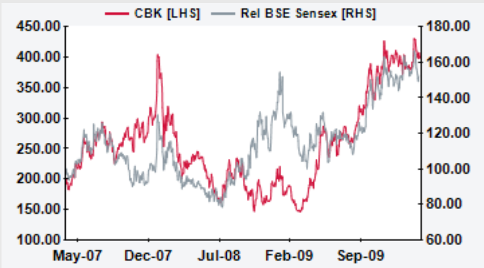
INDIA

CBK IN		Underperform
Price 22 Mar 10		Rs399.15
12-month target	**Rs**	**330.00**
Upside/Downside	**%**	**-17.3**
Valuation	**Rs**	**330.00**
GICS sector		**Banks**
Market cap	**Rsm**	**163,652**
30-day avg turnover	**US$m**	**4.9**
Market cap	**US$m**	**3,596**
Number shares on issue	**m**	**410.0**

Investment fundamentals

Year end 31 Mar		2009A	2010E	2011E	2012E
Net interest Inc	bn	47.2	55.3	63.3	81.1
Non interest Inc	bn	23.1	28.2	20.6	21.7
Underlying profit	bn	39.6	52.6	49.1	63.2
PBT	bn	25.7	38.7	32.4	43.0
PBT growth	%	35.0	50.3	-16.1	32.7
Adjusted profit	bn	20.7	31.3	25.0	33.1
EPS adj	Rs	50.55	76.36	60.89	80.81
EPS adj growth	%	32.4	51.1	-20.3	32.7
PER adj	x	7.9	5.2	6.6	4.9
Total DPS	Rs	8.00	9.00	10.00	10.00
Total div yield	%	2.0	2.3	2.5	2.5
ROA	%	1.0	1.3	0.9	1.0
ROE	%	18.3	23.2	15.9	18.4
Equity to assets	x	5.6	5.7	5.4	5.3
P/BV	x	1.3	1.1	1.0	0.8

CBK IN rel BSE Sensex performance



Source: FactSet, Macquarie Research, March 2010
(all figures in INR unless noted)

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24 March 2010

Canara Bank

Uncertainty ahead

Event

- Initiate coverage on Canara Bank with an Underperform rating and TP of Rs330.

Impact

- **Several headwinds ahead:** Canara Bank is likely to face significant margin pressures emanating from its weak funding franchise. Uncertainties about coverage of NPLs coupled with a management transition in the offing when the current CEO retires in June 2010 are added causes of concern. Earnings are likely to be under severe pressure due to lower treasury profits. Consequently, we estimate that RoE is likely to decline sharply in FY11.
- **NIM pressures ahead:** Canara Bank has reaped significant benefits from its balance-sheet consolidation exercise that it started carrying out about 18 months ago whereby it started paying off wholesale deposits and focused on retail term deposits. However, with bulk deposits at 2% and retail term deposits at a record high level of 60%, we believe most of the benefits of deposit re-pricing are already in the margins. Canara Bank has the weakest liabilities franchise amongst its PSU peers since it is likely to face significant margin pressures in a rising rate environment.
- **Asset quality and coverage ratio – the two big wild cards:** Canara Bank's historical track record of slippages has been pretty poor with the slippage ratio far above that of its peers. Slippages from the restructured portfolio and from the standard non-restructured portfolio of SME and corporate loans can't be ruled out, in our view. Also, there isn't any clarity on whether the entire block of accumulated write-offs, which is twice the size of its current gross NPLs, would be allowed to calculate coverage ratio. If only a part is allowed then the bank would have to significantly increase credit charges to meet the coverage ratio norms.

Earnings and target price revision

- Initiation of coverage.

Price catalyst

- 12-month price target: Rs330.00 based on a Gordon Growth methodology.
- Catalyst: Pressure on margins and asset quality from 1QFY11 and management transition in 2QFY11.

Action and recommendation

- Canara Bank historically has traded below book, on average, mainly due to its volatility of earnings growth, unsatisfactory track record of slippages and poor liabilities franchise. This is likely to continue and we initiate with an Underperform rating. Key risks to our thesis include exemplary control in NPLs and a sharp pickup in CASA ratio.

Fig 1 Select ratios

%	FY07	FY08	FY09	FY10E	FY11E	FY12E
Growth						
Net interest income	12.4	(12.1)	33.4	17.2	14.5	28.1
Operating profit	14.2	1.6	33.9	32.7	(6.6)	28.6
Net profit	5.8	10.1	32.4	51.1	(20.3)	32.7
Total assets	25.0	8.8	21.7	18.1	18.8	19.2
Operating efficiency						
Operating cost to income	46.8	48.5	43.6	36.9	41.5	38.6
Cost to assets	1.7	1.6	1.5	1.3	1.2	1.2
Overhead ratio	27.7	16.3	16.0	4.8	22.4	22.1
Break even yield	5.8	6.7	6.8	5.7	6.5	6.7
Interest bearing liabilities /Total liabilities	92.5	92.1	93.5	94.4	95.1	95.8
Asset Analysis						
Net interest income / average assets	2.7	2.0	2.4	2.3	2.2	2.4
Earning assets to Total assets	86.6	87.0	89.2	90.0	91.7	93.2
Average Return on Earning Assets	1.0	0.9	1.1	1.4	0.9	1.0
Loans to earning assets	61.5	61.3	65.0	64.0	63.0	61.8
Loan analysis						
Loan growth	24.0	8.9	28.9	16.0	18.0	18.0
Corporate loan growth	25.1	10.4	31.7	16.0	18.0	18.0
Retail loan growth	20.0	1.2	12.1	16.0	18.0	18.0
Deposit Analysis						
Deposits growth	21.9	8.2	21.3	19.6	20.7	20.7
Current & savings to total deposit	31.5	31.5	30.1	29.8	30.2	30.6
Time deposit to total deposit	68.5	68.5	69.9	70.2	69.8	69.4
Deposits to Interest Bearing Liabilities	98.9	98.4	96.4	96.8	97.3	97.7
Liquidity						
LDR	69.2	69.6	74.0	71.7	70.1	68.6
Loans to Assets	59.4	59.4	62.9	61.8	61.4	60.8
Customer Deposits to Earning Assets	88.9	88.1	87.9	89.2	89.8	90.2
Asset quality						
Gross NPA ratio	1.51	1.19	1.57	1.94	2.33	2.43
Loan loss coverage ratio	37.9	29.4	30.5	32.5	35.2	40.5
Provisions to Average Loans	0.51	0.85	0.73	0.79	0.78	0.78
Reserves to Loans	0.58	0.35	0.48	0.63	0.82	0.98
Capital Adequacy						
Tier I CAR	7.17	7.01	8.01	8.77	8.25	7.98
Total CAR	13.50	13.25	14.10	13.73	12.32	11.29
Equity to assets	7.3	6.7	5.9	4.7	6.7	5.8
Profitability						
Return on avg. total assets	0.95	0.90	1.04	1.31	0.88	0.98
Return on equity	16.25	15.0	18.3	23.2	15.9	18.4
Pre provision ROE	33.3	28.4	34.9	39.0	31.2	35.1
Dividend yield	1.8	2.0	2.0	2.3	2.5	2.5
Basic EPS (Rs)	34.7	38.2	50.5	76.4	60.9	80.8
Diluted EPS (Rs)	34.7	38.2	50.5	76.4	60.9	80.8
ORA Analysis						
NIM	2.7%	2.0%	2.4%	2.3%	2.2%	2.4%
Net interest income to total income	73.5%	61.5%	67.1%	66.3%	75.4%	78.9%
Cost to income	46.8%	48.5%	43.6%	36.9%	41.5%	38.6%
Provisions to assets	0.8%	0.6%	0.7%	0.6%	0.6%	0.6%
Operating Return on Assets	1.1%	1.1%	1.3%	1.6%	1.1%	1.3%
Equity to Assets	7.3%	6.7%	5.9%	4.7%	6.7%	5.8%
Operating Return on Equity	15.3%	16.4%	21.8%	34.2%	17.1%	21.8%
Spread Analysis						
Yield on average assets	7.85	7.86	8.85	8.03	8.32	8.60
Average cost of funds	5.07	5.63	6.82	5.91	6.32	6.47
Spread	2.78	2.23	2.03	2.12	2.00	2.13
Net interest margin	3.15	2.42	2.78	2.72	2.62	2.79
Valuation ratios (x)						
P/E	11.5	10.5	7.9	5.2	6.6	4.9
P/ABV	2.0	2.0	1.6	1.3	1.1	0.9
Market cap to deposits	11.5	10.6	8.8	7.3	6.1	5.0
PUP	5.6	5.5	4.1	3.1	3.3	2.6
ROE-COE (%)	2.8	1.5	4.8	9.7	2.4	4.9
Div yield- COE (%)	-11.7	-11.5	-11.5	-11.2	-11.0	-11.0

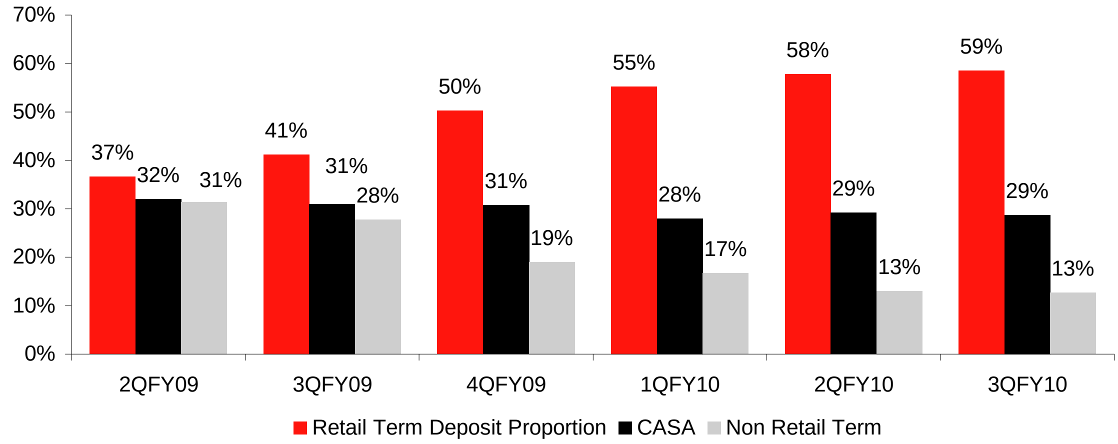
Source: Company data, Macquarie Research, March 2010

B/S consolidation benefits fully reaped in – NIM pressures ahead

Benefits of deposit re-pricing fully realized

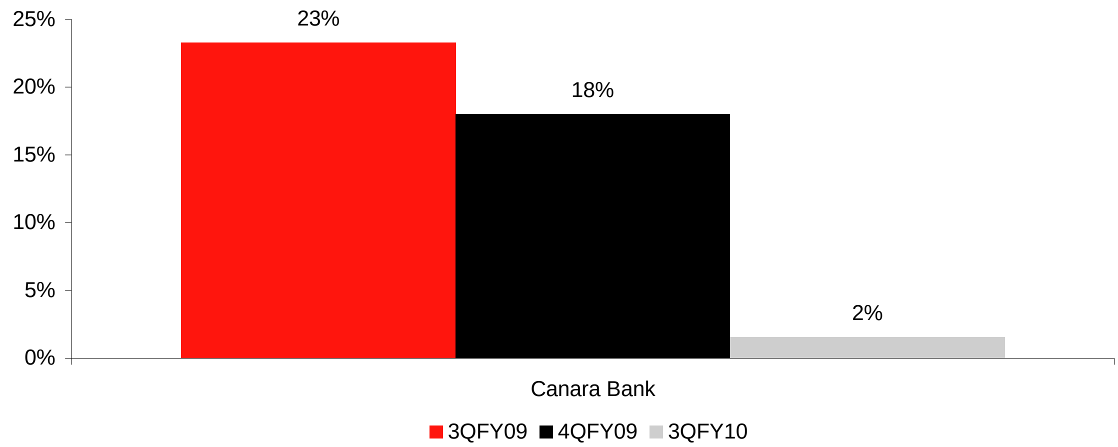
Canara Bank has managed to maintain its margins at 2.7% mainly due to repayment of bulk deposits and consistently increasing the share of retail deposits. We believe retail term deposits at 59% of total deposits have peaked and going ahead we expect negligible benefits accruing from the re-pricing of high-cost bulk deposits/wholesale deposits.

Fig 2 Canara Bank composition of deposits – retail term deposits could have peaked



Source: Company data, Macquarie Research, March 2010

Fig 3 Bulk deposit now almost negligible

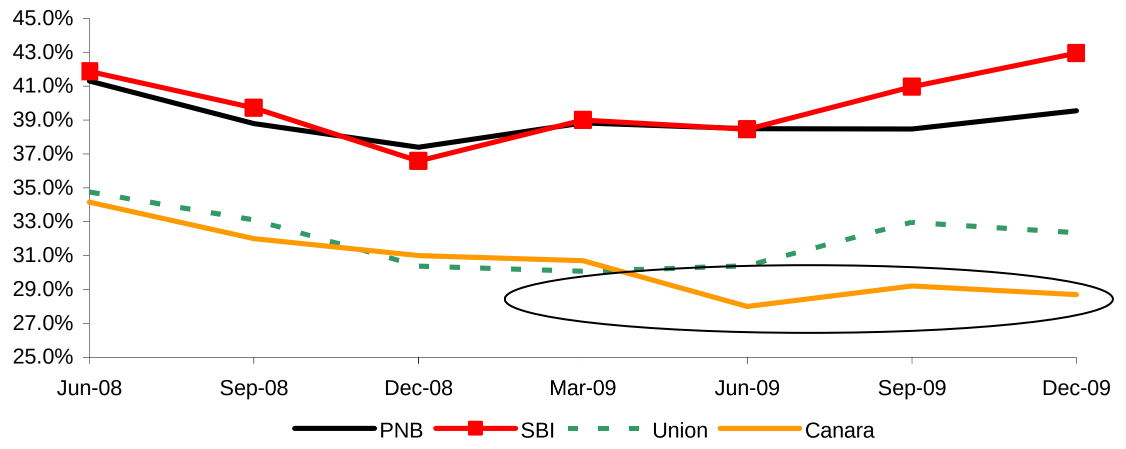


Source: Company data, Macquarie Research, March 2010

Weak franchise an added concern

Canara Bank has the weakest liabilities franchise amongst its peers with a CASA ratio at 29%. In a rising interest-rate environment, a weaker funding franchise clearly would put NIMs under more pressure. Also, there are several other headwinds that the sector is likely to face in terms of a rising savings rate, such as the inability to raise lending rates immediately, etc. (as discussed in the sector report), which could hurt margins going forward.

Fig 4 CASA ratio is the lowest amongst its peers

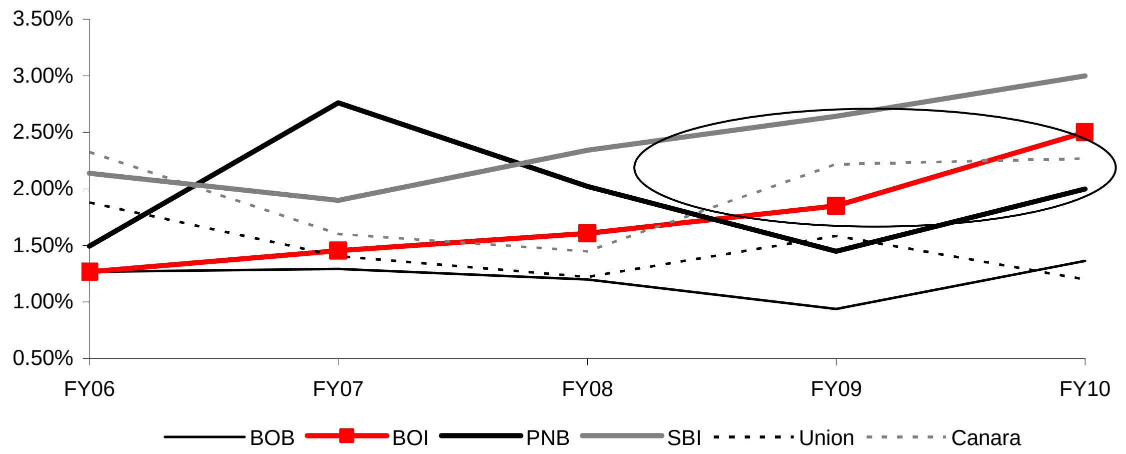


Source: Company data, Macquarie Research, March 2010

Asset quality – historical track record has been poor

Canara Bank's historical track record of slippages has been very poor and has traditionally been much higher than that of most of its peers. Restructuring at 3.8% of loans is more or less in line with that of its peers. However, there has been less slippage observed so far from this portfolio.

Fig 5 Historical track record of slippages has been poor

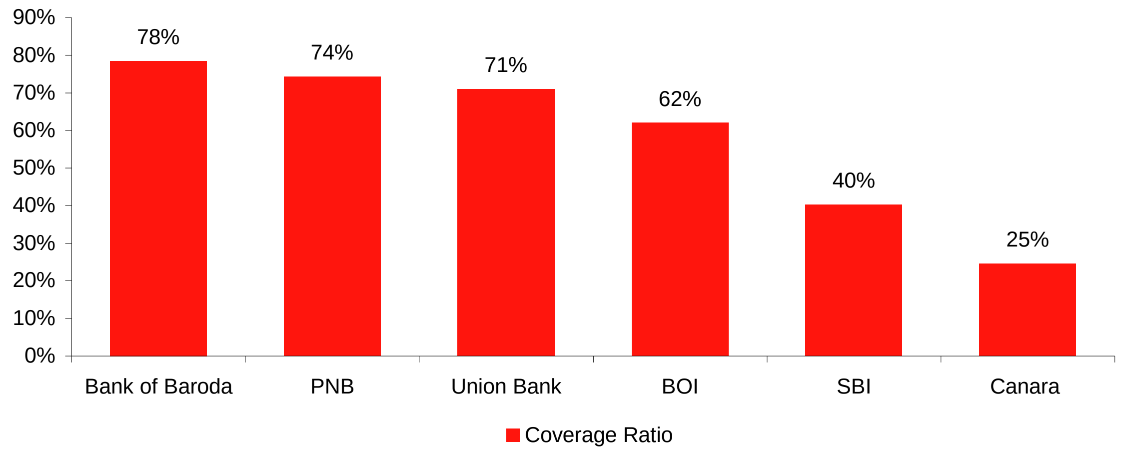


Source: Company data, Macquarie Research, March 2010

Issue regarding coverage ratio

Canara Bank's reported NPL coverage ratio of 25% looks grossly inadequate. However, if we adjust for write-offs of Rs49bn that the bank claims to have done so far, the coverage ratio increases to 74%. First of all there isn't much clarity whether this entire amount of Rs49bn will be allowed by the RBI to be considered as technical write-offs. Our conversations with various banks reveal that some banks are including just the last 2–3 years write-offs done in the coverage ratio calculation whereas some banks are including write-offs based on their recoverability potential. Canara Bank's write-offs are more than double the size of its current gross NPLs. In our view, it's unlikely that the entire Rs49bn will be allowed by the RBI for the calculation of the NPL coverage ratio and that could indeed be a significant risk as the bank then would have to provide aggressively to maintain a coverage ratio of 70%.

Fig 6 Canara Bank: reported coverage ratio is the worst amongst its peers



Source: Company data, Macquarie Research, March 2010

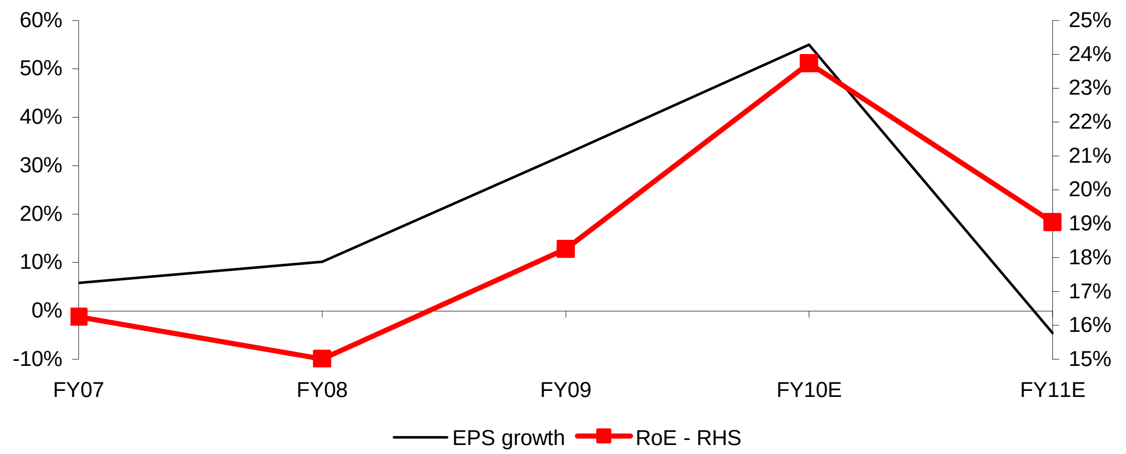
Management transition in July 2010 adds an element of uncertainty

The current Chairman and Managing Director Mr. Mahajan is due for retirement this year in July 2010. The Government is in the process of finding a replacement for him. CMD changes in PSU banks at times could hamper stock performance as it adds an element of uncertainty about the policies that could be followed by the new CMD.

Earnings pressure likely to be severe in FY11

Approximately 44% of profits in 9MFY10 came through treasury gains and MTM writebacks, which is unlikely to repeat in FY11. Though NII is likely to increase as credit growth picks up, we expect earnings to decline by 5% in FY11 mainly due to lower treasury profits and investment depreciation provisions.

Fig 7 Earnings and RoE likely to be down sharply in FY11



Source: Company data, Macquarie Research, March 2010

Fig 8 Lower margins, non-interest income to compress ROE

FY10E RoE - Dupont Analysis	PNB	BOB	BOI	SBI	Canara	Union
Net interest income/ avg. total assets	3.19%	2.38%	2.32%	2.23%	2.31%	2.19%
Non-interest income/ avg. total assets	1.12%	1.10%	1.00%	1.43%	1.18%	1.08%
Total income/ avg. total assets	4.31%	3.48%	3.32%	3.66%	3.48%	3.27%
Operating expenses/ avg. total assets	1.79%	1.54%	1.43%	1.82%	1.29%	1.35%
Operating profit/ avg. total assets	2.52%	1.94%	1.89%	1.84%	2.20%	1.92%
Provisions/ Avg. total assets	0.41%	0.26%	0.79%	0.37%	0.54%	0.40%
(1 - tax rate)	66.00%	71.00%	67.00%	66.00%	81.00%	73.00%
Return on avg. total assets	**1.39%**	**1.19%**	**0.74%**	**0.97%**	**1.34%**	**1.11%**
Avg. total assets/ average equity	16.6x	17.7x	17.4x	16.7x	17.7x	18.5x
Return on equity	**23.14%**	**20.96%**	**12.78%**	**16.16%**	**23.73%**	**20.53%**

Source: Company data, Macquarie Research, March 2010

Canara Bank's high RoE is a function of huge treasury profits and relatively higher margins, both of which are unsustainable in a rising rate environment. A weak CASA is likely to result in margin compression whereas rising bond yields will make it more difficult for the bank to generate treasury profits.

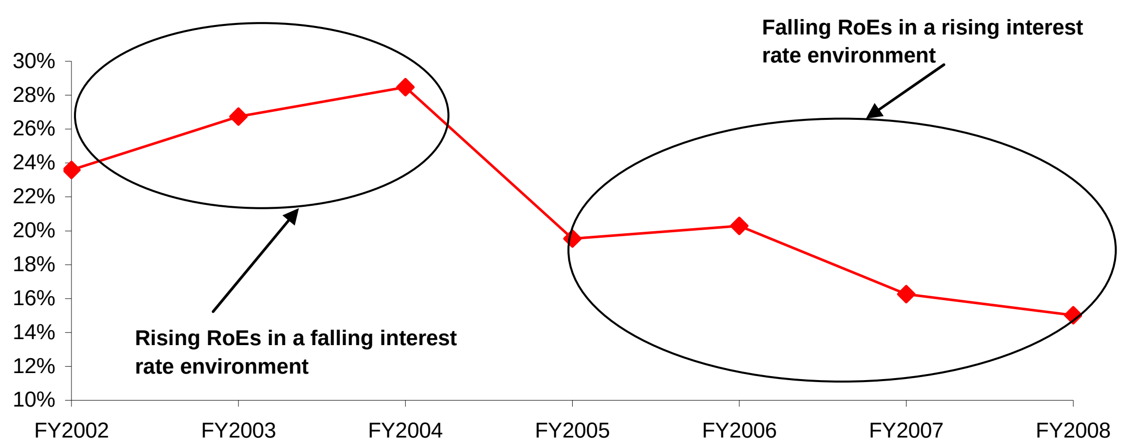
Fig 9 Canara Bank: treasury profits have a large contribution to RoA

FY10E	Union Bank	Canara Bank	Bank of Baroda	Bank of India	PNB	SBI
Treasury Profits net of MTM	6,570	10,938	9,576	3,907	5,915	26,950
Net Profits	14,814	25,184	21,521	13,132	27,703	72,990
Contribution of Treasury profits	44%	43%	44%	30%	21%	37%

Source: Company data, Macquarie Research, March 2010

Canara Bank's RoEs have sharply compressed during a rising rate environment and we believe this time around the same cycle is likely to be repeated.

Fig 10 Canara Bank's RoEs have rapidly fallen during a rising rate environment



Source: Company data, Macquarie Research, March 2010

Valuations and risks

We value Canara Bank on a two-stage Gordon growth model using:

P/BV = RoE * {(p(1+g) * (1- (1+g)n/(1+r)n)) + (pn(1+g)n(1+gn))/((r-gn)(1+r)n)} where g=growth rate for the first n (high-growth period) years, p=payout ratio in the first n years, gn=perpetual growth rate, pn=perpetual payout ratio.

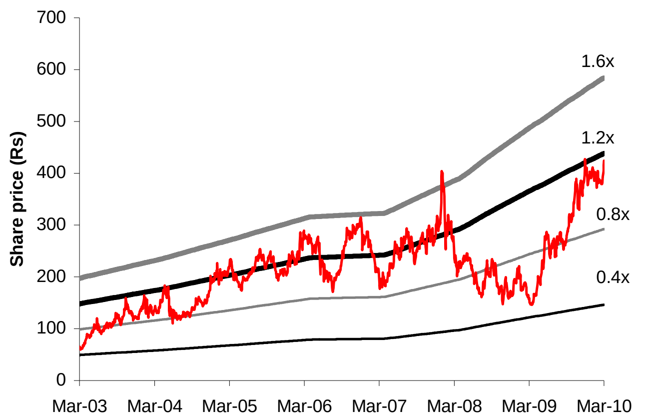
Fig 11 Canara Bank valuation methodology

r (cost of equity)	13.5%
gn (perpetual growth rate)	5.0%
n = No of years of high growth	10
g = high growth phase growth rate	15%
Initial period payout – p	18%
Terminal period payout – pn	40%
RoE estimate	
FY11E RoE	15.9%
Schematic RoE	14.5%
Blended RoE estimate	14.8%
Computed P/BV	1.12x
FY11E adj book value (INR)	291.0
Target Price (Rounded off)	**330**

Source: Company data, Macquarie Research, March 2010

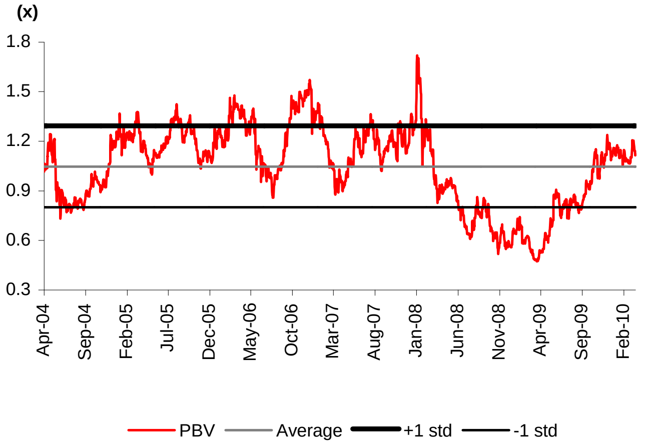
A look at the P/BV valuation chart of Canara Bank reveals that historically Canara Bank has traded below book, on average, mainly due to its volatility of earnings growth, unsatisfactory track record of slippages and poor liabilities franchise.

Fig 12 1-yr-fwd P/BV valuation band chart



Source: Bloomberg, Macquarie Research, March 2010

Fig 13 1-yr-fwd P/BV



Source: Bloomberg, Macquarie Research, March 2010

Key risks to our recommendation include:

- Substantial improvement in CASA mix, thereby, aiding the recovery in margins
- Exemplary control on NPLs especially on slippages coming out of restructured assets portfolio

Company details and financials

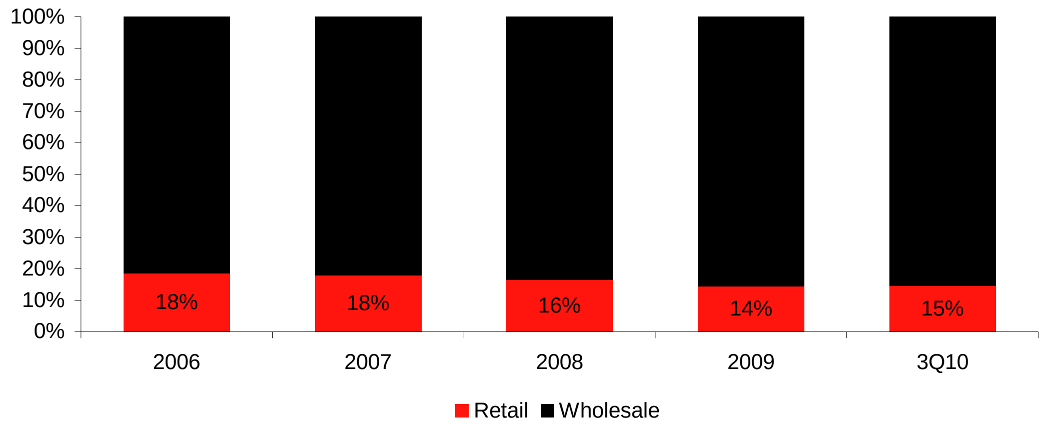
Company background

Canara Bank was started in 1906 in Mangalore. The bank was nationalized in 1969 and is one of the largest state-owned banks in India with 5% market share of both deposits and loans. The bank's distribution network is comparable with that of its peers, BOI and BOB, with a pan-national presence of 3,005 branches and 2,000+ ATMs. The bank has very limited international presence, with domestic business accounting for 97% of total business.

Loan book skewed toward wholesale

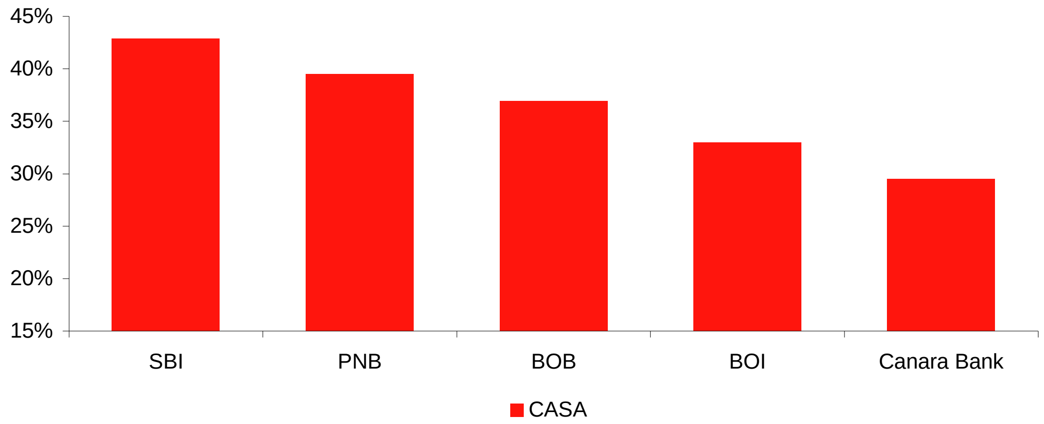
Unlike its peers, the bank has not gone for aggressive retail growth. The loan book has been skewed toward wholesale lending, with retail loans growing slower than the overall loan book. However, retail lending has seen an uptick in FY10, led mainly by mortgage loans. On the deposit side, CASA has lagged behind that of its peers, with the current CASA ratio at 29.5%.

Fig 14 Retail loan proportion coming down over time



Source: Company data, Macquarie Research, March 2010

Fig 15 The bank lags behind its peers on CASA

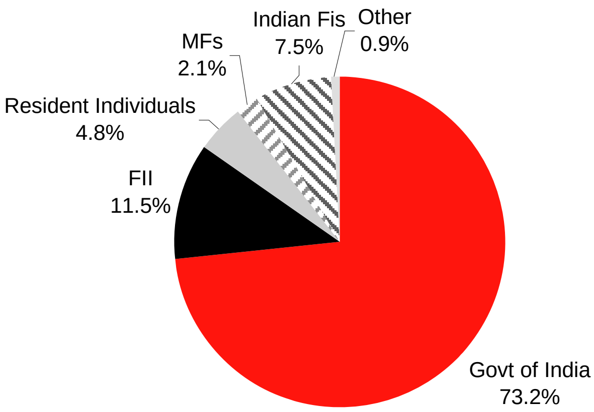


Source: Company data, Macquarie Research, March 2010

Shareholding pattern

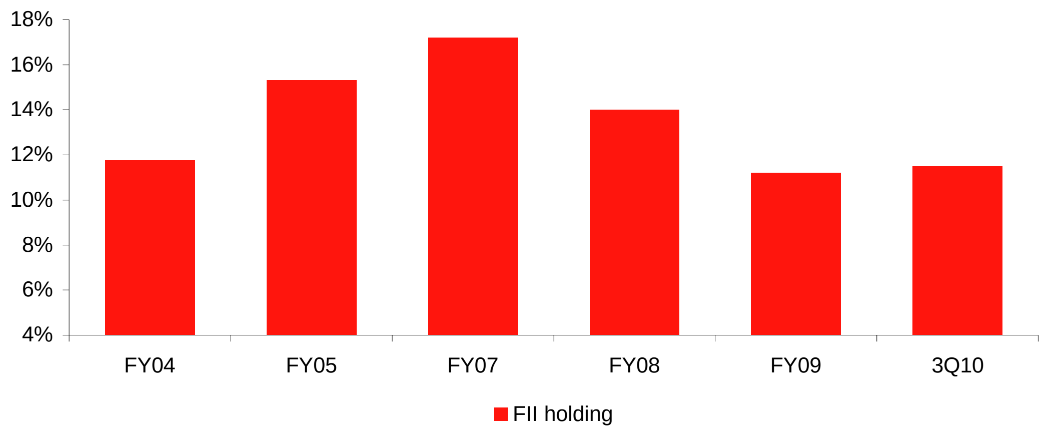
The Government of India is the biggest shareholder, with 73% holding. This should provide a cushion in any further capital raising. The FII holding, however, is only 11.5%versus the maximum 20% allowed in state-owned banks and down from 17.2% in March 2007.

Fig 16 Shareholding pattern



Source: Company data, Macquarie Research, March 2010

Fig 17 FII holding has been low



Source: Company data, Macquarie Research, March 2010

Fig 18 Balance sheet

(Rs m)	FY07	FY08	FY09	FY10E	FY11E	FY12E
Share Capital	4,100	4,100	4,100	4,100	4,100	4,100
Reserves and surplus	99,440	100,905	117,978	143,685	162,586	189,656
Deposits	1,423,815	1,540,724	1,868,925	2,234,939	2,697,090	3,256,558
Borrowings	15,744	25,172	70,566	72,915	75,359	77,900
Other liabilities and provisions	116,513	134,385	134,889	138,116	141,504	145,061
Total liabilities	1,659,610	1,805,287	2,196,458	2,593,755	3,080,638	3,673,275
Cash and balances with RBI	90,952	133,648	100,368	110,010	120,609	132,259
Balance with banks, call and notice money	72,787	45,133	66,230	61,678	58,154	55,454
Investments	452,255	498,116	577,769	731,877	931,833	1,191,365
Advances	985,057	1,072,380	1,382,194	1,603,345	1,891,947	2,232,498
Fixed Assets, net	28,614	29,169	29,295	30,288	31,111	32,017
Other Assets	29,945	26,842	40,603	56,557	46,986	29,683
Total assets	1,659,610	1,805,287	2,196,458	2,593,755	3,080,638	3,673,275

Source: Company data, Macquarie Research, March 2010

Fig 19 Profit & loss

(Rs m)	FY07	FY08	FY09	FY10E	FY11E	FY12E
Net interest income	40,268	35,378	47,178	55,293	63,335	81,107
Other income	14,509	22,129	23,112	28,162	20,620	21,719
Fee income	4,749	5,690	6,388	7,665	8,815	10,402
Trading gains	1,341	3,490	5,588	9,000	2,700	1,620
Others	8,420	12,949	11,137	11,497	9,105	9,697
Operating expenses	25,653	27,913	30,652	30,836	34,826	39,650
Pre-provisioning profit	29,125	29,594	39,638	52,619	49,129	63,176
Provisions	12,417	10,544	13,914	13,965	16,707	20,145
Profit before tax	16,708	19,050	25,724	38,654	32,422	43,031
Income taxes	2,500	3,400	5,000	7,344	7,457	9,897
Net profit	14,208	15,650	20,724	31,309	24,965	33,134

Source: Company data, Macquarie Research, March 2010

Canara Bank (CBK IN, Underperform, Target Price: Rs330.00)

Quarterly Results		3Q/10A	4Q/10E	1Q/11E	2Q/11E
Net Interest Income	**m**	**14,778**	**14,464**	**10,950**	**17,954**
+ Loan Fees	m	4,863	5,274	1,524	2,499
+ Trading Income	m	2,950	1,410	896	1,470
+ Insurance Income	m	0	0	0	0
+ Other Income	m	0	0	1,145	1,877
Non Interest Income	**m**	**7,813**	**6,684**	**3,565**	**5,845**
Total Operating Inc	**m**	**22,591**	**21,148**	**14,515**	**23,800**
+ Staff expenses	m	4,754	5,229	3,457	5,668
+ Other expenses	m	3,137	2,604	2,564	4,204
Total Operating Exp	**m**	**7,891**	**7,833**	**6,021**	**9,873**
Pre-Provision Profit	**m**	**14,700**	**13,314**	**8,494**	**13,927**
Loan Provisions	**m**	**1,674**	**5,845**	**2,889**	**4,736**
Post Provision Profit	**m**	**13,026**	**7,469**	**5,606**	**9,191**
Other Profit	m	0	0	0	0
- Amortisation	m	0	0	0	0
- Non Recurring Items	m	0	0	0	0
- Associates	m	0	0	0	0
Pre-Tax Profit	**m**	**13,026**	**7,469**	**5,606**	**9,191**
- Taxation	m	2,500	1,344	1,289	2,114
Net Profit After Tax	**m**	**10,526**	**6,125**	**4,316**	**7,077**
- Minority Interests	m	0	0	0	0
Reported Profit	**m**	**10,526**	**6,125**	**4,316**	**7,077**
Adjusted Profit	**m**	**10,526**	**6,125**	**4,316**	**7,077**
Attributable Profit	**m**	**10,526**	**6,125**	**4,316**	**7,077**
EPS (rep)		25.67	14.94	10.53	17.26
EPS growth pcp (rep)	%	50.0	-14.8	-22.3	-22.3
EPS (adj)		25.67	14.94	10.53	17.26
EPS growth pcp (adj)	%	50.0	-14.8	-22.3	-22.3
DPS		2.25	2.25	2.50	2.50

Key Ratios		3Q/10A	4Q/10E	1Q/11E	2Q/11E
Interest Spread	%	1.17	1.11	0.78	1.22
Net Interest Margin	%	1.28	1.21	0.87	1.36
Non Int Inc / Total Inc	%	34.6	31.6	24.6	24.6
Cost to Income	%	34.9	37.0	41.5	41.5
Cost to Assets	%	0.61	0.60	0.39	0.64
Provisions / Loans	%	0.21	0.72	0.30	0.50
Tax Rate	%	19.2	18.0	23.0	23.0
Loan Deposit Ratio (LDR)	%	71.7	71.7	70.1	70.1
NPLs	%	1.93	1.93	2.32	2.32
Reserve Cover	%	32.5	32.5	35.2	35.2
Tier 1 Capital Ratio	%	8.8	8.8	8.3	8.3
Total Capital Ratio	%	9.3	9.3	8.7	8.7
Equity to Assets	%	5.7	5.7	5.4	5.4
ROA (ave)	%	0.88	0.51	0.30	0.50
ROE (ave)	%	15.6	9.1	5.5	9.0
ROTE (ave)	%	15.6	9.1	5.5	9.0

Profit & Loss		2009A	2010E	2011E	2012E
Net Interest Income	**m**	**47,178**	**55,293**	**63,335**	**81,107**
+ Loan Fees	m	16,366	19,162	8,815	10,402
+ Trading Income	m	6,746	9,000	5,184	4,353
+ Insurance Income	m	0	0	0	0
+ Other Income	m	0	0	6,621	6,965
Non Interest Income	**m**	**23,112**	**28,162**	**20,620**	**21,719**
Total Operating Inc	**m**	**70,290**	**83,455**	**83,955**	**102,826**
+ Staff expenses	m	18,772	19,186	19,996	21,609
+ Other expenses	m	11,881	11,651	14,831	18,041
Total Operating Exp	**m**	**30,653**	**30,836**	**34,826**	**39,650**
Pre-Provision Profit	**m**	**39,638**	**52,619**	**49,129**	**63,176**
Loan Provisions	**m**	**13,914**	**13,965**	**16,707**	**20,145**
Post Provision Profit	**m**	**25,724**	**38,654**	**32,422**	**43,031**
Other Profit	m	0	0	0	0
- Amortisation	m	0	0	0	0
- Non Recurring Items	m	0	0	0	0
- Associates	m	0	0	0	0
Pre-Tax Profit	**m**	**25,724**	**38,654**	**32,422**	**43,031**
- Taxation	m	5,000	7,344	7,457	9,897
Net Profit After Tax	**m**	**20,724**	**31,309**	**24,965**	**33,134**
- Minority Interests	m	0	0	0	0
Reported Profit	**m**	**20,724**	**31,309**	**24,965**	**33,134**
Adjusted Profit	**m**	**20,724**	**31,309**	**24,965**	**33,134**
Attributable Profit	**m**	**20,724**	**31,309**	**24,965**	**33,134**
EPS (rep)		50.55	76.36	60.89	80.81
EPS growth yoy (rep)	%	32.4	51.1	-20.3	32.7
EPS (adj)		50.55	76.36	60.89	80.81
EPS growth yoy (adj)	%	32.4	51.1	-20.3	32.7
DPS		8.00	9.00	10.00	10.00
Payout ratio	%	15.8	11.8	16.4	12.4
Book Value p.s (wgted)		297.8	360.5	406.6	472.6
Tangible Book Value p.s (wgted)		297.8	360.5	406.6	472.6
Weighted average shares	m	410	410	410	410

Key Ratios		2009A	2010E	2011E	2012E
Interest Spread	%	2.05	2.10	1.97	2.08
Net Interest Margin	%	2.33	2.31	2.20	2.33
Non Int Inc / Total Inc	%	31.6	33.4	24.6	21.1
Cost to Income	%	43.6	36.9	41.5	38.6
Cost to Assets	%	1.40	1.19	1.13	1.08
Provisions / Loans	%	1.00	0.87	0.88	0.89
Tax Rate	%	19.4	19.0	23.0	23.0
Loan Deposit Ratio (LDR)	%	74.0	71.7	70.1	68.6
NPLs	%	1.56	1.93	2.32	2.41
Reserve Cover	%	30.5	32.5	35.2	40.5
Tier 1 Capital Ratio	%	8.0	8.8	8.3	8.0
Total Capital Ratio	%	8.8	9.3	8.7	8.3
Equity to Assets	%	5.6	5.7	5.4	5.3
ROA (ave)	%	1.04	1.31	0.88	0.98
ROE (ave)	%	18.3	23.2	15.9	18.4
ROTE (ave)	%	18.3	23.2	15.9	18.4

Growth rates		2009A	2010E	2011E	2012E
Income Growth	%	22.2	18.7	0.6	22.5
Cost Growth	%	9.8	0.6	12.9	13.9
Pre-Prov Profit Growth	%	33.9	32.7	-6.6	28.6
PBT Growth	%	35.0	50.3	-16.1	32.7
Loan Growth	%	28.9	16.0	18.0	18.0
Ave Int Earning Assets	%	25.4	18.3	20.2	20.7

Valuation data		2009A	2010E	2011E	2012E
P/E (rep)	x	3.3	5.5	6.9	5.2
P/E (adj)	x	3.3	5.5	6.9	5.2
P/B (wgted)	x	0.6	1.2	1.0	0.9
P/TB (wgted)	x	0.6	1.2	1.0	0.9
Dividend yield	%	4.8	2.2	2.4	2.4

Balance Sheet		2009A	2010E	2011E	2012E
Cash & Equivalent	m	100,368	110,010	120,609	132,259
Net Loans to Customer	m	1,382,194	1,603,345	1,891,947	2,232,498
Other Interest Earning Assets	m	643,999	793,555	989,986	1,246,818
Other Assets	m	69,897	86,845	78,096	61,700
Total Assets	**m**	**2,196,458**	**2,593,755**	**3,080,638**	**3,673,275**
Customer Deposits	m	1,868,925	2,234,939	2,697,090	3,256,558
Other Int Bearing Liab	m	70,566	72,915	75,359	77,900
Other Liabilities	m	134,889	138,116	141,504	145,061
Total Liabilities	**m**	**2,074,380**	**2,445,970**	**2,913,952**	**3,479,518**
Ordinary Equity	m	4,100	4,100	4,100	4,100
Retained Earnings	m	0	0	0	0
Reserves	m	117,978	143,685	162,586	189,656
Minority Interests	m	0	0	0	0
Total S/H's Funds	**m**	**122,078**	**147,785**	**166,686**	**193,756**

All figures in INR unless noted.
Source: Company data, Macquarie Research, March 2010

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – 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.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2009

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	47.94%	60.52%	37.50%	43.42%	65.26%	41.60%	(for US coverage by MCUSA, 3.76% of stocks covered are investment banking clients)
Neutral	35.58%	18.70%	53.13%	49.06%	29.11%	36.80%	(for US coverage by MCUSA, 4.51% of stocks covered are investment banking clients)
Underperform	16.48%	20.79%	9.38%	7.52%	5.63%	21.60%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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Kenneth Yap (Indonesia)	(6221) 515 1555
JJ Kim (Korea)	(822) 3705 8799
Jason Lee (Malaysia)	(603) 2059 8888
Gino C Rojas (Philippines)	(632) 857 0761
Greg Norton-Kidd (New York)	(1 212) 231 2527
Luke Sullivan (New York)	(1 212) 231 2507
Scot Mackie (New York)	(1 212) 231 2848

Regional Heads of Sales cont'd

Sheila Schroeder (San Francisco)	(1 415) 835 1235
Angus Kent (Thailand)	(662) 694 7601
Michael Newman (Tokyo)	(813) 3512 7920
Charles Nelson (UK/Europe)	(44) 20 3037 4832
Rob Fabbro (UK/Europe)	(44) 20 3037 4865
Nick Ainsworth (Generalist)	(852) 3922 2010

Sales Trading

Adam Zaki (Asia)	(852) 3922 2002
Mike Keen (Europe)	(44) 20 3037 4905
Yat Quan Tan (Hong Kong)	(852) 3922 2028
Stanley Dunda (Indonesia)	(6221) 515 1555
Mario Argyrides (Korea)	(822) 3705 8610
Edward Robinson (London)	(44) 20 3037 4902

Sales Trading cont'd

Chris Reale (New York)	(1 212) 231 2616
Michael Santos (Philippines)	(632) 857 0813
Matthew Ryan (Singapore)	(65) 6231 2888
Isaac Huang (Taiwan)	(8862) 2734 7582
Dominic Shore (Thailand)	(662) 694 7707
Phil Sellaroli (Tokyo)	(813) 3512 7837

Alternative Strategies

Convertibles - Roland Sharman	(852) 3922 2095
Depository Receipts - Robert Ansell	(852)3922 2094
Derivatives - Wayne Edelist	(852) 3922 2134
Futures - Tim Smith	(852) 3922 2113
Structured Products - Andrew Terlich	(852) 3922 2013