

INDIA

# ICICI Bank

10 July 2009

## ICICIBC IN Underperform

|                             |    |        |
|-----------------------------|----|--------|
| Stock price as of 09 Jul 09 | Rs | 636.45 |
| 12-month target             | Rs | 517.00 |
| Upside/downside             | %  | -18.8  |
| Valuation                   | Rs | 517.00 |
| - Sum of Parts              |    |        |

|                        |       |         |
|------------------------|-------|---------|
| GICS sector            |       | banks   |
| Market cap             | Rs m  | 708,575 |
| 30-day avg turnover    | US\$m | 30.6    |
| Market cap             | US\$m | 14,547  |
| Number shares on issue | m     | 1,113   |

### Investment fundamentals

| Year end 31 Mar   |    | 2009A | 2010E | 2011E | 2012E |
|-------------------|----|-------|-------|-------|-------|
| Net interest inc  | bn | 83.7  | 104.7 | 104.7 | 125.0 |
| Non interest inc  | bn | 76.0  | 67.1  | 67.1  | 70.5  |
| Underlying profit | bn | 89.3  | 94.9  | 94.9  | 107.7 |
| PBT               | bn | 51.2  | 63.9  | 63.9  | 79.7  |
| PBT Growth        | %  | 1.2   | 24.8  | 0.0   | 24.8  |
| Adjusted profit   | bn | 37.6  | 46.5  | 46.5  | 56.3  |
| EPS adj           | Rs | 33.76 | 41.75 | 41.75 | 50.56 |
| EPS adj growth    | %  | -9.7  | 23.7  | 0.0   | 21.1  |
| PE adj            | x  | 18.9  | 15.2  | 15.2  | 12.6  |
| Total DPS         | Rs | 11.00 | 13.50 | 13.50 | 16.50 |
| Total div yield   | %  | 1.7   | 2.1   | 2.1   | 2.6   |
| ROA               | %  | 1.0   | 1.2   | 1.1   | 1.2   |
| ROE               | %  | 7.8   | 9.2   | 8.7   | 9.9   |
| Equity to assets  | %  | 13.1  | 13.3  | 12.7  | 12.1  |
| Price/book        | x  | 1.4   | 1.4   | 1.3   | 1.2   |

### ICICIBC IN rel SENSEX performance, & rec history



Source: FactSet, Macquarie Research, July 2009 (all figures in INR unless noted)

### Analyst

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## The price has to be right

### Event

- We retain our contrarian Underperform on ICICI, as we do not see any significant leverage to higher economic growth for this bank in particular.

### Impact

- Loan growth will remain stunted.** Near-term loan growth (stand-alone) is likely to stay constrained, not least because the international book is expected to contract at ~10% pa for at least two years. The domestic book should grow, but the compulsion to get the CASA\* ratio up to the 30s is expected to prevent run-away growth. We see little upside to our loan growth forecasts, even if economic growth accelerates. (\*Current accounts and savings accounts).
- Margin improvement gradual.** The expected shrinkage of the international book should help margins, as should the increased focus on CASA deposits. This is likely to be offset by the run-off in the unsecured book, which is being replaced by low-yield corporate and home loans. The benefit of a lower risk book is likely to flow through in sharply improved credit costs, but only from FY3/11E.
- Asset quality – not a lot of relief.** There is no significant relief in loan quality. The retail book continues to be under stress, with the unsecured book remaining the primary source. Wholesale loans remains under pressure, though the number of stressed accounts is not growing and that is a source of some relief. We retain our view that the Rs1tr non-retail book will see cumulative losses of Rs20bn over FY3/10-11.

### Earnings and target price revision

- We have reduced our FY10E and FY11E EPS forecasts by 6.4% and 2.2%, respectively. We have introduced FY12E earnings. Our TP increases to Rs517 from Rs436 while we retain our Underperform.

### Price catalyst

- 12-month price target: Rs517.00 based on a sum-of-parts methodology.
- Catalyst: Continued fees and asset quality stress in 1H FY3/10E.

### Action and recommendation

- It is not in the price, yet.** ICICI has corrected by 6.5% since Monday. Its P/BV of 1.2x FY10E (ex-subsidiaries), however, still appears high in the face of weak ROEs. Management's medium-term goal of reaching c. 15% ROE is unlikely to be met even by FY3/12E. This is reflected in the stock's high PER. At 13.7x on FY3/11E, this is a 21% premium to the Sensex multiple, with earnings CAGR at a mere 14% over FY3/09-12E.
- Long-term value, but only at the right price.** ICICI's worst days are definitely over, and the management is walking the talk on consolidation. The improvement in core profitability, however, will be a slow process and we would balk at paying over the odds for the stock. Retain Underperform.

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## Key takeaways from management meeting

- The international loan book is expected to shrink by US\$1bn in FY3/10E, and will continue to stand still/shrink in the medium term. The impact of that on loan growth is illustrated in the table below – we believe it will constrain overall balance sheet growth for some time, and that will cap the bank's ROEs in the medium term. The numbers are further depressed by our forecasts of rupee appreciation.

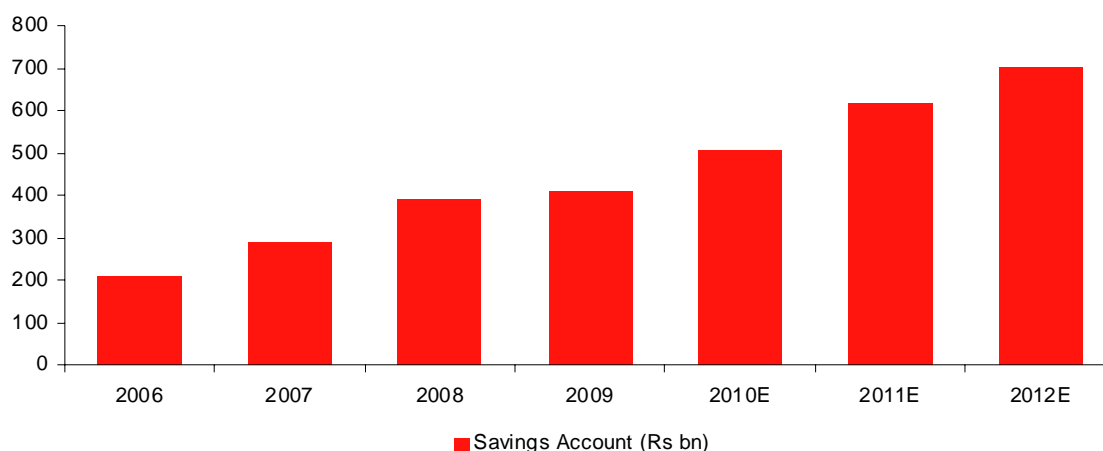
**Fig 1 Loan growth deconstructed for the bank**

|                                       | FY3/08 | FY3/09 | FY3/10E | FY3/11E | FY3/12E |
|---------------------------------------|--------|--------|---------|---------|---------|
| Domestic loans (Rs bn)                | 1,779  | 1,640  | 1,740   | 1,990   | 2,290   |
| International loans (Rs bn)           | 477    | 543    | 447     | 366     | 331     |
| International loans (US\$bn)          | 11.9   | 10.7   | 9.7     | 8.7     | 8.7     |
| Re/\$                                 | 40.1   | 50.7   | 46      | 42      | 38      |
| Total loans (Rs bn)                   | 2,256  | 2,183  | 2,187   | 2,356   | 2,621   |
| Loan growth - domestic                |        | -7.8%  | 6.1%    | 14.4%   | 15.1%   |
| Loan growth - international (in US\$) |        | -10.1% | -9.3%   | -10.3%  | 0.0%    |
| Loan growth - overall                 |        | -3.2%  | 0.2%    | 7.7%    | 11.3%   |

Source: Company data, Macquarie Research, July 2009

- In the medium term, ICICI is re-assessing the dynamics of the international lending business at its own branches (as opposed to the retail deposit-funded subsidiaries in the UK and Canada). The business is not supported over the cycle at NIMs of 1-1.25%, at which it had historically operated. Going forward, this book will see far smaller volumes than in the past, and only at "sensible" margins.
- The domestic book is unlikely to grow by more than 6-8%, with a focus on residential mortgages and corporate loans. The bank has lowered rates on mortgages to bring them more in line with the competition – so there should be some growth coming back on that front.
- Overall, the medium-term target for margins is 3%+, though no timelines are attached. In the immediate term, the run-off in the agriculture book over 1H FY3/10E is likely to keep margins at similar levels to 4Q FY3/10E. Lumpy repricing of wholesale deposits in October-November should drive margin improvements in 2H FY3/10E.
- Normal service is expected to resume in the accumulation of savings deposits. There was a stumble in FY3/09 due to the extreme pressure on the franchise in October-November. That seems to be past and we now expect incremental deposits of ~ Rs100bn per year for the next 2-3 years.

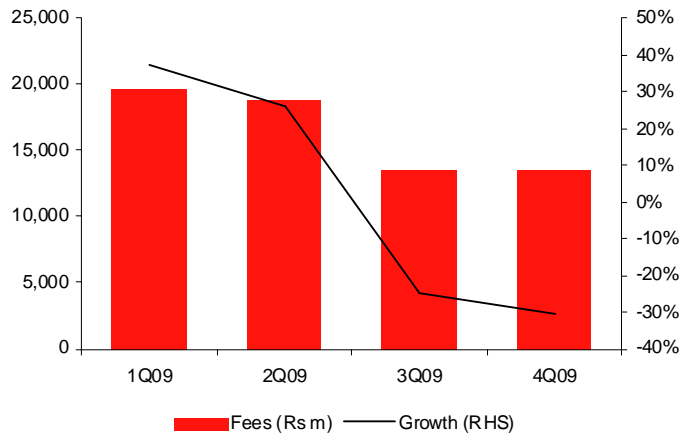
**Fig 2 We expect savings accretion to pick up going forward**



Source: Company data, Macquarie Research, July 2009

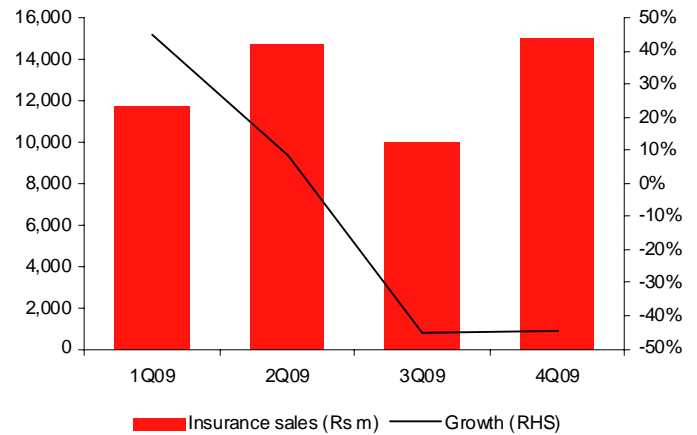
- Fees are likely to remain under pressure for quite some time. 1H FY3/10E will see the maximum contraction: key segments affected are loan origination fees and insurance distribution commissions. 2H FY3/10E should see fees starting to grow again, both due to the base effect as well as an expected pick-up in loan origination as well as insurance sales.

**Fig 3 Fees took a hit in 2H FY3/09**



Source: Company data, Macquarie Research, July 2009

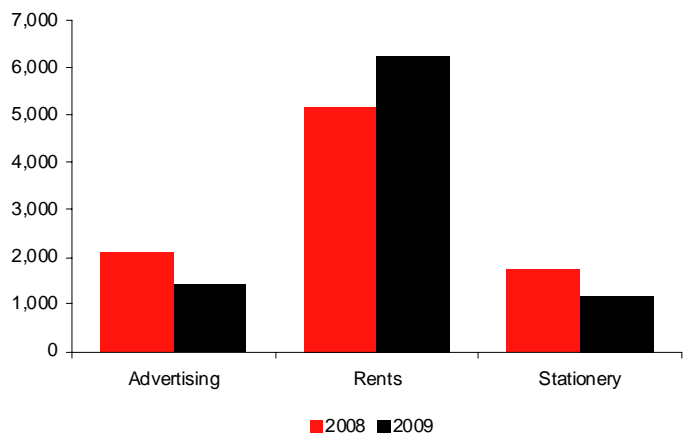
**Fig 4 Along with insurance**



Source: IRDA, Macquarie Research, July 2009

- Despite the expansion in branches, the target is to keep opex flat YoY. Management believes that the impressive cost management (see chart below) still has another year to run – wage costs, however, may grow faster going forward.

**Fig 5 Tight non-wage cost controls**



Source: Company data, Macquarie Research, July 2009

**Fig 6 ..and wage cost controls**



Source: Company data, Macquarie Research, July 2009

**Fig 7 Sum-of-parts valuation**

|                          | <b>Valuation method</b> | <b>Value per share</b> |
|--------------------------|-------------------------|------------------------|
| Life insurance           | 15x FY3/10E NBAP        | 77                     |
| Total other subs         |                         | 2                      |
| All subs                 |                         | 79                     |
| Holding company discount |                         | 15%                    |
| Bank only                | 1.0x FY3/10E BV         | 452                    |
| <b>SOTP</b>              |                         | <b>519</b>             |

Source: Company data, Macquarie Research, July 2009

## ICICI Bank (ICICIB IN, Underperform, Target price: Rs517.00)

| Quarterly Results             |          |               |               |               | Profit & Loss  |                                 |                  |                  |                  |                |                |
|-------------------------------|----------|---------------|---------------|---------------|----------------|---------------------------------|------------------|------------------|------------------|----------------|----------------|
|                               |          | 4Q/09A        | 1Q/10E        | 2Q/10E        | 3Q/10E         |                                 | 2009A            | 2010E            | 2011E            | 2012E          |                |
| <b>Net Interest Income</b>    | m        | 21,388        | 19,523        | 25,254        | 30,988         | <b>Net Interest Income</b>      | m                | <b>83,666</b>    | <b>104,728</b>   | <b>104,728</b> | <b>125,032</b> |
| + Loan Fees                   | m        | 5,988         | 10,500        | 13,582        | 16,666         | + Loan Fees                     | m                | 62,998           | 56,325           | 56,325         | 61,709         |
| + Trading Income              | m        | <b>10,750</b> | <b>1,237</b>  | <b>1,601</b>  | <b>1,964</b>   | + Trading Income                | m                | 13,040           | 6,638            | 6,638          | 4,022          |
| + Insurance Income            | m        | 0             | 0             | 0             | 0              | + Insurance Income              | m                | 0                | 0                | 0              | 0              |
| + Other Income                | m        | -1            | 773           | 1,000         | 1,227          | + Other Income                  | m                | -0               | 4,146            | 4,146          | 4,762          |
| <b>Non Interest Income</b>    | m        | 16,737        | 12,510        | 16,183        | 19,857         | <b>Non Interest Income</b>      | m                | <b>76,037</b>    | <b>67,109</b>    | <b>67,109</b>  | <b>70,492</b>  |
| <b>Total Operating Inc</b>    | m        | 38,125        | 32,034        | 41,437        | 50,844         | <b>Total Operating Inc</b>      | m                | <b>159,703</b>   | <b>171,838</b>   | <b>171,838</b> | <b>195,525</b> |
|                               | m        |               |               |               |                |                                 |                  |                  |                  |                |                |
| + Staff expenses              | m        | 4,574         | 4,207         | 5,441         | 6,677          | + Staff expenses                | m                | 19,717           | 22,565           | 22,565         | 26,063         |
| + Other expenses              | m        | 11,996        | 10,144        | 13,122        | 16,101         | + Other expenses                | m                | 50,734           | 54,415           | 54,415         | 61,795         |
| <b>Total Operating Exp</b>    | m        | <b>16,571</b> | <b>14,351</b> | <b>18,563</b> | <b>22,777</b>  | <b>Total Operating Exp</b>      | m                | <b>70,451</b>    | <b>76,980</b>    | <b>76,980</b>  | <b>87,857</b>  |
|                               | m        |               |               |               |                |                                 |                  |                  |                  |                |                |
| <b>Pre-Provision Profit</b>   | m        | <b>21,555</b> | <b>17,683</b> | <b>22,874</b> | <b>28,067</b>  | <b>Pre-Provision Profit</b>     | m                | <b>89,252</b>    | <b>94,857</b>    | <b>94,857</b>  | <b>107,667</b> |
| <b>Loan Provisions</b>        | m        | 10,845        | 5,778         | 7,474         | 9,171          | <b>Loan Provisions</b>          | m                | <b>38,083</b>    | <b>30,996</b>    | <b>30,996</b>  | <b>27,977</b>  |
| <b>Post Provision Profit</b>  | m        | <b>10,709</b> | <b>11,905</b> | <b>15,400</b> | <b>18,895</b>  | <b>Post Provision Profit</b>    | m                | <b>51,170</b>    | <b>63,861</b>    | <b>63,861</b>  | <b>79,691</b>  |
|                               | m        |               |               |               |                |                                 |                  |                  |                  |                |                |
| Other Profit                  | m        | 0             | 0             | 0             | 0              | Other Profit                    | m                | 0                | 0                | 0              | 0              |
| - Amortisation                | m        | 0             | 0             | 0             | 0              | - Amortisation                  | m                | 0                | 0                | 0              | 0              |
| - Non Recurring Items         | m        | 0             | 0             | 0             | 0              | - Non Recurring Items           | m                | 0                | 0                | 0              | 0              |
| - Associates                  | m        | 0             | 0             | 0             | 0              | - Associates                    | m                | 0                | 0                | 0              | 0              |
| <b>Pre-Tax Profit</b>         | m        | <b>10,709</b> | <b>11,905</b> | <b>15,400</b> | <b>18,895</b>  | <b>Pre-Tax Profit</b>           | m                | <b>51,170</b>    | <b>63,861</b>    | <b>63,861</b>  | <b>79,691</b>  |
| - Taxation                    | m        | 3,272         | 3,240         | 4,191         | 5,142          | - Taxation                      | m                | 13,588           | 17,379           | 17,379         | 23,398         |
| <b>Net Profit After Tax</b>   | m        | <b>7,438</b>  | <b>8,665</b>  | <b>11,209</b> | <b>13,753</b>  | <b>Net Profit After Tax</b>     | m                | <b>37,581</b>    | <b>46,482</b>    | <b>46,482</b>  | <b>56,293</b>  |
| - Minority Interests          | m        | 0             | 0             | 0             | 0              | - Minority Interests            | m                | 0                | 0                | 0              | 0              |
| <b>Reported Profit</b>        | m        | <b>7,438</b>  | <b>8,665</b>  | <b>11,209</b> | <b>13,753</b>  | <b>Reported Profit</b>          | m                | <b>37,581</b>    | <b>46,482</b>    | <b>46,482</b>  | <b>56,293</b>  |
| <b>Adjusted Profit</b>        | m        | <b>7,438</b>  | <b>8,665</b>  | <b>11,209</b> | <b>13,753</b>  | <b>Adjusted Profit</b>          | m                | <b>37,581</b>    | <b>46,482</b>    | <b>46,482</b>  | <b>56,293</b>  |
| <b>Attributable Profit</b>    | m        | <b>7,438</b>  | <b>8,665</b>  | <b>11,209</b> | <b>13,753</b>  | <b>Attributable Profit</b>      | m                | <b>37,581</b>    | <b>46,482</b>    | <b>46,482</b>  | <b>56,293</b>  |
|                               |          |               |               |               |                |                                 |                  |                  |                  |                |                |
| EPS (rep)                     |          | 6.68          | 7.78          | 10.07         | 12.35          | EPS (rep)                       |                  | 33.76            | 41.75            | 41.75          | 50.56          |
| EPS growth pcp (rep)          | %        | -35.4         | 19.0          | 10.5          | 8.1            | EPS growth yoy (rep)            | %                | -9.7             | 23.7             | 0.0            | 21.1           |
| EPS (adj)                     |          | 6.68          | 7.78          | 10.07         | 12.35          | EPS (adj)                       |                  | 33.76            | 41.75            | 41.75          | 50.56          |
| EPS growth pcp (adj)          | %        | -35.4         | 19.0          | 10.5          | 8.1            | EPS growth yoy (adj)            | %                | -9.7             | 23.7             | 0.0            | 21.1           |
|                               |          |               |               |               |                |                                 |                  |                  |                  |                |                |
| DPS                           |          | 2.75          | 3.38          | 3.38          | 3.38           | DPS                             |                  | 11.00            | 13.50            | 13.50          | 16.50          |
|                               |          |               |               |               |                | Payout ratio                    | %                | 32.6             | 32.3             | 32.3           | 32.6           |
|                               |          |               |               |               |                | Book Value p.s (wgted)          |                  | 444.9            | 466.3            | 493.2          | 525.6          |
|                               |          |               |               |               |                | Tangible Book Value p.s (wgted) |                  | 444.9            | 466.3            | 493.2          | 525.6          |
|                               |          |               |               |               |                | Weighted average shares         | m                | 1,113            | 1,113            | 1,113          | 1,113          |
|                               |          |               |               |               |                |                                 |                  |                  |                  |                |                |
| Key Ratios                    |          |               |               |               | Key Ratios     |                                 |                  |                  |                  |                |                |
|                               |          | 4Q/09A        | 1Q/10E        | 2Q/10E        | 3Q/10E         |                                 | 2009A            | 2010E            | 2011E            | 2012E          |                |
| Interest Spread               | %        | 0.86          | 0.83          | 1.05          | 1.28           | Interest Spread                 | %                | 1.63             | 2.17             | 2.02           | 2.27           |
| Net Interest Margin           | %        | 1.23          | 1.10          | 1.41          | 1.73           | Net Interest Margin             | %                | 2.40             | 2.92             | 2.64           | 2.82           |
| Non Int Inc / Total Inc       | %        | 43.9          | 39.1          | 39.1          | 39.1           | Non Int Inc / Total Inc         | %                | 47.2             | 39.1             | 39.1           | 36.1           |
| Cost to Income                | %        | 43.5          | 44.8          | 44.8          | 44.8           | Cost to Income                  | %                | 44.1             | 44.8             | 44.8           | 44.9           |
| Cost to Assets                | %        | 0.87          | 0.74          | 0.95          | 1.17           | Cost to Assets                  | %                | 1.86             | 1.97             | 1.78           | 1.81           |
| Provisions / Loans            | %        | 0.96          | 0.51          | 0.66          | 0.81           | Provisions / Loans              | %                | 1.69             | 1.37             | 1.27           | 1.03           |
| Tax Rate                      | %        | 30.5          | 27.2          | 27.2          | 27.2           | Tax Rate                        | %                | 26.6             | 27.2             | 27.2           | 29.4           |
| Loan Deposit Ratio (LDR)      | %        | 100.0         | 93.2          | 93.2          | 93.2           | Loan Deposit Ratio (LDR)        | %                | 100.0            | 93.2             | 85.5           | 82.5           |
| NPLs                          | %        | 7.10          | 7.80          | 7.80          | 7.80           | NPLs                            | %                | 7.10             | 7.80             | 7.26           | 6.52           |
| Reserve Cover                 | %        | 41.4          | 43.4          | 43.4          | 43.4           | Reserve Cover                   | %                | 41.4             | 43.4             | 43.4           | 47.9           |
| Tier 1 Capital Ratio          | %        | 13.1          | 13.0          | 13.0          | 13.0           | Tier 1 Capital Ratio            | %                | 13.1             | 13.0             | 13.0           | 11.9           |
| Total Capital Ratio           | %        | 20.2          | 20.0          | 20.0          | 20.0           | Total Capital Ratio             | %                | 20.2             | 20.0             | 20.0           | 18.6           |
| Equity to Assets              | %        | 13.1          | 13.3          | 13.3          | 13.3           | Equity to Assets                | %                | 13.1             | 13.3             | 12.7           | 12.1           |
| ROA (ave)                     | %        | 0.38          | 0.45          | 0.58          | 0.71           | ROA (ave)                       | %                | 0.96             | 1.21             | 1.13           | 1.23           |
| ROE (ave)                     | %        | 3.1           | 3.4           | 4.4           | 5.4            | ROE (ave)                       | %                | 7.8              | 9.2              | 8.7            | 9.9            |
| ROTE (ave)                    | %        | 3.1           | 3.4           | 4.4           | 5.4            | ROTE (ave)                      | %                | 7.8              | 9.2              | 8.7            | 9.9            |
|                               |          |               |               |               |                |                                 |                  |                  |                  |                |                |
|                               |          |               |               |               | Growth rates   |                                 |                  |                  |                  |                |                |
|                               |          |               |               |               |                | 2009A                           | 2010E            | 2011E            | 2012E            |                |                |
| Income Growth                 | %        |               |               |               |                | -0.9                            | 7.6              | 0.0              | 13.8             |                |                |
| Cost Growth                   | %        |               |               |               |                | -13.6                           | 9.3              | 0.0              | 14.1             |                |                |
| Pre-Prov Profit Growth        | %        |               |               |               |                | 12.1                            | 6.3              | 0.0              | 13.5             |                |                |
| PBT Growth                    | %        |               |               |               |                | 1.2                             | 24.8             | 0.0              | 24.8             |                |                |
| Loan Growth                   | %        |               |               |               |                | -3.2                            | 0.2              | 7.7              | 11.3             |                |                |
| Ave Int Earning Assets        | %        |               |               |               |                | -6.4                            | 3.0              | 10.4             | 11.7             |                |                |
|                               |          |               |               |               |                |                                 |                  |                  |                  |                |                |
|                               |          |               |               |               | Valuation data |                                 |                  |                  |                  |                |                |
|                               |          |               |               |               |                | 2009A                           | 2010E            | 2011E            | 2012E            |                |                |
| P/E (rep)                     | x        |               |               |               |                | 18.9                            | 15.2             | 15.2             | 12.6             |                |                |
| P/E (adj)                     | x        |               |               |               |                | 18.9                            | 15.2             | 15.2             | 12.6             |                |                |
| P/B (wgted)                   | x        |               |               |               |                | 1.4                             | 1.4              | 1.3              | 1.2              |                |                |
| P/TB (wgted)                  | x        |               |               |               |                | 1.4                             | 1.4              | 1.3              | 1.2              |                |                |
| Dividend yield                | %        |               |               |               |                | 1.7                             | 2.1              | 2.1              | 2.6              |                |                |
|                               |          |               |               |               |                |                                 |                  |                  |                  |                |                |
|                               |          |               |               |               | Balance Sheet  |                                 |                  |                  |                  |                |                |
|                               |          |               |               |               |                | 2009A                           | 2010E            | 2011E            | 2012E            |                |                |
| Cash & Equivalent             | m        |               |               |               |                | 28,557                          | 30,537           | 35,809           | 41,128           |                |                |
| Net Loans to Customer         | m        |               |               |               |                | 2,183,108                       | 2,186,779        | 2,355,946        | 2,621,112        |                |                |
| Other Interest Earning Assets | m        |               |               |               |                | 1,301,692                       | 1,401,655        | 1,607,425        | 1,804,937        |                |                |
| Other Assets                  | m        |               |               |               |                | 279,652                         | 285,454          | 332,575          | 379,754          |                |                |
| <b>Total Assets</b>           | <b>m</b> |               |               |               |                | <b>3,793,010</b>                | <b>3,904,425</b> | <b>4,331,755</b> | <b>4,846,932</b> |                |                |
| Customer Deposits             | m        |               |               |               |                | 2,183,478                       | 2,345,428        | 2,756,689        | 3,176,061        |                |                |
| Other Int Bearing Liab        | m        |               |               |               |                | 931,555                         | 844,555          | 796,985          | 822,719          |                |                |
| Other Liabilities             | m        |               |               |               |                | 182,647                         | 195,312          | 229,032          | 263,052          |                |                |
| <b>Total Liabilities</b>      | <b>m</b> |               |               |               |                | <b>3,297,679</b>                | <b>3,385,295</b> | <b>3,782,706</b> | <b>4,261,832</b> |                |                |
| Ordinary Equity               | m        |               |               |               |                | 11,133                          | 11,133           | 11,133           | 11,133           |                |                |
| Retained Earnings             | m        |               |               |               |                | 0                               | 0                | 0                | 0                |                |                |
| Reserves                      | m        |               |               |               |                | 484,197                         | 507,997          | 537,917          | 573,967          |                |                |
| Minority Interests            | m        |               |               |               |                | 0                               | 0                | 0                | 0                |                |                |
| <b>Total S/H's Funds</b>      | <b>m</b> |               |               |               |                | <b>495,330</b>                  | <b>519,130</b>   | <b>549,050</b>   | <b>585,100</b>   |                |                |

All figures in INR unless noted.

Source: Company data, Macquarie Research, July 2009

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|  |   |   |
|--|---|---|
| <p><b>Recommendation definitions</b></p> <p><b>Macquarie - Australia/New Zealand</b><br/> Outperform – return &gt;5% in excess of benchmark return<br/> Neutral – return within 5% of benchmark return<br/> Underperform – return &gt;5% below benchmark return</p> <p><b>Macquarie – Asia/Europe</b><br/> Outperform – expected return &gt;+10%<br/> Neutral – expected return from -10% to +10%<br/> Underperform – expected return &lt;-10%</p> <p><b>Macquarie First South - South Africa</b><br/> Outperform – expected return &gt;+10%<br/> Neutral – expected return from -10% to +10%<br/> Underperform – expected return &lt;-10%</p> <p><b>Macquarie - Canada</b><br/> Outperform – return &gt;5% in excess of benchmark return<br/> Neutral – return within 5% of benchmark return<br/> Underperform – return &gt;5% below benchmark return</p> <p><b>Macquarie - USA</b><br/> Outperform (Buy) – return &gt;5% in excess of benchmark return (Russell 3000)<br/> Neutral (Hold) – return within 5% of benchmark return (Russell 3000)<br/> Underperform (Sell) – return &gt;5% below benchmark return (Russell 3000)</p> <p><b>Recommendations</b> – 12 months<br/> <b>Note:</b> Quant recommendations may differ from Fundamental Analyst recommendations</p> | <p><b>Volatility index definition*</b></p> <p>This is calculated from the volatility of historical price movements.</p> <p><b>Very high–highest risk</b> – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p><b>High</b> – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p><b>Medium</b> – stock should be expected to move up or down at least 30–40% in a year.</p> <p><b>Low–medium</b> – stock should be expected to move up or down at least 25–30% in a year.</p> <p><b>Low</b> – stock should be expected to move up or down at least 15–25% in a year.</p> <p>* Applicable to Australian/NZ/Canada stocks only</p> | <p><b>Financial definitions</b></p> <p>All "Adjusted" data items have had the following adjustments made:<br/> Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives &amp; hedging, IFRS impairments &amp; IFRS interest expense<br/> Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends &amp; minority interests</p> <p><b>EPS</b> = adjusted net profit / <i>efpowa</i>*<br/> <b>ROA</b> = adjusted ebit / average total assets<br/> <b>ROA Banks/Insurance</b> = adjusted net profit / average total assets<br/> <b>ROE</b> = adjusted net profit / average shareholders funds<br/> <b>Gross cashflow</b> = adjusted net profit + depreciation<br/> *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p> |
|--|---|---|

## Recommendation proportions – For quarter ending 30 June 2009

|              | AU/NZ  | Asia   | RSA    | USA    | CA     | EUR    |
|--------------|--------|--------|--------|--------|--------|--------|
| Outperform   | 40.38% | 48.53% | 40.00% | 44.02% | 57.42% | 40.20% |
| Neutral      | 39.25% | 17.08% | 45.00% | 37.45% | 32.90% | 39.21% |
| Underperform | 20.38% | 34.40% | 15.00% | 18.53% | 9.68%  | 20.59% |

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