Bank
Indonesia
Credit Analysis

PT Bank Mega Tbk.

Ratings

Security Class	Current Ratings
National	
Long-Term	A+(idn)
Individual	D
Support Rating	4
Sovereign Risk	
Foreign Long-Term IDR*	BB-
Local Long-Term IDR*	BB-

Outlook

National Long-Term	Stable
Sovereign Foreign Long-Term IDR*	Positive
Sovereign Local Long-Term IDR*	Positive

* IDR - Issuer Default Rating

Financial Data

PT Bank Mega Tbk

	30 Jun 2007	31 Dec 2006
Total Assets (USDm)	3,487	3,434
Total Assets (IDRbn)	31,673	30,973
Total Equity (IDRbn)	2,867	1,934
Net Income (IDRbn)	272*	152
ROA (%)	1.7**	0.5
ROE (%)	22.6**	9.5
Capital Adequacy (%)	12.8	15.7

* Six months 2007
** Annualised

Analysts

Yanto Umar, CFA
+62 21 5290 2461
yanto.umar@fitchratings.com

Lai Peng Tan
+65 6337 8404
laipeng.tan@fitchratings.com

Ambreesh Srivastava
+65 6336 5704
ambreesh.srivastava@fitchratings.com

Rating Rationale

- PT Bank Mega Tbk.'s (Bank Mega) ratings reflect its improved profitability and satisfactory balance sheet, with its below-average capital ratios mitigated by generally good asset quality.
- Bank Mega's net interest margin (NIM) recovered to 4.2% in H107 from 2.8% in 2006 (peers: 6.0% in 2006) as total loans grew by 11% yoy after declining in 2006, and funding composition improved, with the proportion of lower-cost saving and demand deposits increasing to 34% of total deposits at end-H107 from 18% at end-2005. Non-interest income grew by 119% (annualised) in H107, although Fitch Ratings noted that about half came from non-recurrent trading income. This supported the bank's pre-tax ROA at 2.5% in H107 compared with 0.8% in 2006 and 1.2% in 2005 (peers: 2.3% in 2006). Fitch expects Bank Mega to sustain its modest profitability in the next one to two years with the support of a benign macro economy, although its less favourable funding profile will keep its profitability below that of peers.
- The NPL ratio was kept below 2% in 2004-H107, partly due to the with-recourse arrangement on joint-financing vehicle loans where lending is based on a more prudent LTV of 70% compared with the industry norm of 80%-90%. However, plans for more rapid loan growth and intentions to diversify away from its previous dependence on vehicle loans into more corporate and commercial lending, could contribute to a rise in forward NPLs. Vehicle loans declined to 34% of total loans at end-H107 (2004: 61%), while corporate and commercial loans have grown rapidly to 42% and 14% of total loans, respectively (2004: 23% and 11%, respectively). The change to without-recourse joint financing for vehicle loans as a result of regulatory changes in H205 could be another contributing factor. Provision cover appears quite adequate at about 0.8x-1.0x of NPLs, but at a lower 0.3x if special-mention loans (SMLs) are included, although most are less than one week late.
- Liquidity is strong, with cash, government bonds, and placements with the central bank totalling about 56% of Bank Mega's assets at end-H107. Total loans accounted for about 36% of total assets at end-H107.
- The total capital adequacy ratio (CAR) including market risk of 12.8% (tier 1 CAR: 11.8%) at end-H107 was significantly lower than the industry's total CAR of about 20% at end-2006. Management advises that total CAR of about 12% would be a sustainable level to support loan growth, although Fitch would prefer a cushion above this given its loan expansion plans and the more volatile operating conditions in Indonesia.

Support

- Bank Mega is the fourteenth-largest bank in Indonesia, accounting for 1.9% of system assets at end-2006. Fitch therefore believes that support from the state, if required, would be limited.

Key Rating Drivers

- The Outlook is Stable, supported by the benign operating conditions in Indonesia. Downside risks could arise from a deterioration in the sovereign, and/or the bank's asset quality and capital position given its organic expansion plans.

- A medium-sized bank majority owned by the Para Group

Profile

Bank Mega was established in 1969 as PT Bank Karman. In 1996 Para Group, through PT Para Global Investindo and PT Para Rekan Investama, took over the bank from the previous owner after it ran into financial difficulties. Thanks to the fresh capital injection of IDR50bn from Para Group and subordinated loan from Bank Indonesia (the central bank of Indonesia) totalling IDR120bn just before the start of the Asian financial crisis in 1997, the bank managed to survive the crisis without needing a bailout. After changing its name to Bank Mega in 2000, the bank raised additional capital from a public listing and through rights issues in 2000-2006. These caused a gradual dilution of Para Group's ownership from 100%, although the bank remained majority owned by the group at end-2006. Fitch understands that Para Group would like to maintain its majority stake in the bank.

Table 1: Ownership Structure

At end-2006	Ownership (%)
PT Para Global Investindo[a]	52.2
Public	47.8
Total	**100.0**

[a] Ultimate shareholder of PT Para Global Investindo is Chairul Tanjung and family through PT Para Inti Holdindo
Source: Bank Mega

Para Group

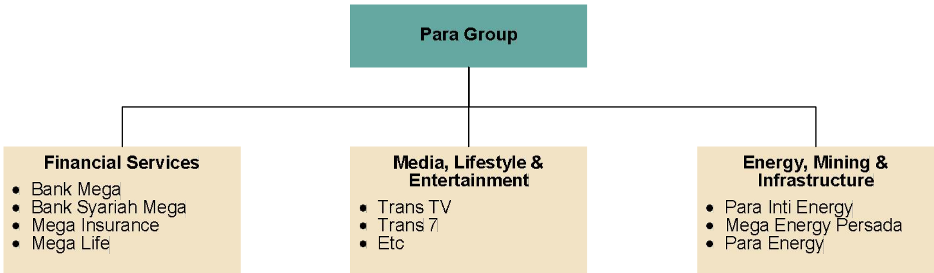
Privately held Para Group was founded and owned by Chairul Tanjung, whose businesses span three main areas: financial services, media and entertainment, and energy, mining and infrastructure. Among its larger assets, apart from Bank Mega, are two broadcasting companies, TransTV and Trans7. The group's financial services interests are grouped under PT Para Global Investindo, of which Bank Mega is the largest company, with other businesses in Islamic banking (Bank Syariah Mega Indonesia), insurance (Asuransi Jiwa Megalife and Asuransi Umum Mega), securities (Mega Capital Indonesia) and multi-finance companies (Para Finance, Mega Oto Finance and Mega Sentra Finance.

A relevant concern is whether the bank will be used to support the group's other non-financial interests, given the generally unfavourable corporate lending experience of Indonesian banks in the past. For Bank Mega, these issues are to some extent mitigated by its compliance with legal lending limits, albeit within the still weak and evolving regulatory environment in Indonesia. Moreover, related-party transactions, mainly loans and securities, totalled only 0.1% of total assets and 1.4% of equity at end-2006.

Mr Chairul chairs the non-executive board of commissioners and is assisted by two independent commissioners, one of whom is a retired senior manager from a state-owned bank (Bank Exim, one of the four state-owned banks merged to form Bank Mandiri). The other is a retired corporate banking director of Bank Mega. Fitch understands that there is no family involvement in the running of the bank, which is left in the hands of the board of directors led by Yungky Setiawan. He was appointed CEO of Bank Mega in 2004 after serving as director for the retail banking division for six years. Before joining Bank Mega in 1998, Mr Yungky held senior positions at Bank Danamon, in charge of product development, branch banking, and credit card business. Other directors of Bank Mega have 15-25 years' banking experience in various industry areas.

Under the new management installed by Para Group and with the economic recovery on track, Bank Mega has grown substantially from a small bank when it was taken over in 1996 to a medium-sized bank with total assets of IDR31.0trn at end-2006, accounting for about 1.9% of system assets (fourteenth largest by assets). During 2002-2006, its total assets achieved a compound annual growth rate (CAGR) of 26%, significantly above the industry's rate of 11%, thanks to successful efforts in gaining deposits from the public (deposits achieved a 27% CAGR during 2002-2006). Total loans, accounting for 35% of Bank Mega's total assets at end-2006, grew more slowly, reaching 17% CAGR during 2002-2006. This was mainly driven by vehicle loans (both motorcycle and car loans) generated from a cooperation between the bank and a finance company to finance the purchase of vehicles by the company's customers (the "joint financing scheme"). The bank usually provides 90% or more of the funding. Nevertheless, since early 2006 Bank Mega has shifted its focus to corporate, commercial and other consumer loans, although vehicle loans remained a substantial 49% of total loans outstanding at end-2006.

Structure Diagram



Source: Transaction documents

The bank has also been investing in its distribution network and doubled its number of branches to 149 at end-2006 from 79 at end-2002. Understanding the need to have a stronger distribution network to compete with larger banks, Bank Mega intends to further develop its network by adding more branches, upgrading its ATM services and developing more electronic banking channels. Staff count increased to 5,300 at end-2006 from 1,800 at end-2002.

Under the Indonesian banking architecture (API) established by the regulator and aimed at developing a banking system with fewer but stronger players, Bank Mega intends to be a national bank, a status that allows it to operate as a full commercial bank nationwide. This requires minimum capital of IDR10trn by 2014-2019 (no specified deadline yet) compared with the bank's equity size of IDR1.9trn at end-2006. Fitch understands that the bank intends to achieve this organically through earnings retention, capital raising and additional capital injections from the Para Group. Tie-ups with other strategic investors (including foreign parties) are not fully discounted in the longer term, although Fitch understands that Para Group intends to maintain its majority holding for the time being.

Performance

- Improved core profitability in H107 due to loan growth and better funding composition
- Additional support from growing non-interest income, although still below peers

Profitability recovered in H107, owing to an improvement in net interest margin (NIM) to 4.2% in H107 from 2.8% in 2006, as funding composition improved and loan growth resumed in H206 after a slowdown in H205-H106 due to regulatory changes that affected accounting for vehicle loans channelled through multi-finance companies, and a weak vehicle market. One-off trading gains from its mainly fixed-rate government securities portfolio was another contributing factor for the stronger earnings. The bank managed to raise the proportion of lower-cost savings and demand deposits to 34% of total deposits at end-H107 from 18% at end-2005, although this was still significantly below the peer average of about 50%.

Overall, Bank Mega achieved a much stronger pre-tax ROA of 2.5% in H107 from 0.8% in 2006 (2005: 1.2%), bringing it closer to the peer average of 2.3% (based on 2006 data). Although Fitch expects the benign economic conditions to support Bank Mega's financial performance this year, competitive pressures from its larger peers, who are similarly starting to grow their banking operations, is likely to remain among the limiting factors for medium-sized players like Bank Mega.

Table 2: Financial Performance of Bank Mega Compared with Peers[a]

	Peers	Bank Mega			
(% of average assets)	**2006**	**H107[b]**	**2006**	**2005**	**2004**
Net interest income	5.7	4.0	2.7	3.4	5.4
Non-interest income	1.4	0.8	0.4	0.3	0.3
Operating expense	-3.7	-2.1	-2.1	-2.3	-2.6
Pre-provisioning profit	**3.4**	**2.8**	**1.0**	**1.4**	**3.1**
Provision charge	-1.0	-0.1	-0.2	-0.2	-0.3
Pre-tax profit	**2.3**	**2.5**	**0.8**	**1.2**	**2.8**
Tax	-0.6	-0.4	-0.3	-0.4	-0.9
Net profit	**1.7**	**1.7**	**0.5**	**0.8**	**1.9**
ROE	**16.8**	**22.6**	**9.5**	**14.6**	**28.6**
Yield on interest earning assets (%)	12.0	11.1	11.2	10.9	10.9
Cost of interest-paying liabilities (%)	6.7	7.5	8.8	7.6	5.5
Interest spread (%)	5.4	3.7	2.5	3.3	5.4
Net interest margin (%)	6.0	4.2	2.8	3.5	5.6
Loan/deposit ratio (%)	61	45.3	42.7	51.3	48.8
Net interest income/total income (%)	80	83	87	91	95
Non-interest income/total income (%)	20	17	13	9	5
Cost-income ratio (%)	53	43	68	62	45

[a] Peers' data is based on the 12 largest Indonesian banks covered by Fitch, which account for about 65% of system assets in 2006
[b] Annualised
Source: Bank Mega, Fitch calculations

Net Interest Income

The decline of NIM to 2.8% in 2006 from 5.6% in 2004 was mainly driven by faster growth in deposit taking (29% CAGR during 2004-2006), with high-cost time deposits accounting for as much as 82% of total deposits at end-2005. Over the same period, gross loans, which constituted about 35% of total assets at end-2006, grew more slowly, at about 21% CAGR. Slower loan growth was partly due to the change in the central bank's policy in June 2005 to classify with-recourse joint financing, accounting for about 62% of Bank Mega's total loans at end-2004, as exposure to the finance company rather than exposure to finance company's customers. This reclassification was due to the existence of a with-recourse clause that allows the bank to replace non-performing vehicle loans with other vehicle loans from the finance company. Consequently, Bank Mega's exposure to several finance companies became greater than the legal lending limit (LLL) regulation (maximum exposure to a non-affiliated obligor should not exceed 25% of the bank's equity) and it had to temporarily stop new disbursement. Although it took time to grow the loan book in other business segments, Bank Mega had to partly allocate the excess liquidity from growing deposits to lower-yield government bonds and placement with central banks, producing lower NIM in 2005 and 2006.

Bank Mega introduced without-recourse joint financing in June 2006 to rebuild its vehicle loans portfolio. It takes about a year for Bank Mega to launch a without-recourse scheme as it needs to develop systems that can directly trace the performance of loans administered by finance companies (a "mirroring system") as required by the central bank. Together with loan book development in the corporate and commercial segment and better funding composition, Bank Mega achieved a better NIM of 4.2% in H107, although this is still somewhat lower than that of peers NIM (2006: 6.0%).

Non-Interest Income

The significant jump in non-interest income in H107 (119% annualised compared with 2006) was mainly due to one-off profit from the sale of marketable securities totalling IDR56bn in H107. Non-recurring income, including this one-off profit, contributed about 50.3% of non-interest income in H107.

During 2004-2006, however, recurring income from transactional banking services (such as administration fees, remittance fees, credit cards and trade financing) was the major component of non-interest income. The contribution of recurring income to non-interest income has increased steadily to 85.1% in 2006 from 61.6% in 2004 due to successful efforts in expanding cardholders to about 206,000 at end-H107 from only about 16,000 at end-2003 and increasing deposit accounts to about 400,000 at end-H107 from about 150,000 at end-2003. The annual fee from credit cards and the administration fee charged on deposit accounts constituted about 70.6% of non-interest income in 2006. Bank Mega expects the growth of this recurring fee income to be strengthened by exploiting business synergies with Para Group's other businesses such as lifestyle or entertainment that could help spur the development of fee income in areas like credit cards.

Operating Costs

Apart from increasing operating costs by an average 18% in each of 2006 and 2005, the higher cost/income ratio of 68% in 2006 and 62% in 2005 from 45% in 2004 was also caused by declining net interest income over these two years. With NIM improved in H107, the cost/income ratio recovered to its historical level of about 45%. Personnel expenses accounted for about 40%-45% of total expenses in 2004-H107.

Given the bank's network expansion plans – increasing the branch network to 250 branches by end-2008 and the necessary personnel and systems support – operating expenses are expected to rise. However, Fitch understands that some cost discipline will be maintained by keeping the annual increase about in line with revenue growth. Management aims for a cost/income ratio of below 50%.

Provisions

NPLs have been kept low, due mainly to the with-recourse joint financing arrangements on its vehicle loans with the finance companies. Provisioning charges were therefore low at 0.1%-0.3% of average assets, although Fitch expects to see them rise alongside the switch to more without-recourse joint financing following the regulatory changes introduced in 2006 (see "*Loan Book Development*" below for more details), and the bank's diversification into riskier corporate and commercial loans.

Risk Management

- Developing risk management practices and infrastructure
- Shift in loan book toward bigger share of corporate/commercial loans from joint financing vehicle loans
- Good record of low and adequately reserved NPLs

The bank has a basic risk management infrastructure in place. It separates the functions of the marketing and credit teams, has a hierarchy of credit approval limits, a centralised credit monitoring system and uses credit scoring tools for credit cards and mortgage loans. However, Fitch believes that the bank's credit processes and risk management are evolving from basic given its dependence on with-recourse joint financing loan schemes with the finance companies in the past. Loans are only granted if the credit team approves the loan proposal from the marketing team, while credit authority for marketing and credit staff is assigned based on assessment on his/her ability and experience. There is also a separate credit monitoring team that provides daily surveillance of loan performance, which facilitates the taking of appropriate action on signs of credit deterioration.

The bank is developing credit scoring tools for commercial loans with exposure of less than IDR2bn. Other new initiatives to enhance risk management include the development of internal rating models for its larger commercial and corporate loans and the introduction of a value-at-risk method to calculate market risk. The bank intends to implement the standardised approach under Basel II when it is implemented in 2008.

Throughout 2006 there were also some improvements in operational risk management such as the insertion of a fraud database into the loss event and near-miss report program, a supporting device introduced to create loss databases within the bank. To monitor its implementation, Bank Mega created internal control in nearly all branch offices. For branches located in greater Jakarta, the internal control functions are centralised at the bank's headquarters.

Loan Book Development

Gross loans increased slightly by 2.5% to IDR11.5trn at end-H107 from IDR11.3trn at end-2005, driven by a 48.2% increase in commercial loans and a 116.1% jump in corporate loans, while consumer loans, specifically vehicle loans, declined by 46.4% after the regulatory changes to joint financing schemes. The contribution of vehicle loans to total loans declined to 34% at end-H107 from 65% at end-2005 as Bank Mega ended new disbursements from with-recourse joint financing in H205. However, in line with its plans to diversify away from its dependence on vehicle loans, other consumer loans grew significantly, with home mortgage loans up by 162.6%, credit cards 108.2%, and other unsecured loans 21.0% during H107-2005. The proportion of unsecured consumer loans was 6% of total loans at end-H107, mainly comprising credit cards and other employee loans (where loan servicing is through direct salary deductions). In total, consumer loans contributed about 45% of the bank's total loans at end-H107, down from 71% at end-2005.

Table 3: Loan Breakdown

(IDRbn)	(%) share (H107)	(%) CAGR (2004/06)	Jun 07	Dec 06	Dec 05	Dec 04
Residential mortgages	5	52	520	272	198	117
Vehicle loans	34	8	3,940	5,371	7,345	4,640
Credit card	4	104	406	311	195	75
Other unsecured	2	11	277	221	229	178
Total consumer	45	11	5,142	6,175	7,967	5,010
Commercial[a]	14	9	1,580	967	1,066	821
Corporate[b]	42	48	4,820	3,856	2,230	1,751
Total	**100**	**20**	**11,543**	**10,999**	**11,263**	**7,581**

[a] Facilities of less than IDR25bn
[b] Facilities of more than IDR25bn
Source: Bank Mega

Although Bank Mega re-launched without-recourse joint financing in June 2006, about 70% of vehicle loans, totalling IDR2.8trn at end-H107, were generated previously from with-recourse joint financing with several finance companies. One exposure to a finance company totalling IDR1.8trn was in excess of LLL and had to be wound down or converted to without-recourse joint financing. The remaining exposures to other finance companies did not exceed LLL and therefore did not need to be converted. Bank Mega has not been able to convert this loan as it could not apply the mirroring system due to an ongoing system update at this finance company. As agreed with the central bank, Bank Mega will settle the excess by end-2007, either by converting the outstanding loans to a without-recourse scheme (if the finance company can complete the system update before end-2007) or by asking the finance company to repay the remaining outstanding amount.

Although Bank Mega could continue expanding vehicle loans using without-recourse joint financing scheme, it decided to have more diversified growth engines, ie from corporate, commercial, and other consumer loans, after learning from the slowdown in national vehicle sales in H106-H205 after the significant fuel price rise in October 2005. Exposure to corporate lending has expanded significantly since 2005 to about 42% of total loans at end-H107 from 20% at end-2005. Its largest exposure was to the trading sector, which accounted for 23% of total corporate loans at end-H107. The next largest exposure is to property loans at 16%, while construction loans totalled another 8% of total corporate loans. The property loans were mostly long term and provided to developers for the construction of residential/commercial complexes. The bank is focusing on industries with good prospects for future growth, including palm oil, infrastructure, cigarettes and telecommunications. The single industry limits are 10%-30%, subject to change depending on the bank's growth and its assessment of credit risk. The top 25 largest debtors accounted for about 30% of total loans and 120% of equity at end-July 2007, but were all performing. The single largest debtor accounted for about 3% of total loans or 12% of total equity at end-July 2007. Fitch understands that corporate loans are comprised of a mix of clean and secured facilities, where loans with LTV at, or more than, 100% accounted for about 26% of total corporate loans at end-H107.

Table 4: Loan Quality and Coverage Ratios

	% of gross loans			Amount (IDRbn)			
(IDRbn)	H107	2006	2005	H107	2006	2005	2004
Current	94.8	94.9	97.2	10,947	10,441	10,945	7,424
Special mention	3.7	3.4	1.4	432	373	157	7
Performing loans	98.6	98.3	98.6	11,379	10,814	11,102	7,431
Substandard	0.2	0.5	0.5	25	59	59	103
Doubtful	0.2	0.1	0.1	25	14	11	0
Loss	1.0	1.0	0.8	114	111	92	47
NPLs	1.4	1.7	1.4	164	184	161	150
Gross loans	100.0	100.0	100.0	11,543	10,999	11,263	7,581
Write-offs	0.3	0.3	0.1	29	32	7	4
Restructured loans	0.5	0.1	0.2	62	10	17	67
Loan loss reserves	1.5	1.5	1.3	168	160	149	114
Reserves cover (%)	102.8	86.7	92.6				
NPLs by segment							
Consumer	1.4	0.8	0.2	71	48	17	3
Commercial	0.2	1.0	0.4	4	10	4	4
Corporate	1.8	3.3	6.3	89	126	140	143

Source: Bank Mega, Fitch calculations

Expansion in commercial loans faced tough competition, as most banks focus on this segment. Nevertheless, Bank Mega has maintained its efforts to develop this segment by following the supply chain of lending to particular industries such as food and beverages, pharmaceuticals, and trading. The other growth factor to be explored by Bank Mega is credit programs such as heavy equipment financing, commodity financing, supplier financing, and rural bank financing. A large portion of commercial loans are secured working-capital facilities (62% of total commercial loans).

With increasing focus on commercial and corporate loans, Bank Mega has been able to shift the composition of corporate/commercial/consumer loans to 42%/14%/45% at end-H107 from 20%/9%/71% at end-2005. Further rebalancing is expected, as Bank Mega would like to see higher growth in commercial loans, so that each of corporate, commercial, and consumer loans represented about a third of total loans in the medium term.

In line with its loan expansion plan, Bank Mega has strived to improved its credit processes and invest in its lending infrastructure in order to deal with a larger loan volume (compared with its previous dependence on loan originations from finance companies). This included the hiring of more marketing staff and industry specialists and the setting up of regional offices to develop lending to selected industries.

Loan Quality

Bank Mega's low NPL ratio in 2004-H107 was mainly due to the with-recourse arrangement on previous joint financing schemes and relatively conservative lending practices in building the vehicle loans portfolio. The average LTV ratio for vehicle loans is about 70%, which is lower than industry's norm of 80%-90%. For each finance company, Bank Mega restricts the maximum NPL ratio to 0.25% of the joint financing portfolio. The bank will temporarily stop the joint financing scheme if the NPL ratio exceeds 0.25% and will only resume the scheme after its counterparty, the finance company, brings down the ratio. The NPL ratio for consumer loans at end-2005 and end-2004 was only 0.2% and 0.1%, respectively. It increased to 0.8% at end-2006 and 1.4% at end-H107 following the conversion to the without-recourse joint-financing scheme, with high inflation in H205-2006 after substantial fuel price rises contributing to the worsening trend.

There was positive development in corporate loans, with the NPL ratio declining to 1.8% at end-H107 from 6.3% at end-2005, partly due to loan restructuring and write-offs which reduced the outstanding balance of corporate NPLs to IDR89bn at end-H107 from IDR143bn at end-2005, and aided further by the denominator effect of substantial corporate loan growth during the period. However, the unseasoned nature of the bank's corporate loan book – a substantial amount was disbursed in 2006-H107 – suggests possible loan quality implications subsequently and requires to be closely monitored.

Provision cover appears quite adequate at about 0.8x-1.0x of a low base of NPLs, but NPLs may well rise due to loan growth and the expansion of corporate and commercial loans. Even though most of its commercial/consumer loans are secured, likewise for part of its corporate loans, the weak legal environment that impedes foreclosure and loan recoveries in Indonesia has to be considered. Fitch therefore believes that provision cover should be maintained at close to current levels to provide a cushion against such risks. Special-mention loans have been rising in 2006-H107, due partly to the switch to more without-recourse vehicle loans where late payments (usually less than 30 days) are quite common.

Other Assets

There should be no major concerns about the bank's other non-loan assets, with cash, government bonds and placements with the central bank constituting about 56% of Bank Mega's total assets at end-H107. Government bonds, accounting for 25% of total assets at end-H107, mainly comprised fixed-rate bonds (86%) and booked as available for sale and may expose the bank to mark-to-market risk. Inter-bank placements accounted for 3%, and marketable securities, mainly bonds issued by better-quality Indonesian corporations, comprised another 1%. Other miscellaneous assets accounted for 2% and included prepaid expenses, deferred taxes, repossessed assets, and fixed assets.

Funding and Capital

- Improving deposit base with favourable liquidity profile
- Adequate but below-average CAR to support further loan growth

Funding and Liquidity

Customer deposits accounted for about 93% of Bank Mega's total funding. Up to end-2005, deposit growth was driven by higher-cost time deposits. The bank's growing network and new funding products, and an incentive scheme for bank employees launched in 2006 enabled Bank Mega to gradually attract more savings and demand deposits. During 2005-H107 these lower-cost deposits increased by 122% to IDR8.7trn, accounting for 34% of total deposits at end-H107. During the same period time deposits declined 6.9% to IDR16.8trn, or about 66% of total deposits at end-H107. Retail deposits contributed about 53% of total deposits at end-H107 (2006: 54%). The 20 largest depositors contributed about 20% of the bank's total deposits at end-H107. Bank Mega plans to increase its branch network to 250 at end-2008 from 149 at end-2006, and to create new funding products so as to increase the proportion of low-cost funding to 45%-50% of total deposits by end-2008.

Other funding sources are relatively less significant. Deposits from other banks contributed about 6% of Bank Mega's total funding at end-H107. Borrowing and subordinated debt accounted for only about 1% of its total funding. Borrowing was made up of trade finance lines from other banks, while subordinated debt consisted of loans from the central bank. There is a fixed repayment schedule for the subordinated loans and the final instalment is expected in 2008. Bank Mega should have no difficulty in repaying the subordinated debt given each instalment's small size (only IDR30bn annually), and its liquidity reserves in cash, government bonds, placement with central bank and other banks, and marketable securities totalling IDR18.9trn, or 60% of the bank's total assets at end-H107.

Capital

The total CAR, including market risk declined to 12.8% (Tier 1: 11.8%) at end-H107 from 15.7% at end-2006, mainly due to higher market risk exposure resulting from the reclassification of all government bonds to available for sale from held to maturity. The bank's total CAR has been 11%-15% since 2003, lower than the industry's CAR of 20% at end-2006. The rise to the highest total CAR, 15.7% at end-2006 from 11.1% at end-2005, was mainly due to capital injected from a second rights issue totalling about IDR500bn in 2006, and profit retention. No dividends were paid out in 2006, which strengthened capital; payouts were 30%-40% of net income during 2000-2005. Dividend payouts will be low, as the bank aims to have minimum IDR10trn capital in 2013, mainly from retained profit although additional capital injection is likely to be required to reach its capital target.

Bank Mega intends to strengthen total CAR through planned issuance of IDR1trn-1.5trn subordinated debt issuance in Q407. This is expected to raise CAR to about 16% and will be used to fund the bank's organic expansion. Management has indicated a minimum total CAR target of 12%. Fitch would prefer to see a cushion of a few percentage points above this given the bank's rapid loan growth and the relatively high risk environment in Indonesia.

Balance Sheet Analysis
PT BANK MEGA TBK.

	30 Jun 2007				31 Dec 2006		31 Dec 2005		31 Dec 2004	
	6 Months - Interim USDm Original	6 Months - Interim IDRbn Original	As % of Assets Original	Average IDRbn Original	Year End IDRbn Original	As % of Assets Original	Year End IDRbn Original	As % of Assets Original	Year End IDRbn Restated	As % of Assets Restated
A. LOANS										
1. Loans - Rupiah	1,040.3	9,418.9	29.74	9,132.0	8,845.0	28.56	10,466.0	41.68	7,009.8	37.60
2. Loans - Foreign Currency	234.5	2,123.6	6.70	2,138.6	2,153.7	6.95	797.2	3.17	571.5	3.07
3. Loan Loss Reserves	18.6	168.1	0.53	163.9	159.7	0.52	149.3	0.59	113.8	0.61
TOTAL A	**1,256.3**	**11,374.4**	**35.91**	**11,106.7**	**10,839.0**	**35.00**	**11,113.9**	**44.26**	**7,467.5**	**40.06**
B. OTHER EARNING ASSETS										
1. Exposure to Bank Indonesia	594.4	5,381.3	16.99	5,928.8	6,476.3	20.91	1,663.0	6.62	1,158.2	6.21
2. Deposits & Placements with Other Banks	101.3	917.3	2.90	664.6	411.9	1.33	78.5	0.31	101.2	0.54
3. Securities	35.8	324.0	1.02	337.3	350.6	1.13	331.0	1.32	472.0	2.53
4. Government Recapitalisation Bonds	1,016.6	9,204.5	29.06	8,900.6	8,596.6	27.76	8,592.1	34.22	4,547.8	24.39
5. Other Earning Assets	37.0	335.4	1.06	364.5	393.5	1.27	82.8	0.33	1,100.4	5.90
TOTAL B	**1,785.1**	**16,162.5**	**51.03**	**16,195.7**	**16,228.9**	**52.40**	**10,747.4**	**42.80**	**7,379.6**	**39.58**
C. TOTAL EARNING ASSETS	**3,041.4**	**27,536.9**	**86.94**	**27,302.4**	**27,067.9**	**87.39**	**21,861.3**	**87.06**	**14,847.1**	**79.64**
D. FIXED ASSETS	**78.6**	**711.9**	**2.25**	**693.3**	**674.7**	**2.18**	**565.0**	**2.25**	**359.4**	**1.93**
E. NON EARNING ASSETS										
1. Cash & Statutory Deposits	336.2	3,043.6	9.61	2,951.8	2,860.0	9.23	2,280.3	9.08	3,132.0	16.80
2. Deferred Tax Assets	n.a.	n.a.	-	n.a.	12.8	0.04	12.2	0.05	10.5	0.06
3. Other Assets	42.1	380.9	1.20	369.2	357.5	1.15	390.6	1.56	293.8	1.58
F. TOTAL ASSETS	**3,498.3**	**31,673.3**	**100.00**	**31,323.1**	**30,972.9**	**100.00**	**25,109.4**	**100.00**	**18,642.8**	**100.00**
G. DEPOSITS & MONEY MARKET FUNDING										
1. Demand Deposits	515.5	4,667.6	14.74	4,007.2	3,346.8	10.81	2,138.3	8.52	2,519.6	13.52
2. Savings Deposits	442.1	4,003.0	12.64	3,648.9	3,294.7	10.64	1,762.8	7.02	1,894.8	10.16
3. Fixed Deposits	1,857.8	16,820.5	53.11	17,967.5	19,114.5	61.71	18,076.3	71.99	11,119.7	59.65
4. Inter-bank Deposits	183.2	1,658.4	5.24	1,977.6	2,296.8	7.42	1,420.5	5.66	686.6	3.68
5. Other	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	885.2	4.75
TOTAL G	**2,998.6**	**27,149.5**	**85.72**	**27,601.2**	**28,052.8**	**90.57**	**23,397.9**	**93.18**	**17,105.9**	**91.76**
H. OTHER FUNDING										
1. Borrowings	25.0	226.2	0.71	180.6	135.0	0.44	n.a.	-	93.8	0.50
2. Subordinated Debt	6.6	60.0	0.19	60.0	60.0	0.19	85.0	0.34	105.0	0.56
I. OTHER (Non-interest Bearing)	**151.4**	**1,370.5**	**4.33**	**1,080.7**	**790.8**	**2.55**	**349.8**	**1.39**	**161.4**	**0.87**
L. EQUITY										
1. Preference shares	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. Common Equity	316.7	2,867.1	9.05	2,400.7	1,934.3	6.25	1,276.7	5.08	1,176.7	6.31
TOTAL L	**316.7**	**2,867.1**	**9.05**	**2,400.7**	**1,934.3**	**6.25**	**1,276.7**	**5.08**	**1,176.7**	**6.31**
M. TOTAL LIABILITIES & EQUITY	**3,498.3**	**31,673.3**	**100.00**	**31,323.1**	**30,972.9**	**100.00**	**25,109.4**	**100.00**	**18,642.8**	**100.00**
Exchange Rate		USD1 = IDR 9054.0000			USD1 = IDR 9020.0000		USD1 = IDR 9830.0000		USD1 = IDR 9290.0000	

Income Statement Analysis
PT BANK MEGA TBK.

	30 Jun 2007		31 Dec 2006		31 Dec 2005		31 Dec 2004	
	Income Expenses IDRbn Original	As % of Total AV Earning Assts Original	Income Expenses IDRbn Original	As % of Total AV Earning Assts Original	Income Expenses IDRbn Original	As % of Total AV Earning Assts Original	Income Expenses IDRbn Restated	As % of Total AV Earning Assts Restated
1. Interest Income	1,685.6	12.35	3,037.8	12.42	2,292.8	12.49	1,701.8	12.46
2. Interest Expense	1,055.3	7.73	2,292.3	9.37	1,555.1	8.47	823.8	6.03
3. NET INTEREST REVENUE	**630.3**	**4.62**	**745.5**	**3.05**	**737.7**	**4.02**	**878.0**	**6.43**
4. Net Fees and Commissions	n.a.	-	n.a.	-	n.a.	-	n.a.	-
5. Other Operating Income	128.7	0.94	117.5	0.48	71.7	0.39	47.4	0.35
6. Personnel Expenses	144.5	1.06	258.4	1.06	210.9	1.15	165.0	1.21
7. Other Operating Expenses	183.7	1.35	326.4	1.33	292.0	1.59	254.9	1.87
8. Loan Loss Provisions	41.3	0.30	50.3	0.21	41.3	0.23	47.7	0.35
9. OPERATING PROFIT	**389.5**	**2.85**	**227.9**	**0.93**	**265.2**	**1.44**	**457.8**	**3.35**
10. Other Income and Expenses	-0.5	0.00	-5.9	-0.02	-1.5	-0.01	-7.6	-0.06
11. PROFIT BEFORE EXCEPTIONAL ITEMS	**389.0**	**2.85**	**222.0**	**0.91**	**263.7**	**1.44**	**450.2**	**3.30**
12. Exceptional Items	n.a.	-	n.a.	-	n.a.	-	n.a.	-
13. PRE-TAX PROFIT	**389.0**	**2.85**	**222.0**	**0.91**	**263.7**	**1.44**	**450.2**	**3.30**
14. Taxes	117.4	0.86	70.3	0.29	84.3	0.46	137.9	1.01
15. PUBLISHED NET INCOME INCLUDING MINORITIES	**271.6**	**1.99**	**151.7**	**0.62**	**179.4**	**0.98**	**312.3**	**2.29**
16. Memo: FITCH NET INCOME	271.6	1.99	151.7	0.62	179.4	0.98	312.3	2.29

Ratio Analysis

PT BANK MEGA TBK.

		30 Jun 2007 Original	31 Dec 2006 Original	31 Dec 2005 Original	31 Dec 2004 Restated
I. PROFITABILITY LEVEL					
1. Net Interest Income/Assets (av.)	%	4.02	2.66	3.37	5.40
2. Other Income/Assets (av.)	%	0.82	0.42	0.33	0.29
3. Non-interest Expenses/Assets (av.)	%	2.10	2.09	2.30	2.58
4. Pre-provision Profit/Assets (av.)	%	2.75	0.97	1.39	3.06
5. Pre-tax Profit/Assets (av.)	%	2.48	0.79	1.21	2.77
6. Net Income/Assets (av.)	%	1.73	0.54	0.82	1.92
7. Net Income/Equity (av.)	%	22.63	9.45	14.62	28.58
8. Cost/Income	%	43.24	67.76	62.13	45.37
II. CAPITAL ADEQUACY					
1. Internal Capital Generation	%	22.63	9.45	-34.70	18.85
2. Equity/Total Assets	%	9.05	6.25	5.08	6.31
3. Subordinated Debt/Total Assets	%	0.19	0.19	0.34	0.56
4. Tier I CAR	%	11.77	14.37	9.51	11.92
5. Total CAR	%	12.82	15.73	11.12	13.53
III. LIQUIDITY					
1. Liquid Assets/Deposits & Money Mkt Funding	%	67.37	36.15	16.98	31.38
2. Liquid Assets & Mktable Debt Securities/Deposits & Money Mkt Funding	%	69.56	66.81	54.27	58.69
3. Borrowings/Liquid Assets	%	11.06	25.54	40.25	17.06
4. Loans/Customer Deposits	%	45.28	42.70	51.25	48.80
IV. ASSET QUALITY					
1. Loan Loss Provisions/Gross Loans (av.)	%	0.73	0.45	0.44	0.68
2. Loan Loss Provisions/Pre-provision Profit	%	9.59	18.08	13.47	9.44
3. Loan Loss Reserves/NPLs	%	102.75	86.65	92.62	75.77
4. Special Mention Loans/Gross Loans	%	3.75	2.83	1.39	0.10
5. NPLs/Gross Loans	%	1.42	1.68	1.43	1.98
6. Loan Loss Reserves/Gross Loans	%	1.46	1.45	1.33	1.50
7. Net NPLs/Equity	%	-0.16	1.27	0.93	3.09