

# 3Q: Earnings exactly in line; Maintain Buy and PO

## 3Q: Earnings exactly in line; Top-line surprise on volume

Corp Bk's 3Q earnings came in at Rs4.0bn, for +5% yoy growth (exactly in line), driven by treasury gains, partly offset by higher provisions, driven by restructuring-related NPL. Top-line growth was modest (~2% yoy), but was ~5% ahead qoq, supported by 28% yoy loan growth, which is slightly disconcerting in this environment. Margins, however, declined by 30bps yoy, although they were up 23bps qoq, to 2.7%. Core fee growth was strong (+28% yoy). CASA is down yoy/qoq by +320/70bps, and share of wholesale deposits (Bulk + CDs) was at +44%. Tier 1 at 8.9%. We slightly adjust our estimates following 3Q results.

## Slippages down +25% qoq; Asset quality is manageable

Corp Bank's slippages declined by +25% qoq, to Rs3.7bn, and this too includes exposure of Rs1.6bn to one aviation a/c. Headline gross/net NPLs increased qoq by 16/19%, with provision cover at ~63%. Fresh restructuring during 3Q was Rs7.4bn (of which one telecom a/c was ~Rs5bn). The total restructured book stands at 4.9% and slippages to date are ~16%. Corp. Bk's exposure to 2G telco's / T&D (SEB) is only 16/320bps of loans. We estimate FY12/13 slippages at ~Rs16/20bn (vs. Rs10.4bn in 9M12) and credit costs at +60/80bps in FY12/13.

## Maintain Buy and PO on positive risk-return

We maintain our Buy and our PO, as risk-return remains positive, with the stock trading at 0.7x FY13 adj. book, with RoEs at still +20%. Our PO is still at a +40% discount to Gordon theory multiples. We believe the discount may remain, owing to 1) weak liability franchise; 2) we remain worried on Corp. Bk's +60% SME loan growth (~30% of loans to SME / mid-corporate) that makes the loan profile riskier and; 3) low stock liquidity (Govt. & LIC own ~84% of stock).

### Estimates (Mar)

| (Rs)                             | 2010A  | 2011A  | 2012E  | 2013E  | 2014E  |
|----------------------------------|--------|--------|--------|--------|--------|
| Net Income (Adjusted - mn)       | 11,703 | 14,133 | 15,701 | 17,601 | 20,161 |
| EPS                              | 81.59  | 95.41  | 106.00 | 118.82 | 136.10 |
| EPS Change (YoY)                 | 31.1%  | 16.9%  | 11.1%  | 12.1%  | 14.5%  |
| Dividend / Share                 | 16.50  | 20.00  | 23.00  | 28.00  | 35.00  |
| Pre-exceptional EPS              | 81.59  | 95.41  | 106.00 | 118.82 | 136.10 |
| Pre-exceptional EPS Change (YoY) | 31.1%  | 16.9%  | 11.1%  | 12.1%  | 14.5%  |
| Book Value / Share               | 402.60 | 481.86 | 540.41 | 628.43 | 726.03 |

### Valuation (Mar)

|                              | 2010A  | 2011A  | 2012E  | 2013E  | 2014E  |
|------------------------------|--------|--------|--------|--------|--------|
| P/E                          | 5.1x   | 4.4x   | 3.9x   | 3.5x   | 3.1x   |
| Dividend Yield               | 3.97%  | 4.81%  | 5.54%  | 6.74%  | 8.43%  |
| Pre-exceptional PE           | 5.09x  | 4.35x  | 3.92x  | 3.50x  | 3.05x  |
| Price / Book                 | 1.07x  | 0.862x | 0.769x | 0.661x | 0.572x |
| RoE / PB                     | 20.58x | 25.39x | 26.98x | 30.76x | 35.12x |
| Price / Pre-Provision Profit | 2.79x  | 2.35x  | 2.06x  | 1.73x  | 1.53x  |

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### Stock Data

|                              |                    |
|------------------------------|--------------------|
| Price                        | Rs415.40           |
| Price Objective              | Rs450.00           |
| Date Established             | 8-Jan-2012         |
| Investment Opinion           | C-1-7              |
| Volatility Risk              | HIGH               |
| 52-Week Range                | Rs335.00-Rs658.00  |
| Mrkt Val / Shares Out (mn)   | US\$1,249 / 148.1  |
| Market Value (mn)            | Rs61,533           |
| Average Daily Volume         | 61,572             |
| BofAML Ticker / Exchange     | XCRRF / BSE        |
| Bloomberg / Reuters          | CRPBK IN / CRBK.BO |
| ROE (2012E)                  | 20.7%              |
| Total Dbt to Cap (Mar-2011A) | NA                 |
| Est. 5-Yr EPS / DPS Growth   | 20.0% / 20.0%      |
| Free Float                   | 16.5%              |

### Key Changes

| (Rs)      | Previous | Current |
|-----------|----------|---------|
| 2012E EPS | 106.50   | 106.00  |
| 2013E EPS | 118.74   | 118.82  |
| 2014E EPS | 134.29   | 136.10  |

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Refer to important disclosures on page 7 to 9. Analyst Certification on Page 4. Price Objective Basis/Risk on page 4. Link to Definitions on page 4. 11133096

# iQprofile<sup>SM</sup> Corporation Bank

| Key Income Statement Data (Mar)        | 2010A         | 2011A         | 2012E         | 2013E         | 2014E         |
|--|---------------|---------------|---------------|---------------|---------------|
| <b>(Rs Millions)</b>                   |               |               |               |               |               |
| Net Interest Income                    | 19,033        | 29,397        | 32,103        | 38,309        | 43,825        |
| Net Fee Income                         | 6,458         | 7,594         | 8,657         | 9,782         | 11,249        |
| Securities Gains / (Losses)            | 6,157         | 2,095         | 3,500         | 3,750         | 3,750         |
| Other Income                           | 2,318         | 3,555         | 4,300         | 4,909         | 5,457         |
| <b>Total Non-Interest Income</b>       | <b>14,934</b> | <b>13,244</b> | <b>16,457</b> | <b>18,440</b> | <b>20,456</b> |
| Total Operating Income                 | 33,967        | 42,641        | 48,560        | 56,749        | 64,282        |
| Operating Expenses                     | (12,600)      | (16,417)      | (18,662)      | (21,210)      | (24,145)      |
| <b>Pre-Provision Profit</b>            | <b>21,367</b> | <b>26,224</b> | <b>29,898</b> | <b>35,539</b> | <b>40,136</b> |
| Provisions Expense                     | (3,453)       | (5,478)       | (6,573)       | (9,531)       | (10,484)      |
| <b>Operating Profit</b>                | <b>17,915</b> | <b>20,746</b> | <b>23,325</b> | <b>26,008</b> | <b>29,652</b> |
| Non-Operating Income                   | (1,292)       | (1,410)       | (2,800)       | (2,223)       | (2,223)       |
| <b>Pre-Tax Income</b>                  | <b>16,623</b> | <b>19,336</b> | <b>20,525</b> | <b>23,785</b> | <b>27,429</b> |
| Net Income to Comm S/Hold.             | 11,703        | 14,133        | 15,701        | 17,601        | 20,161        |
| <b>Adjusted Net Income (Operating)</b> | <b>11,703</b> | <b>14,133</b> | <b>15,701</b> | <b>17,601</b> | <b>20,161</b> |

## Key Balance Sheet Data

|                                    |                |                |                  |                  |                  |
|------------------------------------|----------------|----------------|------------------|------------------|------------------|
| Total Assets                       | 1,116,673      | 1,435,086      | 1,708,565        | 1,931,337        | 2,226,150        |
| Average Interest Earning Assets    | 665,232        | 856,187        | 1,065,667        | 1,234,763        | 1,423,721        |
| <b>Weighted Risk Assets</b>        | <b>698,550</b> | <b>900,336</b> | <b>1,003,528</b> | <b>1,269,544</b> | <b>1,581,433</b> |
| Total Gross Customer Loans         | 636,563        | 872,429        | 1,051,834        | 1,216,914        | 1,465,907        |
| Total Customer Deposits            | 927,337        | 1,167,475      | 1,417,258        | 1,607,966        | 1,867,092        |
| <b>Tier 1 Capital</b>              | <b>64,616</b>  | <b>78,239</b>  | <b>87,051</b>    | <b>100,089</b>   | <b>114,547</b>   |
| Tangible Equity                    | 64,616         | 78,239         | 87,051           | 100,089          | 114,547          |
| <b>Common Shareholders' Equity</b> | <b>57,749</b>  | <b>71,378</b>  | <b>80,051</b>    | <b>93,089</b>    | <b>107,547</b>   |

## Key Metrics

|   |              |              |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|
| Net Interest Margin                           | 2.86%        | 3.43%        | 3.01%        | 3.10%        | 3.08%        |
| <b>Tier 1 Ratio</b>                           | <b>9.3%</b>  | <b>8.7%</b>  | <b>8.7%</b>  | <b>7.9%</b>  | <b>7.2%</b>  |
| Effective Tax Rate                            | 29.6%        | 26.9%        | 23.5%        | 26.0%        | 26.5%        |
| Loan / Assets Ratio                           | 57.0%        | 60.8%        | 61.6%        | 63.0%        | 65.8%        |
| <b>Loan / Deposit Ratio</b>                   | <b>68.6%</b> | <b>74.7%</b> | <b>74.2%</b> | <b>75.7%</b> | <b>78.5%</b> |
| Oper Leverage (Inc Growth - Cost Growth)      | 1.0%         | -4.8%        | 0.2%         | 3.2%         | -0.6%        |
| Gearing (Assets / Equity)                     | 19.3x        | 20.1x        | 21.3x        | 20.7x        | 20.7x        |
| Tangible Common Equity / Assets               | 5.8%         | 5.5%         | 5.1%         | 5.2%         | 5.1%         |
| Tangible Common Equity / WRAs                 | 9.3%         | 8.7%         | 8.7%         | 7.9%         | 7.2%         |
| Revenue Growth                                | 21.4%        | 25.5%        | 13.9%        | 16.9%        | 13.3%        |
| Operating Expense Growth                      | 20.4%        | 30.3%        | 13.7%        | 13.7%        | 13.8%        |
| Provisions Expense Growth                     | 92.9%        | 58.7%        | 20.0%        | 45.0%        | 10.0%        |
| Operating Revenue / Average Assets            | 3.4%         | 3.3%         | 3.1%         | 3.1%         | 3.1%         |
| Operating Expenses / Average Assets           | 1.3%         | 1.3%         | 1.2%         | 1.2%         | 1.2%         |
| <b>Pre-Provision ROA</b>                      | <b>2.2%</b>  | <b>2.1%</b>  | <b>1.9%</b>  | <b>2.0%</b>  | <b>1.9%</b>  |
| ROA   | 1.2%         | 1.1%         | 1.0%         | 1.0%         | 1.0%         |
| <b>Pre-Provision ROE</b>                      | <b>40.0%</b> | <b>40.6%</b> | <b>39.5%</b> | <b>41.1%</b> | <b>40.0%</b> |
| ROE   | 21.9%        | 21.9%        | 20.7%        | 20.3%        | 20.1%        |
| RoTE  | 18.1%        | 18.1%        | 18.0%        | 17.6%        | 17.6%        |
| RoWRAs  | 1.7%         | 1.6%         | 1.6%         | 1.4%         | 1.3%         |
| Dividend Payout Ratio                         | 20.2%        | 21.0%        | 21.7%        | 23.6%        | 25.7%        |
| <b>Efficiency Ratio (Cost / Income Ratio)</b> | <b>45.3%</b> | <b>40.5%</b> | <b>41.4%</b> | <b>40.0%</b> | <b>39.9%</b> |
| <b>Total Non-Interest Inc / Operating Inc</b> | <b>44%</b>   | <b>31%</b>   | <b>34%</b>   | <b>32%</b>   | <b>32%</b>   |
| Market-Related Revenue / Total Revenues       | 20.9%        | 7.4%         | 9.7%         | 9.0%         | 8.2%         |
| Provisioning Burden as % of PPP               | 16.2%        | 20.9%        | 22.0%        | 26.8%        | 26.1%        |
| NPLs plus Foreclosed Real Estate / Loans      | 1.0%         | 0.9%         | 1.5%         | 2.3%         | 2.6%         |
| <b>Loan Loss Reserves / NPLs</b>              | <b>69.7%</b> | <b>49.7%</b> | <b>60.2%</b> | <b>65.3%</b> | <b>71.6%</b> |
| Loan Loss Reserves / Total Loans              | 0.7%         | 0.5%         | 0.9%         | 1.5%         | 1.9%         |
| Provisions Expense / Average Loans            | 0.6%         | 0.7%         | 0.7%         | 0.8%         | 0.8%         |

## Other Metrics

|                                 |       |      |      |      |      |
|---------------------------------|-------|------|------|------|------|
| Income / Employee               | 2.58  | 3.08 | 3.49 | 4.06 | 4.59 |
| (Operating Expenses) / Employee | 0.959 | 1.18 | 1.34 | 1.52 | 1.72 |
| Pre-Provision Profit / Employee | 1.63  | 1.89 | 2.15 | 2.55 | 2.86 |
| Net Profit / Employee           | 0.890 | 1.02 | 1.13 | 1.26 | 1.44 |

## Company Description

Corporation Bank, established in 1906, is a mid-sized state-owned bank with a balance sheet size of Rs970bn. It has a network of +1000 branches with larger presence in southern India. LIC, the largest life insurer in India, has taken a strategic stake of 26% in the bank.

## Investment Thesis

While Corporation Bank is a small government bank based in the southern city of Mangalore, it has a strategic alliance with LIC, India's largest life-insurance company. LIC has a 27% stake in the bank. The obvious synergies of this alliance are in insurance distribution and treasury. Additionally, its better-than-industry asset quality and high coverage levels should provide support to earnings and valuations in a rising interest rate scenario.

## Stock Data

Price to Book Value

0.8x

## 3QFY12 Result Summary

Table 1: 3QFY12 Result Summary

| Particulars                  | 3QFY11        | 3QFY12        | yoy grth      | Remarks   |
|------------------------------|---------------|---------------|---------------|---|
| Interest earned              | 24,713        | 33,628        | 36.1%         |   |
| - on Advances / Bills        | 17,214        | 24,574        | 42.8%         | Led by 28% yoy loan growth: growth from SME (+60% yoy)  |
| - Income on investments      | 6,308         | 8,163         | 29.4%         |   |
| - on bal with RBI and others | 70            | 116           | 67.0%         |   |
| - Others                     | 1,121         | 775           | -30.8%        |   |
| Interest Expended            | 16,289        | 25,010        | 53.5%         |   |
| <b>Net Interest Income</b>   | <b>8,424</b>  | <b>8,618</b>  | <b>2.3%</b>   | 5% ahead of estimates. Margins decline 30bps yoy but up 23bps qoq   |
| Other income                 | 2,645         | 4,417         | 67.0%         |   |
| - Treasury Income            | 324           | 1,115         | 244.0%        |   |
| - Other Income               | 2,321         | 3,301         | 42.3%         | Core fee income up +28% yoy   |
| <b>Operating income</b>      | <b>11,069</b> | <b>13,035</b> | <b>17.8%</b>  |   |
| Total Operating Expenses     | 3,699         | 4,775         | 29.1%         |   |
| Employee expenses            | 1,830         | 2,473         | 35.1%         | Includes Rs850mn of AS-15 and 2nd Pension charge  |
| Other Operating expenses     | 1,869         | 2,302         | 23.2%         |   |
| <b>Operating profit</b>      | <b>7,369</b>  | <b>8,259</b>  | <b>12.1%</b>  | 19% higher than estimates on topline and treasury gains   |
| Provisions and contingencies | 2,500         | 3,015         | 20.6%         | Higher owing to NPV on restructured loans   |
| - NPL provisions             | 1,534         | 1,769         | 15.3%         | Gross NPLs (at 1.4%) up 16% qoq and Net (at 1.0%) up 19%. Cover at -63%. 3Q Slippages at Rs3.7bn, including Rs1.6bn of KFA. |
| - Investment provisions      | 86            | 504           | 484.5%        |   |
| - Other provisions           | 880           | 742           | -15.7%        | Restructuring related provision hit   |
| <b>PBT</b>                   | <b>4,869</b>  | <b>5,244</b>  | <b>7.7%</b>   |   |
| Provision for Tax            | 1,045         | 1,222         | 17.0%         |   |
| <b>PAT</b>                   | <b>3,824</b>  | <b>4,022</b>  | <b>5.2%</b>   | Earnings exactly in line with estimates   |
| <b>Margin Analysis</b>       | <b>3QFY11</b> | <b>3QFY12</b> | <b>+/-bps</b> |   |
| Yield on Loans               | 10.12%        | 11.91%        | 1.79%         |   |
| Yield on Investments         | 7.30%         | 7.80%         | 0.50%         |   |
| Cost of Deposits             | 5.72%         | 7.64%         | 1.92%         |   |
| <b>Net Interest Margins</b>  | <b>2.96%</b>  | <b>2.66%</b>  | <b>-0.30%</b> |   |

Source: BofA Merrill Lynch Global Research Estimates

## Price objective basis & risk Corporation Bank (XCRRF)

We set our PO at Rs450 for Corporation Bk. We maintain our Buy and PO, as the risk-return remains positive, with stock trading at 0.7x FY13 adj. book, with RoEs of still +20%. Our PO is still at a +40% discount to Gordon theory multiples. We believe the discount may remain owing to weak liability franchise, as also we remain worried on its +60% SME loan growth that makes the loan profile riskier, high exposure to high risk sectors (Power, Textiles, Steel ,etc) at almost 17% of loans and, low stock liquidity (Govt. & LIC own 84% of stock). Risks are margin compression owing to mismatch between lending and deposit cuts. Low CASA deposit franchise may lead to a spike in funding costs and hurt margins in rising rate environment.

## Link to Definitions

### Financials

Click [here](#) for definitions of commonly used terms.

## Analyst Certification

I, Veekesh Gandhi, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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**India - Financials Coverage Cluster**

| Investment rating   | Company                               | BofA Merrill Lynch ticker | Bloomberg symbol | Analyst        |
|---------------------|---------------------------------------|---------------------------|------------------|----------------|
| <b>BUY</b>          |                                       |                           |                  |                |
|                     | Corporation Bank                      | XCRRF                     | CRPBK IN         | Veekesh Gandhi |
|                     | Federal Bank                          | XFDRF                     | FB IN            | Veekesh Gandhi |
|                     | HDFC                                  | HGDF                      | HDFC IN          | Rajeev Varma   |
|                     | HDFC Bank                             | XHDF                      | HDFCB IN         | Rajeev Varma   |
|                     | HDFC Bank                             | HDB                       | HDB US           | Rajeev Varma   |
|                     | ICICI Bank                            | ICIJF                     | ICICIB IN        | Rajeev Varma   |
|                     | ICICI Bank - A                        | IBN                       | IBN US           | Rajeev Varma   |
|                     | IndiaBulls Financial Services         | IBLFF                     | IBULL IN         | Veekesh Gandhi |
|                     | Indian Bank                           | INDIF                     | INBK IN          | Rajeev Varma   |
|                     | LIC Housing Finance, Ltd.             | LHFLF                     | LICHF IN         | Veekesh Gandhi |
|                     | Manappuram                            | XMGPF                     | MGFL IN          | Veekesh Gandhi |
|                     | Max India                             | XMJIF                     | MAX IN           | Rajeev Varma   |
|                     | Power finance corporation Ltd         | PWFEE                     | POWF IN          | Veekesh Gandhi |
|                     | Punjab                                | PUJBF                     | PNB IN           | Rajeev Varma   |
|                     | Reliance Capital                      | RLCCF                     | RCAPT IN         | Veekesh Gandhi |
|                     | Rural Electrification Corporation Ltd | XULEF                     | RECL IB          | Veekesh Gandhi |
|                     | SBI                                   | SBINF                     | SBIN IN          | Rajeev Varma   |
|                     | SBI -G                                | SBKFF                     | SBID LI          | Rajeev Varma   |
|                     | Shriram Transport Finance             | SHTFF                     | SHTF IN          | Veekesh Gandhi |
|                     | Yes Bank Ltd                          | YESBF                     | YES IN           | Veekesh Gandhi |
| <b>NEUTRAL</b>      |                                       |                           |                  |                |
|                     | Axis Bank                             | XAXSF                     | AXSB IN          | Rajeev Varma   |
|                     | Axis Bank - GDR                       | XBKSF                     | AXB LI           | Rajeev Varma   |
|                     | Bank of Baroda                        | BKBAF                     | BOB IN           | Rajeev Varma   |
| <b>UNDERPERFORM</b> |                                       |                           |                  |                |
|                     | Bank of India                         | XDIIF                     | BOI IN           | Rajeev Varma   |
|                     | Canara Bank                           | CNRKF                     | CBK IN           | Rajeev Varma   |
|                     | IDBI                                  | XDBIF                     | IDBI IN          | Veekesh Gandhi |
|                     | Infrastruct Dev                       | IFDFF                     | IDFC IN          | Rajeev Varma   |
|                     | Kotak Mahindra Bank                   | XXRVF                     | KMB IN           | Rajeev Varma   |
|                     | ORBC                                  | ORBCF                     | OBC IN           | Rajeev Varma   |
|                     | Union Bank India                      | UBOIF                     | UNBK IN          | Rajeev Varma   |

***iQmethod*<sup>SM</sup> Measures Definitions**

| <b>Business Performance</b> | <b>Numerator</b>   | <b>Denominator</b>  |
|-----------------------------|--|---|
| Return On Capital Employed  | $\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$   | Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill |
| Return On Equity            | Net Income   | Shareholders' Equity  |
| Operating Margin            | Operating Profit   | Sales   |
| Earnings Growth             | Expected 5-Year CAGR From Latest Actual  | N/A   |
| Free Cash Flow              | Cash Flow From Operations – Total Capex  | N/A   |
| <b>Quality of Earnings</b>  |  |   |
| Cash Realization Ratio      | Cash Flow From Operations  | Net Income  |
| Asset Replacement Ratio     | Capex  | Depreciation  |
| Tax Rate                    | Tax Charge   | Pre-Tax Income  |
| Net Debt-To-Equity Ratio    | Net Debt = Total Debt, Less Cash & Equivalents   | Total Equity  |
| Interest Cover              | EBIT   | Interest Expense  |
| <b>Valuation Toolkit</b>    |  |   |
| Price / Earnings Ratio      | Current Share Price  | Diluted Earnings Per Share (Basis As Specified)                     |
| Price / Book Value          | Current Share Price  | Shareholders' Equity / Current Basic Shares                         |
| Dividend Yield              | Annualised Declared Cash Dividend  | Current Share Price   |
| Free Cash Flow Yield        | Cash Flow From Operations – Total Capex  | Market Cap. = Current Share Price * Current Basic Shares            |
| Enterprise Value / Sales    | $\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$ |   |
| EV / EBITDA                 | Enterprise Value   | Basic EBIT + Depreciation + Amortization                            |

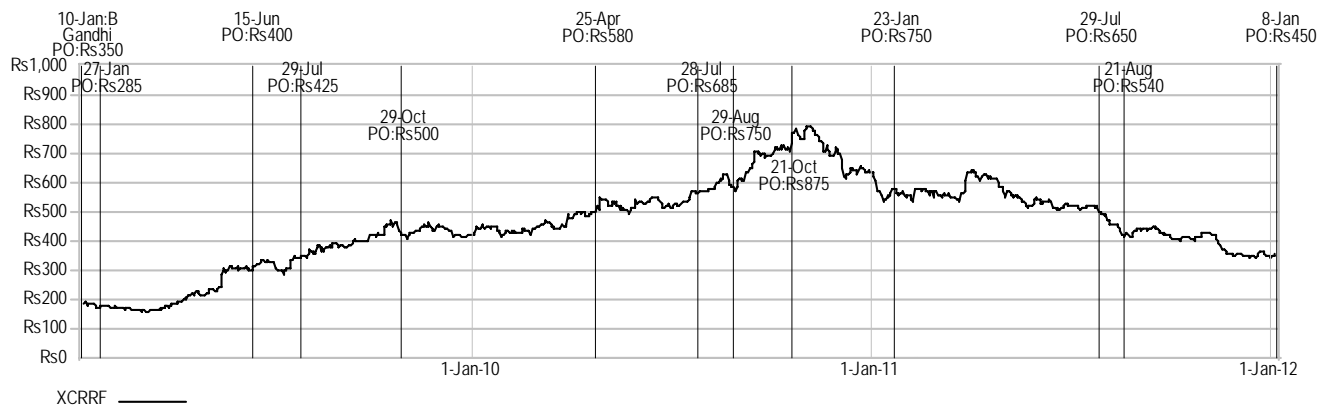
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### XCRRF Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of [December 31, 2011] or such later date as indicated.

### Investment Rating Distribution: Banks Group (as of 01 Jan 2012)

| Coverage Universe | Count | Percent | Inv. Banking Relationships* | Count | Percent |
|-------------------|-------|---------|-----------------------------|-------|---------|
| Buy               | 120   | 48.00%  | Buy                         | 85    | 89.47%  |
| Neutral           | 76    | 30.40%  | Neutral                     | 53    | 82.81%  |
| Sell              | 54    | 21.60%  | Sell                        | 37    | 71.15%  |

### Investment Rating Distribution: Global Group (as of 01 Jan 2012)

| Coverage Universe | Count | Percent | Inv. Banking Relationships* | Count | Percent |
|-------------------|-------|---------|-----------------------------|-------|---------|
| Buy               | 2029  | 52.00%  | Buy                         | 1337  | 72.11%  |
| Neutral           | 1009  | 25.86%  | Neutral                     | 657   | 71.34%  |
| Sell              | 864   | 22.14%  | Sell                        | 487   | 60.20%  |

\* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster* |
|-------------------|---|---|
| Buy               | ≥ 10%   | ≤ 70%   |
| Neutral           | ≥ 0%  | ≤ 30%   |
| Underperform      | N/A   | ≥ 20%   |

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02 February 2012

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