

Bank of India (BOI IN)

Rating: **1**

Capital infusion should boost Tier-I ratio by around 50bps

Banks: India

Target price: **Rs523.00**

Rajiv Pathak/Punit Srivastava/Dhiren Shah (91) 22 6622 1086
(rajiv.pathak@in.daiwacm.com)

Price (24 Mar)	Rs452.30
Reuters code	BOI.NS
ADR/GDR code	n.a.
Shares per ADR/GDR	n.a.

Market data

SENSEX Index	18,350.74
Market cap (US\$bn)	5.52
3-mth avg daily T/O (US\$m)	10.22
Shares outstanding (m)	547
Free float (%)	35.5
Major shareholder	Government of India (64.5%)
Exchange rate (Rs/US\$)	44.853

Performance (%)*	1M	3M	6M
Absolute	8.2	2.1	(8.9)
Relative	4.2	10.7	(0.5)

Source: Daiwa

Note: *Relative to SENSEX Index

Investment indicators

	2011E	2012E	2013E
PER (x)	9.1	7.1	5.4
PBR (x)	1.5	1.3	1.1
Dividend yield (%)	1.5	1.8	2.0
ROE (%)	18.5	19.8	21.8
ROA (%)	0.9	1.0	1.1
Relative to peers			In line
Relative to history			In line

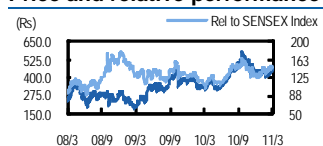
Source: Daiwa forecasts

Income summary (Rs m)

Yr to 31 Mar	2010	2011E	2012E	2013E
Op. profit	24,938	38,053	49,522	65,382
YoY (%)	(40.1)	52.6	30.1	32.0
Pre-tax profit	24,938	38,053	49,522	65,382
YoY (%)	(40.1)	52.6	30.1	32.0
Net profit	17,411	26,637	34,666	45,767
YoY (%)	(42.1)	53.0	30.1	32.0
EPS (Rs)	33.128	49.643	63.349	83.636
YoY (%)	(42.1)	49.9	27.6	32.0
DPS (Rs)	7.000	7.000	8.000	9.000

Source: Company, Daiwa forecasts

Price and relative performance



Source: Bloomberg, Daiwa

Forecasts revisions (%)

	FY11E	FY12E	FY13E
Op. profit change	0.0	1.8	1.6
Net profit change	0.0	1.8	1.6
EPS change	(2.0)	(2.1)	(2.4)

Source: Daiwa forecasts

Fair value

Valuation (Rs/shr)	523.00
Methodology	Price to Book
Key assumption	1.5x FY12 PBR

Source: Daiwa forecasts

What has changed?

- On 24 March 2011, Bank of India (BOI) received a Rs10.1bn equity infusion from the Government of India (GOI) under its capital-infusion plan. This would lead to 4% dilution of its existing equity. Its Tier I ratio should improve by around 50bps.

Impact

- The fresh issue has been priced at Rs474/share, around 5% higher than the current share price. With the fresh issue of equity shares, the GOI's shareholding in BOI would increase from 64.5% to 65.9%. The bank's Tier I ratio, which was 7.97% as at December 2010, should be boosted by around 50bps.
- While the capital infusion is book-value accretive, it is EPS dilutive, albeit very moderately. We now factor the dilution into our model and forecast a modest fall in ROE for FY12 from 20.6% pre dilution to 19.8% post dilution.
- Our contact with management suggests the final liability on account of the second option for staff to take up the pension has yet to be crystallised by the appointed actuary. We expect the bank to disclose the final pension-liability amount when it announces its FY11 results some time in April 2011. We have already factored into our model an additional liability of Rs7bn per year over the next five years.

Valuation

- We see the capital infusion as a positive, as it should help BOI maintain its Tier-I ratio at above 9% for the next two years. We believe the capital should be sufficient to fuel the bank's balance-sheet growth for FY11-13. We believe BOI is among India's few banks that can benefit the most from improving asset quality and NPL recoveries in FY12. The resultant reduction in credit costs could boost earnings, which we forecast currently to rise at a CAGR of 31% for FY11-13. We maintain our six-month target price of Rs523 based on our Gordon Growth Model, which would translate into a PBR of 1.5x on our FY12 BVPS forecast.

Catalysts and action

- We maintain our **1 (Buy)** rating for BOI. Sluggishness in NPL recoveries and a slow pace of asset-quality improvement are the key risks, in our view.

BOI: details of equity capital infusion

Issue price	Rs	474	
Proposed issue	mn shares	21.3	
Revised equity	mn shares	547.2	
Dilution	%	4.1	
Existing government holding	%	64.5	
Revised government holding	%	65.9	
Impact	FY11E	FY12E	FY13E
Previous BVPS (Rs/share)	286	341	416
Revised BVPS (Rs/share)	293	347	420
Previous EPS (Rs/share)	51	65	86
Revised EPS (Rs/share)	49	63	84
Previous ROE (%)	19.1	20.6	22.6
Revised ROE (%)	18.5	19.8	21.8
Revised Tier I ratio (%)	9.2	9.1	9.0

Source: Company, Daiwa forecasts

Company background

Bank of India is the fourth-largest public-sector bank in India in terms of balance-sheet size. Established in 1906, the bank was listed via an IPO in 1997. The bank has a pan-India presence, with 3,231 branches (3,207 domestic branches and 24 overseas branches).

Bank of India – financial summary

Profit and loss (Rs m)

Year to 31 Mar	2009	2010	2011E	2012E	2013E
Net-interest income	54,989	57,559	76,449	88,474	107,009
Net fees & commission	10,916	10,965	12,281	13,509	14,860
Trading and other income	19,602	15,201	13,327	15,320	17,771
Net insurance income	0	0	0	0	0
Total operating income	85,508	83,726	102,057	117,303	139,641
Personnel expenses	(19,374)	(22,961)	(32,716)	(36,573)	(41,009)
Other expenses	(11,566)	(13,717)	(15,089)	(16,900)	(18,928)
Total expenses	(30,940)	(36,678)	(47,805)	(53,473)	(59,937)
Pre-provision operating profit	54,568	47,048	54,252	63,830	79,704
Total provision	(12,924)	(22,109)	(16,199)	(14,308)	(14,322)
Operating profit after prov.	41,644	24,938	38,053	49,522	65,382
Non-operating income	0	0	0	0	0
Profit before tax	41,644	24,938	38,053	49,522	65,382
Tax	(11,571)	(7,528)	(11,416)	(14,857)	(19,615)
Min. int./pref. div./other items	0	0	0	0	0
Net profit	30,074	17,411	26,637	34,666	45,767
Adj. net profit	30,074	17,411	26,637	34,666	45,767
EPS (Rs)	57.224	33.128	49.643	63.349	83.636
EPS (adjusted) (Rs)	57.224	33.128	49.643	63.349	83.636
DPS (Rs)	8.000	7.000	7.000	8.000	9.000

Balance sheet (Rs m)

As at 31 Mar	2009	2010	2011E	2012E	2013E
Cash & equivalent	217,613	312,301	343,531	384,755	442,469
Investment securities	526,072	670,802	771,422	848,564	907,964
Net loans and advances	1,429,094	1,684,907	2,038,738	2,507,647	3,059,330
Fixed assets	8,216	9,232	10,617	11,678	12,846
Goodwill	0	0	0	0	0
Other assets	56,920	58,136	46,718	36,251	81,119
Total assets	2,237,915	2,735,379	3,211,026	3,788,896	4,503,727
Customers deposits	1,897,085	2,297,619	2,711,684	3,278,777	3,978,334
Borrowing	94,870	140,795	147,834	118,267	88,701
Debentures	61,862	83,204	101,204	110,204	113,204
Other liabilities	66,259	85,746	90,034	91,834	93,671
Total liabilities	2,120,075	2,607,365	3,050,756	3,599,084	4,273,910
Share capital	5,252	5,259	5,472	5,472	5,472
Reserves & others	112,587	122,755	154,797	184,341	224,346
Shareholders' equity	117,839	128,014	160,269	189,813	229,818
Minority interests	0	0	0	0	0
Total equity & liabilities	2,237,914	2,735,378	3,211,026	3,788,896	4,503,728
Avg interest-earning assets	1,944,650	2,405,805	2,891,035	3,435,478	4,077,809
Avg risk-weighted assets	1,315,714	1,517,030	1,770,198	2,104,983	2,540,996
BVPS (Rs)	224.38	243.41	292.88	346.87	419.97

Growth (YoY %)

Year to 31 Mar	2009	2010	2011E	2012E	2013E
Net-interest income	30.0	4.7	32.8	15.7	20.9
Non-interest income	44.2	(14.3)	(2.1)	12.6	13.2
Total operating income	34.7	(2.1)	21.9	14.9	19.0
Total expenses	17.0	18.5	30.3	11.9	12.1
Pre-provision operating profit	47.4	(13.8)	15.3	17.7	24.9
Total provisions	27.1	71.1	(26.7)	(11.7)	0.1
Operating profit after provisions	55.1	(40.1)	52.6	30.1	32.0
Profit before tax	55.1	(40.1)	52.6	30.1	32.0
Net profit (reported)	49.7	(42.1)	53.0	30.1	32.0
Net profit (adjusted)	49.7	(42.1)	53.0	30.1	32.0
EPS (reported)	44.4	(42.1)	49.9	27.6	32.0
EPS (adjusted)	44.4	(42.1)	49.9	27.6	32.0
Gross loans	26.1	18.2	21.3	22.3	21.6
Deposits	26.5	21.1	18.0	20.9	21.3
Total assets	26.4	22.2	17.4	18.0	18.9
Total liabilities	26.0	23.0	17.0	18.0	18.7
Shareholders' equity	33.5	8.6	25.2	18.4	21.1
Avg interest-earning assets	25.4	23.7	20.2	18.8	18.7
Avg risk-weighted assets	24.3	15.3	16.7	18.9	20.7

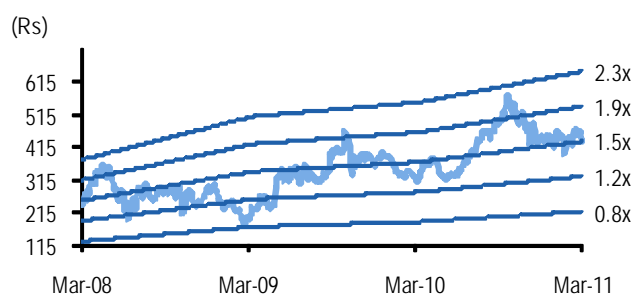
Key ratios (%)

Year to 31 Mar	2009	2010	2011E	2012E	2013E
Liquidity					
Loan/deposit	76.3	74.5	76.6	77.5	77.7
Capital adequacy ratios (CAR)					
Tier-1 CAR	9.0	8.6	9.2	9.1	9.0
Total CAR	13.1	13.0	13.2	12.7	12.0
Asset quality					
NPLs/gross loans	1.7	2.9	2.6	1.8	1.4
Total loan-loss prov./NPLs	74.6	54.8	71.5	71.1	71.0
Profitability					
ROAA	1.5	0.7	0.9	1.0	1.1
ROAE	29.2	14.2	18.5	19.8	21.8
Efficiency					
Net-interest margin	2.8	2.4	2.6	2.6	2.6
Gross yield	8.4	7.4	7.9	8.1	8.4
Cost of funds	6.0	5.4	5.6	6.1	6.2
Net-interest spread	2.4	2.0	2.2	2.1	2.1
Total cost/total income	36.2	43.8	46.8	45.6	42.9
Others					
Effective tax	27.8	30.2	30.0	30.0	30.0
Dividend-payout ratio	14.0	21.1	14.1	12.6	10.8

Key assumptions

Year to 31 Mar	2009	2010	2011E	2012E	2013E
Loan growth (%)	25.9%	17.9%	21.0%	23.0%	22.0%
Deposit growth (%)	26.5%	21.1%	18.0%	20.9%	21.3%

PBR bands



Source: Company, Daiwa forecasts

DAIWA'S ASIA PACIFIC RESEARCH DIRECTORY

Hong Kong

Regional Research Head: Pan Asia Research	Nagahisa MIYABE	(852) 2848 4971	nagahisa.miyabe@hk.daiwacm.com
Head of Product Management	John HETHERINGTON	(852) 2773 8787	john.hetherington@hk.daiwacm.com
Product Management	Talhgata Guha ROY	(852) 2773 8731	talhgata.guharoy@hk.daiwacm.com
Head of China Research; Chief Economist (Greater China)	Mingchun SUN	(852) 2773 8751	mingchun.sun@hk.daiwacm.com
Macro Economy (Hong Kong, China)	Kevin LAI	(852) 2848 4926	kevin.lai@hk.daiwacm.com
Strategy (Regional)	Colin BRADBURY (Regional Chief Strategist)	(852) 2848 4983	colin.bradbury@hk.daiwacm.com
Strategy (Regional)	Mun Hon THAM	(852) 2848 4426	munhon.tham@hk.daiwacm.com
Property Developers (Hong Kong)	Jonas KAN (Head of Hong Kong Research; Regional Property Co-ordinator; Co-head of Hong Kong and China Property)	(852) 2848 4439	jonas.kan@hk.daiwacm.com
Banking (Hong Kong, China)	Grace WU (Head of Hong Kong and China Banking)	(852) 2532 4383	grace.wu@hk.daiwacm.com
Banking (Hong Kong, China)	Sophia HUO	(852) 2532 4380	sophia.huo@hk.daiwacm.com
Banking (Hong Kong, China)	Queenie POON	(852) 2532 4381	queenie.poon@hk.daiwacm.com
Insurance	Jennifer LAW	(852) 2773 8745	jennifer.law@hk.daiwacm.com
Capital Goods – Electrical Equipment and Machinery (China)	Ole HUI	(852) 2848 4468	ole.hui@hk.daiwacm.com
Consumer/Retail (Hong Kong, China)	Peter CHU	(852) 2848 4430	peter.chu@hk.daiwacm.com
Consumer/Retail (China)	Nicolas WANG	(852) 2848 4963	nicolas.wang@hk.daiwacm.com
Hotels, Restaurants and Leisure – Casinos and Gaming (Hong Kong); Capital Goods – Conglomerate (Hong Kong)	Gavin HO	(852) 2532 4384	gavin.ho@hk.daiwacm.com
IT/Electronics – Semiconductor and Solar (Regional, Taiwan, Singapore, Hong Kong and China)	Pranab Kumar SARMAH (Regional Head of IT/Electronics)	(852) 2848 4441	pranab.sarmah@hk.daiwacm.com
IT/Electronics – Semiconductor/IC Design (Regional)	Eric CHEN (Co-head of Regional IT/Electronics)	(852) 2773 8702	eric.chen@hk.daiwacm.com
IT/Electronics – Tech IT Services (Hong Kong, China)	Joseph HO	(852) 2848 4443	joseph.ho@hk.daiwacm.com
IT/Technology Hardware – PC Hardware (Taiwan)	Calvin HUANG	(852) 2773 8782	calvin.huang@hk.daiwacm.com
IT/Electronics – Semiconductor/IC Design (Taiwan)	Ashley CHUNG	(852) 2848 4431	ashley.chung@hk.daiwacm.com
Materials/Energy (Regional)	Alexander LATZER (Regional Head of Materials)	(852) 2848 4463	alexander.laizer@hk.daiwacm.com
Materials (China)	Felix LAM	(852) 2532 4341	felix.lam@hk.daiwacm.com
Oil & Gas (China, Korea)	Andrew CHAN	(852) 2848 4964	andrew.chan@hk.daiwacm.com
Pan Asia Research, Consumer/Retail (China)	Hongxia ZHU	(852) 2848 4460	hongxia.zhu@hk.daiwacm.com
Pan Asia Research	Kenji SERIZAWA	(852) 2532 4159	kenji.serizawa@hk.daiwacm.com
Property Developers (Hong Kong, China)	Danny BAO (Head of Hong Kong and China Property)	(852) 2773 8715	danny.bao@hk.daiwacm.com
Property (Hong Kong, China)	Yannis KUO	(852) 2773 8735	yannis.kuo@hk.daiwacm.com
Small/Medium Cap (Regional)	Mark CHANG (Regional Head of Small/Medium Cap)	(852) 2773 8729	mark.chang@hk.daiwacm.com
Small/Medium Cap (Regional)	John CHOI	(852) 2773 8730	john.choi@hk.daiwacm.com
Telecommunications (Regional, Greater China); Software (China)	Marvin LO (Regional Head of Telecommunications)	(852) 2848 4465	marvin.lo@hk.daiwacm.com
Transportation – Land/Marine (Regional); Capital Goods – Infrastructure Construction (China)	Jimmy LAM	(852) 2848 4024	jimmy.lam@hk.daiwacm.com
Transportation – Aviation and Expressway (Hong Kong, China, Singapore)	Kelvin LAU	(852) 2848 4467	kelvin.lau@hk.daiwacm.com
Transportation (Hong Kong, China)	Edwin LEE	(852) 2532 4349	edwin.lee@hk.daiwacm.com
Utilities; Power Equipment; Renewables (Hong Kong/China)	Dave DAI	(852) 2848 4068	dave.dai@hk.daiwacm.com
Custom Products Group	Justin LAU (Head of Custom Products Group)	(852) 2773 8741	justin.lau@hk.daiwacm.com
Custom Products Group	Phillip LO	(852) 2773 8714	philip.lo@hk.daiwacm.com
Custom Products Group	Jibo MA	(852) 2848 4489	jibo.ma@hk.daiwacm.com

South Korea

Strategy; Banking/Finance	Chang H LEE (Head of Research)	(82) 2 787 9177	chlee@kr.daiwacm.com
Automobiles; Shipbuilding; Steel	Sung Yop CHUNG	(82) 2 787 9157	sychung@kr.daiwacm.com
Banking/Finance	Anderson CHA	(82) 2 787 9185	anderson.cha@kr.daiwacm.com
Capital Goods (Construction and Machinery)	Mike OH	(82) 2 787 9179	mike.oh@kr.daiwacm.com
Consumer/Retail	Sang Hee PARK	(82) 2 787 9165	sanghee.park@kr.daiwacm.com
IT/Electronics (Tech Hardware and Memory Chips)	Jae H LEE	(82) 2 787 9173	jhlee@kr.daiwacm.com
IT Electronics (Tech Hardware)	Steve OH	(82) 2 787 9195	steve.oh@kr.daiwacm.com
Materials (Chemicals)	Daniel LEE	(82) 2 787 9121	daniel.lee@kr.daiwacm.com
Pan Asia Research; Small/Medium Caps	Yumi KIM	(82) 2 787 9838	yumi.kim@kr.daiwacm.com
Telecommunications; Software (Internet/Online Games)	Thomas Y KWON	(82) 2 787 9181	yskwon@kr.daiwacm.com

Taiwan

Co-head of Research; Strategy	Alex YANG	(886) 2 2345 3660	alex.yang@daiwacm-cathay.com.tw
Banking/Diversified Financials	Ling TANG	(886) 2 8789 5158	ling.tang@daiwacm-cathay.com.tw
Consumer/Retail	Yoshihiko KAWASHIMA	(886) 2 8780 5987	y.kawashima@daiwacm-cathay.com.tw
IT/Technology Hardware (PC Hardware); Software (Small/Medium Caps)	Christine WANG	(886) 2 8788 1531	christine.wang@daiwacm-cathay.com.tw
IT/Technology Hardware (Handsets and Components)	Alex CHANG	(886) 2 8788 1584	alex.chang@daiwacm-cathay.com.tw
IT/Technology Hardware (PC Hardware - Panels)	Chris LIN	(886) 2 8788 1614	chris.lin@daiwacm-cathay.com.tw
IT/Technology Hardware (PC Components)	Jenny SHIH	(886) 2 8780 1326	jenny.shih@daiwacm-cathay.com.tw
Materials; Conglomerates	Albert HSU	(886) 2 8786 2212	albert.hsu@daiwacm-cathay.com.tw

India

Head of India Equities Strategy	Jaideep GOSWAMI	(91) 22 6622 1010	jaideep.goswami@in.daiwacm.com
Strategy; Banking/Finance	Punit SRIVASTAVA (Deputy Head of Research)	(91) 22 6622 1013	punit.srivastava@in.daiwacm.com
All Industries; Pan Asia Research	Fumio YOKOMICHI	(91) 22 6622 1003	fumio.yokomichi@in.daiwacm.com
Automobiles	Amrishi MISHRA	(91) 22 6622 1060	amrishi.mishra@in.daiwacm.com
Capital Goods; Utilities	Jonas BHUTTA	(91) 22 6622 1008	jonas.bhutta@in.daiwacm.com
Materials	Vishal CHANDAK	(91) 22 6622 1006	vishal.chandak@in.daiwacm.com
Oil & Gas; Construction; Small/Medium Caps	Atul RASTOGI	(91) 22 6622 1020	atul.rastogi@in.daiwacm.com
Pharmaceuticals and Healthcare; Consumer	Kartik A. MEHTA	(91) 22 6622 1012	kartik.mehta@in.daiwacm.com
Real Estate	Amit AGARWAL	(91) 22 6622 1063	amit.agarwal@in.daiwacm.com
Software (Tech IT Services)	R. RAVI	(91) 22 6622 1014	ravi.r@in.daiwacm.com

Singapore

Head of Research; Pan Asia Research	Tatsuya TORIKOSHI	(65) 6321 3050	tatsuya.torikoshi@sg.daiwacm.com
Macro Economy (Regional)	Prasenjit K BASU (Chief Economist, Asia Ex-JP)	(65) 6321 3069	p-k.basu@sg.daiwacm.com
Quantitative Research	Deep KAPUR (Global Director of Quantitative Research)	(65) 6321 3079	deep.kapur@sg.daiwacm.com
Quantitative Research	Josh CHERIAN	(65) 6499 6549	josh.cherian@sg.daiwacm.com
Quantitative Research	Suzanne HO	(65) 6499 6545	suzanne.ho@sg.daiwacm.com
Banking; Property and REITs	David LUM (Regional Head of Banking/Finance)	(65) 6329 2102	david.lum@sg.daiwacm.com
Banking (Southeast Asia)	Srikanth VADLAMANI	(65) 6499 6570	srikanth.vadlamani@sg.daiwacm.com
Conglomerates; Soft Commodities; Energy; Small/Medium Caps	Chris SANDA	(65) 6321 3085	chris.sanda@sg.daiwacm.com
Oil and Gas; Utilities (Southeast Asia)	Adrian LOH	(65) 6499 6548	adrian.loh@sg.daiwacm.com
Small/Medium Cap	Pyari MENON	(65) 6499 6566	pyari.menon@sg.daiwacm.com
Telecommunications (Southeast Asia & India)	Ramakrishna MARUVADA (Head of SE Asia & India Telecommunications)	(65) 6499 6543	ramakrishna.maruvada@sg.daiwacm.com

Australia

Banking/Diversified Financials	Johan VANDERLUGT	(61) 3 9916 1335	johan.vanderlugt@au.daiwacm.com
Resources/Mining/Petroleum	David BRENNAN	(61) 3 9916 1323	david.brennan@au.daiwacm.com

Japan

Industrials (Regional); Pan Asia Research	Taiki KAJI	(81) 3 5555 7174	taiki.kaji@jp.daiwacm.com
Industrials (Regional); Pan Asia Research	Daijiro HATA	(81) 3 5555 7178	daijiro.hata@jp.daiwacm.com

DAIWA SECURITIES GROUP INC

<i>OFFICE / BRANCH / AFFILIATE</i>	<i>ADDRESS</i>	<i>TEL</i>	<i>FAX</i>
HEAD OFFICE	Gran Tokyo North Tower, 1-9-1, Marunouchi, Chiyoda-ku, Tokyo, 100-6753	(81) 3 5555 3111	(81) 3 5555 0661
Daiwa Securities Trust Company	One Evertrust Plaza, Jersey City, NJ 07302, U.S.A.	(1) 201 333 7300	(1) 201 333 7726
Daiwa Securities Trust and Banking (Europe) PLC (Head Office)	5 King William Street, London EC4N 7JB, United Kingdom	(44) 207 320 8000	(44) 207 410 0129
Daiwa Securities Trust and Banking (Europe) PLC (Dublin Branch)	Level 3, Block 5, Harcourt Centre, Harcourt Road, Dublin 2, Ireland	(353) 1 603 9900	(353) 1 478 3469

DAIWA CAPITAL MARKETS LIMITED

<i>OFFICE / BRANCH / AFFILIATE</i>	<i>ADDRESS</i>	<i>TEL</i>	<i>FAX</i>
HEAD OFFICE	Gran Tokyo North Tower, 1-9-1, Marunouchi, Chiyoda-ku, Tokyo, 100-6753	(03) 5555 3111	(03) 5555 0661
Daiwa Capital Markets America Inc	Financial Square, 32 Old Slip, New York, NY10005, U.S.A.	(1) 212 612 7000	(1) 212 612 7100
Daiwa Capital Markets America Inc. San Francisco Branch	555 California Street, Suite 3360, San Francisco, CA 94104, U.S.A.	(1) 415 955 8100	(1) 415 956 1935
Daiwa Capital Markets Europe Limited	5 King William Street, London EC4N 7AX, United Kingdom	(44) 20 7597 8000	(44) 20 7597 8600
Daiwa Capital Markets Europe Limited, Frankfurt Branch	Trianon Building, Mainzer Landstrasse 16, 60325 Frankfurt am Main, Federal Republic of Germany	(49) 69 717 080	(49) 69 723 340
Daiwa Capital Markets Europe Limited, Paris Branch	127, Avenue des Champs-Élysées, 75008 Paris, France	(33) 1 56 262 200	(33) 1 47 550 808
Daiwa Capital Markets Europe Limited, Geneva Branch	50 rue du Rhône, P.O.Box 3198, 1211 Geneva 3, Switzerland	(41) 22 818 7400	(41) 22 818 7441
Daiwa Capital Markets Europe Limited, Milan Branch	Via Senato 14/16, 20121 Milan, Italy	(39) 02 763 271	(39) 02 763 27250
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HEAD OFFICE	15-6, Fuyuki, Koto-ku, Tokyo, 135-8460, Japan	(81) 3 5620 5100	(81) 3 5620 5603
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