BRE Bank Securities

RESEARCH REPORT
BPH PBK

Banks

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He who lives by the sword...

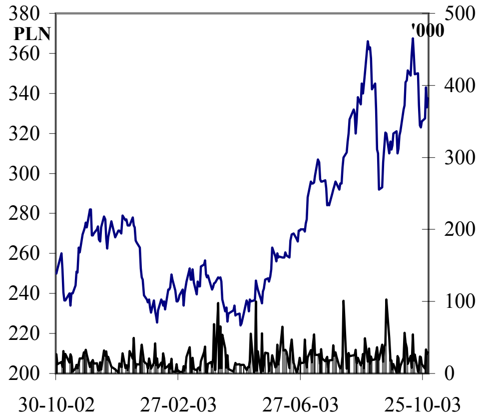
• The bank was unable to maintain the level of net profit noted in the first two quarters of the year with 3Q earnings amounting to only PLN 74 mn (-27% q/q). In 1H the bank's earnings were largely due to the intensive activity of the Treasury Department, unfortunately, the downturn in bond prices had a negative impact on the level of financial income and was the main reason for the lower earnings.

• BPH PBK continues to impress with dynamic loan portfolio growth (+2.2% gross q/q), but this is largely due to zloty weakening (growth adjusted by the influence of changes in foreign currency exchange rates amounted to only 0.8%). We fear that, as with the development of activity on the debt market, the promotion of foreign currency loans may at some point come back to haunt the bank.

• Due to the intensive promotion of housing loans in Swiss franks the bank has so far managed to strengthen its position on the market of mortgage loans as the second largest player. The impressive increase in the portfolio (+69% y/y, +17% q/q) is contributing to a growth in income from commissions and fees (+18% q/q). Together with the stabilisation of interest income and costs, this means an increase in normalised operating profit (excluding the decline in income from financial operations).

• Net provisions continue to fall, but we fear that a local low was noted in 3Q and 4Q could be worse. However, it should be kept in mind that regulatory changes (principles for classifying loans, tax asset settlements and tax-based treatment of provisions) will have a major influence on 4Q and 2004 results.

• Does the data presented in the quarterly report and presentation provide a basis for revising our forecasts? Just as last quarter, the answer this quarter is no. We did make minor adjustments in the forecast for 2003 (lower financial income, higher commission income) and symbolic adjustments in forecasts for subsequent years. However, we se no reason to radically change our position concerning prospects for an improvement in the bank's performance. Our estimated average compound annual growth rate (CAGR) in 2003-2006 is 13% for net profit, 6% for interest income and 12% for commission income, assuming an annual growth in costs of 1%. Therefore, we hardly consider ourselves to be extreme pessimists. However, we do believe that the bank is overvalued in relation to fundamental value (which we estimate at PLN 269) and therefore we are maintaining our SELL recommendation for shares of BPH PKB.



Recommendatio	SELL
Price	**337,5**
Target price	**269**

Basic Data	
No. of shares (mn)	28,7
Free float (PLN mn)	2 044
Market cap (PLN mn)	9 692

Shareholder Structure	
HVB Group	71,2%
State Treasury	3,7%
GDR-holders	4,0%
Other shareholders	21,1%

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	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 (%)
2000	1 780	2 832	837	549	28,7	18,6		18	167	2,0	4,5	1,3%
2001	1 094	2 742	210	336	28,7	11,7	-37%	29	172	2,0	3,8	1,1%
2002	1 075	2 549	191	130	28,7	4,5	-61%	75	174	1,9	1,4	0,4%
2003F	1 085	2 341	499	373	28,7	13,0	187%	26	183	1,8	12,0	3,6%
2004F	1 121	2 307	672	544	28,7	18,9	46%	18	190	1,8	25,0	7,4%

NOTE: F - BRE Bank Securities forecast

BPH PBK company results for 3Q

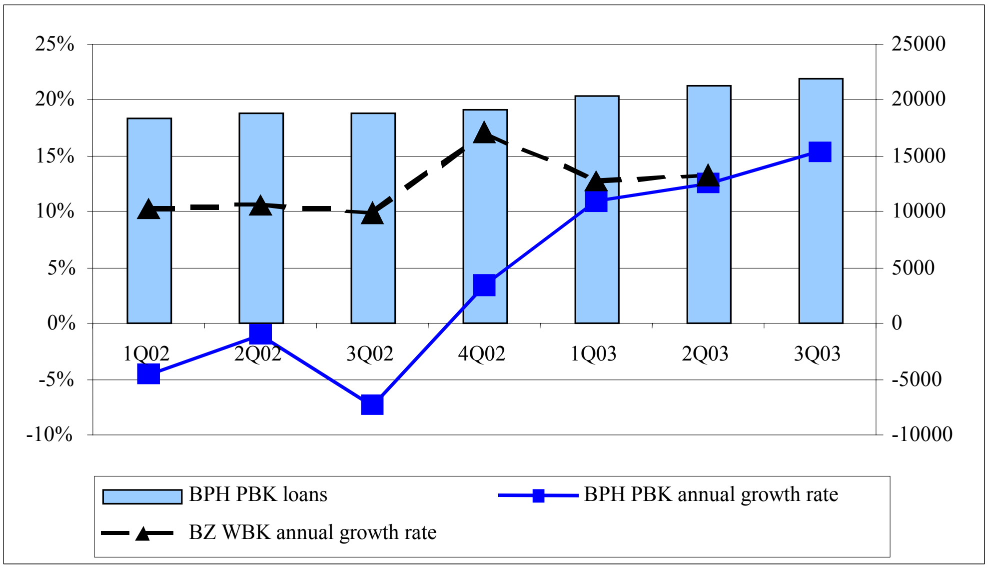
The bank's results in 3Q were better than the net result itself would indicate – non-consolidated PLN 74 mn (-27% q/q), consolidated PLN 67 mn (-33% q/q). The bank's dynamic of loan activity (+2.6% q/q/ +15.3% y/y) as well as high net fee and commission income (+18.4% q/q, +25.9% y/y) were a pleasant surprise. However, the temporary stabilisation of margins and the growth in interest income were unable to offset the negative influence of periodic factors (the loss on bonds) as well as the general worsening of operating profitability (income was 19% lower than one year ago, which even despite a 17% reduction in costs resulted in lowering profit before provisions 24%). Due to a further reduction in net provisions, the bank obtained a much better net result than one year ago, even despite the negative influence of the result of subordinated entities.

	3Q 03	3Q 02	3Q 03/ 3Q 02	2Q 03	3Q 03/ 2Q 03
Loans	21 769	18 879	15%	21 227	2.6%
Deposits	27 562	28 673	-4%	27 148	1.5%
Interest result ("pure")	275	289	-5%	262	5.0%
Profit on Banking Activity	**547**	**672**	**-18%**	**579**	**-5.4%**
Costs	-368	-443	-17%	-384	-4.1%
Operating profit	**172**	**227**	**-24%**	**185**	**-7.0%**
Provisions	-46	-198	-77%	-53	-13.3%
Gross profit	111	15	654%	117	-5.0%
Net profit	**74**	**17**	**328%**	**102**	**-27.1%**

Balance sheet

The bank managed to maintain the significant growth in the volume of loans and did so despite the decline in the loan portfolio for the budget sector (loans for the budget sector fell PLN 522 mn in 3Q, while other loans increased PLN 1064 mn). As a result, the annual growth rate (end of September 2003 to end of September 2002) was 15.3%. BPH PBK will probably turn out to be the leader in terms of dynamic of the loan portfolio.

BPH PBK loans (net)



Source: banks, BRE Bank Securities

Of course, it cannot be forgotten that the growth in the loan portfolio is largely a purely accounting procedure, due to weakening of the zloty (a large portion of loans in BPH PBK, particularly retail loans, is denominated in foreign currencies). Taking into account the influence of zloty weakening, the loan portfolio increased only 0.8%, with retail loans being the only component noting an increase (a nominal growth of 8.2%, but a growth of 4.1% including the influence of changes in foreign currency exchange rates). Moreover, in the table below loans for the budget sector are presented as corporate loans – in this group a budget entity repaid a portion of a loan and therefore the remaining portion, purely commercial, must have increased approximately PLN 0.5 bn.

BPH PBK loan portfolio (gross)

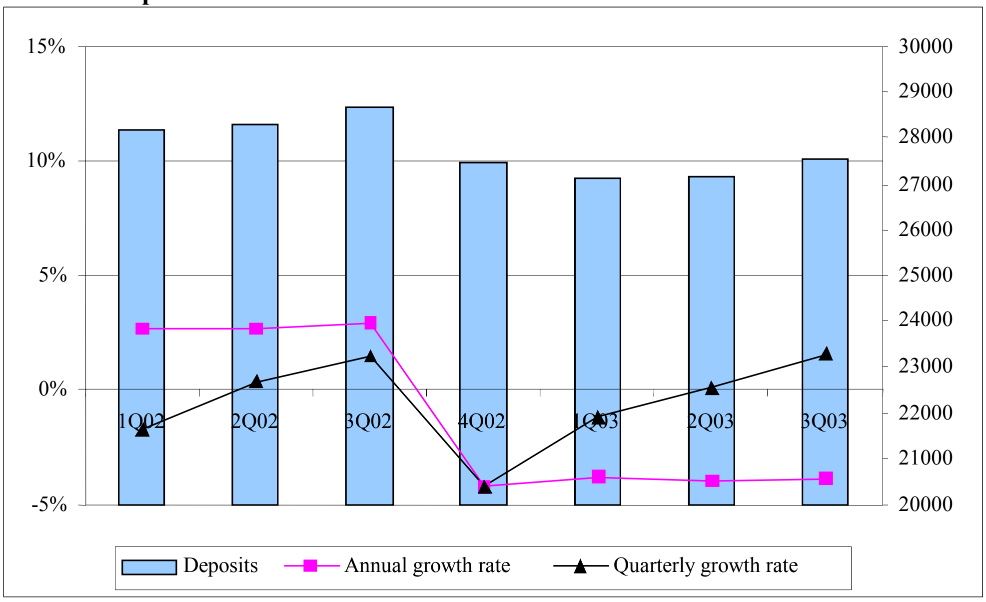
	2Q	3Q	of which (estimated)				3Q/2Q growth	
			PLN	EUR	CHF	USD	Nominal	Real (*)
Retail	5 618	6 081	2 372	486	3 101	61	8.2%	4.1%
SME	3 505	3 495	2 307	734	384	70	-0.3%	-1.7%
Corporate	14 735	14 801	9 177	3 700	592	1 480	0.4%	0.0%
Total	**23 858**	**24 377**	**13 855**	**4 921**	**4 078**	**1 611**	**2.2%**	**0.8%**

Source: bank, BRE Bank Securities
(*) including zloty weakening

As in previous quarters, the driving force behind the growth in loan activity was mortgage loans. The bank maintained the growth rate on housing loans noted last quarter (+69%), while the quarterly growth amounted to PLN 614 mn (16.6%). The increase in mortgage loans accounted for 133% of the growth in retail loans and 118% of the growth in total loans and therefore, without exaggerating, it can be said that the entire dynamic of BPH PBK's loan activity originates from promoting mortgage loans.

Also in this group, portfolio growth was largely only on paper, being connected with zloty weakening (approximately 70% of the mortgage loan portfolio is denominated in Swiss franks, approximately 12% in EUR and USD, while only 17% in PLN). If zloty weakening is folded into the equation, the quarterly growth in the portfolio would amount not to 17% but 12%. However, the bank's strong position on the market of housing loans is an irrefutable fact (according to the bank's data, BPH PBK is the second largest player on the market, and its share again increased amounting to 15.7% at the end of August).

BPH PBK deposits



Source: bank, BRE Bank Securities

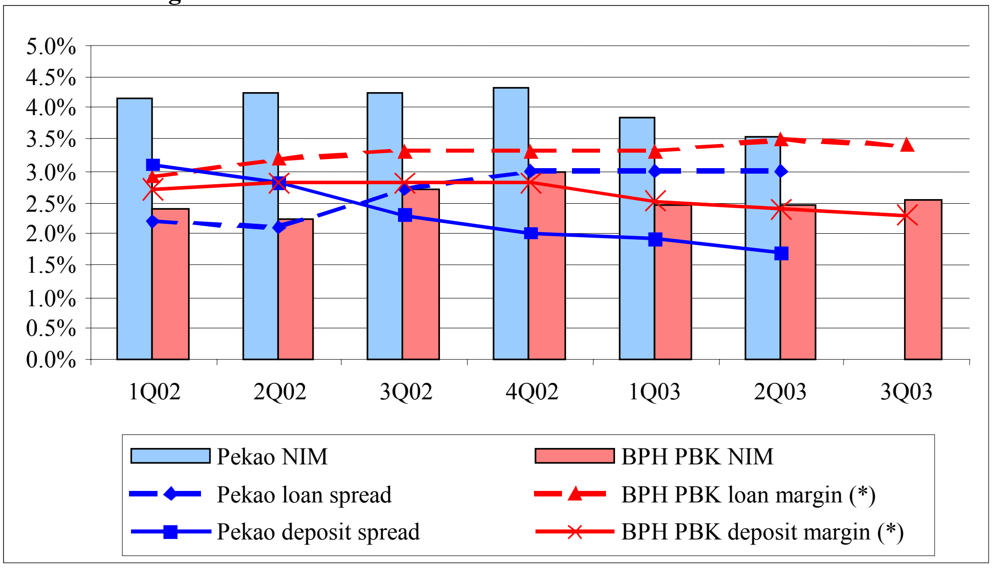
In regard to deposits, the collapse of unfavourable trends and the recovery of deposits lost during the year are evident in the chart. As in the entire sector, the improvement is largely occurring due to corporate deposits. Retail deposits grew in 3Q in comparison with the end of 2Q, but remain on a level much lower than that noted one year ago (respectively, PLN 19.2, 18.9 and 19.9 bn).

Income

Net interest income was 5.0% higher than in 2Q, but in comparison with 3Q 2002 it declined 4.7%.

The increase in relation to last quarter was due to the increase in total assets (+1.6%) and margin growth (2.56% against 2.45%). Spreads narrowed slightly in retail banking. We believe that the loan spread narrowed mainly due to from the increase in the share of low margin mortgage loans denominated in Swiss franks. With retail spreads narrowing, the growth in the margin on total assets had to result from the growth of the corporate margin or a change in the structure of assets (we believe that the share of securities and loans increased in 3Q, while receivables from the financial sector fell).

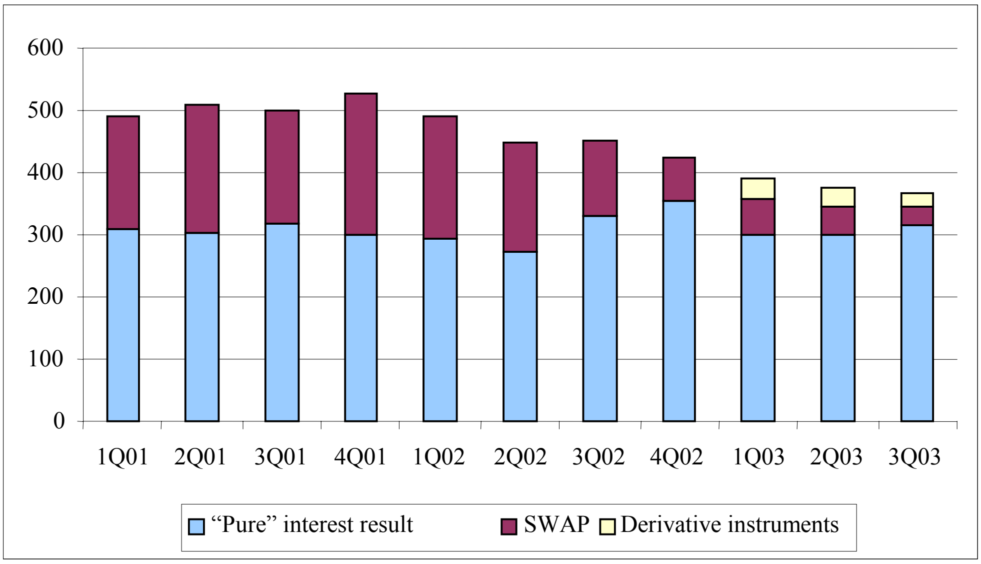
BPH PBK margins relative to Pekao



Source: bank, BRE Bank Securities
(*) BPH PBK loan and deposit margins on retail activity

The level of purely interest income has been stabile for some time, while income from SWAP operations and from other derivative instruments has been falling. This process is illustrated in the chart below, prepared for consolidated data.

Broadly understood interest income in BPH PBK (consolidated data)



Source: bank, BRE Bank Securities

Net fee and commission income, which grew 18.4% q/q and 25.9% y/y, was the most pleasant surprise among the bank’s reported results. The fact that the growth was not due to an increase in the bank’s rates, but resulted from a larger volume of transactions is particularly good news.

Despite the increasingly broader use of electronic (and therefore less expense) channels of distribution by clients, the overall balance is in the bank's favour, mainly due to higher loan commissions. Fees and commissions from corporate clients also continue to grow (in 2Q, +12% q/q, and in 3Q, +5% q/q).

Structure of retail income from fees and commissions

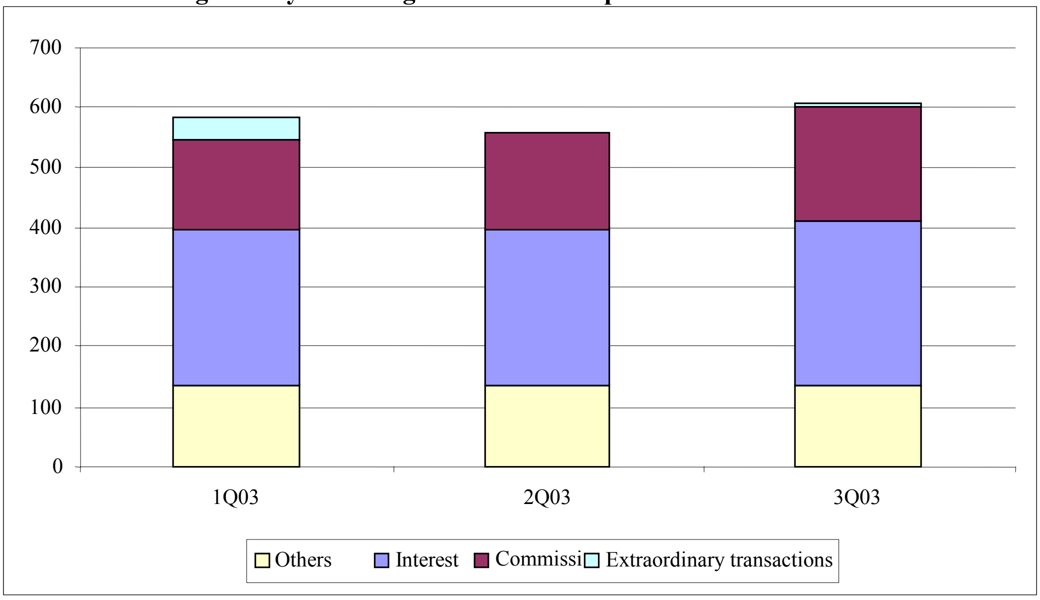
	1-2Q	1-3Q
Accounts	28.7%	29.2%
Cash services	24.8%	21.8%
Loans	22.5%	25.3%
Cards	11.1%	11.7%
New distribution channels	4.4%	2.1%
Others	8.6%	9.8%

Source: bank, BRE Bank Securities

The downturn in bonds resulted in BPH PBK, one of the largest players on the bond market, noting significantly lower total profits from financial and currency operations (excluding SWAPs and other derivative instruments) than in previous quarters (respectively, profit totalled PLN 31 mn in 3Q against PLN 80 mn in 2Q and PLN 92 mn in 1Q).

In our opinion, the most appropriate method of analysing the income trend is averaging the income generated by the Treasury Department, as the significant volatility of results is inseparably connected with activity on the financial market. If income from financial and currency operations obtained by BPH PBK for the first three quarters of 2003 is averaged, it turns out that recurrent profit on banking activity in 3Q was the highest this year.

Profit on banking activity excluding the influence of periodic factors



Source: bank, BRE Bank Securities

Total income (without making adjustments) fell 5.1% in 3Q in comparison to 2Q and 19.4% in comparison to 3Q 2003.

Costs

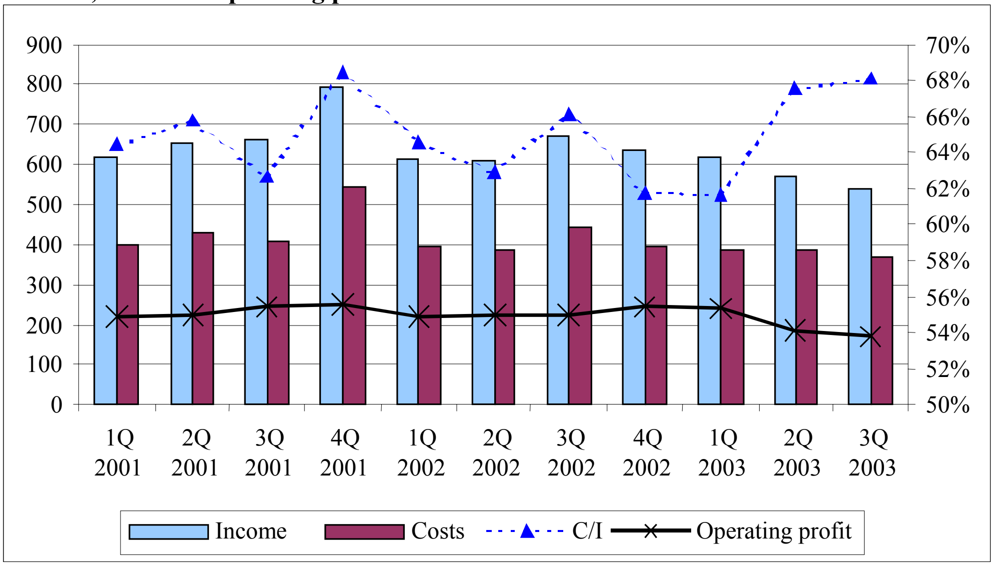
Total costs were 4.1% lower than in 2Q, while savings amounted to 16.9% in comparison to 3Q 2002 (but last year the bank's results were encumbered with costs of restructuring). However, it may prove difficult to maintain the current level of costs in subsequent quarters as the bank noted exceptionally low costs of amortisation in 3Q (the bank lowered this year's investment plans, which allowed for a lower amortisation expense in the current quarter; in 4Q we expect amortisation to be equal to the average level noted in the first three quarters). General expenses stabilised at approximately PLN 321 mn and a significant improvement in this regard will probably not occur in subsequent quarters. However, 2004 could see some savings, connected with the introduction of new data processing technologies (according to the bank, a single digit reduction in costs can be expected).

Operating profit before provisions

Operating profit fell for a subsequent quarter, but this time the reduction was due to a periodic factor (lower result from financial operations), and not to income continuing to fall in connection with declines in interest margins. Basically, 3Q was the opposite of 1Q, when extraordinary income masked the decline in recurrent income – this time the painful drop in bond prices resulted in the positive effect of the greater volume (translating into commission income) not being fully evident.

Due to the reason for the decline in income, the growth in the cost/ income ratio should not be a source of concern, although the long-term level of the ratio, with limited cost savings potential, cannot be acknowledged as satisfactory.

Income, costs and operating profit



Source: bank, BRE Bank Securities

Costs of provisions

As in 1H 2003, the good gross and net results were due to the low level of net provisions – which fell from PLN 82 mn in 1Q and PLN 53 mn in 2Q to PLN 46 mn in 3Q. Due to the good economic situation the bank's portfolio did not fundamentally worsen. While the share of non-performing loans in the total portfolio did edge up (from 20.7% in 2Q to 21.1% in 3Q), and the volume of non-performing loans increased 4.4% q/q and 5.8% y/y, the situation does appear to be under control. The bank partially explains the percentage growth by the increase in leasing exposures, which due to the sector's situation are classified as non-performing, while the growth in volume is the result of zloty weakening (foreign currency loans account for almost 40% of the corporate loan portfolio).

An important question is whether the huge portfolio of foreign currency mortgage loans will turn out to be a ticking time bomb. The bank believes that the quality of its foreign currency mortgage loans is better than its zloty loans. This comes as no surprise as the bank undoubtedly has stricter terms for granting loans denominated in foreign currencies, and therefore those borrowers comprise the group of better clients. The only concern is that a time could come when zloty weakening will reach a point that the repayment of loans in this group will significantly worsen. At present, the questions: at what CHF/PLN exchange rate could such a threat appear and is significant further zloty weakening a real possibility, remain open.

Gross and net result

The low level of provisions partly cushioned the effect of the low operating profit and gross profit in 3Q was only 5% lower than in the previous quarter. Subsidiary entities (SBR, PBK Inwestycje, PBK Property) exerted a negative impact on earnings and in the end the net result was 27% lower than in 2Q (when leasing companies boosted results). This resulted in an annualised ROE of 5.7% (in comparison to 7.9% in 1Q and 2Q).

Prospects for 4Q

We expect the interest margin noted in 3Q to remain unchanged in 4Q, a small growth in volumes, further quarterly growth of commission income and costs stabilising on the average level noted in the first three quarters of the year. We do not believe the sale of GBG will be finalised this year and therefore profit from this transaction (we estimate PLN 146 mn gross) will increase next year's result.

However, several items of the profit and loss account are particularly difficult to forecast. In our opinion, the 4Q result, and therefore the 2003 year-end result, depends on the following factors:

- The results the Treasury Department generates (we expect PLN 114 mn and therefore less than the average for the first three quarters which amounted to PLN 135 mn);
- Whether net provisions remain low (traditionally Polish banks create more provisions in the final quarter of the year – we fear that a similar phenomenon, but on a smaller scale, will be repeated this year and expect net provisions of approximately PLN 70 mn);
- Regulations concerning the settlement of tax assets, calculated earlier during the current higher tax rates (details will be available shortly, but until then we assume a neutral influence of tax settlements on 4Q results);
- The influence subordinated entities exert on the result (we assume a result of approximately zero, expecting GBG's earnings to compensate for the underperformance of other companies).

Prospects for subsequent years

The bank's 3Q results have induced us to make major adjustments in forecasts for 2004-2006 (we made adjustments only connected with the method of evaluating the sale of GBG). The growth in loan volumes and higher commission income had a positive influence on our forecasts, but lower income from financial operations simultaneously exerted a negative influence. We continue to believe the bank will achieve a double-digit return on equity in 2004 only due to the sale of GBG, and that ROE will not permanently exceed the 10% level until 2006.

A statement by a representative of the bank regarding the manner of resolving the problem of the bank's excess capitalisation is unsettling. It was stated that the bank is intensively analysing the possibility of investing excess equity (following regulatory changes the solvency ratio will increase approximately 2 percentage points and therefore the bank's equity will be almost two-fold too high in relation to activity conducted). In the positive scenario, it could turn out that this type of declaration was the initial step toward a statement by the management board that it sees no possibility of investing possessed equity above the cost of equity and therefore it will recommend to shareholders that equity be reduced through the payment of an extra-dividend or buy-back. However, a negative scenario cannot be rule out in which BPH PBK actually attempts to invest the excess equity (although it would be difficult to find a possible investment goal in Poland). This definitely would not be good news and would particularly disappoint those financial investors that invested in shares of BPH PBK not because they share a belief in the bank's long-term prospects, but in the hope of benefiting from an expected extra-dividend. However, until then we are not changing our assumptions and expect a reduction in the bank's equity in 2005.

Risk factors

We are seriously concerned about the situation on the debt market, but we are evaluating it over the medium-term (2004 and 2005) and not the short-term. Uncertainty continuing in regard to the success of the plan to restructure public finances will result in market interest rates remaining high, and the considerable loan needs of the budget will push private borrowers out of the market. To date, the majority of economic growth forecasts were based on the assumption that the driving force behind the growth will be low interest rates. This assumption is under threat – interest rates on loans, nominally lower than several years ago, in real terms could turn out to be on a similarly high level and dissuade businesses from financing new investments from bank loans. As a result, the economic recovery could gradually grind to a halt during 2004. For banks, this would end their hopes that economic growth will translate into a credit boom and thereby questioning the bases on which this year's gains in share prices occurred. In other words, the market would be looking at a 20% drop in the share prices of banks. However, until then, we favour the optimistic scenario assuming a calming in market moods, and in the longer perspective further official interest rate reductions. Therefore, we are not changing the general outlook for 2004-2006.

We are also not adjusting the 10% cost of equity assumed in the valuation. We believe that, in the longer-term, this is a reasonable amount considering both the risk free rate and equity premium of approximately 5%. Only when the above outlined negative scenario for the development of the situation in the economy and the sector appears likely will we decide not only to lower the forecast of sector growth but also to raise the cost of equity.

Evaluation

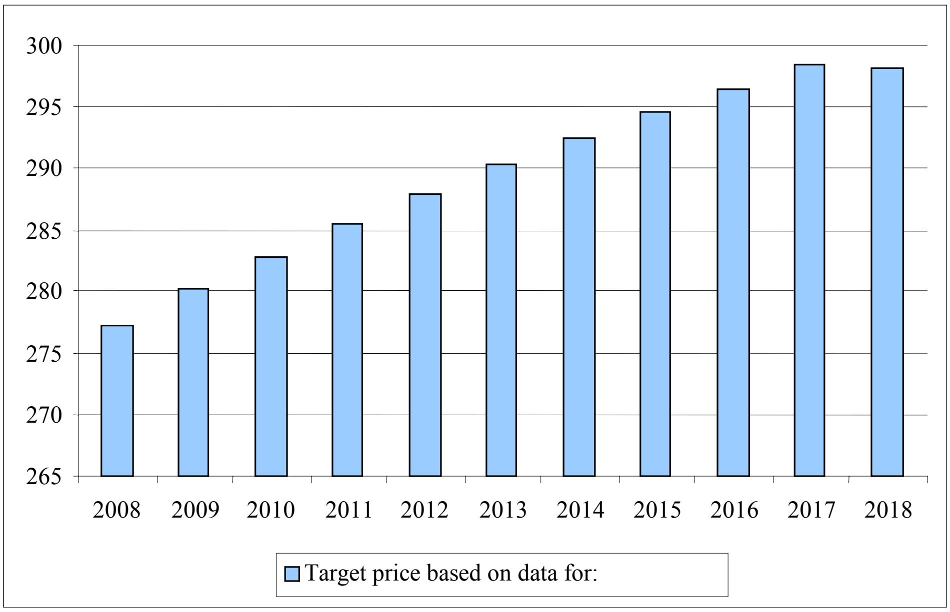
We made minor adjustments in the forecast of "terminal" ROE, changing the structure of income (a larger share of fees and commissions, smaller share of other income) and leaving prospective ROE unchanged. The minor changes in the forecast for 2004-2006 resulted in a symbolic adjustment in the target price: from PLN 268 to PLN 269.

BPH PBK

	Historical data				Individual forecast					"Terminal forecast" for bank	"Terminal forecast" for sector
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	
Interest margin	4.8%	4.8%	4.4%	3.8%	2.9%	2.6%	2.4%	2.4%	(...)	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%	0.9%	0.8%	0.7%	0.6%	(...)	0.6%	0.4%
Total income / Assets	**7.1%**	**7.6%**	**6.5%**	**5.9%**	**5.4%**	**5.1%**	**4.9%**	**4.8%**	(...)	**4.0%**	**4.0%**
Costs / Assets	-4.5%	-4.6%	-4.2%	-3.8%	-3.5%	-3.3%	-3.1%	-2.9%	(...)	-2.1%	-2.2%
Costs / Income	***-63.3%***	***-59.7%***	***-64.3%***	***-63.9%***	***-65.2%***	***-64.5%***	***-63.6%***	***-60.2%***	(...)	***-52.5%***	***-54.6%***
Operating profit / Assets	**2.6%**	**3.1%**	**2.3%**	**2.1%**	**1.9%**	**1.8%**	**1.8%**	**1.9%**	(...)	**1.9%**	**1.8%**
Provisions	-0.7%	-0.8%	-1.7%	-1.5%	-0.6%	-0.5%	-0.6%	-0.6%	(...)	-0.9%	-0.7%
Pre-tax profit	1.8%	2.2%	0.5%	0.4%	1.2%	1.5%	1.1%	1.2%	(...)	1.0%	1.1%
Net profit	**1.1%**	**1.4%**	**0.8%**	**0.3%**	**0.9%**	**1.2%**	**0.9%**	**1.0%**	(...)	**0.8%**	**0.9%**
Equity /Assets	12.9%	11.7%	11.4%	11.7%	12.0%	11.5%	10.0%	9.8%		6.2%	6.2%
ROE	**8.7%**	**11.6%**	**6.9%**	**2.6%**	**7.3%**	**10.2%**	**8.3%**	**9.9%**		**13.1%**	**14.7%**

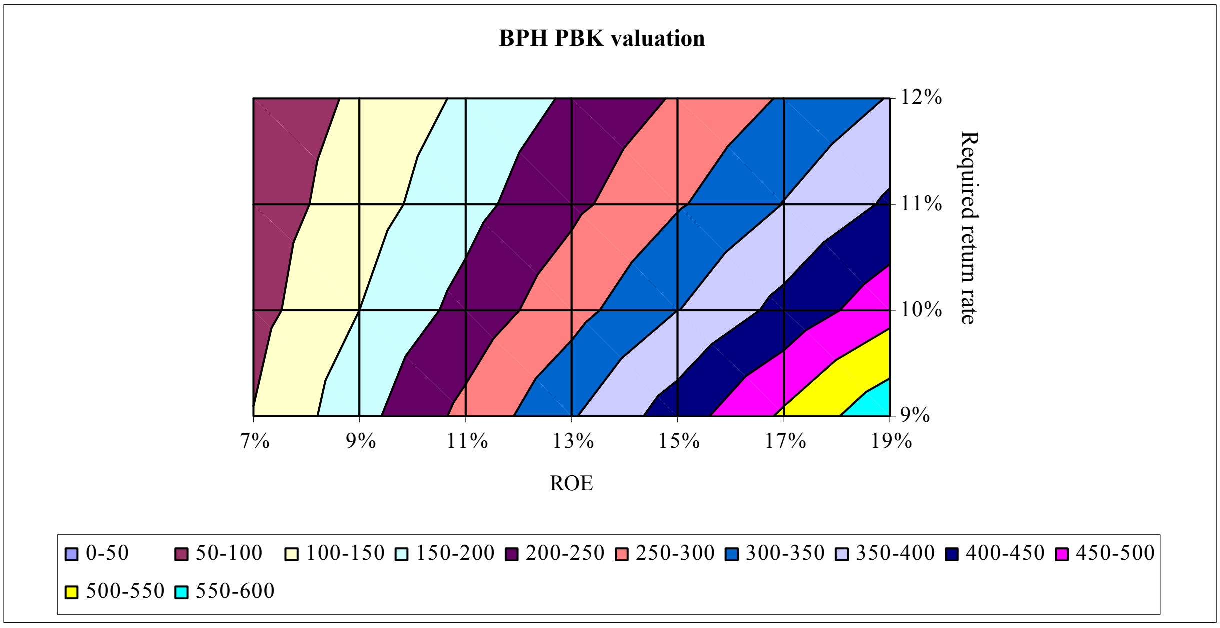
		2003	**2004**	**2005**	**2006**
Cost of equity	**10%**	10%	10%	10%	10%
Discount rate		1	91%	83%	75%
Growth rate (g)	**4.5%**				
ROE (on normalised equity)	**13%**				
P/BV (BV=normalised equity)	**1.5**				
Terminal value		239	259	283	310
Value of excess equity		25	20	0	-4
Discounted dividends		12	23	4	4
Sum of discounted dividend		12	35	39	43
Discounted terminal value		239	235	234	233
Discounted value of excess equity		25	18	0	-3
Target price, calculated according to data for:		**264**	**266**	**269**	**269**

...and assuming a growth rate of 6.5% in 2008-2018, we obtain:



Susceptibility of BPH PBK valuation – target price dependent on adopted future profitability – ROE (individual columns) and required return rate – COE (lines) with a growth rate equal to 4.5% and prospective book value at the end of 2003 (PLN 183) (*)

	7%	**9%**	**11%**	**13%**	**15%**	**17%**	**19%**
7%	183	329	475	621	767	913	1059
8%	130	235	339	443	548	652	756
9%	101	183	264	345	426	507	588
10%	**83**	**149**	**216**	**282**	**349**	**415**	**481**
11%	70	126	183	239	295	351	407
12%	61	110	158	207	256	304	353



(*) simplified model

PROFIT AND LOSS ACCOUNT

	2000	2001	2002	2003	2004	2005	2006
Net interest income	**1 771**	**1 094**	**1 075**	**1 085**	**1 121**	**1 198**	**1 309**
Interest income	4 850	4 616	2 872	2 313	2 418	2 638	2 912
Interest costs	(3 079)	(3 522)	(1 797)	(1 228)	(1 297)	(1 440)	(1 603)
Non-interest income	**1 028**	**1 648**	**1 474**	**1 255**	**1 186**	**1 198**	**1 275**
Net fee and commission income	541	558	586	692	775	868	972
Foreign exchange differences	303	982	734	195	89	40	42
Result on financial operations	185	108	154	368	322	290	261
Profit on banking activity	**2 799**	**2 742**	**2 549**	**2 341**	**2 307**	**2 396**	**2 584**
Other operating income (net)	21	(14)	(19)	(19)	4	4	5
Total banking income	**2 820**	**2 728**	**2 529**	**2 321**	**2 311**	**2 400**	**2 589**
Non-interest costs	**(1 683)**	**(1 755)**	**(1 617)**	**(1 514)**	**(1 490)**	**(1 527)**	**(1 558)**
Personnel costs	(825)	(825)	(757)	(679)	(679)	(692)	(705)
Amortisation	(209)	(249)	(223)	(230)	(237)	(244)	(244)
Other costs	(649)	(681)	(636)	(604)	(574)	(591)	(609)
Operating profit before cost of provisions	**1 136**	**973**	**913**	**807**	**821**	**873**	**1 031**
Net provisions	(308)	(712)	(664)	(250)	(237)	(280)	(329)
Gross profit	**811**	**210**	**191**	**499**	**672**	**534**	**644**
Income tax	(288)	126	(96)	(141)	(128)	(102)	(122)
Net profit	**523**	**336**	**130**	**373**	**544**	**443**	**533**
Dividends paid	(129)	(109)	(40)	(345)	(718)	(144)	(144)

BASIC RATIOS

Net interest margin (total assets)	4.8%	2.6%	2.5%	2.5%	2.5%	2.4%	2.4%
Net interest margin (working assets)	5.2%	2.8%	2.8%	2.9%	2.9%	2.8%	2.8%
Interest spread	4.3%	2.0%	2.3%	2.6%	2.6%	2.6%	2.6%
Costs / Income	59.7%	64.3%	63.9%	65.2%	64.5%	63.6%	60.2%
Costs / Assets	4.6%	4.2%	3.8%	3.5%	3.3%	3.1%	2.9%
Personnel costs / Income	29.3%	30.3%	29.9%	29.3%	29.4%	28.8%	27.2%
Net provisions / Operating profit	27.1%	73.2%	72.7%	30.9%	28.9%	32.1%	31.9%
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%	53.2%	51.5%	50.1%	49.4%
Operating profit / Assets	3.1%	2.3%	2.1%	1.9%	1.8%	1.8%	1.9%
ROE	**11.6%**	**6.9%**	**2.6%**	**7.3%**	**10.2%**	**8.3%**	**9.9%**
ROA	**1.4%**	**0.8%**	**0.3%**	**0.9%**	**1.2%**	**0.9%**	**1.0%**

ANNUAL GROWTH RATE

Net profit	63.2%	(35.9%)	(61.4%)	187.5%	46.0%	(18.6%)	20.3%
Operating profit	46.2%	(14.4%)	(6.2%)	(11.5%)	1.7%	6.3%	18.0%
Total banking income	33.1%	(3.3%)	(7.3%)	(8.2%)	(0.4%)	3.9%	7.9%
Net interest income	22.8%	(38.2%)	(1.7%)	1.0%	3.3%	6.8%	9.3%
Non-interest income	55.2%	55.8%	(11.0%)	(15.0%)	(3.7%)	1.1%	6.4%
Non-interest costs	25.5%	4.3%	(7.9%)	(6.4%)	(1.6%)	2.5%	2.0%

BALANCE SHEET (PLN mn)

	2000	2001	2002	2003	2004	2005	2006
Cash and Central Bank balances	2 008	1 934	2 214	2 325	2 418	2 491	2 541
Due from other financial institutions	8 139	11 497	6 281	1 055	1 525	1 269	2 254
Securities	7 845	7 716	9 954	11 945	11 108	10 167	9 150
Credits and loans	19 560	18 309	18 937	21 967	25 482	30 579	35 165
Shares, holdings and other investments	825	533	511	1 534	1 718	1 890	2 041
Fixed assets	1 762	1 720	1 645	1 480	1 525	1 555	1 586
Other assets	859	1 683	3 018	3 264	3 502	3 678	3 861
Total assets	**40 997**	**43 391**	**42 561**	**43 570**	**47 279**	**51 628**	**56 599**
Liabilities to financial sector	6 525	7 362	6 214	6 462	6 721	8 065	9 033
Deposits	27 349	28 667	27 465	27 740	30 775	33 853	37 238
Securities	162	166	78	155	249	323	420
Subordinated loans	0	0	0	0	0	0	0
Other liabilities	2 156	2 251	3 808	3 969	4 091	4 219	4 351
Share equity	4 806	4 945	4 995	5 243	5 443	5 168	5 557
Share capital	217	144	144	144	144	144	144
Total liabilities	**40 997**	**43 391**	**42 561**	**43 570**	**47 279**	**51 628**	**56 599**

ASSET ANALYSIS

Share of NPLs in total loans	16.7%	20.4%	21.7%	20.0%	18.4%	16.2%	14.2%
NPLs / Assets	8.2%	9.1%	10.4%	11.1%	10.9%	10.5%	9.5%
Provisions / NPLs	36.4%	42.1%	49.3%	48.4%	48.9%	50.2%	54.5%
Provisions / Total loans	6.1%	8.6%	10.7%	9.7%	9.0%	8.2%	7.7%
Provisions / Assets	3.0%	3.8%	5.1%	5.4%	5.3%	5.3%	5.2%
Non-provisioned NPLs / Equity	44.5%	46.4%	44.8%	47.8%	48.3%	52.1%	44.3%

BALANCE SHEET RATIOS

Equity /Assets	11.7%	11.4%	11.7%	12.0%	11.5%	10.0%	9.8%
Loans / Assets	47.7%	42.2%	44.5%	50.4%	53.9%	59.2%	62.1%
Deposits / Assets	66.7%	66.1%	64.5%	63.7%	65.1%	65.6%	65.8%
Loans / Deposits	71.5%	63.9%	69.0%	79.2%	82.8%	90.3%	94.4%
Growth rate of loans	13.5%	(6.4%)	3.4%	16.0%	16.0%	20.0%	15.0%
Growth rate of deposits	18.1%	4.8%	(4.2%)	1.0%	10.9%	10.0%	10.0%
Growth rate of assets	25.0%	5.8%	(1.9%)	2.4%	8.5%	9.2%	9.6%

Previous recommendations issued for BPH-PBK

recommendation	Reduce	Sell	Sell	Sell
date issued	15.05.2003	19.08.2003	25.08.2003	10.09.2003
price on day of recommendation	244.00	332.00	334.50	332.00
WIG on day of recommendation	14945.41	19602.26	20622.01	19983.97

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 S.A.
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

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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