

## Asian Banks

### The rising cost of connectivity

#### Equities

Asia  
Banks

#### Do pan-regional banking models really add value?

Many of Asia's large banking groups have regional aspirations. In this report we address whether or not these strategies are adding value for shareholders. We compare the performance of Asia's "pan-regional" (PRs) banking franchises with the "domestic champions" (DCs) in each major Asian market. We find that on 1, 3, 5 & 10 year views, the domestic champions have typically out-performed. The exceptions tend to be the "domestic champions" in more heavily indebted markets in Northern Asia.

#### Why have the pan-regionals under-performed?

There are many possible reasons for the out-performance of the DCs but we highlight 3 in this report. 1) Business mix: The DCs tend to be more retail orientated generating higher RoA than their wholesale orientated PR peers 2) Exposure to what have been high growth domestic markets (often ASEAN). 3) The banking landscape has changed dramatically in the past 5 years post the GFC. This has led to what we have termed the "rising cost of connectivity" for pan-regional banks. This comes in the form of higher capital standards, higher compliance costs and lower returns in wholesale banking.

#### What do we expect to happen in coming years?

We believe question marks are only likely to increase in relation to the returns generated by the large Asian pan-regionals. This is not necessarily all bad as it increases the probability of value creating group restructurings that could unlock value. We also harbour concerns that as we enter the latter parts of a credit cycle, a number of ASEAN markets will see rising liquidity risk (see rising LDRs). This may make the powerful asset compounding of the past 5-10 year post the Asian Financial crisis harder to sustain.

#### What would we recommend?

The analysis would seem to suggest the best way to invest in the Asian bank space is to simply buy the highest quality domestic bank in each of the main markets. However, our approach is more nuanced. We continue to like Indian banks and include HDFC bank in our most preferred list. We also include E-Sun but we also see value in both HSBC and OCBC (where the valuation has been heavily impacted by its recent HK acquisition).

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The global banking landscape has shifted significantly in the past 5 years. This has brought into sharper relief the debate about whether pan-regional banking models in Asia ex-Japan are still creating value for shareholders, especially when compared with alternative investments in the sector such as high growth (although often highly valued) domestic retail franchises. We do not doubt that these big pan-regional banking groups serve many important economic functions in terms of facilitating trade and helping businesses grow internationally. However, post the global financial crisis (GFC), the regulatory backdrop has shifted. Indeed returns on many of these wholesale banking activities appear to have declined to such a degree that they no longer appear to be generating an economic return (especially when factoring in all of the costs involved). This raises the question: Has the "cost of connectivity" now gotten so high that pursuing a pan-regional strategy drags on shareholder return rather than creating shareholder value? Even for those with an existing regional/global footprint? We believe that outside of their core "home" markets, even the most successful "trade" banks are now struggling to make acceptable returns. We either need to see a re-pricing of banking services or a rethink on capital allocation in some of these pan-regional banks.

**The increasing "cost of connectivity" we believe is making it increasingly difficult for pan-regional banks to out-perform their more domestically focused peers**

## Not all banks are created equal...

It seems an obvious thing to say but not all Asian banks are alike. Whilst sector coverage is typically divided up geographically, we can also split the sector other ways. For example, whilst not exhaustive, four broad categories immediately spring to mind:

- **The pan-regionals:** Banking in Asia in general still tends to be a relatively domestically focused business. There are, however, a number of banks that have spread beyond their core market. The most diverse of these are perhaps the big UK/HK listed international banks, HSBC and Standard Chartered. We would also include the Singaporean banks in this group, DBS, OCBC and UOB, as well as the two big Malaysians, CIMB and Maybank.
- **The Domestic Champions:** Whilst these are not always the biggest banks in their home market, they are often held up as those that have demonstrated industry best practice. We find that they often exhibit characteristics such as an observable cost of fund advantage. They also often have higher RoAs and RoEs relative to local peers, partly due to the cost of funds advantage, but also due to a retail skew in their business mix. In this bracket we include banks such as Kasikornbank in Thailand, HDFC Bank in India, Bank Central Asia in Indonesia, Hang Seng bank in HK, and BPI in the Philippines.
- **The Government-backed lenders:** Levels of government ownership in the banking sector in Asia is still generally higher than in the developed market. This leads to a degree to social/government backed lending decisions. Examples of government controlled banks include Krung Thai Bank in Thailand, BNI in Indonesia, the PSU banks in India and a large part of the Chinese banking system.
- **The product specialists:** Looking across the region, there are a number of financial institutions that focus on a specific product line. An example of this would be the region's auto lenders. These would include Tisco Financial in Thailand, Bank Danamon in Indonesia and a number of non-bank financials in India such as Shriram Transport Finance. Many of these organisations tend to

rely more on wholesale funding and can therefore be more volatile from a share price perspective.

**In this report we look at the relative performance of the "pan-regionals" Vs the "Domestic champions".** Over the past decade, on almost any time frame, the domestic champions have outperformed. We look at the reasons why we think this has been the case: business mix, where we are in the credit cycle, and a shifting regulatory backdrop. We conclude that high growth, high RoA banks with scope to compound balance sheet growth for another 3-5 years are likely to continue to outperform. In this context, we like HDFC Bank. De-leveraging has been a significant drag on a number of the big pan-regionals which has weighed on top-line growth and hence share price performance. We think for HSBC, this process is now coming to an end. As such, we can see this bank generating a c10% compound return per annum with additional "optionality" to the upside should US/UK rates eventually move upwards. We do have concerns that the pace of increasing leverage in a number of ASEAN markets will now have to slow given we are now quite late in the credit cycle (LDRs have risen significantly).

As the perception of risk has shifted post the GFC, the "cost of connectivity" for the pan-regional banks seems to have increased depressing returns.

**Figure 1: Summary valuation sheet: Domestic Champions Vs Pan-regionals**

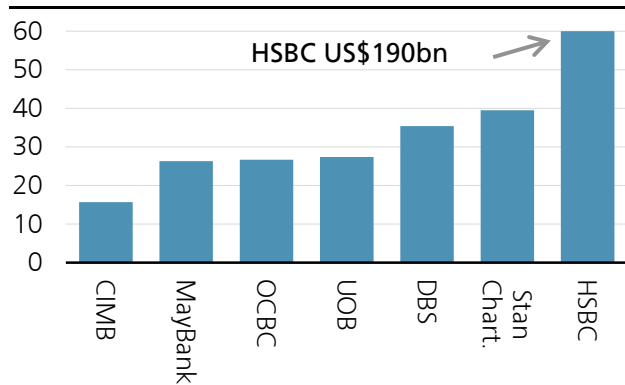
	Country	Rating		10 Nov Price	Price Target	Est. Up/Downside	Market Cap (US\$m)	2014E P/E (x)	2015E P/E (x)	2014E P/BV (x)	2015E P/BV (x)	2014E ROE (%)	2015E ROE (%)	2014E % Div yield	2015E % Div yield
<b>PAN-REGIONAL</b>															
HSBC	HK	Buy	HKD	78.1	92.8	18.8%	192,069	12.4	11.7	1.03	0.99	8.6	8.7	5.16	5.36
Standard Chartered	HK	Buy	HKD	116.4	140.0	20.3%	36,897	9.4	9.2	0.77	0.74	8.5	8.2	5.73	5.73
OCBC	SG	Buy	SGD	10.2	10.7	4.9%	31,129	9.7	10.4	1.39	1.27	14.8	12.8	3.43	3.92
DBS Group	SG	Neutral	SGD	19.7	19.0	-3.3%	37,572	11.9	12.4	1.32	1.23	11.7	10.4	2.95	3.05
UOB	SG	Neutral	SGD	23.5	24.0	2.3%	29,367	12.0	12.1	1.39	1.30	12.3	11.1	3.20	3.41
Maybank	MY	Buy	MYR	9.8	11.9	22.1%	25,944	13.4	14.0	1.76	1.66	13.6	12.2	5.23	5.01
CIMB Group	MY	Buy	MYR	6.3	7.5	18.5%	15,641	12.0	12.2	1.42	1.32	12.5	11.2	3.33	3.28
Public Bank	MY	Buy	MYR	18.3	22.9	25.3%	21,308	15.7	15.3	2.58	2.37	17.8	16.0	2.84	2.92
<b>DOMESTIC CHAMPIONS</b>															
CCB	CN	Buy	HKD	5.7	6.4	12.5%	183,005	4.9	4.9	0.92	0.81	20.1	17.6	5.11	5.13
Hang Seng Bank	HK	Sell	HKD	130.4	120.0	-8.0%	32,171	14.9	14.0	2.19	2.06	15.2	15.1	4.22	4.22
HDFC Bank	IN	Buy	INR	904.2	1,100.0	21.7%	34,313	24.9	20.8	4.85	4.21	21.3	21.9	0.76	0.94
BCA	ID	Sell	IDR	12,550	11,300	-10.0%	25,412	18.8	17.7	4.01	3.39	23.3	20.8	1.01	1.06
Shinhan Financial	KR	Buy	KRW	48,750	54,000	10.8%	21,291	10.4	9.8	0.82	0.76	8.1	8.1	1.93	2.04
BPI	PH	Neutral	PHP	96.0	93.0	-3.1%	8,392	20.5	18.9	2.78	2.58	15.3	14.2	3.02	2.47
E. Sun	TW	Buy	TWD	19.5	21.7	11.3%	4,493	12.9	11.3	1.32	1.22	11.4	11.2	1.71	2.40
Kasikornbank	TH	Buy	THB	236.0	265.0	12.3%	17,222	12.6	11.1	2.22	1.91	18.9	18.6	1.59	1.99

Source: Company data, UBS estimates

## Meet Asia's pan-regional banks...

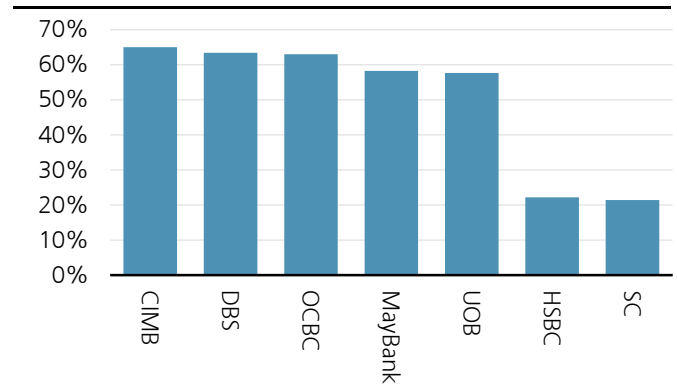
In some ways it is interesting to see just how domestically orientated much of the Asian banking sector still is. Outside of the big US\$ funding hubs of Singapore and HK, there are really no proper "pan-regional" banks. In our sample, we have included the two big Malaysia banks but even these still generate comfortably over half of the groups' revenues from their domestic markets (see Figure 3, the recent CIMB/RHB deal is a domestic deal so the % of revenues from CIMB's home market will increase to over 70% again). Nevertheless, this has not stopped these banks pursuing pan-regional strategies at times involving significant acquisitions (e.g. OCBC/Wing Hang recently), often at what we view as inflated valuations.

**Figure 2: Market Cap of Asia's pan-regional banks (US\$ bn)**



Source: Company data, UBS estimates

**Figure 3: % of FY 14E revenues generated in "Home" market (for HSBC/Standard Chartered we have used HK)**

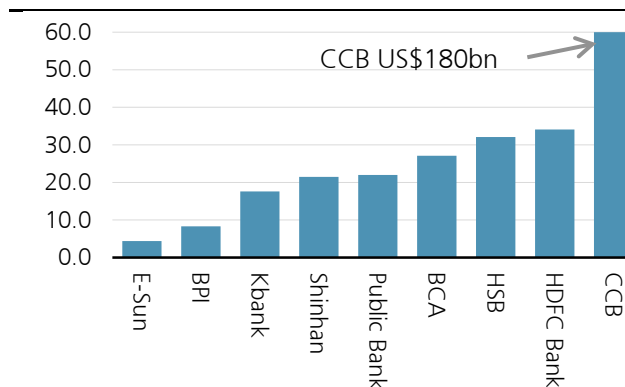


Source: Company data, UBS estimates

## Meet the "domestic champions"...

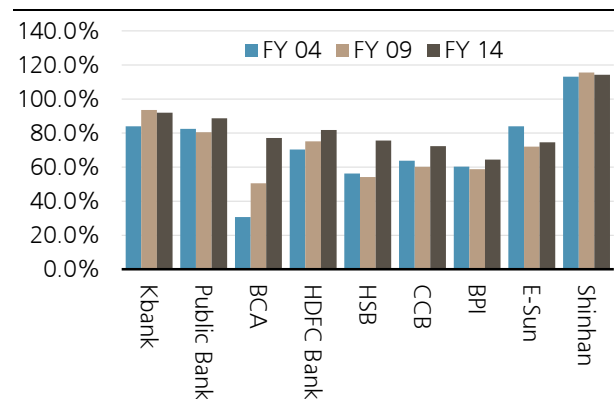
Which banks are defined as "domestic champions" is somewhat subjective. Our selection includes a bank from each major market in Asia-ex-Japan. Each is considered by our regional team as both high quality (relative to its domestic peers) and also earns over 90% of its revenues from its domestic market (i.e. has no significant physical footprint beyond its "home" market). These banks also tend to have higher quality domestic funding franchises, which helps to explain superior RoAs & RoEs. The list includes Kasikornbank of Thailand, Public Bank of Malaysia, HDFC Bank of India, BPI of the Philippines, BCA from Indonesia, Hang Seng Bank from HK, CCB from China, Shinhan from Korea and E-Sun from Taiwan.

**Figure 4: Market cap of "domestic champions" (US\$ bn)**



Source: Company data, UBS

**Figure 5: Domestic champions LDR FY 14E Vs FY 04**



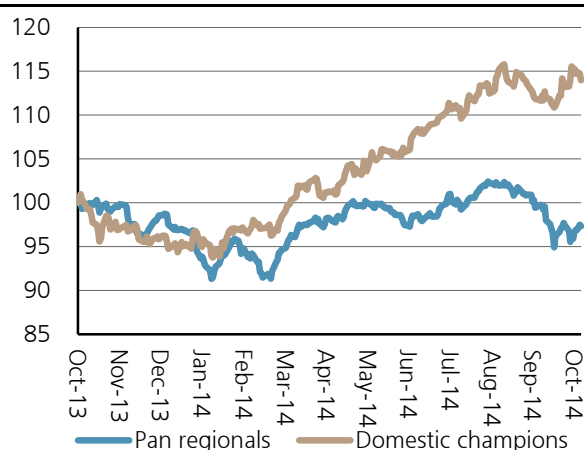
Source: Company data, UBS estimates

## What does share price performance tell us?

So which banks' share prices have tended to perform better, the pan-regionals or the domestic champions? We have looked at this on 1, 3, 5 and 10 year time frames (see the appendix in the back for a full stock by stock breakdown). It is interesting that for each of these time frames, the pan-regional banks have tended to underperform the domestic champions in aggregate by 3-4% per annum in US\$ terms, often by more if looked at in local currency terms. The correct "trade" has therefore in general been to avoid the pan-regional banks in favour of the domestic champions over the past decade. This outperformance is even more extreme if investors were to avoid the domestic champions in more heavily indebted north Asian markets such as Korea, China and Taiwan. So why has the outperformance of the domestic champions been so consistent for so long and should we expect this to persist for the next 1, 3, 5 and 10 years?

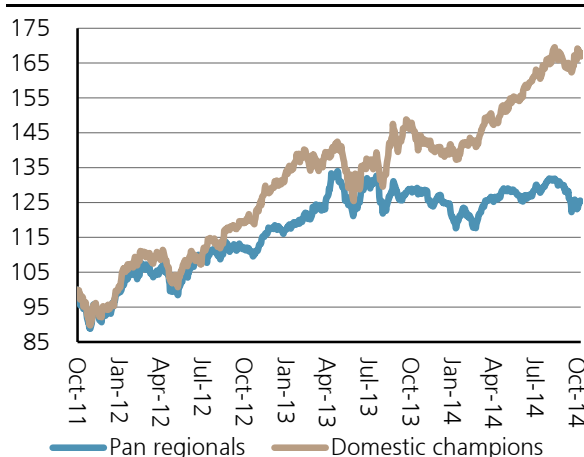
**From a performance perspective, whether it's a 1,3,5 or 10 year timeframe, an equally weighted basket of the domestic champions has consistently outperformed the pan-regional banks**

**Figure 6: Aggregate performance of Domestic champions Vs Pan-regional banks: 1 year**



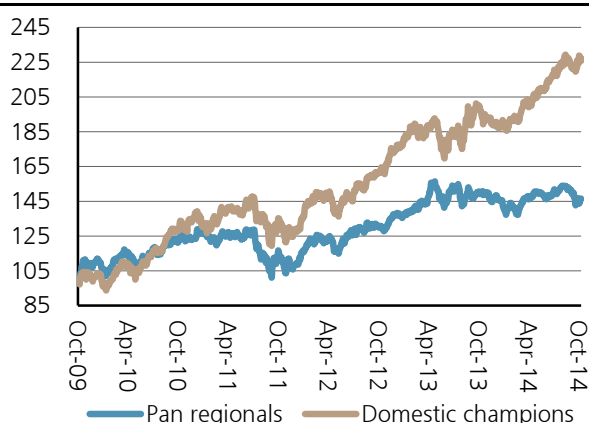
Source: Thomson Financial Datatream, UBS estimates

**Figure 7: Aggregate performance of Domestic champions Vs Pan-regional banks: 3 year**



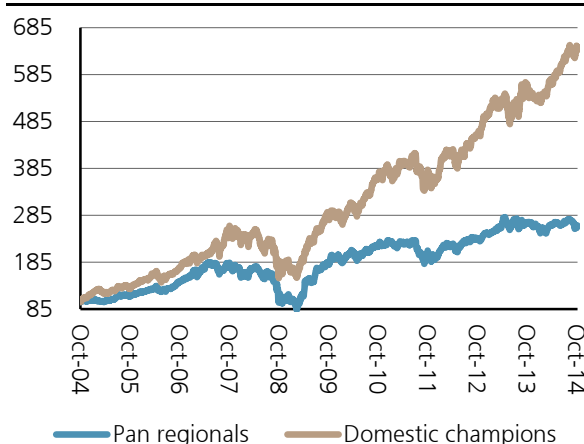
Source: Thomson Financial Datatream, UBS estimates

**Figure 8: Aggregate performance of Domestic champions Vs Pan-regional banks: 5 year**



Source: Thomson Financial Datatream, UBS estimates

**Figure 9: Aggregate performance of Domestic champions Vs Pan-regional banks: 10 year**

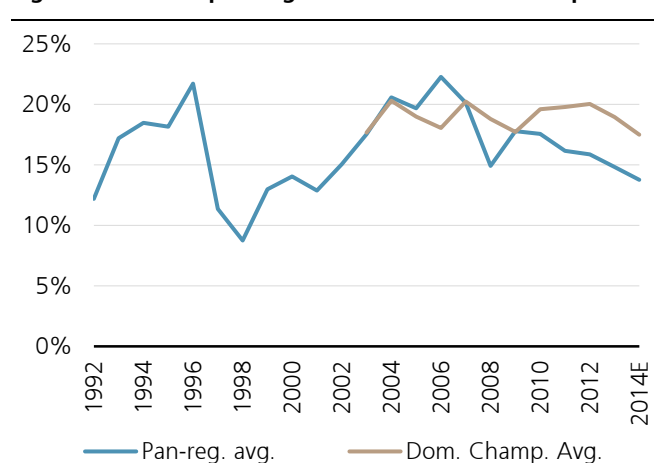


Source: Thomson Financial Datatream, UBS estimates

## A look at relative returns: RoA Vs RoE

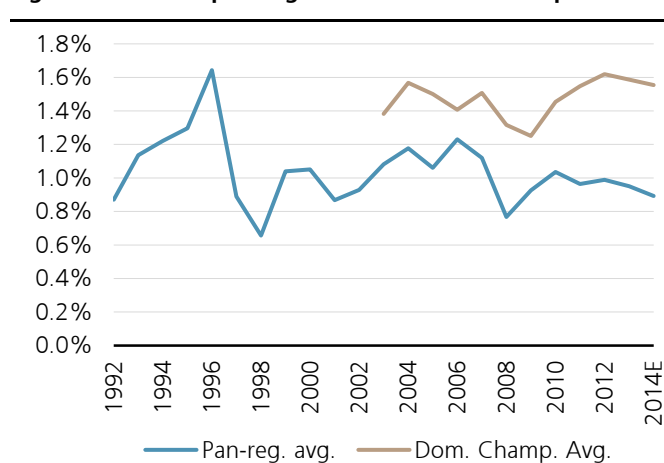
If we look at returns, it is noticeable that the domestic banks have tended to generate higher RoAs and more recently also higher RoEs. The compounding effect of this on share prices over many years should not be underestimated. A good rule of thumb in bank investing is that it is often unwise to be heavily underweight high RoA banking groups unless you think returns are likely to decline significantly in coming years. The exception to this is the domestic banks in the mature markets of Taiwan and Korea where returns have been eroded by a combination of lower interest rates, higher cost of funds (e.g. high LDR in Korea) and also more intense competition.

**Figure 10: RoE of pan-regionals Vs domestic champions**



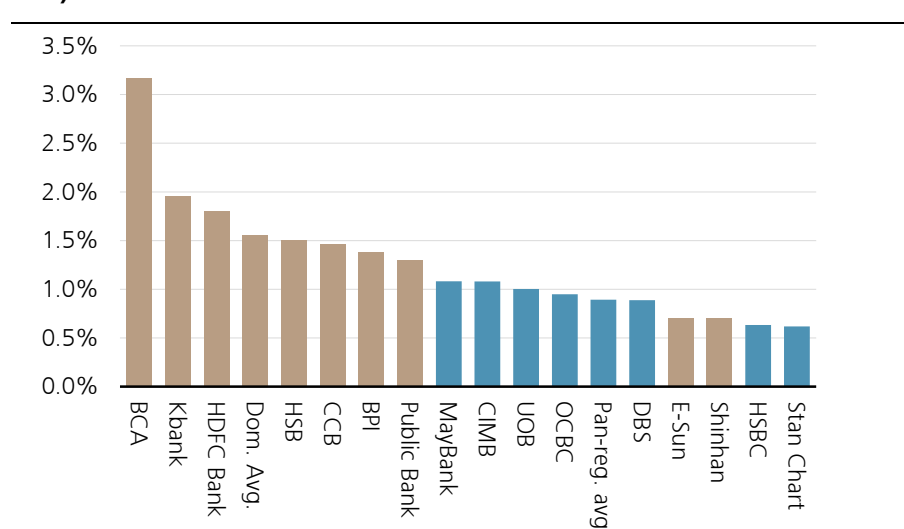
Source: Company data, UBS estimates

**Figure 11: RoA of pan-regions Vs domestic champions**



Source: Company data, UBS estimates

**Figure 12: FY 14E RoA for Domestic Champions (in brown) Vs pan-regionals (in blue)**

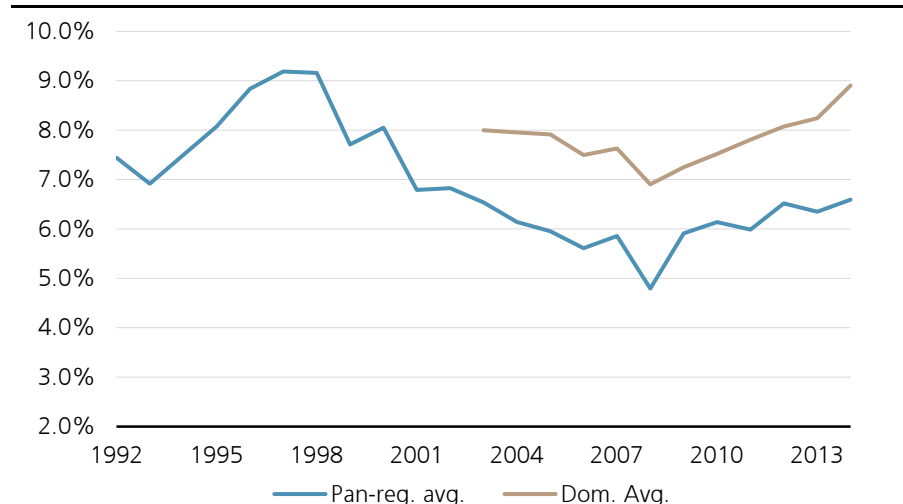


Source: Company data, UBS estimates

The aggregate RoEs (a simple average, un-weighted) of the pan-regionals Vs the domestic champions were reasonably comparable up until the global financial crisis. This in a large part was due to the pan-regional banks running with higher balance sheet leverage (see Figure 13) on a simple equity to assets basis. In the following 5-6 years, however, the pan-regionals have seen a steady decline in return on equity. Some of this can be attributed to the ultra-low interest rate

environment putting downward pressure on asset yields. However, a significant element of this, we believe, has been driven by a need to de-lever as the regulatory environment has shifted unfavourably (RoA has not fallen nearly as much). Nevertheless, a significant gap still exists; the pan-regionals are still typically more highly levered than the domestic champions.

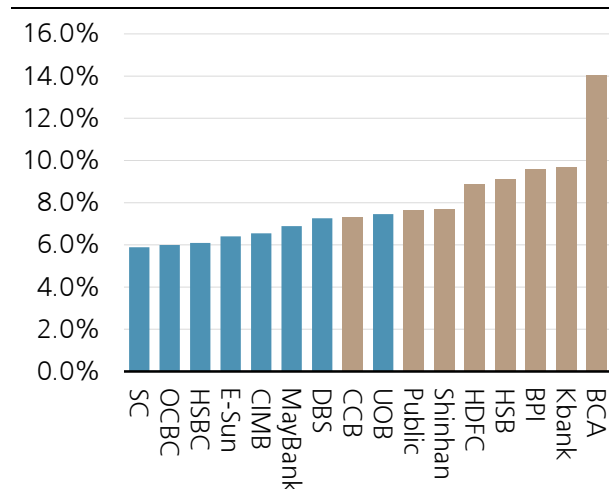
**Figure 13: Leverage at the pan-regional had been higher historically than the domestic champions (tangible equity/assets)**



Source: Company data, UBS

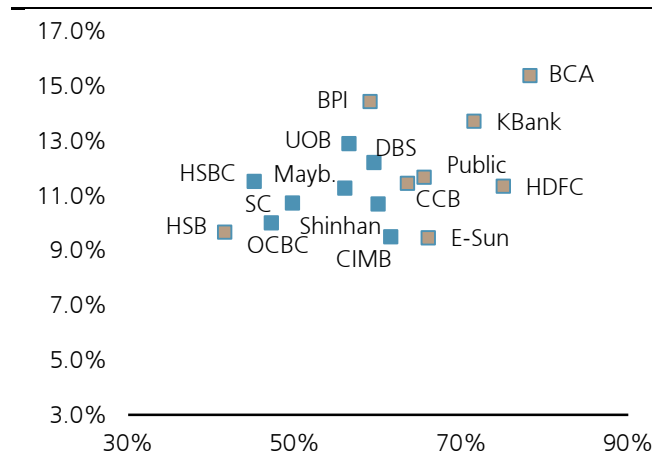
We also note that from a regulatory capital perspective, many of the domestic champions have not moved to the advanced IRB methodology for calculating RWAs which means they have seen less "RWA inflation" in recent years as the regulatory landscape has shifted. This is evident in their higher RWA/total asset ratios (see Figure 15). The exception to this rule is Hang Seng which we do still view as having a capital problem (although this is arguably more a case of having group capital invested in the wrong places in a new "Basel III world", refer to the report "*Capital conundrum... but there are solutions*").

**Figure 14: Equity /assets YE 14E (Domestic champions in brown)**



Source: Company data, UBS estimates

**Figure 15: RWA/Assets ratio Vs CET1 (Y-axis)**

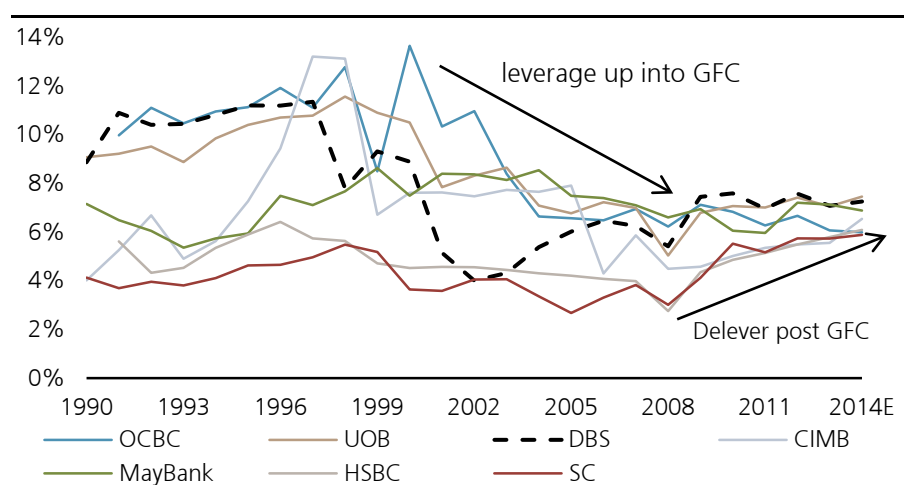


Source: Company data, UBS estimates

The three pan-regional banks that have had to undertake reasonably significant de-levering exercises are HSBC, Standard Chartered and CIMB. Of these, CIMB has been the most recent to raise capital but even this is unlikely to be the end of the process, in our opinion. Post the announced merger with RHB/MBSB, the group tier 1 ratio is likely to fall back to c9% again. To be viewed as "well capitalised" in a regional (and global context), we believe the pan-regional banks need to be looking to achieve a core tier 1 capital ratio well above 10%. Many of its peers are looking to operate in the 11-12% range. We also expect a large proportion of the pan-regionals to continue to run with significant scrip-dividend schemes that essentially act as mini-capital raisings each year (e.g. OCBC, Standard Chartered, CIMB, Maybank and HSBC). This leads to significant share creep when viewed on a longer timeframe.

To be viewed as "well capitalised" in a regional (and global context), we believe the pan-regional banks need to be looking to achieve a core tier 1 capital ratio well above 10%.

**Figure 16: A number of pan-regional banks have had to undertake significant de-leveraging exercises over the past 5-6 years (equity/assets)**



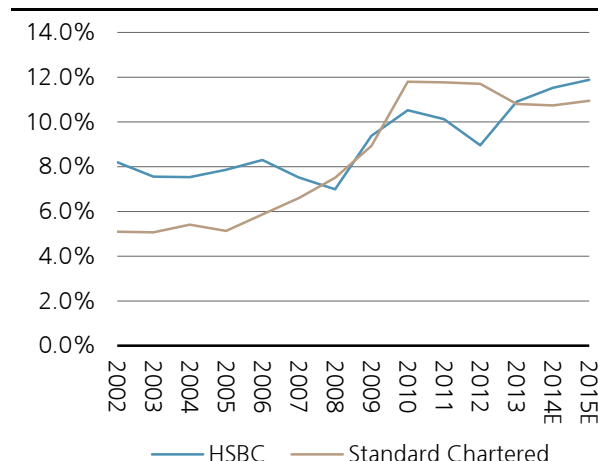
Source: Company data, UBS estimates

There are often unpleasant side-effects of "de-leveraging" a bank for shareholders. If you don't raise capital via equity issuance to front load the pain, then the capital has to be raised either by asset disposals or retained earnings. The latter of these can be a constraint on balance sheet growth for banks with lower RoEs. Much like countries that undergo a period of deleveraging suffer from weak GDP growth, banks that undergo a period of de-leveraging tend to suffer weaker revenue growth. This we believe has been one of the issues facing both HSBC and Standard Chartered. As we show in Figure 14, both banks have seen a dramatic rise in CET1 ratios since the financial crisis but have also seen a collapse in top-line growth. We would expect an end to balance sheet de-leveraging at these banks to coincide with resumption of more sustainable top-line growth.

Much like countries that undergo a period of deleveraging suffer from weak GDP growth, banks that undergo a period of de-leveraging tend to suffer weaker revenue growth

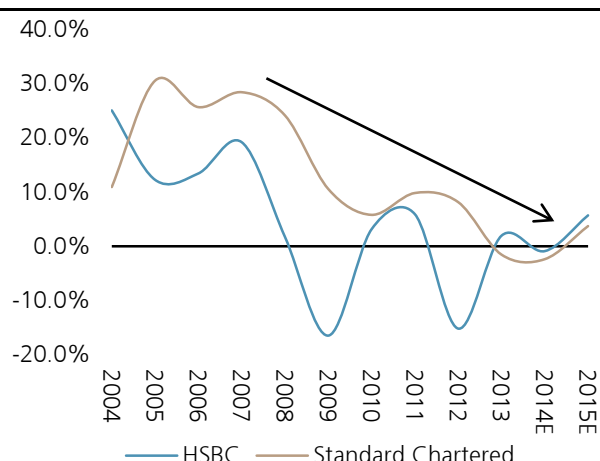


**Figure 17: HSBC & Standard Chartered CET 1 capital ratios**



Source: Company data, UBS estimates

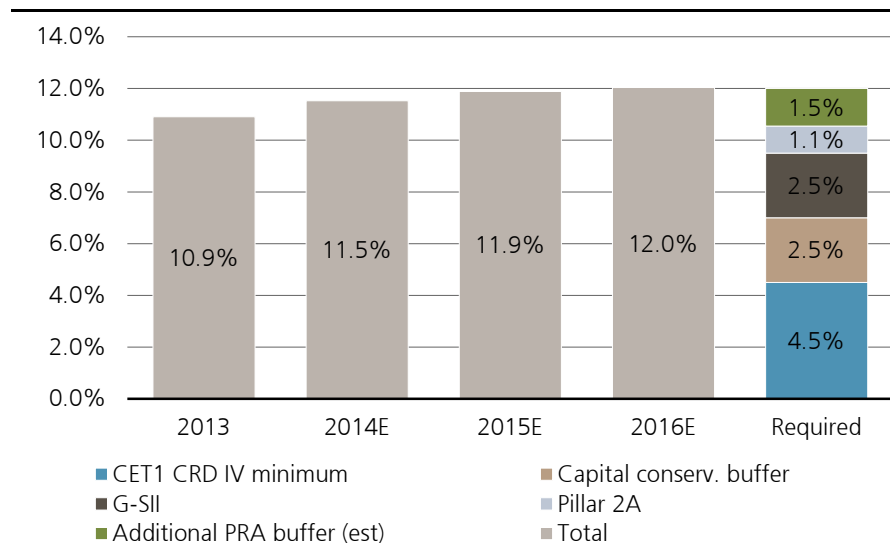
**Figure 18: HSBC & Standard Chartered yoy revenue growth has suffered as the banks have de-levered**



Source: Company data, UBS estimates

An end to this de-leveraging for a number of pan-regional banks' balance sheets could help narrow their performance gap with the domestic champions as it may lead to a more sustainable recovery in top-line growth. This is part of our current investment thesis for HSBC which we discussed in our recent report "*HSBC: Is the super tanker finally turning*".

**Figure 19: HSBC required capital stack: As a G-SIFI HSBC may be forced to target a c12% fully loaded CET1 ratio.**



Source: Company data, UBS estimates

## Survivor bias?

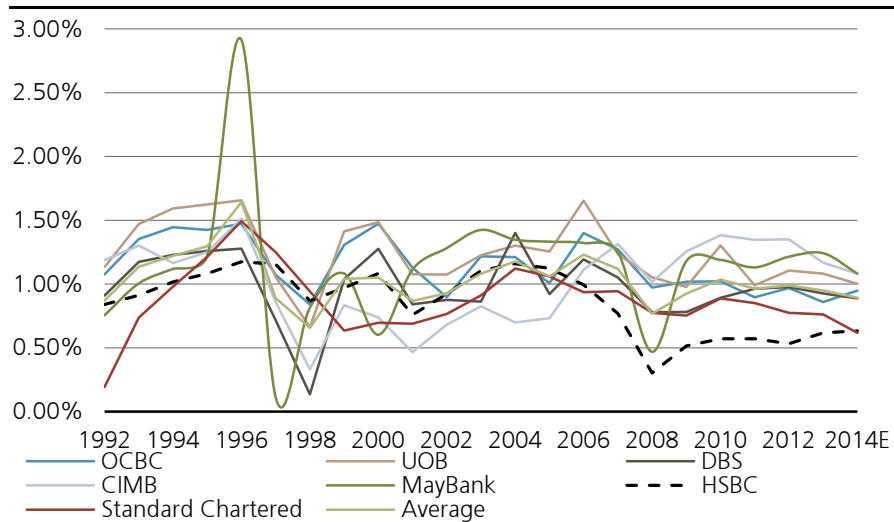
In this report, we have analysed performance trends over a 1, 3, 5 and 10 year time frames. Whilst this may seem like a longer term investment horizon, it is not actually that long in the context of "banking cycles". These can last 20 years if not longer. On this theme we can track the performance of all the pan-regional banks back 20-25 years with little trouble. This incorporates both the Global Financial Crisis of 2008 (GFC) and the Asian Financial Crisis of 1997/8 (AFC). To their credit, all of the pan-regional banks survived both of these significant downturns despite suffering some heavy financial blows. Tracking the performance of the domestic

champions back beyond c10 years, however, has proved somewhat problematic for a number of markets for couple of reasons:

- **Some of the banks simply were not listed beyond this timeframe.** For example, CCB listed in the late 2005. Like all of the large China banks prior to this date, the group had spent a number of years cleaning up the high level of NPLs it had accumulated in the previous decade (CCB reported at NPL ratio of c17% in 2002). This effectively involved a very significant government recapitalisation.
- **The Asian financial crisis proved to be an "extinction level event" for a number of ASEAN banking systems** (e.g. Thailand and Indonesia). Even the strongest of banks in these markets failed during these difficult years, essentially wiping out existing shareholders.

There is a lesson in this. Despite their lower relative returns, the pan-regional banks have been remarkably consistent in the long run. As we show in Figure 20, looking back 20-25 years, rarely, if ever, have the pan-regional banks had a year in which they have reported a P&L loss despite some major financial upheavals. This may be a function of their greater geographic diversification. They can therefore be good long-term compounders if bought at the correct time in the cycle (i.e. post a deleveraging event). In contrast, the domestic champions have been able to compound at a rapid pace post a period of significant de-leveraging after the AFC. Their lack of geographic diversification does make them vulnerable to domestic financial shocks to a much greater degree. Looking at relative performance over the past 10 year may, therefore, be a little misleading when considering we are now entering the last third of a credit cycle in much of Asia.

**Figure 20: The pan-regionals have been consistently profitable over the past 20-25 years despite a number of significant financial crisis**



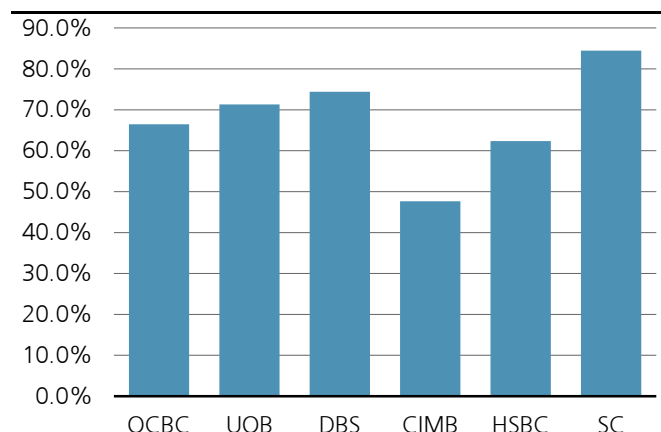
Source: Company data, UBS estimates

## Return gap: Is it down to business mix?

Having talked a bit about balance sheet leverage being a driver of RoE differences and the impacts of de-leveraging on revenue growth, we now turn our attention to the RoA gap. Why are the domestic champions so much more profitable on this measure? Part of it, we believe, is likely to be due to business mix. The pan regional banks do tend to have a much heavier bias towards corporate/wholesale

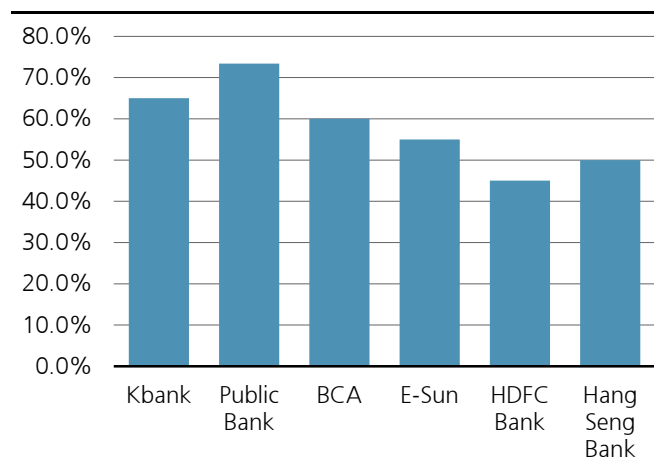
banking relative to the domestic champions where the focus is more retail/SME orientated.

**Figure 21: % PBT mix of a selection of pan-regional banks: heavy bias towards corporate/wholesale banking (% FY14E PBT from corporate/wholesale)...**



Source: Company data, UBS estimates (note for HSBC we have included 50% of commercial banking PBT in corporate/wholesale)

**Figure 22: ...whereas the "domestic champions" tend to have a greater retail bias, especially those generating high RoAs (% FY14E PBT from retail)**

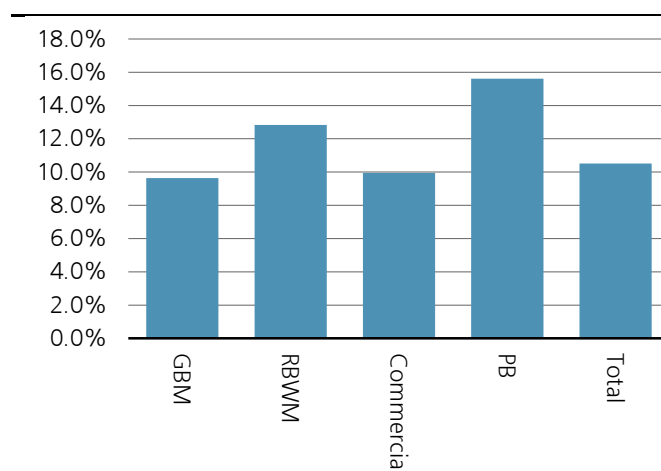


Source: Company data, UBS estimates

Not only have wholesale banking/corporate business tended to be of lower return, they have also suffered more from increasing regulatory scrutiny and in some cases "RWA inflation". Returns on these businesses have come under pressure as the global regulatory framework has shifted. The shift in focus to place more emphasis on simpler "leverage ratios" that are not risk-adjusted has put significant downward pressure on returns in certain wholesale banking businesses. This has been very apparent in the investment banking space, particularly with banks overly reliant on FICC business streams that require a lot of balance sheet. To try and illustrate this difference in returns, in the charts below we show the differences in the implied RoEs of different business lines when applying a 12% tier 1 ratio on reported RWAs for HSBC's different divisions Vs when we apply a 4.5% simple leverage ratio.

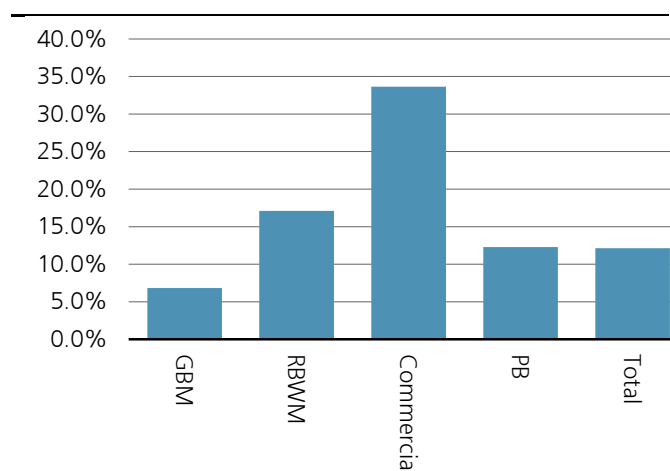
**Returns on wholesale banking business models have come under pressure as the global regulatory landscape has shifted**

**Figure 23: RoE applying a c12% CET1 ratio requirement to RWAs attributed to HSBC's different business lines**



Source: HSBC, UBS estimates

**Figure 24: RoE applying a 4.5% leverage ratio requirement to the asset bases attributed to HSBC's major business lines**

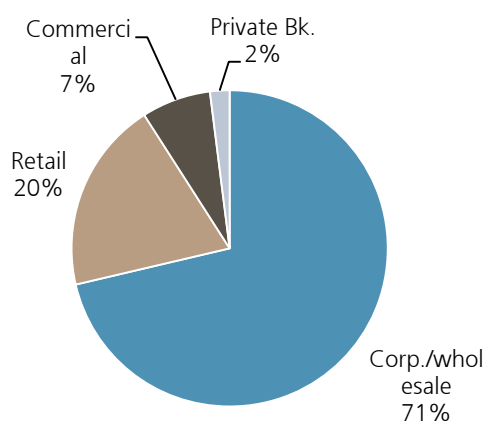


Source: HSBC, UBS estimates

We appreciate that many seasoned analysts (and no doubt HSBC) would say the data may be distorted by the methodology used to distribute "assets" and "RWAs" from one division to another but we do not think this alters two key conclusions. First, the return profile of the balance sheet intensive global banking and markets type businesses have clearly come down significantly as a result of the "unwind of Basel 2" that has seen RWA/Asset ratios increase and a greater regulatory reliance on simple (un-risk adjusted) leverage ratios. The pan-regionals are typically bigger in these business lines so have been impacted more. There is also an increasing demand around the global banks to subsidiarize post the GFC. This often involves having to increase the amount of capital committed to certain markets lowering the potential to use leverage to increase return.

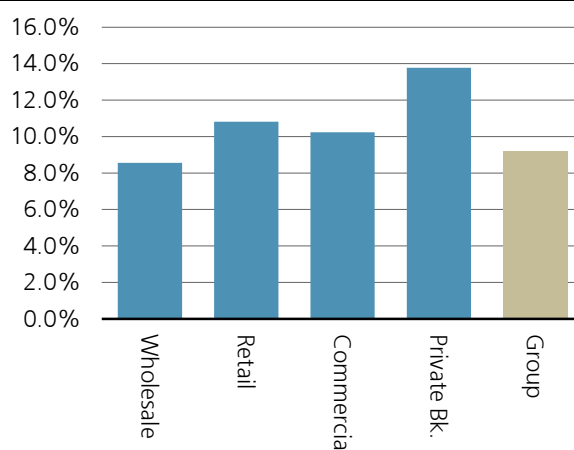
Second, the return profile of domestic retail/commercial banking operations tends to be more attractive. For domestic champions with no global/regional footprint, this is also helped by a lack of global capital add-ons (G-SIFI buffers etc.), although in reality many of the domestic retail banks in high growth markets tends to be well capitalised anyway. Where they were more reliant on leverage (e.g. Hang Seng Bank and Public Bank in Malaysia), these capital short-falls are in the process of being addressed. But even for these banks, they will still be making mid-teens RoEs with high RoAs post de-leveraging.

**Figure 25: Standard Chartered group capital allocation by division**



Source: Company data, UBS estimates

**Figure 26: Standard Chartered estimated RoE by division using an 11% CET1 ratio (FY 15E)**



Source: Company data, UBS estimates

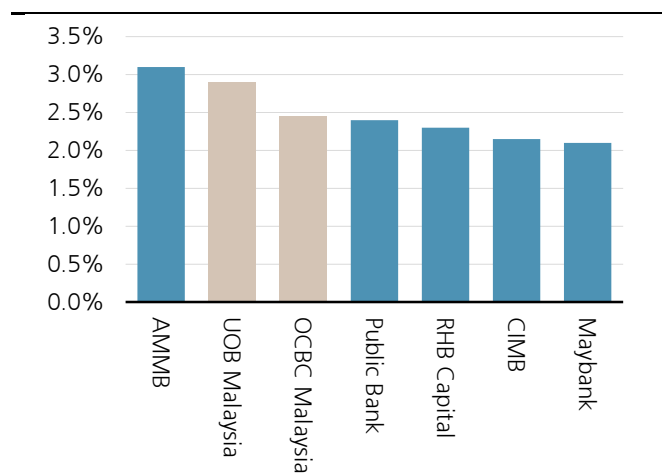
## Cost of funds likely to be a factor

Many of the pan-regional players have a strong funding profile in their domestic markets where they are typically amongst the biggest domestic banks. Overseas, however, we note that this is rarely the case. The domestic champions often have an observable cost of funds advantage (the helps explain the high relative RoEs) as do the pan-regional banks in their core home market (e.g. HSBC in HK). The pan-regionals also rarely have scale outside of their home markets to compete in retail banking. This can manifest itself in a cost of funds disadvantage as they lack the large scale, cheap current and savings account bases of the domestic retail and SME customer bases. To illustrate this point we use two examples. One is looking at the cost of funds of the subsidiaries of a number of the pan-regional banks outside of their home markets. The second is looking within the biggest Asian pan-regional banks, HSBC. Here we look at the returns generated in its home markets

(where it has an exceptional funding base) relative to those generated at a group level.

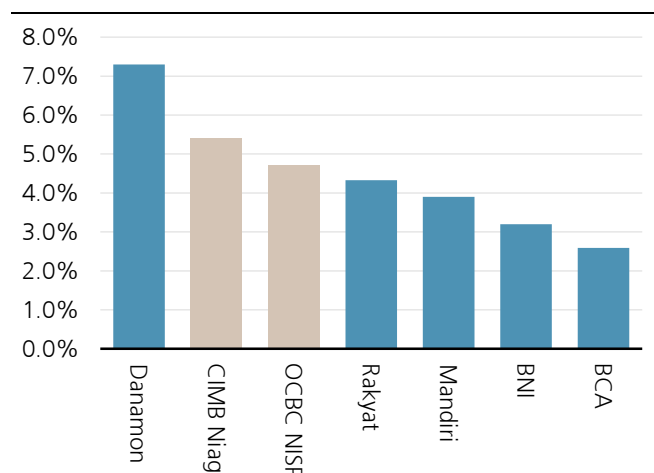
Taking the first of these examples below we show the cost of funds of the subsidiaries of the pan-regional Singapore and Malaysian banks relative to a selection of domestic banks in their core overseas markets. As can be seen, they often have more expensive funding cost vs local peers. Often this is due to a weaker distribution footprint and lower proportion of CASA in the funding mix. In the case of the Singaporeans in Malaysia, this has not led to an obvious RoE drag at a group level but it is nevertheless a meaningful disadvantage relative to the big domestic banks in Malaysia.

**Figure 27: Cost of funds of Singapore banks in Malaysia**



Source: Company data, UBS estimates

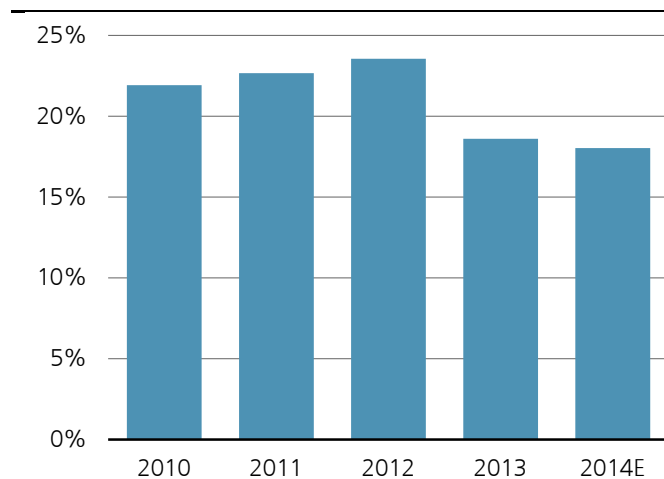
**Figure 28: Cost of funds of pan-regional banks in Indonesia**



Source: Company data, UBS estimates

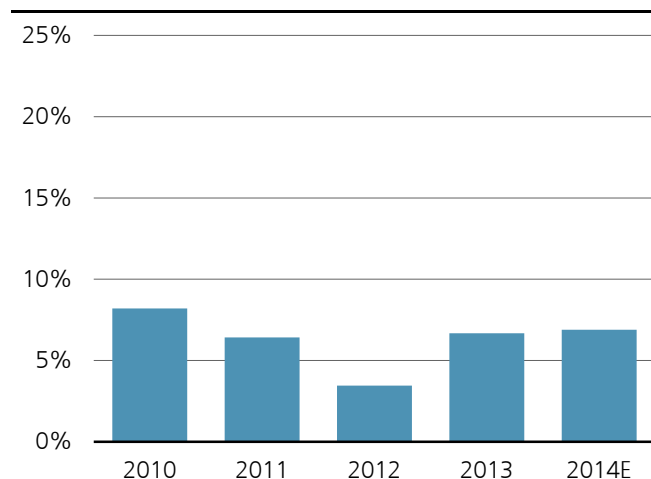
If we again use HSBC as an example to illustrate the point of high returns in core markets Vs "satellite" markets, we can use the accounts of the Hong Kong Shanghai Banking Corp. subsidiary. This contains most of the group's Asian operations and provides a separate annual report containing full financials. This business has consistently been generating a mid-high teen return on equity despite the drag of ultra-low interest rates on its high quality funding base. Contrasting this with the c9% return the HSBC Group is currently making raises some interesting questions. Given the Asian franchise consumes about 35-40% of the group's capital, this implies the rest of the group is making just a c6% RoE (see Figure 29 and Figure 30). Within this we would expect HSBC's second home market (the UK) to also be making a double digit return. So there is clearly a very significant amount of capital within the remaining geographies (perhaps as much as 40% of the group total) that is falling to make an adequate return.

**Figure 29: Reported RoE of Hong Kong Shanghai Banking Corp as a proxy for HSBC's core Asian franchise**



Source: Company data, UBS estimates

**Figure 30: Implied RoE of HSBC Group ex-the Hong Kong Shanghai Banking Corp**

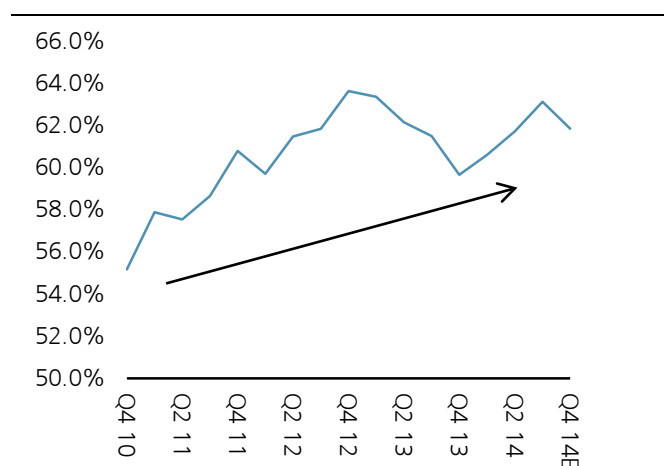


Source: Company data, UBS estimates

We also believe the costs associated with running a pan-regional bank are increasing beyond expectations. This is especially true for the UK regulated banks. This is often amplifying a drag on returns and is seeing cost to income ratios rise above longer term averages. The historic benefits of both scale and geographic diversification for the UK based regional players seem to be eroding rapidly, arguably to the point at which they are now destroying shareholder value rather than creating it.

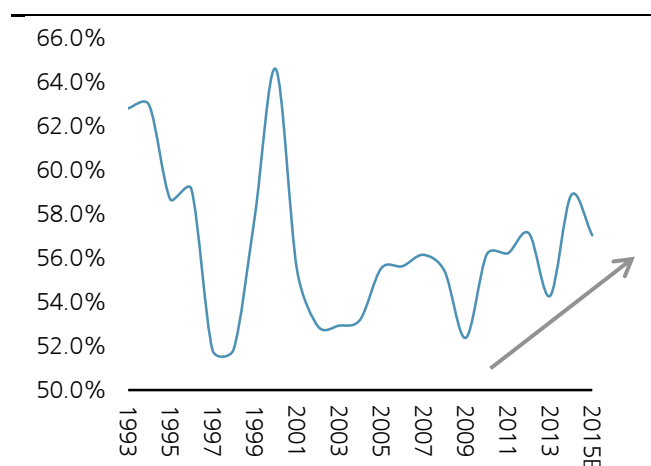
**The historic benefits of both scale and geographic diversification for the UK based regional players seem to be eroding rapidly**

**Figure 31: HSBC Group cost/income ratio continues to creep upwards as regulatory costs increase & high yield books roll off**



Source: Company data, UBS estimates

**Figure 32: Standard Chartered cost/income ratio Vs long-term average**



Source: Company data, UBS estimates

It is interesting to note that the two UK based pan-regional banks have suffered to a much greater degree than, for example, the Singaporean pan-regional banks. We attribute this to a number of things including,

- **A more hostile regulatory environment in the UK relative in response to the damage caused by the GFC:** An example of this would be the UK Bank levy which is placed on the global balance sheets of the UK banks. For Standard Chartered this seems particularly unfair given the lack of a significant balance

sheet in the UK itself. It is nevertheless going to cost HSBC and Standard Chartered shareholders US\$900mn and US\$300-400mn, respectively, this year.

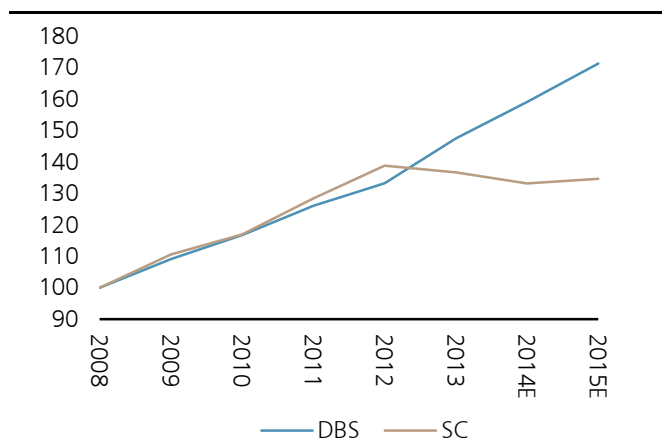
- **A weaker starting point:** The UK pan-regionals were both considerably less well capitalised relative to Asian peers 5-6 years ago and since the introduction of Advanced IRB had been more aggressive on risk weighting. As such, the scope of deleveraging has been more significant (weighing on top-line growth).
- **Greater litigation related expenses:** Both HSBC have had and continue to suffer from significant litigation risk in both Europe and the US. Not only are the financial penalties related to this often significant, they are also a huge drag on management time and damaging to reputations.

The relative revenue trajectory of DBS and Standard Chartered, two banks operating in similar areas in similar markets, has diverged significantly in recent years (see Figure 33). Indeed the lack of revenue growth at Standard Chartered has been particularly painful. In the markets in which it operates, we would estimate the natural cost inflation is mid-single digit year-on-year. If you can't grow revenues, this leads to very unpleasant negative operating leverage. This has led to very meaningful relative valuation shifts within the pan-regional banks space as we show in Figure 34.

As the "cost of connectivity" continues to increase, we think the question "do these global banking models still add value for shareholder" is yet to be answered properly

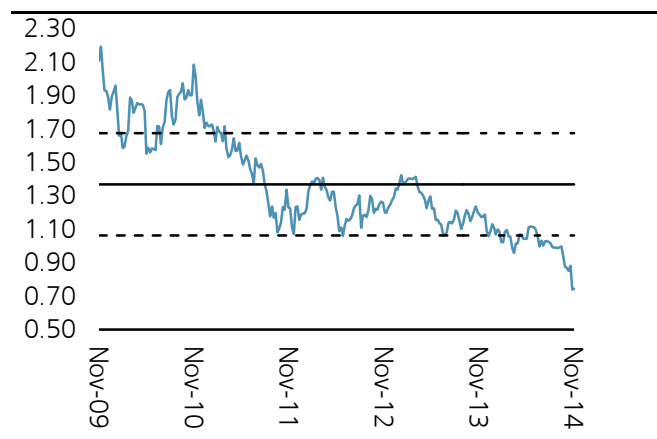
For the UK based pan-regionals, as the "cost of connectivity" continues to increase we think the question "do these global banking models still add value for shareholders" is yet to be answered properly. We suspect the answer may be "no" in their current form, especially for the UK-based banks where the regulatory backdrop is considerably more hostile than in Asia. This we think gives potential for future reallocation of capital within a bank like HSBC as investor focus shifts in coming years from "capital build" to "return on capital invested."

**Figure 33: DBS Vs Standard Chartered revenue growth trajectory**



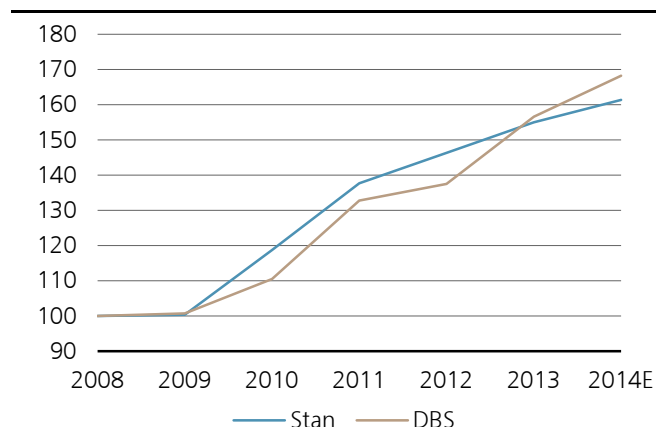
Source: Company data, UBS estimates

**Figure 34: DBS Vs Standard Chartered relative price to book valuation.**



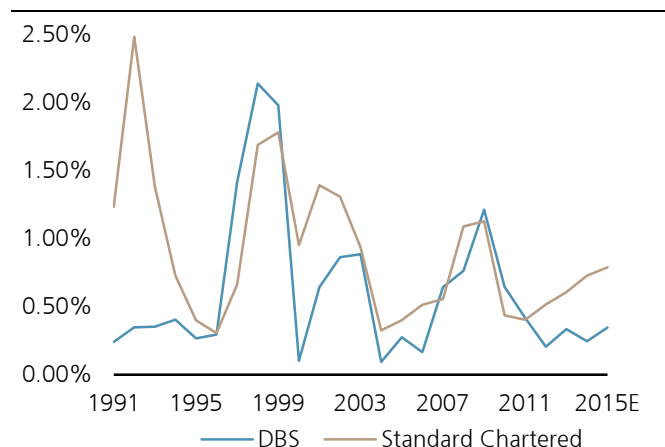
Source: Thomson Datastream Financial, UBS estimates

**Figure 35: Standard Chartered Vs DBS asset growth trajectory**



Source: Company data, UBS estimates

**Figure 36: Standard Chartered Vs DBS loan impairment charge**

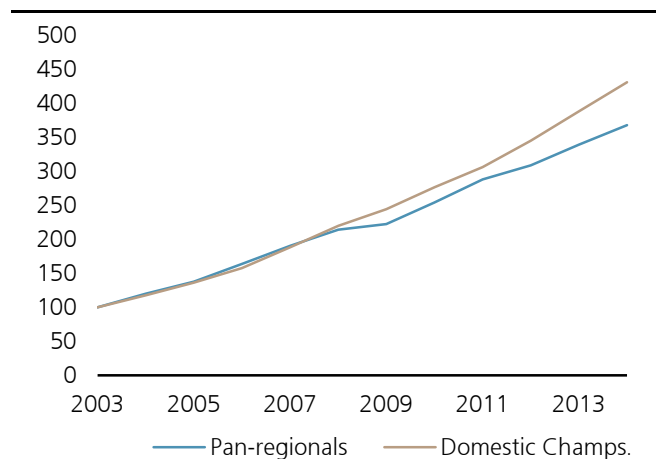


Source: Company data, UBS estimates

## The power of asset compounding at high RoAs

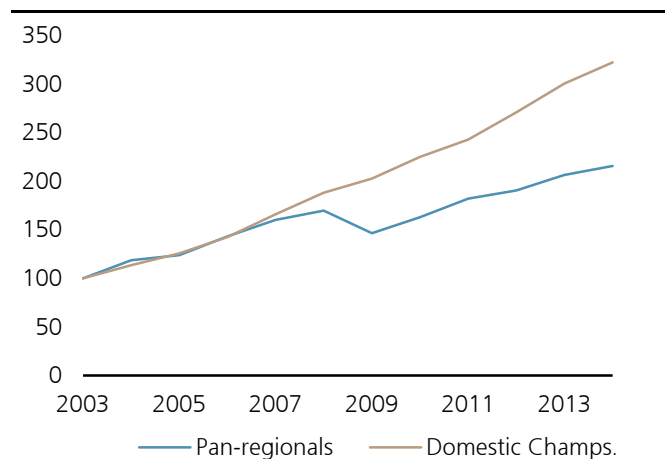
A sweet spot for bank investing are high RoA banks that have scope to compound balance sheets at a double digit pace for multiple years. This has been a key driver of share price performance for many of the domestic champions that have outperformed so strongly. Not only have the domestic champions tended to grow assets faster, they have also typically done it organically. If we look at the pan-regionals, we have seen considerable M&A over the past 10-15 years to expand regional networks. This has, we believe, often destroyed considerable value and later led to meaningful good will write-downs (DBS' Dao Heng and Standard Chartered Korea's goodwill write-downs in the past couple of years spring to mind). This has led to significant increases in share count. So if we look at "assets per share" over the past decade, the gap is much more pronounced (see Figure 38). The sweet spot for bank investing in Asia ex-Japan over the past decade has been retail banks with high RoAs and the ability to compound asset growth at a double digit rate over a multi-year period. We would argue that over the next 5-10 years, the only markets left in Asia with scope to deliver that sort of growth are India and Indonesia.

**Figure 37: Average reported asset growth: Pan-regional banks vs Domestic Champions**



Source: Company data, UBS estimates

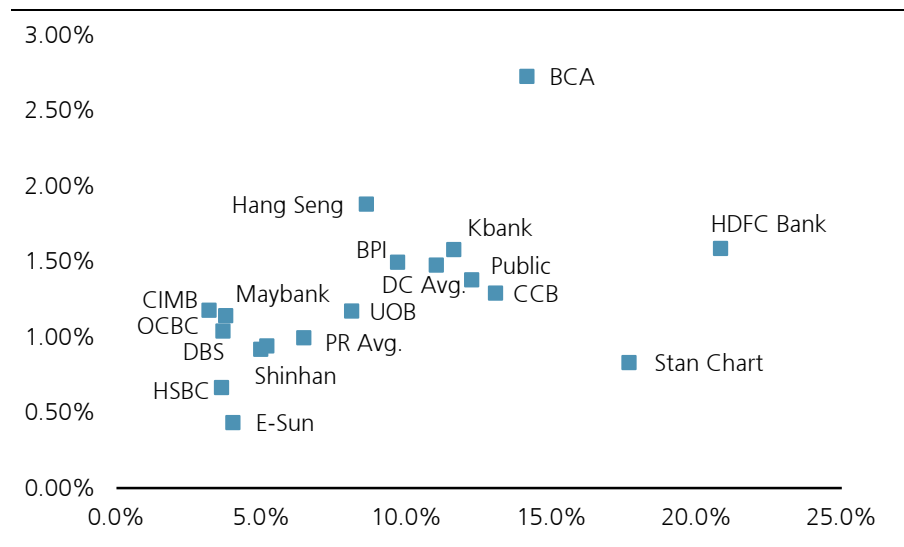
**Figure 38: Average asset growth per share of pan-regional banks Vs domestic champions.**



Source: Company data, UBS estimates



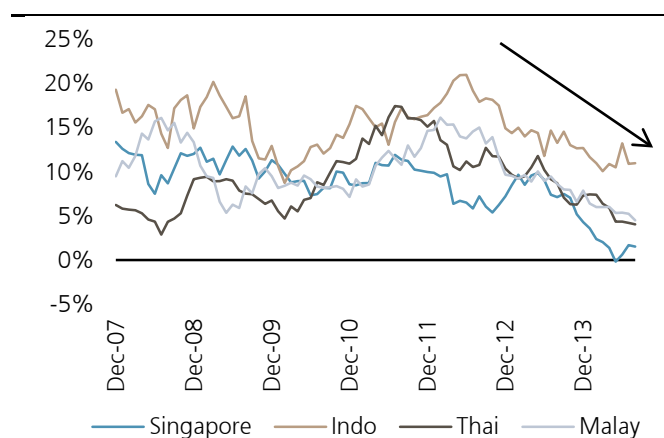
**Figure 39: 10 year average RoA (y-axis) Vs 10 year average asset growth per share (x-axis)**



Source: Company data, UBS estimates

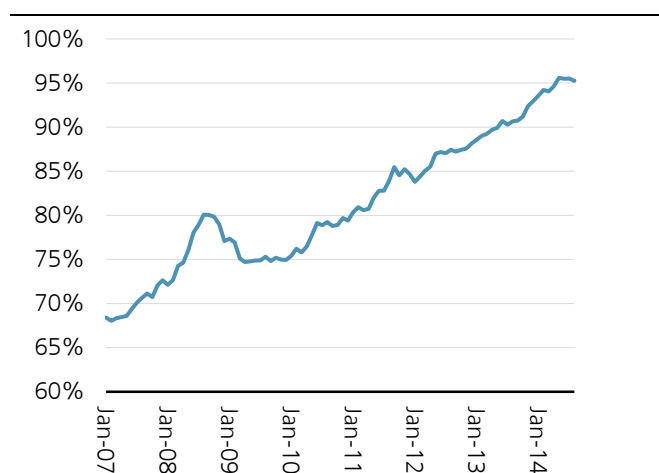
Over the past 12 months or so, we have seen a very meaningful slowdown in bank balance sheet growth in a number of Asian markets. Some of this we would view as temporary and does not reflect excess leverage in the economy as a whole (e.g. India). Some, however, we believe is a reflection of the fact that Asia is now in the last third of a credit cycle (a theme we have termed "Debttopia"). Some markets are therefore unlikely to return to the sort of pace of balance sheet compounding we have seen over the past 10 years (e.g. in Thailand and Malaysia where consumer debt has risen rapidly). In markets such as Thailand where the RoAs of the leading banks are impressively high, we may therefore see the investment case shift slightly in the next few years. As balance sheet growth slows, capital will build rapidly which may eventually lead to higher levels of capital returned to shareholders via the dividend.

**Figure 40: M2 growth has fallen sharply across many Asian banking markets**



Source: CEIC, UBS

**Figure 41: LDRs & debt levels have risen in many markets limiting the pace to compound balance sheet growth at a high rate in certain markets (chart shows ASEAN LDR)**

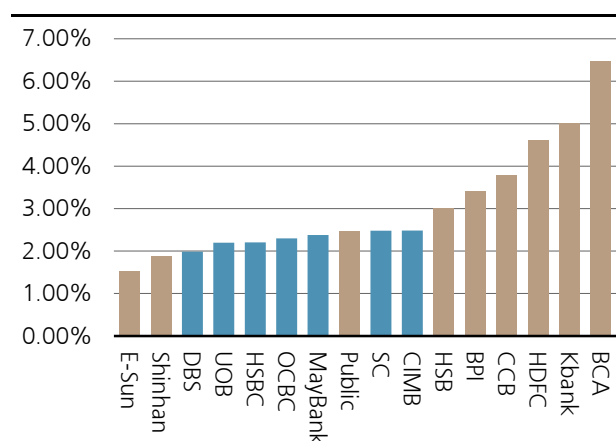


Source: CEIC, UBS

## Safety margins: A worrying decline?

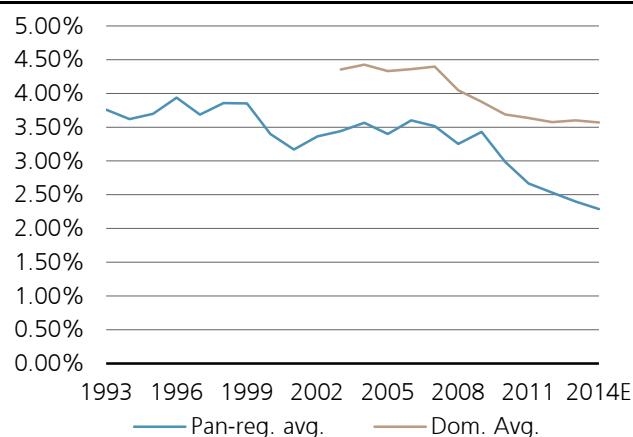
We continue to believe that much of the Asia ex-Japan banking sector is now in the last third of a credit cycle. As such, as US rates potentially rise, we could see an increase in impairments from very low levels in many markets. There is a risk that after a pro-longed period of negative real interest rates across much of Asia, those segments of the banking system are now overconfident in their ability to assess credit risk trends. Coupled with the rapid balance sheet growth of recent years, this could leave profitability vulnerable if we do see a spike in credit issues. HK domestic banks, Singapore and Malaysia have all seen "safety margins" (operating profit divided by gross loans) drop to decade lows (see Figure 42). We also note that the domestic champions in the mature markets of Korea and Taiwan have the lowest safety margins among the universe of banks we have used in this analysis. Elsewhere the domestic champions, particularly in markets such as Indonesia, Thailand and India, still have very significant buffers. Indeed for the domestic champions in those markets, the biggest risks are arguably macro related liquidity issues rather than individual bank capital/solvency risk as was the case in the AFC.

**Figure 42: Banks' safety margins (2014E)**



Source: Company data, UBS estimates

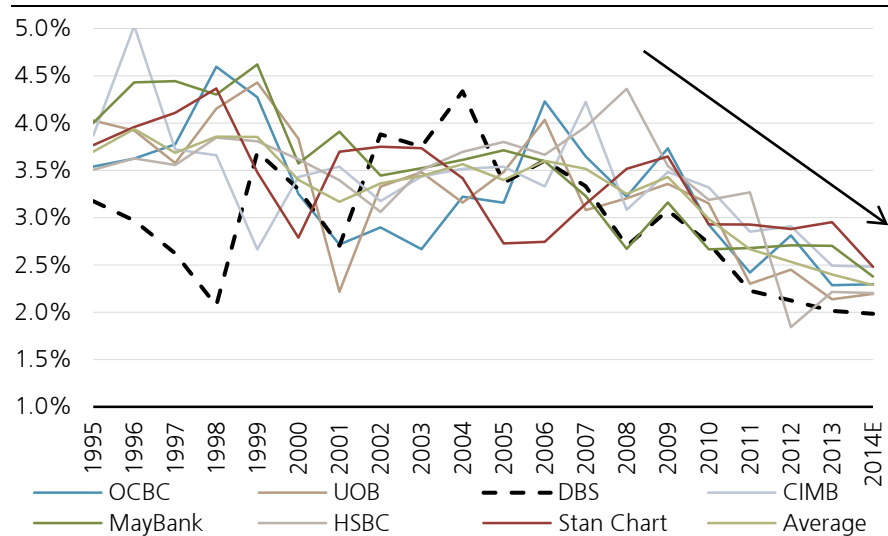
**Figure 43: Average safety margins Pan-regionals Vs domestic champions**



Source: Company data, UBS estimates

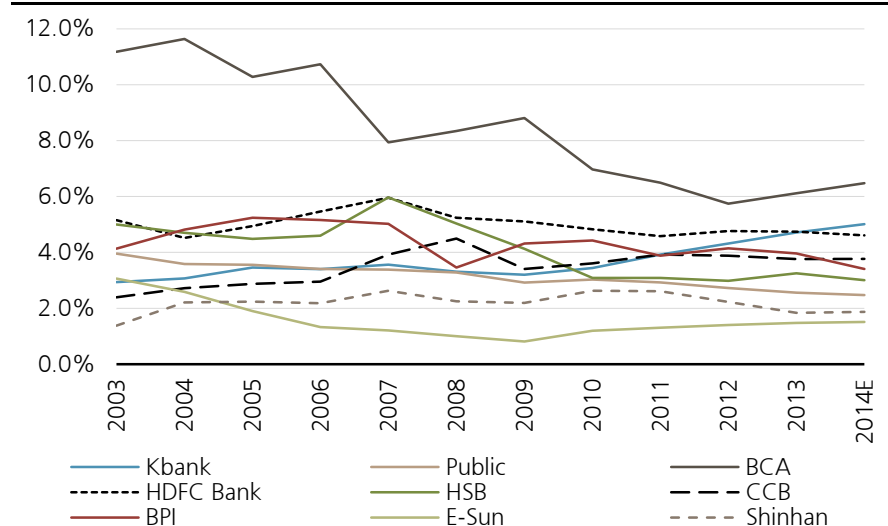
It is important to mention that the ultra-low safety margins at many of the pan-regionals is also a function of the very low prevailing interest rates in their core home markets of Singapore and HK. This has served to depress net interest margins that will recover if US rates rise (which is quite possible on a 1-2 year view). We would therefore hope that these have now reached a cyclical low after 4-5 years of declines.

**Figure 44: Pan-regional bank "safety margins" are now close to all-time lows.**



Source: Company data, UBS estimates

**Figure 45: Domestic champions' safety margins remain comfortably higher than pan-regional peers.**



Source: Company data, UBS estimates

## Are there any reasons why the outperformance of domestic champions would change in the next 5-10 years?

Much of Asia is in a very different place in the credit cycle to where it was 3, 5 and 10 years ago so we do need to be careful when drawing conclusions relating to banks' share price performance over this timeframe. For example, over the past decade many ASEAN markets have undergone a period of significant leveraging up post the AFC. With relatively high levels of consumer debt in markets such as Thailand and Malaysia, this clearly will not be such a powerful driver of returns going forward.

With scope to continue to compound asset bases in a number of markets which is now more restricted, it will be interesting to see if ROA start to come under pressure as competition intensifies for a smaller growth "pie". We feel we have seen a degree of this in Malaysia already. It may also lead to a shift in capital return policy in markets such as Thailand where lower levels of volume growth has the potential to lead to significant capital build over the next 2-3 years if volume growth does indeed remain subdued.

We do see scope for further restructuring to potentially boost returns at the UK listed pan-regionals. This could lead to a re-rating if executed well. As deleveraging at these banks comes to an end at some stage in the next 12-24 months, we think investors' attention will increasingly shift from capital build to return on capital at banks like HSBC. This will increase the pressure on management to address large swathes of the group's capital that is allocated to regions that are still not making an acceptable return (e.g. the Americas).

It must also be remembered that over a half of the past decade, we have seen a highly unusual interest rate environment with US rates effectively at zero for the first time in history. An end to ultra-low interest rates would also arguably favour the pan-regionals in HK and Singapore with their large US\$/US\$ linked funding bases. Here again we have a preference for the likes of HSBC that have lower exposure to a potential property price correction if US rates do rise. The biggest risk we see for HSBC is actually its global nature. As a G-SIFI rated bank, the regulatory burdens on the group look set to increase only further with the next potential hurdle, the new total loss absorbing capital (TLAC) rules which is to be discussed at the upcoming G20 meeting in mid-November. This could push the required TLAC to over 20% for the biggest G-SIFI banks resulting in a further drag to group EPS.

**As a G-SIFI rated bank, the regulatory burdens on HSBC look only set to increase further with the next potential hurdle the new total loss absorbing capital (TLAC) rules**

## Our current most and least preferred list

Given this report has shown that one effective way to invest in Asian banks for the past 1,3,5 and 10 years has been to just buy the high RoA and high growth domestic champions, it does seem odd that in our most preferred list we currently have two pan-regional banks. This reflects our belief that we are late in the credit cycle which leads us to look for a mix of relatively low risk "10% compounders" as well as some growth in the high RoA banks that we still think have a scope to compound balance sheet growth. We are also conscious of the risk of interest rate rise in the US which will clearly favour the dollar-linked pan-regionals. We therefore include HSBC and OCBC. We believe OCBC looks oversold post its recent acquisition of Wing Hang Bank. Whilst we are not fans of this deal (nor the increase in stake in Bank of Ningbo), we do not view Wing Hang as a high risk bank. We also include Bangkok Bank. Whilst this is not the most exciting of franchises, it does have a very well capitalised balance sheet. It also generates a

very respectable RoA. We see its c4% dividend yield, low risk profile and high single digit book value growth as fitting our desire for "10% compounders" over the next 6-12 months.

We have switched our least preferred China bank to Chongqing Rural Commercial Bank from Citic Bank. We note the large discount Citic Bank is trading at in the H-share market relative to the A-Shares. This c20% gap could close with the introduction of MMA. On the theme of MMA, we also now believe that whilst this is an exciting initiative for HKEx, we think it is now more than fully reflected in its valuation at 35x 1 year forward earnings. We therefore also add HKEx to our least preferred list in this update.

**Figure 46: Asian bank most and least preferred list**

Stock	Country	Rating	Unit	10 Nov Price	Price Target	Est. Upside/Downside	Mkt Cap (US\$bn)	2014E P/E (x)	2015E P/E (x)	2014E P/BV (x)	2014E ROE (%)	2015E ROE (%)	2014E Dividend yield (%)	2015E Dividend yield (%)
<b>Most Preferred</b>														
HDFC Bank	IN	Buy	INR	904	1,100	22%	34	24.9	20.8	4.85	21.3	21.9	0.76%	0.94%
E-Sun Financial	TW	Buy	TWD	19.5	21.7	11%	4	12.9	11.3	1.32	11.4	11.2	1.71%	2.40%
HSBC	HK	Buy	HKD	78.1	92.8	19%	192	12.4	11.7	1.03	8.6	8.7	5.16%	5.36%
OCBC	SG	Buy	SGD	10.2	10.7	5%	31	9.7	10.4	1.39	14.8	12.8	3.43%	3.92%
Bangkok Bank	TH	Buy	THB	197.0	240.0	22%	11	10.4	9.2	1.15	11.6	12.0	3.37%	4.02%
<b>Least Preferred</b>														
Woori Financial	KR	Sell	KRW	11,900	12,000	1%	7	5.0	8.5	0.46	9.7	5.2	0.00%	0.00%
Bank of East Asia	HK	Sell	HKD	32.3	29.5	-9%	10	13.1	13.6	1.09	8.5	7.9	3.47%	3.56%
CQRCB	CN	Sell	HKD	4.3	3.2	-25%	5	4.7	5.1	0.77	17.2	14.3	4.21%	3.95%
HKEx	HK	Sell	HKD	183.6	160.0	-13%	28	42.9	34.0	9.74	N.M.	N.M.	2.11%	2.65%
SGX	SG	Neutral	SGD	7.1	6.8	-4%	6	23.8	22.0	8.27	N.M.	N.M.	3.94%	4.08%

Source: Company data, UBS estimates

## APPENDIX

**Figure 47: Pan regional banks performance Vs Domestic Champions: 1 yr (US\$)**

1yr	Kbank	Public Bank	BCA	HDFC Bank	HSB	CCB	BPI	E-Sun	Shinhan	Average	CAGR
OCBC	-15.0%	0%	-9%	-27%	-11%	-1%	0%	-7%	-5%	-8%	
UOB	-3%	12%	3%	-16%	1%	10%	12%	5%	7%	3%	
DBS	6%	21%	12%	-6%	11%	20%	21%	14%	16%	13%	
CIMB	-33%	-18%	-27%	-46%	-29%	-20%	-18%	-25%	-23%	-27%	
Maybank	-18%	-3%	-12%	-31%	-14%	-5%	-3%	-10%	-8%	-12%	
HSBC	-21%	-6%	-15%	-34%	-17%	-8%	-6%	-13%	-11%	-15%	
Stan Chart	-41%	-26%	-35%	-54%	-37%	-28%	-26%	-33%	-31%	-35%	
										-11.4%	-11.4%

Source: Thomson Datastream Financial, UBS estimates

**Figure 48: Pan regional banks performance Vs Domestic Champions: 3 yr (US\$)**

3yr	Kbank	Public Bank	BCA	HDFC Bank	HSB	CCB	BPI	E-Sun	Shinhan	Average	CAGR
OCBC	-11%	-36%	30%	9%	-27%	21%	-5%	-16%	20%	-2%	
UOB	3%	-22%	44%	23%	-13%	36%	9%	-2%	35%	12%	
DBS	18%	-6%	60%	38%	2%	51%	25%	14%	50%	28%	
CIMB	-60%	-85%	-19%	-40%	-76%	-27%	-54%	-65%	-28%	-51%	
Maybank	-7%	-32%	34%	13%	-23%	26%	-1%	-12%	25%	2%	
HSBC	-10%	-35%	31%	10%	-26%	23%	-4%	-15%	22%	0%	
Stan Chart	-66%	-90%	-24%	-46%	-82%	-33%	-60%	-70%	-34%	-56%	
										-9.4%	-3.0%

Source: Thomson Datastream Financial, UBS estimates

**Figure 49: Pan regional banks performance Vs Domestic Champions: 5 yr (US\$)**

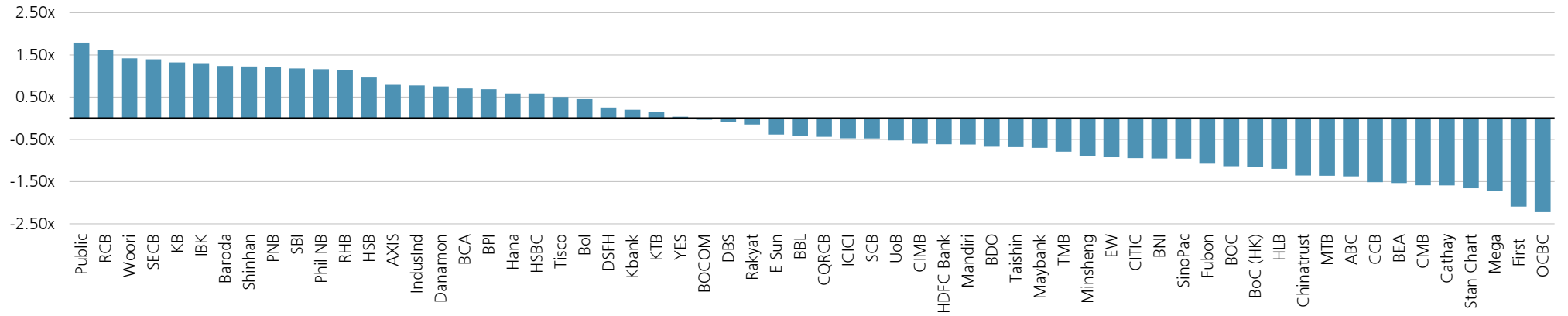
5yr	Kbank	Public Bank	BCA	HDFC Bank	HSB	CCB	BPI	E-Sun	Shinhan	Average	CAGR
OCBC	-55%	-85%	-3%	-4%	14%	52%	-34%	-17%	47%	-9%	
UOB	-63%	-94%	-12%	-13%	5%	43%	-42%	-26%	39%	-18%	
DBS	-45%	-75%	7%	5%	23%	62%	-24%	-7%	57%	0%	
CIMB	-98%	-128%	-46%	-47%	-29%	9%	-77%	-60%	4%	-52%	
Maybank	-13%	-43%	39%	38%	56%	94%	8%	25%	89%	33%	
HSBC	-106%	-136%	-54%	-55%	-37%	1%	-85%	-68%	-4%	-60%	
HSBC	-128%	-158%	-76%	-77%	-59%	-21%	-106%	-90%	-25%	-82%	
										-27.0%	-4.9%

Source: Thomson Datastream Financial, UBS estimates

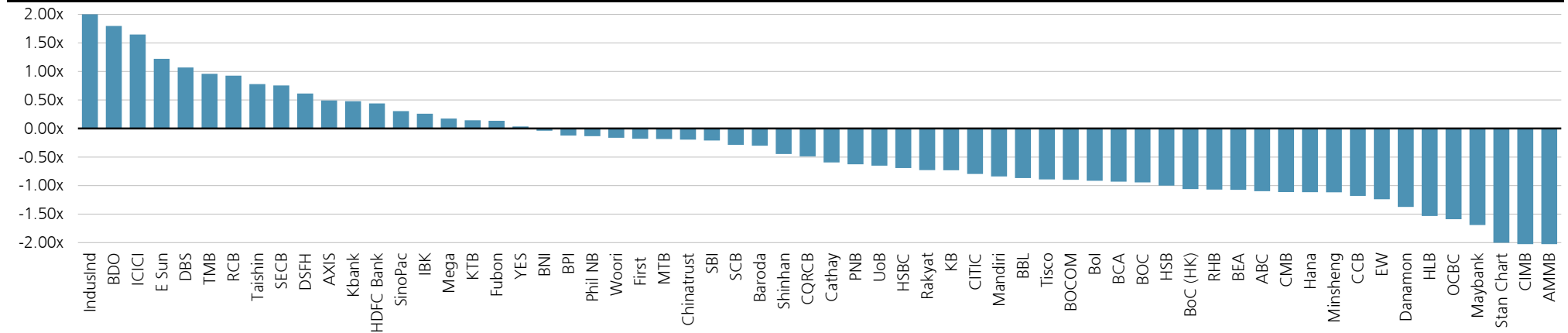
**Figure 50: Pan regional banks performance Vs Domestic Champions: 10 yr (US\$)**

10yr	Kbank	Public Bank	BCA	HDFC Bank	HSB	CCB	BPI	E-Sun	Shinhan	Average	CAGR
OCBC	-152%	-337%	-137%	-127%	89%	39%	-59%	122%	96%	-52%	
UOB	-179%	-364%	-164%	-154%	62%	12%	-86%	95%	69%	-79%	
DBS	-211%	-396%	-196%	-185%	30%	-19%	-118%	64%	37%	-110%	
CIMB	-109%	-295%	-94%	-84%	132%	82%	-16%	165%	139%	-9%	
Maybank	-195%	-380%	-180%	-170%	46%	-3%	-102%	80%	53%	-95%	
HSBC	-310%	-495%	-295%	-285%	-69%	-118%	-217%	-35%	-62%	-210%	
Stan Chart	-299%	-484%	-284%	-274%	-58%	-108%	-206%	-25%	-51%	-199%	
										-107.5%	-7.6%

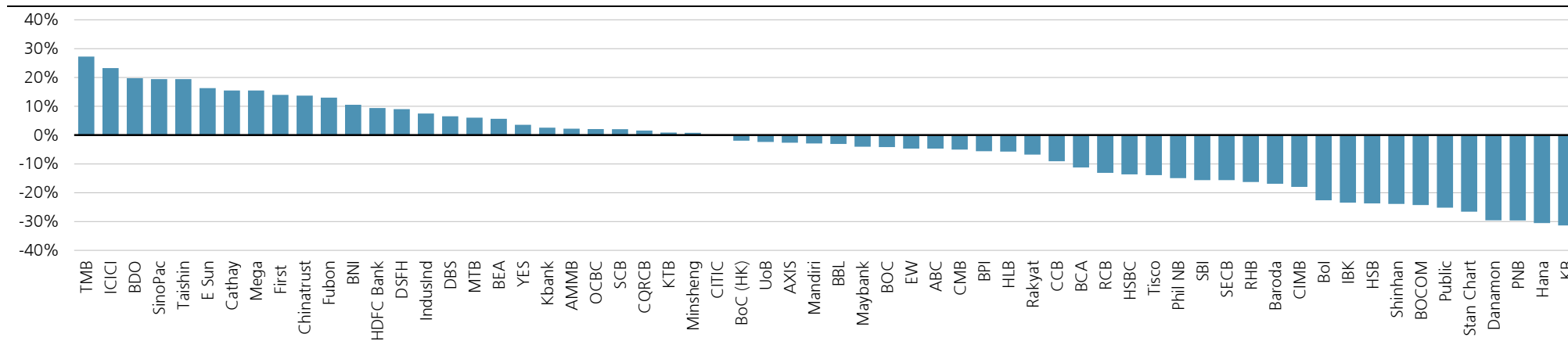
Source: Thomson Datastream Financial, UBS estimates

**Figure 51: Number of standard deviations Asian banks are trading away from their 5 year average implied cost of equity**

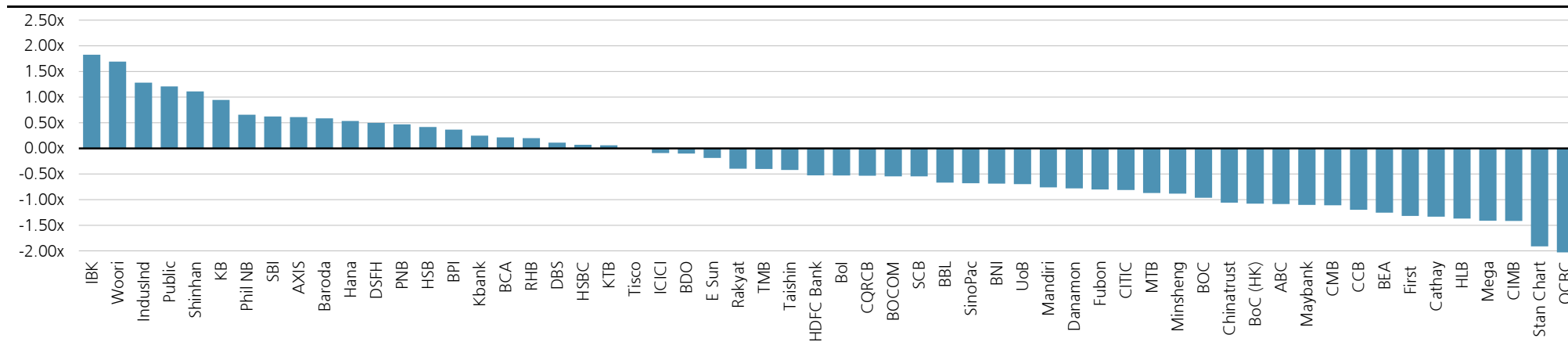
Source: Thomson Datastream Financial, UBS estimates

**Figure 52: Number of standard deviations Asian banks are trading away from their 5 year average 1 year forward price to book**

Source: Thomson Datastream Financial, UBS estimates

**Figure 53: Consensus forecast 1 year forward RoE Vs 5 year average 1-year forward RoE expectations**

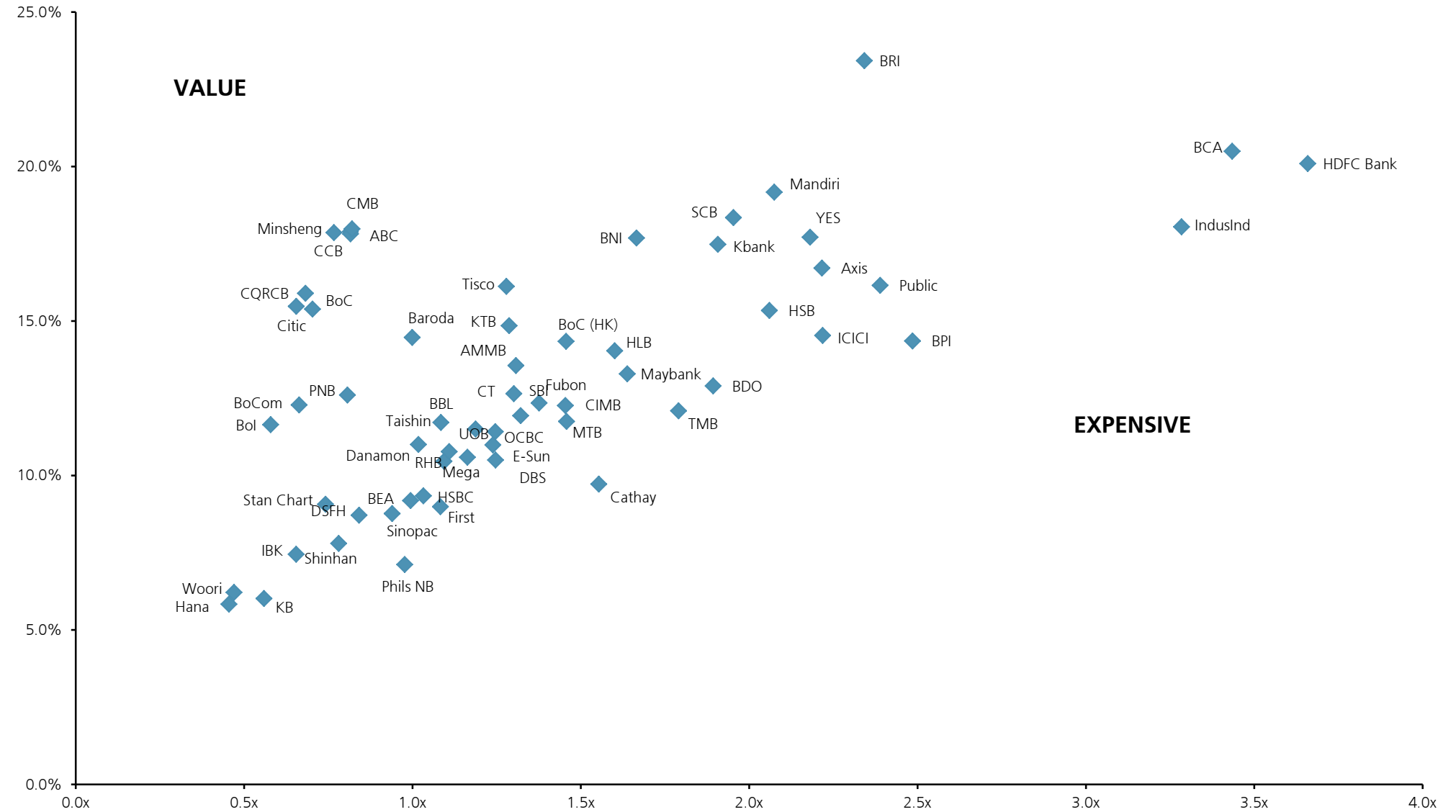
Source: Thomson Datastream Financial, UBS estimates

**Figure 54: Number of standard deviations Asian banks are trading away from their 5 year average 1 year forward P/E**

Source: Thomson Datastream Financial, UBS estimates



Figure 55: Asian banks 1 year forward RoE Vs P/BV



Source: Thomson Datastream Financial, UBS estimates



## Statement of Risk

The main risk for Asian banks is inflation in countries with current account deficits and low FX reserves which poses more challenges for banks in India and Korea as higher interest rates would hurt margins for banks with high LDRs and hurt credit quality. Also, asymmetric increase in deposit rates and fewer rises in lending rates could hurt current high loan margins (4%) for Chinese banks. Banks with equity/asset ratios below 5% and ROAs below 1% are vulnerable to economic and regulatory risk, especially if still growing loans by more than 15% per annum, as they will encounter capital shortages.

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Buy	FSR is > 6% above the MRA.	47%	34%
Neutral	FSR is between -6% and 6% of the MRA.	42%	28%
Sell	FSR is > 6% below the MRA.	11%	21%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 September 2014.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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**UBS AG Hong Kong Branch:** Stephen Andrews, CFA; Jina Lee.

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<b>Bank Central Asia</b> <sup>4, 5</sup>	BBCA.JK	Sell	N/A	Rp12,550	10 Nov 2014
<b>Bank of the Philippine Islands</b>	BPI.PS	Neutral	N/A	P95.95	10 Nov 2014
<b>China Construction Bank</b> <sup>2, 4, 5, 16a</sup>	0939.HK	Buy	N/A	HK\$5.69	10 Nov 2014
<b>Chongqing Rural Commercial Bank</b>	3618.HK	Sell	N/A	HK\$4.27	10 Nov 2014
<b>CIMB Group Holdings Berhad</b>	CIMB.KL	Buy	N/A	RM6.33	10 Nov 2014
<b>DBS Group Holdings</b> <sup>22</sup>	DBSM.SI	Neutral	N/A	S\$19.65	10 Nov 2014
<b>E. Sun Financial Holding</b>	2884.TW	Buy	N/A	NT\$19.50	10 Nov 2014
<b>Hang Seng Bank</b> <sup>22</sup>	0011.HK	Sell	N/A	HK\$130.40	10 Nov 2014
<b>HDFC Bank</b> <sup>16b</sup>	HDBK.BO	Buy	N/A	Rs904.20	10 Nov 2014
<b>Hong Kong Exchanges &amp; Clearing</b> <sup>16a</sup>	0388.HK	Sell	N/A	HK\$183.60	10 Nov 2014
<b>HSBC Holdings</b> <sup>2, 4, 5, 6, 13, 16a, 16b, 22</sup>	0005.HK	Buy	N/A	HK\$78.10	10 Nov 2014
<b>Kasikornbank</b>	KBANK.BK	Buy	N/A	Bt236.00	10 Nov 2014
<b>Malayan Banking</b>	MBBM.KL	Buy	N/A	RM9.75	10 Nov 2014
<b>OCBC</b>	OCBC.SI	Buy	N/A	S\$10.20	10 Nov 2014
<b>Public Bank</b> <sup>2, 4, 5</sup>	PUBM.KL	Buy	N/A	RM18.28	10 Nov 2014
<b>Shinhan Financial Group</b> <sup>16b</sup>	055550.KS	Buy	N/A	Won48,750	10 Nov 2014
<b>Singapore Exchange</b>	SGXL.SI	Neutral	N/A	S\$7.10	10 Nov 2014
<b>Standard Chartered</b> <sup>2, 4, 13, 14, 16a</sup>	2888.HK	Buy	N/A	HK\$116.40	10 Nov 2014
<b>United Overseas Bank</b> <sup>2, 4, 5</sup>	UOBH.SI	Neutral	N/A	S\$23.45	10 Nov 2014
<b>Woori Finance Holdings</b> <sup>16b</sup>	053000.KS	Sell	N/A	Won11,900	10 Nov 2014

Source: UBS. All prices as of local market close.

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Additional Prices: Bank of East Asia, HK\$32.30 (10 Nov 2014); Bank Negara Indonesia, Rp5,675 (10 Nov 2014); Banco de Oro Universal Bank, P101.00 (10 Nov 2014); Bank Danamon Indonesia, Rp4,065 (10 Nov 2014); Bank Rakyat Indonesia, Rp10,675 (10 Nov 2014); China CITIC Bank, HK\$5.09 (10 Nov 2014); TMB Bank, Bt3.02 (10 Nov 2014); ICICI Bank, Rs1,667.00 (10 Nov 2014); SinoPac Financial Holding, NT\$13.10 (10 Nov 2014); Cathay Financial Holding, NT\$50.00 (10 Nov 2014); Mega Financial Holding, NT\$25.30 (10 Nov 2014); First Financial Holding, NT\$18.70 (10 Nov 2014); Fubon Financial Holding, NT\$51.40 (10 Nov 2014); Dah Sing Finan'l, HK\$49.50 (10 Nov 2014); IndusInd Bank, Rs725.20 (10 Nov 2014); YES Bank, Rs674.70 (10 Nov 2014); AMMB Holdings, RM6.46 (10 Nov 2014); China Minsheng Banking, HK\$7.94 (10 Nov 2014); Bank of China (Hong Kong), HK\$25.75 (10 Nov 2014); TISCO Financial Group, Bt44.75 (10 Nov 2014); Phil. National Bank, P83.25 (10 Nov 2014); Bank of Baroda, Rs982.85 (10 Nov 2014); Bank of India, Rs286.50 (10 Nov 2014); Industrial Bank of Korea, Won16,350 (10 Nov 2014); Bank of Communications, HK\$5.82 (10 Nov 2014); Hana Financial Group, Won35,100 (10 Nov 2014); KB Financial Group, Won40,200 (10 Nov 2014); Source: UBS. All prices as of local market close.

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