

# ALPHA BANK

[ ACBr.AT ]

The traditional corporate lender is transforming into a major retail player

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ALPHA BANK

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# VALUATION & RESEARCH SPECIALISTS

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Greek Equities – 21 September 2005

## ALPHA BANK (ALPHA)

Banking Sector

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CA, HCMC

### Company Description:

Alpha Bank is the second largest bank in Greece in terms of assets and the largest corporate lender. Lately, the Bank focuses on developing its retail business, while further expansion into SEE is under way, maintaining also a healthy capital base.

	2004	2005 E	2006 F
(in mil. €)			
Total Assets	33,237	39,884	41,878
Net Loans	21,559	24,926	28,786
Deposits	20,697	21,728	22,830
Op. Income	1,586	1,697	1,904
Net Profit	412	468	570

Price Close in €	21/9/2005	22.08
Shares (mn outstanding)		291.20
Mkt Cap (in mn €)		6,429.78

Beta	1.190
Dividend in €	0.72
Div. Yield	2.78%

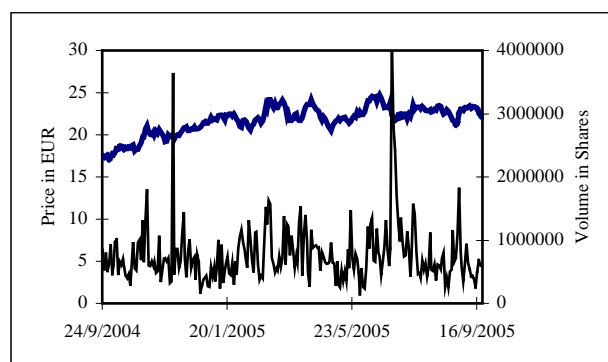
	2004	2005 E	2006 F
P/E	15.61	13.74	11.29
P/BV	3.24	2.87	2.54
ROA (avg)	1.29%	1.28%	1.39%
ROE (avg)	22.16%	22.14%	23.86%

Source: Company & Res. Dept. Projections

### Key Investment Points

- Alpha bank reported 1H 05 results, providing convincing signals for retail growth and cost control.
- Net profit stood at €223.3 million up 7.2% y-o-y and 34.6% q-o-q, reflecting the strong volume growth especially in consumer loans and mortgages, but also affected by one-off items.
- Spreads remained in healthy levels supported by consumer credit, despite the pressure observed primarily in the mortgage business and secondarily in SBLs, keeping NIM well above 3%.
- Expansion in SEE, currently contributing 11% of the pre-tax profits, has started paying off, while the acquisition of Jubanka in Serbia is expecting to further increase the contribution of SEE to overall group profitability.
- Cost was maintained under control with the cost to income ratio in the neighborhood of 50% (on recurring basis).
- Our valuation takes into account the emphasis on retail and small business lending, management targets for 2007, and the effect of hybrid funds on the tax rate.

Share Price Graph (52 weeks)  
Max: €24.72 - Min: €17.10



Please see important disclosure and disclaimer statements at the end of this report

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## Growth Drivers

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Alpha, a traditional corporate lender to SMEs and large corporate, has been making strong inroad into retail lending business (mortgages, consumer loans and credit cards). This segment represents more than half of total loans, benefited by the credit boom that has taken place in Greece over the past two years. Cost management and expansion into South East Europe are also expected to contribute to NIM and earnings growth.

### Loan Portfolio

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Retail lending is a major growth driver for Alpha, with the 1H 05 results being in line with what was observed in 2004 and 1Q 05. Consumer loans and credit cards increased by 48% and 39% respectively in 1H 05 (overall increase 44% y-o-y), with the management expecting this trend to accelerate by the end of 2005. Consumer loans are expected to increase by 50% y-o-y capitalizing on the Olympic Games sponsorship that brought the Bank into the forefront. In addition, the management is using a lot of channels for selling consumer loan products. Alpha is using third party providers, and is making agreements with retailers for consumer loans and credit card usage, while contractors and brokers are used to provide information on customer habits in different areas.

The mortgage portfolio is supported by the rising domestic demand for home purchases and is expected to record a growth of around 30% at the end of the year, sustaining the current trend (1H 05: 32% y-o-y).

SBLs and large corporate loans recorded single digit growth by 7.5% and 4.3% y-o-y respectively, while these growth rates are not expected to alter significantly by the year end, despite the introduction of new products targeting especially the small enterprises.

Therefore, growth in Alpha's loan portfolio is less balanced compared to other major Greek commercial banks in an attempt to capitalize on the higher consumer lending spreads.

### Deposit Growth

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Alpha exhibits a high loan to deposit ratio approaching 120%, with deposits slowing down by 1.4% y-o-y in 1H 05, continuing the pattern observed during the past couple of years, a fact that may affect the lending expansion, however not to a great extent.

### Cost Management

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On the cost side, the management put emphasis on both the staff cost and the general expenses. By using personnel redeployment and reduction, branching and back-office re-organization, Alpha managed to achieve a 50% cost to income ratio, with its management targeting a ratio of 43% by the end of 2007, with cost growth of no more than 5% per year.

## Income Statement – Historic and Projected Accounts, IFRS

ALPHA BANK, Income Statement	Valuation Model						
Consolidated Financial Statements, IAS (in EUR mil.)	2004 IFRS	%	2005	%	2006	%	2007
Interest Income	1,543.53	10.29%	1,702.32	12.68%	1,918.18	10.06%	2,111.18
Interest on Bonds	N/A						
Interest on Loans	N/A						
Interest Expense	486.89	6.02%	516.22	5.49%	544.58	5.00%	571.81
<b>Net Interest Income</b>	<b>1,056.64</b>	<b>12.25%</b>	<b>1,186.09</b>	<b>15.81%</b>	<b>1,373.60</b>	<b>12.07%</b>	<b>1,539.37</b>
Net Interest Income / Interest Income	68.46%		69.68%		71.61%		72.92%
Fee & Commission Income (net) (1)	330.93	5.00%	347.48	4.00%	361.38	4.00%	375.83
Trading Income (2)	78.62	-60.00%	31.45	3.00%	32.39	3.00%	33.36
Income from Securities (3)	5.60	-2.00%	5.49	-2.00%	5.38	-3.00%	5.22
Other Operating Income (4)	114.71	10.00%	126.18	4.00%	131.22	4.00%	136.47
(1) + (2) + (3) + (4)	529.85	-3.64%	510.59	3.87%	530.37	3.87%	550.88
<b>Total Operating Income</b>	<b>1,586.49</b>	<b>6.95%</b>	<b>1,696.68</b>	<b>12.22%</b>	<b>1,903.97</b>	<b>9.78%</b>	<b>2,090.25</b>
Personnel Expenses	422.49	7.00%	452.06	7.00%	483.70	6.00%	512.73
G&A Expenses	338.93	-9.00%	308.43	3.00%	317.68	3.00%	327.21
Depreciation	56.84	4.00%	59.11	4.00%	61.47	4.00%	63.93
Other Operating Expenses	1.26	2.00%	1.28	2.00%	1.31	2.00%	1.34
<b>Operating Expenses</b>	<b>819.52</b>	<b>0.17%</b>	<b>820.88</b>	<b>5.27%</b>	<b>864.17</b>	<b>4.75%</b>	<b>905.21</b>
<b>Operating Profit</b>	<b>766.98</b>	<b>14.19%</b>	<b>875.80</b>	<b>18.73%</b>	<b>1,039.80</b>	<b>13.97%</b>	<b>1,185.04</b>
Non Int. Exp. / Operating Income	51.66%		48.38%		45.39%		43.31%
Loan Loss Provisions	229.23	11.24%	255.00	11.76%	285.00	12.28%	320.00
Net Extraordinaries	0.00		0.00		0.00		0.00
<b>Profit Before Tax and Minority Interests</b>	<b>537.75</b>	<b>15.44%</b>	<b>620.80</b>	<b>21.58%</b>	<b>754.80</b>	<b>14.61%</b>	<b>865.04</b>
Taxation	163.41	-8.82%	148.99	21.58%	181.15	14.61%	207.61
Effective Tax Rate	30.39%		24.00%		24.00%		24.00%
<b>Profit Before Minorities</b>	<b>374.34</b>	<b>26.04%</b>	<b>471.81</b>	<b>21.58%</b>	<b>573.65</b>	<b>14.61%</b>	<b>657.43</b>
Less Minority Interests	-37.46	-110.68%	4.00	0.00%	4.00	0.00%	4.00
<b>Net Profit</b>	<b>411.80</b>	<b>13.60%</b>	<b>467.81</b>	<b>21.77%</b>	<b>569.65</b>	<b>14.71%</b>	<b>653.43</b>
Net Profit Margin	25.96%		27.57%		29.92%		31.26%

Source: Bank accounts and Research Department's forecasts.

## Balance Sheet – Historic and Projected Accounts, IFRS

ALPHA BANK, Balance Sheet	Valuation Model						
Consolidated Financial Statements, IAS (in EUR mil.)	2004 IFRS	%	2005	%	2006	%	2007
Total Assets	33,236.81	20.00%	39,884.17	5.00%	41,878.38	5.00%	43,972.30
Interest - Earning Assets (year-end)	27,503.07	15.29%	31,707.91	12.26%	35,596.62	9.94%	39,135.34
As % of Total Assets	82.75%		79.50%		85.00%		89.00%
Average Interest - Earning Assets	26,894.55	10.08%	29,605.49	13.67%	33,652.27	11.04%	37,365.98
Interest - Bearing Liabilities (year-end)	28,968.02	6.02%	30,710.81	5.00%	32,246.35	5.00%	33,858.67
As % of Total Assets	87.16%		77.00%		77.00%		77.00%
Average Interest - Bearing Liabilities	28,187.79	5.86%	29,839.41	5.49%	31,478.58	5.00%	33,052.51
Deposits	20,696.62	4.98%	21,727.90	5.07%	22,830.42	5.07%	23,988.87
As % of Interest Bearing Liabilities	71.45%		70.75%		70.80%		70.85%
Loans (Net)	22,280.25	15.27%	25,683.41	15.17%	29,580.79	15.10%	34,047.75
As % of Interest Earning Assets	81.01%		81.00%		83.10%		87.00%
Bonds (Greek GAAP)	1,820.97	0.99%	1,839.06	0.65%	1,851.02	-0.63%	1,839.36
As % of Interest Earning Assets	6.62%		5.80%		5.20%		4.70%
Participations (Greek GAAP)	320.27	24.53%	398.84	5.00%	418.78	5.00%	439.72
As % of Total Assets	0.96%		1.00%		1.00%		1.00%
Equity (excluding Hybrid Capital)	1,987.00	12.71%	2,239.62	13.23%	2,535.83	12.88%	2,862.55
Equity (including Minorities)	2,051.00	12.00%	2,297.12	13.00%	2,595.75	14.00%	2,959.15

Source: Bank accounts and Research Department's forecasts.

### Historic and Projected Financial Ratios, IFRS

ALPHA BANK, Financial Ratios	Valuation Model			
Consolidated Financial Statements, IAS	2004	2005	2006	2007
Net Interest Margin	3.18%	2.97%	3.28%	3.50%
Net Interest Margin (as % of avg assets)	2.79%	2.89%	2.90%	3.20%
Net Interest Income / Total Income	66.60%	69.91%	72.14%	73.65%
Total Costs / Total Income	51.66%	48.38%	45.39%	43.31%
Total Costs / Total Income (excluding trading income)	54.35%	49.30%	46.17%	44.01%
Total Costs / Avg. Assets	2.56%	2.25%	2.11%	2.11%
Operating Burden (in EUR mil.)	-289.66	-310.29	-333.80	-354.32
Burden (as % of avg assets)	-0.90%	-0.85%	-0.82%	-0.83%
Burden excl. Trading Income (in EUR mil.)	-368.28	-341.74	-366.19	-387.69
Burden excl. Trading Income (as % of avg assets)	-1.15%	-0.93%	-0.90%	-0.90%
Loan Loss Provisions / Avg. Loans	1.09%	1.06%	1.03%	1.01%
Loan Loss Provisions / Avg. Assets	0.72%	0.70%	0.70%	0.75%
Tax Rate	30.39%	24.00%	24.00%	24.00%
Dividend Payout	45.98%	46.00%	48.00%	50.00%
ROE	20.72%	20.89%	22.46%	22.83%
ROE average	22.16%	22.14%	23.86%	24.21%
ROA	1.24%	1.17%	1.36%	1.49%
ROA average	1.29%	1.28%	1.39%	1.52%

Source: Bank accounts and Research Department's forecasts.

### Historic and Projected Valuation – Profitability Ratios, IFRS

ALPHA BANK, Valuation Ratios	Valuation Model			
Consolidated Financial Statements, IAS	2004	2005	2006	2007
EPS growth (fully diluted)	44.89%	13.60%	21.77%	14.71%
Non - Int. Oper. Profit Growth (fully diluted)	-5.63%	7.12%	7.58%	6.15%
P/E Ratio (fully diluted)	15.61	13.74	11.29	9.84
Price / Operating Profit Ratio (fully diluted)	8.38	7.34	6.18	5.43
P/BV (Tier I) (fully diluted)	3.24	2.87	2.54	2.25
Dividend Yield	2.72%	3.03%	3.89%	4.94%

ALPHA BANK, Profitability Ratios	Valuation Model			
Consolidated Financial Statements, IAS	2004	2005	2006	2007
ROA, Average	1.29%	1.28%	1.39%	1.52%
ROE, Average	22.16%	22.14%	23.86%	24.21%
Return on Avg. Interest Earning Assets	5.74%	5.75%	5.70%	5.65%
Cost of Avg. Interest Bearing Liabilities	1.73%	1.73%	1.73%	1.73%
Yield Spread	4.01%	4.02%	3.97%	3.92%

Source: Bank accounts and Research Department's forecasts.

## FY 04 Results under Greek GAAP

Alpha reported a strong set of results boosted by credit expansion, reengineering, and good cost management. The annual results also reflected the strength of the Greek banking environment. Loans in Greece amounted to €15 billion posting an increase of 16%, supported by the strong growth in mortgages (26%), consumer loans (46%), and SBLs (13%).

The loan growth widened the net interest income by 17%, to €1,043 million (68.3% of total revenues), with the NIM as a percentage of average total assets reaching 320 bps (2003: 300 bps). The commission income grew by 19% to €352 million (23.1% of total revenues), while trading gains reached €70 million, down 37%. Total revenues increased by 16% reaching €1,527 million. On the other hand, operating expenses grew by only 3.6% to €1,199.8 million resulting to cost/income ratio of 48.5% from 54.2% in 2003. Profits before tax and extraordinary items were up 38% y-o-y, while net income increased by 45% to €412 million. Taking into account the ongoing improving level of profitability, the management proposed to distribute a dividend of €0.72 per share, increased by 44% compared to 2003, as well as the distribution of bonus shares (2 new for 10 old ones), which took place in the first half 2005.

## 1Q 05 Results under IFRS

Alpha reported a moderate set of 1Q 05 results, despite double-digit credit expansion and improving cost control, mainly due to small growth in NII. Specifically:

- Net interest income grew 10.8% to €273.1 million compared to €246.4 million in 1Q 04, driven mainly by strong growth in consumer lending up by 42% y-o-y and mortgages up by 28.2% y-o-y, while SBL growth was only 11% and loans to large corporations remained virtually flat at the levels of 1Q 04, increased by 1%. Spreads were kept at healthy grounds although significantly reduced compared to 1Q 04. As a result, NIM, as a percentage of average total assets, widened to 3.3% (1Q 04: 3.1%).
- Banking commissions were disappointingly down by 5%. According to the management, the development was caused, among other things, due to the very positive impact of Olympic games sponsorship. Also, investment-banking fees were affected by the weak activity during the first quarter of the year.
- Trading income was down by 67.6%, remained however on positive

ground.

- Other income increased substantially by 35% as for the first time, it included income from insurance and hotels.
- Operating income decreased by 1.5% reaching €388.2 million.
- Operating expenses were kept under control, dropping by 7.3% mainly due to the reduction of general expenses. Following the above, the cost to income ratio improved to 50.7% (1Q 04: 53.9%).
- Pre-tax income was down by 2.5% to €125.9 million, with SEE, mainly Romania, contributing €7.8 million (1Q 04: €4.3 million) and Cyprus contributing €3.3 million (1Q 04: €2.1 million).
- Net income after tax and minority interest increased by 5% benefited by the reduced tax rate and the decrease in minorities. ROE (after tax and minority interest) was down 100 bps to 18.8%, while ROA remained relatively flat to 1.1%.

## **1H 05 Results under IFRS**

Alpha reported an improved set of 1H 05 results, with net profit after tax and minorities reaching €223.3 million, offering better prospects to investors although the results were affected by one-off factors such as the merger with Delta-Singular, the impact of the Olympic sponsorship in both the revenues and especially the expenses in 1H 04, and the profits from Jubanka that were not included in 1H 04. In addition, Alpha reclassified the dividends to hybrid debt holders by taking them off the interest expenses affecting directly the equity position of the Bank. Finally, the lower effective tax rate and the improved quality in loans that allowed the Bank to reduce provisioning supported the better outlook of the 1H 05 compared to 1Q 05. In addition, the Bank retained its strong capital base with an adequacy ratio of 15% and Tier I ratio of 8.6%. In more detail:

- Net interest income, that formed 72.1% of operating income, increased by 13.7% to €582.8 million compared to €512.4 million in 1H 04 driven again, mainly by strong growth in consumer lending up by 44.32% y-o-y (consumer loans up by 48%, credit cards up by 39%) and mortgages up by 32% y-o-y. SBLs exhibited single digit growth of 7.5% and loans to large corporations were up 4.3%. Total volume was up nearly 15% with the international level up 25.2%, representing 11.5% of total loans. Spreads were kept in healthy levels (mortgage 260 bps, consumer 810 bps, SBLs 574 bps, large corporate 191 bps) similar to 1Q 05 levels although lower compared to 1H 04 (mortgage 284 bps, consumer 815 bps, SBLs 581 bps, large corporate 197 bps) resulting to NIM (net interest income as a percentage of average total assets) of 3.2%, a similar level to 1H 04.

- Fees and commissions (20.2% of operating income), although improved as compared to 1Q 05, with the contribution of fees from asset management, brokerage and investment banking fees, continued the weak pattern and were down by 1.5% y-o-y. Part of this result was attributed to the effect of Olympic Games sponsorship in 2004. Still, this income has some way to go and meet management's target of 5% growth per year.
- Trading income recorded surprising reduction reaching €4.6 million compared to €48.9 million in 1H 04 and €16.1 million in 1Q 05, a result that was within the normal market risk according to the management.
- Other income was down by 29.4%. We remind that this income includes income from insurance and hotels and, as suggested by the management, it is expected to be quite volatile from quarter to quarter.
- Operating income, although increased on a sequential basis, remained flat to 1H 04 levels, reaching €808.4 million.
- Operating expenses were down by 3.6% mainly due to the reduction of general expenses by 19.3% y-o-y (again Olympic Games sponsorship masks the picture), while staff costs went up 9.1% y-o-y. On sequential basis though, operating expenses went up by 4.6% (within the line of management's target) while general expenses went up 11%. Following the above, the cost to income ratio improved to 49.9% (1H 04: 51.7%).
- Pre-tax income was down by 1.2% y-o-y to €281.1 million (up by 23.3% on sequential basis though), with SEE contributing 11%.
- Net income after tax and minority interest increased by 7.2% benefited by the reduced tax rate and the decrease in minorities. ROE (after tax and minority interest) reached 16.9% (1H 04: 23.7%), while ROA was reduced to 1.2% (1H 04: 1.3%). However, on sequential basis, the profitability ratios were improved compared to 1Q 05.

### **Valuation Model's Assumptions**

Our model's forecasts reflect Alpha's emphasis on retail loan growth, a slightly improved net interest margin (based on average assets) due to retail and SEE expansion, and strong capital adequacy. Also, fees and commission income is expected to recover, while the preferential treatment of hybrid is taken into account when considering the effective tax rate. The assumptions are more in line with the developments observed in 1H 05 rather than 1Q 05, since the management deems 1H 05 as more representative of the annual trends. Also management's targets for 2007 (NIM: 3.3%, cost to income ratio: 43%, ROE > 26%, core Tier 1: 7%-8%, capital adequacy ratio > 12%) that imply a generous dividend policy were also taken into account. More specifically:

- We assume that net interest income will be steadily increasing with double-digit rates. Our model indicates a growth rate of 12.25% in core income during 2005.
- Higher yielding loans, such as consumer loans and SBLs are expected to form a larger share of the total loan portfolio in the following years, while allowing for margin improvements. We project NIM at 2.89% in 2005 from 2.79% in 2004.
- Commission and insurance income that slightly dropped in 1H 05 is expected to reverse the trend. It is noted that the management anticipates future growth of 5%-10% in recurring commission income.
- Our model implies that cost to income ratio will drop to 48.4% in 2005 in line with the trend observed in 1Q 05 / 1H 05, and even further in the next years.
- We also assume the loan to deposit ratio to advance to 118.20% in 2005 from 107.65% in 2004, then after keeping an upward trend.
- On bottom line we end up with net profit growth of 13.6% and 21.8% in 2005 and 2006 respectively. The management has already signaled that the second half will be stronger than the first half 05, implying that net profit may easily exceed EUR 450 million. Our target has been set at EUR 468 million.
- Capital base is expected to remain strong. Improving credit quality, especially in corporate loans, will allow a gradually declining charge in provisions, further enhancing capital base. Provisioning may be evolving below the level of 100 basis points.

## International Operations

Alpha has a strong presence in South East Europe (SEE), whereas recently it further strengthened its presence in Serbia following the repositioning of Jubanka. Romania and Cyprus provide a good source of income followed by Albania and FYROM, while in Bulgaria the Bank has kept a low profile. Alpha operates 92 branches in Serbia and commands 5.9% market share, 26 branches in Cyprus and 9% market share, 23 branches in Romania and 4.6% market share, 8 branches in Albania and 13.6% market share, 8 branches in Bulgaria and 1% market share and 7 branches in FYROM and 2% market share. The profitability in 1H 05 showed a noticeable increase boosted by the growth in loans by 27.9% y-o-y. Serbia recorded the highest increase (303.9%), followed by Albania (64.5%), Romania (28.8%), Bulgaria (22.8%) and Cyprus (15.5%), while small reduction by 1.5% was recorded in FYROM. At the end of 1H 05, 11% of the group's pre-tax profit came from SEE with Romania contributing nearly half of them, €14.1 million, posting an increase of 32% y-o-y. Cyprus contributed €7.1 million (46.9% y-o-y), Serbia €5.4 million (losses in 1H 04), Albania €3.3 million (105.1% y-o-y), FYROM €1.1 million (15.8% y-o-y), while Bulgaria was loss making (€-0.9 million).

### **Impact due to Adoption of IFRS**

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The adoption of IFRS had a minor impact on the financial results of 2004, reflecting the high quality of accounting methods used by the Bank even prior to the introduction of IFRS. Specifically:

- Net profit (before minorities) was not significantly altered and was adjusted downward by €18.5 million, mainly due to application of the effective interest rate on loans and also due to intangible assets written off. The valuation of financial assets and the depreciation of tangible assets had a positive impact.
- Shareholders equity was adjusted downwards by €524 million to €2 billion due to recognition of defined benefit pension fund obligations, an impact that was mitigated by the recognition of deferred tax assets that were drawn down in line with expensing the pension obligation.

### Investment Risks / Mitigating Factors

	Investment Risks / Concerns	Mitigating Factors / Important Notes
1	After a rapid retail credit expansion in Greece during the recent years, a slowdown may be imminent.	Alpha has more room to exploit in SBLs, while Alpha is expected to increase its market share in consumer lending, which already exceeds the sector's average growth by far.
2	Spreads may come under greater pressure moving forward.	Alpha has shown a great ability of maintaining spreads in healthy levels, achieving significant improvements, especially in the retail segment.
3	As in the near past, GDP growth should remain strong in the current year, however if the trend reverses in following years, it may have a negative impact on the revenues of Greek banking sector.	Expansion in South East Europe provides alternative revenue sources.
4	Economies in SEE are still volatile, while the competition in the banking sector increases with a number of Western European banks keeping an eye in the area.	Alpha has well positioned itself in SEE region managing to improve profitability, and at the same time, maintaining a low risk and cost profile. Also, there is a constantly growing lending market under-penetration in the area providing good growth prospects.

Source: Company Data, Research Department.

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## COMPANY PROFILE

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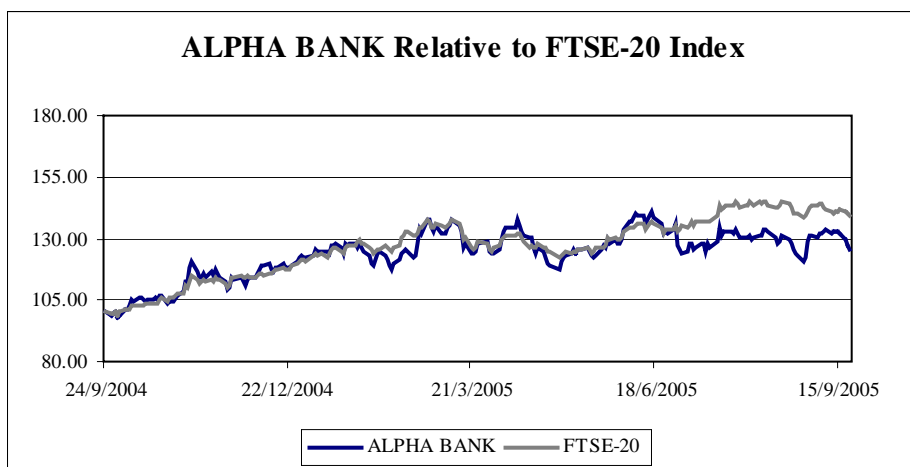
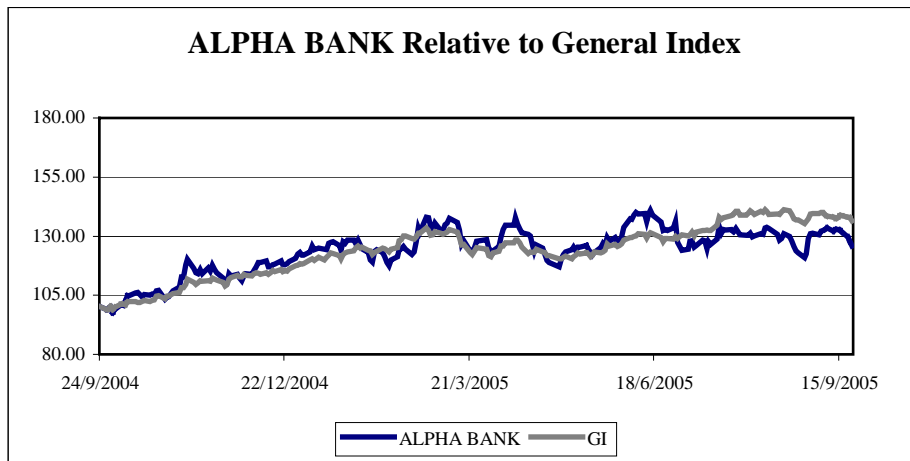
Alpha bank that was founded in 1879 as a small commercial firm in Kalamata, is now the second largest bank in Greece covering the entire range of financial services. Together with the companies that comprise the Alpha Bank Group, it covers all aspects of the financial sector, providing comprehensive services in:

- financing services, through the companies Alpha Leasing and ABC Factors,
- financial services, through Alpha Mutual Fund Management, Alpha Finance, Alpha Finance U.S., Alpha Asset Management and European Development Programs Management Company of Thessaly and Sterea Hellas,
- investment services, through Alpha Ventures and Ionian Holdings,
- information and other services, through Icap,
- insurance, through Alpha Insurance and Alpha Insurance Brokers,
- real estate, through Alpha Astika Akinita,
- hotel services, through Ionian Hotel Enterprises.

At the end of 2004, Alpha had 367 banking units in Greece and 70 branches abroad that were expanded to 156 following the acquisition of Jubanka, and 742 ATMs, the second largest ATM network among Greek banks, covering the entire geographical area of Greece. Furthermore, following the expansion of its activities in SEE, the Bank installed ATMs in Cyprus, Romania and Albania. The expansion brought the Bank to the leading position in corporate lending and to the second position in Greece in terms of total assets and deposits. Capital base remains strong with Tier I capital at 10.1% and total capital at 14%.

Corporate governance has also been improved in the context of the Group's reorganization, and following standards and trends applied internationally, the duties of Chairman were separated from those of the Chief Executive Officer.

**Share Price Performance vs. General Index & FTSE / ASE 20 (base=100)**



## Valuation Methodology

### Dividend Discount Model

**Our fair price for Alpha Bank settles at EUR 26.54** based on the dividend discount model. The following assumptions have been made in the model:

- Cost of capital at 9.99%.
- Dividend growth rate of 5.75%.

#### ALPHA BANK, Dividend Discount Model

	<u>1st Projected</u> <u>Year</u>					<b>Dividend Growth Rate</b>	<b>Terminal Value End of Period</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>		
Dividend per Share (in EUR)	0.74	0.94	1.12	1.28	1.45	5.75%	36.18
Required Return / Cost of Capital	9.99%	9.99%	9.99%	9.99%	9.99%		
Present Values (in EUR)	0.67	0.78	0.84	0.87	0.90		22.48
Dividend Growth Rate (2003 - 2007 CAGR )						22.39%	
<b>Implied Value per Share (Target Price)</b>							<b>26.54</b>
Current Share Price							22.08
<b>Upside Potential</b>							<b>20.22%</b>

Source: Bank accounts and Research Department's forecasts.

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**Notes**

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Value Invest - [www.valueinvest.gr](http://www.valueinvest.gr) Investment Research & Analysis Journal - [www.iraj.gr](http://www.iraj.gr)

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Covered Company	Reuters	Price	Price Close	Disclosure
Alpha Bank	ACBr.AT	€22.08	21 September 2005	2, 6

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2. VRS has sent the research report to the covered company, prior to publication or dissemination, for factual verification.
3. VRS has changed the contents of the initially sent report, with respect to: no change has been made.
4. VRS has received compensation from the covered company for the preparation of this research report.
5. VRS produces research reports for this company on systematic basis.
6. VRS produces research reports for this company on demand basis.
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