

# LEHMAN BROTHERS

July 11, 2000


## Banks

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## STEAL THIS BANK

### BCA IS A DIAMOND IN THE ROUGH

				<b>Rating:</b>	<b>1-Buy</b>	
				<b>Ticker:</b>	BBCA.JK	
				<b>Share Price:</b>	Rp 1405	
				<b>Price Target:</b>	Rp 1950	
Rp Bil.	Net income	EPS (Rp)	Book Value per Share	Adj. Book Val. Per Share	Core ROE	Core ROA
1999A	641	218	1,740	824	-5.27%	0.79%
1Q00A	322	109	1,803	903	50.69%	1.32%
2000E	1,005	341	2,035	1,193	33.87%	1.01%
2001E	1,392	473	2,508	1,755	32.09%	1.33%
<b>Shares Outstanding:</b> 2.94 billion				<b>Fiscal Year End:</b> December 31		

†Ratios annualized. Source: Company reports; Lehman Brothers estimates.

INDONESIA

- ❑ **BCA is So Clean it Squeaks:** BCA is Asia's first *Post-Recap* bank — a rare example of a formerly troubled institution which has been truly recapitalized. BCA has had the vast majority of its NPLs stripped away by the Indonesian government, leaving the bank with the cleanest asset book in our Asian universe. The bank will be able to fund capital needs internally for the foreseeable future, so that the likelihood of for dilutive issuances in the short term is small.
- ❑ **Profits Are Here Today — Not Tomorrow:** BCA has been consistently profitable since its recap, and earned a significant profit in FY99, although not fully bailed-out until the second quarter. We project that earnings will increase by 57% in FY00 and by 38% in FY01.
- ❑ **The Country's Premier Bank:** BCA's strong financial condition gives it a significant advantage over all of its domestic competitors, as it is the only major Indonesian bank to be completely free from asset quality and capital-raising issues. Management has been able to turn its full attention to executing BCA's competitive strategy, while its rivals are still pre-occupied.
- ❑ **Consumer Franchise Adds Growth Potential:** Long-term growth in Indonesian lending will come predominantly from the under-leveraged consumer sector. While all banks are attempting to enter this market, BCA is well positioned to benefit from this trend due to its existing relationships with eight million consumers, leading branch and ATM networks, and status as Indonesia's *de facto* national payments system. Additionally, BCA's advisory relationship with Bank of America to develop and risk manage the consumer lending business will allow the bank to move quickly without compromising its safety and soundness.
- ❑ **Does the Potential Return Outweigh the Risk of Indonesia?** We believe strongly that the answer is **Yes**, and have initiated coverage with a 1-Buy rating and 12-month price target of Rp1,950, implying 39% potential upside from current prices.

INDONESIAN BANKS:  
**Steal This Bank: BCA is a Diamond in the Rough**

July 11, 2000

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*"A large Bank is exactly the place where a vain and shallow person in authority, if he be a man of gravity and method, as such men often are, may do infinite evil in no long time, and before he is detected. If he is lucky enough to begin at a time of expansion in trade, he is nearly sure not to be found out till the time of contraction has arrived, and then very large figures will be required to reckon the evil he has done."*

—Walter Bagehot, *Lombard Street*, 1873.

## SUMMARY AND INVESTMENT OPINION

With the advent of the new Bank Central Asia (BCA), Indonesia's banks have officially entered the post-recapitalization era. As the first bank to emerge completely from the government's recapitalization and bad asset transfer programs, BCA has moved well ahead of its peers in balance sheet strength, while strengthening its internal controls and building a credible new management team, which includes experienced bankers from major international and domestic banks, as well as operational and strategic support from a variety of institutions.

As Indonesian banks race to exploit the country's emerging consumer credit sector, BCA is uniquely positioned to benefit from the transition to a retail lending market, given its deep existing relationships with eight million retail customers. We expect that BCA's strategic partnership with Bank of America (BofA) in consumer lending will enable the bank to quickly leverage its existing deposit and payment franchise and build a high-yielding asset book, as described below.

Our valuation analysis yields a fair value range for BCA of Rp1,800 to Rp1,950 per share, at which price the bank will trade at 1.00x-1.08x reported book value and 1.99x-2.16x adjusted book value (see "Valuation," below). On a price-to-earnings basis, this range implies a valuation equivalent to 8.3x-9.0x FY99 actual core earnings and ranges of 5.3x-5.7x and 3.8x-4.1x our estimates of FY00 and FY01 core earnings, respectively.

## KEY INVESTMENT POSITIVES

For a number of reasons, we believe that BCA represents the most attractive opportunity in the Indonesian banking sector, and indeed one of the most significant Asian bank restructuring stories of the 1990s. The following positives go directly to our established value drivers for banks (see "Valuation," below) and show that BCA deserves to be evaluated not as an ordinary distressed asset situation (*viz. Thailand, et al.*), but as a hybrid which combines elements of a distressed bank, a consumer finance company, and a high-growth depository intermediary.

### **Premier Franchise at a Fire-Sale Price**

Comparing BCA to the premier banks in other Asian markets, both distressed and robust, we see a bank with lots of room to run valuation-wise. While BCA has better asset quality than all of these banks — including mighty HSBC (0005.HK, HK\$90.50, rated 2-Outperform) — and higher ROE even during a period of slack loan growth, its valuation is but a fraction of theirs. While it is beyond question that a significant risk premium is in order for an investment in the volatile country that is Indonesia, BCA has been discounted far beyond a reasonable level even taking this into account.

Figure 1: Bank Central Asia  
Top Asian Bank Valuations

	ROE 2000E	ROA 2000E	Price to Book	Price to Adj. Book	P/E 2000E	Deposit Premium	NPLs to Assets
BCA	33.87%	1.01%	0.78	1.55	4.10	1.66%	0.33%
DBS	10.52%	1.09%	2.21	2.49	22.73	18.69%	7.65%
HSBC	19.90%	1.30%	2.93	3.64	14.46	17.45%	1.85%
Bangkok Bank	-202.20%	-2.96%	2.81	5.11	Neg.	27.35%	39.01%
Maybank	16.40%	1.40%	3.38	3.56	19.73	28.38%	7.45%
BPI	10.80%	1.50%	2.00	1.91	17.69	18.20%	5.21%

Source: Company reports and Lehman Brothers estimates.

### **Clean Asset Book**

BCA's loan portfolio and other assets are quite sound. The Indonesian Bank Restructuring Agency's (IBRA) assumption of virtually all non-performing loans (NPLs) and securities as part of the recapitalization process has left the bank with a small remaining pool of stress-tested performing loans and primarily floating-rate government bonds. This is a sustainable competitive advantage for BCA, and stands in stark contrast to the bank's competitors in the domestic market, which are still hampered to a large degree.

Bank asset quality in Indonesia remains poor overall, with NPLs at levels generally higher than any other country in Asia. This is due in large part to the banking system's legacy of insider dealing and mismanagement, as well as the impact of the economic and currency crises. While the effect of these NPLs has been significantly mitigated by a credible response by the Indonesian government through IBRA (*see below*), which has assumed or will assume the majority of impaired bank assets in return for government bonds. Despite this, Indonesia's remaining viable banks continue to have significant NPL credit exposure, with major recap banks averaging 48% NPLs/Loans and 14% NPLs/Assets (*see Figure 22*).<sup>1</sup>

By comparison, BCA's NPL exposure is low, with gross NPLs in aggregate equaling 8.0% of loans and 0.3% of total assets at 1Q00, giving BCA a distressed asset profile better than that of Singapore's DBS Bank (DBSM.SI, S\$21.30, rated 3-Neutral), which had NPL/Loans and NPL/Assets ratios of 9.8% and 7.7%, respectively, at year-end 1999<sup>2</sup>. As such, BCA has the strongest asset quality of any major bank in the country. Post-recap, the bank has essentially minimal legacy credit exposure, given the small remaining loan portfolio and the extreme stress-testing that existing performing loans have experienced.

### **Strong Management Team**

BCA has assembled an investor-friendly independent management team that is well-positioned to exploit the bank's existing strengths and address its weaknesses in time. The institution has managed to retain key pre-crisis employees, avoiding the pitfalls that have bedeviled certain of its merged competitors, while replacing the Salim and Salim-affiliated senior management with credible and experienced bankers from other institutions.

Indonesian banks have historically had significant weaknesses in the areas of credit management and financial control. In order to properly position BCA to avoid repeating the mistakes of the past, the management team has brought in an experienced foreign banker to fill the chief credit officer position, in order to build a culture throughout the bank which incorporates Western standards of safety and soundness.

In addition, we expect BCA to derive substantial management benefits and support from the bank's strategic partnership with Bank of America (*see "Strategic Partnerships"*).

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<sup>1</sup> Please refer to our recent report, *Indonesian Banks Revived: IBRA Reboots the System*, dated February 9, 2000, for additional information.

<sup>2</sup> Please refer to our First Call Note: *DBS Bank: 2H99 Earnings--Provisions Take The Profits*, dated March 6, 2000, for additional information.

### ***First Mover Advantage***

As the first BTO bank to be fully recapitalized and restructured, BCA has a substantial advantage over its competitors, both private and state-controlled. The presence of a privatized and independently-managed bank free from asset quality concerns has raised the bar for all future recaps.

BCA will have significantly better asset quality than its rivals, public and private, at least through year-end 2001. BCA's recapitalization and early privatization give the institution a substantial advantage over competitors who have not been as quickly recapitalized or as completely stripped of low-quality assets. With the bank's non-performing loans now essentially irrelevant, BCA's management has been able to turn its full attention to operation of the bank and competitive strategy, while management at its competitors is still largely pre-occupied by dealing with a high volume of bad loans.

Meanwhile, BCA's competitors will be expending energy on loan restructurings, integration of forcibly-merged entities and systems, negotiations with IBRA, and preparations for capital raisings of their own, leaving BCA free to jump-start its retail and consumer strategy with less-than-responsive competition.

While other banks in the IBRA portfolio may eventually be launched with clean balance sheets, the sheer volume of low quality assets already housed within IBRA makes it likely that each successive refloating will involve an institution with a greater proportion of impaired assets. Even if this is not the case, we believe that BCA's other advantages over these institutions will still provide a competitive advantage.

### ***Large Customer Base***

BCA's greatest operational strength is its large, diverse and loyal customer base. The bank currently has nearly eight million accounts, giving BCA the largest retail deposit market share in Indonesia, with over Rp83.5 trillion in retail and consumer deposits. Overall, BCA ranks second in deposit market share, with 12.64% of total deposits, behind only the merged Bank Mandiri.

Due to the extensive national branch network (the country's largest) the bank provides, as well as its market-leading ATM and debit card terminal network, the bank's customers are generally less price-sensitive than those of other banks. This has helped BCA achieve low funding costs even as the bank maintains a very high degree of liquidity. In addition, the customer loyalty and the decreased reliance on time deposits should make it possible for BCA to minimize its interest rate risk by lagging deposit rates during an interest rate shock.

### ***Move Towards Best Practices***

The bank has entered into an advisory agreement with Bank of America to jointly manage BCA's nascent national consumer lending business. The advisory agreement will involve management supervision, co-marketing, and technology transfer between BofA and BCA.

Currently, management envisions rolling out residential mortgage, auto finance and secured personal lending products, in addition to the bank's existing credit card products. With major Indonesian banks all rushing to enter this market, the assistance of an experienced power in consumer credit marketing should help BCA obtain maximum leverage from its existing retail client base in order to secure a leading share of this key market segment.

### ***Commitment to Transparency***

With most large Indonesian corporate entities still controlled or managed by family groups, voluntary disclosure remains sketchy at best, giving rise to fears of insider dealing and engendering a substantial uncertainty premium. Mandatory annual and quarterly filing requirements, while much improved in the past few years, are not rigorous and timely enough to address the suspicions raised by Indonesia's inconsistent corporate governance.

BCA's new management team has made a substantial commitment to transparency and continuing disclosure covering all facets of the bank's operations. Specifically, BCA plans to:

- Release comprehensive financial statements and associated schedules on a quarterly, rather than annual, basis.
- Provide summary financial information and business updates on a monthly basis.
- Include for the first time detailed information about asset quality and the bank's portfolio, including non-performing loans by category and product, loan origination by product and region, migration analysis of impaired credits, and reserve composition.
- Maintain an open dialogue with investors through regular conference calls and investor meetings.

While these efforts would not be notable in most Western countries, they represent a material "raising of the bar" for South Asian banks in general and for Indonesia in particular. We see this commitment as a measure of management's professionalism, independence and focus on creating shareholder value.

### ***Technology and Operations***

BCA has a unified and modern technology platform that services most aspects of its deposit, payment, and operations functions. This platform is already giving the bank flexibility in the areas of staffing and centralization of back-office processing, leading to potentially large cost savings. In addition, the IT advantage positions BCA to offer a superior customer experience, through its ability to readily handle new products (both deposit and loan-based), as well as by making possible services such as phone banking and corporate cash management.

### ***Indonesian Macro Recovery***

While the path back to a full recovery still has many obstacles, prospects for the Indonesian economy are beginning to brighten, despite a volatile currency. After a year of stabilization on both the political and economic fronts, Indonesia is set to consolidate on this firmer footing in the year ahead and begin retracing its lost output of the past two years. We forecast 3.8% growth in 2000, rising to 5.5% in 2001. In the short term, underpinned by supportive macroeconomic policies, a competitive real exchange rate and higher oil prices, growth in the Indonesian economy should continue to pick up, even as banking and corporate balance sheets remain fragile.

**KEY INVESTMENT  
NEGATIVES*****Low Organic Loan Growth***

Given that management has been focused on fixing BCA's credit process and culture as a precondition for significant lending, low loan growth in the Indonesian market has not been much of a constraint to date. As the bank moves into active lending phase, low demand in BCA's traditional corporate market, coupled with the bank's low loan/asset ratio, will restrict margins. We see potential for growth in consumer loans, as well as potential asset acquisitions from IBRA, as mitigating factors to this issue.

***Capital Quality***

BCA, even after the pending offering, will remain heavily dependent on capital sources that are of lesser quality. Of particular note: 20% of BCA's year-end 1999 equity base (and a projected 14% at year-end 2001) was comprised of upward revaluation of fixed assets, mainly bank-occupied real estate. This is not considered an acceptable component of book equity in most Western markets, as the assets are illiquid and not available to meet losses. In addition, equity includes capitalized tax loss carry-forwards amounting to 32% of equity (a projected 15% at year-end 2001), also not typically permitted under international standards.

For purposes of our analysis, we have removed these items from our calculations and estimates of adjusted book value throughout this report. (see "*Valuation — Book Value and Adjusted Book Value*" section below for details.)

***History of Self-Dealing***

BCA has in the past been operated as a vehicle to fund operations of its major shareholders. As such, the bank routinely engaged in related-party transactions, which were negotiated on anything but an arms-length basis, including credit extensions made without independent analysis or approval.

We believe that the culture has changed, and that more importantly, management has put in place structural barriers in the form of policies and procedures to prevent these actions in the future (please see "*The New BCA*" section below for details)

***Inaccurate Past Financial Statements***

Financial statements issued by the bank prior to its takeover by IBRA were inaccurate, with the former management's knowledge. Violations were concealed, and interest on non-performing loans, although not received, was booked as income. BCA's impaired assets were not identified as such, and the bank's loan loss reserve and periodic provisioning were inaccurately deemed sufficient to cover the risks inherent in the bank's portfolio.

In addition to BCA's internal financial control and audit staffs, external auditors Prasetio Utomo (local affiliates of Arthur Andersen Worldwide) certified these statements despite their failure to accurately represent the true financial condition of the institution.

Without at all understating the seriousness of these issues, we have a high degree of confidence that BCA's new management has addressed and corrected them. (Note that the major opportunities for this type of financial statement manipulation are centered in the loan portfolio, which now comprises only 4% of BCA's assets.) In addition, we believe that management has implemented sufficient safeguards, in the form of experienced managers, and new policies and procedures, to prevent a recurrence of the systemic problems experienced in the past.

***Salim Factor***

Management during the period of the Salim Group control was responsible for the majority of the bank's descent into insolvency. The family's track record at its other public companies is also poor with regard to self-dealing and transparency. While the Salims have had no management influence over the bank since its takeover by IBRA and the concurrent seizure of most of their equity stake in the institution, the family retains control of approximately 7.2% of BCA shares. As the family was not barred from participating in the offering either directly or indirectly, and is believed to retain substantial liquid financial resources, there exists the potential that Salim may once again accumulate an equity position that will permit the group to exercise influence or authority over the operations of the bank. This would be an obvious negative for outside investors.

While IBRA has no authority to prevent Salim from increasing the group's stake in BCA, the government has stated that it will vote its controlling share position against the nomination of any Salim-affiliated directors to the BCA Board in the future. In addition, all directors and senior managers of Indonesian banks are now subject to a "fit and proper" test administered by Bank Indonesia, which has already been used to remove even controlling shareholders from active management of their banks.

***Indonesian Investment Environment and Country Risk***

Indonesia has a number of structural negatives that increase the risk to foreign investors. While Indonesian contract, corporate and bankruptcy laws are reasonably complete and modern on paper, their enforcement and interpretation can be charitably described as spotty at best. Indonesia's judiciary is riddled with corruption, making recourse to the courts expensive and chancy.

Securities law covering governance of public companies, financial and other material event disclosure, and market manipulation are largely absent or ineffective. The ability of minority shareholders in particular to enforce their rights against management and/or controlling shareholders is limited.

Although Indonesia has completed its first free elections and the new government appears to have widespread support, the country remains beset by separatist movements and turmoil. During the civil unrest of May 1998, 149 of the bank's branches and 223 of its ATMs were damaged and closed. More recently, during the civil unrest that occurred in connection with an independence referendum in East Timor and Indonesian presidential elections, three of the bank's branches and sub-branches were damaged. Separatist movements and racial and ethnic violence continue to be a significant presence in many regions of Indonesia.



## HISTORY AND ORIGINS

BCA, originally established as a textile processor, entered the banking business in 1957, and grew to be the largest private bank in Indonesia pre-crisis, with a national branch network of over 750 active branches, second only to that of Bank Danamon. The bank was controlled by the family of Indonesian tycoon Liem Sioe Liong and his Salim Group, with substantial minority ownership by the family of former Indonesian President Soeharto. At the time of the crisis, the Salim interests owned substantially all of the bank, which was never publicly traded. In addition, the family played an active management role in BCA's operations.

Funds received by the bank in the form of deposits were lent primarily at the direction of Salim, without the benefit of credit analysis. A substantial portion of these loans were made directly to the Salim Group companies and their affiliates. In essence, BCA acted as the corporate treasury and funding source of the Salim Group.

## CRISIS AND COLLAPSE

In August, 1997 Indonesia was forced to permit the rupiah exchange rate to float against the U.S. dollar, at which point the currency rapidly declined in value from 2,599/US\$1 to 15,250/US\$1. In addition to the cumulative economic dislocations caused by years of directed investment and policy lending supervised by President Soeharto and the trade impact of a broad-based Asian economic decline, the currency devaluation had a severe impact on banks' lending and deposit-taking operations.

### ***Foreign Currency Lending Blows Up***

Many borrowers had borrowed funds from banks in U.S. dollars, due to the lower interest cost (ranging from 15-20% less than rupiah-denominated loans), converting the dollars into rupiah for Indonesia-based projects. These transactions were predicated on the concept that the U.S. dollar/Indonesian rupiah exchange rate would remain constant — that there was in effect no foreign exchange risk. After devaluation, the debts of these companies were effectively increased by as much as 500%. Most companies which had contracted for U.S. dollar loans with the intention of converting the received funds into rupiah and which did not have natural foreign exchange hedges (such as dollar-based revenues) were unable to repay or service these loans, and have defaulted. Banks that had taken U.S. dollar deposits with the intention of matching their currency exposures were left with the dollar liabilities without offsetting dollar assets.

### ***Liquidity Crunch***

Concurrently, depositors liquidated their rupiah deposit accounts at domestic banks for a variety of reasons:

- Desire to convert rupiah assets into U.S. dollars in order to protect against further devaluation.
- The need to repay newly-inflated borrowings.
- Fear that the obvious currency mismatches and poor lending practices at Indonesian banks would cause them to fail, thus endangering depositors.

The ensuing withdrawals caused a liquidity crisis that became a series of bank runs as the dire straits of the local and state institutions became apparent. Due to the systemic poor lending and investing practices, banks including BCA were unable to realize cash on their assets, and turned to Bank Indonesia ("BI") to offset their fund outflows.

By early May 1998, BCA's account with BI was overdrawn by more than Rp4 trillion (~US\$570 million), and the bank was forced to apply to BI for special liquidity support in order to remain open and clearing. As a condition of receiving the support, known as Bantuan Likuiditas Bank Indonesia ("BLBI"), the then-principal shareholders of the bank, primarily the Salim family, were obliged to pledge assets to BI as security for the facility, including substantially all of the equity control of BCA.

### **IBRA Takeover**

At the end of May, BCA had drawn in excess of Rp21 trillion (~US\$ 3 billion) under the BLBI facility, over 1,000% of the bank's book equity at year-end 1997. Indonesian bank regulations provide that if banks with BLBI draw in excess of twice their capital they are subject to takeover by IBRA. As there was no possibility that BCA could reduce its BLBI balance below this level, and given that the bank continued to deteriorate rapidly, the institution was placed under IBRA supervision at that time, and given the status of a BTO (Bank Taken Over). Under IBRA's administration, the 1998 accounts were tallied, and the bank recorded a loss of Rp29.7 trillion (~US\$ 4.2 billion) for the year, approximately 50% of total assets, leaving BCA with negative equity of Rp26.8 trillion.

Figure 2: Bank Central Asia  
**Top 20 Banks**

<b>Top 20 Banks: Year End 1997</b>	
Bank Central Asia (BCA)	Taken Over
Bank Negara Indonesia (BNI)	Recapitalized
Bank Dagang Negara (BDN)	Merged (Mandiri)
Bank Rakyat Indonesia (BRI)	Recapitalized
Bank Bumi Daya	Merged (Mandiri)
Bank Ekspor Impor Indonesia (Bank Exim)	Merged (Mandiri)
Bank Danamon	Recapitalized
Bank Internasional Indonesia (BII)	Recapitalized
Bank Pembangunan Indonesia (BAPINDO)	Merged (Mandiri)
Bank Tabungan Negara (BTN)	Merged (BNI)
Bank Umum	Closed
Bank Lippo	Recapitalized
Bank Bali	Recapitalized
Bank Niaga	Recapitalized
Bank Harapan Sentosa	Closed
<b>Bank Duta</b>	<b>Remained Solvent</b>
<b>Panin Bank</b>	<b>Remained Solvent</b>
Bank Universal	Recapitalized
Bank Indonesia Raya (Bank Bira)	Closed

Source: Lehman Brothers estimates.

## CLEANING HOUSE

The task of rebuilding the Indonesian banking system is overseen by the Indonesian Bank Restructuring Agency (IBRA), an autonomous body established in January 1998. IBRA is invested with extraordinary powers, including the right to seize and operate insolvent banks, and to manage and dispose of assets and collateral. IBRA now controls assets with an estimated market value in excess of Rp200 trillion.

For additional information on the recapitalization process and IBRA's operations, please see our report: *Indonesian Banks Revived: IBRA Reboots the System*, dated February 9, 2000.

### ***Classifying the Banks***

IBRA retained international auditors in June 1998 to determine the solvency of Indonesia's banks based on international banking standards. The banks were placed in three different categories based on their capital adequacy ratios:

- **Category A Banks.** 73 banks with CARs above 4% were considered sufficiently capitalized so as not to require additional funds from the government, and were permitted to continue operations without government interference. Most of these banks were of negligible size, with the notable exception of Panin Bank.
- **Category B Banks.** These banks, with CARs between negative 25% and positive 4%, were eligible for recapitalization, provided that they met certain criteria.
- **Category C Banks.** Banks with CARs of less than negative 25% were given 30 days to meet the capital requirements to become Category B (subject to the same criteria for recapitalization) or face closure.
- **State Banks.** As a matter of national policy, all of Indonesia's State banks will be merged or recapitalized regardless of financial condition.

### ***Recapitalization Eligibility***

The recapitalization program for private sector banks is being carried out only on selected Category B Banks. Eligible banks had to establish their viability by submitting a rehabilitation plan, subjecting management and owners to a "fit and proper test" by IBRA and BI, and settling all loans exceeding the legal lending limit. Based on the results of this appraisal, bank recapitalization was carried out as follows:

- Category B Banks that passed the further appraisals and whose controlling shareholders were willing to contribute a minimum of 20% of the total recapitalization cost as of December 31, 1998, were entered in the private sector bank restructuring and recapitalization program.
- Category B Banks that passed the further appraisal but whose shareholders were unwilling or unable to participate in the recapitalization were taken over by the government (banks taken over or BTO).
- Category B Banks that failed to pass the appraisal had their operations frozen (BBKU), except for banks with more than 80,000 depositors, which were taken over by the government to preserve the payment and deposit systems. BCA, along with competitor Bank Danamon, fell into this category.

### ***Improved Regulation and Supervision***

Indonesia has introduced a number of reforms to strengthen the banking system and prevent future problems. Bank Indonesia is now the primary government body overseeing the banking system. Prior to this, the banking system was also supervised by the Ministry of Finance. Additionally:

- All directors and commissioners of a bank must pass a “fit and proper test” performed by Bank Indonesia prior to being appointed. Directors are not permitted to become directors of or hold executive positions in other companies or banks while they serve as directors of commercial banks.
- Banks are required to maintain a minimum capital adequacy ratio of 4% of risk weighted assets, to be increased to 8% by the end of 2001. Total capital includes both Tier 1 and Tier 2 capital. BI uses the BIS methodology to calculate risk-based capital ratios.
- Banks cannot extend credit of more than 30% of capital to non-affiliates, 10% to affiliates and 10% to state-owned enterprises. Affiliates are borrowers connected with the bank through share ownership, directors or otherwise.
- A minimum of 80% of foreign exchange loans must be made to export-oriented companies.
- The maximum net open foreign exchange position allowed is 20% of capital.
- Banks are required to maintain a loan to deposit ratio of less than 110%.
- Foreign investors are now allowed to own up to 99% of the shares of an Indonesian bank.
- Banks are required to classify the assets in their portfolio in one of five categories (Pass, Special Mention, Substandard, Doubtful, and Loss) and are required to maintain minimum loan loss provisions.

### ***IBRA’s Plan for BCA***

After the bank was placed under government supervision, IBRA removed the bank’s board of commissioners and board of directors, and appointed a team of six proxy directors. IBRA then entered into a settlement agreement with the bank’s former principal shareholders, pursuant to which the parties agreed on terms for the settlement of the bank’s affiliate legal lending limit violation. In connection with this agreement, IBRA received approximately Rp53 trillion in performing and non-performing loans made by the bank to its affiliates. In addition, all other loans categorized as “loss” under Bank Indonesia regulations were transferred to IBRA after being written off by the bank.<sup>3</sup>

On May 28, 1999, BCA received a payment of Rp60,877 billion from the Government. With this payment, the bank purchased on the same date an equivalent amount of Indonesian government bonds through Bank Indonesia. After the recapitalization of the bank and the transfer of affiliate and loss loans to IBRA, the bank was in compliance with Bank Indonesia’s net open position and capital adequacy regulations.

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<sup>3</sup> *With the exception of certain loans which were deemed too small for IBRA to effectively service.*

At an extraordinary general meeting of shareholders held on September 21, 1999, IBRA was issued additional common shares in exchange for the government recapitalization payment. In addition, loan capital, additional paid-in capital, and subordinated loans of the former principal shareholders in or to the bank were converted into common shares. As a result of these transactions, IBRA became a 92.80% shareholder of the bank, with Salim and associates collectively holding 7.19%. These changes became effective on December 13, 1999, upon approval by the Minister of Law & Legislation of Indonesia.

At a second extraordinary general meeting held on December 29, 1999, the current board of commissioners and board of directors of the bank were elected, replacing the proxy directors appointed by IBRA. On the same day, BCA's shareholders approved an increase in the bank's authorized capital from Rp3 trillion (divided into six billion shares with par value of Rp500 per share) to Rp5.5 trillion (divided into 11 billion shares with par value of Rp500 per share); the initial public offering of the bank's common shares; and a change in the bank's status to a publicly listed company. These changes became effective on December 31, 1999, upon approval by the Minister of Law & Legislation.

## **THE NEW BCA    *Revamped Management***

One of IBRA's most crucial actions after the takeover of BCA was to install a new professional management team to replace the Salim-dominated board of directors. The new BCA team is fully committed to independence, transparency, and shareholder value.

BCA's new President Director, D.E. Setiyoso, is one of the most respected bankers in the country. Mr. Setiyoso was General Manager and Managing Director of state-owned Bank Rakyat Indonesia (BRI) from 1983 to 1998, prior to that he served as General Manager and Director of Inter-Pacific Bank, a publicly-listed joint venture between BRI, Sanwa Bank, and Credit Commercial de France.

Mr. Setiyoso has overseen the re-capitalization program at BCA, the development of BCA's new business plan, and the implementation of BCA's integrated operational restructuring program. The initiatives undertaken under his direction are focused on three main areas:

- Strengthening BCA's credit, compliance, audit and risk management functions.
- Enhancing and leveraging the bank's extensive delivery channels.
- Increasing profitable lending.

### ***New Credit Culture***

The critical challenge for BCA will be to make the transition to a modern credit culture, where loan decisions are based on the creditworthiness of the borrower, facilities are structured with terms commensurate with the underlying project, and ongoing monitoring and maintenance of the bank's loan portfolio are fully integrated into the bank's operating procedures.

In order to do this, the bank will require three main things:

- A fundamentally strong internal credit process, including:
  - Policies and procedures for the origination and servicing of loans and other credit extensions and products.
  - A rigorous method of analysis of the creditworthiness of potential borrowers, including standards for presentation of the results and conclusions of such analysis to the appropriate credit approval authorities.
  - Periodic, comprehensive, and independent credit review and grading (i.e. an internal credit risk-rating methodology, potentially but not necessarily limited to classification categories 1 through 5).
- A source of proven credit expertise applicable to all of BCA's current and potential markets.
- An ongoing program of training and transfer of this knowledge.

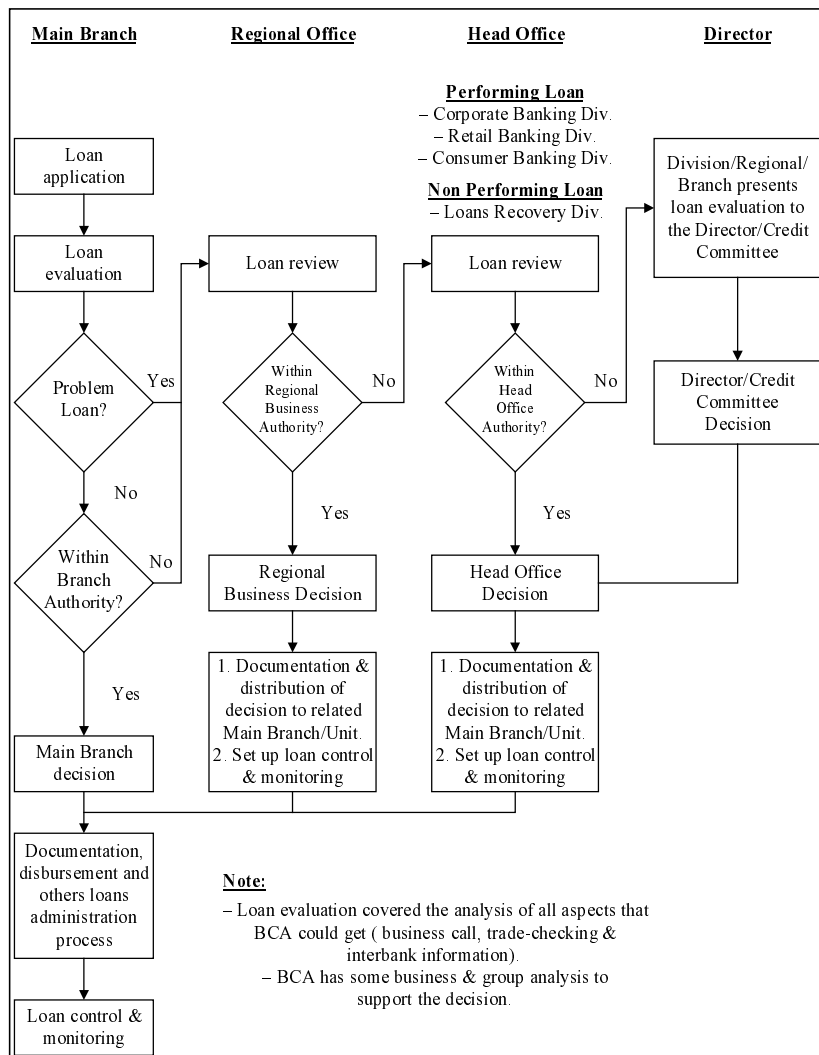
To bolster senior management's credit expertise, BCA has retained former Chase executive Donald Hayek as chief credit officer, a new position at the bank which will involve oversight over all credit policies, risk management, and lending operations. Mr. Hayek has 30 years of experience at Chase in various credit-related management positions, including a four-year stint directing the credit and marketing activities of Chase's Indonesian branch network during the early 1970s and extensive trade-related practice throughout the Asia-Pacific region. Most recently, Mr. Hayek was responsible for regional credit origination of consumer loans for Chase in the U.S., and served a stint as Deputy President and Director of BII.

BCA’s new credit approval process appears to be rigorous and well thought out. BCA’s industry segmentation and allocation is quite unique and represents a reasonable attempt at minimizing industry risk in Indonesia. However, the implementation has just begun. Again, with senior management emphasis, we should see a gradual improvement in the credit process over time.

Credit approval limits have been formalized, with all approvals exceeding Rp2 billion now requiring the approval of the Corporate Credit Committee. Approval is granted only after a formal presentation and analysis of the borrower and facility are given to the committee, and minutes of the discussion and approval process are maintained for review and audit.

BCA now has an independent risk management and compliance division. Credit monitoring of loans is performed by credit analysts at the head office. Marketing of the bank's credit services by account officers has been separated from credit analysis of the borrowers necessary for approval of the loans.

Figure 3: Bank Central Asia Revised Credit Process



Source: BCA.

### ***Organization***

The bank began revising its organizational structure in July 1999 after consultation with external advisors, centralizing and reallocating resources to reduce costs, exploit opportunities and improve risk management. BCA is organized along three strategic business units (the Business Development Group, the Branch Banking Group, and the Support Group). In addition, two divisions — Risk Management and Compliance and Internal Audit — report directly to the Board of Directors.

BCA's Business Development Group focuses on the bank's products and includes the Consumer Banking Division, Retail Banking Division, and Corporate Banking Division, each of which serves different customer segments with deposit-taking, lending and other services; the Loan Recovery Division, which manages the bank's holdings of non-performing loans; the Treasury Division, which manages the bank's liquidity, interest rate and foreign exchange exposure; and the International Banking Division, which operates the bank's overseas offices.

The focus is on the operation and growth of the bank's distribution network: its branches, credit card operations and payment products center. The bank's Support Group consists of the Information Systems Division, Finance Division, Human Resources Division, Legal Division, Corporate Planning Division and other business units that support and further the bank's mission and strategic plan.

### ***Risk Management***

The duties of the Risk Management And Compliance Division include establishing internal procedures to assure compliance with BI and other regulations (with emphasis on legal lending limits, net open position, provisioning and asset quality), monitoring transactions, monitoring compliance with BI commitments and contracts, and preparing monthly and quarterly reports for IBRA and the Board on various financial parameters. PWC is currently evaluating the structure of the risk management division, and management expects that their comments will be implemented during FY00.

### ***Internal Audit***

The Internal Audit Division evaluates the adequacy and effectiveness of the bank's internal control structure in order to maintain the bank's ability to generate accurate financial statements, comply with laws and regulations, and conform to the bank's own policies and procedures. The Internal Audit Division examines all units of the bank and its subsidiaries and submits reports of its findings to the Board and the Board of Commissioners. An audited unit is required to present an action plan addressing any adverse audit findings within one month. A report on audits performed with a summary of significant findings is submitted to BI semiannually.

In order to promote independence, the bank has removed the internal audit function from regional offices and consolidated it at the head office. In addition, BCA intends to move to a risk-based audit approach. Under this approach, the Internal Audit Division will audit the bank's branches and divisions based on an assessment of relative risk rather than a strict timetable. The bank is currently formulating risk assessment criteria, and expects that they will include such factors as the date and results of the last audit, change in organizational structure and the likelihood of financial mismanagement or fraud.



### ***Board of Commissioners***

The Board of Commissioners oversees the bank's management and the Board of Directors, while the Board of Directors is in turn responsible for day-to-day operational management of the bank's various business units. The President Director heads the Board and is the bank's Chief Executive Officer, responsible for strategic planning and direction.

The Board of Commissioners must be comprised of at least two members, including the President Commissioner. Currently, the Board is comprised of four Commissioners nominated and elected by shareholders at a general meeting of shareholders. Each Commissioner serves a term that ends on the close of the third annual general meeting of shareholders after the date of appointment. A meeting of the Commissioners is lawful and effective for making lawful and binding decisions only if more than half of the total number of Commissioners are present or represented. At any meeting, each Commissioner is entitled to one vote. If no agreement is reached by deliberation and consensus, resolutions must be passed by majority vote of the Commissioners holding office.

The current members of the Board of Commissioners of the bank are as follows:

- Mr. M. Djoeana Koesoemahardja has been President Commissioner of the bank since December 29, 1999. Prior to joining the bank, Mr. Koesoemahardja held various managerial positions at BI, was managing partner of SGV Utomo/Arthur Andersen and served as a director or commissioner of a number of Indonesian companies. Mr. Koesoemahardja holds a degree in Law from Gajah Mada University.
- Mr. Djunaedi Hadisumarto has been Commissioner of the bank since December 29, 1999. Mr. Hadisumarto has held various advisory and managerial positions in the private and public sector. He has served as a commissioner of PT. Bapindo (since 1992), including President Commissioner (since 1998), and as Deputy Head of the National Development Planning Board (since 1998). Mr. Hadisumarto holds a bachelors degree in Economics from the University of Indonesia, masters degrees in Public Administration from the Universities of Southern California and California-Berkeley in the United States, and a doctorate in Public Administration from the University of Southern California.
- Mr. Sumantri Slamet Iman Santoso has been Commissioner of the bank since December 29, 1999. Prior to joining the bank, Mr. Santoso held various academic positions, worked as a technology consultant to banks and served as a director of a clearing corporation and president director of a securities depository. Since 1998, he has been Vice Chairman of IBRA. Mr. Santoso holds a doctorate in Computer Science from the University of Illinois in the United States.
- Mr. Mardi Sutanto has been Commissioner of the bank since December 29, 1999. Prior to joining the bank, Mr. Sutanto was a vice president at Citibank and a director of PT. Matahari Putra Prima. Since 1998, he has been a Senior Vice President of IBRA. Mr. Sutanto holds a masters degree in Business Administration from the University of Pittsburgh in the U.S.

### **Board of Directors**

The bank is managed by a Board of Directors under the supervision of the Board of Commissioners. The Board of Directors should consist of at least three members, including the President Director. Currently, the Board consists of six Directors who were elected by a shareholders' resolution at a general meeting of shareholders in December 1999. Each Director serves a term that ends on the close of the fifth annual general meeting after the date of his or her appointment. Shareholders may, however, remove any Director at a general meeting of shareholders before the expiration of the Director's term of office if he or she is considered incapable of performing his or her tasks, as defined in the Articles and/or as determined by a resolution of the shareholders at a general meeting. A meeting of the Directors is valid and effective for adopting binding decisions only if more than one-half of all of the Directors holding office are present or represented. At any meeting of the Directors, each Director is entitled to one vote and, in addition, one vote for every other Director he or she is representing. Resolutions of the Board of Directors must be passed by majority vote.

The current members of the Board of Directors of the bank are as follows:

- Mr. Djohan Emir Setiyoso has been a proxy President Director of the bank since June 1, 1998, and President Director since December 29, 1999 and as such is responsible for the bank's strategic planning. Prior to joining the bank, Mr. Setiyoso held various managerial positions, including Managing Director, at Bank Rakyat Indonesia (1983-1998). Prior to that, he was a Director and General Manager of Inter Pacific Bank (1977-1983). Mr. Setiyoso holds a degree in Agronomies from Institut Pertanian Bogor.
- Mr. Fero Poerbonegoro has been a proxy Director of the bank since June 1, 1998 and a Director since December 29, 1999. Mr. Poerbonegoro is responsible for overseeing the Treasury Division, the Payment Products Center, the International Banking Division and the bank's overseas offices. Prior to joining the bank, he held various managerial positions at Bank Negara Indonesia. Mr. Poerbonegoro holds a degree in Finance from Brawijaya University.
- Mr. Jahja Setiaatmadja has been a proxy Director of the bank since April 30, 1999 and a Director since December 29, 1999. Mr. Setiaatmadja is the Finance Director of the bank, and in addition, oversees the Finance Division, the Management Control function and the regional offices. He has served in various managerial capacities within the bank since 1996. Prior to joining the bank in 1990, he was a Director of Indomobil (1989-1990) and a Director at Kalbe Farma (1982-1989). Mr. Setiaatmadja holds a degree in Accounting from the University of Indonesia.
- Mr. Suyono Sudirun has been a proxy Director of the bank since May 28, 1998 and a Director since December 29, 1999. Mr. Sudirun oversees the Internal Audit Division and the Risk Management & Compliance Division, and has been the bank's Compliance Director since August 1999. Prior to joining the bank, he was the President Director of BKS (1998-1999), a pension fund subsidiary company in the BRI Group, and held various managerial positions, including Chief Auditor, at Bank Rakyat Indonesia (1964-1998). Mr. Sudirun holds an MBA diploma in Financial Management from Greenwich University in the United States. He also holds a Qualified Internal Auditor (QIA) Certificate from the QIA Certification Board of Indonesia.
- Mr. Dewa Gde Suthapa has been a proxy Director of the bank since May 28, 1998 and a Director since December 29, 1999. Mr. Suthapa oversees the Corporate Banking Division, the Retail Banking Division and the Loan Recovery Division. Prior to joining the bank, he held various managerial positions at Bank Negara Indonesia (1989-1998). Mr. Suthapa is a graduate of

the University of Pancasila and holds a masters degree from the University of Dubuque in the United States.

- Mr. Aswin Wirjadi has been a proxy Director of the bank since April 30, 1999 and a Director since December 29, 1999 and is also a member of its Asset-Liability and Systems Steering Committees. Mr. Wirjadi oversees the Consumer Banking Division, the Credit Card Center, the Information Systems Division and the Processing & Support Center. Since 1991, he has served as Division Head or Deputy Division Head of several of these units. Prior to joining the bank, he served as a Director of Indomobil Niaga International (1989-1990) and as Vice President of The Chase Manhattan Bank, N.A. (1977-1989). Mr. Wirjadi holds a degree in Mechanical Engineering from the Catholic University of Atmajaya.

### ***Board Committees***

The bank has recently revised its committee structure to strengthen the role of its management, define allocations of responsibility and provide for clear reporting lines. The committees of the bank are as follows:

**Asset-Liability Committee:** The Asset-Liability Committee reports directly to the Board of Directors. The committee is responsible for evaluating, proposing and determining the bank's funding and investment strategy with the objective of management of liquidity, interest rate and foreign exchange risk, minimization of funding costs and optimization of interest surplus by prudent allocation of funds to earning assets. The committee consists of three directors, the division heads of Treasury, Finance, Corporate Banking, Retail Banking, Loan Recovery, Consumer Banking, International Banking, Corporate Planning Division and the five region heads.

**Credit Committee:** The Credit Committee reports directly to the Board of Directors. Its members include all the bank's directors and the head of the Corporate Banking Division. The Credit Committee is responsible for formulating policies and strategies and general procedures regarding loans and credits. The committee also approves exceptions from the lending parameters established by the bank's Board of Directors and the disbursement of the large loans.

**Risk Management Committee:** The Risk Management Committee reports directly to the Board of Directors. The Risk Management Committee's primary duties include reinforcing an integrated bank-wide risk management and compliance process, monitoring business plan implementation and simultaneously reviewing the priorities of each of the operational tasks. Additionally, there is also a risk management unit assigned to the Treasury Division to monitor market and operational risks in the dealing area.

**Human Resources Committee:** The Human Resources Committee reports directly to the Board of Directors. Its members are the Directors and the division heads of Human Resources, Corporate Planning and Internal Audit. The Human Resources Committee's primary duties include formulating human resources policies for the bank.

**Systems Steering Committee:** The Systems Steering Committee's primary duties include review of bank-wide information technology matters and approval of future plans. Its members include all the Directors and the division heads of Information Technology, Internal Audit, Finance and Corporate Planning, and the manager of information technology security. The committee meets bi-monthly.



**International Expertise**

Both the IBRA restructuring team and BCA’s management are committed to reorganizing the bank around international best practice standards. While the old BCA met these standards in many areas, management has made a point of bringing in outside expertise and evaluation, particularly in areas of historic weakness. Towards this end, IBRA and the management has selected a variety of organizations to assist the bank with its turnaround.

**Figure 5: Bank Central Asia  
Advisory Projects in Progress**

Consultant	Business Areas	Status
PriceWaterhouseCoopers (three teams)	Corporate Business Plan	<ul style="list-style-type: none"> <li>▪ Plan Completed</li> <li>▪ Ongoing Quarterly Review of Objectives vs. Performance</li> </ul>
	Organization and Management Restructuring	<ul style="list-style-type: none"> <li>▪ Ongoing</li> </ul>
	Risk Management and Compliance	<ul style="list-style-type: none"> <li>▪ Review and Recommendation Phase Completed</li> <li>▪ Implementation Ongoing</li> </ul>
McKinsey & Co.	Review and Stress-Test Corporate Business Plan	<ul style="list-style-type: none"> <li>▪ Completed</li> </ul>
Ernst & Young	Treasury Automation	<ul style="list-style-type: none"> <li>▪ New Treasury System (Reuters) Selected</li> <li>▪ Implementation Proceeding</li> </ul>
Deloitte & Touche	Feasibility Study on Outsourcing IT Division and Data Center	<ul style="list-style-type: none"> <li>▪ Completed</li> <li>▪ Economics Not Compelling</li> </ul>
KPMG	Audit of BCA’s Internal Audit Division	<ul style="list-style-type: none"> <li>▪ Completed in Early 1999</li> <li>▪ Will be Repeated Every 3 Years per Bank Indonesia Regulation</li> </ul>
Prasetio Utomo & Co. (Arthur Andersen Affiliate)	Comprehensive Financial Audit	<ul style="list-style-type: none"> <li>▪ September 1999 Audit Completed</li> <li>▪ Year-end 1999 Audit Completed</li> </ul>
JATIS (Microsoft Affiliate)	Internet Banking	<ul style="list-style-type: none"> <li>▪ Preparation Process Commenced March 2000</li> <li>▪ Scheduled Launch of Internet Banking August 2000</li> </ul>
Bank of America	Consumer and Retail Credit Management	<ul style="list-style-type: none"> <li>▪ Commenced in April 2000</li> </ul>

Source: Company reports; Lehman Brothers estimates.

**RETAIL BANKING**     ***Core Deposit Franchise***

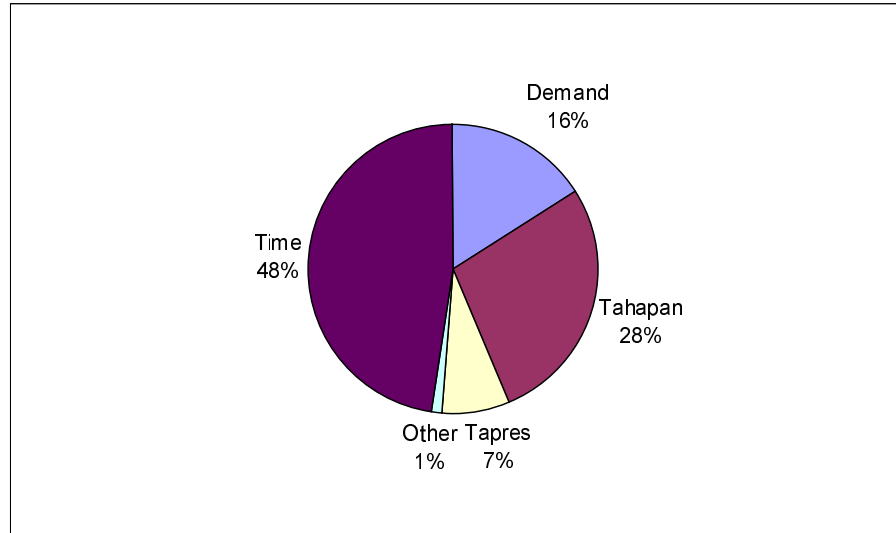
BCA has an extremely broad and deep base of almost eight million accounts ranking first in retail deposits and second in overall deposits (behind Bank Mandiri) among commercial banks in Indonesia, with a total market share of 12.64%. This is the case despite deposit rates which are generally lower than those of other domestic institutions, sometimes by a considerable margin. Instead of buying customers with premium rates, BCA has built its brand name on service, convenience, and innovative products and services.

The bank's comprehensive branch network, in conjunction with its ATM and debit card terminal networks (each of the three channels the largest in the country), helps BCA to gather low cost deposits by identifying customers most likely to choose a bank based on convenience, and hence least likely to decide based on price. These customers are less likely to "churn" their accounts, which is costly to the bank.

BCA's customer loyalty has put the bank in the enviable position of being able to strategically shed high-cost deposits (accounts with low balances and accounts with low activity) to lower its funding costs while maintaining high and increasing overall liquidity. In addition, the bank has been able to significantly increase the fee revenue generated from deposit accounts and deposit-related activities such as electronic transfers, payments, and ATM withdrawals. Going forward, we expect BCA's focus on relationship profitability to continue to improve the cost/income relationship of the deposit franchise.

As of December 31, 1999, approximately 87.2% of the bank's total unconsolidated deposits were from its individual customers and the remainder from corporate customers.

Figure 6: Bank Central Asia  
**Deposit Mix**



Source: Company reports and Lehman Brothers estimates.

**Deposit Products**

**Tahapan**

The *Tahapan* account, a passbook savings account featuring lottery prizes, is the bank's most popular deposit account and a core source of funding for the bank. As of December 31, 1999, the bank had over 6.9 million *Tahapan* accounts with aggregate deposits of Rp25.2 trillion. The average annual interest rate paid by the bank on *Tahapan* accounts during 1999 was 14.6%. BCA heavily promotes the *Tahapan* account through advertising and promotions, emphasizing the prizes available to account holders through a lottery program, as well as the convenience of the account.

Figure 7: Bank Central Asia  
**Deposit Efficiency**

	12/31/96	12/31/97	12/31/98	12/31/99
Total deposits	30,959	43,775	57,544	86,803
Number of branches	442	765	795	795
Deposit per branch	70.04	57.22	72.38	109.19
Employees (FTE)	19,514	24,030	22,746	21,619
Deposits per employee	1.59	1.82	2.53	4.02

Note: In billions of rupiah.  
 Source: Company reports, IBRA.

Figure 8: Bank Central Asia  
Tahapan Deposit Customer Detail

	12/31/96	12/31/97	12/31/98	12/31/99
Number of Tahapan Accounts	4,987,825	6,995,220	6,267,194	6,907,913
Total Amount on Deposit	10,919	12,754	9,138	25,251

Note: In billions of rupiah.

Source: Company reports, IBRA.

The bank experienced a 10.4% decline in *Tahapan* balances between December 1997 and December 1998, mainly due to large withdrawals by depositors following the civil unrest in May 1998 and the parlous financial condition of the bank prior to its seizure by IBRA. Following the takeover, *Tahapan* deposits began to increase again in August 1998, and have increased by 152.88% since year-end 1998, due both to the restored financial strength and to stepped up promotional efforts.

Beginning in November 1998, the bank adopted a policy of closing accounts which had no activity for the preceding few months and a balance below Rp50,000. By charging account maintenance fees and closing inactive accounts, the bank intends to change the composition of *Tahapan* accounts to reduce the portion represented by smaller accounts. The bank has had success with this strategy, as illustrated by the following comparison of the composition of *Tahapan* accounts as of September 30, 1998 and 1999.

Figure 9: Bank Central Asia  
Deposits by Amount

Amount on Deposit (Rp Thousands)	Number of Accounts		Percentage of All Accounts		Aggregate Balance (Rp billions)		Percentage of Total Deposits	
	12/31/98	12/31/99	12/31/98	12/31/99	12/31/98	12/31/99	12/31/98	12/31/99
Less than 50	2,057,297	2,185,447	29.78%	34.94%	30.01	31.53	0.12%	0.3%
50 to <500	2,253,371	2,234,153	32.62%	35.65%	436.58	427.44	1.73%	4.68%
500 to <1,000	677,875	653,809	9.81%	9.63%	478.32	424.44	1.89%	4.64%
1,000 to <5,000	1,218,457	905,986	17.64%	14.46%	2,747.09	1,970.58	10.88%	21.57%
5,000 to <10,000	299,288	172,794	4.33%	2.76%	2,080.43	1,191.08	8.24%	13.03%
10,000 to <25,000	228,973	107,808	3.32%	1.72%	3,519.55	1,632.44	13.94%	17.97%
25,000 to <50,000	88,742	32,892	1.28%	0.52%	3,083.57	1,128.22	12.21%	12.35%
50,000 to <100,000	47,735	13,313	0.69%	0.21%	3,280.41	902.31	12.99%	9.87%
100,000+	<u>36,175</u>	<u>6,911</u>	<u>0.52%</u>	<u>0.11%</u>	<u>9,595.27</u>	<u>1,429.61</u>	<u>38.00%</u>	<u>15.65%</u>
Total	6,907,913	6,267,144	100.00%	100.00%	25,251.23	9,137.65	100.00%	100.00%

Source: Company reports and Lehman Brothers estimates.



### Tapres

The *Tapres* account is a statement savings account offered by the bank. As of December 31, 1999, the bank had 97,660 *Tapres* accounts with aggregate deposits of Rp4.9 trillion. The average annual interest rate paid on *Tapres* accounts by the bank during 1999 was 17.44%.

### Demand Deposits

The bank offers demand deposit accounts denominated in rupiah and in a number of foreign currencies. As of December 31, 1999, there were 240,000 demand deposit accounts at the bank with aggregate deposits of Rp13.4 trillion, the majority of which were interest-bearing. The average annual interest rate paid by the bank during 1999 was 9.76% for rupiah interest-bearing demand deposits and 4.78% for foreign currency interest-bearing demand deposits.

### Time Deposits

The bank offers time deposit accounts and negotiable certificates of deposit denominated in rupiah and in a number of foreign currencies for periods ranging from one week to 12 months. As of December 31, 1999, the bank had over 800,000 time deposit accounts with aggregate deposits of approximately Rp42.1 trillion, as well as a further Rp17 billion in negotiable certificates of deposit. The average annual interest rate paid on time deposits by the bank during 1999 was 24.68% for rupiah time deposits and 8.36% for foreign currency time deposits.

### National Branch Network

BCA has a network of 795 branches and sub-branches covering the major population and business centers of Indonesia. This gives the bank the largest branch system of any bank in the country, outpacing Mandiri's combined 740 branches (scheduled to decline to 500 over the next two years as overlapping and uneconomic branches are closed), Danamon's combined 701 branches (potentially also undergoing rationalization for similar reasons), and BNI's 573 branches. Full branches handle credit approvals and back-office processing in addition to deposit and payment transactions, while sub-branches are smaller offices which take deposits and handle payments only.

Figure 10: Bank Central Asia  
Time Deposit Maturities

	Maturing within:				Total
	1 Month	3 Months	6 Months	12 Months	
Time deposits	39,236	2,381	260	293	42,170
% of Total	93.0%	5.6%	0.6%	0.7%	100.0%

Source: Lehman Brothers estimates.

Figure 11: Bank Central Asia  
Branches by Region

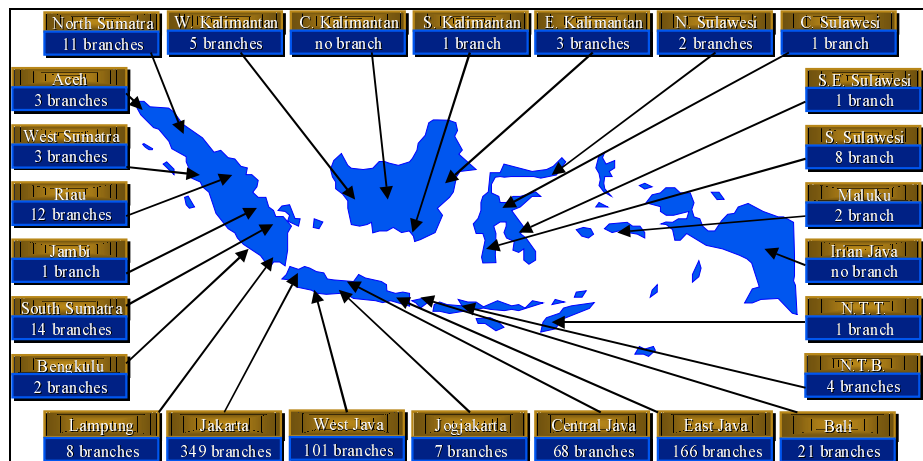
Province/Region	Branches	Sub-Branches	Total
Jakarta	21	317	338
East Java	24	142	166
West Java	16	96	112
Central Java	10	58	68
Sumatra	12	16	28
Bali	3	18	21
Riau	5	7	12
Sulawesi	5	7	12
Jambi, Bengkulu & Lampung	4	7	11
Kalimantan	5	4	9
Yogyakarta	2	5	7
Nusa Tenggara	3	3	6
Aceh	2	1	3
Maluku	1	1	2
<b>Total</b>	<b>113</b>	<b>682</b>	<b>795</b>

Data as of September 30, 1999. Source: Company reports and IBRA.

The bank’s strategy for expanding and rationalizing its domestic branch network includes the relocation of approximately 60 branches and sub-branches (including some branches which had been temporarily relocated as a result of damage stemming from civil unrest between May 1998 and September 1999). During the relocation process, BCA is taking advantage of areas vacated by now-closed banks to enter attractive but newly-underserved locations within shopping centers, major business and financial concentrations, and housing areas.

Each of the bank’s branches and sub-branches is integrated with the bank’s computer network, and officers at branch or sub-branch offices can access a customer’s account balance and basic account information regardless of which branch holds the customer relationship.

Figure 12: Bank Central Asia  
Map: Branches by Region



Source: BCA.

### **ATM/Debit Card Network**

The bank has ATMs in over 60% of its branches, with the remainder located in shopping centers, office buildings, and other convenient points. Collectively, BCA's ATM network is the largest in Indonesia, with 1,852 terminals and over five million cards in circulation. In addition to the traditional ATM missions of supporting the bank's branches and reducing transaction costs through automation, ATM coverage is particularly important in Indonesia as bank networks are generally proprietary and closed, so that only customers of the bank which operates a particular ATM can use the machine for transactions.

Because of this insularity, customers who might wish to withdraw money in far-flung areas, or in those neighborhoods with poor diversity of service, are compelled to keep accounts in banks which service all of these areas directly. This is a material advantage for BCA, as depositors who might conceivably wish to withdraw cash from their accounts as they travel about the country (or even in Jakarta, where BCA has some 600+ ATMs) have powerful incentives to use the bank.

Figure 13: Bank Central Asia  
**ATM Network by Region**

<b>Province/Region</b>	<b>ATMs</b>
Metro Jakarta	819
East Java	341
Central Java	202
West Java	131
North, West & South Sumatra	88
Bali	57
Riau	53
West, South & East Kalimantan	51
Yogyakarta	38
North, Central, South & Southeast Sulawesi	29
Jambi, Bengkulu & Lampung	28
East & West Nusa Tenggara	10
Aceh	5
Maluku	5
<b>Total</b>	<b>1,858</b>

Source: BCA.

BCA plans to continue adding features to the ATM network throughout FY00, concentrating on migrating labor-intensive transactions which now require visits to the branch offices. Included in the planned offerings are statement printing for Tapres and Giro accounts and passbook printing for Tahapan accounts, as well as the ability to buy and sell mutual funds.

### **Electronic Payment Services**

BCA's ATM cardholders can use the bank's ATMs to withdraw funds from accounts at the bank, make balance and exchange rate inquiries and transfer funds between accounts at the bank (including transfers to the account of another account holder). Additionally, BCA currently has arrangements with over 40 merchants (including nine telcos and cellular phone providers, two credit card issuers other than BCA, Indonesia's national electric utility, 10 pager companies, six internet service providers, and six educational institutions) to permit its ATM cardholders to pay various bills using the bank's ATMs.

This is a particularly convenient service in Indonesia where bills are otherwise generally paid in person rather than through the postal service. Cardholders can also purchase prepaid vouchers for cellular phone service at the bank's ATMs. Non-BCA customers may use the bank's ATMs to obtain VISA and MasterCard cash advances, and in certain cases to withdraw money from their non-BCA accounts through the CIRRUS network.

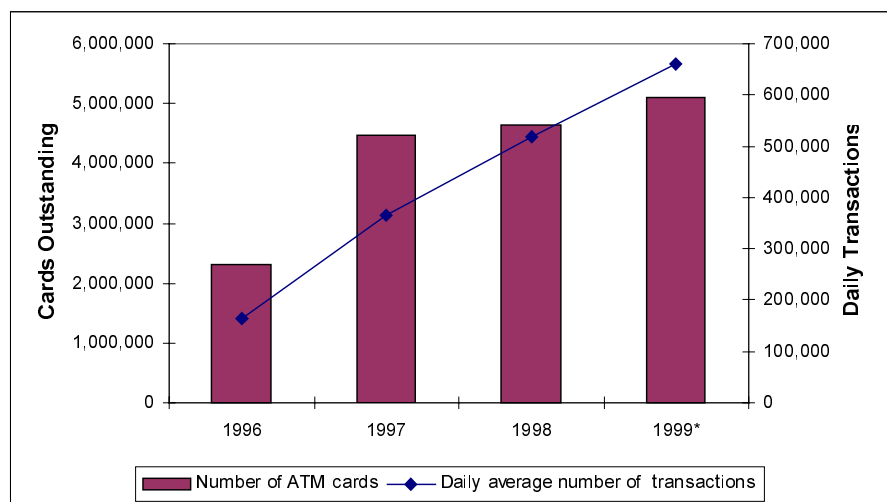
In December 1999, over 1.8 million transfers of funds, amounting to Rp2,788 billion, were made between accounts of different account holders at the Bank over the Bank's ATMs, each of which processed on average 31 such transfers per day. During the same period, over 900,000 bill payment transactions representing Rp277 billion in payments were processed over the Bank's ATMs, each of which processed on average over 15 such transactions per day.

**Fee Income Generation**

ATM-related fees include an initial fee to receive an ATM card, a monthly ATM facility fee from each ATM cardholder and a usage fee from cardholders for use of the bank's ATMs for credit card cash advances or cash withdrawals from non-BCA accounts. Non-BCA customers are charged a fee for use of the bank's ATMs for credit card cash advances or cash withdrawals from non-BCA accounts through the CIRRUS network. Merchants who have arranged for payment of their bills through the bank's ATMs also pay BCA a fee for each bill payment made to them through the bank's ATMs or branches. The average number of payment transactions at the bank's ATMs and the related fees collected by the bank have increased steadily as merchants have been added to the program and customers have become familiar with the convenience of this service.

Although BCA has not charged fees to its depositors in the past for electronic payment services to further the bank's strategy of maintaining and attracting deposits, in the future the bank may charge fees for some of these services.

**Figure 14: Bank Central Asia  
ATM Cards Outstanding and Transaction Volume**



Source: Company reports and Lehman Brothers estimates.

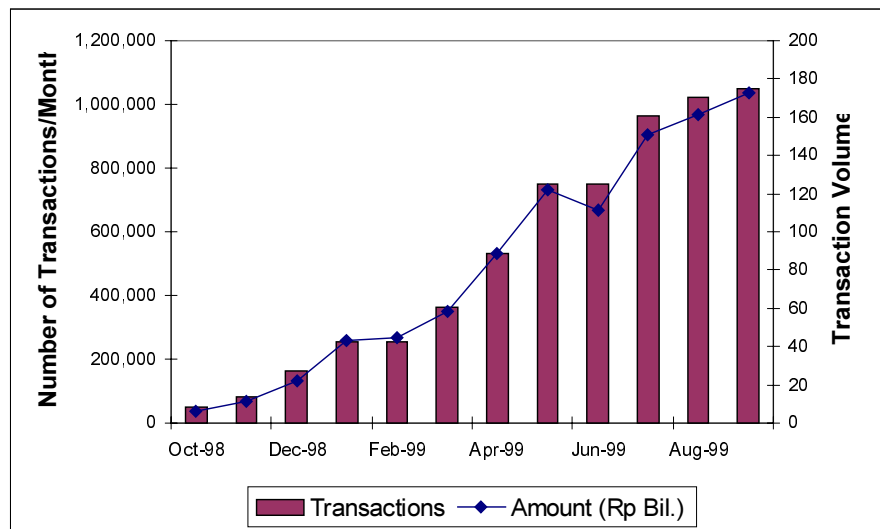
**Debit Card Transactions**

BCA’s ATM cards can also be used as debit cards to make purchases at participating merchants. Since its introduction in July 1998, according to the bank, it’s debit network has become the largest in Indonesia, with over 2,000 participating merchants, 3,300 outlets and 5,600 terminals, allowing cardholders to pay for purchases at these merchants by direct debit from their BCA accounts. The bank continues to aggressively expand its debit network, with particular focus on signing up large retailers, especially supermarkets and department stores.

As a means of encouraging usage of the debit network (and at the same time more than doubling the locations where BCA depositors can obtain cash), the bank intends in the near future to permit cardholders to make cash withdrawals from their bank accounts when they make debit card purchases at participating stores. The retailer will hand over cash to the depositor, and BCA will credit the store’s account with the value of the customer’s purchase plus the amount of the withdrawal, less fees. This is attractive to merchants for two reasons: 1) as an added attraction for customers to visit their store, as multiple errands (*i.e.*, a goods purchase and a banking transaction) can be accomplished simultaneously; and 2) because it lessens the net amount of physical cash that the retailer must count, control, and deposit at the end of each day — a potentially significant cost savings. At the same time, BCA is able to increase the number of its customer service locations without a significant investment, while adding an additional stream of fee income.

The bank also gains an important liquidity benefit from these debit transactions because they result in a transfer of funds within the bank, from the cardholder’s account to the merchant’s account, rather than a cash withdrawal. As the transfer is generally from a (high interest) savings account to a (low interest) demand deposit account, the bank also lowers its aggregate cost of funds. The number of transactions handled over the debit network has increased substantially over the past year, as shown in Figure 14.

Figure 15: Bank Central Asia  
Debit Card Transaction Volume



Source: Lehman Brothers estimates.

In September 1999, over 490,000 — almost 10% — of the bank's ATM cardholders performed at least one debit transaction, including over 130,000 who did so for the first time. This brought the cumulative portion of cardholders who have used the debit transaction network to approximately 25%. During the month of September, over one million debit transactions representing Rp173 billion in payments were processed over the bank's EDC terminals, each of which processed an average of seven transactions per day.

### ***Phone and Internet Banking***

BCA has undertaken a long-term project to broaden its service distribution channels. In addition to the aforementioned ATM and debit terminal expansion, the bank is implementing or plans to implement in the future several phone- and Internet-based information and transaction systems, with the major objectives of:

- Providing more effective service to existing customers over their platform(s) of choice;
- Lowering the bank's cost of providing information and processing transactions, in order to increase margins;
- Offering new services and more effectively cross-selling existing services — thereby increasing customer profitability and “share of wallet”; and
- Aggressively acquiring customers with superior profitability from less technically-capable institutions.

### **Major Initiatives**

*Halo BCA* is an existing 24-hour customer service facility which provides information on the bank's products and services and takes customer complaints and suggestions. *Halo BCA* currently operates from eight locations (accessible via local phone numbers), with an average daily volume of approximately 5,000 calls.

*BCA by Phone* is the bank's 24-hour automated telephone service, which offers customers information about account balances and recent transactions, interest rates, credit cards, and foreign exchange rates. Users may also request full account statements, which are delivered by fax. *BCA by Phone* currently operates from nine call centers (each accessible via a local number), with an average daily volume of approximately 18,000 calls.

BCA intends to combine *Halo BCA* and *BCA by Phone* into a new phone-based service during the third quarter of 2000. The new service will add transactional functionality to the existing information-only services, giving depositors the ability to make payments and transfer funds.

On the corporate side, BCA has introduced *BCA Link*, a PC-based corporate treasury system which gives its business clients access to account and transaction information on a real-time basis, and permits customers to transfer money between their own accounts and those of their suppliers.

The Bank has also recently commenced preparations to offer its individual and corporate customers on-line banking services through the Internet. The Bank intends to use the Internet as a convenient, low-cost distribution channel to further enhance its market position as a national payment settlement agency. To this end, on March 6, 2000 the Bank entered into an agreement with PT Jati Piranti Solusindo (“JATIS”), pursuant to which JATIS will advise and assist the Bank in the development of on-line banking services.

The Bank has scheduled the launch of the first phase of its on-line banking service for August 2000. This phase will provide individual customers the ability to utilize on-line all features of the Bank's ATMs other than cash withdrawal. Customers will be able to make balance inquiries, transfer funds between accounts at the Bank and pay bills of selected merchants. The Bank intends to offer payroll and payment settlement services to small and medium-sized businesses by year-end 2000 in the second phase of its on-line banking services. By mid-2001, the Bank intends to introduce business-to-business and business-to-customer services and free electronic mail to its customers as part of the third phase of its on-line banking services.

The Bank believes that providing access to personal computers connected to the Internet and customer education will be two important factors in the success of its on-line banking services. Accordingly, the Bank intends to provide on-line personal computers at all its main branches and selected ATM locations, using its existing intranet communications infrastructure. The Bank also intends to educate its customers on the use and utility of on-line banking services through concerted marketing activities, including its successful existing weekly television program.

## CONSUMER LENDING

In the past, BCA placed little emphasis on lending to individual consumers, for a number of reasons. The most important of these was that the bank was primarily concerned with providing funding to the Salim group, and that loans made to other sources were mainly ways to deploy excess liquidity above and beyond Salim group's needs. In addition, the bankable consumer population of Indonesia was just beginning to emerge in the years leading up to the crisis, and consequently had not been effectively targeted by the country's banks.

The threshold where a mass population begins to become "bankable" is generally reached when GDP per capita equals US\$1,000. Indonesia had just reached this level pre-crisis, before a combination of devaluation and a fall in nominal GDP pushed per capita GDP down to the US\$680 level (as of year-end 1998). As both GDP and the rupiah recover, Indonesia is once again approaching this key point of inflection, with the result that the population of credit-worthy consumers has resumed its rapid expansion.

### ***Aggressive Market Entry***

BCA management is now focused on an aggressive entry into the consumer lending market, which tends to be high margin and have predictable rates of delinquency. While other Indonesian banks are also targeting this lending segment, BCA has a number of structural advantages, including its existing financial relationships with millions of consumers, its branch and payment systems network, and its database of information about consumer spending and deposit behavior—beyond price in a country which has no centralized credit reporting bureaus. In addition, we expect the expertise brought to the table by Bank of America to help BCA come up the curve very quickly in terms of product and risk management expertise.

### **Credit Card Portfolio**

The majority of BCA's consumer lending to date has been through its credit card business, a natural extension of BCA's large customer base and payment systems expertise. BCA issues both Mastercard and VISA products, as well as its own proprietary BCA Card. According to VISA, the bank currently has a market share of approximately 15% of all issued and outstanding credit cards in Indonesia, second only to Citibank, with outstandings now totaling approximately Rp151 billion as of December 31, 1999.

Delinquencies on credit cards have not been a severe problem, even with the volatile economy. Total delinquent accounts, based on a standard which considers an account past due 30 days or more delinquent, total only Rp6.7 billion, or only 2.8% of total receivables. This compares favorably with the experience of top international banks in this area, and is evidence that BCA's credit process can function effectively.

The bank has a number of strategies for future growth in the credit card business, including increased issuance of secured credit cards (cards where the available credit limit is fully covered by a blocked matching deposit at the bank) and the introduction of new products such as corporate and platinum cards. To achieve these goals, the bank has increased its marketing efforts through its branches, instituting incentive fees and focused telemarketing using the bank's existing data on depositors.

Figure 16: Bank Central Asia  
**Credit Card Revenue**

	12/31/96	12/31/97	12/31/98	12/31/99
Interest Income	11,545	20,441	25,811	25,389
Merchant Revenue	52,055	68,513	99,540	108,196
Outstanding Balances	110,886	147,303	127,912	151,128
New Cards Issued	37,981	65,538	30,243	66,852

Note: In billions of Rupiah  
Source: Lehman Brothers estimates.



**New Products**

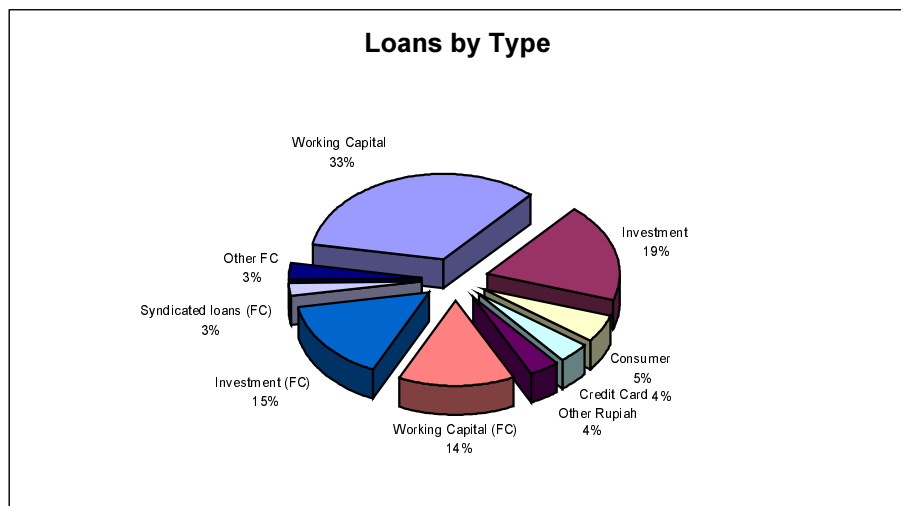
- **Auto Lending:** BCA has stated that it intends to enter the automobile loans market in the near term, formerly the near-exclusive province of finance companies.
- **Residential Mortgages:** BCA has also stated that it plans to emphasize residential mortgage lending, which has been heretofore undeveloped in the Indonesian financial market. With a population of over 200 million, there should be excellent potential in the mortgage loan market. Even under the conservative assumption that the Indonesian market could support only one million mortgages at Rp160 million (~US\$20,000) per mortgage, this would still generate mortgage loans of Rp160 trillion, or 67% of all current bank loans outstanding. If BCA is able to translate its deposit share of 12% into a comparable share of mortgage originations, this would imply a mortgage loan portfolio for BCA of Rp19.2 trillion. Once again, BCA’s consumer deposit franchise and customer database will provide ample opportunities for cross-marketing.

**CORPORATE AND RETAIL LENDING**

BCA’s commercial lending is divided between the Retail (middle market) and Corporate Banking divisions, with the latter handling relationships aggregating at least Rp2 billion in credit outstanding. On the retail side, BCA currently has approximately 30,000 customers with loan balances of about Rp1.3 trillion, representing 32.88% of the bank’s total loan portfolio. Retail loans are primarily working capital facilities.

Corporate loans of Rp2.4 trillion (60.7% of total loans) are mainly working capital for export and other domestic businesses, trade finance, guarantees, and investment loans. Note that loan balances at the current time are low (<4% of assets) due to the transfer of non-performing and affiliate loans (over 92% of the portfolio) to IBRA as part of the bank’s recapitalization.

Figure 17: Bank Central Asia  
**Loan Portfolio Breakout**



Source: Lehman Brothers estimates.

Both the Corporate and Retail Banking Divisions have been constrained in their ability to make new loans since May 1998, pursuant to restrictions imposed on the bank by IBRA. However, in August 1999, with IBRA approval, BCA was able to resume limited new retail and corporate lending subject to a limit of Rp2 billion per loan. Collateral, including shops, residences, or automobiles, is required, and must have a market value of at least 125% of the credit limit for new borrowers (or at least 100% for existing borrowers). These limits will be removed at or before the time of BCA's public offering.

In the interim, Corporate Banking has focused on restoring loan facilities that were frozen in connection with BCA's seizure by IBRA, and on new lending to selected companies.

## LOAN GROWTH

For BCA to generate consistent profitability and growth in return on equity, the bank must generate sustained organic (that is to say, newly-originated) loan growth, rather than relying on acquisitions from the IBRA portfolio or other banks. We expect this to be the single most significant challenge facing the Indonesian banking sector as a whole in the next three to five years.

As it stands, the Indonesian financial system is in a state of stasis. Debtors and creditors alike are waiting the outcome of bank recapitalization, restructuring negotiations, and meaningful bankruptcy implementation. Initial successes in some areas, as with the Bank Bali recapitalization/sale plan, have resulted in relapses or partial pull-backs, making investors justifiably skittish.

Targets for asset sales and debt-for-equity swaps have in general been over-optimistic. As such a great portion of the real economic sector is controlled by government entities with extraordinary powers, and keeping in mind that resort to the Indonesian commercial courts is both difficult and unpredictable (*viz.* the Bank Niaga v. PT Suryamas Dutamakmur derivatives action), most private creditors are waiting for the government entities to take the lead in debt restructurings or liquidations.

In the interim, most prime Indonesian corporate borrowers with rupiah funding needs are locked up in the restructuring process, and as Indonesia has no equivalent to Debtor-in-Possession financing, whereby new lenders providing working capital could be assured of priority in liquidation, it would be unwise for a bank to advance additional funds which could be instantly diverted to existing creditors.

Corporations that conduct business primarily in U.S. dollars pose two problems for lending institutions. First, banks are now justifiably wary of incurring mismatched currency exposure, and have limited risk management capacities to offload this balance sheet risk. Secondly, export-oriented corporations with U.S. dollar revenue can easily borrow abroad, and generally have lower costs of dollar funds than any Indonesian bank, removing the ability for banks to lend with positive spread.

Hope for loan growth in the short term lies in the consumer and small business sectors. This is no secret to any of BCA's competitors, all of whom are aggressively seeking high-margin loan assets in order to resurrect their anemic net interest margins. It remains to be seen how many of these large banks will be able to establish positions in this relatively untapped market segment sufficient to meet their asset growth needs.

While we predict that BCA will be a major winner in this competition our models still show BCA constrained by low loan growth out through FY2002, with the loan-to-deposit ratio in our Base Case scenario reaching only 12%, up from its current level of 5%.

However, we note that IBRA retains a portfolio of hundreds of trillions of rupiah in both performing and unstructured non-performing loans acquired from recapitalized and closed banks that will ultimately flow back into the banking system. While we honestly can not predict when or how this will occur, BCA would seem well-positioned, given its liquidity, management, and financial strength, to acquire a portion of these assets (potentially by swapping government bonds back to IBRA), which could have a material and beneficial impact on the size of the bank's loan book.

## **BEST PRACTICES**

### ***Leveraging Bank of America's Credit Expertise***

BCA has entered into an advisory relationship with Bank of America in order to strengthen the bank's lending and credit processes. BofA will provide direct transfer of expertise and advisory services, giving BCA access to the "best practices" experience of one of the world's most sophisticated banking institutions. Based on the current agreement, BofA does not contemplate taking a stake in BCA in the near term, but will instead be compensated through advisory payments and potential joint venture opportunities.

The financial advisory agreement is intended to cover the following major areas and processes over an initial period of sixteen months (scheduled to commence in April, 2000), and is divided into three phases: Situation Assessment, Development of Product Strategies, and Implementation, Training, and Commercial Credit. These three phases will address the following broad issues within the Consumer, Retail, and Commercial lending divisions.

### ***Consumer and Retail Banking Sectors***

#### **Risk Management**

- Review and evaluation of credit risk management policies and procedures, including the development and implementation of a comprehensive internal credit risk rating system.
- Definition of the organization and structure of the Credit Risk Department.
- Analysis and critique of internal controls and control mechanisms.
- Assistance in developing monitoring systems and setting risk limits.

#### **Product Development and Marketing**

- Evaluation of BCA's competitive position vis-à-vis domestic and foreign banks, with respect to product offerings, customer characteristics, and balance sheet advantages.
- Projection of competitive scenarios for the Indonesian consumer/retail markets over the near and medium terms, with appropriate discussion of BCA's role under each possible environment.
- Identification of key products for BCA to introduce or emphasize. *{Consumer only}*
- Determination of an optimal target customer profile for each product, with respect to demographics, spending patterns, location, *et cetera*.

- Development of product strategies.
- Design of specific products for introduction in targeted market segments and business lines. {Consumer only}
- Analysis and recommendation of appropriate delivery/distribution channels and structures for each product.
- Production of a comprehensive “Strengths, Weaknesses, Opportunities, and Threats” (SWOT) analysis covering the main findings of all of the above.
- Training with respect to products, delivery channels, and credit risk control.

**Corporate Banking Sector**

- Review and evaluation of credit risk management policies and procedures.
- Examination of the potential use of any credit risk rating system developed for the consumer and retail sectors within corporate banking.

**COMPETITIVE POSITION**

BCA enjoys an excellent position *vis-à-vis* its domestic peers. As the only fully-recapitalized and NPL-free institution, bank management is able to devote its full attention to exploiting the BCA’s enviable consumer banking franchise. While other banks in the country plan to enter this market in the near future, most are unsuited to do so due to lack of products, inferior branch scope, and lesser financial strength. Listed in Figure 17 are brief descriptions of BCA’s major competitors:

**Category A Banks**

With 74 original members (later reduced to 72), this is at once the largest bank grouping and the least important factor in the current competitive landscape. With average assets of under Rp800 billion (>US\$100 million), the ‘A’ banks have scant resources for expansion.

**Panin Bank**

The only significant bank to be classified as an “A” bank was Panin Bank, which escaped disaster not so much due to more stringent lending criteria as to a low loan-to-deposit ratio. Of the top 20 banks in pre-crisis Indonesia, Panin is the only one which has remained in continuous operation throughout the crisis without government assistance. In some ways this has hurt the bank, as its category 5 loans are still on the books and NPLs represent a much more significant impediment to operations than they do at such banks as BCA and BII.

Figure 18: Bank Central Asia  
**Competitive Position of Major Banks (September 1999, Rupiah Trillion)**

Bank	Branches	ATMs†	Employees†	Total Assets	Total Credits	Total Deposits	Savings/Demand Deposits	Total Equity
Mandiri	740	N/A	N/A	204.7	64.4	176.4	37.5	N/A
BNI	573	739	14,030	107.5	43.0	74.3	28.9	3.3
BCA	776	1,770	21,864	91.2	3.8	83.6	43.7	2.4
BII	259	420	8,007	40.2	11.6	26.8	9.2	2.9
BRI	N/A	N/A	N/A	37.0	33.3	45.4	23.5	N/A
Danamon	701	790	12,763	19.9	1.7	17.8	6.1	3.3
Lippo	359	255	6,832	22.5	4.6	17.4	8.4	(7.5)
Bali	265	349	3,408	8.6	3.2	8.7	3.9	(3.4)

† Data as of December, 1998.  
 Source: IBRA, company reports and Lehman Brothers estimates.

Panin is now, with the help of strategic stake-holder and joint venture partner ANZ, attempting to recast the bank as a consumer-focused institution, but has a long way to go to build its small branch system and business-oriented product base to match BCA, Bali and Danamon.

Panin remains liquid and is aggressively bidding for assets to build its new consumer portfolio. In the first major IBRA sale of banking assets, PT ANZ Panin Bank (a joint venture between ANZ and Panin) in May 1998 purchased the credit card operations, including systems, receivables and 47,000 active accounts, formerly owned by Bank Papan Sejahtera for A\$7 million (US\$4.5 million).

### ***Former Private Recap Banks***

#### **BII**

Bank Internasional Indonesia (BII) was the country's third-largest private bank prior to the crisis. Its largest private shareholders are the Widjaja family, who control the Sinar Mas group. This is one of the largest conglomerates in Indonesia, with core business activities in financial services, pulp and paper, food and agribusiness and property development. The Widjaja family was directly involved in management, but disagreements with IBRA led to the removal of family members Indra Widjaja and Eka Tjipta in September 1999.

BII's capital adequacy ratio equaled negative 21% of risk-weighted assets under BIS standards at year-end 1998 and had fallen to as low as negative 25% in March 1999. This level of capital barely enabled the bank to qualify as a Class B bank and be eligible for government recapitalization, rather than suffer an IBRA receivership.

The Widjaja family continues to subscribe for shares offered to them and this is reflected in the proportion of BII held by the government, which is lower than that of other recapitalized banks. After BII's latest rights issue, the government holds a 57.14 percent stake in the bank, while the Widjaja family owns 27.12% and the public 15.74%.

In a recent extraordinary meeting, shareholders approved a plan to sell up to 10% of the government's stake in the bank to foreign investors through a direct placement. Chase Manhattan has been reported to be the favored bidder for this stake, although no definitive agreement has yet been concluded.

#### **Lippo Bank**

Lippo Bank was established in 1948 by the Riady family and is one of the largest private banks in Indonesia, ranking just below BII before the crisis. The bank is effectively controlled by Lippo Life, which is in turn controlled by Lippo Securities. Like most other private conglomerate banks, Lippo Bank formerly had an extensive lending relationship with its group affiliates, such as Lippo Land. However, the bulk of these loans were repaid as a condition of the approval of the bank's recapitalization plan by the government.

Lippo Bank was the first Indonesian bank to have its recapitalization plan approved by IBRA, even though it was not the only bank to submit a proposal at such an early date. This resulted in Lippo receiving Rp4.7 trillion of the first Rp5 trillion of government funds appropriated for restructuring, causing speculation about whether the political clout of the Riadys was being brought to bear on IBRA.

While still bedeviled by asset quality problems and occasionally tripped up by predicaments that befall the bank, its fellow group members and the Riady family, Lippo has one of the best retail franchises in Indonesia. The bank operates 359 branches across 110 cities and 19 provinces and has a network of 255 ATMs.

It also has an aggressive and slick marketing strategy. Although Lippo is expected to face stiff competition from other banks in the consumer market, the bank has a head start on many of its rivals because it already has an established retail presence.

In July of 1999, a tie-up between Lippo and ING Bank was announced. ING is to provide management assistance to the bank during its modernization in the next three years, and has seconded a new president director and senior staff team to run the bank. ING management have stated that the firm is not planning to take a stake in Lippo but will be paid a fixed fee plus performance related incentives.

### **Bank Bali**

Bank Bali was established in 1954 and was a strong retail bank ranking just below Lippo before the crisis. The bank was controlled and managed by the Ramli family. During the initial IBRA classification phase, Bali was categorized as a B bank and slated for recapitalization. However, when the Ramli family declined to participate in a rights offering, IBRA decided to sell a 20% stake to UK-based Standard Chartered plc as part of the recapitalization proceedings.

The agreement would have given Standard Chartered management control and the option to purchase Bank Bali outright after three years. IBRA would also have had the option to sell its stake in the bank to Standard Chartered after five years, providing the government with valuable downside protection. The management of Bank Bali was taken over by IBRA in July 1998 and shortly thereafter ceded to Standard Chartered. Douglas Beckett, Standard Chartered's Head of Corporate and Institutional Banking for South East Asia was appointed to run Bank Bali and he brought with him a team of several dozen experienced bankers.

However, ongoing audits of the bank revealed that: a) Bali's capital was significantly more negative than originally thought; and b) certain irregular payments had been made to government officials — now termed the "Bank Bali Scandal."

In summary, Bank Bali's owners wanted to secure the release of US\$120 million in interbank funds owed to Bank Bali by banks under IBRA's control. Those deposits were temporarily frozen. Bali urgently needed to recover the deposits as the funds would have formed part of shareholders' contribution towards Bank Bali's recapitalization costs and so were necessary to avert an IBRA takeover. In order to expedite the release of these funds, which were theoretically already guaranteed in full by IBRA itself, the bank arranged to pay US\$72.8 million to two Golkar-linked businessmen.

There have been allegations that part of this "commission" was to be used to bankroll Habibie's presidential bid. Independent auditors PriceWaterhouseCoopers stated in their report that they discovered "*numerous indicators of fraud, noncompliance, irregularity, misappropriation, undue preferential treatment, concealment, bribery and corruption*" in the payments made by the bank and related transactions. While the offending transactions were ultimately reversed, both the bank and government were durably tainted by scandal.

Due to climbing recap costs, the lingering effects of the scandal and a revolt by local employees that resulted in the eviction of Beckett and his team from Bank Bali headquarters, Standard Chartered cancelled the agreement and returned management control to IBRA. Bali will now be either recapitalized solely by the government as a Special BTO or liquidated.

### **Former State Banks**

Bad debts have pushed the state banks into technical insolvency, but they remain in operation because of the government's deposit guarantee and liquidity support from the central bank. IBRA is proceeding with financial restructuring and mergers of the state banks, removing bad assets from the banks' loan portfolios, injecting sufficient new capital for operations and consolidating the sector around a few viable lead bank groups.

Although none of the state banks would have met the criteria for recapitalization promulgated for the private banks, they were deemed so important to national development that they will be recapitalized regardless of their CAR. A measure of this importance is that seven of the 10 largest banks pre-crisis belonged to the state sector.

Despite their former status as instruments of national economic policy, the former state banks will most likely all be privatized in the next few years, due to the huge costs of recapitalization.

### **Bank Mandiri**

The newest of Indonesia's state banks, Bank Mandiri was formed in mid-1999 by the merger of BDN, Bank Exim, Bank Bumi Daya, and BAPINDO, all themselves state owned. Mandiri is by far the largest bank in Indonesia, almost twice the size of BNI, its closest competitor. The bank intends to compete aggressively in both consumer and corporate markets. With approximately 740 branches, massive scale, and state backing, Mandiri would seem to be ideally positioned to take lending share in all markets as credit restrictions are loosened, and management has stated that they intend to meet a goal of US\$1.1 billion in loan origination in FY00.

However, although Mandiri has no history of its own, the bank is still saddled with the management and systems problems of a four-way merger. In addition, the institution must deal with the legacy of a state bank sector which has never properly allocated credit or other resources, instead resorting to policy lending, cronyism, inefficiency, and outright fraud. The transition to a fully private organization will be fraught with peril. To aid management in this transition, IBRA has sought assistance from Deutsche Bank, which is consulting with Mandiri over recapitalization and merger issues.

IBRA currently plans to make an initial public offering of shares in Bank Mandiri sometime after mid-2000.

### **BNI**

Long the largest state bank, and second only to BCA pre-crisis, BNI has perennially been considered the "blue-chip" Indonesian bank. Established in 1946, BNI was originally intended to be the Indonesian central bank, but instead functioned as the government's lead lender to the industrial and manufacturing sectors throughout Indonesia's rapid development during the 1970s and 1980s. The growth of the bank brought BNI to Rp54 trillion in assets by 1997, with a network of more than 490 branches and relationships with Indonesia's most prestigious corporate accounts. At its peak in November 1996, the government listed BNI through an IPO, while retaining a 75% stake.

Policy lending reached its full flower in the late years of the Suharto regime and BNI became a repository for projects which other banks would not fund. Due to its state bank status, BNI was admitted to the recapitalization plan even though its CAR had fallen to negative 78%. Recapitalization will cause the government's stake to rise back above 99%, although the remaining shares will remain listed.

### ***Platform Banks***

#### **Bank Danamon**

Bank Danamon was formerly controlled by Usman Admadjaja and his Danamon Group. It was the largest listed bank in Indonesia before the crisis. The bank expanded rapidly between 1995 and 1997, doubling its branch network to more than 700 with branches and ATMs in all 27 Indonesian provinces. After the onset of the Asian economic crisis, Danamon, weakened by bad lending, experienced a sustained liquidity crisis and came to rely increasingly on Bank Indonesia liquidity support.

Along with Bank PDFCI, BCA and Bank Tiara Asia, Danamon was taken over by the government in May 1998 due to its excessive use of and inability to repay BI's liquidity support. Due to the bank's size and large branch network, the government elected to fashion Danamon into a core "platform" bank by removing bad assets and recapitalizing the bank with government bonds. Danamon would then be used as a lead bank into which IBRA could merge smaller, non-viable institutions.

The recapitalization of Danamon has been completed, with IBRA injecting Rp29 trillion in government bonds. Impaired assets were taken from the bank and are now managed by PT Bentala Kartika Abadi, one of five holding companies set up by IBRA to hold and manage acquired assets. At the end of 1999, Bank Risjad Salim, formerly controlled by Salim Group head Liem Sioe Liong, was merged into the bank. IBRA expects to merge eight other institutions into the bank prior to listing the entity: Bank Duta; Bank Tiara Asia; Bank Nusa Nasional; Bank Tamara; Bank Rama; Bank Jaya International; Bank PDFCI; and Bank Pos Nusantara. The resulting institution will be the fourth-largest bank in Indonesia, with assets of more than Rp44 trillion.

## **INDUSTRY CONSOLIDATION**

One of the positive aspects of the financial crisis has been consolidation of the banking industry. There has been a good deal of concentration of banking assets following the mergers of the major banks. The top five banks now command 56% of all deposits. However, while the number of banks has fallen from 239 prior to the crisis to 164 at present, this is still an excessive number given the level of economic development in Indonesia as well as the amount of banking assets.

Even after the bank closures and rationalizations already orchestrated by IBRA, we believe that consolidation of the sector has barely begun. With government entities making no secret of their desire for fewer, larger banks, we expect to see minimum capital requirements rise sharply in the next few years, similar to the path taken by the Philippines. This, along with an initially low loan growth environment, will provoke more strategic mergers, with the market eventually making room for 10-15 large banks and a like number of niche players.



Figure 19: Bank Central Asia  
**Indonesian Financial Institutions: End 1996 Versus Today**

End 1996	Actions Taken	Current Status
Seven State Banks	Merger of four State Banks into Bank Mandiri	Four State Banks
164 Private Banks	72 banks closed 13 banks taken over (BTO) Nine banks recapitalized	72 "A" surviving banks 20* banks in the rehabilitation process
41 Joint Venture/Foreign Banks	Three banks closed, three banks opened as a result of Foreign investment	41 Joint Venture/Foreign Banks
27 Regional Gov't Banks	No action to date	27 Regional Gov't Banks
<b>239 Total Banks</b>		<b>164 Total Banks</b>

\* Two banks have both BTO and Recapitalized Bank status.  
Source: Lehman Brothers estimates.

## BALANCE SHEET

### *Asset Quality*

BCA's asset quality, after a rapid deterioration during the crisis, is now almost unblemished, and among the best in Asia on an NPL/Total Assets basis. After the IBRA takeover of the bank, non-performing loans soared to over 92% of gross loans, with the majority categorized as loss. Figure 19 illustrates the breakdown of classified loans in the rupiah and foreign currency books. Note that financial statements prior to the IBRA takeover appear to be inaccurate, with non-current loans recorded as performing while the unreceived interest was capitalized on the balance sheet. In addition, it would seem likely that additional advances were made to troubled borrowers in order to permit them to service their loans.

In the second quarter of 1999, IBRA removed the vast majority of BCA's impaired loans, which constituted almost all of the loan book, leaving only a small residue of Rp456 billion (~US\$63 million) in classified loans (Substandard, Doubtful, and Loss), or only 12% of the remaining loan portfolio. These loans are mainly too small for IBRA to service effectively, and so remain with the bank. However, BCA has provisioned fully against these loans (see "*Reserve Adequacy*," below). Note that beginning with 4Q1999, we have included data on loans especially mentioned, newly released by the bank, in our calculations of NPLs. While this has caused the overall amount to rise, aggregate Substandard, Doubtful, and Loss loans continue to fall in both absolute and relative terms.

Figure 20: Bank Central Asia  
**BCA's Asset Quality: Rupiah vs. Foreign Currency**

(Rp Billions)	1996		1997		1998		1999	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>Rupiah</b>								
Pass	16,595	99.9%	25,513	99.15%	3,361	11.99%	2,299	77.99%
Special Mention	0	0.00%	0	0.00%	598	2.13%	417	14.15%
Substandard	15	0.09%	54	0.21%	235	0.84%	19	0.64%
Doubtful	88	0.53%	113	0.44%	983	3.51%	101	3.42%
Loss	49	0.29%	52	0.20%	22,858	81.53%	112	3.80%
Total	16,747	100.00%	25,732	100.00%	28,835	100.00%	2,948	100.00%
<b>Foreign Currency</b>								
Pass	6,199	99.14%	14,007	35.12%	2,724	5.45%	1,005	24.44%
Special Mention	11	0.18%	-	-	1,060	2.12%	32	0.78%
Substandard	15	0.24%	58	0.15%	3,514	7.04%	73	1.78%
Doubtful	23	0.37%	75	0.19%	2,630	5.27%	54	1.31%
Loss	5	0.08%	8	0.02%	11,973	23.98%	-	-
Total	6,253	100.00%	14,148	100.00%	21,901	100.00%	1,164	100.00%

Source: Company reports; Lehman Brothers estimates.

Figure 21: Bank Central Asia  
**BCA's Asset Quality: Historical Comparison**

(Rp Billions)	1996		1997		1998		1999	
	Amount	%	Amount	%	Amount	%	Amount	%
Pass	22,794	99.10%	39,520	99.10%	6,085	12.19%	3,304	80.35%
Special Mention	11	0.05%	-	0.00%	1,658	3.32%	449	10.92%
Substandard	30	0.13%	112	0.28%	3,749	7.51%	92	2.24%
Doubtful	111	0.48%	188	0.47%	3,613	7.24%	155	3.77%
Loss	54	0.23%	60	0.15%	34,831	69.75%	112	2.72%
Total	23,000	100.00%	39,880	100.00%	49,936	100.00%	4,112	100.00%
Total Classified	195	0.85%	360	0.90%	42,193	84.49%	359	8.73%
Total Criticized	206	0.90%	360	0.90%	43,851	87.81%	808	19.65%

Source: Company reports and Lehman Brothers estimates.

BCA's level of NPLs/Assets compares very favorably with leading banks in certain other Asian markets (see Figure 21), including Singapore, Thailand, the Philippines, and Korea. In addition, Figure 22 shows that BCA has a substantial asset quality advantage over all of its main Indonesian competitors, with the exception of Bank Danamon, which as a BTO bank has undergone a similar IBRA asset remediation plan. Without a legacy asset quality problem, we do not expect that BCA will experience high levels of loan loss provisions or foregone interest income over the next several years, which will permit the bank to earn better-than-average profits and increase its capital strength.

Figure 22: Bank Central Asia  
Asset Quality Regional Comparison

	BCA Indonesia 3/31/00	DBS Singapore 12/31/99	OCBC Singapore 12/31/99	BBL Thailand 3/31/00	TFB Thailand 3/31/00	BPI Philippines 12/31/99	MBT Philippines 12/31/99	Hanvit Korea 12/31/99	Kookmin Korea 12/31/99
NPLs/Loans	8.0%	9.8%	9.1%	49.1%	42.3%	10.7%	10.4%	16.5%	10.9%
NPLs/Assets	0.3%	7.7%	8.0%	39.0%	29.6%	5.2%	5.0%	10.4%	6.8%

Source: Company reports; Lehman Brothers estimates.

Figure 23: Bank Central Asia  
Asset Quality Domestic Comparison

	BCA Indonesia 3/31/00	Lippo Indonesia 3/31/00	BNI Indonesia 3/31/00	BI Indonesia 3/31/00	Panin Indonesia 3/31/00	Danamon Indonesia 9/30/99	Bali Indonesia 9/30/99
NPLs/Loans	8.0%	116.5%	69.4%	2.1%	65.4%	6.85%	70.60%
NPLs/Assets	0.3%	23.8%	20.2%	0.8%	25.7%	0.52%	27.23%

Source: Company reports; Lehman Brothers estimates.

### **Loan Loss Reserve: Fully Funded**

We have assessed BCA's loan loss reserve adequacy using our standard methodology (see Figure 23-24), which incorporates reserves both for identified problem assets and for future unidentified risks residing within the portfolio of Pass, or current, loans. This methodology is considerably more severe than the BI reserve adequacy test which BCA is required to, and does, meet. BCA is 96% reserved by our methodology, essentially full coverage of risks. On a gross coverage basis, general and specific reserves cover over 62% of gross NPLs.

Figure 24: Bank Central Asia  
Reserve Adequacy: 3/31/00

Reserve Adequacy At 3/31/00. Rp billions.	Gross Amount	Reserve Percentage	Required Reserve
Pass	3,410	1%	34
Special Mention	401	5%	20
Substandard	75	20%	15
Doubtful	101	50%	50
Loss	59	100%	59
Total	4,046		179
Actual Reserve			262
<b>Reserve Adequacy</b>			<b>146%</b>

Source: Company reports; Lehman Brothers estimates.

Figure 25: Bank Central Asia  
Reserve Adequacy: 12/31/99

Reserve Adequacy At 12/31/99. Rp billions.	Gross Amount	Reserve Percentage	Required Reserve
Pass	3,371	1%	34
Special Mention	351	5%	18
Substandard	137	20%	27
Doubtful	99	50%	50
Loss	110	100%	110
<b>Total</b>	<b>4,068</b>		<b>238</b>
Actual Reserve			320
<b>Reserve Adequacy</b>			<b>134%</b>

Source: Company reports; Lehman Brothers estimates.

All of these measures are presented gross of collateral, which BCA does hold against many of these loans. Under the BI methodology, BCA can deduct the value of collateral under control of the bank (e.g., land, buildings or other fixed assets) from the amount outstanding when making allowance for special mention, sub-standard, doubtful, or loss loans, provided that the bank has an external professional appraisal of the collateral performed.

The maximum amount which can be deducted is 100% of the cash equivalent value for certain types of liquid collateral such as matched deposits, and 75% of the appraised value for less liquid collateral. BCA has a policy of re-appraising collateral at least annually in the case of land and buildings, and at least semiannually in the case of inventories. It is also the bank's policy that collateral for a loan in excess of Rp2.5 billion be professionally appraised.

Figure 26: Bank Central Asia  
Loan Classification Criteria and Provisioning Requirements

	Current	Special Mention	Substandard	Doubtful	Loss
<b>Business Prospects</b>					
Growth Potential of Industry	Good	Limited	No growth	Decline	Discontinue
Sensitivity to Economy	Unaffected	Slightly	Affected	Affected	In decline
Competition	Limited	Some	Much	Intense	
Management	Very good	Good	Fair	Inexperienced	Very weak
Affiliated Companies	Supportive	Stable	Negative	Negative	Damaging
Employees	No strikes	No strikes	Unrest	Unrest	Strikes
<b>Financial Conditions</b>					
Earnings	High	Stable	Low	Negative	Big loss
Debt/Equity Ratio	Low	Good	Quite high	High	Very high
Liquidity	Strong	Good	Lacking	Low	None
Cash Flow Analysis	Can repay	Likely to repay	Pays interest	Unable	Operating loss
Forex/Interest Sensitivity	Low	Some	Affected	Greatly affected	Threatened
New Loans Used to			Offset problems	Pay principal	Cover losses
<b>Repayment Ability</b>					
Arrears	No arrears	Up to 90 days	90-180 days	181 to 270 days	Over 270 days
Relationship to Bank	Good	Good	Compromised	Weak	
Documentation/Collateral	Complete	Complete, breaches	Incomplete, breaches	Many breaches	None
<b>Provisioning Requirements</b>					
Up to May 2000	0.625%	2.5%	7.5%	50%	100%
From June 2001	1.000%	5.0%	15.0%	50%	100%

Source: Bank Indonesia.

**EARNINGS  
PROJECTIONS**

Almost every major bank in the country, with the notable exception of Panin, sustained a loss of several times its capital for 1998, with returns on assets ranging from 39.6% at BII to 82.6% at BNI leading to the inevitable insolvency that followed. Even Panin would have run through several times its capital had it provisioned adequately for 1998.

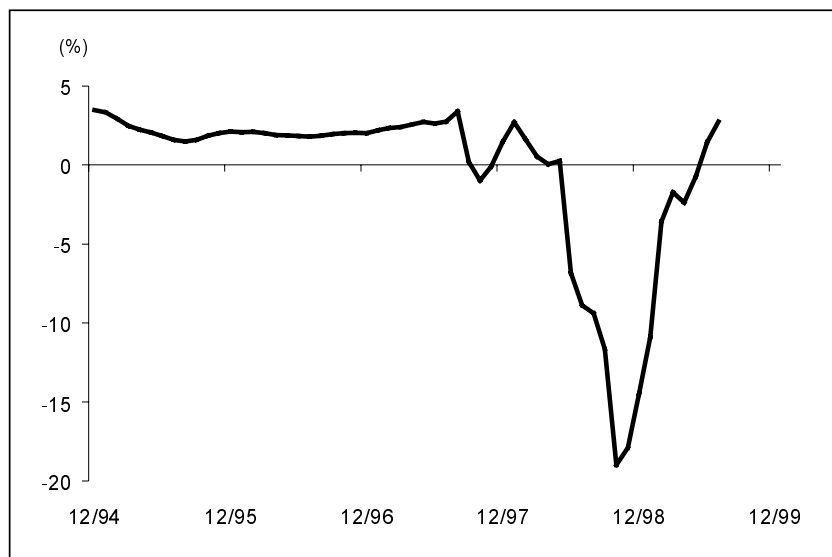
***Anemic Margins***

Indonesian banks suffered from negative interest spreads for most of 1998 and 1999, although recapitalized banks are now posting positive margins. The negative NIMs were due primarily to three factors:

- Foregone interest income on NPLs, as borrowers were unable to make interest payments on loans. Category 2 to 5 loans reached an average of 75% of all loans in March 1999. At BCA, categories 2-5 represented 92% of gross loans in March 1999.
- Banks have been unable (for those under IBRA control) or reluctant to make new loans, and have therefore kept excess funds in BI papers (SBI's), whose yield has generally been lower than that of bank deposits.
- Banks have been forced to compete aggressively for deposits by offering high interest rates in order to maintain their deposit bases.

This situation has gradually improved as the banks swap Category 5 loans for government bonds, deposit rates decline to a manageable level, and lending interest income rises with a recovery of economic growth, falling borrowing rates and debt restructuring. However, while Category 5 loans have been transferred to IBRA, Category 2 to 4 loans (Special Mention, Substandard, and Doubtful) still account for 50% of the banks' remaining loans—a material advantage for BCA.

Figure 27: Bank Central Asia  
**Interest Spreads** (Average Lending Rate Minus 3-Month Deposit Rate)



Source: CEIC and Lehman Brothers

### **Rates and Margins**

BCA's net interest margin was negative throughout 1998, culminating in a level of negative 110% in 1Q1999, as NPLs reached their peak, with commensurate levels of foregone interest income. In addition, IBRA's audit and subsequent assumption of control of the bank brought an end to the practice of recording accrued interest receivables on non-performing loans, necessitating writeoffs of interest income booked in previous periods.

Going forward, we expect margins to recover, reaching 2.70% by the end of FY2000, with an average level of 2.15% for the year, and averaging 2.93% in FY2001. This is substantially above BCA's pre-crisis NIM; however, asset margins in the past were depressed by the use of BCA as a low-cost funding source by the Salim Group. In addition, BCA's expansion into consumer lending, which bears higher margins, and its emphasis on lower-cost core deposits for funding (as opposed to time deposits) will aid in expanding margins.

### **High Growth in Core Earnings**

We expect core earnings growth of 57% in FY2000 and 38% in FY2001, as BCA recovers from the severe losses of its crisis period. Based on our projections, core earnings of Rp641 billion in FY1999 (Rp218 per share) will rise to Rp1,005 billion in FY2000 (Rp341 per share) and Rp1,392 billion (Rp473 per share) in FY2001. Despite the chaotic state of the Indonesian banking sector as a whole, these earnings represent substantial value for shareholders, with an average ROE projected for FY2000-2001 of 33%.

Figure 28: Bank Central Asia  
Earnings Projections and Ratios

	1997A	1998A	1999A	1Q00A	2000E	2001E
Net Income	151.67	(29,654.85)	641.29	322.02	1,005.01	1,391.70
EPS	51.54	(10,076.40)	217.90	109.42	341.49	472.89
NIM	1.95%	-31.40%	-6.66%	2.01%	1.81%	2.44%
Core ROE	8.24%	239.35%	-5.27%	50.69%	33.87%	32.09%
Core ROA	0.34%	-49.59%	0.79%	1.32%	1.01%	1.33%
Overhead	2.12%	2.30%	1.89%	1.58%	1.65%	1.79%
Efficiency	59.87%	-5.95%	66.83%	47.80%	53.70%	48.76%

In Billions of Rupiah, except per share data. Source: Company reports; Lehman Brothers estimates.

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

In order to accurately compare BCA 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. This revaluation represents the write-up of land and buildings that BCA took during 4Q99. While we do not dispute the appraised market value of these properties, 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, Thailand, 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.

***Capitalized Tax-Loss Carry-Forwards***

BCA has generated substantial net operating losses (NOL) which can be offset against future income for tax purposes. The bank has elected to capitalize the value of these tax loss carry-forwards on its balance sheet, increasing book capital by Rp 1.6 trillion, as permitted by Indonesian GAAP. As we view this as a conditional asset — as it is dependent on the bank's earning a certain amount of profits over the next five years — we have elected to remove this item from book value. We do, naturally, give proper credit for the effects of the NOL in our earnings estimates.

Figure 29: Bank Central Asia  
**Reconciliation of Book Value with Adjusted Book Value**

	12/31/99 Actual	3/31/00 Actual	12/31/00 Estimated	12/31/01 Estimated
Reported Book Value	5,121.0	5,305.5	5,988.5	7,380.2
Less: Property Revaluation	1,043.5	1,043.5	1,043.5	1,043.5
Less: Tax Carry-Forward Assets	1,653.0	1,603.9	1,435.0	1,172.1
Adjusted Book Value	2,424.6	2,658.1	3,510.0	5,164.6
ABV/BV	47.3%	50.1%	58.6%	70.0%

Note: In Billions of Rupiah.  
Source: Company reports; Lehman Brothers estimates.

Figure 30: Bank Central Asia  
**Mean and Median Asian Bank Deposit Premia**

	Deposit Premium	
	Mean	Median
Indonesia	42.8%	23.5%
Thailand	32.3%	28.4%
Singapore	10.7%	11.0%
Philippines	6.2%	5.2%
Korea	2.0%	2.2%
Average	18.8%	14.1%
Average (Ex-Indonesia)	12.8%	11.7%

Source: Lehman Brothers estimates.

### ***Deposit Franchise Valuation***

In order to quantify BCA's continuing enterprise value — the premium above book value that investors should be willing to pay, we have elected to place a good deal of weight on deposit-centric valuation methods. This is because the new BCA has only a few quarters of financial track record as a fully recapitalized entity, making other methodologies difficult to implement. In addition, the bank's main competitive strength is its deposit and customer franchise, so that it makes sense to base enterprise value on this measurement.

In order to calculate deposit premium, we have taken the market value of leading institutions in each market and subtracted their adjusted book value. The excess or discount remaining has been divided by total deposits. Our universe in the various countries was as follows: Indonesia: BNI, Lippo, Bali, BII, Danamon, and Panin; Thailand: Thai Farmers, Thai Military, Siam Commercial, Bank of Ayudhya, Krung Thai, and Bangkok Bank; Singapore: DBS, OCBC, OUB, and UOB; the Philippines: BPI, Metrobank, and Equitable; Korea: Kookmin, Hanvit, Housing & Commercial, Hana, Cho Hung, and Korea Exchange Bank.

The average of the median deposit premium in each market was 14.1%; however, this figure is skewed sharply by the valuations of listed Indonesian banks. Due to minimal float at some of these institutions, as well as ongoing recapitalizations that have caused the gross premium to be inflated due to low book values, we think that the average of the median deposit premium ex-Indonesia, 11.7%, is a better benchmark. Countries with extremely low deposit premia, such as Korea, tend to have high remaining levels of NPLs that are not disclosed or fully covered by provisioning. On an adjusted book value basis, which takes into account underfunded loan loss reserves, these markets would exhibit a markedly higher deposit premium were true loan losses to be fully reported.



Figure 31: Bank Central Asia  
**Market Share of Deposits of Top Banks (%)**

	No. 1	No. 2	No. 3	No. 4	No. 5	Top 5
Singapore	39	16	14	15	6	91
Thailand	20	17	12	12	9	71
Malaysia	21	13	9	9	5	57
Korea	15	14	8	8	7	53
Indonesia	14	12	9	9	9	48
Philippines	12	10	9	6	5	43

Source: CEIC and Lehman Brothers estimates.

Figure 32: Bank Central Asia  
**Adjusted Deposit Premium Valuation**

	Premium Rate	Value
Demand and Savings Deposits	5.0%	Rp2,184 billion
Time Deposits	2.5%	997 billion
Total Deposit (Enterprise) Value		3,181 billion

Source: Lehman Brothers estimates.

At a 11.7% premium level, BCA's enterprise value over and above book assets would be Rp10.3 trillion, representing an indicated price-to-book level of 2.4x and a price-to-adjusted-book level of 4.9x.

### ***Adjustments to Deposit Premium***

While the median figure arrived at above is a good benchmark, we have elected to adjust the premium based on deposit fragmentation, a good long-run predictor of deposit profitability. Indonesia has among the most fragmented deposit share environments, with the Philippines poised to surpass it as pending mergers are completed. We also foresee further consolidation in Malaysia and Singapore, which will raise the concentration of their top five banks even further.

In addition, any measure of deposit value should take into account the mix of deposits and their varying profitability. In particular, we assign a lower value to BCA's time deposits, as they are less profitable and more rate sensitive. Based on these factors, we have calculated an enterprise value for BCA of Rp3.2 trillion, using a premium rate of 5% on demand and savings deposits and only half of that on more-volatile time deposits. When added to adjusted book value (at 1Q00) of Rp2.65 trillion, our fair value estimate for BCA as a whole becomes Rp5.85 trillion, or Rp1,988 per share.

This valuation is equivalent to 1.1x book value and 2.2x adjusted book value at 1Q00.

### **Earnings Valuation**

Based on our cost of capital model, we would find fair value for Asian banks on a P/E basis, before market and stock-specific risk premia, of 12.5x core forward earnings on a basic retail banking business (*i.e.*, without substantial asset management, securities, or other high-quality fee income). Taking into account the higher volatility and specific risks of the Indonesian market, we believe an appropriate range after discounting these factors to be 5.6x core earnings to 8.5x core earnings.

Due to BCA's competitive position and high projected earnings growth, we believe that fair value for the bank lies close to the upper end of the range, at 7.8x core earnings. Note that we have normalized these earnings to account for the tax loss carry-forwards now in use, assuming for valuation purposes that net income is taxed at a constant 34%. Normalized EPS for FY00 is expected to be Rp244.1, yielding a median valuation of Rp1,904 per share.

Figure 33: Bank Central Asia  
**Tax-Normalized Earnings Per Share**

(Rp)	1999	2000	2001
EPS	217.9	341.5	472.9
Tax-Normalized EPS	52.5	244.1	346.8

Source: Lehman Brothers estimates.



Figure 34: Bank Central Asia  
Actual and Projected Profit and Loss Statements

	1996 Year Actual	1997 Year Actual	YOY Chg.	1998 Year Actual	YOY Chg.	1999 Year Actual	YOY Chg.	2000 Year Estimated	YOY Chg.	2001 Year Estimated	YOY Chg.
<b>INCOME STATEMENT</b>											
Interest Income	4,396.3	6,285.2	0%	15,932.8	0%	13,932.5	0%	9,511.8	0%	9,592.7	0%
<i>Yield on Earning Assets</i>	13.26%	12.96%	0%	33.47%	0%	16.60%	0%	10.55%	0%	10.05%	0%
Interest Expense	3,756.8	5,489.4	0%	31,023.1	0%	18,311.3	0%	7,940.6	0%	7,331.9	0%
<i>Cost of Interest-Bearing Liabilities</i>	11.23%	11.20%	0%	34.00%	0%	20.37%	0%	8.64%	0%	7.80%	0%
Net Interest Income	639.5	795.8	24%	(15,090.3)	-1996%	(4,378.7)	-71%	1,571.3	-136%	2,260.8	44%
<b>Net Interest Margin</b>	<b>2.20%</b>	<b>1.95%</b>		<b>-31.40%</b>		<b>-6.66%</b>		<b>1.81%</b>		<b>2.44%</b>	
Non-Interest Income:	445.1	651.8	46%	(3,479.9)	-634%	6,237.1	-279%	1,103.7	-82%	1,147.2	4%
Fee Income	272.4	215.3	-21%	313.6	46%	273.4	-13%	377.3	38%	419.3	11%
Dealing Profit	51.8	275.3	432%	(3,866.5)	-1504%	5,572.3	-244%	153.7	-97%	130.2	-15%
Securities Gains	-	-	NM	-	NM	-	NM	-	NM	-	NM
Other Income	120.9	161.3	33%	73.0	-55%	391.4	436%	572.7	46%	597.7	4%
<i>% of Average Earning Assets</i>	1.53%	1.60%		-7.24%		9.48%		1.27%		1.24%	
<i>% of Gross Earnings</i>	41.04%	45.03%		18.74%		335.62%		41.26%		33.66%	
Non-Interest Expense:	687.4	866.7	26%	1,104.3	27%	1,241.9	12%	1,436.6	16%	1,661.7	16%
Salaries and Benefits	328.6	407.3	24%	431.9	6%	508.4	18%	709.2	40%	881.8	24%
Premises and Equipment	171.3	213.6	25%	324.7	52%	99.4	-69%	406.2	309%	423.9	4%
Other Expenses	187.6	245.8	31%	347.7	41%	634.2	82%	321.2	-49%	356.0	11%
<i>Efficiency Ratio</i>	63.38%	59.87%		-5.95%		66.83%		53.70%		48.76%	
<i>Overhead Ratio</i>	2.36%	2.12%		2.30%		1.89%		1.65%		1.79%	
Net Income Before Taxes & Provisions	397.2	581.0	46%	(19,674.6)	-3486%	616.4	-103%	1,238.5	101%	1,746.3	41%
Loan Loss Provision	136.7	355.4	160%	9,980.3	2708%	382.2	-96%	150.0	-61%	200.0	33%
Net Income Before Taxes	260.5	225.6	-13%	(29,654.9)	-13243%	234.3	-101%	1,088.5	365%	1,546.3	42%
Taxes	81.3	74.0	-9%	-	-100%	(407.0)	NM	83.5	-121%	154.6	85%
<i>Tax Rate</i>	31.21%	32.78%		0.00%		NM		7.67%		10.00%	
Income Before Extraordinary Items	179.2	151.7	-15%	(29,654.9)	-19652%	641.3	-102%	1,005.0	57%	1,391.7	38%
Extraordinary Items	-	-	NM	-	NM	-	NM	-	NM	-	NM
Minority Interests	10.2	-	-100%	-	NM	-	NM	(0.0)	NM	-	-100%
<b>CORE EARNINGS</b>	<b>168.9</b>	<b>151.7</b>	<b>-10%</b>	<b>(29,654.9)</b>	<b>-19652%</b>	<b>641.3</b>	<b>-102%</b>	<b>1,005.0</b>	<b>57%</b>	<b>1,391.7</b>	<b>38%</b>
<b>NET INCOME</b>	<b>168.9</b>	<b>151.7</b>	<b>-10%</b>	<b>(29,654.9)</b>	<b>-19652%</b>	<b>641.3</b>	<b>-102%</b>	<b>1,005.0</b>	<b>57%</b>	<b>1,391.7</b>	<b>38%</b>
Dividends Paid	-	-	NM	-	NM	-	NM	-	NM	-	NM
<i>Dividend Yield (For. Shares)</i>	0.00%	0.00%		0.00%		0.00%		0.00%		0.00%	
<i>Effective Payout</i>	0.00%	0.00%		0.00%		0.00%		0.00%		0.00%	
Return on Assets (ROA)	0.54%	0.34%		-49.59%		0.79%		1.01%		1.33%	
Core ROA	0.54%	0.34%		-49.59%		0.79%		1.01%		1.33%	
Return on Equity (ROE)	10.54%	8.24%		239.35%		-5.27%		33.87%		32.09%	
Core ROE	10.54%	8.24%		239.35%		-5.27%		33.87%		32.09%	

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Figure 34: Bank Central Asia  
Actual and Projected Profit and Loss Statements (Continued)

	1996 Year Actual	1997 Year Actual	YOY Chg.	1998 Year Actual	YOY Chg.	1999 Year Actual	YOY Chg.	2000 Year Estimated	YOY Chg.	2001 Year Estimated	YOY Chg.
<b>SHARE INFORMATION:</b>											
Net Income Per Share (EPS)	57.41	51.54	-10%	(10,076.40)	-19652%	217.90	-102%	341.49	57%	472.89	38%
EPS Before Extraordinary Items	60.88	51.54	-15%	(10,076.40)	-19652%	217.90	-102%	341.49	57%	472.89	38%
Core Earnings Per Share	57.41	51.54	-10%	(10,076.40)	-19652%	217.90	-102%	341.49	57%	472.89	38%
Dividends Per Share	-	-	NM	-	NM	-	NM	-	NM	-	NM
Book Value Per Share	574.12	676.36	18%	(9,096.02)	-1445%	1,740.07	-119%	2,034.81	17%	2,507.70	23%
Adjusted Book Value (ABV) Per Share	574.12	676.36	18%	(9,096.02)	-1445%	823.84	-109%	1,192.67	45%	1,754.88	47%
Share Price Period End: Foreign Shares	-	-	NM	-	NM	-	NM	1,405.00	NM	1,405.00	0%
Price to Book: Foreign Shares	0%	0%		0%		0%		69%		56%	
Price to Adjusted Book: Foreign Shares	0%	0%		0%		0%		118%		80%	
Price to Earnings: Foreign Shares	-	-		-		-		4.11		2.97	
Price to Core Earnings: Foreign Shares	-	-		-		-		4.11		2.97	
Period-end Shares Outstanding	2.9	2.9	0%	2.9	0%	2.9	0%	2.9	0%	2.9	0%
Average Shares Outstanding	2.9	2.9	0%	2.9	0%	2.9	0%	2.9	0%	2.9	0%
Market Capitalization (For. Shares)	-	-	NM	-	NM	-	NM	4,134.9	NM	4,134.9	0%
<b>BALANCE SHEET INFORMATION:</b>											
Total Assets	36,097.2	52,915.1	47%	66,682.0	26%	96,450.4	45%	101,860.4	6%	107,844.9	6%
Average Assets	31,360.4	44,506.1	42%	59,798.5	34%	81,566.2	36%	99,155.4	22%	104,852.6	6%
Earning Assets	33,144.4	48,502.9	46%	47,605.1	-2%	83,915.3	76%	90,164.7	7%	95,462.1	6%
Average Earning Assets	29,067.4	40,823.7	40%	48,054.0	18%	65,760.2	37%	87,040.0	32%	92,813.4	7%
% of Assets	81%	77%		72%		68%		85%		86%	
Total Deposits	31,156.4	43,988.7	41%	57,603.9	31%	86,803.0	51%	88,420.9	2%	90,391.6	2%
Loan-to-Deposit Ratio	76%	91%		87%		5%		8%		12%	
Period-End Equity	1,689.6	1,990.5	18%	(26,769.6)	-1445%	5,121.0	-119%	5,988.5	17%	7,380.2	23%
Property Revaluation	-	-	NM	-	NM	1,043.5	NM	1,043.5	0%	1,043.5	0%
Goodwill and Other Adjustments	-	-	NM	-	NM	1,653.0	NM	1,435.0	-13%	1,172.1	-18%
Adjusted Equity	1,689.6	1,990.5	18%	(26,769.6)	-1445%	2,424.6	-109%	3,510.0	45%	5,164.6	47%
Average Adjusted Equity	1,603.1	1,840.1	15%	(12,389.5)	-773%	(12,172.5)	-2%	2,967.3	-124%	4,337.3	46%
Avg. Equity to Total Assets	4.7%	3.8%		-40.1%		5.3%		5.9%		6.8%	
Avg. Adj. Equity to Total Assets	4.4%	3.5%		-18.6%		-12.6%		2.9%		4.0%	
<b>ASSET QUALITY INFORMATION:</b>											
Total Loans	23,799.4	39,939.9	68%	49,956.0	25%	4,101.2	-92%	6,990.3	70%	10,442.9	49%
Average Loans	20,490.4	31,869.7	56%	44,947.9	41%	27,028.6	-40%	5,545.7	-79%	8,716.6	57%
Accrued Interest Receivables	377.5	728.7	93%	8,210.5	1027%	41.0	-100%	62.9	53%	83.5	33%
% of Total Loans	1.59%	1.82%		16.44%		1.00%		0.90%		0.80%	
Nonperforming Loans (NPLs)	195.0	371.0	NM	42,210.0	NM	473.6	NM	466.5	NM	639.1	NM
Foreclosed Real Estate (ORE)	-	-	NM	-	NM	-	NM	3.5	NM	5.2	49%
Nonperforming Assets (NPAs)	195.0	371.0	NM	42,210.0	NM	473.6	NM	470.0	NM	644.4	NM
% of Total Loans	0.82%	0.93%		84.49%		11.55%		6.72%		6.17%	
Total Loan Loss Reserves	376.6	773.1	105%	10,158.4	1214%	319.7	-97%	364.0	14%	473.3	30%
% of Total Loans	1.58%	1.94%		20.33%		7.79%		5.21%		4.53%	

Source: Lehman Brothers estimates.

Figure 36: Bank Central Asia  
**Actual and Projected Profit and Loss Statements**

	1999 1Q Actual	1999 2Q Actual	1999 3Q Actual	1999 4Q Actual	2000 1Q Actual	2000 2Q Estimated	2000 3Q Estimated	2000 4Q Estimated	2001 1Q Estimated	2001 2Q Estimated	2001 3Q Estimated	2001 4Q Estimated
<b>INCOME STATEMENT</b>												
Interest Income	776.7	6,796.0	3,579.7	2,780.1	2,548.8	2,326.9	2,252.4	2,383.8	2,298.7	2,415.8	2,366.2	2,512.1
<i>Yield on Earning Assets</i>	6.1%	36.3%	17.1%	13.3%	11.7%	10.6%	10.1%	10.6%	10.1%	10.4%	10.1%	10.5%
Interest Expense	7,735.8	5,514.9	2,795.5	2,265.1	2,118.4	1,999.2	1,931.3	1,891.8	1,886.6	1,853.6	1,812.8	1,778.9
<i>Cost of Interest-Bearing Liabilities</i>	29.7%	27.2%	12.7%	10.1%	9.2%	8.7%	8.4%	8.2%	8.2%	8.0%	7.8%	7.6%
Net Interest Income	(6,959.1)	1,281.1	784.2	514.9	430.4	327.7	321.1	492.1	412.1	562.2	553.4	733.1
<b>Net Interest Margin</b>	<b>-109.73%</b>	<b>8.15%</b>	<b>3.95%</b>	<b>2.46%</b>	<b>2.01%</b>	<b>1.50%</b>	<b>1.45%</b>	<b>2.20%</b>	<b>1.81%</b>	<b>2.44%</b>	<b>2.37%</b>	<b>3.09%</b>
Non-Interest Income:	1,202.1	4,747.7	174.0	113.3	277.5	272.7	275.4	278.1	281.4	285.0	288.6	292.2
Fee Income	64.4	76.6	178.1	(45.7)	76.8	99.1	100.2	101.3	102.6	104.1	105.6	107.1
Dealing Profit	1,039.3	4,640.2	(109.4)	2.3	59.4	31.1	31.4	31.8	32.1	32.4	32.7	33.0
Securities Gains	-	-	-	-	-	-	-	-	-	-	-	-
Other Income	98.4	30.9	105.3	156.7	141.3	142.6	143.8	145.1	146.8	148.5	150.3	152.1
<i>% of Average Earning Assets</i>	19.0%	30.2%	0.9%	0.5%	1.3%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
<i>% of Gross Earnings</i>	-20.9%	78.7%	18.2%	18.0%	39.2%	45.4%	46.2%	36.1%	40.6%	33.6%	34.3%	28.5%
Non-Interest Expense:	251.7	292.9	302.5	394.8	338.4	356.4	365.9	375.9	390.8	406.6	423.3	441.0
Salaries and Benefits	115.7	115.2	115.2	162.4	174.0	170.3	178.3	186.6	199.3	212.8	227.2	242.6
Premises and Equipment	-	-	-	99.4	100.2	101.1	102.0	102.9	104.1	105.3	106.6	107.9
Other Expenses	136.1	177.8	187.3	133.0	64.2	84.9	85.7	86.4	87.4	88.5	89.5	90.6
<i>Efficiency Ratio</i>	-4.4%	4.9%	31.6%	62.8%	47.8%	59.3%	61.3%	48.8%	56.3%	48.0%	50.3%	43.0%
<i>Overhead Ratio</i>	4.0%	1.9%	1.5%	1.9%	1.6%	1.6%	1.7%	1.7%	1.7%	1.8%	1.8%	1.9%
Net Income Before Taxes & Provisions	(6,008.7)	5,735.9	655.8	233.5	369.5	244.1	230.6	394.3	302.7	440.6	418.7	584.3
Loan Loss Provision	463.1	(156.4)	55.5	19.9	-	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Net Income Before Taxes	(6,471.8)	5,892.3	600.2	213.5	369.5	194.1	180.6	344.3	252.7	390.6	368.7	534.3
Taxes	-	-	8.0	(415.0)	47.5	9.7	9.0	17.2	25.3	39.1	36.9	53.4
<i>Tax Rate</i>	0%	0%	1%	-194%	13%	5%	5%	5%	10%	10%	10%	10%
Income Before Extraordinary Items	(6,471.8)	5,892.3	592.2	628.6	322.0	184.4	171.5	327.1	227.4	351.6	331.8	480.9
Extraordinary Items	-	-	-	-	-	-	-	-	-	-	-	-
Minority Interests	-	-	-	-	(0.0)	-	-	-	-	-	-	-
<b>CORE EARNINGS</b>	<b>(6,471.8)</b>	<b>5,892.3</b>	<b>592.2</b>	<b>628.6</b>	<b>322.0</b>	<b>184.4</b>	<b>171.5</b>	<b>327.1</b>	<b>227.4</b>	<b>351.6</b>	<b>331.8</b>	<b>480.9</b>
<b>NET INCOME</b>	<b>(6,471.8)</b>	<b>5,892.3</b>	<b>592.2</b>	<b>628.6</b>	<b>322.0</b>	<b>184.4</b>	<b>171.5</b>	<b>327.1</b>	<b>227.4</b>	<b>351.6</b>	<b>331.8</b>	<b>480.9</b>
Dividends Paid	-	-	-	-	-	-	-	-	-	-	-	-
<i>Dividend Yield (For. Shares)</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<i>Effective Payout</i>	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Return on Assets (ROA)	-73.94%	30.52%	2.67%	2.66%	1.32%	0.74%	0.69%	1.29%	0.89%	1.35%	1.26%	1.80%
Core ROA	-73.94%	30.52%	2.67%	2.66%	1.32%	0.74%	0.69%	1.29%	0.89%	1.35%	1.26%	1.80%
Return on Equity (ROE)	136.72%	-129.97%	158.13%	131.61%	50.69%	26.60%	22.91%	39.57%	24.96%	35.25%	30.20%	39.43%
Core ROE	136.72%	-129.97%	158.13%	131.61%	50.69%	26.60%	22.91%	39.57%	24.96%	35.25%	30.20%	39.43%

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Figure 35: Bank Central Asia  
**Actual and Projected Profit and Loss Statements (Continued)**

	1999	1999	1999	1999	2000	2000	2000	2000	2001	2001	2001	2001
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	Actual	Actual	Actual	Actual	Actual	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
<b>SHARE INFORMATION:</b>												
Net Income Per Share (EPS)	(2,199.05)	2,002.15	201.22	213.58	109.42	62.65	58.29	111.13	77.28	119.46	112.75	163.40
EPS Before Extraordinary Items	(2,199.05)	2,002.15	201.22	213.58	109.42	62.65	58.29	111.13	77.28	119.46	112.75	163.40
Core Earnings Per Share	(2,199.05)	2,002.15	201.22	213.58	109.42	62.65	58.29	111.13	77.28	119.46	112.75	163.40
Dividends Per Share	-	-	-	-	-	-	-	-	-	-	-	-
Book Value Per Share	(12,867.07)	543.58	829.01	1,740.07	1,802.74	1,865.39	1,923.68	2,034.81	2,112.10	2,231.55	2,344.30	2,507.70
Adjusted Book Value (ABV) Per Share	(12,867.07)	543.58	474.45	823.84	903.19	981.34	1,054.05	1,192.67	1,284.55	1,426.57	1,560.61	1,754.88
Share Price Period End: Foreign Shares	0.00	0.00	0.00	-	1,405.0	1,405.0	1,405.0	1,405.0	1,405.0	1,405.0	1,405.0	1,405.0
Price to Book: Foreign Shares	0%	0%	0%	0%	78%	75%	73%	69%	67%	63%	60%	56%
Price to Adjusted Book: Foreign Shares	0%	0%	0%	0%	156%	143%	133%	118%	109%	98%	90%	80%
Price to Earnings: Foreign Shares	-	-	-	-	3.21	5.61	6.03	3.16	4.54	2.94	3.12	2.15
Price to Core Earnings: Foreign Shares	-	-	-	-	3.21	5.61	6.03	3.16	4.54	2.94	3.12	2.15
Period-end Shares Outstanding	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Average Shares Outstanding	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Market Capitalization (For. Shares)	-	-	-	-	4,134.9	4,134.9	4,134.9	4,134.9	4,134.9	4,134.9	4,134.9	4,134.9
<b>BALANCE SHEET INFORMATION:</b>												
Total Assets	70,019.9	84,431.9	92,810.0	96,450.4	98,498.5	99,606.6	100,727.2	101,860.4	103,324.6	104,809.9	106,316.6	107,844.9
Average Assets	35,009.9	77,225.9	88,620.9	94,630.2	97,474.5	99,052.6	100,166.9	101,293.8	102,592.5	104,067.3	105,563.2	107,080.7
Earning Assets	50,735.3	74,953.4	83,825.5	83,915.3	87,188.9	88,169.7	89,161.7	90,164.7	91,460.8	92,775.6	94,109.2	95,462.1
Average Earning Assets	25,367.7	62,844.4	79,389.4	83,870.4	85,552.1	87,679.3	88,665.7	89,663.2	90,812.8	92,118.2	93,442.4	94,785.6
% of Assets	36%	74%	86%	87%	87%	88%	88%	88%	88%	88%	88%	88%
Total Deposits	72,399.0	77,825.0	83,557.8	86,803.0	87,949.0	88,104.0	88,261.3	88,420.9	88,907.2	89,397.8	89,892.5	90,391.6
Loan-to-Deposit Ratio	78%	5%	5%	5%	5%	7%	7%	8%	9%	10%	11%	12%
Period-End Equity	(37,867.8)	1,599.8	2,439.8	5,121.0	5,305.5	5,489.9	5,661.4	5,988.5	6,215.9	6,567.5	6,899.3	7,380.2
Property Revaluation	-	-	1,043.5	1,043.5	1,043.5	1,043.5	1,043.5	1,043.5	1,043.5	1,043.5	1,043.5	1,043.5
Goodwill and Other Adjustments	-	-	-	1,653.0	1,603.9	1,558.3	1,515.9	1,435.0	1,392.0	1,325.6	1,262.9	1,172.1
Adjusted Equity	(37,867.8)	1,599.8	1,396.3	2,424.6	2,658.1	2,888.1	3,102.1	3,510.0	3,780.4	4,198.4	4,592.9	5,164.6
Average Adjusted Equity	(18,933.9)	(18,134.0)	1,498.0	1,910.4	2,541.3	2,773.1	2,995.1	3,306.0	3,645.2	3,989.4	4,395.6	4,878.7
Avg. Equity to Total Assets	-54.1%	1.9%	2.6%	5.3%	5.4%	5.5%	5.6%	5.9%	6.0%	6.3%	6.5%	6.8%
Avg. Adj. Equity to Total Assets	-27.0%	-21.5%	1.6%	2.0%	2.6%	2.8%	3.0%	3.2%	3.5%	3.8%	4.1%	4.5%
<b>ASSET QUALITY INFORMATION:</b>												
Total Loans	56,249.3	3,983.2	3,836.8	4,101.2	4,032.1	5,839.2	6,378.0	6,990.3	7,756.0	8,591.4	9,484.6	10,442.9
Average Loans	28,124.6	30,116.2	3,910.0	3,969.0	4,066.6	4,935.7	6,108.6	6,684.1	7,373.1	8,173.7	9,038.0	9,963.8
Accrued Interest Receivables	-	-	-	41.0	39.3	55.5	59.0	62.9	67.9	73.0	78.2	83.5
% of Total Loans	0.00%	0.00%	0.00%	1.00%	0.98%	0.95%	0.93%	0.90%	0.88%	0.85%	0.83%	0.80%
Nonperforming Loans (NPLs)	-	-	460.4	473.6	318.6	409.0	435.9	466.5	504.8	546.6	591.2	639.1
Foreclosed Real Estate (ORE)	-	-	-	-	2.0	2.9	3.2	3.5	3.9	4.3	4.7	5.2
Nonperforming Assets (NPAs)	-	-	460.4	473.6	320.6	411.9	439.1	470.0	508.7	550.9	596.0	644.4
% of Total Loans	0.0%	0.0%	12.0%	11.5%	8.0%	7.1%	6.9%	6.7%	6.6%	6.4%	6.3%	6.2%
Specific Loan Loss Reserves	-	-	-	-	-	-	-	-	-	-	-	-
% of Total Loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
General Loan Loss Reserves	11,196.8	289.9	287.6	319.7	262.0	297.4	331.4	364.0	394.6	423.1	449.4	473.3
% of Total Loans	19.91%	7.28%	7.50%	7.79%	6.50%	5.09%	5.20%	5.21%	5.09%	4.92%	4.74%	4.53%
Total Loan Loss Reserves	11,196.8	289.9	287.6	319.7	262.0	297.4	331.4	364.0	394.6	423.1	449.4	473.3
% of Total Loans	19.91%	7.28%	7.50%	7.79%	6.50%	5.09%	5.20%	5.21%	5.09%	4.92%	4.74%	4.53%

Source: Lehman Brothers estimates.

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