

Hong Kong

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Hong Kong Banks

January update—the slippery slope

Banks

Hong Kong banks are now trading at or near their peak valuations—a level historically associated with negative share price performance over the following twelve months. However, the macro environment is getting better.

Stretched pricing. HK banks are trading at 22x trailing and 16.4x forward EPS. Since 1990, valuations of over 15x forward earnings have produced an average 12-month return of -8.7%. We remain underweight HK in our regional banks portfolio.

Was that it? The Wing Hang placement yesterday (at an all-time high) indicates that BONY was unable to find a strategic buyer for its 25% stake at even the market price (vs the 4.5% placement discount). This and the failure of LCH to find an appropriate bidder may mean that there is not much remaining demand for Hong Kong banking franchises—at least at current prices.

Consumption. Consumer trends continue to be very robust from both income and creditworthiness perspectives, which should mean an excellent year for credit card and other unsecured lenders in 2004.

Reaching for positive growth. Loan growth was still negative in November, but strength in manufacturing and trade-related loans indicate that the economy is taking off. We believe that loan growth will resume by the end of 1Q04; rising loan-to-deposit ratios, on the other hand, may take a bit longer.

28 January 2004

Loan Growth				
% Change, YoY	4Q02	1Q03	2Q03	3Q03
Total Loans	(4.96)	(4.54)	(4.32)	(3.81)
HK Loans	(2.64)	(3.45)	(3.26)	(3.24)
Commercial	(3.58)	(3.54)	(1.69)	(1.63)
Mortgage	(0.81)	(2.13)	(4.05)	(4.38)
Credit Card	(6.33)	(10.89)	(11.41)	(8.48)
Other	(3.04)	(7.24)	(9.41)	(8.81)
Consumer				
Non-HK Loans	(21.53)	(17.75)	(17.98)	(14.17)
Trade Finance	(0.67)	2.03	(0.23)	(0.17)
Other	11.66	14.32	2.81	6.19

Loan Growth				
% Change, MoM	8/03	9/03	10/03	11/03
Total Loans	(0.43)	(0.11)	2.60	(2.29)
for use in HK	(0.33)	(0.31)	3.02	(2.46)
for use outside HK	(1.32)	1.06	(0.75)	(1.63)
trade finance	(0.79)	(0.17)	1.16	(0.81)
other	2.45	6.19	10.63	(1.35)

Asset Quality				
	4Q02	1Q03	2Q03	3Q03
NPLs/Loans	3.92	4.03	3.83	3.59
Criticized Loans	11.12	11.50	11.32	11.60
Card Charge-offs*	15.11	12.35	11.60	9.85
Mortgage NPLs	1.06	1.11	1.12	1.05
Bankruptcy Petitions	9/03	10/03	11/03	12/03
YoY % Change	1,450	1,648	1,417	1,291
	(32.1)	(31.9)	(42.0)	(38.8)

* Annualised rate

Source: HKMA, Official Receiver's Office

Hong Kong lending summary: 1992–3Q03

Fig 1 Loans by sector (HK\$m)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	3Q03
Manufacturing	63,731	73,720	85,845	100,137	107,530	110,675	94,609	80,169	73,726	71,227	70,668	77,636
Agriculture & fisheries	500	532	569	847	979	982	1,617	1,312	1,687	1,025	412	340
Transport & transport equipment	58,076	62,701	71,813	68,992	82,860	96,208	106,272	103,333	105,156	101,720	104,129	106,156
Electricity, gas & telephone	9,952	12,984	19,805	21,974	24,996	27,186	28,712	25,855	75,855	57,762	56,233	42,366
Property development & investment	144,533	180,439	249,112	262,199	333,032	440,296	416,226	384,127	398,365	388,833	378,945	364,805
Industrial	11,856	13,633	13,653	14,885	12,437	11,151	9,505	7,141	6,596	6,550	7,229	6,164
Residential	34,511	42,840	72,534	78,918	118,965	194,821	179,499	173,416	179,136	172,594	168,975	157,622
Commercial	58,174	72,115	94,711	102,214	113,364	122,711	111,974	100,533	105,031	103,470	111,430	114,669
Other	39,992	51,851	68,214	66,182	88,266	111,613	115,249	103,037	107,602	106,218	91,312	86,350
Wholesale & retail trade	88,152	99,405	137,472	166,281	176,497	205,679	179,668	144,075	120,155	101,184	100,367	96,590
Mining and quarrying	563	627	719	525	372	281	98	84	158	123	182	166
Consumer	279,448	337,674	372,431	429,985	518,950	662,787	708,877	727,080	758,930	783,647	773,059	741,287
Mortgages	224,258	268,031	298,496	349,209	421,890	540,800	589,658	608,559	626,387	646,910	641,645	617,918
HOS	21,628	34,886	39,939	47,494	50,620	60,399	74,227	76,189	90,524	107,187	99,214	89,811
Private	202,630	233,145	258,557	301,715	371,270	480,401	515,431	532,370	535,863	539,723	542,431	528,107
Credit cards	10,104	14,079	15,683	20,216	23,707	30,573	34,846	37,344	48,602	54,829	51,361	47,260
Other personal lending	45,086	55,564	58,252	60,560	73,353	91,414	84,373	81,177	83,941	81,908	80,053	76,109
Miscellaneous	264,958	307,696	320,824	347,254	391,975	493,184	424,292	353,756	327,434	284,579	258,912	261,249
Loans and advances for use in Hong Kong	909,913	1,075,778	1,258,590	1,398,194	1,637,191	2,037,278	1,960,371	1,819,791	1,861,466	1,790,100	1,742,907	1,690,595

Source: HKMA

Fig 2 Loans by sector (% of total loans)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	3Q03
Manufacturing	7.0	6.9	6.8	7.2	6.6	5.4	4.8	4.4	4.0	4.0	4.1	4.6
Agriculture & fisheries	0.1	0.0	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.0	0.0
Transport & transport equipment	6.4	5.8	5.7	4.9	5.1	4.7	5.4	5.7	5.6	5.7	6.0	6.3
Electricity, gas & telephone	1.1	1.2	1.6	1.6	1.5	1.3	1.5	1.4	4.1	3.2	3.2	2.5
Property development and investment	15.9	16.8	19.8	18.8	20.3	21.6	21.2	21.1	21.4	21.7	21.7	21.6
Industrial	1.3	1.3	1.1	1.1	0.8	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Residential	3.8	4.0	5.8	5.6	7.3	9.6	9.2	9.5	9.6	9.6	9.7	9.3
Commercial	6.4	6.7	7.5	7.3	6.9	6.0	5.7	5.5	5.6	5.8	6.4	6.8
Other	4.4	4.8	5.4	4.7	5.4	5.5	5.9	5.7	5.8	5.9	5.2	5.1
Wholesale & retail trade	9.7	9.2	10.9	11.9	10.8	10.1	9.2	7.9	6.5	5.7	5.8	5.7
Mining and quarrying	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Consumer	30.7	31.4	29.6	30.8	31.7	32.5	36.2	40.0	40.8	43.8	44.4	43.8
Mortgages	24.6	24.9	23.7	25.0	25.8	26.5	30.1	33.4	33.7	36.1	36.8	36.6
HOS	2.4	3.2	3.2	3.4	3.1	3.0	3.8	4.2	4.9	6.0	5.7	5.3
Private	22.3	21.7	20.5	21.6	22.7	23.6	26.3	29.3	28.8	30.2	31.1	31.2
Credit cards	1.1	1.3	1.2	1.4	1.4	1.5	1.8	2.1	2.6	3.1	2.9	2.8
Other personal lending	5.0	5.2	4.6	4.3	4.5	4.5	4.3	4.5	4.5	4.6	4.6	4.5
Miscellaneous	29.1	28.6	25.5	24.8	23.9	24.2	21.6	19.4	17.6	15.9	14.9	15.5
Loans and advances for use in Hong Kong	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: HKMA

Loan growth still slow, but turning

For all the talk of reflation and leverage to China, total loan growth in Hong Kong continues to be negative, dropping at a 3.2% annual rate in 3Q03 and at a 2.3% rate in November. However, important trends have surfaced in the quarterly release (which offers a more detailed breakdown of loans by category—see fig. 3—than does the monthly databook) that bear watching.

Fig 3 Loan growth by sector (%ch YoY)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	3Q03
Manufacturing	16.9	15.7	16.4	16.6	7.4	2.9	(14.5)	(15.3)	(8.0)	(3.4)	(0.8)	12.0
Agriculture & fisheries	16.6	6.4	7.0	48.9	15.6	0.3	64.7	(18.9)	28.6	(39.2)	(59.8)	(21.9)
Transport and transport equipment	13.3	8.0	14.5	(3.9)	20.1	16.1	10.5	(2.8)	1.8	(3.3)	2.4	4.1
Electricity, gas and telephone	0.1	30.5	52.5	11.0	13.8	8.8	5.6	(10.0)	193.4	(23.9)	(2.6)	(24.4)
Property development and investment	15.0	24.8	38.1	5.3	27.0	32.2	(5.5)	(7.7)	3.7	(2.4)	(2.5)	(1.7)
Industrial	10.7	15.0	0.1	9.0	(16.4)	(10.3)	(14.8)	(24.9)	(7.6)	(0.7)	10.4	(17.8)
Residential	15.0	24.1	69.3	8.8	50.7	63.8	(7.9)	(3.4)	3.3	(3.7)	(2.1)	(5.3)
Commercial	18.1	24.0	31.3	7.9	10.9	8.2	(8.7)	(10.2)	4.5	(1.5)	7.7	10.9
Other	12.0	29.7	31.6	(3.0)	33.4	26.5	3.3	(10.6)	4.4	(1.3)	(14.0)	(8.0)
Wholesale & retail trade	9.3	12.8	38.3	21.0	6.1	16.5	(12.6)	(19.8)	(16.6)	(15.8)	(0.8)	(4.8)
Mining and quarrying	(30.2)	11.4	14.7	(27.0)	(29.1)	(24.5)	(65.1)	(14.3)	88.1	(22.2)	48.0	17.6
Consumer	13.3	20.8	10.3	15.5	20.7	27.7	7.0	2.6	4.4	3.3	(1.4)	(5.0)
Mortgages	12.6	19.5	11.4	17.0	20.8	28.2	9.0	3.2	2.9	3.3	(0.8)	(4.4)
HOS	13.4	61.3	14.5	18.9	6.6	19.3	22.9	2.6	18.8	18.4	(7.4)	(10.3)
Private	12.5	15.1	10.9	16.7	23.1	29.4	7.3	3.3	0.7	0.7	0.5	(3.3)
Credit cards	45.4	39.3	11.4	28.9	17.3	29.0	14.0	7.2	30.1	12.8	(6.3)	(8.5)
Other personal lending	11.2	23.2	4.8	4.0	21.1	24.6	(7.7)	(3.8)	3.4	(2.4)	(2.3)	(7.3)
Miscellaneous	7.2	16.1	4.3	8.2	12.9	25.8	(14.0)	(16.6)	(7.4)	(13.1)	(9.0)	(2.0)
Loans and advances for use in Hong Kong	11.4	18.2	17.0	11.1	17.1	24.4	(3.8)	(7.2)	2.3	(3.8)	(2.6)	(3.2)

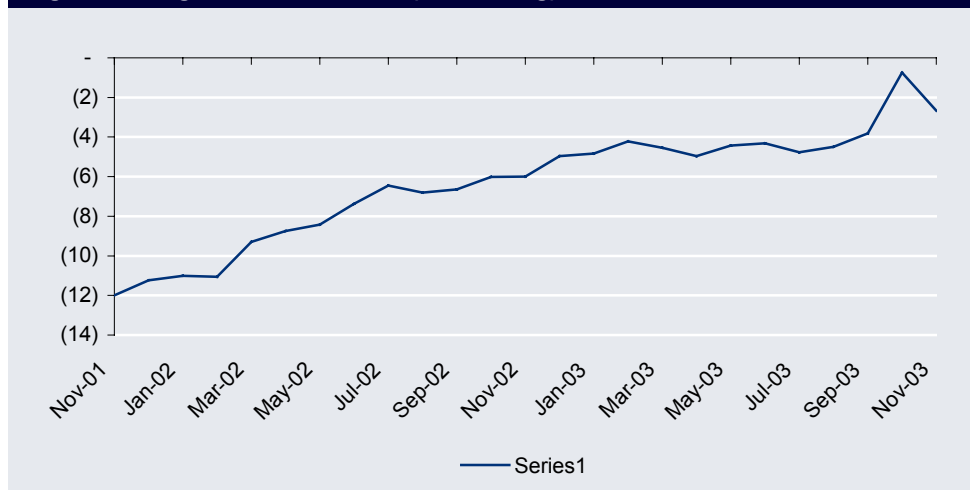
Source: HKMA

Chief among these is the strong recovery in manufacturing lending, which has built upon a rising trend throughout the year to finish 3Q at 12% above the comparable period of 2002. Note also from Fig15 that trade finance has recovered from its August lows and is once again adding to overall balance growth at a run rate of 6.5%.

Loan growth has been climbing back towards zero on almost a monthly basis, although November was slightly weaker than October. We are confident that HK will break into positive territory by the end of 1Q04; in fact we may already be growing and not yet know it, although recent conferences with local banks don't show quite this level of optimism yet.

Negatives remain the battered consumer sector and residential property development, despite a brisk tailwind for property prices and resumed marketing of credit cards.

Although mortgage balances are still declining at ~2.5% YoY, new originations and approvals continue at a rate more than 30% above that of the year-earlier period. This should help break the negative balance trend before mid-year 2004 and finish the year up 3.4%—this despite the continuing run-off in the HOS pool and increased sales to the HKMC.

Fig 4 Loan growth 11/01-11/03 (YoY % chg)

Source: HKMA

Loan growth estimates

Although our 2003 estimate of -3.2% loan growth now actually requires marginal loan growth for 4Q03, we believe that the final tally will be quite close to our figure. Looking out at growth estimates for 2004-06 of 2.2-5.4%, there is also potential scope for upside.

Don't confuse credit creation with loan growth, however—new moves to securitise more mortgages and the increasing dominance of the fixed income markets in financing large corporate capex will hold down balance sheet asset increases in this cycle to well below those of the heyday.

Fig 5 Loans by sector with 2003-06 forecasts (% ch YoY)

	1999	2000	2001	2002	2003F	2004F	2005F	2006F
Manufacturing	(15.3)	(8.0)	(3.4)	(0.8)	(0.5)	4.5	8.0	7.5
Agriculture and fisheries	(18.9)	28.6	(39.2)	(59.8)	(12.0)	(4.0)	(4.0)	(4.0)
Transport & transport equipment	(2.8)	1.8	(3.3)	2.4	(9.0)	1.0	3.6	4.8
Electricity, gas & telephone	(10.0)	193.4	(23.9)	(2.6)	1.5	2.0	2.5	3.1
Property development and investment	(7.7)	3.7	(2.4)	(2.5)	(2.4)	(0.5)	2.7	5.3
Industrial	(24.9)	(7.6)	(0.7)	10.4	4.0	(3.0)	1.3	6.0
Residential	(3.4)	3.3	(3.7)	(2.1)	(4.0)	1.0	4.5	7.2
Commercial	(10.2)	4.5	(1.5)	7.7	(0.7)	(1.2)	1.0	5.4
Other	(10.6)	4.4	(1.3)	(14.0)	(2.0)	(2.0)	1.5	1.5
Wholesale and retail trade	(19.8)	(16.6)	(15.8)	(0.8)	(4.0)	4.2	7.2	8.0
Mining and quarrying	(14.3)	88.1	(22.2)	48.0	1.5	4.0	5.5	5.7
Consumer	2.6	4.4	3.3	(1.4)	(3.3)	3.2	5.4	4.9
Mortgages	3.2	2.9	3.3	(0.8)	(3.1)	3.4	5.6	4.5
HOS	2.6	18.8	18.4	(7.4)	(11.0)	(7.0)	(5.0)	(5.0)
Private	3.3	0.7	0.7	0.5	(1.6)	5.1	7.1	5.8
Credit cards	7.2	30.1	12.8	(6.3)	(5.0)	2.0	6.2	9.3
Other personal lending	(3.8)	3.4	(2.4)	(2.3)	(4.0)	2.2	3.8	5.0
Miscellaneous	(16.6)	(7.4)	(13.1)	(9.0)	(2.5)	2.0	6.0	6.0
Loans and advances for use in Hong Kong	(7.2)	2.3	(3.8)	(2.6)	(3.1)	2.2	4.9	5.4

Source: HKMA, ING estimates

Valuations at peak levels

Hong Kong bank valuations are approaching historical highs on an earnings basis, with the sector average¹ now at 21.2x trailing EPS—a level only reached in recent memory in late 1999 and in 1993. Note that HSBC's multiple development (we look at it separately as it would otherwise overwhelm a market-cap-weighted average) has been even more phenomenal.

Why look at trailing earnings? Our rationale was that actual reported EPS is the hardest number to fake (although some have tried) and less sensitive to over-optimism (or pessimism) about the future.

Fig 6 Average trailing PER: HK banks ex-HSBC (x, 1994-present)



Source: Company data, ING estimates, Bloomberg

Fig 7 Average trailing PER: HSBC (x, 1994-present)



Source: Company data, ING estimates, Bloomberg

However, the case can be made that Hong Kong banks are currently trading at high trailing multiples due to depressed earnings during a period of falling real estate prices, sky-high consumer bankruptcies, and SARS—none of which currently applies.

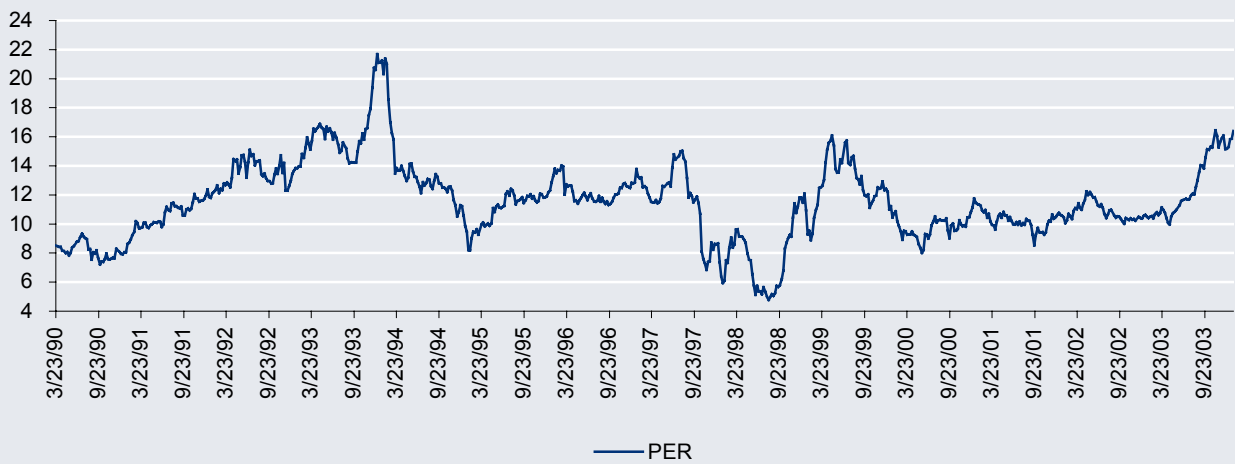
¹ Our average includes HSB, BEA, DSF, WHB, and WLB. We exclude HSBC and STAN from our pure HK bank average because of their changing geographic mix over the applicable time period, and BOCHK as it was not listed until 2002.

Although this could also be said of other periods within our historical analysis (with late 1999 being the best example), we have also gone on to look at PER on a historical forecast basis using I/B/E/S data.

On a forward EPS basis (next fiscal year), HK banks currently trade at an average PER of 16.4x, well above the 11.5x long-run average. Our analysis reveals that the sector has traded at over 15x forward EPS on only six occasions (a few of them quite brief) since 1990, for an aggregate 56 weeks of 671 (8% of the time). On average, the sector return over the following 12 months has been -8.7%.

In contrast, banks have traded at single-digit forward multiples 27% of the time, with average market returns over the next 12 months of +50%. (There: you no longer need a Hong Kong banks analyst!)

Fig 8 Average forward PER: HK banks ex-HSBC (x, 1990-present)



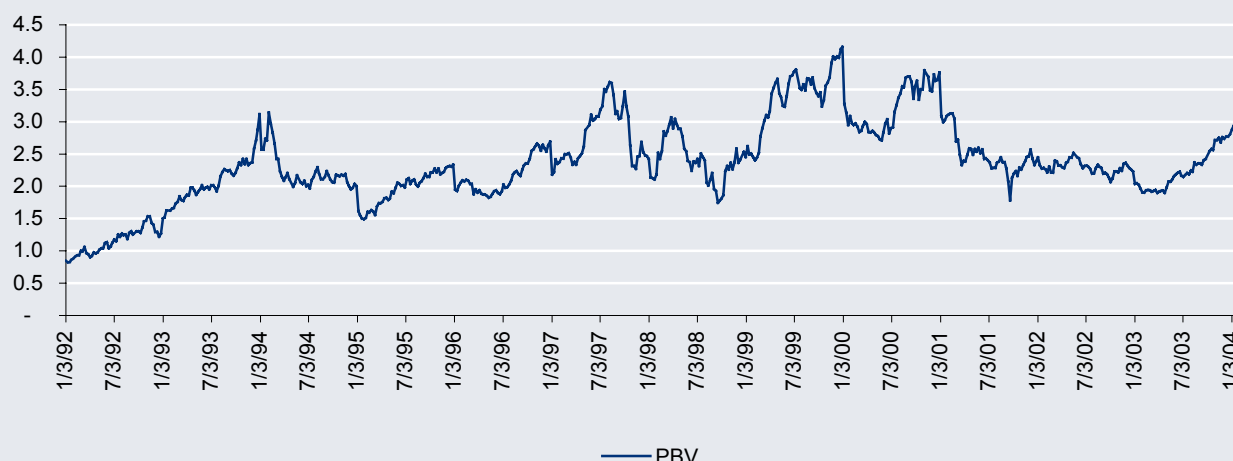
Source: Datastream, ING estimates

Price-to-book multiple analysis is less revealing, although it still shows banks at their post-crisis resistance level of 2.5x stated book. On a projected sector ROE of under 15% for 2004, this is difficult to justify without projecting further transformational gains.

Fig 9 Average trailing price/book: HK banks ex-HSBC (x, 1994-present)



Source: Company data, ING estimates, Bloomberg

Fig 10 Average trailing price/book: HSBC (x, 1992-present)

Source: Company data, ING estimates, Bloomberg

Wing Hang placement signals limited M&A gains

Bank of New York placed 14.45m shares of WHB yesterday at HK\$50.615 per share, a 4.5% discount to the previous close—which was an all-time high for the company since its 1993 listing. BONY owned 25% of WHB before the placement and will continue to own 20% afterwards.

Valuation for the transaction was 2.34x trailing BV and 20x 2003 (16x 2004) forecast EPS per I/B/E/S consensus. WHB last traded at these multiples in October of 1997...certainly a blast from the past.

We assume based on the sale and management's statement about "reallocating capital" towards priorities that BONY is no longer committed to its remaining 20% stake in WHB as there is no real strategic relationship between the two.

Interestingly, a market placement likely means that BONY was not able to sell its WHB stake to another HK (or foreign) bank looking to acquire the institution, or they would presumably have gotten a premium and not a discount, and would in addition have been able to dispose of the entire block in one go.

This is negative for sector valuations as it means that potential buyers of small HK banks may no longer be interested; we believe WHB was one of the best available franchises. It is also possible that no potential strategic buyers of WHB were able to work out an acceptable deal with the Fung family, which would be a bad long-term sign for the bank but perhaps not the sector.

Such a transaction confirms our view that the Hong Kong banks are trading at peak valuations.

Remember that the two recent bank M&A transactions have been done at approximately 1.2x book.

Other thoughts on the WHB placement:

- We expect the rest of BONY's stake is now overhang and will be sold in the next year or two.
- Other minority HK bank stakes include WLB (10% owned by DBS) and DSF (15% owned by UFJ).

- We think a DSF placement is the more likely, especially given the similar all-time high price and distressed nature of the parent.

Fig 11 Hong Kong bank valuations

	BBG code	Price (HK\$)	Mkt cap (US\$m)	ING rating	Px target (HK\$)	BVPS (HK\$)	YE2002 PBV (x)	PER (x)		
								2002	2003F	2004F
HSBC	5 HK	125.00	151,527.57	HOLD	105.00	43.02	2.91	24.4	20.1	18.7
HSB	11 HK	104.00	25,556.77	SELL	78.00	22.79	4.56	20.0	21.1	20.0
STAN	2888 HK	135.00	20,296.76	BUY	140.00	44.74	3.02	27.4	22.2	16.3
BOCHK ^[9]	2388 HK	14.75	20,044.79	HOLD	12.35	5.39	2.74	23.4	22.3	16.4
BEA	23 HK	25.45	4,745.99	SELL	17.50	13.00	1.96	28.7	21.7	18.1
DSF	440 HK	62.00	1,965.82	BUY	63.60	24.70	2.51	18.5	15.5	14.0
WHB	302 HK	54.25	2,046.29	NR	N/A	21.66	2.50	23.4	21.4	17.1
WLB	96 HK	51.25	1,529.53	NR	N/A	34.29	1.49	15.7	15.0	13.6
IBA	636 HK	3.68	553.69	SELL	2.66	3.21	1.14	19.1	42.0	21.4
CKW	183 HK	4.35	1,697.12	NR	N/A	2.45	1.78	21.4	20.2	16.7
ICBC (Asia)	349 HK	12.80	1,027.25	NR	N/A	7.10	1.80	18.3	18.0	15.4
LCH	1111 HK	12.75	712.89	NR	N/A	13.50	0.94	18.0	18.9	17.6
HKEx	388 HK	20.60	2,763.23	HOLD	15.60	5.76	3.58	36.1	35.6	27.4
AEON	900 HK	4.80	258.36	BUY	5.62	2.52	1.90	9.6	17.1	9.5
JCG	626 HK	6.50	591.31	SELL	5.20	4.63	1.40	19.1	20.2	13.1
Average							2.28	21.5	22.1	17.0

Prices as of 1/21/03. EPS estimates for non-rated companies per I/B/E/S.

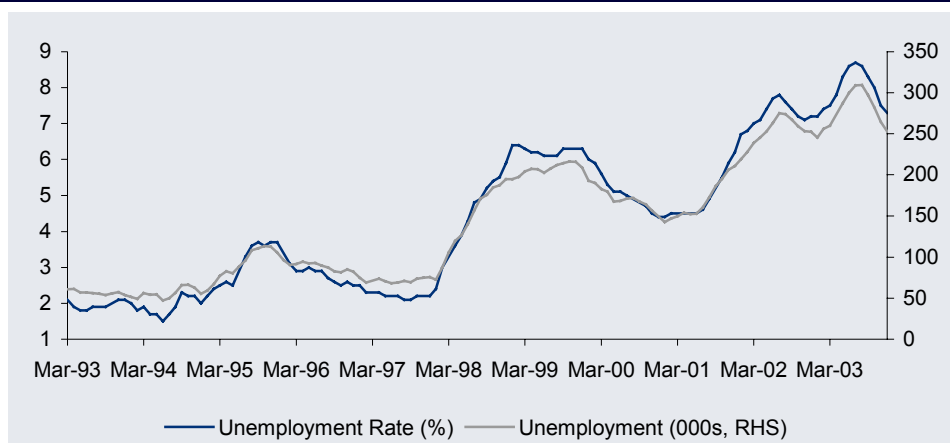
Source: Company data, I/B/E/S, ING estimates

Consumer indicators keep rising

Unemployment peaked in July at 8.76% and has since fallen back to 7.3%, with the potential to hit 6% by year-end 2004. With unemployment the major indicator for bankruptcies and consumer charge-offs, we have thus seen a fall in insolvency filings for December which takes us back to 2001 levels (down 39% YoY), and a retreat in card losses to 9.85% for 3Q03 from a peak of 15.8% in 3Q02.

We see these trends as most positive for consumer consumption-related finance stocks, including Standard Chartered (through its Manhattan Card franchise in Hong Kong), Dah Sing Financial, and Aeon Credit HK.

Fig 12 Hong Kong unemployment: 1993-present



Source: Hong Kong Census and Statistics Department

Fig 13 Hong Kong bankruptcy petitions: 1998-present



Source: Hong Kong Official Receiver's Office

Negative equity experiences negative growth

Our greatest systemic fear for the Hong Kong banks in 2002 and early 2003 was that the problem of consumer defaults on unsecured loans, which was largely limited to the lower-middle-class customer and below, would spread to the home-owning segment of the population—which is where the majority of Hong Kong banks' personal credit risk lies.

The risk of loss was driven by the vast number of borrowers (31% by volume at the peak) who were in negative equity positions despite initial loan-to-values of 70% or

less. We know from our review of academic literature and practical studies that negative equity is a very strong predictor of default and loss—much more so than unemployment or household gearing.

The good news is that negative equity has begun to decline, with the overall uncollateralised balance declining by HK\$10bn to HK\$155bn at end-September, and negative equity loans falling from 31% to 29% of total outstandings. Although this is still far too high for comfort, current market prices would indicate that negative equity mortgages are already below 25% of outstandings.

With our appreciation forecast for mass residential (which comprises most of the property underlying loans in negative equity) strong at 10% in 2004 and 15% in 2005, the problem of negative equity looks to be going away.

Fig 14 Negative Equity Mortgage Statistics

	Sep-01	Mar-02	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Sep-03
No. of mortgages in negative equity	65,000	67,500	68,252	71,296	77,935	83,177	105,697	99,805
% of total mortgages	14%	14%	14%	15%	16%	17%	22%	20%
Principal amount of negative equity loans (HK\$bn)	127	115	118	120	129	135	165	155
As % of total outstanding value	23%	21%	21%	22%	24%	25%	31%	29%
Loan-to-value ratio	NA	125%	127%	128%	127%	128%	128%	127%
Weighted average interest rate	BLR - 0.27%	BLR-0.60%	BLR-0.70%	BLR-0.76%	BLR-0.83%	BLR-0.88%	BLR-1.07%	BLR-1.09%

Source: HKMA

Fig 15 Loan growth by month: September 2002-November 2003 (HK\$m)

	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03
Balances															
Total loans	2,097,950	2,085,902	2,078,546	2,076,597	2,077,081	2,072,791	2,059,704	2,044,396	2,050,644	2,053,194	2,028,866	2,020,049	2,017,926	2,070,484	2,023,078
--For use in Hong Kong	1,747,153	1,737,555	1,738,833	1,743,000	1,744,989	1,738,761	1,732,573	1,717,929	1,720,301	1,720,717	1,701,457	1,695,821	1,690,595	1,741,724	1,698,818
--For use outside of Hong Kong	247,399	246,436	239,326	232,798	230,574	229,954	219,332	216,672	215,573	217,487	212,927	210,123	212,351	210,761	207,326
--Trade finance	94,332	92,862	91,567	90,952	91,089	91,002	92,854	94,445	98,856	98,628	98,112	97,333	97,171	98,297	97,498
--Other	9,066	9,049	8,819	9,847	10,429	13,073	14,946	15,351	15,915	16,361	16,371	16,772	17,809	19,703	19,436
% change, MoM															
Total loans	(0.81)	(0.57)	(0.35)	(0.09)	0.02	(0.21)	(0.63)	(0.74)	0.31	0.12	(1.18)	(0.43)	(0.11)	2.60	(2.29)
--For use in Hong Kong	(0.25)	(0.55)	0.07	0.24	0.11	(0.36)	(0.36)	(0.85)	0.14	0.02	(1.12)	(0.33)	(0.31)	3.02	(2.46)
--For use outside of Hong Kong	(4.04)	(0.39)	(2.89)	(2.73)	(0.96)	(0.27)	(4.62)	(1.21)	(0.51)	0.89	(2.10)	(1.32)	1.06	(0.75)	(1.63)
--Trade finance	(0.27)	(1.56)	(1.39)	(0.67)	0.15	(0.10)	2.03	1.71	4.67	(0.23)	(0.52)	(0.79)	(0.17)	1.16	(0.81)
--Other	(17.58)	(0.19)	(2.54)	11.66	5.91	25.35	14.32	2.71	3.67	2.81	0.06	2.45	6.19	10.63	(1.35)
% change, YoY															
Total loans	(6.64)	(6.01)	(5.99)	(4.96)	(4.84)	(4.22)	(4.54)	(4.97)	(4.44)	(4.32)	(4.76)	(4.49)	(3.81)	(0.74)	(2.67)
--For use in Hong Kong	(3.41)	(2.99)	(3.21)	(2.63)	(2.64)	(2.73)	(3.45)	(4.06)	(3.52)	(3.26)	(3.18)	(3.19)	(3.24)	0.24	(2.30)
--For use outside of Hong Kong	(25.13)	(23.79)	(23.40)	(21.53)	(20.75)	(17.60)	(17.75)	(17.34)	(17.70)	(17.98)	(20.50)	(18.50)	(14.17)	(14.48)	(13.37)
--Trade finance	(3.00)	(1.34)	0.42	2.64	3.36	4.95	7.56	8.14	8.71	6.50	3.12	2.91	3.01	5.85	6.48
--Other	(14.73)	(15.60)	(18.70)	2.37	(8.13)	22.03	45.29	38.50	59.03	73.03	63.27	52.47	96.44	117.74	120.39
Balances															
-Loans in HK\$	1,625,957	1,617,834	1,615,395	1,615,904	1,620,343	1,611,780	1,609,845	1,596,233	1,595,107	1,597,033	1,576,499	1,569,716	1,568,197	1,617,062	1,566,304
% of total loans	77.5	77.6	77.7	77.8	78.0	77.8	78.2	78.1	77.8	77.8	77.7	77.7	77.7	78.1	77.4
-Loans in other currencies	471,992	468,068	463,151	460,693	456,739	461,011	449,858	448,163	455,537	456,161	452,367	450,333	449,729	453,423	456,774
% of total loans	22.5	22.4	22.3	22.2	22.0	22.2	21.8	21.9	22.2	22.2	22.3	22.3	22.3	21.9	22.6

Source: HKMA

Fig 16 Mortgage lending summary: August 2002-November 2003 (HK\$m)

	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03
Total mortgage loans	535.4	537.1	535.3	535.3	533.7	533.8	531.6	528.6	528.2	526.1	523.5	522.2	522.4	520.7	521.2	522.3
% chg (MoM)	(0.29)	0.32	(0.33)	0.00	(0.30)	0.01	(0.41)	(0.57)	(0.07)	(0.39)	(0.50)	(0.25)	0.05	(0.33)	0.10	0.21
% chg (YoY)	2.13	2.40	2.22	2.12	0.99	0.37	(0.16)	(0.81)	(1.06)	(1.98)	(2.63)	(2.75)	(2.42)	(3.05)	(2.63)	(2.43)
New loans originated																
No.	5,519	6,406	5,440	5,415	4,422	5,897	3,506	4,034	5,228	4,491	4,615	5,725	6,534	5,181	6,613	6,852
Average amount (HK\$,000)	1,112	1,337	1,317	1,239	1,260	1,227	1,131	1,268	1,237	1,145	1,145	1,174	1,169	1,129	1,286	1,304
Total originations	6.14	8.57	7.17	6.71	5.57	7.23	3.97	5.12	6.47	5.14	5.28	6.72	7.64	5.85	8.50	8.94
% chg (MoM)	(15.79)	39.52	(16.32)	(6.40)	(16.92)	29.80	(45.18)	29.02	26.38	(20.50)	2.74	27.26	13.58	(23.40)	45.38	5.08
% chg (YoY)	(47.88)	6.57	2.91	(18.92)	(52.27)	(36.91)	(50.09)	(37.64)	(26.64)	(49.64)	(49.49)	(7.79)	24.37	(31.71)	18.64	33.20
New loans approved																
No.	6,202	6,808	6,124	4,915	5,601	5,235	3,637	5,191	4,859	4,748	5,652	7,484	5,327	5,956	7,849	5,989
Average amount (HK\$,000)	1,214	1,323	1,257	1,221	1,300	1,188	1,144	1,322	1,204	1,134	1,199	1,177	1,119	1,264	1,340	1,356
Average LTV (%)	67.0	68.9	67.1	65.0	64.6	64.8	64.8	64.9	66.2	66.2	64.9	66.1	64.2	64.3	64.8	64.2
Total approvals	7.53	9.01	7.70	6.00	7.28	6.22	4.16	6.87	5.85	5.39	6.78	8.81	5.96	7.53	10.52	8.12
% chg (MoM)	1.63	19.61	(14.56)	(22.02)	21.38	(14.62)	(33.12)	65.06	(14.77)	(7.96)	25.83	29.94	(32.28)	26.29	39.67	(22.79)
% chg (YoY)	(20.79)	7.02	(5.64)	(50.57)	(42.61)	(51.47)	(49.18)	(26.40)	(47.20)	(55.81)	(27.93)	18.84	(20.81)	(16.39)	36.67	35.33
% of non-performing loans (90+ days)	1.09	1.08	1.11	1.11	1.06	1.07	1.09	1.11	1.14	1.16	1.12	1.10	1.09	1.05	0.99	0.97
% of non-performing loans (180+ days)	0.74	0.73	0.74	0.74	0.69	0.69	0.70	0.72	0.74	0.74	0.68	0.66	0.65	0.64	0.60	0.58
% of rescheduled loans	0.47	0.46	0.46	0.47	0.46	0.46	0.46	0.46	0.46	0.48	0.53	0.55	0.55	0.55	0.56	0.54
Pre-payments (%)																
Partial	0.12	0.15	0.08	0.12	0.18	0.20	0.09	0.18	0.13	0.17	0.16	0.13	0.10	0.08	0.11	0.14
Full	1.28	0.77	1.27	0.98	0.85	0.80	0.82	1.19	0.98	0.96	0.81	0.73	0.56	0.62	0.73	0.78
Total	1.40	0.92	1.35	1.10	1.03	1.00	0.91	1.37	1.11	1.13	0.97	0.86	0.66	0.70	0.84	0.92

Source: HKMA; Hong Kong Mortgage Corporation

Fig 17 Deposit growth and distribution: September 2002-November 2003 (HK\$m)

	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03
Licenced bank deposits															
HK\$															
--Demand	132,246	137,081	137,349	146,177	136,130	140,438	141,885	140,431	145,300	157,133	161,365	163,310	176,055	224,410	210,172
--Savings	634,845	642,199	659,214	674,309	679,081	688,551	689,368	694,136	719,728	734,844	738,168	740,640	774,546	854,695	902,061
--Time	1,034,071	1,028,153	1,013,467	983,502	975,227	961,948	952,052	946,583	940,815	930,524	919,051	931,085	918,169	858,963	763,399
--Total	1,801,162	1,807,433	1,810,030	1,803,988	1,790,438	1,790,938	1,783,305	1,781,150	1,805,843	1,822,501	1,818,583	1,835,035	1,868,770	1,938,068	1,875,633
% change (YoY)															
--Demand	17.44	11.24	12.05	14.01	5.89	12.24	16.39	13.02	14.42	24.44	22.73	26.91	33.13	63.71	53.02
--Savings	12.40	11.04	10.48	9.83	12.09	12.44	11.78	10.93	12.01	14.70	17.27	16.17	22.01	33.09	36.84
--Time	(10.47)	(8.82)	(10.11)	(10.05)	(9.98)	(9.86)	(11.27)	(11.63)	(11.40)	(12.43)	(11.58)	(10.23)	(11.21)	(16.46)	(24.67)
--Total	(1.70)	(1.19)	(1.99)	(1.72)	(1.50)	(0.76)	(1.56)	(2.20)	(1.39)	(0.39)	1.01	1.76	3.75	7.23	3.62
Other currencies															
--Demand	32,196	32,568	36,731	36,239	36,081	40,269	39,463	41,709	44,883	44,097	48,166	46,861	50,173	51,044	53,802
--Savings	257,511	262,880	269,840	272,191	267,614	279,793	288,307	286,763	297,022	296,872	310,580	320,614	323,534	332,020	337,771
--Time	1,153,418	1,162,427	1,166,256	1,163,596	1,177,442	1,156,144	1,133,122	1,151,870	1,153,535	1,146,146	1,153,412	1,147,347	1,151,049	1,173,757	1,200,356
--Total	1,443,125	1,457,875	1,472,828	1,472,026	1,481,136	1,476,206	1,460,893	1,480,342	1,495,441	1,487,115	1,512,158	1,514,822	1,524,756	1,556,822	1,591,929
% change (YoY)															
--Demand	9.50	12.22	28.64	28.44	21.12	26.42	22.90	24.41	52.60	27.54	43.59	43.44	55.84	56.73	46.48
--Savings	17.03	16.83	16.22	14.60	11.38	12.79	22.13	19.36	21.57	19.01	23.38	24.13	25.64	26.30	25.17
--Time	(14.58)	(12.89)	(10.40)	(8.04)	(5.62)	(2.01)	(2.99)	(1.77)	(2.70)	(2.38)	(0.60)	(0.46)	(0.21)	0.97	2.92
--Total	(9.79)	(8.22)	(5.73)	(3.86)	(2.40)	1.13	1.72	2.34	2.48	1.99	4.60	4.93	5.66	6.79	8.09
% of total															
--Demand	5.07	5.20	5.30	5.57	5.26	5.53	5.59	5.58	5.76	6.08	6.29	6.27	6.67	7.88	7.61
--Savings	27.51	27.72	28.30	28.89	28.94	29.64	30.14	30.08	30.80	31.17	31.49	31.68	32.36	33.96	35.76
--Time	67.43	67.09	66.40	65.54	65.80	64.83	64.27	64.34	63.44	62.75	62.22	62.05	60.98	58.16	56.63
--Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
All deposits	3,288,565	3,309,921	3,322,744	3,317,801	3,310,004	3,303,850	3,283,585	3,300,672	3,342,619	3,350,612	3,371,084	3,386,943	3,433,245	3,535,499	3,509,353
% change (YoY)	(5.3)	(4.3)	(3.7)	(2.6)	(1.9)	0.0	(0.1)	(0.2)	0.4	0.6	2.5	3.0	4.4	6.8	5.6
% change (MoM)	0.0	0.6	0.4	(0.1)	(0.2)	(0.2)	(0.6)	0.5	1.3	0.2	0.6	0.5	1.4	3.0	(0.7)

Source: HKMA

Interest rates and margins

Fig 18 Hong Kong loan and deposit rates (%)

	Savings rate		Time deposits (Best rate)					
	Min	Max	7D	30D	60D	90D	180D	1Y
HSBC	0.0000%	0.0060%	0.0010%	0.0010%	0.0010%	0.0010%	0.0100%	0.0375%
Hang Seng	0.0000%	0.0010%	0.0010%	0.0010%	0.0010%	0.0010%	0.0100%	0.0375%
StanChart	0.0000%	0.0100%	0.0100%	0.0100%	0.0100%	0.0100%	0.0100%	0.0375%
Bank of China HK	0.0000%	0.0010%	0.0100%	0.0100%	0.0100%	0.0100%	0.0100%	0.0250%
Citibank	0.0000%	0.0010%	0.0010%	0.0150%	0.0200%	0.0300%	0.0400%	0.0400%
BEA	0.0000%	0.0010%	0.0010%	0.0010%	0.0050%	0.0100%	0.0625%	0.1250%
Dah Sing	0.0000%	0.0100%	0.0100%	0.0100%	0.0100%	0.0100%	0.0400%	0.1000%
DBS Dao Heng	0.0000%	0.1280%	0.0010%	0.0100%	0.0100%	0.5100%	0.0100%	0.0100%
Wing Hang	0.0000%	0.0100%	0.0010%	0.0100%	0.0100%	0.0100%	0.0100%	0.1250%
Wing Lung	0.0000%	0.0100%	0.0010%	0.0010%	0.0010%	0.0050%	0.0200%	0.2000%
IBA	0.0000%	0.3500%	0.0100%	0.0100%	0.0100%	0.0100%	0.0400%	0.0900%
Liu Chong Hing	0.0050%	0.0100%	0.0010%	0.0050%	0.0100%	0.0200%	0.0500%	0.0625%
Citic	0.0000%	0.0500%	0.0500%	0.0500%	0.0625%	0.0625%	0.0750%	0.1000%
ICBC	0.0100%	0.0100%	0.0100%	0.0100%	0.0200%	0.0300%	0.1000%	0.2500%
Aeon Credit	NA	NA	NA	NA	NA	NA	NA	NA
JCG	NA	NA	NA	NA	NA	0.5000%	0.6250%	0.7500%
Lending and interbank rates:								
HIBOR	O/N:	0.0300%	30D:	0.1100%	90D:	0.1250%		
HKAB prime rate (%)	5.0000%							
Lowest mortgage rate	Prime -	265bp:	2.3500%					

Source: Company data, ING estimates

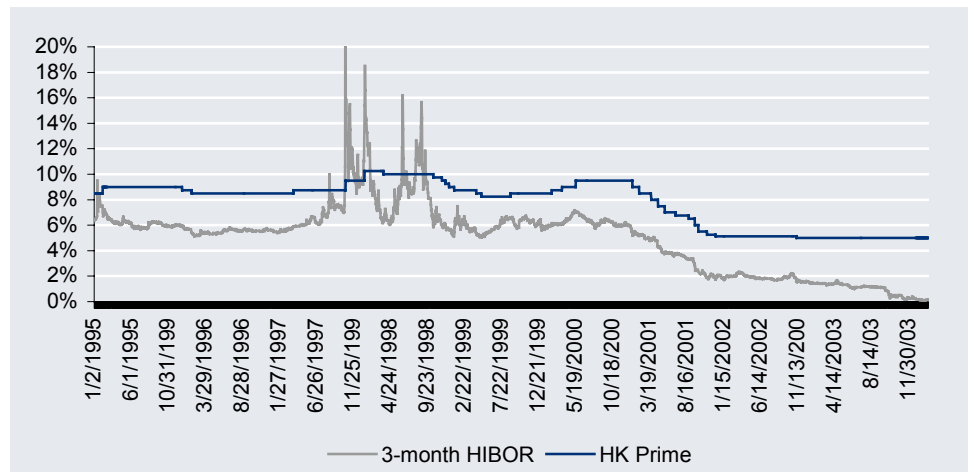
Interbank rates have finally thrown in the towel on the short end, with overnight money now fetching a mere 3bp and 1m HIBOR down to 11bp. The 3m benchmark rate at 12.5bp is down over 18bp from December—a reflection of banks' limited options for deploying excess funds.

The Prime-HIBOR spread of 4.875% is more than double the 1995 level, although sub-prime lending rates and other concessions have made this a less reliable indicator of bank profitability than it once was.

With most domestic banks net interbank lenders, they have tried to make up for falling interbank rates by cutting deposit rates, but we are already close to zero and so the negative endowment effect is a dominating factor. HSBC and HSB cut their basic savings and 3m time deposit rates this month from 1bp to 0.1bp, but higher-paying banks such as ICBC (cut 1-year deposits by 38bp), BEA (cut 1-year deposits by 44bp), WHB (cut 1-year deposits by 88bp) have had more room to cushion the blow.

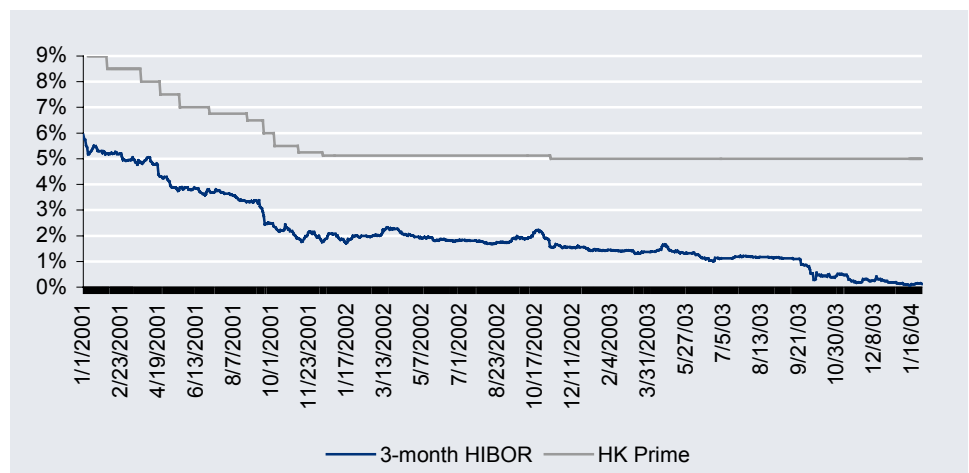
This is essentially the bottom for rates in Hong Kong—a reflection of the excess liquidity that has been stifling margins. However, with deposits still rising 6% YoY, it is hard to see a near-term turnaround in the loan-to-deposit environment in the SAR.

Fig 19 Prime-HIBOR spread: 1995-present



Source: HKAB, Bloomberg

Fig 20 Prime-HIBOR spread: 2001-present



Source: HKAB, Bloomberg

Earnings estimates and ratios

Summary details of our earnings forecasts are presented below, followed by key ratios.

Fig 21 Key Earnings Components: HSB

HK\$m	1997	1998	1999	2000	2001	2002	2003F	2004F	2005F
Net Interest Income	11,157	11,355	11,667	11,691	11,660	10,805	10,543	11,320	12,616
Non-Interest Income	4,025	3,280	3,310	3,879	4,391	4,875	5,278	5,313	5,599
Non-Interest Expenses	3,730	3,865	3,743	3,725	4,104	3,832	3,773	3,749	3,870
Loan Loss Provisions	635	2,476	1,419	196	424	571	940	993	1,015
Core Income	8,873	7,051	8,231	9,778	9,783	9,588	9,149	9,989	11,197
Net Income	9,363	6,788	8,307	10,014	10,114	9,961	9,440	9,953	11,153
EPS	4.89	3.55	4.35	5.24	5.29	5.21	4.94	5.21	5.83

Source: Company data, ING estimates

Fig 22 Key Earnings Components: BOCHK

HK\$m	1999	2000	2001	2002	2003F	2004F	2005F
Net Interest Income	14,820	16,046	14,987	13,942	14,362	15,389	16,921
Non-Interest Income	4,534	4,583	4,147	4,065	4,249	4,514	4,750
Non-Interest Expenses	6,334	5,568	5,847	6,025	5,631	5,533	5,757
Loan Loss Provisions	9,966	8,593	7,412	2,855	3,200	3,100	3,000
Core Income	2,364	5,199	4,913	7,918	8,361	9,636	11,042
Net Income	3,067	5,213	2,768	6,673	6,988	9,504	10,910
EPS	0.29	0.49	0.26	0.63	0.66	0.90	1.03

Source: Company data, ING estimates

Fig 23 Key Earnings Components: BEA

HK\$m	1997	1998	1999	2000	2001	2002	2003F	2004F	2005F
Net Interest Income	3,229	3,327	3,505	3,695	3,977	3,826	3,713	4,107	4,442
Non-Interest Income	1,029	940	2,135	1,270	1,198	1,576	1,780	1,723	1,826
Non-Interest Expenses	1,676	1,700	1,803	2,083	2,763	2,769	2,504	2,548	2,677
Loan Loss Provisions	292	1,506	2,215	681	432	811	593	642	644
Core Income	2,105	1,012	368	1,885	1,824	1,517	1,829	2,177	2,432
Net Income	2,083	928	1,489	1,887	1,600	1,288	1,703	2,033	2,287
EPS	1.56	0.68	1.08	1.34	1.12	0.89	1.18	1.40	1.58

Source: Company data, ING estimates

Fig 24 Key Earnings Components: DSF

HK\$m	1997	1998	1999	2000	2001	2002	2003F	2004F	2005F
Net Interest Income	1,146	962	1,324	1,534	1,681	1,829	1,733	1,840	2,107
Non-Interest Income	374	539	513	522	726	723	794	709	796
Non-Interest Expenses	698	740	744	823	928	881	769	794	826
Loan Loss Provisions	67	255	407	311	425	704	607	441	424
Core Income	666	358	589	799	757	725	985	1,090	1,372
Net Income	663	252	587	810	868	829	985	1,090	1,372
EPS	2.75	1.04	2.39	3.29	3.52	3.36	3.99	4.42	5.56

Source: Company data, ING estimates

Fig 25 Key Earnings Components: IBA

HK\$m	1997	1998	1999	2000	2001	2002	2003F	2004F	2005F
Net Interest Income	738	664	664	686	758	728	641	766	854
Non-Interest Income	237	191	119	205	274	325	229	166	173
Non-Interest Expenses	433	417	387	439	487	457	467	469	474
Loan Loss Provisions	54	339	374	176	238	375	289	220	190
Core Income	400	85	24	204	170	47	56	201	301
Net Income	400	82	24	244	295	225	103	201	301
EPS	0.54	0.07	0.02	0.21	0.25	0.19	0.09	0.17	0.26

Source: Company data, ING estimates

Fig 26 Key Earnings Components: JCG

HK\$m	1997	1998	1999	2000	2001	2002	2003F	2004F	2005F
Net Interest Income	797	718	741	779	839	771	723	766	801
Non-Interest Income	161	168	195	213	194	168	163	168	177
Non-Interest Expenses	276	286	234	234	214	200	195	201	210
Loan Loss Provisions	71	345	268	226	313	477	422	320	280
Core Income	507	218	342	442	443	228	226	351	415
Net Income	416	254	365	447	429	237	228	351	415
EPS	0.58	0.36	0.52	0.63	0.61	0.34	0.32	0.50	0.59

Source: Company data, ING estimates

Fig 27 Key Earnings Ratios: HSB

	1997	1998	1999	2000	2001	2002	2003F	2004F	2005F
ROA	2.38%	1.66%	1.92%	2.12%	2.07%	2.10%	1.98%	2.06%	2.27%
Core ROA	2.26%	1.72%	1.90%	2.07%	2.01%	2.02%	1.92%	2.07%	2.28%
ROE	19.10%	14.25%	19.53%	23.42%	22.23%	22.48%	22.68%	24.90%	27.10%
Core ROE	18.10%	14.80%	19.35%	22.87%	21.50%	21.64%	21.98%	24.99%	27.20%
NIM	3.11%	2.97%	2.87%	2.64%	2.53%	2.41%	2.33%	2.45%	2.66%
Cost/Income	24.57%	26.41%	24.99%	23.92%	25.57%	24.44%	23.85%	22.54%	21.25%
Overhead	1.04%	1.01%	0.92%	0.84%	0.89%	0.85%	0.83%	0.81%	0.82%
Effective Tax Rate	13.57%	14.32%	15.05%	14.26%	12.15%	11.23%	15.02%	16.00%	16.00%

Source: Company data, ING estimates

Fig 28 Key Earnings Ratios: BOCHK

	1999	2000	2001	2002	2003F	2004F	2005F
ROA	0.40%	0.65%	0.34%	0.89%	0.95%	1.31%	1.50%
Core ROA	0.31%	0.64%	0.61%	1.05%	1.14%	1.33%	1.52%
ROE	19.78%	16.20%	6.47%	12.23%	11.98%	15.48%	16.79%
Core ROE	15.25%	16.16%	11.49%	14.51%	14.33%	15.69%	16.99%
NIM	2.25%	2.30%	2.12%	2.02%	2.05%	2.21%	2.42%
Cost/Income	32.73%	26.99%	30.56%	33.46%	30.26%	27.80%	26.56%
Overhead	0.96%	0.80%	0.83%	0.87%	0.80%	0.79%	0.82%
Effective Tax Rate	18.01%	18.21%	14.16%	13.89%	14.50%	14.50%	14.50%

Source: Company data, ING estimates

Fig 29 Key Earnings Ratios: BEA

	1997	1998	1999	2000	2001	2002	2003F	2004F	2005F
ROA	1.69%	0.69%	1.06%	1.16%	0.89%	0.70%	0.90%	1.02%	1.09%
Core ROA	1.71%	0.75%	0.26%	1.16%	1.01%	0.83%	0.96%	1.09%	1.16%
ROE	16.69%	6.77%	10.22%	11.67%	9.00%	6.94%	8.89%	10.19%	10.85%
Core ROE	16.87%	7.39%	2.52%	11.66%	10.26%	8.17%	9.55%	10.91%	11.54%
NIM	2.75%	2.58%	2.61%	2.39%	2.32%	2.19%	2.05%	2.14%	2.20%
Cost/Income	39.36%	39.83%	31.96%	41.95%	53.38%	51.27%	45.58%	43.71%	42.70%
Overhead	1.43%	1.32%	1.34%	1.35%	1.61%	1.59%	1.38%	1.33%	1.32%
Effective Tax Rate	15.06%	12.57%	7.74%	13.15%	14.09%	14.59%	18.10%	17.50%	17.50%

Source: Company data, ING estimates

Fig 30 Key Earnings Ratios: DSF

	1997	1998	1999	2000	2001	2002	2003F	2004F	2005F
ROA	1.65%	0.61%	1.39%	1.72%	1.67%	1.45%	1.58%	1.68%	2.07%
Core ROA	1.65%	0.87%	1.40%	1.70%	1.45%	1.27%	1.58%	1.68%	2.07%
ROE	18.27%	6.59%	15.08%	18.16%	16.95%	14.40%	15.56%	15.89%	18.20%
Core ROE	18.33%	9.36%	15.14%	17.90%	14.77%	12.60%	15.56%	15.89%	18.20%
NIM	3.07%	2.53%	3.37%	3.49%	3.46%	3.40%	2.91%	2.94%	3.30%
Cost/Income	45.93%	49.28%	40.49%	40.04%	38.54%	34.54%	30.42%	31.16%	28.45%
Overhead	1.87%	1.94%	1.89%	1.87%	1.91%	1.64%	1.29%	1.27%	1.29%
Effective Tax Rate	11.71%	9.95%	9.48%	11.37%	11.16%	9.55%	14.51%	17.00%	17.00%

Source: Company data, ING estimates

Fig 31 Key Earnings Ratios: IBA

	1997	1998	1999	2000	2001	2002	2003F	2004F	2005F
ROA	1.46%	0.28%	0.10%	0.92%	1.02%	0.74%	0.33%	0.65%	0.96%
Core ROA	1.46%	0.29%	0.10%	0.76%	0.59%	0.15%	0.18%	0.65%	0.96%
ROE	16.84%	2.82%	0.72%	7.24%	8.28%	6.07%	2.76%	5.42%	7.88%
Core ROE	16.84%	2.93%	0.72%	6.03%	4.75%	1.26%	1.50%	5.42%	7.88%
NIM	2.95%	2.47%	2.92%	2.80%	2.80%	2.53%	2.14%	2.63%	2.90%
Cost/Income	44.38%	48.78%	49.44%	49.31%	47.20%	43.37%	53.67%	50.40%	46.20%
Overhead	1.73%	1.55%	1.70%	1.79%	1.80%	1.59%	1.56%	1.61%	1.61%
Effective Tax Rate	17.97%	16.79%	-9.15%	11.30%	3.81%	-1.56%	10.34%	17.00%	17.00%

Source: Company data, ING estimates

Fig 32 Key Earnings Ratios: JCG

	1997	1998	1999	2000	2001	2002	2003F	2004F	2005F
ROA	8.68%	4.79%	6.80%	8.18%	8.31%	4.67%	4.29%	6.59%	7.53%
Core ROA	10.57%	4.10%	6.37%	8.09%	8.59%	4.49%	4.26%	6.59%	7.53%
ROE	18.59%	10.65%	14.29%	15.56%	13.53%	7.25%	6.85%	10.05%	11.07%
Core ROE	22.64%	9.13%	13.39%	15.39%	13.99%	6.98%	6.79%	10.05%	11.07%
NIM	20.27%	15.31%	15.13%	15.95%	17.99%	16.55%	14.94%	15.73%	15.79%
Cost/Income	28.83%	32.32%	25.04%	23.60%	20.67%	21.32%	22.01%	21.51%	21.47%
Overhead	7.03%	6.10%	4.78%	4.80%	4.58%	4.30%	4.03%	4.13%	4.14%
Effective Tax Rate	17.01%	15.23%	19.56%	15.70%	12.23%	10.87%	15.11%	15.00%	15.00%

Source: Company data, ING estimates

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