

June 12, 2000








Banks
Thailand

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THAILAND

THAI WAY OR THE HIGHWAY

RUNNING ON FUMES IN THAILAND

 BANK OF AYUDHYA PUBLIC COMPANY LIMITED	Ticker: BAY.BK Rating: 4-Underperform Price: Bt7.50 52-Week Range: Bt6.70-28.75
	Ticker: BBL.BK Rating: 3-Neutral Price: Bt54.50 52-Week Range: Bt41.00-145.00
	Ticker: IFCT.BK Rating: 3-Neutral Price: Bt10.00 52-Week Range: Bt8.60-33.00
	Ticker: KTB.BK Rating: 5-Sell Price: Bt13.25 52-Week Range: Bt11.25-29.75
	Ticker: SCB.BK Rating: 3-Neutral Price: Bt25.50 52-Week Range: Bt21.25-57.50
	Ticker: TFB.BK Rating: 3-Neutral Price: Bt33.75 52-Week Range: Bt26.50-80.81
	Ticker: TMB.BK Rating: 4-Underperform Price: Bt6.60 52-Week Range: Bt6.00-28.03

Note: Ratings and prices are for foreign shares only.

- Barely Halfway There:** After all of the pain and write-offs of the past three years, the Thai banks have as much or more ground left to cover just to return to solvency.
- Capital-raisings Ahead:** Look for offerings from **BBL** and **BAY** in the immediate future, with all of our covered institutions requiring capital within the next 18-24 months.
- Remain Underweight Thai Banks:** The best buy in the sector is **SCB**, and the best way to buy it is through the preferred shares (rated **1-Buy**). Investors should also look to trade **BBL** foreign against the local share, as the high premium appears unsustainable.

Figure 1: Thai Way or the Highway
Thai Bank Universe Summary Tables

Company	Rating	Price (THB)	Price Target (THB)	Mkt Cap (THB, Bil.)	Year End	Net Profit (THB, Mil.)	Core Earnings Before Provisions (THB, Mil.)	Loan Loss Provisions (THB, Mil.)	EPS (THB)	DPS (THB)	Yield (%)	ROAE (%)	ROAA (%)
Bangkok Bank					Dec 96A	20,747	26,452	5,705	20.72	6.00	2.4%	23.0%	1.85%
BBL	3	34.00	25.00	49,861	Dec 97A	4,034	34,934	28,368	4.03	5.00	4.2%	4.2%	0.31%
BBL/F	4	55.00	25.00	80,657	Dec 98A	(49,489)	(2,280)	47,992	-37.64	0.00	0.0%	-53.6%	-3.70%
					Dec 99A	(59,829)	(2,872)	68,210	-40.80	0.00	0.0%	-95.0%	-4.89%
					Dec 00E	(35,164)	(3)	15,262	-23.98	0.00	0.0%	-202.2%	-2.96%
					Dec 01E	(5,291)	14,709	20,000	-3.61	0.00	0.0%	NM	-0.43%
Bank of Ayudhya					Dec 96A	5,030	6,264	1,234	11.13	4.15	6.9%	20.2%	1.28%
BAY	4	7.70	TBU	14,248	Dec 97A	1,962	9,047	7,085	3.93	4.50	23.1%	7.3%	0.43%
BAY/F	4	7.70	TBU	14,248	Dec 98A	(9,575)	(1,481)	4,606	-18.60	0.00	0.0%	-37.9%	-1.96%
					Dec 99A	(20,760)	(5,305)	15,661	-11.22	0.00	0.0%	-87.8%	-4.46%
					Dec 00E	(12,443)	(524)	11,942	-6.72	0.00	0.0%	-79.6%	-2.76%
					Dec 01E	(11,522)	478	12,000	-6.23	0.00	0.0%	-301.1%	-2.47%
Industrial Finance Corp. of Thailand					Dec 96A	2,960	3,336	376	5.43	2.00	2.9%	18.9%	1.93%
IFCT	NR	9.90	NA	11,500	Dec 97A	1,844	5,936	3,477	3.38	2.25	30.4%	11.7%	0.98%
IFCT/F	3	9.90	10.00	11,500	Dec 98A	(4,695)	(112)	3,141	-8.62	0.00	0.0%	-37.9%	-2.40%
					Dec 99A	(7,908)	(1,162)	6,046	-6.81	0.00	0.0%	-73.7%	-4.43%
					Dec 00E	(1,562)	(3)	1,500	-1.35	0.00	0.0%	-14.5%	-8.89%
					Dec 01E	(106)	1,894	2,000	-0.09	0.00	0.0%	-1.1%	-0.06%
Krung Thai Bank					Dec 96A	10,342	13,490	3,149	6.96	3.00	6.1%	23.7%	1.52%
KTB	NR	13.50	NA	296,723	Dec 97A	211	19,184	18,973	0.14	3.00	30.0%	0.5%	0.03%
KTB/F	5	13.75	TBU	302,218	Dec 98A	(61,585)	5,381	64,989	-16.91	0.00	0.0%	-101.9%	-6.63%
					Dec 99A	(91,022)	(6,638)	84,384	-4.14	0.00	0.0%	-102.7%	-8.84%
					Dec 00E	96,207	5,707	17,500	4.38	0.00	0.0%	107.8%	9.93%
					Dec 01E	(4,271)	3,729	8,000	-0.19	0.00	0.0%	-5.5%	-0.46%
Siam Commercial Bank					Dec 96A	9,015	10,138	1,124	23.68	8.47	4.8%	26.3%	1.81%
SCB	NR	25.75	NA	80,597	Dec 97A	3,194	14,791	11,597	8.39	8.48	15.4%	8.5%	0.51%
SCB/F	3	26.00	25.00	81,380	Dec 98A	(19,559)	4,568	12,611	-33.22	0.00	0.0%	-53.9%	-2.75%
SCB/P	1	24.75	30.00	77,467	Dec 99A	(35,550)	595	43,285	-11.39	0.00	0.0%	-83.9%	-5.09%
SCB/Q	1	25.00	30.00	78,250	Dec 00E	3,047	10,076	8,013	0.97	0.00	0.0%	5.9%	0.44%
					Dec 01E	4,571	11,571	7,000	1.46	0.00	0.0%	8.4%	0.66%
Thai Farmers Bank					Dec 96A	11,863	14,198	2,335	14.83	6.00	3.8%	22.2%	1.93%
TFB	3	30.00	22.00	86,997	Dec 97A	801	20,000	16,810	1.00	6.00	6.9%	1.4%	0.11%
TFB/F	3	35.25	22.00	102,221	Dec 98A	(40,121)	5,983	44,076	-34.12	0.00	0.0%	-79.2%	-5.17%
					Dec 99A	(47,019)	(3,394)	42,009	-16.21	0.00	0.0%	-123.3%	-6.31%
					Dec 00E	(5,554)	1,671	7,193	-1.92	0.00	0.0%	-22.4%	-0.75%
					Dec 01E	(5,742)	4,258	10,000	-1.98	0.00	0.0%	-30.2%	-0.75%
Thai Military Bank					Dec 96A	4,921	5,571	650	4.85	1.82	3.6%	23.1%	1.59%
TMB	NR	6.60	NA	26,419	Dec 97A	1,368	5,413	3,505	1.35	1.62	16.5%	7.8%	0.38%
TMB/F	4	6.60	5.00	26,419	Dec 98A	(12,842)	(996)	9,864	-12.65	0.00	0.0%	-97.1%	-3.46%
					Dec 99A	(11,624)	(2,513)	9,110	-11.45	0.00	0.0%	-105.1%	-3.37%
					Dec 00E	(11,857)	743	12,600	-2.96	0.00	0.0%	-70.9%	-3.34%
					Dec 01E	(4,455)	5,545	10,000	-1.11	0.00	0.0%	-19.0%	-1.10%

Source: Company reports; Lehman Brothers estimates.

NIM (%)	BVPS (THB)	P/BV (X)	Equity	Assets	Loans	Deposits	NPL Ratio	Comment
4.25%	107.40	2.31	107,536	1,155,109	982,575	843,682	4.73%	BBL is Thailand's largest bank, and has long been considered the most prestigious institution in the country. However, its financial condition is poor, with capital particularly low. Given this, we expect an offering before the end of FY2000. At current valuations, particularly on the overinflated foreign share, we would not be a buyer.
3.95%	103.08	1.16	103,294	1,408,619	1,074,396	946,548	17.33%	
0.71%	76.95	0.86	101,168	1,266,949	952,546	969,780	49.00%	
0.66%	30.87	1.78	45,273	1,181,685	926,490	961,459	52.47%	
2.17%	7.25	7.59	10,634	1,190,402	936,738	992,971	42.68%	
2.24%	3.64	15.10	5,343	1,269,045	979,608	1,033,289	35.17%	
3.57%	66.63	0.91	30,112	414,879	353,404	340,151	4.56%	BAY is one of the smaller private banks, and has had little luck in finding a partner (although an investment by GE Capital has been rumored--and denied). Like BBL, Ayudhya badly needs capital; however, without the prestige value of its larger cousin, it is not quite as certain that BAY will be prevented from liquidation.
3.61%	52.45	0.37	26,209	493,843	406,568	389,083	13.67%	
1.03%	52.19	0.22	26,875	483,598	366,247	403,896	37.93%	
0.69%	12.39	0.62	22,929	446,532	361,340	361,178	34.65%	
1.73%	5.85	1.32	10,832	455,400	373,473	368,813	30.42%	
1.97%	-0.37	(20.65)	-690	478,601	396,391	387,602	23.55%	
3.25%	31.44	2.21	17,126	171,076	125,148	149,111	0.33%	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. It enjoys a special relationship with the government, and receives subsidized funding and concessionary loan participations. IFCT does not accept deposits, but funds itself with commercial paper and debentures.
3.14%	28.78	0.26	15,682	206,937	155,260	186,743	0.44%	
0.62%	18.94	0.76	10,318	185,016	131,719	170,766	35.54%	
-1.24%	10.73	0.92	12,468	171,914	135,972	152,978	36.09%	
-0.49%	8.98	1.10	10,429	178,791	141,411	155,273	25.08%	
0.71%	8.89	1.11	10,322	185,943	147,068	159,155	20.34%	
3.92%	34.09	1.45	50,646	715,975	615,715	581,629	8.14%	Krung Thai Bank is the second largest commercial bank in Thailand, and is majority owned by the Thai government. Krung Thai has absorbed bad assets from other failed banks, and is now itself being recapitalized by the government, which will assume a substantial part of KTB's bad assets and effectively inject new capital. However, Krung Thai's franchise and management remain weaker than the top-tier Thai banks.
4.02%	30.81	0.32	45,774	791,091	687,911	580,049	14.06%	
1.63%	22.92	0.89	83,477	1,065,402	957,440	803,716	50.15%	
0.68%	4.65	2.96	102,185	994,819	935,042	802,102	45.75%	
1.65%	3.85	3.58	84,536	943,066	423,815	832,602	29.15%	
1.55%	3.65	3.77	80,265	924,346	415,402	857,863	27.19%	
3.90%	106.89	1.64	40,693	541,232	459,108	399,291	5.15%	Founded under Royal Charter in 1906 as Thailand's first commercial bank, Siam Commercial Bank is currently Thailand's fourth-largest bank. Usually grouped with TFB and BBL in the top tier of institutions, SCB is in the best financial condition and has the lowest valuation. Our 1-Buy rating on the convertible preferred shares is our only positive rating anywhere in the Thai financial sector.
4.57%	109.55	0.50	41,715	717,161	568,160	558,980	12.15%	
1.73%	64.66	0.31	38,069	705,988	544,268	591,150	33.78%	
1.52%	17.21	1.51	53,711	692,051	494,119	568,522	34.78%	
2.33%	17.84	1.46	55,852	687,604	479,887	593,056	29.01%	
2.49%	19.30	1.35	60,423	697,870	504,335	626,353	22.91%	
4.34%	77.67	2.06	62,128	646,007	554,516	523,287	6.20%	Established in 1945, Thai Farmers Bank is the third largest bank in Thailand. It has a reputation for conservative management and technical innovation. While TFB is in better financial condition than many of its peers, and will not likely require capital within the next 18 months, the bank's valuation is out of line with even its historical equilibrium returns on capital.
4.27%	70.93	1.23	56,808	795,385	609,495	588,414	17.53%	
1.84%	44.58	0.87	52,417	756,839	608,928	628,090	57.46%	
1.38%	10.91	3.23	31,645	733,121	530,850	608,554	42.83%	
2.16%	8.88	3.97	25,758	757,278	512,599	637,460	38.95%	
2.47%	6.90	5.11	20,015	772,538	496,299	667,293	32.89%	
3.46%	23.84	2.11	24,170	333,509	285,078	257,980	10.80%	Thai Military Bank is the sixth-largest commercial bank in Thailand. The Thai armed forces maintain a substantial stake in TMB. After its recent rights offering, which was extremely negative for shareholders, TMB is in somewhat better financial shape (although it remains clearly insolvent). A potential merger with either National Finance and Securities or its Ekachart Finance subsidiary may come to fruition after NFS' subscription to a majority of TMB's share offering.
2.75%	21.92	0.45	22,232	388,549	303,263	257,574	21.11%	
0.83%	15.09	0.60	15,314	354,364	290,136	293,772	41.03%	
0.57%	8.73	0.76	8,859	335,002	282,342	259,843	50.33%	
0.68%	6.65	0.99	26,628	373,946	308,915	282,315	42.34%	
1.28%	5.54	1.19	22,173	437,464	361,387	320,844	30.58%	

Thai Way or the Highway: Running on Fumes in Thailand

June 12, 2000

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"Bankruptcy is a sacred state, a condition beyond conditions, as theologians might say, and attempts to investigate it are necessarily obscene, like spiritualism. One only knows that he has passed into it, and lives beyond us, in a condition not ours."

—John Updike

SUMMARY

We continue to be aggressively **UNDERWEIGHT** the Thai banking sector, as the fundamentals have, if anything, deteriorated since our last report¹. In summary, these are:

- **Losses not yet Covered:** Known loan losses, even by the bank's internal classifications, have yet to be provided for, resulting in substantial reserve underfunding.
- **Pervasive Insolvency:** Primarily due to reserve deficiencies, every bank in our Thai universe is insolvent, with capital shortfalls ranging from Bt12.5 billion at IFCT (1.06x capital) to Bt186 billion at Bangkok Bank (7.95x capital). These banks will all be forced back to market for capital at least once over the next 18-24 months.
- **Insufficient Management Depth:** Managements have shown little ability (and much resistance) to deal with the fundamental changes in their business, somewhat understandable given the severity of their asset quality problems.
- **Growing Outside Competition:** Given the arrival of foreign banks on the scene (UOB/Radanasin, DBS/Thai Danu, ABN/Bank of Asia, HSBC/Bangkok Metropolitan), Thai banks can not afford to remain an isolated pocket of inefficiency within the Asian banking scene.
- **Low Loan Demand:** Loan growth continues to be negative, even with excess liquidity and low interest rates.
- **Weak Supervision and Accounting Standards:** The BOT has given up almost all pretense of being a strict regulator of its banks, as it has repeatedly rejiggered standards to meet the banks' reported numbers rather than driving them.

Figure 2: Thai Way or the Highway
Thai Bank Universe Recommendation Summary

	SCB	TFB	BBL	IFCT	TMB	BAY	KTB
Foreign	3-Neutral	3-Neutral	4-Underperform	3-Neutral	4-Underperform	4-Underperform	5-Sell
Local	-	3-Neutral	3-Neutral	-	-	4-Underperform	-
Preferred	1-Buy	-	-	-	-	-	-

Source: Lehman Brothers

INVESTMENT OPINION***Specific Recommendations in the Sector***

We do not believe that the government will allow any of the prestigious large banks (BBL, TFB, and SCB) to go under, whatever the cost, so that their local shares receive the highest rating within the sector (3-Neutral), as does the quasi-governmental IFCT. Brief comments:

- **SCB (Top Pick):** In the best financial shape of the commercial banks, SCB also trades at a more reasonable 1.6x adjusted book. However, we would avoid the common in favor of the preferred shares (rated 1-Buy), convertible 1-for-1 into common but with interim downside protection, and now trading at an unwarranted discount. SCB's convertible bonds offer another attractive way to take Thai bank exposure.²

¹ *Thai Banks II: Two Steps Forward, One Step Back*, dated November 5, 1999.

² Please refer to the *Lehman Brothers Asian Convertibles Quarterly*, dated April 5, 2000, for additional information.

- **BBL:** The weakest of the large banks, we expect BBL to announce a rights offering momentarily. While additional capital, if obtainable (we advise investors to sell now rather than wait to subscribe), will improve the bank's balance sheet, it will also likely reduce or eliminate the foreign share premium, now at over 60%. Because of these near term downside catalyst, we now rate the foreign shares only 4-Underperform, with the local maintained at 3-Neutral.
- **TFB:** Healthier than BBL, but at a high valuation price—over 3.5x adjusted book value with no earnings in sight.
- **IFCT:** Better-than-average financial condition, but a poor investment following and few near-term share price catalysts.

Avoid financially weak and marginal players like **Krung Thai**, **Thai Military**, and **Bank of Ayudhya**.

A PUBLIC SECTOR ROLE IS NECESSARY

Government Assistance Moves Closer to Reality

The situation in Thailand cries out for immediate and meaningful government intervention, as the public sector would appear to be the only entity capable and *willing* to inject the necessary capital (we estimate total capital needs at Bt950 billion, or US\$24.4 billion) into the banks, particularly those with weak franchises. While the recent Krung Thai bail-out is a good first step, Thailand must remediate the industry's problems on a systemic basis.

We see only two possible outcomes: either the Thai government will step up and quickly take responsibility for removing bad assets from the system and effectively recapitalizing banks with public money, or Thailand will cease to have a material domestic banking sector within the next five years. This would not necessarily be bad for the country—Thailand will still continue to attract investment from foreign banks like HSBC, Standard Chartered, and ABN Amro.

In fact, it may be a natural consequence of the rejection of the Asian economic nationalist thesis that every country should have its own "national car" or jet aircraft manufacturer. Conceptually, Thailand could be just as well off with Nasdaq and Citibank as it is with the SET and Bangkok Bank—perhaps better, as Nasdaq has more liquidity and better disclosure while Citibank does a better job of efficiently allocating capital and serving its customers.

With the Thai power structure probably unwilling to countenance this, here are what we see as the essential components of a government restructuring and bail-out:

- **Realization and Disclosure of Losses.** It's been years since most of these borrowers stopped paying their loans, bonds, and so on. Yet we still don't know with any certainty what the real cost of this was. It's time to go through these portfolios, classify loans and other assets according to international standards, write off accrued accounts that will never be paid and worthless equity swaps, and total up the check.
- **Removal of NPLs.** Sheehan's Iron Law of Bank Management states that once bad assets pass 10%, management must spend at least 90% of its time dealing with restructuring, credit workout, litigation, and associated capital-raising. With Thailand not expected to reach this level for at least 36 months, this means that bankers will not have substantial time (or capital) to devote to rationalizing their core operations, refocusing their product lines around high-margin consumer finance, and improving customer service for approximately the same amount of time. Such a delay will be fatal to the industry. To have any chance of redemption, the banks must have their NPLs removed.

- **Consolidation and Closings.** There are too many institutions in Thailand given the poor loan growth and profitability. In addition, with foreign competition having established substantial beachheads in the market, there is little reason to assume that Thailand needs to generate all of its financial growth through domestic banks. We believe that the country could profitably support six to eight commercial banks given current economic conditions, rather than 14.
- **Staff Reductions and Branch Closings.** In line with bank closings, redundant and overlapping branches should be closed. In addition, existing branches should be relocated to better reflect changing residential and working patterns. To their credit, many banks are making these changes, at least on a small scale, opening smaller "kiosk" branches, and even placing branches on the platforms of the Bangkok Sky Train.
- **Best Practice Accounting and Supervision.** Thailand's accounting and bank regulation are both suspect. Thailand should harmonize its GAAP with international standards and enforce disclosure appropriately. Likewise, the Bank of Thailand needs to adopt a credible regime of supervision, examination, and enforcement. Regulatory forbearance is no substitute for capital adequacy.
- **Management Changes.** In order to address serious current problems and upgrade the system for the future, Thailand needs to be importing talent aggressively from other industries and countries. There is not enough expertise within the system currently to overcome its problems and compete with foreign banks for domestic business.

BANK OF THAILAND SUPERVISION

The Balancing Act Continues: Liquidity Prevents Systemic Failure

NPLs and negative capital are not the proximate causes of bank failure, although they are usually at the root of the problem. The real culprit is liquidity, and on this score the Bank of Thailand (BOT) and banks have acted brilliantly to maintain public confidence in the banking system. Despite the persistent level of technical insolvency in the Thai banking sector, the resultant high level of liquidity is preventing a string of bank failures. The BOT is well aware of this phenomenon and has not moved to close many of its large banks.

Instead, the BOT permits banks to survive provided they maintain a minimum CAR of 8.5% (Tier 1 capital of 4.25%) under its very loose interpretation, as well as the minimum step-up loan loss provision requirement (60% of the total required as of year-end 1999, 80% at June 30, 2000, and 100% by year-end 2000). Banks have the ability to balance or time this minimum provisioning effort so as not to fall below the minimum CAR guideline, which has effectively prevented them from being placed into receivership. Pressure has been further eased by the BOT's easing of provisioning standards.

Provisioning Standards Grow Looser

In mid-1999, the Bank of Thailand reversed a portion of its stance on loan loss provisioning requirements for NPLs, loosening provisioning requirements for performing and special mention loans. Previously, these better quality loans required provisions of 1% and 5%, respectively, on a whole loan basis. While the percentage still holds, the provision is now on a "net of collateral basis" – similar to that of loans classified substandard, doubtful, and loss. This methodology is not in general use by other bank regulators. The reasons are obvious: even the presence of theoretical collateral on most loans in Thailand has not prevented massive defaults, nor has it significantly reduced losses.

In addition, we see issues with respect to the subjective valuation of unmarketable, unattachable, or illiquid collateral. The Thai system virtually invites banks to overvalue collateral in order to lower their capital requirements (a necessity for survival), which perversely provides incentives not to foreclose, and not to sell seized collateral as this would result in a realized loss. Overall, provisioning standards illustrate the inability of the sector to meet the most minimal capital standards.

Sham Restructurings and Phantom Equity

The BOT also continues to accept what we feel are questionable standards and disclosure around restructured loans and the nature of assets contained in a loan portfolio. A case in point: while all banks have claimed that they are not taking, or only taking, minimal haircuts in restructuring loans (leaving aside the material adverse NPV impact of lowering rates and extending maturities), delving into some typical restructuring methodologies reveals alarming and deceptive practices.

If a Bt100 billion loan is restructured, and the originating bank concludes that the maximum loan amount which could be serviced by the borrower, even at a reduced rate and on an extended repayment schedule, is Bt50 billion, the bank will commonly perform what officials have termed a "debt-for-equity swap" on the remaining portion of the loan. Rather than writing off the Bt50 billion which would appear uncollectible, the bank will instead "swap" this amount of debt for an equity stake in the company. So far, we have no objections. Even though the stock should be worthless at the time of the swap (as the company has theoretically been loaded down with the maximum amount of debt it can conceivably service), it does in fairness represent a call option on the recovery of the firm, and is certainly better than nothing.

However, whereas in most countries this (usually unlisted and unmarketable) equity would be valued at zero until sold, and the Bt50 billion loan amount forgiven charged-off against reserves, in Thailand it is perfectly acceptable to the BOT to record the equity as Bt50 billion worth of loans – simply because it was exchanged for Bt50 billion of loans. Furthermore, this portion of the loan portfolio, although it is theoretically without current value, has no traded price or liquidity, and pays no dividend, is considered *performing*. In this way, a Bt100 billion doubtful loan with 50% loss can be transformed into Bt100 billion in performing loans without changing the actual loss the bank will incur.

This structure is reminiscent of some of the more exotic derivatives strategies used by the Japanese banks to hide or postpone losses in the 80s and early 90s. We all remember how that ended.

ASSET QUALITY

NPLs Continue to be a Problem

Asset quality remains extraordinarily poor, with average non-performing assets (criticized loans, other real estate, and excess accrued interest receivables) at 45.3% of loans, down only slightly from 45.4% at year-end 1998 and up from 43.2% at year-end 1999, despite the contention by the BOT that NPLs are rapidly coming off the books. At best, we see NPLs nearly stabilizing, if we include restructured loans as a portion of gross NPLs. The BOT considers restructured loans as performing, provided that they perform according to the new terms of the borrowing agreement for three months.

As described above, we believe that many of the restructurings are not bona-fide workouts, but are primarily cosmetic in nature, and designed to reduce provisioning needs by removing loans from the non-performing roster. Our judgement is confirmed in that 6-10% of all restructured loans have already returned to NPL

status, which implies that the estimates by bank management teams of at most a 15% NPL reversion over the remaining life of the restructured loans are optimistically low. We believe that the eventual reversion will be closer to 50%, an estimate with which S&P has publicly concurred.

Figure 3: Thai Way or The Highway
Gross Non-performing Loans

	Gross NPLs (THB, Mil)						NPLs (% of Loan Book)					
	1997A	1998A	1999A	1Q00A	2000E	2001E	1997A	1998A	1999A	1Q00A	2000E	2001E
Bangkok Bank	180,572	460,000	475,873	442,297	387,988	331,743	16.8%	48.3%	51.4%	47.9%	41.4%	33.9%
Bank of Ayudhya	55,344	137,700	117,468	118,854	88,993	46,887	13.6%	37.6%	32.5%	32.8%	23.8%	11.8%
IFCT	NA	46,365	46,884	37,317	32,904	27,825	NA	35.2%	34.5%	26.9%	23.3%	18.9%
Krung Thai Bank	95,550	475,848	420,769	658,423	114,866	103,852	13.9%	49.7%	45.0%	71.2%	27.1%	25.0%
Siam Commercial Bank	66,403	179,609	162,658	154,521	130,026	105,479	11.7%	33.0%	32.9%	31.7%	27.1%	20.9%
Thai Farmers Bank	105,379	348,237	219,544	210,846	189,019	154,551	17.3%	57.2%	41.4%	40.4%	36.9%	31.1%
Thai Military Bank	60,000	110,252	137,800	145,100	127,107	107,489	19.8%	38.0%	48.8%	49.8%	41.1%	29.7%
Average							15.5%	42.7%	40.9%	43.0%	31.5%	24.5%

Source: Company reports; Lehman Brothers estimates.

Figure 4: Thai Way or The Highway
Gross Non-performing Assets

	NPAs (Gross NPLs + ORE + Excess AIR), THB, Mil)						NPAs (% of Loan Book+ORE)					
	1997A	1998A	1999A	1Q00A	2000E	2001E	1997A	1998A	1999A	1Q00A	2000E	2001E
Bangkok Bank	186,172	466,703	486,093	453,386	399,756	344,481	17.2%	48.7%	51.9%	48.5%	42.1%	34.7%
Bank of Ayudhya	57,922	150,173	128,111	130,073	98,479	53,418	14.2%	40.9%	34.7%	35.1%	25.8%	13.3%
IFCT	2,805	51,615	53,966	44,422	40,411	35,056	NA	39.1%	39.1%	31.5%	28.1%	23.5%
Krung Thai Bank	104,859	510,949	457,644	695,668	129,249	118,563	15.2%	53.1%	48.6%	74.6%	29.9%	27.9%
Siam Commercial Bank	71,889	192,482	171,861	163,149	139,237	115,527	12.6%	35.1%	34.1%	32.9%	28.5%	22.5%
Thai Farmers Bank	107,037	355,082	227,374	220,746	199,680	163,235	17.5%	58.2%	42.2%	41.5%	38.2%	32.3%
Thai Military Bank	65,718	129,014	148,443	155,954	130,798	110,495	21.4%	43.2%	51.8%	52.8%	41.8%	30.3%
Average							16.4%	45.4%	43.2%	45.3%	33.5%	26.4%

Source: Company reports; Lehman Brothers estimates.

Particularly worrisome is the distribution of nonperforming assets among the classification categories. Fully 69.6% of all impaired assets are in the "Loss" category, which implies that there will be virtually no return from these loans. When combined with the "Doubtful" category, the most seriously categorized loans account for almost 76% of all nonperforming assets.

Figure 5: Thai Way or The Highway
Impaired Assets by Classification Category

	BBL	BAY	IFCT	KTB	SCB	TFB	TMB
	%	%	%	%	%	%	%
Total Impaired Assets							
Special Mention	5.9%	5.9%	6.3%	2.8%	12.2%	6.7%	14.1%
Substandard	2.9%	10.6%	2.9%	4.3%	18.7%	8.8%	18.9%
Doubtful	3.8%	5.9%	2.9%	1.5%	13.0%	8.6%	7.8%
Loss	85.0%	69.5%	71.9%	86.1%	50.8%	71.5%	52.3%
ORE	2.4%	6.3%	5.0%	1.2%	5.3%	4.5%	2.8%
Excess Accrued Interest	0.0%	1.8%	11.0%	4.2%	0.0%	0.0%	4.2%

Source: Company reports; Lehman Brothers estimates.

Poor Loan Demand

High-quality credits remain disappointingly scarce in Thailand, with negative loan growth on a gross basis during three of the last five quarters and annualized average growth of 0.6% in 1Q00. With GDP growth turning positive only in 3Q99, we could continue to see a considerable lag before a rebounding economy is reflected in loan

growth, as has been our experience in Hong Kong and Singapore. We expect fairly minimal average growth of 1.9% in FY2000 and 5.6% in FY2001 (ex-Krung Thai, due to the effect of the government recap and loan transfer program).

Figure 6: Thai Way or The Highway
Loan Growth

	Loan Growth (YoY)					Loan Growth (QoQ)		
	1997A	1998A	1999A	2000E	2001E	4Q99A	1Q00A	2Q00E
Bangkok Bank	9.34%	-11.34%	-2.74%	1.11%	4.58%	-0.73%	-0.40%	0.50%
Bank of Ayudhya	15.04%	-9.92%	-1.34%	3.36%	6.14%	-1.91%	0.20%	0.63%
IFCT	24.06%	-15.16%	3.23%	4.00%	4.00%	-2.07%	1.95%	-0.79%
Krung Thai Bank	11.73%	39.18%	-2.34%	-54.67%	-1.99%	-0.72%	-0.72%	-0.72%
Siam Commercial Bank	23.75%	-4.21%	-9.21%	-2.88%	5.09%	-3.25%	-1.41%	-0.50%
Thai Farmers Bank	9.91%	-0.09%	-12.82%	-3.44%	-3.18%	-3.04%	-1.77%	-0.64%
Thai Military Bank	6.38%	-4.33%	-2.69%	9.41%	16.99%	-2.97%	3.10%	2.00%
Average	14.32%	-0.84%	-3.99%	-6.16%	4.52%	-2.10%	0.14%	0.07%

Source: Company reports; Lehman Brothers estimates.

Collateral Clouds the Issue

Collateral values are basically meaningless if banks have neither the intention nor the ability to foreclose on their problem assets. However, since the BOT requires provisions on a net-of-collateral basis and **not** based on a borrower's willingness and ability to repay, we are forced to investigate collateral values. Despite the brouhaha surrounding the passage of improved bankruptcy laws in Thailand, Thai foreclosure laws have been left largely intact. Although this has meant that bankers are unable to foreclose on much of the collateral securing their NPLs, it has in some ways been a perverse blessing, as the lack of ability to seize and sell impaired collateral has kept the market from clearing at what we suspect would be a level significantly below that now assumed by banks for purposes of reserve adequacy calculations. Our reserve calculations (see below) are made gross of collateral, in line with international standards.

Falling Real Estate Values

The market for prime Bangkok real estate has been illiquid since 1994, and essentially frozen since 1996. This has given us a dearth of data points from which to estimate the value of property, which represents the majority of collateral held against bank loans. However, we do know that rents have fallen sharply, with a further 10-15% average rental price drop seen over the next year. Occupancy rates, now at 70% (per FPD Savills), will surely drop as well, with the supply of grade A office space in central Bangkok expected to double over the next two years.

In addition to the effect on collateral, a further fall in the income earned from real estate may cause additional borrowers to default on their loans, increasing NPLs. Ironically, market observers have attributed much of the decline in demand for prime space to the closure of finance companies and a scaling-back of demand for new space by commercial banks.

Excess Accrued Interest Receivables

When interest due on a loan or security is recorded as income even though it is not received, an offsetting balance sheet account must be created in order for the books to balance (*i.e.*, replacing the cash item which would normally have been created by the incoming payment. While there are often good reasons for accrued interest, mainly timing differences, excess accrued interest receivable ("AIR") is a warning sign that a bank is or has in the past booked as income monies which were never

received, thus understating its loss or overstating its profit. In order to assess whether or not AIR is "excessive," we apply a generous threshold of 1.25% of loans. All AIR over this amount is considered excess.

Figure 7: Thai Way or the Highway
Accrued Interest Receivables

	BBL	BAY	IFCT	KTB	SCB	TFB	TMB Average	
AIR	2,049	7,034	6,628	40,455	3,586	5,258	10,188	
% of Loans	0.22%	1.94%	4.78%	4.38%	0.74%	1.01%	3.50%	2.37%
Excess AIR	-	(2,508)	(4,895)	(28,901)	-	-	(6,550)	

Source: Company reports; Lehman Brothers estimates.

As seen in the table above, the top tier institutions (BBL, TFB, and SCB) are well within the limit, having either brought down AIR to an acceptable level through write-offs (SCB and TFB) or having never breached our threshold at all (BBL). On the other hand, the smaller and weaker banks have apparently been hiding losses on the balance sheet via this mechanism, most egregiously Krung Thai and IFCT.

Reserve Adequacy

Thai bank reserves are not adequate to meet the actual losses contained within their loan portfolios. On average, we find that the banks have reserved against only 31% of their losses as currently identified by the banks' classifications themselves. This despite aggregate provisions of Bt588 billion since 1Q97. At the end of 1Q00, the aggregate reserve shortfall at our covered institutions was Bt654 billion, *even after taking into account* the pending Krung Thai recapitalization plan, which reduced the amount required by Bt332 billion.

Figure 8: Thai Way or the Highway
Actual Loss Reserves vs. Required Reserves

	BBL	BAY	IFCT	KTB	SCB	TFB	TMB	Average
1Q00 (actual)								
Actual/Required Reserves	48%	30%	30%	38%	23%	27%	24%	31%
Reserve Shortfall/Capital	895%	359%	206%	437%	151%	407%	1230%	527%
4Q00 (est.)								
Actual/Required Reserves	53%	43%	36%	41%	33%	33%	37%	39%
Reserve Shortfall/Capital	1618%	503%	189%	54%	103%	419%	210%	442%

Source: Company reports; Lehman Brothers estimates.

Reserve Adequacy Calculation Methodology

We divided the Thai Banks' loan portfolios into the international standard categories of Pass (performing), Special Mention, Substandard, Doubtful, and Loss, with Loss comprising both the BOT's Doubtful of Loss classification and loans classified as Uncollectable. Note that this analysis accepts each bank's internal classification of their own loans, which we believe to be more lenient than the standards applied outside of Thailand.

We apply reserve weightings as follows to determine the appropriate minimum level of required reserves: 1% on Pass; 5% on Special Mention; 20% on Substandard; 50% on Doubtful; and 100% on Loss loans. In addition, where not included in banks' internal classifications, we classify all excess (above 1.25%) accrued interest receivables and Other Real Estate (ORE, or foreclosed property) as Substandard. All assets are classified on a gross of collateral basis.

This is quite a bit more stringent than the BOT methodology, which is one of the most lenient in the world, but directly in line with the standards applied by the BIS and major regulators in the US and UK.

Figure 9: Thai Way or The Highway
Required Reserve Calculations

Bangkok Bank			
at 1Q00 THB Mil.	Gross Amount	Reserve Percentage	Required Reserve
Loan Portfolio:			
Pass	482,578	1%	4,826
Special Mention	26,873	5%	1,344
Substandard	12,992	20%	2,598
Doubtful	17,116	50%	8,558
Loss	385,316	100%	385,316
ORE	11,089	20%	2,218
Excess AIR	-	25%	-
Total	935,965		404,860
Actual Reserves			194,375
Surplus (Shortfall)			(210,485)

Bank of Ayudhya			
at 1Q00 THB Mil.	Gross Amount	Reserve Percentage	Required Reserve
Loan Portfolio:			
Pass	234,520	1%	2,345
Special Mention	8,136	5%	407
Substandard	14,776	20%	2,955
Doubtful	8,153	50%	4,076
Loss	96,460	100%	96,460
ORE	8,711	20%	1,742
Excess AIR	2,508	25%	627
Total	373,265		108,613
Actual Reserves			32,352
Surplus (Shortfall)			(76,261)

IFCT			
at 1Q00 THB Mil.	Gross Amount	Reserve Percentage	Required Reserve
Loan Portfolio:			
Pass	107,938	1%	1,079
Special Mention	2,779	5%	139
Substandard	1,307	20%	261
Doubtful	1,282	50%	641
Loss	31,949	100%	31,949
ORE	2,210	20%	442
Excess AIR	4,895	25%	1,224
Total	152,360		35,735
Actual Reserves			10,212
Surplus (Shortfall)			(25,524)

Krung Thai Bank			
at 1Q00 THB Mil.	Gross Amount	Reserve Percentage	Required Reserve
Loan Portfolio:			
Pass	306,390	1%	3,064
Special Mention	19,578	5%	979
Substandard	29,745	20%	5,949
Doubtful	10,390	50%	5,195
Loss	598,710	100%	598,710
ORE	8,345	20%	1,669
Excess AIR	28,901	25%	7,225
Total	1,002,058		622,791
Actual Reserves			234,793
Surplus (Shortfall)			(387,998)

Krung Thai Bank (Post Recap)			
at 2Q00(E) THB Mil.	Gross Amount	Reserve Percentage	Required Reserve
Loan Portfolio:			
Pass	318,734	1%	3,187
Special Mention	19,382	5%	969
Substandard	29,447	20%	5,889
Doubtful	3,390	50%	1,695
Loss	68,710	100%	68,710
ORE	8,449	20%	1,690
Excess AIR	6,227	25%	1,557
Total	454,340		83,698
Actual Reserves			27,757
Surplus (Shortfall)			(55,940)

Siam Commercial Bank			
at 1Q00 THB Mil.	Gross Amount	Reserve Percentage	Required Reserve
Loan Portfolio:			
Pass	336,223	1%	3,362
Special Mention	19,975	5%	999
Substandard	30,494	20%	6,099
Doubtful	21,180	50%	10,590
Loss	82,872	100%	82,872
ORE	8,629	20%	1,726
Excess AIR	-	25%	-
Total	499,372		105,648
Actual Reserves			23,844
Surplus (Shortfall)			(81,804)

Thai Farmers Bank			
at 1Q00 THB Mil.	Gross Amount	Reserve Percentage	Required Reserve
Loan Portfolio:			
Pass	315,850	1%	3,158
Special Mention	14,792	5%	740
Substandard	19,381	20%	3,876
Doubtful	18,879	50%	9,440
Loss	157,793	100%	157,793
ORE	9,900	20%	1,980
Excess AIR	-	25%	-
Total	536,596		176,987
Actual Reserves			48,208
Surplus (Shortfall)			(128,779)

Thai Military Bank			
at 1Q00 THB Mil.	Gross Amount	Reserve Percentage	Required Reserve
Loan Portfolio:			
Pass	156,186	1%	1,562
Special Mention	22,000	5%	1,100
Substandard	29,400	20%	5,880
Doubtful	12,100	50%	6,050
Loss	81,600	100%	81,600
ORE	4,304	20%	861
Excess AIR	6,550	25%	1,637
Total	312,140		98,690
Actual Reserves			23,561
Surplus (Shortfall)			(75,129)

Source: Company reports; Lehman Brothers estimates.

Figure 10: Thai Way or The Highway
Actual and Projected Net Interest Margins

	Net Interest Margins																			
	1Q97	2Q97	3Q97	4Q97	1Q98	2Q98	3Q98	4Q98	1Q99	2Q99	3Q99	4Q99	1Q00	2Q00	3Q00	4Q00	1Q01	2Q01	3Q01	4Q01
Bangkok Bank	3.87%	3.91%	3.84%	3.54%	2.55%	0.75%	-0.59%	0.00%	-0.18%	0.37%	1.02%	1.47%	2.02%	2.16%	2.23%	2.24%	2.14%	2.23%	2.30%	2.27%
Bank of Ayudhya	3.15%	3.37%	3.86%	3.75%	1.53%	1.18%	0.49%	0.83%	0.65%	0.47%	0.61%	0.97%	1.80%	1.45%	1.70%	1.98%	1.88%	1.96%	2.03%	1.99%
IFCT	3.25%	3.05%	1.71%	3.92%	1.55%	1.31%	-0.09%	-0.56%	-1.36%	-1.21%	-1.11%	-1.19%	-0.96%	-0.39%	-0.33%	-0.23%	0.09%	0.72%	0.85%	1.02%
Krung Thai Bank	3.65%	4.33%	4.21%	3.44%	3.07%	2.13%	1.05%	0.38%	0.20%	0.45%	0.57%	1.18%	1.25%	1.76%	1.88%	1.73%	1.69%	1.62%	1.54%	1.35%
Siam Commercial Bank	4.01%	4.23%	4.48%	4.45%	2.82%	3.73%	0.44%	-0.46%	1.00%	1.25%	1.69%	1.97%	2.22%	2.33%	2.42%	2.33%	2.45%	2.50%	2.47%	2.53%
Thai Farmers Bank	4.35%	4.18%	4.31%	3.64%	3.10%	2.27%	0.79%	0.91%	1.21%	0.87%	1.34%	1.95%	2.13%	2.14%	2.22%	2.32%	2.42%	2.53%	2.63%	
Thai Military Bank	3.00%	3.38%	2.92%	1.33%	1.43%	1.19%	0.28%	0.27%	0.00%	2.30%	0.79%	0.51%	0.39%	0.65%	0.75%	1.00%	1.10%	1.20%	1.30%	1.50%
Average	3.61%	3.78%	3.62%	3.44%	2.29%	1.79%	0.34%	0.19%	0.22%	0.64%	0.70%	0.98%	1.26%	1.44%	1.54%	1.61%	1.67%	1.81%	1.86%	1.90%

Source: Company Reports; Lehman Brothers estimates.

CAPITAL *Short Supply, High Demand*

All of our covered institutions are insolvent by a wide margin when international standards of loan loss provisioning are taken into account. The Thai banks will continue to require large amounts of additional capital over the next two years in order to cover losses which, by and large, truly occurred years ago. It is not clear why investors have been willing to throw good money after bad in these banks over the past three rounds of "final" recapitalization, but we are certainly suggesting that investors take a wait and see attitude when evaluating the Thai banks as a viable investment alternative.

Taking a leverage capital approach, we would expect the Thai banks to meet an extremely minimal standard of 5% leverage capital (capital/average total assets) and 4% Tier 1 leverage capital (Tier 1 capital/average total assets). While the sector meets this on a book basis, with the only real laggard being Bangkok Bank, as Thai Military's 1Q00 numbers do not reflect the recent completed share offering (we estimate 2Q00 capital ratios for TMB at 8.77%, 9.07%, -10.24%, and -10.53%, respectively), capital ratios after adjustment for underfunded reserves show a far more severe undercapitalization.

Figure 11: Thai Way or the Highway
Leverage Capital Ratios

	BBL	BAY	IFCT	KTB	SCB	TFB	TMB	Average
Without Reserve Adjustments								
Tier 1 Leverage Ratio	1.10%	4.37%	6.40%	8.40%	7.29%	3.75%	1.51%	4.69%
Leverage Ratio	2.01%	4.65%	6.81%	8.80%	7.79%	4.28%	1.82%	5.16%
Including Reserve Adjustments								
Tier 1 Leverage Ratio	-15.95%	-12.05%	-7.22%	-29.63%	-3.98%	-13.14%	-20.52%	-14.64%
Leverage Ratio	-16.86%	-12.33%	-7.63%	-30.03%	-4.48%	-13.66%	-20.83%	-15.12%

Source: Company reports; Lehman Brothers estimates.

We expect to see attempted share offerings from Bangkok Bank and Bank of Ayudhya before year-end, with additional capital required at the other banks (with the possible exception of SCB and IFCT) during FY2001. Given the current attitude of investors, it is difficult to assume that all banks would be able to access the required funding, and we foresee several failures among these attempted capital-raising.

EARNINGS *Continued Losses in 2000 and 2001*

Earnings continue to be poor, with our covered universe showing a collective loss in every period since 4Q97, and aggregate losses during this period of Bt530 billion. NPLs remain the problem, with foregone interest income on non-current loans and provisions against principal losses accounting for the vast majority of the difference between the Thai banks' theoretical earning power based on loan and deposit spreads versus the dismal actual performance.

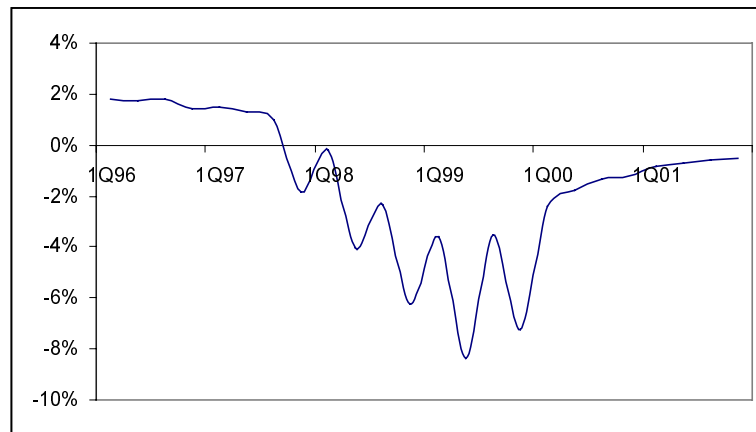
Figure 12: Thai Way or the Highway
Loan Loss Provisions

THB Mil.	Loan Loss Provisions							
	1997	1998	1999	2000	2001	4Q99A	1Q00A	2Q00E
Bangkok Bank	28,368	47,992	68,210	50,546	20,000	20,980	25,546	8,333
Bank of Ayudhya	7,085	4,606	15,661	11,942	12,000	614	2,942	3,000
IFCT	3,477	3,141	6,046	1,500	2,000	3,736	-	500
Krung Thai Bank	18,973	64,989	84,384	17,500	8,000	44,354	10,000	2,500
Siam Commercial Bank	11,597	12,611	43,285	8,013	7,000	(408)	2,013	2,000
Thai Farmers Bank	16,810	44,076	42,009	7,193	10,000	17,292	(307)	2,500
Thai Military Bank	3,505	9,864	9,110	12,600	10,000	2,230	2,300	5,000

Source: Company reports; Lehman Brothers estimates.

While we do expect continued heavy provisioning burdens, we anticipate that the pace of reported losses will slacken as banks meet and pass the BOT's loan loss reserve guidelines for year-end 2000. Due to the overwhelming size of reserve underfunding compared with earnings, however, we will not be focusing overmuch on the reported bottom line numbers.

Figure 13: Thai Way or the Highway
Core Return on Average Assets: Thai Bank Universe (1996-2001)



Source: Company reports; Lehman Brothers estimates.

Poor Downsizing Efforts

Thailand is seriously lagging behind its Asian counterparts in bank restructuring, particularly in organizational downsizing. In Thailand, it is considered poor business practice to lay employees off. Reducing the heavy overhead burden, in our opinion, is one of the many areas the sector critically needs to address, as it would enable the banks to free up some costs to take the necessary provisioning. While banks are downsizing somewhat, it is coming at a very high cost with their early retirement

schemes, which are prohibitive to a quick recovery. Krung Thai Bank reportedly looked into massive downsizing but found that it came under the State-Owned Enterprise Labor Law which prevents such a move. Further inhibiting recovery is the lack of in-market consolidation or the elimination of overcapacity in the market. This was a key ingredient to the U.S. bank recovery that we find would be very useful in expediting recovery in Thailand.

Figure 14: Thai Way or the Highway
Overhead and Efficiency Ratios

	Overhead Ratio						Efficiency Ratio					
	1997A	1998A	1999A	1Q00A	2000E	2001E	1997A	1998A	1999A	1Q00A	2000E	2001E
Bangkok Bank	2.16%	2.44%	1.91%	1.96%	1.88%	1.87%	40.3%	105.2%	72.9%	62.1%	57.4%	59.2%
Bank of Ayudhya	2.41%	2.27%	2.40%	2.64%	2.63%	2.66%	50.3%	186.1%	195.2%	117.6%	108.5%	87.8%
IFCT	0.91%	0.37%	0.33%	0.32%	0.36%	0.40%	27.9%	-74.8%	-43.8%	-165.0%	110.5%	25.4%
Krung Thai Bank	2.07%	2.11%	2.17%	1.70%	1.73%	1.79%	42.9%	82.1%	153.0%	81.5%	73.1%	80.6%
Siam Commercial Bank	2.83%	2.78%	2.52%	2.08%	2.10%	2.05%	47.1%	168.8%	67.4%	49.2%	54.0%	52.9%
Thai Farmers Bank	2.52%	2.60%	2.46%	2.98%	2.96%	2.92%	47.9%	89.4%	127.5%	94.0%	93.5%	84.7%
Thai Military Bank	2.04%	1.93%	1.95%	1.92%	1.52%	0.79%	55.0%	173.7%	160.2%	127.8%	86.8%	34.6%
Average	2.13%	2.07%	1.96%	1.94%	1.88%	1.78%	44.47%	104.36%	104.64%	52.46%	83.40%	60.75%

Source: Company reports; Lehman Brothers estimates.

COMPETITION

Market Share

The Thai banking market remains highly concentrated, with the top four banks collectively controlling 65% of assets, loans, and deposits. This percentage has increased in recent years due mainly to the growing balance sheet of Krung Thai, which has absorbed assets of Bangkok Bank of Commerce and First Bangkok City Bank during this time, offsetting a steady decline in Bangkok Bank's share of the market, which has fallen from 24.51% in 1997 to 20.90% currently – a decline in share of over 14%. Other large share losers include Thai Military (14.1%) and Bank of Ayudhya (8.2%). Share winners, aside from KTB (28.9%), have been Bank Thai (212.1%), Radanasin (8.7%), Bank of Asia (2.26%), and Siam Commercial (0.6%).

Figure 15: Thai Way or the Highway
Comparative Market Share

THB Mil. at 3/31/00	Total			Market Share		
	Assets	Loans	Deposits	Assets	Loans	Deposits
Bangkok Bank	1,162,180	922,826	963,768	20.90%	20.98%	21.00%
Krung Thai Bank	986,810	924,357	808,116	17.75%	21.01%	17.61%
Thai Farmers Bank	746,032	521,437	618,713	13.42%	11.85%	13.48%
Siam Commercial Bank	698,022	487,158	575,614	12.55%	11.07%	12.54%
Bank of Ayudhya	438,741	362,045	363,336	7.89%	8.23%	7.92%
Thai Military Bank	323,084	291,098	256,486	5.81%	6.62%	5.59%
Siam City Bank	259,851	192,897	220,175	4.67%	4.38%	4.80%
Bank Thai	234,179	156,817	174,434	4.21%	3.56%	3.80%
IFCT	174,357	138,628	157,191	3.14%	3.15%	3.43%
Bangkok Metropolitan Bank	159,933	126,484	159,639	2.88%	2.87%	3.48%
Bank of Asia	156,585	109,298	125,491	2.82%	2.48%	2.73%
DBS Thai Danu Bank	101,230	80,972	78,164	1.82%	1.84%	1.70%
Standard Chartered Nakornthon Bank	65,756	50,506	44,547	1.18%	1.15%	0.97%
UOB Radanasin	53,721	35,109	43,798	0.97%	0.80%	0.95%
Total	5,560,481	4,399,631	4,589,470	100.00%	100.00%	100.00%

Source: Company reports; Stock Exchange of Thailand; Lehman Brothers estimates.

Branch Networks

Most banks' branches are heavily concentrated in the Metro Bangkok area and Central Thailand, with an average of 57% of the top four institutions' offices so located, and the remainder spread across the country, with an emphasis on the North and Northeast regions. Bangkok in particular is overbanked, with inefficient

branches located too close to each other. Six banks have over 100 branches in Bangkok alone, with Thai Farmers operating the most at 158. By comparison, Citibank operates only 109 branches in New York City. The experience of Radanasin and Thai Danu seems to indicate that fewer branches are needed to provide adequate coverage of the city.

Figure 16: Thai Way or the Highway
Comparative Branch Networks

	Bangkok Branches	Total Branches
Krung Thai Bank	150	643
Thai Farmers Bank	158	533
Bangkok Bank	128	526
Siam Commercial Bank	148	496
Bank of Ayudhya	134	418
Thai Military Bank	111	361
Siam City Bank	64	211
Bangkok Metropolitan Bank	65	177
Bank of Asia	64	121
Bank Thai	45	116
DBS Thai Danu Bank	43	95
UOB Radanasin Bank	31	68
Standard Chartered Nakornthon Bank	38	67

Source: Company reports; Bank of Thailand; Lehman Brothers estimates.

Branch and Staff Productivity

As you would expect from our ranking of the quality of their respective franchises, BBL, SCB, and TFB finish in the top tier when looking at per-branch and per-employee measures of productivity (as does IFCT with a surprisingly strong performance, even given its lack of deposit-taking operations and distinctly different clientele), while TMB and BAY lag.

Figure 17: Thai Way or the Highway
Branch and Staff Productivity

	BBL	BAY	IFCT	KTB	SCB	TFB	TMB	Average
Branches	526	418	27	643	496	533	361	429
Staff	20,434	9,988	952	18,392	10,469	13,338	7561	11,591
Assets/Branch	2,246.6	1,068.3	6,367.2	1,547.2	1,395.3	1,375.5	928.0	2,132.6
Deposits/Branch	1,827.9	864.1	5,665.9	1,247.4	1,146.2	1,141.8	719.8	1,801.9
Assets/Staff	57.8	44.7	180.6	54.1	66.1	55.0	44.3	71.8
Deposits/Staff	47.1	36.2	160.7	43.6	54.3	45.6	34.4	60.3

Source: Company reports; Bank of Thailand; Lehman Brothers estimates.

VALUATION ***Book Value and Adjusted Book Value***

In order to compare Thai banks with the rest of our universe of Asian institutions, we have made a number of standard adjustments to the reported financial statements for valuation purposes.

Property Revaluation

First, we have deducted real estate revaluations from book value to arrive at adjusted book value. This account is not properly included in our calculation of adjusted book value for a number of reasons.

- **Inferior Protection Against Losses.** In the case of revaluation increment on bank property, such as branches and offices, actually used within the business, as opposed to that held for investment, the gain can not be realized without selling the property. However, this action is inconsistent with the valuation of the entity as an ongoing business, as the property is necessary to the conduct of business. Therefore, this capital is available only under a liquidation scenario. We bear in mind that scenarios under which banks are required to liquidate assets and capital in order to pay out liabilities are closely correlated with scenarios under which the value and ready liquidity of real estate can be expected to fall, due to general economic depression, panic selling, and unavailability of credit to finance the purchase of property. Therefore, real estate revaluation is available to serve as capital only so long as it is not needed, and so is less valuable than other forms of capital.
- **Subjective Timing.** Real estate is generally written-up at a time (and using a method) of management's choosing, and is rarely, if ever, written down. In addition, management frequently has wide discretion to select appraisers, and can "cherry-pick" appreciated properties from a portfolio that may have an aggregate loss.
- **Included in Enterprise Value.** The value contributed to the bank by its property is already subsumed within our estimate of the value of the bank's branch network, customer relationships, and deposit franchise. This estimate of continuing enterprise value is the key factor that typically produces a "multiple effect" on bank valuations, causing them to trade at above book value. In this case, it would be double-counting that value to include property revaluation in our overall assessment of value.
- **Cross-Market Comparisons.** Many jurisdictions, including the U.S. and Singapore, do not permit the use of property revaluation on the balance sheet, while others including Hong Kong, Indonesia, and the Philippines do. Therefore, for purposes of comparability, we always include revaluation in our estimates and calculations of book value, grossing up reported book with revaluation if not reported as such within a particular jurisdiction, and we always subtract revaluation from our calculation of adjusted book value.

Loan Loss Reserves

Secondly, we have deducted loan loss reserve underfunding from adjusted book value to arrive at fully adjusted book value, which is negative for all of our covered Thai banks. This allows us to compare institutions within the market and across markets based on their underlying economics, and not on the timing of provisions or loss recognition, which is highly variable at management's discretion. As fully adjusted book is negative and thus a price-to-fully adjusted book measure not meaningful, we have presented only price-to-book and price-to-adjusted book throughout this report.

Figure 18: Thai Way or the Highway
Valuation Summary

	Foreign Shr. Rating	Market Price			Mkt. Cap. (THB. Mil.)	Price-to-Earnings Ratio						1999 Div. Yield	Price to BV (%)	Price to ABV (%)
		6/6/00	52-Wk High	52-Wk Low		1996A	1997A	1998A	1999A	2000E	2001E			
Bangkok Bank	4	55.00	145.00	41.00	80,657	11.97	29.81	NM	NM	NM	NM	0.0%	343%	624%
Bank of Ayudhya	4	7.70	28.25	6.70	14,248	5.44	4.97	NM	NM	NM	NM	0.0%	69%	74%
IFCT	3	9.90	33.00	8.60	11,500	12.79	2.19	NM	NM	NM	NM	0.0%	97%	104%
Krung Thai Bank	5	13.75	29.75	11.00	302,218	7.11	70.40	NM	NM	3.14	NM	0.0%	347%	363%
Siam Commercial Bank	3	26.00	57.50	21.25	81,380	7.40	6.56	NM	NM	26.71	17.81	0.0%	150%	161%
Thai Farmers Bank	3	35.25	80.81	26.50	102,221	10.79	87.51	NM	NM	NM	NM	0.0%	323%	369%
Thai Military Bank	4	6.60	28.03	6.00	26,419	10.34	7.26	NM	NM	NM	NM	0.0%	112%	135%
Average					88,378	9.41	29.81	NM	NM	NM	NM	0.0%	206%	261%

Source: Company Reports; Lehman Brothers estimates.

Figure 19: Thai Way or the Highway
Book Value Adjustments

Bangkok Bank					Bank of Ayudhya				
	THB Mil.	% of Capital	Per Share	Price to:		THB Mil.	% of Capital	Per Share	Price to:
Stated Book Value	23,517	100%	16.04	3.43	Stated Book Value	20,566	100%	11.11	0.69
Less: Property Revaluation	(10,599)	-45%	(7.23)		Less: Property Revaluation	(1,244)	-6%	(0.67)	
Adjusted Book Value	12,918	55%	8.81	6.24	Adjusted Book Value	19,321	94%	10.44	0.74
Less: Reserve Shortfall	(210,485)	-895%	(143.53)		Less: Reserve Shortfall	(73,892)	-359%	(39.93)	
Fully Adjusted Book Value	(197,567)	-840%	(134.72)	(0.41)	Fully Adjusted Book Value	(54,570)	-265%	(29.49)	(0.26)

IFCT					Krung Thai Bank				
	THB Mil.	% of Capital	Per Share	Price to:		THB Mil.	% of Capital	Per Share	Price to:
Stated Book Value	11,797	100%	10.16	0.97	Stated Book Value	87,218	100%	3.97	3.47
Less: Property Revaluation	(712)	-6%	(0.61)		Less: Property Revaluation	(4,030)	-5%	(0.18)	
Adjusted Book Value	11,084	94%	9.54	1.04	Adjusted Book Value	83,188	95%	3.78	3.63
Less: Reserve Shortfall	(24,300)	-206%	(20.92)		Less: Reserve Shortfall	(380,773)	-437%	(17.32)	
Fully Adjusted Book Value	(13,216)	-112%	(11.38)	(0.87)	Fully Adjusted Book Value	(297,586)	-341%	(13.54)	(1.02)

Siam Commercial Bank					Thai Farmers Bank				
	THB Mil.	% of Capital	Per Share	Price to:		THB Mil.	% of Capital	Per Share	Price to:
Stated Book Value	54,124	100%	17.29	1.50	Stated Book Value	31,618	100%	10.90	3.23
Less: Property Revaluation	(3,488)	-6%	(1.11)		Less: Property Revaluation	(3,889)	-12%	(1.34)	
Adjusted Book Value	50,636	94%	16.18	1.61	Adjusted Book Value	27,729	88%	9.56	3.69
Less: Reserve Shortfall	(81,804)	-151%	(26.14)		Less: Reserve Shortfall	(128,779)	-407%	(44.41)	
Fully Adjusted Book Value	(31,167)	-58%	(9.96)	(2.61)	Fully Adjusted Book Value	(101,051)	-320%	(34.85)	(1.01)

Thai Military Bank				
	THB Mil.	% of Capital	Per Share	Price to:
Stated Book Value	5,973	100%	5.89	1.12
Less: Property Revaluation	(1,006)	-17%	(0.99)	
Adjusted Book Value	4,967	83%	4.89	1.35
Less: Reserve Shortfall	(73,492)	-1230%	(72.42)	
Fully Adjusted Book Value	(68,525)	-1147%	(67.52)	(0.10)

Source: Company Reports; Lehman Brothers estimates.

Valuation on Premium Basis

With our normal value touchstones in distressed markets – price-to-book and price-to-adjusted book – rendered less-than-accurate by the dominating effect of reserve underfunding, we have begun to compare the banks from a deposit premium standpoint.

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, this valuation methodology confirms our view that the Thai market should still be avoided on valuation terms, with an average deposit premium of 31.8% standing out as rich compared with less-distressed markets. This despite an average price decline of 47% in Thai bank share prices year-to-date.

Figure 20: Thai Way or the Highway
Deposit Premium Valuation Calculations

	at 3/31/00 THB (Mil.)	Share Price 6/6/00	Market Cap.	Adjusted Equity	Mkt. Cap. Less Adj. Equity	Total Deposits	Deposit Premium
Bangkok Bank		55.00	80,657	(197,567)	278,224	963,768	28.87%
Bank of Ayudhya		7.70	14,248	(56,940)	71,187	363,336	19.59%
IFCT		9.90	11,500	(14,440)	25,940	157,191	16.50%
Krung Thai Bank		13.75	302,294	(304,811)	607,104	808,116	75.13%
Siam Commercial Bank		26.00	81,380	(31,167)	112,547	575,614	19.55%
Thai Farmers Bank		35.25	102,221	(101,051)	203,272	618,713	32.85%
Thai Military Bank		6.60	6,698	(70,162)	76,860	256,486	29.97%
Average			85,571				31.78%

Source: Company Reports; Lehman Brothers estimates.



BANK OF AYUDHYA (BT7.50) 4-UNDERPERFORM

KEY POINTS

- Bank of Ayudhya (BAY) reported losses of Bt2.7 million in the first quarter of 2000, its tenth consecutive quarterly loss.
- BAY is insolvent by a significant margin, with further losses expected throughout the next seven quarters and beyond.
- BAY does not have a reasonable chance of survival as an independent entity, barring major government assistance to bail out the bank's shattered balance sheet. In any conventional banking system, BAY would long ago have been closed.

INVESTMENT CASE

Pending Capital Raising: Bank of Ayudhya (BAY) officials have received shareholder approval to raise additional capital, for the stated reason of improving the bank's ability to expand over the next three to five years, with management emphatically denying that the institution requires additional capital to meet loan losses. As at other similarly-situated Thai institutions, management is attempting to deny or conceal the obvious – that the bank is in immediate need of substantial additional equity simply to cover loan losses already incurred, regardless of any hypothetical future expansion.

Given an issue of the maximum number of new shares (3.7 billion), plus conversion of all 1.7 billion approved warrants into shares at the current market price, BAY would raise only Bt47.5 billion – a substantial sum, but one not sufficient to cover the easily identifiable current provisioning needs of Bt73.9 billion. Credit card partner GE Capital recently disclaimed any intent to invest in BAY, leaving us to wonder why existing shareholders would participate in any forthcoming offering.

Asset Quality: Losses came on provisions of Bt2.9 billion, meaning that the bank was marginally profitable on an operating basis. However, the increased provisions barely managed to keep pace with NPLs, which actually rose during the quarter, from 34.7% to 35.2%. In addition, accrued interest receivable remains unacceptably high at 1.94% of total loans, indicating that income is still being booked although not actually paid. Finally, the continuing practice of booking unmarketable and non-yielding equity as part of the performing loan book illustrates the difficulty, even three years on, of getting a true picture of what is going on inside a Thai bank.

Reserve Adequacy: Based on our reserve adequacy calculation, BAY needs current reserves of Bt106 billion, as against actual reserves of Bt32 billion, approximately 30% coverage of reserve needs. This assumes of course that the bank's internal system for assigning loan classifications is effective and accurate, hardly a conservative position. The shortfall amounts to 3.6x BAY's remaining equity capital, so that the true adjusted book value of the bank is strongly negative at this point. Even continuing to provide towards the Bank of Thailand's required reserve levels will soon exhaust BAY's entire capital, casting doubt on the institution's ability to continue operating.

End Game: BAY can continue to limp along forever, as long as the BOT pretends that the bank has capital. However, this company is economically dead today, with the only real hope for recovery lying in a government bailout. For the first time, we believe that this is a material possibility, but like other Thai restructuring efforts, a bailout is likely to prove too little, and much too late. We expect to see serious merger or sale discussions around BAY; however, it is likely that the result will be a larger bad bank rather than a healthier institution.

VALUATION

While BAY is trading at 67% of stated book value, its adjusted book value is negative given the low level of reserves, so that a price-to-book ratio is not overly meaningful.

BANK OF AYUDHYA

Unless otherwise indicated, information is as of 08/06/00.

Share Price:	7.50	Index:	340.83	Reuters Code:	BAY.BK
52-Week Price Range:	6.70-28.75	Current Yield:	0.0%	Bloomberg Code:	BAY TB

EARNINGS ESTIMATES

THB, Millions	1997	1998	1999	2000	2001
Net interest inc.	14,835	4,616	3,012	7,168	8,537
Non-interest inc.	4,905	837	2,341	2,122	2,232
Total income	19,740	5,452	5,353	9,290	10,769
Expenses	9,928	10,149	10,447	10,940	11,571
Pre-provision profit	9,811	(4,697)	(5,094)	(1,650)	(802)
Bad debt charge	7,085	4,606	15,661	11,942	12,000
Non-operating inc.	-	-	-	(644)	-
Pre-tax income	2,727	(9,302)	(20,755)	(13,592)	(12,802)
Net profit	1,962	(9,575)	(20,760)	(12,443)	(11,522)
EPS	3.93	(18.60)	(11.22)	(6.72)	(6.23)
%					
Net interest margin	3.61%	1.03%	0.69%	1.73%	1.97%
% non-interest inc.	24.85%	15.35%	43.73%	22.84%	20.73%
Cost to income	50.30%	186.15%	195.17%	117.76%	107.45%
Overhead ratio	2.41%	2.27%	2.40%	2.63%	2.66%
Cost coverage	1.99	0.54	0.51	0.85	0.93
ROA	0.43%	-1.96%	-4.46%	-2.76%	-2.47%
ROE	7.30%	-37.90%	-87.83%	-79.59%	-301.10%
OROA	0.95%	-2.00%	-4.68%	-3.02%	-2.69%
OROE	17.92%	-36.00%	-91.08%	-126.95%	1867.14%
PER	4.97	(0.60)	(0.67)	(1.12)	(1.20)
APER	5.09	(0.59)	(0.66)	(1.11)	(1.20)
DPS	4.50	-	-	-	-
Yield %	23.1%	0.0%	0.0%	0.0%	0.0%

BALANCE SHEET FORECASTS

THB, Millions	1997	1998	1999	2000	2001
Loans	406,568	366,247	361,340	373,473	396,391
Other earning assets	25,701	97,617	45,832	50,027	48,684
Non-earning assets	61,574	19,734	39,360	31,901	33,526
Total Assets	493,843	483,598	446,532	455,400	478,601
Deposits	389,083	403,896	361,178	368,813	387,602
Other paying liabilities	NA	NA	55,056	48,097	50,548
Shareholders' funds	26,209	26,875	22,929	11,589	2,237
Minorities & others	NA	NA	NA	NA	NA
Total Liabilities	467,634	456,723	423,603	443,811	476,364
%					
Equity to assets	5.31%	5.56%	5.13%	2.54%	0.47%
Adj. E to assets	5.05%	5.29%	4.86%	2.27%	0.21%
NPL	13.67%	37.93%	34.65%	25.98%	13.48%
Provisions/NPL	19.73%	11.18%	24.02%	27.24%	32.51%
Loan growth	15.0%	-9.9%	-1.3%	3.4%	6.1%
Asset growth	19.0%	-2.1%	-7.7%	2.0%	5.1%
Deposit growth	14.4%	3.8%	-10.6%	2.1%	5.1%
BVPS	52.45	52.19	12.39	6.26	1.21
ABVPS	49.90	49.71	11.72	5.59	0.54
Price / BVPS	0.37	0.22	0.61	1.20	6.20
Price / ABVPS	0.39	0.23	0.64	1.34	13.98

MARKET DATA

Common Shares Out.	1,850
Market Value	13,877
ADRs/GDRs	n/a
Ordinary Share per ADR/GDR	n/a
3-Month Daily Avg. Vol.	7.2 m shares

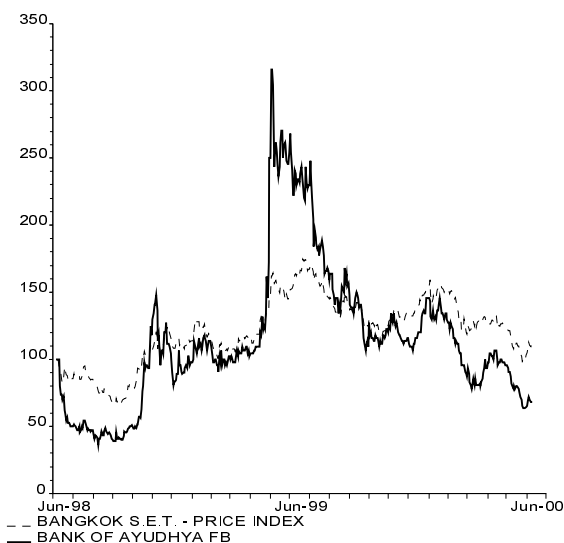
COMPANY DESCRIPTION

The Bank of Ayudhya is Thailand's fifth largest bank, owned in part by the Ratanarat family — one of Thailand's wealthiest and most respected families.

SHARE OWNERSHIP (MARCH 2000)

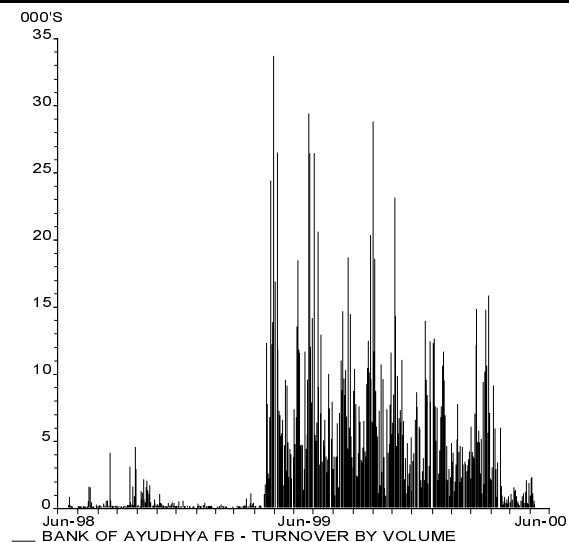
Ratanarat Family	13.1%
BBTV Asset Management Co. Ltd.	5.0%
Bangkok Broadcasting & TV	5.0%
BBTV Equity Co., Ltd.	5.0%
Ayudhya Insurance Plc.	3.7%

SHARE PRICE CHART



Source: Datastream.

TURNOVER CHART



Source: Datastream.



BANGKOK BANK (BT54.50) 4-UNDERPERFORM

KEY POINTS

- Bangkok Bank (BBL) is Thailand's largest publicly-owned commercial bank, and has historically been perceived as the country's leading financial institution. For this reason, we find it unlikely that the bank will be allowed to fail, particularly as it has been able to make full provisions under the Bank of Thailand (BOT) standards for year-end 2001.
- However, the bank is weaker than many of its large competitors, and unattractive from a valuation standpoint, even though it may be permitted to operate indefinitely from an insolvent position. Losses continue to stem from extraordinary loan loss provisions necessary to cover impaired and non-performing loans.
- While net interest income has shown substantial improvement in both 4Q99 and 1Q00, BBL remains, as do all of the Thai banks, substantially and materially under-reserved for loan losses, even as its evanescent capital base continues to melt away.

INVESTMENT CASE

Capital Remains Weak: BBL has been able to take provisions due to an issuance last year of Bt46 billion of capital in the form of Capital Augmented Preferred Securities (CAPS). However, book equity continues to fall, now totaling a meager 2.0% of assets. As almost 50% of this remaining equity is property revaluation, BBL's capital base is now largely theoretical. BBL will be forced to seek additional capital during FY2000, probably early in the third quarter.

Asset Quality: BBL is aggressively restructuring NPLs, having restored Bt103 billion in NPLs to performing status during FY1999. This has allowed the bank to cut its NPLs from a peak of 58.0% of loans in 2Q99 to 49.1% currently – second highest in the sector behind Krung Thai. However, many of the restructuring tactics used by the Thai banks are dubious at best, and NPLs remain unacceptably high by any standard. BBL's weighted classification ratio of 43.1% is the highest of Thailand's non government-owned banks, as is its proportion of loss loans within the criticized asset book, at 87.1%.

We also note that Special Mention loans (the least severe category of criticized assets) have increased in each of the past three quarters, which could be a precursor to another wave of serious loan defaults. Rising interest rates will also have a negative effect on marginal borrowers.

Reserve Adequacy: Despite provisions of Bt61 billion over the last three quarters, BBL has reserved against only 48% of its known losses by our methodology, although the bank has reached 100% of the BOT's extremely minimal base requirement for year-end 2000. However, the remaining shortfall of Bt210 billion under our more realistic outlook equals 9.0x BBL's entire remaining capital, leaving the bank strongly insolvent on an economic, if not a book, basis.

VALUATION

Given BBL's market cap of Bt80 billion (based on the foreign share), and its adjusted equity deficiency of Bt198 billion, investors are valuing BBL's franchise at a premium of 28.8% on deposits, an unsustainable level. On a price to reported book basis, BBL is trading at 3.4x book and 6.2x adjusted book (before reserve adjustments), the highest level in the sector.

We are maintaining our ratings of 3-Neutral on the local shares, and 4-Underperform on the foreign shares, based not only on continued losses and low capital levels, but on the unwarranted 60% foreign share premium. BBL is the only major Thai bank to maintain a significant foreign premium, and we expect that this will be corrected in the near term as the bank is forced to seek additional funds.

BANGKOK BANK

Unless otherwise indicated, information is as of 08/06/00.

Share Price:	54.50	Index:	340.83	Reuters Code:	BBL.BK
52-Week Price Range:	41.00-145.00	Current Yield:	0.0%	Bloomberg Code:	BBL TB

EARNINGS ESTIMATES

THB, Millions	1997	1998	1999	2000	2001
Net interest inc.	45,424	8,847	7,849	23,881	25,496
Non-interest inc.	16,263	20,127	23,118	12,247	10,576
Total income	61,687	28,974	30,967	36,128	36,072
Expenses	24,836	30,472	22,585	20,746	21,363
Pre-provision profit	36,852	(1,498)	8,382	15,382	14,709
Bad debt charge	28,368	47,992	68,210	50,546	20,000
Non-operating inc.	-	-	1	0	-
Pre-tax income	8,484	(49,489)	(59,829)	(35,164)	(5,291)
Net profit	4,034	(49,489)	(59,829)	(35,164)	(5,291)
EPS	4.03	(37.64)	(40.80)	(23.98)	(3.61)
%					
Net interest margin	3.95%	0.71%	0.66%	2.17%	2.24%
% non-interest inc.	26.36%	69.47%	74.65%	33.90%	29.32%
Cost to income	40.26%	105.17%	72.93%	57.42%	59.22%
Overhead ratio	2.16%	2.44%	1.91%	1.88%	1.87%
Cost coverage	2.48	0.95	1.37	1.74	1.69
ROA	0.31%	-3.70%	-4.89%	-2.96%	-0.43%
ROE	4.23%	-53.64%	-95.02%	-202.20%	217.98%
OROA	1.19%	-3.91%	-5.06%	-2.85%	-0.29%
OROE	16.21%	-48.94%	-132.18%	-319.12%	-68.01%
PER	29.81	(1.77)	(1.34)	(2.27)	(15.11)
APER	21.37	(1.32)	(1.12)	(2.27)	(15.11)
DPS	5.00	-	-	-	-
Yield %	4.2%	0.0%	0.0%	0.0%	0.0%

BALANCE SHEET FORECASTS

THB, Millions	1997	1998	1999	2000	2001
Loans	1,074,396	952,546	926,490	936,738	979,608
Other earning assets	149,453	325,273	163,090	178,280	186,439
Non-earning assets	184,770	(10,870)	92,106	75,385	102,998
Total Assets	1,408,619	1,266,949	1,181,685	1,190,402	1,269,045
Deposits	946,548	969,780	961,459	992,971	1,033,289
Other paying liabilities	NA	165,819	150,063	148,946	154,993
Shareholders' funds	103,294	101,168	45,273	10,634	5,343
Minorities & others	NA	NA	NA	NA	NA
Total Liabilities	1,305,325	1,165,781	1,136,412	1,179,769	1,263,702
%					
Equity to assets	7.33%	7.99%	3.83%	0.89%	0.42%
Adj. E to assets	6.62%	7.21%	2.93%	0.01%	-0.39%
CAR	0.00%	0.00%	11.64%	0.00%	0.00%
NPL	17.33%	49.00%	52.47%	42.68%	35.17%
Provisions/NPL	31.11%	21.87%	35.06%	48.08%	53.44%
Loan growth	9.3%	-11.3%	-2.7%	1.1%	4.6%
Asset growth	21.9%	-10.1%	-6.7%	0.7%	6.6%
Deposit growth	12.2%	2.5%	-0.9%	3.3%	4.1%
BVPS	103.08	76.95	30.87	7.25	3.64
ABVPS	93.03	69.43	23.62	0.10	(3.41)
Price / BVPS	1.16	0.86	1.77	7.52	14.96
Price / ABVPS	1.29	0.96	2.31	550.62	(15.99)

MARKET DATA

Common Shares Out.	1,466m
Market Value	Bt79,924m
ADR/GDRs	n/a
Ordinary Share per ADR/GDR	n/a
3-Month Daily Avg.Vol.	2.5 m shares

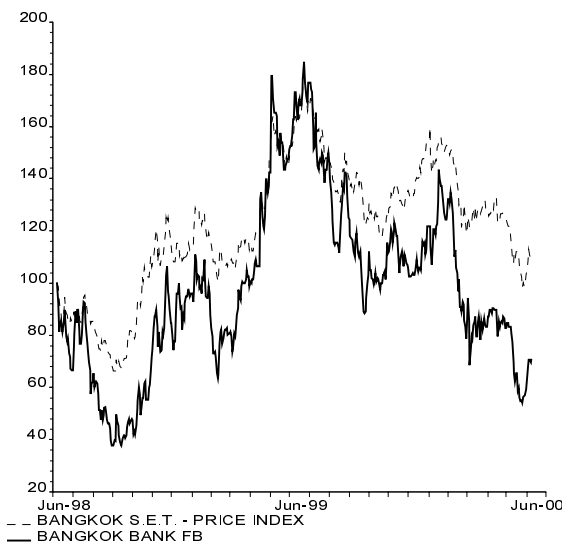
COMPANY DESCRIPTION

Bangkok Bank is the largest bank in Thailand with a market share of more than 20% and a branch network of more than 500 across all provinces. In addition, it has a presence in 15 countries.

SHARE OWNERSHIP (MARCH 2000)

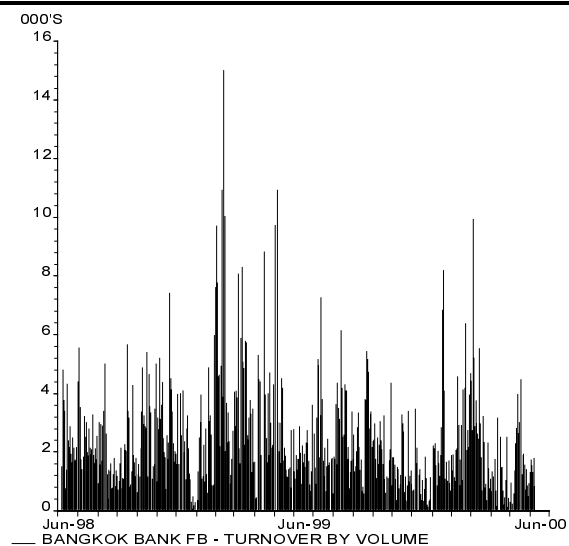
Sophonpanich Family	17.9%
Bangkok Insurance Plc.	3.8%
Ministry of Finance	3.4%
Mandalay Pioneer (Siam) Co. Ltd.	2.4%
Pipatsak Co. Ltd.	1.5%

SHARE PRICE CHART



Source: Datastream.

TURNOVER CHART



Source: Datastream.



INDUSTRIAL FINANCE CORP. OF THAILAND (BT10.00) 3-NEUTRAL

KEY POINTS

- Three to five years ago, we would have argued that a development bank such as IFCT had no clear role in an economy that was growing at double digit rates, but nevertheless IFCT has persevered and is in healthier shape than most commercial banks.
- While the bank, like all Thai banks in our universe, is insolvent if appropriate reserves for loan losses are applied, having made 100% of the BOT-mandated loan loss provision and with an implicit government guarantee IFCT does not appear to be in any near-term difficulty.

INVESTMENT CASE

Symbiotic Relationship With the Government: IFCT, under the Industrial Finance Corporation Act B.E 2502 of 1959, is entitled to certain benefits as a specialized financial institution, as follows:

Implied Government Guaranty. IFCT does not accept deposits and primarily funds itself through debentures and long-term bonds. While certain obligations are guaranteed by the Ministry of Finance (MOF), the overall government ownership position of IFCT implies a government guarantee even for external borrowings that are not explicitly backed, thus producing a lower cost of funds.

Concessional Lending. IFCT is a direct beneficiary of the government's channeling of concessional loans to specialized finance institutions that will alleviate the liquidity problems of the industrial and SME sectors. Borrowing rates from the government are, of course, below market. IFCT historically has been a recipient of concessional loans from foreign development banks, as well, including the World Bank, Asian Development Bank, the Export-Import (EX-IM) Bank of Japan, as well as various European development banks. In the past year, IFCT received Bt3.5 billion from the Overseas Economic Cooperation Fund of Japan, US\$25 million from the Netherlands Development Co. and US\$45 million from Kreditanstalt, a German development bank.

Special Tax Exemption. IFCT is not subject to corporate income tax and is exempt from paying business taxes and the stamp duty. This factor alone enables stronger earnings and ROEs compared to the banks.

Asset Quality: IFCT's asset quality is better than that of its peers, with NPLs representing 26.9% of total loans at 1Q00, versus 43% for the sector. The bank really excels relative to its commercial bank peers in its collateral coverage of loans, where management has been much more conservative in assessing appraised values, as well as in their maximum loan commitments to appraised values. Management will typically haircut collateral value by 40%-50% of appraised value, lending only 70%-80% of the adjusted value. In addition, IFCT has historically been a cash-flow based lender versus collateral-based lending by the commercial banks. With borrowers' assets difficult to repossess in Thailand, this has made a large difference in write-offs.

Reserve Adequacy: IFCT's total loan loss reserves of Bt10 billion are less than 30% of required reserves of Bt35 billion under our methodology. The deficiency amounts to 2.1x capital, making the bank economically insolvent, but lower than the commercial bank average of 5.3x. We anticipate that continued provisioning will keep IFCT unprofitable throughout FY2001.

VALUATION

IFCT has the lowest valuation in our Thai bank universe, although we still maintain only a 3-Neutral rating on the shares. IFCT currently trades at 0.98x reported book and 1.05x (pre-reserve) adjusted book value, with the overall franchise premium at only 16.58% of deposit equivalents.

INDUSTRIAL FINANCE CORP. OF THAILAND

Unless otherwise indicated, information is as of 08/06/00.

Share Price:	10.00	Index:	340.83	Reuters Code:	IFCT.BK
52-Week Price Range:	8.60-33.00	Current Yield:	0.0%	Bloomberg Code:	IFCT TB

EARNINGS ESTIMATES

THB, Millions	1997	1998	1999	2000	2001
Net interest inc.	5,177	1,107	(2,089)	(787)	1,161
Non-interest inc.	210	(1,996)	820	1,309	1,407
Total income	5,387	(889)	(1,269)	522	2,567
Expenses	1,502	665	556	576	653
Pre-provision profit	3,885	(1,553)	(1,825)	(55)	1,914
Bad debt charge	3,477	3,141	6,046	1,500	2,000
Non-operating inc.	(1,417)	-	37	8	20
Pre-tax income	408	(4,695)	(7,871)	(1,555)	(86)
Net profit	1,844	(4,695)	(7,908)	(1,562)	(106)
EPS	3.38	(8.62)	(6.81)	(1.35)	(0.09)
%					
Net interest margin	3.14%	0.62%	-1.24%	-0.49%	0.71%
% non-interest inc.	3.90%	224.57%	-64.57%	250.93%	54.79%
Cost to income	27.88%	-74.82%	-43.76%	110.49%	25.45%
Overhead ratio	0.91%	0.37%	0.33%	0.36%	0.40%
Cost coverage	3.59	(1.34)	(2.29)	0.91	3.93
ROA	0.98%	-2.40%	-4.43%	-0.89%	-0.06%
ROE	11.70%	-37.93%	-73.72%	-14.54%	-1.10%
OROA	0.68%	-2.57%	-4.60%	-0.87%	0.09%
OROE	8.95%	-46.14%	-63.46%	-14.97%	1.62%
PER	2.19	(1.67)	(1.47)	(7.43)	(109.08)
APER	1.92	(1.64)	(1.61)	(7.73)	(109.08)
DPS	2.25	-	-	-	-
Yield %	30.4%	0.0%	0.0%	0.0%	0.0%

BALANCE SHEET FORECASTS

THB, Millions	1997	1998	1999	2000	2001
Loans	155,260	131,719	135,972	141,411	147,068
Other earning assets	23,074	44,840	23,779	20,655	19,252
Non-earning assets	28,603	8,457	12,163	16,725	19,623
Total Assets	206,937	185,016	171,914	178,791	185,943
Deposits	186,743	170,766	152,978	155,273	159,155
Other paying liabilities	NA	NA	3,281	2,009	2,059
Shareholders' funds	15,682	10,318	12,468	10,429	10,322
Minorities & others	NA	NA	NA	NA	NA
Total Liabilities	191,255	174,698	159,447	168,362	175,620
%					
Equity to assets	7.58%	5.58%	7.25%	5.83%	5.55%
Adj. E to assets	7.27%	5.25%	6.83%	5.45%	5.19%
CAR	0.80%	0.91%	0.00%	0.00%	0.00%
NPL	0.44%	35.54%	36.09%	25.08%	20.34%
Provisions/NPL	350.14%	10.07%	20.89%	31.53%	41.63%
Loan growth	24.1%	-15.2%	3.2%	4.0%	4.0%
Asset growth	21.0%	-10.6%	-7.1%	4.0%	4.0%
Deposit growth	25.2%	-8.6%	-10.4%	1.5%	2.5%
BVPS	28.78	18.94	10.73	8.98	8.89
ABVPS	27.62	17.82	10.11	8.38	8.31
Price / BVPS	0.26	0.76	0.93	1.11	1.13
Price / ABVPS	0.27	0.81	0.99	1.19	1.20

MARKET DATA

Common Shares Out.	1,162m
Market Value	Bt11,616n
ADRs/GDRs	n/a
Ordinary Share per ADR/GDR	n/a
3-Month Daily Avg.Vol.	1.5 m shares

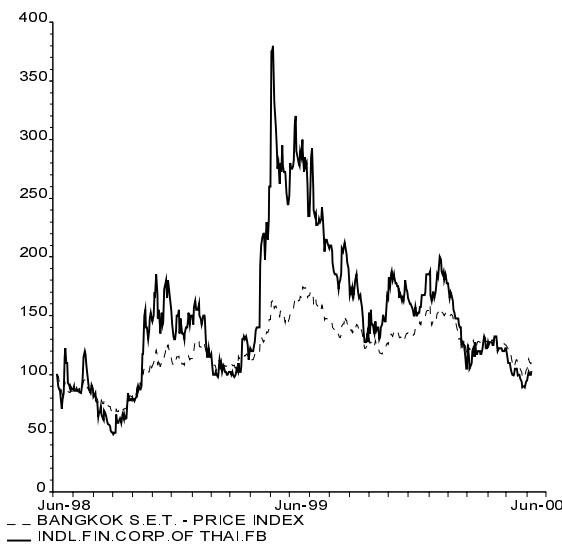
COMPANY DESCRIPTION

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.

SHARE OWNERSHIP (MARCH 2000)

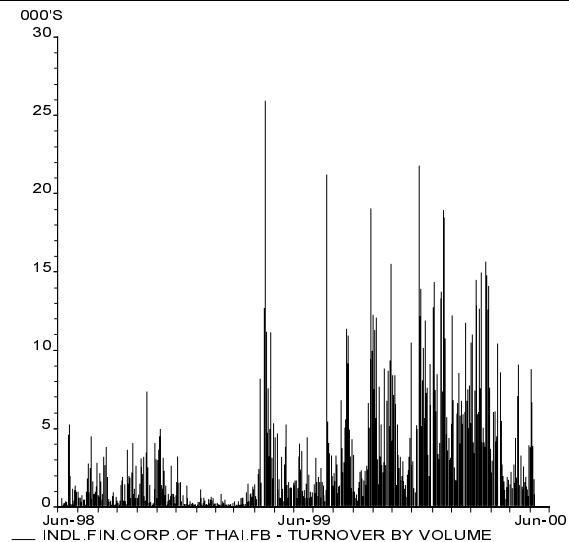
Ministry of Finance	21%
Government Savings Bank	14%
Krung Thai Bank	7%
Sakura Bank	5%

SHARE PRICE CHART



Source: Datastream.

TURNOVER CHART



Source: Datastream.



KRUNG THAI BANK (BT 13.25) 5-SELL

KEY POINTS

- As we have predicted for some time, the government has been forced to bail out Krung Thai, the country's most troubled bank, with additional funds. Through FIDF intervention, the government will purchase Bt537 billion in troubled loans, in return for interest-bearing government bonds.
- In addition, KTB will write-back a portion of reserves held against these bonds and use the resulting surplus to repurchase the government's preferred share stake in the bank.
- However, the residual institution will still have difficulty completing its transfers of bad assets and returning to normal operation, with its franchise seriously eroded.

INVESTMENT CASE

Asset Quality: Krung Thai had non-performing assets of Bt658 billion at 1Q00 (including loans of the former First Bangkok City Bank), amounting to 72% of gross loans. In addition, accrued interest receivables at KTB have been consistently high, as we first pointed out in our First Call Note: *Krung Thai Bank: Understated Losses*, dated July 27, 1999. AIR climbed steadily in every quarter from 1Q96 to 2Q99, from 1.5% of loans to 4.62%, and has backed off only slightly, to 4.38% currently. This abnormally high level of AIR is a warning signal that the bank may be booking income on its loans that has not been received, and that NPLs may be even higher than reported.

We expect book NPLs to decline sharply under the government purchase plan to Bt121 billion in 2Q00, or 30.2% of a much-reduced loan base. Under the plan, all loans delinquent for at least one year will be purchased by the Financial Institutions Development Fund, which will then set up an Asset Management Company (AMC) to manage these bad assets (please refer to our report: "ABCs of AMCs," dated March 7, 2000, for more information). In addition to KTB's own bad loans, the FIDF will also purchase all former assets of First Bangkok City Bank (BCB), which was forcibly merged into KTB in 1998.

Reserve Adequacy: Current reserves of Bt235 billion are grossly inadequate, with our estimate of required reserves now standing at Bt616 billion, implying a shortfall of Bt381 billion, or 4.4x remaining capital. The government purchase plan will lower NPLs, but will also result in the transfer of an estimated Bt209 billion of reserves associated with NPLs to the government, leaving post-recap coverage at 34% of required reserves and a continuing shortfall of Bt54 billion, or 63% of capital.

VALUATION

Based on current levels, KTB trades at 3.3x reported book value, a premium price for a highly distressed franchise. The bank's valuation premium to deposits is 73.77%, more than twice the level of any other Thai bank. We expect continued losses, as even leaving aside the issue of loss reserves Krung Thai has been unprofitable on an operating basis since 2Q98. Pending further details on the asset transfer program, we are maintaining our rating of 5-Sell and price target of Bt10.00.

KRUNG THAI BANK

Unless otherwise indicated, information is as of 08/06/00.

Share Price:	13.25	Index:	340.83	Reuters Code:	KTB.BK
52-Week Price Range:	11.25-29.75	Current Yield:	0.0%	Bloomberg Code:	KTB TB

EARNINGS ESTIMATES

THB, Millions	1997	1998	1999	2000	2001
Net interest inc.	28,104	12,723	6,026	14,905	13,347
Non-interest inc.	5,702	7,313	6,483	6,365	5,832
Total income	33,806	20,036	12,509	21,270	19,178
Expenses	14,493	16,447	19,145	15,555	15,450
Pre-provision profit	19,312	3,589	(6,636)	5,715	3,729
Provision	18,973	64,989	84,384	17,500	8,000
Non-operating inc.	-	-	-	108,000	-
Pre-tax income	339	(61,399)	(91,019)	(11,785)	(4,271)
Net profit	211	(61,585)	(91,022)	96,207	(4,271)
EPS	0.14	(16.91)	(4.14)	4.38	(0.19)
%					
Net interest margin	4.02%	1.63%	0.68%	1.65%	1.55%
% non-interest inc.	16.87%	36.50%	51.83%	29.92%	30.41%
Cost to income	42.87%	82.09%	153.05%	73.13%	80.56%
Overhead ratio	2.07%	2.11%	2.17%	1.73%	1.79%
Cost coverage	2.33	1.22	0.65	1.37	1.24
ROA	0.03%	-6.63%	-8.84%	9.93%	-0.46%
ROE	0.48%	-101.89%	-102.68%	107.79%	-5.45%
OROA	0.36%	-5.64%	-9.23%	-1.22%	-0.43%
OROE	6.29%	-71.97%	-89.89%	-13.63%	-4.98%
PER	70.40	(1.21)	(3.20)	3.03	(68.18)
APER	68.99	(1.20)	(3.20)	(24.70)	(68.18)
DPS	3.00	-	-	-	-
Yield %	30.0%	0.0%	0.0%	0.0%	0.0%

BALANCE SHEET FORECASTS

THB, Millions	1997	1998	1999	2000	2001
Loans	687,911	957,440	935,042	423,815	415,402
Other earning assets	36,454	(123,520)	(2,496)	446,484	437,621
Non-earning assets	66,727	231,481	62,274	72,767	71,322
Total Assets	791,091	1,065,402	994,819	943,066	924,346
Deposits	580,049	803,716	802,102	832,602	857,863
Other paying liabilities	NA	NA	72,839	73,035	75,251
Shareholders' funds	45,774	83,477	102,185	84,536	80,265
Minorities & others	NA	NA	NA	NA	NA
Total Liabilities	745,317	981,925	892,634	858,530	844,081
%					
Equity to assets	5.79%	7.84%	10.27%	8.96%	8.68%
Adj. E to assets	5.26%	7.44%	9.85%	8.54%	8.25%
CAR	0.00%	0.00%	0.00%	0.00%	0.00%
NPL	14.06%	50.15%	45.75%	29.15%	27.19%
Allowance/NPL	35.88%	29.56%	52.86%	25.66%	33.29%
Loan growth	11.7%	39.2%	-2.3%	-54.7%	-2.0%
Asset growth	10.5%	34.7%	-6.6%	-5.2%	-2.0%
Deposit growth	-0.3%	38.6%	-0.2%	3.8%	3.0%
BVPS	30.81	22.92	4.65	3.85	3.65
ABVPS	27.99	21.77	4.46	3.66	3.47
Price / BVPS	0.32	0.89	2.85	3.45	3.63
Price / ABVPS	0.36	0.94	2.97	3.62	3.82

MARKET DATA

Common Shares Out.	21,985
Market Value	291,228
ADRs/GDRs	n/a
Ordinary Share per ADR/GDR	n/a
3-Month Daily Avg.Vol.	7.1 m shares

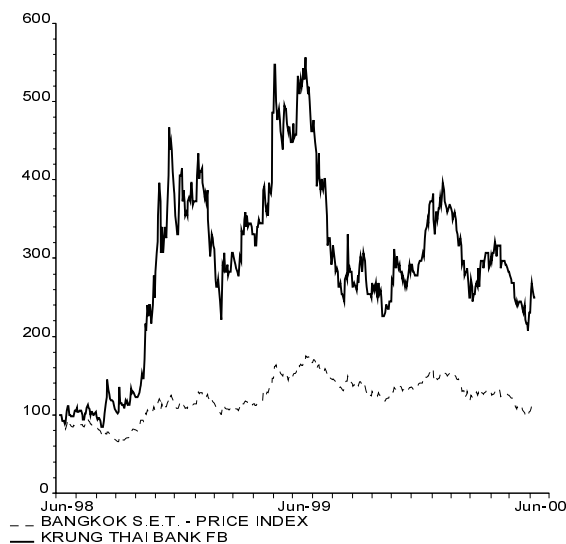
COMPANY DESCRIPTION

Krung Thai Bank is the second largest commercial bank in Thailand in terms of assets. It is majority owned by the Thai government.

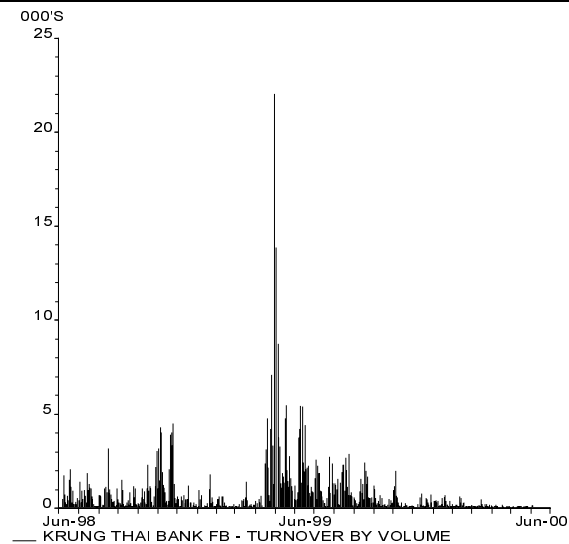
SHARE OWNERSHIP (MARCH 2000)

Financial Institutions Dev. Fund	59.1%
Ministry of Finance	11.9%
Government Savings Bank	2.5%

SHARE PRICE CHART



TURNOVER CHART



Source: Datastream.

Source: Datastream.



SIAM COMMERCIAL BANK (25.50) 3-NEUTRAL

KEY POINTS

- SCB appears to be the healthiest of the major Thai banks, as well as one of the most reasonably priced at this stage. While investors have been skeptical about the stock due to fears that SCB is more aggressive than the other banks in valuing collateral against its loans, our book adjustment and reserve adequacy calculations do not take into account collateral values, and yet still show that SCB is healthier than its top-tier peers.
- Having completed its last public offering and re-capitalization in mid-1999, SCB has sufficient capital at 7.8% of assets for operations, which it has bolstered with small profits in each of the last three quarters. SCB is under no immediate pressure to make additional provisions, as it meets the BOT standard, and should be able to manage the timing of further capital raisings accordingly.

INVESTMENT CASE

Asset Quality: SCB has made substantial progress in reducing NPLs, with total non-performing assets (non-performing loans plus foreclosed property) now standing at 33.5% of total loans, down from a peak of 43.9% in 4Q98. SCB has transferred Bt30 billion in troubled loans to a wholly-owned asset management company in order to accelerate restructuring and collection of the remaining NPLs.

Reserve Adequacy: SCB's ratio of actual reserve to our calculation of necessary allowance is the lowest in the sector, at only 23% coverage, implying a shortfall of Bt81 billion. While this does indeed seem to bear out the market's feeling that SCB has been optimistic when valuing collateral, the key point to focus on is that SCB's ability to address this shortfall is greater than that of any of its peers. Total shortfall is only 1.5x capital, considerably less than the sector average of 5.3x and that of the bank's large peers BBL (8.9x) and TFB (4.1x).

VALUATION

SCB common is now trading at 1.47x reported book, and at 26.2x and 17.5x our estimates of FY2000 and FY2001 earnings, respectively. Market premium to deposits is 19.28%, the lowest in the sector save for IFCT. However, we suggest that the preferred shares present investors with an opportunity to participate fully in SCB's upside at an attractive valuation discount, while offering substantial downside protection.

Preferred Dividend: The SCB preferred shares pay a dividend of 5.25% on the original issue price of Bt26.00; however, this dividend is only payable if SCB is a) profitable during the period; and b) does not have accumulated losses. The dividend is non-cumulative, so that the dividend for any period in which these conditions are not met is permanently lost. This dividend is payable through May of 2009, at which point the dividend becomes equivalent to the yield on regular common shares. SCB must pay preferred dividends in full before it can pay anything to common shareholders.

Discount to Conversion Option: Preferred shares may be converted 1-for-1 at the holder's option into common shares at the end of any quarter. At a price of Bt24.75, the preferred trades at an 2.9% discount to the common. As the preferred shares are directly convertible into common shares, and also have downside liquidation protection and potential superior yield, this discount is unwarranted. Factoring in the discounted present value of dividends, which we do not expect before 2004, the preferred is trading at a discount of 10.8% to theoretical value vis-à-vis the common.

Valuation as Common Shares: Based on conversion into common shares, SCB preferred (foreign) is trading at 1.4x book and a P/E multiple of 25.4x FY2000 and 17.0x FY2001 earnings. Based on the unwarranted discount and low valuation, we are maintaining our 1-Buy rating on the preferred and 3-Neutral on the common shares of SCB.

SIAM COMMERCIAL BANK

Unless otherwise indicated, information is as of 08/06/00.

Share Price:	25.50	Index:	340.83	Reuters Code:	SCB.BK
52-Week Price Range:	21.25-57.50	Current Yield:	0.0%	Bloomberg Code:	SCB TB

EARNINGS ESTIMATES

THB, Millions	1997	1998	1999	2000	2001
Net interest inc.	24,172	10,783	9,788	14,600	15,925
Non-interest inc.	7,636	(528)	14,333	9,657	8,841
Total income	31,808	10,255	24,121	24,257	24,766
Expenses	14,980	17,312	16,247	13,109	13,095
Pre-provision profit	16,829	(7,057)	7,874	11,148	11,672
Bad debt charge	11,597	12,611	43,285	8,013	7,000
Non-operating inc.	-	(356)	65	53	87
Pre-tax income	5,232	(19,668)	(35,411)	3,135	4,672
Net profit	3,194	(19,559)	(35,550)	3,047	4,571
EPS	8.39	(33.22)	(11.39)	0.97	1.46
%					
Net interest margin	4.57%	1.73%	1.52%	2.33%	2.49%
% non-interest inc.	24.01%	-5.15%	59.42%	39.81%	35.70%
Cost to income	47.09%	168.82%	67.36%	54.04%	52.87%
Overhead ratio	2.83%	2.78%	2.52%	2.10%	2.05%
Cost coverage	2.12	0.59	1.48	1.85	1.89
ROA	0.51%	-2.75%	-5.09%	0.44%	0.66%
ROE	8.50%	-53.85%	-83.92%	5.94%	8.36%
OROA	1.56%	-2.92%	-5.04%	0.62%	0.82%
OROE	26.86%	-54.14%	-64.88%	7.60%	9.48%
PER	6.56	(0.59)	(2.24)	26.20	17.46
APER	5.72	(0.59)	(1.86)	38.68	17.46
DPS	8.48	-	-	-	-
Yield %	15.4%	0.0%	0.0%	0.0%	0.0%

BALANCE SHEET FORECASTS

THB, Millions	1997	1998	1999	2000	2001
Loans	568,160	544,268	494,119	479,887	504,335
Other earning assets	12,396	120,581	132,641	144,276	151,626
Non-earning assets	136,605	41,138	65,290	63,441	41,909
Total Assets	717,161	705,988	692,051	687,604	697,870
Deposits	558,980	591,150	568,522	593,056	626,353
Other paying liabilities	NA	NA	48,967	47,142	49,789
Shareholders' funds	41,715	38,069	53,711	55,852	60,423
Minorities & others	NA	NA	NA	NA	NA
Total Liabilities	675,446	667,919	638,339	631,751	637,447
%					
Equity to assets	5.82%	5.39%	7.76%	8.12%	8.66%
Adj. E to assets	5.32%	4.89%	7.26%	7.62%	8.17%
CAR	0.00%	0.00%	0.00%	0.00%	0.00%
NPL	12.15%	33.78%	34.78%	29.01%	22.91%
Provisions/NPL	26.30%	17.09%	13.57%	20.14%	28.18%
Loan growth	23.8%	-4.2%	-9.2%	-2.9%	5.1%
Asset growth	32.5%	-1.6%	-2.0%	-0.6%	1.5%
Deposit growth	40.0%	5.8%	-3.8%	4.3%	5.6%
BVPS	109.55	64.66	17.21	17.84	19.30
ABVPS	100.11	58.62	16.09	16.74	18.21
Price / BVPS	0.50	0.31	1.48	1.43	1.32
Price / ABVPS	0.55	0.34	1.58	1.52	1.40

MARKET DATA

Common Shares Out.	3,130m
Market Value	Bt79,815m
ADRs/GDRs	n/a
Ordinary Share per ADR/GDR	n/a
3-Month Daily Avg. Vol.	0.9 m shares

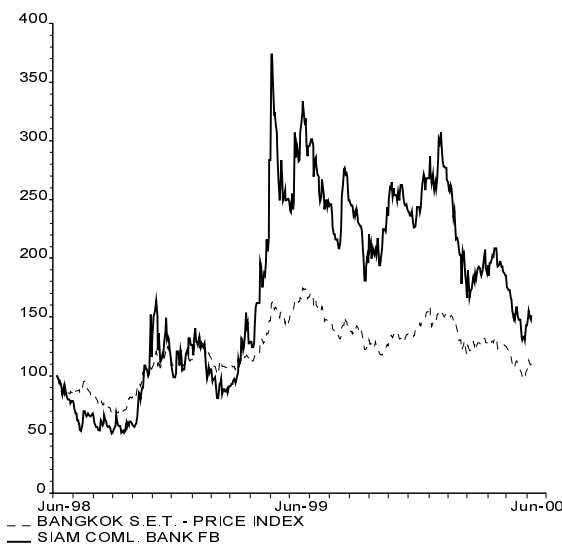
COMPANY DESCRIPTION

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

SHARE OWNERSHIP (MARCH 2000)

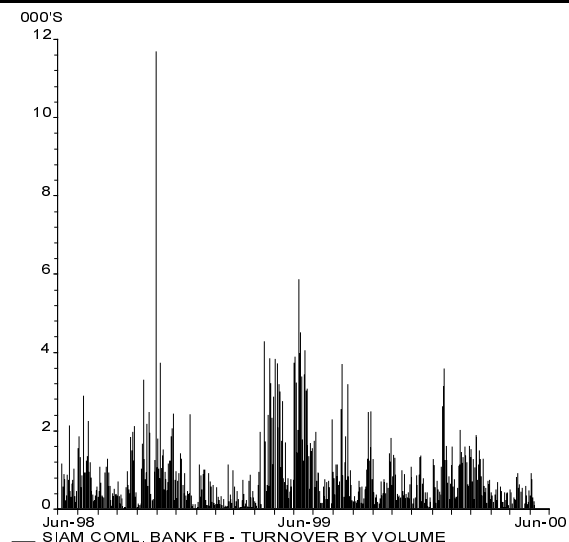
Crown Property Bureau	11.1%
Sanwa Bank	2.5%
Ministry of Finance	0.5%

SHARE PRICE CHART



Source: Datastream.

TURNOVER CHART



Source: Datastream.



THAI FARMERS BANK (BT33.75) 3-NEUTRAL

KEY POINTS

- Thai Farmers Bank (TFB) continues to be one of the premier banks in the sector, with the second most valuable deposit franchise after SCB by our estimation.
- TFB has leapt ahead of its competitors by establishing and funding two AMCs, and by hiring Goldman Sachs and GE Capital to manage its assets and take recoveries.
- This will allow TFB management to focus aggressively on the bank's core businesses, and compete with the new breed of foreign-owned banks. However, investors are being charged a hefty premium for TFB versus SCB.

INVESTMENT CASE

Asset Management Companies: TFB has formed two AMCs, Chantaburi (which holds bad assets originated at Phatra Thanakit, TFB's former finance company affiliate) and Thonburi (which holds NPLs originated at TFB), which now hold approximately 39% of the bank's NPLs, disproportionately concentrated in the doubtful and loss categories. Both AMCs are fully-owned by the bank, and so consolidated on its books, but TFB has outsourced the management of the majority of the AMC assets to Goldman Sachs and GE Capital, its international partners.

Foreign Management Adds Value: Chantaburi assets are managed both by TFB's in-house workout group (~65% of assets) and by a joint venture between Goldman Sachs and GE Capital (~35% of assets). Goldman and GEC handle most of the lowest-tier loans, relationships which TFB no longer intends to pursue.

Thonburi's assets are 100% managed by GEC and Goldman, with the assistance of a number of TFB personnel who have been seconded. In addition to expenses, the managers receive an incentive fee based on a sliding scale, which increases with additional recoveries. Depending on the percentage of assets recovered, the managers could receive between 2.5-5.5% of net assets over the course of the AMC.

Capital Position and Fund Raising: TFB completed several capital raising transactions during 1999, and in consequence has been able to maintain a respectable capital level of approximately 4.6% of assets. In addition, the bank turned profitable in 1Q00 (although only due to writebacks of "excess" provisioning) and has a fairly healthy net interest margin of 2.13%. While the bank should take further losses through year-end 2001 if it provisions properly, TFB's capital level is high enough to sustain these additional losses.

Asset Quality: The bank has NPLs of Bt211 billion, or 40.4% of total loans, slightly below the sector average of 43.3%. However, TFB has been one of the most aggressive banks in restructuring and writing off loans, as well as bringing in experienced distressed asset managers to run its NPL book, which should mitigate the impact of non-performings to some extent. These efforts have already brought down NPLs from 59.9% of loans in 1Q99 to the current level, and we project a further decline to 32.9% by year-end 2001.

Reserve Adequacy: TFB's reserve is strongly inadequate in our view, covering only 27% of required loan loss allowance and leaving a shortfall of Bt129 billion. Worryingly, this shortfall is equivalent to 4.1x remaining capital, which will need to be augmented at some point over the next 18-24 months in order to complete asset remediation and write-down to proper levels.

VALUATION

At current prices, TFB trades at 3.1x reported book value, a premium to the sector average, and at a deposit premium of 32.15%, also a premium to its large peers. We maintain our 3-Neutral rating on the shares.

THAI FARMERS BANK

Unless otherwise indicated, information is as of 08/06/00.

Share Price:	33.75	Index:	340.83	Reuters Code:	TFB.BK
52-Week Price Range:	26.50-80.81	Current Yield:	0.0%	Bloomberg Code:	TFB TB

EARNINGS ESTIMATES

THB, Millions	1997	1998	1999	2000	2001
Net interest inc.	27,815	12,834	9,634	15,108	17,580
Non-interest inc.	6,431	7,462	3,840	7,095	6,933
Total income	34,246	20,296	13,474	22,204	24,514
Expenses	16,405	18,153	17,186	20,754	20,770
Pre-provision profit	17,841	2,142	(3,711)	1,449	3,744
Bad debt charge	16,810	44,076	42,009	7,193	10,000
Non-operating inc.	-	(49)	1,133	(194)	(201)
Pre-tax income	1,030	(41,934)	(45,720)	(5,744)	(6,256)
Net profit	801	(40,121)	(47,019)	(5,554)	(5,742)
EPS	1.00	(34.12)	(16.21)	(1.92)	(1.98)
%					
Net interest margin	4.27%	1.84%	1.38%	2.16%	2.47%
% non-interest inc.	18.78%	36.77%	28.50%	31.96%	28.28%
Cost to income	47.90%	89.44%	127.54%	93.47%	84.73%
Overhead ratio	2.52%	2.60%	2.46%	2.96%	2.92%
Cost coverage	2.09	1.12	0.78	1.07	1.18
ROA	0.11%	-5.17%	-6.31%	-0.75%	-0.75%
ROE	1.44%	-79.17%	-123.34%	-22.38%	-30.17%
OROA	0.63%	-5.52%	-6.26%	-0.74%	-0.77%
OROE	8.77%	-79.65%	-145.06%	-21.85%	-29.62%
PER	87.51	(1.13)	(2.08)	(17.62)	(17.04)
APER	60.01	(1.04)	(2.16)	(17.72)	(17.04)
DPS	6.00	-	-	-	-
Yield %	6.9%	0.0%	0.0%	0.0%	0.0%

BALANCE SHEET FORECASTS

THB, Millions	1997	1998	1999	2000	2001
Loans	609,495	608,928	530,850	512,599	496,299
Other earning assets	84,560	91,403	165,165	193,131	218,907
Non-earning assets	101,331	56,508	37,107	51,548	57,331
Total Assets	795,385	756,839	733,121	757,278	772,538
Deposits	588,414	628,090	608,554	637,460	667,293
Other paying liabilities	NA	NA	77,823	79,722	83,453
Shareholders' funds	56,808	52,417	31,645	25,758	20,015
Minorities & others	NA	NA	NA	NA	NA
Total Liabilities	738,577	704,422	701,476	731,521	752,522
%					
Equity to assets	7.14%	6.93%	4.32%	3.40%	2.59%
Adj. E to assets	6.65%	6.41%	3.79%	2.89%	2.09%
CAR	0.00%	0.00%	0.00%	0.00%	0.00%
NPL	17.53%	57.46%	42.83%	38.95%	32.89%
Provisions/NPL	25.01%	22.33%	22.14%	26.93%	37.53%
Loan growth	9.9%	-0.1%	-12.8%	-3.4%	-3.2%
Asset growth	23.1%	-4.8%	-3.1%	3.3%	2.0%
Deposit growth	12.4%	6.7%	-3.1%	4.8%	4.7%
BVPS	70.93	44.58	10.91	8.88	6.90
ABVPS	66.00	41.24	9.57	7.55	5.58
Price / BVPS	1.23	0.87	3.09	3.80	4.89
Price / ABVPS	1.33	0.94	3.53	4.47	6.05

MARKET DATA

Common Shares Out.	2,900m
Market Value	Bt97,871m
ADRs/GDRs	n/a
Ordinary Share per ADR/GDR	n/a
3-Month Daily Avg.Vol.	2.5 m shares

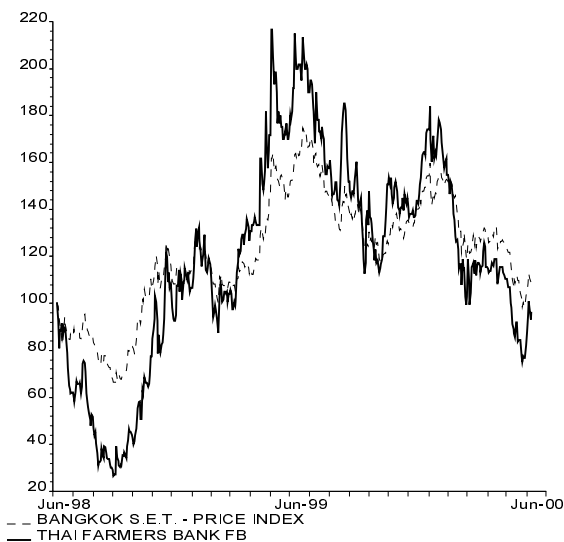
COMPANY DESCRIPTION

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

SHARE OWNERSHIP (MARCH 2000)

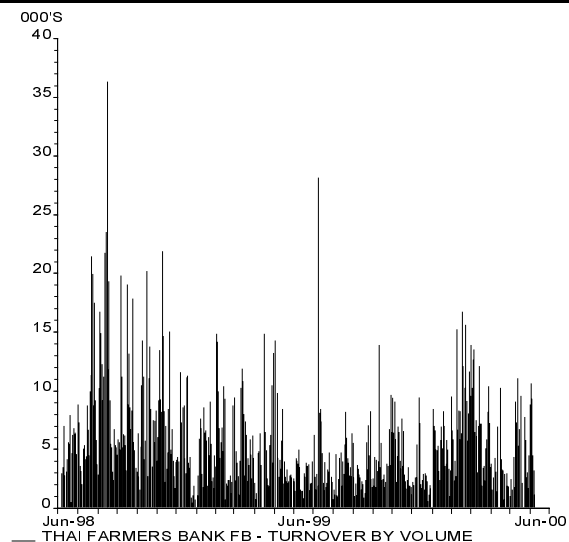
Siam Cement Plc.	3.4%
Midland Bank Plc.	1.6%
Lamsam Estate	1.5%
Sombat Lamsam	1.0%

SHARE PRICE CHART

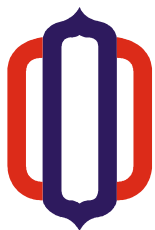


Source: Datastream.

TURNOVER CHART



Source: Datastream.



THAI MILITARY BANK (BT 6.60) 4-UNDERPERFORM

KEY POINTS

- Even with its recent capital raising complete, Thai Military Bank (TMB) remains the country's most troubled non government-owned bank, with substantial doubt about the medium-term survival of the institution.
- NPLs are still rising, and the bank has substantial additional provisions to make.
- However, recent support by National Finance, telco Shin, and by the armed forces has let TMB dodge the bullet once again.

INVESTMENT CASE

Tie-up Talks: The possibility of a merger with National Finance PCL (NFS, Bt6.00, rated 3-Neutral) has been raised by NFS' subscription to the TMB share offering through its Ekachart Finance subsidiary. An acquisition of TMB by NFS would give the latter control of a full banking license for the first time, long a corporate goal. NFS has had an application to upgrade from a finance company license to a restricted bank license pending before the BOT for some time without a ruling, and it could be that the central bank will force NFS to prop up TMB as the price of access to a bank franchise.

Capital Position and Fund Raising: As of 1Q00, TMB had remaining capital of only Bt6 billion, or 1.8% of assets, an extremely slim margin of technical solvency. We anticipate that the addition of Bt30 billion in capital raised by the issue of 996 million common and two billion Class B convertible preferred shares will result in 2Q00 equity of Bt30 billion after the quarter's loss, or a respectable 8.6% of assets. However, as with the other Thai banks, TMB will require additional capital within the next 18-24 months; it is certainly difficult to imagine foreign investors investing additional funds in this franchise, particularly if the market price remains below par value.

Asset Quality: TMB is the only Thai bank which is still recording increases in non-performing loans. NPLs have risen on both a gross and percentage basis in every period since 4Q96, and now stand at Bt145 billion, or 51.3% of loans. New NPLs appear to be entering the books at the substandard level, and may continue to work their way down through more serious categories, potentially increasing the level of losses.

Reserve Adequacy: Due to high and increasing levels of NPLs, TMB is seriously under reserved, with required allowances of Bt97 billion offset by only Bt24 billion in actual reserves taken. The shortfall of Bt73 billion is equivalent to 12.3x book capital at 1Q00; however, we forecast that this ratio will drop to 2.1x in 2Q00 due to the addition of new capital.

With the new capital, we now expect that TMB will be able to at least meet the BOT requirements for FY2000 provisioning, which was heretofore a mathematical impossibility given the slim equity resources of the bank. Among other things, this will allow TMB to execute and fund its AMC, potentially bringing in outside management to stem the tide of NPLs.

VALUATION

TMB currently trades at 1.1x reported book value; we predict that this will drop to 0.79x book value in 2Q00, post capital raising. On a deposit premium basis, the bank still trades at a pricey 29.97%, comparable to TFB and BBL and well above SCB, all stronger franchises.

THAI MILITARY BANK

Unless otherwise indicated, information is as of 08/06/00.

Share Price:	6.60	Index:	340.83	Reuters Code:	TMB.BK
52-Week Price Range:	6.00-28.03	Current Yield:	0.0%	Bloomberg Code:	TMB TB

EARNINGS ESTIMATES

THB, Millions	1997	1998	1999	2000	2001
Net interest inc.	9,019	2,972	1,925	2,243	4,769
Non-interest inc.	3,132	1,025	2,206	3,531	3,731
Total income	12,152	3,997	4,131	5,774	8,500
Expenses	6,685	6,941	6,617	5,010	2,944
Pre-provision profit	5,467	(2,944)	(2,487)	763	5,556
Bad debt charge	3,505	9,864	9,110	12,600	10,000
Non-operating inc.	-	-	-	-	-
Pre-tax income	1,962	(12,808)	(11,597)	(11,837)	(4,444)
Net profit	1,368	(12,842)	(11,624)	(11,857)	(4,455)
EPS	1.35	(12.65)	(11.45)	(2.96)	(1.11)
%					
Net interest margin	2.75%	0.83%	0.57%	0.68%	1.28%
% non-interest inc.	25.78%	25.65%	53.39%	61.16%	43.89%
Cost to income	55.01%	173.66%	160.20%	86.78%	34.63%
Overhead ratio	2.04%	1.93%	1.95%	1.52%	0.79%
Cost coverage	1.82	0.58	0.62	1.15	2.89
ROA	0.38%	-3.46%	-3.37%	-3.34%	-1.10%
ROE	7.82%	-97.14%	-105.09%	-70.85%	-19.04%
OROA	0.76%	-3.60%	-3.45%	-3.14%	-0.80%
OROE	13.36%	-83.40%	-130.52%	-44.06%	-15.70%
PER	7.26	(0.72)	(0.58)	(2.23)	(5.93)
APER	7.41	(0.70)	(0.58)	(2.23)	(5.93)
DPS	1.62	-	-	-	-
Yield %	16.5%	0.0%	0.0%	0.0%	0.0%

BALANCE SHEET FORECASTS

THB, Millions	1997	1998	1999	2000	2001
Loans	303,263	290,136	282,342	308,915	361,387
Other earning assets	50,137	74,029	32,764	34,777	40,684
Non-earning assets	35,149	(9,800)	19,897	30,254	35,393
Total Assets	388,549	354,364	335,002	373,946	437,464
Deposits	257,574	293,772	259,843	282,315	320,844
Other paying liabilities	NA	NA	(259,843)	60,164	68,374
Shareholders' funds	22,232	15,314	8,859	26,628	22,173
Minorities & others	NA	NA	NA	NA	NA
Total Liabilities	366,318	339,050	326,143	347,318	415,291
%					
Equity to assets	5.72%	4.32%	2.64%	7.12%	5.07%
Adj. E to assets	3.13%	4.03%	2.34%	6.85%	4.84%
CAR	0.00%	0.00%	0.00%	0.00%	0.00%
NPL	21.11%	41.03%	50.33%	42.34%	30.58%
Provisions/NPL	13.88%	14.96%	14.96%	25.02%	37.12%
Loan growth	6.4%	-4.3%	-2.7%	9.4%	17.0%
Asset growth	16.5%	-8.8%	-5.5%	11.6%	17.0%
Deposit growth	-0.2%	14.1%	-11.5%	8.6%	13.6%
BVPS	21.92	15.09	8.73	6.65	5.54
ABVPS	11.99	14.06	7.73	6.40	5.29
Price / BVPS	0.45	0.60	0.76	0.99	1.19
Price / ABVPS	0.82	0.65	0.85	1.03	1.25

MARKET DATA

Common Shares Out.	1,015m
Market Value	Bt6,698m
ADRs/GDRs	n/a
Ordinary Share per ADR/GDR	n/a
3-Month Daily Avg.Vol.	6.9 m shares

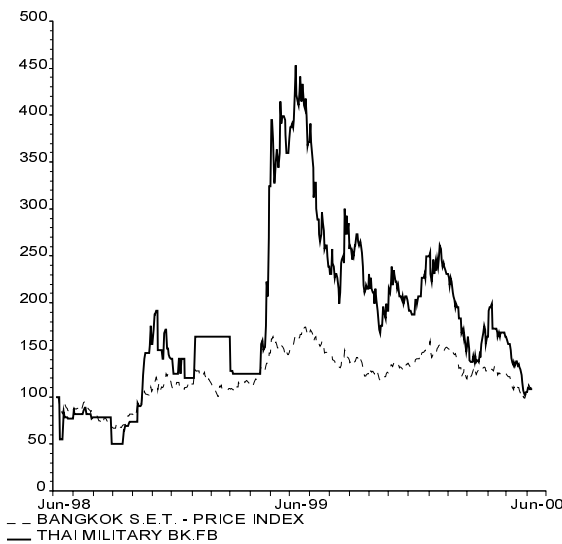
COMPANY DESCRIPTION

Thai Military Bank is the sixth-largest commercial bank in Thailand. The Thai Armed Forces maintain a substantial ownership position in the bank.

SHARE OWNERSHIP (MARCH 2000)

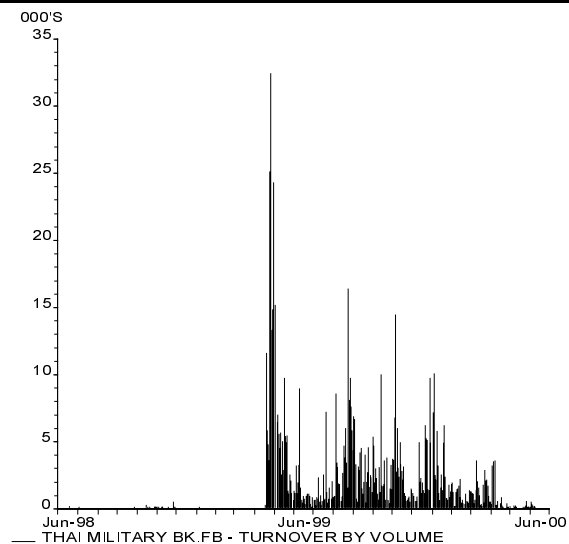
Royal Thai Army	21.1%
Tor Tor Bor 5 Co., Ltd.	14.5%
Thai Life Assurance Co., Ltd.	8.8%
Royal Thai Navy & Air Force	7.0%
Supreme Command Headquarters	0.8%

SHARE PRICE CHART



Source: Datastream.

TURNOVER CHART



Source: Datastream.

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