

Equities

3 June 2011 | 13 pages

State Bank of India (SBI.BO)

Every Cloud Has a Silver Lining

- Dark clouds, but a silver lining as well** — SBI has had a bad run - operationally, accounting-wise and in stock performance. The near-term earnings outlook remains clouded as it needs to catch-up on loan-loss provisions. However, there is a silver lining – basic liability franchise remains intact, accounting overhang is removed (at least partially), and growth momentum is likely to revive on healthy economic growth in 2H12. We see value - stock trades at 1.4x consol book (excl value of non-bank subs), in line with historical averages. Maintain Buy, with SBI as one of our preferred picks.
- Operating parameters likely to bounce-back** — We expect near-term improvements in SBI's key operating parameters could be earnings and stock catalysts: a) NIMs should stabilize at healthy levels (we expect flat yoy, management guides to +20bps higher NIMs); b) operating expenses should moderate as pension expenses decline; and c) asset quality slippages (agri, SME) and credit costs likely to stabilize as management gets increasingly focused on containment.
- Fundamental strengths** — SBI's key strengths are its large distribution network, strong deposit mix and a well-diversified loan portfolio. Fundamentally advantageous in an environment of tight liquidity, higher interest rates and uncertain macro/growth.
- ... But challenges too** — There are challenges as well – its obvious advantages in size and franchise have not always resulted in better profitability (execution slippages on liquidity management, cost efficiencies and asset quality). The new management admits to some mistakes and appears to be making course corrections – however, improvement will be measured by a visible lift in execution – not just over its own remaining tenure, but over the longer term. Until then, it will be a value overhang.
- Reducing earnings, target price to Rs2,650** — We are reducing SBI's earnings by 9-13% over FY12-13E to account for moderation in loan growth, margins and asset quality. We also reduce our EVA based target price to Rs2,650; benchmarking it to a sum-of-parts approach, which values the consolidated bank at 1.6x FY12E P/BV (in line with peers) and non-bank subsidiaries at Rs185.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2010A	91,661	144.37	0.2	16.1	2.2	14.8	1.3
2011A	82,645	130.16	-9.8	17.8	2.3	12.6	1.3
2012E	133,143	209.67	61.1	11.1	1.9	18.9	1.3
2013E	169,052	266.22	27.0	8.7	1.6	20.3	1.4
2014E	201,463	317.26	19.2	7.3	1.4	20.3	1.4

Source: Powered by dataCentral

- Company Update
- Target Price Change
- Estimate Change

Buy/Low Risk	1L
Price (02 Jun 11)	Rs2,320.00
Target price	Rs2,650.00
	<i>from Rs3,110.00</i>
Expected share price return	14.2%
Expected dividend yield	1.3%
Expected total return	15.5%
Market Cap	Rs1,473,198M
	US\$32,851M

Price Performance (RIC: SBI.BO, BB: SBIN IN)



Manish Chowdhary, CFA

 +91-22-6631-9853
 manish.chowdhary@citi.com

Aditya Narain, CFA

 +91-22-6631-9879
 aditya.narain@citi.com

Pooja Kapur

pooja.kapur@citi.com

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Citi Investment Research & Analysis is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

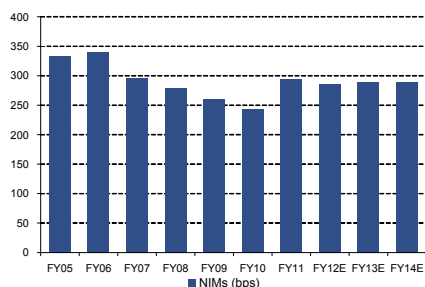
Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	16.1	17.8	11.1	8.7	7.3
P/E reported (x)	16.1	17.8	11.1	8.7	7.3
P/BV (x)	2.2	2.3	1.9	1.6	1.4
P/Adjusted BV diluted (x)	2.7	2.8	2.2	1.8	1.5
Dividend yield (%)	1.3	1.3	1.3	1.4	1.4
Per Share Data (Rs)					
EPS adjusted	144.37	130.16	209.67	266.22	317.26
EPS reported	144.37	130.16	209.67	266.22	317.26
BVPS	1,038.76	1,023.40	1,197.08	1,424.90	1,702.56
Tangible BVPS	1,038.76	1,023.40	1,197.08	1,424.90	1,702.56
Adjusted BVPS diluted	867.55	828.96	1,031.21	1,271.57	1,568.17
DPS	30.00	30.00	30.00	32.00	33.00
Profit & Loss (RsM)					
Net interest income	236,714	325,264	366,977	430,798	502,784
Fees and commissions	112,280	130,270	149,079	170,635	195,345
Other operating Income	37,402	27,976	25,716	27,847	30,205
Total operating income	386,396	483,510	541,771	629,280	728,334
Total operating expenses	-203,187	-230,154	-237,924	-268,840	-303,832
Oper. profit bef. provisions	183,209	253,355	303,847	360,440	424,502
Bad debt provisions	-51,479	-87,921	-99,170	-102,266	-121,046
Non-operating/exceptionals	7,530	-15,893	-5,957	-5,857	-2,765
Pre-tax profit	139,261	149,542	198,720	252,316	300,691
Tax	-47,600	-66,897	-65,578	-83,264	-99,228
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	91,661	82,645	133,143	169,052	201,463
Adjusted earnings	91,661	82,645	133,143	169,052	201,463
Growth Rates (%)					
EPS adjusted	0.2	-9.8	61.1	27.0	19.2
Oper. profit bef. prov.	2.3	38.3	19.9	18.6	17.8
Balance Sheet (RsM)					
Total assets	10,534,137	12,237,362	14,079,412	16,348,620	18,974,035
Avg interest earning assets	9,743,643	11,039,193	12,815,322	14,916,728	17,411,600
Customer loans	6,431,466	7,732,432	9,130,940	10,758,698	12,671,452
Gross NPLs	195,349	253,259	300,707	351,584	407,462
Liab. & shar. funds	10,534,137	12,237,362	14,079,412	16,348,620	18,974,035
Total customer deposits	8,041,162	9,339,330	10,849,163	12,722,258	14,885,592
Reserve for loan losses	112,325	165,238	235,415	301,280	377,448
Shareholders' equity	659,492	649,860	760,143	904,811	1,081,128
Profitability/Solvency Ratios (%)					
ROE adjusted	14.8	12.6	18.9	20.3	20.3
Net interest margin	2.43	2.95	2.86	2.89	2.89
Cost/income ratio	52.6	47.6	43.9	42.7	41.7
Cash cost/average assets	2.0	2.0	1.8	1.8	1.7
NPLs/customer loans	3.0	3.3	3.3	3.3	3.2
Reserve for loan losses/NPLs	57.5	65.2	78.3	85.7	92.6
Bad debt prov./avg. cust. loans	0.9	1.2	1.2	1.0	1.0
Loans/deposit ratio	80.0	82.8	84.2	84.6	85.1
Tier 1 capital ratio	9.5	7.7	7.3	7.4	7.6
Total capital ratio	13.4	11.6	11.0	10.8	10.7

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791



Key Takeaways from Analyst Meet

Figure 1. SBI – Net Interest Margins (bps)



Source: Citi Investment Research and Analysis

1. Management confident of improving NIMs

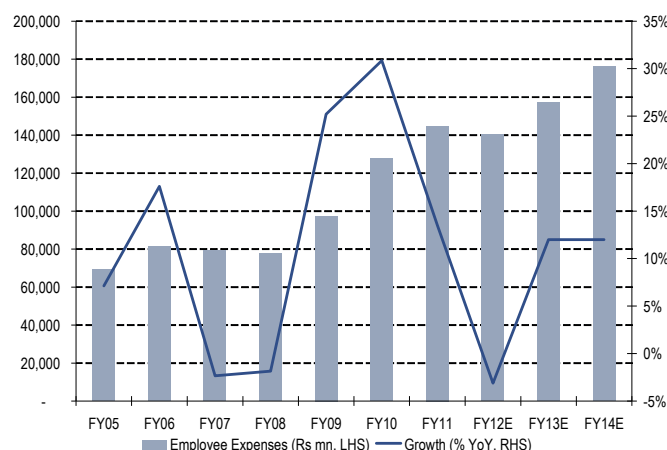
SBI management maintained its guidance of improving net interest margins to 350bps for FY12E (vs 332bps in FY11) – this is largely premised on improving asset yields as they have recently raised lending rates by 75bps. We believe this is likely to be a stretch due to a continuous increase in funding costs and we expect deposit funding costs to increase substantially from FY11 levels as deposit costs rise gradually through the year. We believe this is likely to exert pressure on NIMs, especially in 2H12, and net interest margins for FY12E could moderate slightly / remain flat yoy.

2. No more gaps in pension funding, operating expenses to be controlled

SBI has made all the provisions for the pension liabilities, and there appears to be no gap as of now. Moreover, management suggests the gap arose due to uncertainty in the treatment of pensions – historically, correlation between wage hikes and pension increases has been weak and there has been past precedence where wage hikes did not result in pension increases.

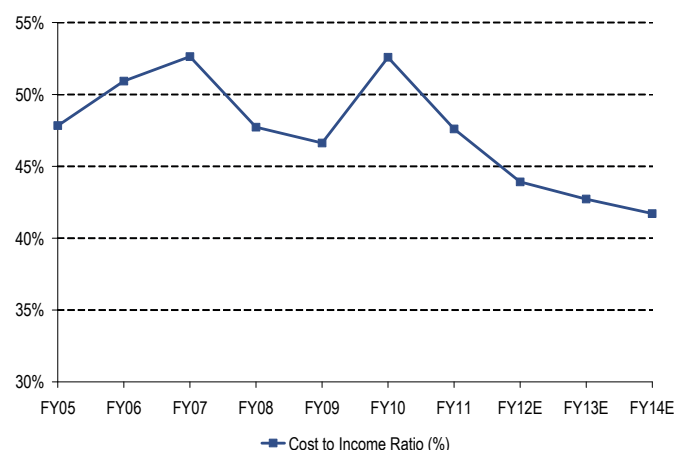
We believe, there was a clear operational gap in the treatment on pensions – and there continues to be reasonable ambiguity in terms of treatment of pensions, both for the parent as well as its subsidiaries. Management, however, suggests this will likely be taken care of for the next round of wage negotiations – likely end 2012. We believe pension costs for the near term at least are likely to moderate going ahead (as excess provisioning in FY11 is not likely to recur at least until FY14) and will lead to some improvements in cost-income ratio for the bank.

Figure 2. SBI – Employee Expenses and Growth (Rsm, % YoY)



Source: Citi Investment Research and Analysis

Figure 3. SBI – Cost to Income Ratio (Percent)



Source: Citi Investment Research and Analysis

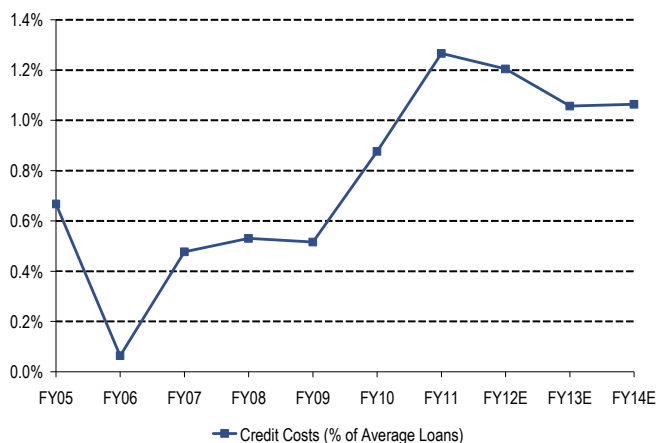
3. Key focus on improving asset quality performance - slippages and credit costs

Asset quality has been one of SBI's weakest areas recently – incremental slippages have been high, NPLs well above industry levels and coverage relatively low. Management suggested there will be more focus going ahead on containment of fresh slippages and credit costs – however, it did fall short of suggesting a significant improvement near term and we believe improvements if any will be more gradual.

Recent slippages for SBI has largely come from the agriculture and mid-corporate segments – we believe these will remain relatively weak going ahead as well – though management is confident of improving recoveries in agriculture segments, we expect improvements to be gradual at best. The mid-corporate segment has the largest scope for improvement but also can potentially be the most vulnerable segment, in case overall economic growth and project execution, especially on the infrastructure segments slow down further. Overall, we believe slippages will likely remain elevated for FY12 and largely similar to FY11 levels.

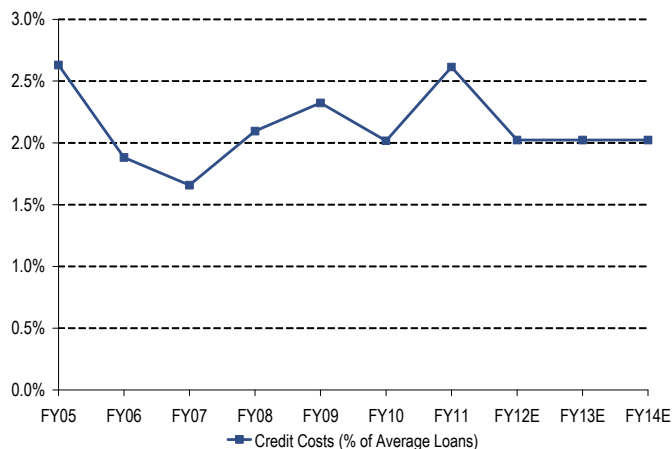
SBI continues to remain exposed to key vulnerable segments in telecom and power – 3% and 4% of total loans respectively. Two-thirds of telecom exposure is to new 2G and 3G licencees, however, management seemed confident of the quality of collateral in most of these loans, suggesting that asset quality is not likely to be impacted. We believe there is likely a greater possibility of asset-quality slippages from the power sector and possibly airlines – though most of this is likely to be restructured and may not show up meaningfully in NPLs / credit costs.

Figure 4. SBI – Credit Costs As % of Average Loans



Source: Citi Investment Research and Analysis

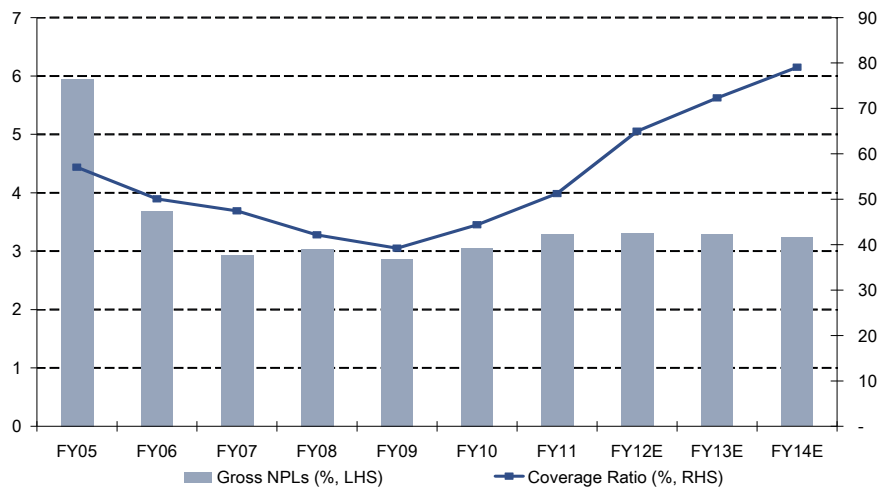
Figure 5. SBI – Slippages As % of Average Loans



Source: Citi Investment Research and Analysis

Credit costs for SBI are also likely to remain relatively high for the near to medium term – management needs to provide Rs26bn of catch-up provisioning (to meet regulatory requirements) in 1H12; this is in addition to provisioning requirements for incremental slippages and ageing of current NPLs. We expect credit costs overall to stabilize near term at above 1% levels.

Figure 6. SBI – Gross NPLs and Loan Loss Coverage Ratio (Percentage)



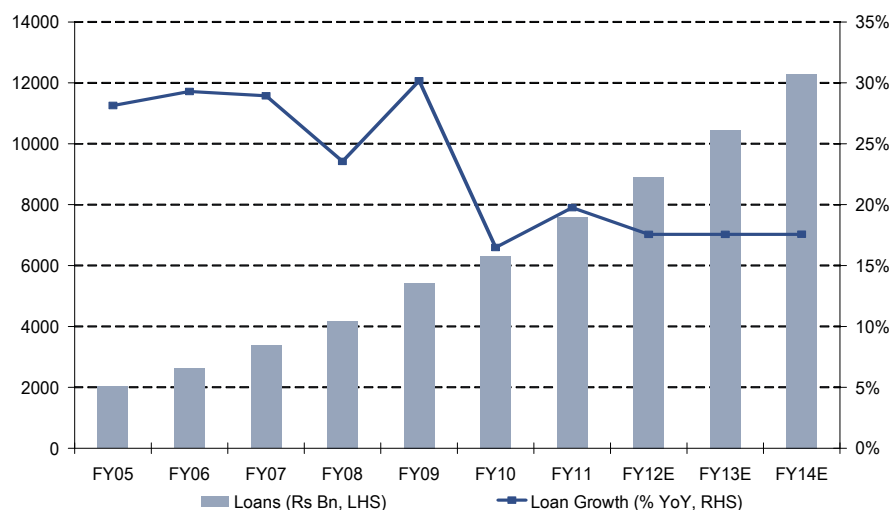
Source: Citi Investment Research and Analysis

While coverage levels remain low – both compared to domestic peers and international standards, management does not seem to be inclined to increasing coverage beyond minimum regulatory requirements currently and coverage will therefore likely remain relatively low.

4. Loan growth to remain in line with industry levels

SBI’s loan growth in FY11 largely came from the corporate segments with metals and infrastructure being the main drivers of loan growth. Going ahead, we expect loan growth to largely remain in line with industry levels (around 17-18% levels). Overall loan growth should continue to remain broad-based across segments – retail, corporate and agriculture, though growth in the corporate segment is likely to moderate slightly.

Figure 7. SBI – Loans and Loan Growth (Rupees Billion, Percent YoY)



Source: Citi Investment Research and Analysis

Figure 8. SBI (Standalone) – Earnings Revision Summary

	Net Profit (Rs mn)			EPS (Rs)			Dividend (Rs)	
	Old	New	% Change	Old	New	% Change	Old	New
FY12E	153,201	133,143	-13.1	241.3	209.7	-13.1	35.0	30.0
FY13E	184,889	169,052	-8.6	291.2	266.2	-8.6	40.0	32.0
FY14E	NA	201,463	NA	NA	317.3	NA	NA	33.0

Source: Citi Investment Research and Analysis

Figure 9. SBI (Consolidated) – Earnings Revision Summary

	Net Profit (Rs mn)			EPS (Rs)			Dividend (Rs)	
	Old	New	% Change	Old	New	% Change	Old	New
FY12E	164,446	156,387	-4.9	259.0	246.3	-4.9	41.4	27.4
FY13E	200,424	194,655	-2.9	315.7	306.5	-2.9	46.5	28.0
FY14E	NA	227,349	NA	NA	358.0	NA	NA	28.5

Source: Citi Investment Research and Analysis

Figure 10. SBI (Consolidated excl non-bank subs) – 1 Yr Fwd P/BV



Source: Citi Investment Research and Analysis

Figure 11. SBI (Consolidated excl non-bank subs) – 1 Yr Fwd P/



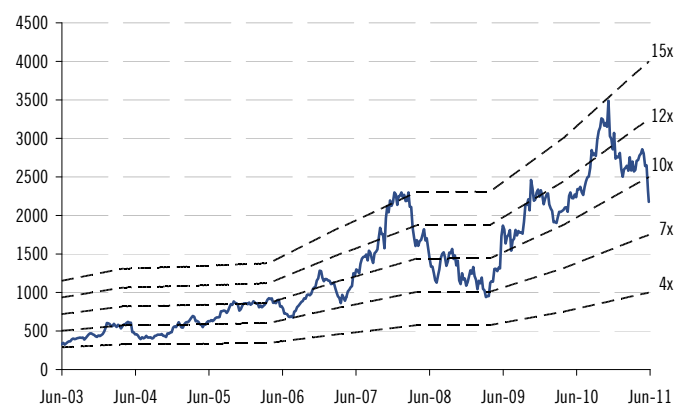
Source: Citi Investment Research and Analysis

Figure 12. SBI (Standalone) – 1 Yr Fwd P/BV



Source: Citi Investment Research and Analysis

Figure 13. SBI (Standalone) – 1 Yr Fwd P/E



Source: Citi Investment Research and Analysis

Figure 14. Government Banks – Valuation Summary

	RIC Code	Price (Rs) 2-Jun	TP (Rs)	Rating	P/E (x) 2012E	P/B (x) 2012E	ROE (%) 2012E	ROA (%) 2012E	Div. Yld 2012E	M-Cap USD Mn
State Bank of India	SBI.BO	2320.0	2650	1L	11.1	1.9	18.9%	1.0%	1.3%	32,849
SBI - Consolidated	SBI.BO	2320.0	2650	1L	9.4	1.6	17.3%	0.9%	1.2%	32,849
Punjab National Bank	PNBK.BO	1092.7	1100	3M	6.4	1.4	22.8%	1.4%	2.2%	7,793
Bank of Baroda	BOB.BO	862.8	930	2M	6.8	1.5	22.5%	1.3%	2.0%	7,533
Canara Bank	CNBK.BO	534.5	585	3M	5.0	1.1	21.8%	1.3%	2.3%	5,280
Union Bank Of India	UNBK.BO	321.1	325	3L	6.3	1.3	19.3%	1.0%	2.3%	3,754
Oriental Bank of Commerce	ORBC.BO	346.3	400	1M	4.9	0.8	17.3%	1.1%	3.2%	2,253
Corporation Bank	CRBK.BO	543.3	640	2M	4.7	0.9	21.6%	1.2%	3.3%	1,794
Andhra Bank	ADBK.BO	144.0	135	3M	5.1	1.1	23.2%	1.2%	3.8%	1,797
Central Bank Of India	CBI.BO	118.6	115	3M	3.5	0.8	18.9%	0.8%	1.7%	1,709

Source: Citi Investment Research and Analysis estimates

State Bank of India

Company description

SBI is India's largest bank with around 18% market share in deposits and loans, over 13,500 branches and more than 130m customers. Together with its five associate banks (ownership ranging from 75% to 100%), the SBI group has a 25% market share in deposits and loans, and has over 16,000 branches. SBI has the largest overseas presence among Indian banks, with 54 offices in 28 countries. The Government of India owns 59.73% of the bank. SBI is a banker to most state governments, and has a dominant share of government fee business. SBI has a presence in other financial services through subsidiaries and joint ventures. It has a joint venture with Cardiff for life insurance and also has a presence in asset management, investment banking and primary dealership. The SBI group has more than 25,000 ATMs, the largest spread in the country, and is aggressively expanding its technology-based offering across its existing network.

Investment strategy

We rate SBI Buy/Low Risk. SBI has faced significant pain recently in terms of operational, accounting and execution slippages. However, we believe its strong deposit franchise, strong market positioning, well diversified asset book and large distribution network are key strengths, which position it well in a rising interest rate and tight liquidity environment. While there are challenges on execution, the new management does seem to be focused on making operational improvements. We believe the SBI will see near-term improvements in key operating parameters namely, net interest margins, operating costs and asset quality slippages. Also, a likely healthy economic and growth environment will also improve its own growth and return profile going ahead. We see value in the stock at current levels.

Valuation

Our target price of Rs2,650 is based on our EVA model, in which we assume a risk-free rate of 8.0%, in line with the market level. Our longer-term loan loss assumption is 100bps pa (in line with the industry). Our target price for SBI includes a subsidiary valuation of Rs603: Life Insurance at Rs91 per share, associate banks at 1.25x 1Yr Fwd PBV (Rs418), value for SBI's Asset management business (Rs24, 5% of assets) and incorporates capital markets subsidiary at Rs61 based on 10x 1Yr Fwd PE. We also use a sum-of-parts valuation which values SBI at Rs2,570 per share. In this valuation, we benchmark the consolidated banking business off a 1.6x 1Yr Fwd P/BV – in line with our benchmark valuation for its peers. We also add Rs185 per share for its non-banking subsidiary businesses as detailed earlier. We base our target price on EVA, as we believe it better adjusts for the relatively dynamic cost of capital and better captures the long-term value of the business.

Risks

We rate SBI as Low Risk, in line with CIRA's quantitative-based risk rating system. We believe this is appropriate given the nature of SBI's business, the quality of management, and the direct government ownership. The downside risks that could impede the stock from reaching our target price include: (1) A sharp rise in interest rates; (2) Asset quality concerns given strong loan growth and high interest rates; (3) Lack of liquidity or deposit growth; (4) Government involvement could be contrary to the interests of minority shareholders; and (5) A lack of capital to support growth.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

State Bank of India (SBI.BO)

Ratings and Target Price History Fundamental Research

Analyst: Manish Chowdhary, CFA
Covered since August 12 2010

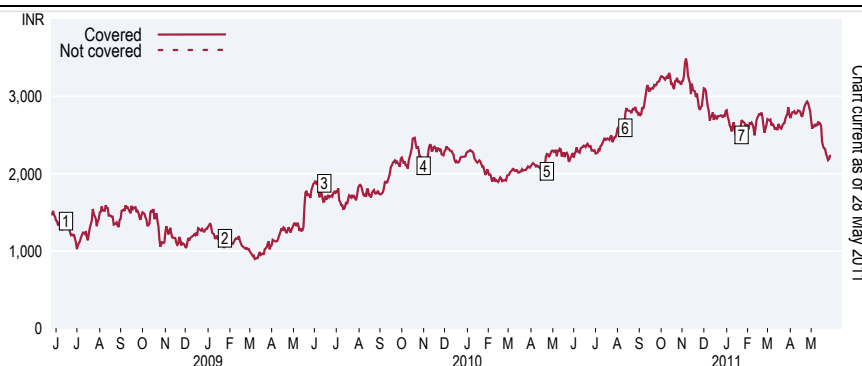


Chart current as of 28 May 2011

	Date	Rating	Target Price	Closing Price
1	16-Jun-08	1L	*1,820.00	1,326.40
2	25-Jan-09	1L	*1,453.00	1,041.75
3	14-Jun-09	1L	*2,122.00	1,637.00

	Date	Rating	Target Price	Closing Price
4	2-Nov-09	1L	*2,495.00	2,191.00
5	23-Apr-10	1L	*2,515.00	2,255.60
6	12-Aug-10	1L	*3,235.00	2,784.00

	Date	Rating	Target Price	Closing Price
7	23-Jan-11	1L	*3,110.00	2,597.95

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

State Bank of India (SBI.BO)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Manish Chowdhary, CFA
Covered since August 12 2010

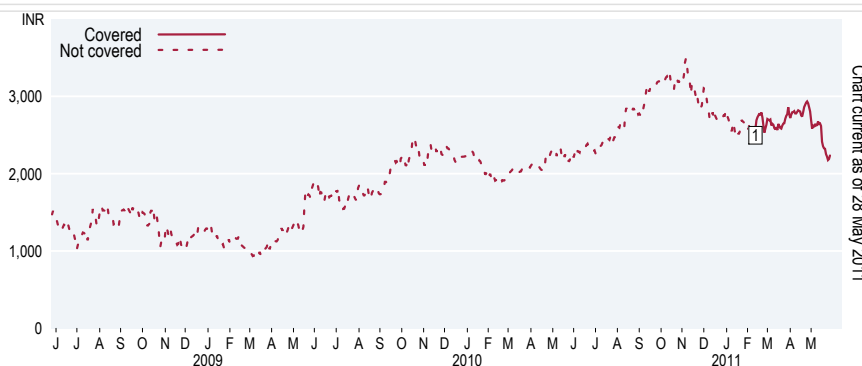


Chart current as of 28 May 2011

	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	2,584.65

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of Andhra Bank, Central Bank Of India, Canara Bank, Punjab National Bank. This position reflects information available as of the prior business day.

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of State Bank of India, Bank of Baroda, Central Bank Of India, Canara Bank, Corporation Bank, Oriental Bank of Commerce, Punjab National Bank, Union Bank Of India.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from State Bank of India, Andhra Bank, Bank of Baroda, Central Bank Of India, Canara Bank, Corporation Bank, Oriental Bank of Commerce, Punjab National Bank, Union Bank Of India.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from State Bank of India, Andhra Bank, Bank of Baroda, Central Bank Of India, Canara Bank, Corporation Bank, Oriental Bank of Commerce, Punjab National Bank, Union Bank Of India.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from State Bank of India, Andhra Bank, Bank of Baroda, Central Bank Of India, Canara Bank, Corporation Bank, Oriental Bank of Commerce, Punjab National Bank, Union Bank Of India in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): State Bank of India, Andhra Bank, Bank of Baroda, Central Bank Of India, Canara Bank, Corporation Bank, Oriental Bank of Commerce, Punjab National Bank, Union Bank Of India.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: State Bank of India, Andhra Bank, Bank of Baroda, Central Bank Of India, Canara Bank, Corporation Bank, Oriental Bank of Commerce, Punjab National Bank, Union Bank Of India.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, non-securities-related: State Bank of India, Andhra Bank, Bank of Baroda, Central Bank Of India, Canara Bank, Corporation Bank, Oriental Bank of Commerce, Punjab National Bank, Union Bank Of India.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Investment Research & Analysis product ("the Product"), please contact Citi Investment Research & Analysis, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Investment Research & Analysis Ratings Distribution

<i>Data current as of 31 Mar 2011</i>	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Investment Research & Analysis Global Fundamental Coverage	52%	37%	11%	9%	82%	9%
<i>% of companies in each rating category that are investment banking clients</i>	43%	41%	41%	51%	41%	45%

Guide to Citi Investment Research & Analysis (CIRA) Fundamental Research Investment Ratings:

CIRA's stock recommendations include a risk rating and an investment rating.

Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

Investment ratings are a function of CIRA's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" will be monitored daily by management. As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis.

To satisfy regulatory requirements, we correspond Under Review to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

Relative three-month ratings: CIRA may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the analyst's coverage universe over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in his coverage universe, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings are: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

NON-US RESEARCH ANALYST DISCLOSURES

Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets India Private Limited

Manish Chowdhary, CFA; Aditya Narain, CFA; Pooja Kapur

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 02 June 2011 10:00 AM on the issuer's primary market.

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to State Bank of India, Bank of Baroda, Central Bank Of India, Union Bank Of India. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at www.citigroupgeo.com.)

Citigroup Global Markets Inc. or its affiliates beneficially owns 2% or more of any class of common equity securities of Central Bank Of India.

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Investment Research & Analysis (CIRA) does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of CIRA to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers: Morgan Stanley & Co. Incorporated (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Investment Research & Analysis (CIRA) research report. Ask your Financial Advisor or use smithbarney.com to view any available Morgan Stanley research reports in addition to CIRA research reports.

Important disclosure regarding the relationship between the companies that are the subject of this CIRA research report and Morgan Stanley Smith Barney LLC and its affiliates are available at the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures.

The required disclosures provided by Morgan Stanley and Citigroup Global Markets, Inc. on Morgan Stanley and CIRA research relate in part to the separate businesses of Citigroup Global Markets, Inc. and Morgan Stanley that now form Morgan Stanley Smith Barney LLC, rather than to Morgan Stanley Smith Barney LLC in its entirety. For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citigroupgeo.com/geopublic/Dislosures/index_a.html.

This CIRA research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of CIRA. This could create a conflict of interest.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in Brazil by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in Chile through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in France by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in Germany by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. If the Product is made available in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Ltd., it is attributable to Citigroup Global Markets Asia Ltd., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citigroup Global Markets Asia Ltd. is

regulated by Hong Kong Securities and Futures Commission. If the Product is made available in Hong Kong by The Citigroup Private Bank to its clients, it is attributable to Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. The Citigroup Private Bank and Citibank N.A. is regulated by the Hong Kong Monetary Authority. The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in Indonesia through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in Israel through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A, Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in Italy by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Foro Buonaparte 16, Milan, 20121, Italy. The Product is made available in Japan by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by Nikko Cordial Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Global Equities Online (GEO) website. If you have questions regarding GEO, please call (81 3) 6270-3019 for help. The Product is made available in Korea by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 110-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. <http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02>. The Product is made available in Malaysia by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450. The Product is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In New Zealand the Product is made available through Citigroup Global Markets New Zealand Ltd. (Company Number 604457), a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 19, Mobile on the Park, 157 Lambton Quay, Wellington. The Product is made available in Pakistan by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the Philippines through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in Poland by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the Russian Federation through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in Singapore through Citigroup Global Markets Singapore Pte. Ltd., a Capital Markets Services Licence holder, and regulated by Monetary Authority of Singapore. 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192. The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold/Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. Citigroup Global Markets (Pty) Ltd. is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in Spain by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gassef, 4th Floor, Madrid, 28006, Spain. The Product is made available in Taiwan through Citigroup Global Markets Taiwan Securities Company Ltd., which is regulated by Securities & Futures Bureau. No portion of the report may be reproduced or quoted in Taiwan by the press or any other person. 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan. If the Product is related to non-Taiwan listed securities, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities. The Product is made available in Thailand through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in Turkey through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the U.A.E, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different CIRA ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in United Kingdom by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in United States by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority.

Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship

with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to CIRA's Products can be found at www.citigroupgeo.com.

Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations.

The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product. CIRA concurrently disseminates its research via proprietary and non-proprietary electronic distribution platforms. Periodically, individual analysts may also opt to circulate research to one or more clients by email. Such email distribution is discretionary and is done only after the research has been disseminated via the aforementioned distribution channels.

© 2011 Citigroup Global Markets Inc. Citi Investment Research & Analysis is a division of Citigroup Global Markets Inc. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc. and its affiliates and are used and registered throughout the world. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure of this report (the "Product"), including, but not limited to, redistribution of the Product by electronic mail, posting of the Product on a website or page, and/or providing to a third party a link to the Product, is prohibited by law and will result in prosecution. The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient to any third party. Where included in this report, MSCI sourced information is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, disseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST
