BRE Bank Securities

RESEARCH REPORT
BPH PBK

Banks

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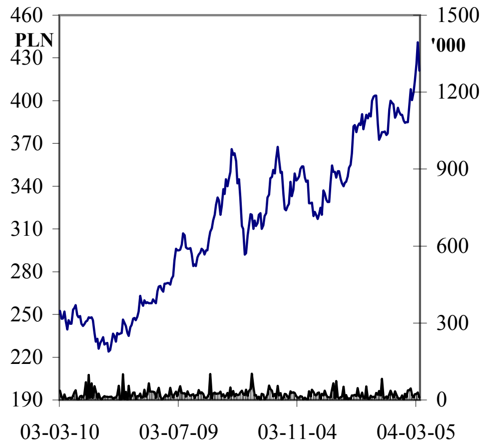
Is there much more room for improvement?

• Considering the dynamics of annual net profit (consolidated profit grew 142%) as well as the weak results of the competition, the bank should indeed be satisfied with last year's performance. However, recalling that ROE amounted to 7.9% in the best quarter, it must be stated that the bank continues to generate much smaller profits than investors expect (assuming cost of capital of 11.9% and a growth rate of 6%, a valuation on a level of 2.3x BVPS2004 means that a ROE of 21% is expected). In other words, the market expects further improvement in the bank's result - even as much as three-fold.

• In order to consider if and when the bank could achieve the profitability expected by investors, we examined the bank's achievements in 2003, acknowledged by the bank as the most important. The high dynamic of product sales, which are the centre of attention for the majority of banks in Poland (mortgage loans, credit cards) convinced us that BPH PBK is able to make up for its late start in some fields of activity (cards, savings bonds) and maintain its strong position in other areas (products of the Treasury Department), while controlling costs. Therefore, we raised the bank's income forecast and maintained the principal assumptions regarding costs, as a result of which our forecast for the next couple of years increased (2004 +4%, 2005 +12%).

• We forecast costs will remain under control, net provisions will decline further (100 bp in 2004, the same as in BZ WBK and less than in Pekao, for which we forecast 150 bp), and the dynamic of commission income will be the highest among the group of large banks (in the next three years 16%, 15% and 12% against 14%, 12% and 12% for BZ WBK and Pekao). Despite this, forecast ROE in 2006 amounts to only 12.8%.

• Therefore, the new, higher forecast does not permit us to fundamentally change the bank's valuation (PLN 256 current, PLN 240 previous), as this primarily depends on the "terminal ROE" adopted, and in this case we made only one adjustment, reducing the planned costs of credit risk and assuming ROE of 13.8%. Considering the method the bank will employ to achieve this profitability (growth in ROE from 6.5% in 2003 to 11% in 2004, 11.2% in 2005 and 12.8% in 2006), we are confident concerning our valuation. We are maintaining our SELL recommendation.



Recommendation	**SELL**
Price	**426,0**
Valuation	**256**

Basic Data	
Number of shares (mn)	28,7
Free float (PLN mn)	3 068
Market cap (PLN mn)	12 233

Shareholders Structure	
HVB Group	71,2%
State Treasury	3,7%
GDR-holders	4,0%
Others	21,0%

Analyst

Andrzej Powierża
Doradca Inwestycyjny
tel (22) 697 47 42
fax (22) 697 47 43
andrzej.powierza@breinwest.com.pl

Dom Inwestycyjny BRE Banku S.A.
ul. Wspólna 47/49
00-490 Warszawa, skr. poczt. 21

www.brebrokers.com.pl

	Net interest income (PLN mn)	PBA (PLN mn)	Gross profit (PLN mn)	Net profit (PLN mn)	No. Shares (mn)	EPS (PLN)	EPS growth (%)	P/E	BVPS (PLN)	P/BV	DPS (PLN)	Dividend rate (%)
2001	1 094	2 742	210	336	28,7	11,7	-37%	36	172	2,5	3,8	0,9%
2002	1 075	2 549	191	130	28,7	4,5	-61%	94	174	2,4	1,4	0,3%
2003	1 105	2 356	543	333	28,7	11,6	157%	37	184	2,3	11,0	2,6%
2004F	1 190	2 480	754	596	28,7	20,7	79%	21	194	2,2	25,0	5,9%
2005F	1 280	2 638	755	621	28,7	21,6	4%	20	191	2,2	5,0	1,2%

NOTE: F - BRE Bank Securities forecast

Quarterly results (non-consolidated)

Quarterly results brought no major surprises and were in line with market expectations. The structure of income (positive balance of other operating income and operating costs) and costs (provisions higher than in the two previous quarters, primarily due to the general risk reserve) was a bit of a surprise. Generally, the final quarter of 2003 saw a strengthening of trends evident in the prior period and a growth in y/y gross profit, resulting from solid (for current market conditions) income, cost controls and much smaller provisions than in 2002.

	4Q 03	4Q 02	4Q 03 / 4Q 02	3Q 03	4Q 03 / 3Q 03
Loans	23 258	18 937	23%	21 769	7%
Deposits	28 638	27 465	4%	27 562	4%
Interest result ("pure")	**305**	**316**	**-3%**	**275**	**11%**
Profit on banking activity	615	652	-6%	547	12%
Costs	-379	-393	-4%	-368	3%
Operating profit	**268**	**243**	**10%**	**172**	**56%**
Provisions	-80	-182	-56%	-46	72%
Gross profit	**174**	**47**	**269%**	**111**	**57%**
Net profit	57	21	174%	74	-23%

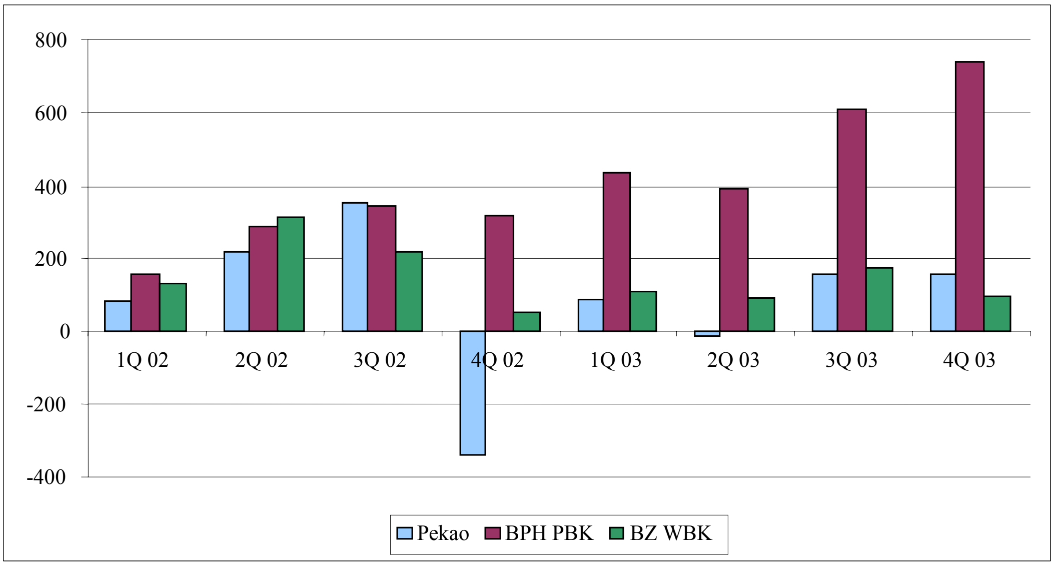
Balance sheet items

As in previous quarters, the most impressive item of the bank's quarterly report was the growth in loans, which amounted to 7% q/q and 23% y/y. Moreover, this quarter, it is difficult to attribute the observed quarterly dynamic to changes in exchange rates, as changes in PLN exchange rates in 4Q were smaller than in previous quarters.

Currency	Exchange rate 31.12.02	Exchange rate 30.09.03	Exchange rate 31.12.03	Quarterly dynamic	Annual dynamic
USD	3.8388	3.9799	3.7405	-6.0%	-2.6%
EUR	4.0202	4.6435	4.7170	1.6%	17.3%
CHF	2.7675	3.0173	3.0281	0.4%	9.4%

The bank boasts a rapid increase in retail loans, noting particular success in regard to mortgage loans (in 2003 retail loans grew PLN 2.2 bn, of which mortgage loans accounted for PLN 2.1 bn). Due to meeting market expectations through extending loans in Swiss franks, BPH PBK pulled ahead of the competition.

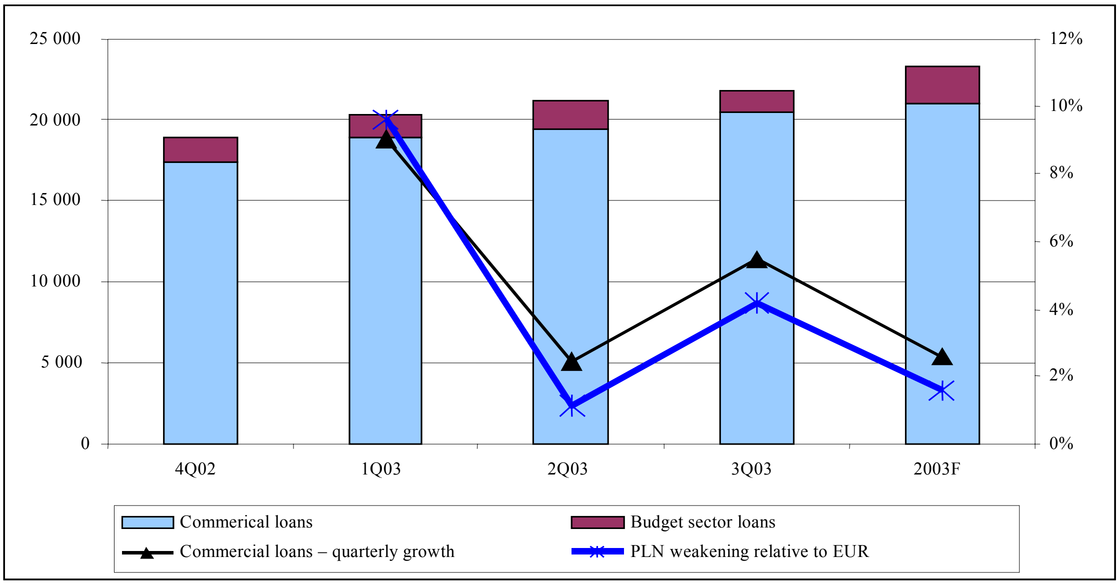
Quarterly change in balance of mortgage loans (PLN mn)



Source: banks, BRE Bank Securities

However, in 4Q the growth in the loan portfolio mainly resulted from the growth in loans for the budget sector, which increased PLN 1 mn (74%). Commercial loans (retail and corporate) grew 2.6%, and the dynamic of this portfolio again showed significant convergence with the PLN exchange rate.

Budget sector and commercial loans of BPH PBK (PLN mn), their dynamic and changes in exchange rates (%)



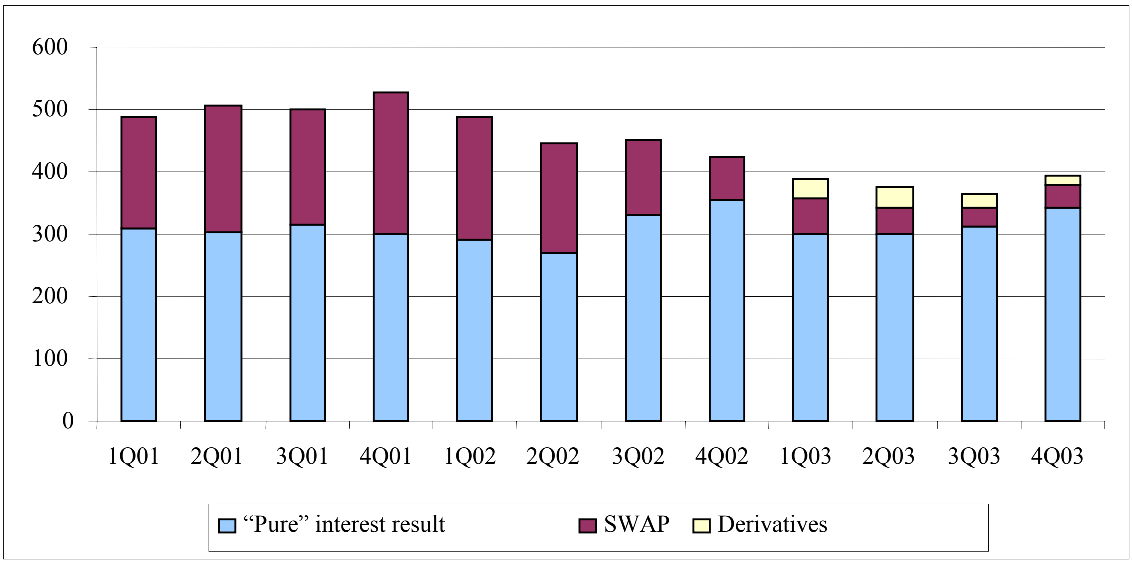
Source: bank, BRE Bank Securities

Also in regard to deposits, 4Q was not a turning point, although as throughout the entire sector, the favourable trends noted in corporate deposits strengthened. Retail deposits grew, as in 3Q, PLN 0.3 bn, and average corporate deposits almost PLN 1 bn (the growth in 3Q was symbolic, amounting PLN 0.1 bn). The bank finally managed to note some success on the market of retail bonds, the value of which at the end of the year amounted PLN 544 mn (PLN 114 mn at the end of 3Q).

Income

In regard to income, the result of a comparison depends on the adopted reference point. Of course, income fell significantly in comparison with 2002, but 4Q 2002 results were already so low that the scale of the decline is much smaller than in previous quarters.

Interest income and para-interest income (consolidated data)



Source: bank, BRE Bank Securities

The reason for this is income from SWAP operations or, in other words, the decline in interest rates. As can be seen, the spectacular growth in the volume of loans has not yet been enough to compensate for the lower rates. On the other hand, this should come as no surprise in a situation when the expansion of lending activity for the budget sector actually consists in replacing treasury bonds (characterised by lower yields) with loans for budget entities (in 4Q, the portfolio of debt papers fell by PLN 1 bn), and total assets grew over the course of the year only by 6.9%.

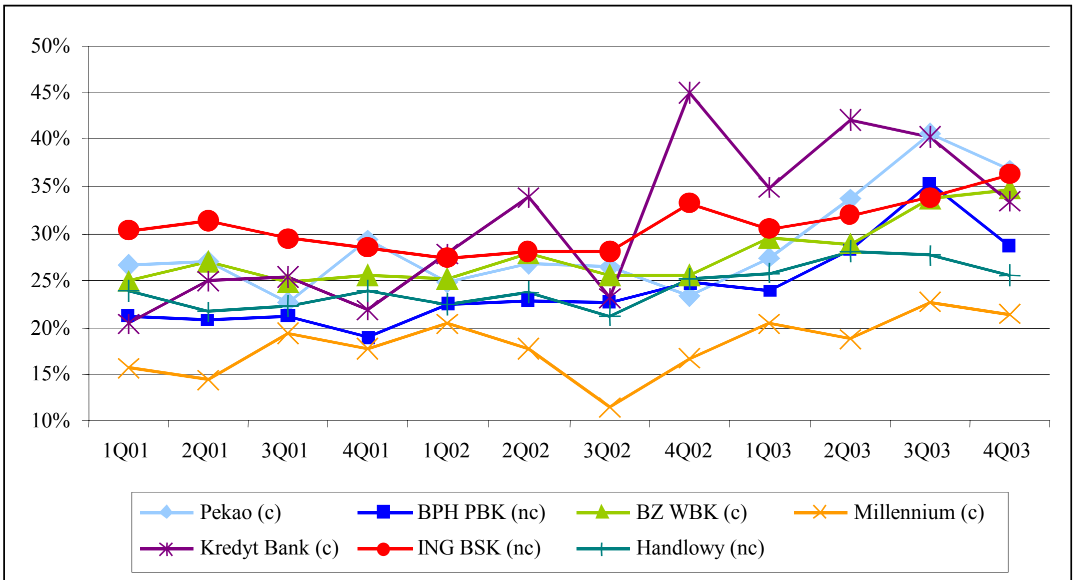
The bank is compensating for declining interest income with the increase in commission rates. On an annual basis, fee and commission income grew by 16.3%, and therefore more than that noted by Pekao (+14.5%) and slightly more than BZ WBK (+15.5%). The growth was mainly noted in commissions from foreign trade (+126%), loans (31%) and credit cards, but the largest share in fee and commission income remains income from payments (other than cards), which accounts for 58% of total income, but grew only by 3%.

Net fee and commission income

	2003	2002	2003 / 2002
Brokerage	29	23	26%
Loan	200	153	31%
From payments	456	429	6%
of which from cards	*81*	*66*	*24%*
others	*375*	*363*	*3%*
From foreign trade	46	21	126%
Others	-5	-1	307%
Total	**726**	**624**	**16%**

The higher growth in fees and commissions than that noted by the competition resulted in part from a low base. Even after the recent growth, fee and commission income in 4Q accounted for only about 29% of BPH PBK's total income (the leaders are noting up to 37%), and the annualised income / asset ratio was 5.82% (against 6.76% in BZ WBK).

Share of fee and commission income in total income



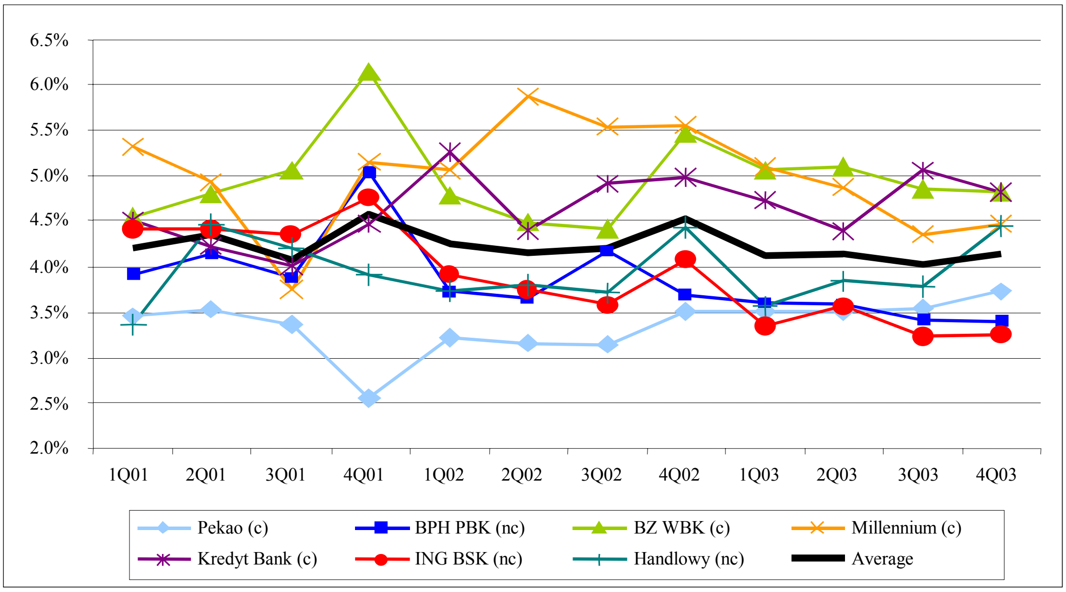
Source: banks, BRE Bank Securities

In 4Q, other operating income, the balance of which (excluding other operating costs, but calculated excluding goodwill) amounted to PLN +32 mn against figures ranging from PLN 0 to -10 mn in previous quarters, had a large share in income. This was partly due to the sale of branches and partly due to the reversal of reserves for jubilee awards and unutilised vacation equivalents.

Costs

The fact that costs are stabile is good news (+2.9% q/q, -3.7% y/y). Due to an initial reduction and continual control of costs, BPH PBK became one of the three publicly traded banks with the lowest general expenses. Despite our fears, the reduction in employment did not translate into lower sales of new products, as evidenced by the increase in the mortgage portfolio as well as the number of issued credit cards. In conditions of cost competition (inevitable, in our opinion, on the Polish market), low costs are resulting in BPH PBK doing better than the more expensive competitors.

Costs as a % of assets

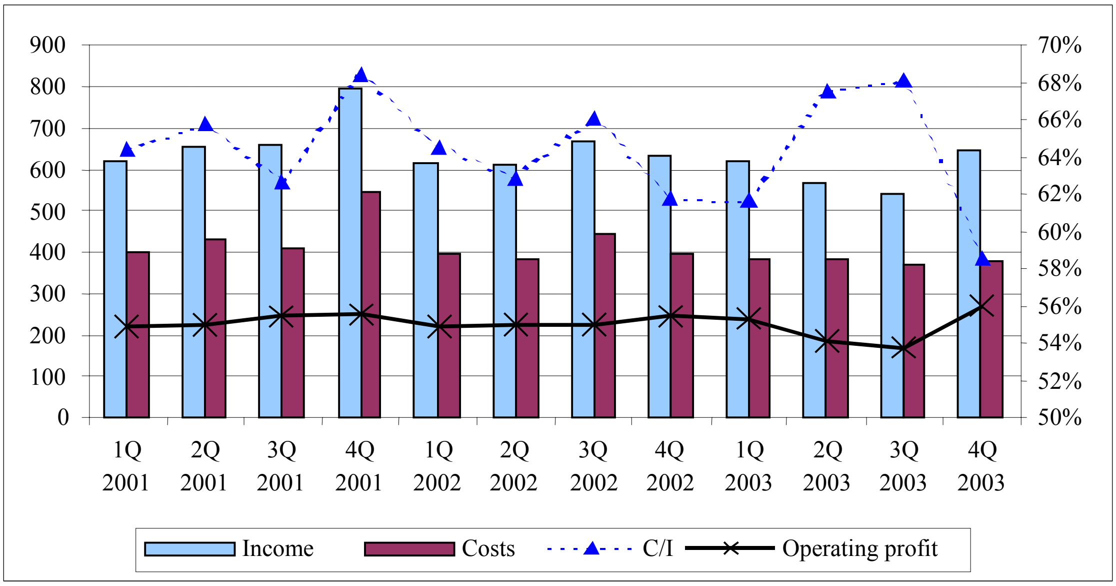


Source: banks, BRE Bank Securities

Operating profit, net provisions and net profit

With costs stable, the increased income (+19.8% q/q, +1.6% y/y) translated into a clear improvement in operating profit (+56.1% q/q, +10.1% y/y). Therefore, the downward trend in operating profit, which fell in the first three quarters of 2003, was slowed down.

Income, costs and operating profit of BPH PBK (PLN mn)



Source: bank, BRE Bank Securities

As opposed to the two previous quarters, net provisions grew and amounted to PLN 80 mn, or 35 bp (but of which a general risk reserve accounted for as much as PLN 71 mn). Year-end net provisions amounted to PLN 261 mn, or 124 bp (of which the cost of increasing the general risk reserve accounted for PLN 88 mn).

Gross profit in 4Q totalled PLN 174 mn, and was the highest not only since the merger between BPH and PBK, but also considering pro-forma results, since the end of 2000. As with other banks, the revaluation of tax assets encumbered BPH PBK's results, but the effect was offset and the final effective tax rate was 63% - much higher than the statutory rate but lower than that envisioned in the worst case scenario. However, as a result of the tax, net profit totalled only PLN 57 mn, and annualised ROE 4.3%.

Summary of the bank's achievements in 2003 and prospects for 2004

The bank's presentation summarising 4Q results was entitled “A pretty good year”. Considering the dynamic of annual net profit (consolidated profit grew 142%) as well as the weak results of the competition, the bank should indeed be satisfied with last year's performance. However, recalling that ROE amounted to 7.9% in the best quarter, it must be stated that the bank continues to generate much smaller profits than investors expect (assuming cost of capital of 11.9% and a growth rate of 6%, a valuation on a level of 2.3x BVPS2004 means that a ROE of 21% is expected).

In order to consider if and when the bank could achieve the profitability expected by investors, we examined the bank's achievements in 2003, acknowledged by the bank as the most important.

During the presentation following 4Q results, the bank presented the main trends that appeared in 2003 in the entire bank and in individual segments of activity. Let's take a closer look at what's hiding behind the given figures.

Phenomenon (consolidated data)	BRE Bank Securities comment
PLN 323 mn net profit 142% higher, PLN 603 mn gross profit 144% higher	Effect of low base
ROE more than doubles – 6.3% (2.7% in 2002)	ROE remains much lower than implied by the current market valuation – **the market expects a three-fold improvement in relation to 2003!!!**
16.2% growth in fee and commission income	Effect of low base (see commentary for 4Q) The bank undoubtedly has significant growth potential and activity on the market of mortgage loans and credit cards shows that it is able to manifest this potential. We decided to **increase the prospective growth rate of fee and commission income** to 16% in 2004, 15% in 2005 and 12% in 2006.
Much lower costs (-6.7%, excluding amortisation) and provisions (-59.4%)	BPH PBK was successful in terms of controlling costs. We expect processes of improving efficiency inside the bank to be continued, which will lead to further cost reductions (**we forecast a 1.6% decline in general expenses in 2004 and growth similar to inflation in 2005 and 2006**). Lower net provisions are due to a low base – in 2003, the bank noted a level of costs of credit risk similar to the average among stock exchange-listed banks. Portfolio growth in 2003 increased the foreign currency risk (mortgage loans), but we assume a further decline in costs of provisions. We maintain our **forecast of annual net provisions on a level of 100 bp**, although we acknowledge this is rather ambitious. **We lowered costs of credit risk assumed in calculating “terminal” ROE from 0.9% of assets to 0.85%.**
7.3% asset growth	In the future, the slow growth of deposits may limit asset growth (+3.4% y/y due only to 4Q, when deposits grew 3.6%), however improving sales of savings bonds bode well for the future.

High growth in volume of loans (+23.9%) and stabilisation of deposit base (+3.6%)	Substantial lending activity is good news, but the PLN 4.9 bn growth in volume mainly results from commitments in consortium loans (PLN 1.6 bn), the growth in loans for the budget sector (PLN +0.7 bn), the growth in mortgage loans (PLN +2.1 bn) as well as the growth in the zloty valuation of foreign currency loans (PLN +0.7 bn). **We assume a 20% growth in the loan portfolio in 2004 and 2005** (which considering the forecast of a more stabile zloty exchange rate means faster loan expansion relative to 2003). Deposits – see above.
Improvement in quality of loan portfolio (non-performing loans decline 3 p.p. to 19.1%)	Mainly the effect of significant lending activity. Volume of non-performing loans increased PLN 337 mn, or 6.7%, but this is partly the effect of the increased zloty valuation of foreign currency loans. New loans have not had time to go bad (this can be seen after the clear improvement in the segment of loans for individuals, in which the share of non-performing loans fell from 13.5% to 8.7%). The quality of the portfolio of SMEs could be a source of concern (33.6% of non-performing loans against 29.2% one year ago), but happily these loans account for only 13% of the total portfolio.
Successfully conducted merger – unveiling of new bank logo	New logo, more than 2 years after merger, will finally replace the BPH and PBK logos – the only thing to add is: “at last!”
Progress in: • sales of products (credit cards, cash management) • group restructuring (sale of superfluous assets – Aktyn, Polcard, MCG and outsourcing)	• cards – see below • group restructuring basically completed in 2004 (**sale of GBG will bring the bank about PLN 70 mn gross**)

RETAIL ACTIVITY

Increase in number of clients: • SME from 142 thous. to 171 thous., • Call Center from 134 thous. to 241.5 thous., • e-banking from 66 thous. to 146.2 thous.	• Larger number of clients from SME segment would be a source of joy if not for the mentioned worsening in the quality of the loan portfolio of this group of clients. • 22% of BPH PBK clients benefit from the Call Center against 39% in the case of BZ WBK and 44% in ING BSK, and from e-banking: 14%, 23% and 9% respectively, therefore BPH PBK remains far behind BZ WBK.
Tripling in number of issued credit cards (97 thous. in 2003)	Undoubtedly a success, but more cards were issued by Bank Handlowy (478 thous.) and BZ WBK (134 thous.), and surprisingly PKO BP ranked second (151 thous.).
76% increase in mortgage loan portfolio and capturing a 17% market share.	Mentioned repeatedly: a success, but achieved at the cost of margins and risk (mainly foreign currency loans). Time will tell whether the bank properly evaluated and valuated the risk.
Issue of bonds in order to satisfy the most demanding clients (PLN 469.5 mn).	In 4Q, partly on a wave of client disappointment with investment funds, the bank finally managed to sell the offered bonds. This product is mainly to hold on to clients seeking higher interest rates, therefore the limited success in regard to selling the bonds in the initial months should not be a cause for concern but rather the shrinking share in the deposit market.

CORPORATE ACTIVITY

Increase in average volume of loans and deposits, 21% and 10% respectively.	Growth in lending activity – see above. Growth in corporate deposits – this phenomenon occurred throughout the entire sector, but the significant growth in the bank's deposits in 4Q particularly shows the bank's strong position on this market, which is partially due to PBK's contribution and partially due to the services rendered by the bank's Treasury Department.
40% growth in electronic banking, 80% of payments made electronically.	Savings for the bank on service costs – but already largely realised.
179% growth in value of new leasing contracts (BA/CA LP).	Very good 2H (PLN 338 mn of new contracts against PLN 183 mn in 1H). Continues to trail e.g., BZ WBK Leasing (loan portfolio totalled PLN 1056 mn at the end of 2002). We are more pleased with the business profile of BZ WBK Leasing (the largest firm in the segment of machinery and equipment) than with BA/CA LP (share of real estate increasing).
BPH ranked second in terms of organising consortium loans.	As in the case of BZ WBK, lending activity within the framework of consortium loans accounted for approximately 1/3 of the annual increase in credits (in BPH PBP PLN 1.6 bn accounted for 33% of annual growth, while in BZ WBK PLN 490 mn accounted for 38%) – however, in the case of BPH PBK this means a significantly higher volume.

ACTIVITY OF TREASURY DEPARTMENT

<table>
<tr><td>Treasury Department obtains 211 new clients.</td><td rowspan="4">Appreciating the good results of the Treasury Department, in calculating terminal ROE for BPH PBK we forecast other income on a level of 0.6% of assets, and therefore ½ more than our forecast for the entire sector (0.4%).
We have also decided to raise the forecast of income from exchange differences and financial operations in 2004-2006.</td></tr>
<tr><td>Treasury income from transactions with clients grew 109% and its share reached 40% against 19% in 2002.</td></tr>
<tr><td>40 educational events organised for clients.</td></tr>
<tr><td>Rankings: 1st place in ranking of Global Custodian Magazine, 1st place on list of primary market dealers prepared by the Ministry of Finance, 2nd place in ranking of National Bank of Poland for money market dealers.</td></tr>
</table>

Maintaining the high dynamics of product sales, which are the centre of attention for the majority of banks in Poland (mortgage loans, credit cards) convinced us that BPH PBK is able to make up for its late start in some fields of activity (cards, savings bonds) and maintain its strong position in other areas (products of the Treasury Department), while controlling costs. Therefore, we raised the bank's income forecast and maintained the principal assumptions regarding costs, as a result of which our forecast for the next couple of years increased (2004 +4%, 2005 +12%). However, this does not allow us to fundamentally change the bank's valuation (PLN 256 current, PLN 240 previous), as this primarily depends on the "terminal ROE" adopted, and in this case we made only one adjustment, reducing the planned costs of credit risk and assuming ROE of 13.8%. Considering the method employed by the bank to achieve this profitability (growth in ROE from 6.5% in 2003 to 11% in 2004, 11.2% in 2005 and 12.8% in 2006), we are confident concerning our valuation.

Valuation

Forecast

	Historical data					Individual forecast				TF - bank	TF – sector
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	
Interest margin	4.8%	4.8%	4.4%	3.8%	2.9%	2.7%	2.5%	2.5%	(...)	2.2%	2.6%
Fees and commissions / assets	1.5%	1.5%	1.3%	1.4%	1.6%	1.7%	1.8%	1.8%	(...)	1.2%	1.0%
Other income / assets	0.7%	1.4%	0.7%	0.7%	1.0%	0.9%	0.9%	0.8%	(...)	0.6%	0.4%
Total income / assets	**7.1%**	**7.6%**	**6.5%**	**5.9%**	**5.4%**	**5.3%**	**5.2%**	**5.1%**	(...)	**4.0%**	**4.0%**
Costs / assets	-4.5%	-4.6%	-4.2%	-3.8%	-3.4%	-3.2%	-3.0%	-2.8%	(...)	-2.1%	-2.3%
Cost / income	***-63.3%***	***-59.7%***	***-64.3%***	***-63.9%***	***-63.7%***	***-59.9%***	***-57.7%***	***-54.4%***	(...)	***-52.5%***	***-57.1%***
Operating profit / assets	**2.6%**	**3.1%**	**2.3%**	**2.1%**	**2.0%**	**2.1%**	**2.2%**	**2.3%**	(...)	**1.9%**	**1.7%**
Provisions	-0.7%	-0.8%	-1.7%	-1.5%	-0.6%	-0.5%	-0.6%	-0.6%	(...)	-0.85%	-0.7%
Pre-tax profit	1.8%	2.2%	0.5%	0.4%	1.2%	1.6%	1.5%	1.6%	(...)	1.05%	1.02%
Net profit	**1.1%**	**1.4%**	**0.8%**	**0.3%**	**0.8%**	**1.3%**	**1.2%**	**1.3%**	(...)	**0.9%**	**0.8%**
Equity / assets	12.9%	11.7%	11.4%	11.7%	11.6%	11.5%	10.3%	10.3%		6.2%	6.2%
ROE	**8.7%**	**11.6%**	**6.9%**	**2.6%**	**6.5%**	**11.0%**	**11.2%**	**12.8%**		**13.8%**	**13.4%**

TF - Bank - "Terminal forecast" for bank
TF - Sector **-** "Terminal forecast" for sector

Cost of capital

	2003-2013	**2014 and later**
Risk free rate	7.1% (*)	5.6% (**)
Risk premium	5%	5%

(*) market yield on 10-year bonds
(**) implied yield of Italian 20-year bonds

Growth rate

2004-2007	**2008-2018**	**Po 2018**
Individual based on model (average 28%)	6.5%	4.5%

Valuation summary (based on forecasts for 2014)

Economic capital per share (PLN)	348
Adopted price / book value ratio	1.5
Terminal value (PLN)	530
Value of excessive capital (PLN)	19
Discounted terminal value (PLN)	156
Discounted value of excessive capital (PLN)	6
Value of discounted dividends (PLN)	87
Value of holdings in PTE (PLN)	7.5
Overall valuation (PLN)	**256**

NON-CONSOLIDATED PROFIT AND LOSS ACCOUNT (PLN mn)

	2000	2001	2002	2003	2004 F	2005 F	2006 F
Net interest income	**1 771**	**1 094**	**1 075**	**1 105**	**1 190**	**1 280**	**1 386**
Interest income	4 850	4 616	2 872	2 228	2 550	2 785	3 078
Interest expense	(3 079)	(3 522)	(1 797)	(1 123)	(1 359)	(1 505)	(1 692)
Non-interest income	**1 028**	**1 648**	**1 474**	**1 251**	**1 290**	**1 357**	**1 481**
Net fee and commission income	541	558	586	685	795	914	1 024
Foreign exchange differences	303	982	734	246	144	57	52
Result on financial operations	185	108	154	320	351	386	405
Profit on banking activity	**2 799**	**2 742**	**2 549**	**2 356**	**2 480**	**2 638**	**2 867**
Other operating income	21	(14)	(19)	21	9	9	10
Total banking income	**2 820**	**2 728**	**2 529**	**2 377**	**2 488**	**2 647**	**2 877**
Non-interest costs	**(1 683)**	**(1 755)**	**(1 617)**	**(1 514)**	**(1 490)**	**(1 527)**	**(1 564)**
Personnel costs	(825)	(825)	(757)	(679)	(679)	(692)	(705)
Amortisation	(209)	(249)	(223)	(223)	(230)	(237)	(237)
Other costs	(649)	(681)	(636)	(612)	(581)	(599)	(623)
Operating profit before costs of provisions	**1 136**	**973**	**913**	**863**	**999**	**1 120**	**1 313**
Net provisions	(308)	(712)	(664)	(261)	(256)	(307)	(360)
Gross profit	**811**	**210**	**191**	**543**	**754**	**755**	**894**
Income tax	(288)	126	(96)	(216)	(158)	(143)	(170)
Consolidation adjustments	0	0	35	6	0	10	12
Net profit	**523**	**336**	**130**	**333**	**596**	**621**	**736**
Dividends paid	(129)	(109)	(40)	(316)	(718)	(144)	(144)

CORE RATIOS

	2000	2001	2002	2003	2004 F	2005 F	2006 F
Net interest margin (total assets)	4.8%	2.6%	2.5%	2.5%	2.5%	2.5%	2.5%
Net interest margin (working assets)	5.2%	2.8%	2.8%	2.8%	2.9%	2.8%	2.8%
Interest spread	4.3%	2.0%	2.3%	2.5%	2.5%	2.5%	2.5%
Costs / Income	59.7%	64.3%	63.9%	63.7%	59.9%	57.7%	54.4%
Costs / Assets	4.6%	4.2%	3.8%	3.4%	3.2%	3.0%	2.8%
Personnel costs / Income	29.3%	30.3%	29.9%	28.6%	27.3%	26.1%	24.5%
Net provisions / Operating profit	27.1%	73.2%	72.7%	30.3%	25.6%	27.4%	27.4%
Net provisions / Total loans	1.7%	3.8%	3.6%	1.2%	1.0%	1.0%	1.0%
Non-interest income / Total income	37.2%	59.9%	57.5%	53.5%	52.2%	51.6%	51.8%
Operating profit / Assets	3.1%	2.3%	2.1%	2.0%	2.1%	2.2%	2.3%
ROE	**11.6%**	**6.9%**	**2.6%**	**6.5%**	**11.0%**	**11.2%**	**12.8%**
ROA	**1.4%**	**0.8%**	**0.3%**	**0.8%**	**1.3%**	**1.2%**	**1.3%**

ANNUAL GROWTH RATE

	2000	2001	2002	2003	2004 F	2005 F	2006 F
Net profit	63.2%	(35.9%)	(61.4%)	157.3%	78.7%	4.3%	18.4%
Operating profit	46.2%	(14.4%)	(6.2%)	(5.4%)	15.7%	12.1%	17.2%
Total banking income	33.1%	(3.3%)	(7.3%)	(6.0%)	4.7%	6.4%	8.7%
Net interest income	22.8%	(38.2%)	(1.7%)	2.8%	7.7%	7.5%	8.3%
Non-interest income	55.2%	55.8%	(11.0%)	(12.5%)	2.0%	5.3%	9.1%
Non-interest costs	25.5%	4.3%	(7.9%)	(6.3%)	(1.6%)	2.5%	2.4%

NON-CONSOLIDATED BALANCE SHEET (PLN mn)

	2000	2001	2002	2003	2004 F	2005 F	2006 F
Cash and Central Bank balances	2 008	1 934	2 214	1 574	1 637	1 686	1 720
Due from financial sector	8 139	11 497	6 281	4 327	3 000	2 703	3 751
Debt securities	7 845	7 716	9 954	11 248	10 460	9 573	8 616
Customer loans	19 560	18 309	18 937	23 258	27 910	33 492	38 515
Equity investments	825	533	511	2 271	2 544	2 798	3 022
Fixed assets	1 762	1 720	1 645	1 481	1 525	1 556	1 587
Other assets	859	1 683	3 018	1 327	1 424	1 495	1 570
Total assets	**40 997**	**43 391**	**42 561**	**45 485**	**48 500**	**53 303**	**58 780**
Liabilities to financial sector	6 525	7 362	6 214	6 938	7 216	8 659	9 698
Deposits	27 349	28 667	27 465	28 638	30 643	33 707	37 078
Securities	162	166	78	544	871	1 132	1 472
Subordinated debt	0	0	0	0	0	0	0
Other liabilities	2 156	2 251	3 808	4 074	4 199	4 331	4 466
Share equity	4 806	4 945	4 995	5 290	5 570	5 474	6 066
Share capital	217	144	144	144	144	144	144
Total equity and liabilities	**40 997**	**43 391**	**42 561**	**45 485**	**48 500**	**53 303**	**58 780**

ASSET ANALYSIS

	2000	2001	2002	2003	2004 F	2005 F	2006 F
Share of NPLs in total loans	16.7%	20.4%	21.7%	19.0%	16.9%	14.9%	13.0%
NPLs / Assets	8.2%	9.1%	10.4%	10.7%	10.6%	10.1%	9.2%
Provisions / NPLs	36.4%	42.1%	49.3%	48.6%	49.3%	51.0%	55.6%
Provisions / Total loans	6.1%	8.6%	10.7%	9.2%	8.3%	7.6%	7.2%
Provisions / Assets	3.0%	3.8%	5.1%	5.2%	5.2%	5.2%	5.1%
Non-provisioned NPLs / Equity	44.5%	46.4%	44.8%	47.2%	46.8%	48.4%	39.5%

BALANCE SHEET RATIOS

	2000	2001	2002	2003	2004 F	2005 F	2006 F
Equity / Assets	11.7%	11.4%	11.7%	11.6%	11.5%	10.3%	10.3%
Loans / Assets	47.7%	42.2%	44.5%	51.1%	57.5%	62.8%	65.5%
Deposits / Assets	66.7%	66.1%	64.5%	63.0%	63.2%	63.2%	63.1%
Loans / Deposits	71.5%	63.9%	69.0%	81.2%	91.1%	99.4%	103.9%
Growth rate of loans	13.5%	(6.4%)	3.4%	22.8%	20.0%	20.0%	15.0%
Growth rate of deposits	18.1%	4.8%	(4.2%)	4.3%	7.0%	10.0%	10.0%
Growth rate of assets	25.0%	5.8%	(1.9%)	6.9%	6.6%	9.9%	10.3%

Previous recommendations issued for BPH PBK

Recommendation	Sell	Sell	Sell
Date issued	2003-12-09	2003-10-31	2003-09-10
Price on day of recommendation	342.00	337.50	312.00
WIG on day of recommendation	20066.46	20757.40	19983.97

Department of Institutional Sales and Analysis:

Tomasz Mazurczak tel. (+48 22) 697 47 35
Director
Tomasz.Mazurczak@breinwest.com.pl
Strategic analysis

Grzegorz Domagała tel. (+48 22) 697 48 03
Assistant Director
Grzegorz.Domagala@breinwest.com.pl

Sales:
Michał Skowroński tel. (+48 22) 697 49 68
Michal.Skowronski@breinwest.com.pl
Emil Onyszczuk tel. (+48 22) 697 49 63
Emil.Onyszczuk@breinwest.com.pl
Marzena Łempicka tel. (+48 22) 697 48 95
Marzena.Lempicka@breinwest.com.pl
Grzegorz Stępień tel. (+48 22) 697 48 62
Grzegorz.Stepien@breinwest.com.pl
Tomasz Roguwski tel. (+48 22) 697 48 82
Tomasz.Roguwski@breinwest.com.pl

Analysts:

Hanna Kędziora tel. (+48 22) 697 47 37
Hanna.Kedziora@breinwest.com.pl
Chemicals, pharmaceuticals, household appliances, foodstuff industry

Michał Marczak tel. (+48 22) 697 47 38
Michal.Marczak@breinwest.com.pl
Telecommunications, raw materials, metals, media

Andrzej Powierża tel. (+48 22) 697 47 42
Andrzej.Powierza@breinwest.com.pl
Banks, insurance, others

Witold Samborski tel. (+48 22) 697 47 36
Witold.Samborski@breinwest.com.pl
IT, construction, others

Przemysław Smoliński tel. (+48 22) 697 49 64
Przemyslaw.Smolinski@breinwest.com.pl
Assistant Analyst, technical analysis

List of abbreviations and ratios contained in the report.
EV *– net debt + market value (EV – economic value)*
EBIT *– Earnings Before Interest and Taxes*
EBITDA *– EBIT + Depreciation and Amortisation*
PBA *– Profit on Banking Activity*
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*

Recommendations of BRE Bank Securities
A recommendation is valid for a period of 3-6 months, unless a subsequent recommendation is issued within this period.
BUY – we expect that the rate of return from an investment in a company's shares will be at least 15% higher than the WIG
ACCUMULATE – we expect that the rate of return from an investment in a company's shares will be 5%-15% higher than the WIG
HOLD – we expect that the rate of return from an investment in a company's shares will be within +/-5% in relation to the WIG
REDUCE – we expect that the rate of return from an investment in a company's shares will be 5%-15% lower than the WIG
SELL – we expect that the rate of return from an investment in a company's shares will be at least 15% lower in relation to the WIG

Strong and weak points of valuation methods used in recommendations:
DCF – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model
Multiple – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.