

UPDATE: HANSAPANK

May 02, 2003

Q1 results

Price	May-02-03						Rating:	Neutral	
261.9	EEK						Target, end-03	265.0	
FY	Price	Net prof.	Adj. Prof.*	EPS	EPS	NAV	P/E	P/NAV	Yield, %
	EEK	EEK m	EEK m	EEK	ch, %	EEK			
2000	139.0	1,200	1,329	15.2	47%	67.8	9.1	2.1	0.7%
2001	161.8	1,693	1,959	21.5	41%	87.5	7.5	1.8	2.5%
2002	250.0	1,874	2,143	23.6	10%	108.7	10.6	2.3	2.4%
2003e	261.9	2,049	2,139	25.8	9%	133.6	10.1	2.0	3.0%
2004e	261.9	2,286	2,382	28.8	12%	154.7	9.1	1.7	3.3%

* Profit, EPS, and ratios adjusted for goodwill amortisation and exceptional items

Hansapank's Q1 operating profit before provisions was 4% below our estimates due to lower net interest and non-interest revenues. In view of the Q1 results and the company's guidance for 2003 year we have reduced our full year operating and net profit projections by 4%. We have also reduced our year-end price target to EEK 265 per share but maintain a Neutral rating on Hansapank.

- In Q1 Group loan growth decelerated to 4% from 9% qoq in Q4 while deposits expanded by 5% after 6% increase in the preceding quarter. In 2003 we expect loan growth to decelerate to 16% (vs. 30% in 2002) while deposits are projected to increase by 16% (vs. 9%). The rebound in deposit growth is partly due to an increase in deposit rates in late 2002.
- Due to an increase in deposit rates and intensifying competition in the Baltic region in Q1 group NIM declined by higher-than-expected 40 bps to 3.8%. Hansapank expects full year NIM to "exceed 3.5%". We have reduced our NIM projection for 2003 and 2004 by 20 bps to 3.7% and to 3.6% respectively. Our full year net interest income forecast has been lowered by 5% to EEK 3.3 bn.
- In Q1 loan loss provisions increased by 9% sequentially to EEK 136m while the bank continued to recover loans written off earlier. Large share of reversals in 2002 and in Q1 of 2003 related to recoveries by the Lithuanian Savings Bank that constitutes a one-off gain. Q1 net provision of EEK 82m was 17% below our estimates. In view of the recoveries in Q1 we have reduced our full year net provision expectation by 5% to EEK 375m (0.7% of average loans).
- In Q1 non-interest income declined by 5% sequentially on the back of a 4% reduction in trading income and 6% decrease in net fees and commissions. The reduction was seasonal in nature and we continue to project strong (+16%) increase in full year non-interest income.
- Adjusted for one-off items, Q1 operating costs declined by 14% sequentially and were 5% below our estimates. Cost/income ratio amounted to 50% vs. our estimate of 51%. Hansapank targets zero growth in full year operating costs and a cost/income ratio of 51-52%. In view of the Q1 results and the company's guidance we have reduced our full year operating cost estimates by 2% (implying cost/income ratio of 51.4% vs. previous expectation of 50.9%).

Research
Toomas Reisenbuk (372) 667 6230

Pärnu mnt. 15, Tallinn, Estonia

Sales and Trading
Kaur Elviste (372) 667 9233
Kristel Kivinurm (372) 667 9208

www.trigoncapi.com

- Revisions to estimates as detailed above translate into 4% reduction in both projected 2003 operating and net profits - implying EPS of EEK 26 vs. EEK 27. In view of the reduction in estimates we have lowered our full year price target by 3% to EEK 265 per share (vs. EEK 272) but maintain a Neutral rating.

Summary financial results and earnings model

Hansapank, EEK m	Q1 02	2002	Q1 03	Q1 03e	Div., %	Q2 03e	Q3 03e	Q4 03e	2003e	2004e
Net interest income	741	3,148	799	825	-3%	815	839	854	3,307	3,645
Net provisions	5	48	82	98	-17%	98	98	98	375	482
Net int. inc. after prov.	736	3,100	717	727	-1%	717	741	756	2,931	3,163
Net non-interest inc.	481	2,026	528	563	-6%	568	604	649	2,349	2,655
Operating costs	737	2,914	659	703	-6%	703	726	817	2,905	3,150
<i>Adj. operating costs</i>	<i>707</i>	<i>2,870</i>	<i>665</i>	<i>703</i>	<i>-5%</i>	<i>703</i>	<i>726</i>	<i>817</i>	<i>2,911</i>	<i>3,150</i>
Subsidiaries	-	6	1	2	-75%	2	2	2	6	7
Net exceptionals	-	-	-	-	n/r	-	-	-	-	-
Amort/goodwill	76	218	24	21	14%	24	24	24	96	96
Op. profit bef. provisions	409	2,049	644	667	-3%	659	695	664	2,662	3,062
Adjusted op. profit	439	2,049	638	667	-4%	659	695	664	2,656	3,062
EBT	404	2,000	562	568	-1%	561	597	566	2,286	2,580
Tax	15	125	20	18	13%	177	19	19	235	293
Minorities	0	2	1	-	n/r	0	0	0	2	2
Net profit	389	1,874	541	550	-2%	383	578	547	2,049	2,286
Adjusted profit	495	2,143	559	571	-2%	407	602	571	2,139	2,382
% change yoy										
Net interest income	29%	18%	8%	11%	-4%	5%	4%	4%	5%	10%
Net provisions	-85%	-38%	1569%	1900%	-331%	n/r	3273%	43%	677%	28%
Net int. inc. after prov.	36%	20%	-3%	-1%	-1%	-11%	-8%	0%	-5%	8%
Net non-interest inc.	26%	9%	10%	17%	-7%	19%	17%	17%	16%	13%
Operating costs	65%	20%	-11%	-5%	-6%	-2%	7%	5%	0%	8%
Op. profit bef. provisions	-10%	13%	57%	63%	-6%	44%	16%	14%	30%	15%
EBT	-5%	14%	39%	41%	-1%	15%	0%	10%	14%	13%
Net profit	-5%	11%	39%	41%	-2%	-9%	1%	11%	9%	12%
Adjusted profit	7%	9%	13%	15%	-2%	-20%	-3%	11%	0%	11%
% change on prev. period										
Net interest income	1%	18%	-3%	0%	-3%	2%	3%	2%	5%	10%
Net provisions	-93%	-38%	19%	43%	-24%	20%	0%	0%	677%	28%
Net int. inc. after prov.	11%	20%	-5%	-4%	-1%	0%	3%	2%	-5%	8%
Net non-interest inc.	-10%	9%	-5%	2%	-6%	8%	6%	8%	16%	13%
Operating costs	-3%	20%	-15%	-9%	-6%	7%	3%	13%	0%	8%
Op. profit bef. provisions	-5%	13%	10%	14%	-4%	2%	5%	-4%	30%	15%
EBT	11%	14%	9%	11%	-1%	0%	6%	-5%	14%	13%
Net profit	11%	11%	10%	12%	-2%	-29%	51%	-5%	9%	12%
Adjusted profit	15%	9%	8%	11%	-2%	-27%	48%	-5%	0%	11%
Ratios										
NIM, %	4.0%	4.1%	3.8%	4.1%	0%	3.9%	3.9%	3.8%	3.7%	3.6%
Cost/income ratio, %	60.3%	56.3%	49.7%	50.6%	-1%	50.8%	50.3%	54.4%	51.4%	50.0%

Hansapank Group

Profit and loss account	2000	2001	Q1 02	2002	Q1 03	2003f	2004f
EEK million							
Interest income	3,390	4,605	1,193	4,906	1,242	5,002	5,597
Interest expense	1,415	1,943	452	1,758	444	1,695	1,951
Net interest income before LL	1,975	2,662	741	3,148	799	3,307	3,645
Net loan loss provisions & recoveries	365	78	5	48	82	375	482
Net interest income after LL	1,610	2,583	736	3,100	717	2,931	3,163
Net fees and commissions	879	1,089	298	1,346	359	1,573	1,777
Financial income incl dividends	511	572	123	464	123	524	592
Insurance income	24	46	7	30	10	42	50
Other income	182	151	53	187	37	211	236
Income from subsidiaries	7	9	-	6	1	6	7
Total income before LL provisions	3,577	4,527	1,222	5,180	1,327	5,662	6,308
Staff costs	714	1,164	378	1,428	321	1,417	1,545
Other costs	710	920	259	1,093	241	1,083	1,180
Total administrative & other costs	1,424	2,084	637	2,521	563	2,500	2,725
Depreciation	271	348	100	393	96	405	425
Total costs excl. loan losses	1,695	2,432	737	2,914	659	2,905	3,150
Amortisation of goodwill	207	266	76	218	24	96	96
Profit before appropriations and taxes	1,310	1,751	404	2,000	562	2,286	2,580
Tax & appropriations	105	58	15	125	20	235	293
Minorities	4	-	0	2	1	2	2
Net income	1,200	1,693	389	1,874	541	2,049	2,286
Adj. profits	1,329	1,959	495	2,143	559	2,139	2,382

Balance sheet	2000	2001	Q1 02	2002	Q1 03	2003f	2004f
EEK million							
Assets							
Cash & central bank	5,336	6,798	6,533	5,622	6,937	7,134	8,978
Due from financial institutions	1,836	7,467	8,098	6,067	7,487	7,400	8,000
Trading account assets	84	123	123	123	123	141	160
Investments	100	154	154	154	154	166	188
Debt securities	5,777	9,537	10,879	9,953	9,294	12,182	14,010
Securities under resale agreements	1,159	2,508	2,406	3,011	5,932	3,251	3,576
Net loans	26,887	39,384	41,624	51,332	53,353	59,677	68,136
Goodwill	421	622	557	407	371	311	215
Other assets	3,996	5,426	5,510	5,317	5,170	5,522	5,817
Total assets	45,596	72,018	75,884	81,984	88,823	95,785	109,079
Average assets	39,923	58,807	73,951	77,001	82,353	85,834	92,287
Equity and liabilities							
Due to central bank and financial institutions	4,064	4,307	4,372	5,810	4,768	6,964	7,660
Total deposits	29,227	51,063	53,962	55,821	58,473	64,753	73,818
Debt securities	2,994	3,815	4,319	5,656	10,362	6,908	7,944
Other interest-bearing liabilities	0	0	0	86	0	129	142
Other non-interest bearing liabilities	3,187	4,591	4,525	4,871	4,993	5,648	6,381
Subordinated loans	367	722	723	710	698	781	859
Equity	5,758	7,519	7,983	9,029	9,529	10,603	12,273
Adj. equity	5,337	6,897	7,426	8,623	9,158	10,292	12,059

Other figures	2000	2001	Q1 02	2002	Q1 03	2003f	2004f
No of branches	164	375	347	305	303	304	310
Capital adequacy ratio	17.0%	15.2%	13.8%	14.8%	14.5%	N/A	N/A
Tier 1 ratio	16.0%	13.8%	12.5%	13.7%	13.4%	N/A	N/A
Total loans overdue	1,260	3,107	3,147	3,409	4,478	N/A	N/A
NP loans (overdue >60 days)	135	515	437	438	532	N/A	N/A
Allowance for loan losses	675	860	791	755	839	743	743
Loan losses	433	332	138	400	45	563	582

Key figures	2000	2001	Q1 02	2002	Q1 03	2003f	2004f
Margins etc.							
Net interest margin before LL	4.9%	4.5%	4.0%	4.1%	3.8%	3.7%	3.6%
Net interest margin after LL	4.0%	4.4%	4.0%	4.0%	3.4%	3.3%	3.1%
Yield on interest earning assets	9.2%	8.3%	6.9%	6.9%	6.1%	N/A	N/A
Cost of funding	3.9%	3.5%	2.6%	2.4%	2.1%	N/A	N/A
Spread	5.3%	4.8%	4.3%	4.4%	4.0%	3.9%	3.6%
Net non-interest margin	0.4%	-0.3%	-0.2%	-0.3%	0.0%	-0.2%	-0.1%
C/I ratio	47.8%	53.8%	60.3%	56.3%	49.7%	51.4%	50.0%
Net loan loss ratio	1.6%	0.8%	0.3%	0.8%	0.1%	0.9%	1.0%
Non-performing loans/loans	0.5%	1.3%	1.0%	N/A	1.0%	N/A	N/A
Allowance for loan losses/loans	2.4%	2.1%	1.9%	1.4%	1.5%	1.2%	1.1%
Total loans overdue/loans	4.6%	7.7%	7.4%	N/A	8.3%	N/A	N/A
Deposits/lending	1.1	1.3	1.3	1.1	1.1	1.1	1.1
Actual tax rate (incl. tax on dividends)	8.0%	3.3%	3.6%	6.2%	3.6%	10.3%	11.3%

Key figures	2000	2001	Q1 02	2002	Q1 03	2003f	2004f
Growth and profitability							
Growth assets	33%	58%	5%	14%	8%	17%	14%
Growth net loans	43%	46%	6%	30%	4%	16%	14%
Growth deposits	48%	75%	6%	9%	5%	16%	14%
ROE, net profit	22%	26%	20%	23%	23%	21%	20%
ROE, adj. profit, adj. equity	27%	32%	28%	28%	25%	23%	21%
ROA	3.0%	2.9%	2.1%	2.4%	2.5%	2.3%	2.2%

Key figures	2000	2001	Q1 02	2002	Q1 03	2003f	2004f
Share data							
No of shares, million	78.8	78.9	78.9	79.3	79.3	79.3	79.3
Share price	139.0	161.8	209.7	250.0	243.6	261.9	261.9
Dividend	1.0	4.0	n/r	6.0	n/r	7.7	8.6
EPS, net profit	15.2	21.5	4.9	23.6	6.8	25.8	28.8
Change, %	47.4%	40.9%	-5.0%	10.0%	38.1%	9.4%	11.5%
EPS, adj. profit	16.9	24.8	6.3	27.0	7.0	27.0	30.0
Change, %	42.3%	47.2%	6.8%	8.7%	12.2%	-0.2%	11.3%
CFPS	21.3	29.3	7.2	31.3	8.3	32.1	35.4
BV/share	73.1	95.3	101.2	113.8	120.1	133.6	154.7
Adj. BV/ share	67.8	87.5	94.2	108.7	115.4	129.7	152.0
P/E, net profit	9.1	7.5	10.6	10.6	8.9	10.1	9.1
P/E, adj. profit	8.2	6.5	8.4	9.3	34.6	9.7	8.7
Market cap, EEK m	10,948	12,756	16,534	19,837	19,329	20,781	20,781
P/BV	1.9	1.7	2.1	2.2	2.0	2.0	1.7
P/BV, adj. equity	2.1	1.8	2.2	2.3	2.1	2.0	1.7
Yield, %	0.7%	2.5%	n/r	2.4%	n/r	3.0%	3.3%

This material has been prepared by AS Trigon Capital. AS Trigon Capital and/or any persons connected with it may act upon or make use of any of the foregoing material and/or any of the information which it is based prior to the publication of the same to its customers. AS Trigon Capital and/or any persons connected with it may provide corporate finance services to an issuer of the aforementioned securities and many have done so within a period of six months prior to the publication of this material. This material should not be regarded as substitute for the exercise by the recipient of its own judgement. Additional information with respect to the securities referred to herein will be available upon request. This report has been prepared solely for information purposes and is not a solicitation, or an offer, to buy or sell any security. It does not purport to be a complete description of the securities, markets or developments referred to in this material. The information on which this material is based on has been obtained from sources which we believe are reliable, but we have not independently verified such information and we do not guarantee that it is accurate or complete. All expressions of the opinion are subject to change without notice. AS Trigon Capital or any person connected with it accepts no liability whatsoever for any direct or consequential loss of any kind arising out of the use of this document or any part of its contents. AS Trigon Capital and/or any person connected with it and/or their respective directors and staff may, from time to time, have a long or short position in the aforementioned securities and may buy or sell such securities.