

2001 ASIAN BANKS TOUR

WHAT WAS HOT AMONG ALL THAT WAS NOT

Grant Chan
852.2869.3818
grchan@lehman.com

Paul Sheehan
852.2869.3001
psheehan@lehman.com

Bertram Lai
852.2869.3024
blai@lehman.com

Amy Wong
852.2869.3127
amywong@lehman.com

| | |
|------------------|--|
| Singapore | UOB, DBS, OUB, OCBC |
| Indonesia | Mandiri, BCA, Lippo, Panin |
| Thailand | MoF, BoT, Krung Thai, BAY, DBS Thai Danu, SCB |
| Korea | MoF, Kookmin, KFB, KorAm, LG Capital, H&CB |
| Hong Kong | BEA, Hang Seng, HSBC |
| Taiwan | Taishin, Hua Nan, Chinatrust, Sinopac, UWCCB |

After a grueling seven-day trip in which we met top-level management at over 25 banks in six cities, as well as government officials at the relevant regulatory authorities, we have summarized our findings in this report. The country trends were reinforced and our recommendations are confirmed—we continue to prefer **Singapore, Korea** and, to a lesser extent, **Hong Kong**, all of which are developed markets that exhibit less political and economic risk.

- Korean banks remain among our top picks because they continue to show the greatest degree of profitability relative to current valuations. Overall, we believe that sentiment in the sector continues to be held back by concerns over systemic risk on concerns there may be further problems with other large corporates. However, we are comfortable, as are managers of the good banks, that there is not another "black hole" lurking in the shadows. Meanwhile, consolidation is clearly in the spotlight, which will create the largest and most dominant bank in this country.
- Singaporean banks also remain at the top of our preferred list. All of these banks are overcapitalized and can easily return wealth to shareholders by way of better capital management. Although this has been the case for some time now, we believe that there are enough catalysts to trigger this event. Most recently, DBS committed US\$5.4 billion of capital to acquire Dao Heng Bank in Hong Kong.
- We remain Neutral on Hong Kong banks primarily because we believe that HSBC is currently fairly valued. The operating environment continues to get more competitive as margins are under pressure, loan growth is non-existent and product development and technology spending is becoming even more important. Meanwhile, among the local banks, we believe that the larger players such as Hang Seng Bank are better positioned to cope with the changes in the operating environment.
- We continue to stay away from the peripheral markets and believe that political uncertainty and slowing economic growth will override any forward strides that selective niche players have made at the micro level. In Taiwan, Indonesia and Thailand, asset quality problems and lack of adequate capital will continue to be a debilitating hurdle for banks operating in these countries.

April 28, 2001

<http://www.lehman.com>

| | |
|---|----|
| Table of Contents | |
| BANKS TOUR INVESTMENT SUMMARY | 3 |
| SINGAPOREAN BANKS | 10 |
| UNITED OVERSEAS BANK | 12 |
| DBS BANK..... | 14 |
| OVERSEAS UNION BANK..... | 16 |
| OVERSEA-CHINESE BANKING CORP. | 18 |
| INDONESIAN BANKS | 20 |
| BANK MANDIRI | 22 |
| BANK CENTRAL ASIA | 24 |
| LIPPO BANK..... | 26 |
| PANIN BANK | 28 |
| THAI BANKS | 30 |
| MINISTRY OF FINANCE (THAILAND)..... | 32 |
| BANK OF THAILAND | 34 |
| KRUNG THAI BANK..... | 36 |
| BANK OF AYUDHYA..... | 38 |
| DBS THAI DANU BANK..... | 40 |
| SIAM COMMERCIAL BANK | 42 |
| SOUTH KOREAN BANKS | 44 |
| MINISTRY OF FINANCE (SOUTH KOREA)..... | 46 |
| KOOKMIN BANK..... | 50 |
| KOREA FIRST BANK | 52 |
| KORAM BANK | 54 |
| LG CAPITAL..... | 56 |
| H&CB | 58 |
| HONG KONG BANKS..... | 60 |
| BANK OF EAST ASIA | 62 |
| HANG SENG BANK | 64 |
| HSBC..... | 66 |
| TAIWAN BANKS..... | 68 |
| TAISHIN INTERNATIONAL..... | 70 |
| HUA NAN COMMERCIAL..... | 72 |
| CHINATRUST COMMERCIAL | 74 |
| SINOPAC..... | 76 |
| UWCCB..... | 78 |
| Appendix A. Lehman Brothers 2001 Asian Banks Tour Participants..... | 81 |

BANKS TOUR INVESTMENT SUMMARY

We recently traveled through six cities over seven days and visited top management at over 25 Asian banks. We also visited high-ranking officials at central banks and regulatory authorities in five of the cities. This whirlwind trip gave us a clear and concise picture of what is actually happening in each of these countries and how the respective countries' banking sectors stack up against one another. The views gathered on the trip confirm our Overweight recommendation in both Korea and Singapore, Neutral in Hong Kong and Underweight in all the other markets.

In Singapore, we retain our Overweight recommendation because this is one market where a significant level of wealth can be returned to shareholders at the discretion of banks' management. We believe we are getting closer to the point where managers will be taking this course of action. At the top of the agenda for all the meetings was the topic of capital management and how to better utilize the excess that they have. All banks preferred to maintain high levels of capital to fund a possible acquisition and their consensus choices were for an in-market acquisition, or if looking overseas, a Hong Kong acquisition. However, we believe the solution is simpler—just write a cheque to your shareholders. There is no need to hoard capital because, as HSBC (5.HK, HK\$97.75, 2-Buy) has shown in the past, if an acquisition is positive, then the bank can easily tap the market for funds that may be required in the future.

In Korea, we are maintaining our Overweight recommendation because this is the only market that is showing significant loan growth and will carry out large-scale consolidation. There is a clear demarcation between good banks, which we would be buying at these levels, and bad banks, which we are recommending investors stay away from. The most important development in this country is the agreement between H&CB (2746.KS, W24,300, 2-Buy) and Kookmin (2313.KS, W14,900, 2-Buy) to merge, creating the largest retail bank, which will control over 60% of the market. Looking ahead, none of the other banks are going to have the critical mass or economies of scale to compete against such a behemoth, and thus, they are likely to seek out their own merger partners. We predict troubles with the chaebol, that have weighed down sector sentiment, will be replaced by enthusiasm surrounding the recent merger.

In Hong Kong, we are maintaining a Neutral recommendation due primarily to our Neutral rating on HSBC. However, looking past this giant, we continue to be positive on Hang Seng Bank (11.HK, HK\$92.25, 2-Buy), which will benefit from deposit-rate deregulation leading to lower funding costs. Overall, all the Hong Kong banks indicated that the operating environment there is changing dramatically. Banks face challenges due to the lack of loan growth, narrower margins and the required levels of technology spending just to keep up with competitors. Thus, we believe that bank owners are finally coming to the realization that the value of their franchises will decline correspondingly with lower profitability. The Dao Heng Bank (223.HK, HK\$57.75, 2-Buy) transaction already reinforces this opinion that bank owners are now willing to listen and even sell if

the "price is right". Consequently, given the Singaporean banks' tendencies to copy one another, we believe that the other banks are also lurking in the trenches in Hong Kong. This speculation will continue to support the share price of all the smaller banks, which we believe are now all up for sale, if the price is right. The best plays on take-over potential are Dah Sing Financial (440.HK, HK\$41.00, 2-Buy) and Wing Hang (304.HK, HK\$31.80, 2-Buy), both of which have approximately 1.5% market share and a heavy concentration in consumer lending, which is currently the sexiest sector.

Finally, we are maintaining our Underweight recommendations on the other markets that we visited, namely Indonesia, Thailand and Taiwan. All of these banking systems exhibit serious structural problems stemming from high levels of NPLs and insufficient capital levels, as well as a lack of quality lending opportunities. Moreover, political uncertainty and slowing economies are key features in each of these countries. There are certainly better opportunities elsewhere in the region and we believe that the time to invest in these markets will come later. Key signs that we are looking for include the establishment of regulatory frameworks to alleviate excessive NPLs and shore up capital, and an improving operating environment.

We prefer to stick to the developed and more liquid markets for our investment ideas. Also, a central theme for our picks are banks that concentrate on the consumer, have been forcibly under-levered, and are only now being given the opportunity to take on more debt. One of the key reasons is that banks have become wary of corporate lending opportunities, because this is where almost all asset-quality problems originated. Now that banks realize the consumer represents a better risk-return trade-off, this is what everyone across the region is focusing on. This is great for the consumer, since lending rates are declining significantly, particularly for mortgages.

Our top five picks across the region, as per Figure 1, are **United Overseas Bank** and **Overseas Union Bank** in Singapore, which are both concentrating on consumer lending, and are also the closest to monetizing non-core assets. Meanwhile, in Korea, we recommend both **H&CB** and **Kookmin Bank**, the largest mortgage lender and the largest issuer of personal loans, respectively. We believe that the merger of these two banks will create the most dominant consumer banking franchise in the country. Finally, for exposure to Hong Kong, we recommend **Hang Seng Bank**, which will be a major beneficiary of deposit rate deregulation. This bank will now be able to control deposit growth by setting deposit rates at the appropriate level—which will help margins. Hang Seng will also exhibit among the highest ROEs in the region, which we believe justifies its current valuation.

Figure 1: Recommended Portfolio—Our Top Ideas

| Institution | Ticker | Country | Rating | Key Points |
|-----------------------------|--------|-----------|--------------|---|
| United Overseas Bank | UOB | Singapore | 1-Strong Buy | <ol style="list-style-type: none"> 1. Highest ROE among its peers and taking loan market share. 2. Significant low-capital/high margin businesses off-balance sheet. 3. Attractive valuation. |
| Overseas Union Bank | OUB | Singapore | 2-Buy | <ol style="list-style-type: none"> 1. Easiest restructuring play among the Singaporean banks. 2. Attractive consumer operations help OUB take lending share. 3. Low valuation makes OUB an acquisition target. |
| H&CB | 2746 | Korea | 1-Strong Buy | <ol style="list-style-type: none"> 1. Primary mortgage dominance gives a head start in other consumer credit lines. 2. Low chaebol exposure. 3. Merger with Kookmin will create value. |
| Hang Seng Bank | 11 | Hong Kong | 2-Buy | <ol style="list-style-type: none"> 1. Major beneficiary of deposit deregulation 2. Strong growth in loans and non-interest income and cost containment. 3. Best mix of balance sheet leverage and profitability as measured by ROE |
| Bank Central Asia | BBCA | Indonesia | 1-Strong Buy | <ol style="list-style-type: none"> 1. Completely clean balance sheet. 2. Dominant consumer banking franchise. 3. Cheap valuation. |

Source: Lehman Brothers

Figure 2: Lehman Brothers 2001 Asian Banks Tour Universe by Market

| | Rating | Closing Price | Target Price | Potential Upside | 52-Week High | | Share Price Performance | | | | Mkt Cap (US\$, MM) |
|---------------------------------|--------|---------------|--------------|------------------|--------------|-----------|-------------------------|---------|---------|---------|--------------------|
| | | | | | High | Low | 1-Month | 3-Month | YTD | 1-Year | |
| Singapore: | | | | | | | | | | | |
| United Overseas Bank | 1 | 11.70 | 14.90 | 27% | 14.00 | 9.40 | -4.10% | -10.69% | -10.00% | 2.63% | 6,788.42 |
| DBS Bank Group | 2 | 15.30 | na | na | 23.70 | 13.80 | -7.27% | -20.31% | -21.94% | -32.89% | 10,256.32 |
| Overseas Union Bank | 2 | 6.85 | 9.10 | 33% | 9.50 | 5.85 | 3.01% | -6.80% | -15.43% | -13.29% | 3,753.84 |
| Oversea-Chinese Banking Corp. | 3 | 10.90 | 11.10 | 2% | 13.50 | 9.45 | -2.68% | -6.84% | -15.50% | -6.84% | 7,724.35 |
| Straits Times | | 1,670.07 | | | 2,210.51 | 1,566.73 | -2.80% | -12.37% | -13.33% | -20.80% | |
| Indonesia: | | | | | | | | | | | |
| Bank Mandiri | NR | Not listed | - | - | - | - | - | - | - | - | - |
| Bank Central Asia | 1 | 1,625 | 1,950 | 20% | 1,875 | 1,400 | -4.41% | 0.00% | -2.99% | na | 398.05 |
| Lippo Bank | 2 | 40 | 85 | 113% | 150 | 35 | 0.00% | -27.27% | -27.27% | -73.33% | 85.32 |
| Panin Bank | 3 | 165 | 260 | 58% | 400 | 95 | 43.48% | 10.00% | -2.94% | -58.75% | 81.76 |
| JCI | | 351.34 | | | 550.33 | 342.86 | -5.42% | -15.70% | -15.61% | -32.96% | |
| Thailand: | | | | | | | | | | | |
| Krung Thai Bank (F) | 4 | 11.25 | 10.00 | -11% | 15.25 | 10.00 | -8.16% | -26.23% | 2.27% | -27.42% | 2,752.73 |
| Bank of Ayudhya (F) | 4 | 6.70 | 5.00 | -25% | 10.75 | 5.00 | -9.46% | -25.56% | 28.85% | -37.67% | 271.34 |
| Bank of Ayudhya (L) | 4 | 6.70 | 5.00 | -25% | 10.75 | 5.00 | -9.46% | -26.37% | 26.42% | -37.67% | 271.34 |
| DBS Thai Danu (F) | NR | 9.10 | na | na | 13.25 | 7.80 | 0.00% | 0.00% | 7.06% | -49.40% | 338.59 |
| DBS Thai Danu (L) | NR | 7.00 | na | na | 13.75 | 6.30 | -5.41% | -23.91% | -15.66% | -46.19% | 260.46 |
| Siam Commercial Bank (F) | 3 | 23.00 | 25.00 | 9% | 32.25 | 15.00 | -8.00% | -22.03% | 17.95% | -29.23% | 398.50 |
| Siam Commercial Bank (P) | 3 | 22.50 | 25.00 | 11% | 31.00 | 13.50 | -6.25% | -20.35% | 4.65% | -28.00% | 1,151.80 |
| SET | | 297.14 | | | 393.36 | 250.60 | 1.14% | -10.54% | 10.38% | -24.69% | |
| Korea: | | | | | | | | | | | |
| Korea First Bank | NR | Suspended | - | - | - | - | - | - | - | - | - |
| Koram Bank | 2 | 7,080 | 7,800 | 10% | 7,700 | 4,800 | 5.67% | 22.49% | 39.37% | 22.07% | 876.99 |
| Kookmin Bank | 1 | 14,900 | 18,000 | 21% | 18,900 | 9,200 | 8.76% | -15.34% | 0.00% | 29.00% | 3,413.59 |
| H&CB | 1 | 24,300 | 36,000 | 48% | 33,200 | 12,818 | 7.05% | -16.35% | -6.86% | 28.51% | 2,214.47 |
| KOSPI | | 561.62 | | | 851.47 | 491.21 | 2.86% | -5.09% | 11.30% | -21.26% | |
| Hong Kong: | | | | | | | | | | | |
| Bank of East Asia | 2 | 17.55 | 21.00 | 20% | 22.20 | 13.60 | -2.23% | -17.02% | -12.90% | 2.33% | 3,192.68 |
| Hang Seng Bank | 2 | 92.25 | 110.00 | 19% | 107.00 | 65.50 | 1.65% | -11.72% | -12.14% | 30.39% | 22,614.30 |
| HSBC Holdings PLC | 3 | 97.75 | 100.00 | 2% | 121.50 | 82.75 | 7.12% | -17.51% | -15.37% | 11.08% | 116,175.31 |
| Hang Seng | | 13,293.11 | | | 17,920.86 | 12,063.71 | 2.65% | -17.15% | -11.94% | -12.70% | |
| Taiwan: | | | | | | | | | | | |
| Taishin International | 3 | 15.50 | 21.00 | 35% | 21.80 | 12.20 | -9.88% | -20.51% | 14.81% | -0.29% | 794.60 |
| Hua Nan Commercial Bank | NR | 22.20 | na | na | 30.82 | 18.70 | -13.95% | -24.23% | 11.00% | -13.40% | 2,373.95 |
| Chinatrust Commercial | 1 | 24.30 | 30.00 | 23% | 28.20 | 15.40 | -8.99% | -11.64% | 22.11% | 10.54% | 2,916.26 |
| Bank SinoPac | 2 | 14.85 | 20.00 | 35% | 21.10 | 11.35 | -12.65% | -22.66% | 4.21% | -6.66% | 792.98 |
| United World Chinese Commercial | 4 | 24.70 | 19.00 | -23% | 32.80 | 18.30 | -8.18% | -12.72% | 2.92% | -7.79% | 2,564.61 |
| TWSE | | 5,518.73 | | | 9,119.77 | 4,614.63 | -6.40% | -5.63% | 16.33% | -35.35% | |

Source: Lehman Brothers; Datastream

Figure 3: Index Performance and Weighting of Bank Sectors

| Index | % Chg. 1 Month | % Chg. YTD | Covered Banks Performance | | Market Rating | Last Changed | Due To | Current Trend | |
|-------------------------|----------------|------------|---------------------------|----------|---------------|--------------|--------|-------------------------------|---|
| | | | 1 Month | YTD | | | | | |
| Hong Kong Hang Seng | 13,293.11 | 2.65% | -11.94% | 15.94% | 4.52% | Neutral | Jan-01 | Fully Valued on Rate Cuts | ↔ |
| Singapore Straits Times | 1,670.07 | -2.80% | -13.33% | 1.74% | (8.73%) | Overweight | Dec-00 | Restructuring Plans | ↓ |
| Thailand SET | 297.14 | 1.14% | 10.38% | (3.02%) | 26.28% | Underweight | Jun-00 | Asset Quality; Earnings | ↑ |
| Malaysia MY Comp. | 579.89 | -13.35% | -14.68% | (18.45%) | (18.94%) | Underweight | Aug-00 | Merger delays | ↔ |
| Korea KOSPI | 561.62 | 2.86% | 11.30% | 5.43% | 10.00% | Overweight | Jun-00 | Valuation; Loan Growth | ↓ |
| Taiwan TWSE | 5,518.73 | -6.40% | 16.33% | (9.93%) | 11.01% | Underweight | Sep-00 | Slow Consolidation | ↑ |
| Philippines Ph Comp. | 1,437.50 | -0.75% | -3.81% | (5.25%) | 8.26% | Underweight | Jun-00 | Interest Rates; Asset Quality | ↑ |
| Indonesia JCI | 351.34 | -5.42% | -15.61% | 13.02% | (11.07%) | Underweight | Sep-00 | Slow reforms | ↓ |

Source: Lehman Brothers; Datastream

Figure 4: Lehman Brothers 2001 Asian Banks Tour Universe – Forecasts and Valuation

| | | | PP Profit | Net Profit | EPS | PER | ROA | ROE | Yield % | Net interest margin | Cost to income | EPS growth | Total assets | Equity to assets | Tier 1 capital | NPL | NPL cover | Loan growth | BVPS | ABVPS | Price to BVPS | Price to ABVPS |
|------------------|-------------|-------------|-----------|------------|---------|--------|-------|---------|---------|---------------------|----------------|------------|--------------|------------------|----------------|--------|-----------|-------------|----------|----------|---------------|----------------|
| Singapore | | | | | | | | | | | | | | | | | | | | | | |
| SGDm | UOB | 1999 | 1,280 | 760 | 0.72 | 14.5 | 1.5% | 12.9% | 3.8% | 2.5% | 31.2% | 95.4% | 50,789 | 15.3% | - % | 6.9% | 64.6% | 7.6% | 7.39 | 5.88 | 1.4 | 1.8 |
| Price SGD | | 11.70 2000 | 1,205 | 913 | 0.87 | 13.5 | 1.6% | 14.1% | 3.2% | 2.2% | 38.4% | 20.1% | 66,324 | 12.5% | - % | 4.9% | 69.4% | 32.3% | 7.90 | 6.43 | 1.5 | 1.8 |
| Mkt Cap US\$m | | 6,788 2001 | 1,392 | 1,000 | 0.95 | 12.3 | 1.4% | 14.1% | 3.0% | 2.2% | 36.7% | 9.5% | 73,820 | 12.1% | - % | 4.1% | 64.5% | 46.6% | 8.47 | 7.00 | 1.4 | 1.7 |
| Rating | | 1 2002 | 1,597 | 1,153 | 1.10 | 10.7 | 1.5% | 14.9% | 3.1% | 2.3% | 34.7% | 15.3% | 79,078 | 12.2% | - % | 3.1% | 66.5% | 56.5% | 9.18 | 7.72 | 1.3 | 1.5 |
| | DBS | 1999 | 2,070 | 1,072 | 0.91 | 22.2 | 1.0% | 10.7% | 0.9% | 2.4% | 34.0% | 279.2% | 106,465 | 11.5% | - % | 9.8% | 49.9% | 10.1% | 10.44 | 9.23 | 1.9 | 2.2 |
| | | 15.30 2000 | 1,725 | 1,389 | 1.18 | 13.0 | 1.3% | 13.0% | 1.5% | 2.1% | 41.9% | 29.6% | 111,228 | 10.5% | - % | 5.0% | 51.8% | 17.1% | 9.91 | 8.91 | 1.5 | 1.7 |
| | | 10,256 2001 | 1,871 | 1,268 | 1.08 | 14.2 | 1.1% | 11.6% | 2.0% | 2.1% | 41.2% | -8.7% | 118,002 | 10.6% | - % | 4.1% | 49.6% | 21.3% | 10.61 | 9.61 | 1.4 | 1.6 |
| | | 2 2002 | 2,140 | 1,452 | 1.23 | 12.4 | 1.2% | 12.3% | 2.3% | 2.1% | 38.3% | 14.6% | 125,188 | 10.7% | - % | 3.2% | 46.5% | 26.2% | 11.41 | 10.41 | 1.3 | 1.5 |
| | OUB | 1999 | 776 | 409 | 0.41 | 18.2 | 1.0% | 9.3% | 1.6% | 2.2% | 38.1% | 87.0% | 39,372 | 13.8% | - % | 9.3% | 44.5% | -13.6% | 5.47 | 4.76 | 1.4 | 1.6 |
| | | 6.85 2000 | 844 | 545 | 0.55 | 12.5 | 1.3% | 11.0% | 2.6% | 2.5% | 36.5% | 33.0% | 46,603 | 12.9% | - % | 7.5% | 42.2% | 2.4% | 6.06 | 5.19 | 1.1 | 1.3 |
| | | 3,754 2001 | 905 | 564 | 0.57 | 12.1 | 1.2% | 10.6% | 2.8% | 2.4% | 36.3% | 3.4% | 49,442 | 12.9% | - % | 6.2% | 42.9% | 11.0% | 6.40 | 5.54 | 1.1 | 1.2 |
| | | 2 2002 | 1,071 | 694 | 0.70 | 9.8 | 1.4% | 12.1% | 3.0% | 2.5% | 33.2% | 23.0% | 52,453 | 13.0% | - % | 5.2% | 41.7% | 18.8% | 6.85 | 5.99 | 1.0 | 1.1 |
| | OCBC | 1999 | 1,413 | 690 | 0.54 | 23.7 | 1.2% | 9.3% | 1.9% | 2.5% | 27.2% | 53.6% | 54,290 | 19.3% | - % | 9.2% | 56.9% | -3.5% | 8.17 | 5.74 | 1.6 | 2.2 |
| | | 10.90 2000 | 1,264 | 840 | 0.65 | 16.7 | 1.5% | 10.8% | 2.2% | 2.4% | 34.2% | 21.7% | 59,710 | 18.7% | - % | 8.0% | 56.3% | 4.6% | 8.71 | 6.34 | 1.3 | 1.7 |
| | | 7,724 2001 | 1,343 | 945 | 0.74 | 14.8 | 1.5% | 11.2% | 2.3% | 2.4% | 33.5% | 12.5% | 63,346 | 18.5% | - % | 7.0% | 55.8% | 8.0% | 9.13 | 6.76 | 1.2 | 1.6 |
| | | 3 2002 | 1,422 | 1,013 | 0.79 | 13.8 | 1.6% | 11.3% | 2.4% | 2.4% | 33.0% | 7.2% | 67,204 | 18.3% | - % | 6.0% | 54.1% | 13.9% | 9.59 | 7.22 | 1.1 | 1.5 |
| Indonesia | | | | | | | | | | | | | | | | | | | | | | |
| Rpm | BCA | 1999 | 616 | 641 | 217.90 | 0.0 | 0.8% | -5.3% | 0.0% | -6.7% | 66.8% | -102.2% | 96,450 | 5.3% | - % | 23.1% | 33.7% | -91.8% | 1,740.07 | 823.84 | 0.0 | 0.0 |
| Price Rp | | 1,625 2000 | 1,271 | 1,033 | 351.08 | 4.6 | 1.1% | 33.5% | 0.0% | 1.7% | 53.8% | 61.1% | 97,945 | 6.3% | - % | 6.2% | 80.1% | -86.0% | 2,109.58 | 1,269.24 | 0.8 | 1.3 |
| Mkt Cap US\$m | | 398 2001 | 1,751 | 1,396 | 474.24 | 3.4 | 1.4% | 30.6% | 0.0% | 2.2% | 49.2% | 35.1% | 103,699 | 7.3% | - % | 5.8% | 75.1% | -79.1% | 2,583.82 | 1,833.07 | 0.6 | 0.9 |
| Rating | | 1 2002 | 2,216 | 1,629 | 553.42 | 2.9 | 1.5% | 25.1% | 0.0% | 2.7% | 46.5% | 16.7% | 114,069 | 8.1% | - % | 4.3% | 108.6% | -70.7% | 3,137.24 | 2,581.81 | 0.5 | 0.6 |
| | LPBN | 1999 | (1,713) | (1,640) | (41.88) | -9.6 | -8.4% | 56.5% | 0.0% | -8.6% | -87.7% | -97.5% | 23,779 | 9.7% | - % | 133.5% | 19.6% | -56.7% | 59.08 | 13.19 | 6.8 | 30.3 |
| | | 40 2000 | 8 | 246 | 6.29 | 6.4 | 1.1% | 29.5% | 0.0% | 3.7% | 99.0% | -115.0% | 22,627 | 11.2% | - % | 78.1% | 15.4% | -63.9% | 64.69 | 29.46 | 0.6 | 1.4 |
| | | 85 2001 | 167 | 83 | 2.12 | 18.9 | 0.3% | 6.9% | 0.0% | 4.4% | 83.8% | -66.4% | 26,021 | 10.1% | - % | 48.1% | 21.7% | -53.0% | 66.80 | 32.28 | 0.6 | 1.2 |
| | | 2 2002 | 300 | 191 | 4.88 | 8.2 | 0.7% | 13.7% | 0.0% | 4.2% | 75.9% | 130.8% | 29,925 | 10.1% | - % | 24.0% | 33.9% | -34.2% | 71.68 | 38.88 | 0.6 | 1.0 |
| | PNBN | 1999 | 488 | 35 | 5.93 | 0.0 | 0.3% | 2.1% | 0.0% | 5.3% | 27.8% | 132.5% | 11,335 | 25.3% | - % | 77.8% | 25.5% | -15.5% | 482.45 | 325.44 | 0.0 | 0.0 |
| | | 165 2000 | 451 | 48 | 8.06 | 5.0 | 0.4% | 2.3% | 0.0% | 3.9% | 30.0% | 35.3% | 12,905 | 22.5% | - % | 38.4% | 33.7% | 61.3% | 485.18 | 373.95 | 0.3 | 0.4 |
| | | 82 2001 | 464 | 148 | 24.65 | 1.6 | 1.1% | 6.0% | 0.0% | 3.5% | 30.8% | 205.8% | 13,937 | 21.5% | - % | 33.2% | 43.2% | 81.0% | 509.83 | 451.14 | 0.3 | 0.4 |
| | | 3 2002 | 563 | 237 | 39.48 | 1.0 | 1.6% | 7.9% | 0.0% | 4.0% | 28.3% | 60.2% | 15,052 | 21.9% | - % | 26.6% | 57.2% | 102.5% | 549.31 | 549.05 | 0.3 | 0.3 |
| Thailand | | | | | | | | | | | | | | | | | | | | | | |
| THBm | KTB | 1999 | (6,636) | (91,022) | (4.14) | -3.7 | -8.8% | -102.7% | 0.0% | 0.7% | 153.0% | -75.5% | 994,819 | 10.3% | - % | 45.7% | 52.9% | -2.3% | 4.65 | 4.46 | 3.3 | 3.4 |
| Price THB | | 11.25 2000 | (1,091) | 76,261 | 3.47 | 3.2 | 7.7% | 95.6% | 0.0% | 1.5% | 106.0% | -183.8% | 990,093 | 6.6% | - % | 28.3% | 12.6% | -59.4% | 2.98 | 2.80 | 3.8 | 4.0 |
| Mkt Cap US\$m | | 2,753 2001 | 1,915 | (6,085) | (0.28) | -40.6 | -0.6% | -10.4% | 0.0% | 2.0% | 92.8% | -108.0% | 1,010,044 | 5.9% | - % | 26.4% | 19.8% | -60.2% | 2.71 | 2.52 | 4.2 | 4.5 |
| Rating | | 4 2002 | 2,221 | (1,779) | (0.08) | -139.0 | -0.2% | -3.3% | 0.0% | 2.1% | 91.9% | -70.8% | 1,030,396 | 5.6% | - % | 24.8% | 23.8% | -61.0% | 2.62 | 2.44 | 4.3 | 4.6 |
| | BAY | 1999 | (4,753) | (21,973) | (11.88) | -1.3 | -4.7% | -93.0% | 0.0% | 0.7% | 181.1% | -36.1% | 446,532 | 5.1% | - % | 34.7% | 24.0% | -1.3% | 12.39 | 11.72 | 1.3 | 1.4 |
| | | 6.70 2000 | (2,310) | (8,530) | (4.61) | -1.5 | -1.9% | -47.9% | 0.0% | 1.5% | 130.4% | -61.2% | 435,112 | 3.6% | - % | 29.7% | 8.8% | -10.1% | 6.36 | 7.53 | 0.8 | 0.9 |
| | | 271 2001 | (2,111) | (9,200) | (4.43) | -1.5 | -1.8% | -83.4% | 0.0% | 1.8% | 123.5% | -3.9% | 457,279 | 1.6% | - % | 22.2% | 20.4% | -6.0% | 3.93 | 3.10 | 1.7 | 2.2 |
| | | 4 2002 | (3,198) | (6,479) | (3.50) | -1.9 | -1.4% | -259.8% | 0.0% | 1.7% | 136.4% | -21.0% | 480,575 | 0.2% | - % | 17.3% | 31.0% | -0.3% | 0.43 | -0.40 | 15.6 | -16.6 |
| | SCB | 1999 | 7,874 | (35,550) | (11.39) | -4.1 | -5.1% | -83.9% | 0.0% | 1.5% | 67.4% | -65.7% | 692,051 | 7.8% | - % | 37.5% | 12.6% | -9.2% | 17.21 | 16.09 | 2.7 | 2.9 |
| | | 23.00 2000 | 11,619 | 6,164 | 1.97 | 11.7 | 0.9% | 12.0% | 0.0% | 2.4% | 57.3% | -117.3% | 718,789 | 8.5% | - % | 30.4% | 17.1% | -9.7% | 19.50 | 16.67 | 1.2 | 1.4 |
| | | 399 2001 | 16,617 | 9,372 | 2.99 | 7.7 | 1.3% | 16.5% | 0.0% | 3.2% | 47.0% | 52.0% | 724,555 | 9.7% | - % | 24.3% | 24.0% | -5.2% | 22.49 | 19.70 | 1.0 | 1.2 |
| | | 3 2002 | 17,195 | 9,913 | 3.17 | 7.3 | 1.4% | 14.9% | 0.0% | 3.0% | 46.2% | 5.8% | 737,686 | 10.9% | - % | 19.9% | 31.8% | -0.3% | 25.66 | 22.90 | 0.9 | 1.0 |

Source: Lehman Brothers

Figure 5: Lehman Brothers 2001 Asian Banks Tour Universe – Forecasts and Valuation

| | | | PP Profit | Net Profit | EPS | PER | ROA | ROE | Yield % | Net interest margin | Cost to income | EPS growth | Total assets | Equity to assets | Tier 1 capital | NPL | NPL cover | Loan growth | BVPS | ABVPS | Price to BVPS | Price to ABVPS |
|------------------|-------------------|------|-----------|------------|---------|--------|-------|--------|---------|---------------------|----------------|------------|--------------|------------------|----------------|-------|-----------|-------------|-----------|-----------|---------------|----------------|
| S. Korea | | | | | | | | | | | | | | | | | | | | | | |
| | KorAm | 1999 | 292,554 | 169,646 | 1,761 | 3.2 | 0.7% | 17.0% | - % | - % | 74.9% | - % | 22,027,335 | 4.3% | 8.9% | 13.7% | 36.0% | - % | 7,566.03 | 5,060.31 | 0.9 | 1.4 |
| | | 2000 | 481,420 | (396,048) | (2,429) | -2.1 | -1.4% | -35.8% | 0.0% | 1.9% | 62.8% | -237.9% | 28,663,509 | 3.9% | 5.0% | 7.6% | 110.6% | 28.7% | 6,787.00 | 10,608.00 | 0.7 | 0.5 |
| | | 2001 | 243,639 | 204,693 | 1,255 | 5.6 | 0.7% | 19.7% | 0.0% | 2.0% | 77.6% | -130.8% | 29,898,365 | 4.3% | 4.3% | 10.0% | 100.0% | 14.3% | 6,994.66 | 6,994.66 | 1.0 | 1.0 |
| | | 2002 | 367,168 | 284,172 | 1,743 | 4.1 | 0.9% | 22.2% | 0.0% | 2.1% | 70.3% | 38.8% | 33,351,151 | 5.4% | 4.3% | 8.5% | 100.0% | 12.2% | 8,737.34 | 8,737.34 | 0.8 | 0.8 |
| | Kookmin | 1999 | 1,579,066 | (29,806) | (109) | -125.1 | 0.0% | -0.9% | 0.4% | - % | 66.5% | -94.4% | 72,979,670 | 4.8% | 7.0% | 10.9% | 46.3% | 21.4% | 10,949.72 | 9,175.40 | 1.4 | 1.6 |
| | | 2000 | 2,081,136 | 592,416 | 1,977 | 7.9 | 65.0% | 13.9% | 6.3% | 2.8% | 62.8% | -1911.5% | 91,098,765 | 4.7% | 6.2% | 8.3% | 56.0% | 22.4% | 14,189.00 | 14,886.00 | 1.1 | 1.0 |
| | | 2001 | 1,901,922 | 935,970 | 3,124 | 4.8 | 1.0% | 23.5% | 6.3% | 2.6% | 62.0% | 50.7% | 102,220,219 | 4.2% | 6.2% | 8.1% | 57.8% | 13.5% | 13,888.01 | 12,049.48 | 1.1 | 1.2 |
| | | 2002 | 1,909,452 | 1,102,872 | 3,681 | 4.0 | 1.0% | 23.5% | 7.4% | 2.5% | 63.7% | 17.8% | 113,398,526 | 4.5% | 6.4% | 6.7% | 63.0% | 12.5% | 16,264.70 | 14,774.64 | 0.9 | 1.0 |
| | H&CB | 1999 | 1,113,756 | 451,795 | 4,862 | 5.2 | 0.3% | 4.2% | 0.6% | - % | 55.6% | -195.8% | 48,673,616 | 4.4% | 9.0% | 7.4% | 63.6% | 30.2% | 18,586.53 | 16,417.31 | 1.3 | 1.5 |
| | | 2000 | 1,172,628 | 513,567 | 4,281 | 6.1 | 0.8% | 20.2% | 0.6% | 2.6% | 57.0% | -11.9% | 61,886,461 | 4.1% | 8.0% | 4.7% | 58.3% | 41.4% | 21,244.00 | 21,039.00 | 1.2 | 1.2 |
| | | 2001 | 1,561,221 | 825,015 | 7,565 | 3.2 | 1.1% | 28.4% | 6.2% | 2.6% | 48.2% | 37.5% | 78,657,006 | 4.1% | 7.8% | 6.4% | 63.7% | 19.4% | 26,823.69 | 27,549.16 | 0.9 | 0.9 |
| | | 2002 | 1,735,292 | 962,625 | 8,826 | 2.8 | 1.1% | 26.5% | 6.2% | 2.6% | 49.3% | 16.7% | 88,978,497 | 4.5% | 8.0% | 5.8% | 63.7% | 12.8% | 34,150.01 | 36,533.53 | 0.7 | 0.7 |
| Hong Kong | | | | | | | | | | | | | | | | | | | | | | |
| | BEA | 1999 | 2,694 | 1,488 | 1.08 | 20.1 | 1.1% | 10.2% | 2.5% | 2.7% | 40.1% | 81.6% | 145,341 | 10.3% | 16.4% | 8.0% | 53.7% | 0.5% | 10.87 | 9.86 | 2.0 | 2.2 |
| | | 2000 | 2,900 | 1,871 | 1.33 | 13.2 | 1.2% | 11.6% | 3.3% | 2.7% | 41.8% | 23.8% | 177,348 | 9.9% | 14.2% | 3.8% | 51.8% | 24.3% | 12.56 | 11.57 | 1.4 | 1.5 |
| | | 2001 | 2,865 | 2,001 | 1.42 | 12.3 | 1.1% | 10.1% | 3.6% | 2.4% | 48.3% | 6.9% | 195,134 | 10.6% | 15.2% | 3.0% | 65.6% | 33.3% | 14.72 | 13.74 | 1.2 | 1.3 |
| | | 2002 | 2,994 | 2,128 | 1.52 | 11.6 | 1.1% | 10.0% | 4.0% | 2.4% | 49.6% | 6.4% | 209,968 | 10.4% | 14.8% | 2.5% | 86.8% | 43.3% | 15.52 | 14.53 | 1.1 | 1.2 |
| | HSB | 1999 | 11,065 | 8,307 | 4.35 | 20.4 | 1.9% | 18.5% | 9.2% | 2.9% | 25.3% | 22.4% | 442,070 | 9.0% | 13.3% | 4.3% | 57.3% | -0.2% | 20.70 | 16.40 | 4.3 | 5.4 |
| | | 2000 | 11,540 | 10,014 | 5.24 | 17.6 | 2.1% | 25.0% | 4.6% | 2.7% | 24.4% | 20.5% | 500,784 | 8.1% | 11.9% | 3.3% | 59.9% | 9.6% | 21.23 | 16.66 | 4.3 | 5.3 |
| | | 2001 | 12,076 | 10,400 | 5.44 | 17.0 | 2.0% | 24.9% | 5.3% | 2.6% | 24.6% | 3.9% | 536,233 | 8.0% | 11.9% | 2.4% | 82.0% | 17.5% | 22.32 | 17.52 | 4.1 | 5.5 |
| | | 2002 | 13,163 | 11,349 | 5.94 | 15.5 | 2.0% | 25.8% | 5.8% | 2.6% | 23.9% | 9.1% | 571,693 | 7.9% | 12.1% | 1.8% | 103.8% | 25.4% | 23.50 | 18.46 | 3.9 | 5.0 |
| | HSBC | 1999 | 3,164 | 5,408 | 0.65 | 21.4 | 1.0% | 16.5% | 2.4% | 2.9% | 53.9% | 21.8% | 569,199 | 5.9% | 8.5% | 4.1% | 77.3% | 8.1% | 3.95 | 3.18 | 3.5 | 4.4 |
| | | 2000 | 5,589 | 6,628 | 0.74 | 16.9 | 1.0% | 17.9% | 3.8% | 2.7% | 55.3% | 13.8% | 673,814 | 5.7% | 9.0% | 3.5% | 79.0% | 13.9% | 4.17 | 3.29 | 3.0 | 3.8 |
| | | 2001 | 6,573 | 7,771 | 0.84 | 14.9 | 1.1% | 18.5% | 3.8% | 2.6% | 51.8% | 13.0% | 717,612 | 5.9% | 9.4% | 3.0% | 85.2% | 3.6% | 4.53 | 3.69 | 2.8 | 3.4 |
| | | 2002 | 7,247 | 8,522 | 0.92 | 13.6 | 1.1% | 18.7% | 4.2% | 2.6% | 50.1% | 9.7% | 764,257 | 6.0% | 9.7% | 2.6% | 94.1% | 6.3% | 4.92 | 4.12 | 2.5 | 3.0 |
| Taiwan | | | | | | | | | | | | | | | | | | | | | | |
| | Taishin | 1999 | 4,995 | 1,816 | 1.05 | 17.9 | 0.8% | 9.1% | - % | 3.7% | 49.5% | 10.2% | 241,388 | 9.2% | 9.2% | 2.5% | 42.0% | 8.5% | 13.19 | 12.24 | 1.2 | 1.3 |
| | | 2000 | 5,486 | 1,916 | 1.14 | 12.7 | 0.7% | 6.8% | - % | 4.0% | 57.0% | 8.8% | 247,853 | 11.3% | 9.8% | 2.3% | 76.6% | 8.0% | 16.60 | 17.45 | 0.9 | 0.8 |
| | | 2001 | 6,166 | 2,892 | 1.61 | 9.6 | 1.0% | 11.0% | - % | 3.6% | 49.3% | 10.9% | 299,937 | 9.2% | 9.4% | 2.6% | 51.2% | 10.2% | 16.46 | 16.46 | 0.9 | 0.9 |
| | | 2002 | 6,081 | 3,172 | 1.81 | 8.6 | 1.0% | 10.8% | - % | 3.3% | 52.6% | 12.1% | 338,538 | 9.1% | 9.5% | 2.5% | 57.6% | 12.2% | 18.34 | 18.34 | 0.8 | 0.8 |
| | Chinatrust | 1999 | 14,116 | 4,861 | 1.23 | 21.7 | 0.8% | 9.7% | - % | 2.9% | 43.6% | 16.9% | 628,409 | 8.3% | 9.2% | 1.9% | 65.6% | 12.2% | 13.29 | 12.78 | 1.8 | 1.9 |
| | | 2000 | 15,178 | 8,187 | 2.06 | 11.8 | 1.2% | 14.5% | - % | 2.9% | 47.6% | 67.4% | 721,564 | 8.4% | 9.2% | 2.1% | 55.2% | 15.9% | 15.37 | 15.37 | 1.6 | 1.6 |
| | | 2001 | 17,193 | 9,840 | 2.46 | 9.9 | 1.3% | 15.0% | - % | 2.8% | 47.6% | 19.1% | 832,125 | 8.5% | 9.2% | 2.3% | 62.8% | 16.8% | 17.86 | 17.86 | 1.4 | 1.4 |
| | | 2002 | 19,005 | 11,758 | 2.94 | 8.3 | 1.3% | 15.4% | - % | 2.8% | 48.6% | 19.8% | 945,302 | 8.7% | 9.4% | 2.2% | 67.9% | 14.1% | 20.84 | 20.84 | 1.2 | 1.2 |
| | SinoPac | 1999 | 2,764 | 1,791 | 1.03 | 17.3 | 0.9% | 8.9% | 1.9% | 1.9% | 53.0% | 77.7% | 204,129 | 10.2% | 15.3% | 1.2% | 73.5% | 12.5% | 11.99 | 11.50 | 1.2 | 1.3 |
| | | 2000 | 2,716 | 1,702 | 0.97 | 15.7 | 0.6% | 7.9% | - % | 2.1% | 32.7% | -5.8% | 235,057 | 9.4% | 14.3% | 0.5% | 161.3% | 15.2% | 12.60 | 12.22 | 1.2 | 1.2 |
| | | 2001 | 4,410 | 2,930 | 1.68 | 8.8 | 1.1% | 11.8% | - % | 2.0% | 46.8% | 14.6% | 278,100 | 9.5% | 14.0% | 1.2% | 81.0% | 17.0% | 15.08 | 15.08 | 1.0 | 1.0 |
| | | 2002 | 4,451 | 3,468 | 1.99 | 7.5 | 1.2% | 12.4% | - % | 1.8% | 50.1% | 18.4% | 317,618 | 9.4% | 13.9% | 1.1% | 82.1% | 13.9% | 17.07 | 17.07 | 0.9 | 0.9 |
| | UWCCB | 1999 | 9,892 | 6,373 | 1.87 | 14.9 | 1.1% | 10.7% | 3.4% | 2.5% | 42.3% | 5.2% | 619,620 | 9.8% | 13.2% | 2.8% | 35.0% | 9.9% | 17.82 | 16.68 | 1.4 | 1.5 |
| | | 2000 | 12,202 | 6,859 | 2.01 | 12.3 | 1.1% | 11.1% | 4.4% | 2.7% | 38.4% | 7.4% | 661,237 | 9.6% | 10.9% | 3.4% | 24.8% | 14.2% | 18.51 | 18.70 | 1.3 | 1.3 |
| | | 2001 | 12,426 | 7,493 | 2.20 | 11.2 | 1.0% | 10.8% | 2.2% | 2.3% | 39.1% | 0.1% | 758,329 | 9.5% | 12.9% | 2.9% | 45.1% | 9.2% | 21.12 | 21.12 | 1.2 | 1.2 |
| | | 2002 | 14,081 | 9,828 | 2.89 | 8.6 | 1.2% | 13.0% | 2.9% | 2.4% | 38.1% | 31.2% | 827,615 | 9.6% | 13.2% | 2.9% | 48.2% | 8.1% | 23.28 | 23.28 | 1.1 | 1.1 |

averages for all banks under Lehman Brothers coverage

| COUNTRY AVERAGES | | PER | 0 | 0 | ROA | 0 | 0 | ROE | 0.0% | 0.0% | Yield | 0 | 0.0% | NPL | 0.0% | 0.0% | Price to book | 0 | 0 | to adjusted | 0.0 | |
|------------------|----------------|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|------------|------------|-------------|------------|------------|
| exc. HSBC | | Total Mkt Cap U | 1999 | 2000 | 1999 | 2000 | 2001 | 1999 | 2000 | 2001 | 1999 | 2000 | 2001 | 1999 | 2000 | 2001 | 1999 | 2000 | 2001 | 1999 | 2000 | |
| Hong Kong | 34,586 | 0 | 19.7 | 17.3 | 16.5 | 1.6% | 1.9% | 1.8% | 16.1% | 21.4% | 21.2% | 7.1% | 4.2% | 4.8% | 4.6% | 3.4% | 2.5% | 3.4 | 3.6 | 3.4 | 4.2 | 4.5 |
| Singapore | 30,600 | 0 | 19.8 | 13.9 | 13.5 | 1.2% | 1.4% | 1.3% | 10.7% | 12.4% | 12.0% | 2.0% | 2.3% | 2.5% | 9.2% | 6.5% | 5.5% | 1.6 | 1.4 | 1.3 | 2.0 | 1.7 |
| Thailand | 6,658 | 0 | (3.2) | 15.3 | (19.6) | -6.7% | 2.5% | -0.9% | -102.2% | 10.3% | -90.7% | 0.0% | 0.0% | 0.0% | 45.8% | 30.6% | 26.1% | 3.4 | 2.8 | 4.2 | 3.9 | 3.6 |
| Malaysia | 9,612 | 0 | 17.9 | 13.8 | 10.4 | 1.0% | 1.2% | 1.4% | 12.2% | 13.9% | 16.4% | 0.8% | 1.5% | 7.0% | 5.6% | 4.2% | 3.0 | 1.8 | 1.5 | 2.8 | 1.9 | 1.9 |
| South Korea | 9,414 | 0 | (43.5) | 6.2 | 4.6 | 0.2% | 0.6% | 1.0% | 4.4% | 11.2% | 21.7% | 0.7% | 4.1% | 5.4% | 9.1% | 8.1% | 7.1% | 1.2 | 1.1 | 1.0 | 1.4 | 1.3 |
| Taiwan | 7,068 | 0 | 18.3 | 11.3 | 10.2 | 0.9% | 1.2% | 1.1% | 9.9% | 12.8% | 12.7% | 1.5% | 0.8% | 1.2% | 2.3% | 2.4% | 1.5 | 1.4 | 1.2 | 1.6 | 1.4 | 1.4 |
| Philippines | 4,554 | 0 | 17.7 | 28.5 | 24.2 | 0.6% | 0.6% | 0.7% | 2.6% | 4.3% | 5.3% | 1.5% | 0.9% | 1.4% | 13.5% | 15.9% | 14.3% | 1.7 | 1.7 | 1.6 | 1.7 | 1.8 |
| Indonesia | 565 | 0 | (1.4) | 4.9 | 5.5 | -0.7% | 1.0% | 1.2% | -2.0% | 28.4% | 23.4% | 0.0% | 0.0% | 0.0% | 47.7% | 21.7% | 16.1% | 1.0 | 0.7 | 0.6 | 4.6 | 1.2 |
| REGION | 103,057 | 0 | 12.0 | 14.8 | 11.5 | 0.7% | 1.5% | 1.3% | 4.3% | 15.1% | 9.5% | 3.3% | 2.7% | 3.1% | 9.7% | 7.3% | 6.1% | 2.4 | 2.3 | 2.2 | 2.9 | 2.7 |

Source: Lehman Brothers

This page intentionally left blank

SINGAPOREAN BANKS: Running Out of Time**Overweight**

Capital rationalization is coming, but managements have been dragging their heels the whole way

Growth will not pick up in Singapore any time soon

Hong Kong Banks Are Ready to Deal

Common themes in our Singaporean bank meetings abounded, as you would have expected from a market in which three of the four major banks have virtually indistinguishable names.

Major Issues and Themes:

The frustrating thing about covering the Singaporean banks has been watching them shoot themselves in the foot by stifling returns under a heavy load of excess capital. Nevertheless, there is a wistful consensus that the days of banks ignoring shareholders' demands that capital be better employed are coming to an end. There are both good and bad ways of getting rid of excess capital—see DBS for an example of how *not* to add shareholder value—so we still expect a wide dispersion of strategies and results.

None of the banks are counting on Singapore for continued growth; collectively they are quite bearish on loan growth, which would seem to mean that the historical relationship between GDP growth (which is still respectable if not stellar) will continue to be progressively de-linked. All the banks are looking to their Malaysian operations, foreign affiliates and subsidiaries, and potential acquisitions for future growth.

Those of you who read our original notes from the meetings should not have been surprised by the DBS-Dao Heng transaction, the furor over Hong Kong Chinese Bank, nor the rumors that now pretty much everyone south of Hang Seng (in terms of market capitalization) is in play. After years of coyly accepting proposals, the small banks in Hong Kong have now begun to actively seek merger or acquisition partners—perhaps feeling that this is as good as things are ever likely to get. Judging from the DHB premium, they may be right.

We expect to see additional transactions for the Singaporean banks in Hong Kong and Taiwan, but probably not of the massively overblown nature of the DBS purchase.

Loan breakdown (% of total)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|--------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Agriculture, Mining and Quarrying | 0.25 | 0.20 | 0.26 | 0.20 | 0.18 | 0.17 | 0.11 | 0.15 | 0.13 | 0.15 | 0.14 | 0.13 | 0.15 | 0.13 | 0.11 | 0.12 |
| Manufacturing | 14.33 | 13.89 | 13.24 | 13.26 | 14.02 | 13.66 | 9.07 | 8.08 | 8.20 | 7.88 | 7.52 | 7.86 | 7.86 | 8.16 | 7.79 | 7.55 |
| Building & Construction | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 18.12 | 16.87 | 16.91 | 15.98 | 16.37 | 15.93 | 15.38 | 15.68 | 16.54 | 16.65 |
| Housing Loans | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 17.24 | 20.96 | 21.85 | 22.36 | 23.53 | 23.88 | 24.40 | 24.57 | 24.88 | 25.03 |
| General Commerce | 27.45 | 28.09 | 27.73 | 28.01 | 26.55 | 25.91 | 16.25 | 14.21 | 14.05 | 13.50 | 13.63 | 13.55 | 13.25 | 12.70 | 12.51 | 12.31 |
| Transport, Storage and Communication | 3.41 | 3.59 | 3.54 | 3.80 | 4.15 | 4.35 | 2.94 | 2.94 | 3.01 | 2.96 | 2.68 | 2.54 | 2.54 | 2.58 | 2.55 | 2.68 |
| Financial Institutions | 22.52 | 21.80 | 22.71 | 22.32 | 22.78 | 23.55 | 15.24 | 14.99 | 14.44 | 14.99 | 14.05 | 14.31 | 14.74 | 14.80 | 13.91 | 13.54 |
| Professional & Private Individuals | 24.33 | 24.76 | 24.74 | 24.21 | 24.11 | 24.22 | 15.64 | 14.35 | 14.38 | 14.45 | 14.73 | 14.67 | 15.27 | 15.21 | 15.79 | 16.05 |
| Others | 7.72 | 7.66 | 7.77 | 8.20 | 8.21 | 8.14 | 5.38 | 7.45 | 7.04 | 7.73 | 7.36 | 7.11 | 6.42 | 6.18 | 5.91 | 6.07 |

Loan growth (% yoy)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|--------------------------------------|-------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Agriculture, Mining and Quarrying | 47.60 | 9.87 | 18.18 | 41.27 | -23.39 | -14.71 | -34.99 | 19.19 | 17.43 | 43.58 | 33.70 | -14.40 | 8.41 | -12.33 | -17.27 | -6.64 |
| Manufacturing | 5.86 | 4.88 | 2.36 | 1.83 | 4.11 | 0.86 | 2.42 | -1.79 | -5.71 | -5.77 | -12.20 | -5.51 | -5.31 | 4.45 | 7.28 | 0.46 |
| Building & Construction | | | | | | | | | | | -4.26 | -8.35 | -10.18 | -1.05 | 4.50 | 9.39 |
| Housing Loans | | | | | | | | | | | 44.64 | 10.59 | 10.28 | 10.81 | 9.36 | 9.70 |
| General Commerce | 9.29 | 9.60 | 10.66 | 10.10 | 2.93 | -5.38 | -12.38 | -18.22 | -14.74 | -14.91 | -11.15 | -7.42 | -6.85 | -5.09 | -5.08 | -4.92 |
| Transport, Storage and Communication | 26.68 | 30.62 | 20.70 | 36.54 | 29.55 | 24.23 | 24.17 | 24.72 | 16.64 | 11.19 | -3.34 | -16.06 | -16.44 | -11.98 | -1.42 | 10.18 |
| Financial Institutions | 13.44 | 6.38 | 14.03 | 7.97 | 7.62 | 10.82 | 0.30 | 8.22 | 2.11 | 3.94 | -2.32 | -7.31 | 0.85 | -0.42 | 2.41 | -0.94 |
| Professional & Private Individuals | 16.25 | 15.91 | 18.18 | 12.44 | 5.45 | 0.36 | -5.48 | -4.43 | -3.89 | -2.57 | -0.25 | -0.79 | 4.86 | 6.19 | 10.91 | 14.51 |
| Others | 11.65 | 7.96 | 10.07 | 17.84 | 13.29 | 9.05 | 3.52 | 46.45 | 38.05 | 55.10 | 44.91 | -7.34 | -9.97 | -19.42 | -16.91 | -10.72 |
| Total | 12.11 | 10.18 | 12.28 | 10.44 | 6.41 | 2.59 | -3.36 | 0.21 | -1.32 | 0.70 | 5.97 | -2.94 | -1.24 | 0.87 | 3.43 | 4.66 |

Deposit breakdown (% of total)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Demand | 16.71 | 16.14 | 15.90 | 14.74 | 14.72 | 12.49 | 12.06 | 11.35 | 12.58 | 12.43 | 11.58 | 12.43 | 13.43 | 13.88 | 13.41 | 13.80 |
| Fixed | 59.17 | 59.88 | 61.31 | 64.51 | 66.75 | 69.91 | 70.22 | 54.62 | 51.97 | 50.38 | 52.94 | 52.80 | 52.24 | 52.65 | 52.50 | 52.40 |
| Savings | 23.79 | 23.67 | 22.46 | 20.49 | 18.23 | 17.37 | 17.48 | 33.80 | 35.24 | 36.66 | 35.18 | 34.55 | 34.11 | 33.23 | 33.77 | 33.55 |
| Others | 0.32 | 0.31 | 0.33 | 0.26 | 0.30 | 0.23 | 0.24 | 0.22 | 0.22 | 0.53 | 0.30 | 0.22 | 0.23 | 0.24 | 0.33 | 0.24 |

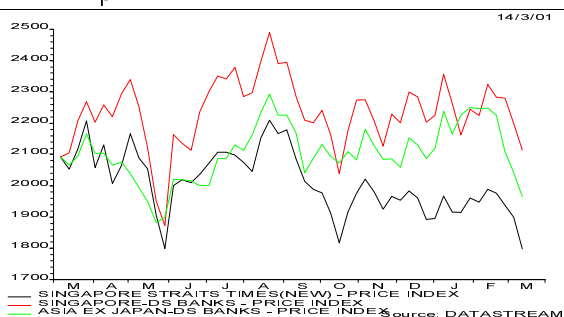
Deposit growth (% yoy)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|---------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|--------|-------|-------|
| Demand | 14.25 | 4.54 | 5.25 | -3.00 | -4.36 | -15.74 | -16.69 | 0.71 | 8.33 | 29.14 | 22.53 | 17.63 | 12.49 | 13.67 | 13.07 | 9.11 |
| Fixed | 4.48 | 2.59 | 6.47 | 11.54 | 22.52 | 27.20 | 25.81 | 10.70 | -1.31 | -6.53 | -3.77 | 3.90 | 5.92 | 6.39 | -3.18 | -2.54 |
| Savings | 14.08 | 8.75 | 3.45 | -6.36 | -16.77 | -20.05 | -14.54 | 115.66 | 145.03 | 173.67 | 156.95 | 9.86 | 1.98 | -7.70 | -6.29 | -4.64 |
| Others | 1.50 | -2.07 | 11.47 | -13.80 | 2.44 | -20.23 | -19.99 | 14.34 | -8.03 | 203.74 | 59.54 | 6.87 | 9.01 | -53.23 | 7.95 | 6.91 |
| Total | 8.18 | 4.29 | 5.59 | 5.03 | 8.61 | 8.94 | 9.84 | | | | | 7.48 | 5.36 | 1.81 | -2.36 | -1.80 |

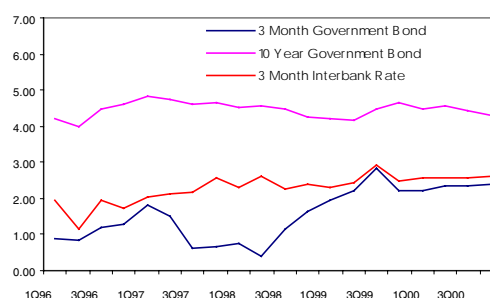
Interest Rates (%)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|---------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Prime Lending | 6.26 | 6.26 | 6.26 | 6.96 | 7.74 | 7.79 | 7.54 | 5.90 | 5.80 | 5.80 | 5.80 | 5.80 | 5.85 | 5.85 | 5.85 | 5.80 |
| Deposits | 2.72 | 2.72 | 2.72 | 3.08 | 3.46 | 3.49 | 3.24 | 1.43 | 1.36 | 1.36 | 1.36 | 1.36 | 1.33 | 1.33 | 1.33 | 1.30 |
| 3M Interbank | 3.56 | 3.63 | 4.00 | 9.00 | 4.75 | 6.25 | 4.88 | 1.75 | 1.94 | 1.75 | 2.19 | 2.63 | 2.31 | 2.50 | 2.56 | 2.81 |

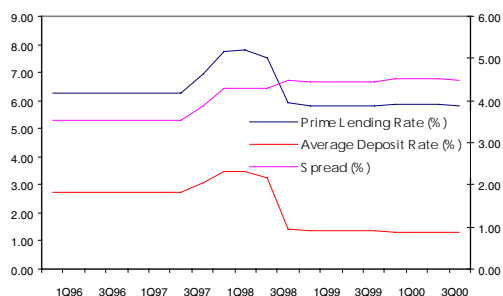
Recent market performance



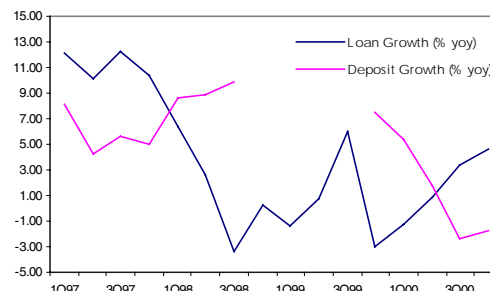
Market interest rates (%)

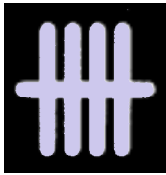


Average lending and deposit rates (%)



Loan and deposit growth (% yoy)



UNITED OVERSEAS BANK: Optimal risk/reward tradeoff**1-Strong Buy**

UOB's prudent strategy of keeping its powder dry may be its competitive advantage

Divestment of non-core assets will not be a short-term trigger

Once bitten—the bank will be a 'cautious' acquirer or will grow organically

Still too small to be operationally world-class

We met with UOB management during the Asian Banks Tour and left with the message that the bank is husbanding its capital, preparing for gathering storm clouds in the regional economy. We believe UOB's prudent nature, middle-market consumer franchise and strength in credit cards make it a sound defensive choice for investors in the region.

The bank is keeping its powder dry, hoping to turn its capital strength into a competitive advantage against weaker rivals. Management believes it's better to have more capital than less, as UOB can price better and win business because of their capital strength. Although the bank declared a higher dividend in order to return some capital to shareholders last year, we believe that investors can only expect higher returns on a three to five year view. The bank's long-term minimum capital ratio goal is 12%.

Singaporean banks have been given a schedule from the MAS to divest non-core assets by mid-2003 and UOB intends to use all the time available. Divestiture issues go straight to the core of the family-owned personality of the bank. Management is seeking to divest piecemeal; distribution in specie and sale to the principal shareholders of the non-core affiliates are all being considered to maximize sale proceeds from their assets.

Management is, however, on the lookout to buy a good bank. Unfortunately there are not too many available. It picked up Radanasin in Thailand after the crisis; a bank with no NPLs—but also no customers. Management is understandably cautious and we don't expect them to pay a big premium for their acquisitions. The bank bid less than 1.5x for First Pacific Bank in Hong Kong last year. This value approach may keep them out of the ball-park however, ever since DBS and Dao Heng set the price at 3x book.

Like all Singapore banks, UOB's management prefers Hong Kong for the cultural similarities with its home market; and recognising that size matters, is targeting other slightly bigger family-owned HK banks. UOB wants to be in China and do RMB business as soon as possible. Mindful of overlaps at home and the need to go regional, the bank sees a Singapore acquisition as defensive and prefers instead to grow organically at home. Management expect high single-digit or low double-digit growth in aggregate this year, with most of the growth coming from outside Singapore. Management has budgeted for a slight dilution in margins in 2001. Longer-term, the bank has set its sights on 50% of income coming from offshore (currently 18%) by 2010.

Operationally, the bank hopes to implement its hub-and-spoke network, running all back-office and IT from Singapore for its regional subsidiaries this year. However, UOB has yet to achieve critical mass in terms of IT and back-office centralisation. The bank is also re-branding and placing greater emphasis on CRM and cross-selling to prepare for the entry of foreign banks to its home market.

| UOB | | | | | | Reuters Code: | | | | | |
|--------------------------------------|--------------|--------|----------------|--------|----------|-----------------------------|----------|--------------------------|--------|----------|--------|
| Share Price: | 11.70 | | Index: | | 1,670.07 | UOB.SI | | | | | |
| 52 Week Price Range: | 14.00 - 9.40 | | Current Yield: | | 3.4% | UOB.SP | | Shares Outstanding (MM): | | 1,052.77 | |
| INCOME STATEMENT | | | | | | BALANCE SHEET | | | | | |
| (S\$m) year ending Dec | | | | | | (S\$m) year ending Dec | | | | | |
| | 1998A | 1999A | 2000A | 2001E | 2002E | | 1998A | 1999A | 2000A | 2001E | 2002E |
| Interest income | n.a | n.a | n.a | n.a | n.a | Gross loans | 40,818 | 43,912 | 54,008 | 59,845 | 63,856 |
| Interest expense | n.a | n.a | n.a | n.a | n.a | Loan loss reserves | 1,429 | 1,933 | 1,812 | 1,572 | 1,310 |
| Net interest income | 1,201 | 1,133 | 1,198 | 1,406 | 1,583 | Net loans | 39,122 | 41,691 | 51,842 | 57,880 | 62,140 |
| Ave. int. earnings assets | 42,050 | 45,915 | 54,250 | 63,402 | 69,172 | Total earning assets | 43,340 | 48,489 | 60,011 | 66,794 | 71,551 |
| NIM (%) | 2.86% | 2.47% | 2.21% | 2.22% | 2.29% | Other assets | 7,129 | 2,300 | 6,313 | 7,027 | 7,527 |
| Non-interest income | 530 | 708 | 754 | 793 | 862 | Total Assets | 50,469 | 50,789 | 66,324 | 73,820 | 79,078 |
| Total operating income | 1,731 | 1,840 | 1,952 | 2,199 | 2,444 | Deposits | 42,598 | 47,180 | 56,837 | 59,750 | 61,860 |
| Non-interest expense | -567 | -581 | -751 | -807 | -847 | Customer deposits | - | 40,728 | 43,406 | 46,049 | 47,675 |
| Pre provision profit | 1,164 | 1,260 | 1,201 | 1,392 | 1,597 | Other deposits | - | 6,452 | 13,431 | 13,701 | 14,185 |
| Loan loss provisions | -654 | -253 | -93 | -50 | -50 | Other paying liabilities | (42,598) | 430 | 129 | 136 | 140 |
| Non-operating income | 0 | 20 | 78 | 0 | 0 | Other liabilities | 44,911 | (3,012) | 2,588 | 6,564 | 8,959 |
| Pre tax profit | 511 | 1,026 | 1,112 | 1,342 | 1,547 | Total Liabilities | 44,911 | 44,598 | 59,554 | 66,450 | 70,959 |
| Tax | -137 | -251 | -273 | -342 | -395 | Equity with revaluation | 6,789 | 7,778 | 8,309 | 8,909 | 9,658 |
| Net profit | 368 | 760 | 913 | 1,000 | 1,153 | Adjusted equity | 5,559 | 6,191 | 6,770 | 7,370 | 8,119 |
| Core earnings | 368 | 745 | 836 | 1,000 | 1,153 | BALANCE SHEET RATIOS | | | | | |
| | | | | | | (%) | | | | | |
| | | | | | | Loan-to-deposit | 95.2% | 92.5% | 94.4% | 99.5% | 102.6% |
| | | | | | | Equity to assets | 13.5% | 15.3% | 12.5% | 12.1% | 12.2% |
| | | | | | | Tier 1 Capital | - | - | - | - | - |
| | | | | | | Total Capital adequacy | - | - | 19.8% | - | - |
| | | | | | | Total loan provisions | 3.52% | 4.43% | 3.38% | 2.64% | 2.06% |
| | | | | | | ASSET QUALITY | | | | | |
| | | | | | | Nonperforming assets | 2,191 | 2,993 | 2,610 | 2,437 | 1,970 |
| | | | | | | Special mention | - | - | - | - | - |
| | | | | | | Substandard | - | 1,947 | 1,583 | 1,725 | 1,454 |
| | | | | | | Doubtful | - | 245 | 208 | 189 | 170 |
| | | | | | | Loss | - | 801 | 819 | 523 | 346 |
| | | | | | | ORE | - | - | - | - | - |
| | | | | | | NPA's/total loans | 5.4% | 6.9% | 4.9% | 4.1% | 3.1% |
| | | | | | | Reserve coverage of NPAs | 65.2% | 64.6% | 69.4% | 64.5% | 66.5% |
| | | | | | | Required reserves | n.a | 1,722 | 1,754 | 1,537 | 1,341 |
| | | | | | | Actual reserves | n.a | 1,933 | 1,812 | 1,572 | 1,310 |
| | | | | | | Shortfall (surplus) | n.a | (211) | (58) | (35) | 31 |
| | | | | | | Actual to required reserves | n.a | 112% | 103% | 102% | 98% |
| | | | | | | Shortfall to capital | n.a | -3% | -1% | 0% | 0% |
| | | | | | | GROWTH RATES | | | | | |
| | | | | | | (%) | | | | | |
| | | | | | | <u>Income statement</u> | | | | | |
| | | | | | | Net interest income | 8.4% | -5.7% | 5.8% | 17.4% | 12.6% |
| | | | | | | Non-interest income | -4.1% | 37.3% | 4.2% | 4.6% | 8.7% |
| | | | | | | Total operating income | 4.2% | 7.5% | 5.1% | 12.4% | 11.2% |
| | | | | | | Non-interest expenses | -4.9% | 2.5% | 29.3% | 7.4% | 5.0% |
| | | | | | | Pre-provision earnings | 9.4% | 9.9% | -5.8% | 15.5% | 14.7% |
| | | | | | | Loan loss provisions | 95.0% | -61.2% | -63.3% | -46.2% | 0.0% |
| | | | | | | Core earnings | -26.7% | 102.6% | 12.3% | 19.6% | 15.3% |
| | | | | | | Net profit | -26.7% | 106.7% | 20.2% | 9.5% | 15.3% |
| | | | | | | <u>Balance sheet</u> | | | | | |
| | | | | | | Loan growth | 1.8% | 7.6% | 23.0% | 10.8% | 6.7% |
| | | | | | | Interest earning assets | 6.3% | 11.9% | 23.8% | 11.3% | 7.1% |
| | | | | | | Asset growth | 2.2% | 0.6% | 30.6% | 11.3% | 7.1% |
| | | | | | | Deposit growth | 2.4% | 10.8% | 20.5% | 5.1% | 3.5% |
| | | | | | | Shareholders funds | 3.5% | 14.6% | 6.8% | 7.2% | 8.4% |
| PER SHARE DATA (\$\$) | | | | | | | | | | | |
| EPS | 0.37 | 0.72 | 0.87 | 0.95 | 1.10 | | | | | | |
| DPS | 0.18 | 0.40 | 0.40 | 0.38 | 0.38 | | | | | | |
| Effective payout ratio (%) | 49% | 55% | 46% | 40% | 35% | | | | | | |
| BVPS | 6.83 | 7.39 | 7.90 | 8.47 | 9.18 | | | | | | |
| ABVPS | 5.59 | 5.88 | 6.43 | 7.00 | 7.72 | | | | | | |
| VALUATION | | | | | | | | | | | |
| Price to book value (x) | 1.6 | 1.4 | 1.5 | 1.4 | 1.3 | | | | | | |
| Price to adjusted book value (x) | 1.9 | 1.8 | 1.8 | 1.7 | 1.5 | | | | | | |
| Price to earnings (x) | 28.7 | 14.5 | 13.5 | 12.3 | 10.7 | | | | | | |
| PROFITABILITY RATIOS | | | | | | | | | | | |
| (%) | | | | | | | | | | | |
| Net interest margin | 2.86% | 2.47% | 2.21% | 2.22% | 2.29% | | | | | | |
| Yield on interest earning assets | n.a | n.a | n.a | n.a | n.a | | | | | | |
| Cost on interest bearing liabilities | n.a | n.a | n.a | n.a | n.a | | | | | | |
| Net interest spread | n.a | n.a | n.a | n.a | n.a | | | | | | |
| Non-int. income (% Op income) | 30.6% | 38.4% | 38.6% | 36.1% | 35.2% | | | | | | |
| Cost to income | 32.7% | 31.2% | 38.4% | 36.7% | 34.7% | | | | | | |
| Overhead ratio | 1.35% | 1.26% | 1.38% | 1.27% | 1.22% | | | | | | |
| Cost coverage | 93.5% | 121.9% | 100.4% | 98.3% | 101.7% | | | | | | |
| ROA | 0.74% | 1.50% | 1.56% | 1.43% | 1.51% | | | | | | |
| ROE | 6.8% | 12.9% | 14.1% | 14.1% | 14.9% | | | | | | |
| OROA ANALYSIS | | | | | | | | | | | |
| Net interest margin | 2.86% | 2.47% | 2.21% | 2.22% | 2.29% | | | | | | |
| Non-interest inc./gross inc. | 30.61% | 39.11% | 38.75% | 36.06% | 35.25% | | | | | | |
| Efficiency ratio | 32.73% | 31.21% | 38.38% | 36.68% | 34.66% | | | | | | |
| Provision/assets | 1.30% | 0.50% | 0.14% | 0.07% | 0.06% | | | | | | |
| Operating return on assets | 1.47% | 2.29% | 2.08% | 2.13% | 2.25% | | | | | | |
| Equity/assets | 13.45% | 15.31% | 12.53% | 12.07% | 12.21% | | | | | | |
| Operating return on equity | 10.96% | 14.94% | 16.62% | 17.63% | 18.39% | | | | | | |

DBS BANK: Hong Kong bound**2-Buy**

Quality professional management remains DBS' defining corporate culture

After meeting with DBS management during the Asian Banks Tour, we left with the impression that the bank was frustrated by the lack of faith shown by the investment community in their ability to expand the regional platform. We saw subsequently that this need to do something regionally, and to do it quickly, culminated in management's 3x book purchase of Hong Kong's Dao Heng Bank three weeks later.

Operationally, the bank continues on its strengths—ROE passed the pre-crisis level despite an increase in the bank's CAR. NIM improvement though has stopped due to the cost (7 basis points) of Peso forwards needed to hedge their Bank of the Philippine Islands (BPI.PS, P75.50, not rated) investment. Loan growth, while still negative, is tapering off—excluding the sale of NPLs at DBS Thai Danu Bank, the second half showed a -1.5% H-o-H contraction. The fee-to-income ratio received a 21.6% boost from purchase of Vickers Ballas stockbrokers. Expenses were also a focus last year. Subsequently the bank has cried off consultants for the time being, helping keep expense-growth down to 12% (after adjustment for the Kwong On Bank purchase). Operationally, DBS continues to centralize its back-office regionally, into Singapore—trying to lower unit costs by a further 20–25%. The bank is also ahead of the game on non-core asset divestitures, having completed the sale of all but the corporate buildings and a 5% stake in CapitalLand.

Still, capital management is the key

When DBS still had an excess capital problem, investors and management did not always seeing eye-to-eye on capital management. Although the bank increased its dividend pay-out from 13% to 31% in the last four years, the bank recently issued Tier 1 as well as raising US\$1.25 billion in Tier 2 in the past two years. Part of the new capital was used to retire S\$600 million in government preference shares, but pro-forma CAR still rose to 20.3%, up a further 1.4 percentage points. However, management says that the new Tier 1 was too good to refuse. With cost of equity at around 12%, the pre-tax cost of new hybrid Tier 1 was 7.68% (6% tax-adjusted). This meant that Tier 1 coupon is not only lower than straight equity, it is also lower than Tier 2.

An acquisition is the fastest way out of the capital problem

DBS is committed to their regional expansion story with a focus on ASEAN and Hong Kong. As was eventually demonstrated by the Dao Heng deal, management are very willing to accept some dilution, as long as the acquisition meets their 15% hurdle rate. So far, the performance of acquired Kwong On has been ahead of management expectations. The bank has been busy closing down non-profitable branches and reducing delinquencies by 57%, as well as building a credit card business from scratch. Since missing out on the Manhattan card purchase (bought by Standard Chartered for 4.5x book), the bank has launched its own credit card and managed to issue over 40,000 of them since December. Due to the speed of the Dao Heng deal, management still needs to figure out whether to maintain two separate brands in Hong Kong.

| DBS | | | | | | Reuters Code: DBSMe.SI | | | | | |
|--------------------------------------|---------------|--------|----------------|---------|----------|-----------------------------|---------------|----------------|--------------------------|----------------|----------------|
| Share Price: | 15.30 | | Index: | | 1,670.07 | Bloomberg Code: | DBS SP | | Shares Outstanding (MM): | | 1,215.92 |
| 52 Week Price Range: | 23.70 - 13.80 | | Current Yield: | | 1.8% | | | | | | |
| INCOME STATEMENT | | | | | | BALANCE SHEET | | | | | |
| (S\$m) year ending Dec | | | | | | (S\$m) year ending Dec | | | | | |
| Interest income | na | na | na | na | na | Gross loans | 76,741 | 84,439 | 89,826 | 92,998 | 96,736 |
| Interest expense | na | na | na | na | na | Loan loss reserves | 2,265 | 4,069 | 2,286 | 1,876 | 1,446 |
| Net interest income | 1,430 | 2,035 | 2,039 | 2,099 | 2,261 | Net loans | 73,609 | 79,463 | 86,592 | 90,159 | 94,306 |
| Ave. int. earnings assets | 68,233 | 86,446 | 97,571 | 102,237 | 106,139 | Total earning assets | 78,188 | 94,704 | 100,437 | 104,037 | 108,240 |
| NIM (%) | 2.10% | 2.35% | 2.09% | 2.05% | 2.13% | Other assets | 20,788 | 11,761 | 10,791 | 13,965 | 16,948 |
| Non-interest income | 481 | 957 | 886 | 1,081 | 1,210 | Total Assets | 98,975 | 106,465 | 111,228 | 118,002 | 125,188 |
| Total operating income | 1,911 | 2,992 | 2,925 | 3,180 | 3,471 | Deposits | 86,477 | 89,759 | 92,774 | 96,295 | 99,694 |
| Non-interest expense | -754 | -1,065 | -1,246 | -1,309 | -1,331 | Customer deposits | - | 82,268 | 80,720 | 83,877 | 86,838 |
| Pre provision profit | 1,157 | 1,927 | 1,679 | 1,871 | 2,140 | Other deposits | - | 7,491 | 12,054 | 12,418 | 12,856 |
| Loan loss provisions | -996 | -1,063 | -54 | -45 | -45 | Other paying liabilities | 2,715 | 2,818 | 4,219 | 4,379 | 4,534 |
| Non-operating income | -5 | 143 | 50 | 0 | 0 | Other liabilities | 655 | 3,012 | 3,740 | 6,009 | 8,697 |
| Pre tax profit | 155 | 1,007 | 1,671 | 1,826 | 2,095 | Total Liabilities | 89,846 | 95,589 | 100,733 | 106,683 | 112,925 |
| Tax | -72 | -345 | -315 | -475 | -545 | Equity with revaluation | 10,188 | 12,292 | 11,670 | 12,494 | 13,438 |
| Net profit | 223 | 1,072 | 1,389 | 1,268 | 1,452 | Adjusted equity | 9,129 | 10,876 | 10,495 | 11,319 | 12,263 |
| Core earnings | 225 | 977 | 1,348 | 1,268 | 1,452 | BALANCE SHEET RATIOS | | | | | |
| PER SHARE DATA (S\$) | | | | | | (%) | | | | | |
| EPS | 0.24 | 0.91 | 1.18 | 1.08 | 1.23 | Loan-to-deposit | 87.7% | 93.1% | 95.8% | 95.6% | 96.0% |
| DPS | 0.15 | 0.17 | 0.27 | 0.38 | 0.43 | Equity to assets | 10.3% | 11.5% | 10.5% | 10.6% | 10.7% |
| Effective payout ratio (%) | 55% | 19% | 23% | 35% | 35% | Tier 1 Capital | - | - | - | - | - |
| BVPS | 10.98 | 10.44 | 9.91 | 10.61 | 11.41 | Total Capital adequacy | - | - | 18.9% | - | - |
| ABVPS | 9.84 | 9.23 | 8.91 | 9.61 | 10.41 | Total loan provisions | 2.99% | 4.87% | 2.57% | 2.04% | 1.51% |
| VALUATION | | | | | | ASSET QUALITY | | | | | |
| Price to book value (x) | 1.4 | 1.9 | 1.5 | 1.4 | 1.3 | Nonperforming assets | 7,086 | 8,149 | 4,411 | 3,782 | 3,110 |
| Price to adjusted book value (x) | 1.5 | 2.2 | 1.7 | 1.6 | 1.5 | Special mention | - | - | - | - | - |
| Price to earnings (x) | 62.1 | 22.2 | 13.0 | 14.2 | 12.4 | Substandard | - | 4,952 | 3,508 | 2,954 | 2,364 |
| PROFITABILITY RATIOS | | | | | | NPA s/total loans | | | | | |
| (%) | | | | | | Reserve coverage of NPAs | | | | | |
| Net interest margin | 2.10% | 2.35% | 2.09% | 2.05% | 2.13% | Required reserves | n.a | 4,640 | 2,280 | 2,118 | 1,948 |
| Yield on interest earning assets | n.a | n.a | n.a | n.a | n.a | Actual reserves | n.a | 4,069 | 2,286 | 1,876 | 1,446 |
| Cost on interest bearing liabilities | n.a | n.a | n.a | n.a | n.a | Shortfall (surplus) | n.a | 571 | (6) | 242 | 502 |
| Net interest spread | n.a | n.a | n.a | n.a | n.a | Actual to required reserves | n.a | 88% | 100% | 89% | 74% |
| Non-int. income (% Op income) | 25.2% | 32.0% | 30.3% | 34.0% | 34.9% | Shortfall to capital | n.a | 5% | 0% | 2% | 4% |
| Cost to income | 39.6% | 34.0% | 41.9% | 41.2% | 38.3% | GROWTH RATES | | | | | |
| Overhead ratio | 1.11% | 1.23% | 1.28% | 1.28% | 1.25% | (%) | | | | | |
| Cost coverage | 63.8% | 89.9% | 71.1% | 82.6% | 91.0% | <u>Income statement</u> | | | | | |
| ROA | 0.27% | 1.04% | 1.28% | 1.11% | 1.19% | Net interest income | 42.7% | 42.3% | 0.2% | 2.9% | 7.7% |
| ROE | 2.7% | 10.7% | 13.0% | 11.6% | 12.3% | Non-interest income | -6.7% | 131.1% | -15.3% | 16.0% | 11.9% |
| OROA ANALYSIS | | | | | | Total operating income | | | | | |
| Net interest margin | | | | | | Non-interest expenses | | | | | |
| Non-interest inc./gross inc. | | | | | | Pre-provision earnings | | | | | |
| Efficiency ratio | | | | | | Loan loss provisions | | | | | |
| Provision/assets | | | | | | Core earnings | | | | | |
| Operating return on assets | | | | | | Net profit | | | | | |
| Equity/assets | | | | | | <u>Balance sheet</u> | | | | | |
| Operating return on equity | | | | | | Loan growth | | | | | |
| | | | | | | Interest earning assets | | | | | |
| | | | | | | Asset growth | | | | | |
| | | | | | | Deposit growth | | | | | |
| | | | | | | Shareholders funds | | | | | |

OVERSEAS UNION BANK: Growth at a price**2-Buy**

Last year's winner in the mortgage battle—will it win this year's war?

After meeting with OUB management during the Asian Banks Tour, we left with the impression that the bank was satisfied with its performance, but in need of a strategic partnership to boost their capabilities. They were the only bank in Singapore to show operating profit growth last year—this as a result of rising net interest income on the back of growth in loans and a strong consumer banking business.

OUB floored the competition in the mortgage market, growing loans by over a billion dollars—or 31% year on year. In the first half of last year, the bank was clearly winning the battle taking 50% of the growth in the market. This shows the benefits of better customer information and IT and integrated sales-oriented distribution channels (OUB has 200 mobile bankers). Perhaps because of the startling growth, NPLs are down from a year ago.

OUB has been seeking funds from the inter-bank market and actively discouraging high-cost deposits to control funding costs. In the long-term, management targets a sustainable retail deposit base at around 65% of total funding.

Once again, it's the capital

Given poor regional growth and political instability, the bank has opted for a buffer, adding to reserves last year rather than boosting income. Business conditions permitting the bank hopes to make an ROE of 13% in 2002. This comes on the back of a programme to increase dividends, and divest non-core assets. Management is also looking at an acquisition within three or four years. The bank is comfortable in Malaysia, and, not surprisingly, thinks Hong Kong would be a good fit too. Management pointed out Dao Heng as an attractive franchise but with a caveat of price. What was refreshing was that management seem to have a realistic view of their own abilities, doubting they can beat out the local competition without the help of a global partner.

Respectable, middle-aged Singaporean bank seeks experienced dance partner to tango into the region

OUB is currently discussing a strategic tie-up with widely-recognised global institutions that have the size, desire and investment banking, private banking and asset management capabilities, as well as a broad product line. The bank already has a tie-up with ING to distribute their wealth management products. Management teased that a deal would occur sooner rather than later, with any partner taking an equity stake in OUB. The MAS is likely opposed to complete foreign ownership of a Singaporean bank—but OUB would consider it. The bank is not averse to a domestic consolidation, but sees no benefits from such a consolidation; that is, no new capabilities, IT, or added strengths.

| OUB | | | | | | Reuters Code: | | | | | |
|--------------------------------------|-------------|--------|---------------------|--------|--------|-----------------------------|--------|---------------------------------|--------|--------|--------|
| Share Price: | 6.85 | | Index: 1,670.07 | | | OUB.SI | | | | | |
| 52 Week Price Range: | 9.50 - 5.85 | | Current Yield: 3.1% | | | OUB.SP | | Shares Outstanding (MM): 993.55 | | | |
| INCOME STATEMENT | | | | | | BALANCE SHEET | | | | | |
| (S\$m) year ending Dec | | | | | | (S\$m) year ending Dec | | | | | |
| | 1998A | 1999A | 2000A | 2001E | 2002E | | 1998A | 1999A | 2000A | 2001E | 2002E |
| Interest income | n.a | n.a | n.a | n.a | n.a | Gross loans | 37,097 | 32,047 | 37,969 | 41,181 | 44,074 |
| Interest expense | n.a | n.a | n.a | n.a | n.a | Loan loss reserves | 1,205 | 1,332 | 1,195 | 1,095 | 962 |
| Net interest income | 843 | 851 | 999 | 1,089 | 1,240 | Net loans | 35,891 | 30,715 | 36,774 | 40,086 | 43,112 |
| Ave. int. earnings assets | 38,601 | 38,960 | 40,501 | 45,769 | 49,607 | Total earning assets | 40,673 | 37,247 | 43,755 | 47,782 | 51,433 |
| NIM (%) | 2.18% | 2.19% | 2.47% | 2.38% | 2.50% | Other assets | 2,596 | 2,125 | 2,848 | 1,660 | 1,020 |
| Non-interest income | 254 | 403 | 330 | 333 | 363 | Total Assets | 43,269 | 39,372 | 46,603 | 49,442 | 52,453 |
| Total operating income | 1,098 | 1,255 | 1,329 | 1,422 | 1,602 | Deposits | 37,608 | 32,876 | 39,799 | 42,805 | 44,316 |
| Non-interest expense | -387 | -478 | -486 | -517 | -532 | Customer deposits | - | 24,564 | 26,899 | 29,515 | 30,558 |
| Pre provision profit | 711 | 776 | 843 | 905 | 1,071 | Other deposits | - | 8,312 | 12,900 | 13,289 | 13,758 |
| Loan loss provisions | -474 | -211 | -123 | -100 | -80 | Other paying liabilities | 335 | 293 | 484 | 521 | 539 |
| Non-operating income | 2 | 0 | 1 | 0 | 0 | Other liabilities | 1,214 | 1,482 | 1,159 | 617 | 1,647 |
| Pre tax profit | 239 | 565 | 720 | 805 | 991 | Total Liabilities | 39,157 | 34,651 | 41,442 | 43,942 | 46,502 |
| Tax | -58 | -130 | -159 | -205 | -253 | Equity with revaluation | 4,492 | 5,422 | 6,020 | 6,358 | 6,809 |
| Net profit | 180 | 409 | 545 | 564 | 694 | Adjusted equity | 4,112 | 4,721 | 5,161 | 5,499 | 5,950 |
| Core earnings | 179 | 409 | 545 | 564 | 694 | BALANCE SHEET RATIOS | | | | | |
| PER SHARE DATA (\$\$) | | | | | | (%) | | | | | |
| | 1998A | 1999A | 2000A | 2001E | 2002E | Loan-to-deposit | 98.6% | 97.5% | 95.4% | 96.2% | 99.5% |
| EPS | 0.22 | 0.41 | 0.55 | 0.57 | 0.70 | Equity to assets | 10.4% | 13.8% | 12.9% | 12.9% | 13.0% |
| DPS | 0.12 | 0.12 | 0.21 | 0.23 | 0.24 | Tier 1 Capital | - | - | - | - | - |
| Effective payout ratio (%) | 54% | 30% | 38% | 40% | 35% | Total Capital adequacy | - | - | 16.4% | - | - |
| BVPS | 5.50 | 5.47 | 6.06 | 6.40 | 6.85 | Total loan provisions | 3.25% | 4.16% | 3.15% | 2.66% | 2.18% |
| ABVPS | 5.03 | 4.76 | 5.19 | 5.54 | 5.99 | ASSET QUALITY | | | | | |
| VALUATION | | | | | | | 1998A | 1999A | 2000A | 2001E | 2002E |
| | 1998A | 1999A | 2000A | 2001E | 2002E | Nonperforming assets | 2,888 | 2,991 | 2,829 | 2,104 | 1,594 |
| Price to book value (x) | 1.3 | 1.4 | 1.1 | 1.1 | 1.0 | Special mention | - | - | - | - | - |
| Price to adjusted book value (x) | 1.4 | 1.6 | 1.3 | 1.2 | 1.1 | Substandard | - | 2,182 | 2,111 | 1,442 | 945 |
| Price to earnings (x) | 32.6 | 18.2 | 12.5 | 12.1 | 9.8 | Doubtful | - | 266 | 256 | 211 | 209 |
| PROFITABILITY RATIOS | | | | | | | 1998A | 1999A | 2000A | 2001E | 2002E |
| | 1998A | 1999A | 2000A | 2001E | 2002E | Loss | - | 543 | 462 | 450 | 441 |
| Net interest margin | 2.18% | 2.19% | 2.47% | 2.38% | 2.50% | ORE | - | - | - | - | - |
| Yield on interest earning assets | n.a | n.a | n.a | n.a | n.a | NPA's/total loans | 7.8% | 9.3% | 7.5% | 6.2% | 5.2% |
| Cost on interest bearing liabilities | n.a | n.a | n.a | n.a | n.a | Reserve coverage of NPAs | 41.7% | 44.5% | 42.2% | 42.9% | 41.7% |
| Net interest spread | n.a | n.a | n.a | n.a | n.a | Required reserves | n.a | 1,403 | 1,364 | 1,235 | 1,159 |
| Non-int. income (% Op income) | 23.2% | 32.2% | 24.8% | 23.4% | 22.6% | Actual reserves | n.a | 1,332 | 1,195 | 1,095 | 962 |
| Cost to income | 35.1% | 38.1% | 36.5% | 36.3% | 33.2% | Shortfall (surplus) | n.a | 71 | 169 | 140 | 197 |
| Overhead ratio | 1.00% | 1.23% | 1.20% | 1.13% | 1.07% | Actual to required reserves | n.a | 95% | 88% | 89% | 83% |
| Cost coverage | 65.8% | 84.3% | 67.9% | 64.5% | 68.2% | Shortfall to capital | n.a | 1% | 3% | 2% | 3% |
| ROA | 0.44% | 0.99% | 1.27% | 1.17% | 1.36% | GROWTH RATES | | | | | |
| ROE | 4.4% | 9.3% | 11.0% | 10.6% | 12.1% | (%) | | | | | |
| OROA ANALYSIS | | | | | | Income statement | | | | | |
| | 1998A | 1999A | 2000A | 2001E | 2002E | Net interest income | 4.2% | 0.9% | 17.3% | 9.0% | 13.9% |
| Net interest margin | 2.18% | 2.19% | 2.47% | 2.38% | 2.50% | Non-interest income | 3.6% | 57.1% | -18.0% | 0.7% | 8.9% |
| Non-interest inc./gross inc. | 23.34% | 32.15% | 24.87% | 23.43% | 22.64% | Total operating income | 4.1% | 14.1% | 6.0% | 6.9% | 12.7% |
| Efficiency ratio | 35.14% | 38.12% | 36.54% | 36.34% | 33.18% | Non-interest expenses | 2.1% | 23.7% | 1.6% | 6.3% | 2.9% |
| Provision/assets | 1.10% | 0.54% | 0.26% | 0.20% | 0.15% | Pre-provision earnings | 5.2% | 8.8% | 8.7% | 7.3% | 18.3% |
| Operating return on assets | 0.75% | 1.46% | 1.82% | 1.78% | 2.01% | Loan loss provisions | 49.7% | -55.5% | -41.6% | -18.9% | -20.0% |
| Equity/assets | 10.38% | 13.77% | 12.92% | 12.86% | 12.98% | Core earnings | -29.8% | 129.0% | 33.2% | 3.5% | 23.0% |
| Operating return on equity | 7.24% | 10.58% | 14.08% | 13.81% | 15.45% | Net profit | -29.3% | 126.8% | 33.3% | 3.4% | 23.0% |
| | | | | | | Balance sheet | | | | | |
| | | | | | | Loan growth | 11.5% | -13.6% | 18.5% | 8.5% | 7.0% |
| | | | | | | Interest earning assets | 11.3% | -8.4% | 17.5% | 9.2% | 7.6% |
| | | | | | | Asset growth | 11.3% | -9.0% | 18.4% | 6.1% | 6.1% |
| | | | | | | Deposit growth | 12.0% | -12.6% | 21.1% | 7.6% | 3.5% |
| | | | | | | Shareholders funds | 1.6% | 20.7% | 11.0% | 5.6% | 7.1% |

OVERSEA-CHINESE BANKING CORP.: How best to use excess capital?**3-Market Perform**

Excess capital? OCBC has more of it than anyone else!

Acquisitions are the best way around the capital problem

What war?

Don't expect another surprise on expenses

We met with OCBC management during the Asian Banks Tour. What stuck in our minds were the key management appointments recently made and the more professional approach it is taking to the way it does business.

Although the bank prefers an acquisition to rationalise capital, it is moving ahead on a raft of other options, with the goal of reaching its capital target of 14% CAR (10% Tier 1) within two years. The bank is considering a combination of: 1) an open market share buyback; 2) an off-market share buyback (which potentially triggers a tender offer); 3) a court-approved capital reduction dividend; or 4) a special or normal dividend (paid out of current profits or one-off gains). Given draw-backs inherent in each option, it is likely the bank will use a combination of these measures to achieve its 15% ROE target.

The preferred way to reduce capital remains a strategically sensible acquisition. Management prefers a friendly, in-market acquisition but are also looking in Hong Kong. OUB is the natural target in Singapore although any strategic tie-up between OUB and a global partner may make this a hard deal to pull-off. In Hong Kong, competitive pressures should make the small banks more inclined to a sale, and OCBC are very willing to use price as an entry point to what it perceives as fat niche margins in this market. Investor attention has also focused on non-core asset divestment, but the recent set-back with selling assets en masse now means a more measured pace of asset reduction as the bank sells properties piecemeal.

In a subdued loan growth environment going forward, the bank is focussing on taking market share, something it did last year (increasing its share 2% in mortgages) without taking the lead on price. Foreign banks should not be a threat in this market as their costs of funds are not low enough to compete, hence OCBC does not expect spreads to narrow. Net interest margins however will decrease, as excess capital is taken off the books and replaced with interest-bearing debt.

The bank's previous sub-30% cost-to-income ratio was simply not sustainable—the obvious consequence was that catch-up was required in under-invested areas (such as the branch network). The dramatic increase in expenses in the second half of last year was a one-off step function that management doesn't see being repeated. Long term, the bank sees a 40% cost-to-income ratio as sustainable. This year, the bank plans to continue investing an amount in the single millions to revamp the G/L and install a new core banking system. Going forward, the bank is adopting a low-cost model with reduced spending—investing with caution. Continued investments in IT will be required however as by management's own admission, OCBC is not particularly advanced in CRM.

OCBC

Share Price: 10.90 Index: 1,670.07
 52 Week Price Range: 13.50 - 9.45 Current Yield: 2.7%

Reuters Code: OCBC SI
 Bloomberg Code: OCBC SP Shares Outstanding (MM): 1,287.19

| INCOME STATEMENT | 1998A | 1999A | 2000A | 2001E | 2002E |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| <i>(S\$m) year ending Dec</i> | | | | | |
| Interest income | n.a | n.a | n.a | n.a | n.a |
| Interest expense | n.a | n.a | n.a | n.a | n.a |
| Net interest income | 1,415 | 1,291 | 1,260 | 1,343 | 1,416 |
| <i>Ave. int. earnings assets</i> | 52,183 | 51,087 | 53,295 | 56,838 | 58,996 |
| NIM (%) | 2.71% | 2.53% | 2.37% | 2.36% | 2.40% |
| Non-interest income | 373 | 607 | 653 | 678 | 706 |
| Total operating income | 1,788 | 1,897 | 1,913 | 2,021 | 2,122 |
| Non-interest expense | -485 | -528 | -656 | -678 | -701 |
| Pre provision profit | 1,303 | 1,369 | 1,258 | 1,343 | 1,422 |
| Loan loss provisions | -938 | -516 | -139 | -20 | -20 |
| Non-operating income | 181 | 48 | 34 | -11 | 0 |
| Pre tax profit | 546 | 898 | 1,125 | 1,323 | 1,402 |
| Tax | -117 | -206 | -305 | -357 | -378 |
| Net profit | 425 | 690 | 840 | 945 | 1,013 |
| Core earnings | 283 | 652 | 807 | 956 | 1,013 |

| PER SHARE DATA (\$\$) | 1998A | 1999A | 2000A | 2001E | 2002E |
|----------------------------|-------|-------|-------|-------|-------|
| EPS | 0.35 | 0.54 | 0.65 | 0.74 | 0.79 |
| DPS | 0.12 | 0.25 | 0.30 | 0.31 | 0.33 |
| Effective payout ratio (%) | 34% | 46% | 46% | 43% | 42% |
| BVPS | 7.51 | 8.17 | 8.71 | 9.13 | 9.59 |
| ABVPS | 5.51 | 5.74 | 6.34 | 6.76 | 7.22 |

| VALUATION | 1998A | 1999A | 2000A | 2001E | 2002E |
|----------------------------------|-------|-------|-------|-------|-------|
| Price to book value (x) | 1.5 | 1.6 | 1.3 | 1.2 | 1.1 |
| Price to adjusted book value (x) | 2.0 | 2.2 | 1.7 | 1.6 | 1.5 |
| Price to earnings (x) | 32.1 | 23.7 | 16.7 | 14.8 | 13.8 |

| PROFITABILITY RATIOS | 1998A | 1999A | 2000A | 2001E | 2002E |
|--------------------------------------|-------|--------|-------|--------|--------|
| <i>(%)</i> | | | | | |
| Net interest margin | 2.71% | 2.53% | 2.37% | 2.36% | 2.40% |
| Yield on interest earning assets | n.a | n.a | n.a | n.a | n.a |
| Cost on interest bearing liabilities | n.a | n.a | n.a | n.a | n.a |
| Net interest spread | n.a | n.a | n.a | n.a | n.a |
| Non-int. income (% Op income) | 20.9% | 32.0% | 34.1% | 33.5% | 33.3% |
| Cost to income | 24.6% | 27.2% | 34.2% | 33.5% | 33.0% |
| Overhead ratio | 0.93% | 1.03% | 1.23% | 1.19% | 1.19% |
| Cost coverage | 76.9% | 114.9% | 99.6% | 100.0% | 100.7% |
| ROA | 0.75% | 1.25% | 1.47% | 1.54% | 1.55% |
| ROE | 6.5% | 9.3% | 10.8% | 11.2% | 11.3% |

| OROA ANALYSIS | 1998A | 1999A | 2000A | 2001E | 2002E |
|-----------------------------------|--------------|--------------|---------------|---------------|---------------|
| Net interest margin | 2.71% | 2.53% | 2.37% | 2.36% | 2.40% |
| Non-interest inc./gross inc. | 28.12% | 33.52% | 34.34% | 33.53% | 33.25% |
| Efficiency ratio | 24.61% | 27.20% | 34.15% | 33.53% | 33.01% |
| Provision/assets | 1.68% | 0.95% | 0.23% | 0.03% | 0.03% |
| Operating return on assets | 1.16% | 1.82% | 2.14% | 2.33% | 2.38% |
| Equity/assets | 16.41% | 19.32% | 18.75% | 18.53% | 18.35% |
| Operating return on equity | 7.08% | 9.40% | 11.41% | 12.58% | 12.97% |

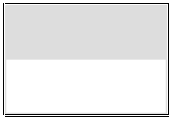
| BALANCE SHEET | 1998A | 1999A | 2000A | 2001E | 2002E |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| <i>(S\$m) year ending Dec</i> | | | | | |
| Gross loans | 49,341 | 47,589 | 51,621 | 53,300 | 56,178 |
| Loan loss reserves | 2,265 | 2,466 | 2,302 | 2,059 | 1,804 |
| Net loans | 46,697 | 44,765 | 48,935 | 50,844 | 53,956 |
| Total earning assets | 53,334 | 50,599 | 55,992 | 57,684 | 60,309 |
| Other assets | 2,403 | 3,691 | 3,718 | 5,662 | 6,895 |
| Total Assets | 55,737 | 54,290 | 59,710 | 63,346 | 67,204 |
| Deposits | 46,917 | 43,330 | 48,035 | 50,893 | 53,258 |
| Customer deposits | 36,993 | 36,762 | 37,942 | 40,547 | 42,599 |
| Other deposits | 9,439 | 6,567 | 10,093 | 10,346 | 10,659 |
| Other paying liabilities | 1,666 | 1,539 | 218 | 231 | 242 |
| Other liabilities | 448 | 2,045 | 3,305 | 3,527 | 4,418 |
| Total Liabilities | 49,031 | 46,914 | 51,558 | 54,651 | 57,918 |
| Equity with revaluation | 9,146 | 10,490 | 11,194 | 11,738 | 12,329 |
| Adjusted equity | 6,706 | 7,376 | 8,151 | 8,695 | 9,286 |

| BALANCE SHEET RATIOS | 1998A | 1999A | 2000A | 2001E | 2002E |
|------------------------|--------|--------|--------|--------|--------|
| <i>(%)</i> | | | | | |
| Loan-to-deposit | 104.4% | 109.0% | 106.7% | 104.0% | 104.7% |
| Equity to assets | 16.4% | 19.3% | 18.7% | 18.5% | 18.3% |
| Tier 1 Capital | - | - | - | - | - |
| Total Capital adequacy | - | - | - | - | - |
| Total loan provisions | 4.63% | 5.22% | 4.49% | 3.89% | 3.24% |

| ASSET QUALITY | 1998A | 1999A | 2000A | 2001E | 2002E |
|----------------------|-------|-------|-------|-------|-------|
| Nonperforming assets | 4,059 | 4,335 | 4,092 | 3,693 | 3,333 |
| Special mention | - | - | - | - | - |
| Substandard | - | 2,876 | 2,721 | 2,402 | 2,114 |
| Doubtful | - | 1,260 | 1,031 | 973 | 905 |
| Loss | - | 199 | 340 | 318 | 314 |
| ORE | - | - | - | - | - |

| | | | | | |
|-----------------------------|-------|-------|-------|-------|-------|
| NPA's/total loans | 8.3% | 9.2% | 8.0% | 7.0% | 6.0% |
| Reserve coverage of NPAs | 55.8% | 56.9% | 56.3% | 55.8% | 54.1% |
| Required reserves | n.a | 1,837 | 1,875 | 1,781 | 1,718 |
| Actual reserves | 2,265 | 2,466 | 2,302 | 2,059 | 1,804 |
| Shortfall (surplus) | n.a | (629) | (427) | (279) | (87) |
| Actual to required reserves | n.a | 134% | 123% | 116% | 105% |
| Shortfall to capital | n.a | -6% | -4% | -2% | -1% |

| GROWTH RATES | 1998A | 1999A | 2000A | 2001E | 2002E |
|-------------------------|---------------|--------------|--------------|--------------|-------------|
| <i>(%)</i> | | | | | |
| <i>Income statement</i> | | | | | |
| Net interest income | 16.4% | -8.8% | -2.3% | 6.6% | 5.5% |
| Non-interest income | -15.5% | 17.5% | 1.3% | 2.8% | 4.1% |
| Total operating income | 5.3% | -1.4% | -1.1% | 5.3% | 5.0% |
| Non-interest expenses | -0.3% | 9.0% | 24.2% | 3.4% | 3.4% |
| Pre-provision earnings | 7.2% | -4.8% | -10.6% | 6.3% | 5.8% |
| Loan loss provisions | 64.8% | -45.0% | -73.0% | -85.6% | 0.0% |
| Core earnings | -46.9% | 130.0% | 23.9% | 18.5% | 5.9% |
| Net profit | -26.8% | 62.1% | 21.8% | 12.5% | 7.2% |
| <i>Balance sheet</i> | | | | | |
| Loan growth | 0.2% | -4.1% | 9.3% | 3.9% | 6.1% |
| Interest earning assets | 4.5% | -4.7% | 10.0% | 3.4% | 5.3% |
| Asset growth | -3.1% | -2.6% | 10.0% | 6.1% | 6.1% |
| Deposit growth | -2.9% | -7.6% | 10.9% | 5.9% | 4.6% |
| Shareholders funds | 3.5% | 10.0% | 10.5% | 6.7% | 6.8% |

INDONESIAN BANKS**Underweight**

Indonesia seems perpetually in crisis, and yet, there are still some sound operating banks in the country—although they are far outnumbered by the burned-out hulks of the 1998-1999 banking meltdown.

Sector Highlights:

Asset quality is now better than in many other distressed countries

NPLs on bank balance sheets have been largely removed over the past year. However, distressed assets and over-leveraged corporates continue to present a substantial overhang on the sector. Ironically, although the evolving and scandalous APP bankruptcy calls into question Indonesian borrowers and business practices once again, it is likely that foreign banks have more exposure than the domestic players. So much for vaunted Western credit standards...

Consolidation is underway

We expect consolidation to continue, with Danamon and Mandiri unlikely to be the last mega-mergers in Indonesia. The sector needs to reach an equilibrium with fewer and stronger banks with broader scopes of business. We see a few leading banks growing to dominate the Indonesian retail and corporate business.

Margins under pressure

With most healthy banks chock-full of recap bonds, the rising interest rate environment necessary to defend the rupiah and keep inflation in check is resulting in renewed negative interest margins at some recapitalized banks, even as deposit-yield management has dramatically improved funding costs for the best institutions. IBRA may need to come to the rescue yet again if this impairs capital soundness.

Still no loan growth

Banks are not seeing positive loan growth overall in any corporate sector, and the long-awaited consumer lending resurgence has taken off quite slowly, due to structural factors and a poorly performing economy.

Severe event risk potential

As the Gus Dur administration lurches from scandal to scandal, the potential for adverse shocks is high. The rupiah has been steadily weakening ahead of an August deadline for the repayment of a significant amount of foreign-currency-denominated corporate debt. Moreover, rampant corruption is still the order of the day in most areas, and the public debt and deficit have reached—and indeed exceeded—alarming levels.

Loan breakdown (% of total)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Agriculture | 6.16 | 6.06 | 5.89 | 6.88 | 6.68 | 6.65 | 6.93 | 8.06 | 8.13 | 8.96 | 9.31 | 10.56 | 11.05 | 9.72 | 8.37 | 7.25 |
| Mining | 0.89 | 0.73 | 1.05 | 1.41 | 1.46 | 1.54 | 1.44 | 1.21 | 1.52 | 1.43 | 1.64 | 1.64 | 2.23 | 2.30 | 2.53 | 2.48 |
| Manufacturing | 26.54 | 25.87 | 27.50 | 29.53 | 33.13 | 37.83 | 37.22 | 35.22 | 36.36 | 36.33 | 38.05 | 37.43 | 37.02 | 37.49 | 38.11 | 39.70 |
| Trade | 24.00 | 23.79 | 22.49 | 21.76 | 22.57 | 21.69 | 20.65 | 19.77 | 19.56 | 21.35 | 20.24 | 19.23 | 18.49 | 19.45 | 16.63 | 16.39 |
| Services | 31.52 | 32.48 | 32.61 | 30.03 | 27.97 | 26.28 | 27.09 | 28.54 | 26.46 | 21.03 | 20.33 | 19.17 | 18.61 | 18.23 | 17.85 | 16.47 |
| Others | 10.89 | 11.06 | 10.45 | 10.39 | 8.19 | 6.00 | 6.67 | 7.19 | 7.97 | 10.90 | 10.43 | 11.97 | 12.60 | 12.82 | 16.51 | 17.70 |

Loan growth (% yoy)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|---------------|--------|-------|--------|--------|--------|--------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Agriculture | 19.05 | 21.69 | 26.61 | 47.49 | 69.09 | 109.03 | 71.18 | 51.17 | -6.45 | -45.97 | -34.04 | -39.51 | -17.22 | 3.66 | -14.99 | -17.98 |
| Mining | 123.69 | 38.86 | 144.66 | 214.00 | 154.35 | 299.92 | 99.77 | 11.16 | -20.23 | -62.79 | -44.28 | -37.43 | -10.53 | 53.69 | 45.91 | 80.69 |
| Manufacturing | 11.24 | 11.85 | 31.17 | 41.63 | 94.48 | 178.62 | 96.82 | 53.72 | -15.63 | -61.49 | -49.79 | -50.92 | -38.00 | -1.37 | -5.27 | 26.73 |
| Trade | 30.64 | 28.04 | 26.65 | 16.54 | 46.48 | 73.70 | 33.53 | 17.14 | -33.36 | -60.52 | -51.84 | -55.08 | -42.43 | -12.94 | -22.29 | 1.87 |
| Services | 38.95 | 37.96 | 46.67 | 23.91 | 38.22 | 54.16 | 20.80 | 22.50 | -27.29 | -67.90 | -63.14 | -68.98 | -57.16 | -17.17 | -16.94 | 2.68 |
| Others | 25.06 | 29.52 | 28.35 | 20.91 | 17.09 | 3.44 | -7.22 | -10.82 | -25.18 | -27.19 | -23.16 | -23.11 | -3.70 | 12.38 | 49.72 | 76.69 |
| Total | 26.28 | 26.10 | 34.79 | 29.09 | 55.77 | 90.53 | 45.44 | 28.90 | -23.13 | -59.89 | -50.88 | -53.81 | -39.10 | -4.43 | -5.42 | 19.48 |

Deposit breakdown (% of total)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Demand | 19.86 | 20.58 | 19.95 | 23.27 | 24.00 | 22.61 | 19.46 | 16.99 | 17.89 | 16.74 | 19.10 | 18.47 | 18.89 | 20.38 | 22.57 | 24.36 |
| Fixed | 57.03 | 56.12 | 62.73 | 57.71 | 60.07 | 65.55 | 69.21 | 70.93 | 68.86 | 68.62 | 62.70 | 61.87 | 60.07 | 57.33 | 55.27 | 54.21 |
| Savings | 23.11 | 23.30 | 17.32 | 19.01 | 15.93 | 11.84 | 11.33 | 12.08 | 13.25 | 14.64 | 18.20 | 19.66 | 21.04 | 22.29 | 22.16 | 21.42 |

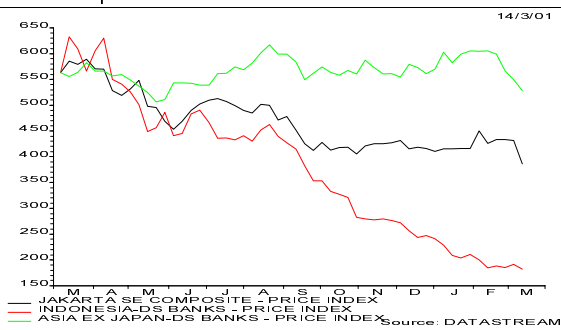
Deposit growth (% yoy)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|---------|-------|-------|-------|-------|-------|--------|-------|-------|-------|--------|-------|-------|-------|-------|-------|-------|
| Demand | 29.13 | 27.25 | 25.58 | 44.76 | 90.70 | 107.99 | 64.99 | 17.05 | -1.34 | -21.46 | 14.56 | 18.63 | 13.69 | 31.58 | 22.48 | 51.87 |
| Fixed | 27.44 | 22.18 | 42.48 | 26.89 | 66.24 | 121.19 | 86.62 | 97.10 | 51.73 | 11.05 | 5.78 | -4.85 | -6.07 | -9.71 | -8.64 | 0.90 |
| Savings | 29.61 | 31.99 | 1.64 | 10.44 | 8.82 | -3.79 | 10.65 | 1.94 | 10.09 | 31.14 | 87.60 | 77.44 | 70.92 | 64.63 | 26.20 | 25.49 |
| Total | 28.27 | 25.38 | 29.95 | 26.94 | 57.83 | 89.35 | 69.15 | 60.38 | 32.36 | 6.08 | 16.76 | 9.08 | 7.67 | 8.08 | 3.64 | 15.15 |

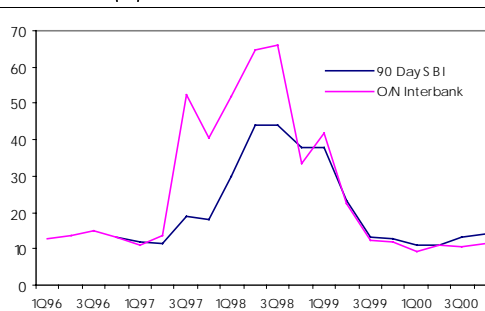
Interest Rates (%)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Prime Lending | 16.37 | 16.19 | 20.34 | 18.94 | 20.16 | 22.70 | 24.88 | 26.23 | 26.10 | 22.75 | 19.73 | 17.80 | 16.46 | 16.21 | 16.62 | 16.86 |
| Deposits | 16.47 | 15.93 | 26.22 | 23.92 | 27.26 | 40.63 | 47.38 | 49.23 | 34.85 | 27.39 | 15.88 | 12.95 | 12.40 | 11.69 | 12.84 | 13.24 |
| O/N Interbank | 10.88 | 13.67 | 52.61 | 40.67 | 51.76 | 64.59 | 66.21 | 33.44 | 41.98 | 22.55 | 12.34 | 12.06 | 9.42 | 11.12 | 10.62 | 11.41 |

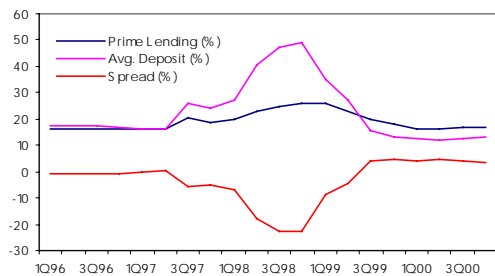
Recent market performance



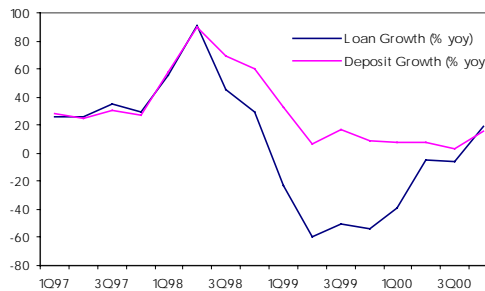
Market interest rates (%)



Average lending and deposit rates (%)



Loan and deposit growth (% yoy)



BANK MANDIRI: The way ahead**Not rated**

*Big and safe anchor banks
will thrive*

*Interest rate environment
effects on pricing and net
interest income*

Asset quality still a concern

*Post-merger Mandiri has one
of the most extensive branch
and ATM networks*

Plotting the path ahead

We met with Bank Mandiri management as part of the Asian Banks Tour for a candid discussion on how the bank is progressing through merger issues and plotting its path as the newest biggest bank in Indonesia.

Bank closures makes sense from a human resources perspective—Indonesia probably has talent for only about five good banks. If the anchor banks aren't struggling, the system will not collapse. Investors are right to be wary of marginal players—problems with BII led to a flight to safety and benefited banks like BCA and Mandiri. As a result, Mandiri increased deposits by Rp11 trillion in the first two months of this year. Mandiri targets an ROE of 25-30% after the planned capital raising later this year.

Banks with fixed-rate bonds are facing enormous pressure—Mandiri's portfolio on the other hand is 55% floating rate. The remainder is made up of 25% fixed rate recap bonds and 20% floating US-dollar hedge bonds (these bonds appreciate as the Rupiah depreciates). The bank wants to use their bulk to position around a solid deposit base and liquidity position. Every one percentage-point rise in rates hurts profits by Rp300 million.

During the recap, the bank transferred the poorest quality assets to IBRA while retaining loans that could be worked out. This strategy has been successful for them; the bank has been able to restructure over 85% of its remaining corporate loans in the last 18 months. Since the recap, the bank has pushed even more loans to IBRA (the bank takes a 25% haircut on loans under Rp5 billion) and to net provisions against loans for risk-based capital purposes. Surplus property was also transferred to a separate subsidiary and sold. Although the bank has been selling recap bonds at a 7% discount to face, these have been offset with provisions.

As a result of the merger with three other state banks all processes were revamped and new independent credit risk management put in place. Although all systems have been merged, the bank will replace them within 18 months with a new mass-market oriented core banking system. This is expected to cost Rp200 million over three years. Despite having reduced the number of branches from 745 to 546, the branch network requires further consolidation—at least 72 more branches need to be relocated or closed. The good news is that as a result of the merger, Mandiri has one of the broadest networks in Indonesia, covering 80% of the banking business in the seven major cities, and the ATM network is linked with other state banks creating a network bigger than BCA's. Operationally the bank is centralizing its back office around a hub and spoke network.

Product development has been focused mostly on core products, such as the Tahapan savings account. The bank currently has a JV with GE Capital in credit-card lending, and moving forward is starting to broaden its range, exploring a new insurance product with the Principal Group.

Bank Mandiri
 Share Price: na Index: 351.34
 52 Week Price Range: na - na Current Yield: na

Reuters Code: na
 Bloomberg Code: na Shares Outstanding (MM): na

| INCOME STATEMENT (Rp.b) year ending Dec | 1998A | 1999A | 2000E* | 2001E* | 2002E* |
|--|-----------------|----------------|----------------|----------------|----------------|
| | | | *(unaudited) | *(Co est.) | *(Co est.) |
| Interest income | 18,275 | 13,810 | 26,600 | 29,100 | 30,100 |
| Interest expense | -44,451 | -35,855 | -2,100 | -23,400 | -23,700 |
| Net interest income | -26,176 | -22,046 | 5,500 | 5,600 | 6,400 |
| <i>Ave. int. earnings assets</i> | <i>87,297</i> | <i>149,138</i> | <i>223,890</i> | <i>232,850</i> | <i>233,000</i> |
| NIM (%) | -29.99% | -14.78% | 2.46% | 2.40% | 2.75% |
| Non-interest income | 1,577 | 4,029 | 1,100 | 1,000 | 1,300 |
| Total operating income | -24,599 | -18,017 | 6,500 | 6,600 | 7,700 |
| Non-interest expense | -13,663 | -12,557 | -2,800 | -3,400 | -4,000 |
| Pre provision profit | -38,263 | -30,574 | 3,700 | 3,200 | 3,700 |
| Loan loss provisions | -85,919 | -36,302 | -1,800 | -100 | -100 |
| Non-operating income | -530 | -1,280 | 200 | 0 | 0 |
| Pre tax profit | -124,712 | -68,155 | 2,100 | 3,100 | 3,700 |
| Tax | 0 | 0 | 0 | 0 | 0 |
| Net profit | -124,712 | -68,155 | 2,100 | 3,100 | 3,700 |

| PER SHARE DATA (\$\$) | 1998A | 1999A | 2000E* | 2001E* | 2002E* |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|
| EPS | -31,178 | -16,033 | 494 | 729 | 870 |
| DPS | 139 | 0 | 0 | 0 | 0 |
| <i>Effective payout ratio (%)</i> | <i>na</i> | <i>na</i> | <i>na</i> | <i>na</i> | <i>na</i> |
| BVPS | na | 1,633 | 3,082 | 3,717 | 4,446 |
| ABVPS | na | 1,633 | 3,082 | 3,717 | 4,446 |

| VALUATION | 1998A | 1999A | 2000E* | 2001E* | 2002E* |
|----------------------------------|-------|-------|--------|--------|--------|
| Price to book value (x) | na | na | na | na | na |
| Price to adjusted book value (x) | na | na | na | na | na |
| Price to earnings (x) | na | na | na | na | na |

| PROFITABILITY RATIOS (%) | 1998A | 1999A | 2000E* | 2001E* | 2002E* |
|--------------------------------------|----------|---------|--------|--------|--------|
| Net interest margin | -29.99% | -14.78% | 2.46% | 2.40% | 2.75% |
| Yield on interest earning assets | 20.93% | 9.26% | 11.88% | 12.50% | 12.92% |
| Cost on interest bearing liabilities | 23.47% | 18.51% | 9.74% | 11.39% | 11.12% |
| Net interest spread | -2.54% | -9.25% | 2.14% | 1.11% | 1.80% |
| Non-int. income (% Op income) | na | na | 16.9% | 15.2% | 16.9% |
| Cost to income | na | na | 43.1% | 51.5% | 51.9% |
| Overhead ratio | 13.59% | 5.59% | 1.13% | 1.41% | 1.60% |
| Cost coverage | 11.5% | 32.1% | 39.3% | 29.4% | 32.5% |
| ROA | -124.05% | -30.34% | 0.85% | 1.29% | 1.48% |
| ROE | 122.9% | -98.16% | 16.0% | 19.6% | 19.6% |

| OROA ANALYSIS | 1998A | 1999A | 2000E* | 2001E* | 2002E* |
|-----------------------------------|-----------|-----------|---------------|---------------|---------------|
| Net interest margin | -29.99% | -14.78% | 2.46% | 2.40% | 2.75% |
| Non-interest inc./gross inc. | na | na | 16.67% | 15.15% | 16.88% |
| Efficiency ratio | na | na | 42.42% | 51.52% | 51.95% |
| Provision/assets | 85.46% | 16.16% | 0.73% | 0.04% | 0.04% |
| Operating return on assets | na | na | 0.97% | 1.33% | 1.55% |
| Equity/assets | na | 3.09% | 5.29% | 6.55% | 7.58% |
| Operating return on equity | na | na | 18.34% | 20.34% | 20.43% |

| BALANCE SHEET (Rp.b) year ending Dec | 1998A | 1999A | 2000E* | 2001E* | 2002E* |
|---|----------------|----------------|----------------|----------------|----------------|
| | | | *(unaudited) | *(Co est.) | *(Co est.) |
| Gross loans | 134,235 | 44,023 | 42,300 | 52,100 | 60,800 |
| <i>Specific loan loss reserves</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> |
| <i>General loan loss reserves</i> | <i>-77,686</i> | <i>-22,132</i> | <i>-16,800</i> | <i>-14,000</i> | <i>-14,600</i> |
| Net loans | 56,549 | 21,891 | 25,500 | 38,100 | 46,200 |
| Total earning assets | 30,747 | 189,089 | 211,300 | 190,800 | 190,900 |
| Other assets | 13,236 | 13,667 | 10,800 | 12,200 | 12,400 |
| Total Assets | 100,532 | 224,647 | 247,600 | 241,100 | 249,500 |
| Deposits | 152,226 | 148,006 | 163,700 | 173,400 | 185,600 |
| Other paying liabilities | 37,130 | 45,728 | 53,000 | 32,100 | 27,600 |
| Other liabilities | 13,112 | 23,963 | 24,400 | 22,400 | 20,500 |
| Total Liabilities | 202,468 | 217,697 | 241,100 | 227,900 | 233,700 |

| | | | | | |
|----------------------------|------------------|--------------|---------------|---------------|---------------|
| Minorities and Other | (493) | 7 | 0 | 0 | 0 |
| Shareholder's Funds | (101,443) | 6,944 | 13,100 | 15,800 | 18,900 |

| BALANCE SHEET RATIOS (%) | 1998A | 1999A | 2000E* | 2001E* | 2002E* |
|-----------------------------|---------|-------|--------|--------|--------|
| Loan-to-deposit | 37.1% | 14.8% | 15.6% | 22.0% | 24.9% |
| Equity to assets | -100.9% | 3.1% | 5.3% | 6.6% | 7.6% |
| Tier 1 Capital | na | 6.1% | 13.4% | 24.0% | 24.5% |
| Total Capital adequacy | na | 12.0% | 26.7% | 32.8% | 32.3% |
| Total loan provisions | 57.9% | 50.3% | 39.7% | 26.9% | 24.0% |

| ASSET QUALITY | 1998A | 1999A | 2000E* | 2001E* | 2002E* |
|----------------------|-------|--------|--------|--------|--------|
| Nonperforming assets | na | 35,219 | 21,050 | 10,850 | na |
| Special mention | na | 4,033 | 11,210 | 9,160 | na |
| Substandard | na | 5,398 | 6,850 | 830 | na |
| Doubtful | na | 4,400 | 590 | 290 | na |
| Loss | na | 21,389 | 2,400 | 570 | na |
| ORE | na | na | na | na | na |

| | | | | | |
|--------------------------|----|-------|-------|--------|----|
| NPA's/total loans | na | 15.7% | 8.5% | 4.5% | na |
| Reserve coverage of NPAs | na | 62.8% | 79.8% | 129.0% | na |

| | | | | | |
|-----------------------------|----|--------|----------|----------|----|
| Required reserves | na | 24,958 | 4,838 | 1,752 | na |
| Actual reserves | na | 22,132 | 16,800 | 14,000 | na |
| Shortfall (surplus) | na | 2,826 | (11,962) | (12,249) | na |
| Actual to required reserves | na | 89% | 347% | 799% | na |
| Shortfall to capital | na | 41% | -91% | -78% | na |

| GROWTH RATES (%) | 1998A | 1999A | 2000E* | 2001E* | 2002E* |
|-------------------------|-------|---------------|----------------|--------------|--------------|
| <i>Income statement</i> | | | | | |
| Net interest income | | -24.4% | 92.6% | 9.4% | 3.4% |
| Non-interest income | | 155.5% | -72.7% | -9.1% | 30.0% |
| Total operating income | | -27% | -136% | 2% | 17% |
| Non-interest expenses | | -8.1% | -77.7% | 21.4% | 17.6% |
| Pre-provision earnings | | -20.1% | -112.1% | -13.5% | 15.6% |
| Loan loss provisions | | -57.7% | -95.0% | -94.4% | 0.0% |
| Net profit | | -45.3% | -103.1% | 47.6% | 19.4% |

| Balance sheet | 1998A | 1999A | 2000E* | 2001E* | 2002E* |
|-------------------------|-------|---------|--------|--------|--------|
| Loan growth | | -6.13% | 16.5% | 49.4% | 21.3% |
| Interest earning assets | | 14.17% | 12.2% | -3.3% | 3.6% |
| Asset growth | | 123.5% | 10.2% | -2.6% | 3.5% |
| Deposit growth | | -2.8% | 10.6% | 5.9% | 7.0% |
| Shareholders funds | | -106.8% | 88.7% | 20.6% | 19.6% |

BANK CENTRAL ASIA: Diamond in the rough**1-Strong buy**

Parliament approves sale of 40% of BCA currently held by IBRA

The only significant loan growth at the moment comes from buying IBRA assets

The bank is maintaining its convenience proposition and expanding its retail franchise

We met with BCA management during the Asian Banks Tour to discuss how the bank has progressed since its partial re-sale to the public last year.

The government recently approved the re-sale of half of the remaining 80% IBRA stake in BCA. Given existing market conditions however, a public offer is questionable, and if the government pursues a strategic investor, then management will lose control. At the shareholders' meeting later this year, the bank plans to propose a quasi-reorganization allowing it to pay dividends, by eliminating the accumulated deficit, and allowing the stock to be re-listed on the JSX main board.

The loan growth outlook continues to be weak, although on a relative basis growth looks good (BCA's loan to deposit ratio is only 7%). The bank is targeting consumer, and corporate/SME lending to companies in the export trading, service, and agricultural sectors. In the corporate segment, loan demand remains weak with total loans drawn down to only 50% of credit limits. Management targets of Rp32 trillion in interest revenues are looking quite soft. Although some foreign competitors have left the market, competition for business is increasing.

The only significant sources of loan growth have come from the purchase of two tranches of loans from IBRA last year in open bidding; the first in June for 76.2% of face, (approximately \$13.2 million) and the second in December for 50.5% of face (approximately \$21.0 million). The bank also made a direct purchase of US\$50 million in dollar loans in April of 2000 at 100% of face.

BCA has revamped 165 branches with their new retail layout and continues to improve their ATM and Debit/TUNAI network by adding transaction features and letting BCA cardholders withdraw cash from their accounts at participating merchants. Currently, BCA processes 600,000 ATM transactions and 1.75 million non-ATM transactions daily.

BCA recently imposed minimum balances on its accounts¹ but has managed to retain customers due to their strong convenience proposition. The bank has continued to roll off time deposits and high-cost funds, in order to maintain funding costs rather than increase assets.

Operationally, BCA is further consolidating its branch network. It plans to close another 40 branches, reflecting continued customer migration to automated channels. The bank aims to add a further 250 ATMs to the existing 2,072 over the next two years and is considering opening up the ATM network to other banks for a fee.

¹ For full details of the fee structure change, please see our note of 10/27/00

| BCA | | | | | | Reuters Code: BBCA.JK | | | | | |
|--------------------------------------|------------|----------|----------|----------|----------|-----------------------------------|-----------|---------|---------|---------|---------|
| Share Price: 1,625 | | | | | | Index: 351.34 | | | | | |
| 52 Week Price Range: 1,875 - 1,400 | | | | | | Current Yield: 0.0% | | | | | |
| Bloomberg Code: BBKA IJ | | | | | | Shares Outstanding (MM): 2,943.99 | | | | | |
| INCOME STATEMENT | | | | | | BALANCE SHEET | | | | | |
| (Rp.b) year ending Dec | | | | | | (Rp.b) year ending Dec | | | | | |
| Interest income | 15,933 | 13,933 | 10,333 | 10,750 | 11,152 | Gross loans | 58,167 | 4,142 | 7,053 | 10,526 | 14,737 |
| Interest expense | 31,023 | 18,311 | 8,846 | 8,734 | 8,525 | Loan loss reserves | 10,158 | 320 | 345 | 454 | 681 |
| Net interest income | -15,090 | -4,379 | 1,487 | 2,016 | 2,627 | Net loans | 39,798 | 3,781 | 6,646 | 9,989 | 13,939 |
| Ave. int. earnings assets | 48,054 | 65,760 | 85,498 | 89,639 | 96,807 | Total earning assets | 47,605 | 83,915 | 87,081 | 92,198 | 101,417 |
| NIM (%) | -31.40% | -6.66% | 1.74% | 2.25% | 2.71% | Other assets | 19,077 | 12,535 | 10,863 | 11,502 | 12,652 |
| Non-interest income | -3,480 | 6,237 | 1,268 | 1,432 | 1,517 | Total Assets | 66,682 | 96,450 | 97,945 | 103,699 | 114,069 |
| Total operating income | -18,570 | 1,858 | 2,754 | 3,448 | 4,144 | Deposits | 57,604 | 88,803 | 88,055 | 89,365 | 100,089 |
| Non-interest expense | -1,104 | -1,242 | -1,483 | -1,698 | -1,928 | Other paying liabilities | 33,649 | 3,080 | 3,522 | 3,575 | 4,004 |
| Pre provision profit | -19,675 | 616 | 1,271 | 1,751 | 2,216 | Other liabilities | 2,199 | 4,142 | 2,633 | 5,365 | 2,378 |
| Loan loss provisions | -9,980 | -382 | -50 | -200 | -300 | Total Liabilities | 93,452 | 94,026 | 94,209 | 98,305 | 106,471 |
| Non-operating income | 0 | 0 | 0 | 0 | 0 | Equity with revaluation | (26,770) | 5,121 | 6,208 | 7,604 | 9,233 |
| Pre tax profit | -29,655 | 234 | 1,221 | 1,551 | 1,916 | Adjusted equity | (26,770) | 2,425 | 3,735 | 5,395 | 7,598 |
| Tax | 0 | 407 | -188 | -155 | -287 | BALANCE SHEET RATIOS | 1998A | 1999A | 2000E | 2001E | 2002E |
| Net profit | -29,655 | 641 | 1,033 | 1,396 | 1,629 | (%) | | | | | |
| Core earnings | -29,655 | 641 | 1,033 | 1,396 | 1,629 | Loan-to-deposit | 86.7% | 4.7% | 7.9% | 11.7% | 14.6% |
| PER SHARE DATA (\$\$) | 1998A | 1999A | 2000E | 2001E | 2002E | Equity to assets | -40.1% | 5.3% | 6.3% | 7.3% | 8.1% |
| EPS | (10,076) | 217.90 | 351.08 | 474.24 | 553.42 | Tier 1 Capital | - | - | - | - | - |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | Total Capital adequacy | - | - | - | - | - |
| Effective payout ratio (%) | 0% | 0% | 0% | 0% | 0% | Total loan provisions | 20.33% | 7.79% | 4.93% | 4.35% | 4.66% |
| BVPS | (9,096.02) | 1,740.07 | 2,109.58 | 2,583.82 | 3,137.24 | ASSET QUALITY | 1998A | 1999A | 2000E | 2001E | 2002E |
| ABVPS | (9,096.02) | 823.84 | 1,269.24 | 1,833.07 | 2,581.81 | Nonperforming assets | 52,737 | 948 | 384 | 401 | 627 |
| VALUATION | 1998A | 1999A | 2000E | 2001E | 2002E | Special mention | - | - | 50 | 52 | 84 |
| Price to book value (x) | NM | NM | 0.8 | 0.6 | 0.5 | Substandard | - | - | 202 | 210 | 339 |
| Price to adjusted book value (x) | NM | NM | 1.3 | 0.9 | 0.6 | Doubtful | - | - | 103 | 107 | 143 |
| Price to earnings (x) | NM | NM | 4.6 | 3.4 | 2.9 | Loss | - | - | 26 | 27 | 36 |
| PROFITABILITY RATIOS | 1998A | 1999A | 2000E | 2001E | 2002E | ORE | 4,058 | 49 | 3 | 5 | 25 |
| (%) | | | | | | NPAs/total loans | 105.6% | 23.1% | 6.2% | 5.8% | 4.3% |
| Net interest margin | -31.40% | -6.66% | 1.74% | 2.25% | 2.71% | Reserve coverage of NPAs | 19.3% | 33.7% | 80.1% | 75.1% | 108.6% |
| Yield on interest earning assets | 33.47% | 16.60% | 11.87% | 11.66% | 11.00% | Required reserves | n.a | n.a | 188 | 228 | 326 |
| Cost on interest bearing liabilities | 34.00% | 20.37% | 9.66% | 9.40% | 8.19% | Actual reserves | n.a | n.a | 345 | 454 | 681 |
| Net interest spread | -0.53% | -3.77% | 2.21% | 2.26% | 2.81% | Shortfall (surplus) | n.a | n.a | (157) | (226) | (355) |
| Non-int. income (% Op income) | 18.7% | 335.6% | 46.0% | 41.5% | 36.6% | Actual to required reserves | n.a | n.a | 183% | 199% | 209% |
| Cost to income | -5.9% | 66.8% | 53.8% | 49.2% | 46.5% | Shortfall to capital | n.a | n.a | -3% | -3% | -4% |
| Overhead ratio | 2.30% | 1.89% | 1.73% | 1.89% | 1.99% | GROWTH RATES | 1998A | 1999A | 2000E | 2001E | 2002E |
| Cost coverage | -315.1% | 502.2% | 85.5% | 84.4% | 78.7% | (%) | | | | | |
| ROA | -49.59% | 0.79% | 1.06% | 1.38% | 1.50% | Income statement | | | | | |
| ROE | 239.4% | -5.3% | 33.5% | 30.6% | 25.1% | Net interest income | -1996.2% | -71.0% | -133.9% | 35.6% | 30.3% |
| OROA ANALYSIS | 1998A | 1999A | 2000E | 2001E | 2002E | Non-interest income | -633.9% | -279.2% | -79.7% | 13.0% | 5.9% |
| Net interest margin | -31.40% | -6.66% | 1.74% | 2.25% | 2.71% | Total operating income | -1382.8% | -110.0% | 48.2% | 25.2% | 20.2% |
| Non-interest inc./gross inc. | 18.74% | 335.62% | 46.03% | 41.54% | 36.61% | Non-interest expenses | 27.4% | 12.5% | 19.4% | 14.5% | 13.6% |
| Efficiency ratio | -5.95% | 66.83% | 53.84% | 49.23% | 46.53% | Pre-provision earnings | -3486.3% | -103.1% | 106.3% | 37.7% | 26.6% |
| Provision/assets | 14.97% | 0.40% | 0.05% | 0.19% | 0.26% | Loan loss provisions | 2708.4% | -96.2% | -86.9% | 300.0% | 50.0% |
| Operating return on assets | -55.91% | 0.54% | 1.44% | 1.76% | 2.03% | Core earnings | -19652.4% | -102.2% | 61.1% | 35.1% | 16.7% |
| Equity/assets | -40.15% | 5.31% | 6.34% | 7.33% | 8.09% | Net profit | -19652% | -102.2% | 61.1% | 35.1% | 16.7% |
| Operating return on equity | 139.27% | 10.19% | 22.66% | 24.00% | 25.03% | Balance sheet | | | | | |
| | | | | | | Loan growth | 25.1% | -91.8% | 70.4% | 49.4% | 40.0% |
| | | | | | | Interest earning assets | -1.9% | 76.3% | 3.8% | 5.9% | 10.0% |
| | | | | | | Asset growth | 26.0% | 44.6% | 1.5% | 5.9% | 10.0% |
| | | | | | | Deposit growth | 31.0% | 50.7% | 1.4% | 1.5% | 12.0% |
| | | | | | | Shareholders funds | -1444.8% | -119.1% | 21.2% | 22.5% | 21.4% |

LIPPO BANK: Good and Riady**2-Buy**

The bank's quality means it should be one of the last banks standing

After meeting with LippoBank as part of the Asian Banks Tour we left impressed with the quality of management and the bank's progression towards international standards.

Management frankly (and somewhat proudly) stated that the bank's focus has now shifted from survival to profitability. They point to an AC Nielsen study of consumers' attitudes about banks that found the market perceives BCA, BNI, Lippo, and BRI as "good banks." Customers choose banks on this perception and on location of branches and ATMs. Pricing is way down the list. Reflecting this, the bank dumped Rp2 trillion of term deposits with negative margins and by carefully managing liquidity and cost of funds, is achieving vastly increased profitability—cost of funds at year-end 1999 was 19.1%, while at year-end 2000 it was 7.1%. Lippo has a strong capital position and is targeting year-end CAR of 12% this year. The bank is also considering issuing warrants as a way to induce investors to take a risk-adjusted position in Indonesia.

Asset quality continues to be aggressively managed

Of the bank's NPLs, precautionary and substandard loans are generally improving, while delinquent and estimated loss loans will be aggressively written off. LippoBank exposure to the current APP liquidity crisis is modest with US\$3 million to Tjiwi Kima (100% provided for) and US\$10 million exposure to Indah Kiat (50% provided for). On the funding side, the bank repaid \$70 million of foreign exchange debt in February prior to requirements. The bank is seeking to grow assets through cautious purchase of IBRA loans and may acquire a smaller bank in the Rp.8-10 trillion size range. Lippo has sold Rp200 billion worth of recap bonds at around 91-92% of face and hopes to sell Rp500 billion more.

Growing the retail business

Lippo currently has 2.7 million clients which it hopes to grow to 4 million over the next three years. A focussed SME lending program targets only a few industries: consumer products, food & beverages, pharmaceuticals, cosmetics & household products, tobacco, and chemicals. Management are also aggressively pursuing credit cards; with 100,000 credit card customers currently, the bank hopes to acquire 250,000 by the end of three years. Lippo has also had successes with the VISA Electron debit card launched April 2000 and now has 1.3 million cards outstanding². The bank is re-branding and upgrading, re-locating and closing branches. Redesign of the branch structure has eliminated an entire level of management through moving regional offices into the largest branch. Management is expanding the ATM network, adding 40 new ATMs to the existing 700 strong network with a final target of 1,000. The bank plans to grow fee income 50% YoY.

Can Lippo do it alone?

ING has moved from man-on-man coverage (i.e., one ING advisor for each director and senior manager) to maintaining 4-5 senior advisors and the rest as product-driven executives. The ING management contract ends in November of 2001 - Mr. Clyne's contract with Lippo Bank is up in June of 2001.

² Please see our note of November 1, 2000 for full details on this program

| Lippo Bank | | | | | | Reuters Code: LPBN.JK | | | | | | | | | |
|--------------------------------------|------------|----------------|--------|----------------|--------|---|----------|-----------------|---------|---------|--------|--------------------------|--|-----------|--|
| Share Price: | | 40.00 | | Index: | | 351.34 <th colspan="2">Bloomberg Code:</th> <td colspan="2">LPBN.IJ</td> <td colspan="2">Shares Outstanding (MM):</td> <td colspan="2">39,157.33</td> | | Bloomberg Code: | | LPBN.IJ | | Shares Outstanding (MM): | | 39,157.33 | |
| 52 Week Price Range: | | 150.00 - 35.00 | | Current Yield: | | 0.0% | | | | | | | | | |
| INCOME STATEMENT | | | | | | BALANCE SHEET | | | | | | | | | |
| (Rp.b) year ending Dec | | | | | | (Rp.b) year ending Dec | | | | | | | | | |
| | 1998A | 1999A | 2000A | 2001E | 2002E | | 1998A | 1999A | 2000A | 2001E | 2002E | | | | |
| Interest income | 3,605 | 2,481 | 2,022 | 2,464 | 2,898 | Gross loans | 9,490 | 4,245 | 3,553 | 4,437 | 6,212 | | | | |
| Interest expense | 4,873 | 3,589 | 1,392 | 1,596 | 1,835 | Loan loss reserves | 4,930 | 1,068 | 410 | 462 | 506 | | | | |
| Net interest income | -1,269 | -1,108 | 630 | 868 | 1,063 | Net loans | 4,517 | 3,018 | 3,004 | 3,975 | 5,706 | | | | |
| Ave. int. earnings assets | 10,030 | 12,828 | 16,924 | 19,552 | 25,197 | Total earning assets | 8,810 | 16,847 | 17,002 | 22,102 | 28,291 | | | | |
| NIM (%) | -1.265% | -8.64% | 3.72% | 4.44% | 4.22% | Other assets | 6,271 | 6,932 | 5,626 | 3,919 | 1,634 | | | | |
| Non-interest income | 595 | 196 | 141 | 162 | 179 | Total Assets | 15,080 | 23,779 | 22,627 | 26,021 | 29,925 | | | | |
| Total operating income | -674 | -913 | 771 | 1,030 | 1,242 | Deposits | 18,549 | 18,066 | 18,658 | 21,457 | 24,675 | | | | |
| Non-interest expense | -879 | -801 | -763 | -863 | -942 | Other paying liabilities | 757 | 580 | 424 | 858 | 987 | | | | |
| Pre provision profit | -1,553 | -1,713 | 8 | 167 | 300 | Other liabilities | 2,098 | 4,617 | 2,392 | 2,442 | 2,740 | | | | |
| Loan loss provisions | -6,801 | -114 | 182 | -75 | -75 | Total Liabilities | 21,405 | 23,263 | 21,474 | 24,758 | 28,402 | | | | |
| Non-operating income | 1 | 0 | 23 | 0 | 0 | Equity with revaluation | (5,048) | 2,313 | 2,533 | 2,616 | 2,807 | | | | |
| Pre tax profit | -8,354 | -1,827 | 190 | 92 | 225 | Adjusted equity | (6,325) | 517 | 1,153 | 1,264 | 1,522 | | | | |
| Tax | 651 | 187 | 34 | -9 | -34 | BALANCE SHEET RATIOS | | | | | | | | | |
| Net profit | -7,702 | -1,640 | 246 | 83 | 191 | (%) | 1998A | 1999A | 2000A | 2001E | 2002E | | | | |
| Core earnings | -7,703 | -1,640 | 223 | 83 | 191 | Loan-to-deposit | 50.9% | 22.6% | 18.3% | 20.7% | 25.2% | | | | |
| PER SHARE DATA (\$\$) | | | | | | Equity to assets | -33.5% | 9.7% | 11.2% | 10.1% | 9.4% | | | | |
| EPS | (1,703.46) | (41.88) | 6.29 | 2.12 | 4.88 | Tier 1 Capital | - | - | - | - | - | | | | |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | Total Capital adequacy | - | - | - | - | - | | | | |
| Effective payout ratio (%) | 0% | 0% | 0% | 0% | 0% | Total loan provisions | 52.19% | 26.14% | 12.00% | 10.42% | 8.15% | | | | |
| BVPS | (1,116.44) | 59.08 | 64.69 | 66.80 | 71.68 | ASSET QUALITY | | | | | | | | | |
| ABVPS | (1,398.77) | 13.19 | 29.46 | 32.28 | 38.88 | Nonperforming assets | n.a. | 5,453 | 2,665 | 2,132 | 1,493 | | | | |
| VALUATION | | | | | | Special mention | - | 856 | 1,385 | 1,108 | 775 | | | | |
| Price to book value (x) | -0.4 | 6.8 | 0.6 | 0.6 | 0.6 | Substandard | - | 647 | 644 | 516 | 361 | | | | |
| Price to adjusted book value (x) | -0.3 | 30.3 | 1.4 | 1.2 | 1.0 | Doubtful | - | 1,147 | 229 | 184 | 129 | | | | |
| Price to earnings (x) | -0.2 | -9.6 | 6.4 | 18.9 | 8.2 | Loss | - | 99 | 407 | 325 | 228 | | | | |
| PROFITABILITY RATIOS | | | | | | ORE | 2,455 | 2,704 | - | - | - | | | | |
| (%) | 1998A | 1999A | 2000A | 2001E | 2002E | NPA's/total loans | n.a. | 133.5% | 78.1% | 48.1% | 24.0% | | | | |
| Net interest margin | -12.65% | -8.64% | 3.72% | 4.44% | 4.22% | Reserve coverage of NPAs | n.a. | 19.6% | 15.4% | 21.7% | 33.9% | | | | |
| Yield on interest earning assets | 40.92% | 14.72% | 11.89% | 11.15% | 10.24% | Required reserves | n.a. | 1,400 | 729 | 599 | 450 | | | | |
| Cost on interest bearing liabilities | 25.24% | 19.25% | 7.29% | 7.15% | 7.15% | Actual reserves | n.a. | 1,068 | 410 | 462 | 506 | | | | |
| Net interest spread | 15.68% | -4.52% | 4.60% | 4.00% | 3.09% | Shortfall (surplus) | n.a. | 332 | 319 | 136 | (56) | | | | |
| Non-int. income (% Op income) | -88.4% | -21.5% | 18.3% | 15.7% | 14.4% | Actual to required reserves | n.a. | 76% | 56% | 77% | 112% | | | | |
| Cost to income | -130.6% | -87.7% | 99.0% | 83.8% | 75.9% | Shortfall to capital | n.a. | 14% | 13% | 5% | -2% | | | | |
| Overhead ratio | 8.77% | 6.24% | 4.51% | 4.41% | 3.74% | GROWTH RATES | | | | | | | | | |
| Cost coverage | 67.7% | 24.5% | 18.4% | 18.7% | 19.0% | (%) | 1998A | 1999A | 2000A | 2001E | 2002E | | | | |
| ROA | -54.94% | -8.44% | 1.06% | 0.34% | 0.68% | Income statement | | | | | | | | | |
| ROE | 289.5% | 56.5% | 29.5% | 6.9% | NM | Net interest income | -326.1% | -12.6% | -156.9% | 37.7% | 22.4% | | | | |
| OROA ANALYSIS | | | | | | Non-interest income | 259.8% | -67.1% | -28.1% | 14.9% | 10.7% | | | | |
| (%) | 1998A | 1999A | 2000A | 2001E | 2002E | Total operating income | -192.7% | 35.5% | -184.5% | 33.6% | 20.6% | | | | |
| Net interest margin | -12.65% | -8.64% | 3.72% | 4.44% | 4.22% | Non-interest expenses | 108.3% | -9.0% | -4.7% | 13.0% | 9.2% | | | | |
| Non-interest inc./gross inc. | -88.36% | -21.47% | 18.26% | 15.70% | 14.42% | Pre-provision earnings | -610.4% | 10.3% | -100.4% | 2094.6% | 79.5% | | | | |
| Efficiency ratio | -130.6% | -87.7% | 99.0% | 83.8% | 75.9% | Loan loss provisions | 4970.9% | -98.3% | -259.2% | -141.2% | 0.0% | | | | |
| Provision/assets | 45.10% | 0.48% | -0.80% | 0.29% | 0.25% | Core earnings | -6660.1% | -78.7% | -113.6% | -62.9% | 130.8% | | | | |
| Operating return on assets | -60.58% | -13.84% | 0.85% | 0.57% | 0.94% | Net profit | -6621% | -78.7% | -115.0% | -66.4% | 130.8% | | | | |
| Equity/assets | -33.47% | 9.73% | 11.19% | 10.05% | 9.38% | Balance sheet | | | | | | | | | |
| Operating return on equity | 181.0% | -142.2% | 7.6% | 5.6% | 10.0% | Loan growth | -9.5% | -56.7% | -16.5% | 30.0% | 40.0% | | | | |
| | | | | | | Interest earning assets | -21.7% | 91.2% | 0.9% | 30.0% | 28.0% | | | | |
| | | | | | | Asset growth | 16.4% | 57.7% | -4.8% | 15.0% | 15.0% | | | | |
| | | | | | | Deposit growth | 65.6% | -2.6% | 3.3% | 15.0% | 15.0% | | | | |
| | | | | | | Shareholders funds | -603.3% | -145.8% | 9.5% | 3.3% | 7.3% | | | | |

PANIN BANK: Last man standing**3-Market Perform**

BANK PANIN
THE FIRST MERGER AND PUBLIC BANK IN INDONESIA

A re-focus around service

Targeting high net-worth individuals to increase cross-sell ratios

Asset quality

As part of the Asian Banks Tour, we met with management of Panin Bank to discuss The bank's strategy and new customer focus.

Management wants to make Panin Bank one of the top five or six retail banks in Indonesia. In the past, Panin has been low-profile, but management are determined to changing that in a studied way by concentrating on re-jigging the bank's distribution channels. Up to 68% of customers choose a bank based on the convenience of distribution channels. Panin will seek to extend organically from its 113-branch network at the rate of approximately 10 or 15 branches per year. You wouldn't have found Panin branches around the Stock Exchange, the new business districts, or the high-net-worth areas—but you will now. The Bank's demographic is older, which is good, as these customers are loyal and keep higher balances although there are fewer per branch. The bank has also focused on improving operations with the launch of new phone banking services and call center.

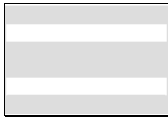
The bank also sees itself as capable of getting into the consolidation game over the next few months if opportunities present themselves.

The new strategy targets mid-to-upper net worth consumers with both deposit-like and loan products. On the funding side, management is promoting a new investment product that effectively securitizes recap bonds: the bank takes a spread of 3-4%, pays no deposit insurance, and avoids taxes on interest. Panin took in Rp2 trillion in funds in the first 30 days of this product—50% of these funds were new to the bank. In lending, the bank still does not do unsecured lending, which limits the downside. Learning from past mistakes, collection and administration is now very stringent. Car loans are scored—but not yet automated—based on data from ANZ's experience in emerging markets, particularly with Grindlays. The bank's loan portfolio is focused on expanding into the retail and services sector. These changes have not been easy for the bank, but it expects to double the percentage of these loans to 40% within three years. But the bank is targeting the cross-sell as the end game: when you can cross-sell someone a product and make fee income, that's a much more efficient use of capital.

BI regulations say that the bank must reduce its NPLs from 35% to 5% by year-end. Panin is positive on asset quality given that extraordinary provisions it has made in recent years against the economic turmoil in its home market will end this year. Provisions are currently targeted at Rp2 trillion this year, up from Rp1 trillion last year.

Exposure to maturing foreign currency debt at the bank has been covered by exchange bonds that mature at the same time as any off-shore borrowing.

| Panin | | | | | | Reuters Code: PNBK.JK | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|---|--------------|--------------|--------------|--------------|--------------|
| Share Price: 165.00 Index: 351.34 | | | | | | Bloomberg Code: PNBK JI Shares Outstanding (MM): 5,955.55 | | | | | |
| 52 Week Price Range: 400.00 - 95.00 Current Yield: 0.0% | | | | | | | | | | | |
| INCOME STATEMENT | | | | | | BALANCE SHEET | | | | | |
| <i>(Rp.b) year ending Dec</i> | | | | | | <i>(Rp.b) year ending Dec</i> | | | | | |
| | <u>1998A</u> | <u>1999A</u> | <u>2000E</u> | <u>2001E</u> | <u>2002E</u> | | <u>1998A</u> | <u>1999A</u> | <u>2000E</u> | <u>2001E</u> | <u>2002E</u> |
| Interest income | 2,781 | 1,652 | 1,223 | 1,276 | 1,405 | Gross loans | 5,090 | 4,489 | 8,161 | 9,161 | 10,250 |
| Interest expense | <u>2,322</u> | <u>1,130</u> | <u>794</u> | <u>836</u> | <u>870</u> | Loan loss reserves | 518 | 848 | 1,057 | 1,311 | 1,560 |
| Net interest income | <u>459</u> | <u>522</u> | <u>429</u> | <u>439</u> | <u>535</u> | Net loans | 4,543 | 3,430 | 7,104 | 7,849 | 8,690 |
| Ave. int. earnings assets | 8,335 | 9,755 | 11,008 | 12,384 | 13,520 | Total earning assets | 9,335 | 10,175 | 11,841 | 12,927 | 14,112 |
| NIM (%) | 5.50% | 5.35% | 3.90% | 3.55% | 3.96% | Other assets | 1,072 | 1,160 | 1,064 | 1,010 | 940 |
| Non-interest income | 204 | 72 | 215 | 232 | 250 | Total Assets | 10,407 | 11,335 | 12,905 | 13,937 | 15,052 |
| Total operating income | <u>663</u> | <u>594</u> | <u>644</u> | <u>671</u> | <u>786</u> | Deposits | 6,347 | 6,578 | 7,149 | 7,864 | 8,651 |
| Non-interest expense | -180 | -188 | -193 | -207 | -223 | Other paying liabilities | 2,496 | 1,722 | 2,918 | 3,210 | 3,028 |
| Pre provision profit | <u>483</u> | <u>406</u> | <u>451</u> | <u>464</u> | <u>563</u> | Other liabilities | 209 | 1,096 | 596 | 159 | 82 |
| Loan loss provisions | -446 | -451 | -400 | -300 | -300 | Total Liabilities | 9,051 | 9,396 | 10,663 | 11,233 | 11,761 |
| Non-operating income | -31 | 83 | 0 | 0 | 0 | Equity with revaluation | 1,360 | 2,873 | 2,908 | 3,056 | 3,293 |
| Pre tax profit | <u>8</u> | <u>36</u> | <u>51</u> | <u>164</u> | <u>263</u> | Adjusted equity | 1,356 | 1,938 | 2,241 | 2,704 | 3,291 |
| Tax | -2 | -2 | -3 | -16 | -26 | BALANCE SHEET RATIOS | <u>1998A</u> | <u>1999A</u> | <u>2000E</u> | <u>2001E</u> | <u>2002E</u> |
| Net profit | <u>4</u> | <u>35</u> | <u>48</u> | <u>148</u> | <u>237</u> | (%) | | | | | |
| Core earnings | <u>29</u> | <u>-43</u> | <u>48</u> | <u>148</u> | <u>237</u> | Loan-to-deposit | 79.7% | 65.0% | 114.1% | 116.5% | 118.5% |
| PER SHARE DATA (\$\$) | <u>1998A</u> | <u>1999A</u> | <u>2000E</u> | <u>2001E</u> | <u>2002E</u> | Equity to assets | 13.1% | 25.3% | 22.5% | 21.9% | 21.9% |
| EPS | 2.55 | 5.93 | 8.06 | 24.65 | 39.48 | Tier 1 Capital | - | - | - | - | - |
| DPS | 16.87 | 0.00 | 0.00 | 0.00 | 0.00 | Total Capital adequacy | - | - | - | - | - |
| Effective payout ratio (%) | 66.1% | 0% | 0% | 0% | 0% | Total loan provisions | 10.23% | 19.83% | 12.95% | 14.31% | 15.22% |
| BVPS | 847.33 | 482.45 | 485.18 | 509.83 | 549.31 | ASSET QUALITY | <u>1998A</u> | <u>1999A</u> | <u>2000E</u> | <u>2001E</u> | <u>2002E</u> |
| ABVPS | 844.98 | 325.44 | 373.95 | 451.14 | 549.05 | Nonperforming assets | n.a. | 3,329 | 3,137 | 3,037 | 2,727 |
| VALUATION | <u>1998A</u> | <u>1999A</u> | <u>2000E</u> | <u>2001E</u> | <u>2002E</u> | Special mention | - | 814 | 573 | 545 | 490 |
| Price to book value (x) | 0.5 | 1.4 | 0.3 | 0.3 | 0.3 | Substandard | - | 487 | 537 | 510 | 459 |
| Price to adjusted book value (x) | 0.5 | 1.4 | 0.4 | 0.4 | 0.3 | Doubtful | - | 515 | 684 | 650 | 585 |
| Price to earnings (x) | 111.3 | 102.0 | 20.5 | 6.7 | 4.2 | Loss | - | 1,338 | 1,154 | 1,097 | 987 |
| PROFITABILITY RATIOS | <u>1998A</u> | <u>1999A</u> | <u>2000E</u> | <u>2001E</u> | <u>2002E</u> | ORE | 137 | 175 | 189 | 236 | 207 |
| (%) | | | | | | NPAs/total loans | n.a. | 77.8% | 38.4% | 33.2% | 26.6% |
| Net interest margin | 5.50% | 5.35% | 3.90% | 3.55% | 3.96% | Reserve coverage of NPAs | n.a. | 25.5% | 33.7% | 43.2% | 57.2% |
| Yield on interest earning assets | 29.79% | 16.23% | 10.33% | 9.87% | 9.96% | Required reserves | n.a. | 1,782 | 1,722 | 1,661 | 1,514 |
| Cost on interest bearing liabilities | 26.26% | 13.61% | 7.88% | 7.55% | 7.45% | Actual reserves | n.a. | 848 | 1,057 | 1,311 | 1,560 |
| Net interest spread | 3.53% | 2.62% | 2.44% | 2.32% | 2.51% | Shortfall (surplus) | n.a. | 933 | 665 | 350 | (46) |
| Non-int. income (% Op income) | 30.8% | 12.1% | 33.3% | 34.5% | 31.9% | Actual to required reserves | n.a. | 48% | 61% | 79% | 103% |
| Cost to income | 28.4% | 27.8% | 30.0% | 30.8% | 28.3% | Shortfall to capital | n.a. | 32% | 23% | 11% | -1% |
| Overhead ratio | 2.16% | 1.93% | 1.75% | 1.67% | 1.65% | GROWTH RATES | <u>1998A</u> | <u>1999A</u> | <u>2000E</u> | <u>2001E</u> | <u>2002E</u> |
| Cost coverage | 113.4% | 38.2% | 111.3% | 111.9% | 112.4% | (%) | | | | | |
| ROA | 0.04% | 0.33% | 0.40% | 1.10% | 1.63% | <u>Income statement</u> | | | | | |
| ROE | 0.3% | 2.1% | 2.3% | 6.0% | 7.9% | Net interest income | 11.7% | 13.7% | -17.8% | 2.4% | 21.8% |
| OROA ANALYSIS | <u>1998A</u> | <u>1999A</u> | <u>2000E</u> | <u>2001E</u> | <u>2002E</u> | Non-interest income | 128.4% | -12.4% | 39.6% | 8.0% | 8.0% |
| (%) | | | | | | Total operating income | 30.1% | 6.5% | -4.7% | 4.3% | 17.1% |
| Net interest margin | 5.50% | 5.35% | 3.90% | 3.55% | 3.96% | Non-interest expenses | 36.8% | 4.5% | 2.5% | 7.4% | 7.6% |
| Non-interest inc./gross inc. | 27.66% | 22.75% | 33.34% | 34.53% | 31.86% | Pre-provision earnings | 27.6% | 7.3% | -7.5% | 3.0% | 21.3% |
| Efficiency ratio | 28.38% | 27.84% | 29.96% | 30.84% | 28.35% | Loan loss provisions | 112.9% | 1.1% | -11.4% | -25.0% | 0.0% |
| Provision/assets | 4.29% | 3.98% | 3.10% | 2.15% | 1.99% | Core earnings | -71.2% | -247.8% | -213.5% | 205.8% | 60.2% |
| Operating return on assets | 1.16% | 1.02% | 1.00% | 1.60% | 2.17% | Net profit | -96.0% | 762.8% | 36.7% | 205.8% | 60.2% |
| Equity/assets | 13.07% | 25.35% | 22.54% | 21.93% | 21.87% | <u>Balance sheet</u> | | | | | |
| Operating return on equity | 8.9% | 4.0% | 4.4% | 7.3% | 9.9% | Loan growth | 22.2% | -15.5% | 90.8% | 12.3% | 11.9% |
| | | | | | | Interest earning assets | 27.3% | 9.0% | 16.4% | 9.2% | 9.2% |
| | | | | | | Asset growth | 31.9% | 8.9% | 13.9% | 8.0% | 8.0% |
| | | | | | | Deposit growth | 52.9% | 3.8% | 8.7% | 10.0% | 10.0% |
| | | | | | | Shareholders funds | 31.8% | 111.3% | 1.2% | 5.1% | 7.7% |

THAI BANKS**Underweight**

National AMC has good potential—but may not help as much as originally thought

Finally there is some cause for optimism in Thailand. Although the general situation is still grim in spots, we finally see signs from banks' managements that the bank sector is ready to join with the Thaksin government in digging its way out.

Key points from our meetings:

Bankers are generally enthusiastic about the Thai AMC (TAMC)—and who could blame them? They will have some of their past sins washed away, with any potential downside through gain and loss sharing conveniently postponed out past mid-decade. A caveat to the initial wild TAMC optimism is that most banks' current estimates of how much of their NPLs will qualify under the TAMC transfer criteria are lower than originally hoped.

Margins still depressed

A combination of government pressure to keep deposit rates high and lending rates low, slack loan demand, and competition from bankrupted "zombie banks" is keeping interest margins depressed, and preventing banks from recapitalizing through earnings.

Consolidation is still far off

Although most parties agree that consolidation is necessary, there is not yet a consensus that it is imminent. Additionally, many of the entities which need to be rationalized are in government hands (BT, SCIB, BMB, KTB, IFCT) and so unable to address the politically-sensitive issues of mass layoffs and bank closings.

NPLs are relapsing and starting to rise again

NPL levels are starting to rise again in spots after a steady downward trend over the past two years. In part, new NPLs are relapsed restructured credits which were worked-out at the start of the crisis, before restructuring expertise was prevalent in the Thai banking sector. Also contributing, according to the banks, is the hope that the TAMC will acquire NPLs and give debtors better terms than the banks—a new type of "strategic" NPL.

Loan breakdown (% of total)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|
| Agriculture & Mining | 3.82 | 3.76 | 3.49 | 3.26 | 3.27 | 3.29 | 3.35 | 3.41 | 3.34 | 3.26 | 3.23 | 3.20 | 3.16 | 3.12 | | |
| Manufacturing | 27.31 | 27.55 | 29.37 | 30.90 | 30.94 | 30.99 | 30.83 | 30.66 | 30.68 | 30.69 | 30.38 | 30.06 | 30.14 | 30.22 | | |
| Construction & Property | 13.41 | 13.19 | 12.87 | 12.60 | 13.15 | 13.74 | 14.04 | 14.37 | 14.71 | 15.04 | 14.71 | 14.37 | 14.13 | 13.88 | | |
| Imports & Exports | 7.00 | 6.95 | 6.70 | 6.49 | 6.40 | 6.30 | 6.63 | 7.00 | 6.91 | 6.83 | 6.84 | 6.85 | 6.77 | 6.69 | | |
| Wholesale & Retail | 18.29 | 18.64 | 17.82 | 17.13 | 16.96 | 16.79 | 16.68 | 16.56 | 16.53 | 16.50 | 15.93 | 15.34 | 15.37 | 15.41 | | |
| Utilities | 2.94 | 2.93 | 3.11 | 3.25 | 3.30 | 3.36 | 3.48 | 3.62 | 3.76 | 3.89 | 3.94 | 3.98 | 4.03 | 4.08 | | |
| Banking & Finance | 6.82 | 6.53 | 7.36 | 8.04 | 7.61 | 7.15 | 6.14 | 5.03 | 4.91 | 4.80 | 6.20 | 7.64 | 7.70 | 7.76 | | |
| Service | 7.78 | 7.79 | 7.66 | 7.56 | 7.61 | 7.66 | 7.82 | 7.99 | 7.93 | 7.88 | 7.70 | 7.51 | 7.54 | 7.57 | | |
| Consumer | 12.64 | 12.65 | 11.63 | 10.77 | 10.75 | 10.72 | 11.02 | 11.36 | 11.23 | 11.11 | 11.08 | 11.05 | 11.16 | 11.28 | | |

Loan growth (% yoy)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|-------------------------|-------|-------|-------|-------|-------|-------|--------|--------|--------|--------|-------|-------|--------|--------|------|------|
| Agriculture & Mining | 4.98 | 7.57 | 6.19 | 4.88 | 1.98 | -0.88 | -5.27 | -9.53 | -9.36 | -9.18 | -8.66 | -8.12 | -10.28 | -12.53 | | |
| Manufacturing | 17.03 | 14.64 | 29.09 | 42.54 | 34.78 | 27.52 | 3.66 | -14.21 | -11.79 | -9.25 | -6.73 | -3.93 | -6.96 | -9.95 | | |
| Construction & Property | 10.24 | 7.60 | 11.55 | 15.27 | 16.68 | 18.07 | 7.71 | -1.39 | -0.52 | 0.32 | -0.83 | -2.04 | -9.00 | -15.58 | | |
| Imports & Exports | 5.92 | 5.71 | 10.34 | 14.86 | 8.75 | 2.83 | -2.26 | -6.83 | -3.87 | -0.67 | -2.39 | -4.09 | -7.25 | -10.46 | | |
| Wholesale & Retail | 16.04 | 17.03 | 18.18 | 19.26 | 10.33 | 2.13 | -7.55 | -16.41 | -13.30 | -9.97 | -9.63 | -9.24 | -11.92 | -14.59 | | |
| Utilities | 24.35 | 17.79 | 28.54 | 38.09 | 33.85 | 29.80 | 10.69 | -3.79 | 1.14 | 6.15 | 6.95 | 7.76 | 1.54 | -4.18 | | |
| Banking & Finance | -0.77 | -3.31 | 18.98 | 41.17 | 32.77 | 24.04 | -17.58 | -45.96 | -42.56 | -38.54 | -4.48 | 48.86 | 48.47 | 48.05 | | |
| Service | 11.94 | 10.62 | 16.06 | 21.23 | 16.25 | 11.50 | 0.72 | -8.62 | -7.20 | -5.73 | -6.81 | -7.96 | -10.04 | -12.13 | | |
| Consumer | 16.11 | 15.24 | 10.68 | 6.52 | 1.16 | -3.94 | -6.40 | -8.82 | -6.98 | -5.04 | -4.86 | -4.67 | -5.91 | -7.16 | | |
| Total | 12.90 | 11.66 | 18.44 | 24.80 | 18.95 | 13.37 | -1.26 | -13.55 | -11.02 | -8.37 | -5.35 | -2.02 | -5.29 | -8.54 | | |

Deposit breakdown (% of total)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Demand | 5.35 | 6.20 | 4.09 | 4.04 | 2.85 | 2.32 | 2.28 | 2.40 | 3.05 | 2.32 | 2.53 | 2.40 | 2.63 | 2.51 | 2.87 | 2.63 |
| Savings | 20.78 | 20.70 | 19.88 | 19.69 | 18.70 | 18.26 | 17.68 | 20.50 | 22.10 | 23.27 | 24.53 | 24.07 | 25.52 | 25.31 | 26.46 | 27.56 |
| Time | 73.26 | 72.60 | 75.48 | 75.92 | 77.98 | 78.87 | 79.61 | 76.71 | 74.44 | 74.01 | 72.39 | 73.06 | 71.42 | 71.75 | 70.26 | 69.42 |
| Other | 0.61 | 0.50 | 0.55 | 0.35 | 0.47 | 0.55 | 0.42 | 0.39 | 0.41 | 0.40 | 0.56 | 0.47 | 0.43 | 0.44 | 0.41 | 0.38 |

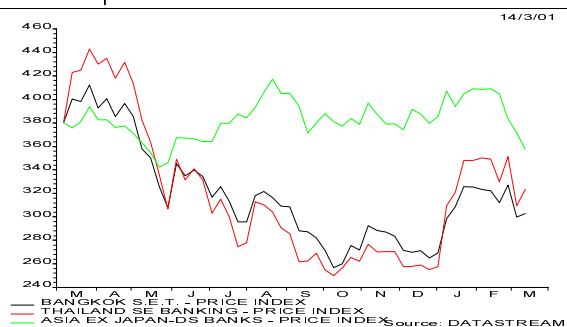
Deposit growth (% yoy)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|---------|--------|--------|-------|--------|--------|--------|--------|--------|-------|--------|-------|-------|--------|-------|--------|--------|
| Demand | 23.25 | 66.13 | 0.91 | 0.92 | -38.97 | -58.62 | -37.17 | -35.41 | 16.29 | 6.15 | 12.89 | -0.25 | -14.30 | 7.97 | 15.21 | 15.47 |
| Savings | 2.88 | 7.36 | 7.83 | 4.93 | 3.13 | -2.21 | 0.16 | 13.30 | 28.49 | 34.98 | 41.43 | 17.02 | 14.63 | 8.73 | 9.34 | 20.40 |
| Time | 14.29 | 15.61 | 21.71 | 22.01 | 21.98 | 20.44 | 18.78 | 9.94 | 3.77 | -0.60 | -7.32 | -5.09 | -4.74 | -3.09 | -1.60 | -0.08 |
| Other | -45.34 | -25.27 | -9.96 | -28.56 | -11.19 | 22.00 | -14.10 | 21.46 | -5.89 | -22.27 | 34.01 | 19.96 | 5.19 | 7.99 | -25.84 | -14.45 |
| Total | 11.41 | 15.63 | 17.48 | 16.99 | 14.60 | 10.86 | 12.61 | 8.81 | 8.71 | 5.94 | 1.93 | -0.35 | -0.71 | -0.04 | 1.37 | 5.15 |

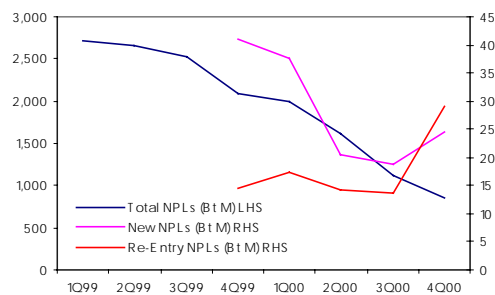
Interest Rates (%)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|------|------|------|------|------|------|
| Prime Lending | 13.00 | 12.75 | 14.25 | 15.25 | 15.25 | 15.25 | 14.50 | 11.50 | 9.50 | 8.75 | 8.50 | 8.25 | 8.00 | 8.00 | 7.50 | 7.50 |
| Deposits | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 4.50 | 4.50 | 4.00 | 3.63 | 3.00 | 2.75 | 2.75 | 2.50 | 2.50 |
| 3M Interbank | 11.70 | 18.50 | 22.00 | 26.00 | 24.00 | 22.00 | 9.50 | 7.75 | 5.25 | 4.50 | 4.00 | 5.00 | 4.50 | 3.75 | 3.50 | 5.00 |

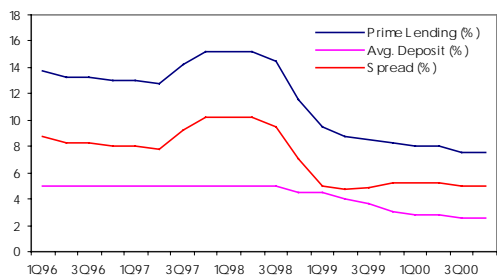
Recent market performance



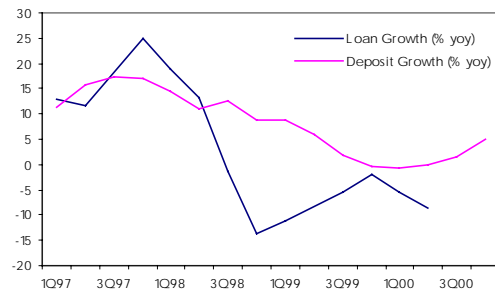
Non Performing Loans (%)



Average lending and deposit rates (%)



Loan and deposit growth (% yoy)



MINISTRY OF FINANCE (THAILAND)

We met with the Director-General of the Fiscal Policy Office of the Ministry of Finance as part of the Asian Bank Tour to discuss the design and implications of the new Thai Asset Management Company (TAMC).

TAMC to have wide-ranging powers encompassing both corporate and asset restructuring

The TAMC was modeled on asset management companies previously set up in Korea, Malaysia and Sweden. Although the concept was originally intended for state-owned financial institutions only, it has been subsequently extended to private institutions. For private banks, only loans to borrowers with more than one creditor will qualify. Private banks will continue to manage the NPLs of borrowers where they are sole creditors as they feel they are better able to resolve these problems.

The TAMC differs from KAMCO as it will have the power to perform corporate and asset restructuring, not just loan restructuring. The rationale of this approach is to turn delinquent borrowers into good borrowers, hence solving the liquidity trap and stimulating economic growth. For this the TAMC will have a robust legal framework—similar to Malaysia's Danaharta—allowing it to accelerate corporate workouts. Participation from the Thai Bankers Association in the design has been strong since the beginning and the Government is confident in participation from the banks.

NPLs will be transferred at net book value with a future loss sharing agreement

The total face value of all NPLs that will be taken over will total Bt.250 billion from private banks (based on the Bank of Thailand figure for the total NPLs held by private banks) and Bt.1.1 trillion from state banks. Transfer price however, will be at net book value. The TAMC will take from State banks all NPLs (including those with one creditor) above Bt.5 billion and NPLs already transferred to the separate bank AMCs. (Loans with Sukhamvit Asset Management and under private contracts with Thai Farmer's Bank are currently under discussion). NPLs from private bank AMCs will also be included to ensure consistent treatment.

After taking into account the strength of the private banks, the government decided against a 10% haircut in favour of a capped 30% loss share. The banks will bear the first 20% of losses, the next 20% of losses will be split with the TAMC and further losses borne solely by the AMC. The loss share will be paid by the banks to the TAMC either in cash, notes or shares. The shares will carry no voting rights. There will be a put-back option for the shares if the TAMC is unable to sell them in the market.

The cut-off date for NPLs has been set at the end of 2000 to avoid moral hazard. This will be a one-time only transfer. NPLs will be selected by the supervisory board or the executive committee. The TAMC will engage in debt-for-equity swaps to assist with corporate restructuring. If restructuring fails, the TAMC will have the right to foreclose. Of course, there is a certain amount of flexibility around these rules. If the economy slows and NPLs continue to gather pace, the Government needs to be able to react.

*TAMC to begin operations in
2nd half 2001*

Required legislation has already been drafted and was officially submitted (on 22 March). The bill will be fast-tracked and should be passed in June. In July, the official workouts can begin. Although the new bankruptcy code is already in place, there will be a special process (within defined time limits) for NPLs under the management of the TAMC. The only possible risk to this timetable is that the legislation is not ultimately in the hand of the Government. Although the Government controls the House of Representatives the Senate is relatively independent. In conjunction with debate on the bill, four working groups will be established to oversee: Administration; Transfer of NPLs; Pricing; and Legal issues.

Success will be measured by the recovery rate, however NPLs are not the only objective of the TAMC. The TAMC has multiple objectives, including strengthening the banks and eventually the real sector, not just the maximisation of profit. The government believes the TAMC measures will be sufficient to get the banks lending again.

The architecture of the TAMC has been designed to minimise the use of taxpayer funds while maximising the impact of the TAMC—hence no haircut on transfer. Loss and gain sharing is also limited with the intention of helping out the banks. The issue of recapitalised banks such as Krung Thai Bank that have not resumed lending is a separate issue. The government initially believed that related banks would resume lending, however, if this does not occur naturally, KTB will become the lead bank in extension of new loans.

*The Government is committed
to other measures to jump-
start the economy*

The government is focusing on strengthening management of SMEs and encouraging banks to become more pro-active towards this sector. Banks often find it difficult to lend to these companies as SMEs rarely have financial accounts or cash flow projections. In addition, the government will: institute a small industrial finance corporation; institute a national guarantee agency that will be initially government-funded but eventually self-funding; and upgrade IFCT to expand its scope from medium and large industrial companies to include services and export and possibly deposit-taking.

Under new legislation prepared by the previous Government, the Bank of Thailand will be made more independent. The Cabinet is currently considering submitting this legislation in June.

With regard to the banks recently sold to the Government Pension Fund (BMB and SCiB), the banks are not likely to be merged. They will be run separately with linkage at the director level as the government waits for a clearer picture to emerge. They may be merged in the longer-run following further analysis. The GPF is not a government policy tool; it only invests in good assets. The investment was made in the banks due to the absence of other buyers, and is only a temporary state of affairs; within 3 years time the GPF will sell the banks to the public.

BANK OF THAILAND

We met with the Governor of the Bank of Thailand, as part of the Asian Bank Tour, for a free-ranging discussion of the banking environment and outlook, as well as implications of the TAMC.

Why use a 100% of book value purchase price for the Thai AMC?

The lead-up to the announcement of the design of the TAMC was quite simple. The Bank of Thailand simply gave the data to the Ministry of Finance and they could go nowhere else. The TAMC had to buy non performing loans at net book value. The Bank of Thailand however did not actively lobby for this as it was a matter for the Ministry of Finance to decide. However, only the Bank of Thailand had access to the relevant data against which the pricing decision could be made.

The concept of the TAMC really encompasses the attitude that people have been punished enough. Because of this, moral hazard is no longer an issue. Now, there are quite a few good businesses that are mixed in with all the debt problems.

Other structural issues relating to NPLs have been addressed

Since the crisis, 70 financial institutions have been shut down. Bankruptcy procedures have been improved, involving not only the judges but the court clerks. This is important as the clerks are relatively independent and are local people, and hence have had much sympathy for local debtors. It has been particularly difficult in cases where loan collateral is situated across two jurisdictions.

In addition to revised bankruptcy legislation, Thailand is also looking at changing the working conditions for judges. Pay has been increased, and the retirement age has been raised to 70. As a result of these changes, NPLs can now be resolved in less than 180 days, and often in as little as 45 days. However, there are many cases where diminished asset values have lead to negative equity problems.

Management details on the TAMC

The management structure of the TAMC has been specified. The Supervisory Board will consist of four people from the financial institutions themselves. The Executive Committee will consist of two people from the financial institutions and one from the Auditor General's office. There will also be an Audit committee to oversee the TAMC. Currently, the representatives from industry have not yet been selected. As far as the management processes are concerned, all assets will be booked to the original creditor so that there will be an audit trail to the institution

The laws for the set-up of the TAMC will be presented to Cabinet next week. The environment has now changed so that now there is little flexibility to modify election promises. Under the new constitution, the Prime Minister must make a policy statement to which he must annex a list of laws. These laws then receive a special passage through the legislature. The Government in this case has a clear majority so there should be no problems with passing the required laws.

The state enterprise budget was released recently, increasing government expenditure by about Bt.20 billion. This is probably the right strategy—spend a lot early, get it over with and end it soon. If things go well this year, the Bank of Thailand may increase its monetary stance next year.

Whether the TAMC will lead to an increase in GDP growth is not certain. Currently capacity utilisation is at 54%. It is not clear whether the 46% that is unutilised includes NPLs. The question is not so much one of capacity utilisation, but whether Thailand competitive in terms of people. Taking the Bank of Thailand itself as an example: the BOT has targeted a reduction of 500 people through voluntary redundancy. So far only 80 have resigned.

Currently there is also a lack of fiduciary duty—although this is being introduced. In addition, the supervision is being re-focused on not just measuring risk and form-filling to also providing direction on where risk is and should be moving as well.

*Pending revisions to the BIS
Capital Accords*

There should be no problems with the introduction of the new risk weighting system from the BIS accord. However, it is difficult to certify whether internal risk is adequate. Owners have a tendency to under-capitalise. In addition, risk-weighting increases transparency which some owners may resist.

*Commercial banking
consolidation in Thailand*

Overall, the BOT would like to consolidate the banking system over the next five to ten years with an objective of eventually achieving regional competitiveness.

KRUNG THAI BANK: Returning to strength**4-Market Underperform**

As part of the Asian Bank Tour, we met with Krung Thai Bank management for a far-ranging discussion on the future of KTB.

The intention of the government has always been to gradually privatise KTB, however, due to the Asian financial crisis, the government's stake actually increased to 90% as a result of re-capitalizations. The new Prime Minister has re-affirmed privatization is still on the agenda and appears to be continuing the policy of not forcing KTB to consolidate with weaker banks.

The bank will return to profitability this year. NPLs are currently 100% provisioned, and the accumulated loss of Bt.77 billion should be wiped out within five years. On a scale of one to ten (with one being 1997 practices and ten being optimal) for credit controls KTB is still at a six, despite the effort the bank has expended in the past. Management recognize this weakness going forward and are looking for a bank partner to help in this area. The bank targets an ROE of 15% in the short-term.

Asset quality and the TAMC

On average, about Bt1 billion per month of restructured loans relapse. Recently, the level of NPLs increased partly due to debtors anticipating the arrival of the AMC and a bigger haircut. Currently, management are not completely clear on the relationship between the bank's AMC, Sukhavit Asset Management (SAM), and the TAMC. SAM has its own segregated staff of 850 people, including 650 workout officers, and operates through a 10 story headquarters and 14 regional centers. In June, the bank is freed from management obligations to SAM, which will help improve focus.

Operational consolidations are ongoing

The bank is reducing not only the number of branches, but also their size with the goal that eventually the branch front end will resemble a supermarket selling various financial products. By year-end KTB should have centralized back-office functions into ten regional processing centers. The problem of overstaffing needs to be addressed but as an SOE the bank may find it difficult to make these changes quickly.

Strategic focus going forward

The major competition currently is in the housing and consumer segments. In corporate banking, banks are just trying to hold on to existing clients and cross-sell them more products. KTB's success will be based on customer retention in this area. KTB has some advantages over their competition as investment banking fees will be a strong contributor to net income, due to the bank's strong sovereign relationship. Also, KTB has a big balance sheet that is suitable for high quality bonds.

Since the crisis, Thailand has introduced over 30 new accounting standards—and there are more to come. Now the BIS requires banks without good risk management, primarily in emerging markets, to increase their weightings. This will lead to forced mergers and consolidations. Management are trying to build a platform to capitalize on the BIS changes and new accounting standards.

Krung Thai
Share Price: 11.25 **Index:** 297.14
52 Week Price Range: 15.25 - 10.00 **Current Yield:** 0.0%

Reuters Code: KTB.BK
Bloomberg Code: KTB TB **Shares Outstanding (MM):** 11,179.50

| | 1998A | 1999A | 2000A | 2001E | 2002E |
|----------------------------------|----------------|----------------|----------------|---------------|---------------|
| INCOME STATEMENT | | | | | |
| <i>(Bt.m) year ending Dec</i> | | | | | |
| Interest income | n.a | 48,510 | 42,105 | 47,220 | 50,408 |
| Interest expense | n.a | 42,484 | 28,404 | 28,345 | 31,215 |
| Net interest income | 12,723 | 6,026 | 13,701 | 18,875 | 19,193 |
| <i>Ave. int. earnings assets</i> | 779,143 | 883,233 | 932,727 | 923,648 | 905,314 |
| NIM (%) | 1.63% | 0.68% | 1.47% | 2.04% | 2.12% |
| Non-interest income | 9,284 | 6,483 | 6,500 | 7,817 | 8,085 |
| Total operating income | 22,007 | 12,509 | 20,201 | 26,692 | 27,278 |
| Non-interest expense | -16,447 | -19,145 | -19,202 | -24,776 | -25,057 |
| Pre provision profit | 5,561 | -6,636 | 999 | 1,915 | 2,221 |
| Loan loss provisions | -64,989 | -84,384 | -27,790 | -8,000 | -4,000 |
| Non-operating income | -1,971 | 0 | 105,910 | 0 | 0 |
| Pre tax profit | -61,399 | -91,019 | -28,881 | -6,085 | -1,779 |
| Tax | -185 | -2 | -2,858 | 0 | 0 |
| Net profit | -61,585 | -91,022 | 76,261 | -6,085 | -1,779 |
| Core earnings | -59,608 | -91,022 | -29,442 | -6,085 | -1,779 |

| | 1998A | 1999A | 2000A | 2001E | 2002E |
|-----------------------------------|---------|--------|-------|--------|--------|
| PER SHARE DATA (\$\$) | | | | | |
| EPS | (16.91) | (4.14) | 3.47 | (0.28) | (0.08) |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| <i>Effective payout ratio (%)</i> | 0% | 0% | 0% | 0% | 0% |
| BVPS | 22.92 | 4.65 | 2.98 | 2.71 | 2.62 |
| ABVPS | 21.77 | 4.46 | 2.80 | 2.52 | 2.44 |

| | 1998A | 1999A | 2000A | 2001E | 2002E |
|----------------------------------|-------|-------|-------|-------|--------|
| VALUATION | | | | | |
| Price to book value (x) | 0.9 | 3.3 | 3.8 | 4.2 | 4.3 |
| Price to adjusted book value (x) | 0.9 | 3.4 | 4.0 | 4.5 | 4.6 |
| Price to earnings (x) | -1.2 | -3.7 | 3.2 | -40.6 | -139.0 |

| | 1998A | 1999A | 2000A | 2001E | 2002E |
|--------------------------------------|---------|---------|--------|--------|--------|
| PROFITABILITY RATIOS | | | | | |
| <i>(%)</i> | | | | | |
| Net interest margin | 1.63% | 0.68% | 1.47% | 2.04% | 2.12% |
| Yield on interest earning assets | n.a | 5.20% | 4.51% | 5.16% | 5.62% |
| Cost on interest bearing liabilities | n.a | 4.86% | 3.26% | 3.16% | 3.38% |
| Net interest spread | n.a | 0.35% | 1.25% | 2.00% | 2.25% |
| Non-int. income (% Op income) | 42.2% | 51.8% | 32.2% | 29.3% | 29.6% |
| Cost to income | 82.1% | 153.0% | 106.0% | 92.8% | 91.9% |
| Overhead ratio | 2.11% | 2.17% | 2.06% | 2.68% | 2.77% |
| Cost coverage | 56.5% | 33.9% | 33.9% | 31.5% | 32.3% |
| ROA | -6.63% | -8.84% | 7.68% | -0.61% | -0.17% |
| ROE | -101.9% | -102.7% | 95.6% | -10.4% | -3.3% |

| | 1998A | 1999A | 2000A | 2001E | 2002E |
|------------------------------|--------|--------|--------|--------|--------|
| OROA ANALYSIS | | | | | |
| Net interest margin | 1.63% | 0.68% | 1.47% | 2.04% | 2.12% |
| Non-interest inc./gross inc. | 36.50% | 51.83% | 24.35% | 29.28% | 29.64% |
| Efficiency ratio | 82.1% | 153.0% | 106.0% | 92.8% | 91.9% |
| Provision/assets | 6.10% | 8.48% | 2.81% | 0.79% | 0.39% |

| | | | | | |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Operating return on assets | -5.64% | -9.23% | -2.92% | -0.58% | -0.14% |
| Equity/assets | 7.84% | 10.27% | 6.62% | 5.89% | 5.60% |
| Operating return on equity | -72.0% | -89.9% | -44.2% | -9.9% | -2.6% |

| | 1998A | 1999A | 2000A | 2001E | 2002E |
|-------------------------------|------------------|----------------|----------------|------------------|------------------|
| BALANCE SHEET | | | | | |
| <i>(Bt.m) year ending Dec</i> | | | | | |
| Gross loans | 1,000,155 | 976,592 | 393,699 | 391,300 | 383,532 |
| Loan loss reserves | 141,960 | 226,121 | 13,916 | 19,994 | 22,111 |
| Net loans | 815,481 | 708,921 | 375,192 | 361,390 | 351,702 |
| Total earning assets | 833,921 | 932,546 | 932,908 | 914,389 | 896,238 |
| Other assets | 231,481 | 62,274 | 57,185 | 95,654 | 134,158 |
| Total Assets | 1,065,402 | 994,819 | 990,093 | 1,010,044 | 1,030,396 |
| Deposits | 803,716 | 802,102 | 818,977 | 843,824 | 869,425 |
| Other paying liabilities | 72,985 | 72,839 | 51,417 | 52,977 | 54,584 |
| Other liabilities | 109,405 | 21,875 | 58,142 | 57,771 | 52,695 |
| Total Liabilities | 986,106 | 896,815 | 928,536 | 954,572 | 976,704 |

| | | | | | |
|--------------------------------|---------------|----------------|---------------|---------------|---------------|
| Equity with revaluation | 83,477 | 102,185 | 65,561 | 59,477 | 57,697 |
| Adjusted equity | 79,296 | 98,004 | 61,556 | 55,472 | 53,692 |

| | 1998A | 1999A | 2000A | 2001E | 2002E |
|-----------------------------|--------|--------|-------|-------|-------|
| BALANCE SHEET RATIOS | | | | | |
| <i>(%)</i> | | | | | |
| Loan-to-deposit | 119.1% | 116.6% | 47.5% | 45.2% | 43.0% |
| Equity to assets | 7.8% | 10.3% | 6.6% | 5.9% | 5.6% |
| Tier 1 Capital | - | - | - | - | - |
| Total Capital adequacy | - | - | - | - | - |
| Total loan provisions | 14.83% | 24.18% | 3.58% | 5.24% | 5.92% |

| | 1998A | 1999A | 2000A | 2001E | 2002E |
|----------------------|---------|---------|---------|---------|--------|
| ASSET QUALITY | | | | | |
| Nonperforming assets | 480,202 | 665,435 | 110,050 | 100,811 | 92,832 |
| Special mention | - | 19,578 | 17,074 | 16,401 | 15,755 |
| Substandard | - | 29,745 | 14,647 | 14,069 | 13,515 |
| Doubtful | - | 10,390 | 7,151 | 6,330 | 5,604 |
| Loss | - | 598,710 | 57,347 | 49,473 | 42,680 |
| ORE | 4,354 | 7,013 | 13,833 | 14,537 | 15,278 |

| | | | | | |
|--------------------------|-------|-------|-------|-------|-------|
| NPA's/total loans | 50.2% | 45.7% | 28.3% | 26.4% | 24.8% |
| Reserve coverage of NPAs | 29.6% | 52.9% | 12.6% | 19.8% | 23.8% |

| | | | | | |
|-----------------------------|-----|---------|--------|--------|--------|
| Required reserves | n.a | 615,417 | 70,446 | 62,230 | 55,088 |
| Actual reserves | n.a | 226,121 | 13,916 | 19,994 | 22,111 |
| Shortfall (surplus) | n.a | 389,297 | 56,531 | 42,235 | 32,977 |
| Actual to required reserves | n.a | 37% | 20% | 32% | 40% |
| Shortfall to capital | n.a | 381% | 86% | 71% | 57% |

| | 1998A | 1999A | 2000A | 2001E | 2002E |
|---------------------|-------|-------|-------|-------|-------|
| GROWTH RATES | | | | | |
| <i>(%)</i> | | | | | |

| | | | | | |
|-------------------------|----------------|--------------|----------------|----------------|---------------|
| Income statement | | | | | |
| Net interest income | -54.7% | -100.0% | 127.4% | 37.8% | 1.7% |
| Non-interest income | 28.3% | -11.3% | -32.0% | 77.2% | 3.4% |
| Total operating income | -40.7% | -37.6% | 44.8% | 47.4% | 2.2% |
| Non-interest expenses | 13.5% | 16.4% | 0.3% | 29.0% | 1.1% |
| Pre-provision earnings | -81.4% | -284.9% | -83.6% | -275.6% | 16.0% |
| Loan loss provisions | 242.5% | 29.8% | -67.1% | -71.2% | -50.0% |
| Core earnings | -28341.4% | 52.7% | -67.7% | -79.3% | -70.8% |
| Net profit | -29278% | 47.8% | -183.8% | -108.0% | -70.8% |

| | | | | | |
|-------------------------|-------|---------|--------|-------|-------|
| Balance sheet | | | | | |
| Loan growth | 39.2% | -2.3% | -58.4% | -2.0% | -2.0% |
| Interest earning assets | 15.1% | -100.0% | 0.0% | -2.0% | -2.0% |
| Asset growth | 34.7% | -100.0% | -0.5% | 2.0% | 2.0% |
| Deposit growth | 38.6% | -100.0% | 2.1% | 3.0% | 3.0% |
| Shareholders funds | 82.4% | -100.0% | -35.8% | -9.3% | -3.0% |

BANK OF AYUDHYA: Still treading water**4-Market underperform****BANK OF AYUDHYA PUBLIC COMPANY LIMITED**

As part of the Asian Bank Tour, we met with Bank of Ayudhya management for a far-ranging discussion on the strategic positioning of the bank, and the expected impact of the upcoming Thai Asset Management Corporation.

Asset quality is management's current focus

Traditionally, BAY's credit culture has been amongst the best of all Thai banks. All loans are centrally approved and lending guidelines are conservative—collateral coverage is generally around 140%. The bank also has a research department geared solely towards lending purposes. In addition to strong credit assessment, BAY also has rigorous management of NPLs. Last year the bank completed Bt62 billion worth of restructuring on over 6,685 cases. Debt restructuring requirements are conservative—the maximum allowable NPV loss on restructured loans is 30%.

Impact of the TAMC

Management at BAY feels that the government should take all NPLs, not just the joint creditor loans. Under the current TAMC proposal, BAY estimates that it would transfer Bt25-30 billion in NPLs to the AMC. The bank however may hold onto the best 25% of these NPLs if permitted. Once NPLs are reduced, the bank can then re-focus on lending.

The outlook for the coming year

The bank expects some losses may arise from provisions, but they expect to break even or show a profit in FY2001. Net loan growth is expected to be around 5-6% or approximately Bt.18-20 billion. Although this seems optimistic—in the first 2 months of 2001 they are on track to achieve this. Products will be more geared towards the housing and commercial segments. The bank has market share of only 9% in housing as it has not been a traditional area of focus. The new rules requiring mark to market for securities should generate a small loss for BAY this year.

Non interest income should grow by about 15% of new loan extensions. BAY has been an innovative cross-seller of products—it is the only bank that uses its branch network to sell subordinated bonds and shares, and it has been successful in selling managed fund units. In the future, when the Banking Act allows sales of insurance in branches, BAY plans to aggressively cross-sell the insurance products of its affiliates. Management remarks that penetration is very low—only a few percentage points.

BAY meets minimum capital requirements however economically the bank wants to raise capital. Strategic partners demand 51% and control of the bank which is not acceptable to management. The family is willing to accept dilution however; their objective is to save the bank.

Operational cut-backs

Using early retirement incentives, BAY hopes to reduce staff by 10% from the current level of 9,731, while not skimping on salespeople. The bank is removing processing from the branches and making an investment in IT of about Bt.500 million to centralise all data processing into a single location. The ATM network will be expanded by 75 new machines this year.

| Bank of Ayudhya | | | | | | Reuters Code: BAY.BK | | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Share Price: 6.70 | | | | | | Index: 297.14 | | | | | |
| 52 Week Price Range: 10.75 - 5.00 | | | | | | Current Yield: 0.0% | | | | | |
| Bloomberg Code: BAY.TB | | | | | | Shares Outstanding (MM): 1,850.00 | | | | | |
| INCOME STATEMENT | | | | | | BALANCE SHEET | | | | | |
| <i>(Bt.m) year ending Dec</i> | | | | | | <i>(Bt.m) year ending Dec</i> | | | | | |
| Interest income | n.a | 26,934 | 22,688 | 24,779 | 27,588 | Gross loans | 382,079 | 368,750 | 334,112 | 348,026 | 367,921 |
| Interest expense | n.a | 23,747 | 16,638 | 17,311 | 20,420 | Loan loss reserves | 15,531 | 30,078 | 8,584 | 15,560 | 19,546 |
| Net interest income | 4,616 | 3,187 | 6,050 | 7,468 | 7,169 | Net loans | 350,716 | 331,262 | 320,510 | 328,595 | 345,728 |
| <i>Ave. int. earnings assets</i> | <i>448,067</i> | <i>435,518</i> | <i>404,528</i> | <i>412,122</i> | <i>433,117</i> | Total earning assets | 463,864 | 407,172 | 401,885 | 422,359 | 443,876 |
| NIM (%) | 1.03% | 0.73% | 1.50% | 1.81% | 1.66% | Other assets | 19,734 | 39,360 | 33,228 | 34,920 | 36,699 |
| Non-interest income | 4,226 | 2,266 | 1,508 | 1,501 | 1,622 | Total Assets | 483,598 | 446,532 | 435,112 | 457,279 | 480,575 |
| Total operating income | 8,841 | 5,453 | 7,558 | 8,969 | 8,791 | Deposits | 403,896 | 361,178 | 361,631 | 380,054 | 399,416 |
| Non-interest expense | -10,149 | -10,616 | -9,900 | -11,080 | -11,989 | Other paying liabilities | 40,390 | 55,056 | 49,230 | 51,738 | 54,374 |
| Pre provision profit | -1,308 | -5,163 | -2,342 | -2,111 | -3,198 | Other liabilities | 13,718 | 8,616 | 10,318 | 19,754 | 27,531 |
| Loan loss provisions | -4,606 | -17,713 | -6,788 | -7,000 | -4,000 | Total Liabilities | 458,004 | 424,850 | 421,179 | 451,546 | 481,321 |
| Non-operating income | -3,389 | 410 | 31 | 0 | 0 | Equity with revaluation | 26,875 | 22,929 | 15,472 | 7,272 | 793 |
| Pre tax profit | -9,302 | -22,466 | -9,099 | -9,111 | -7,198 | Adjusted equity | 25,594 | 21,682 | 13,934 | 5,733 | (745) |
| Tax | -272 | -27 | -10 | 911 | 720 | BALANCE SHEET RATIOS | 1998A | 1999A | 2000A | 2001E | 2002E |
| Net profit | -9,575 | -21,973 | -8,530 | -8,200 | -6,479 | (%) | | | | | |
| Core earnings | -6,086 | -22,384 | -8,561 | -8,200 | -6,479 | Loan-to-deposit | 90.7% | 100.0% | 91.0% | 90.6% | 91.5% |
| PER SHARE DATA (\$\$) | 1998A | 1999A | 2000A | 2001E | 2002E | Equity to assets | 5.6% | 5.1% | 3.6% | 1.6% | 0.2% |
| EPS | (18.60) | (11.88) | (4.61) | (4.43) | (3.50) | Tier 1 Capital | - | - | - | - | - |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | Total Capital adequacy | - | - | - | - | - |
| <i>Effective payout ratio (%)</i> | <i>0%</i> | <i>0%</i> | <i>0%</i> | <i>0%</i> | <i>0%</i> | Total loan provisions | 4.24% | 8.32% | 2.61% | 4.52% | 5.35% |
| BVPS | 52.19 | 12.39 | 8.36 | 3.93 | 0.43 | ASSET QUALITY | 1998A | 1999A | 2000A | 2001E | 2002E |
| ABVPS | 49.71 | 11.72 | 7.53 | 3.10 | (0.40) | Nonperforming assets | 138,920 | 135,275 | 97,705 | 76,437 | 63,113 |
| VALUATION | 1998A | 1999A | 2000A | 2001E | 2002E | Special mention | - | 8,136 | 9,565 | 7,791 | 6,346 |
| Price to book value (x) | 0.2 | 1.3 | 0.8 | 1.7 | 15.6 | Substandard | - | 14,776 | 11,346 | 3,590 | 1,136 |
| Price to adjusted book value (x) | 0.2 | 1.4 | 0.9 | 2.2 | -16.6 | Doubtful | - | 8,153 | 4,305 | 2,247 | 1,173 |
| Price to earnings (x) | -0.6 | -1.3 | -1.5 | -1.5 | -1.9 | Loss | - | 96,460 | 61,047 | 53,490 | 46,868 |
| PROFITABILITY RATIOS | 1998A | 1999A | 2000A | 2001E | 2002E | ORE | 1,220 | 7,750 | 11,442 | 9,320 | 7,591 |
| (%) | | | | | | NPAs/total loans | 37.9% | 34.7% | 29.7% | 22.2% | 17.3% |
| Net interest margin | 1.03% | 0.73% | 1.50% | 1.81% | 1.66% | Reserve coverage of NPAs | 11.2% | 24.0% | 8.8% | 20.4% | 31.0% |
| Yield on interest earning assets | n.a | 6.61% | 5.65% | 5.87% | 6.22% | Required reserves | n.a | 106,237 | 68,375 | 58,491 | 51,096 |
| Cost on interest bearing liabilities | n.a | 5.71% | 4.05% | 4.01% | 4.50% | Actual reserves | n.a | 30,078 | 8,584 | 15,560 | 19,546 |
| Net interest spread | n.a | 0.91% | 1.60% | 1.86% | 1.72% | Shortfall (surplus) | n.a | 76,158 | 59,791 | 42,931 | 31,550 |
| Non-inf. income (% Op income) | 47.8% | 41.6% | 20.0% | 16.7% | 18.5% | Actual to required reserves | n.a | 28% | 13% | 27% | 38% |
| Cost to income | 186.1% | 181.1% | 130.4% | 123.5% | 136.4% | Shortfall to capital | n.a | 332% | 386% | 590% | 3978% |
| Overhead ratio | 2.27% | 2.44% | 2.45% | 2.69% | 2.77% | GROWTH RATES | 1998A | 1999A | 2000A | 2001E | 2002E |
| Cost coverage | 41.6% | 21.3% | 15.2% | 13.5% | 13.5% | (%) | | | | | |
| ROA | -1.96% | -4.72% | -1.93% | -1.84% | -1.38% | <i>Income statement</i> | | | | | |
| ROE | -37.9% | -93.0% | -47.9% | -83.4% | -259.8% | Net interest income | -68.9% | -30.9% | 89.8% | 23.4% | -4.0% |
| OROA ANALYSIS | 1998A | 1999A | 2000A | 2001E | 2002E | Non-interest income | -82.9% | 219.9% | -42.5% | -2.5% | 8.1% |
| Net interest margin | 1.03% | 0.73% | 1.50% | 1.81% | 1.66% | Total operating income | -72.4% | 7.5% | 29.4% | 18.2% | -2.0% |
| Non-interest inc./gross inc. | 15.35% | 45.65% | 20.29% | 16.73% | 18.45% | Non-interest expenses | 2.2% | 4.6% | -6.7% | 11.9% | 8.2% |
| Efficiency ratio | 186.1% | 181.1% | 130.4% | 123.5% | 136.4% | Pre-provision earnings | -147.9% | 1.2% | -51.4% | -8.6% | 51.5% |
| Provision/assets | 0.95% | 3.97% | 1.56% | 1.53% | 0.83% | Loan loss provisions | -35.0% | 284.6% | -61.7% | 3.1% | -42.9% |
| Operating return on assets | -2.00% | -5.06% | -2.13% | -2.04% | -1.57% | Core earnings | -410.2% | 267.8% | -61.8% | -4.2% | -21.0% |
| Equity/assets | 5.56% | 5.13% | 3.56% | 1.59% | 0.17% | Net profit | -588.0% | 129.5% | -61.2% | -3.9% | -21.0% |
| Operating return on equity | -36.0% | -98.5% | -59.9% | -128.5% | -951.9% | <i>Balance sheet</i> | | | | | |
| | | | | | | Loan growth | -9.9% | -1.3% | -8.9% | 4.6% | 6.1% |
| | | | | | | Interest earning assets | 7.3% | -12.2% | -1.3% | 5.1% | 5.1% |
| | | | | | | Asset growth | -2.1% | -7.7% | -2.6% | 5.1% | 5.1% |
| | | | | | | Deposit growth | 3.8% | -10.6% | 0.1% | 5.1% | 5.1% |
| | | | | | | Shareholders funds | 2.5% | -14.7% | -32.5% | -53.0% | -89.1% |

DBS THAI DANU BANK: New owner injecting life-la!**Not rated**

*Building a successful platform
in Thailand*

As part of the Asian Bank Tour, we met with DBS Thai Danu Bank management to review the strides the bank has made over the past year.

The bank has downsized the workforce by 45%, and reduced the branch network from 97 branches to 63. On the balance sheet, the bank took in Bt13.5 billion of recapitalization, and sold 77% (Bt30 billion) of NPLs. What DTDB did was painful, difficult, and very un-Thai—but they have moved from an operating loss of Bt1.5 billion in 1999 to an operating profit of Bt381 million in 2000. (N.B., TDB posted a 1Q01 preliminary net profit of Bt33 million.)

By 2003, the bank plans to achieve an ROE of over 20% (note that BBL was able to post a 23% return pre-crisis) as well as double their total asset size and achieve a cost-to-income ratio of under 50%. (Note that operating expenses decreased by Bt899 million between 1999 and 2000.)

*Other foreign competitors are
scared*

Management view Citibank as their main competitor in retail banking in Thailand. Although the DBS brand can not compete with Citi globally, in Thailand DTDB is not that far behind. Management feel that Citi is scared and not doing much now. The key for DTDB in Thailand is that their brand is much better than that of the big three.

Loan growth

While other banks will not be lending this year because they want to conserve capital and ride it out—DTDB are being more aggressive. The best growth the bank could hope for this year would be a maximum 3.5%. Having a market share of 2% and growing to 4% however is not their strategy. The bank wants to be in the top three players in lending to the electronics industry, for example, or in agri-business. In retail, DTDB is sensibly not trying to do everything—just focus on the mid and high net worth customers who transact frequently.

The bank believes that opportunities for acquisition are not there now, but will arise. They are targeting a clean bank, and while they recognize that there are no clean banks now, they believe that there will be in the future.

*On the past sale of loans
and the new TAMC*

The bank painfully sold down 77% of their NPLs in the process of cleaning the balance sheet, but do not regret not waiting for the TAMC. Management believe that the TAMC is only mild help for the banks, and with loss sharing there is not too much difference between what they have aggressively done, and what is offered under the TAMC. This aggressive attitude has hurt some customer relationships with non-corporate (SME) borrowers, some of which are now scared that DTDB is a fair-weather friend. On the large corporate side, customers like what the bank has done, and enjoy the bank's new services and stronger capital.

| DBS Thai Danu | | | | Reuters Code: | DTDB.BK | Shares Outstanding (MM): | | 1,700.00 |
|--------------------------------------|----------------|----------------|----------------|-----------------------------|-----------------|--------------------------|---------------|----------|
| Share Price: | 9.10 | | Index: | 297.14 | Bloomberg Code: | DTDB TB | | |
| 52 Week Price Range: | 13.25 | - 7.80 | Current Yield: | 0.0% | | | | |
| INCOME STATEMENT | | | | BALANCE SHEET | | | | |
| | <u>1998A</u> | <u>1999A</u> | <u>2000A</u> | | <u>1998A</u> | <u>1999A</u> | <u>2000A</u> | |
| (Bt. m) year ending Dec | | | | (Bt. m) year ending Dec | | | | |
| Interest income | 16,265 | 6,971 | 5,340 | Gross loans | 111,641 | 102,177 | 68,114 | |
| Interest expense | -14,309 | -6,003 | -3,522 | General loan loss reserves | -10,350 | -18,628 | -3,863 | |
| Net interest income | <u>1,955</u> | <u>968</u> | <u>1,818</u> | Specific loan loss reserves | 0 | 0 | 0 | |
| | | | | Net loans | 101,291 | 83,549 | 64,251 | |
| Ave. int. earnings assets | 127,417 | 112,369 | 86,449 | Total earning assets | 26,126 | 13,772 | 11,327 | |
| NIM (%) | 1.53% | 0.86% | 2.10% | Other assets | 5,533 | 10,250 | 11,847 | |
| | | | | Total Assets | 132,949 | 107,571 | 87,425 | |
| Non-interest income | 735 | 1,002 | 782 | Deposits | 109,094 | 89,269 | 70,835 | |
| Total operating income | <u>2,690</u> | <u>1,970</u> | <u>2,600</u> | Other paying liabilities | 14,992 | 12,923 | 11,703 | |
| | | | | Other liabilities | 477 | 1,402 | 926 | |
| Non-interest expenses | -4,791 | -5,513 | -2,522 | Total Liabilities | 124,563 | 103,595 | 83,464 | |
| Pre provision profit | <u>-2,101</u> | <u>-3,543</u> | <u>78</u> | Minority Interest | 67 | 224 | 613 | |
| | | | | Shareholder's Equity | 8,320 | 3,752 | 15,860 | |
| Loan loss provisions | -7,021 | -9,446 | -12,726 | | | | | |
| Non-operating income | 0 | 0 | 0 | BALANCE SHEET RATIOS | <u>1998A</u> | <u>1999A</u> | <u>2000A</u> | |
| Pre tax profit | <u>-9,122</u> | <u>-12,990</u> | <u>-12,648</u> | (%) | | | | |
| | | | | Loan-to-deposit | 92.85% | 93.59% | 90.71% | |
| Tax | -9,381 | -16 | -11 | Equity to assets | 6.26% | 3.49% | 18.14% | |
| Net profit | <u>-18,503</u> | <u>-13,006</u> | <u>-12,659</u> | Tier 1 Capital | na | na | na | |
| | | | | Total Capital adequacy | na | na | na | |
| | | | | Total loan provisions | 9.27% | 18.23% | 5.67% | |
| PER SHARE DATA (THB) | <u>1998A</u> | <u>1999A</u> | <u>2000A</u> | ASSET QUALITY | <u>1998A</u> | <u>1999A</u> | <u>2000A</u> | |
| EPS | (18.51) | (14.60) | (8.82) | Nonperforming assets | 72,337 | 57,997 | 24,195 | |
| DPS | 0.00 | 0.00 | 0.00 | Special mention | 8,503 | 3,419 | 9,865 | |
| Effective payout ratio (%) | 0% | 0% | 0% | Substandard | 7,447 | 4,428 | 2,416 | |
| BVPS | 16.87 | 4.22 | 11.08 | Doubtful | 16,400 | 2,745 | 1,199 | |
| ABVPS | 16.87 | 4.22 | 11.08 | Loss | 39,436 | 42,637 | 3,352 | |
| | | | | ORE | 550 | 4,768 | 7,363 | |
| VALUATION | <u>1998A</u> | <u>1999A</u> | <u>2000A</u> | NPA s/total loans | 64.8% | 56.8% | 35.5% | |
| Price to book value (x) | 0.8 | 4.0 | 0.7 | Reserve coverage of NPAs | 14.3% | 32.1% | 16.0% | |
| Price to adjusted book value (x) | 0.8 | 4.0 | 0.7 | Required reserves | 22,179 | 21,746 | 1,442 | |
| Price to earnings (X) | na | na | na | Actual reserves | 10,350 | 17,540 | 1,979 | |
| | | | | Shortfall (surplus) | 11,829 | 4,206 | (537) | |
| PROFITABILITY RATIOS | <u>1998A</u> | <u>1999A</u> | <u>2000A</u> | Actual to required reserves | 46.67% | 80.66% | 137.26% | |
| (%) | | | | Shortfall to capital | 142.18% | 112.10% | -3.39% | |
| Net interest margin | 1.53% | 0.86% | 2.10% | GROWTH RATES | <u>1998A</u> | <u>1999A</u> | <u>2000A</u> | |
| Yield on interest earning assets | 12.76% | 6.20% | 6.18% | (%) | | | | |
| Cost on interest bearing liabilities | -11.53% | -5.87% | -4.27% | Income statement | | | | |
| Net interest spread | 1.23% | 0.33% | 1.91% | Net interest income | | -50.5% | 87.8% | |
| Non-int. income (% Op income) | 27.3% | 50.9% | 30.1% | Non-interest income | | 36.4% | -21.9% | |
| Cost to income | 178.1% | 279.9% | 97.0% | Total operating income | | -26.8% | 32.0% | |
| Overhead ratio | 3.60% | 5.13% | 2.88% | Non-interest expenses | | 15.1% | -54.3% | |
| Cost coverage | 15.3% | 18.2% | 31.0% | Pre-provision earnings | | 68.6% | -102.2% | |
| ROA | -13.92% | -12.09% | -14.48% | Loan loss provisions | | 34.5% | 34.7% | |
| ROE | -222.4% | -346.6% | -79.8% | Net profit | | -29.7% | -2.7% | |
| | | | | Balance sheet | | | | |
| OROA ANALYSIS | <u>1998A</u> | <u>1999A</u> | <u>2000A</u> | Loan growth | | -17.5% | -23.1% | |
| | | | | Interest earning assets | | -23.6% | -22.3% | |
| Net interest margin | 1.53% | 0.86% | 2.10% | Asset growth | | -19.1% | -18.7% | |
| Non-interest inc./gross inc. | 27.32% | 50.87% | 30.08% | Deposit growth | | -18.2% | -20.7% | |
| Efficiency ratio | 178.1% | 279.9% | 97.0% | Shareholders funds | | -54.9% | 322.7% | |
| Provision/assets | 7.78% | 17.32% | 4.42% | | | | | |
| Operating return on assets | -9.43% | -20.47% | -4.33% | | | | | |
| Equity/assets | 6.26% | 3.49% | 18.14% | | | | | |
| Operating return on equity | -150.8% | -586.9% | -23.9% | | | | | |

SIAM COMMERCIAL BANK: Heading towards health**3-Market perform**

The central issue for Thai banks is still NPLs

As part of the Asian Bank Tour, we met with Siam Commercial Bank management for a candid discussion of the bank's operating performance and prospects.

SCB has historically been perceived to carry aggressive collateral valuations, however, the bank follows Bank of Thailand appraisal rules, requiring loans over Bt50 million to receive third-party appraisals, and extending this rule to smaller loans as well. Over the past two years, the bank has sold 800 pieces of foreclosed property a year with a loss rate of approximately 12-13%—attesting to the soundness of valuations. As of fourth quarter last year, the bank restructured approx. Bt227 billion in loans, with Bt72 billion of that coming in FY2000. 71% of these are performing or on probation, but about 16% either make sporadic payments or have permanently relapsed³. 60% of remaining NPLs which total Bt145 billion at 1Q01P are non-restructurable. SCB is earning an average of 3% on its restructured debt.

The TAMC is an opportunity to use unprecedented power to shape the financial sector—in both positive and negative ways

SCB management expects to transfer approximately Bt20 billion in NPLs to the TAMC under the currently proposed criteria, which we estimate to be 13% of 1Q01 non-performing assets. However, the bank will still remain liable for declines in value of these assets through the TAMC gain/loss sharing scheme. With the special legal powers of the TAMC the bank hopes to see some spillover of workouts into the rest of their portfolio.

Loan growth environment

SCB did show positive loan growth in 2H00, although overall loans were still down 0.6% for the full year. The bank is now seeing loan growth mainly in utilities and mortgages. This low growth environment won't change in the near term; and management is targeting only 1% growth for 2001. The bank has chosen not to be a price leader on mortgages. In the past, SCB has always been very supportive of the developers, and created an efficient integrated model. Of course, now, it's important to always be rate-competitive. The bank does find that residential housing is of most interest to their customers.

Fee income generation

The bank is focusing on fees and service income as a way to improve profitability in the low growth environment. SCB is number one in corporate bond underwriting and registry services, and underwrote Bt61 billion in issues in 2000. They also act as a fee-based servicer for 14,000 consumer loan accounts owned by non-banks. Corporate bonds have been a useful way to turn depositors' attention to investment products, as the bank has excess liquidity and would like to roll-off deposits.

Long-term growth aspirations

Management believe that scale makes sense—SCB is at 12-13% of market share, but see 20% as a good target. The bank prefers to grow internally to avoid potential problems with integration with another bank. The bank sees value however in other forms of cooperation and joint ventures—they are currently buying a new trade finance platform with TMB—each bank will save 40-50% as a result of this exercise.

³ defined as missing 3 or more payments

| Siam Commercial Bank | | | | | | Reuters Code: SCB.BK | | | | | |
|--------------------------------------|----------------|----------------|---------------|---------------|---------------|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| Share Price: 23.00 | | | | | | Index: 297.14 | | | | | |
| 52 Week Price Range: 32.25 - 15.00 | | | | | | Current Yield: 0.0% | | | | | |
| Bloomberg Code: SCB.TB | | | | | | Shares Outstanding (MM): 742.68 | | | | | |
| INCOME STATEMENT | | | | | | BALANCE SHEET | | | | | |
| (Bt.m) year ending Dec | | | | | | (Bt.m) year ending Dec | | | | | |
| | 1998A | 1999A | 2000A | 2001E | 2002E | | 1998A | 1999A | 2000A | 2001E | 2002E |
| Interest income | n.a | 40,892 | 36,667 | 42,425 | 46,251 | Gross loans | 559,690 | 498,005 | 494,258 | 520,109 | 546,606 |
| Interest expense | n.a | 31,104 | 21,442 | 20,953 | 24,654 | Loan loss reserves | 31,423 | 23,325 | 25,548 | 30,014 | 34,352 |
| Net interest income | 10,783 | 9,788 | 15,226 | 21,472 | 21,597 | Net loans | 512,846 | 470,794 | 465,664 | 486,223 | 508,185 |
| <i>Ave. int. earnings assets</i> | 622,703 | 645,805 | 641,933 | 673,843 | 708,172 | Total earning assets | 664,850 | 626,760 | 657,105 | 690,581 | 725,763 |
| NIM (%) | 1.73% | 1.52% | 2.37% | 3.19% | 3.05% | Other assets | 41,138 | 65,290 | 61,684 | 33,974 | 11,922 |
| Non-interest income | 10,844 | 7,209 | 10,499 | 9,900 | 10,361 | Total Assets | 705,988 | 692,051 | 718,789 | 724,555 | 737,686 |
| Total operating income | 21,628 | 16,996 | 25,725 | 31,371 | 31,958 | Deposits | 591,150 | 568,522 | 598,209 | 631,795 | 644,526 |
| Non-interest expense | -17,312 | -16,247 | -15,610 | -14,755 | -14,763 | Other paying liabilities | 41,380 | 48,967 | 41,338 | 25,272 | 12,891 |
| Pre provision profit | 4,316 | 749 | 10,115 | 16,617 | 17,195 | Other liabilities | 38,940 | 24,350 | 27,041 | 5,810 | 8,573 |
| Loan loss provisions | -12,611 | -43,285 | -6,577 | -7,000 | -7,000 | Total Liabilities | 671,471 | 641,838 | 666,588 | 662,877 | 665,990 |
| Non-operating income | -11,373 | 7,125 | 202 | 0 | 0 | Equity with revaluation | 38,069 | 53,711 | 61,043 | 70,415 | 80,328 |
| Pre tax profit | -19,668 | -35,411 | 5,042 | 9,617 | 10,195 | Adjusted equity | 34,517 | 50,212 | 52,201 | 61,678 | 71,696 |
| Tax | -247 | -74 | -94 | -29 | -31 | BALANCE SHEET RATIOS | 1998A | 1999A | 2000A | 2001E | 2002E |
| Net profit | -19,559 | -35,550 | 6,164 | 9,372 | 9,913 | (%) | | | | | |
| Core earnings | -8,043 | -42,690 | 5,989 | 9,372 | 9,913 | Loan-to-deposit | 92.1% | 86.9% | 82.1% | 81.7% | 84.2% |
| PER SHARE DATA (\$\$) | 1998A | 1999A | 2000A | 2001E | 2002E | Equity to assets | 5.4% | 7.8% | 8.5% | 9.7% | 10.9% |
| EPS | (33.22) | (11.39) | 1.97 | 2.99 | 3.17 | Tier 1 Capital | - | - | - | - | - |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | Total Capital adequacy | - | - | - | - | - |
| <i>Effective payout ratio (%)</i> | 0% | 0% | 0% | 0% | 0% | Total loan provisions | 5.77% | 4.72% | 5.20% | 5.81% | 6.33% |
| BVPS | 64.66 | 17.21 | 19.50 | 22.49 | 25.66 | ASSET QUALITY | 1998A | 1999A | 2000A | 2001E | 2002E |
| ABVPS | 58.62 | 16.09 | 16.67 | 19.70 | 22.90 | Nonperforming assets | 183,864 | 185,152 | 149,553 | 125,200 | 108,191 |
| VALUATION | 1998A | 1999A | 2000A | 2001E | 2002E | Special mention | - | 18,196 | 29,690 | 31,202 | 32,792 |
| Price to book value (x) | 0.3 | 2.7 | 1.2 | 1.0 | 0.9 | Substandard | - | 31,720 | 22,482 | 20,317 | 18,360 |
| Price to adjusted book value (x) | 0.3 | 2.9 | 1.4 | 1.2 | 1.0 | Doubtful | - | 23,926 | 14,872 | 9,757 | 6,402 |
| Price to earnings (x) | -0.6 | -4.1 | 11.7 | 7.7 | 7.3 | Loss | - | 102,107 | 72,703 | 53,226 | 38,966 |
| PROFITABILITY RATIOS | 1998A | 1999A | 2000A | 2001E | 2002E | ORE | 4,256 | 9,203 | 9,806 | 10,698 | 11,671 |
| (%) | | | | | | NPAs/total loans | 33.8% | 37.5% | 30.4% | 24.3% | 19.9% |
| Net interest margin | 1.73% | 1.52% | 2.37% | 3.19% | 3.05% | Reserve coverage of NPAs | 17.1% | 12.6% | 17.1% | 24.0% | 31.8% |
| Yield on interest earning assets | n.a | 6.52% | 5.58% | 6.14% | 6.37% | Required reserves | n.a | 126,385 | 91,626 | 69,923 | 54,314 |
| Cost on interest bearing liabilities | n.a | 5.04% | 3.35% | 3.19% | 3.75% | Actual reserves | n.a | 23,325 | 25,548 | 30,014 | 34,352 |
| Net interest spread | n.a | 1.49% | 2.23% | 2.95% | 2.62% | Shortfall (surplus) | n.a | 103,060 | 66,078 | 39,909 | 19,962 |
| Non-inf. income (% Op income) | 50.1% | 42.4% | 40.8% | 31.6% | 32.4% | Actual to required reserves | n.a | 18% | 28% | 43% | 63% |
| Cost to income | 168.8% | 67.4% | 57.3% | 47.0% | 46.2% | Shortfall to capital | n.a | 192% | 108% | 57% | 25% |
| Overhead ratio | 2.78% | 2.52% | 2.43% | 2.19% | 2.08% | GROWTH RATES | 1998A | 1999A | 2000A | 2001E | 2002E |
| Cost coverage | 62.6% | 44.4% | 67.3% | 67.1% | 70.2% | (%) | | | | | |
| ROA | -2.75% | -5.09% | 0.87% | 1.30% | 1.36% | <i>Income statement</i> | | | | | |
| ROE | -53.9% | -83.9% | 12.0% | 16.5% | 14.9% | Net interest income | -55.4% | -9.2% | 55.6% | 41.0% | 0.6% |
| OROA ANALYSIS | 1998A | 1999A | 2000A | 2001E | 2002E | Non-interest income | -106.9% | -2812.2% | -16.3% | -17.5% | 4.7% |
| Net interest margin | 1.73% | 1.52% | 2.37% | 3.19% | 3.05% | Total operating income | -67.8% | 135.2% | 12.9% | 15.2% | 1.9% |
| Non-interest inc./gross inc. | -5.15% | 59.42% | 44.08% | 31.56% | 32.42% | Non-interest expenses | 15.6% | -6.1% | -3.9% | -5.5% | 0.1% |
| Efficiency ratio | 168.8% | 67.4% | 57.3% | 47.0% | 46.2% | Pre-provision earnings | -141.9% | -211.6% | 47.6% | 43.0% | 3.5% |
| Provision/assets | 1.79% | 6.25% | 0.92% | 0.97% | 0.95% | Loan loss provisions | 8.7% | 243.2% | -84.8% | 6.4% | 0.0% |
| Operating return on assets | -2.92% | -5.04% | 0.89% | 1.50% | 1.48% | Core earnings | -351.8% | 430.8% | -114.0% | 56.5% | 5.8% |
| Equity/assets | 5.39% | 7.76% | 8.49% | 9.72% | 10.89% | Net profit | -712.3% | 81.8% | -117.3% | 52.0% | 5.8% |
| Operating return on equity | -54.1% | -64.9% | 10.5% | 15.4% | 13.6% | <i>Balance sheet</i> | | | | | |
| | | | | | | Loan growth | -4.2% | -9.2% | -0.6% | 5.1% | 5.1% |
| | | | | | | Interest earning assets | 14.5% | -5.7% | 4.8% | 5.1% | 5.1% |
| | | | | | | Asset growth | -1.6% | -2.0% | 3.9% | 0.8% | 1.8% |
| | | | | | | Deposit growth | 5.8% | -3.8% | 5.2% | 5.6% | 2.0% |
| | | | | | | Shareholders funds | -8.7% | 41.1% | 13.7% | 15.4% | 14.1% |

SOUTH KOREAN BANKS**Overweight**

Our visits in Korea were generally very positive, with bankers realistic about the declining economy but still believing that the sector has been strengthened enough to keep increasing profitability and progressing towards reform.

Key Themes:

Corporate reform—more than meets the eye

Bankers are skeptical by nature, but they nevertheless feel that corporate restructuring is getting somewhat of an unfair reputation for stalled progress. The consensus is that reform of the chaebol sector will be somewhat retarded by the structural dependence of major sectors of the economy on the sumo-sized conglomerates, but also that reform has reached a point of no return, and that a true market economy is inevitable.

Lending pressure from the government still exists

However, inevitability is not always swift, and banks confirm quietly that there is still government pressure to lend to the Hyundais of the world, despite their clearly undeserving status.

NPLs coming down

Credit quality is definitely improving, with banks showing greater willingness to take actions such as write-downs and sales of NPLs—a sign of strength.

Retail market about to get crowded

Almost all banks have identified the consumer, credit card, and mortgage markets as key drivers of profitable Korean banking. However, competing against a merged Kookmin/H&CB will make it difficult for new entrants to gain critical mass in this sector.

More consolidation to come

As the government consolidates bad banks under the Woori financial holding company, the good banks are looking to one another for support. As long as Kookmin/H&CB can be completed, we expect to see other banks follow their example.

Loan breakdown (% of total)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|--------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|
| Agriculture & Mining | 10.10 | 9.96 | 10.00 | 9.88 | 10.20 | 11.08 | 11.40 | 10.06 | 10.37 | 10.36 | 10.09 | 8.58 | 8.65 | 8.11 | 7.69 | |
| Manufacturing | 39.37 | 38.65 | 38.63 | 37.07 | 37.34 | 36.01 | 35.05 | 35.29 | 34.63 | 33.70 | 33.30 | 31.90 | 32.14 | 30.43 | 30.13 | |
| Property | 8.43 | 8.43 | 8.47 | 7.85 | 8.50 | 8.77 | 8.65 | 8.70 | 9.03 | 8.68 | 8.51 | 8.32 | 8.34 | 7.98 | 8.50 | |
| Trade | 8.61 | 8.87 | 8.98 | 8.65 | 8.56 | 8.21 | 8.17 | 8.34 | 8.71 | 8.59 | 8.99 | 8.85 | 8.77 | 8.79 | 8.71 | |
| Utilities | 0.38 | 0.31 | 0.34 | 0.39 | 0.57 | 0.55 | 0.38 | 0.60 | 0.66 | 0.56 | 0.55 | 0.67 | 0.55 | 0.47 | 0.49 | |
| Banking & Finance | 1.20 | 1.35 | 1.35 | 1.92 | 2.68 | 2.71 | 2.88 | 3.37 | 3.02 | 2.98 | 2.47 | 3.05 | 2.99 | 3.56 | 4.33 | |
| Services | 0.52 | 0.60 | 0.63 | 0.67 | 0.71 | 0.75 | 0.80 | 0.96 | 1.06 | 1.13 | 1.37 | 1.47 | 1.57 | 1.62 | 1.61 | |
| Transport, Storage and Communication | 1.53 | 1.51 | 1.54 | 1.73 | 1.89 | 1.81 | 1.90 | 2.04 | 2.00 | 1.92 | 2.22 | 2.03 | 1.74 | 2.24 | 2.24 | |
| Public | 2.30 | 2.35 | 2.41 | 2.61 | 2.78 | 3.22 | 3.29 | 2.92 | 2.75 | 2.80 | 3.24 | 3.50 | 2.71 | 2.73 | 2.93 | |
| Housing | 10.03 | 9.61 | 9.33 | 9.79 | 9.46 | 9.71 | 10.09 | 9.75 | 9.09 | 8.53 | 8.63 | 8.73 | 8.90 | 8.84 | 8.00 | |
| Consumer | 17.54 | 18.34 | 18.32 | 19.42 | 17.31 | 17.17 | 17.39 | 17.97 | 18.67 | 20.75 | 20.63 | 22.89 | 23.64 | 25.22 | 25.38 | |

Loan growth (% yoy)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|--------------------------------------|-------|-------|--------|-------|--------|--------|--------|-------|-------|-------|--------|-------|-------|-------|--------|------|
| Agriculture & Mining | 12.01 | 9.32 | 11.32 | 12.88 | 13.26 | 18.36 | 11.03 | 1.69 | 0.20 | -0.24 | 6.67 | 6.54 | 5.58 | 1.12 | -4.26 | |
| Manufacturing | 17.68 | 15.33 | 10.31 | 6.93 | 6.47 | -0.93 | -11.62 | -4.85 | -8.66 | -0.12 | 14.47 | 12.91 | 17.45 | 16.56 | 13.78 | |
| Property | 26.22 | 25.12 | 17.37 | 7.78 | 13.26 | 10.59 | -0.54 | 10.73 | 4.60 | 5.64 | 18.60 | 19.54 | 16.88 | 18.70 | 25.50 | |
| Trade | 32.46 | 30.26 | 21.35 | 17.37 | 11.63 | -1.61 | -11.37 | -3.68 | 0.20 | 11.66 | 32.60 | 32.63 | 27.45 | 32.12 | 21.81 | |
| Utilities | 72.63 | 51.51 | -11.98 | 27.33 | 68.88 | 87.76 | 7.24 | 52.08 | 14.44 | 8.37 | 76.48 | 40.29 | 5.98 | 8.98 | 11.27 | |
| Banking & Finance | 78.48 | 64.32 | 6.69 | 72.85 | 150.07 | 113.44 | 108.53 | 75.10 | 10.85 | 17.54 | 3.05 | 12.99 | 25.67 | 54.07 | 120.86 | |
| Services | 63.32 | 71.95 | 55.00 | 55.13 | 51.80 | 33.00 | 23.79 | 42.73 | 47.94 | 59.46 | 107.11 | 91.81 | 87.09 | 86.22 | 47.37 | |
| Transport, Storage and Communication | 23.79 | 24.51 | 19.41 | 27.17 | 39.35 | 27.40 | 20.02 | 17.82 | 4.19 | 13.33 | 40.36 | 24.24 | 9.58 | 50.39 | 27.10 | |
| Public | 28.10 | 25.89 | 25.42 | 26.30 | 35.63 | 45.61 | 32.68 | 11.55 | -2.66 | -7.14 | 18.67 | 50.09 | 24.62 | 25.40 | 13.89 | |
| Housing | 0.02 | 4.09 | 4.10 | 5.75 | 5.81 | 7.35 | 5.27 | -0.46 | -5.33 | -6.14 | 3.10 | 11.93 | 23.90 | 33.72 | 16.52 | |
| Consumer | 36.46 | 28.37 | 22.78 | 22.96 | 10.82 | -0.44 | -7.57 | -7.49 | 6.22 | 28.99 | 42.99 | 59.10 | 60.23 | 56.83 | 54.68 | |
| Total | 20.82 | 18.82 | 13.93 | 13.10 | 12.24 | 6.33 | -2.61 | -0.06 | -1.52 | 6.74 | 20.50 | 24.94 | 26.56 | 29.06 | 25.74 | |

Deposit breakdown (% of total)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|
| Demand | 37.81 | 38.46 | 27.01 | 27.51 | 21.05 | 20.36 | 18.36 | 19.29 | 15.81 | 17.76 | 17.54 | 17.28 | 13.94 | 14.62 | 11.85 | |
| Savings | 25.98 | 23.61 | 39.76 | 35.59 | 25.83 | 20.76 | 21.08 | 21.36 | 21.50 | 22.31 | 23.72 | 22.38 | 22.32 | 20.86 | 20.93 | |
| Time | 36.21 | 37.93 | 33.23 | 36.89 | 53.12 | 58.87 | 60.56 | 59.36 | 62.69 | 59.93 | 58.74 | 60.34 | 63.74 | 64.52 | 67.21 | |

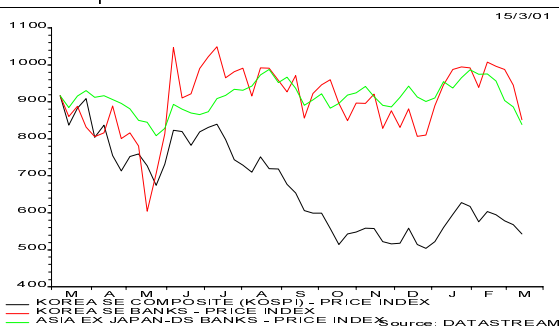
Deposit growth (% yoy)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|---------|-------|-------|--------|--------|--------|--------|--------|--------|-------|-------|-------|-------|-------|-------|--------|------|
| Demand | 17.47 | 18.09 | -7.65 | -20.29 | -19.47 | -17.24 | -2.27 | 6.56 | 18.86 | 18.05 | 24.05 | 11.83 | 9.21 | 10.14 | -12.08 | |
| Savings | 22.57 | 11.46 | 112.87 | 94.44 | 43.86 | 37.39 | -23.78 | -8.78 | 29.46 | 45.47 | 46.13 | 30.76 | 28.63 | 25.12 | 14.82 | |
| Time | 19.31 | 20.90 | 25.33 | 41.69 | 112.29 | 142.57 | 161.99 | 144.62 | 83.53 | 37.78 | 25.95 | 26.87 | 25.98 | 44.08 | 48.86 | |
| Total | 19.43 | 17.48 | 34.34 | 26.81 | 44.69 | 56.27 | 43.77 | 52.03 | 55.53 | 35.36 | 29.86 | 24.80 | 23.90 | 33.82 | 30.10 | |

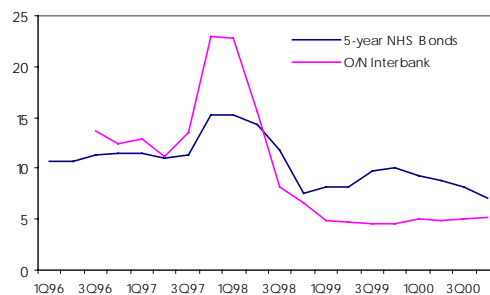
Interest Rates (%)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|------|------|------|------|------|
| Prime Lending | 11.47 | 11.38 | 11.83 | 15.32 | 17.18 | 16.59 | 14.24 | 11.11 | 10.15 | 8.95 | 8.75 | 8.52 | 8.76 | 8.54 | 8.39 | 8.39 |
| Deposits | 3.00 | 3.00 | 5.02 | 5.13 | 4.78 | 4.73 | 4.57 | 4.33 | 3.76 | 3.08 | 3.01 | 3.07 | 2.92 | 2.89 | 2.81 | 2.75 |
| O/N Interbank | 12.86 | 11.23 | 13.45 | 23.00 | 22.85 | 15.63 | 8.12 | 6.66 | 4.92 | 4.74 | 4.62 | 4.62 | 5.00 | 4.85 | 4.97 | 5.20 |

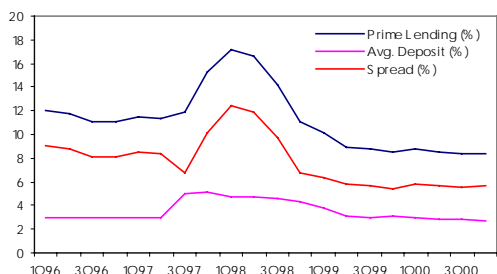
Recent market performance



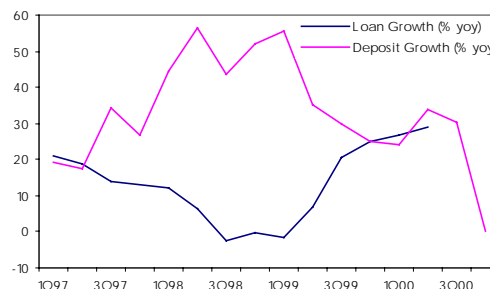
Market interest rates (%)



Average lending and deposit rates (%)



Loan and deposit growth (% yoy)



MINISTRY OF FINANCE (SOUTH KOREA)

We met with a Director of South Korea's Ministry of Finance to discuss ongoing financial sector reforms, together with the outlook for the economy going forward.

Outlook for South Korea

In the Director's opinion, the most important event impacting South Korea's economy is China's impending ascension to the WTO. Shorter-term, the major issue is that the markets are currently extremely volatile, with the uncertainty in the US contributing to the volatility. South Korea is currently undergoing a rapid economic slowdown. GDP growth this year is at 4.6% quarter on quarter, compared to last year's annual growth rate of 8.8%.

The Ministry estimates that South Korea will grow at approximately 4% this year if the US experiences a hard landing, and assumes a pick-up to 5-6% growth for next year as the economy moves out of the cycle. Longer-term, the Ministry believes growth of 5-6% is sustainable. The growth rates experienced in recent years of around 9-10% are not sustainable—hence the current slowdown to 4% is only natural.

Export Sector

Exports to the US account for 22% of total South Korean exports. Up to now, the IT sector has been driving the growth—the direct dependency of the IT sector on the US is as high as 40% or more. Exports to China account for 11% of total exports. The trade surplus with China is large and increasing. Japan accounts for 11% of South Korean exports. Korean products compete head-to-head with Japanese products and it is thought that when the Japanese Yen depreciates the cost of Korean Won inputs also decreases. The two currencies have been in lock-step, but this relationship is not sustainable.

Currency Markets

Although the market believes the Korean Won needs to move with the Japanese Yen to maintain competitiveness, any assessment needs to be based on fundamentals. Korean growth has been at 10% p.a., compared with Japanese growth, this should lead to appreciation of the Won versus the Yen. Examination of the capital account also shows that inflows are exceeding outflows—there is a natural tendency towards appreciation.

Economic Reform and Stimulus

The Korean economy may be quite similar to that of Japan's, however Korea has been more aggressive at tackling reforms and identifying new trends. Following the Asian financial crisis, Korea opened up the finance sector while keeping the industrial sector sheltered. Foreign investors today own up to 30% of the stock market. The next step is to improve the processes by which shareholders can have influence on management decision making.

Going forward, the Ministry of Finance doesn't consider it important if the recovery from this slowdown is delayed to the second half of this year. The budget is currently near balance with a small deficit of 0.12% of GDP. Hence, the Government has flexibility to introduce a fiscal stimulus should it be required in the second half. Monetary policy will very much be dictated by the US and Japan, both of whom have taken a loosening

stance. Hence, levers exist that can be utilised to mitigate the severity of the current slowdown.

Financial Sector Reforms

The reform of the financial sector has been structured over a period of three years. The first phase is near completion with a lot accomplished in terms of re-capitalising the financial sector, de-leveraging the industrials and strengthening corporate governance. There are lessons to be learned from the experience with KAMCO, however. Generally, asset sales were not well managed. Administrators looked at the sunk cost of assets rather than the on-going value.

Also, those involved were afraid of being held liable for loss, hence potential sales were delayed. If assets had been sold early, Korea might have received \$6 or 7 billion. Now these assets are only worth around \$3 billion. There was no system set-up to sell assets and the government was deficient in not providing human incentives and educating the public.

Apart from ongoing financial sector reform, the Government is currently tackling three major areas of focus:

- Streamlining of bankruptcy laws: There is much to be achieved in this area. There are currently three active related laws—these will be changed to focus more on fair treatment not value maximisation.
- Assisting the establishment of M&A funds: This will require changes to the law to allow the establishment of private M&A funds. Such a change will allow market forces to have more of an impact on management decision making.
- Continuing chaebol reform: On the 1st of April we will re-introduce the cross-shareholding ceiling of 25%. Hyundai may be separated into four smaller groups; this will allow it to focus more on core competencies. There will be a phase-out period that is required.

Evaluating Reform Progress

Investors need to be realistic on reforms and look at a period of time rather than a snapshot. South Korea is a young economy, really only developing since the end of the war in 1953. Since reforms started three years ago, we have seen average leverage levels at the chaebols fall from over 400% to around 140-150% now. The economy now is like a teenager—the structures may be fully developed but there is still some way to go before maturity sets in.

For the banking system in five years time, the Ministry hopes to have fixed the “hardware side” in terms of re-capitalisations. The Ministry also wants to fix the “software side” so the system can efficiently allocate resources—this is not happening yet. The Government expects the entry of foreign investors to help with this process (e.g. Korea First Bank and SeoulBank).

There should be fewer but bigger banks that are able to provide universal financial services. Ownership in financial institutions is currently capped at 4%. While this measure has been effective at preventing chaebol control, consolidation will not be effective without permitting substantial owners of banks. The cap will be increased to 10%.

Capital Markets Initiatives

South Korea experienced a liquidity crunch in November and December last year; however, this has eased early this year with several corporate bond issues. Many firms such as Hyundai are making operating profits, but posting net losses due to large debt positions. The country has a large primary debt market but virtually no secondary market. The government is trying to encourage active trading by issuing 3-year, 5-year and (for the first time) 10-year bonds.

The Ministry plans to request that financial institutions begin marking debt securities to market. This will force institutions to manage their debt positions. Korea also has problems with the complexity of tax measures in the Repo market, which hinders liquidity. This will be changed in April. Dealers at the inter-broker level will also be linked to improve the liquidity of the market.

The Human Side of Reform

Currently the unemployment rate in South Korea is 4.8%—labour has helped to shoulder the pain of reform. Generally, social acceptance to reform is still strong. Recently, bank and railway unions have been forced to back down from industrial action due to lack of public support. There is also greater acceptance of merit based pay. Due to the success of the IT sector, graduates are more interested in joining smaller, more entrepreneurial firms rather than just Hyundai and Samsung. Korean labour fundamentals are good: currently the average age of the population is 33 years, and the average level of education is 14 years.

However, a cautionary word; after a few years of 10% growth, people are becoming complacent and resistance to reform is creeping back in.

This page intentionally left blank

KOOKMIN BANK: Strong retail banking franchise drives loan growth**1-Strong buy***Financial performance and outlook*

We met with management of Kookmin Bank to discuss merger-related issues and the outlook for Korean Banks generally.

Kookmin's efforts to become the dominant retail platform are paying off, with FY2000 net income rising 567% from the 1999 level on a healthy 14.6% increase in earning assets. The bank earned an 18% ROE, while capital ratios slipped only slightly. Management's pre-merger targets call for net income of W1.05 trillion, a 45% increase over 2000 numbers. This target assumes consolidated loan growth of 17% and deposit growth of 20%. Balance sheet goals include an NPL ratio of 5.0%, CAR of 11.0%, and ROE of 21.8%.

Despite declining spreads, margins remain resilient

Interest spreads have declined considerably over the latest three year period, however net interest margin has remained fairly steady, albeit with downward pressure. In management's opinion, the competitive advantage of Kookmin is evident in margins that have stayed 50-100 bp above the industry average. Given the business mix of the bank and its deposit pricing power this should continue to be true. Fee income has been growing (up 33% in FY2000), but most of the increase is still coming from credit cards, offsetting falling trust income.

Outlook for loan book mix and asset quality

Kookmin has been adjusting the loan mix toward households, which now account for 35% of total loans, while reducing corporate exposure—in particular that of large corporates which has declined from 25% to 17% since 1998. This change should lower the inherent risk of lending through a better-diversified portfolio. Headline NPLs⁴ declined 25% in absolute terms over the last twelve months, falling from 11.3% of total loans to 7.0% due to portfolio growth. Precautionary and below loans, fell only 13% however, and still account for 12.4% of total loans. Reserve coverage increased to 57.9% in 2000 from 44.5% in 1999.

The bank will take additional provisions this year for exposure to Hyundai group companies. As of end February, total Hyundai group exposure, including direct loans as well as bonds and trust loans, were W1,149.5 billion. Against this, total collateral and guarantees together with provision of W50.3 billion, total W173.3 billion.

Merger with H & CB

Kookmin believes the cultures of the two banks are similar, in part as Kookmin was involved in the startup of H&CB. Customer attrition is expected to be around 10% due to overlap of the customer base but is expected to be kept under control as few branches will be closed. Both banks use the same hardware platforms, however compatibility of software is currently unknown. Following the merger, management expects to increase profits 5% (approx. W191 billion) or a 10 basis point margin increment due to pricing power synergies from the cost of funds and the revenue side. Most increased profit targets for the merged entity come from revenue and scale synergies, rather than cost saves.

⁴ defined as Substandard and below

| Kookmin | | | | | Reuters Code: 2313.KS | | | | |
|---|------------|------------|------------|------------|---------------------------------|------------|------------|-------------|-------------|
| Share Price (KRW): 14,900 | | | | | Index: 561.62 | | | | |
| 52 Week Price Range (KRW): 18,900 - 9,200 | | | | | Current Yield: 6.29% | | | | |
| Bloomberg Code: 2313 KS | | | | | Shares Outstanding (MM): 299.65 | | | | |
| INCOME STATEMENT | | | | | BALANCE SHEET | | | | |
| (KRWm) year ended Dec | | | | | (KRWm) year ended Dec | | | | |
| | 1999A | 2000A | 2001E | 2002E | | 1999A | 2000A | 2001E | 2002E |
| Interest income | 6,853,045 | 6,788,556 | 7,351,879 | 7,946,620 | Gross loans | 39,565,557 | 48,445,214 | 56,388,778 | 63,443,443 |
| Interest expense | -5,028,924 | -4,947,070 | -5,025,315 | -5,504,805 | Specific loan loss reserves | 0 | 0 | 0 | 0 |
| Net interest income | 1,824,121 | 1,841,486 | 2,326,564 | 2,441,815 | Loan loss reserves | -2,515,838 | -2,250,507 | -3,171,735 | -3,217,254 |
| Ave. int. earnings assets | 65,626,411 | 66,232,893 | 79,998,320 | 98,228,672 | Net loans | 37,049,719 | 46,194,707 | 53,217,043 | 60,226,189 |
| NIM (%) | 2.78% | 2.78% | 2.91% | 2.49% | Other earning assets | 28,576,692 | 20,644,667 | 39,940,224 | 43,073,888 |
| Non-interest income | 2,885,974 | 3,753,650 | 2,678,307 | 2,821,834 | Other assets | 7,335,764 | 24,259,391 | 8,349,354 | 8,927,068 |
| Total operating income | 4,710,095 | 5,595,136 | 5,004,871 | 5,263,649 | Total Assets | 72,962,175 | 91,098,765 | 101,506,621 | 112,227,145 |
| Non-interest expense | -3,131,029 | -3,514,000 | -3,102,948 | -3,354,196 | Deposits | 44,537,854 | 58,244,627 | 66,005,100 | 74,585,763 |
| Pre provision profit | 1,579,066 | 2,081,136 | 1,901,922 | 1,909,452 | Other paying liabilities | 20,955,180 | 21,031,865 | 26,268,955 | 27,164,240 |
| Loan loss provisions | -1,387,190 | -916,624 | -524,843 | -289,075 | Other liabilities | 3,998,573 | 7,570,607 | 4,941,570 | 5,414,136 |
| Non-operating income | -87,564 | -29,990 | 0 | 0 | Total Liabilities | 69,491,607 | 86,847,099 | 97,215,624 | 107,164,139 |
| Pre tax profit | 104,312 | 1,134,522 | 1,377,080 | 1,620,377 | Minorities & other | 0 | 0 | 0 | 0 |
| Tax | -121,483 | -448,269 | -413,124 | -486,113 | Shareholders' funds | 3,488,063 | 4,251,666 | 4,308,491 | 5,080,502 |
| Net profit | -29,806 | 592,416 | 935,970 | 1,102,872 | LOAN BOOK | | | | |
| PER SHARE DATA (KRW) | | | | | (W b) | | | | |
| | 1999A | 2000A | 2001E | 2002E | SMEs | 1999A | 2000A | 2001E | 2002E |
| EPS | -109 | 1,977 | 3,124 | 3,681 | Large corporates | 6,818 | 11,826 | 8,544 | 8,800 |
| DPS | 50 | 500 | 937 | 1,104 | Mortgage | 5,188 | 6,807 | 8,600 | 10,578 |
| Effective payout ratio (%) | -46% | 25% | 30% | 30% | Personal | 6,915 | 9,073 | 11,317 | 13,128 |
| BVPS | 10,950 | 14,189 | 13,688 | 16,265 | Others | 628 | 429 | 137 | 138 |
| ABVPS | 9,175 | 14,886 | 12,049 | 14,775 | Total loans | 35,004 | 49,430 | 51,410 | 58,650 |
| VALUATION | | | | | LOAN BOOK BREAKDOWN | | | | |
| | 1999A | 2000A | 2001E | 2002E | | 1999A | 2000A | 2001E | 2002E |
| Price to book value (x) | 1.6 | 1.1 | 1.1 | 0.9 | (%) | | | | |
| Price to adjusted book value (x) | 1.9 | 1.0 | 1.2 | 1.0 | SMEs | 44% | 43% | 44% | 44% |
| Price to earnings (x) | -163.1 | 7.5 | 4.8 | 4.0 | Large corporates | 19% | 24% | 17% | 15% |
| PROFITABILITY RATIOS | | | | | Mortgage | 15% | 14% | 17% | 18% |
| (%) | 1999A | 2000A | 2001E | 2002E | Personal | 20% | 18% | 22% | 22% |
| Net interest margin | 2.78% | 2.78% | 2.91% | 2.49% | Others | 2% | 1% | 0% | 0% |
| Yield on interest earning assets | 8.53% | 10.25% | 8.29% | 8.09% | Total loans | 100% | 100% | 100% | 100% |
| Cost on interest bearing liabilities | 5.75% | 6.83% | 5.70% | 5.67% | BALANCE SHEET RATIOS | | | | |
| Net interest spread | 2.78% | 3.42% | 2.59% | 2.42% | (%) | 1999A | 2000A | 2001E | 2002E |
| Non-int. income (% Op income) | 61.3% | 67.1% | 53.5% | 53.6% | Loan-to-deposit | 83.2% | 79.3% | 80.6% | 80.7% |
| Cost to income | 66.5% | 62.8% | 62.0% | 63.7% | Loan-to-deposit (incl. CDs) | 0.0% | 0.0% | 0.0% | 0.0% |
| Overhead ratio | 4.29% | 4.28% | 3.22% | 3.14% | Equity to assets | 4.8% | 4.7% | 4.2% | 4.5% |
| Cost coverage | 92.2% | 106.8% | 86.3% | 84.1% | Tier 1 Capital | 7.0% | 6.8% | 6.2% | 6.4% |
| ROA | -0.04% | 0.65% | 0.97% | 1.03% | Total Capital adequacy | 11.4% | 11.2% | 9.4% | 9.4% |
| ROE | -0.9% | 13.9% | 23.5% | 23.5% | General reserves (% loans) | -6.36% | -4.65% | -5.62% | -5.07% |
| DUPONT ANALYSIS | | | | | Specific reserves (% loans) | 0.00% | 0.00% | 0.00% | 0.00% |
| | 1999A | 2000A | 2001E | 2002E | Total loan provisions | -6.36% | -4.65% | -5.62% | -5.07% |
| Lending operations | | | | | ASSET QUALITY | | | | |
| Net interest margin | 2.78% | 2.78% | 2.91% | 2.49% | | 1999A | 2000A | 2001E | 2002E |
| Interest earnings assets/assets | 89.95% | 80.74% | 83.07% | 91.92% | Nonperforming loans | 5,110,680 | 4,015,777 | 5,230,604 | 4,871,124 |
| NIM contribution to ROA | 2.50% | 2.24% | 2.42% | 2.28% | NPL ratio | 11.2% | 8.3% | 8.1% | 6.7% |
| Non-interest operations | | | | | Total provisions/NPLs | 46.3% | 56.0% | 57.8% | 63.0% |
| Non-interest income/assets | 3.96% | 4.58% | 2.78% | 2.64% | GROWTH RATES | | | | |
| Overhead ratio | 4.29% | 4.28% | 3.22% | 3.14% | (%) | 1999A | 2000A | 2001E | 2002E |
| Non-int. contribution to ROA | -0.34% | 0.29% | -0.44% | -0.50% | Income statement | | | | |
| Asset quality analysis | | | | | Net interest income | | 1.0% | 26.3% | 5.0% |
| Provision/loans | -3.74% | -2.20% | -1.06% | -0.51% | Non-interest income | | 30.1% | -28.6% | 5.4% |
| Loans/assets | 50.78% | 50.74% | 51.61% | 53.08% | Total operating income | | 18.8% | -10.5% | 5.2% |
| ROA effect from asset quality | -1.90% | -1.12% | -0.54% | -0.27% | Operating expenses | | 12.2% | -11.7% | 8.1% |
| Core ROA | 0.26% | 1.42% | 1.43% | 1.52% | Pre-provision earnings | | 31.8% | -8.6% | 0.4% |
| Non-core contribution to ROA | -0.12% | -0.04% | 0.00% | 0.00% | Loan loss provisions | | -33.9% | -42.7% | -44.9% |
| Pre-tax ROA | 0.14% | 1.38% | 1.43% | 1.52% | Net profit | | -2087.6% | 58.0% | 17.8% |
| Tax rate | 29.50% | 39.51% | 30.00% | 30.00% | Balance sheet | | | | |
| After tax ROA | -0.04% | 0.65% | 0.97% | 1.03% | Loan growth | | 22.4% | 16.4% | 12.5% |
| | | | | | Interest earning assets | | 1.4% | 39.4% | 10.6% |
| | | | | | Asset growth | | 24.9% | 11.4% | 10.6% |
| | | | | | Deposit growth | | 30.8% | 13.3% | 13.0% |
| | | | | | Shareholders funds | | 21.9% | 1.3% | 17.9% |

KOREA FIRST BANK: New capital, new chance, Newbridge**Not rated**

As part of the Asian Bank Tour we met with KFB management together with management of Newbridge Capital, for a discussion on the progress of the turnaround.

| | |
|---|--|
| <i>Transaction Background</i> | KFB is one of the oldest banks in Korea—this led to trouble as it was one of the natural lead banks for chaebol lending. The bank purchase by Newbridge was brought to closure in January 2000—₩500 billion was paid for 51% ownership with 100% voting control. The deal is essentially an asset play on the bank's distribution network, and is unique in that a firewall has been set-up to shield new investors from potentially bad assets. Prior to deal closure, all NPLs, redundant assets and equity securities were put to the government creating a clean balance sheet. KFB also received guarantees on fixed income securities together with two-year puts on all loans, and three-year puts on workout loans and loans to financial institutions. Newbridge also negotiated a shareholders' agreement with the government that leaves Newbridge with effective control while affording the government certain minority protection. |
| <i>Asset quality and investor downside protection</i> | Unprotected NPLs are only 0.7% of total credits—perhaps the cleanest balance sheet in Korea. Management have a Put to the government, with three options, either: 1) fund required reserves against loans the bank considers impaired; 2) purchase loans at net book value; or 3) seek adjudication in the case of any disagreement. |
| <i>Prospective loan mix and pricing</i> | In loan pricing, KFB are the high end of the market. The bank plans to adjust its loan mix over the next four years—increasing consumer from 43% to 50%, while reducing corporate from 35% to 26% and increasing SME from 22% to 24%. A new mortgage product is being rolled out—the existing market is typically limited to short term non-amortizing loans; KFB offers full-amortizing loans with 25-30 year term (average term is 10 years). |
| <i>Interest rate risk exposure and management</i> | Strong financial discipline is part of bank culture. The bank has some exposure to falling rates—using a scenario of a 200bp gradual decline KFB keeps risk limits of +/- 10% on an earnings basis, and +/- 25% on a capital basis. |
| <i>Fee income and cross-selling are increasingly important</i> | KFB is not going after private banking—the lion's share of their balances are mass-market, and that according to management is the most under-served part of the market. The bank is focusing on product diversification via an alliance with Templeton. Since the alliance was initiated last year, KFB has managed to attract more than ₩500 billion worth of managed funds. KFB's cross-sell ratio was at 1.2-1.5 when Newbridge took over, it is now estimated at 2 and management are targeting much higher. |
| <i>Any acquisition would have to preserve KFB's clean balance sheet</i> | The bank could use their NOLs to offset profits on any acquisition. The timing for any potential transaction would not be in the near term, however—executing the current business plan is the focus. |

| Korea First Bank | | | | Reuters Code: | 0011.KS | Shares Outstanding (MM): | | 196.12 |
|--------------------------------------|------------------|----------------|--------------|-------------------------------|---------------|--------------------------|---------------|--------|
| Share Price (KRW): | 2,645 (suspend.) | Index: | 561.62 | Bloomberg Code: | 0011 KS | | | |
| 52 Week Price Range (KRW): | 2,645 - 2,645 | Current Yield: | 0.00% | | | | | |
| INCOME STATEMENT | 1998A | 1999A | 2000A | BALANCE SHEET | 1998A | 1999A | 2000A | |
| <i>(W/b) year ended Dec</i> | | | | <i>(W/b) year ended Dec</i> | | | | |
| Interest income | 2,672 | 1,702 | 1,830 | Gross loans | 15,788 | 12,892 | 14,243 | |
| Interest expense | -2,641 | -1,477 | -1,294 | Specific loan loss reserves | 0 | 0 | 0 | |
| Net interest income | 30 | 225 | 536 | Loan loss reserves | -1,511 | -444 | -789 | |
| | | | | Net loans | 14,277 | 12,448 | 13,454 | |
| Ave. int. earnings assets | 19,945 | 20,344 | 20,877 | Other earning assets | 5,668 | 8,295 | 7,557 | |
| NIM (%) | 0.15% | 1.11% | 2.57% | Other assets | 5,742 | 5,391 | 4,442 | |
| | | | | Total Assets | 25,687 | 26,135 | 25,453 | |
| Non-interest income | 1,037 | 1,662 | 232 | Deposits | 13,863 | 15,698 | 16,904 | |
| Total operating income | 1,068 | 1,887 | 767 | Other paying liabilities | 8,031 | 6,229 | 5,459 | |
| | | | | Other liabilities | 6,972 | 3,227 | 1,787 | |
| Non-interest expense | -2,885 | -4,164 | -4,82 | Total Liabilities | 28,866 | 25,154 | 24,149 | |
| Pre provision profit | -1,818 | -2,277 | 286 | Minorities & other | 0 | 0 | 0 | |
| | | | | Shareholders' funds | 49 | 981 | 1,303 | |
| Loan loss provisions | -797 | -250 | -56 | | | | | |
| Non-operating income | 0 | 1,523 | 19 | LOAN BOOK | 1998A* | 1999A | 2000A | |
| Pre tax profit | -2,615 | -1,004 | 248 | (KRWbn) | | | | |
| | | | | SMEs | 0 | 0 | 0 | |
| Tax | 0 | -1 | 58 | Large corporates | 12,579 | 10,271 | 8,136 | |
| Net profit | -2,615 | -1,005 | 306 | Mortgage | 2,118 | 1,730 | 5,033 | |
| | | | | Personal | 192 | 157 | 619 | |
| PER SHARE DATA (KRW) | 1998A | 1999A | 2000A | Others | 899 | 734 | 474 | |
| EPS | -8,172 | -1,703 | 1,562 | Total loans | 15,788 | 12,892 | 14,261 | |
| DPS | 0 | 0 | 0 | <i>* These values imputed</i> | | | | |
| Effective payout ratio (%) | 0% | 0% | 0% | LOAN BOOK BREAKDOWN | 1998A | 1999A | 2000A | |
| BVPS | 160.14 | 5 | 7 | (%) | | | | |
| ABVPS | 160.14 | 5 | 7 | SMEs | 0% | 0% | 0% | |
| | | | | Large corporates | 80% | 80% | 57% | |
| VALUATION | 1998A | 1999A | 2000A | Mortgage | 13% | 13% | 35% | |
| Price to book value (x) | 17.2 | 580.6 | 398.0 | Personal | 1% | 1% | 4% | |
| Price to adjusted book value (x) | 17.2 | 580.6 | 398.0 | Others | 6% | 6% | 3% | |
| Price to earnings (x) | na | na | 1.7 | Total loans | 100% | 100% | 100% | |
| | | | | BALANCE SHEET RATIOS | 1998A | 1999A | 2000A | |
| PROFITABILITY RATIOS | 1998A | 1999A | 2000A | (%) | | | | |
| (%) | | | | Loan-to-deposit | 103.0% | 79.3% | 79.6% | |
| Net interest margin | 0.15% | 1.11% | 2.57% | Loan-to-deposit (incl. CDs) | 0.0% | 0.0% | 0.0% | |
| Yield on interest earning assets | 13.39% | 8.37% | 8.76% | Equity to assets | 0.2% | 3.8% | 5.1% | |
| Cost on interest bearing liabilities | 12.06% | 6.74% | 5.84% | Tier 1 Capital | -1.3% | 6.9% | 6.9% | |
| Net interest spread | 1.33% | 1.63% | 2.92% | Total Capital adequacy | -1.5% | 11.4% | 11.4% | |
| Non-int. income (% Op in come) | 97.2% | 88.1% | 30.2% | General reserves (% loans) | -9.57% | -3.44% | -5.54% | |
| Cost to income | 158.7% | 182.9% | -168.5% | Specific reserves (% loans) | 0.00% | 0.00% | 0.00% | |
| Overhead ratio | 11.23% | 15.93% | 1.89% | Total loan provisions | -9.57% | -3.44% | -5.54% | |
| Cost coverage | 36.0% | 39.9% | 48.1% | ASSET QUALITY | 1998A | 1999A | 2000A | |
| ROA | -10.18% | -3.84% | 1.20% | Nonperforming loans | 3,832 | 26 | 253 | |
| ROE | -5391.5% | -102.5% | 23.5% | NPL ratio | 24.3% | 0.2% | 1.8% | |
| | | | | Total provisions/NPLs | 39.4% | 1706.2% | 311.9% | |
| DUPONT ANALYSIS | 1998A | 1999A | 2000A | GROWTH RATES | 1998A | 1999A | 2000A | |
| <u>Lending operations</u> | | | | (%) | | | | |
| Net interest margin | 0.15% | 1.11% | 2.57% | <u>Income statement</u> | | | | |
| Interest earnings assets/assets | 77.65% | 77.84% | 82.02% | Net interest income | | 645.4% | 138.0% | |
| NIM contribution to ROA | 0.12% | 0.86% | 2.10% | Non-interest income | | 60.2% | -86.1% | |
| | | | | Total operating income | | 76.8% | -59.3% | |
| <u>Non-interest operations</u> | | | | Operating expenses | | 44.3% | -88.4% | |
| Non-interest income/assets | 4.04% | 6.36% | 0.91% | Pre-provision earnings | | na | na | |
| Overhead ratio | 11.23% | 15.93% | 1.89% | Loan loss provisions | | -68.6% | -77.5% | |
| Non-int. contribution to ROA | -7.19% | -9.57% | -0.98% | Net profit | | na | na | |
| | | | | <u>Balance sheet</u> | | | | |
| <u>Asset quality analysis</u> | | | | Loan growth | | -12.8% | 8.1% | |
| Provision/loans | -5.58% | -2.01% | -0.42% | Interest earning assets | | 2.0% | 2.6% | |
| Loans/assets | 55.58% | 47.63% | 52.86% | Asset growth | | 1.7% | -2.6% | |
| ROA effect from asset quality | -3.10% | -0.96% | -0.22% | Deposit growth | | 13.2% | 7.7% | |
| | | | | Shareholders funds | | 1921.9% | 32.9% | |
| Core ROA | -10.18% | -9.67% | 0.90% | | | | | |
| Non-core contribution to ROA | 0.00% | 5.83% | 0.07% | | | | | |
| Pre-tax ROA | -10.18% | -3.84% | 0.98% | | | | | |
| Tax rate | 0.01% | 0.06% | 23.40% | | | | | |
| After tax ROA | -10.18% | -3.84% | 1.20% | | | | | |

KORAM BANK: High loan quality - lending independence**2-Buy**

We met with management of KorAm Bank and controlling shareholder Carlyle Group. The meeting took the form of a spirited discussion of KorAm's strategy and positioning and the outlook for the Korean banking environment.

Truly leveraged to the SME segment

The bank's traditional strength lies in the SME sector. In contrast to all the other banks scrambling to get into the SME segment now however, KorAm loan officers understand the alpha to omega of their clients—which explains why their clients continue to choose them. KorAm may not have a stated strategy that is too different from what the other banks say they do, KorAm simply executes it better.

Tradition of credit quality plus a cleaned out balance sheet

Obviously credit quality has been the key driver for the sector—KorAm has a legacy of good credit practices from their Bank of America heritage. The bank has over 200 credit officers, each handling around 60 clients. The client base is solid, with many customers having an 18-year credit history. This was confirmed when Carlyle examined the loan book, borrower by borrower and loan by loan. KorAm cleaned the loan book at year end by provisioning against every loan Carlyle found unsound on a very strict basis. The bank now has 89% coverage of NPLs; very conservative compared with its peers. To further cut NPLs, the bank plans to sell ₩1.1 trillion in NPLs during 2001. These NPLs are provisioned fully, and their sale will not cause additional losses.

Credit cards too

KorAm views credit cards as a very lucrative market and recently entered into an alliance with the Shinsegae Department Store (one of Korea's leading department store chains) which pioneered the use of store cards in Korea. The JV involved the purchase of the department store's existing card business of approximately 1.6 million cardholders by KorAm, of which about 800,000 are active accounts. So far, the portfolio of card customers has experienced delinquencies of approx. 0.6%. In the short-term, the bank intends to increase card utilisation through new products and conversion of this portfolio.

KorAm also sees opportunity in the introduction of a purchasing card to replace the current Korean practice of using promissory notes for procurement. The bank aims to open around 600,000 accounts for this card, targeting its traditional SME base. Further acquisitions of card operations are possible on a cyclical and strategic basis.

Shareholders and their aims

Carlyle purchased KorAm as an equity investment and turnaround play after looking at over ten banks throughout Asia. They were attracted to KorAm because of the good culture and the quality of management at the bank, the attractive fundamental financial value of the institution, and a favorable macro forecast over the investment term. Bank of America, who have stated their intention to sell their 10% stake, have clarified that any divestment is unlikely in the short-term. Samsung Group, which also owns 10% of KorAm, does not have a bank within the group due to restrictions on chaebol/bank cross-ownership—but would like one. Hence, they are not likely to want to sell their ownership in case the regulations change in the future.

| KorAm | | | | | Reuters Code: 1683.KS | | | | |
|--------------------------------------|------------------|------------------|------------------|------------------|-----------------------------|-------------------|--------------------------|-------------------|-------------------|
| Share Price (KRW): | 7,080 | | Index: | 561.62 | Bloomberg Code: | 1683 KS | Shares Outstanding (MM): | 163.07 | |
| 52 Week Price Range (KRW): | 7,700 - 4,800 | | Current Yield: | 0.00% | | | | | |
| INCOME STATEMENT | | | | | BALANCE SHEET | | | | |
| (KRWm) year ended Dec | 1999A | 2000A | 2001E | 2002E | (KRWm) year ended Dec | 1999A | 2000A | 2001E | 2002E |
| Interest income | 1,873,245 | 1,916,597 | 2,399,040 | 2,675,658 | Gross loans | 12,898,626 | 16,596,476 | 17,267,802 | 19,367,743 |
| Interest expense | -1,471,692 | -1,485,751 | -1,898,856 | -2,084,993 | Specific loan loss reserves | 0 | 0 | 0 | 0 |
| Net interest income | 401,553 | 430,846 | 500,184 | 590,664 | Loan loss reserves | -801,260 | -1,401,562 | -1,757,534 | -1,671,553 |
| Ave. int. earnings assets | 20,536,845 | 22,548,041 | 25,815,856 | 28,702,814 | Net loans | 12,097,366 | 15,194,914 | 15,510,268 | 17,696,191 |
| NIM (%) | 1.96% | 1.91% | 1.94% | 2.06% | Other earning assets | 8,439,479 | 9,364,322 | 11,562,207 | 12,636,963 |
| Non-interest income | 764,296 | 862,524 | 590,184 | 647,675 | Other assets | 2,490,490 | 4,103,823 | 2,825,890 | 3,017,998 |
| Total operating income | 1,165,849 | 1,293,370 | 1,090,367 | 1,238,339 | Total Assets | 23,027,335 | 28,663,059 | 29,898,365 | 33,351,151 |
| Non-interest expense | -873,295 | -811,950 | -843,446 | -867,714 | Deposits | 14,684,445 | 18,011,373 | 19,251,307 | 21,542,213 |
| Pre provision profit | 292,554 | 481,420 | 246,921 | 370,625 | Other paying liabilities | 5,765,948 | 7,704,894 | 7,517,133 | 8,198,006 |
| Loan loss provisions | -387,228 | -1,025,049 | -91,593 | -77,383 | Other liabilities | 1,577,884 | 1,840,019 | 1,944,430 | 2,138,874 |
| Non-operating income | 165,295 | -25,729 | 0 | 0 | Total Liabilities | 22,028,277 | 27,556,286 | 28,712,871 | 31,879,092 |
| Pre tax profit | 192,531 | -669,358 | 302,839 | 417,868 | Minorities & other | 0 | 0 | 0 | 0 |
| Tax | -20,285 | 173,310 | -93,274 | -128,703 | Shareholders' funds | 999,058 | 1,106,773 | 1,185,494 | 1,472,059 |
| Net profit | 169,646 | -396,048 | 206,965 | 286,565 | LOAN BOOK | | | | |
| PER SHARE DATA (KRW) | | | | | (KRWbn) | | | | |
| EPS | 1,761 | -2,429 | 1,269 | 1,757 | Large corporates | 1,347 | 1,972 | 2,209 | 2,430 |
| DPS | 0 | 0 | 0 | 0 | SMEs | 4,722 | 5,870 | 6,809 | 8,035 |
| Effective payout ratio (%) | 0% | 0% | 0% | 0% | Households | 1,806 | 2,774 | 3,468 | 4,127 |
| BVPS | 7,566 | 6,787 | 7,270 | 9,027 | Others | 1,024 | 1,616 | 1,665 | 1,665 |
| ABVPS | 5,060 | 10,608 | 7,270 | 9,027 | Total loans | 8,898 | 12,233 | 14,151 | 16,256 |
| VALUATION | | | | | LOAN BOOK BREAKDOWN | | | | |
| Price to book value (x) | 1.1 | 0.7 | 1.0 | 0.8 | (%) | 1999A | 2000A | 2001E | 2002E |
| Price to adjusted book value (x) | 1.7 | 0.5 | 1.0 | 0.8 | Large corporates | 15% | 16% | 16% | 15% |
| Price to earnings (x) | 4.9 | -2.1 | 5.6 | 4.0 | SMEs | 53% | 48% | 48% | 49% |
| PROFITABILITY RATIOS | | | | | Households | | | | |
| (%) | 1999A | 2000A | 2001E | 2002E | Others | 12% | 13% | 12% | 10% |
| Net interest margin | 1.96% | 1.91% | 1.94% | 2.06% | Total loans | 100% | 100% | 100% | 100% |
| Yield on interest earning assets | 8.89% | 8.50% | 9.83% | 9.66% | BALANCE SHEET RATIOS | | | | |
| Cost on interest bearing liabilities | 6.35% | 6.44% | 7.56% | 7.38% | (%) | 1999A | 2000A | 2001E | 2002E |
| Net interest spread | 2.54% | 2.06% | 2.28% | 2.28% | Loan-to-deposit | 82.4% | 84.4% | 80.6% | 82.1% |
| Non-int. income (% Op income) | 65.6% | 66.7% | 54.1% | 52.3% | Loan-to-deposit (incl. CDs) | 0.0% | 0.0% | 0.0% | 0.0% |
| Cost to income | 74.9% | 62.8% | 77.4% | 70.1% | Equity to assets | 4.3% | 3.9% | 4.0% | 4.4% |
| Overhead ratio | 3.79% | 3.14% | 2.88% | 2.74% | Tier 1 Capital | 8.9% | 5.0% | 4.3% | 4.3% |
| Cost coverage | 87.5% | 106.2% | 70.0% | 74.6% | Total Capital adequacy | 12.1% | 8.7% | 8.6% | 8.6% |
| ROA | 0.74% | -1.38% | 0.74% | 0.91% | General reserves (% loans) | -6.21% | -8.44% | -10.18% | -8.63% |
| ROE | 17.0% | -35.8% | 19.1% | 21.6% | Specific reserves (% loans) | 0.00% | 0.00% | 0.00% | 0.00% |
| DUPONT ANALYSIS | | | | | Total loan provisions | | | | |
| | 1999A | 2000A | 2001E | 2002E | -6.21% | -8.44% | -10.18% | -8.63% | |
| Lending operations | | | | | ASSET QUALITY | | | | |
| Net interest margin | 1.96% | 1.91% | 1.94% | 2.06% | Nonperforming loans | 2,123,000 | 1,267,285 | 1,719,630 | 1,633,649 |
| Interest earnings assets/assets | 89.18% | 87.24% | 88.17% | 90.76% | NPL ratio | 13.7% | 7.6% | 10.0% | 8.5% |
| NIM contribution to ROA | 1.74% | 1.67% | 1.71% | 1.87% | Total provisions/NPLs | 36.0% | 110.6% | 100.0% | 100.0% |
| Non-interest operations | | | | | GROWTH RATES | | | | |
| Non-interest income/assets | 3.32% | 3.34% | 2.02% | 2.05% | (%) | 1999A | 2000A | 2001E | 2002E |
| Overhead ratio | 3.79% | 3.14% | 2.88% | 2.74% | Income statement | | | | |
| Non-int. contribution to ROA | -0.47% | 0.20% | -0.86% | -0.70% | Net interest income | | 7.3% | 16.1% | 18.1% |
| Asset quality analysis | | | | | Non-interest income | | 12.9% | -31.6% | 9.7% |
| Provision/loans | -3.20% | -7.51% | -0.60% | -0.47% | Total operating income | | 10.9% | -15.7% | 13.6% |
| Loans/assets | 52.53% | 52.80% | 52.43% | 52.50% | Operating expenses | | -7.0% | 3.9% | 2.9% |
| ROA effect from asset quality | -1.68% | -3.97% | -0.31% | -0.24% | Pre-provision earnings | | 64.6% | -48.7% | 50.1% |
| Core ROA | -0.41% | -2.10% | 0.53% | 0.93% | Loan loss provisions | | 164.7% | -91.1% | -15.5% |
| Non-core contribution to ROA | 0.72% | -0.10% | 0.00% | 0.00% | Net profit | | -333.5% | 152.3% | 38.5% |
| Pre-tax ROA | 0.31% | -2.20% | 0.53% | 0.93% | Balance sheet | | | | |
| Tax rate | 30.80% | 30.44% | 30.80% | 30.80% | Loan growth | | 28.7% | 4.0% | 12.2% |
| After tax ROA | 0.74% | -1.38% | 0.74% | 0.91% | Interest earning assets | | 21.7% | 11.1% | 11.0% |
| | | | | | Asset growth | | 24.5% | 4.3% | 11.5% |
| | | | | | Deposit growth | | 22.7% | 6.9% | 11.9% |
| | | | | | Shareholders funds | | 10.8% | 7.1% | 24.2% |

LG CAPITAL: Korea's leading consumer finance company**Not rated**

Diversified consumer finance company includes Korea's largest credit card issuer, as well as installment and lease financing businesses

As part of the Asian Bank Tour, we met with management of LG Capital (LGC), as well as management of investment firm Warburg Pincus for a discussion of the credit card market in South Korea, LG Capital's positioning, and the outlook and strategy going forward.

In credit cards, LG Capital has a 20% market share by charge volume, ahead of rivals Samsung (18.6%) and Kookmin Card (17.7%). Currently, credit cards account for 83% of LGC's business, having experienced rapid growth over the past two years as the government has heavily promoted credit card take-up. The rapid growth of the Korean card sector has resulted in outsized profitability for LGC, with net income increasing tenfold between 1998 and 2000 (to ₩395 billion), representing an increase in ROA from 1.0% to 4.4% and ROE from 16.7% to 63.6% over the same period.

Card products come bundled with credit lines

LGC issues a variety of targeted cards, including the hip 20-30 Card and the female targeted Lady Card. It is important to note that these are not traditional revolving credit cards as in the US, but are in effect charge cards with associated credit lines upon which cardholders may draw. At the time of purchase, a cardholder must decide to either pay the bill for an item in full at her next monthly statement or to finance the specific purchase as an installment loan over a period of time. In addition, cardholders can access two different card loan facilities without making a purchase. One is a cash advance line that can be drawn upon at any time but must be fully paid at the end of each month, the other is a cash loan line that can be paid in installments. Neither facility involves traditional revolving credit. These practices apply to the vast majority of credit cards in Korea; although issuers have the technical capacity to offer revolving cards (and some do in a desultory fashion), all agree there is little demand for a revolving product at this time. LG Capital currently has 8.4 million cardholders, and although they offer a range of financial products, approx. 90% of the loan book consists of credit card receivables.

Stellar asset quality

LGC is an exemplar of the high credit quality of consumer lending in Korea. This is attributed to the relatively under-levered nature of most Koreans (as consumer credit was not widely available until 2000), high personal savings rates, and stringent legal and cultural bars to bankruptcy. Currently, 1.2% of the firm's loans are overdue between 31-180 days, while 0.2% are overdue more than 180 days, for a total of 1.4% criticized assets. This compares favorably with a total 2.9% delinquency ratio at Kookmin Card—although both companies have stellar credit quality even in comparison to US monoline consumer finance and credit card companies.

Funding

LGC has a diversified funding base resembling that of a wholesale bank, consisting of 62% debentures and other long-term borrowings and 38% commercial paper, call money, and other short-term funds. The company is close to match-funded, implying little directional interest rate risk. The company has used securitization to reduce direct funding needs during a period of high growth, and expects to expand this practice in the future.

H&CB: Korea's best regarded and most professional**1-Strong buy**

As part of the Asian Bank Tour, we met with management of H&CB, for a candid discussion on H&CB's evolution from a government mortgage bank into a full-service public consumer bank, and the institution's pending merger with Kookmin Bank.

On the merger with Kookmin

Management expressed their confidence that the merger would proceed as planned and that the new CEO of the bank would be able to resolve the issues of culture between the two competitors. Despite this optimism, management identified the standard of due diligence and differences in accounting standards (H&CB is listed on the NYSE and hence uses US GAAP, whereas Kookmin uses Korean GAAP) as the major differences between the negotiating parties. The bank believes the issue of the merger ratio was settled in the MOU signed between the two banks last December. The MOU set the date at which the market price of each bank's shares would be taken to determine the merger ratio, allowing for a 5% adjustment either way from the due diligence process.

H&CB's strategy before and after the merger

Management re-affirmed H&CB's positioning as a retail bank. The bank's loan portfolio is weighted towards home mortgages, and is increasing penetration of other types of consumer loans and the SME segment. Korean banks are historically not strong cashflow lenders, with loan decisions generally based on collateral. H&CB, in contrast, implemented credit scoring as early as October 1999 and currently has the highest proportion (80%) of cashflow-based loans on its books. H&CB would like to completely exit from the large corporate lending business, and will reduce exposure from its already low levels via sales and repayments. H&CB denied credit to Hyundai, making it one of only two banks (along with KFB) to refuse the iconic chaebol credit.

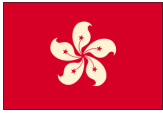
Revenue and cost gains from the merger

Merger synergies are expected to amount to an NPV of W2,500 billion calculated over three years. Of this, W1,700 billion will come from revenue synergies via the merged entity's ability to leverage its dominant market share to reduce bond funding costs to 5.5-5.7% from the current 6.5% thereby allowing management to become an aggressive price setter for loans. H&CB debt has recently been upgraded to Baa2 from Baa3 and following the merger the bank expects a further upgrade. Customer attrition as a result of the merger is not expected to be greater than 10%. Cost synergies will account for a further W1,200 billion. Merger costs are estimated at KRW400 billion with a further KRW200 billion slated for branch closures.

ING's strategic partnership

Management recently met with ING to discuss their reaction to the merger and possible changes to the 10% stake they hold in the bank. ING is reportedly positive on the merger from a strategic perspective. The merged bank will have twice the number of branches and ATMs, which the Dutch bank sees as a valuable channel for distribution of its managed fund products. ING has an existing ten year agreement with H&CB for distribution of ING products. After the merger, ING's stake would drop to around 8%, but the global bank has indicated its intention to potentially increase their stake back to the 10% level through market purchases.

| H&CB | | | | | Reuters Code: 2746.KS | | | | |
|--------------------------------------|------------------|------------------|------------------|------------------|-----------------------------|-------------------|--------------------------|-------------------|-------------------|
| Share Price (KRW): | 24,300 | | Index: | 561.62 | Bloomberg Code: | 2746.KS | Shares Outstanding (MM): | 119.97 | |
| 52 Week Price Range (KRW): | 33,200 - 12,818 | | Current Yield: | 0.62% | | | | | |
| INCOME STATEMENT | | | | | BALANCE SHEET | | | | |
| | 1999A | 2000A | 2001E | 2002E | | 1999A | 2000A | 2001E | 2002E |
| (W m) year ending Dec | | | | | (W m) year ending Dec | | | | |
| Interest income | 4,265,327 | 4,873,349 | 5,812,733 | 6,743,022 | Gross loans | 32,997,275 | 46,655,840 | 53,525,923 | 60,382,296 |
| Interest expense | -3,029,834 | -3,536,563 | -4,075,667 | -4,755,412 | Specific loan loss reserves | 0 | 0 | 0 | 0 |
| Net interest income | 1,235,493 | 1,336,786 | 1,737,066 | 1,987,610 | Loan loss reserves | -1,740,094 | -1,269,744 | -2,259,437 | -2,468,298 |
| Ave. int. earnings assets | 43,789,315 | 50,798,444 | 65,440,611 | 78,034,843 | Net loans | 31,257,181 | 45,386,096 | 51,266,486 | 57,913,997 |
| NIM (%) | 2.82% | 2.63% | 2.65% | 2.55% | Other earning assets | 12,532,134 | 12,421,476 | 21,807,165 | 25,082,038 |
| Non-interest income | 1,273,894 | 1,388,808 | 1,274,498 | 1,429,668 | Other assets | 4,884,301 | 4,078,889 | 5,583,355 | 5,982,461 |
| Total operating income | 2,509,387 | 2,725,594 | 3,011,563 | 3,417,278 | Total Assets | 48,673,616 | 61,886,461 | 78,657,006 | 88,978,497 |
| Non-interest expenses | -1,395,631 | -1,552,966 | -1,455,123 | -1,688,211 | Deposits | 34,357,895 | 47,820,696 | 60,126,316 | 67,341,474 |
| Pre provision profit | 1,113,756 | 1,172,628 | 1,556,441 | 1,729,067 | Other paying liabilities | 7,550,310 | 6,816,717 | 9,715,798 | 11,487,415 |
| Loan loss provisions | -393,269 | -469,248 | -353,376 | -326,181 | Other liabilities | 4,611,696 | 4,700,408 | 5,651,757 | 6,208,057 |
| Non-operating income | -79,303 | 16,298 | 0 | 0 | Total Liabilities | 41,908,205 | 59,337,821 | 69,842,114 | 78,828,889 |
| Pre tax profit | 641,184 | 719,678 | 1,203,065 | 1,402,887 | Minorities & other | 0 | 6,721 | 0 | 0 |
| Tax | -219,114 | -210,274 | -370,544 | -432,089 | Shareholders' funds | 2,153,715 | 2,548,640 | 3,163,135 | 3,941,551 |
| Net profit | 454,760 | 513,567 | 821,747 | 958,370 | | | | | |
| PER SHARE DATA (W) | | | | | LOAN BOOK | | | | |
| | 1999A | 2000A | 2001E | 2002E | | 1999A | 2000A | 2001E | 2002E |
| EPS | 4,862 | 4,281 | 7,178 | 7,988 | (W b) | | | | |
| DPS | 150 | 150 | 1,500 | 1,500 | Corporate | 4,158 | 7,114 | 7,630 | 8,240 |
| Effective payout ratio (%) | 3% | 4% | 21% | 19% | Personal | 2,237 | 11,959 | 17,580 | 21,095 |
| BVPS | 18,587 | 21,244 | 23,775 | 30,263 | Mortgage | 17,570 | 21,318 | 24,246 | 26,671 |
| ABVPS | 16,417 | 21,039 | 24,434 | 32,430 | Foreign currency loans | 881 | 1,369 | 1,554 | 1,600 |
| | | | | | Total loans | 24,846 | 41,759 | 51,009 | 57,607 |
| VALUATION | | | | | LOAN BOOK BREAKDOWN | | | | |
| | 1999A | 2000A | 2001E | 2002E | | 1999A | 2000A | 2001E | 2002E |
| Price to book value (x) | 1.6 | 1.2 | 1.0 | 0.8 | (%) | | | | |
| Price to adjusted book value (x) | 1.8 | 1.2 | 1.0 | 0.7 | Corporate | 17% | 17% | 15% | 14% |
| Price to earnings (x) | 6.1 | 6.1 | 3.4 | 3.0 | Personal | 9% | 29% | 34% | 37% |
| | | | | | Mortgage | 71% | 51% | 48% | 46% |
| | | | | | Foreign currency loans | 4% | 3% | 3% | 3% |
| | | | | | Total loans | 100% | 100% | 100% | 100% |
| PROFITABILITY RATIOS | | | | | BALANCE SHEET RATIOS | | | | |
| | 1999A | 2000A | 2001E | 2002E | | 1999A | 2000A | 2001E | 2002E |
| (%) | | | | | (%) | | | | |
| Net interest margin | 2.82% | 2.63% | 2.65% | 2.55% | Loan-to-deposit | 91.0% | 94.9% | 85.3% | 86.0% |
| Yield on interest earning assets | 8.89% | 9.59% | 8.84% | 8.75% | Loan-to-deposit (incl. CDs) | 0.0% | 0.0% | 0.0% | 0.0% |
| Cost on interest bearing liabilities | 6.35% | 7.33% | 6.39% | 6.40% | Equity to assets | 4.4% | 4.1% | 4.0% | 4.4% |
| Net interest spread | 2.54% | 2.27% | 2.46% | 2.35% | Tier 1 Capital | 9.0% | 8.0% | 7.8% | 8.0% |
| Non-int. income (% Op income) | 50.8% | 51.0% | 42.3% | 41.8% | Total Capital adequacy | 10.5% | 9.3% | 9.0% | 9.2% |
| Cost to income | 55.6% | 57.0% | 48.3% | 49.4% | General reserves (% loans) | -5.27% | -2.72% | -4.22% | -4.09% |
| Overhead ratio | 2.87% | 2.81% | 2.07% | 2.01% | Specific reserves (% loans) | 0.00% | 0.00% | 0.00% | 0.00% |
| Cost coverage | 91.3% | 89.4% | 87.6% | 84.7% | Total loan provisions | -5.27% | -2.72% | -4.22% | -4.09% |
| ROA | 0.93% | 0.83% | 1.14% | 1.14% | | | | | |
| ROE | 21.0% | 20.2% | 28.9% | 27.0% | ASSET QUALITY | | | | |
| | | | | | | 1999A | 2000A | 2001E | 2002E |
| DUPONT ANALYSIS | | | | | Nonperforming loans | | | | |
| | 1999A | 2000A | 2001E | 2002E | | 2,674,500 | 2,178,070 | 3,414,848 | 3,519,583 |
| <u>Lending operations</u> | | | | | NPL ratio | 8.8% | 4.7% | 6.4% | 5.8% |
| Net interest margin | 2.82% | 2.63% | 2.65% | 2.55% | Total provisions/NPLs | 63.6% | 58.3% | 65.0% | 69.0% |
| Interest earnings assets/assets | 89.97% | 91.89% | 93.13% | 93.10% | GROWTH RATES | | | | |
| NIM contribution to ROA | 2.54% | 2.42% | 2.47% | 2.37% | | 1999A | 2000A | 2001E | 2002E |
| | | | | | (%) | | | | |
| <u>Non-interest operations</u> | | | | | <u>Income statement</u> | | | | |
| Non-interest income/assets | 2.62% | 2.51% | 1.81% | 1.71% | Net interest income | | 8.2% | 29.9% | 14.4% |
| Overhead ratio | 2.87% | 2.81% | 2.07% | 2.01% | Non-interest income | | 9.0% | -8.2% | 12.2% |
| Non-int. contribution to ROA | -0.25% | -0.30% | -0.26% | -0.31% | Total operating income | | 8.6% | 10.5% | 13.5% |
| | | | | | Operating expenses | | 11.3% | -6.3% | 16.0% |
| <u>Asset quality analysis</u> | | | | | Pre-provision earnings | | 5.3% | 32.7% | 11.1% |
| Provision/loans | -1.26% | -1.22% | -0.73% | -0.60% | Loan loss provisions | | 19.3% | -24.7% | -7.7% |
| Loans/assets | 64.22% | 69.32% | 68.77% | 65.13% | Net profit | | 12.9% | 60.0% | 16.6% |
| ROA effect from asset quality | -0.81% | -0.85% | -0.50% | -0.39% | | | | | |
| | | | | | <u>Balance sheet</u> | | | | |
| Core ROA | 1.48% | 1.27% | 1.71% | 1.67% | Loan growth | | 41.4% | 14.7% | 12.8% |
| Non-core contribution to ROA | -0.16% | 0.03% | 0.00% | 0.00% | Interest earning assets | | 29.8% | 27.5% | 13.4% |
| Pre-tax ROA | 1.32% | 1.30% | 1.71% | 1.67% | Asset growth | | 27.1% | 27.1% | 13.1% |
| Tax rate | 34.17% | 29.22% | 30.80% | 30.80% | Deposit growth | | 39.2% | 25.7% | 12.0% |
| After tax ROA | 0.93% | 0.83% | 1.17% | 1.14% | Shareholders funds | | 18.3% | 24.1% | 24.6% |

HONG KONG BANKS: Changing Landscape Favors the Larger Players**Neutral**

Hong Kong's banks must adapt to the changing environment

Profitability uncertain in 2001

The key theme that arose during our meetings in Hong Kong during our recent Asian Bank Tour was that the competitive environment in Hong Kong was changing drastically and that banks must adapt by either: 1) merging; 2) getting acquired; or 3) doing something else, like becoming a niche player. One thing they cannot do is stand still and do nothing. The key changes in the operating environment include: 1) lower profitability; 2) a slowing economy and; 3) a change in the regulatory environment.

Hong Kong banks are not facing the same problems that other banks in the region are facing - namely unmanageable NPLs and dangerously weakened balance sheets. For Hong Kong banks, the key challenges revolve around maintaining profitability.

Most local banks are highly dependent upon mortgage lending, but profitability in this area has come under intense pressure. With profitability on core lending operations coming under pressure, banks are racing to develop non-interest income, particularly in the area of personal wealth management operations such as credit cards, life insurance, unit trust sales, asset management, and stock brokerage. Non-interest income currently accounts for an average of 29% of total income in Hong Kong's banking sector, which remains low compared to 40-50% at banks in other developed countries.

Despite the fall in equity prices, asset quality at Hong Kong's banks is still improving. Since peaking at 10.3% in September of 1999, the sector-wide NPL ratio has steadily declined, ending 2000 at 7.2%. Looking ahead, the HKMA is expecting the NPL ratio to decline another 120 basis points, to below 6% by year-end 2001. This ratio could be even lower if banks embark on aggressive re-structuring and write-offs. NPL work-outs will also be helped by improving collateral values.

Slowing economic growth

Banks are going to be operating with an economic backdrop where growth will be a lot worse than expected. Both the HKMA and Hang Seng Bank are expecting economic growth to come in well below the 4% projected in the recent budget - they are both looking at between 2% and 2.5% GDP growth for 2001. Lehman Brothers is expecting GDP growth of 4.0%.

Change in the regulatory environment

Changes in the regulatory environment include the deregulation of deposit rates, the introduction of deposit insurance, as well as the creation of a commercial credit reference system. The most important regulatory change is the advent of deposit rate deregulation, upon which funding costs will decline. This will have the biggest impact on Hang Seng Bank and on HSBC's Hong Kong operations.

Big banks will win

In the current environment, we believe that the larger banks, which have critical mass in savings deposits where the funding cost is low, as well as the necessary economies of scale for the development of information technology, are likely to win.

Loan breakdown (% of total)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Agriculture & Mining | 0.07 | 0.06 | 0.05 | 0.06 | 0.07 | 0.08 | 0.08 | 0.09 | 0.10 | 0.09 | 0.08 | 0.08 | 0.08 | 0.10 | 0.09 | 0.10 |
| Manufacturing | 6.26 | 6.01 | 5.47 | 5.43 | 5.33 | 5.24 | 4.99 | 4.83 | 4.77 | 4.61 | 4.46 | 4.41 | 4.34 | 4.23 | 4.00 | 3.96 |
| Transport | 4.71 | 4.71 | 4.59 | 4.72 | 5.01 | 5.23 | 5.33 | 5.42 | 5.42 | 5.43 | 5.45 | 5.68 | 5.80 | 5.83 | 5.66 | 5.65 |
| Utilities | 1.71 | 1.46 | 1.32 | 1.33 | 1.43 | 1.41 | 1.23 | 1.46 | 1.50 | 1.45 | 1.41 | 1.42 | 1.40 | 1.57 | 4.34 | 4.07 |
| Property | 20.66 | 21.43 | 20.99 | 21.61 | 21.63 | 21.75 | 21.59 | 21.23 | 21.24 | 20.66 | 20.81 | 21.11 | 21.42 | 21.76 | 20.65 | 21.38 |
| Trade | 10.57 | 10.45 | 9.66 | 10.10 | 9.83 | 9.67 | 9.39 | 9.16 | 8.97 | 8.51 | 8.32 | 7.92 | 7.87 | 7.46 | 6.76 | 6.46 |
| Other | 56.03 | 55.88 | 57.92 | 56.74 | 56.69 | 56.62 | 57.40 | 57.80 | 58.00 | 59.24 | 59.46 | 59.39 | 59.09 | 59.06 | 58.51 | 58.38 |

Loan growth (% yoy)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|----------------------|--------|--------|--------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Agriculture & Mining | -24.21 | -28.98 | -26.01 | -6.51 | 23.83 | 38.00 | 43.08 | 35.79 | 24.11 | 5.52 | -2.07 | -18.60 | -24.65 | 4.33 | 22.22 | 32.16 |
| Manufacturing | 9.51 | 9.36 | 3.73 | 2.92 | -3.40 | -8.02 | -10.74 | -14.52 | -15.09 | -19.38 | -17.81 | -15.26 | -13.52 | -10.31 | -7.86 | -8.07 |
| Transport | 18.83 | 16.46 | 20.07 | 16.11 | 20.80 | 17.46 | 13.74 | 10.46 | 2.53 | -5.05 | -6.01 | -2.77 | 1.81 | 5.21 | 6.83 | 1.85 |
| Utilities | 25.96 | 23.57 | 8.17 | 8.76 | -4.93 | 2.03 | -8.07 | 5.61 | -0.70 | -5.85 | 5.14 | -9.95 | -11.16 | 6.16 | 215.86 | 193.39 |
| Property | 31.66 | 39.72 | 38.78 | 32.21 | 18.81 | 7.14 | 0.71 | -5.47 | -6.94 | -13.04 | -11.45 | -7.71 | -4.11 | 3.12 | 2.12 | 3.62 |
| Trade | 12.49 | 15.37 | 9.87 | 16.53 | 5.58 | -2.30 | -4.82 | -12.65 | -13.52 | -19.36 | -18.65 | -19.81 | -16.55 | -14.21 | -16.32 | -16.46 |
| Other | 24.66 | 26.76 | 37.14 | 26.90 | 14.82 | 6.99 | -2.94 | -1.97 | -3.03 | -4.22 | -4.87 | -4.62 | -3.12 | -2.39 | 1.32 | 0.57 |
| Total | 23.22 | 26.13 | 30.66 | 24.44 | 13.48 | 5.58 | -2.06 | -3.77 | -5.22 | -8.46 | -8.17 | -7.17 | -4.91 | -2.08 | 2.96 | 2.32 |

Deposit breakdown (% of total)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Demand | 5.50 | 5.58 | 5.41 | 4.91 | 4.54 | 4.10 | 3.87 | 4.01 | 3.94 | 3.94 | 3.91 | 4.00 | 4.08 | 3.83 | 3.90 | 4.45 |
| Savings | 74.15 | 73.93 | 75.57 | 76.19 | 76.00 | 78.45 | 79.62 | 75.93 | 76.59 | 75.42 | 76.52 | 75.48 | 75.17 | 76.65 | 77.05 | 76.19 |
| Time | 20.34 | 20.48 | 19.02 | 18.90 | 19.46 | 17.45 | 16.51 | 20.06 | 19.47 | 20.63 | 19.57 | 20.51 | 20.75 | 19.51 | 19.05 | 19.36 |

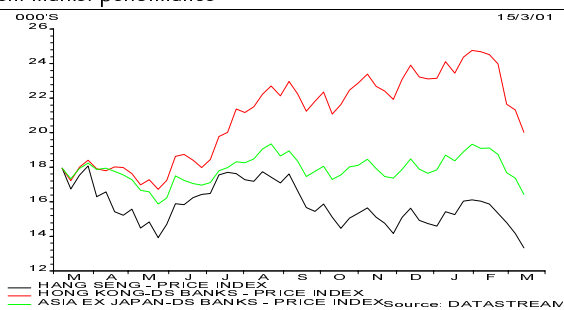
Deposit growth (% yoy)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|---------|-------|-------|-------|-------|--------|--------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Demand | 12.62 | 16.86 | 8.32 | -9.54 | -11.52 | -24.89 | -23.32 | -8.64 | -4.99 | 6.91 | 9.00 | 7.85 | 12.20 | 7.24 | 9.14 | 20.79 |
| Savings | 10.99 | 15.99 | 18.14 | 13.87 | 9.89 | 8.63 | 12.80 | 11.56 | 10.33 | 6.72 | 3.82 | 7.23 | 6.39 | 12.13 | 10.24 | 9.69 |
| Time | 10.32 | 13.23 | 5.13 | -5.68 | 2.57 | -12.79 | -7.09 | 18.81 | 9.52 | 31.26 | 28.04 | 10.32 | 15.54 | 4.35 | 6.56 | 2.54 |
| Total | 10.94 | 15.46 | 14.87 | 8.26 | 7.22 | 2.37 | 7.07 | 11.94 | 9.48 | 11.01 | 8.02 | 7.88 | 8.40 | 10.33 | 9.48 | 8.67 |

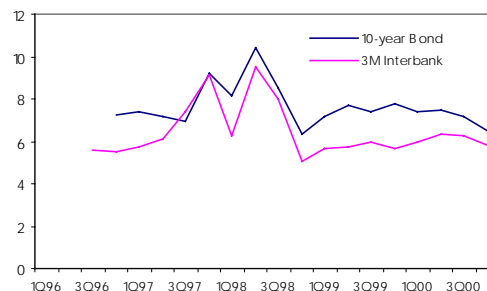
Interest Rates (%)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|---------------|------|------|------|------|-------|-------|-------|------|------|------|------|------|------|------|------|------|
| Prime Lending | 8.75 | 8.75 | 8.75 | 9.50 | 10.00 | 10.00 | 10.00 | 9.00 | 8.75 | 8.25 | 8.50 | 8.50 | 9.00 | 9.50 | 9.50 | 9.50 |
| Deposits | 4.00 | 4.00 | 4.00 | 4.75 | 5.25 | 5.25 | 5.25 | 4.25 | 4.00 | 3.50 | 3.75 | 3.75 | 4.25 | 4.75 | 4.75 | 4.75 |
| 3M Interbank | 5.75 | 6.13 | 7.38 | 9.13 | 6.25 | 9.50 | 8.00 | 5.06 | 5.63 | 5.75 | 5.94 | 5.69 | 6.00 | 6.38 | 6.25 | 5.78 |

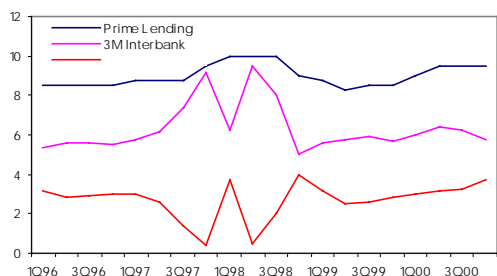
Recent market performance



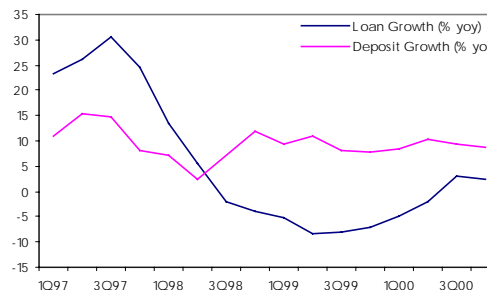
Market interest rates (%)



Average lending and deposit rates (%)



Loan and deposit growth (% yoy)



BANK OF EAST ASIA: Running scared**2-Buy**

We met with the management of Bank of East Asia as part of the recent Asian Banks Tour and came away feeling that this bank is in over its head and that without a change in strategy, it will fall by the wayside. To formulate a strategy to cope with all the changes in its operating environment, BEA has hired six outside consultants to help reconfigure its branch network, integrate its recent acquisitions, develop an appropriate image and brand, develop non-interest income operations, and re-deploy staff to appropriate positions with appropriate compensation. The aim is to transform the company into a "modern sales oriented" bank.

Size matters

BEA believes that the best way to face its challenges is to increase its size, in order to achieve critical mass and economies of scale. Organic growth is too slow, so the bank has embarked on growth by way of acquisition. BEA acquired United Chinese Bank in 1995 and, at the end of 2000, acquired FPB Bank. Although we agree that size does have its merits, we are a little uncomfortable with the approach that BEA has taken. Firstly, we are concerned that they are still integrating the operations of United Chinese Bank six years after it was acquired. Secondly, we are concerned that one of the six consultants hired to integrate the FPB transaction, was hired after the fact. This indicates that BEA acquired FPB simply to increase its size and did not analyze potential synergy benefits and potential cost savings.

BEA believes that they have adequate provisions for China exposure

BEA has set aside a 50% provision on all its China exposure, which should be adequate if they achieve their expected recovery of 60-70%, which is optimistic in our opinion. When a loan goes bad in China, the banks are at the mercy of the Chinese government, which will negotiate with the bank and decide appropriate repayments.

China remains a focus

Despite the problems that it has encountered with its China exposure, this will continue to be a focus. Over the past 18 months, management has been concentrating its China exposure on Rmb-denominated lending to high quality multinational corporations and blue-chip Hong Kong companies. We believe that this is a good strategy, but the bank will not be alone in pursuing this strategy. Our recent meeting with management at Hang Seng reveals that they will indeed also focus on this area, and have already applied for a Rmb license.

Operating expenses expected to increase

BEA already has a relatively high cost-to-income ratio of 42% (compared to an industry average of 34%) and we believe that this ratio will increase even further. Although management is targeting a sub-40% ratio, we believe additional expenses for the consultants, integration costs to merge back-end operations at the three banks, as well as goodwill expenses related to the FPB transaction (we expect approximately HK\$25 million per annum over the next 10 years) will prevent management from achieving its cost-to-income ratio target.

HANG SENG BANK: Left, right and centre**2-Buy**

*Looking forward to deposit
rate deregulation*

We met with the management of Hang Seng Bank as part of the Asian Banks Tour recently and came away feeling that this bank is in the best position to cope with the changes in Hong Kong's competitive environment. It has the benefit of critical mass in the all-important low-costing savings deposits category as well as a beneficial relationship with HSBC regarding the development of information technology.

This bank is looking forward to deposit rate deregulation and expects to drastically reduce deposit rates paid on small accounts. With continued excess liquidity in the system and a continued lack of lending opportunities, there is no reason for banks in Hong Kong to compete aggressively for deposits. In the current environment, time deposits are being offered at the same rate as savings deposits. What this tells us is that the savings deposit rate is acting as a floor. Upon deregulation, we believe that this floor will be removed and funding costs can come down across the board.

*Better control of deposit
growth*

We also believe that with the advent of deposit rate deregulation, management will have the required tools to manage the liability side of its balance sheet more effectively. In 2000, deposits grew by HK\$50 billion, compared to only HK\$20 billion for loans. Obviously, management did not want deposits to grow so much, but could not lower rates enough to chase away the excess liquidity.

*Seeking to charge fees left
right and center*

In addition, management would like to charge fees "left, right and center". However, it will not be a leader in implementing fees but rather a follower- it would prefer for other banks to introduce fees first and face the negative publicity from the press. No projection for fee income was provided, given the number of variables and uncertainty involved. Correspondingly, we have not factored any increase in fee income into our earnings projections yet.

*Reconfiguring the branch
network to become more
sales oriented*

Like most other banks, HSB is re-configuring its branch network to become more sales-oriented. It is moving its back office processing functions to Guangzhou in China, which allow for the same service, but at a lower cost- staff in China cost approximately Rmb2,000 per month, compared to approximately HK\$9,000 per month in Hong Kong. Hang Seng will maintain a branch network of approximately 156 outlets. Of these, 26 are "Prestige" branch outlets, which service high-net-worth individuals.

China is the main focus

Hong Kong is a mature market and longer-term growth will come from China. Hang Seng currently has no Rmb-lending exposure, but has applied for a license in Shanghai. Still, the bank realizes that even after accession into WTO, China will impose many constraints on foreign banks. That said, any exposure is better than zero exposure, as is the case currently. The key areas that Hang Seng would like to focus on in China are securities broking and asset management.

| Hang Seng Bank | | | | | | Reuters Code: 0011.HK | | | | | |
|--------------------------------------|----------------|---------------|----------------|---------------|---------------|-----------------------------|----------------|----------------|-----------------------------------|----------------|----------------|
| Share Price: | 92.25 | | Index: | 13,293 | | Bloomberg Code: | 0011 HK | | Shares Outstanding (MM): 1,911.84 | | |
| 52 Week Price Range: | 107.00 - 65.50 | | Current Yield: | 5.20% | | | | | | | |
| INCOME STATEMENT | 1998A | 1999A | 2000A | 2001E | 2002E | BALANCE SHEET | 1998A | 1999A | 2000A | 2001E | 2002E |
| (HK\$m) | | | | | | (HK\$m) | | | | | |
| Interest income | 32,280 | 28,072 | 31,913 | 28,830 | 28,830 | Gross loans | 202,605 | 202,244 | 221,973 | 238,160 | 253,994 |
| Interest expense | -20,925 | -16,405 | -20,222 | -16,749 | -14,239 | Specific loan loss reserves | -3,087 | -3,522 | -3,017 | -3,051 | -3,078 |
| Net interest income | 11,355 | 11,667 | 11,691 | 12,081 | 12,991 | General loan loss reserves | -1,449 | -1,441 | -1,438 | -1,543 | -1,645 |
| Ave. interest earnings assets | 383,926 | 406,113 | 435,759 | 472,124 | 506,920 | Net loans | 201,156 | 200,803 | 220,535 | 236,617 | 252,348 |
| NIM (%) | 2.96% | 2.87% | 2.68% | 2.56% | 2.56% | Other earning assets | 176,303 | 197,042 | 232,330 | 251,829 | 270,176 |
| Non-interest income | 3,142 | 3,141 | 3,574 | 3,935 | 4,300 | Other assets | 42,839 | 44,225 | 47,919 | 47,787 | 49,169 |
| Total operating income | 14,497 | 14,808 | 15,265 | 16,016 | 17,291 | Total Assets | 420,298 | 442,070 | 500,784 | 536,233 | 571,693 |
| Non-interest expenses | -3,865 | -3,743 | -3,725 | -3,940 | -4,128 | Deposits | 341,573 | 364,038 | 414,875 | 438,993 | 462,267 |
| Pre provision profit | 10,632 | 11,065 | 11,540 | 12,076 | 13,163 | Other paying liabilities | 19,512 | 18,562 | 18,532 | 16,727 | 28,160 |
| Loan loss provisions | -2,476 | -1,419 | -196 | -173 | -156 | Other liabilities | 13,708 | 19,896 | 26,793 | 37,838 | 36,335 |
| Non-operating income | -180 | 138 | 331 | 260 | 266 | Total Liabilities | 374,793 | 402,496 | 460,200 | 493,558 | 526,762 |
| Pre tax profit | 7,976 | 9,784 | 11,675 | 12,164 | 13,274 | Minorities & other | 0 | 0 | 0 | 0 | 0 |
| Tax | -1,188 | -1,477 | -1,661 | -1,764 | -1,925 | Shareholders' funds | 45,505 | 39,574 | 40,584 | 42,675 | 44,932 |
| Net profit | 6,788 | 8,307 | 10,014 | 10,400 | 11,349 | LOAN BOOK | 1998A | 1999A | 2000A | 2001E | 2002E |
| PER SHARE DATA | 1998A | 1999A | 2000A | 2001E | 2002E | (HK\$m) | | | | | |
| (HK\$) | | | | | | Property development | 39,535 | 39,739 | 48,658 | 52,628 | 55,293 |
| Earnings per share | 3.55 | 4.35 | 5.24 | 5.44 | 5.94 | Non-bank financials | 3,507 | 4,055 | 3,076 | 3,076 | 3,076 |
| Dividends per share | 3.42 | 8.20 | 4.80 | 4.76 | 5.19 | Commercial and industrial | 7,417 | 6,394 | 5,891 | 6,129 | 6,190 |
| Effective payout ratio (%) | 96% | 189% | 92% | 87% | 88% | Hire purchase | 8,558 | 8,411 | 8,471 | 9,972 | 11,740 |
| Book value per share | 23.79 | 20.70 | 21.23 | 22.32 | 23.50 | Other commercial | 17,684 | 17,443 | 19,073 | 20,828 | 22,745 |
| Adjusted book value per share | 21.31 | 16.40 | 16.66 | 17.52 | 18.46 | Trade finance | 10,512 | 8,787 | 9,013 | 9,013 | 9,013 |
| VALUATION | 1998A | 1999A | 2000A | 2001E | 2002E | Loans for use outside HK | 4,250 | 3,276 | 4,195 | 4,195 | 4,195 |
| (X) | | | | | | HOS & PSPS loans | 31,229 | 31,936 | 35,971 | 39,658 | 43,723 |
| Price to book value (x) | 2.8 | 4.3 | 4.3 | 4.1 | 3.9 | Residential mortgages | 71,864 | 73,854 | 78,005 | 81,954 | 86,103 |
| Price to adjusted book value (x) | 3.2 | 5.4 | 5.5 | 5.3 | 5.0 | Credit cards | 3,616 | 3,835 | 4,745 | 5,331 | 5,990 |
| Price to earnings (X) | 18.3 | 20.4 | 17.6 | 17.0 | 15.5 | Individuals | 4,433 | 4,514 | 4,875 | 5,375 | 5,926 |
| PROFITABILITY RATIOS | 1998A | 1999A | 2000A | 2001E | 2002E | Total loans | 202,605 | 202,244 | 221,973 | 238,160 | 253,994 |
| (%) | | | | | | LOAN BOOK BREAKDOWN | 1998A | 1999A | 2000A | 2001E | 2002E |
| Net interest margin | 2.96% | 2.87% | 2.68% | 2.56% | 2.56% | (%) | | | | | |
| Yield on interest earning assets | 8.41% | 6.91% | 7.32% | 6.11% | 5.37% | Property development | 20% | 20% | 22% | 22% | 22% |
| Cost on interest bearing liabilities | 5.89% | 4.34% | 5.28% | 4.02% | 3.19% | Non-bank financials | 2% | 2% | 1% | 1% | 1% |
| Net interest spread | 2.52% | 2.57% | 2.04% | 2.08% | 2.18% | Commercial and industrial | 4% | 3% | 3% | 3% | 2% |
| Non-int. income (% Op income) | 21.7% | 21.2% | 23.4% | 24.6% | 24.9% | Hire purchase | 4% | 4% | 4% | 4% | 5% |
| Cost to income | 26.7% | 25.3% | 24.4% | 24.6% | 23.9% | Other commercial | 9% | 9% | 9% | 9% | 9% |
| Overhead ratio | 0.82% | 0.77% | 0.82% | 0.83% | 0.85% | Trade finance | 5% | 4% | 4% | 4% | 4% |
| Cost coverage | 81.3% | 83.9% | 95.9% | 99.9% | 104.2% | Loans for use outside HK | 2% | 2% | 2% | 2% | 2% |
| ROA | 1.66% | 1.92% | 2.11% | 2.01% | 2.05% | HOS & PSPS loans | 15% | 16% | 16% | 17% | 17% |
| ROE | 14.4% | 18.5% | 25.0% | 24.9% | 25.8% | Residential mortgages | 35% | 37% | 35% | 34% | 34% |
| DUPONT ANALYSIS | 1998A | 1999A | 2000A | 2001E | 2002E | Credit cards | 2% | 2% | 2% | 2% | 2% |
| | | | | | | Individuals | 2% | 2% | 2% | 2% | 2% |
| Lending operations | | | | | | Total loans | 100% | 100% | 100% | 100% | 100% |
| Net interest margin | 2.96% | 2.87% | 2.68% | 2.56% | 2.56% | BALANCE SHEET RATIOS | 1998A | 1999A | 2000A | 2001E | 2002E |
| Interest earnings assets/assets | 94.0% | 93.7% | 91.9% | 91.1% | 91.6% | (%) | | | | | |
| NIM contribution to ROA | 2.78% | 2.69% | 2.46% | 2.33% | 2.35% | Loan-to-deposit | 59.3% | 55.6% | 53.5% | 54.3% | 54.9% |
| Non-interest operations | | | | | | Loan-to-deposit (incl. CDs) | 57.5% | 53.8% | 51.7% | 52.5% | 53.2% |
| Non-interest income/assets | 0.77% | 0.72% | 0.75% | 0.76% | 0.78% | Equity to assets | 10.8% | 9.0% | 8.1% | 8.0% | 7.9% |
| Overhead ratio | 0.95% | 0.86% | 0.79% | 0.76% | 0.75% | Tier 1 Capital | 17.5% | 13.3% | 11.9% | 11.9% | 12.1% |
| Non-int. contribution to ROA | -0.18% | -0.14% | -0.03% | 0.00% | 0.03% | Total Capital adequacy | 21.3% | 17.3% | 15.2% | 14.9% | 14.8% |
| Asset quality analysis | | | | | | General reserves (% loans) | -0.72% | -0.71% | -0.65% | -0.65% | -0.65% |
| Provision/loans | -1.21% | -0.70% | -0.09% | -0.08% | -0.06% | Specific reserves (% loans) | -1.52% | -1.74% | -1.36% | -1.28% | -1.21% |
| Loans/assets | 50.1% | 46.6% | 45.2% | 44.4% | 44.4% | Total loan provisions | -2.24% | -2.45% | -2.01% | -1.93% | -1.86% |
| ROA effect from asset quality | -0.61% | -0.33% | -0.04% | -0.03% | -0.03% | ASSET QUALITY | 1998A | 1999A | 2000A | 2001E | 2002E |
| Core ROA | 2.00% | 2.23% | 2.39% | 2.30% | 2.35% | Nonperforming loans | 8,023 | 8,658 | 7,434 | 5,606 | 4,550 |
| Non-core contribution to ROA | -0.04% | 0.03% | 0.07% | 0.05% | 0.05% | NPL ratio | 4.0% | 4.3% | 3.3% | 2.4% | 1.8% |
| Pre-tax ROA | 1.95% | 2.26% | 2.46% | 2.35% | 2.40% | Total provisions/NPLs | 56.5% | 57.3% | 59.9% | 82.0% | 103.8% |
| Tax rate | 14.9% | 15.1% | 14.2% | 14.5% | 14.5% | GROWTH RATES | 1998A | 1999A | 2000A | 2001E | 2002E |
| | | | | | | (%) | | | | | |
| | | | | | | Income statement | | | | | |
| | | | | | | Net interest income | 1.8% | 2.7% | 0.2% | 3.3% | 7.5% |
| | | | | | | Non-interest income | -6.1% | 0.0% | 13.8% | 10.1% | 9.3% |
| | | | | | | Total operating income | 0.0% | 2.1% | 3.1% | 4.9% | 8.0% |
| | | | | | | Operating expenses | 3.6% | -3.2% | -0.5% | 5.8% | 4.8% |

HSBC: Under pressure**3-Market Perform**

New deposit structure to cope with deposit rate deregulation

We met with the management of HSBC as part of the Asian Banks Tour recently and came away feeling that Asian operations are recovering sufficiently. However operations in the rest of the world might pose some problems. In Asia, which was our main topic of discussion, this bank has already taken sufficient loan-loss provisions, particularly since they were topped up with the special general reserve taken in 1997.

To cope with the deregulation of deposit rates on savings and checking accounts in Hong Kong scheduled for July 1, 2001, HSBC unveiled a four-tiered deposit structure. We believe this will ultimately lower its cost of funds in Hong Kong and help generate additional fee income. We also believe the move will encourage consumers to consolidate their banking activities into a single bank. This will increase cross-selling opportunities for banks that can keep their customers.

In Hong Kong, 43% of HSBC's total customer deposits (or HK\$586 billion) still fall under the current interest rate rules. The direct impact of the new interest rate regime will be lower rates paid on these accounts. But the knock-on effect will be lower time deposits rates. Over the last 6-9 months, with abundant liquidity in the system, the savings deposit rate has been acting as a floor under time deposit rates. Once this floor is removed, we would expect deposit rates to decline across the board.

The move is an important development in Hong Kong's banking sector and moves it closer to that of more developed countries. HSBC's new fee and deposit structure will eliminate the cross-subsidization of less profitable accounts by the more profitable ones. The new system essentially equates to a "user pays" approach.

Big banks will win

Big banks will gain market share at the expense of small banks in the new environment. Like we said, we do not expect a significant exodus of customers from HSBC. Rather, we believe that this bank is in the strongest position to fully benefit from such a change in the operating environment. Because it offers convenience that no other bank can, and because it controls the all-important salary payroll accounts, customers are not likely to leave, and are more likely to consolidate all their banking activities within HSBC. On the other hand, small banks are unlikely to be able to charge the same fees without suffering a drop in business.

Encouraging the use of automated delivery channels

Meanwhile, unlike in other developed countries, HSBC will continue to offer free ATM and Internet banking services. This makes sense since these are cheaper operating platforms, costing as little as 1/20th of a branch transaction. We believe that encouraging customers to utilize automated delivery channels is the right strategy, leaving staff to perform more of a selling function. With customers expected to consolidate bank accounts, we believe that they will seek all their banking services from the same source, which means that staff must be properly trained to recognize specific customer needs.

HSBC

Share Price: 97.75 Index: 13,293.11 Reuters Code: 0005.HK
 52 Week Price Range: 121.50 - 82.75 Current Yield: 3.47% Bloomberg Code: 0005.HK Shares Outstanding (MM): 9,299.00

| INCOME STATEMENT | 1999A | 2000A | 2001E | 2002E |
|--------------------------------------|----------------|----------------|----------------|----------------|
| <i>(US\$m) year end Dec</i> | | | | |
| Interest income | 29,204 | 31,225 | 33,421 | 35,505 |
| Interest expense | -17,214 | -17,502 | -19,461 | -20,773 |
| Net interest income | 11,990 | 13,723 | 13,960 | 14,732 |
| <i>Ave. interest earnings assets</i> | <i>419,231</i> | <i>496,335</i> | <i>528,597</i> | <i>562,955</i> |
| NIM (%) | 2.86% | 2.76% | 2.64% | 2.62% |
| Non-interest income | 9,012 | 10,850 | 10,834 | 11,607 |
| Total operating income | 21,002 | 24,573 | 24,794 | 26,340 |
| Non-interest expenses | -11,313 | -13,577 | -12,836 | -13,307 |
| Pre provision profit | 9,689 | 10,996 | 11,958 | 13,033 |
| Loan loss provisions | -2,244 | -1,039 | -1,199 | -1,275 |
| Non-operating income | 609 | 838 | 1,025 | 736 |
| Pre tax profit | 8,054 | 10,795 | 11,784 | 12,493 |
| Tax | 2,038 | 2,238 | 3,147 | 3,392 |
| Net profit | 5,408 | 6,628 | 7,525 | 8,002 |

| PER SHARE DATA | 1999A | 2000A | 2001E | 2002E |
|-----------------------------------|------------|------------|------------|------------|
| <i>(US\$m)</i> | | | | |
| Earnings per share | 0.65 | 0.76 | 0.85 | 0.93 |
| Dividends per share | 0.34 | 0.44 | 0.48 | 0.53 |
| <i>Effective payout ratio (%)</i> | <i>53%</i> | <i>61%</i> | <i>59%</i> | <i>61%</i> |
| Book value per share | 3.95 | 4.92 | 5.29 | 5.65 |
| Adjusted book value per share | 3.18 | 3.15 | 3.54 | 3.94 |

| VALUATION | 1999A | 2000A | 2001E | 2002E |
|----------------------------------|-------|-------|-------|-------|
| <i>(X)</i> | | | | |
| Price to book value (%) | 3.6 | 2.5 | 2.4 | 2.2 |
| Price to adjusted book value (%) | 4.4 | 4.0 | 3.5 | 3.2 |
| Price to earnings (X) | 21.8 | 16.5 | 14.7 | 13.5 |

| PROFITABILITY RATIOS | 1999A | 2000A | 2001E | 2002E |
|--------------------------------------|--------|--------|--------|--------|
| <i>(%)</i> | | | | |
| Net interest margin | 2.86% | 2.76% | 2.64% | 2.62% |
| Yield on interest earning assets | 6.97% | 6.29% | 6.32% | 6.31% |
| Cost on interest bearing liabilities | -3.78% | -3.28% | -3.42% | -3.43% |
| Net interest spread | 3.19% | 3.01% | 2.90% | 2.88% |
| Non-int. income (% Op income) | 42.9% | 44.2% | 43.7% | 44.1% |
| Cost to income | 53.9% | 55.3% | 51.8% | 50.5% |
| Overhead ratio | 2.15% | 2.19% | 2.05% | 2.06% |
| Cost coverage | 79.7% | 79.9% | 84.4% | 87.2% |
| ROA | 0.95% | 1.07% | 1.08% | 1.10% |
| ROE | 17.8% | 16.8% | 15.4% | 15.7% |

| DUPONT ANALYSIS | 1999A | 2000A | 2001E | 2002E |
|---------------------------------|--------------|--------------|--------------|--------------|
| <i>Lending operations</i> | | | | |
| Net interest margin | 2.86% | 2.76% | 2.64% | 2.62% |
| Interest earnings assets/assets | 73.7% | 73.7% | 73.7% | 73.7% |
| NIM contribution to ROA | 2.11% | 2.04% | 1.95% | 1.93% |

| | | | | |
|-------------------------------------|---------------|---------------|---------------|---------------|
| <i>Non-interest operations</i> | | | | |
| Non-interest income/assets | 1.58% | 1.61% | 1.51% | 1.52% |
| Overhead ratio | 1.99% | 2.01% | 1.79% | 1.74% |
| Non-int. contribution to ROA | -0.40% | -0.40% | -0.28% | -0.22% |

| | | | | |
|--------------------------------------|--------------|--------------|--------------|--------------|
| <i>Asset quality analysis</i> | | | | |
| Provision/loans | 0.86% | 0.35% | 0.40% | 0.38% |
| Loans/assets | 46.0% | 44.1% | 41.4% | 44.1% |
| ROA effect from asset quality | 0.39% | 0.15% | 0.17% | 0.17% |

| | | | | |
|------------------------------|--------------|--------------|--------------|--------------|
| Core ROA | 2.10% | 1.79% | 1.83% | 1.87% |
| Non-core contribution to ROA | 0.1% | 0.1% | 0.1% | 0.1% |
| Pre-tax ROA | 1.42% | 1.60% | 1.64% | 1.63% |

| | | | | |
|----------|-------|-------|-------|-------|
| Tax rate | 25.5% | 22.9% | 28.3% | 28.3% |
|----------|-------|-------|-------|-------|

| BALANCE SHEET | 1999A | 2000A | 2001E | 2002E |
|------------------------------------|----------------|----------------|----------------|----------------|
| <i>(US\$m) year end Dec</i> | | | | |
| Gross loans | 261,587 | 297,212 | 296,911 | 337,089 |
| <i>Specific loan loss reserves</i> | <i>-6,472</i> | <i>-5,606</i> | <i>-5,305</i> | <i>-6,343</i> |
| <i>General loan loss reserves</i> | <i>-1,548</i> | <i>-1,769</i> | <i>-1,769</i> | <i>-2,006</i> |
| Net loans | 253,567 | 289,837 | 289,837 | 328,740 |
| Other earning assets | 222,181 | 275,530 | 313,060 | 312,529 |
| Other assets | 93,391 | 108,447 | 114,715 | 122,988 |
| Total Assets | 569,139 | 673,814 | 717,612 | 764,257 |
| Deposits | 359,972 | 427,069 | 450,558 | 475,338 |
| Other paying liabilities | 95,399 | 106,938 | 118,003 | 130,036 |
| Other liabilities | 76,705 | 90,741 | 96,574 | 102,830 |
| Total Liabilities | 532,076 | 624,748 | 665,135 | 708,205 |
| Minorities & other | 3,655 | 3,496 | 3,760 | 4,001 |
| Shareholders' funds | 33,408 | 45,570 | 48,717 | 52,051 |

| GEOGRAPHIC BREAKDOWN | 1999A | 2000A | 2001E | 2002E |
|-------------------------------|--------------|--------------|---------------|---------------|
| <i>Pre-tax profit (US\$m)</i> | | | | |
| Europe | 3,322 | 3,770 | 4,354 | 4,577 |
| Hong Kong | 3,054 | 3,733 | 3,906 | 4,130 |
| Other Asian Countries | 329 | 1,289 | 1,244 | 1,403 |
| North America | 959 | 732 | 1,156 | 1,395 |
| Latin America | 318 | 393 | 444 | 490 |
| Total pre-tax profit | 7,982 | 9,917 | 11,104 | 11,993 |

| GEOGRAPHIC BREAKDOWN | 1999A | 2000A | 2001E | 2002E |
|------------------------------------|-------------|-------------|-------------|-------------|
| <i>Pre-tax profit (% of total)</i> | | | | |
| Europe | 42% | 38% | 39% | 38% |
| Hong Kong | 38% | 38% | 35% | 34% |
| Other Asian Countries | 4% | 13% | 11% | 12% |
| North America | 12% | 7% | 10% | 12% |
| Latin America | 4% | 4% | 4% | 4% |
| Total pre-tax profit | 100% | 100% | 100% | 100% |

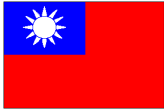
| BALANCE SHEET RATIOS | 1999A | 2000A | 2001E | 2002E |
|-----------------------------|--------|--------|--------|--------|
| <i>(%)</i> | | | | |
| Loan-to-deposit | 70.4% | 67.9% | 68.5% | 69.2% |
| Loan-to-deposit (incl. CDs) | n.a. | n.a. | n.a. | n.a. |
| Equity to assets | 5.9% | 6.8% | 6.8% | 6.8% |
| Tier 1 Capital | 9.7% | 8.5% | 8.7% | 9.2% |
| General reserves (% loans) | -0.59% | -0.60% | -0.60% | -0.60% |
| Specific reserves (% loans) | -2.47% | -1.89% | -1.79% | -1.88% |
| Total loan provisions | -3.07% | -2.48% | -2.38% | -2.48% |
| ASSET QUALITY | | | | |
| Nonperforming loans | 10,525 | 10,372 | 9,272 | 8,808 |
| NPL ratio | 4.0% | 3.5% | 3.1% | 2.6% |
| Total provisions/NPLs | 76.2% | 71.1% | 76.3% | 94.8% |

| GROWTH RATES | 1999A | 2000A | 2001E | 2002E |
|-------------------------|--------------|--------------|--------------|-------------|
| <i>(%)</i> | | | | |
| <i>Income statement</i> | | | | |
| Net interest income | 3.8% | 14.5% | 1.7% | 5.5% |
| Non-interest income | 3.1% | 20.4% | -0.1% | 7.1% |
| Total operating income | 3.5% | 17.0% | 0.9% | 6.2% |
| Operating expenses | 0.7% | 20.0% | -5.5% | 3.7% |
| Pre-provision earnings | 7.0% | 13.5% | 8.7% | 9.0% |
| Loan loss provisions | -21.7% | -53.7% | 15.4% | 6.4% |
| Net profit | 25.2% | 22.6% | 13.5% | 6.3% |

| | | | | |
|-------------------------|-------|-------|-------|-------|
| <i>Balance sheet</i> | | | | |
| Loan growth | 8.1% | 13.6% | -0.1% | 13.5% |
| Interest earning assets | 17.8% | 18.4% | 6.5% | 6.5% |
| Asset growth | 0.0% | 0.0% | 0.0% | 0.0% |
| Deposit growth | 0.0% | 0.0% | 0.0% | 0.0% |
| Shareholders funds | 21.9% | 36.4% | 6.9% | 6.8% |

| | | | | |
|------------------|-------|-------|-------|------|
| <i>Geographi</i> | | | | |
| Europe | 15.2% | 13.5% | 15.5% | 5.1% |

TAIWAN BANKS



Taiwan's banks face a difficult operating environment

The key theme that arose during our meetings in Taiwan during our recent Asian Bank Tour was that the operating environment is worse than expected and becoming even more difficult. NPLs are still on the rise, particularly at the state-owned banks, and this is likely to create systemic problems that will drag down the whole sector. The government realizes that there is a severe problem and something must be done about it. In this case, someone must own up to the problems and accept responsibility for the losses that will be incurred on loan losses. Four asset management companies have been established; however, no one wants to write the cheque—neither the government, nor foreign investors, and many of the banks themselves do not have the capital to incur such a write-off. The government is aiming to reduce NPLs to 2.5% by mid-2003.

Slower core earnings

Core earnings will continue to be difficult to achieve as loan growth continues to be slow, margins coming under more pressure and operating expenses on the rise, particularly due to higher technology spending. Meanwhile, high levels of NPLs force management to spend considerable time managing these assets rather than focusing on lending operations. In addition, unlike in some other Asian countries, net profit figures will not be boosted by lower loan loss provisions, since NPLs are expected to continue to creep up.

Consolidation is clearly on the agenda

The government clearly believes that mergers will help banks out of their current predicament, and has initiated the process. The MoF recently announced that Bank of Taiwan, Land Bank and Central Trust, all of which are wholly government-owned, will be merged, creating the largest bank in the country. Being government banks, all three are likely to exhibit severe asset quality problems as well as inefficient operations. One obvious benefit of a merger is cost savings, but these will not result from this current one, unless the government is willing to risk social unrest and implement a staff retrenchment and branch closure program—something that we do not expect to happen. Earlier in the year, the MoF announced a merger between state-linked First Commercial Bank and Dah An and Pan Asia, both of which are small private banks.

Smaller private banks will be dragged down by the larger state-owned banks

More important will be what happens to the small private banks, which are clearly better-run and in better shape than the large state-owned banks. However, these smaller entities do not have enough of an impact on the market and be dragged whichever way the larger, state-owned banks go. Nonetheless, some of these are prime acquisition targets for foreign banks looking for a way to enter the Taiwanese banking industry.

We remain underweight the Taiwanese banking sector and for any exposure, we would prefer Chinatrust (2815.TW, NT\$24.33, 1-Strong Buy), which we believe is the best of the bunch. With a market share of approximately 3.3%, this bank has sufficient size to compete. Meanwhile, it also exhibits a strong balance sheet and management is focusing its efforts in all the right areas, namely the consumer space.

Loan breakdown (% of total)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|-------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Agriculture & Mining | 0.75 | 0.73 | 0.75 | 0.71 | 0.67 | 0.70 | 0.68 | 0.71 | 0.68 | 0.64 | 0.61 | 0.61 | 0.61 | 0.62 | 0.64 | 0.62 |
| Manufacturing | 31.39 | 30.92 | 31.45 | 31.47 | 30.95 | 30.93 | 30.18 | 30.51 | 30.75 | 31.27 | 31.83 | 31.62 | 31.71 | 32.18 | 32.58 | 32.73 |
| Utilities | 0.30 | 0.28 | 0.27 | 0.28 | 0.31 | 0.33 | 0.50 | 0.61 | 0.68 | 0.60 | 0.67 | 0.62 | 0.71 | 0.77 | 0.83 | 0.84 |
| Property & Construction | 25.33 | 24.68 | 23.96 | 23.01 | 23.43 | 22.83 | 22.55 | 22.16 | 21.79 | 21.23 | 20.17 | 19.18 | 18.88 | 18.20 | 17.96 | 17.32 |
| Trade & restaurants | 13.92 | 13.92 | 14.05 | 14.08 | 13.72 | 14.33 | 14.24 | 13.14 | 12.90 | 12.88 | 12.75 | 12.49 | 12.20 | 12.24 | 12.15 | 11.58 |
| Transport, Storage & Communications | 2.20 | 2.30 | 2.28 | 2.27 | 2.25 | 2.20 | 1.95 | 2.01 | 2.08 | 2.17 | 2.26 | 2.37 | 2.35 | 2.78 | 2.84 | 3.12 |
| Service | 12.47 | 12.83 | 13.00 | 13.74 | 14.03 | 14.70 | 15.43 | 16.67 | 16.49 | 16.19 | 16.71 | 17.61 | 17.63 | 17.43 | 16.87 | 15.26 |
| Capital Investment | 0.02 | 0.02 | 0.02 | 0.06 | 0.05 | 0.10 | 0.04 | 0.03 | 0.03 | 0.03 | 0.03 | 0.03 | 0.03 | 0.03 | 0.03 | 0.04 |
| Working Capital | 13.61 | 14.31 | 14.22 | 14.36 | 14.59 | 13.88 | 14.43 | 14.16 | 14.61 | 14.99 | 14.97 | 15.47 | 15.89 | 15.75 | 16.11 | 18.48 |

Loan growth (% yoy)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|-------|-------|-------|-------|
| Agriculture & Mining | -2.72 | 0.78 | 11.83 | 8.55 | 6.48 | 12.69 | 4.01 | 16.70 | 15.65 | 5.94 | 2.92 | -3.46 | 1.29 | 5.58 | 13.41 | 10.94 |
| Manufacturing | -1.70 | 3.55 | 11.49 | 15.35 | 17.52 | 17.34 | 10.20 | 12.94 | 13.67 | 17.27 | 21.24 | 17.00 | 16.46 | 12.47 | 10.92 | 12.27 |
| Utilities | 3.00 | -3.56 | 0.20 | 11.00 | 23.01 | 37.93 | 110.35 | 149.40 | 152.68 | 111.68 | 54.34 | 14.81 | 18.40 | 40.35 | 32.72 | 48.42 |
| Property & Construction | 4.62 | 4.02 | 5.22 | 6.81 | 10.25 | 8.54 | 8.07 | 12.16 | 6.37 | 7.87 | 2.79 | -2.29 | -2.16 | -6.34 | -3.46 | -2.03 |
| Trade & restaurants | -5.41 | 1.13 | 10.21 | 15.69 | 17.42 | 20.72 | 16.39 | 8.69 | 7.66 | 4.24 | 2.93 | 7.30 | 6.78 | 3.86 | 3.30 | 0.55 |
| Transport, Storage & Communications | -0.98 | 9.67 | 26.19 | 28.31 | 21.74 | 12.15 | -1.53 | 2.80 | 5.78 | 14.31 | 32.95 | 33.62 | 27.50 | 40.25 | 36.18 | 42.76 |
| Service | -0.73 | 10.55 | 17.59 | 25.70 | 34.10 | 34.40 | 36.30 | 41.30 | 34.46 | 27.71 | 24.48 | 19.31 | 20.70 | 17.64 | 9.42 | -6.06 |
| Capital Investment | 176.95 | 177.46 | 214.88 | 992.80 | 181.89 | 466.88 | 117.58 | -32.69 | -35.29 | -62.68 | 1.77 | 12.56 | 15.35 | 4.87 | 11.66 | 18.21 |
| Working Capital | 41.14 | 44.13 | 41.54 | 39.08 | 27.72 | 13.77 | 16.56 | 14.87 | 14.56 | 25.26 | 19.26 | 23.34 | 22.89 | 14.78 | 16.58 | 29.54 |
| Total | 3.77 | 8.68 | 14.18 | 17.72 | 19.18 | 17.32 | 14.84 | 16.49 | 14.42 | 15.99 | 14.95 | 12.91 | 12.93 | 9.27 | 8.38 | 8.45 |

Deposit breakdown (% of total)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Demand | 22.38 | 23.35 | 22.46 | 22.32 | 21.85 | 21.90 | 20.50 | 21.37 | 21.15 | 22.83 | 22.40 | 23.12 | 24.15 | 23.14 | 21.73 | 22.01 |
| Time | 58.16 | 57.43 | 57.86 | 58.14 | 58.57 | 58.85 | 60.04 | 60.26 | 59.62 | 58.37 | 58.35 | 57.84 | 56.75 | 57.35 | 57.68 | 55.75 |
| Foreign Currency | 2.45 | 2.55 | 3.07 | 3.97 | 4.24 | 4.48 | 4.80 | 3.86 | 4.10 | 3.84 | 3.97 | 3.88 | 3.89 | 4.09 | 4.88 | 6.53 |
| Postal Savings | 17.01 | 16.68 | 16.61 | 15.57 | 15.35 | 14.78 | 14.66 | 14.51 | 15.12 | 14.95 | 15.28 | 15.16 | 15.21 | 15.42 | 15.71 | 15.71 |

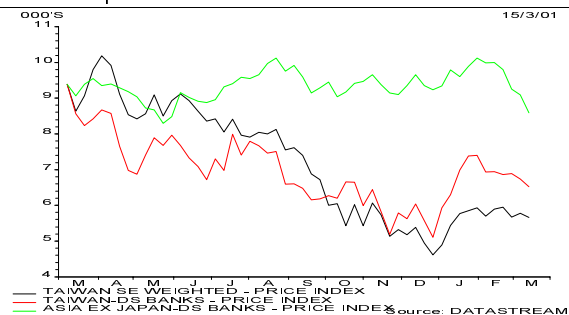
Deposit growth (% yoy)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------|-------|-------|-------|-------|
| Demand | 18.16 | 14.36 | 16.82 | 9.47 | 5.26 | 1.20 | -0.02 | 4.25 | 5.64 | 14.67 | 18.18 | 16.61 | 23.69 | 7.55 | 2.94 | 1.75 |
| Time | 6.92 | 3.55 | 1.76 | 5.68 | 8.56 | 10.59 | 13.68 | 12.85 | 11.09 | 9.09 | 5.12 | 3.42 | 3.11 | 4.27 | 4.91 | 3.05 |
| Foreign Currency | 41.69 | 28.30 | 43.98 | 83.93 | 86.14 | 89.71 | 71.21 | 5.90 | 5.57 | -5.65 | -10.52 | 8.34 | 2.68 | 13.12 | 30.41 | 79.99 |
| Postal Savings | 11.01 | 8.60 | 4.58 | 0.36 | -2.73 | -4.35 | -3.26 | 1.44 | 7.52 | 11.26 | 12.69 | 12.58 | 8.94 | 9.41 | 9.14 | 10.82 |
| Total | 10.63 | 7.27 | 6.27 | 7.44 | 7.81 | 7.92 | 9.55 | 8.88 | 9.12 | 9.98 | 8.16 | 7.76 | 8.32 | 6.13 | 6.13 | 6.92 |

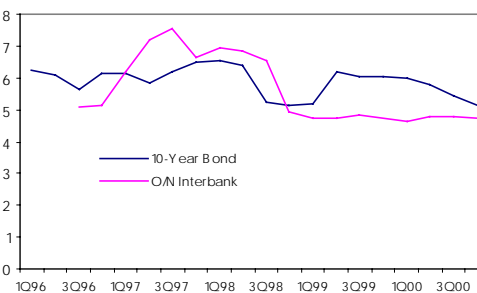
Interest Rates (%)

| | 1Q97 | 2Q97 | 3Q97 | 4Q97 | 1Q98 | 2Q98 | 3Q98 | 4Q98 | 1Q99 | 2Q99 | 3Q99 | 4Q99 | 1Q00 | 2Q00 | 3Q00 | 4Q00 |
|---------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Prime Lending | 7.53 | 7.53 | 7.65 | 7.65 | 8.10 | 8.10 | 8.08 | 7.89 | 7.84 | 7.84 | 7.84 | 7.84 | 7.84 | 7.84 | 7.84 | 7.94 |
| Deposits | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| O/N Interbank | 6.19 | 7.21 | 7.55 | 6.67 | 6.93 | 6.84 | 6.52 | 4.95 | 4.73 | 4.74 | 4.84 | 4.73 | 4.64 | 4.80 | 4.80 | 4.72 |

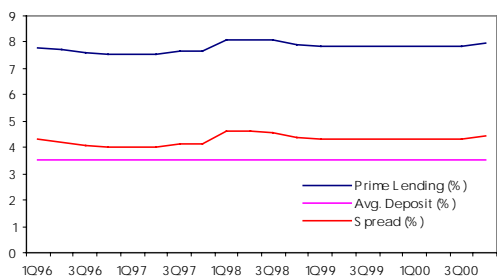
Recent market performance



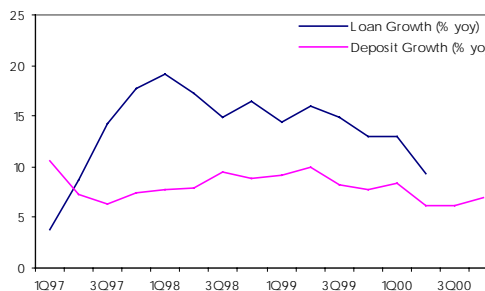
Market interest rates (%)



Average lending and deposit rates (%)



Loan and deposit growth (% yoy)



TAISHIN INTERNATIONAL: Credit cards leading the way**3-Market perform**

Strategic focus on high yielding and safe assets

We met with the management of Taishin as part of the Asian Banks Tour recently and came away feeling that, similar to almost all the other banks we saw in Taiwan, this is a relatively good bank operating in a poor environment. It is focusing its efforts on the most profitable and safest segments, has a relatively strong balance sheet with better than average asset quality, yet it is not immune to systemic risks generated by problems at the larger state-owned banks.

A market leader for credit cards

Taishin continues to focus on high yielding products, particularly consumer products, which account for 47% of its loan portfolio. The key areas have been mortgages and credit cards. The company is focusing on these lucrative areas, that generate yields north of 20%, and reducing its exposure to corporate loans, which generate spreads of only 60 basis points.

Likely participant in industry consolidation

Taishin was the first among the 16 new private banks to issue credit cards and is now the second largest domestic (third if we include Citibank) credit card issuer. Since the beginning of the year, credit cards outstanding have already increased by another 20,000 to 1.7 million, representing ~7% market share. Looking ahead, the company would like to spend more money to promote credit cards spending and initiate other strategic tie-ups, which will enable it to reach 2.1 million cards by year-end. Credit card receivables account for 10% of its loan book, but close to 20% of pre-tax profit. This is the fastest growing segment of its loan book, growing at 25-30% per annum.

Management revealed that it had discussions with two other financial institutions, but nothing came of it. With approximately only 1.25% market share, management realizes that it does not have the critical mass nor the economies of scale to compete against the larger international players. Key factors that management will take into consideration for a partner are the size of the branch network, potential cost savings and revenue synergies and geographic concentration— management is focusing on Taipei.

Cross-selling is a focus

In the current environment, management is focusing its efforts on cross-selling other financial products. Management is re-deploying staff to the front line to sell non-loan bank products and estimates that 30% of its staff are now performing selling functions.

Stricter provisioning policy will be a drag on earnings

The company has tightened its provisioning policy and become more aggressive in writing off NPLs, which should keep loan loss provisions buoyant. The bank currently has an NPL ratio of ~2.3% and an NPL coverage ratio of 42%. Meanwhile, although management has done well to contain its NPLs, we would highlight that its exposure to the construction sector at 13% is higher than the sector average of only 4.1%. Given how weak the construction industry has been, this exposure is a real risk. We expect management will look to reduce its exposure to less than 10% over the longer term.

| Taishin International | | | | | | Reuters Code: 2844.TW | | | | | |
|---|---------|---------|---------|---------|---------|-----------------------------------|---------|---------|---------|---------|---------|
| Share Price (NT\$): 15.50 | | | | | | Index: 5,518.73 | | | | | |
| 52 Week Price Range (NT\$): 21.80 - 12.20 | | | | | | Current Yield: 0.00 | | | | | |
| Bloomberg Code: 2844 TT | | | | | | Shares Outstanding (MM): 1,687.40 | | | | | |
| INCOME STATEMENT | | | | | | BALANCE SHEET | | | | | |
| (NT\$m) <i>year end Dec</i> | | | | | | (NT\$m) <i>year end Dec</i> | | | | | |
| Interest income | 17,724 | 19,327 | 20,968 | 23,612 | 25,965 | Gross loans | 171,580 | 186,197 | 189,019 | 226,751 | 254,315 |
| Interest expense | -11,799 | -11,075 | -11,170 | -13,871 | -15,979 | Specific loan loss reserves | 0 | 0 | 0 | 0 | 0 |
| Net interest income | 5,925 | 8,253 | 9,799 | 9,741 | 9,986 | Loan loss reserves | -1,658 | -1,928 | -3,325 | -2,975 | -3,686 |
| Ave. int. earnings assets | 201,374 | 227,622 | 246,140 | 274,379 | 304,399 | Net loans | 169,922 | 184,268 | 185,694 | 223,775 | 250,628 |
| NIM (%) | 2.98% | 3.68% | 3.98% | 3.58% | 3.28% | Other earning assets | 55,344 | 45,710 | 76,606 | 62,682 | 71,711 |
| Non-interest income | 1,027 | 1,646 | 2,958 | 2,428 | 2,847 | Other assets | 10,255 | 11,409 | 13,560 | 13,479 | 16,199 |
| Total operating income | 6,952 | 9,899 | 12,757 | 12,168 | 12,833 | Total Assets | 235,521 | 241,388 | 275,860 | 299,937 | 338,538 |
| Non-interest expenses | -4,375 | -4,904 | -7,271 | -6,002 | -6,753 | Deposits | 197,167 | 197,315 | 224,620 | 251,872 | 284,616 |
| Pre provision profit | 2,577 | 4,995 | 5,486 | 6,166 | 6,081 | Other paying liabilities | 20,095 | 21,265 | 22,634 | 26,745 | 29,687 |
| Loan loss provisions | -905 | -2,820 | -3,186 | -2,596 | -2,165 | Other liabilities | 560 | 585 | 600 | (6,422) | (6,678) |
| Non-operating income | 138 | 78 | 208 | 0 | 0 | Total Liabilities | 217,821 | 219,165 | 247,853 | 272,196 | 307,626 |
| Pre tax profit | 1,673 | 2,175 | 2,508 | 3,570 | 3,916 | Minorities & other | 0 | 0 | 0 | 0 | 0 |
| Tax | -326 | -436 | -592 | -678 | -744 | Shareholders' funds | 17,700 | 22,223 | 28,007 | 27,741 | 30,913 |
| Net profit | 1,485 | 1,816 | 1,916 | 2,892 | 3,172 | LOAN BOOK | | | | | |
| PER SHARE DATA (NT\$) | | | | | | LOAN BOOK BREAKDOWN | | | | | |
| EPS | 0.95 | 1.05 | 1.14 | 1.61 | 1.81 | (NT\$m) | | | | | |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | Manufacturing | 26,891 | 31,265 | 36,892 | 42,067 | 48,377 |
| Effective payout ratio (%) | 0% | 0% | 0% | 0% | 0% | Construction | 36,331 | 28,092 | 24,930 | 30,381 | 31,901 |
| BVPS | 11.33 | 13.19 | 16.60 | 16.46 | 18.34 | Trading | 13,660 | 12,022 | 8,558 | 13,507 | 14,452 |
| ABVPS | 11.33 | 12.24 | 17.45 | 16.46 | 18.34 | Financial institutions | 21,329 | 23,316 | 20,860 | 28,469 | 32,739 |
| VALUATION | | | | | | Other corporate | | | | | |
| Price to book value (x) | 0.9 | 1.2 | 0.9 | 0.9 | 0.8 | Individuals | 12,196 | 11,522 | 23,339 | 12,461 | 13,707 |
| Price to adjusted book value (x) | 0.9 | 1.3 | 0.8 | 0.9 | 0.8 | Credit cards | 95,972 | 93,545 | 92,157 | 109,102 | 120,012 |
| Price to earnings (X) | 10.3 | 15.3 | 12.7 | 9.61 | 8.57 | Total loans | 13,296 | 17,373 | 18,692 | 28,665 | 34,972 |
| PROFITABILITY RATIOS | | | | | | Total loans | | | | | |
| Net interest margin | | | | | | 219,675 | | | | | |
| Yield on interest earning assets | | | | | | 217,135 | | | | | |
| Cost on interest bearing liabilities | | | | | | 225,428 | | | | | |
| Net interest spread | | | | | | 264,652 | | | | | |
| Non-int. income (% Op income) | | | | | | 296,160 | | | | | |
| Cost to income | | | | | | LOAN BOOK BREAKDOWN | | | | | |
| Overhead ratio | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Cost coverage | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| ROA | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| ROE | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| DUPONT ANALYSIS | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| <u>Lending operations</u> | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Net interest margin | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Interest earnings assets/assets | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| NIM contribution to ROA | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| <u>Non-interest operations</u> | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Non-interest income/assets | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Overhead ratio | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Non-int. contribution to ROA | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| <u>Asset quality analysis</u> | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Provision/loans | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Loans/assets | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| ROA effect from asset quality | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Core ROA | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Non-core contribution to ROA | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Pre-tax ROA | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Tax rate | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| After tax ROA | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| ASSET QUALITY | | | | | | BALANCE SHEET RATIOS | | | | | |
| Nonperforming loans | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| NPL ratio | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Total provisions/NPLs | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| GROWTH RATES | | | | | | ASSET QUALITY | | | | | |
| Income statement | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Net interest income | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Non-interest income | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Total operating income | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Operating expenses | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Pre-provision earnings | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Loan loss provisions | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Net profit | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Balance sheet | | | | | | ASSET QUALITY | | | | | |
| Loan growth | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Interest earning assets | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |
| Asset growth | | | | | | 1998A 1999A 2000A 2001E 2002E | | | | | |

HUA NAN COMMERCIAL: A progressive state bank**Not rated**

We met with the management of Hua Nan Bank as part of the Asian Banks Tour recently and came away with the impression that this bank has a lot of work to do before it can emerge from the current crisis. Asset quality appears worse than average and earnings prospects will be muted due to higher loan loss provisions as well as contracting margins and below average loan growth. Meanwhile, this company is working hard to develop non-interest income operations, particularly insurance business.

Loan loss provisions to remain high as asset quality continues to deteriorate

Loan loss provisions are expected to remain high due to poor asset quality and an aggressive write-off policy. The company is prepared to write off NT\$4 billion in 1Q01, equivalent to 8% of total NPLs and over 100% of NPLs in the loss category. With a loan loss reserve of only NT\$8.8 billion, which is equivalent to just over 1% of total loans and only 12% of total NPLs, we believe that this bank will have to take further provisions upon writing these loans off. Adding to their worries, the value of property, which accounts for almost 60% of total collateral, declined by another 10% in 2000.

With almost one-third of its loan book lent to corporates, which were the hardest hit by the crisis, asset quality continues to deteriorate and the NPL ratio is still inching upward. Management has indicated that the NPL ratio has increased to 6.46%, up from 6.04% at the end of 2000. Despite the current hiccup, management believes that it will be able to bring NPLs down to 2.5% by June 2003. In accordance with this target, management is ready to issue sub-debt if capital levels become too low upon the write off of NPLs.

Hidden reserves will not be realized

Hua Nan has substantial unrealized gains of NT\$40 billion on non-core assets, which together with its current loan loss reserve, covers 97% of NPLs. However, contrary to some press reports, management has indicated that it will not take this route.

Development of non-interest income

Hua Nan has taken considerable steps to develop the non-interest income component of earnings. It has recently invested NT\$50 million to set up a brand new life insurance brokerage subsidiary to handle the distribution of life insurance policies on behalf of Shin Kong Life Insurance. An initial target is to generate insurance premiums worth over NT\$200 million. Looking ahead, other insurance products from other companies are also in the pipeline.

Net profit of NT\$3.9 billion projected for 2001, down 19%

2001 earnings are expected to decline as provisions remain high, margins narrow and operating expenses increase. Management is projecting an optimistic 8.5% loan growth, matched by a 8.8% increase in deposits. Management's earnings projections correspond to a 5.0% ROE and 0.3% ROA, down from 6.3% and 0.4% respectively in 2000.

Hua Nan Commercial Bank

Share Price: 22.20 Index: 5,518.73
 52 Week Price Range: 30.82 - 18.70 Current Yield: 0.0%

Reuters Code: 2803.TW
 Bloomberg Code: 2803 TT Shares Outstanding (MM): 3,519.80

| INCOME STATEMENT | 1998A | 1999A | 2000A | 2001E |
|----------------------------------|----------------|----------------|----------------|------------------|
| (NT\$ M) year end Dec | | | | |
| Interest income | 58,554 | 57,241 | 61,386 | 66,648 |
| Interest expense | -43,030 | -40,999 | -42,377 | -45,329 |
| Net interest income | 15,524 | 16,242 | 19,009 | 21,319 |
| <i>Ave. int. earnings assets</i> | <i>455,160</i> | <i>476,028</i> | <i>996,920</i> | <i>1,050,075</i> |
| NIM (%) | 3.41% | 3.41% | 1.91% | 2.03% |
| Non-interest income | 11,553 | 12,567 | 12,044 | 8,981 |
| Total operating income | 27,077 | 28,810 | 31,053 | 30,300 |
| Non-interest expenses | -13,427 | -12,797 | -12,526 | -12,941 |
| Pre provision profit | 13,651 | 16,013 | 18,527 | 17,359 |
| Loan loss provisions | -4,227 | -8,389 | -11,315 | -11,000 |
| Non-operating income | -1,573 | -1,746 | -1,452 | -1,818 |
| Pre tax profit | 7,851 | 5,878 | 5,761 | 4,541 |
| Tax | -802 | -561 | -944 | -644 |
| Net profit | 7,049 | 5,316 | 4,817 | 3,897 |

| PER SHARE DATA (Bt) | 1998A | 1999A | 2000A | 2001E |
|-----------------------------------|------------|-----------|-----------|-----------|
| EPS | 2.60 | 1.67 | 1.37 | 1.11 |
| DPS | 1.06 | 0.00 | 0.00 | 0.00 |
| <i>Effective payout ratio (%)</i> | <i>41%</i> | <i>0%</i> | <i>0%</i> | <i>0%</i> |
| BVPS | 26.22 | 24.01 | 22.05 | 5.51 |
| ABVPS | 26.22 | 24.01 | 22.05 | 5.51 |

| VALUATION | 1998A | 1999A | 2000A | 2001E |
|----------------------------------|-------|-------|-------|-------|
| Price to book value (x) | 1.61 | 1.49 | 0.97 | 4.03 |
| Price to adjusted book value (x) | 1.61 | 1.49 | 0.97 | 4.03 |
| Price to earnings (x) | 16.18 | 21.41 | 15.64 | 20.05 |

| PROFITABILITY RATIOS (%) | 1998A | 1999A | 2000A | 2001E |
|--------------------------------------|----------|----------|----------|----------|
| Net interest margin | 3.41% | 3.41% | 1.91% | 2.03% |
| Yield on interest earning assets | 12.86% | 12.02% | 6.16% | 6.35% |
| Cost on interest bearing liabilities | -4.44% | -4.00% | -3.63% | -3.89% |
| Net interest spread | 8.42% | 8.03% | 2.53% | 2.46% |
| Non-int. income (% Op income) | 42.67% | 43.62% | 38.79% | 29.64% |
| Cost to income | -49.59% | -44.42% | -40.34% | -42.71% |
| Overhead ratio | 1.29% | 1.16% | 1.00% | 1.04% |
| Cost coverage | -201.66% | -225.13% | -247.91% | -234.14% |
| ROA | 0.68% | 0.48% | 0.39% | 0.31% |
| ROE | 9.92% | 6.97% | 6.21% | 20.10% |

| OROA ANALYSIS | 1998A | 1999A | 2000A | 2001E |
|-----------------------------------|---------------|---------------|--------------|---------------|
| Net interest margin | 3.41% | 3.41% | 1.91% | 2.03% |
| Non-interest inc./gross inc. | 42.67% | 43.62% | 38.79% | 29.64% |
| Efficiency ratio | -49.59% | -44.42% | -40.34% | -42.71% |
| Provision/assets | -0.41% | -0.76% | -0.91% | -0.88% |
| Operating return on assets | 9.30% | 9.50% | 5.28% | 5.00% |
| Equity/assets | 6.82% | 6.91% | 6.22% | 1.55% |
| Operating return on equity | 136.4% | 137.4% | 84.9% | 321.7% |

| BALANCE SHEET | 1998A | 1999A | 2000A | 2001E |
|-----------------------------|------------------|------------------|------------------|------------------|
| (NT\$ M) year end Dec | | | | |
| Gross loans | 660,957 | 708,722 | 832,647 | 866,004 |
| General loan loss reserves | -7,649 | -8,612 | -8,865 | -9,220 |
| Specific loan loss reserves | 0 | 0 | 0 | 0 |
| Net loans | 653,308 | 700,110 | 823,782 | 856,784 |
| Other earning assets | 257,011 | 251,946 | 259,738 | 291,310 |
| Other assets | 131,309 | 151,182 | 164,697 | 100,124 |
| Total Assets | 1,041,629 | 1,103,238 | 1,248,217 | 1,248,217 |
| Deposits | 812,446 | 864,832 | 938,205 | 980,127 |
| Other paying liabilities | 156,562 | 160,369 | 228,789 | 186,589 |
| Other liabilities | 1,574 | 1,753 | 1,829 | 2,107 |
| Total Liabilities | 970,582 | 1,026,954 | 1,168,823 | 1,168,823 |
| Minority Interest | 0 | 0 | 0 | 0 |
| Shareholder's Equity | 71,047 | 76,284 | 77,595 | 19,394 |

| BALANCE SHEET RATIOS (%) | 1998A | 1999A | 2000A | 2001E |
|--------------------------|--------|--------|--------|--------|
| Loan-to-deposit | 80.41% | 80.95% | 87.80% | 87.42% |
| Equity to assets | 6.82% | 6.91% | 6.22% | 1.55% |
| Tier 1 Capital | 10.32% | 10.63% | 10.00% | 10.00% |
| Total Capital adequacy | 11.06% | 10.64% | 9.81% | 9.81% |
| Total loan provisions | 1.16% | 1.22% | 1.06% | 1.06% |

| ASSET QUALITY | 1998A | 1999A | 2000A | 2001E |
|----------------------|-------|-------|--------|-----------|
| Nonperforming assets | na | na | 72,132 | 75,022 |
| Special mention | na | na | - | - |
| Substandard | na | na | 59,909 | 62,309.02 |
| Doubtful | na | na | 8,412 | 8,749 |
| Loss | na | na | 3,540 | 3,682 |
| ORE | na | na | 271 | 282 |

| | | | | |
|-----------------------------|---------|---------|---------|---------|
| NPAs/total loans | na | na | 8.7% | 8.7% |
| Reserve coverage of NPAs | na | na | 12.3% | 12.3% |
| Required reserves | 6,610 | 7,087 | 8,326 | 8,660 |
| Actual reserves | 7,649 | 8,612 | 8,865 | 9,220 |
| Shortfall (surplus) | (1,039) | (1,525) | (539) | (560) |
| Actual to required reserves | 115.73% | 121.51% | 106.47% | 106.47% |
| Shortfall to capital | -1.46% | -2.00% | -0.69% | -2.89% |

| GROWTH RATES (%) | 1998A | 1999A | 2000A | 2001E |
|-------------------------|-------|---------------|---------------|---------------|
| <i>Income statement</i> | | | | |
| Net interest income | | -2.2% | 4.8% | 16.4% |
| Non-interest income | | 8.8% | 4.3% | -28.5% |
| Total operating income | | 6.4% | 14.7% | 5.2% |
| Non-interest expenses | | -4.7% | -6.7% | 1.1% |
| Pre-provision earnings | | 17.3% | 35.7% | 8.4% |
| Loan loss provisions | | 98.5% | 167.7% | 31.1% |
| Net profit | | -24.6% | -31.7% | -26.7% |

| Balance sheet | 1998A | 1999A | 2000A | 2001E |
|-------------------------|-------|-------|-------|--------|
| Loan growth | | 7.2% | 26.1% | 22.4% |
| Interest earning assets | | 4.6% | 19.0% | 20.6% |
| Asset growth | | 5.9% | 19.8% | 13.1% |
| Deposit growth | | 6.4% | 15.5% | 13.3% |
| Shareholders funds | | 7.4% | 9.2% | -74.6% |

CHINATRUST COMMERCIAL: The right stuff**1-Strong buy**

We met with the management of Chinatrust as part of the Asian Banks Tour and came away with the impression that this is among the best-run banks in Taiwan, with a strong balance sheet that is focusing on the right areas. By focusing on the consumer space, this bank will generate the highest level of profitability with an ROE of 13% and an ROA of 1.2%. However, systemic problems endemic to the sector will likely have a contagion effect on this bank, which is the pick of the litter.

Number one credit card issuer

Chinatrust was one of the first banks to issue credit cards back in 1974 and has since managed to expand this business substantially. The bank is currently the largest credit issuer on the island with 3.1 million cards issued, representing a 17% market share. Looking ahead, the company is targeting 4 million by the end of 2001. Credit card receivables account for 12% of its loan book and approximately 30% of pre-tax profit.

Looking for ways to improve profitability

Management believes the key to success for this business line is to increase spending and balances per card. Comparatively, management points out that Citibank's 1.2 million cardholders spent an average of NT\$10,000 last year, which is double that of Chinatrust's cardholders. In terms of credit card receivables, Citi cardholders carry an average of NT\$23,000, which is almost double the NT\$14,000 that Chinatrust cardholders carry.

Cost containment

On the other side of the coin, profitability is also going to be boosted by more efficient operations, particularly due to increased usage of automation. Currently, 40-50% of transactions are conducted through the physical branches, while 30-35% are conducted through ATMs and the remaining 10-15% are through the phone. By focusing on a cheaper and automated delivery platform, not only will the cost-to-income ratio improve to an expected 50%, compared to 52% the year before, staff are freed up to perform selling functions. Currently, approximately one-third of staff are selling bank products while the remaining two-thirds are performing processing functions. By 2003, the bank expects this ratio to improve to 50:50.

No M&A opportunities on the horizon

Management does not see any good combinations with other banks, which includes both good ones and bad ones. However, if an opportunity does arise, Chinatrust prefers to be the acquiring bank and surviving entity. In addition, any such acquisition has to be beneficial and not hurt the share price. Nevertheless, this bank will wait until after it completes its acquisition of Chinatrust US before it seeks any other acquisitions.

Looking to set up AMC

The government has stated that it would like to see the private banks and foreign banks play an active role in setting up asset management companies (AMC). While Chinatrust has no problem managing its own NPL portfolio, the bank is studying the feasibility of setting up an AMC to manage some of the rising NPLs in the system. It currently has an NPL ratio of 1.9% and asset quality should not be a problem given its lower exposure to traditional industries that were hit hardest by the crisis.

| Chinatrust | | | | | | Reuters Code: 2815.TW | | | | | |
|--------------------------------------|---------|---------------|---------|---------------------|---------|-----------------------------|---------|--------------------------|---------|----------|---------|
| Share Price (NT\$): | | 24.30 | | Index: 5,518.73 | | Bloomberg Code: 2815.TT | | Shares Outstanding (MM): | | 3,950.20 | |
| 52 Week Price Range (NT\$): | | 28.20 - 15.40 | | Current Yield: 0.00 | | | | | | | |
| INCOME STATEMENT | | | | | | BALANCE SHEET | | | | | |
| (NT\$m) year end Dec | | | | | | (NT\$m) year end Dec | | | | | |
| Interest income | 42,020 | 43,870 | 49,413 | 56,272 | 63,949 | Gross loans | 419,364 | 470,494 | 545,122 | 636,504 | 726,076 |
| Interest expense | -29,862 | -27,837 | -30,898 | -35,248 | -40,507 | Specific loan loss reserves | 0 | 0 | 0 | 0 | 0 |
| Net interest income | 12,158 | 16,033 | 18,514 | 21,024 | 23,442 | Loan loss reserves | -5,575 | -5,995 | -6,302 | -9,318 | -11,084 |
| Ave. int. earnings assets | 534,290 | 571,950 | 640,891 | 742,376 | 851,516 | Net loans | 413,789 | 464,499 | 538,819 | 627,186 | 714,992 |
| NIM (%) | 2.32% | 2.88% | 2.89% | 2.83% | 2.75% | Other earning assets | 136,671 | 128,940 | 149,523 | 169,223 | 191,631 |
| Non-interest income | 7,713 | 8,985 | 10,476 | 11,817 | 13,511 | Other assets | 30,401 | 34,970 | 33,221 | 35,716 | 38,679 |
| Total operating income | 19,871 | 25,018 | 28,990 | 32,841 | 36,953 | Total Assets | 580,862 | 628,409 | 721,564 | 832,125 | 945,302 |
| Non-interest expenses | -9,521 | -10,902 | -13,812 | -15,648 | -17,948 | Deposits | 412,641 | 461,204 | 521,161 | 614,970 | 707,215 |
| Pre provision profit | 10,350 | 14,116 | 15,178 | 17,193 | 19,005 | Other paying liabilities | 114,935 | 110,255 | 119,076 | 129,792 | 142,772 |
| Loan loss provisions | -5,036 | -8,358 | -5,332 | -5,300 | -4,735 | Other liabilities | 5,450 | 4,524 | 20,715 | 16,910 | 13,104 |
| Non-operating income | 342 | 369 | 388 | 407 | 428 | Total Liabilities | 533,026 | 575,984 | 660,951 | 761,672 | 863,091 |
| Pre tax profit | 5,314 | 5,758 | 9,846 | 11,893 | 14,270 | Minorities & other | 0 | 0 | 0 | 0 | 0 |
| Tax | -1,505 | -1,266 | -2,047 | -2,460 | -2,940 | Shareholders' funds | 47,835 | 52,425 | 60,612 | 70,453 | 82,211 |
| Net profit | 4,151 | 4,861 | 8,187 | 9,840 | 11,758 | LOAN BOOK | | | | | |
| PER SHARE DATA (NT\$) | | | | | | (NT\$m) | | | | | |
| EPS | 1.05 | 1.23 | 2.06 | 2.46 | 2.94 | Manufacturing | 47,790 | 60,919 | 77,976 | 97,470 | 115,015 |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | Trade and commerce | 19,424 | 19,399 | 21,339 | 25,180 | 28,705 |
| Effective payout ratio (%) | 0% | 0% | 0% | 0% | 0% | Communication | 15,034 | 19,590 | 22,528 | 26,133 | 30,314 |
| BVPS | 12.15 | 13.29 | 15.37 | 17.86 | 20.84 | Business&social svcs | 37,435 | 32,668 | 32,668 | 34,302 | 36,017 |
| ABVPS | 12.15 | 12.78 | 15.37 | 17.86 | 20.84 | Real estate | 27,240 | 34,725 | 39,934 | 47,521 | 53,224 |
| VALUATION | | | | | | LOAN BOOK BREAKDOWN | | | | | |
| Price to book value (x) | 2.0 | 1.8 | 1.6 | 1.4 | 1.2 | (%) | 12% | 13% | 15% | 16% | 17% |
| Price to adjusted book value (x) | 2.0 | 1.9 | 1.6 | 1.4 | 1.2 | Manufacturing | 5% | 4% | 4% | 4% | 4% |
| Price to earnings (X) | 23.1 | 19.7 | 11.8 | 9.9 | 8.3 | Trade and commerce | 4% | 4% | 4% | 4% | 4% |
| PROFITABILITY RATIOS | | | | | | Communication | 9% | 7% | 6% | 6% | 5% |
| (%) | | | | | | Financial services | 7% | 8% | 8% | 8% | |
| Net interest margin | 2.32% | 2.88% | 2.89% | 2.83% | 2.75% | Real estate | 13% | 15% | 15% | 14% | |
| Yield on interest earning assets | 8.03% | 7.88% | 7.71% | 7.58% | 7.51% | Other corporate | 28% | 25% | 23% | 22% | |
| Cost on interest bearing liabilities | 5.78% | 5.07% | 5.10% | 5.09% | 5.08% | Mortgage | 11% | 11% | 12% | 13% | |
| Net interest spread | 2.25% | 2.82% | 2.61% | 2.49% | 2.43% | Credit cards | 13% | 12% | 12% | 12% | |
| Non-int. income (% Op income) | 38.8% | 35.9% | 36.1% | 36.0% | 36.6% | Other retail | 100% | 100% | 100% | 100% | |
| Cost to income | 47.9% | 43.6% | 47.6% | 47.6% | 48.6% | BALANCE SHEET RATIOS | | | | | |
| Overhead ratio | 1.69% | 1.80% | 2.05% | 2.01% | 2.02% | (%) | | | | | |
| Cost coverage | 81.0% | 82.4% | 75.8% | 75.5% | 75.3% | Loan-to-deposit | 100.3% | 100.7% | 103.4% | 102.0% | 101.1% |
| ROA | 0.74% | 0.80% | 1.21% | 1.27% | 1.32% | Loan-to-deposit (incl. CDs) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| ROE | 10.5% | 10.4% | 14.5% | 15.0% | 15.4% | Equity to assets | 8.2% | 8.3% | 8.4% | 8.5% | 8.7% |
| DUPONT ANALYSIS | | | | | | Tier 1 Capital | 9.2% | 9.2% | 9.2% | 9.2% | 9.4% |
| Lending operations | | | | | | Total Capital adequacy | 9.2% | 9.2% | 9.2% | 9.2% | 9.4% |
| Net interest margin | 2.32% | 2.88% | 2.89% | 2.83% | 2.75% | General reserves (% loans) | -1.33% | -1.27% | -1.16% | -1.46% | -1.53% |
| Interest earnings assets/assets | 94.92% | 94.59% | 94.95% | 95.56% | 95.81% | Specific reserves (% loans) | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| NIM contribution to ROA | 2.21% | 2.73% | 2.74% | 2.71% | 2.64% | Total loan provisions | -1.33% | -1.27% | -1.16% | -1.46% | -1.53% |
| Non-interest operations | | | | | | ASSET QUALITY | | | | | |
| Non-interest income/assets | 1.37% | 1.49% | 1.55% | 1.52% | 1.52% | Nonperforming loans | 6.210 | 9.136 | 11.419 | 14.845 | 16.330 |
| Overhead ratio | 1.69% | 1.80% | 2.05% | 2.01% | 2.02% | NPL ratio | 1.7% | 1.9% | 2.1% | 2.3% | 2.2% |
| Non-int. contribution to ROA | -0.32% | -0.32% | -0.49% | -0.49% | -0.50% | Total provisions/NPLs | 89.8% | 65.6% | 55.2% | 62.8% | 67.9% |
| Asset quality analysis | | | | | | GROWTH RATES | | | | | |
| Provision/loans | -1.29% | -1.90% | -1.06% | -0.91% | -0.71% | (%) | | | | | |
| Loans/assets | 69.11% | 72.63% | 74.32% | 75.05% | 75.51% | Income statement | | | | | |
| ROA effect from asset quality | -0.89% | -1.38% | -0.79% | -0.68% | -0.53% | Net interest income | | 31.9% | 15.5% | 13.6% | 11.5% |
| Core ROA | | | | | | Non-interest income | | 16.5% | 16.6% | 12.8% | 14.3% |
| Core ROA | 0.99% | 1.03% | 1.46% | 1.53% | 1.61% | Total operating income | | 25.9% | 15.9% | 13.3% | 12.5% |
| Non-core contribution to ROA | 0.06% | 0.06% | 0.06% | 0.05% | 0.05% | Operating expenses | | 14.5% | 26.7% | 13.3% | 14.7% |
| Pre-tax ROA | 1.05% | 1.09% | 1.52% | 1.58% | 1.65% | Pre-provision earnings | | 36.4% | 7.5% | 13.3% | 10.5% |
| Tax rate | 26.61% | 20.67% | 20.00% | 20.00% | 20.00% | Loan loss provisions | | 66.0% | -36.2% | -0.6% | -10.7% |
| After tax ROA | 0.77% | 0.86% | 1.21% | 1.27% | 1.32% | Net profit | | 17.1% | 68.4% | 20.2% | 19.5% |

SINOPAC: Home sweet home**2-Buy**

Niche in mortgages and personal lending

We met up with the management of Sinopac as part of the Asian Banks Tour and came away with the impression that this bank is a well-run bank, but like Taishin Bank, lacks the size and scale to compete effectively. However, it does have a strong management team that is focusing on the all-important consumer space. With over half of its loan book lent for mortgages (the safest among loan assets), this bank has achieved the best asset quality in town. Thus, because it is a well-run bank with good asset quality, Sinopac is seen as an ideal acquisition target for a larger, foreign player that is looking to enter the Taiwanese banking industry.

SinoPac's top priority for the year is further development of its consumer banking operations, particularly mortgage lending, which already account for over half of its loan book. Overall, consumer lending currently accounts for almost two-thirds of the loan book. Consumer lending is the fastest growing component of the loan book and concentration on this space will help spur double digit loan growth over the next two years.

Best asset quality in Taiwan

Largely due to its exposure to the lower-credit risk mortgage segment, SinoPac boasts the best asset quality in the sector. Its NPL ratio (on a three-month past due basis) is approximately 1.0%. Such a low NPL ratio is indeed remarkable, especially given that the official NPL ratio for the sector is 5.5%. More importantly, the bank's NPL coverage ratio is also the highest in the sector, at approximately 90%. Management emphasized that it would continue to improve its overall asset quality with aggressive write-offs and by maintaining their current rate of provisioning. Prior to the crisis, the bank managed to provide for more than 100% of its NPLs every year.

An attractive merger and acquisition target

With high asset quality, a strong niche in consumer lending and attractive valuations, it is not surprising that SinoPac has become a prime merger and acquisition candidate. Especially with the MoF permitting domestic banks to be fully owned by foreign banks, the market has been rife with speculation that the bank is being sought after by both foreign and domestic banks. At the end of December 2000, Taiwan's leading investment bank, China Development Industrial Bank (CDIB) conceded that it is in the preliminary stages of merger talks with SinoPac. The latter bank's management, however, has stressed that nothing firm has been discussed and it is too early to say if the two banks will merge.

Improving profitability drives ROE up from 7% to 12%

Looking ahead, earnings prospects are improving on the back of significantly better non-interest income, which more than offsets slight margin pressure and high loan-loss provisions. Consequently, profitability, as measured by ROE, will improve significantly, from 8% in 2000 to 12% in 2001.

Bank SinoPac
 Share Price (NT\$): 14.85 Index: 5,518.73
 52 Week Price Range (NT\$): 21.10 - 11.35 Current Yield: 0.00%

Reuters Code: 2839.TW
 Bloomberg Code: 2839.TT Shares Outstanding (MM): 1,757.66

| INCOME STATEMENT | 1998A | 1999A | 2000A | 2001E | 2002E |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| (NT\$m) year end Dec | | | | | |
| Interest income | 12,603 | 12,613 | 14,017 | 16,361 | 18,763 |
| Interest expense | -9,721 | -9,146 | -9,746 | -11,522 | -13,664 |
| Net interest income | 2,882 | 3,468 | 4,271 | 4,839 | 5,099 |
| <i>Ave. int. earnings assets</i> | 172,625 | 187,186 | 207,008 | 241,854 | 280,457 |
| NIM (%) | 1.70% | 1.90% | 2.06% | 1.98% | 1.82% |
| Non-interest income | 1,465 | 2,418 | 2,078 | 3,446 | 3,817 |
| Total operating income | 4,347 | 5,886 | 6,350 | 8,285 | 8,915 |
| Non-interest expenses | -2,761 | -3,122 | -3,634 | -3,874 | -4,464 |
| Pre provision profit | 1,586 | 2,764 | 2,716 | 4,410 | 4,451 |
| Loan loss provisions | -288 | -744 | -501 | -784 | -502 |
| Non-operating income | 12 | 0 | 42 | -240 | 60 |
| Pre tax profit | 1,299 | 2,020 | 2,257 | 3,627 | 3,949 |
| Tax | -305 | -230 | -556 | -457 | -541 |
| Net profit | 1,005 | 1,791 | 1,702 | 2,930 | 3,468 |

| PER SHARE DATA (NT\$) | 1998A | 1999A | 2000A | 2001E | 2002E |
|----------------------------|-------|-------|-------|-------|-------|
| EPS | 0.58 | 1.03 | 0.97 | 1.68 | 1.99 |
| DPS | 0.00 | 0.34 | 0.00 | 0.00 | 0.00 |
| Effective payout ratio (%) | 0% | 33% | 0% | 0% | 0% |
| BVPS | 11.20 | 11.93 | 12.60 | 15.08 | 17.07 |
| ABVPS | 11.20 | 11.50 | 12.22 | 14.86 | 16.90 |

| VALUATION | 1998A | 1999A | 2000A | 2001E | 2002E |
|----------------------------------|-------|-------|-------|-------|-------|
| Price to book value (x) | 0.9 | 1.4 | 1.2 | 1.0 | 0.9 |
| Price to adjusted book value (x) | 0.9 | 1.5 | 1.2 | 1.0 | 0.9 |
| Price to earnings (X) | 17.7 | 16.4 | 15.7 | 8.8 | 7.5 |

| PROFITABILITY RATIOS (%) | 1998A | 1999A | 2000A | 2001E | 2002E |
|--------------------------------------|-------|-------|-------|-------|-------|
| Net interest margin | 1.70% | 1.90% | 2.06% | 1.98% | 1.82% |
| Yield on interest earning assets | 7.45% | 6.92% | 6.77% | 6.70% | 6.69% |
| Cost on interest bearing liabilities | 6.17% | 5.38% | 5.04% | 5.38% | 5.40% |
| Net interest spread | 1.28% | 1.53% | 1.73% | 1.32% | 1.29% |
| Non-int. income (% Op income) | 33.7% | 41.1% | 32.7% | 41.6% | 42.8% |
| Cost to income | 63.5% | 53.0% | 57.2% | 46.8% | 50.1% |
| Overhead ratio | 1.52% | 1.58% | 1.65% | 1.51% | 1.50% |
| Cost coverage | 53.1% | 77.5% | 57.2% | 88.9% | 85.5% |
| ROA | 0.55% | 0.90% | 0.77% | 1.13% | 1.16% |
| ROE | 5.9% | 9.3% | 7.9% | 11.8% | 12.4% |

| DUPONT ANALYSIS | 1998A | 1999A | 2000A | 2001E | 2002E |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| <i>Lending operations</i> | | | | | |
| Net interest margin | 1.70% | 1.90% | 2.06% | 1.98% | 1.82% |
| Interest earnings assets/assets | 95.02% | 94.60% | 94.27% | 94.26% | 94.16% |
| NIM contribution to ROA | 1.62% | 1.80% | 1.95% | 1.87% | 1.71% |

| <i>Non-interest operations</i> | 1998A | 1999A | 2000A | 2001E | 2002E |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Non-interest income/assets | 0.81% | 1.22% | 0.95% | 1.34% | 1.28% |
| Overhead ratio | 1.52% | 1.58% | 1.65% | 1.51% | 1.50% |
| Non-int. contribution to ROA | -0.71% | -0.36% | -0.71% | -0.17% | -0.22% |

| <i>Asset quality analysis</i> | 1998A | 1999A | 2000A | 2001E | 2002E |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Provision/loans | -0.25% | -0.58% | -0.35% | -0.46% | -0.25% |
| Loans/assets | 64.05% | 64.28% | 66.05% | 66.52% | 66.84% |
| ROA effect from asset quality | -0.16% | -0.38% | -0.23% | -0.31% | -0.17% |

| Core ROA | 1998A | 1999A | 2000A | 2001E | 2002E |
|----------|-------|-------|-------|-------|-------|
| | 0.75% | 1.07% | 1.01% | 1.40% | 1.33% |

| Non-core contribution to ROA | 1998A | 1999A | 2000A | 2001E | 2002E |
|------------------------------|-------|-------|-------|--------|-------|
| | 0.00% | 0.00% | 0.02% | -0.09% | 0.02% |

| Pre-tax ROA | 1998A | 1999A | 2000A | 2001E | 2002E |
|-------------|-------|-------|-------|-------|-------|
| | 0.75% | 1.07% | 1.03% | 1.30% | 1.35% |

| Tax rate | 1998A | 1999A | 2000A | 2001E | 2002E |
|----------|--------|--------|--------|--------|--------|
| | 23.29% | 11.37% | 24.61% | 13.50% | 13.50% |

| After tax ROA | 1998A | 1999A | 2000A | 2001E | 2002E |
|---------------|-------|-------|-------|-------|-------|
| | 0.57% | 0.95% | 0.77% | 1.13% | 1.16% |

| BALANCE SHEET | 1998A | 1999A | 2000A | 2001E | 2002E |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| (NT\$m) year end Dec | | | | | |
| Gross loans | 120,859 | 135,971 | 156,570 | 187,827 | 213,989 |
| Specific loan loss reserves | 0 | 0 | -391 | 0 | 0 |
| Loan loss reserves | -1,248 | -1,195 | -885 | -1,756 | -1,868 |
| Net loans | 119,611 | 134,776 | 155,295 | 186,071 | 212,121 |
| Other earning assets | 62,652 | 57,333 | 66,614 | 75,728 | 86,993 |
| Other assets | 9,341 | 12,021 | 13,148 | 16,300 | 18,503 |
| Total Assets | 191,603 | 204,129 | 235,057 | 278,100 | 317,618 |
| Deposits | 160,701 | 164,109 | 199,135 | 217,017 | 260,421 |
| Other paying liabilities | 4,564 | 10,534 | 12,791 | 12,963 | 15,685 |
| Other liabilities | 6,860 | 8,684 | 980 | 21,833 | 11,757 |
| Total Liabilities | 172,125 | 183,327 | 212,906 | 251,813 | 287,862 |

| | | | | | |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Minorities & other | 0 | 0 | 0 | 0 | 0 |
| Shareholders' funds | 19,479 | 20,802 | 22,151 | 26,287 | 29,755 |

| LOAN BOOK | 1998A | 1999A | 2000A | 2001E | 2002E |
|--------------------|----------------|----------------|----------------|----------------|----------------|
| (NT\$m) | | | | | |
| Corporate loans | 42,677 | 48,195 | 56,977 | 67,626 | 76,149 |
| Mortgages | 66,751 | 75,941 | 86,039 | 104,715 | 120,911 |
| Personal loans | 7,876 | 5,304 | 5,487 | 5,906 | 6,030 |
| Car | 856 | 552 | 598 | 644 | 657 |
| Credit cards | 2,083 | 2,820 | 3,889 | 5,086 | 6,309 |
| Others | 615 | 3,158 | 3,578 | 3,851 | 3,932 |
| Total loans | 120,859 | 135,971 | 156,570 | 187,827 | 213,989 |

| LOAN BOOK BREAKDOWN (%) | 1998A | 1999A | 2000A | 2001E | 2002E |
|-------------------------|-------------|-------------|-------------|-------------|-------------|
| Corporate loans | 35% | 35% | 36% | 36% | 36% |
| Mortgages | 55% | 56% | 55% | 56% | 57% |
| Personal loans | 7% | 4% | 4% | 3% | 3% |
| Car | 1% | 0% | 0% | 0% | 0% |
| Credit cards | 2% | 2% | 2% | 3% | 3% |
| Others | 1% | 2% | 2% | 2% | 2% |
| Total loans | 100% | 100% | 100% | 100% | 100% |

| BALANCE SHEET RATIOS (%) | 1998A | 1999A | 2000A | 2001E | 2002E |
|-----------------------------|--------|--------|--------|--------|--------|
| Loan-to-deposit | 74.4% | 82.1% | 78.0% | 85.7% | 81.5% |
| Loan-to-deposit (incl. CDs) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Equity to assets | 10.2% | 10.2% | 9.4% | 9.5% | 9.4% |
| Tier 1 Capital | 15.5% | 15.3% | 14.3% | 14.0% | 13.9% |
| Total Capital adequacy | 15.5% | 15.3% | 14.3% | 14.0% | 13.9% |
| General reserves (% loans) | -1.03% | -0.88% | -0.56% | -0.93% | -0.87% |
| Specific reserves (% loans) | 0.00% | 0.00% | -0.25% | 0.00% | 0.00% |
| Total loan provisions | -1.03% | -0.88% | -0.81% | -0.93% | -0.87% |

| ASSET QUALITY | 1998A | 1999A | 2000A | 2001E | 2002E |
|-----------------------|--------|-------|--------|-------|-------|
| Nonperforming loans | 1,041 | 1,627 | 791 | 2,167 | 2,276 |
| NPL ratio | 0.9% | 1.2% | 0.5% | 1.2% | 1.1% |
| Total provisions/NPLs | 120.0% | 73.5% | 16.13% | 81.0% | 82.1% |

| GROWTH RATES (%) | 1998A | 1999A | 2000A | 2001E | 2002E |
|-------------------------|-------|--------------|--------------|--------------|--------------|
| <i>Income statement</i> | | | | | |
| Net interest income | | 20.3% | 23.2% | 13.3% | 5.4% |
| Non-interest income | | 65.0% | -14.1% | 65.8% | 10.8% |
| Total operating income | | 35.4% | 7.9% | 30.5% | 7.6% |
| Operating expenses | | 13.1% | 16.4% | 6.6% | 15.2% |
| Pre-provision earnings | | 74.3% | -1.8% | 62.4% | 0.9% |
| Loan loss provisions | | 158.7% | -32.7% | 56.5% | -35.9% |
| Net profit | | 78.1% | -5.0% | 72.2% | 18.4% |

| Balance sheet | 1998A | 1999A | 2000A | 2001E | 2002E |
|-------------------------|-------|-------|-------|-------|-------|
| Loan growth | | 12.7% | 15.2% | 19.8% | 14.0% |
| Interest earning assets | | 5.3% | 15.5% | 18.1% | 14.2% |
| Asset growth | | 6.5% | 15.2% | 18.3% | 14.2% |
| Deposit growth | | 2.1% | 21.3% | 9.0% | 20.0% |
| Shareholders funds | | 6.8% | 6.5% | 18.7% | 13.2% |

UWCCB: Concerns over asset quality and the need to merge**4-Market Underperform**

We met up with the management of United World Commercial Bank (UWCCB) as part of the Asian Banks Tour and came away with the impression that this bank is in transition mode, changing its focus from corporate to retail. Also, it is embracing technology and the Internet, which will be ultimately a cheaper distribution network. Although we view this change in direction positively, we believe that it is still too early to determine the impact of these changes. Also, because every other bank in Taiwan is embarking on the same strategy, we are not convinced that this bank will be able to differentiate itself positively from its competitors.

Cheap funding costs

UWCCB has established a niche as the largest clearing bank for Taiwan's stock market. This has given this bank a 24% market share of highly liquid and cheap securities settlement deposits. This lower cost of funds has enabled it to maintain a high level of profitability despite the fact that it used to focus on lower-yielding corporate loans. However, looking ahead, if this bank can execute successfully, then it will be able to deploy this base of low costing deposits into higher yielding consumer loans.

Change in lending focus to retail

This bank has switched its lending focus from corporate to retail, with particular emphasis on credit cards. Combined with its strong balance sheet, this bank is likely to achieve loan growth of 8-9%, well ahead of our industry projection of 5-6%. Nevertheless, despite higher yields on credit cards and personal loans, margins are going to be subdued by the on-going mortgage war.

Weak asset quality

UWCCB's stated NPL ratio of 2.6% reported at the end of 2000 looks amazingly good. However, we are skeptical of this figure and believe that it would likely be higher if we include its exposure to the distressed Ever Fortune group. Ever Fortune typifies a key concern of investors, that despite being restructured by way of a lower interest rate and postponing principal repayments for two years, the MoF still allows banks to classify this exposure as performing. We are also concerned about its exposure to the real estate and construction sector, which accounts for 25% of total loans. Furthermore, management has indicated that NPLs have crept up to approximately 3.5% from the 2.6% reported at the end of 2000 and is likely to peak in the 4% range. Management is not too concerned because collateral coverage is approximately 80%. However, we would point out that it takes an average of four years to monetize collateral values.

Merger speculation.

Following the passage of the merger bill in November 2000, UWCCB has consistently been named in merger speculation. Recently named potential partners include China Development Bank as well as state-controlled Chiao Tung Bank and International Commercial Bank of China. While mergers are positive, we believe that the ability to extract costs by way of staff retrenchment is limited. In fact, management has indicated that because cost savings will be limited, they would prefer not to participate in any merger.

UWCCB

Share Price (NT\$): 24.70 Index: 5,518.73
 52 Week Price Range (NT\$): 32.80 - 18.30 Current Yield: 4.32%

Reuters Code: 2826.TW
 Bloomberg Code: 2826.TT Shares Outstanding (MM): 3,417.62

| INCOME STATEMENT | 1998A | 1999A | 2000A | 2001E | 2002E |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| (NT \$m) <i>year end Dec</i> | | | | | |
| Interest income | 36,175 | 35,850 | 40,224 | 45,794 | 53,767 |
| Interest expense | -23,893 | -22,078 | -23,779 | -29,693 | -35,816 |
| Net interest income | 12,282 | 13,773 | 16,445 | 16,101 | 17,952 |
| <i>Ave. int. earnings assets</i> | <i>492,932</i> | <i>554,044</i> | <i>603,944</i> | <i>672,050</i> | <i>754,101</i> |
| NIM (%) | 2.56% | 2.55% | 2.72% | 2.34% | 2.38% |
| Non-interest income | 3,078 | 3,375 | 3,365 | 4,288 | 4,781 |
| Total operating income | 15,360 | 17,148 | 19,810 | 20,389 | 22,733 |
| Non-interest expenses | -7,107 | -7,255 | -7,608 | -7,963 | -8,651 |
| Pre provision profit | 8,253 | 9,892 | 12,202 | 12,426 | 14,081 |
| Loan loss provisions | -1,054 | -2,320 | -3,607 | -3,506 | -2,381 |
| Non-operating income | 48 | 35 | 27 | 0 | 0 |
| Pre tax profit | 7,248 | 7,608 | 8,623 | 8,920 | 11,701 |
| Tax | -1,208 | -1,235 | -1,764 | -1,427 | -1,872 |
| Net profit | 6,040 | 6,373 | 6,859 | 7,493 | 9,828 |

| PER SHARE DATA (NT\$) | 1998A | 1999A | 2000A | 2001E | 2002E |
|-----------------------------------|-----------|------------|------------|------------|------------|
| EPS | 1.78 | 1.87 | 2.01 | 2.20 | 2.89 |
| DPS | 0.00 | 0.95 | 1.07 | 0.55 | 0.72 |
| <i>Effective payout ratio (%)</i> | <i>0%</i> | <i>51%</i> | <i>53%</i> | <i>25%</i> | <i>25%</i> |
| BVPS | 17.06 | 17.82 | 18.51 | 21.12 | 23.28 |
| ABVPS | 17.06 | 16.68 | 18.70 | 21.12 | 23.28 |

| VALUATION | 1998A | 1999A | 2000A | 2001E | 2002E |
|----------------------------------|-------|-------|-------|-------|-------|
| Price to book value (x) | 1.4 | 1.4 | 1.3 | 1.2 | 1.1 |
| Price to adjusted book value (x) | 1.4 | 1.5 | 1.3 | 1.2 | 1.1 |
| Price to earnings (X) | 13.9 | 13.2 | 12.3 | 11.2 | 8.6 |

| PROFITABILITY RATIOS | 1998A | 1999A | 2000A | 2001E | 2002E |
|--------------------------------------|-------|-------|-------|-------|-------|
| (%) | | | | | |
| Net interest margin | 2.56% | 2.55% | 2.72% | 2.34% | 2.38% |
| Yield on interest earning assets | 7.55% | 6.63% | 6.66% | 6.66% | 7.13% |
| Cost on interest bearing liabilities | 5.02% | 4.19% | 4.03% | 4.54% | 5.01% |
| Net interest spread | 2.52% | 2.44% | 2.63% | 2.12% | 2.12% |
| Non-int. income (% Op income) | 20.0% | 19.7% | 17.0% | 21.0% | 21.0% |
| Cost to income | 46.3% | 42.3% | 38.4% | 39.1% | 38.1% |
| Overhead ratio | 1.36% | 1.23% | 1.19% | 1.12% | 1.09% |
| Cost coverage | 43.3% | 46.5% | 44.2% | 53.9% | 55.3% |
| ROA | 1.15% | 1.08% | 1.07% | 1.03% | 1.24% |
| ROE | 13.1% | 10.7% | 11.1% | 10.8% | 13.0% |

| DUPONT ANALYSIS | 1998A | 1999A | 2000A | 2001E | 2002E |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| <u>Lending operations</u> | | | | | |
| Net interest margin | 2.56% | 2.55% | 2.72% | 2.34% | 2.38% |
| Interest earning assets/assets | 94.23% | 94.25% | 94.30% | 94.68% | 95.10% |
| NIM contribution to ROA | 2.41% | 2.40% | 2.57% | 2.22% | 2.26% |

| Non-interest operations | 1998A | 1999A | 2000A | 2001E | 2002E |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Non-interest income/assets | 0.59% | 0.57% | 0.53% | 0.60% | 0.60% |
| Overhead ratio | 1.36% | 1.23% | 1.19% | 1.12% | 1.09% |
| Non-int. contribution to ROA | -0.77% | -0.66% | -0.66% | -0.52% | -0.49% |

| Asset quality analysis | 1998A | 1999A | 2000A | 2001E | 2002E |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Provision/loans | -0.33% | -0.65% | -0.90% | -0.80% | -0.51% |
| Loans/assets | 61.67% | 60.61% | 62.43% | 61.85% | 59.23% |
| ROA effect from asset quality | -0.20% | -0.39% | -0.56% | -0.49% | -0.30% |

| Core ROA | 1998A | 1999A | 2000A | 2001E | 2002E |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| Core ROA | 1.44% | 1.35% | 1.34% | 1.21% | 1.48% |
| Non-core contribution to ROA | 0.01% | 0.01% | 0.00% | 0.00% | 0.00% |
| Pre-tax ROA | 1.45% | 1.35% | 1.35% | 1.21% | 1.48% |
| Tax rate | 16.67% | 16.23% | 20.46% | 16.00% | 16.00% |
| After tax ROA | 1.21% | 1.13% | 1.07% | 1.01% | 1.24% |

| BALANCE SHEET | 1998A | 1999A | 2000A | 2001E | 2002E |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| (NT \$m) <i>year end Dec</i> | | | | | |
| Gross loans | 342,817 | 376,896 | 429,981 | 457,542 | 494,726 |
| <i>Specific loan loss reserves</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> |
| <i>Loan loss reserves</i> | <i>-3,456</i> | <i>-3,658</i> | <i>-3,621</i> | <i>-5,961</i> | <i>-7,019</i> |
| Net loans | 339,360 | 373,238 | 426,360 | 451,580 | 487,707 |
| Other earning assets | 184,815 | 210,676 | 197,614 | 268,545 | 300,370 |
| Other assets | 31,930 | 35,706 | 37,263 | 38,204 | 39,538 |
| Total Assets | 556,105 | 619,620 | 661,237 | 758,329 | 827,615 |
| Deposits | 421,646 | 494,490 | 531,555 | 609,212 | 657,948 |
| Other paying liabilities | 75,335 | 63,079 | 65,463 | 75,632 | 86,976 |
| Other liabilities | 1,224 | 1,369 | 974 | 1,568 | 3,401 |
| Total Liabilities | 498,205 | 558,938 | 597,991 | 686,411 | 748,325 |

| | | | | | |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Minorities & other | 0 | 0 | 0 | 0 | 0 |
| Shareholders' funds | 57,900 | 60,682 | 63,246 | 71,918 | 79,289 |

| LOAN BOOK | 1998A | 1999A | 2000A | 2001E | 2002E |
|--------------------|----------------|----------------|----------------|----------------|----------------|
| (NT \$m) | | | | | |
| Manufacturing | 23,997 | 30,152 | 34,399 | 38,182 | 42,764 |
| Construction | 6,856 | 7,538 | 8,600 | 9,288 | 10,123 |
| Trading | 17,141 | 15,076 | 17,199 | 18,403 | 19,875 |
| Real estate | 54,851 | 75,379 | 98,896 | 116,697 | 136,535 |
| Commerce | 17,141 | 22,614 | 24,079 | 25,042 | 26,044 |
| Individuals | 198,834 | 203,524 | 214,991 | 221,870 | 235,183 |
| Gov't institutions | 3,428 | 3,769 | 1,720 | 1,892 | 2,119 |
| Others | 20,569 | 18,845 | 30,099 | 34,614 | 39,806 |
| Total loans | 342,817 | 376,896 | 429,981 | 465,988 | 512,450 |

| LOAN BOOK BREAKDOWN | 1998A | 1999A | 2000A | 2001E | 2002E |
|---------------------|-------------|-------------|-------------|-------------|-------------|
| (%) | | | | | |
| Manufacturing | 7% | 8% | 8% | 8% | 8% |
| Construction | 2% | 2% | 2% | 2% | 2% |
| Trading | 5% | 4% | 4% | 4% | 4% |
| Real estate | 16% | 20% | 23% | 25% | 27% |
| Commerce | 5% | 6% | 6% | 5% | 5% |
| Individuals | 58% | 54% | 50% | 48% | 46% |
| Gov't institutions | 1% | 1% | 0% | 0% | 0% |
| Others | 6% | 5% | 7% | 7% | 8% |
| Total loans | 100% | 100% | 100% | 100% | 100% |

| BALANCE SHEET RATIOS | 1998A | 1999A | 2000A | 2001E | 2002E |
|-----------------------------|--------|--------|--------|--------|--------|
| (%) | | | | | |
| Loan-to-deposit | 80.5% | 75.5% | 80.2% | 74.1% | 74.1% |
| Loan-to-deposit (incl. CDs) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Equity to assets | 10.4% | 9.8% | 9.6% | 9.5% | 9.6% |
| Tier 1 Capital | 13.2% | 13.2% | 10.9% | 12.9% | 13.2% |
| Total Capital adequacy | 13.2% | 13.2% | 10.9% | 12.9% | 13.2% |
| General reserves (% loans) | -1.01% | -0.97% | -0.84% | -1.30% | -1.42% |
| Specific reserves (% loans) | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Total loan provisions | -1.01% | -0.97% | -0.84% | -1.30% | -1.42% |

| ASSET QUALITY | 1998A | 1999A | 2000A | 2001E | 2002E |
|-----------------------|-------|--------|--------|--------|--------|
| Nonperforming loans | 8,944 | 10,459 | 14,608 | 13,231 | 14,554 |
| NPL ratio | 2.6% | 2.8% | 3.4% | 2.9% | 2.9% |
| Total provisions/NPLs | 38.6% | 35.0% | 24.8% | 45.1% | 48.2% |

| GROWTH RATES | 1998A | 1999A | 2000A | 2001E | 2002E |
|-------------------------|-------|-------------|-------------|-------------|--------------|
| (%) | | | | | |
| <u>Income statement</u> | | | | | |
| Net interest income | | 12.1% | 19.4% | -2.1% | 11.5% |
| Non-interest income | | 9.6% | -0.3% | 27.5% | 11.5% |
| Total operating income | | 11.6% | 15.5% | 2.9% | 11.5% |
| Operating expenses | | 2.1% | 4.9% | 4.7% | 8.6% |
| Pre-provision earnings | | 19.9% | 23.3% | 1.8% | 13.3% |
| Loan loss provisions | | 120.0% | 55.5% | -2.8% | -32.1% |
| Net profit | | 5.5% | 7.6% | 9.2% | 31.2% |

| Balance sheet | 1998A | 1999A | 2000A | 2001E | 2002E |
|---------------|-------|-------|-------|-------|-------|
| Loan growth | | 10.0% | 14.2% | 5.9% | 8.0% |

This page intentionally left blank

Appendix A. Lehman Brothers 2001 Asian Banks Tour Participants

| | | | | |
|---------------------|--------------------------------------|----------------------------|---|--|
| Singapore | United Overseas Bank | Wee Ee Cheong | Deputy Chairman and President | |
| | DBS Bank | Chong Kie Cheong | Finance Director | |
| | Overseas Union Bank | David Tan | Senior Vice President Corporate Planning and Investor Relations | |
| | Oversea-Chinese Banking Corp. | Alex Au | Vice Chairman and Chief Executive Officer | |
| Indonesia | Bank Mandiri | Chris Matten | Chief Financial Officer | |
| | BCA | K. Keat Lee | Chief Financial Officer | |
| | LippoBank | Jahja Setiaatmaja | Managing Director | |
| | Indonesian Bank Restructuring Agency | Ian B. Clyne | President Director | |
| | Panin Bank | Soebowo Musa | Director Bank Restructuring | |
| | ANZ | Roosniati Salihin | Deputy President | |
| Thailand | Krung Thai Bank | Justin Breheny | Senior Executive Advisor | |
| | Bank of Ayudhya | Singh Tangtatswas | President | |
| | DBS Thai Danu Bank | Dr Jamlong Atikul | President | |
| | National Finance | Pornsamong Tuchinda | President and Chief Executive Officer | |
| | | Anusith Sawetamal | Executive Vice President | |
| | Ministry of Finance | Chartchai Parasuk Ph.D | First Vice President Corporate Finance Department | |
| | Bank of Thailand | Dr Sathit Limpongpan | Director-General | |
| | Siam Commercial Bank | M.R. Chatu Mongkol Sonakul | Governor | |
| | South Korea | Korea First Bank | Jada Wattanasiritham | President and Chief Executive Officer |
| | | | Duncan W. Barker | Executive Vice President and Chief Operating Officer |
| | | Newbridge Capital | Ranvir Dewan | Executive Vice President and Chief Financial Officer |
| | | KorAm Bank | Paul H. Chen | Managing Director |
| Carlyle Group | | K.D. Jung | Director and Executive Vice President | |
| Ministry of Finance | | Andrew Seung-ik Shinn | Vice President | |
| Kookmin Bank | | Kyung Wook Hur CFA | Director | |
| IG Capital | | Duk-Hyun Kim | Executive Vice President | |
| Warburg Pincus | | Young-Jun Lee | Vice President and Chief Financial Officer | |
| H&CB | | S.J. Hwang | Managing Director | |
| Hong Kong | Hong Kong Monetary Authority | Jung Tae Kim | President and Chief Executive Officer | |
| | Bank of East Asia | David Carse | Deputy Chief Executive | |
| | | Joseph Pang | Executive Director and Deputy Chief Executive | |
| | Hang Seng Bank | Samson Li | Senior General Manager Head of Investment Banking | |
| | HSBC | Vincent Cheng | Vice Chairman and Chief Executive | |
| | | Aman Mehta | Chief Executive Officer | |
| Taiwan | Taishin International Bank | Simon Penney | Chief Financial Officer | |
| | | Charlis Wang | President | |
| | Hua Nan Commercial Bank | Julie Chen | Executive Vice President and Chief Financial Officer | |
| | | Ru-Song Lu | Executive Vice President | |
| | Chinatrust Commercial Bank | Oliver C.H. Hsu | Deputy General Manager Loan Administration Department | |
| | | Jason C-H Wang | Executive Vice President and Chief Financial Officer | |
| | Ministry of Finance | Steve Chou | Deputy Group General Manager Corporate Banking Group | |
| | | Ming-Daw Chang | Director Division of Domestic Banking | |
| | Bank Sinopac | Yu-Ching Su | Deputy Director Division of Domestic Banking | |
| | United World Chinese Commercial Bank | Paul Lo | President | |
| | Shu-Chun Pao | Vice President | | |
| | C.C. Tung | President | | |

This page intentionally left blank

This page intentionally left blank

FINANCIAL SERVICES

Banks

U.S.

| | |
|------------------------------|----------------|
| Henry Chip Dickson, CFA..... | 1.212.526.5659 |
| Jason Goldberg | 1.212.526.8580 |
| Brock Vandervliet | 1.212.526.8893 |
| Kristin Nemec | 1.212.526.8284 |
| Andrea Jao | 1.212.526.8377 |
| Eileen Rooney..... | 1.212.526.8646 |
| Monique Sinmao..... | 1.212.526.4915 |

Europe

| | |
|-----------------------------|-----------------|
| Alan Broughton | 44.20.7260.1532 |
| Robert Law | 44.20.7260.2715 |
| Sheila Garrard..... | 44.20.7260.2785 |
| Fiona Swaffield..... | 44.20.7260.1537 |
| Jacques-Henri Gaulard | 44.20.7260.1531 |
| Mark Roberts | 44.20.7260.1539 |
| Colin Hector | 44.20.7256.4362 |
| Barbara Pires..... | 44.20.7256.4681 |
| Anke Reingen | 44.20.7260.1538 |
| Joanna Nader | 44.20.7256.4097 |
| Eva Hernandez..... | 44.20.7260.1279 |

Asia

| | |
|------------------------|----------------|
| Nozomu Kunishige | 81.3.5571.7482 |
| Grant Chan..... | 852.2869.3818 |
| Paul Sheehan | 852.2869.3001 |
| Bertram Lai..... | 852.2869.3024 |

Banks: Latin America

| | |
|--------------------------|----------------|
| Robert Lacoursiere | 1.212.526.2611 |
| Juan Partida, CFA..... | 1.212.526.5744 |

Insurance/Life

U.S.

| | |
|-------------------------|----------------|
| Eric N. Berg, CPA..... | 1.212.526.2805 |
| E. Stewart Johnson..... | 1.212.526.8190 |
| Vincent W. Foley | 1.212.526.4926 |

Asia

| | |
|-----------------|---------------|
| Grant Chan..... | 852.2869.3818 |
|-----------------|---------------|

Insurance/Non-Life

U.S.

| | |
|----------------------------|----------------|
| J. Paul Newsome, CFA | 1.212.526.6019 |
| Robin B. Albanese | 1.212.526.6121 |
| Vincent W. Foley | 1.212.526.4926 |

Europe

| | |
|-------------------------|-----------------|
| Sean McGeary | 44.20.7256.4094 |
| Richard Urwick | 44.20.7260.1542 |
| Mark Roberts..... | 44.20.7260.1539 |
| Kimon Kalamboussis..... | 44.20.7260.1603 |
| Mauro Pizzi | 44.20.7256.1543 |
| Santo Borsellino..... | 44.20.7256.4095 |

Asia

| | |
|------------------------|----------------|
| Kristine Li, CFA | 81.3.5571.7467 |
|------------------------|----------------|

Internet Financial Services

Asia

| | |
|------------------------|----------------|
| Kristine Li, CFA | 81.3.5571.7467 |
| Paul Sheehan | 852.2869.3001 |
| Grant Chan | 852.2869.3818 |

Brokers & Asset Managers

U.S.

| | |
|---------------------|----------------|
| Mark Constant..... | 1.415.274.5379 |
| Antonio Vitti | 1.415.274.5386 |

Asia

| | |
|------------------------|----------------|
| Kristine Li, CFA | 81.3.5571.7467 |
|------------------------|----------------|

Mortgage Finance/Specialty Finance

U.S.

| | |
|------------------------------|----------------|
| Bruce W. Harting, CFA | 1.212.526.3007 |
| Makiko S. Coakley, CFA | 1.212.526.6716 |
| Jack Micenko | 1.212.526.5146 |

Payments Processing & Financial Tech

U.S.

| | |
|-------------------------|----------------|
| Scott A. Smith, Jr..... | 1.212.526.5736 |
| Matthew J. Keating..... | 1.212.526.8572 |

New York

3 World Financial Center
New York, NY 10285 USA
1.212.526.7000

London

One Broadgate
London EC2M 7HA England
44.20.7601.0011

Tokyo

12-32 Akasaka 1-chome
Minato-ku Tokyo 107 Japan
813.5571.7354

Hong Kong

One Pacific Place
88 Queensway, Hong Kong
852.2869.3000

For additional copies of Lehman Brothers research reports, please call 852 2869 3384 or fax 852 2869 3133

Key to Investment Rankings: This is a guide to expected total return (price performance plus dividend) relative to the total return of the stock's local market over the next 12 months. **1 = Strong Buy** (expected to outperform the market by 15 or more percentage points); **2 = Buy** (expected to outperform the market by 5-15 percentage points); **3 = Market Perform** (expected to perform in line with the market); **4 = Market Underperform** (expected to underperform the market by 5-15 percentage points); **5 = Sell** (expected to underperform the market by 15 or more percentage points); **V = Venture** (return over multiyear time frame consistent with venture capital; should only be held in a well-diversified portfolio).

The information in this document has been obtained from sources believed reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. Lehman Brothers Holdings Inc., its subsidiaries and affiliated companies (collectively referred to as "Lehman Brothers"), of which Lehman Brothers Asia Limited and Lehman Brothers Japan Inc. are each one, and their respective shareholders, directors, officers, and/or employees may have long or short positions in the securities or commodities. It is possible that individual brokers employed by Lehman Brothers may disagree with the recommendations in this document. The securities and commodities mentioned in this document may not be eligible for sale in some states or some countries. Please check with your Lehman Brothers representative to determine eligibility in each state or country. Lehman Brothers may make markets or deals as principal in or for the securities or commodities mentioned in this document. Any shareholder, director, officer and/or employee of Lehman Brothers may be a director of the issuer of the securities mentioned in this document. Lehman Brothers may have managed or co-managed a public offering of the securities of the issuer mentioned in this document within the last three years, or may, from time to time, perform investment banking or other services for, or solicit investment banking or other business from, any company mentioned in this document.