

27 April 2010

Update


**Banks**  
Poland

<b>Current price</b>	<b>PLN 4.84</b>
<b>Target price</b>	<b>PLN 5.31</b>
Market cap	PLN 5.9bn
Free float	PLN 1.5bn
Avg daily trading volume (3M)	PLN 9.19m

**Shareholder Structure**

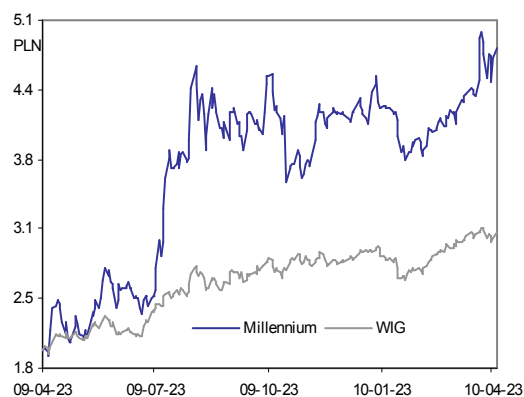
Banco Comercial Portugues	65.5%
AVIVA PTE	8.2%
Others	26.3%

**Sector Outlook**

Our recommended picks for the next few months are players with active corporate-banking departments (lower provisions, greater deposit expansion), and banks that offer attractive dividend yields. Our defensive approach to the sector stems from expectations of high provisions against retail loans in H1 2010. In the second half of the year, we be able to determine whether the current recovery is a sustainable trend which will continue into the following year. If so, that would considerably improve the outlook for the future of Polish banks.

**Company Profile**

Millennium is among Poland's top ten universal banks. It focuses on the retail client (63% of deposits and 73% of loans). After Q1'10, its loans/deposits ratio was 103%. A stock offering in early 2010 (PLN 1bn in new capital) gave a considerable boost to the bank's capital adequacy, with CAR rising to 14.95% in Q1'10 from 11.3% in Q409.

**Millennium vs. WIG**

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# Millennium Accumulate

BIGW.WA; MIL.PW

(Upgraded)

## Income Picks Up

**Millennium's solid first-quarter showing indicates a sustained upward momentum in income growth. Further growth hinges on (i) lower costs of financing, (ii) lower reserves, (iii) stronger sales of new loans, and all these factors are expected to improve in coming quarters, though at slower rates. Millennium raised PLN 1 billion in new capital from the February stock offering, and raised its capital adequacy ratio to 14.95%, prompting an assumption that it will be able to pay dividends from 2011 profits, one year earlier than we originally thought. We set our new price target on Millennium at PLN 5.31/share, and we recommend accumulating the stock. The new target is 18% higher than the previous one to account for the bank's reduced COE (which decreased from 11.15% to 10.56%). Moreover, we have raised our FY2010 earnings estimate by 16%.**

**Sustained income growth**

Millennium's first-quarter results indicate a sustained improvement in net interest margins which affected the bank's income performance last year, when a 39% slump in interest income depressed overall income by over 21% (the other income lines saw an aggregate 7% growth). Deposits spreads seem to have narrowed permanently, however, deposit costs demonstrated a substantial decrease vs. H1 2009 in the first quarter. Millennium booked a negative deposit margin of -0.1% in Q1'10 vs. -0.4% in Q109 and -0.7% in Q209. Margins are expected to stabilize in the coming quarters, as decreasing nominal costs of financing will be offset by falling market interest rates, but next year's rate hikes should send them on an upward path. As far as loan margins are concerned, we do not see much more potential for growth in that department: Millennium's margin came in at 3% in Q1 2010 after flat quarter-on-quarter growth, and increasing competition has brought margins on new loan sales lower.

**Volumes**

Millennium reported a 9% year-on-year drop in net loans in Q1 2010, however, since 8.5% of the value loss resulted from foreign-exchange revaluations, the loan portfolio actually remained flat compared to 2009. The bank has plans to step up borrower acquisition this year, and we expect these efforts to contribute to a 3% expansion of the loan portfolio, compared to a forecasted industry-average growth of 7%. The strengthening zloty is an important growth factor considering Millennium's above-average exposure to foreign-currency borrowings.

(PLN m)	2008	2009	2010F	2011F	2012F
Net Interest Income	1 135	691	999	1 139	1 265
Net Interest Margin	2.9%	1.5%	2.1%	2.3%	2.3%
Income f/ Banking Oper.	1 827	1 434	1 745	1 957	2 143
Operating Income*	657	431	694	837	970
Pre-tax Income	522	2	370	657	772
Net Income	413	1	295	524	616
ROE	15.5%	0.1%	8.6%	12.1%	12.8%
P/E	9.9	2747.4	19.9	11.2	9.5
P/BV	1.5	1.5	1.4	1.3	1.2
D/PS**	0.00	0.00	0.00	0.15	0.18
Dividend Yield	0.0%	0.0%	0.0%	3.1%	3.7%

\* before provisions; \*\* dividends on profits for the given year, paid out the following year



## First-Quarter Results

At PLN 68m, Bank Millennium's first-quarter net income was 15% above our forecast and consensus estimates (PLN 59m and PLN 60m, respectively), thanks mostly to lower-than-expected loan-loss provisions (PLN 83m vs. PLN 89m forecasted). Operating income before provisions exceeded our expectations by slightly under 4%, thanks to slightly lower expenses (PLN 255m vs. PLN 262m forecasted). Income from banking operations was in line with our projections (PLN 422m vs. PLN 420m). Operating income increased by 18% y/y.

We believe that the observed improvement in profitability (with the ratio of income to average assets increasing to 3.8% to 3.2% in 2009) is a lasting phenomenon. We are pleased with the fact that this change was driven by interest and fee income (+24% y/y, leading to a 6% y/y increase in income from banking operations). Trading income remains under pressure due to the reduction in financial market volatility vs. H1'09, lack of one-offs and the fact that the Bank has ceased to extend F/X loans. This has been factored into our forecast. We expect income from banking operations to increase by 22% in 2010 following: (i) a 45% y/y increase in net interest income (pro-forma), (ii) a 19% increase in fee income and (iii) a 35% drop in trading income. Even if we assumed that interest income will not change in Q2'10 vs. Q1'10, its y/y growth rate after H1'10 will be 57%. Even if it were to remain flat throughout the year (which is an overly conservative assumption given the launch of new loan products and the decline in the cost of financing in the market), the y/y growth rate would be 35%. We expect fee income to grow due to (i) improved situation in equity markets, (ii) the intensification of the Bank's business activity and (iii) increased transaction fees (hikes took place in H2'09).

### Reported vs. forecasted Q1 2010 results

(PLN m)	Q1'10F	Differ.	Q1'10	Change	Q1'09	2010F	Change	2009	Q1'10/FY10F
Net interest income**	227	2.7%	233	29.4%	180	999	44.5%	691	23.4%
Fee income	148	-0.3%	148	17.3%	126	586	18.7%	494	25.2%
NIM	2.0%	-	2.1%	-	1.5%	2.1%	-	1.5%	-
Banking income	420	0.5%	422	6.1%	397	1745	21.6%	1 434	24.2%
Operating expenses	-262	-2.7%	-255	-1.2%	-258	-1071	4.7%	-1 023	23.8%
Operating income*	163	3.6%	169	18.3%	143	694	61.0%	431	24.3%
Provisions	-89	-6.4%	-83	-35.6%	-129	-324	-25.8%	-436	25.7%
Pre-tax income	74	15.8%	85	542.0%	13	370	-	2	23.1%
Net income	59	15.3%	68	463.0%	12	295	-	1	23.1%

Source: BRE Bank Securities, Millennium

\* before provisions

\*\* pro forma (swap points included in interest income)

At PLN 233m, pro-forma interest income was in line with our expectations (PLN 227m). At PLN 217m, reported interest income undershot our expectations by PLN 25m. The gain on the valuation of derivative instruments, moved from trading to interest income in the pro-forma report, was PLN 16m (vs. PLN 10m in Q4'09). According to the Bank's data, its loan margin was 2.96% (vs. 2.97% in Q4'09), and its deposit margin -0.12% (-0.2% in Q4'09). We see little potential for higher loan margin, but we believe we can expect a slight improvement in interest margin on total assets due to the Bank's acquisition of new capital in February. So far, the Bank has been using these funds to buy bonds; as loan sales improve, it may increase the share of loans in interest-bearing assets somewhat. The improvement in interest income we are expecting will mostly be a consequence of improving cost of financing. Given the recent decline in interest rates in the market, we believe there is limited potential for further rapid increase in the deposit margin. In the medium-term, however, we do expect interest income to improve thanks to an increase in the level of the Bank's business activity.

At PLN 148m, fee income was in line with our expectations. An important factor in its q/q increase was the seasonal rise in income from insurance sales. We have increased our forecast for FY10 by slightly under 3% vs. our previous report. We expect fee income to decline in Q2'10 for seasonal reasons, and then to rebound to ca. PLN 150m as the Bank intensifies its business activities.

Expenses were a strong point of Q1'10 earnings. They undershot our expectations by 3% thanks to a disciplined approach to administrative costs. We have reduced our forecast for FY10 by slightly under 1% compared to our previous forecast (PLN 8m). The revision is thus largely a consequence of the developments seen in Q1'10 (-PLN 7m). We believe that in the



following quarters non-payroll expenses are bound to rise (inter alia, because of marketing expenses). In addition, the downsizing process will be over (in Q1'10, headcount fell by 33 people, compared to 58 in Q4'09, 111 in Q3'09, 300 in Q2'09 and 335 in Q1'09). The lower average headcount will slow down the growth of payroll expenses, but we do expect an increase in the average salary and a return to higher bonuses.

### Cost breakdown

(PLN m)	Q1'08	Q2'08	Q3'08	Q4'08	Q1'09	Q2'09	Q3'09	Q4'09	Q1'10
Payroll	149	151	157	152	118	124	121	107	122
Non-payroll	113	130	126	141	120	117	121	113	113
Amortization and depreciation	13	20	18	22	20	20	20	20	19
<b>TOTAL</b>	<b>275</b>	<b>300</b>	<b>302</b>	<b>315</b>	<b>258</b>	<b>262</b>	<b>263</b>	<b>241</b>	<b>255</b>

Source: BRE Bank Securities, Millennium

Loan-loss provisions were a positive factor at PLN 83m vs. PLN 89m expected by us. Management Board members told the press that they hoped provisions in FY10 would not exceed 1% of total loans (which we take to mean average net loans). In Q1'10, they figured to precisely 1% of the portfolio. Our FY projection is 0.95%. We expect them to remain elevated in Q2'10, and then decline gradually in H2'10. The Management declared that in Q1'10 there were no major cases of a deterioration as regards corporate clients. NPLs declined both in leasing (-PLN 29m) and other corporate loans (-PLN 43m). Nonetheless, PLN 40.6m worth of loan-loss provisions were created in the corporate segment, probably because of the need to add provisions for previously existing NPLs. As the impact of the problem of F/X options wanes, NPL growth in the segment slows down and the financial condition of bank clients improves, we should see corporate provisions decline. In Q1'10, they figured to 1.1% of the portfolio. Should they fall to 1%, this would entail a reduction in quarterly charges to under PLN 20m. We expect corporate provisions in the three following quarters will amount to ca. PLN 85m, which entails annualized cost of credit risk of ca. 1.3%. We believe the improving economy warrants an optimistic approach in this area. We assume that most of the provisions we forecast for FY 2010 will be created in the retail segment (nearly PLN 200m), which entails annualized cost of risk in the segment at ca. 1%. Given that 88% of retail loans are mortgages, we believe this is a sufficient buffer. Even if provisions were to exceed expectations slightly this year, our outlook on the bank would not change. The key factor is operating income before provisions.

The ratio of NPLs to gross loans increased from 5.9% last quarter to 6%, despite the limited growth of NPLs (PLN 24m). The increase was driven by base effects (with the loan portfolio shrinking due to the appreciation of the zloty).

The loan portfolio contracted by 1.5% q/q and 9% y/y, which, according to the Bank, was driven by the appreciating zloty (-8.6pp from y/y growth, -1.5pp from q/q growth). Adjusted for this factor, the loan portfolio seems stagnant. The Bank's new strategy foresees an offensive approach to the acquisition of new loan volumes, with a particular focus on corporate loans. The Bank's share of this market is supposed to increase from 3% to 5% at the end of 2012. At the same time, the Bank is planning to increase mortgage lending (compared to last year's levels). Still, the proportion of mortgages in new business is to be lower than their current share in the portfolio (6% vs. ca. 10%). In Q1'10, mortgages accounted for ca. 3% of new loans. Our scenario of loan volumes at Bank Millennium is much more conservative than the Management's. We expect corporate loans across the sector to increase by a mere 3% in FY 2010 (-2% YTD at the end of March). Thus, increasing market shares in the area need not entail rapid volume growth. At the same time, loans will be slowed down by the appreciating zloty (which has a neutral impact on revenue). Mortgages accounted for ca. 65% of net loans; given that most of them are denominated in foreign currencies, over half of Millennium's overall portfolio is. We expect net loans to increase by 3.4% in 2010, i.e. by 5% vs. Q1'10.

Deposits have remained practically unchanged vs. the end of 2009. We nonetheless believe in the following quarters the Bank will be aided by the improving financial standing of companies, which are already increasing their savings. We Bank's deposit portfolio to expand by ca. 10% in 2010, which will allow it to improve its loans / deposits ratio from the current 103% to 100%. In the long term, we expect the loans / deposits ratio to remain at close to 100%.

**Overview of quarterly results**

(PLN m)	Q2'08	Q3'08	Q4'08	Q1'09	Q2'09	Q3'09	Q4'09	Q1'10	Q/Q	Y/Y
Net loans	25 209	27 774	33 748	36 260	34 908	33 703	33 485	32 979	-1.5%	-9.0%
Deposits	25 641	29 543	31 702	32 345	32 925	30 439	31 821	31 937	0.4%	-1.3%
Assets	34 253	39 112	47 115	48 240	45 539	43 964	44 914	45 278	0.8%	-6.1%
Net interest income*	279	316	336	180	116	189	206	233	13.5%	29.4%
Fee income	114	113	110	126	107	122	139	148	6.1%	17.3%
Trading income*	86	74	-38	91	88	12	59	41	-31.0%	-55.4%
Income f/ banking operations	479	503	408	397	311	322	404	422	4.4%	6.1%
Other net operating income	6	2	6	3	10	-6	13	2	-86.9%	-43.7%
Banking income	485	505	413	400	320	316	417	423	1.5%	5.8%
Operating expenses	-281	-284	-293	-238	-242	-242	-221	-236	6.7%	-1.0%
Amortization and depreciation	-20	-18	-22	-20	-20	-20	-20	-19	-2.8%	-2.9%
Costs	-300	-302	-315	-258	-262	-263	-241	-255	5.9%	-1.2%
Operating income before provisions	185	203	99	143	58	54	177	169	-4.4%	18.3%
Provisions	-25	-46	-52	-129	-56	-160	-91	-83	-8.9%	-35.6%
Operating income	159	157	47	13	2	-106	85	85	0.4%	542.0%
Pre-tax income	159	157	47	13	9	-106	85	85	0.4%	542.0%
Tax	-34	-31	-11	-1	0	19	-18	-17	-1.9%	1326.2%
Net income	125	126	36	12	9	-87	67	68	1.0%	463.0%

Source: BRE Bank Securities, Millennium

\* pro forma



## Valuation

We used the same valuation methods for Bank Millennium as described in the previous update (11 February 2010). We calculate nine-month price targets for the banks in our coverage universe based on two valuation methods: the discounted dividend model, and relative valuation, to which we assign weights of 80% and 20% respectively. Note that the price multiples of some of the banks do not accurately reflect their medium-term earnings potential because of high one-time charges which are expected to be recognized at different points of the provisioning cycle (e.g. Kredyt Bank is going to book a one-time charge in 2009, and at the same time generate a one-time gain from the divestment of Żagiel).

## Discounted Dividend Model

We based our valuation on the Gordon model formula  $P/BV = (ROE - g) / (COE - g)$ , which we used to calculate the implied Price-to-Book Value multiple. The P/BV ratio depends on our assumed ROE (return on equity), COE (cost of equity), which is the sum of the risk-free rate and the risk premium entailed in an investment in the Bank, and a long-term growth rate (g). Our valuation methodology has not changed since our previous research report. Long-term ROE is the value forecasted for FY2018. The earnings distribution ratios projected for the last two years of the forecast horizon reflect the dividend potential resulting from the bank's profitability. To calculate the retention ratios necessary to maintain long-term growth, we used the formula: dividend payout ratio =  $1 - g/ROE$ .

### Dividends

Following the share offering, which brought the Bank PLN 1bn of new capital, its capital adequacy ratio increased to 14.95%. We believe that despite the growth in new lending, the appreciating zloty and a change in sales model (the Bank no longer generates considerable F/X volumes) will continue to slow down the expansion of risk-weighted assets. We are changing our expectations for dividends in the following years. We expect the Bank to pay out 35% of its FY 2011 profits, and to keep this ratio in the long term. Previously, we expected the Bank to return to paying dividends starting with earnings for FY 2012. We have not changed the payout ratio.

### Cost of Equity

The risk-free-rate is equal to the yield on 10Y T-bonds prevailing on the date of valuation. The assumed risk premium is an unchanged 5%, and the beta is 1.

10Y Treasury yield at the close of trading on April 23rd 2010, was 5.56%. The resulting COE is 10.6%. In our previous report for Bank Millennium, the risk free rate was 6.5%. We have shifted the date of valuation from the end of January to the end of April. The decline in the cost of equity has a considerable positive impact on valuation. Had we left the cost of equity unchanged, the increase in our DDM valuation would have been 6%.

**Discounted Dividend Method Summary**

(PLN/share)	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	+
Risk-free rate	5.56%	5.56%	5.56%	5.56%	5.56%	5.56%	5.56%	5.56%	5.56%	5.56%	5.56%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Cost of equity	10.56%	10.56%	10.56%	10.56%	10.56%	10.56%	10.56%	10.56%	10.56%	10.56%	10.56%
EPS	0.00	0.24	0.43	0.51	0.58	0.64	0.68	0.73	0.78	0.81	
Pct. y/y change in EPS	-99.6%	n/a	77.3%	17.6%	14.7%	9.2%	7.3%	7.3%	6.0%	4.7%	
BVPS	3.28	3.37	3.80	4.15	4.56	4.99	5.45	5.94	6.46	6.75	
Pct. y/y change in BVPS	-1.0%	2.5%	12.8%	9.4%	9.7%	9.5%	9.2%	9.1%	8.7%	4.4%	
ROE	0.1%	8.6%	12.1%	12.8%	13.4%	13.3%	13.1%	12.9%	12.5%	12.3%	
Long-term ROE											12.3%
CAGR											4.0%
Implied P/BV											1.26
Equity at year-end 2018											8.5
Equity at year-end 2017											7.7
Equity at year-end 2016											7.0
Equity at year-end 2015											6.3
Equity at year-end 2014											5.7
Equity at year-end 2013											5.2
Equity at year-end 2012											4.7
Equity at year-end 2011											4.2
Equity at year-end 2010											3.8
Equity at year-end 2009											3.5
DPS	0.00	0.00	0.15	0.18	0.20	0.22	0.24	0.26	0.53	0.55	
DPS/EPS	0.0%	0.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	68.0%	67.5%	
Discounted DPS	0.00	0.00	0.12	0.13	0.13	0.13	0.13	0.12	0.23	0.21	
Total discounted DPS											1.19
Fair value											4.81
9MTP											5.18
Current price											4.84
Upside potential											7%

Source: BRE Bank Securities

\* risk-free rate = 10Y Treasury yield as of 23 April 2010



## Relative Valuation

We compared the relative value of the bank stocks on the basis of weighted average values of their expected FY 2010 P/BV ratios (50% weight), FY 2010 P/E ratios (25% weight), and FY 2011 P/E ratios (25% weight). The resulting value represents just 20% of our target price. As the situation of banks stabilizes, we may raise this ratio. This approach has not changed since our last valuation.

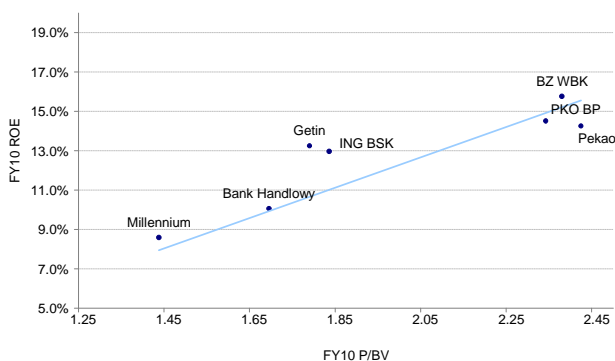
### Bank multiples (26 April 2010)

	P/BV			P/O*			P/E		
	2009	2010F	2011F	2009	2010F	2011F	2009	2010F	2011F
BZ WBK	2.7	2.4	2.1	9.6	8.7	8.2	17.9	15.9	12.5
Bank Handlowy	1.7	1.7	1.6	9.0	9.6	9.2	21.5	17.1	12.5
ING BSK	2.1	1.8	1.6	10.3	9.1	8.2	17.2	15.1	11.1
Kredyt Bank	1.7	1.6	1.4	5.1	6.6	6.1	124.4	33.4	9.7
Pekao	2.5	2.4	2.3	13.3	12.1	10.8	19.1	17.3	14.6
PKO BP	2.6	2.3	2.1	10.2	9.6	8.5	22.6	16.8	12.1
Getin	2.0	1.8	1.6	6.5	6.4	5.8	28.4	14.4	11.6
Average	2.2	2.0	1.8	9.1	8.9	8.1	35.9	18.6	12.0
Premium/discount to average	-32.4%	-28.4%	-29.0%	4.3%	-4.6%	-13.5%	n.a.	7.0%	-6.5%
Median	2.1	1.8	1.6	9.6	9.1	8.2	21.5	16.8	12.1
Premium/discount to median	-29.5%	-21.7%	-20.6%	-0.9%	-7.5%	-14.6%	n.a.	18.1%	-7.3%
<b>Millennium</b>	<b>1.5</b>	<b>1.4</b>	<b>1.3</b>	<b>9.5</b>	<b>8.5</b>	<b>7.0</b>	<b>n.a.</b>	<b>19.9</b>	<b>11.2</b>
Operating income per share				0.5	0.6	0.7			
BVPS	3.3	3.4	3.8						
EPS							0.00	0.24	0.43
Weights		50%						25%	25%
Average-based valuation	7.2	6.8	6.8	4.6	5.1	5.6	0.1	4.5	5.2
Median-based valuation	6.9	6.2	6.1	4.9	5.2	5.7	0.0	4.1	5.2

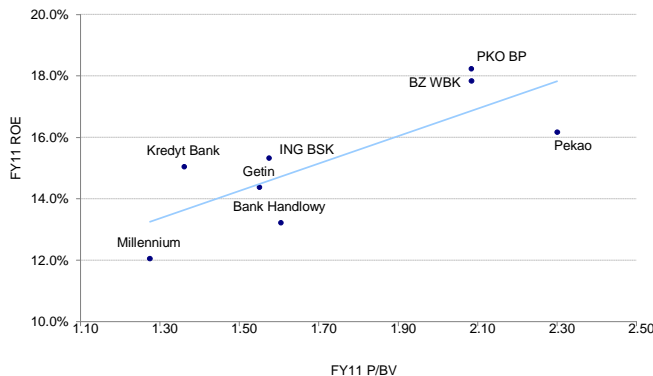
Source: BRE Bank Securities

\*O = operating income before provisions

### FY10E ROE vs. P/BV



### FY11E ROE vs. P/BV



Source: BRE Bank Securities, Millennium

## Valuation Summary

We calculate nine-month price targets for the banks in our coverage universe based on two valuation methods: the discounted dividend model, and relative valuation, to which we assign weights of 80% and 20%, respectively. A summary of the outcomes of the two methods is as follows:

### Valuation Summary

	Price	Weight
DDM-based fair value	4.81	80.0%
Relative valuation	5.42	20.0%
<b>Weighted average</b>	<b>4.93</b>	
<b>9MTP</b>	<b>5.31</b>	

Source: BRE Bank Securities

**INCOME STATEMENT**

(PLN m)	2008	2009*	2010F	2011F	2012F	2013F
Net interest income	1 135	691	999	1 139	1 265	1 391
Non-interest income	692	743	746	817	878	934
Fee income	472	494	586	635	675	712
Trading income	220	249	160	182	202	223
Income from banking operations	1 827	1 434	1 745	1 957	2 143	2 326
Other net operating income	21	20	20	20	20	20
Total banking income	1 849	1 454	1 765	1 977	2 163	2 346
Non-interest expense	-1 192	-1 023	-1 071	-1 140	-1 194	-1 244
Payroll	-609	-471	-509	-559	-593	-623
Amortization and depreciation	-73	-80	-78	-78	-78	-78
Other expenses	-510	-472	-485	-503	-523	-544
Operating income before provisions	657	431	694	837	970	1 102
Provisions	-135	-436	-324	-180	-198	-216
Equity in income of associates	0	7	0	0	0	0
Pre-tax income	522	2	370	657	772	886
Tax	-108	0	-75	-133	-156	-179
Minority interests	0	0	0	0	0	0
Net income	413	1	295	524	616	706
Dividends paid	0	0	0	183	215	247

\* based on preliminary earnings announcement for 2009

**CORE RATIOS**

	2008	2009	2010F	2011F	2012F	2013F
Net interest margin (total assets)	2.9%	1.5%	2.1%	2.3%	2.3%	2.4%
Net interest margin (interest-bearing assets)	3.3%	1.7%	2.4%	2.5%	2.6%	2.6%
Interest spread	2.9%	1.4%	1.9%	2.0%	2.0%	2.0%
Costs / Income	64.5%	70.4%	60.7%	57.7%	55.2%	53.0%
Costs / Assets	3.1%	2.2%	2.3%	2.3%	2.2%	2.1%
Payroll expenses / Income	33%	32%	29%	28%	27%	27%
Provisions / Operating Income	-21%	-101%	-47%	-22%	-20%	-20%
Provisions / Loans	-0.5%	-1.3%	-1.0%	-0.5%	-0.5%	-0.5%
Non-Interest Income / Total Income	37%	51%	42%	41%	41%	40%
Operating income / Assets	1.7%	0.9%	1.5%	1.7%	1.8%	1.9%
ROE	15.5%	0.1%	8.6%	12.1%	12.8%	13.4%
ROA	1.1%	0.0%	0.6%	1.0%	1.1%	1.2%

**ANNUAL GROWTH RATE**

	2008	2009	2010F	2011F	2012F	2013F
Net income	-10.4%	-99.6%	n.a.	77.3%	17.6%	14.7%
Operating income before provisions	0.9%	-34.4%	61.0%	20.6%	15.9%	13.6%
Total banking income	8.1%	-21.4%	21.4%	12.0%	9.4%	8.4%
Net interest income	38.4%	-39.1%	44.5%	14.1%	11.0%	10.0%
Non-interest income	-16.4%	7.3%	0.4%	9.6%	7.4%	6.4%
Non-interest expense	12.6%	-14.2%	4.7%	6.4%	4.7%	4.2%

**BALANCE SHEET**

(PLN m)	2008	2009	2010F	2011F	2012F	2013F
Cash and central bank balances	1 803	2 191	3 017	3 011	2 752	3 211
Receivables from financial institutions	1 641	904	2 112	2 107	1 926	2 248
Debt securities	6 374	6 471	6 617	7 209	7 966	8 601
Loans	33 748	33 485	34 636	37 521	41 575	44 829
Shares and derivatives	2 836	1 114	1 114	1 114	1 114	1 114
Fixed assets	408	370	389	382	381	383
Other assets	306	378	352	402	434	475
<b>Total assets</b>	<b>47 115</b>	<b>44 914</b>	<b>48 236</b>	<b>51 748</b>	<b>56 148</b>	<b>60 862</b>
Liabilities to financial institutions	4 563	7 252	6 055	6 469	7 027	7 430
Deposits	31 702	31 559	34 609	36 979	40 168	43 718
Securities outstanding	927	1 024	1 068	1 171	1 255	1 375
Subordinated debt	961	946	946	946	946	946
Other liabilities, incl. financial	6 146	1 346	1 476	1 577	1 713	1 864
Equity	2 815	2 787	4 083	4 606	5 039	5 529
Share capital	849	849	1 213	1 213	1 213	1 213
<b>Total liabilities</b>	<b>47 115</b>	<b>44 914</b>	<b>48 236</b>	<b>51 748</b>	<b>56 148</b>	<b>60 862</b>

\* based on preliminary earnings announcement for 2009

	2008	2009	2010F	2011F	2012F	2013F
NPL / Loans	3.4%	5.9%	7.0%	7.0%	7.0%	7.0%
NPL / Assets	2.5%	4.5%	5.3%	5.3%	5.4%	5.4%
Provisions / NPL	64.4%	54.4%	56.3%	58.4%	59.2%	61.3%
Provisions / Total loans	2.2%	3.2%	4.0%	4.1%	4.2%	4.3%
Provisions / Assets	1.6%	2.5%	3.0%	3.1%	3.2%	3.3%

**ASSET ANALYSIS**

	2008	2009	2010F	2011F	2012F	2013F
Equity / Assets	6.0%	6.2%	8.5%	8.9%	9.0%	9.1%
Loans / Assets	71.6%	74.6%	71.8%	72.5%	74.0%	73.7%
Deposits / Assets	67.3%	70.3%	71.7%	71.5%	71.5%	71.8%
Loans / Deposits	106.5%	106.1%	100.1%	101.5%	103.5%	102.5%
Loan CAGR	53.2%	-0.8%	3.4%	8.3%	10.8%	7.8%
Deposit CAGR	45.4%	-0.5%	9.7%	6.8%	8.6%	8.8%
Asset CAGR	54.3%	-4.7%	7.4%	7.3%	8.5%	8.4%



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**List of abbreviations and ratios contained in the report:**

**EV** – net debt + market value  
**EBIT** – Earnings Before Interest and Taxes  
**EBITDA** – EBIT + Depreciation and Amortisation  
**P/CE** – price to earnings with amortisation  
**MC/S** – market capitalisation to sales  
**EBIT/EV** – operating profit to economic value  
**P/E** – (Price/Earnings) – price divided by annual net profit per share  
**ROE** – (Return on Equity) – annual net profit divided by average equity  
**P/BV** – (Price/Book Value) – price divided by book value per share  
**Net debt** – credits + debt papers + interest bearing loans – cash and cash equivalents  
**EBITDA margin** – EBITDA/Sales

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**ACCUMULATE** – we expect that the rate of return from an investment will range from 5% to 15%  
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**REDUCE** – we expect that the rate of return from an investment will range from -5% to -15%  
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**Previous ratings issued for Bank Millennium**

Rating	Buy	Buy	Accumulate	Hold	Accumulate	Hold
<b>Date issued</b>	2009-10-05	2009-11-10	2009-12-02	2010-01-19	2010-02-11	2010-04-07
<b>Price on rating day</b>	4.40	4.19	4.70	4.49	3.90	4.45
<b>WIG on rating day</b>	37045.62	39683.10	39905.57	41256.40	37786.61	43562.01