CROSS-ASSET RESEARCH 26 March 2012

SINGAPORE BANKS

Asia's funding centre; initiating coverage

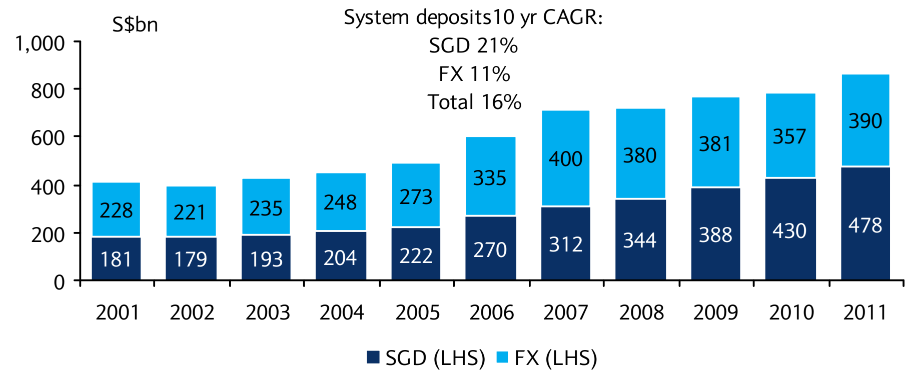
Singapore is the best funded banking system in the region, leaving its banks well placed to win regional market share and re-price assets as peers battle increasingly tight conditions. At the same time we see upside potential for wealth management, driven by Singapore's high savings rate and favourable demographics. We initiate coverage of OCBC at 1-OW (our top pick), UOB at 1-OW and DBS at 2-EW. In a relative regional context, we prefer the Singapore banks.

Market share opportunity: We expect Singapore banks to gain market share in loan and capital markets without the funding constraints of many regional peers. Singapore banks benefit from access to the deep currency swap market; term wholesale funding; high domestic savings; and strong foreign fund inflows. We forecast system deposit growth of 10-13% and loan growth of 8-13% in FY12-14E.

Domestic and offshore wealth management: Singapore banks are benefiting from an increasingly affluent domestic population and the country's favourable positioning (tax and regulations) as an offshore banking centre. Singapore has the highest concentration and fastest growing number of millionaire households in the world. It ranks fifth among the world's largest offshore wealth centres. We expect Singapore banks' wealth management income to grow at a 7-9% CAGR over FY11-14E.

Valuation and recommendation: Singapore banks are trading around 15% below long-term average multiples. While currently valued at a 30% premium to the regional sector P/E, we believe their strong funding position and earnings visibility justify this premium. Given our cautious view of banks around the region, we would rank the Singapore lenders amongst our preferred exposures in a regional portfolio.

Figure 1: Singapore system deposit growth



Source: CEIC, Barclays Research

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PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 75.
FOR IMPORTANT FIXED INCOME RESEARCH DISCLOSURES, PLEASE SEE PAGE 75.
FOR IMPORTANT EQUITY RESEARCH DISCLOSURES, PLEASE SEE PAGE 76.

INITIATING COVERAGE

EQUITY RESEARCH
Asia ex-Japan Banks
2-NEUTRAL
Unchanged

For a full list of our ratings, price target and earnings changes in this report, please see table on page 2.

EQUITY RESEARCH
Asia Ex-Japan Banks
Sharnie Wong
+852 290 33457
sharnie.wong@barcap.com
Barclays Bank, Hong Kong

Tom Quarmby
+852 290 33053
tom.quarmby@barcap.com
Barclays Bank, Hong Kong

Leon Qi
+852 290 33994
leon.qi@barcap.com
Barclays Bank, Hong Kong

CREDIT RESEARCH
Lyris Koh
+65 6308 3595
lyris.koh@barcap.com

ECONOMICS RESEARCH
Wai Ho Leong
+65 6308 3292
waiho.leong@barcap.com

Joey Chew
+65 6308 3211
joey.chew@barcap.com

Summary of our Ratings, Price Targets and Earnings Changes in this Report (all changes are shown in bold)

Company	Rating		Price	Price Target			EPS FY1 (E)			EPS FY2 (E)		
	Old	New	21-Mar-12	Old	New	%Chg	Old	New	%Chg	Old	New	%Chg
Asia ex-Japan Banks	2-Neu	2-Neu										
DBS Group Holdings, Ltd. (DBS SP / DBSM.SI)	N/A	**2-EW**	14.50	N/A	**14.20**	-	N/A	**1.20**	-	N/A	**1.32**	-
OCBC Group (OCBC SP / OCBC.SI)	N/A	**1-OW**	8.96	N/A	**10.10**	-	N/A	**0.71**	-	N/A	**0.80**	-
UOB Group (UOB SP / UOBH.SI)	N/A	**1-OW**	18.37	N/A	**20.40**	-	N/A	**1.56**	-	N/A	**1.71**	-

Source: Barclays Research. Share prices and target prices are shown in the primary listing currency and EPS estimates are shown in the reporting currency.
FY1(E): Current fiscal year estimates by Barclays Research. FY2(E): Next fiscal year estimates by Barclays Research.
Stock Rating: 1-OW: 1-Overweight 2-EW: 2-Equal Weight 3-UW: 3-Underweight RS: RS-Rating Suspended
Sector View: 1-Pos: 1-Positive 2-Neu: 2-Neutral 3-Neg: 3-Negative

EQUITY RESEARCH: INVESTMENT SUMMARY

EQUITY RESEARCH
Asia ex-Japan Banks
Sharnie Wong
+852 290 33457
sharnie.wong@barcap.com
Barclays Bank, Hong Kong

Singapore banks' strong liquidity position will enable them to increase regional market share in lending and in capital markets. We see potential for margin expansion as pricing power returns and European peers continue to pull out of Asia. Wealth management and private banking business will continue to prosper with the rising wealth of residents and strong foreign fund inflows into Singapore. We initiate coverage with an optimistic view on the three banks, which can achieve a sustainable ROE of 11-12% in FY12-14E and provide 11% potential upside from current levels, on our estimates.

Strong funding base supports market share grab

While USD liquidity conditions are still tight around the region, the Singapore banks are not constrained for liquidity. Banks can swap excess SGD deposits easily into USD in the FX swap market, which is deep and active. Foreign funds are finding their way into Singapore given the perceived strength of Singapore as an investment destination and expected SGD appreciation against USD (Barclays economists forecast +6.6% in FY12E). We forecast system deposit growth of 10-13% in FY12-14E. Moreover, Singapore banks benefit from strong credit ratings with easy access to long-term wholesale funding (accumulated medium-term notes [MTN], commercial paper issued of S$26.1bn, 5% of deposit base).

We expect Singapore banks' strong funding base, together with the exit of European peers, will enable them to win regional loan market share. This is already evident in foreign currency lending, where the domestic banks have grown at a three-year CAGR (2008-11) of 12-29%, outpacing the system CAGR of 10%. We forecast total credit growth of 8-13% in FY12-14E.

Wealth management advantage

Singapore is Asia's leading offshore wealth management centre and the fifth-largest in the world in 2010, with US$512bn in assets, according to the Boston Consulting Group. Singapore is also a regional asset management hub for investors. This is largely due to: 1) Singapore's open, business-friendly yet well-regulated economy; 2) geographic and demographic advantage; and 3) competitive (yet internationally compliant) tax system. We believe the Singapore banks can benefit from offshore fund inflows and rising wealth management-related fee income.

In addition to offshore wealth management, Singapore banks also benefit from the strong savings pattern and rising affluence of domestic residents. OCBC's private banking arm, Bank of Singapore, contributed 6% of deposits to the group in FY10, and in the two years since integration of Bank of Singapore into the group, assets under management (AUM) rose 45%. We expect the Singapore banks' wealth management fee income to grow at a 7-9% CAGR over FY11-14E.

Strong capital adequacy

The Singapore banks are the best capitalised in a regional context, in our view, with a core Tier 1 ratio of 11-12% in FY11. We see no need for capital raising and believe the Singapore banks can comfortably comply with the Monetary Authority of Singapore's (MAS) core Tier 1 requirement of 9% (2% higher than the international Basel III requirement) by FY19.

Where we differ from consensus

Our FY12-14E earnings forecasts are 3-5% above Bloomberg consensus on average. Ability to attract deposit funding will support loan growth. Mild margin improvement and strong wealth management-related income will help to offset higher credit costs, in our view.

Key risks

Key risks to the Singapore banks include: 1) worse-than-expected deterioration in asset quality, especially in the SME segment, if the economy slows; 2) a rise in operating costs driven by competition for talent (especially in the private banking space); and 3) adverse changes to Indonesian bank foreign ownership rules (affecting OCBC and UOB).

OCBC is our top pick

We believe Singapore banks will continue to experience solid earnings growth and achieve a sustainable ROE of 11-12%. Our Asia ex-Japan Banks sector view is 2-Neutral. In a regional context, we are overweight the Singapore banks and we least prefer the Hong Kong banks.

OCBC (OCBC SP, PT S$10.1, 1-OW) has a strong funding base and is best placed to tap the rising affluence of the domestic population and benefit from foreign fund inflows into Singapore, in our view. It has a strong wealth management platform and strong private banking franchise through Bank of Singapore. We initiate coverage of OCBC at 1-OW with a PT of S$10.1 based on our blended valuation methodology. It is our preferred pick amongst the Singapore banks.

UOB (UOB SP, PT S$20.4, 1-OW) has the most diverse ASEAN footprint relative to peers and is best able to tap intra-regional trade-related lending and stronger economic growth in other ASEAN regions. Moreover, UOB has a strong risk management track record in managing SME asset quality. We initiate coverage of UOB at 1-OW with a PT of S$20.4 based on our blended valuation methodology. It is our second pick after OCBC.

DBS (DBS SP, PT S$14.2, 2-EW) is fairly valued, in our view, after a 12% relative outperformance to the Straits Times Index (STI) ytd and reflects the benefits from restructuring efforts under new management since 2010. However, we see greater asset risk in DBS's Greater China loan book and rising funding cost pressures in Hong Kong, where it has a weaker deposit franchise. We initiate coverage of DBS at 2-EW with a PT of S$14.2 based on our blended valuation methodology.

Figure 2: Singapore banks - valuation summary

					P/B		P/E		P/PPOP		Dividend yield		EPS Gth		ROE	
	Rating	Price	Target	TSR	12E	13E	12E	13E	12E	13E	12E	13E	12E	13E	12E	13E
DBS	2-EW	14.50	14.20	2%	1.17x	1.10x	12.2x	11.1x	8.2x	7.3x	4.0%	4.3%	-4%	10%	10.3%	10.7%
OCBC	1-OW	8.96	10.10	16%	1.40x	1.31x	13.1x	11.5x	8.8x	7.7x	3.6%	4.0%	5%	13%	11.0%	11.7%
UOB	1-OW	18.37	20.40	15%	1.30x	1.21x	11.8x	10.7x	8.2x	7.3x	3.8%	4.0%	10%	10%	11.4%	11.6%
Sector				**11%**	**1.28x**	**1.20x**	**12.3x**	**11.1x**	**8.4x**	**7.4x**	**3.8%**	**4.1%**	**3%**	**11%**	10.8%	11.3%

Note: Priced as of the close 21 March 2012. TSR = total shareholder return (including dividend).
Source: Bloomberg, Barclays Research estimates

CONTENTS

Note: All content in this report is authored by the Equity Research Asia ex-Japan Banks team, except for An Economics Perspective (pages 17-19) and A Credit Perspective (pages 50-51).

LIQUIDITY STRENGTH

- **Singapore's banks are not constrained for liquidity, in our view. We forecast 10-13% deposit growth in FY12-14E.**
- **The banks benefit from high domestic savings rate, fund inflows from the Asia region and the rest of the world, and access to long-term wholesale funding as a result of the country's strong sovereign rating.**
- **Exit of European peers from Asia's loan markets presents a market share opportunity. Europe (ex-UK) bank exposure to Singapore has fallen from 18% in FY09 to 13.7% in 3Q11, according to data from BIS.**

Funding strength

While liquidity remains tight around the region and loan growth is increasingly constrained by the ability to attract deposits (evidenced by rising loan-to-deposit ratios [LDRs] across the region), we believe Singapore's banks continue to grow lending by expand their funding base through three main channels:

1. Continuing to deploy surplus Singapore dollar liquidity via the swap market.
2. Fund inflows from Asia and the rest of the world.
3. Tapping long-term wholesale funding to fund loan growth.

As a result, we forecast deposit growth of 10-13% for the banks in FY12-14, respectively.

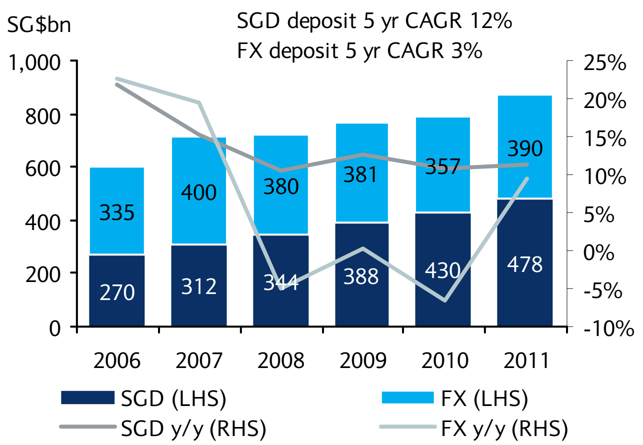
Beneficiary of surplus SGD liquidity

Singapore has one of the **highest household savings rates** in the world (31% in FY11) and a large concentration of wealth (in FY10, Singapore was the country with both the highest concentration and fastest growing number of millionaire households, according to the Boston Consulting group[1]). This generates a natural growth source of Singapore dollar deposits (CAGR FY06-11 of 12% despite financial crisis) for the Singaporean banks.

Excess SGD liquidity can be easily swapped into USD to fund foreign currency lending. The SGD/USD swap market is deep and active, in part due to participation of the MAS.

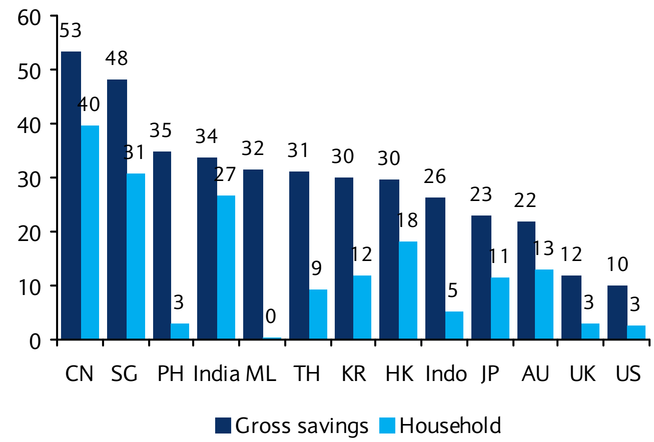
[1] www.bcg.com/media/PressReleaseDetails.aspx?id=tcm:12-77753

Figure 3: System deposit growth



Source: CEIC, Barclays Research

Figure 4: Regional savings rate

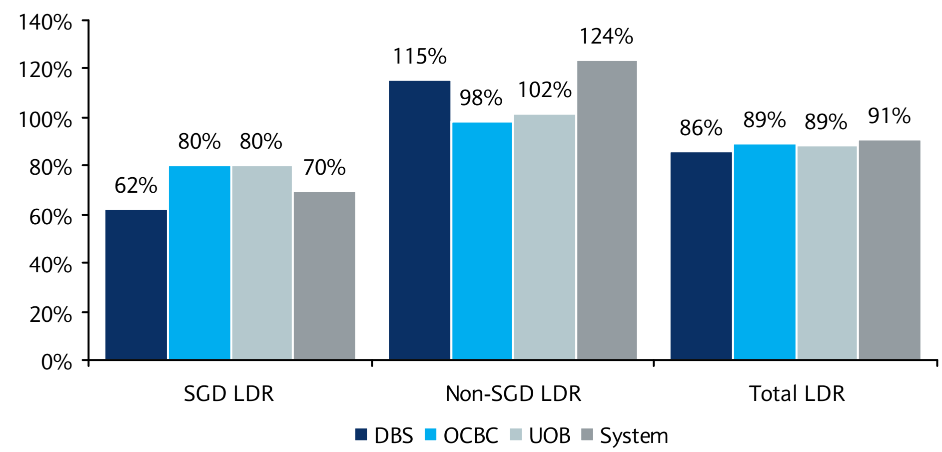


Source: World Bank, Euromonitor, CEIC, Barclays Research

*Gross savings in FY10 as a percentage of gross national income. Household savings rate in FY11 based on consumer expenditure as % of disposable income.

The abundant SGD liquidity and demand for loans in foreign currency is evident from the high system non-SGD LDR of 124% (at September 2011) relative to the SGD LDR of 70%. The three Singapore banks have long-term wholesale funding sources (medium-term note programmes) in place to support foreign currency lending (discussed in later section).

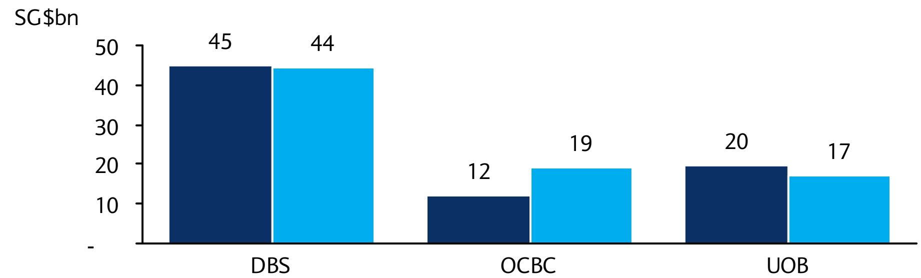
Figure 5: Loan to deposit ratio – 3Q11



Note: System LDR by currency, last reported in 3Q11.
Source: MAS, Company data, Barclays Research

DBS has the highest amount of excess SGD deposits due to its strong domestic franchise among retail and large corporate customers. It swaps SGD excess liquidity into USD to fund USD lending. DBS has a 20-25% market share of the SGD/USD swap market.

Figure 6: Excess SGD liquidity (SGD deposits-loans)



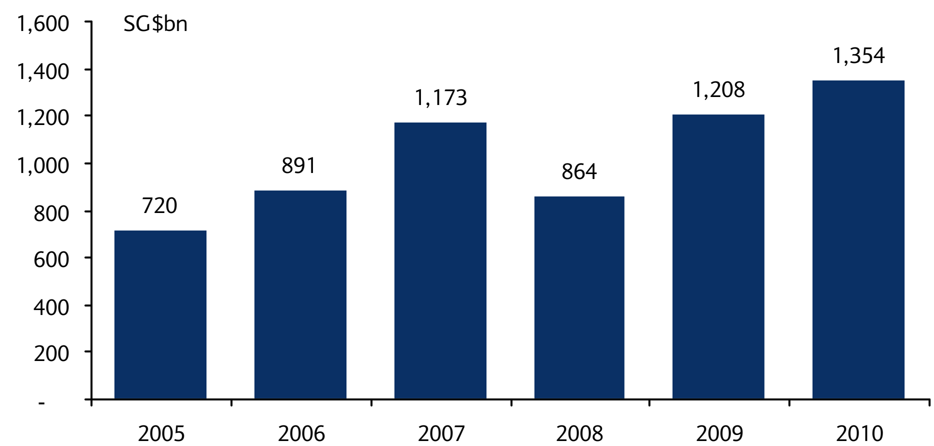
	DBS	OCBC	UOB
2010	44,789	12,084	19,549
2011	44,236	19,038	17,163
y/y	-1%	58%	-12%
as % of loans	22%	14%	12%

Source: Company data, Barclays Research

Singapore attracts fund inflows from the rest of the world

Ongoing fund inflows into Asia have been driven by stronger economic growth and the faster rise in affluence in Asia's population in recent years, compared with developed western countries. Singapore is well placed to capture a large market share of fund inflows into Asia owing to its open, business-friendly, well-regulated economy and favourable (yet internationally compliant) tax system. Singapore is the regional hub for wealth management, trade and FX.

Figure 7: Singapore assets under management



Note: AUM by Singapore asset management industry based on MAS survey.
Source: MAS, Barclays Research

According to MAS's annual asset management industry survey, assets under management (AUM) in Singapore reached S$1.4trn in 2010, with a five-year average AUM growth rate of 16%. As it is a regional and international hub for investors, more than 80% of total AUM was sourced from outside Singapore. We believe a significant driver of this growth has come from the development of the private banking and wealth management industry.

Many foreign private banking companies have expanded their presence (e.g. most recently, Morgan Stanley received approval for its private wealth management businesses in

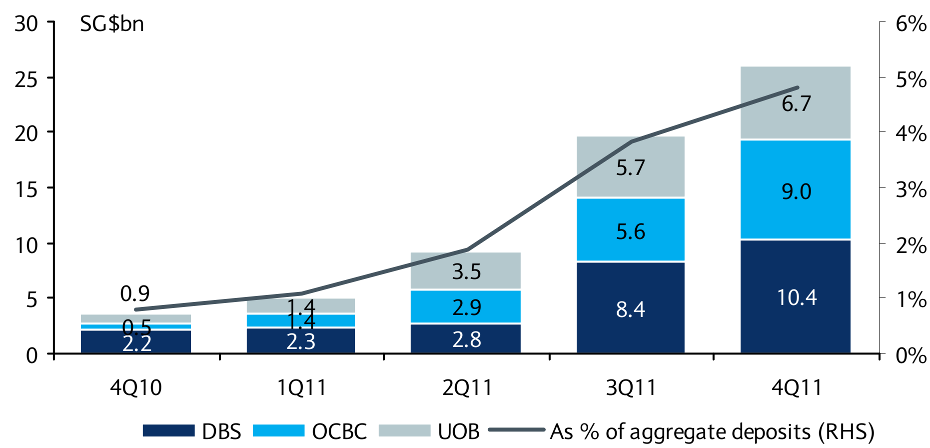
Singapore to accept deposits) and local banks are also growing private banking business. OCBC acquired ING's Asian private banking division forming the Bank of Singapore in October 2009.

Singapore was the fifth-largest offshore private banking sector in 2010, according to the Boston Consulting Group, with an estimated US$512bn in assets, vs Switzerland's US$1.7trn (the largest in the world). Moreover, Singapore's perceived strength as an investment destination and expected appreciation of SGD vs the USD may further drive fund inflows into Singapore.

Long-term wholesale funding programmes

The Singapore banks, with their strong credit ratings, have tapped long-term wholesale funding (medium-term note [MTN] and commercial paper programmes) and attracted strong investor demand. Singapore is known for its stable financial system and strong sovereign rating. Debt on issue by the three Singapore banks has grown six-fold in just one year to US$26bn by end-11 (shown in Figure 8).

Figure 8: Debt issued (including MTN, commercial paper)

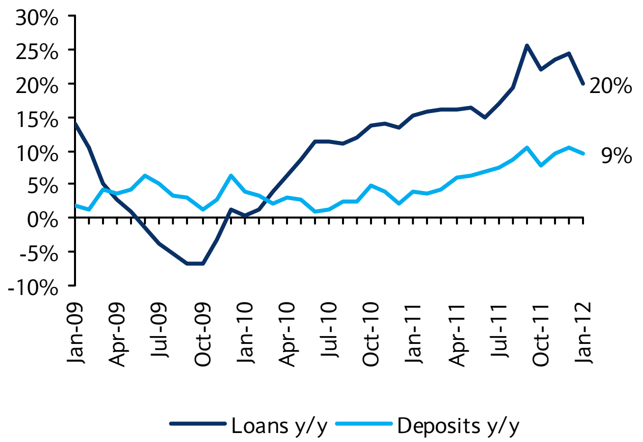


Source: Company data, Barclays Research

System loan-to-deposit ratios have peaked

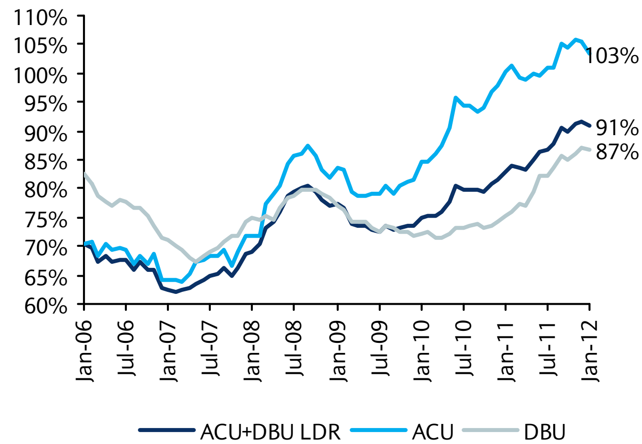
Singapore's system liquidity has tightened since 2009 as banks deployed excess liquidity into lending. The system loan-to-deposit (LDR) ratio rose to 91% in January 2012 up from 73% in 2009 as loan growth outpaced deposit growth (see Figure 9). After the MAS issued a warning about bank liquidity in November 2011, banks have reduced their USD LDRs and are increasingly tapping the wholesale market for long-term funding. Guidance from banks' management teams suggests that LDRs are unlikely to rise further. As discussed above, the ability for the Singapore banks to attract deposits is not a concern and we expect deposits should be sufficient to meet loan demand. We forecast loans for the three Singapore banks to grow by 9%, 12% and 12% in FY12/13/14, respectively, roughly in line with deposit growth and implying a stable LDR for the next three years. The basis for determining our loan growth estimates is discussed in further detail in the Economics Perspective section of this report.

Figure 9: System loan and deposit y/y growth (DBU+ACU)



Note: DBU refers to domestic banking unit and ACU refers to Asia Currency Unit.
Source: CEIC, Barclays Research

Figure 10: System loan to deposit ratio



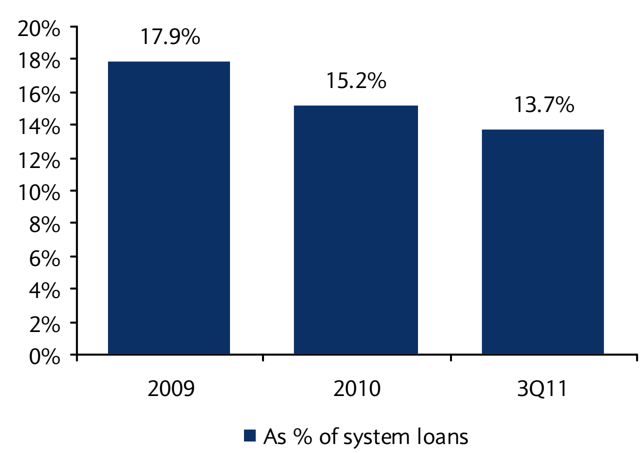
Note: DBU refers to domestic banking unit and ACU refers to Asia Currency Unit.
Source: CEIC, Barclays Research

Market share opportunity with exit of European peers

While European players exit the market, we see a prime opportunity for the Singapore banks to continue to win market share in the region.

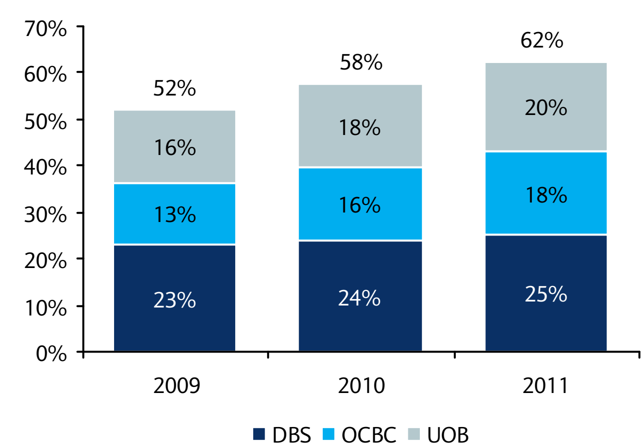
Bank of International Settlements (BIS) data show that European (ex-UK) banks have continued to withdraw exposure to Asia. Specifically in Singapore, Europe (ex-UK) claims to Singapore have declined from 18% of total loans in FY09 to 13.7% by 3Q11 (see Figure 11). Over the same period, the domestic banks have been winning market share (see Figure 12).

Figure 11: Europe (ex-UK) exposure to Singapore



* Exposure represents international bank claims on an ultimate risk basis, including bank, public, non-bank private sectors.
Source: BIS, Barclays Research

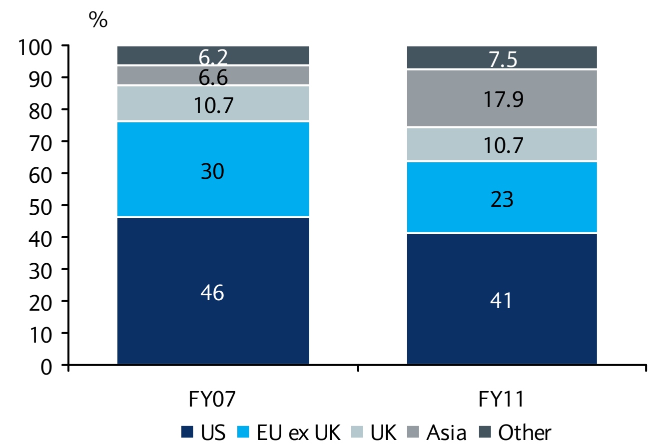
Figure 12: Domestic bank lending as % of Singapore system



* SG bank loans based on banking group disclosures and includes foreign subsidiary lending; therefore, domestic market share may be overstated.
Source: Company data, CEIC, Barclays Research

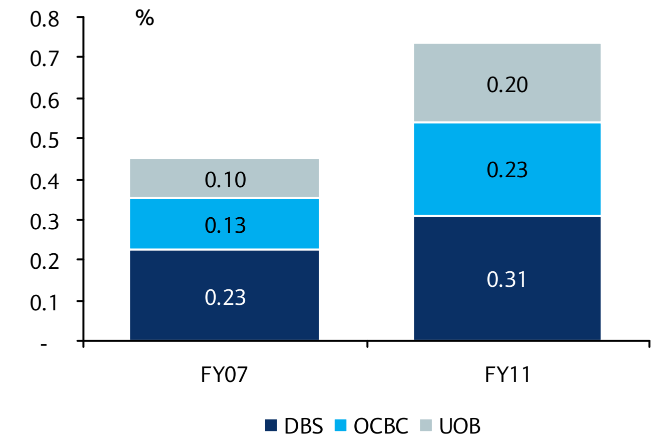
If we compare the syndicated loan market before and after the financial crisis, Asian banks have captured most of the market share lost by the US and European banks, we believe. Singapore has also grown its market share of the global syndicated loan market from 0.45% in FY07 to 0.74% in FY11.

Figure 13: US and EU (ex-UK)'s global syndicated loan market share



*Asia including Japan and Australia.
Source: Bloomberg, Barclays Research

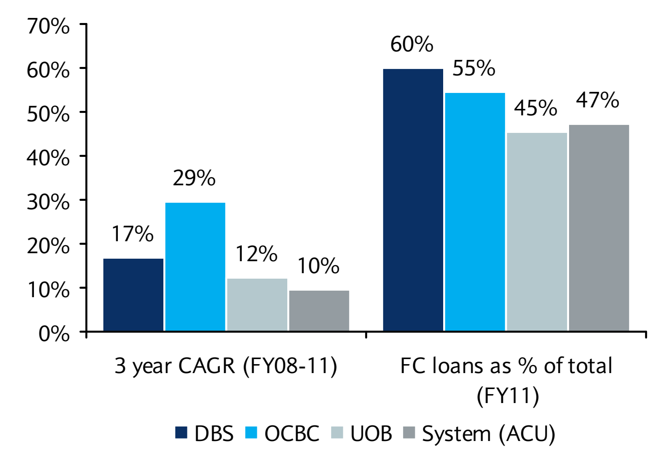
Figure 14: Singapore's global syndicated loan market share



Source: Bloomberg, Barclays Research

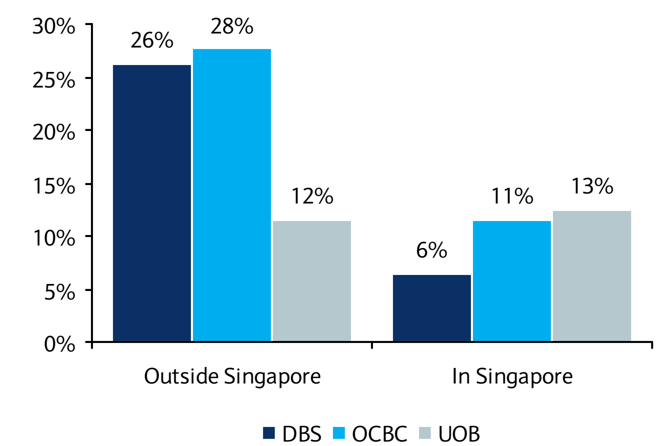
Moreover, Singapore's banks are also capturing intra-Asia and regional trade business. The foreign currency lending three-year CAGR (FY08-11) for the three Singapore banks at 12-29% was strong and exceed 10% growth for the system.

Figure 15: Foreign currency lending



Source: Company data, CEIC, Barclays Research

Figure 16: Loans by geography – 3-year CAGR (FY08-11)

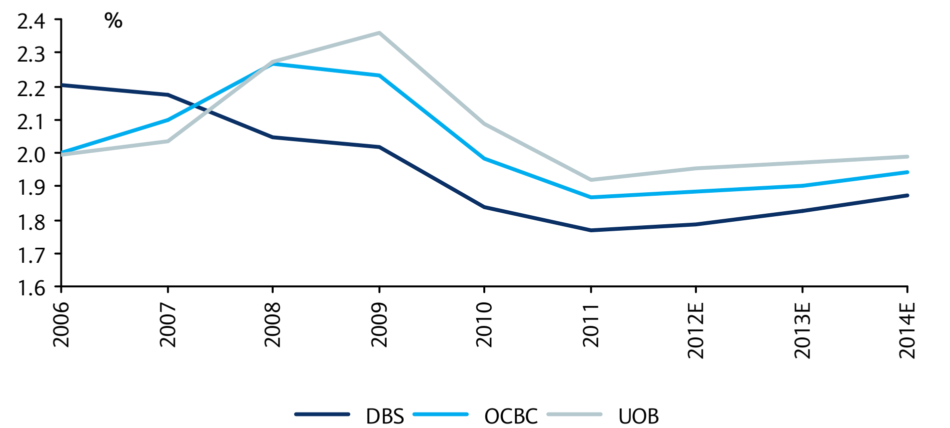


Source: Company data, CEIC, Barclays Research

Mild margin improvement as loan pricing power returns

The ongoing withdrawal of foreign competition and generally tighter liquidity conditions around the region will continue to boost Singapore banks' pricing power (especially USD business across Asia), in our view. After the start of the net interest margin decline since 2009, we saw margins flatten in 4Q11. We forecast mild margin improvement at 2-4bps each year in FY12-14.

Figure 17: Net interest margin forecasts

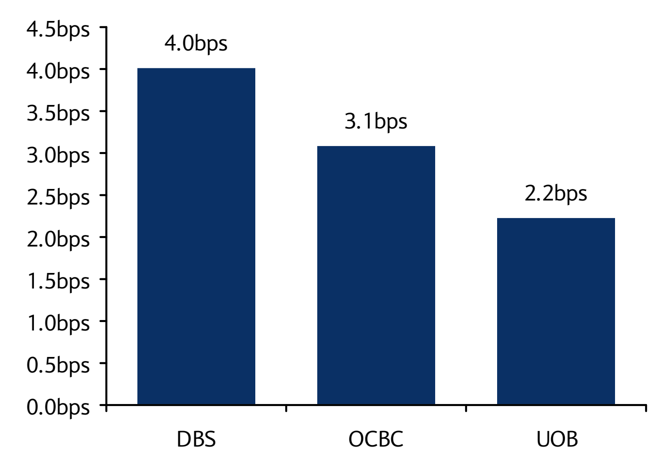


Source: Company data, Barclays Research estimates

Interest rate and margin sensitivity

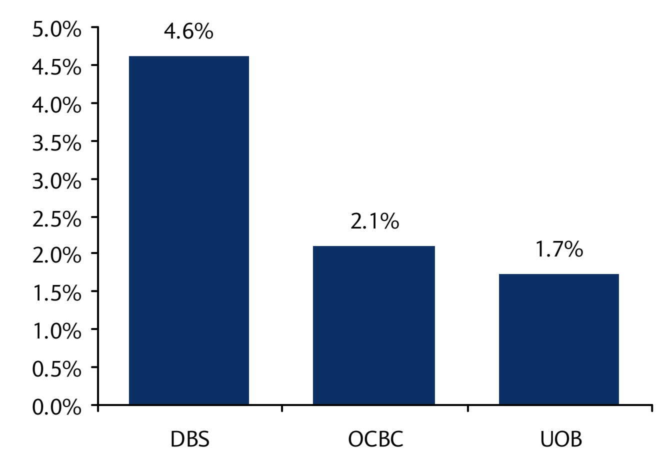
While the US Fed Funds target rate is unlikely to rise until FY14, this remains the biggest potential catalyst for earnings and margin improvement, in our view. DBS is the biggest beneficiary in a rising rate environment mainly because of its large current and savings deposits (CASA) deposit base. We estimate that for every 10bp rise in SIBOR/LIBOR, DBS's net interest margin will rise by 4bps, outpacing OCBC's 3.1bp and UOB's 2.2bp margin increment.

Figure 18: NIM impact from 10bp rise in SIBOR – FY13E



Source: Barclays Research estimates

Figure 19: FY13E PTP impact from 10bp higher SIBOR



Source: Barclays Research estimates

The MAS operates monetary policy via the exchange rate to promote sustained and non-inflationary growth for the Singapore economy. MAS manages the SGD against a basket of currencies of Singapore's main trading partners and competitors. The trade-weighted exchange rate is allowed to fluctuate within a policy band and, where necessary, MAS conducts direct interventions in the foreign exchange market to maintain the exchange rate within this band. The exchange rate policy path and the bank are regularly reviewed to ensure that they remain consistent with underlying economic conditions. Information pertaining to the policy band, composition of the currency basket, weighting system and money market operation is not disclosed to the public.

OFFSHORE WEALTH MANAGEMENT CENTRE

- **Singapore is one of Asia's leading offshore wealth management centres. System deposits have grown at a 16% CAGR over the past 10 years.**
- **Singapore's strength as a financial centre and expectations for SGD appreciation vs. USD (Barclays economics team estimates 6.6% appreciation in FY12) will continue to drive fund inflows, in our view.**
- **OCBC is best geared to wealth management business growth, as wealth management related revenue accounted for 23% of its total revenue (vs peers ~7%) in FY11.**

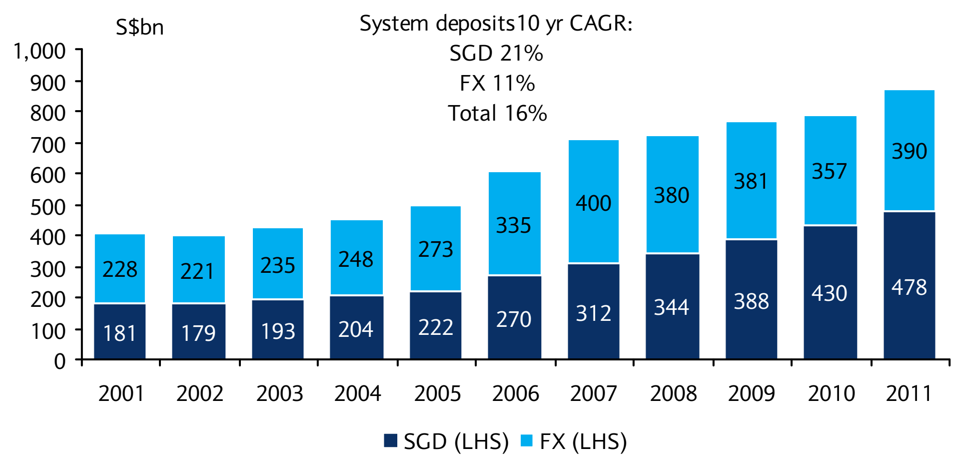
Ongoing fund inflows

Domestic economic growth and asset price performance is a key driver of domestic deposit growth but, in addition, we believe Singapore can benefit from continued foreign fund inflows from around Asia and the rest of the world on the back of Singapore's status as a perceived strong financial centre. Singapore has a sound legal system, business-friendly environment, favourable (yet internationally compliant) tax system and serves as a regional hub for private banking, trade and FX.

Moreover, expectations for SGD appreciation relative to the USD (Barclays forecasts 6.6% appreciation in FY12) may continue to encourage foreign fund inflows and conversion in SGD.

Singapore is the fifth-largest offshore private banking centre in 2010, with US$512bn assets, according to the Boston Consulting group, which counted those with more than US$1m in investable assets. Singapore's system SGD and foreign currency deposit growth have risen by an impressive 10-year CAGR of 21 and 11%, respectively, outpacing the GDP CAGR of 7.6% over the same period. Singapore's banking system is already characterised by a strong liquidity position and will continue to benefit from liquidity inflows, in our view.

Figure 20: Singapore system deposits

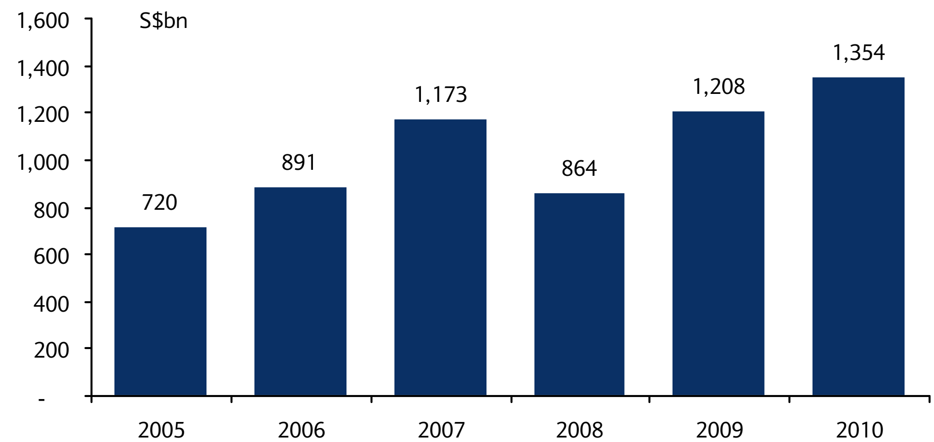


*Assuming all Asian Currency Unit (ACU) deposits are denominated in foreign currency.

Source: CEIC, Barclays Research

According to MAS's annual asset management industry survey, AUM in Singapore reached S$1.4trn in 2010, at a five-year average AUM growth rate of 16%. As it is a regional and international hub for investors, more than 80% of total AUM was sourced from outside Singapore. We believe a significant driver of this growth has come from the development of the private banking and wealth management industry.

Figure 21: Singapore assets under management



Note: AUM by Singapore asset management industry based on MAS survey.
Source: MAS, Barclays Research

Why Singapore?

1) **Open, business-friendly and well-regulated economy:** Free-market practices and strong business infrastructure combined with effective government intervention for sustained and non-inflationary economic growth.

2) **Geographic and demographic advantage:** Strategic location in the heart of southeast Asia and a vast natural seaport. Highly skilled, well-educated labour force. Pleasant living environment and less restrictive immigration laws attract foreign talent. Cultural links to growth markets of China and India.

3) **Strong economic growth across Asia:** Economic expansion outpacing developed countries resulting in portfolio allocation shift towards Asia and rising affluence of Asian population in recent years.

4) **Competitive tax system:** One of the lowest personal (20% maximum for residents) and corporate tax rates (17%) in Asia, no estate duty, no capital gains tax and few trade tariffs. Tax incentives available for private wealth management and funds management industry.

5) **Good balance between customer privacy and international cooperation of information exchange:** Strict rules for protection of personal customer information under the Banking Act and the Trust Companies Act, but is internationally compliant at the same time. Over the past few years, Singapore has signed bilateral information-sharing agreements with numerous countries and qualified for OECD's anti-tax avoidance "white-list" in late-2009. Request for information by foreign regulators will only be granted when there are specific, well-founded cases, in line with OECD international standards.

Singapore vs Hong Kong

Singapore well placed to attract "fungible" fund inflows

In competition with Singapore, Hong Kong is also an offshore wealth management hub in Asia, although both have unique competitive advantages. Geographically, Singapore can better serve the ASEAN customer base while Hong Kong can better serve Mainland/North Asian markets.

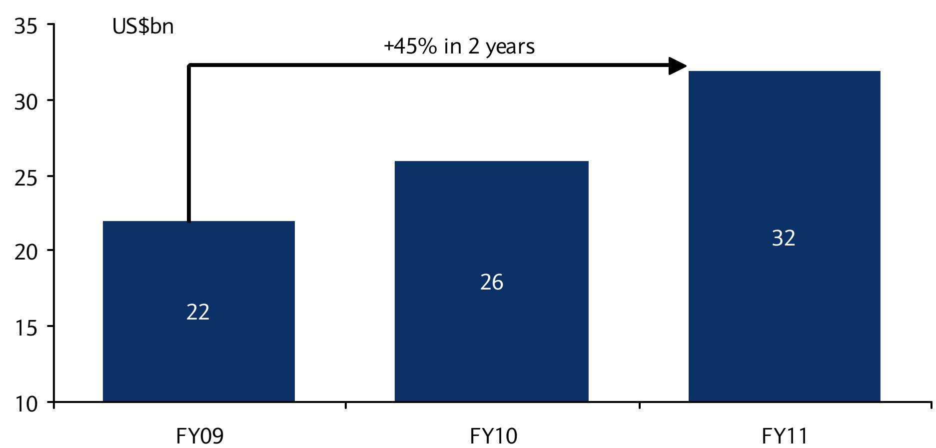
Another key difference between Singapore and Hong Kong is offshore RMB. Hong Kong is the first pilot centre for offshore RMB and is well placed to benefit from opportunities in RMB internationalisation over the longer term. However, the size and depth of offshore RMB investment outlets remain limited (despite rapid growth from the small base). Moreover, the pace of offshore RMB market development is entirely dependent on the Mainland regulators.

While Singapore wishes to become a key offshore RMB centre in time, we believe it is better placed to benefit from fungible liquidity inflows relative to Hong Kong in the near term and does not suffer from regulatory uncertainty over the pace of offshore RMB market developments.

OCBC best geared to wealth management

Among the three banks, OCBC is best positioned to benefit from Singapore's status as a wealth management centre, in our view, especially after the purchase of ING Asia Private Bank in January 2010, now rebranded as Bank of Singapore. In just two years since the integration of Bank of Singapore into the group, assets under management have risen by 45% to US$32bn by end-FY11.

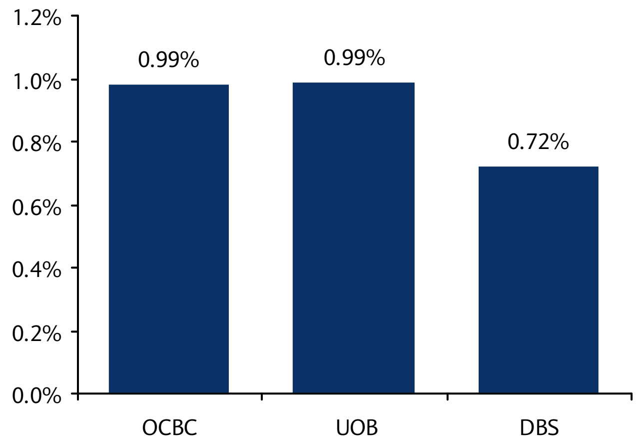
Figure 22: Bank of Singapore (OCBC's private bank) AUM



Source: Company data, Barclays Research

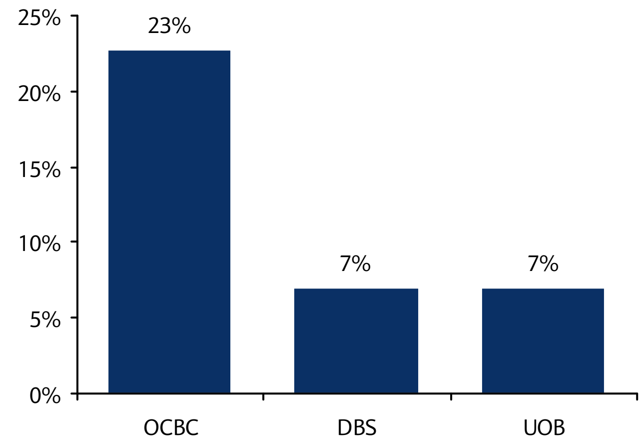
Moreover, we see fee income upside potential from greater cross-selling and referral efforts between OCBC Bank and Bank of Singapore, especially in the areas of property and business financing, deposits, insurance sales and customer acquisition. We estimate that Bank of Singapore's deposits account for about 6% of OCBC's deposits. Total wealth management income accounts for 22% of FY11 revenue (vs 7% for peers).

Figure 23: Fee income as % RWA – FY11



Source: Company data, Barclays Research

Figure 24: Wealth management as % of revenue – FY11



Note: OCBC wealth management income comprises the consolidated revenue from insurance, asset management, stockbroking and private banking subsidiaries, plus revenue from the sales of unit trusts, bancassurance products, structured deposits and other treasury products to consumer customers.
Source: Company data, Barclays Research

Tapping domestic wealth

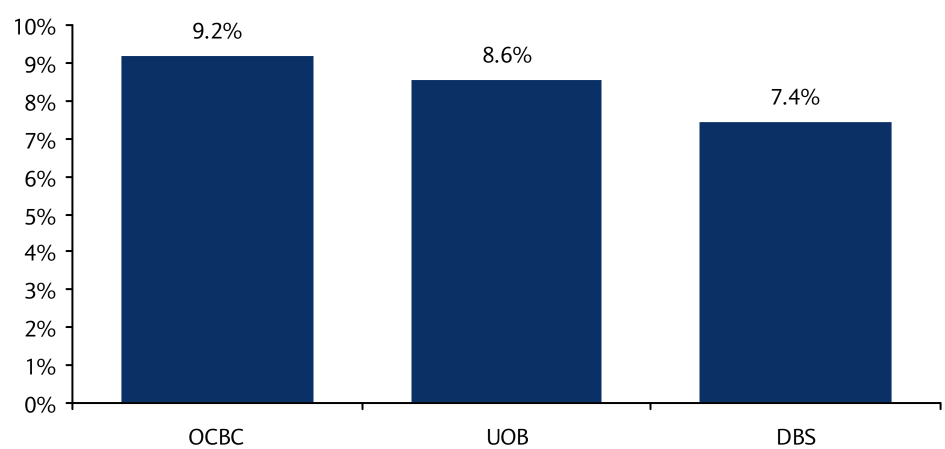
In addition to benefiting from offshore wealth, the domestic banks are best placed to tap the growing affluence and wealth of Singapore's population. The Asia-Pacific region's share of global wealth is expected to increase to 23% in 2015, from 18% in 2010, according to the Boston Consulting Group. Many of the Singapore wealthy are entrepreneurs and affluent immigrants. In FY10, Singapore had the:

1) highest concentration of millionaire households in the world, with 15.5% of all households having at least US$1m in AUM (Switzerland in second place with 9.9%); and

2) fastest-growing number of millionaire households, with 170,000 up nearly 38% y/y.

We forecast wealth management fees to grow at a three-year CAGR (FY11-14) of 7-9% for the three Singapore banks.

Figure 25: Wealth management fee income FY11-14E, three-year CAGR



Source: Barclays Research estimates

AN ECONOMICS PERSPECTIVE: CHALLENGING TRANSITION PHASE AHEAD

ECONOMICS RESEARCH
Wai Ho Leong*
+65 6308 3292
waiho.leong@barcap.com

Joey Chew *
+65 6308 3211
joey.chew@barcap.com

** Economists are members of the Fixed Income Research department and are not equity research analysts.*

For analyst certifications and important disclosures, please refer to "Singapore: April MPS – A growing need to anchor inflation expectations"

This is an excerpt from *Singapore: April MPS – A growing need to anchor inflation expectations*, 22 March 2012.

We expect Singapore to avoid a recession, although growth will likely slow. The economy faces higher costs as the foreign labour policy is tightened. Above-historical core inflation will also likely persist this year and we expect MAS to retain its currency appreciation bias.

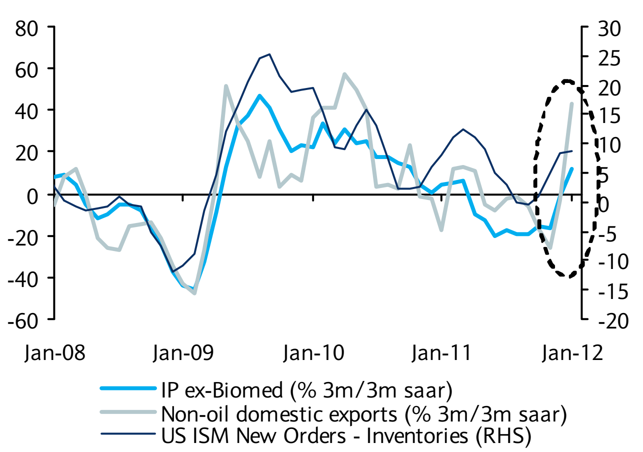
Growth concerns have eased, as fears about a potential deep European crisis dissipate and economic data out of the US improve. We expect the Singapore economy to register growth of at least 3% q/q saar in Q1 (Q4: -2.5% q/q saar). February manufacturing PMI indicated expansion of industry for the first time in eight months. This is corroborated by the acceleration in momentum of industrial production and exports. We also expect an improvement in sentiment-sensitive financial activity, in line with the turnaround in the stock market (Straits Times Index: +13% YTD; Aug-Dec: -14%). The composite leading index complied by the Ministry of Trade and Industry similarly suggests growth in Q1.

The government is preparing for slower growth in the medium term by shifting its focus to the quality of growth. The MTI's forecast for 2012 is 1-3% (Barclays: 3%; 2011: 4.9%), in line with its projected lower potential growth rate of 3-5% pa for this decade (2000-10: 4-6%). To raise productivity, the government intends to reduce the economy's reliance on low-cost, low-skilled foreign workers through lower quotas and higher levies (implemented in phases through 2014), as well as incentives for investments and training. A challenging transition to a more technology and knowledge intensive growth model lies ahead.

The government aims to make up for slower growth with productivity gains but a tighter foreign labour policy will lead to short-term cost pressures

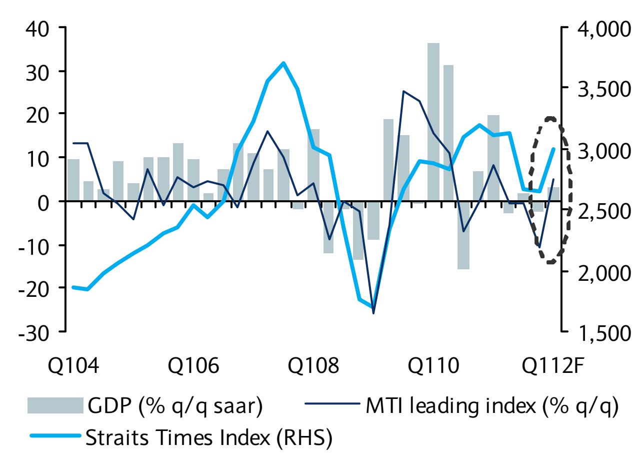
The tightening of the foreign labour policy will lead to cost pressures as productivity gains take time to materialise. While measures such as one-off cash grants (of up to SGD5,000) should help alleviate the cost burdens on businesses, these cannot alter the "permanent reality of a tight labour market", in the words of the Finance Minister. Apart from labour, businesses also face a step-up in transport and real estate costs, due to infrastructure constraints. The cost of vehicle ownership licenses is up more than 50% from the average in 2011 after further cuts in the allowable vehicle population growth rate. Land prices and rentals are also likely to remain at record-highs given low vacancy rates.

Figure 1: Manufacturing momentum accelerates



Source: Haver Analytics, Barclays Research

Figure 2: The economy is likely to avoid recession



Source: Haver Analytics, Barclays Research

We expect core inflation to rise this year, although headline will fall on a favourable base

As such, we expect above-historical inflation rates for the Monetary Authority of Singapore's core measure (which excludes the costs of accommodation and private road transport) to persist. We are forecasting it to rise to 2.4% this year (MAS: 1.5-2%), from 2.2% in 2011 (historical average: 1.7%). The pass-through of higher business costs will be particularly significant for labour-intensive services (such as restaurants, healthcare, education, etc), which we estimate comprise 63% of the CPI basket (67% of core CPI). Headline inflation is expected to moderate from 5.2% in 2011 to 3.5% this year (MAS: 2.5-3.5%), aided by favourable base effects in the private transport cost category and smaller expected increases in accommodation costs – market rents of private residential properties rose 9.5% in 2011, compared with 25% in 2010.

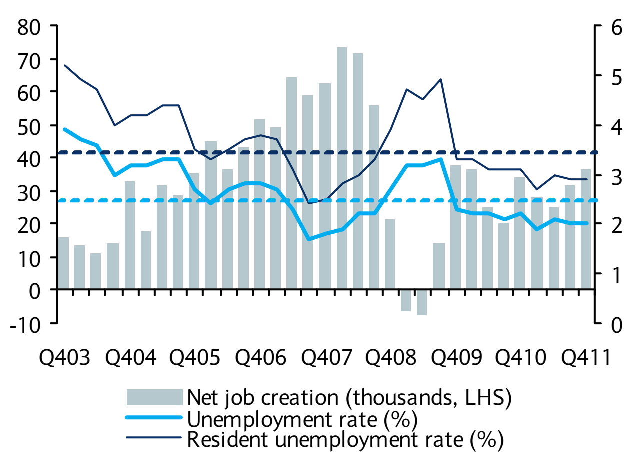
MAS likely to maintain its appreciation bias for the SGD NEER

We believe MAS will be more tolerant of above-historical inflation rates during the cost-adjustment phase as higher cost and price levels are necessary to ensure a more efficient allocation of resources. Even so, the fundamentally-driven rise in the real exchange rate will also have to come through nominal appreciation. This should help to anchor inflation expectations and mitigate second-round effects. Our base case is for MAS to maintain its "modest and gradual appreciation" stance for the SGD NEER in its bi-annual policy meeting in April. Given expectations for growth to be firmer in H2, we think any easing of policy in April could stoke cyclical price pressures. In fact, we estimate the output gap to narrow but remain positive in 2012. We believe MAS will also prefer to remain vigilant against any resurgence in imported commodity price inflation – Brent crude oil prices have risen 14% year-to-date in SGD terms. On the other hand, the fragility of the global economic recovery suggests it is not the right time to start tightening policy.

Tail risks to Singapore's growth outlook remain

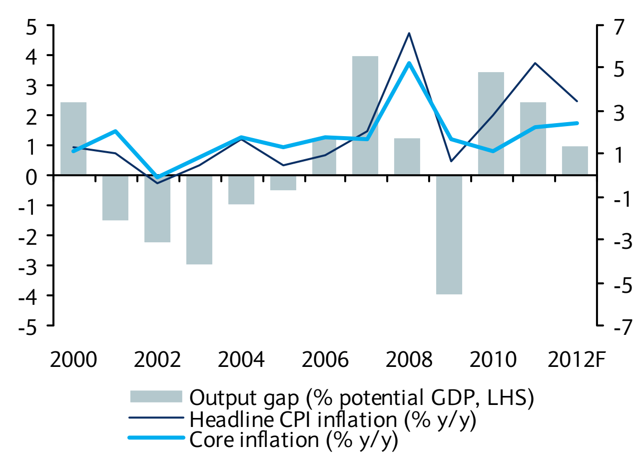
The key risks confronting the Singapore economy are a deeper recession and financial contagion in Europe, as well as a surge in oil prices. On the latter, we believe that the effect on growth would be akin to an external demand shock. The IMF recently estimated (in Singapore's 2011 Article IV consultation report) that a 1pp decline in global growth would lead to a 1.8pp decline in Singapore's growth. We believe the influence on growth from domestic sources is fairly small, in line with the low direct inflation effect of about 0.3pp for a 10% increase in global oil prices, by our estimates. However, there is potential for second-round inflation effects given the ongoing cost adjustments in the economy. Nevertheless, we would still expect MAS to support the economy in the event that the global economy sinks into recession from an oil price shock – a remote risk, in our view.

Figure 3: Tightness in the labour market will be sustained



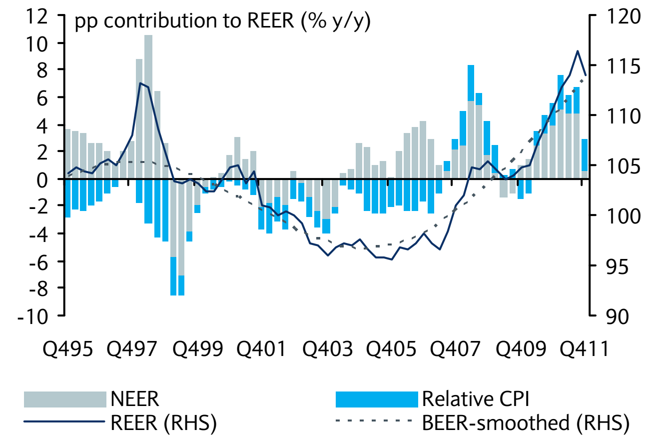
Source: Haver Analytics, Barclays Research

Figure 4: Core inflation is expected to rise this year



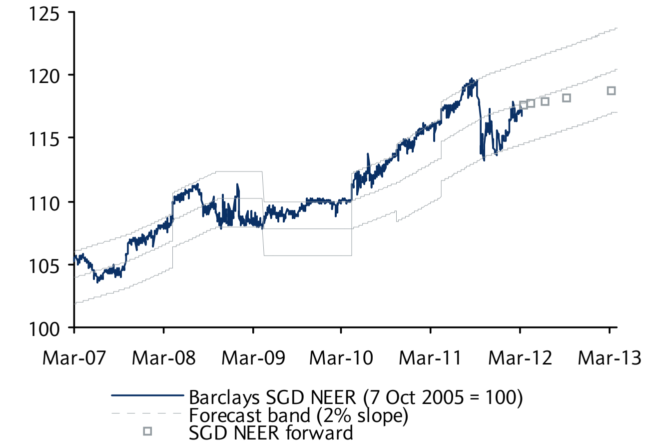
Source: Haver Analytics, Barclays Research

Figure 5: Fundamentally-driven increase in the REER…



Source: Haver Analytics, Barclays Research

Figure 6: … will also have to come through the SGD NEER



Source: Bloomberg, Barclays Research

Figure 7: Singapore macroeconomic forecasts

	2008	2009	2010	2011	2012F	2013F
Activity						
Real GDP (% y/y)	1.7	-1.0	14.8	4.9	3.0	4.8
Domestic demand contribution (pp)	8.2	-5.4	5.0	3.7	1.2	2.7
Private consumption (% y/y)	3.3	0.1	6.5	4.1	4.3	3.8
Fixed capital investment (% y/y)	13.0	-2.9	7.0	3.3	-1.8	5.6
Net exports contribution (pp)	-8.3	5.4	11.1	1.2	1.9	2.1
Exports (% y/y)	4.7	-7.8	19.1	2.6	3.4	7.5
Imports (% y/y)	9.5	-11.1	16.2	2.4	3.0	7.7
GDP (USD bn)	190	186	228	260	278	307
External sector						
Current account (USD bn)	26.3	30.1	55.5	57.0	51.5	55.6
CA (% GDP)	13.9	16.2	24.4	21.9	18.6	18.1
Trade balance (USD bn)	41.7	47.3	63.1	67.4	67.8	69.9
Net FDI (USD bn)	5.0	6.7	27.4	38.8	20.1	23.3
Other net inflows (USD bn)	-20.4	-29.4	-40.3	-78.8	-48.3	-49.9
Gross external debt (USD bn)	436	454	521	614	668	725
International reserves (USD bn)	174	188	224	237	269	295
Public sector						
Public sector balance (% GDP)	0.1	-1.1	-0.1	0.7	0.4	0.3
Primary balance (% GDP)	1.1	-1.6	-0.3	0.9	0.8	0.6
Gross public debt (% GDP)	95	108	104	108	112	114
Prices						
CPI (% Dec/Dec)	5.5	-0.5	4.6	5.5	2.2	2.6
FX, eop	1.44	1.40	1.29	1.30	1.22	1.19
	1y ago	**Last**	**Q1 12F**	**Q2 11F**	**Q3 12F**	**Q4 12F**
Real GDP (% y/y)	9.1	3.6	-0.2	2.1	3.2	6.9
CPI (% y/y, eop)	5.0	5.5	4.9	4.3	2.6	2.2
FX (domestic currency/USD, eop)	1.26	1.30	1.25	1.24	1.23	1.22

Source: Haver Analytics, Ministry of Finance, Barclays Research

SINGAPORE CREDIT GROWTH

In line with our economists' forecasts for GDP growth to fall to 3% in CY12 (from 4.9% in CY11), we expect a moderation of system credit growth to 9% in FY12 (from 24% in FY11).

Our system credit growth estimates are shown in the table below, and are based on forecasts for Singapore from the Barclays economics team, including various components of domestic demand and external sector contributions.

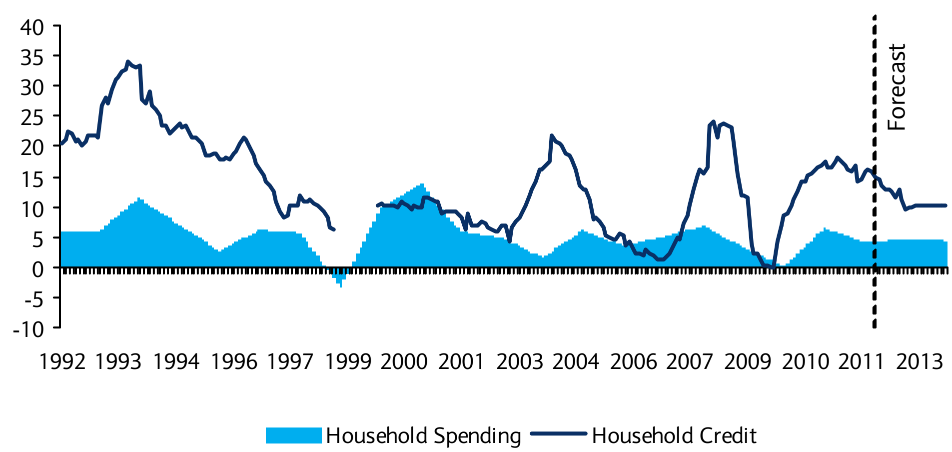
Figure 26: System credit growth estimates

	YoY %	Real GDP	Inflation	Nominal GDP	System Credit	Household Credit	Business Credit
2007	Q4	6.9%	4.2%	11.1%	**28.8%**	**15.5%**	**34.4%**
2008	Q4	-3.4%	5.3%	1.9%	**14.0%**	**11.9%**	**14.7%**
2009	Q4	5.5%	-0.5%	5.0%	**1.2%**	**8.4%**	**-1.3%**
2010	Q4	12.7%	4.6%	17.2%	**13.5%**	**17.4%**	**12.0%**
2011	Q4	3.6%	5.6%	9.2%	**24.2%**	**15.9%**	**27.5%**
2012E	CY	3.0%	2.2%	5.2%	**9.1%**	**9.4%**	**9.0%**
2013E	CY	4.8%	2.6%	7.4%	**10.3%**	**10.1%**	**12.0%**

Source: CEIC, Barclays Research estimates

Household credit to moderate from current levels, as the housing market cools

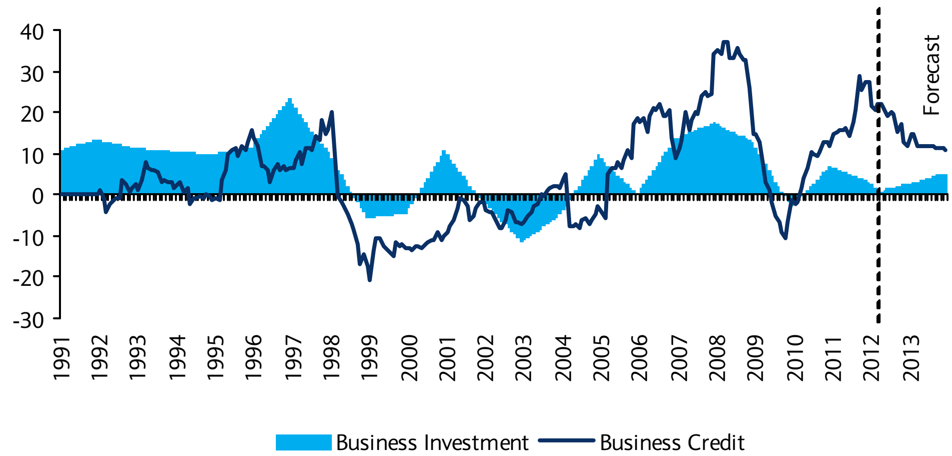
Figure 27: Household credit growth and spending (y/y, %)



Note: Household spending is private consumption expenditure from government data, and Barclays Research estimates.
Source: CEIC, Barclays Research estimates

Business credit slows as fixed capital formation declines

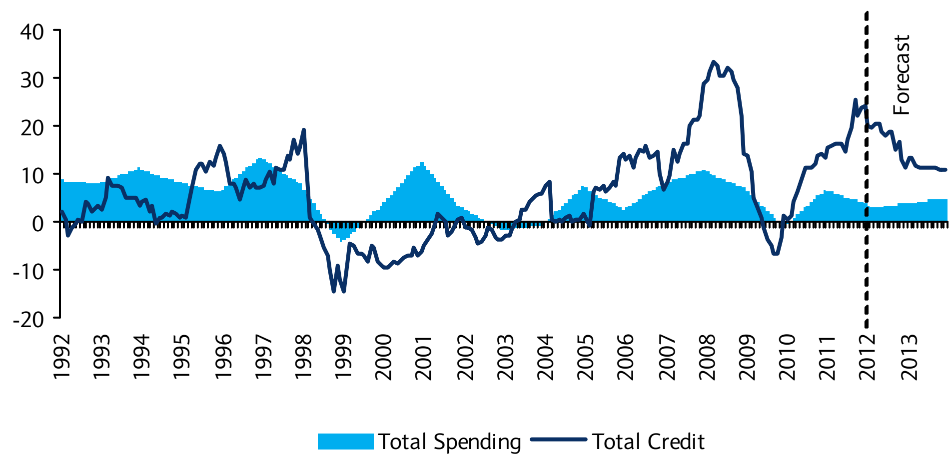
Figure 28: Business credit growth and investment (y/y, %)



Note: Business investment is equivalent to gross fixed capital formation from government data, and Barclays Research estimates.
Source: CEIC, Barclays Research estimates

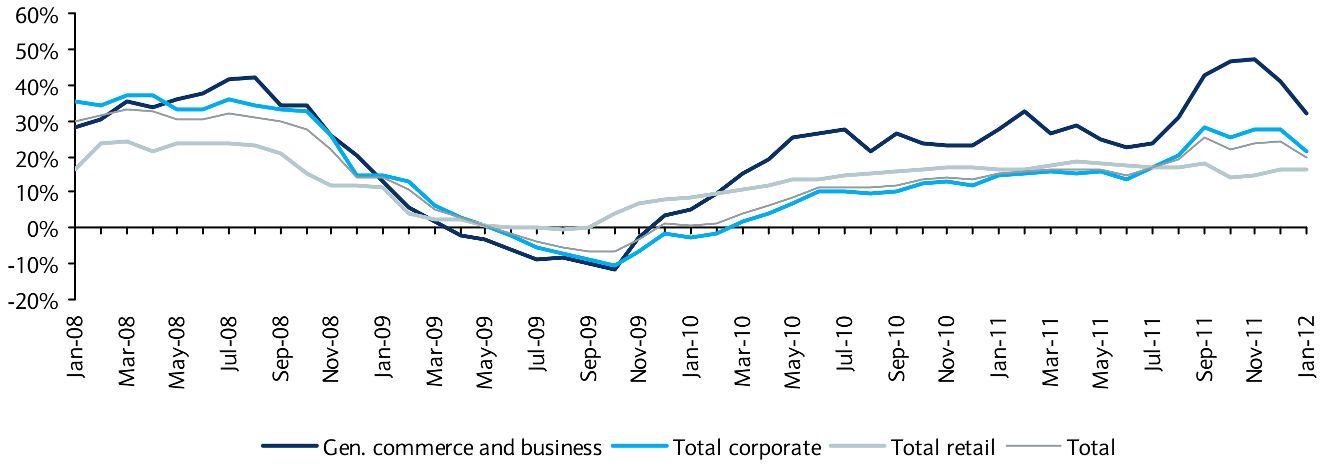
System credit moderates as business credit (72% of lending in Singapore) slows

Figure 29: System credit growth and total investment



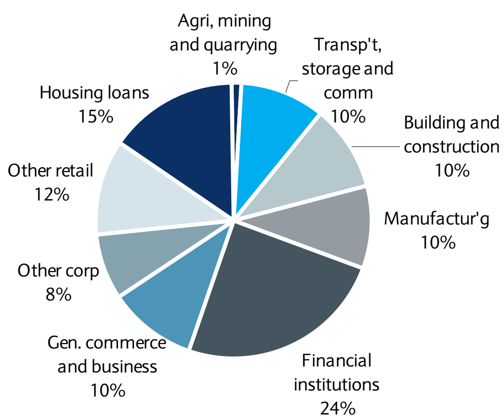
Note: total investment is equivalent to gross national expenditure from government data.
Source: CEIC, Barclays Research estimates

Figure 30: Key segments of lending, y/y growth



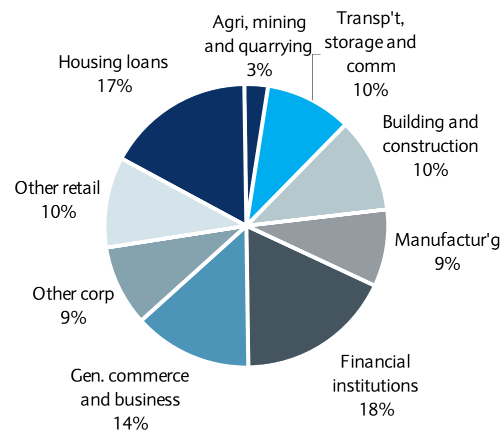
Source: CEIC, Barclays Research

Figure 31: Singapore system loan mix – FY07



Source: CEIC, Barclays Research

Figure 32: Singapore system loan mix – Jan 2012



Source: CEIC, Barclays Research

Residential property cooling measures

Over the course of 2010 and 2011, the MAS announced a series of residential property market restrictions. The current rules are:

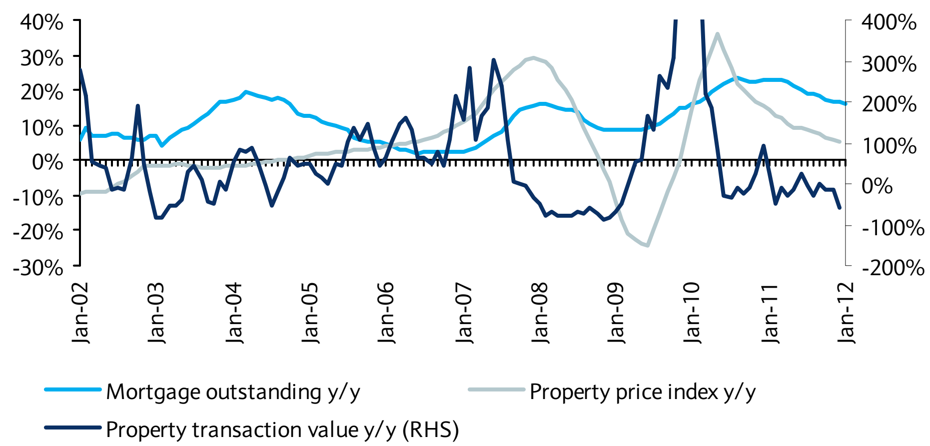
4. Maximum LTV limit of 80% for first-home buyers; 60% for other individuals and 50% for non-individuals.

5. Increase the holding period for imposition of Seller's Stamp Duty (SSD) to four years (from three years prior to January 2011).

6. Raise the SSD rates to 16%, 12%, 8% and 4% of consideration for residential properties that are bought on or after 14 January 2011, and are sold in the first, second, third and fourth year of purchase respectively.

Residential property transaction value down 18% in FY11 y/y

Figure 33: Residential property market – cooled since mid-2010



Source: CEIC, Barclays Research

We estimate that the average LTV of the Singapore banks' existing mortgage book is about 50-60%, with an average behavioural duration of three years.

EARNINGS OUTLOOK

- **Operating conditions to remain stable. We forecast EPS growth of 3% to 14% in FY12-14E, as credit costs gradually normalise upwards as the economy slows. We forecast PPOP to grow by 7% to 15% over the same period.**
- **Key drivers of top line growth include mild margin expansion (2-4bps each year over the forecast years) and fee income growth of 12% in FY13-14E driven by wealth management.**
- **Credit growth forecasts show 9-12% expansion for FY12-14, down from 24% in FY11 as economic growth outlook moderates.**
- **Our FY12-14 profit forecasts are 3-5% above consensus on average, which we believe is due to our assumption of mild margin improvement (due to stronger loan repricing power) and faster fee income growth as the domestic banks penetrate offshore and domestic wealth management.**

Figure 34: Key forecast assumptions

	DBS			OCBC			UOB			Sector		
Key Assumptions	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
NIM	1.79%	1.82%	1.87%	1.89%	1.90%	1.94%	1.95%	1.97%	1.99%	1.86%	1.89%	1.93%
Loan Growth	8.4%	11.7%	11.7%	11.6%	12.5%	13.8%	8.3%	12.6%	12.6%	9.3%	12.2%	12.5%
Revenue Growth	5.2%	12.2%	13.3%	9.2%	11.1%	12.9%	8.3%	11.1%	12.1%	7.3%	11.6%	12.8%
Cost-to-Income Ratio	44.0%	43.6%	42.6%	43.4%	41.9%	40.7%	43.0%	42.4%	41.3%	43.5%	42.7%	41.6%
PPOP Growth	3.9%	13.0%	15.1%	10.4%	13.9%	15.4%	8.8%	12.3%	14.2%	7.3%	13.1%	14.9%
Credit Cost (bp GLAA)	37	43	48	29	33	36	52	58	61	39	45	48
Dividend Payout (Cash)	49%	48%	48%	47%	47%	46%	45%	43%	43%	47%	46%	46%
Tier 1 Ratio	12.4%	11.9%	11.5%	14.1%	13.9%	13.7%	13.3%	12.9%	12.5%	13.1%	12.7%	12.4%

Source: Barclays Research estimates

Healthy earnings growth

Our forecasts for the Singapore banks show strong earnings growth and profitability improvement over the forecast years. We assume that the low interest rate environment persists until late-FY14.

We expect pre-provision earnings growth of 7% and 13% in FY12 and FY13, respectively, driven by mild margin improvement, stronger contribution from wealth management fees, 9-12% loan growth and a reasonable level of expense growth reflecting competition for talent and continued investment in platform and systems.

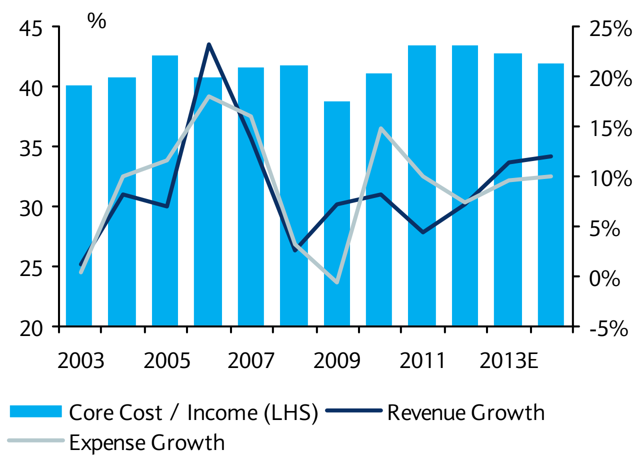
We expect upward normalisation of credit costs overall as the economy slows, albeit this will likely be a gradual process due to the strong risk management track record of the Singaporean banks.

At the bottom line, we forecast 5% and 11% earnings growth in FY12 and FY13, respectively. Acceleration in earnings in FY13 is based on the assumption that Singapore banks win regional loan market share over the medium term, albeit much lower than the very strong 24% y/y system loan growth in FY11.

Top line growth expectations

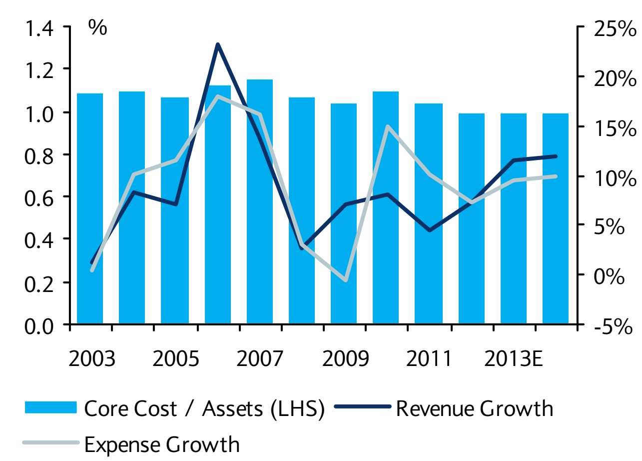
We believe revenue growth will remain healthy over the forecast years (7-12%) on mild margin improvement because of stronger pricing power and reasonably good credit growth.

Figure 35: Revenue growth accelerating…



Source: Company data, Barclays Research estimates

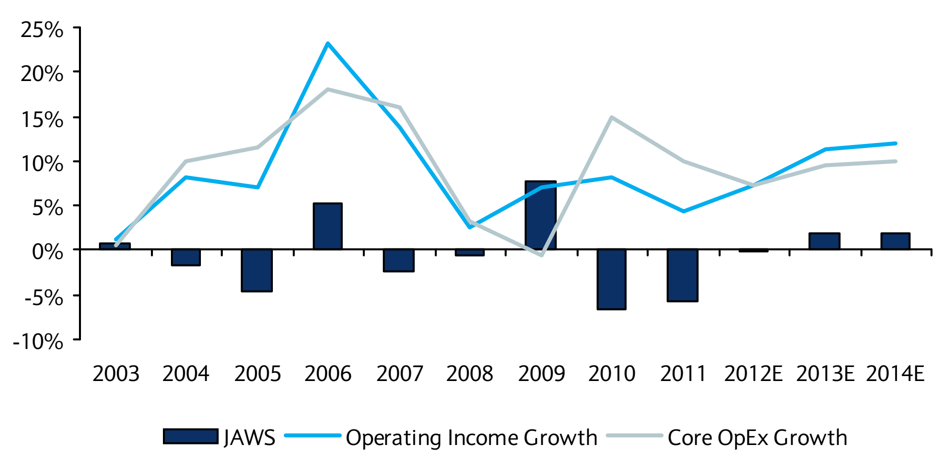
Figure 36: …with continued investment spend



Source: Company data, Barclays Research estimates

Given the competitive market dynamics, the Singapore banks have been investing heavily in attracting talent (eg, private banking relationship managers) and in systems and processes, evidenced by negative jaws between 2010 and 2011. We expect additional spend and forecast expense growth of 7-10% over the forecast years (in line with an 8.5% historical five-year expense CAGR) and resulting in a gradual improvement in operating jaws. The cost/income ratio should improve to 42% in FY14E from 43.5% in FY11.

Figure 37: Singapore banks – Operating jaws improving

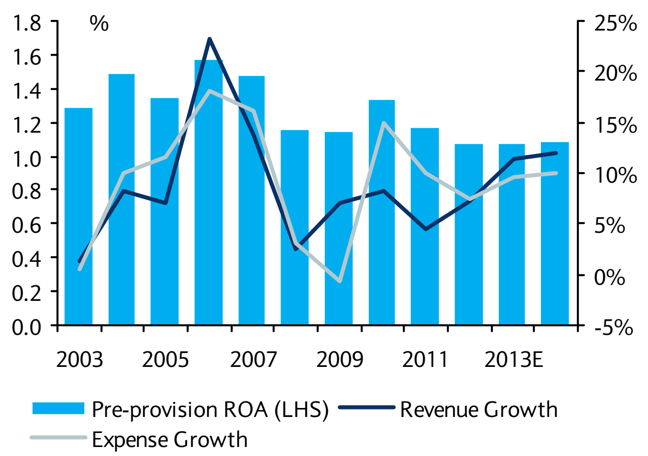


Source: Company data, Barclays Research estimates

These top line trends, we expect will allow the Singapore banks to deliver improving pre-provision profitability improvement. Figure 38 shows we are forecasting pre-provision ROA to improve from 1.29% in FY12E to 1.4% in FY14E.

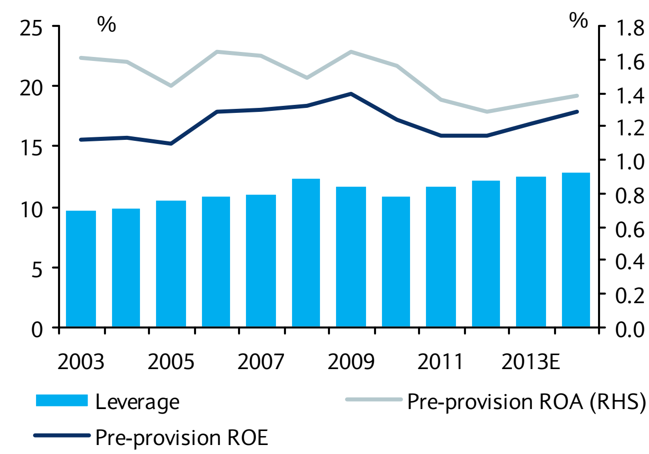
However, we also expect a gradual increase in leverage as the Singapore banks continue to tap the long-term wholesale funding markets as a stable source of USD liquidity to partly fund loan growth.

Figure 38: Pre-provision profitability improving



Source: Company data, Barclays Research estimates

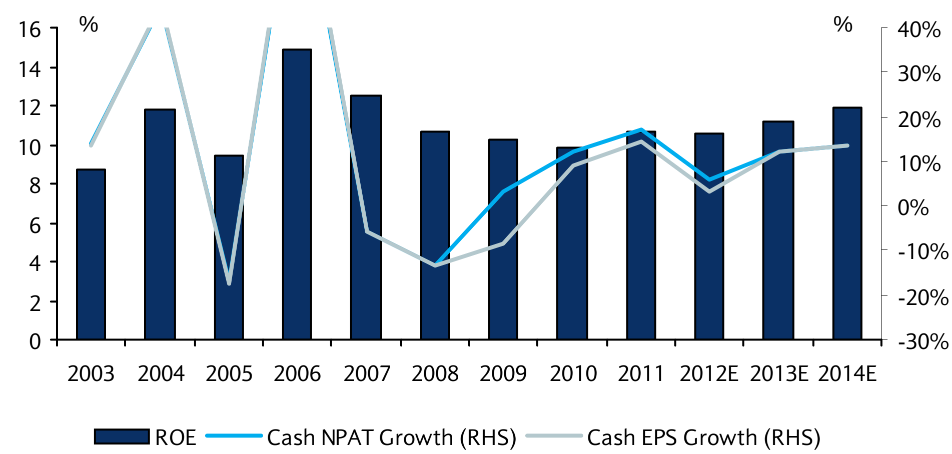
Figure 39: Slight increase in leverage



Source: Company data, Barclays Research estimates

Therefore, earnings growth of the Singapore banks looks reasonably attractive and we forecast ROE to expand gradually from 11.4% in FY11 to 12.2% by FY14.

Figure 40: Earnings growth and profitability improvement



Source: Company data, Barclays Research estimates

DuPont analysis

A more comprehensive decomposition of profitability is shown in the table below, using a DuPont style analysis of return on assets. The table highlights our forecast improvement in net interest margin and fee income contribution to revenue for the sector. We note that efficiency of employees should improve as investment spend on systems and process realignment over the past two years begins to pay off. We also factor in rising credit costs on a slowing economic growth outlook.

Figure 41: Singapore banks – DuPont analysis

%	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Net Interest Income	1.68	1.68	1.58	1.67	1.69	1.74	1.75	1.58	1.51	**1.54**	**1.58**	**1.63**
Net Fee Income	0.53	0.61	0.63	0.57	0.64	0.51	0.49	0.52	0.51	0.45	0.47	0.48
FX & Trading	0.32	0.22	0.07	0.16	0.09	-0.02	0.18	0.20	0.13	0.10	0.10	0.11
Other Income	0.16	0.18	0.23	0.38	0.35	0.33	0.27	0.36	0.26	0.19	0.19	0.18
Total Non-Interest Income	1.01	1.01	0.93	1.10	1.08	0.82	0.94	1.08	0.89	**0.74**	**0.76**	**0.77**
Total Operating Income	2.70	2.69	2.51	2.77	2.77	2.56	2.68	2.66	2.40	**2.29**	**2.34**	**2.40**
Staff & Pensions	0.55	0.58	0.55	0.58	0.61	0.55	0.54	0.58	0.58	0.52	0.52	0.51
Occupancy	0.35	0.34	0.18	0.18	0.20	0.20	0.20	0.21	0.19	0.20	0.21	0.21
Other Expenses	0.19	0.18	0.35	0.37	0.34	0.32	0.30	0.31	0.27	0.28	0.28	0.27
Operating Expenses	1.09	1.10	1.07	1.13	1.15	1.07	1.04	1.10	1.04	**0.99**	**1.00**	**1.00**
Pre-Provision Op. Profit	1.61	1.59	1.44	1.64	1.62	1.49	1.64	1.57	1.36	**1.29**	**1.34**	**1.40**
Impairment Cost	0.32	0.09	0.09	0.07	0.14	0.33	0.49	0.22	0.19	0.22	0.25	0.28
Pre-Tax Profit	1.29	1.50	1.35	1.58	1.48	1.16	1.15	1.34	1.17	**1.07**	**1.09**	**1.11**
Income Tax Expense	0.29	0.30	0.26	0.31	0.27	0.19	0.17	0.20	0.18	0.16	0.16	0.16
Associates	0.11	0.08	0.04	0.07	0.06	0.03	0.03	0.04	0.03	0.03	0.03	0.03
Significant Items & Minorities	-0.20	-0.07	-0.25	0.07	-0.10	-0.08	-0.07	-0.21	-0.06	-0.04	-0.04	-0.03
Net Profit	0.91	1.21	0.88	1.41	1.17	0.91	0.94	0.96	0.97	**0.91**	**0.92**	**0.95**
Leverage	9.7x	9.9x	10.5x	10.9x	11.2x	12.4x	11.8x	11.0x	11.7x	12.3x	12.6x	12.9x
Return on Equity	8.8	12.0	9.3	15.3	13.1	11.3	11.1	10.6	11.4	**11.1**	**11.6**	**12.2**

Source: Company data, Barclays Research estimates

The leverage for OCBC is higher due to its life insurance subsidiary Great Eastern Holdings, which is consolidated for accounting purposes.

Figure 42: Singapore banks – DuPont style analysis (%)

2012	DBS	OCBC	UOB	Sector
Net Interest Income	**1.58**	**1.39**	**1.68**	**1.54**
Net Fee Income	0.42	0.40	0.56	0.45
FX & Trading	0.18	0.06	0.03	0.10
Other Income	0.07	0.28	0.24	0.19
Total Non-Interest Income	**0.68**	**0.74**	**0.83**	**0.74**
Total Operating Income	**2.26**	**2.13**	**2.51**	**2.29**
Staff & Pensions	0.45	0.53	0.60	0.52
Occupancy	0.31	0.17	0.07	0.20
Other Expenses	0.23	0.22	0.41	0.28
Operating Expenses	**0.99**	**0.92**	**1.08**	**0.99**
Pre-Provision Operating Profit	**1.27**	**1.21**	**1.43**	**1.29**
Impairment Cost	0.21	0.14	0.32	0.22
Pre-Tax Profit	**1.05**	**1.06**	**1.12**	**1.07**
Income Tax Expense	0.17	0.17	0.12	0.16
Associates	0.04	0.00	0.05	0.03
Significant Items & Minorities	-0.06	-0.05	0.00	-0.04
Net Profit	**0.86**	**0.84**	**1.04**	**0.91**
Leverage	12x	14x	11x	12x
Return on Equity	**10.3**	**11.4**	**11.9**	**11.1**

Source: Company data, Barclays Research estimates

How we differ from consensus

Our profit forecasts are 3-5% above consensus on average, which we believe is due to our assumption of mild margin improvement (due to stronger loan repricing power) and faster fee income growth as the domestic banks penetrate offshore and domestic wealth management business.

Figure 43: Barclays vs Bloomberg consensus net profit estimates

Net profit (pre-pref divs), S$m	Barclays estimates			vs Bloomberg consensus		
	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
DBS	3,066	3,376	3,837	2.1%	2.3%	0.9%
OCBC	2,448	2,757	3,176	3.8%	8.0%	7.6%
UOB	2,564	2,799	3,110	5.8%	4.7%	2.6%
Sector	**8,078**	**8,932**	**10,122**	**3.8%**	**4.8%**	**3.4%**

Source: Bloomberg, Barclays Research estimates

Capital & Basel III

The Singapore banks are well capitalised with core Tier 1 of between 11% and 12% in FY11. We see no need for capital raising and believe the Singapore banks can comfortably comply with MAS's core Tier 1 requirement of 9% (2% higher than international requirements) by FY19.

Figure 44: Singapore banks – capital adequacy

FY11	DBS	OCBC	UOB
Core Tier 1 (ex pref shares) %	**11.0**	**11.4**	**11.9**
Tier 1 CAR %	**12.9**	**14.4**	**13.5**
Total CAR %	**15.8**	**15.7**	**16.7**
S$m			
Ordinary share capital	5,350	7,127	3,104
Preference share capital	4,000	1,896	2,149
Innovative Tier 1 capital instruments	n.a.	2,062	n.a.
Disclosed reserves and others	23,308	13,140	17,511
Less Goodwill	(4,802)	(4,009)	(4,196)
Less other deductions from Tier 1	(321)	(1,604)	(554)
Eligible Tier 1	**27,535**	**18,612**	**18,014**
Subordinated debts	5,305	3,343	3,794
Other	1,180	501	950
Less: Tier 2 deductions	(192)	(2,270)	(421)
Total Tier 2	**6,293**	**1,574**	**4,323**
Total eligible capital	**33,828**	**20,186**	**22,337**
RWA	**213,722**	**128,507**	**133,578**

Source: Company data, Barclays Research

The MAS's capital rules are higher than the global Basel III standards. The MAS requires Singapore-incorporated banks to meet a minimum CET1 of 6.5%, tier 1 of 8% and total CAR of 10% from 1 January 2015. These standards are higher than the Basel III minimum requirements of 4.5%, 6% and 8% for CET1, tier 1 and total CAR, respectively.

In addition, MAS requires the minimum transitional CAR requirements to be met from 1 January 2013, two years ahead of the Basel Committee 2015 timeline.

In line with Basel III requirements, MAS will introduce a capital conservation buffer of 2.5% above the minimum capital adequacy requirement. This will be met fully with CET1 capital and phased in on 1 January each year, from 2016 to 2019. Including the capital conservation buffer, Singapore-incorporated banks will be required to meet a CET1 CAR of 9%, which is higher than the Basel III requirement of 7%.

Figure 45: MAS and Basel III capital requirements

MAS requirement	From 1 Jan 13	1-Jan-14	1-Jan-15	1-Jan-16	1-Jan-17	1-Jan-18	1-Jan-19
CET1	4.5%	5.5%	6.5%				
Tier 1	6%	7%	8%				
Total	10%	10%	10%				
International Basel III requirement	**From 1 Jan 13**	**1-Jan-14**	**1-Jan-15**	**1-Jan-16**	**1-Jan-17**	**1-Jan-18**	**1-Jan-19**
CET1	3.5%	4.0%	4.5%				
Tier 1	4.0%	5.0%	6.0%				
CAR	8.0%	8.0%	8.0%				
Additional buffer requirements	**From 1 Jan 13**	**1-Jan-14**	**1-Jan-15**	**1-Jan-16**	**1-Jan-17**	**1-Jan-18**	**1-Jan-19**
Capital conservation buffer (comprising of CET1) min.				0.625%	1.25%	1.875%	2.5%
Countercyclical buffer (comprising of CET1) max.				0.625%	1.25%	1.875%	2.5%
MAS CET1 including capital conservation buffer	**4.5%**	**5.5%**	**6.5%**	**7.125%**	**7.75%**	**8.375%**	**9.0%**
Basel CET1 including capital conservation buffer	**3.5%**	**4.0%**	**4.5%**	**5.125%**	**5.75%**	**6.375%**	**7.0%**

Source: MAS, BIS, Barclays Research

NORMALISED EARNINGS

- **We introduce a normalised earnings model for the Singapore banks. The model incorporates 18 "through-the-cycle" adjustments to the balance sheet, P&L and regulatory capital.**
- **Our model shows the Singapore banks delivering high returns, largely as a result of below-normal impairment cost, and despite our model's assumption of a fully lent balance sheet (utilisation of surplus liquidity).**
- **For the Singapore banks, we find normalised ROE typically 1.3% below reported ROE. Normalised P/E and P/B metrics show the sector typically overpriced by only 2%.**

Figure 46: Normalised investment metrics

		Normalised P/E (x)		Normalised PBV (x)		Normalised ROE (%)	
	Price (S$)	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
DBS	14.50	13.0	11.8	1.1	1.0	8.6	8.9
OCBC	8.96	13.1	11.3	1.2	1.1	9.1	9.9
UOB	18.37	11.3	10.3	1.2	1.1	10.9	11.3

Note: Prices as of the close 21 March 2012.
Source: Barclays Research estimates

Introducing a normalised earnings model for Singapore banks

We take comprehensive measures to determine normal earnings for the Singapore banks

In this report, we introduce a normalised earnings model for the Singapore banks. The point of the model is to compare and contrast statutory or reported profits and valuations and normalised, or "through-the-cycle", earnings and valuation multiples. Our normalisation process makes the following adjustments to reported earnings and EPS.

- **Credit risk.** We apply estimated through-the-cycle default charges across the housing, non-mortgage consumer and business lending portfolios. We also assume additional collective provision requirements against any additional lending capacity (see below). Credit risk normalisation represents an average 3.3% reduction to earnings over the past 10 years (the single largest adjustment we make).
- **Capital.** We apply a Tier-1 and Tier-2 target for each of the banks (11% and 4%, respectively). In our model, surplus capital is used to grow the balance sheet. Note that liquidity, rather than capital, is our determinant for potential additional lending.
- **Liquidity.** We assume a normal 20% liquid assets ratio. Surplus liquidity is used to support our adjustment to a fully lent balance sheet. Liquidity shortfall requires additional fund raising and incremental interest expense.
- **Asset quality.** We adjust for normal level of impaired assets, restructured loans and provision cover.
- **Tax.** We assume the same tax is applicable to all banks. We have applied the Singapore corporate tax rate to each of the historical and forecast years in our model and have accounted for any change in the tax rate over this period. Tax is typically a slight (0.3%) negative for normalised earnings.

- **Dilution.** Our model assumes proactive capital management. Through the adjustments above, we assess the need for additional capital, or potential for share buyback. We adjust EPS accordingly.

Our model does *not* make adjustment for margins and the interest rate environment, fee income or trading contribution, nor credit growth. These conditions are driven by external factors such as monetary policy and the broader economy rather than differing approaches to asset-liability or risk management, and use of structured finance or other activities that may create one-off earnings benefits.

Through-the-cycle bad debt charge

The most significant adjustment we make to reported earnings each year is for through-the-cycle (TTC) impairment costs. As with the corporate tax rate, we have adjusted historical years based on applicable regulations at the time. Our assumptions for normalised bad debt charges are shown in **Error! Reference source not found.** below.

Our estimates are based loosely around the historic experience of not only Singapore banks, but also banks elsewhere in the region (for example we consider corporate lending loss rates experienced in Asia during the late-1990s). We also consider the risk-modelling conducted by the Singapore banks, as detailed in the respective Pillar III disclosures, which contain detail around collectively assessed probability of default (PD) and loss given default (LGD) in the portfolio, in additional to potential inclusion of the regulators' expected loss.

We believe our estimates of TTC impairment cost look reasonable, relative to global experience and considering the current IFRS-based provisioning policy of Singapore banks.

Figure 47: Our estimate of through-the-cycle impairment cost

	DBS		OCBC		UOB	
FY12E	**Mix**	**Charge**	**Mix**	**Charge**	**Mix**	**Charge**
Mortgages	21%	0.10%	10%	0.10%	28%	0.10%
Cards	5%	1.80%	5%	1.80%	5%	1.80%
Corporate	74%	0.60%	85%	0.40%	67%	0.40%
Total	**100%**	**0.56%**	**100%**	**0.44%**	**100%**	**0.39%**

Source: Barclays Research estimates

Normalised earnings growth and valuation multiples

The first use of our model is to compare reported and normalised valuation levels. Our normalisation process should help explain those valuation differences between banks that are driven by factors such as lower perceived credit risks (eg, more lower-risk mortgages vs higher-risk business loans) or stronger capital position (banks with more capital should have better potential for either growth, or distribution of excess capital to shareholders via buybacks or special dividends).

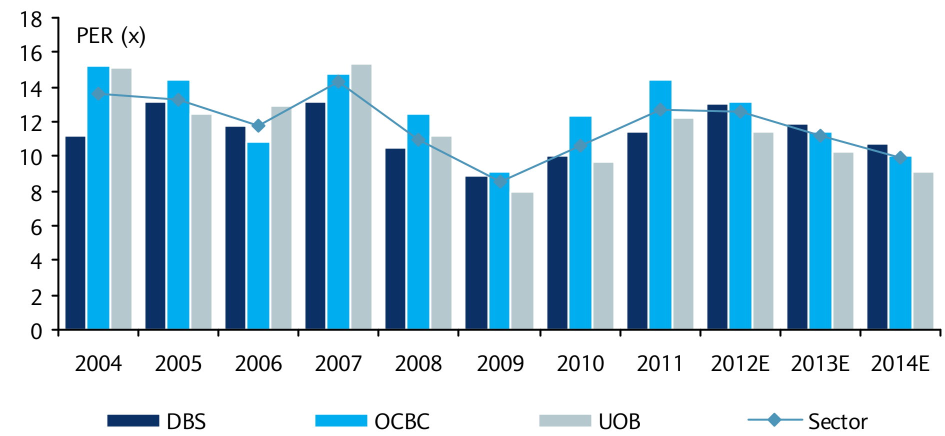
If we compare normalised P/Es over the past few years, we can make a couple of valuable observations:

- OCBC trades on a premium relative to peers on a normalised basis, likely a reflection of its more stable returns, strong risk management track record and perceptions around healthy corporate governance.

- We find DBS trades at a discount (6%) relative to peers on a normalised basis, due to its more volatile earnings and ROE-dilutive acquisitions in the past.

We believe this validates our incorporation of normalised P/Es in our blended valuation approach by removing historical premiums relating to unsustainable capital or provisioning levels. Moreover, as both normalised and reported multiples capture non-financial or strategic premiums, we are less likely to overestimate or underestimate a stock's potential value.

Figure 48: Normalised P/Es (1-year forward, annual average)



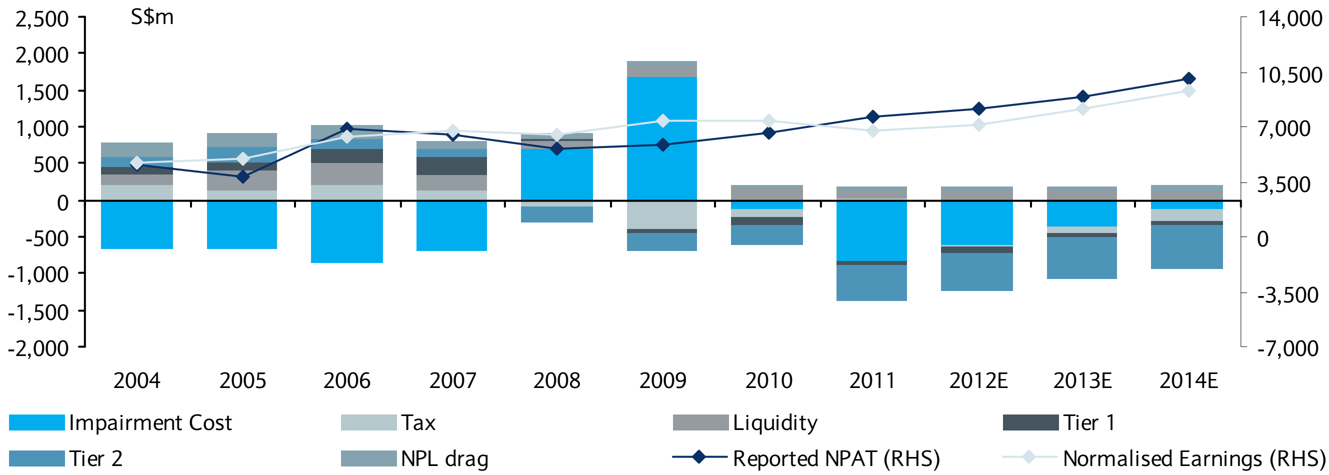
Source: Company data, Barclays Research estimates

Figure 49: Singapore banks – reported vs normalised earnings and earnings growth

	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Reported EPS Growth	45%	-17%	80%	-5%	-13%	-7%	8%	14%	3%	11%	12%
Normalised EPS Growth	13%	8%	30%	5%	5%	11%	3%	-18%	3%	13%	12%
Reported NPAT Growth	44%	-17%	79%	-6%	-13%	5%	11%	17%	6%	11%	12%
Normalised NPAT Growth	8%	7%	27%	7%	-4%	13%	1%	-10%	7%	14%	15%
Reported P/E (x)	12.5	16.1	10.3	13.9	12.9	11.9	14.0	12.0	11.9	10.8	9.6
Normalised P/E (x)	13.6	13.3	11.8	14.3	11.0	8.6	10.6	12.7	12.5	11.1	9.9
Reported vs Normalised NPAT	8%	-17%	15%	3%	-15%	-28%	-24%	5%	5%	3%	3%

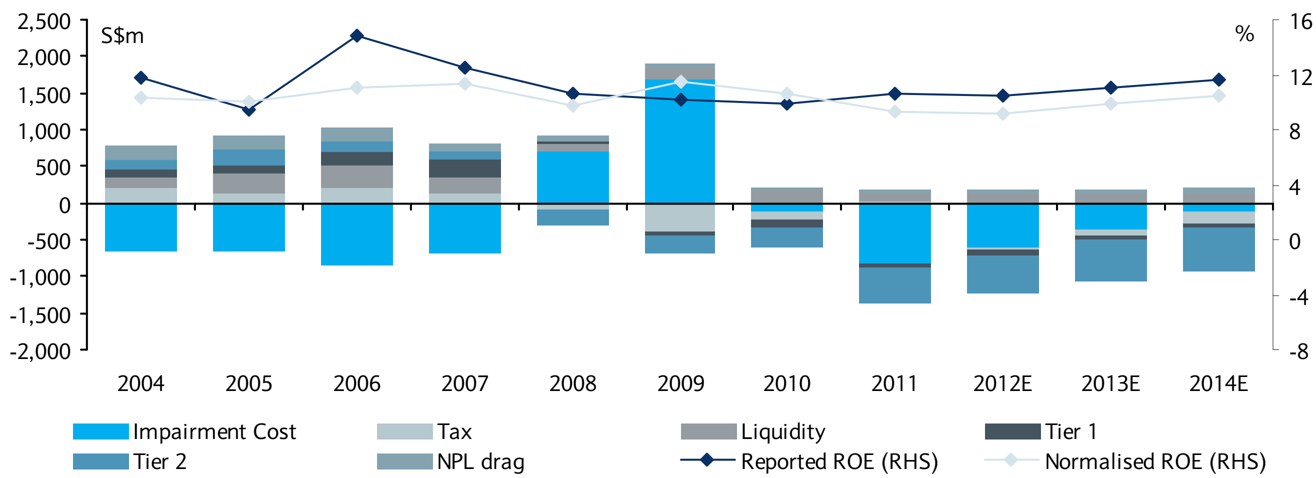
Source: Barclays Research estimates

Figure 50: Singapore banks – normalised NPAT and normalisation adjustments



Source: Company data, Barclays Research estimates

Figure 51: Singapore banks – normalised ROE and normalisation adjustments



Source: Company data, Barclays Research estimates

Below, we provide a sample normalised earnings model, for DBS.

Figure 52: DBS – normalised investment metrics

Share Price	2006	2007	2008	2009	2010	2011	2012	2013	2014
Earnings per Share									
EPS #1 Fully diluted (S$, Reported)	1.44	1.44	1.22	0.87	0.67	1.24	1.19	1.31	1.47
EPS #2 Fully diluted (S$, Normalised)	1.34	1.44	1.38	1.30	1.43	1.21	1.10	1.21	1.33
Price / Earnings Ratio									
PE #1 Fully diluted (S$, Reported)	10.9	13.1	11.8	13.1	21.3	11.1	12.1	10.9	9.7
PE #2 Fully diluted (S$, Normalised)	11.8	13.1	10.5	8.8	10.0	11.4	13.0	11.9	10.7
Return on Equity									
ROE #1 (Reported)	11.3	10.3	8.2	7.6	5.2	9.2	9.1	9.6	10.2
ROE #2 (Normalised)	10.3	10.2	8.9	10.5	10.2	9.3	8.6	9.0	9.4
Book Value per Share									
BVPS #1 (S$, Reported)	10.48	10.91	8.92	11.18	12.53	13.23	14.19	15.27	16.48
BVPS #2 (S$, Normalised)	13.64	15.31	15.08	12.69	13.78	13.68	13.35	14.10	14.87
Price to Book									
P/BV #1 (S$, Reported)	1.50	1.73	1.62	1.03	1.14	1.04	1.01	0.94	0.87
P/BV #2 (S$, Normalised)	1.15	1.23	0.96	0.90	1.04	1.01	1.07	1.02	0.96
P/BV #3 (S$, Adjusted)	1.13	1.25	0.91	0.88	0.99	0.95	1.01	0.95	0.90
EPS #1 Fully diluted (S$, Reported)	1.44	1.44	1.22	0.87	0.67	1.24	1.19	1.31	1.47

Source: Company data, Barclays Research estimates

Figure 53: DBS – normalised earnings calculation

Calculation of Normalised & Adjusted Earnings:	2006	2007	2008	2009	2010	2011	2012	2013	2014
Pre-tax profit (S$ m)	2,894	3,114	2,636	2,470	3,230	3,606	3,742	4,098	4,586
Adjustment 1: Provisioning Adjustment									
Normalised B&DD expense (Note 1 & 2) - specific	500	589	672	736	808	980	1,169	1,293	1,448
-general	71	142	-7	-19	19	109	72	89	100
less actual B&DD expense - specific	47	229	550	1,375	679	244	278	370	480
- general	88	202	234	154	232	478	477	615	738
Pre-tax provisioning adjustment	436	300	-119	-812	-84	367	487	396	330
Adjustment 2: Liquid Assets Adjustment									
Add/deduct interest income from surplus/deficit liquidity position (Note 3)	175	145	57	118	122	86	98	105	113
Adjustment 3: Capital Adjustment									
Add/deduct interest income from surplus/deficit Tier 1 position (Note 4)	85	156	59	-8	-33	-14	-4	7	24
Add/deduct interest income from surplus/deficit Tier 2 position (Note 5)	17	40	-8	-44	-82	-137	-146	-160	-174
Adjustment 4: Non-performers Drag Adjustment (Note 6)									
Normalised non-performers drag (Note 6)	11	13	11	5	5	6	9	10	13
Actual non-performers drag	43	36	30	24	22	19	24	32	43
Pre-tax non performers adjustment	32	23	19	18	17	13	16	22	31
Normalised pre-tax profit	2,767	3,178	2,882	3,367	3,338	3,187	3,218	3,677	4,249
Deduct Normalised tax expense (Note 7)	468	548	474	552	554	544	543	621	718
Normalised NPAT (S$ m)	**2,299**	**2,630**	**2,407**	**2,815**	**2,784**	**2,643**	**2,675**	**3,055**	**3,531**
"Adjusted Earnings" Adjustments									
Pre-tax profit (S$ m)	2,894	3,114	2,636	2,470	3,230	3,606	3,742	4,098	4,586
Additional Provisions Required	-764	-794	-969	-1,030	-1,277	-1,852	-2,063	-2,343	-2,658
Adjusted Pre-tax Profit	3,658	3,908	3,605	3,500	4,507	5,458	5,805	6,441	7,244
Forecast Tax Expense	575	589	446	285	454	443	615	674	754
Normalised Tax Expense	468	548	474	552	554	544	543	621	718
Adjusted NPAT (S$ m)	**3,190**	**3,360**	**3,131**	**2,948**	**3,953**	**4,914**	**5,262**	**5,820**	**6,526**
Dilutionary profit adjustment	**70**	**71**	**71**	**99**	**101**	**101**	**100**	**100**	**100**
Weighted average ordinaries	1,574	1,582	1,583	2,333	2,388	2,417	2,556	2,556	2,556
Add/deduct additional ordinary shares from deficit/surplus Tier 1 capital (Note 10)	200	300	215	-89	-365	-149	-37	55	165
Normalised weighted average ordinaries	1,774	1,882	1,798	2,244	2,023	2,268	2,519	2,611	2,721

Note: For explanation of notes, please refer to Figures 54-56.
Source: Company data, Barclays Research estimates

Figure 54: DBS – normalised earnings model, normalisation adjustment notes (1-4)

Normalisation adjustments		2007	2008	2009	2010E	2011E	2012E	2013E	2014E
1. Normalised specific provision charge									
A. Housing loan book (% loans & acceptances)		24.0	22.9	24.8	25.0	20.9	20.9	20.2	19.6
B. Business loans & acceptances (% loans and acceptances)		71.0	72.1	70.2	70.0	74.1	74.1	74.8	75.4
C. Credit card & personal loan book (% loans & acceptances)		5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Gross Loans		94,585	102,032	101,744	115,121	143,943	155,944	175,517	197,546
D. Average loans & acceptances (S$ m)		97,423	118,614	127,832	141,245	169,553	202,603	222,853	248,628
plus: average additional loans from lending up (S$ m)		*11,569*	*4,558*	*9,470*	*9,796*	*6,877*	*7,827*	*8,410*	*9,025*
E. Fully lent loans & acceptances (S$ m)		108,992	123,172	137,302	151,041	176,429	210,430	231,263	257,654
F. Normalised default for housing loan book (% loans)	0.10%	26	28	34	38	37	44	47	50
G. Normalised default for business loan book (% loans & acceptances)	0.60%	465	533	578	634	785	936	1,038	1,166
H. Normalised default for credit card & personal loan book (% loans)	1.80%	98	111	124	136	159	189	208	232
I. Normalised charge (bp - default rate x loans by category)		54bp	55bp	54bp	54bp	56bp	56bp	56bp	56bp
I. Normalised charge (S$ m - default rate x loans by category)		589	672	736	808	980	1,169	1,293	1,448
2. Normalised general provision charge									
A. Change in risk-weighted assets (S$ m)		40,515	-1,916	-5,463	5,472	31,225	20,664	25,332	28,695
B. Normalised charge (S$ m)	35bp	142	-7	-19	19	109	72	89	100
C. Incremental hit to capital from lending up (S$ m)		36	14	29	30	22	25	26	28
3. Interest income from surplus/deficit liquidity position									
A. Liquid assets (% total assets)		34%	27%	32%	31%	27%	28%	27%	27%
B. Normalised level of liquidity (% total assets)	20%	20%	20%	20%	20%	20%	20%	20%	20%
C. % surplus/deficit liquid assets (A-B)		14%	7%	12%	11%	7%	8%	7%	7%
D. S$ m surplus/deficit liquid assets		11,569	4,558	9,470	9,796	6,877	7,827	8,410	9,025
E. Yield on excess liquid assets (% - proxied by 90-day interest rate)		5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
F. Yield on loans (% - proxied by 90-day rates + x %)	1.25%	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8
G. S$ m adjustment (D x (F-E))		145	57	118	122	86	98	105	113
4. Interest income from surplus/deficit Tier 1 position									
A. Actual Risk Weighted Assets (S$ m)		184,601	182,685	177,222	182,694	213,919	234,583	259,915	288,610
B. Tier 1 ratio (% risk-weighted assets)		8.86	10.06	13.13	15.13	12.87	12.20	11.73	11.28
C. Additional RWA from lending up (S$ m)		10,183	4,036	8,294	8,571	6,158	7,011	7,560	8,141
D. Normalised Risk Weighted Assets (S$ m)		194,784	186,721	185,516	191,265	220,077	241,594	267,475	296,751
E. Fully lent Tier 1 Ratio (% Normalised RWA)		8.4	9.8	12.5	14.5	12.5	11.8	11.4	11.0
less: Future losses on Non-performing loans (% Normalised RWA)		*0.3*	*0.5*	*1.0*	*0.7*	*0.6*	*0.6*	*0.7*	*0.8*
less: Future losses on Foreclosed assets (% Normalised RWA)		*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
less: Incremental collective provision (% Normalised RWA)		*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
F. Tier 1 ratio adjusted for future NPL losses		8.1	9.3	11.6	13.7	11.9	11.2	10.7	10.2
G. Normalised Tier 1 ratio	11.0%	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
H. Surplus/deficit (% pts of Normalised RWA) (F-G)		-2.9	-1.7	0.6	2.7	0.9	0.2	-0.3	-0.8
I. Surplus/deficit (S$ m) (H x Normalised RWA)		-5,651	-3,096	1,022	5,222	2,045	524	-794	-2,359
J. Cost of funds (%)		2.77	1.91	0.81	0.64	0.69	0.84	0.92	1.02
K. Adjustment (J x I)		156	59	-8	-33	-14	-4	7	24

Source: Company data, Barclays Research estimates

Figure 55: DBS – normalised earnings model, normalisation adjustment notes (5-8)

Normalisation adjustments (continued)		2007	2008	2009	2010E	2011E	2012E	2013E	2014E
5. Interest income from surplus/deficit Tier 2 position									
A. Tier 2 ratio (% Normalised risk-weighted assets)		4.54	3.91	3.59	3.28	2.94	2.94	2.94	2.94
B. Normalised Tier 2 ratio	4.0%	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
C. Surplus/deficit (% pts of RWA)		0.5	-0.1	-0.4	-0.7	-1.1	-1.1	-1.1	-1.1
D. Surplus/deficit (S$ m)		1,042	-163	-760	-1,386	-2,329	-2,557	-2,831	-3,140
E. Cost of funds (%)		2.8	1.9	0.8	0.6	0.7	0.8	0.9	1.0
F. Average 90-day interest rate (%)		5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
G. 10-year subordinated debt (%) - premium over 10-year swap	1%	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
H. Cost of 10-year subordinated debt (%)		6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6
G. Adjustment to NPAT (D x (H-E))		40	-8	-44	-82	-137	-146	-160	-174
6. Normalised non-accruals drag									
Total Non-Performing Loans		*1,168*	*1,958*	*3,876*	*2,878*	*2,639*	*3,143*	*3,826*	*4,727*
A. Average non-performing loans (S$ m)		1,314	1,563	2,917	3,377	2,759	2,891	3,485	4,277
B. Average non-performers (% average gross loans)		1.35	1.32	2.28	2.39	1.63	1.43	1.56	1.72
C. Cost of funds (%)		2.77	1.91	0.81	0.64	0.69	0.84	0.92	1.02
D. Actual non-accruals drag per annum (S$ m)		36	30	24	22	19	24	32	43
E. Normalised non-performing assets (S$ m)	0.5%	487	593	639	706	848	1,013	1,114	1,243
F. Normalised non-accruals drag per annum (S$ m)		13	11	5	5	6	9	10	13
G. Adjustment to NPAT (S$ m)		23	19	18	17	13	16	22	31
7. Normalised tax expense									
A. Corporate tax rate (%)		16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%
B. Normalised taxable profit (ie pre goodwill)		3,178	2,882	3,367	3,338	3,187	3,218	3,677	4,249
C. Tax Deductibility of General Provision Allowed		yes	yes	yes	yes	yes	yes	yes	yes
D. Normalised tax expense		548	474	552	554	544	543	621	718
8. Further expected losses on Non-performing loans									
A. Non-performing Loans (% Normalised RWA)		0.60	1.05	2.09	1.50	1.20	1.30	1.43	1.59
B. Restructured Loans (% Normalised RWA)		0.12	0.17	0.29	0.32	0.45	0.49	0.54	0.60
C. Potential Relapse (% of Restructured Loans)	10%	10%	10%	10%	10%	10%	10%	10%	10%
D. Potential Additional NPLs (% of Normalised RWA)		0.01	0.02	0.03	0.03	0.04	0.05	0.05	0.06
E. Non-performing Loans understated by (% of current level)		1.9%	1.6%	1.4%	2.1%	3.6%	3.6%	3.6%	3.6%
F. 'True' level of Non-performing Loans (% Normalised RWA)		0.61	1.07	2.12	1.54	1.24	1.35	1.48	1.65
G. Estimated collateral cover of NPLs	60%	60%	60%	60%	60%	60%	60%	60%	60%
H. Low Quality Collateral	10%	10%	10%	10%	10%	10%	10%	10%	10%
I. Effective Collateral Cover		54%	54%	54%	54%	54%	54%	54%	54%
J. Recovery Rate (post-collateral realisation) (% non-performing loans)	0%	0%	0%	0%	0%	0%	0%	0%	0%
K. Recovery Rate (% of non-performing loans)		54%	54%	54%	54%	54%	54%	54%	54%
L. Further Expected Losses - Pre-tax (% Normalised RWA)		0	0	1	1	1	1	1	1
M. Less Covered Problem Loans (SP % Normalised RWA)		0	0	0	0	0	0	0	0
N. Uncovered further expected losses pre-tax (% Normalised RWA)		0	0	1	1	1	1	1	1
O. Expected Tax Credit Utilisation in Current Year		0%	0%	0%	0%	0%	0%	0%	0%
P. Further Expected Losses/Write-backs after-tax (% Normalised RWA)	No	0	0	1	1	1	1	1	1

Source: Company data, Barclays Research estimates

Figure 56: DBS – normalised earnings model, normalisation adjustment notes (9-11)

Normalisation adjustments (continued)		2007	2008	2009	2010E	2011E	2012E	2013E	2014E
9. Potential write-off from decline in value of foreclosed assets									
A. Foreclosed assets (% Normalised RWA)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
B. Potential decline in value of foreclosed assets	30%	30%	30%	30%	30%	30%	30%	30%	30%
C. Unrecoverable foreclosed assets (% Normalised RWA)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
D. Estimated provision for decline in foreclosed assets (%)	10%	10%	10%	10%	10%	10%	10%	10%	10%
E. Potential write-off from decline in foreclose assets (% Norm RWA)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10. Adjustment to shares on issue - Normalised scenario									
A. Surplus/deficit Tier 1 capital (% Normalised RWA)		-2.90	-1.66	0.55	2.73	0.93	0.22	-0.30	-0.79
B. Surplus/deficit (S$ m)		-5,651	-3,096	1,022	5,222	2,045	524	-794	-2,359
C. Average share price (S$)		18.86	14.43	11.48	14.30	13.77	14.33	14.33	14.33
D. No. of shares to be issued/bought back (M)		300	215	-89	-365	-149	-37	55	165
E. Forecast shareholders equity		23,158	24,003	29,499	33,102	33,069	34,158	36,015	38,102
F. Recapitalised shareholders equity		28,809	27,099	28,477	27,880	31,024	33,634	36,809	40,461
11. Additional provision requirements for adjusted book									
A. Cumulative loan loss provisions (% Effective NPLs)		113	95	72	89	114	109	105	100
B. Additional collateral cover (excluding low quality, % Effective NPLs)		54	54	54	54	54	54	54	54
C. Total NPL Cover (% of Effective NPLs)		167	149	126	143	168	163	159	154
D. Write-off for decline in value of foreclosures (% Effective NPLs)		0	0	0	0	0	0	0	0
E. Effective provision coverage (% of Effective NPLs)		167	149	126	143	168	163	159	154
F. Required NPL Coverage (excluding collateral, % Effective NPLs)	100%	100	100	100	100	100	100	100	100
G. Provision shortfall/surplus (S$ m)		-794	-969	-1,030	-1,277	-1,852	-2,063	-2,343	-2,658
H. Adjusted Shareholders Equity		23,952	24,972	30,529	34,379	34,921	36,221	38,358	40,761

Source: Company data, Barclays Research estimates

VALUATION

- **Our comprehensive valuation approach shows 11% potential upside for the Singapore banks for FY12E, although around 21% on a rolling-forward basis to FY13E.**
- **We assess a number of measures for valuing Singapore banks. Importantly, we find the popular ROE/PBV methodology to be lacking statistical significance over the long term, and demonstrate its inability to accurately predict prices over any meaningful period of time.**
- **We introduce our blended price target methodology, incorporating seven standalone valuation approaches, including long-term (DDM), through-the-cycle (normalised earnings), historic and near-term (Gordon Growth) methodologies.**
- **OCBC is our preferred pick among the Singapore banks.**

Back testing valuation and profitability relationships

There are, of course, numerous valuation methodologies available and utilised for valuing banks, in Singapore and elsewhere. However, we have found little evidence supporting the usefulness of these models.

In particular, in Singapore there seems to have been a surge in utilisation of one-year forward, ROE-based pricing models. This makes intuitive sense, as earnings have tended to be less volatile over the past few years, while at the same time tighter capital regulations have provided more certainty around equity levels.

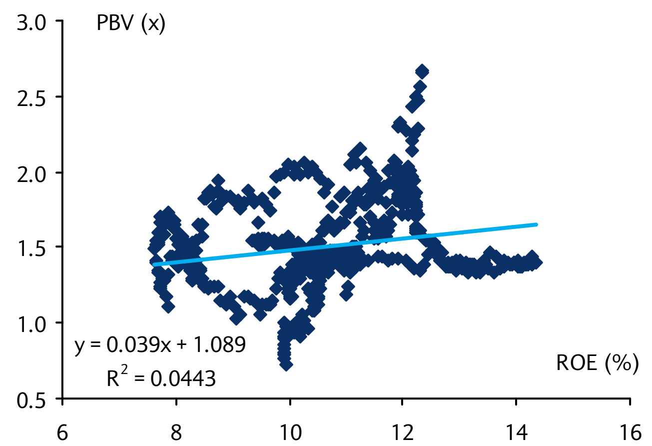
However, statistical analysis using simple regression techniques shows the limited accuracy of price-to-book methodologies (ie, R^2 of only 4% as shown in the regression output below). This is better captured in the charts overleaf (Figure 58), which demonstrate both weak long-term and short-term correlation between ROE and PBV.

Figure 57: Singapore banks – regression analysis: ROE and P/B, FY00-12 (YTD)

Regression statistics								
Multiple R	0.21							
R Square	0.04							
Adjusted R Square	0.04							
Standard Error	0.28							
Observations	678.00							
ANOVA	**df**	**SS**	**MS**	**F**	**Significance F**			
Regression	1	2.4	2.4	31.3	0.00			
Residual	676	52.5	0.1					
Total	677	54.9						
	Coefficients	**Standard Error**	**t Stat**	**P-value**	**Lower 95%**	**Upper 95%**	**Lower 95.0%**	**Upper 95.0%**
Intercept	1.09	0.07	14.59	0.00	0.94	1.24	0.94	1.24
X Variable 1	0.04	0.01	5.59	0.00	0.03	0.05	0.03	0.05

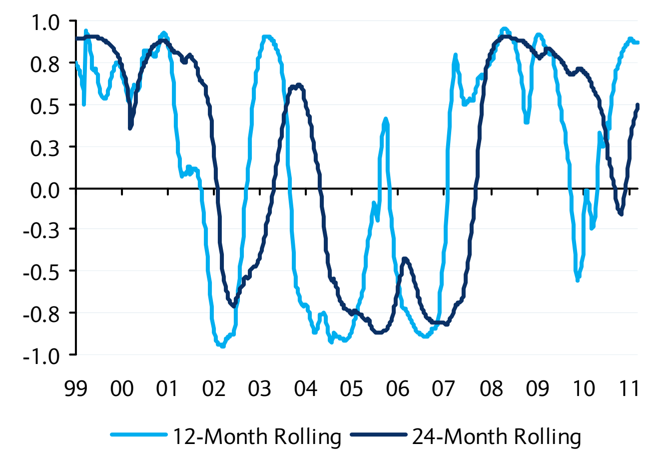
Note: Data based on 1-year forward consensus estimates from IBES.
Source: Thomson Reuters Datastream, Barclays Research

Figure 58: All Singapore banks – ROE vs PBV



Note: Based on consensus estimates (IBES) on a one-year forward basis between 1 January 2000 and 9 March 2012.
Source: Thomson Reuters Datastream, Barclays Research

… ROE and PBV is not for all seasons …



Source: Thomson Reuters Datastream, Barclays Research

Implied cost of equity demonstrates inadequacy of ROE/COE approach

Another way to think about the relevance of standalone ROE/COE methodologies is the implied cost of equity (COE). Using the Gordon Growth Model (ROE-g / COE-g, where *g* is growth in perpetuity) we can work out the implied COE for Singapore banks. Importantly, we use one-year forward consensus ROE and BVPS estimates, rather than actual earnings which would not, at the time, have impacted the share price of a stock.

In summary, we find a relatively high standard deviation in the implied cost of equity for Singapore banks. Over the past 10 years, implied COE for the Singapore banks has a standard deviation of almost 1.6ppt and a range of 4-14%.

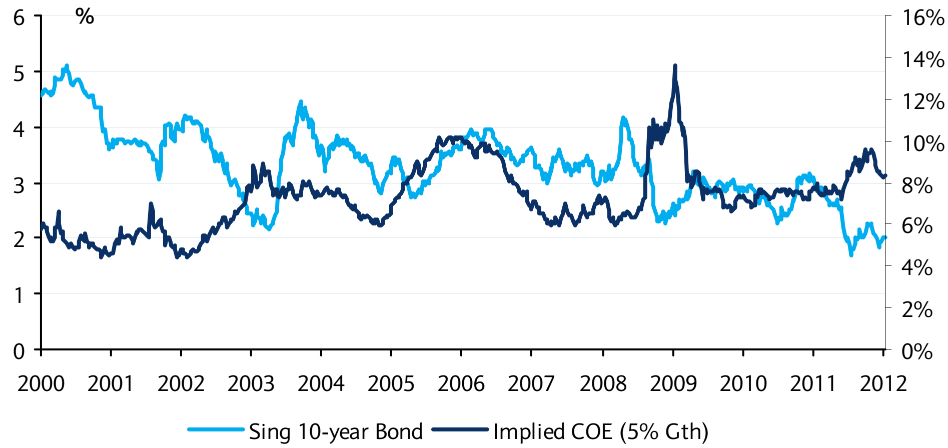
Interest rates, we hear you say?

Implied COE should move more in-line with interest rates, but it doesn't, suggesting CAPM-related methodologies are imperfect

The relationship between implied COE and interest rates is poor. Theoretically, as long-term interest rates rise (in this case the Singapore Government 10-year bond rate) so too should the COE. In fact there is a negative correlation (-50%). This suggests a number of factors outside of just ROE and terminal growth are at work in the sector (e.g., M&A, China, ASEAN growth, US mortgages) further adding support to our multi-faceted approach.

We note the long-term implied COE for Singapore banks is 7.2%, lower than our estimate of 8.4-9.5% as we take a medium-term approach to the risk-free rate (using 3.5% instead of the market rate of 2.2%).

Figure 59: Implied COE and Singapore 10-year government bond … not related at all



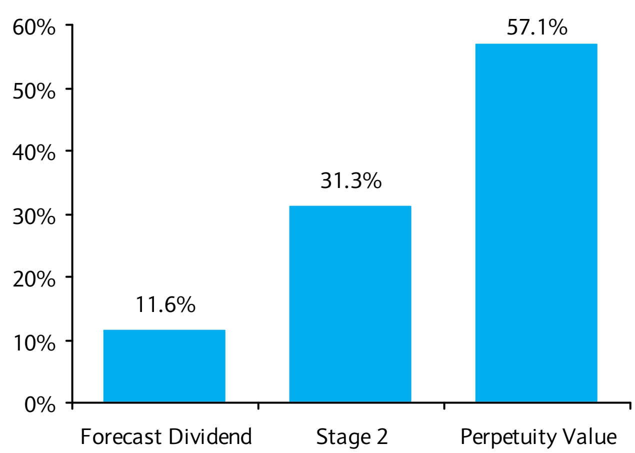
Source: Thomson Reuters Datastream, Barclays Research estimates

Dividend discount model

We have incorporated a three-stage dividend discount model in our blended-valuation approach. Our model values three years of forecast dividends and 10 years of normalising growth (ie, toward our perpetuity growth rate of 5%), assuming stable dividend payout.

Figure 60: DBS – 3-stage dividend discount model (forecast stage)

Forecast dividends S$/sh	2012	2013	2014
Discount Factor	93%	85%	78%
EPS	1.19	1.31	1.47
DPS	0.58	0.63	0.71
Payout Ratio	49%	48%	48%
Franking	0%	0%	0%
Franking Tax Rate	0.0%	0.0%	0.0%
Adjusted Dividend	0.58	0.63	0.71
Discounted Dividend	0.54	0.53	0.55
Total (S$)	**1.63**		



Source: Bloomberg, Barclays Research estimates

Figure 61: DBS – 3-stage dividend discount model (stages 2 & 3)

Horizon Dividends	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Discount Factor	71%	65%	59%	54%	49%	45%	41%	38%	34%	31%
Growth Rate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.00%
EPS	1.56	1.64	1.72	1.81	1.90	2.00	2.10	2.20	2.31	2.43
Payout Ratio	47.9%	47.9%	47.9%	47.9%	47.9%	47.9%	47.9%	47.9%	47.9%	47.9%
DPS	0.75	0.79	0.83	0.87	0.91	0.96	1.01	1.06	1.11	1.16
Franking	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Franking Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Adjusted Dividend	0.75	0.79	0.83	0.87	0.91	0.96	1.01	1.06	1.11	1.16
Discounted Dividend	0.53	0.51	0.49	0.47	0.45	0.43	0.41	0.40	0.38	0.36
Total (S$)	**4.44**									

Perpetuity Value	
Initial Dividend	1.16
Perpetuity Value	**8.09**
Total Value (S$)	$14.2

10-Year Bond Rate	3.50%
Beta	1.16
Market Risk Premium	5.2%
Perpetuity Growth	5%

Source: Bloomberg (Beta), Barclays Research estimates

Price target methodology

We are introducing an unweighted, blended valuation approach for the Singapore banks. Our approach is intended to capture a number of differing investment philosophies over the short-, medium- and longer-term outlook for earnings growth and profitability. Our blended approach incorporates the following standalone valuation techniques:

- **3-stage dividend discount model (DDM)** – incorporating three years of dividend forecasts, an eight-year fade to perpetuity growth, and a perpetuity value.
- **1-stage (Gordon Growth) model (GGM)** – incorporating one-year forward ROE, individual stock cost of equity calculated using the capital asset pricing model and a perpetuity growth assumption (as used in the 3-stage DDM).
- **Historic price-to-earnings** – we use a five-year average of one-year forward consensus EPS estimates to calculate historic P/E and apply this to our one-year forward EPS estimate.
- **Historic price-to-book** – we use a five-year average of one-year forward consensus book value estimates to calculate historic P/B, and apply this to our one-year forward BVPS estimate.
- **Historic price-to-pre-provision operating profit (PPOP**) – we use a five-year average of one-year forward consensus PPOP/share estimates to calculate historic P-PPOP, and apply to our one-year forward PPOP estimate.
- **1-stage (Gordon Growth) model (normalised)** – we replace one-year forward forecast ROE with our one-year forward normalised ROE estimate. Cost of equity and perpetuity growth is consistent with our other modelling.
- **Normalised P/E** – we apply historic average normalised P/E (five years of data) to one-year forward normalised EPS estimates.

Figure 62: Singapore banks – blended valuation approach, FY12E

S$ / Share	DBS	OCBC	UOB	SECTOR
DDM	14.15	10.77	19.13	
GGM	14.46	11.26	23.56	
Historic PE	16.00	9.63	20.23	
Historic PB	15.29	10.16	20.77	
Historic PPOP	13.86	10.09	20.41	
Normalised ROE	9.83	7.66	21.52	
Normalised EPS	12.43	8.47	19.22	
TARGET PRICE	**14.20**	**10.10**	**20.40**	
Current Price	14.50	8.96	18.37	
Dividend (S$ / Share)	0.58	0.32	0.70	
TSR	**2%**	**16%**	**15%**	**11%**

Note: TSR = total shareholder return (including dividend).
Source: Thomson Reuters Datastream, Barclays Research estimates

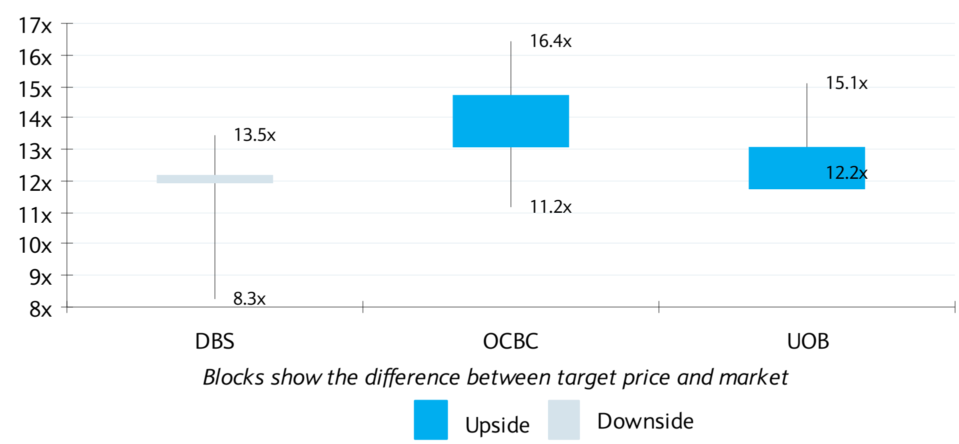
As a cross-check, the table below shows the implied multiples, where we expect the group of three banks to deliver market capitalisation-weighted upside of 11%, resulting in average P/E of 13.2x FY12E (12.3x FY13E), P/BV of 1.4x (1.3x FY13E) and a yield of 3.6% (4.1% in FY13E). Excluding normalised earnings from our target price methodology would see target prices increase by only around 2% (13% potential upside for the sector).

Figure 63: Implied valuation multiples based on FY12E blended valuation model

Implied Multiples	DBS	OCBC	UOB	SECTOR
P / EPS	11.9x	14.7x	13.1x	13.2x
P / PPOP	8.1x	9.9x	9.1x	9.0x
P / Norm EPS	12.7x	14.9x	12.6x	13.4x
P / BVPS	1.1x	1.6x	1.4x	1.4x
P / NTA	1.4x	1.9x	1.8x	1.7x
Yield	4.1%	3.2%	3.4%	3.6%

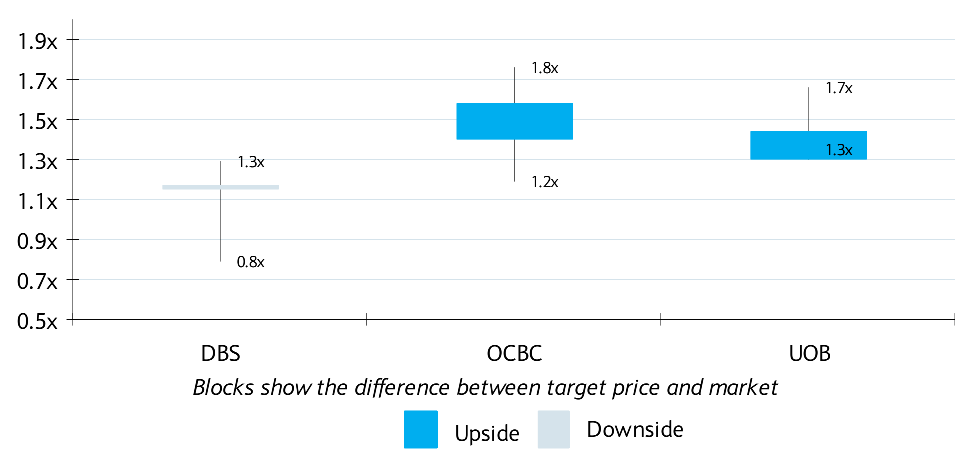
Source: Barclays Research estimates

Figure 64: Implied P/E (FY12E) range



Source: Barclays Research estimates

Figure 65: Implied P/BV (FY12E) range



Source: Barclays Research estimates

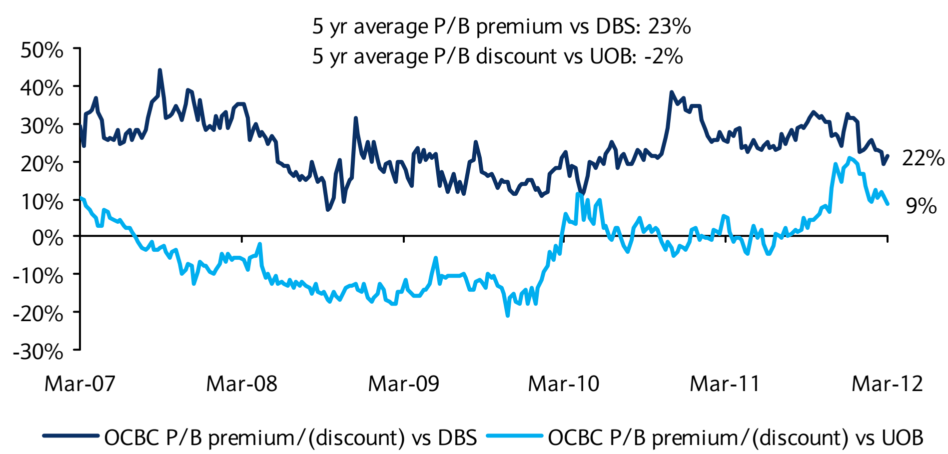
Peer valuation comparison

OCBC's P/B discount relative to DBS and UOB has narrowed to 19% and 9% currently, from 33% and 14% since the start of the year,respectively. We believe this discount will narrow as the uncertainty over the CEO change is behind us. We believe the strong risk management culture of OCBC will be maintained under the new CEO, Samuel Tsien and the bank's targets of 10% EPS growth, 12% sustainable ROE and 45% payout ratio under OCBC's "New Horizons III" strategic initiative will be achieved by FY13-14.

Figure 66: Long term 1 year forward rolling P/B

Source: Company data, Bloomberg, Barclays Research

Figure 67: OCBC’s P/B premium/discount relative to DBS and UOB



Source: Company data, Bloomberg, Barclays Research

Figure 68: Singapore banks – valuation summary matrix

	DBS	OCBC	UOB	Sector
Rating	**2-EW**	**1-OW**	**1-OW**	**n.a.**
Share Price (S$)	14.50	8.96	18.37	
12-mth Target Price (S$)	**14.20**	**10.10**	**20.40**	
TSR (inc Dividend)	2%	16%	15%	11%
Market Cap (S$m)	35,038	30,591	28,995	94,624
Weight	*0.37*	*32%*	*31%*	*100%*

Valuation	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
Price / EPS	12.2x	11.1x	9.7x	13.1x	11.5x	10.0x	11.8x	10.7x	9.6x	12.3x	11.1x	9.8x
Price / Norm EPS	13.0x	11.8x	10.7x	13.2x	11.4x	10.1x	11.4x	10.3x	9.2x	12.5x	11.2x	10.1x
P / PPOP	8.2x	7.3x	6.3x	8.8x	7.7x	6.7x	8.2x	7.3x	6.4x	8.4x	7.4x	6.5x
P / Book	1.17x	1.10x	1.03x	1.40x	1.31x	1.22x	1.30x	1.21x	1.12x	1.28x	1.20x	1.12x
P / NTA	1.39x	1.29x	1.20x	1.70x	1.57x	1.44x	1.60x	1.46x	1.33x	1.55x	1.44x	1.32x
Yield	4.0%	4.3%	4.9%	3.6%	4.0%	4.6%	3.8%	4.0%	4.4%	3.8%	4.1%	4.7%

Per Share Metrics (A$)	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
EPS	1.19	1.31	1.49	0.69	0.78	0.90	1.56	1.71	1.91	1.04	1.15	1.31
Normalised EPS	1.12	1.23	1.35	0.68	0.78	0.88	1.62	1.79	2.00	1.02	1.14	1.28
Stated PPOP	1.76	1.99	2.29	1.02	1.16	1.34	2.24	2.51	2.87	1.52	1.72	1.98
BVPS	12.4	13.2	14.0	6.4	6.8	7.4	14.2	15.2	16.4	9.6	10.2	10.9
NTA	10.4	11.2	12.1	5.3	5.7	6.2	11.5	12.6	13.8	8.3	9.0	9.8
DPS	0.58	0.63	0.71	0.32	0.36	0.42	0.70	0.73	0.81	0.49	0.53	0.60

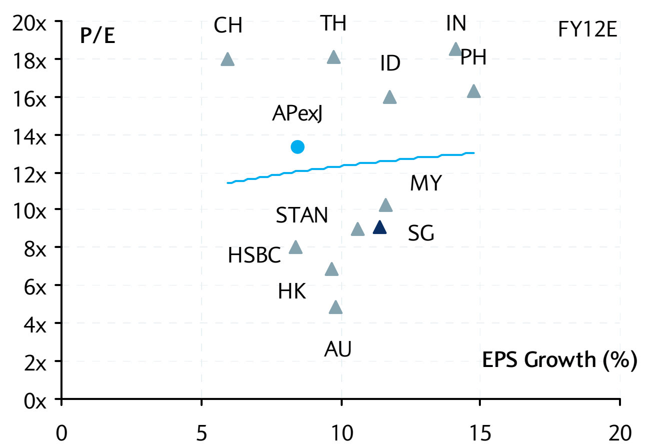
Profitability	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
EPS Growth	-4.4%	10.2%	13.8%	4.6%	13.1%	15.7%	10.1%	9.6%	11.5%	2.7%	10.9%	13.7%
Norm EPS Growth	-13.0%	8.5%	15.2%	-24.0%	8.8%	10.7%	-15.2%	-7.6%	9.6%	-18.0%	2.6%	12.2%
PP-ROE	15.2%	16.2%	17.5%	16.4%	17.5%	18.8%	16.3%	17.1%	18.1%	15.9%	16.8%	18.1%
PP-ROA	1.3%	1.3%	1.4%	1.2%	1.3%	1.3%	1.4%	1.5%	1.5%	1.3%	1.3%	1.4%
ROE	10.3%	10.7%	11.4%	11.0%	11.7%	12.6%	11.4%	11.6%	12.1%	10.8%	11.3%	12.0%
Norm ROE	9.2%	9.1%	9.8%	10.9%	10.9%	11.3%	9.3%	8.6%	8.9%	9.3%	9.1%	9.8%

Note: Priced as of the close 21 March 2012. TSR = total shareholder return (including dividend). Source: Company data, Barclays Research estimates

REGIONAL SECTOR VALUATIONS

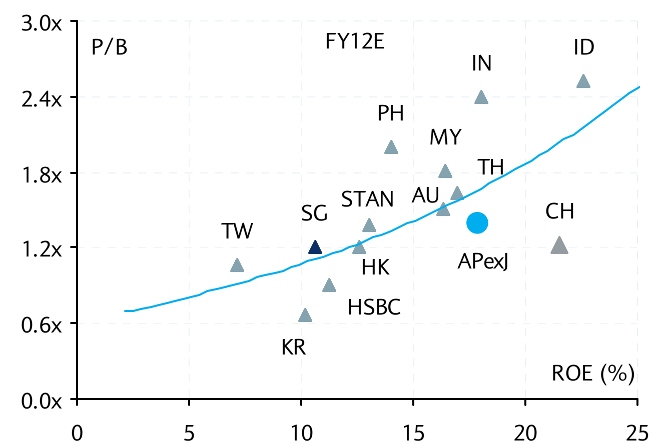
Within our regional banks coverage group (Asia ex-Japan) we like the Singapore banks. We find a more compelling thematic story in Singapore; namely, its strong deposit base, foreign fund inflows and easy access to wholesale funding. The tables and charts below show Singapore banks' reasonable valuations relative to consensus estimates for regional peers in Asia ex-Japan.

Figure 69: Regional Banks: FY12 P/E vs EPS Growth



Note: All data based on IBES estimates.
Source: Thomson Reuters Datastream, Barclays Research

Figure 70: Regional Banks: FY12 P/B vs ROE



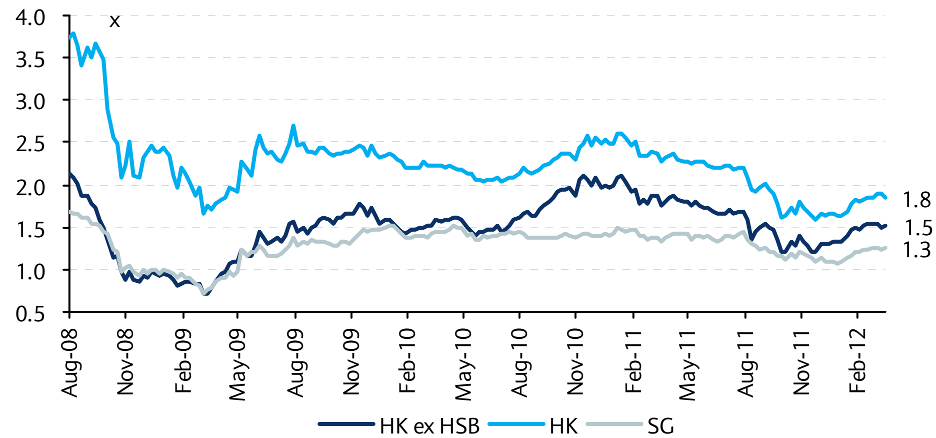
Note: All data based on IBES estimates.
Source: Thomson Reuters Datastream, Barclays Research

Valuations relative to local Hong Kong banks

Singapore banks' one-year forward P/B valuations are 87% correlated with Hong Kong, on our calculations. We exclude Hang Seng Bank in our comparisons in Figure 71 and Figure 72, since it skews our findings due to its high historical P/B valuations (at 2.1-5.6x) due to its high sustainable ROE (between 22-35%).

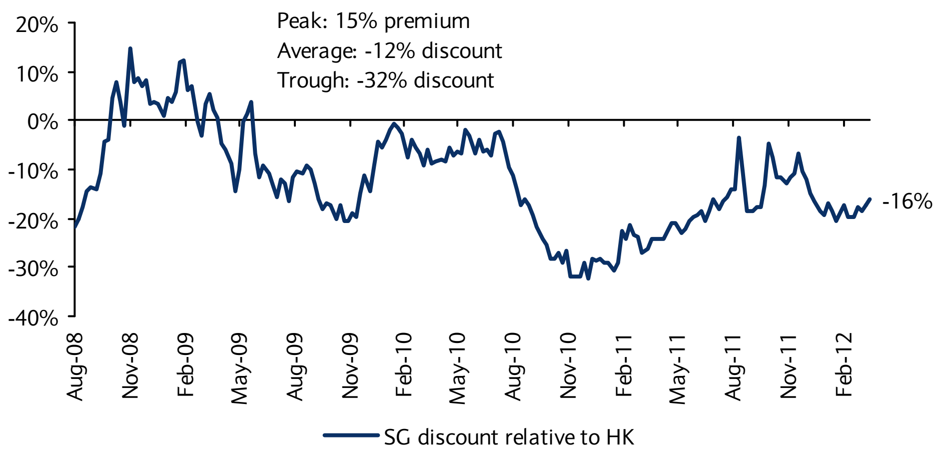
Singapore banks currently trade at a 16% P/B discount to the Hong Kong banks we cover and we believe this discount has room to close. Singapore banks have strong access to diversified funding sources (outside of deposits), which can support loan growth. Singapore banks are also well placed to capture ASEAN intraregional trade business. While the same can be said for the Hong Kong banks in terms of capturing China cross-border business, we believe the larger international banks, HSBC (5 HK; 1-OW; PT HK$90) and Standard Chartered (2888 HK; 1-OW; PT HK$200), are the bigger beneficiaries.

Figure 71: Singapore vs Hong Kong banks' 12-month forward P/B



Note: Hong Kong average includes: BOCHK, HSB, BEA, WHB and DSF. Singapore G average includes DBS, OCBC, UOB.
Source: Thomson Reuters Datastream, Company data, Barclays Research

Figure 72: Singapore banks' 12-month forward P/B discount relative to Hong Kong banks (ex-HSB)



Source: Thomson Reuters Datastream, Company data, Barclays Research

Figure 73: Asia ex-Japan Banks – comparative valuations

	B'berg	Rating	Curr	Price	TSR* upside/	Mkt cap	P/E (x		EPS Gth (%)		P/B (x)		ROE (%)		Div Y (%)		P/P)POP (x)	
	ticker		price	target	downside	US$b	12E	13E	12E	13E	12E	13E	12E	13E	12E	13E	12E	13E
ICBC-H	1398 HK	1-OW	5.13	6.86	34%	235.4	6.1	5.6	6.8	9.5	1.3	1.1	22.6	19.8	5.7	6.2	3.9	3.4
CCB-H	939 HK	1-OW	6.08	7.96	31%	193.2	6.5	5.9	9.6	9.6	1.3	1.1	22.9	18.8	5.4	5.9	4.0	3.5
ABC-H	1288 HK	2-EW	3.56	4.35	22%	137.0	6.3	5.7	17.5	10.6	1.3	1.1	22.8	19.3	5.6	6.2	3.4	2.9
BOC-H	3988 HK	3-UW	3.21	3.39	6%	125.4	5.5	5.3	3.5	2.9	0.9	0.8	17.9	14.7	6.4	6.6	3.2	2.8
BOCOM-H	3328 HK	2-EW	6.02	7.20	20%	46.2	5.8	5.8	1.4	-0.6	0.9	0.8	19.9	14.3	3.2	3.5	3.5	3.3
CMB-H	3968 HK	2-EW	15.48	20.75	34%	41.5	6.7	5.9	13.0	13.8	1.4	1.1	22.7	19.4	3.5	4.0	4.2	3.5
CITIC Bank-H	998 HK	2-EW	4.81	5.90	23%	31.5	5.5	5.1	-2.1	7.5	0.9	0.8	16.2	14.6	1.8	2.0	3.4	2.9
Minsheng-H	1988 HK	1-OW	7.14	9.12	28%	26.4	4.8	4.5	13.3	6.9	1.0	0.8	18.7	18.1	3.1	3.3	2.9	2.5
CRCB	3618 HK	3-UW	4.09	4.66	14%	4.9	6.4	5.8	10.2	10.7	0.9	0.8	16.6	14.3	2.5	2.7	4.0	3.3
CHINA					**26%**	**841.3**	**6.1**	**5.6**	**8.6**	**8.2**	**1.2**	**1.0**	**21.4**	**18.1**	**5.2**	**5.7**	**3.7**	**3.2**
HSBC	5 HK	1-OW	70.00	90.00	35%	159.8	9.0	7.3	18.0	23.9	1.2	1.1	13.9	15.3	6.1	7.3	5.0	4.7
STAN	2888 HK	1-OW	200.20	200.00	3%	60.5	11.9	9.9	10.2	20.6	1.6	1.5	14.7	15.9	3.0	3.6	6.9	5.9
INTERNATIONAL					**26%**	**220.4**	**9.8**	**8.0**	**15.8**	**23.0**	**1.3**	**1.2**	**14.1**	**15.5**	**5.2**	**6.3**	**5.5**	**5.0**
HSB	11 HK	3-UW	102.70	91.60	-6%	25.4	11.8	11.6	-0.3	1.8	2.3	2.1	20.3	19.0	5.0	5.0	13.3	12.0
BOCHK	2388 HK	2-EW	21.55	22.10	8%	28.9	12.7	11.5	-7.3	10.6	1.6	1.6	13.3	13.9	5.3	5.9	9.9	8.7
WHB	302 HK	3-UW	73.45	60.60	-16%	2.8	14.0	13.5	-25.8	3.5	1.2	1.1	9.0	8.8	1.8	1.9	11.2	10.6
BEA	23 HK	3-UW	29.20	25.50	-10%	7.8	15.6	14.8	-4.6	5.7	1.1	1.1	8.0	8.2	3.1	3.3	10.4	10.0
DSF	440 HK	3-UW	28.45	25.00	-9%	1.1	9.1	8.5	8.6	6.6	0.6	0.5	6.3	6.4	3.2	3.5	6.7	6.3
DSBG	2356 HK	3-UW	7.71	6.50	-13%	1.2	10.0	9.4	-1.3	6.3	0.6	0.6	6.5	6.6	3.0	3.1	9.3	8.8
HONG KONG					**-1%**	**67.2**	**12.6**	**11.9**	**-4.8**	**6.3**	**1.8**	**1.7**	**14.9**	**14.7**	**4.7**	**5.0**	**11.2**	**10.2**
DBS	DBS SP	2-EW	14.50	14.20	2%	27.2	12.2	11.1	-4.4	10.2	1.2	1.1	10.3	10.7	4.1	4.4	8.2	7.3
OCBC	OCBC SP	1-OW	8.96	10.10	16%	24.1	13.1	11.5	4.6	13.1	1.4	1.3	11.0	11.7	3.6	4.1	8.8	7.7
UOB	UOB SP	1-OW	18.37	20.40	15%	22.6	11.8	10.7	10.1	9.6	1.3	1.2	11.4	11.6	3.9	4.0	8.2	7.3
SINGAPORE					**11%**	**73.9**	**12.3**	**11.1**	**3.0**	**10.9**	**1.3**	**1.2**	**10.9**	**11.3**	**3.8**	**4.2**	**8.4**	**7.4**
BCA	BBCA IJ	3-UW	8,000	7,000	-10%	21.3	16.0	14.2	18.5	12.8	4.0	3.4	27.2	25.8	2.2	2.5	12.3	10.7
Mandiri	BMRI IJ	2-EW	6,900	7,300	7%	17.4	25.8	23.7	-49.1	8.9	2.2	2.1	8.8	9.0	1.2	1.3	12.6	11.3
BRI	BBRI IJ	1-OW	6,700	8,400	27%	18.2	11.1	10.2	-1.2	8.7	2.7	2.3	27.4	24.2	1.8	1.9	5.9	5.4
BNI	BBNI IJ	2-EW	3,850	3,800	0%	8.0	18.2	16.1	-32.1	13.2	1.8	1.6	10.0	10.6	1.6	1.8	8.2	7.6
Danamon	BDMN IJ	3-UW	4,350	5,000	18%	4.5	10.9	9.7	14.7	12.2	1.2	1.2	12.9	12.3	3.2	3.6	5.0	4.5
BTN	BBTN IJ	1-OW	1,180	2,100	84%	1.1	5.4	5.1	74.0	5.8	1.2	1.0	24.4	21.9	5.6	5.9	4.0	3.6
INDONESIA					**8%**	**70.6**	**16.9**	**15.3**	**-8.3**	**10.7**	**2.8**	**2.4**	**19.8**	**18.6**	**1.9**	**2.1**	**9.7**	**8.6**
Mega	2886 TT	2-EW	21.45	26.00	26%	8.4	12.4	10.9	8.5	14.0	1.1	1.1	9.3	10.2	4.8	5.3	9.6	8.3
Chinatrust	2891 TT	2-EW	19.10	26.00	38%	7.6	10.5	8.9	13.5	17.7	1.2	1.1	12.4	13.2	1.8	2.0	8.5	7.3
First	2892 TT	1-OW	18.00	31.00	76%	4.7	9.2	7.1	32.1	30.2	1.0	0.9	11.0	13.4	3.8	6.4	7.5	5.7
Changhwa	2801 TT	1-OW	17.15	26.00	58%	4.0	9.4	7.8	15.4	20.2	1.1	1.1	12.6	14.3	6.4	7.4	9.6	6.7
Taishin	2887 TT	2-EW	12.15	15.00	27%	2.6	7.4	6.9	30.8	7.5	0.9	0.8	11.2	11.2	3.6	4.5	7.5	6.7
Sinopac	2890 TT	1-OW	10.85	14.00	35%	2.7	9.4	7.4	15.3	26.9	0.8	0.8	9.0	10.9	6.3	7.3	7.1	5.7
TAIWAN					**42%**	**30.1**	**10.3**	**8.7**	**17.0**	**18.9**	**1.1**	**1.0**	**10.9**	**12.2**	**4.1**	**5.0**	**8.6**	**7.1**
KBFG	105560 KS	1-OW	43,650	67,000	56%	14.8	7.1	5.9	-2.0	19.9	0.7	0.7	10.7	11.7	2.7	3.4	12.2	13.6
SFG	055550 KS	2-EW	44,900	58,000	32%	18.6	8.4	7.0	-9.5	19.7	0.9	0.8	10.9	11.9	2.4	3.1	10.6	11.5
WFH	053000 KS	2-EW	13,550	13,000	-1%	9.4	7.5	5.8	-33.1	29.7	0.6	0.5	8.3	9.4	2.9	3.6	5.9	6.0
HFG	086790 KS	1-OW	44,400	60,000	37%	9.4	5.4	5.9	51.4	-8.5	0.7	0.7	14.4	11.9	2.2	2.5	16.3	18.6
KEB	004940 KS	1-OW	8,880	12,000	37%	4.9	7.0	6.6	-52.6	5.9	0.7	0.6	10.5	10.2	2.3	2.8	2.8	2.7
IBK	024110 KS	1-OW	14,050	19,000	39%	6.8	5.9	5.0	-1.4	17.0	0.7	0.6	12.8	13.5	3.5	4.9	6.0	6.4
DGBFG	139130 KS	1-OW	16,850	20,000	21%	1.9	7.0	6.2	2.4	13.5	0.9	0.8	13.8	14.0	2.6	3.8	4.6	5.1
BSFG	138930 KS	2-EW	14,200	16,000	15%	2.4	7.4	6.6	-6.6	12.3	0.9	0.8	12.3	12.5	2.7	3.4	3.7	4.0
KOREA					**33%**	**68.4**	**7.2**	**6.2**	**-4.6**	**15.5**	**0.8**	**0.7**	**11.3**	**11.6**	**2.6**	**3.3**	**9.6**	**10.6**
SBIN	SBIN IN	1-OW	2,233	2,550	16%	26.5	13.0	10.4	32.3	24.4	1.8	1.6	15.1	16.6	1.6	2.1	4.6	4.3
HDFC	HDFCB IN	1-OW	516	539	5%	23.3	25.1	19.9	22.6	25.8	4.1	3.5	17.6	19.1	0.7	0.8	12.6	10.6
ICICI	ICICIBC IN	2-EW	934	778	-15%	20.3	18.0	15.2	16.0	18.6	1.8	1.7	10.5	11.6	1.8	2.1	10.3	8.7
Axis	AXSB IN	2-EW	1,229	1,049	-13%	9.3	12.9	11.3	15.4	13.8	2.3	2.0	19.0	18.6	1.4	1.7	7.0	5.8
PNB	PNB IN	2-EW	975	909	-4%	5.8	6.8	5.8	3.1	16.5	1.3	1.1	19.6	19.6	2.6	3.7	2.9	2.6
BOB	BOB IN	3-UW	816	665	-16%	6.0	7.4	6.2	2.5	18.7	1.4	1.2	19.1	19.4	2.2	2.7	3.9	3.3
INDIA					**0%**	**91.2**	**16.4**	**13.4**	**20.6**	**21.5**	**2.4**	**2.1**	**15.7**	**16.7**	**1.5**	**1.9**	**8.0**	**6.9**
Mitsubishi UFJ	8306 JP	1-OW	434	500	18%	72,765	8.6	8.3	-33.2%	3.2%	0.6	0.6	6.9%	6.8%	2.8%	2.8%	4.0	3.9
Mizuho Financial	8411 JP	2-EW	143	140	2%	41,173	9.7	9.9	-21.0%	-2.0%	0.8	0.7	7.2%	6.7%	4.2%	4.2%	5.7	5.5
Sumitomo Mitsui	8316 JP	2-EW	2,860	3,000	8%	48,257	9.5	9.3	-0.9%	1.6%	0.7	0.7	7.6%	7.4%	3.5%	3.5%	3.6	3.6
JAPAN					**11%**	**162,195**	**9.2**	**9.0**	**-20.5%**	**1.4%**	**0.7**	**0.6**	**7.2%**	**7.0%**	**3.3%**	**3.3%**	**4.3**	**4.2**

Note: Priced as of the close 21 March 2012. TSR = total shareholder return (including dividend). Note: Stock ratings: 1-OW: 1-Overweight; 2-EW: 2-Equal Weight; 3-UW: 3-Underweight. Sector View: 1-Pos: 1-Positive; 2-Neu: 2-Neutral; 3-Neg: 3-Negative. For full disclosures on each rated company, including details of company-specific valuation methodology and risks, please refer to: http://publicresearch.barcap.com. The Japanese banks are covered by Shin Tamura in the Japan Major Banks sector (2-Neutral). Source: Bloomberg, Barclays Research estimates.

A CREDIT PERSPECTIVE

CREDIT RESEARCH
Lyris Koh*
+65 6308 3595
lyris.koh@barcap.com

** Credit analysts are members of the Fixed Income Research department and are not equity research analysts*

Market Weight the Singapore banks

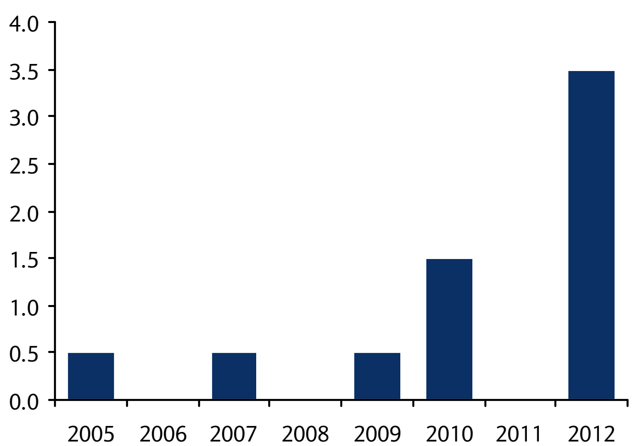
Our Market Weight stance on the Singapore banks is underpinned by our benign outlook for the banks' fundamentals in 2012. Our ratings also reflect our view that the banks' bonds are unlikely to outperform their benchmarks given their slightly rich valuations. That said, we acknowledge that healthy demand technicals will keep valuations supported.

Wave of senior and subdebt supply in line with our expectations

The Singapore banks have issued US$3.5bn of bonds to date, reaching the top end of our 2012 supply forecast. The last Singaporean bank bond issuance before the surge of supply this year was in November 2010, when OCBC issued a US$500mn LT2 bond.

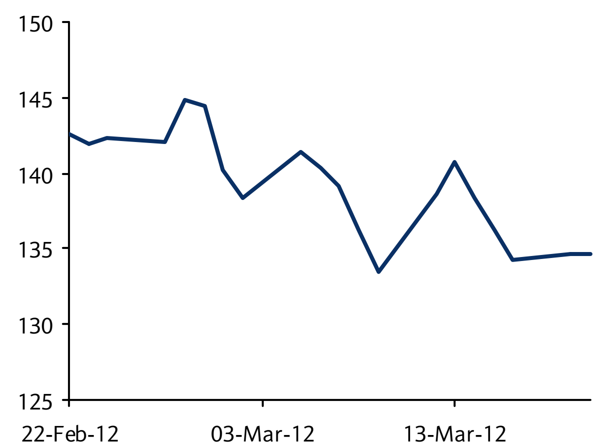
The spike in issuance from the banks does not come as a surprise to us – indeed, in our January 2012 *Asia Credit Outlook 2012: Bumpy Silk Road*, we highlighted the possibility for Singapore's banks to be opportunistic issuers in 2012 given their elevated USD loan-to-deposit ratios. Our expectation of a USD LT2 bond from DBS has also materialised (see *Asia-Pacific Banks: Trades for the supply pipeline* for details) – DBS recently issued US$750mn of old-style LT2 bonds at T+260bp. In our view, a further rally in spreads could prompt the banks to do a tap of their recent new issues, resulting in upside risks to our supply forecast.

Figure 74: Singapore banks' USD bond issuance (US$bn)



Source: Barclays Research

Figure 75: Option-adjusted spread of DBSSP 2.35% 2017s (bp)



Source: Barclays Live

Potential for covered bond issuance

The MAS recently issued a consultation paper seeking feedback on its proposal to allow the Singapore banks to issue covered bonds. The key features of their proposal are:

- The aggregate value of assets in cover pools should not exceed 2% of the total assets of the bank.
- The value of assets in the cover pool should be at least 103% of the face value of covered bonds.

- Only residential mortgage loans and derivatives held for the purpose of hedging risks related to the covered bond issuance may be included in the cover pool. In addition, the MAS essentially has an 80% loan-to-value limit for mortgage loans included in the cover pool.

Overall, we view the covered bond proposals as credit positive for the banks as they would help diversify the banks' sources of funding as well as lower the cost of issuing longer-term debt. Covered bonds will also provide funding stability for the Singaporean banks – covered bond markets remained open during the global financial crisis even as senior unsecured markets were unavailable to issuers.

Based on the Singapore banks' total assets at end-2011, we estimate that there is scope for about S$16.6bn of covered bond issuance. Reuters reported ("DBS eyes Singapore's first covered bonds", 17 March 2012) that DBS is considering issuing a covered bond and could be the first bank to tap the market once formal guidelines are in place.

Availability of short-term funding a key strength

Singapore's banks have increasingly tapped short-term funding sources such as CDs and commercial paper, a trend we expect to continue. We believe the banks' strong fundamentals and AA ratings attracted money market investors as they sought to diversify away from the European banks last year. In addition, we think the Singaporean banks could benefit from Moody's recent review of the short-term ratings of a number of banks with capital markets businesses, which we expect to result in an increased flow of funds towards AA-rated banks.

EQUITY RESEARCH: COMPANIES

OCBC (1-OW; PT S$10.10; +13%): STRONG WEALTH MANAGEMENT FRANCHISE

OCBC SP / OCBC.SI

Stock Rating
1-OVERWEIGHT

Sector View
2-NEUTRAL

Price Target
SGD 10.10

Price (21-Mar-2012)
SGD 8.96

Potential Upside/Downside
+13%

EQUITY RESEARCH

Asia ex-Japan Banks

Sharnie Wong
+852 290 33457
sharnie.wong@barcap.com
Barclays Bank, Hong Kong

We initiate coverage of OCBC with a 1-OW rating and PT of HK$10.1, implying a potential TSR of 16%. OCBC is our top pick among the Singapore banks. It has a strong funding base and is best placed to tap the rising affluence of the domestic population as well as benefit from foreign fund inflows into Singapore with its strong wealth management platform.

Growing funding advantage

OCBC benefits from its strong deposit franchise and can extract synergies from its private banking arm, Bank of Singapore. This is already evident over the past two years, where OCBC's deposits have grown the fastest at a 24% CAGR in 2009-11 relative to DBS's 11%, UOB's 18% and the system's 6%. With the growing affluence of residents, combined with ongoing foreign fund inflows into Singapore, we believe Bank of Singapore's AUM growth trajectory will continue. We estimate that Bank of Singapore's deposits account for 6% of group deposits. OCBC's earnings are also mostly geared to wealth management-related income (including insurance) relative to peers (accounting for 23% of FY11 revenue, relative to 7% for peers). Singapore is the fifth-largest offshore private centre, with US$512bn AUM, according to the Boston Consulting Group. OCBC plans to further expand the wealth management franchise across products, customer segments and distribution platforms.

Strong risk management culture

With economic growth slowing (Barclays forecasts GDP growth of 3% in CY12E from 4.9% in CY11), we believe OCBC can manage any potential deterioration in asset quality. OCBC has demonstrated the best risk management track record over the past five years and through the financial crisis, when the NPL ratio was only 1.7% in FY09 (vs UOB's 2.2% and DBS's 2.9%).

The upcoming retirement of CEO David Conner does create some uncertainty, but we believe the strong risk management culture of OCBC will be maintained under the direction of the new CEO, Samuel Tsien, who headed up the Global Corporate Bank and has 33 years experience in the industry (in corporate, retail banking and risk management). The bank's targets for 10% annual EPS growth and 12% sustainable ROE, in addition to maintaining a 45% payout ratio under OCBC's "New Horizons III" strategic initiative (2011-2015), are achievable, in our view.

Positive catalysts and key risks

Positive catalysts include: 1) a potential rebound in market-related income (insurance, brokerage, wealth management, asset management); 2) ongoing strong growth in reported AUM in Bank of Singapore; and 3) strong deposit growth (FY12-14E: 10%-15% y/y) to drive lending (FY12-14E: 11-14% y/y), combined with strong loan pricing power as global USD liquidity conditions remain elevated.

Key risks include: 1) competition for talent (especially in the private banking space), may lead to higher-than-expected operating costs; 2) rising asset quality risk as economic growth slows (SME exposure 15% of total loans), despite OCBC's strong risk management track record; and 3) any adverse changes to Indonesia's bank foreign ownership rules (OCBC owns 85% of Bank OCBC NISP).

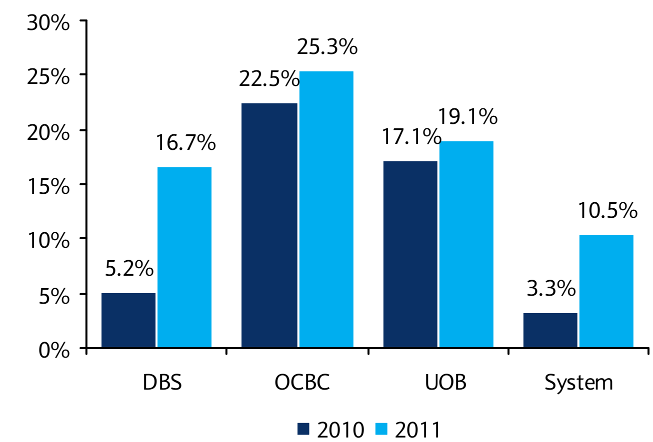
Top pick – valuations attractive

We believe uncertainty over the CEO change since the beginning of the year is fully reflected in the price. The share price performance of OCBC ytd (+14%) has lagged DBS (+26%) and UOB (+19%). We derive our 12-month price target of S$10.1 based on our blended valuation methodology, implying 16% potential total shareholder return. We initiate coverage of OCBC with a 1-OW rating as our top pick among the Singapore banks.

Profile of incoming CEO, Mr Samuel N. Tsien

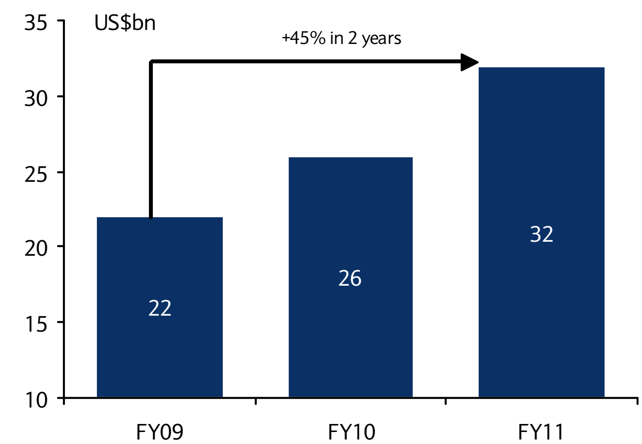
Mr Tsien was appointed Senior Executive Vice President in July 2007 when he joined OCBC. As Head of the Global Corporate Bank, he has bank-wide responsibilities for corporate, commercial and institutional banking, covering Singapore and all overseas countries. Since July 2008, he has also overseen the International and Transaction Banking divisions. Mr Tsien has 33 years of banking experience and has held various senior management roles in corporate banking, retail banking and risk management at Bank of America. Prior to joining OCBC, he was President and Chief Executive Officer of Bank of America (Asia) and China Construction Bank (Asia) Corporation respectively. He holds a BA (Hons) in Economics from the University of California, Los Angeles (UCLA). Age 56.

Figure 76: OCBC – strong deposit y/y growth



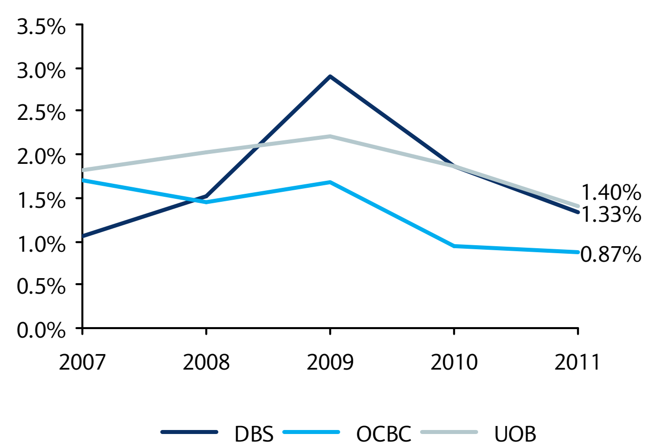
Source: Company data, CEIC, Barclays Research
System deposit growth is the aggregate of DBU and ACU deposits.

Figure 77: Bank of Singapore's AUM (OCBC's private bank)



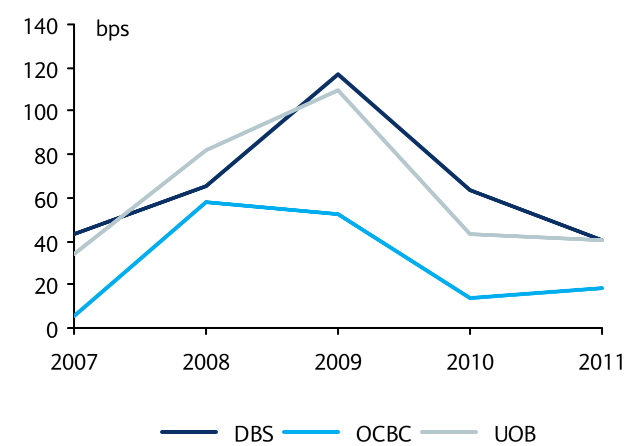
Source: Company data, Barclays Research

Figure 78: OCBC's lower NPL ratio



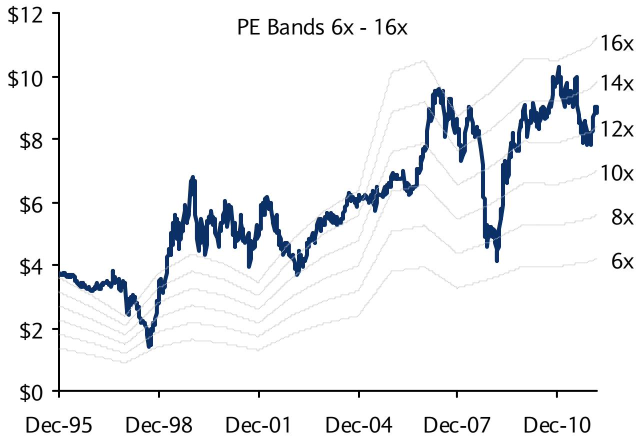
Source: Company data, Barclays Research

Figure 79: OCBC's lower credit cost vs peers



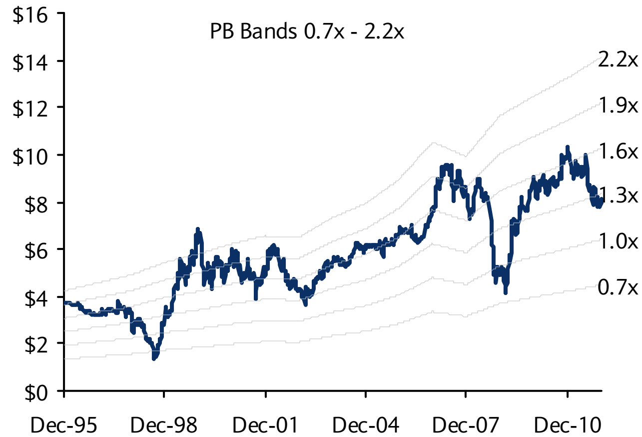
Source: Company data, Barclays Research

Figure 80: OCBC 12-month forward P/E



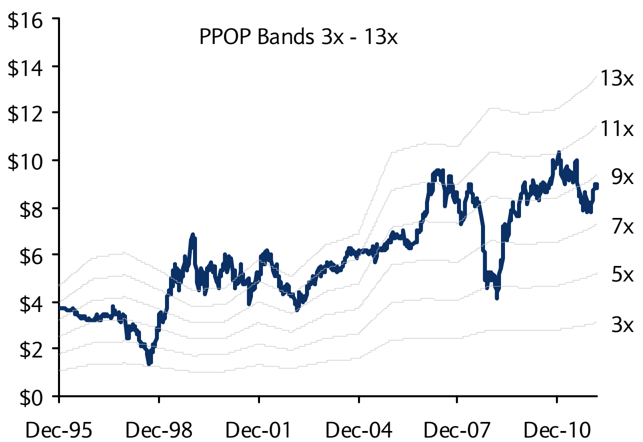
Source: Thomson Reuters Datastream, Barclays Research

Figure 81: OCBC 12-month forward P/B



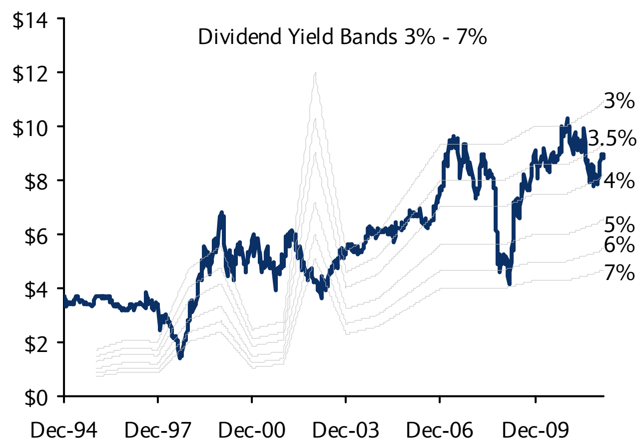
Source: Thomson Reuters Datastream, Barclays Research

Figure 82: OCBC 12-month forward P/PPOP



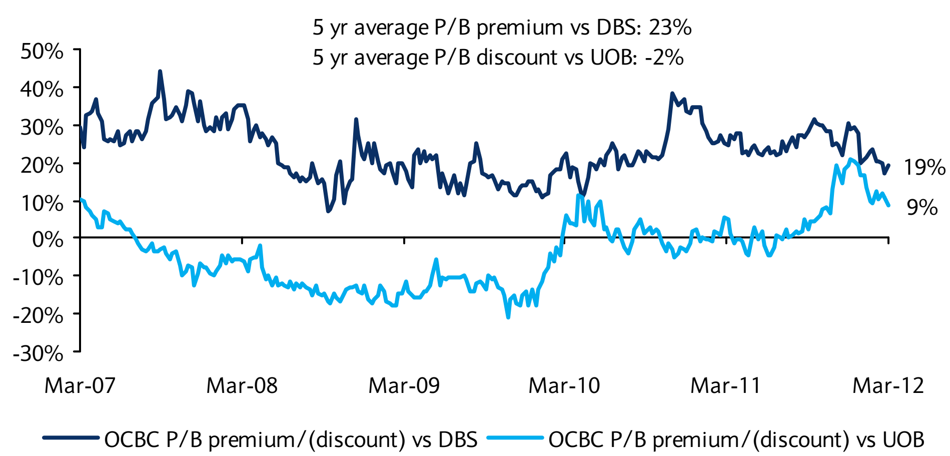
Source: Thomson Reuters Datastream, Company data, Barclays Research

Figure 83: OCBC 12-month forward dividend yield



Source: Thomson Reuters Datastream, Company data, Barclays Research

Figure 84: OCBC 12-month forward P/B premium/(discount) vs DBS and UOB



Source: Thomson Reuters Datastream, Company data, Barclays Research

COMPANY SNAPSHOT

OCBC Group — Asia ex-Japan Banks

Income statement (SGDmn)	2011A	2012E	2013E	2014E	CAGR
Net interest income	3,410.0	4,031.8	4,446.4	5,032.8	13.9%
Non-interest income	2,251	2,150	2,422	2,722	6.5%
Operating income	5,661	6,181	6,868	7,755	11.1%
Operating expenses	-2,492	-2,681	-2,881	-3,153	N/A
Pre-provision earnings	3,169	3,500	3,987	4,601	13.2%
Loan loss provisions	-221	-414	-535	-649	N/A
Pre-tax income	2,948	3,086	3,453	3,952	10.3%
Net income	2,312	2,448	2,757	3,176	11.2%
Balance sheet (SGDmn)					**CAGR**
Total assets	277,758	300,960	328,535	360,813	9.1%
Risk-weighted assets	128,507	142,621	156,947	174,240	10.7%
Non-performing loans	1,172	998	901	827	-11.0%
Loans	135,132	150,802	169,670	193,026	12.6%
Deposits	154,555	170,600	195,767	224,647	13.3%
Interest-earning assets	182,930	213,850	234,067	259,188	12.3%
Tier 1 capital	18,612	20,127	21,832	23,797	8.5%
Core Tier 1 capital	18,612	20,127	21,832	23,797	8.5%
Shareholders' equity	20,675	22,022	23,538	25,284	6.9%
Loan/deposit ratio (%)	87.4	88.4	86.7	85.9	-0.6%
Valuation and leverage metrics					**Average**
P/E (reported) (x)	13.2	12.6	11.2	9.7	11.7
Price/BV (tangible) (x)	1.5	1.4	1.3	1.2	1.4
Dividend yield (%)	3.4	3.6	4.0	4.6	3.9
P/PPE (x)	9.7	8.8	7.7	6.7	8.2
Tier 1 (%)	14.5	14.1	13.9	13.7	14.0
ROOT 1 (%)	13.5	13.2	13.7	14.6	13.7
PD ROOT 1 (%)	7.5	7.2	7.5	8.0	7.6
Tang assets/tang equity (x)	11.3	11.5	11.8	12.1	11.7
Margin and return data					**Average**
Return on RWAs (%)	1.98	1.81	1.84	1.92	1.89
ROA (%)	1.01	0.88	0.92	0.97	0.94
ROE (tangible) (%)	11.7	11.5	12.1	13.0	12.1
PPE growth (%)	5.1	10.4	13.9	15.4	11.2
Net interest margin (%)	1.86	1.89	1.90	1.94	1.90
Cost/income (%)	44.0	43.4	42.0	40.7	42.5
Impairment cost (% GLAA)	0.17	0.29	0.33	0.36	0.29
Credit quality ratios					**Average**
Loan loss provs/loans (%)	1.1	1.2	1.2	1.3	1.2
Collective provs/loans (%)	0.9	1.0	1.0	1.1	1.0
Coverage ratio (%)	130	174	226	294	206
NPL ratio (%)	0.9	0.7	0.5	0.4	0.6
Per share data (SGD)					**CAGR**
EPS (reported)	0.68	0.71	0.80	0.92	10.6%
DPS	0.30	0.32	0.36	0.42	11.5%
BVPS	6.0	6.4	6.8	7.4	6.9%
Payout ratio (%)	44.0	45.0	45.0	45.0	0.8%
Diluted shares (mn)	3,437	3,437	3,437	3,437	0.0%

Source: Company data, Barclays Research
Note: FY end Dec

Stock Rating	**1-OVERWEIGHT**
Sector View	**2-NEUTRAL**
Price (21-Mar-2012)	**SGD 8.96**
Price Target	**SGD 10.10**
Ticker	**OCBC.SI**

Investment case

Why a 1-Overweight? OCBC is best placed to grow wealth management income and leverage off its strong private banking subsidiary (Bank of Singapore) to give it an edge attracting and retaining liquidity. OCBC also has strong risk management evidenced by its low non-performing loans ratio.

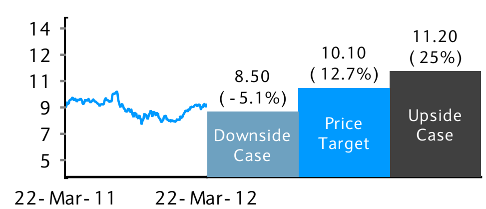
Upside case — SGD 11.20

Stronger-than-expected economic recovery driving wealth management, market-related, insurance income and higher NIMs as interest rates rise. Upside case based on 1.8x P/B.

Downside case — SGD 8.50

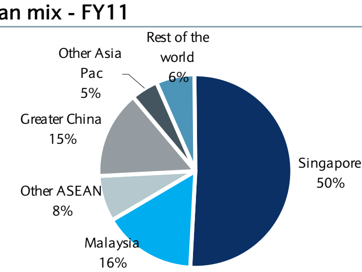
Faster-than-expected rise in operating costs on competition for talent (especially in private banking space). Higher-than-expected credit costs as economy slows. Downside case based on 15x normalised P/E.

Upside/Downside scenarios



Source: FactSet Fundamentals

Loan mix - FY11



Source: Company Data, Barclays Capital

UOB (1-OW; PT S$20.40; +11%): GEARED TO GROWTH IN INTRAREGIONAL TRADE

UOB SP / UOBH.SI

Stock Rating
1-OVERWEIGHT

Sector View
2-NEUTRAL

Price Target
SGD 20.40

Price (21-Mar-2012)
SGD 18.37

Potential Upside/Downside
+11%

We initiate coverage of UOB with a 1-OW rating and a PT of HK$20.4, implying total potential shareholder return of 15%. We like UOB's diverse ASEAN footprint, which allows it to tap intraregional trade-related lending. Its more conservative loan growth strategy in recent years (relative to peers) should allow it to adequately manage potential asset quality deterioration.

Intraregional trade to remain strong

UOB is best placed to capture intraregional trade-related lending with the most diverse ASEAN regional footprint among the Singapore banks (ASEAN loans account for 24% of UOB's FY11 loan book) and effectively full control of regional subsidiaries. The economic outlook for the ASEAN region is generally expected to moderate but remain at healthy 4.5-6.2% GDP growth levels relative to Singapore's 3% (refer to Figure 85 for our economics team's GDP forecasts). Moreover, UOB is the most geared of the Singapore banks to Thailand's post-flood economic recovery (Thailand-related lending is 5.4% of total FY11). Singapore's trade with other ASEAN regions accounts for about 23% of total trade.

Relatively more conservative

UOB is generally more conservatively managed relative to peers, in part due to its shareholding structure, with the Lee family (19%) being the largest shareholder. Its loan growth over the past five years grew at a 13% CAGR vs peers' 17-18%. Its USD LDR, at 100% in FY11, was also the lowest among peers. While asset quality deterioration is a risk for UOB, it is a leader in the SME segment (20-25% of total loans) and has a disciplined risk management approach. We forecast credit costs to rise to 52bps (from 40bps in FY11).

Positive catalysts and key risks

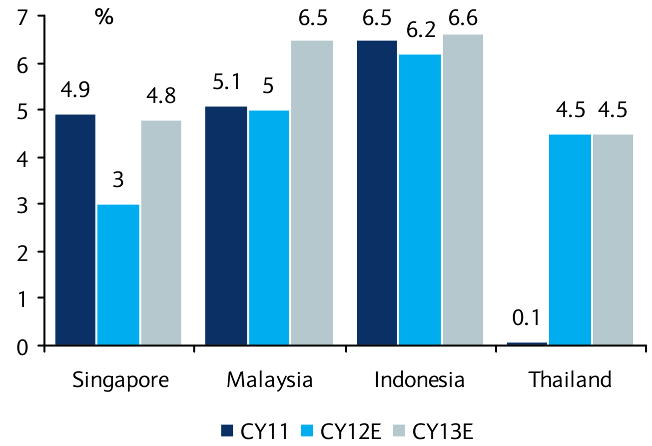
Key positive catalysts include: 1) stronger-than-expected economic growth and trade activity in Singapore and ASEAN countries driving loan growth; and 2) faster-than-expected net interest margin recovery as loan pricing power returns.

Key risks include: 1) asset quality due to UOB's large SME customer base (20-25% of lending); and 2) any adverse changes to Indonesia's bank foreign ownership rules (UOB owns 99% of PT Bank UOB Buana).

Valuations still attractive

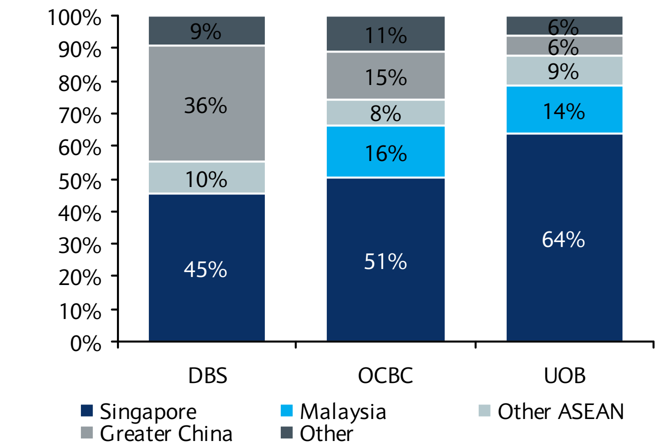
Despite the share price rising 19% ytd (vs STI's 13%), our 12-month price target of S$20.4 (based on our blended valuation methodology) implies potential 15% total shareholder return. Trading on FY12E 11.8x P/E and 1.3x P/B, we initiate coverage of UOB at 1-OW.

Figure 85: Barclays GDP growth estimates



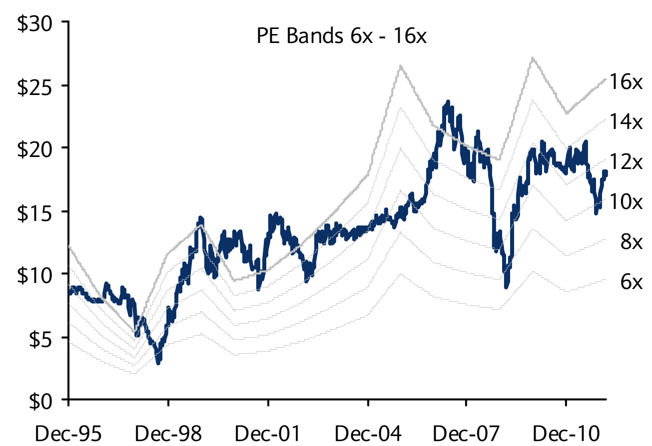
Source: CEIC, Barclays Research estimates

Figure 86: Singapore banks – loan mix by geography – FY11



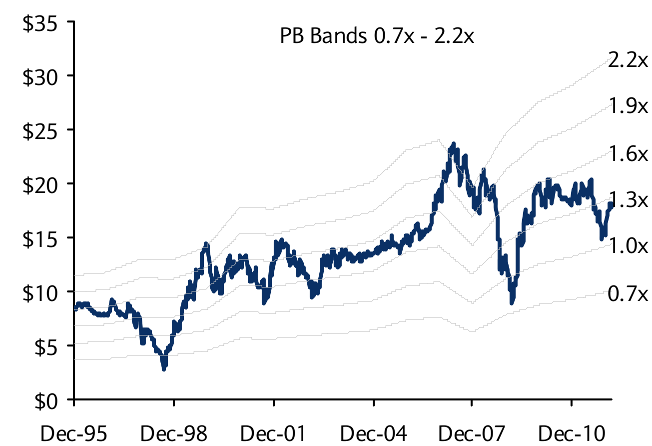
Source: Company data, Barclays Research

Figure 87: UOB 12-month forward P/E



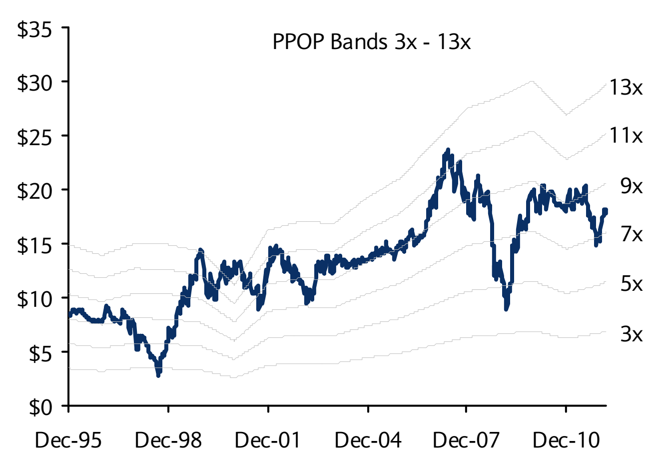
Source: Thomson Reuters Datastream, Barclays Research

Figure 88: UOB 12-month forward P/B



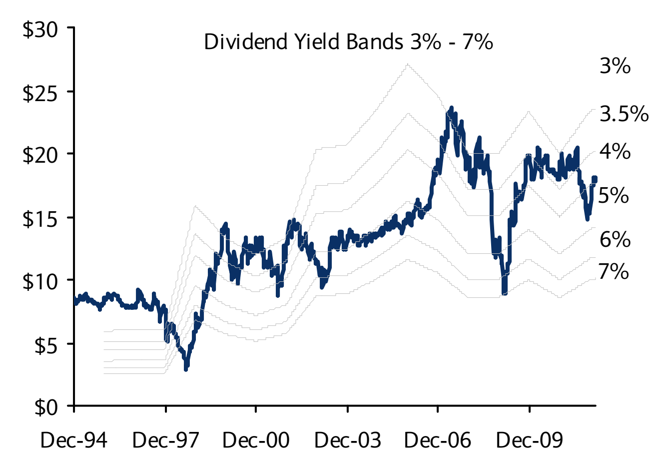
Source: Thomson Reuters Datastream, Barclays Research

Figure 89: UOB 12-month forward P/PPOP



Source: Thomson Reuters Datastream, Company data, Barclays Research

Figure 90: UOB 12-month forward dividend yield



Source: Thomson Reuters Datastream, Company data, Barclays Research

COMPANY SNAPSHOT

UOB Group — Asia ex-Japan Banks

Income statement (SGDmn)	2011A	2012E	2013E	2014E	CAGR
Net interest income	3,679.0	4,126.3	4,615.8	5,215.9	12.3%
Non-interest income	2,022	2,050	2,247	2,478	7.0%
Operating income	5,701	6,176	6,862	7,694	10.5%
Operating expenses	-2,463	-2,654	-2,908	-3,176	N/A
Pre-provision earnings	3,238	3,522	3,954	4,518	11.7%
Loan loss provisions	-523	-775	-955	-1,183	N/A
Pre-tax income	2,715	2,747	2,999	3,335	7.1%
Net income	2,325	2,564	2,799	3,110	10.2%
Balance sheet (SGDmn)					**CAGR**
Total assets	236,957	255,680	282,462	312,310	9.6%
Risk-weighted assets	133,578	146,817	164,132	183,727	11.2%
Non-performing loans	2,020	2,218	2,682	3,469	19.8%
Loans	143,943	155,944	175,517	197,546	11.1%
Deposits	169,460	186,865	210,318	236,715	11.8%
Interest-earning assets	191,876	211,090	233,991	261,976	10.9%
Tier 1 capital	18,014	19,508	21,188	23,054	8.6%
Core Tier 1 capital	18,014	19,508	21,188	23,054	8.6%
Shareholders' equity	20,818	22,311	23,991	25,857	7.5%
Loan/deposit ratio (%)	84.9	83.4	83.4	83.4	-0.6%
Valuation and leverage metrics					**Average**
P/E (reported) (x)	12.9	11.8	10.7	9.6	11.3
Price/BV (tangible) (x)	1.4	1.3	1.2	1.1	1.2
Dividend yield (%)	3.3	3.8	4.0	4.4	3.9
P/PPE (x)	8.9	8.2	7.3	6.4	7.7
Tier 1 (%)	13.5	13.3	12.9	12.6	13.1
ROOT 1 (%)	14.2	14.2	14.4	14.7	14.4
PD ROOT 1 (%)	8.4	8.3	8.6	8.8	8.5
Tang assets/tang equity (x)	10.1	10.2	10.6	10.9	10.4
Margin and return data					**Average**
Return on RWAs (%)	1.93	1.83	1.80	1.79	1.84
ROA (%)	1.09	1.08	1.09	1.10	1.09
ROE (tangible) (%)	11.6	11.9	12.1	12.5	12.0
PPE growth (%)	-8.4	8.8	12.3	14.2	6.7
Net interest margin (%)	1.92	1.95	1.97	1.99	1.96
Cost/income (%)	43.2	43.0	42.4	41.3	42.5
Impairment cost (% GLAA)	0.36	0.49	0.55	0.61	0.50
Credit quality ratios					**Average**
Loan loss provs/loans (%)	1.91	1.93	1.99	2.10	1.98
Collective provs/loans (%)	1.38	1.38	1.39	1.39	1.38
Coverage ratio (%)	136	136	130	119	130
NPL ratio (%)	1.40	1.42	1.53	1.76	1.53
Per share data (SGD)					**CAGR**
EPS (reported)	1.42	1.56	1.71	1.91	10.4%
DPS	0.60	0.70	0.73	0.81	10.7%
BVPS	13.2	14.2	15.2	16.4	7.5%
Payout ratio (%)	42.2	44.8	42.7	42.6	0.2%
Diluted shares (mn)	1,574	1,574	1,574	1,574	0.0%

Stock Rating	1-OVERWEIGHT
Sector View	2-NEUTRAL
Price (21-Mar-2012)	SGD 18.37
Price Target	SGD 20.40
Ticker	UOBH.SI

Investment case

Why a 1-Overweight? We believe UOB's diverse ASEAN footprint can allow it to take intra-regional trade related lending. While credit costs may normalise upwards as economic growth outlook moderates, we believe UOB's disciplined approach and relatively conservative growth vs peers in recent years will result in manageable asset quality. It has a strong capital and liquidity position.

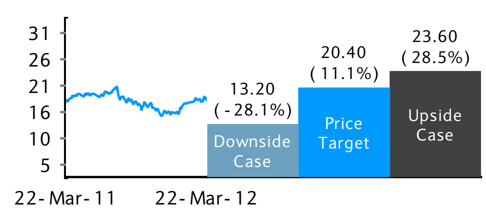
Upside case — SGD 23.60

Stronger-than-expected economic growth in ASEAN countries driving loan growth and margin improvement as loan repricing continues. Upside case based on 1.7x P/B.

Downside case — SGD 13.20

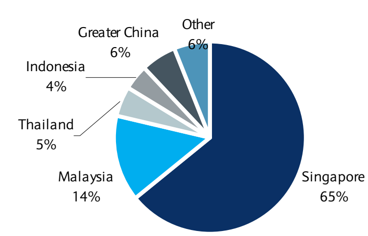
Asset quality deteriorates faster than expected in its large SME segment (20-25% of loans). Downside case based on normalised ROE of 8.6%.

Upside/Downside scenarios



Source: FactSet Fundamentals

Loan mix - FY11



Source: Company Data, Barclays Capital

Source: Company data, Barclays Research
Note: FY end Dec

DBS (2-EW; PT S$14.20; -2%): FAIRLY VALUED

DBS SP / DBSM.SI

Stock Rating
2-EQUAL WEIGHT

Sector View
2-NEUTRAL

Price Target
SGD 14.20

Price (21-Mar-2012)
SGD 14.50

Potential Upside/Downside
-2%

We initiate coverage of DBS with a 2-EW rating and a PT of HK$14.20, implying a TSR of 2%. After YTD +26% share price performance (vs +13% STI), we believe DBS is now fairly valued. Its restructuring efforts under the direction of CEO Piyush Gupta look to be on track. However, DBS is subject to rising asset quality risk in its Greater China exposure and funding cost pressure in Hong Kong where it has a weaker deposit franchise.

Restructuring on track

Since 2010, under the direction of new CEO Piyush Gupta (20 years experience at Citigroup previously), DBS has made positive changes, including: 1) shifting focus back to geographies where DBS has a presence and expertise; 2) shifting focus away from volatile business (investment banking and proprietary trading); and 3) realigning and investing in systems and processes to support business growth. However, these initiatives are still a work in progress. Moreover, we believe DBS will find it difficult to meet in the near term: 1) its 12-13% ROE target in the low interest rate environment; and 2) its 40/30/30 business mix goal for Singapore/Greater China/Other ASEAN, given that currently Singapore still accounts for 60% of FY11 PTP.

Strong SGD but tightening USD liquidity position

DBS has a solid SGD liquidity position due to its strong domestic deposit franchise (CASA 60% of FY11 total deposits, and SGD LDR of 64% is lowest among peers). However, USD lending is increasingly dependent on wholesale funding. USD LDR rose from 100% in FY09 to 151% by end-FY11. Management guides for a stable loan-to-deposit ratio going forward. We forecast loan growth of 8.4% in FY12E (sharp slowdown from 28% in FY11) on the back of slowing cross-border trade loans (especially in Greater China).

Greater China presence

DBS is the only Singapore bank with a significant presence in the Greater China region. In FY11, DBS had 10-12% market share of CNH business flows and CNH margin is becoming less of a drag. Moreover, we believe that DBS can play a big role if Singapore grows as a second offshore RMB market in Asia. However, in the near term, we believe the bank's Hong Kong business will continue to suffer from tight liquidity conditions and ongoing deposit competition, despite some seasonal easing in 1Q12.

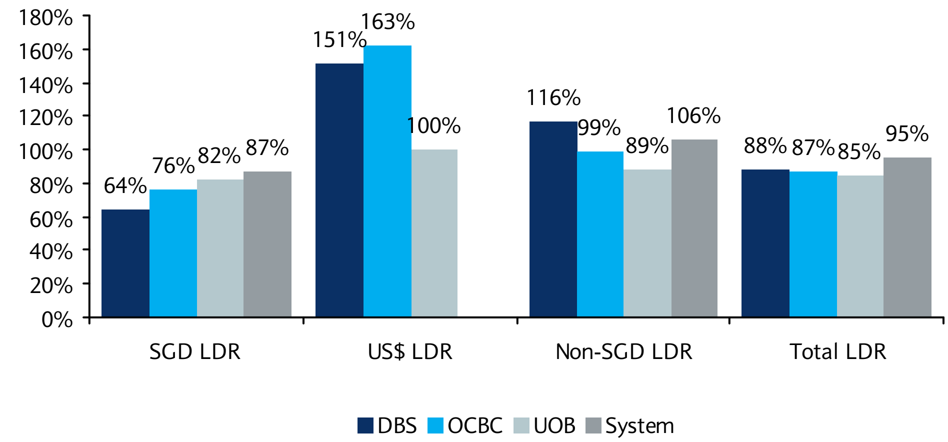
Upside and downside risks

Key upside risks include: 1) faster-than-expected improvement in earnings from restructuring efforts; and 2) greater-than-expected NIM recovery from loan repricing. Key downside risks include: 1) asset quality risk in the SME customer base (15-20% of lending) and Greater China exposure (15% of lending); and 2) a pick up in funding costs driven by increasing deposit competition (especially in Hong Kong).

Fairly valued

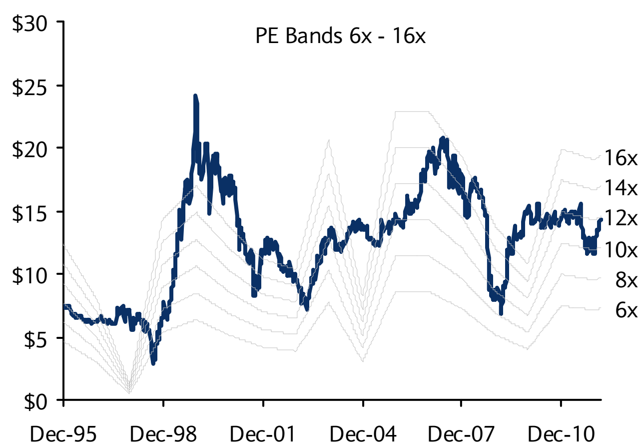
We believe DBS is now fairly valued. Based on our blended valuation methodology, we derive a PT of S$14.2, implying a 2% TSR.

Figure 91: DBS loan-to-deposit ratio – FY11



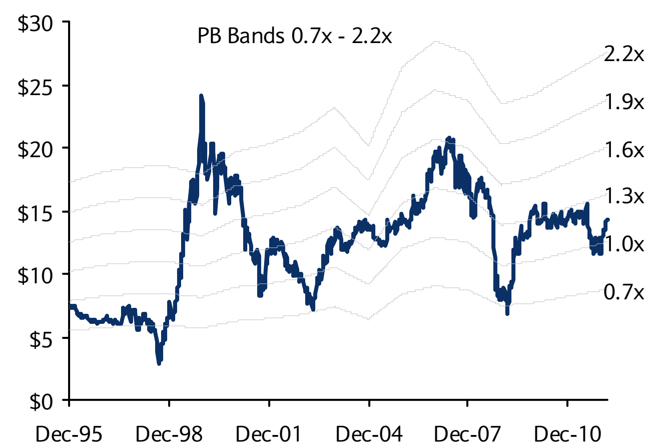
Source: CEIC, Company data, Barclays Research. Note: System S$ LDR based on DBU, Non-S# LDR based on ACU.

Figure 92: DBS 12-month forward P/E



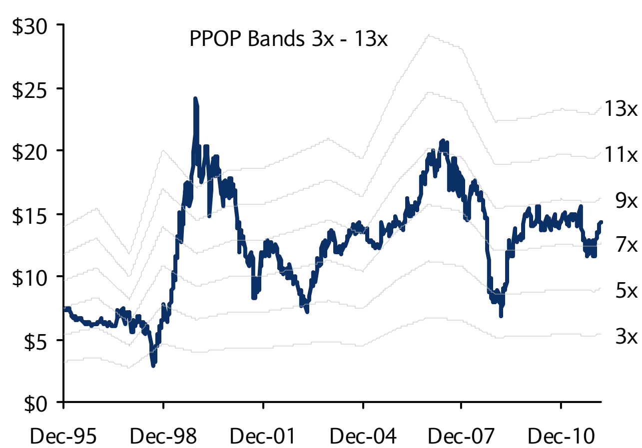
Source: Thomson Reuters Datastream, Company data, Barclays Research

Figure 93: DBS 12-month forward P/B



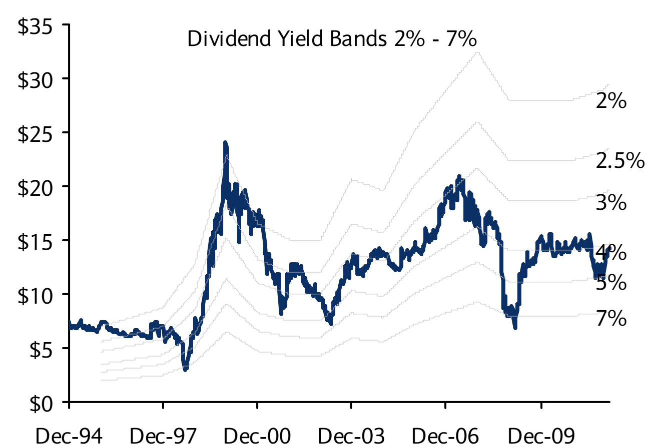
Source: Thomson Reuters Datastream, Company data, Barclays Research

Figure 94: DBS 12-month forward P/PPOP



Source: Thomson Reuters Datastream, Company data, Barclays Research

Figure 95: DBS 12-month forward dividend yield



Source: Thomson Reuters Datastream, Company data, Barclays Research

COMPANY SNAPSHOT

DBS Group Holdings, Ltd. — Asia ex-Japan Banks

Income statement (SGDmn)	2011A	2012E	2013E	2014E	CAGR
Net interest income	4,825.0	5,599.5	6,294.4	7,167.3	14.1%
Non-interest income	2,806	2,426	2,712	3,036	2.7%
Operating income	7,631	8,026	9,007	10,204	10.2%
Operating expenses	-3,303	-3,529	-3,924	-4,351	N/A
Pre-provision earnings	4,328	4,497	5,083	5,852	10.6%
Loan loss provisions	-722	-755	-985	-1,218	N/A
Pre-tax income	3,606	3,742	4,098	4,634	8.7%
Net income	3,035	3,066	3,376	3,837	8.1%

Balance sheet (SGDmn)					CAGR
Total assets	340,847	369,951	408,102	450,488	9.7%
Risk-weighted assets	213,919	234,583	259,915	288,610	10.5%
Non-performing loans	2,639	3,143	3,826	4,727	21.4%
Loans	197,827	214,430	239,417	267,380	10.6%
Deposits	218,992	241,019	269,168	300,605	11.1%
Interest-earning assets	273,150	313,604	344,970	383,024	11.9%
Tier 1 capital	27,535	29,199	31,056	33,166	6.4%
Core Tier 1 capital	27,535	29,199	31,056	33,166	6.4%
Shareholders' equity	28,948	30,612	32,469	34,579	6.1%
Loan/deposit ratio (%)	90.3	89.0	89.0	89.0	-0.5%

Valuation and leverage metrics					Average
P/E (reported) (x)	11.5	12.1	11.0	9.7	11.1
Price/BV (tangible) (x)	1.2	1.2	1.1	1.0	1.1
Dividend yield (%)	3.9	4.0	4.3	4.9	4.3
P/PPE (x)	8.2	7.9	7.0	6.1	7.3
Tier 1 (%)	12.9	12.4	12.0	11.5	12.2
ROOT 1 (%)	11.0	11.1	11.6	12.4	11.5
PD ROOT 1 (%)	6.0	6.0	6.4	6.8	6.3
Tang assets/tang equity (x)	12.9	13.2	13.7	14.1	13.5

Margin and return data					Average
Return on RWAs (%)	1.53	1.37	1.37	1.40	1.42
ROA (%)	1.07	0.90	0.91	0.94	0.96
ROE (tangible) (%)	10.9	10.3	10.7	11.4	10.8
PPE growth (%)	4.5	3.9	13.0	15.1	9.2
Net interest margin (%)	1.77	1.79	1.82	1.87	1.81
Cost/income (%)	43.3	44.0	43.6	42.6	43.4
Impairment cost (% GLAA)	0.38	0.36	0.43	0.48	0.41

Credit quality ratios					Average
Loan loss provs/loans (%)	1.57	1.66	1.74	1.84	1.70
Collective provs/loans (%)	0.97	1.00	1.02	1.04	1.01
Coverage ratio (%)	118	113	109	104	111
NPL ratio (%)	1.33	1.47	1.60	1.77	1.54

Per share data (SGD)					CAGR
EPS (reported)	1.26	1.20	1.32	1.50	6.1%
DPS	0.56	0.58	0.63	0.71	8.5%
BVPS	11.7	12.4	13.2	14.0	6.1%
Payout ratio (%)	44.6	48.4	47.6	47.6	2.2%
Diluted shares (mn)	2,456	2,456	2,456	2,456	0.0%

Source: Company data, Barclays Research
Note: FY end Dec

Stock Rating	2-EQUAL WEIGHT
Sector View	2-NEUTRAL
Price (21-Mar-2012)	SGD 14.50
Price Target	SGD 14.20
Ticker	DBSM.SI

Investment case

Why a 2-Equal Weight? We believe restructuring under CEO Piyush Gupta since 2010 on track, but is still work in progress. DBS has a strong S$ funding base (lowest S$ LDR among peers) but its US$ loans are increasingly reliant on wholesale funding. We believe LDR has peaked and expect a slowdown in lending in FY12E to 8.4% (from 28% in FY11).

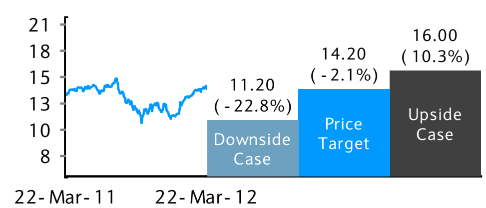
Upside case — SGD 16.00

Faster-than-expected improvement in earnings from restructuring efforts. Greater-than-expected NIM recovery on the back of upward loan repricing. Upside case based on historical average P/E of 13.5x.

Downside case — SGD 11.20

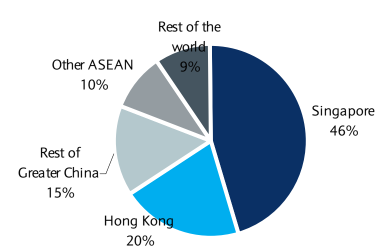
Asset quality deteriorates faster than expected, especially in SME segment (15-20% of loans) and Greater China exposure (15% of loans). Rising funding costs as deposit competition remains elevated in Hong Kong. Downside case based on normalised P/E of 11x.

Upside/Downside scenarios



Source: FactSet Fundamentals

Loan mix - FY11



Source: Company Data, Barclays Capital

APPENDIX 1: SINGAPORE BANKS FINANCIAL SUMMARY

Figure 96: Singapore banks – financial summary

NIM (%)	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
DBS	2.20	2.17	2.04	2.02	1.84	1.77	1.79	1.82	1.87
OCBC	2.00	2.10	2.27	2.23	1.98	1.86	1.89	1.90	1.94
UOB	1.99	2.04	2.27	2.36	2.09	1.92	1.95	1.97	1.99
SECTOR	2.08	2.11	2.17	2.18	1.95	1.84	1.86	1.89	1.93
Revenue (HK$m)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
DBS	5,398	6,163	6,030	6,603	7,066	7,631	8,026	9,007	10,204
OCBC	3,840	4,279	4,426	4,816	5,324	5,661	6,181	6,868	7,755
UOB	4,225	4,872	5,250	5,405	5,802	5,701	6,176	6,862	7,694
SECTOR	13,462	15,315	15,706	16,824	18,192	18,993	20,383	22,737	25,652
Revenue Growth	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
DBS	24%	14%	-2%	10%	7%	8%	5%	12%	13%
OCBC	36%	11%	3%	9%	11%	6%	9%	11%	13%
UOB	12%	15%	8%	3%	7%	-2%	8%	11%	12%
SECTOR	23%	14%	3%	7%	8%	4%	7%	12%	13%
Cost-to-Income (%)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
DBS	43.9	42.5	43.3	39.4	41.4	43.3	44.0	43.6	42.6
OCBC	35.8	40.3	43.0	38.3	43.4	44.0	43.4	41.9	40.7
UOB	41.4	41.7	39.3	38.6	39.1	43.2	43.0	42.4	41.3
SECTOR	40.8	41.6	41.9	38.8	41.2	43.5	43.5	42.7	41.6
PPOP (HK$m)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
DBS	3,029	3,545	3,420	3,999	4,141	4,328	4,497	5,083	5,852
OCBC	2,465	2,553	2,524	2,972	3,015	3,169	3,500	3,987	4,601
UOB	2,476	2,843	3,188	3,321	3,534	3,238	3,522	3,954	4,518
SECTOR	7,970	8,941	9,132	10,292	10,690	10,735	11,519	13,025	14,971
PPOP Growth	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
DBS	31%	17%	-4%	17%	4%	5%	4%	13%	15%
OCBC	47%	4%	-1%	18%	1%	5%	10%	14%	15%
UOB	9%	15%	12%	4%	6%	-8%	9%	12%	14%
SECTOR	27%	12%	2%	13%	4%	0%	7%	13%	15%
B&DD (HK$m)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
DBS	135	431	784	1,529	911	722	755	985	1,206
OCBC	3	36	446	430	134	221	414	535	649
UOB	181	300	807	1,121	474	523	775	955	1,143
SECTOR	319	767	2,037	3,080	1,519	1,466	1,944	2,474	2,998
B&DD / Loans (bp)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
DBS	16	44	66	117	63	41	37	43	48
OCBC	1	5	58	53	14	18	29	33	36
UOB	24	34	82	110	44	40	52	58	61
SECTOR	15	30	69	98	44	34	39	45	48
NPAT (HK$m)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
DBS	2,253	2,262	1,909	2,013	1,604	3,005	3,038	3,348	3,809
OCBC	1,962	2,030	1,691	1,873	2,163	2,222	2,358	2,667	3,086
UOB	2,536	2,066	1,895	1,793	2,592	2,221	2,460	2,695	3,006
SECTOR	6,752	6,358	5,495	5,679	6,359	7,448	7,857	8,710	9,901

Source: Company data, Barclays Research estimates

Figure 96: Singapore banks – financial summary (cont.)

EPS (HK$)	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
DBS	1.43	1.43	1.21	0.86	0.67	1.24	1.19	1.31	1.49
OCBC	0.63	0.66	0.54	0.59	0.66	0.66	0.69	0.78	0.90
UOB	1.66	1.36	1.26	1.19	1.70	1.42	1.56	1.71	1.91
SECTOR	1.09	1.03	0.89	0.81	0.88	1.01	1.04	1.15	1.31
EPS Growth	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
DBS	178.1	-0.1	-15.7	-28.5	-22.2	85.1	-4.4	10.2	13.8
OCBC	59.0	3.8	-16.9	8.8	11.2	-0.5	4.6	13.1	15.7
UOB	49.3	-18.2	-7.5	-5.5	42.9	-16.3	10.1	9.6	11.5
SECTOR	80.7	-5.7	-13.5	-8.6	9.0	14.4	2.7	10.9	13.7
DPS (HK$)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
DBS	0.50	0.58	0.65	0.56	0.56	0.56	0.58	0.63	0.71
OCBC	0.23	0.28	0.28	0.28	0.30	0.30	0.32	0.36	0.42
UOB	0.81	0.74	0.60	0.60	0.70	0.60	0.70	0.73	0.81
SECTOR	0.44	0.47	0.45	0.44	0.47	0.45	0.49	0.53	0.60
ROE (%)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
DBS	12.7	11.6	9.5	8.9	6.2	10.8	10.3	10.7	11.4
OCBC	16.4	14.9	11.8	12.1	12.0	11.2	11.0	11.7	12.6
UOB	16.9	12.7	12.7	11.8	14.3	11.1	11.4	11.6	12.1
SECTOR	**15.1**	**12.9**	**11.1**	**10.7**	**10.2**	**11.0**	**10.8**	**11.3**	**12.0**
ROA (%)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
DBS	1.19	1.03	0.76	0.76	0.59	0.96	0.85	0.86	0.89
OCBC	2.19	1.90	1.38	1.48	1.45	1.21	1.10	1.14	1.19
UOB	1.87	1.41	1.20	1.15	1.53	1.16	1.17	1.15	1.15
SECTOR	1.74	1.44	1.12	1.13	1.15	1.15	1.06	1.07	1.09
GLAA (HK$m)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
DBS	88,080	109,774	128,365	133,420	154,722	197,827	214,430	239,417	267,380
OCBC	61,133	72,775	81,336	82,341	106,449	135,132	150,802	169,670	193,026
UOB	79,380	94,585	102,032	101,744	115,121	143,943	155,944	175,517	197,546
SECTOR	228,593	277,134	311,733	317,505	376,292	476,902	521,177	584,603	657,951
Loan Growth	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
DBS	9%	25%	17%	4%	16%	28%	8%	12%	12%
OCBC	7%	19%	12%	1%	29%	27%	12%	13%	14%
UOB	14%	19%	8%	0%	13%	25%	8%	13%	13%
SECTOR	10%	21%	12%	2%	19%	27%	9%	12%	13%
Average Assets (HK$m)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
DBS	189,833	219,639	251,306	263,338	272,225	313,337	355,335	388,714	428,947
OCBC	140,718	163,577	180,602	184,922	214,301	254,511	289,977	314,519	344,331
UOB	155,160	169,279	181,741	179,075	196,228	223,694	245,662	268,843	297,132
SECTOR	485,712	552,494	613,649	627,334	682,754	791,542	890,973	972,076	1,070,410
Tier 1 Ratio (%)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
DBS	10.2	8.9	10.1	13.1	15.1	12.9	12.4	11.9	11.5
OCBC	13.1	11.5	14.9	16.0	16.3	14.5	14.1	13.9	13.7
UOB	11.0	10.0	10.9	14.0	15.3	13.5	13.3	12.9	12.5
SECTOR	11.2	9.8	11.5	14.1	15.5	13.5	13.1	12.7	12.4
NPAT Growth	**2006**	**2007**	**2008**	**2009**	**2009**	**2009**	**2012E**	**2013E**	**2014E**
DBS	180.9	0.4	-15.6	5.4	-20.3	87.3	1.1	10.2	13.8
OCBC	55.9	3.5	-16.7	10.8	15.5	2.7	6.1	13.1	15.7
UOB	48.4	-18.6	-8.3	-5.4	44.6	-14.3	10.8	9.6	11.5
SECTOR	79.1	-5.8	-13.6	3.3	12.0	17.1	5.5	10.9	13.7

Source: Company data, Barclays Research estimates

APPENDIX 2: SINGAPORE BANKING INDUSTRY OVERVIEW

There are 123 commercial banks in Singapore, comprising six local banks and 117 foreign banks (25 foreign full banks, 52 wholesale banks and 39 offshore banks). The six locally incorporated banks are owned by three banking groups – DBS, UOB and OCBC. Commercial banks in Singapore are licensed under and governed by the Banking Act and regulated by the Monetary Authority of Singapore (MAS).

Full banks provide the whole range of banking business, while wholesale banks are restricted from carrying out SGD retail banking activities and offshore banks mainly operate through Asian Currency Unit (ACU) and are subject to slightly more restrictions than wholesale banks on dealings with residents. The banking industry in Singapore has grown significantly in recent years, helped by Singapore's booming economy and business-friendly yet well regulated environment. Singapore is also one of the world's major offshore financial centres. In 2011, 47% of system loans were denominated in foreign currency and total system loan penetration was 2.7x GDP.

Figure 97: Loan market share – FY11

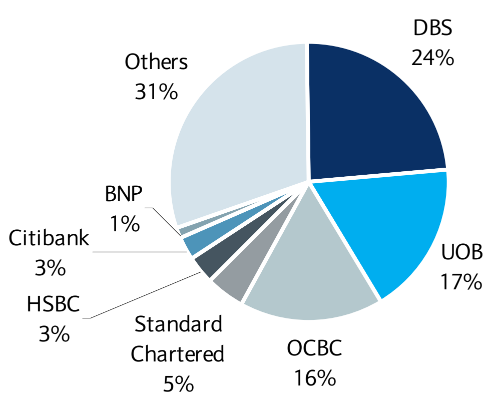


Figure 98: Deposit market share – FY11

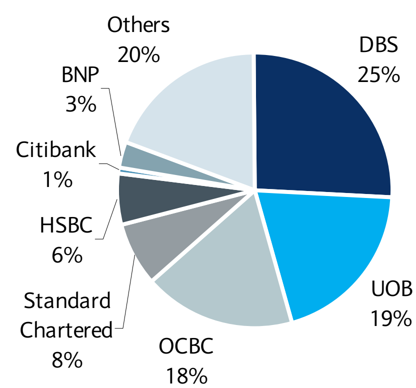
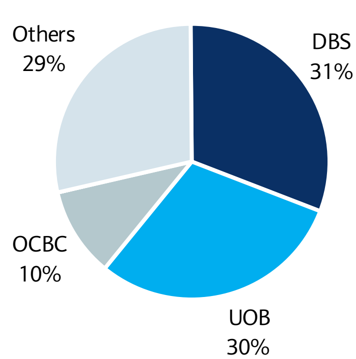
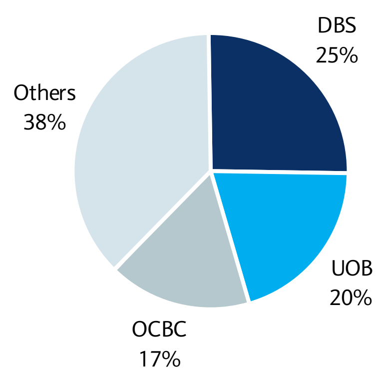


Figure 99: Mortgage market share – FY11



Source: CEIC, Company data, Barclays Research

Figure 100: SGD deposit market share – FY11



Source: CEIC, Company data, Barclays Research

Figure 101: Singapore banks company profile and background

	DBS	UOB	OCBC
Key shareholder	Temasek Holdings (government) – 29.5%	Wee family – 19% Lian family – 5% (OUB legacy)	Lee family – 25%
History	DBS was established in 1968 as the development bank of Singapore during Singapore's early years of independence, set up by the government.	Founded in 1935 by a group of Chinese businessmen and Datuk Wee Kheng Chiang, grandfather of present UOB Group CEO, Mr Wee Ee Cheong. UOB has grown both through organic means and a series of acquisitions creating the strong ASEAN presence it has today.	OCBC is the longest established local bank, founded in 1912, born out of the Great Depression with the merger of three banks in 1932 – The Chinese Commercial Bank, the Ho Hong Bank and the Oversea-Chinese Banks – and known for its history of innovation.
Competitive edge	Strong domestic retail franchise (inc POSB), extensive capital markets capabilities, large Greater China presence and government support.	Most diverse ASEAN footprint, strong SME client base and leader in cards business.	Strength in wealth management, insurance (Great Eastern), private banking (Bank of Singapore) and SME business.
Domestic presence	DBS has 25% domestic loan market share in FY11. DBS acquired the Post Office Savings Bank (POSB) in 1998.	UOB has 18% loan market share in FY11. It expanded its presence domestically by acquiring Far Eastern Bank in 1984 and Overseas Union Bank in 2001.	OCBC has 17% domestic loan market share in FY11 and owns Bank of Singapore (ING Asia Private Bank acquired in 2010) and Singapore Island Bank domestically.
Subsidiaries and strategic stakes outside Singapore	• DBS Hong Kong – acquired Kwong On Bank in 1999 and Dao Heng in 2001. • DBS China – locally incorporated in 2007, acquired RBS China assets in 2010. • DBS Taiwan - acquired Bowa Bank (distressed) in 2008. • DBS Indonesia – acquired PT Bank Mitsubishi Buana in 1997. • Banco Philippine Islands - 20% stake. • Islamic Bank of Asia (IB Asia) - launched in 2007.	• UOB Malaysia – largest foreign bank by branches. • UOB Indonesia – acquired Bank Buana in 2005. • UOB Thai – acquired Radanasin Bank in 1999 and Bank of Asia in 2004. • UOB China – locally incorporated in 2007. • Evergrowing Bank (China) – 14% stake. • Southern Commercial Joint Stock Bank (Vietnam) – 20% stake.	• OCBC Malaysia – largest foreign bank by assets. • Bank OCBC NISP Indonesia – acquired PT Bank NISP in 2004. • OCBC China – locally incorporated in 2007. • Great Eastern Holdings – life insurance, acquired in 2004. • Bank of Ningbo (002142 CH, not rated), first acquired in 2006; owns 15.3% stake. • VP Bank (Vietnam) – first acquired in 2006; owns 15% stake.
Employees	18k	21k	20k
Number of outlets			
Singapore	80+ (inc POSB)	75	57
Hong Kong	50+	6	1
Malaysia	2	47	34
Thailand	1	156	1
Indonesia	40	214	413
China	18	13	13
Others	60	20	10
Total outlets	**200+**	**500+**	**500+**

Source: Company data, Barclays Research

APPENDIX 3: SINGAPORE BANKS PEER COMPARISIONS

Figure 102: Loan mix by industry – FY11

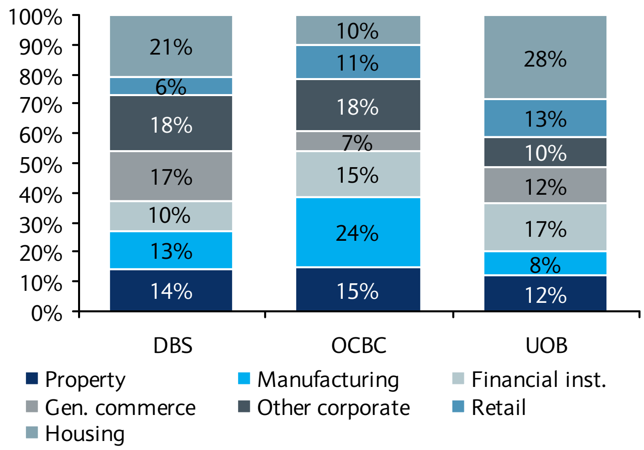


Figure 103: Deposit mix by type – FY11

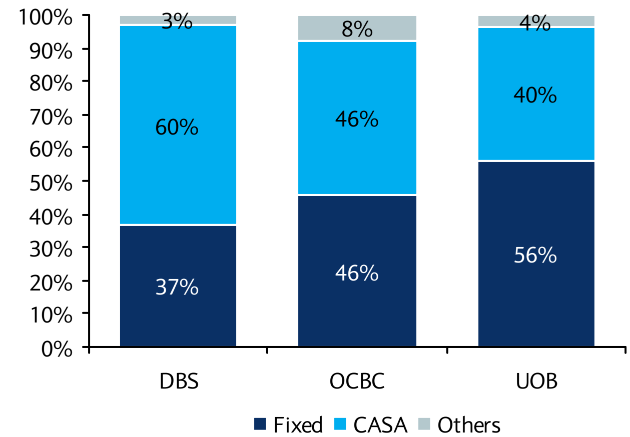


Figure 104: Loan mix by currency – FY11

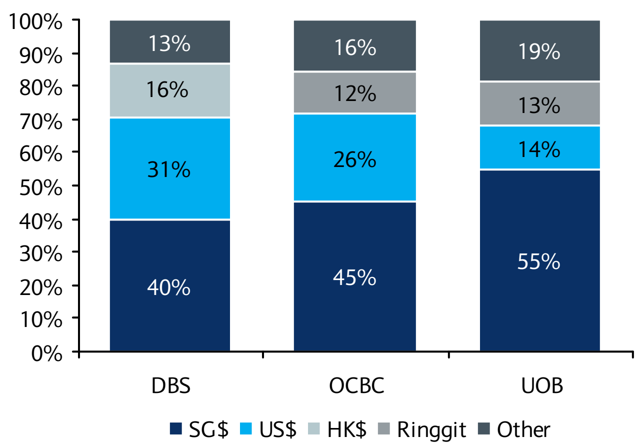


Figure 105: Deposit mix by currency – FY11

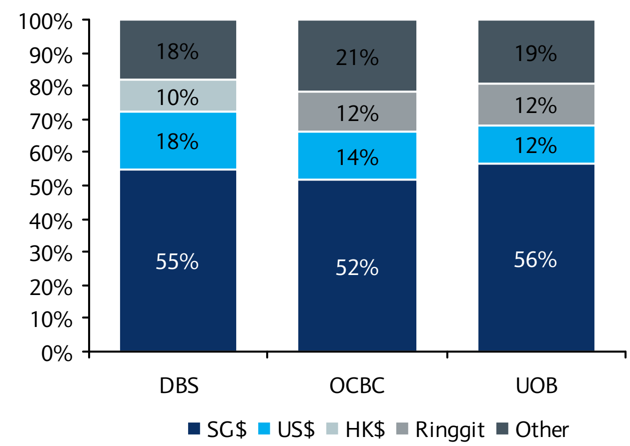
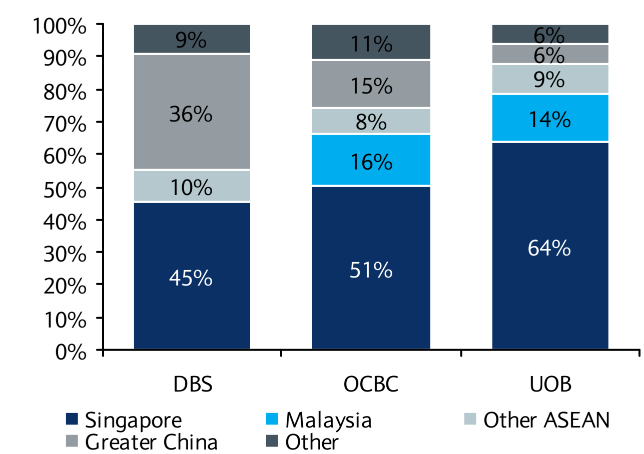
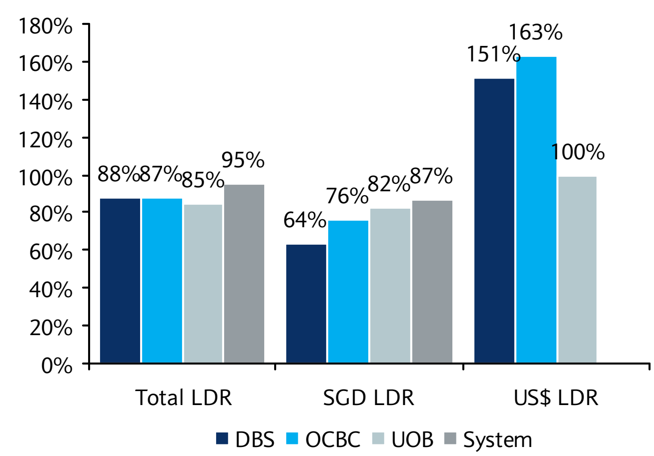


Figure 106: Loan mix by geography – FY11



Source: Company data, Barclays Research

Figure 107: Loan-to-deposit ratio – FY11



Source: Company data, Barclays Research

Figure 108: Pre-tax profit breakdown by region

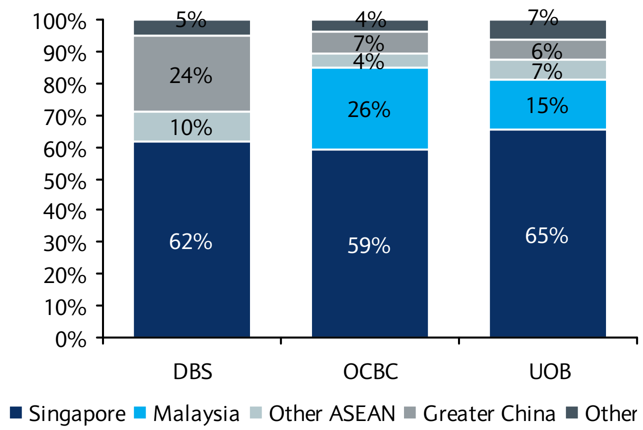


Figure 109: Pre-tax profit breakdown by business segment

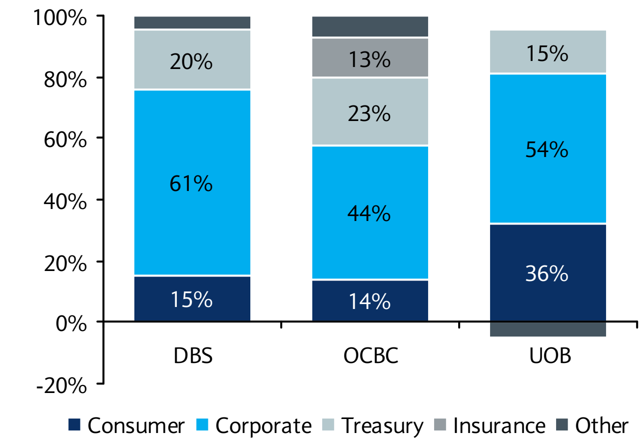


Figure 110: ROAE

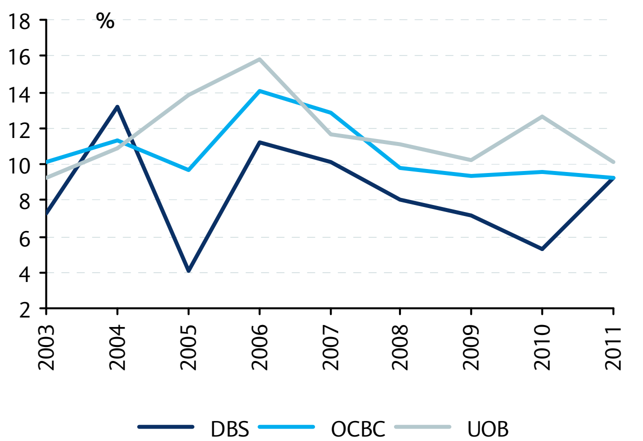


Figure 111: ROAA

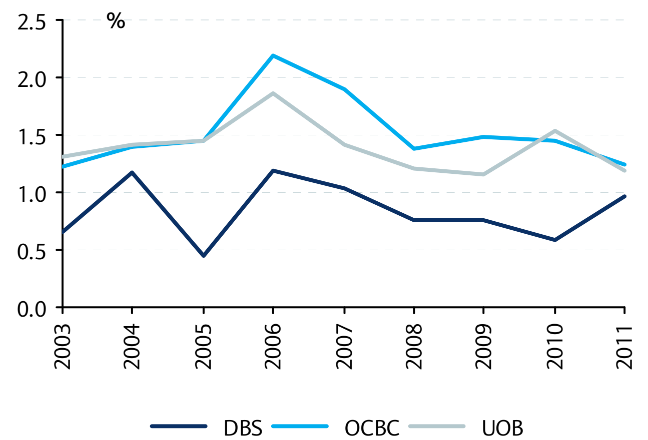
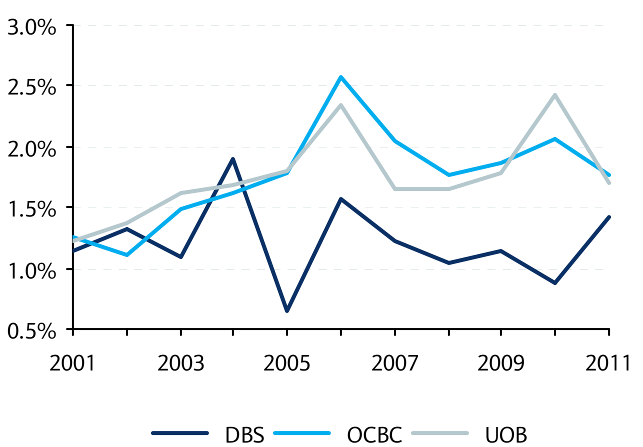
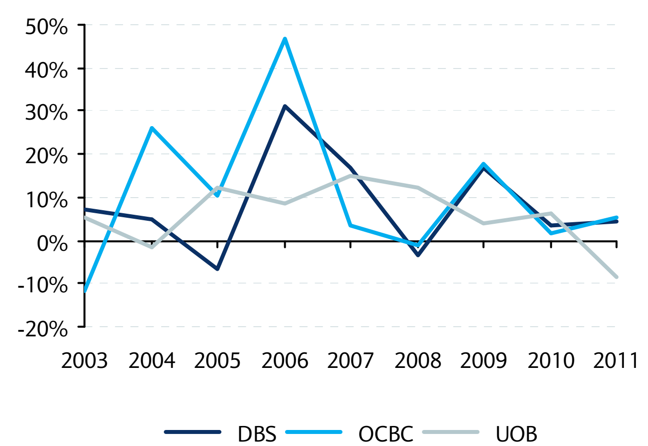


Figure 112: RoRWA



Source: Company data, Barclays Research

Figure 113: PPOP growth



Source: Company data, Barclays Research

Figure 114: NIM trends

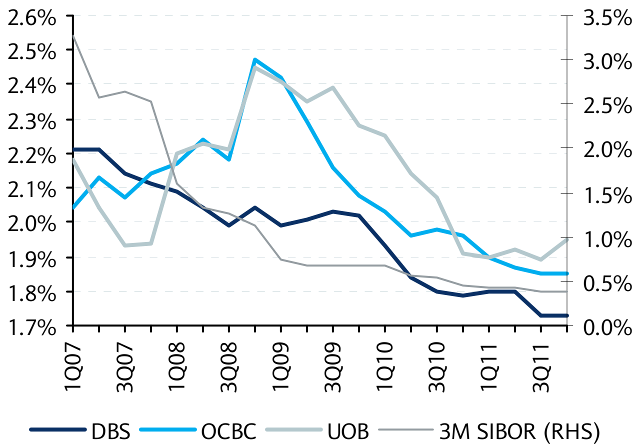


Figure 115: Lending yield and deposit cost – FY11

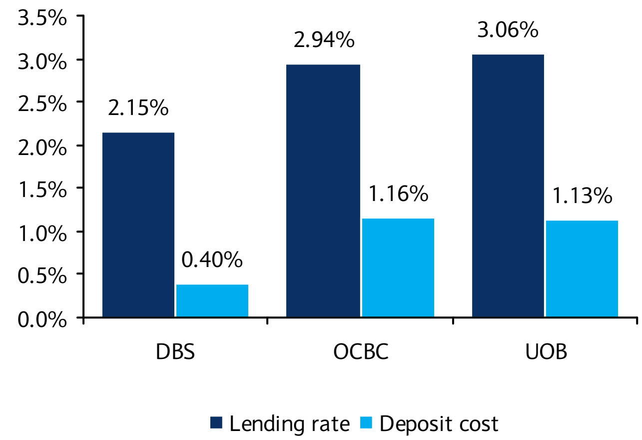


Figure 116: Revenue breakdown – FY11

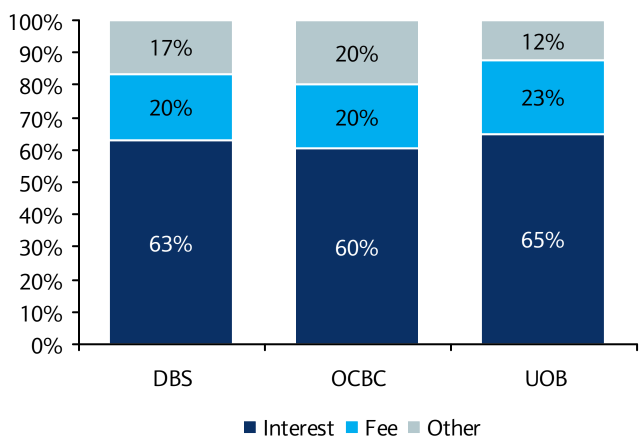


Figure 117: Fee income mix – FY11

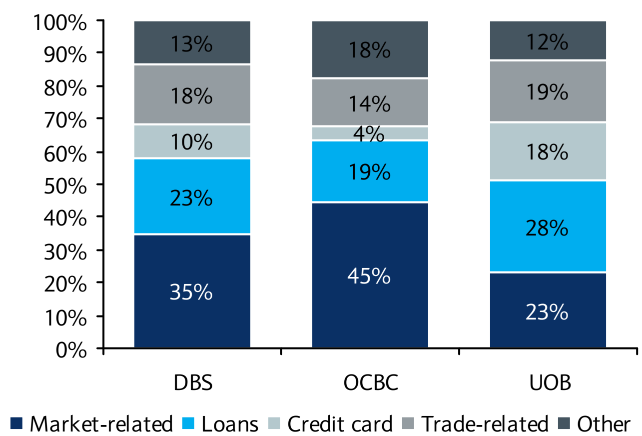
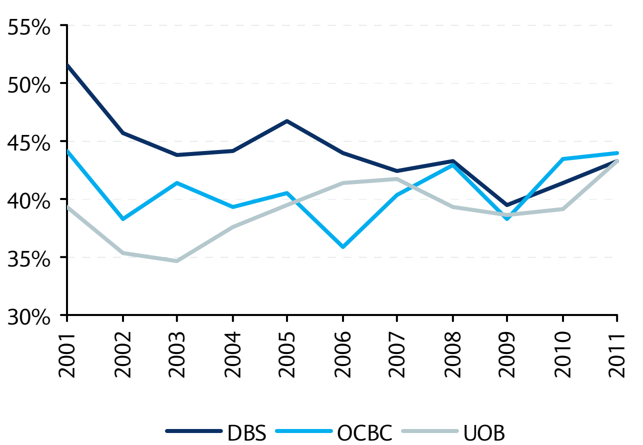
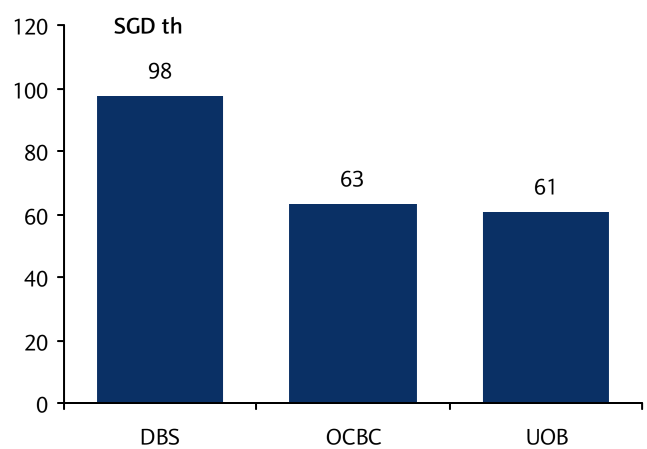


Figure 118: Cost/income ratio trends



Source: Company data, Barclays Research

Figure 119: Average personnel cost/employee FY11



Source: Company data, Barclays Research

Figure 120: NPL ratio

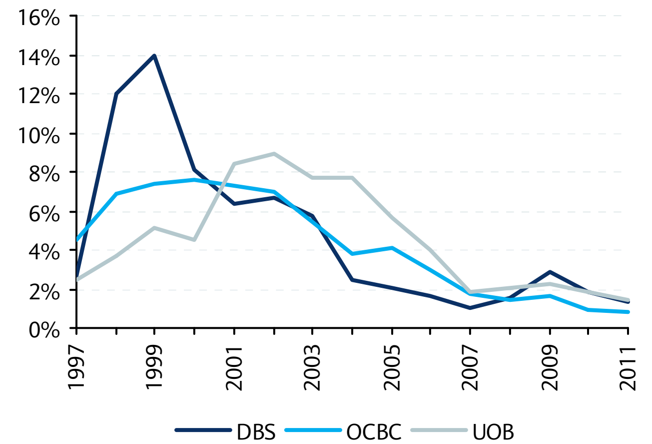


Figure 121: Credit cost

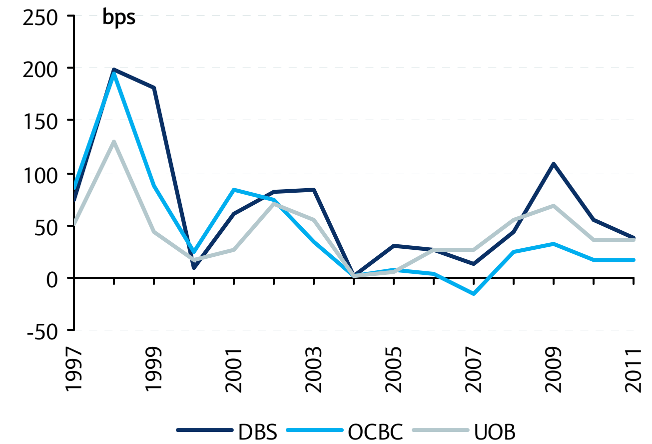


Figure 122: Provision coverage

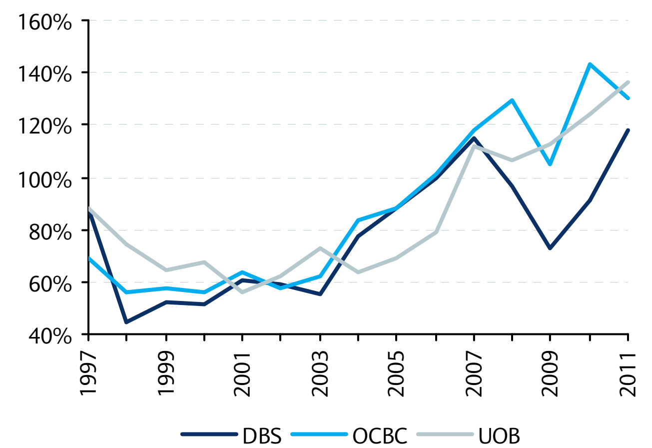


Figure 123: Provision reserves as % of total loans

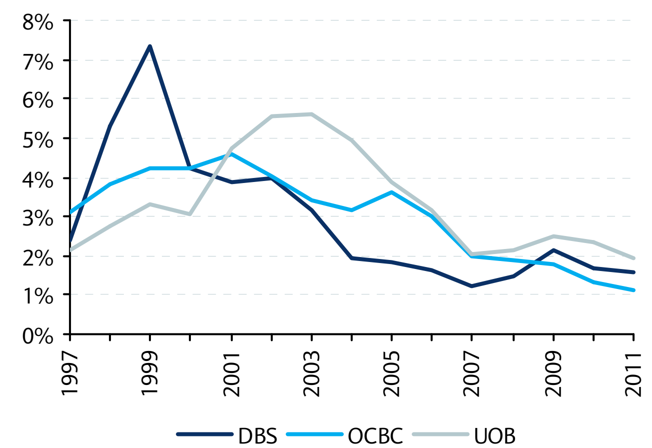
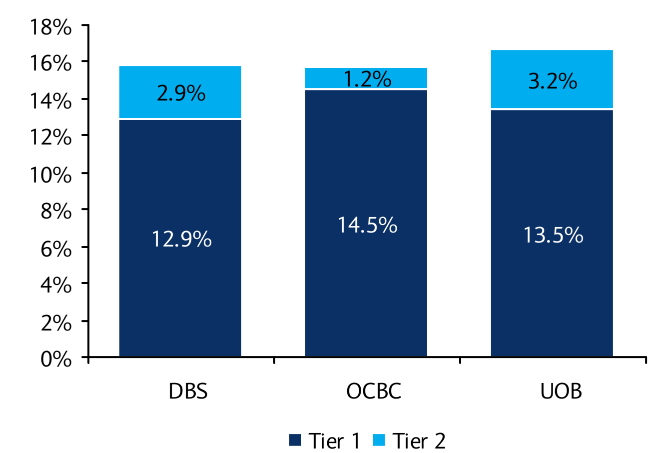
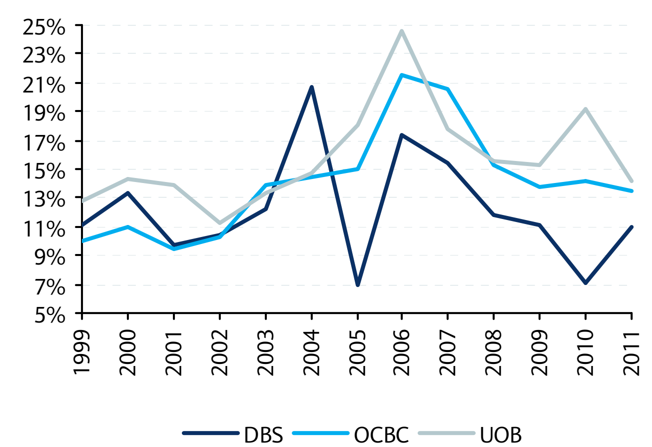


Figure 124: Capital adequacy ratio – FY11



Source: Company data, Barclays Research

Figure 125: Capital generation - return on opening Tier 1



Source: Company data, Barclays Research

APPENDIX 4: SINGAPORE BANKING SYSTEM KEY INDICATORS

Figure 126: System loans by industry – FY11

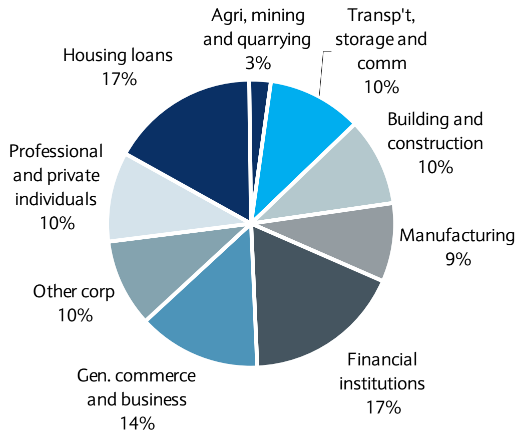


Figure 127: System loan mix – FY11

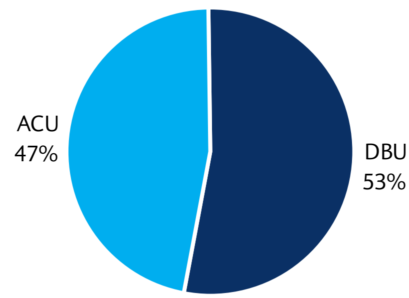


Figure 128: System deposit mix by currency– FY11

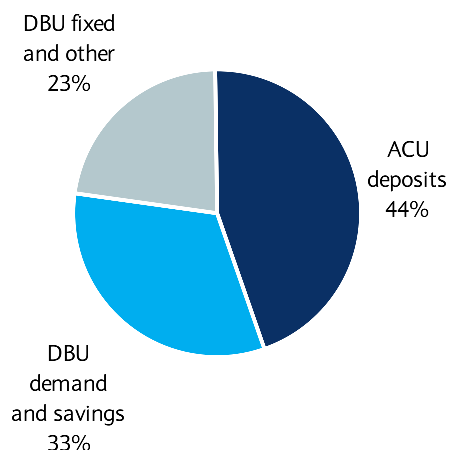


Figure 129L System deposit mix by currency – FY11

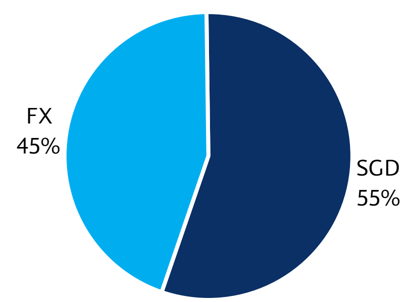
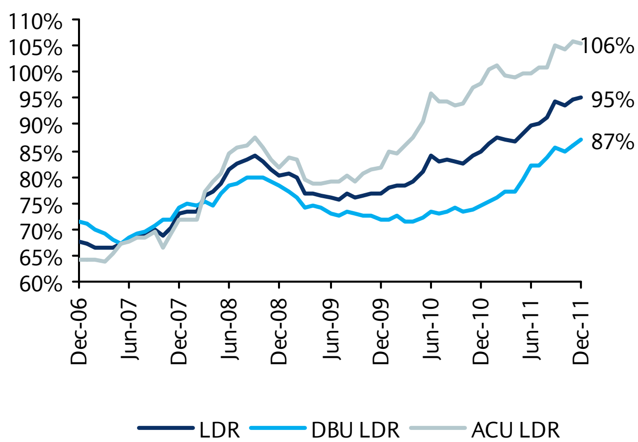
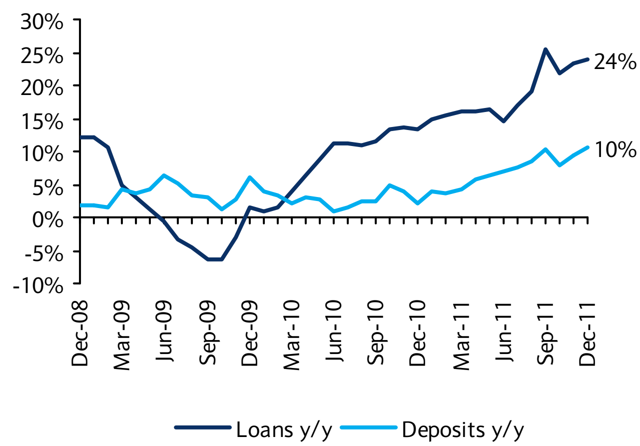


Figure 130: System loan-to-deposit ratio



Source: CEIC, Barclays Research

Figure 131: System loan and deposit y/y growth



Source: CEIC, Barclays Research

APPENDIX 5: SINGAPORE MACRO INDICATORS

Figure 132: GDP growth

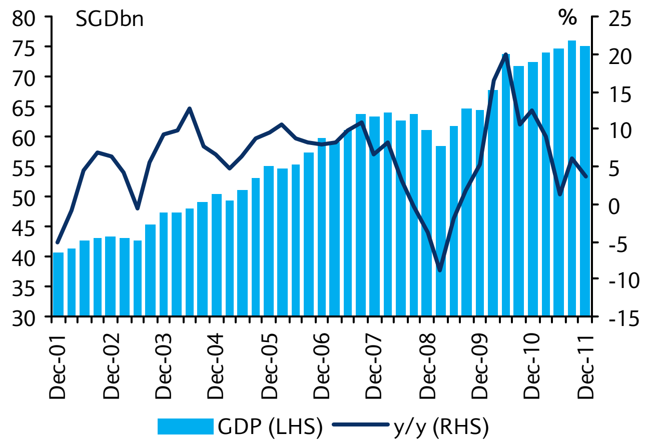


Figure 133: Inflation y/y

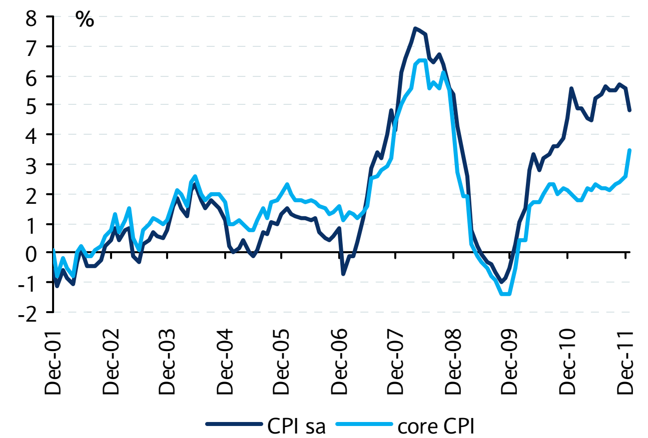


Figure 134: Unemployment rate

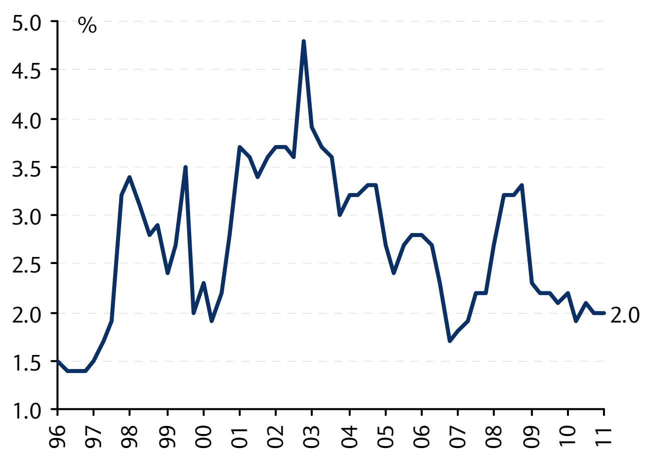


Figure 135: Money supply y/y

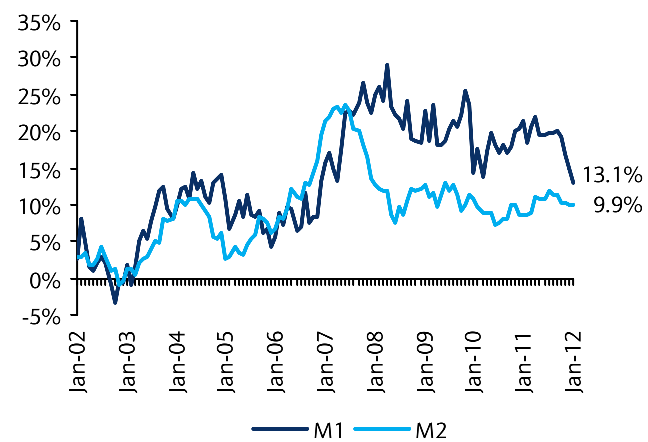


Figure 136: Foreign reserves

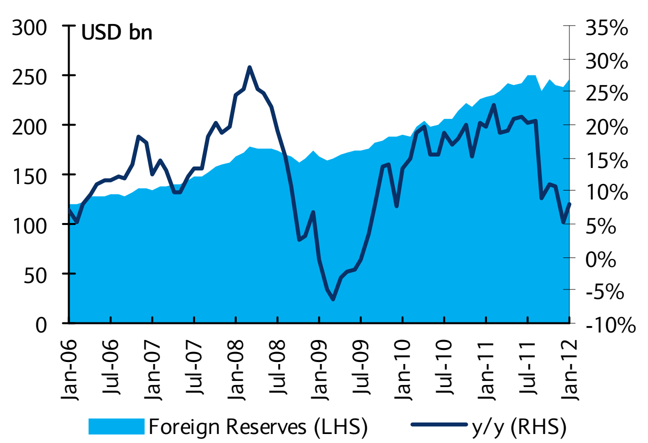
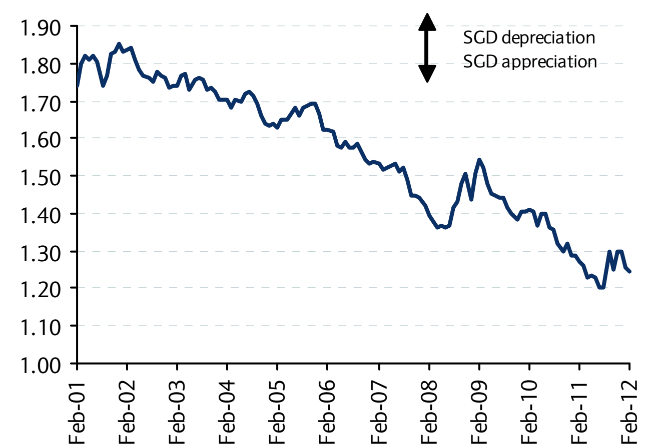


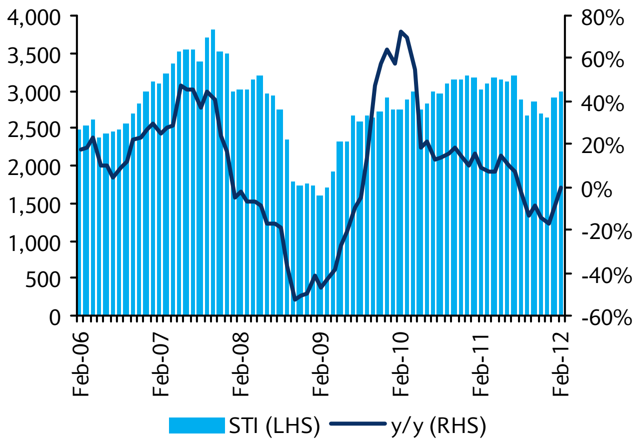
Figure 137: SGD/USD



Source: CEIC, Barclays Research

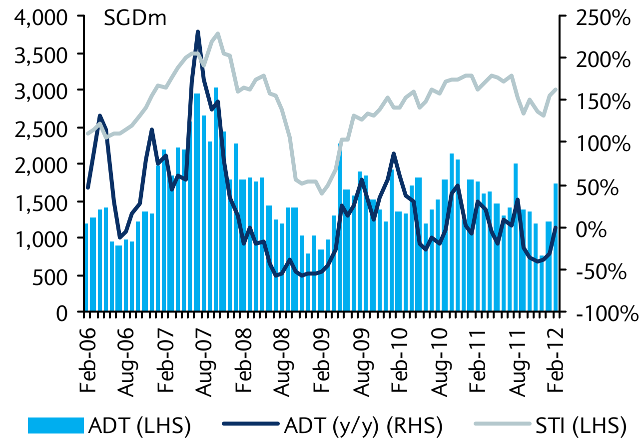
Source: CEIC, Barclays Research

Figure 138: STI performance



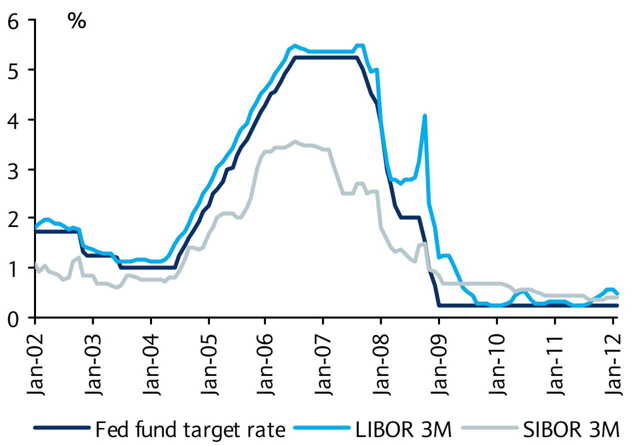
Source: CEIC, Barclays Research

Figure 139: Average daily turnover



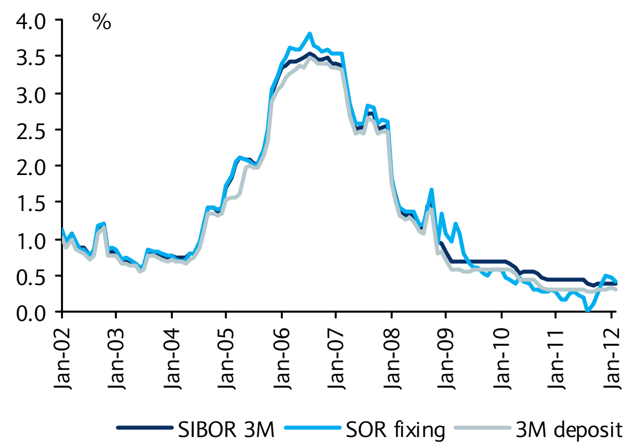
Source: CEIC, Barclays Research

Figure 140: US vs Singapore interest rates



Source: Bloomberg, Barclays Research

Figure 141: 3M SIBOR, SOR and deposit rate



Source: Bloomberg, Barclays Research

Valuation Methodology and Risks

Asia ex-Japan Banks

DBS Group Holdings, Ltd. (DBS SP / DBSM.SI)

Valuation Methodology: We incorporate seven standalone valuation techniques in a blended (average) methodology. We include a 2-stage dividend discount model; 1-year forward Gordon Growth Model (ROE-g / COE-g); application of historic P/B, P/E and P/PPOP to one-year forward estimates; and the value of normalised ROEs and normalised EPS.

Risks which May Impede the Achievement of the Barclays Research Price Target: Key upside risks include: 1) faster-than-expected improvement in earnings from restructuring efforts; and 2) greater-than-expected NIM recovery from loan repricing. Key downside risks include: 1) asset quality risk in the SME customer base (15-20% of lending) and Greater China exposure (15% of lending); and 2) a pick up in funding costs driven by increasing deposit competition (especially in Hong Kong).

OCBC Group (OCBC SP / OCBC.SI)

Valuation Methodology: We incorporate seven standalone valuation techniques in a blended (average) methodology. We include a 2-stage dividend discount model; 1-year forward Gordon Growth Model (ROE-g / COE-g); application of historic P/B, P/E and P/PPOP to one-year forward estimates; and the value of normalised ROEs and normalised EPS.

Risks which May Impede the Achievement of the Barclays Research Price Target: Key risks include: 1) competition for talent (especially in the private banking space), may lead to higher-than-expected operating costs; 2) rising asset quality risk as economic growth slows (SME exposure 15% of total loans), despite OCBC's strong risk management track record; and 3) any adverse changes to Indonesia's bank foreign ownership rules (OCBC owns 85% of Bank OCBC NISP).

UOB Group (UOB SP / UOBH.SI)

Valuation Methodology: We incorporate seven standalone valuation techniques in a blended (average) methodology. We include a 2-stage dividend discount model; 1-year forward Gordon Growth Model (ROE-g / COE-g); application of historic P/B, P/E and P/PPOP to one-year forward estimates; and the value of normalised ROEs and normalised EPS.

Risks which May Impede the Achievement of the Barclays Research Price Target: Key risks include: 1) asset quality due to UOB's large SME customer base (20-25% of lending); and 2) any adverse changes to Indonesia's bank foreign ownership rules (UOB owns 99% of PT Bank UOB Buana).

Source: Barclays Research.

ANALYST(S) CERTIFICATION(S)

In relation to our respective sections, we Sharnie Wong and Lyris Koh, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Overweight: Expected six-month excess return of the sector exceeds the six-month expected excess return of the Barclays Capital U.S. Credit Index, the Pan-European Credit Index, or the EM Asia USD High Grade Credit Index, as applicable.

Market Weight: Expected six-month excess return of the sector is in line with the six-month expected excess return of the Barclays Capital U.S. Credit Index, the Pan-European Credit Index, or the EM Asia USD High Grade Credit Index, as applicable.

Underweight: Expected six-month excess return of the sector is below the six-month expected excess return of the Barclays Capital U.S. Credit Index, the Pan-European Credit Index, or the EM Asia USD High Grade Credit Index, as applicable.

Explanation of the High Grade Research Rating System

The High Grade Research rating system is based on the analyst's view of the expected excess returns over a six-month period of the issuer's index-eligible corporate debt securities relative to the Barclays Capital U.S. Credit Index, the Pan-European Credit Index or the EM Asia USD High Grade Credit Index, as applicable.

Overweight: The analyst expects the issuer's index-eligible corporate bonds to provide positive excess returns relative to the Barclays Capital U.S. Credit Index, the Pan-European Credit Index, or the EM Asia USD High Grade Credit Index over the next six months.

Market Weight: The analyst expects the issuer's index-eligible corporate bonds to provide excess returns in line with the Barclays Capital U.S. Credit Index, the Pan-European Credit Index, or the EM Asia USD High Grade Credit Index over the next six months.

Underweight: The analyst expects the issuer's index-eligible corporate bonds to provide negative excess returns relative to the Barclays Capital U.S. Credit Index, the Pan-European Credit Index, or the EM Asia USD High Grade Credit Index over the next six months.

Rating Suspended (RS): The rating has been suspended temporarily due to market events that make coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where Barclays Capital is acting in an advisory capacity in a merger or strategic transaction involving the company.

Coverage Suspended (CS): Coverage of this issuer has been temporarily suspended.

Not Rated (NR): An issuer which has not been assigned a formal rating.

For Australia issuers, the ratings are relative to the Barclays Capital U.S. Credit Index or Pan-European Credit Index, as applicable.

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Primary Stocks (Ticker, Date, Price)

DBS Group Holdings, Ltd. (DBSM.SI, 21-Mar-2012, SGD 14.50), 2-Equal Weight/2-Neutral

OCBC Group (OCBC.SI, 21-Mar-2012, SGD 8.96), 1-Overweight/2-Neutral

UOB Group (UOBH.SI, 21-Mar-2012, SGD 18.37), 1-Overweight/2-Neutral

Materially Mentioned Stocks (Ticker, Date, Price)

Agricultural Bank of China Limited (1288.HK, 21-Mar-2012, HKD 3.56), 2-Equal Weight/2-Neutral

Axis Bank (AXBK.NS, 21-Mar-2012, INR 1227.55), 2-Equal Weight/2-Neutral

Bank Central Asia (BBCA.JK, 21-Mar-2012, IDR 7900.00), 3-Underweight/2-Neutral

Bank Danamon Indonesia (BDMN.JK, 21-Mar-2012, IDR 4325.00), 3-Underweight/2-Neutral

Bank Mandiri (BMRI.JK, 21-Mar-2012, IDR 6900.00), 2-Equal Weight/2-Neutral

Bank Negara Indonesia (BBNI.JK, 21-Mar-2012, IDR 3900.00), 2-Equal Weight/2-Neutral

Bank of Baroda (BOB.NS, 21-Mar-2012, INR 816.50), 3-Underweight/2-Neutral

Bank of China (Hong Kong) Ltd. (2388.HK, 21-Mar-2012, HKD 21.55), 2-Equal Weight/2-Neutral

Bank of China Limited (3988.HK, 21-Mar-2012, HKD 3.21), 3-Underweight/2-Neutral

Bank of Communications Co., Ltd. (3328.HK, 21-Mar-2012, HKD 6.02), 2-Equal Weight/2-Neutral

Bank of East Asia Ltd. (0023.HK, 21-Mar-2012, HKD 29.20), 3-Underweight/2-Neutral

Bank Rakyat Indonesia (BBRI.JK, 21-Mar-2012, IDR 6750.00), 1-Overweight/2-Neutral

Bank Tabungan Negara (BBTN.JK, 21-Mar-2012, IDR 1190.00), 1-Overweight/2-Neutral

BS Financial Group (138930.KS, 21-Mar-2012, KRW 14200.00), 2-Equal Weight/2-Neutral

Chang Hwa Commercial Bank (2801.TW, 21-Mar-2012, TWD 17.15), 1-Overweight/2-Neutral

China CITIC Bank Corporation (0998.HK, 21-Mar-2012, HKD 4.81), 2-Equal Weight/2-Neutral

China Construction Bank Corp. (0939.HK, 21-Mar-2012, HKD 6.08), 1-Overweight/2-Neutral

China Merchants Bank Co., Ltd. (3968.HK, 21-Mar-2012, HKD 15.48), 2-Equal Weight/2-Neutral

China Minsheng Banking Corp., Ltd. (1988.HK, 21-Mar-2012, HKD 7.14), 1-Overweight/2-Neutral

Chinatrust Financial Holding (2891.TW, 21-Mar-2012, TWD 19.10), 2-Equal Weight/2-Neutral

Chongqing Rural Commercial Bank (3618.HK, 21-Mar-2012, HKD 4.09), 3-Underweight/2-Neutral

Dah Sing Banking Group Ltd. (2356.HK, 21-Mar-2012, HKD 7.71), 3-Underweight/2-Neutral

Dah Sing Financial Holdings Ltd. (0440.HK, 21-Mar-2012, HKD 28.45), 3-Underweight/2-Neutral

DGB Financial Group (139130.KS, 21-Mar-2012, KRW 16850.00), 1-Overweight/2-Neutral

First Financial Holding (2892.TW, 21-Mar-2012, TWD 18.00), 1-Overweight/2-Neutral

Hana Financial Group (086790.KS, 21-Mar-2012, KRW 44400.00), 1-Overweight/2-Neutral

Hang Seng Bank Ltd. (0011.HK, 21-Mar-2012, HKD 102.70), 3-Underweight/2-Neutral

HDFC Bank (HDBK.NS, 21-Mar-2012, INR 515.40), 1-Overweight/2-Neutral

HSBC Holdings PLC (0005.HK, 21-Mar-2012, HKD 70.00), 1-Overweight/2-Neutral

ICICI Bank (ICBK.NS, 21-Mar-2012, INR 935.40), 2-Equal Weight/2-Neutral

Industrial & Commercial Bank of China Ltd. (1398.HK, 21-Mar-2012, HKD 5.13), 1-Overweight/2-Neutral

Industrial Bank of Korea (024110.KS, 21-Mar-2012, KRW 14050.00), 1-Overweight/2-Neutral

KB Financial Group (105560.KS, 21-Mar-2012, KRW 43650.00), 1-Overweight/2-Neutral

Korea Exchange Bank (004940.KS, 21-Mar-2012, KRW 8880.00), 1-Overweight/2-Neutral

Mega Financial Holding (2886.TW, 21-Mar-2012, TWD 21.45), 2-Equal Weight/2-Neutral

Mitsubishi UFJ Financial Group Inc. (8306.T, 21-Mar-2012, JPY 434), 1-Overweight/2-Neutral

Mizuho Financial Group Inc. (8411.T, 21-Mar-2012, JPY 143), 2-Equal Weight/2-Neutral

Punjab National Bank (PNBK.NS, 21-Mar-2012, INR 975.75), 2-Equal Weight/2-Neutral

Shinhan Financial Group (055550.KS, 21-Mar-2012, KRW 44900.00), 2-Equal Weight/2-Neutral

SinoPac Financial Holdings (2890.TW, 21-Mar-2012, TWD 10.85), 1-Overweight/2-Neutral

Standard Chartered PLC (2888.HK, 21-Mar-2012, HKD 200.20), 1-Overweight/2-Neutral

State Bank of India (SBI.NS, 21-Mar-2012, INR 2233.55), 1-Overweight/2-Neutral

Sumitomo Mitsui Financial Group (8316.T, 21-Mar-2012, JPY 2860), 2-Equal Weight/2-Neutral

Taishin Financial Holding (2887.TW, 21-Mar-2012, TWD 12.15), 2-Equal Weight/2-Neutral

Wing Hang Bank Ltd. (0302.HK, 21-Mar-2012, HKD 73.45), 3-Underweight/2-Neutral

Woori Finance Holdings (053000.KS, 21-Mar-2012, KRW 13550.00), 2-Equal Weight/2-Neutral

Other Material Conflicts

8316.T: The Corporate and Investment Banking Division of Barclays is acting as a financial advisor to Sumitomo Mitsui Banking Corporation in the potential acquisition of RBS Aviation Capital by a consortium comprising Sumitomo Mitsui Banking Corporation, Sumitomo Mitsui Finance & Leasing Co., Ltd. and Sumitomo Corporation which was announced on 17 January 2012.

Guide to the Barclays Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal Weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe").

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

2-Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

RS-Rating Suspended - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Corporate and Investment Banking Division of Barclays is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View

1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "sector coverage universe":

Asia ex-Japan Banks

Agricultural Bank of China Limited (1288.HK)	Axis Bank (AXBK.NS)	Bank Central Asia (BBCA.JK)
Bank Danamon Indonesia (BDMN.JK)	Bank Mandiri (BMRI.JK)	Bank Negara Indonesia (BBNI.JK)

Bank of Baroda (BOB.NS)	Bank of China (Hong Kong) Ltd. (2388.HK)	Bank of China Limited (3988.HK)
Bank of Communications Co., Ltd. (3328.HK)	Bank of East Asia Ltd. (0023.HK)	Bank Rakyat Indonesia (BBRI.JK)
Bank Tabungan Negara (BBTN.JK)	BS Financial Group (138930.KS)	Chang Hwa Commercial Bank (2801.TW)
China CITIC Bank Corporation (0998.HK)	China Construction Bank Corp. (0939.HK)	China Merchants Bank Co., Ltd. (3968.HK)
China Minsheng Banking Corp., Ltd. (1988.HK)	Chinatrust Financial Holding (2891.TW)	Chongqing Rural Commercial Bank (3618.HK)
Dah Sing Banking Group Ltd. (2356.HK)	Dah Sing Financial Holdings Ltd. (0440.HK)	DBS Group Holdings, Ltd. (DBSM.SI)
DGB Financial Group (139130.KS)	First Financial Holding (2892.TW)	Hana Financial Group (086790.KS)
Hang Seng Bank Ltd. (0011.HK)	HDFC Bank (HDBK.NS)	HSBC Holdings PLC (0005.HK)
ICICI Bank (ICBK.NS)	Industrial & Commercial Bank of China Ltd. (1398.HK)	Industrial Bank of Korea (024110.KS)
KB Financial Group (105560.KS)	Korea Exchange Bank (004940.KS)	Mega Financial Holding (2886.TW)
OCBC Group (OCBC.SI)	Punjab National Bank (PNBK.NS)	Shinhan Financial Group (055550.KS)
SinoPac Financial Holdings (2890.TW)	Standard Chartered PLC (2888.HK)	State Bank of India (SBI.NS)
Taishin Financial Holding (2887.TW)	UOB Group (UOBH.SI)	Wing Hang Bank Ltd. (0302.HK)
Woori Finance Holdings (053000.KS)		
Japan Major Banks		
Mitsubishi UFJ Financial Group Inc. (8306.T)	Mizuho Financial Group Inc. (8411.T)	Resona Holdings Inc. (8308.T)
Sumitomo Mitsui Financial Group (8316.T)	Sumitomo Mitsui Trust Holdings (8309.T)	

Distribution of Ratings:

Barclays Equity Research has 2245 companies under coverage.

42% have been assigned a 1-Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 54% of companies with this rating are investment banking clients of the Firm.

42% have been assigned a 2-Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 48% of companies with this rating are investment banking clients of the Firm.

13% have been assigned a 3-Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 39% of companies with this rating are investment banking clients of the Firm.

Guide to the Barclays Research Price Target:

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

Barclays offices involved in the production of equity research:

London

Barclays Bank PLC (Barclays, London)

New York

Barclays Capital Inc. (BCI, New York)

Tokyo

Barclays Capital Japan Limited (BCJL, Tokyo)

São Paulo

Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong

Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)

Toronto

Barclays Capital Canada Inc. (BCCI, Toronto)

Johannesburg

Absa Capital, a division of Absa Bank Limited (Absa Capital, Johannesburg)

Mexico City

Barclays Bank Mexico, S.A. (BBMX, Mexico City)

Taiwan

Barclays Capital Securities Taiwan Limited (BCSTW, Taiwan)

Seoul

Barclays Capital Securities Limited (BCSL, Seoul)

Mumbai

Barclays Securities (India) Private Limited (BSIPL, Mumbai)

Singapore

Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)

IMPORTANT DISCLOSURES CONTINUED

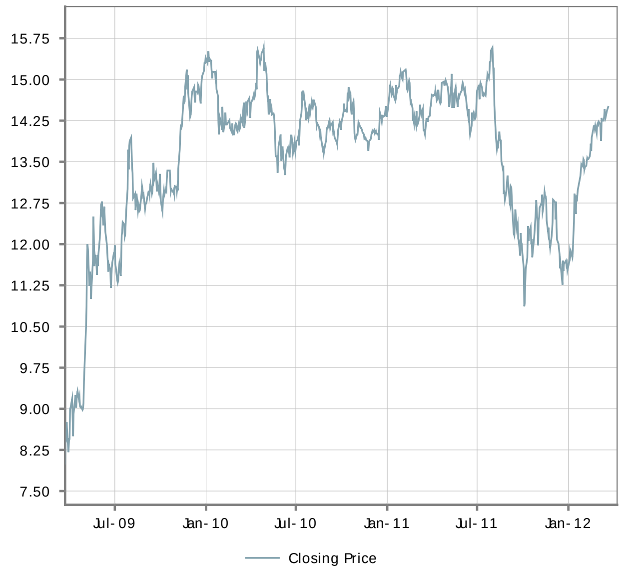
DBS Group Holdings, Ltd. (DBS SP / DBSM.SI)

SGD 14.50 (21-Mar-2012)

Stock Rating **2-EQUAL WEIGHT**

Sector View **2-NEUTRAL**

Rating and Price Target Chart - SGD (as of 21-Mar-2012)



Link to Barclays Live for interactive charting

Currency=SGD

Date	Closing Price	Rating	Price Target

Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in securities issued by DBS Group Holdings, Ltd. or one of its affiliates.

Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from DBS Group Holdings, Ltd. in the past 12 months.

Barclays Bank PLC and/or an affiliate trades regularly in the securities of DBS Group Holdings, Ltd..

Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from DBS Group Holdings, Ltd. within the past 12 months.

DBS Group Holdings, Ltd. is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

DBS Group Holdings, Ltd. is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

Valuation Methodology: We incorporate seven standalone valuation techniques in a blended (average) methodology. We include a 2-stage dividend discount model; 1-year forward Gordon Growth Model (ROE-g / COE-g); application of historic P/B, P/E and P/PPOP to one-year forward estimates; and the value of normalised ROEs and normalised EPS.

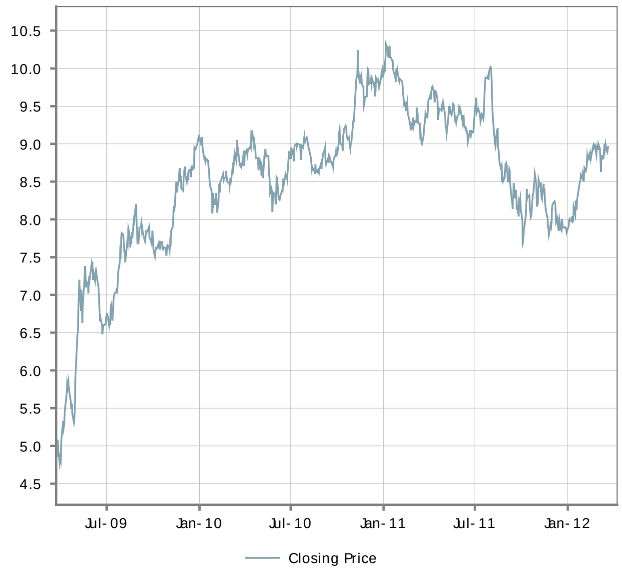
Risks which May Impede the Achievement of the Barclays Research Price Target: Key upside risks include: 1) faster-than-expected improvement in earnings from restructuring efforts; and 2) greater-than-expected NIM recovery from loan repricing. Key downside risks include: 1) asset quality risk in the SME customer base (15-20% of lending) and Greater China exposure (15% of lending); and 2) a pick up in funding costs driven by increasing deposit competition (especially in Hong Kong).

IMPORTANT DISCLOSURES CONTINUED

OCBC Group (OCBC SP / OCBC.SI)

	Stock Rating	Sector View
SGD 8.96 (21-Mar-2012)	**1-OVERWEIGHT**	**2-NEUTRAL**

Rating and Price Target Chart - SGD (as of 21-Mar-2012)



Link to Barclays Live for interactive charting

Currency=SGD

Date	Closing Price	Rating	Price Target

Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in securities issued by OCBC Group or one of its affiliates.

Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from OCBC Group in the past 12 months.

Barclays Bank PLC and/or an affiliate trades regularly in the securities of OCBC Group.

Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from OCBC Group within the past 12 months.

OCBC Group is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

OCBC Group is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

Valuation Methodology: We incorporate seven standalone valuation techniques in a blended (average) methodology. We include a 2-stage dividend discount model; 1-year forward Gordon Growth Model (ROE-g / COE-g); application of historic P/B, P/E and P/PPOP to one-year forward estimates; and the value of normalised ROEs and normalised EPS.

Risks which May Impede the Achievement of the Barclays Research Price Target: Key risks include: 1) competition for talent (especially in the private banking space), may lead to higher-than-expected operating costs; 2) rising asset quality risk as economic growth slows (SME exposure 15% of total loans), despite OCBC's strong risk management track record; and 3) any adverse changes to Indonesia's bank foreign ownership rules (OCBC owns 85% of Bank OCBC NISP).

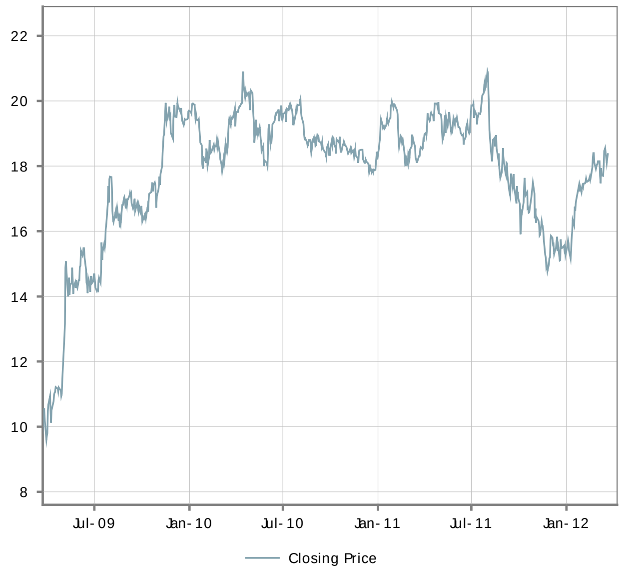
IMPORTANT DISCLOSURES CONTINUED

UOB Group (UOB SP / UOBH.SI)

SGD 18.37 (21-Mar-2012)

Stock Rating	Sector View
1-OVERWEIGHT	**2-NEUTRAL**

Rating and Price Target Chart - SGD (as of 21-Mar-2012) **Currency=SGD**



Date	Closing Price	Rating	Price Target

Link to Barclays Live for interactive charting

Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in securities issued by UOB Group or one of its affiliates.

Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from UOB Group in the past 12 months.

Barclays Bank PLC and/or an affiliate trades regularly in the securities of UOB Group.

Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from UOB Group within the past 12 months.

UOB Group is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

UOB Group is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

Valuation Methodology: We incorporate seven standalone valuation techniques in a blended (average) methodology. We include a 2-stage dividend discount model; 1-year forward Gordon Growth Model (ROE-g / COE-g); application of historic P/B, P/E and P/PPOP to one-year forward estimates; and the value of normalised ROEs and normalised EPS.

Risks which May Impede the Achievement of the Barclays Research Price Target: Key risks include: 1) asset quality due to UOB's large SME customer base (20-25% of lending); and 2) any adverse changes to Indonesia's bank foreign ownership rules (UOB owns 99% of PT Bank UOB Buana).

IMPORTANT DISCLOSURES CONTINUED

BS Financial Group (138930 KS / 138930.KS)

KRW 14200.00 (21-Mar-2012)

Stock Rating: **2-EQUAL WEIGHT**

Sector View: **2-NEUTRAL**

Rating and Price Target Chart - KRW (as of 21-Mar-2012)

Link to Barclays Live for interactive charting

Currency=KRW

Date	Closing Price	Rating	Price Target
07-Nov-2011	12150.00	2-Equal Weight	16000.00

Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in securities issued by BS Financial Group or one of its affiliates.

Barclays Bank PLC and/or an affiliate trades regularly in the securities of BS Financial Group.

Valuation Methodology: Our W16,000 PT for BSFG is based on Gordon growth model, assuming a 12% of cost of equity and a 5% growth rate. The model applies to the average of our BSFG forecast ROE of 12.6% for 2011-13, justifying a P/B target of 1.1x. However, we apply a discount, due to the bank's SME-oriented loan portfolio and weaker track record in controlling asset quality than DGB's. Our target P/B is set at 1.0x 2012E book, corresponding to 8.7x 2012e EPS or 4.7x PPOP.

Risks which May Impede the Achievement of the Barclays Research Price Target: Risks to our W16,000 PT for BSFG include: a slower economy may hurt the bank' s asset quality and NIM; if won appreciation accelerates, the bank's major corporate customers, exporters, could suffer, which may cause erosion of BSFG's asset quality.

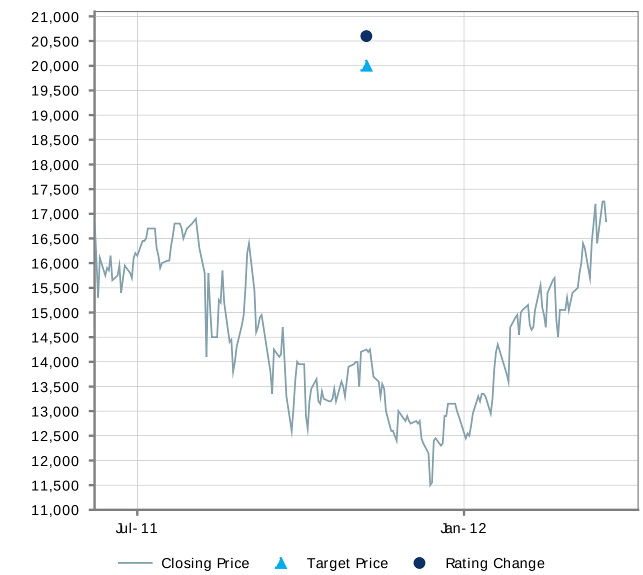
IMPORTANT DISCLOSURES CONTINUED

DGB Financial Group (139130 KS / 139130.KS)

KRW 16850.00 (21-Mar-2012)

Stock Rating	Sector View
1-OVERWEIGHT	**2-NEUTRAL**

Rating and Price Target Chart - KRW (as of 21-Mar-2012)



Link to Barclays Live for interactive charting

Currency=KRW

Date	Closing Price	Rating	Price Target
07-Nov-2011	14250.00	1-Overweight	20000.00

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Barclays Bank PLC and/or an affiliate trades regularly in the securities of DGB Financial Group.

Valuation Methodology: Our W20,000 PT for DGB is based on Gordon growth model, assuming a 12% of cost of equity and a 5% growth rate. The model applies to the average of our DGB forecast ROE of 14.5% for 2011-13, justifying a P/B target of 1.35x. However, we apply some discount, due to the bank's SME-oriented loan portfolio. Our target P/B is 1.1x 2012E book, corresponding to 8.7x 2012E EPS or 4.7x PPOP.

Risks which May Impede the Achievement of the Barclays Research Price Target: Risks to our W20,000 PT for DGB include: a slower economy may hurt the bank' s asset quality and NIM; if won appreciation accelerates, conversely, the bank's major corporate customers, exporters, may suffer, which may cause erosion of the bank's asset quality.

IMPORTANT DISCLOSURES CONTINUED

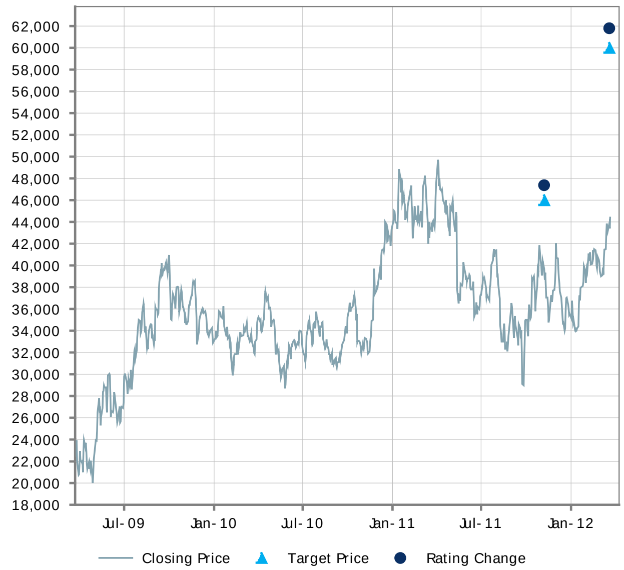
Hana Financial Group (086790 KS / 086790.KS)

KRW 44400.00 (21-Mar-2012)

Stock Rating **1-OVERWEIGHT**

Sector View **2-NEUTRAL**

Rating and Price Target Chart - KRW (as of 21-Mar-2012)



Link to Barclays Live for interactive charting

Currency=KRW

Date	Closing Price	Rating	Price Target
19-Mar-2012	43850.00	1-Overweight	60000.00
07-Nov-2011	39700.00	2-Equal Weight	46000.00

Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of Hana Financial Group in the previous 12 months.

Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in securities issued by Hana Financial Group or one of its affiliates.

Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from Hana Financial Group in the past 12 months.

Barclays Bank PLC and/or an affiliate trades regularly in the securities of Hana Financial Group.

Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from Hana Financial Group within the past 12 months.

Hana Financial Group is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

Hana Financial Group is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

Valuation Methodology: Our W60,000 PT for HFG is based on Gordon growth model, assuming a 12% of cost of equity and a 5% growth rate. The model applies to the average of our HFG forecast ROE of 12.8% for 2012-14, suggesting over a P/B target of 1.0x. . Given its higher leverage ratio than peers', we set our target forward P/B at just 1.0x equal to 8x 2013 EPS, which is the normalized one excluding one-offs.

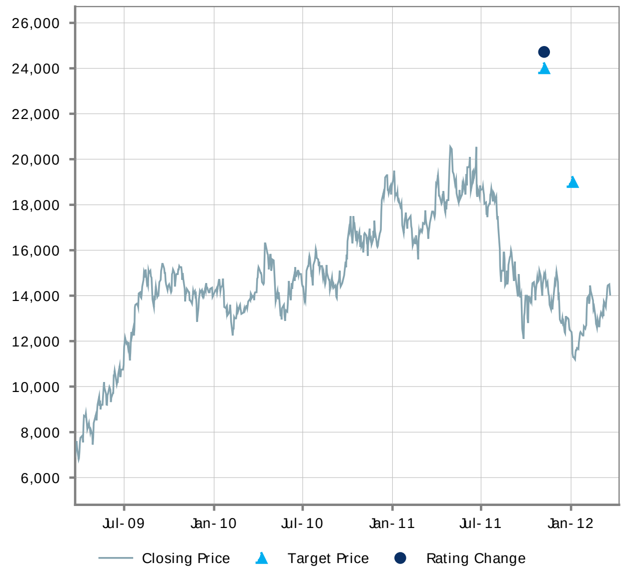
Risks which May Impede the Achievement of the Barclays Research Price Target: Risks to our W60,000 PT for HFG include: If uncertainty over external risks continues, this would negatively affect the overall economy and the bank's asset quality and valuations. The integration process with KEB, including how to keep KEB's franchise value and quality staff, is a potential downside risk. If the integration process goes on better track, this could result in higher-than-expected revenue and cost synergies, and market share gains. This poses potential upside risk to earnings and valuations.

IMPORTANT DISCLOSURES CONTINUED

Industrial Bank of Korea (024110 KS / 024110.KS)

	Stock Rating	Sector View
KRW 14050.00 (21-Mar-2012)	**1-OVERWEIGHT**	**2-NEUTRAL**

Rating and Price Target Chart - KRW (as of 21-Mar-2012)



Link to Barclays Live for interactive charting

Currency=KRW

Date	Closing Price	Rating	Price Target
04-Jan-2012	11450.00		19000.00
07-Nov-2011	14950.00	1-Overweight	24000.00

Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in securities issued by Industrial Bank of Korea or one of its affiliates.

Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from Industrial Bank of Korea in the past 12 months.

Barclays Bank PLC and/or an affiliate trades regularly in the securities of Industrial Bank of Korea.

Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from Industrial Bank of Korea within the past 12 months.

Industrial Bank of Korea is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

Industrial Bank of Korea is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

Valuation Methodology: Our W19,000 PT for IBK is based on Gordon growth model, assuming a 12% of cost of equity and a 5% growth rate. The model applies to the average of our IBK forecast ROE of 13.7% for 2011-13, indicating that its fair P/B target should be as high as 1.2x. However, we use our target P/B of 0.8x, given gloomy earnings outlook in 2012, re-emerging concern about a state-bank, SME-oriented loan balances, and high dependency on debenture funding.

Risks which May Impede the Achievement of the Barclays Research Price Target: Risks to our W19,000 PT for IBK include: if the global economy is worse than expected, the bank's loan book quality may be more susceptible than its peers'; and the government may sell a partial portion of its IBK stake, as it needs more fiscal revenue.

IMPORTANT DISCLOSURES CONTINUED

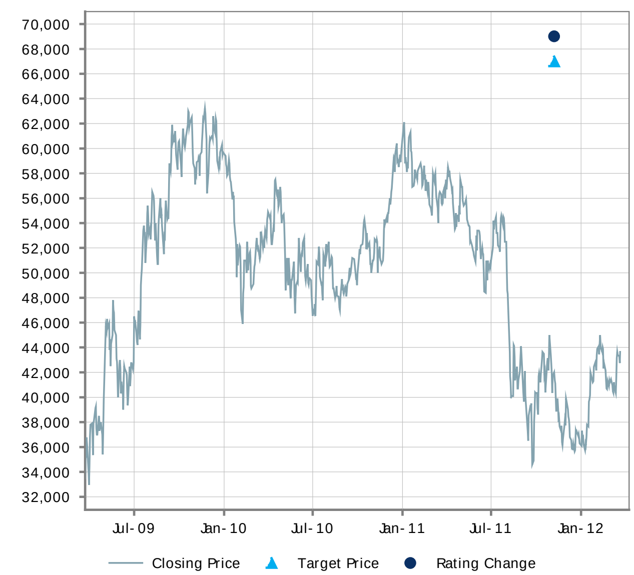
KB Financial Group (105560 KS / 105560.KS)

KRW 43650.00 (21-Mar-2012)

Stock Rating: **1-OVERWEIGHT**

Sector View: **2-NEUTRAL**

Rating and Price Target Chart - KRW (as of 21-Mar-2012)



Link to Barclays Live for interactive charting

Currency=KRW

Date	Closing Price	Rating	Price Target
07-Nov-2011	42000.00	1-Overweight	67000.00

Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in securities issued by KB Financial Group or one of its affiliates.

Barclays Bank PLC and/or an affiliate trades regularly in the securities of KB Financial Group.

Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from KB Financial Group within the past 12 months.

KB Financial Group is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

Barclays Capital Inc., through Barclays Market Makers, is a Designated Market Maker in KB Financial Group stock, which is listed on the New York Stock Exchange. At any given time, its associated Designated Market Maker may have "long" or "short" inventory position in the stock; and its associated Designated Market Maker may be on the opposite side of orders executed on the floor of the New York Stock Exchange in the stock.

Valuation Methodology: Our W67,000 PT for KB is based on: Gordon growth model, assuming a 12% of cost of equity and a 5% growth rate. The model applies to the average of our KB forecast ROE of 12.4% for 2011-13, suggesting a P/B target of 1.0x. We add a valuation premium of 0.1x to this, given the bank's excess capital and strong franchise network. Taken together, our target one-year forward P/B for KB is set at 1.0x 2012E book, which is equal to 10.2x 2012E EPs or 5.2x 2012E PPOP.

Risks which May Impede the Achievement of the Barclays Research Price Target: Risks to our W67,000 PT for KB include: a deeper and longer global economic downturn than currently assumed, causing the bank to post higher credit cost; interest rate cuts by the central bank may provoke NIM contraction, as seen in 1Q09; prolonged external risks may undermine investor sentiment across the global financial institutions, which will negatively affect KB's valuation re-rating, despite that its fundamentals look visibly set to turn around; and how to use the bank's excess capital is not just an opportunity for cultivating sustainable growth, but also a risk to near-term earnings, as it has not had a reliable M&A track record.

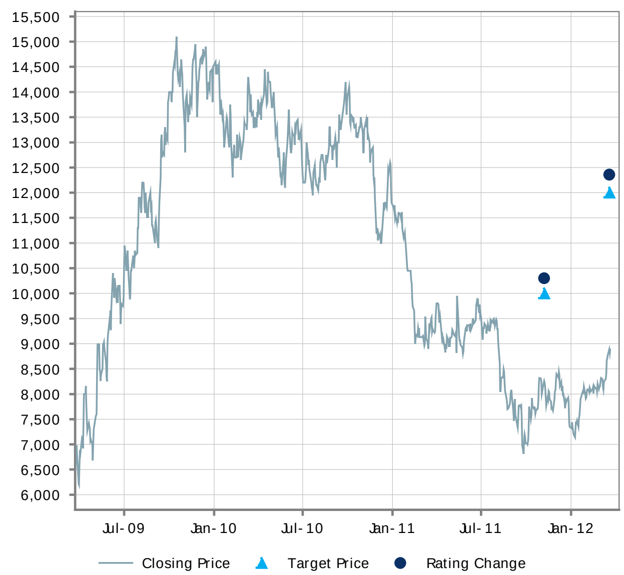
IMPORTANT DISCLOSURES CONTINUED

Korea Exchange Bank (004940 KS / 004940.KS)

KRW 8880.00 (21-Mar-2012)

	Stock Rating	Sector View
	1-OVERWEIGHT	**2-NEUTRAL**

Rating and Price Target Chart - KRW (as of 21-Mar-2012)



Link to Barclays Live for interactive charting

Currency=KRW

Date	Closing Price	Rating	Price Target
19-Mar-2012	8890.00	1-Overweight	12000.00
07-Nov-2011	8260.00	2-Equal Weight	10000.00

Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in securities issued by Korea Exchange Bank or one of its affiliates.

Barclays Bank PLC and/or an affiliate trades regularly in the securities of Korea Exchange Bank.

Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from Korea Exchange Bank within the past 12 months.

Korea Exchange Bank is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

Valuation Methodology: Our W12,000 PT for KEB is based on Gordon growth model, assuming a 12% of cost of equity and a 5% growth rate. The model applies to the average of our KEB forecast ROE of 10.3% for 2012-14. This suggests a fair P/B of 0.7x. However, KEB share prices will move together with HFG on the back of the ongoing anticipation of HFG eventually buying miniority shares through share swaps and the fact that the new management team is reinvigorating businesses. On that basis, we assume that the current exchange ratio between HFG and KEB will remain unchanged. This, plus our PT of W60,000 for HFG, leads us to set our price target of W12,000, equal to 0.95x 2012E BVPS or 9.5x 2012E EPS.

Risks which May Impede the Achievement of the Barclays Research Price Target: Risks to our W12,000 PT for KEB include: If globally external risks intensify, the bank's earnings would be negatively affected by credit cost hikes and NIM squeeze; the integration process with HFG will be a key to achieve our PT. In addtition, how HFG will buy the remaining KEB minority shares may cause not just upside risk but also downside risk.

IMPORTANT DISCLOSURES CONTINUED

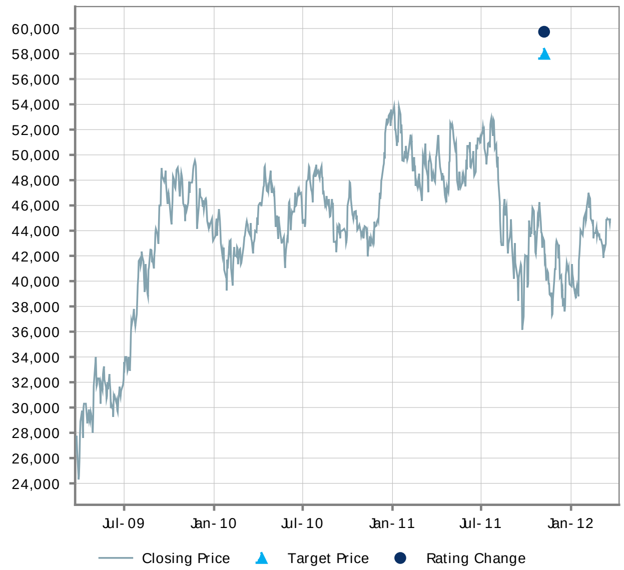
Shinhan Financial Group (055550 KS / 055550.KS)

KRW 44900.00 (21-Mar-2012)

Stock Rating **2-EQUAL WEIGHT**

Sector View **2-NEUTRAL**

Rating and Price Target Chart - KRW (as of 21-Mar-2012)



Link to Barclays Live for interactive charting

Currency=KRW

Date	Closing Price	Rating	Price Target
07-Nov-2011	43200.00	2-Equal Weight	58000.00

Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in securities issued by Shinhan Financial Group or one of its affiliates.

Barclays Bank PLC and/or an affiliate trades regularly in the securities of Shinhan Financial Group.

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Valuation Methodology: Our W58,000 PT for SFG is based on Gordon growth model, assuming a 12% of cost of equity and a 5% growth rate. The model applies to the average of our SFG forecast common share-based ROE of 13.7% for 2011-13, justifying a theoretical target P/B of 1.2x. We also take into account its sizeable goodwill balances worth W3.9tn and a low core equity-to-asset ratio to value the bank. This leads to a valuation discount. Our target forward P/B is determined at 1.15x 2012E book, equivalent to 9.9x 2012E EPS or 5.4x 2012E PPOP.

Risks which May Impede the Achievement of the Barclays Research Price Target: Risks to our W58,000 PT for SFG include: a prolonged global recession may be attributed to higher-than-expected loan-loss provision and lower-than-expected NIM, resulting in downside risk to 2012 earnings; negative global environments, including the lingering European sovereign risk, a stalled recovery of the US economy and a China slowdown, may put pressure on valuation mean-reverse; given the quality management team and proven historical track record, nonetheless, we believe valuation downside risk is likely to be relatively lower than its peers under the worst-case scenario.

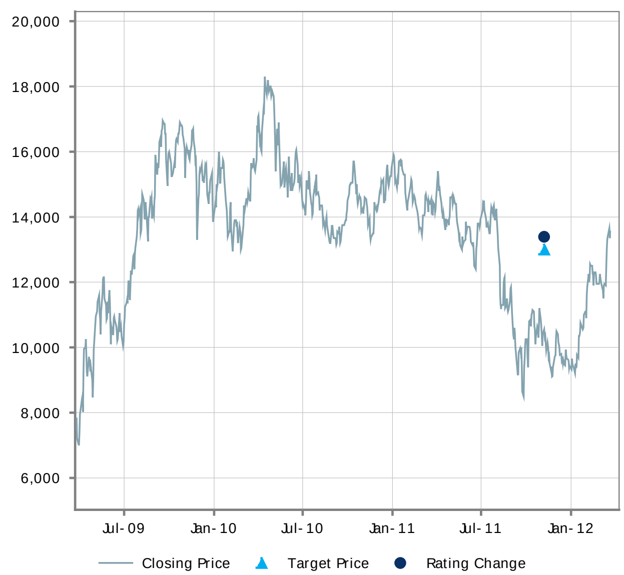
IMPORTANT DISCLOSURES CONTINUED

Woori Finance Holdings (053000 KS / 053000.KS)

KRW 13550.00 (21-Mar-2012)

Stock Rating	Sector View
2-EQUAL WEIGHT	**2-NEUTRAL**

Rating and Price Target Chart - KRW (as of 21-Mar-2012)



Link to Barclays Live for interactive charting

Currency=KRW

Date	Closing Price	Rating	Price Target
07-Nov-2011	10550.00	2-Equal Weight	13000.00

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Valuation Methodology: Our W13,000 PT for WFH is based on: Gordon growth model, assuming a 12% of cost of equity and a 5% growth rate. The model applies to the average of our WFH forecast ROE of 9.8% for 2011-13, offering a fair P/B target of 0.7x. Moreover, we consider its lack of record in controlling asset quality in an economic downturn and weak capital base, along with the unclear privatization plan. Our target forward P/B is set at 0.6x 2012E book (or 7x 2012E EPS or 2.1x 2012E PPOP).

Risks which May Impede the Achievement of the Barclays Research Price Target: Risks to our W13,000 PT for WFH include: it may be the most vulnerable to sombre economy circumstances and its credit cost may soar more rapidly than other Korea banks, as such, earnings downside risk may be bigger. In this case, its valuations may be more contracted than peers, as investors tend to shy off those banks with less quality.

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