

## Asia Banks

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Needs the Asian Tide to Turn  
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## Market Summary

Market	Rating	Trend
Hong Kong	Underweight	↓
Singapore	Neutral	↔
Korea	<b>Overweight</b>	↓
Taiwan	Underweight	↓
Thailand	Underweight	↔
Malaysia	Underweight	↔
Philippines	Underweight	↑
Indonesia	Neutral	↑

## Upcoming Events

Feb 27	OCBC FY2001 results Wing Lung Bank FY2001 results
Late Feb / early Mar	UOB FY2001 results
End Feb	Korean banks FY2001 results announcement
Mar 4	HSBC 2001 results announcement
Mar 4	Hang Seng Bank 2001 results announcement
Mar 5	Dah Sing Financial 2001 results announcement

# Asian Bank Briefing

## Theme of the Week: The Risks of Consumer Credit

- Did StanChart's results send a negative message on consumer lending? Bank stocks around Asia are down and it appears the hardest hit are those that have a significant consumer focus—HSBC, Hang Seng, Dah Sing, DBS, OCBC, UOB, Kookmin, Chinatrust and Fubon.
- With the demise of corporate lending, banks across Asia have rushed to get into the consumer space where the lending spreads are clearly still too fat. However, StanChart's results revealed that this business line is not without risk—its charge-off on credit cards in Hong Kong was 7.5%. Nonetheless, the risk-return trade off still favors the banks and this is the way of the future. Consumers are under-levered across Asia and this area represents explosive profitable growth. Bank stocks around the world are down.

## The Week Ahead: Results Announcements Continue...

- OCBC is expected to announce a full year profit of S\$1.0 billion, or S\$0.79, per share, representing a 20% rise over the previous year. These results will be depicted by stable margins and balance sheet expansion, following the acquisition of Keppel TatLee. We are maintaining our **3-Market Perform** rating and share price target of S\$11.10, representing 11% downside.
- Wing Lung is expected to announce a 2001 profit of HK\$838 million, or HK\$3.61 per share, which is 17% lower than 2000. Margins are contracting, there is no loan growth and loan loss provisions will be higher. The environment in Hong Kong has changed and Wing Lung's inability to adapt, or re-invent itself is representative of all other small banks. We re-iterate our **4-Market Underperform** rating and share price target of HK\$25.00, 14% below the current price.

## The Week Before: Earnings Results from around the Region

- DBS announced a full year profit of S\$999 million, or S\$0.70 per share, representing a 28% decline from last year. The key drivers to the lower earnings were significantly higher loan loss provisions and higher operating expenses, especially goodwill and restructuring charges related to the Dao Heng acquisition. We are maintaining our **3-Market Perform** rating and share price target of S\$12.50, 9% below the current price.
- Standard Chartered announced results that were depicted by significantly higher loan loss provisions, due primarily to corporate exposure in Malaysia, consumer debt in Hong Kong and Argentina. StanChart was able to achieve both loan growth and margin expansion due to a full year contribution from the Chase acquisition.
- Thai Farmers and Shinhan Financial also announced results. See details inside.

February 25, 2002

Figure 1: Asian Financial Institutions Share Price Performance

	Rating	Closing Price	Target Price	Potential Upside	52-Week		Share Price Performance (%)				
					High	Low	1-Week	1-Month	3-Month	YTD	1-Year
<b>Hong Kong:</b>											
Bank of East Asia	4	15.35	13.00	-15%	19.75	14.45	-0.65	-6.97	-7.81	-8.63	-21.68
Dah Sing Financial	3	33.00	34.00	3%	45.30	29.95	-2.94	-3.79	-7.82	-10.57	-19.71
Hang Seng Bank	4	86.25	70.00	-19%	101.50	74.00	-2.54	-0.29	4.86	0.58	-16.26
HSBC Holdings PLC	3	85.75	84.00	-2%	116.50	68.50	-3.65	-3.11	-9.02	-6.03	-26.71
JCG Holdings	2	4.85	5.40	11%	5.35	3.88	-3.96	-0.51	-1.02	0.00	12.79
Pacific Century Insurance	1	1.87	na	na	2.57	1.38	-1.06	-4.59	7.47	-14.02	-22.62
Wing Hang Bank	4	24.60	21.00	-15%	33.30	21.80	0.41	-0.40	0.20	-1.60	-16.33
Wing Lung Bank	4	29.15	25.00	-14%	39.20	24.70	1.57	3.55	-3.16	0.17	-14.26
Citic Ka Wah	NR	2.45	na	na	2.67	1.81	7.69	12.64	18.23	23.74	-7.56
IBA	NR	1.99	na	na	2.77	1.57	3.11	8.15	5.85	5.29	-1.73
ICBC (Asia)	NR	7.50	na	na	7.75	5.55	2.04	7.14	8.70	2.04	10.29
Liu Chong Hing	NR	7.90	na	na	10.85	5.95	0.00	-0.63	8.22	9.72	-17.28
<b>Hang Seng index</b>		<b>10,665</b>			<b>15,230</b>	<b>8,934</b>	<b>-3.07%</b>	<b>-1.00%</b>	<b>-5.81%</b>	<b>-6.43%</b>	<b>-30.21%</b>
Hong Kong Dollar (HKD)		7.80			7.79	7.80	0.00%	0.00%	-0.01%	-0.02%	0.00%
<b>Singapore:</b>											
DBS Bank Group	3	13.70	12.50	-9%	19.80	9.50	-6.16	-2.14	25.69	-0.72	-29.74
Oversea-Chinese Banking Corp.	3	12.50	11.10	-11%	13.40	8.80	-6.72	3.31	15.74	13.64	0.00
United Overseas Bank	1	13.70	14.90	9%	15.00	9.05	-5.52	-2.84	23.42	7.87	0.00
<b>STI</b>		<b>1,690</b>			<b>1,960</b>	<b>1,241</b>	<b>-4.01%</b>	<b>-2.35%</b>	<b>15.91%</b>	<b>4.10%</b>	<b>-13.19%</b>
Singapore Dollar (SGD)		1.83			1.73	1.86	-0.41%	0.48%	0.49%	0.73%	-4.85%
<b>South Korea:</b>											
Hana Bank	2	18,400	11,500	-38%	18,700	5,337	3.95	2.22	44.97	8.88	155.49
Kookmin Bank	1	55,000	60,000	9%	62,100	17,925	-5.17	-11.29	27.99	10.44	118.35
Kookmin Credit Card	NR	51,900	na	na	60,000	27,200	-3.35	-8.14	34.63	3.80	56.80
Koram Bank	2	11,950	7,800	-35%	13,950	6,300	-5.91	-14.34	24.48	0.00	58.91
Shinhan Financial Group	3	17,600	16,000	-9%	20,450	9,400	-0.28	-11.56	17.33	0.28	23.51
Chohung Bank	NR	5,550	na	na	6,150	1,750	-0.36	-6.88	80.19	34.06	121.12
Industrial Bank of Korea	NR	7,600	na	na	8,800	3,190	-2.44	-6.75	7.95	-4.88	111.70
Korea Exchange Bank	NR	5,070	na	na	5,770	1,805	-1.36	-3.98	67.05	30.17	47.17
<b>KOSPI</b>		<b>792</b>			<b>796</b>	<b>469</b>	<b>0.21%</b>	<b>2.24%</b>	<b>22.76%</b>	<b>14.17%</b>	<b>35.73%</b>
Korean Won (KRW)		1,322			1,245	1,368	-0.76%	0.76%	-3.33%	-0.61%	-5.94%
<b>Taiwan:</b>											
Bank SinoPac	2	14.05	20.00	42%	16.27	11.82	-3.77	-0.71	0.00	-3.77	-10.66
Chinatrust Commercial	1	24.80	30.00	21%	26.10	15.67	0.40	-4.98	37.78	18.10	0.79
Fubon Financial	2	17.80	35.00	97%	18.84	13.20	-0.56	-3.20	na	-4.34	na
Taishin International	3	15.00	21.00	40%	17.59	10.25	6.76	14.50	26.58	15.83	-15.64
United World Chinese Commercial	4	19.00	19.00	0%	25.45	15.18	-6.40	-8.65	-2.06	-9.95	-24.28
First Commercial Bank	NR	19.80	na	na	24.67	13.80	-5.26	-7.91	4.21	-8.33	-19.42
Hua Nan Commercial Bank	NR	18.20	na	na	25.71	14.50	-5.70	-9.45	-1.09	-11.22	-29.74
International Commercial Bank	NR	20.20	na	na	25.45	13.64	-4.72	-8.60	10.99	-5.16	-20.93
<b>TWSE</b>		<b>5,610</b>			<b>6,007</b>	<b>3,446</b>	<b>-6.01%</b>	<b>-5.73%</b>	<b>24.14%</b>	<b>1.06%</b>	<b>-2.05%</b>
New Taiwan Dollar (TWD)		35.11			32.32	35.17	-0.29%	-0.29%	-1.79%	-0.45%	-7.82%
<b>Malaysia:</b>											
Commerce Asset Holding	3	8.20	8.00	-2%	8.90	5.05	-6.29	0.61	13.89	10.81	2.50
Maybank	2	9.05	16.00	77%	9.53	6.20	-1.09	5.23	16.77	9.04	-4.40
Public Bank (F)	2	3.22	3.80	18%	3.56	2.30	-5.85	17.09	18.82	20.60	10.16
Hong Leong Bank	NR	4.44	na	na	4.50	2.98	3.26	17.46	32.14	21.98	31.36
RHB Capital	NR	2.29	na	na	2.73	1.60	-7.29	-12.26	2.69	-0.87	-15.50
<b>MY Comp.</b>		<b>711</b>			<b>730</b>	<b>553</b>	<b>-1.46%</b>	<b>2.46%</b>	<b>11.11%</b>	<b>2.09%</b>	<b>-0.30%</b>
Malaysian Ringgit (MYR)		3.80			3.80	3.80	0.03%	0.00%	0.01%	0.03%	0.00%

Source: Lehman Brothers, Datastream

Figure 2: Recommended Portfolio—Our Top Ideas

Institution	Ticker	Country	Rating	Key Points
<b>United Overseas Bank</b>	UOB	Singapore	1-Strong Buy	1. Highest ROE among its peers and taking loan market share.
				2. Significant low-capital/high margin businesses off-balance sheet.
				3. Attractive valuation.
<b>Kookmin Bank</b>	6000	Korea	1-Strong Buy	1. Primary mortgage dominance gives a head start in other consumer credit lines.
				2. Low chaebol exposure.
				3. Merger between Kookmin/H&CB will create value.
<b>Bank Central Asia</b>	BBCA	Indonesia	1-Strong Buy	1. Completely clean balance sheet.
				2. Dominant consumer banking franchise.
				3. Cheap valuation.

Source: Lehman Brothers

Figure 1: Asian Financial Institutions Share Price Performance (Continued)

	Rating	Closing Price	Target Price	Potential Upside	52-Week High	52-Week Low	1-Week	1-Month	3-Month	YTD	1-Year
<b>Thailand:</b>											
Bangkok Bank (F)	4	63.00	25.00	-60%	78.00	37.50	-14.86	-9.35	29.90	27.92	10.53
Bangkok Bank (L)	3	49.50	25.00	-49%	61.00	30.25	-16.10	-1.98	37.50	35.62	21.47
Bank of Ayudhya (F)	4	5.75	5.00	-13%	8.50	4.20	-11.54	-1.71	18.80	10.58	-33.14
Bank of Ayudhya (L)	4	5.80	5.00	-14%	8.60	4.16	-11.45	-1.69	20.33	9.43	-31.76
IFCT (F)	3	7.00	10.00	43%	9.30	4.76	-13.04	2.19	22.81	17.65	-21.35
Krung Thai Bank (F)	4	13.50	10.00	-26%	13.75	8.20	0.00	33.66	22.73	35.00	-3.57
National Finance PCL (F)	3	14.40	na	na	17.20	6.80	-11.11	-0.69	42.57	35.85	46.94
National Finance PCL (L)	3	12.30	na	na	14.60	6.50	-11.51	-2.38	35.16	30.16	35.16
Siam Commercial Bank (F)	3	24.50	25.00	2%	31.25	13.60	-13.27	18.93	46.71	45.83	-20.97
Siam Commercial Bank (P)	3	23.70	25.00	5%	28.75	13.60	-14.59	14.49	41.92	40.24	-18.28
Thai Farmers Bank (F)	3	26.00	22.00	-15%	31.75	15.75	-18.11	-11.11	21.50	19.27	-6.31
Thai Farmers Bank (L)	3	22.90	22.00	-4%	27.75	14.00	-17.48	-4.58	27.22	23.12	-7.47
Thai Military Bank (F)	4	6.00	5.00	-17%	9.00	4.50	-11.76	0.00	20.48	15.38	-32.58
<b>SET</b>		<b>351</b>			<b>376</b>	<b>265</b>	<b>-6.47%</b>	<b>3.64%</b>	<b>18.38%</b>	<b>15.62%</b>	<b>8.35%</b>
Thai Baht (THB)		43.90			42.78	45.97	-0.69%	0.71%	1.00%	0.68%	-2.00%
<b>Philippines:</b>											
Bank of the Philippine Islands	2	66.50	64.00	-4%	79.50	40.50	-1.48	-1.48	29.13	15.65	-5.00
Equitable-PCI	NR	31.00	na	na	55.50	16.00	1.64	5.09	69.86	26.53	-43.64
Metrobank	3	211.00	255.00	21%	230.00	156.00	-0.94	5.50	17.22	2.93	-5.80
Philippine National Bank	4	69.50	55.00	-21%	79.00	39.50	-7.33	-0.71	43.30	2.96	73.75
<b>Ph Comp.</b>		<b>1,396</b>			<b>1,636</b>	<b>979</b>	<b>-2.95%</b>	<b>4.43%</b>	<b>28.29%</b>	<b>19.55%</b>	<b>-15.22%</b>
Philippines Peso (PHP)		51.38			47.47	54.38	-0.24%	-0.24%	1.12%	0.44%	-5.79%
<b>Indonesia:</b>											
Bank Central Asia	1	1,800	2,100	17%	2,050	800	-8.86	4.35	14.29	22.03	105.71
Lippo Bank	2	60	90	50%	60.00	25.00	20.00	71.43	71.43	100.00	9.09
Panin Bank	4	275	260	-5%	285.00	95.00	0.00	19.57	37.50	48.65	77.42
<b>JCI</b>		<b>459</b>			<b>470</b>	<b>343</b>	<b>-0.64%</b>	<b>1.53%</b>	<b>20.04%</b>	<b>17.18%</b>	<b>4.73%</b>
Indonesia Rupiah (IDR)		10,210			8,280	12,200	0.34%	1.81%	3.33%	1.86%	-5.61%
<b>Australia</b>											
ANZ	NR	18.17	na	na	18.60	13.44	0.89	4.99	4.01	2.03	14.85
Commonwealth Bank of Australia	NR	32.28	na	na	34.15	25.14	-1.13	0.62	10.48	7.82	8.47
National Australia Bank	NR	35.05	na	na	35.58	24.55	-0.94	4.84	9.97	10.01	18.81
St. George Bank	NR	17.80	na	na	18.84	13.20	-0.56	-3.20	2.68	-4.34	22.08
Westpac	NR	16.72	na	na	16.72	12.05	1.35	8.45	10.02	6.14	20.31
<b>All Ord.s</b>		<b>3,367</b>			<b>3,425</b>	<b>2,867</b>	<b>-1.30%</b>	<b>-0.50%</b>	<b>2.90%</b>	<b>0.20%</b>	<b>3.90%</b>
Australian Dollar (AUD)		0.51			0.54	0.48	-0.91%	-1.29%	-0.85%	0.65%	-2.21%
<b>China:</b>											
China Minsheng	NR	13.37	na	na	16.14	11.79	0.00	2.93	-9.78	-7.86	4.83
Shanghai Pudong	NR	14.58	na	na	21.38	13.06	0.00	5.04	-13.73	-7.07	-26.21
Shenzhen Development Bank	NR	10.66	na	na	16.96	9.60	0.00	4.41	-21.27	-12.98	-24.50
<b>Red Chips</b>		<b>1,678</b>			<b>2,161</b>	<b>1,095</b>	<b>-1.96%</b>	<b>2.17%</b>	<b>0.20%</b>	<b>4.14%</b>	<b>-6.75%</b>
Chinese Yuan (CNY)		8.28			8.28	8.28	0.00%	0.00%	0.00%	0.00%	0.00%
<b>India:</b>											
Corporation Bank	NR	143.70	na	na	156.05	104.30	2.20	30.81	9.99	12.49	30.16
HDFC Bank	NR	247.00	na	na	266.40	191.85	-0.58	7.88	9.73	9.88	-0.48
ICICI Bank	NR	68.85	na	na	108.60	40.45	9.72	36.34	32.79	55.59	-22.81
State Bank of India	NR	241.45	na	na	267.45	140.55	-0.56	16.08	19.83	31.58	9.35
<b>Bombay SE</b>		<b>1,748</b>			<b>2,140</b>	<b>1,216</b>	<b>-0.80%</b>	<b>9.84%</b>	<b>13.67%</b>	<b>12.55%</b>	<b>-16.13%</b>
Indian Rupee (INR)		48.75			46.49	48.77	-0.16%	-0.98%	-1.50%	-1.05%	-4.49%
<b>Regional Index:</b>											
MSCI AC Far East Free ex-Japan		203.55			222.77	146.43	-3.22%	-0.83%	12.22%	3.58%	-8.52%

Source: Lehman Brothers, Datastream

Figure 3: Market Summary

	Market Rating	Current Trend	Due To	Last Changed
Hong Kong	Underweight	↓	Deteriorating fundamentals	Oct-01
Singapore	Neutral	↔	Consolidation; Poor Growth	Aug-01
South Korea	Overweight	↓	Valuation; Loan Growth	Jun-00
Taiwan	Underweight	↓	Slow Consolidation	Sep-00
Malaysia	Underweight	↔	Integration uncertainties	Aug-00
Thailand	Underweight	↔	Asset Quality; Earnings	Jun-00
Philippines	Underweight	↑	Interest Rates; Asset Quality	Jun-00
Indonesia	Neutral	↑	Valuation; High return on capital	Oct-01

Source: Lehman Brothers

Figure 4: Asian Financial Institutions Coverage Universe Valuations

	Rating	Closing Price	Mkt Cap (US\$, MM)	Price to BVPS		PER			
				2000A	2001E	2000A	2001E	2002E	2003E
<b>Hong Kong:</b>									
Bank of East Asia	4	15.35	2,821	1.7	1.2	15.1	11.5	11.9	11.6
Dah Sing Financial	3	33.00	1,043	2.2	1.6	12.8	8.9	8.0	7.2
Hang Seng Bank	4	86.25	21,143	4.9	4.1	20.0	16.0	17.3	16.1
HSBC Holdings PLC	3	85.75	102,856	3.7	2.7	20.0	18.4	16.2	14.6
JCG Holdings	2	4.85	440	1.1	1.1	6.9	8.0	8.6	7.8
Wing Hang Bank	4	24.60	926	1.5	1.2	9.2	8.9	8.3	7.7
Wing Lung Bank	4	29.15	868	1.3	1.1	7.3	7.9	8.3	7.8
<b>Singapore:</b>									
DBS Bank Group	3	13.70	10,818	1.6	1.3	13.4	13.7	11.9	12.7
Oversea-Chinese Banking Corp.	3	12.50	8,784	1.2	1.1	20.5	17.0	13.4	12.2
United Overseas Bank	1	13.70	11,748	1.5	1.5	12.3	17.0	16.5	13.5
<b>South Korea:</b>									
Hana Bank	2	18,400	1,898	0.5	1.4	41.4	5.9	4.5	3.7
Kookmin Bank	1	55,000	15,012	1.2	2.2	6.6	6.8	6.1	6.5
Kookmin Credit Card	NR	51,900	2,874	1.0	3.2	2.7	8.0	7.7	7.9
Koram Bank	2	11,950	1,474	1.0	2.1	NM	11.8	6.6	4.7
Shinhan Financial Group	3	17,600	3,892	0.9	1.7	8.0	10.3	8.2	7.7
<b>Malaysia:</b>									
Commerce Asset Holding	3	8.20	2,559	1.8	1.6	18.4	18.9	16.9	14.0
Maybank	2	9.05	8,437	1.6	2.1	12.5	20.3	19.5	15.4
Public Bank (F)	2	3.22	2,637	1.6	1.9	9.8	10.5	11.8	10.5
<b>Thailand:</b>									
Bangkok Bank (F)	4	63.00	2,106	1.5	2.5	NM	12.2	13.0	11.0
Bank of Ayudhya (F)	4	5.75	243	0.6	0.7	NM	NM	-3.5	-3.4
IFCT (F)	3	7.00	185	1.1	1.0	NM	NM	-25.4	-51.0
Krung Thai Bank (F)	4	13.50	3,441	3.9	2.5	3.3	NM	54.5	68.3
Siam Commercial Bank (F)	3	24.50	474	1.0	1.2	17.1	35.1	21.0	18.5
Thai Farmers Bank (F)	3	26.00	1,395	2.2	2.4	44.3	60.7	24.9	21.6
Thai Military Bank (F)	4	6.00	275	1.7	2.1	NM	NM	-38.1	0.0
<b>Taiwan:</b>									
Bank SinoPac	2	14.05	778	1.1	1.1	14.3	14.0	11.2	10.1
Chinatrust Commercial	1	24.80	3,254	1.1	1.5	10.8	14.3	13.0	11.1
Fubon Financial	2	17.80	4,508	1.1	1.0	13.9	11.8	0.0	0.0
Taishin International	3	15.00	983	0.9	0.9	17.2	14.1	12.7	10.2
United World Chinese Commercial	4	19.00	2,041	1.2	1.1	11.1	13.9	11.8	10.0
<b>Philippines:</b>									
Bank of the Philippine Islands	2	66.50	1,984	1.8	1.9	29.2	17.9	20.7	17.2
Equitable-PCI	NR	31.00	439	1.0	0.5	67.2	124.3	158.8	29.5
Metrobank	3	211.00	1,342	1.3	1.4	39.8	20.1	21.2	16.5
Philippine National Bank	4	69.50	511	0.7	1.6	NM	NM	-13.4	-18.7
<b>Indonesia:</b>									
Bank Central Asia	1	1,800	1,040	0.4	1.1	1.4	3.4	4.4	4.5
Lippo Bank	2	60	151	0.9	0.8	8.7	5.0	9.3	11.1
Panin Bank	4	275	160	0.4	0.6	35.1	8.5	4.1	4.3
<b>COUNTRY AVERAGES</b>									
			Total Mkt Cap (US\$m)						
Hong Kong (excl. HSBC)			26,801	4.2	3.4	18.3	14.6	15.6	14.6
Singapore			31,350	1.4	1.4	15.0	15.9	14.0	12.8
South Korea			22,276	1.1	2.1	9.2	7.7	6.6	6.8
Taiwan			11,564	1.1	1.1	12.2	17.3	12.1	10.1
Malaysia			13,633	1.7	2.0	13.1	18.2	17.5	0.0
Thailand			8,120	1.5	1.4	7.5	13.4	17.9	20.3
The Philippines			4,276	1.4	1.6	37.4	31.1	30.9	14.0
Indonesia			1,351	0.4	1.0	6.2	4.2	4.9	5.2
<b>REGION</b>			<b>119,369</b>	<b>2.0</b>	<b>2.0</b>	<b>14.3</b>	<b>14.7</b>	<b>14.0</b>	<b>10.8</b>

Source: Lehman Brothers; company reports, Datastream

Figure 5: Global Financial Institutions Performance and Valuation Summary

	LB Rating	Closing Price	52-Week High Low		Share Price Performance				1Y	Mkt Cap (\$, MM)	P/BV 2001*	PER	
					1W	1M	3M	YTD			2001	2002E	
<b>United States:</b>													
Bank One	3	34.59	39.82	28.00	-3.78	-11.65	-8.05	-11.42	-0.69	40,333	1.9	14.0	12.8
BankAmerica	2	61.32	65.00	49.05	0.86	-3.20	-5.65	-2.59	24.79	96,476	3.7	12.4	11.0
BONY	1	37.13	55.35	30.62	-4.06	-12.80	-8.14	-9.00	-26.78	27,345	4.0	18.5	16.9
Citigroup	1	42.40	53.55	36.36	-3.92	-14.55	-15.10	-16.01	-12.03	218,140	2.6	15.0	13.3
Wachovia Corp	3	31.36	36.38	27.90	-0.76	-7.36	1.55	0.00	-0.67	42,681	1.5	14.7	11.4
JP Morgan Chase & Co	1	28.19	50.60	28.19	-6.19	-19.43	-28.43	-22.45	-40.09	55,619	1.4	17.0	9.4
<b>US Average</b>					<b>-2.98%</b>	<b>-11.50%</b>	<b>-10.64%</b>	<b>-10.25%</b>	<b>-9.25%</b>	<b>480,594</b>	<b>2.6</b>	<b>14.8</b>	<b>12.3</b>
<b>Europe:</b>													
ABN-AMRO	2	19.42	24.45	15.78	-1.42	-5.31	3.41	7.35	-17.64	26,272	2.9	12.7	13.0
Allied Irish Banks	2	12.40	13.80	9.31	1.22	-6.13	8.96	-4.62	4.55	9,645	2.8	0.3	0.1
Barclays	2	2,065.00	2,302.00	1,518.00	-3.32	-8.39	-3.95	-9.23	-6.65	49,221	3.3	13.9	13.7
BBVA	3	12.35	16.67	9.50	-2.76	-8.31	-11.91	-11.15	-22.03	34,623	2.8	16.7	14.7
BNP-Paribas	2	52.20	54.60	37.95	-1.69	-2.43	5.08	3.88	19.04	40,599	2.1	11.9	11.3
BSCH	2	8.62	11.43	6.93	-1.60	-7.61	-12.31	-8.40	-22.06	35,279	3.3	12.3	10.8
Commerzbank	3	18.25	32.55	15.70	-1.08	-6.17	-14.52	5.19	-35.96	8,819	0.8	-91.3	26.1
Credit Lyonnais	3	36.34	45.75	34.05	-3.61	-1.92	-4.62	-3.09	-4.37	10,971	1.7	14.5	14.5
Credit Suisse Group	3	56.50	83.12	44.80	-7.76	-19.29	-14.39	-20.20	-24.67	40,033	6.3	23.5	14.5
Deutsche	2	64.95	94.10	46.55	-3.99	-13.69	-11.75	-18.10	-26.03	35,421	1.5	54.1	17.1
Dresdner	3	46.50	54.45	35.60	4.26	8.64	15.38	13.69	6.41	22,526	2.3	21.7	25.4
HBOS	3	813.00	883.00	638.00	-3.21	-1.81	-3.73	2.14	16.64	41,711	2.9	na	na
Lloyds TSB	2	742.50	775.00	590.00	0.00	-0.02	0.00	0.00	0.17	59,085	5.0	13.4	11.7
RBS Natwest	2	1,685.00	1,840.00	1,256.00	-4.91	-5.55	1.02	0.78	8.01	68,722	5.2	13.5	11.3
Societe Generale	3	64.85	74.60	45.89	0.54	-5.81	1.81	3.18	0.31	24,501	2.0	12.9	14.0
Standard Chartered	3	730.00	1,040.00	566.00	-4.33	-4.58	-11.25	-10.98	-30.14	11,780	2.2	10.9	10.0
UBS	3	77.60	92.00	62.10	-3.42	-3.60	-8.22	-7.40	-10.12	58,901	3.9	15.5	14.4
<b>European Average</b>					<b>-2.18%</b>	<b>-5.41%</b>	<b>-3.59%</b>	<b>-3.35%</b>	<b>-8.50%</b>	<b>578,108</b>	<b>3.5</b>	<b>15.5</b>	<b>13.6</b>
<b>Latin America:</b>													
Bancomer	2	0.99	1.14	0.66	-4.45	-4.66	24.28	7.90	36.72	9,137	2.2	0.1	0.1
Bladex	3	1.95	4.14	1.76	0.40	-30.82	-44.13	-36.86	-46.33	163	0.1	27.8	0.6
Bradesco	2	13.16	13.16	-	3.87	6.99	5.20	5.28	10.59	3,867	0.8	4.0	3.6
GFBanorte	2	2.28	2.33	1.51	0.48	3.29	20.22	8.64	34.74	1,142	1.2	7.6	7.4
Group Financiero Galicia	4	0.14	1.98	0.13	-22.50	-53.56	-73.33	-61.13	-92.68	101	0.0	0.1	0.1
Inbursa	1	0.68	0.79	0.45	2.48	7.83	46.46	16.98	-4.62	3,814	0.8	0.2	0.1
Itaú	2	0.84	0.95	0.61	1.06	4.08	2.55	-0.65	na	77	na	0.1	0.1
Santander Chile	2	1.64	2.13	1.64	-5.09	-11.51	-11.51	-19.92	-0.67	166	0.3	1.3	1.3
Santiago	2	1.51	1.69	1.25	-1.58	-1.16	-8.12	-4.27	13.61	2,005	150.6	0.8	0.8
Unibanco	1	2.92	3.36	1.63	6.00	-1.85	18.83	12.77	-22.03	34,623	0.1	1.1	1.1
<b>Latin American Average</b>					<b>-1.93%</b>	<b>-8.14%</b>	<b>-1.96%</b>	<b>-7.13%</b>	<b>-7.85%</b>	<b>55,093</b>	<b>6.1</b>	<b>1.3</b>	<b>1.1</b>
<b>Japan:</b>													
Chuo-Mitsui	3	173	315	102	1.76	28.15	31.06	33.08	-44.01	1,060	0.2	7.9	-0.6
Daiwa	2	72	189	66	-6.49	-8.86	-35.71	-12.20	-62.30	1,510	0.4	1.5	3.4
Mitsubishi-Tokyo	2	780,000	1,340,000	689,000	-3.35	-0.51	-12.85	-11.26	na	33,508	na	28.8	2599.1
Mizuho	2	230,000	803,000	200,000	-0.43	-6.12	-34.10	-13.86	-67.47	15,840	0.3	11.2	-2.9
Sumitomo Mitsui	3	475	1,229	407	-0.84	-2.86	-36.24	-14.41	-59.23	20,288	1.1	9.0	-16.4
Sumitomo Trust	2	436	912	379	-5.83	-6.24	-36.26	-18.05	-49.65	4,737	0.8	6.6	32.8
UFJ Holdings	3	284,000	970,000	235,000	-4.05	17.36	-38.92	-1.73	na	10,276	na	-20.1	13.8
<b>Japanese Average</b>					<b>-2.75%</b>	<b>2.99%</b>	<b>-23.29%</b>	<b>-5.49%</b>	<b>-56.53%</b>	<b>87,217</b>	<b>0.7</b>	<b>13.3</b>	<b>997.7</b>
<b>Asian Coverage Averages:</b>													
Hong Kong					-1.60	-2.01	-2.04	-5.01	-15.60	26,801	3.4	14.62	15.6
Singapore					-6.13	-0.56	21.62	6.93	-9.91	31,350	1.4	14.04	14.0
South Korea					-2.15	-8.62	29.88	4.68	82.61	22,276	2.0	6.55	6.4
Taiwan					-0.71	-0.61	15.58	3.17	-12.45	11,564	1.1	12.08	12.1
Malaysia					-4.41	7.64	16.49	13.48	2.75	13,633	2.0	17.53	17.5
Thailand					-12.68	2.75	29.82	26.62	-4.72	8,120	1.4	17.53	17.9
The Philippines					-2.03	2.10	39.88	12.02	4.83	4,276	1.6	30.93	30.9
Indonesia					3.71	31.78	41.07	56.89	64.07	1,351	1.0	4.94	4.9
<b>Asian Average</b>					<b>-3.25%</b>	<b>4.06%</b>	<b>24.04%</b>	<b>14.85%</b>	<b>13.95%</b>	<b>119,369</b>	<b>2.0</b>	<b>13.7</b>	<b>13.9</b>

Source: Lehman Brothers; company reports, Datastream

Figure 6: Lehman Estimates Vs. Consensus

	Rating	Lehman EPS				Consensus EPS		Lehman vs. Street	
		2000A	2001E	2002E	2003E	2001E	2002E	2001E	2002E
<b>Hong Kong:</b>									
Bank of East Asia	4	1.33	1.33	1.29	1.33	1.23	1.41	108%	91%
Dah Sing Financial	3	3.29	3.80	4.12	4.58	3.69	3.81	103%	108%
Hang Seng Bank	4	5.24	5.30	4.99	5.36	5.37	5.37	99%	93%
HSBC Holdings PLC	3	5.79	4.96	5.31	5.87	5.30	5.53	93%	96%
JCG Holdings	2	0.63	0.61	0.56	0.62	0.69	0.76	88%	74%
Pacific Century Insurance	1	0.17	0.23	0.29	0.36	0.23	0.28	97%	105%
Wing Hang Bank	4	3.07	2.75	2.97	3.21	2.81	2.82	98%	106%
Wing Lung Bank	4	4.35	3.61	3.51	3.74	3.72	3.67	97%	96%
<b>Singapore:</b>									
DBS Bank Group	3	1.14	1.12	1.15	1.08	0.74	0.92	150%	125%
Oversea-Chinese Banking Corp.	3	0.65	0.79	0.93	1.03	0.70	0.69	112%	135%
United Overseas Bank	1	0.87	0.63	0.83	1.02	0.73	0.75	86%	111%
<b>Korea:</b>									
Hana Bank	2	143	2,886	4,060	4,931	2,181	2,716	132%	149%
Kookmin Bank	1	3,860	7,326	8,952	8,514	4,964	7,101	148%	126%
Kookmin Credit Card	NR	10,278	6,258	6,724	6,556	6,000	7,177	104%	94%
Koram Bank	2	(2,429)	1,016	1,812	2,561	1,157	1,703	88%	106%
Shinhan Financial Group	3	1,293	1,706	2,140	2,291	1,376	2,145	124%	100%
<b>Taiwan:</b>									
Bank SinoPac	2	0.97	1.04	1.25	1.39	0.99	1.18	105%	107%
Chinatrust Commercial	1	1.83	1.47	1.91	2.24	1.57	2.09	94%	91%
Taishin International	3	0.96	0.92	1.18	1.47	0.79	1.18	117%	100%
United World Chinese Commercial	4	2.01	1.52	1.61	1.91	1.51	1.51	101%	107%
Fubon Holdings Co.	2	n.a.	1.37	1.54	1.85	1.58	1.81	86%	85%
<b>Thailand:</b>									
Bangkok Bank (F)	4	(12.84)	3.78	4.84	5.71	5.40	6.80	70%	71%
Bank of Ayudhya (F)	4	(4.61)	(0.79)	(1.65)	(1.68)	(1.18)	(1.09)	67%	151%
IFCT (F)	3	(1.42)	(0.15)	(0.28)	(0.14)	(0.06)	0.38	281%	-72%
Krung Thai Bank (F)	4	3.47	(0.53)	0.25	0.20	5.27	7.03	-10%	4%
Siam Commercial Bank (F)	3	1.14	0.69	1.17	1.32	1.23	1.76	56%	66%
Thai Farmers Bank (F)	3	0.54	0.38	1.04	1.20	0.39	1.34	98%	78%
Thai Military Bank (F)	4	(6.26)	(0.05)	(0.16)	(0.17)	0.73	0.75	-7%	-21%
<b>Malaysia:</b>									
Commerce Asset Holding	3	0.44	0.43	0.49	0.58	0.37	0.49	118%	100%
Maybank	2	0.58	0.36	0.46	0.59	0.38	0.46	94%	100%
Public Bank (F)	2	0.30	0.23	0.27	0.31	0.20	0.23	116%	117%
<b>Philippines:</b>									
Bank of the Philippine Islands	2	1.99	3.21	3.21	3.86	3.43	3.97	94%	81%
Equitable-PCI	NR	0.88	0.20	0.20	1.05	0.30	0.80	67%	25%
Metrobank	3	4.60	10.21	9.97	12.76	5.52	7.25	185%	138%
Philippine National Bank	4	(15.80)	(11.47)	(5.18)	(3.71)	(13.77)	(7.90)	83%	65%
<b>Indonesia:</b>									
Bank Central Asia	1	612.30	428.49	406.92	396.69	418.45	410.75	102%	99%
Lippo Bank	2	6.29	6.00	6.45	5.39	5.27	7.03	114%	92%
Panin Bank	4	4.85	21.85	66.33	64.13	10.77	56.95	203%	116%

Source: Lehman Brothers; Nelson, I/B/E/S

## News of the Week

### Hong Kong

Industrial and Commercial Bank (ICBC Asia) of China announced 2001 results on Thursday with a 120% increase in net profits of HK\$330.41 million. The results were mainly attributable to income from newly acquired Union Bank and a cut in bad loans. Non interest income has also surged by 108% to HK\$204.26 million due to syndication loans and equipment finance businesses. ICBC (Asia) announced a final dividend of HK 17 cents with a special dividend of HK5 cents. NPLs dropped to HK\$1.92 billion, mainly due to successful recoveries by the bank and its asset management firm.

Standard Chartered reported earnings for 2001 on Wednesday. Total pre-tax profit fell 20% to US\$1.14 billion, fuelled largely by a steep rise in provisions against bad loans in Malaysia and Argentina. Provisions rose by 55% to US\$731 million, due to poor markets in Malaysia and the high level of bankruptcies in Hong Kong. Standard Chartered indicated that it will invest heavily in China over the next three years and the bank's strategy will be geared towards achieving a higher ROE.

HKCB Bank Holding Co. announced on Thursday that it has changed its name to Hongkong Chinese Ltd., effective on February 8, 2002.

Dah Sing Financial Holdings Ltd. Indicated on Thursday that it had agreed to sell its entire 30% stake in Jian Sing Bank Ltd. to China Construction Bank for HK\$105.2 million. China Construction Bank already owns 70% of Jian Sing Bank, which has four offices and one bills center in Hong Kong. The sale price represented a 2% discount to the unaudited consolidated net asset value of Jian Sing Bank as of June 2001. The transaction will be in cash and is expected to be completed by Friday.

### Singapore

British insurer CGU has paid SGD82 million as part of a sale and agreement for DBS Group Holdings' Hong Kong-based life and general insurance subsidiaries—Dao Heng Assurance and DBS Kwong On Insurance. Further payments will be made over the 10-year term of the agreement if DBS Hong Kong

meets certain performance criteria—CGU will have exclusive access to DBS' one million customers in Hong Kong for the distribution of life and general insurance products.

To help ease the pain of separation, OCBC has said it will provide personal accident and life insurance for 12 months as well as special housing and loan rates to an estimated 1,000 employees it may dismiss following the February 25 date for the formal merger with KTLB.

Stepping up to the mortgage war plate, MayBank Singapore introduced a new deferred payment scheme for housing loans called DeferPlus that exempts borrowers from the need to make large installment payments for up to 10 years. The scheme is available only to owner-occupied properties. Under the scheme, the home loan is split into two parts—at least 70% of the total loan, will operate as a normal home loan—the remaining portion can be repaid after 10 years.

### South Korea

The Financial Supervisory Service has taken further steps to try to ease concerns over surging household loan growth and a possible drop in recently inflated property prices by proposing a change from the current full coverage deposit insurance system on mortgages to a partial insurance system covering just 80-90%. Recently, banks have been lending up to 60-90% of the market value of housing.

Consumer confidence rose to the highest level ever in January according to the National Statistical Office. The consumer sentiment index rose to 106.7 in January, up from 100.9 in December, marking a rise for four consecutive months.

Chohung Bank said it plans to establish a development planning task force charged with setting up a financial holding company for the bank. In other news, the bank is said to be considering raising the size of its planned global depository receipt issue to US\$1 billion—the company previously planned a US\$500 million issue. The issue will be equivalent to a 35% stake in the bank.

Kookmin Bank is looking to raise a US\$400–500 million syndicated loan. The one-year portion of the syndicated loan

will carry an interest of LIBOR+mid-0.30% range, while the two-year tranche will carry an interest of LIBOR+low-0.40% range. The proceeds will be used in paying back its maturing debts and making foreign-currency loans to domestic companies.

## **Taiwan**

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Total overdue loans of the seven major local banks hit a new high of NT\$528.1 billion as of January 2002. In terms of non-performing loans, **Taiwan Cooperative Bank** led with NT\$90.4 billion, followed by **Land Bank** with NT\$86.3 billion, **First Bank** with NT\$79.4 billion, **Chang Hwa** NT\$78.2 billion, **Taiwan Business Bank** with NT\$74.2 billion, **Hua Nan Bank** with NT\$70.6 billion and **Bank of Taiwan** with NT\$48.7 billion. Taiwan Business Bank posted the highest overdue loan ratio of 10.84%, followed by Chang Hwa Bank with 9.18% and then by First Bank with 8.98%. The NPL situation has deteriorated due to the banks' lower earning ability with continuous cuts in interest rates, undermining their ability to write off NPLs. In addition, high unemployment and the inability of local economy to rebound makes it difficult for the banks to reduce the overdue loans ratios.

The offshore banking unit of **Chang Hwa Commercial Bank** has received approval from the Ministry of Finance to engage in direct financial dealings with financial institutions in Mainland China. Chang Hwa has already established a direct financial transaction relationship with a leading bank in the mainland. Since last year, Chang Hwa has set up business relationships with the mainland branches of 14 major international banks and the Hong Kong branches of four leading banks in China.

## **Malaysia**

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**Hong Leong Bank Bhd** has received the Securities Commission's approval for its proposed disposal of 100% equity interest in HLB Unit Trust Management Bhd to HIG Capital Bhd. Hong Leong Bank will divest its entire equity interest in HLB Unit Trust, of two million ordinary shares of RM1 each, for a cash consideration of RM11 million. Proceeds from the disposal will be used as working capital for the Hong Leong Bank group.

**Public Bank** announced its 2001 results with an improved pre-tax profit of RM1.27 billion for the financial year ending December 31, 2001 from RM1.26 billion in 2000. Operating revenue increased by 10% to RM3.79 billion on the back of strong loan growth. Margins were maintained as a result of a pro-active funding strategy focussing on lower-cost current and savings accounts which offset a decline in lending rates. Public Bank is proposing a final dividend of 18% comprising a tax-exempt and non-tax exempt dividend of 9% each. Public Bank is also proposing a bonus issue of one new ordinary share for every four existing ordinary shares.

## **Thailand**

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**GE Capital** announced it will establish its Asian headquarters for consumer finance operations in Bangkok saying Thailand's market offered high growth opportunities—the firm expects local consumer finance to grow 30% this year from 2001. Current assets now stand at THB26 billion with 81% consisting of auto loans. GE Capital also operates a credit card alliance with the Central Group and Tesco Lotus, installment financing for consumer electronics and personal loans.

**Bank of Asia** said it will raise registered capital by THB15 billion to THB53.8 billion via a rights issue to existing shareholders. 1.5 billion new shares will be issued at THB10 each. The closing date for the share register for the rights issue is March 22. ABN Amro which currently holds a 78% stake, has confirmed it will subscribe for the new shares. The capital increase is aimed at supporting future business expansion.

The BOT reported NPLs rose slightly at the end of January to THB480.71 billion, or 10.42% of total lending—unchanged in percentage terms but up marginally from THB477.42 billion as of end-December 2001. The increase reflects both performing loans and restructured loans returning to non-performing status. Bangkok Bank recorded the largest deterioration with NPLs rising THB4 billion from December level to THB110.26 billion. A round-up of NPLs below:



NPL Ratio (%)		Jan 2002	Dec 2001
<b>Ayudhya</b>	↓	16.04%	16.58%
<b>Bangkok</b>	↑	15.42%	14.71%
<b>Bangkok Metro</b>	↑	2.76%	1.59%
<b>Bank Thai</b>	↓	3.13%	3.19%
<b>DBS Thai Danu</b>	↓	5.83%	5.87%
<b>Krung Thai</b>	↓	7.95%	8.19%
<b>SC Nakornthon</b>	↓	1.81%	2.11%
<b>Siam City</b>	↑	0.92%	0.70%
<b>Siam Commercial</b>	↓	18.36%	18.50%
<b>Thai Farmers</b>	↑	13.21%	13.10%
<b>Thai Military</b>	↑	12.31%	12.28%
<b>UOB Radanasin</b>	↑	0.93%	0.85%

## The Philippines

Moody's revised the ratings outlook for six banks to stable, from negative, following the change of outlook for Moody's sovereign rating for the Philippines to stable, from negative, on February 4, 2002. The banks are: Allied Banking Corporation, Bank of the Philippine Islands, Development Bank of the Philippines, Equitable-PCI Bank, Land Bank of the Philippines and Metropolitan Bank & Trust Co.

The BSP issued a memo to banks last week ordering them to sell all their foreclosed real estate assets within five years of acquisition. The five-year asset disposal time frame, was set in place by a provision of the General Banking Law of 2000. The BSP is also encouraging banks to sell their acquired assets to asset management companies. Latest BSP data show that total foreclosed assets amount to PHP153 billion, in addition to potential bad loan foreclosures of another PHP294 billion.

The Philippine Stock Exchange implemented new trading hours: 9:30 am to 12 noon and 1 pm to 2:30 pm from Wednesday last week (afternoon trading is voluntary).

## Indonesia

A senior IBRA official said last week that Bank Indonesia plans to raise the minimum CAR for banks to 12% in FY2002 from the current 8% level.

The government is said to be close to finalizing a mechanism to replace recapitalization bonds held by BCA with restructured asset loans from IBRA. The bank currently holds some IDR58.2 trillion worth of recap bonds. An earlier report has suggested that the Farallon consortium of bidders for the bank had agreed to the bond-to-asset swap plan.

Bank Indonesia said Friday last week it had completed the screening of the four bidders for BCA. The BI Governor told reporters "The fit-and-proper test was finished at 8 p.m. last night. The results will be submitted to IBRA on Monday," but declined to comment on whether all the bidders had passed the tests. IBRA said last week that it hoped to conclude the sale of the bank by the end of the month.

## Australia

**Macquarie Bank**, Australia's only publicly listed investment bank, said on Friday that it is going to buy **NTL Inc's** Australian business for AU\$850 million. NTL Inc. is the owner and operator of national broadcast transmission infrastructure used by government-owned broadcasters Australian Broadcasting Corp and Special Broadcasting Services. Management of Macquarie indicated that the purchase is as a result of the Bank's AU\$500 million capital raising in September 2001. Macquarie has been on an aggressive acquisition trail. In September 2001, Macquarie Infrastructure Group said it would use AU\$14 billion to purchase a 40% stake in Cintra tollroads division.

## China

China cut its deposit interest rate by 25 basis points and lending rate by 50 basis points on Thursday. The cuts were aimed at boosting the slowing Chinese economy. The cut in lending rates will reduce the interest bill of mainland enterprises by approximately RMB30 billion this year, according to a central bank official.

**China Everbright Bank** posted a profit of RMB1.57 billion for 2001. Total assets were RMB268.83 billion, a 29.6% increase from the previous year. Total loans amounted to RMB145.6 billion, a 44.7% increase and deposits also increased by 35.9% to RMB201.29 billion. China Everbright now has 6.2 million banking cards issued.

**Bank of China** is opening a branch in Manila and is expanding the number of branches overseas to 560 in 25 countries and regions. Currently, BOC has 12,530 outlets in China. BOC Manila will have an initial capitalization of US\$12 million, and it is starting its business with deposit, remittance, loan, trade financing and trade settlement.

## **India**

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The Confederation of Indian Industry put forward a proposal for measures to reform the financial sector be introduced in the upcoming budget—primarily to resolve the burden of non-performing assets of banks and financial institutions through the establishment of a pilot Asset Reconstruction Company in line with the recommendations of the Verma Committee. In addition, the CII is pushing for a time table for the merger or privatisation of weak public sector banks.

Life Insurance Corporation and State Bank of India may be asked to provide an additional INR1.5 billion for IFCI as part of the INR10 billion assistance for the ailing financial institution.

**Bank of Punjab** revealed it was in talks with ABN Amro seeking a strategic alliance



Figure 7: Hong Kong Bank Universe – Forecasts and Valuation

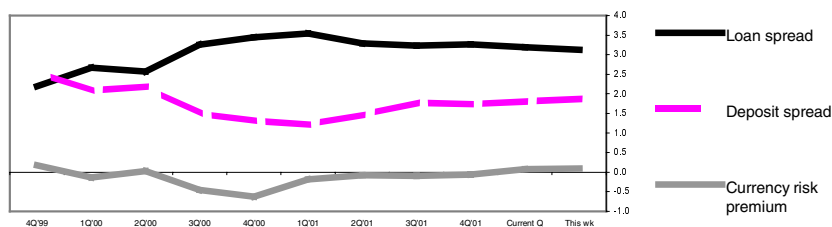
			PP Profit	Net Profit	EPS	PER	ROA	ROE	Yield %	Net interest margin	Cost to income	EPS growth	
<b>HONG KONG</b>													
HK\$m	<b>BEA</b>	2000	2,900	1,871	1.33	15.1	1.2%	11.7%	3.3%	2.7%	41.8%	23.8%	
Price HK\$		2001	2,777	1,904	1.33	11.5	1.1%	10.8%	4.0%	2.4%	49.4%	0.0%	
Mkt Cap US\$m		2002	2,831	1,843	1.29	11.9	1.0%	9.9%	4.2%	2.4%	49.2%	-3.2%	
Rating	4	2003	2,859	1,896	1.33	11.6	1.0%	9.7%	4.3%	2.4%	50.1%	2.9%	
	<b>DSF</b>	2000	1,214	810	3.29	12.8	1.7%	18.6%	2.6%	3.8%	40.4%	37.4%	
		2001	1,248	936	3.80	8.9	1.8%	18.9%	4.2%	3.7%	41.9%	15.5%	
		2002	1,437	1,014	4.12	8.0	2.0%	18.2%	4.5%	3.9%	38.4%	8.4%	
	3	2003	1,582	1,127	4.58	7.2	2.1%	18.0%	5.0%	3.9%	34.9%	11.1%	
	<b>HSB</b>	2000	11,540	10,014	5.24	20.0	2.1%	25.0%	4.6%	2.7%	32.3%	20.5%	
		2001	11,398	10,137	5.30	16.0	2.1%	24.8%	5.7%	2.5%	34.9%	1.2%	
		2002	11,055	9,548	4.99	17.3	2.0%	23.1%	5.8%	2.5%	37.2%	-5.8%	
	4	2003	11,880	10,241	5.36	16.1	2.1%	24.5%	5.8%	2.6%	36.8%	7.3%	
	<b>JCG</b>	2000	760	447	0.63	6.9	8.1%	15.4%	7.4%	15.8%	23.5%	22.2%	
		2001	825	429	0.61	8.0	8.9%	13.8%	6.6%	17.6%	20.6%	-4.0%	
		2002	838	397	0.56	8.6	8.0%	12.1%	6.1%	18.5%	20.6%	-7.3%	
	2	2003	826	438	0.62	7.8	8.4%	12.5%	6.3%	17.5%	21.0%	10.3%	
	<b>WHB</b>	2000	1,429	902	3.07	9.2	1.7%	17.4%	4.3%	3.2%	29.0%	32.0%	
		2001	1,273	806	2.75	8.9	1.5%	13.8%	4.3%	2.8%	31.9%	-10.5%	
		2002	1,308	873	2.97	8.3	1.6%	13.3%	4.7%	2.9%	32.4%	8.3%	
	4	2003	1,342	941	3.21	7.7	1.7%	12.6%	5.1%	2.9%	32.9%	7.9%	
	<b>WLB</b>	2000	1,299	1,011	4.35	7.3	1.7%	16.3%	5.0%	2.4%	26.8%	18.2%	
		2001	1,089	838	3.61	7.9	1.3%	12.8%	5.0%	2.0%	32.2%	-17.1%	
		2002	1,071	815	3.51	8.3	1.3%	12.7%	4.9%	2.0%	33.2%	-2.7%	
	4	2003	1,127	867	3.74	7.8	1.4%	12.5%	5.2%	2.1%	32.6%	6.4%	
US\$m	<b>HSBC</b>	2000	5,589	6,628	0.74	20.0	1.0%	18.8%	4.0%	2.6%	55.3%	13.8%	
Price HK\$		2001	3,878	5,929	0.64	18.4	0.8%	15.5%	4.4%	2.5%	56.0%	-14.4%	
Mkt Cap US\$m		2002	5,037	6,348	0.68	16.2	0.9%	16.0%	4.8%	2.5%	56.0%	7.1%	
Rating	3	2003	5,663	7,024	0.75	14.6	0.9%	17.0%	5.3%	2.5%	55.2%	10.7%	
<b>COUNTRY AVERAGES</b>													
<i>exc. HSBC</i>			<b>PER</b>			<b>ROA</b>			<b>ROE</b>				
<i>Total Mkt Cap US\$m</i>			<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	
Hong Kong	27,240	18.3	14.6	15.6	14.6	2.1%	2.0%	2.0%	22.7%	22.2%	20.7%		
Singapore	31,350	15.0	15.9	14.0	12.8	1.4%	1.2%	1.2%	10.4%	9.4%	9.5%		
South Korea	25,150	9.2	7.7	6.6	6.8	1.1%	1.6%	1.7%	16.4%	29.6%	29.6%		
Taiwan	11,564	12.2	17.3	12.1	10.1	1.1%	1.2%	1.2%	8.8%	8.2%	9.0%		
Malaysia	13,633	13.1	18.2	17.5	0.0	1.1%	0.8%	0.9%	13.8%	9.2%	10.1%		
Thailand	8,120	7.5	13.4	17.9	20.3	1.5%	-0.1%	0.2%	7.6%	2.4%	6.4%		
The Philippines	4,276	37.4	31.1	30.9	14.0	0.1%	0.5%	0.6%	-0.5%	4.3%	5.0%		
Indonesia	1,351	6.2	4.2	4.9	5.2	1.6%	2.1%	2.1%	40.1%	35.4%	26.8%		
<b>REGION</b>	<b>122,683</b>	<b>14.2</b>	<b>14.5</b>	<b>13.8</b>	<b>10.8</b>	<b>1.4%</b>	<b>1.3%</b>	<b>1.4%</b>	<b>14.3%</b>	<b>15.9%</b>	<b>15.9%</b>		
<b>HONG KONG INDUSTRY STATISTICS</b>													
<b>Loan Growth (% yoy)</b>													
		3Q'01	2Q'01	1Q'01	4Q'00	3Q'00	2Q'00	1Q'00	4Q'99	3Q'99	2Q'99	1Q'99	4Q'98
Property		-2.03	-0.11	4.33	3.71	3.17	3.12	-4.11	-7.71	-11.41	-13.03	-6.98	-5.47
Corporate		-8.38	8.98	8.15	11.24	13.42	-6.66	-9.78	-10.82	-10.63	-9.14	-5.51	-6.83
Finance		-21.89	-7.16	-7.71	-8.22	-0.95	-10.20	-15.18	-18.31	-21.86	-23.76	-20.20	-13.25
Trade		-14.74	-14.68	-18.83	-16.60	-16.32	-14.21	-16.55	-19.81	-18.65	-19.34	-13.52	-12.65
Mortgages		0.12	-0.08	0.09	0.66	0.32	0.52	2.58	3.29	5.46	6.39	5.72	7.29
HOS and PSPS		25.31	21.72	17.48	18.82	11.05	10.75	9.43	2.64	9.73	14.78	27.79	22.89
Credit card		18.86	22.39	25.11	30.15	25.07	20.40	15.06	7.17	7.49	7.33	11.86	13.98
Consumer		-4.94	-0.28	-2.70	-1.06	2.01	-1.24	-3.91	-7.45	-12.52	-16.72	-13.86	-11.93
Total loans		-4.14	1.36	1.40	2.29	2.94	-2.08	-4.94	-7.17	-7.99	-8.44	-5.18	-3.77
<b>Loan Breakdown (% of total)</b>													
		3Q'01	2Q'01	1Q'01	4Q'00	3Q'00	2Q'00	1Q'00	4Q'99	3Q'99	2Q'99	1Q'99	4Q'98
Property		21.32	21.44	22.04	21.40	20.86	21.76	21.42	21.11	20.81	20.66	21.23	21.23
Corporate		20.32	20.32	20.13	20.93	21.26	18.90	18.87	19.24	19.29	19.83	19.88	20.03
Finance		8.49	9.10	9.42	9.61	10.42	9.93	10.35	10.71	10.83	10.83	11.60	12.17
Trade		6.02	6.28	6.30	6.45	6.76	7.46	7.87	7.92	8.32	8.51	8.97	9.16
Mortgages		29.66	29.04	28.84	28.79	28.40	29.46	29.21	29.25	29.14	28.70	27.07	26.29
HOS and PSPS		5.85	5.61	5.30	4.86	4.47	4.67	4.58	4.19	4.15	4.13	3.98	3.79
Credit card		2.93	2.79	2.64	2.61	2.36	2.31	2.14	2.05	1.95	1.88	1.76	1.78
Consumer		5.42	5.42	5.33	5.34	5.46	5.50	5.56	5.52	5.51	5.46	5.50	5.54
Total loan amount HK\$m		1,808,883	1,837,610	1,847,609	1,861,465	1,887,017	1,812,928	1,822,148	1,819,792	1,833,176	1,851,451	1,916,824	1,960,371

Source: Company reports, Hong Kong Monetary Authority, Bloomberg, Lehman Brothers

Total assets	Equity to assets	Tier 1 capital	NPL	NPL cover	Loan growth	BVPS	ABVPS	Price to BVPS	Price to ABVPS		
178,942	9.5%	14.8%	3.6%	51.8%	23.7%	12.16	11.18	1.7	1.8	<b>BEA</b>	<b>HONG KONG</b>
179,805	10.0%	14.2%	4.2%	52.8%	2.4%	12.60	11.63	1.2	1.3	15.35	HK\$m
182,992	10.3%	14.6%	5.4%	48.9%	1.7%	13.24	12.27	1.2	1.3	2,821	Price HK\$m
187,859	10.6%	14.9%	6.6%	45.1%	2.5%	13.91	12.94	1.1	1.2	4	Mkt Cap US\$m
											Rating
49,702	9.4%	13.1%	2.3%	75.7%	8.3%	18.96	17.48	2.2	2.4	<b>DSF</b>	
51,785	10.1%	13.8%	2.1%	129.5%	0.7%	21.28	19.80	1.6	1.7	33.00	
52,228	11.2%	15.5%	1.7%	213.3%	2.0%	23.88	22.40	1.4	1.5	1,043	
53,334	12.3%	17.1%	1.4%	325.1%	3.2%	26.77	25.29	1.2	1.3	3	
500,784	8.1%	11.9%	3.3%	59.9%	9.8%	21.23	16.11	4.9	6.5	<b>HSB</b>	
475,748	8.5%	12.0%	2.9%	61.9%	-0.4%	21.28	16.14	4.1	5.3	86.25	
475,231	8.6%	12.1%	2.8%	64.9%	0.9%	21.37	16.31	4.0	5.3	21,143	
482,776	8.8%	12.1%	2.7%	67.8%	2.6%	22.15	16.92	3.9	5.1	4	
5,502	52.7%	63.6%	7.9%	104.0%	0.0%	4.10	4.10	1.1	1.1	<b>JCG</b>	
4,815	64.4%	37.7%	7.6%	119.4%	-10.6%	4.38	4.38	1.1	1.1	4.85	
4,988	65.9%	77.2%	8.3%	109.9%	-2.0%	4.65	4.65	1.0	1.0	440	
5,201	67.5%	83.6%	9.6%	94.4%	-1.6%	4.96	4.96	1.0	1.0	2	
54,530	10.0%	14.9%	4.0%	47.6%	4.2%	18.51	17.42	1.5	1.6	<b>WHB</b>	
54,520	11.4%	17.0%	4.4%	42.0%	5.1%	21.14	19.99	1.2	1.2	24.60	
54,935	12.8%	19.3%	3.8%	50.9%	1.0%	24.02	22.82	1.0	1.1	926	
56,347	14.1%	21.4%	3.3%	60.5%	2.8%	27.16	25.89	0.9	1.0	4	
65,482	8.6%	11.6%	3.6%	80.2%	3.2%	24.34	18.80	1.3	1.7	<b>WLB</b>	
61,959	9.9%	13.8%	5.3%	74.1%	-4.9%	26.50	20.96	1.1	1.4	29.15	
61,399	10.8%	15.8%	4.3%	99.2%	-0.9%	28.61	23.07	1.0	1.3	868	
62,917	11.4%	17.1%	3.5%	131.4%	1.2%	30.85	25.31	0.9	1.2	4	
673,814	5.5%	9.0%	3.6%	79.0%	13.9%	3.97	3.29	3.7	4.5	<b>HSBC</b>	US\$m
698,758	5.5%	9.3%	3.1%	87.2%	1.5%	4.10	3.44	2.7	3.2	85.75	Price HK\$m
744,178	5.3%	9.3%	0.0%	0.0%	4.8%	4.25	3.68	2.6	3.0	102,856	Mkt Cap US\$m
792,549	5.2%	9.2%	0.0%	0.0%	6.5%	4.43	3.94	2.5	2.8	3	Rating

	Yield			NPL			Price to book		Price to ABVPS		
	2000	2001	2002	2000	2001	2002	2000	2001	2000	2001	
	4.4%	5.4%	5.5%	3.4%	3.2%	3.2%	4.2	3.4	5.5	4.5	Hong Kong
	2.8%	2.0%	2.9%	5.7%	5.3%	4.4%	1.4	1.4	1.7	2.8	Singapore
	2.9%	3.3%	3.7%	9.8%	7.9%	7.1%	1.1	2.1	1.1	2.2	South Korea
	0.0%	0.6%	0.6%	2.3%	3.1%	3.6%	1.1	1.1	1.1	1.1	Taiwan
	1.6%	1.2%	1.6%	6.8%	8.6%	6.3%	1.7	2.0	2.1	2.9	Malaysia
	0.0%	0.0%	0.0%	18.0%	17.3%	15.2%	1.5	1.4	1.9	1.8	Thailand
	0.9%	0.0%	0.0%	31.4%	34.4%	30.6%	1.4	1.6	1.6	1.7	Philippines
	0.0%	3.1%	4.7%	18.8%	25.9%	23.9%	0.4	1.0	0.6	1.5	Indonesia
	<b>2.5%</b>	<b>2.6%</b>	<b>3.0%</b>	<b>7.7%</b>	<b>7.6%</b>	<b>6.7%</b>	<b>2.0</b>	<b>2.0</b>	<b>2.4</b>	<b>2.8</b>	<b>REGION</b>

Interest rate spreads (%)



Interest rates (period averages, %)

	This wk	Current Q	4Q'01	3Q'01	2Q'01	1Q'01	4Q'00	3Q'00	2Q'00	1Q'00	4Q'99
3M Interbank	1.9955	1.9347	2.0789	3.3666	4.1099	5.1614	6.0590	6.2448	6.5435	5.9741	6.3104
Prime lending	5.1250	5.1250	5.3438	6.5951	7.3956	8.7000	9.5000	9.5000	9.1107	8.6429	8.5000
Savings	0.1250	0.1250	0.3438	1.5924	2.6456	3.9500	4.7500	4.7500	4.3607	3.8929	3.7500
3M LIBOR	1.9013	1.8596	2.1462	3.4587	4.1900	5.3413	6.6874	6.7000	6.5137	6.1097	6.1377
US Fed Funds	1.7500	1.7234	2.1284	3.4382	4.3118	5.5826	6.4891	6.5279	6.1539	5.7342	5.2897
US Prime lending	4.7500	4.7500	5.1576	6.5707	7.3379	8.6278	9.5000	9.5000	9.1414	8.6868	8.3723
US 30-yr T-bill	5.3670	5.4155	5.3056	5.5174	5.6997	5.4446	5.6834	5.7876	5.9905	6.2957	6.2437

Figure 8: Singapore Bank Universe – Forecasts and Valuation

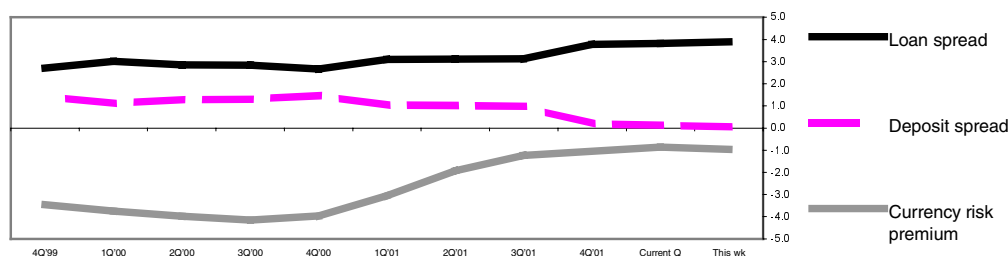
			PP Profit	Net Profit	EPS	PER	ROA	ROE	Yield %	Net interest margin	Cost to income	EPS growth
<b>SINGAPORE</b>												
SGDm	<b>DBS</b>	2000	1,725	1,389	1.14	13.4	1.3%	11.6%	2.2%	2.1%	41.9%	25.6%
Price SGD		2001	1,974	1,357	1.12	13.7	1.2%	11.2%	2.2%	2.0%	45.6%	-2.3%
Mkt Cap US\$m		2002	2,327	1,397	1.15	11.9	1.2%	10.7%	2.6%	2.0%	45.3%	2.9%
Rating	3	2003	2,214	1,311	1.08	12.7	1.1%	9.4%	2.5%	1.9%	50.3%	-6.1%
	<b>OCBC</b>	2000	1,264	840	0.65	20.5	1.5%	7.7%	2.2%	2.4%	34.2%	21.7%
		2001	1,542	1,012	0.79	17.0	1.4%	8.2%	1.5%	2.4%	35.6%	20.5%
		2002	1,864	1,199	0.93	13.4	1.3%	8.7%	2.4%	2.4%	35.0%	18.5%
	3	2003	2,006	1,319	1.03	12.2	1.5%	9.0%	3.1%	2.5%	32.5%	10.0%
	<b>UOB</b>	2000	1,205	913	0.87	12.3	1.6%	11.2%	3.7%	2.2%	38.4%	20.1%
		2001	1,535	988	0.63	17.0	1.1%	8.6%	2.2%	2.0%	39.2%	-27.5%
		2002	2,124	1,305	0.83	16.5	1.1%	9.0%	3.5%	2.0%	35.8%	32.1%
	1	2003	2,460	1,598	1.02	13.5	1.3%	10.6%	4.8%	2.0%	31.8%	22.4%
<b>COUNTRY AVERAGES</b>												
		<b>PER</b>				<b>ROA</b>			<b>ROE</b>			
exc. HSBC	Total Mkt Cap US\$m	2000	2001	2002	2003	2000	2001	2002	2000	2001	2002	
Hong Kong	27,240	18.3	14.6	15.6	14.6	2.1%	2.0%	2.0%	22.7%	22.2%	20.7%	
Singapore	31,350	15.0	15.9	14.0	12.8	1.4%	1.2%	1.2%	10.4%	9.4%	9.5%	
South Korea	25,150	9.2	7.7	6.6	6.8	1.1%	1.6%	1.7%	16.4%	29.6%	29.6%	
Taiwan	11,564	12.2	17.3	12.1	10.1	1.1%	1.2%	1.2%	8.8%	8.2%	9.0%	
Malaysia	13,633	13.1	18.2	17.5	0.0	1.1%	0.8%	0.9%	13.8%	9.2%	10.1%	
Thailand	8,120	7.5	13.4	17.9	20.3	1.5%	-0.1%	0.2%	7.6%	2.4%	6.4%	
The Philippines	4,276	37.4	31.1	30.9	14.0	0.1%	0.5%	0.6%	-0.5%	4.3%	5.0%	
Indonesia	1,351	6.2	4.2	4.9	5.2	1.6%	2.1%	2.1%	40.1%	35.4%	26.8%	
<b>REGION</b>	<b>122,683</b>	<b>14.2</b>	<b>14.5</b>	<b>13.8</b>	<b>10.8</b>	<b>1.4%</b>	<b>1.3%</b>	<b>1.4%</b>	<b>14.3%</b>	<b>15.9%</b>	<b>15.9%</b>	
<b>SINGAPORE INDUSTRY STATISTICS</b>												
<b>Loan Growth (% yoy)</b>												
	Nov'01	Oct'01	Sep'01	Aug'01	Jul'01	Jun'01	May'01	Apr'01	Mar'01	Feb'01	Jan'01	Dec'00
Manufacturing	2.61	2.86	-1.39	-5.46	3.07	-1.07	1.20	5.24	4.73	7.96	6.77	0.40
Building & Construction	3.85	4.27	4.58	5.13	5.27	8.79	10.18	13.05	13.34	10.59	10.22	9.39
Residential Mortgage	6.25	6.55	6.46	6.33	6.23	6.25	7.03	7.00	6.97	7.35	7.41	6.92
General Commerce	-8.67	-7.94	-3.85	-3.54	-5.38	-1.42	-3.57	-4.17	-4.83	-4.59	-3.09	-4.92
Transport, Storage & Comr	84.47	81.86	63.05	28.29	29.38	31.69	17.32	17.14	16.72	7.31	10.28	10.18
Financial Institutions	4.14	0.12	0.68	-0.91	1.93	0.18	-1.24	-1.06	-1.87	-0.77	0.17	-0.94
Consumer	5.95	6.58	6.89	7.70	8.18	10.75	11.09	11.70	12.63	13.53	14.67	16.97
Total loans	4.24	3.60	3.72	2.62	3.65	4.50	4.21	4.38	4.29	4.34	4.62	4.31
<b>Loan Breakdown (% of total)</b>												
	Nov'01	Oct'01	Sep'01	Aug'01	Jul'01	Jun'01	May'01	Apr'01	Mar'01	Feb'01	Jan'01	Dec'00
Manufacturing	6.71	6.66	6.70	6.62	6.87	7.01	6.97	7.10	7.12	7.30	7.24	6.84
Building & Construction	14.93	15.01	15.07	15.25	14.90	14.80	14.78	15.03	15.07	15.05	15.05	15.10
Residential Mortgage	24.83	24.94	24.86	24.99	24.73	24.46	24.57	24.65	24.71	24.59	24.40	24.34
General Commerce	10.13	10.33	10.48	10.58	10.53	10.87	10.86	10.93	10.90	11.07	11.30	11.17
Transport, Storage & Comr	3.84	3.88	3.63	2.96	2.95	2.95	2.61	2.55	2.57	2.49	2.48	2.43
Financial Institutions	12.33	12.10	12.20	12.22	12.66	12.87	13.06	12.76	12.51	12.45	12.40	12.29
Consumer	18.18	18.27	18.23	18.26	18.02	17.86	17.84	17.86	17.98	17.76	17.76	17.91
Total loans	\$175,535	\$173,696	\$173,019	\$171,525	\$172,262	\$173,077	\$172,100	\$170,534	\$169,444	\$170,110	\$170,883	\$169,833

Source: Company reports, Monetary Authority of Singapore, Bloomberg, Lehman Brothers

Total assets	Equity to assets	Tier 1 capital	NPL	NPL cover	Loan growth	BVPS	ABVPS	Price to BVPS	Price to ABVPS		
111,228	10.5%	- %	5.0%	51.8%	6.4%	9.60	8.63	1.6	1.8	<b>DBS</b>	<b>SINGAPORE</b>
113,745	11.1%	- %	3.4%	59.5%	19.4%	10.38	3.97	1.3	3.5	13.70	SGDm
118,045	11.5%	- %	2.6%	62.6%	2.8%	11.13	4.99	1.2	2.7	10,818	Price SGD
122,509	11.7%	- %	2.2%	71.2%	2.9%	11.83	5.96	1.2	2.3	3	Mkt Cap US\$m
											Rating
59,710	18.7%	- %	8.0%	56.3%	8.5%	8.71	6.34	1.2	1.6	<b>OCBC</b>	
89,366	15.0%	- %	7.0%	54.8%	16.1%	10.44	5.13	1.2	2.4	12.50	
89,374	15.9%	- %	6.1%	52.2%	5.1%	11.05	5.83	1.1	2.1	8,784	
91,661	16.4%	- %	5.6%	57.9%	1.1%	11.66	6.53	1.1	1.9	3	
66,324	12.8%	- %	4.6%	69.4%	20.7%	8.08	6.62	1.3	1.6	<b>UOB</b>	
114,968	12.5%	- %	6.0%	50.7%	-5.5%	9.14	5.61	1.5	2.4	13.70	
123,157	12.0%	- %	4.8%	54.1%	0.2%	9.40	5.97	1.5	2.3	11,748	
131,928	11.8%	- %	3.9%	56.2%	1.3%	9.91	6.59	1.4	2.1	1	

Yield		NPL			Price to book		Price to ABVPS			
2000	2001	2002	2000	2001	2002	2000	2001	2000	2001	
4.4%	5.4%	5.5%	3.4%	3.2%	3.2%	4.2	3.4	5.5	4.5	Hong Kong
2.8%	2.0%	2.9%	5.7%	5.3%	4.4%	1.4	1.4	1.7	2.8	Singapore
2.9%	3.3%	3.7%	9.8%	7.9%	7.1%	1.1	2.1	1.1	2.2	South Korea
0.0%	0.6%	0.6%	2.3%	3.1%	3.6%	1.1	1.1	1.1	1.1	Taiwan
1.6%	1.2%	1.6%	6.8%	8.6%	6.3%	1.7	2.0	2.1	2.9	Thailand
0.0%	0.0%	0.0%	18.0%	17.3%	15.2%	1.5	1.4	1.9	1.8	Malaysia
0.9%	0.0%	0.0%	31.4%	34.4%	30.6%	1.4	1.6	1.6	1.7	Philippines
0.0%	3.1%	4.7%	18.8%	25.9%	23.9%	0.4	1.0	0.6	1.5	Indonesia
<b>2.5%</b>	<b>2.6%</b>	<b>3.0%</b>	<b>7.7%</b>	<b>7.6%</b>	<b>6.7%</b>	<b>2.0</b>	<b>2.0</b>	<b>2.4</b>	<b>2.8</b>	<b>REGION</b>

Interest rate spreads (%)



Interest rates (period averages, %)

	This wk	Current Q	4Q'01	3Q'01	2Q'01	1Q'01	4Q'00	3Q'00	2Q'00	1Q'00	4Q'99
O/N Interbank	0.5625	0.5237	0.4708	2.0102	2.0240	2.1653	2.6481	1.8750	2.1388	1.5412	1.1359
3M Interbank	0.9375	1.0023	1.1039	2.2255	2.2665	2.2819	2.7157	2.5489	2.5353	2.3661	2.6692
Prime lending	4.8300	4.8309	4.8865	5.3526	5.3800	5.3800	5.3800	5.3800	5.3800	5.3800	5.3800
3M Deposits	0.8750	0.8750	0.9022	1.2446	1.2500	1.2500	1.2500	1.2500	1.2500	1.2500	1.2500
3M LIBOR	1.9013	1.8596	2.1462	3.4587	4.1900	5.3413	6.6874	6.7000	6.5137	6.1097	6.1377
US Fed Funds	1.7500	1.7234	2.1284	3.4382	4.3118	5.5826	6.4891	6.5279	6.1539	5.7342	5.2897
US Prime lending	4.7500	4.7500	5.1576	6.5707	7.3379	8.6278	9.5000	9.5000	9.1414	8.6868	8.3723
US 30-yr T-bill	5.3670	5.4155	5.3056	5.5174	5.6997	5.4446	5.6834	5.7876	5.9905	6.2957	6.2437

Figure 9: South Korea Bank Universe – Forecasts and Valuation

			PP Profit	Net Profit	EPS	PER	ROA	ROE	Yield %	Net interest margin	Cost to income	EPS growth
<b>SOUTH KOREA</b>												
KRWm	<b>Hana</b>	2000	618,865	17,771	143	41.4	0.0%	0.9%	3.4%	1.8%	57.4%	-89.1%
Price KRW	18,400	2001	840,847	358,870	2,886	5.9	0.8%	22.8%	5.2%	2.1%	54.7%	1919.4%
Mkt Cap US\$m	1,898	2002	957,801	504,965	4,060	4.5	1.1%	28.3%	6.9%	2.3%	54.4%	40.7%
Rating	2	2003	1,035,242	613,216	4,931	3.7	1.2%	30.9%	8.4%	2.2%	53.3%	21.4%
	<b>Kookmin</b>	2000	3,345,683	1,105,983	3,860	6.6	0.8%	19.7%	2.5%	2.5%	47.1%	150.1%
	55,000	2001	5,140,874	2,196,173	7,326	6.8	1.3%	31.9%	4.4%	2.6%	38.0%	89.8%
	15,012	2002	5,192,365	2,683,628	8,952	6.1	1.4%	31.5%	4.9%	2.7%	39.3%	22.2%
	1	2003	5,515,296	2,552,208	8,514	6.5	1.2%	25.4%	4.6%	2.5%	38.0%	-4.9%
	<b>Kookmin CC</b>	2000	551,594	300,541	10,278	2.7	4.8%	52.3%	0.0%	8.8%	43.9%	na
	51,900	2001	1,085,243	458,083	6,258	8.0	4.9%	45.9%	0.0%	12.8%	38.4%	-39.1%
	2,874	2002	1,193,942	492,196	6,724	7.7	4.3%	36.0%	0.0%	0.0%	38.4%	7.4%
	NR	2003	1,326,112	479,928	6,556	7.9	3.6%	28.1%	0.0%	0.0%	38.2%	-2.5%
	<b>KorAm</b>	2000	455,691	(396,048)	(2,429)	NM	-1.5%	-52.5%	0.0%	1.7%	62.5%	-571.2%
	11,950	2001	491,069	165,619	1,016	11.8	0.6%	18.2%	0.0%	1.8%	63.7%	-141.8%
	1,474	2002	566,962	295,414	1,812	6.6	1.0%	27.8%	0.0%	1.8%	61.7%	78.4%
	2	2003	709,847	417,632	2,561	4.7	1.2%	31.8%	0.0%	1.7%	58.7%	41.4%
	<b>Shinhan</b>	2000	1,027,362	337,834	1,293	8.0	0.7%	11.1%	7.2%	2.1%	44.3%	31.6%
	17,600	2001	1,126,922	498,607	1,706	10.3	0.9%	16.2%	1.5%	2.2%	44.2%	31.9%
	3,892	2002	1,214,403	625,545	2,140	8.2	1.0%	18.8%	1.9%	2.3%	54.2%	25.5%
	3	2003	1,252,879	696,671	2,291	7.7	1.1%	18.0%	2.0%	2.0%	53.5%	7.1%

<b>COUNTRY AVERAGES</b>		<b>PER</b>				<b>ROA</b>			<b>ROE</b>		
exc. HSBC	Total Mkt Cap US\$m	2000	2001	2002	2003	2000	2001	2002	2000	2001	2002
Hong Kong	27,240	18.3	14.6	15.6	14.6	2.1%	2.0%	2.0%	22.7%	22.2%	20.7%
Singapore	31,350	15.0	15.9	14.0	12.8	1.4%	1.2%	1.2%	10.4%	9.4%	9.5%
South Korea	25,150	9.2	7.7	6.6	6.8	1.1%	1.6%	1.7%	16.4%	29.6%	29.6%
Taiwan	11,564	12.2	17.3	12.1	10.1	1.1%	1.2%	1.2%	8.8%	8.2%	9.0%
Malaysia	13,633	13.1	18.2	17.5	0.0	1.1%	0.8%	0.9%	13.8%	9.2%	10.1%
Thailand	8,120	7.5	13.4	17.9	20.3	1.5%	-0.1%	0.2%	7.6%	2.4%	6.4%
The Philippines	4,276	37.4	31.1	30.9	14.0	0.1%	0.5%	0.6%	-0.5%	4.3%	5.0%
Indonesia	1,351	6.2	4.2	4.9	5.2	1.6%	2.1%	2.1%	40.1%	35.4%	26.8%
<b>REGION</b>	<b>122,683</b>	<b>14.2</b>	<b>14.5</b>	<b>13.8</b>	<b>10.8</b>	<b>1.4%</b>	<b>1.3%</b>	<b>1.4%</b>	<b>14.3%</b>	<b>15.9%</b>	<b>15.9%</b>

**SOUTH KOREA INDUSTRY STATISTICS**

	<b>Loan Growth (% yoy)</b>											
	3Q'01	2Q'01	1Q'01	4Q'00	3Q'00	2Q'00	1Q'00	4Q'99	3Q'99	2Q'99	1Q'99	4Q'98
Corporate	6.25	9.44	14.06	19.69	15.91	24.31	25.59	22.55	18.48	2.75	2.76	8.31
Manufacturing	2.14	4.18	7.25	12.41	13.78	16.56	17.45	12.91	14.47	-0.12	-8.66	-4.85
Trade	2.98	4.92	9.88	14.12	21.81	32.12	27.45	32.63	32.60	11.66	0.20	-3.68
Financials	-42.18	-17.62	23.15	85.72	120.86	54.07	25.67	12.99	3.05	17.54	10.85	75.10
Property	3.06	9.31	10.86	15.19	25.50	18.70	16.88	19.54	18.60	5.64	4.60	10.73
Mortgage	16.58	6.89	13.54	20.57	16.52	33.72	23.90	11.93	3.10	-6.14	-5.33	-0.46
Consumer	46.48	38.94	40.59	44.22	54.68	56.83	60.23	59.10	42.99	28.99	6.22	-7.49
Total	13.31	13.64	17.68	24.20	27.19	30.32	28.46	24.94	20.50	6.74	-1.52	-0.06

	<b>Loan Breakdown (% of total)</b>											
	3Q'01	2Q'01	1Q'01	4Q'00	3Q'00	2Q'00	1Q'00	4Q'99	3Q'99	2Q'99	1Q'99	4Q'98
Corporate	14.93	15.40	15.96	15.67	15.92	15.99	16.47	16.26	17.47	16.77	16.84	16.58
Manufacturing	26.85	27.63	28.86	28.87	29.79	30.14	31.66	31.90	33.30	33.70	34.63	35.29
Trade	7.83	8.04	8.07	8.13	8.61	8.71	8.64	8.85	8.99	8.59	8.71	8.34
Financials	2.19	2.56	3.09	4.56	4.28	3.53	2.95	3.05	2.47	2.98	3.02	3.37
Property	7.64	7.60	7.74	7.72	8.40	7.90	8.22	8.32	8.51	8.68	9.03	8.70
Mortgage	8.14	8.24	8.46	8.48	7.91	8.76	8.77	8.73	8.63	8.53	9.09	9.75
Consumer	32.43	30.53	27.83	26.58	25.09	24.97	23.29	22.89	20.63	20.75	18.67	17.97
Total	\$344,439	\$327,693	\$314,170	\$310,804	\$303,973	\$288,364	\$266,965	\$250,240	\$238,998	\$221,271	\$207,814	\$200,289

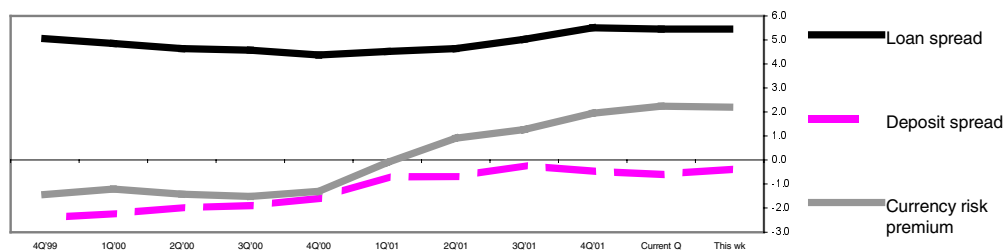
Source: Company reports, Bank of Korea, Bloomberg, Lehman Brothers



Total assets	Equity to assets	Tier 1 capital	NPL	NPL cover	Loan growth	BVPS	ABVPS	Price to BVPS	Price to ABVPS		
43,236,669	4.1%	6.5%	9.6%	38.1%	34.0%	11,535	11,530	0.5	0.5	<b>Hana</b>	<b>SOUTH KOREA</b>
45,072,403	4.2%	7.3%	7.6%	33.0%	3.7%	13,533	13,527	1.4	1.4	18,400.00	KRWm
49,489,462	4.0%	7.4%	7.5%	33.5%	9.7%	15,070	15,065	1.2	1.2	1,898	Price KRW
53,599,712	4.1%	7.6%	7.3%	37.7%	8.2%	16,705	16,700	1.1	1.1	2	Mkt Cap US\$m
											Rating
152,985,226	4.0%	0.0%	10.9%	32.1%	34.7%	21,226	19,831	1.2	1.3	<b>Kookmin</b>	
176,900,537	4.3%	0.0%	9.1%	32.6%	13.3%	25,526	24,191	2.2	2.3	55,000.00	
196,291,961	4.8%	0.0%	7.8%	36.8%	10.9%	31,218	29,882	1.8	1.8	15,012	
216,971,099	5.0%	0.0%	6.7%	47.8%	10.6%	35,874	34,539	1.5	1.6	1	
8,181,476	9.8%	0.0%	3.1%	72.2%	99.7%	27,446	27,446	1.0	1.0	<b>KCC</b>	
10,577,683	11.3%	0.0%	3.1%	84.7%	32.0%	16,334	16,334	3.2	3.2	51,900.00	
12,270,112	12.6%	0.0%	3.1%	72.6%	13.5%	21,041	21,041	2.5	2.5	2,874	
14,233,330	13.2%	0.0%	3.6%	69.4%	16.0%	25,630	25,630	2.0	2.0	NR	
28,663,059	2.8%	5.0%	11.8%	70.8%	30.0%	4,898	4,897	1.0	1.0	<b>KorAm</b>	
28,821,853	3.2%	5.8%	12.0%	41.2%	-5.8%	5,715	5,713	2.1	2.1	11,950.00	
32,297,966	3.5%	6.2%	10.6%	42.1%	11.4%	6,951	6,949	1.7	1.7	1,474	
34,968,002	4.2%	7.4%	9.2%	42.9%	8.1%	8,956	8,955	1.3	1.3	2	
50,076,050	6.1%	12.3%	9.9%	23.8%	21.1%	11,738	11,533	0.9	0.9	<b>Shinhan</b>	
56,329,649	5.5%	11.2%	5.4%	33.1%	20.6%	10,518	10,334	1.7	1.7	17,600.00	
62,954,847	5.7%	11.6%	5.7%	36.8%	9.2%	12,267	12,083	1.4	1.5	3,892	
68,455,195	6.1%	12.2%	6.1%	35.1%	8.6%	13,688	13,511	1.3	1.3	3	

2000	Yield			2000	NPL	2001	2002	Price to book		Price to ABVPS		
	2001	2002	2000					2001	2000	2001	2000	
4.4%	5.4%	5.5%	3.4%	3.2%	3.2%	4.2	3.4	5.5	4.5		Hong Kong	
2.8%	2.0%	2.9%	5.7%	5.3%	4.4%	1.4	1.4	1.7	2.8		Singapore	
2.9%	3.3%	3.7%	9.8%	7.9%	7.1%	1.1	2.1	1.1	2.2		South Korea	
0.0%	0.6%	0.6%	2.3%	3.1%	3.6%	1.1	1.1	1.1	1.1		Taiwan	
1.6%	1.2%	1.6%	6.8%	8.6%	6.3%	1.7	2.0	2.1	2.9		Thailand	
0.0%	0.0%	0.0%	18.0%	17.3%	15.2%	1.5	1.4	1.9	1.8		Malaysia	
0.9%	0.0%	0.0%	31.4%	34.4%	30.6%	1.4	1.6	1.6	1.7		Philippines	
0.0%	3.1%	4.7%	18.8%	25.9%	23.9%	0.4	1.0	0.6	1.5		Indonesia	
2.5%	2.6%	3.0%	7.7%	7.6%	6.7%	2.0	2.0	2.4	2.8		REGION	

Interest rate spreads (%)



Interest rates (period averages, %)

	This wk	Current Q	4Q'01	3Q'01	2Q'01	1Q'01	4Q'00	3Q'00	2Q'00	1Q'00	4Q'99
O/N Interbank	4.1000	4.1000	4.1000	4.7292	5.1046	5.2354	5.3835	5.1780	5.1023	4.9054	4.7110
Prime lending	9.5500	9.5500	9.5978	9.7500	9.7500	9.7500	9.7500	9.7500	9.7500	9.7500	9.7500
3M Deposits	4.4900	4.6932	4.5780	4.9691	5.7865	5.9463	6.9737	7.0751	7.0848	7.1408	7.1223
3M LIBOR	1.9013	1.8596	2.1462	3.4587	4.1900	5.3413	6.6874	6.7000	6.5137	6.1097	6.1377
US Fed Funds	1.7500	1.7234	2.1284	3.4382	4.3118	5.5826	6.4891	6.5279	6.1539	5.7342	5.2897
US Prime lending	4.7500	4.7500	5.1576	6.5707	7.3379	8.6278	9.5000	9.5000	9.1414	8.6868	8.3723
US 30-yr T-bill	5.3670	5.4155	5.3056	5.5174	5.6997	5.4446	5.6834	5.7876	5.9905	6.2957	6.2437

Figure 10: Lehman Brothers Asian Bank Universe – Forecasts and Valuation (Continued)

			PP Profit	Net Profit	EPS	PER	ROA	ROE	Yield %	Net interest margin	Cost to income	EPS growth
<b>THAILAND</b>												
THBm	<b>BBL</b>	2000	16,395	(18,833)	(12.84)	NM	-1.6%	-73.1%	0.0%	2.1%	60.5%	-68.5%
Price THB		2001	13,430	5,544	3.78	12.2	0.4%	29.8%	0.0%	2.1%	64.0%	-129.4%
Mkt Cap US\$m		2002	16,296	7,104	4.84	13.0	0.5%	29.0%	0.0%	2.2%	59.5%	28.2%
Rating		2003	16,134	8,373	5.71	11.0	0.6%	25.0%	0.0%	2.0%	60.0%	17.9%
	<b>BAY</b>	2000	(2,310)	(8,530)	(4.61)	NM	-1.9%	-47.9%	0.0%	1.5%	130.4%	-61.2%
		2001	(1,091)	(1,464)	(0.79)	NM	-0.3%	-11.4%	0.0%	1.4%	114.8%	-82.8%
		2002	(388)	(3,051)	(1.65)	-3.5	-0.7%	-29.5%	0.0%	1.5%	104.8%	108.4%
		2003	(463)	(3,102)	(1.68)	-3.4	-0.7%	-41.2%	0.0%	1.4%	105.8%	1.7%
	<b>IFCT</b>	2000	(1,390)	(1,649)	(1.42)	NM	-0.9%	-16.5%	0.0%	-1.2%	-108.1%	-79.2%
		2001	(232)	(180)	(0.15)	NM	-0.1%	-2.3%	0.0%	-0.2%	154.4%	-89.1%
		2002	(251)	(320)	(0.28)	-25.4	-0.2%	-4.4%	0.0%	-0.2%	164.6%	77.7%
		2003	(18)	(159)	(0.14)	-51.0	-0.1%	-2.3%	0.0%	0.0%	102.8%	-50.1%
	<b>KTB</b>	2000	(1,091)	76,261	3.47	3.3	7.7%	95.6%	0.0%	1.5%	106.0%	-194.2%
		2001	7,044	(5,963)	(0.53)	NM	-0.6%	-10.1%	0.0%	2.2%	73.4%	-115.4%
		2002	8,012	2,768	0.25	54.5	0.3%	4.8%	0.0%	2.3%	71.6%	-146.4%
		2003	7,202	2,209	0.20	68.3	0.2%	3.6%	0.0%	2.1%	73.9%	-20.2%
	<b>SCB</b>	2000	11,619	3,560	1.14	17.1	0.5%	7.0%	0.0%	2.4%	57.3%	-110.0%
		2001	9,841	2,162	0.69	35.1	0.3%	4.0%	0.0%	2.4%	59.7%	-39.3%
		2002	11,448	3,656	1.17	21.0	0.5%	6.4%	0.0%	2.4%	56.3%	69.1%
		2003	12,155	4,145	1.32	18.5	0.5%	6.7%	0.0%	2.3%	55.1%	13.4%
	<b>TFB</b>	2000	2,856	1,265	0.54	44.3	0.2%	6.7%	0.0%	2.2%	87.8%	-102.2%
		2001	7,057	903	0.38	60.7	0.1%	4.6%	0.0%	2.4%	74.5%	-28.6%
		2002	7,610	2,463	1.04	24.9	0.3%	11.6%	0.0%	2.5%	72.8%	172.7%
		2003	8,152	2,837	1.20	21.6	0.3%	11.7%	0.0%	2.3%	71.6%	15.2%
	<b>TMB</b>	2000	(1,813)	(25,064)	(6.26)	NM	-7.5%	-252.0%	0.0%	0.6%	142.2%	-45.3%
		2001	2,424	(218)	(0.05)	NM	-0.1%	-1.9%	0.0%	1.5%	71.5%	-99.1%
		2002	3,087	(630)	(0.16)	-38.1	-0.2%	-6.1%	0.0%	1.6%	66.6%	188.6%
		2003	3,005	(687)	(0.17)	-35.0	-0.2%	-7.1%	0.0%	1.5%	67.4%	9.0%
<b>TAIWAN</b>												
NT\$m	<b>Chinatrust</b>	2000	15,274	7,220	1.83	10.8	1.1%	12.0%	- %	3.3%	52.0%	48.4%
Price NT\$		2001	18,445	6,920	1.47	14.3	0.9%	9.7%	- %	2.5%	46.9%	-19.7%
Mkt Cap US\$m		2002	15,190	8,947	1.91	13.0	1.1%	11.2%	- %	2.2%	56.0%	30.0%
Rating		2003	16,253	10,461	2.24	11.1	1.1%	11.7%	- %	2.1%	57.3%	17.2%
	<b>Fubon</b>	2000	6,529	5,278	n.a.	n.a.	1.4%	6.1%	n.a.	n.a.	84.2%	n.a.
		2001	9,138	7,473	1.37	22	1.7%	7.3%	n.a.	n.a.	84.4%	n.a.
		2002	10,548	8,422	1.54	12	1.7%	7.7%	n.a.	n.a.	82.7%	12.7%
		2003	13,238	10,092	1.85	10	1.9%	8.7%	n.a.	n.a.	80.4%	19.8%
	<b>SinoPac</b>	2000	2,716	1,702	0.97	14.3	0.8%	7.9%	- %	2.1%	56.3%	-5.7%
		2001	3,262	2,025	1.04	14.0	0.8%	8.7%	- %	2.0%	53.5%	7.5%
		2002	3,321	2,436	1.25	11.2	0.9%	9.6%	- %	2.0%	56.4%	20.3%
		2003	3,387	2,706	1.39	10.1	0.9%	9.7%	- %	1.8%	58.8%	11.1%
	<b>Taishin</b>	2000	5,694	1,916	0.96	17.2	0.7%	6.8%	- %	4.4%	56.1%	-1.3%
		2001	5,053	1,811	0.92	14.1	0.6%	6.3%	- %	3.5%	56.3%	-4.6%
		2002	4,850	2,235	1.18	12.7	0.7%	7.2%	- %	3.2%	60.2%	28.9%
		2003	5,313	2,631	1.47	10.2	0.7%	7.9%	- %	3.2%	60.8%	24.5%
	<b>UWCCB</b>	2000	12,230	6,859	2.01	11.1	1.0%	10.8%	0.0%	2.9%	56.6%	8.1%
		2001	11,047	5,716	1.52	13.9	0.9%	8.7%	2.0%	2.4%	41.4%	-24.6%
		2002	9,385	6,057	1.61	11.8	0.9%	8.7%	2.1%	2.1%	47.5%	6.0%
		2003	9,973	7,186	1.91	10.0	0.9%	9.6%	2.5%	2.0%	47.8%	18.6%
<b>COUNTRY AVERAGES</b>												
<i>exc. HSBC</i>		<i>Total Mkt Cap US\$m</i>		<b>PER</b>				<b>ROA</b>			<b>ROE</b>	
		<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	
Hong Kong	27,240	18.3	14.6	15.6	14.6	2.1%	2.0%	2.0%	22.2%	22.2%	20.7%	
Singapore	31,350	15.0	15.9	14.0	12.8	1.4%	1.2%	1.2%	10.4%	9.4%	9.5%	
South Korea	25,150	9.2	7.7	6.6	6.8	1.1%	1.6%	1.7%	16.4%	29.6%	29.6%	
Taiwan	11,564	12.2	17.3	12.1	10.1	1.1%	1.2%	1.2%	8.8%	8.2%	9.0%	
Malaysia	13,633	13.1	18.2	17.5	0.0	1.1%	0.8%	0.9%	13.8%	9.2%	10.1%	
Thailand	8,120	7.5	13.4	17.9	20.3	1.5%	-0.1%	0.2%	7.6%	2.4%	6.4%	
The Philippines	4,276	37.4	31.1	30.9	14.0	0.1%	0.5%	0.6%	-0.5%	4.3%	5.0%	
Indonesia	1,351	6.2	4.2	4.9	5.2	1.6%	2.1%	2.1%	40.1%	35.4%	26.8%	
<b>REGION</b>	<b>122,683</b>	<b>14.2</b>	<b>14.5</b>	<b>13.8</b>	<b>10.8</b>	<b>1.4%</b>	<b>1.3%</b>	<b>1.4%</b>	<b>14.3%</b>	<b>15.9%</b>	<b>15.9%</b>	

Source: Company reports, Bloomberg, Lehman Brothers

Total assets	Equity to assets	Tier 1 capital	NPL	NPL cover	Loan growth	BVPS	ABVPS	Price to BVPS	Price to ABVPS	
<b>THAILAND</b>										
1,240,400	2.7%	- %	28.8%	26.9%	-14.3%	23.15	11.52	1.5	3.0	<b>BBL</b>
1,298,075	2.8%	- %	28.5%	35.4%	-2.9%	24.91	13.85	2.5	4.6	THBm
1,376,915	3.2%	- %	25.0%	42.4%	-2.0%	29.75	19.55	2.1	3.2	Price THB
1,471,249	3.5%	- %	21.0%	50.6%	-0.3%	35.46	26.05	1.8	2.4	Mkt Cap US\$m
										Rating
435,112	3.6%	- %	29.7%	8.8%	-8.9%	8.36	7.53	0.6	0.7	<b>BAY</b>
441,366	3.5%	- %	27.6%	11.2%	0.9%	8.31	6.33	0.7	0.9	5.75
451,279	2.7%	- %	23.9%	16.0%	-1.0%	6.66	4.83	0.9	1.2	243
462,552	2.0%	- %	19.9%	22.7%	1.0%	4.99	3.30	1.2	1.7	4
179,714	4.9%	- %	23.0%	28.2%	13.8%	7.64	7.04	1.1	1.2	<b>IFCT</b>
198,153	4.0%	- %	21.7%	26.7%	2.5%	6.87	6.31	1.0	1.1	7.00
210,957	3.6%	- %	17.9%	31.2%	-0.5%	6.59	6.08	1.1	1.2	185
226,234	3.3%	- %	14.4%	36.4%	1.3%	6.46	5.98	1.1	1.2	3
990,093	6.6%	- %	28.3%	12.6%	-58.4%	2.98	2.80	3.9	4.1	<b>KTB</b>
996,582	6.1%	- %	27.9%	26.3%	0.5%	5.41	5.07	2.5	2.7	13.50
1,029,033	6.1%	- %	25.0%	32.6%	-3.5%	5.66	5.34	2.4	2.5	3,441
1,070,392	6.1%	- %	21.6%	41.2%	-1.7%	5.85	5.56	2.3	2.4	4
718,789	8.5%	- %	30.4%	17.1%	-0.6%	19.50	16.67	1.0	1.2	<b>SCB</b>
751,415	8.5%	- %	32.6%	18.8%	-3.9%	20.34	17.67	1.2	1.4	24.50
802,895	8.4%	- %	28.4%	24.4%	-0.5%	21.51	19.04	1.1	1.3	474
864,191	8.3%	- %	23.7%	32.2%	1.0%	22.83	20.56	1.1	1.2	3
766,630	3.4%	- %	35.7%	35.6%	-2.3%	10.95	8.14	2.2	2.9	<b>TFB</b>
811,195	3.2%	- %	31.2%	42.2%	-6.8%	11.02	8.35	2.4	3.1	26.00
866,771	3.3%	- %	26.5%	51.7%	-1.5%	12.07	9.60	2.2	2.7	1,395
932,943	3.4%	- %	21.9%	64.1%	0.0%	13.27	10.99	2.0	2.4	3
336,557	3.9%	- %	42.6%	9.7%	-6.5%	3.26	3.01	1.7	1.9	<b>TMB</b>
369,963	3.1%	- %	35.8%	10.7%	1.9%	2.87	2.64	2.1	2.3	6.00
392,433	2.8%	- %	33.3%	14.8%	-2.0%	2.72	2.50	2.2	2.4	275
419,319	2.4%	- %	30.2%	19.5%	1.0%	2.54	2.35	2.4	2.6	4
<b>TAIWAN</b>										
721,867	9.5%	9.2%	1.9%	65.6%	17.8%	17.29	17.29	1.1	1.1	<b>Chinatrust</b>
770,325	9.8%	10.1%	1.6%	40.9%	6.5%	16.31	16.31	1.5	1.5	24.80
875,027	9.6%	10.6%	2.7%	75.2%	13.9%	18.25	18.25	1.4	1.4	3,254
986,354	9.6%	10.4%	2.6%	75.1%	12.8%	20.52	20.52	1.2	1.2	1
428,406	23.3%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	<b>Fubon</b>
473,960	22.3%	n.a.	n.a.	n.a.	n.a.	18.82	18.82	0.9	0.9	17.80
501,211	22.4%	n.a.	n.a.	n.a.	n.a.	19.93	19.93	0.9	0.9	4,508
534,937	22.4%	n.a.	n.a.	n.a.	n.a.	21.24	21.24	0.8	0.8	2
235,057	9.4%	14.3%	0.8%	101.1%	15.4%	12.62	12.62	1.1	1.1	<b>SinoPac</b>
270,508	8.9%	13.4%	1.6%	54.1%	17.1%	12.43	12.43	1.1	1.1	NT\$m
290,438	9.2%	14.0%	1.6%	52.5%	5.0%	13.69	13.69	1.0	1.0	Price NT\$m
342,750	8.6%	12.9%	1.4%	45.5%	19.8%	15.08	15.08	0.9	0.9	Mkt Cap US\$m
										Rating
275,860	10.2%	9.8%	2.3%	49.3%	5.3%	15.23	14.62	0.9	0.9	<b>Taishin</b>
309,430	9.6%	11.2%	2.3%	64.8%	10.4%	16.67	16.67	0.9	0.9	15.00
349,971	9.2%	11.3%	2.3%	73.8%	12.2%	17.92	17.92	0.8	0.8	983
385,149	9.0%	11.5%	2.3%	78.2%	10.1%	19.39	19.39	0.8	0.8	3
661,237	9.6%	10.9%	3.4%	26.9%	14.2%	18.52	18.52	1.2	1.2	<b>UWCCB</b>
672,025	10.0%	13.2%	6.3%	18.8%	-2.7%	17.91	17.91	1.1	1.1	19.00
732,011	9.8%	13.1%	6.4%	15.5%	7.8%	19.11	19.11	1.0	1.0	2,041
812,280	9.5%	12.8%	6.3%	9.6%	9.6%	20.54	20.54	0.9	0.9	4
<b>REGION</b>										
<b>2000</b>	<b>Yield 2001</b>	<b>2002</b>	<b>2000</b>	<b>NPL 2001</b>	<b>2002</b>	<b>Price to book</b>		<b>Price to ABVPS</b>		
4.4%	5.4%	5.5%	3.4%	3.2%	3.2%	2000	2001	2000	2001	exc. HSBC
2.8%	2.0%	2.9%	5.7%	5.3%	4.4%	4.2	3.4	5.5	4.5	Hong Kong
2.9%	3.3%	3.7%	9.8%	7.9%	7.1%	1.4	1.4	1.7	2.8	Singapore
0.0%	0.6%	0.6%	2.3%	3.1%	3.6%	1.1	2.1	1.1	2.2	South Korea
1.6%	1.2%	1.6%	6.8%	8.6%	6.3%	1.1	1.1	1.1	1.1	Taiwan
0.0%	0.0%	0.0%	18.0%	17.3%	15.2%	1.7	2.0	2.1	2.9	Thailand
0.9%	0.0%	0.0%	31.4%	34.4%	30.6%	1.5	1.4	1.9	1.8	Malaysia
0.0%	3.1%	4.7%	18.8%	25.9%	23.9%	1.4	1.6	1.6	1.7	Philippines
2.5%	2.6%	3.0%	7.7%	7.6%	6.7%	0.4	1.0	0.6	1.5	Indonesia
						2.0	2.0	2.4	2.8	

Figure 11: Lehman Brothers Asian Bank Universe – Forecasts and Valuation (Continued)

			PP Profit	Net Profit	EPS	PER	ROA	ROE	Yield %	Net interest margin	Cost to income	EPS growth
<b>MALAYSIA</b>												
Rm	<b>CAHB</b>	2000	1,270	519	0.44	18.4	0.8%	10.2%	0.5%	3.3%	48.1%	2.9%
Price RM		2001	1,452	508	0.43	18.9	0.7%	9.0%	0.6%	3.2%	48.1%	-2.6%
Mkt Cap US\$m		2002	1,425	571	0.49	16.9	0.7%	9.2%	1.2%	3.2%	51.2%	-12.4%
Rating		2003	1,557	687	0.58	14.0	0.8%	10.1%	1.5%	3.2%	50.4%	20.4%
	<b>Maybank</b>	2000	3,468	1,360	0.58	12.5	1.1%	13.8%	1.8%	3.0%	31.5%	37.7%
		2001	3,198	840	0.36	20.3	0.6%	8.0%	1.2%	2.9%	39.8%	-38.4%
		2002	2,793	1,088	0.46	19.5	0.8%	9.3%	1.6%	2.7%	45.7%	29.3%
		2003	2,730	1,379	0.59	15.4	0.9%	10.7%	1.5%	2.5%	47.4%	26.8%
	<b>Pub Bank</b>	2000	1,367	717	0.30	9.8	1.7%	17.2%	2.1%	4.0%	37.2%	14.9%
		2001	1,540	761	0.23	10.5	1.6%	13.2%	1.7%	4.0%	37.8%	-22.4%
		2002	1,737	884	0.27	11.8	1.6%	13.4%	2.0%	3.9%	34.7%	16.1%
		2003	1,923	995	0.31	10.5	1.7%	13.5%	2.0%	3.9%	33.6%	12.6%
<b>THE PHILIPPINES</b>												
Pm	<b>BPI</b>	2000	6,690	3,052	1.99	29.2	0.8%	6.4%	1.5%	4.5%	67.4%	-47.8%
Price P		2001	8,786	4,940	3.21	17.9	1.2%	9.7%	0.0%	4.7%	62.8%	61.9%
Mkt Cap US\$m		2002	9,267	4,942	3.21	20.7	1.1%	8.9%	0.0%	4.5%	61.9%	0.0%
Rating		2003	10,722	5,931	3.86	17.2	1.2%	9.8%	0.0%	4.5%	58.7%	20.0%
	<b>Eq-PCI</b>	2000	3,577	638	0.88	67.2	0.2%	1.4%	2.0%	3.3%	74.2%	-49.0%
		2001	2,456	143	0.20	124.3	0.1%	0.5%	0.0%	2.9%	80.9%	-77.5%
		2002	2,259	142	0.20	158.8	0.1%	0.5%	0.0%	2.9%	82.1%	-1.0%
		2003	2,722	763	1.05	29.5	0.3%	2.7%	0.0%	3.0%	79.1%	437.6%
	<b>Metro</b>	2000	5,126	1,504	4.60	39.8	0.4%	3.3%	0.0%	2.8%	74.4%	-56.3%
		2001	6,351	3,337	10.21	20.1	0.7%	8.5%	0.0%	3.0%	71.4%	121.9%
		2002	7,041	3,258	9.97	21.2	0.7%	7.6%	0.0%	2.9%	69.2%	-2.4%
		2003	8,380	4,168	12.76	16.5	0.8%	8.9%	0.0%	2.9%	65.2%	27.9%
	<b>PNB</b>	2000	1,259	(5,974)	(16)	NM	-3.1%	-38.2%	0.0%	2.0%	85.7%	-76.5%
		2001	(902)	(4,336)	(11)	NM	-2.2%	-24.2%	0.0%	-0.2%	110.3%	-27.4%
		2002	(377)	(1,957)	(5)	-13.4	-0.9%	-13.1%	0.0%	0.1%	104.1%	-54.9%
		2003	(61)	(1,402)	(4)	-18.7	-0.6%	-10.5%	0.0%	0.2%	100.6%	-28.4%
<b>INDONESIA</b>												
Rpm	<b>BCA</b>	2000	1,660	1,802	612.30	1.4	1.9%	47.6%	0.0%	2.5%	49.8%	181.0%
Price Rp		2001	3,548	2,522	428.49	3.4	2.5%	42.5%	4.1%	4.7%	37.1%	-30.0%
Mkt Cap US\$m		2002	3,494	2,395	406.92	4.4	2.2%	30.4%	6.1%	4.4%	38.6%	-5.0%
Rating		2003	3,543	2,335	396.69	4.5	2.1%	23.4%	8.3%	4.3%	39.5%	-2.5%
	<b>LPBN</b>	2000	31	246	6.29	8.7	1.1%	29.4%	0.0%	4.0%	96.2%	-115.0%
		2001	350	235	6.00	5.0	1.0%	18.6%	0.0%	5.7%	72.2%	-4.7%
		2002	347	252	6.45	9.3	1.0%	16.7%	0.0%	5.2%	73.2%	7.5%
		2003	326	211	5.39	11.1	0.7%	11.7%	2.3%	4.8%	75.3%	-16.3%
	<b>PNBN</b>	2000	361	29	4.85	35.1	0.2%	1.3%	0.0%	3.8%	37.3%	-18.3%
		2001	753	130	21.85	8.5	0.8%	4.8%	0.0%	4.6%	27.4%	350.9%
		2002	727	395	66.33	4.1	2.3%	13.3%	0.0%	4.4%	29.0%	203.6%
		2003	709	382	64.13	4.3	2.0%	11.4%	0.0%	4.0%	30.5%	-3.3%
<b>COUNTRY AVERAGES</b>												
exc. HSBC	Total Mkt Cap US\$m		2000	2001	2002	2003	2000	2001	2002	2000	2001	2002
Hong Kong	27,240		18.3	14.6	15.6	14.6	2.1%	2.0%	2.0%	22.7%	22.2%	20.7%
Singapore	31,350		15.0	15.9	14.0	12.8	1.4%	1.2%	1.2%	10.4%	9.4%	9.5%
South Korea	25,150		9.2	7.7	6.6	6.8	1.1%	1.6%	1.7%	16.4%	29.6%	29.6%
Taiwan	11,564		12.2	17.3	12.1	10.1	1.1%	1.2%	1.2%	8.8%	8.2%	9.0%
Malaysia	13,633		13.1	18.2	17.5	14.2	1.1%	0.8%	0.9%	13.8%	9.2%	10.1%
Thailand	8,120		7.5	13.4	17.9	20.3	1.5%	-0.1%	0.2%	7.6%	2.4%	6.4%
The Philippines	4,276		37.4	31.1	30.9	14.0	0.1%	0.5%	0.6%	-0.5%	4.3%	5.0%
Indonesia	1,351		6.2	4.2	4.9	5.2	1.6%	2.1%	2.1%	40.1%	35.4%	26.8%
<b>REGION</b>	<b>122,683</b>		<b>14.2</b>	<b>14.5</b>	<b>13.8</b>	<b>12.3</b>	<b>1.4%</b>	<b>1.3%</b>	<b>1.4%</b>	<b>14.3%</b>	<b>15.9%</b>	<b>15.9%</b>

Source: Company reports, Bloomberg, Lehman Brothers

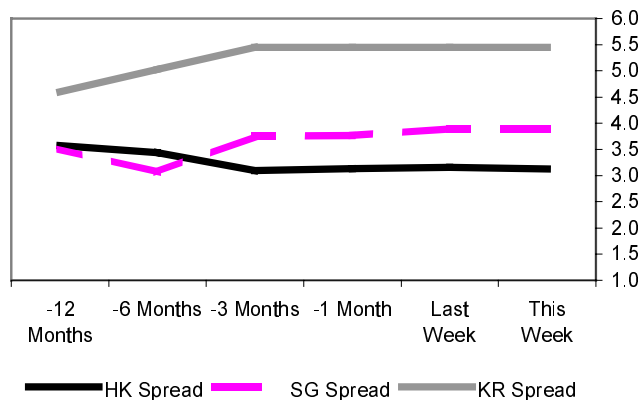
Total Assets	Equity to assets	Tier 1 capital	NPL	NPL cover	Loan growth	BVPS	ABVPS	Price to BVPS	Price to ABVPS					
<b>MALAYSIA</b>														
69,882	7.6%	10.0%	11.8%	29.3%	16.1%	4.49	2.17	1.8	3.8	<b>CAHB</b>	Rm			
76,805	7.6%	9.2%	9.1%	38.8%	10.2%	5.01	3.49	1.6	2.3		Price Rm			
82,012	7.8%	9.4%	7.1%	48.6%	7.0%	5.48	4.64	1.5	1.8	8.20	Mkt Cap US\$m			
87,684	8.1%	9.6%	5.0%	62.8%	7.1%	6.02	5.63	1.4	1.5	3	Rating			
127,072	8.2%	11.0%	5.5%	76.4%	4.1%	4.44	4.44	1.6	1.6	<b>Maybank</b>				
140,897	7.1%	9.2%	9.0%	55.0%	19.0%	4.27	2.78	2.1	3.3	9.05				
147,122	8.5%	10.7%	6.5%	69.0%	5.3%	5.31	5.25	1.7	1.7	8,437				
155,325	8.8%	11.1%	4.7%	81.7%	5.7%	5.83	5.83	1.6	1.6	2				
44,101	10.0%	21.8%	6.2%	52.8%	11.1%	1.86	1.65	1.6	1.8	<b>Pub Bank</b>				
51,769	11.9%	23.1%	7.1%	42.5%	24.5%	1.69	1.41	1.9	2.3	3.22				
56,198	12.3%	23.9%	4.7%	56.1%	8.0%	1.88	1.75	1.7	1.8	2,637				
60,949	12.7%	24.8%	3.2%	71.8%	8.2%	2.11	2.07	1.5	1.6	2				
<b>PHILIPPINES</b>														
393,429	12.5%	0.0%	19.1%	47.1%	6.9%	32	32	1.8	1.8	<b>BPI</b>	Pm			
425,998	12.4%	0.0%	22.0%	47.5%	-4.9%	34	34	1.9	1.9	66.50	Price P			
461,098	12.5%	0.0%	20.0%	54.7%	1.5%	38	38	1.8	1.8	1,984	Mkt Cap US\$m			
504,018	12.6%	0.0%	17.8%	63.3%	3.0%	41	41	1.6	1.6	2	Rating			
280,302	16.0%	0.0%	26.9%	28.3%	16.4%	62	36	1.0	1.6	<b>Eq-PCI</b>				
249,009	17.7%	0.0%	32.1%	33.2%	-15.1%	60	37	0.5	0.8	31.00				
252,706	17.4%	0.0%	28.8%	41.0%	1.5%	61	38	0.5	0.8	439				
276,228	16.2%	0.0%	24.8%	49.7%	3.0%	62	40	0.5	0.8	NR				
442,011	10.7%	0.0%	32.3%	22.1%	8.1%	145	115	1.3	1.6	<b>Metro</b>				
470,850	10.6%	0.0%	31.6%	24.7%	-0.8%	153	126	1.4	1.7	211.00				
509,644	10.4%	0.0%	27.7%	29.7%	1.5%	163	136	1.3	1.5	1,342				
557,084	10.3%	0.0%	23.6%	35.8%	3.0%	176	150	1.2	1.4	3				
192,430	10.6%	0.0%	80.6%	26.4%	-9.5%	54	53	0.7	0.7	<b>PNB</b>				
197,833	8.4%	0.0%	91.5%	27.7%	-2.2%	44	42	1.6	1.6	69.50				
214,133	6.8%	0.0%	81.2%	34.0%	1.5%	39	37	1.8	1.9	511				
234,065	5.6%	0.0%	69.7%	41.2%	3.0%	35	33	2.0	2.1	4				
<b>INDONESIA</b>														
96,188	7.3%	- %	7.5%	68.4%	94.7%	2,380.31	1,749.40	0.4	0.5	<b>BCA</b>	Rpm			
105,621	8.8%	- %	13.2%	67.9%	60.0%	1,575.91	1,141.94	1.1	1.6	1,800.00	Price Rp			
107,749	10.3%	- %	12.6%	75.3%	8.2%	1,881.10	1,535.41	1.0	1.2	1,040	Mkt Cap US\$m			
109,920	11.5%	- %	12.0%	81.7%	8.2%	2,138.95	1,851.17	0.8	1.0	1	Rating			
22,627	11.2%	- %	67.3%	26.5%	-3.0%	64.69	29.63	0.9	1.9	<b>LPBN</b>				
25,195	11.0%	- %	101.5%	19.7%	1.3%	70.90	34.72	0.8	1.7	60.00				
27,217	11.1%	- %	93.1%	21.1%	5.4%	77.35	42.69	0.8	1.4	151				
29,916	10.8%	- %	71.9%	25.2%	9.8%	82.74	49.49	0.7	1.2	2				
16,588	16.1%	- %	46.9%	26.9%	14.8%	447.79	444.83	0.4	0.4	<b>PNBN</b>				
16,525	16.8%	- %	37.6%	50.5%	16.1%	466.35	463.82	0.6	0.6	275.00				
17,939	17.7%	- %	32.7%	62.0%	5.1%	532.68	530.32	0.5	0.5	160				
19,360	18.4%	- %	25.5%	81.3%	7.7%	596.80	594.61	0.5	0.5	4				
<b>REGION</b>														
<b>2000</b>	<b>Yield</b>	<b>2001</b>	<b>2002</b>	<b>2000</b>	<b>NPL</b>	<b>2001</b>	<b>2002</b>	<b>Price to book</b>	<b>2000</b>	<b>2001</b>	<b>Price to ABVPS</b>	<b>2000</b>	<b>2001</b>	
4.4%	5.4%	5.5%	3.4%	3.2%	3.2%	4.2	3.4	5.5	4.5					exc. HSBC
2.8%	2.0%	2.9%	5.7%	5.3%	4.4%	1.4	1.4	1.7	2.8					Hong Kong
2.9%	3.3%	3.7%	9.8%	7.9%	7.1%	1.1	2.1	1.1	2.2					Singapore
0.0%	0.6%	0.6%	2.3%	3.1%	3.6%	1.1	1.1	1.1	1.1					South Korea
1.6%	1.2%	1.6%	6.8%	8.6%	6.3%	1.7	2.0	2.1	2.9					Taiwan
0.0%	0.0%	0.0%	18.0%	17.3%	15.2%	1.5	1.4	1.9	1.8					Thailand
0.9%	0.0%	0.0%	31.4%	34.4%	30.6%	1.4	1.6	1.6	1.7					Malaysia
0.0%	3.1%	4.7%	18.8%	25.9%	23.9%	0.4	1.0	0.6	1.5					Philippines
<b>2.5%</b>	<b>2.6%</b>	<b>3.0%</b>	<b>7.7%</b>	<b>7.6%</b>	<b>6.7%</b>	<b>2.0</b>	<b>2.0</b>	<b>2.4</b>	<b>2.8</b>					Indonesia

Figure 12: Key Interest Rates

	This Week	Last Week	-1 Month	-3 Months	-6 Months	-12 Months
<b>Hong Kong</b>						
3 Mo HIBOR	1.9955	1.9665	1.9911	2.1540	3.3125	4.9219
Prime	5.1250	5.1250	5.1250	5.2500	6.7500	8.5000
Savings	0.1250	0.1250	0.1250	0.2500	1.5000	3.7500
<b>Singapore</b>						
Interbank O/N	0.5625	0.5625	0.6250	0.4375	2.0000	1.8750
3 Mo SIBOR	0.9375	0.9375	1.0625	1.1250	2.3125	1.8750
Prime	4.8300	4.8300	4.8300	4.8800	5.3800	5.3800
3 Mo Deposits	0.8750	0.8750	0.8750	0.8750	1.2500	1.2500
<b>Korea</b>						
Interbank O/N	4.1000	4.1000	4.1000	4.1000	4.7250	5.1500
Prime	9.5500	9.5500	9.5500	9.5500	9.7500	9.7500
3 Mo Deposits	4.4900	4.5300	4.7000	4.6900	4.8200	5.6700
<b>Thailand</b>						
Interbank O/N	2.0000	2.0000	2.0000	2.5000	2.5000	2.0000
MLR	7.0625	7.1250	7.1250	7.3125	7.3125	7.3125
<b>Malaysia</b>						
3 Mo KLIBOR	3.2800	3.2800	3.2800	3.3000	3.2800	3.2300
Prime	6.4000	6.4000	6.4000	6.4000	6.7900	6.7700
3 Mo Deposits	3.2000	3.2000	3.2000	3.2000	3.4500	3.5000
<b>Taiwan</b>						
Interbank O/N	2.2480	2.2830	2.3310	2.4200	3.3470	4.5480
Prime	6.7250	6.7250	6.7250	6.7900	6.9900	7.1000
<b>Philippines</b>						
3 Mo PHIBOR	8.0000	7.7500	8.2500	11.3750	10.9375	12.7500
Prime	10.3900	10.7759	11.2266	12.9449	12.9746	9.9107
Savings	7.0625	7.3286	7.8125	9.1518	9.0179	9.9107
<b>Indonesia</b>						
3 Mo JIBOR	17.5938	17.5938	17.6094	17.9066	17.6406	15.0469
Prime	39.0000	39.0000	39.0000	39.0000	39.0000	39.0000
3 Mo Deposits	15.0000	15.0000	15.0000	13.5000	13.5000	12.5000
3 Mo SBI	17.0100	17.0100	17.4280	17.6150	17.0330	14.8410
<b>US</b>						
3 Mo LIBOR	1.9013	1.9100	1.8700	2.1563	3.5175	5.0825
Fed Funds	1.7500	1.6875	1.8125	1.7500	3.5000	5.4375
Prime	4.7500	4.7500	4.7500	5.0000	6.5000	8.5000
UST 30 Year	5.3440	5.3660	5.4670	5.3600	5.4490	5.3670

Source: Lehman Brothers, Bloomberg

Figure 13: Major Market Spreads



Source: Lehman Brothers

## Company Focus: Singapore

### DBS Bank: 2H01 Earnings Review: No Lai See

- DBS earnings continue to be lackluster. We maintain our 3-Market Perform rating and S\$12.50 price target.
- DBS Group reported 2H01 and FY2001 earnings after the close last night, posting a 2H net profit of S\$370 million and full-year earnings of S\$999 million.
- While margins were a bright spot, expanding on falling interest rates and savvy asset/liability management, overall results were poor with an ROE of only 7%.
- Asset quality has continued to deteriorate since the 3Q01 earnings release, requiring additional provisions.
- Loan growth was slack in both Singapore and Hong Kong, with customer loans down 2% in the half and up less than 1% (pro-forma) on the year.

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#### Summary and Comments:

Singapore's DBS Bank Group reported its 2H01 results after the close last night, posting a poor showing, as expected, and undershooting our estimates. While some areas, such as resilient margins, were a positive surprise, the overall tone of the results was negative insofar as prospects for future growth remain weak.

We are maintaining our 3-Market Perform rating and S\$12.50 price target on DBS, and will adjust our earnings estimates for the bank and its peers after the end of Singapore's reporting period next week.

#### Earnings Review:

DBS reported a consolidated 2H01 profit of S\$370 million, representing only a 0.48% ROA and 4.8% return on economic equity. There are several schools of thought on the proper way to present and compare these results, given the significant inclusion of non-cash charges stemming from the goodwill incurred in the DHB acquisition, as well as DBS' odd prior reporting: 1H01 financial statements consolidated the balance sheet of DHB but not its income statement, making ratio analysis difficult.

While still relying on reported figures for our analysis, we believe that pro-forma figures for 1H01 and earlier offer the best basis for understanding the operations of DBS and its subsidiaries, and we will also present these throughout.

As for the goodwill issue, we are in agreement with management that this non-cash item does not represent the operational dimension of the bank, and are thus placing more emphasis on our measure of core earnings going forward, which does not include the

goodwill adjustment. Core earnings also deduct extraordinaries and tax-adjusted securities gains, but not dealing or trading revenues a key line item for DBS.

Figure 14: Key Earnings Components—Reported

<b>S\$, MM as Reported</b>	<b>2000</b>	<b>1H01</b>	<b>2H01</b>	<b>2001</b>	<b>2002E</b>
Net Interest Income	2,039.4	961.5	1,295.0	2,256.5	2,626.3
Non-Interest Income	932.0	574.4	763.6	1,338.0	1,522.0
Non-Interest Expense	1,246.0	748.9	993.0	1,741.9	1,924.5
Provisions	54.3	46.5	333.0	379.5	50.0
Core Earnings	1,347.8	508.3	411.7	920.0	1,634.2
Net Income	1,389.1	629.5	370.2	999.7	1,303.3

Source: Company reports; Lehman Brothers estimates.

On a consecutive half basis, reported earnings in 2H01 were down by 41%, mainly due to higher provisions and goodwill charges (-19% on a core basis). While reported pre-provision earnings and net interest income were seemingly robust, both up 35% from the prior period, this is due entirely to the consolidation of DHB in 2H01 reporting for the first time.

FY2001 net income fell by 28% from last year's S\$1.39 billion profit. Bear in mind that earnings per share were down 39% YoY, due to the additional dilution caused by November's capital-raising.

Figure 15: Key Earnings Components—Pro-Forma

<b>S\$, MM Pro-Forma</b>	<b>2000</b>	<b>1H01</b>	<b>2H01</b>	<b>2001</b>	<b>2002E</b>
Net Interest Income	2,763.0	1,204.0	1,295.0	2,499.0	2,626.3
Non-Interest Income	1,162.0	731.8	763.6	1,495.4	1,522.0
Non-Interest Expense	1,626.4	971.5	993.0	1,964.5	1,924.5
Provisions	133.1	127.2	333.0	460.2	50.0
Core Earnings	1,745.7	610.0	411.7	1,021.7	1,634.2
Net Income	1,822.2	718.0	370.2	1,088.2	1,303.3

Source: Company reports; Lehman Brothers estimates.

On a pro-forma basis 2H earnings declined by 48% half-on-half and by 62% year-on-year somewhat more bleak when the DHB figures are included for prior periods. Net interest income fell 9% YoY (+8% HoH) and pre-provision profit was off by 10% (+11% HoH).



Figure 16: Key Earnings Ratios—Reported

As Reported	1999	2000	1H01	2H01	2001	2002E
Net Interest Margin	2.35%	2.09%	1.57%	1.86%	1.92%	1.92%
ROA	1.04%	1.28%	0.94%	0.48%	0.76%	1.12%
Core ROA	0.95%	1.24%	0.76%	0.54%	0.70%	1.41%
ROE	9.54%	11.59%	9.56%	4.75%	7.10%	8.68%
Core ROE	8.70%	11.25%	7.72%	5.28%	6.53%	10.88%
Efficiency	33.96%	41.93%	48.76%	48.24%	48.46%	46.39%
Overhead	1.23%	1.28%	1.22%	1.42%	1.48%	1.41%
NPLs / Assets	7.65%	3.97%	3.09%	2.98%	2.98%	2.82%
NPL Coverage	49.93%	51.82%	50.90%	54.10%	54.10%	68.52%

Source: Company reports; Lehman Brothers estimates.

Figure 17: Key Earnings Ratios—Pro-Forma

Pro-Forma	1999	2000	1H01	2H01	2001	2002E
Net Interest Margin	2.40%	2.21%	1.77%	1.86%	1.92%	1.92%
ROA	1.05%	1.28%	0.95%	0.48%	0.76%	1.12%
Core ROA	0.95%	1.23%	0.81%	0.54%	0.70%	1.41%
ROE	9.95%	12.20%	9.76%	4.75%	7.10%	8.68%
Core ROE	9.05%	11.69%	8.29%	5.28%	6.53%	10.88%
Efficiency	35.46%	41.44%	50.19%	48.24%	48.46%	46.39%
Overhead	1.26%	1.30%	1.43%	1.42%	1.48%	1.41%
NPLs / Assets	6.36%	3.42%	3.09%	2.98%	2.98%	2.82%
NPL Coverage	50.04%	52.92%	50.90%	54.10%	54.10%	68.52%

Source: Company reports; Lehman Brothers estimates.

### Rates and Margins:

A strong point for DBS was its increased net interest margin during the period: based on our pro-forma model, consolidated NIM rose by 9bp to 1.86%, although it remains 40bp below the year-earlier figure. On a full-year basis NIM of 1.91% was 30bp below that of FY2000.

Management attributes the increased spreads to three main factors:

- The falling rate environment coupled with DBS' naturally liability-sensitive balance sheet a rarity among Asian banks.
- An active program to roll-off high-cost deposits at both DBS Bank and Dao Heng, shrinking the low-spread portion of the balance sheet.
- Better asset/liability management and a decision to lock-in some fixed-yield assets.

It is impressive that DBS was able to lower its cost of funds (by 72bp in the half and 104bp during the year, to 2.47%) even while increasing the bank's dependence on higher-cost funding sources such as subordinated debt. We do not expect to see this trend replicated at the other Singaporean banks.

### Provisions and Asset Quality:

Asset quality, as signalled by management in the 3Q results, is a problem area - and one we do expect to see this carried over into peer results. Gross NPLs of S\$4.5 billion declined by 7% from mid-year, but only at a cost of S\$333 million in second half provisions and an additional S\$19 million drop in the reserve. Although the gross amount of criticized loans fell, their severity increased, so that our required reserve estimate remained almost unchanged.

Additionally, management disclosed that as part of the acquisition of DHB, certain loans were re-valued based on the more stringent criteria applied by DBS in Singapore, and the incremental write-down of S\$112 million was taken through an increase in goodwill. This charge could well be considered a provision, which did not run through the P&L account, but which would raise credit costs in 2H to \$464 million, or an annualized rate of 130bp on customer loans.

### Reserve Adequacy:

DBS has maintained its reserves almost exactly in line with our required reserve model in 1H01 and 2H01, and we consider the bank fully-reserved. However, the bank has swung from a S\$356 million reserve surplus at YE2000 to a S\$10 million deficit today - a material change.

Figure 18: : Reserve Adequacy

2H01 S\$, MM	Gross Amount	Reserve Percentage	Required Reserve
Pass	66,808	1%	668
Special Mention		5%	-
Substandard	3,085	20%	617
Doubtful	521	50%	261
Loss	906	100%	906
ORE		20%	-
Excess AIR	-	20%	-
<b>Total</b>	<b>71,320</b>		<b>2,452</b>
Actual Reserves			2,441
Shortfall			11
Actual/Required			100%
Shortfall/Capital			0%

Source: Company reports; Lehman Brothers estimates.

### Expenses:

Non-interest expense at DBS rose by 33% HoH and 52% YoY on a reported basis • note that this is the only area in which management is disinclined to make an apples-to-oranges comparison, instead noting that DBS ex-DHB expenses rose by less than their commitment of 17%. On our pro-forma numbers we see 2H01 expenses up 17% YoY

and 2% HoH, with full year expenses rising by 21%. Given a revenue increase of only 2% this is not stellar.

Note that management cites (and excludes from its analysis) restructuring charges of \$40.4 million for the full year.

#### Other Special Items:

Included in 2H01 securities gains are profits from the sale of Insurance Corporation of Singapore in the amount of S\$120.1 million and DBS' stake in Keppel Capital Holdings in the amount of S\$60.6 million.

#### Valuation:

DBS is currently trading at 1.3x its BVPS of S\$11.48, based on a gross book value which includes both goodwill of S\$5.1 billion and off-balance-sheet re-valuations of S\$893 million. Given an ROE of 7.1% for FY2001 and prospective ROEs which do not exceed 10% (even after excluding goodwill), we think this is a generous valuation. On an earnings basis, DBS is trading at 19.6x pro-forma 2001 EPS and at 16.3x our FY2002 net EEPS (13.0x cash EEPS). However, based on these results the bias for near-term adjustment of forward estimates will clearly be down, so that this multiple is likely to rise.

As stated in our previous notes, our S\$12.50 price target for DBS is more dependent on a sum-of-parts analysis, as we believe that this methodology yields the highest value. We maintain our 3-Market Perform rating on the shares of DBS.

#### Company description

DBS Bank is the largest bank headquartered in Singapore, with major banking units including DBS Bank Singapore, Hong Kong's Dao Heng Bank, and Thai Danu Bank.

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## Company Focus: South Korea

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### Shinhan Financial Group: FY2001 Results: Reporting Morass

- SFG reported consolidated net income inflated by goodwill—on a core basis, income of W352 billion (EPS W1,205) was 12% below consensus. Based on our review we maintain our 3-Mkt perform rating but update our price target to W16,000 on expected FY2002 ROE of 19%.
- Consolidated results were inflated by W127 billion of negative goodwill. Core earnings of W352 billion represent a dismal ROE of just 11%.
- Margins widened despite aggressive expansion of the mortgage book due to better management of funding costs.
- Provisions were as expected, leaving the bank adequately reserved on what is already one of the cleanest books in Korea.
- Based largely on valuation, we are maintaining our 3-Market Perform rating while updating our 12-month forward price target to W16,000 to reflect expected FY2002 ROE of 19%.

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### Summary and Ratings Action:

Shinhan Financial Group reported consolidated FY2001 net income of KRW498 billion or KRW1,706 per share; approx. 24% above consensus. However, on a core basis, stripping out extraordinary gains from negative goodwill of KRW128 billion (17% of FY2001 net income), and securities gains, the bank earned KRW352 billion or KRW1,205 per share—approx. 12% below consensus. Based on these results and our projected FY2002E ROE of 19% we are updating our price target to KRW16,000 but maintaining our rating of 3-Market Perform on the stock.

*Note: investors should be wary of the confusing array of consolidated numbers presented as part of these results. Importantly, note that the consolidated statements of income footnoted "Period from September 1, 2001 (date of inception) to December 31, 2001" are actually consolidated net income for the second half FY2001 (from July 1, 2001).*

Figure 19: Key Consolidated Earnings Components

<i>KRW billion</i>	FY2000A	FY2001A	FY2002E	FY2003E	FY2004E
<b>Net interest income</b>	9,138	10,993	12,472	11,622	11,402
<b>Pre-provision profit</b>	10,274	11,269	11,998	11,944	12,029
<b>Provisions</b>	5,027	5,644	3,163	2,232	2,354
<b>Net Income</b>	3,378	4,986	6,218	6,825	6,800
<b>EPS (KRW)</b>	1,293	1,706	2,127	2,245	2,236

Source: Company reports; Lehman Brothers estimates

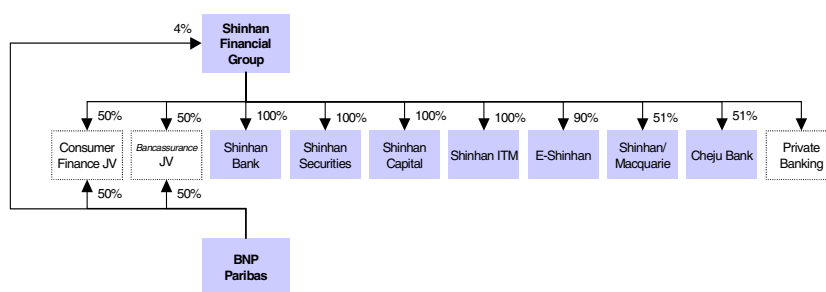
Figure 20: Key Earnings Ratios

<i>KRW billion</i>	FY2000A	FY2001A	FY2002E	FY2003E	FY2004E
<b>Core ROAA</b>	0.62%	0.66%	1.06%	1.09%	1.03%
<b>Core ROAE</b>	9.55%	11.42%	18.68%	17.66%	15.36%
<b>Overhead</b>	1.89%	1.81%	2.64%	2.44%	2.37%
<b>Efficiency</b>	44.32%	44.23%	54.43%	54.19%	54.46%

Source: Company reports; Lehman Brothers estimates

Margins widened as the bank managed funding costs down: Net interest margins widened throughout FY2001 finishing up from FY2000 on an annual basis at 2.23%. The NIM also reflects a positive contribution from affiliates other than the bank—a reversal from FY2000 when the affiliates dragged down NIM. We are expecting NIM to continue to widen throughout FY2002.

Figure 21: Shinhan Financial Group structure



Source: Company Reports

Figure 22: Net interest margins

	FY2000	1Q'01	2Q'01	3Q'01	4Q'01	FY2001	FY2002
<b>Consolidated</b>							
Yield	8.48%	7.96%	7.71%	7.60%	7.04%	7.50%	7.00%
Cost of funds	6.75%	6.31%	6.05%	5.53%	4.93%	5.65%	5.11%
NIM	2.12%	2.07%	2.09%	2.31%	2.34%	2.23%	2.30%
<b>Bank</b>							
Yield	8.36%	7.77%	7.51%	7.32%	6.81%	7.37%	6.91%
Cost of funds	6.53%	6.00%	5.74%	5.38%	4.95%	5.55%	5.09%
NIM	2.20%	2.13%	2.15%	2.30%	2.23%	2.22%	2.29%

Source: : Company reports; Lehman Brothers estimates

On a Bank Only basis, the results were unspectacular—hence in-line with our expectations: FY2001 net income of KRW347.1 billion was down 7% year on year but bang-on our estimate of KRW345 billion. On a core basis, the bank earned KRW301.3 billion, beating our estimates by 5% due to better than expected margins.

Bank margins dropped from their third-quarter high of 2.30% to 2.23% (yield fall of 51 basis points outpaced fall in funding costs of just 43 basis points), but NIM ended the year up from the fourth quarter FY2000 level of 2.08%. On an annual basis, NIM was stable for FY2001 at 2.22% versus FY2000 of 2.20%.

We expected a greater fall in NIM as the bank is pricing aggressively, in an effort to grow their loan book, particularly mortgages—management indicate the bank is pricing 20 basis points below their competitors—and funding costs were expected to remain stable due to competitive pressures. Shinhan however has aggressively managed its liabilities in one of the best market environments for Korean debt in recent times. While interest-earning assets grew by close to 10% on an annualized basis in the fourth quarter, interest-bearing liabilities remained flat quarter on quarter.

**Asset quality improved markedly in the fourth quarter as a result of write-downs:** Reported NPLs continued their descent, reaching 5.4%—a sharp drop from third-quarter NPLs of 8.4%, primarily due to write-offs of Hynix exposure and other bad debts. Shinhan management has been vocal and aggressive in dealing with bad debts, particularly the Hynix issue—refusing to extend fresh funds to what was clearly a lost cause. Write-downs of Hynix exposure alone account for a reduction in NPLs of KRW241 billion and KRW178 billion in reserves.

Figure 23: Reported NPLs

	<b>Gross Amount</b>	<b>Reserve Percentage</b>	<b>Required Reserve</b>
Pass	34,768,876	1%	347,689
Special Mention	1,071,600	5%	53,580
Substandard	667,000	20%	133,400
Doubtful	106,600	50%	53,300
Loss	94,500	100%	94,500
ORE	-	20%	-
Excess AIR	222,236	20%	44,447
<b>Total</b>	<b>36,930,812</b>		<b>726,916</b>
Actual Reserves			642,744
Shortfall			84,172
Actual/Required			88%
Shortfall/Capital			3%

Source: Company reports; Lehman Brothers estimates

Figure 24: Estimated LB NPLs

	<b>Gross Amount</b>	<b>Reserve Percentage</b>	<b>Required Reserve</b>
Pass	33,030,432	1%	330,304
Special Mention	1,899,184	5%	94,959
Substandard	1,311,060	20%	262,212
Doubtful	336,090	50%	168,045
Loss	131,810	100%	131,810
ORE	-	20%	-
Excess AIR	222,236	20%	44,447
<b>Total</b>	<b>36,930,812</b>		<b>1,031,778</b>
Actual Reserves			642,744
Shortfall			389,034
Actual/Required			62%
Shortfall/Capital			13%

Source: Company reports; Lehman Brothers estimates

Write-offs reduced reserves by a total of KRW239 billion in the fourth quarter despite provisions of KRW131 billion taken during the quarter. Provisions for the year were KRW565 billion, 12% higher than in FY2000. At this level of provisioning we consider the bank essentially fully reserved—on a reported NPL basis actual-to-required reserves are at 88% and the subsequent shortfall to capital remains insignificant at 3% of equity.

As with all Korean banks, we adjust Shinhan's criticized assets to approximately 80% above reported figures, leaving the bank with additional provisions of KRW389 billion to make before reaching our conservative target. However, based on management's attitude to dealing with Hynix exposure and other non-performing debt issues, we will look to bring our estimates of bad assets down closer to those published by the bank, which will reduce this reserve shortfall.

**Loan book expansion through aggressive targeting of the mortgage market:** The bank has been aggressively growing its retail credit exposure while reducing corporate exposure. Mortgages tripled over the year to KRW6,940 billion or 28% of the loan portfolio, adding KRW4,814 billion in assets yielding around 6.10%. Note that these are not mortgages in the traditional long-term sense but rather home equity loans with terms of approximately three years. The majority of these loans involve re-financing of unsecured personal loans provided by non-bank finance companies.

Figure 25: Loan book breakdown

	Amount (KRW billion)			Percentage of loan book (%)			Growth (% p.a.)	
	FY1999A	FY2000A	FY2001A	FY1999A	FY2000A	FY2001A	FY2000A	FY2001A
<b>Consumer</b>	2,623.8	3,574.6	3,832.7	17%	18%	16%	36%	7%
<b>Mortgage</b>	1,041.7	2,126.1	6,940.2	7%	11%	28%	104%	226%
<b>SME</b>	8,526.4	9,974.1	10,618.9	55%	50%	43%	17%	6%
<b>Large Corp.</b>	2,872.3	3,461.8	2,937.5	19%	17%	12%	21%	-15%
<b>Public &amp; other</b>	312.3	744.9	93.0	2%	4%	0%	139%	-88%
<b>Total</b>	15,376.5	19,881.5	24,422.3	100%	100%	100%	29%	23%

Source: Company Reports

The bank is projecting FY2002 growth in mortgage loans to exceed 40% or KRW2,900 billion—an aggressive run-rate and one which is intended to be achieved primarily through pricing discounts.

We are less optimistic than management on loan growth. We project growth in earning assets of 9% for FY2002, slightly less than the 12% achieved in FY2001, and growth in mortgages of around 12%. While this growth rate is probably on the low end, we feel that Shinhan's growth in this market will converge towards our industry wide expected growth rate of 12%, as competition intensifies.

Note that Shinhan's FY2001 growth rate of consumer loans (including mortgages) of 89% was off a minuscule base of KRW5,701 billion—around 12% of Kookmin's FY2000 level of retail credit. While the disparity in growth rates between Shinhan and Kookmin represents an increase in market share for Shinhan, it will become increasingly difficult for Shinhan to outpace industry growth as competitors begin to take notice.

We also prefer not to see competition on the basis of price alone—this can only hurt margins unless funding costs are also brought down—a task which will become more arduous at the end of a rate-cutting cycle and as competition intensifies in the Korean market (see our Kookmin Bank note published February 8).

**FY2002 outlook and valuation:** Even without optimistic growth rates for loans, we are projecting FY2002 net income of KRW620 billion, primarily due to lower provisioning, leading to an expected ROE for FY2002 of 19%.



Figure 26: LB projected earnings

<i>KRW billion</i>	1Q'01A	2Q'01A	3Q'01A	4Q'01A	1Q'02E	2Q'02E	3Q'02E	4Q'02E	FY2001A	FY2002E
Net interest income	2,437	2,555	2,851	2,945	3,173	3,187	3,071	2,841	10,993	12,271
<i>NIM</i>	2.07%	2.09%	2.31%	2.34%	2.40%	2.36%	2.27%	2.06%	2.23%	2.28%
Pre-provision income	2,344	3,828	3,785	1,458	3,012	3,386	3,016	2,291	11,269	11,705
Provisions	1,046	1,378	2,384	1,319	1,294	426	508	667	5,644	2,895
Net income	863	1,564	1,397	810	1,215	2,074	1,761	1,150	4,986	6,201
Core ROA	0.68%	1.05%	1.12%	-0.21%	0.85%	1.42%	1.20%	0.77%	0.66%	1.06%
Core ROE	11.05%	16.21%	18.55%	-3.77%	15.51%	25.19%	20.24%	12.87%	11.42%	18.63%

Source: Company reports; Lehman Brothers estimates

The bank currently trades at around 1.7x trailing (FY2001) book value (1.5x prospective FY2002E book value)—rich valuations given our expected forward ROE of 19%. On a 19% ROE and cost of capital of 15%, the bank deserves to trade at around 1.3x book, on our estimates. Based on expected forward BVPS of KRW12,250, we are adjusting upwards our 12-month forward price target to KRW16,000—around 10% less than where the bank currently trades, at KRW17,850. We are maintaining our 3-Market Perform rating on the stock.

#### Company description

Shinhan Bank was established in 1982 as a private sector bank focusing on the SME segment. It has over 300 branches nation wide and eight overseas offices. The bank reorganized its structure in 2001, launching Shinhan Financial Group under which was placed the bank, Shinhan Securities, Shinhan Capital, Cheju Bank, as well as joint ventures with various foreign banks. BNP Paribas holds a strategic stake of 4% in the group.

#### Related stocks

Company Name	Reuters Ticker	Price (19/02/02)	Rating
Kookmin Bank	60000.KS	(W 58,000)	1 - Strong Buy

#### Other Team Members

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February 19, 2002

## Company Focus: Thailand

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### Thai Farmers Bank: 4Q01 Earnings Review: Positive Thinking

- The recent run-up is not justified by fundamentals. We maintain our THB22 price target and 3-Market Perform Rating.
- TFB released detailed 4Q01 and FY2001 financial statements, showing a net profit of THB715 million in 4Q and THB1.01 billion for the year.
- We believe TFB has the strongest management of the Thai banks, and is taking appropriate steps to rehabilitate the institution; however, TFB remains significantly distressed with 29% of its loan book non-performing.
- Current valuation of 2.5x stated book is inappropriate given reserve underfunding of 1.5x equity and trailing ROE of just 5%.
- We have upgraded our earnings estimates for FY2002-2004.

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#### Summary:

Thai Farmers Bank has released its detailed financial statements for FY2001 and for 4Q01. While the bank has made significant progress, most notably reducing its NPLs through sales to the TAMC and internal workouts, TFB remains financially troubled, with over 29% of its gross loans classified as other than performing.

Even ignoring the reserve shortfall this has engendered, which by our calculation exceeds shareholders' equity by some 50%, TFB is expensive on a price to stated book value of 2.51x. With trailing and projected ROEs of 5.03% and 16.54%, this is too rich for our tastes, especially as we have yet to see any positive growth and do not project ROAA topping 0.5% through FY2004.

The lingering effects of legacy bad lending aside, TFB does have, in our opinion, the strongest management team among the Thai banks, and we believe that management is doing all the right things - but is hindered by the bank's limited financial flexibility. Notable since our last update is the bank's partnership with BNP unit Cetelem in consumer finance, as well as continuing efforts to improve credit scoring and centralize back office operations.

In summary, we feel recent share price gains have left the stock overextended, and maintain our price target of THB22.00 and 3-Market Perform rating.

## Earnings Review:

TFB earned THB716 million in 4Q01 on sharply reduced provisions, the healthiest net income performance we have seen since 2Q00, bringing total income for the year to THB1.01 billion. Although FY earnings were off by 20% from FY2000, this is largely an effect of larger provisions, with pre-provision earnings up by 155%.

ROE remained below our estimated 11.5% cost of capital, at only 5.03% for the year. Even this return owes much to the bank's high leverage, as seen by the scant ROA of 0.13% over the same period.

Pre-provision profits are naturally much more robust, but have shown a decreasing trend over the past four quarters even as costs have been reduced. We attribute the majority of this gain to realized and MTM losses on the bank's securities portfolio, which have swung from a THB1.16 billion gain in 1Q to a THB706 million loss in 4Q. With much of this item subject to management's discretion in booking assets as held to maturity or available for sale, and in timing actual realized gains and losses, the unfavorable variance in truth gives us some comfort that at least management is confident enough about the near-term stability of the bank to avoid some of the obvious window-dressing of the peak crisis years.

Figure 27: Key Earnings Components: 4Q00–4Q01

THB, MM	4Q00	1Q01	2Q01	3Q01	4Q01
Net Interest Income	4,373	4,265	4,450	4,623	4,238
Pre-Provision Profit	30	2,423	1,559	1,863	1,428
Provisions	478	2,295	1,354	1,519	363
Net Income	24	59	111	124	716
EPS (Bt)	0.01	0.02	0.05	0.05	0.30

Source: Company reports; Lehman Brothers estimates

Figure 28: Key Earnings Ratios: 4Q00–4Q01

	4Q00	1Q01	2Q01	3Q01	4Q01
NIM	2.47%	2.37%	2.44%	2.53%	2.35%
Asset Yield	5.84%	5.52%	5.33%	5.45%	5.19%
Cost of Funds	3.35%	3.16%	2.91%	2.86%	2.80%
Core ROAA	-0.15%	-0.12%	-0.01%	0.10%	0.61%
Core ROAE	-6.21%	-4.67%	-0.61%	4.19%	24.04%
Overhead	3.23%	2.93%	2.80%	2.39%	2.24%
Efficiency	99.47%	68.48%	76.61%	70.03%	73.87%

Source: Company reports; Lehman Brothers estimates.

Based on the execution of the TAMC transfer and its positive effect on required reserves, as well as the recent rate cuts and TFB's control of expenses, we have upgraded our earnings estimates, as shown above, for FY2002–2004.

#### Rates and Margins:

Net interest margin has slipped slightly throughout the year, mainly as declining rates have produced a contraction in the bank's spread due to its asset-sensitive balance sheet. We believe that this trend will reverse given that TFB is widely expected to cut its deposit rates within the next week or so, following SCB and BBL. In addition, reduced foregone interest income should improve asset yields.

A note of caution on margins is that payment for loans transferred to the TAMC (see below) will be made via ten-year FIDF notes with a coupon equal to the average savings deposit rate - zero spread assets even before considering the FIDF fund contributions assessed on total assets.

Figure 29: Interest Margin Analysis: 4Q00–4Q01

	4Q00	1Q01	2Q01	3Q01	4Q01
Change in Asset Yield	0.05%	-0.32%	-0.19%	0.12%	-0.26%
Change in Cost of Funds	-0.27%	-0.20%	-0.25%	-0.04%	-0.07%
Change in NIM	0.30%	-0.10%	0.07%	0.10%	-0.18%
Loan Growth (QoQ)	1.5%	-1.4%	-4.5%	-1.1%	-1.4%
Deposit Growth (QoQ)	1.4%	1.1%	1.0%	0.0%	0.5%

Source: Company reports; Lehman Brothers estimates

Figure 30: Thai Bank Loan and Deposit Rates: 1/01–Present

1/4/01	Time Deposits					MLR	Spread	2/15/02	Time Deposits					MLR	Spread
	Savings	3	12	24					Savings	3	12	24			
<b>Domestic Banks:</b>							<b>Domestic Banks:</b>								
TFB	2.50%	3.00%	3.50%	4.00%	7.75%	5.25%	TFB	1.75%	2.25%	2.75%	3.25%	7.00%	5.25%		
BBL	2.50%	3.00%	3.50%	4.00%	7.75%	5.25%	BBL	1.75%	2.25%	2.75%	3.25%	7.00%	5.25%		
SCB	2.50%	3.00%	3.50%	4.00%	8.00%	5.50%	SCB	1.75%	2.00%	2.50%	3.00%	7.00%	5.25%		
BAY	2.50%	3.00%	3.50%	4.25%	8.25%	5.75%	BAY	1.75%	2.25%	2.75%	3.25%	7.50%	5.75%		
TMB	2.50%	3.00%	3.50%	3.75%	8.50%	6.00%	TMB	1.75%	2.25%	2.75%	3.25%	7.50%	5.75%		
<b>State Banks:</b>							<b>State Banks:</b>								
KTB	2.50%	3.00%	3.50%	4.00%	7.50%	5.00%	KTB	1.75%	2.25%	3.00%	3.50%	7.25%	5.50%		
BMB	2.50%	3.25%	4.00%	4.25%	9.00%	6.50%	BMB	1.75%	2.25%	2.75%	3.25%	7.50%	5.75%		
SCIB	2.50%	3.50%	4.00%	4.50%	8.50%	6.00%	SCIB	1.75%	2.35%	2.75%	3.50%	7.25%	5.50%		
BT	2.50%	3.25%	3.50%	4.25%	8.00%	5.50%	BT	2.00%	2.25%	2.75%	3.25%	7.25%	5.25%		
<b>Foreign-Owned Banks:</b>							<b>Foreign-Owned Banks:</b>								
SCNB	2.25%	3.00%	3.00%	3.25%	8.00%	5.75%	SCNB	1.50%	2.00%	2.25%	2.75%	7.25%	5.75%		
DTDB	2.25%	2.50%	3.50%	4.00%	8.50%	6.25%	DTDB	1.75%	2.25%	2.50%	2.75%	8.00%	6.25%		
BOA	2.25%	2.75%	3.00%	3.00%	8.00%	5.75%	BOA	1.50%	2.00%	2.25%	2.25%	7.25%	5.75%		
<b>Foreign Banks:</b>							<b>Foreign Banks:</b>								
Citibank	1.25%	1.50%	2.50%	3.25%	9.00%	7.75%	Citibank	1.25%	1.75%	2.25%	2.50%	8.25%	7.00%		
HSBC	0.75%	2.00%	2.00%	2.50%	8.75%	8.00%	HSBC	0.75%	1.00%	1.25%	1.25%	8.75%	8.00%		
StanChart	0.75%	1.75%	2.25%	2.25%	8.75%	8.00%	StanChart	0.75%	1.25%	1.75%	1.75%	8.25%	7.50%		
ABN-Amro	0.50%	1.50%	2.25%	2.25%	8.75%	8.25%	ABN-Amro	0.25%	1.25%	1.50%	1.50%	8.00%	7.75%		
OCBC	1.00%	2.00%	2.00%	2.00%	9.00%	8.00%	OCBC	1.00%	1.50%	1.50%	1.50%	8.50%	7.50%		

Source: Company reports; Lehman Brothers estimates.

### Loan Growth:

Naturally, the best stimulus for NIM would be advancing loan growth; unfortunately here we have little positive news to report. Even an average 75bp fall in MLR over the past year has not spurred additional lending on a gross basis, with loans down over each of the last four consecutive quarters. Note that performing loan growth looks somewhat more robust; however, this measure is skewed by the restructuring of a large percentage of the bank's remaining loan portfolio over the past two years.

We continue to forecast a 1% loan contraction for FY2002, with a recovery to growth by YE2003 and steady 3% annual net increases by YE2004. Management estimates continue to be more optimistic, with plans calling for 2–3% growth this year, including a THB5 billion target for new mortgage origination, which in itself represents more than 1% growth for the total portfolio.

Figure 31: Loan Growth and Performing Loan Growth: 4Q00–4Q01

	4Q00	1Q01	2Q01	3Q01	4Q01
Loan Growth (QoQ)	1.5%	-1.4%	-4.5%	-1.1%	-1.4%
Performing Loan Growth (QoQ)	5.1%	-0.9%	-2.4%	2.6%	0.0%

Source: Company reports; Lehman Brothers estimates.

**Asset Quality:**

Asset quality remains poor by any measure other than that of comparison with prior periods. Upwards of 29% of the bank's loan portfolio remains non-performing or in foreclosure, with an increasing number of these loans no longer receptive to restructuring (management estimates that 50% of remaining NPLs are now tied up in litigation).

73% of remaining criticized assets are either Doubtful or Loss, and many have not paid interest or principal in over four years. These assets have either resisted restructuring or have defaulted on even rescheduled terms, so that we are forced to conclude that there is little hope that they will return to performing status. Given that borrowers have had years to hide assets, our conclusion is that little value will ever be realized from these assets - and their servicing and legal costs meanwhile are large.

Barring another tranche of TAMC transfers, we believe that net movements out of criticized status will be slow over the next 18 months. Management has agreed, saying that it will take five to six years to reach an acceptable level of asset quality.

**TAMC Transfers:**

During 4Q01, TFB was able to transfer its eligible bad debts to the state-run Thai Asset Management Corporation ("TAMC"). While we had initially had high expectations for the TAMC, it has been repeatedly scaled back since its inception, and now addresses only a small part of the asset quality problem at the private banks. Management reports that the bank transferred a gross THB12.2 billion in distressed loans (we assume that these were 95% loss) along with some THB2.9 billion in associated specific reserves, for a net reduction of THB9.3 billion. On a gross basis, this addressed only 8% of the bank's impaired assets.

**Figure 32: Criticized Asset Migration and TAMC Impact: 2Q01–4Q01**

	<b>Pass</b>	<b>S/M</b>	<b>SS</b>	<b>D</b>	<b>L</b>	<b>Reserve</b>
2Q01 Level	341,264	11,005	16,804	12,488	110,929	62,847
Estimated Impact of TAMC	-	-	-	(610)	(11,595)	(2,867)
Other Changes 2Q-4Q01	14,809	164	(4,876)	5,803	(15,627)	1,290
4Q01 Level	356,073	11,169	11,928	17,682	83,707	61,270
% Change	+4.3%	+1.5%	-29.0%	+41.6%	-24.5%	-2.5%
% of Total Loans	74.1%	2.3%	2.5%	3.7%	17.4%	12.7%

Source: Company reports; Lehman Brothers estimates.

Figure 33: Reserve Impact of TAMC: 2Q01–4Q01

	<b>Actual Reserves</b>	<b>Required Reserves</b>	<b>Reserve Shortfall</b>
2Q01 Level	62,847	127,220	64,373
Estimated Impact of TAMC	(2,867)	(11,900)	(9,032)
Other Changes 2Q-4Q01	1,290	(13,298)	(14,588)
4Q01 Level	61,270	102,023	40,753
% of Total Loans	12.7%	21.2%	8.5%

Source: Company reports; Lehman Brothers estimates

Bear in mind that TFB remains liable for 30% of the first 40% of additional losses that the TAMC sustains in servicing and working out or liquidating these loans over a five or ten year period. Based on the experience of other government workout programs in the region, we believe that the bank will wind up sustaining the maximum cost, or some THB2.8 billion in charge-backs, which may be paid either in cash or in new shares.

#### Reserve Adequacy:

Thai Farmers' reserves are heading in the right direction, but have some way to go. Based on our methodology, TFB had required reserves of THB102 billion at year-end, against actual reserves of only THB61 billion. Reserve sufficiency has admittedly risen, moving from 44% of required at YE2000 to 60% currently, but the remaining shortfall is still 1.5x book equity.

Note also that this calculation does not include additional reserves for restructured loans currently classified as performing, although such loans have shown a distressing predisposition to return to their former NPL status, even after concessionary rate cuts and payment rescheduling. It also makes no provision for some THB3 billion in "non-marketable equity securities" carried in the 'held to maturity' securities portfolio, which were presumably received as part of debt restructuring agreements (impairment reserves booked against these and all other securities are included in our consolidated reserve figures). We believe that these securities are likely to have minimal value in aggregate.

Figure 34: Reserve Adequacy: 4Q01

	Gross Amount	Reserve Percentage	Required Reserve
Pass	356,073	1%	3,561
Special Mention	11,169	5%	558
Substandard	11,928	20%	2,386
Doubtful	17,682	50%	8,841
Loss	83,707	100%	83,707
ORE	14,852	20%	2,970
Excess AIR	-	20%	-
<b>Total</b>	<b>495,412</b>		<b>102,023</b>
Actual Reserves			61,270
Shortfall			40,753
Actual/Required			60%
Shortfall/Capital			149%

Source: Company reports; Lehman Brothers estimates.

Based on our assessment, we project that TFB will require additional provisions of THB4 billion in each of the next three years, resulting in 83% reserve coverage of NPLs and 100% of our required reserves by YE2004.

#### Valuation:

TFB shares currently trade at 2.51x their stated book value per share of THB11.64. On an adjusted book basis (deducting real estate revaluation, capitalized tax-loss carry-forwards, and other items not properly considered primary capital), TFB shares trade at 3.30x ABVPS. We believe that true ABV (i.e., after subtracting reserve underfunding) is negative, so any measure of this is not meaningful. However, even accepting reported figures the bank is very expensive considering its projected peak ROE of 16.5%.

On an earnings basis, TFB trades at 68.4x trailing and 18.1x forward earnings, also a premium price within the regional sector. Although TFB may be the best-run bank in Thailand, we still prefer Siam Commercial on a local basis, and both Korean and Indonesian banks on a sector basis.



Figure 35: Valuation Summary

	FY2001A	FY2002E	FY2003E
Current Price (THB):	29.25		
EEPS	0.43	1.62	1.71
P/E	68.39	18.06	17.08
BVPS	11.64	13.26	14.97
P/BV	2.51	2.21	1.95
ROE	5.03%	16.54%	14.68%
ROE / (P/BV)	2.00%	7.50%	7.51%

Source: Company reports; Lehman Brothers estimates.

### Company Description

Established in 1945, Thai Farmers Bank is the third largest bank in Thailand. It has a reputation for conservative management and technical innovation.

### Other Team Members

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February 19, 2002

## Company Focus: Hong Kong

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### HSBC: Key Take-Aways From StanChart Result

- HSBC is not likely to replicate StanChart's results in Hong Kong.
- StanChart's HK operations generated a 21% increase in pre-provision earnings on the back of higher margins and slight loan growth.
- However, all the gains were given back as loan-loss provisions doubled due to higher bankruptcies.
- The story will be different for Hongkong Bank at both the pre-provision and post-provision level. We maintain our 3-Market Perform rating on the shares of HSBC.

### Standard Chartered results.

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StanChart reported a 2001 net profit (after preferred dividends) of US\$631 million, or US\$0.56, down 37% from the year before. On a consecutive half basis, second-half net profit was 39% lower than that in the first half. At the pre-tax level, profit was down 20% on the year and 40% on the half.

As expected, the results were depicted by a sharp rise in loan loss provisions—up 72% on the half and up 56% on the year. The key driver for the higher loan loss provisions were corporate exposure in Malaysia, consumer exposure in Hong Kong and Argentina exposure, which accounted for 18%, 35% and 17% of overall provisions. Meanwhile, overall core banking operations were remarkably resilient—margins were maintained at 3.1%, loans increased by 2%, and overall revenue growth increased 9%, outpacing the 8% increase in on-going expenses.

Management announced that its Hong Kong listing will not proceed until at least the second half of the year.

**Good Hong Kong operations, not a bellwether for Hongkong Bank.** StanChart's Hong Kong operations generated at pre-tax profit of US\$522 million (compared to US\$517 million in 2000), representing 45% of the group's total. The most notable item is the loan loss provision, which was twice as high as that reported in 2000. Meanwhile, overall core banking operations were resilient again, with loans increasing by 2.6%, margins expanding by over 30 basis points to 3.2% and revenue growth increasing at the same pace as expenses—cost-to-income remained steady at 46%. Pre-provision profit increased by 21%. Meanwhile, Hong Kong accounts for almost 40% of HSBC's earnings.

Key take-aways for HSBC's Hong Kong operations are the following:

Margin expansion is not likely to be replicated by HSBC in Hong Kong.

1. StanChart was able to expand its net interest margin because of its greater emphasis on credit cards (16% of its loan book compared to less than 2% for Hongkong Bank), which exhibit wider margins in a declining interest rate environment.
2. StanChart has a more leveraged balance sheet, with a loan-to-deposit ratio of 74% (versus only 48% for HKB) and less interbank placements.

The above two factors more than offset the downward pressure on margins stemming from the contraction in mortgage yields, which are currently at Prime less 230 basis points and generated an average yield of Prime less 162 basis points during the period. Mortgages account for 59% of StanChart's loan book, which compares to approximately 32% for Hongkong Bank.

Sharply higher loan loss provisions, particularly for credit cards should not be a problem for HSBC. StanChart's loan loss provision in Hong Kong is equal to 120 basis points of total loans. While this is significantly higher than our projection of 30 basis points for Hongkong Bank, we must point out that over half of the loan loss provision is attributed to the credit card operations, which exhibited a charge-off ratio of 7.5%, slightly higher than the industry average of 6%. HKB's charge-off ratio is expected to be significantly lower due to its more affluent clientele. Stripping out the charge for credit cards, StanChart's loan loss provisions were just over 50 basis points of remaining loans.

Core banking operations are expected to be pedestrian at Hongkong Bank. Similar to StanChart, we expect weak loan growth for Hongkong Bank—3% for the year, with all of it coming in the first half. Meanwhile, overall revenue growth for Hongkong Bank is expected to be approximately 5%, matched by the increase in operating expenses. Consequently, overall pre-provision profit is expected to increase 4%.

HSBC valuation is not compelling. At the current price, HSBC is trading just slightly above our fair value estimate of HK\$84 per share. However, we must point out that the risk is on the downside for earnings, particularly given the low level of provisioning that we have projected. We maintain our 3-Market Perform rating and share price target of HK\$84.

Figure 36: HSBC Valuation

	1999	2000	2001	2002	2003
Period end price (HK\$)	109.00	115.50	87.00	n.a.	n.a.
P/E- reported (x)	21.5	19.8	17.6	16.4	14.8
P/E- cash (x)	21.4	18.2	15.5	14.6	13.3
EPS- reported (US\$)	0.65	0.75	0.64	0.68	0.75
EPS- cash (US\$)	0.65	0.81	0.72	0.77	0.84
P/BV- reported (x)	3.5	3.7	2.7	2.6	2.5
P/BV- tangible (x)	4.4	4.5	3.2	3.0	2.8
Reported BV (US\$)	3.95	3.97	4.10	4.25	4.43
Tangible BV (US\$)	3.18	3.29	3.44	3.68	3.94
Reported ROE	16.5%	18.8%	15.5%	16.0%	17.0%
Cash ROE	20.5%	24.7%	21.0%	20.8%	21.3%

Source: Lehman Brothers estimates

### Company Description

#### Other Team Members

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February 21, 2002

Banks

## Operating Results

## 3 - MARKET PERFORM

Tickers: STAN.L  
STAN LN  
-

Price: STG 741p  
Price Target: 7.80

FTSE All Share 2430.07  
FTSE100 5024.15

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## Standard Chartered

## Needs the Asian Tide to Turn

Standard Chartered is a tough call. The two principal factors affecting it are its gearing to an Asian turnaround and speculative interest. The group will find it difficult to grow value against deflationary conditions in the Far East. The judgement for the shares is when this comes to an end. The shares stand on a 2002 cash multiple of 15x, which would fall to 12.5x on a normalised basis. At 725p we would be longer-term buyers.

- Profits were \$100m below expectations at \$1,148m, cash EPS of \$0.677, compared with \$0.8, owing to substantial capital raisings undertaken during the year. On an organic basis, revenue grew 5%, with costs 3%.
- We have cut our current-year estimate by \$46m to \$1,325m. This represents \$0.728 in cash EPS. Management has indicated that cost growth will again be limited to below the rate of revenue growth. However, there are remaining uncertainties in the provisioning outlook; in particular, Hong Kong consumer banking charges are expected to remain at their current level in H1.
- Our normalised bad debt assumption implies normalised cash EPS of \$0.835, 24% above the current level.
- The CEO outlined cost and portfolio reallocation measures to improve returns. However, we argue in this note, that the likely impact is limited and a stronger economic background is needed for the group to produce attractive returns.

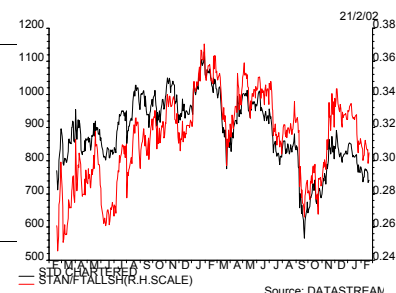
FY Dec, US\$	2001A	2002E	2003E	Market Data	
PTP (m)	1148.0	1328.8	1670.8	Market Cap (m)	11,937
EPS (c stated)	6766.98	7284.57	9342.92	Shares Outstanding (m)	1128.3
EPS (c adj)	6766.98	7284.57	9342.92	Float	-
PE (adj)	15.6	14.5	11.3	Net Div Yield (%)	890.53
ROE (Stated %)	19.9	19.8	22.8	Convertible	Yes
ROE (adj %)	-	-	-	Share per ADR	-

Price/NAV (adj) 3.1- - -

## Financial Summary

NAV(adj)/share FY00 (p)	340	368	411
Tier 1 BIS Ratio (%)	8.8		

Performance	1M	3M	12M
Absolute %	-9	-11	-26
Rel. Market %	-7	-7	-12
Rel. Sector %	-2	-4	-18



February 21, 2002

<http://www.lehman.com>

Standard Chartered is a tough call. The two principal factors affecting it are its gearing to an Asian turnaround and speculative interest. However hard it tries, the past few years have shown that the group will find it difficult to grow value against deflationary conditions in the Far East. The fundamental judgment for the shares is when this comes to an end. Until then, banks in western markets are likely to generate stronger profits growth and command lower valuations. There is currently little sign of the deflationary pressures easing. In the event of a corporate deal, there is substantial upside potential; we would venture a bidder could show value at £10-12 a share or even more. However, a hostile deal looks unlikely and management appears in no mood, or to be under little pressure, to sell. Nevertheless, after their underperformance, the shares stand on a 2002 cash multiple of 15x, which would fall to 12.5x on a normalised basis. At 725p we would be longer-term buyers.

### Improving Returns

*CEO targets cost and portfolio management measures*

As we outline below, the CEO has given a target to improve the group RoE to near 20% from the reported figure of 12% last year. As an aside, we calculate that the effective cash RoE on ordinary equity is around 20%. However, this is because of the write-offs the bank has taken in making acquisitions. As we have shown, the company's EPS and BVPS remain below the levels achieved in 1997, a reflection of the weakness of Asian markets. It is not so much the *profitability* of the actual businesses that has yet to produce returns, but the *cost* of assembling them, that has yet to show value.

Whatever the realities of current profitability, it is clear that shareholder returns need to be improved. The CEO has indicated that he sees scope to improve returns internally, even without a strengthening economic background. This comes from both cost control and reallocation of capital.

*Company accepts not a cost story; savings re-invested to generate growth*

On costs, the company has an ongoing restructuring programme, where, as we note below, the targets have been increased. However, it is clear that the cost savings will be re-invested in developing areas, such as cards, wealth and markets. The company does not regard itself as a cost story. It does plan to limit cost growth to within revenue, at least in the short term. However, there does not appear to be a major cost story to earnings.

*Higher returns in Wholesale and smaller geographics*

On portfolio management, the CEO sees scope to improve returns from capital reallocation in Wholesale Banking and from improved profitability in Thailand, Taiwan and some of its other smaller markets. Wholesale Banking capital is not planned to grow, with EP growth expected from improved returns. By contrast, EP growth in Consumer Banking is expected to stem from increased resources.

*Consumer Banking 36% RoE* The Consumer Banking businesses deploy only an estimated 25% of group risk assets, but generate 40% of normalised profit and a 36% RoE. Cards and Wealth are seen as two principal growth products and the CEO also sees long-term opportunities in China. This implies that the capital growth of the group will be concentrated in what is currently a small proportion of the group.

*Wholesale Banking 12% RoE* By contrast, the Wholesale Banking operations deploy the balance of risk assets (we estimate some £50bn) and currently are only contributing half of profits and sustaining a 12% RoE. Even on a normalised basis, this might rise to 18%, still some way below the Consumer side. Moreover, it is where the largest provisioning hits are being taken. Management commented that it would take a much more aggressive attitude to capital commitment and to managing risk.

*No targets given* The management has not indicated a figure for the proportion of Wholesale Banking risk assets, which it believes it can redeploy. However, we would caution, that the returns are not obviously low by cost of equity standards and it may be no easy task to identify and run down, unprofitable assets.

*Smaller markets represent 10% of capital* We would see even less scope to make significant profitability gains in group terms, from the smaller presences. The total risk assets in the Far East, outside the three key markets, represent only 10% of total group risk assets.

*Group needs better markets to improve returns in our view* In summary, although the objectives to improve returns are positive, we would argue that the group needs a more positive economic background in the markets where it operates, to generate attractive returns.

### **Points From the Meeting**

At the meeting the CEO stressed the strategy to improve financial performance. He seeks to grow the retail operations and improve returns in the Wholesale businesses, in particular, by capital management.

*Revenue to grow faster than costs . . .* Management also indicated that revenue was again expected to grow ahead of costs this year, with new investment spending being funded from continuing efficiency savings. Nevertheless, there is real uncertainty over how revenue growth can be generated in the current difficult operating conditions. The pre-provisions performance was a relatively positive feature of these figures. The 'major' proportion of the \$200m ALM contribution to revenue growth in 2001, was said to be sustainable. The repricing impact from Hong Kong mortgages looks to be past the worst; mortgage revenue is expected to grow in 2002.

*. . . we accept this, but not sure how*

*No longer looking at Egypt, Taiwan.  
Have bid in Indonesia; interested in  
Korea*

The CEO disclosed that he has withdrawn from discussions to acquire a bank in Egypt and is currently no longer interested in acquiring in Taiwan. However, the group has submitted a bid for BCA in Indonesia and remains interested in the credit card market in Korea.

The group remains committed to a Hong Kong listing, but indicated that this would not take place during H1.

The chairman commented that the group was seeking a successor for his position and hoped to say more by the H1 stage.

*Remains committed to independence*

The group itself seems committed to independence. The chairman indicated he had had no approaches. Although the board was not determined on independence at any price, it would seek to remain so, while it generated strong returns. The focus on opportunities to improve returns by repositioning its Wholesale and growing its Consumer business, may also reduce some of the market speculation on independence.

### **Future Estimates**

*Uncertainty over short term estimates*

Given current weak markets, there are real uncertainties in projections for bad debts, revenue and costs. For what it is worth, we have cut our current-year estimate by \$46m to \$1,325m. This represents \$0.728 in cash EPS.

*Assume pre-provisions grows . . .*

We have taken the company's guidance on profits before provisions, assuming that cost growth will be managed below that of revenue, although there are doubts over revenue growth. We include revenue growth of 5% and costs of 3%.

*. . . and bad debts fall*

Our provisions assumption of \$700m represents 1.25% of loans. We would regard this as an optimistic figure. We have assumed that the Consumer Banking charge grows in line with lending, but that Wholesale Banking charges fall by \$50m to \$350m. However, there is a risk that charges do not fall. The H2 charge in Hong Kong was \$50m higher than H1, implying a higher 2002 cost, if the run rate is sustained. It is likely to be sustained in H1, at least. There is also a risk that the Malaysian charges have not peaked.

### **Results**

*2001 profits \$0.677 cash EPS*

Standard Chartered's profits were some \$100m below expectations at \$1,148m. Cash profits of \$1,288m were 1% down on the previous year, excluding restructuring costs and were also \$100m below expectations. The results are equivalent to diluted cash EPS of \$0.677, compared with \$0.8, owing to the substantial capital raisings undertaken during the year.



<i>Normalised 876p provisioning would imply \$0.835 EPS</i>	Our normalised bad debt assumption implies normalised cash EPS of \$0.835m, 24% above the current level. Assuming that the higher consumer loan charges are ongoing, but that the Wholesale Banking charges are a normalised 50bp of lending, rather than the 1.5% just reported, we would venture a normalised charge of 87bp, compared with the current 138bp. This would represent a \$270m reduction in 2001 bad debt charges and a 20% increase in profits. However, we would stress that there is also a high degree of uncertainty over the normalised charge.
<i>Pre-provisions stronger than expected; reflects ALM</i>	Profits before provisions were ahead of expectations, at \$2,019m (versus our estimate of \$1,971m) and 14% up on the year before. Revenue of +9% and costs of +5% were both better than estimates. Excluding acquisitions, revenue was 5% ahead, with costs 3%.
<i>Revenue did grow</i>	<p>The growth in revenue appears to have reflected interest rate mismatching. Management indicated that ALM activity had increased revenue by some \$200m; this is 5% of the revenue base, equivalent to the organic revenue growth. This activity also appears to have increased in H2, when net interest income rose by 7%, compared with H1. However, revenue growth was constrained by the margin erosion on the Hong Kong mortgage book, which was said to have reduced revenue by around \$120m. Even after this, the company revealed that the Consumer businesses had generated 4% organic revenue growth, including the benefit of wider deposit spreads from increased liquidity.</p> <p>Operating expenses reflected the inclusion of acquisitions, the benefits of restructuring and investment programmes. Organic cost growth of \$64m was 3%. Restructuring (including acquisition integration) is said to have generated savings of \$149m. This implies that gross cost growth was \$213m, or as much as 10%. Investment spend in support of the cost synergies was \$93m. As for a number of UK banks, this leaves us somewhat in the dark as to what the rate of cost growth is likely to be. The principal guidance provided by the company is that revenue will grow by more than costs, although there is little clarity on how this will be achieved. Net cost savings under the efficiency programme were quantified as \$56m, compared with an expected negative figure of \$59m, reflecting lower investment spend. Targets for the future benefits of this programme have also been increased.</p>
<i>Bad debts 140bp – well ahead of expectations</i>	<p>Bad debt charges were the principal factor behind the lower profits; provisions increased by \$261m to \$731m, \$150m ahead of our expectations. Provisions represented 1.4% of customer loans. NPLs rose by an estimated \$617m (1.1% of loans) in H2, before write-offs, reaching \$2,215m, 4.2% of loans. NPLs remain 64% provided.</p> <p>The bad debt charges contained some lumpy items, even if they are not necessarily one-offs. The increase in bad debt charges reflected Malaysia (+\$105m) and \$50m in provisions against Argentina and a large US corporate, as well as higher charges for Hong Kong consumer lending.</p>

*Wholesale Banking 150bp*

Wholesale Banking provisions of \$401m, represented 1.5% of the loan book. This is where there appears to be substantial scope for loss elimination. The Malaysian charges of \$130m were substantially all in Wholesale Banking, where charges of \$119m (against \$21m) represented 5% of the loan book, taking the country into loss. Provisions of this scale must drop out, although not necessarily in 2002. The Malaysian charges are understood to relate to a large number of corporate, trade-related exposures. This implies that, large though the charge may be, it is unlikely to improve, before the country's economy does. It is in the Wholesale Bank that there is the scope for lower charges, although there is also uncertainty over how much. We assume a normalised charge of 50bp, or \$270m lower than incurred last year.

*Consumer Banking Hong Kong charge  
will stay high short term*

Consumer Banking charges were \$330m. Hong Kong consumer banking charges of \$225m represented 7% of non-mortgage consumer loans. The H2 charge was even higher; we estimate, it may have been as high as 4.3% of loans. This reflects changes in bankruptcy law and is expected to continue, at least in the short term. Standard has taken action, such as reducing limits, although these are likely to take time to lower the charge; H1 in the current year is likely to see a similar charge to the figure suffered in H2.

The Tier 1 ratio of 8.8% includes an ordinary equity ratio of 5.6%. This remains comfortable and is not putting the group under pressure. Despite some negative comment, the equity generation of some \$300m (including goodwill amortisation) is also sufficient to support risk asset growth of \$4bn, or 6%.

## Standard Chartered Profits Breakdown

Year End 31 Dec	2000	2000	2001	2001	2001	2001	2002	2003
\$ Million	FY Organic	FYA	H1 Organic	H1A	FY Organic	FYA	FYE	FYE
Net Interest Income		2,709		1,428		2,959	3,107	3,293
Dealing Profits		377		249		470	494	523
Fees and commissions		888		477		977	1,026	1,087
Other Non-Interest Income		115		33		58	61	65
Total Non-Interest Income		1,381		759		1,505	1,580	1,675
<b>Total Operating Income</b>	<b>3,737</b>	<b>4,090</b>	<b>1,930</b>	<b>2,187</b>	<b>3,938</b>	<b>4,464</b>	<b>4,687</b>	<b>4,968</b>
Depreciation								
Other Operating Expenses								
<b>Total Operating Expenses</b>	<b>2,075</b>	<b>2,320</b>	<b>1,036</b>	<b>1,199</b>	<b>2,139</b>	<b>2,445</b>	<b>2,518</b>	<b>2,632</b>
<b>Profits Before Provisions</b>	<b>1,662</b>	<b>1,770</b>	<b>894</b>	<b>988</b>	<b>1,799</b>	<b>2,019</b>	<b>2,169</b>	<b>2,337</b>
Bad Debt Provisions		417		242		660	700	526
Cont from Grindlays + Chase less Chart Trust		55		67		149		
<b>Profit Bef Non-op Items</b>	<b>1,300</b>	<b>1,300</b>	<b>719</b>	<b>719</b>	<b>1,288</b>	<b>1,288</b>	<b>1,469</b>	<b>1,811</b>
Non-operating items		138		(68)		(140)	(140)	(140)
<b>Profit Before Tax</b>	<b>1,438</b>	<b>1,438</b>	<b>651</b>	<b>651</b>	<b>1,148</b>	<b>1,148</b>	<b>1,329</b>	<b>1,671</b>
Tax		377		218		378	441	543
Minority Interests		6		6		12	15	15
Preference Dividends		53		35		127	182	182
<b>Attributable Profit</b>		<b>1,002</b>		<b>392</b>		<b>631</b>	<b>691</b>	<b>931</b>
Ordinary Dividend		424		145		475	523	586
<b>Retained Profit</b>		<b>578</b>		<b>247</b>		<b>156</b>	<b>168</b>	<b>345</b>
<b>EPS-diluted (c)*</b>		<b>80.3</b>		<b>39.7</b>		<b>67.7</b>	<b>72.8</b>	<b>93.4</b>
<b>DPS (p)</b>		<b>38.1</b>		<b>12.8</b>		<b>42.0</b>	<b>46.2</b>	<b>51.7</b>
<b>BVPS</b>		<b>331</b>		<b>345</b>		<b>340</b>	<b>368</b>	<b>411</b>
* EPS excluding non-operating items								
No of Shares In Issue (m)		1,086		1,128		1,132	1,132	1,132
Total Assets (£bn)		102.4		109.7		111.9	118.2	127.6
Group Net Interest Margin (%)		3.1		3.0		N/A	N/A	N/A
Shareholders' Funds (£m)		3,731		3,893		3,854	4,162	4,647
Dealing Profits/Total Revenue (%)		9.2		11.4		10.5	10.5	10.5
Cost/Income Ratio (%)	55.5	56.7	53.7	54.8	54.3	54.8	53.7	53.0
RoE (%)		24.3		23.0		19.9	19.8	22.8
Provisions/Total Loans (%)		0.90		1.02		1.38	1.25	0.87
Tax Rate (%)		26.2		33.5		32.9	33.2	32.5
Dividend Pay-Out Ratio (%)		45.3				79.5	80.7	69.0
Tier 1 Ratio (%)		7.0		8.8		8.8	8.8	8.7
Total Loans		51,935		52,927		53,005	55,973	60,451
Risk Assets		64,531		66,106		69,342	73,225	79,083
Non-performing Loans		2,237		2,195		2,215	2,490	2,090
Loan Loss Reserves		1,545		1,490		1,350	1,450	1,576
LLR/NPLs		69.0		67.9		60.9	58.2	75.4
NPLs/Total Loans		4.31		4.15		4.18	4.45	3.46
Write-Offs		1,005		404		1,001	600	400
Unprovided NPLs to Equity		18.6		18.1		22.4	25.0	11.1
<b>By Region:</b>								
Hong Kong		517		271		522		
Singapore		240		150		191		
Malaysia		122				(20)		
Other Asia Pacific		9				46		
<b>Total Asia Pacific</b>		<b>888</b>		<b>421</b>		<b>739</b>		
Africa		106		64		117		
India		110				122		
Other MESA		120		155		196		
UK/Americas		76		79		114		
<b>Total</b>		<b>1,300</b>		<b>719</b>		<b>1,288</b>		
<b>By Business Line:</b>								
Consumer Banking		765		347		656		
Corporate Banking		558		372		632		
<b>Total</b>		<b>1,323</b>		<b>719</b>		<b>1,288</b>		

Source: Lehman Brothers

## Economic Comment

*South Korea's low unemployment rate is testimony to the economy's newfound flexibility*

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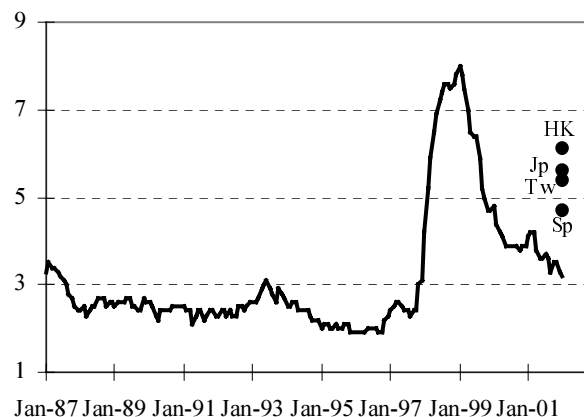
### South Korea's labour market bucks the regional trend

There was more good news in South Korea this week. The seasonally-adjusted unemployment rate fell to 3.2% in January from 3.3% in December. That was the second straight monthly decline in the jobless rate, which is now at its lowest level since December 1997 (chart 1). By contrast, the unemployment rates in Japan, Taiwan, Hong Kong and Singapore are at or close to historic highs. Moreover, there is a concern that a rising share of unemployment in these countries is due to structural impediments (skill mismatch, long-term duration), which will be difficult to resolve in the short term.

Korea's ability to maintain a low unemployment rate during last year's economic downturn is testimony to the labour market's increased flexibility since the Asian crisis, helped by wide-ranging deregulation and the opening of the economy to greater competition. Lifetime employment no longer exists; instead, there has been a growing reliance on non-regular (temporary and daily) workers, a decline in unionization and increased flexibility of compensation through performance-based schemes. A pro-active policy response has also helped, with the government spending an extra US\$5.1bn last year on labour-intensive public works projects, and on programs to improve labour skills and mobility.

Unlike other Asian countries, Korea does not have a structural unemployment problem, and so it has a good chance this year of returning to a rate of unemployment that was typical before the Asian crisis: between 2-3%. Korea's strong labour market performance has played a major role in driving the smart recovery in domestic consumption. Indeed, this week the composite index from the National Statistics Office's survey on consumer sentiment rose to a record high of 106.7 points in January.

Figure 37: South Korea's unemployment rate (% , seasonally adjusted)



Source: Lehman Brothers





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