptions for 2008

- Polish economy will slow down but will withstand the pressure better than more open CR and Hungary
- Mutual fund redemptions will continue in 2008 as Poles have placed more faith and cash into the business than anyone else in the CEE
- Loan growth, mainly mortgages, will slow down in the coming quarters as affordability is declining, housing prices stopped rising and economy is slowing
- Increasing competition on the deposit market will be increasingly visible in margin pressure
- Asset quality, capitalization and cost pressure will not be major issues at most banks in 2008

Avg. Daily Trading Volume, EUR mil



| | Market price | Market cap (EUR mil.) | Rating | Fair price | Upside | 2008 | PER 2009 | 2010 | 2008 | P/BV 2009 | 2010 |
|-----------------|--------------|-----------------------|--------|------------|--------|------|----------|------|------|-----------|------|
| PKO BP | 49.2 | 14,464 | BUY | 58.0 | 15.2% | 13.2 | 11.0 | 9.2 | 3.4 | 2.8 | 2.3 |
| Pekao | 180 | 13,819 | HOLD | 190.0 | 5.5% | 12.2 | 11.4 | 9.6 | 2.8 | 2.5 | 2.2 |
| BRE | 384 | 3,348 | HOLD | 400.0 | 4.0% | 11.1 | 9.9 | 8.6 | 2.7 | 2.2 | 1.7 |
| BZ-WBK | 169 | 3,625 | HOLD | 180.0 | 6.1% | 12.5 | 11.1 | 9.7 | 2.4 | 2.1 | 1.8 |
| Bank Handlowy | 81.9 | 3,146 | BUY | 95.0 | 13.8% | 11.9 | 9.9 | 8.9 | 1.9 | 1.7 | 1.6 |
| Kredyt Bank | 19.5 | 1,557 | SELL | 17.0 | -14.7% | 14.4 | 13.0 | 11.7 | 2.1 | 1.9 | 1.7 |
| Bank Slaski | 510 | 1,951 | BUY | 600.0 | 15.0% | 11.5 | 9.6 | 8.3 | 1.6 | 1.5 | 1.4 |
| Bank Millennium | 8.20 | 2,047 | SELL | 7.8 | -5.1% | 12.8 | 10.9 | 9.5 | 2.4 | 2.1 | 1.8 |

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Closing Prices as of May 23, 2008

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Investment Summary

Polish banks are holding up well...

Polish banks dropped “only” 12% over the last year...

Despite being down “only” 12% from a year ago, Polish banks have become a lot cheaper – both compared to the past (trading at a PE of around 12x expected in 2008 compared to 15-20x last year) and their industry peers – they are cheaper than Komerční Banka now, for example. Also, their premium to West-European banks dropped by a third to “only” 33% within the last year.

...but effectively are a lot cheaper than that ...

The key reason for this is that profitability of Polish banks has been holding up pretty well. Firstly, their profits increased by around 25% yoy in 1Q08 beating market expectations by nearly 10%. Secondly, their 2008 earnings forecast (by Bloomberg) are still up 13% compared to 12 months ago (and down 2% ytd only) compared to 30% downgrade in West-European and 8% downgrade in non-Polish CEE banks.

...thanks to their strong earnings

Given the increasing number of questions about the “sustainability of banks’ earnings” and questions targeting risks and constraints in the banking system, we looked at the key threats to quantify the downside risk and tried to identify the most exposed banks to these issues.

...in spite of mutual fund redemptions...

We assume 1% decline in mutual funds reduces banks profits by 0.3%...

We assume that a 1% reduction in mutual fund assets reduces bank profits by around 0.3%, so the 20% ytd decline in AUM has already wiped out 7% of banks’ profits expected in 2008.

...with BZ-WBK, Millennium and Slaski being the most vulnerable ones

BZ-WBK, Millennium and Slaski are the most exposed to this business (and the three worst-performing banks ytd) with 20-30% of their profits coming from this business.

With up to 40% of their savings in mutual fund assets (compared to 10% of Czechs, for example), Poles have placed more faith and cash into this business than anyone else in this region. This makes them (and Polish banks) vulnerable in the months to come if the performance of the equity market remains weak.

...expected mortgage loan slowdown...

Mortgage loans are expected to slow down...

In spite of the very strong quarter and bullish long-term prospects for mortgage lending in Poland, we believe a slowdown is only a question of time as i) affordability of housing has declined, ii) prices have stopped rising and iii) the economy is slowing.

... intensifying the competition pressure...

With 13-20% of profit coming from mortgage lending -- and more importantly, their success being linked to success in mortgage lending, Millennium and BRE are the two banks most exposed.

...so watch for margin at Millennium and BRE

...and increasing FX, IR, capital and funding risks.

Millennium, BRE and Kredyt Banks seem to be most vulnerable...

BRE, Millennium and Kredyt Bank are the three banks most exposed to the risks above.

... to the interest rates, FX and funding risks

Although we do not think they are in trouble, a lack of capital at BRE (with Tier1 at 6% only), Millennium's maturity mismatch (of 4 years as mortgage loans are funded with current account deposits) and Kredyt Bank's rising funding imbalance (with loans to deposits at close to 100%), all suggest that these three banks are most likely to slow down in the coming quarters, despite the very strong volume growth seen in 1Q08.

Having said that, two of them (BRE and Millennium) have the best strategy and management in Poland in our view (together with BZ-WBK).

PKO BP remains our TOP Pick

Taking all factors into consideration, PKO BP is our "ideal" bank...

To translate the above into a recommendation, here is how our ideal bank should look like – one with minimal exposure to the mutual fund business while being well-capitalized with a liquid balance sheet and without maturity and FX mismatches. What would also help would be the fact if the bank was cost inefficient (i.e. with room to cut costs) without the need to expand its branch network. And with a new management trying to prove itself. Finally, it should be reasonably valued.

...while we also go for Handlowy and Slaski

For those who haven't put a name behind it, it's obviously PKO BP. We are also putting a Buy on ING Bank Slaski and Bank Handlowy, though this is more of a defensive and relative call thanks to the banks' attractive valuation and liquid balance sheets.

Millennium and Kredyt Banks are the two banks we would avoid

On the other hand, we remain relatively bearish on Pekao SA (keeping our HOLD rating) as the restructuring has been showing so far more of a loss of clients and middle managers than any dramatic tangible results. Two banks we recommend avoiding completely are Bank Millennium and Kredyt Bank (putting a SELL rating on them):

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 | | | | | | 12.5 | 11.0 | 9.4 | 2.8 | 2.4 | 2.1 | 24% | 24% | 24% |
| PKO BP | 49.2 | 14,468 | BUY | 58.0 | 15.2% | 13.2 | 11.0 | 9.2 | 3.4 | 2.8 | 2.3 | 28% | 28% | 28% |
| Pekao | 180 | 13,861 | HOLD | 190 | 5.3% | 12.2 | 11.5 | 9.6 | 2.8 | 2.5 | 2.2 | 25% | 23% | 25% |
| BRE | 384 | 3,349 | HOLD | 400 | 4.0% | 11.1 | 9.9 | 8.6 | 2.7 | 2.2 | 1.7 | 27% | 24% | 22% |
| BZ-WBK | 169 | 3,626 | HOLD | 180 | 6.1% | 12.5 | 11.1 | 9.7 | 2.4 | 2.1 | 1.8 | 21% | 20% | 20% |
| Bank Handlowy | 81.9 | 3,147 | BUY | 95.0 | 13.8% | 11.9 | 9.9 | 8.9 | 1.9 | 1.7 | 1.6 | 16% | 18% | 19% |
| Kredyt Bank | 19.5 | 1,558 | SELL | 17.0 | -14.7% | 14.4 | 13.0 | 11.7 | 2.1 | 1.9 | 1.7 | 15% | 15% | 15% |
| Bank Slaski | 510 | 1,951 | BUY | 600 | 15.0% | 11.5 | 9.6 | 8.3 | 1.6 | 1.5 | 1.4 | 15% | 16% | 17% |
| Bank Millennium | 8.20 | 2,048 | SELL | 7.80 | -5.1% | 12.8 | 10.9 | 9.5 | 2.4 | 2.1 | 1.8 | 20% | 20% | 20% |
| Czech Republic | | | | | | 12.9 | 11.8 | 10.8 | 2.9 | 2.6 | 2.3 | 24% | 23% | 23% |
| Komerční Banka | 4,250 | 6,419 | HOLD | 4,200 | -1.2% | 12.9 | 11.8 | 10.8 | 2.9 | 2.6 | 2.3 | 24% | 23% | 23% |
| Hungary | | | | | | 5.8 | 7.6 | 6.8 | 1.8 | 1.6 | 1.4 | 35% | 22% | 22% |
| OTP | 6,873 | 7,888 | HOLD | 8,000 | 14.1% | 5.5 | 7.4 | 6.7 | 1.7 | 1.6 | 1.4 | 36% | 22% | 22% |
| FHB | 1,338 | 318 | SELL | 1,050 | -27.4% | 12.9 | 12.1 | 10.1 | 2.3 | 2.0 | 1.7 | 19% | 17% | 18% |
| Austria | | | | | | 10.4 | 9.7 | 8.1 | 2.1 | 1.8 | 1.5 | 22% | 19% | 20% |
| Erste Bank | 46.2 | 14,597 | BUY | 55.0 | 16.1% | 7.2 | 8.7 | 7.5 | 1.4 | 1.3 | 1.1 | 22% | 15% | 16% |
| Raiffeisen Int. | 95.1 | 14,715 | HOLD | 115 | 17.3% | 13.7 | 10.7 | 8.6 | 2.7 | 2.3 | 1.9 | 22% | 23% | 24% |
| CEE TOTAL / AVERAGE | | | | | | 11.2 | 10.3 | 8.8 | 2.5 | 2.1 | 1.8 | 24% | 22% | 22% |

Source: Company data, Wood & Company

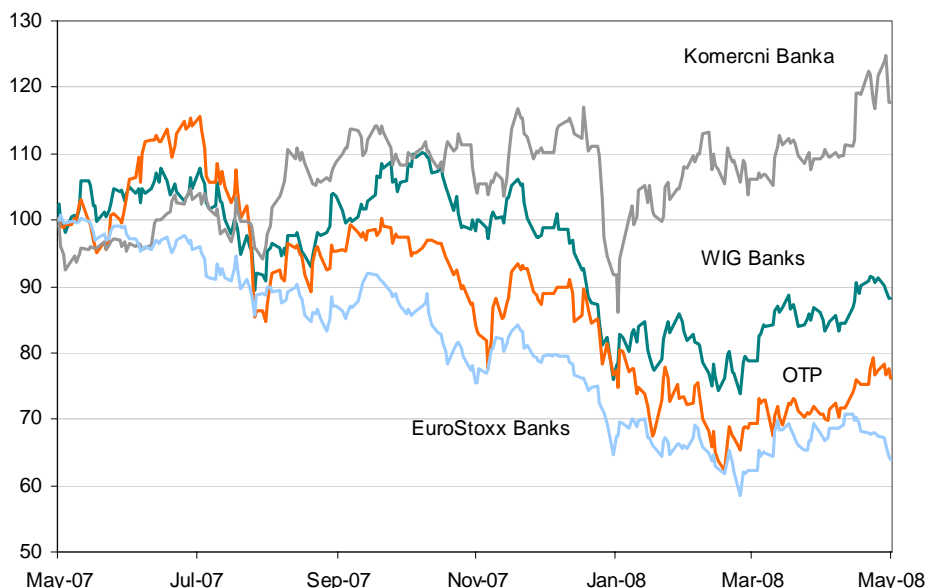
Valuation

Polish banks dropped “only” 12% last twelve months...

Polish bank stocks holding up well

Polish banking stocks have corrected from their all-time highs and dropped 12% since the middle of June last year. Although some banks, such as BZ-WBK, fell more than 40%, Polish banks haven't declined as much as West European banks and OTP Bank, for example:

How Poland's banks compare



Source: Bloomberg

...but effectively they have become cheaper than that...

However, of greater interest is the fact that Polish banks have become much cheaper, compared to their past (trading at a PE of 12.4x on expected 2008 earnings compared to 15-20x a year ago) as well as when compared to banks in Western and Eastern Europe.

...thanks to relatively strong earnings development

| Name | Last Price | Market Cap (EUR mil.) | P/E | | | P/BV | | | ROE | | |
|-------------------------|------------|-----------------------|-------------|-------------|------------|------------|------------|------------|-------------|-------------|-------------|
| | | | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 |
| Western Banks | | | | | | | | | | | |
| Deutsche | 72.1 | 38,347 | 10.7 | 7.4 | 6.9 | 1.0 | 0.9 | 0.9 | 10.5 | 13.3 | 14.0 |
| Citi | 21.1 | 72,716 | 10.0 | 7.8 | 5.8 | 0.9 | 0.8 | 0.7 | 3.5 | 11.6 | 15.6 |
| SocGen | 65.8 | 38,406 | 8.3 | 7.1 | 6.3 | 1.1 | 1.0 | 0.9 | 14.8 | 14.6 | 15.7 |
| BNP | 65.6 | 59,776 | 8.0 | 7.4 | 6.7 | 1.1 | 1.0 | 0.9 | 14.2 | 14.3 | 14.8 |
| Barclays | 383.0 | 31,968 | 5.6 | 5.1 | 5.0 | 1.0 | 1.0 | 0.9 | 15.5 | 17.9 | 17.4 |
| Commerzbank | 21.8 | 14,471 | 8.9 | 7.6 | 7.2 | 0.9 | 0.9 | 0.8 | 10.8 | 11.8 | 11.7 |
| KBC | 76.9 | 27,382 | 8.7 | 8.0 | 7.3 | 1.4 | 1.3 | 1.2 | 16.7 | 17.6 | 16.5 |
| Intesa | 4.2 | 53,092 | 9.7 | 8.2 | 7.3 | 1.0 | 0.9 | 0.9 | 11.2 | 12.9 | 13.7 |
| HSBC | 852 | 126,433 | 12.4 | 10.3 | 9.2 | 1.6 | 1.5 | 1.4 | 12.7 | 14.1 | 15.0 |
| Unicredit | 4.2 | 57,014 | 8.0 | 6.9 | 6.2 | 1.0 | 0.9 | 0.8 | 13.1 | 14.3 | 15.8 |
| Eastern Banks | | | | | | | | | | | |
| PKO BP | 49.2 | 14,441 | 15.4 | 13.2 | 10.9 | 3.5 | 3.0 | 2.5 | 24.8 | 24.4 | 24.4 |
| PEKAO | 181 | 14,009 | 12.0 | 10.7 | 9.5 | 2.9 | 2.7 | 2.5 | 25.9 | 26.2 | 26.4 |
| BRE | 392 | 3,427 | 11.6 | 11.8 | 10.6 | 2.7 | 2.2 | 1.8 | 25.0 | 20.8 | 18.9 |
| BZ-WBK | 166 | 3,601 | 12.0 | 10.8 | 9.3 | 2.4 | 2.0 | 1.8 | 21.7 | 21.2 | 20.2 |
| Bank Slaski | 510 | 1,932 | 9.6 | 8.7 | 7.8 | 1.5 | 1.4 | 1.3 | 15.6 | 15.7 | 15.8 |
| Kredyt Bank | 19.3 | 1,542 | 15.2 | 12.5 | 9.4 | 2.1 | 1.8 | 1.6 | 14.0 | 15.5 | 16.4 |
| Getin | 12.1 | 2,520 | 15.3 | 12.5 | 10.5 | 2.4 | 2.0 | 1.7 | 16.8 | 16.8 | 17.6 |
| Handlowy | 83.0 | 3,190 | 11.9 | 10.2 | 9.0 | 1.9 | 1.8 | 1.6 | 16.4 | 17.9 | 18.3 |
| Millenium | 8.2 | 2,023 | 13.6 | 11.1 | 9.2 | 2.4 | 2.1 | 1.8 | 18.8 | 19.8 | 20.3 |
| Komerčni | 4125 | 6,231 | 13.1 | 12.0 | 10.8 | 2.8 | 2.5 | 2.3 | 22.2 | 22.1 | 22.0 |
| OTP | 6820 | 7,854 | 8.0 | 6.8 | 5.8 | 1.6 | 1.4 | 1.2 | 23.4 | 21.3 | 20.9 |
| BRD | 22.6 | 4,305 | 16.5 | 12.6 | 11.2 | 5.4 | 4.0 | 3.1 | 36.0 | 34.0 | 30.6 |
| Erste Bank | 46.4 | 14,673 | 10.4 | 8.5 | 7.2 | 1.5 | 1.3 | 1.1 | 17.0 | 16.3 | 16.8 |
| Raiffeisen | 94.8 | 14,624 | 13.4 | 10.8 | 8.8 | 2.2 | 1.9 | 1.6 | 17.3 | 17.7 | 19.2 |
| Averages | | | | | | | | | | | |
| Western | | | 8.5 | 7.2 | 6.5 | 1.0 | 1.0 | 0.9 | 12.4 | 14.3 | 14.9 |
| Eastern | | | 13.6 | 11.4 | 9.4 | 2.5 | 2.1 | 1.8 | 20.4 | 20.0 | 19.7 |
| - Poland | | | 13.0 | 11.3 | 9.6 | 2.4 | 2.1 | 1.8 | 19.9 | 19.8 | 19.8 |
| Premium of East to West | | | 37% | 36% | 31% | 58% | 54% | 50% | 39% | 28% | 24% |
| - Poland | | | 34% | 36% | 32% | 57% | 54% | 51% | 38% | 28% | 25% |

Source: Bloomberg

Polish banks are cheaper than Komercni Banka...

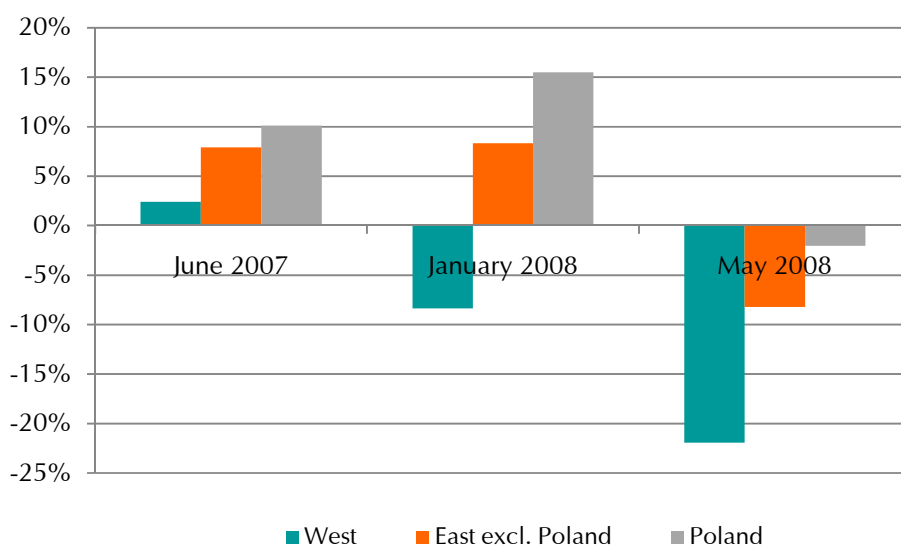
...and their premium compared to Western peers dropped by a third...

...to 34% based on PE08

For the first time in several years, Polish banks are trading at a discount to other CEE banks such as Komercni Banka. Also, their premium to West-European banks dropped from 54% in June 2007 to the current 34%, measured by PE expected in 2008.

The stocks have gotten cheaper due primarily to trends in earnings. While 2008 earnings of West-European banks have been downgraded by 21% since the beginning of this year (and 30% over the last 12 months), and the profit forecast for non-Polish East-European banks has dropped 8% ytd, Polish banks have enjoyed a 13% upgrade in their earnings over the last twelve months:

2008 Earnings downgrades/upgrades (on 6 month basis)



Source: Company data, Wood & Company

While mutual fund redemptions started hurting banks' fee income, 1Q08 results were a pleasant surprise, with profits growing more than 20% yoy (nearly 10% better than expected).

Which Polish bank to buy?

Polish banks trade at "reasonable" valuation multiples and have become relatively cheap. We are therefore becoming more enthusiastic about the sector, especially as we expect the Polish economy to withstand the slowdown in Western Europe better than the much more open Czech and Hungarian economies (Polish exports account for some 40% of GDP compared to 70% in Hungary and 80% in the CR).

Having said that, we are fully aware of the risks stemming from further redemptions in the mutual fund business, or funding and capitalization constraints, and are trying to identify the banks most exposed to the risk areas and scale of potential problems in this report.

We have compiled a matrix, rating each bank based on a number of factors such as exposure to the mutual fund business, funding and capital constraints, management quality and strategy or interest rate risk to decide which banks we favor:

| Bank | PKO BP | BRE | Pekao | Handlowy | BZ-WBK | Slaski | Millennium | Kredyt |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Strategy, Mng. & Transparency | 4 | 1 | 5 | 6 | 2 | 7 | 3 | 8 |
| Mutual fund exposure | 2 | 3 | 4 | 5 | 8 | 6 | 7 | 1 |
| IR, FX, Capital and Funding | 4 | 6 | 3 | 1 | 5 | 2 | 8 | 7 |
| Liquidity | 1 | 3 | 2 | 6 | 4 | 7 | 5 | 8 |
| Total | 11.0 | 13.0 | 14.0 | 18.0 | 19.0 | 22.0 | 23.0 | 24.0 |

We rate attractiveness of Polish banks on a number of factors...

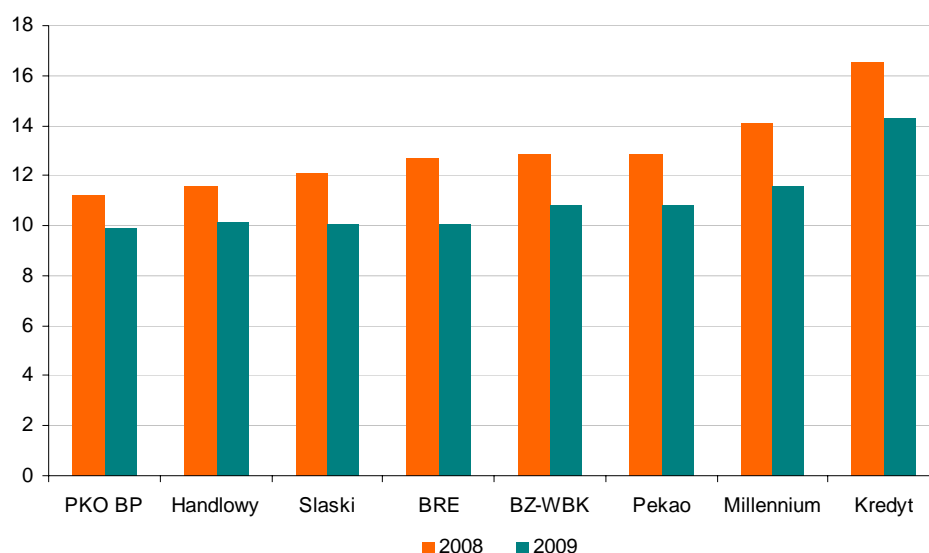
...choosing PKO BP as our favorite one

PKO BP remains also our favorite banking stock...

PKO BP, the best-performing Polish bank over the last twelve months, remains our favorite, while Kredyt Bank is our least preferred bank. When adding our rating to the banks' 2008e PE multiples (adjusted for one-offs), we get a final picture of which bank to buy (we apply a 15% premium/discount to the winner/loser of our rating system):

Attractiveness of Polish banks based on adjusted PE

...in spite of the fact it is nominally the most expensive bank in Poland



Source: Company data, Wood & Company, Adjusted for one-offs and the criteria above

As presented above (and below), PKO BP, Handlowy and ING Slaski therefore remain our preferred banking stocks in Poland. Outside of Poland, we remain bullish on Austria's Erste Bank and also on Raiffeisen Int. in the long-term:

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 | | | | | | 12.5 | 11.0 | 9.4 | 2.8 | 2.4 | 2.1 | 24% | 24% | 24% |
| PKO BP | 49.2 | 14,473 | BUY | 58.0 | 15.2% | 13.2 | 11.0 | 9.2 | 3.4 | 2.8 | 2.3 | 28% | 28% | 28% |
| Pekao | 180 | 13,866 | HOLD | 190 | 5.3% | 12.2 | 11.5 | 9.6 | 2.8 | 2.5 | 2.2 | 25% | 23% | 25% |
| BRE | 384 | 3,351 | HOLD | 400 | 4.0% | 11.1 | 9.9 | 8.6 | 2.7 | 2.2 | 1.7 | 27% | 24% | 22% |
| BZ-WBK | 169 | 3,627 | HOLD | 180 | 6.1% | 12.5 | 11.1 | 9.7 | 2.4 | 2.1 | 1.8 | 21% | 20% | 20% |
| Bank Handlowy | 81.9 | 3,148 | BUY | 95.0 | 13.8% | 11.9 | 9.9 | 8.9 | 1.9 | 1.7 | 1.6 | 16% | 18% | 19% |
| Kredyt Bank | 19.5 | 1,558 | SELL | 17.0 | -14.7% | 14.4 | 13.0 | 11.7 | 2.1 | 1.9 | 1.7 | 15% | 15% | 15% |
| Bank Slaski | 510 | 1,952 | BUY | 600 | 15.0% | 11.5 | 9.6 | 8.3 | 1.6 | 1.5 | 1.4 | 15% | 16% | 17% |
| Bank Millennium | 8.20 | 2,048 | SELL | 7.80 | -5.1% | 12.8 | 10.9 | 9.5 | 2.4 | 2.1 | 1.8 | 20% | 20% | 20% |
| Czech Republic | | | | | | 12.9 | 11.8 | 10.8 | 2.9 | 2.6 | 2.3 | 24% | 23% | 23% |
| Komerční Banka | 4,250 | 6,420 | HOLD | 4,200 | -1.2% | 12.9 | 11.8 | 10.8 | 2.9 | 2.6 | 2.3 | 24% | 23% | 23% |
| Hungary | | | | | | 5.8 | 7.6 | 6.8 | 1.8 | 1.6 | 1.4 | 35% | 22% | 22% |
| OTP | 6,873 | 7,888 | HOLD | 8,000 | 14.1% | 5.5 | 7.4 | 6.7 | 1.7 | 1.6 | 1.4 | 36% | 22% | 22% |
| FHB | 1,338 | 318 | SELL | 1,050 | -27.4% | 12.9 | 12.1 | 10.1 | 2.3 | 2.0 | 1.7 | 19% | 17% | 18% |
| Austria | | | | | | 10.4 | 9.7 | 8.1 | 2.1 | 1.8 | 1.5 | 22% | 19% | 20% |
| Erste Bank | 46.2 | 14,597 | BUY | 55.0 | 16.1% | 7.2 | 8.7 | 7.5 | 1.4 | 1.3 | 1.1 | 22% | 15% | 16% |
| Raiffeisen Int. | 95.1 | 14,715 | HOLD | 115 | 17.3% | 13.7 | 10.7 | 8.6 | 2.7 | 2.3 | 1.9 | 22% | 23% | 24% |
| CEE TOTAL / AVERAGE | | | | | | 11.2 | 10.3 | 8.8 | 2.5 | 2.1 | 1.8 | 24% | 22% | 22% |

Source: Company data, Wood & Company

Mutual Fund Business

Mutual fund business created a gold mine for Polish banks...

Massive inflows into the mutual fund business created a gold mine for most Polish banks in recent years. This business contributed significantly to a valuation-multiple expansion (similar to other Polish equities), and also boosted profits for the banks most active in the business (the margin on mutual fund products reached 3-4% -- twice as much as on deposits).

We have three questions in mind to tackle this subject here:

- ✓ To what extent is each bank exposed to the mutual fund business?
- ✓ Has the relative exposure matched their share price performance?
- ✓ What's the sensitivity of the bank's profits to outflows?

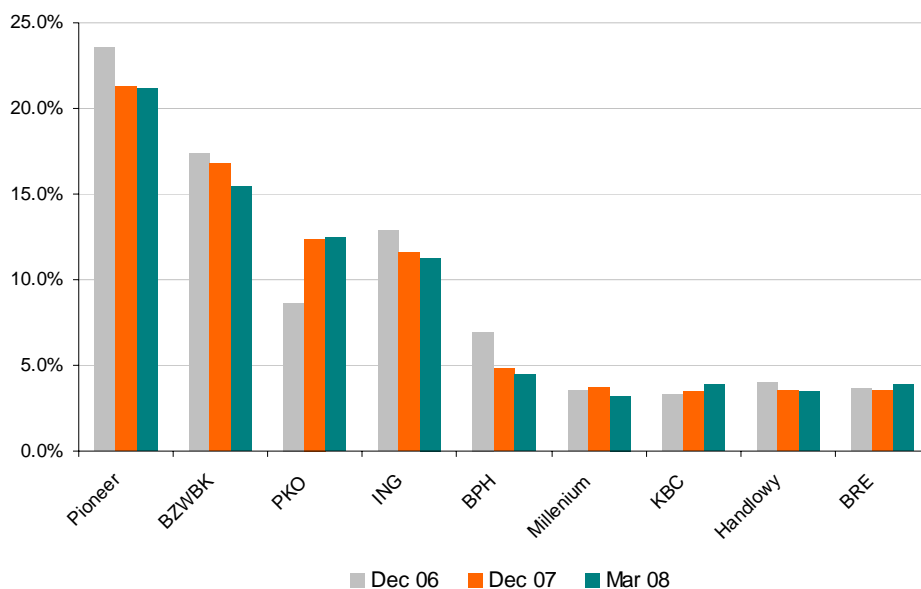
Who are the most exposed?

... especially for BZ-WBK.

Having 16% of the market in the mutual fund business compared to its 5% natural market share, everyone probably rightly guesses BZ-WBK to be the most exposed to the mutual fund business:

Poland's largest Mutual funds

It become a burden when the positive trend changed...



...and BZ-WBK tanked over 40% since the middle of last year

Source: Company data, Wood & Company

However, calculating banks' relative exposure to the mutual fund business is more complex than just looking at market share figures. Some banks have a 50% stake in their mutual fund subsidiaries (BZ-WBK, Pekao), some have no stake but share management fees (Millennium, Bank Slaski) and some have an open platform (BRE and Handlowy).

With 30% of profit coming from mutual fund business...

BZ-WBK is the single most exposed bank to mutual fund business...

...followed by Millennium and Bank Slaski...

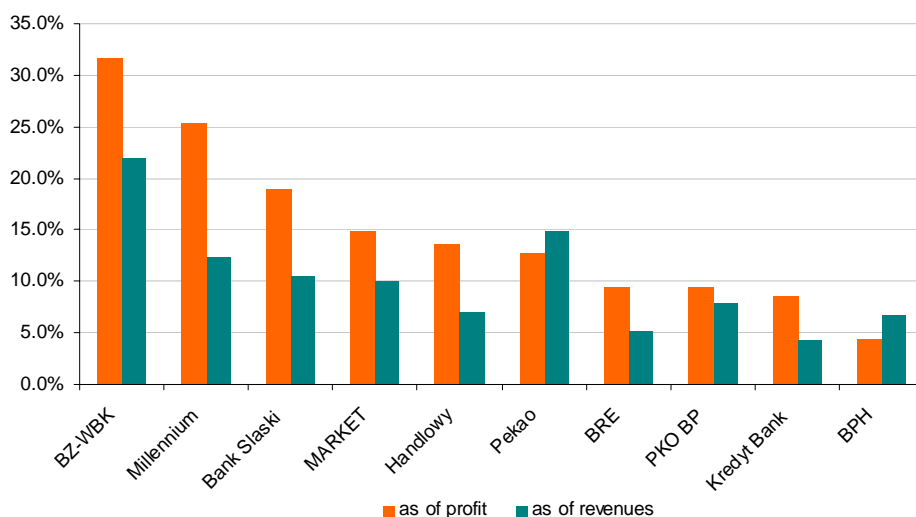
...and surprisingly by Bank Handlowy!

No wonder that the three most exposed banks are also...

...the three worst-performing banking stocks!

Despite the adjustments, BZ-WBK maintains its unique position among Polish banks, with over 30% of its profit derived from the mutual fund business, followed by Millennium and Bank Slaski:

Exposure to the mutual fund business



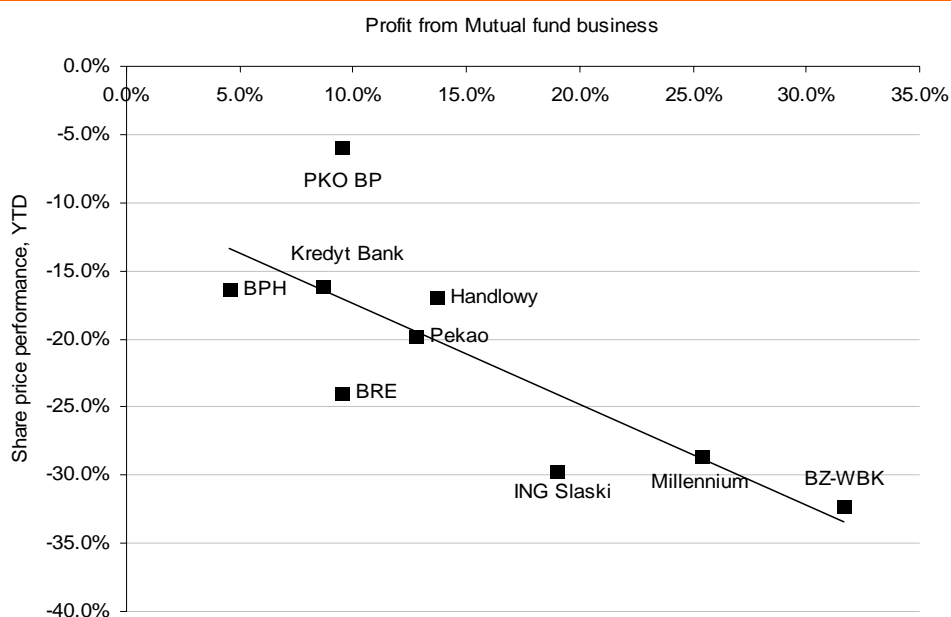
Source: Company data, Wood & Company

Surprisingly, Bank Handlowy seems to be more exposed to this area than Pekao SA despite having divested its mutual fund subsidiary (and before Pekao's exposure was diluted by the merger with BPH, which will reduce its exposure further).

Has share price performance matched exposure?

It is no coincidence that BZ-WBK, Millennium and Bank Slaski have been the worst performers among Polish banks so far this year:

Banks' share performance relative to exposure



Source: Company data, Wood & Company

Having placed more faith and cash into the mutual fund business...

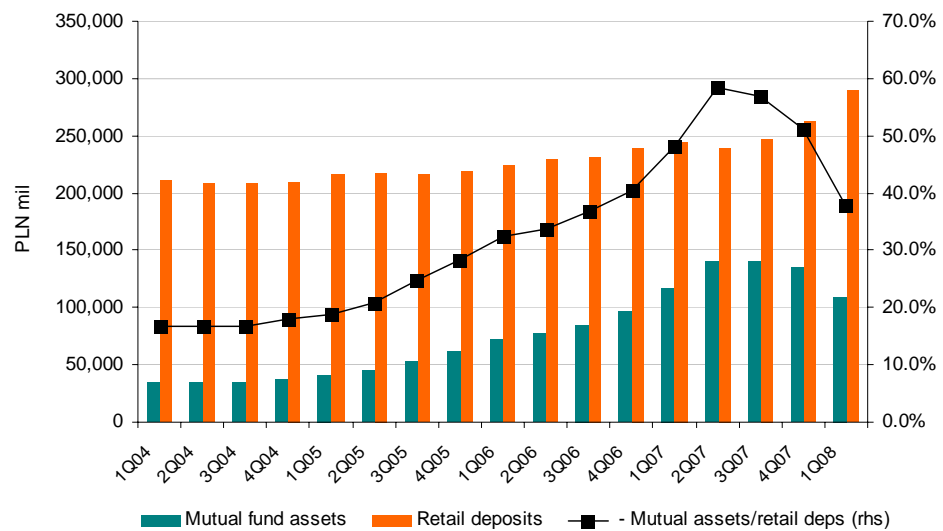
How much more can banks suffer?

Poles have invested much more than anyone else in CEE into mutual funds having some 35-40% of their savings in mutual funds, compared to 10% in Hungary and the Czech Republic.

This means that the negative trend that started this year with the arrival of redemptions will hit Polish banks harder than other banks in the region:

Poland's mutual fund assets

...Polish redemptions might easily continue in the coming months.



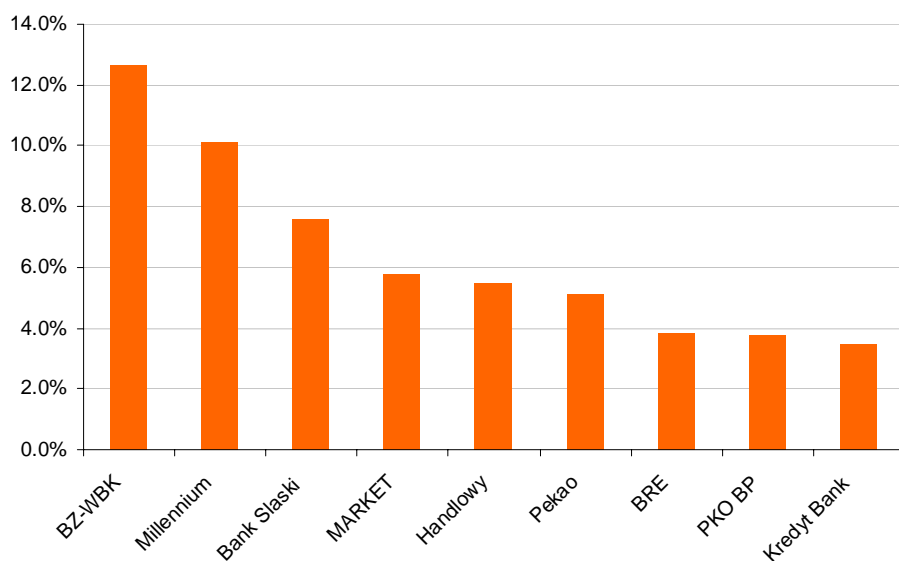
Source: Company data, Wood & Company

The 20% decline in mutual fund assets might have erased 7% of banks' earnings...

With 19% of mutual fund assets having departed this year and more redemptions likely to take place in the coming months, here is the impact on bank profits assuming a 20% reduction in assets under management:

Profit reduction assuming a 20% outflow in assets

...implying 1% decline in mutual fund assets would delete 0.3% of banks' earnings



Source: Company data, Wood & Company

As a rule of thumb, each 3% reduction in mutual fund assets will reduce Polish bank profits by approximately 1%.

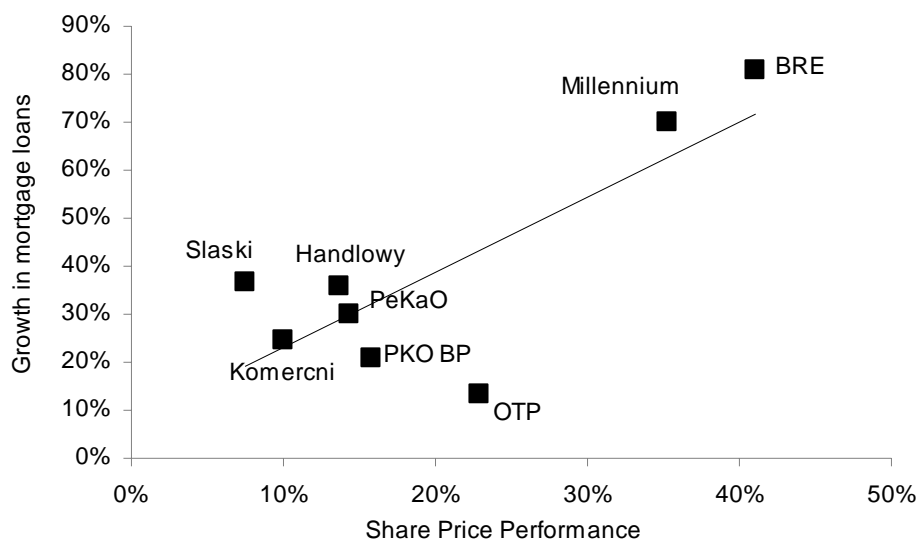
Mortgage Lending Slowdown

The more aggressive on mortgage lending...

Similar to the mutual fund business, mortgage lending was a key profit and share price driver for a number of smaller banks, such as Bank Millennium and BRE. It's no coincidence that the most aggressive mortgage lenders (Millennium and BRE) are also the banks with the sharpest profit growth and the best share price performance, while the most conservative ones (such as Pekao or Slaski) lagged behind:

Mortgage lending meant success, 2004-2007

...the better the share price performance.



Source: Company data, Wood & Company

With the subprime crisis in the US, a slowdown in the Western Europe and more and more questions about the sustainability of mortgage lending growth in CEE, we looked at the following questions here:

- ✓ What are the growth prospects for mortgage lending in Poland?
- ✓ Which banks are most exposed to this business?

What are the growth prospects of mortgage lending?'

Long-term growth prospects remain good...

In short, we expect solid growth in the long term, though a slowdown is likely in the short term.

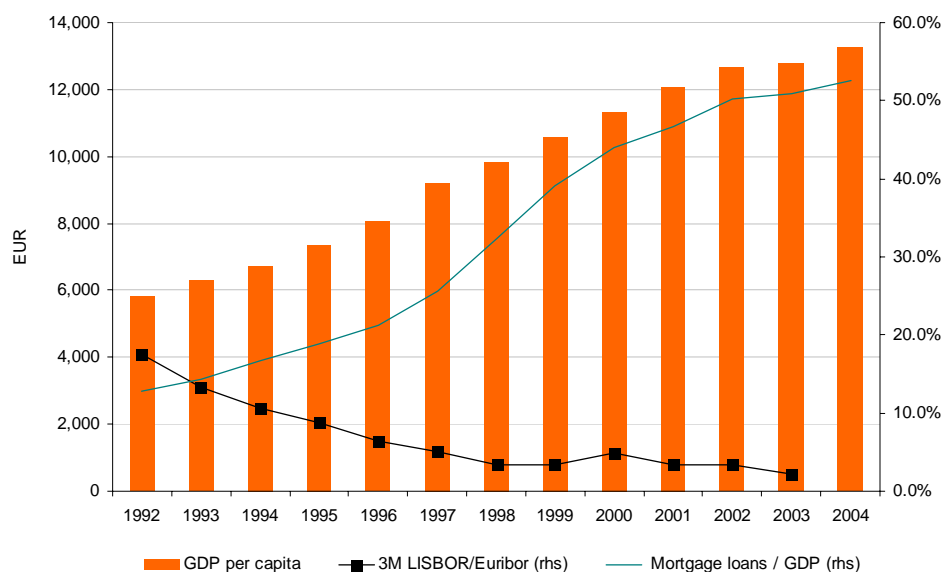
Mortgage loans have been growing at around 40-50% a year over the last decade in the CEE region (including Poland). This was driven by a number of factors, such as low interest rates, an exceptionally strong economy, and positive demographic trends (a sizable generation born in the mid-1970s tapping the mortgage market).

We believe the positive trends will continue in the long-term, especially for Poles, who have the biggest shortage of housing stock and one of the youngest populations in CEE.

...especially when one compares Poland to the West...

The example of Portugal shows that the CEE mortgage lending boom is still at the beginning of its cycle, even after the brisk growth seen over the last decade:

Portuguese mortgage loan expansion, 1992-2004



...and takes Poland's young population and lack of housing stock into account

Source: Company data, Wood & Company

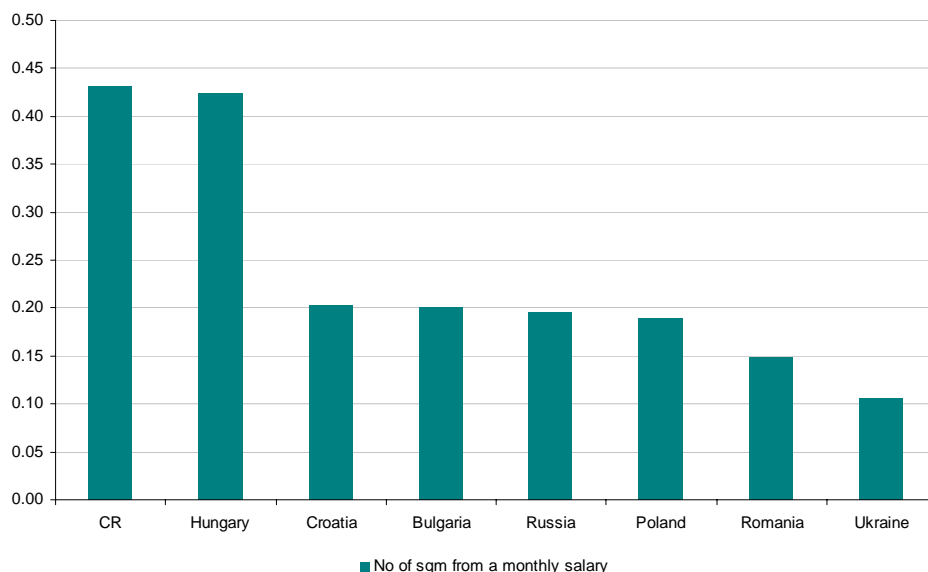
We are less bullish in the short term, however. We believe that a slowdown is inevitable due mainly to the following:

- ✓ Housing affordability has been declining
- ✓ The speculative element is disappearing
- ✓ Economic slowdown is coming

Though slowdown should come in the short- or medium term...

Like other CEE countries, housing affordability in Poland (measured by average salary to real estate prices per square meter) has been declining as wage growth lagged price increases in real estate, leaving the average Pole able to buy less than 0.2 sqm from his monthly salary, one of the lowest housing affordability ratios within CEE:

Affordability of Housing, 2007



...as affordability of housing has been declining...

Source: Company data, Wood & Company

...prices stop rising...

...and economy slows

This makes demand for mortgage loans more vulnerable when real estate prices stop rising (leading to a disappearance of the speculative element, which is already taking place) and the economy starts slowing down (as some indicators suggest).

Although 1Q08 figures revealed a recovery in demand for mortgage loans, we expect a slowdown in growth to 20-30% a year in the coming years.

Which banks are the most exposed to mortgage lending?

Millennium, PKO BP and BRE and surprisingly Kredyt Bank are the most exposed to the mortgage lending business in Poland:

Millennium, PKO and surprisingly Kredyt Bank are the most mortgage-exposed Polish banks

Mortgage loans / Total loans, 2007



Source: Company data, Wood & Company

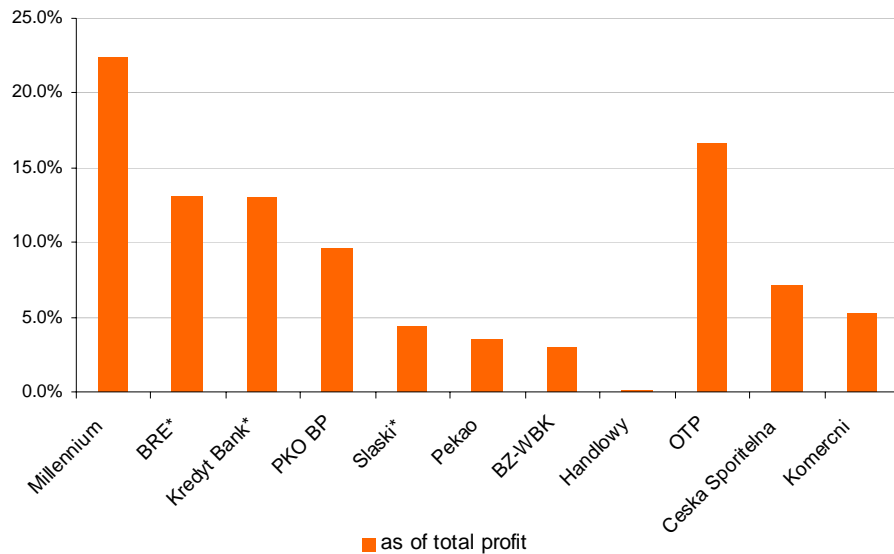
Assuming 200 bp total margin and a cost to income ratio of 40%, cost of risk at 20 bp and only 50% capital allocation (compared to other retail loans), we expect profitability for the mortgage lending business to be above 20%.

More than 20% of Millennium's earnings might come from mortgage lending...

...making the bank heavily exposed to the change in the positive trend

Translating the above assumptions into actual numbers, we think that over 20% of Millennium's profitability could be derived from the mortgage lending business:

Profitability of mortgage lending



Source: Company data, Wood & Company, *Adjusted for one-offs

This makes Millennium clearly the most exposed to the mortgage lending business. As a rule of thumb, each 10 bp decline in margin and 5 bp increase in cost of risk will reduce Millennium's profit by around 1%.

Funding, Capital, FX Issue & Interest rate risk

Who is stretched with regards to funding?

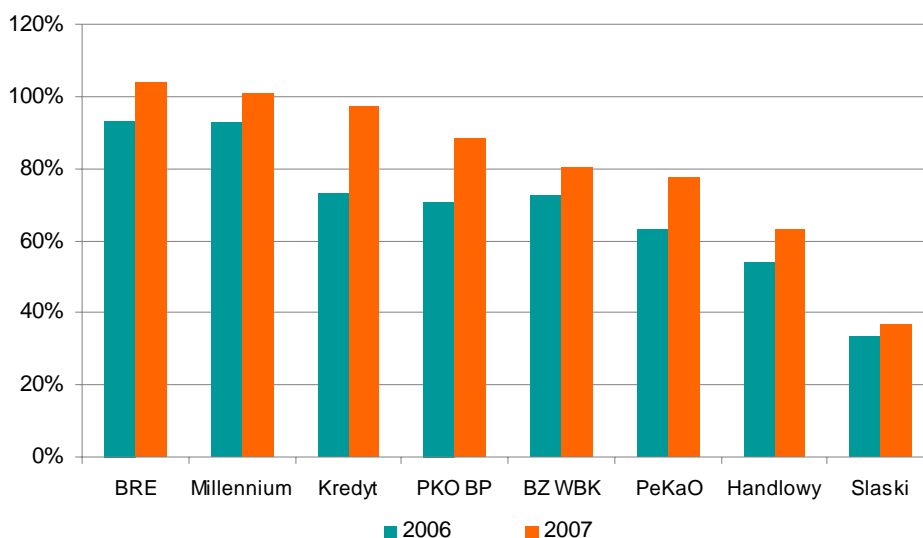
BRE, Millennium and Kredyt Bank are the most stretched banks in terms of funding...

Massive loan growth and migration from deposits into mutual fund assets increased funding imbalances, especially at smaller banks such as Millennium and BRE, which have been stealing market share in mortgage lending at the expense of the big banks.

These two banks are the most stretched in terms of funding, with loans to deposits exceeding 100%:

Loans to Deposits, 2007

...though Millennium has been addressing this issue...



Source: Company data, Wood & Company

...raising its deposits by over 30% within the last two quarters

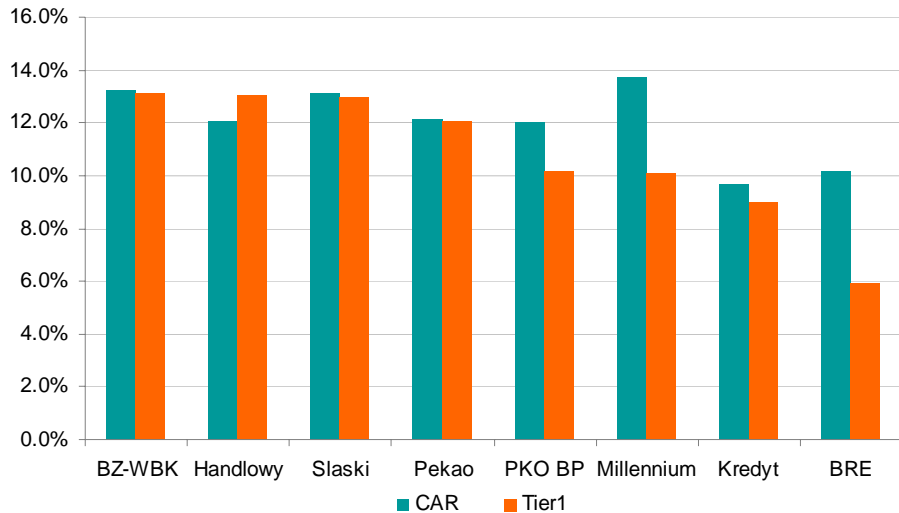
Although the situation on inter-bank markets has stabilized somewhat and a number of Polish banks showed impressive results in deposit collection (Millennium and BZ-WBK raised their deposits by 30-40% over the last two quarters catching the migrating mutual fund assets), current growth rates at Millennium and BRE will be increasingly difficult to maintain in the coming quarters.

BRE and Kredyt Bank are the two least-capitalized banks....

Who is stretched with respect to capital?

BRE stands out as the least capitalized bank with a Tier1 ratio of only 6%, a third less than the second least capitalized Kredyt Bank:

Banks' Capitalization, 2007



...raising concerns about a growth slow down

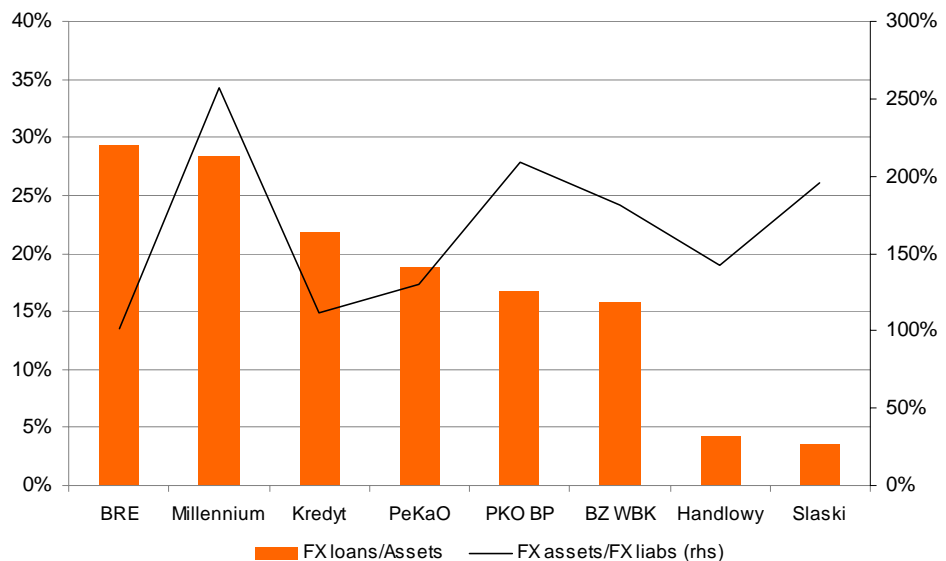
Source: Company data, Wood & Company

While still not an issue for most CEE banks (in spite of the implementation of Basel II), low capital is another sign that BRE is likely to see growth slow, and not just because of the arrival of a more conservative CEO.

Who is the most exposed to FX risk?

BRE and Millennium are the most exposed to loans denominated in foreign currency:

FX exposure, 2007



Millennium and BRE are also the most FX exposed banks...

...though no open FX positions are seen among Polish banks

Source: Company data, Wood & Company

Unlike most analysts, we do not consider FX mortgage lending to be a big issue in Poland -- as long as the macro picture does not deteriorate significantly, which we do not consider likely. All Polish banks run virtually

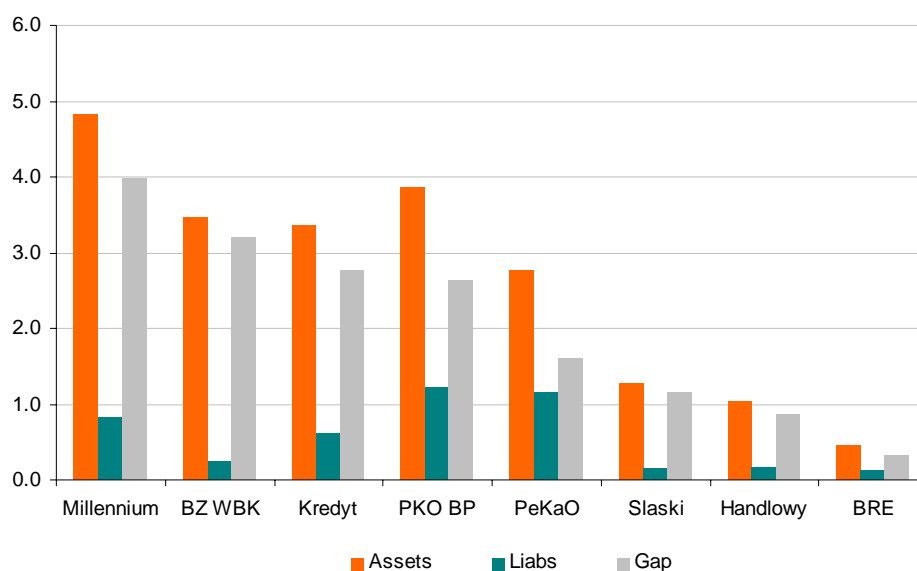
a zero open FX position, so factors to focus on are potential asset quality deterioration if the PLN depreciates (though a significant, say 20-30%, depreciation would have to take place to really make a difference) or difficulty with funding if the global situation deteriorates (BRE, for example, will have to re-finance 12% of its customer loans, or over PLN 4 bil, in 2008 while nearly 90% of FX swaps at Millennium are within three months).

Who benefits the most from rising interest rates?

Most banks in Poland notched impressive growth in net interest income in 1Q08 (up 6% qoq and 32% yoy) driven by increasing margins and rising volumes.

Interestingly enough, when looking at interest rate sensitivity, most banks have an average maturity that is much longer on the asset side than on liabilities, especially those exposed heavily to mortgage lending:

Maturity mismatch, in years, 2007



Source: Company data, Wood & Company

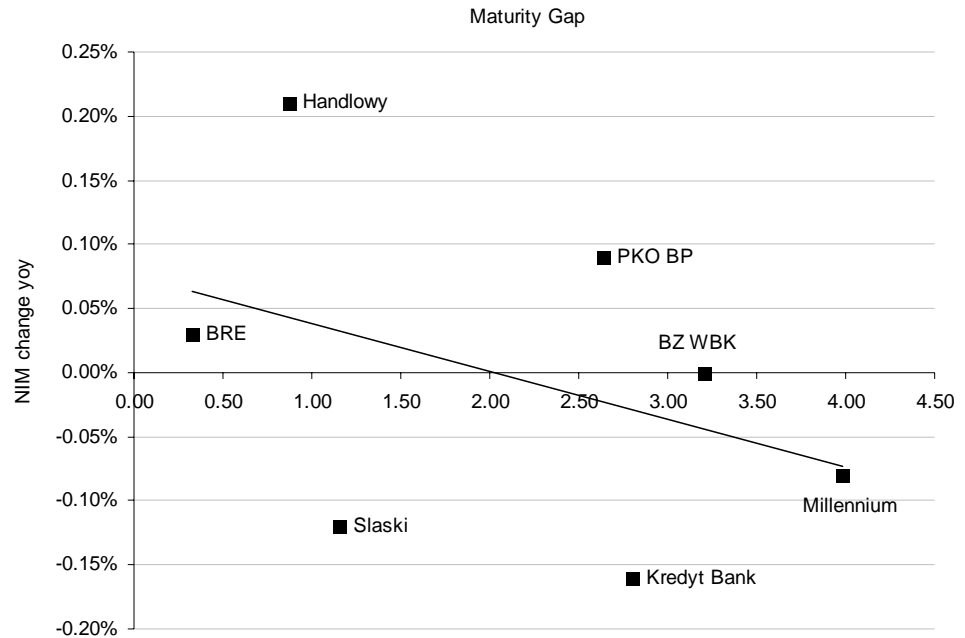
Although balance sheet re-pricing happened heavily in favor of most banks so far, due mainly to increasing spreads on current account deposits, it's worth keeping in mind that Millennium's long-term mortgage loans are financed from short-term deposits using currency swaps.

Having very liquid balance sheets...

...Handlowy and Slaski should benefit from raising interest rates

Although only one of a number of things affecting net interest margin, Millennium, BZ-WBK and Kredyt Bank are also among the banks with the smallest margin improvement over the last year, suggesting maturity mismatch might play a role in future interest revenue growth:

Maturity mismatch, in years, 2007



Source: Company data, Wood & Company

While ING Slaski and Bank Handlowy operate one of the most liquid and maturity-matched balance sheets in Poland, this alone is obviously not good enough to push interest revenues or margins higher.

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PKO BP

Buy

(Maintained)

Price: PLN 49.2

Price Target: PLN 58.0

(Up from PLN 56.0)

PKO Bank Pruski!

PKO BP has come a long way since the new management took over the bank mid last year – profits have soared 30-40%, restructuring has moved ahead and transparency has improved markedly. As a result, PKO BP's share price has outperformed other banking stocks by 12% over the last 12 months, making it the best-performing Polish bank.

The momentum might slow down somewhat and some disruptions might be seen in the coming months as Jerzy Pruski assumed the CEO role last week, replacing the whole management board.

However, our case for PKO BP was always long-term. The bank enjoys a cheap and vast deposit and client base, its costs still offer great room for savings while liberalization of the management's pay (currently limited by "Chimney Law") might make the new management even more aggressive.

With PE of 13x expected in 2008 (we are 16% above the market consensus) and about 20% earnings growth, the bank trades slightly above the market. Having little exposure to the mutual fund business and no problems with capital or funding, the bank represents a safe bet.

BUY maintained, PKO BP remains our TOP Pick among Polish banks.

Expected Events

| | |
|-----------------------|-------------------|
| Q2 results | August 8, 2008 |
| Ex-dividend date | August 18, 2008 |
| Dividend payment date | September 4, 2008 |

Key Data

| | |
|----------------------|--|
| Market Cap | PLN 49,500 mil |
| Free Float | 43%/PLN 21,285 mil |
| Shares outstanding | 1,000mil |
| Average daily volume | PLN 73.2 mil |
| Major Sh'holder | Treasury (51.5%) BZ WBK Fund (1.0%) |
| Reuters Code | PKOB.WA |
| Bloomberg Code | PKO PW |
| WIG20 Index | 2,947 |

Price Performance

| | |
|------------------------------|------------|
| 52-w range (PLN) | 39.1 -59.0 |
| YTD EUR Performance | -8.6 % |
| Relative YTD EUR Performance | 10.9 % |



| Year | Revenues (PLN mil) | Net Profit (PLN mil) | EPS (PLN) | EPS growth | PE | BVPS (PLN) | PBV | ROE | Dividend (PLN) | Dividend yield |
|-------|-----------------------|-------------------------|--------------|---------------|------|---------------|------|-------|-------------------|-------------------|
| 2010E | 12,559 | 5,360 | 5.36 | 19.6% | 9.2 | 21.0 | 2.34 | 27.8% | 2.14 | 4.4% |
| 2009E | 10,767 | 4,482 | 4.48 | 20.4% | 11.0 | 17.5 | 2.81 | 28.1% | 1.79 | 3.6% |
| 2008E | 9,075 | 3,723 | 3.72 | 28.2% | 13.2 | 14.5 | 3.40 | 28.2% | 1.49 | 3.0% |
| 2007 | 7,744 | 2,904 | 2.90 | 35.1% | 16.9 | 11.9 | 4.13 | 26.4% | 1.16 | 2.4% |
| 2006 | 6,518 | 2,149 | 2.15 | 23.9% | 22.9 | 10.1 | 4.88 | 22.8% | 0.86 | 1.7% |
| 2005 | 6,466 | 1,735 | 1.73 | 15.1% | 28.4 | 8.8 | 5.61 | 19.8% | 0.79 | 1.6% |
| 2004 | 5,959 | 1,507 | 1.51 | 26.3% | 32.6 | 8.8 | 5.59 | 20.5% | 1.00 | 2.0% |

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Prague tel.: +420 222 096 258
Website: www.wood.cz

INCOME STATEMENT (consolidated IFRS)

| (PLN mil) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|
| Net interest income | 3,514 | 3,544 | 3,832 | 4,644 | 5,806 | 6,610 | 7,784 |
| Non-interest income | 2,446 | 2,921 | 2,686 | 3,100 | 3,269 | 4,157 | 4,775 |
| net commission income | 1,583 | 1,218 | 1,866 | 2,335 | 2,602 | 3,358 | 3,938 |
| net FX gains | 473 | 612 | 544 | 530 | 720 | 608 | 641 |
| securities income | (63) | 325 | (37) | (62) | (177) | 54 | 50 |
| Total banking revenue | 5,959 | 6,466 | 6,518 | 7,744 | 9,075 | 10,767 | 12,559 |
| Total costs | (3,944) | (4,161) | (3,812) | (4,083) | (4,169) | (4,637) | (5,098) |
| personnel costs | (1,933) | (2,053) | (2,255) | (2,289) | (2,400) | (2,634) | (2,854) |
| depreciation | (520) | (467) | (318) | (381) | (438) | (485) | (546) |
| other costs | (1,478) | (1,642) | (1,239) | (1,413) | (1,318) | (1,504) | (1,684) |
| Operating income | 2,016 | 2,305 | 2,706 | 3,662 | 4,905 | 6,129 | 7,461 |
| Net provisions | (169) | (161) | (1) | (57) | (252) | (527) | (765) |
| Pretax profit | 1,869 | 2,167 | 2,701 | 3,609 | 4,649 | 5,597 | 6,691 |
| Income tax | (362) | (411) | (494) | (668) | (883) | (1,063) | (1,271) |
| Net income | 1,507 | 1,735 | 2,149 | 2,904 | 3,723 | 4,482 | 5,360 |

GROWTH RATIOS

| | | | | | | | |
|----------------------------|-------|---------|--------|-------|-------|-------|-------|
| Net interest income growth | 1.5% | 0.9% | 8.1% | 21.2% | 25.0% | 13.8% | 17.8% |
| Net fee growth | 18.7% | (23.1%) | 53.2% | 25.1% | 11.4% | 29.0% | 17.3% |
| Total income growth | 5.9% | 8.5% | 0.8% | 18.8% | 17.2% | 18.6% | 16.6% |
| Cost growth | 12.9% | 5.5% | (8.4%) | 7.1% | 2.1% | 11.2% | 9.9% |
| Operating profit growth | 4.3% | 14.3% | 17.4% | 35.3% | 34.0% | 25.0% | 21.7% |
| Pre-tax profit growth | 14.9% | 16.0% | 24.7% | 33.6% | 28.8% | 20.4% | 19.5% |
| Net profit growth | 26.3% | 15.1% | 23.9% | 35.1% | 28.2% | 20.4% | 19.6% |

BALANCE SHEET (consolidated IFRS)

| (PLN mil) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|------------------------|--------|--------|---------|---------|---------|---------|---------|
| Cash | 3,525 | 3,895 | 4,628 | 4,683 | 5,148 | 5,575 | 5,984 |
| Due from banks | 13,232 | 12,663 | 13,431 | 5,292 | 7,700 | 9,311 | 11,540 |
| Debt securities | 25,191 | 23,929 | 20,480 | 16,790 | 24,430 | 29,540 | 36,613 |
| Customer loans | 40,037 | 46,875 | 58,907 | 76,417 | 94,932 | 115,866 | 138,983 |
| Total assets | 85,954 | 91,865 | 102,026 | 108,569 | 137,548 | 166,353 | 199,956 |
| Customer deposits | 73,096 | 76,748 | 83,507 | 86,611 | 102,091 | 116,340 | 131,734 |
| Total Equity | 8,792 | 8,775 | 10,078 | 11,921 | 14,482 | 17,476 | 21,042 |
| Equity and Liabilities | 85,954 | 91,865 | 102,026 | 108,569 | 137,548 | 166,353 | 199,956 |

GROWTH RATIOS

| | | | | | | | |
|----------------------------------|---------|-------|-------|-------|-------|-------|-------|
| Customer loans growth | 4.3% | 17.1% | 25.7% | 29.7% | 24.2% | 22.1% | 20.0% |
| - of which corporate loan growth | (21.6%) | 15.9% | 13.5% | 26.5% | 24.1% | 21.6% | 19.6% |
| - of which mortgage loan growth | 40.1% | 20.5% | 27.9% | 37.4% | 27.9% | 25.5% | 23.0% |
| - of which consumer loan growth | 9.7% | 19.2% | 20.2% | 20.2% | 16.7% | 14.7% | 12.7% |
| Customer deposits growth | 2.2% | 5.0% | 8.8% | 3.7% | 17.9% | 14.0% | 13.2% |
| Total assets growth | 1.6% | 6.9% | 11.1% | 6.4% | 26.7% | 20.9% | 20.2% |

KEY RATIOS

| | | | | | | | |
|-------------------------------------|-------|-------|--------|--------|--------|--------|--------|
| Total Income/Earning Assets | 7.3% | 7.4% | 6.7% | 7.5% | 6.9% | 6.7% | 6.5% |
| Interest Expense/Int-bearing Liabs. | 2.4% | 2.8% | 2.1% | 2.1% | 2.7% | 2.9% | 3.1% |
| NIM on Total Assets | 4.1% | 4.0% | 4.0% | 4.4% | 4.7% | 4.4% | 4.3% |
| Cost/income ratio | 66.2% | 64.4% | 58.5% | 52.7% | 45.9% | 43.1% | 40.6% |
| Cost/assets ratio | 4.6% | 4.7% | 3.9% | 3.9% | 3.4% | 3.1% | 2.8% |
| Provisions/Net Interest Income | 4.8% | 4.5% | 0.0% | 1.2% | 4.3% | 8.0% | 9.8% |
| NPLs/Loans | 8.9% | 6.3% | 4.4% | 3.6% | 3.3% | 3.0% | 2.7% |
| Provisions/NPLs | 66.6% | 93.3% | 132.6% | 154.4% | 147.4% | 157.1% | 170.8% |
| ROE | 20.5% | 19.8% | 22.8% | 26.4% | 28.2% | 28.1% | 27.8% |
| ROA | 1.8% | 2.0% | 2.2% | 2.8% | 3.0% | 2.9% | 2.9% |
| Customer loans/Assets | 46.6% | 51.0% | 57.7% | 70.4% | 69.0% | 69.7% | 69.5% |
| Customer deposits/Assets | 85.0% | 83.5% | 81.8% | 79.8% | 74.2% | 69.9% | 65.9% |
| Loans/Deposits | 54.8% | 61.1% | 70.5% | 88.2% | 93.0% | 99.6% | 105.5% |
| Equity/Assets | 10.2% | 9.6% | 9.9% | 11.0% | 10.5% | 10.5% | 10.5% |

PER SHARE FIGURES

| (PLN) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|----------------|------|------|-------|-------|-------|-------|-------|
| EPS | 1.51 | 1.73 | 2.15 | 2.90 | 3.72 | 4.48 | 5.36 |
| DPS | 1.00 | 0.79 | 0.86 | 1.16 | 1.49 | 1.79 | 2.14 |
| BVPS | 8.79 | 8.77 | 10.08 | 11.92 | 14.48 | 17.48 | 21.04 |
| P/E | 32.6 | 28.4 | 22.9 | 16.9 | 13.2 | 11.0 | 9.2 |
| Dividend Yield | 2.0% | 1.6% | 1.7% | 2.4% | 3.0% | 3.6% | 4.4% |
| P/BV | 5.6 | 5.6 | 4.9 | 4.1 | 3.4 | 2.8 | 2.3 |
| ROE/CoE | 2.2 | 2.3 | 2.6 | 3.0 | 3.1 | 3.0 | 2.9 |

Source: Company data, Wood & Company estimates

Pekao SA

Hold

(Maintained)

Price: PLN 180

Price Target: PLN 190

(Down from PLN 220)

The Bank of 2009. Maybe...

Being a conservative cost and risk controller, Pekao SA has been one of the most defensive plays on the Polish banking market, and not very different from Komercni Banka on the Czech market.

However, being defensive does not always mean being good, especially in the buoyant times we have seen in recent years. Pekao has therefore lost market share (and not just in mortgages) and has been underperforming the market for years now (being down 7% over the twelve months and 31% over the last 3 years compared to the other banks).

With the integration of the large BPH coming to a successful end at the end of May, there are many hopes that management's attention will finally move more toward the business and away from internal processes.

However, signs of a recovery and a more aggressive attitude must be seen first before we believe it is really happening. So far, market share losses are worrying.

We therefore remain skeptical for now and maintain our HOLD rating. PKO BP would be our preferred choice among the big banks.

Expected Events

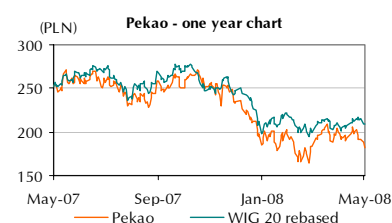
| | |
|------------|-------------------|
| Q2 results | August 1, 2008 |
| Q3 results | November 12, 2008 |
| Q4 results | February 20, 2009 |

Key Data

| | |
|----------------------|--------------------------------------|
| Market Cap | PLN 47,659 mil |
| Free Float | 27%/PLN 12,868 mil |
| Shares outstanding | 261.8 mil |
| Average daily volume | PLN 66.5 mil |
| Major Sh'holder | Unicredit (59.4%) Treasury (2.6%) |
| Reuters Code | BAPE.WA |
| Bloomberg Code | PEO PW |
| WIG20 Index | 2,947 |

Price Performance

| | |
|------------------------------|----------|
| 52-w range (PLN) | 165 -271 |
| YTD EUR Performance | -22.9 % |
| Relative YTD EUR Performance | -10.4 % |



| Year | Revenues (PLN mil) | Net Profit (PLN mil) | EPS (PLN) | EPS growth | PE | BVPS (PLN) | PBV | ROE | Dividend (PLN) | Dividend yield |
|-------|-----------------------|-------------------------|--------------|---------------|------|---------------|------|-------|-------------------|-------------------|
| 2010E | 10,404 | 4,896 | 18.7 | 19.0% | 9.6 | 81.0 | 2.22 | 24.6% | 9.3 | 5.2% |
| 2009E | 9,102 | 4,113 | 15.7 | 6.8% | 11.4 | 70.9 | 2.53 | 23.3% | 8.6 | 4.8% |
| 2008E | 8,207 | 3,850 | 14.7 | 18.9% | 12.2 | 64.0 | 2.80 | 24.6% | 8.8 | 4.9% |
| 2007 | 5,369 | 2,157 | 12.4 | 15.2% | 14.5 | 55.5 | 3.23 | 18.4% | 9.3 | 5.2% |
| 2006 | 4,658 | 1,788 | 10.7 | 16.2% | 16.7 | 53.3 | 3.37 | 20.7% | 9.0 | 5.0% |
| 2005 | 4,413 | 1,538 | 9.24 | 22.6% | 19.4 | 50.5 | 3.55 | 19.0% | 7.4 | 4.1% |
| 2004 | 4,059 | 1,252 | 7.53 | 35.8% | 23.8 | 46.9 | 3.83 | 16.7% | 6.4 | 3.6% |

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Prague tel.: +420 222 096 258
Website: www.wood.cz

INCOME STATEMENT (consolidated IFRS)

| (PLN mil) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|
| Net interest income | 2,170 | 2,350 | 2,379 | 2,706 | 4,834 | 5,340 | 6,068 |
| Non-interest income | 1,889 | 2,063 | 2,279 | 2,662 | 3,373 | 3,762 | 4,336 |
| net commission income | 1,481 | 1,587 | 1,856 | 2,167 | 2,544 | 2,843 | 3,284 |
| net FX gains | 289 | 265 | 256 | 333 | 509 | 583 | 688 |
| securities income | 70 | 139 | 124 | 55 | 129 | 128 | 129 |
| Total banking revenue | 4,059 | 4,413 | 4,658 | 5,369 | 8,207 | 9,102 | 10,404 |
| Total costs | (2,333) | (2,346) | (2,347) | (2,734) | (3,823) | (3,963) | (4,210) |
| personnel costs | (1,156) | (1,203) | (1,203) | (1,393) | (1,940) | (1,993) | (2,028) |
| depreciation | (322) | (323) | (318) | (336) | (430) | (447) | (492) |
| other costs | (845) | (811) | (813) | (992) | (1,437) | (1,506) | (1,673) |
| Operating income | 1,726 | 2,067 | 2,311 | 2,635 | 4,385 | 5,140 | 6,194 |
| Net provisions | (316) | (237) | (222) | (177) | (260) | (349) | (472) |
| Pretax profit | 1,446 | 1,874 | 2,199 | 2,629 | 4,707 | 5,030 | 5,987 |
| Income tax | (197) | (339) | (409) | (464) | (847) | (905) | (1,078) |
| Net income | 1,252 | 1,538 | 1,788 | 2,157 | 3,850 | 4,113 | 4,896 |

GROWTH RATIOS

| | | | | | | | |
|----------------------------|--------|-------|-------|-------|-------|-------|-------|
| Net interest income growth | (7.6%) | 8.3% | 1.2% | 13.7% | 78.6% | 10.5% | 13.6% |
| Net fee growth | 5.6% | 7.1% | 16.9% | 16.7% | 17.4% | 11.8% | 15.5% |
| Total income growth | (0.7%) | 8.7% | 5.5% | 15.3% | 52.9% | 10.9% | 14.3% |
| Cost growth | 10.2% | 0.6% | 0.0% | 16.5% | 39.8% | 3.7% | 6.3% |
| Operating profit growth | (2.5%) | 19.8% | 11.8% | 14.0% | 66.4% | 17.2% | 20.5% |
| Net profit growth | 36.2% | 22.8% | 16.2% | 20.7% | 78.4% | 6.8% | 19.0% |

BALANCE SHEET (consolidated IFRS)

| (PLN mil) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|------------------------|--------|--------|--------|---------|---------|---------|---------|
| Cash | 3,948 | 3,581 | 3,580 | 5,122 | 5,126 | 5,770 | 6,465 |
| Due from banks | 5,961 | 6,966 | 10,506 | 16,791 | 15,780 | 15,375 | 14,907 |
| Debt securities | 20,072 | 19,274 | 17,547 | 26,590 | 24,990 | 24,347 | 23,607 |
| Customer loans | 26,296 | 28,970 | 32,745 | 69,718 | 79,084 | 95,494 | 114,069 |
| Total assets | 59,536 | 61,972 | 67,704 | 124,051 | 130,383 | 147,019 | 165,752 |
| Due to banks | 3,484 | 3,948 | 4,055 | 10,324 | 10,397 | 11,128 | 12,312 |
| Customer deposits | 45,822 | 46,848 | 51,794 | 90,113 | 90,972 | 103,325 | 116,814 |
| Certified debt | 23 | 0 | 716 | 5,906 | 7,906 | 9,406 | 10,406 |
| Total Equity | 7,812 | 8,407 | 8,876 | 14,538 | 16,770 | 18,573 | 21,207 |
| Equity and Liabilities | 59,536 | 61,972 | 67,704 | 124,051 | 130,383 | 147,019 | 165,752 |

GROWTH RATIOS

| | | | | | | | |
|----------------------------------|--------|-------|-------|--------|-------|-------|-------|
| Customer loans growth | (2.4%) | 10.2% | 13.0% | 112.9% | 13.4% | 20.7% | 19.5% |
| - of which corporate loan growth | 3.2% | 9.5% | 4.7% | 89.1% | 8.6% | 18.2% | 17.1% |
| - of which mortgage loan growth | 24.3% | 21.6% | 33.8% | 74.8% | 25.4% | 33.2% | 31.2% |
| - of which consumer loan growth | (5.2%) | 19.8% | 17.9% | 201.1% | 15.3% | 17.9% | 15.9% |
| Customer deposits growth | (2.8%) | 2.2% | 10.6% | 74.0% | 1.0% | 13.6% | 13.1% |
| Total assets growth | (5.5%) | 4.1% | 9.2% | 83.2% | 5.1% | 12.8% | 12.7% |

KEY RATIOS

| | | | | | | | |
|-------------------------------------|-------|-------|-------|-------|-------|-------|-------|
| Total Income/Earning Assets | 7.2% | 7.5% | 7.2% | 4.5% | 6.6% | 6.5% | 6.5% |
| Interest Expense/Int-bearing Liabs. | 3.1% | 3.0% | 2.7% | 2.4% | 3.8% | 3.9% | 3.8% |
| 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% | 46.6% | 43.5% | 40.5% |
| Cost/assets ratio | 3.8% | 3.9% | 3.6% | 2.9% | 3.0% | 2.9% | 2.7% |
| Provisions/Net Interest Income | 14.5% | 10.1% | 9.3% | 6.6% | 5.4% | 6.5% | 7.8% |
| NPLs/Loans | 19.9% | 15.6% | 11.8% | 7.8% | 6.5% | 6.1% | 5.6% |
| Provisions/NPLs | 67.0% | 83.9% | 89.3% | 84.2% | 91.3% | 85.4% | 82.3% |
| ROE | 16.7% | 19.0% | 20.7% | 18.4% | 24.6% | 23.3% | 24.6% |
| ROA | 2.0% | 2.5% | 2.8% | 2.3% | 3.0% | 3.0% | 3.1% |
| Customer loans/Assets | 44.2% | 46.7% | 48.4% | 56.2% | 60.7% | 65.0% | 68.8% |
| Customer deposits/Assets | 77.0% | 75.6% | 76.5% | 72.6% | 69.8% | 70.3% | 70.5% |
| Loans/Deposits | 57.4% | 61.8% | 63.2% | 77.4% | 86.9% | 92.4% | 97.6% |
| Equity/Assets | 13.1% | 13.6% | 13.1% | 11.7% | 12.9% | 12.6% | 12.8% |

PER SHARE FIGURES

| (PLN) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|----------------|-------|-------|-------|-------|-------|-------|-------|
| EPS | 7.53 | 9.24 | 10.74 | 12.37 | 14.70 | 15.71 | 18.70 |
| DPS | 6.41 | 7.40 | 9.00 | 9.28 | 8.82 | 8.64 | 9.35 |
| BVPS | 46.93 | 50.50 | 53.31 | 55.52 | 64.04 | 70.92 | 80.98 |
| P/E | 23.8 | 19.4 | 16.7 | 14.5 | 12.2 | 11.4 | 9.6 |
| Dividend Yield | 3.6% | 4.1% | 5.0% | 5.2% | 4.9% | 4.8% | 5.2% |
| P/BV | 3.8 | 3.6 | 3.4 | 3.2 | 2.8 | 2.5 | 2.2 |
| ROE/CoE | 1.9 | 2.3 | 2.4 | 2.1 | 2.8 | 2.6 | 2.7 |

Source: Company data, Wood & Company estimates

BRE Bank

Hold

(Maintained)

Price: PLN 384

Price Target: PLN 400

(Maintained)

Inevitable Slowdown

Once our favorite Polish bank, BRE's locomotive has lost steam twice over the last 12 months – first when the bank's growth slowed due to capitalization and funding constraints (since mid last year) and then when the architect of the mBank model, Slawomir Lachowski, was replaced as the bank's CEO in February. Both developments were reflected in the bank's share price having underperformed the market by 6% over the last twelve months.

We still like BRE's concept a lot, though capital and funding constraints will take a toll on the bank's momentum in the coming quarters given the bank's Tier1 ratio (at 6% only) and loans to deposits at over 110%.

While we don't see the bank's expected slowdown and increased focus (under the new CEO Mariusz Grendowicz) on the home market and profitability as a bad thing, BRE's exceptional position (reflected in its valuation premium to the market) is likely to disappear.

With adjusted PE of 14x expected in 2008 and earnings growth at over 20%, we think BRE is fairly valued -- especially given the 20% balance sheet growth we already forecast until 2010.

HOLD and PLN 400 price target maintained.

Expected Events

| | |
|---------------------------|--------------------|
| Q2 results | July 31, 2008 |
| Consolidated 1H08 results | September 10, 2008 |
| Q3 results | October 30, 2008 |

Key Data

| | |
|----------------------|---|
| Market Cap | PLN 11,389 mil |
| Free Float | 23%/PLN 2,619 mil |
| Shares outstanding | 29.66 mil |
| Average daily volume | PLN 18.1 mil |
| Major Sh'holder | Commerzbank (69.9%) BZ WBK Asset mgmt (4.7%) |
| Reuters Code | BREP.WA |
| Bloomberg Code | BRE PW |
| WIG20 Index | 2,947 |

Price Performance

| | |
|------------------------------|-------------|
| 52-w range (PLN) | 331.8 - 600 |
| YTD EUR Performance | -23.5 % |
| Relative YTD EUR Performance | -9.2 % |

BRE- one year chart



| Year | Revenues (PLN mil) | Net Profit (PLN mil) | Adjusted Net Profit | EPS (PLN) | EPS growth | Adj. EPS growth | PE | Adj. PE | BVPS (PLN) | PBV | ROE |
|-------|-----------------------|-------------------------|------------------------|--------------|---------------|--------------------|------|------------|---------------|------|--------|
| 2010E | 4,108 | 1,328 | 1,328 | 44.8 | 15.8% | 21.8% | 8.6 | 8.6 | 222 | 1.73 | 22.5% |
| 2009E | 3,416 | 1,146 | 1,059 | 38.7 | 12.2% | 32.8% | 9.9 | 10.7 | 177 | 2.17 | 24.3% |
| 2008E | 2,694 | 1,022 | 798 | 34.5 | 43.7% | 23.1% | 11.1 | 14.3 | 142 | 2.70 | 27.1% |
| 2007 | 2,202 | 710 | 647 | 24.0 | 67.1% | 57.3% | 16.0 | 17.5 | 112 | 3.42 | 24.3% |
| 2006 | 1,625 | 421 | 408 | 14.4 | 49.9% | 49.9% | 26.7 | 26.7 | 86 | 4.48 | 18.5% |
| 2005 | 1,431 | 277 | 277 | 9.6 | n.m. | n.m. | 40.0 | 40.0 | 70 | 5.49 | 14.3% |
| 2004 | 1,086 | -294 | -294 | -11.4 | n.m. | n.m. | n.m. | n.m. | 64 | 5.98 | -17.2% |

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INCOME STATEMENT (consolidated IFRS)

| (PLN mil) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|-----------------------|-------|-------|---------|---------|---------|---------|---------|
| Net interest income | 486 | 651 | 724 | 1,028 | 1,343 | 1,667 | 2,009 |
| Non-interest income | 600 | 780 | 901 | 1,174 | 1,352 | 1,748 | 2,099 |
| net commission income | 382 | 399 | 416 | 564 | 658 | 933 | 1,154 |
| net FX gains | 221 | 212 | 354 | 435 | 484 | 574 | 670 |
| securities income | 8 | 143 | 85 | 58 | 73 | 90 | 109 |
| Total banking revenue | 1,086 | 1,431 | 1,625 | 2,202 | 2,694 | 3,416 | 4,108 |
| Total costs | (880) | (940) | (1,044) | (1,280) | (1,516) | (1,820) | (2,104) |
| personnel costs | (350) | (424) | (476) | (622) | (732) | (834) | (931) |
| depreciation | (149) | (140) | (165) | (176) | (187) | (226) | (268) |
| other costs | (375) | (373) | (400) | (476) | (591) | (752) | (896) |
| Operating income | 206 | 491 | 581 | 922 | 1,178 | 1,596 | 2,004 |
| Net provisions | (443) | (123) | (46) | (77) | (134) | (216) | (323) |
| Extraordinary items | 0 | 0 | 36 | 87 | 187 | 115 | 50 |
| Pretax profit | (237) | 368 | 571 | 932 | 1,231 | 1,495 | 1,731 |
| Income tax | (36) | (70) | (124) | (185) | (161) | (290) | (332) |
| Net income | (294) | 277 | 421 | 710 | 1,022 | 1,146 | 1,328 |
| Adj. Net income | (294) | 277 | 408 | 647 | 798 | 1,059 | 1,290 |

GROWTH RATIOS

| | | | | | | | |
|----------------------------|--------|--------|-------|-------|-------|-------|-------|
| Net interest income growth | 89.3% | 33.9% | 11.3% | 41.9% | 30.6% | 24.2% | 20.5% |
| Net fee growth | 53.0% | 4.5% | 4.4% | 35.5% | 16.6% | 41.8% | 23.6% |
| Total income growth | 17.4% | 31.8% | 13.6% | 35.5% | 22.4% | 26.8% | 20.3% |
| Cost growth | 41.1% | 6.8% | 11.1% | 22.5% | 18.5% | 20.1% | 15.6% |
| Operating profit growth | 103.3% | 138.8% | 18.2% | 58.9% | 27.7% | 35.4% | 25.6% |
| Net profit growth | n.a. | n.a. | 52.0% | 68.6% | 43.9% | 12.2% | 15.8% |
| Adj. Net profit growth | n.a. | n.a. | 47.2% | 58.7% | 23.2% | 32.8% | 21.8% |

BALANCE SHEET (consolidated IFRS)

| (PLN mil) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|------------------------|--------|--------|--------|--------|--------|--------|---------|
| Due from banks | 6,990 | 4,668 | 2,844 | 2,094 | 2,468 | 2,988 | 3,640 |
| Customer loans | 14,330 | 15,464 | 23,045 | 33,707 | 42,972 | 52,916 | 64,458 |
| Total assets | 31,182 | 33,150 | 42,331 | 56,007 | 68,883 | 84,085 | 101,964 |
| Due to banks | 5,562 | 4,337 | 7,972 | 12,287 | 14,362 | 16,826 | 19,535 |
| Customer deposits | 16,898 | 20,443 | 24,670 | 32,426 | 40,400 | 49,708 | 59,583 |
| Certified debt | 4,123 | 4,094 | 6,191 | 6,754 | 7,704 | 9,653 | 13,102 |
| Total Equity | 1,845 | 2,035 | 2,531 | 3,325 | 4,209 | 5,241 | 6,568 |
| Equity and Liabilities | 31,182 | 33,150 | 42,331 | 56,007 | 68,883 | 84,085 | 101,964 |

GROWTH RATIOS

| | | | | | | | |
|--------------------------|--------|-------|-------|-------|-------|-------|-------|
| Customer loans growth | (6.5%) | 7.9% | 49.0% | 46.3% | 27.5% | 23.1% | 21.8% |
| Customer deposits growth | 39.4% | 21.0% | 20.7% | 31.4% | 24.6% | 23.0% | 19.9% |
| Total assets growth | 2.1% | 6.3% | 27.7% | 32.3% | 23.0% | 22.1% | 21.3% |

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% | 53.3% | 51.2% |
| Cost/assets ratio | 2.9% | 2.9% | 2.8% | 2.6% | 2.4% | 2.4% | 2.3% |
| NPLs/Loans | 11.8% | 7.8% | 4.2% | 3.7% | 3.2% | 3.4% | 3.6% |
| Provisions/NPLs | 51.9% | 61.3% | 72.2% | 56.7% | 61.8% | 60.0% | 61.3% |
| ROE | (17.2%) | 14.3% | 18.5% | 24.3% | 27.1% | 24.3% | 22.5% |
| Adj. ROE | (17.2%) | 14.3% | 17.9% | 22.1% | 21.2% | 22.4% | 21.9% |
| ROA | (1.0%) | 0.9% | 1.1% | 1.4% | 1.6% | 1.5% | 1.4% |
| Customer loans/Assets | 46.0% | 46.6% | 54.4% | 60.2% | 62.4% | 62.9% | 63.2% |
| Customer deposits/Assets | 54.2% | 61.7% | 58.3% | 57.9% | 58.7% | 59.1% | 58.4% |
| Loans/Deposits | 84.8% | 75.6% | 93.4% | 103.9% | 106.4% | 106.5% | 108.2% |
| Equity/Assets | 5.9% | 6.1% | 6.0% | 5.9% | 6.1% | 6.2% | 6.4% |

PER SHARE FIGURES

| (PLN) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|----------------|-------|-------|-------|--------|--------|--------|--------|
| EPS | -11.4 | 9.6 | 14.4 | 24.0 | 34.5 | 38.7 | 44.8 |
| DPS | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| BVPS | 64.25 | 69.98 | 85.74 | 112.28 | 142.17 | 177.00 | 221.84 |
| P/E | -33.8 | 40.0 | 26.7 | 16.0 | 11.1 | 9.9 | 8.6 |
| Dividend Yield | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| P/BV | 6.0 | 5.5 | 4.5 | 3.4 | 2.7 | 2.2 | 1.7 |
| ROE/CoE | -1.8 | 1.6 | 2.0 | 2.6 | 2.8 | 2.5 | 2.2 |

Source: Company data, Wood & Co estimates

BZ-WBK

Hold

(Maintained)

Price: PLN 169

Price Target: PLN 180

(Down from PLN 200)

With the Ball and Chain

With some 30% of its profit coming from the mutual fund business, BZ-WBK has been one of the main losers of the change in trend, falling 41% over the last 12 months.

The bank built up the largest exposure to the asset management and brokerage businesses among Polish banks (having 17% and over 10% of the market compared to its 5% natural share). While fuelling profit growth when markets were flying, this turned against the bank when market activity dropped and redemptions came in mid-2007.

BZ-WBK is one of the best managed Polish banks, as confirmed by the bold move to the mutual fund business, smart JV with CU in the pension and insurance businesses, or the fact that it is able to catch migrating mutual fund assets back to its deposits (retail deposits are up 40% over the last two quarters!).

However, the exposure to the mutual fund business and aggressive branch expansion (the second largest on the market) will keep pressure on the bottom line in the coming quarters.

We therefore stick to our HOLD rating and downgrade our price target to PLN 180. With PE of 12.5x expected in 2008, but risk on the downside, investors might find a more attractive story elsewhere.

Expected Events

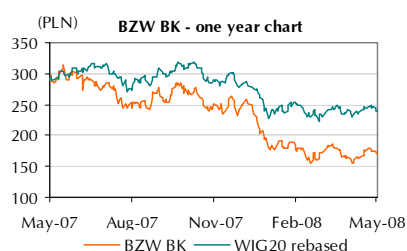
| | |
|------------|-------------------|
| Q2 results | July 30, 2008 |
| Q3 results | November 6, 2008 |
| Q4 results | February 24, 2009 |

Key Data

| | |
|----------------------|-------------------------|
| Market Cap | PLN 12,4 03 mil |
| Free Float | 27%/PLN 3,349 mil |
| Shares outstanding | 72.96 mil |
| Average daily volume | PLN 18.1 mil |
| Major Sh'holder | AIB (70.5%) |
| | Julius Baer Bank (1.3%) |
| Reuters Code | BZWB.WA |
| Bloomberg Code | BZW PW |
| WIG20 Index | 2,947 |

Price Performance

| | |
|------------------------------|-------------|
| 52-w range (PLN) | 155.3 - 313 |
| YTD EUR Performance | -32.3 % |
| Relative YTD EUR Performance | -26.3 % |



| Year | Revenues (PLN mil) | Net Profit (PLN mil) | EPS (PLN) | EPS growth | PE (x) | BVPS (PLN) | PBV | ROE | Dividend (PLN) | Dividend yield |
|-------|-----------------------|-------------------------|--------------|---------------|-----------|---------------|------|-------|-------------------|-------------------|
| 2010E | 4,436 | 1,271 | 17.4 | 14.6% | 9.7 | 95.5 | 1.77 | 19.6% | 4.4 | 2.6% |
| 2009E | 3,850 | 1,109 | 15.2 | 12.1% | 11.1 | 81.9 | 2.06 | 20.0% | 3.8 | 2.3% |
| 2008E | 3,356 | 989 | 13.6 | 3.6% | 12.5 | 70.1 | 2.41 | 20.9% | 3.4 | 2.0% |
| 2007 | 2,955 | 955 | 13.1 | 25.9% | 12.9 | 59.5 | 2.84 | 23.0% | 3.0 | 1.8% |
| 2006 | 2,374 | 758 | 10.4 | 47.6% | 16.3 | 54.3 | 3.11 | 20.7% | 6.0 | 3.5% |
| 2005 | 1,913 | 514 | 7.0 | 12.7% | 24.0 | 46.3 | 3.64 | 16.0% | 6.0 | 3.5% |
| 2004 | 1,866 | 456 | 6.2 | n.m. | 27.0 | 41.4 | 4.08 | 16.4% | 2.4 | 1.4% |

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INCOME STATEMENT (consolidated IFRS)

| (PLN mil) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|
| Net interest income | 874 | 909 | 1,032 | 1,287 | 1,606 | 1,949 | 2,337 |
| Non-interest income | 992 | 1,003 | 1,342 | 1,668 | 1,751 | 1,901 | 2,099 |
| net commission income | 639 | 694 | 1,191 | 1,545 | 1,618 | 1,750 | 1,918 |
| net FX gains | 197 | 218 | 0 | 0 | 0 | 0 | 0 |
| securities income | 144 | 71 | 142 | 109 | 116 | 130 | 157 |
| Total banking revenue | 1,866 | 1,913 | 2,374 | 2,955 | 3,356 | 3,850 | 4,436 |
| Total costs | (1,153) | (1,165) | (1,290) | (1,559) | (1,851) | (2,134) | (2,428) |
| personnel costs | (531) | (574) | (684) | (843) | (1,004) | (1,161) | (1,314) |
| depreciation | (199) | (186) | (159) | (135) | (141) | (148) | (154) |
| other costs | (417) | (399) | (442) | (576) | (699) | (817) | (951) |
| Operating income | 713 | 748 | 1,084 | 1,395 | 1,505 | 1,717 | 2,008 |
| Net provisions | (131) | (62) | (28) | (4) | (83) | (142) | (219) |
| Pretax profit | 588 | 687 | 1,065 | 1,391 | 1,422 | 1,575 | 1,789 |
| Income tax | (115) | (144) | (221) | (281) | (287) | (318) | (361) |
| Net income | 456 | 514 | 758 | 955 | 989 | 1,109 | 1,271 |

GROWTH RATIOS

| | | | | | | | |
|----------------------------|--------|-------|-------|-------|-------|-------|-------|
| Net interest income growth | 5.5% | 4.0% | 13.5% | 24.7% | 24.8% | 21.4% | 19.9% |
| Net fee growth | 20.1% | 8.6% | 71.6% | 29.7% | 4.7% | 8.2% | 9.6% |
| Total income growth | 13.4% | 2.5% | 24.1% | 24.5% | 13.6% | 14.7% | 15.2% |
| Cost growth | 10.2% | 1.0% | 10.7% | 20.9% | 18.7% | 15.3% | 13.8% |
| Operating profit growth | 78.9% | 4.8% | 45.0% | 28.7% | 7.9% | 14.1% | 17.0% |
| Net profit growth | 253.5% | 12.7% | 47.6% | 25.9% | 3.6% | 12.1% | 14.6% |

BALANCE SHEET (consolidated IFRS)

| (PLN mil) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|------------------------|--------|--------|--------|--------|--------|--------|--------|
| Cash | 1,200 | 572 | 1,534 | 2,206 | 1,021 | 1,227 | 1,467 |
| Due from banks | 2,800 | 3,608 | 3,155 | 2,577 | 2,560 | 2,959 | 3,556 |
| Debt securities | 7,873 | 9,667 | 9,146 | 11,063 | 10,991 | 12,705 | 15,269 |
| Customer loans | 14,052 | 14,197 | 17,620 | 23,950 | 31,608 | 39,317 | 48,334 |
| Total assets | 27,546 | 29,604 | 32,992 | 41,332 | 48,258 | 58,555 | 71,275 |
| Due to banks | 1,302 | 1,693 | 2,608 | 4,484 | 2,427 | 2,840 | 3,387 |
| Customer deposits | 19,317 | 20,839 | 24,222 | 29,766 | 35,243 | 41,644 | 48,966 |
| 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 | 5,112 | 5,974 | 6,968 |
| Equity and Liabilities | 27,546 | 29,604 | 32,992 | 41,332 | 48,258 | 58,555 | 71,275 |

GROWTH RATIOS

| | | | | | | | |
|----------------------------------|--------|--------|-------|-------|-------|-------|-------|
| Customer loans growth | 2.5% | 1.0% | 24.1% | 35.9% | 32.0% | 24.4% | 22.9% |
| - of which corporate loan growth | (0.3%) | (0.1%) | 22.3% | 40.0% | 22.4% | 20.0% | 18.0% |
| - of which mortgage loan growth | 3.4% | 7.7% | 26.3% | 42.2% | 30.9% | 38.6% | 40.7% |
| - of which consumer loan growth | n.a. | 22.8% | 31.2% | 47.1% | 32.7% | 31.7% | 25.2% |
| Customer deposits growth | 9.1% | 7.9% | 16.2% | 22.9% | 18.4% | 18.2% | 17.6% |
| Total assets growth | 14.0% | 7.5% | 11.4% | 25.3% | 16.8% | 21.3% | 21.7% |

KEY RATIOS

| | | | | | | | |
|-------------------------------------|-------|-------|-------|-------|-------|-------|-------|
| Total Income/Earning Assets | 7.2% | 6.8% | 7.5% | 7.4% | 7.3% | 6.8% | 6.5% |
| 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% | 3.6% | 3.7% | 3.6% |
| Cost/income ratio | 61.8% | 60.9% | 54.3% | 52.8% | 55.2% | 55.4% | 54.7% |
| Cost/assets ratio | 4.5% | 4.1% | 4.1% | 4.2% | 4.1% | 4.0% | 3.7% |
| Provisions/Net Interest Income | 15.0% | 6.8% | 2.7% | 0.3% | 5.2% | 7.3% | 9.4% |
| NPLs/Loans | 8.5% | 6.9% | 4.9% | 2.8% | 2.6% | 2.5% | 2.5% |
| Provisions/NPLs | 51.3% | 62.4% | 60.7% | 65.3% | 59.5% | 57.0% | 55.6% |
| ROE | 16.4% | 16.0% | 20.7% | 23.0% | 20.9% | 20.0% | 19.6% |
| ROA | 1.8% | 1.8% | 2.4% | 2.6% | 2.2% | 2.1% | 2.0% |
| Customer loans/Assets | 51.0% | 48.0% | 53.4% | 57.9% | 65.5% | 67.1% | 67.8% |
| Customer deposits/Assets | 70.1% | 70.4% | 73.4% | 72.0% | 73.0% | 71.1% | 68.7% |
| Loans/Deposits | 72.7% | 68.1% | 72.7% | 80.5% | 89.7% | 94.4% | 98.7% |
| Equity/Assets | 11.0% | 11.4% | 12.0% | 10.5% | 10.6% | 10.2% | 9.8% |

PER SHARE FIGURES

| (PLN) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|----------------|-------|-------|-------|-------|-------|-------|-------|
| EPS | 6.24 | 7.04 | 10.39 | 13.09 | 13.56 | 15.20 | 17.42 |
| DPS | 2.43 | 5.97 | 5.97 | 3.00 | 3.39 | 3.80 | 4.35 |
| BVPS | 41.38 | 46.35 | 54.28 | 59.51 | 70.07 | 81.88 | 95.50 |
| P/E | 27.0 | 24.0 | 16.3 | 12.9 | 12.5 | 11.1 | 9.7 |
| Dividend Yield | 1.4% | 3.5% | 3.5% | 1.8% | 2.0% | 2.3% | 2.6% |
| P/BV | 4.1 | 3.6 | 3.1 | 2.8 | 2.4 | 2.1 | 1.8 |
| ROE/CoE | 1.8 | 1.9 | 2.4 | 2.6 | 2.3 | 2.2 | 2.1 |

Source: Company data, Wood & Company estimates

Bank Millennium

Sell

(Downgraded from Hold)

Price: PLN 8.2

Price Target: PLN 7.8

(Down from 8.0)

Flying with the Wind

Being one of the most exposed banks to the mutual fund and mortgage lending businesses and relying heavily on external funding, no wonder Millennium has been one of the worst performers among Polish banks so far this year when external conditions and growth outlook deteriorated (being down 26% ytd).

Although we like the bank's overall strategy (we put Millennium among the three best managed Polish banks) and appreciate management's aggressive approach towards the funding issue (raising deposits 35% over the last 6 months pushing loans to deposits to 95%), Millennium remains exposed to a number of risks from maturity mismatch to funding and currency exposure.

That is why we recommend avoiding Bank Millennium share in the months to come. Following 9% recovery in its share price since mid-February (when we upgraded the stock to Hold), we again downgrade bank stock to SELL reducing our 12-month target price 2.5% to PLN 7.8.

Having said that, Bank Millennium should be one of the winners if the situation on global markets improves in the coming months.

Expected Events

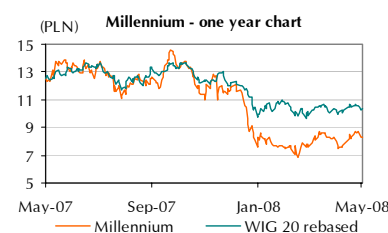
| | |
|------------|------------------|
| Q2 results | July 21, 2008 |
| Q3 results | October 20, 2008 |
| Q4 results | January 22, 2009 |

Key Data

| | |
|----------------------|---|
| Market Cap | PLN 7,048 mil |
| Free Float | 34%/PLN 2,396 mil |
| Shares outstanding | 849.2 mil |
| Average daily volume | PLN 8.8 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 | 2,947 |

Price Performance

| | |
|------------------------------|----------|
| 52-w range (PLN) | 6.9-14.6 |
| YTD EUR Performance | -29.1 % |
| Relative YTD EUR Performance | -17.8 % |



| Year | Revenues (PLN mil) | Net Profit (PLN mil) | EPS (PLN) | EPS growth | PE | BVPS (PLN) | PBV | ROE | Dividend (PLN) | Dividend yield |
|-------|-----------------------|-------------------------|--------------|---------------|------|---------------|------|-------|-------------------|-------------------|
| 2010E | 2,844 | 734 | 0.86 | 15.2% | 9.5 | 4.7 | 1.76 | 20.0% | 0.17 | 2.1% |
| 2009E | 2,432 | 637 | 0.75 | 16.9% | 10.9 | 4.0 | 2.06 | 20.3% | 0.19 | 2.3% |
| 2008E | 2,013 | 545 | 0.64 | 18.1% | 12.8 | 3.4 | 2.40 | 20.1% | 0.19 | 2.3% |
| 2007 | 1,709 | 462 | 0.54 | 53.5% | 15.1 | 3.0 | 2.77 | 19.5% | 0.19 | 2.3% |
| 2006 | 1,268 | 301 | 0.35 | -47.0% | 23.2 | 2.6 | 3.15 | 13.1% | 0.17 | 2.1% |
| 2005 | 1,481 | 567 | 0.67 | 109% | 12.3 | 2.8 | 2.92 | 25.5% | 0.54 | 6.6% |
| 2004 | 1,461 | 271 | 0.32 | n.m. | n.a. | 2.4 | 3.40 | 14.3% | 0.00 | 0.0% |

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INCOME STATEMENT (consolidated IFRS)

| (PLN mil) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|-----------------------|---------|-------|-------|---------|---------|---------|---------|
| Net interest income | 598 | 480 | 642 | 772 | 965 | 1,187 | 1,424 |
| Non-interest income | 863 | 1,001 | 626 | 938 | 1,048 | 1,245 | 1,420 |
| net commission income | 225 | 265 | 365 | 543 | 649 | 780 | 907 |
| net FX gains | 0 | 93 | 182 | 241 | 246 | 286 | 320 |
| securities income | 0 | 627 | 65 | 93 | 112 | 126 | 134 |
| Total banking revenue | 1,461 | 1,481 | 1,268 | 1,709 | 2,013 | 2,432 | 2,844 |
| Total costs | (1,009) | (756) | (857) | (1,057) | (1,245) | (1,498) | (1,720) |
| personnel costs | (309) | (326) | (413) | (539) | (670) | (824) | (969) |
| depreciation | (339) | (86) | (61) | (87) | (74) | (90) | (103) |
| other costs | (360) | (341) | (380) | (431) | (497) | (580) | (645) |
| Operating income | 452 | 725 | 410 | 652 | 768 | 934 | 1,124 |
| Net provisions | (61) | (15) | (40) | (68) | (87) | (138) | (207) |
| Pretax profit | 391 | 710 | 371 | 585 | 681 | 796 | 917 |
| Income tax | (120) | (143) | (70) | (123) | (136) | (159) | (183) |
| Net income | 271 | 567 | 301 | 462 | 545 | 637 | 734 |

GROWTH RATIOS

| | | | | | | | |
|----------------------------|--------|---------|---------|-------|-------|-------|-------|
| Net interest income growth | 7.2% | (19.7%) | 33.6% | 20.3% | 25.0% | 23.1% | 20.0% |
| Net fee growth | 2.9% | 17.9% | 37.9% | 48.8% | 19.5% | 20.3% | 16.2% |
| Total income growth | 46.8% | 1.4% | (14.4%) | 34.9% | 17.8% | 20.8% | 16.9% |
| Cost growth | 44.7% | (25.1%) | 13.4% | 23.3% | 17.8% | 20.3% | 14.8% |
| Operating profit growth | 359.6% | 60.3% | (43.4%) | 59.0% | 17.7% | 21.7% | 20.3% |
| Net profit growth | 563.7% | 108.9% | (47.0%) | 53.5% | 18.1% | 16.9% | 15.2% |

BALANCE SHEET (consolidated IFRS)

| (PLN mil) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|------------------------|--------|--------|--------|--------|--------|--------|--------|
| Cash | 873 | 511 | 966 | 1,257 | 1,553 | 1,698 | 1,835 |
| Due from banks | 3,362 | 2,603 | 1,123 | 4,406 | 7,465 | 9,310 | 11,539 |
| 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 | 27,430 | 33,897 | 41,356 |
| Fixed assets | 601 | 232 | 297 | 355 | 448 | 500 | 552 |
| Other assets | 342 | 671 | 563 | 556 | 703 | 788 | 874 |
| Total assets | 19,581 | 22,151 | 24,692 | 30,530 | 39,618 | 48,312 | 58,382 |
| Due to banks | 1,201 | 1,067 | 3,600 | 3,156 | 3,157 | 4,177 | 5,335 |
| Customer deposits | 13,388 | 13,994 | 16,069 | 21,801 | 27,893 | 31,632 | 35,511 |
| Certified debt | 2,088 | 3,440 | 1,741 | 2,403 | 4,653 | 7,903 | 12,153 |
| Total Equity | 2,052 | 2,391 | 2,215 | 2,520 | 2,904 | 3,377 | 3,951 |
| Equity and Liabilities | 19,581 | 22,151 | 24,692 | 30,530 | 39,618 | 48,312 | 58,382 |

GROWTH RATIOS

| | | | | | | | |
|----------------------------------|---------|--------|--------|-------|-------|-------|-------|
| Customer loans growth | (30.5%) | 35.0% | 55.7% | 47.5% | 24.5% | 23.6% | 22.0% |
| - of which corporate loan growth | (22.7%) | 5.6% | 16.0% | 17.6% | 17.8% | 12.0% | 10.9% |
| - of which mortgage loan growth | 65.1% | 123.8% | 117.3% | 72.4% | 34.8% | 27.0% | 24.8% |
| - of which consumer loan growth | n.a. | 66.8% | 97.4% | 46.4% | 26.1% | 34.6% | 31.8% |
| Customer deposits growth | 13.9% | 4.5% | 14.8% | 35.7% | 27.9% | 13.4% | 12.3% |
| Total assets growth | (6.0%) | 13.1% | 11.5% | 23.6% | 29.8% | 21.9% | 20.8% |

KEY RATIOS

| | | | | | | | |
|-------------------------------------|-------|-------|-------|--------|-------|--------|--------|
| Total Income/Earning Assets | 7.8% | 7.0% | 5.3% | 5.8% | 5.2% | 5.2% | 5.0% |
| Interest Expense/Int-bearing Liabs. | 7.2% | 4.1% | 3.3% | 3.5% | 2.8% | 3.0% | 3.1% |
| NIM on Total Assets | 3.0% | 2.3% | 2.7% | 2.8% | 2.8% | 2.7% | 2.7% |
| Cost/income ratio | 69.0% | 51.0% | 67.6% | 61.8% | 61.9% | 61.6% | 60.5% |
| Cost/assets ratio | 5.0% | 3.6% | 3.7% | 3.8% | 3.5% | 3.4% | 3.2% |
| Provisions/Net Interest Income | 10.2% | 3.2% | 6.2% | 8.8% | 9.0% | 11.6% | 14.5% |
| 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% | 76.6% | 63.6% | 56.4% |
| ROE | 14.3% | 25.5% | 13.1% | 19.5% | 20.1% | 20.3% | 20.0% |
| ROA | 1.3% | 2.7% | 1.3% | 1.7% | 1.6% | 1.4% | 1.4% |
| Customer loans/Assets | 36.3% | 43.3% | 60.5% | 72.1% | 69.2% | 70.2% | 70.8% |
| Customer deposits/Assets | 68.4% | 63.2% | 65.1% | 71.4% | 70.4% | 65.5% | 60.8% |
| Loans/Deposits | 53.1% | 68.5% | 93.0% | 101.0% | 98.3% | 107.2% | 116.5% |
| Equity/Assets | 10.5% | 10.8% | 9.0% | 8.3% | 7.3% | 7.0% | 6.8% |

PER SHARE FIGURES

| (PLN) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|----------------|------|------|------|------|-------|-------|-------|
| EPS | 0.32 | 0.67 | 0.35 | 0.54 | 0.64 | 0.75 | 0.86 |
| DPS | 0.00 | 0.54 | 0.17 | 0.19 | 0.19 | 0.19 | 0.17 |
| BVPS | 2.42 | 2.82 | 2.61 | 2.97 | 3.42 | 3.98 | 4.65 |
| P/E | 25.7 | 12.3 | 23.2 | 15.1 | 12.8 | 10.9 | 9.5 |
| Dividend Yield | 0.0% | 6.6% | 2.1% | 2.3% | 2.3% | 2.3% | 2.1% |
| P/BV | 3.4 | 2.9 | 3.1 | 2.8 | 2.4 | 2.1 | 1.8 |
| ROE/CoE | 1.5 | 2.8 | 1.4 | 2.1 | 2.1 | 2.1 | 2.0 |

Source: Company data, Wood & Co estimates

Bank Handlowy

Buy

(Maintained)

Price: PLN 81.9

Price Target: PLN 95.0

(Down from PLN 110)

Defensive²

With limited exposure to mortgage lending, a liquid and over-capitalized balance sheet and relatively attractive valuation, Bank Handlowy represents a typical defensive investment and its share price so far this year has confirmed that idea.

Although Bank Handlowy keeps disappointing us with a lack of transparency and we lack a catalyst pushing the stock price higher in the short-term, we remain believers in its stock.

The bank is doing relatively well despite its no-growth image. Retail loans have been growing by more than 30% yoy, deposit collection picked up impressively in 1Q08, costs remain under pressure and efficiency has been improving (CIR of 58% in 1Q08 versus nearly 70% in 2006).

We still believe Handlowy will perform relatively well in bad times, especially as the bank is over-capitalized and over-provisioned, though this is not the stock when sentiment improves.

Similar to ING Slaski, a lack of management's motivation in the share price and "global approach" remain the biggest weaknesses of the bank.

We maintain our Hold rating though reduce our 12-month target price 10% to PLN 95.

Expected Events

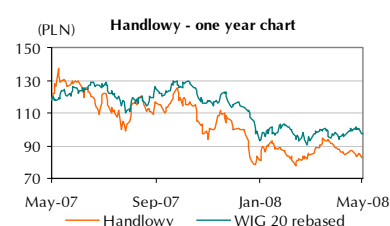
| | |
|--------------------|--------------------|
| General meeting | June 19, 2008 |
| Q2 results | August 7, 2008 |
| Semi-annual report | September 25, 2008 |

Key Data

| | |
|----------------------|-------------------|
| Market Cap | PLN 10,844 mil |
| Free Float | 25%/PLN 2,711 mil |
| Shares outstanding | 130.66 mil |
| Average daily volume | PLN 7.1 mil |
| Major Sh'holder | Citibank (75%) |
| Reuters Code | BAHA.WA |
| Bloomberg Code | BHW PW |
| WIG20 Index | 2,947 |

Price Performance

| | |
|------------------------------|--------------|
| 52-w range (PLN) | 77.50-137.50 |
| YTD EUR Performance | -12.1% |
| Relative YTD EUR Performance | -4.7% |



| Year | Revenues (PLN mil) | Net Profit (PLN mil) | EPS (PLN) | EPS growth | PE | BVPS (PLN) | PBV | ROE | Dividend (PLN) | Dividend yield |
|-------|-----------------------|-------------------------|--------------|---------------|------|---------------|------|-------|-------------------|-------------------|
| 2010E | 3,442 | 1,202 | 9.2 | 11.5% | 8.9 | 8.9 | 1.62 | 18.8% | 5.98 | 7.3% |
| 2009E | 3,136 | 1,078 | 8.2 | 19.5% | 9.9 | 47.3 | 1.73 | 18.0% | 5.77 | 7.1% |
| 2008E | 2,799 | 902 | 6.9 | 9.2% | 11.9 | 44.2 | 1.85 | 15.9% | 5.18 | 6.3% |
| 2007 | 2,510 | 826 | 6.3 | 25.8% | 13.0 | 42.9 | 1.91 | 15.0% | 5.26 | 6.4% |
| 2006 | 2,185 | 657 | 5.0 | 6.3% | 16.3 | 41.5 | 1.98 | 12.3% | 4.10 | 5.0% |
| 2005 | 2,314 | 618 | 4.7 | 24.9% | 17.3 | 40.2 | 2.04 | 10.8% | 3.60 | 4.4% |
| 2004 | 2,068 | 495 | 3.8 | 66.9% | 21.6 | 47.7 | 1.72 | 8.1% | 11.97 | 14.6% |

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INCOME STATEMENT (consolidated IFRS)

| (PLN mil) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|
| Net interest income | 978 | 1,028 | 1,026 | 1,204 | 1,373 | 1,553 | 1,727 |
| Non-interest income | 1,091 | 1,286 | 1,159 | 1,306 | 1,425 | 1,584 | 1,715 |
| net commission income | 548 | 596 | 618 | 737 | 732 | 813 | 890 |
| net FX gains | 360 | 353 | 316 | 423 | 466 | 521 | 568 |
| securities income | 90 | 246 | 136 | 84 | 160 | 177 | 181 |
| Total banking revenue | 2,068 | 2,314 | 2,185 | 2,510 | 2,799 | 3,136 | 3,442 |
| Total costs | (1,455) | (1,546) | (1,502) | (1,516) | (1,601) | (1,719) | (1,835) |
| personnel costs | (575) | (686) | (702) | (697) | (755) | (798) | (840) |
| depreciation | (143) | (140) | (130) | (109) | (111) | (123) | (132) |
| other costs | (729) | (719) | (670) | (710) | (735) | (798) | (863) |
| Operating income | 614 | 768 | 683 | 994 | 1,198 | 1,417 | 1,607 |
| Net provisions | (9) | 30 | 23 | 56 | (43) | (70) | (104) |
| Pretax profit | 622 | 796 | 832 | 1,042 | 1,127 | 1,347 | 1,503 |
| Income tax | (127) | (178) | (175) | (215) | (225) | (269) | (301) |
| Net income | 495 | 618 | 657 | 826 | 902 | 1,078 | 1,202 |

GROWTH RATIOS

| | | | | | | | |
|----------------------------|---------|-------|---------|-------|--------|-------|-------|
| Net interest income growth | 31.2% | 5.2% | (0.2%) | 17.4% | 14.0% | 13.1% | 11.2% |
| Net fee growth | 0.1% | 8.8% | 3.6% | 19.2% | (0.7%) | 11.1% | 9.6% |
| Total income growth | 6.9% | 11.9% | (5.6%) | 14.9% | 11.5% | 12.1% | 9.8% |
| Cost growth | 42.3% | 6.2% | (2.9%) | 0.9% | 5.6% | 7.4% | 6.8% |
| Operating profit growth | (13.9%) | 25.2% | (11.1%) | 45.5% | 20.5% | 18.3% | 13.4% |
| Pre-tax profit growth | 35.5% | 28.0% | 4.5% | 25.2% | 8.2% | 19.5% | 11.5% |
| Net profit growth | 66.9% | 24.9% | 6.3% | 25.8% | 9.2% | 19.5% | 11.5% |

BALANCE SHEET (consolidated IFRS)

| (PLN mil) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|------------------------|--------|--------|--------|--------|--------|--------|--------|
| Cash | 841 | 923 | 536 | 3,322 | 640 | 726 | 812 |
| Due from banks | 8,287 | 5,883 | 9,319 | 8,719 | 10,897 | 11,713 | 12,419 |
| Debt securities | 11,409 | 13,638 | 12,804 | 11,702 | 14,625 | 15,720 | 16,668 |
| Customer loans | 10,484 | 9,539 | 10,197 | 12,487 | 15,903 | 19,100 | 22,626 |
| Total assets | 34,080 | 32,878 | 35,991 | 38,920 | 45,581 | 51,153 | 56,781 |
| Due to banks | 3,339 | 5,224 | 6,407 | 7,085 | 7,268 | 8,175 | 8,959 |
| Customer deposits | 16,948 | 17,240 | 18,880 | 19,811 | 23,827 | 27,514 | 31,396 |
| Certified debt | 5,835 | 4,020 | 3,317 | 4,391 | 4,391 | 4,391 | 4,391 |
| Total Equity | 6,239 | 5,249 | 5,418 | 5,605 | 5,773 | 6,174 | 6,622 |
| Equity and Liabilities | 34,080 | 32,878 | 35,991 | 38,920 | 45,581 | 51,153 | 56,781 |

GROWTH RATIOS

| | | | | | | | |
|----------------------------------|---------|--------|---------|-------|-------|-------|-------|
| Customer loans growth | (20.9%) | (9.0%) | 6.9% | 22.5% | 27.4% | 20.1% | 18.5% |
| - of which corporate loan growth | (25.2%) | (4.8%) | (21.6%) | 18.2% | 23.1% | 17.3% | 15.3% |
| - of which consumer loan growth | 12.9% | 62.5% | 33.0% | 40.2% | 28.7% | 25.7% | 20.2% |
| Customer deposits growth | (8.5%) | 1.7% | 9.5% | 4.9% | 20.3% | 15.5% | 14.1% |
| Total assets growth | 0.1% | (3.5%) | 9.5% | 8.1% | 17.1% | 12.2% | 11.0% |

KEY RATIOS

| | | | | | | | |
|-------------------------------------|-------|--------|--------|--------|-------|-------|-------|
| Total Income/Earning Assets | 6.7% | 7.7% | 6.7% | 6.9% | 6.7% | 6.6% | 6.6% |
| 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% | 3.2% | 3.2% |
| Cost/income ratio | 70.3% | 66.8% | 68.7% | 60.4% | 57.2% | 54.8% | 53.3% |
| Cost/assets ratio | 4.3% | 4.6% | 4.4% | 4.0% | 3.8% | 3.6% | 3.4% |
| Provisions/Net Interest Income | 0.9% | (2.9%) | (2.2%) | (4.6%) | 3.1% | 4.5% | 6.0% |
| NPLs/Loans | 19.0% | 18.0% | 15.3% | 11.8% | 11.9% | 10.7% | 9.5% |
| Provisions/NPLs | 73.0% | 81.0% | 86.0% | 84.0% | 65.1% | 62.6% | 62.7% |
| ROE | 8.1% | 10.8% | 12.3% | 15.0% | 15.9% | 18.0% | 18.8% |
| ROA | 1.5% | 1.8% | 1.9% | 2.2% | 2.1% | 2.2% | 2.2% |
| Customer loans/Assets | 30.8% | 29.0% | 28.3% | 32.1% | 34.9% | 37.3% | 39.8% |
| Customer deposits/Assets | 49.7% | 52.4% | 52.5% | 50.9% | 52.3% | 53.8% | 55.3% |
| Loans/Deposits | 61.9% | 55.3% | 54.0% | 63.0% | 66.7% | 69.4% | 72.1% |
| Equity/Assets | 18.3% | 16.0% | 15.1% | 14.4% | 12.7% | 12.1% | 11.7% |

PER SHARE FIGURES

| (PLN) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|----------------|-------|-------|-------|-------|-------|-------|-------|
| EPS | 3.79 | 4.73 | 5.03 | 6.32 | 6.90 | 8.25 | 9.20 |
| DPS | 11.97 | 3.60 | 4.10 | 5.26 | 5.18 | 5.77 | 5.98 |
| BVPS | 47.75 | 40.17 | 41.47 | 42.90 | 44.18 | 47.26 | 50.68 |
| P/E | 21.6 | 17.3 | 16.3 | 13.0 | 11.9 | 9.9 | 8.9 |
| Dividend Yield | 14.6% | 4.4% | 5.0% | 6.4% | 6.3% | 7.1% | 7.3% |
| P/BV | 1.7 | 2.0 | 2.0 | 1.9 | 1.9 | 1.7 | 1.6 |
| ROE/CoE | 0.8 | 1.2 | 1.3 | 1.6 | 1.7 | 1.8 | 1.9 |

Source: Company data, Wood & Company estimates

Bank Slaski

Buy

(Upgrade from Sell)

Price: PLN 510

Price Target: PLN 600

(Down from PLN 800)

Everyone must have an appetite!

Being one of the most exposed Polish banks to the mutual fund business and not interested much in minority shareholders, it should be no surprise that ING Slaski's share price has been one of the worst performers, being down 29% ytd. ING Slaski is also the worst-performing Polish bank over the twelve months, underperforming the banking sector by 25%.

Unlike its team-mates on the way down, Bank Millennium or BZ-WBK, ING Slaski remains very conservative on the asset side. With loans to deposits at below 40%, a strong franchise and the backing of a global strategic partner, the bank has all the ingredients to succeed.

Being down nearly 30% ytd, trading at PBV of 1.6x and being a sound bank, we pretend we can't see the fact the bank serves as a great distribution platform for ING and NN products in Poland and not in favor of minority shareholders.

The stock is down 37% since we cut it to Sell at the beginning of last year. The downside is too limited and the bank too liquid to avoid it at current prices.

We therefore upgrade ING Slaski stock to Buy and set our 12-month target to PLN 600 per share.

Expected Events

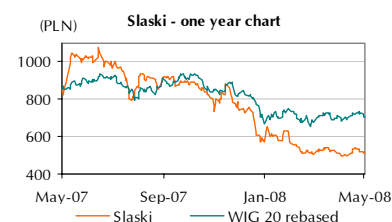
| | |
|------------|-------------------|
| Q2 results | August 13, 2008 |
| Q3 results | November 12, 2008 |
| Q4 results | February 18, 2009 |

Key Data

| | |
|----------------------|---------------------------------|
| Market Cap | PLN 6,622 mil |
| Free Float | 19.6%/PLN 1,298 mil |
| Shares outstanding | 13.01 mil |
| Average daily volume | PLN 4.1 mil |
| Major Sh'holder | ING Bank (75%) CU OFE (5.4%) |
| Reuters Code | SLAS.WA |
| Bloomberg Code | BSK PW |
| WIG20 Index | 2,947 |

Price Performance

| | |
|------------------------------|----------|
| 52-w range (PLN) | 494-1075 |
| YTD EUR Performance | -27.0% |
| Relative YTD EUR Performance | -19.6% |



| Year | Revenues (PLN mil) | Net Profit (PLN mil) | EPS (PLN) | EPS growth | PE | BVPS (PLN) | PBV | ROE | Dividend (PLN) | Dividend yield |
|-------|-----------------------|-------------------------|--------------|---------------|------|---------------|------|-------|-------------------|-------------------|
| 2010E | 3,083 | 802 | 61.7 | 16.7% | 8.3 | 372.4 | 1.37 | 17.3% | 30.9 | 6.1% |
| 2009E | 2,673 | 688 | 52.9 | 18.8% | 9.6 | 338.8 | 1.51 | 16.3% | 28.1 | 5.5% |
| 2008E | 2,286 | 579 | 44.5 | -8.2% | 11.5 | 310.9 | 1.64 | 14.7% | 25.0 | 4.9% |
| 2007 | 2,024 | 631 | 48.5 | 6.7% | 10.5 | 295.1 | 1.73 | 16.6% | 28.7 | 5.6% |
| 2006 | 1,782 | 591 | 45.5 | 7.7% | 11.2 | 288.7 | 1.77 | 16.2% | 28.2 | 5.5% |
| 2005 | 1,648 | 549 | 42.2 | 38.9% | 12.1 | 274.0 | 1.86 | 16.3% | 27.5 | 5.4% |
| 2004 | 1,661 | 396 | 30.4 | n.a. | n.a. | 242.6 | 2.10 | 13.5% | 20.5 | 4.0% |

INCOME STATEMENT (consolidated IFRS)

| (PLN mil) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|
| Net interest income | 834 | 721 | 936 | 1,049 | 1,172 | 1,387 | 1,614 |
| Non-interest income | 827 | 926 | 846 | 975 | 1,113 | 1,286 | 1,469 |
| net commission income | 509 | 528 | 736 | 931 | 988 | 1,167 | 1,360 |
| net FX gains | 251 | 176 | 0 | 0 | 0 | 0 | 0 |
| securities income | 78 | 216 | 80 | 29 | 109 | 99 | 86 |
| Total banking revenue | 1,661 | 1,648 | 1,782 | 2,024 | 2,286 | 2,673 | 3,083 |
| Total costs | (1,029) | (1,101) | (1,234) | (1,385) | (1,575) | (1,790) | (2,013) |
| personnel costs | (474) | (528) | (579) | (687) | (794) | (891) | (982) |
| depreciation | (128) | (130) | (142) | (155) | (162) | (183) | (207) |
| other costs | (422) | (437) | (553) | (543) | (620) | (715) | (825) |
| Operating income | 632 | 547 | 548 | 638 | 710 | 883 | 1,069 |
| Net provisions | (186) | 125 | 166 | 105 | (37) | (82) | (135) |
| Pretax profit | 470 | 698 | 753 | 787 | 722 | 857 | 999 |
| Income tax | (76) | (137) | (155) | (150) | (137) | (163) | (190) |
| Net income | 396 | 549 | 591 | 631 | 579 | 688 | 802 |

GROWTH RATIOS

| | | | | | | | |
|----------------------------|---------|---------|-------|-------|--------|-------|-------|
| Net interest income growth | (5.2%) | (13.5%) | 29.8% | 12.0% | 11.8% | 18.3% | 16.4% |
| Net fee growth | (3.2%) | 3.6% | 39.4% | 26.5% | 6.1% | 18.1% | 16.6% |
| Total income growth | 12.2% | (0.8%) | 8.2% | 13.6% | 13.0% | 16.9% | 15.3% |
| Cost growth | 32.9% | 7.0% | 12.1% | 12.2% | 13.7% | 13.6% | 12.5% |
| Operating profit growth | 24.7% | (13.5%) | 0.2% | 16.6% | 11.3% | 24.3% | 21.1% |
| Pre-tax profit growth | 373.3% | 48.5% | 8.0% | 4.5% | (8.2%) | 18.7% | 16.5% |
| Net profit growth | 1194.8% | 38.9% | 7.7% | 6.7% | (8.2%) | 18.8% | 16.7% |

BALANCE SHEET (consolidated IFRS)

| (PLN mil) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|------------------------|--------|--------|--------|--------|--------|--------|--------|
| Cash | 895 | 1,176 | 1,148 | 1,842 | 2,110 | 2,429 | 2,780 |
| Due from banks | 10,749 | 12,599 | 13,514 | 15,184 | 18,884 | 20,137 | 22,049 |
| 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 | 20,466 | 26,612 | 33,201 |
| Fixed assets | 1,073 | 1,072 | 1,035 | 996 | 1,130 | 1,287 | 1,456 |
| Other assets | 412 | 379 | 135 | 224 | 249 | 278 | 308 |
| Total assets | 35,607 | 42,268 | 48,476 | 52,022 | 61,869 | 71,487 | 82,197 |
| Due to banks | 2,505 | 1,358 | 2,097 | 1,810 | 2,048 | 2,327 | 2,626 |
| Customer deposits | 27,638 | 35,391 | 38,561 | 44,502 | 51,615 | 60,154 | 69,689 |
| Certified debt | 0 | 0 | 3,121 | 1,215 | 1,215 | 1,215 | 1,215 |
| Total Equity | 3,157 | 3,565 | 3,756 | 3,839 | 4,045 | 4,407 | 4,844 |
| Equity and Liabilities | 35,607 | 42,268 | 48,476 | 52,022 | 61,869 | 71,487 | 82,197 |

GROWTH RATIOS

| | | | | | | | |
|--------------------------|---------|--------|-------|-------|-------|-------|-------|
| Customer loans growth | (15.6%) | (5.5%) | 30.9% | 27.3% | 25.0% | 30.0% | 24.8% |
| Customer deposits growth | 32.7% | 28.1% | 9.0% | 15.4% | 16.0% | 16.5% | 15.9% |
| Total assets growth | 23.1% | 18.7% | 14.7% | 7.3% | 18.9% | 15.5% | 15.0% |

KEY RATIOS

| | | | | | | | |
|-------------------------------------|-------|---------|---------|---------|-------|-------|-------|
| Total Income/Earning Assets | 4.9% | 4.0% | 3.8% | 4.0% | 3.8% | 3.8% | 3.8% |
| 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% | 2.1% | 2.1% | 2.1% |
| Cost/income ratio | 61.9% | 66.8% | 69.3% | 68.5% | 68.9% | 67.0% | 65.3% |
| 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%) | 3.1% | 5.9% | 8.3% |
| NPLs/Loans | 9.8% | 8.4% | 5.1% | 3.0% | 2.8% | 2.7% | 2.6% |
| Provisions/NPLs | 85.1% | 96.4% | 103.5% | 89.7% | 83.2% | 74.3% | 73.3% |
| ROE | 13.5% | 16.3% | 16.2% | 16.6% | 14.7% | 16.3% | 17.3% |
| ROA | 1.2% | 1.4% | 1.3% | 1.3% | 1.0% | 1.0% | 1.0% |
| Customer loans/Assets | 29.2% | 23.3% | 26.5% | 31.5% | 33.1% | 37.2% | 40.4% |
| Customer deposits/Assets | 77.6% | 83.7% | 79.5% | 85.5% | 83.4% | 84.1% | 84.8% |
| Loans/Deposits | 37.7% | 27.8% | 33.4% | 36.8% | 39.7% | 44.2% | 47.6% |
| Equity/Assets | 8.9% | 8.4% | 7.7% | 7.4% | 6.5% | 6.2% | 5.9% |

PER SHARE FIGURES

| (PLN) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|----------------|--------|--------|--------|--------|--------|--------|--------|
| EPS | 30.40 | 42.22 | 45.45 | 48.48 | 44.49 | 52.86 | 61.67 |
| DPS | 20.50 | 27.50 | 28.24 | 28.67 | 24.97 | 28.09 | 30.92 |
| BVPS | 242.63 | 274.00 | 288.68 | 295.06 | 310.89 | 338.78 | 372.36 |
| P/E | 16.8 | 12.1 | 11.2 | 10.5 | 11.5 | 9.6 | 8.3 |
| Dividend Yield | 4.0% | 5.4% | 5.5% | 5.6% | 4.9% | 5.5% | 6.1% |
| P/BV | 2.1 | 1.9 | 1.8 | 1.7 | 1.6 | 1.5 | 1.4 |
| ROE/CoE | 1.4 | 1.8 | 1.8 | 1.8 | 1.5 | 1.7 | 1.7 |

Source: Company data, Wood & Company estimates

Kredyt Bank

Sell

(Maintained)

Price: PLN 19.5

Price Target: PLN 17.0

(Down from 20.0)

Expensive, Illiquid, No Excitement

Kredyt Bank has been a relatively good performer within the banking pack, outperforming Banking Wig by 10% over the twelve months. However, we don't think this truly reflects what's happening in the bank.

Kredyt Bank remains one of the least transparent, most illiquid (with EUR 400,000 daily turnover only) and least profitable banks within our Polish coverage – factors that have not changed much during the last twelve months.

Although the bank's loan growth continues speeding up (to 49% yoy in 1Q08) and the bank has been stealing market share impressively in retail lending over the last couple of quarters, profitability remains weak (with ROE at around 13%) and efficiency low (with cost to income at 67% in 1Q08).

With capital adequacy at only 9.5% and loans to deposits approaching the 100% threshold, growth must slow down in the coming quarters, in spite of the help received from KBC.

We therefore continue avoiding Kredyt Bank share and maintain our SELL rating.

Expected Events

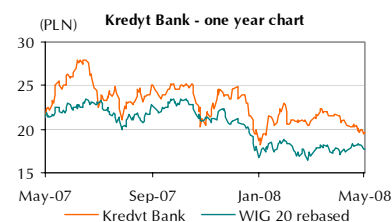
| | |
|------------|-------------------|
| Q2 results | August 7, 2008 |
| Q3 results | November 11, 2008 |
| Q4 results | February 12, 2009 |

Key Data

| | |
|----------------------|--|
| Market Cap | PLN 5,352 mil |
| Free Float | 9.5%/PLN 503 mil |
| Shares outstanding | 271.66 mil |
| Average daily volume | PLN 1.8 mil |
| Major Sh'holder | KBC (80%) Pioneer Pekao Invest Mgmt (5.0%) Sofina (5.5%) |
| Reuters Code | BKRE.WA |
| Bloomberg Code | KRB PW |
| WIG20 Index | 2,947 |

Price Performance

| | |
|------------------------------|---------|
| 52-w range (PLN) | 18.2-28 |
| YTD EUR Performance | -13.1% |
| Relative YTD EUR Performance | -5.7% |



| Year | Revenues (PLN mil) | Net Profit (PLN mil) | EPS (PLN) | EPS growth | PE | BVPS (PLN) | PBV | ROE | Dividend (PLN) | Dividend yield |
|-------|-----------------------|-------------------------|--------------|---------------|------|---------------|------|-------|-------------------|-------------------|
| 2010E | 2,205 | 451 | 1.66 | 10.6% | 11.7 | 11.6 | 1.68 | 15.0% | 0.66 | 3.4% |
| 2009E | 1,918 | 408 | 1.50 | 10.6% | 13.0 | 10.5 | 1.86 | 15.1% | 0.53 | 2.7% |
| 2008E | 1,653 | 369 | 1.36 | -5.6% | 14.4 | 9.4 | 2.08 | 15.3% | 0.41 | 2.1% |
| 2007 | 1,445 | 391 | 1.44 | -16.5% | 13.6 | 8.4 | 2.33 | 17.9% | 0.36 | 1.8% |
| 2006 | 1,370 | 468 | 1.72 | 13.9% | 11.3 | 7.7 | 2.53 | 24.9% | 0.37 | 1.9% |
| 2005 | 1,129 | 410 | 1.51 | 132% | 12.9 | 6.1 | 3.19 | 25.8% | 0.22 | 1.1% |
| 2004 | 1,382 | 159 | 0.65 | n.a. | 29.9 | 5.6 | 3.49 | 14.7% | 0.00 | 0.0% |

INCOME STATEMENT (consolidated IFRS)

| (PLN mil) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|-----------------------|---------|-------|-------|-------|---------|---------|---------|
| Net interest income | 634 | 696 | 780 | 871 | 1,023 | 1,201 | 1,389 |
| Non-interest income | 748 | 433 | 590 | 574 | 630 | 717 | 816 |
| net commission income | 514 | 236 | 270 | 310 | 341 | 394 | 463 |
| net FX gains | 139 | 96 | 139 | 179 | 209 | 233 | 253 |
| securities income | 44 | 42 | 163 | 57 | 18 | 17 | 14 |
| Total banking revenue | 1,382 | 1,129 | 1,370 | 1,445 | 1,653 | 1,918 | 2,205 |
| Total costs | (1,055) | (851) | (930) | (975) | (1,097) | (1,280) | (1,468) |
| personnel costs | (431) | (362) | (438) | (493) | (563) | (644) | (737) |
| depreciation | (167) | (126) | (112) | (111) | (108) | (124) | (136) |
| other costs | (453) | (313) | (379) | (371) | (426) | (512) | (594) |
| Operating income | 327 | 278 | 439 | 470 | 556 | 637 | 738 |
| Net provisions | (148) | 30 | 19 | 30 | (89) | (128) | (181) |
| Pretax profit | 179 | 308 | 460 | 502 | 467 | 510 | 557 |
| Income tax | (20) | 102 | 7 | (111) | (98) | (102) | (106) |
| Net income | 159 | 410 | 468 | 391 | 369 | 408 | 451 |

GROWTH RATIOS

| | | | | | | | |
|----------------------------|----------|---------|-------|---------|--------|-------|-------|
| Net interest income growth | (12.3%) | 9.7% | 12.1% | 11.7% | 17.4% | 17.3% | 15.7% |
| Net fee growth | 1.1% | (54.0%) | 14.3% | 14.6% | 10.1% | 15.7% | 17.5% |
| Total income growth | (0.7%) | (18.3%) | 21.3% | 5.5% | 14.4% | 16.0% | 15.0% |
| Cost growth | 8.1% | (19.4%) | 9.3% | 4.8% | 12.6% | 16.7% | 14.6% |
| Operating profit growth | 51.5% | (14.9%) | 57.9% | 7.1% | 18.1% | 14.7% | 15.7% |
| Pre-tax profit growth | (112.8%) | 72.2% | 49.5% | 9.1% | (7.0%) | 9.2% | 9.2% |
| Net profit growth | (110.0%) | 158.6% | 13.9% | (16.5%) | (5.6%) | 10.6% | 10.6% |

BALANCE SHEET (consolidated IFRS)

| (PLN mil) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|------------------------|--------|--------|--------|--------|--------|--------|--------|
| Cash | 1,513 | 607 | 641 | 612 | 764 | 889 | 1,028 |
| Due from banks | 2,697 | 2,227 | 2,204 | 2,454 | 2,569 | 1,943 | 1,805 |
| Debt securities | 4,506 | 6,710 | 6,833 | 6,442 | 6,745 | 5,101 | 4,737 |
| Customer loans | 11,366 | 9,873 | 11,556 | 16,622 | 21,632 | 29,426 | 36,287 |
| Fixed assets | 646 | 452 | 471 | 464 | 576 | 667 | 768 |
| Other assets | 295 | 952 | 516 | 522 | 640 | 729 | 826 |
| Total assets | 21,021 | 20,912 | 22,232 | 27,128 | 32,927 | 38,755 | 45,451 |
| Due to banks | 3,007 | 2,562 | 2,167 | 6,403 | 6,606 | 7,168 | 7,579 |
| Customer deposits | 14,061 | 14,593 | 15,807 | 17,089 | 21,639 | 25,541 | 29,966 |
| 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 | 2,547 | 2,845 | 3,153 |
| Equity and Liabilities | 21,021 | 20,912 | 22,232 | 27,128 | 32,927 | 38,755 | 45,451 |

GROWTH RATIOS

| | | | | | | | |
|--------------------------|---------|---------|-------|-------|-------|-------|-------|
| Customer loans growth | (24.0%) | (13.1%) | 17.0% | 43.8% | 30.1% | 36.0% | 23.3% |
| Customer deposits growth | (3.2%) | 3.8% | 8.3% | 8.1% | 26.6% | 18.0% | 17.3% |
| Total assets growth | (12.0%) | (0.5%) | 6.3% | 22.0% | 21.4% | 17.7% | 17.3% |

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% | 66.4% | 66.8% | 66.6% |
| Cost/assets ratio | 4.7% | 4.1% | 4.3% | 3.9% | 3.7% | 3.6% | 3.5% |
| Provisions/Net Interest Income | 23.4% | (4.3%) | (2.4%) | (3.5%) | 8.7% | 10.6% | 13.0% |
| NPLs/Loans | 30.1% | 28.2% | 13.5% | 6.6% | 5.5% | 5.0% | 5.0% |
| Provisions/NPLs | 64.5% | 75.1% | 60.2% | 69.3% | 67.2% | 59.2% | 53.2% |
| ROE | 14.7% | 25.8% | 24.9% | 17.9% | 15.3% | 15.1% | 15.0% |
| ROA | 0.7% | 2.0% | 2.2% | 1.6% | 1.2% | 1.1% | 1.1% |
| Customer loans/Assets | 54.1% | 47.2% | 52.0% | 61.3% | 65.7% | 75.9% | 79.8% |
| Customer deposits/Assets | 66.9% | 69.8% | 71.1% | 63.0% | 65.7% | 65.9% | 65.9% |
| Loans/Deposits | 80.8% | 67.7% | 73.1% | 97.3% | 100.0% | 115.2% | 121.1% |
| Equity/Assets | 7.2% | 7.9% | 9.4% | 8.4% | 7.7% | 7.3% | 6.9% |

PER SHARE FIGURES

| (PLN) | 2004 | 2005 | 2006 | 2007 | 2008F | 2009F | 2010F |
|----------------|------|------|------|------|-------|-------|-------|
| EPS | 0.65 | 1.51 | 1.72 | 1.44 | 1.36 | 1.50 | 1.66 |
| DPS | 0.00 | 0.22 | 0.37 | 0.36 | 0.41 | 0.53 | 0.66 |
| BVPS | 5.58 | 6.11 | 7.70 | 8.38 | 9.38 | 10.47 | 11.61 |
| P/E | 29.9 | 12.9 | 11.3 | 13.6 | 14.4 | 13.0 | 11.7 |
| Dividend Yield | 0.0% | 1.1% | 1.9% | 1.8% | 2.1% | 2.7% | 3.4% |
| P/BV | 3.5 | 3.2 | 2.5 | 2.3 | 2.1 | 1.9 | 1.7 |
| ROE/CoE | 1.5 | 2.9 | 2.7 | 1.9 | 1.6 | 1.5 | 1.5 |

Source: Company data, Wood & Company estimates

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

Further redemptions in mutual fund assets, rapid slowdown in mortgage lending growth or 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 May 23, 2008.

CONFLICTS OF INTEREST POLICY

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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