

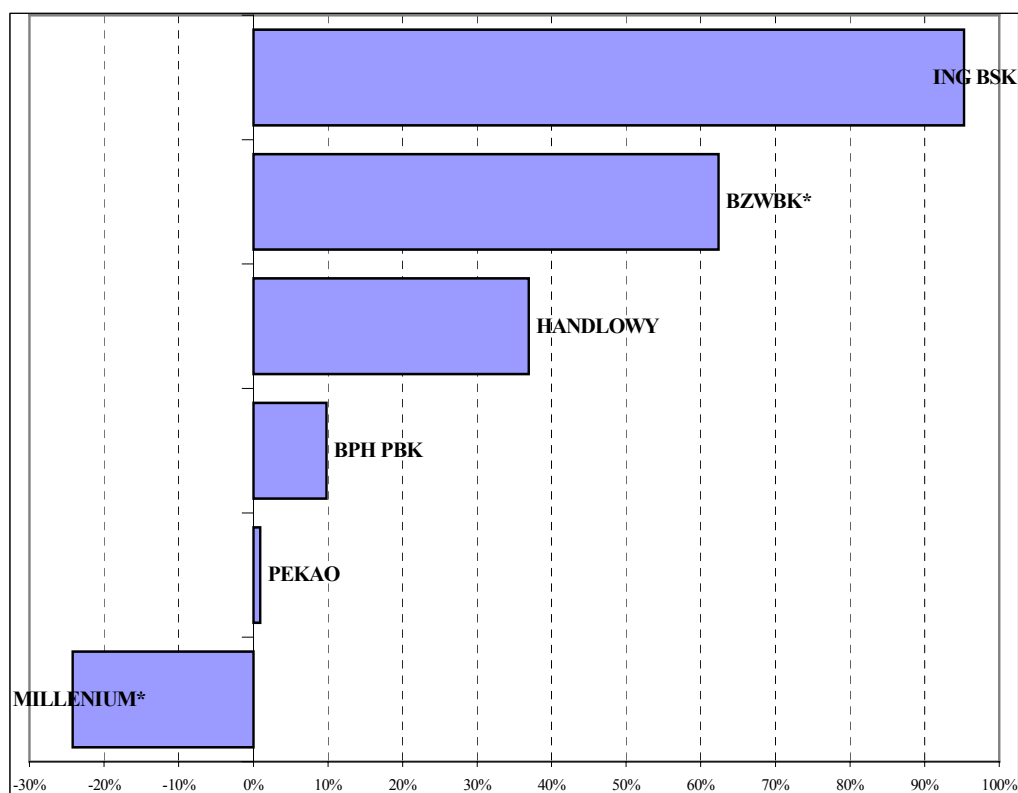


# Forecasts of Quarterly Results Banks I Quarter 2004

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Prospective dynamics of EPS for selected stock exchange-listed companies (2Q'03-1Q'04 / 1Q'03-4Q'03)



\* BZ WBK and Millennium have already published quarterly results

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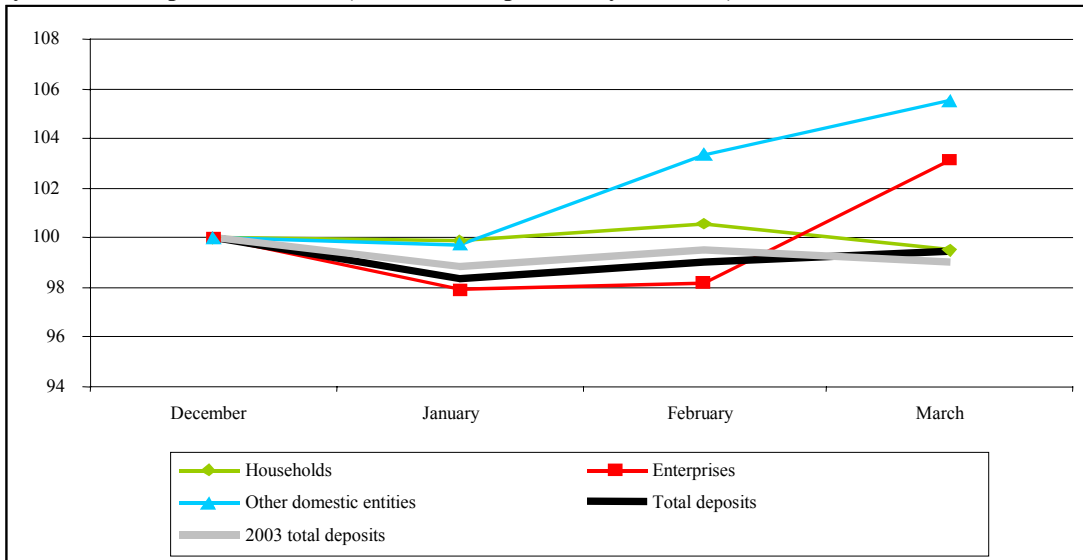
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### BANKING SECTOR IN 1Q 2004

Results published to date, NBP data and other statistics present a rather optimistic picture of the sector. Retail deposits continue to fall but in March corporate deposits again showed a dynamic growth. The decline in deposits of natural persons is partly due to shifting savings to investment funds, on which banks benefit, as the majority of them not only have subsidiaries engaged in asset management, but these subsidiaries also obtain funds for the investment funds and participate in the commissions collected by the Investment Fund Companies (TFIs).

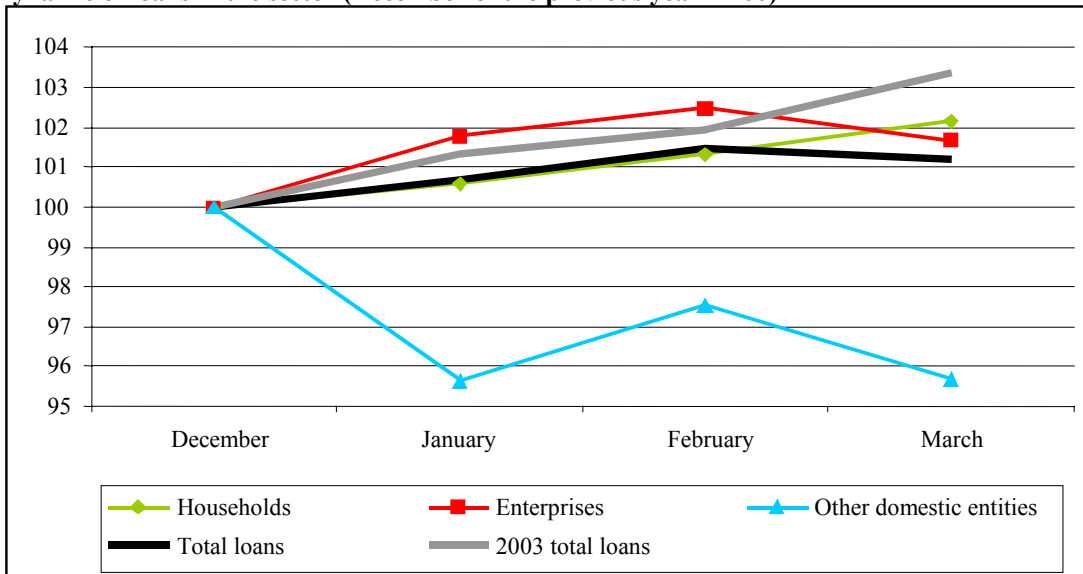
#### Dynamics of deposits in sector (December of previous year = 100)



Source: NBP, BRE Bank Securities

Lending to individuals continues to increase, mainly due to mortgage loans. Increased corporate demand for loans is still not apparent. In fact, the volume of corporate loans fell in March, but this was probably a repeat of the “December effect” – the increased receipt of funds in corporate accounts led enterprises repaying a portion of loans. Generally, NBP data show corporate financial liquidity improving, which in favourable macroeconomic circumstances should result in investments in the second half of the year – which at least in part will be financed by bank loans.

#### Dynamic of loans in the sector (December of the previous year = 100)



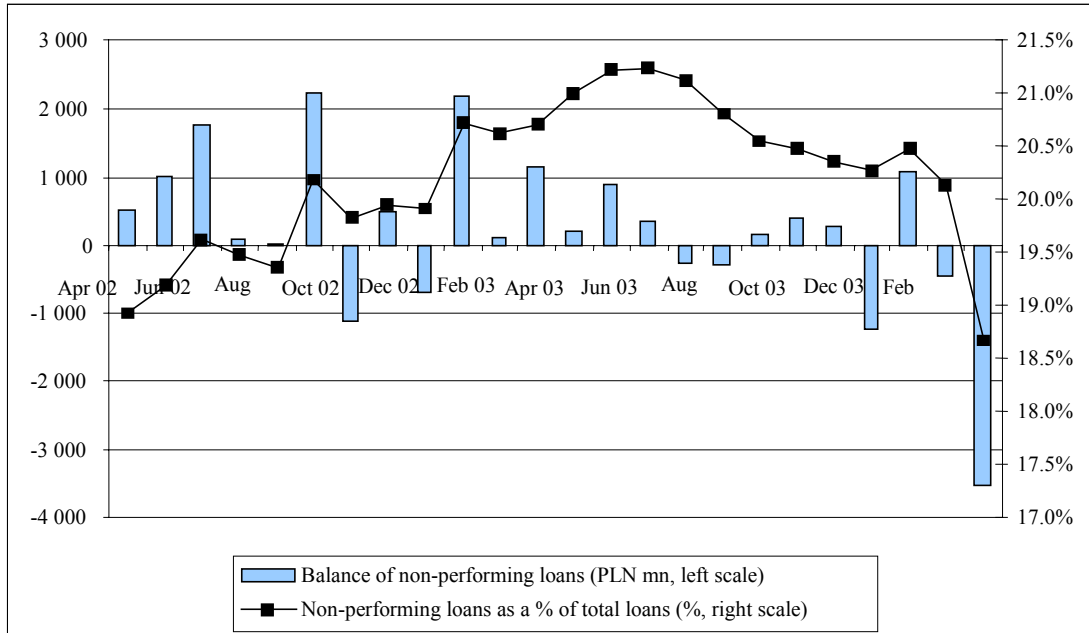
Source: NBP, BRE Bank Securities



## BRE Bank Securities

The statistical picture of the sector is also improving in terms of asset quality. However, due to the fact that the improvement is largely a result of regulatory changes, we do not expect the lower level of non-performing loans to have a significant influence on net provisions. Banks are refraining from releasing provisions; at least until they estimate the influence that methodology based on international accounting standards (which beginning next year will be the required reporting methodology for public companies) will have on provisions.

### Non-performing loans from the non-financial sector



Source: NBP, BRE Bank Securities

## BANKING SECTOR

### BPH PBK (SELL)

(PLN mn)	IQ 2004F	IQ 2003	Dynamics	2004F	2003	Dynamics
Net interest income	296	263	13%	1175	1105	6%
Profit on banking activity	618	622	-1%	2464	2356	5%
Profit (loss) before provisions	248	238	4%	988	863	14%
Gross profit (loss)	174	142	23%	743	543	37%
Net profit (loss)	133	100	32%	587	333	76%

Non-consolidated data

BPH PBK should again publish positive results. Despite a lower result on fees and commissions, we expect profit on banking activity to grow in comparison to 4Q 2003, primarily due to high interest income and a better performance on the part of the Treasury Department. We expect income to be similar to that noted in 1Q 2003, but it is important to remember that in 2003 the bank generated income from the sale of Polcard (PLN 34 mn), and therefore this would mean an increase in recurrent income. We also expect an improvement in terms of general expenses, but amortisation traditionally increases at the beginning of the year. Operating profit before provisions will total PLN 248 mn, more than last year, but less than that noted in 4Q when the bank had increased other operating income (release of reserves for jubilee awards and unutilised vacation equivalents and revenues from the sale of real estates). We assume net provisions (PLN 59 mn) will be lower than in Q4, but higher than in Q2 and Q3 2003. We do not include income from a dividend from PTE CU or profit from the sale of GBG in the above forecast.



## BRE Bank Securities

### HANDLOWY (REDUCE)

(PLN mn)	IQ 2004F	IQ 2003	Dynamics	2004F	2003	Dynamics
Net interest income	192	186	3%	729	745	-2%
Profit on banking activity	477	463	3%	1857	1891	-2%
Profit (loss) before provisions	152	174	-13%	642	652	-2%
Gross profit (loss)	106	41	160%	432	392	10%
Net profit (loss)	95	10	808%	370	243	52%

*Non-consolidated data*

Based on conversations with the bank's representatives, other than a slight improvement in the general situation in the sector and in the costs of creating provisions, one other event, about which the bank has not released information, will have an impact on 1Q results. As we do not know whether this information will have a positive or negative consequence on the results of Bank Handlowy, the forecast for the bank is encumbered with a significant margin of error.

As in the case of other banks, we forecast a slight positive trend in regard to income (stabilisation of the interest margin, no losses on bonds, increased volume of serviced transactions). Costs should again be relatively high; this time due to employee severance packages, which we estimate at PLN 25 mn. We also expect low net provisions (more or less on the level noted in 3Q and 4Q 2003), as a result of which gross profit should be only slightly lower than that noted in 4Q. Net profit should be considerably higher due to lower taxes.

### KREDYT BANK (SELL)

(PLN mn)	IQ 2004F	IQ 2003	Dynamics	2004F	2003	Dynamics
Net interest income	180	184	-2%	597	723	-17%
Profit on banking activity	330	333	-1%	1297	1393	-7%
Profit (loss) before provisions	48	67	-28%	171	232	-26%
Gross profit (loss)	12	16	-23%	27	-1382	-
Net profit (loss)	17	6	192%	72	-1567	-

*Consolidated data*

Forecasting results of Kredyt Bank continues to be extremely difficult, as it is undergoing deep restructuring, which has an impact on the bank's quarterly results. As with the majority of banks, we assume a stable interest margin, seasonal decline in fee and commission income and, in comparison with 2H 2003, a better result from the Treasury Department. As a result, profit on banking activity should be similar to that noted in 1Q 2003. We expect general expenses to fall to PLN 250 mn, but fear an increase in amortisation. Therefore, we forecast costs on a level similar to those generated in 1Q 2004 and 4Q 2003. We expect provisions to be much lower than in the previous quarter, but do not believe that an extensive release of provisions would allow the bank to note a positive balance of provisions. It is not known whether the bank will take advantage of "hidden tax assets" and, as a result, note a positive result in regard to tax settlements. One of the most interesting items in the bank's report will be total deposits. Following the release of information concerning the giant loss in 4Q, the bank was hard hit by the withdrawal of deposits and the question arises how much will the bank manage to reverse this phenomenon in 1Q 2004.

### PEKAO (HOLD)

(PLN mn)	IQ 2004F	IQ 2003	Dynamics	2004F	2003	Dynamics
Net interest income	559	629	-11%	2 225	2 375	-6%
Profit on banking activity	1 004	1 100	-9%	4 193	4 073	3%
Profit (loss) before provisions	423	529	-20%	1 775	1 770	0%
Gross profit (loss)	321	350	-8%	1 380	1 276	8%
Net profit (loss)	265	252	5%	1 105	920	20%

*Consolidated data*

It takes a little time to turn an aircraft carrier around. Therefore, we do not expect the effects of Pekao's new strategy to be evident in 1Q results. We also do not expect a sudden growth in loan activity, which with the interest margin growing only slightly at best means a decline in interest income in comparison to 1Q 2003. One year ago the bank generated PLN 58 mn on the sale of holdings in Polcard and we do not believe that the absence of funds from such a sale this quarter will be compensated by increased commission income. Therefore, we forecast a decline in income. General expenses should be similar to those noted in 1Q 2003, but amortisation costs will be comparable to those noted in 4Q. The quarterly balance of provisions is expected to total PLN 102 mn, or 1/4 of our full-year forecast.

**ING BSK (HOLD)**

<b>(PLN mn)</b>	<b>IQ 2004F</b>	<b>IQ 2003</b>	<b>Dynamics</b>	<b>2004F</b>	<b>2003</b>	<b>Dynamics</b>
Net interest income	205	223	-8%	844	869	-3%
Profit on banking activity	365	363	1%	1551	1530	1%
Profit (loss) before provisions	134	114	18%	597	549	9%
Gross profit (loss)	71	14	398%	343	146	134%
Net profit (loss)	54	6	766%	291	50	480%

*Non-consolidated data*

The level of income is expected to be similar to that noted in 1Q 2003 (slightly higher fees and commissions, slightly lower interest income), while costs should be more or less similar to those in 3Q and 4Q 2003. This is a rather conservative forecast, as it means operating profit before provisions (PLN 134 mn) will be lower than in 3Q and 4Q 2003. We assumed prospective net provisions will be ¼ of our forecast of annual costs of provisions (i.e., PLN 63 mn). We expect the effective tax rate to be similar to the statutory rate (19%), which should result in a net profit of approximately PLN 54 mn. Unfortunately, we were unable to obtain even a general confirmation of our assumptions from the bank and therefore, as usual, the forecast of ING BSK's results is encumbered with a significant risk of error.

**Publication dates for 1Q and 1H 2004 reports**

Company	Publication date of 1Q non-consolidated report	Publication date of 1Q consolidated report	Publication date of 1H report
BPH PBK		29.04.04	30.09.04
BRE		10.05.04	30.09.04
BZWBK	23.04.04	23.04.04	27.08.04
HANDLOWY	05.05.04	17.05.04	29.10.04
ING BSK	17.05.04	17.05.04	30.09.04
KREDYT BANK	29.04.04	29.04.04	09.09.04
MILLENNIUM	19.04.04	19.04.04	30.09.04
PEKAO S.A.		11.05.04	10.09.04



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*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*

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## 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*

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*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.*