

“miniBPH”, “BPH200” OR A PIG IN A POKE ?

BPH200

by Marcin Mazurek, Intelace Research
December 2006

CONCLUSIONS















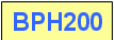
- As of 3Q2006 BPH200 would be the 15th bank in Poland in terms of assets, controlling ~1.4% of the banking market
- The balance sheet structure of BPH200 is preternatural with very high share of equity. Client loans portfolio is bigger than deposits
- The inherited 200 branches network is inadequate in several regions in terms of density vs. attractiveness and may result in branch closures in the worst case
- The main value drivers of BPH200 are: Strong brand, existing customer base and countrywide presence
- One of most valuable assets of BPH200 will be the BPH TFI – fund management company
- Average BPH/Pekao share price differential during: Sep.30, 2006 – Dec.18, 2006 indicated a theoretical value of BPH200 equal to PLN ~5.4 billion
- The final price of PLN 5.4 billion would implicate an extremely high valuation and is difficult to justify if taking into consideration that the future profitability of the bank and its customer base are uncertain

BPH200 RANKS #15 IN POLAND ACCORDING TO TOTAL ASSETS

BPH200

**UNCONSOLIDATED
ACCOUNTS**

Top 15 commercial banks in Poland, as of 3Q 2006

Bank	Assets, PLN billion	Share by Assets, %	Majority Shareholder
 Pekao	122.8	19.9	UniCredit
 PKO	95.1	15.4	State Treasury
 ING BSK	46.4	7.5	ING
 CITI BH	35.8	5.8	Citibank+IFA
 BRE	34.3	5.6	Commerzbank
 BZ WBK	29.4	4.8	Allied Irish Bank
 BGK	27.7	4.5	State Treasury
 Millennium	24.3	3.9	BCP+subs.
 KB	22.5	3.6	KBC
 BGZ S.a.	17.8	2.9	Rabobank+EBOR
 Raiffeisen	13.4	2.2	Raiffeisenbank
 GE Money	10.5	1.7	GE Corp.
 Fortis*	10.0	1.6	Fortis
 Getin	9.2	1.5	Leszek Czarnecki
 BPH200	8.6	1.4	???

miniBPH, BPH200 or a pig in a poke?

* Including Dominet bank

THE BALANCE SHEET STRUCTURE OF BPH200 DIFFERS SIGNIFICANTLY FROM ITS PEERS

BPH200

Balance sheet ratios, September 2006

<u>Equity/Assets</u>		<u>Client Loans/Client Deposits</u>	
BPH200	0.16	BPH200	1.10
Handlowy	0.14	Old BPH	0.85
Old Pekao	0.12	Millennium	0.83
BZ WBK	0.11	Kredyt Bank	0.83
New Pekao*	0.11	New Pekao*	0.76
Old BPH	0.10	Old Pekao	0.72
PKO BP	0.10	BRE	0.70
Kredyt Bank	0.09	BZ WBK	0.67
ING	0.08	PKO BP	0.67
Millennium	0.07	Handlowy	0.58
BRE	0.07	ING	0.34

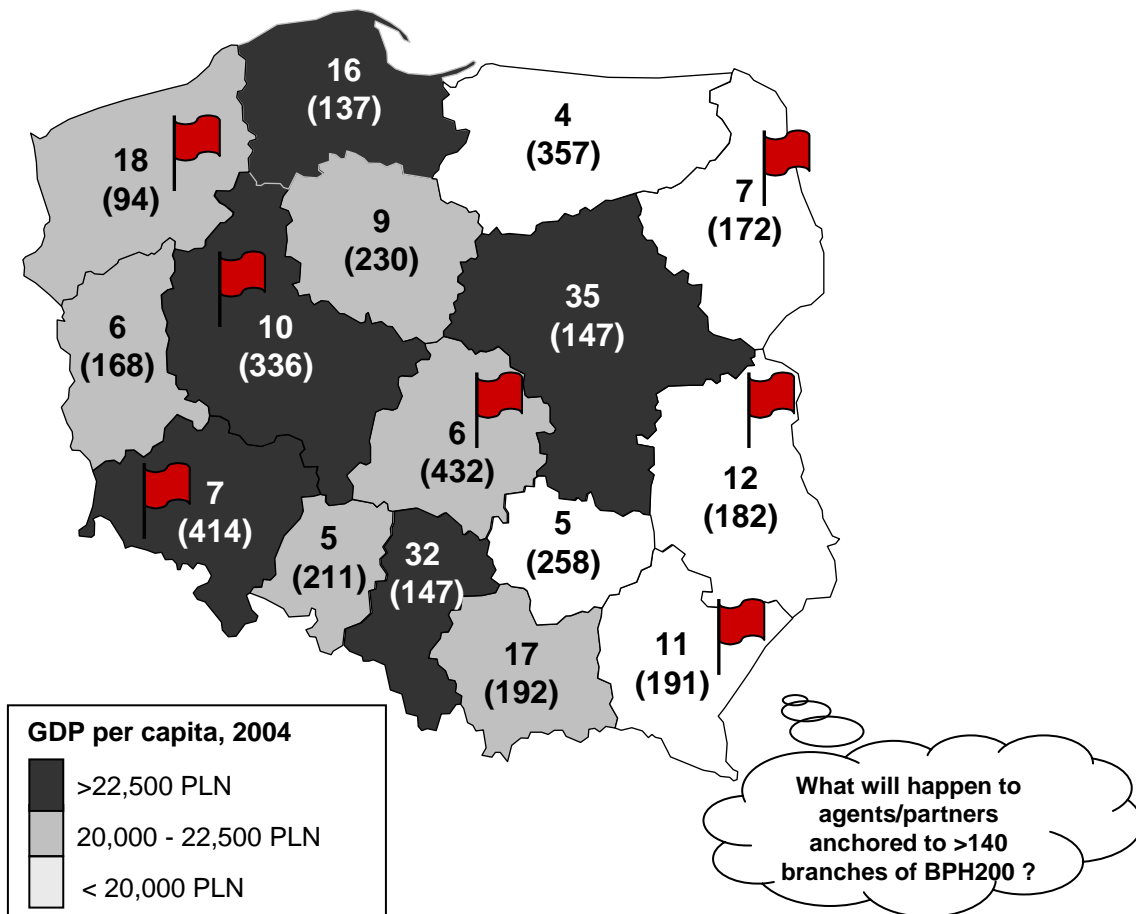
- BPH200 Loans/Deposits ratio is very high If compared to peers
- BPH200 has an excessive equity in relation to assets
- Using Price/Equity ratio when doing valuation of BPH200 could be misleading

min|BPH, BPH200 or a pig in a poke?

BPH200 NETWORK IS SPREAD ACROSS THE WHOLE COUNTRY BUT IN SOME REGIONS IS POSSIBLY INADEQUATE

BPH200

Geographical distribution of BPH200 branches and GDP per capita per region



X Number of branches [200 in total]
Y) Thousand inhabitants per branch

Possibly inadequate branch density:

- to little in attractive region or
- to many in less attractive region



- The network of BPH200 is covering the whole country
- Network density is not optimal [in terms of density / region attractiveness] at least in 7 out of 16 regions
- In many cases BPH200 branches may not have a large client acquisition potential due to various negative factors including: non-prime location, low property standard or small size
- Some of 200 branches will have to be closed by the new owner due to low profitability

miniBPH, BPH200 or a pig in a poke?

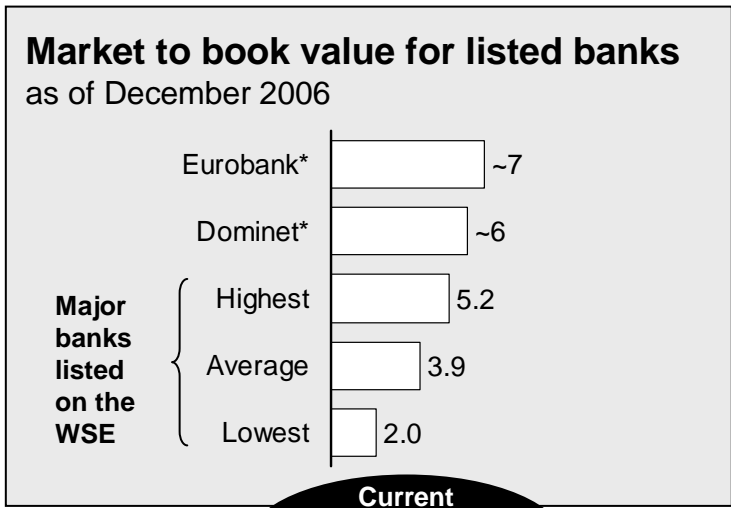
BUYING THE BPH200 ONLY FOR ITS BRANCHES WOULD BE IRRATIONAL AS DEVELOPING OF OWN BRANCH NETWORK IS CHEAPER

BPH200

Selected network development projects

Bank	Description
	<ul style="list-style-type: none"> Eurobank opened ~ 110 outlets within one year, investing in total ~PLN 180 million
	<ul style="list-style-type: none"> Millennium want to extend its network by new 130 outlets and remodeling of 30 existing branches at the cost of PLN 190

up to 2 million PLN per branch



Current valuation of banks is very high

- Evidence shows that it is possible to develop quickly a new branch network at the cost** below 2 million PLN per branch
- Purchasing of an existing bank would be more expensive as valuations are high: average market P/BV = 3.9, average P/BV in M&A deals >6 (for smaller banks)

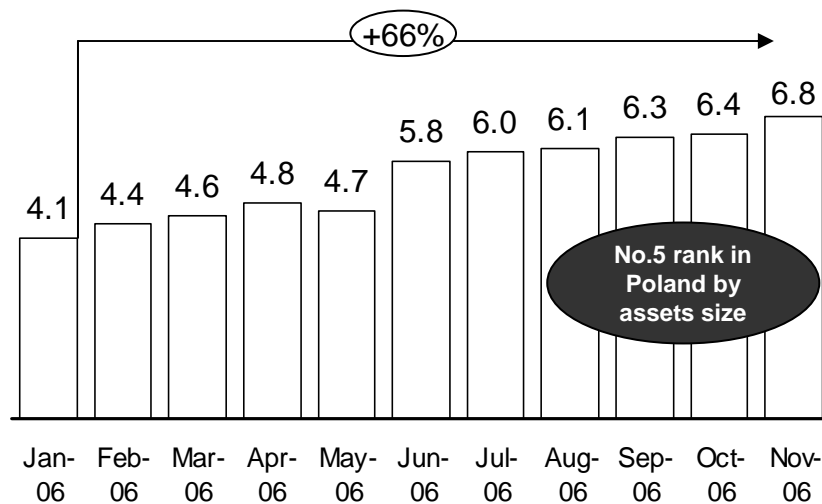
miniBPH, BPH200 or a pig in a poke?

* Valuations in recent M&A deals (acquisition of Eurobank by Société Générale, and Dominet by Fortis)
 ** First year branch refurbishing + rental costs
 Source: Press, Intelace Research

INVESTMENT FUNDS COMPANY TFI BPH WILL BE ONE OF MOST ATTRACTIVE ASSETS OF BPH200

BPH200

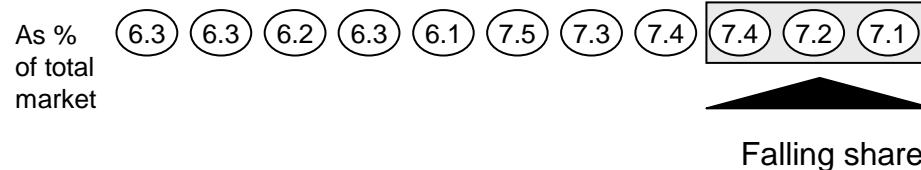
Net Assets
PLN billion



- Current net profitability of fund managers in Poland is ~70bp (on assets)
- Assumed P/E:16-22
- Price/Assets multiplier range: 0.11 - 0.15

miniBPH, BPH200 or a pig in a poke?

100% stake in BPH TFI could be worth: ~PLN 0.8-1.0 billion



* As of end of the period

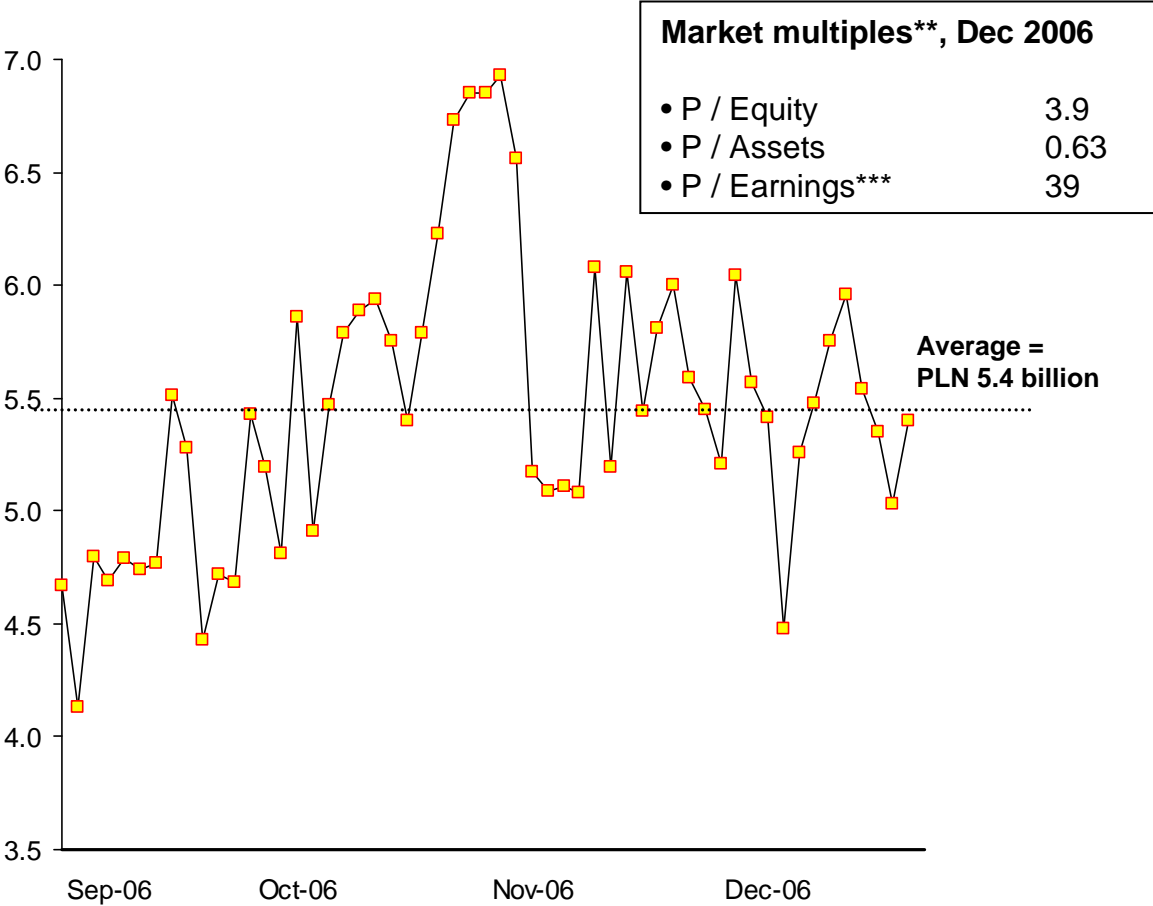
** Compound Annual Growth Rate

Source: BPH TFI, Analyz Online, Intelace Research

SINCE OCTOBER 1, 2006 - THE AVERAGE THEORETICAL VALUATION OF BPH200 HAS AMOUNTED TO PLN 5.4 BILLION [€ 1.4 BILLION]...

BPH200

Theoretical market valuation* of BPH200, 30 Sep. 2006 - 18 Dec. 2006
 PLN billion



During the period: Sept 29, 2006 - Dec.18, 2006 - the theoretical valuation of BPH200 varied between PLN 4.1 - 6.9 billion

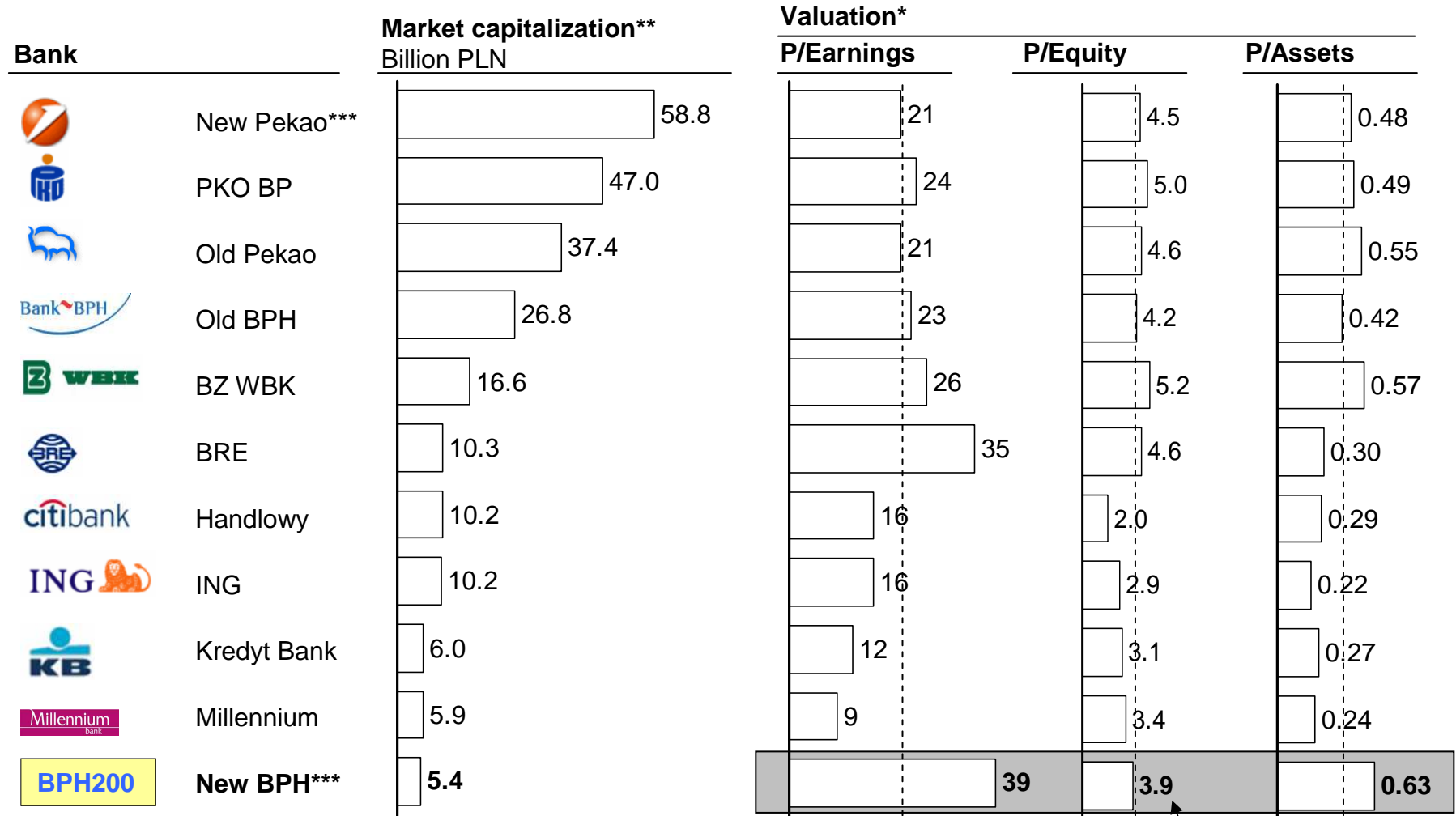
min/BPH, BPH200 or a pig in a poke?

*** Assuming annual net profit of BPH200 equal to PLN 140 million (in 2006 prices)
 ** Using implied market value of BPH200 of PLN 5.4 billion
 * Theoretical value calculated using the following formula: [(BPH share value less 3.3 Pekao shares value) x number of BPH shares]
 Source: GPW, BPH, Pekao, Intelace Research

...HOWEVER PRESENT MARKET MULTIPLES IN PEER GROUP DO NOT JUSTIFY SUCH A HIGH VALUE OF BPH200

BPH200

BANKS VALUATION, DECEMBER 2006



min/BPH, BPH200 or a pig in a poke?

* Based on 2006 Q1-Q3 unconsolidated results

** As of December 12, 2006

*** Calculated assuming theoretical market value of BPH 200 amounting to PLN 5.4 billion

Source: WSE, Banks, Intelace Research

BPH has excessive equity value

THERE ARE GOOD REASONS TO BUY BPH200 - BUT THERE ARE SEVERAL THREATS AS WELL

BPH200

Reasons to buy

Fully functional bank

- BPH200 will be a fully operational bank with 200 branches, dispersed over the whole country with over 3200 employees (16 FTE/branch)
- Acquisition of BPH may be particularly attractive for buyers with no or little presence in Poland, as it can give a significant time advantage vs. greenfield

Attractive brand

- BPH is enjoying high brand awareness in Poland. Bank has been recognized with multiple awards and is associated with flexibility and attractive product offering especially in SME and mortgage lending segments
- The future owner of the bank will have a great chance to capitalize on the BPH brand – which can be a good growth platform

BPH TFI

- With almost 7 billion PLN in assets, BPH TFI is a very attractive part of BPH200
- Net assets of BPH TFI will exceed total client deposits of BPH200
- BPH TFI can be a very profitable business provided the new owner will be able to:
 - stop possible customer migration
 - expand alternative distribution networks beyond its own 200 outlets



Threats

Uncertain client base

- It is hard to predict how many clients will “survive” transition period and will effectively remain at branches of BPH200
- The actual number and quality of clients and not number of branches itself will determine the final value of the bank

Not optimal branch network

- The branch network BPH200 is not optimal in terms of regional density vs. attractiveness
- It is not excluded that the new owner will be forced to close some of 200 branches due to low profitability

Assets/Liabilities structure

- Current balance sheet structure with low share of deposits and a portfolio of fx-denominated mortgage is not particularly attractive in terms of risk/reward profile.
- BPH200 will have to find a way to quickly increase deposits or will need to lend expensive funds from inter-bank market

Low scale

BPH 200 will be a relatively small bank ranking #15 in terms of assets and controlling only ~1.4% of the market.

Re-branding

BPH200 will need to change/modify its brand, to get rid of features associated with its previous owner – HVB Group

Valuation

- The current BPH200 valuation* of PLN 5.4 billion is very high. Market valuation benchmarks for other banks do not justify this price
- A future profitability of BPH200 is hard to foresee. The possibly expensive and not really profitable branch network together with social guarantees for employees may significantly affect bank profitability

miniBPH, BPH200 or a pig in a poke?

* Current Valuation derived from BPH-Pekao share price differential
Source: Press, Intelace Research

ABOUT INTELACE RESEARCH AND THIS REPORT

About this report

This report has been prepared using publicly available sources including: financial reports, press publications, industry magazines, directories, financial databases and expert interviews.

Views presented in this report reflect solely independent and unbiased opinion of Intelace Research and the author.

All due care has been taken in the production of this report, however Intelace Research does not accept any responsibility or liability for any omissions or inaccuracies of the information contained in this publication.

This report is copyrighted. Any distribution, storage, replication and usage is restricted.

In case of any doubt please contact us at:

info@Intelace.com

or

marcin_mazurek@intelace.com

About Intelace Research

Intelace Research is an independent and privately owned research firm based in the heart of Eastern Europe in Warsaw / Poland.

Intelace Research is specializing in value-added research services and tailored business intelligence solutions.

We serve clients in the financial services sector :

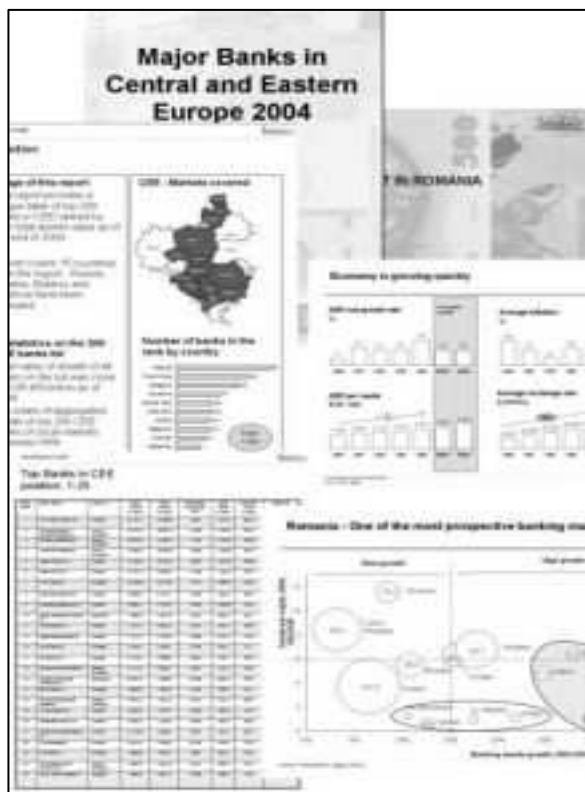
- International banks present in Poland and CEE
- Top international strategy consultants
- Asset managers
- Insurance companies

The lead researcher and founder of Intelace Research is Marcin Mazurek.

Our contact details: Intelace Research
Stryjenskich 13c, 02-791 Warszawa, Poland

Tel. +48 50 251 21 78, Fax. +48 22 408 66 20
mail: info@Intelace.com url: www.Intelace.com

OUR RECENT PUBLICATIONS



2006 Publications

- February 2006 - Banking market in Serbia
- April 2006 - Banking market in Poland
- May 2006 - Asset management market in Poland
- May 2006 – TOP 200 CEE Banks
- June 2006 - Insurance market in Poland
- August 2006 - Mortgage market in Poland
- September 2006 - Banking market in Poland - 2006 mid year update
- October 2006 - Banking market in Ukraine
- November 2006 - Banking market in Bulgaria