

FIG
 Commercial Banks
 Equity – India

Neutral

| | |
|-----------------------------|--------|
| Target price (INR) | 457.00 |
| Share price (INR) | 405.60 |
| Forecast dividend yield (%) | 2.6 |
| Potential return (%) | 11.7 |

Note: Potential return equals the percentage difference between the current share price and the target price, plus the forecast dividend yield

| Performance | 1M | 3M | 12M |
|---------------------------|-------|-------|-------|
| Absolute (%) | -11.2 | -22.9 | -30.3 |
| Relative ^A (%) | -7.2 | -16.6 | -21.6 |

Index^A BOMBAY SE SENSITIVE INDEX

RIC CNBK.BO
 Bloomberg CBK IN

Market cap (USDm) 3,342
 Market cap (INRm) 179,681

Free float (%) 28

11 May 2012

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Issuer of HSBC Securities and Capital report: Markets (India) Private Limited

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Canara Bank (CBK IN)

N: 4QFY12 – continuing margin and asset quality woes

- ▶ **In line earnings, but low margins, continuing asset quality stress, and low provision coverage worry us**
- ▶ **Loan growth to pick up in FY13, but margins to continue to remain weak; credit cost to increase from further slippages**
- ▶ **Downgrade to N (from OW) with a revised TP of INR457 (from INR544) based on an unchanged 5x PE multiple and a new 0.8x PB multiple (1.0x before)**

4QFY12 earnings came in at INR8.29bn, declining 8% YoY. Of note in the quarter were muted loan growth, low stable margins and higher asset quality slippages.

Operational review: CBK consolidated its growth in FY12, growing loan book only by 9% YoY vs industry growth of 19% YoY. Exposures to riskier segments like unsecured short-term loans, SME loans and some retail segments were cut by 25%, 7.4% and 2%, respectively in FY12. Agriculture and infrastructure growth remained healthy at 21% and 16.5% YoY. Liability profile weakened further with CASA ratio dipping by c440bp YoY to 25%. This coupled with higher slippages resulted in NIM declining to 2.5% vs 3.1% in FY11. 4Q NIM was stable at 2.5%. Asset quality stresses remained with loan slippages increasing to 2%, partially offset by higher write-offs. However, recoveries from NPLs and w/off accounts were lower in 4Q. While overall provision coverage stood at 67% (RBI definition), specific coverage declined to just 16%. Bank also reported INR27.5bn additions to restructured book that included one large aviation account, taking the total restructured book to 5.3% of loans. CBK has a restructuring pipeline of cINR65bn, of which SEB space is cINR55bn, which is likely to be completed in 1QFY13.

Earnings outlook: We expect loan growth to improve to industry levels in FY13 (c18%), but expect margins to decline marginally in FY13 and FY14. Other income growth is likely to remain muted as we do not see much traction in fees. Credit cost will increase both from continuing asset quality stresses and low coverage ratio. Overall, we are now cutting estimates by 10.5% for FY13 and 18% for FY14.

Valuations: CBK is currently trading at 12-month forward multiples of 5.3x PE and 0.8x PB, versus its 5-yr average of 5.2x PE and 1x PB and versus average peer valuations of 5.5x PE and 0.8x PB. Given the continuing tough macro environment, management change in 2HFY13 (Chairman retiring) and asset quality headwinds, we expect CBK to trade on par with peers, which are facing similar issues. We therefore maintain our target PE multiple at 5x, but reduce our target PB multiple to 0.8x from 1.0x, and lower our target price to INR457 (from INR544), implying potential return of 11.7%. Downgrade to Neutral. **Key downside risks:** 1) Higher slippages 2) management change in 2HFY13. **Key upside risks:** 1) Improving macro economic scenario.

Financials & valuation

| Year to | 3/2011a | 3/2012p | 3/2013e | 3/2014e |
|--------------------------------|---------|---------|---------|---------|
| P&L summary (INR m) | | | | |
| Net Interest Income | 78,233 | 76,893 | 84,890 | 95,050 |
| Non-interest Income | 27,030 | 29,276 | 31,277 | 33,335 |
| Net fees/commission | 11,372 | 12,320 | 13,255 | 14,172 |
| Trading profits | 2,363 | 3,240 | 3,564 | 3,921 |
| Other | 13,295 | 13,716 | 14,457 | 15,242 |
| Total Operating income | 105,263 | 106,169 | 116,166 | 128,385 |
| Operating expense | 44,193 | 46,737 | 53,080 | 60,205 |
| Staff costs | 29,548 | 29,731 | 33,528 | 37,808 |
| Other oper expense | 14,645 | 17,007 | 19,552 | 22,397 |
| PPOP | 61,070 | 59,432 | 63,086 | 68,180 |
| Provisions | 10,811 | 18,604 | 20,455 | 22,373 |
| Bad debt | 10,012 | 12,940 | 16,709 | 18,568 |
| Other | 799 | 5,664 | 3,746 | 3,806 |
| Other non-oper profit(loss) | | | | |
| HSBC PBT | 50,259 | 40,827 | 42,631 | 45,807 |
| Exceptionals | - | - | - | - |
| Profit-before tax | 50,259 | 40,827 | 42,631 | 45,807 |
| Taxation | 10,000 | 8,000 | 8,313 | 8,932 |
| PAT | 40,259 | 32,827 | 34,318 | 36,875 |
| Minorities + pref dividend | - | - | - | - |
| Attributable profit | 40,259 | 32,827 | 34,318 | 36,875 |
| HSBC attributable profit | 40,259 | 32,827 | 34,318 | 36,875 |

| Balance sheet summary (INRm) | | | | |
|-------------------------------------|-----------|-----------|-----------|-----------|
| Total assets | 3,360,788 | 3,741,600 | 4,268,124 | 4,937,087 |
| Customer loans (net) | 2,124,672 | 2,324,898 | 2,717,807 | 3,205,803 |
| Investment assets | 836,999 | 1,020,574 | 1,071,576 | 1,219,114 |
| Other assets | 399,117 | 396,128 | 478,741 | 512,169 |
| Total Liabilities | 3,181,373 | 3,534,634 | 4,032,518 | 4,670,799 |
| Customer deposits | 2,939,727 | 3,270,537 | 3,734,270 | 4,339,176 |
| Debt securities issued | 142,616 | 155,254 | 177,871 | 199,681 |
| Other liabilities | 99,030 | 108,843 | 120,376 | 131,942 |
| Total capital | 179,415 | 206,966 | 235,607 | 266,288 |
| Ordinary equity | 179,415 | 206,966 | 235,607 | 266,288 |
| Minorities + other capital | - | - | - | - |
| IEA (avg) | 2,909,268 | 3,422,945 | 3,853,617 | 4,434,640 |
| IBL (avg) | 2,756,632 | 3,254,067 | 3,668,966 | 4,225,499 |

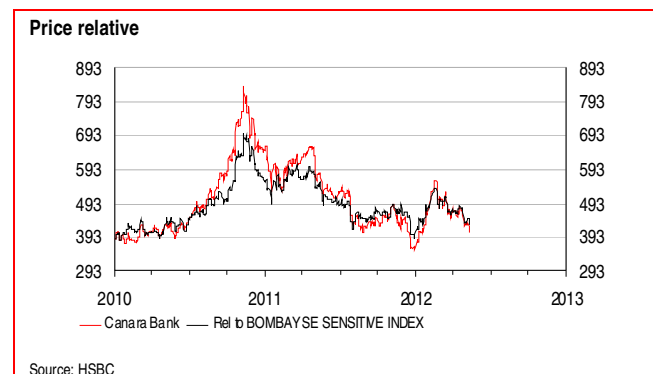
| Capital adequacy (%) | | | | |
|-----------------------------|-----------|-----------|-----------|-----------|
| RWA (INRm) | 1,598,398 | 2,108,750 | 2,540,916 | 2,981,959 |
| Core tier 1 | 10.9% | 9.6% | 9.3% | 8.9% |
| Total tier 1 | 10.9% | 10.4% | 9.9% | 9.5% |
| Total capital | 15.4% | 13.8% | 12.4% | 11.6% |

| Per share data (INR) | | | | |
|------------------------------|-------|-------|-------|-------|
| EPS reported (fully diluted) | 94.4 | 74.1 | 77.5 | 83.2 |
| HSBC EPS (fully diluted) | 94.4 | 74.1 | 77.5 | 83.2 |
| DPS | 11.0 | 11.0 | 11.0 | 12.0 |
| NAV | 405.0 | 467.2 | 531.8 | 601.1 |
| NAV (including goodwill) | 405.0 | 467.2 | 531.8 | 601.1 |

| ROAA deconstruction | | | | |
|----------------------------|------|------|------|------|
| Net interest income | 2.60 | 2.17 | 2.12 | 2.07 |
| Total interest income | 7.68 | 8.69 | 8.53 | 8.25 |
| Total interest expense | 5.07 | 6.52 | 6.41 | 6.19 |
| Net fees & commission | 0.38 | 0.35 | 0.33 | 0.31 |
| Other income | 0.52 | 0.48 | 0.45 | 0.42 |
| Operating income | 3.50 | 2.99 | 2.90 | 2.79 |
| Operating expenses | 1.47 | 1.32 | 1.33 | 1.31 |
| Staff costs | 0.98 | 0.84 | 0.84 | 0.82 |
| Other oper exp | 0.49 | 0.48 | 0.49 | 0.49 |
| PPOP | 2.03 | 1.67 | 1.58 | 1.48 |
| Provisions | 0.36 | 0.52 | 0.51 | 0.49 |
| Non-op items | - | - | - | - |
| PBT | 1.67 | 1.15 | 1.06 | 1.00 |
| Taxation | 0.33 | 0.23 | 0.21 | 0.19 |
| PAT | 1.34 | 0.92 | 0.86 | 0.80 |

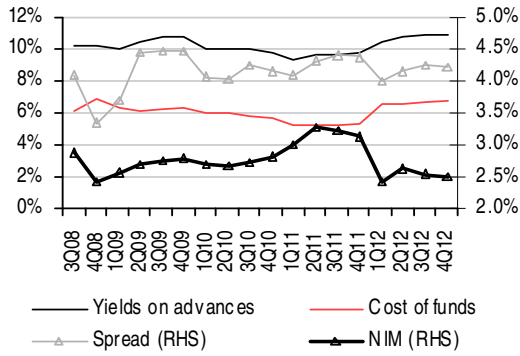
| Year to | 3/2011a | 3/2012p | 3/2013e | 3/2014e |
|-----------------------------|---------|---------|---------|---------|
| Growth (YoY %) | | | | |
| Net interest income | 37.7 | (1.7) | 10.4 | 12.0 |
| Non-interest income | (5.4) | 8.3 | 6.8 | 6.6 |
| Operating expense | 27.1 | 5.8 | 13.6 | 13.4 |
| PPOP | 20.7 | (2.7) | 6.1 | 8.1 |
| Provisions | (12.8) | 72.1 | 9.9 | 9.4 |
| PBT | 31.5 | (18.8) | 4.4 | 7.5 |
| PAT | 33.2 | (18.5) | 4.5 | 7.5 |
| Customer loans (net) | 25.5 | 9.4 | 16.9 | 18.0 |
| Total Assets | 26.9 | 11.3 | 14.1 | 15.7 |
| RWA | 13.1 | 31.9 | 20.5 | 17.4 |
| Customer deposits | 25.3 | 11.3 | 14.2 | 16.2 |
| Ratios (%) | | | | |
| NIM | 2.69 | 2.25 | 2.20 | 2.14 |
| Gross yield | 7.93 | 9.01 | 8.87 | 8.57 |
| Cost of funds | 5.53 | 7.12 | 7.00 | 6.74 |
| Spread | 2.40 | 1.90 | 1.87 | 1.83 |
| NPL/gross loans | 1.4 | 1.7 | 1.9 | 1.9 |
| Credit cost | 0.52 | 0.58 | 0.66 | 0.63 |
| Coverage | 23.9 | 16.0 | 19.0 | 21.0 |
| NPL/RWA | 1.9 | 1.9 | 2.0 | 2.1 |
| Provision/RWA | 0.5 | 0.3 | 0.4 | 0.4 |
| Net write-off/RWA | - | - | - | - |
| NPL/NTE | 17.2 | 19.5 | 22.1 | 23.0 |
| Net loans/total assets | 63.2 | 62.1 | 63.7 | 64.9 |
| RWA/total assets | 47.6 | 56.4 | 59.5 | 60.4 |
| Loans/deposits | 72.3 | 71.1 | 72.8 | 73.9 |
| Avg IEA/avg total assets | 96.8 | 96.4 | 96.2 | 96.4 |
| Avg IBL/avg total liab | 91.8 | 91.6 | 91.6 | 91.8 |
| Cost/income | 42.0 | 44.0 | 45.7 | 46.9 |
| Non-int income/total income | 25.7 | 27.6 | 26.9 | 26.0 |
| ROAA (including goodwill) | 1.34 | 0.92 | 0.86 | 0.80 |
| ROAE (including goodwill) | 26.4 | 17.0 | 15.5 | 14.7 |
| Return on avg tier 1 | 27.3 | 16.7 | 14.6 | 13.8 |
| Leverage (x) | 19.7 | 18.4 | 18.1 | 18.3 |
| Valuation data | | | | |
| PE (diluted EPS) | 4.4 | 5.7 | 5.4 | 5.0 |
| P/PPOP | 3.0 | 3.1 | 2.9 | 2.7 |
| P/BVPS | 1.0 | 0.9 | 0.8 | 0.7 |
| P/NTE | 1.0 | 0.9 | 0.8 | 0.7 |
| Dividend yield (x) | 2.6 | 2.6 | 2.6 | 2.9 |
| P/Deposit | 0.1 | 0.1 | 0.0 | 0.0 |
| P/Asset | 0.1 | 0.0 | 0.0 | 0.0 |

Note: * = Based on HSBC EPS (fully diluted)



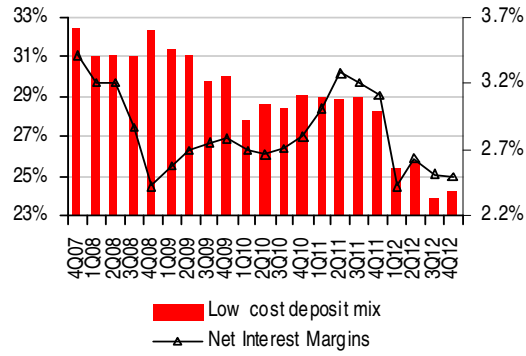
Note: price at close of 9th May 2012

Canara Bank: Continuing low margins



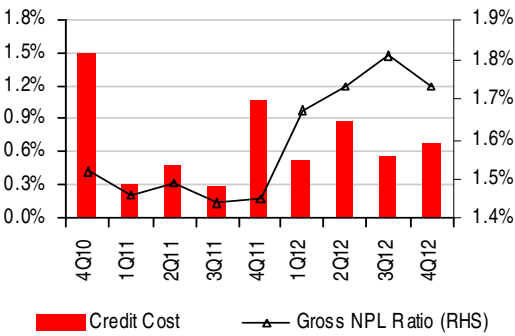
Source: Company data, HSBC

Canara Bank: Falling low cost deposit mix affecting NIMs



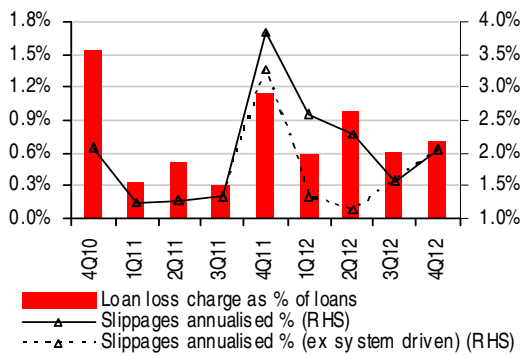
Source: Company data, HSBC

Canara Bank: Lower credit cost despite rising GNPL ratio



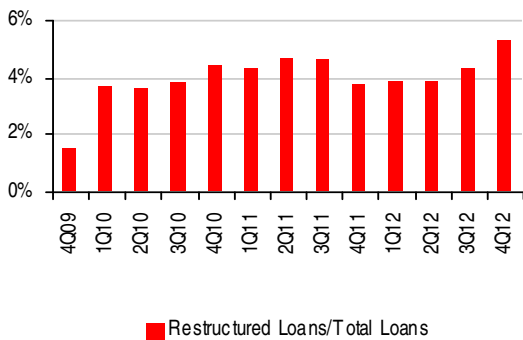
Source: Company data, HSBC

Canara Bank: Slippages rising again



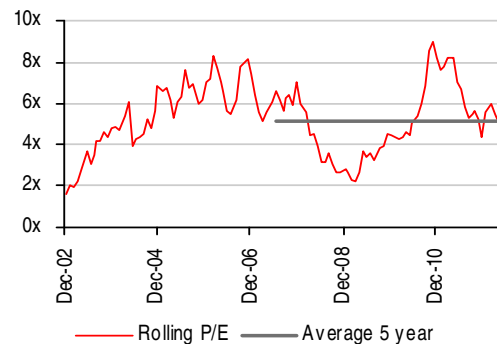
Source: Company data, HSBC

Canara Bank: Restructured loans



Source: Company data, HSBC

Canara Bank: PB 12m forward



Source: Bloomberg, Company data, HSBC

Canara Bank: 4Q and FY12 results summary

| (INRbn) | Q412 | y-o-y % | q-o-q % | FY12 | y-o-y % |
|--|--------------|---------------------|---------------------|---------------|---------------------|
| Income Statement | | | | | |
| Interest income | 82.67 | 29% | 6% | 308.75 | 34% |
| Interest on Advances | 61.89 | 28% | 4% | 234.43 | 37% |
| Income on Investments | 19.08 | 25% | 5% | 70.81 | 24% |
| Interest on Balances with RBI & other inter bank funds | 1.70 | 133% | 202% | 3.49 | 56% |
| Other interest | (0.00) | -103% | -107% | 0.00 | -48% |
| Interest expense | 62.27 | 40% | 6% | 231.61 | 52% |
| Net interest income | 20.40 | 3% | 6% | 77.13 | -1% |
| Other income - ex treasury | 6.74 | -29% | 8% | 25.79 | 2% |
| Treasury gain | 0.95 | 628% | -39% | 3.24 | 37% |
| Total other income | 7.69 | -18% | -1% | 29.03 | 5% |
| Operating income | 28.09 | -3% | 4% | 106.17 | 1% |
| Core operating income | 27.14 | -7% | 7% | 102.93 | 0% |
| Operating expense | 13.19 | 9% | 18% | 46.74 | 5% |
| Employee expenses | 8.26 | 6% | 16% | 29.73 | 1% |
| Operating profit | 14.91 | -12% | -5% | 59.43 | -2% |
| Core operating profit | 13.96 | -19% | -2% | 56.19 | -4% |
| Loan loss provisions | 3.90 | -28% | 23% | 14.68 | 46% |
| Other provisions | 0.72 | 1341% | -61% | 3.93 | 442% |
| Total provisions | 4.62 | -15% | -8% | 18.60 | 72% |
| Pre tax profit | 10.29 | -10% | -4% | 40.83 | -18% |
| Tax | 2.00 | -20% | 0% | 8.00 | -20% |
| Net profit | 8.29 | -8% | -5% | 32.83 | -18% |
| Balance sheet | | | | | |
| | Q412 | y-o-y % | q-o-q % | FY12 | y-o-y % |
| Advances | 2,325 | 9% | 6% | 2,325 | 9% |
| Deposits | 3,271 | 11% | 4% | 3,271 | 11% |
| CASA mix | 23.9% | (437) | - | 24% | (437) |
| Gross NPLs | 40.3 | 31% | 1% | 40 | 31% |
| Net NPLs | 33.9 | 44% | 4% | 34 | 44% |
| Total Assets | 3,742 | 11% | 3% | 3,742 | 11% |
| Average Total Assets | 3,683 | 16% | 4% | 3,551 | 18% |
| Ratios | | | | | |
| | Q412 | y-o-y % pnts | q-o-q % pnts | FY12 | y-o-y % pnts |
| LDR | 71.1 | (1.2) | 1.6 | 71.1 | (1.19) |
| Incremental LDR | 60.5 | (12.2) | 4.0 | 60.5 | (12.18) |
| Margins (reported) | 2.50 | (0.62) | (0.02) | | (3.12) |
| NII / Avg Deposits | 2.54 | (0.3) | 0.1 | 2.5 | (0.45) |
| Cost-income ratio | 46.9 | 5.3 | 5.4 | 44.0 | 1.64 |
| Core cost income ratio | 48.6 | 7.2 | 4.5 | 45.4 | 2.05 |
| LLP/Avg loans | 0.69 | (0.4) | 0.1 | 0.7 | 0.13 |
| Gross NPL ratio | 1.73 | 0.3 | (0.1) | 1.73 | 0.28 |
| Net NPL ratio | 1.46 | 0.4 | (0.0) | 1.46 | 0.35 |
| Coverage ratio | 16.0 | (8.0) | (2.3) | 16.0 | (8.01) |
| Coverage ratio (RBI guidelines) | 67.6 | (5.4) | (0.3) | 67.6 | (5.39) |
| Tier 1 ratio | 10.4 | (0.5) | 0.9 | 10.4 | (0.52) |
| Total CAR | 13.8 | (1.6) | 0.5 | 13.8 | (1.62) |
| Effective tax rate | 19.4 | (2.3) | 0.8 | 19.6 | (0.47) |
| Tax/Operating Profit | 13.4 | (1.3) | 0.7 | 13.5 | (3.03) |
| ROA | 0.96 | (0.3) | (0.1) | 1.0 | (0.47) |

Source: Company data, HSBC

Canara Bank: Earnings outlook

| (INRm) | FY13e | y-o-y % | FY14e | y-o-y % |
|----------------------------------|----------------|--------------------|----------------|--------------------|
| Income Statement | | | | |
| Interest Income | 341,782 | 10.8% | 379,850 | 11.1% |
| Interest Expenses | 256,893 | 10.9% | 284,800 | 10.9% |
| Net Interest Income (NII) | 84,890 | 10.4% | 95,050 | 12.0% |
| P/(L) on sale of Investments | 3,564 | 10.0% | 3,921 | 10.0% |
| P/(L) on Exchange Transactions | 4,644 | 6.8% | 4,967 | 7.0% |
| Fee & Other Income | 23,068 | 6.4% | 24,447 | 6.0% |
| Non-interest income ex-treasury | 27,712 | 6.4% | 29,414 | 6.1% |
| Total Non-Interest Income | 31,277 | 6.8% | 33,335 | 6.6% |
| Total Income | 116,166 | 9.4% | 128,385 | 10.5% |
| Operating Expenses | 53,080 | 13.6% | 60,205 | 13.4% |
| Pre-provisioning Profits | 63,086 | 6.1% | 68,180 | 8.1% |
| Provisions for NPAs | 16,709 | 29.1% | 18,568 | 11.1% |
| Total Provisions | 20,455 | 9.9% | 22,373 | 9.4% |
| PBT | 42,631 | 4.4% | 45,807 | 7.5% |
| Tax | 8,313 | 3.9% | 8,932 | 7.5% |
| PAT | 34,318 | 4.5% | 36,875 | 7.5% |
| Balance Sheet | | | | |
| | | y-o-y % | | y-o-y % |
| Deposits | 3,734,270 | 14.2% | 4,339,176 | 16.2% |
| Net Advances | 2,717,807 | 16.9% | 3,205,803 | 18.0% |
| Total Assets | 4,268,124 | 14.1% | 4,937,087 | 15.7% |
| BPS | 531.84 | 13.8% | 601.10 | 13.0% |
| EPS | 77.47 | 4.5% | 83.24 | 7.5% |
| Ratios | | | | |
| | | y-o-y %pnts | | y-o-y %pnts |
| Net Interest Margin | 2.2% | (0.04) | 2.1% | (0.06) |
| ROA | 0.9% | (0.07) | 0.8% | (0.06) |
| ROE | 15.5% | (1.48) | 14.7% | (0.81) |
| Tax rate | 19.5% | (0.09) | 19.5% | (0.00) |
| Cost Income | 45.7% | 1.67 | 46.9% | 1.20 |
| Core Cost Income | 47.1% | 1.73 | 48.4% | 1.23 |

Source: Company data, HSBC estimates

Canara Bank: Estimates Changes

| (INRm) | FY13e | Change | FY14e | Change |
|----------------------------------|----------------|---------------|----------------|---------------|
| Income Statement | | | | |
| Interest Income | 341,782 | -1.4% | 379,850 | -3.0% |
| Interest Expenses | 256,893 | -1.1% | 284,800 | -2.2% |
| Net Interest Income (NII) | 84,890 | -2.4% | 95,050 | -5.4% |
| Non-interest income ex-treasury | 27,712 | -10.9% | 29,414 | -14.6% |
| Total Non-Interest Income | 31,277 | -4.6% | 33,335 | -8.2% |
| Total Income | 116,166 | -3.0% | 128,385 | -6.2% |
| Operating Expenses | 53,080 | 2.3% | 60,205 | 2.2% |
| Pre-provisioning Profits | 63,086 | -7.1% | 68,180 | -12.5% |
| Total Provisions | 20,455 | 2.3% | 22,373 | 2.2% |
| PBT | 42,631 | -11.1% | 45,807 | -18.2% |
| Tax | 8,313 | -13.3% | 8,932 | -20.3% |
| PAT | 34,318 | -10.5% | 36,875 | -17.7% |
| Balance Sheet | | | | |
| Deposits | 3,734,270 | -2.7% | 4,339,176 | -3.4% |
| Net Advances | 2,717,807 | -3.2% | 3,205,803 | -2.4% |
| Total Assets | 4,268,124 | -2.3% | 4,937,087 | -3.2% |
| BPS | 531.84 | -1.8% | 601.10 | -4.1% |
| EPS | 77.47 | -10.5% | 83.24 | -17.7% |
| Ratios | | | | |
| Net Interest Margin | 2.2% | 0.01 | 2.1% | (0.04) |
| ROA | 0.9% | (0.08) | 0.8% | (0.15) |
| ROE | 15.5% | (1.63) | 14.7% | (2.63) |
| Tax rate | 19.5% | (0.50) | 19.5% | (0.50) |
| Cost Income | 45.7% | 2.39 | 46.9% | 3.84 |
| Core Cost Income | 47.1% | 3.22 | 48.4% | 4.72 |

Source: Company data, HSBC estimates

Valuation and risks

Downgrade to Neutral, target price now INR457

We continue to value Canara Bank using a weighted average combination of PE, PB, and economic profit model (EPM) methodologies. We assign a 20%, 50% and 30% weight each to the PE, PB and EPM components respectively.

The three-stage EPM uses explicit forecasts until FY14e, followed by 10 years of semi-explicit forecasts. The final stage of 12 years (fade period) assumes convergence of ROE and COE. EPM is based on the assumptions in the following table:

Canara Bank: EPM assumptions

| Semi-explicit forecasts for 10 years | |
|--------------------------------------|------------|
| Loan CAGR | 8% |
| Dividend payout | 15% |
| Fade period of 12 years | |
| Risk free rate | 8% |
| Beta | 1.0 |
| Equity risk premium | 6% |
| Cost of equity | 14% |
| EPM value (INR) | 497 |

Source: HSBC estimates

We are decreasing our 12-month target price to INR457 from INR544. Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppts above and below the hurdle rate for Indian stocks of 11%. Our target price implies a potential return of 11.7%, which is within the Neutral band of our model; therefore, we are downgrading our rating to Neutral from Overweight. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Canara Bank: Valuations summary (INR)

| | PE multiple | Weight 20% PE-based TP | PB multiple | Weight 50% PB-based TP | Weight 30% DCF value | Weighted Target Price |
|-----|-------------|------------------------|-------------|------------------------|----------------------|-----------------------|
| New | 5.0x | 412 | 0.8x | 451 | 497 | 457 |
| Old | 5.0x | 483 | 1.0x | 575 | 534 | 544 |

Source: HSBC

Downside risks: 1) Higher slippages 2) management change in 2HFY13.

Upside risks: 1) Improving macroeconomic scenario.

Disclosure appendix

Analyst Certification

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Important disclosures

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Rating definitions for long-term investment opportunities

Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

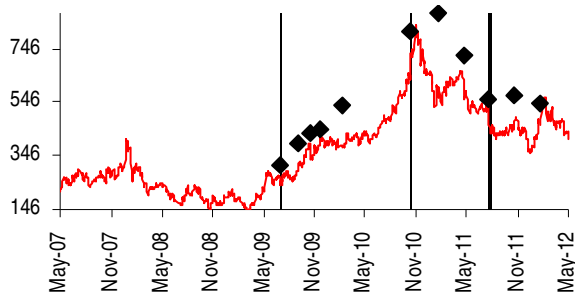
Rating distribution for long-term investment opportunities

As of 10 May 2012, the distribution of all ratings published is as follows:

| | | |
|---------------------------|-----|--|
| Overweight (Buy) | 48% | (26% of these provided with Investment Banking Services) |
| Neutral (Hold) | 37% | (24% of these provided with Investment Banking Services) |
| Underweight (Sell) | 15% | (17% of these provided with Investment Banking Services) |

Share price and rating changes for long-term investment opportunities

Canara Bank (CNBK.BO) Share Price performance INR Vs HSBC rating history



Source: HSBC

Recommendation & price target history

| From | To | Date |
|----------------|----------------|-------------------|
| Neutral (V) | Overweight (V) | 12 July 2009 |
| Overweight (V) | Overweight | 22 October 2010 |
| Overweight | Neutral | 27 July 2011 |
| Neutral | Overweight | 03 August 2011 |
| Target Price | Value | Date |
| Price 1 | 310.00 | 12 July 2009 |
| Price 2 | 393.00 | 09 September 2009 |
| Price 3 | 428.00 | 26 October 2009 |
| Price 4 | 445.00 | 27 November 2009 |
| Price 5 | 534.00 | 19 February 2010 |
| Price 6 | 814.00 | 22 October 2010 |
| Price 7 | 878.00 | 31 January 2011 |
| Price 8 | 719.00 | 05 May 2011 |
| Price 9 | 554.00 | 27 July 2011 |
| Price 10 | 572.00 | 01 November 2011 |
| Price 11 | 544.00 | 29 January 2012 |

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

| Company | Ticker | Recent price | Price Date | Disclosure |
|-------------|---------|--------------|-------------|--------------|
| CANARA BANK | CNBK.BO | 405.60 | 09-May-2012 | 1,4,5,6,7,11 |

Source: HSBC

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