

Asia Banks

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Underperform

Declining Subsidies, Low Margins

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 14 Wing Hang Bank 2001 results

Asian Bank Briefing

Theme of the Week: A Relief Rally in HSBC, likely not Sustainable

- The shares of HSBC were up 8.5% on the week due primarily to relief that there were no other “black holes” revealed in its 2001 results announcement. As for the major overhang on the shares—Argentina—HSBC has taken it on the chin and appears to have made adequate provisions, which is in line with the conservative nature of management. With that out of the way, the stock took off on the hopes of a global economic recovery.
- However, with Argentina out of the way, we believe that even a global economic recovery is not going to help the fundamentals of the stock. Across all geographic areas, loan growth is slowing, or continues to be non-existent, margins are under pressure, costs are rising faster than revenues and higher loan loss provisions are on the horizon. Given this backdrop, profitability as measured by ROE is expected to be benign at 16-17%, which does not support its current share price, equivalent to 3.0x book value.

The Week Ahead: Investment Focus on Taiwan

- We will be visiting all the major financial institutions in Taiwan, as well as the central bank to get a better handle on what is happening in this country's financial sector. Laws have been passed, financial holding companies formed and a new finance minister has been recently appointed—yet very little has happened in the industry. Fundamentally, we are still negative on the Taiwanese banking sector, which is depicted by industry-wide loan book contraction, waning profitability as well as rising and largely under-stated NPLs.

The Week Before: Do Earnings Really Matter?

- Most investors just want to look past the current results announcements and are trying to find something positive to focus on. In Hong Kong, HSBC, Hang Seng and Dah Sing all reported weak results last week that showed relatively flat pre-provision profit and higher loan loss provisions—but overall earnings were saved by higher disposal gains. Thus, the relatively strong share price performances confounds us. Also, looking ahead, loan growth is still a pipe dream, margins are contracting and provisions are rising.

March 11, 2002

Figure 1: Asian Financial Institutions Share Price Performance

	Rating	Closing Price	Target Price	Potential Upside	52-Week High	52-Week Low	1-Week	1-Month	3-Month	YTD	1-Year
Hong Kong:											
Bank of East Asia	4	15.35	13.00	-15%	19.30	14.45	3.02	1.32	-8.36	-8.63	-19.00
Dah Sing Financial	3	35.80	34.00	-5%	45.30	29.95	12.23	3.77	-7.49	-2.98	-14.56
Hang Seng Bank	4	89.50	70.00	-22%	95.25	74.00	4.37	4.68	3.47	4.37	-3.50
HSBC Holdings PLC	3	92.75	84.00	-9%	104.50	68.50	8.48	8.16	-5.84	1.64	-10.39
JCG Holdings	2	4.77	5.40	13%	5.35	3.88	-1.55	-3.05	-2.05	-1.55	8.52
Pacific Century Insurance	1	1.85	na	na	2.57	1.38	6.94	2.21	-4.15	-14.94	-21.42
Wing Hang Bank	4	25.35	21.00	-17%	33.30	21.80	6.74	3.26	-1.55	1.40	-12.89
Wing Lung Bank	4	29.80	25.00	-16%	39.20	24.70	2.41	5.30	-2.30	2.41	-15.82
Citic Ka Wah	NR	2.35	na	na	2.63	1.81	-1.05	10.59	3.30	18.69	-4.38
IBA	NR	1.97	na	na	2.77	1.57	2.60	4.23	1.55	4.23	2.07
ICBC (Asia)	NR	7.30	na	na	7.75	5.55	0.69	2.10	-5.81	-0.68	14.96
Liu Chong Hing	NR	8.00	na	na	10.85	5.95	1.91	3.23	3.90	11.11	-10.11
Hang Seng index		11,233			14,194	8,934	7.75%	6.79%	-5.06%	-1.44%	-20.94%
Hong Kong Dollar (HKD)		7.80			7.79	7.80	0.00%	0.00%	0.00%	-0.02%	0.00%
Singapore:											
DBS Bank Group	3	14.80	12.50	-16%	18.50	9.50	9.63	0.68	7.25	7.25	-20.43
Oversea-Chinese Banking Corp.	3	13.00	11.10	-15%	13.40	8.80	4.00	0.00	10.17	18.18	0.78
United Overseas Bank	1	14.20	14.90	5%	15.00	9.05	1.43	-1.39	9.23	11.81	4.41
STI		1,799			1,898	1,241	4.50%	3.60%	10.45%	10.80%	-5.57%
Singapore Dollar (SGD)		1.82			1.73	1.86	0.59%	0.63%	0.61%	1.31%	-3.57%
South Korea:											
Hana Bank	2	18,500	11,500	-38%	19,800	5,337	-6.33	10.12	32.23	9.47	149.87
Kookmin Bank	1	54,300	60,000	10%	62,100	17,925	-6.22	-1.63	20.92	9.04	113.97
Kookmin Credit Card	NR	60,000	na	na	60,000	27,200	11.11	11.73	46.70	20.00	80.18
Koram Bank	3	11,950	12,000	0%	13,950	6,300	-7.72	-2.85	16.02	0.00	58.28
Shinhan Financial Group	3	16,400	16,000	-2%	20,450	9,400	-8.38	-4.93	0.00	-6.55	24.24
Chohung Bank	NR	5,490	na	na	6,150	1,750	-4.02	-4.69	36.23	32.61	136.64
Industrial Bank of Korea	NR	7,750	na	na	8,800	3,190	-4.08	4.03	-0.77	-3.00	115.88
Korea Exchange Bank	NR	5,020	na	na	5,770	1,805	-2.33	-9.06	24.57	28.88	62.99
KOSPI		825			843	469	0.64%	11.57%	17.14%	18.97%	42.46%
Korean Won (KRW)		1,314			1,258	1,368	0.51%	0.48%	-2.91%	-0.06%	-3.28%
Taiwan:											
Bank SinoPac	2	14.05	20.00	42%	16.20	11.82	2.55	-3.77	-8.77	-3.77	-11.18
Chinatrust Commercial	1	24.60	30.00	22%	26.10	15.67	-0.40	-5.75	16.04	17.14	-0.02
Fubon Financial	2	17.97	35.00	95%	18.84	13.20	-1.58	-0.44	na	-3.43	na
Taishin International	3	14.60	21.00	44%	16.84	10.25	-0.34	11.03	12.31	12.74	-12.32
United World Chinese Commercial	4	19.40	19.00	-2%	25.45	15.18	3.74	-3.48	-8.49	-8.06	-19.47
First Commercial Bank	NR	19.10	na	na	24.29	13.80	2.14	-9.48	-6.83	-11.57	-17.47
Hua Nan Commercial Bank	NR	18.50	na	na	24.76	14.50	5.11	-4.64	-3.14	-9.76	-22.92
International Commercial Bank	NR	19.60	na	na	25.36	13.64	0.51	-10.50	1.55	-7.98	-20.74
TWSE		6,012			6,098	3,446	5.82%	1.44%	12.71%	8.29%	5.26%
New Taiwan Dollar (TWD)		34.93			32.37	35.17	0.38%	0.17%	-1.37%	0.05%	-7.30%
Malaysia:											
Commerce Asset Holding	3	9.60	8.00	-17%	9.60	5.05	9.71	12.28	33.33	29.73	33.33
Maybank	2	9.25	16.00	73%	9.47	6.20	4.52	3.35	15.63	11.45	-0.89
Public Bank (F)	2	3.84	3.80	-1%	3.84	2.30	14.29	20.75	42.75	43.82	38.67
Hong Leong Bank	NR	4.92	na	na	4.92	2.98	9.33	18.84	43.86	35.16	50.00
RHB Capital	NR	2.65	na	na	2.73	1.60	17.78	3.11	18.30	14.72	4.74
MY Comp.		748			748	553	4.19%	5.16%	13.02%	7.40%	7.35%
Malaysian Ringgit (MYR)		3.80			3.80	3.80	-0.01%	0.01%	-0.01%	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	68.00	25.00	-63%	78.00	37.50	0.00	-1.45	34.65	38.07	39.49
Bangkok Bank (L)	3	54.50	25.00	-54%	61.00	30.25	-0.91	-2.68	46.31	49.32	49.32
Bank of Ayudhya (F)	4	6.10	5.00	-18%	8.10	4.20	-2.40	1.67	25.00	17.31	-19.74
Bank of Ayudhya (L)	4	6.10	5.00	-18%	8.10	4.16	-1.61	1.67	25.00	15.09	-19.74
IFCT (F)	3	7.60	10.00	32%	8.30	4.76	-1.30	11.76	33.33	27.73	-3.80
Krung Thai Bank (F)	4	13.00	10.00	-23%	13.75	8.20	0.00	12.07	18.18	30.00	1.96
National Finance PCL (F)	3	17.70	na	na	18.30	6.80	3.51	18.79	68.57	66.98	118.52
National Finance PCL (L)	3	14.70	na	na	15.10	6.50	2.80	12.21	54.74	55.56	86.08
Siam Commercial Bank (F)	3	27.00	25.00	-7%	29.50	13.60	-1.82	5.88	56.98	60.71	0.00
Siam Commercial Bank (P)	3	26.00	25.00	-4%	27.75	13.60	-5.45	4.00	50.29	53.85	7.22
Thai Farmers Bank (F)	3	27.75	22.00	-21%	31.75	15.75	-4.31	-3.48	26.71	27.29	12.12
Thai Farmers Bank (L)	3	24.70	22.00	-11%	27.75	14.00	-5.00	-1.20	34.24	32.80	9.78
Thai Military Bank (F)	4	6.00	5.00	-17%	8.30	4.50	0.00	-4.76	20.00	15.38	-26.83
SET		391			392	265	2.63%	10.48%	28.48%	28.57%	29.46%
Thai Baht (THB)		43.26			43.02	45.97	1.02%	1.48%	1.39%	2.17%	0.67%
Philippines:											
Bank of the Philippine Islands	2	70.00	64.00	-9%	79.50	40.50	2.94	6.06	33.33	21.74	0.72
Equitable-PCI	NR	32.50	na	na	53.50	16.00	4.84	16.07	47.73	32.65	-39.25
Metrobank	3	45.50	255.00	460%	45.60	31.20	7.31	10.44	27.10	10.98	-0.66
Philippine National Bank	4	62.00	55.00	-11%	79.00	39.50	-7.46	-16.78	19.23	-8.15	29.17
Ph Comp.		1,432			1,588	979	1.54%	6.53%	26.72%	22.61%	-9.90%
Philippines Peso (PHP)		50.98			47.79	54.38	0.25%	0.44%	1.81%	1.23%	-6.03%
Indonesia:											
Bank Central Asia	1	1,950	2,100	8%	2,050	800	5.41	1.30	36.84	32.20	110.81
Lippo Bank	2	75	90	20%	75.00	25.00	25.00	87.50	114.29	150.00	50.00
Panin Bank	4	355	260	-27%	355.00	95.00	33.96	36.54	86.84	91.89	144.83
JCI		472			477	343	4.47%	8.10%	25.23%	20.50%	10.36%
Indonesia Rupiah (IDR)		10,008			8,280	12,200	0.92%	2.42%	2.25%	3.92%	-1.07%
Australia											
ANZ	NR	18.05	na	na	18.60	13.44	-2.17	0.28	6.30	1.35	18.75
Commonwealth Bank of Australia	NR	31.66	na	na	34.15	25.14	-2.00	-2.12	11.89	5.76	2.64
National Australia Bank	NR	34.88	na	na	35.79	24.55	-1.72	1.10	12.99	9.48	16.70
St.George Bank	NR	17.97	na	na	18.84	13.20	-1.58	-0.44	5.27	-3.43	29.47
Westpac	NR	15.95	na	na	16.87	12.05	-3.68	-1.24	5.63	1.24	17.54
All Ord.s		3,440			3,440	2,867	2.30%	1.40%	3.80%	2.40%	4.60%
Australian Dollar (AUD)		0.52			0.54	0.48	0.76%	2.36%	1.66%	2.70%	2.22%
China:											
China Minsheng	NR	13.29	na	na	16.14	11.79	5.31	-0.60	-9.35	-8.41	-2.44
Shanghai Pudong	NR	15.09	na	na	21.38	13.06	9.03	3.50	-8.49	-3.82	-27.80
Shenzhen Development Bank	NR	11.41	na	na	16.96	9.60	11.97	7.04	-13.50	-6.86	-29.52
Red Chips		1,680			2,161	1,095	4.70%	5.48%	-1.25%	4.24%	1.21%
Chinese Yuan (CNY)		8.28			8.27	8.28	-0.01%	0.00%	0.00%	-0.01%	0.00%
India:											
Corporation Bank	NR	147.90	na	na	156.05	104.30	2.25	3.68	16.14	15.77	17.75
HDFC Bank	NR	237.95	na	na	251.05	191.85	-0.77	5.69	1.38	5.85	-9.06
ICICI Bank	NR	64.20	na	na	94.90	40.45	1.18	37.62	36.45	45.08	-34.02
State Bank of India	NR	231.00	na	na	260.25	140.55	-0.71	-7.06	15.64	25.89	-11.87
Bombay SE		1,793			1,885	1,216	1.85%	6.01%	8.56%	15.46%	-10.29%
Indian Rupee (INR)		48.74			46.51	48.88	-0.04%	-0.08%	-1.86%	-1.02%	-4.55%
Regional Index:											
MSCI AC Far East Free ex-Japan		215.78			215.79	146.43	5.30%	6.87%	8.46%	9.80%	-0.32%

Source: Lehman Brothers, Datastream

Figure 3: Market Summary

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

Source: Lehman Brothers

Figure 4: Asian Financial Institutions Coverage Universe Valuations

	Rating	Closing Price	Mkt Cap (US\$, MM)	Price to BVPS		PER			
				2000A	2001E	2000A	2001E	2002E	2003E
Hong Kong:									
Bank of East Asia	4	15.35	2,821	1.6	1.2	15.0	15.0	12.9	11.7
Dah Sing Financial	3	35.80	1,132	2.2	1.7	12.8	9.7	10.4	8.9
Hang Seng Bank	4	89.50	21,938	4.9	4.3	20.0	16.2	18.7	18.0
HSBC Holdings PLC	3	92.75	111,247	3.8	3.0	20.0	20.2	18.5	16.9
JCG Holdings	2	4.77	433	1.1	1.1	6.9	8.0	8.5	7.7
Wing Hang Bank	4	25.35	954	1.5	1.2	9.2	8.9	8.5	7.9
Wing Lung Bank	4	29.80	887	1.3	0.9	7.3	8.0	8.3	7.0
Singapore:									
DBS Bank Group	3	14.80	11,792	1.6	1.4	13.4	13.7	12.9	13.7
Oversea-Chinese Banking Corp.	3	13.00	9,221	1.2	1.2	20.5	17.0	13.9	12.7
United Overseas Bank	1	14.20	12,286	1.6	1.5	12.3	17.0	17.1	13.9
South Korea:									
Hana Bank	2	18,500	1,919	0.5	1.4	41.4	5.9	4.6	3.8
Kookmin Bank	1	54,300	14,905	1.2	2.1	6.6	6.8	6.1	6.4
Kookmin Credit Card	NR	60,000	3,341	1.0	3.7	2.7	8.0	8.9	9.2
Koram Bank	3	11,950	1,482	1.0	2.0	NM	10.0	6.5	5.9
Shinhan Financial Group	3	16,400	3,647	0.9	1.6	8.0	10.3	7.7	7.2
Malaysia:									
Commerce Asset Holding	3	9.60	3,062	1.8	1.9	18.4	18.9	19.8	16.4
Maybank	2	9.25	8,627	1.6	2.2	12.5	20.3	19.9	15.7
Public Bank (F)	2	3.84	3,144	1.6	2.3	9.8	10.5	14.1	12.5
Thailand:									
Bangkok Bank (F)	4	68.00	2,301	1.5	2.7	NM	12.2	14.0	11.9
Bank of Ayudhya (F)	4	6.10	260	0.6	0.7	NM	NM	-3.7	-3.6
IFCT (F)	3	7.60	204	1.1	1.1	NM	NM	-27.6	-55.4
Krung Thai Bank (F)	4	13.00	3,354	3.9	2.4	3.3	NM	52.5	65.8
Siam Commercial Bank (F)	3	27.00	529	1.0	1.3	17.1	35.1	23.1	20.4
Thai Farmers Bank (F)	3	27.75	1,507	2.2	2.5	44.3	60.7	26.6	23.1
Thai Military Bank (F)	4	6.00	278	1.7	2.1	NM	NM	-38.1	0.0
Taiwan:									
Bank SinoPac	2	14.05	782	1.1	1.1	14.3	14.0	11.2	10.1
Chinatrust Commercial	1	24.60	3,243	1.1	1.5	10.8	14.3	12.9	11.0
Fubon Financial	2	17.97	4,665	1.1	1.0	13.9	12.1	0.0	0.0
Taishin International	3	14.60	961	0.9	0.9	17.2	14.1	12.4	9.9
United World Chinese Commercial	4	19.40	2,094	1.2	1.1	11.1	13.9	12.1	10.2
Philippines:									
Bank of the Philippine Islands	2	70.00	2,103	1.8	2.0	29.2	17.9	21.8	18.1
Equitable-PCI	NR	32.50	463	1.0	0.5	67.2	124.3	166.5	31.0
Metrobank	3	45.50	1,457	1.3	0.3	39.8	20.1	22.8	17.8
Philippine National Bank	4	62.00	460	0.7	1.4	NM	NM	-12.0	-16.7
Indonesia:									
Bank Central Asia	1	1,950	1,157	0.4	1.2	1.4	3.4	4.8	4.9
Lippo Bank	2	75	193	0.9	1.1	8.7	5.0	11.6	13.9
Panin Bank	4	355	213	0.4	0.8	35.1	8.5	5.4	5.5
COUNTRY AVERAGES									
			Total Mkt Cap (US\$m)						
Hong Kong (excl. HSBC)			27,732	4.2	3.6	18.3	15.2	16.9	16.1
Singapore			33,300	1.4	1.4	15.0	15.8	14.7	13.5
South Korea			21,954	1.1	2.2	9.1	7.6	6.6	6.8
Taiwan			11,744	1.1	1.1	12.2	17.3	12.1	10.2
Malaysia			14,834	1.7	2.1	13.2	18.0	18.7	0.0
Thailand			8,434	1.4	1.3	7.4	12.9	16.4	18.3
The Philippines			4,484	1.4	1.3	37.4	30.9	33.6	15.8
Indonesia			1,563	0.4	1.2	6.9	4.3	5.7	6.1
REGION			124,045	2.0	2.1	14.4	14.8	14.7	11.3

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 2001/2002E	
			High	Low	1W	1M	3M	YTD	1Y			2001	2002E
United States:													
Bank One	3	39.50	39.82	28.00	7.78	9.75	0.66	1.15	7.08	46,059	2.2	16.0	14.6
BankAmerica	2	66.98	66.98	49.59	3.36	10.53	6.01	6.40	24.68	105,381	4.0	13.5	12.0
BONY	1	41.15	55.35	30.62	6.66	7.92	-1.15	0.86	-18.76	30,305	4.5	20.5	18.7
Citigroup	1	48.72	53.55	36.36	6.38	7.10	-1.00	-3.49	-4.00	250,655	2.9	17.3	15.2
Wachovia Corp	3	35.30	36.38	27.90	4.47	12.92	12.06	12.56	3.55	48,043	1.7	16.6	12.8
JP Morgan Chase & Co	1	34.05	50.60	28.19	14.80	9.42	-14.38	-6.33	-32.23	67,180	1.6	20.5	11.4
US Average					7.24%	9.61%	0.37%	1.86%	-3.28%	547,624	2.9	17.0	14.1
Europe:													
ABN-AMRO	2	20.82	23.01	15.78	2.56	8.04	10.16	15.09	-9.71	28,278	3.1	13.6	14.0
Allied Irish Banks	2	12.52	13.80	9.31	-2.34	3.05	-1.80	-3.69	7.01	9,777	2.9	0.3	0.1
Barclays	2	2,200.00	2,302.00	1,518.00	4.02	2.42	1.66	-3.30	1.52	52,255	3.5	14.8	14.6
BBVA	3	13.99	16.47	9.50	3.86	9.98	-3.91	0.65	-16.08	39,377	3.2	18.9	16.7
BNP-Paribas	2	56.00	57.35	37.95	1.63	8.53	11.78	11.44	17.89	43,728	2.2	12.7	12.2
BSCH	2	9.65	11.38	6.93	3.32	10.92	-3.79	2.55	-15.13	39,652	3.7	13.8	12.1
Commerzbank	3	20.30	32.55	15.70	4.64	10.63	5.73	17.00	-30.72	9,849	0.9	-101.5	29.0
Credit Lyonnais	2	41.50	45.75	34.05	5.38	11.08	10.49	10.67	7.10	12,578	1.9	16.9	15.4
Credit Suisse Group	3	63.50	83.12	44.80	9.48	1.93	-7.77	-10.31	-15.33	45,473	7.1	26.5	16.3
Deutsche	2	73.20	94.10	46.55	6.09	8.69	-5.06	-7.69	-20.00	40,079	1.7	61.0	19.3
Dresdner	3	47.60	54.45	35.60	2.26	8.18	14.70	16.38	5.31	23,150	2.3	22.2	26.0
HBOS	3	757.50	883.00	638.00	0.60	-9.17	-9.28	-4.84	8.52	40,592	2.7	14.7	14.2
Lloyds TSB	2	719.00	775.00	590.00	0.02	-0.04	-0.01	-0.03	0.09	57,015	4.9	13.0	11.3
RBS Natwest	2	1,855.00	1,863.00	1,256.00	3.23	6.00	14.65	10.94	11.08	75,391	5.6	14.5	12.4
Societe Generale	3	70.00	74.60	45.89	1.89	9.12	8.70	11.38	2.04	26,552	2.2	13.9	15.1
Standard Chartered	3	786.00	1,012.00	566.00	11.49	4.73	-10.27	-4.15	-22.56	12,639	2.4	11.8	10.8
UBS	3	83.00	92.00	62.10	4.80	8.21	-4.32	-0.95	-8.62	63,671	4.2	16.6	15.4
European Average					3.70%	6.02%	1.86%	3.60%	-4.56%	620,056	3.7	16.9	14.7
Latin America:													
Bancamer	2	1.06	1.14	0.66	-3.23	3.34	23.61	14.73	36.86	9,741	2.2	0.2	0.1
Bladex	3	2.45	4.14	1.76	4.71	22.93	-27.10	-20.68	-34.56	204	0.1	35.0	0.7
Bradesco	2	13.40	14.05	-	-4.22	8.94	10.02	7.20	9.84	4,036	0.9	4.1	3.7
GFBanorte	2	2.34	2.41	1.51	-1.35	9.56	17.71	10.99	27.71	1,170	1.2	7.8	7.5
Group Financiero Galicia	4	0.17	1.97	0.11	-17.37	-11.30	-55.52	-50.78	-91.15	127	0.0	0.1	0.2
Inbursa	1	0.68	0.80	0.45	3.33	-3.12	11.33	16.98	1.92	3,814	0.8	0.2	0.1
Itaú	2	0.84	0.95	0.61	0.00	7.75	2.00	-0.65	na	77	na	0.1	0.1
Santander Chile	2	1.75	2.13	1.64	1.21	4.54	-6.25	-14.66	-1.91	177	0.3	1.4	1.4
Santiago	2	1.60	1.70	1.26	3.57	6.46	2.11	1.40	17.89	2,158	159.8	0.8	0.9
Unibanco	1	2.97	3.36	1.63	0.00	15.88	13.45	14.89	-16.08	39,377	0.1	1.1	1.1
Latin American Average					-1.34%	6.50%	-0.86%	-2.06%	-5.50%	60,881	6.2	1.3	1.2
Japan:													
Chuo-Mitsui	3	214	291	102	14.44	51.77	98.15	64.62	-27.21	1,375	0.2	9.8	-0.8
Daiwa	2	97	175	66	-4.90	27.63	5.43	18.29	-45.51	4,290	0.5	2.0	4.6
Mitsubishi-Tokyo	2	885,000	1,340,000	689,000	7.01	11.04	10.07	0.68	na	39,889	na	32.7	2949.0
Mizuho	2	363,000	803,000	200,000	39.62	51.25	32.48	35.96	-47.47	26,229	0.5	17.7	-4.6
Sumitomo Mitsui	3	610	1,229	407	18.91	32.61	2.35	9.91	-46.02	27,336	1.4	11.5	-21.1
Sumitomo Trust	2	616	912	379	36.28	39.68	8.07	15.79	-21.03	7,022	1.2	9.4	46.3
UFJ Holdings	3	394,000	970,000	235,000	34.47	39.72	17.61	36.33	na	14,957	na	-27.9	19.1
Japanese Average					20.83%	36.24%	24.88%	25.94%	-37.45%	121,098	0.9	14.5	970.8
Asian Coverage Averages:													
Hong Kong					5.33	3.21	-3.53	-2.29	-11.13	27,732	3.6	15.19	16.9
Singapore					5.02	-0.24	8.88	12.41	-5.08	33,300	1.4	14.72	14.7
South Korea					-3.51	2.49	23.17	6.39	85.31	21,954	2.0	6.59	6.2
Taiwan					0.79	-0.48	2.77	2.92	-10.75	11,744	1.1	12.10	12.1
Malaysia					9.51	12.13	30.57	28.33	23.70	14,834	2.1	18.66	18.7
Thailand					-1.27	4.19	38.00	37.70	19.57	8,434	1.3	18.66	16.4
The Philippines					1.91	3.95	31.85	14.31	-2.51	4,484	1.3	33.61	33.6
Indonesia					21.46	41.78	79.32	91.36	101.88	1,563	1.2	5.71	5.7
Asian Average					4.90%	8.38%	26.38%	23.89%	25.12%	124,045	2.1	14.4	14.6

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	1.34	1.12	1.19	1.32	1.22	1.40	92%	85%
Dah Sing Financial	3	3.29	3.53	3.44	4.01	3.80	4.16	93%	83%
Hang Seng Bank	4	5.24	5.29	4.79	4.98	5.29	5.56	100%	86%
HSBC Holdings PLC	3	5.79	4.51	5.00	5.48	5.44	6.09	83%	82%
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	3.64	3.59	4.26	3.63	3.87	100%	93%
Singapore:									
DBS Bank Group	3	1.14	1.12	1.15	1.08	0.75	0.92	149%	125%
Oversea-Chinese Banking Corp.	3	0.65	0.79	0.93	1.03	0.70	0.69	113%	135%
United Overseas Bank	1	0.87	0.63	0.83	1.02	0.75	0.93	84%	89%
Korea:									
Hana Bank	2	143	2,886	4,060	4,931	2,206	2,773	131%	146%
Kookmin Bank	1	3,860	7,326	8,952	8,514	4,960	7,172	148%	125%
Kookmin Credit Card	NR	10,278	6,258	6,724	6,556	5,987	7,239	105%	93%
Koram Bank	3	(2,429)	1,196	1,825	2,032	1,144	1,649	105%	111%
Shinhan Financial Group	3	1,293	1,706	2,140	2,291	1,342	2,116	127%	101%
Taiwan:									
Bank SinoPac	2	0.97	1.04	1.25	1.39	1.06	1.27	98%	99%
Chinatrust Commercial	1	1.83	1.47	1.91	2.24	1.61	2.07	91%	92%
Taishin International	3	0.96	0.92	1.18	1.47	0.46	1.29	200%	91%
United World Chinese Commercial	4	2.01	1.52	1.61	1.91	1.51	1.53	100%	105%
Fubon Holdings Co.	2	n.a.	1.37	1.54	1.85	1.50	1.75	91%	88%
Thailand:									
Bangkok Bank (F)	4	(12.84)	3.78	4.84	5.71	5.60	6.84	68%	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	5.16	6.88	-10%	4%
Siam Commercial Bank (F)	3	1.14	0.69	1.17	1.32	1.08	1.80	64%	65%
Thai Farmers Bank (F)	3	0.54	0.38	1.04	1.20	1.38	2.14	28%	49%
Thai Military Bank (F)	4	(6.26)	(0.05)	(0.16)	(0.17)	0.75	0.93	-7%	-17%
Malaysia:									
Commerce Asset Holding	3	0.44	0.43	0.49	0.58	0.47	0.59	92%	83%
Maybank	2	0.58	0.36	0.46	0.59	0.40	0.47	91%	99%
Public Bank (F)	2	0.30	0.23	0.27	0.31	0.16	0.21	145%	127%
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	0.22	0.97	91%	20%
Metrobank	3	4.60	10.21	1.99	2.55	1.13	1.50	901%	133%
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	428.31	413.67	100%	98%
Lippo Bank	2	6.29	6.00	6.45	5.39	5.16	6.88	116%	94%
Panin Bank	4	4.85	21.85	66.33	64.13	11.18	56.77	196%	117%

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

News of the Week

Hong Kong

News this week focused on the reporting of financial results by a few major institutions, namely HSBC, Hang Seng Bank, and Dah Sing Financial. Individual notes are included in this issue.

Singapore

OCBC carried out the first tranche of retrenchments since the acquisition of Keppel TatLee Bank, laying-off 229 employees last week. The number of employees laid-off was less than the 345 expected, which taken together with indications by management that this tranche will be the largest, points to a final number of retrenchments of less than the 700 originally announced. The bank is planning to make the remaining lay-offs in a second and final tranche in the near future.

United Overseas Land posted a 9% fall in FY2001 net profit to SGD66.21 million. The company however pointed to expectations of better FY2002 earnings from the sale of Tiong Bahru Plaza for about SGD195 million earlier in the year. UOL is 45% owned by UOB.

Standard Chartered last week launched a new mortgage offset account, further intensifying competition in the mortgage segment. The product, called MortgageOne, offers mortgage holders a cheque account paying interest at the same rate as interest costs on their mortgage, effectively allowing customer deposits to lower interest costs.

It seems new credit cards are beginning to cannibalize existing cards with the average billing per credit card falling by 10% YoY to SGD338 in January. The total number of cards issued increased by 15% to 2.8 million. The decrease in transaction volume is off-set somewhat by a 5% increase in balances to SGD736. Write-offs have increased 42% to SGD2.75.

South Korea

The BOK held interest rates steady for March saying that the economy was not overheating, but merely making a solid recovery. The BOK Governor pointed to slumping exports as a key mitigating factor against positive industrial output and business confidence data.

The Ministry of Finance and Economy said it will issue USD500 million worth of depositary receipts internationally in order to dispose of its stake in Chohung Bank.

Loan growth in the commercial sector was seen to be recovering with some banks saying that demand for loans to finance capital spending was rising sharply. Boosted by improving business conditions, corporate capital spending has been on the rise since November last year—in January this year, corporate facility investments rose 5.8% YoY. Orders for domestically produced machinery were up 27.9% YoY in January, while construction was up 39.5% YoY.

Latest BOK figures also point to continued surging growth in consumer loans. New loans to the household sector doubled in February from the previous month to KRW5.98 trillion due to competition to increase mortgage and credit consumer loans. The central bank added that “the surge is unusual given the fact that household demand for money is normally weak at this time of the year”. Deposits at investment trust management companies were also strong adding KRW6.51 trillion, compared with a gain of KRW4 trillion won in January.

Shinhan Financial said it will cut interest rates on consumer loans by 50 basis point. The range of rates on loans to individuals will be reduced to 8.25–12.25%.

Shinhan Financial also announced it will pay KRW1,000 dividend at its annual shareholders meeting last week. This represents a 58% payout ratio consistent with FY2000 and an indicated dividend yield of 5.7%.

Moody's revised the ratings outlook for Shinhan Bank and Korea First Bank to positive, from stable to reflect the improved operating environment, internal restructuring, as well as the banks' significant clearing of problem assets.

Woori Credit Card said it plans to issue up to KRW2 trillion of asset-backed securities in early FY2003. Meanwhile, WCC is reported to be already planning a KRW800 billion issue of ABS as early as March 26. According to an FSS disclosure, the company also plans to issue KRW230 billion of corporate bonds by April 12.

Seoul Bank said it will sell KRW270 billion of five-year subordinated bonds between March 11–28 in order to boost capital and repay more expensive Tier 2 issued in the past. The yield is expected at 7.63–7.68%.

Kookmin is reported to be planning to put to the up-coming annual general meeting of shareholders on March 22 a proposal to halve its current 30 board directors. The board is made up of a total of eight in-house executives, including its president Kim Jung-tae, chairman Kim Sang-hun, two auditors and four vice-presidents, and 22 outside directors. Of the outside directors, four have already resigned, the bank added. The bank will reduce the number of in-house executives to four or five and that of outside directors to about 10. The bank also plans to reduce the number of its vice-president level, currently 14.

Taiwan

Central Deposit Insurance Co. (CDIC) will be required by the **Ministry of Finance (MOF)** to temporarily take up the management of **Chung Shing Bank**, if there is no buyer willing to acquire the problem bank. **Chung Shing Bank** has been under the custody of CDIC since October 2001 after failing to carry out a capital expansion project to improve its financial structure.

China Development Financial Holding Co. is in a new round of negotiation with **Grand Cathay Securities**, aimed at taking over management of the securities house. **China Development Industrial Bank (CDIB)**, a core unit of the holding company, launched a public purchase of share of **Grand Cathay Securities** in the first half of 2001. The acquisition plan failed due to strong opposition from the brokerage's largest shareholder, **Jen-Hwa Investment Holding**, an investment arm of the opposition **Kuomintang (KMT)**. **China Development Financial** currently holds a 17.61% stake in **Grand Cathay**, compared with a 22.28% share by **Jen-Hwa Investment Holding** and a 2.94% stake by **International Commercial Bank of China**.

Hua Nan Financial Holding indicated on Thursday it is planning to acquire no less than a 90% stake in **Sinon Life Insurance Co. Ltd**, which is a small life insurer capitalized at NT\$2.6 billion. Meanwhile, **Hua Nan Financial** has agreed to spend a total of NT\$700 million to acquire 100% of **HNCB**

Insurance Agency Co. Ltd., EnTrust Investment Management Co. Ltd and EnTrust Futures Co. Ltd. from **Hua Nan Commercial Bank** and **EnTrust Securities Co. Ltd.**

First Commercial Bank put NT\$13 billion of its delinquent assets on the auction block and many international asset management corporations will be bidding. **First Commercial** will sell the NT\$13 billion worth of debts, mainly securities and real estate properties, to **AMCs** through open bids. It is expected to take over three weeks to complete the appraisal of the debt assets.

Four financial institutions belonging to three separate financial holding companies have applied to the **Ministry of Finance** to cut a total of NT\$50 billion worth of their paid-in capital. The four entities are **Fubon Insurance** and **Fubon Securities** under the **Fubon Financial Holding**, **Cathay Life Insurance** of **Cathay Financial Holding** and **Shin Kong Life Insurance** of **Shin Kong Financial Holding**. **Cathay Life** plans to cut its capital to NT\$20 billion from NT\$50 billion, **Fubon Insurance** to NT\$20 billion from NT\$30 billion, **Fubon Securities** to NT\$13 billion from NT\$20 billion and **Shin Kong Life** to NT\$18.8 billion from NT\$21.8 billion. Capital saved from the reduction of paid-in capital of affiliated companies of each group will be allocated to the parent companies, or the financial holding companies, to expand existing business or initiate new business through acquisitions.

Malaysia

HSBC Bank Malaysia Bhd. indicated on Wednesday that it is planning to acquire retail mortgages from **ABN Amro Bank Bhd.** Effective March 11, 2,500 of **ABN Amro's** home loans will be transferred to **HSBC**, following a court order granted by the High Court of Malaysia in January.

Hong Leong Bank Bhd. has denied market speculation that it will acquire **RHB Sakura Merchant Bankers Bhd**, the merchant banking arm of **Rashid Hussain Bhd.**

Thailand

Bank of Ayudhya is preparing to issue new subordinated debentures to help refinance THB8 billion in debt maturing in FY2003. However, the bank president stressed that the bank

had no need to raise new capital this year, as existing capital funds were sufficient to cover new lending targets of THB12 billion.

Thai Farmers Bank plans to close 31 loss-making branches by the middle of this year through consolidation with profitable branches.

Bangkok Metropolitan Bank posted a THB49.62 million, or THB16.05 per share, profit for FY2001 versus a THB5 billion loss in the same period of 2000.

The Philippines

Land Bank of the Philippines has sought BSP approval for a joint venture—to be 70% owned by a foreign partner—for the disposal of its NPLs and other non-earning assets worth PHP15–20 billion. The bank is waiting for the passage of the Special Purpose Asset Vehicle Bill before selecting a partner.

Equitable PCI appointed Rene Buenaventura as president and chief executive replacing Deogracias Vistan, who resigned after only a year with Equitable PCI. Mr Buenaventura assumes his new posts on March 16. Mr Vistan has agreed to be a special adviser to the bank.

J.G. Summit said its banking arm, Robinsons Savings Bank, bought 20 thrift bank branches from ABN Amro, including total liabilities of ABN Amro Bank in excess of PHP5 billion and a deposit customer base of about 28,000.

Moody's revised its outlook for **Rizal Commercial Banking Corp.** to "stable" from "negative" but said any further deterioration in the bank's financial condition is still within the bounds of current rating levels.

Indonesia

Internal conflicts and doubt continue to dog the sale of the government's 51% stake in **BCA** as this week the government denied allegations by IBRA that the selection committee was legally invalid. We believe this is all part of doing business in Indonesia and still think that the sale will go through and Standard Chartered will be the winner.

Australia

HSBC Bank Plc indicated that the global banking group is intending to expand its personal banking services in Australia. The recent acquisition of **NRMA Building Society** is helping to fit this strategy. In addition, HSBC refused to comment on the possibility of merging or acquiring St. George Bank or Rothschild Asset Management in Australia.

Bank of Queensland's AU\$150 million floating rate transferable certificate of deposit due March 15, 2005 has been priced at 42 basis points over swap. The issue was originally offered as an AU\$125 million transaction but met with strong domestic and offshore investor interest. It was marketed at swap plus 41-44 basis points. March 15 will be the settlement date.

St. George Bank said on Monday it was planning an issue of global mortgage-backed securities under its Crusade Securitization programme. The issue would have an equivalent value of about AU\$1.75 billion in total with a senior US\$880 million tranche and a subordinated AU\$0.295 million tranche. The securities will be registered by the Securities and Exchange Commission of the United States and backed by Australian residential mortgage loans originated by St. George Bank.

China

Assets of the state-owned commercial banks in China accounted for 70% of the total of China's banking sector. The reduction in NPLs of the state commercial banks was divided into three stages:

Stage 1: from 1995-2000: to cut the growth of NPLs
 Stage 2: from 2000 to end of 2001: reduction of NPLs
 Stage 3: 3-5 years after WTO accession: NPLs are expected to reach the level of those in developed countries

People Bank of China (PBOC) has given the green light to the first foreign financial institution, **Xiamen International Bank**, to do business with Chinese clients. Xiamen International is a Sino-foreign joint venture bank in Fujian, and has been given approval to provide domestic clients with foreign currency services. Xiamen International is 10% owned by Japan's

Shinsei Bank, 10% by the **Asian Development Bank** and 5% by U.S. backed **Sino-Finance Group Co. Ltd.**

French banking group **BNP Paribas** and Chinese securities firm **Changjiang Securities** will set up a Sino-foreign securities joint venture in China. According to the agreement, the joint venture securities company will provide financial services under Chinese laws and regulations, covering the distribution, offering and underwriting of stocks in the primary market, financial advice and services for mergers and acquisitions. The company will be designed to serve Chinese companies and overseas companies with businesses in China. BNP Paribas will take a 33.3% stake in the joint venture.

India

Housing Development Finance Corporation said it had decided not to declare its proposed interim dividend. The company did not give any reasons for its decision.

The **National Housing Bank** will set up a mortgage credit company together with several other financial institutions. The new company will execute a mortgage credit guarantee scheme that will provide guarantees to housing finance companies.

The **State Bank of India** after entering the retail market only very recently has seen massive growth in retail products. In January 2002, the bank's personal loans accounted for IDR7,850 million of which half were housing loans. The bank expects monthly housing loan disbursement of IDR4,000 million with the average housing loan at less than IDR15,000.

BNP Paribas pulled back from their retail banking aspirations in India, last week firing the head of retail banking division and about 80 staff associated with the business.

Figure 7: Hong Kong Bank Universe – Forecasts and Valuation

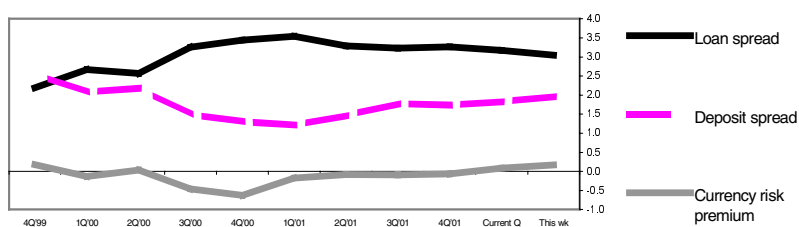
			PP Profit	Net Profit	EPS	PER	ROA	ROE	Yield %	Net interest margin	Cost to income	EPS growth	
HONG KONG													
HK\$m	BEA	2000	2,871	1,887	1.34	15.0	1.2%	11.8%	3.3%	2.7%	42.2%	24.9%	
Price HK\$	15.35	2001	2,449	1,600	1.12	15.0	0.9%	9.0%	3.2%	2.3%	53.0%	-16.6%	
Mkt Cap US\$m	2,821	2002	2,688	1,696	1.19	12.9	0.9%	9.0%	3.9%	2.1%	46.9%	6.0%	
Rating	4	2003	2,964	1,878	1.32	11.7	1.0%	9.6%	4.3%	2.1%	44.1%	10.8%	
	DSF	2000	1,214	810	3.29	12.8	1.7%	18.6%	2.6%	3.8%	40.4%	37.4%	
	35.80	2001	1,300	868	3.53	9.7	1.7%	17.5%	3.0%	3.8%	41.6%	7.1%	
	1,132	2002	1,477	845	3.44	10.4	1.5%	15.3%	3.0%	3.6%	37.8%	-2.7%	
	3	2003	1,648	985	4.01	8.9	1.7%	16.0%	3.5%	3.5%	34.0%	16.6%	
	HSB	2000	11,540	10,014	5.24	20.0	2.1%	25.0%	4.6%	2.7%	32.3%	20.5%	
	89.50	2001	11,503	10,114	5.29	16.2	2.1%	24.9%	5.7%	2.6%	35.7%	1.0%	
	21,938	2002	11,054	9,164	4.79	18.7	1.9%	22.7%	5.4%	2.5%	38.7%	-9.4%	
	4	2003	11,522	9,520	4.98	18.0	2.0%	23.5%	5.7%	2.6%	39.8%	3.9%	
	JCG	2000	760	447	0.63	6.9	8.1%	15.4%	7.4%	15.8%	23.5%	22.2%	
	4.77	2001	825	429	0.61	8.0	8.9%	13.8%	6.6%	13.8%	20.6%	-4.0%	
	433	2002	838	397	0.56	8.5	8.0%	12.1%	6.1%	18.5%	20.6%	-7.3%	
	2	2003	826	438	0.62	7.7	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%	
	25.35	2001	1,273	806	2.75	8.9	1.5%	13.8%	4.3%	2.8%	31.9%	-10.5%	
	954	2002	1,308	873	2.97	8.5	1.6%	13.3%	4.7%	2.9%	32.4%	8.3%	
	4	2003	1,342	941	3.21	7.9	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%	
	29.80	2001	1,093	846	3.64	8.0	1.3%	12.4%	4.5%	2.1%	32.2%	-16.3%	
	887	2002	1,148	834	3.59	8.3	1.3%	10.8%	5.0%	2.1%	31.7%	-1.5%	
	4	2003	1,336	989	4.26	7.0	1.5%	12.0%	5.3%	2.2%	29.0%	18.7%	
US\$m	HSBC	2000	5,589	6,628	0.74	20.0	1.0%	19.1%	3.7%	2.7%	55.3%	13.8%	
Price HK\$	92.75	2001	2,075	5,406	0.58	20.2	0.8%	14.5%	4.0%	2.5%	56.4%	-22.1%	
Mkt Cap US\$m	111,247	2002	4,471	6,000	0.64	18.5	0.8%	15.7%	4.4%	2.5%	57.5%	11.0%	
Rating	3	2003	4,948	6,576	0.70	16.9	0.9%	16.7%	4.9%	2.5%	56.8%	9.6%	
COUNTRY AVERAGES													
<i>exc. HSBC</i>													
	<i>Total Mkt Cap US\$m</i>	2000	2001	2002	2003	2000	ROA	2001	2002	2000	ROE	2001	2002
Hong Kong	28,165	18.3	15.2	16.9	16.1	2.1%	2.0%	1.9%	22.8%	22.1%	20.2%		
Singapore	33,300	15.0	15.8	14.7	13.5	1.4%	1.2%	1.2%	10.4%	9.4%	9.5%		
South Korea	25,296	9.1	7.6	6.6	6.8	1.1%	1.7%	1.7%	17.1%	30.2%	29.7%		
Taiwan	11,744	12.2	17.3	12.1	10.2	1.1%	1.2%	1.3%	8.8%	8.2%	9.0%		
Malaysia	14,834	13.2	18.0	18.7	0.0	1.1%	0.8%	0.9%	13.8%	9.3%	10.1%		
Thailand	8,434	7.4	12.9	16.4	18.3	1.3%	-0.1%	0.2%	5.4%	2.7%	6.3%		
The Philippines	4,484	37.4	30.9	33.6	15.8	0.2%	0.6%	0.6%	0.3%	4.9%	5.4%		
Indonesia	1,563	6.9	4.3	5.7	6.1	1.5%	2.1%	2.1%	39.0%	34.4%	26.4%		
REGION	127,820	14.3	14.6	14.5	11.2	1.4%	1.3%	1.3%	14.3%	15.9%	15.7%		
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	
179,168	9.7%	14.8%	3.6%	51.8%	23.7%	12.32	11.34	1.6	1.8	BEA
181,765	10.0%	16.2%	3.1%	57.9%	4.0%	12.78	11.81	1.2	1.3	HK\$m
188,474	10.1%	13.5%	2.9%	65.5%	3.7%	13.37	12.41	1.1	1.2	Price HK\$
201,084	10.0%	13.3%	2.8%	73.9%	6.8%	14.03	13.07	1.1	1.2	Mkt Cap US\$m
										Rating
49,702	9.4%	13.1%	2.3%	76.0%	8.3%	18.96	17.48	2.2	2.4	DSF
54,432	9.7%	15.1%	2.1%	94.3%	-0.7%	21.43	19.95	1.7	1.8	35.80
55,713	10.4%	16.4%	1.8%	167.0%	3.0%	23.64	22.16	1.5	1.6	1,132
57,566	11.3%	17.7%	1.4%	262.8%	4.4%	26.36	24.88	1.4	1.4	3
500,784	8.1%	11.9%	3.3%	59.9%	9.8%	21.23	16.11	4.9	6.5	HSB
474,787	8.4%	12.3%	2.7%	56.5%	1.8%	20.77	15.57	4.3	5.7	89.50
477,034	8.3%	11.6%	3.1%	56.0%	0.6%	20.77	15.56	4.3	5.8	21,938
482,412	8.4%	11.4%	3.4%	55.9%	2.2%	21.11	15.68	4.2	5.7	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	4.77
4,988	65.9%	77.2%	8.3%	109.9%	-2.0%	4.65	4.65	1.0	1.0	433
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	1.2	1.3	25.35
54,935	12.8%	19.3%	3.8%	50.9%	1.0%	24.02	22.82	1.1	1.1	954
56,347	14.1%	21.4%	3.3%	60.5%	2.8%	27.16	25.89	0.9	1.0	4
65,482	8.6%	11.6%	3.6%	80.2%	3.2%	24.34	18.80	1.3	1.7	WLB
64,405	11.5%	15.9%	3.6%	77.9%	2.6%	31.92	26.38	0.9	1.1	29.80
65,724	12.0%	16.9%	3.4%	115.4%	3.6%	34.07	28.53	0.9	1.0	887
68,621	12.5%	17.7%	3.2%	132.8%	3.9%	36.80	31.26	0.8	1.0	4
673,814	5.4%	9.0%	3.6%	79.0%	13.9%	3.91	3.29	3.8	4.5	HSBC
695,877	5.3%	9.0%	3.1%	84.8%	3.6%	3.98	3.36	3.0	3.5	US\$m
723,712	5.3%	9.1%	0.0%	0.0%	4.5%	4.09	3.55	2.9	3.3	Price HK\$
770,753	5.1%	9.0%	0.0%	0.0%	6.5%	4.21	3.76	2.8	3.2	Mkt Cap US\$m
										Rating

2000	Yield 2001	2002	2000	NPL 2001	2002	Price to book 2000	2001	Price to ABVPS 2000	2001	
4.4%	5.3%	5.2%	3.4%	2.9%	3.1%	4.2	3.6	5.5	4.8	Hong Kong
2.8%	2.0%	2.9%	5.7%	5.3%	4.4%	1.4	1.4	1.7	3.0	Singapore
2.8%	3.8%	4.4%	9.7%	7.6%	6.8%	1.1	2.2	1.1	2.3	South Korea
0.0%	0.6%	0.6%	2.3%	3.1%	3.6%	1.1	1.1	1.1	1.1	Taiwan
1.6%	1.2%	1.6%	6.9%	8.6%	6.3%	1.7	2.1	2.1	3.1	Malaysia
0.0%	0.0%	0.0%	17.2%	16.5%	14.5%	1.4	1.3	1.8	1.8	Thailand
0.9%	0.0%	0.0%	30.5%	33.3%	29.7%	1.4	1.3	1.6	1.3	Philippines
0.0%	3.0%	4.5%	20.2%	27.4%	25.3%	0.4	1.2	0.6	1.6	Indonesia
2.5%	2.7%	3.1%	7.6%	7.4%	6.6%	1.9	2.1	2.4	2.9	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	2.0848	1.9508	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	1.9213	1.8693	2.1462	3.4587	4.1900	5.3413	6.6874	6.7000	6.5137	6.1097	6.1377
US Fed Funds	1.7500	1.7313	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	5.6620	5.4276	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

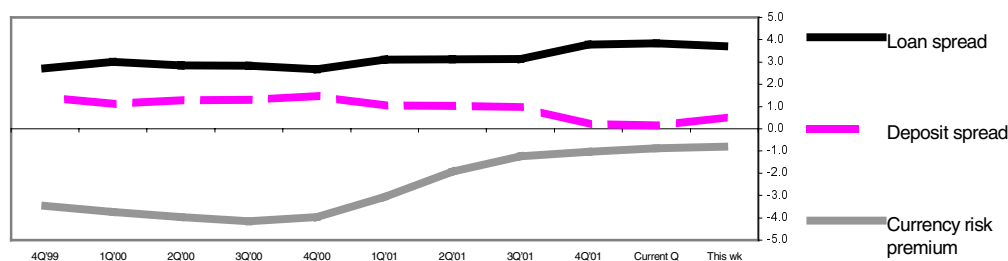
			PP Profit	Net Profit	EPS	PER	ROA	ROE	Yield %	Net interest margin	Cost to income	EPS growth
SINGAPORE												
SGDm	DBS	2000	1,725	1,389	1.14	13.4	1.3%	11.6%	2.2%	2.1%	41.9%	25.6%
Price SGD		2001	1,974	1,357	1.12	13.7	1.2%	11.2%	2.2%	2.0%	45.6%	-2.3%
Mkt Cap US\$m		2002	2,327	1,397	1.15	12.9	1.2%	10.7%	2.6%	2.0%	45.3%	2.9%
Rating		2003	2,214	1,311	1.08	13.7	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%
		2001	1,542	1,012	0.79	17.0	1.4%	8.2%	1.5%	2.4%	35.6%	20.5%
		2002	1,864	1,199	0.93	13.9	1.3%	8.7%	2.4%	2.4%	35.0%	18.5%
		2003	2,006	1,319	1.03	12.7	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%
		2001	1,535	988	0.63	17.0	1.1%	8.6%	2.2%	2.0%	39.2%	-27.5%
		2002	2,124	1,305	0.83	17.1	1.1%	9.0%	3.5%	2.0%	35.8%	32.1%
		2003	2,460	1,598	1.02	13.9	1.3%	10.6%	4.8%	2.0%	31.8%	22.4%
COUNTRY AVERAGES												
<i>exc. HSBC</i>			PER				ROA			ROE		
	<i>Total Mkt Cap US\$m</i>	2000	2001	2002	2003	2000	2001	2002	2000	2001	2002	
Hong Kong	28,165	18.3	15.2	16.9	16.1	2.1%	2.0%	1.9%	22.8%	22.1%	20.2%	
Singapore	33,300	15.0	15.8	14.7	13.5	1.4%	1.2%	1.2%	10.4%	9.4%	9.5%	
South Korea	25,296	9.1	7.6	6.6	6.8	1.1%	1.7%	1.7%	17.1%	30.2%	29.7%	
Taiwan	11,744	12.2	17.3	12.1	10.2	1.1%	1.2%	1.3%	8.8%	8.2%	9.0%	
Malaysia	14,834	13.2	18.0	18.7	0.0	1.1%	0.8%	0.9%	13.8%	9.3%	10.1%	
Thailand	8,434	7.4	12.9	16.4	18.3	1.3%	-0.1%	0.2%	5.4%	2.7%	6.3%	
The Philippines	4,484	37.4	30.9	33.6	15.8	0.2%	0.6%	0.6%	0.3%	4.9%	5.4%	
Indonesia	1,563	6.9	4.3	5.7	6.1	1.5%	2.1%	2.1%	39.0%	34.4%	26.4%	
REGION	127,820	14.3	14.6	14.5	11.2	1.4%	1.3%	1.3%	14.3%	15.9%	15.7%	
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 & Comn	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 & Comn	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	1.4	3.7	14.80	SGDm
118,045	11.5%	- %	2.6%	62.6%	2.8%	11.13	4.99	1.3	3.0	11,792	Price SGD
122,509	11.7%	- %	2.2%	71.2%	2.9%	11.83	5.96	1.3	2.5	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	13.00	
89,374	15.9%	- %	6.1%	52.2%	5.1%	11.05	5.83	1.2	2.2	9,221	
91,661	16.4%	- %	5.6%	57.9%	1.1%	11.66	6.53	1.1	2.0	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	1.6	2.5	14.20	
123,157	12.0%	- %	4.8%	54.1%	0.2%	9.40	5.97	1.5	2.4	12,286	
131,928	11.8%	- %	3.9%	56.2%	1.3%	9.91	6.59	1.4	2.2	1	

2000	Yield 2001	2002	2000	NPL 2001	2002	Price to book 2000	2001	Price to ABVPS 2000	2001	
4.4%	5.3%	5.2%	3.4%	2.9%	3.1%	4.2	3.6	5.5	4.8	Hong Kong
2.8%	2.0%	2.9%	5.7%	5.3%	4.4%	1.4	1.4	1.7	3.0	Singapore
2.8%	3.8%	4.4%	9.7%	7.6%	6.8%	1.1	2.2	1.1	2.3	South Korea
0.0%	0.6%	0.6%	2.3%	3.1%	3.6%	1.1	1.1	1.1	1.1	Taiwan
1.6%	1.2%	1.6%	6.9%	8.6%	6.3%	1.7	2.1	2.1	3.1	Thailand
0.0%	0.0%	0.0%	17.2%	16.5%	14.5%	1.4	1.3	1.8	1.8	Malaysia
0.9%	0.0%	0.0%	30.5%	33.3%	29.7%	1.4	1.3	1.6	1.3	Philippines
0.0%	3.0%	4.5%	20.2%	27.4%	25.3%	0.4	1.2	0.6	1.6	Indonesia
2.5%	2.7%	3.1%	7.6%	7.4%	6.6%	1.9	2.1	2.4	2.9	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	0.8125	0.5285	0.4708	2.0102	2.0240	2.1653	2.6481	1.8750	2.1388	1.5412	1.1359
3M Interbank	1.1250	0.9925	1.1039	2.2255	2.2665	2.2819	2.7157	2.5489	2.5353	2.3661	2.6692
Prime lending	4.8300	4.8307	4.8865	5.3526	5.3800	5.3800	5.3800	5.3800	5.3800	5.3800	5.3800
3M Deposits	0.6250	0.8451	0.9022	1.2446	1.2500	1.2500	1.2500	1.2500	1.2500	1.2500	1.2500
3M LIBOR	1.9213	1.8693	2.1462	3.4587	4.1900	5.3413	6.6874	6.7000	6.5137	6.1097	6.1377
US Fed Funds	1.7500	1.7313	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	5.6620	5.4276	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	4.6	1.1%	28.3%	6.9%	2.3%	54.4%	40.7%
Rating		2003	1,035,242	613,216	4,931	3.8	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	6.1	1.4%	31.5%	4.9%	2.7%	39.3%	22.2%
		2003	5,515,296	2,552,208	8,514	6.4	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	8.9	4.3%	36.0%	0.0%	0.0%	38.4%	7.4%
		2003	1,326,112	479,928	6,556	9.2	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	6.5	0.9%	24.3%	0.4%	3.0%	42.9%	52.6%
		2003	685,896	331,325	2,032	5.9	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%	5.7%	2.2%	44.2%	31.9%
		2002	1,214,403	625,545	2,140	7.7	1.0%	19.6%	7.1%	2.3%	54.2%	25.5%
		2003	1,252,879	696,671	2,291	7.2	1.1%	20.3%	7.6%	2.0%	53.5%	7.1%

COUNTRY AVERAGES		PER				ROA			ROE		
<i>exc. HSBC</i>	Total Mkt Cap US\$m	2000	2001	2002	2003	2000	2001	2002	2000	2001	2002
Hong Kong	28,165	18.3	15.2	16.9	16.1	2.1%	2.0%	1.9%	22.8%	22.1%	20.2%
Singapore	33,300	15.0	15.8	14.7	13.5	1.4%	1.2%	1.2%	10.4%	9.4%	9.5%
South Korea	25,296	9.1	7.6	6.6	6.8	1.1%	1.7%	1.7%	17.1%	30.2%	29.7%
Taiwan	11,744	12.2	17.3	12.1	10.2	1.1%	1.2%	1.3%	8.8%	8.2%	9.0%
Malaysia	14,834	13.2	18.0	18.7	0.0	1.1%	0.8%	0.9%	13.8%	9.3%	10.1%
Thailand	8,434	7.4	12.9	16.4	18.3	1.3%	-0.1%	0.2%	5.4%	2.7%	6.3%
The Philippines	4,484	37.4	30.9	33.6	15.8	0.2%	0.6%	0.6%	0.3%	4.9%	5.4%
Indonesia	1,563	6.9	4.3	5.7	6.1	1.5%	2.1%	2.1%	39.0%	34.4%	26.4%
REGION	127,820	14.3	14.6	14.5	11.2	1.4%	1.3%	1.3%	14.3%	15.9%	15.7%

SOUTH KOREA INDUSTRY STATISTICS

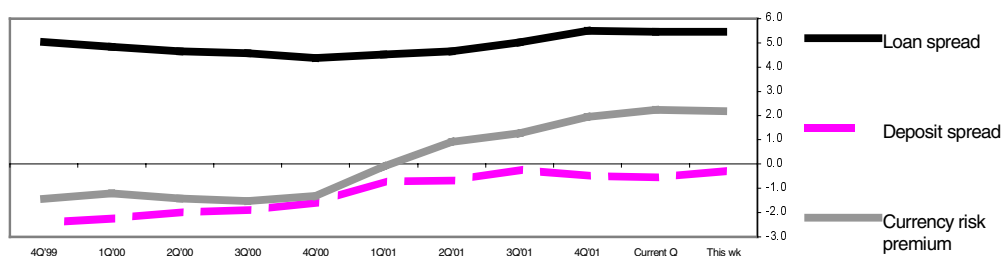
	Loan Growth (% yoy)											
	3Q'01	2Q'01	1Q'01	4Q'00	3Q'00	2Q'00	1Q'00	4Q'99	3Q'99	2Q'99	1Q'99	4Q'98
Corporate	6.25	9.44	14.06	19.69	15.91	24.31	25.59	22.55	18.48	2.75	2.76	8.31
Manufacturing	2.14	4.18	7.25	12.41	13.78	16.56	17.45	12.91	14.47	-0.12	-8.66	-4.85
Trade	2.98	4.92	9.88	14.12	21.81	32.12	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	1.4	1.4	18,500.00	KRWm
49,489,462	4.0%	7.4%	7.5%	33.5%	9.7%	15,070	15,065	1.2	1.2	1,919	Price KRW
53,599,712	4.1%	7.6%	7.3%	37.7%	8.2%	16,705	16,700	1.1	1.1	2	Mkt Cap US\$m
											Rating
152,985,226	4.0%	0.0%	10.9%	32.1%	34.7%	21,226	19,831	1.2	1.3	Kookmin	
176,900,537	4.3%	0.0%	9.1%	32.6%	13.3%	25,526	24,191	2.1	2.2	54,300.00	
196,291,961	4.8%	0.0%	7.8%	36.8%	10.9%	31,218	29,882	1.7	1.8	14,905	
216,971,099	5.0%	0.0%	6.7%	47.8%	10.6%	35,874	34,539	1.5	1.6	1	
8,181,476	9.8%	0.0%	3.1%	72.2%	99.7%	27,446	27,446	1.0	1.0	KCC	
10,577,683	11.3%	0.0%	3.1%	84.7%	32.0%	16,334	16,334	3.7	3.7	60,000.00	
12,270,112	12.6%	0.0%	3.1%	72.6%	13.5%	21,041	21,041	2.9	2.9	3,341	
14,233,330	13.2%	0.0%	3.6%	69.4%	16.0%	25,630	25,630	2.3	2.3	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	2.0	2.0	11,950.00	
34,232,036	4.1%	5.3%	7.6%	39.5%	11.0%	8,563	8,562	1.4	1.4	1,482	
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	1.6	1.6	16,400.00	
62,954,847	5.2%	10.9%	5.7%	36.8%	9.2%	11,296	11,112	1.5	1.5	3,647	
68,455,195	5.2%	10.9%	6.1%	35.1%	8.6%	11,754	11,577	1.4	1.4	3	

	Yield			NPL			Price to book		Price to ABVPS		REGION
	2000	2001	2002	2000	2001	2002	2000	2001	2000	2001	
	4.4%	5.3%	5.2%	3.4%	2.9%	3.1%	4.2	3.6	5.5	4.8	Hong Kong
	2.8%	2.0%	2.9%	5.7%	5.3%	4.4%	1.4	1.4	1.7	3.0	Singapore
	2.8%	3.8%	4.4%	9.7%	7.6%	6.8%	1.1	2.2	1.1	2.3	South Korea
	0.0%	0.6%	0.6%	2.3%	3.1%	3.6%	1.1	1.1	1.1	1.1	Taiwan
	1.6%	1.2%	1.6%	6.9%	8.6%	6.3%	1.7	2.1	2.1	3.1	Thailand
	0.0%	0.0%	0.0%	17.2%	16.5%	14.5%	1.4	1.3	1.8	1.8	Malaysia
	0.9%	0.0%	0.0%	30.5%	33.3%	29.7%	1.4	1.3	1.6	1.3	Philippines
	0.0%	3.0%	4.5%	20.2%	27.4%	25.3%	0.4	1.2	0.6	1.6	Indonesia
	2.5%	2.7%	3.1%	7.6%	7.4%	6.6%	1.9	2.1	2.4	2.9	

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	4.0985	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	4.3900	4.6364	4.5780	4.9691	5.7865	5.9463	6.9737	7.0751	7.0848	7.1408	7.1223
3M LIBOR	1.9213	1.8693	2.1462	3.4587	4.1900	5.3413	6.6874	6.7000	6.5137	6.1097	6.1377
US Fed Funds	1.7500	1.7313	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	5.6620	5.4276	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	14.0	0.5%	29.0%	0.0%	2.2%	59.5%	28.2%
Rating		2003	16,134	8,373	5.71	11.9	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)	-3.7	-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)	-27.6	-0.2%	-4.4%	0.0%	-0.2%	164.6%	77.7%
		2003	(18)	(159)	(0.14)	-55.4	-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	52.5	0.3%	4.8%	0.0%	2.3%	71.6%	-146.4%
		2003	7,202	2,209	0.20	65.8	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	23.1	0.5%	6.4%	0.0%	2.4%	56.3%	69.1%
		2003	12,155	4,145	1.32	20.4	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	26.6	0.3%	11.6%	0.0%	2.5%	72.8%	172.7%
		2003	8,152	2,837	1.20	23.1	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	11.2	0.9%	9.6%	- %	2.0%	56.4%	20.3%
		2003	3,387	2,706	1.39	10.1	0.9%	9.7%	- %	1.8%	58.8%	11.1%
	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	9.9	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	12.1	0.9%	8.7%	2.1%	2.1%	47.5%	6.0%
		2003	9,973	7,186	1.91	10.2	0.9%	9.6%	2.5%	2.0%	47.8%	18.6%
COUNTRY AVERAGES												
				PER				ROA			ROE	
exc. HSBC		Total Mkt Cap US\$m	2000	2001	2002	2003	2000	2001	2002	2000	2001	2002
Hong Kong		28,165	18.3	15.2	16.9	16.1	2.1%	2.0%	1.9%	22.8%	22.1%	20.2%
Singapore		33,300	15.0	15.8	14.7	13.5	1.4%	1.2%	1.2%	10.4%	9.4%	9.5%
South Korea		25,296	9.1	7.6	6.6	6.8	1.1%	1.7%	1.7%	17.1%	30.2%	29.7%
Taiwan		11,744	12.2	17.3	12.1	10.2	1.1%	1.2%	1.3%	8.8%	8.2%	9.0%
Malaysia		14,834	13.2	18.0	18.7	0.0	1.1%	0.8%	0.9%	13.8%	9.3%	10.1%
Thailand		8,434	7.4	12.9	16.4	18.3	1.3%	-0.1%	0.2%	5.4%	2.7%	6.3%
The Philippines		4,484	37.4	30.9	33.6	15.8	0.2%	0.6%	0.6%	0.3%	4.9%	5.4%
Indonesia		1,563	6.9	4.3	5.7	6.1	1.5%	2.1%	2.1%	39.0%	34.4%	26.4%
REGION		127,820	14.3	14.6	14.5	11.2	1.4%	1.3%	1.3%	14.3%	15.9%	15.7%

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	68.00
1,471,249	3.5%	- %	21.0%	50.6%	-0.3%	35.46	26.05	1.9	2.6	2,301
										<i>Mkt Cap US\$m</i>
										<i>Rating</i>
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	1.0	6.10
451,279	2.7%	- %	23.9%	16.0%	-1.0%	6.66	4.83	0.9	1.3	260
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	7.60
210,957	3.6%	- %	17.9%	31.2%	-0.5%	6.59	6.08	1.2	1.3	204
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	2.4	2.6	13.00
1,029,033	6.1%	- %	25.0%	32.6%	-3.5%	5.66	5.34	2.3	2.4	3,354
1,070,392	6.1%	- %	21.6%	41.2%	-1.7%	5.85	5.56	2.2	2.3	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	27.00
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	2.5	3.3	27.75
866,771	3.3%	- %	26.5%	51.7%	-1.5%	12.07	9.60	2.3	2.9	1,507
932,943	3.4%	- %	21.9%	64.1%	0.0%	13.27	10.99	2.1	2.5	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	278
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	24.60
875,027	9.6%	10.6%	2.7%	75.2%	13.9%	18.25	18.25	1.3	1.3	3,243
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	17.97
501,211	22.4%	n.a.	n.a.	n.a.	n.a.	19.93	19.93	0.9	0.9	4,665
534,937	22.4%	n.a.	n.a.	n.a.	n.a.	21.24	21.24	0.8	0.8	2
235,057	9.4%	14.3%	0.8%	101.1%	15.4%	12.62	12.62	1.1	1.1	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	14.05
342,750	8.6%	12.9%	1.4%	45.5%	19.8%	15.08	15.08	0.9	0.9	782
										<i>Mkt Cap US\$m</i>
										<i>Rating</i>
275,860	10.2%	9.8%	2.3%	49.3%	5.3%	15.23	14.62	0.9	0.9	Taishin
309,430	9.6%	11.2%	2.3%	64.8%	10.4%	16.67	16.67	0.9	0.9	14.60
349,971	9.2%	11.3%	2.3%	73.8%	12.2%	17.92	17.92	0.8	0.8	961
385,149	9.0%	11.5%	2.3%	78.2%	10.1%	19.39	19.39	0.8	0.8	3
661,237	9.6%	10.9%	3.4%	26.9%	14.2%	18.52	18.52	1.2	1.2	UWCCB
672,025	10.0%	13.2%	6.3%	18.8%	-2.7%	17.91	17.91	1.1	1.1	19.40
732,011	9.8%	13.1%	6.4%	15.5%	7.8%	19.11	19.11	1.0	1.0	2,094
812,280	9.5%	12.8%	6.3%	9.6%	9.6%	20.54	20.54	0.9	0.9	4
REGION										
2000	Yield	2002	2000	NPL	2002	Price to book		Price to ABVPS		
4.4%	2001	5.2%	2000	2001	2002	2000	2001	2000	2001	<i>exc. HSBC</i>
5.3%	5.2%	3.4%	2.9%	3.1%	2.9%	4.2	3.6	5.5	4.8	Hong Kong
2.8%	2.0%	2.9%	5.7%	5.3%	4.4%	1.4	1.4	1.7	3.0	Singapore
2.8%	3.8%	4.4%	9.7%	7.6%	6.8%	1.1	2.2	1.1	2.3	South Korea
0.0%	0.6%	0.6%	2.3%	3.1%	3.6%	1.1	1.1	1.1	1.1	Taiwan
1.6%	1.2%	1.6%	6.9%	8.6%	6.3%	1.7	2.1	2.1	3.1	Thailand
0.0%	0.0%	0.0%	17.2%	16.5%	14.5%	1.4	1.3	1.8	1.8	Malaysia
0.9%	0.0%	0.0%	30.5%	33.3%	29.7%	1.4	1.3	1.6	1.3	Philippines
0.0%	3.0%	4.5%	20.2%	27.4%	25.3%	0.4	1.2	0.6	1.6	Indonesia
2.5%	2.7%	3.1%	7.6%	7.4%	6.6%	1.9	2.1	2.4	2.9	REGION

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												
RMm	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	19.8	0.7%	9.2%	1.2%	3.2%	51.2%	12.4%
Rating		2003	1,557	687	0.58	16.4	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	19.9	0.8%	9.3%	1.6%	2.7%	45.7%	29.3%
		2003	2,730	1,379	0.59	15.7	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	14.1	1.6%	13.4%	2.0%	3.9%	34.7%	16.1%
		2003	1,923	995	0.31	12.5	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	21.8	1.1%	8.9%	0.0%	4.5%	61.9%	0.0%
Rating		2003	10,722	5,931	3.86	18.1	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	166.5	0.1%	0.5%	0.0%	2.9%	82.1%	-1.0%
		2003	2,722	763	1.05	31.0	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	1.99	22.8	0.7%	7.6%	0.0%	2.9%	69.2%	-80.5%
		2003	8,380	4,168	2.55	17.8	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)	-12.0	-0.9%	-13.1%	0.0%	0.1%	104.1%	-54.9%
		2003	(61)	(1,402)	(4)	-16.7	-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	4.8	2.2%	30.4%	6.1%	4.4%	38.6%	-5.0%
Rating		2003	3,543	2,335	396.69	4.9	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	11.6	1.0%	16.7%	0.0%	5.2%	73.2%	7.5%
		2003	326	211	5.39	13.9	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	5.4	2.3%	13.3%	0.0%	4.4%	29.0%	203.6%
		2003	709	382	64.13	5.5	2.0%	11.4%	0.0%	4.0%	30.5%	-3.3%
COUNTRY AVERAGES												
<i>exc. HSBC</i>												
Total Mkt Cap US\$m			2000	2001	2002	2003	2000	2001	2002	2000	2001	2002
			18.3	15.2	16.9	16.1	2.1%	2.0%	1.9%	22.8%	22.1%	20.2%
			33,300	15.0	15.8	14.7	13.5	1.4%	1.2%	1.2%	10.4%	9.5%
			25,296	9.1	7.6	6.6	6.8	1.1%	1.7%	1.7%	17.1%	30.2%
			11,744	12.2	17.3	12.1	10.2	1.1%	1.2%	1.3%	8.8%	9.0%
			14,834	13.2	18.0	18.7	15.2	1.1%	0.8%	0.9%	13.8%	9.3%
			8,434	7.4	12.9	16.4	18.3	1.3%	-0.1%	0.2%	5.4%	2.7%
			4,484	37.4	30.9	33.6	15.8	0.2%	0.6%	0.6%	0.3%	4.9%
			1,563	6.9	4.3	5.7	6.1	1.5%	2.1%	2.1%	39.0%	34.4%
	REGION		127,820	14.3	14.6	14.5	13.0	1.4%	1.3%	1.3%	14.3%	15.7%

Source: Company reports, Bloomberg, Lehman Brothers

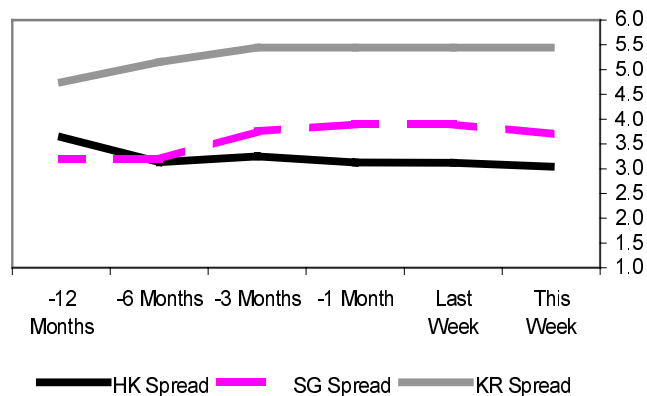
Total Assets	Equity to assets	Tier 1 capital	NPL	NPL cover	Loan growth	BVPS	ABVPS	Price to BVPS	Price to ABVPS					
MALAYSIA														
69,882	7.6%	10.0%	11.8%	29.3%	16.1%	4.49	2.17	1.8	3.8	CAHB	RMm			
76,805	7.6%	9.2%	9.1%	38.8%	10.2%	5.01	3.49	1.9	2.7	9.60	<i>Price RM</i>			
82,012	7.8%	9.4%	7.1%	48.6%	7.0%	5.48	4.64	1.8	2.1	3,062	<i>Mkt Cap US\$m</i>			
87,684	8.1%	9.6%	5.0%	62.8%	7.1%	6.02	5.63	1.6	1.7	3	<i>Rating</i>			
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	2.2	3.3	9.25				
147,122	8.5%	10.7%	6.5%	69.0%	5.3%	5.31	5.25	1.7	1.8	8,627				
155,325	8.8%	11.1%	4.7%	81.7%	5.7%	5.83	5.83	1.6	1.6	2				
44,101	10.0%	21.8%	6.2%	52.8%	11.1%	1.86	1.65	1.6	1.8	Pub Bank				
51,769	11.9%	23.1%	7.1%	42.5%	24.5%	1.69	1.41	2.3	2.7	3.84				
56,198	12.3%	23.9%	4.7%	56.1%	8.0%	1.88	1.75	2.0	2.2	3,144				
60,949	12.7%	24.8%	3.2%	71.8%	8.2%	2.11	2.07	1.8	1.9	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	70.00	<i>Price P</i>			
461,098	12.5%	0.0%	20.0%	54.7%	1.5%	38	38	1.9	1.9	2,103	<i>Mkt Cap US\$m</i>			
504,018	12.6%	0.0%	17.8%	63.3%	3.0%	41	41	1.7	1.7	2	<i>Rating</i>			
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	0.9	32.50				
252,706	17.4%	0.0%	28.8%	41.0%	1.5%	61	38	0.5	0.9	463				
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	0.3	0.4	45.50				
509,644	10.4%	0.0%	27.7%	29.7%	1.5%	33	27	1.4	1.7	1,457				
557,084	10.3%	0.0%	23.6%	35.8%	3.0%	35	30	1.3	1.5	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	1.4	1.5	62.00				
214,133	6.8%	0.0%	81.2%	34.0%	1.5%	39	37	1.6	1.7	460				
234,065	5.6%	0.0%	69.7%	41.2%	3.0%	35	33	1.8	1.9	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	1.7	1,950.00	<i>Price Rp</i>			
107,749	10.3%	- %	12.6%	75.3%	8.2%	1,881.10	1,535.41	1.0	1.3	1,157	<i>Mkt Cap US\$m</i>			
109,920	11.5%	- %	12.0%	81.7%	8.2%	2,138.95	1,851.17	0.9	1.1	1	<i>Rating</i>			
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	1.1	2.2	75.00				
27,217	11.1%	- %	93.1%	21.1%	5.4%	77.35	42.69	1.0	1.8	193				
29,916	10.8%	- %	71.9%	25.2%	9.8%	82.74	49.49	0.9	1.5	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	0.8	0.8	355.00				
17,939	17.7%	- %	32.7%	62.0%	5.1%	532.68	530.32	0.7	0.7	213				
19,360	18.4%	- %	25.5%	81.3%	7.7%	596.80	594.61	0.6	0.6	4				
REGION														
2000	Yield	2002	2000	NPL	2001	2002	Price to book	2000	2001	Price to ABVPS	2000	2001		
4.4%	5.3%	5.2%	3.4%	2.9%	3.1%	4.2	3.6	5.5	4.8				exc. HSBC	
2.8%	2.0%	2.9%	5.7%	5.3%	4.4%	1.4	1.4	1.7	3.0				Hong Kong	
2.8%	3.8%	4.4%	9.7%	7.6%	6.8%	1.1	2.2	1.1	2.3				Singapore	
0.0%	0.6%	0.6%	2.3%	3.1%	3.6%	1.1	1.1	1.1	1.1				South Korea	
1.6%	1.2%	1.6%	6.9%	8.6%	6.3%	1.7	2.1	2.1	3.1				Taiwan	
0.0%	0.0%	0.0%	17.2%	16.5%	14.5%	1.4	1.3	1.8	1.8				Thailand	
0.9%	0.0%	0.0%	30.5%	33.3%	29.7%	1.4	1.3	1.6	1.3				Malaysia	
0.0%	3.0%	4.5%	20.2%	27.4%	25.3%	0.4	1.2	0.6	1.6				Philippines	
2.5%	2.7%	3.1%	7.6%	7.4%	6.6%	1.9	2.1	2.4	2.9				Indonesia	
														REGION

Figure 12: Key Interest Rates

	This Week	Last Week	-1 Month	-3 Months	-6 Months	-12 Months
Hong Kong						
3 Mo HIBOR	2.0848	2.0045	1.9978	1.9978	3.3683	4.8616
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	0.8125	0.5625	0.6250	0.5000	2.0625	2.5000
3 Mo SIBOR	1.1250	0.9375	0.9375	1.1250	2.1875	2.1875
Prime	4.8300	4.8300	4.8300	4.8800	5.3800	5.3800
3 Mo Deposits	0.6250	0.6250	0.8750	0.8750	1.2500	1.2500
Korea						
Interbank O/N	4.1000	4.1000	4.1000	4.1000	4.6000	5.0000
Prime	9.5500	9.5500	9.5500	9.5500	9.7500	9.7500
3 Mo Deposits	4.3900	4.3500	4.5600	4.8300	4.8000	5.6700
Thailand						
Interbank O/N	2.0625	2.0625	2.0000	2.5000	2.5000	1.6250
MLR	7.0625	7.0625	7.1250	7.1875	7.3125	7.3125
Malaysia						
3 Mo KLIBOR	3.2800	3.2800	3.2700	3.3000	3.3000	3.2200
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	2.2800	2.2780	2.2830	2.4210	3.4350	4.3280
Prime	6.7250	6.7250	6.7250	6.7900	6.9900	7.0800
Philippines						
3 Mo PHIBOR	7.6250	7.6250	7.9375	10.6875	11.4375	11.5625
Prime	10.1950	10.1250	10.9468	13.0000	12.8884	9.4732
Savings	6.9285	7.0089	7.5625	9.0804	9.0714	9.4732
Indonesia						
3 Mo JIBOR	17.4688	17.5078	17.5859	17.9289	17.7969	15.2969
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	16.8820	17.0100	17.0100	17.6150	17.5610	14.9400
US						
3 Mo LIBOR	1.9213	1.9013	1.9000	2.0038	3.4863	4.9000
Fed Funds	1.7500	1.8125	1.6875	1.8750	3.4375	5.2500
Prime	4.7500	4.7500	4.7500	5.0000	6.5000	8.5000
UST 30 Year	5.6520	5.5040	5.3750	5.5840	5.3690	5.2710

Source: Lehman Brothers, Bloomberg

Figure 13: Major Market Spreads



Source: Lehman Brothers

Industry Focus: Singapore Banks

Singapore Loan Growth: January Slump

- Singaporean bank lending contracted for the second month in a row, and is now expanding at only a 1.1% annual rate.
- Consumer loan growth, long a leader, has come off sharply since mid-summer.
- Mortgage lending growth is also declining despite new products, as utilization of existing approved lines reaches its maximum extent.
- We now project 0.9% loan growth in FY2002 and 3.1% in FY2003.

Summary

Loan growth in Singapore continues to be slack, with January 2002 loans actually contracting month-on-month for the second period in a row, and Y-o-Y growth down to 1.1% from the FY2001 level of 3.0%. Even consumer lending is no longer as robust as it has been wont to be over the last two years, expanding at only a 5.8% annual rate.

On the back of these developments, we have slightly lowered our 1H02 loan growth forecasts, but have raised them (ex-financial institutions lending) for subsequent periods.

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Figure 14: Bank and Finance Company Lending By Sector, YoY % Change

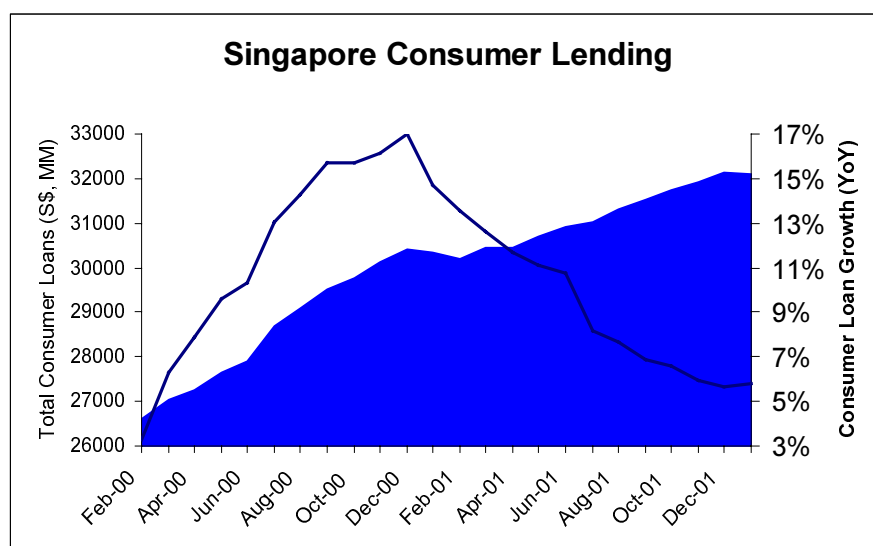
Loan Growth by Category Year on Year Change, %	Total	Manufacturing	Building & Construction	Mortgages	Commerce	Transport, Storage, & Communications	Financial Institutions	Consumer	Other
FY 1997	12.1%	1.8%	22.6%	12.8%	10.1%	36.5%	8.0%	9.9%	12.4%
FY 1998	4.5%	-1.8%	-2.5%	33.6%	-18.2%	24.7%	8.2%	-5.9%	17.7%
FY 1999	-3.3%	-5.5%	-8.4%	8.5%	-7.4%	-16.1%	-7.3%	-0.3%	-8.8%
FY 2000	4.3%	0.4%	9.4%	6.9%	-4.9%	10.2%	-0.9%	17.0%	-8.3%
FY 2001	3.0%	2.6%	3.6%	5.5%	-6.7%	49.1%	3.3%	5.6%	-9.6%
December-00	4.3%	0.4%	9.4%	6.9%	-4.9%	10.2%	-0.9%	17.0%	-8.3%
January-01	4.6%	6.8%	10.2%	7.4%	-3.1%	10.3%	0.2%	14.7%	-12.1%
February-01	4.3%	8.0%	10.6%	7.4%	-4.6%	7.3%	-0.8%	13.5%	-11.1%
March-01	4.3%	4.7%	13.3%	7.0%	-4.8%	16.7%	-1.9%	12.6%	-11.5%
April-01	4.4%	5.2%	13.0%	7.0%	-4.2%	17.1%	-1.1%	11.7%	-11.1%
May-01	4.2%	1.2%	10.2%	7.0%	-3.6%	17.3%	-1.2%	11.1%	-6.2%
June-01	4.5%	-1.1%	8.8%	6.2%	-1.4%	31.7%	0.2%	10.7%	-5.8%
July-01	3.6%	3.1%	5.3%	6.2%	-5.4%	29.4%	1.9%	8.2%	-5.6%
August-01	2.6%	-5.5%	5.1%	6.3%	-3.5%	28.3%	-0.9%	7.7%	-7.7%
September-01	3.7%	-1.4%	4.6%	6.5%	-3.8%	63.0%	0.7%	6.9%	-7.6%
October-01	3.6%	2.9%	4.3%	6.6%	-7.9%	81.9%	0.1%	6.6%	-8.8%
November-01	4.2%	2.6%	3.9%	6.2%	-8.7%	84.5%	4.2%	6.0%	-4.7%
December-01	3.0%	2.6%	3.6%	5.5%	-6.7%	49.1%	3.3%	5.6%	-9.6%
January-02	1.1%	-6.0%	3.8%	4.9%	-10.5%	15.2%	0.6%	5.8%	-5.2%

Source: MAS

Consumer Lending Still Trending Down: Growth in consumer lending, while still better than average, has come off sharply since mid-2001. Consumer loans outstanding rose by 5.8% (YoY) in November, a rate which has declined by 1,120 basis points since year-end 2000, and is now near its lowest level since February, 2000. We continue to expect poor consumer sentiment and a commensurate negative impact on consumer spending and thus borrowing in FY2002, although consumer loans overall should continue to be a comparative strong point in the sector.

Our new estimates call for consumer lending to increase by 4.4% in FY2002 and by a robust 7.0% in FY2003. Bear in mind, however, that margins in this sector will remain under pressure.

Figure 15: Singapore Consumer Lending, Level and YoY % Change



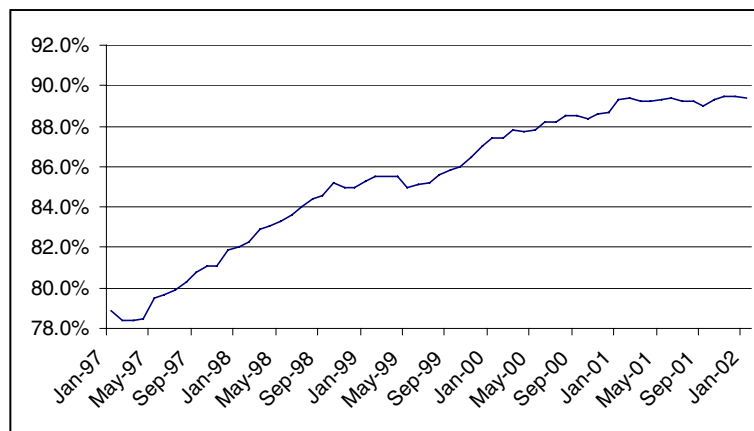
Source: : MAS

Impact of Bank Mergers: The consolidation of banks in 2H01 will certainly reduce overall lending by curbing inter-bank and financial sector borrowing in aggregate; however, we foresee some additional effects as well. Consumers who had credit lines at, for example, OCBC and KTLB might run afoul of maximum permissible limits (which only apply bank by bank) when these facilities are combined. Likewise, corporate customers might exceed banks' legal exposure limits (based on a percentage of capital) or might simply, when aggregated, have more available credit than their bankers are comfortable with.

Note that in most cases we are not talking about exceeding limits based on actual loans outstanding, but only on available lines, meaning that facilities could be "re-sized" without impairing customers' current activities. However, access to credit does itself stimulate borrowing—the "use it or lose it" effect—and so we would expect to see some real, but unquantifiable, declines in borrowing.

Mortgage Growth Comes Off On Higher Utilization: Mortgage originations have also come well off their mid-summer highs, even as rates are lower and more banks are pushing innovative products—like MayBank’s new graduated mortgage which lets homebuyers effectively have negative amortization during the first ten years of their loan. We attribute this to both continued soft demand for new housing and to a burn-through of approved-but-undrawn mortgage lines, stemming from the FY2001 frenzy of financing—utilization is unlikely to rise by more than another 125bp.

Figure 16: Singapore Mortgage Line Utilization



Source: MAS

Communications Sector Lending Swings Due To Large SingTel Facilities: Overall loan growth has been bolstered YoY and hurt MoM by large changes in lending to the telecom and transport sector, which now accounts for some 2.8% of total outstanding loans. We attribute almost all of this activity to several large and low-margin (reportedly as low as 17bp over interbank) borrowings by SingTel (in part related to its acquisition of Optus).

Figure 17: Bank and Finance Company Lending By Sector, MoM % Change.

Loan Growth by Category Month-on-Month Change, %	Bank and Finance Company Lending By Sector, MoM % Change								
	Total	Manufacturing	Building & Construction	Mortgages	Commerce	Transport, Storage, & Communications	Financial Institutions	Consumer	Other
December-99	0.1%	2.5%	(0.8%)	0.7%	(0.8%)	(2.2%)	0.0%	0.3%	(0.2%)
January-00	0.3%	0.1%	(0.5%)	0.4%	(0.1%)	2.5%	0.5%	1.8%	(0.9%)
February-00	(0.2%)	(0.7%)	(0.8%)	0.4%	(0.9%)	2.7%	0.8%	0.5%	(2.3%)
March-00	(0.3%)	0.2%	(2.6%)	0.4%	(1.6%)	(5.4%)	1.2%	1.7%	(1.8%)
April-00	0.6%	(0.2%)	0.6%	0.3%	0.2%	(0.5%)	1.9%	0.8%	0.1%
May-00	1.1%	3.0%	1.8%	0.6%	(0.4%)	3.3%	3.4%	1.3%	(2.2%)
June-00	0.3%	3.4%	2.0%	0.9%	(1.5%)	1.4%	(2.3%)	1.0%	(1.4%)
July-00	0.3%	(6.4%)	3.5%	0.6%	0.4%	1.1%	(3.8%)	2.8%	1.2%
August-00	0.6%	4.7%	2.1%	0.5%	(1.9%)	0.9%	(1.1%)	1.4%	(0.8%)
September-00	(0.2%)	(2.2%)	0.2%	0.2%	0.3%	(2.8%)	(0.9%)	1.4%	(2.3%)
October-00	0.5%	(4.4%)	0.3%	0.6%	3.3%	(3.8%)	0.1%	0.9%	1.6%
November-00	0.4%	2.1%	0.9%	0.9%	(0.1%)	(1.3%)	(1.0%)	1.2%	(1.1%)
December-00	0.9%	1.2%	1.6%	0.7%	(2.5%)	12.8%	0.4%	1.0%	1.4%
January-01	0.6%	6.4%	0.3%	0.9%	1.8%	2.6%	1.6%	(0.2%)	(5.0%)
February-01	(0.5%)	0.4%	(0.4%)	0.3%	(2.5%)	(0.0%)	(0.1%)	(0.5%)	(1.3%)
March-01	(0.4%)	(2.8%)	(0.2%)	0.1%	(1.9%)	2.9%	0.1%	0.9%	(2.2%)
April-01	0.6%	0.3%	0.4%	0.4%	0.9%	(0.2%)	2.7%	(0.0%)	0.5%
May-01	0.9%	(0.9%)	(0.8%)	0.6%	0.3%	3.4%	3.2%	0.8%	3.2%
June-01	0.6%	1.1%	0.8%	0.1%	0.7%	13.8%	(0.9%)	0.7%	(1.0%)
July-01	(0.5%)	(2.5%)	0.2%	0.6%	(3.6%)	(0.7%)	(2.1%)	0.4%	1.4%
August-01	(0.4%)	(4.0%)	1.9%	0.6%	0.0%	0.1%	(3.9%)	0.9%	(3.0%)
September-01	0.9%	2.0%	(0.3%)	0.4%	(0.1%)	23.5%	0.7%	0.7%	(2.2%)
October-01	0.4%	(0.2%)	(0.0%)	0.7%	(1.1%)	7.3%	(0.4%)	0.6%	0.3%
November-01	1.1%	1.9%	0.6%	0.6%	(0.9%)	0.2%	3.1%	0.6%	3.4%
December-01	(0.4%)	1.2%	1.4%	0.1%	(0.4%)	(8.8%)	(0.5%)	0.7%	(3.8%)
January-02	(1.2%)	(2.5%)	0.4%	0.3%	(2.4%)	(20.8%)	(1.0%)	(0.1%)	(0.3%)

Source: MAS

Figure 18: Bank and Finance Company Lending By Sector, 1996–Present

Bank and Finance Company Loans by Category (\$\$, billions)	Bank and Finance Company Lending By Sector, 1996–Present								
	Total	Manufacturing	Building & Construction	Mortgages	Commerce	Transport, Storage, & Communications	Financial Institutions	Consumer	Other
YE 1996	143.8	12.2	21.4	23.6	23.9	2.6	19.4	25.2	15.2
% of Total	100.0%	8.5%	14.9%	16.4%	16.6%	1.8%	13.5%	17.6%	10.6%
YE 1997	161.1	12.5	26.2	26.7	26.3	3.6	21.0	27.7	17.1
% of Total	100.0%	7.7%	16.3%	16.5%	16.4%	2.2%	13.0%	17.2%	10.6%
YE 1998	168.4	12.2	25.6	35.6	21.5	4.5	22.7	26.1	20.2
% of Total	100.0%	7.3%	15.2%	21.1%	12.8%	2.6%	13.5%	15.5%	12.0%
YE 1999	162.8	11.6	23.4	38.7	19.9	3.7	21.1	26.0	18.4
% of Total	100.0%	7.1%	14.4%	23.7%	12.3%	2.3%	12.9%	16.0%	11.3%
YE 2000	169.8	11.6	25.6	41.3	19.0	4.1	20.9	30.4	16.9
% of Total	100.0%	6.8%	15.1%	24.3%	11.2%	2.4%	12.3%	17.9%	9.9%
YE 2001	174.9	11.9	26.6	43.6	17.7	6.1	21.6	32.1	15.2
% of Total	100.0%	6.8%	15.2%	24.9%	10.1%	3.5%	12.3%	18.4%	8.7%
January 2002	172.8	11.6	26.7	43.7	17.3	4.9	21.3	32.1	15.2
% of Total	100.0%	6.7%	15.4%	25.3%	10.0%	2.8%	12.3%	18.6%	8.8%

Source: MAS

Figure 19: Loan Growth Targets By Sector, 2000–2004

	2000			2001			2002			2003			2004		
	1H Act.	2H Act.	Year Act.	1H Act.	2H Act.	Year Act.	1H Est.	2H Est.	Year Est.	1H Est.	2H Est.	Year Est.	1H Est.	2H Est.	Year Est.
Total Loan Growth	1.7%	2.5%	4.3%	1.9%	1.1%	3.0%	0.4%	0.5%	0.9%	1.0%	2.1%	3.1%	2.7%	3.0%	5.7%
By Sector:															
Manufacturing	5.9%	-5.2%	0.4%	4.4%	-1.7%	2.6%	-1.5%	-3.0%	-4.5%	0.5%	3.0%	3.5%	3.0%	3.0%	6.0%
Building and Construction	0.5%	8.9%	9.4%	-0.1%	3.7%	3.6%	-1.0%	-1.0%	-2.0%	0.5%	2.0%	2.5%	2.0%	3.0%	5.0%
Housing	3.1%	3.7%	6.9%	2.4%	3.0%	5.5%	4.0%	3.5%	7.5%	3.0%	3.5%	6.5%	4.0%	4.0%	8.0%
General Commerce	-4.3%	-0.6%	-4.9%	-0.8%	-5.9%	-6.7%	-3.0%	-1.3%	-4.3%	-1.3%	0.5%	-0.8%	1.0%	2.0%	3.0%
Transport, Storage, and Communication	3.7%	6.2%	10.2%	23.9%	20.3%	49.1%	2.0%	1.5%	3.5%	1.5%	1.5%	3.0%	1.5%	1.5%	3.0%
Financial Institutions	5.6%	-6.2%	-0.9%	6.7%	-3.2%	3.3%	-3.0%	-3.0%	-6.0%	-3.0%	-3.0%	-6.0%	1.0%	1.0%	2.0%
Consumer Loans	7.3%	9.0%	17.0%	1.6%	4.0%	5.6%	1.8%	2.6%	4.4%	2.5%	4.5%	7.0%	4.0%	4.5%	8.5%
Other	-8.3%	0.0%	-8.3%	-5.8%	-4.0%	-9.6%	-1.0%	-1.0%	-2.0%	0.5%	0.5%	1.0%	0.5%	0.5%	1.0%

Source: MAS; Lehman Brothers estimates.

March 07, 2002

Company Focus: South Korea

KorAm Bank: GDR issue to dilute earnings

- KorAm is reported to have mandated a USD250MM GDR issue which will dilute FY2002 EEPS by 10.2%. We expect this to put further downward pressure on the share price and we re-iterate our 3-Market Perform rating.
- The GDR represents an additional 25.8 million new shares, or 16% of the number of existing shares. The additional shares will dilute FY2002 EEPS by 10.2% and FY2003 EEPS by 9.2%.
- We assume proceeds from the GDR issue will be used to reduce borrowings. This will help increase FY2002 net income by 4.1% on reduced funding costs. We expect NIM to expand by 6 basis points due to lower interest expenses.
- We expect Carlyle to participate in the issue in order to maintain their 40.5% stake and effective controlling interest in the bank.
- Earnings dilution will put further downward pressure on the stock price. We maintain our 3-Market Perform rating and W12,000 price target

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Key Details of the GDR Issue

KorAm is reported to have mandated a GDR issue worth USD250 million (KRW333.8 billion) or 27% of FY2001 equity. Valued at the last market close (KRW12,950), this represents an additional 25.8 million new shares.

Figure 20: Announced GDR Issue

GDR issue (USD MM)	250
Exchange rate	1,335
GDR issue (KRW MM)	333,750
Share price (KRW)	12,950
Nbr of shares (MM)	25.8

Source: Lehman Brothers estimates

Figure 21: GDR issue as proportion of existing equity

(KRW MM)	FY2001A	GDR issue	FY2001pf	Δ%
Common equity	990,943	+333,750	1,324,693	34%
Preferred equity	256,000		256,000	0%
Total equity	1,246,943		1,580,693	27%

Source: Lehman Brothers estimates

Impact on the Balance Sheet

We believe that the proceeds of the GDR issue will be used to fund loan growth. As we believe that our original loan growth projections could be funded without the need for additional equity, we have not changed our FY2002 estimate for total loan growth of 11% on the back of this issue. Instead, we have reduced our estimates for the amount of additional borrowings required in FY2002 by KRW345.7 billion. (This amount is greater than the amount of the GDR issue as our projected growth of debentures begins from a smaller base.) Subsequently, borrowings decrease by 109 basis points to 27% of total assets, and projected year-end FY2002 balance sheet leverage decreases as equity rises from 4.41% of assets to a less geared 5.50%

Figure 22: Projected end FY2002 balance sheet prior to GDR issue

(KRW MM)	% of assets		% of assets	
Cash	487,222	2%	Deposits	19,552,697 62%
Inter-bank	276,834	1%	Borrowings	8,878,574 28%
Trading securities	756,589	2%	Other liabilities	1,865,999 10%
Investment securities	8,006,490	25%	Total liabilities	30,297,270 96%
Loans	20,210,769	64%	Preferred	256,000 1%
Fixed and other	1,955,655	6%	Common equity	1,140,289 4%
Total assets	31,693,559	100%	Total liabilities and equity	31,693,559 100%

Source: Source: Lehman Brothers estimates

Figure 23: Projected end FY2002 balance sheet after GDR issue

(KRW MM)	% of assets		% of assets	
Cash	487,222	2%	Deposits	19,552,697 62%
Inter-bank	276,834	1%	Borrowings	8,532,920 27%
Trading securities	756,589	2%	Other liabilities	1,865,999 6%
Investment securities	8,006,490	25%	Total liabilities	29,951,617 95%
Loans	20,210,769	64%	Preferred	256,000 1%
Fixed and other	1,955,655	6%	Common equity	1,485,942 5%
Total assets	31,693,559	100%	Total liabilities and equity	31,693,559 100%

Source: Lehman Brothers estimates

Impact on Earnings

The reduced requirement for debt will reduce our estimated funding costs in FY2002. We project the average cost of KorAm's debentures at 4.77% in FY2002. We have adjusted our forecast by reducing the level of debentures at the bank level by the amount of the GDR issue. We expect this to reduce interest expense by 2 basis points at the consolidated income level for FY2002, increasing net interest margin by 6 basis points to 3.02% and providing a small boost to projected net income going forward.

Figure 24: Effect of GDR issue on debt levels and funding cost projections

<i>Bank only (KRW MM)</i>		4Q 01	1Q 02	2Q 02	3Q 02	4Q 02
Old estimates	Borrowings	7,248,301	7,463,325	7,519,727	7,695,293	7,956,282
	Interest cost on borrowings	86,533	83,423	85,057	86,362	88,810
	Cost of borrowings	4.78%	4.47%	4.52%	4.49%	4.46%
New estimates	Borrowings	7,248,301	7,028,387	7,164,857	7,314,379	7,478,035
	Interest cost on borrowings	86,533	80,738	80,134	81,761	83,540
	Cost of borrowings	4.78%	4.59%	4.47%	4.47%	4.47%
	Reduction in funding costs	n/a	2,686	4,923	4,601	5,270

Source: Lehman Brothers estimates

Figure 25: Effect of GDR issue on net income and EPS projections

<i>(KRW MM)</i>		FY2001A	FY2002E	FY2003E	FY2004E
Old estimates	Interest income	2,116,906	2,155,682	2,416,939	2,662,710
	Interest expense	1,400,423	1,280,480	1,496,292	1,656,241
	Net interest income	716,483	875,203	920,647	1,006,470
	Net income	195,020	297,549	331,325	387,852
	EPS (KRW)	1,196	1,825	2,032	2,378
	Shares outstanding (MM)	163	163	163	163
New estimates	Interest income	2,116,906	2,155,682	2,416,939	2,662,710
	Interest expense	1,400,423	1,263,000	1,471,633	1,629,220
	Net interest income	716,483	892,682	945,306	1,033,490
	Net income	195,020	309,751	348,472	406,654
	EPS (KRW)	1,196	1,639	1,844	1,946
	Shares outstanding (MM)	163	189	189	209
	Increase in net income	n/a	4.1%	5.2%	4.8%
	EPS Dilution	n/a	-10.2%	-9.2%	-18.2%

Source: Company reports; Lehman Brothers estimates.

Based on the changes we assume are made to the balance sheet, we expect increased earnings of 4.1% for FY2002 and 5.2% for FY2003. However, the 25.8 million new common shares will dilute away these net income gains, reducing earnings on a per share basis. FY2002 EEPS will decrease by 10.2% and FY2003 EEPS will decrease by 9.2%.

Impact on Capital Ratios

The additional equity should however, help to broaden KorAm's slim equity base. On reported FY2001 figures, the proforma Tier 1 CAR would increase from 5.82% to 7.78% and the total CAR would increase from 11.2% to 13.2%.

Figure 26: Effect on BIS Capital Ratios

<i>FY2001 proforma (KRW MM)</i>	Pre-GDR	Post-GDR
Tier 1	990,943	1,324,693
Tier 2	916,026	916,026
Total BIS capital	1,906,969	2,240,719
Risk weighted assets	17,026,512	17,026,512
Tier 1 CAR	5.82%	7.78%
Total CAR	11.20%	13.16%

Source: Lehman Brothers estimates

The broader equity base however also acts to bring down balance sheet leverage and reduce our estimated FY2002 ROE from 24.3% to 22.2% despite the increase in net income.

Carlyle's Participation in the Issue

We believe that the Carlyle/JP Morgan consortium will likely subscribe to the GDR in order to maintain their 40.5% stake and effective controlling interest in the bank.

Valuation

The bank currently trades at 2.1x trailing book and, following the earnings dilution, at 7.9x prospective earnings. These valuations continue to look rich, given a forward ROE of 22%.

Our price target of KRW12,000 is derived from our modified DDM valuation model: $[ROE - g] / [k - g]$. Based on a cost of capital of 15% and a projected, long-term potential growth rate of 7%, our model indicates that a price-to-book multiple of 1.9x trailing book is justified. We are maintaining our rating of 3-Market Perform.

Figure 27: Valuation summary

<i>KRW</i>	<i>FY2001A</i>	<i>FY2002E</i>	<i>FY2003E</i>
Current price	12,950		
EEPS	1,196	1,639	1,844
P/E	10.83 x	7.90 x	7.02 x
BVPS	6,077	9,172	11,590
P/BV	2.13 x	1.41 x	1.12 x
ROE	21%	22%	18%
ROE/(P/BV)	10%	16%	16%

Source: Company reports; Lehman Brothers estimates

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.

March 05, 2002

Company Focus: Thailand

Siam Commercial Bank: 4Q01 Detailed Earnings: Waiting & Worrying

- SCB remains the cheapest of the major Thai banks, but its NPLs are still stubbornly high. Maintain 3–Market Perform.
- SCB has released its final 4Q01 and FY2001 earnings, recording a loss of THB1.2 billion in the quarter and a surplus of THB405 million for the full year.
- Provisions have remained high as NPLs are actually above the year-ago level, even after TAMC transfers.
- As with TFB, SCB was able to transfer approximately 8% of its gross NPLs to the government AMC.
- We have increased our estimates of future provisions given the recalcitrant nature of remaining bad debts. However, resilient margins and lower expenses have lifted our net EPS projections slightly.

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Summary

Siam Commercial remains the cheapest of the large Thai banks, and our favorite largely for that reason. However, we are unable to be positive on the shares due to disturbing trends in distressed loans, which are actually higher than they were a year ago. The resulting high provisions are depressing earnings and have led us to increase our estimates of write-offs in future years. On the positive side, we note considerable progress in cutting expenses, as well as the heartening contract renewal of SCB's President Jada Wattanasiritham.

We are maintaining our 3–Market Perform rating on the shares of both SCB common and preferred, as well as our THB25 twelve-month price target.

Earnings Review

SCB posted a net loss of THB1.2 billion in the fourth quarter—the first reported loss since 2Q99—on higher provisions associated with its transfer of assets to the TAMC and with continued debt restructuring at its borrowers. Net income before provisions and debt restructuring charges (which we consider as essentially interchangeable) increased by 42% YoY and 23% QoQ on higher interest revenue and curbed expenses.

Net income for the full year came in at THB404.7 million, down 89% from the FY2000 level as provisions increased by 45%. Anyone who doubts the continuing impact of bad debts on Thai bank earnings need only consider that this level of provisioning remains at more than 75% of the level of 1997–98, with both criticized and classified (ex-Special

Mention) loans actually increasing year-on-year. Earnings represent a return on assets of 0.06% and an ROE of less than 1%.

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

THB, MM	4Q00	1Q01	2Q01	3Q01	4Q01
Net Interest Income	4,050	4,111	4,089	3,967	4,219
Pre-Provision Profit	2,577	2,438	2,300	2,226	3,160
Provisions	469	1,814	1,703	1,690	4,320
Net Income	773	559	546	503	(1,203)
EPS (Bt)	0.25	0.18	0.17	0.16	(0.38)

Source: Company reports; Lehman Brothers estimates.

Figure 29: Key Earnings Ratios: 4Q00–4Q01

	4Q00	1Q01	2Q01	3Q01	4Q01
NIM	2.49%	2.46%	2.42%	2.36%	2.52%
Asset Yield	5.59%	5.20%	4.95%	4.76%	4.90%
Cost of Funds	3.21%	2.90%	2.62%	2.52%	2.44%
Core ROAA	1.25%	0.32%	0.38%	0.44%	-0.74%
Core ROAE	17.27%	4.38%	5.15%	6.01%	-9.95%
Overhead	2.27%	2.11%	2.17%	2.10%	2.18%
Efficiency	58.88%	59.13%	61.50%	61.31%	53.54%

Source: Company reports; Lehman Brothers estimates.

Profitability for future years looks more promising, although we project sustained high provisions through FY2003 due to the continuing burden of NPLs. Note that we have increased our provision estimates by THB500 million in FY2002 and by THB1 billion in FY2003 as roll-off of bad loans has been below expectations.

Figure 30: Key Earnings Components: 1999–2003

THB, MM	1999	2000	2001	2002	2003
Net Interest Income	9,788	15,226	16,385	17,381	17,593
Pre-Provision Profit	7,874	11,619	10,125	12,851	13,467
Provisions	43,285	6,577	9,527	7,000	7,000
Net Income	(35,550)	3,560	405	3,941	4,366
EPS (Bt)	(11.39)	1.14	0.13	1.26	1.39

Source: Company reports; Lehman Brothers estimates.

Rates and Margins

Figure 31: Interest Margin Analysis: 4Q00–4Q01

	4Q00	1Q01	2Q01	3Q01	4Q01
Change in Asset Yield	-0.03%	-0.38%	-0.25%	-0.19%	0.14%
Change in Cost of Funds	-0.18%	-0.31%	-0.27%	-0.11%	-0.08%
Change in NIM	0.14%	-0.03%	-0.04%	-0.06%	0.16%
Loan Growth (QoQ)	1.1%	-0.9%	-2.0%	-1.0%	-2.6%
Deposit Growth (QoQ)	2.2%	2.0%	-0.6%	-0.2%	0.2%

Source: Company reports; Lehman Brothers estimates.

Net interest margin came back strongly in 4Q01 after losing ground in the first half of the year, spurred by rising asset margins. We attribute this to a higher proportion of residential mortgages and other consumer loans on SCB's books, as well as the expiration of concessionary rates on restructured loans. We question, given the stubborn nature of SCB's distressed loans, whether this will be a permanent improvement.

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

Loan Growth

Note that asset margins have risen without an increase in loans—one reason we are wary of calling this a trend reversal. Loan growth was negative in all four quarters of 2001, with performing loans falling by an aggregate 6.4% from YE2000. Although this outflow of productive assets appears to have been stanchied in 2H01, a decisive uptrend still seems far from on the cards.

Figure 32: Loan Growth and Performing Loan Growth: 4Q00–4Q01

	4Q00	1Q01	2Q01	3Q01	4Q01
Loan Growth (QoQ)	1.1%	-0.9%	-2.0%	-1.0%	-2.6%
Performing Loan Growth (QoQ)	8.5%	-5.1%	-3.7%	0.0%	0.0%

Source: Company reports; Lehman Brothers estimates.

The bright spot for SCB has been its mortgage division, which was able to post positive growth in a difficult market. Mortgage lending grew by 6.7% YoY, the only sector of SCB's loan portfolio to do so.

Figure 33: Performing Loan Growth By Sector: 2000–2001

	% of Performing Loans		% Growth
	2001	2000	FY2001
Agriculture and mining	2.9%	2.9%	-6.7%
Manufacturing and commercial	45.7%	47.5%	-9.9%
Real estate and construction	17.7%	18.0%	-7.6%
Utilities and services	10.9%	11.5%	-11.2%
Housing loans	21.1%	18.5%	6.7%
Others	1.6%	1.6%	-3.2%
Total	100.0%	100.0%	-6.4%

Source: Company reports; Lehman Brothers estimates.

Asset Quality

Asset quality remains poor, with NPLs/Total loans of 33.3% actually 2.9% higher than a year ago. The gross amount of both non-performing loans and ORE has risen during the year, and their severity has increased as measured by the weighted classification ratio, which stands at 19.9% of loans. This has occurred despite the effects of the TAMC transfer and additional write-offs of THB9.5 billion during the year.

68% of criticized loans are classified as either Doubtful or Loss, meaning that many have not been current since the start of the Asian Crisis over four years ago. Although management continues to slug it out in restructuring talks, it looks ever more doubtful that these loans will ever yield any value; in the meantime they are absorbing scarce capital, management attention, and servicing costs.

SCB appears to be bucking the asset quality trend vis-à-vis its competitors, although its absolute numbers do not look much worse. Should reversion into NPL status be a continuing trend for the loan portfolio in FY2002, we would expect to downgrade our earnings, fair valuation, and ratings accordingly.

Figure 34: NPL Distribution and Weighted Classifications: 4Q00–4Q01

	4Q00	%	1Q01	%	2Q01	%	3Q01	%	4Q01	%
Special Mention Loans	29,690	19.9%	35,797	22.0%	25,095	15.1%	24,823	14.2%	18,789	12.3%
Substandard Loans	22,482	15.0%	25,996	15.9%	32,148	19.4%	26,213	15.0%	26,074	17.0%
Doubtful Loans	14,872	9.9%	16,785	10.3%	21,167	12.8%	30,153	17.2%	22,163	14.5%
Loss Loans	72,703	48.6%	74,623	45.8%	77,006	46.5%	82,381	47.1%	74,474	48.6%
Foreclosed Property (ORE)	9,806	6.6%	9,848	6.0%	10,262	6.2%	11,321	6.5%	11,689	7.6%
Weighted Classification Ratio	17.53%		18.49%		19.97%		22.01%		19.94%	

Source: Company reports; Lehman Brothers estimates.

TAMC Transfers

During 4Q01, SCB and its Chatuchak AMC were able to transfer their eligible bad debts to the state-run Thai Asset Management Corporation ("TAMC"). While we had initially had high expectations for the TAMC, it has been repeatedly scaled back since its inception, and now addresses only a small part of the asset quality problem at the private banks. Management reports that the bank transferred a gross THB14.4 billion in distressed loans (as with TFB, we assume that these were 95% loss) along with some THB6.4 billion in associated specific reserves, for a net reduction of THB8.0 billion. On a gross basis, this addressed only 8.2% of the bank's consolidated impaired assets.

Figure 35: Criticized Asset Migration and TAMC Impact: 2Q01–4Q01

	Pass	S/M	SS	D	L	Reserve
2Q01 Level	324,137	25,095	32,148	21,167	77,006	26,615
Estimated Impact of TAMC	-	-	-	(719)	(13,660)	(6,403)
Other Changes 2Q-4Q01	(3,286)	(6,307)	(6,074)	1,715	11,128	5,727
4Q01 Level	320,851	18,789	26,074	22,163	74,474	25,939
% Change	-1.0%	-25.1%	-18.9%	+4.7%	-3.3%	-2.5%
% of Total Loans	69.4%	4.1%	5.6%	4.8%	16.1%	5.6%

Source: Company reports; Lehman Brothers estimates.

Figure 36: Reserve Impact of TAMC: 2Q01–4Q01

	Actual Reserves	Required Reserves	Reserve Shortfall
2Q01 Level	26,615	100,567	73,953
Estimated Impact of TAMC	(6,403)	(14,020)	(7,617)
Other Changes 2Q-4Q01	5,727	10,708	4,981
4Q01 Level	25,939	97,256	71,317
% of Total Loans	5.6%	21.0%	15.4%

Source: Company reports; Lehman Brothers estimates.

Bear in mind that SCB remains liable for 30% of the first 40% of additional losses that the TAMC sustains in servicing and working out or liquidating these loans over a five or ten year period. Based on the experience of other government workout programs in the region, we believe that the bank will wind up sustaining the maximum cost, or some THB2.4 billion in charge-backs, which may be paid either in cash or in new shares.

Reserve Adequacy

SCB has always lagged its peers in reserve adequacy by our figures, but has instead maintained higher levels of book capital—we are largely agnostic as to where reserves are kept as long as they are sufficient. On this basis, SCB looks better than its large peers but still has substantial unfunded reserve needs, with a current loan loss allowance of THB26 billion, which is short of our theoretical figure by fully THB71 billion, or 1.1x remaining capital.

Put another way, SCB's current reserve implies a projected loss on NPLs of 18.3% of face overall, or of less than 35%, if the reserve is applied against Loss loans alone. Needless to say, open market NPL sales (viz. Thai Danu's sale of NPLs in late 2000 at 27% of face value) do not support this optimistic view.

Figure 37: Reserve Adequacy: 4Q01

	Gross Amount	Reserve Percentage	Required Reserve
Pass	320,851	1%	3,209
Special Mention	18,789	5%	939
Substandard	26,074	20%	5,215
Doubtful	22,163	50%	11,082
Loss	74,474	100%	74,474
ORE	11,689	20%	2,338
Excess AIR	-	20%	-
Total	474,039		97,256
Actual Reserves			25,939
Shortfall			71,317
Actual/Required			27%
Shortfall/Capital			113%

Source: : Company reports; Lehman Brothers estimates.

Note also that this calculation does not include additional reserves for restructured loans currently classified as performing, although such loans have shown a distressing predisposition to return to their former NPL status, even after concessionary rate cuts and payment rescheduling. SCB also makes no provision for some THB4.2 billion in "non-marketable equity securities" carried in the held to maturity securities portfolio, which were presumably received as part of the debt restructuring agreements (impairment reserves booked against these and all other securities are included in our consolidated reserve figures). We believe that these securities are likely to have minimal value in aggregate.

Valuation

SCB is trading at just under 1.4x trailing book, cheap for its sector but still not supported by its fundamentally low (even as reported) ROE and reserve shortfall. On an adjusted book basis (deducting real estate revaluation, capitalized tax-loss carry-forwards, and other items not properly considered primary capital), SCB shares trade at 1.6x ABVPS.

SCB trades at 19.7x forward earnings; current earnings multiples are essentially useless in evaluating the stock. We note that SCB has substantial positive earnings leverage to rapidly falling NPLs; however, the inverse is also true—and more likely in our opinion.

Figure 38: Valuation Summary

	FY2001A	FY2002E	FY2003E
Current Price (THB):	27.5		
EEPS	0.13	1.26	1.39
P/E	212.79	21.85	19.72
BVPS	20.08	21.34	22.73
P/BV	1.37	1.29	1.21
ROE	0.76%	6.96%	7.11%
ROE / (P/BV)	0.55%	5.40%	5.88%

Source: Company reports; Lehman Brothers estimates.

Company description

Founded under Royal Charter in 1906 as Thailand's first commercial bank, Siam Commercial Bank is currently Thailand's fourth-largest bank.

March 05, 2002

Company Focus: Hong Kong

HSBC: 2001 Results Review--Still Cautious

- We are maintaining our 3-Market Perform rating on the shares of HSBC and believe that sector fundamentals continue to deteriorate.
- HSBC reported a net profit of US\$5.4 billion, or US\$0.59 per share, down 18% on the year. On a cash basis, EPS was US\$0.67 per share, down 17%.
- Management maintained its cautious outlook, which should set the tone for the share price.
- Argentina is out of the way, but provisioning in Europe and Hong Kong could head higher.
- Each region exhibited a higher cost-to-income ratio (not a good trend) and deteriorating lending operations.
- We are lowering earnings estimates by 5% in 2002 and 6% in 2003.

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HSBC reported a net profit of US\$5.4 billion (US\$0.59 per share), some US\$500 million below our number due primarily to higher loan loss provisions and other one-off charges. Loan loss provisions came in at US\$2.037 billion, which included a general provision of US\$600 million for Argentina. Also, the group incurred a charge of US\$520 million for foreign exchange losses due to mandatory "pesofication" of its balance sheet. Thus, total Argentina-related expense was US\$1.12 billion. **Management maintained its cautious outlook** on prospects and we believe that this should set the tone for the share price. Although the share price might rally near-term on the relief that numbers were not worse than reported, we believe that the fundamental operating environment in all three geographic areas is deteriorating, and that this should weigh on the stock price.

Pre-provision profit (before goodwill) increased by 3% on 5% (US\$1.3 billion) revenue growth and 8% (US\$1.0 billion) expense growth. Net interest income, from lending operations, increased by 7% on 6.5% loan growth, overall interest earning asset growth of US\$63.5 billion or 12%, and a 12 basis points contraction in the NIM to 2.54%. The lower NIM is a reflection of the addition of CCF's lower margin business, lower returns from free funds and pressure on loan asset yields, especially mortgages.

Meanwhile, non-interest income operations generated growth of 2.9% to account for 43% of total income—all key areas (fees, dealing profits and others) were up marginally. Taken together, overall revenue growth came in at 5.4%. On the other hand, operating expenses (excluding goodwill) increased at a faster pace of 7.6%, resulting in a cost-to-income ratio of 56.4%, up from 55.3% last year. The driver to the higher expenses was the need to spend on e-commerce, marketing, especially for credit cards, and new

product development—we expect these costs to be on-going and, given the difficult operating environment, the cost-to-income ratio should continue to deteriorate.

Total US\$1.12 billion charge for Argentina—a sigh of relief. HSBC took a charge of US\$520 million in foreign exchange losses for the “pesofication” of their Argentina balance sheet. In addition, the group took a general provision of US\$600 million to bring total coverage of their US\$1.3 billion loan book in Argentina to 63%. Note that 25% of the customer loan book is already classified as NPL. We do not expect any further charges for this country—management wanted to be “extremely conservative” and believes that this is enough. Also, management indicated that it is “not prepared to put any more money into this country” and this was an “expensive lesson”. So, given this statement, don't expect a bid for Galacia.

Loan loss provisions too low in Hong Kong and Europe. Excluding Argentina, loan loss provisions came in at 45 basis points of gross customer loans, which is at the low end of the company's long-term bad debt experience, normalized at 45-55 basis points. Given this guidance, normalized loan loss provisions could be as high as US\$1.7 billion, which is higher than the US\$1.4 billion (ex-Argentina) charge taken this year. Of the remaining charge, Hong Kong accounted for US\$197 million or 14%, equivalent to 29 basis points of customer loans. Meanwhile, Europe accounted for US\$441 million or 31% of the charge, equivalent to approximately 32 basis points of loans. In both of these geographic areas, we would argue that loan loss provisions are likely to prove too low and have significant scope to increase.

Other regions are likely adequately provided for. Meanwhile, the balance of the loan loss charge came from the North America (US\$287 million—20% of total, or 39 basis points of loans), “normal” Latin America (US\$340 million—24% of total, or 544 basis points) and the rest of Asia (US\$172 million—12% of total, or 52 basis points of total loans there).

Figure 39: HSBC Loan Loss Provisioning

	Total Loans	Loan Loss Provisions	LLP/Total Loans (bps)
Europe	136,521	441	32.30
Hong Kong	68,982	197	28.56
Rest of Asia	32,838	172	52.38
North America	72,774	287	39.44
Latin America	6,253	940	1,503.28
Total	317,368	2,037	64.18

Source: HSBC annual report

European operations—44% of total pre-tax profit—increased by 7%, but with a higher cost-to-income ratio. European operations generated a 6.5% increase in revenue, versus a 12% increase in operating expenses (excluding goodwill), thus driving the cost-to-income ratio up to 63%, from 60% last year. The key culprit was the inclusion of CCF, which operates with a higher cost base and lower interest margin, but is now

fully integrated into HSBC's operations, generating cost synergies of €160 million, which has exceeded the initial target of €150 million. Meanwhile, lending operations were robust, with loans increasing by 3%, or US\$4.2 billion—more than half of this came from mortgages in the UK, which were up by US\$2.5 billion, or 13%. Outside of the UK, though, loan growth is expected to have been weak.

Looking ahead, with loan growth in the UK to moderate from its torrid pace in 2001, and loan loss provisions expected to increase to a more normalized level at over 32 basis points, the trend for European operations does not look promising.

Hong Kong operations—49% of total, increased by 5%. Hong Kong operations were depicted by a modest 4% increase in revenue, which was essentially all given back through an 8% increase in operating expenses. The resultant cost-to-income ratio increased to 36%, from 34% last year. Despite the increase, Hong Kong still generated 23% of total group revenue, on only 15% of total expenses. Overall lending operations were quite benign, with loans increasing by only 3%, but this was on a backdrop of an industry wide loan contraction of 4%. Nonetheless, HSBC's net interest income in Hong Kong was respectable, increasing 4%, due primarily to the switching of inter-bank placements to corporate bonds and debt securities, which helped spreads. Total debt securities increased by 28% to US\$10.7 billion and accounted for 28% of total assets. The shift towards higher yielding assets helped to mitigate the re-pricing of the mortgage book and lower return on free funds somewhat. The NIM therefore expanded by 1bp to 2.48%—contraction in the NIM was contained to Hang Seng, due to its larger balance of free funds.

Looking ahead, we believe that the operating environment in Hong Kong will continue to be difficult, particularly since we are not expecting a recovery in loan growth any time soon. Industry wide, loans contracted by 4% last year and we are projecting another 1% contraction this year. Meanwhile, we believe that there is only so much treasuries operation that the group can utilize to maintain its NIM before the re-pricing of the mortgage book comes through. Mortgages, which account for 45% of total loans, generated an average yield of Prime less 86 basis points, down another 59 basis point from a year ago. This falls in line with our guidance that the mortgage book is re-pricing down approximately 5 basis points per month.

Meanwhile, a full year of lower interest rates (we project average interest rates in Hong Kong to be 200 basis points lower) will lower the return on free funds. Combined with continued pressure to spend on technology and marketing, especially for credit cards, pre-provision earnings are likely to trend downwards. Meanwhile, an added concern is the level of loan loss provisioning, which is likely to prove too low.

Management disclosed that the charge-off on credit cards was 7.9% – so, assuming a credit card portfolio of US\$1.5 billion, or 2.2% of total loans, the loan loss charge attributed to credit cards would have been US\$120 million, or over 60% of the total

charge, and asset quality there is likely to get worse. Remember, HSBC's Hong Kong loan loss provisions equal only 29 basis points of its total loans, which pales in comparison to Bank of East Asia and Standard Chartered, which have set aside 40 basis points and 122 basis points of their total loans respectively. Thus the risk is that loan loss provisions at HSBC increase to a higher level.

Rest of Asia—14% of total, was down 14%. "R of A" operations were depicted by revenue growth lagging expenses, at 7% and 8% respectively—the resultant cost-to-income ratio increased to 54%. Pre-provision profit increased by 5%. However these gains were all given back due to higher loan loss provisions, which went from a write-back of US\$15 million to a loan loss charge of US\$172 million. The sharp turnaround is due to the write-back of the special general provision taken from the Asian financial crisis in 2000. In 2001, further provisioning was required in Indonesia and India.

Most Asian economies are currently experiencing economic slowdowns and any recovery is dependent on a recovery in the US, in our view. However, a recovery in the US does not necessarily translate into loan growth in these other Asian countries. Thus, we argue the outlook in the rest of Asia is cloudy, at best.

North America—6% (excluding Princeton) of total, was down 43%. Good gains in revenue growth (+11%) that outpaced expense growth (+5%), was given back through higher loan loss provisions, which increased by US\$140 million or 95%. At 39 basis points of total loans, provisions are getting closer to normalized levels. Nonetheless, despite our positive outlook on the US economy, North America still does not contribute enough to make a significant difference.

Figure 40: HSBC Geographical Breakdown of Pre-tax Profit

	1999		2000		2001	
	(US\$ m)	%	(US\$ m)	%	(US\$ m)	%
Europe	3,322	41.6%	3,658	37.4%	3,542	44.3%
Hong Kong	3,054	38.3%	3,691	37.8%	3,883	48.5%
Rest of Asia	329	4.1%	1,265	12.9%	1,088	13.6%
North America	959	12.0%	850	8.7%	481	6.0%
Latin America	318	4.0%	311	3.2%	(994)	-12.4%
Total	7,982	100.0%	9,775	100.0%	8,000	100.0%

Source: HSBC annual report

Valuation is not compelling. At the current price, HSBC is trading just slightly above our fair value estimate 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. Provisions came in high and will likely remain high, particularly in Asia, and core lending operations continue to deteriorate on lower margins and lack of volume

growth. We have lowered our earnings estimates by 5% for 2002 and 6% in 2003 to take into account higher loan loss provisions, lower volume growth and higher operating expenses across all markets.

We believe HSBC's valuation looks demanding, compared with the 2% pre-provision profit rise and 4% underlying revenue growth the group has just reported. We would be taking profits in the shares. To own the shares, investors need to have a positive macro view on a resumption of global growth and, in particular, towards reflation in the Far East.

Figure 41: HSBC Valuation

	1999	2000	2001	2002	2003
Period end price (HK\$)	109.00	115.50	88.00	n.a.	n.a.
P/E- reported (x)	21.5	19.8	19.5	17.6	16.1
P/E- cash (x)	21.4	18.2	16.8	15.5	14.3
EPS- reported (US\$)	0.65	0.75	0.58	0.64	0.70
EPS- cash (US\$)	0.65	0.81	0.67	0.73	0.79
P/BV- reported (x)	3.5	3.8	2.8	2.8	2.7
P/BV- tangible (x)	4.4	4.5	3.4	3.2	3.0
Reported BV (US\$)	3.95	3.91	3.98	4.09	4.21
Tangible BV (US\$)	3.18	3.29	3.36	3.55	3.76
Reported ROE	16.5%	19.1%	14.5%	15.7%	16.7%
Cash ROE	17.5%	24.7%	20.0%	20.4%	20.9%

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 has operations throughout Asia, Europe, the Middle East, and North and South America.

March 05, 2002

Company Focus: Hong Kong

Hang Seng Bank: 2001 Earnings Review-- No Surprises

- Although Hang Seng's results contained no surprises, we are lowering our earnings projections to take into account further asset quality deterioration.
- Hang Seng reported a net profit of HK\$10.1 billion, or HK\$5.29 per share, bang in line with expectations.
- Pre-provision profit was flat on a 12 basis point NIM contraction and 1.8% loan growth.
- There were higher loan loss provisions, and we expect the trend to continue into the future.
- Hang Seng is kept buoyant by its attractive dividend yield, but we believe this yield is at risk given lower earnings on further margin contraction and higher loan loss provisions.
- We have lowered earnings estimates by 5% for each of the following 2 years.

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Hang Seng Bank reported a net profit of HK\$10.1 billion, or HK\$5.29 per share, which is exactly what we were projecting, although in the aggregate bottom line figure, there were some items that were off, such as higher loan loss provisions being offset by better revenue growth. A final dividend of HK\$2.80 was declared, bringing the full-year figure to HK\$4.90, up 2.1% from last year. Hang Seng's dividend policy is to maintain a "steady and rising" dividend. Given our outlook for earnings in 2002, we believe it could prove difficult for Hang Seng to maintain this dividend—it already paid out 93% of earnings and will have to pay out over 100% to maintain this dividend yield.

We believe that the share price may rally in the near-term due to the absence of negative surprises, but the overall continued deterioration in industry fundamentals should drive the share price over the longer term. We are maintaining our 4-Market Underperform recommendation.

No surprises from results. Revenue came in HK\$232 million, or 1.5% ahead of our projection, which was somewhat offset by operating expenses coming in at HK\$126 million, or 3.2% higher than our projection. Lending operations were slightly better than expected on 1.8% loan volume growth and a 12 basis point NIM contraction. Meanwhile, non-interest income continues to be the story for Hang Seng, with other operating income increasing by 10.4% on the year and 4.4% on the half. Other key items include loan loss provisions coming in HK\$234 million higher than our figure, which was more than offset by a lower tax charge.

Lending operations slightly better than expected but still hit by narrowing margins and lack of volume. As expected the NIM contracted, to 2.56% (versus out expectation of 2.54%) and volume growth was only 1.8% (versus our expectation of 1.8%). The lower than expected contraction in the NIM was due to 1) a the heavier emphasis on expanding the higher yielding component of the loan book; 2) being able to manage down the cost of funds significantly faster than the decline in asset yields and; 3) shifting more funds into higher-yielding government and corporate paper. Consequently, the spread between asset yields and liability costs expanded by nine basis points to 2.28%, from 2.19% last year. However, the negative endowment effect from a lower return on free funds cost Hang Seng 21 basis points of NIM and consequently the NIM contracted overall, by 12 basis points to 2.56%, from 2.68%.

Negative endowment effect will be more significant in 2002. We believe that the negative endowment effect will lower net interest income by over HK\$1 billion in 2002 and result in a further four basis-point contraction in the NIM. We calculate that Hang Seng has HK\$31 billion of free funds, which will generate a return of 3.8%, which is almost 160 basis points lower than that generated in 2001. Banks in Hong Kong are caught in a catch-22 situation. Higher interest rates would choke off any potential loan growth that may be on the horizon, but lower interest rates are resulting in a negative endowment effect, which is hurting net interest margins.

Figure 42: Hang Seng Bank: Analysis of Net Interest Income

	1H01A	2H01A	2001A	1H02E	2H02E	2002E
Interest Income	14,430	10,079	24,509	8,021	8,924	16,946
Interest expense	8,528	4,321	12,849	2,403	3,334	5,737
Net Interest Income	5,902	5,758	11,660	5,618	5,591	11,209
Avg Int earning assets	461,267	448,607	454,937	445,022	445,911	445,467
Avg int bearing liab.	421,481	405,528	413,505	413,617	414,720	414,168
Free funds	39,786	43,079	41,432	31,406	31,191	31,299
Interest income rate	6.26%	4.49%	5.39%	3.60%	4.00%	3.80%
Cost of liabilities	4.05%	2.13%	3.11%	1.16%	1.61%	1.39%
Spread	2.21%	2.36%	2.28%	2.44%	2.40%	2.42%
Prime	8.04%	5.97%	7.00%	5.13%	5.53%	5.33%
3m HIBOR	4.58%	2.66%	3.61%	2.03%	2.48%	2.25%
Prime - HIBOR	3.46%	3.31%	3.39%	3.10%	3.05%	3.08%
Return on free funds	1,245	968	2,232	566	624	1,191
Interest Income from spread	4,657	4,790	9,428	5,052	4,966	10,018
Net interest income	5,902	5,758	11,660	5,618	5,591	11,209

Source: Lehman Brothers

Loan loss provisioning likely to increase in 2002. Hang Seng took a charge of HK\$424 million in 2001, which was comprised of HK\$1.14 billion of new provisions, offset somewhat by HK\$711 million in recoveries. However, most of these recoveries were realized in the first half of the year, and we expect this deceleration in recoveries to continue into 2002. In 2H01, recoveries accounted for 14 basis points of loans and we are projecting that this figure drops to 13 basis points by 1H02. Meanwhile, in terms of new loan loss provisions, Hang Seng took a charge equivalent to 49 basis points of loans in 2H01 and we are pencilling in a similar level in 2002.

Consequently, we are more than doubling our loan loss provision projection in 2002 and 2003. One key driver to the higher charge is credit card operations, which generated at charge-off rate of just under 6%. Applying this rate to Hang Seng's HK\$5.2 billion card receivables portfolio, we calculate a charge of over HK\$310 million, which is already equivalent to 27% of the total new charge, yet cards only represent approximately 2.3% of total loans.

Figure 43 Hang Seng Bank: Analysis of loan loss provisions

	1H01	2H01	2001	1H02E	2H02E	2002E	Comment
Release & recoveries	555	156	711	146	141	287	
New Provisions	-576	-559	-1135	-524	-530	-1,054	
Total loan loss provision charged to P&L	-21	-403	-424	-378	-389	-767	
Release & recoveries/Total loans (bps)	50	14	31	13	12	13	Deceleration in recoveries
New Provisions/Total loans (bps)	-51	-49	-50	-46	-47	-46	More normalized new provision
Total Loans (HK\$m)	223,741	225,926	225,926	225,273	227,384	227,384	

Source: Lehman Brothers

Wealth management income, the only bright spot. Non-interest income increased by 10.4% to account for 25% of total revenue. The key driver to the increase was higher fees and commissions, which increased 16% to account for over 60% of non-interest income and approximately 15% of total revenue. Hang Seng has expended a significant amount of effort to develop these operations, particularly personal wealth management products. Life insurance (+51%), unit trust sales (+80%) and brokerage (-35%) income saw a combined increase of 27%, to HK\$1.2 billion.

Lowering 2002 earnings projections by 4% and 2003E earnings by 5%. Based on these earnings results, we are increasing our loan loss provision to a more normalized level of close to 50 basis points of loans. We are also making some adjustments to our expenses and non-interest income assumptions. Our new 2002E EPS is HK\$4.77, representing a decline of 10% from our previous figure. We believe that management will be hard-pressed to maintain the current dividend yield of 5.6% and would have to pay out over 100% of earnings in the coming year to do so. Given management's guidance is "a steady and growing dividend, but depends on profitability", we do not believe that Hang Seng will pay out over 100% of earnings. Our share price target represent 3.4x book, which is supported by an ROE that we see declining to 23%.

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 05, 2002

Company Focus: Hong Kong

Dah Sing Financial: 2001 Annual Results - Still not good

- We are maintaining our 3-Market Perform rating on the shares of Dah Sing and believe the operating environment will continue to be difficult.
- Dah Sing reported a net profit of HK\$868.2 million, or HK\$3.53 per share, up 7.1% on the year.
- Asset quality is a concern, mainly stemming from personal loans and credit card lending.
- Revenue growth is expected to be slow: interest income shrinks with margin contraction; while growing non-interest income is tough with increased competition.
- Better control on expenses is necessary, now that the MEVAS set up is complete.

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Dah Sing announced a net profit of HK\$868.2 million, or HK\$3.53 per share, representing a 7.1% increase over the previous year. The results came in 7% lower than estimates, as foreshadowed. The key difference was higher provisioning, which was 42% higher than our estimates, and one-off items including disposal gains of HK\$180 million, downward revaluation of properties and losses of jointly controlled entities of HK\$70 million. The key points are the following:

Asset Quality – Concerns over personal lending and credit cards. Dah Sing reported a loan loss provision of HK\$425 million, among all the banks in Hong Kong. This was due to asset quality concern on Dah Sing's large exposure in credit cards and unsecured personal lending, which account for 22% of total loans. 75% of specific provisioning was set aside to provide for personal related loans, while the other 25% was for commercial lending and hire purchases loans. More specifically, provision for credit cards amounted to HK\$180 million. Management decided to increase provisions to reflect concerns arising from the economic downturn and increasing bankruptcy cases in Hong Kong.

We believe asset quality will further deteriorate in 2002, mainly on credit cards receivables and personal loans. For the full year 2001, charge offs on cards receivables were 4.72%, as compared to 3.5% in 2000. However, charge offs in fourth quarter 2001 alone were 6.35% (lower than the industry average of 8.27%), representing a severe downward trend. The worst is yet to come, we believe, and if unemployment is to worsen in 2002 (which is the case thus far), provisions will further increase under a difficult operating environment.

Figure 44: Loan Loss Provisions to Total Loans – Hong Kong Landscape in 2001

	LLP	Total Loans	LLP/Total Loans (bps)
Standard Chartered (US\$ m)	732	53,005	138.1
Standard Chartered - HK only (US\$ m)	257	21,145	121.5
HSBC (US\$ m)	2,037	317,368	64.2
HSBC - HK only (US\$ m)	197	68,982	28.6
Hang Seng (HK\$ m)	424	225,926	18.8
Bank of East Asia (HK\$ m)	432	108,174	39.9
Dah Sing Financial (HK\$ m)	425	29,274	145.2
Wing Lung Bank (HK\$ m)	114	28,974	39.3
Wing Hang Bank* (HK\$ m)	355	35,409	100.3

* Lehman Brothers' estimates

Source: Lehman Brothers estimates

Revenue growth remains slow. Like the rest of the banking sector, Dah Sing has been facing slow growth in its core lending operation. Margin contraction continues under the lower interest rate environment. Management managed to maintain a flat net interest margin of 3.76% through deploying low-cost deposits to higher yielding fixed income instruments. However, we project the yield on interest earning assets will continue to decrease, causing a decrease in return on free funds and, hence, lower interest income.

Non-interest income increased 9% to HK\$547 million, mainly through fees from credit cards and commissions from life insurance products. Due to asset quality concerns, we believe management will be more prudent with future credit card lending, and that we will thus see slower growth in this part of the loan book in future. Management is trying to focus on developing personal wealth management and insurance businesses. However, as with other mid to small size banks in Hong Kong, we do not believe that Dah Sing has the scale to compete against the likes of HSBC and Citibank in these areas.

Expense control still a priority. Dah Sing's operating expenses are considered relatively high, and recorded a 12.8% increase to HK\$928 million in the last year. The increase in costs came mainly from development of the MEVAS operation. DSF's cost-to-income ratio came in at 41.6%, increasing from 40.4% in the previous year. With MEVAS now in place, we expect management to better control expenses by lowering costs from MEVAS in relation to IT expenses as well as staff costs.

Maintaining 3-Market Perform and share price target of HK\$34. Dah Sing reported a higher than average ROE of 17%, thanks to better capital management. Dah Sing issued US\$125 million worth of sub debt in 2001, accounting for 15% of total capital. Following these results, we have reduced our earnings forecasts to HK\$845 million in 2002 after increasing provisions and reducing projections for margins. We are maintaining our price target, which represents 1.4x 2002 BV and 9.9x earnings.

March 06, 2002

Company Focus: Thailand

Industrial Finance Corporation of Thailand: Declining Subsidies, Low Margins

- IFCT has benefitted from its explicit and implicit government guarantees, but still can not compete with the commercial banks' cost of funds. Downgrading to 4-Market Underperform.
- IFCT's net interest margins remain negative; while we see a turnaround in 2Q02 revenues will remain slim.
- The institution pays higher rates for its funds than do any of its major bank competitors, and it is not equipped to compete for cheap deposits.
- Government guarantees on IFCT's debentures are drying up, which will further increase its cost of funds.
- At 1.2x book, the valuation is not supported by current or future profitability in our view.

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Summary and Comments

IFCT remains one of the more stable companies in the Thai financial sector, due to its strong government support and implied guarantee. However, the bank remains severely distressed, and in the current interest rate environment will have more difficulties earning a spread than will its competitors. In addition, a reluctance on the part of the government to free up more concessionary funding for the bank bodes ill for margins, which are still negative.

We are lowering our rating from 3-Market Perform to 4-Market Underperform, and changing our price target from THB10 to THB5, representing 0.8x book value.

Earnings Review

The Industrial Finance Corp. of Thailand (IFCT) has reported 4Q01 and FY2001 results, posting a net loss of THB547 million in the quarter and THB465 million for the full year. Although they have narrowed substantially, IFCT continues to see losses on a net interest income basis, and is unable to make up for the lack of top line revenue despite parsimonious expense ratios and substantial tax subsidies.

Figure 45: Key Earnings Components: 4Q00–4Q01

THB, MM	4Q00	1Q01	2Q01	3Q01	4Q01
Net Interest Income	(509)	(107)	(89)	(175)	(55)
Pre-Provision Profit	(728)	(2)	(24)	14	(94)
Provisions	98	3	3	3	485
Net Income	(797)	22	25	34	(547)
EPS (Bt)	(0.69)	0.02	0.02	0.03	(0.47)

Source: Company reports; Lehman Brothers estimates.

Figure 46: Key earnings Ratios: 4Q00–4Q01

	4Q00	1Q01	2Q01	3Q01	4Q01
NIM	-1.25%	-0.25%	-0.20%	-0.40%	-0.12%
Asset Yield	4.89%	5.35%	4.66%	4.48%	4.30%
Cost of Funds	6.03%	5.55%	4.81%	4.76%	4.36%
Core ROAA	-2.16%	-0.31%	-0.09%	0.11%	-1.09%
Core ROAE	-44.58%	-6.91%	-2.27%	2.92%	-29.91%
Overhead	0.68%	0.41%	0.37%	0.39%	0.52%
Efficiency	-61.04%	101.31%	117.12%	92.52%	169.10%

Source: Company reports; Lehman Brothers estimates.

IFCT has not reported a full-year profit since 1997, when the bank showed an ROA of 0.98% and an ROE of 11.7%. We project that IFCT's structural issues will cause the institution to continue its net losses through 2003, although we project a breakthrough into positive net interest income in 2Q02.

Figure 47: Key Earnings Components: 1999 - 2003

THB, MM	1999	2000	2001	2002	2003
Net Interest Income	(2,089)	(1,898)	(426)	26	217
Pre-Provision Profit	(1,825)	(1,390)	(106)	(5)	218
Provisions	6,046	280	492	400	400
Net Income	(7,908)	(1,649)	(465)	(264)	(47)
EPS (Bt)	(6.81)	(1.42)	(0.40)	(0.23)	(0.04)

Source: Company reports; Lehman Brothers estimates.

Rates and Margins

The salient issue IFCT faces is its negative net interest margin, which remained at -0.12% in 4Q despite a 27bp rise QoQ. NIM has been depressed since the financial crisis due to foregone interest income on IFCT's stock of non-performing loans, but even during the boom it was not as robust as that of the major commercial banks—leaving the company more vulnerable to the downturn.

The key here is IFCT's high cost of funds, as the bank does not take deposits, but instead funds itself through bond and debenture sales. While IFCT's asset yield lags the large-bank average by 70bp, mainly due to the concessionary and development aspect of

many if the institution's loans, its funding cost is a whopping 165bp higher. This higher cost occurs despite the implied sovereign guarantee on all of IFCT's obligations and the actual guarantee by the Ministry of Finance of approximately 40% of IFCT's outstanding funding base.

Figure 48: Interest Margin Analysis: 4Q00–4Q01

	4Q00	1Q01	2Q01	3Q01	4Q01
Change in Asset Yield	-0.37%	0.46%	-0.69%	-0.18%	-0.17%
Change in Cost of Funds	-0.32%	-0.48%	-0.74%	-0.05%	-0.40%
Change in NIM	0.01%	1.00%	0.05%	-0.19%	0.27%
Loan Growth (QoQ)	6.2%	0.7%	1.3%	1.2%	1.5%
Deposit Growth (QoQ)	3.4%	3.2%	4.8%	-0.9%	1.8%

Source: Company reports; Lehman Brothers estimates

Figure 49: Interest Margin Analysis Versus Competitors

4Q01A	SCB	BBL	TFB	IFCT
Asset Yield	4.90%	4.91%	5.19%	4.30%
Cost of Funds	2.44%	2.89%	2.80%	4.36%
Spread	2.46%	2.02%	2.39%	-0.05%

Source: Company reports; Lehman Brothers estimates

Expanded Powers May Lower Funding Costs

We believe that this unfavorable funding rate is due to IFCT's historical inability to offer deposit accounts to its customers (the bank issues debentures and other fixed income securities instead as mentioned), as well as to its lack of a large branch network and convenience features such as ATMs. In general, depositors pay for the cost of providing such services through zero or low deposit rates.

As we wrote in our last review of IFCT, management in 2001 petitioned the Ministry of Finance for permission to offer additional products including deposit accounts and foreign exchange facilities. The MOF approved these changes (which will be expressed as changes to the IFCT Act, rather than by the issuance of a bank charter), we believe that they have yet to be approved by the Cabinet as required.

These deposit products will be offered through all of IFCT's 35 branches, and management plans to use its deposit license to attract additional funding rather than to replace existing debenture sales. While we agree that this is a desirable change in strategy, growth in deposits will be slow given the small branch network; additionally the build-out of teller stations and associated infrastructure will have a start-up cost which may mitigate any near-term benefit.

IFCT's push into traditional commercial banking areas is intended to help the institution hang on to its "upper-end SME" clientele—one that commercial banks now covet, due to low loan growth. Management remains adamant that they do not want IFCT to become a bank which services all SMEs—a role that the institution was offered by the Thaksin administration but which it managed to resign in favor of SIFCT.

Government Support is Waning

One of IFCT's big subsidies—the government-guarantee on many of its notes—would seem to be declining under the new administration. Although the government's implied financial support of IFCT is still intact, the government rejected a proposal from IFCT and the MoF (a similar proposal by the Ex-Im Bank was also declined) to issue new guaranteed notes to fund lending, instead directing IFCT to borrow from state banks. IFCT's guaranteed notes have typically been sold at rates of 2.8–3%, with the cost of borrowing from state banks at least 100bp higher. This could have a dominating effect on the bank's NIM, which outstrips any benefits of deposit funding.

Asset Quality

Asset quality improved in the second half, but remains unacceptably weak. Classified loans account for over 20% of the loan book, with the weighted classification ratio actually worsening from a year ago, as loans rated loss increased by 17% YoY. Although IFCT has a stronger portfolio than many of the commercial banks, due to its greater reliance on cash flow lending versus collateral-based finance, it also has much weaker earning power and so has been less able to write-off large volumes of bad loans.

Figure 50: Asset Quality Summary: 4Q00–4Q01

THB, MM	4Q00	1Q01	2Q01	3Q01	4Q01
Gross NPLs	35,638	39,485	38,012	34,399	32,746
NPLs/Loans	23.0%	25.3%	24.1%	21.5%	20.2%
NPL Coverage	28.2%	24.6%	24.6%	26.7%	28.3%
Weighted Classification Ratio	16.1%	18.0%	18.1%	17.0%	16.5%

Source: Company reports; Lehman Brothers estimates.

Figure 51: NPL Distribution and Weighted Classifications: 4Q00–4Q01

	4Q00	%	1Q01	%	2Q01	%	3Q01	%	4Q01	%
Special Mention Loans	4,923	13.8%	6,707	17.0%	4,366	11.5%	2,412	7.0%	1,190	3.6%
Substandard Loans	2,046	5.7%	2,170	5.5%	1,079	2.8%	705	2.0%	799	2.4%
Doubtful Loans	3,842	10.8%	1,292	3.3%	2,588	6.8%	2,125	6.2%	725	2.2%
Loss Loans	22,273	62.5%	26,615	67.4%	26,769	70.4%	25,761	74.9%	26,100	79.7%
Foreclosed Property (ORE)	2,554	7.2%	2,701	6.8%	3,210	8.4%	3,396	9.9%	3,932	12.0%
Weighted Classification Ratio	16.05%		17.99%		18.05%		16.96%		16.46%	

Source: Company reports; Lehman Brothers estimates.

Loan Restructuring

IFCT continues to restructure and work out its troubled relationships, with the primary approaches being rescheduling and interest rate cuts, the receipt of assets in lieu of foreclosure, and debt-for-equity swaps. During 2000–2001, management reports the restructuring of THB41 billion of extensions to some 254 borrower groups, with 65% of the transactions concluded during FY2001.

Restructuring of these loans at this point is both necessary and proper, although hardly sufficient. Also, assuming that approximately 10% of these workout loans have re-entered NPL status, this means that some 27% of the performing loan portfolio is comprised of restructured credits—a potential source of future weakness not accounted for in our reserve methodology or classification ratios.

Reserve Adequacy

Here's the part in every Thai bank note where we say the reserve is inadequate: IFCT is like all of its brethren significantly under-reserved and potentially technically insolvent because of its impaired loans. Our consistent methodology across all markets uses international standards for assessing loss on both performing, and non-performing loans (remember: the loan loss allowance is intended to be a reserve against problems you don't know about as well as those you do) without relying on collateral values as a measure of potential loss.

On this basis, IFCT's reserve is less than a third of our required amount, and is short by over THB20 billion, or 2.7x the bank's remaining book equity. At this level of reserves, IFCT is essentially figuring that it will take less than 30% loss on all identified NPLs, including those which have been delinquent since the beginning of the financial crisis five years ago. Recall that open-market sales of impaired loans (viz. Thai Danu's sale of NPLs in late 2000 at 27% of face value, or any of the earlier FRA auctions) have generated significantly lower returns and you illustrate the downside leverage of IFCT's (or any of its peers') position.

Figure 52: Reserve Adequacy: 4Q01

	Gross Amount	Reserve Percentage	Required Reserve
Pass	138,834	1%	1,388
Special Mention	1,190	5%	60
Substandard	799	20%	160
Doubtful	725	50%	363
Loss	26,100	100%	26,100
ORE	3,932	20%	786
Excess AIR	3,532	20%	706
Total	175,112		29,563
Actual Reserves			9,265
Shortfall			20,298
Actual/Required			31%
Shortfall/Capital			274%

Source: Company reports; Lehman Brothers estimates.

TAMC Participation Still On Hold

Due to its special status, IFCT is not covered under the existing bill establishing the Thai National Asset Management Corporation (TAMC) either as a state bank or a private institution. Management has requested approval from the MOF to participate in the transfer of loans to the TAMC, and we expect such approval will be granted; however, we are unaware of any definitive ruling on this issue to date, although management projects a transfer of assets during 1Q02.

Based on the current criteria, IFCT estimates that it would be able to transfer approximately THB10 billion in gross eligible assets, or 29% of total criticized assets; we estimate that these would be transferred with associated reserves of THB4 billion, for a net figure of THB6 billion.

Assuming that the transferred assets are 95% loss, this would reduce required reserves by almost THB10 billion, but would also deplete the existing LLR. The shortfall would fall to THB14.5 billion, or 2.0x equity—still a significant impediment to future development of the bank.

Figure 53: Reserve Adequacy on TAMC Transfers: 4Q01

	Gross Amount	Reserve Percentage	Required Reserve
Pass	138,834	1%	1,388
Special Mention	1,190	5%	60
Substandard	799	20%	160
Doubtful	225	50%	113
Loss	16,600	100%	16,600
ORE	3,932	20%	786
Excess AIR	3,532	20%	706
Total	165,112		19,813
Actual Reserves			5,265
Shortfall			14,548
Actual/Required			27%
Shortfall/Capital			197%

Source: Company reports; Lehman Brothers estimates.

Bear in mind that IFCT would remain liable for 30% of the first 40% of additional losses that the TAMC sustains in servicing and working out or liquidating these loans over a five or ten year period. Based on the experience of other government workout programs in the region, we believe that the bank would wind up sustaining the maximum cost, or some THB1.8 billion in charge-backs, which could be paid either in cash or in new shares, to potentially-dilutive effect.

Loan Growth

IFCT has managed to post consistently good loan originations—not only by Thai standards but by those of any of the Asian markets. This is due to the bank's function as a channel for development aid and loans from foreign agencies (e.g., the US Ex-Im Bank, Nordic Development Bank, et al.), as well as the comparative resilience of the SME client base. Because of IFCT's government ownership and funding sources, however, we worry that aggressive lending may be taking place as national service rather than as proper credit allocation.

Figure 54: Loan Growth and Performing Loan Growth: 4Q00–4Q01

	4Q00	1Q01	2Q01	3Q01	4Q01
Loan Growth (QoQ)	6.2%	0.7%	1.3%	1.2%	1.5%
Performing Loan Growth (QoQ)	10.4%	-2.0%	3.0%	4.4%	3.2%

Source: Company reports; Lehman Brothers estimates.

Valuation

Most of our traditional valuation measures do not apply to IFCT: earnings and ROE-based methodologies are not meaningful. On a price to book basis, IFCT trades at 1.2x BVPS, high for a consistently loss-making institution. Our adjusted book is negative due to reserve inadequacy, making price/ABV again a less than useful measure.

Figure 55: Valuation Summary

	FY2001A	FY2002E	FY2003E
Current Price (THB):	7.85		
EEPS	(0.40)	(0.23)	(0.04)
P/E	(19.59)	(34.53)	(194.80)
BVPS	6.37	6.14	6.10
P/BV	1.23	1.28	1.29
ROE	-6.24%	-3.98%	-0.72%
ROE / (P/BV)	-5.06%	-3.12%	-0.56%

Source: Company reports; Lehman Brothers estimates.

We do look at deposit franchise valuations in emerging markets as an alternative measure which can yield meaningful results even when our usual touchstones fall silent. Under this methodology, we subtract fully adjusted book value from market capitalization to determine the value in excess of net assets that the market is placing on the bank's franchise. When expressed as a percentage of total deposits (or debentures in this case), this valuation methodology confirms our view that IFCT is still too expensive to be a recommended stock in our universe.

Figure 56: Liability Franchise Valuation

THB, MM	4Q01A
Market Capitalization	9,119
Less: Adjusted Book Value	(6,739)
Plus: Reserve Underfunding	19,591
Implied Franchise Value	21,971
Total Deposits/Debentures	181,635
<u>Deposit Premium</u>	<u>12.1%</u>

Source: Company reports; Lehman Brothers estimates.

Company description:

Set up by a special act of Parliament, IFCT is Thailand's only development bank. Its main objectives are to assist in the establishment and modernization of private industrial enterprises. IFCT is now owned 20% by the public, 30% by the Finance Ministry and state enterprises and 50% by local and overseas institutional investors and multinational development agencies.

March 07, 2002

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