Elections in Poland

According to exit polls five parties will be in the Parliament: Law and Justice (PiS), that will form a single party government, Civic Platform (PO), Kukiz, Nowoczesna and Polish People's Party (PSL). United Left (ZL) and Korwin are below but close to the threshold. Gaining a majority by PiS increases the risks of implementing non-standard policy-making (excessive fiscal loosening, non-standard monetary policy) that may keep the zloty weak for longer. Equity markets will be shaped by communicating the concrete steps to be taken and may remain volatile.

Analysts:

Magdalena Komaracka, CFA
+48 22 330 62 56
Magdalena.komaracka@erstegroup.com

Marek Czachor,
+48 22 330 62 54
marek.czachor@erstegroup.com

Tomasz Duda,
+48 22 330 62 53
Tomasz. duda@erstegroup.com

Katarzyna Rzentarzewska (Macro)
+43 5 0100 - 17356
katarzyna.rzentarzewska@erstegroup.com

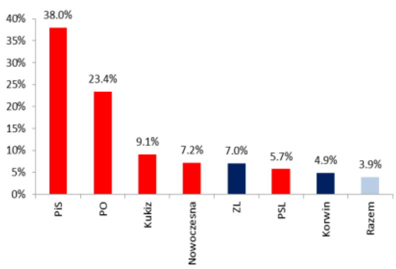
Adam Rzepecki
+48 22 330 62 52
Adam.rzepecki@erstegroup.com

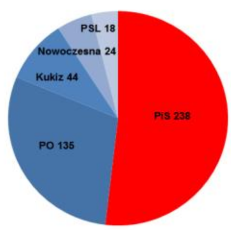
According to late polls, Law and Justice (PiS) won the elections, gaining 38.0% of votes, which secures 238 out of 460 seats in the Parliament, meaning that Law and Justice has a simple majority and will form a single-party government. Other parties that passed the threshold and will be in the Parliament are Civic Platform (PO) with 23.4% of votes (135 seats), Kukiz'15 with 9,1% (44 seats), Nowoczesna with 7,2% of votes (24 seats) and Polish People's Party with 5,7% of votes (18 seats). United left with 7% of votes, as coalition of parties did not pass the 8% threshold, KORWiN gained 4.9% of votes and Razem 3.9%. It must be noted, however, that United Left and KORWiN are within the +/- 2pp margin and the final result may still change the allocation of seats in the Parliament.

Gaining a majority in the Parliament is likely to be seen as negative news, increasing the risks of implementing non-standard policy-making (excessive fiscal loosening, non-standard monetary policy) that may keep the zloty weak for longer. Bond market remains under the influence of the global sentiment, but fiscal risks may gradually widen the spread vs. bunds. Short-term yields will drop if new MPC eases monetary policy.

The behavior of the equity markets within the coming weeks will, in our view, be shaped by communicating the concrete steps to be taken based on the ideas previously presented. Investors will then compare those steps with their previous expectations and stock prices may react in various ways.

Late polls suggest five parties in the parliament (in red, % of votes) and two below, but close to threshold (in blue, % of votes) and potential allocation of seats.





Source: Erste Group Research

Summary of ideas presented by Law and Justice

During the election campaign, PiS presented a program which concentrated on many aspects of economic and social policy. We believe that these topics will be touched upon within the next weeks and months and that concrete steps will be taken on at least some of them in the next few weeks.

The main economic ideas which have recently been discussed are as follows:

Investments: boost of PLN 1.4tn. Party leader Jaroslaw Kaczynski last week said that his party would like to spend PLN 1.4tn on investments aimed at 'launching private capital' and rebuilding the Polish economy. This amount will come from, among other sources, EU funds (PLN 400bn), an ECB-style investment program led by the National Bank of Poland (PLN 350bn), increasing guarantees available to BGK (Polish state bank, BGK, PLN 100bn), long-term corporate deposits (PLN 200bn) and a closed-end investment fund (PLN 160bn).

Changes in social policy, more generous for families and for elderly. The election promises of PiS also included:

- changing the retirement age to 60 for women and 65 for men,
- increasing social benefits through higher family allowances (in the form of benefits for children, one of the more recognized election promises of PiS was PLN 500 per month for each child),
- setting the minimum wage at PLN 12 per hour and increasing the tax-free allowance.

Taxation, lower VAT and lower taxes for low earners. Unlike more social parties, PiS did not intend to add another threshold to PIT taxation (currently 18% and 32%), but rather to increase the tax-free allowance to PLN 8,000 from the current PLN 3,100. In addition, PiS promised to bring VAT back to pre-crisis levels (i.e. down by 1pp).

Monetary policy to be eased, with current level of interest rates seen as excessive. Henryk Kowalczyk, PiS MP, was quoted as saying that rates should be decreased. The term of the current Monetary Policy Council will expire in January / February 2016 and eight new members will be appointed.

PiS estimated that the changes in social policy (i.e. lowering the retirement age, additional child benefits, raising the tax-free allowance and free medicines for seniors **will cost some PLN 34.5bn**; however, according to PiS this is unlikely to increase the budget deficit, as it sees an **additional PLN 40bn in revenue** that can be added to the budget, including 'sealing' the VAT system, closer monitoring of CIT payments, tax on supermarkets, tax on VAT and increasing excise revenues.

Previously, PiS also mentioned other ideas aimed at helping the population:

Housing policy – increased state support. An important task is the construction of apartments. The PiS housing program has two goals: first, to give people a chance at their own, cheap apartments, and second, to stimulate construction. The program assumes the construction of housing for rent on land provided by the state by special-purpose companies set up by local governments. Credit repayment will be stretched over a long period of time in the rent. PiS is also considering state financing of a part of the interest.

Economic development – step away from model based on low wages. PiS has stated that industry is the basis of productivity and wage growth. Industry is followed by services and wage growth in the budget sector. Manufacturing companies are the foundation of R&D outlays. PiS believes that Poland should take a step away from a model based on low wages. Poland, according to PiS, should use this advantage to build a permanent competitive advantage, i.e. create sectors providing high-quality goods and generating high margins. The most likely sectors are chemicals and pharmaceuticals, electric machinery (especially tied to coal), arms and transport.

State role should increase. According to an earlier statement, PiS thinks that the state cannot just be a guardian but should be a catalyst for potential changes in the economy. First, PiS will change the rules on spending national and EU funds on R&D so as to reward true achievements, patents, results, exports growth and not the sole fact that a given company exists.

Energy sector – based on coal. PiS wanted special treatment for Poland in terms of decarbonization, and the country's stance on the matter is likely to be tough under PiS governance. Coal is seen as the basis of the energy sector, but PiS also intends that Poland should develop renewable energy sources. The first task of the new government will be the modernization of Polish power plants and replacement of old ones. The second task is putting the Polish coal sector in order. PiS said that its approach will be 'cautious but decisive'. The party feels that power plants fueled by imported resources do not guarantee Polish energy security. It is the view of PiS that Poland should build a 6000MW nuclear power plant and continue the exploration of shale gas. PiS wants to set up an Energy Ministry to take over the administration of energy companies from the Treasury Ministry.

SMEs to be center of attention and to obtain significant support from state: Small- and medium-sized firms deserve huge support from the state, according to PiS. The proposals include: the allocation of 40% of public procurement budget for SMEs; the introduction of preferences in local government tenders; a 24-month delay in payment of tax and other levies for newly-formed, profitable firms; making state bank BGK a creditor of last resort. Other proposals: a so-called second start for insolvent companies, loan repayment extension in periods of economic downturn, cutting down on documentation duties, training, etc.

With regard to the various sectors listed on the Warsaw stock Exchange, PiS mentioned that:

State-controlled companies should change their management model. PiS' plans assume a substantial change in the management of Treasury assets, i.e. a change in management philosophy. Treasury-controlled firms are to be subordinated to the Polish raison d'état and must be involved in pro-development policy. The companies will be moved to a specialized public institution that will manage them. PiS earlier commented that Lotos should have never been put up for sale. Greater state control will be wielded over investments in the energy sector as well as those run by KGHM and Grupa Azoty. PiS plans to liquidate the Treasury Ministry.

Financial institutions tax to be introduced; PiS plans to source PLN 5bn from banks. The initial idea was the introduction of a tax on assets (at

39bp), while some variations quoted by the media claimed that the proposal was modified to a tax on liabilities minus equity and guaranteed deposits. Alternatively, PiS was also considering a special tax on financial transactions, where the receipts have been near PLN 2bn.

Problem of CHF mortgages in financial sector to be resolved in fair and reasonable manner, with no extremes. PiS initially scared the markets with statements that all FX losses attached to CHF mortgages should be borne by banks and that there should be no sharing of losses between banks and clients. However, the party's tone has softened over time and, based on the most recent interview with President Duda, the final solution will be a compromise between the two extremes of losses being divided 50-50 between clients and banks and banks absorbing 90% of the losses.

Mining sector: Key project of PiS – declared many times throughout the campaign trail – is cancellation of copper taxation. In fact PiS filed a motion to the old Parliament according to which payments of copper tax was supposed to be suspended in 2016-2025 years. In terms of coal mining PiS seems to support the merging of coal companies with power companies and sees greater role of domestic coal at the expense of coal imports.

Tax on supermarkets. Law and Justice wants to implement a 2% turnover tax on retail outlets with sales area above 250 m2, which should bring in PLN 3.5bn p.a. The tax is to be implemented as of 2Q16. All consumer goods except fuel should be taxed. The aim of the tax is to decrease the price competitiveness of the biggest retail chains.

Impact on macro and PLN – our view

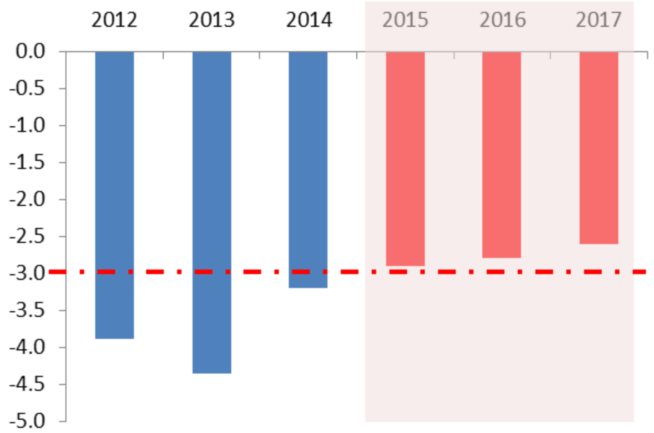
We believe that the markets have become accustomed to the possibility that PiS would win, with the only source of uncertainty being by what margin, i.e. whether or not it would be able to form a majority government. Gaining a majority in the Parliament is likely to be seen as negative news, increasing the risks of implementing non-standard policy-making (excessive fiscal loosening, non-standard monetary policy) that markets could have undermined so far. We thus see the risks for the zloty to remain weaker for longer period of time. As far as bond market is concerned, yields on the short end of the curve will likely go down if the new – dovish - MPC eases monetary conditions further, while fiscal loosening (the extent is still to be announced) may become the source of upward pressure on long term yields in upcoming months.

Fiscal policy will become looser

Law and justice promises quite generous social spending. Realization of all the promises would lead to an increase in the deficit and financing needs as, apart from being quite detailed in announcing the plans to tax the banks and supermarkets, Law and Justice was vague in commenting on how they plan to increase tax revenues in order to finance higher expenditure. Improving VAT collection would help the budget, but this is a long-lasting process and part of it will be used to re-balance the loss from lowered VAT rates (by 1pp to pre-crisis levels). In our view, however, after the elections, PiS will have to become either more conservative in the realization of its promises, or there is a threat it will not keep within the fiscal limits (such as the general government below 3% of GDP), although it was underlined many times by Beata Szydlo (their designated prime minister) that the limits will not be breached. At this point, we maintain our baseline that the general government deficit will remain below 3% of GDP, but see risks of further consolidation. Most likely there is limited space to change or amend next year budget but in the following years, when new sources of financing are approved, we may see higher level of government spending that may threaten meeting the limits. Furthermore, there are risks to the expectation of strong economic growth and high budget revenues in the coming years, which are assumed to help finance the rather generous spending.

Bringing back the retirement age to 60 for women and 65 for men would have a limited impact in the short term (due to the relatively low amount of eligible persons to retire earlier, as according to the reform, the age increases gradually). It will become a burden in the long term, however.

Fiscal rules should not be breached, GG deficit, % of GDP



Source: CSO, Erste Group Research

Risks for non-standard monetary policy are non-negligible.

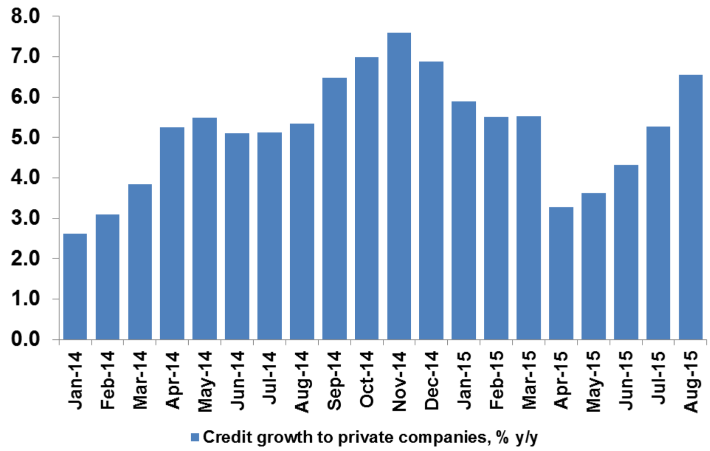
Henryk Kowalczyk (PiS MP) said in an interview that the dovish bias will be one of the factors that influence the nomination of new MPC members. This suggests that the new MPC (most of which will be appointed in January-February next year) is likely to ease monetary conditions further, especially if deflationary pressures continue to exist. It has been underlined by Kowalczyk that the central bank should take care not only about inflation, but also about economic growth, recommending further easing, as ‘deflation is harmful for the economy’. Until we know the shape of the new MPC, we maintain our forecast of a flat policy rate at 1.5%, but we see considerable risks to the downside.

All of the recently presented ideas from Law and Justice increased the uncertainty around the stability of policy-making in Poland, which will be visible in higher EURPLN levels. The victory of Law and Justice supports a weaker zloty. Although we expect to see stabilization of the currency after the elections and towards the year-end, risks are to the upside to our point estimate of the EURPLN close to 4.20 in December and beyond, especially if non-standard policy-making is gradually implemented.

Boosting investment would be positive for growth, but we see limits on the demand side.

Law and Justice indicated that there is a need to enhance investment, especially to the SME sector. The party’s candidate for the PM position, Beata Szydlo, was heard to have said that it is the central bank that should enhance lending to small and medium enterprises, as is the case in Hungary. The National Bank of Hungary introduced the Funding for Growth program, hoping to see stronger growth dynamics. While currency is in circulation and liquidity at the central bank increased, extra liquidity could not help to completely stop the fall of loans in Hungary. Credit growth in Poland has been slowly accelerating and neither housholds nor the corporate sector have been delevraging, in contrast to Hungary. The effects of such a program are more than uncertain, as far as boosting investment is concerned. Another quite controversial idea of pouring PLN 350bn into the economy with an ECB-style investment program has limits on the demand side as well, in our view. Currently, banks in Poland have enough liquidity and, as mentioned above, credit growth to private companies has been slowly accelerating. Given the quite high investment growth over the last few quarters and somewhat weakening sentiment, it may not be as effective as expected in boosting the investment. Especially as, according to the NBP's survey, almost half of the companies tend to finance investment through own resources and only a minor part uses external financing.

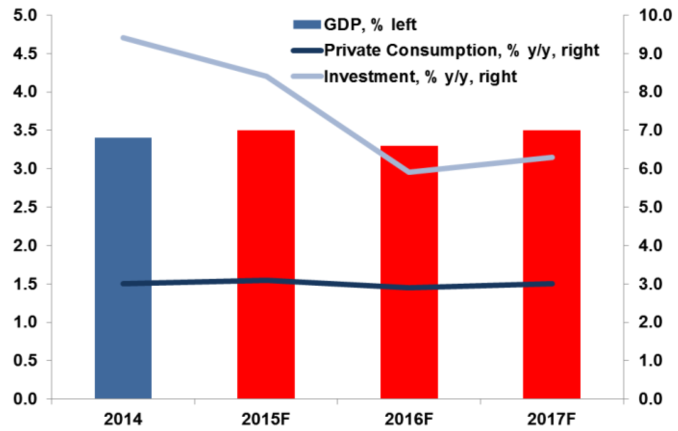
Credit growth to private firms has been positive



Source: NBP, Erste Group Research

Boosting investment, if proves to be effective, would be positive in the short term, increasing the amplitude of the cycle; in the medium run, however, we see the effectiveness of such a policy as having a limited impact on the growth potential - especially as there are other factors (such as the shrinking population) that will negatively weigh on growth in a few years.

GDP, Investment and Private Consumption growth



Source: CSO, Erste Group Research

Taxing banks may weaken credit growth and GDP dynamics

Taxation of the banking sector (which is in the Law and Justice program), apart from being a concern for the markets, as evidenced by the negative reaction on the stock exchange, can have negative effects on credit growth dynamics and GDP (that will depend on the final solution). There is a non-negligible risk that costs of taxation will be transferred to clients. If this is the case, and the cost of credit rises (higher margins), the current positive, but moderate, credit growth may become prone to a slowdown. That would bring the risks for the GDP growth dynamics.

Impact on equity markets – our view

If the changes that PiS wants to introduce are implemented, and specifically if the increased financing to SME results in profitable investments, we would see **smaller and mid-cap companies producing or distributing consumer goods** as the main beneficiaries.

Larger companies, including banks, financial intuitions, larger retailers (and potentially telecoms) **would actually be made responsible** for financing that program; hence any profit would be more as a second-round effect, i.e. through higher GDP growth.

The behavior of the equity markets within the coming weeks will, in our view, be shaped by communicating the concrete steps to be taken based on the ideas previously presented (see above) regarding financial services, energy, mining and the retail sector. Investors will then compare those steps with their previous expectations and stock prices may react in various ways.

Banks

In our view, the prices of banks already include a lot of negative scenarios. However, we would see three key topics as being likely to drive banks stock prices:

Banking tax. As mentioned above, there are still a number of options open. **PiS promised that the final solution should be known within a few weeks**. We and the market treat the tax rather as a given, and any reaction could be based on whether the actual solution proposed is better or worse than is currently anticipated. Still, even if the government goes for the worst-case scenario (i.e. a high tax on assets), some time will have to pass before the market forms expectations as to how this unprecedented move will impact banks. Specifically, it will be an unknown as to how much the banks will be able to transfer onto clients (in the form of price increases) and/or their own employees and branches (cost cutting). If PiS decides to go for a lower tax (e.g. 0.20% of assets), a tax with some limitations or a financial services tax, the reaction of the markets should, in our view, be positive.

The calculations below are based on the mentioned 39bp on total assets and that, importantly, the expense would **be deductible from taxable income**. In such a case, which seems conservative for now, the banks that we cover would lose 25% of their net profit; however, the impact would be the greatest for those banks which have lower ROA (Getin Noble Bank, Bank Millennium, ING, mBank).

Banking tax expense (PLN mn)

Year	2016	2017	2018	2019	Discounted tax	Per share	2016	2017
% of assets	0.39%	0.39%	0.39%	0.39%	net of CIT	net of CIT	As % of net profit	
Unit	PLN mn	PLN mn	PLN mn	PLN mn	PLN mn	PLN	%	%
ALR	120	133	146	158	1,661	22.9	24%	23%
BHW	153	161	167	174	1,863	14.3	19%	19%
BZW	454	489	517	544	5,784	58.3	20%	18%
GNB	220	224	227	232	2,509	0.9	97%	69%
ING	357	391	416	441	4,673	35.9	30%	27%
MBK	403	431	453	475	5,064	120.0	29%	28%
MIL	199	204	210	216	2,321	1.9	30%	26%
PEO	561	601	631	668	7,101	27.1	20%	19%
PKO	832	880	922	968	10,322	8.3	26%	23%
Sum	**3,300**	**3,514**	**3,690**	**3,876**	**41,298**		**25%**	**23%**
Sector	**5,122**	**5,378**	**5,647**	**5,929**				

Source: companies, Erste Group Research

In the above case, the relative valuation of banks, based on our adjusted forecasts would be as follows:

Polish banks, relative valuation including banking tax in 2016e and 2017e

	Adjusted net profit			P/E			P/BV			ROE		
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
	PLN mn	PLN mn	PLN mn									
Alior Bank	396	379	449	14.0	14.8	12.7	1.54	1.37	1.21	12.0%	9.9%	10.4%
Bank Handlowy	810	648	686	13.1	16.3	15.4	1.49	1.57	1.62	11.2%	9.4%	10.3%
Bank Millennium	616	471	572	11.4	14.9	12.3	1.11	1.11	1.08	10.2%	7.4%	8.9%
Bank Pekao	2,523	2,196	2,624	15.9	18.3	15.3	1.69	1.72	1.73	10.6%	9.4%	11.3%
BZ WBK	2,542	1,863	2,168	11.4	15.6	13.4	1.52	1.53	1.45	14.3%	9.8%	11.2%
Getin Noble Bank	261	6	101	8.8	362.4	22.8	0.43	0.44	0.44	5.0%	0.1%	1.9%
ING Bank Slaski	1,188	844	1,070	13.4	18.8	14.8	1.47	1.45	1.41	11.2%	7.8%	9.7%
mBank	1,375	978	1,115	10.8	15.1	13.3	1.18	1.20	1.17	11.7%	7.9%	8.9%
PKO BP	2,760	2,322	2,892	13.3	15.8	12.6	1.20	1.17	1.13	9.5%	7.5%	9.1%
Sum / average*	**12,471**	**9,708**	**11,677**	**12.4**	**16.2**	**13.7**	**1.40**	**1.39**	**1.35**	**11.3%**	**8.6%**	**10.0%**

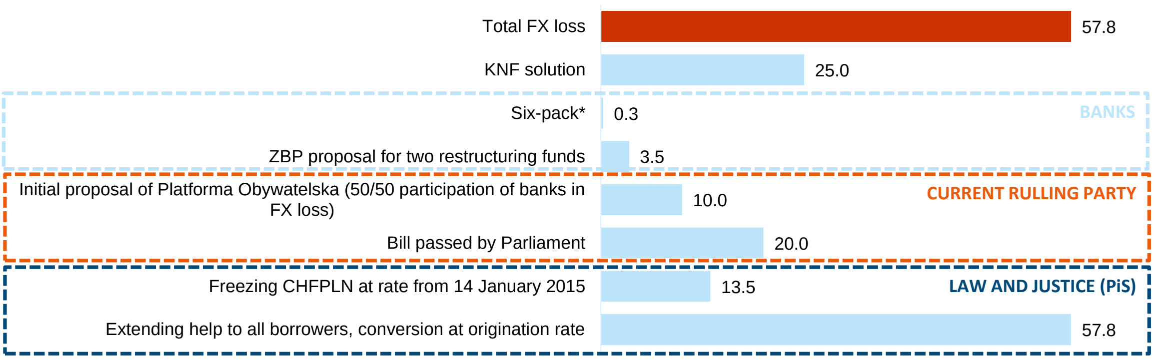
*Source: companies, press, Erste Group Research, * excluding Getin Noble Bank from 2016 onwards*

As can be seen from the table above, with the banking tax included, the banks are currently valued at 16x their 2016e earnings and 14x their 2017e earnings, i.e. not particularly low, but also not very high. In addition, we think that it is reasonable to expect that some absorption of the tax will also take place.

CHF mortgage fix. Here, the proposal should also be known within weeks. The president promised to come up with his own draft bill, but this could also come from the new government.

In our view, **the final solution here will be concentrated around the word 'fair'.** The president said in his most recent interview that it is not his intention that any CHF borrower would be better off vs. PLN borrowers, who gave up on any potential extra gain from the weakening CHF in order to avoid FX risk. The president also mentioned that the final solution should be a compromise and not tend towards any of the extremes proposed in September 2015.

Overview of proposals on how to solve the topic and the potential losses for banks (in PLN bn):



Source: press, NBP, KNF, Erste Group Research

Therefore, **we would not assume that the final losses for the banks resulting from that political interference would be anywhere close to 58-60bn** (FX loss now attached to entire CHF portfolio).

One potential idea would be to extend the mortgage restructuring fund, which has been voted for by the senate (in the amount of PLN 600mn for this year) and which has yet to be signed by the president.

A very important question, and one which is most likely to be answered within the coming weeks, is whether losses pertaining to FX mortgages borne by banks will be **deductible from the banking tax**. If this turns out to be the case, it would mean that the CHF banks would effectively have a comparable burden to those banks that currently have no CHF exposure. However, this would depend on the construction of the solution.

Below, we present our forecasts for the Polish banks that we cover, including the impact of the previous solution suggested by KNF (loss split evenly between banks and the clients, spread over 10 years), with, however, CHF losses being treated as a tax shield against the banking tax:

Net profit of Polish banks assuming KNF solution for mortgage loans and banking tax of 39bps of assets, total charges absorbed in 50%

PLN mn	Forecast			Impact of CHF			Tax shield			Banking tax less tax			Total charges			Absorption			Adjusted net profit		
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
							100%	100%	100%							50%	50%	50%			
Alior Bank	396	499	583	0	-3	-3	0	-3	-3	0	-117	-130	0	-120	-133	0	60	67	396	439	516
Bank Handlowy	810	802	847	0	0	0	0	0	0	0	-153	-161	0	-153	-161	0	77	80	810	725	767
Bank Millennium	616	670	776	0	-243	-243	0	-243	-243	0	0	0	0	-243	-243	0	100	102	616	526	635
Bank Pekao	2,523	2,757	3,225	0	-66	-66	0	-66	-66	0	-495	-535	0	-561	-601	0	281	301	2,523	2,477	2,924
BZ WBK	2,542	2,317	2,657	0	-194	-194	0	-194	-194	0	-260	-296	0	-454	-489	0	227	245	2,542	2,090	2,412
Getin Noble Bank	261	226	325	0	-185	-185	0	-185	-185	0	-35	-38	0	-220	-224	0	110	112	261	116	213
ING Bank Slaski	1,188	1,200	1,461	0	-21	-21	0	-21	-21	0	-336	-370	0	-357	-391	0	178	195	1,188	1,022	1,265
mBank	1,375	1,382	1,546	0	-276	-276	0	-276	-276	0	-127	-155	0	-403	-431	0	202	216	1,375	1,180	1,331
PKO BP	2,760	3,154	3,772	0	-439	-439	0	-439	-439	0	-393	-440	0	-832	-880	0	416	440	2,760	2,738	3,332
Sum	**12,471**	**13,007**	**15,191**	**0**	**-1,427**	**-1,427**	**0**	**-1,427**	**-1,427**	**0**	**-1,917**	**-2,126**	**0**	**-3,344**	**-3,553**	**0**	**1,650**	**1,757**	**12,471**	**11,313**	**13,395**

Source: banks, press, Erste Group Research

Polish banks, relative valuation including banking tax and CHF in 2016e and 2017e with tax shield

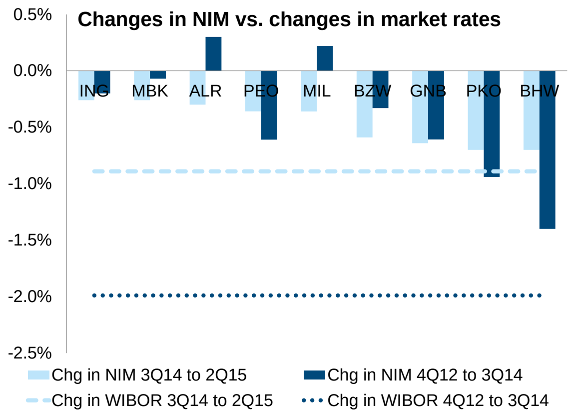
	Adjusted net profit			P/E			P/BV			ROE		
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
	PLN mn	PLN mn	PLN mn									
Alior Bank	396	439	516	14.0	12.8	11.0	1.5	1.4	1.2	12.0%	11.5%	11.9%
Bank Handlowy	810	725	767	13.1	14.6	13.8	1.5	1.6	1.6	11.2%	10.5%	11.5%
Bank Millennium	616	526	635	11.4	13.3	11.0	1.1	1.1	1.0	10.2%	8.2%	9.5%
Bank Pekao	2,523	2,477	2,924	15.9	16.2	13.7	1.7	1.7	1.7	10.6%	10.5%	12.6%
BZ WBK	2,542	2,090	2,412	11.4	13.9	12.0	1.5	1.4	1.3	14.3%	10.4%	11.3%
Getin Noble Bank	261	116	213	8.8	19.8	10.8	0.4	0.4	0.4	5.0%	2.2%	4.1%
ING Bank Slaski	1,188	1,022	1,265	13.4	15.5	12.5	1.5	1.5	1.4	11.2%	9.4%	11.2%
mBank	1,375	1,180	1,331	10.8	12.5	11.1	1.2	1.1	1.1	11.7%	9.1%	9.8%
PKO BP	2,760	2,738	3,332	13.3	13.4	11.0	1.2	1.1	1.1	9.5%	8.7%	10.0%
Sum / average*	**12,471**	**11,313**	**13,395**	**12.4**	**14.0**	**12.0**	**1.3**	**1.3**	**1.3**	**10.6%**	**9.8%**	**11.0%**

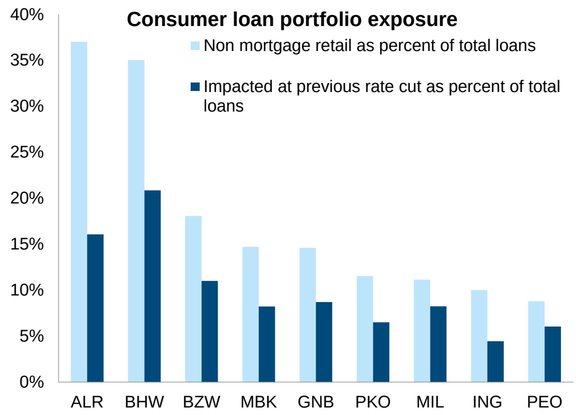
*Source: banks, press, Erste Group Research, *average excluding Getin Noble Bank*

In the latter case, the valuation of banks already looks rather attractive, in our view. **Alior Bank**, **BZ WBK** and **mBank** seem to have the lowest valuation in such case. On the flip side, Getin Noble Bank and Bank Pekao have the highest valuation in such a scenario.

Rate cuts. Currently, the base rate is at 1.5%, a level that was called too high by PiS representatives. The new Monetary Policy Council will be established in January / February 2016 and we do not expect any changes in rates until then. If the new members of the MPC take a more dovish stance, rate cuts are to be expected. The initial effect on Polish banks would be negative, as banks would lose NIM due to (high share of consumer loans yielding the maximum 10%, i.e. 4x Lombard rate) visible share of retail 0% deposits and the longer re-pricing dates of deposits vs. assets (most loans are based on WIBOR). In our view, another rate cut is not priced in and should more comments like that appear, stock prices are likely to react negatively.

In our opinion, **Bank Pekao**, **mBank** and **ING** should be the most resilient in the event of a rate cut, due to their asset / liabilities structures. On the flip side, **PKO BP** and **Getin Noble Bank** would be the most severely affected. Also, the reaction for **BZ WBK** would be likely to be fairly strong.





Mining sector / power sector

Mining. Key project of PiS – declared many times throughout the campaign trail – is cancellation of copper taxation. In fact PiS filed a motion to the old Parliament according to which payments of copper tax was supposed to be suspended in 2016-2025 years. The difference between cancellation and suspension is significant as the value of copper tax amounts to PLN 77 per KGHM share at current commodity prices, however 10 years suspension would yield only PLN 49 per KGHM share of copper tax relief. We find significant part of copper tax cancellation/suspension to be already priced in on the back of quite frequent repetition of these plans by PiS representatives. Other potential coalition partners of PiS (like Kukiz movement) seem also likely to support such plans given their declarations.

In terms of **coal mining** PiS seems to support the merging of coal companies with power companies and sees greater role of domestic coal at the expense of coal imports. These plans seem not to be too precise as of now, because the program of the party also envisages greater role of renewables, which contradicts the maintenance the role of coal fired units. However the probability of takeovers of loss making coal mines by power companies is likely to increase under PiS leadership which is likely to have greater influence over State Owned power companies rather than ailing PO. Ms. Szydlo also declared the elimination of some taxation for coal miners, though no details were provided so far. If payment of local taxes is suspended the key beneficiaries are likely to be miners like **JSW** and **LW Bogdanka**.

The proposals for **power** sector are not too precise as PiS mentions that it would want the sector to rely on domestic coal and that new coal fired units need to be build (6,000MW), but at the same time PiS sees rising role of renewables. Hence we expect the real strategy for power companies to be seen only after companies with first actions likely to be determined by the need of a minute i.e. finding the money for miners' wages and takeovers of mines seems the easiest way to solve the problem.

Consumer

In our opinion, the 2% turnover tax will have a negative influence on a selected number of listed companies from the consumer sector in Poland. The most negative would be for companies from the food distribution sector.

The Polish FMCG distribution market is characterized by high competitiveness and a low concentration ratio, which will, in our opinion, prevent companies from transferring extra taxation onto its clients. The majority of outlets in this sector have sales areas above 250m2. Also, many food distributors report a net margin below 2%, which, in the event of extra taxation, will bring their results into the red or close to zero. If such a scenario comes about, we expect the consolidation process to speed up in the coming years.

It is certain that a 'retail' tax would hit the results of **Jeronimo Martins** and **Emperia**; we have not assumed this in our forecasts and valuation. **Eurocash** does not have pure exposure to the 'retail tax' but ¼ of its franchise stores of Delikatesy Centrum have. But, as Eurocash remains a typical wholesaler, it is our opinion that the new taxation will have a neutral influence on its results.

The margins reported in clothing & footwear distribution are substantially higher than in food distribution and a great number of outlets also do not exceed sales area of 250m2; thus in the case of **LPP** and **CCC,** which also possess outlets outside Poland and conduct e-commerce activities, we see the risk of a negative effect on total results but at a lower scale than for **Jeronimo Martins** and **Emperia**.

Smaller clothing & footwear retailers, such as **Vistula** and **Gino Rossi,** have outlets with sales area below 250m2 and thus we do not expect any negative influence on their results from a 'retail tax'. We see the same for other representatives of the consumer sector, such as **AB**, **Action**, **Amrest**, **Benefit Systems**, **Farmacol**, **Intercars**, **Neuca** and **Wawel**.

Disclaimer

This investment research (the "Document") has been prepared by Erste Group Bank AG or any of its consolidated subsidiaries (together with consolidated subsidiaries "Erste Group") for the purpose of providing additional economical information about the analyzed company or companies. The Document is based on reasonable knowledge of Erste Group's analyst in charge of producing the Document as of the date thereof and may be amended from time to time without further notice. It only serves for the purpose of providing non-binding information and does not constitute investment advice or investment recommendations. This Document does not constitute or form part of, and should not be construed as, an offer, recommendation or invitation to subscribe for or purchase any securities, and neither this Document nor anything contained herein shall form the basis of or be relied on in connection with or act as an inducement to enter into any contract or inclusion of a security or financial product in a trading strategy. All information, analysis and conclusions provided herein are of general nature. This Document does not purport to provide a comprehensive overview about any investment, the potential risks and results nor does this Document take into account any individual needs of an investor (the "Investor") in relation to proceeds, tax aspects, risk awareness and appropriateness of the security or financial product. Therefore, this Document does not replace any investor- and investment- related evaluation nor any comprehensive risk disclosure; any security or financial product has a different risk level. Performance charts and example calculations do not provide any indication for future performance of the security or the financial product. Information about past performance does not necessarily guarantee a positive development in the future and investments in securities or financial products can be of risk and speculative nature. The weaker the Company's credit- worthiness is, the higher the risk of an investment will be. Not any investment is suitable for every investor. Therefore, Investors shall consult their advisors (in particular legal and tax advisors) prior to taking any investment decision to ensure that – irrespective of information provided herein – the intended purchase of the security or financial product is appropriate for the Investor's needs and intention, that the Investor has understood all risks and that, after due examination, the Investor has concluded to make the investment and is in a position to bear the economical outcome of such investment. Investors are advised to mind the client information pursuant to the Austrian Securities Supervision Act 2007. Financial analysis is produced by Erste Group's division for financial analysis within the framework provided by applicable laws. The opinions featured in the equity and credit research reports may vary. Investors in equities may pursue different interests compared to those of investors on the credit side, related to the same issuer. The analyst has no authority whatsoever to make any representation or warranty on behalf of the Company, Erste Group, or any other person. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable, Erste Group (including its representatives and employees) neither expressly nor tacitly makes any guarantee as to or assumes any liability for the up-to-dateness, completeness and correctness of the content of this Document. Neither a company of Erste Group nor any of its respective managing directors, supervisory board members, executive board members, directors, officers of other employees shall be in any way liable for any costs, losses or damages (including subsequent damages, indirect damages and loss of profit) howsoever arising from the use of or reliance on this Document. Erste Group, associated companies as well as representatives and employees may, to the extent permitted by law, have a position in the securities of (or options, warrants or rights with respect to, or interest in the financial instruments or other securities of) the Company. Further, Erste Group, associated companies as well as representatives and employees may offer investment banking services to the Company or may take over management function in the Company. This Document has been produced in line with Austrian law and for the territory of Austria. Forwarding this Document as well as marketing of financial products described herein are restricted or interdicted in certain jurisdictions. This, in particular, applies to the United States, Canada, Australia, United Kingdom and Japan. In particular, neither this Document nor any copy hereof may be taken or transmitted or distributed, directly or indirectly, into the United States or to US Persons (as defined in the U.S. Securities Act of 1933, as amended) unless applicable laws of the United States or certain federal states of the United States provide for applicable exemptions. Any failure to comply with these restrictions may constitute a violation of the laws of any such other jurisdiction. Persons receiving possession of this Document are obliged to inform themselves about any such restrictions and to adhere them. By accepting this Document, the recipient agrees to be bound by the foregoing limitations and to adhere to applicable regulations. Further information may be provided by Erste Group upon request. This Document and information, analysis, comments and conclusions provided herein are copyrighted material. **Erste Group reserves the right to amend any opinion and information provided herein at any time and without prior notice. Erste Group further reserves the right not to update any information provided herein or to cease updates at all**. All information provided in this Document is non-binding. Misprints and printing errors reserved.

If one of the clauses provided for in this disclaimer is found to be illicit, inapplicable or not enforceable, the clause has to be treated separately from other clauses provided for in this disclaimer to the largest extent possible. In any case, the illicit, inapplicable or not enforceable clause shall not affect the licitness, applicability or enforceability of any other clauses.

Important Disclosures

THIS DOCUMENT MAY NOT BE TAKEN, TRANSMITTED OR DISTRIBUTED INTO THE UNITED STATES, CANADA, AUSTRALIA OR JAPAN OR TO ANY U.S. PERSON OR TO ANY INDIVIDUAL OUTSIDE CANADA, AUSTRALIA OR JAPAN WHO IS A RESIDENT OF THE UNITED STATES, CANADA, AUSTRALIA OR JAPAN OR TO THE PRESS IN THESE COUNTRIES.

General disclosures

All recommendations given by Erste Group Research are independent and based on the latest company, industry and other general information publicly available which Erste Group Research considers to be reliable; however, we do not represent or assume any liability for the completeness of accuracy of such information or our recommendation. The best possible care and integrity is used to avoid errors and/or misstatements. No influence on the rating and/or target price is being exerted by either the covered company or other internal departments of Erste Group Bank AG, its affiliates or branches (together "Erste Group"). Each research drawn up by an analyst is reviewed by a senior research executive or agreed with a senior analyst/deputy (4-eyes-principle). Erste Group Compliance Rules state that in general no analyst is allowed to hold a direct ownership position in securities issued by the covered company or derivatives thereof. Analysts are not allowed to involve themselves in any paid activities with the covered companies except as disclosed otherwise. No part of their compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views expressed by them contained in this document. Erste Group may engage in transactions with financial instruments, on a proprietary basis or otherwise, in a manner inconsistent with the view taken in this research report. In addition, others within Erste Group, including strategists and sales staff, may take a view that is inconsistent with that taken in this research report.

Disclosure of potential Conflicts of Interest

Disclosures of potential conflicts of interest relating to Erste Group Bank AG, its affiliates or branches and its relevant representatives and employees with respect to the issuers, financial instruments and/or securities forming the subject of this document are valid as of the end of the month prior to publication of this document. Updating this information may take up to ten days after month end.

For an overview of conflicts of interests for all analyzed companies by Erste Group in CEE Equities Research please follow following link: https://produkte.erstegroup.com/Retail/en/PDF/Research_Disclaimer_Equities/index.phtml and afterwards „Research Disclaimer".

Erste Group rating definitions

Buy	> +20% to target price
Accumulate	+10% < target price < +20%
Hold	0% < target price < +10%
Reduce	-10% < target price < 0%
Sell	< -10% to target price

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

Distribution of ratings

	Coverage universe		Inv. banking-relationship	
Recommendation	No.	in %	No.	in %
Buy	47	23.7	9	16.1
Accumulate	53	26.8	21	37.5
Hold	54	27.3	16	28.6
Reduce	19	9.6	7	12.5
Sell	14	7.1	1	1.8
N.R./UND.REV./RESTR.	11	5.6	2	3.6
Total	**198**	**100.0**	**56**	**100.0**

Explanation of valuation parameters and risk assessment

Unless otherwise stated in the text of the financial analysis/investment research, target prices in the publication are based on either a discounted cash flow valuation and/or comparison of valuation ratios with companies seen by the analyst as comparable or a combination of the two methods. The result of this fundamental valuation is adjusted to reflect the analyst's views on the likely course of investor sentiment. Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company's products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, from changes in social values. Valuations may also be affected by changes in taxation, in exchange rates, in the capital market sentiment and in regulatory provisions. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, political, economical and social conditions.

Links

Erste Group may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Erste Group endorses, recommends or approves any material on the linked page or accessible from it. Erste Group does not accept responsibility whatsoever for any such material, including in particular the completeness and accuracy, nor for any consequences of its use.

Additional notes to readers in the following countries:
Austria: Erste Group Bank AG is registered in the Commercial Register at Commercial Court Vienna under the number FN 33209m. Erste Group Bank AG is authorized and regulated by the European Central Bank (ECB) (Sonnemannstraße 22, D-60314 Frankfurt am Main, Germany) and by the Austrian Financial Market Authority (FMA) (Otto-Wagner Platz 5, A-1090, Vienna, Austria).

Germany: Erste Group Bank AG is authorised for the conduct of investment business in Germany by the Austrian Financial Market Authority (FMA) and subject to limited regulation by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

United Kingdom: Erste Group Bank AG is regulated for the conduct of investment business in the UK by the Financial Conduct Authority and the Prudential Regulation Authority. This document is directed exclusively to eligible counterparties and professional clients. It is not directed to retail clients. No persons other than an eligible counterparty or a professional client should read or rely on any information in this document. Erste Group Bank AG does not deal for or advise or otherwise offer any investment services to retail clients.

Czech Republic: Česká spořitelna, a.s. is regulated for the conduct of investment activities in Czech Republic by the Czech National Bank (CNB).

Croatia: Erste Bank Croatia is regulated for the conduct of investment activities in Croatia by the Croatian Financial Services Supervisory Agency (HANFA).

Hungary: Erste Bank Hungary ZRT. and Erste Investment Hungary Ltd. are regulated for the conduct of investment activities in Hungary by the Hungarian Financial Supervisory Authority (PSZAF).

Serbia: Erste Group Bank AG is regulated for the conduct of investment activities in Serbia by the Securities Commission of the Republic of Serbia (SCRS).

Romania: Banka Comerciala Romana is regulated for the conduct of investment activities in Romania by the Romanian National Securities Commission (CNVM).

Poland: Erste Securities Polska S.A. is regulated for the conduct of investment activities in Poland by the Polish Financial Supervision Authority (PFSA).

Slovakia: Slovenská sporiteľňa, a.s. is regulated for the conduct of investment activities in Slovakia by the National Bank of Slovakia (NBS).

Turkey: Erste Securities İstanbul Menkul Değerler A.Ş. is regulated for the conduct of investment activities in Turkey by the Capital Markets Board of Turkey. As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided in accordance with a contract of engagement on investment advisory concluded between brokerage houses, portfolio management companies, non-deposit banks and clients. Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.

Switzerland: This research report does not constitute a prospectus or similar communication in connection with an offering or listing of securities as defined in
Articles 652a, 752 and 1156 of the Swiss Code of Obligation and the listing rules of the SWX Swiss Exchange.

Hong Kong: This document may only be received in Hong Kong by 'professional investors' within the meaning of Schedule 1 of the Securities and Futures
Ordinance (Cap.571) of Hong Kong and any rules made there under.

Published by:

Erste Group Bank AG Group Research
A-1010 Vienna, Austria, Börsegasse 14
Head Office: Wien
Commercial Register No: FN 33209m
Commercial Court of Vienna
Erste Group Homepage: www.erstegroup.com