

# LIC Housing Finance

## Pent-up demand to drive growth in Q4

LIC's share price crashed 42% post the "bribe for loan" scam, driven by concerns around loan book growth and quality and corporate governance. The current results have allayed investors' concerns around growth and credit quality. However, we remain cautious on the impact of the bribe for loan scam on the growth of the business and hence, reduced our loan book growth forecast by c.5ppts for FY'12 onwards leading to a reduction to our fair value by c.20% from Rs321 to Rs255. At Rs176, LICHF is trading at a FY'12E P/B of 1.8x and still has substantial upside potential of c.40% even on our reduced fair value.

### Q3'11 results ahead of expectations

Driven by a 21bps QoQ improvement in net interest margin and 9% QoQ increase in loan book, the group's operating profits, excluding one-off provisions for teaser loans (mandated by NHB) and profit on account of capital gains from sale of the LIC mutual fund business, were c.15-20% ahead of our and consensus estimates. This helped allay concerns around credit quality and growth created by the bribe for loan scam. We believe this earnings momentum should continue given:

- Continued loan growth momentum:** The loan book grew sequentially at 9% QoQ and 36% YoY, and this growth should continue given: **a)** higher retention of clients by LICHF (average duration of six to seven years compared with three years for HDFC); **b)** an underpenetrated mortgage market providing ample opportunity for structural growth; and **c)** management further emphasising that loan growth in Q4'11 would be higher because of the release of backlog builder loans created in Q3'11 owing to the bribe for loan controversy. However, we reduce our loan book growth assumptions for FY12 onwards by c.5ppts as we expect a cautious approach from management after the bribe for loan scam.
- NIMs to remain strong:** Although we expected the NIMs to remain strong, a 21bps sequential increase comes as a surprise given that interest rates increased in Q3'11. With the cost of funds expected to go up further, given the tight liquidity situation and expectation of a further increase in repo rates, we would estimate some rise in cost of funds and reduction in NIMs. However, we do not expect the NIM to go down substantially and believe it will remain in the 2.7-2.9% range as: **a)** LICHF is one of better placed players in the rising interest rate environment given that 45% of its liabilities and only 65% of assets are on floating rates; any increase in interest rates would be beneficial for the company and should help it maintain net interest margins in the 2.7-2.9% range; and **b)** with the promotional rate scheme "8.9% fixed for 3 years" loan portfolio starting to be converted into floating rates in the next 12-18 months, we think there could be further support for net interest margins.
- Improvement in operating margin:** The operating margin excluding exceptionals, at 86.5%, is better than our full-year estimate of 85%, and we expect margins to improve further because of economies of scale to 87-88% by FY'15E.
- Improved credit quality:** Credit quality improved further in Q3'11 with gross NPLs declining sequentially to 0.67% from 0.74% and net NPLs declining to 0.18% from 0.21%. NPLs on the controversial builders loans were negligible at 0.08%, suggesting the scam had no impact on the credit quality of the loan book.

### Valuation

Pricing in the impact of the "bribe for loan scam" by reducing our loan book growth assumptions by 5ppts from FY12 onwards, our "excess return to equity" calculation values LICHF at **Rs. 255 (20% lower than our earlier valuation of Rs321) suggesting 40% upside potential**, implied FY12E BV of 2.5x, FY12E earnings of 11.3x. Consensus EPS estimates imply that LICHF is currently trading at more than a 50% discount on FY'12E P/BV to its housing finance peers and a 16% discount on FY'12E P/BV to other NBFCs. We expect this discount to narrow as the market gains more confidence in the new CEO and concerns regarding the "bribe for loan scam" slowly subside.

Accounting & corporate governance	<b>Amber</b>
Franchise Strength	<b>Green</b>
Earnings Momentum	<b>Green</b>

**BUY**

40% upside

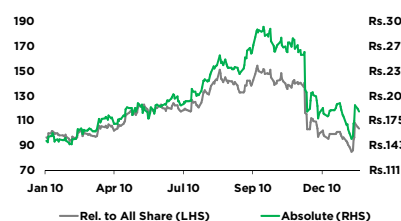
Fair Value (Rs) 255

Bloomberg Code	LICHF.IN
Share Price (Rs)	176
Market Cap (Rs bn / US\$ bn)	88.5 / 1,936
Free Float / FII holding	63%/33%
ADV (\$ mn/ Rs mn)	\$5 mn/Rs 225 mn

Rs m (unless stated) March YE	2010A	2011E	2012E	2013E
Income	10,796	16,743	18,163	21,708
Pre-prov. profit	8,868	14,546	15,577	18,831
Operating margin	82%	87%	86%	87%
PBT	9,086	11,823	14,666	17,913
EPS (Rs.)	15.3	18.1	22.4	27.4
DPS (Rs.)	3.2	3.7	4.6	5.7
ROE	24.1%	22.8%	23.7%	24.1%

Valuation (x)	2010A	2011E	2012E	2013E
P/E	12.2	10.3	8.3	6.8
P/B	2.6	2.2	1.8	1.5
Dividend Yield (%)	1.7%	2.0%	2.5%	3.0%

### Historical share price performance



Source: Bloomberg

### Analyst

Santosh Singh  
+91 (0) 22 4211 0923  
santosh.singh@execution-noble.com

Sri Karthik Velamakanni  
sri.karthik@execution-noble.com

### Sales

Ashish Goenka  
+91 22 4211 0911  
ashish.goenka@execution-noble.com  
Poorva Upadhyaya  
pupadhyaya@esinvestment.com  
+1 212 3516056  
Sunny Shah  
+91 22 4211 0902  
Sunny.shah@execution-noble.com

FOR IMPORTANT DISCLOSURE INFORMATION, INCLUDING DISCLOSURES RELATED TO THE U.S. DISTRIBUTOR OF THIS REPORT, PLEASE REFER TO PAGES 7 to 8 OF THIS REPORT

## Q3'11 ahead of expectations

Table 1: Q3'11 performance vs consensus

(Rs million)	Q3 FY10	Q3 FY11 A	YoY growth	Q2 FY11	QoQ growth	Q3 FY11E Consensus	% Gap
Interest Income	8336	11615		10429			
Interest Expense	6057	8093		7378			
<b>Net Interest Income</b>	<b>2280</b>	<b>3522</b>	<b>54%</b>	<b>3051</b>	<b>15%</b>	<b>3504</b>	<b>1%</b>
<b>NIM</b>		<b>3.14%</b>		<b>2.93%</b>			
Fee Income	446	516		573		126	
Other Income	22	1413		72		75	
<b>Total Income</b>	<b>2748</b>	<b>5451</b>	<b>98%</b>	<b>3696</b>	<b>47%</b>	<b>3705</b>	<b>47%</b>
<b>Operating expenses</b>	<b>408</b>	<b>545</b>		<b>487</b>		<b>568</b>	
Operating Costs	285	348		322			
Employee Costs	123	198		165			
<b>Pre Provisioning Profit</b>	<b>2340</b>	<b>4906</b>	<b>110%</b>	<b>3209</b>	<b>53%</b>	<b>3137</b>	<b>56%</b>
Provisions (inc. 200bps one off provisioning on teaser loans)	158	2328		3		60	3780%
Operating Profit	2182	2578	18%	3206	-20%	3077	-16%
<b>Operating profit excl exceptional</b>	<b>2182</b>	<b>3578</b>	<b>62%</b>	<b>3206</b>	<b>11%</b>	<b>3077</b>	<b>17%</b>
Depreciation	17	15		16		33	
PBT	2165	2563	18%	3190	-20%	3110	-18%
Net Profit	1536	2135		2342		2345	
EPS (Rs)-Diluted	3.24	4.5	39%	4.93	-9%	4.74	-5%

Source: Company filings, ESIB inc Execution Noble estimates

## Changes to estimates

Post Q3 FY'11 results, we adjust our loan book growth assumptions for FY'12 onwards. We reduce our loan book growth assumptions for FY'12 from 30% YoY to 25% YoY given there is a new CEO at the helm and he is likely to be cautious in the near term regarding growth. The lower loan book is compensated by higher NIMs for FY'12 given that NIMs remained strong in Q3 FY'11. We increase our FY'12 NIM from 2.69% to 2.75%, still below the 3.14% seen during Q3 FY'11; hence, our total income estimate is only marginally below our previous estimate. We reduce our expense estimate because of economies of scale in the business. Overall, our PBT estimate for FY'12 remains broadly unchanged. However, the impact of lower loan book growth would be more profound on our estimates from FY'12 onwards, since we have kept our NIM forecasts at the earlier level of 2.7%.

Table 2: Old vs New

Rs millions	Old		New		% Change	
	FY'11	FY'12	FY'11	FY'12	FY'11	FY'12
Loan Book	512,562	666,331	512,036	640,046	-0.1%	-3.9%
Net Interest Income	12,677	15,837	12,956	15,849	2.2%	0.1%
<b>Total Income</b>	<b>14,885</b>	<b>18,435</b>	<b>16,743</b>	<b>18,163</b>	<b>12.5%</b>	<b>-1.5%</b>
Operating expenses	2,304	2,725	2,197	2,586	-4.6%	-5.1%
<b>Pre Provisioning Profit</b>	<b>12,581</b>	<b>15,710</b>	<b>14,546</b>	<b>15,577</b>	<b>15.6%</b>	<b>-0.8%</b>
Provisions	689	861	2,662	844	286.4%	-2.0%
Operating Profit	11,892	14,849	11,884	14,733	-0.1%	-0.8%
<b>PBT</b>	<b>11,831</b>	<b>14,782</b>	<b>11,823</b>	<b>14,666</b>	<b>-0.1%</b>	<b>-0.8%</b>
PAT	8,590	10,732	8,584	10,647	-0.1%	-0.8%
EPS (Rs)-Diluted	18.1	22.6	18.1	22.4	-0.1%	-0.8%
Dividend per share(Rs)	3.7	4.7	3.7	4.6	-0.1%	-0.8%

Source: Company filings, ESIB inc Execution Noble estimates

## Key assumptions & estimates

**Table 3: Key assumptions and estimates**

All figures in Rs m	FY10	FY11E	FY12E	FY13E	Comments
<b>Yield and margins (%)*</b>					
Yield on advances					We expect the company to end FY'11 with a 100bps YoY decline in yields to 10.1%. Yields increase in FY12 and FY13 as we expect general interest rates in the market to increase.
	10.2%	10.1%	10.7%	10.9%	
Cost of funds					We expect the cost of funds to increase by 20bps in FY'11 owing to the higher interest rate regime in the year. We expect a further increase in cost of funds in FY12 with an increase in general interest rate in the economy.
	8.0%	8.2%	8.5%	8.5%	
Net interest margin					Although we believe LICHF is well placed to tackle the interest rate hikes, we forecast a slight decline to NIMs being on the conservative side.
	2.7%	2.9%	2.8%	2.7%	
<b>Balance sheet (Rs bn)</b>					
Advances YoY growth (%)					We have marginally reduced our FY10-13 CAGR from 30% to 25% (credit grew at a CAGR of 30% between FY08-10) on account of conservative loan book growth by the new management team post the "bribe for loan" scandal.
	38%	34%	25%	20%	
Debt to equity ratio (x)					We increase our debt-to-equity ratio to 12.4x, still within the comfort zone of credit rating agencies.
	10.1	11.4	12.4	12.4	
<b>Key outputs (Rs m)</b>					
Net interest income (NII) YoY growth (%)					We expect NII growth in FY11 to be 46% owing to: (a) 20bps increase in NIM; and (b) credit growth at 35%.
	20%	46%	22%	22%	
Other income YoY growth (%)					
	29%	97%	-39%	4%	
Operating expenses YoY growth (%)					We expect operating expenses to increase slower than revenues because only 25% of expenses are variable in nature.
	28%	14%	18%	11%	
Pre-provisioning profit YoY growth (%)					(Please refer to above.)
	21%	64%	7%	21%	
Provisions YoY growth (%)					Assuming gross NPAs of 0.70% in FY'11, FY'12 and FY'13, and the company maintaining a provisioning coverage of 80%.
	-639%	-1039%	-68%	0%	
Net profit					(Please refer to above.)
	24%	30%	24%	22%	

Source: Bloomberg, ESIB inc Execution Noble estimates

, \*We use historical data for yield on advances, cost of deposits and net interest margins on calculated basis to ensure data consistency

## Valuation

We value the company on "excess return to equity" model. Our excess return metric is 'net profits - (cost of equity\*beginning book value)' for all future years discounted back to present day at cost of equity.

Our excess return to equity model has three distinct phases:

- 1) FY'11-FY'14: We model each year discretely, resulting in net profit CAGR of 21% (25% earlier) to hit an ROE of 24% in FY'14.
- 2) FY'15-FY'20: Net profit CAGR of 15% (18% earlier) and ROE gradually fades to 22% (higher ROEs owing to 12x leverage) by FY'20.
- 3) From FY'20: Net profit CAGR of 4%, maintaining an ROE of 15%.

Based on the assumptions shown in Table 3 and assuming (a) cost of equity of 15% and (b) terminal growth of 5%, our "excess return to equity" model values LICHF at Rs 255 (implied FY'12E BV of 2.5x, FY'12E earnings of 11x) implying upside potential of 37% from these levels. This is 20% lower than our earlier valuation of Rs 321 given that the scandal is likely to have a damaging impact on the group's reputation and, consequently, on future business, felt both on the asset side with a slower growth trajectory under a new cautious 'once bitten, twice shy' management, and on the liability side, LICHF could also face rising funding costs as a result of the scam.

## Relative valuation

Despite providing comparable ROEs, LICHF trades at a 41% discount on FY'12 P/BV and a 50% discount on FY12 P/E to its HFC peers, and a 16% discount to other NBFCs on FY'12 P/BV. In the immediate aftermath of such a scandal we think that is understandable, but given its sustainable competitive advantages of access to low-cost funds, access to the LIC name and access to LIC's distribution agents, this discount should narrow in time as investors gain confidence in the company's new CEO and corporate governance practices.

**Table 4: LICHF trades at a discount to other HFCs and NBFCs**

Company	Price (INR)	Market CAP (\$ mn)	Asset Size (US\$ mn)	ROE (%)		ROA (%)		P/BV(x)		P/E (x)	
				FY10E	FY11E	FY10E	FY11E	FY11E	FY12E	FY11E	FY12E
<b>Housing Finance Cos.</b>											
HDFC Ltd.	664	21,247	31,494	20.0	20.8	2.7	2.7	5.3	4.6	28.1	23.7
Dewan Housing Finance	267	606	2,269	22.0		1.7	1.6	2.0	1.7	13.5	10.7
<b>Average</b>	-	-	-	<b>21.0</b>	<b>20.8</b>	<b>2.2</b>	<b>2.3</b>	<b>3.6</b>	<b>3.2</b>	<b>20.8</b>	<b>17.2</b>
<b>LIC Housing Finance</b>	<b>185</b>	<b>1,919</b>	<b>8,819</b>	<b>22.8</b>	<b>23.7</b>	<b>1.9</b>	<b>1.8</b>	<b>2.1</b>	<b>1.8</b>	<b>10.2</b>	<b>8.3</b>
<b>Other NBFCs</b>											
IDFC	155	4,962	7,617	15.0	14.4	3.3	3.1	2.1	1.8	16.7	13.6
Shriram Transport Finance	725	3,588	5,903	29.3	31.1	4.6	5.1	3.3	2.6	12.9	9.5
Indiabulls Financial Services	168	1,140	2,959	13.2	NA	2.7	NA	NA	NA	8.9	6.8
Mahindra and Mahindra Financial Services	697	1,477	2,012	23.9	23.6	4.5	4.3	3.2	2.5	14.3	11.5
Power Finance Corporation	277	6,951	18,569	17.7	16.8	2.6	2.6	2.1	1.7	11.9	10.4
Rural Electrification Ltd.	274	5,923	15,226	20.8	22.2	3.2	3.2	2.1	1.8	10.7	8.4
<b>Average</b>	-	-	-	<b>18.2</b>	<b>20.1</b>	<b>3.4</b>	<b>3.6</b>	<b>2.6</b>	<b>2.1</b>	<b>12.6</b>	<b>10.0</b>

Source: Bloomberg, ESIB inc Execution Noble estimates

## Traffic lights

**Table 5: Traffic lights: criteria for judgement**

Parameter	Traffic signal	Reasons
Accounting & governance	<b>Amber</b>	We give a amber flag to the company because of: a) The involvement of top management in the "Bribe for loan" scandal; and b) Concerns around governance issues raised because of the "Bribe for loan" scandal.
Franchise strength	<b>GREEN</b>	A strong brand that helps on both sides of balance sheet along with a competitive advantage on cost of funding and two decades of experience in the industry.
Earnings momentum	<b>GREEN</b>	Earning momentum remains strong with the loan book expected to grow at c.20% for the next 3-4years.

Source: Bloomberg, ESIB inc Execution Noble estimates

## Summary financials

All figures in Rs m unless stated. Financial year-end is March

Income Statement	2008A	2009A	2010E	2011E	2012E	2013E
Net Interest Income	5,626	7,381	8,877	12,956	15,849	19,298
Fee Income	526	682	1,274	2,122	2,016	2,112
Other Income	747	802	645	1,665	298	298
<b>Total Income</b>	<b>6,899</b>	<b>8,864</b>	<b>10,796</b>	<b>16,743</b>	<b>18,163</b>	<b>21,708</b>
<b>Operating expenses</b>	<b>1,305</b>	<b>1,508</b>	<b>1,928</b>	<b>2,197</b>	<b>2,586</b>	<b>2,878</b>
Operating Costs	956	1,056	1,404	1,477	1,842	2,053
Employee Costs	349	452	524	719	745	825
<b>Pre Provisioning Profit</b>	<b>5,594</b>	<b>7,356</b>	<b>8,868</b>	<b>14,546</b>	<b>15,577</b>	<b>18,831</b>
Provisions	243	53	-283	2,662	844	844
<b>Operating Profit</b>	<b>5,352</b>	<b>7,304</b>	<b>9,151</b>	<b>11,884</b>	<b>14,733</b>	<b>17,987</b>
Depreciation	38	51	65	61	67	74
<b>PBT</b>	<b>5,314</b>	<b>7,253</b>	<b>9,086</b>	<b>11,823</b>	<b>14,666</b>	<b>17,913</b>
Less:Tax	1,451	1,948	2,492	3,239	4,018	4,908
<b>PAT</b>	<b>3,862</b>	<b>5,304</b>	<b>6,594</b>	<b>8,584</b>	<b>10,647</b>	<b>13,005</b>
Share of Profit of Associate	53	78	285	0	0	0
<b>Net Profit</b>	<b>3,916</b>	<b>5,382</b>	<b>6,879</b>	<b>8,584</b>	<b>10,647</b>	<b>13,005</b>
EPS (Rs)-Diluted	9.2	12.7	15.3	18.1	22.4	27.4
Diluted EPS (Rs)	9.2	12.7	15.3	18.1	22.4	27.4
Dividend per share(Rs)	0.4	0.5	3.2	3.7	4.6	5.7

Net interest income CAGR of 30% between FY'10-FY'13 driven by loan CAGR of 26% during the period

Net profit CAGR of 24% between FY'10-FY'13

Balance Sheet	2008A	2009A	2010E	2011E	2012E	2013E
<b>Sources of Funds</b>						
Equity	850	850	950	950	950	950
Reserves and Surplus	17,694	21,776	33,478	39,986	48,058	57,917
<b>Net Worth</b>	<b>18,544</b>	<b>22,626</b>	<b>34,428</b>	<b>40,936</b>	<b>49,008</b>	<b>58,867</b>
Borrowings	203,444	254,217	347,582	466,012	609,567	731,481
<b>Total Sources of funds</b>	<b>221,988</b>	<b>276,843</b>	<b>382,010</b>	<b>506,948</b>	<b>658,575</b>	<b>790,347</b>
<b>Application of Funds</b>						
Loan Book	219,364	276,793	380,814	512,036	640,046	768,055
Investments	7,936	11,485	14,332	19,215	25,134	30,161
Fixed Assets	297	438	450	450	450	450
Other Assets	1,021	992	935	890	890	890
Net working Capital	-6,632	-12,867	-14,523	-25,646	-7,947	-9,210
<b>Total Application of funds</b>	<b>221,988</b>	<b>276,843</b>	<b>382,010</b>	<b>506,948</b>	<b>658,575</b>	<b>790,347</b>

Loan book CAGR of 30% between FY'10-FY'13

Operating Metrics	2008A	2009A	2010E	2011E	2012E	2013E
<b>Spread analysis</b>						
Yield on Loans	10.3%	11.3%	10.2%	10.1%	10.7%	10.9%
Cost of funds	8.1%	8.8%	8.0%	8.2%	8.5%	8.5%
Spread	2.2%	2.5%	2.3%	1.9%	2.2%	2.3%
NIM	2.8%	3.0%	2.7%	2.9%	2.8%	2.7%
<b>Efficiency ratios (%)</b>						
Operating Cost/Income	19%	17%	18%	13%	14%	13%
<b>Credit Quality (%)</b>						
Gross NPAs	1.70%	1.10%	0.69%	0.67%	0.70%	0.72%
Net NPAs	0.6%	0.2%	0.1%	0.1%	0.1%	0.1%
Provisioning Coverage	62.2%	80.9%	82.4%	80.4%	80.4%	80.4%
<b>Capital ratios</b>						
Debt to Equity	11.0	11.2	10.1	11.4	12.4	12.4
Capital Adequacy Ratio	13.3%	13.5%	14.3%	13.7%	13.3%	13.3%
<b>Return ratios</b>						
ROA	1.9%	2.1%	2.0%	1.9%	1.8%	1.8%
ROE	22.9%	26.1%	24.1%	22.8%	23.7%	24.1%
<b>Valuation ratios</b>						
P/E	20.3	14.8	12.2	10.3	8.3	6.8
P/BV	21.4	17.5	2.6	2.2	1.8	1.5
Dividend Yield	0.2%	0.3%	1.7%	2.0%	2.5%	3.0%

NIM to decrease marginally from FY'11 to FY'13

Slight increase in gross NPAs between FY'10-13

Source: Bloomberg, ESIB inc Execution Noble estimates

## Contact Details Country Head, India

Nick Paulson-Ellis      t +91 22 4211 0908      e: nick.paulson-ellis@execution-noble.com

### Sales

Ashish Goenka      t +91 22 4211 0911      e: ashish.goenka@execution-noble.com

Poorva Upadhyaya      t +1 212 3516056      e: pupadhyaya@esinvestment.com

Sunny Shah      t +91 22 4211 0902      e: sunny.shah@execution-noble.com

### Sector Leads

#### Economy and Country Research

Sunandan Chaudhuri      t +91 22 4211 0901      e sunandan.chaudhuri @execution-noble.com

#### Banks and Financials

Aditi Thapliyal      t +91 22 4211 0904      e aditi.thapliyal@execution-noble.com

Santosh Singh      t +91 22 4211 0923      e santosh.singh@execution-noble.com

Sri Karthik Velamakanni      t +91 22 4211 0914      e sri.karthik@execution-noble.com

Nidhesh Jain      t +91 22 4211 0999      e nidhesh.jain@execution-noble.com

#### Consumer

Shantnu Phutela      t +91 22 4211 0905      e shantnu.phutela@execution-noble.com

#### Healthcare

Chirag Talati      t +91 22 4211 0907      e chirag.talati@execution-noble.com

#### Strategy & Special Situations

Nick Paulson-Ellis      t +91 22 4211 0908      e nick.paulson-ellis@execution-noble.com

Aditya Jhavar      t +91 22 4211 0942      e aditya.jhavar@execution-noble.com

Eddie Nissen      t +91 22 4211 0922      e eddie.nissen@execution-noble.com

#### Technology:

Soumitra Chatterjee      t +91 22 4211 0906      e soumitra.chatterjee@execution-noble.com

701 Powai Plaza  
Hiranandani Gardens  
Mumbai - 400076

10 Paternoster Square  
London EC4M 7AL

102 Greenwich Avenue  
Greenwich  
CT 06830

t: +91 22 4211 0999  
f: +91 22 25701154

t: +44 20 7456 9191

t: +1 203 983 3932

e: research.india@execution-noble.com

## Group Structure

Banco Espírito Santo de Investimento, S.A., a Portuguese bank, controls 50.1% of Execution Holdings Limited, the holding company of the Execution Noble Group (“EN Group”). The EN Group has a number of regulated entities, including:

- Execution Noble Limited - authorised and regulated by the Financial Services Authority
- Execution Noble & Company Limited - authorised and regulated by the Financial Services Authority
- Execution Noble Research Limited - authorised and regulated by the Financial Services Authority

## Explanation of Rating System

A rating of Buy indicates that the analyst has a high conviction that the stock will outperform their relevant sector index over the next twelve months.

A rating of Sell indicates that the analyst has a high conviction that the stock will underperform their relevant sector index over the next twelve months.

A rating of Hold indicates that the analyst believes that the stock should perform in line (+ or – 5%) with their relevant sector index over the next twelve months.

The relevant sector index is the DJ Stoxx sector subgroup which includes the subject company.

Distribution of Execution Noble Recommendations for Investment Research (End November 2010 - twelve month rolling average, with the percentage thereof)

Stance	All Stocks*		Corporate Clients*	
Buy	111	46.44%	12	92.31%
Hold	56	23.43%	0	%
Sell	72	30.13%	1	7.690%

\*This distribution of recommendations is data from Execution Noble Limited for the past 12 months: this excludes all data from the BESI Group; which can be found on the BESI research disclaimer. Data from Clear Capital Limited is also excluded prior to 22nd February 2010.

The Corporate relationships disclosed are for the past 12 months.

The historic Clear Capital Limited ratings regime classified stocks as Positive, Negative, Neutral and Corporate. The table below explains how they are now classified

Historic Rating Convention	Current Rating Convention
Positive	Buy
Negative	Sell
Neutral	Hold
Corporate	Either dropped coverage or initiated with a Buy, Sell or Hold rating

## Investment Research Disclaimer

This Investment Research is independent and does not constitute a personal recommendation as defined in the Glossary of the FSA Handbook.

This material constitutes “investment research” for the purposes of the Markets in Financial Instruments Directive and as such contains an objective or independent explanation of the matters contained in the material. Any recommendations contained in this document must not be relied upon as investment advice based on the recipient’s personal circumstances.

In the event that further clarification is required on the words or phrases used in this material, the recipient is strongly recommended to seek independent legal or financial advice.

This research report has been prepared by Execution Noble Research Limited and is for information purposes only. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments. Neither the information contained in this research report nor any further information made available with the subject matter contained herein will form the basis of any contract.

This research report does not purport to be comprehensive or to contain all the information on which a prospective investor may need in order to make an investment decision. The information contained herein is based on publicly available information and sources, which we believe to be reliable, but we do not represent it as accurate or complete. The recipient of this research report must make its own investigation and assessment of the information presented herein. No representation, warranty or undertaking, express or implied, is or will be made or given and no responsibility or liability is or will be accepted by EN Group or by any of its directors, officers, employees, agents or advisers, in relation to the accuracy or completeness of this presentation or any other written or oral information made available in connection with the information presented herein. Any responsibility or liability for any such information is expressly disclaimed.

In furnishing this research report, EN Group undertakes no obligation to provide the recipient with access to any additional information, or to update, or to correct any inaccuracies, which may become apparent in this presentation or any other information made available in connection with the information presented herein.

All prices provided within this research report are taken from the close of business on the day prior to the issue date unless explicitly otherwise stated.

Lloyds Banking Group has a shareholding of 3.3% in Execution Holdings Limited.

Any opinion reflects the analyst’s judgment at the date of publication and neither EN Group, nor any of its directors, officers or employees accepts any responsibility in respect of the information or recommendations contained herein which, moreover, are subject to change without prior notice.

This research report is private and confidential and is being made available to the recipient on the understanding that it will be kept confidential and that the recipient shall not copy, reproduce, distribute or pass to third parties this research report in whole or in part at any time. It is intended for the information of clients only and is not for publication in the press nor is it being issued or distributed to persons who are retail clients.

The material in this research report is general information intended for recipients who understand the risks associated with investment. It does not take account of whether an investment, course of action, or associated risks are suitable for the recipient.

EN Group provides services (including Corporate Finance, Corporate Broking or Equity Capital Markets advice) where the flow of information is restricted by a Chinese Wall. Accordingly, information may be available to the EN Group that is not reflected in this document.

This document is intended to be used by market professionals (eligible counterparties and professional clients but not retail clients). Retail clients must not rely on this document and should note that the services of the Execution Noble Research Limited are not available to them.

This research report has been prepared by Execution Noble Research Limited, who is a correspondent of:

Execution Noble Limited, 10 Paternoster Square, London, EC4M 7AL; Execution Noble LLC, 102 Greenwich Avenue, Greenwich, CT06830.

Execution Noble Limited is distributing this research report into the EEA and accepts responsibility for its contents subject to the terms set out herein.

Execution Holdings Limited is registered in England and Wales no. 04916295

Please see UK Equity Research Conflicts Management Policy on <http://www.execution-noble.com/ResearchConflictsPolicy>

Please see UK Disclosures for Investment Research Recommendations on <http://www.execution-noble.com/InvestmentResearchDisclosures>

## Important Disclosures for U.S. Persons

This research report was prepared by Execution Noble Research Limited. Execution Noble Research Limited is not a registered broker-dealer in the United States and, therefore, is not subject to US rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to US institutional investors in reliance on the exemption from registration provided by Rule 15a-6 of the US Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Execution Noble LLC is distributing this research report in the US and accepts responsibility for its contents subject to the terms set out herein. Any US persons receiving this research report and wishing to effect a transaction in any security discussed herein, should do so only with Execution Noble LLC, or an individual registered therewith.

The research analysts whose names appear in this research report are not registered or qualified as research analysts with the Financial Industry Regulatory Authority (“FINRA”) and may not be associated persons of Execution Noble LLC and therefore may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

## Contact information:

Gary Cunningham – CEO - 203 622 8711

Execution Noble LLC, 102 Greenwich Avenue, Greenwich, CT06830

## Analyst Certifications

Each of the research analysts referenced in connection with the section of this research report for which he or she is responsible hereby certifies that all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers discussed herein.

In addition, each of the research analysts referenced in connection with the section of this research report for which he or she is responsible hereby certifies that no part of his or her compensation was, is, or will be, directly or indirectly related to the specific recommendations or views that he or she has expressed in this research report.

## Ownership and Material Conflicts of Interest

Lloyds Banking Group has a shareholding of 3.3% in Execution Holdings Limited.

Execution Noble Research Limited, Execution Noble LLC and/or their affiliates, directors, officers and employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the subject companies mentioned or referred to in this research report.

## Explanation of Rating System

Please see the explanation and rating system above.

## Price Target Valuation Method

Please see UK Disclosures for Investment Research Recommendations on <http://www.execution-noble.com/InvestmentResearchDisclosures>

## Additional Disclosures

Please see UK Equity Research Conflicts Management Policy on <http://www.execution-noble.com/ResearchConflictsPolicy>

## Representation to Investors

Investing in any non-US securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-US issuers may not be registered with, or be subject to the regulations of, the SEC. Information on such non-US securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than US dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein. Execution Noble LLC shall not be liable for losses or damages which may arise from the use of this research report.