SEYMOUR PIERCE

Barclays

(LSE:BARC)5

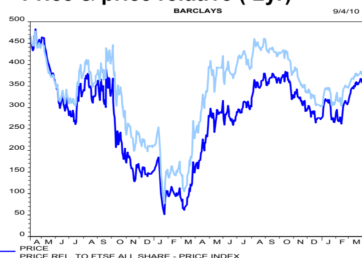
SELL

Share price	**357p**
Target price	276p
% Downside	23%

Market cap (£m)	45,537
Tangible Equity/Assets (%)	2.9%
Core tier 1	10.0%
Return on equity	24%
No. of shares (m)	12,041
Free float (%)	74
Price/book	1.16x
Dividend yield (%)	0.7
PE at target price (Y+1)	6.5x
Sector PE (consensus)	7.0x
Sector dividend yield	n/a
12 month high/low (p)	384/177p

(%)	**1m**	**3m**	**12m**
Absolute	4.1	12.3	103
FTA relative	0.8	7.4	39.5

Price & price relative (-2yr)



Source: Datastream

Share price as at: 8/4/2010

Next news

30 April - AGM

Business

Barclays is a Global Universal Bank

www.Barclays.com

7 years of famine?

If it were possible for a bank to have a "good" credit crisis, then Barclays might be said to have had one. Over the last 7 years, the Group has grown top line income by 18% CAGR to £35bn, while avoiding many of the toxic assets and poorly timed acquisitions that have brought down rivals. If we extrapolate a further 7 years of abundance, Barclays Capital top line will be 33 times the revenue of the UK Retail Bank.

Absurd? We think so too.

We rate Barclays a SELL, TP 276p

We like many aspects of the bank and management, but believe it is not a "buy and hold" investment. The last 20 years have seen four episodes where the share price declined 45% percent or more, peak to trough. Most recently, the share price fell 90% peak to trough over the last 2 years. Share price declines of this frequency and magnitude do not make sense for a company with a conservative capital structure and stable revenues.

Understandably, Barclays is reducing balance sheet leverage but we are deeply sceptical of the idea that any bank can achieve 15-20% Return on Equity *regardless of the amount of equity or total assets*.

Barclays management is diligent, hard working and even talented. Up until the first half of 2007, we believe all banks benefited from demographic trends, which have generated global GDP growth, for which the role of an Iowa farm lad called Norman Borlaug should be more widely acknowledged.

Year end Dec	PBT (£m)	EPS (p)	Tang bk (p)	PER (x)	Yield (%)	P/Tang bk (x)
2008A	766	50	313p	15.7x	9.5%	1.14
2009A	4,940	23	307p	15.7x	1.3%	1.16
2010E	6,143	28	345p	12.8x	1.3%	1.04
2011E	8,135	39	364p	9.2x	1.4%	0.98
2012E	8,856	43	394p	8.4x	2.9%	0.91
2013E	8,851	42	422p	8.5x	3.1%	0.85

Source: Seymour Pierce Ltd

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BARCLAYS CAPITAL AND THE INVESTMENT CASE

We rate Barclays a SELL, Target Price 276p. We believe it is wrong to treat the share price as an investment in a company, rather, we see the 'equity' as an expensive option on future cashflows. An investment in a normal company, with stable revenues and conservative capital structure should not fall 90% as Barclays share price did between January 2008 and January 2009, despite the group reporting a mere 17% decline in PBT (partly helped by exceptional gains on the acquisition of Lehmans and gains on own credit movements).

This was not a one off event. In 2002 Barclays shares fell 48% peak to trough, when Group PBT fell 6%.

Barclays share price peak to trough

	1992-3	1998	2002	2008-9
Share price fall	-54%	-71%	-48%	-90%
Barclays Capital PBT fall	n/a	loss	-10%	-40%
Barclays Group PBT fall	loss	-12%	-6%	-17%
Tangible Equity/Total Assets	3.8%	3.5%	2.8%	1.3%

Source: Seymour Pierce Limited, Datastream, Barclays Annual Report

There are two interpretations:

1. the share price declines are irrational and every time Barclays share price falls by half it is a buying opportunity;

2. investors do not distinguish between a standalone investment bank, such as a Lehmans or Merrill Lynch and a universal bank like Barclays which had £2 trillion of liabilities Dec 2008 (of which just £92bn is UK retail customer deposits).

We tend towards hypothesis (2) given that in the 1990's, leverage, as measured by tangible equity / total assets was just below 4% and UK Retail deposits were a quarter of total assets. Barclays Group made a loss in 1992, the share price only fell 54% peak to trough, suggesting less balance sheet gearing meant lower sensitivity to deteriorating trends in the income statement. By 2008-9, leverage had increased: tangible equity/total assets troughed at 1.3% in 2008, recovering to 2.9% FY 2009 and UK retail deposits were just 4.5% of total liabilities in 2008.

Not a "buy and hold" investment

We suggest that even for investors who are a big fan of hypothesis (1) Barclays is not a "buy and hold" investment. Instead, for most of the time it's probably better not to own Barclays, but bravely step in during the periodic 50-90% share price declines during the regular 5-7 year panics.

Understandably, Barclays is reducing balance sheet leverage but we are deeply sceptical of the idea that any bank can achieve 15-20% Return on Equity *regardless of the amount of equity or total assets*.

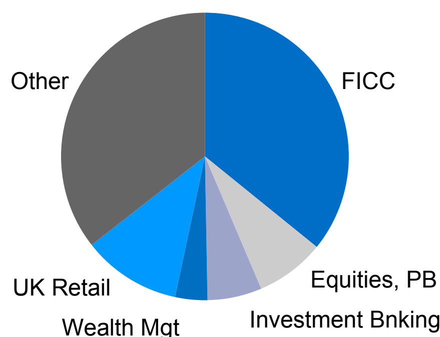
"Reverse engineering" price targets of 1.5x book on this logic is wishful thinking.

This is because there is unlikely to be a relationship between the size of the industry revenue pool and increased amounts of capital, in our view. Assuming that there are a limited number of people who want to buy overpriced, fuel inefficient American cars, providing more capital to Detroit is not going to boost revenue for car firms unless it is also accompanied by a change in the business model. In the same way, bailing out the financial services industry with more capital, but no structural reform, is unlikely to generate more revenue or 15% plus Returns on Equity, particularly after all those bonuses to talented employees have been paid.

We struggle to understand how anyone can argue that increased capital and liquidity requirements will not result in lower reported RoE.

REVENUE DRIVEN BY FIXED INCOME CURRENCY AND COMMODITIES

Barclays income split



Source: Seymour Pierce Limited, Barclays Annual Report

In terms of revenue, the Fixed Income Commodity and Currencies (FICC) division alone, which is one of four subdivisions of Barclays Capital, is 3x the size of the UK Retail Bank. The FICC sub division is now the second largest in the world and amongst the top 3 in every market, according to Bob Diamond.

Barclays Capital has also contributed just under 2/3 of the Group's income growth, in the last 7 years.

Income Growth Split

£m	2002	2009	Change	(%)
Barclays Capital	**2,239**	**18,005***	**15,766**	**63%**
Absa		2,549	2,549	10%
BGI	550		(550)	-2%
Other	9,088	15,637	6,549	29%
Group	11,327	36,191*	24,864	

Source: Seymour Pierce Ltd

*credit market losses taken from income and own credit adjustment added back

Barclays Capital feast or famine?

If we assume that 33% CAGR in Barclays Capital is sustainable and extrapolate top line income growth for another 7 abundant years (as slide 24 of Barclays Spring 2010 Investor Presentation perhaps encourages), Barclays Capital would report £131bn of top line income. To put this £131bn into context, if we assume zero growth in the UK Retail Bank, this would imply Barclays Capital makes 33 times the revenue of the UK Retail Bank.

Absurd? Perhaps, but it does illustrate the different trajectories of the two businesses. Barclays Capital has demonstrated remarkable resilience over the last 7 years through all sorts of interest rate and stock market environments. On the other hand, we have never spoken to an investor who has felt comfortable predicting Barclays Capital revenue 3 years into the future, let alone 7 years into the future.

We do broadly agree with Barclays assertion that their FICC unit is a flow business - for instance, the balance sheet does not appear to be a punt on yield curve steepness and maturity transformation, as just 26% of balance sheet assets have a maturity over 1 year (down from 48% in 2006).

Flow business

Balance Sheet

Assets	On Demand	3m-1yr	Over 1 year
2006	54,084	366,783	395,334
2009	700,841	304,470	351,804
2006	7%	45%	48%
2009	52%	22%	26%
Liabilities	**On Demand**	**3m-1yr**	**Over 1 year**
2006 £m	233,997	446,143	271,471
2009 £m	666,158	491,491	150,155
	On Demand	3m-1yr	Over 1 year
2006 (%)	25%	47%	29%
2009 (%)	51%	38%	11%

Source: Seymour Pierce Limited, Barclays Annual Report

This compares to Lloyds, which has 73% of its £1trillion balance sheet with maturity greater than a year, including £576bn of assets maturing in more than 5 years time.

Nevertheless, Barclays does admit it has benefited from Central Bank rate cuts and Quantitative Easing (QE). Barclays Group Chief Executive, in an article published in The Telegraph in November 2009, and reproduced in the Annual Report, says *even those banks that did not take capital from governments clearly benefited (and continue to benefit) from these actions. We are grateful for them, and our behaviour should acknowledge that benefit.*

£288bn of mark to model interest rate swap

We did try to quantify this clear benefit, but gave up. For instance, Barclays has £288bn of mark to model interest rate assets. When we asked Barclays how much the income statement had benefited from fair value accounting these mark to model assets, the company was as helpful as possible, but we were still left none the wiser.

No stable funding ratio

Barclays has not calculated a net stable funding ratio (RBS is the only UK bank that has). Barclays Global Retail, Commercial, Wealth and Head Office are self funded through customer deposits. This still leaves Barclays Capital and Absa which are funded through wholesale markets.

FLOW BUSINESS AND GLOBAL IMBALANCES

We also couldn't resist drawing attention to a slide that Barclays put up 4 years ago.

Spreads v turnover in Forex

	$/£ 2000	2005
Spreads	1	0.57x
Turnover	1	2x
Barclays Capital Revenue	1	2.4x

Source: Barclays Presentation

Barclays put this slide up to demonstrate that, though forex spreads had been under pressure, as global liquidity drove competition, increased turnover and activity levels more than compensated for lack of pricing power. The further point to notice is that Barclays Capital more than doubled revenue in their Forex division, as they grew market share. So far, so good.

Limits to growth

In many ways we now have the reverse situation, with Barclays (post Lehmans acquisition) now enjoying top 3 market shares in most FICC divisions, spreads much wider and activity levels lower.

Benefiting from client driven flows

Fixed income investment bankers often talk about "client driven flows" and "risk management solutions for clients" but we wonder how widening spreads in more difficult markets, plus mark to market derivative losses on swaps at non financial corporates really benefit customers. We don't want to suggest Barclays is worse than Fixed Income divisions anywhere else – but every time we read a book like *The Big Short* or *FIASCO* we wonder how and why investment banks still exist in their current form. The head of Financial Stability at the Bank of England, Andrew Haldane, Adair Turner at the FSA and The Commission for the Future of Banking also seem to be wondering (see *Turner Review,* and *The $100bn Question*).

Bob Diamond and the sale of BGI

Bob Diamond, President of Barclays PLC and CEO of Corporate and Investment Banking, and Wealth Management Executive Director is a hard working, diligent experienced banker. He deserves to be well paid.

However, we believe it is worth looking at exactly how Mr Diamond benefited from the sale of Barclays Global Investors. To be clear, we are not alleging any wrong doing, but simply observing that shareholders should continue to ask questions about how bank managements and employees are rewarded. Normally, we understand this is done in private, but Paul Myners has suggested that it is time for institutional investors to come out of the shadows. The Barclays AGM is on 30 April.

Some background on BGI is probably necessary. The asset manager was originally a part of Wells Fargo. During its early years, Myron Scholes and William Sharpe, who would go on to become Nobel Laureates, helped the firm create the world's first index fund in 1971. BGI also pioneered Exchange Traded Funds (ETFs) a decade ago. Along with Jack Bogle's Vanguard, BGI has helped to keep the costs of investing down, a "socially useful" role, though our active fund manager client base will probably not thank us for pointing it out.

Barclays acquired the business (then called Wells Fargo Nikko Investment Advisors) at the end of 1995. At the time WFNIA, with $170 billion of assets under management, was one the world's largest money managers. Presumably shareholders have Martin Taylor, the then Chief Executive to thank for his foresight, though perhaps John Varley, who was appointed Chairman of the Asset

Management at Barclays in 1996, may also deserve recognition for his vision too. Bob Diamond joined Barclays in July 1996, six months after BGI was acquired.

BGI EOP approved in 2000

At the 2000, Barclays Group AGM, shareholders approved the BGI Equity Ownership Plan (BGI EOP) to provide the employee share incentive arrangements required to recruit and retain senior management. The BGI EOP was designed to provide participants with a long term equity interest in BGI to meet the expectations of, in particular, BGI's key investment talent in the United States, who could expect to participate in the equity of their employer.

Directors not eligible for BGI EOP

Directors of Barclays PLC were not eligible to receive options under the BGI EOP, which makes sense given the scheme aim was to reward key investment talent in the US. The reason why Mr Diamond was part of the BGI EOP and was able to sell shares for a net consideration of £26.8m in 2009, was that he was awarded the options after becoming Chairman of BGI in 2002, but before he was promoted to the main Board in 2005.

Remuneration Committee 2002

Sir Nigel Rudd
David Arculus
Sir Brian Jenkins
Sir Nigel Mobbs
Graham Wallace

Source: Barclays Annual Report

No doubt Mr Diamond does deserve some credit growing BGI to $1.5 trillion and the £6.3bn profit on disposal when BGI was sold in 2009. He became Chairman of BGI in August 2002. But we question whether £27m was appropriate. The Chief Executive, Blake Grossman, along with the den of finance Ph.D.s, mathematicians and other disciples of quantitative analysis, probably deserve the lion share of the rewards. We don't think Sir Nigel Rudd's decision not to seek re-election to the board, announced in January 2009 was anything to do with this issue.

We leave the last comment on the BGI EOP to Richard Grinold, who ran BGI's advanced strategies. `Our organization is the antithesis of that. It's a non-star system. It's really the process that's the star, if anything.'' (quoted in a Bloomberg article January 2007).

THE ROLE OF BANKS IN SOCIETY SHOULD MATTER TO SHAREHOLDERS

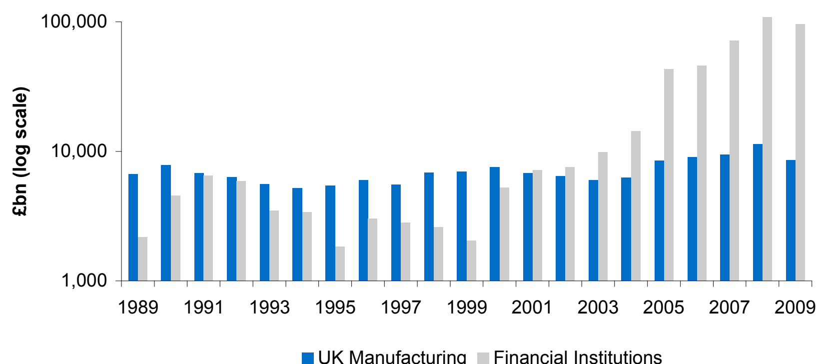
Eloquent arguments

John Varley, the Barclays Chief Executive's, thoughts on the role of banks in society are worth reading and shouldn't be dismissed (p 20-21 of Annual Report). The eloquent and convincing arguments he uses are representative of the banking community as a whole. In critiquing the comments we may be “bayoneting the wounded” –many of the worst excesses of the last five years were from individuals who have now left the industry, cash rich but reputation poor. Nevertheless we wouldn't consider Barclays Chief Executive’s remarks the last word and feel a response from an investor perspective is appropriate.

For instance banks argue that over regulation will result in cheap finance being withdrawn from UK plc. We think this argument would be more effective if Barclays had not lent 16 times more money to financial institutions and banks across the globe, than to UK manufacturing. At the very least, this must result in increased counter party risk.

We have tracked back 20 years and shown loans to Financial Institutions, which has grown 21% CAGR to £96bn, compared to loans to UK manufacturing, which has grown below the rate of inflation. The graph, is of course, in log scale.

Loan balances – NB log scale



Source: Seymour Pierce Limited, Barclays Annual Report

We also think that cheap credit was not “created” by investment banks – merely intermediated.

Investment banks do not create credit

The distinction is crucial, because it means that Barclays has benefited indirectly from the large current account surpluses in oil exporting countries, and in Japan and China. The surpluses in these countries were almost exclusively invested in apparently risk free govt bonds of US. This in turn, according to The Turner Review, has driven a reduction in real risk-free rates of interest to historically low levels driving credit extension in some developed countries particularly in the US and UK.

Reducing leverage is a good for shareholders and customers

Forcing banks to reduce leverage almost certainly will result in credit being more restricted compared to the “lend money to anyone with a pulse” days. We see this as a good thing for both borrowers and shareholders.

Taking the credit for GDP Growth

Barclays also argues we should not lose sight of the fact that GDP has grown massively during the last 30 years. Unfortunately for Barclays et al. debt has not improved prospects for many members of society.

Clive Cowdery, Resolution Foundation lobbies for the interest of low income groups

Academic research shows that intergenerational mobility has been falling in the UK last 30 years. A cohort of people born in 1970, who would have had much greater access to credit compared to a cohort born in 1958 enjoy much lower social mobility. We wouldn't want to just bash banks though: banks were not responsible for figures quoted in the FT (8 April) from Revenue & Customs which show that the wealthiest 1 per cent did better in the decade from 1997 than any other group. Their income jumped on average from £83,700 to £149,000 – a 78 per cent increase. In contrast, the poorest 1 per cent saw their income rise by just 31 per cent, from £4,260 to £5,600. We find it interesting that Clive Cowdery, one of the few genuine financial entrepreneurs to have made a fortune in the last decade, has started the Resolution Foundation, to represent and lobby for the interests of low income groups.

The same academic research shows that the countries with the greatest credit binges, the US and UK show intergenerational mobility was lower than in Canada, Germany and Nordic countries. (*The Spirit Level* Wilkinson & Pickett)

Product quality and customer satisfaction should matter to investors

We think this point about social utility or even customer satisfaction should matter to investors. Intuitively we believe that companies which sell a desirable product, well marketed, generate higher returns on invested capital and shareholder returns over the long term (the author's only "ten bagger" investment has been Adnams shares). Companies that sell a duff product, with implicit subsidies from a Government are poor investments (the author does not own any US auto companies and has never driven a Chrysler Sebring).

A comprehensive history of great business fortunes would show that a disconcertingly large number have been made where the enterpriser devised a silent way to commonise costs while continuing to privatize the profits. Even if you think perpetual global GDP growth is unambiguously desirable and obtainable (we don't), we believe the increase in recent decades has been driven by demographic factors rather than bank lending.

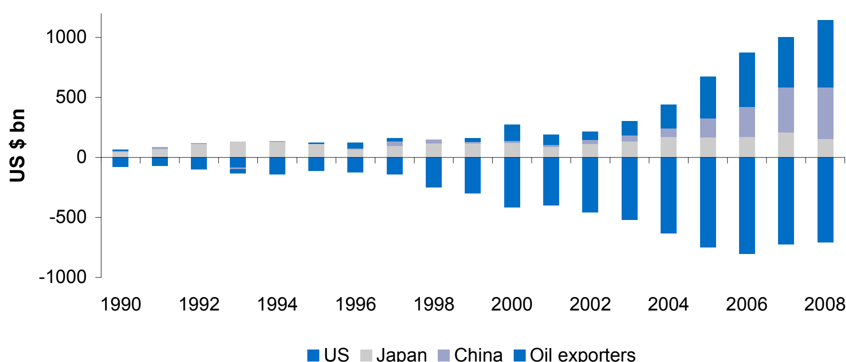
DEVELOPING WORLD SAVINGS IMBALANCES

Imbalances and surplus are as old a civilisation itself. Indeed, civilisation probably first arose in Mesopotamia when agricultural surplus, in particular an excess of grain, freed a small elite of craftsmen and administrators from the need to produce their own food and instead create vast public works such as canals, temples and pyramids.

Surpluses and imbalances are not new

Fast forward 7,000 years. And the savings surplus and deficit are close to a trillion dollars.

Current account surplus / deficits



Source: Bank of England, IMF

Between 2002 and 2008, China and the ten largest oil exporters (Algeria, Iran, Kuwait, Mexico, Nigeria, Norway, Russia, Saudi Arabia, UAE and Venezuela) saw their current account balances increase tenfold, from a USD 100bn to USD a trillion. The graph doesn't tell the full story, other Asian countries apart from China have played a part in developing world trade. Meanwhile too, US Asset Backed Securities (ABS) volumes increased by a trillion USD and Major UK banks' customer funding gap increased from £100bn to over £700bn, over the same time frame.

Sudoku for Economists

$ trillion	Domestic Demand	Net Trade	GDP
High saving countries	18	1	19
Low saving countries	28.5	-1	27.5
Total	46.5	0	46.5

Source: Mervyn King, Bank of England

Banks have benefited from imbalances, GDP growth and GDP per capita growth

Population increase in the developing world have been a major driver of global GDP growth. Improvements in agricultural technology, rather than financial intermediation, should take the bulk of the credit in our view. Agricultural improvements have also driven trends such as increased urbanisation in the developing world, which has driven increases in GDP per capita.

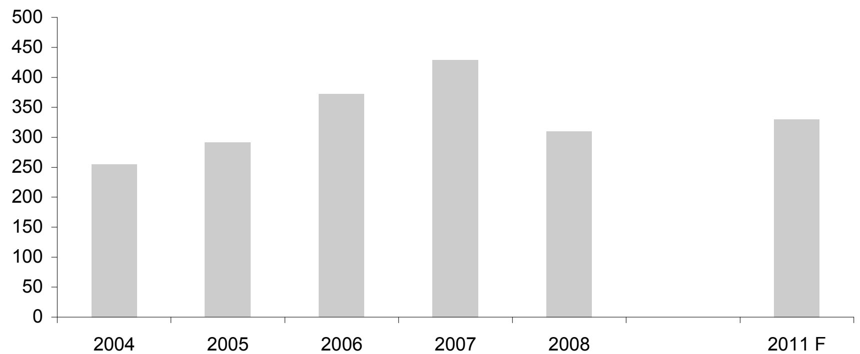
Asian food shortages and famines were very real in the mid 20th century. Chinese famines between 1959 and 1961 killed 30 million. While Paul Ehrlich and Garrett Hardin were worrying about the deaths of millions from famines in the 1970s Norman Borlaug, who grew up on a farm in Cresco, Iowa, was breeding high yield varieties of wheat and corn that could grow in the developing world. Later his

introduction of high yield rice in Asian countries was credited with averting a predicted international crisis in food production. By some estimates Norman Borlaugh saved more lives – perhaps a billion – than any other human in history.

Imbalances are unstable

Banks have performed an important service, helping global capital flow more easily, but we don't think FICC bankers should be too proud of the imbalances they have helped create. Imbalances, almost by definition, are unsustainable. We have asked Barclays to offer some evidence that global imbalances and these developing world trends have NOT been a major driver of FICC revenues – but they merely said that Barclays Capital was well positioned whatever the macro environment.

Investment Banking Revenue Pool (ex writedowns)



Source: Barclays / McKinsey June 2009

Barclays put up a McKinsey sourced chart at their Investor Seminar in June 2009 suggesting global investment banking revenue should be between $434bn (quick fix scenario) $264bn (long freeze), this compares to $372bn in 2006. We think it is significant that two of the large global banks that fared worse in the crisis (Citi, UBS) hired external strategy consultants, who advised expansion into fixed income a couple of years before the crisis broke.

Our hypothesis is that Barclays Capital, which grew top line growth by 33% CAGR for seven years since 2002 has been a major beneficiary of winning market share in a growing market. Barclays has done well to have capitalised on expanding imbalances and global trade, but we don't think any bank can claim responsibility for the trends. We now have the situation where Barclays has a top 3 market share in most markets but the revenue pool looks likely to shrink, driven by global imbalances reversing.

So even if it is hard to prove definitively, it seems highly likely that a new elite group of talented administrators called Fixed Income Currency & Commodity (FICC) traders have siphoned off a small percentage of the balances outstanding. Naturally a small percentage of trillions of dollars is still tens of billions of dollars. Unlike their predecessors 7000 years ago, the modern day "pharaohs" prefer houses in the Hamptons to pyramids.

Financial model

Barclays

	FY'08	FY'09	FY'10	FY'11	FY'12	FY'13
Net interest income	11,469	11,918	12,276	12,644	13,023	13,414
Fees & Commission	6,491	8,418	8,418	8,418	8,418	8,418
Dealing profits	1,339	7,001	6,301	6,301	6,301	6,301
Other Non NII	277	2,436	2,436	2,436	2,436	2,436
Total Non NII	8,107	17,855	17,155	17,155	17,155	17,155
		120%	-4%	0%	0%	0%
Total income	19,576	29,773	29,430	29,799	30,178	30,569
		52%	-1%	1%	1%	1%
Total costs	(13,391)	(16,762)	(16,427)	(16,591)	(16,757)	(16,925)
		25%	-2%	1%	1%	1%
Trading surplus	6,185	13,011	13,004	13,208	13,421	13,644
		110%	0%	2%	2%	2%
Impairments	(5,419)	(8,071)	(6,860)	(5,072)	(4,565)	(4,793)
		49%	-15%	-26%	-10%	5%
PBT	766	4,940	6,143	8,135	8,856	8,851
Exceptionals	5,311	6,422				
Published PBT (IFRS)	6,077	11,362	6,143	8,135	8,856	8,851
			-46%	32%	9%	0%
Tax	(790)	(1,074)	(1,720)	(2,278)	(2,480)	(2,478)
Profit after tax	4,811	10,288	4,423	5,858	6,377	6,373
Minority interests	(905)	(895)	(895)	(895)	(895)	(895)
Preference Shares						
Attr. Profit	4,382	9,393	3,528	4,963	5,482	5,478
		139%	-62%	41%	10%	0%
Dividend	(2,344)	(113)	(588)	(653)	(1,319)	(1,465)
Retained earnings	1,579	9,281	2,940	4,311	4,163	4,013
		488%	-68%	47%	-3%	-4%
Number of shares	8,372	12,550	12,676	12,802	12,930	13,060
Average	7,577	11,484	12,613	12,739	12,866	12,995
Dividend per share	34.0p	4.5p	4.6p	5.1p	10.2p	11.2p
NAV per share	313p	307p	345p	364p	394p	422p
EPS Reported	49.8p	24.1p	28.0p	39.0p	42.6p	42.2p
EPS Adj	49.9p	22.8p	28.0p	39.0p	42.6p	42.2p
		0%	23%	39%	9%	-1%

Appendix

Tea – the first global imbalance

In the 18th and first half of the 19th century the British were faced with a problem. They were importing thousands of tons of tea from China a year, but the Chinese were not interested in trading tea for European goods. The East India Company found that it had to pay for tea in cash (silver).

A unique solution was found: opium. Of course, it would never do for the British East India Company to deal in a banned narcotic directly, instead arms length traders and brokers were used to ship the opium to the Canton estuary, unloaded at the island of Lintin. The opium was then smuggled ashore, which meant that the traders could claim to have not done anything illegal. The East India Company relied on oared galleys crewed by Chinese traders, an early form of “off balance sheet vehicle”.

Exports of opium rose 250 fold to 1,500 tons a year by 1830. The Chinese Govt's best attempts to stop this ended in the one sided Opium Wars of 1839-42, where the superiority of European weapons came as a complete surprise to the Chinese. By the middle of 1842 the British had seized Hong Kong, taken control of key river deltas and occupied Shanghai.

This set the pattern for the rest of the 19th century, with the Chinese compelled to accept “free trade” from western partners. Soaring opium consumption meant that a once mighty empire crumbled, resulting in over 100 years of instability.

It is worth noting that the East India Company itself did not benefit from this. Despite all its economies of scale and scope, privileged relationships and information, barriers to competition, core competencies (such as brutally suppressing natives) the company struggled in the 19th century. Growing concern over the company’s enormous influence and self-enriching behaviour of its officials meant that the company's monopoly on Asian trade was removed in 1813, and by 1873 the company was out of business.

Additional sources include:

Tom Standage *A History of the world in Six Glasses,* Eric Beinhocker *The Origin of Wealth,* Wilkinson/Pickett *The Spirit Level,* Stewart Brand *Whole Earth Discipline*

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Our research ratings are defined with reference to the amount by which we expect the absolute return to change over the next 12 months:

Rating	Definition
Buy	Absolute return expected to be more than 10%
Outperform	Absolute return expected to be between 5% and 10%
Hold	Absolute return expected to be between -5% and +5%
Underperform	Absolute return expected to be between -5% and -10%
Sell	Absolute return expected to be less than -10%

As at 31 March 2010 the distribution of all our published recommendations is as follows:

Rating	Proportion of recommendations	Proportion of these provided with investment banking services
Buy	56.8%	46.0%
Outperform	9.7%	41.2%
Hold	19.3%	32.4%
Underperform	1.7%	33.3%
Sell	10.2%	0%

Important Notes

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