

3Q earnings in-line; Reiterate Buy and PO

3QFY11: Earnings in-line; core momentum strong

HDFC Bank reported earnings of Rs10.9bn, up 33% yoy, were in-line. But the quality was better with stronger topline growth (~3% ahead) and rising comfort on asset quality. Topline growth (+25% yoy) was driven by +33% volume growth, but margins were down 10bps yoy (flat qoq) to 4.2%. NPL accretion estimated at ~Rs2.0bn in 3Q is better than last quarter est. of +Rs3.0bn. Coverage (specific) at +81%. Core fee growth rebounded on strong Fx fees (25% yoy growth; +12-13% ahead of est.). CASA was flat qoq to 50% and avg. core CASA flat yoy.

Earnings growth at +35/31% in FY12/13

We have tweaked our earnings est. by <1-2% for FY11-13 to factor in lower trading gains. We still expect earnings growth of +35/31% in FY12/13, on back of 27% in FY11 (profit growth at +34%), as bank capitalizes on stronger volumes, expanded distribution and improving operating efficiencies. Further, it has cushion in form of excess credit costs that may wind-down as NPL formation is easing.

Maintain PO on growth sustaining, NPL risks subsiding

We maintain our PO, as we reckon that despite macro headwinds, overall growth momentum is likely to be driven by rising distribution and liability franchise. We expect bank to deliver RoEs of +20% on earnings growth of +30% through FY12/13. Stock is down 8/10% over the last 1/3 months and as we begin to see more sustained visibility of growth, stock could continue to trade at ~4.1-4.2x (currently at +4.0-4.1x FY11) FY12 book. Given HDFC Bank's strong earnings track record and strong underlying asset quality, it has traditionally traded on P/E (18x FY12) vs. P/B, which may sustain as earnings visibility remains high.

Estimates (Mar)

(Rs)	2009A	2010A	2011E	2012E	2013E
Net Income (Adjusted - mn)	22,449	29,487	39,500	53,604	70,236
EPS	57.58	66.78	85.84	115.87	151.83
EPS Change (YoY)	22.0%	16.0%	28.5%	35.0%	31.0%
Dividend / Share	10.00	12.00	16.00	22.00	28.00
ADR EPS (US\$)	3.75	4.22	5.63	7.61	9.97
ADR Dividend / Share (US\$)	0.652	0.759	1.05	1.44	1.84

Valuation (Mar)

	2009A	2010A	2011E	2012E	2013E
P/E	35.6x	30.7x	23.9x	17.7x	13.5x
Dividend Yield	NA	NA	NA	NA	NA
Pre-exceptional PE	35.62x	30.71x	23.89x	17.70x	13.51x
Price / Book	6.24x	4.36x	3.81x	3.25x	2.72x
RoE / PB	2.71x	3.70x	4.49x	6.16x	8.14x
Price / Pre-Provision Profit	16.85x	14.60x	12.21x	10.03x	8.14x

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Stock Data

Price (Common / ADR)	Rs2,051 / US\$147.37
Price Objective	Rs2,700 / US\$195.00
Date Established	19-Oct-2010 / 19-Oct-2010
Investment Opinion	C-1-7 / C-1-7
Volatility Risk	HIGH / HIGH
52-Week Range	Rs1,549-Rs2,540
Market Value (mn)	US\$20,542
Shares Outstanding (mn)	457.7 / 152.6
Average Daily Volume	950,487
BofAML Ticker / Exchange	XHDF / BSE
BofAML Ticker / Exchange	HDB / NYS
Bloomberg / Reuters	HDFCB IN / HDBK.BO
ROE (2011E)	17.1%
Total Dbt to Cap (Mar-2009A)	NA
Est. 5-Yr EPS / DPS Growth	30.0% / 20.0%
Free Float	74.0%

Key Changes

(Rs)	Previous	Current
2011E EPS	86.76	85.84
2012E EPS	117.94	115.87
2013E EPS	153.52	151.83

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Refer to important disclosures on page 8 to 11. Analyst Certification on Page 6. Price Objective Basis/Risk on page 6. Link to Definitions on page 6. 11013804

iQprofileSM HDFC Bank

Key Income Statement Data (Mar)	2009A	2010A	2011E	2012E	2013E
(Rs Millions)					
Net Interest Income	74,212	83,866	105,461	125,406	152,136
Net Fee Income	24,573	28,306	34,533	41,785	50,142
Securities Gains / (Losses)	3,867	3,491	34.51	1,000	1,000
Other Income	4,466	6,279	7,378	8,674	10,203
Total Non-Interest Income	32,906	38,076	41,945	51,459	61,345
Total Operating Income	107,118	121,942	147,407	176,864	213,481
Operating Expenses	(55,328)	(57,645)	(69,734)	(82,305)	(96,970)
Pre-Provision Profit	51,790	64,297	77,673	94,559	116,511
Provisions Expense	(17,263)	(19,389)	(14,154)	(13,446)	(10,757)
Operating Profit	36,055	46,919	68,518	82,813	107,454
Non-Operating Income	(1,528)	(2,011)	(5,000)	(1,700)	(1,700)
Pre-Tax Income	32,999	42,897	58,518	79,413	104,054
Net Income to Comm S/Hold.	22,449	29,487	39,500	53,604	70,236
Adjusted Net Income (Operating)	22,449	29,487	39,500	53,604	70,236

Key Balance Sheet Data

Total Assets	1,832,708	2,224,586	2,628,886	3,112,255	3,844,947
Average Interest Earning Assets	1,514,030	1,947,939	2,341,387	2,775,546	3,372,761
Weighted Risk Assets	1,293,827	1,549,830	2,164,446	2,876,900	3,891,944
Total Gross Customer Loans	988,830	1,258,306	1,678,670	2,120,524	2,650,655
Total Customer Deposits	1,428,116	1,674,044	2,003,138	2,392,970	3,009,929
Tier 1 Capital	136,903	205,489	246,603	289,011	344,999
Tangible Equity	146,463	215,196	246,603	289,011	344,999
Common Shareholders' Equity	150,527	215,225	246,632	289,040	345,029

Key Metrics

Net Interest Margin	4.90%	4.31%	4.50%	4.52%	4.51%
Tier 1 Ratio	10.6%	13.3%	11.4%	10.0%	8.9%
Effective Tax Rate	32.0%	31.3%	32.5%	32.5%	32.5%
Loan / Assets Ratio	54.0%	56.6%	63.9%	68.1%	68.9%
Loan / Deposit Ratio	69.2%	75.2%	83.8%	88.6%	88.1%
Oper Leverage (Inc Growth - Cost Growth)	-5.1%	9.7%	-0.1%	2.0%	2.9%
Gearing (Assets / Equity)	12.2x	10.3x	10.7x	10.8x	11.1x
Tangible Common Equity / Assets	8.0%	9.7%	9.4%	9.3%	9.0%
Tangible Common Equity / WRAs	11.3%	13.9%	11.4%	10.0%	8.9%
Revenue Growth	42.6%	13.8%	20.9%	20.0%	20.7%
Operating Expense Growth	47.7%	4.2%	21.0%	18.0%	17.8%
Provisions Expense Growth	42.0%	12.3%	-27.0%	-5.0%	-20.0%
Operating Revenue / Average Assets	6.8%	6.0%	6.1%	6.2%	6.1%
Operating Expenses / Average Assets	3.5%	2.8%	2.9%	2.9%	2.8%
Pre-Provision ROA	3.3%	3.2%	3.2%	3.3%	3.3%
ROA	1.4%	1.5%	1.6%	1.9%	2.0%
Pre-Provision ROE	39.6%	35.6%	33.6%	35.3%	36.8%
ROE	16.9%	16.1%	17.1%	20.0%	22.2%
RoTE	15.3%	13.7%	16.0%	18.5%	20.4%
RoWRAs	1.7%	1.9%	1.8%	1.9%	1.8%
Dividend Payout Ratio	22.2%	21.7%	20.6%	20.9%	20.3%
Efficiency Ratio (Cost / Income Ratio)	53.6%	48.7%	47.3%	46.8%	45.6%
Total Non-Interest Inc / Operating Inc	31%	31%	28%	29%	29%
Market-Related Revenue / Total Revenues	9.2%	7.9%	4.9%	5.4%	5.2%
Provisioning Burden as % of PPP	33.3%	30.2%	18.2%	14.2%	9.2%
NPLs plus Foreclosed Real Estate / Loans	2.0%	1.4%	1.1%	0.9%	0.8%
Loan Loss Reserves / NPLs	106.7%	120.3%	137.9%	153.4%	151.3%
Loan Loss Reserves / Total Loans	2.2%	1.8%	1.6%	1.4%	1.2%
Provisions Expense / Average Loans	2.1%	1.7%	1.0%	0.7%	0.4%

Other Metrics

Income / Employee	2.03	2.35	2.61	2.90	3.26
(Operating Expenses) / Employee	1.05	1.11	1.24	1.35	1.48
Pre-Provision Profit / Employee	0.983	1.24	1.38	1.55	1.78
Net Profit / Employee	0.426	0.568	0.701	0.880	1.07

Company Description

HDFC Bank, promoted by HDFC Ltd. in 1994, remains positioned to capitalize on growth opportunities in the retail segment due to its comprehensive product range, its technology-driven, multi-channel distribution network, & a strong brand franchise. The company's ability to manage growth is the key risk. Further, any adverse impact on consumer sentiment could limit the stock's upside.

Investment Thesis

HDFC Bank remains positioned to capitalize on growth opportunities in the retail segment due to its comprehensive product range, its technology-driven, multi-channel distribution network, & a strong brand franchise. HDFC Bank's earnings are likely to move to a higher trajectory as it leverages CBOP's under-utilized branch network and gains from its organic growth. We see a rapid gain in market share as it acquires customers and leverages distribution, leading to strong growth in revenues.

Stock Data

Shares / ADR	3.00
Price to Book Value	3.8x

Key Changes (ADR)

(US\$)	Previous	Current
2011E EPS	5.70	5.63
2012E EPS	7.74	7.61
2013E EPS	10.08	9.97

3QFY11 results review & takeaways

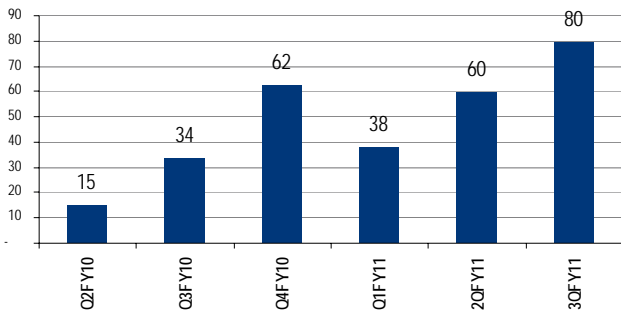
HDFC Bank reported net profit of Rs10.9bn, a 33% yoy growth, in-line with estimates. But the most positive aspect was sustained improvement in the quality of growth with core profit (operating profit, ex treasury) growing 27% yoy, +6-7% ahead of estimates. Topline growth came in +2-3% higher than estimates, was up +25% yoy driven by +33% volume growth, but margins were down 10bps yoy (flat qoq) to 4.2%.

With growth (volume) sustaining at +30%, core fee income growth also appears to be gaining traction having grown 25% yoy (+12-13% ahead of estimates). CASA ratio improved was flat qoq to +50% and avg. core CASA yoy flat.

Other Key result highlights:

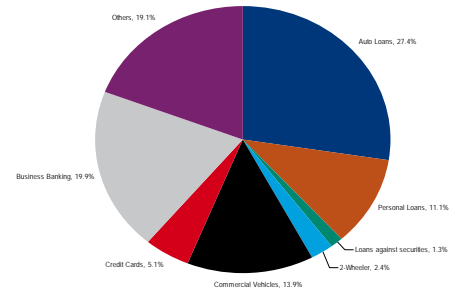
- Loans grew by +33% yoy. The slower pace of growth vs. +38% in 2Q had to do with corporate loan re-payments. Retail loans grew +36% yoy (vs. ~31% yoy in 2QFY11). Also, retail growth appears to be broad based this time around. Wholesale book grew 29% yoy. Exposure to MFI's is 0.6% of loans and the bank has no exposure to 2G etc in telecom space (re-paid / prepaid).

Chart 1: Incremental retail loan rise is becoming broad based



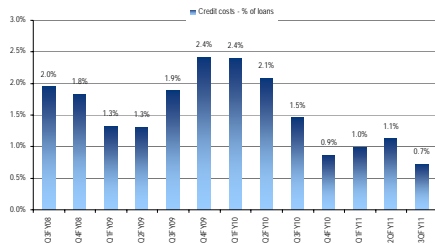
Source: BofA Merrill Lynch Research Estimates

Chart 2: Break-down of retail book (3Q)



Source: BofA Merrill Lynch Research Estimates

Chart 3: Credit costs stabilizing at <90-100bps



Source: BofA Merrill Lynch Research Estimates

- NPL accretion, in our estimate stands at ~Rs2.0bn in 3QFY11, lower than last 2-3 quarter trend of +Rs3.0-4.0bn accretion. This is also better than our estimate of +Rs3.5-4.0bn run-rate for FY11 estimated. Overall, asset quality remains amongst the best with gross NPL's at 1.1% and net at 0.2%, with provision cover at ~81%. Further, provision cover including general and floating provisions is >110%. While NPL provisions were at ~Rs3.0bn, total provisions were at +Rs4.5bn. Total provisions, *excluding specific provisions* of Rs2.9bn of the total Rs4.7bn also include floating provisions (1/3rd of non-specific prov.) and balance 2/3rd towards contingencies (eg. MFI's etc).
- Bank opened +55 branches and +1200 ATMs yoy and 15 branches qoq. Bank plans to open another +100-130 branches in 4QFY11.
- Tier 1 ratio at 12.1% as per Basel 2. Total CAR stands at +16%.

Table 1: 3QFY11 Result Summary

(Rs mn)	3QFY11	3QFY10	YoY
Interest earned	52,300	40,348	29.6%
- on Advances / Bills	39,504	30,389	30.0%
- Income on investments	12,258	9,802	25.1%
- on bal with RBI and other banks	517	120	330.6%
- Others	20	37	-45.2%
Interest Expended	24,533	18,109	35.5%
Net Interest Income	27,767	22,239	24.9%
Other income	11,278	8,991	25.4%
- Fees and commissions	9,428	7,697	22.5%
- Profit on sale of investments	(307)	(265)	15.8%
- FE and derivatives revenue & others	2,157	1,559	38.4%
Operating income	39,045	31,230	25.0%
Employee expenses	7,251	5,786	25.3%
Other Operating expenses	11,068	9,207	20.2%
Total Operating expenses	18,318	14,993	22.2%
Operating profit	20,727	16,237	27.7%
Provisions and contingencies	4,659	4,477	4.1%
- NPL Provisions	2,929	4,379	-33.1%
PBT	16,068	11,760	36.6%
Provision for Tax	5,190	3,575	45.2%
PAT	10,878	8,185	32.9%

Source: BofA Merrill Lynch Research Estimates

PAT growth of +35/31% in FY12/13 on back of 34% in FY11

We have tweaked our earning estimates by ~1% to factor in lower treasury gains. But, 3Q results did score high on quality (core operating parameters). We expect HDFC Bank to deliver ~35/32% earnings growth in FY12/13, on back of 34% in FY11 (earnings growth of 27% yoy in FY11), as the bank benefits from rising distribution, liability franchise and economies of scale.

Maintain PO; May trade on a P/E vs. P/B

The stock is down by 8/10% over the last 1/3 months and we believe, as HDFC Bank leverages its recently expanded distribution and NPL worries ease, the stock can trade up to +4.1-4.2x (trading at ~4.0x FY11) FY12 book.

Moreover, ROE is likely to rise to +20% by FY12 supported by ROA rising to 1.9% by FY12 and potentially beyond 2.0% by FY13. It would be amongst the highest ROAs across the sector. This in itself warrants a much better premium to other peer banks – apart from its ability to consistently deliver quality earnings.

The strong earnings track record coupled with the strong underlying asset quality has made HDFC Bank one of the few bank stocks that we believe tend to always trade more on a PE basis. In our view, the stock is likely to give a +20% upside / every year if it is able to deliver on its core earnings. The stock, trading at ~24x FY11 earnings can arguably continue to trade at ~23-24x earnings, one year forward (FY12) if there is visibility of earnings growth sustaining at +30%.

As discussed we believe this is possible (earnings growth of +30% through FY11/12) as the bank leverages its under utilized branch network and benefits from its branch expansion along with leveraging the excess capital.

Financials

Table 2: Profit and Loss account

P&L Year to March (Rs mn)	FY10	FY11E	FY12E	FY13E
Interest income	161,729	200,079	250,469	313,038
Interest expense	77,863	94,617	125,064	160,902
Net interest income	83,866	105,461	125,406	152,136
Other income	38,076	41,945	51,459	61,345
- Treasury Gains	3,451	35	1,000	1,000
Total income	121,942	147,407	176,864	213,481
Operating expenses	57,645	69,734	82,305	96,970
Pre-provision Profit	64,297	77,673	94,559	116,511
Total Provision	21,400	19,154	15,146	12,457
-Provision for NPL	19,389	14,154	13,446	10,757
PBT	42,897	58,518	79,413	104,054
Provision for Tax	13,410	19,018	25,809	33,817
PAT	29,487	39,500	53,604	70,236

Source: BofA Merrill Lynch Research Estimates

Table 3: Balance Sheet

BS- As at March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash balances	299,424	212,591	167,891	204,902
Advances	1,258,306	1,678,670	2,120,524	2,650,655
Investments	586,076	647,707	723,708	877,842
Fixed assets	21,228	24,412	28,074	32,285
Current assets	59,551	65,507	72,057	79,263
Total Assets	2,224,586	2,628,886	3,112,255	3,844,947
Equity Capital	4,577	4,626	4,626	4,626
Reserves & Surplus	210,618	241,977	284,385	340,373
Shareholders' funds	215,225	246,632	289,040	345,029
Deposits	1,674,044	2,003,138	2,392,970	3,009,929
- Demand deposits	871,039	999,381	1,178,424	1,467,455
- Term deposits	803,006	1,003,757	1,214,546	1,542,473
Borrowings	65,626	78,502	94,068	112,916
Subordinated debt	63,531	63,531	63,531	63,531
Current liabilities	206,159	237,083	272,646	313,543
Total Liabilities	2,224,586	2,628,886	3,112,255	3,844,947

Source: BofA Merrill Lynch Research Estimates

Table 4: Key Ratios

Year to March	FY10	FY11E	FY12E	FY13E
Wtgh EPS	67.6	85.8	115.9	151.8
Earnings growth	28%	27%	35%	31%
CEPS	94.2	110.3	141.2	175.9
PPP / Share	140.5	167.9	204.4	251.9
BV/share	470.1	533.1	624.8	745.8
Adjusted BV / Share	461.6	524.9	617.1	736.4
ROAA	1.5%	1.6%	1.9%	2.0%
ROAE	16.3%	17.1%	20.0%	22.2%
NIM	4.31%	4.5%	4.5%	4.5%
Gross NPLs	1.4%	1.125%	0.907%	0.8%
Net NPLs	0.3%	0.221%	0.2%	0.2%
Coverage	78.4%	80.0%	81.6%	78.3%
Capital Adequacy Ratio	17.4%	14.3%	12.3%	10.5%
- Tier I CAR	13.3%	11.4%	10.0%	8.9%
C/D ratio	75.2%	83.8%	88.6%	88.1%
Cost-Income ratio (Excl Treasury)	48.6%	47.3%	46.8%	45.6%
Other Inc (Excl treasury) / Total Inc (Excl Treasury)	17.6%	17.3%	16.8%	16.2%
Cost Asset Ratio	2.6%	2.7%	2.6%	2.5%
Loan Growth	27%	33%	26%	25%
Equity / Assets	9.7%	9.4%	9.3%	9.0%
Equity / Loans	17.1%	14.7%	13.6%	13.0%
Provision/ Loans	1.5%	0.8%	0.6%	0.4%
CASA	52.0%	49.9%	49.2%	48.8%
Tax Rates	31.3%	32.5%	32.5%	32.5%
Yield on Advances	10.8%	10.4%	10.5%	10.6%
Yield on Investments	6.8%	7.4%	7.3%	7.3%
Cost of funds	4.7%	4.8%	5.3%	5.6%
Dividend per Share	12.0	16.0	22.0	28.0
Dividend Payout	22%	21%	21%	20%
Dividend yield	0.6%	0.8%	1.1%	1.4%
P/E	30.4	23.9	17.7	13.5
P/PPP	14.6	12.2	10.0	8.1
P/BV	4.4	3.8	3.3	2.8
P/ABV	4.4	4.0	3.3	2.8

Source: BofA Merrill Lynch Research Estimates

Price objective basis & risk

HDFC Bank (XHDF / HDB)

We set our PO at Rs2700 to factor in 1) overall strong growth momentum, especially top line, and 2) we believe HDFC BK is likely to deliver RoEs of +20% on profit growth of +35/31% through FY12/13. We believe the stock could continue to trade at 4.1-4.2x (currently at +4.0-4.1x FY11) FY12 book owing to sustaining visibility of high earnings growth and comfortable asset quality. Alternatively, stock is likely to trade in sync with earnings growth (P/E) as we begin to move into a stronger growth phase. The bank appears yet to fully benefit from its expanded distribution, higher capitalization, and rising loan growth. A sharp rise in NPLs and inability to maintain growth are risks to our price objective.

Link to Definitions

Financials

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

Analyst Certification

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India - Financials Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Bank of India	XDIIF	BOI IN	Rajeev Varma
	Canara Bank	CNRKF	CBK IN	Rajeev Varma
	Corporation Bank	XCRRF	CRPBK IN	Veekesh Gandhi
	Federal Bank	XFDRF	FB IN	Veekesh Gandhi
	HDFC	HGDFE	HDFC IN	Rajeev Varma
	HDFC Bank	XHDFE	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
	Max India	XXMIF	MAX IN	Rajeev Varma
	ORBC	ORBCF	OBC IN	Rajeev Varma
	Power finance corporation Ltd	PWFEE	POWF IN	Veekesh Gandhi
	Punjab	PUJBF	PNB IN	Rajeev Varma
	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
NEUTRAL				
	Axis Bank	XAXSF	AXSB IN	Rajeev Varma
	Axis Bank - GDR	XBKSF	AXB LI	Rajeev Varma
	Bank of Baroda	BKBAF	BOB IN	Rajeev Varma
	Union Bank India	UBOIF	UNBK IN	Rajeev Varma
UNDERPERFORM				
	IDBI	XDBIF	IDBI IN	Veekesh Gandhi
	Infrastruct Dev	IFDFE	IDFC IN	Rajeev Varma
	LIC Housing Finance, Ltd.	LHFLF	LICHF IN	Veekesh Gandhi
	Reliance Capital	RLCCF	RCAPT IN	Rajeev Varma

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
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
Quality of Earnings		
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
Valuation Toolkit		
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	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales}$	
EV / EBITDA	$\frac{\text{Enterprise Value}}{\text{Basic EBIT} + \text{Depreciation} + \text{Amortization}}$	

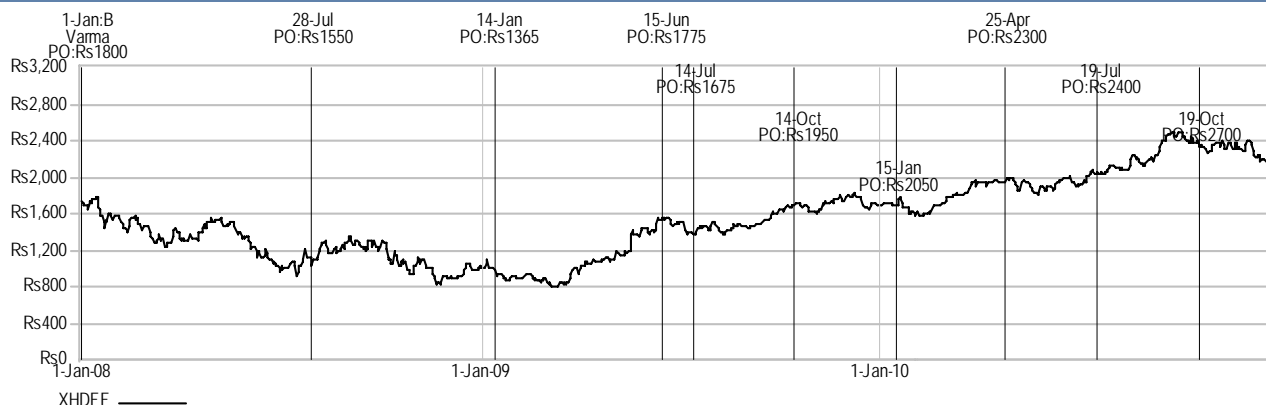
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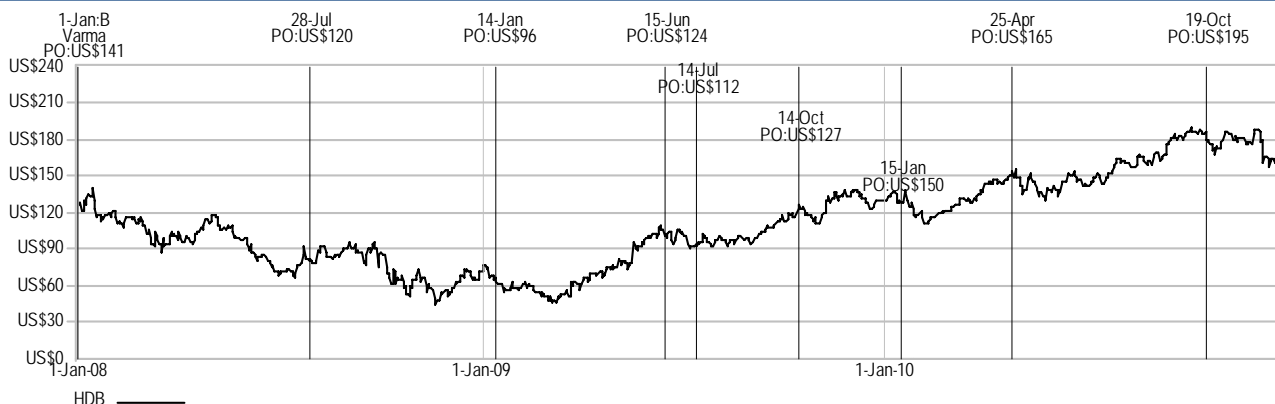
XHDF Price Chart



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

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of December 31, 2010 or such later date as indicated.

HDB Price Chart



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

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of December 31, 2010 or such later date as indicated.

Investment Rating Distribution: Banks Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	120	49.79%	Buy	45	44.55%
Neutral	66	27.39%	Neutral	34	60.71%
Sell	55	22.82%	Sell	23	44.23%

Investment Rating Distribution: Global Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2011	53.86%	Buy	874	48.31%
Neutral	925	24.77%	Neutral	444	52.30%
Sell	798	21.37%	Sell	276	36.75%

* 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.

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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%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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