

European banks into 2001



When the tide goes out...

The European bank sector faces a mixed outlook in 2001 – our favoured banks have strong operating profit momentum and should be overweighted. Those banks with a large element of unsustainable capital market revenues have a high risk of significant earnings downgrade. Overall we remain Neutral but cautious.

► **Underweight high risk capital market revenues**

The bank which benefited most from the TMT boom in 2000 and has the highest US exposure in its capital market revenues is **Credit Suisse Group**. We recommend an Underweight position and would highlight this stock as prone to significant (>20%) downward earnings revisions through 2001. Our current price target (CHF312) is 6% below the current price but we see short-term downside risk of over 20% as the downgrades come through. We reiterate our Reduce recommendation on **SocGen** with a 12 month price target of €62 (-14%).

► **Overweight sustainable growth banks**

Our core portfolio overweights still favour Nordic, Italian and UK commercial banks. Of the large capitalisation banks we recommend Overweights in **Unicredito**, **Nordea**, **ABN Amro** and the two major UK full service banks, **Barclays** and **RBSG**. Our target price upsides on these banks are as follows: 18%, 19%, 28%, 22% and 16% respectively.

► **Underweight Asian banks –Reduce HSBC**

HSBC's businesses are heavily geared into slowing trends in Asia and the US. Sustained US dollar weakness would also affect forecasts given that c60% of profits are \$ based. The Asian economies are highly geared into both a slowdown in US capital spending and a downturn in Japan and there remains a lack of regional lending growth and severe margin pressures in Hong Kong. At HSBC's current high valuation we are reluctant to close our negative stance until we see a more favourable valuation entry point and more positive business trends. Our current target price over 12 months is 888p, over 10% below current levels.

Neil Baker

+44 20 7475 2325
neil.baker@drkw.com

Alexei Kapkin

+44 20 7475 2553
alexei.kapkin@drkw.com

Marketing analysts:

Nick Collier

+44 20 7475 5664
nick.collier@drkw.com

Arturo de Frias

+44 20 7475 2530
arturo.defrias@drkw.com

Online research: globeweb.drkw.com (European stocks); www.drkw.com/research (all others)





Summary and Investment stance for 2001

The key questions facing European bank investors in 2001 are not just European operating trends but the extent of the US slowdown and when and if falling US short-term interest rates are sufficient to prevent a US recession. Moreover the 'high tide' of capital market buoyancy peaked at the end of Q1 2000 but only began to retract significantly into Q4 2000. As the investment guru Warren Buffett famously stated, 'when the tide goes out we will all see who was swimming naked.'

Our overall investment stance for European banks will remain Neutral into 2001 although if anything our stance has a negative bias despite interest rate cuts having already started in the US. The economic trends in both the Eurozone and the UK point to lower growth but no recession and our bottom up forecast earnings growth for the sector as a whole outpaces the market at this stage. Our economists are predicting significantly lower interest rates for the E-11 economies, which should maintain momentum in both the banking businesses and the key mutual fund growth markets such as Italy, France, Germany and the Nordic region.

Underweight high risk capital market revenues

The revenue base of several European banks has been boosted considerably over the last 2 years by benign capital markets. Initial price weakness in the latter part of 2000 in European investment banks was only a reflection of a change of sentiment towards the end of the growth phase of these earnings. The market has not priced in the significant downward earnings revisions likely for 2001 as capital market revenues contract.

These factors point immediate caution towards most Swiss, German and French banks whose business mix is dominated by wholesale/investment banking. We see **Credit Suisse** and **Societe Generale** as likely underperformers in 2001 and recommend Underweight positions. Our preferred banks in the investment bank cluster remain Deutsche and UBS but we would await a more clearer picture on capital market stability before giving these a major push.

Overweight lower risk, sustainable operating profit growth

Regionally in 2000 we recommended strong Overweights in the Nordic, Italian and UK commercial bank sub-sectors matched by Underweights in UK retail banks and UK Asian banks. This stance is broadly unchanged into 2001 and we are still looking for a cheaper valuation opportunity in **HSBC** to close the negative bet on this sub-sector.

Our top Buy recommendations in 2000 were consistently **Merita-Nordbanken** (now Nordea), **San Paolo IMI**, **Unicredito**, **Barclays**



and **RBSG** (post takeover of NatWest in March) all of which, happily, were successful outperformers. Our major stock Underweights were in **Lloyds TSB** and **HSBC**.

We still favour the strong growth fundamentals of our current Italian favourites – **Unicredito** and **MPS** – but are closely watching mutual fund trends, which are a key driver of fee income hence our less positive recommendation on **SPI**. Net interest income and credit quality trends in Italy remain positive.

In November we reduced our sector stance on the Nordic banks to Neutral from Overweight but kept an Overweight position in the newly named **Nordea** and favoured a switch out of the most overvalued Swedish bank (**SHB**) into **DnB** in Norway.

In the UK we remain Overweight the full service banks, **RBSG** and **Barclays** and have raised our price targets based on a more positive view of sustainable profitability. We do not see UK retail/mortgage banks as safe havens because of lack of revenue growth in a slowing retail loans market and underlying upward cost creepage. We have a Sell recommendation on **A&L** and note that its current valuation holds a considerable degree of bid premium.

In Benelux we have positive recommendations on both **Fortis** and **ABN-Amro**, but see greater upside potential in the latter. In France we favour **BNP Paribas** over **Societe Generale** and see **Credit Lyonnais** as an interesting franchise story. All three are not without capital market risk and have US loans exposure.

Underweight Asian banks – Reduce HSBC

HSBC is a strongly capitalised bank and has global opportunities for acquisition-led growth but its businesses are heavily geared into slowing trends in Asia, the UK and the US. The Asian economies are highly geared into both a slowdown in US capital spending and a downturn in Japan. We have consistently argued about the fragility of the banking recovery in Asia, lack of regional lending growth and margin pressures in Hong Kong. At HSBC's current high valuation we are reluctant to close our negative bet until we see a more favourable valuation entry point and more positive business trends.

Top calls for 2001

Top Overweights	Top Underweights
Unicredito	Credit Suisse
Nordea	Societe Generale
Barclays	Alliance & Leicester
RBSG	HSBC
ABN Amro	

Source: DRKW estimates

Summary



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Overview

In the second half of 2000 the dangerous term ‘banks as defensives’ was mooted due to greater perceived short-term earnings certainty than other sectors. At the high point of the economic cycle this is perhaps correct but it should never be forgotten that most banks are correctly classified as cyclical stocks. Their ability to raise deposits as effectively short-term borrowings means that they are the most leveraged balance sheet plays into economic upturns and downturns. As Albert Edwards, our global strategist stated recently, ‘beware cyclicity masquerading as growth’.

Earnings momentum positive but rising risk of downgrades

Earnings momentum for most banks within the sector has been positive for the last three years with few exceptions. In fact our bottom-up forecasts suggest earnings growth of 13% in 2001 and 10% in 2002 which outpaces that of the wider market. This is achievable by those banks whose banking and fee income trends remain benign. It will be harder to achieve for those banks which are highly operationally geared into capital market revenues.

From a topdown perspective we would argue that the sector faces its highest probability of significant negative earnings shocks since 1994 as the quantity of capital market linked revenues may be significantly lowered throughout 2001. The base effect comparison between this year’s first quarter in investment banking compared with the record-breaking first quarter of 2000 could be striking. We also do not rule out bad debt shocks related to US regional or syndicated loan exposure. We discuss this further in the section on European operating trends below.

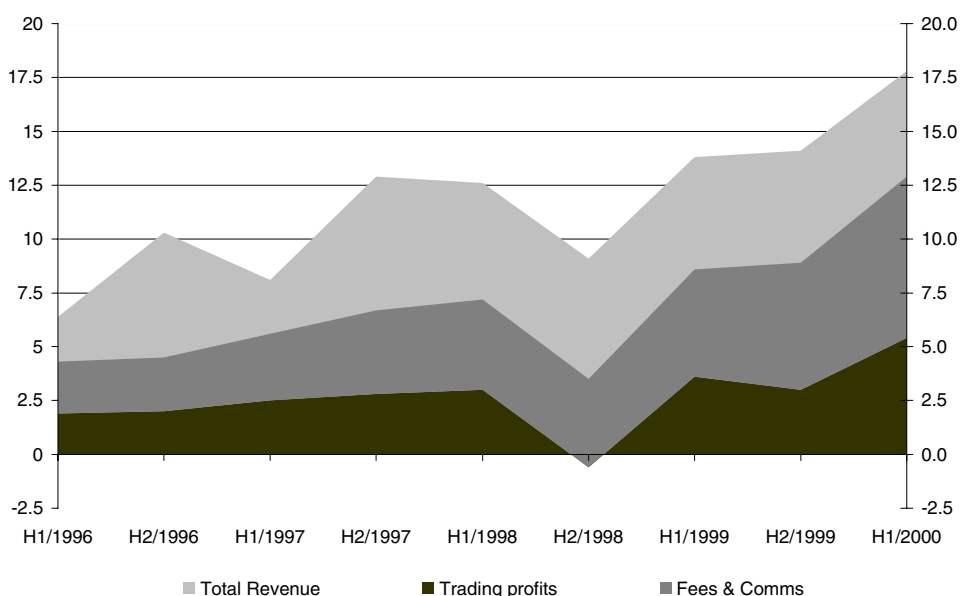
Slowdown in US economy and capital markets together with high yield bond exposure not fully in forecasts

The most significant exogenous factors affecting the sector in the first half of 2000 were solved with the bursting of the TMT bubble followed by the improvement in European bond yields both of which helped the sector recover and outperform the wider market. It is fair to say that the external problems of the second half of 2000 and especially Q4 remain unresolved. These are namely the sharp US economic slowdown, volatile and slowing global capital markets and the linked fears of bank syndicated loan exposure to telecoms debt, US junk bonds and US syndicated loans.

With regard to the second half concerns we still do not have enough data or evidence to make concrete judgements. The widespread use of credit derivatives can also mask the final effect of potential credit losses. **We recommend caution towards those banks who have been most active in the high risk areas.**

Thus we rate **Credit Suisse** as one of the highest profile candidates for disappointment in 2001 having doubled its bet in US high yield business with its top-of-the-market acquisition of DLJ for \$12.2bn. It was also a major beneficiary of the earlier TMT boom given its high profile advisory team in this area. In H1 2000 both its fee income of CHF 7.5bn (+CHF5.0bn) and trading profits CHF 5.4bn(CHF3.6bn) were up 50% respectively from the prior year at group level, in large part reflecting the buoyancy of the markets for CSFB.

Credit Suisse half year revenue trends 1996-2000 (CHFbn)



Source: Company

CSFB's own website highlights that together with DLJ it was top in US M&A deals, IPO volumes and high yield debt underwriting. CSFB's technology group claims that it was first in both technology financings (318 transactions totalling \$341bn, up 280%) and M&A for the technology industry in 2000. It did 147 technology M&A transactions totalling \$309bn in 2000 including such high profile transactions as PCCW in Hong Kong.

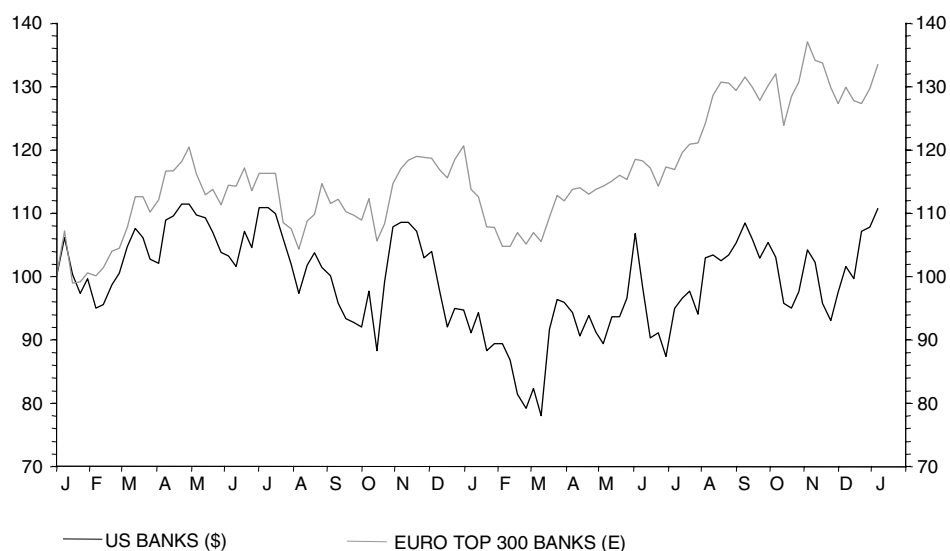
In summary, not only is their high risk of trading writedowns and lower dealing income for capital market banks in 2001, the base effect in fee income will be substantial. Our preferred stocks in the investment bank cluster UBS and Deutsche Bank are much less exposed to the downturn in US high yield debt underwriting and M&A being relatively weak in this area, more European and more secondary market volume driven. Although both recommendations remain Add given our short-term market caution on capital market revenues we may have better opportunities later in 2001 to push the positive case more aggressively.



Banks in the USA have already entered more serious times with a new non-performing loan cycle already underway and continued dislocation in higher yield corporate bond markets. There were profit warnings from Bank of America, Chase and JP Morgan in December. The first chart below compares absolute US bank performance indexed back over two years with our European universe. Whilst the US sector is tracking sideways the European banks are still in a modest uptrend. The second chart below shows that US banks received more help from falling bond yields in 2000.

Credit quality has worsened substantially in the US, net interest income growth has weakened and infill from investment banking revenues may prove to have been based on the adoption of unacceptably higher risk. Corporate bond spreads have risen to 1991 recession levels. The third chart below shows the rise in corporate bond spreads over the last two years in both the US and Europe.

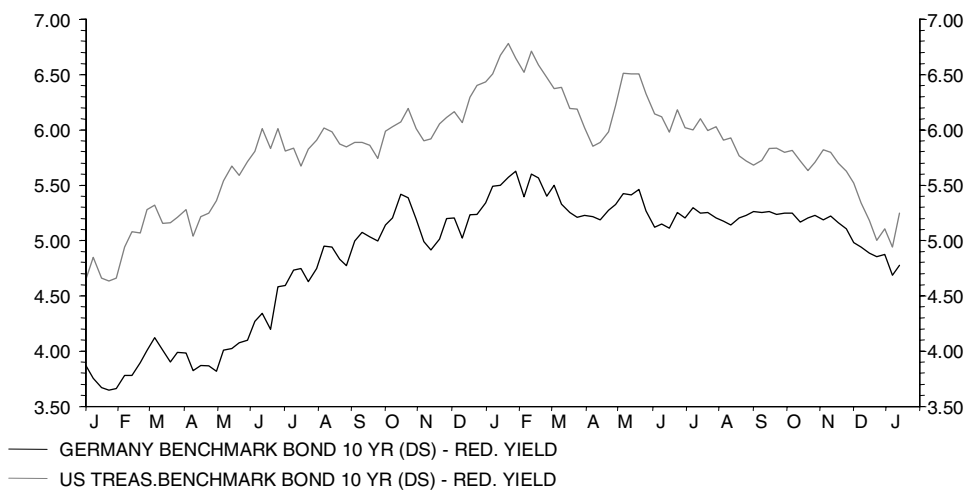
US banks performance compared with European banks – absolute Jan 99 = 100



Source: Datastream

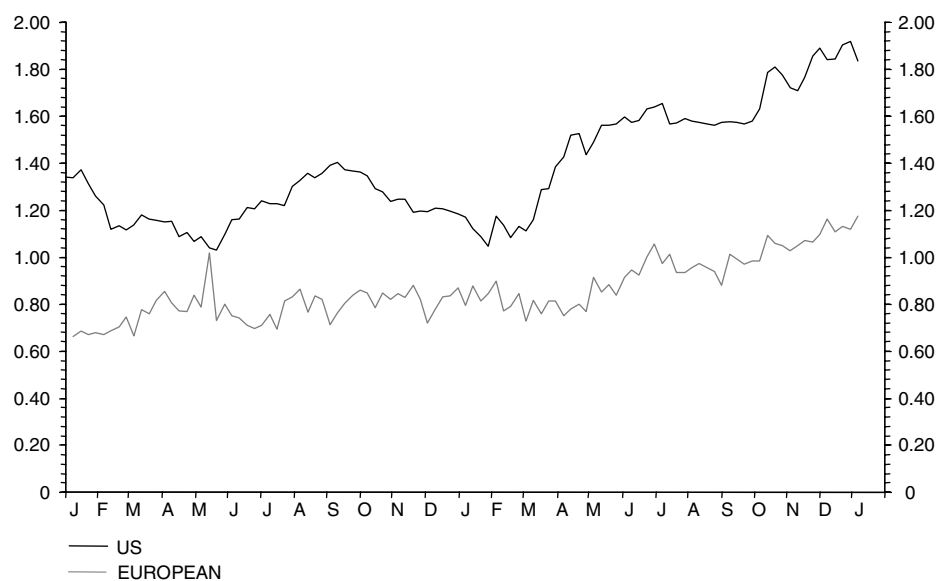


Two year comparison of US and European bond yields



Source: Datastream

US and European corporate bond spreads (vs 10 year government bonds)



Source: Datastream



Economic outlook for Europe comforting

Looking at the economic backdrop for Europe directly in 2001 the signs are more comforting. Unlike the US there is no large corporate or personal sector deficit. Our economists base case for both the UK and the Eurozone (E-11) is for slower growth but no hard landing. This, however, is predicated on a soft landing in the US.

The latest ECB Bulletin in December also pointed to some moderation in growth in 2001 but stated that the underlying dynamism of growth continued to prevail. It noted that declining trends in unemployment continued and capacity utilisation rose further and that the confidence of households and businesses remained strong up to the final quarter of 2000.

In terms of interest rates in the UK our economists are only predicting one base rate cut in Q1 with rates back up to 6% by year-end as the effects of the current fiscal easing have to be countered. In the Eurozone the DKWR outlook for interest rates is more bullish based on the fact that E-11 growth is expected to undershoot with a forecast of a 25bp cut in Q1 and full year cut of 100bp to 3.75%.

Remain positive on banks with low capital market risk and good and sustainable growth trends

Given this reasonably bearish backdrop investors should remain positive on banking regions or sub-sectors where both operating trends remain robust and the exposure to capital market risk and/or revenues remains fairly low.

- ▶ The Nordic sector with the possible exception of Svenska Handelsbanken (SHB) fulfils this simple screen. Our favourite bank in the region is **Nordea** and we also have positive recommendations on DnB in Norway and SEB in Sweden.
- ▶ The Italian growth banks which are not overly dominated by mutual fund fees and commissions for revenue growth is another. Our favourite banks here are **Unicredito** and **Monte di Paschi**.
- ▶ We also remain positive on the UK's two major commercial banks **Barclays** and **RBSG**, which are both geared for growth with positive operating trends. We note that they both contain a level of US credit risk and that RBSG has a relatively high level of dealing income within its revenue base but are prepared to accept this risk given relatively low valuations.
- ▶ **ABN Amro** – the current valuation already reflects the risks of US exposure and capital market revenues. The investment bank contributes only c10% of group profit and together with the wholesale bank is a target for restructuring. Operating trends in both Holland and Brazil are positive and the US business in the MidWest is heavily retail orientated.



Net worth support for some German banks

Investors may also be more comfortable buying bank shares which are valued more by net worth or multiples of adjusted NAV as opposed to earnings. In this case the German banks although heavily geared into wholesale and investment banking may have some advantages. That said if the dent to earnings is materially significant then longer-term sustainable return on equity (RoE) projections could be abandoned with subsequently negative effects on valuation. In this scenario Commerzbank is most vulnerable having by far the lowest protection to net worth in its relatively small financial participations portfolio, which represents only c10% of stated book value compared with c50% for Deutsche Bank and nearer 100% for Dresdner Bank.

New technology and the Internet – a case of leaders and laggards

We stated consistently through the period of Internet mania that not all banks were losers from new technology. The market was overlooking the potential efficiency gains 'internet-catalysed' banks could derive from lowering delivery costs and revenue gains from boosting new fee income areas such as stock brokerage and mutual fund products. We argued that the 'winners' would be those banks that reacted swiftly to the real threat of greater pricing transparency and provided efficient new forms of customer services using technology to protect their existing customer base, and attack new financial services areas with this enhanced distribution capability.

The leaders in Europe in using new technology to broaden and enhance their product offering to customers remain the Nordic banks followed by UK banks such as Barclays and RBSG. The Spanish banks have been very proactive in defending their domestic market positions from the threat of new entrants by using new technology. The German and French banks were quickest to develop e-brokerage businesses.



Regions versus clusters

Whilst local market factors still play a strong role in influencing sector performance, the structures of international capital markets demand that European banks can no longer get by with the bland, unfocussed universal bank model of 10 years ago. Most banks are now more active in focussing their strategy and capital allocation on business areas of higher expected return and/or growth.

Introducing our regular European banks publication

The core aim of the publication is to use our fundamental research, risk and valuation knowledge to seek bank stocks that are likely to outperform or under-perform on an annual or medium-term basis. For more aggressive funds we also aim to highlight short-term trading opportunities over each quarter.

The proposed future cycle of this publication (January, May, and October) aims both capture new stock information such as after Q1 and half-year results but also broadly follow the quarterly performance targets for buy-side analysts and fund managers. This paper is structured into 7 sections as follows:

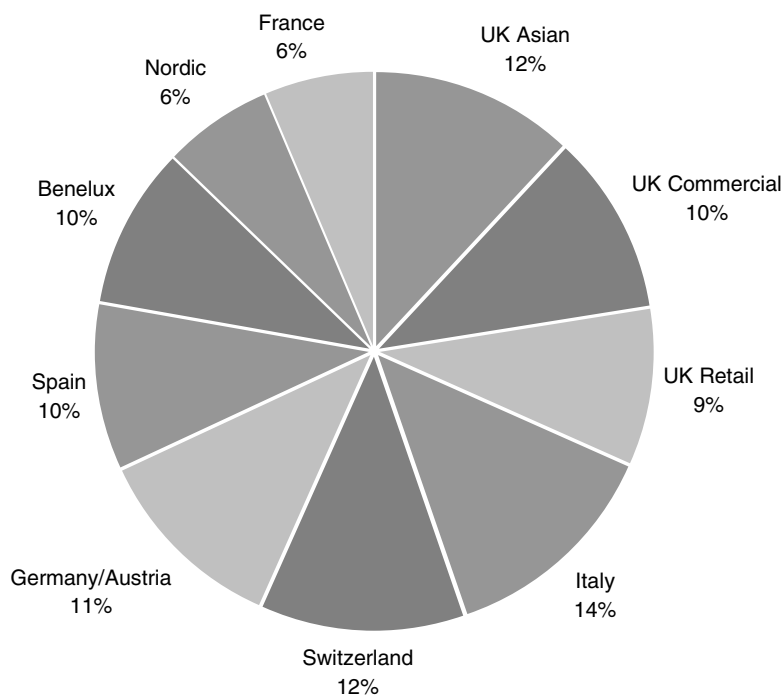
- ▶ We define our European bank clusters by industry group.
- ▶ Summary of the key operating trends for our European banks universe from 2000 into 2001 using both our funds flow data and individual stock and country analysis. We provide an investment guide to our preferred regions of bank investment.
- ▶ In addition we update and enhance our risk and valuation methodology introduced in our valuation discussion paper 'Missing Link' which devised a forward looking cost of equity for banks and was published in November 1999.
- ▶ We enter into the continuous debate on European bank consolidation trends and include a 'spiders web' of cross-shareholdings.
- ▶ Brief review of 2000 looking at quarterly and annual performance and any significant re-ratings or de-ratings of bank stocks;
- ▶ Brief company analysis on our top Overweight and Underweight recommendations for 2001.
- ▶ Publish key annotated tables and charts from our integrated European banks database.

This first European Banks Quarterly of 2001 replaces the Landscape documents and is DKWR's first fully integrated European banks product connecting all our analyst's bottom-up company and regional research. We also maintain focus on top-down funds flow analysis, which is core to the monetary trends for most of the regional sectors within our banks universe.



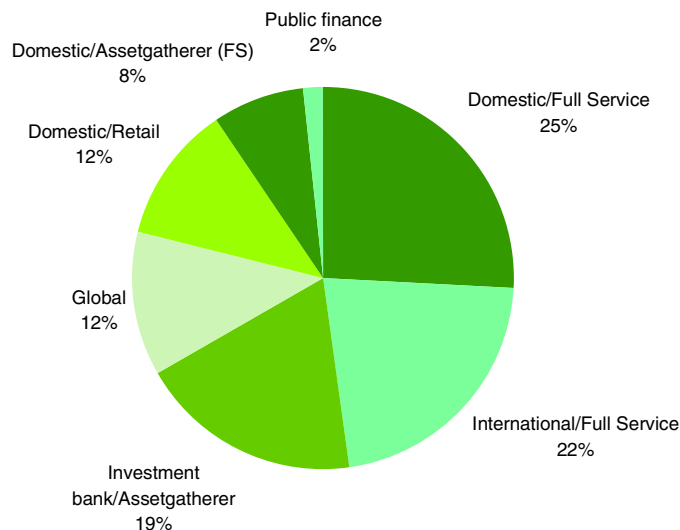
The sector also has to be analysed along bank cluster lines such as investment/wholesale banks, bancassurer/asset gatherers, domestic retail banks, domestic retail/commercial or full service banks, international full service banks and even global bank in the case of HSBC. The first chart below shows the traditional split of the sector market capitalisation by country. Note here that we have split the UK banks (31% of the universe) into their normal 3 sub-sectors – UK commercial banks; UK retail banks and UK Asian banks.

European Banking sector market capitalisation by country



Source: ????

Market capitalisation by cluster (€bn)



Source: DKWR estimates

The table on page 14 and the chart above shows our segmentation of the European banks sector along industry grouping or cluster lines.

We define the following clusters:

- ▶ Domestic retail banks – >70% of business (profits and assets) are domestic and retail;
- ▶ Domestic full service banks – >70% of business (profits and assets) are domestic but the bank is involved in both corporate and retail banking;
- ▶ Domestic Assetgatherers (FS) – full service banks with strong asset gathering businesses in terms of contribution to revenues and profits;
- ▶ Global – HSBC;
- ▶ International Full Service – full service banks where business mix outside the domestic market makes up more than 40% of group;
- ▶ Public finance banks – Dexia and DePfa;
- ▶ Investment Bank/Assetgatherer – UBS, Credit Suisse Group, Deutsche Bank and Dresdner Bank.

DKWR European bank universe by industry group or cluster

Recommendation	Bank	Market cap bn	Weight in cluster
Underweight	Domestic/Retail	137.8	
Restricted	Lloyds TSB	63.3	46%
Restricted	Abbey National	27.4	20%
Add	Halifax	23.6	17%
Sell	Alliance & Leicester	5.7	4%
Hold	Bradford & Bingley	3.1	2%
***	Bank of Ireland	9.7	4%
Reduce	Bankgesellschaft Berlin	2.6	2%
Add	Erste Bank	2.5	2%
Overweight	Domestic/Full Service	308.1	
Buy	RBSG	67.2	22%
Buy	Barclays	54.8	18%
Buy	Unicredito	29.3	9%
Add	Banca Intesa	26.5	9%
Hold	HypoVereinsbank	24.5	8%
Add	Nordea	24.0	8%
***	Danske Bank	15.0	5%
Restricted	Bank of Scotland	14.7	5%
Reduce	SHB	12.1	4%
Buy	Monte di Paschi	11.0	4%
Hold	Swedbank	9.2	3%
Hold	BNL	7.2	2%
Hold	Banca di Roma	6.8	2%
Add	DnB	4.4	1%
Hold	UBN	1.4	0%
Overweight	Domestic/Assetgatherer (FS)	90.4	
Add	Fortis	43.7	48%
Add	San Paolo IMI	26.0	29%
Buy	Bipop	12.2	13%
Add	SEB	8.5	9%
Underweight	Global	147.0	
Reduce	HSBC	147.0	100%
Neutral	International/Full Service	258.7	
***	BSCH	53.9	21%
***	BBVA	51.9	20%
Add	BNP-Paribas	43.1	17%
Buy	ABN-AMOR	38.2	15%
Reduce	SocGen	29.6	11%
Hold	Commerzbank	17.1	8%
Hold	Credit Lyonnais	13.6	5%
***	Allied Irish Bank	11.3	4%
Neutral	Public finance	20.7	
***	Dexia	18.0	87%
Add	Depfa	2.7	13%
Neutral	Investment bank/Assetgatherer	223.9	
Add	UBS	79.2	35%
Hold	CS	63.3	28%
Add	Deutsche Bank	56.4	25%
***	Dresdner Bank	25.0	11%
Neutral	DKWR European Banks Universe		

***coverage pending

Source: DKWR estimates

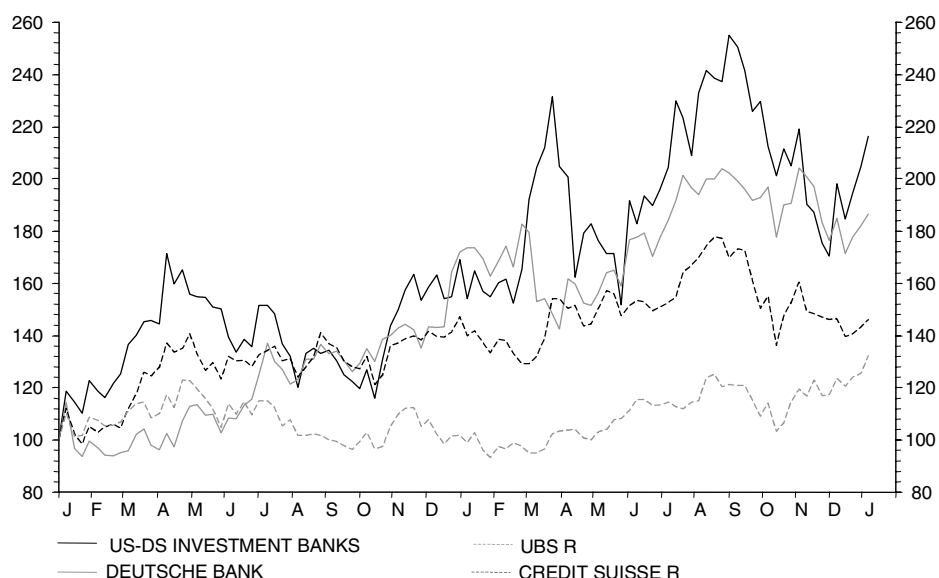
Key bank share drivers outside Europe

Many banks in the European universe are heavily influenced by factors that lie outside Europe. These are as follows:

- ▶ US investment banking trends (Deutsche, Credit Suisse, UBS). Arguably for these three banks their peer group is the quoted US bulge bracket investment banks;

The chart below compares performance between US and European investment banks over the last two years. Note that the US investment banks' first peak was at the top of the TMT boom. They made a new high at the end of August after record half year profits. Of the three European banks the chart shows that UBS has been least correlated with the performance of the US investment banks having had problems in its asset gathering businesses – both the Swiss private bank and the global institutional business.

Two year index performance US investment banks versus Deutsche Bank, UBS and CS Group



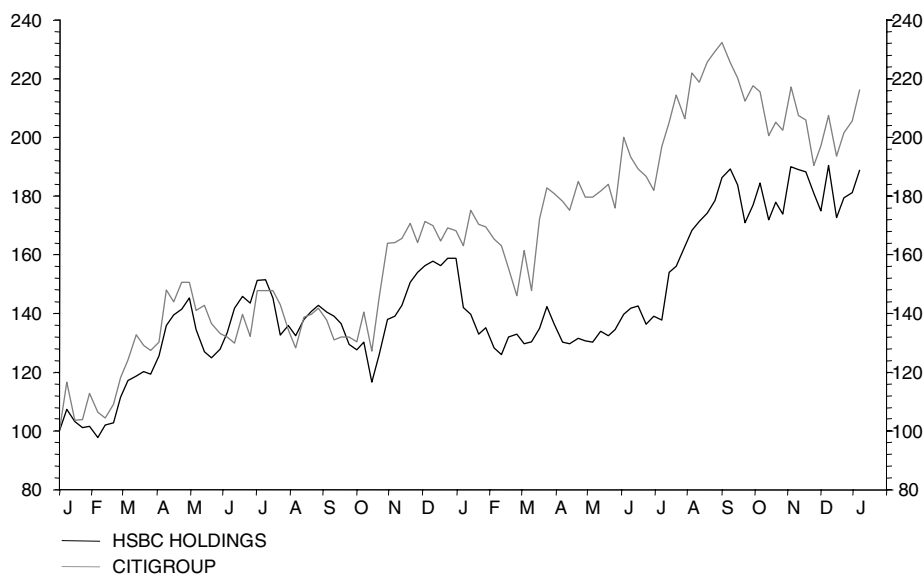
Source: Datastream

- ▶ Latin American economic trends (BSCH, BBVA, and to a lesser extent ABN Amro);
- ▶ Hong Kong banking trends (HSBC, Standard Chartered); and
- ▶ US regional banking trends (ABN Amro, HSBC, BNP, AIB, and to a smaller extent RBSG).
- ▶ The market valuation of Citibank (HSBC).

The chart below compares the performance of Citibank with HSBC. Over the last two years there has been a reasonably close correlation but note that Citibank now looks to be in a downtrend.

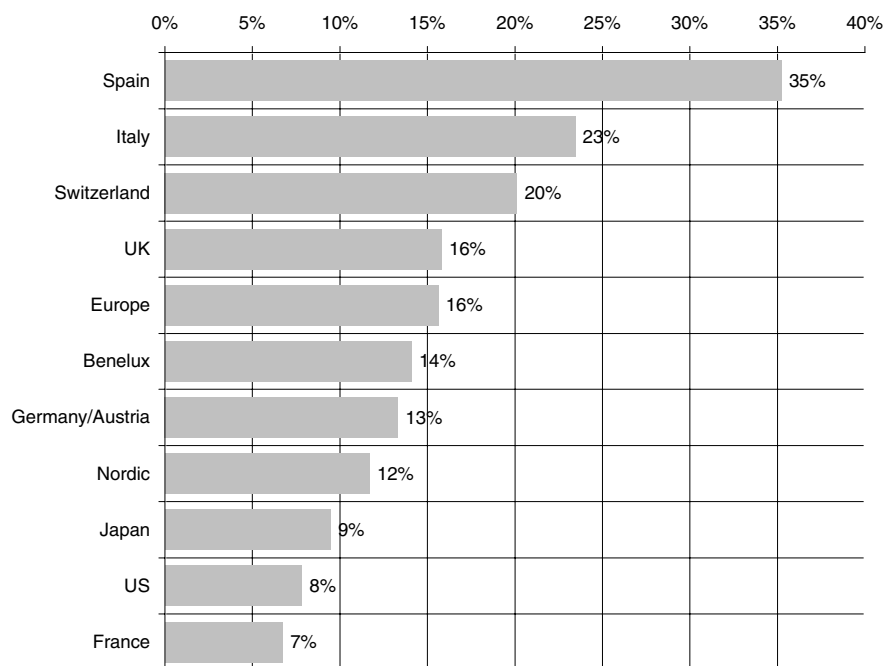


A two year index comparison of Citibank versus HSBC



Source: Datastream

Banking sector as % of local market capitalisation



Source: Datastream

Key operating trends for European banks into 2001

It was comforting that the banks with the best operating profit trends in Europe were the best performers in 2000. This was the case for banks both in the Nordic region and in Italy contrary to their muted performance in 1999 when most banks in our universe underperformed. Looking into 2001 operating trends remain positive across all business lines in the Nordic region. In Italy mutual fund growth has decelerated markedly but banking trends remain benign with double-digit loan growth and stable or improving margins.

Key operating trends – net interest income

The best net interest income trends remain in Italy and the domestic Spanish business. In Italy we expect loan growth to moderate somewhat from the current 12% rate of growth but still to remain above 10% with stable margins. The margin outlook in Italy is rated as positive for 2001. There are positive business mix effects from the strong growth in consumer loans. Consumer loan growth should also help French net interest margins. UK loan growth currently 12% is expected to trend back to 10% in 2001. Retail margin pressure remains intense in terms of flow business for consumer loans, mortgages and retail deposits.

The other points to note from our net interest income drivers table are the following:

- ▶ Fastest annualised rate of overall loan growth currently is in Spain (+14%), Italy (+12%) and UK (+12%);
- ▶ Lowest rate of loan growth is in Switzerland (+4%) and Germany (+5%);
- ▶ Fastest rate of residential mortgage growth is in Spain and Italy. Slowest rate of growth is in Switzerland and Benelux;
- ▶ Fastest rate of consumer loans growth is in France (+17%) followed by the UK (+13%), Spain (+12%) and Italy (+12%);
- ▶ Retail deposit growth is strongest in Spain and weakest in Switzerland;
- ▶ Net interest margin trend is rated by DKWR as positive in Italy, France and Benelux and negative only in the UK.

Net interest income drivers

Region	UK	Italy	Spain	Nordic	France	Benelux	Germ	Switz
GDP growth - 2001	2.7%	2.6%	2.6%	2.1%-4.0%	2.8%	2.8%	2.5%	2.3%
CPI inflation -2001	2.0%	1.8%	2.6%	1.5%-2.8%	1.2%	2.0%	1.0%	1.9%
Loan growth (last annualised)	12%	12%	14%	6-7%	8%	6%	5%	4%
of which:corporate	14%	13%	10%	5%	7%	9%	5%	5%
residential mortgage	8%	12%	15%	8%	5%	2%	6%	3%
consumer loans	13%	12%	12%	na	17%	9%	3%	2%
Retail deposit growth	6%	2%	10%	2%	3%	6%	3%	-9%
Margin trend	negative	positive	neutral	neutral	positive	positive	neg./stable	stable
Margin sensitivity to lower rates	neutral/neg	neutral/neg	negative	negative	neutral/neg	neutral/neg	neutral	neutral

Source:DKWR

Key operating trends – fees and commissions

- ▶ Fees and commissions at banks which are heavily geared into mutual fund flows may be less buoyant in 2001. Mutual fund trend growth is rated as negative in four of the European regions in the table below. The fastest current growth is in the Nordic region and the worst is in Spain where there are outflows of funds.
- ▶ In Italy mutual fund growth started 2000 strongly but decelerated markedly throughout the year especially in the final quarter. Annualised growth in the stock of Italian mutual funds fell from 29% in December 2000 to only 3% in December 2000.
- ▶ Fees from lending related activities will be strongest in areas of double digit corporate loan growth – we would include here the UK, Italy, Spain and Benelux.
- ▶ Bancassurance trends are strongest in Italy, France, Spain and the Nordic region. Banks in all these regions have a relatively high share of life and pensions new business flows. The lowest growth is in the UK, Germany and Switzerland.
- ▶ Stock market volume trends remain positive most regions albeit lower than the peak levels of Q1 2000.

Fee income drivers

Region	UK	Italy	Spain	Nordic	France	Benelux	Germ	Switz
Mutual fund growth (ann.)	10%	3%	-7.5%	15-20%	9%	10%	10%	10%
Current trend	negative	negative	negative	negative	positive	positive		
Banks share of mutual funds	low	high	high	v high	high	high	high	high
Life and pensions prems (ann.)	0%	20%	20%	15-20%	19%	12%	2%	4%
Banks share of life bus. flow	low	>50%	high	high	high B: high, NL: low		low	low
Stock market turnover trend	neutral	positive	positive	positive	positive	stable/neg.	positive	positive

Source:

Key operating trends – operating costs

Staff costs represent up to 60% of total costs for most banks in our universe therefore trends here in terms of wage inflation and labour usage in terms of staff numbers are key in terms of correctly predicting operating costs. Other important costs are the costs of new and maintenance technology and premises costs. Technology costs are rising across our universe but are rarely visible in the disclosure given by most banks. Premises costs are a function of price inflation and local commercial property rental inflation. Key points as follows:

- ▶ Wage inflation is lowest in Italy, Germany and Switzerland and highest in the UK and the Nordic region. Price inflation is lowest in Switzerland and highest in Spain.
- ▶ We expect declining staff numbers in the domestic banking businesses in Italy, Spain, France and the Benelux and Nordic regions.

Operating costs and credit quality

Region	UK	Italy	Spain	Nordic	France	Benelux	Germ	Switz
Wage inflation	4%	2%	3% to 4%	4-5%	3%	2.50%	2%	1%
Domestic staff numbers	stable	declining	declining	reduction	reduction	Reductions	stable	stable
Price inflation	3%	2%	4%	2-3%	2.40%	2.50%	2.60%	1.80%
Credit quality								
NPL's as % of gross loans	2%	6%	1.0%	1.50%	4.50%	1%-2%	2%	4.4
NPL trend	stable	declining	rising slightly	Stable	negative	stable/neg.	stable	falling
Corporate insolvencies	rising	neutral/decl.	stable	rising	rising	stable/rising	-1%	-9%
Unemployment	stable	declining	stable/down	stable/rising	stable	stable	declining	stable

Source: DKWR

Key operating trends - credit quality - Credit quality is stable to good across the domestic banking businesses of our European universe. US syndicated loan and TMT exposure will be contained within banks in the UK, France, Benelux, Germany and Switzerland. The major Spanish banks have some TMT loan exposure because of their close relations with Spanish telecoms companies.

Within our universe, French and Italian banks bad debt charge to gross customer loans is at the upper end averaging around 50bp compared with a sector average of 36bp. Nordic banks are benefiting from recoveries in 2000 but we expect a rising trend in charge as this normalises to a steady state rate of credit loss. Other key points:

- ▶ Non-performing loan trends are rated as negative only in France and stable/negative in Benelux. The NPL trend is rated as improving in Italy and domestic Switzerland.
- ▶ The lowest ratios of NPL's to gross customer loans are in Spain and the Nordic region with the highest in Italy.
- ▶ Corporate insolvencies are rising in the UK, France and Nordic region albeit from a low base. Unemployment is stable or declining across most of our universe with a slight uptick in the Nordic region.



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Monitoring European banking risk

Historically the highest risk banks in our universe have been in Switzerland, Germany and France. Evidence from the research below supports this premise. The highest absolute Value at Risk is at Credit Suisse Group which has also had the most volatile trading profits over the last 10 years. The highest dealing profits as a proportion of revenues are at UBS, BNP, CS and Deutsche Bank.

The leverage of most European banks demands that investors differentiate between high risk and low risk earnings streams in their valuation models. We intend to monitor several risk characteristics from simple balance sheet leverage (total assets/equity) to more complex Value at Risk (VAR) trends. We have undertaken considerable research on forward looking risk betas for banks within our European universe based upon the uncertainty of future earnings, historic earnings mix volatility and historic stock price volatility.

In simple terms all banks run four kinds of major risk to earnings:

- ▶ **Credit risk** – the risk of non-performing loans and ultimate writedown on the value of the loan;
- ▶ **Market risk** – the risk of trading losses on investments and dealing positions;
- ▶ **Structural risk** – the risk of lack of liquidity from major asset/liability maturity mismatches and unhedged interest rate risk;
- ▶ **Operational risk** – the risk inherent within the banking organisation such as computer breakdown, fraud, theft and money laundering. Included here would be the integration risk of major mergers and acquisitions.

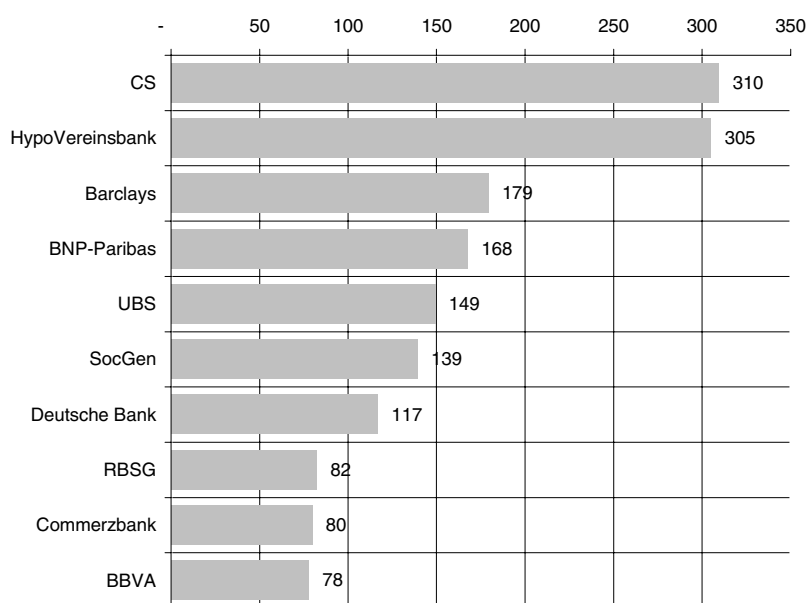
From publically available information we can only really provide risk monitor guidance on credit and market risk. Occasionally adverse net interest income trends can be worsened by structural mismatches such as in the German mortgage market in 2000 when funding versus Pfandbriefe spreads moved against the banks.

We include a matrix below that looks at the Premier league bank stocks and their exposure to a range of market concerns.



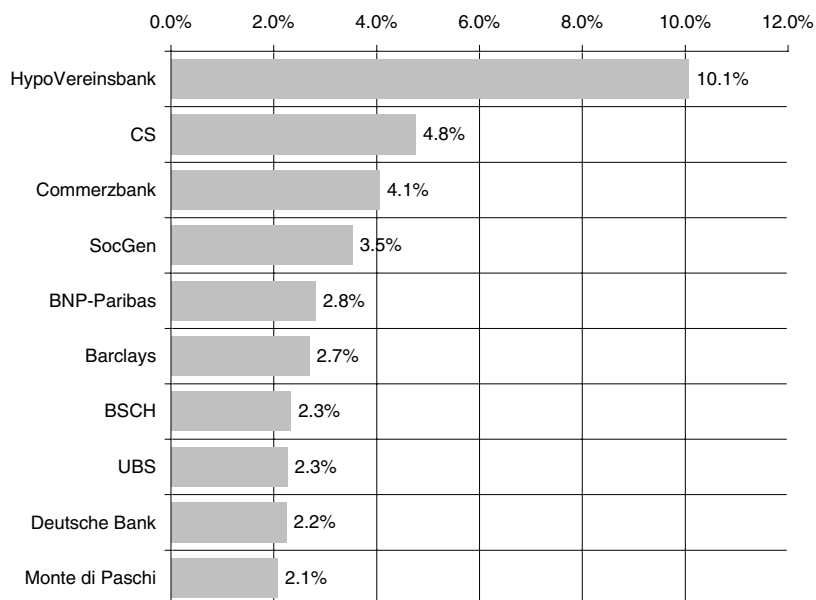
The charts below specifically look at four areas of potential pointers to revenue disappointment from market risk. The first chart analyses value at risk where disclosed in our European banks universe both absolutely and as a percentage of operating profit. We have equalised all disclosures to a 10 day holding interval and a 99% certainty level. The limitations of VaR analysis are that it only monitors known risks and is calculated by each banks' internal models. How a bank measures its VaR in an OTC derivative where it may be the only price maker is unknown? That said it does act, in part, as a meaningful guide showing the higher relative level of the Swiss, German and French banks.

Var 2000 (€m)



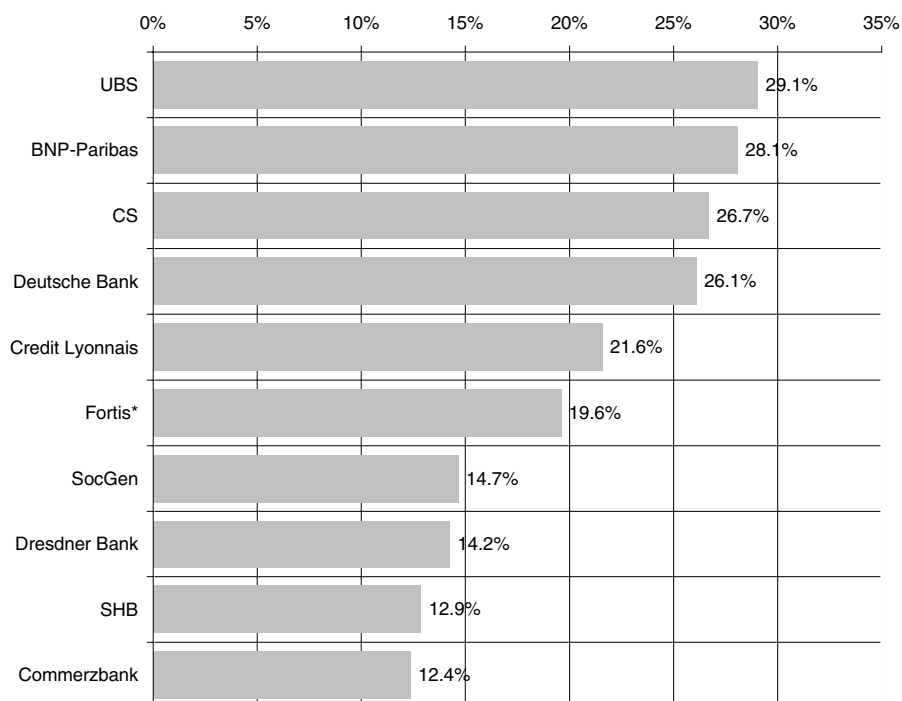
Source: DKWR

VAR as a percentage of operating profit 2000



Source: DKWR

Top ten dealing profit/total income 2000

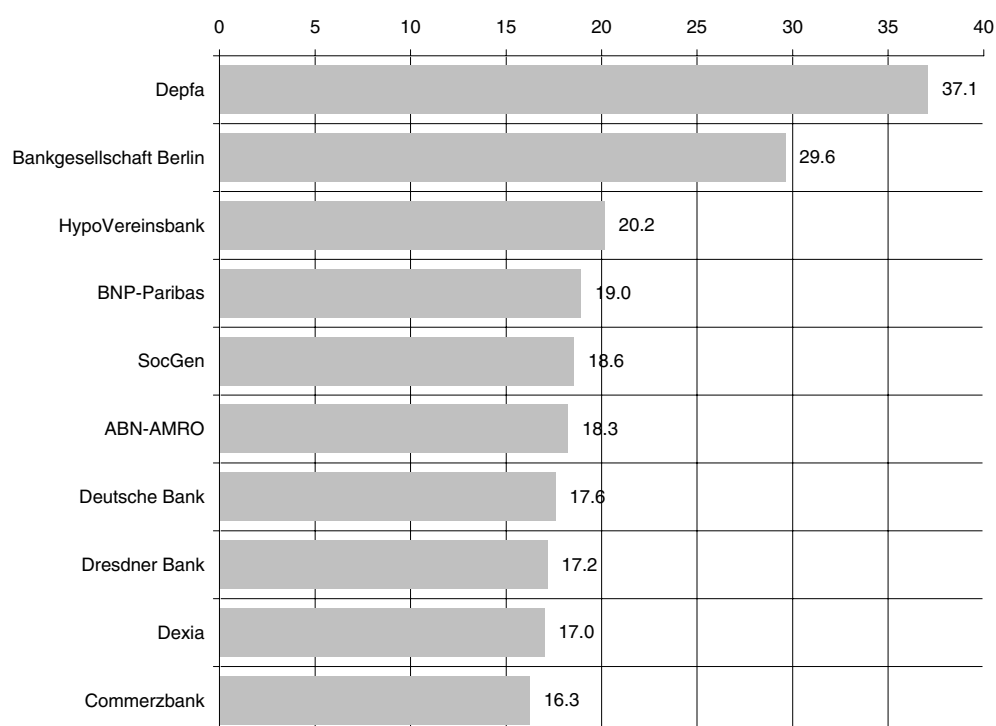


Source: DKWR

The chart above highlights total disclosed dealing revenues (trading profits) as a percentage of total revenues. Unsurprisingly the investment banks, UBS, CS Group and Deutsche Bank have the highest proportion of dealing revenues within their total revenue base with the French bank, BNP Paribas.

The chart below shows the most leveraged banks in Europe as measured by total assets divided by ordinary equity. Whilst leverage itself is not necessarily an indicator of risk it can highlight potential funding problems or structural interest rate risk.

Top 10 leverage banks as measured by total assets/equity



Source: DKWR

Our earlier analysis in *Missing Link (November 1999)* on the historical volatility of P&L items for the European banking sector revealed that, in general, bad debt provisions are negatively correlated, and dealing profit is positively correlated with net income. However, this correlation is not strong, since the net effect of bad debt provisions and dealing profit depends upon their relative size. We did not find any interdependence between bad debt provisions and dealing profit. Therefore, the net effect of these P&L items is rather random.

In fact, most surprises during the reporting season usually come from dealing profit and bad debt provisions, which analysts often fail to forecast accurately.

On the other hand, net interest income and fees and commissions, as well as operating costs, are fairly stable across the countries (coefficient of variation of these items, as a rule, does not exceed 10%).

Given a historical high correlation between volatility of net income and bad debt provisions and dealing profit, we claim that earnings of banks, which are expected to be involved intensively in trading activity and risky lending, should be discounted more heavily than those which have a relatively low share of bad debt provisions and dealing profit in their P&L accounts.

Historical volatility of major P&L items by country

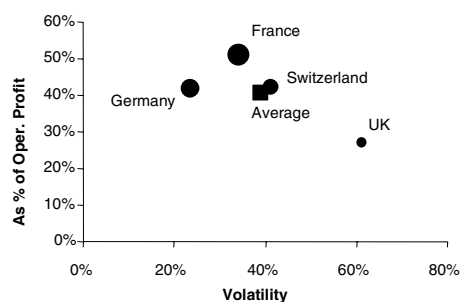
	UK* Volatility	Germany Volatility	France Volatility	Switzerland Volatility	Simple average Volatility
Net interest income	4%	8%	6%	6%	6%
Fees & commissions	8%	8%	14%	10%	10%
Dealing profit	25%	31%	35%	46%	34%
Operating cost	6%	6%	6%	7%	6%
Bad debt provisions	60%	24%	34%	39%	39%
Attributable profit	24%	25%	41%	116%	52%

Notes: * Mortgage banks are excluded. As a rule, they are not involved in securities market dealing and have low bad debts. Volatility is measured by coefficient of variation which is standard deviation divided by average historical value.

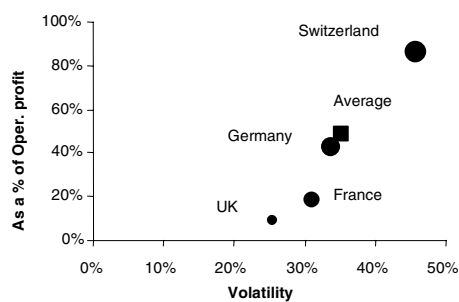
Source: DKWR estimates

Comparing volatility with materiality of P&L item

Bad debt provisions



Dealing profit



Source: DKWR estimates

Summary of the earning volatility data

	Highest volatility	Lowest volatility	High share	Low share
Net interest income	Germany	UK	France	Switzerland
Fees & commissions	France	Germany, UK	Switzerland	UK
Dealing profit	Switzerland	UK	Switzerland	UK
Operating cost	~ same	~ same	Switzerland	UK
Bad debt provisions	UK	Germany	France	UK
Attributable profit	Switzerland	UK	nm	nm

Source: DKWR estimates



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Understanding the spider's web

The consolidation trend continues

Investors cannot ignore the continued consolidation trends in the sector. Over the past few years one or two of the top annual performers has been a target or beneficiary of consolidation. The impetus for consolidation remains strong and this is highlighted by the emergence of a premier league of banks in Europe which emphasises the importance of size. Further consolidation will also be determined by the unravelling of the spider's web. The main battlegrounds for consolidation are Italy, France and the UK.

Consolidation in the financial services industry is a global phenomenon based on a strategic view that absolute size lowers unit costs and can make access to new capital easier. In our European Landscape publication in May 1999 we highlighted four key reasons why we expected this trend to continue in Europe, where the banking industry remains very fragmented at a national level and on average still relatively un-concentrated at a local level. These reasons for consolidation were:

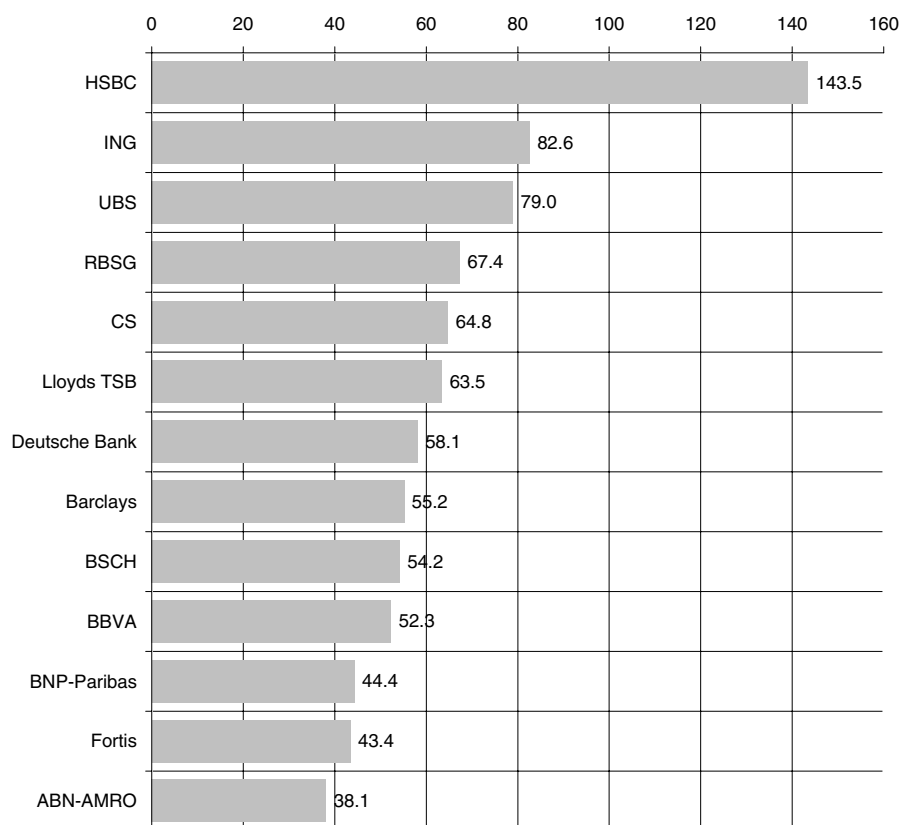
- ▶ **Corporate and retail banking disintermediation** - in simple terms banks can be avoided – corporates can raise capital from bond markets and individuals can save outside the banking system in mutual funds or money market deposit funds. Therefore banks seek mergers to broaden their mix to hedge against disintermediation and to allow cost synergies to be derived in their basic banking businesses;
- ▶ **The Euro** should eliminate national political and legacy central bank obstacles to commercial bank consolidation. Given one European currency and thus one eventual banking market crossborder moves to gain new customers should be inevitable. The initial phase has seen mostly in-market mergers and acquisitions to create so-called 'national champions' and defend the home market. This has been tacitly approved of by some legacy central banks.
- ▶ **Demographic effects** of an ageing population affecting the unit size of asset gathering businesses in both mutual funds and life and pensions;
- ▶ **Information technology** improvements allowing control over larger and more complex entities at a lower unit cost.



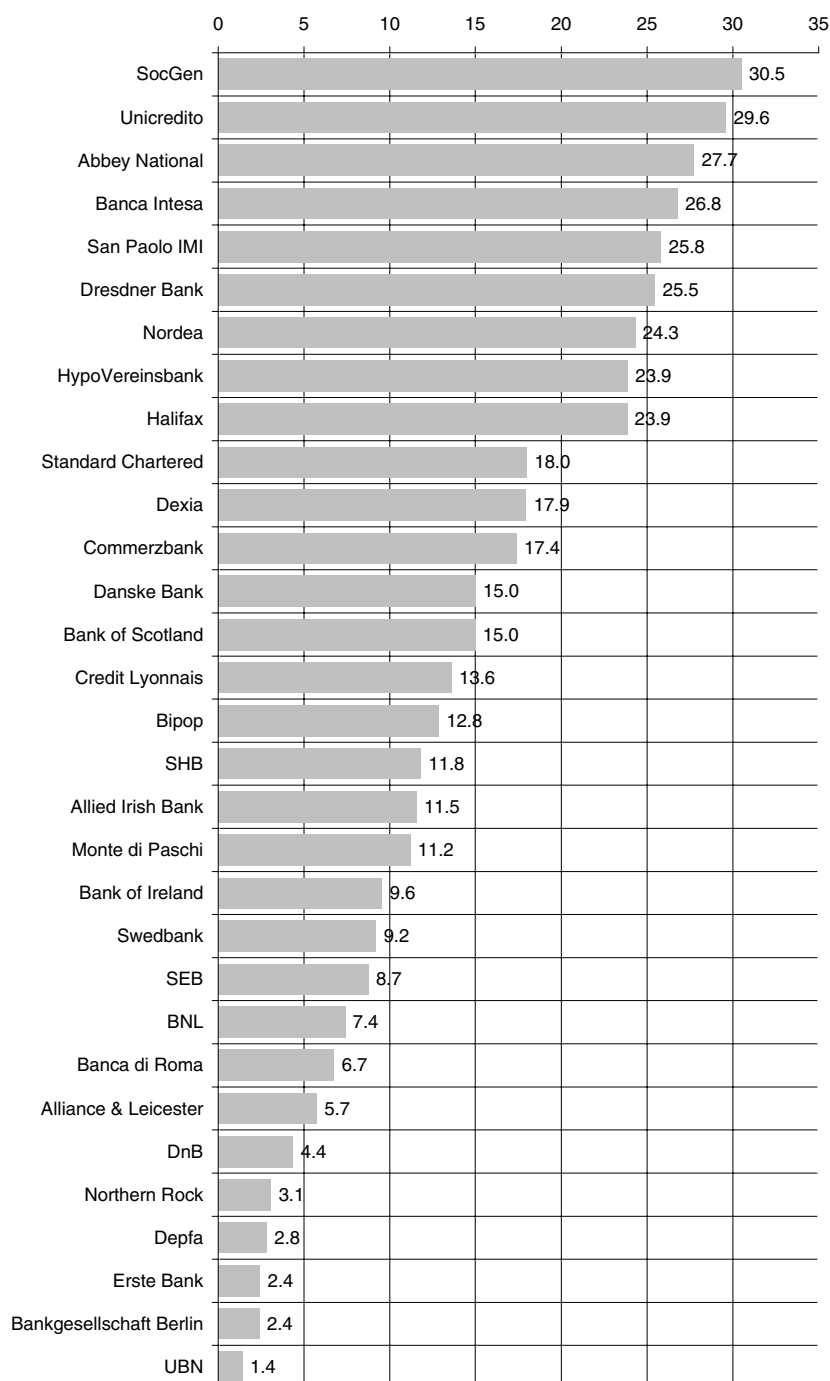
We would add a fifth factor, which is the real or perceived benefits and ‘muscle’ obtained from sheer size. There is a super league of bank stocks developing in Europe with 12 banks with current market capitalisations in excess of E40bn. These are HSBC, RBSG, UBS, Lloyds TSB, Credit Suisse, Deutsche Bank, BSCH, BBVA, BNP-Paribas, Barclays, Fortis and ABN-Amro. This number would be 13 if we also include ING, the bancassurer. These banks probably have greater firepower to grow by further acquisitions than their smaller competitors. The chart below highlights this premier league, which makes up over 60% of the market capitalisation of the sector.

Does size matter? – the formation of the premier league

DKWR European banks Premier League market capitalisation (€bn)



Source: DKWR

Best of the rest (€bn)


Source: DKWR

It is a struggle for the banks outside this grouping to catch up without seeking merger or equals routes because generally their organic growth does not differ too much from the big 12. There are also a limited number of merger-of-equal candidates where either management agreement could be obtained and /or the proposed merger would not lead to an interrupting counter-offer from one of the 'super-league' banks.

The Spiders Web, Central banks and National Champions

(For illustration of the nexus of European bank crossholdings see pullout Euromap at the back of this publication.)

Intervention in France

The role of the legacy central banks can also not be taken lightly as they seek to create 'national champions'. In France, the Bank of France took an active role in the three-way bid between SocGen, Paribas and BNP in 1999 tacitly favouring a French solution. Our conclusion from our recent visits to the banks managements in Paris is that the in-market consolidation process in France is frozen currently ahead of the planned demutualisation and flotation of Credit Agricole.

Credit Lyonnais, with a 6% national market share is also a key franchise target for the French banks wanting to achieve national champion or Euro super-league status. Stake-building by both Societe Generale and BNP Paribas at the end of 1999 was unsurprising. That said the likely controller of Credit Lyonnais' destiny is Credit Agricole. SocGen itself is heavily dominated by a web of holdings and cross-shareholdings.

Bank of Spain favoured national champions early

In Spain, the Bank of Spain has promoted the active creation of the two Southern giants BSCH and BBVA, not worrying too much about local market share issues. Banco Popular remains a highly profitable regional franchise which would suit the 'bank of the regions' strategy of HypoVereins Bank (BHV). BHV is currently integrating the cross-border takeover of Bank Austria.

Intervention in Italy but no premier league member

Italy does not have a bank within the premier league of market capitalisation hence there is continual local debate of which banks to put together to create one. We note here the current discussions between Unicredito with Intesa. The Bank of Italy has been interventionist – in 1999 the consolidation process was side-tracked by the interference of the central bank in blocking bids from Unicredito and San Paolo IMI for BCI and Banca di Roma respectively. BCI eventually was paired with Intesa and has caused a considerable degree of indigestion for Banca Intesa. Moreover, early in 2000 BBVA of Spain was effectively blocked from getting closer to Unicredito's hoped for integration project with BNL and subsequent cross-border merger by the Bank of Italy.

The eventual destiny of BNL, the Rome-based national bank and one of the key in-market 'jigsaw piece' franchises, is also likely to be heavily influenced by the central bank. The BNL group is moving towards an integration with the North-East based Cardine group currently controlled by two Foundations.

We have included our constellation chart of cross-shareholdings in core Europe in an attached colour insert at the back of the document. What is evident from this is that core banking networks excluding the insurance groupings are led by BSCH. Some way behind lie the potential clusters of Credit Agricole and BBVA.



The BSCH nexus is the most developed bank grouping

BSCH's core cross-shareholdings are in Royal Bank of Scotland, Societe Generale, San Paolo IMI and Commerzbank . BBVA has a 10% stake in BNL and is one of the core shareholders in Credit Lyonnais and planned to invest in Unicredito until blocked in early 2000 after Italian Central bank interference.

These have all fallen short of cross-border mergers at this stage but extensive business cooperation was planned between BSCH and Societe Generale especially in the area of asset management and wholesale/investment banking. Nothing has really happened yet contrary to management predictions at the start of 2000.

The Insurer groupings are key

In addition Europe's three leading insurance groupings - Allianz, Generali and AXA - also have powerful positions from which to broker consolidation if it protects and enhances their distribution aims. It is here that the overlaps begin. In H2 2000 Generali increased its stake in Commerzbank its German bank distributor of insurance products as a defensive measure to protect the bank. Commerz also lies within the BSCH cluster but it could not come to agreement with BSCH when it was looking for more capital support against Rebon in the Summer of 2000

A fourth insurer CGNU has a stake in SocGen and a joint bancassurance venture with RBSG in the UK.

The Dutch have ambitions but are behind others

The two Dutch majors ING and ABN-Amro have serious European ambitions but ING is further ahead than its Dutch peer given its full acquisition of BHF in Germany in 1999. It sold its key stake in CCF in France to HSBC after failing to complete its acquisition. It is now using ING Direct as an entry point in retail banking in several European markets notably France and Spain. ABN-Amro presently has only its 10% stake in Banca di Roma in Italy but would like to have greater control. Its strategic aims continue to seek a second European domestic home market.

German ambitions are heavily linked to the plans of Allianz

The German banks also have European ambitions but find themselves either well behind or closely linked to Allianz and can only display several small stakes in a diverse range of banks. Deutsche Bank's strategy is aimed at continuing to develop its range of investment banking activities, and also to build private banking and asset gathering businesses both organically and by acquisition. Given this strategy it is unlikely to be a top candidate for a major crossborder merger. As stated above Commerzbank is included both within the BSCH and Generali cluster.

Dresdner Bank has a 1% cross-shareholding with BNP Paribas but latterly both banks have moved to dismantle their joint ventures in Eastern Europe. Dresdner Bank is very much in the Allianz 'camp', whilst BNP Paribas has Axa as a core shareholder.



Only RBSG and HSBC of the UK banks are really involved in Europe at present

With the exception of HSBC and Royal Bank of Scotland the UK banks are not presently involved at the European 'top-table' although Lloyds TSB has openly discussed European ambitions on developing or acquiring a banking presence in Benelux and Spain. HSBC following its acquisition of CCF in France now has a position to build from and is one of the 5 suitors in the French government sale of Banque Herve. It also owns private banks in Germany and Switzerland.

RBSG recently 'repaid' the BSCH support during its bid for NatWest by supporting BSCH's acquisition of Banespa in Brazil with \$734m of preference capital.

Nordea is the pan-Nordic champion

In the Nordic region the bank which has become the first regional pan-Nordic champion is Nordea, formerly Merita-Nordbanken. Excluding HSBC/CCF Nordea has completed the only genuine crossborder mergers in Europe to date. Its completed purchases of both Unidanmark in Denmark and Christiania Bank in Norway in 2000.

The Nordic banks sector has been one of the most active in terms of M&A activity in 2000 with several major deals like Nordea's acquisition of UniDanmark and Christiania Bank, Danske Bank's acquisition of UniDanmark, and Svenska Handelsbanken's acquisition of domestic pension firm SPP.

We expect the consolidation trend to continue and it seems plausible that we could have a major in-market merger in the Swedish market within the next 1-2 years. Swedbank has on several occasions expressed its interest in SEB and SEB should also be of interest to SHB and Nordea. In Norway, the scope for in market mergers seems limited, perhaps with the exceptions of a possible deal between insurance company Storebrand and DnB. A possible de-mutualisation of the savings bank sector from 2001/2 could put Union Bank of Norway on the M&A scene as well.

SHB, Swedbank, Danske Bank and Sampo-Leonia have all pan-Nordic ambitions and we expect the cross-border M&A to continue as these banks are eager to catch up with Nordea's strong Nordic franchise. Nordea is probably candidate to be part of a pan European banking group at a later stage.



A brief review of 2000

The year of Nordic and Italian champions and RBSG...

The European bank sector, as a whole, rose by 8% in 2000 against the wider market (ETOP 300), which fell by 3%, with the banks' best relative quarter coming in Q3 when it outperformed by 10%. Despite the volatility of Q4 the banks outperformed the wider falling market moderately by just marking time. The recovery was due to both positive earnings momentum, a return to favour of old economy stocks and in most cases undemanding valuations.

The sector entered 2000 under a bearish grip tainted by being seen as an old economy 'loser'. This judgement was based on a **perceived** loss to future profitability from internet-related new entrants combined with the real struggle against further weakness in European bond markets causing both the price of short-term and 10 year money to rise. The market thought that the barriers to entry had been broken by the Internet and forgot about customer inertia and the fact that the existing banking franchises held most of the customers. The sector under-performed by 10% in Q1 but European bond markets began to rally into Q2 and correspondingly the sector also began to outperform albeit modestly at first and then more robustly as the TMT bubble burst.

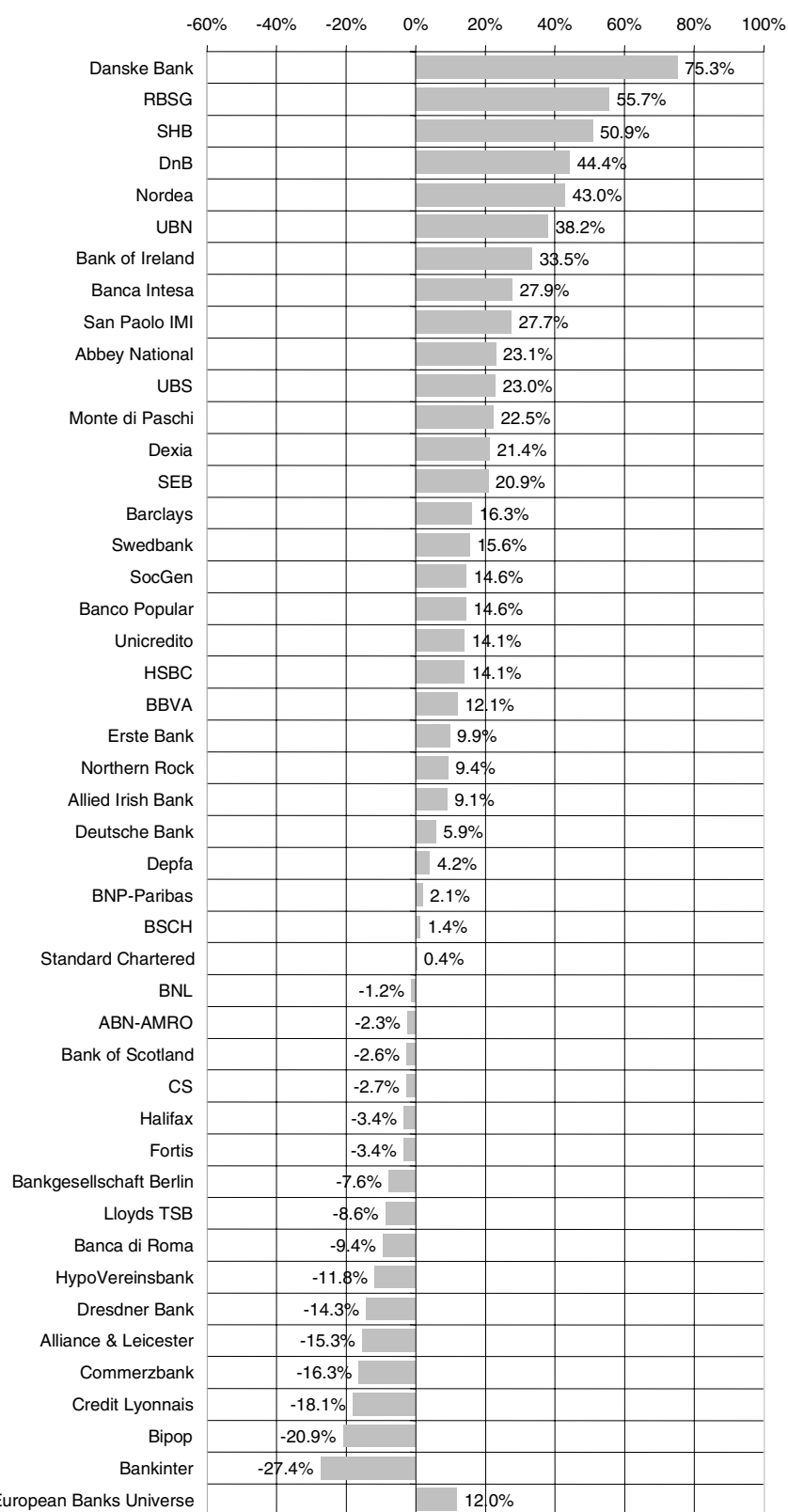
The year as a whole was characterised by a consistently strong performance from most Nordic banks with Danske Bank of Denmark being the year's outright best performer rising by 71% in the year. It was helped by good operating trends in its domestic market, good technology and a very beneficial in-market acquisition. We will initiate coverage on Danske Bank in Q1 2001. Our top Buy Merita-Nordbanken (now Nordea) was also a top 5 performer rising by 48%.

One of our top two UK picks, RBSG was the second best European performer in 2000 as the market finally woke up to the fact that the proposed synergies from the acquisition of NatWest were likely to be achievable and that the management in place was well suited to the task in hand. The stock rose by 55% in 2000 but more than doubled from its March lowpoint when it was excessively oversold after completing the NatWest deal.

The Italian banks were also strong performers through to Q3 with our top picks San Paolo IMI, MPS and Unicredito performing well in parts of the year. Net interest income trends for the improved throughout 2000 with strong volumes and stable or improving margins. Mutual fund growth started the year strongly but decelerated markedly throughout the year especially in the final quarter. Annualised growth in the stock of Italian mutual funds fell from 29% in December 1999 to only 3% in December 2000.

SPI was a top 10 performer in the year rising by 31% despite succumbing to some profit-taking in Q4. We downgraded the stock to Add in October reflecting on the slowing in mutual fund growth. One of our top Buys into the second half of 2000 was Unicredito. It performed well in Q3 when it rose 18% but it fell 6% in the final quarter of 2000 and its full year performance was a rise of 14% in line with our banking universe.

Price Performance in 2000



Source: Datastream, DKWR estimates



Decomposing performance in 2000

It is useful to disaggregate performance in 2000 between any change in 12 month forward earnings forecast, any re-rating or de-rating by the market on the valuation placed on those earnings and the effect of the risk free rate on performance.

The chart below splits each stock's performance between these three key components:

- ▶ EPS Upgrade or Downgrade;
- ▶ Change in Risk Free Rate (relevant 10 year government bond);
- ▶ Re-rating or De-rating of earnings.

EPS revisions

As in 1999 most banks benefitted from rolling forward earnings per share upgrades in 2000. The only forward consensus earning downgrades in 2000 were in Bankinter (-29%), Banca di Roma (-10%), Halifax (-6%), Erste Bank (-6%) and A&L (-3%). Lloyds TSB's earnings momentum has also been reversed since 1998 even though consensus forecasts were broadly unchanged on a 12 month forward basis. The two banks which suffered earnings downgrades in 1999 were ForeningensSparbanken (Swedbank) in Sweden and HypovereinsBank in Germany.

The largest upward revisions to 12 month forward EPS in 2000 were in Credit Lyonnais (+70%); Deutsche Bank (+62%); SocGen (+44%); Danske Bank (+42%) and Unicredito (+37%). We have excluded Depfa bank where Q4 downgrades have not yet been caught by I/B/E/S database.

When one looks at the actual estimate revisions for full year 2001 there have been more downward revisions than on the rolling 12 month forward basis.

Measuring the effect of the bond yield

The weaker bond market in 1999 with 10 year bond yields rising markedly across Europe from April onwards constrained performance in all cases. In 2000 the bond market backdrop was a modestly positive help to performance. It was the biggest help for the Swedish banks and the least help for the Norwegian banks

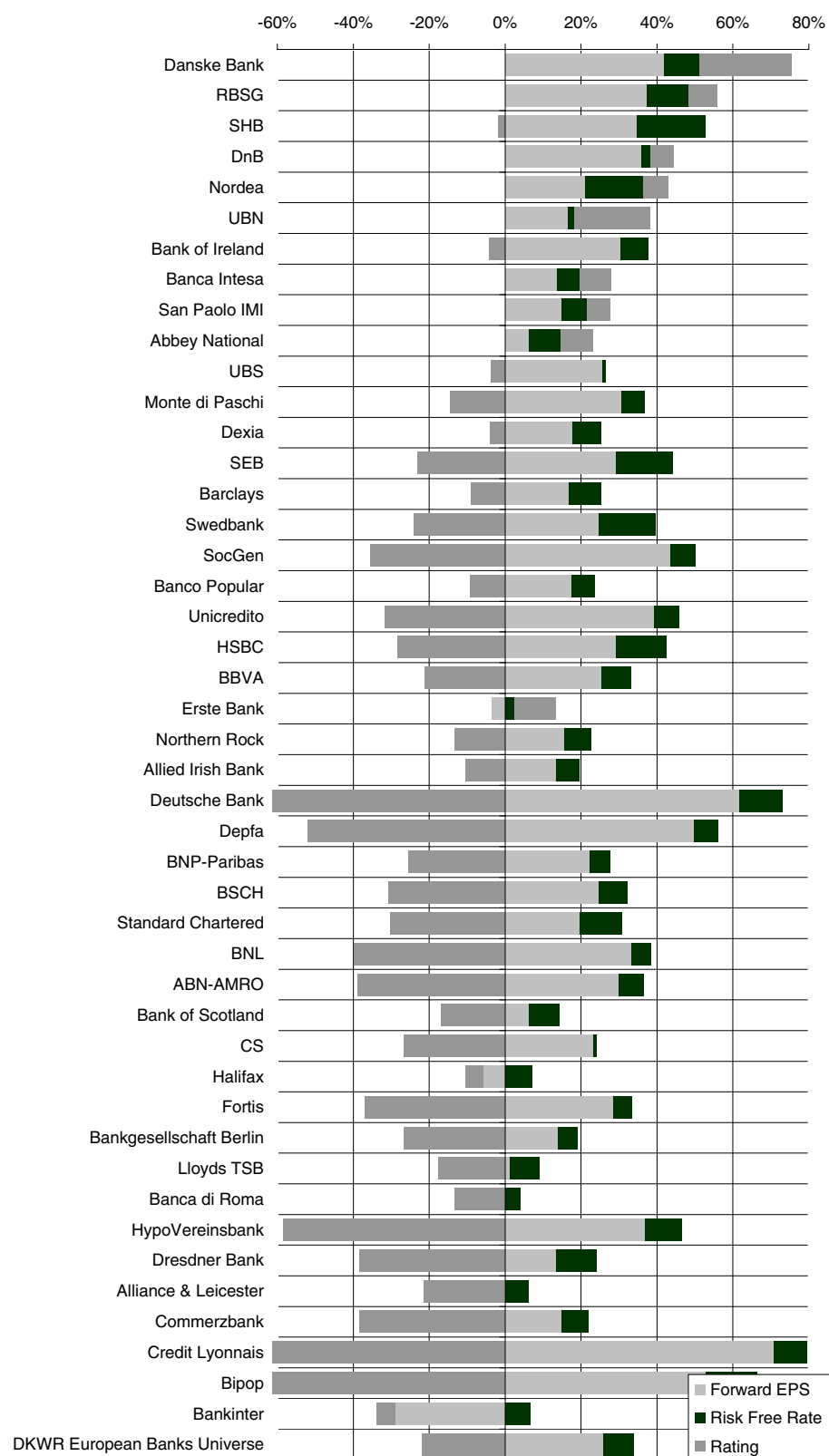
Re-rating or de-rating of earnings

According to our analysis the major banks, which enjoyed the highest upward re-ratings in 2000 were Danske, Nordea, UBN, San Paolo IMI and Erste Bank. The most de-rated banks in 2000 were Credit Lyonnais, Deutsche Bank, BIPOP and HypoVereinsbank. The chart shows that both DePfa and BIPOP have been heavily de-rated but in this case the market is ahead of the forthcoming downward earnings revisions. This highlights that some caution must be exercised when looking at this data. To the extent that the market has not adjusted its earnings forecast then this will be reflected in a "de-rating" ahead of downward earning revisions.

In 1999 the banks that enjoyed the highest re-ratings were HSBC, CCF, Standard Chartered, and Deutsche Bank. The banks that suffered the largest de-ratings in 1999 were KBC, Intesa, Bank of Ireland, and Halifax.



Decomposition of Price Performance in 2000



Source: DKWR estimates

Stock performance in 2000 – Winners and losers by quarter

Top five winners

	Q1 2000	Q2 2000	Q3 2000	Q4 2000			
% change							
Depfa	34.8	Nordea	44.6	RBSG	39.6	Abbey Nat	35.6
Bankinter	31.4	Intesa	30.8	B.of Ireland	37.3	Danske	33.6
BIPOP	25.1	SPI	29.9	AIB	30.4	DnB	20.3
BBVA	8.6	MPS	27.2	HSBC	27.3	A&L	18.1
Commerz	8.4	CL	27.2	SHB	21.1	B of Scotland	17.7
Market	2.8		(2.8)		1.2		(4.3)
Banks	(7.3)		4.8		10.9		(0.3)

Source: Datastream, DKWR estimates

Top Five Losers

	Q1 2000	Q2 2000	Q3 2000	Q4 2000			
KBC	(29.9)	Bankinter	(21.9)	CL	(17.1)	BIPOP	(30.3)
Fortis	(25.1)	A&L	(12.6)	Depfa	(12.8)	Bankinter	(19.7)
Dresdner	(21.3)	B.of SctInd	(11.5)	Bankinter	(12.0)	Depfa	(15.8)
N Rock	(19.6)	Bankg. Berlin	(9.7)	Commerz	(9.9)	BNL	(14.4)
A&L	(18.0)	Lloyds	(5.7)	Halifax	(9.0)	SEB	(10.7)

Note: Market FT ETOP 300

Source: Datastream, DKWR estimates



Key events of 2000 by quarter

Q1 2000

The bank sector as a whole underperformed by 10% in Q1. Only 10 banks in our universe actually outperformed the market.

Bankinter and BIPOP were two of the few star performers in Q1 due to their Internet bank status. For Bankinter this proved a false start – it was the worst performer in both Q2 and Q4. Top performance came from the German wholesale bank – DePfa. This also proved a poisoned chalice as it had disappointing half year results and made losses in Q3 due to higher real estate risk provisions and the negative effects of the flat yield curve..

Notable underperformers in Q1 were the UK's retail/mortgage banks and domestic retail banks generally suffered a heavy de-rating because they were seen as major losers from the pricing transparency effects of the Internet.

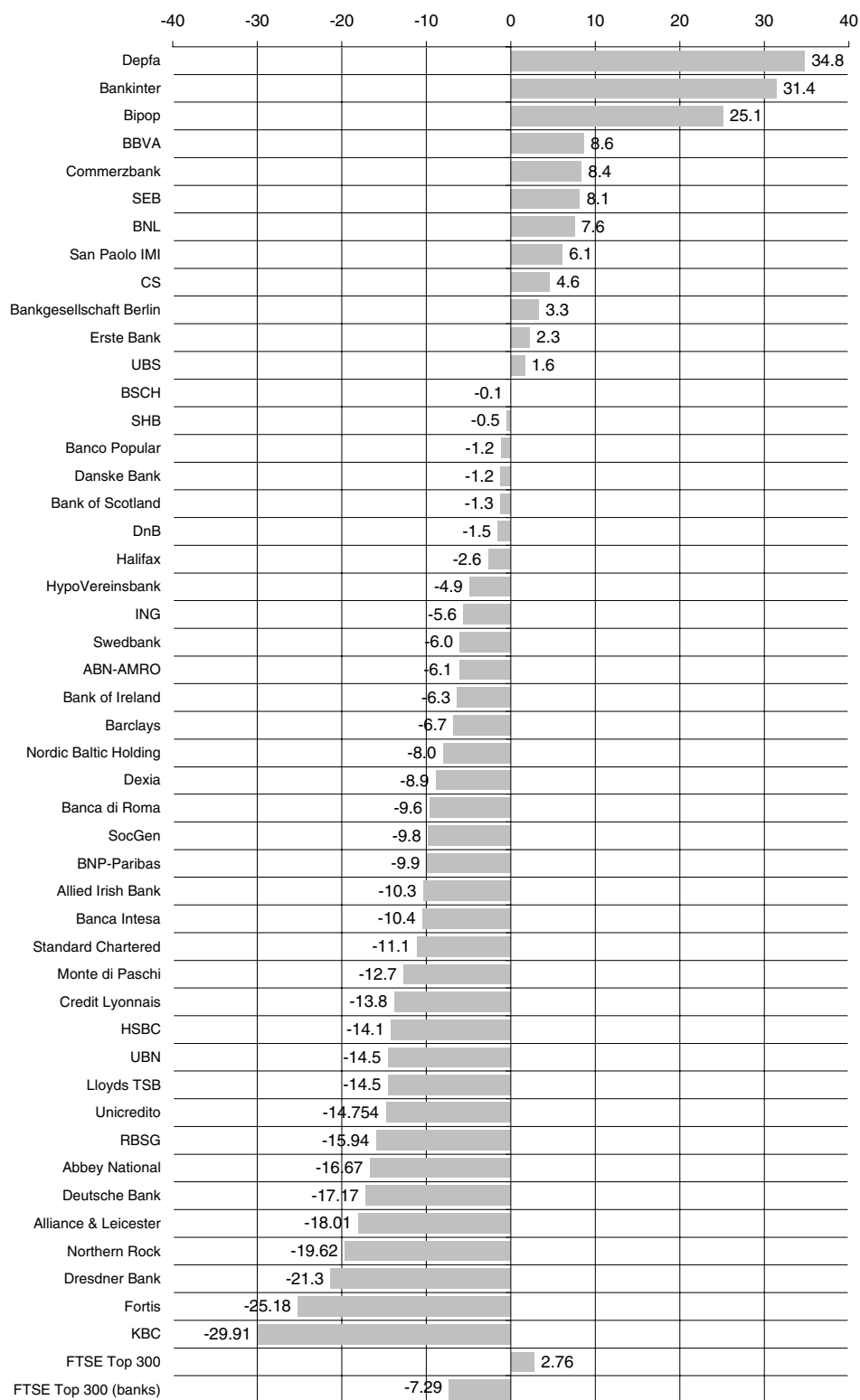
The two Benelux bancassurers, Fortis and KBC were also major underperformers falling by 25% and 30% respectively. They were both considered to be new economy laggards being slow to embrace the internet as a new distribution channel.

Major transactions and key events

- ▶ Successful completion of Royal Bank of Scotland's acquisition of NatWest for £21bn, 64% of the consideration was paid in RBS shares.
- ▶ 'Merger' talks between Deutsche Bank and Dresdner Bank were opened in March and closed unsuccessfully at the beginning of April.
- ▶ Nordea acquisition of Unidanmark in Denmark in March.
- ▶ Halifax acquired a 60% stake of fast growing UK life insurer St. James's Place for £750m.



Absolute price performance in Q1



Source: Datastream, DKWR estimates



Q2 2000

The second quarter of 2000 was almost the inverse of Q1. The sector outperformed the market by 8% and only 9 banks in our universe underperformed. This reflected the bursting of the TMT bubble, improvement in bond yields and the return to favour of the oversold "old" economy sectors:

The top performers were Nordea (+45%), Banca Intesa (+31%), San Paolo IMI (+30%), Monte di Paschi (+27%) and Credit Lyonnais (+27%).

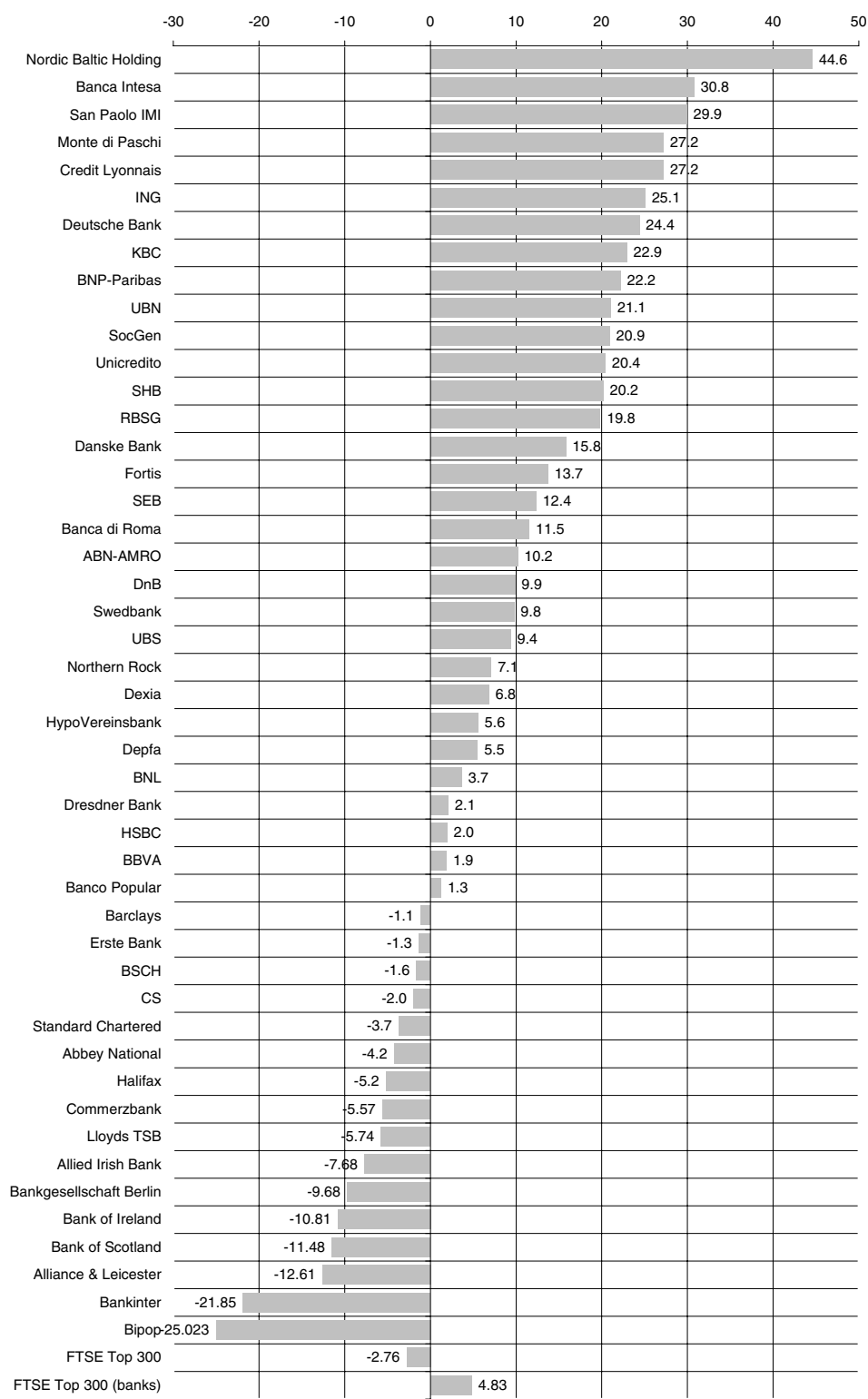
BIPOP (-25%) and Bankinter (-22%) were the worst performers reflecting their earlier Internet bank status followed by UK mortgage bank A&L (-13%).

Major transactions and key events

- ▶ Merger talks opened between Dresdner Bank and Commerzbank, which were ended by Commerzbank in July.
- ▶ HSBC announce agreed acquisition of CCF in France at €150 per share (€11.3bn) having bought ING's stake.
- ▶ Merita-Nordbanken announce agreed acquisition of Unidanmark in Denmark.
- ▶ Both major Spanish banks raise over €3bn each in ordinary share capital raisings to fund their Latin American acquisition ambitions.
- ▶ BBVA completes the acquisition of a 30% stake in Bancomer in Mexico.
- ▶ BSCH outbids HSBC for a majority stake in Banca Serfin in Mexico.



Absolute price performance in Q2



Source: Datastream



Q3 2000

The third quarter was the best relative quarter for the European banks sector outperforming the market by c10%. The star performer in the quarter was one of our UK favourites Royal Bank of Scotland Group which rose 40% after upbeat interim results showing good growth and a statement that the merger synergies were on target to be achieved.

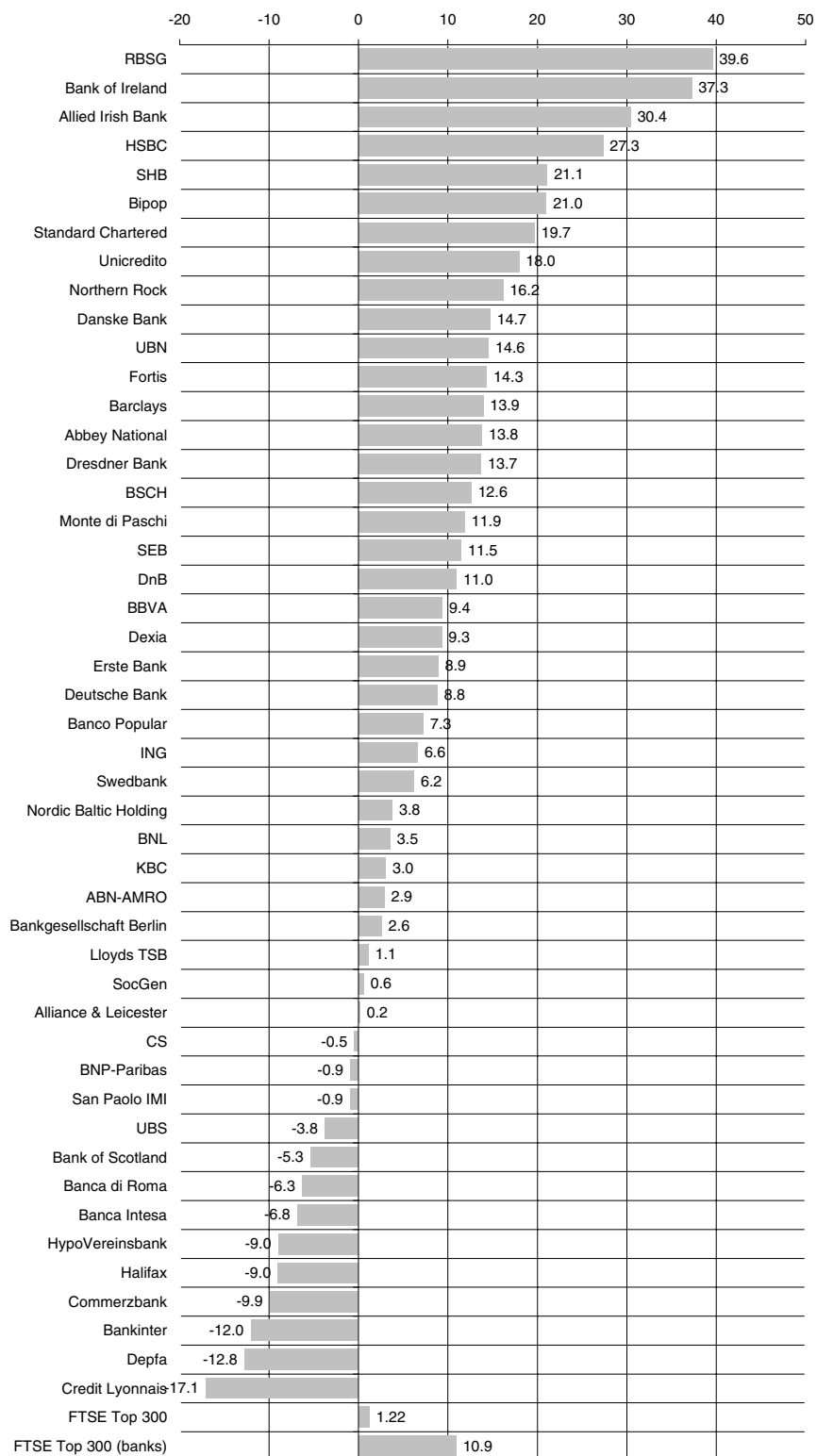
The major Irish banks, Bank of Ireland and AIB were second and third best performers in the quarter after the market worried less about the economic potential for Irish boom/bust and concentrated more on their strong operating growth and fundamentally cheap valuations.

HSBC (+27%) was also a good performer after completing the acquisition of CCF and releasing solid interim results with a major downward reversal in Asian bad debts. Svenska Handelsbanken (SHB) was the third best performer rising 21% and Bank Austria (+21%) was strong after receiving an agreed offer from HypoVereinsbank. For the second year running Credit Lyonnais was the worst performing bank in the third quarter after the long-term shareholder pact was extended.

Major transactions and key events

- ▶ Barclays announced the acquisition of the UK mortgage bank, Woolwich in August. Total consideration was £5.2bn made up of £2.5bn of cash and the rest in shares.
- ▶ UBS announced acquisition of US retail stockbroker Paine Webber, which completed in November. Total consideration for the acquisition totalled \$11.8bn comprising 51% cash and 49% shares.
- ▶ Credit Suisse announced the acquisition on 30 August of US investment bank DLJ, which completed in November. Total consideration for the acquisition totalled \$12.2bn comprising 61% cash and 39% CS shares.
- ▶ HypoVereins Bank announced the agreed merger (acquisition) of Bank Austria offering 1 BHV share per Bank Austria share. This all share deal valued Bank Austria at €7.5bn.
- ▶ Abbey National announced the planned acquisition of the UK mutual life insurer, Scottish Provident for £1.8bn.

Absolute price performance in Q3



Source: Datastream



Q4 2000

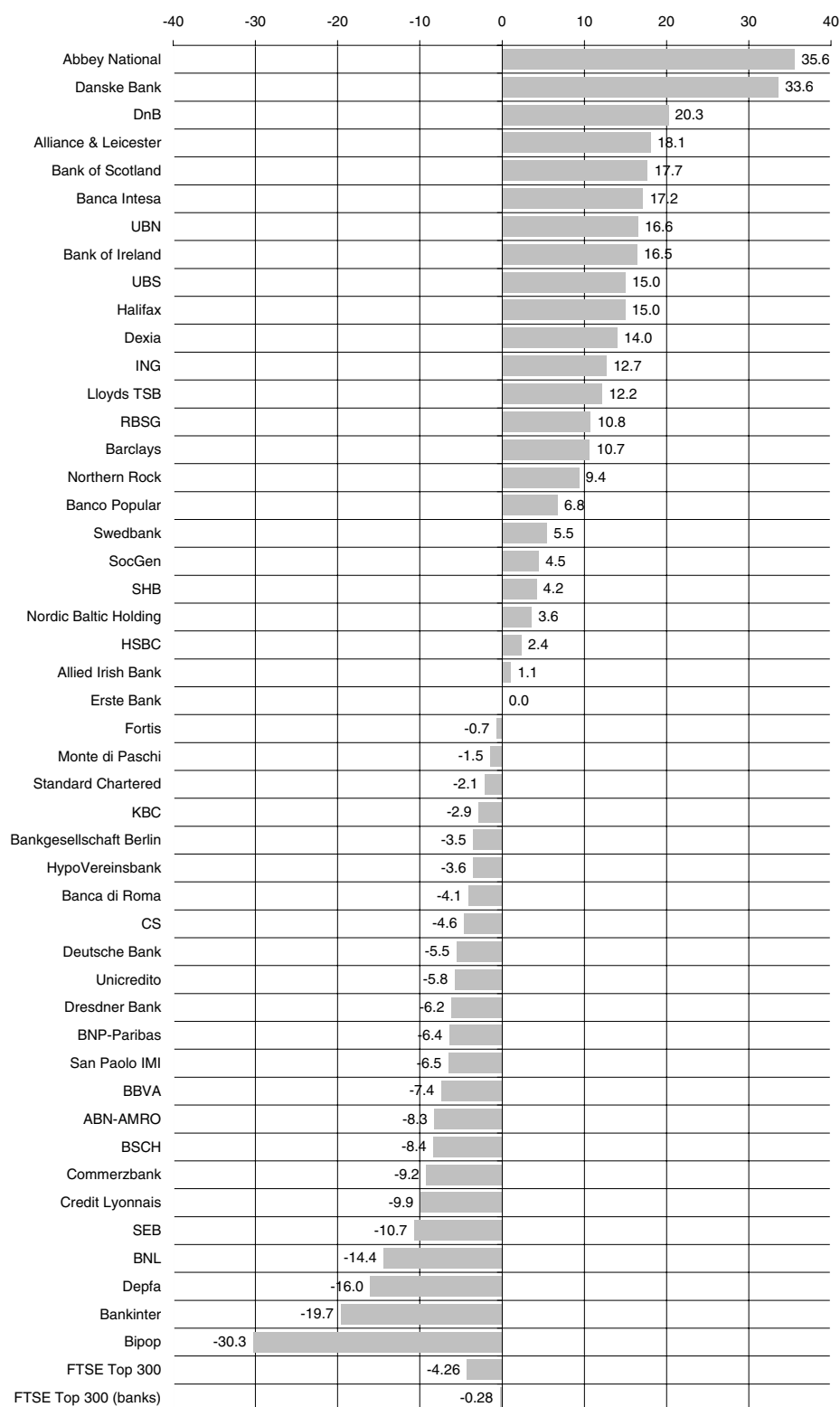
The sector fell marginally in Q4 but outperformed the market by c.4%. Consolidation came back to the fore in the UK. Abbey National (+36%) was the best performing bank after announcing merger talks with Bank of Scotland (+18%) and receiving an offer letter but no formal bid from Lloyds TSB (+12%). The second best performer in the quarter was Danske Bank of Denmark (+34%) with the 'bronze-medal' being taken by DnB (+20%) of Norway.

BIPOP was the worst performing bank in the quarter falling 30% after warning about dealing profits late in December. Bankinter of Spain was the second worst performer in our universe falling 20%. Depfa (-16%), BNL (-14%), SEB (-11%) were also weak performers.

Major transactions and key events

- ▶ Abbey National and Bank of Scotland in merger talks.
- ▶ Lloyds send informal letter to Abbey National management but do not table a formal bid.
- ▶ Nordic Baltic won the auction for Christiania Bank and renames itself Nordea in December – two acquisitions and three names in one year!
- ▶ Danske Bank acquisition of Realdanmark for 1 x book value.
- ▶ BSCH wins the auction for economic control of Banespa in Brazil but pays a high price.

Absolute price performance in Q4



Source: Datastream



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Company section

Top Overweights:

Barclays
Unicredito
Nordea
RBSG
ABN Amro

Top Underweights:

Credit Suisse
Societe Generale
HSBC
Alliance & Leicester



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Barclays

A superior business mix

2109p

Buy

Unchanged

Barclays diversified business mix will continue to deliver superior levels of income growth. The corporate lending franchise offers good volume potential and more stable margins, with Barclaycard having the potential to be expanded in Europe. Barring a UK recession, Barclays look set to continue outperforming. Buy.

- ▶ Brand strength and a diversified business mix will continue to limit margin erosion at a group level and deliver robust fee income growth, despite a slowdown in dealing profits. Volume growth should be maintained at c. 9% per annum.
- ▶ Barclays is pursuing an aggressive target of flat 'business as usual' costs that entails an underlying cost reduction of £1bn over the next four years. Our current forecasts include costs approximately £500m higher than our estimate of Barclays own 'best case' scenario.
- ▶ Woolwich is proving to have been good acquisition. The integration is going well and is now forecast to significantly beat initial synergy estimates.
- ▶ Although slower activity in capital markets will not help income growth at Barclays Capital, risk exposure is not excessive with standardised VAR representing only 2.7% of operating profit.
- ▶ Our valuation model, based on a sustainable adjusted RoE of 20%* and long-term growth of 4% gives a year end target price of 2570p, equivalent to a 1 year forward PER of 12.5 times.

Price

€33.5

US\$31.6

Market Cap

£35.0bn

€55.6bn

US\$52.5bn

Reuters

BARC.L

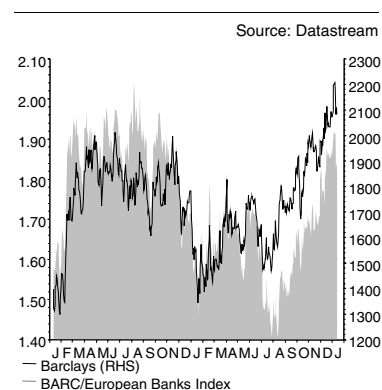
SEAG / Bloomberg

45306/BARC

* See definition on page 95

Year to end Dec	PBT (DKWR) £m	EPS (Cash) p	P/E ratio x	P/E rel x	Op profit £m	DPS p	Gross yield %	NAV p	P/NAV x	ROE %
1999	2936	140.7	15.0	69.1	3586	50.0	2.4	567	3.7	21.5
2000E	3429	160.2	13.2	66.4	4230	57.5	2.7	754	2.8	22.7
2001E	4148	181.7	11.6	65.3	4775	65.6	3.1	841	2.5	20.1
2002E	4715	204.9	10.3	59.8	5298	74.7	3.5	958	2.2	21.5
Performance (%)					1m		3m			12m
Absolute					16.7		9.0			-6.9
Relative to FT All-Share					5.5		-1.4			-12.5
Relative to Eurotop300					3.1		-0.1			-31.5
Relative to Eurobanks					-4.4		-9.4			-26.9

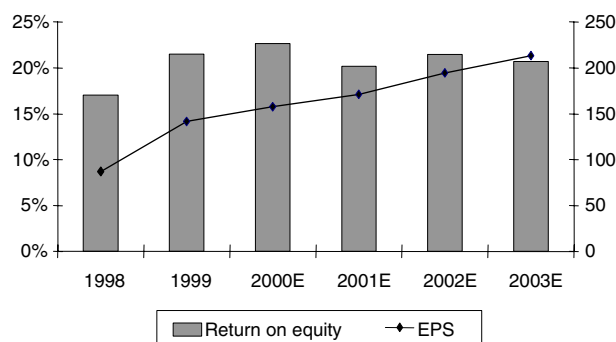
Source: DRKW estimates



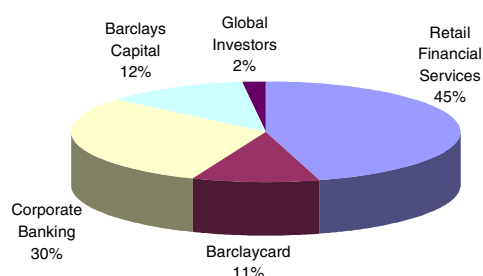
Summary information (consolidated)

Profit and loss state.		1999	2000E	2001E	% chg 01/00	% chg 02/01	CAGR 00-03
Net interest income	£m	4627	5070	5427	7	6	6
Total other income	£m	3746	4473	4892	9	9	9
Total income	£m	8373	9543	10318	8	8	8
Staff costs	£m	(2865)	(3041)	(3231)	6	5	6
Depreciation	£m	(267)	(259)	(272)	5	5	5
Total costs	£m	(4787)	(5313)	(5543)	4	5	5
Operating profit	£m	3586	4230	4775	13	11	11
Bad debt provisions	£m	(621)	(804)	(928)	15	12	13
Exceptionals	£m	(482)	(3)	(240)	-	-	-
Other	£m	(16)	(15)	0	-	-	-
Net contr of WWH	£m	-	32	314	-	47	163
PBT (FRS 3 basis)	£m	2454	3426	3908	14	21	15
Taxation	£m	(649)	(959)	(1133)	18	21	16
Attributable profit	£m	1753	2377	2679	13	21	15
Dividends	£m	(746)	(954)	(1098)	15	15	15
Retained profit	£m	1007	1423	1581	11	26	14
Valuation measures		1999	2000E	2001E	2002E	2003E	CAGR
PBT (DKWR basis)	£m	2936	3429	4148	4715	5190	15
EPS (FRS3 basis)	p	117.1	157.4	161.1	194.5	213.6	11
EPS (DKWR basis)	p	141.5	157.6	171.2	194.5	213.6	11
EPS (Cash basis)	p	140.7	160.2	181.7	204.9	223.9	14
Net dividend	p	50.0	57.5	65.6	74.7	85.2	13
NAV	p	567	754	841	958	1081	15
Tier 1 ratio	%	7.50	6.97	7.36	8.06	8.81	
Performance ratios		1999	2000E	2001E	2002E	2003E	
Cost/income ratio	%	57.2	55.7	53.7	52.3	51.3	
Non int. inc./total inc.	%	44.7	46.9	47.4	48.2	48.5	
Tax rate	%	26.4	28.0	29.0	29.0	29.0	
Net interest margins		1999	2000E	2001E	2002E	2003E	
Domestic margin	%	4.47	4.25	4.10	3.93	3.84	
Group margin	%	3.40	3.10	2.95	2.80	2.72	
Perf. Measures		1999	2000E	2001E	2002E	2003E	
Return on equity	%	21.48	22.65	20.15	21.46	20.69	
Return on RWA	%	1.55	1.78	1.70	1.91	1.97	
Bad debt measures		1999	2000E	2001E	2002E	2003E	
Bad debts/cust. adv.	%	0.53	0.56	0.59	0.60	0.62	
Bad debts/RWA	%	0.54	0.53	0.56	0.59	0.62	
Balance sheet items		1999	2000E	2001E	2002E	2003E	CAGR
Customer advances	£bn	116.6	143.1	158.8	173.5	187.4	9
Balance sheet assets	£bn	254.8	304.8	338.4	369.7	399.3	9
RWA	£bn	115.9	150.9	164.5	176.5	187.1	7
Average NOSH	m	1,497	1,510	1,663	1,671	1,679	4
Period end NOSH	m	1,495	1,659	1,675	1,692	1,709	1
Tier 1 capital	£m	8,696	10,522	12,103	14,222	16,487	16
Equity	£m	8,483	12,504	14,085	16,204	18,469	14

Return on equity (%) and EPS (RHS) (p)



PBT, by division (H1 2000)



Share information

M&G Investment	3.66
Merrill Lynch	3.40
Scottish Widows Inv. Partnership	3.11



UniCredito Italiano

Flight to quality

€5.80

Buy

UniCredito has a well diversified revenue mix with relatively low risk. This is helped by the strengthening of its asset management operation through the integration of Pioneer. Cost cutting potential and higher productivity in its Eastern European franchise should also contribute to strong earnings growth.

- ▶ High quality earnings: While the outlook for capital markets revenue is a pessimistic one, at least in Q12001, UniCredito's low exposure to these markets and its strong domestic retail focus should support growth. Also, a sound asset quality should not affect revenue growth.
- ▶ Reinforcing its fund management operations: UCI's integration with Pioneer will help sustain the growth in commissions through a higher market diversification and a focus on more profitable products.
- ▶ Cost cutting potential: The group's record of being the most efficient domestic bank in our universe (52% C/I ratio in 2000) should be further reinforced by the possibilities to cut costs and increase productivity in its Eastern European franchise. Management has already proven this by improving Bank Pekao's financials since its acquisition.
- ▶ We do not exclude a merger between UniCredito and Intesa this year and believe that in the short term both stock prices could be negatively affected by the integration risk. However, we view positively in the longer term the creation of a top five European group with a pro-forma market cap of €58.0bn, and a massive franchise of over 7,800 branches with a significant international presence.

Price
€5.80
US\$5.47

Market Cap
€29.06bn
US\$27.42bn

Reuters
CRDI.MI

SEAQ / Bloomberg
UC IM

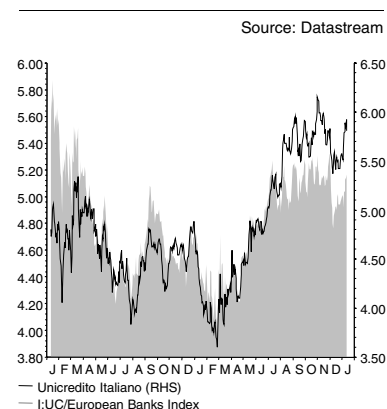
Neil Baker
+44 20 7475 2325
neil.baker@drkw.com

Tom Rayner
+44 20 7475 6907
tom.rayner@drkw.com

Lucy Wagenstein
+44 20 7475 6908
lucy.wagenstein@drkw.com

Year to end Dec	PBT (DKWR) EPS (Cash) €m € cents	P/E ratio x	Op profit €m	DPS € cents	Gross yield %	NAV € cents	P/NAV x	ROE %
1999	2847 25.6	22.7	3425	12.9	2.2	141	4.1	18.9
2000E	3461 30.8	18.9	4010	15.4	2.6	156	3.7	20.7
2001E	4148 36.9	15.8	4655	18.8	3.2	175	3.3	22.3
2002E	4820 42.8	13.6	5339	21.8	3.8	196	3.0	23.2
Performance (%)			3m					12m
Absolute			4.9					32.0
Relative to MIBTEL			3.6					19.1
Relative to Eurotop 300			8.5					32.3
Relative to Eurobanks			-2.5					11.2

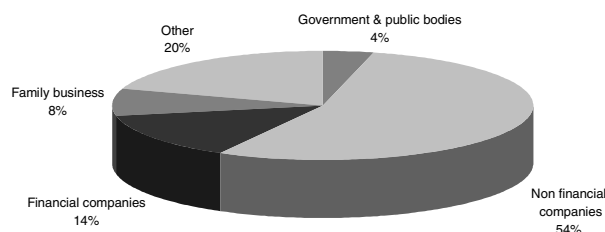
Source: DKWR estimates



Summary information (consolidated)

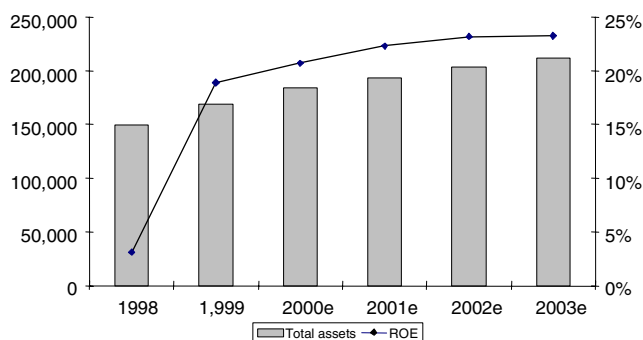
Profit and loss state.	1999	2000E	2001E	% chg 01/00	% chg 02/01	CAGR 00-03
Net interest income	€m 3,879	4,188	4,485	7	6	6
Net commission	€m 2,671	3,195	3,596	13	11	11
Other income	€m 1,284	1,503	1,564	4	4	4
Total income	€m 7,834	8,886	9,645	9	7	7
Total expenses	€m (4,409)	(4,876)	(4,991)	2	0	1
Operating profit	€m 3,425	4,010	4,655	16	15	14
Bad debts provisions	€m (875)	(619)	(602)	-3	4	1
PBT	€m 2,847	3,461	4,148	20	16	16
Taxation	€m (1,207)	(1,454)	(1,742)	20	16	16
Net profit	€m 1,286	1,546	1,852	20	16	16

Loans breakdown by clients (1H 2000)



Balance sheet €	1999	2000E	2001E	% chg 01/00	% chg 02/01	CAGR 00-03
Net customer loans	€m 101,577	106,656	115,722	9	8	8
Tot.NPLs (Sofferenza)	€m 2,161	1,982	1,942	-2	-4	-3
Customer deposits	€m 106,931	113,668	120,261	6	5	5
Total equity	€m 7,088	7,861	8,768	12	12	12
Total assets	€m 168,928	183,483	193,048	5	5	5
RWAs	€m 101,532	124,788	135,394	9	8	8

Total assets and ROE



Data per share	1999	2000E	2001E	% chg 01/00	% chg 02/01	CAGR 00-03
EPS	€ 0.26	0.31	0.37	20	16	16
DPS (ord.)	€ 0.1	0.2	0.2	22	16	17
BVPS	€ 1.4	1.6	1.7	12	12	12

Share information

No. shares out. (m)	5,024
Major shareholders (%):	
Fondaz. Cassa di Risparmio di Torino	14.5
Spafid	2.5
Fondazione Cassamarca	3.8
Fondaz. Cassa di Risp. Di Verona Vicenza Belluno e Ancona	19.3
Allianz	3.1

Key ratios (%)	1999	2000E	2001E	2002E	2003E
Net interest margin	% 2.6	2.7	2.7	2.7	2.7
Non int. Inc. /total inc.	% 50.5	52.9	53.5	54.1	55.0
Cost/income	% 56.0	52.3	49.3	46.2	43.9
Bad debts/RWAs	% 2.1	1.6	1.4	1.3	1.1
Bad debts/cust. loans	% 2.1	1.9	1.7	1.5	1.3
Coverage ratio	% 52.8	49.9	50.3	50.3	50.3
Tax rate	% 42.4	42.0	42.0	42.0	42.0
Tier 1 ratio	% 7.6	7.7	7.7	7.9	8.2
Total capital ratio	% 9.0	9.4	9.4	9.5	9.7
ROE	% 18.9	20.7	22.3	23.2	23.2
Return on RWAs	% 1.6	1.6	1.8	1.9	2.0

Source: Company, DKWR estimates



Nordea

Playing change and growth

€8.2

Add

Unchanged

Robust revenue growth combined with realisation of a significant efficiency potential should produce healthy operating profit growth over the next few years. NBH remains our key pick in the Nordic banks sector on the back of strong company fundamentals and attractive valuation.

- ▶ High exposure to the savings market should ensure long-term revenue growth. We are optimistic that Nordea will grow its revenues from asset management at a rate higher than its Swedish peers because of the strong position in the Nordic region outside Sweden where the growth potential looks to be stronger.
- ▶ Merger synergies and improved efficiency: The bank should realise €155m of €310m in merger synergies in 2001 (6% of 2000E PBT). Also, the bank's strong focus on internet banking gives significant potential for earnings enhancement beyond the merger synergies.
- ▶ Upside is considerable if the full efficiency and revenue potential related to internet usage materialise. We have incorporated only a small element of management's estimate of €350-400m earnings enhancement related to the wider use of the internet. Meeting the target would increase our forecast 8-10% in operating profit by another 5-10%.
- ▶ Our 12m share price target is unchanged at €9.8: NBH remains our top pick in the Swedish banks sector and we believe the 15-20% discount to the rest of the domestic banks sector is undeserved.

Price

SEK73

US\$7.8

Market Cap

SEK218bn

€24.5bn

US\$23.1bn

Reuters

NDA.ST

SEAG / Bloomberg

NDA SS

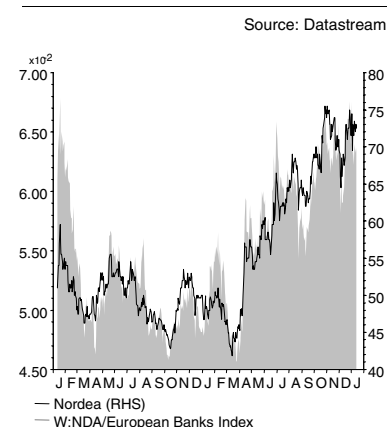
Ola Stavem

+44 20 7475 2323

ola.stavem@drkw.com

Year to end Dec	Net profit €	EPS €	P/E x	Op profit €m	Op profit p s €	P/OPPS x	DPS €	Gross yield %	NAV €	P/NAV x	ROE %
1999	1,098	0.53	10.6	1,338	0.64	12.9	0.20	3.6	2.6	2.1	21.3
2000E	1,678	0.61	13.6	2,384	0.86	9.6	0.30	3.6	3.7	2.2	17.4
2001E	1,972	0.66	12.5	3,110	1.04	7.9	0.32	3.9	4.0	2.1	17.1
2002E	2,146	0.72	11.4	3,526	1.18	7.0	0.34	4.1	4.4	1.9	17.1
Performance (%)						1m	3m	6m	12m		
Absolute						8.2	7.4	29.2	36.5		
Relative to local index						11.7	21.9	58.1	23.7		
Relative to Eurobanks						2.1	4.6	12.6	22.9		
Relative to DJ Euro Stoxx						5.1	10.3	31.6	20.4		

Source: Company reports, DKWR estimates



Nordea: summary information (consolidated)

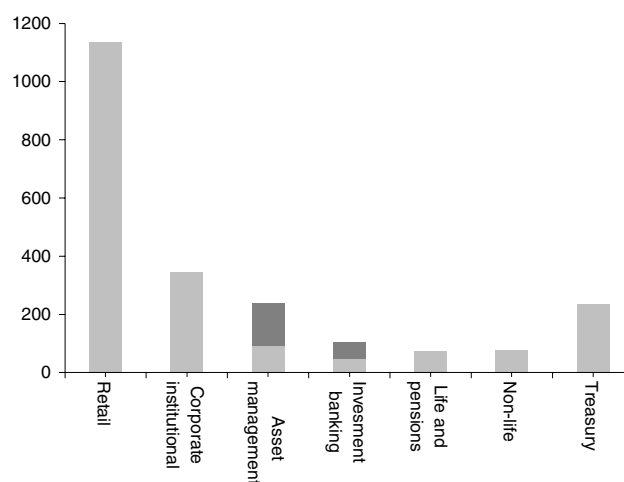
Profit & loss (€m)	1999E	2000E	2001E	% chg. 01/00	% chg. 02/01	CAGR 2000-03
Net interest inc.	1,798	2,862	3,695	29	5	12.1
Net commission	822	1,340	1,837	37	12	19.1
Other income	405	1,052	1,315	25	2	9.1
Total income	3,025	5,254	6,847	30	6	13.4
Total expenses	(1,687)	(2,870)	(3,737)	30	1	9.9
Operating profit	1,338	2,384	3,110	30	13	17.4
Bad debts provs.	(22)	(61)	(216)	254	82	101.4
PBT	1,306	2,321	2,784	20	9	12.0
Taxation	(205)	(638)	(807)	27	9	14.0
Net profit	1,098	1,678	1,972	18	9	11.3

Bal. sheet (€bn)	1999E	2000E	2001E	% chg. 01/00	% chg. 02/01	CAGR 2000-03
Net customer loans	68.2	110.3	135.8	23	5	10.6
Total NPLs	2.3	3.2	4.5	41	12	19.4
Customer deposits	42.1	71.1	87.1	22	4	10.2
Total equity	5.5	10.7	11.7	10	10	9.6
Total assets	104.0	197.6	239.8	21	5	10.2
RWAs	68	113	146	30	5	12.3

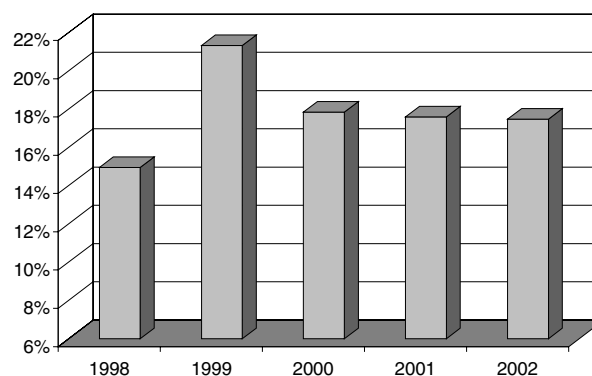
Data p.s. (€)	1999E	2000E	2001E	% chg. 01/00	% chg. 02/01	CAGR 2000-03
EPS	0.53	0.61	0.66	9.3	8.8	8.6
DPS (ord.)	0.2	0.30	0.32	6.7	6.3	6.3
BVPS	2.6	3.6	3.9	9.5	9.7	9.6

Key ratios (%)	1999E	2000E	2001E
Net interest margin	1.8	1.9	1.7
Non int. Inc./tot. inc.	40.6	45.5	46.0
Cost/income	55.8	54.6	54.6
Bad debts/RWAs	3.3	2.8	3.0
Bad dts/cust. loans	3.3	2.8	3.2
Coverage ratio	64.8	76.0	76.0
Tax rate	15.7	27.5	29.0
Tier 1 ratio	8.3	6.4	6.8
Total capital ratio	12.0	11.1	9.2
ROE	21.3	17.8	17.6
Return on RWAs	1.7	1.9	1.5

Operating profit by division (€m)



RoE



Share information

No. shares outstanding (m) 2,982m

Major shareholders (%)

The Swedish government	18.2
Tryg Baltica smba	6.2
UniDanmark Trust	3.4
SPP	2.6

Banks

Royal Bank of Scotland Group

The best is yet to come



1610p

Buy

Upgrade from Add

The acquisition of NatWest offers huge growth potential. Increasing product penetration, notably in general insurance, and the development of a leading private banking franchise are just two examples of initiatives being undertaken. The shares still offer good value despite the recent out-performance. **Buy.**

- ▶ The shares have rallied on waning scepticism over the claimed merger benefits. Even so, RBSG still looks good value given its growth potential and strategic positioning with a year-end target of 1860p.
- ▶ We expect future share price performance to be primarily driven by a re-rating, rather than further significant upgrades to market forecasts. Fears that all the 'easy' merger gains from the NatWest deal will be exhausted in year 1 should prove unfounded, with enhancing revenue growth seen as being of equal importance to reducing costs.
- ▶ RBSG should not suffer unduly from falling capital market revenues in 2001. VAR is low compared to the group's European peers and revenue growth is not dependent on investment banking earnings. Approximately 2/3rds of the total US loan exposure of £19bn is through Citizens where risks have been historically well managed.
- ▶ Although the 'rapid growth phase' for earnings is likely to slow after 2003, RBSG's wide range of business options should support a long-term sustainable adjusted RoE of 20%*. Further acquisitions to expand the European / International dimension of the group's business are also likely.

* See definition on page 95

Year to end Dec	PBT (DKWR) £m	EPS (cash) p	P/E ratio x	P/E rel x	Op profit £m	DPS p	Net yield %	NAV p	P/NAV x	ROE (cash) %
1999	3359	78.3	20.1	92.7	3901	28.5	1.8	308	5.1	12.0
2000E	4316	99.8	15.8	79.6	5000	32.8	2.1	701	2.2	14.7
2001E	5323	125.4	12.6	70.7	6083	37.7	2.4	729	2.2	17.5
2002E	6267	149.8	10.5	61.5	7127	43.3	2.8	776	2.0	19.9
Performance (%)					1m		3m			12m
Absolute					-0.7		11.4			50.2
Relative to FT All-Share					-0.1		15.0			55.1
Relative to Eurotop300					-0.2		15.4			39.0
Relative to Eurobanks					0.2		9.2			31.9

Source: DKWR estimates

Price
€25.31
US\$24.12

Market Cap
£42.7bn
€67.8bn
US\$63.2bn

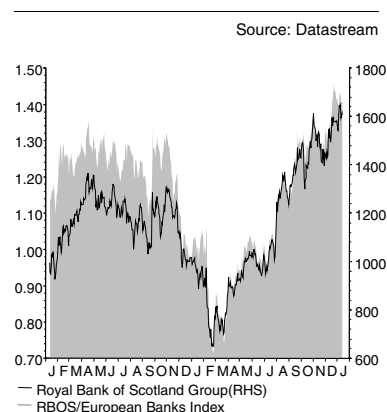
Reuters
RBSG.L

SEAQ / Bloomberg
45365/RBOS

Neil Baker
+44 20 7475 2325
nei.baker@drkw.com

Tom Rayner
+44 20 7475 6907
tom.rayner@drkw.com

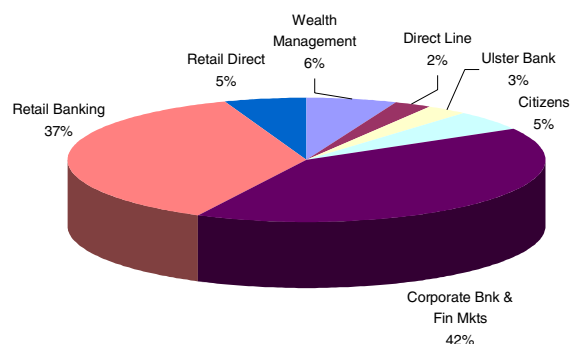
Lucy Wagenstein
+44 20 7475 6908
lucy.wagenstein@drkw.com



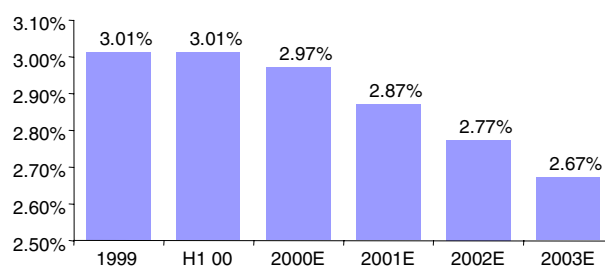
Royal Bank of Scotland: summary information (consolidated)

Profit and loss state.	1999	2000E	2001E	% chg 01/00	% chg 02/01	CAGR 00-03
Net interest income	£m 5274	6003	6510	8	7	8
Total other income	£m 5190	5670	6145	8	8	8
Total income	£m 10464	11673	12655	8	8	8
Staff costs	£m (3,512)	(3,373)	(3,292)	-2	-2	-2
Depreciation	£m (754)	(750)	(785)	5	4	5
Total costs	£m (6,563)	(6,673)	(6,572)	-2	-1	-1
Bad debt charge	£m (526)	(633)	(710)	12	14	13
Restructuring charge	£m (113)	(650)	(500)	-23	-50	-57
Fixed asset write offs	£m (16)	(50)	(50)	0	0	0
PBT (FRS3 basis)	£m 2680	3050	4207	38	28	28
Tax	£m (917)	(1100)	(1447)	32	25	24
Minorities	£m (43)	(50)	(70)	40	0	12
Preference dividend	£m (295)	(325)	(325)	0	0	0
Attributable profit	£m 1425	1576	2365	50	35	35
Dividends paid	£m (960)	(870)	(946)	9	35	21
Retained profit	£m 465	706	1419	101	35	49
Valuation measures	1999	2000E	2001E	2002E	2003E	CAGR
PBT (DKWR basis)	£m 3359	4316	5323	6267	7063	18
EPS (FRS3 basis)	p 53.9	59.4	89.0	120.1	145.7	35
EPS (DKWR basis)	p 56.9	76.5	102.2	126.7	147.1	24
EPS (Cash basis)	p 78.3	99.8	125.4	149.8	170.1	19
Net dividend	p 28.5	32.8	37.7	43.3	49.8	15
NAV	p 660	701	729	776	837	6
Tier 1 ratio	% 6.67	6.5	6.5	6.7	7.0	-
Goodwill	m 11100	11792	11176	10560	9944	-6
Performance ratios	1999	2000E	2001E	2002E	2003E	
Cost/income ratio	% 62.7	57.2	51.9	47.8	44.9	
Non int. inc./total inc.	% 49.6	48.6	48.6	48.8	48.6	
Tax rate	% 34.2	36.1	34.4	33.4	32.9	
Net interest margins	1999	2000E	2001E	2002E	2003E	
Group margin	% 3.01	2.97	2.87	2.77	2.67	
Perf. Measures	1999	2000E	2001E	2002E	2003E	
Return on equity (cash)	% 12.0	14.7	17.5	19.9	21.1	
Return on RWA	% 0.94	0.97	1.28	1.55	1.70	
Bad debt measures	1999	2000E	2001E	2002E	2003E	
Bad debts/cust. adv.	% 0.37	0.37	0.36	0.36	0.35	
Bad debts/RWA	% 0.35	0.36	0.36	0.37	0.38	
Balance sheet items	1999	2000E	2001E	2002E	2003E	CAGR
Customer advances	£bn 140.4	169.2	197.0	226.9	261.7	16
Balance sheet assets	£bn 282.6	310.9	362.0	416.9	480.9	16
RWA	£bn 151.4	173.8	195.2	217.0	241.3	12
Average NOSH	m 2,643	2,653	2,657	2,665	2,675	0
Period end NOSH	m 2,653	2,653	2,660	2,670	2,680	0
Tier 1 capital	£m 10,101	11,302	12,722	14,642	16,982	15
Equity	£m 6,171	6,606	7,519	9,189	11,319	20

Operating profit by division (H1 2000)



Group net interest margin



Share information

BSCH	9.5%
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ABN Amro

Value in restructuring

€25.30

Buy

Unchanged

ABN Amro is starting 2001 with a new strategy determined to enhance shareholder value and to concentrate resources on core activities. We believe that the management will be able to meet its ambitious financial targets, which would imply a target price of €32.80 per share.

- ▶ **New structure:** ABN Amro's new structure –three divisions: wholesale, retail and private has been in place since the beginning of the year.
- ▶ **Financial targets:** The management anticipates a profit growth of 18% per annum to meet its financial target – ranking within the top five in a peer group of 20 in terms of total return to shareholders. Retail banking will have the lowest growth rate within the group.
- ▶ **Value creation:** will be achieved by reallocating capital to attractive business segments, enhancing revenues with commission related business and cutting costs from eliminating overlaps resulting from folding investment banking into the wholesale division.
- ▶ **Value drivers:** The group's value drivers will in our view be private banking with its excellent growth outlook and healthy margins, and the Brazilian operations with its huge cross-selling potential.
- ▶ **Risks:** The high exposure of ABN Amro to the US might be a problem if there is a hard landing, but the loanbook mainly consists of low-risk mortgages and in our forecast we have been conservative on this part of the group. Further uncertainties refer to the financing of the latest acquisition National Michigan Corp.

Price
US\$ 23.93 (ADR 1:1)

Market Cap
€37.6bn
US\$ 35.4bn

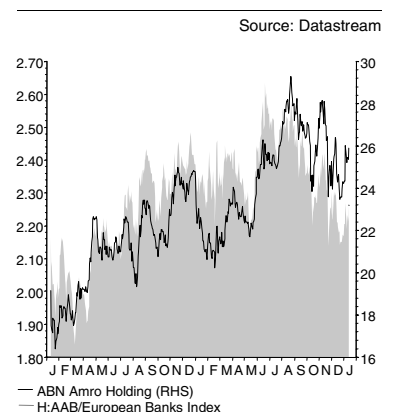
Reuters
AAH.AS

SEAG / Bloomberg
AA.NA

Dirk Becker
+44 20 7475 7357
dirk.becker@drkw.com

Year to end Dec.	PBT €m	EPS €	P/E x	DPS €	Gross yield %	NAV/ share €	P/NAV x	RoE %
1999	4,250	1.72	14.79	0.80	3.2	7.59	3.3	23.7
2000E	4,127	1.61	15.77	0.90	3.5	9.69	2.6	17.2
2001E	5,482	2.19	11.59	1.05	4.1	10.02	2.5	22.2
2002E	6,312	2.51	10.13	1.15	4.5	11.22	2.3	23.5
Performance (%)						3m	12m	
Absolute						5.3	17.2	
Relative to FT All-Share						5.5	17.0	
Relative to Eurotop300						(2.3)	(1.5)	
Relative to Eurobanks						5.5	17.0	

Source: Company data, DKWR estimates



ABN Amro: summary information (consolidated)

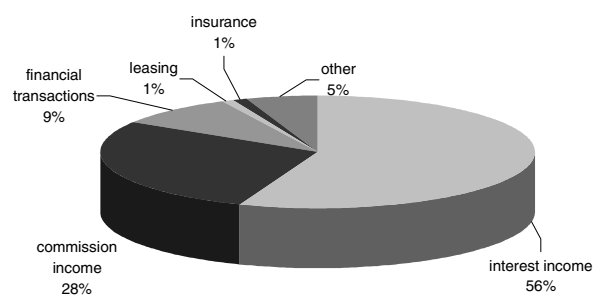
Profit & loss (€m)	1999A	2000E	2001E	% chg. 01/00	% chg. 02/01	CAGR 2000-03
Net interest income	8,687	9,343	10,152	9	13	11
Net commission	4,455	6,355	7,344	16	9	11
Other income	1,011	925	984	6	9	8
Dealing profit	1,374	1,869	1,845	-1	0	1
Total income	15,527	18,491	20,325	10	10	10
Total expenses	(10,609)	(12,767)	(14,132)	11	8	9
Operating profit	4,918	5,724	6,193	8	15	12
Bad debts provisions	(653)	(555)	(654)	18	15	16
PBT	4,250	4,127	5,482	33	15	20
Taxation	(1,320)	(1,275)	(1,694)	33	15	20
Net profit	2,490	2,392	3,333	39	17	23

Balance sheet (€bn)	1999A	2000E	2001E	% chg. 01/00	% chg. 02/01	CAGR 2000-03
Net customer loans	259.7	310.0	334.8	8	8	8
Total NPLs	4.8	5.5	5.9	9	6	7
Customer deposits	230.0	275.0	294.3	7	7	7
Total eq. (ex. minor.)	18.2	19.7	20.6	4	11	9
Total assets	457.9	546.2	587.6	8	8	8
RWAs	246.4	294.9	306.2	4	5	6

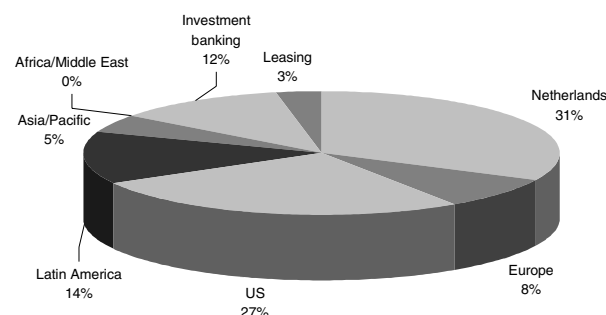
Data p.s (€)	1999A	2000E	2001E	% chg. 01/00	% chg. 02/01	CAGR 2000-03
EPS	1.72	1.61	2.19	36	14	20
DPS (ord.)	0.80	0.90	1.05	17	10	14
BVPS	7.59	9.69	10.02	3	12	9

Key ratios (%)	1999A	2000E	2001E	2002E	2003E
Net interest margin	2.1	1.9	2.0	2.1	2.1
Non int. Inc./total inc.	44.1	49.5	50.1	48.8	48.0
Cost/income	68.3	69.0	69.5	68.2	67.1
Bad debts/RWAs	1.9	1.8	1.9	2.0	1.9
Bad debts/cust. loans	1.8	1.8	1.8	1.7	1.7
Coverage ratio	93.0	91.9	95.3	101.7	108.3
Tax rate	31.1	30.9	30.9	30.9	30.9
Tier 1 ratio	7.2	6.7	6.7	7.1	7.3
Total capital ratio	10.9	10.1	10.1	10.4	10.4
ROE	23.7	17.2	22.2	23.5	25.6
Return on RWAs	1.1	0.9	1.1	1.2	1.3

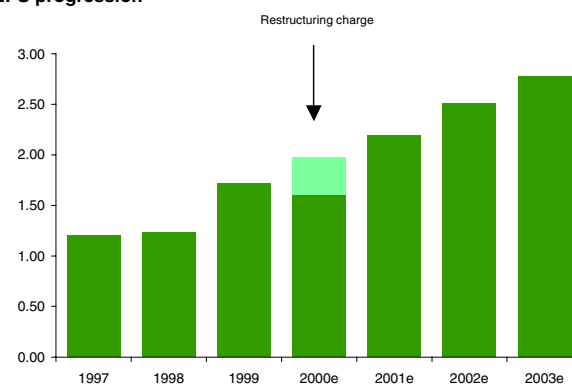
Revenue breakdown 1999



Revenue composition 2000E



EPS progression



Share information

No. shares outstanding (m)	1,468.2
Market Capitalisation (€ bn)	37.20
Free float (%)	87



Credit Suisse

High risk of earnings disappointment

CHF332

Hold

unchanged

Credit Suisse has the highest absolute value at risk and most volatile trading profits in our universe. Its investment bank is most geared into US capital market trends in terms of the decline of TMT deals and high yield bond markets. Its Swiss private banking business will also slow in 2001 given lower stock market activity.

- Profit targets in terms of the DLJ integration (cash EPS neutral in 2001, reported EPS neutral in 2002) set by the management seem to be too optimistic. There is a high risk of significant earnings downgrades at group level which could cause a share price fall below our current fair value of CHF312 per share. We would see support for the shares at between CHF260 and 280 per share.
- There was significant weakening of profit at DLJ on a quarterly basis in 2000. Q3 net profit was just USD45m after USD157m in Q2 2000 and USD240m in Q1. Annualised exit PER for DLJ was thus 21x 2000 earnings.
- One of DLJ's strengths lies in the US high yield market, which has suffered from a sharp contraction of new issue activity since 1999, and declining credit quality. The high yield business of Credit Suisse Group could continue to suffer, particularly if the US economy weakens further.
- We would underweight Credit Suisse compared to both our banks universe and its peer banks, UBS and Deutsche Bank.

Core

Price

CHF 330

US\$ 204

Market Cap

CHF 98.9bn

US\$ 61.0bn

Reuters

CSGZn.S

Michael Dunst

+49 69 263 15144

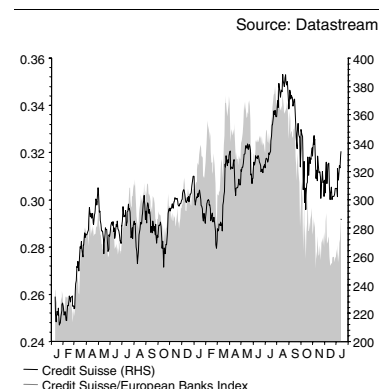
Michael.dunst@drkw.com

Stefan Stalmann

+49 69 263 15164

Stefan.stalmann@drkw.com

	EPS (CHF)	PER (X)	Dividend (CHF)	Div.-yield (%)	Adj. NAV/share (CHF)	Price/adj. NAV (x)	ROE aftr tax (%)
1998	8.37	38.0	5.00	1.6	125.5	2.5	10.9%
1999	19.36	16.4	7.00	2.2	139.8	2.3	16.3%
2000E	17.60	18.1	8.50	2.7	126.1	2.5	12.5%
2001E	21.50	14.8	10.00	3.1	133.0	2.4	12.9%
2002E	25.58	12.5	12.00	3.8	148.2	2.1	14.3%
2003E	29.63	10.8	13.00	4.1	166.6	1.9	15.2%
Performance (%)					3m		12m
Absolute					8.4		9.7
Relative to FT All-Share					6.5		4.2
Relative to Eurotop300					0.8		(9.1)
Relative to Eurobanks					6.4		4.2



Credit Suisse: summary information (consolidated)

P&L account (CHFm)	1999A	2000E	2001E	% chg.		CAGR 2000- 03
				01/00	02/01	
Net interest income	5.252	4.800	5.150	7	5	6
Net commission income	10.870	14.400	15.750	9	8	8
Income from ins. business	5.060	5.550	5.700	3	4	4
Trading profit	6.578	9.020	9.200	2	2	2
Other operating income	110	-10	50			
Total operating income	27.870	33.760	35.850	6	5	6
Personnel cost	13.509	16.750	17.480	4	3	4
Other admin. cost	5.228	5.700	6.250	10	4	6
Depreciations	1.045	1.340	1.500	12	9	10
Total others	6.273	7.040	7.750	10	5	7
Total admin. cost	19.782	23.790	25.230	6	4	5
Operating profits	8.088	9.970	10.620	7	8	8
Risk provisions	-1.540	-1.280	-1.400	9	-4	-1
Op. profits after risk prov.	6.548	8.690	9.220	6	10	9
Other items	-59	-90	0			
Earnings before taxes	6.489	8.600	9.220	7	10	9
Taxes	-1.149	-2.021	-2.305	14	10	12
Earnings after taxes	5.340	6.579	6.915	5	10	9
Minorities	-118	-170	-210	24	10	13
Net profit	5.222	6.409	6.705	5	10	8
Adjustment for DLJ		-1.140	-264	-77	-200	-185
Adjusted Net profit		5.269	6.441	22	19	19

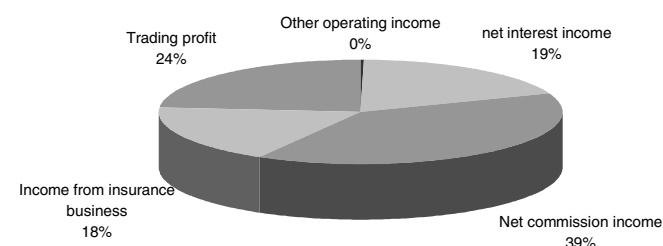
Balance sheet (CHFm)	1999A	2000E	2001E	% chg.		CAGR 2000- 03
				01/00	02/01	
Credit volume	287.39	311.67	350.00	12	7	8
Risk-weighted assets	213.30	280.00	290.00	4	3	3
Total equity (incl. min)	34.368	47.116	49.620	5	9	8
Total assets	722.75	766.15	1.005.7	31	6	13

Balance sheet ratio (%)	1999A	2000E	2001E	% chg.		CAGR 2000- 03
				01/00	02/01	
Total equity/total assets	4,8	6,1	4,9	-20	3	-5
Core capital ratio (%)	13,2%	9,7%	10,5%	3	9	7
Total capital ratio (%)	19,1%	16,1%	16,4%	2	6	5

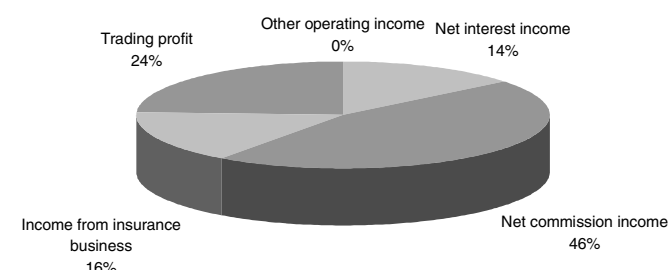
P&L ratios (%)	1999A	2000E	2001E	% chg.		CAGR 2000- 03
				01/00	02/01	
Net interest margin	0,76	0,64	0,58	-10%	-10%	-7%
Non int. inc./ total op. inc.	81,2	85,8	85,6	0%	0%	0%
Cost/income	71	70	70	0%	-1%	-1%
Tax ratio	18	24	25	6%	0%	2%

Profitability ratios (%)	1999A	2000E	2001E	% chg.		CAGR 2000- 03
				01/00	02/01	
ROE before taxes	20,8	21,1	19,1	-10	3	-2
ROE after taxes	16,3	12,5	12,9	3	11	7
ROA	0,8	0,9	0,8	-12	-6	-5

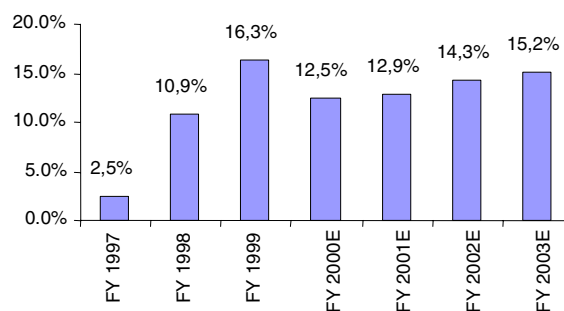
Structure of operating income (1999)



Structure of operating income (2003E)



ROE after tax (%)



Share information

Shares in issue	300
Market capitalisation	95.4

Major shareholders:

BZ	9.1
Credit Suisse	5.1
AXA	< 5.0



Société Générale

Looking for growth opportunities

Re-initiating coverage

€72.10

Reduce

The group's strategy is now being questioned – as the company has reached peak profitability – but seems to be desperately fighting for growth opportunities. Aggressive expansion could lead to dilutive acquisitions, which limits room for ROE improvement in the next two years.

- ▶ Highest profitability of French peers: Société Générale could have reached peak profitability in all its businesses in the first nine months 2000 thanks to the niche strategy it followed in all areas.
- ▶ High flexibility: Société Générale has separated distribution and manufacturing of its retail banking unit and built a large number of partnerships which led to outsourcing non-strategic functions. If necessary, the group can then easily be refocused towards distribution of retail banking products, including products built by competitors. The same strategy is now being implemented in asset management.
- ▶ Earnings forecasts: The company itself targets a 19% ROE by 2002, similar to 1999's level, and lower than the annualised 21.1% achieved for nine-months 2000. The company is facing strategic challenges in almost all its businesses and obviously needs time to set up a new convincing strategy.
- ▶ Valuation €63 per share: Our dividend discount model suggests a fair value of €57 per share (12-month target price of €62), while our sum-of-the parts valuation suggests €69 per share.

Year to end Dec	PBT €m	EPS €	P/E x	Gross op profit €m	Div net €	Gross yield %	BV €	P/BV x	ROE %
1999	3,053	5.0	14.4	3,080	1.6	3.3	30.5	2.4	19.5
2000E	3,852	6.5	11.1	3,952	2.2	4.6	32.7	2.2	22.9
2001E	3,531	6.4	11.3	3,837	2.3	4.8	34.7	2.1	21.0
2002E	3,579	6.5	11.1	3,965	2.6	5.4	36.5	2.0	19.9
2003E	4,066	7.4	9.7	4,368	3.0	6.2	37.9	1.9	21.6

Performance (%)	3m	12m
Absolute	33.5	37.0
Relative to FT All-Share	35.7	33.6
Relative to Eurotop300	26.0	18.2
Relative to Eurobanks	36.9	37.1

Source: Company reports, DKWR estimates

Price
US\$55.40 (US\$11.5 ADR 5:1)

Market Cap
€26.60bn
US\$23.41bn

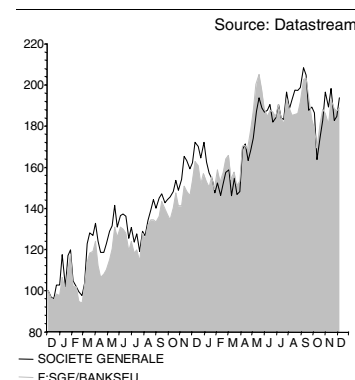
Reuters
SOGN.PA

Bloomberg
GLE.FP

ADR
SCGLY US

Alain Tchibozo
+44 20 7475 2327
alain.tchibozo@drkw.com

Dung Anh Pham



Société Générale: summary information (consolidated)

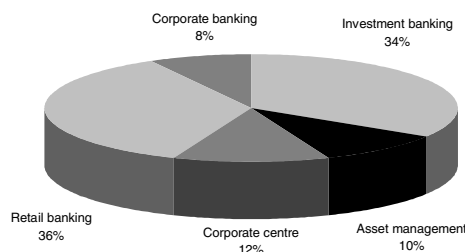
Profit & loss (€m)	1999A	2000E	2001E	% chg 01/00	% chg 02/01	CAGR 00-03
Net interest income	4352	4779	4932	3	4	3
Comissions	3808	5708	5550	-3	3	3
Trading profit ans others	2931	2333	2389	2	6	5
Revenues	11091	12820	12871	0	4	3
Total op. costs	-8048	-8906	-9075	2	4	3
Op. profit before prov provs.	3043	3914	3796	-3	3	3
Provisions	-773	-804	-805	0	8	2
Op. profit	2270	3110	2991	-4	2	4
Tax	-1073	-1269	-1001	-21	2	-3
Tax rate %	-36	-32	-27			
Net profit	2072	2702	2647	-2	1	4
Atributable net profit	1980	2583	2531	-2	1	4

Balance sheet (€bn)	1999A	2000E	2001E	% chg 01/00	% chg 02/01	CAGR 00-03
Assets	406.5	420.8	435.5	3	4	3
Customer loans	159.4	163.4	167.5	3	2	2
Deposits	117.4	163.4	169.1	4	4	4
Total equity (incl FRBG)	22.7	24.2	25.7	6	6	6
Shareholders' equity	12.3	13.0	13.8	6	5	5
Tier 1 capital	12.2	13.6	14.4	6	5	5
Risk-weighted assets	160.3	176.7	182.9	4	16	8

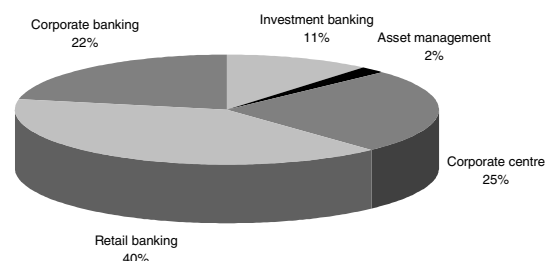
Data per share (€)	1999A	2000E	2001E	% chg 01/00	% chg 02/01	CAGR 00-03
EPS	5.0	6.6	6.4	-2	1	4
DPS	1.5	2.2	2.3	7	9	11
NAVPS	30.5	32.7	34.7	6	5	5

Ratios (%)	1999A	2000E	2001E	2002E	2003E
Net interest inc./tot. asset	1.1	1.1	1.1	1.1	1.1
Net interest income /tot. inc	39.2	37.3	38.3	38.4	36.5
Cost income ratio	72.6	69.5	70.5	70.7	69.4
Gross NPLs /loans	5.3	4.1	3.9	3.6	3.6
Op. profit bef prov /equity	24.8	30.1	27.5	26.9	28.6
PBT /equity	18.5	23.9	21.7	21.0	22.9
ROE average	19.5	22.9	21.0	19.9	21.6
ROA average	0.5	0.6	0.6	0.6	0.6
RORWA	1.2	1.5	1.4	1.3	1.3
Tier 1	7.6	7.7	7.9	7.1	7.1

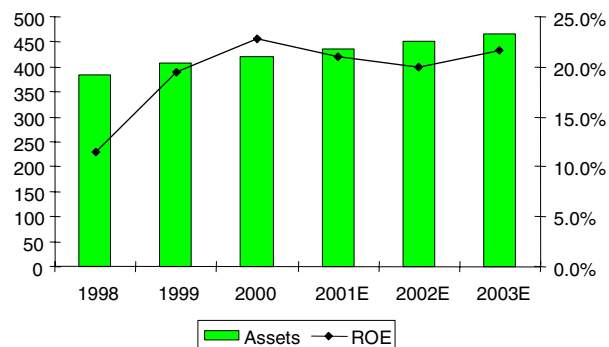
Net profit breakdown by business line (Sept 2000)



Equity allocation by business line (Sept 2000)



Total assets and ROE



Share information

Ordinary shares in issue (m)	398
Market cap (euros bn)	26.3

Major shareholders %

Group	6.4
SocGen employees	7.8
CGNU	6.7
BSCH	5.9
Others	12.7



HSBC

Weary of Asia slowdown

987p

Reduce

Unchanged

Sluggish loan growth and falling margins are hurting earnings growth in Hong Kong, with a slowing US economy a further risk for the Asian region. Although acquisition remains an avenue for maintaining growth, the current rating suggests that it is already a 'global' play, something not supported by the business mix.

- ▶ A sharp slowdown in economic growth in 2001 will weaken earnings in Hong Kong, supported in 2000 by good deposit spreads and falling bad debt provisions. We expect both of these positive factors to fall away this year which, combined with sluggish loan growth in the key region of Hong Kong will pressure earnings growth at the group level. The mortgage margin remains under pressure in all regions especially Hong Kong.
- ▶ We expect the businesses outside of Asia to fare better, although the US remains a concern with sluggish underlying growth. Cost savings associated with the Safra Republic deal are confirmed to be on course and the integration of CCF to be progressing extremely well. The UK business is steady with a market rate of loan growth and a moderate decline in margin expected.
- ▶ Given the level of operating growth expected (+7% CAGR 2000-03) and the dependence on higher risk Asian markets, the current valuation looks stretched. With a sustainable adjusted RoE of 23%* and long-term growth of 5.5%, our valuation model gives a 12 month target price of 890p. This is equivalent to a 1 year forward PER of 15.1x.

* See definition on page 95

Year to end Dec	PBT \$m	EPS (Cash) c	P/E ratio x	P/E rel x	Op profit £m	DPS c	Gross yield %	NAV c	P/NAV x	ROE %
1999	7982	61.5	23.9	107.8%	9678	34.0	2.3%	395	3.7	17.5%
2000E	10333	81.1	18.1	88.2%	11213	38.5	2.6%	458	3.2	18.3%
2001E	11164	83.6	17.6	94.9%	11979	42.8	2.9%	486	2.0	16.6%
2002E	11945	88.0	16.7	97.3%	12891	47.1	3.2%	514	2.9	16.6%
Performance (%)					1m		3m			12m
Absolute					-5.5		8.5			31.4
Relative to FT All-Share					-2.1		8.4			38.5
Relative to Eurotop300					1.4		12.1			32.3
Relative to Eurobanks					-5.1		-0.2			10.6

Source: DKWR estimates

Price
€15.67
US\$14.80

Market Cap
£91.3bn
€145.0bn
US\$137.0bn

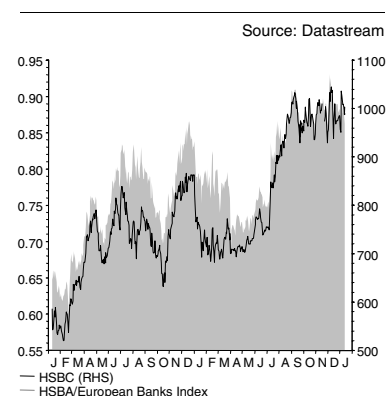
Reuters
HSBA.L

Bloomberg
HSBA LN

Neil Baker
+44 20 7475 2325
neil.baker@drkw.com

Tom Rayner
+44 20 7475 6907
tom.rayner@drkw.com

Lucy Wagenstein
+44 20 7475 6908
lucy.wagenstein@drkw.com



HSBC: summary information (consolidated)

Profit and loss.	1999	2000E	2001E	% chg 01/00	% chg 02/01	CAGR 00-03
Net interest income	£m 11990	13404	13981	4%	6%	6%
Non-interest income	£m 9210	10914	11757	8%	6%	6%
Operating income	£m 21200	24318	25738			
Operating expenses	£m 11522	13105	13759			
Staff costs	£m 6692	7642	8134			
Prem and equipment	£m 1329	1440	1505			
Other costs	£m 2527	2980	3030	2%	2%	2%
Operating profit	£m 9678	11213	11979	7%	8%	7%
Goodwill (ex CCF)	£m 25	346	346	0%	0%	0%
Profit before provs	£m 9653	10867	11633	7%	8%	8%
Bad debt provisions	£m 2073	863	1163			
Provision for contgs	£m 143	57	60	5%	0%	2%
Exceptionals	£m 450	328	276	-16%	0%	-8%
Associates	£m 123	86	160	86%	8%	29%
PBT contr of CCF	£m 0	52	349	-	32%	118%
PBT	£m 7982	10383	11164	8%	7%	8%
Minorities	£m 536	870	939	8%	4%	5%
Attributable Profit	£m 5408	6938	7323	6%	7%	7%
Dividends	£m 2872	3582	4036	13%	12%	13%
Retained Profit	£m 2536	3356	3287	-2%	2%	0%

Valuation measures	1999	2000E	2001E	2002E	2003E	CAGR
PBT (DKWR basis)	£m 7532	10055	10888	11669	12797	8%
EPS (FRS3 basis)	p 65.2	78.3	78.2	82.7	88.2	4%
EPS (DKWR basis)	p 61.1	75.5	76.0	80.6	86.3	5%
EPS (Cash basis)	p 61.5	81.1	83.6	88.0	93.6	5%
Net dividend	p 34.0	38.5	42.8	47.1	52.7	11%
NAV	p 395	458	486	514	541	
Tier 1 ratio	% 8.5	9.0	8.8	8.7	8.5	-2%

Performance ratios	1999	2000E	2001E	2002E	2003E
Cost/income ratio	% 54.5	55.4	54.8	54.0	53.4
Tax rate	% 25.5	24.8	26.0	26.0	27.0

Net interest margins	1999	2000E	2001E	2002E	2003E
Group margin	% 2.86	2.74	2.69	2.67	2.67

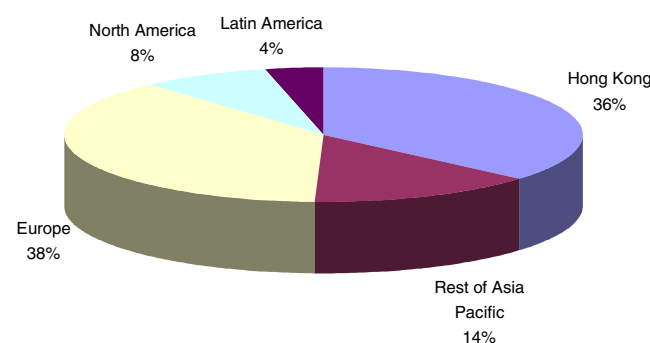
Perf. measures	1999	2000E	2001E	2002E	2003E
Return on equity	% 17.5	18.3	16.6	16.6	16.7
Return on RWA	% 1.2	1.2	1.2	1.3	1.4

Bad debt measures	1999	2000E	2001E	2002E	2003E
Bad debts/cust. adv.	% 0.79	0.31	0.39	0.45	0.41

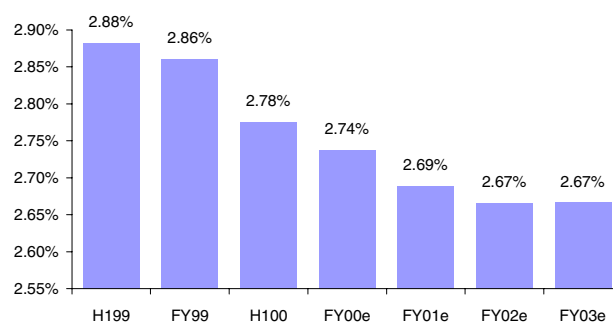
Balance sheet items	1999	2000E	2001E	2002E	2003E	CAGR
Customer advances	£bn 262.4	280.4	297.8	317.9	340.0	7%
Balance sheet assets	£bn 569.1	580.0	598.8	620.2	632.7	3%
RWA	£bn 336.1	372.4	420.5	470.5	522.5	12%
Average NOSH	m 8,296	8,862	9,365	9,505	9,648	3%
Period end NOSH	m 8,458	9,295	9,434	9,576	9,719	1%
Tier 1 capital	£m 28,533	33,390	37,023	40,727	44,462	10%

Equity £m 33,408 42,527 45,814 49,172 52,561 7%

PBT by division (H12000)



Group net interest margin



Share information

HKMA 7%



Alliance & Leicester

A tale of targets to be missed

723p

Sell

Unchanged

Stagnation in the Group's core mortgage business and falling personal loan margins underpin our caution on the stock, with rising technology costs acting as an additional drag on earnings. Attempts to diversify into current accounts and SME lending are unlikely to succeed on any significant scale. Sell.

- ▶ We are sceptical that A&L will be able to fully deliver on the targets it set out in a recent review, particularly that of 6% per annum average income growth 2000-2003. The other key initiatives are to establish a 10% market share of the SME market by 2003 and to win 500,000 'Alliance Premier' current accounts. Both current accounts and SME lending are notoriously hard to break into and we expect A&L to make little impact on the market leaders.
- ▶ The failure to meet income growth targets will also jeopardise the objective of reducing the cost income ratio by 10 percentage points as additional 'web enablement' costs will offset savings from a reduced headcount. Such a dramatic fall in headcount, approximately 1400 people by 2003 (18% total), also risks a further negative impact on income growth as morale suffers.
- ▶ We remain concerned that the competitive pressures in mortgages and, increasingly, in the unsecured loan market will continue to restrain A&L's performance. Our long-term assumptions on adjusted sustainable RoE (11%) and growth (3%) reflect our concerns and deliver a 12 month price target of 590p.

Price
€11.48
US\$10.85

Market Cap
£3.6bn
€5.7bn
US\$8.5bn

Reuters
ALL

SEAG / Bloomberg
45330/AL

Neil Baker
+44 20 7475 2325
neil.baker@drkw.com

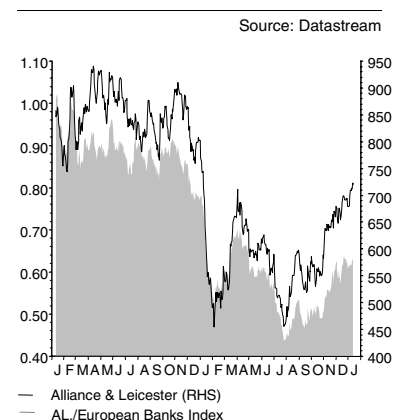
Tom Rayner
+44 20 7475 6907
tom.rayner@drkw.com

Lucy Wagenstein
+44 20 7475 6908
lucy.wagenstein@drkw.com

* See definition on page 95

Year to end Dec	PBT £m	EPS p	P/E ratio x	P/E rel x	Op profit £m	DPS p	Gross yield %	NAV p	P/NAV x	ROE %
1999	493	60.6	11.5	53.0%	535	29.3	4.2%	319	2.2	19.2%
2000E	453	61.2	11.4	57.4%	493	33.7	4.8%	324	2.2	20.0%
2001E	455	63.5	11.0	61.8%	520	37.1	5.3%	341	2.0	16.3%
2002E	460	64.4	10.8	63.0%	538	40.8	5.8%	360	1.9	16.9%
Performance (%)					1m		3m			12m
Absolute					7.1		16.2			-15.1
Relative to FT All-Share					10.9		22.0			-5.3
Relative to Eurotop300					4.4		25.9			-10.9
Relative to Eurobanks					-0.5		19.7			-20.8

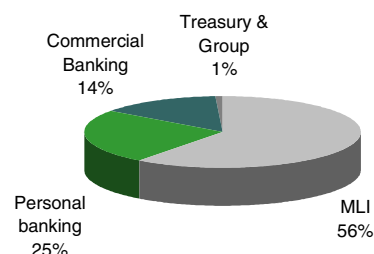
Source: DKWR estimates



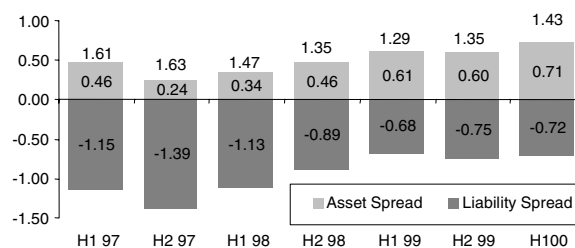
Summary information (consolidated)

Profit and loss state.		1999	2000E	2001E	% chg 01/00	% chg 02/01	CAGR 00-03
Net interest income	£m	753	768	779	2	0	1
Total other income	£m	420	420	422	0	5	3
Total income	£m	1173	1188	1201	1	2	2
Staff costs	£m	(215)	(222)	(213)	-4	-2	-3
Depreciation	£m	(35)	(37)	(39)	5	5	5
Total costs	£m	(639)	(695)	(682)	-2	0	0
Operating profit	£m	535	493	520	5	4	4
Bad debt charge	£m	(41)	(40)	(65)	63	19	31
Exceptional items	£m	(1)	0	(70)	-	-	-
PBT (FRS3 basis)	£m	493	453	385	-15	9	0
Tax	£m	(146)	(116)	(113)	-2	9	5
Attributable profit	£m	347	338	271	-20	9	-2
Dividends paid	£m	(163)	(168)	(185)	10	10	10
Retained profit	£m	184	169	86	-49	8	-18
Valuation measures		1999	2000E	2001E	2002E	2003E	CAGR
PBT (DKWR basis)	£m	493	453	455	460	472	1
EPS (FRS3 basis)	p	61.8	64.1	53.8	58.8	63.3	0
EPS (DKWR basis)	p	60.6	61.2	63.5	64.4	66.0	3
EPS (Cash basis)	p	60.6	61.2	63.5	64.4	66.0	3
Net dividend	p	29.3	33.7	37.1	40.8	44.8	10
NAV	p	319	324	341	360	379	5
Tier 1 ratio	%	11.2	10.0	10.1	10.3	9.7	1
Performance ratios		1999	2000E	2001E	2002E	2003E	
Cost/income ratio	%	54.4	58.5	56.7	55.9	55.2	
Conv. dividend cover	x	2.1	1.9	1.5	1.4	1.4	
Non int. inc./total inc.	%	35.8	35.4	35.1	36.3	37.0	
Tax rate	%	29.6	25.5	29.5	29.5	29.5	
Net interest margins		1999	2000E	2001E	2002E	2003E	
MLI margin	%	1.61	1.73	1.64	1.53	1.43	
Group margin	%	2.66	2.53	2.43	2.28	2.18	
Perf. Measures		1999	2000E	2001E	2002E	2003E	
Return on equity	%	19.2	20.0	16.3	16.9	17.3	
Return on RWA	%	2.3	2.1	1.6	1.7	1.8	
Return on total assets	%	1.1	1.1	0.8	0.9	0.9	
Bad debt measures		1999	2000E	2001E	2002E	2003E	
Bad debts/cust. adv.	%	0.17	0.16	0.26	0.30	0.33	
Bad debts/Non-mort	%	1.08	0.92	1.31	1.42	1.48	
Bad debts/RWA	%	0.27	0.25	0.39	0.45	0.50	
Balance sheet items		1999	2000E	2001E	2002E	2003E	CAGR
Customer advances	£m	23.7	24.2	25.3	26.1	27.1	4
Balance sheet assets	£m	30.5	32.1	33.5	34.6	35.9	4
RWA	£m	15.3	16.1	16.8	17.4	18.0	4
Average NOSH	m	573	527	504	504	504	-1
Period end NOSH	m	550	504	504	504	504	0
Tier 1 capital	£m	1,725	1,611	1,697	1,789	1,750	3
Equity	£m	1,752	1,620	1,707	1,800	1,896	5

Operating profit by division (1999)



Asset and liability spreads (1997-H12000)



Share information

Alliance & Leicester Sharesafe Ltd	14.4%
M&G Inv Mgmt	3.88%
Fidelity	3.10%
AXA Inv Mgrs UK	3.09%

Financial analysis

Valuation summary

Performance

Valuation (with price targets)

Valuation (PER, P/BV, P/OP)



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Valuation summary

We use a form of dividend discount model (DDM) as the primary tool to value financial companies. We have upgraded the traditional DDM in order to have the following advantages compared to other valuation techniques (such as ratio analysis, implied risk premium, etc.):

- ▶ The flexibility to test what sustainable value drivers are implied by the current share price and whether we find these reasonable
- ▶ The ability to address the issue of surplus capital, optimal tier 1 capital structure and effect of goodwill
- ▶ Transparency of assumptions

Our model consists of the following parts:

Explicit forecast period. This covers the period from year 2000 till 2003. Earnings per share (EPS), dividends per share (DPS) and net asset value per share (NAV) are explicitly forecast. We assume that dividends are distributed at the end of the calendar year.

Transition Period. If at the end of the explicit forecast period we believe that a bank has not yet reached its sustainable RoE and earnings / risk weighted asset (RWA) growth rates, we add a five-year transition period. During this transition the RoE and growth rates are assumed to converge to the sustainable levels. We also assume that in the transition period a bank will maintain an Optimal Tier 1 Ratio. Any bank with excess capital at the end of the explicit period is assumed to return this capital to shareholders in the form of a special dividend.

Terminal value (TV). Terminal value is the value of the company beyond the explicit and transition periods. We derive the TV from the Gordon growth model, using the relationships $DPS = EPS \times (1 - \text{retention rate})$ and $RoE = EPS / NAV$:

$$TV = NAV_{TERM} \bullet \frac{RoE_{sustainable} - g_{LT}}{r - g_{LT}} \text{ or } TV = NAV_{TERM} \bullet Target\ P/NAV$$

Sustainable RoE. Sustainable RoE is one of the most important inputs in our model since it largely affects the TV. Moreover, it is becoming increasingly popular to compare banks by their sustainable RoE rather than the current one. To arrive at the sustainable RoE we relate attributable net profit to assumptions about sustainable net interest margin, growth in interest earnings assets, materiality of non-interest income, cost-income ratio, bad debt provisions to customer loans ratio, effective tax rate. We also write off un-amortised goodwill from equity, which distorts "true" RoE.



Long-term sustainable growth. Clearly, apart from differences in profitability, the long term growth rate for banks will also differ due to factors such as competitive advantage, geographical exposure, mix of business, etc. Therefore we include estimates of long-term sustainable earnings growth in our model. To derive the long-term earnings growth assumptions we estimate the long-term earnings mix which will be obtained from the European zone and Emerging markets. We use sustainable nominal GDP growth as a proxy for earnings and RWAs. For the European zone this translates into 4% and for Emerging markets 6%. However, the mortgage market is very competitive in the UK and is likely to see slower growth than other areas of banking. Banks with a higher than average exposure to this area will, therefore, have a lower long run earnings growth than simply implied by the geographic mix of their business.

Cost of equity. We estimate the CoE as the current 10-year government bond yield plus the stock specific beta times the market risk premium. Our estimate of stock betas consist of an

Analysis of consensus data for current and next years' EPS forecasts. The higher the variation in EPS forecasts the higher the beta.

Analysis of volatility of the profit and loss account. The higher the share of dealing profits and bad debt provisions the higher the beta.

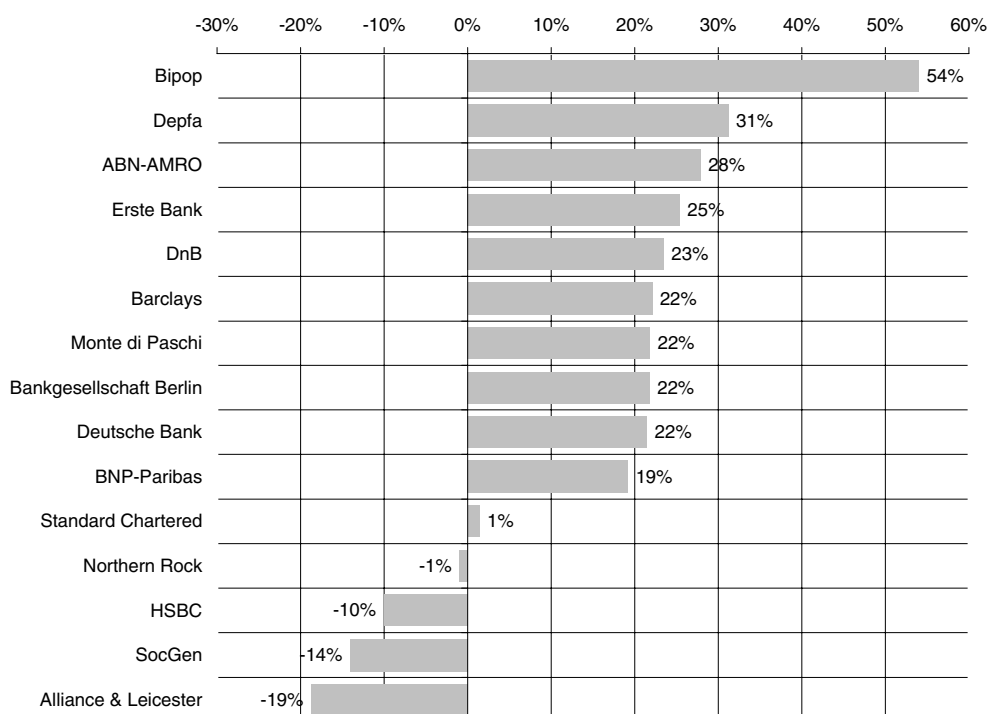
If a material portion of a company's earnings comes from emerging markets, we weighted average of long-term bond yields of respected markets

For a complete methodology see our November 1999 publication "Missing Link".

For detailed DDM valuation and underline assumptions refer to our latest publications on individual stocks.

We use our proprietary DDM for banks along with sum-of-the-parts valuation method to derive a fundamental value of the stock at the date of valuation – "Fair value today". In addition we set a 12 month target price which is "Fair value today" times $1 + \text{CoE}$ (assuming the stock is sold cum dividend). See Table "Valuation ratios " on page XX for our current "Fair values today", "12 month targets" and recommendations.

Top ten and bottom five 12 month up/down side



Source: DKWR estimates

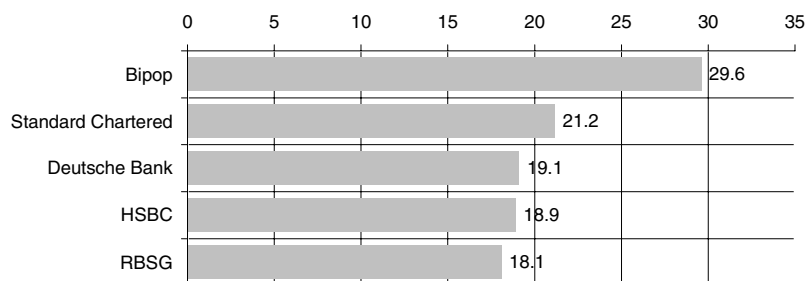
Traditional valuation ratios (P/E and P/BV) along with Price-to-Operating profit ratio serve as a good screening tool to identify potentially under/overvalued stocks.

It is important to mention that reported EPS and BVPS figures are often distorted by non-recurring items, different treatment of goodwill and accounting profit policies for financial investments. Therefore we provide adjusted figures to eliminated such distortion and allow for better comparison across the sector. Refer to tables on pages 78 and 79 for complete set of ratios and details on adjustments and page 99 for DKWR banks definitions.

The charts below summarise the highest and lowest PERs, P/BV's and Price to Operating Profit multiples in our banks universe.

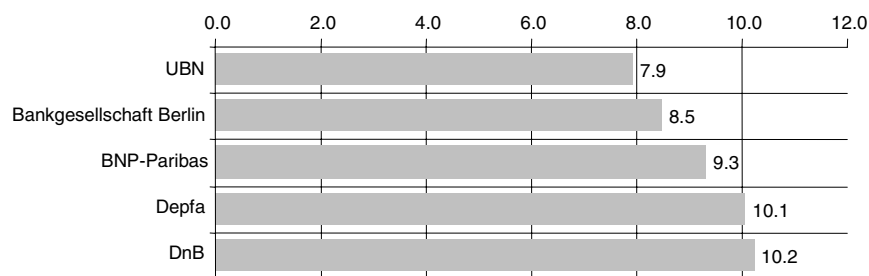


Top five 2001 PE



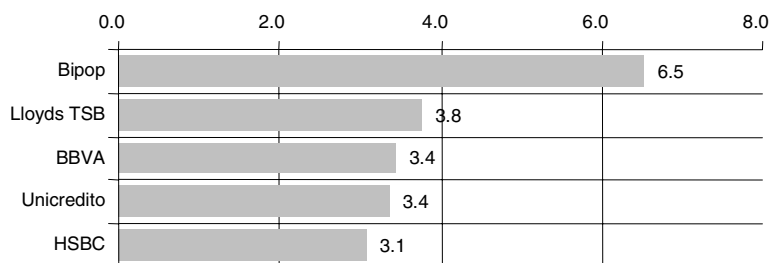
Source: DKWR estimates

Bottom five 2001 PE



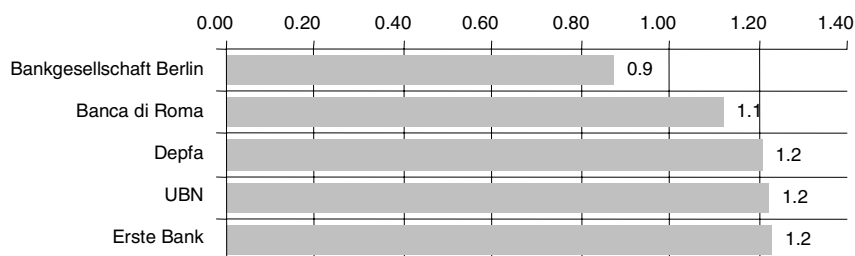
Source: DKWR estimates

Top five 2001 P/BV



Source: DKWR estimates

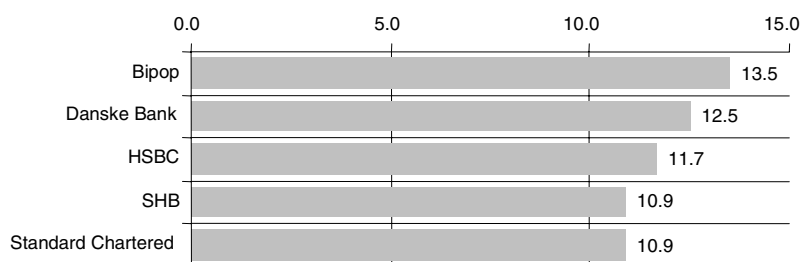
Bottom five 2001 P/BV



Source: DKWR estimates

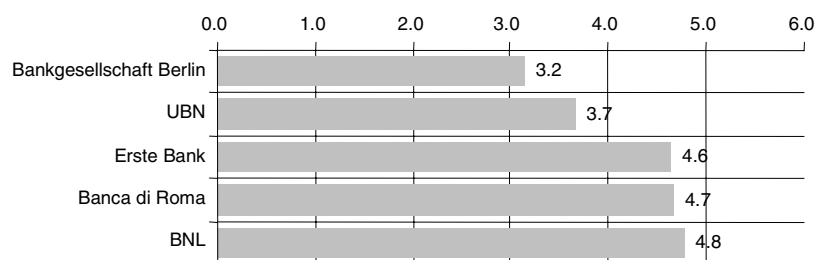


Top five 2001 P/operating profit



Source: DKWR estimates

Bottom five 2001 P/operating profit



Source: DKWR estimates

Relative price performance

	Mkt.cap. €bn	Rel. to local index					Rel. to FTSE Top 300					Rel. to FTSE Top 300 (banks)				
		1Q00	2Q00	3Q00	4Q00	2000	1Q00	2Q00	3Q00	4Q00	2000	1Q00	2Q00	3Q00	4Q00	2000
Austria																
Erste Bank	2.4	4.9	0.0	6.3	6.1	17.3	-0.5	1.4	7.7	4.3	13.1	9.6	-6.2	-2.0	0.3	2.4
Benelux																
ABN-AMRO	38.1	-4.7	8.7	4.5	-4.6	2.7	-8.9	12.9	1.7	-4.0	0.8	1.2	5.4	-8.0	-8.0	-9.8
Fortis	43.4	-8.3	7.4	10.9	0.3	6.1	-27.9	16.5	13.1	3.5	-0.3	-17.9	8.9	3.4	-0.4	-10.9
ING	82.6	-4.2	23.6	8.2	16.3	47.0	-8.3	27.9	5.4	17.0	45.1	1.7	20.3	-4.3	13.0	34.5
KBC	14.2	-13.1	16.6	-0.4	-1.9	-4.3	-32.7	25.7	1.8	1.4	-10.6	-22.6	18.1	-7.9	-2.6	-21.3
France																
BNP-Paribas	44.4	-15.1	20.0	1.6	-1.2	7.2	-12.7	24.9	-2.1	-2.2	5.2	-2.6	17.4	-11.8	-6.1	-5.4
Credit Lyonnais	13.6	-18.9	25.1	-14.6	-4.8	-17.3	-16.5	30.0	-18.3	-5.7	-14.9	-6.5	22.4	-28.0	-9.7	-25.5
Dexia	17.9	8.0	0.5	5.8	15.1	30.8	-11.6	9.6	8.1	18.3	24.5	-1.6	2.0	-1.6	14.3	13.9
SocGen	30.5	-14.9	18.8	3.1	9.7	15.4	-12.5	23.7	-0.7	8.8	17.8	-2.5	16.1	-10.3	4.8	7.2
Germany																
Bankgesellschaft Berlin	2.4	-5.9	-0.4	4.1	1.8	-0.1	0.6	-6.9	1.4	0.7	-4.5	10.6	-14.5	-8.3	-3.3	-15.1
Commerzbank	17.4	-0.9	3.7	-8.5	-3.9	-8.8	5.6	-2.8	-11.1	-5.0	-13.2	15.7	-10.4	-20.8	-9.0	-23.8
Depfa	2.8	25.6	14.7	-11.3	-10.7	11.7	32.0	8.3	-14.0	-11.8	7.3	42.1	0.7	-23.7	-15.7	-3.3
Deutsche Bank	58.1	-26.4	33.6	10.3	-0.2	13.4	-19.9	27.2	7.6	-1.3	9.1	-9.9	19.6	-2.1	-5.3	-1.6
Dresdner Bank	25.5	-30.5	11.4	15.2	-0.8	-6.7	-24.1	4.9	12.5	-1.9	-11.1	-14.0	-2.7	2.8	-5.9	-21.7
HypoVereinsbank	23.9	-14.1	14.8	-7.5	1.8	-4.3	-7.6	8.3	-10.2	0.7	-8.6	2.4	0.8	-19.9	-3.3	-19.3
Italy																
Banca di Roma	6.7	-18.8	11.5	-5.7	-1.2	-14.9	-12.4	14.3	-7.5	0.2	-6.2	-2.3	6.7	-17.2	-3.8	-16.9
Banca Intesa	26.8	-19.6	30.7	-6.2	20.0	22.4	-13.2	33.5	-8.0	21.4	31.1	-3.1	26.0	-17.7	17.4	20.4
Bipop	12.8	15.9	-25.1	21.6	-27.4	-26.4	22.3	-22.3	19.8	-26.0	-17.7	32.4	-29.9	10.1	-30.0	-28.4
BNL	7.4	-1.6	3.6	4.1	-11.5	-6.7	4.8	6.4	2.3	-10.1	2.0	14.8	-1.2	-7.4	-14.1	-8.7
Monte di Paschi	11.2	-21.8	27.1	12.5	1.4	17.0	-15.4	30.0	10.6	2.8	25.6	-5.4	22.4	1.0	-1.2	15.0
San Paolo IMI	25.8	-3.1	29.8	-0.3	-3.6	22.2	3.3	32.7	-2.1	-2.3	30.8	13.4	25.1	-11.8	-6.2	20.2
Unicredito	29.6	-23.9	20.4	18.6	-2.9	8.7	-17.5	23.2	16.7	-1.5	17.3	-7.5	15.6	7.1	-5.5	6.7
Ireland																
Allied Irish Bank	11.5	-22.9	5.3	13.7	1.3	-5.0	-13.1	-4.9	29.2	5.3	12.3	-3.1	-12.5	19.5	1.3	1.6
Bank of Ireland	9.6	-18.9	2.1	20.6	16.7	19.5	-9.1	-8.1	36.1	20.7	36.7	1.0	-15.6	26.4	16.7	26.1
Nordic																
Danske Bank	15.0	-13.3	16.4	0.1	42.0	58.3	-4.0	18.6	13.5	37.9	78.5	6.1	11.0	3.8	33.9	67.9
DnB	4.4	-0.5	7.8	0.3	32.3	46.1	-4.3	12.6	9.7	24.5	47.5	5.8	5.1	0.1	20.5	36.9
Nordea	24.3	-21.6	51.3	9.6	15.6	55.2	-10.8	47.3	2.5	7.9	46.2	-0.7	39.7	-7.1	3.9	35.5
SEB	8.7	-5.4	19.1	17.3	1.3	33.1	5.4	15.1	10.3	-6.5	24.1	15.4	7.5	0.6	-10.5	13.5
SHB	11.8	-14.0	26.9	26.9	16.2	63.1	-3.2	23.0	19.9	8.5	54.1	6.8	15.4	10.2	4.5	43.5
Swedbank	9.2	-19.6	16.5	12.0	17.5	27.8	-8.8	12.6	5.0	9.7	18.8	1.3	5.0	-4.7	5.8	8.1
UBN	1.4	-13.5	19.0	3.9	28.6	39.9	-17.3	23.8	13.3	20.8	41.3	-7.2	16.2	3.7	16.8	30.7
Spain																
Banco Popular	8.1	-3.7	12.6	3.8	23.6	36.3	-3.9	4.0	6.0	11.0	17.8	6.1	-3.6	-3.7	7.0	7.1
Bankinter	2.9	28.9	-10.5	-15.5	-2.8	-5.7	28.7	-19.1	-13.3	-15.4	-24.3	38.7	-26.7	-22.9	-19.4	-34.9
BBVA	52.3	6.1	13.2	5.9	9.4	33.8	5.9	4.7	8.2	-3.2	15.3	15.9	-2.9	-1.5	-7.1	4.6
BSCH	54.2	-2.6	9.7	9.1	8.5	23.2	-2.9	1.2	11.4	-4.1	4.6	7.2	-6.4	1.7	-8.1	-6.1
Switzerland																
CS	64.8	6.5	-6.5	0.2	-10.1	-10.2	1.8	0.8	-1.7	-0.4	0.5	11.9	-6.8	-11.4	-4.4	-10.2
UBS	79.0	3.5	4.9	-3.2	9.5	15.6	-1.1	12.1	-5.0	19.3	26.2	8.9	4.6	-14.7	15.3	15.5
UK																
Abbey National	27.7	-12.6	-1.6	13.8	37.1	31.1	-19.4	-1.5	12.6	39.9	26.3	-9.4	-9.1	2.9	35.9	15.7
Alliance & Leicester	5.7	-14.0	-10.0	0.2	19.6	-7.3	-20.8	-9.9	-1.1	22.3	-12.1	-10.7	-17.4	-10.7	18.3	-22.7
Bank of Scotland	15.0	2.8	-8.9	-5.3	19.2	5.4	-4.0	-8.7	-6.6	22.0	0.6	6.0	-16.3	-16.2	18.0	-10.1
Barclays	55.2	-2.7	1.5	14.0	12.2	24.2	-9.5	1.6	12.7	14.9	19.4	0.6	-6.0	3.0	11.0	8.8
Halifax	23.9	1.4	-2.6	-9.0	16.5	4.6	-5.4	-2.4	-10.2	19.3	-0.2	4.7	-10.0	-19.9	15.3	-10.8
HSBC	143.5	-10.1	4.6	27.3	3.9	22.1	-16.9	4.7	26.1	6.7	17.3	-6.9	-2.9	16.4	2.7	6.7
Lloyds TSB	63.5	-10.5	-3.1	1.1	13.7	-0.6	-17.3	-3.0	-0.1	16.5	-5.4	-7.2	-10.6	-9.8	12.5	-16.1
Northern Rock	3.1	-15.6	9.7	16.2	10.9	17.3	-22.4	9.9	15.0	13.6	12.5	-12.3	2.3	5.3	9.7	1.9
RBSG	67.4	-11.9	22.4	39.6	12.3	63.7	-18.7	22.6	38.3	15.0	58.9	-8.7	15.0	28.7	11.1	48.3
Standard Chartered	18.0	-7.0	-1.1	19.7	-0.6	8.3	-13.8	-0.9	18.5	2.2	3.5	-3.8	-8.5	8.8	-1.8	-7.1
FTSE Top 300	6,781.7															
FTSE Top 300 (banks)	1,269.7															

Source: Datastream

Valuation ratios

Rec.	Banks	Market cap €bn	Last price	12 month target	Fair value today	Up/downside %
	Austria					
Add	Erste Bank	2.4	48.6	61.0	56.0	25
	Benelux					
Buy	ABN-AMRO	38.1	25.4	32.5	29.5	28
Add	Fortis	43.4	34.8	41.2	37.3	18
	France					
Add	BNP-Paribas	44.4	99.0	118.0	107.0	19
Hold	Credit Lyonnais	13.6	39.9	42.3	38.7	6
***	Dexia	17.9	184.5	***	***	***
Reduce	SocGen	30.5	72.1	62.0	57.0	-14
	Germany					
Reduce	Bankgesellschaft Berlin	2.4	13.3	14.0	13.0	5
Hold	Commerzbank	17.4	32.1	38.0	35.0	18
Add	Depfa	2.8	78.5	103.0	94.0	31
Add	Deutsche Bank	58.1	94.7	115.0	104.0	22
Hold	HypoVereinsbank	23.9	60.6	70.0	64.0	16
	Italy					
Hold	Banca di Roma	6.7	1.24	1.38	1.25	12
Add	Banca Intesa	26.8	5.31	5.40	4.95	2
Buy	Bipop	12.8	7.27	11.2	10.3	54
Hold	BNL	7.4	3.51	3.77	3.44	7
Buy	Monte di Paschi	11.2	4.76	5.80	5.35	22
Add	San Paolo IMI	25.8	18.4	21.0	19.4	14
Buy	Unicredito	29.6	5.92	7.00	6.45	18
	Nordic					
Add	DnB	4.4	46.0	56.8	51.4	23
Add	Nordea	24.3	8.23	9.80	9.00	19
Add	SEB	8.7	115	137	125	19
Reduce	SHB	11.8	161	171	158	6
Hold	Swedbank	9.2	155	162	147	5
Hold	UBN	1.4	249	293	264	18
	Spain					
***	BBVA	52.3	16.6	***	***	***
***	BSCH	54.2	12.0	***	***	***
	Switzerland					
Hold	CS	64.8	332	345	312	4
Add	UBS	79.0	274	305	278	12
	UK					
***	Abbey National	27.7	1,234	***	***	***
Sell	Alliance & Leicester	5.7	723	588	544	-19
***	Bank of Scotland	15.0	748	***	***	***
Buy	Barclays	55.2	2,109	2,576	2,363	22
Add	Halifax	23.9	675	752	696	11
Reduce	HSBC	143.5	987	888	804	-10
***	Lloyds TSB	63.5	733	***	***	***
Hold	Northern Rock	3.1	465	461	424	-1
Add	RBSG	67.4	1,610	1,862	1,708	16
Hold	Standard Chartered	18.0	1,015	1,029	927	1
Neutral	DKWR European banks universe	1,189				8.1

Notes: P/E and P/BV are based on stated EPS and BV (see "DKWR Banks Definitions"); OpP - Operating Profit; Tot. Inc. - Total Income.
Source: DKWR estimates.

Valuation ratios (continued)

Rec.	Banks	P/E			P/BV			Div. yield	P/op p	P/tot. inc.
		2000	2001	2002	2000	2001	2002	2001	2001	2001
	Austria									
Add	Erste Bank	12.8	10.4	8.6	1.3	1.2	1.1	2.9%	4.6	1.4
	Benelux									
Buy	ABN-AMRO	15.8	11.6	10.1	2.6	2.5	2.3	4.1%	6.2	1.9
Add	Fortis	14.8	13.3	12.4	2.7	2.6	2.3	3.0%	7.7	4.0
	France									
Add	BNP-Paribas	11.0	9.7	8.9	2.2	2.0	1.8	5.2%	6.3	2.4
Hold	Credit Lyonnais	14.4	13.1	11.5	1.6	1.6	1.5	4.0%	6.2	2.0
***	Dexia	16.9	14.6	15.8	2.3	2.0	1.8	3.9%	8.5	4.5
Reduce	SocGen	11.4	11.3	11.2	2.5	2.3	2.2	4.9%	7.5	2.2
	Germany									
Reduce	Bankgesellschaft Berlin	11.7	7.9	6.5	0.9	0.8	0.8	4.5%	3.0	1.2
Hold	Commerzbank	10.1	13.8	11.9	1.3	1.3	1.2	3.0%	7.8	2.3
Add	Depfa	20.2	10.1	7.2	1.4	1.3	0.9	1.8%	5.0	3.2
Add	Deutsche Bank	12.4	18.7	15.1	2.2	2.1	1.9	1.5%	9.3	2.2
Hold	HypoVereinsbank	23.6	16.7	13.8	1.9	1.8	1.6	1.8%	6.9	3.0
	Italy									
Hold	Banca di Roma	27.3	17.9	13.1	1.1	1.1	1.1	2.0%	4.6	1.5
Add	Banca Intesa	20.5	12.5	12.2	2.7	2.6	2.4	4.2%	6.9	2.6
Hold	BNL	16.6	10.8	9.2	1.9	1.7	1.6	3.5%	4.9	2.1
Buy	Monte di Paschi	17.7	15.0	13.1	2.3	2.2	2.0	3.1%	5.6	2.3
Add	San Paolo IMI	20.1	17.9	14.9	2.7	2.6	2.5	3.9%	9.2	3.8
Buy	Unicredito	19.2	16.1	13.8	3.8	3.4	3.0	3.2%	6.4	3.1
	Nordic									
Add	DnB	9.3	10.1	9.8	1.5	1.4	1.3	5.0%	7.0	2.7
Add	Nordea	13.6	12.4	11.4	2.3	2.1	1.9	3.9%	7.9	3.6
Add	SEB	12.0	14.4	12.8	2.0	1.8	1.7	3.4%	9.3	2.7
Reduce	SHB	13.3	14.6	13.9	2.7	2.4	2.2	3.1%	10.6	5.6
Hold	Swedbank	11.5	13.6	12.6	2.3	2.1	2.0	3.6%	7.8	3.5
Add	UBN	6.2	7.9	7.7	1.3	1.2	1.1	6.8%	3.6	1.6
	Spain									
***	BBVA	22.6	17.9	14.8	3.6	3.5	3.3	3.1%	9.7	4.4
***	BSCH	22.3	18.3	15.3	2.8	2.7	2.5	2.7%	8.9	3.9
	Switzerland									
Hold	CS	18.0	15.4	13.0	2.4	2.3	2.1	3.0%	9.4	2.8
Add	UBS	15.9	15.1	12.7	3.2	2.6	2.3	2.4%	10.6	3.2
	UK									
***	Abbey National	***	***	***	***	***	***	***	***	***
Sell	Alliance & Leicester	11.3	13.4	12.3	2.2	2.1	2.0	5.1%	7.0	3.0
***	Bank of Scotland	***	***	***	***	***	***	***	***	***
Buy	Barclays	13.4	13.1	10.8	2.8	2.5	2.2	3.1%	7.3	3.4
Add	Halifax	13.1	13.4	12.2	2.2	2.1	2.0	4.5%	7.8	4.2
Reduce	HSBC	18.9	18.9	17.9	3.2	3.0	2.9	2.9%	11.6	5.4
***	Lloyds TSB	***	***	***	***	***	***	***	***	***
Hold	Northern Rock	11.8	11.2	10.5	2.6	2.3	2.1	3.8%	6.3	4.3
Add	RBSG	27.1	18.1	13.4	2.3	2.2	2.1	2.3%	7.0	3.4
Hold	Standard Chartered	19.7	21.2	17.6	3.4	3.1	2.8	2.7%	11.1	4.6
Neutral	DKWR European banks univ.	17.9	15.8	13.7	2.8	2.6	2.4	3.1%	8.7	3.6

Notes: P/E and P/BV are based on stated EPS and BV (see "DKWR Banks Definitions"); OpP - Operating Profit; Tot. Inc. - Total Income.

Source: DKWR estimates.

Valuation ratios

Bank	Last price	EPS 2000			DKWR cash 2000	EPS growth %			DKWR cash EPS CAGR		P/E 2000	
		Stated	DKWR	Cash		2000	2001	2002	2000-03	Stated	DKWR	Cash
Austria												
Erste Bank	48.6	3.80	3.76	3.76	9	24	21	19	12.8	12.9	12.9	
Benelux												
ABN-AMRO	25.4	1.61	1.98	1.98	15	11	14	12	15.8	12.8	12.8	
Fortis	34.8	2.36	2.47	2.47	23	5	11	10	14.8	14.1	14.1	
France												
BNP-Paribas	99.0	8.99	8.18	6.83	29	24	11	15	11.0	12.1	14.5	
Credit Lyonnais	39.9	2.78	2.90	2.96	15	5	15	8	14.4	13.8	13.5	
Dexia	185	10.9	10.5	10.5	-2	20	-7	6	16.9	17.6	17.6	
SocGen	72.1	6.33	5.85	5.91	33	5	3	7	11.4	12.3	12.2	
Germany												
Bankgesellschaft Berlin	13.3	1.14	1.19	1.19	-32	41	23	27	11.7	11.2	11.2	
Commerzbank	32.1	3.19	3.19	3.26	79	-27	15	0	10.1	10.1	9.8	
Depfa	78.5	3.89	3.89	3.89	-49	99	26	39	20.2	20.2	20.2	
Deutsche Bank	94.7	7.65	7.65	4.00	26	26	24	24	12.4	12.4	23.7	
HypoVereinsbank	60.6	2.57	2.57	2.75	171	38	20	24	23.6	23.6	22.0	
Italy												
Banca di Roma	1.24	0.045	0.040	0.051	211	50	32	34	27.3	30.9	24.2	
Banca Intesa	5.31	0.259	0.248	0.264	151	15	9	13	20.5	21.4	20.1	
Bipop	7.27	0.185	0.184	0.200	23	29	36	31	39.2	39.5	36.4	
BNL	3.51	0.211	0.116	0.116	-10	167	18	52	16.6	30.2	30.2	
Monte di Paschi	4.76	0.269	0.263	0.293	186	13	15	14	17.7	18.1	16.3	
San Paolo IMI	18.4	0.913	0.779	0.806	30	27	20	20	20.1	23.6	22.8	
Unicredito	5.92	0.308	0.292	0.338	75	18	15	15	19.2	20.3	17.5	
Nordic												
DnB	46.0	5.0	4.6	4.8	-7	-1	4	2	9.3	10.0	9.5	
Nordea	8.2	0.61	0.58	0.60	11	20	8	12	13.6	14.3	13.6	
SEB	115	9.6*	7.7*	7.8*	27	13	11	11	12.0	14.9	14.7	
SHB	161	12.1	11.7	12.1	36	-4	5	1	13.3	13.8	13.3	
Swedbank	155	13.4	12.2	12.8	88	-2	7	2	11.5	12.7	12.1	
UBN	249	40.4	32.1	32.1	34	-2	2	0	6.2	7.7	7.7	
Spain												
BBVA	16.6	0.73	0.535	0.64	14	40	20	25	22.6	31.0	26.0	
BSCH	12.0	0.538	0.493	0.575	19	44	20	27	22.3	24.3	20.9	
Switzerland												
UBS	332	18.4	18.4	18.4	-6	27	17	11	18.0	18.0	18.0	
CS	274	17.2	17.9	18.8	21	10	11	20	15.9	15.3	14.5	
UK												
Abbey National	1,234	***	***	***	***	***	***	***	***	***	***	
Alliance & Leicester	723	64.1	61.2	61.2	1	4	1	3	11.3	11.8	11.8	
Bank of Scotland	748	***	***	***	***	***	***	***	***	***	***	
Barclays	2,109	157	158	160	14	13	13	12	13.4	13.4	13.2	
Halifax	675	51.5	52.5	54.4	7	-3	9	5	13.1	12.8	12.4	
HSBC	987	78.3	75.5	81.1	32	3	5	5	18.9	19.6	18.2	
Lloyds TSB	733	***	***	***	***	***	***	***	***	***	***	
Northern Rock	465	39.4	39.9	39.9	17	4	6	6	11.8	11.6	11.6	
RBSG	1,610	59.4	76.5	99.8	27	26	19	19	27.1	21.0	16.1	
Standard Chartered	1,015	51.5	42.4	46.7	40	17	18	16	19.7	23.9	21.7	
DKWR European banks universe					31	18	13	14.2	17.9	18.3	17.7	

Source: DKWR estimates

Valuation ratios

Bank	Last price local	Stated BVPS	+Unrealised gains	+ Overprov.	- Tax effect	Adj. BVPS 2000	Out of which good-will	As % of Stated BVPS	Stated RoE 2000 %	Cash RoE 2000 %	Adj. RoE 2000 %	Stated BVPS	P/BV 2000 Adj. BVPS	Bank only	
Austria															
Erste Bank	48.6	35.3	3.3	5.6	1.8	42.4	8.7	25	7.9	11.3	14.4	1.4	1.4	1.6	
Benelux															
ABN-AMRO	25.4	9.14	5.6	0.0	1.7	13.0	0.0	0	17.2	22.5	22.5	2.8	1.9	2.3	
Fortis	34.8	12.8	6.5	0.0	2.2	17.1	0.0	0	19.8	20.4	20.4	2.7	2.0	2.4	
France															
BNP-Paribas	99.0	45.2	17.9	0.0	5.9	57.2	3.1	7	21.0	15.9	17.1	2.2	1.8	2.1	
Credit Lyonnais	39.9	24.3	0.0	0.0	0.0	24.3	0.0	0	12.8	13.6	13.6	1.6	1.6	1.6	
Dexia	185	81.7	0.0	0.0	0.0	81.7	0.0	0	12.8	12.3	13.2	2.3	2.3	2.3	
SocGen	72.1	29.3	2.5	0.0	0.8	31.0	1.6	5	22.9	21.3	22.5	2.5	2.5	2.5	
Germany															
Bankgesellschaft Berlin	13.3	15.32	1.6	0.2	0.8	16.3	0.0	0	5.6	7.7	7.7	0.9	0.8	0.8	
Commerzbank	32.1	23.9	4.5	0.0	2.0	26.5	2.4	10	7.9	14.5	15.7	1.3	1.3	1.4	
Depfa	78.5	56.4	1.1	5.5	2.9	60.1	0.0	0	5.6	7.1	7.1	1.4	1.3	1.3	
Deutsche Bank	94.7	43.0	28.9	6.1	15.4	62.6	11.3	26	18.4	10.0	14.5	2.2	1.8	2.4	
HypoVereinsbank	60.6	31.4	25.0	7.1	14.2	49.3	2.0	7	7.3	9.1	9.7	1.9	1.3	1.5	
Italy															
Banca di Roma	1.24	1.08	0.0	0.0	0.0	1.09	0.05	5	4.2	4.8	5.1	1.1	1.2	1.2	
Banca Intesa	5.31	1.99	0.0	0.0	0.0	1.99	0.10	5	13.5	13.8	14.5	2.7	2.8	2.8	
Bipop	7.27	0.87	0.0	0.0	0.0	0.87	0.12	14	22.2	24.0	25.8	8.4	9.7	9.7	
BNL	3.51	1.83	0.0	0.0	0.0	1.83	0.00	0	11.9	6.6	6.6	1.9	1.9	1.9	
Monte di Paschi	4.76	2.04	0.3	0.0	0.0	2.29	0.37	18	13.9	15.1	16.7	2.3	2.5	2.7	
San Paolo IMI	18.4	6.75	4.4	0.0	0.0	11.2	0.68	10	13.5	12.7	13.4	2.7	1.8	2.3	
Unicredito	5.92	1.56	0.1	0.0	0.0	1.62	0.56	36	20.7	22.7	29.3	3.8	5.6	5.9	
Nordic															
DnB	46.0	30.6	0.0	0.0	0.0	30.6	1.7	6	17.0	15.0	15.8	1.5	1.6	1.6	
Nordea	8.2	3.6	0.0	0.0	0.0	3.6	0.5	14	20.7	19.4	21.4	2.3	2.7	2.7	
SEB	115	58.5	0.0	0.0	0.0	58.5	12.7	22	18.2	14.8	19.7	2.0	2.5	2.5	
SHB	161	59.8	0.0	0.0	0.0	59.8	6.9	11	21.2	21.3	24.3	2.7	3.0	3.0	
Swedbank	155	66.6	0.0	0.0	0.0	66.6	13.3	20	21.4	20.5	26.3	2.3	2.9	2.9	
UBN	249	193	0.0	0.0	0.0	193	0.0	0	22.7	17.8	17.8	1.3	1.3	1.3	
Spain															
BBVA	16.6	4.55	1.6	0.0	0.6	5.61	1.1	24	21.0	15.8	20.3	3.6	3.7	4.5	
BSCH	12.0	4.27	2.6	0.1	1.0	6.06	2.6	62	16.3	17.8	36.6	2.8	3.5	6.2	
Switzerland															
CS	332	140	43.4	0.0	8.7	174	48.4	35	12.5	14.6	19.1	2.4	2.6	3.2	
UBS	274	87	17.1	0.0	3.4	100	45.7	53	19.3	23.7	35.8	3.2	5.0	6.3	
UK															
Abbey National	1,234	***	***	***	***	***	***	***	***	***	***	***	***	***	
Alliance & Leicester	723	324	0.0	0.0	0.0	324	0.0	0	20.0	19.1	19.1	2.2	2.2	2.2	
Bank of Scotland	748	***	***	***	***	***	***	***	***	***	***	***	***	***	
Barclays	2,109	754	0.0	0.0	0.0	754	204	27	22.7	24.2	29.0	2.8	3.8	3.8	
Halifax	675	303	0.0	0.0	0.0	303	41.8	14	18.7	18.7	20.9	2.2	2.6	2.6	
HSBC	987	458	0.0	0.0	0.0	458	151.1	33	18.3	19.0	26.0	1.4	4.8	4.8	
Lloyds TSB	733	***	***	***	***	***	***	***	***	***	***	***	***	***	
Northern Rock	465	207	0.0	0.0	0.0	207	0.0	0	19.1	19.9	19.9	2.2	2.2	2.2	
RBSG	1,610	701	0.0	0.0	0.0	701	444	63	8.5	14.7	40.1	2.3	6.3	6.3	
Standard Chartered	1,015	301	0.0	0.0	0.0	301	31	10	17.0	15.5	17.4	3.4	3.8	3.8	
DKWR European banks univ.									24	17.6	18.1	23.7	2.6	3.5	3.8

Source: DKWR estimates

Consensus EPS analysis

Bank	Last price	EPS 2000			DKWR	%	EPS 2001			DKWR	IBES EPS % Change, YTD		
		IBES Min	IBES Max	IBES Mean			IBES Min	IBES Max	IBES Mean		2000	2001	
Austria													
Erste Bank	49	3.6	4.8	4.1	3.8	-6	3.7	5.3	4.6	4.7	2	-16	-16
Benelux													
ABN-AMRO	25	1.56	2.10	1.93	1.61	-17	1.99	2.90	2.28	2.19	-4	9	15
Fortis	35	1.94	2.50	2.28	2.36	3	2.18	2.78	2.55	2.61	2	15	12
France													
BNP-Paribas	99	7.7	10.5	9.1	9.0	-1	7.7	10.4	9.2	10.2	10	20	9
Credit Lyonnais	40	2.4	3.4	2.9	2.8	-4	2.5	3.7	3.1	3.0	-2	58	39
Dexia	185	10	12	11	11	-2	11	13	13	13	0	3	4
SocGen	72	5.1	7.0	6.1	6.3	4	5.5	6.8	6.2	6.4	3	42	27
Germany													
Bankgesellschaft Berlin	13	0.65	1.79	1.27	1.01	-20	0.95	2.56	1.58	1.34	-15	-8	5
Commerzbank	32	1.7	3.5	2.7	3.2	18	1.9	2.6	2.3	2.3	1	34	-2
Depfa	79	6.0	8.3	7.3	3.9	-47	7.1	9.8	8.2	7.8	-6	30	19
Deutsche Bank	95	3.8	8.8	6.6	7.7	17	3.4	8.0	5.8	5.0	-14	79	29
HypoVereinsbank	61	2.1	3.3	2.6	2.6	-2	3.0	5.0	4.0	3.6	-10	-8	7
Italy													
Banca di Roma	1.2	0.04	0.10	0.06	0.05	-25	0.06	0.13	0.09	0.07	-23	-36	-28
Banca Intesa	5.3	0.21	0.32	0.26	0.26	-1	0.27	0.43	0.34	0.43	25	-12	-11
Bipop	7.3	0.17	0.25	0.22	0.19	-16	0.22	0.35	0.28	0.25	-12	29	32
BNL	3.5	0.16	0.33	0.23	0.21	-7	0.25	0.31	0.28	0.33	16	10	7
Monte di Paschi	4.8	0.22	0.31	0.26	0.27	4	0.27	0.40	0.33	0.32	-4	1	3
San Paolo IMI	18.4	0.81	1.00	0.91	0.91	0	0.93	1.14	1.03	1.03	0	4	5
Unicredito	5.9	0.27	0.41	0.32	0.31	-4	0.34	0.43	0.39	0.37	-5	16	14
Nordic													
DnB	46.0	4.0	5.0	4.6	5.0	7	3.8	5.1	4.5	4.5	0	39	33
Nordea	8.2	0.50	0.68	0.59	0.61	3	0.53	0.75	0.63	0.66	5	14	16
SEB	115	6.2	11.6	9.2	9.6	4	6.5	10.8	8.8	8.0	-9	35	16
SHB	161	8.1	12.9	11.8	12.1	3	10.6	13.3	11.9	11.1	-7	35	27
Swedbank	155	9.3	13.4	11.9	13.4	13	9.5	14.9	11.9	11.4	-4	25	14
UBN	249	19.8	41.8	34.6	40.4	17	22.5	33.0	29.1	31.5	8	38	17
Spain													
BBVA	17	0.70	0.80	0.72	0.73	2	0.83	0.97	0.89	0.92	4	2	4
BSCH	12	0.49	0.71	0.55	0.54	-2	0.60	0.73	0.67	0.65	-2	3	0
Switzerland													
CS	332	16	24	20	18	-10	18	30	23	21	-8	8	10
UBS	274	13	21	18	17	-3	15	21	19	18	-3	20	12
UK													
Abbey National	1,234	83	95	88	***	***	85	99	93	***	***	1	0
Alliance & Leicester	723	59	65	62	61	-1	57	72	63	64	0	-6	-12
Bank of Scotland	748	52	52	52	***	***	58	58	58	***	***	8	-3
Barclays	2,109	111	166	155	158	2	123	184	167	171	2	7	4
Halifax	675	51	57	54	53	-2	47	58	53	51	-3	-5	-12
HSBC	987	75	89	81	76	-7	80	94	87	76	-12	21	16
Lloyds TSB	733	48	56	51	***	***	50	59	55	***	***	-6	-8
Northern Rock	465	33	43	40	40	-1	35	46	43	42	-4	8	8
RBSG	1,610	94	101	98	100	2	113	130	119	125	5	17	26
Standard Chartered	1,015	48	54	51	42	-16	56	69	62	48	-23	-4	-4
DKWR European banks universe						-1					-3	14	9

Note: For UK DKWR EPS used, except for RBSG where, DKWR cash EPS used, for the rest countries stated EPS estimates used.

Source: DKWR estimates, I/B/E/S

Operating profit and profit before tax

Operating profit

This is the indicator of underlying progress in profits momentum, being the difference between operating revenues and operating costs, before the charge for bad debts. For the sector as a whole, robust growth is forecast in 2000 at 22%, with reduced rates of 13% and 12% in 2001 and 2002, respectively, which look to be reasonably solid in the light of economic slow down. Nordic and Italian banks have shown the outstanding levels boosted by restructuring, acquisitions and asset gathering activities. Strong growth rates are expected to more sustainable for the Italians compared to the Nordic banks, where for some the absence of pension refunds will produce a drop in operating profits. While the trends vary quite widely between banks, the strong focus on cost control is seen as the major driver of operating profits.

Operating profits after bad debt charge

This incorporates the risk element of doing business. With the bad debt charge falling in 2000, substantial leverage is given to this line with a growth of 44% compared to 22% growth in operating profits. Thereafter the growth broadly tracks that for operating profits in 2001 and 2002. Again the Nordic banks feature a large number of falls reflecting the return to more normal level of provisions.

Profits before tax

This is the key focus of results announcements although it is arguable that the attributable profit is the more important figure for equity shareholders since this is what drives long-term share price performance. For the sector overall, the strength of growth in 2000, at 32%, moderates quite sharply in 2002 and 2003 to 15% and 14%, respectively. Our forecasts do not include any significant restructuring or other items in 2001 and 2002, which accounts for the lower progression in 2000 compared to operating profits after bad debt charge (and in some cases, for example Commerzbank, a fall).

Operating profit and profit before tax (€m)

Bank	Operating profit			Growth %			Profit before tax			Growth %			P/OpA		
	2000	2001	2002	2000	2001	2002	2000	2001	2002	2000	2001	2002	P/OpP 2001	BD 2001	P/PBT 2001
Austria															
Erste Bank	414	533	610	11	29	14	271	361	435	12	33	20	4.6	6.8	6.8
Benelux															
ABN-AMRO	5,724	6,193	7,137	16	8	15	4,127	5,482	6,312	-3	33	15	6.2	6.9	6.9
Fortis	5,112	5,844	6,448	24	14	10	4,258	4,831	5,306	26	13	10	7.4	8.7	9.0
France															
BNP-Paribas	5,965	6,853	7,509	25	15	10	6,388	6,796	7,489	22	6	10	6.5	8.1	6.5
Credit Lyonnais	1,889	2,140	2,504	20	13	17	1,404	1,615	1,973	79	15	22	6.4	8.3	8.4
Dexia	1,583	2,156	2,087	13	36	-3	1,503	1,994	1,920	12	33	-4	8.3	9.2	9.0
SocGen	3,952	3,837	3,965	28	-3	3	3,971	3,667	3,690	26	-8	1	7.9	10.1	8.3
Germany															
Bankgesellschaft Berlin	857	981	1,110	-19	14	13	446	631	775	2	41	23	2.5	3.8	3.8
Commerzbank	1,967	2,225	2,540	34	13	14	2,858	2,065	2,382	108	-28	15	7.8	9.9	8.4
Depfa	483	565	705	-23	17	25	240	505	685	-53	110	36	5.0	5.6	5.6
Deutsche Bank	5,210	6,440	7,430	31	24	15	6,577	5,535	6,570	61	-16	19	9.0	9.7	10.5
HypoVereinsbank	3,028	3,690	4,145	7	22	12	2,081	2,793	3,417	176	34	22	6.5	8.5	8.6
Italy															
Banca di Roma	1,267	1,451	1,648	13	15	14	492	733	992	-5	49	35	4.6	8.4	9.2
Banca Intesa	3,950	4,779	5,623	41	21	18	2,796	4,751	5,561	68	70	17	5.6	7.3	5.6
Bipop	620	821	1,113	27	32	36	564	751	1,063	27	33	41	15.6	16.5	17.1
BNL	1,308	1,531	1,678	31	17	10	936	1,148	1,348	48	23	17	4.8	6.5	6.5
Monte di Paschi	1,830	1,989	2,121	48	9	7	1,376	1,576	1,774	39	14	13	5.6	6.9	7.1
San Paolo IMI	2,345	2,801	3,267	26	19	17	2,276	2,496	2,955	27	10	18	9.2	10.9	10.4
Unicredit	4,010	4,655	5,339	17	16	15	3,461	4,148	4,820	22	20	16	6.4	7.3	7.1
Nordic															
DnB	590	626	675	55	6	8	641	595	618	65	-7	4	7.0	7.3	7.3
Nordea	2,384	3,110	3,526	78	30	13	2,321	2,784	3,028	78	20	9	7.8	8.4	8.7
SEB	1,077	980	1,141	122	-9	16	1,101	922	1,032	63	-16	12	8.9	10.9	9.5
SHB	1,232	1,198	1,309	31	-3	9	1,316	1,216	1,276	36	-8	5	9.9	10.3	9.7
Swedbank	1,229	1,171	1,277	54	-5	9	1,129	999	1,076	54	-12	8	7.9	9.5	9.2
UBN	372	390	422	34	5	8	438	352	368	46	-20	4	3.6	4.0	4.0
Spain															
BBVA	4,580	5,409	6,231	32	18	15	4,055	5,163	6,220	40	27	20	9.7	11.5	10.1
BSCH	4,539	6,183	7,379	30	36	19	3,817	4,972	5,941	41	30	20	8.8	11.2	10.9
Switzerland															
CS	6,506	6,930	7,518	23	7	8	5,612	6,017	6,637	33	7	10	9.3	10.8	10.8
UBS	6,611	7,387	8,353	14	12	13	6,774	6,930	7,798	32	2	13	10.7	11.4	11.4
UK															
Abbey National	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
Alliance & Leicester	776	818	847	-8	5	4	714	606	662	-8	-15	9	7.0	8.0	9.5
Bank of Scotland	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
Barclays	6,661	7,520	8,343	18	13	11	5,396	6,154	7,425	40	14	21	7.3	9.1	9.0
Halifax	3,032	3,051	3,346	1	1	10	2,694	2,747	3,010	6	2	10	7.8	8.4	8.7
HSBC	11,776	12,581	13,538	16	7	8	10,905	11,725	12,545	30	8	7	11.4	12.6	12.2
Lloyds TSB	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
Northern Rock	444	490	534	13	10	9	387	417	445	15	8	7	6.3	7.0	7.4
RBSG	7,874	9,579	11,224	28	22	17	4,804	6,625	8,506	14	38	28	7.0	8.0	10.2
Standard Chartered	1,626	1,636	1,786	1	1	9	1,433	1,441	1,716	80	1	19	11.0	13.5	12.5
DKWR Euro. bks univ.	128,897	146,074	163,916	22	14	12	112,439	126,248	144,679	33	16	15	8.6	10.0	9.8

Notes: P/OpP - Market Cap. to Operating Profit BEFORE bad debt charge P/OpABD - Market Cap. To Operating profit AFTER bad debt charge, P/PBT - Market Cap. To Profit before tax

Source: DKWR estimates



Income dynamics

Total income

This is the key driver of operating profits and in a period of economic slow down will be, in our opinion, a more valued profits driver than cost reduction. Growth rates show a greater range in 2000 than in the subsequent two years mainly on account of acquisitions in 2000 and strong growth in capital markets related revenues. Total income is projected to grow by 21% in 2000 slowing down to 10% and 7% in 2001 and 2002, respectively. Significantly, in all three years, income growth is expected to exceed the growth in operating costs. Nordic banks are expected to feature the strongest growth in 2000 but will come back to more modest growth rates in the subsequent two years.

Net interest income

Historically, this has been the main driver for income growth but for our universe, the bulk of income growth now comes from non-interest income. This structural shift is expected to continue with the growth rate in net interest income underperforming that on non-interest income based on figures of 10%, 7% and 6% for 2000, 2001 and 2002 respectively. In fact for a number of banks there will be declines in net interest income, particularly in France with the exception of Soc Gen.

Other income

A very strong performance in 2000, with income forecast to be up by 24%, reflects the robust showing from capital markets despite the weakening trends in the second half. With the decline in capital markets activity and a general economic slow down the growth rates should come down quite markedly in 2001 and 2002, with projections of 9% and 8%, respectively. Nordic banks are the obvious star performers in 2000 but the major capital markets players also showed very strong growth rates including Deutsche Bank, BNP Paribas, and Credit Suisse.

Income dynamics

Bank	Total inc.				Net int. inc.				Non-int. income				Deal. profit 2000
	2000	Total income growth %	2001	2002	2000	Net int. inc. growth %	2001	2002	2000	Non-int. inc. growth %	2001	2002	
Austria													
Erste Bank	1,410	18	22	5	870	18	21	2	540	18	25	9	121
Benelux													
ABN-AMRO	18,491	19	10	10	9,343	8	9	13	9,148	34	11	8	1,869
Fortis	10,212	13	11	7	4,269	-1	0	7	5,943	26	18	7	2,003
France													
BNP-Paribas	16,568	16	8	7	4,880	-1	19	4	11,688	24	4	9	4,656
Credit Lyonnais	6,326	5	2	8	2,076	-14	17	13	4,250	18	-5	5	1,366
Dexia	3,343	6	22	2	2,006	-4	20	4	1,337	23	26	-1	329
SocGen	12,820	16	0	4	4,779	10	3	4	8,041	19	-1	4	1,880
Germany													
Bankgesellschaft Berlin	2,457	-11	2	4	1,645	-20	3	3	812	16	0	7	130
Commerzbank	7,200	21	6	6	3,595	12	4	3	3,605	32	8	9	890
Depfa	812	-13	8	17	588	-17	12	18	224	1	-3	15	75
Deutsche Bank	25,280	28	7	6	6,460	-2	2	2	18,820	44	9	7	6,600
HypoVereinsbank	8,015	8	6	6	4,995	-1	1	2	3,020	28	15	12	600
Italy													
Banca di Roma	4,131	5	6	6	2,374	-4	5	5	1,757	20	6	6	207
Banca Intesa	11,809	13	6	6	5,845	8	8	4	5,964	18	5	8	207
Bipop	1,251	35	29	22	376	38	26	14	876	34	30	25	15
BNL	3,416	9	6	4	1,860	4	5	2	1,556	16	7	6	176
Monte di Paschi	4,527	16	6	4	2,056	5	4	5	2,471	27	7	3	196
San Paolo IMI	5,490	18	25	6	2,324	14	27	4	3,166	20	22	8	161
Unicredito	8,886	13	9	7	4,188	8	7	6	4,698	19	10	9	620
Nordic													
DnB	1,535	33	4	5	871	31	5	4	665	35	2	7	152
Nordea	5,254	74	30	6	2,862	59	29	5	2,392	95	32	8	289
SEB	3,469	64	-2	6	1,307	70	4	2	2,162	60	-5	9	304
SHB	2,272	18	-1	6	1,270	-2	8	5	1,001	60	-11	8	293
Swedbank	2,655	23	-1	5	1,524	19	6	4	1,131	27	-10	7	169
UBN	879	14	4	5	644	15	4	5	235	12	5	5	4
Spain													
BBVA	10,790	18	10	8	6,370	18	14	8	4,419	19	5	9	900
BSCH	12,597	24	12	11	7,764	22	12	8	4,833	28	13	14	600
Switzerland													
CS	22,031	21	6	5	3,132	-9	7	5	18,898	28	6	5	5,886
UBS	22,749	19	6	5	5,286	37	4	2	17,463	14	7	6	6,611
UK													
Abbey National	***	***	***	***	***	***	***	***	***	***	***	***	***
Alliance & Leicester	1,871	1	1	2	1,209	2	2	0	662	0	0	5	-
Bank of Scotland	***	***	***	***	***	***	***	***	***	***	***	***	***
Barclays	15,029	14	8	8	7,985	10	7	6	7,044	19	9	9	1,188
Halifax	5,425	5	4	7	3,758	-3	-2	2	1,667	26	18	16	-
HSBC	25,540	15	6	6	14,078	12	4	6	11,462	19	8	6	1,712
Lloyds TSB	***	***	***	***	***	***	***	***	***	***	***	***	***
Northern Rock	651	12	10	8	444	6	6	5	207	27	17	14	-
RBSG	18,382	12	8	8	9,453	14	8	7	8,929	9	8	8	1,795
Standard Chartered	3,859	3	3	6	2,603	1	0	4	1,256	7	9	11	350
DKWR European banks universe	343,088	17	8	7	154,878	10	7	5	188,210	24	9	8	44,492

Source: DKWR estimates



Income composition

Net interest margin

Looking across the universe there appears to be a broadly stable net interest margin, which is forecast to remain at 1.7% for the three years, but with a slight downward tendency. For consistency we have taken the margin to be an expression of net interest income as a percent of average total assets. This measure tends to understate the underlying margin on pure banking business where the balance sheet includes a significant level of investment banking assets. The Swiss and large German banks are particularly affected. The slight tendency for margins to decline is demonstrated by a marginally higher growth in average total assets compared to the growth in net interest income.

Other interest income

The major structural change in banks' income composition continues to favour non-interest income against net interest income. As the process of disintermediation continues and banks diversify their income streams this will be continuing feature. For 2000, non-interest income is expected to account for just over half of total income at 52%. The most heavily bias towards non-interest income are the capital markets orientated banks (UBS, Credit Suisse, Deutsche Bank and BNP Paribas).

Dealing profit

This element of income has traditionally been lowly rated given the perception that it is non-recurring. While this stream of income may have a high level of volatility, and therefore risk, it has proved to be a relatively constant feature in banks' earnings. We also believe that the risk profile is being reduced. Nevertheless, dealing profits account for a steady 12% of total income with particularly high contributions generated at BNP Paribas, Credit Lyonnais, Deutsche Bank, Credit Suisse and UBS.

Income composition

% Bank	Net interest margin			ATA growth			Non-int. Inc./totl. Inc.			Net fees & com./tot. inc.		
	2000	2001	2002	2000	2001	2002	2000	2001	2002	2000	2001	2002
Austria												
Erste Bank	1.5	1.6	1.6	12	12	4	38	39	41	29	30	31
Benelux												
ABN-AMRO	1.9	1.8	1.9	9	13	8	49	50	49	34	36	35
Fortis*	1.0	1.0	1.0	10	5	5	58	62	62	21	21	24
France												
BNP-Paribas	0.7	0.8	0.8	39	4	4	71	68	69	38	38	38
Credit Lyonnais	1.1	1.2	1.3	0	10	2	67	63	61	44	42	41
Dexia	0.8	0.9	0.8	16	10	10	40	41	40	30	32	30
SocGen	1.2	1.2	1.2	5	3	3	63	62	62	45	43	43
Germany												
Bankgesellschaft Berlin	0.8	0.8	0.7	7	9	7	33	32	33	19	20	22
Commerzbank	0.9	0.9	0.8	11	8	9	50	51	53	38	39	41
Depfa	0.4	0.4	0.5	-1	9	9	28	25	24	13	12	12
Deutsche Bank	0.7	0.7	0.7	21	9	7	74	76	77	47	50	52
HypoVereinsbank	0.9	0.9	0.8	10	10	8	38	41	43	29	33	35
Italy												
Banca di Roma	1.7	1.8	1.8	7	4	4	43	43	43	27	28	30
Banca Intesa	1.8	1.8	1.8	9	7	4	51	50	51	35	36	38
Bipop	2.5	1.8	1.9	20	76	4	70	71	72	65	64	67
BNL	2.1	2.2	2.1	5	4	3	46	46	47	35	35	36
Monte di Paschi	2.0	2.0	2.0	11	2	5	55	55	55	38	39	39
San Paolo IMI	1.3	1.6	1.6	26	2	4	58	57	58	46	45	45
Unicredito	2.4	2.4	2.4	4	7	5	53	53	54	36	37	39
Nordic												
DnB	2.2	2.1	2.0	18	9	6	43	43	43	25	26	29
Nordea	1.9	1.7	1.6	51	45	12	46	46	47	26	27	27
SEB	1.3	1.1	1.1	28	23	3	62	60	62	43	47	28
SHB	1.1	1.1	1.1	6	8	5	44	39	40	27	30	49
Swedbank	1.6	1.6	1.5	12	6	5	43	39	39	28	30	31
UBN	2.6	2.4	2.4	20	8	5	27	27	27	15	16	31
Spain												
BBVA	2.4	2.5	2.5	18	12	6	41	39	39	29	28	28
BSCH	2.4	2.3	2.3	29	17	8	38	39	40	31	31	32
Switzerland												
CS	0.6	0.6	0.5	8	19	0	86	86	86	43	44	45
UBS	0.8	0.7	0.7	7	9	6	77	77	78	44	45	47
UK												
Abbey National	***	***	***	***	***	***	***	***	***	***	***	***
Alliance & Leicester	2.5	2.4	2.3	8	5	4	35	35	36	35	35	9
Bank of Scotland	***	***	***	***	***	***	***	***	***	***	***	***
Barclays	4.0	3.6	3.5	22	18	10	47	47	48	35	35	26
Halifax	1.3	1.2	1.2	12	8	6	31	35	38	6	6	36
HSBC	2.3	2.4	2.4	9	3	3	45	46	46	30	30	5
Lloyds TSB	***	***	***	***	***	***	***	***	***	***	***	***
Northern Rock	1.2	1.1	1.1	15	16	12	32	34	36	25	24	29
RBSG	2.0	1.9	1.8	11	13	16	49	49	49	28	28	24
Standard Chartered	3.0	2.7	2.5	8	7	10	33	35	36	22	24	29
DKWR European banks universe	1.7	1.7	1.6	14	12	6	53	53	54	33	34	26

Notes: Net Interest Margin - Net Interest Income over Average Total Assets (ATA), * for Fortis Life and General insurance is net of operating costs

Source: DKWR estimates

Income composition (continued)

% Bank	Life & gen. Ins./total inc.			Dealing pr./total income		
	2000	2001	2002	2000	2001	2002
Austria						
Erste Bank	0	0	0	9	10	10
Benelux						
ABN-AMRO	1	1	1	10	9	8
Fortis*	9	14	13	20	19	19
France						
BNP-Paribas	0	0	0	28	28	27
Credit Lyonnais	0	0	0	22	21	20
Dexia	0	0	0	10	9	10
SocGen	0	0	0	15	15	16
Germany						
Bankgesellschaft Berlin	0	0	0	5	5	5
Commerzbank	0	0	0	12	12	12
Depfa	0	0	0	9	7	8
Deutsche Bank	0	0	0	26	25	23
HypoVereinsbank	0	0	0	7	7	7
Italy						
Banca di Roma	0	0	0	5	5	5
Banca Intesa	0	0	0	2	3	3
Bipop	0	0	0	1	4	4
BNL	0	0	0	5	5	5
Monte di Paschi	0	0	0	4	4	4
San Paolo IMI	0	0	0	3	3	3
Unicredito	0	0	0	7	7	6
Nordic						
DnB	3	3	3	10	9	9
Nordea	9	10	10	6	5	5
SEB	0	0	0	9	8	7
SHB	0	0	0	13	7	7
Swedbank	0	0	0	6	4	4
UBN	0	0	0	0	0	0
Spain						
BBVA	0	0	0	8	8	7
BSCH	0	0	0	5	4	4
Switzerland						
CS	16	16	16	27	26	25
UBS	0	0	0	29	28	27
UK						
Abbey National	***	***	***	***	***	***
Alliance & Leicester	0	0	0	0	0	0
Bank of Scotland	***	***	***	***	***	***
Barclays	3	3	3	8	8	8
Halifax	18	22	24	0	0	0
HSBC	0	0	0	7	7	7
Lloyds TSB	***	***	***	***	***	***
Northern Rock	0	0	0	0	0	0
RBSG	2	2	3	10	9	9
Standard Chartered	0	0	0	9	9	9
DKWR European banks universe	3	3	4	12	11	11

Notes: Net Interest Margin - Net Interest Income over Average Total Assets (ATA), * for Fortis Life and General insurance is net of operating costs

Source: DKWR estimates



Cost dynamics

Operating costs are perhaps the main item in the profit and loss account over which bank managements can exert greatest control. They also provide an indication whether or not management has control of the business; particularly where cost growth perennially exceeds expectations.

Total cost

While acquisitions have been the main cause for costs running well ahead of inflation in 2000, the rate of growth remains well below that of income. Indeed, in 2001, costs are expected to show a dramatic decline from 14% to 5% and to decline further to a growth of 3% in 2002.

Staff costs

These account for the bulk of operating costs and it is very difficult to see a meaningful control in total operating costs without a commensurate control in staff numbers, which are the principle driver of staff costs. Not surprisingly, staff costs are expected to progress very much in line with total costs over the period. Probably Italian banks provide the most consistent pattern of staff cost reduction.

Cost dynamics (€m)

Bank	Total op. cost 2000	Total op. cost growth %			Staff cost 2000	Staff cost growth %			Staff 2000	Branches 2000
		2000	2001	2002		2000	2001	2002		
Austria										
Erste Bank	996	21	20	1	554	14	14	0	25,500	1,010
Benelux										
ABN-AMRO	12,767	20	11	8	7,103	23	8	4	108,300	3,588
Fortis	5,100	4	7	3	2,597	1	0	3	59,250	2,440
France										
BNP-Paribas	10,603	11	5	6	6,362	11	5	6	80,958	2,525
Credit Lyonnais	4,417	0	-2	4	2,572	4	1	1	39,334	2,388
Dexia	1,760	2	10	7	1,056	53	10	8	16,250	985
SocGen	8,868	11	2	4	5,321	12	2	4	60,371	3,379
Germany										
Bankgesellschaft Berlin	1,600	-5	-4	-2	930	-4	-4	-2	14,800	420
Commerzbank	5,233	17	3	3	2,935	22	4	3	36,000	1,060
Depfa	329	10	-5	4	178	12	-8	4	2,250	49
Deutsche Bank	20,070	27	3	3	12,800	32	3	3	96,000	2,266
HypoVereinsbank	4,987	9	-4	1	2,688	6	1	1	96,000	46,000
Italy										
Banca di Roma	2,804	2	2	2	1,647	0	-1	-1	29,465	1,935
Banca Intesa	7,771	3	-1	-1	4,139	0	-3	0	71,746	4,022
Bipop	606	39	26	8	211	23	27	7	3,457	460
BNL	2,109	-1	-1	0	1,195	-2	-3	0	22,465	851
Monte di Paschi	2,628	-1	4	2	1,497	-3	2	1	24,927	1,714
San Paolo IMI	3,107	11	27	-1	1,728	13	27	-4	29,529	2,246
Unicredito	4,644	6	2	1	2,611	7	-1	-1	61,788	3,757
Nordic										
DnB	925	22	2	4	424	23	2	1	7,200	145
Nordea	2,792	68	27	1	1,605	104	32	1	32,500	1,109
SEB	2,326	49	2	2	1,354	51	2	3	21,000	395
SHB	1,000	6	1	3	608	11	1	2	7,900	530
Swedbank	1,359	2	2	2	664	2	2	2	9,300	600
UBN	507	3	3	2	244	8	3	2	3,300	165
Spain										
BBVA	6,210	10	5	3	3,600	12	5	2	106,076	8,619
BSCH	8,058	21	-1	4	4,384	16	0	4	108,985	9,691
Switzerland										
CS	15,525	20	6	4	10,931	24	4	3	61,700	415
UBS	16,138	20	4	2	10,833	32	4	2	68,775	685
UK										
Abbey National	***	***	***	***	***	***	***	***	***	***
Alliance & Leicester	1,094	9	-2	0	350	3	-4	-2	7,600	316
Bank of Scotland	***	***	***	***	***	***	***	***	***	***
Barclays	8,367	11	4	5	4,788	6	6	5	71,893	1,880
Halifax	2,393	9	8	3	1,208	10	6	5	33,501	909
HSBC	13,764	14	5	5	8,026	14	6	6	148,248	1,679
Lloyds TSB	***	***	***	***	***	***	***	***	***	***
Northern Rock	208	9	8	7	97	15	9	9	2,617	71
RBSG	10,509	2	-2	-1	5,312	-4	-2	-2	92,980	2,360
Standard Chartered	2,233	5	5	4	1,178	5	2	7	31,000	558
DKWR European banks universe	213,373	14	4	3	124,136	16	4	3		

Notes: Tot. Op. Cost - Total Operating Cost excluding Goodwill amortisation

Source: DKWR estimates

Cost composition

Cost/income ratio

As a key measure of cost efficiency the cost/income ratio provides an easy ready reckoner but care has to be exercised in its use. It is most useful as a measure over time of an individual bank or group of banks performance. It can be a misleading analytical tool when comparing one bank against another since different businesses will have different cost structures although they may generate similar levels of profitability. The general pattern across Europe is a firm downward trend in the cost/income ratio from 61% to 57% over the period. The sectors with the highest ratio are Switzerland and Germany together with ABB Amro. The lowest ratios are to be found most consistently amongst the UK banks.

Staff cost/total cost ratio

With the rate of growth in staff costs similar to total cost growth it is unsurprising that this ratio remains stable over the period.

Tax ratio

Over the long term this is an uncontrollable item and reflects government policy on revenue generation and income distribution. Over the relatively short time period of three weeks the ratio remains stable at 29% to 30% with Germany showing the most noticeable change with a downward direction.

Cost composition

Bank	Cost/income ratio			Staff cost/total cost			OP/ head 2000	Total cost/ head 2000 (€)	Staff cost/ head 2000 (€)	Effective tax rate		
	2000	2001	2002	2000	2001	2002				2000	2001	2002
Austria												
Erste Bank	71	69	66	56	53	53	16,235	39,059	21,725	21	21	21
Benelux												
ABN-AMRO	69	70	68	56	54	52	52,855	117,884	65,582	31	31	31
Fortis	62	63	60	51	48	48	86,285	86,077	43,836	27	26	27
France												
BNP-Paribas	64	62	61	60	60	60	73,680	130,969	78,581	30	26	27
Credit Lyonnais	70	67	64	58	60	59	48,028	112,805	65,395	26	29	33
Dexia	53	47	50	60	60	60	97,387	108,308	64,985	35	36	36
SocGen	69	70	70	60	60	60	65,462	146,892	88,135	32	27	28
Germany												
Bankgesellschaft Berlin	65	61	58	58	58	58	57,905	108,108	62,838	43	40	40
Commerzbank	73	71	69	56	56	56	61,261	154,261	187,345	37	35	35
Depfa	41	36	32	54	52	52	214,667	146,222	79,111	30	39	30
Deutsche Bank	79	76	74	64	64	64	48,370	208,032	128,342	28	40	37
HypoVereinsbank	62	57	54	54	57	57	67,552	111,255	59,967	44	40	40
Italy												
Banca di Roma	69	67	64	58	56	55	43,013	97,174	55,885	46	44	43
Banca Intesa	67	62	58	53	51	52	55,056	109,538	57,696	39	34	39
Bipop	50	49	43	33	34	34	179,350	182,699	60,942	44	39	37
BNL	62	58	55	57	56	56	58,211	93,861	53,214	52	39	39
Monte di Paschi	60	58	57	56	55	54	73,428	108,176	60,073	47	46	45
San Paolo IMI	57	59	55	55	55	53	79,417	106,513	58,513	40	39	38
Unicredito	52	49	46	54	52	51	64,900	78,914	42,263	42	42	42
Nordic												
DnB	62	61	60	45	45	44	81,976	131,286	58,850	27	28	28
Nordea	55	55	52	56	57	57	73,365	88,305	49,399	28	29	29
SEB	69	71	69	57	57	57	51,288	113,892	64,474	28	28	28
SHB	46	47	45	58	58	58	155,959	131,589	76,928	27	28	28
Swedbank	54	55	54	47	46	46	132,116	153,410	71,372	26	28	28
UBN	58	57	56	48	48	48	112,692	153,663	73,916	28	28	28
Spain												
BBVA	58	55	52	58	58	58	43,176	58,540	33,943	27	26	26
BSCH	64	56	53	54	55	55	41,646	73,937	40,222	20	22	23
Switzerland												
CS	70	70	69	70	69	69	99,448	237,615	167,157	24	25	25
UBS	71	69	67	67	67	67	96,118	234,650	157,509	23	23	23
UK												
Abbey National	***	***	***	***	***	***	***	***	***	***	***	***
Alliance & Leicester	58	57	56	32	31	30	102,164	143,964	45,998	25	30	30
Bank of Scotland	***	***	***	***	***	***	***	***	***	***	***	***
Barclays	56	54	52	57	58	59	92,656	116,384	66,606	28	29	29
Halifax	44	46	44	50	49	50	90,515	71,430	36,071	28	30	31
HSBC	55	55	54	58	59	60	79,435	92,845	54,142	25	26	26
Lloyds TSB	***	***	***	***	***	***	***	***	***	***	***	***
Northern Rock	32	31	31	47	47	48	169,561	79,339	37,008	31	31	31
RBSG	57	52	48	51	50	49	84,680	113,024	57,131	36	34	33
Standard Chartered	58	59	58	53	51	53	52,451	72,040	37,994	32	32	32
DKWR European banks universe	61	59	57	57	57	57	80,033	128,527	75,425	29	30	30

Source: DKWR estimates

VaR (€m)

Bank	VaR 1999	Confid. interval	Holding period	Standardised	As % of oper. pft	VaR 2000	Confid. interval	Holding period	Standardised	As % of oper. pft.
Austria										
Erste Bank	***	***	***	***	***	***	***	***	***	***
Benelux										
ABN-AMRO	31	99.0	1	98	2.0	***	***	***	***	***
Fortis	***	***	***	***	***	***	***	***	***	***
France										
BNP-Paribas	***	***	***	***	***	53	99.0	1	168	2.8
Credit Lyonnais	***	***	***	***	***	***	***	***	***	***
Dexia	***	***	***	***	***	***	***	***	***	***
SocGen	45	99.0	1	142	4.6	44	99.0	1	139	3.5
Germany										
Bankgesellschaft Berlin	***	99.0	10	***	***	***	99.0	10	***	***
Commerzbank	36	97.5	1	115	7.9	25	97.5	1	80	4.1
Depfa	171	99.0	20	121	19.1	***	99.0	20	***	***
Deutsche Bank	45	99.0	1	143	3.6	37	99.0	1	117	2.2
HypoVereinsbank	634	99.0	10	634	2.1	305	99.0	10	305	10.1
Italy										
Banca di Roma	***	***	***	***	***	5	99.0	1	16	1.2
Banca Intesa	95	99.0	10	95	3.4	40	99.0	10	40	1.0
Bipop	***	***	***	***	***	***	***	***	***	***
BNL	2	99.0	1	6	0.6	1	99.0	1	3	0.2
Monte di Paschi	***	***	***	***	***	12	95.0	1	38	2.1
San Paolo IMI	12	99.0	10	12	0.6	12	99.0	10	12	0.5
Unicredito	***	***	***	***	***	5	99.0	1	14	0.4
Nordic										
DnB	***	***	***	***	***	***	***	***	***	***
Nordea	39	99.0	10	39	2.9	***	***	***	***	***
SEB	12	99.0	1	37	7.6	5	99.0	1	16	1.5
SHB	3	99.0	1	11	1.1	5	99.0	1	15	1.2
Swedbank	***	***	***	***	***	***	***	***	***	***
UBN	***	***	***	***	***	***	***	***	***	***
Spain										
Banco Popular										
Bankinter										
BBVA	21	95.0	1	65	1.9	25	99.0	1	78	1.7
BSCH	41	99.9	1	131	3.8	33	99.9	1	106	2.3
Switzerland										
CS	158	99.0	1	499	9.5	98	99.0	1	310	4.8
UBS	152	99.0	10	152	2.6	149	99.0	10	149	2.3
UK										
Abbey National	***	***	***	***	***	***	***	***	***	***
Alliance & Leicester	***	***	***	***	***	***	***	***	***	***
Bank of Scotland	***	***	***	***	***	***	***	***	***	***
Barclays	51	98.0	1	162	2.9	57	98.0	1	179	2.7
Halfax	***	***	***	***	***	***	***	***	***	***
HSBC	48	99.0	10	48	0.5	59	99.0	10	59	0.5
Lloyds TSB	***	***	***	***	***	***	***	***	***	***
Northern Rock	***	***	***	***	***	***	***	***	***	***
RBSG	33	95.0	1	104	1.7	26	95.0	1	82	1.0
Standard Chartered	7	97.5	1	21	1.3	8	97.5	1	25	1.5
DKWR European banks universe										

Source: DKWR estimates, companies



Credit quality

Bad debt charge

In the old days of the stop go cycle the credit quality cycle would be a crucial determinant in the profitability of banks. While the economic cycle has not been banished, the volatility of the economic cycle has been substantially reduced and with it the range in the bad debt charge. Consequently, we anticipate the bad debt charge across European banks to come down in 2001 but to increase in 2002. In part though this reduction in 2001 reflects the reduction from previous crisis provisioning (including the Asia and East European property problems). There is nevertheless the risk of a hard landing in the US adding pressure to our current forecasts.

Bad debt charge as a percentage of customer loans

This is the more important indicator of credit quality since it is a relative measure. The combination of modest volume growth and a decline in the forecast bad charge in 2001 will lead to a small increase in the ratio from 0.34% to 0.36%, which is maintained through to 2002. Within our universe, French and Italian banks are positioned at the high end of the table with ratios above the average at around 0.50%. German banks are generally characterised by low levels of bad debt charge, a testament to their large corporate loan book, while the Nordic banks are benefiting from recoveries in 2000 but with a rising trend as the charge returns to more normal levels.

Non-performing loans

This gives an indication of the underlying quality of a banks portfolio but must be looked at in conjunction with provisioning policies (the level of cover, the rapidity of writing off bad loans). There are a wide range of NPL ratios (expressed as the ratio of gross NPLs against customer lending). Against the sector average of 2.8%, the German levels are low and are accompanied by a high level of cover. At the other end of the spectrum, Italian banks have a high level of NPLs and a low level of cover as they are coming through a restructuring phase.

Credit quality (€m)

Bank	Bad debt charge 2000	Bad debt charge growth %			Bad debt charge/ gross cust. loans %			Gross NPL 2000	NPL/ cust. loans % 2000	Spec. prov. cover % 2000
		2000	2001	2002	2000	2001	2002			
Austria										
Erste Bank	143	8	20	2	0.45	0.52	0.52	n.a.	n.a.	n.a.
Benelux										
ABN-AMRO	555	-19	18	15	0.18	0.20	0.21	5,456	1.8	92
Fortis	693	27	23	15	0.48	0.54	0.60	n.a.	n.a.	n.a.
France										
BNP-Paribas	1,213	13	14	3	0.50	0.53	0.50	13,395	5.5	75
Credit Lyonnais	405	-32	25	1	0.43	0.52	0.50	6,625	7.0	5
Dexia	180	84	16	3	0.13	0.14	0.13	347	0.3	100
SocGen	804	4	0	8	0.49	0.48	0.47	6,727	4.1	90
Germany										
Bankgesellschaft Berlin	400	9	-13	-4	0.35	0.28	0.25	3,450	2.9	101
Commerzbank	525	-24	-12	0	0.24	0.20	0.17	5,420	2.4	100
Depfa	150	142	-60	0	0.18	0.06	0.06	466	0.5	143
Deutsche Bank	345	-44	23	29	0.09	0.10	0.13	3,792	1.0	199
HypoVereinsbank	1,050	-58	-16	-13	0.20	0.20	0.20	6,800	1.9	219
Italy										
Banca di Roma	702	-27	-8	-7	0.91	0.79	0.70	7,784	10.1	53
Banca Intesa	1,050	-30	6	5	0.72	0.60	0.55	13,474	7.0	50
Bipop	30	-27	49	2	0.25	0.24	0.22	178	1.5	37
BNL	519	3	-23	-12	1.02	0.62	0.53	3,618	5.9	41
Monte di Paschi	371	-6	1	-2	0.60	0.56	0.51	3,090	5.0	48
San Paolo IMI	369	18	14	8	0.37	0.40	0.41	3,203	3.2	59
Unicredito	619	-29	-3	4	0.56	0.51	0.49	3,955	3.6	50
Nordic										
DnB	+16	200	-294	87	++0.05	0.09	0.16	756	2.4	80
Nordea	61	177	254	82	0.05	0.16	0.27	3,156	2.8	76
SEB	122	-475	46	32	0.19	0.27	0.35	1,699	2.6	55
SHB	+8	-67	-839	94	++0.01	0.07	0.13	572	0.8	66
Swedbank	132	85	58	15	0.19	0.24	0.27	451	0.7	99
UBN	24	-1	54	44	0.11	0.16	0.22	332	1.5	90
Spain										
BBVA	1,040	39	-19	-11	0.68	0.49	0.39	4,722	3.1	103
BSCH	1,093	11	25	16	0.63	0.70	0.73	4,991	2.9	111
Switzerland										
CS	840	-17	9	-4	0.41	0.40	0.36	7,872	3.7	92
UBS	+164	-126	-380	21	++0.10	0.26	0.30	8,857	5.4	100
UK										
Abbey National	***	***	***	***	***	***	***	***	***	***
Alliance & Leicester	63	-3	63	19	0.16	0.26	0.30	11	0.0	0
Bank of Scotland	***	***	***	***	***	***	***	***	***	***
Barclays	1,275	29	15	12	0.56	0.59	0.60	5,212	2.3	51
Halifax	135	-40	62	24	0.08	0.13	0.15	3,222	2.0	18
HSBC	920	-58	35	22	0.31	0.39	0.45	10,669	3.6	53
Lloyds TSB	***	***	***	***	***	***	***	***	***	***
Northern Rock	32	51	62	30	0.10	0.14	0.16	50	0.2	52
RBSG	1,004	20	12	14	0.37	0.36	0.36	4,889	1.8	50
Standard Chartered	402	-49	-24	-11	0.85	0.59	0.48	4,736	10.6	0
DKWR European banks universe	20,033	-16	-10	13	0.37	0.40	0.40	157,862	3.0	85

Note: Notes: "*" indicates net release of risk provisions

Source: DKWR estimates



Balance sheet structure and growth

The growth of the balance sheet is fundamental driver for net interest income growth. This is not the only force for growth. A change in the mix can also achieve growth without expanding WRAs where there is a move away from low to high margin business.

Risk weighted assets (RWA)

Progression in RWAs is the key indicator of balance sheet movement. It also critically ties in directly to what an individual bank is capable of doing in relation to its capital strength and internal capital generation. RWAs also include off-balance sheet items, which will give some differences in the movement between total assets and RWAs. Growth in RWAs is unlikely to expand at rate much greater than the nominal growth in the economy for the more mature western countries. Acquisitions will clearly boost growth and as will changes in borrowing patterns in an economy where the private sector is relatively under borrowed. We anticipate a slow down in the growth rate from a high 14% in 2000, boosted by acquisitions to 8% and 6% in 2001 and 2002, respectively.

Customer loans

These more directly relate to the banking lending business. In aggregate there is little difference for the sector against the growth rates for RWAs. Also, the differences for each individual bank are not expected to vary by a significant amount. Looking at the Spanish and Italian banks is expected to feature the highest level of growth rates. Within a fairly modestly growing sector in the UK, Barclays and Bank of Scotland stand out.

Loans/deposits ratio

This ratio provides a quick indication as to the level at which customer customer borrowing funds lending. Typically in more mature banking markets lending will be partly funded from the money markets, although this is more expensive and will introduce an increased complexity in matching interest rate profiles.

Balance sheet (€m)

Bank	RWA 2000	RWA growth			Cust. loans 2000	Cust. loans growth			Cust. deposits 2000	Loans/ deps. 2000	Total assets 2000	RWA/ TA
		2000	2001	2002		2000	2001	2002				
Austria												
Erste Bank	30,000	8	5	4	31,463	19	4	3	29,100	108	64,191	47
Benelux												
ABN-AMRO	294,950	20	4	5	310,000	19	8	8	275,000	113	546,203	54
Fortis	157,917	9	3	4	145,494	4	9	3	151,263	96	417,762	38
France												
BNP-Paribas	290,424	4	4	3	242,246	9	9	9	158,688	153	728,317	40
Credit Lyonnais	113,791	1	3	3	94,142	3	3	4	59,194	159	207,267	55
Dexia	69,357	3	10	10	138,813	8	8	8	49,265	282	269,108	26
SocGen	176,723	10	3	16	163,420	2	2	11	163,365	100	420,770	42
Germany												
Bankgesellschaft Berlin	82,000	3	2	2	115,814	14	7	7	74,434	156	215,985	38
Commerzbank	208,000	11	3	3	217,878	7	8	12	104,661	208	400,934	52
Depfa	32,500	8	8	9	84,417	10	13	12	16,632	508	144,189	23
Deutsche Bank	308,000	14	4	6	390,000	37	5	5	300,000	130	928,000	33
HypoVereinsbank	244,000	6	6	6	355,000	9	8	8	166,896	213	560,782	44
Italy												
Banca di Roma	93,301	0	5	5	72,326	5	5	5	73,760	98	139,250	67
Banca Intesa	231,125	14	8	6	184,163	14	8	6	177,489	104	332,933	69
Bipop	13,957	33	32	11	12,137	37	55	11	12,251	99	17,229	81
BNL	66,101	7	4	4	59,019	6	4	4	50,462	117	88,571	75
Monte di Paschi	65,197	14	9	7	59,814	14	9	7	70,953	84	104,820	62
San Paolo IMI	103,404	33	5	5	97,549	33	5	5	103,498	94	177,370	58
Unicredit	124,788	23	9	8	106,656	5	9	8	113,668	94	183,483	68
Nordic												
DnB	34,993	12	8	5	30,885	12	8	5	22,056	140	42,415	83
Nordea	112,607	65	30	5	110,300	62	23	5	71,120	155	197,556	57
SEB	56,303	57	2	2	64,668	68	0	2	46,351	140	123,470	46
SHB	59,098	9	6	5	76,138	8	5	4	28,064	271	116,933	51
Swedbank	56,219	12	5	5	69,175	8	4	4	27,350	253	101,296	56
UBN	20,334	12	6	5	21,830	8	6	5	12,758	171	26,580	77
Spain												
BBVA	172,158	28	8	8	148,990	31	12	12	137,148	109	282,227	61
BSCH	200,867	32	16	8	168,390	32	13	11	142,866	118	357,695	56
Switzerland												
CS	182,720	31	4	3	203,386	8	12	7	173,676	117	499,967	37
UBS	215,348	19	6	6	156,617	6	13	4	142,261	110	708,803	30
UK												
Abbey National	***	***	***	***	***	***	***	***	***	***	***	***
Alliance & Leicester	25,363	5	4	3	38,159	2	4	3	32,644	117	50,605	50
Bank of Scotland	***	***	***	***	***	***	***	***	***	***	***	***
Barclays	237,641	30	9	7	225,295	23	11	9	222,553	101	479,924	50
Halifax	111,591	11	6	5	160,024	5	7	6	142,502	112	283,926	39
HSBC	391,161	11	13	12	294,525	7	6	7	412,736	71	609,144	64
Lloyds TSB	***	***	***	***	***	***	***	***	***	***	***	***
Northern Rock	19,709	23	12	10	32,124	22	13	11	20,875	154	37,585	52
RBSG	273,767	15	12	11	266,415	21	16	15	267,717	100	489,584	56
Standard Chartered	66,577	20	10	10	44,321	-2	9	8	60,888	73	87,994	76
DKWR European banks univ.	5,669,046	18	8	7	5,770,430	15	9	7	4,649,058	121	11,909,529	51

Source: DKWR estimates



Capital generation and capital strength

A key relationship in the financial structure of banks is between the internal generation of capital and balance sheet expansion. The growth of equity, which derives from the sustainable level of profitability, is a key constraint of balance sheet expansion.

Internal generation of equity and growth in ordinary equity.

The underlying growth in equity, excluding major capital injections on acquisitions, is estimated at 11-10% for each year for the period 2000-2002. Since this exceeds the underlying growth in risk weighted assets (excluding acquisitions) a strengthening trend in the tier 1 ratio is projected from 8.1% in 2000 and 8.5% in 2002. The main exceptions to this trend is where acquisitions are involved

Balance sheet and capital (€m)

Bank	Ord. equity 2000	ICG % 2000	Ord. equity growth %			RWA growth %			Tier 1 capital 2000	Tier 1 ratio %		
			2000	2000	2001	2000	2001	2002		2000	2001	2002
Austria												
Erste Bank	1,779	6	29	9	10	8	5	4	1,912	6.4	6.6	7.0
Benelux												
ABN-AMRO	13,761	8	11	6	16	20	4	5	19,734	6.7	6.7	7.1
Fortis	15,791	15	17	12	12	9	3	4	11,403	7.2	7.5	7.8
France												
BNP-Paribas	19,696	15	8	10	10	4	4	3	21,768	7.7	7.8	7.9
Credit Lyonnais	8,050	9	28	2	10	1	3	3	8,036	6.5	7.0	7.2
Dexia	7,947	7	15	15	15	3	10	10	8,372	9.1	9.2	9.2
SocGen	11,676	16	7	7	6	10	3	16	13,613	7.3	7.4	7.5
Germany												
Bankgesellschaft Berlin	3,340	3	-1	5	8	3	2	2	4,750	5.8	5.9	6.0
Commerzbank	12,971	11	21	6	7	11	3	3	13,331	6.4	6.6	6.9
Depfa	2,029	5	5	11	77	8	8	9	1,840	5.7	5.8	6.0
Deutsche Bank	26,480	17	18	9	11	14	4	6	22,143	7.2	7.3	7.6
HypoVereinsbank	13,225	5	6	9	10	6	6	6	14,800	6.1	6.0	6.1
Italy												
Banca di Roma	5,793	3	3	4	5	0	5	5	5,496	5.9	5.9	5.9
Banca Intesa	11,622	7	18	16	10	14	8	6	12,949	5.6	5.7	5.9
Bipop	1,499	14	16	33	21	33	32	11	1,121	8.0	8.7	9.8
BNL	3,909	7	8	11	11	7	4	4	3,763	5.7	6.1	6.6
Monte di Paschi	4,809	7	13	8	8	14	9	7	3,787	5.8	5.9	6.1
San Paolo IMI	9,475	4	13	5	5	33	5	5	8,400	8.1	8.1	8.2
Unicredito	7,861	10	11	12	12	23	9	8	9,550	7.7	7.7	7.9
Nordic												
DnB	2,904	9	10	7	7	12	8	5	2,678	7.7	7.7	7.8
Nordea	10,701	10	94	10	10	65	30	5	8,950	6.4	6.8	7.2
SEB	4,616	11	25	7	8	57	2	2	4,082	7.3	7.7	8.2
SHB	4,699	13	9	10	9	9	6	5	3,759	6.4	6.8	7.2
Swedbank	3,942	13	13	9	9	12	5	5	3,723	6.6	6.9	7.2
UBN	1,514	17	18	12	11	12	6	5	1,518	7.5	7.9	8.3
Spain												
BBVA	14,347	10	40	5	5	28	8	8	14,833	8.6	8.9	9.1
BSCH	19,470	13	141	6	8	32	16	8	15,763	7.8	8.4	8.9
Switzerland												
CS	27,468	8	37	4	9	31	4	3	18,697	10.2	10.5	11.5
UBS	24,961	15	34	23	14	19	6	6	14,676	6.8	9.1	10.7
UK												
Abbey National	9,979	9	12	9	9	9	5	5	10,364	7.9	8.2	8.5
Alliance & Leicester	2,568	10	-8	5	5	5	4	3	2,554	10.0	10.1	10.3
Bank of Scotland	5,491	12	16	10	12	19	12	10	7,103	6.8	6.6	6.6
Barclays	19,823	11	47	13	15	30	9	7	16,680	7.0	7.4	8.1
Halifax	10,786	8	9	7	6	11	6	5	9,945	8.9	9.0	9.1
HSBC	45,374	8	27	8	7	11	13	12	35,625	9.0	8.8	8.7
Lloyds TSB	15,528	10	13	11	13	9	3	6	12,204	8.4	9.3	10.1
Northern Rock	1,417	11	1	11	10	23	12	10	1,525	7.7	7.6	7.6
RBSG	29,488	11	6	4	7	15	12	11	17,918	6.5	6.5	6.7
Standard Chartered	5,377	8	7	10	11	20	10	10	4,908	7.3	7.4	7.5
DKWR European banks universe	461,698	10	27	9	10	18	8	7	415,315	7.6	8.0	8.4

Notes: ICG - internal capital generation

Source: DKWR estimates

Balance sheet and capital (€m) (continued)

Bank	Equity tier 1 % 2000	Tot. cap ratio % 2000	Debt/equity 2000	RoE = % 2000	RoA* % 2000	Leverage 2000
Austria						
Erste Bank	4.7	10.9	121	11.3	0.7	17
Benelux						
ABN-AMRO	4.4	10.5	97	22.5	1.2	18
Fortis	10.0	10.5	47	20.8	1.5	14
France						
BNP-Paribas	6.3	11.3	69	15.9	0.8	19
Credit Lyonnais	7.1	10.9	77	13.6	1.1	13
Dexia	11.5	12.3	42	12.3	0.7	17
SocGen	6.3	11.8	94	21.3	1.1	19
Germany						
Bankgesellschaft Berlin	5.3	9.6	72	7.7	0.3	30
Commerzbank	5.9	9.5	46	14.9	0.9	16
Depfa	5.4	9.7	30	7.1	0.2	37
Deutsche Bank	6.6	12.8	60	10.1	0.6	18
HypoVereinsbank	5.1	10.2	83	9.1	0.4	20
Italy						
Banca di Roma	5.1	8.5	44	4.8	0.4	12
Banca Intesa	4.5	8.5	73	13.8	0.9	15
Bipop	7.9	9.9	21	23.9	4.6	5
BNL	5.5	9.1	52	6.6	0.6	12
Monte di Paschi	4.6	8.1	27	15.1	1.3	11
San Paolo IMI	7.5	10.1	24	12.7	1.5	8
Unicredito	6.0	9.4	31	22.7	1.9	12
Nordic						
DnB	7.8	10.1	41	16.5	2.2	7
Nordea	6.5	10.1	52	20.7	3.0	7
SEB	6.4	10.1	80	14.8	1.5	10
SHB	7.1	9.7	69	21.1	1.7	12
Swedbank	5.6	10.2	72	20.5	1.6	13
UBN	7.4	10.7	88	18.0	2.0	9
Spain						
BBVA	4.8	12.1	57	16.3	1.6	10
BSCH	3.2	11.0	80	19.1	1.9	10
Switzerland						
CS	9.8	16.1	0	14.5	1.4	10
UBS	5.3	10.7	34	24.8	1.6	15
UK						
Abbey National	7.4	11.4	87	20.3	1.3	16
Alliance & Leicester	10.1	12.6	29	19.1	2.0	10
Bank of Scotland	5.1	11.4	92	19.2	1.6	12
Barclays	6.0	10.0	43	23.1	1.8	13
Halifax	8.3	10.7	62	18.7	1.5	13
HSBC	7.6	13.1	0	18.9	2.4	8
Lloyds TSB	8.4	8.6	75	31.2	3.1	10
Northern Rock	7.1	13.0	59	19.0	1.6	12
RBSG	3.9	11.6	76	14.7	1.8	8
Standard Chartered	7.2	12.6	0	15.4	1.8	9
DKWR European banks universe	6.6	11.3	49.9	18.2	1.6	12

Notes: ICG - internal capital generation, Tier 1 capital minus preference/capital and minorities

Source: DKWR estimates

DKWR European banks definitions

	<p>Fair value today - estimated current value per share using proprietary DKWR Banks Dividend Discount Model.</p> <p>12 month target – target share price to be reached within next 12 month. Estimated as “Fair value today” times (1 + Cost of Equity).</p>
EPS	<p>Stated EPS – reported and projected earnings per share, which include extra ordinaries and goodwill amortisation.</p> <p>DKWR EPS – stated EPS adjusted for exceptionals/extraordinaries including tax effect. DKWR EPS should be comparable with IBES consensus EPS.</p> <p>DKWR Cash EPS – stated EPS adjusted for extra ordinaries and goodwill effect. DKWR Cash EPS allows cross-bank comparison, where extraordinary gains/losses and goodwill amortisation distort underline earnings.</p>
Book Value (NAV)	<p>Stated BVPS – ordinary (excluding minorities, preference capital, hybrid equity) equity per share as reported by the company.</p> <p>Adjusted BVPS – stated BVPS adjusted for net (after tax) hidden reserves, which comprise of:</p> <p>Unrealised gains/losses on securities and real estate portfolio;</p> <p>Over-provisioning – specific provisions are over 100% of non-performing loans.</p>
Return on Equity	<p>Stated RoE – stated EPS divided by year average stated BVPS or net attributable profit divided by year average ordinary equity</p> <p>Cash RoE – DKWR Cash EPS divided by year average stated BVPS. Cash RoE allows cross-bank comparison of profitability, which is not distorted by non-recurring items and goodwill amortisation.</p> <p>Adjusted RoE – DKWR Cash EPS divided by year average (Stated BVPS excluding Goodwill).</p>
Price to Book Value	<p>Stated P/BV – price to stated BVPS.</p> <p>Adjusted BVPS – price to (Adjusted BVPS minus Goodwill).</p> <p>Bank only P/BV – market capitalisation minus net hidden reserves divided by stated ordinary equity ex goodwill.</p>



Standardized VaR. Since banks report Value-at-Risk for different holding periods, which complicates comparison, we standardise VaR to 10 day holding period by multiplying 1 day VaR by square root of 10.

Internal capital generation – retained profit for the year divided by ordinary equity at the beginning of the year.

Shareholder profit generation – net attributable profit less optimal Tier 1 ratio (6% - 8%) times growth in risk-weighted assets divided by ordinary equity at the beginning of the year.

Equity tier 1 ratio – Tier 1 capital minus minorities and preference capital divided by risk-weighted assets.

Debt to equity ratio – Debt (subordinated debt plus preference capital) divided by ordinary equity.

| Notes



| Notes



Notes

Share prices of other stocks mentioned in this report

Bank America	US\$49 ¹ / ₁₆
Citibank	US\$53 ¹ / ₈
JP Morgan Chase	US\$53 ⁵ / ₁₆
Allianz	€360
Generali	€39.4
AXA	€143
CGNU	996p
Sampo-Leonia	€55.20
Bank Pekao	PLN61.80



Global Research

Kleinwort Benson Securities Limited

20 Fenchurch Street
London
EC3P 3DB
United Kingdom
+44 20 7623 8000*

Dresdner Bank AG London Branch

Riverbank House
2 Swan Lane
London
EC4R 3UX
United Kingdom
+44 20 7623 8000*

Frankfurt

Dresdner Kleinwort Benson
Research GmbH
Jürgen-Ponto-Platz 1
60301 Frankfurt am Main
Germany
+49 69 263 52270*

Hong Kong

Kleinwort Benson Securities
(Asia) Limited
21/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong
+852 2238 8888*

Kuala Lumpur

Kleinwort Benson Research
(Malaysia) Sdn. Bhd.
5/F Wisma Genting
28 Jalan Sultan Ismail
50250 Kuala Lumpur
Malaysia
+603 202 3823*

Madrid

Dresdner Bank AG
Pinar, 2-4
28006 Madrid
Spain
+34 91 745 81 00*

Mexico City

Dresdner Bank AG
Bosques de Alisos 47-B, 4 piso
Col. Bosques de las Lomas
05120 México D.F.
Mexico
+52 52583000*

Milan

Albertini & C. SIM p.A.
Via Olona 2
20123
Milan
Italy
+39 02 7245 1*

Mumbai

Dresdner Kleinwort Benson
Securities (India) Limited
17th Floor, Hoechst House
Nariman Point
Mumbai 400 021
India
+91 22 232 9700*

New York

Dresdner Kleinwort Benson
North America LLC
75 Wall Street, 29th Floor
New York, NY 10005-2889
United States
+1 212 429 3434*

New York

Wasserstein Perella Securities, Inc.
31 West 52nd Street
New York, NY 10019-6118
United States
+ 1 212 969 2700*

Paris

Kleinwort Benson France SA
108, bd Haussmann
75008 Paris
France
+33 1 44 70 85 00*

Rio de Janeiro

Dresdner Bank Brasil
Av. Presidente Wilson, 231/17th floor
20030-021, Rio de Janeiro
Brazil
+55.21.824-3500*

Seoul

Kleinwort Benson Limited
Seoul Branch, 12th Floor
KorAm Bank Building
39, Da-Dong, Chung-ku
Seoul 100-180, South Korea
+822 311 3400*

Singapore

Kleinwort Benson Securities
(Singapore) Pte Limited
20 Collyer Quay
#14-01 Tung Centre
Singapore 049319
+65 534 0016*

Sydney

Dresdner Kleinwort Benson
Level 26, 363 George Street
Sydney
NSW 2000
Australia
+61 2 8243 5000*

Tokyo

Dresdner Kleinwort Benson
(Asia) Limited
4-1-8 Toranomon, Minato-ku
Tokyo 105-0001
Japan
+813 5403 9500*

Zurich

Dresdner Bank (Schweiz) AG
Postfach 264
Utoquai 15
CH-8034 Zurich
Switzerland
+41 1 258 5111*

*** Telephone numbers are for general and administrative information via the switchboard.**

Any US investors should call DKBNA, telephone: (+1 212) 429 2000, or WPS, telephone: (+1 212) 969 2700, or the relevant analyst.

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(Expected performance over next 12 months)

Buy	Outperform by 10% or more	Reduce	Underperform, but by less than 10%	Core and Non-Core reflect long-term views, i.e. whether stocks should form a significant part of a portfolio beyond the 12-month period.
Add	Outperform, but by less than 10%	Sell	Underperform by 10% or more.	
Hold	Track market			

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