

Asia Banks

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Market Summary

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

Upcoming Events

Mar 4	HSBC 2001 results
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March 04, 2002

Asian Bank Briefing

Theme of the Week: HSBC in the Spotlight

- All eyes will be on HSBC, which will announce its results on Monday after the close of the market. Weak results are expected all around, but what is going to drive the share price? Last year, a cautious stance taken by management set the tone for 12 months of lackluster share performance. This year, we believe management will be equally cautious and that the share price will continue to move sideways.

The Week Ahead: Results Announcements Continue in HK...

- HSBC is expected to report a net profit of US\$5.9 billion, or US\$0.64 per share, representing a 15% decline from last year. The key drivers to the lower earnings are expected to be a contracting net interest margin, higher loan loss provisions, a US\$575 million lawsuit settlement and lower disposal gains. We are maintaining our 3-Market Perform rating.
- Hang Seng Bank is expected to post a net profit of HK\$10.1 billion or HK\$5.29 per share, representing no growth over last year. No loan growth, margin contraction and higher loan loss provisions—it does not look pretty. The main swing factor is disposal gains, which we have penciled in at HK\$412 million.
- Dah Sing is expected to report a net profit HK\$936 million, or HK\$3.80 per share. This bank should be the hardest hit by the rising bankruptcies and increasing charge-off rates on credit cards. Consumer loans and credit cards account for 21% of total loans.

The Week Before: Earnings Results from around the Region

- OCBC reported what we saw as a terrible set of results with net profit of S\$785 million, down 7% from last year. The results were characterized by a return to high provisions, which we believe is unnecessary. On the bright side, the loan book expanded almost 5%.
- Wing Lung reported a net profit of HK\$745 million, or HK\$3.64 per share. The results were characterized by a second half recovery in margins and loan growth, both of which we believe are not sustainable.
- KorAm Bank recently reported a net profit of KRW195 billion, or KRW1,196 per share. After careful analysis, we are lowering our recommendation to 3-Market Perform, from 2-Buy. Our new price target of KWR12,000 is 7% below the current share price.

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
Hong Kong:											
Bank of East Asia	4	14.90	13.00	-13%	19.30	14.45	-2.93	-3.56	-9.42	-11.31	-17.91
Dah Sing Financial	3	31.90	34.00	7%	45.30	29.95	-3.33	1.92	-8.86	-13.55	-19.44
Hang Seng Bank	4	85.75	70.00	-18%	95.75	74.00	-2.28	1.18	1.48	0.00	-6.28
HSBC Holdings PLC	3	85.50	84.00	-2%	104.50	68.50	-0.29	-2.29	-9.52	-6.30	-17.79
JCG Holdings	2	4.85	5.40	11%	5.35	3.88	0.00	-1.52	0.00	0.00	11.49
Pacific Century Insurance	1	1.73	na	na	2.57	1.38	-7.49	-10.82	-7.98	-20.46	-24.51
Wing Hang Bank	4	23.75	21.00	-12%	33.30	21.80	-3.46	-1.66	-1.04	-5.00	-15.78
Wing Lung Bank	4	29.10	25.00	-14%	39.20	24.70	-0.17	2.46	-0.17	0.00	-13.65
Citic Ka Wah	NR	2.38	na	na	2.63	1.81	-3.06	9.20	9.52	19.95	-3.37
IBA	NR	1.92	na	na	2.77	1.57	-3.52	4.35	2.67	1.59	-0.52
ICBC (Asia)	NR	7.25	na	na	7.75	5.55	-3.33	2.11	0.00	-1.36	16.94
Liu Chong Hing	NR	7.85	na	na	10.85	5.95	-0.63	-0.63	9.03	9.03	-12.78
Hang Seng index		10,425			14,321	8,934	-2.25%	-2.49%	-7.57%	-8.53%	-27.40%
Hong Kong Dollar (HKD)		7.80			7.79	7.80	0.00%	-0.01%	-0.02%	-0.02%	0.00%
Singapore:											
DBS Bank Group	3	13.50	12.50	-7%	19.00	9.50	-1.46	-8.78	18.42	-2.17	-30.41
Oversea-Chinese Banking Corp.	3	12.70	11.10	-13%	13.40	8.80	1.60	-4.51	18.69	15.45	0.00
United Overseas Bank	1	13.90	14.90	7%	15.00	9.05	1.46	-7.33	20.87	9.45	2.21
STI		1,716			1,911	1,241	1.50%	-3.70%	16.03%	5.67%	-10.26%
Singapore Dollar (SGD)		1.83			1.73	1.86	-0.01%	0.05%	0.28%	0.71%	-4.65%
South Korea:											
Hana Bank	2	19,750	11,500	-42%	19,800	5,337	7.34	12.86	48.30	16.86	163.33
Kookmin Bank	1	57,900	60,000	4%	62,100	17,925	5.27	1.05	25.25	16.27	124.40
Kookmin Credit Card	NR	54,000	na	na	60,000	27,200	4.05	2.47	33.66	8.00	65.90
Koram Bank	3	12,950	12,000	-7%	13,950	6,300	8.37	5.28	18.81	8.37	73.13
Shinhan Financial Group	3	17,900	16,000	-11%	20,450	9,400	1.70	2.87	12.93	1.99	26.95
Chohung Bank	NR	5,720	na	na	6,150	1,750	3.06	5.34	71.77	38.16	124.75
Industrial Bank of Korea	NR	8,080	na	na	8,800	3,190	6.32	2.93	-2.77	1.13	113.19
Korea Exchange Bank	NR	5,140	na	na	5,770	1,805	1.38	-1.53	50.29	31.96	54.82
KOSPI		820			822	469	3.53%	10.45%	27.35%	18.21%	41.84%
Korean Won (KRW)		1,325			1,258	1,368	-0.24%	-0.69%	-3.94%	-0.84%	-5.37%
Taiwan:											
Bank SinoPac	2	13.70	20.00	46%	16.20	11.82	-2.49	-9.87	1.48	-6.16	-11.35
Chinatrust Commercial	1	24.70	30.00	21%	26.10	15.67	-0.40	2.92	41.14	17.62	0.39
Fubon Financial	2	18.26	35.00	92%	18.84	13.20	2.58	-1.30	na	-1.88	na
Taishin International	3	14.65	21.00	43%	16.84	10.25	-2.33	11.41	29.07	13.13	-11.02
United World Chinese Commercial	4	18.70	19.00	2%	25.45	15.18	-1.58	-7.43	2.19	-11.37	-22.08
First Commercial Bank	NR	18.70	na	na	24.29	13.80	-5.56	-11.37	9.36	-13.43	-18.19
Hua Nan Commercial Bank	NR	17.60	na	na	24.76	14.50	-3.30	-9.74	-3.83	-14.15	-25.18
International Commercial Bank	NR	19.50	na	na	25.36	13.64	-3.47	-10.96	14.04	-8.45	-20.26
TWSE		5,696			6,007	3,446	1.54%	-2.76%	28.26%	2.61%	3.57%
New Taiwan Dollar (TWD)		35.10			32.32	35.17	0.03%	-0.59%	-1.91%	-0.42%	-7.84%
Malaysia:											
Commerce Asset Holding	3	8.75	8.00	-9%	8.90	5.05	6.71	1.74	20.69	18.24	16.67
Maybank	2	8.85	16.00	81%	9.53	6.20	-2.21	-1.12	15.69	6.63	-4.50
Public Bank (F)	2	3.36	3.80	13%	3.56	2.30	4.35	12.75	31.25	25.84	16.17
Hong Leong Bank	NR	4.50	na	na	4.52	2.98	1.35	13.64	30.06	23.63	35.54
RHB Capital	NR	2.25	na	na	2.73	1.60	-1.75	-16.36	5.14	-2.60	-11.76
MY Comp.		718			730	553	0.98%	-0.17%	12.47%	3.09%	2.22%
Malaysian Ringgit (MYR)		3.80			3.80	3.80	-0.02%	0.01%	0.00%	0.01%	0.01%

Source: Lehman Brothers, Datastream

Figure 2: Recommended Portfolio—Our Top Ideas

Institution	Ticker	Country	Rating	Key Points
United Overseas Bank	UOB	Singapore	1-Strong Buy	<ol style="list-style-type: none"> Highest ROE among its peers and taking loan market share. Significant low-capital/high margin businesses off-balance sheet. Attractive valuation.
Kookmin Bank	6000	Korea	1-Strong Buy	<ol style="list-style-type: none"> Primary mortgage dominance gives a head start in other consumer credit lines. Low chaebol exposure. Merger between Kookmin/H&CB will create value.
Bank Central Asia	BBCA	Indonesia	1-Strong Buy	<ol style="list-style-type: none"> Completely clean balance sheet. Dominant consumer banking franchise. Cheap valuation.

Source: Lehman Brothers

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

	Rating	Closing Price	Target Price	Potential Upside	52-Week		Share Price Performance				
					High	Low	1-Week	1-Month	3-Month	YTD	1-Year
Thailand:											
Bangkok Bank (F)	4	67.50	25.00	-63%	78.00	37.50	7.14	6.30	41.36	37.06	29.81
Bangkok Bank (L)	3	54.50	25.00	-54%	61.00	30.25	10.10	11.22	49.32	49.32	36.25
Bank of Ayudhya (F)	4	6.00	5.00	-17%	8.10	4.20	4.35	7.14	22.45	15.38	-26.83
Bank of Ayudhya (L)	4	6.05	5.00	-17%	8.10	4.16	4.31	8.04	23.47	14.15	-25.31
IFCT (F)	3	7.50	10.00	33%	8.30	4.76	7.14	16.28	27.12	26.05	-13.79
Krung Thai Bank (F)	4	13.50	10.00	-26%	13.75	8.20	0.00	33.66	22.73	35.00	0.00
National Finance PCL (F)	3	16.60	na	na	17.20	6.80	15.28	13.70	55.14	56.60	74.74
National Finance PCL (L)	3	13.80	na	na	14.60	6.50	12.20	10.40	45.26	46.03	55.06
Siam Commercial Bank (F)	3	27.25	25.00	-8%	29.50	13.60	11.22	21.11	56.61	62.20	-3.54
Siam Commercial Bank (P)	3	26.75	25.00	-7%	27.75	13.60	12.87	19.96	54.62	58.28	-3.60
Thai Farmers Bank (F)	3	28.75	22.00	-23%	31.75	15.75	10.58	3.60	34.98	31.88	4.55
Thai Farmers Bank (L)	3	25.75	22.00	-15%	27.75	14.00	12.45	9.11	39.95	38.44	8.42
Thai Military Bank (F)	4	6.00	5.00	-17%	8.50	4.50	0.00	0.00	18.81	15.38	-30.23
SET		372			376	265	5.83%	10.44%	22.86%	22.37%	17.58%
Thai Baht (THB)		43.68			43.08	45.97	0.50%	0.79%	0.70%	1.19%	-1.00%
Philippines:											
Bank of the Philippine Islands	2	68.00	64.00	-6%	79.50	40.50	2.26	0.00	32.04	18.26	-0.73
Equitable-PCI	NR	31.00	na	na	54.00	16.00	0.00	8.77	29.17	26.53	-42.59
Metrobank	3	212.00	255.00	20%	230.00	156.00	0.47	1.92	20.46	3.42	-1.85
Philippine National Bank	4	67.00	55.00	-18%	79.00	39.50	-3.60	-8.22	36.74	-0.74	52.27
Ph Comp.		1,410			1,617	979	1.01%	1.74%	24.99%	20.75%	-10.18%
Philippines Peso (PHP)		51.12			47.47	54.38	0.50%	0.35%	1.82%	0.94%	-5.22%
Indonesia:											
Bank Central Asia	1	1,850	2,100	14%	2,050	800	2.78	-1.33	25.42	25.42	108.45
Lippo Bank	2	60	90	50%	65.00	25.00	0.00	33.33	71.43	100.00	20.00
Panin Bank	4	265	260	-2%	285.00	95.00	-3.64	-1.85	39.47	43.24	82.76
JCI		453			470	343	-1.34%	-0.23%	19.18%	15.61%	6.89%
Indonesia Rupiah (IDR)		10,110			8,280	12,200	0.99%	2.18%	3.41%	2.87%	-2.47%
Australia:											
ANZ	NR	18.45	na	na	18.60	13.44	1.54	5.46	9.76	3.60	16.40
Commonwealth Bank of Australia	NR	32.31	na	na	34.15	25.14	0.09	-1.50	12.97	7.91	4.24
National Australia Bank	NR	35.49	na	na	35.79	24.55	1.26	2.74	12.36	11.39	14.96
St. George Bank	NR	18.26	na	na	18.84	13.20	2.58	-1.30	9.05	-1.88	27.33
Westpac	NR	16.56	na	na	16.87	12.05	-0.97	6.58	10.88	5.11	15.93
All Ord.s		3,362			3,425	2,867	-0.10%	-0.70%	2.60%	0.10%	2.00%
Australian Dollar (AUD)		0.52			0.54	0.48	0.96%	1.59%	0.17%	1.61%	-1.95%
China:											
China Minsheng	NR	12.62	na	na	16.14	11.79	-5.61	-4.68	-14.79	-13.03	-0.51
Shanghai Pudong	NR	13.84	na	na	21.38	13.06	-5.08	-1.49	-16.78	-11.79	-30.45
Shenzhen Development Bank	NR	10.19	na	na	16.96	9.60	-4.41	-1.83	-24.07	-16.82	-28.74
Red Chips		1,604			2,161	1,095	-3.89%	-0.78%	-1.85%	-0.44%	-2.75%
Chinese Yuan (CNY)		8.28			8.27	8.28	0.00%	0.00%	0.00%	0.00%	0.01%
India:											
Corporation Bank	NR	142.05	na	na	156.05	104.30	-1.15	34.26	6.05	11.19	2.16
HDFC Bank	NR	235.20	na	na	266.40	191.85	-4.78	4.63	6.40	4.63	-11.46
ICICI Bank	NR	57.70	na	na	99.70	40.45	-16.19	12.37	14.60	30.40	-44.52
State Bank of India	NR	227.80	na	na	267.45	140.55	-5.65	7.63	9.26	24.14	-13.22
Bombay SE		1,708			2,022	1,216	-2.29%	6.56%	9.68%	9.97%	-20.16%
Indian Rupee (INR)		48.71			46.49	48.88	0.09%	-0.38%	-1.55%	-0.95%	-4.42%
Regional Index:											
MSCI AC Far East Free ex-Japan		204.75			216.96	146.43	0.59%	0.75%	13.60%	4.19%	-5.06%

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		2000A	2001E	PER		2003E
				2000A	2001E			2002E		
Hong Kong:										
Bank of East Asia	4	14.90	2,739	1.7	1.2	15.1	11.5	11.6	11.2	
Dah Sing Financial	3	31.90	1,009	2.2	1.5	12.8	8.9	7.7	7.0	
Hang Seng Bank	4	85.75	21,020	4.9	4.0	20.0	16.0	17.2	16.0	
HSBC Holdings PLC	3	85.50	102,555	3.7	2.7	20.0	18.4	16.1	14.6	
JCG Holdings	2	4.85	440	1.1	1.1	6.9	8.0	8.6	7.8	
Wing Hang Bank	4	23.75	894	1.5	1.1	9.2	8.9	8.0	7.4	
Wing Lung Bank	4	29.10	866	1.3	1.1	7.3	7.9	8.3	7.8	
Singapore:										
DBS Bank Group	3	13.50	10,663	1.6	1.3	13.4	13.7	11.8	12.5	
Oversea-Chinese Banking Corp.	3	12.70	8,928	1.2	1.1	20.5	17.0	13.6	12.4	
United Overseas Bank	1	13.90	11,923	1.5	1.5	12.3	17.0	16.7	13.6	
South Korea:										
Hana Bank	2	19,750	2,034	0.5	1.5	41.4	5.9	4.9	4.0	
Kookmin Bank	1	57,900	15,780	1.2	2.3	6.6	6.8	6.5	6.8	
Kookmin Credit Card	NR	54,000	2,986	1.0	3.3	2.7	8.0	8.0	8.2	
Koram Bank	3	12,950	1,595	1.0	2.1	NM	10.0	7.1	6.4	
Shinhan Financial Group	3	17,900	3,953	0.9	1.7	8.0	10.3	8.4	7.8	
Malaysia:										
Commerce Asset Holding	3	8.75	2,770	1.8	1.7	18.4	18.9	18.0	15.0	
Maybank	2	8.85	8,253	1.6	2.1	12.5	20.3	19.1	15.0	
Public Bank (F)	2	3.36	2,751	1.6	2.0	9.8	10.5	12.3	11.0	
Thailand:										
Bangkok Bank (F)	4	67.50	2,265	1.5	2.7	NM	12.2	13.9	11.8	
Bank of Ayudhya (F)	4	6.00	254	0.6	0.7	NM	NM	-3.6	-3.6	
IFCT (F)	3	7.50	199	1.1	1.1	NM	NM	-27.3	-54.7	
Krung Thai Bank (F)	4	13.50	3,454	3.9	2.5	3.3	NM	54.5	68.3	
Siam Commercial Bank (F)	3	27.25	529	1.0	1.3	17.1	35.1	23.3	20.6	
Thai Farmers Bank (F)	3	28.75	1,548	2.2	2.6	44.3	60.7	27.5	23.9	
Thai Military Bank (F)	4	6.00	276	1.7	2.1	NM	NM	-38.1	0.0	
Taiwan:										
Bank SinoPac	2	13.70	759	1.1	1.1	14.3	14.0	10.9	9.8	
Chinatrust Commercial	1	24.70	3,240	1.1	1.5	10.8	14.3	12.9	11.0	
Fubon Financial	2	18.26	4,650	1.0	1.0	13.9	11.6	0.0	0.0	
Taishin International	3	14.65	960	0.9	0.9	17.2	14.1	12.4	10.0	
United World Chinese Commercial	4	18.70	2,009	1.2	1.0	11.1	13.9	11.6	9.8	
Philippines:										
Bank of the Philippine Islands	2	68.00	2,033	1.8	2.0	29.2	17.9	21.2	17.6	
Equitable-PCI	NR	31.00	440	1.0	0.5	67.2	124.3	158.8	29.5	
Metrobank	3	212.00	1,352	1.3	1.4	39.8	20.1	21.3	16.6	
Philippine National Bank	4	67.00	494	0.7	1.5	NM	NM	-12.9	-18.1	
Indonesia:										
Bank Central Asia	1	1,850	1,076	0.4	1.2	1.4	3.4	4.5	4.7	
Lippo Bank	2	60	152	0.9	0.8	8.7	5.0	9.3	11.1	
Panin Bank	4	265	155	0.4	0.6	35.1	8.5	4.0	4.1	
COUNTRY AVERAGES										
			Total Mkt Cap (US\$m)							
Hong Kong (excl. HSBC)			26,527	4.2	3.4	18.3	14.6	15.5	14.5	
Singapore			31,514	1.4	1.4	15.0	15.9	14.2	12.9	
South Korea			23,362	1.1	2.2	9.2	7.6	6.8	7.1	
Taiwan			11,618	1.1	1.1	12.2	17.4	12.1	10.1	
Malaysia			13,774	1.7	2.0	13.2	18.1	17.5	0.0	
Thailand			8,526	1.6	1.5	8.3	14.6	18.7	21.0	
The Philippines			4,319	1.4	1.6	37.3	30.9	31.3	14.4	
Indonesia			1,383	0.4	1.1	6.0	4.2	5.0	5.3	
REGION			121,022	2.0	2.0	14.3	14.7	14.1	10.9	

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				Mkt Cap (\$, MM)	P/BV 2001*	PER		
					1W	1M	3M	YTD	1Y		2001	2002E	
United States:													
Bank One	3	35.84	39.82	28.00	3.61	-2.69	-4.27	-8.22	0.39	41,791	2.0	14.5	13.3
BankAmerica	2	63.95	65.00	49.05	4.29	4.22	4.19	1.59	29.61	100,614	3.9	12.9	11.4
BONY	1	37.64	55.35	30.62	1.37	-7.29	-4.08	-7.75	-26.84	27,721	4.1	18.7	17.1
Citigroup	1	45.25	53.55	36.36	6.72	-2.67	-5.53	-10.36	-6.99	232,803	2.7	16.0	14.1
Wachovia Corp	3	33.23	36.38	27.90	5.96	1.62	7.37	5.96	1.62	45,226	1.6	15.6	12.1
JP Morgan Chase & Co	1	29.25	50.60	28.19	3.76	-9.05	-22.45	-19.53	-36.56	57,710	1.4	17.6	9.8
US Average					4.29%	-2.64%	-4.13%	-6.39%	-6.46%	505,864	2.7	15.6	13.0
Europe:													
ABN-AMRO	2	20.13	23.45	15.78	3.66	-0.84	10.91	11.28	-15.88	26,854	3.0	13.2	13.5
Allied Irish Banks	2	12.90	13.80	9.31	4.03	-4.94	11.02	-0.77	9.79	9,895	2.9	0.3	0.1
Barclays	2	2,075.00	2,302.00	1,518.00	0.48	-6.95	-3.49	-8.79	-5.42	48,916	3.3	14.0	13.7
BBVA	3	13.34	16.67	9.50	8.02	-1.48	-2.91	-4.03	-16.94	36,879	3.0	18.0	15.9
BNP-Paribas	2	56.05	56.05	37.95	7.38	2.75	14.39	11.54	27.39	42,989	2.2	12.7	12.2
BSCH	2	9.22	11.43	6.93	6.96	-1.07	-3.15	-2.02	-15.10	37,211	3.5	13.2	11.5
Commerzbank	3	19.10	32.55	15.70	4.66	-0.52	-1.55	10.09	-32.51	9,102	0.9	-95.5	27.3
Credit Lyonnais	2	38.20	45.75	34.05	5.12	0.03	1.84	1.87	0.21	11,372	1.7	15.5	14.2
Credit Suisse Group	3	58.90	83.12	44.80	4.25	-9.10	-7.24	-16.81	-20.94	41,310	6.5	24.5	15.1
Deutsche	2	68.30	94.10	46.55	5.16	-5.79	-5.53	-13.87	-21.58	36,731	1.5	56.9	18.0
Dresdner	3	46.05	54.45	35.60	-0.97	8.35	14.55	12.59	7.85	21,998	2.2	21.5	25.2
HBOS	3	741.00	883.00	638.00	-8.86	-10.72	-10.18	-6.91	3.35	37,599	2.6	14.4	13.9
Lloyds TSB	2	680.00	775.00	590.00	-0.08	-0.08	-0.06	-0.09	0.01	53,517	4.6	12.3	10.7
RBS Natwest	2	1,732.00	1,840.00	1,256.00	2.79	-5.20	6.58	3.59	4.40	69,864	5.3	13.5	11.5
Societe Generale	3	68.40	74.60	45.89	5.47	-0.51	12.50	8.83	3.48	25,483	2.1	13.6	14.7
Standard Chartered	3	691.00	1,022.50	566.00	-5.34	-11.41	-14.16	-15.73	-31.18	11,028	2.1	10.4	9.5
UBS	3	78.85	92.00	62.10	1.61	0.06	-3.55	-5.91	-8.67	59,241	4.0	15.8	14.6
European Average					2.61%	-2.79%	1.17%	-0.89%	-6.57%	579,990	3.5	15.9	13.9
Latin America:													
Bancomer	2	1.04	1.14	0.66	5.55	-6.12	33.38	13.89	47.21	9,605	2.2	0.1	0.1
Bladex	3	2.16	4.12	1.75	11.24	-13.97	-36.96	-29.77	-41.11	181	0.1	30.8	0.6
Bradesco	2	13.80	14.05	-	4.86	17.65	21.91	10.40	20.00	4,166	0.9	4.2	3.8
GFBanorte	2	2.35	2.35	1.50	3.13	4.29	21.73	12.04	38.15	1,173	1.2	7.8	7.6
Group Financiero Galicia	4	0.16	1.97	0.11	20.97	-33.92	-61.64	-52.98	-90.28	122	0.0	0.1	0.2
Inbursa	1	0.66	0.79	0.45	-3.23	0.00	41.73	13.21	-1.37	3,691	0.8	0.2	0.1
Itaú	2	0.84	0.95	0.61	0.00	10.87	7.75	-0.65	na	77	na	0.1	0.1
Santander Chile	2	1.65	2.12	1.63	1.14	-8.66	-4.86	-19.01	-3.95	168	0.3	1.3	1.3
Santiago	2	1.51	1.69	1.25	0.44	-1.79	-7.72	-3.85	13.17	2,024	150.7	0.8	0.8
Unibanco	1	2.99	3.34	1.62	3.02	5.81	21.33	16.17	-16.94	36,879	0.1	1.1	1.1
Latin American Average					4.71%	-2.58%	3.67%	-4.06%	-3.90%	58,085	5.9	1.3	1.2
Japan:													
Chuo-Mitsui	3	187	301	102	8.09	35.51	47.24	43.85	-34.62	1,144	0.2	8.5	-0.7
Daiwa	2	102	178	66	41.67	30.77	-1.92	24.39	-41.38	4,295	0.5	2.1	4.9
Mitsubishi-Tokyo	2	827,000	1,340,000	689,000	6.03	10.56	-1.90	-5.92	na	35,487	na	30.6	2755.7
Mizuho	2	260,000	803,000	200,000	13.04	19.27	-16.13	-2.62	-63.89	17,885	0.4	12.7	-3.3
Sumitomo Mitsui	3	513	1,229	407	8.00	15.02	-23.43	-7.57	-56.04	21,886	1.1	9.7	-17.8
Sumitomo Trust	2	452	912	379	3.67	13.85	-25.66	-15.04	-45.28	4,905	0.9	6.9	34.0
UFJ Holdings	3	293,000	970,000	235,000	3.17	21.58	-28.01	1.38	na	10,589	na	-20.7	14.2
Japanese Average					11.95%	20.94%	-7.12%	5.50%	-48.24%	96,191	0.8	14.1	1015.5
Asian Coverage Averages:													
Hong Kong					-2.49	-1.79	-4.44	-7.08	-12.98	26,527	3.4	14.64	15.5
Singapore					0.53	-6.87	19.33	7.58	-9.40	31,514	1.4	14.16	14.2
South Korea					5.35	4.91	27.79	10.30	90.74	23,362	2.1	6.84	6.7
Taiwan					-0.84	-0.85	18.47	2.27	-11.02	11,618	1.1	12.10	12.1
Malaysia					2.95	4.46	22.54	16.90	9.45	13,774	2.0	17.51	17.5
Thailand					8.28	12.35	37.83	37.37	8.12	8,526	1.5	17.51	18.7
The Philippines					-0.22	0.62	29.60	11.87	1.77	4,319	1.6	31.30	31.3
Indonesia					-0.29	10.05	45.44	56.22	70.40	1,383	1.1	5.01	5.0
Asian Average					1.66%	2.86%	24.57%	16.93%	18.39%	121,022	2.0	13.8	14.0

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
Hong Kong:									
Bank of East Asia	4	1.33	1.33	1.29	1.33	1.23	1.41	109%	92%
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	5.38	5.39	99%	93%
HSBC Holdings PLC	3	5.79	4.96	5.31	5.87	5.24	5.52	95%	96%
JCG Holdings	2	0.63	0.61	0.56	0.62	0.68	0.73	90%	77%
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	3.65	3.89	99%	90%
Singapore:									
DBS Bank Group	3	1.14	1.12	1.15	1.08	0.74	0.91	151%	126%
Oversea-Chinese Banking Corp.	3	0.65	0.79	0.93	1.03	0.70	0.85	112%	110%
United Overseas Bank	1	0.87	0.63	0.83	1.02	0.74	0.75	85%	111%
Korea:									
Hana Bank	2	143	2,886	4,060	4,931	2,168	2,720	133%	149%
Kookmin Bank	1	3,860	7,326	8,952	8,514	4,960	7,074	148%	127%
Kookmin Credit Card	NR	10,278	6,258	6,724	6,556	5,994	7,316	104%	92%
Koram Bank	3	(2,429)	1,196	1,825	2,032	1,138	1,659	105%	110%
Shinhan Financial Group	3	1,293	1,706	2,140	2,291	1,344	2,113	127%	101%
Taiwan:									
Bank SinoPac	2	0.97	1.04	1.25	1.39	1.05	1.27	99%	99%
Chinatrust Commercial	1	1.83	1.47	1.91	2.24	1.61	2.09	91%	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	100%	106%
Fubon Holdings Co.	2	n.a.	1.37	1.54	1.85	1.58	1.81	86%	85%
Thailand:									
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	7.04	-10%	4%
Siam Commercial Bank (F)	3	1.14	0.69	1.17	1.32	1.06	1.76	65%	66%
Thai Farmers Bank (F)	3	0.54	0.38	1.04	1.20	1.34	2.06	29%	51%
Thai Military Bank (F)	4	(6.26)	(0.05)	(0.16)	(0.17)	0.74	0.75	-7%	-21%
Malaysia:									
Commerce Asset Holding	3	0.44	0.43	0.49	0.58	0.36	0.49	119%	100%
Maybank	2	0.58	0.36	0.46	0.59	0.38	0.46	94%	101%
Public Bank (F)	2	0.30	0.23	0.27	0.31	0.21	0.24	110%	112%
Philippines:									
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	0.97	67%	20%
Metrobank	3	4.60	10.21	9.97	12.76	5.54	7.35	184%	136%
Philippine National Bank	4	(15.80)	(11.47)	(5.18)	(3.71)	(13.77)	(7.90)	83%	65%
Indonesia:									
Bank Central Asia	1	612.30	428.49	406.92	396.69	424.99	413.98	101%	98%
Lippo Bank	2	6.29	6.00	6.45	5.39	5.27	7.04	114%	92%
Panin Bank	4	4.85	21.85	66.33	64.13	10.73	56.92	204%	117%

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

News of the Week

Hong Kong

Citic Ka Wah Bank reported a 15.9% increase in net profit to HK\$616.6 million for 2001. Citic Ka Wah Bank announced its corporate restructuring plan by the SAR group and its parent Citic Beijing. Also announced on Thursday was the formation of a joint venture with a sister company in the Citic Beijing stable, Citic Industrial Bank (Hong Kong), to provide credit-card services for Citic Industrial Bank on the mainland.

Bank of East Asia has received approval from Taiwan's Ministry of Finance to open a branch office in Kaohsiung. Bank of East Asia opened a branch in Taipei in 1997. It will become the 11th foreign bank to open a branch office in the southern port city of Kaohsiung. This new branch will be the 70th foreign bank branch office in Taiwan.

Singapore

OCBC said it will retrench 700 staff in two phases, with the first 345 jobs to be cut by the end of March. According to the deputy president of the bank, the merger with Keppel Tatlee Bank has made 1,050 positions redundant. OCBC is targeting staff numbers of 7,555.

South Korea

Delinquencies in the consumer loans segment has increased slightly month on month in January. A summary follows:

Consumer loans

<i>NPL Ratio (%)</i>		<i>Jan 2002</i>	<i>Dec 2001</i>	<i>(KRW billion)</i>
KEB	↑	1.35%	0.81%	6,520
IBK	↑	1.02%	0.87%	4,160
KorAm Bank	↑	1.35%	1.33%	4,920
Hanvit Bank	↑	0.83%	0.70%	12,400
Shinhan FG	↑	0.90%	0.80%	
Chohung Bank	↑	0.89%	0.76%	
Kookmin Bank	↑		1.78%	
Hana Bank	↓	0.73%	0.75%	
Seoul Bank	↓	0.68%	0.71%	

Private think-tank, Hana Research Institute, said that last year, the average monthly income of urban working households increased 10% YoY (inflation-adjusted income rose 5.6% YoY). Household incomes rose due to a recovery in workers' negotiating power on wages, government pump-priming measures, and increasing participation of family members in the labor force.

Kookmin Bank signed an agreement with Dongwon Securities to issue an integrated card combining functions of a credit card and a securities trading card. Cardholders are able to conduct stock transactions as well as regular credit card transactions and are also able to settle credit card bills with their Dongwon accounts.

The KDIC said that Korea First Bank has asked to exercise its option to put bad loans with a face value of KRW456.2 billion to the government. KDIC will determine a fair value for the bad debt, for which the bank will have to set aside loan loss reserves of KRW268.8 billion.

Fifteen commercial banks last week agreed to early repayment of KRW4.9 trillion in subordinated debts owed to the government. The debts account for 78 percent of the combined KRW6.3 trillion subordinated bonds that were taken over by the government to normalize banks during the Asian financial crisis. The debt currently carries interest rates of 7.78–8.78%. The 15 banks and the amounts they will repay are listed below. The amounts will be repaid on April 1 with the exception of Kookmin Bank, which will repay its debts on May 31.

<i>KRW billion</i>	<i>Bonds to be repaid</i>
Hanvit Bank	877.3
Industrial Bank of Korea	659.0
Kookmin Bank	624.3
Chohung Bank	573.7
Korea Exchange Bank	422.3
Shinhan	365.0
Seoul Bank	270.0
Hana Bank	248.0
Kyongnam Bank	192.0
Kwangju Bank	150.0
Korea First Bank	142.0
Pusan Bank	116.0
Daegu Bank	104.0
Jeonbuk Bank	80.0
KorAm Bank	71.0
Cheju Bank	42.0

Taiwan

Chiao Tung Bank is planning to undergo corporate restructuring that will transform the industrial bank into a multifaceted financial institution. Chiao Tung will consolidate its corporate banking business, which contains 29 branches, into 8 regional financial centers.

First Commercial Bank is planning to sell NT\$50-60 billion of NPLs this year to improve its financial structure. In the first stage, the bank plans to sell NT\$13 billion of NPLs by the end of March. These NPLs will be sold to asset management companies through open bidding. These NPLs include three main categories: overseas assets, domestic real estate and domestic corporate properties. At end of 2001, First Commercial had NPLs of NT\$78 billion, with an overdue loan ratio of 8.72%.

Malaysia

Commerce Asset Holding Bhd, the second largest banking group in Malaysia, said on Friday that it is planning a one-for-one bonus issue. Further details are pending.

Malayan Banking Bhd. is expected to issue RM\$300 million of subordinated bonds in the near future. Maybank is still assessing the market and has yet to decide on further details of the issue, including the pricing. It is expected that the bond issue will be launched in the second quarter of this year. The proceeds of the issue will be used to increase its capital ratio.

Utama Banking Group Bhd. reported an 81% plunge in net profit to RM19.14 million for 2001. The sharp fall was recorded despite a higher turnover of RM 498.56 million in 2001, as compared to RM419.82 million in 2000. The group's commercial banking arm contributed 90.5% of the total operating profit. After loan loss provisions of RM188.6 million, the bank contributed 98.8% of the group's profit after tax.

Thailand

UOB Radanasin said it plans to increase its capital through a rights issue, in order to fund increased lending. The bank will offer 150 million new shares (1 new share for every 5.6 existing shares). The price for the rights issue will be announced at a later date.

Visa international's country manager for Thailand said that credit card cancellations are expected to reach 20% of new cards issued this year due to heavy promotions and competition for new customers. Last year the turnover rate was 15-20%. Visa achieved record 74% growth YoY in FY2001, with 1.9 million cards in circulation as of Dec 31—sales volume on the cards also rose 48% to THB113.8 billion. The total credit card market is estimated to have grown by 53% in FY2001, with 2.7 million cards outstanding and sales of THB138 billion, up 30% from the year before.

Bank of Ayudhya said it now has no need to raise new capital in the short-term saying the bank's capital adequacy ratio was sufficient at its current 11% level. The bank plans to restructure debts of THB30-35 billion this year, which would see its NPL ratio fall to 12% of total lending by year-end.

The Philippines

Banco de Oro said it intends to acquire up to three other lenders in order to expand the bank's presence in owner Henry Sy's shopping malls. The bank is also likely to seek a first-time sale of shares to the public in order to meet BSP requirements this year.

1st eBank—Metro Pacific's thrift banking arm—is reported to be increasing capital by PHP2.8 billion next month; with fresh funds from existing shareholders and a new strategic investor. The new investor will most likely be a bank, as sources said a "merger" is one of the options being examined.

Indonesia

In March, the government expects to finalize a policy to replace IDR 58.6 trillion worth of fixed-rate bonds with floating-rate bonds at four banks: **Bank Niaga**, **Bank Rakyat Indonesia**, **Bank Bali** and **Bank Tabungan Negara**. The bonds currently carry a fixed rate of 12%.

IBRA held a press conference last week—seemingly contradicting Bank Indonesia statements that all four bidders for the government stake in **BCA** had passed the 'fit and proper' test—saying that only Standard Chartered and the Farallon Group passed IBRA's 'drop dead' test and could proceed in the bidding process. While we feel this result was a foregone

conclusion anyway, we expect this latest installment to add to fears of a lack of transparency in the bidding process, and create even more noise around this sale. See our note on BCA in this edition of the weekly for more detail. Note that since our note was published, Farallon has threatened to pull out of the sale process.

Australia

Macquarie Bank Ltd announced the launch of a AU\$1 billion initial public offer for its Macquarie Airports Fund. The offer involves the issue of 500 million \$2.00 securities in two installments, with a minimum investment of AU\$2,000. The bank is hoping that the airports fund would be listed on the Australian Stock Exchange in early April. The float, according to Macquarie Bank, will be the biggest of its kind in Australia. The initial AU\$1 billion raised will be used to purchase 36.7% of the existing Macquarie Airport Group, which owns 50% of the UK's Bristol Airport and 24% of Birmingham Airport.

The Commonwealth Bank of Australia has created the nation's largest fund manager by merging its operations with subsidiary Colonial First State into a gigantic funds management operation with AU\$106 billion in funds under management. This gives Colonial First State 15% market share. The next largest Australian fund manager is AMP, with 10% market share.

St. George Bank launched its new platinum credit card on Friday. The card is the first of its kind to be offered by a major Australian bank and offers users higher credit limits, a rewards scheme, insurance cover, hotel upgrades, shopping and dining privileges.

China

The **Industrial and Commercial Bank of China**, China's largest commercial bank, plans to float shares to public within five years. Details of the plan were not disclosed, and there was no information as to where the shares will be floated. Before placing shares, the bank aims to revamp its business structure and reduce its NPL ratio to 10%. ICBC will tighten up internal control and set up a financial risk control mechanism in accordance with international practices, so as to reduce its heavy bad debt burden.

People's Bank of China (PBOC) will be setting up its EU representative office in Frankfurt. Total staff numbers will be similar to other representative offices, at around 10. It will be its fourth overseas representative office. It is unsure as to whether the rep office will also be responsible for managing part of China's US\$212 billion in foreign exchange reserves, as is done by the other rep offices in New York, Tokyo and London.

India

UTI Bank said it will sell new shares to investors to raise capital for new lending. The bank is already planning to sell a 5% stake to AIG (worth over IRp534 million) but said it intends to raise a further IRp2 billion over the next two years.

ICICI Ltd said it will not divest its stake in Federal Bank and South Indian Bank, even after its merger with ICICI Bank. The CFO of ICICI explained that "ICICI is under no compulsion with respect to offloading the stake in these two banks. The Reserve Bank of India never asked us to do so, nor will we divest the stake.

Figure 7: Hong Kong Bank Universe – Forecasts and Valuation

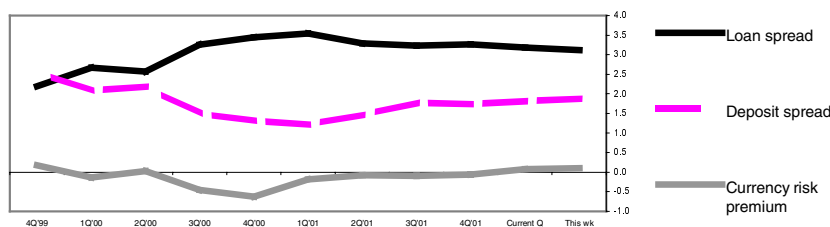
			PP Profit	Net Profit	EPS	PER	ROA	ROE	Yield %	Net interest margin	Cost to income	EPS growth
HONG KONG												
HK\$m	BEA	2000	2,900	1,871	1.33	15.1	1.2%	11.7%	3.3%	2.7%	41.8%	23.8%
Price HK\$		2001	2,777	1,904	1.33	11.5	1.1%	10.8%	4.0%	2.4%	49.4%	0.0%
Mkt Cap US\$m		2002	2,831	1,843	1.29	11.6	1.0%	9.9%	4.2%	2.4%	49.2%	-3.2%
Rating	4	2003	2,859	1,896	1.33	11.2	1.0%	9.7%	4.3%	2.4%	50.1%	2.9%
	DSF	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	7.7	2.0%	18.2%	4.5%	3.9%	38.4%	8.4%
	3	2003	1,582	1,127	4.58	7.0	2.1%	18.0%	5.0%	3.9%	34.9%	11.1%
	HSB	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	17.2	2.0%	23.1%	5.8%	2.5%	37.2%	-5.8%
	4	2003	11,880	10,241	5.36	16.0	2.1%	24.5%	5.8%	2.6%	36.8%	7.3%
	JCG	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%
	WHB	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	8.0	1.6%	13.3%	4.7%	2.9%	32.4%	8.3%
	4	2003	1,342	941	3.21	7.4	1.7%	12.6%	5.1%	2.9%	32.9%	7.9%
	WLB	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	HSBC	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	16.1	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%
COUNTRY AVERAGES												
<i>exc. HSBC</i>		<i>Total Mkt Cap US\$m</i>		PER				ROA			ROE	
		2000	2001	2002	2003	2000	2001	2002	2000	2001	2002	
Hong Kong	26,967	18.3	14.6	15.5	14.5	2.1%	2.0%	2.0%	22.7%	22.2%	20.7%	
Singapore	31,514	15.0	15.9	14.2	12.9	1.4%	1.2%	1.2%	10.4%	9.4%	9.5%	
South Korea	26,348	9.2	7.6	6.8	7.1	1.1%	1.6%	1.6%	16.3%	29.8%	29.4%	
Taiwan	11,618	12.2	17.4	12.1	10.1	1.1%	1.2%	1.3%	8.8%	8.2%	9.0%	
Malaysia	13,774	13.2	18.1	17.5	0.0	1.1%	0.8%	0.9%	13.7%	9.2%	10.1%	
Thailand	8,526	8.3	14.6	18.7	21.0	1.5%	-0.1%	0.2%	6.8%	2.8%	6.8%	
The Philippines	4,319	37.3	30.9	31.3	14.4	0.2%	0.5%	0.6%	-0.2%	4.5%	5.1%	
Indonesia	1,383	6.0	4.2	5.0	5.3	1.6%	2.1%	2.1%	40.4%	35.6%	27.0%	
REGION	124,448	14.2	14.5	13.9	10.9	1.4%	1.3%	1.4%	14.2%	16.0%	16.0%	
HONG KONG INDUSTRY STATISTICS												
Loan Growth (% yoy)												
	4Q'01	3Q'01	2Q'01	1Q'01	4Q'00	3Q'00	2Q'00	1Q'00	4Q'99	3Q'99	2Q'99	1Q'99
Property	-2.42	-2.03	-0.11	4.33	3.71	3.17	3.12	-4.11	-7.71	-11.41	-13.03	-6.98
Corporate	-9.55	-8.38	8.98	8.15	11.24	13.42	-6.66	-9.78	-10.82	-10.63	-9.14	-5.51
Finance	-14.58	-21.89	-7.16	-7.71	-8.22	-0.95	-10.20	-15.18	-18.31	-21.86	-23.76	-20.20
Trade	-15.72	-14.74	-14.68	-18.83	-16.60	-16.32	-14.21	-16.55	-19.81	-18.65	-19.34	-13.52
Mortgages	0.73	0.12	-0.08	0.09	0.66	0.32	0.52	2.58	3.29	5.46	6.39	5.72
HOS and PSPS	18.41	25.31	21.72	17.48	18.82	11.05	10.75	9.43	2.64	9.73	14.78	27.79
Credit card	12.82	18.86	22.39	25.11	30.15	25.07	20.40	15.06	7.17	7.49	7.33	11.86
Consumer	-4.54	-4.94	-0.28	-2.70	-1.06	2.01	-1.24	-3.91	-7.45	-12.52	-16.72	-13.86
Total loans for use in HK	-3.74	-4.14	1.36	1.40	2.29	2.94	-2.08	-4.94	-7.17	-7.99	-8.44	-5.18
Loans for use outside HK	-38.55	-38.42	-42.88	-43.80	-43.59	-38.89	-27.52	-22.75	-26.39	-24.49	-34.63	-34.46
Loan Breakdown (% of total)												
	4Q'01	3Q'01	2Q'01	1Q'01	4Q'00	3Q'00	2Q'00	1Q'00	4Q'99	3Q'99	2Q'99	1Q'99
Property	21.69	21.32	21.44	22.04	21.40	20.86	21.76	21.42	21.11	20.81	20.66	21.23
Corporate	19.66	20.32	20.32	20.13	20.93	21.26	18.90	18.87	19.24	19.29	19.83	19.88
Finance	8.53	8.49	9.10	9.42	9.61	10.42	9.93	10.35	10.71	10.83	10.83	11.60
Trade	5.65	6.02	6.28	6.30	6.45	6.76	7.46	7.87	7.92	8.32	8.51	8.97
Mortgages	30.12	29.66	29.04	28.84	28.79	28.40	29.46	29.21	29.25	29.14	28.70	27.07
HOS and PSPS	5.98	5.85	5.61	5.30	4.86	4.47	4.67	4.58	4.19	4.15	4.13	3.98
Credit card	3.06	2.93	2.79	2.64	2.61	2.36	2.31	2.14	2.05	1.95	1.88	1.76
Consumer	5.30	5.42	5.42	5.33	5.34	5.46	5.50	5.56	5.52	5.51	5.46	5.50
Total loans for use in HK	1,791,922	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
Loans for use outside HK	304,881	341,083	377,464	431,583	496,162	553,854	660,877	767,955	879,519	906,397	911,799	994,131

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	BEA	HONG KONG
179,805	10.0%	14.2%	4.2%	52.8%	2.4%	12.60	11.63	1.2	1.3	14.90	HK\$m
182,992	10.3%	14.6%	5.4%	48.9%	1.7%	13.24	12.27	1.1	1.2	2,739	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	DSF	
51,785	10.1%	13.8%	2.1%	129.5%	0.7%	21.28	19.80	1.5	1.6	31.90	
52,228	11.2%	15.5%	1.7%	213.3%	2.0%	23.88	22.40	1.3	1.4	1,009	
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	HSB	
475,748	8.5%	12.0%	2.9%	61.9%	-0.4%	21.28	16.14	4.0	5.3	85.75	
475,231	8.6%	12.1%	2.8%	64.9%	0.9%	21.37	16.31	4.0	5.3	21,020	
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	JCG	
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	WHB	
54,520	11.4%	17.0%	4.4%	42.0%	5.1%	21.14	19.99	1.1	1.2	23.75	
54,935	12.8%	19.3%	3.8%	50.9%	1.0%	24.02	22.82	1.0	1.0	894	
56,347	14.1%	21.4%	3.3%	60.5%	2.8%	27.16	25.89	0.9	0.9	4	
65,482	8.6%	11.6%	3.6%	80.2%	3.2%	24.34	18.80	1.3	1.7	WLB	
61,959	9.9%	13.8%	5.3%	74.1%	-4.9%	26.50	20.96	1.1	1.4	29.10	
61,399	10.8%	15.8%	4.3%	99.2%	-0.9%	28.61	23.07	1.0	1.3	866	
62,917	11.4%	17.1%	3.5%	131.4%	1.2%	30.85	25.31	0.9	1.1	4	
673,814	5.5%	9.0%	3.6%	79.0%	13.9%	3.97	3.29	3.7	4.5	HSBC	US\$m
698,758	5.5%	9.3%	3.1%	87.2%	1.5%	4.10	3.44	2.7	3.2	85.50	Price HK\$m
744,178	5.3%	9.3%	0.0%	0.0%	4.8%	4.25	3.68	2.6	3.0	102,555	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	4.4	Hong Kong
2.8%	2.0%	2.9%	5.7%	5.4%	4.4%	1.4	1.4	1.7	2.8	Singapore
2.9%	3.3%	3.8%	9.8%	7.7%	6.9%	1.1	2.2	1.1	2.3	South Korea
0.0%	0.6%	0.6%	2.3%	3.0%	3.6%	1.1	1.1	1.1	1.1	Taiwan
1.6%	1.2%	1.6%	6.9%	8.6%	6.3%	1.7	2.0	2.1	2.9	Malaysia
0.0%	0.0%	0.0%	18.7%	18.0%	15.8%	1.6	1.5	2.0	2.0	Thailand
0.9%	0.0%	0.0%	31.1%	34.0%	30.3%	1.4	1.6	1.6	1.7	Philippines
0.0%	3.2%	4.7%	18.5%	25.6%	23.7%	0.4	1.1	0.6	1.5	Indonesia
2.5%	2.6%	3.0%	7.8%	7.6%	6.7%	1.9	2.1	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
3M Interbank	2.0045	1.9426	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	1.9000	1.8639	2.1462	3.4587	4.1900	5.3413	6.6874	6.7000	6.5137	6.1097	6.1377
US Fed Funds	1.8125	1.7302	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	5.4170	5.4116	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

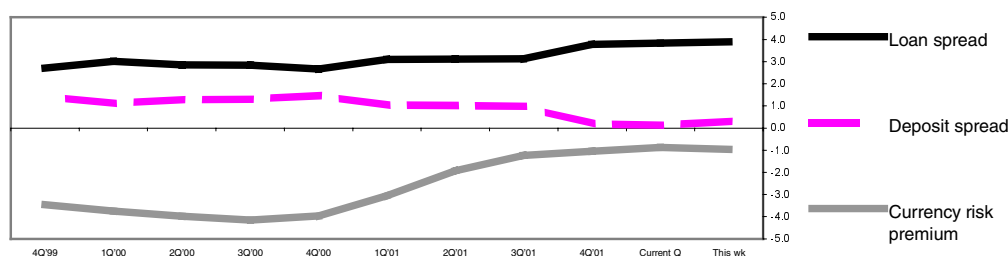
			PP Profit	Net Profit	EPS	PER	ROA	ROE	Yield %	Net interest margin	Cost to income	EPS growth
SINGAPORE												
SGDm	DBS	2000	1,725	1,389	1.14	13.4	1.3%	11.6%	2.2%	2.1%	41.9%	25.6%
Price SGD	13.50	2001	1,974	1,357	1.12	13.7	1.2%	11.2%	2.2%	2.0%	45.6%	-2.3%
Mkt Cap US\$m	10,663	2002	2,327	1,397	1.15	11.8	1.2%	10.7%	2.6%	2.0%	45.3%	2.9%
Rating	3	2003	2,214	1,311	1.08	12.5	1.1%	9.4%	2.5%	1.9%	50.3%	-6.1%
	OCBC	2000	1,264	840	0.65	20.5	1.5%	7.7%	2.2%	2.4%	34.2%	21.7%
	12.70	2001	1,542	1,012	0.79	17.0	1.4%	8.2%	1.5%	2.4%	35.6%	20.5%
	8,928	2002	1,864	1,199	0.93	13.6	1.3%	8.7%	2.4%	2.4%	35.0%	18.5%
	3	2003	2,006	1,319	1.03	12.4	1.5%	9.0%	3.1%	2.5%	32.5%	10.0%
	UOB	2000	1,205	913	0.87	12.3	1.6%	11.2%	3.7%	2.2%	38.4%	20.1%
	13.90	2001	1,535	988	0.63	17.0	1.1%	8.6%	2.2%	2.0%	39.2%	-27.5%
	11,923	2002	2,124	1,305	0.83	16.7	1.1%	9.0%	3.5%	2.0%	35.8%	32.1%
	1	2003	2,460	1,598	1.02	13.6	1.3%	10.6%	4.8%	2.0%	31.8%	22.4%
COUNTRY AVERAGES												
<i>exc. HSBC</i>		<i>Total Mkt Cap US\$m</i>		PER				ROA			ROE	
		2000	2001	2002	2003	2000	2001	2002	2000	2001	2002	
Hong Kong	26,967	18.3	14.6	15.5	14.5	2.1%	2.0%	2.0%	22.7%	22.2%	20.7%	
Singapore	31,514	15.0	15.9	14.2	12.9	1.4%	1.2%	1.2%	10.4%	9.4%	9.5%	
South Korea	26,348	9.2	7.6	6.8	7.1	1.1%	1.6%	1.6%	16.3%	29.8%	29.4%	
Taiwan	11,618	12.2	17.4	12.1	10.1	1.1%	1.2%	1.3%	8.8%	8.2%	9.0%	
Malaysia	13,774	13.2	18.1	17.5	0.0	1.1%	0.8%	0.9%	13.7%	9.2%	10.1%	
Thailand	8,526	8.3	14.6	18.7	21.0	1.5%	-0.1%	0.2%	6.8%	2.8%	6.8%	
The Philippines	4,319	37.3	30.9	31.3	14.4	0.2%	0.5%	0.6%	-0.2%	4.5%	5.1%	
Indonesia	1,383	6.0	4.2	5.0	5.3	1.6%	2.1%	2.1%	40.4%	35.6%	27.0%	
REGION	124,448	14.2	14.5	13.9	10.9	1.4%	1.3%	1.4%	14.2%	16.0%	16.0%	
SINGAPORE INDUSTRY STATISTICS												
Loan Growth (% yoy)												
	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
Loan Breakdown (% of total)												
	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	DBS	SINGAPORE
113,745	11.1%	- %	3.4%	59.5%	19.4%	10.38	3.97	1.3	3.4	13.50	SGDm
118,045	11.5%	- %	2.6%	62.6%	2.8%	11.13	4.99	1.2	2.7	10,663	Price SGD
122,509	11.7%	- %	2.2%	71.2%	2.9%	11.83	5.96	1.1	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	OCBC	
89,366	15.0%	- %	7.0%	54.8%	16.1%	10.44	5.13	1.2	2.5	12.70	
89,374	15.9%	- %	6.1%	52.2%	5.1%	11.05	5.83	1.1	2.2	8,928	
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	UOB	
114,968	12.5%	- %	6.0%	50.7%	-5.5%	9.14	5.61	1.5	2.5	13.90	
123,157	12.0%	- %	4.8%	54.1%	0.2%	9.40	5.97	1.5	2.3	11,923	
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	4.4	Hong Kong
2.8%	2.0%	2.9%	5.7%	5.4%	4.4%	1.4	1.4	1.7	2.8	Singapore
2.9%	3.3%	3.8%	9.8%	7.7%	6.9%	1.1	2.2	1.1	2.3	South Korea
0.0%	0.6%	0.6%	2.3%	3.0%	3.6%	1.1	1.1	1.1	1.1	Taiwan
1.6%	1.2%	1.6%	6.9%	8.6%	6.3%	1.7	2.0	2.1	2.9	Thailand
0.0%	0.0%	0.0%	18.7%	18.0%	15.8%	1.6	1.5	2.0	2.0	Malaysia
0.9%	0.0%	0.0%	31.1%	34.0%	30.3%	1.4	1.6	1.6	1.7	Philippines
0.0%	3.2%	4.7%	18.5%	25.6%	23.7%	0.4	1.1	0.6	1.5	Indonesia
2.5%	2.6%	3.0%	7.8%	7.6%	6.7%	1.9	2.1	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	0.5625	0.5182	0.4708	2.0102	2.0240	2.1653	2.6481	1.8750	2.1388	1.5412	1.1359
3M Interbank	0.9375	0.9938	1.1039	2.2255	2.2665	2.2819	2.7157	2.5489	2.5353	2.3661	2.6692
Prime lending	4.8300	4.8308	4.8865	5.3526	5.3800	5.3800	5.3800	5.3800	5.3800	5.3800	5.3800
3M Deposits	0.6250	0.8708	0.9022	1.2446	1.2500	1.2500	1.2500	1.2500	1.2500	1.2500	1.2500
3M LIBOR	1.9000	1.8639	2.1462	3.4587	4.1900	5.3413	6.6874	6.7000	6.5137	6.1097	6.1377
US Fed Funds	1.8125	1.7302	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	5.4170	5.4116	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
SOUTH KOREA												
KRWm	Hana	2000	618,865	17,771	143	41.4	0.0%	0.9%	3.4%	1.8%	57.4%	-89.1%
Price KRW		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		2002	957,801	504,965	4,060	4.9	1.1%	28.3%	6.9%	2.3%	54.4%	40.7%
Rating		2003	1,035,242	613,216	4,931	4.0	1.2%	30.9%	8.4%	2.2%	53.3%	21.4%
	Kookmin	2000	3,345,683	1,105,983	3,860	6.6	0.8%	19.7%	2.5%	2.5%	47.1%	150.1%
		2001	5,140,874	2,196,173	7,326	6.8	1.3%	31.9%	4.4%	2.6%	38.0%	89.8%
		2002	5,192,365	2,683,628	8,952	6.5	1.4%	31.5%	4.9%	2.7%	39.3%	22.2%
		2003	5,515,296	2,552,208	8,514	6.8	1.2%	25.4%	4.6%	2.5%	38.0%	-4.9%
	Kookmin CC	2000	551,594	300,541	10,278	2.7	4.8%	52.3%	0.0%	8.8%	43.9%	na
		2001	1,085,243	458,083	6,258	8.0	4.9%	45.9%	0.0%	12.8%	38.4%	-39.1%
		2002	1,193,942	492,196	6,724	8.0	4.3%	36.0%	0.0%	0.0%	38.4%	7.4%
		2003	1,326,112	479,928	6,556	8.2	3.6%	28.1%	0.0%	0.0%	38.2%	-2.5%
	KorAm	2000	394,958	(396,048)	(2,429)	NM	-1.5%	-52.5%	0.0%	1.8%	48.2%	-571.2%
		2001	547,360	195,020	1,196	10.0	0.7%	20.9%	0.3%	2.6%	45.3%	-149.2%
		2002	628,647	297,549	1,825	7.1	0.9%	24.3%	0.4%	3.0%	42.9%	52.6%
		2003	685,896	331,325	2,032	6.4	0.9%	20.2%	0.5%	2.7%	41.8%	11.4%
	Shinhan	2000	1,027,362	337,834	1,293	8.0	0.7%	11.1%	7.2%	2.1%	44.3%	31.6%
		2001	1,126,922	498,607	1,706	10.3	0.9%	16.2%	1.5%	2.2%	44.2%	31.9%
		2002	1,214,403	625,545	2,140	8.4	1.0%	18.8%	1.8%	2.3%	54.2%	25.5%
		2003	1,252,879	696,671	2,291	7.8	1.1%	18.0%	1.9%	2.0%	53.5%	7.1%

COUNTRY AVERAGES		PER				ROA			ROE		
exc. HSBC	Total Mkt Cap US\$m	2000	2001	2002	2003	2000	2001	2002	2000	2001	2002
Hong Kong	26,967	18.3	14.6	15.5	14.5	2.1%	2.0%	2.0%	22.7%	22.2%	20.7%
Singapore	31,514	15.0	15.9	14.2	12.9	1.4%	1.2%	1.2%	10.4%	9.4%	9.5%
South Korea	26,348	9.2	7.6	6.8	7.1	1.1%	1.6%	1.6%	16.3%	29.8%	29.4%
Taiwan	11,618	12.2	17.4	12.1	10.1	1.1%	1.2%	1.3%	8.8%	8.2%	9.0%
Malaysia	13,774	13.2	18.1	17.5	0.0	1.1%	0.8%	0.9%	13.7%	9.2%	10.1%
Thailand	8,526	8.3	14.6	18.7	21.0	1.5%	-0.1%	0.2%	6.8%	2.8%	6.8%
The Philippines	4,319	37.3	30.9	31.3	14.4	0.2%	0.5%	0.6%	-0.2%	4.5%	5.1%
Indonesia	1,383	6.0	4.2	5.0	5.3	1.6%	2.1%	2.1%	40.4%	35.6%	27.0%
REGION	124,448	14.2	14.5	13.9	10.9	1.4%	1.3%	1.4%	14.2%	16.0%	16.0%

SOUTH KOREA INDUSTRY STATISTICS

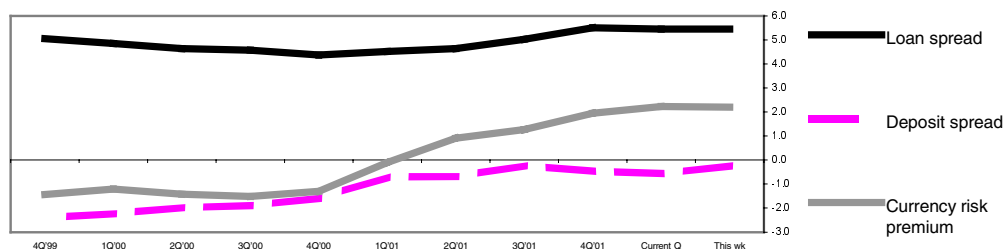
	Loan Growth (% yoy)											
	3Q'01	2Q'01	1Q'01	4Q'00	3Q'00	2Q'00	1Q'00	4Q'99	3Q'99	2Q'99	1Q'99	4Q'98
Corporate	6.25	9.44	14.06	19.69	15.91	24.31	25.59	22.55	18.48	2.75	2.76	8.31
Manufacturing	2.14	4.18	7.25	12.41	13.78	16.56	17.45	12.91	14.47	-0.12	-8.66	-4.85
Trade	2.98	4.92	9.88	14.12	21.81	32.12	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
	Loan Breakdown (% of total)											
	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	Hana	SOUTH KOREA
45,072,403	4.2%	7.3%	7.6%	33.0%	3.7%	13,533	13,527	1.5	1.5	19,750.00	KRWm
49,489,462	4.0%	7.4%	7.5%	33.5%	9.7%	15,070	15,065	1.3	1.3	2,034	Price KRW
53,599,712	4.1%	7.6%	7.3%	37.7%	8.2%	16,705	16,700	1.2	1.2	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	Kookmin	
176,900,537	4.3%	0.0%	9.1%	32.6%	13.3%	25,526	24,191	2.3	2.4	57,900.00	
196,291,961	4.8%	0.0%	7.8%	36.8%	10.9%	31,218	29,882	1.9	1.9	15,780	
216,971,099	5.0%	0.0%	6.7%	47.8%	10.6%	35,874	34,539	1.6	1.7	1	
8,181,476	9.8%	0.0%	3.1%	72.2%	99.7%	27,446	27,446	1.0	1.0	KCC	
10,577,683	11.3%	0.0%	3.1%	84.7%	32.0%	16,334	16,334	3.3	3.3	54,000.00	
12,270,112	12.6%	0.0%	3.1%	72.6%	13.5%	21,041	21,041	2.6	2.6	2,986	
14,233,330	13.2%	0.0%	3.6%	69.4%	16.0%	25,630	25,630	2.1	2.1	NR	
28,663,059	2.8%	5.0%	11.3%	77.0%	36.0%	4,898	4,897	1.0	1.0	KorAm	
29,178,090	3.4%	5.8%	8.0%	35.4%	4.1%	6,077	6,076	2.1	2.1	12,950.00	
34,232,036	4.1%	5.3%	7.6%	39.5%	11.0%	8,563	8,562	1.5	1.5	1,595	
37,924,070	4.8%	6.2%	7.4%	39.8%	9.8%	11,262	11,261	1.1	1.1	3	
50,076,050	6.1%	12.3%	9.9%	23.8%	21.1%	11,738	11,533	0.9	0.9	Shinhan	
56,329,649	5.5%	11.2%	5.4%	33.1%	20.6%	10,518	10,334	1.7	1.7	17,900.00	
62,954,847	5.7%	11.6%	5.7%	36.8%	9.2%	12,267	12,083	1.5	1.5	3,953	
68,455,195	6.1%	12.2%	6.1%	35.1%	8.6%	13,688	13,511	1.3	1.3	3	

Yield		NPL		Price to book		Price to ABVPS		
2000	2001	2002	2000	2001	2002	2000	2001	
4.4%	5.4%	5.5%	3.4%	3.2%	3.2%	4.2	3.4	Hong Kong
2.8%	2.0%	2.9%	5.7%	5.4%	4.4%	1.4	1.4	Singapore
2.9%	3.3%	3.8%	9.8%	7.7%	6.9%	1.1	2.2	South Korea
0.0%	0.6%	0.6%	2.3%	3.0%	3.6%	1.1	1.1	Taiwan
1.6%	1.2%	1.6%	6.9%	8.6%	6.3%	1.7	2.0	Thailand
0.0%	0.0%	0.0%	18.7%	18.0%	15.8%	1.6	1.5	Malaysia
0.9%	0.0%	0.0%	31.1%	34.0%	30.3%	1.4	1.6	Philippines
0.0%	3.2%	4.7%	18.5%	25.6%	23.7%	0.4	1.1	Indonesia
2.5%	2.6%	3.0%	7.8%	7.6%	6.7%	1.9	2.1	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	4.0983	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	4.3500	4.6640	4.5780	4.9691	5.7865	5.9463	6.9737	7.0751	7.0848	7.1408	7.1223
3M LIBOR	1.9000	1.8639	2.1462	3.4587	4.1900	5.3413	6.6874	6.7000	6.5137	6.1097	6.1377
US Fed Funds	1.8125	1.7302	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	5.4170	5.4116	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
THAILAND												
THBm	BBL	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	13.9	0.5%	29.0%	0.0%	2.2%	59.5%	28.2%
Rating		2003	16,134	8,373	5.71	11.8	0.6%	25.0%	0.0%	2.0%	60.0%	17.9%
	BAY	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)	-3.6	-0.7%	-29.5%	0.0%	1.5%	104.8%	108.4%
		2003	(463)	(3,102)	(1.68)	-3.6	-0.7%	-41.2%	0.0%	1.4%	105.8%	1.7%
	IFCT	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)	-27.3	-0.2%	-4.4%	0.0%	-0.2%	164.6%	77.7%
		2003	(18)	(159)	(0.14)	-54.7	-0.1%	-2.3%	0.0%	0.0%	102.8%	-50.1%
	KTB	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%
	SCB	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	23.3	0.5%	6.4%	0.0%	2.4%	56.3%	69.1%
		2003	12,155	4,145	1.32	20.6	0.5%	6.7%	0.0%	2.3%	55.1%	13.4%
	TFB	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	27.5	0.3%	11.6%	0.0%	2.5%	72.8%	172.7%
		2003	8,152	2,837	1.20	23.9	0.3%	11.7%	0.0%	2.3%	71.6%	15.2%
	TMB	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%
TAIWAN												
NT\$m	Chinatrust	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	12.9	1.1%	11.2%	- %	2.2%	56.0%	30.0%
Rating		2003	16,253	10,461	2.24	11.0	1.1%	11.7%	- %	2.1%	57.3%	17.2%
	Fubon	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%
	SinoPac	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	10.9	0.9%	9.6%	- %	2.0%	56.4%	20.3%
		2003	3,387	2,706	1.39	9.8	0.9%	9.7%	- %	1.8%	58.8%	11.1%
	Taishin	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	12.4	0.7%	7.2%	- %	3.2%	60.2%	28.9%
		2003	5,313	2,631	1.47	10.0	0.7%	7.9%	- %	3.2%	60.8%	24.5%
	UWCCB	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	11.6	0.9%	8.7%	2.1%	2.1%	47.5%	6.0%
		2003	9,973	7,186	1.91	9.8	0.9%	9.6%	2.5%	2.0%	47.8%	18.6%
COUNTRY AVERAGES												
<i>exc. HSBC</i>		<i>Total Mkt Cap US\$m</i>		PER				ROA			ROE	
		2000	2001	2002	2003	2000	2001	2002	2000	2001	2002	
Hong Kong	26,967	18.3	14.6	15.5	14.5	2.1%	2.0%	2.0%	22.2%	22.2%	20.7%	
Singapore	31,514	15.0	15.9	14.2	12.9	1.4%	1.2%	1.2%	10.4%	9.4%	9.5%	
South Korea	26,348	9.2	7.6	6.8	7.1	1.1%	1.6%	1.6%	16.3%	29.8%	29.4%	
Taiwan	11,618	12.2	17.4	12.1	10.1	1.1%	1.2%	1.3%	8.8%	8.2%	9.0%	
Malaysia	13,774	13.2	18.1	17.5	0.0	1.1%	0.8%	0.9%	13.7%	9.2%	10.1%	
Thailand	8,526	8.3	14.6	18.7	21.0	1.5%	-0.1%	0.2%	6.8%	2.8%	6.8%	
The Philippines	4,319	37.3	30.9	31.3	14.4	0.2%	0.5%	0.6%	-0.2%	4.5%	5.1%	
Indonesia	1,383	6.0	4.2	5.0	5.3	1.6%	2.1%	2.1%	40.4%	35.6%	27.0%	
REGION	124,448	14.2	14.5	13.9	10.9	1.4%	1.3%	1.4%	14.2%	16.0%	16.0%	

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	
THAILAND										
1,240,400	2.7%	- %	28.8%	26.9%	-14.3%	23.15	11.52	1.5	3.0	BBL
1,298,075	2.8%	- %	28.5%	35.4%	-2.9%	24.91	13.85	2.7	4.9	THBm
1,376,915	3.2%	- %	25.0%	42.4%	-2.0%	29.75	19.55	2.3	3.5	Price THB
1,471,249	3.5%	- %	21.0%	50.6%	-0.3%	35.46	26.05	1.9	2.6	Mkt Cap US\$m
										Rating
435,112	3.6%	- %	29.7%	8.8%	-8.9%	8.36	7.53	0.6	0.7	BAY
441,366	3.5%	- %	27.6%	11.2%	0.9%	8.31	6.33	0.7	0.9	6.00
451,279	2.7%	- %	23.9%	16.0%	-1.0%	6.66	4.83	0.9	1.2	254
462,552	2.0%	- %	19.9%	22.7%	1.0%	4.99	3.30	1.2	1.8	4
179,714	4.9%	- %	23.0%	28.2%	13.8%	7.64	7.04	1.1	1.2	IFCT
198,153	4.0%	- %	21.7%	26.7%	2.5%	6.87	6.31	1.1	1.2	7.50
210,957	3.6%	- %	17.9%	31.2%	-0.5%	6.59	6.08	1.1	1.2	199
226,234	3.3%	- %	14.4%	36.4%	1.3%	6.46	5.98	1.2	1.3	3
990,093	6.6%	- %	28.3%	12.6%	-58.4%	2.98	2.80	3.9	4.1	KTB
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	3,454
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	SCB
751,415	8.5%	- %	32.6%	18.8%	-3.9%	20.34	17.67	1.3	1.5	27.25
802,895	8.4%	- %	28.4%	24.4%	-0.5%	21.51	19.04	1.3	1.4	529
864,191	8.3%	- %	23.7%	32.2%	1.0%	22.83	20.56	1.2	1.3	3
766,630	3.4%	- %	35.7%	35.6%	-2.3%	10.95	8.14	2.2	2.9	TFB
811,195	3.2%	- %	31.2%	42.2%	-6.8%	11.02	8.35	2.6	3.4	28.75
866,771	3.3%	- %	26.5%	51.7%	-1.5%	12.07	9.60	2.4	3.0	1,548
932,943	3.4%	- %	21.9%	64.1%	0.0%	13.27	10.99	2.2	2.6	3
336,557	3.9%	- %	42.6%	9.7%	-6.5%	3.26	3.01	1.7	1.9	TMB
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	276
419,319	2.4%	- %	30.2%	19.5%	1.0%	2.54	2.35	2.4	2.6	4
TAIWAN										
721,867	9.5%	9.2%	1.9%	65.6%	17.8%	17.29	17.29	1.1	1.1	Chinatrust
770,325	9.8%	10.1%	1.6%	40.9%	6.5%	16.31	16.31	1.5	1.5	24.70
875,027	9.6%	10.6%	2.7%	75.2%	13.9%	18.25	18.25	1.4	1.4	3,240
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.	Fubon
473,960	22.3%	n.a.	n.a.	n.a.	n.a.	18.82	18.82	1.0	1.0	18.26
501,211	22.4%	n.a.	n.a.	n.a.	n.a.	19.93	19.93	0.9	0.9	4,650
534,937	22.4%	n.a.	n.a.	n.a.	n.a.	21.24	21.24	0.9	0.9	2
235,057	9.4%	14.3%	0.8%	101.1%	15.4%	12.62	12.62	1.1	1.1	SinoPac
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	13.70
342,750	8.6%	12.9%	1.4%	45.5%	19.8%	15.08	15.08	0.9	0.9	759
										Mkt Cap US\$m
275,860	10.2%	9.8%	2.3%	49.3%	5.3%	15.23	14.62	0.9	0.9	2
309,430	9.6%	11.2%	2.3%	64.8%	10.4%	16.67	16.67	0.9	0.9	Taishin
349,971	9.2%	11.3%	2.3%	73.8%	12.2%	17.92	17.92	0.8	0.8	14.65
385,149	9.0%	11.5%	2.3%	78.2%	10.1%	19.39	19.39	0.8	0.8	960
661,237	9.6%	10.9%	3.4%	26.9%	14.2%	18.52	18.52	1.2	1.2	UWCCB
672,025	10.0%	13.2%	6.3%	18.8%	-2.7%	17.91	17.91	1.0	1.0	18.70
732,011	9.8%	13.1%	6.4%	15.5%	7.8%	19.11	19.11	1.0	1.0	2,009
812,280	9.5%	12.8%	6.3%	9.6%	9.6%	20.54	20.54	0.9	0.9	4
REGION										
2000	Yield 2001	2002	2000	NPL 2001	2002	Price to book		Price to ABVPS		
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%	5.4%	4.4%	4.2	3.4	5.5	4.4	Hong Kong
2.9%	3.3%	3.8%	9.8%	7.7%	6.9%	1.4	1.4	1.7	2.8	Singapore
0.0%	0.6%	0.6%	2.3%	3.0%	3.6%	1.1	2.2	1.1	2.3	South Korea
1.6%	1.2%	1.6%	6.9%	8.6%	6.3%	1.1	1.1	1.1	1.1	Taiwan
0.0%	0.0%	0.0%	18.7%	18.0%	15.8%	1.7	2.0	2.1	2.9	Thailand
0.9%	0.0%	0.0%	31.1%	34.0%	30.3%	1.6	1.5	2.0	2.0	Malaysia
0.0%	3.2%	4.7%	18.5%	25.6%	23.7%	1.4	1.6	1.6	1.7	Philippines
2.5%	2.6%	3.0%	7.8%	7.6%	6.7%	0.4	1.1	0.6	1.5	Indonesia
						1.9	2.1	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
MALAYSIA												
Rm	CAHB	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	18.0	0.7%	9.2%	1.2%	3.2%	51.2%	-12.4%
Rating		2003	1,557	687	0.58	15.0	0.8%	10.1%	1.5%	3.2%	50.4%	20.4%
	Maybank	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	19.1	0.8%	9.3%	1.6%	2.7%	45.7%	29.3%
		2003	2,730	1,379	0.59	15.0	0.9%	10.7%	1.5%	2.5%	47.4%	26.8%
	Pub Bank	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	12.3	1.6%	13.4%	2.0%	3.9%	34.7%	16.1%
		2003	1,923	995	0.31	11.0	1.7%	13.5%	2.0%	3.9%	33.6%	12.6%
THE PHILIPPINES												
Pm	BPI	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	21.2	1.1%	8.9%	0.0%	4.5%	61.9%	0.0%
Rating		2003	10,722	5,931	3.86	17.6	1.2%	9.8%	0.0%	4.5%	58.7%	20.0%
	Eq-PCI	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%
	Metro	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	21.3	0.7%	7.6%	0.0%	2.9%	69.2%	-2.4%
		2003	8,380	4,168	12.76	16.6	0.8%	8.9%	0.0%	2.9%	65.2%	27.9%
	PNB	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)	-12.9	-0.9%	-13.1%	0.0%	0.1%	104.1%	-54.9%
		2003	(61)	(1,402)	(4)	-18.1	-0.6%	-10.5%	0.0%	0.2%	100.6%	-28.4%
INDONESIA												
Rpm	BCA	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	4.5	2.2%	30.4%	6.1%	4.4%	38.6%	-5.0%
Rating		2003	3,543	2,335	396.69	4.7	2.1%	23.4%	8.3%	4.3%	39.5%	-2.5%
	LPBN	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%
	PNBN	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	4.0	2.3%	13.3%	0.0%	4.4%	29.0%	203.6%
		2003	709	382	64.13	4.1	2.0%	11.4%	0.0%	4.0%	30.5%	-3.3%
COUNTRY AVERAGES												
exc. HSBC	Total Mkt Cap US\$m		2000	2001	2002	2003	2000	2001	2002	2000	2001	2002
Hong Kong	26,967		18.3	14.6	15.5	14.5	2.1%	2.0%	2.0%	22.7%	22.2%	20.7%
Singapore	31,514		15.0	15.9	14.2	12.9	1.4%	1.2%	1.2%	10.4%	9.4%	9.5%
South Korea	26,348		9.2	7.6	6.8	7.1	1.1%	1.6%	1.6%	16.3%	29.8%	29.4%
Taiwan	11,618		12.2	17.4	12.1	10.1	1.1%	1.2%	1.3%	8.8%	8.2%	9.0%
Malaysia	13,774		13.2	18.1	17.5	14.2	1.1%	0.8%	0.9%	13.7%	9.2%	10.1%
Thailand	8,526		8.3	14.6	18.7	21.0	1.5%	-0.1%	0.2%	6.8%	2.8%	6.8%
The Philippines	4,319		37.3	30.9	31.3	14.4	0.2%	0.5%	0.6%	-0.2%	4.5%	5.1%
Indonesia	1,383		6.0	4.2	5.0	5.3	1.6%	2.1%	2.1%	40.4%	35.6%	27.0%
REGION	124,448		14.2	14.5	13.9	12.4	1.4%	1.3%	1.4%	14.2%	16.0%	16.0%

Source: Company reports, Bloomberg, Lehman Brothers

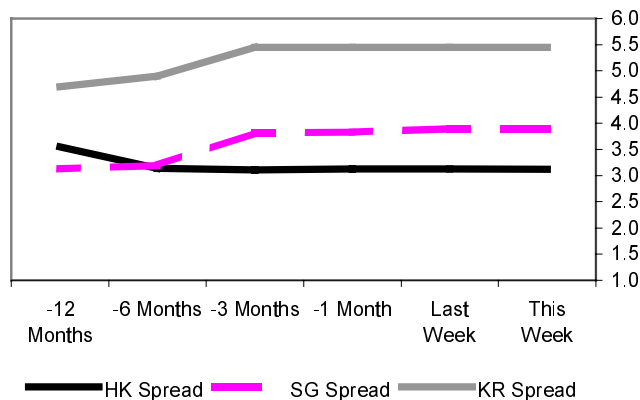
Total Assets	Equity to assets	Tier 1 capital	NPL	NPL cover	Loan growth	BVPS	ABVPS	Price to BVPS	Price to ABVPS		
MALAYSIA											
69,882	7.6%	10.0%	11.8%	29.3%	16.1%	4.49	2.17	1.8	3.8	CAHB	RMm
76,805	7.6%	9.2%	9.1%	38.8%	10.2%	5.01	3.49	1.7	2.5		Price RM
82,012	7.8%	9.4%	7.1%	48.6%	7.0%	5.48	4.64	1.6	1.9		Mkt Cap US\$m
87,684	8.1%	9.6%	5.0%	62.8%	7.1%	6.02	5.63	1.5	1.6		Rating
127,072	8.2%	11.0%	5.5%	76.4%	4.1%	4.44	4.44	1.6	1.6	Maybank	
140,897	7.1%	9.2%	9.0%	55.0%	19.0%	4.27	2.78	2.1	3.2		8.85
147,122	8.5%	10.7%	6.5%	69.0%	5.3%	5.31	5.25	1.7	1.7		8,253
155,325	8.8%	11.1%	4.7%	81.7%	5.7%	5.83	5.83	1.5	1.5		2
44,101	10.0%	21.8%	6.2%	52.8%	11.1%	1.86	1.65	1.6	1.8	Pub Bank	
51,769	11.9%	23.1%	7.1%	42.5%	24.5%	1.69	1.41	2.0	2.4		3.36
56,198	12.3%	23.9%	4.7%	56.1%	8.0%	1.88	1.75	1.8	1.9		2,751
60,949	12.7%	24.8%	3.2%	71.8%	8.2%	2.11	2.07	1.6	1.6		2
PHILIPPINES											
393,429	12.5%	0.0%	19.1%	47.1%	6.9%	32	32	1.8	1.8	BPI	Pm
425,998	12.4%	0.0%	22.0%	47.5%	-4.9%	34	34	2.0	2.0		68.00
461,098	12.5%	0.0%	20.0%	54.7%	1.5%	38	38	1.8	1.8		2,033
504,018	12.6%	0.0%	17.8%	63.3%	3.0%	41	41	1.6	1.6		2
280,302	16.0%	0.0%	26.9%	28.3%	16.4%	62	36	1.0	1.6	Eq-PCI	
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		440
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	Metro	
470,850	10.6%	0.0%	31.6%	24.7%	-0.8%	153	126	1.4	1.7		212.00
509,644	10.4%	0.0%	27.7%	29.7%	1.5%	163	136	1.3	1.6		1,352
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	PNB	
197,833	8.4%	0.0%	91.5%	27.7%	-2.2%	44	42	1.5	1.6		67.00
214,133	6.8%	0.0%	81.2%	34.0%	1.5%	39	37	1.7	1.8		494
234,065	5.6%	0.0%	69.7%	41.2%	3.0%	35	33	1.9	2.0		4
INDONESIA											
96,188	7.3%	- %	7.5%	68.4%	94.7%	2,380.31	1,749.40	0.4	0.5	BCA	Rpm
105,621	8.8%	- %	13.2%	67.9%	60.0%	1,575.91	1,141.94	1.2	1.6		1,850.00
107,749	10.3%	- %	12.6%	75.3%	8.2%	1,881.10	1,535.41	1.0	1.2		1,076
109,920	11.5%	- %	12.0%	81.7%	8.2%	2,138.95	1,851.17	0.9	1.0		1
22,627	11.2%	- %	67.3%	26.5%	-3.0%	64.69	29.63	0.9	1.9	LPBN	
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		152
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	PNBN	
16,525	16.8%	- %	37.6%	50.5%	16.1%	466.35	463.82	0.6	0.6		265.00
17,939	17.7%	- %	32.7%	62.0%	5.1%	532.68	530.32	0.5	0.5		155
19,360	18.4%	- %	25.5%	81.3%	7.7%	596.80	594.61	0.4	0.4		4
REGION											
	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	4.4		exc. HSBC
2.8%	2.0%	2.9%	5.7%	5.4%	4.4%	1.4	1.4	1.7	2.8		Hong Kong
2.9%	3.3%	3.8%	9.8%	7.7%	6.9%	1.1	2.2	1.1	2.3		Singapore
0.0%	0.6%	0.6%	2.3%	3.0%	3.6%	1.1	1.1	1.1	1.1		South Korea
1.6%	1.2%	1.6%	6.9%	8.6%	6.3%	1.7	2.0	2.1	2.9		Taiwan
0.0%	0.0%	0.0%	18.7%	18.0%	15.8%	1.6	1.5	2.0	2.0		Thailand
0.9%	0.0%	0.0%	31.1%	34.0%	30.3%	1.4	1.6	1.6	1.7		Malaysia
0.0%	3.2%	4.7%	18.5%	25.6%	23.7%	0.4	1.1	0.6	1.5		Philippines
2.5%	2.6%	3.0%	7.8%	7.6%	6.7%	1.9	2.1	2.4	2.8		Indonesia

Figure 12: Key Interest Rates

	This Week	Last Week	-1 Month	-3 Months	-6 Months	-12 Months
Hong Kong						
3 Mo HIBOR	2.0045	1.9955	1.9978	2.1406	3.3594	4.9531
Prime	5.1250	5.1250	5.1250	5.2500	6.5000	8.5000
Savings	0.1250	0.1250	0.1250	0.2500	1.5000	3.7500
Singapore						
Interbank O/N	0.5625	0.5625	0.5000	0.5000	1.8750	3.3750
3 Mo SIBOR	0.9375	0.9375	1.0000	1.0625	2.1875	2.2500
Prime	4.8300	4.8300	4.8300	4.8800	5.3800	5.3800
3 Mo Deposits	0.6250	0.8750	0.8750	0.8750	1.2500	1.2500
Korea						
Interbank O/N	4.1000	4.1000	4.1000	4.1000	4.8500	5.0500
Prime	9.5500	9.5500	9.5500	9.5500	9.7500	9.7500
3 Mo Deposits	4.3500	4.4900	4.6500	4.7600	4.8100	5.6800
Thailand						
Interbank O/N	2.0625	2.0000	2.0000	2.5000	2.7500	1.7500
MLR	7.0625	7.0625	7.1250	7.3125	7.3125	7.3125
Malaysia						
3 Mo KLIBOR	3.2800	3.2800	3.2800	3.3000	3.2900	3.2300
Prime	6.4000	6.4000	6.4000	6.4000	6.7900	6.7900
3 Mo Deposits	3.2000	3.2000	3.2000	3.2000	3.4500	3.4500
Taiwan						
Interbank O/N	2.2780	2.2480	2.2800	2.4070	3.3910	4.3740
Prime	6.7250	6.7250	6.7250	6.7900	6.9900	7.0800
Philippines						
3 Mo PHIBOR	7.6250	8.0000	8.2500	11.3125	11.1250	11.9375
Prime	10.1250	10.3900	11.0159	12.8767	12.9012	9.8125
Savings	7.0089	7.0625	7.6875	9.1250	9.0714	9.8125
Indonesia						
3 Mo JIBOR	17.5078	17.5417	17.5703	17.9066	17.7813	15.0938
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	14.9400
US						
3 Mo LIBOR	1.9000	1.9013	1.9200	2.0319	3.4625	5.0400
Fed Funds	1.8125	1.7500	1.8125	2.1250	3.6250	5.4375
Prime	4.7500	4.7500	4.7500	5.0000	6.5000	8.5000
UST 30 Year	5.4090	5.3440	5.3930	5.2860	5.3680	5.3220

Source: Lehman Brothers, Bloomberg

Figure 13: Major Market Spreads



Source: Lehman Brothers

Company Focus: Hong Kong

HSBC: 2001 Results Preview—Putting it All Together

- We expect HSBC's reported results to come in below our forecast of US\$5.9 billion.
- HSBC is expected to announce a poor set of 2001 results on March 4, highlighted by significant provisions, disposal gains and deteriorating operating trends.
- StanChart's results revealed higher loan loss provisions in the consumer space and loan growth only in mortgages and credit cards.
- Revenues in Europe are growing on the back of meaningful loan growth, but gains are being lost to higher operating expenses, as has been the case at both Barclays and Lloyds.
- We are maintaining our 3-Market Perform rating and share price target of HK\$84.

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HSBC is expected to report a weak set of 2001 results on March 4. We are projecting a net profit of US\$5.9 billion or US\$0.64 per share, representing a 15% decline from 2000. On a cash earnings basis, we are projecting US\$6.7 billion or US\$0.72 per share, down 11% from last year. The decline is even more profound on a half-on-half basis—second half net profit is expected to be down 38% to US\$2.3 billion. The key drivers to the lower earnings are expected to be higher loan loss provisions, a US\$575 million charge to settle the Princeton lawsuit and lower disposal gains—all of which are well known. The exception is the size of the provision to be taken for Argentina. Meanwhile, pre-provision earnings are expected to be weak, on lower margins, only modest loan growth and expense growth outpacing revenue.

Figure 14: HSBC Earnings

	2000	1H01	2H01	2001	Change	
					HoH	YoY
Net interest income	13,723	7,192	7,278	14,470	1.2%	5.4%
Non-interest income	10,850	5,609	5,618	11,227	0.2%	3.5%
Total operating income	24,573	12,801	12,896	25,697	0.7%	4.6%
Operating expenses	-13,577	-7,149	-7,231	-14,380	1.1%	5.9%
Operating income	10,996	5,652	5,665	11,317	0.2%	2.9%
Loan loss provisions	-1,039	-536	-1,516	-2,052	182.8%	97.5%
Disposals and others	328	720	68	788	-90.6%	140.2%
Profit before goodwill	10,285	5,836	4,217	10,053	-27.7%	-2.3%
Net profit	6,628	3,670	2,259	5,929	-38.4%	-10.5%
EPS	0.75	0.41	0.22	0.64	-46.4%	-15.0%
Cash EPS	0.81	0.44	0.29	0.72	-34.7%	-11.3%

Source: Lehman Brothers estimates

Loan loss provisions up sharply. The full year loan loss provision is expected to increase almost 50%, with most of the charge coming in the second half of the year—we expect the second half provision to come in at more than double the first half figure and more than the full year figure in 2000. Overall, loan loss provisions are expected to equate to 46 basis points of loans, up from 32 basis points last year. Although this is approaching more normalized levels, we point out that over 40% of this year's loan loss provision is allocated for Argentina exposure. Remember in Argentina, HSBC has exposure of approximately US\$5 billion, with half in loans and half in government bonds. We have earmarked an additional US\$300 million to operations in Argentina, for a full year provision of almost US\$600 million. Stripping this out, loan loss provisions are only projected at less than 30 basis points of remaining loans outstanding, which appears to be on the low side. In Europe, we have already seen Barclays and Lloyds TSB take provisions of around 60-65 basis points. Meanwhile in Hong Kong, we have already seen Bank of East Asia and Standard Chartered take loan loss provision equal to 40 basis points and 122 basis points of loans. Consequently, there is room for provisions to come in higher than our figure.

Significant amount of non-recurrent items 1) These results will also include a US\$575 million charge to resolve the Princeton lawsuit, which relates to an investment fraud involving RNYC which came to light after HSBC announced it was acquiring RNYC; 2) We have also pencilled in US\$712 million in disposal gains, just slightly more than the US\$676 million that was realized in the first half of the year, but more than double the US\$304 realized in 2000. In the first half of this year, disposal gains included US\$239 million from equities, US\$145 million from debt and US\$261 million from associates.

Pedestrian core earnings. On a core pre-provision basis, earnings are expected to be flat on the half and up approximately 3% for the year. Overall, we expect revenue to grow by just under 5% compared to almost 6% growth in operating expenses—cost-to-income ratio should increase to 56%, from 55% previously. The loan book is expected to have expanded by 4% (only 1% in the second half of the year) while the net interest margin is still under pressure from 1) mortgage re-pricing in both Hong Kong and the UK and 2) lower return on free funds.

Hong Kong operations—39% of total. We have already seen weak results coming from Bank of East Asia and StanChart, with both taking higher provisions for their consumer lending operations due to the increase in the number of personal bankruptcies. Unlike StanChart and similar to BEA, HSBC should exhibit contracting net interest margins due to more mortgage re-pricing and negative endowment effect. Also, we can expect higher loan loss provisions, but not as high as StanChart (121 basis points of loans) which has a significant credit card exposure—we are projecting HKB's loan loss provision to equal 30 basis points of loans. 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, loan loss provisions were just over 50 basis points of remaining loans.

HSBC likely to report similarly unimpressive European numbers—43% of total. So far we have seen Barclays and Lloyds TSB report 2001 results that were broadly in line with expectations, but exhibited some worrying trends—both saw growth in operating expenses outpace that of operating income. The cost-to-income ratios for these two banks increased to 58% and 49% respectively, up from 57% and 46% last year. Furthermore, both banks reported sharp rises in loan loss provisions, as expected—64 basis points and 61 basis points of loan respectively, up from 51 basis points and 47 basis points last year.

For HSBC's European operations, we are projecting that operating expenses will increase at a faster pace than the increase in operating income and the cost-to-income ratio will deteriorate to 62% from 60% last year. Meanwhile, we have conservatively pencilled in loan loss provisions equal to 22 basis points of loans. We believe that this is the swing factor and could come in significantly higher given the results of the other two banks. Last year, loan loss provisions were at 27 basis points and if they came in at a more normalized level of 50 basis points, then loan loss provisions could bring net profit down by another 6%.

HSBC not preferred over other UK Banks. "We remain cautious towards the two Far Eastern bank groups, as we expect little sign of any recovery in revenue growth, despite investors' recent focus on higher beta stocks. Last year's underperformance has narrowed the valuation premium over domestic banks to 20% in the 2002 cash PE, but a return to superior growth looks necessary, before they can outperform fundamentally. HSBC is a pure fundamental play. StanChart benefits from speculative support, but is likely to remain independent, in our view."

Valuation is not compelling. At the current price, HSBC is trading just slight above our fair value of HK\$84 per share. We are maintaining our 3-Market Perform rating and there does not appear to be any catalyst on the horizon to change our opinion at the moment. Provisions will come in high, and could go higher, especially in Asia. Meanwhile, meaningful profitable loan growth has yet to return and margins on the current loan book are under pressure.

Figure 15: HSBC Valuation

	1999	2000	2001	2002	2003
Period end price (HK\$)	109.00	115.50	85.75	n.a.	n.a.
P/E- reported (x)	21.5	19.8	17.3	16.2	14.6
P/E- cash (x)	21.4	18.2	15.2	14.4	13.1
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

HSBC Holdings is a multi-tiered bank holding company headquartered in London. HSBC provides brokerage, investment banking and insurance services. Its primary banking subsidiaries include Hongkong Bank Group, HSBC Bank plc and HSBC Bank USA. HSBC also has operations through Asia, Europe, the Middle East, and North and South America.

February 25, 2002

Company Focus: Indonesia

Bank Central Asia: Still Not Sold, But StanChart is Close

- We believe that the Standard Chartered Bank-led syndicate will win the bidding for Indonesia's Bank Central Asia in a good deal for all concerned.
- StanChart has reportedly bid IDR1780 per share for 51% of BCA, slightly topping a bid by Farallon Capital.
- StanChart is a much-to-be-preferred buyer for all concerned; we believe that this will be recognized.
- SCB should be able to rev-up BCA's consumer lending business - a potential source of large profits.
- As SCB plans to keep management and staff of BCA and maintain all existing branches, we feel that any strike will not be long-lasting.
- BCA looks to be an accretive deal for SCB, adding 6.5% to pro-forma FY2001 income.

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The course of Indonesian bank transactions ne'er did run smooth...

Standard Chartered Will Win The BCA Auction

A controlling stake in BCA remains up for sale by IBRA, but it appears that the dilatory and sometimes chaotic process is finally coming to an end. We believe that Standard Chartered should and will be the winner, despite reports that a syndicate led by San Francisco based Farallon Capital has come within Rp5 per share of the bank's bid. BCA's employees certainly believe the same, as evidenced by their demonstrations and strike threats.

Farallon is a quite credible bidder, having won the bidding to buy the Jakarta Container Port Terminal and having been a part of the restructuring of cement company Semen Cibinong. However, it has neither the management expertise nor the financial resources of StanChart. Additionally, as a purely financial buyer - as distinct from an owner/operator - Farallon would merely be warehousing BCA for sale within a few years, potentially competing with the other banks which IBRA will be looking to sell during that time.

A successful bid by Standard Chartered will offer a number of advantages to the financial system and the government:

- **Credibility:** StanChart is seen as a respectable global institution which is trusted by investors to operate in emerging markets including India, Malaysia and Thailand. Its investment in BCA will confirm what we already know - that BCA is a clean and

profitable bank - and give investors confidence both in the remaining float of the bank and in other similarly regulated and supervised banks in Indonesia.

- **Money:** Assuming a final bid price of approximately IDR1780 per share, below the current trading price but still well above the market price at the time initial bids were solicited, the government will receive up to \$525 million in proceeds - always welcome.
- **Economic Development:** We believe that a takeover of BCA by Standard Chartered would stimulate retail consumption by improving access to consumer credit across the country.

BCA will also benefit, although it is important to note that our fair value price target is not based on any acquisition or partnership, but on BCA as a standalone entity.

- **Asset Franchise:** StanChart has experience with mortgages, credit cards, and auto finance in other emerging markets which will allow BCA to offer well-managed consumer loan and asset management products in a condensed time period. This is critical in order for BCA to move beyond its current franchise on the liability side and into a more sustainable position wherein earnings accrue from the asset side.
- **Management Support:** In certain areas - credit policy and audit, asset/liability management - BCA can clearly use an injection of expertise from a new parent. Strengthening these areas will improve BCA's overall speed to market with new products and reduce risk.
- **Stability:** Having a large, diversified parent will help BCA improve both actual and perceived stability. More certain access to funds in an emergency could let BCA manage its capital better and maintain ROE. The perception of greater predictability should also factor into BCA's cost of capital, increasing valuation.

Transaction Review

- The government, through bank restructuring agency IBRA, is looking to sell a controlling stake (it still holds approximately 63% of the bank) in BCA under IMF mandate. This mandate has been outstanding since before BCA's public listing in May, 2000¹, but has been delayed due both to market conditions and to the torturous and opaque IBRA bidding process.

¹ For which Lehman Brothers served as underwriter.

Figure 16: BCA Share Ownership

BCA Share Ownership	
IBRA	62.8%
Salim Family	7.2%
Public Float	30.0%

Source: Company reports; Lehman Brothers estimates

Bidders have been solicited for an initial 30% stake in the bank, with the first right of refusal on an additional 21% stake to be sold sometime later in the year. We have heard somewhat conflicting reports that bidders have the option of acquiring the entire 51% stake immediately should they care to do so; we believe that all remaining bidders would seek this option if available, as it would allow full consolidation of the profitable BCA operations.

After shortlisting nine bidders in late 2001, IBRA has been able to whittle down the list to four after imposing two criteria - that each bidding group must be led by a financial institution (preferably a bank) and that the bidders may not include or have any ties to former BCA owner Anthony Salim or his associates.

The Final Four: Remaining Bid Groups

- **StanChart Consortium:** Standard Chartered is the lead investor in a group which includes Singapore's GIC, Prudential Insurance of the UK and local partner PT Berca Indonesia (originally part of another bid group). Berca is an affiliate of the diversified CCM Group, controlled by the family of Murdaya Widyawimarta and a long-time StanChart client. Although we do not know the exact breakdown of interests within the group, based on StanChart's statements we expect the bank to control at least 51% of the acquiring entity - meaning that BCA's balance sheet will be consolidated.
- **Farallon Group:** Farallon's partners include Farindo Holdings and Alaerka Investment, thought to be an affiliate of cigarette maker PT Djarum - which itself has been widely rumored to control a substantial BCA stake already purchased in the open market.
- **Bank Mega Consortium:** The other members of this group have not been publicly revealed, although there has been considerable speculation that they may be non-disclosed associates of Salim. Bank Mega itself is a relatively small bank, with last reported equity of IDR483 million (approximately \$47 million) and assets of IDR10.6 trillion - 5% and 11%, respectively, of BCA's comparable totals. This would not appear to give the group enough resources to finance even a partial bid for BCA.

- **GKBI Consortium:** The GKBI group is led by government-owned pension company Jamsostek, and also includes the little-known GKBI Investment, PT Saratoga Investment Sedaya and PT Rifan Financindo Asset Management.

Bidding Process and Timeframe

All bidders have submitted their final offers and supporting documentation at this point, although the government continues to ask for clarifications and guarantees on certain points contained in the original proposals. It should be noted that IBRA retains the right to order another round of bidding between the two finalists if necessary; of course the agency could also cancel the bidding altogether and hold a new tender. However, we believe that the bids will stand as currently made, and that IBRA will make its choice from among the proposals already presented within the next 30 days.

The bidding process consists of several parts. First, bidders were required to submit their financial bids and business plans. Next, Bank Indonesia requested separate documentation from each bidder in order to perform the "fit and proper" test, a control imposed on bank owners and managers after the wave of banking failures in 1998-9. In substance, BI was looking for quality of management, independence from borrowers and prohibited parties (such as Salim), and a commitment to support the bank financially should it become troubled as well as a demonstrated ability to do so.

Such a commitment - although a normal request by a central bank of the purchaser of an institution - appears to have been a sticking point for some of the consortia, either through lack of demonstrated financial strength or through an unwillingness to make a potentially open-ended commitment to the solvency of a bank in what is still a volatile country. Because of its experience in many other countries, as well as its large balance sheet, we believe that Standard Chartered has the edge on this key evaluation point.

Due to the recent institutional memory at both IBRA and BI of bank runs and failures, such a perceived ability to support BCA in times of trouble will in our view outweigh even the proposed price as a measure of the winning bid. However, all four bidders are reported to have passed the fit and proper test.

After approval by BI, the bid syndicates are ranked based on points awarded in three categories: the quality of the bidding institutions, each syndicate's business plan for the bank, and any terms and conditions attached to the bid. According to Singapore's Business Times, both of the front-running groups received maximum points for business plans, while StanChart edged out Farallon in the quality competition.

However, the terms and conditions category is worth a full 50% of the total, and StanChart is reported to have scored poorly here due to its proposal that 15% of the purchase price be held in escrow for 18 months to cover any undisclosed liabilities of

BCA. Standard's management has since said publicly that they are not placing any escrow conditions on their bid.

StanChart's Plans For BCA

According to management, StanChart plans to keep BCA's current structure pretty much intact. The bank will be operated as a standalone entity separate from SC's existing Indonesian operations (SC currently has six branches and five additional cash offices and ATM lobbies in Indonesia), and will keep the BCA name and branding without the addition of a Standard Chartered reference - note that this is different from the re-branding of both the former Nakornthon Bank in Thailand and of Grindlay's Bank in India, which now operate as Standard Chartered Nakornthon and Standard Chartered Grindlay's.

StanChart has expressed its intention to keep top management, but to add support in areas including credit approval, audit, compliance, and risk management. SC has also disclosed that it plans to keep all 795 existing BCA branches and that it does not plan any staff lay-offs. This shows that Standard has clearly learned from its 1999 Bank Bali debacle, and because of this change in attitude (although BCA is admittedly much different from the moribund Bank Bali) we believe that any industrial action - such as the threatened strike by BCA workers if StanChart is declared the winner - will be short-lived.

Another lesson learned from the Bali bid is shown in SC's statement that it does not plan to charge BCA a management fee for its supervision.

As stated above, we believe that StanChart will focus its attention on getting the consumer lending operations at BCA up and running. Despite an earlier management agreement with Bank of America to help run these businesses, BCA has made slow progress, and BofA is probably not the best partner in emerging markets consumer lending. SC should be able to translate its experience in writing consumer paper in Malaysia, Thailand, and India into a full slate of products for BCA in short order. We believe that this offers the potential to increase BCA's yield on earning assets while decreasing overall lending risk.

BCA Acquisition Effect on Standard Chartered

Based on an indicative bid price of IDR1780 per share, the StanChart syndicate would spend approximately \$525 million for a controlling stake in BCA, of which presumably \$262 million or more would come directly from the bank. This amount accounts for some 3.6% of SC's equity at year-end 2001.

Figure 17: BCA Transaction Summary

	IDR, Bil	USD, MM
IDR/USD	10,180.0	
BCA Shares Outstanding	5.9	
Market Price	1,800.0	
Market Cap	10,594.8	1,040.7
Bid Price	1,780.0	
% Premium (Discount)	-1.1%	
Implied Market Cap	10,477.1	1,029.2
30% Stake Proceeds	3,143.1	308.8
51% Stake Proceeds	5,343.3	524.9

Source: Company reports; Lehman Brothers estimates

We assume that SC will hold 51% of the acquiring entity, and furthermore assume that this entity will acquire 51% control of BCA immediately. Under these assumptions, Standard will fully-consolidate BCA's balance sheet, despite having only a 26% interest in the bank.

Figure 18: STAN/BCA Pro-Formas

US\$, MM	SCB FY2001 Reported Actual	BCA FY2001 Reported Estimated	% of SC	Combined FY2001 Pro-Forma Estimated
Total Assets	107,379	9,870	9.2%	117,249
Total Loans	53,005	1,255	2.4%	54,260
Shareholders' Equity	7,382	918	12.4%	8,300
Net Interest Income	2,959	433	14.6%	3,392
Pre-Provision Income	1,879	341	18.2%	2,220
Net Income	699	237	33.9%	745

Note: assumes 26% net shareholding.

Source: Company reports; Lehman Brothers estimates

On a pro-forma basis, BCA would add approximately 9.2% to SC's asset base, and increase net interest income by 14.6%. Because of the deduction of minority interests and the opportunity cost of acquisition funding, net income would only rise by 6.5%. We have assumed in this analysis that funds used to acquire BCA were previously earning SC's average asset yield of 6.03%.

Assuming no cost synergies or other effects this transaction would give StanChart an indicated return of 23.5% on its investment.

Pre-Sale IBRA Transactions

BCA retains a portfolio of government bonds with book value of IDR61 trillion (61% of total assets) on its balance sheet, which were injected by the government as part of the recapitalization process which returned the bank to solvency. IBRA is reported to be seeking to swap these assets for performing or restructured loans seized from other closed banks prior to the closure of any sale.

Although this would raise BCA's asset yield substantially, it could also result in the return of NPLs to the currently-pristine balance sheet of the bank. We see this as a risk which is mitigated by the already-independent management of BCA, who have turned down other IBRA-sponsored transactions due to portfolio quality. However, we would take another serious look at our valuation were such a transaction to occur, as part of which we would expect to scrutinize the underlying loans involved.

Valuation

BCA is currently trading at 1.2x 3Q01 book value and at 4.4x estimated FY2001 EPS of IDR410. We maintain our 1-Strong Buy rating and IDR2100 price target on the shares. Note that this price target and rating do not include any estimates of value which might be created by BCA's acquisition by another bank, but are based strictly on our stand-alone analysis. Therefore, we do not project any downside should the sale not be consummated.

Company description

BCA is the third-largest bank in Indonesia, and was the first to be completely recapitalized by IBRA. BCA is Indonesia's leading consumer bank, with a network of 795 branches across the country.

February 26, 2002

Company Focus: Hong Kong

Bank of East Asia: Focusing on Cost Cutting

- The key message from our meeting with management was that cost cutting is the number one priority this year. Underlying business is weak will loan growth difficult to achieve and margins still contracting.
- The number one priority this year is cost cutting—management is targeting a cost-to-income ratio of 50%, down from 55% last year. The key areas to cut are staff and premises, which account for over half of total expenses.
- Core lending operations will continue to be weak—management is targeting 5% loan growth, but margins will contract.
- Asset quality is not a concern, but expect another HK\$520-550 million in loan loss provisions this year, similar to that taken in 2001.
- We are maintaining our 4-Market Underperform rating and share price target of HK\$13.00.

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We had lunch with the management of Bank of East Asia and are consequently revising our earnings slightly. Meanwhile, we are maintaining our current investment rating on the stock and share price target.

Core lending operations will continue to be a challenge. Management is targeting 5% loan growth in 2002, with the key areas being corporate lending and loans for use outside Hong Kong. These two areas account for over half of total loans. Meanwhile, management is taking a conservative stance with regards to both mortgage lending and credit cards—the two key growth areas in 2001. Meanwhile, like us, management expects margins to continue to be under pressure. Away from core lending operations, management has put a lot of emphasis on the development of non-interest income, which includes credit cards, insurance, stock settlement and unit trust sales.

Given management's positive view on corporate lending, we have increased our loan growth projection for BEA to 4%, from approximately 1.5% previously. Meanwhile, we expect the gains from volume growth to be given back by lower margins, and consequently, we expect net interest income to decline 7%. However, the margin contraction should not be as severe as that seen in the second half of last year, which saw NIM contraction by 30 basis points on a consecutive half basis. In terms of non-interest income, we expect some results to surface from all the effort that management has expended so far and non-interest income will increase by just under 10% this year. Nonetheless, the gains here will not be enough to offset losses in lending operations and overall revenue will be down 3%.

The key driver to earnings growth is cost cutting. Management appears to be very aggressive in its plans to cut operating expenses—it has targeted a cost-to-income ratio of 50% by the end of this year, down from 55% last year. Key items that should allow them to achieve this goal are the following: 1) last year's figure included over HK\$100 million in non-recurrent merger and re-branding expenses and 2) contraction of the branch network and consequently contraction of the workforce. Management has said that they feel the optimal branch network is 100-105—they closed seven branches in the fourth quarter of 2001 and have targeted another seven for this year. However, to achieve their optimal level, BEA will likely have to close another 22, and they believe that they can achieve this over the next two years. Correspondingly, staff will be cut, but management has not indicated by how many. Nonetheless, staff and premises account for 45% and 11% of total operating expenses, and close to 15% of these expenses can be eliminated. In our model, we are projecting that cost cutting will be successful and that the cost-to-income ratio will be reduced to 51% this year and to under 50% next year.

Raising loan loss provisions slightly. We are increasing our loan loss provision projection slightly to take into account our projection of higher loan growth as well as the cautious stance taken by management. We are projecting loan loss provisions at a normalized level of 50 basis points of loans outstanding. The trends seen in the second half of the year are expected to continue into the first half of the year and there will be no respite from high loan loss provisions in the near term.

Maintaining 4-Market Underperform investment rating. Following our meeting we have adjusted our earnings projections up slightly to take account of the aggressive cost cutting measures highlighted by management, which more than offsets our increase in loan loss provisions. However, the increase is not enough to change our outlook on the stock. ROE is expected to decline from an already low figure of 9.0% in 2001 to only 8% in 2002 and then recover to 9% in 2003. Management is targeting double digit ROE, which is commendable, but still not high enough. At these levels of profitability, BEA should only trade at below 1x book value, thus our share price target of HK\$13.00. In order for us to become more positive on the banking sector, we need to see an earnings recovery, or even a haemorrhaging of the deteriorating operating environment, and this does not appear to be on the horizon.

Company description

Incorporated in 1918, the Bank of East Asia is the largest independent local Hong Kong bank in terms of assets, loans, and deposits. It acquired FPB Bank in 2000, which increased its asset size over the US\$20 billion hurdle which allows it to open more branches in China. It currently has among the largest branch and representative office network of any foreign bank in China, with seven of each.

February 27, 2002

Company Focus: Hong Kong

Wing Lung Bank: 2001 Results Review: Still Not Good Enough

- Loan growth and margins recovered in 2H01 but were down on the year. We are not convinced that the recovery is sustainable.
- Wing Lung reported a 2001 profit of K\$846 million, or HK\$3.64 per share, representing a 16% decline.
- Loans expanded by 2.6% and margins contracted on the year but expanded half over half. Overall revenue was down while expenses were up, not a good combination. Meanwhile, loan loss provisions came in at 40bp of loans, which is adequate.
- We are not convinced that these trends are sustainable and our biggest concern is that this bank has yet to re-invent itself to adapt to the structural changes in the operating environment.

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Wing Lung Bank announced a net profit of HK\$845.8 million, or HK\$3.64 per share representing a 16% decline from the year before. The results came in 1% higher than our projection due to stronger-than-expected revenue growth, which more than offset a slightly higher than expected loan loss provision.

Slight recovery in lending operations in 2H01. Both net interest income and non-interest income were slightly better than expected, which was a pleasant surprise, but we do not think that these gains are sustainable. Firstly, net interest income growth is attributed to above average loan growth and margin expansion—both of which were not expected. After contracting by HK\$800 million in the first half of the year, the loan book expanded by HK\$1.5 billion in the second half of the year, with HK\$1.1 billion coming from mortgages and approximately HK\$300 million coming from credit cards and personal loans. Although we are surprised by this loan growth, we are not yet convinced that it is sustainable. We are maintaining our 1% growth projection for this year, but increasing 2003 to 3.5% from 1% previously.

The other area that surprised us was the net interest margin expansion in 2H01, from 2.03% to 2.21%! Management attributes this to shifting more funds into government securities as well as using asset swaps and being more active in treasuries. Once again, we are not yet convinced that this trend is sustainable and we have margins coming down in 2002 to 2.09%, slightly below the 2001 average of 2.12%.

Non-interest income still needs to be developed. Non-interest income was down on the year, but the second half performance was better than that in the first half. Management is trying to focus on developing personal wealth management, general insurance and securities business. However, we do not believe that this bank has the scale to compete against the likes of HSBC and Citi bank in any of these areas.

Higher loan loss provisions. Total loan loss provision came in at HK\$114 million, about HK\$25 million higher than our number. This charge represents almost 40 basis points of loans and we are quite comfortable with this charge. Management did disclose that the charge-off rate on its credit cards had reached 5.35% by year end, up from 4.46% a year earlier. Using the mid-point of approximately 5%, we calculate that credit cards accounted for HK\$24 million or 20% of the total charge. Meanwhile, credit cards account for 1.6% of the loan book. Looking ahead, we are increasing our loan loss provision to 43 and 44 basis points of loans outstanding.

Maintaining 4-Market Underperform and share price target of HK\$25. Following these results, we have increased our earnings forecasts by 4% and 7% in 2002 and 2003 respectively after increasing our loan growth projecting and margin assumptions. We are maintaining our price target, which represents 1x book value and 7x earnings. Nonetheless, the outlook for this bank remains the same as that for other small banks—bleak and with little to look forward to. ROE dropped to 12% this year and is expected to drop further to only 11% this year. This bank does not have a concise strategy to cope with inherent changes in the industry, namely the lower profitability of lending operations and we believe that it will be hard-pressed to compete against the market leaders in the development of personal wealth management products.

Figure 19: Wing Lung Bank 2001 Results Key Statistics

Income statement (HK\$m)	2000A	1H01A	2H01A	2001A	Change		Comment
					HoH	YoY	
Net interest income	1,385	630	605	1,235	-4%	-11%	
Non-interest income	388	172	204	376	18%	-3%	Rental income, insurance and personal wealth management
Total revenue	1,774	802	809	1,611	1%	-9%	
Operating expenses	475	245	274	518	12%	9%	Costs driven up by the need to spend on technology
Operating income	1,299	557	536	1,093	-4%	-16%	
Loan loss provisions	-89	-48	-66	-114	37%	27%	Loan loss provisions equal to 39 bp of loans
Profit after provisions	1,210	510	470	980	-8%	-19%	
Disposals	-3	12	-5	7			
Other	0	0	11	11			
Taxation	-197	-83	-69	-151			Slightly lower tax rate
Net profit	1,011	439	407	846	-7%	-16%	
Balance sheet (HK\$m)	2000A	1H01A	2H01A	2001A			
Loans	28,246	27,445	28,974	28,974	6%	3%	Stronger than expected loan growth in 2H01
Assets	65,482	65,110	64,405	64,405	-1%	-2%	
Deposits	49,718	50,096	49,605	49,605	-1%	0%	
NPLs	1,029	1,119	1,055	1,055	-6%	3%	
Profitability	2000A	1H01A	2H01A	2001A			
Net interest margin	2.44%	2.03%	2.21%	2.12%			Better balance sheet management
Cost-income ratio	27%	31%	34%	32%			Increasing expenses, but declining revenue
Non-interest income ratio	22%	21%	25%	23%			
Loan loss/loans (bp)	32	17	23	39			We are comfortable with provisioning levels
ROE	16%	14%	11%	12%			Declining profitability

Source: Lehman Brothers estimates

Company description

Wing Lung Bank is a conservative local bank with the second lowest loan-to-deposit ratio among local banks. Its primary geographic focus is Hong Kong where it has 35 branches. Major shareholders include the Wu family with 43% and DBS, with 10%.

February 28, 2002

Company Focus: Singapore

Oversea-Chinese Banking Corp.: 2H01 Earnings Review

- OCBC released earnings after the market close yesterday, reporting a gain of S\$352 million, well below expectations.
- Results were characterized by a return to high provisions, which we consider unnecessary given the already-sufficient reserve.
- Loan growth was a bright spot: we believe that OCBC took share in most categories, particularly mortgages; however, margins dropped significantly.
- The bank is still far from earning its cost of capital on an economic ROE basis, leading to our continued low fair value estimate of S\$11.10 and 3-Market Perform rating.

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OCBC reported 2H01 earnings after the close in Singapore yesterday, recording a gain of S\$352 million, or S\$0.27 per share. Earnings fell well short of consensus estimates despite significant one-time gains, although pre-provision earnings increased 4% YoY on a pro-forma basis.

For the full-year 2001, OCBC reported earnings of S\$785 million (S\$0.61 per share), some 7% below the headline FY2000 level. The resulting economic ROE of 6.6% declined from 7.7% in FY2000, and remains below our estimated cost of capital.

On this basis, we are maintaining our 3-Market Perform rating and S\$11.10 price target, while updating out-year earnings to reflect the trends of this release.

Figure 20: Key Earnings Components

S\$, MM As Reported	2000	1H01	2H01	2001	2002E
Net Interest Income	1,260.5	652.9	739.0	1,391.9	1,973.8
Non-Interest Income	659.2	327.8	614.8	942.6	704.4
Non-Interest Expense	655.6	350.1	499.9	850.0	996.5
Provisions	139.2	125.1	392.4	517.5	40.0
Core Earnings	807.4	362.8	188.7	567.5	1,226.0
Net Income	840.1	433.4	351.7	785.0	1,066.9

Source: Sources: Company reports; Lehman Brothers estimates.

Figure 21: Table 2: Key Earnings Components—Pro-forma

S\$, MM Pro-Forma	2000	1H01	2H01	2001	2002E
Net Interest Income	1,789.1	913.3	749.0	1,391.9	1,973.8
Non-Interest Income	820.1	442.6	614.8	942.6	704.4
Non-Interest Expense	890.7	476.4	499.9	850.0	996.5
Provisions	163.6	128.7	392.4	517.5	40.0
Core Earnings	1,108.9	508.6	198.0	567.5	1,226.0
Net Income	1,141.6	609.7	361.7	785.0	1,066.9

Source: Company reports; Lehman Brothers estimates.

Asset Quality and Reserves

OCBC provisioned S\$392 million in 2H01, on top of a S\$125 million charge in 1H: the highest level since 2H98. In addition, management reports some S\$24 million in downward valuation adjustments as part of the KCH acquisition; some of this may represent, in effect, additional provisions on Keppel TatLee loans which were taken directly to the goodwill (and hence equity) accounts rather than running through the P&L.

We are somewhat at a loss to explain this provisioning level, as we already considered OCBC substantially over-reserved at 1H01. Management's explanation is that real estate values are declining and that this is rapidly eroding collateral coverage on NPLs.

However, our methodology assigns no weight whatsoever to collateral (although we assume that it is properly taken into account when classifying loans), and we show OCBC carrying S\$724 million of excess loan loss reserves, or almost 30% of the total. This is an increase of S\$339 million from 1H01—almost the same as the amount provisioned in 2H.

It would seem that management either anticipates a further large movement of currently unclassified loans into NPL status—a view that the general loan portfolio is becoming riskier—or that real estate backing these loans is likely to continue to depreciate in the future.

If OCBC is in fact (and management's statements would not seem to support this) projecting future real estate losses in addition to current valuation, this would seem to imply a bleak outlook for the Singaporean economy.

If neither of these characterizations of management's attitudes vis-à-vis provisions is correct, we are inclined to believe that the reserve may be being used as a way to smooth future earnings by means of either lower provisions or actual write-backs. Given that the current period results were widely expected to be poor, and that the KCH acquisition makes prior period comparisons difficult, it could be tempting to take as much bad news as possible in this period.

Figure 22: Reserve Adequacy

	Gross Amount	Reserve Percentage	Required Reserve
Pass	62,597,693	1%	625,977
Special Mention	-	5%	-
Substandard	3,454,000	20%	690,800
Doubtful	1,061,000	50%	530,500
Loss	668,000	100%	668,000
ORE	-	20%	-
Excess AIR	-	20%	-
Total	67,780,693		2,515,277
Actual Reserves			3,239,479
Shortfall			(724,202)
Actual/Required			129%
Shortfall/Capital			-6%

Source: Company reports; Lehman Brothers estimates.

NPL Balances

Gross reported NPLs increased by 32% half-on-half; however, this was mainly a result of the consolidation of Keppel's loan book. On a pro-forma basis, gross NPLs were down 8% half-on-half and 12% year-on-year. Although the severity of classified loans increased mildly, such an increase does not in our view justify the extraordinary provisions taken in the last half.

Keppel Capital Integration and Pro-Formas

Investors should bear in mind when reviewing the release that OCBC consolidated Keppel Capital Holdings during the second half, incorporating approximately four and a half months of KCH's net income (or S\$85 million) into the reported second half results. Throughout our analysis we will also make use of comparisons with prior period pro-forma figures (incorporating both OCBC and KCH), as well as a pro-forma 2H01 result which includes a full six month result from KCH (this adds an estimated S\$10 million to net income in the period).

Operationally, Keppel and OCBC are now one, with all branches changed over and systems fully merged. This is a very fast changeover, in stark contrast to UOB which appears to be taking a much more cautious approach.

Merger Cost Saves

Cost saves are already being taken, with 20 of a combined 86 Singapore branches already closed (and seven more to go), as well as nine overseas offices and seven finance company branches. OCBC projects total job rationalizations of 1,050, with almost 70% of these to be accomplished by the end of 1Q02. This represents 12% of group employees at the time the acquisition was completed, and an estimated 40% of pre-acquisition Keppel employment.

Rates and Margins

Net interest margins were under continuing pressure in 2H01. As the change in asset balances makes reported comparisons unreliable, we look primarily at pro-forma NIM, which lost 39bp in the period, dropping FY2001 NIM to 2.09% from 2.35% in FY2000.

Management reports that the loss in this period is not so much a result of competition, which has lessened since the consolidation last summer, but is primarily because of dramatically falling interbank rates (OCBC is a net lender), inability to pass fully along the falling benchmark rate environment to deposit customers, and the addition of high-cost Tier 2 debt in order to finance the Keppel acquisition.

Figure 23: Key Earnings Ratios

As Reported	1999	2000	1H01	2H01	2001	2002E
Net Interest Margin	2.53%	2.37%	2.31%	2.19%	2.09%	2.54%
ROA	1.25%	1.47%	1.44%	0.96%	1.08%	1.25%
Core ROA	1.18%	1.42%	1.20%	0.52%	0.78%	1.44%
ROE	7.02%	7.69%	7.16%	5.58%	6.62%	8.40%
Core ROE	6.64%	7.39%	5.99%	3.00%	4.78%	9.65%
Efficiency	27.20%	34.15%	35.70%	36.93%	36.41%	37.21%
Overhead	1.03%	1.23%	1.24%	1.48%	1.27%	1.28%
NPLs / Assets	7.98%	6.85%	6.45%	6.08%	6.08%	5.62%
NPL Coverage	56.88%	56.25%	56.49%	62.50%	62.50%	60.07%

Source: Company reports; Lehman Brothers estimates.

Figure 24: Key Earnings Ratios—Pro-forma

Pro-Forma	1999	2000	1H01	2H01	2001	2002E
Net Interest Margin	2.43%	2.35%	2.28%	1.89%	2.09%	2.54%
ROA	1.21%	1.39%	1.42%	0.84%	1.08%	1.25%
Core ROA	1.13%	1.35%	1.18%	0.46%	0.78%	1.44%
ROE	9.61%	11.00%	10.91%	7.18%	6.62%	8.40%
Core ROE	9.00%	10.69%	9.10%	3.93%	4.78%	9.65%
Efficiency	28.46%	34.14%	35.13%	36.65%	36.41%	37.21%
Overhead	1.02%	1.17%	1.19%	1.26%	1.27%	1.28%
NPLs / Assets	7.77%	6.85%	6.54%	6.08%	6.08%	5.62%
NPL Coverage	59.34%	56.97%	55.61%	62.50%	62.50%	60.07%

Source: Company reports; Lehman Brothers estimates.

Loan Growth

Loan growth was uninspiring but relatively good compared with peers. While DBS was flat to down on a pro-forma basis, OCBC has added almost 5% year over year and 2.2% over the mid-year results. We believe that this means the bank is now taking market share in Singapore, albeit not a large amount.

Note the tremendous gains in mortgage lending; OCBC was #1 in market share of originations per management (we concur), with a 22% share. We don't see this as a result of price competition, but just a result of better execution in this core business.

Figure 25: Pro-Forma Loan Growth By Sector

S\$, 000s	2H00	1H01	2H01	% Chg YoY	% Chg HoH
Industry:					
Agriculture, Mining, and Quarrying	393,743	405,000	503,000	27.7%	24.2%
Manufacturing	3,785,184	3,822,000	3,697,000	-2.3%	-3.3%
Building and Construction	8,977,473	9,130,000	9,099,000	1.4%	-0.3%
Housing	8,912,481	9,169,000	10,091,000	13.2%	10.1%
General Commerce	4,936,680	3,968,000	3,576,000	-27.6%	-9.9%
Transport, Storage, and Communication	1,599,644	1,596,000	2,786,000	74.2%	74.6%
Financial Institutions	9,272,907	9,978,000	9,798,000	5.7%	-1.8%
Consumer Loans	8,087,708	8,561,000	8,627,000	6.7%	0.8%
Other	4,480,078	5,095,000	4,672,000	4.3%	-8.3%
Total	50,445,898	51,724,000	52,849,000	4.8%	2.2%

Source: Company reports; Lehman Brothers estimates.

One-Time Gains

OCBC reported a number of extraordinary gains earlier this year, including S\$65 million gain on its sale of a 28% stake in PacificMas (formerly Pacific Bank), a Malaysian bank, to MayBank in February. This trend continued during 2H, when the bank booked a S\$256 million gain on the sale of its ~5% stake in OUB to UOB.

Easy Come, Easy Go

Management reports a drop in unrealised valuation surplus from S\$4.42 billion to S\$3.59 billion after a big 1H01 run-up, which we believe was in large part due to falling market value of the group's stake in Great Eastern Life.

Valuation

OCBC continues to be plagued by low ROEs caused by its retention of excess capital, as well as a difficult banking environment. On an economic ROE basis the company earned only 6.6%—far under the cost of capital. Management's argument is that this measure is skewed by non-cash charges such as goodwill which are merely accounting fictions.

Taking cash earnings (adding back in goodwill charges) as a ratio of tangible equity (economic equity less goodwill and revaluations) results in a better-looking 11.3% ROE for FY2001 and a forecast 17.6% for FY2002. However, any multiple assigned on this basis will be applied to tangible equity per share, which is projected at only S\$5.73 for YE2002.

A 1.6x multiple on this BVPS yields a fair value of S\$9.16. If in addition we add (at a 1x multiple with no premium) our estimate of reserve underfunding and off-balance sheet property assets at appraised value, OCBC shares gain an additional S\$1.83 per share, for a total value of S\$11.00. As much of this valuation is based on better forward earnings and the prospect of monetizing OCBC's property assets, there is potentially significant downside risk to this price target.

On an earnings basis, OCBC now trades at 20.8x FY2001 EPS and 15.3x FY2002 EEPS, expensive compared to the rest of the Asian sector and to global comps.

Company description

Incorporated in 1932, OCBC is one of the oldest banks in Singapore and is the second-largest bank as ranked by assets. OCBC acquired Keppel Capital Holdings, parent of Singapore's smallest bank, in mid-2001.

February 28, 2002

Company Focus: South Korea

KorAm Bank: Running to catch-up

- A solid set of results marking a return to profitability, but the post Christmas run-up in price on merger speculation means that the stock is fully priced. Reduce rating to 3-Market Perform.
- KorAm announced FY2001 results of KRW195 billion representing a 21% ROE. Results were driven by sharply lower provisions and wider margins.
- The bank has restructured its balance sheet; growing credit cards 125% and consumer loans 51% overall. The loan book is now a 56:44 split between corporate and consumer. Loan growth was unexciting overall at 4%.
- Margins were 2.65%, up 86 basis points from FY2000 levels. NPLs fell to 8% of total lending on sales of non-performing loans and write-downs.
- On forward ROE of 24%, we are updating our price target to KRW12,000. Reduce to 3-Market Perform.

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Summary and Ratings Action:

KorAm Bank released FY2001 consolidated results after close on Friday of KRW195 billion (EPS KRW1,196, ROE 21%), beating estimates and marking a return to profitability. The stock has run-up in the past few months on merger expectations and is currently fully priced at 2.1x trailing book on forward ROE of 24%. We are updating our 12-month forward price target to W12,000 which represents 1.4x FY2002 book and 6.3x prospective earnings. Subsequently we reduce our rating to 3-Market Perform on valuation grounds alone. We continue however to like the fundamentals of the bank due to its SME focused loan book, high reserve levels and ex-Citibank management (with Carlyle/JPM in a strategic role).

Earnings Review:

KorAm Bank earned KRW195 billion on sharply reduced provisions, marking a return to profitability from last year's KRW396 billion loss. Pre-provision earnings were up 33% on improved margins and contribution from fees and securities gains. ROE measured 21% for the year over an ROA of just 0.67%, an indication of the high leverage of the balance sheet.

Figure 26: Key earnings components

<i>KRW million</i>	4Q00	1Q01	2Q01	3Q01	4Q01
Net interest income	125,939	164,909	173,123	179,529	198,923
Pre-provision profit	-98,101	171,730	95,488	191,049	89,095
Provisions	559,811	106,778	-43,380	125,555	51,106
Net income	-455,403	44,986	96,219	43,575	10,240
EPS (KRW)	-2,793	276	590	267	63

Source: : Company reports; Lehman Brothers

Figure 27: Key earnings ratios

	4Q00	1Q01	2Q01	3Q01	4Q01
NIM	1.99%	2.51%	2.66%	2.67%	2.91%
Asset yield	8.44%	8.37%	8.07%	7.87%	7.48%
Cost of funds	6.74%	6.07%	5.64%	5.47%	4.82%
Core ROAA	-6.33%	0.57%	1.18%	-0.19%	0.43%
Core ROAE	-117.96%	11.52%	20.95%	8.51%	1.22%
Overhead	4.82%	2.22%	0.77%	1.15%	2.64%
Efficiency	147.55%	45.92%	34.43%	28.85%	66.95%

Source: Company reports; Lehman Brothers

Rates and Margins:

Net interest margin picked up from FY2000 levels, expanding from 1.79% to 2.65% for the year—the only Korean bank in our universe to expand margins in FY2001. Margins also expanded on a quarterly basis, tracking movement of low-yielding assets from inter-bank and securities to the loan book over the last half of the year.

Figure 28: Interest margin analysis

	4Q00	1Q01	2Q01	3Q01	4Q01
Change in asset yield	-0.03%	-0.08%	-0.29%	-0.21%	-0.39%
Change in cost of funds	-0.19%	-0.67%	-0.43%	-0.17%	-0.65%
Change in NIM	0.12%	0.51%	0.15%	0.01%	0.24%
Loan growth (QoQ)	15.44%	-11.97%	10.19%	8.43%	0.99%
Performing loan growth (QoQ)	24.03%	-14.02%	13.54%	9.61%	1.18%
Deposit growth (QoQ)	0.78%	0.78%	0.78%	0.78%	0.78%

Source: Company reports; Lehman Brothers

Quarter on quarter, asset yields dropped steadily from 8.44% in 4Q 2000 to 7.24% in 4Q 2001; a decline of 121 basis points. In a falling rate environment, yields at KorAm have remained more resilient than those of every other bank in our coverage except Kookmin. Breaking down the asset mix we can see the bank achieved this by moving KRW1,223 billion or 3.9% of total assets from inter-bank and trading securities into higher-yielding loans (approximately KRW1,000 billion into credit card loans alone).

Figure 29: Margin comparison with other banks

LB covered banks	4Q01	4Q00	Change (YoY)
Asset yield			
Kookmin	8.51%	8.89%	-0.38
Shinhan	7.04%	8.56%	-1.51
Hana	7.01%	8.68%	-1.67
Koram	7.48%	8.44%	-0.97
Cost of funds			
Kookmin	5.25%	7.03%	-1.78
Shinhan	4.93%	7.03%	-2.10
Hana	5.77%	7.19%	-1.42
Koram	4.82%	6.74%	-1.92
NIM			
Kookmin	3.55%	2.17%	1.38
Shinhan	2.34%	2.02%	0.32
Hana	1.86%	2.00%	-0.14
Koram	2.91%	1.99%	0.92

Source: Company reports; Lehman Brothers

Falling cost of funds managed to out-pace the decline in yields, dropping by 194 basis points over the year as the bank moved high-cost borrowings into less expensive subordinated debt and structured instruments. Taking advantage of the market appetite for Korean debt, the bank issued KRW100 billion in five-year subordinated bonds, US\$160 million in 10-year subordinated debt and KRW262 billion in two-year termed CLOs. Pricing for these issues was in the 7.00-7.50% range.

Loan Growth:

Total loans grew just 4% YoY, constrained by the clearing of deadwood from the loan book—performing loans were up by 9% YoY. The bank reduced KRW1,038 billion of exposure to corporate and public enterprises over the year including KRW347 billion face value of corporate NPLs sold at a 33% haircut in 3Q01 and KRW122 billion of write-downs on Hynix exposure in 4Q01. The loan book now consists of a 56:44 breakdown between corporate and retail exposure—well on the way to the 50:50 balance targeted by management.

Figure 30: Loan book breakdown

<i>KRW billion</i>	4Q00	1Q01	2Q01	3Q01	4Q01
Loans to Large corps	1,854.8	1,712.9	1,454.5	1,691.5	1,698.3
Loans to SME	5,648.2	5,684.7	5,681.7	5,950.0	5,869.1
Household loans	1,915.2	2,060.3	1,880.0	1,683.0	2,243.9
Public & others	1,085.2	186.4	176.6	225.3	203.4
Interbank loans	458.8	456.5	448.3	465.9	436.3
Credit cards	859.0	856.6	1,167.0	1,722.0	1,936.8

Source: Company reports; Lehman Brothers

Loan growth picked up steam only in the second half of the year following the appointment of new CEO Yung Ku Ha. The bank accelerated conversion of 1.8 million existing credit card accounts from the Shinsegae department store card acquisition in December 2000 into the more widely accepted Visa card network—approximately half of the growth in credit card outstandings can be attributed to increased usage from these accounts. The other half of the growth came from new card accounts and an increase in the ratio of cash advances from 20% to 35% of outstandings. Credit cards grew 125% YoY overall (off a small base) to KRW1,937 billion, adding KRW1,078 billion to the loan book. Non-credit card consumer loans grew by 17% to W2,244 billion. Overall consumer lending grew 51%.

We forecast loan growth of 11% for FY2002 on a consolidated basis, basically in line with our projected industry loan growth. This will be driven by continued increases in consumer lending as well as a recovery of corporate lending. As the bank is near to its 50-50 balanced corporate/consumer portfolio target, it will need to maintain or raise corporate loans going forward.

Asset Quality and Reserve Adequacy:

As with the entire sector over FY2001, KorAm made significant gains in this area. Reported NPLs dropped to 8% of total loans from the previous year's 11% mostly as a result of loan sales and write-downs of Hynix exposure. The bank made provisions of KRW240 billion for the year, a quarter of the size of the provisions that pushed the bank into loss in FY2000. These provisions leave the bank essentially fully-reserved against its NPLs with actual reserves at 96% of required and an insignificant shortfall-to-capital.

Figure 31: Stated NPLs

	Gross Amount	Reserve Percentage	Required Reserve
Pass	17,201,158	1%	172,012
Special Mention	657,314	5%	32,866
Substandard	239,811	20%	47,962
Doubtful	475,289	50%	237,644
Loss	79,456	100%	79,456
ORE	-	20%	-
Excess AIR	59,343	20%	11,869
Total	18,712,371		581,808
Actual Reserves			557,578
Shortfall			24,230
Actual/Required			96%
Shortfall/Capital			4%

Source: Company reports; Lehman Brothers

Figure 32: LB Adjusted NPLs

	Gross Amount	Reserve Percentage	Required Reserve
Pass	16,341,100	1%	163,411
Special Mention	958,655	5%	47,933
Substandard	702,604	20%	140,521
Doubtful	404,862	50%	202,431
Loss	245,807	100%	245,807
ORE	-	20%	-
Excess AIR	59,343	20%	11,869
Total	18,712,371		811,971
Actual Reserves			557,578
Shortfall			254,393
Actual/Required			69%
Shortfall/Capital			46%

Source: Company reports; Lehman Brothers

As with all Korean banks, we also stress test the balance sheet by adjusting KorAm's criticized assets upwards, increasing both the amount and the severity of NPLs. This adjustment lifts NPLs by approximately 50% above reported figures, leaving the bank with additional provisions of KRW254 billion to make before reaching our admittedly-conservative target. Another indication of the bank's narrow capital base is that this shortfall represents almost half of reported capital.

Capital Adequacy:

In the past year the bank raised upper-Tier 2 to bolster the capital base since FY2000 write-downs decimated Tier 1 levels. The bank issued Tier 2 capital in the form of US\$160 million of ten-year subordinated notes priced at 6.95% as well as KRW100 billion worth of five-year sub-ordinated debt at 7.65%. KorAm also issued (jointly with Hana Bank and Dongbu Insurance Co.) KRW229 billion of two-year collateralized loan obligations (CLOs) at 7.38%. CLOs also contribute to general capital efficiency through reduction in the risk-weighting of assets.

Figure 33: Capital Adequacy Ratios

<i>KRW billion</i>	FY1999A	FY2000A	FY2001E	FY2002E
Tier 1 capital	934	726	991	1,395
Tier 2 capital	451	562	922	1,092.04
Risk-weighted assets	11,271	14,642	17,144	26,570
Tier 1 capital ratio	8.28%	4.96%	5.78%	5.25%
Total CAR	12.29%	8.80%	11.16%	9.36%

Source: Company reports; Lehman Brothers

These measures have helped tide the bank over while it earns its way back to a solid equity base—management indicated that it is not seeking to raise additional capital through a tier 1 issue. Based on the bank's ability to earn income going forward, we do believe that fresh Tier 1 is likely unnecessary. We project FY2002 net income of KRW296 billion which based on management projections of 5.25% FY2002 Tier 1 CAR indicate room for expansion in risk-weighted assets of KRW9,426 billion, or 55%. Proportionate growth of loans indicates support for up to 48% growth in total loans at these capital levels.

Note that KorAm has the slimmest capital base of our covered banks with equity to assets of 3.4% versus Shinhan on 5.5% and Kookmin on 4.3%. Normalizing ROE to the level of the average equity-to-asset ratio of our other covered banks, KorAm would have earned a ROE in FY2001 of 14.5% versus actual 19.9% and forward ROE of 19.4% versus expected 22.8%.

Figure 34: Balance sheet leverage analysis

	KorAm		Kookmin		Shinhan		Hana	
	<i>FY2001A</i>	<i>FY2002E</i>	<i>FY2001A</i>	<i>FY2002E</i>	<i>FY2001A</i>	<i>FY2002E</i>	<i>FY2001A</i>	<i>FY2002E</i>
ROA	0.67%	0.94%	1.33%	1.44%	0.94%	1.05%	0.81%	1.07
Core ROA	0.49%	0.94%	1.05%	1.44%	0.99%	1.05%	0.89%	1.07
Equity-to-Assets	3.40%	4.11%	4.33%	4.77%	5.46%	5.70%	4.17%	4.02
Calculated ROE	19.86%	22.83%	30.78%	30.17%	17.17%	18.41%	19.48%	26.58
Calculated core ROE	14.40%	22.83%	24.21%	30.17%	18.12%	18.41%	21.37%	26.58
Normalized equity-to-asset leve	4.65%	4.83%	4.65%	4.83%	4.65%	4.83%	4.65%	4.83
Calculated ROE	14.49%	19.44%	28.62%	29.79%	20.14%	21.73%	17.47%	22.12
Calculated core ROE	10.51%	19.44%	22.51%	29.79%	21.26%	21.73%	19.17%	22.12

Source: Company reports; Lehman Brothers

Valuation:

KorAm currently trades at 2.1x trailing book on a ROE of 21% and 10.5x FY2001 earnings (6.9x forward earnings). At this level it trades at a higher valuation than Kookmin—a reflection of recent merger speculation.

On expected forward ROE of 24% and cost of capital of 15%; a book multiple of 1.6x trailing book is justified. We are updating our 12-month forward price target to KRW12,000 reflecting 4% downside from the current level. We are moving our rating down to 3-Market Perform.

Figure 35: Valuation Summary

<i>KRW</i>	<i>FY2001A</i>	<i>FY2002E</i>	<i>FY2003E</i>
Current price	12,550		
EEPS	1,196	1,816	1,980
P/E	10.49 x	6.91 x	6.34 x
BVPS	6,077	8,554	11,203
P/BV	2.07 x	1.47 x	1.12 x
ROE	21%	24%	20%
ROE/(P/BV)	10%	16%	18%

Source: Company reports; Lehman Brothers

Company description

KorAm Bank was established in 1983 as a joint-venture between the Bank of America and a consortium of Korean companies including Samsung and Daewoo. Its operations are centered mainly around the Seoul area and have traditionally focused on SME lending. In November 2000, KorAm Bank increased its capital through an investment from a consortium led by the Carlyle Group and JP Morgan. The bank has over 220 branches and 3,800 employees.

February 28, 2002

Company Focus: Hong Kong

Hang Seng Bank: 2001 Results Preview- Many Swing Factors

- Hang Seng's 2H earnings are expected to be weak and the outlook does not look promising. Save for disposal gains, the risks are on the downside.
- We expect Hang Seng to report a net profit of HK\$10.1 billion or HK\$5.29 per share, pretty much flat on the year.
- We expect loan book expansion of less than 1%; NIM contraction of 14bp to 2.54%; flat loan loss provisions and; higher disposal gains
- Swing factors include possibly higher than expected loan loss provisions, which could be offset by more disposal gains.

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Hang Seng Bank is expected to report a 2001 net profit of HK\$10.1 billion, or HK\$5.29 per share, representing a 1% increase over last year. This compares to a consensus estimate of HK\$5.40 per share. On a half on half basis, second half profit is expected to contract 12% due to sluggish loan demand, margin contraction and a higher cost-to-income ratio. Meanwhile, asset quality is deteriorating on the consumer book which will result in higher loan loss provisions in the second half of the year.

Core lending operations. We expect the loan book to have been flat in the second half of the year for a full year increase of 0.8%. Meanwhile, the net interest margin is expected to have contracted from 2.68% to 2.54%. Asset yields have declined on lower return on free funds (negative endowment effect) and lower yield on mortgages. To combat lower yields on assets, management has been actively gearing up the balance sheet, by contracting customer deposits and increasing the loan-to-deposit ratio, from 54% in 2000 to 57% in 2001. Also, Hang Seng has been among the greatest beneficiaries of lower funding costs upon deposit rate deregulation. However, gains from better balance sheet management and lower funding costs are not enough to offset the lower return on free funds and mortgage yields.

Non-interest income should show respectable growth on fees from personal wealth management products, but not as strong as the market expects. Gains from life insurance and unit trust sales will be offset somewhat by lower stock brokerage commissions. Meanwhile, loan fees should suffer due to the lower loan volumes. Fees account for almost 60% of non-interest income and almost 15% of total revenue.

Rising cost-to-income ratio, finally, from 24% to 26%. Similar to all banks, Hang Seng must continue to spend on technology, marketing and higher salaries to front end staff. We expect expenses to have increased modestly by 7%, which combined with the lack of revenue growth, will result in a higher cost-to-income ratio, following two years of declines.

There are two major swing factors—provisions and disposal gains.

We expect loan loss provisions to be relatively flat on the year, at the guidance of management. We have pencilled in HK\$190 million, which is equivalent to eight basis points of loans. However, given what we have already seen from Bank of East Asia, Standard Chartered and the other Hong Kong banks, loan loss provisions could come in higher. Hang Seng has HK\$4.9 billion in credit card receivable outstanding, equal to 2.2% of total loans. However, we do not believe that they will exhibit any significant asset quality problems since they have not been as aggressive as the other banks.

Management has indicated that recoveries and the release of specific provisions are becoming more difficult to achieve. In 2000, Hang Seng released and recovered HK\$914 million in loan loss provisions (includes HK\$125 million released from the special general reserve taken in 1997). In the first half of the year Hang Seng was able to recover another HK\$555 million. Given the conservative nature of management, we believe that even if there are further recoveries and releases, these could be transferred to top up the remaining reserves. Excluding releases and recoveries, the loan loss provision would have been HK\$985 million in 2000 rather than HK\$196 million and HK\$576 million in the first half of this year, rather than the miniscule HK\$21 million reported.

We have pencilled in disposal gains of HK\$412 million. Hang Seng Bank realized HK\$212 million in the first half of the year and we have pencilled in another HK\$200 million in the second half of the year, for a full year gain of HK\$412 million. This compares to HK\$196 million and HK\$248 million in the previous two years. Management has indicated in the past that they dispose of investment securities when they feel that there is likely a deterioration in credit quality.

Maintaining 4-Market Underperform and share price target of HK\$70. Profitability as measured by ROE is expected to decline to 23.2% in the second half of this year for a full year ROE of 24.9%. Thereafter, further deterioration in profitability will result in an even lower ROE of 23.2% in 2002, which supports a P/BV of 3.3x. Also, at our price target, Hang Seng would be trading at 13x 2001 and earnings and 14x 2002 earnings. Since we lowered our rating, the share price has been kept buoyant by its attractive dividend yield of 5.6%, which is at risk due to 1) lower earnings and 2) Hang Seng will have to pay out over 100% of earnings to maintain this yield.

Company description

Hang Seng Bank was founded in 1933 and has grown to become the second-largest locally listed bank in Hong Kong. Currently, the bank is among the most liquid, highly capitalized and has among the highest residential mortgage exposure as a percentage of loans. Purchased in 1965, Hang Seng Bank is now a 61.5%-owned subsidiary of HSBC Holdings plc.

March 01, 2002

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