CEE banks

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Unloved in their prime...

Polish banks are currently experiencing their most robust performance since before the Global Financial Crisis. Despite this, investor sentiment remains cautious, with concerns that recent earnings may be temporary, potential windfall profits could be subject to taxation, and geopolitical risks are significant.

Contrary to these concerns, we believe the financial metrics of Polish banks speak for themselves. The sector has demonstrated resilience, with low valuation multiples and attractive dividend yields. Consequently, we rate most of the Polish banks in our coverage as Outperform.

Banks' earnings are expected to remain resilient. We attribute 47% of the recent expansion in Net Interest Income for Polish banks to significantly larger balance sheets—a structural change that is unlikely to reverse. The remaining 53% stems from margin expansion, primarily driven by the high-interest-rate environment and supported by overliquidity, which should continue to curb growth in funding costs, we assume. Additionally, banks have strategically reduced immediate sensitivity to asset yields through hedging, fixed-rate bond portfolios, and fixed-rate mortgages. These factors should enable Polish banks to sustain return on equity (ROE) in the high teens over the coming years. Polish banks are currently trading at a 2026E P/BV of 1.0x and are expected to return approximately 30% of their market capitalization to shareholders over the next 2.5 years. This reflects a combination of strong earnings potential, attractive valuation, and robust dividend payouts, underscoring the sector's appeal despite lingering market scepticism.

Short term concerns stay. Polish banks have a history of underperforming ahead of the first rate cut in a cycle. Additionally, the increase in BFG costs has not yet been fully absorbed, and a strained state budget highlights the ongoing risk of sector-specific taxes. As a result, we see greater potential for banking stocks to outperform once the rate cut cycle begins.

Top picks for 2025. Our 2025 target prices indicate significant upside potential for Polish banks. We continue to favor Pekao, PKO, Alior (ALR), and BNP due to their strong dividend-paying capabilities. Additionally, we expect the CHF saga to become less of a concern for mBank and Millennium in the coming quarters, leading us to upgrade both to Outperform. Please refer to page 36 for a detailed summary of our valuations and the changes in recommendations.

Main risks to our investment thesis: geopolitical risk; possible new regulations; monetary and fiscal policy; unemployment and GDP growth.

Fig. 1. List of updated recommendations

Company	Rec.	Dec'25 TP (PLN)	Upside
PKO	Outperform	72.0	32%
PEO	Outperform	178.0	26%
MBK	Outperform	725.0	32%
ING	Outperform	291.0	25%
BHW	Neutral	98.0	12%
MIL	Outperform	11.0	34%
BNP	Outperform	119.0	45%
ALR	Outperform	109.0	18%
OTP	Underperform	22,300.0*	2%
KOMB	Underperform	770.0**	-5%

*Source: Santander Brokerage Poland; *HUF, **CZK*

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Fig. 2. CEE Financials – key multiples on adjusted numbers (excl. expected Swiss franc mortgage provisions)

	P/E adjusted (X)			P/BV (x)			ROE adjusted (%)			DY (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2025E	2026E	2027E
PKO	4.9x	4.9x	5.8x	1.3x	1.1x	1.0x	28.4%	24.7%	19.0%	10.3%	11.6%	8.1%
PEO	5.4x	5.8x	5.9x	1.1x	1.1x	1.0x	21.9%	19.3%	18.1%	13.0%	13.0%	8.5%
MBK	4.2x	4.4x	5.0x	1.5x	1.2x	1.0x	37.6%	31.1%	22.3%	0.0%	0.0%	9.9%
ING	7.3x	6.8x	6.7x	1.7x	1.5x	1.4x	26.2%	23.4%	21.3%	6.8%	7.3%	7.5%
BHW	5.5x	6.2x	7.5x	0.9x	0.9x	0.8x	18.4%	14.8%	11.4%	12.5%	12.0%	10.0%
MIL	3.3x	3.4x	3.3x	1.3x	1.2x	1.0x	40.5%	36.0%	32.7%	0.0%	0.0%	6.7%
BNP	4.6x	4.2x	4.6x	0.8x	0.7x	0.6x	19.0%	17.7%	14.0%	10.2%	10.3%	10.1%
ALR	5.0x	5.5x	6.4x	1.1x	0.9x	0.8x	23.5%	17.4%	13.0%	10.1%	9.0%	7.9%
OTP	5.5x	5.8x	6.3x	1.2x	1.0x	0.9x	24.0%	19.1%	15.8%	3.4%	4.6%	5.2%
KOMB	11.1x	10.5x	10.5x	1.2x	1.2x	1.2x	10.9%	11.7%	11.6%	10.6%	6.2%	6.2%
PZU	7.1x	6.6x	6.5x	1.4x	1.3x	1.2x	16.2%	16.4%	15.8%	10.2%	10.1%	10.1%
Median	**5.2x**	**5.4x**	**5.8x**	**1.3x**	**1.1x**	**1.0x**	**25.1%**	**22.9%**	**18.7%**	**8.4%**	**8.2%**	**8.0%**

Source: Bloomberg, Santander Brokerage Poland estimates

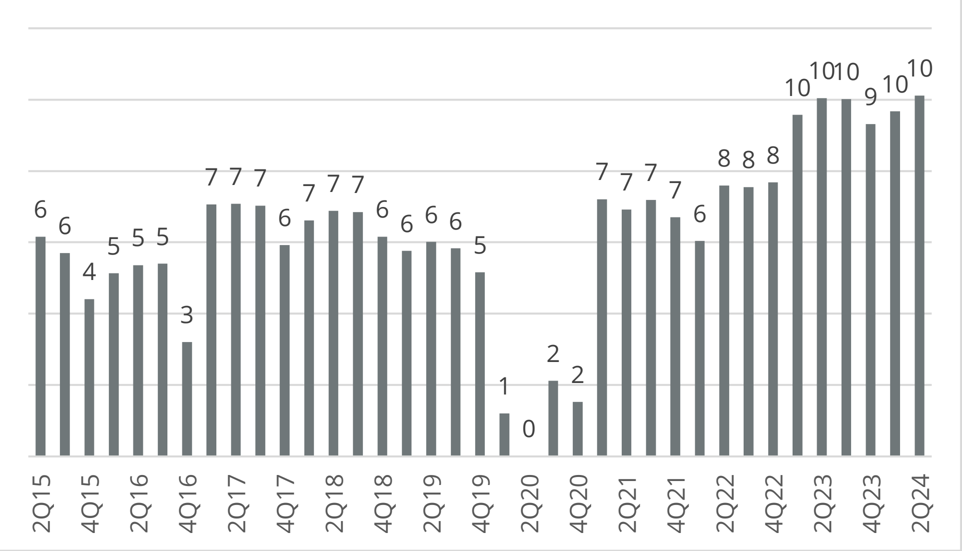
Investment summary

The best time since before the Global Financial Crisis

Banks are experiencing their strongest performance since before the Global Financial Crisis.

Profitability is no longer the Achilles' heel, as European banks have successfully returned to generating returns that meet or exceed their cost of equity.

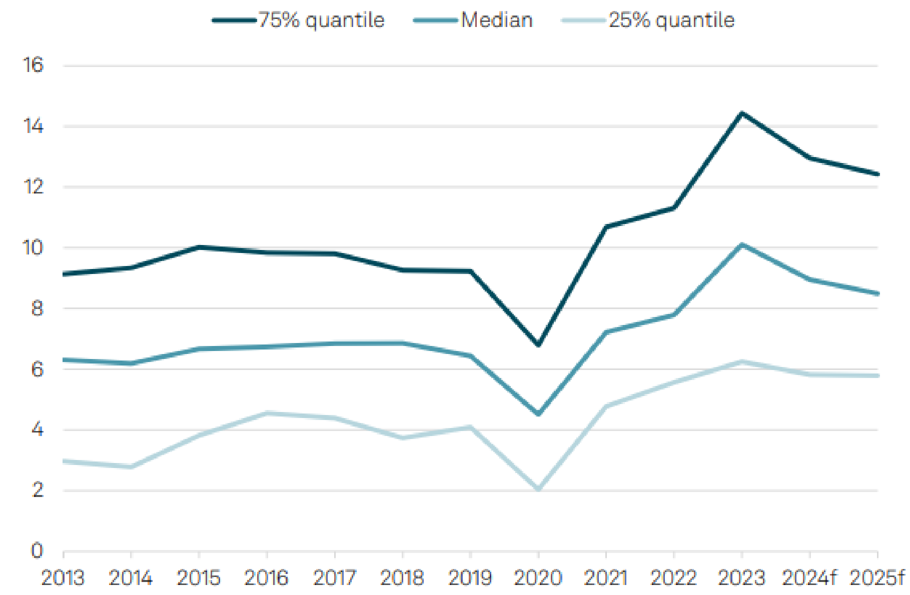
Fig. 3. Eurozone banks – ROE quarterly



Source: ECB

The recent surge in bank profitability has been primarily driven by widening net interest margins, as adjustments in funding costs have tended to lag the "mechanical" repricing of floating-rate loans. While interest rates are expected to decline, they are projected to settle at levels significantly higher than those seen pre-COVID. This new rates environment appears to be a sweet spot for banks, supporting both high profitability and sustained loan growth.

Fig. 4. Evolution of return on average common equity (%) of European banks according to S&P Global



Source: S&P Global Ratings. Sample includes European banks rated by S&P with a stand-alone credit profile.

A more favorable interest rate environment should enable banks to maintain profitability levels above those seen pre-COVID. While there are expectations of declining profitability for European banks, it is still anticipated to remain above pre-COVID levels.

Polish banks are expected to follow trends similar to those of Eurozone banks. While we anticipate a decline in earnings, they are projected to remain significantly above pre-COVID levels, reflecting a more favorable operating environment compared to the past.

Fig. 5. Polish banks heatmap

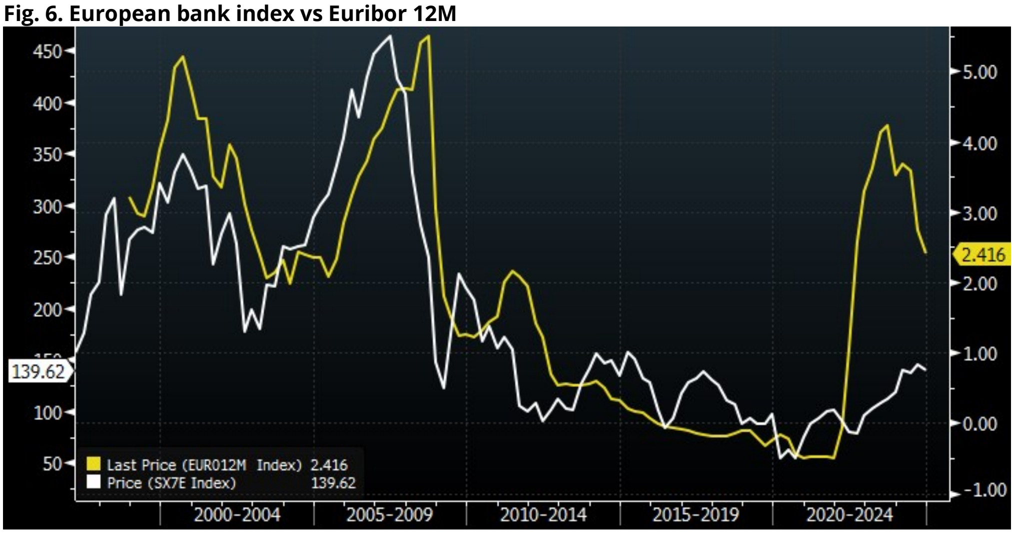
Revenue	Rate cuts to slow NII
Expenses	Lower inflationary pressure, but BFG cost
Profitability	NII dynamics is key
Credit quality	CHF-mortgage and large corpo exposure require provisioning
Capital	Outlook for high dividends despite higher capital requirements
Liquidity	TLAC. MREL addressed, WFD ahead of banks

Source: Santander Brokerage Poland

Banks remain unloved by the market

The current profitability of banks has struggled to generate significant excitement among investors. Despite the banking sector's outperformance over the past two years, it appears negligible when compared to historical highs. The muted reaction to the higher profitability levels observed, reminiscent of the period before the Global Financial Crisis, highlights a lack of investor enthusiasm for the sector.

Fig. 6. European bank index vs Euribor 12M

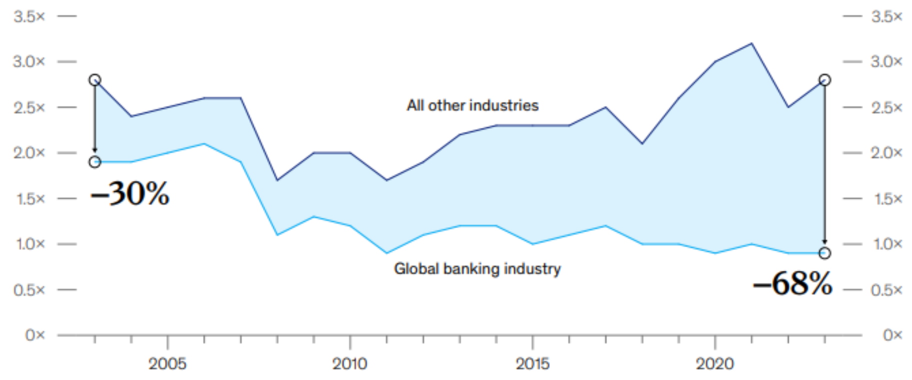


Source: Bloomberg

There have been no multiple rerating. We would attribute banks outperformance to be driven by earnings expansion solely.

Despite the rebound in profitability, banks globally tend to trade at deeper discount than historically comparing to other sectors. In a world where TMT trades 4.7x Book Value, Pharma 4.1x, Consumer 3.7x, Industrial 3.0x, Energy and Materials at 1.9x, Real Estate 1.3x, global banking industry is as low as 0.9x book value.

Fig. 7. Price to Book ratio, global banking industry vs all other industries.

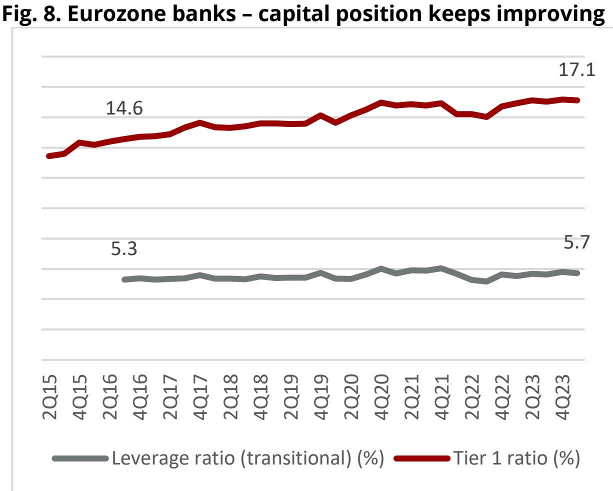


Source: McKinsey, Global Banking Annual Review 2024

The outlook for strong dividends is not changing the picture either

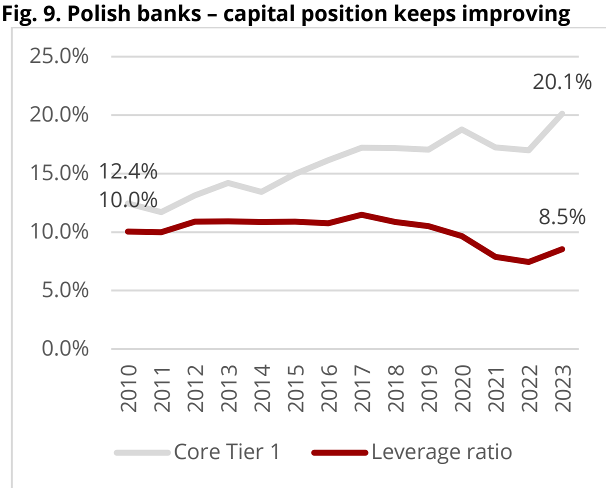
Our observation since the GFC is that leverage ratio improves slower that solvency ratio in Europe and in Poland.

Fig. 8. Eurozone banks – capital position keeps improving



Source: ECB

Fig. 9. Polish banks – capital position keeps improving

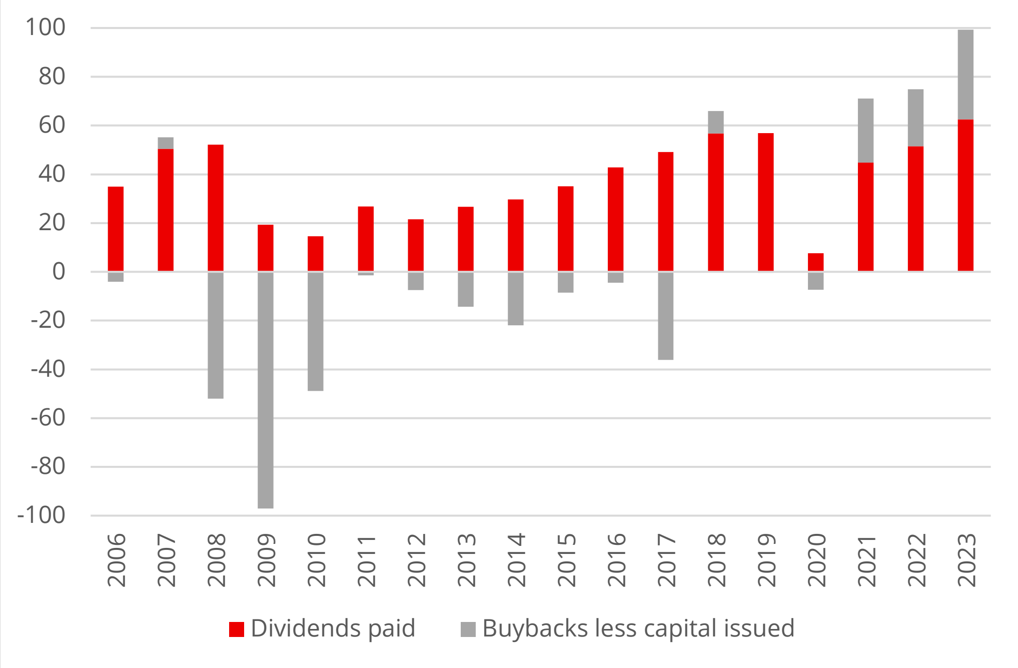


Source: KNF

But the bottom line is that banks are reporting stronger solvency ratios and now, with higher net income and no immediate major risk on the horizon can be more generous for shareholders.

Banks prefer to only gradually increase dividends, and use the windfalls to sponsor buybacks. We think it is more of a signalling bias, banks prefer not to cut DPS whereas reducing buybacks is perceived less as a concerning signal.

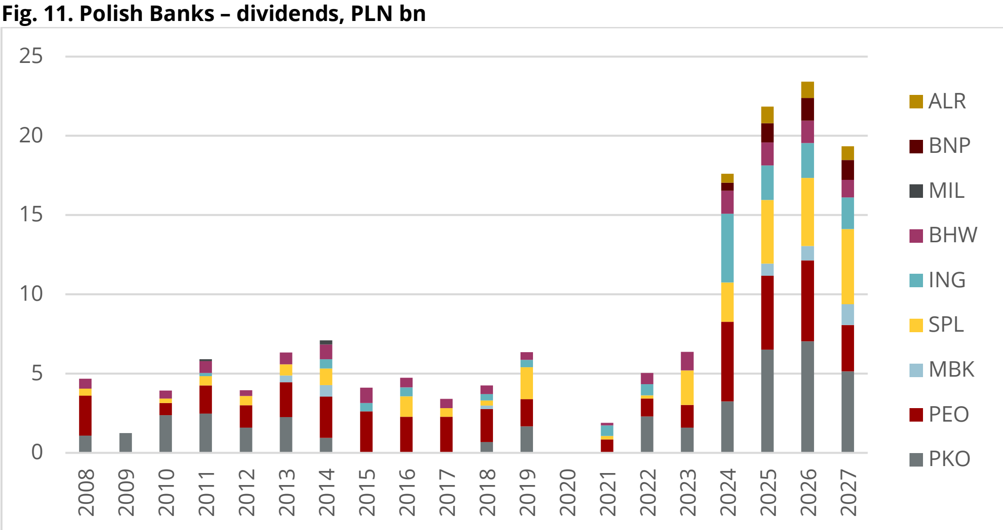
Fig. 10. Eurozone Banks - shareholder remuneration, EUR bn



Source: ECB

Dividends are on record high also in Poland, despite CHF-provisions and higher regulatory cost. In 2024 Alior Bank and BNP Paribas Polska paid dividends for the first time in their history.

Fig. 11. Polish Banks – dividends, PLN bn



Source: Company data, Santander Brokerage Poland estimates, data for SPL based on Bloomberg consensus

Comparing to eurozone banks, Polish banks operate in faster growing economy and are able to keep up their assets growth with nominal GDP

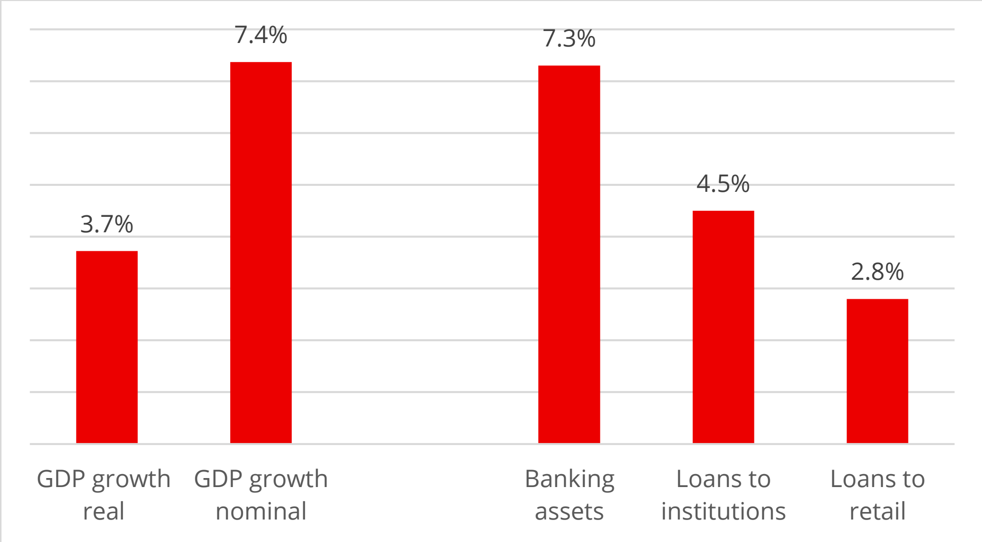
In the last decade Polish banks managed to keep up with the economy, meaning that the CAGR of bank's balance sheet growth was almost exactly at the level of nominal GDP growth.

Banking assets growth is in line with the nominal GDP growth.

Banks saw their securities portfolio growing way faster than loan portfolios.

The CAGR of securities portfolios on balance sheet of Polish banks was 13.1% in the last decade.

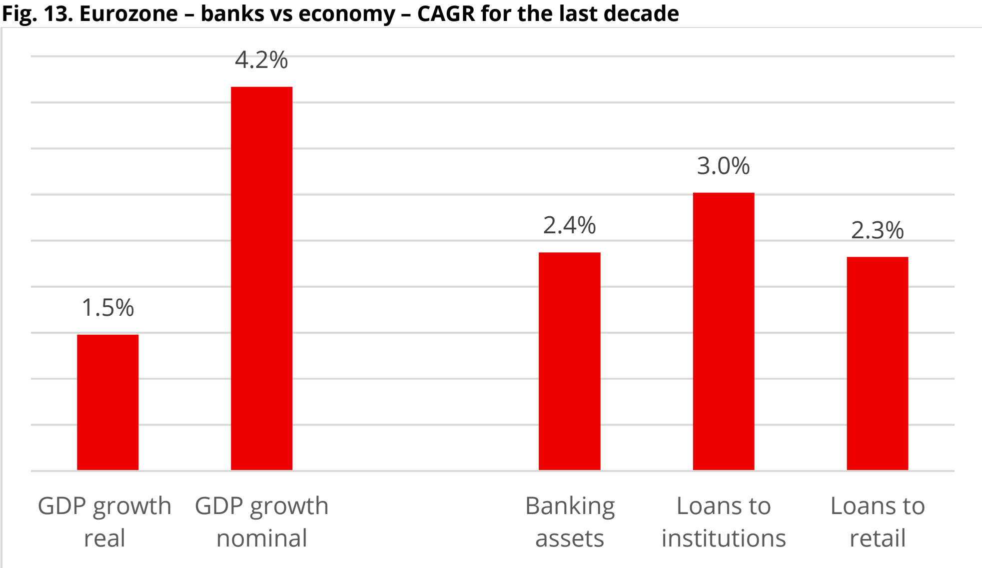
Fig. 12. Poland – banks vs economy – CAGR for the last decade



Source: Santander Brokerage Poland based on KNF, NBP, GUS

At the same time, European banks kept underperforming nominal GDP growth. The Eurozone GDP for the last decade was 4.2% on average (vs. 7.4% for Poland) and Euro-zone banks managed to grew its assets by 2.4% .

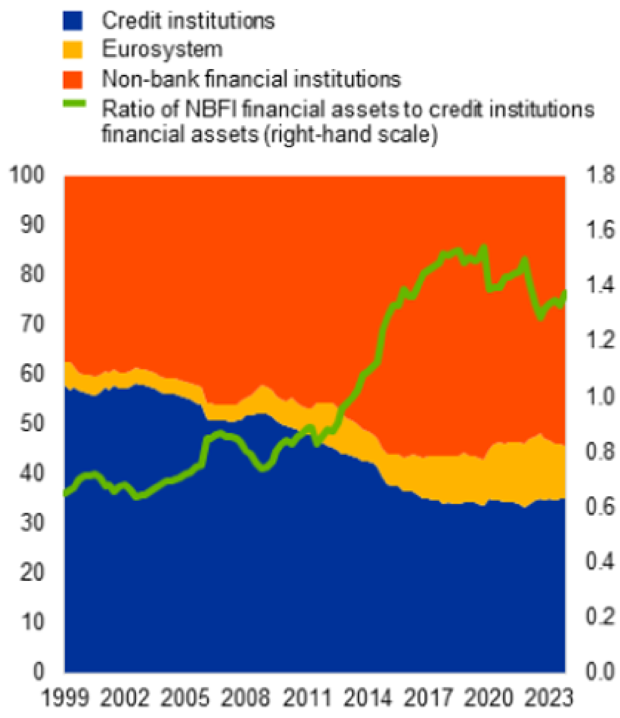
Fig. 13. Eurozone – banks vs economy – CAGR for the last decade



Source: Santander Brokerage Poland based on ECB, Eurostat

EU banks' assets grew on average 1.8pp slower annually than EU economy.

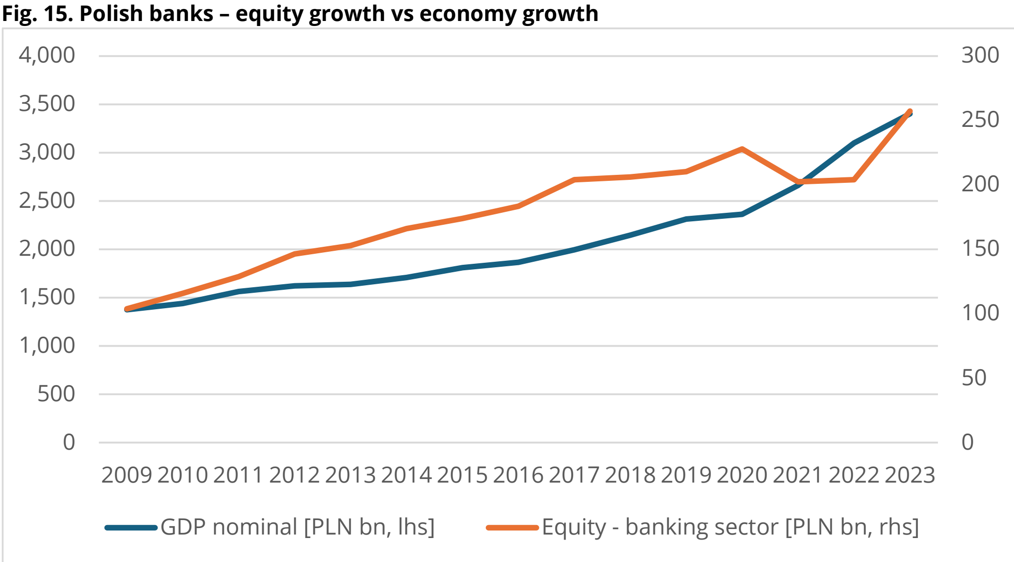
Fig. 14. Total assets of the euro area financial sector, left-hand scale: EUR trillions; right-hand scale: ratio; quarterly data)



Source: ECB; Note: Non-bank financial institutions include investment funds, insurance companies and pension funds, money market funds and other financial intermediaries

Polish banks have maintained equity growth in line with nominal GDP growth. Over an extended period of strict KNF regulations, which imposed additional dividend requirements, banks managed to grow their equity at a pace even faster than that of nominal GDP.

Fig. 15. Polish banks – equity growth vs economy growth



Source: Santander Brokerage Poland based on KNF, NBP

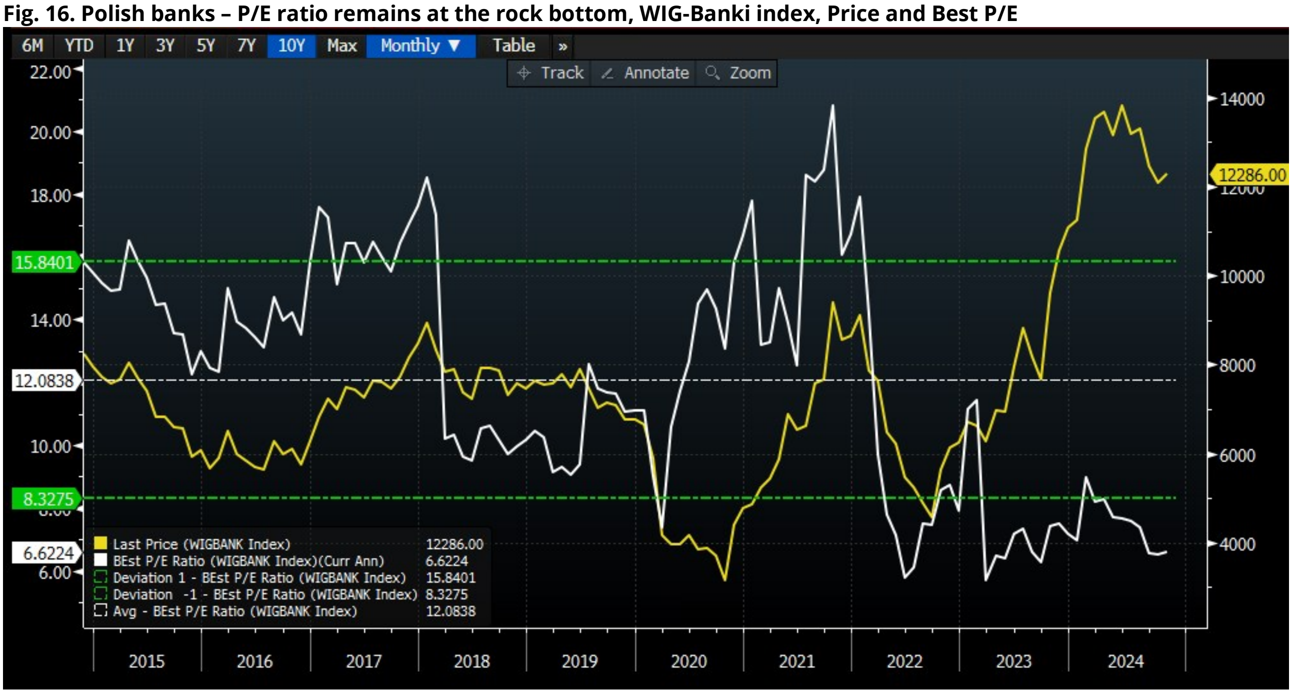
Multiples have not recuperated

The P/E multiples for Polish banks remain at the rock bottom

Interestingly, much like of their European counterparts, the strong performance of Polish banks in 2023 and 1Q24 was driven entirely by earnings growth, with little to no multiple expansion.

Polish banks are currently enjoying record-high earnings, yet they are trading at record-low multiples. The best P/E ratio stands at 6.6x, compared to a historical average of 12.1x, significantly below the mean and more than one standard deviation lower. This stark disconnection between profitability and valuation underscores the cautious sentiment among investors.

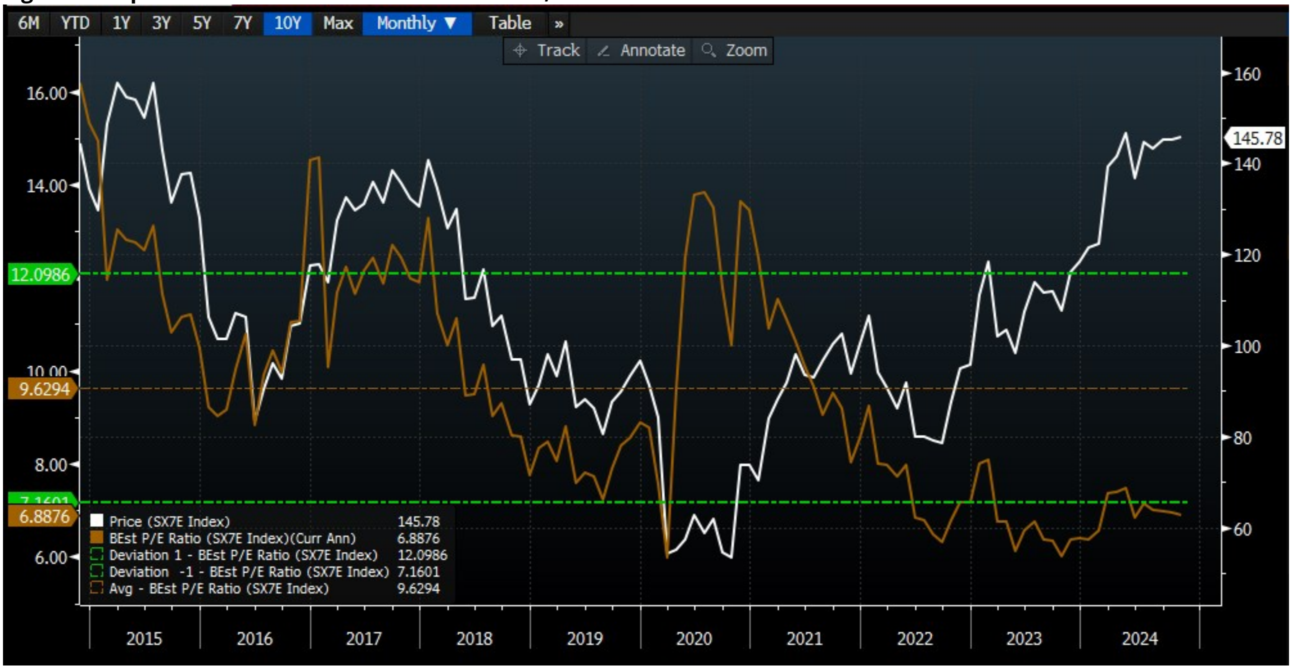
Fig. 16. Polish banks – P/E ratio remains at the rock bottom, WIG-Banki index, Price and Best P/E



Source: Bloomberg

The valuation multiples of European banks mirror the situation observed with Polish banks. Similarly, in Europe, the P/E ratios remain relatively sticky, and the strong performance over the past two years has been primarily driven by earnings growth rather than multiple expansion.

Fig. 17. European banks – EURO STOXX Banks index, Price and best P/E

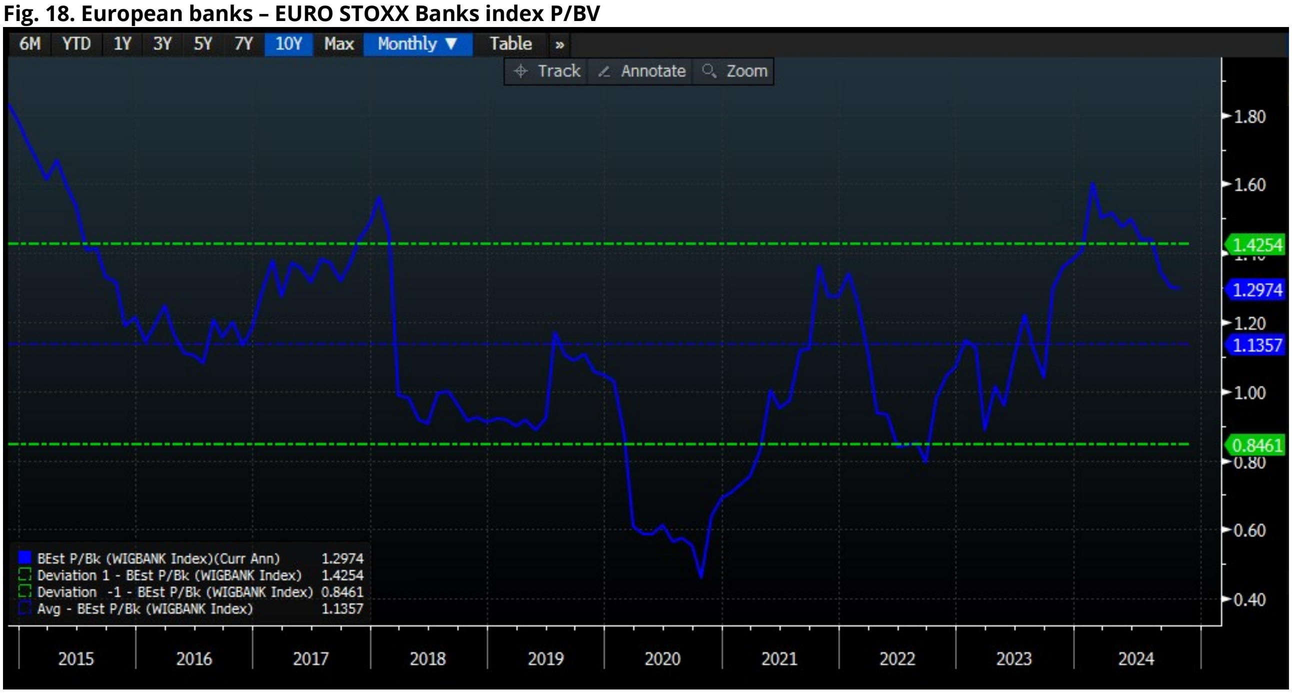


Source: Bloomberg

We believe the market is primarily focused on the P/BV (Price-to-Book Value) ratio. The best P/BV ratio for Polish banks currently stands at 1.3x, noticeably above the historical average of 1.1x.

The era when Polish banks consistently traded comfortably above 1.5x BV ended in 2015, following the introduction of the banking tax, which continues to consume approximately 1.5 percentage points of the sector's ROE. Additionally, the shift away from the period of double-digit loan growth has further constrained the sector's valuation multiples.

Fig. 18. European banks – EURO STOXX Banks index P/BV



Source: Bloomberg

We believe that higher ROE and improved expected profitability compared to historical averages justify higher P/BV multiples than those observed in the past. Given the current market dynamics (esp. profitability), we now prefer to focus on the P/E ratio as a more relevant measure of valuation.

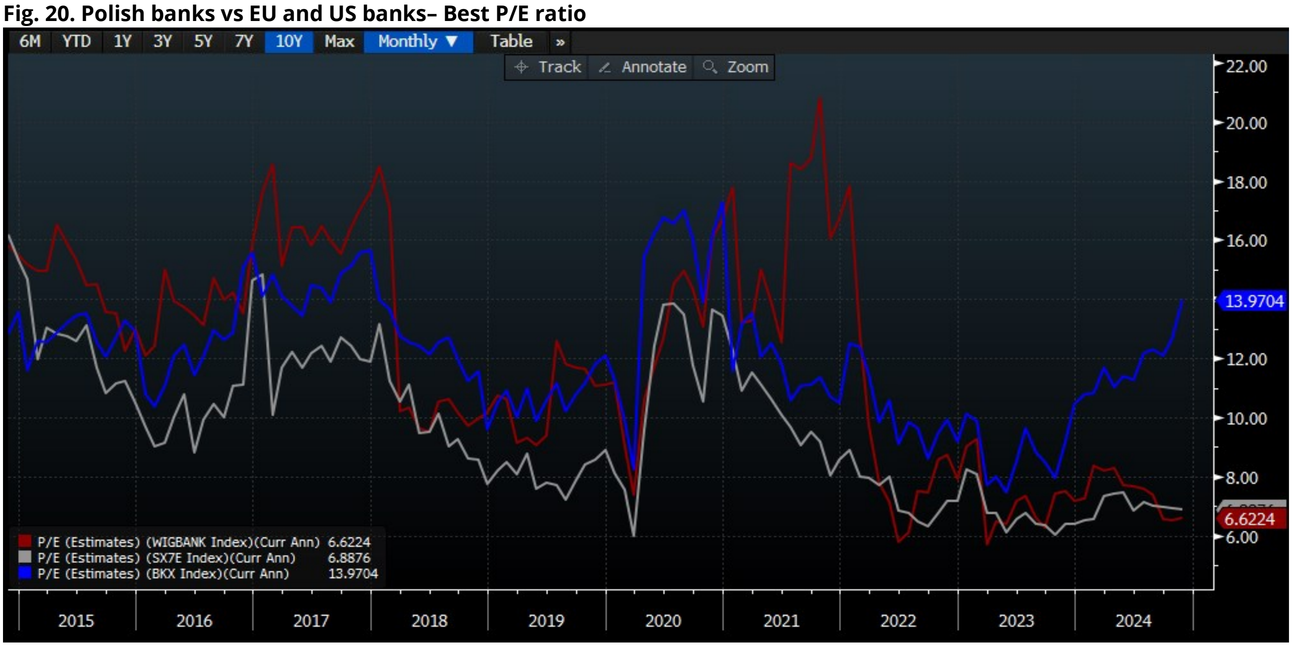
We believe that due to stronger expected growth and higher anticipated profitability, Polish banks warrant a valuation premium compared to Eurozone banks. This reflects their robust fundamentals and favorable operating environment relative to their European peers.

Fig. 19. Polish banks vs EU and US banks– Best P/BV ratio

Source: Bloomberg

YTD US banks have been visibly outperforming European banks. According to Financial Times, this disparity is largely attributed to differing regulatory environments and economic conditions. US banks have benefited from deregulatory policies and a robust domestic economy leading to significant share price increases. Conversely, European banks have faced challenges such as stricter regulations and sluggish economic growth, particularly in the eurozone.

Fig. 20. Polish banks vs EU and US banks– Best P/E ratio



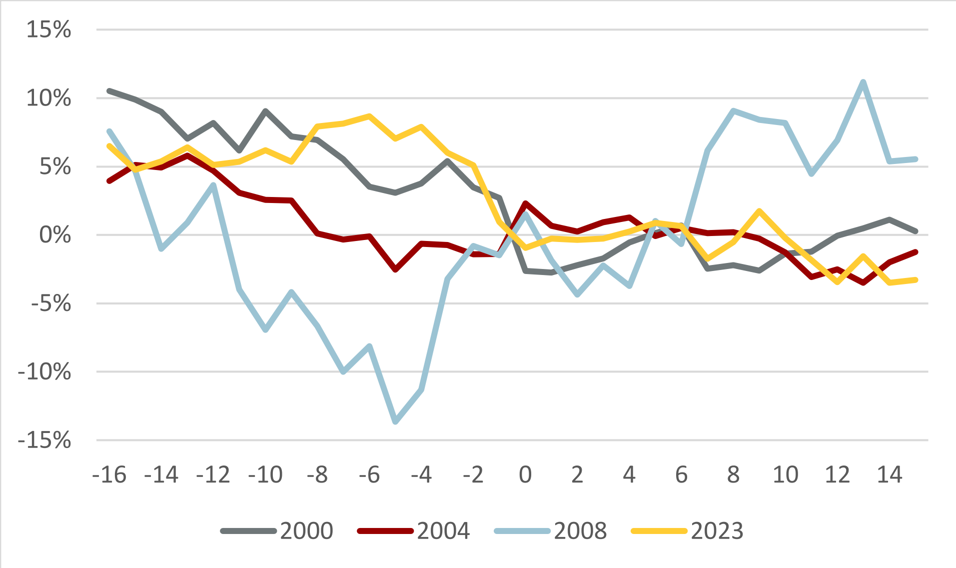
Source: Bloomberg

Upcoming Rate Cuts Are Not Necessarily a Reason to Underweight Banks

We analyzed the performance of the WIG-Banki index in the periods leading up to and following the first rate cut in a monetary easing cycle. Our findings show that while rate cuts significantly affect the seasonality of bank earnings, their impact on bank share prices is less pronounced.

One notable pattern is a negative coincidence: the WIG-Banki index historically tends to decline in the month preceding the first rate cut, losing 5-10% during the final weeks before easing begins. However, after the rate cut, the index has typically moved sideways rather than continued to decline.

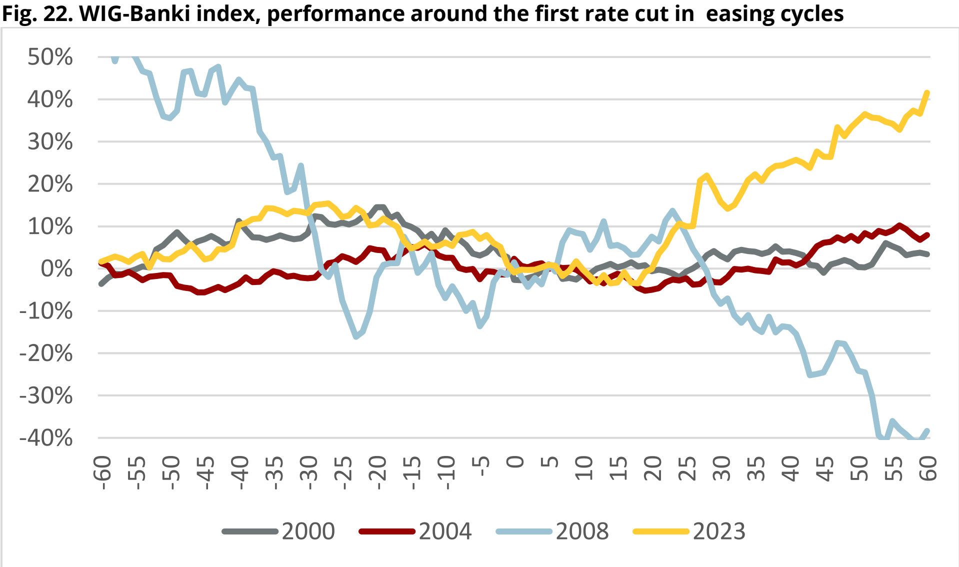
Fig. 21. WIG-Banki index, performance around the first rate cut in easing cycles



Source: Bloomberg, Santander Brokerage Poland

Looking at the broader picture over 60 trading days before and after the first rate cut, the results remain mixed. In 2008, amid high bank valuations and the Global Financial Crisis, performance was exceptionally weak. However, in 2000, 2004, and 2023, the Polish banking index ended up higher 60 days after the first rate cut compared to the day of the cut.

Fig. 22. WIG-Banki index, performance around the first rate cut in easing cycles

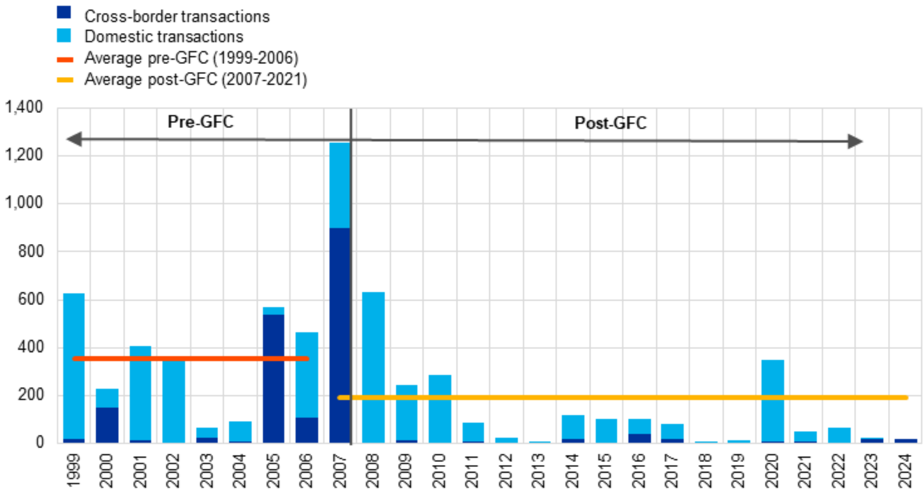


Source: Bloomberg, Santander Brokerage Poland

Mergers - more than exception than the rule

Observing the European banking landscape, it is evident that dominating a single domestic market is perceived as more attractive than pursuing cross-border expansion. This preference explains the absence of cross-country mergers and the focus on domestic transactions. Notable examples include BBVA's EUR12bn hostile takeover bid for Sabadell in Spain and UniCredit's EUR10bn bid for Banco BPM in Italy. We also consider UniCredit's reported interest in acquiring Commerzbank as a domestic transaction, given UniCredit's existing control of HypoVereinsbank in Germany.

Fig. 23. Total assets of target banks in the Euro area (EUR bn)



Source: ECB and ECB calculations. Note from ECB: The sample includes M&A transactions involving significant institutions and less significant institutions in the euro area, excluding some private transactions and transactions among small banks not reported in Dealogic. Transactions associated with the resolution of banks and distressed mergers were removed from the sample. Transactions are reported based on the year in which they were announced. GFC stands for global financial crisis.

Cross-border M&A activity in the European banking sector is also limited by several structural and regulatory factors:

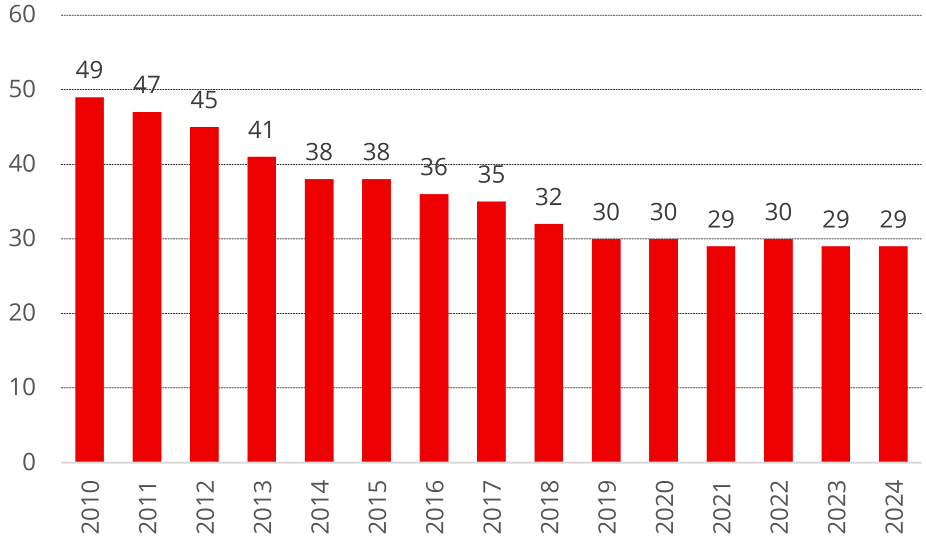
- Short period of high profitability: the window of robust profitability for many banks has been relatively brief, reducing the resources and incentives for large-scale acquisitions.
- Focus on adapting to a changing environment: Banks are preoccupied with adapting to a rapidly changing environment, including digital transformation, evolving customer expectations, and compliance with stricter regulations.
- Early stage of the Banking Union: the European Banking Union remains in its infancy, with no full integration of capital and liquidity frameworks. Banking groups cannot freely move capital or liquidity across subsidiaries in different jurisdictions, which hampers operational flexibility.
- Concerns of host authorities: national regulators worry that local subsidiaries could be disadvantaged if a parent banking group faces financial distress. This fear deters regulators from supporting cross-border mergers.
- Regulatory complexity: regulatory barriers, such as levies and legal fragmentation in areas like securities markets, taxation, accounting standards, insolvency laws, and consumer protection, add significant complexity and cost to cross-border deals.

- Negative valuation of bonds: unfavorable bond valuations further diminish the attractiveness of potential cross-border targets, complicating efforts to assess and price acquisitions effectively.

These factors collectively create significant hurdles, making domestic mergers a more pragmatic and appealing option for European banks.

In recent years, Poland's banking sector has experienced limited major mergers and acquisitions. The most notable transactions have been related to the resolution processes of Idea Bank (2020-2021) and Getin Noble Bank (2022-2024).

Fig. 24. Number of universal banks in Poland



Source: KNF

Over the past six years, the number of universal banks in Poland has remained relatively stable, fluctuating between 29 and 30 institutions. However, recent developments suggest potential changes in the sector's landscape:

- PZU is currently reassessing its strategy, which may impact its holdings in Pekao and Alior Bank
- Bank Handlowy, the Polish subsidiary of Citigroup, has officially resumed the process of selling its retail banking segment. This decision aligns with Citigroup's broader strategy to exit consumer banking in several markets, including Poland.
- Potential Strategic Reviews by Bank Millennium and mBank: As uncertainties surrounding the valuation of CHF-mortgage portfolios diminish, it is anticipated that the parent companies of Bank Millennium and mBank may reevaluate their strategic options concerning their Polish assets. This reassessment could lead to decisions about retaining, merging, or divesting these holdings.

These developments indicate a potential shift in Poland's banking sector, with possible mergers, acquisitions, or divestitures on the horizon. Such changes could alter the competitive dynamics and market structure in the near future.

Further Rate Cuts Will Negatively Impact NIM

How Did Polish Banks Improve NIM Despite Last Year's Rate Cuts?

In September and October 2023, the Polish Monetary Policy Council (MPC) reduced the reference rate by 100 basis points. Banks widely anticipated that these cuts would negatively impact their Net Interest Income (NII). Yet, despite these expectations, the sector's Net Interest Margin (NIM) improved year-on-year by 0.1 percentage points. So, how was this achieved?

1. Term Deposit Repricing:

A major factor was the repricing of term deposits. According to National Bank of Poland (NBP) data, the cost of term deposits dropped significantly, falling by 150 basis points from 5.4% in September 2023 to 3.9% in September 2024. This sharp decline in funding costs provided a substantial offset to the pressure from rate cuts.

2. Higher Yields on Bond Portfolios:

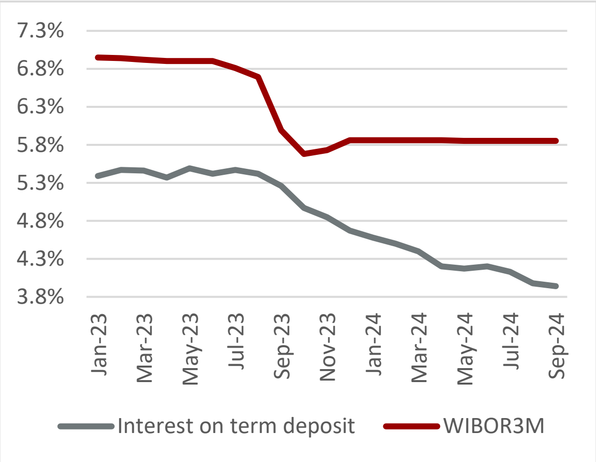
Another critical element was the increase in yields on banks' bond portfolios. Low-yielding bonds acquired during the COVID-19 period began to mature, and banks replaced them with higher-yielding securities. By the third quarter of 2024, the average yield on securities reported by banks was 20 basis points higher than in the same quarter of 2023.

3. Shift in the Deposit Mix:

Banks also benefited from a shift in the deposit mix. Current account deposits, which are priced at a lower rate (0.7% in September 2024), gained share over term deposits (priced at 3.9% in September 2024). Over the past year, the stock of current deposits increased by 9% year-on-year, while term deposit volumes remained flat. As a result, current deposits accounted for 68.7% of total deposits as of September 2024, up from 66.8% a year earlier.

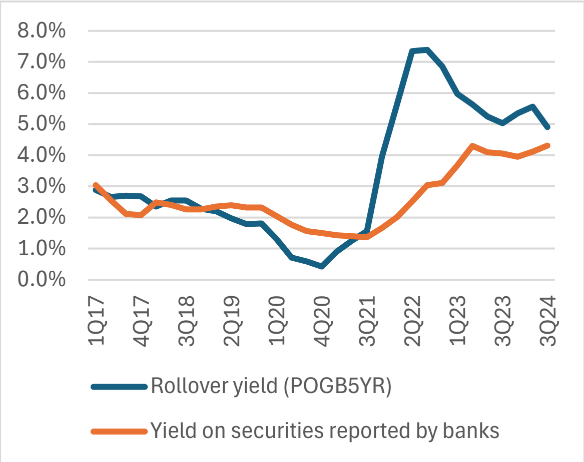
This combination of factors helped Polish banks improve their NIM, despite the challenging environment created by rate cuts.

Fig. 25. Average term deposit prices vs WIBOR



Source: NBP, Bloomberg

Fig. 26. Yield on stock of bond vs roll over yield (%)



Source: Company data, Bloomberg, Santander Brokerage Poland

Yields on Corporate and Consumer Loans Reflect Textbook Responses to Rate Cuts

The yields on corporate loans demonstrated a textbook reaction to the 100 basis point reference rate cut. The yield on newly originated corporate loans declined by 102 basis points, while the yield on the existing stock of corporate loans dropped by 83 basis points.

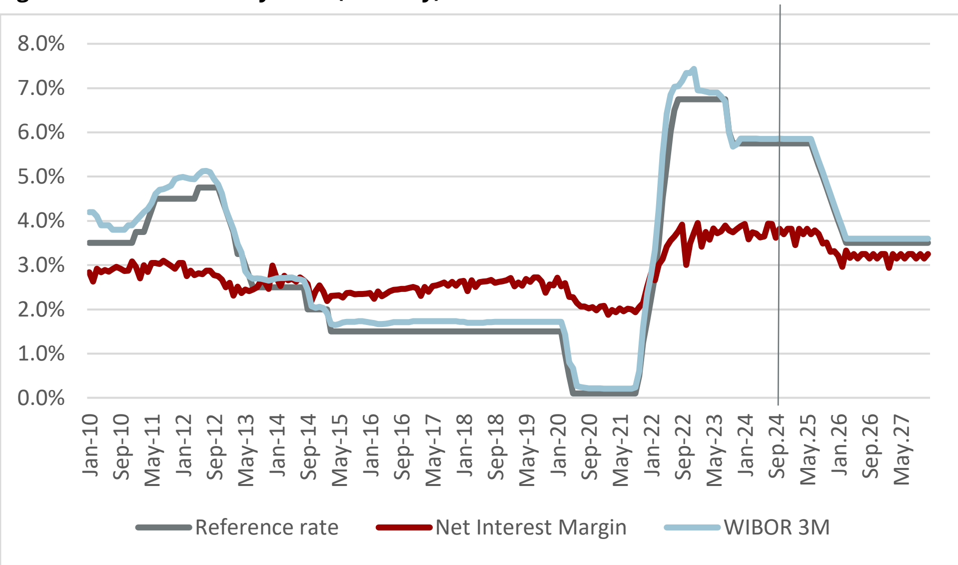
In the case of consumer loans, despite the inherent volatility in the Annual Percentage Rate (APR, Polish RRSO), we observed a year-on-year decline of 186 basis points in the APR. Interestingly, this occurred despite a 60 basis point increase in the nominal interest rates on these loans. This discrepancy may be attributed to banks addressing the risk of Free Credit Sanction by adjusting their pricing strategies.

Our Valuation Assumes 225bps Rate Cuts Between July 2025 and March 2026

Our valuation model assumes that the Monetary Policy Council (MPC) will restart rate cuts in July 2025 and continue easing until March 2026. Under this scenario, the reference rate would decrease by 225 basis points, from the current 5.75% to 3.50% by the second quarter of 2026.

We also assume that the WIBOR rate will stabilize at 3.7%, aligning with the lower reference rate, while the yield on fixed-income portfolios is expected to gradually decline toward 4.0%.

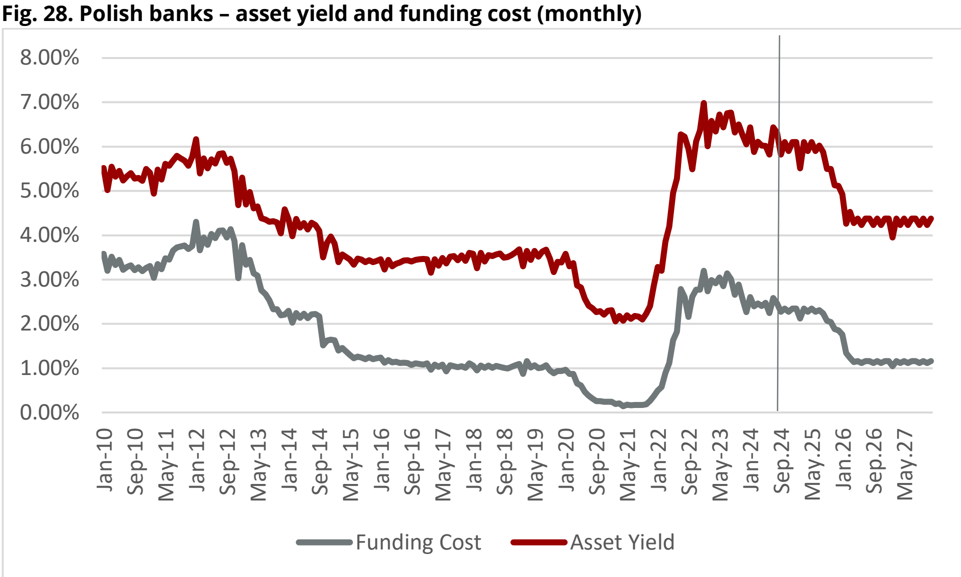
Fig. 27. Polish banks – key rates (monthly)



Source: NBP, KNF, Santander Brokerage Poland

We assume that Polish banks will continue to improve their NIM quarter-on-quarter until Q2 2025, after which the anticipated rate cuts could begin to exert downward pressure.

Fig. 28. Polish banks – asset yield and funding cost (monthly)



Source: KNF, Santander Brokerage Poland

Fig. 29. Polish banks – combined earnings

Profit & Loss (PLN bn)	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E
Net Interest Income	46.2	49.2	47.2	46.6	82.0	98.4	106.6	109.5	102.2	107.6
Interest revenue	*62.4*	*66.1*	*57.1*	*51.1*	*125.3*	*169.3*	*172.5*	*173.3*	*139.9*	*144.8*
Interest cost	*-16.2*	*-16.9*	*-9.9*	*-4.5*	*-43.3*	*-70.9*	*-65.9*	*-63.8*	*-37.7*	*-37.2*
Fees & Commissions	12.6	13.3	14.8	17.1	18.5	18.7	19.6	19.8	20.3	20.7
Trading and other	8.4	8.3	6.5	4.8	-1.4	-8.1	4.6	3.0	7.2	7.2
Total revenue	**67.2**	**70.8**	**68.5**	**68.5**	**82.9**	**109.7**	**129.8**	**132.3**	**129.7**	**135.6**
Personnel Costs	-17.6	-17.8	-17.5	-18.3	-20.4	-24.9	-28.6	-30.9	-31.8	-32.7
General Expenses	-17.3	-17.1	-17.2	-17.1	-20.9	-21.6	-21.7	-23.0	-24.4	-25.9
D&A	-3.0	-4.4	-4.6	-4.6	-4.6	-5.0	-5.3	-5.6	-5.8	-6.0
Total costs	**-37.9**	**-39.3**	**-39.2**	**-40.1**	**-45.9**	**-51.5**	-55.6	-59.4	-62.0	-64.6
Operating income	**29.4**	**31.6**	**29.2**	**28.4**	**37.0**	**58.2**	**74.2**	**72.8**	**67.7**	**71.0**
Risk provisions	**-10.0**	**-11.2**	**-16.9**	**-13.3**	**-15.6**	**-17.0**	**-18.3**	**-13.4**	**-14.0**	**-14.8**
Pretax Income	**19.4**	**20.4**	**12.4**	**15.1**	**17.5**	**41.9**	**54.9**	**59.4**	**53.7**	**56.1**
Tax	-4.8	-5.6	-4.6	-6.1	-8.4	-14.0	-13.7	-14.7	-13.6	-14.1
Net Income	**14.5**	**14.7**	**7.4**	**8.8**	**12.5**	**27.9**	**41.3**	**44.8**	**40.0**	**42.1**

Balance Sheet (PLN bn)		2018	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E
Interest earning assets	1,019	1,826	1,927	2,184	2,359	2,496	2,725	2,947	3,110	3,282	3,464
Interest bearing liabilities	766	1,629	1,727	2,036	2,244	2,376	2,609	2,857	3,016	3,182	3,359
Net client lending	657	1,166	1,214	1,230	1,280	1,274	1,247	1,307	1,371	1,441	1,530
Securities portfolio	225	415	458	695	741	807	1,006	1,076	1,116	1,157	1,199
Customer deposits	658	1,245	1,358	1,559	1,733	1,841	2,001	2,190	2,382	2,586	2,762
Total assets	1,057	1,896	2,001	2,356	2,573	2,741	3,009	3,274	3,456	3,647	3,849
Equity	104	206	210	228	202	204	257	281	308	332	357

Key Ratios (%)	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E
Net Interest Margin	2.60%	2.62%	2.30%	2.05%	3.38%	3.77%	3.76%	3.62%	3.20%	3.19%
Asset Yield	3.52%	3.52%	2.78%	2.25%	5.16%	6.49%	6.08%	5.72%	4.38%	4.29%
Funding Cost	1.03%	1.01%	0.53%	0.21%	1.88%	2.85%	2.41%	2.17%	1.22%	1.14%
Cost to Income	56%	55%	57%	59%	55%	47%	43%	45%	48%	48%
Cost of risk	0.89%	0.94%	1.38%	1.06%	1.22%	1.35%	1.43%	1.00%	1.00%	1.00%
Loans to deposits ratio	94%	89%	79%	74%	69%	62%	60%	58%	56%	55%
CAR	19.1%	19.1%	21.0%	19.2%	18.9%	23.8%	0.0%	0.0%	0.0%	0.0%
Core Tier 1	17.2%	17.0%	18.8%	17.3%	17.0%	20.1%	0.0%	0.0%	0.0%	0.0%
ROA	0.79%	0.75%	0.34%	0.36%	0.47%	0.97%	1.31%	1.33%	1.13%	1.12%
ROE	**7.6%**	**7.5%**	**3.4%**	**4.3%**	**6.0%**	**12.1%**	**15.3%**	**15.2%**	**12.5%**	**12.2%**

Source: KNF, Santander Brokerage Poland estimates

Polish banks are projected to achieve returns on equity (ROE) exceeding their cost of equity between 2024 and 2027, despite challenges such as provisions for Swiss franc (CHF) loans, increased contributions to the Bank Guarantee Fund (BFG), and the necessity to bolster corporate provisioning.

Loans up 3% Y/Y as of September 2024

Year-to-date, corporate loans have grown by only 4%, which is a significant disappointment compared to expectations driven by the KPO (National Recovery Plan). Retail loans have also seen modest growth, increasing by 2% year-on-year. Unsecured retail loans have remained relatively stable, up 3% year-on-year, despite double-digit growth in originations.

The primary driver of loan growth continues to be mortgages denominated in Polish zloty, which have risen by 9% year-on-year.

Fig. 30. Loans and deposits in the Polish banking sector, as of Sep'24, PLN bn

Loans, PLN bn	Sep'24, eop, PLN bn	y/y	ytd	y/y (PLN bn)	2019 growth	2020 growth	2021 growth	2022 growth	2023 growth
Total loans, incl.:	**1,393**	**3%**	**4%**	**40**	**5%**	**0%**	**5%**	**1%**	**0%**
Retail loans, incl.:	**787**	**2%**	**3%**	**17**	**6%**	**3%**	**5%**	**-4%**	**-1%**
Mortgage loans, incl.:	506	2%	2%	8	7%	7%	7%	-3%	-4%
Mortgage in PLN	*444*	*9%*	*6%*	*35*	*12%*	*10%*	*12%*	*-2%*	*2%*
Mortgage in FX	*63*	*-30%*	*-18%*	*-27*	*-6%*	*0%*	*-8%*	*-8%*	*-25%*
Unsecured retail loans	281	3%	3%	9	5%	-4%	1%	-5%	3%
Consumer loans	*207*	*5%*	*5%*	*10*	*8%*	*-2%*	*2%*	*-3%*	*2%*
Self-Employed	*49*	*3%*	*-2%*	*1*	*4%*	*-7%*	*-1%*	*-7%*	*13%*
Investment retail loans	*16*	*-16%*	*-12%*	*-3*	*-10%*	*-8%*	*-3%*	*-17%*	*-12%*
Other retail loans	*9*	*6%*	*10%*	*0*	*-6%*	*-10%*	*1%*	*-13%*	*5%*
Corporate loans total, incl:	**605**	**4%**	**6%**	**23**	**4%**	**-4%**	**6%**	**10%**	**2%**
Revolving	*165*	3%	7%	*5*	3%	-15%	14%	13%	-3%
Investment	*155*	2%	2%	*3*	6%	3%	0%	8%	4%
Mortgage	*61*	-3%	1%	*-2*	-2%	3%	-6%	5%	-6%
Financial institutions	*154*	16%	8%	*21*	14%	-2%	18%	23%	22%
Other	*71*	-6%	17%	*-5*	-1%	-2%	-1%	-7%	-18%

Deposits, PLN bn	Sep'24, eop, PLN bn	y/y	ytd	y/y (PLN bn)	2019 growth	2020 growth	2021 growth	2022 growth	2023 growth
Total deposits	**1,985**	**6%**	**4%**	**110**	**9%**	**12%**	**9%**	**6%**	**10%**
current	*1,363*	9%	4%	*110*	15%	30%	14%	-11%	7%
term	*622*	0%	5%	*0*	-3%	-27%	-12%	91%	16%
Retail deposits	**1,291**	**9%**	**6%**	**101**	**10%**	**11%**	**7%**	**3%**	**11%**
current	*903*	11%	8%	*91*	15%	30%	14%	-14%	8%
term	*388*	3%	2%	*10*	0%	-29%	-22%	95%	19%
Corporate deposits	**491**	**-2%**	**-3%**	**-8**	**10%**	**19%**	**10%**	**12%**	**9%**
current	*326*	-1%	-8%	*-4*	17%	33%	9%	-5%	9%
term	*164*	-3%	8%	*-4*	-5%	-21%	15%	84%	9%
Municipalities	**94**	**22%**	**39%**	**17**	**5%**	**18%**	**36%**	**2%**	**-13%**
current	*61*	19%	4%	*10*	37%	19%	36%	-10%	-8%
term	*33*	28%	256%	*7*	-71%	9%	38%	153%	-36%
Financial institutions & other	**109**	**0%**	**-6%**	**0**	**-5%**	**0%**	**9%**	**12%**	**16%**
current	*72*	23%	11%	*14*	-11%	23%	18%	-8%	8%
term	*37*	-27%	-27%	*-13*	3%	-29%	-12%	70%	30%

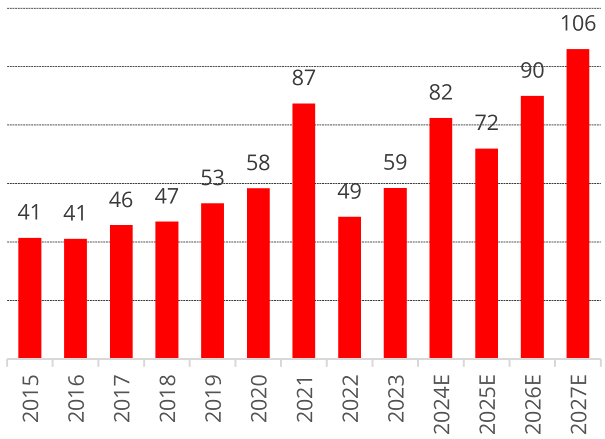
Source: NBP, Santander Brokerage Poland estimates

Loan growth

Our valuations assume 6% CAGR of loans in the next three years.

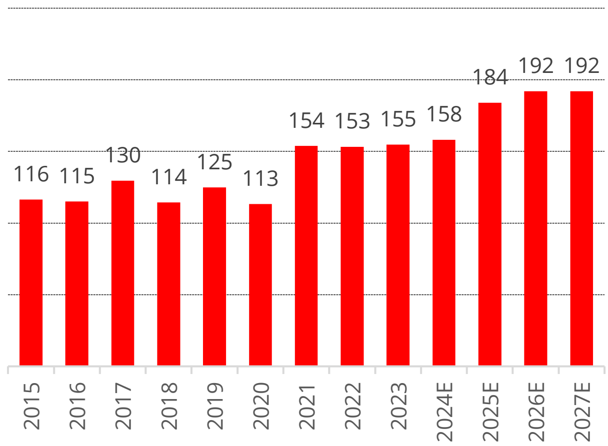
We assume that mortgage originations should slow down in 2025 mostly because of no support from BK2% scheme. We also assume that there will be some time between rate cuts and an increase in mortgage demand.

Fig. 31. Mortgage originations, PLN bn



Source: NBP, Santander Brokerage Poland

Fig. 32. Corporate loans originations, PLN bn

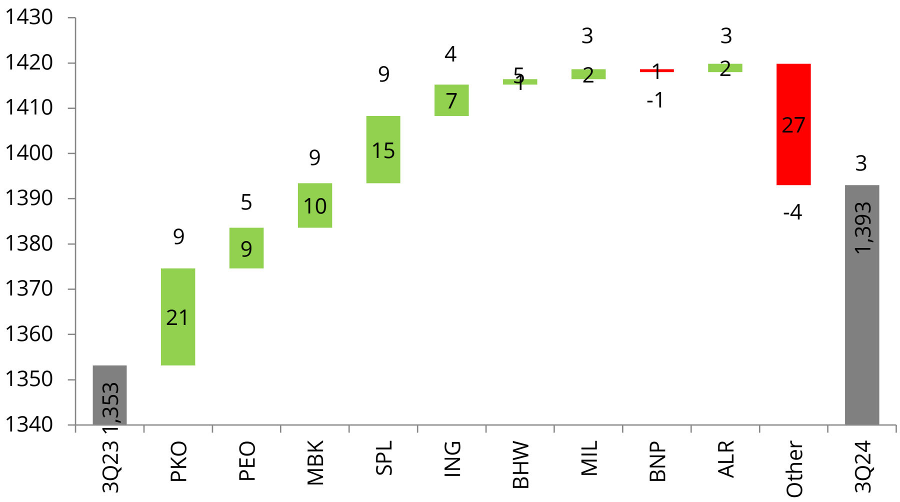


Source: NBP, Santander Brokerage Poland

Loan growth in the most recent quarters was driven by mortgages and reverse repos. PKO has been the new growth leader. We note that the growth leaders from two years ago – BNP and ING are growing similar to peers.

BNP remains the only bank in our coverage that is reporting declining PLN mortgage portfolio. ING is growing visibly slower in the corporate segment.

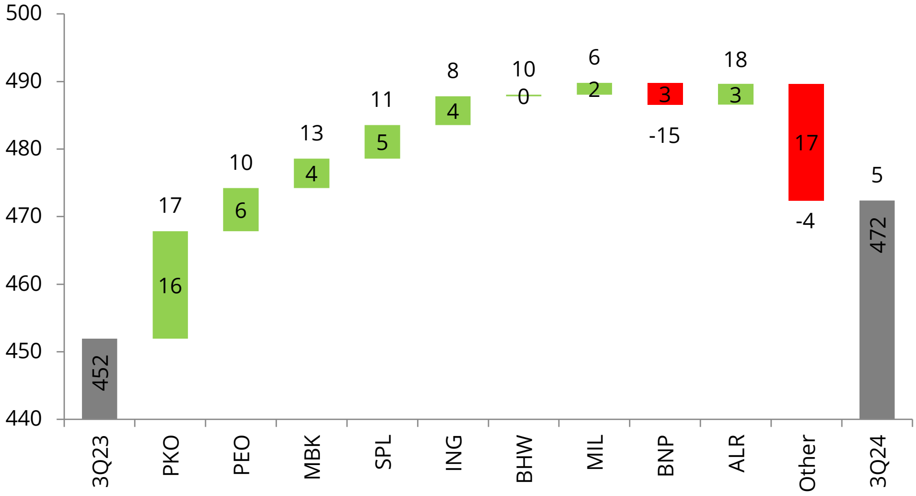
Fig. 33. Total loan growth in Poland by banks, PLN bn, the data below exclude CHF-mortgages



Source: Company data, Santander Brokerage Poland

PKO and Alior Bank (ALR) have demonstrated the fastest growth in the mortgage segment, benefiting significantly from strong support provided by the government-sponsored scheme. In contrast, BNP is the only bank within our coverage to report negative mortgage growth, with its mortgage balance sheet contracting by 15% year-on-year.

Fig. 34. Mortgage loan growth in Poland by banks, PLN bn; the data below exclude CHF-mortgages



Source: Company data, Santander Brokerage Poland

In the mortgage market, PKO Bank Polski (PKO BP) and Bank Pekao (PEO) continue to hold dominant positions. PKO BP, in particular, has achieved a record level of mortgage sales, reaching nearly PLN22bn in 2023 and PLN29bn in the last four quarters, which translates to a market share of approximately 36%.

Alior Bank has also shown significant activity in the mortgage sector compared to pre-COVID levels. In the last four quarters of 2024, Alior Bank's mortgage loan sales almost quadrupled to PLN6.4bn, supported by the Safe Credit 2% scheme (Bezpieczny Kredyt 2%).

The Safe Credit 2% scheme, introduced by the Polish government, has played a pivotal role in boosting mortgage originations across these banks. This initiative offered a fixed interest rate of 2% for the first 10 years. According to data from the Credit Information Bureau (BIK), as of January 25, 2024, banks participating in the "Safe Credit 2%" program have granted a total of 66,800 mortgage loans to consumers, amounting to PLN 27.2bn. The average loan amount was PLN 406,000, and the average age of individuals utilizing the support under this program was 30 years.

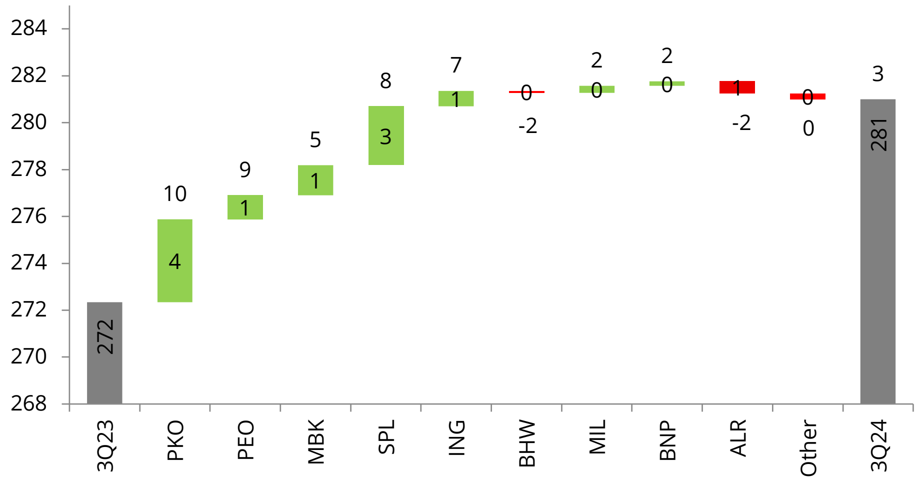
Fig. 35. Mortgage loan originations, PLN million

	2019	2020	2021	2022	2023	L12M 3Q24	y/y	vs 2019
PKO	15,700	12,400	14,646	10,806	12,385	28,507	130%	82%
PEO	9,676	8,181	10,271	5,389	5,961	15,057	153%	56%
MBK	7,284	8,210	12,401	8,869	3,137	6,887	120%	-5%
SPL	6,397	5,288	7,667	9,664	5,407	12,315	128%	93%
ING	10,127	10,891	16,316	10,393	6,166	11,352	84%	12%
BHW	443	528	498	405	313	568	81%	28%
MIL	3,923	5,820	9,196	8,420	4,109	6,249	52%	59%
BNP	4,051	5,590	6,210	4,792	205	509	148%	-87%
ALR	1,700	2,570	3,456	2,650	2,343	6,373	172%	275%
Sum	59,301	59,478	80,662	61,387	40,026	87,817	119%	48%

Source: Company data, Santander Brokerage Poland

Non-mortgage retail loans have started to grow again. 3Q24 y/y growth was at 3% after the period of three years of no nominal growth.

Fig. 36. Non-mortgage retail loan growth in Poland by bank, PLN bn



Source: Company data, Santander Brokerage Poland

Originations of consumer loans are on the rise, and we anticipate that 2024 originations will surpass pre-COVID levels after four years of lower activity. However, this increase is not significantly boosting balance sheet volumes, as a portion of new originations involves the rollover of existing contracts to mitigate the risk of free credit sanctions.

Similar to the mortgage segment, PKO BP continues to dominate the market. In contrast, trends in both mortgage and non-mortgage originations at Alior Bank highlight that the institution is undergoing more significant structural changes in its balance sheet compared to its peers.

Fig. 37. Consumer loan originations, PLN million

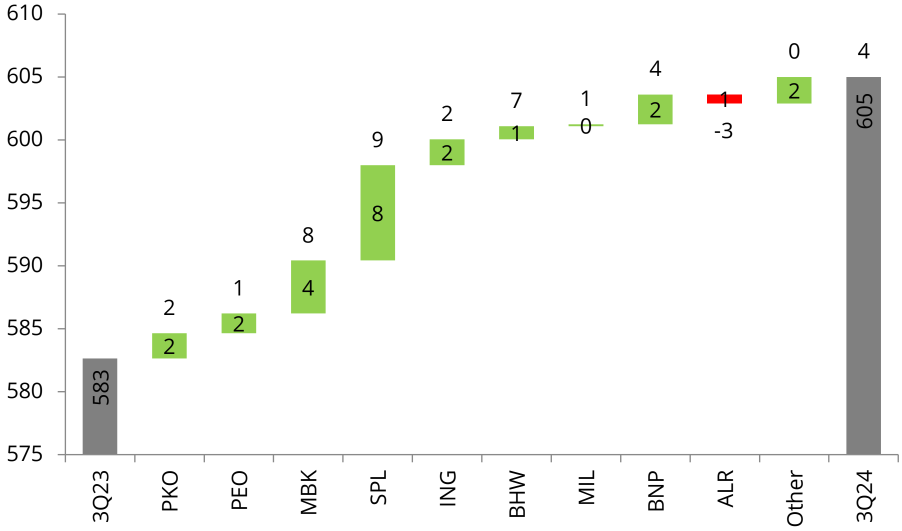
	2019	2020	2021	2022	2023	L12M 3Q24	y/y	vs 2019
PKO	16,200	12,500	14,424	14,776	16,880	19,872	18%	23%
PEO	6,801	3,969	4,303	4,892	5,410	6,437	19%	-5%
MBK	9,870	8,033	9,164	10,038	8,222	10,073	23%	2%
SPL	7,637	6,856	6,691	8,897	9,542	10,352	8%	36%
ING	5,883	3,516	4,728	4,213	4,503	5,292	18%	-10%
BHW	920	968	738	627	707	863	22%	-6%
MIL	3,919	4,593	5,321	5,356	6,201	6,635	7%	69%
BNP	3,260	2,722	3,409	3,482	3,244	3,723	15%	14%
ALR	9,894	5,060	5,710	5,261	6,111	5,620	-8%	-43%
Sum	64,383	48,217	54,487	57,542	60,820	68,868	13%	7%

Source: Company data, Santander Brokerage Poland

Corporate loans have emerged as the biggest disappointment of 2024. Despite the availability of EUR 59.8 billion from the KPO funds (including EUR 25.3 billion in grants and EUR 34.5 billion in preferential loans) to be utilized by August 31, 2026, these resources have failed to significantly drive corporate loan growth in Poland.

Total corporate loans in Poland rose by only 4% year-on-year, reaching PLN605 billion (EUR139.8 billion). Moreover, a portion of this growth was influenced by an increase in reverse repo transactions reported at the month's end, following changes in their treatment for banking tax purposes.

Fig. 38. Corporate loan growth in Poland by bank, PLN million

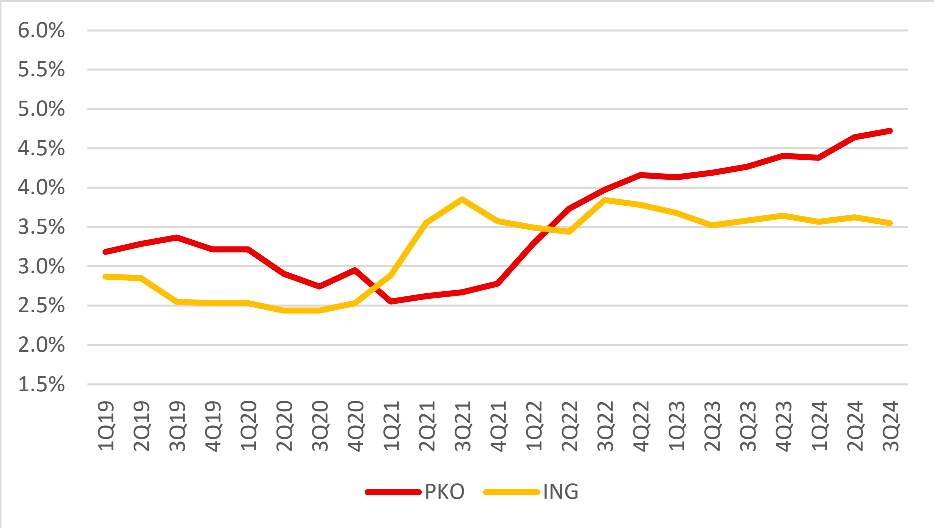


Source: Company data, Santander Brokerage Poland.

NIM – Hedging Remains Crucial

In 3Q24, PKO BP reported a Net Interest Margin (NIM) of 4.7%, marking a 0.4 percentage point increase compared to the previous year. Once again, the lowest quarterly NIM was recorded by ING Bank Śląski at 3.6%, down 0.2 percentage points year-on-year. PKO BP's NIM appears to be improving steadily at a robust pace, while ING's NIM has remained relatively flat over the past three years.

Fig. 39. Quarterly NIM

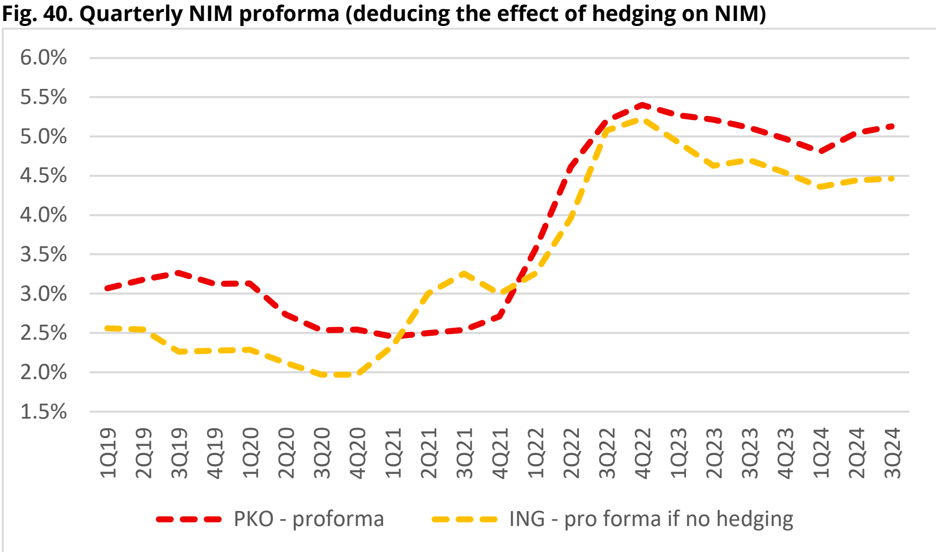


Source: Company data, Santander Brokerage Poland

However, a different conclusion emerges when the figures are adjusted to exclude hedging costs. Under this adjustment, PKO BP and ING Bank Śląski show more similar NIM dynamics, with the differences between the two narrowing significantly.

The comparison above highlights the substantial impact of hedging costs on reported margins and underscores the importance of considering these adjustments for a more accurate comparison.

Fig. 40. Quarterly NIM proforma (deducing the effect of hedging on NIM)



Source: Company data, Santander Brokerage Poland

The other important driver of Net Interest Income growth is the dynamics in average Interest Earning Assets (loans, but also bonds and bills). Apart from Alior, all banks in our coverage delivered NII growth of between 43%-65% of average Interest Earning Assets.

Fig. 41. NII in local currency units (million),

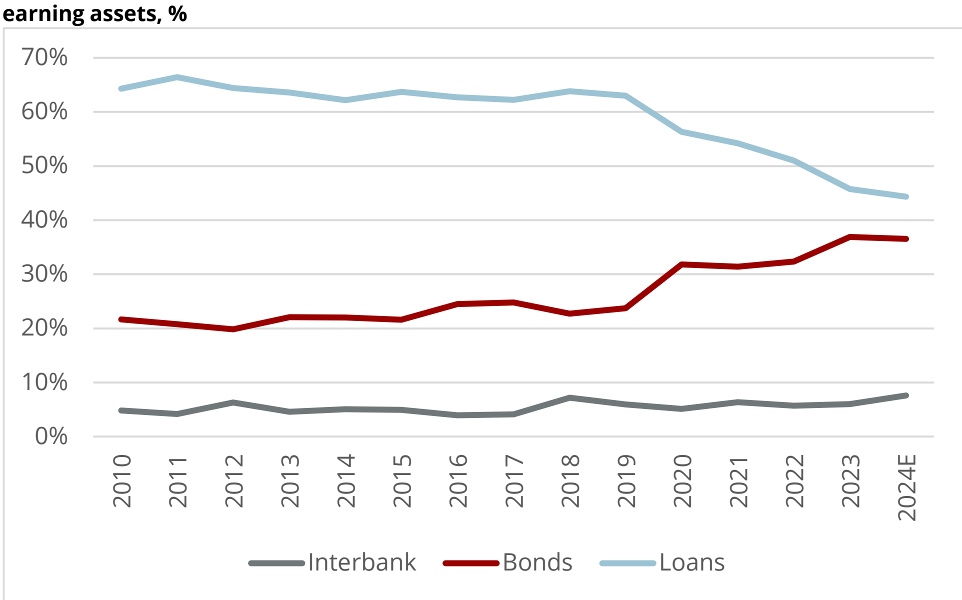
NII	2019	LTM 3Q24	% change	IEA growth
PKO	10,279	21,538	110%	50%
PEO	5,468	12,638	131%	61%
MBK	4,003	9,578	139%	49%
SPL	6,580	13,676	108%	31%
ING	4,294	8,780	104%	65%
BHW	1,154	3,208	178%	46%
MIL	2,499	5,475	119%	43%
BNP	3,169	5,723	81%	47%
ALR	3,181	5,223	64%	20%
Sum	40,627	85,840	111%	48%

Source: Company data, Santander Brokerage Poland

We estimate that the doubling of sector Net Interest Income (NII) over the last five years (since pre-COVID) was driven by a combination of balance sheet expansion (47%) and cyclical margin improvement (53%).

The cyclicality of margins and their dependence on market rates remain critical factors. However, estimating the sensitivity of NII to changes in reference rates has become increasingly complex. Firstly, the specifics of banks' hedging positions are not disclosed. Secondly, the longer end of the yield curve now plays a much more significant role. The guidance provided by banks typically reflects the impact of a parallel shift in the interest rate curve, but this is based on varying assumptions about deposit base repricing.

Fig. 42. Historical development of the share of loans, bonds and interbank in sector interest earning assets, %



Source: KNF, Santander Brokerage Poland

As noted earlier, banks managed to improve their Net Interest Margin (NIM) year-on-year in 3Q24, despite a 100 bps rate cut at the end of 2023, defying the sensitivity estimates provided by the banks themselves. The most surprising factor was the unexpected deposit repricing. Additional positive contributors were bond rollovers at higher yields and the expiration of loss-making hedging contracts.

Below, we present the assumptions embedded in our valuation models regarding the immediate impact of a 100 bps rate cut on banks' earnings.

Fig. 43. Immediate impact of 100bps on banks' earnings

	Recurrent net income sensitivity to 100bps rate cut	Reported 2024E net income sensitivity to 100bps rate cut	NII sensitivity to 100 bps	Net Income 2024E (adjusted)	Net Income 2024E (reported)
PKO	5%	7%	850	13,831	9,377
PEO	9%	9%	800	7,090	6,901
MBK	7%	18%	450	5,541	2,056
ING	5%	5%	240	4,149	4,127
BHW	10%	11%	250	2,063	1,906
MIL	9%	41%	350	2,986	686
BNP	7%	8%	240	2,649	2,478
ALR	10%	10%	300	2,435	2,435

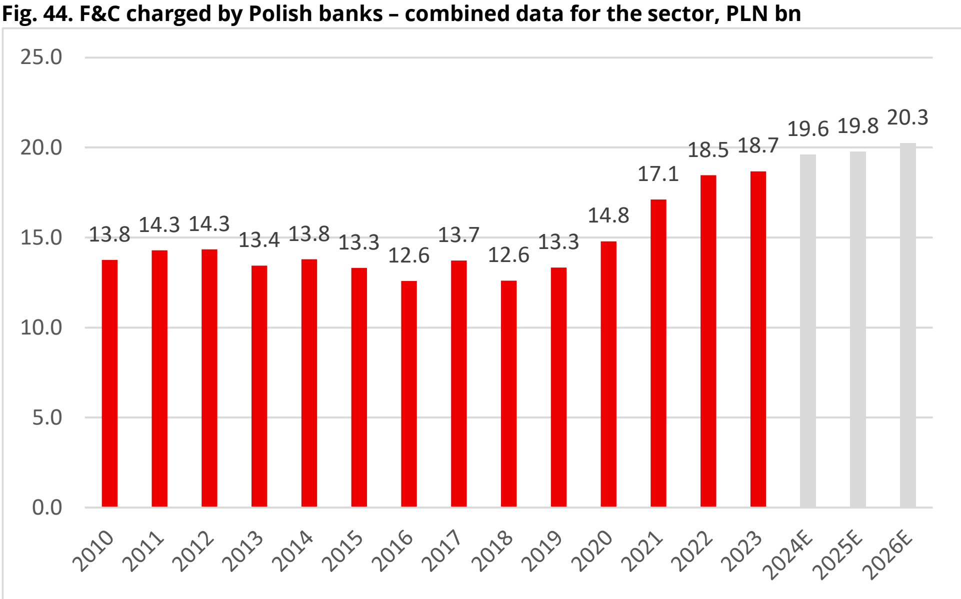
Source: Company data, Santander Brokerage Poland.

Overall, we estimate a 7% reduction in sector net income for every 100 bps rate cut. Our assumptions differ from bank-provided guidelines, as we expect lower sensitivity than guided for mBank and BNP, and higher sensitivity for Alior Bank and Bank Handlowy.

Fees and Commissions – Stabilization After Repricing

A decade of flat Fees and Commissions (F&C) revenue, driven by restrictive regulations, was followed by dynamic growth between 2019 and 2022, fueled by the low-interest-rate environment during the onset of COVID-19. Over the past two years, F&C revenue has stabilized, a trend we expect to persist in the coming years.

Fig. 44. F&C charged by Polish banks – combined data for the sector, PLN bn



Source: KNF, Santander Brokerage Poland

Card fees (+14% y/y) have emerged as a key growth driver, fueled by increased competition between Visa and Mastercard, as well as the sustained rise in client activity. Another rapidly growing category last year was Asset Management and Kick-Backs (+37% y/y), driven by significant inflows into fixed-income mutual funds.

However, we were somewhat surprised by the sluggish growth in FX fees. After years of double-digit increases, the market grew by only 2% last year, marking a notable slowdown.

Fig. 45. Net F&C Y/Y change between the last twelve months ended in Sep'24 and Sep'23, PLN million

	Accounts and payments	Cards	Loans	Insurance	FX	AM & Kick backs	Brokerage	Custody	Other	Total
PKO	90	285	71	12	-13	149	171		-123	642
PEO	-11	-92	3	0	-22	91		4	39	11
MBK	10	18	-31	5	-14	64	8	1	-81	-20
SPL	12	-13	-7	62	93	97	28	0	-5	268
ING	1	92	13	19	6	27	5	2	0	165
BHW	-5	-17	6	3		3	10	7	-6	3
MIL	-5	14	-6	-40		22	1		-1	-15
BNP	-5	34	-31	-1		31			15	44
GNB	0	0	0	0		0			0	0
ALR	7	39	-4	-6	33	0	11	0	10	90
SUM	**94**	**362**	**13**	**55**	**82**	**485**	**233**	**13**	**-150**	**1,187**

Source: Company data, Santander Brokerage Poland

PKO (+12% y/y) and Alior (+11% y/y) have shown the fastest fee growth rates over the past four quarters. PKO experienced robust increases in card fees, Asset Management, and Brokerage, particularly from distributing government bonds to retail clients. Alior's growth was primarily driven by higher card fees and FX fees.

Interestingly, mBank reported a year-on-year decline in fees, despite implementing pricing changes that significantly impacted its NPS. This decline was largely due to rising fee costs, as mBank records compliance-related expenses, such as Know Your Customer (KYC) costs, under this category.

Fig. 46. Net F&C charged by Polish banks in the last twelve months ended in Sep'22, Sep'23 and Sep'24, PLN million

	22LTM	23LTM	24LTM	%	PLN mn
PKO	4,905	5,157	5,799	12%	642
PEO	2,830	2,800	2,811	0%	11
MBK	2,165	1,939	1,919	-1%	-20
SPL	2,588	2,626	2,894	10%	268
ING	2,059	2,122	2,286	8%	165
BHW	608	566	569	1%	3
MIL	821	794	779	-2%	-15
BNP	1,177	1,181	1,225	4%	44
ALR	829	780	870	11%	90
SUM	**17,982**	**17,966**	**19,152**	**7%**	**1,187**

Source: Company data, Santander Brokerage Poland

Accounts and payments grew only 2% y/y. This is the fee category that clients can easily see, therefore we assume no major repricing here soon.

PKO (+36%) and ING (+41%) have reporting stunning growth in cards fees over the last year.

Fig. 47. Net F&C related to accounts and payments and cards, PLN million

	Accounts and payments					Cards				
	22LTM	23LTM	24LTM	%	PLN mn	22LTM	23LTM	24LTM	%	PLN mn
PKO	1,100	1,112	1,118	1,208	8%	90	732	797	1,082	36%
PEO	640	721	523	512	-2%	-11	283	335	243	-27%
MBK	498	590	510	520	2%	10	319	357	375	5%
SPL	558	606	563	575	2%	12	408	425	412	-3%
ING	468	508	477	478	0%	1	206	227	319	41%
BHW	262	232	229	224	-2%	-5	97	95	79	-17%
MIL	190	203	169	164	-3%	-5	164	179	193	8%
BNP	333	365	328	324	-1%	-5	204	245	279	14%
ALR	146	142	116	123	6%	7	22	16	55	247%
SUM		**4,480**	**4,034**	**4,128**	**2%**	**94**	**2,434**	**2,675**	**3,037**	**14%**

Source: Company data, Santander Brokerage Poland

Loan-related fees increased by only +1%, including a modest +3% growth in bancassurance, which is significantly slower than the growth in mortgage originations (+119%) and consumer loan originations (+13%).

Fig. 48. Net F&C related to loans and insurance, PLN million

	Loans					Insurance				
	22LTM	23LTM	24LTM	%	PLN mn	22LTM	23LTM	24LTM	%	PLN mn
PKO	943	1,052	1,123	7%	71	565	776	788	2%	12
PEO	512	589	592	0%	3					
MBK	534	522	491	-6%	-31	137	124	129	4%	5
SPL	397	427	419	-2%	-7	224	249	311	25%	62
ING	497	543	556	2%	13	222	225	244	8%	19
BHW	23	23	30	28%	6	51	43	46	7%	3
MIL	196	196	190	-3%	-6	152	171	131	-23%	-40
BNP	385	401	370	-8%	-31	137	145	144	-1%	-1
ALR	190	211	206	-2%	-4	85	84	78	-7%	-6
SUM	**3,676**	**3,964**	**3,977**	**0%**	**13**	**1,572**	**1,816**	**1,871**	**3%**	**55**

Source: Company data, Santander Brokerage Poland

FX fees grew by just +2% at Polish banks, which appears to be explained by reduced market volatility and a slowdown in trade activity. Import growth is expected to reach only +3.5% in 2024E, while export growth is projected to decline slightly by -0.3% in the same period.

Fig. 49. Net F&C related to FX, PLN million

	FX				
	22LTM	23LTM	24LTM	%	PLN mn
PKO	560	761	763	750	-2%
PEO	573	734	723	701	-3%
MBK	392	495	502	488	-3%
SPL	537	704	751	844	12%
ING	515	672	708	714	1%
BHW					
MIL					
BNP					
ALR	232	327	308	341	11%
SUM	**2,808**	**3,693**	**3,756**	**3,838**	**2%**

Source: Company data, Santander Brokerage Poland

Asset Management fees surged by +37%, driven by strong inflows into fixed-income funds and increased Assets Under Management (AUM) across other fund categories. Brokerage businesses also benefited from higher equity prices year-on-year and increased investment banking activity, contributing to robust performance in this segment. PKO Bank Polski's dominance in the brokerage business, accounting for over half of the sector's revenue, stems from its exclusive role, shared with Bank Pekao, in distributing government bonds to retail investors. This unique position allows PKO to capture a significant portion of the brokerage market, as it facilitates the sale of Treasury bonds through its extensive retail network.

Fig. 50. Net F&C related to asset management, brokerage and custody, PLN million

	AM & Kick backs					Brokerage					Custody				
	22LTM	23LTM	24LTM	%	PLN mn	22LTM	23LTM	24LTM	%	PLN mn	22LTM	23LTM	24LTM	%	PLN mn
PKO	425	371	520	40%	149	311	319	490	54%	171					
PEO	384	422	513	22%	91						48	46	50	9%	4
MBK	118	88	152	72%	64	215	118	126	7%	8	34	30	31	2%	1
SPL	221	204	301	48%	97	122	116	144	24%	28					
ING	72	59	86	47%	27	61	49	54	9%	5	27	24	27	9%	2
BHW	20	21	24	15%	3	62	29	40	35%	10	126	115	122	6%	7
MIL	94	75	97	30%	22	15	10	11	9%	1					
BNP	123	83	114	37%	31										
ALR						51	41	52	27%	11	5	4	4	-11%	0
SUM	**1,457**	**1,322**	**1,806**	**37%**	**485**	**838**	**682**	**916**	**34%**	**233**	**240**	**220**	**233**	**6%**	**13**

Source: Company data, Santander Brokerage Poland

Operating Expenses – BFG Costs and Rising Salaries to Pressure Future Results

Our valuation assumes that BFG (Bank Guarantee Fund) costs will nearly triple in 2025 compared to 2024 levels. Over the past two years, BFG has not required banks to contribute to the deposit insurance scheme, with contributions directed solely to the resolution fund. If payments to the deposit insurance scheme are resumed, it could impose an additional cost of approximately PLN3.0bn on the banking sector.

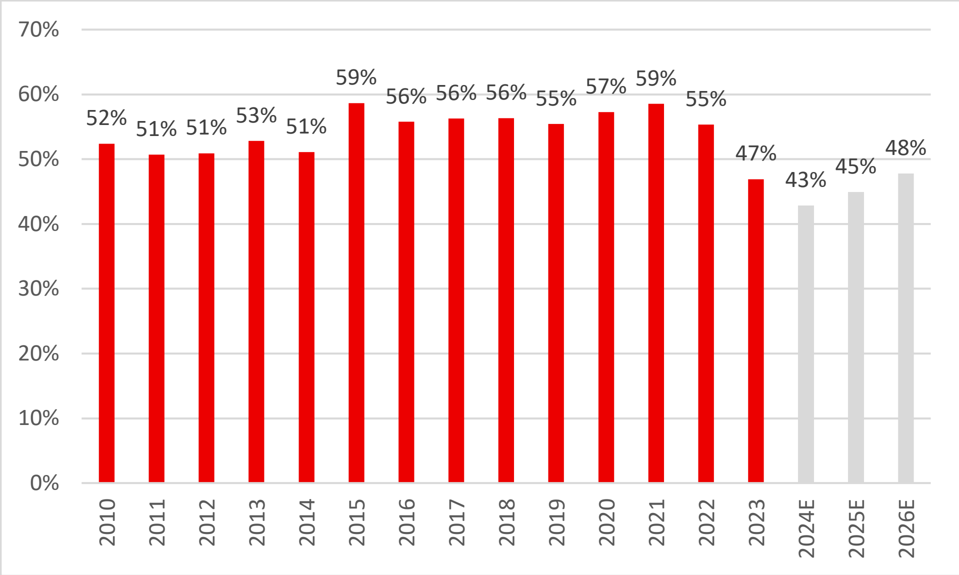
Fig. 51. BFG total cost by banks

PLN mn	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E	2025/2024 (%)	2025/2024 PLN mn
PKO	-401	-428	-509	-668	-476	-737	-280	-272	-911	-934	235	-639
PEO	-269	-265	-455	-341	-246	-447	-192	-239	-544	-546	128	-305
MBK	-180	-180	-256	-298	-227	-247	-182	-147	-354	-357	141	-207
SPL	-211	-203	-283	-411	-263	-265	-175	-250	-439	-432	76	-190
ING	-108	-113	-202	-289	-245	-227	-154	-151	-352	-353	133	-201
BHW	-71	-62	-102	-102	-76	-133	-74	-90	-115	-109	28	-25
MIL	-99	-106	-123	-167	-105	-222	-60	-60	-262	-271	336	-202
ALR	-75	-106	-157	-160	-106	-98	-59	-41	-213	-222	425	-173
BNP	-95	-110	-152	-213	-145	-263	-124	-144	-295	-293	105	-151
Others	-565	-615	-585	-365	-243	-316	-166	-178	-537	-547	202	-359
Sector	**-2,097**	**-2,200**	**-2,791**	**-3,175**	**-2,230**	**-3,701**	**-1,455**	**-1,563**	**-4,407**	**-4,476**	**182**	**-2,844**

Source: Company data, Santander Brokerage Poland

Polish banks successfully improved their cost-to-income (C/I) ratio further in 2024E. Over the past three years, the C/I ratio has improved by an impressive 16 percentage points, despite facing significant inflationary pressures.

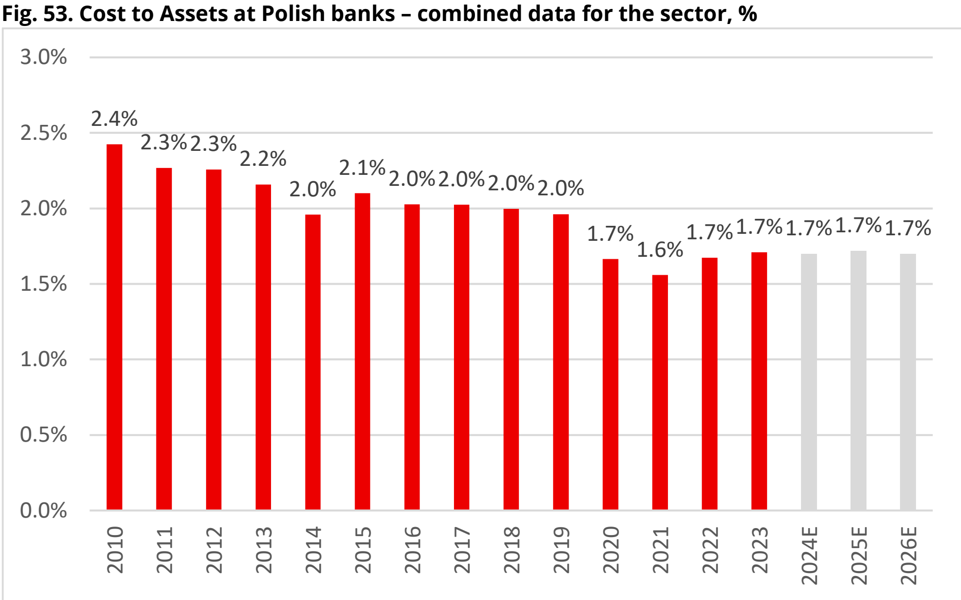
Fig. 52. Cost to Income ratio at Polish banks – combined data for the sector, %



Source: KNF, Santander Brokerage Poland

Banks have successfully maintained a cost-to-asset ratio of 1.7% over the past three years. Looking ahead, we anticipate high single-digit asset growth combined with high single-digit growth in personnel costs. As a result, we expect the cost-to-asset ratio for the sector to remain flat in the coming years.

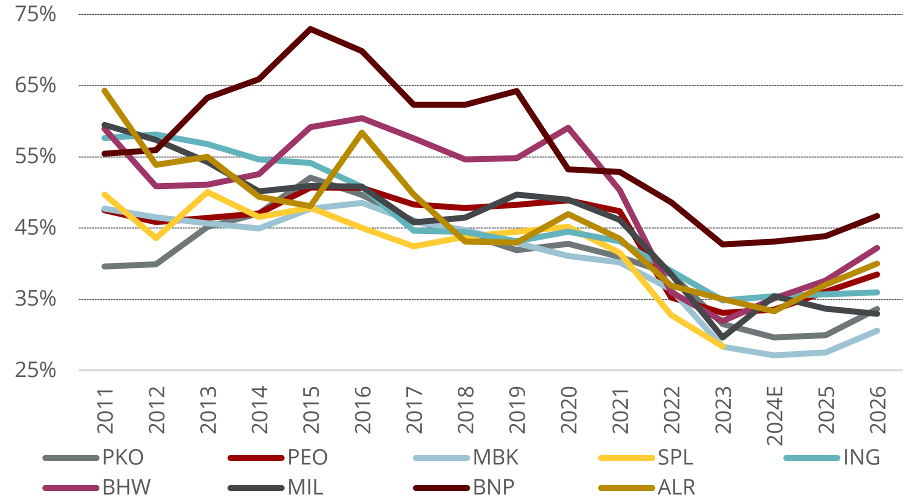
Fig. 53. Cost to Assets at Polish banks – combined data for the sector, %



Source: NBP, Santander Brokerage Poland

Polish banks generally follow similar trends in cost-to-income (C/I) ratios. BNP continues to focus on improving its relatively lower efficiency, while mBank, benefiting from lower cost of the branch network, is expected to remain the efficiency leader in the sector.

Fig. 54. Cost to Income ratios at Polish banks – by banks, %



Source: Company data, Santander Brokerage Poland

Overall, employment at Polish banks remained stable over the past year and is still 7% below pre-COVID levels. ING and BNP, consistent with their announced restructuring plans, continued to reduce their workforce, with both reporting a 4% year-on-year decline in employee numbers.

Fig. 55. Number of employees at Polish banks (FTEs)

	2017	2018	2019	2020	2021	2022	2023	3Q24	y/y	vs'19
PKO	28,424	27,910	27,290	25,814	25,478	25,332	25,336	25,676	1%	-6%
PEO	17,252	16,595	15,588	15,307	14,702	14,687	14,992	15,259	2%	-2%
MBK	6,431	6,626	6,793	6,675	6,906	6,975	7,198	7,432	4%	9%
SPL	14,257	14,419	13,254	11,939	11,327	11,323	11,401	11,412	0%	-14%
ING	8,018	8,067	8,144	8,634	8,488	8,417	8,428	8,213	-4%	1%
BHW	3,442	3,192	3,038	2,954	2,898	2,902	2,961	2,978	1%	-2%
MIL	5,869	7,357	8,284	7,292	6,824	6,804	6,771	6,721	-1%	-19%
BNP	7,583	10,825	9,753	8,804	8,614	8,573	8,329	8,071	-4%	-17%
ALR	8,368	8,285	8,223	7,651	7,251	7,160	7,119	7,235	1%	-12%
Sum	99,644	103,276	100,366	95,070	92,488	92,171	92,534	92,999	0%	-7%

Source: Company data, Santander Brokerage Poland

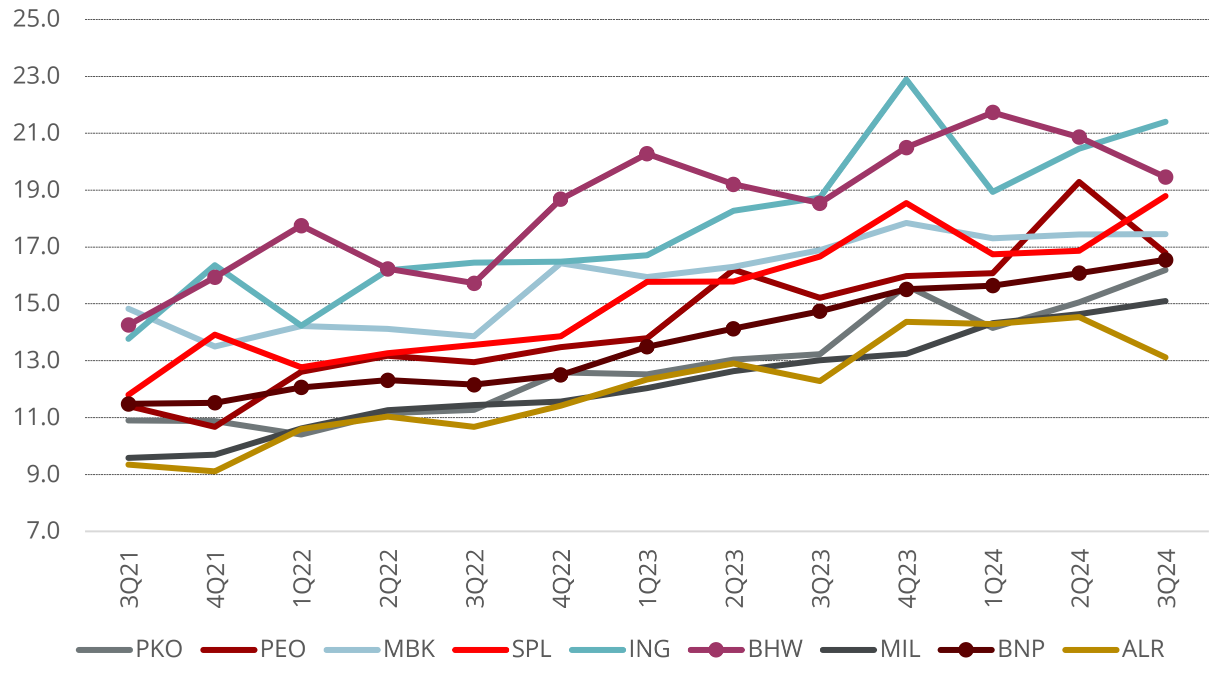
The average salary dynamics in the Polish banking sector generally align closely with those of the broader economy. Over the past five years, the compound annual growth rate (CAGR) of average salaries in Polish banks has been 14.5%, compared to 12.0% in the general economy. However, salary growth in the banking sector may be less sticky than in the broader economy, as a portion of the increase is driven by variable incentive schemes rather than fixed compensation.

Fig. 56. Average salary in Poland and average salary in the Polish banking sector, rebased to 1.0 at Dec'16

Source: KNF, GUS, Santander Brokerage Poland

Our valuation assumes that personnel costs at Polish banks will decelerate to high single-digit growth in the coming years.

Fig. 57. Average monthly salary (employer cost) (PLN '000)



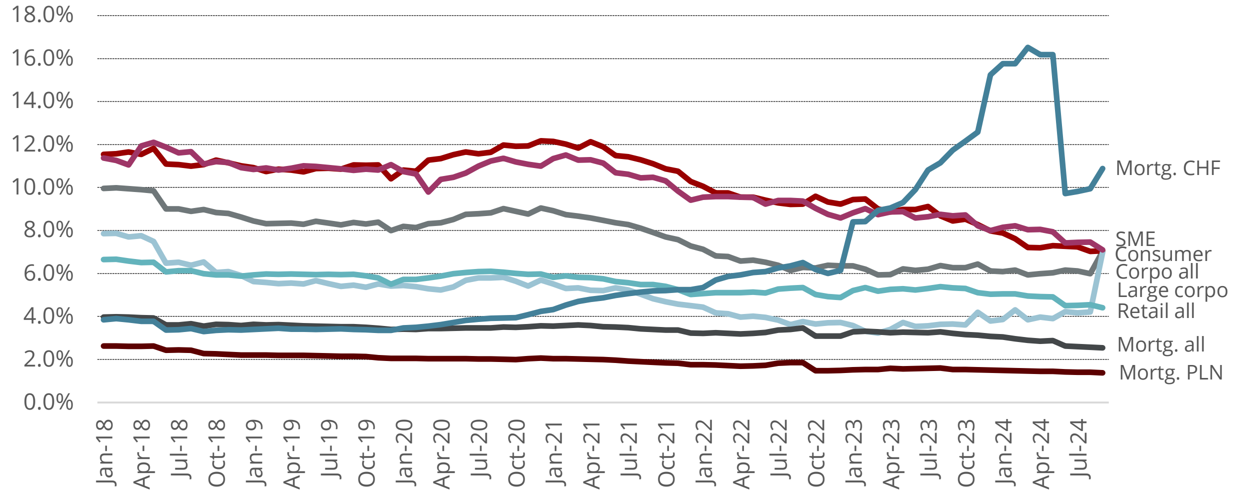
Source: Company data, Santander Brokerage Poland

Cost of risk – improving retail but deterioration in large corpo

We have observed a continued improvement in loan quality among Polish banks over the past several quarters, particularly in retail and SME exposures. However, in the case of large corporate clients, there has been a noticeable deterioration in credit quality recently.

The anomaly in the presentation of non-performing loans (NPLs) in Swiss franc (CHF) mortgages stems from the restatement of the CHF portfolio by Pekao. This adjustment reflects changes in how the portfolio is classified and was implemented by Pekao, bringing its NPL level below 5%.

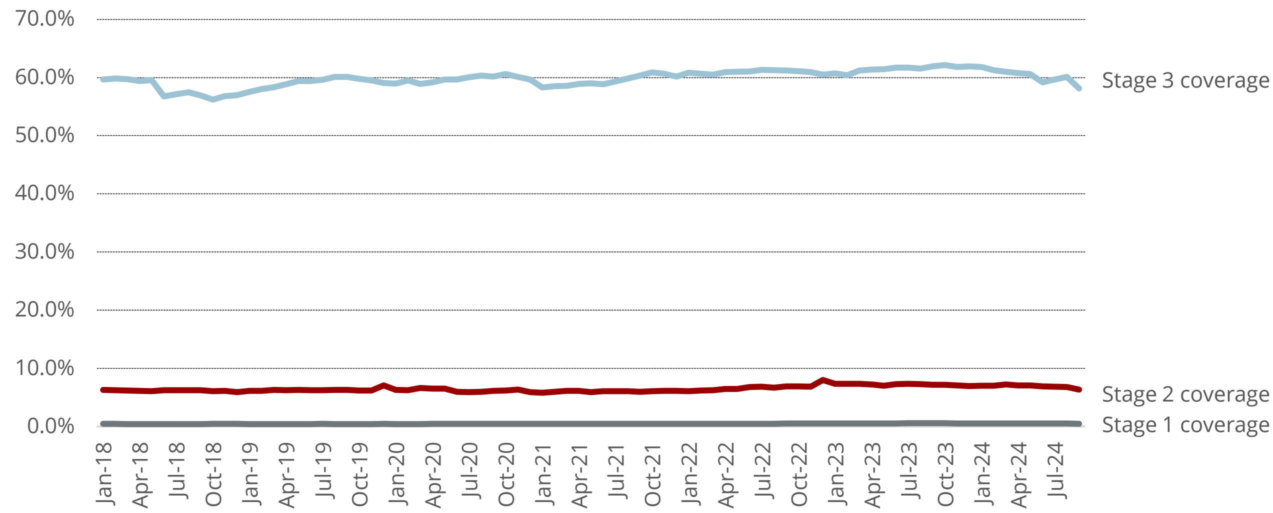
Fig. 38. Loan quality – stage 3 share by loan types



Source: KNF, Santander Brokerage Poland

Simultaneously, the Stage 3 coverage ratio declined to 58.1% as of September 2024. We anticipate that banks will aim to restore this ratio to above 60% in the coming quarters, reflecting efforts to strengthen provisioning for non-performing loans.

Fig. 59. Loan quality – coverage of stage 1,2,3 with risk provisions



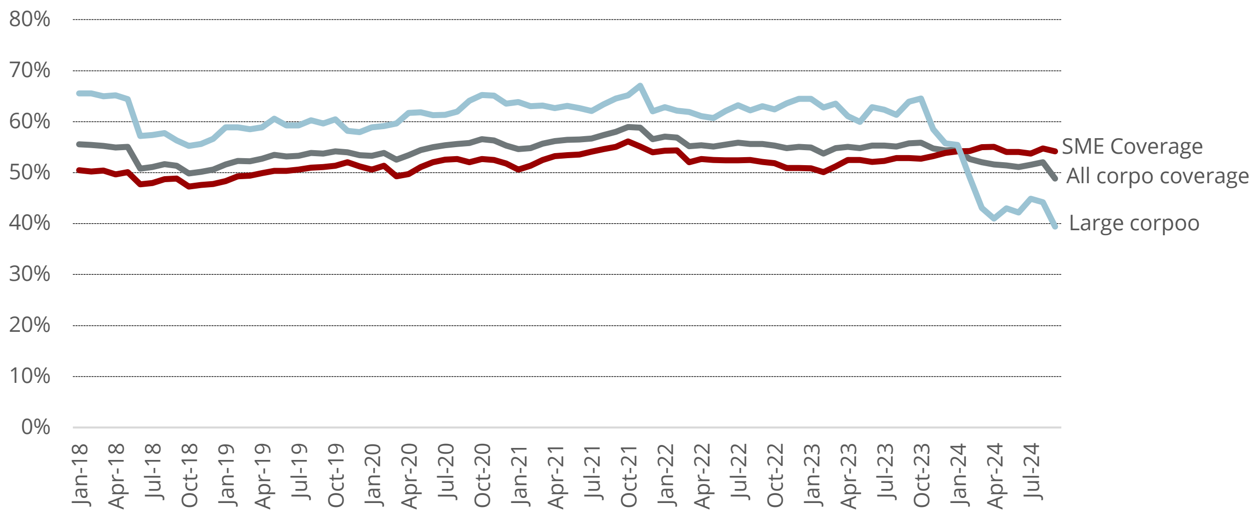
Source: KNF, Santander Brokerage Poland

In 2024, several significant Polish companies initiated restructuring processes, impacting various financial institutions:

- On February 2, 2024, Grupa Azoty S.A. signed an agreement with 13 financial institutions to facilitate the development of a long-term restructuring plan. This agreement was crucial for the financing of the PLN13 billion Polimery Police project. The deadline for concluding the restructuring plan has been extended multiple times, with the most recent extension set to November 29, 2024.
- On June 27, 2024, the management board of PKP Cargo S.A. filed an application to open restructuring proceedings. As of the end of the first quarter of 2024, PKP Cargo reported PLN2.7 billion in banking loans.
- On May 23, 2024, Blue City, one of Warsaw's largest shopping centers, filed a motion to open restructuring proceedings in court. This pertains to a loan amounting to EUR156 million

Banks have already set aside provisions for these exposures. As a result, the Stage 3 coverage ratio in the large corporate segment dropped significantly to 39% in 3Q24, down from 62% a year earlier. We expect these restructuring proceedings to be concluded in the coming quarters, which could potentially lead to further increases in the cost of risk. Restoring the Coverage ratio of 60% for large corporate clients would cost banks PLN1.9bn in risk provisions.

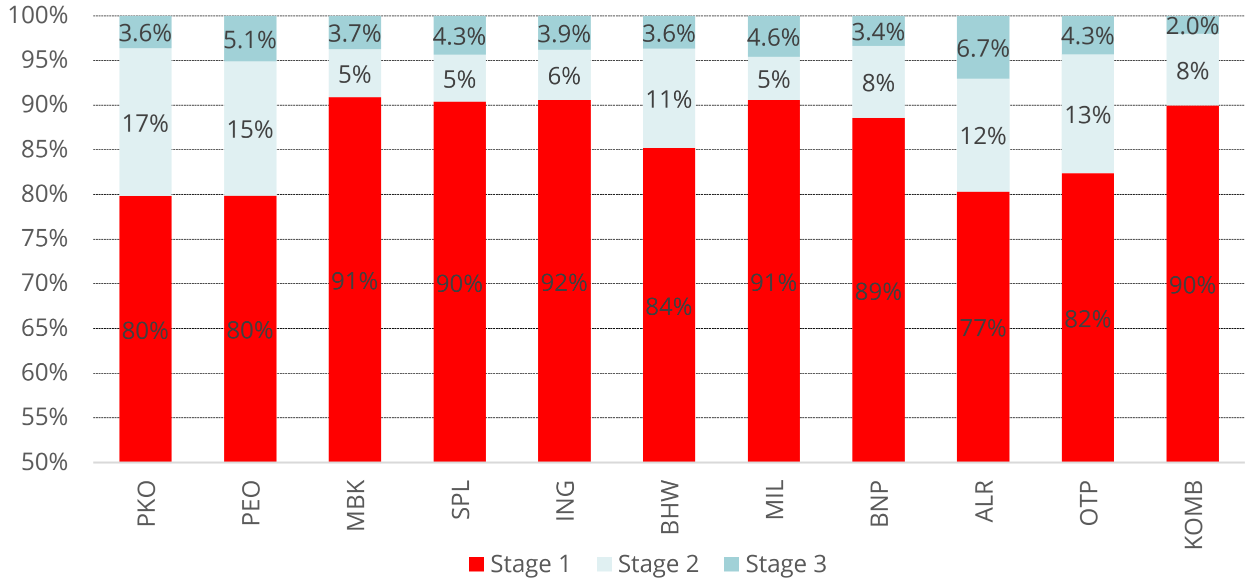
Fig. 60. Loan quality – stage 3 share by loan types



Source: KNF, Santander Brokerage Poland

Achieving a Non-Performing Loan (NPL) ratio below 5% is crucial for meeting the Polish Financial Supervision Authority's (KNF) dividend payout criteria. Our primary assumption for a 75% dividend payout from Bank Pekao's 2024 net income is that the bank will reduce its NPL ratio to below 5% by the end of 2024. This aligns with Bank Pekao's strategic objectives, as the bank has expressed confidence in lowering its NPL ratio to below 5% in 2024, which would potentially enable a return to a 75% dividend payout.

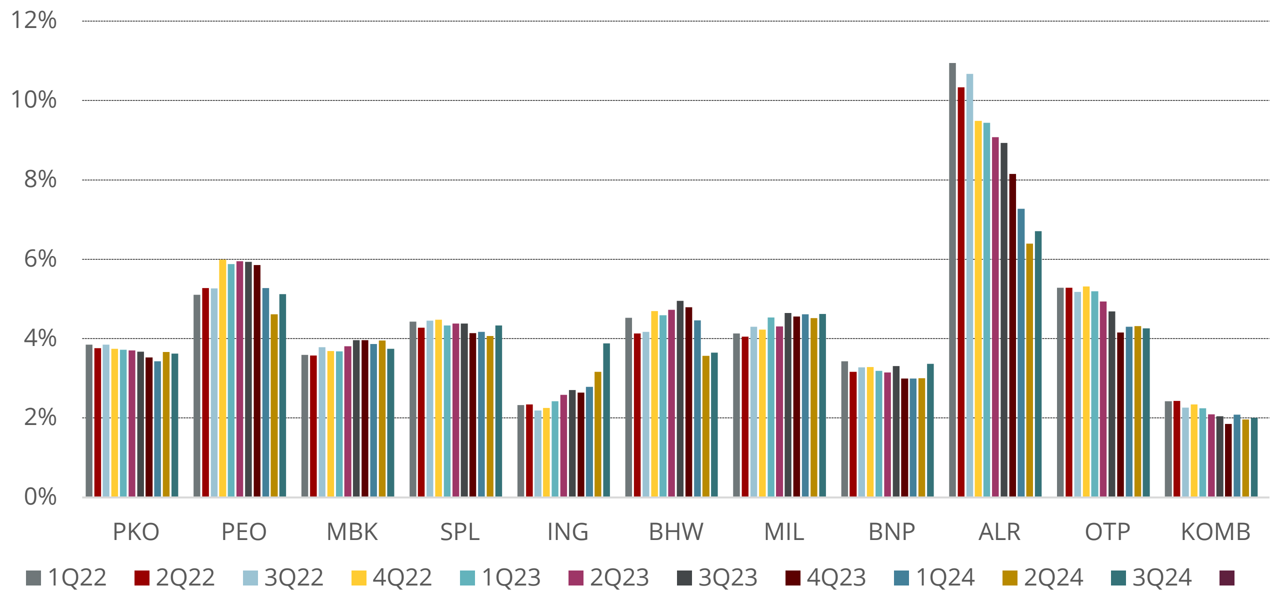
Fig. 61. Poland – loan quality as of Mar'22, %



Source: Company data, Santander Brokerage Poland

The last quarter has generally seen increases in NPL ratios across most of the companies in our coverage.

Fig. 62. Share of non-performing loans (stage 3 loans), %



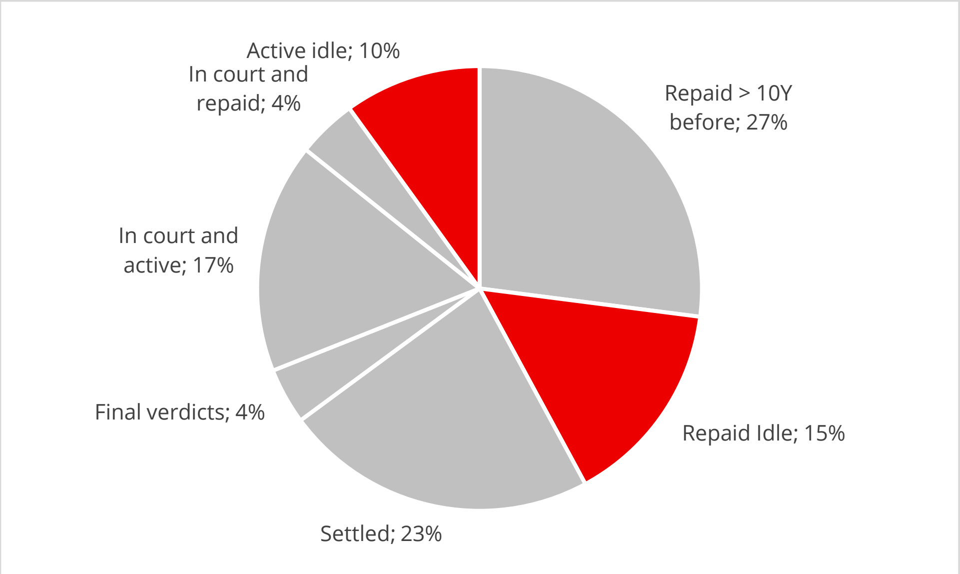
Source: Company data, Santander Brokerage Poland

Cost of CHF saga at PLN60bn and counting…

The legal landscape surrounding Swiss franc (CHF) mortgage disputes has become increasingly clear, with banks now anticipating a 99% probability of losing such court cases. The Court of Justice of the European Union (CJEU) has ruled that banks are not entitled to any interest on capital provided under annulled CHF mortgage contracts. Additionally, the Polish Supreme Court has confirmed that CHF borrowers are entitled to penalty interest from the moment they file a claim or lawsuit.

Given these developments, we estimate that the costs associated with 75% of all granted CHF mortgages can now be projected with a high degree of accuracy, with only a minimal margin of error.

Fig. 63. Status of CHF-mortgages based on 437.1k ever granted CHF mortgages on books of PKO, MBK, MIL, BNP and PEO, %, as of 3Q24



Source: Company data, Santander Brokerage Poland

Based on the status of CHF-mortgage portfolios from PKO, MBK, MIL, BNP, and PEO, we note the following distribution out of the total 437.1k CHF mortgages ever granted:

- 27% were fully repaid more than 10 years ago, and lawsuits are unlikely due to the statute of limitations.
- 23% (99.4k) have been settled.
- 4% (17.8k) have already seen final court verdicts.
- 21% are currently in court:
  - 17% relate to active contracts
  - 4% relate to repaid contracts.

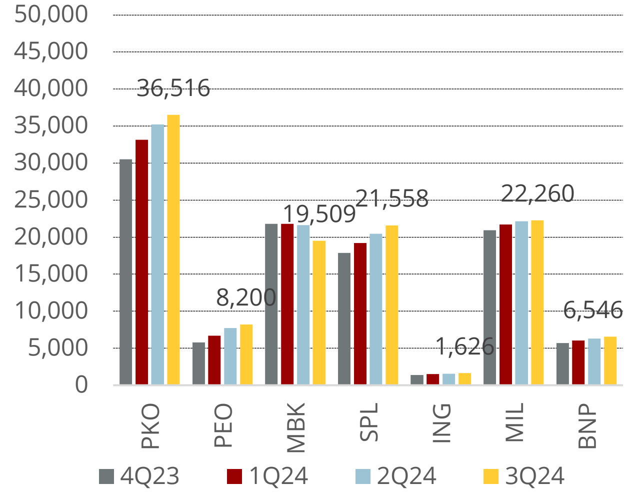
The key uncertainty concerns the behavior of consumers holding the remaining active and recently repaid CHF contracts. These clients may choose to take no action, sue, or accept settlement offers.

As of 3Q23, the breakdown of these remaining contracts is as follows:

- 10% (43.5k) are active idle contracts
- 15% (65.8k) are repaid contracts within the last 10 years.

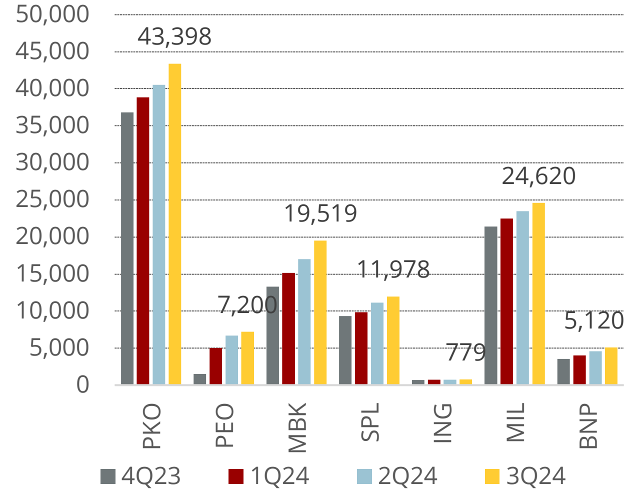
The future behavior of these clients will significantly influence the overall financial impact on the banks.

Fig. 64. Number of lawsuits filed by CHF borrowers, #



Source: Company data, Santander Brokerage Poland

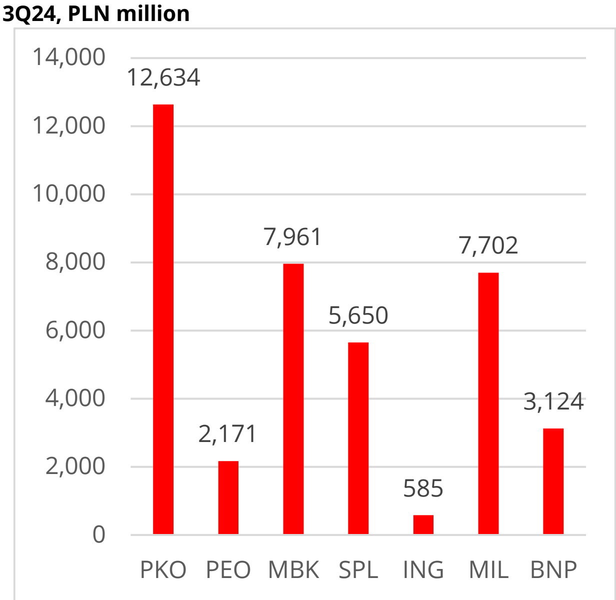
Fig. 65. Number of settlements with CHF borrowers, #



Source: Company data, Santander Brokerage Poland

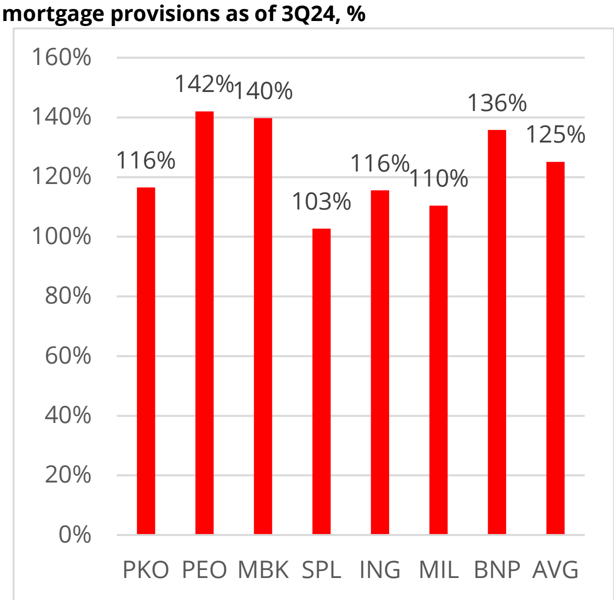
Polish banks are preparing for additional provisions related to their Swiss franc mortgage portfolios. The banking sector anticipates that the financial impact of these provisions will continue to affect their results over the next 4 to 8 quarters.

Fig. 66. Value of CHF-mortgage provisions booked as of 3Q24, PLN million



Source: KNF, Santander Brokerage Poland

Fig. 67. Coverage of CHF-mortgage portfolio with CHF-mortgage provisions as of 3Q24, %



Source: KNF, Santander Brokerage Poland

The expected costs related to CHF-mortgages remain an important element of our valuation of Polish banks. Please refer to the next chapter for exact estimates.

Santander

Summary of bank valuations

With this report, we have updated the Dec'25 TP for CEE banks. Our TPs are derived as a weighted average of DDM and comparative adjusted for an expected further cost related to CHF mortgages. DDM and comparative are calculated based on the adjusted net income forecast (without the expected impact of CHF conversion).

Fig. 68. CEE banks – summary of valuations

Valuation summary	Rating	Dec'25 TP (PLN)	Current price (PLN)	Upside/ downside	*DDM valuation*	*Comp Valuation*	*CHF Impact*
PKO	**Outperform**	**72.0**	54.38	32%	*73.2*	*77.9*	*-3.9*
PEO	**Outperform**	**178.0**	140.75	26%	*194.7*	*167.8*	*-2.8*
MBK	**Outperform**	**725.0**	549.40	32%	*638.0*	*906.6*	*-47.7*
ING	**Outperform**	**291.0**	233.00	25%	*292.1*	*294.4*	*-2.6*
BHW	**Neutral**	**98.0**	87.60	12%	*92.3*	*102.9*	*0.0*
MIL	**Outperform**	**11.0**	8.23	34%	*13.3*	*14.6*	*-3.0*
BNP	**Outperform**	**119.0**	82.20	45%	*105.1*	*139.9*	*-3.8*
ALR	**Outperform**	**109.0**	92.70	18%	*97.2*	*120.7*	*0.0*
OTP	**Underperform**	**22,300.0***	21,770.00*	2%	*21,842.1**	*22,725.5**	
KOMB	**Underperform**	**770.0****	807.50**	-5%	*809.3***	*729.7***	

*Source: Santander Brokerage Poland estimates, *HUF, **CZK*

Fig. 69. CEE banks – impact of CHF-mortgage portfolio on Dec'25 TP for CEE banks

	Assumed cost of CHF	Cost of CHF till 3Q24	Further expected provisions	Impact per share (after tax)	Share price	Potential impact
	PLN bn	PLN bn	PLN bn	PLN	PLN	%
PKO	23.7	17.7	6.0	-3.9	54.4	**-7%**
PEO	3.9	3.0	0.9	-2.8	140.8	**-2%**
MBK	18.1	15.6	2.5	-47.7	549.4	**-9%**
SPL		7.9				
ING	1.2	0.8	0.4	-2.6	233.0	**-1%**
BHW	0.0	0.0	0.0	0.0	87.6	**0%**
MIL	16.3	11.8	4.5	-3.0	8.2	**-36%**
BNP	5.2	4.5	0.7	-3.8	82.2	**-5%**
ALR	0.2	0.2	0.0	0.0	92.7	**0%**
Sum		**61.5**	**15.0**			

Source: Santander Brokerage Poland estimates

Fig. 70. CEE banks – summary of DDM valuation

	DDM valuation (PLN)	Discounted dividends (PLN)	Terminal value (PLN)	2022 ROE	Terminal ROE	g	CoE	RFR	Beta	ERP
PKO	73.2	14.8	58.4	9.1%	17.70%	3.0%	11.5%	6.0%	1.1x	5.0%
PEO	194.7	44.4	150.4	7.4%	17.6%	3.0%	11.5%	6.0%	1.1x	5.0%
MBK	638.0	43.1	595.0	-5.8%	19.9%	3.0%	12.5%	6.0%	1.3x	5.0%
ING	292.1	45.2	246.9	15.0%	20.6%	4.0%	11.5%	6.0%	1.1x	5.0%
BHW	92.3	27.4	64.8	20.1%	10.7%	1.0%	11.5%	6.0%	1.1x	5.0%
MIL	13.3	0.4	12.9	-16.6%	28.7%	2.0%	12.5%	6.0%	1.3x	5.0%
BNP	105.1	22.5	82.7	3.9%	12.2%	3.0%	12.5%	6.0%	1.3x	5.0%
ALR	97.2	22.6	74.6	12.1%	11.8%	3.0%	12.0%	6.0%	1.2x	5.0%
OTP	21,842.1*	2,532.9*	19,309.2*	10.6%	15.8%	3.0%	12.5%	6.0%	1.3x	5.0%
KOMB	809.3**	171.8**	637.5**	14.4%	11.6%	3.0%	10.5%	5.0%	1.1x	5.0%

*Source: Santander Brokerage Poland estimates, *HUF, **CZK*

Fig. 71. CEE banks – summary of Comparative valuation

	Comp Valuation (PLN)	Net Income (LCM mn)	Applied P/E (x)	NOSH
PKO	77.9	13,915	7.0x	1,250
PEO	167.8	6,291	7.0x	262
MBK	906.6	5,504	7.0x	42
ING	294.4	4,256	9.0x	130
BHW	102.9	1,920	7.0x	131
MIL	14.6	2,951	6.0x	1,213
BNP	139.9	2,946	7.0x	147
ALR	120.7	2,250	7.0x	131
OTP	22,725.5*	1,061	6.0x	280
KOMB	729.7**	17,225	8.0x	189

*Source: Santander Brokerage Poland estimates, *HUF; **CZK*

Fig. 72. Santander coverage: Changes to valuations & recommendations

Company	Recommendation				Target Price				Curr.
	current	previous	change	Prev. Rec.	current	previous	chng. %	upside %	
PKO	**Outperform**	Outperform	–	23.08.2024	**72.0**	70.0	3%	**32%**	PLN
PEO	**Outperform**	Outperform	–	09.08.2024	**178.0**	180.0	-1%	**26%**	PLN
MBK	**Outperform**	Neutral	▲	02.08.2024	**725.0**	680.0	7%	**32%**	PLN
ING	**Outperform**	Neutral	▲	08.08.2024	**291.0**	286.0	2%	**25%**	PLN
BHW	**Neutral**	Underperform	▲	29.05.2024	**98.0**	96.0	2%	**12%**	PLN
MIL	**Outperform**	Neutral	▲	31.07.2024	**11.00**	10.10	9%	**34%**	PLN
BNP	**Outperform**	Outperform	–	14.08.2024	**119.0**	123.0	-3%	**50%**	PLN
ALR	**Outperform**	Outperform	–	28.10.2024	**109.0**	112.0	-3%	**18%**	PLN
OTP	**Underperform**	Neutral	▼	13.11.2024	**22,300**	21,400	4%	**2%**	HUF
KOMB	**Underperform**	Underperform	–	13.11.2024	**770.0**	790.0	-3%	**-5%**	CZK

Source: Bloomberg, Santander Brokerage Poland estimates

Fig. 73. CEE Financials – main multiples

	P/E adjusted (X)			P/BV (x)			ROE adjusted (%)			DY (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2025E	2026E	2027E
PKO	4.9x	4.9x	5.8x	1.3x	1.1x	1.0x	28.4%	24.7%	19.0%	10.3%	11.6%	8.1%
PEO	5.4x	5.8x	5.9x	1.1x	1.1x	1.0x	21.9%	19.3%	18.1%	13.0%	13.0%	8.5%
MBK	4.2x	4.4x	5.0x	1.5x	1.2x	1.0x	37.6%	31.1%	22.3%	0.0%	0.0%	9.9%
ING	7.3x	6.8x	6.7x	1.7x	1.5x	1.4x	26.2%	23.4%	21.3%	6.8%	7.3%	7.5%
BHW	5.5x	6.2x	7.5x	0.9x	0.9x	0.8x	18.4%	14.8%	11.4%	12.5%	12.0%	10.0%
MIL	3.3x	3.4x	3.3x	1.3x	1.2x	1.0x	40.5%	36.0%	32.7%	0.0%	0.0%	6.7%
BNP	4.6x	4.2x	4.6x	0.8x	0.7x	0.6x	19.0%	17.7%	14.0%	10.2%	10.3%	10.1%
ALR	5.0x	5.5x	6.4x	1.1x	0.9x	0.8x	23.5%	17.4%	13.0%	10.1%	9.0%	7.9%
OTP	5.5x	5.8x	6.3x	1.2x	1.0x	0.9x	24.0%	19.1%	15.8%	3.4%	4.6%	5.2%
KOMB	11.1x	10.5x	10.5x	1.2x	1.2x	1.2x	10.9%	11.7%	11.6%	10.6%	6.2%	6.2%
PZU	7.1x	6.6x	6.5x	1.4x	1.3x	1.2x	16.2%	16.4%	15.8%	10.2%	10.1%	10.1%
Median	**5.2x**	**5.4x**	**5.8x**	**1.3x**	**1.1x**	**1.0x**	**25.1%**	**22.9%**	**18.7%**	**8.4%**	**8.2%**	**8.0%**

Source: Bloomberg, Santander Brokerage Poland estimates

It appears evident from both our and consensus expectations that the period of strong earnings growth for banks has come to an end. However, what remains reassuring is that, despite anticipated rate cuts, bank earnings are expected to be relatively resilient. This is attributed to further balance sheet growth, reduced sensitivity to interest rate changes, and easing inflationary pressures.

Compared to the Bloomberg consensus, we hold a more optimistic view of 2025 earnings. Notably, we project a 5% year-on-year increase in Net Interest Income (NII), whereas the market consensus assumes flat NII.

On the other hand, we are more cautious about operating expenses (OpEx). This is primarily because we anticipate Polish banks will need to contribute an additional PLN 3.0 billion to the Bank Guarantee Fund (BFG) deposit insurance scheme in 2025, a factor that might not be fully reflected in market assumptions.

Fig. 74. Santander assumptions vs Bloomberg consensus – combined data for Polish banks in our coverage

					Santander assumptions		Bloomberg consensus	
	2021	2022	2023	2024E	2025E	2026E	2025	2026
Net Interest Income	1%	67%	18%	11%	4%	-6%	0%	-3%
Fees and commissions	11%	3%	-1%	0%	-3%	-4%	4%	6%
Total revenue	0%	35%	11%	9%	4%	-2%	2%	1%
Operating Expenses	-2%	1%	21%	1%	9%	5%	6%	8%
Net Income	-52%	631%	344%	204%	50%	17%	14%	15%
Adjusted Net Income	-24%	5%	158%	51%	13%	1%	3%	-3%

Source: Bloomberg, Santander Brokerage Poland estimates

Alior Bank

Bloomberg: ALR PW, Reuters: ALRR.WA

CEE Equity Research

Banks, Poland

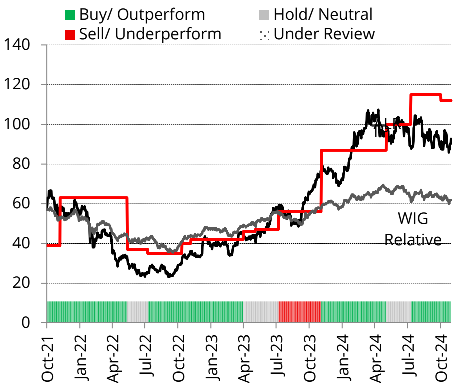
Awaiting PZU's strategic decisions

RECOMMENDATION	Outperform
Current price (25 Nov 2024, PLN)	92.70
Target price (PLN, Dec'25)	**109.0**

Previous report issued on Oct 28, 2024 with:	
Recommendation	*Outperform*
TP (PLN, Dec'25)	*112*

- **Equity story.** We reiterate our Outperform rating for Alior and set a new Dec'2025 target price at PLN 109.0 (previously PLN 112.0). Our base case scenario assumes no changes in the PZU/Pekao/Alior Group structure, which remains the primary question for Alior at the same time.
- **3Q24 was relatively uneventful.** Following surprisingly strong NII in 2Q24, NII for 3Q24 was somewhat disappointing. Additional mild disappointments in 3Q24 included a declining loan portfolio and an increase in CoR, driven by flood impact and a large corporate client. However, this was partially offset by unexpectedly low OpEx.
- **Management reiterated a mid-cycle cost of risk at 80bps**, precisely at the midpoint of PKO's strategic target range of 70–90bps. We maintain a more conservative stance, noting Alior's 18% market share in consumer finance (PLN 4.6bn) and 10% market share in consumer loans (PLN 16.6bn).
- **Alior provided a more optimistic guidance for NII sensitivity** to a 100bps rate cut, estimating an impact of PLN 150–160mn. This is a notable shift from the PLN200mn sensitivity mentioned in the annual statement and reiterated during the 1H24 analyst call. The reduced sensitivity likely reflects Alior's increased hedging activities and the rebuilding of its bond portfolio. During the analyst call, Alior confirmed it is already meeting the SOT NII requirements, which declined from 6.5% last quarter to 4.7% as of 3Q24.
- **Will SKD (Free Credit Sanction) lead to additional provisions?** Alior is currently involved in 2,171 court proceedings with total claims of PLN 86.8mn, against which it has booked PLN35mn in provisions (up from PLN28mn at the end of 1H24). We anticipate Alior will allocate approximately PLN 10mn in SKD provisions each quarter moving forward.
- **Valuation and risks.** We reiterate Outperform recommendation with Dec'25 TP ticked to PLN109.0. Key risks in our view include potential changes in PZU Group structure affecting Alior, rate outlook, loan quality, loan growth, possible M&A and state control.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Alior Bank: Financial summary and ratios

Year to Dec, PLNmn	2022	2023	2024E	2025E	2026E
P/E (adjusted)	3.1x	4.9x	5.0x	5.5x	6.4x
P/E (reported)	6.5x	4.9x	5.0x	5.5x	6.4x
P/BV	0.83x	1.08x	1.06x	0.88x	0.78x
Dividend Yield	0.0%	4.8%	10.1%	9.0%	7.9%
EPS (PLN)	10.9	15.6	18.7	16.7	14.6
DPS (PLN)	0.00	4.42	9.33	8.37	7.29
BVPS (PLN)	41.4	70.8	87.6	104.8	119.5
Net Income (PLN mn)	1,422	2,030	2,435	2,185	1,904

Source: Company data, Santander Brokerage Poland estimates

Analyst

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Fig. 75. Alior Bank. summary (PLN/share)

Recommendation	**Outperform**
Dec'25 Target Price (PLN)	**109.0**
Current price (PLN)	92.70
Prospective upside (%)	18

**Our Dec'25 Target Price is calculated as rounded weighted average of DDM Valuation (50%) and Comparative valuation (50%) less the estimated impact of CHF-mortgages.*

DDM valuation (PLN/share)	**97.2**
Discounted dividends (PLN/share)	22.6
Terminal value (PLN/share)	74.6
Terminal ROE (%)	11.84
g (%)	3.00
CoE (%)	12.00
RFR (%)	12.00
Beta (x)	1.20
ERP (%)	5.0

Comparative Valuation PLN/share	**120.7**
Net Income (PLN mn, next 12 months)	2,250
Applied P/E (x)	7.0
P/E peers (x)	7.0
CHF impact/ per share	**0.0**

Fig. 76. Alior Bank. DDM Valuation sensitivity (PLN/share)

	ROE->	5.4%	7.4%	9.4%	11.4%	13.4%
	0.0%	20.4	27.9	35.4	43.0	50.5
	1.0%	18.4	26.7	35.0	43.3	51.6
g	**2.0%**	16.0	25.2	34.5	43.8	53.1
	3.0%	12.8	23.3	33.9	44.4	54.9
	4.0%	8.7	20.9	33.0	45.1	57.3

Fig. 77. Alior Bank. DDM Valuation sensitivity (PLN/share)

	ROE->	1.0%	3.0%	5.0%	7.0%	9.0%
	2.0%	91.1	64.7	49.0	38.7	31.5
	3.0%	69.5	52.0	40.7	32.9	27.2
RFR	**4.0%**	55.3	43.0	34.5	28.4	23.8
	5.0%	45.4	36.2	29.7	24.8	21.0
	6.0%	38.1	31.0	25.8	21.8	18.6

Fig. 78. Alior Bank. Our forecast vs Bloomberg consensus

	Bloomberg consensus			**Our assumptions vs cons.**		
Consensus	**2024E**	**2025E**	**2026E**	**2024E**	**2025E**	**2026E**
Net income	2,235	2,155	1,884	*9%*	*1%*	*1%*
DPS (PLN)	9.35	8.48	7.21	*0%*	*-1%*	*1%*
ROE (%)	23.62	19.25	14.22	*-0.1 pp*	*-1.9 pp*	*-1.2 pp*

Fig. 79. Alior Bank. Comps Valuation sensitivity (PLN/share)

Fair P/E (x)	**4.0x**	**5.0x**	**6.0x**	**7.0x**	**9.0x**	**11.0x**
vs. peers (%)	-43	-29	-14	0	29	57
Sensitivity	68.9	86.2	103.4	120.7	155.1	189.6

Fig. 80. Alior Bank. Ratios, Assumptions and Forecasts

P&L (PLN mn, year to Dec)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
NII	4,062	4,783	5,245	5,246	5,030
F&C	796	838	853	921	965
Trading Income	35	76	25	20	20
Total Revenue	4,884	5,643	6,128	6,231	6,059
Cost	-1,802	-1,977	-2,041	-2,307	-2,424
NLLP	-1,085	-684	-488	-629	-705
Pre-tax Profit	1,299	2,971	3,537	3,295	2,930
Banking tax	-263	-264	-280	-286	-293
Net Income	683	2,030	2,435	2,185	1,904
Net Income (adj.)	1,422	2,039	2,435	2,185	1,904

PLN bn	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Total Assets	84.1	90.1	90.6	95.1	98.7
Bonds	12.6	18.8	20.3	22.8	24.8
Loans	58.2	61.0	63.4	65.2	66.6
Loans growth (%)	0	5	4	3	2
Deposits	70.7	75.2	77.0	79.2	80.9
Equity	5.4	9.2	11.4	13.7	15.6
Mortgage loans	16.1	18.4	20.3	21.4	21.2
CHF mortgages	0.1	0.1	0.1	0.1	0.1
Other retail loans	22.1	21.3	20.5	20.9	22.1
Corporate loans	25.0	25.3	25.8	26.5	27.0

NIM ratios (%)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Asset yield	6.41	7.80	7.66	7.17	5.84
Funding cost	1.38	2.24	1.89	1.53	0.56
NIM	5.13	5.78	6.00	5.83	5.36

Risk ratios (%)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Stage 3 ratio	10.3	8.1	6.7		
Stage 3 coverage	56.6	56.6	52.6		
Cost of risk	1.65	1.07	0.69	0.88	0.98

Du Pont (%)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
NII/assets	4.86	5.49	5.80	5.65	5.19
CoR/assets	-1.30	-0.79	-0.54	-0.68	-0.73
F&C/assets	0.95	0.96	0.94	0.99	1.00
Other rev/assets	-0.80	0.01	-0.04	0.07	0.07
Costs/assets	-2.16	-2.27	-2.26	-2.48	-2.50
Taxes&other/assets	-0.74	-1.08	-1.22	-1.20	-1.06
ROA	0.82	2.33	2.69	2.35	1.96
Leverage (x)	14.8	11.9	8.7	7.4	6.6
ROE (reported)	12.06	27.70	23.54	17.40	13.00

Capital & dividends	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Tier-1 (PLN bn)	6.3	8.5	9.3	11.5	13.5
Tier-2 (PLN bn)	0.7	0.3	0.2	0.2	0.2
TCR (PLN bn)	4.0	4.0	4.1	4.3	4.3
RWA (PLN mn)	42.0	49.4	51.3	52.8	53.9
CT1 ratio (%)	12.6	17.2	17.9	21.7	24.8
CAR ratio (%)	14.0	17.8	18.3	22.0	25.1
Div. payout (%)	0.0	28.4	50.0	50.0	50.0
Dividend (PLN mn)	0	0	577	1,217	1,092
No. of shares (mn)	131	131	131	131	131

Source for all tables: Company data, Bloomberg, Santander Brokerage Poland NOTE: historical valuation ratios based on eoy prices

Santander

Bank Handlowy

Bloomberg: BHW PW, Reuters: BHW.WA

CEE Equity Research

Banks, Poland

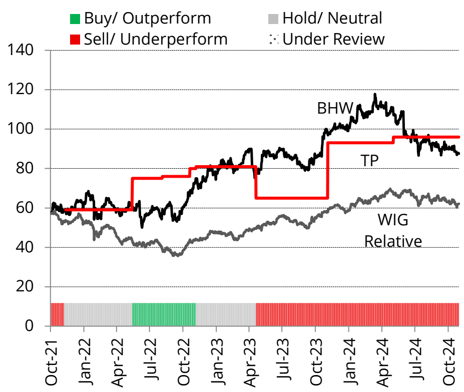
Closer to selling the retail business?

RECOMMENDATION	Neutral
Current price (25 Nov 2024, PLN)	87.6
Target price (PLN, Dec'25)	**98.0**

Previous report issued on May 29, 2024 with:	
Recommendation	*Underperform*
TP (PLN, Dec'24)	*96.0*

- **The sale of BHW's retail segment has faced significant delays.** In August 2023, BHW announced plans to resume the sale process, which was initially launched in April 2021 but paused early last year. BHW has shifted its focus to the institutional segment, which drives the majority of its earnings. As of 8M24, the retail segment reported a pre-tax profit of PLN225mn, with PLN6.8bn in assets and PLN22.6bn in liabilities. The retail business is valued at 1.0x its equity of PLN 1.6bn in BHW's books. We remain cautious about the potential interest in these assets due to their relatively small size, IT infrastructure, and client profile. According to Puls Biznesu (October 29, 2024), VeloBank (controlled by Cerberus) and Nest Bank (controlled by AnaCap) have expressed interest. Given the lengthy process, the involvement of private equity funds, and limited updates from BHW, we anticipate a complex transaction structure.
- **EUR250mn Tier2 issued.** In November 2024, BHW secured a EUR250mn subordinated loan from its parent company. This issuance aims to address CRR3 compliance, rising capital requirements, and improve dividend flexibility. A 75% payout would translate to a 12.0% dividend yield (DY), while a 100% payout could result in a DY of 16.0%.
- **CFO reiterates NII sensitivity rate cuts.** The CFO confirms a PLN50mn Net Interest Income (NII) sensitivity to a 25bps rate cut. However, BHW's active balance sheet management complicates rate sensitivity estimation compared to peers. We estimate an immediate PLN30mn decline in interest income from the treasury bills portfolio. Any profit-taking on the PLN27bn debt securities portfolio measured at fair value through other comprehensive income could result in a one-off trading gain but would further pressure future NII prospects.
- **Valuation and risks.** We upgrade BHW to Neutral with Dec'25 TP of PLN 98.0, with shifted valuation time horizon to Dec'25 from Dec'24. We see the divestment of retail, development of NII, cost of risk and regulatory changes as the main risks.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Bank Handlowy: Financial summary and ratios

Year to Dec, PLNmn	2022	2023	2024E	2025E	2026E
P/E (adjusted)	6.5x	5.9x	5.5x	6.2x	7.5x
P/E (reported)	6.7x	5.9x	6.0x	6.2x	7.5x
P/BV	1.31x	1.30x	0.94x	0.91x	0.81x
Dividend Yield	6.9%	8.9%	12.7%	12.5%	12.0%
EPS (adjusted) (PLN)	12.2	17.3	15.8	14.1	11.7
DPS (PLN)	5.47	9.00	11.15	10.94	10.54
BVPS (PLN)	60.9	78.2	93.0	96.8	108.7
Net Income (PLN mn)	1,597	2,256	2,063	1,836	1,528

Source: Company data, Santander Brokerage Poland estimates

Analyst

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Fig. 81. Bank Handlowy: Valuation summary (PLN/share)

Recommendation	Neutral
Dec'25 Target Price (PLN)	98.00
Current price (PLN)	87.60
Prospective upside (%)	12

**Our Dec'25 Target Price is calculated as rounded average of DDM Valuation (50%) and Comparative valuation (50%) less estimated impact of CHF-mortgages.*

DDM valuation (PLN/share)	92.3
Discounted dividends (PLN/share)	27.4
Terminal value (PLN/share)	64.8
Terminal ROE (%)	10.68
g (%)	1.00
CoE (%)	11.50
RFR (%)	11.50
Beta (x)	1.10
ERP (%)	5.0

Comp. Valuation PLN/share	102.9
Net Income (PLN mn, next 12 months)	1,920
Applied P/E (x)	7.0
P/E peers (x)	7.0
CHF impact	0.0

Fig. 82. Bank Handlowy: DDM Valuation sensitivity (PLN/share)

	ROE->	12.6%	13.6%	14.6%	15.6%	16.6%
	0.0%	88.2	93.2	98.1	103.1	108.1
	0.5%	89.1	94.3	99.6	104.8	110.1
g	1.0%	90.0	95.6	101.2	106.7	112.3
	2.0%	92.4	98.7	105.0	111.3	117.6
	3.0%	95.4	102.7	109.9	117.2	124.5

Fig. 83. Bank Handlowy: DDM Valuation sensitivity (PLN/share)

	ERP->	3.0%	4.0%	5.0%	6.0%	7.0%
	3.0%	166.6	136.7	115.6	99.9	87.8
	3.5%	151.6	126.3	107.9	94.0	83.2
RFR	4.0%	139.0	117.2	101.2	88.8	79.0
	4.5%	128.2	109.4	95.1	84.1	75.2
	5.0%	118.9	102.4	89.8	79.8	71.7

Fig. 84. Bank Handlowy: Our forecast vs Bloomberg consensus

	Bloomberg consensus			Our assumptions vs cons.		
	2024E	2025E	2026E	2024E	2025E	2026E
Net income	1,875	1,655	1,511	*10%*	*25%*	*22%*
DPS (PLN)	11.20	13.20	11.60	*-2%*	*-20%*	*-24%*
ROE (%)	18.6	16.2	14.6	*-0.1 pp*	*-1.3 pp*	*-3.2 pp*

Fig. 85. Bank Handlowy: Comps Valuation sensitivity (PLN/share)

Fair P/E (x)	4.0x	5.0x	6.0x	7.0x	9.0x	11.0x
vs. peers (%)	-43	-29	-14	0	29	57
Sensitivity	59	73	88	103	132	162

Fig. 86. Bank Handlowy: Ratios, Assumptions and Forecasts

P&L (PLN m, year to Dec)	2022	2023	2024E	2025E	2026E
NII	2,804	3,279	3,253	3,112	2,789
F&C	580	561	572	583	595
Trading Income	344	686	579	540	540
Total Revenue	3,714	4,508	4,380	4,236	3,924
Cost	-1,338	-1,440	-1,537	-1,594	-1,655
NLLP	-105	-18	-16	-142	-145
Pre-tax Profit	2,208	3,051	2,633	2,501	2,124
Banking tax	-213	-190	-173	-164	-172
Net Income	1,546	2,256	1,906	1,836	1,528
Net Income (adj.)	1,597	2,256	2,063	1,836	1,528

PLN bn	2022	2023	2024E	2025E	2026E
Total Assets	69.8	72.4	75.0	77.5	81.1
Bonds	44.2	31.5	33.0	34.4	36.9
Loans	21.6	20.5	22.2	23.2	24.3
Loans growth (%)	1	-5	8	5	5
Deposits	50.5	53.9	54.4	56.4	58.5
Equity	8.0	10.2	12.2	12.6	14.2
Mortgage loans	2.2	2.1	2.4	2.7	2.9
CHF mortgages	0.1	0.1	0.1	0.1	0.1
Other retail loans	4.4	4.2	4.1	4.3	4.6
Corporate loans	15.9	15.0	16.2	17.0	17.7

NIM ratios (%)	2022	2023	2024E	2025E	2026E
Asset yield	5.35	6.37	6.01	5.50	4.16
Funding cost	1.16	1.95	1.79	1.60	0.67
NIM	4.42	4.77	4.57	4.22	3.63

Risk ratios (%)	2022	2023	2024E	2025E	2026E
Stage 3 ratio	4.7	5.0			
Stage 3 coverage	80.8	76.9			
Cost of risk	0.49	0.09	0.07	0.62	0.61

Du Pont (%)	2022	2023	2024E	2025E	2026E
NII/assets	4.26	4.61	4.42	4.08	3.52
CoR/assets	-0.16	-0.03	-0.02	-0.19	-0.18
F&C/assets	0.88	0.79	0.78	0.77	0.75
Other rev/assets	0.48	0.94	0.70	0.71	0.68
Costs/assets	-2.03	-2.02	-2.09	-2.09	-2.09
Taxes&other	-1.01	-1.12	-0.99	-0.87	-0.75
ROA	2.43	3.17	2.80	2.41	1.93
Leverage (x)	8.6	7.8	6.6	6.1	5.9
ROE (reported)	20.77	24.83	18.45	14.81	11.38

Capital & dividends	2022	2023	2024E	2025E	2026E
Tier-1 (PLN bn)	5.2	6.8	7.3	7.8	8.2
Tier-2 (PLN bn)	0.0	0.0	1.5	1.5	1.5
TCR (PLN bn)	2.4	2.4	2.6	2.7	2.8
RWA (PLN mn)	29.3	29.7	32.4	33.9	35.4
CT1 ratio (%)	17.6	23.0	22.5	23.0	23.1
CAR ratio (%)	17.6	23.0	27.2	27.4	27.3
Div. payout (%)	76.1	50.0	75.0	75.0	75.0
Dividend (PLN mn)	715	1,176	1,450	1,429	1,377
No. of shares (mn)	130.7	130.7	130.7	130.7	130.7

Source for all tables: Company data, Bloomberg, Santander Brokerage Poland NOTE: historical valuation ratios based on eoy prices

BNP Paribas Polska

Bloomberg: BNPPPL PW, Reuters: BNPP.WA

CEE Equity Research

Banks, Poland

Way below ABB price

- **Equity story.** BNP faces relatively greater challenges in corporate culture, digitalization, and process optimization compared to some peers. While this presents a significant upside potential in the long term, it also contributes to lower profitability in the near term. The bank remains focused on restructuring and, alongside ING, is one of the few Polish banks in our coverage reducing its workforce. Additionally, BNP stands out as the only bank actively shrinking its mortgage portfolio. The bank's current valuation appears to trade at a discount to peers, likely influenced by a share overhang.
- **Falling market shares.** BNP has been reporting market shares in loans and deposits in the most recent quarters. BNP continues its cautious approach to the mortgage market even though the risk of another round of moratoria seems rather limited. Mortgage amortization was visibly higher than originations which caused BNP 3Q24 mortgage portfolio to decline by 15% y/y. BNP is the only bank in our coverage that reports declining mortgage portfolio.
- **Lock up expired on Sep 9th.** BNP controls 81.34% in its Polish subsidiary. We assume that 25% free float commitment towards KNF is still valid and note that 2Q24 quarterly report of Polish entity mentions BNP Paribas SA "intention" to increase free float to 25%. This bodes for another ABB of 6.34% (worth PLN0.8bn based on the current market price). On March 13, 2024, BNP sold 6.0% stake in ABB (8.9mln shares @ PLN100 per share).
- **PLN650mn AT1 issue** to parent company will add 70bps to solvency ratios.
- **Valuation and risks.** We reiterate BNP as Outperform with Dec'25 Target Price at PLN119. We point to potential ABB, CHF-mortgage portfolio, outlook for dividends, rate sensitivity as the main risks.

BNP Paribas Polska: Financial summary and ratios

Year to Dec, PLNmn	2022	2023	2024E	2025E	2026E
P/E (adjusted)	4.3x	4.3x	4.6x	4.2x	4.6x
P/E (reported)	18.7x	12.5x	4.9x	4.9x	5.0x
P/BV	0.73x	0.98x	0.81x	0.69x	0.60x
Dividend Yield	0.0%	0.0%	4.1%	10.2%	10.3%
EPS (adjusted) (PLN)	12.9	20.1	18.0	19.6	18.0
DPS (PLN)	0.00	0.00	3.41	8.40	8.43
BVPS (PLN)	76.4	87.2	101.6	119.9	137.2
Net Income (PLN mn)	1,906	2,962	2,649	2,884	2,647

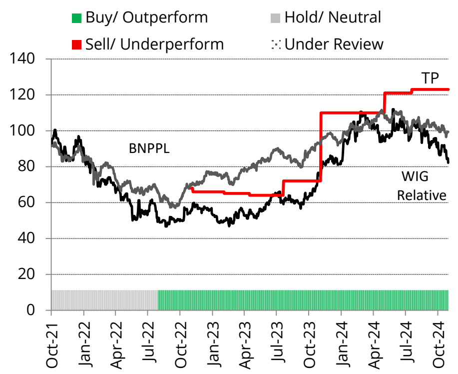
Source: Company data, Santander Brokerage Poland estimates

RECOMMENDATION	Outperform
Current price (25 Nov 2024, PLN)	82.20
Target price (PLN, Dec'25)	**119.0**

Previous report issued on Aug 14, 2024 with:

Recommendation	*Outperform*
TP (PLN, Dec'25)	*123*

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Be reminded that currently the free float of BNP Paribas Polska is at 18.34% (including Rabo and EBRD stakes are excluded). In Sep'18, BNP Paribas SA declared to the KNF that they would increase BNP Paribas Polska free float to at least 25% before the end of 2023. The intention to increase freefloat was reiterated in 1H24 financial statement of BNP Paribas Polska.

Analyst

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Fig. 87. BNP Paribas Polska: Valuation summary (PLN/share)

Recommendation	**Outperform**
Dec'25 Target Price (PLN)	**119.00**
Current price (PLN)	82.20
Prospective upside (%)	45

**Our Dec'25 Target Price is calculated as rounded average of DDM Valuation (50%) and Comparative valuation (50%) less estimated impact of CHF-mortgages.*

DDM valuation (PLN/share)	**105.1**
Discounted dividends (PLN/share)	22.5
Terminal value (PLN/share)	82.7
Terminal ROE (%)	12.17
g (%)	3.00
CoE (%)	12.50
Beta (x)	1.30
ERP (%)	5.0

Comparative Valuation PLN/share	**139.9**
Net Income (PLN mn, next 12 months)	2,946
Applied P/E (x)	7.0
P/E peers (x)	7.0
CHF impact	**-3.8**

Fig. 88. BNP Paribas Polska: DDM Valuation sensitivity (PLN/share)

	ROE->	**7.7%**	**8.7%**	**9.7%**	**10.7%**	**11.7%**
	0.0%	56.6	63.8	71.0	78.2	85.4
	1.0%	54.8	62.8	70.8	78.7	86.7
g	**2.0%**	52.5	61.5	70.5	79.5	88.5
	3.0%	49.6	59.8	70.1	80.4	90.7
	4.0%	45.7	57.7	69.6	81.6	93.6

Fig. 89. BNP Paribas Polska: DDM Valuation sensitivity (PLN/share)

	ERP->	**3.0%**	**4.0%**	**5.0%**	**6.0%**	**7.0%**
	3.0%	140.3	106.0	83.8	68.2	56.8
	3.5%	124.0	95.7	76.7	63.1	52.9
RFR	**4.0%**	110.7	86.9	70.5	58.5	49.4
	4.5%	99.6	79.4	65.1	54.4	46.3
	5.0%	90.3	72.9	60.3	50.8	43.4

Fig. 90. BNP Paribas Polska: Our forecast vs Bloomberg consensus

	Bloomberg consensus			**Our assumptions vs cons.**		
	2024E	**2025E**	**2026E**	**2024E**	**2025E**	**2026E**
Net income	2,404	2,591	2,299	*3%*	*-4%*	*6%*
DPS (PLN)	6.72	8.17		*25%*	*3%*	
ROE (%)	17.2	15.0	13.0	*1.3 pp*	*0.2 pp*	*0.0 pp*

Fig. 91. BNP Paribas Polska: Comparative Valuation sensitivity (PLN/share)

Fair P/E (x)	**4.0x**	**5.0x**	**6.0x**	**7.0x**	**9.0x**	**11.0x**
vs. peers (%)	-43	-29	-14	0	29	57
Sensitivity	79.9	99.9	119.9	139.9	179.9	219.8

Fig. 92. BNP Paribas Polska: Ratios, Assumptions and Forecasts

P&L (PLN mn)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
NII	4,388	5,190	5,799	5,941	5,764
F&C	1,137	1,211	1,234	1,271	1,309
Trading Income	806	912	865	865	865
Total Revenue	6,247	7,248	7,849	8,082	7,961
Cost	3,038	3,096	3,383	3,545	3,717
NLLP	275	34	279	376	356
CHF provisions	-740	-1,978	-588	-400	-200
Pre-tax Profit	1,298	2,175	3,497	3,761	3,687
Banking tax	-427	-412	-404	-411	-428
Net Income	441	1,013	2,478	2,484	2,447
Net Income (adj.)	1,906	2,962	2,649	2,884	2,647

PLN bn	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Total Assets	152	161	159	167	174
Bonds	40	43	47	52	56
Loans	90	86	88	91	95
Loans growth (%)	*4*	*-4*	*2*	*4*	*4*
Deposits	120	127	124	129	134
Equity	11	13	15	18	20
Mortgage loans	27	22	21	21	22
CHF mortgages	4	3	2	2	2
Other retail loans	12	12	13	13	14
Corporate loans	53	54	56	59	61

NIM ratios (%)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Asset yield (%)	5.45	6.56	6.72	6.62	5.45
Funding cost (%)	2.44	3.38	3.24	3.15	2.19
NIM (%)	3.24	3.48	3.78	3.80	3.52

Risk ratios (%)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Stage 3 ratio (%)	3.3	3.0	3.4	3.4	3.4
Stage 3 coverage (%)	59.6	59.9	54.5	54.5	54.5
Cost of risk (%)	-0.31	-0.04	-0.32	-0.42	-0.38

Du Pont (%)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
NII/assets	3.10	3.32	3.63	3.65	3.38
CoR/assets	-0.19	-0.02	-0.17	-0.23	-0.21
F&C/assets	0.80	0.77	0.77	0.78	0.77
Other rev/assets	0.51	0.54	0.51	0.54	0.52
Costs/assets	-2.15	-1.98	-2.12	-2.18	-2.18
Taxes&other/assets	-1.13	-2.01	-1.01	-1.03	-0.85
ROA	0.94	0.63	1.61	1.53	1.44
Leverage (x)	12.5	13.0	11.5	10.0	9.0
ROE (reported)	11.81	8.10	18.54	15.21	12.91

Capital & dividends	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Tier-1 (PLN bn)	10.8	11.2	13.1	15.1	16.3
Tier-2 (PLN bn)	4.1	3.7	3.3	3.3	3.3
TCR (PLN bn)	7.6	7.2	7.4	7.7	8.0
RWA (PLN mn)	95.5	89.6	92.0	95.8	99.8
CT1 ratio (%)	11.3	12.5	14.3	15.8	16.3
CAR ratio (%)	15.5	16.7	17.8	19.2	19.6
Div. payout (%)	0.0	49.6	50.0	50.0	50.0
Dividend (PLN mn)	0	0	503	1,239	1,242
No. of shares (mn)	147	147	147	147	147

Source for all tables: Company data, Bloomberg, Santander Brokerage Poland NOTE: historical valuation ratios based on eoy prices

ING Bank Śląski

Bloomberg: ING PW, Reuters: INGP.WA

CEE Equity Research

Banks, Poland

Somehow tarnished narrative

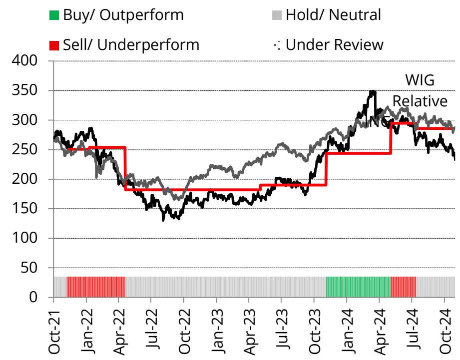
- **Equity story.** ING continues to trade at a notable premium to its Polish peers, reflecting its historically stable earnings and track record of market share growth. However, this narrative has been somewhat tarnished recently due to higher corporate segment risk costs and stagnation in market share gains.
- **Low sensitivity to rate cuts.** ING remains the least sensitive to rate cuts among Polish banks in our coverage. However, this advantage appears to be eroding as competitors adjust to SOT NII requirements. Additionally, banks forced to build IRS portfolios now have an opportunity to lock in more attractive fixed rates, potentially turning ING's low sensitivity into a disadvantage.
- **Market share losses.** For the first nine months of 2024, ING lost 0.5pp in corporate loan market share and 0.1pp in retail loans (excluding FX mortgages), reversing the consistent gains of previous years. Our valuation assumes ING's growth will align with market averages going forward.
- **CRR3 impact.** ING is the only bank in our coverage to report a positive impact from CRR3 implementation, expecting an improvement in its solvency ratio by up to 1pp.
- **Rising corporate risk cost.** Historically, ING maintained corporate loan quality around twice the sector average. However, in the last two quarters, its NPL ratio rose from 3.4% to 5.7% (vs. the sector average of 6.1%). This reflects the transfer of PLN2.3bn in corporate exposures to Stage 3, alongside PLN0.8bn in additional provisioning. ING also moved PLN1.5bn to Stage 2, while reducing Stage 2 provisioning by PLN17mn.
- **New CEO appointment.** Michał Bolesławski, with 24 years at ING and most recently serving as Global Head of Business Banking, will assume the role of CEO following the upcoming AGM.
- **Valuation and risks.** We upgrade ING to Outperform with Dec'25 TP of PLN291.0. Among risk factors we note: risk cost, low turnover in ING shares, MCFH impact on NII and the growth outlook.

RECOMMENDATION	**Outperform**
Current price (25 Nov 2024, PLN	233.0
Target price (PLN, Dec'25)	**291.0**

Previous report issued on Aug 8, 2024 with:

Recommendation	*Neutral*
TP (PLN, Dec'25)	*286*

STOCK PERFORMANCE



The chart measures performance against the WIG index.

ING BSK: Financial summary and ratios

Year to Dec, PLNmn	2022	2023	2024E	2025E	2026E
P/E (adjusted)	5.3x	6.7x	7.3x	6.8x	6.7x
P/E (reported)	11.3x	6.9x	7.3x	6.8x	6.7x
P/BV	2.1x	2.20x	1.69x	1.5x	1.4x
Dividend Yield	3.6%	0.0%	14.3%	6.8%	7.3%
EPS (adjusted) (PLN)	28.2	34.6	31.9	34.2	34.8
DPS (PLN)	5.30	0.00	33.35	15.86	17.10
BVPS (PLN)	71.8	106.0	137.9	154.8	172.0
Net Income (PLN mn)	3,672	4,503	4,149	4,449	4,528

Source: Company data, Santander Brokerage Poland estimates

Analyst

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Fig. 93. ING BSK: Valuation summary (PLN/share)

Recommendation	Outperform
Dec'25 Target Price (PLN)	291.00
Current price (PLN)	233.00
Prospective upside (%)	25

**Our Dec'25 Target Price is calculated as rounded average of DDM Valuation (50%) and Comparative valuation (50%) less impact of CHF-mortgage portfolio.*

DDM valuation (PLN/share)	292.1
Discounted dividends (PLN/share)	45.2
Terminal value (PLN/share)	246.9
Terminal ROE (%)	20.64
g (%)	4.00
CoE (%)	11.50
RFR (%)	11.50
Beta (x)	1.10
ERP (%)	5.0

Comparative Valuation PLN/share	294.4
Net Income (PLN mn, next 12 months)	4,256
Applied P/E (x)	9.0
P/E peers (x)	7.0
CHF impact/ per share	-2.6

Fig. 94. ING BSK: DDM Valuation sensitivity (PLN/share)

	ROE->	18.6%	19.6%	20.6%	21.6%	22.6%
	0.0%	240	252	264	275	287
	1.0%	250	263	276	289	302
g	2.0%	262	277	292	307	322
	3.0%	279	296	313	330	347
	4.0%	301	321	341	362	382

Fig. 95. ING BSK: DDM Valuation sensitivity (PLN/share)

	ERP->	3.0%	4.0%	5.0%	6.0%	7.0%
	2.0%	530	416	340	288	248
	2.5%	472	378	315	269	234
RFR	3.0%	424	347	292	252	221
	3.5%	386	320	273	237	209
	4.0%	353	297	255	224	199

Fig. 96. ING BSK: Our forecast vs Bloomberg consensus

	Bloomberg consensus			Our assumptions vs cons.		
	2024E	2025E	2026E	2024E	2025E	2026E
Net income	4,313	4,439	3,987	*-4%*	*0%*	*14%*
DPS (PLN)	27.50	16.07	16.08	*-42%*	*6%*	*8%*
ROE (%)	25.2	23.1	20.2	*0.9 pp*	*0.3 pp*	*1.1 pp*

Fig. 97. ING BSK: Comparative Valuation sensitivity (PLN/share)

Fair P/E (x)	6.0x	7.0x	8.0x	9.0x	11.0x	13.0x
vs. peers (%)	-14	0	14	29	57	86
Sensitivity	196	229	262	294	360	425

Fig. 98. ING BSK: Ratios, Assumptions and Forecasts

P&L (PLN mn, yr to Dec)	2022	2023	2024E	2025E	2026E
NII	7,259	8,148	8,835	9,134	9,462
F&C	2,095	2,167	2,303	2,370	2,441
Trading Income	-12	313	212	196	196
Total Revenue	9,342	10,627	11,350	11,700	12,099
Cost	-3,642	-3,702	-4,021	-4,176	-4,351
NLLP	-737	-508	-1,270	-826	-882
Pre-tax Profit	3,050	6,341	6,060	6,716	6,883
Banking tax	-647	-644	-732	-769	-821
Net Income	1,714	4,418	4,127	4,449	4,528
Net Income (adj.)	3,672	4,503	4,149	4,449	4,528

PLN bn	2022	2023	2024E	2025E	2026E
Total Assets	217.3	245.4	257.8	275.6	293.0
Bonds	50.4	58.9	57.2	63.0	68.6
Loans	155.0	156.5	166.4	178.2	189.6
Loans growth (%)	6	1	6	7	6
Deposits	193.1	205.7	219.5	235.1	250.2
Equity	9.3	13.8	17.9	20.1	22.4
Mortgage loans	55.2	55.7	60.2	65.9	70.8
CHF mortgages	0.7	0.6	0.5	0.5	0.4
Other retail loans	8.7	9.2	10.0	10.8	11.7
Corporate loans	93.7	94.4	99.8	106.0	112.5

NIM ratios (%)	2022	2023	2024E	2025E	2026E
Asset yield	4.78	5.45	5.32	5.02	3.82
Funding cost	1.30	2.01	1.87	1.61	0.43
NIM	3.56	3.58	3.59	3.52	3.42

Risk ratios (%)	2022	2023	2024E	2025E	2026E
Stage 3 ratio	2.3	2.6	3.9	3.9	3.9
Stage 3 coverage	60	62	51	51	51
Cost of risk	0.49	0.33	0.79	0.48	0.48

Du Pont (%)	2022	2023	2024E	2025E	2026E
NII/assets	3.47	3.52	3.51	3.42	3.33
CoR/assets	-0.35	-0.22	-0.50	-0.31	-0.31
F&C/assets	1.00	0.94	0.92	0.89	0.86
Other rev/assets	-0.02	0.14	0.09	0.08	0.08
Costs/assets	-1.74	-1.60	-1.60	-1.57	-1.53
Taxes&other	-0.64	-0.83	-0.77	-0.85	-0.83
ROA	1.72	1.95	1.65	1.67	1.59
Leverage (x)	18.3	20.0	15.9	14.0	13.4
ROE (adjusted)	31.45	38.94	26.15	23.36	21.30

Capital & dividends	2022	2023	2024E	2025E	2026E
Tier-1 (PLN bn)	14.8	17.5	16.8	16.8	16.8
Tier-2 (PLN bn)	1.6	1.5	1.4	1.4	1.4
TCR (PLN bn)	8.8	8.7	9.8	10.5	11.1
RWA (PLN mn)	95.8	92.4	105.8	113.3	120.6
CT1 ratio (%)	13.5	16.0	13.7	12.8	12.1
CAR ratio (%)	15.0	17.4	14.8	13.9	13.1
Div. payout (%)	0.0	98.2	50.0	50.0	50.0
Dividend (PLN mn)	690	0	4,339	2,063	2,224
No. of shares (mn)	130.1	130.1	130.1	130.1	130.1

Source for all tables: Company data, Bloomberg, Santander Brokerage Poland NOTE: historical valuation ratios based on eoy prices

Komerční banka

CEE Equity Research

Bloomberg: KOMB CK, Reuters: BKOM.PR

Banks, Czechia

Profitability concerns outweigh dividend appeal

- **We maintain our Underperform rating for Komerční banka**, as it continues to appear more expensive than most of its CEE peers. While the upcoming dividend yield (DY) looks attractive, we view it as the least sustainable among the banks in our coverage. Despite ambitious strategy, KOMB's low NIM underscores structural challenges that could prolong its underperformance relative to peers.
- **Rebound in NII.** Komerční banka reported 3Q24 Net Interest Margin of 1.6%, maintaining its position as a laggard among Central and Eastern European (CEE) peers. This NIM remained flat quarter-over-quarter after six consecutive quarters of decline. The 2% quarter-over-quarter increase in Net Interest Income (NII) was primarily driven by volume growth. KOMB's management highlights the bank's zero sensitivity to interest rate cuts as a key advantage. Over the past year, the Czech National Bank has reduced its key interest rate from 7.0% to 4.0%. We anticipate that this lower rate environment will stimulate stronger loan demand in the Czech Republic, potentially leading to higher NII for KOMB.
- **Real estate gain.** 3Q24 results were bolstered by a CZK 2.5 billion gain from the sale of real estate. Excluding this one-off, 3Q24 performance largely aligned with established trends. Key highlights include a rebound in trading income and a higher-than-anticipated cost of risk.
- **Nearest dividend yield of 10.4% remains a key attraction.** However, it is lower than that of some Polish peers and appears temporary, as it is supported by the one-off real estate gain and a 100% payout ratio. During the 3Q24 analyst call, KOMB management indicated that the dividend policy after the 100% payout period would not drop below 60-70%, no further details were shared. Our valuation assumes future payouts at 65%.
- **Valuation and risks.** KOMB trades at 2024E P/BV 1.2x for 2024E ROE of 12.9%, and 2025E P/E of 10.7x. We forecast the nearest dividend at 10.4%. KOMB targets 13%-14.0% ROE, and our valuation is based on the assumption of terminal ROE of 11.6%. Major risks relate to delays in the strategy implementation, macro, rates, capital requirements, regulations, and competition. We note 2025 is supposedly the last year of a banking tax.

Komerční banka: Financial summary and ratios

Year to Dec, CZKmn	2022	2023	2024E	2025E	2026E
P/E (adjusted)	7.0x	9.8x	11.1x	10.5x	10.5x
P/E (reported)	7.0x	9.8x	9.4x	10.5x	10.5x
P/BV	1.02x	1.22x	1.22x	1.23x	1.23x
Dividend Yield	15.2%	7.5%	10.2%	10.6%	6.2%
EPS (adjusted) (CZK)	93.3	82.2	85.5	77.1	76.9
DPS (CZK)	99.30	60.42	82.66	85.51	50.11
BVPS (CZK)	643.1	662.2	663.5	655.3	671.2
Net Income (CZK m)	17,618	15,612	13,693	14,561	14,532

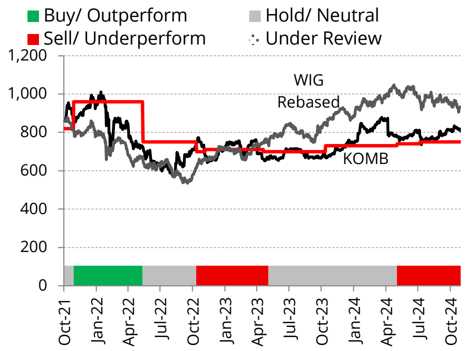
Source: Company data, Santander Brokerage Poland estimates

RECOMMENDATION	Underperform
Current price (25 Nov 2024, CZK)	807.5
Target price (CZK, Dec'25)	**770.0**

Previous report issued on Nov 13, 2024 with:

Recommendation	*Underperform*
TP (CZK, Dec'25)	*790*

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Analyst

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Fig. 99. Komerční banka: Valuation summary* (CZK/share)

Recommendation	Underperform
Target Price (CZK)	**770.0**
Current price (CZK)	807.5
Prospective upside (%)	-5

**Our Dec'25 Target Price is calculated as rounded average of DDM Valuation (50%) and Comparative (50%).*

DDM valuation (CZK/share)	809.3
Discounted dividends (CZK/share)	171.8
Terminal value (CZK/share)	637.5
Terminal ROE (%)	11.60
g (%)	3.00
CoE (%)	10.50
Beta (x)	1.10
ERP (%)	5.0

Comparative Valuation CZK/share	592.3
Net Income (CZK mn, next 12 months)	18,644
Applied P/E (x)	6.0

Fig. 100. Komerční banka: DDM Valuation sensitivity (CZK/share)

	ROE->	9.6%	10.6%	11.6%	12.6%	13.6%
	1.0%	681	739	798	856	915
	2.0%	675	741	806	871	937
g	**3.0%**	668	742	809	891	965
	4.0%	659	745	830	916	1,001
	5.0%	647	748	849	950	1,051

Fig. 101. Komerční banka: DDM Valuation sensitivity (CZK/share)

	ERP->	3.0%	4.0%	5.0%	6.0%	7.0%
	4.0%	1,385	1,109	927	799	704
	4.5%	1,244	1,018	864	753	669
RFR	**5.0%**	1,129	941	809	712	637
	5.5%	1,035	876	762	676	609
	6.0%	956	820	720	643	584

Fig. 102. Komerční banka: Our forecast vs. Bloomberg consensus

	Bloomberg consensus			Our assumptions vs cons.		
	2024E	2025E	2026E	2024E	2025E	2026E
Net income	16,210	15,577	16,140	*0%*	*-7%*	*-10%*
DPS (PLN)	85.15	69.05	57.79	*0%*	*-27%*	*-13%*
ROE (%)	12.9	12.3	12.6	*0.0 pp*	*-0.6 pp*	*-1.0 pp*

Fig. 103. Komerční banka: Comparative Valuation sensitivity (CZK/share)

Fair P/E (x)	5.0x	6.0x	7.0x	8.0x	10.0x	12.0x
vs. peers (%)	-29	-14	0	14	43	71
Sensitivity	456	547	638	730	912	1,094

Fig. 104. Komerční banka: Ratios, Assumptions and Forecasts

P&L (CZK mn)	2022	2023	2024E	2025E	2026E
NII	28,632	25,595	25,045	26,400	27,136
F&C	6,121	6,414	6,735	6,708	6,682
Trading Income	3,665	3,832	3,784	3,200	3,200
Total Revenue	38,631	36,199	35,954	36,519	37,085
Cost	16,015	17,321	17,821	17,374	17,649
NLLP	-1,181	-93	-1,166	-864	-1,191
Pre-tax Profit	21,833	19,028	19,526	18,501	18,465
Banking tax	0	0	-210	0	0
Net Income	17,618	15,533	16,150	14,561	14,532
Net Income (adj.)	17,618	15,612	13,693	14,561	14,532

CZK bn	2022	2023	2024E	2025E	2026E
Total Assets	1,305	1,516	1,674	1,749	1,931
Bonds	227	217	235	261	328
Loans	781	834	853	900	1,013
Loans growth (%)	8	7	2	6	13
Deposits	951	1,127	1,329	1,403	1,579
Equity	121	125	125	124	127
Mortgage loans	354	369	381	401	485
Other retail loans	39	33	35	37	39
Corporate loans	367	395	424	454	425

NIM ratios (%)	2022	2023	2024E	2025E	2026E
Asset yield	7.58	8.72	7.57	7.03	7.03
Funding cost	6.02	7.81	6.64	6.00	6.05
NIM	2.33	1.87	1.61	1.58	1.51

Risk ratios (%)	2022	2023	2024E	2025E	2026E
Stage 3 ratio	2.3	1.8	2.0	2.0	2.0
Stage 3 coverage	51.0	47.1	44.2	44.2	44.2
Cost of risk	0.16	0.01	0.14	0.10	0.12

Du Pont (%)	2022	2023	2024E	2025E	2026E
NII/assets	2.25	1.81	1.57	1.54	1.47
CoR/assets	-0.09	-0.01	-0.07	-0.05	-0.06
F&C/assets	0.48	0.45	0.42	0.39	0.36
Other rev/assets	0.34	0.31	0.42	0.21	0.19
Costs/assets	-1.26	-1.23	-1.12	-1.01	-0.96
Taxes&other	-0.33	-0.25	-0.21	-0.23	-0.21
ROA	1.38	1.10	1.01	0.85	0.79
Leverage (x)	10.4	11.4	12.7	13.7	14.7
ROE (reported)	14.38	12.60	12.90	11.69	11.60

Capital & dividends	2022	2023	2024E	2025E	2026E
Tier-1 (CZK bn)	98.6	99.7	101.2	106.3	111.5
Tier-2 (CZK bn)	3.1	6.2	6.4	6.4	6.4
TCR (CZK bn)	41.8	45.1	45.0	47.5	53.5
RWA (CZK mn)	431	452	452	477	537
CT1 ratio (%)	18.9	17.7	18.0	17.9	16.7
CAR ratio (%)	19.5	18.8	19.1	19.0	17.6
Div. payout (%)	64.8	100.0	100.0	65.0	65.0
Dividend (CZK mn)	18,753	11,411	15,611	16,150	9,464
No. of shares (mn)	188.9	188.9	188.9	188.9	188.9

Source for all tables: Company data, Santander Brokerage Poland, Bloomberg
Note: historical valuation ratios based on eoy prices

mBank

Bloomberg: MBK PW, Reuters: MBK.WA

CEE Equity Research

Banks, Poland

Volumes are back, NPS is down

- **Equity story.** mBank, under its new CEO, is placing greater focus on capital restoration and accelerating loan growth. The ongoing burden of CHF portfolio provisions remains a persistent challenge.
- **CHF provisions nearing the end?** To date, mBank has booked PLN 15.6bn in legal costs related to CHF mortgages. While the CFO indicated that additional provisions are likely, our valuation assumes further PLN2.5bn in provisions. Out of the 85.5k CHF mortgages originally granted, assumptions are required for the 4.8k (6%) that remain active and the 14.3k (17%) that have been repaid but are not subject to the statute of limitations. The status of the remaining mortgages appears to be relatively clear.
- **Volumes rebound.** After a muted period during which its loan book shrank by 9.5% (from PLN129bn in 1H22 to PLN117bn in 4Q23), mBank is now experiencing a recovery. Between 1Q23 and 1Q24, deposit growth at mBank was 1.2%, significantly lagging the market average of 8.9%. However, this slower growth contributed to mBank maintaining the lowest average deposit cost among its peers. Encouragingly, in the last two quarters, mBank has reported growth in both loans and deposits that outpaces the market.
- **NPS disaster** – In January 2024, mBank announced changes to its ATM cash withdrawal fees, which were implemented in April 2024. These fee adjustments have significantly impacted customer satisfaction. Previously ranked among the top three in Net Promoter Score (NPS) within the mass market segment, mBank has now fallen to the seventh position. This decline in NPS is likely affecting both customer retention and acquisition efforts.
- **Is tender offer a possible scenario?** The potential acquisition of Commerzbank by UniCredit raises questions about the implications for mBank, a subsidiary of Commerzbank. Under Polish law, an indirect change of control over a publicly listed company, typically necessitates a mandatory tender offer for the remaining shares. This means that if UniCredit were to gain control over Commerzbank, it would likely be required to extend a tender offer to acquire the outstanding shares of mBank.
- **PLN1.5bn AT1 issue** at 10.63% will add 1.5pp to solvency ratios.
- **Valuation and risks.** We rate mBank Outperform with a Dec'25 TP of PLN725. Among the major risks, we note the legal risk related to CHF provisions, and read-across from the news flow on Commerzbank.

mBank: Financial summary and ratios

Year to Dec, PLNmn	2022	2023	2024E	2025E	2026E
P/E (adjusted)	3.3x	5.6x	4.2x	4.4x	5.0x
P/E (reported)	-16.4x	nm	11.4x	6.8x	5.0x
P/BV	1.0x	1.70x	1.48x	1.24x	1.02x
Dividend Yield	0.0%	0.0%	0.0%	0.0%	9.9%
EPS (PLN)	89.3	98.6	130.4	126.3	109.0
DPS (PLN)	0.0	0.0	0.0	0.0	54.5
BVPS (PLN)	300	323	371	442	536
Net Income (PLN mn)	3,786	4,189	5,541	5,366	4,633

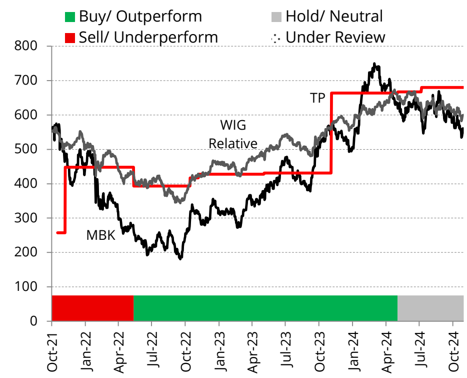
Source: Company data, Santander Brokerage Poland estimates

RECOMMENDATION	Outperform
Current price (25 Nov 2024, PLN)	549.4
Target price (PLN, Dec'25)	**725.0**

Previous report issued on Aug 2, 2024 with:

Recommendation	*Neutral*
TP (PLN, Dec'25)	*680.0*

STOCK PERFORMANCE



The chart measures performance against the WIG index.

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Fig. 105. mBank: Valuation summary (PLN/share)

Recommendation	Outperform
Dec'25 Target Price (PLN)	725.0
Current price (PLN)	549.4
Prospective upside (%)	32

**Our Dec'25 Target Price is calculated as rounded average of DDM Valuation (50%) and Comparative valuation (50%) less the impact of CHF mortgage portfolio.*

DDM valuation (PLN/share)	638.0
Discounted dividends (PLN/share)	43.1
Terminal value (PLN/share)	595.0
Terminal ROE (%)	19.89
g (%)	3.00
CoE (%)	12.50
RFR (%)	12.50
Beta (x)	1.30
ERP (%)	5.0

Comparative Valuation PLN/share	906.6
Net Income (PLN mn, next 12 months)	5,504
Applied P/E (x)	7.0
P/E peers (x)	7.0
CHF impact	-47.7

Fig. 106. mBank: DDM Valuation sensitivity (PLN/share)

	ROE->	17.9%	18.9%	19.9%	20.9%	21.9%
	0.0%	535	564	593	622	651
	1.0%	549	581	613	645	677
g	2.0%	568	603	638	673	708
	3.0%	590	629	669	708	747
	4.0%	618	663	707	752	797

Fig. 107. mBank: DDM Valuation sensitivity (PLN/share)

	ERP->	3.0%	4.0%	5.0%	6.0%	7.0%
	3.0%	1,137	898	733	613	523
	3.5%	1,033	827	683	576	494
RFR	4.0%	945	766	638	542	467
	4.5%	868	712	598	511	443
	5.0%	802	664	562	483	421

Fig. 108. mBank: Our forecast vs Bloomberg consensus

	Bloomberg consensus			Our assumptions vs cons.		
	2024E	2025E	2026E	2024E	2025E	2026E
Net income	2,224	3,515	4,015	*-8%*	*-3%*	*15%*
DPS (PLN)	0.00	0.00	0.00	*n.m.*	*n.m.*	*n.m.*
ROE (%)	16.4	21.3	19.4	*-2.5 pp*	*-1.5 pp*	*2.9 pp*

Fig. 109. mBank: Comparative Valuation sensitivity (PLN/share)

Fair P/E (x)	4.0x	5.0x	6.0x	7.0x	9.0x	11.0x
vs. peers (%)	-43	-29	-14	0	29	57
Sensitivity	519	649	779	909	1,169	1,428

Fig. 110. mBank: Ratios, Assumptions and Forecasts

P&L (PLN mn, yr to Dec)	2022	2023	2024E	2025E	2026E
NII	7,169	8,933	9,770	10,198	9,481
F&C	2,143	1,916	1,920	1,889	1,857
Trading Income	-9	95	282	400	483
Total Revenue	9,124	10,862	12,179	12,447	11,780
Cost	-3,319	-3,074	-3,304	-3,427	-3,602
NLLP	-835	-1,165	-687	-1,132	-1,175
CHF-provisions	-3,112	-4,908	-3,925	-1,950	0
Pre-tax Profit	513	1,714	4,116	5,939	7,003
Banking tax	-684	-744	-748	-787	-829
Net Income	-766	24	2,056	3,416	4,633
Net Income (adj.)	3,786	4,189	5,541	5,366	4,633

PLN bn	2022	2023	2024E	2025E	2026E
Total Assets	209.9	226.3	236.5	249.2	268.1
Bonds	55.4	61.3	63.7	70.2	79.7
Loans	120.1	112.8	121.7	127.5	136.7
Loans growth (%)	2	-6	8	5	7
Deposits	183.6	196.6	204.3	213.5	227.8
Equity	12.7	13.7	15.7	18.8	22.8
Mortgage loans	48.1	43.1	45.3	50.2	54.7
CHF mortgages	11.9	8.3	5.6	5.1	4.7
Other retail loans	23.0	23.1	24.9	25.9	26.9
Corporate loans	52.3	50.9	56.6	57.7	62.5

NIM ratios (%)	2022	2023	2024E	2025E	2026E
Asset yield	5.37	7.07	6.54	6.22	4.78
Funding cost	1.85	3.05	2.36	2.08	1.11
NIM	3.66	4.26	4.37	4.34	3.79

Risk ratios (%)	2022	2023	2024E	2025E	2026E
Stage 3 ratio	3.7	4.0	3.7	3.7	3.7
Stage 3 coverage	56	58	58	58	58
Cost of risk	0.70	1.00	0.59	0.91	0.89

Du Pont (%)	2022	2023	2024E	2025E	2026E
NII/assets	3.50	4.10	4.22	4.20	3.67
CoR/assets	-0.41	-0.53	-0.30	-0.47	-0.45
F&C/assets	1.05	0.88	0.83	0.78	0.72
Other rev/assets	-2.27	-2.24	-1.55	-0.65	0.17
Costs/assets	-1.62	-1.41	-1.43	-1.41	-1.39
Taxes&other	-0.62	-0.77	-0.89	-1.04	-0.92
ROA	-0.37	0.01	0.89	1.41	1.79
Leverage (x)	15.5	16.5	15.7	14.1	12.4
ROE (reported)	-5.8	0.2	13.9	19.8	22.3

Capital & dividends	2022	2023	2024E	2025E	2026E
Tier-1 (PLN bn)	12.2	12.7	14.9	14.9	14.9
Tier-2 (PLN bn)			1.5	1.5	1.5
TCR (PLN bn)	2.2	2.0	1.5	1.5	1.5
RWA (PLN mn)	7.0	6.9	7.7	8.1	8.6
CT1 ratio (%)	88.0	86.5	96.2	100.8	108.0
CAR ratio (%)	13.8	14.7	15.5	14.8	13.8
Div. payout (%)	16.4	17.0	17.1	16.3	15.2
Dividend (PLN mn)	0.0	0.0	0.0	0.0	50.0
No. of shares (mn)	0	0	0	0	0

Source for all tables: Company data, Bloomberg, Santander Brokerage Poland NOTE: historical valuation ratios based on eoy prices

Millennium

Bloomberg: MIL PW, Reuters: MILP.WA

CEE Equity Research

Banks, Poland

2028 Strategy Unveiled

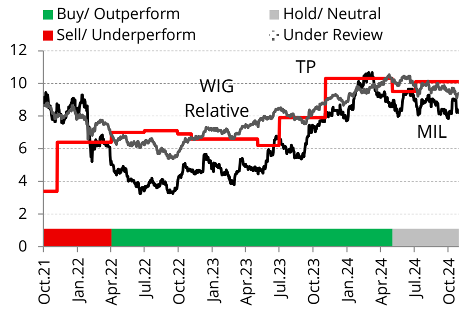
RECOMMENDATION	Outperform
Current price (25 Nov 2024, PLN)	8.225
Target price (PLN, Dec'25)	**11.00**

Previous report issued on Jul 31, 2024 with:

Recommendation	*Neutral*
TP (PLN, Dec'25)	*10.10*

- **Equity story.** Bank Millennium recently unveiled its 2028 strategy, with financial targets aligning closely with our valuation assumptions. We anticipate that by 2025, MIL should make significant progress toward concluding the CHF provisions process, supporting our Outperform recommendation.
- **Still sizeable CHF provisions ahead?** To date, Millennium has booked PLN11.8bn in legal costs related to CHF mortgages. While the CEO indicated that additional provisions are likely, our valuation assumes a further PLN4.5bn in provisions. Out of the 104k CHF mortgages originally granted, assumptions are required for the 9.2k (9%) that remain active and the 15.7k (15%) that have been repaid but are not subject to the statute of limitations. The status of the remaining mortgages appears to be relatively clear.
- **2028 strategy highlights: ROE of 18% and dividend resumption by 2027** In October 2024, Bank Millennium unveiled its 2025-2028 strategy, outlining ambitious targets. The bank plans to resume dividend payments from 2027 and aims to achieve a reported ROE of approximately 18% by 2028 (we estimate 18.2%). Key strategic objectives include: (1) Targeting a cost-to-income ratio of around 37% (vs. 38% in our valuation assumptions); (2) Maintaining a low level of non-performing loans (NPL) below 4%; (3) Doubling the corporate banking loan portfolio to over PLN25bn; (4) growing the retail customer base to 3.7 million.
- **Bond portfolio growth high deposit cost.** Bank Millennium reported a 3Q24 average deposit cost of 2.31%, the highest among Polish banks. This significantly exceeds the second-highest, Pekao, at 1.85%, and BNP at 1.83%, while being well above PKO's 1.57%, the lowest among peers. Despite this, Millennium continued to grow its retail deposits by 14% over the past year, outpacing the market average of 10%. This strategy appears unique among Polish banks, as others have focused on optimizing deposit costs to enhance profitability. Millennium's approach, combined with evident opportunities for carry trade, underscores its distinct focus on balance sheet growth and liquidity.
- **Valuation and risks.** We upgrade MIL to Outperform with Dec'25 TP of PLN11.0. Among the risks we note CHF-mortgage portfolios, various scenarios for WIBOR/deposits costs and macro risk.

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Bank Millennium: Financial summary and ratios

Year to Dec, PLNmn	2022	2023	2024E	2025E	2026E
P/E (adjusted)	2.2x	3.4x	3.3x	3.4x	3.3x
P/E (reported)	-5.5x	17.6x	14.5x	12.9x	5.2x
P/BV	1.01x	1.47x	1.27x	1.16x	1.01x
Dividend Yield	0.0%	0.0%	0.0%	0.0%	6.7%
EPS (PLN)	2.06	2.5	2.5	2.4	2.5
DPS (PLN)	0.00	0.00	0.00	0.00	0.55
BVPS (PLN)	4.5	5.7	6.5	7.1	8.1
Net Income (PLN mn)	2,500	2,993	2,986	2,953	3,016

Source: Company data, Santander Brokerage Poland estimates

Analyst

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Fig. 111. Bank Millennium: Valuation summary (PLN/share)

Recommendation	**Outperform**
Dec'25 Target Price (PLN)	**11.00**
Current price (PLN)	8.23
Prospective upside (%)	34

**Our Dec'25 Target Price is calculated as rounded average of DDM Valuation (50%) and Comparative valuation (50%) less the estimated impact of CHF-mortgage portfolio.*

DDM valuation (PLN/share)	**13.3**
Discounted dividends (PLN/share)	0.4
Terminal value (PLN/share)	12.9
Terminal ROE (%)	28.68
g (%)	2.00
CoE (%)	12.50
Beta (x)	1.30
ERP (%)	5.0

Comparative Valuation PLN/share	**14.6**
Net Income (PLN mn, next 12 months)	2,951
Applied P/E (x)	6.0
P/E peers (x)	7.0
CHF impact	**-3.0**

Fig. 112. Bank Millennium: DDM Valuation sensitivity (PLN/share)

	ROE->	24.7%	26.7%	28.7%	30.7%	32.7%
	0.0%	10.5	11.3	12.1	12.9	13.7
	1.0%	10.9	11.8	12.7	13.5	14.4
g	2.0%	11.4	12.4	13.3	14.3	15.3
	3.0%	12.0	13.1	14.2	15.2	16.3
	4.0%	12.8	14.0	15.2	16.4	17.6

Fig. 113. Bank Millennium: DDM Valuation sensitivity (PLN/share)

	ERP->	3.0%	4.0%	5.0%	6.0%	7.0%
	3.0%	27.6	22.8	19.3	16.6	14.4
	3.5%	21.7	18.4	15.9	13.9	12.2
RFR	4.0%	17.6	15.2	13.3	11.8	10.5
	4.5%	16.0	13.9	12.3	10.9	9.8
	5.0%	14.6	12.8	11.4	10.2	9.2

Fig. 114. Bank Millennium: Our forecast vs Bloomberg consensus

	Bloomberg cons.			**Santander vs cons.**		
	2024E	**2025E**	**2026E**	**2024E**	**2025E**	**2026E**
Net income	687	1,045	2,246	*0%*	*-26%*	*-15%*
DPS (PLN)	0.00	0.00	0.20	*n.a.*	*n.a.*	*184%*
ROE (%)	9.4	15.1	19.9	*-0.1 pp*	*-5.6 pp*	*0.9 pp*

Fig. 115. Bank Millennium: Comparative Valuation sensitivity (PLN/share)

Fair P/E (x)	**3.0x**	**4.0x**	**5.0x**	**6.0x**	**8.0x**	**10.0x**
vs. peers (%)	-57	-43	-29	-14	14	43
Sensitivity	7.3	9.7	12.2	14.6	19.5	24.3

Fig. 116. Bank Millennium: Ratios, Assumptions and Forecasts

P&L (PLN mn)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
NII	4,760	5,253	5,649	5,846	6,305
F&C	808	782	781	789	797
Trading Income	-197	529	-87	240	240
Total Revenue	5,431	6,723	6,240	6,855	7,322
Cost	-2,093	-1,993	-2,212	-2,309	-2,413
NLLP	-460	-352	-513	-496	-505
CHF-provisions	-2,017	-3,065	-2,372	-2,176	-1,100
Pre-tax Profit	-562	1,312	1,143	1,874	3,304
Banking tax	-169	0	-231	-413	-440
Net Income	-1,015	576	686	776	1,916
Net Income (adj.)	2,500	2,993	2,986	2,953	3,016

PLN bn	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Total Assets	110.9	125.5	134.5	143.9	160.5
Bonds	21.7	43.6	49.2	53.1	64.6
Loans	76.6	73.6	74.7	80.2	85.3
Loans growth (%)	-3	-4	1	7	6
Deposits	98.3	110.6	118.3	126.9	142.2
Equity	5.5	6.9	7.8	8.6	9.9
Mortgage loans	42.4	39.8	39.9	44.4	48.6
CHF mortgages	10.5	8.8	6.8	6.3	5.8
Other retail loans	16.6	18.0	18.3	18.9	19.4
Corporate loans	19.8	18.3	19.3	20.1	21.0

NIM ratios (%)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Asset yield	6.14	7.33	7.01	6.54	5.64
Funding cost	1.71	2.98	2.77	2.44	1.53
NIM	4.55	4.57	4.46	4.31	4.24

Risk ratios (%)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Stage 3 ratio	4.2	4.6			
Stage 3 coverage	48.6	50.5			
Cost of risk	0.44	0.35	0.54	0.64	0.61

Du Pont (%)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
NII/assets	4.43	4.44	4.35	4.20	4.14
CoR/assets	-0.43	-0.30	-0.39	-0.36	-0.33
F&C/assets	0.75	0.66	0.60	0.57	0.52
Other rev/assets	-3.33	-2.01	-1.97	-1.41	-0.58
Costs/assets	-1.95	-1.69	-1.70	-1.66	-1.59
Taxes&other	-0.42	-0.62	-0.35	-0.79	-0.91
ROA	-0.94	0.49	0.53	0.56	1.26
Leverage (x)	17.6	19.1	17.7	17.0	16.5
ROE (reported)	-16.6	9.3	9.3	9.5	20.8

Capital & dividends	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Tier-1 (PLN bn)	5.5	6.1	6.9	7.7	9.6
Tier-2 (PLN bn)	1.5	1.4	1.2	1.2	1.2
TCR (PLN bn)	3.9	3.3	3.5	3.8	4.0
RWA (PLN mn)	52.8	41.4	43.7	46.9	49.9
CT1 ratio (%)	11.3	14.7	15.8	16.4	19.2
CAR ratio (%)	14.4	18.1	18.5	18.8	21.5
Div. payout (%)	0.0	0.0	0.0	0.0	35.0
Dividend (PLN mn)	0	0	0	0	0
No. of shares (mn)	1,213	1,213	1,213	1,213	1,213

Source for all tables: Company data, Bloomberg, Santander Brokerage Poland NOTE: historical valuation ratios based on eoy prices

OTP Bank

Bloomberg: OTP HB, Reuters: OTP.HU

CEE Equity Research

Banks, Hungary, CEE

Poised for Most Significant Acquisition Yet?

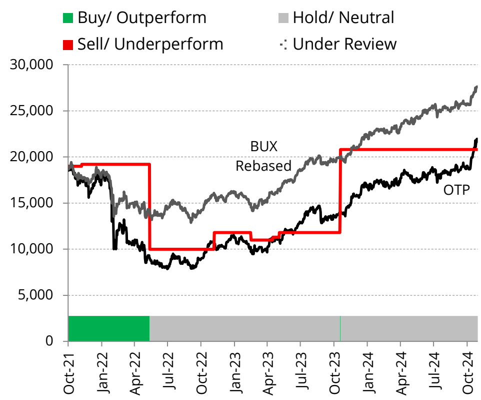
- **Equity story.** We maintain our view that OTP Bank warrants a discount to its CEE peers because of material exposure to Russia and Ukraine, erratic shareholder remuneration and likely upcoming sizeable brick and mortar acquisition(s) potentially executed above book value.
- **Shareholder remuneration at OTP Bank appears increasingly subject to its continued acquisition strategy.** In May 2024, Chairman-CEO Sándor Csányi revealed that OTP had made an offer for a bank in an EU member state where it currently lacks a presence. If completed, this acquisition would represent the largest in OTP's history. Csányi also noted OTP's ongoing interest in expansion opportunities in Poland. Bloomberg (May 2, 2024) reported that the potential target is Tallinn-based Luminor Bank, with sellers allegedly demanding a price-to-book value (P/BV) of 1.2x. This would imply a deal value of approximately EUR 2.1 billion, representing around 15% of OTP's market capitalization. Meanwhile, other sources (e.g., Portfolio.hu) have speculated that the target could instead be a Greek bank. OTP's largest acquisition to date was the purchase of Slovenian Nova KBM in February 2023, which added approximately EUR10bn in assets (12% of OTP Group) and EUR300mn in revenue (7% of OTP's total revenue). We see risks that OTP's irregular dividend and buyback history may persist amid its acquisition-driven strategy.
- **Consensus beat on stronger trading.** In 3Q24, OTP reported earnings that surpassed consensus expectations, primarily due to stronger trading performance. OTP reiterated 2024 guidance and revised its sensitivity to 100bps cuts in euro rate to EUR90mn (vs EUR110mn before). We now project a terminal Return on Equity (ROE) of 15.7%, an increase from our previous estimate of 15.0%, though still below the expected 23.6% for the full year 2024.
- **Valuation and risks.** OTP trades at 2025E P/E of 5.4x, 2024E P/BV of 1.1x for 2024E ROE of 23.6%. The nearest dividend is at 3.7%. We set our OTP target price at HUF22,300. Among the main risks we would mention exposure to Russia and Ukraine, HUF exchange rates, the outlook for cost of risk, regulatory changes and especially M&A.

RECOMMENDATION	Underperform
Current price (25 Nov 2024, HUF)	21,770.0
Target price (HUF, Dec'25)	**22,300.0**

Previous report issued on Nov 13, 2024 with:

Recommendation	*Neutral*
TP (HUF, Dec'25)	*21,400*

STOCK PERFORMANCE



The chart measures performance against the WIG index.

OTP Bank: Financial summary and ratios

Year to Dec, HUFmn	2022	2023	2024E	2025E	2026E
P/E (adjusted)	4.8x	4.4x	5.5x	5.8x	6.3x
P/E (reported)	8.5x	4.4x	5.9x	5.8x	6.3x
P/BV	0.85x	1.08x	1.20x	1.04x	0.95x
Dividend Yield	4.2%	1.9%	3.4%	3.4%	4.6%
EPS (adjusted) (HUF)	2,116	3,602	3,939	3,747	3,468
DPS (HUF)	429	300	750	750	992
Net Income (adj. HUF m)	11,844	14,596	18,201	20,973	23,003
Net Income (HUF m)	593	1,009	1,103	1,049	971

Source: Company data, Santander Brokerage Poland estimates

Analyst

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Fig. 117. OTP Bank: Valuation summary (HUF/share)

Recommendation	Underperform
Dec'25 Target Price (HUF)	22,300
Current price (HUF)	21,770
Prospective upside (%)	2

**Our Dec'25 Target Price is calculated as rounded average of DDM Valuation (50%) and Comparative Valuation (50%).*

DDM valuation (HUF/share)	21,842
Discounted dividends (HUF/share)	2,532.9
Terminal value (HUF/share)	19,309
Terminal ROE (%)	15.77
g (%)	3.00
CoE (%)	12.50
RFR (%)	12.50
Beta (x)	1.30
ERP (%)	5.0

Comparative Valuation HUF/share	22,725
Net Income (HUF mn, next 12 months)	1,061
Applied P/E (x)	6.0
P/E peers (x)	7.0

Fig. 118. OTP Bank: DDM Valuation sensitivity (HUF/share)

	ROE->	13.8%	14.8%	15.8%	16.8%	17.8%
	2.0%	18,635	20,003	21,371	22,739	24,106
	2.5%	18,723	20,159	21,595	23,031	24,467
g	3.0%	18,819	20,330	21,842	23,354	24,865
	3.5%	18,926	20,521	22,117	23,713	25,308
	4.0%	19,045	20,735	22,424	24,114	25,803

Fig. 119. OTP Bank: DDM Valuation sensitivity (HUF/share)

	ERP->	3.0%	4.0%	5.0%	6.0%	7.0%
	5.0%	34,014	28,829	24,897	21,820	19,352
	5.5%	30,474	26,159	22,817	20,158	17,997
RFR	6.0%	27,540	23,897	21,024	18,706	16,800
	6.5%	25,070	21,957	19,464	17,427	15,734
	7.0%	22,966	20,278	18,096	16,293	14,781

Fig. 120. OTP Bank: Our forecast vs Bloomberg consensus

	Bloomberg consensus			Our assumptions vs cons.		
	2024E	2025E	2026E	2024E	2025E	2026E
Net income	1,000	999	1,061	*1%*	*4%*	*-1%*
DPS (PLN)	842	940	1058	*-11%*	*-20%*	*-6%*
ROE (%)	22.0	18.6	16.7	*0.6 pp*	*0.6 pp*	*-0.9 pp*

Fig. 121. OTP Bank: Comparative Valuation sensitivity (HUF/share)

Fair P/E (x)	2.0x	3.0x	4.0x	6.0x	8.0x	10.0x
vs. peers (%)	-71	-57	-43	-14	14	43
Sensitivity	7,575	11,363	15,150	22,725	30,301	37,876

Fig. 122. OTP Bank: Ratios, Assumptions and Forecasts

P&L (HUF bn)	2022	2023	2024E	2025E	2026E
NII	1,091	1,387	1,722	1,786	1,838
F&C	600	692	800	813	816
Trading Income	-32	89	52	43	44
Total Revenue	1,649	2,373	2,582	2,642	2,697
Cost	-1,043	-1,074	-1,169	-1,284	-1,411
NLLP	-211	-98	-103	-188	-203
Pre-tax Profit	395	1,201	1,257	1,170	1,083
Banking tax	-91	-63	0	0	0
Net Income	335	1,010	1,037	1,049	971
Net Income (adj.)	593	1,009	1,103	1,049	971

HUF tr	2022	2023	2024E	2025E	2026E
Total Assets	32.8	39.6	42.4	45.7	48.9
Bonds	7.1	7.4	10.0	11.5	12.7
Loans	18.6	21.4	22.7	24.5	26.4
Loans growth (%)	18	15	6	8	8
Deposits	25.2	29.4	30.9	33.4	36.1
Equity	3.3	4.1	5.1	5.9	6.4
Loans - HU	6.5	6.6	7.0	7.9	8.9
Loans - BG	3.6	4.1	4.7	5.1	5.5
Loans - CR	2.3	2.3	2.7	2.9	3.2
Loans - other	6.3	8.5	8.3	8.6	8.9

NIM ratios (%)	2022	2023	2024E	2025E	2026E
Asset yield	6.96	8.54	7.84	7.62	7.45
Funding cost	3.56	5.04	3.83	3.81	3.88
NIM	3.79	4.02	4.41	4.25	4.06

Risk ratios (%)	2022	2023	2024E	2025E	2026E
Stage 3 ratio	5.3	4.2	4.3	4.3	4.3
Stage 3 coverage	65.4	61.4	61.0	61.0	61.0
Cost of risk	0.91	0.54	0.29	0.80	0.80

Du Pont (%)	2022	2023	2024E	2025E	2026E
NII/assets	3.62	3.83	4.20	4.06	3.89
CoR/assets	-0.70	-0.27	-0.25	-0.43	-0.43
F&C/assets	1.99	1.91	1.95	1.85	1.73
Other rev/assets	-0.14	0.81	0.02	0.10	0.09
Costs/assets	-3.46	-2.97	-2.85	-2.92	-2.98
Taxes&other/assets	-0.20	-0.53	-0.53	-0.27	-0.24
ROA	1.11	2.79	2.53	2.38	2.05
Leverage (x)	9.5	9.8	8.9	8.0	7.7
ROE (reported)	10.55	27.28	22.60	19.13	15.77

Capital & dividends	2022	2023	2024E	2025E	2026E
Tier-1 (HUF tr)	3.5	3.9	4.7	5.6	6.5
Tier-2 (HUF tr)	0.3	0.6	0.0	0.0	0.0
TCR (HUF tr)	1.7	1.9	2.1	2.4	2.6
RWA (HUF tr)	21.8	25.1	26.5	28.6	30.9
CT1 ratio (%)	16.4	16.4	18.1	18.3	19.7
CAR ratio (%)	17.8	18.8	18.1	18.3	19.7
Div. payout (%)	25.1	20.8	23.3	26.5	32.9
Dividend (HUF bn)	120	84	210	242	278
No. of shares (mn)	280.0	280.0	280.0	280.0	280.0

Source for all tables: Company data, Bloomberg, Santander Brokerage Poland NOTE: historical valuation ratios based on eoy prices

Pekao SA

Bloomberg: PEO PW, Reuters: PEO.WA

CEE Equity Research

Banks, Poland

Foundational work or Alior?

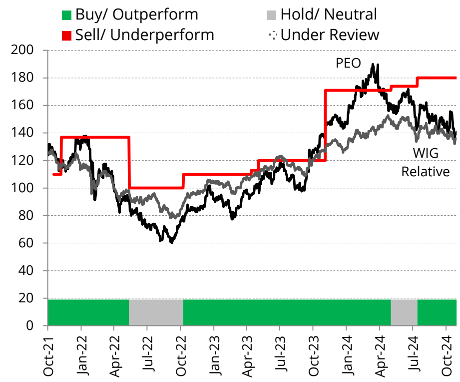
- **Equity story.** Pekao's future strategy depends on PZU's decisions regarding the management of its banking assets. Possible scenarios include increased specialization between the banks, a potential merger, or a continuation of the current independent development approach. PZU is expected to publish its strategy on December 2, 2024. In our view, the potential upside, capped at 6.5%, does not justify the integration risks or the distraction from essential day-to-day foundational work.
- **New CEO shared his preliminary assessment.** In October 2024, Cezary Stypułkowski assumed the role of CEO at Bank Pekao. In his initial communications, he identified several areas requiring attention: the demographics of retail clients are a disadvantage, the IT infrastructure is outdated (systems are sluggish, fragmented, and inconsistent), the brand needs revitalization, the F&C area requires attention, and the corporate culture needs to be flattened. These observations align with assessments made by previous management. We are curious about the remedies the new management will propose, how effectively they will be implemented, and the impact they will ultimately have.
- **Second approach to acquisition of Alior Bank?** In August 2018 Pekao and Alior decided not to merge claiming that detailed assessments raised doubts about the feasibility and profitability of the merger, leading both banks to conclude that independent operations would be more beneficial. We note that Alior risk profile converges in the direction of Pekao. Nevertheless we remain sceptical about the deal – we hardly see potential that merger would add valuable new capabilities for any of the banks. The scale alone is not a predictor of margin growth. Execution of integration would require mitigation of operational and cultural risks that can distract from day-to-day operations.
- **Cost synergies worth PLN3.2bn (6.5% of upside).** Assuming that synergies would account for 40% of Alior cost (PLN0.8bn pretax) and applying current P/E multiple (5.0x) we value cost synergies at PLN3.2bn, which accounts for 6.5% of the combined market cap of the two banks at PLN48.8bn.
- **Valuation and risks.** We reiterate Pekao Outperform rating and trim a Dec'25 TP to PLN 178.0. Among the risks, we point out to Pekao being state-controlled, dividends and potential deterioration of the loan portfolio.

RECOMMENDATION	Outperform
Current price (25 Nov 2024, PLN)	140.75
Target price (PLN, Dec'25)	**178.00**

Previous report issued on Aug 9, 2024 with:

Recommendation	*Outperform*
TP (PLN, Dec'25)	*180*

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Pekao SA: Financial summary and ratios

Year to Dec, PLNmn	2022	2023	2024E	2025E	2026E
P/E (adjusted)	4.8x	6.1x	5.4x	5.8x	5.9x
P/E (reported)	13.2x	6.1x	5.8x	5.8x	5.9x
P/BV	1.00x	1.32x	1.14x	1.09x	1.04x
Dividend Yield	5.0%	3.6%	13.6%	13.0%	13.0%
EPS (adjusted) (PLN)	17.9	25.0	26.2	24.4	24.0
DPS (PLN)	4.30	5.42	19.20	18.29	18.31
BVPS (PLN)	86.7	115.6	123.7	129.4	135.1
Net Income (PLN mn)	4,709	6,552	6,878	6,408	6,291

Source: Company data, Santander Brokerage Poland estimates

Analyst

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Fig. 123. Pekao SA: Valuation summary (PLN/share)

Recommendation	Outperform
Dec'25 Target Price (PLN)	178.00
Current price (PLN)	140.75
Prospective upside (%)	26

**Our Dec'25 Target Price is calculated as rounded average of DDM Valuation (50%) and Comparative valuation (50%) less the estimated cost related to CHF-mortgages.*

DDM valuation (PLN/share)	194.7
Discounted dividends (PLN/share)	44.4
Terminal value (PLN/share)	150.4
Terminal ROE (%)	17.63
g (%)	3.00
CoE (%)	11.50
RFR (%)	11.50
Beta (x)	1.10
ERP (%)	5.0

Comparative Valuation PLN/share	167.8
Net Income (PLN mn, next 12 months)	6,291
Applied P/E (x)	7.0
P/E peers (x)	7.0
CHF impact	-2.8

Fig. 124. Pekao SA: DDM Valuation sensitivity (PLN/share)

	ROE->	15.6%	16.6%	17.6%	18.6%	19.6%
	0.0%	169.7	178.9	188.1	197.3	206.5
	1.0%	171.8	181.5	191.2	200.9	210.7
g	2.0%	174.2	184.5	194.7	205.0	215.3
	3.0%	176.8	187.7	198.7	209.6	220.5
	4.0%	179.8	191.5	203.1	214.8	226.4

Fig. 125. Pekao SA: DDM Valuation sensitivity (PLN/share)

	ERP->	3.0%	4.0%	5.0%	6.0%	7.0%
	3.0%	315.9	260.1	220.9	192.0	169.8
	3.5%	288.1	240.9	207.0	181.4	161.6
RFR	4.0%	264.8	224.4	194.7	172.0	154.1
	4.5%	245.0	210.1	183.9	163.6	147.4
	5.0%	228.1	197.6	174.3	156.1	141.4

Fig. 126. Pekao SA: Our forecast vs Bloomberg consensus

	Bloomberg consensus			Our assumptions vs cons.		
	2024E	2025E	2026E	2024E	2025E	2026E
Net income	6,454	6,067	5,503	*-1%*	*6%*	*14%*
DPS (PLN)	18.67	16.66	15.41	*-2%*	*10%*	*-22%*
ROE (%)	20.4	18.2	15.8	*2.4 pp*	*2.9 pp*	*2.3 pp*

Fig. 127. Pekao SA: Comps Valuation sensitivity (PLN/share)

Fair P/E (x)	4.0x	5.0x	6.0x	7.0x	9.0x	11.0x
vs. peers (%)	-43	-29	-14	0	29	57
Sensitivity	95.9	119.8	143.8	167.8	215.7	263.6

Fig. 128. Pekao SA: Ratios, Assumptions and Forecasts

P&L (PLN mn, yr to Dec)	2022	2023	2024E	2025E	2026E
NII	10,203	11,924	12,819	13,497	13,101
F&C	2,807	2,861	2,818	2,847	2,875
Trading Income	215	537	355	206	223
Total Revenue	12,940	14,809	15,895	16,430	16,079
Cost	-4,561	-4,896	-5,327	-5,924	-6,190
NLLP	-1,103	-586	-677	-585	-629
Pre-tax Profit	3,749	9,360	9,101	9,321	9,259
Banking tax	-866	-879	-898	-955	-1,023
Net Income	1,718	6,579	6,402	6,408	6,291
Net Income (adj.)	4,709	6,552	6,878	6,408	6,291

PLN bn	2022	2023	2024E	2025E	2026E
Total Assets	281	306	330	356	375
Bonds	70	98	107	115	122
Loans	169	173	187	203	215
Loans growth (%)	-1	2	8	9	6
Deposits	223	245	272	295	313
Equity	23	30	32	34	35
Mortgage loans	65	66	70	77	82
CHF mortgages	3	2	1	1	1
Other retail loans	11	12	13	13	13
Corporate loans	103	105	112	121	129

NIM ratios (%)	2022	2023	2024E	2025E	2026E
Asset yield (%)	5.32	6.66	6.28	5.95	4.70
Funding cost (%)	1.28	2.52	2.23	2.01	1.05
NIM (%)	4.15	4.39	4.27	4.13	3.76

Risk ratios (%)	2022	2023	2024E	2025E	2026E
Stage 3 ratio	6.0	5.9			
Stage 3 coverage	71.2	68.6			
Cost of risk	1.19	0.33	0.38	0.30	0.30

Du Pont (%)	2022	2023	2024E	2025E	2026E
NII/assets	3.84	4.06	4.03	3.94	3.59
CoR/assets	-0.41	-0.20	-0.21	-0.17	-0.17
F&C/assets	1.06	0.97	0.89	0.83	0.79
Other rev/assets	-0.28	0.01	0.07	0.03	0.03
Costs/assets	-1.72	-1.67	-1.68	-1.73	-1.69
Taxes&other	-0.76	-0.95	-0.85	-0.85	-0.81
ROA	1.72	2.23	2.25	2.04	1.72
Leverage (x)	11.4	11.1	10.1	10.3	10.5
ROE (reported)	19.65	24.70	22.78	21.10	18.12

Capital & dividends	2022	2023	2024E	2025E	2026E
Tier-1 (PLN bn)	23.1	23.5	25.1	26.7	29.9
Tier-2 (PLN bn)	2.7	2.4	2.2	2.2	2.2
TCR (PLN bn)	11.9	12.3	13.1	14.2	15.1
RWA (PLN mn)	148.3	154.2	164.0	178.1	188.6
CT1 ratio (%)	15.6	15.3	15.3	15.0	15.9
CAR ratio (%)	17.4	16.8	16.6	16.2	17.0
Div. payout (%)	82.8	75.0	75.0	75.0	50.0
Dividend (PLN mn)	1,129	1,423	5,039	4,801	4,806
No. of shares (mn)	262	262	262	262	262

Source for all tables: Company data, Bloomberg, Santander Brokerage Poland NOTE: historical valuation ratios based on eoy prices

PKO BP

Bloomberg: PKO PW, Reuters: PKO.WA

CEE Equity Research

Banks, Poland

Ambition for market share gains

- **Equity story.** In October, PKO released its 2025–2027 strategy, with key financial targets such as ROE and C/I aligning with our valuation assumptions. PKO appears to have a conservative outlook on the cost of risk but ambitious targets for volume growth and market share expansion. We believe that double-digit dividend yields, combined with a 2026E P/BV of 1.1x and a projected 2027E ROE of 18%, support an outperform recommendation.
- **Double digit dividends ahead?** We anticipate a 75% payout ratio, which would translate to dividend yields (DY) of 10.4%, 11.6%, and 8.1% over the next three years.
- **PKO's recently unveiled 2025–2027 strategy** outlines key financial targets, including a return on equity (ROE) exceeding 18% and a cost-to-income (C/I) ratio below 35% by 2027. Our projections align closely, anticipating a C/I ratio of 34.1%. The bank's forecasted cost of risk (CoR) between 0.7% and 0.9% appears conservative, especially when compared to institutions with higher risk profiles, such as Alior Bank, which projects a CoR of approximately 0.8%. Our analysis suggests a more optimistic CoR of 0.6% for PKO. PKO's ambition to boost its market share in major loan and deposit categories by an average of 1.5 percentage points over the next three years is notably ambitious. This goal surpasses our current valuation assumptions, which anticipates PKO's growth aligning with the overall market.
- **The lowest deposit cost among peers.** As of 4Q23 PKO had second highest deposit cost (after Bank Millennium) at 2.3%. In 3Q24 average deposit cost declined to 1.6% and was the lowest among peers (comparing to 1.7% for mBank, 1.8% for Pekao, BNP and Santander and 2.3% for Millennium).
- **Room for continued improvement on asset yield.** 3Q24 yield on PKO fixed income portfolio was at 3.79%; if it was rolled over at the current yield curve above 5.0%, PKO would have PLN3.0bn higher NII or 65 bps higher NIM. We assume that during 2025 cost of hedging will reduce materially – the cost of heading in the last 12 months was at PLN2,139mn. While we had previously expressed scepticism about the potential for further reductions in deposit costs, PKO's recent performance has exceeded expectations. However, considering its current low level, we anticipate limited room for additional decreases in the near future.
- **Valuation and risks.** We reiterate PKO Outperform with a Dec'25 TP of PLN72.0. The major risks are related to state control, CHF portfolio and negative sentiment towards banks.

PKO BP: Financial summary and ratios

Year to Dec, PLNmn	2022	2023	2024E	2025E	2026E
P/E (adjusted)	11.4x	6.1x	4.9x	4.9x	5.8x
P/E (reported)	11.4x	11.4x	7.2x	6.5x	6.2x
P/BV	1.07x	1.41x	1.30x	1.15x	1.04x
Dividend Yield	2.5%	4.8%	10.3%	11.6%	8.1%
EPS (PLN)	2.67	8.34	11.06	10.99	9.44
DPS (PLN)	1.28	2.59	5.63	6.30	4.40
BVPS (PLN)	28.4	36.2	41.7	47.3	52.1
Net Income (PLN mn)	3,333	10,421	13,831	13,735	11,800

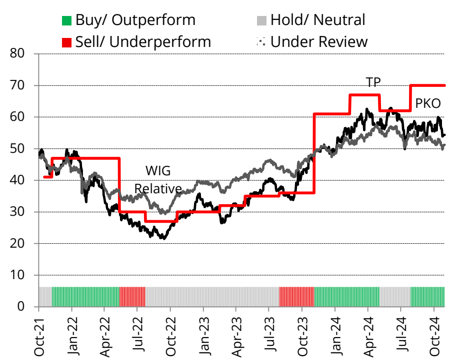
Source: Company data, Santander Brokerage Poland estimates

RECOMMENDATION	Outperform
Current price (25 Nov 2024, PLN)	54.38
Target price (PLN, Dec'25)	**72.00**

Previous report issued on Aug 23, 2024 with:

Recommendation	*Outperform*
TP (PLN, Dec'25)	*70*

STOCK PERFORMANCE



The chart measures performance against the WIG index.

Analyst

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Santander

Fig. 129. PKO BP: Valuation summary (PLN/share)

Recommendation	**Outperform**
Dec'25 Target Price (PLN)	**72.00**
Current price (PLN)	54.38
Prospective upside (%)	32

**Our Dec'25 Target Price is calculated as rounded average of DDM Valuation (50%) and Comparative valuation (50%) less estimated impact of CHF-mortgages.*

DDM valuation (PLN/share)	**73.2**
Discounted dividends (PLN/share)	14.8
Terminal value (PLN/share)	58.4
Terminal ROE (%)	17.70
g (%)	3.00
CoE (%)	11.50
RFR (%)	11.50
Beta (x)	1.10
ERP (%)	5.0

Comparative Valuation PLN/share	**77.9**
Net Income (PLN mn, next 12 months)	13,915
Applied P/E (x)	7.0
P/E peers (x)	7.0
CHF impact/ share	**-3.9**

Fig. 130. PKO BP: DDM Valuation sensitivity (PLN/share)

	ROE->	13.7%	15.7%	17.7%	19.7%	21.7%
	1.0%	55.6	62.1	68.5	74.9	81.3
	2.0%	56.4	63.5	70.6	77.7	84.8
g	**3.0%**	57.3	65.2	73.2	81.1	89.0
	4.0%	58.5	67.5	76.4	85.4	94.4
	5.0%	60.0	70.4	80.7	91.1	101.5

Fig. 131. PKO BP: DDM Valuation sensitivity (PLN/share)

	ERP->	3.0%	4.0%	5.0%	6.0%	7.0%
	5.0%	120.2	98.5	83.3	72.1	63.5
	5.5%	109.4	91.1	77.9	68.0	60.3
RFR	**6.0%**	100.3	84.7	73.2	64.4	57.4
	6.5%	92.7	79.1	69.0	61.1	54.8
	7.0%	86.1	74.2	65.2	58.2	52.5

Fig. 132. PKO BP: Our forecast vs Bloomberg consensus

	Bloomberg consensus			**Our assumptions vs cons.**		
	2024E	**2025E**	**2026E**	**2024E**	**2025E**	**2026E**
Net income	10,164	10,654	10,810	*-8%*	*-1%*	*2%*
DPS (PLN)	4.24	5.51	5.31	*33%*	*14%*	*-17%*
ROE (%)	19.6	18.5	17.9	*0.6 pp*	*0.4 pp*	*-0.3 pp*

Fig. 133. PKO BP: Comparative Valuation sensitivity (PLN/share)

Fair P/E (x)	**1.0x**	**2.0x**	**3.0x**	**7.0x**	**8.0x**	**12.0x**
vs. peers (%)	-86	-71	-57	0	14	71
Sensitivity	11.1	22.3	33.4	77.9	89.1	133.6

Fig. 134. PKO BP: Ratios, Assumptions and Forecasts

P&L (PLN mn, yr to Dec)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
NII	14,924	18,318	22,222	23,576	21,554
F&C	4,951	5,429	5,887	5,956	6,084
Trading Income	310	337	458	352	231
Total Revenue	20,383	24,224	28,769	30,044	28,032
Cost	-7,850	-7,635	-8,521	-8,991	-9,428
NLLP	-1,564	-1,373	-1,596	-1,894	-1,723
CHF provisions	-5,025	-5,430	-4,314	-4,000	-1,000
Pre-tax Profit	6,015	9,885	13,995	15,199	15,921
Banking tax	-1,266	-1,231	-1,261	-1,360	-1,428
Net Income	**3,333**	**5,594**	**9,377**	**10,495**	**10,990**
Net Income (adj.)	3,333	10,421	13,831	13,735	11,800

PLN bn	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Total Assets	435	502	517	557	583
Bonds	136	197	203	222	236
Loans	236	246	260	281	294
Loans growth (%)	*-1*	*4*	*6*	*8*	*5*
Deposits	340	399	407	441	461
Equity	35	45	52	59	65
Mortgage loans	111	115	124	134	141
CHF mortgages	17	13	10	8	7
Other retail loans	32	35	38	40	42
Corporate loans	98	106	108	119	123

NIM ratios (%)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Asset yield (%)	4.93	6.23	6.23	6.02	4.57
Funding cost (%)	1.41	2.42	1.94	1.69	0.75
NIM (%)	3.74	4.17	4.59	4.60	3.95

Risk ratios (%)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Stage 3 ratio (%)	3.7	3.5	3.6	3.6	3.6
Stage 3 coverage (%)	61.8	59.5	51.0	51.0	51.0
Cost of risk (%)	0.66	0.57	0.63	0.70	0.60

Du Pont (%)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
NII/assets	3.48	3.91	4.37	4.39	3.78
CoR/assets	-0.37	-0.29	-0.31	-0.35	-0.30
F&C/assets	1.16	1.16	1.16	1.11	1.07
Other rev/assets	0.14	0.12	0.16	0.10	0.08
Costs/assets	-1.83	-1.63	-1.67	-1.67	-1.65
Taxes&other/assets	-1.80	-2.08	-1.75	-1.62	-1.04
ROA	0.78	1.19	1.94	1.96	1.93
Leverage (x)	11.7	11.6	10.5	9.6	9.2
ROE (reported)	9.11	13.87	20.25	18.85	17.68

Capital & dividends	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Tier-1 (PLN bn)	40.8	42.5	44.9	47.2	49.8
Tier-2 (PLN bn)	2.7	2.7	2.7	2.7	2.7
TCR (PLN bn)	17.4	18.1	19.1	20.7	21.7
RWA (PLN mn)	200.8	209.0	221.2	239.4	250.5
CT1 ratio (%)	18.8	18.8	18.8	18.2	18.4
CAR ratio (%)	20.0	20.0	19.9	19.3	19.4
Div. payout (%)	0.0	75.0	75.0	75.0	50.0
Dividend (PLN mn)	2,288	1,600	3,238	7,033	7,871
No. of shares (mn)	1,250	1,250	1,250	1,250	1,250

Source for all tables: Company data, Bloomberg, Santander Brokerage Poland NOTE: historical valuation ratios based on eoy prices

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In preparing this report Santander Brokerage Poland applied at least one of the following valuation methods: discounted cash flows (DCF), comparative, mid-cycle, dividend discount model (DDM), residual income, warranted equity method (WEV), SOTP valuation, liquidation value.
The discounted cash flows (DCF) valuation method is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The comparative valuation method is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.
The mid-cycle multiple valuation is based on long-term average valuation multiples of a sector or a peer group. The methodology aims to calculate a fair, through the cycle value of the company. Among its shortfalls is that at peaks and/or troughs of the cycle, the implied fair value may deviate substantially from the market's value of an analysed stock as well as the methods' reliance on the quality of external data (we usually use Bloomberg or Damodaran databases). Simplicity and average through-cycle value allowing to capture over- as well as under-valuation of a given stock are the main advantages of this methodology.
The dividend discount model (DDM) valuation is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.
Residual income method is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The warranted equity method (WEV) is based on the formula P/BV = (two year forward ROE less sustainable growth rate)/(Cost of equity less sustainable growth rate) which allows estimating a fair value (FV) of a given stock in two years' time. Subsequently the FV is discounted back to today. The main advantage of the WEV method is that it is a transparent one and based on relatively short term forecasts, hence substantially reducing the margin of forecasting error. The main disadvantage in our view is that the model is based on the principle that stock price should converge towards its fair value implied by company's ROE and COE.
SOTP valuation - different assets of a company are being valued according to different valuation methods, and the sum of these valuations represents the final valuation of the company. SOTP valuation advantages / disadvantages are identical to advantages and disadvantages of the specific valuation methods used.
Liquidation value method – liquidation value is the estimated amount of money that an asset or company could be quickly sold for, such as if it were to go out of business. Then, the estimated assets value is adjusted for liabilities and liquidation expenses. One advantage of this valuation method is its simplicity. This method does not account for intangible assets as goodwill, which is the main disadvantage.

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