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Bank Note\$

The half-time air was sweet perfume

Stock	Price	Target	Rating
ANZ	\$18.05	\$19.50	Buy
CBA	\$63.90	\$72.00	Buy
NAB	\$17.95	\$19.50	Buy
WBC	\$17.36	\$18.30	Hold
BEN	\$6.21	\$6.70	Hold
BOQ	\$5.24	\$5.70	Hold
MQG	\$110.49	\$135.00	Buy

Turning away from the COVID-19 blues

COVID-19 has come with higher credit impairment charges that have also forced the banks to acquiesce to APRA's wishes for either deferred or materially lower dividends. However, underlying performance in 1H20 continues to be sound and balance sheets are much stronger than ever before – underpinned by targeted credit growth, better lending and funding quality, “unquestionably strong” capital levels and more than sufficient credit impairment provisions. In terms of the latter, the majors' total impairment charges currently sit at ~\$7bn. These are projected to increase to ~\$29bn over the next three years (ANZ ~\$8bn, CBA ~\$8bn, NAB ~\$6bn and WBC ~\$7bn) and compares to the equivalent GFC figure of ~\$27bn (ANZ ~\$6bn, CBA ~\$7bn, NAB ~\$8bn and WBC ~\$6bn). Consequently, it is also our view that some provision write-backs are inevitable once this pandemic is over – post-GFC data indicates write-back rates of at least 15-20% for the majors.

Price target and rating changes

Sector cost of equity has improved by 1.8-2.0% since March 2020 and our conservative revisions are listed below (no change to BEN as we had previously adjusted for this, and also no change to MQG given its market-sensitive and offshore activities). New price targets net of DCF rollover: (1) ANZ – previously 12.0%, now 11.0% and price target +3% to \$19.50; (2) CBA – previously 11.0%, now 10.0% but price target broadly maintained at \$72.00; (3) NAB – previously 12.0%, now 10.5% and price target +13% to \$19.50; (4) WBC – previously 12.0%, now 11.0% and price target +6% to \$18.30; and (5) BOQ – previously 13.5%, now 12.5% and price target +4% to \$5.70. All cash earnings forecasts are unchanged. WBC's Hold rating is reinstated purely based on value (i.e. total expected return now <15% and with the share price up by >16% since our Buy upgrade); all other ratings are unchanged.

Sticking with MQG (price target \$135.00, Buy) and CBA (price target \$72.00, Buy)

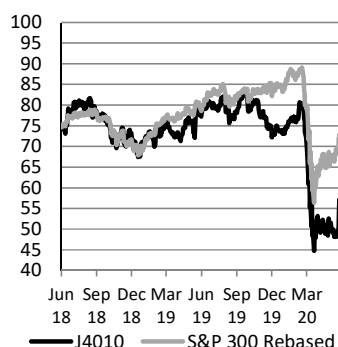
It is only prudent to stick with quality stocks that are both resilient and capable of seeking out opportunities in times of crisis. So it comes as no surprise that MQG remains our top-rated stock. Its business model is built upon annuity-style and markets-facing activities and continues to work well, being capital efficient and flexible enough to deploy capital across higher return activities and fund dividends from non-bank activities. MQG remains the classic “Cash and Growth” story in our view.

Of the majors, we don't think investors can go past CBA given its earnings quality and consistency. The balance sheet is also in good order with sufficient capital, funding and now provisions, and sound asset quality. Once completed, recent-announced divestments should lift CET1 to 11.4-11.5% and place the bank ahead of its domestic peers and near the top end of the global “unquestionably strong” club. As well, underlying organic capital generation in 3Q20 was strong at +12bp and there is scope for CBA to comfortably declare a 100¢ final dividend.

ASX200 Banks (J4010) Price Performance

	(1m)	(3m)	(12m)
Index (x100)	51.01	76.95	78.03
Absolute (%)	7.58	-28.69	-29.68
Rel market (%)	-0.52	-15.56	-20.21

Absolute Price



SOURCE: IRESS

The half-time air was sweet perfume



Turning away from the COVID-19 blues

Following the Hayne Inquiry, we had hoped the banks will have a relatively quiet year but this was not to be. Given all the economic uncertainty in relation to COVID-19 (that has materially increased credit impairment charges in the recent reporting period, although these are just provisions based on forward looking assessments), we are now seeing deferred or lower dividends consistent with APRA's capital management guidance. On the other hand, underlying performance and balance sheets remain in good shape and these are basically due to more effective prudential supervision and higher regulatory requirements since the early 1990s recession and the GFC.

The following table indicates balance sheets have materially improved over the last 28 years, underpinned by targeted credit growth (i.e. growing profitably with NIM management in mind), better loan book composition, more sustainable leverage, greater retail deposit funding, better overall funding quality including liquidity and materially higher capital levels.

Table 1 – Then and now

Pre-1991/1992 recession	ANZ	CBA	NAB	WBC	Average	Comments
NIM	3.95%	4.52%	4.70%	3.80%	4.24%	Following from deregulation and removal of interest rate controls on banks
ROE	17%	17%	10%	13%	14%	
CIR	73%	68%	58%	73%	68%	
Credit growth	15%	11%	10%	10%	12%	Improved access largely from removal of lending controls
Balance sheet leverage (x)	21.1	19.9	15.1	17.1	18.3	
Loan-to-deposit ratio (x)	1.1	1.1	1.0	1.0	1.1	Normal range, all loans fully funded
Tier 1	5.3%	6.3%	na	5.4%	5.7%	Lower Tier 1 due to banks' share of lending growing ahead of system
Payout	54%	nm	68%	68%	63%	A result of double-digit credit growth
BDD / GLA (T+1, T+2)	3.15%	1.47%	1.57%	4.22%	2.60%	Largely commercial property and VIC downturn plus multiple exposures through owned finance companies; high unemployment and interest rates; after-effects of deregulation
Provisions / RWA	1.1%	0.6%	na	1.1%	0.9%	
FTE	48,182	37,427	40,997	45,395	43,000	CBA's excluding imposed M&A of SBV is 0.3%;
Pre-GFC (2007)	ANZ	CBA	NAB	WBC	Average	Comments
NIM	2.19%	2.19%	2.29%	2.19%	2.22%	Peak NIM prior to GFC
ROE	20%	22%	17%	24%	21%	~20%+ range possible given higher leverage
CIR	45%	48%	51%	45%	47%	
Credit growth	13%	6%	14%	16%	12%	Higher overall growth profile due to tail end of boom
Balance sheet leverage (x)	17.8	17.4	23.0	21.0	19.8	Stretched given higher LDR
Loan-to-deposit ratio (x)	1.4	1.5	1.5	1.4	1.4	Lower reliance on deposit funding
Tier 1	6.7%	7.1%	6.7%	6.5%	6.8%	Lower Tier 1 due to banks' share of lending growing ahead of system
Payout	65%	73%	74%	69%	70%	Too high given weaker capital position as the banks head into the GFC
BDD / GLA (T+1, T+2)	0.89%	0.64%	0.86%	0.70%	0.77%	Peak BDD due to commercial property, Bad Boys and risky investments, e.g. CDOs
Provisions / RWA	1.3%	0.9%	0.9%	1.2%	1.1%	Played catch up to the GFC from a lower base
FTE	34,353	37,873	38,822	28,018	34,767	
Pre-FSI (2014)	ANZ	CBA	NAB	WBC	Average	Comments
NIM	2.13%	2.14%	1.88%	2.08%	2.06%	Close to pre-GFC levels (except NAB largely given domestic H/L and UK drag)
ROE	15%	19%	12%	16%	16%	Within 15-20% range given higher capital requirement or lower leverage at that time
CIR	45%	43%	48%	42%	44%	
Credit growth	8%	6%	4%	8%	7%	In line with 2x GDP, retail assets close to fully funded by deposits
Balance sheet leverage (x)	16.0	16.0	18.0	16.0	16.5	More sustainable leverage
Loan-to-deposit ratio (x)	1.1	1.2	1.4	1.4	1.3	More sustainable leverage
CET1 (APRA)	8.5%	9.3%	8.4%	9.1%	8.8%	Better quality now, all CET1 ahead of APRA Basel III requirements
Payout	69%	75%	77%	85%	77%	Target payout ratio 65-70% for ANZ, 70-80% for the others
BDD / GLA	0.19%	0.16%	0.15%	0.11%	0.15%	In line with long term expectations (equivalent 20-30bp of GLA)
Provisions / RWA	1.1%	1.2%	0.8%	1.1%	1.1%	Better provisioning cover for CBA
FTE	50,328	44,329	42,853	33,586	42,774	
COVID-19 (last reported, CBA est.)	ANZ	CBA	NAB	WBC	Average	Comments
NIM	1.69%	2.07%	1.78%	2.13%	1.92%	Highlights the steadier spreads in retail-oriented banks such as CBA and WBC
ROE	5%	9%	5%	3%	6%	Impacted by COVID-19 and other impairments
CIR	54%	45%	62%	60%	55%	CBA and ANZ still ahead of the pack
Credit growth	8%	3%	2%	1%	3%	Distorted by asset divestments, tightened credit processes
Balance sheet leverage (x)	18.7	14.0	15.9	14.3	15.7	Further improvements since 2014, more so in CBA and WBC
Loan-to-deposit ratio (x)	1.1	1.3	1.4	1.3	1.3	Broadly unchanged, majors still reliant on wholesale funding that is a structural issue
CET1 (APRA, pro-forma)	10.8%	11.5%	11.2%	10.8%	11.1%	CBA and NAB ahead of the pack, but latter is before likely AUSTRAC and ASIC penalties
Payout	0%	53%	60%	0%	28%	Reflects APRA's capital management guidance given COVID-19 economic uncertainty
BDD / GLA	0.51%	0.57%	0.38%	0.62%	0.52%	Impacted by COVID-19 and other impairments
Provisions / RWA	1.2%	1.4%	1.2%	1.3%	1.3%	Impacted by COVID-19 and other impairments
FTE	37,834	42,429	35,245	34,199	37,427	Reflects higher compliance and support staff

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

While NIM has fallen in line with the cash rate and 90-day BBSW, NIM within CBA and WBC have been remarkably steady since 2014 while WBC's has improved – and we attribute this to the retail banking nature of their business that includes a higher proportion of lower cost retail funding. ROE may have declined but this is largely due to lower leverage (conversely, the outcome of higher capital requirements – just compare the 5.7% average Tier 1 ratio before 1992 with the current average CET1 ratio of 11.1%).

Underlying 1H20 sound for the majors

To recap, ANZ's 1H20 cash profit on a continuing basis was 60% pcp lower at \$1.4bn – largely due to a credit impairment charge of nearly \$1.7bn pre-tax or 53bp of loans across the bank, of which around 63% is related to COVID-19. ANZ also took a hit in its Asian associate investments – with market values in PT Panin and AmBank associates below their carrying values although these will reverse as markets improve in due course – and has further decided to not declare an interim dividend but to defer this decision until later this year (very much like BOQ's decision and to preserve its 10.8% CET1 ratio) when the COVID-19 impact would be more certain.

As for CBA, its 3Q20 unaudited cash profit was 44% pcp lower at around \$1.3bn (-44%) and was impacted by a \$1.6bn pre-tax or 80bp loan impairment expense (again mainly related to COVID-19) in addition to residual customer remediation provisions and risk and compliance costs. Ex-notable items, CBA's cash profit would have been ~\$1.4bn while the underlying numbers were respectable with stable operating income and 1% lower costs leading to positive "Jaws". Regardless, the bank's balance sheet remains in good shape with sufficient capital, funding and now provisions, and pro-forma CET1 ratio at around 11.5% after including proceeds from all announced divestments. Underlying organic capital generation was strong at +12bp in the third quarter, and we still think there is scope for CBA to declare a small 2H20 dividend of 100¢ in August.

In terms of NAB, 1H20 cash profit was 51% pcp lower at \$1.4bn due to \$1.2bn or 38bp impairment charge mainly from COVID and notable items such as customer remediation, software write-downs and MTM losses. Ex-notable items and the impairment charge, NAB's underlying performance was sound across the whole business. Net of its \$4.0bn capital raising – institutional and SPP – and reduced interim dividend of 30¢, CET1 ratio would be 11.2%. We believe this provides a sufficient buffer against potential AUSTRAC and ASIC penalties that have already been factored into our forecasts.

For WBC, 1H20 cash profit was 70% pcp lower at around \$1.0bn, impacted by \$2.2bn impairment charges or 62bp of loans and \$1.2bn non-credit charges concerning potential AUSTRAC penalties and costs, customer refunds and wealth restructuring costs. In line with ANZ and BOQ, WBC has also deferred the decision on its interim dividend – we think this will not be paid – and CET1 ratio was 10.8%.

The impact on MQG was not as material with statutory profit 8% pcp lower at \$2.7bn due to around \$1.0bn impairment charges, 80% of which was a top up for COVID. Excluding COVID, net operating income and operating expenses would have been in line with FY19 and profit would have been around \$3.1bn or 4% higher than FY19 – and would have beaten guidance as such. Surplus capital based on 10.5% RWA was \$5.2bn while CET1 ratio was at a record high of 12.2%. Given strong organic capital generation and strong capital levels, MQG declared a final dividend of 180¢ (40% franked) to be funded entirely by the 2H20 earnings of the Non-bank Group – that goes to show the Group's overall earnings and capital management flexibility.

The YTD reporting scorecard is found in the following table.

Table 2 – YTD reporting scorecard

Scorecard	ANZ 1H20	CBA 1H20	NAB 1H20	WBC 1H20	BEN 1H20	BOQ 1H20	SUN Bank 1H20	ABA 1H20	MYS 1H20	Sector average	Major bank average	Regional bank average
1 Capital adequacy (last reported)												
2 CET1 (International)	15.5%	16.2%	14.4%	15.8%	-	-	-	-	-	15.5%	15.5%	-
3 CET1 (MTB >10.5%, regionals >8.5%)	10.8%	10.7%	10.4%	10.8%	9.0%	9.9%	9.0%	11.1%	11.4%	10.3%	10.7%	10.1%
4 CET1 (pro-forma)	10.8%	11.5%	11.2%	10.8%	9.8%	9.9%	9.0%	11.1%	11.4%	10.6%	11.1%	10.2%
5 Leverage ratio (>4.0%)	5.0%	5.5%	5.2%	5.7%	6.9%	7.0%	5.4%	5.0%	4.8%	5.6%	5.4%	5.8%
6 Asset quality (last reported)												
7 Bad debt charge / GLA	0.53%	0.80%	0.38%	0.62%	0.20%	0.13%	0.23%	0.05%	0.02%	0.33%	0.58%	0.13%
8 Provisions / GLA	0.85%	0.72%	0.85%	0.80%	0.56%	0.69%	0.66%	0.31%	0.14%	0.62%	0.80%	0.47%
9 Impaired assets / GLA	0.39%	0.36%	0.33%	0.30%	0.47%	0.42%	0.27%	0.23%	0.03%	0.31%	0.35%	0.28%
10 90 days past due / GLA	0.55%	0.39%	0.64%	0.75%	1.08%	0.62%	0.96%	0.21%	0.10%	0.59%	0.58%	0.59%
11 Texas Ratio (GIA & 90d / SHE & prov)	9.3%	8.6%	9.3%	9.7%	13.0%	10.8%	14.6%	6.0%	1.9%	9.3%	9.2%	9.3%
12 Earnings sustainability												
13 Net revenue growth (pcp) (underlying)	-12%	0%	-4%	-2%	1%	0%	0%	9%	7%	0%	-5%	4%
14 Expense growth (pcp) (underlying)	5%	-1%	2%	4%	5%	9%	6%	8%	5%	5%	2%	7%
15 Jaws (pcp)	-17%	1%	-6%	-6%	-4%	-9%	-6%	2%	2%	-5%	-7%	-3%
16 Cost / average assets	0.90%	1.10%	1.24%	1.31%	1.38%	1.05%	1.09%	1.39%	1.43%	1.21%	1.14%	1.27%
17 Cost-to-income ratio	54%	44%	62%	60%	59%	54%	60%	64%	65%	58%	55%	60%
18 Loan growth (pcp)	8%	2%	2%	1%	3%	3%	-3%	5%	1%	2%	3%	2%
19 Customer deposit growth (pcp)	15%	4%	6%	6%	4%	4%	4%	15%	7%	7%	8%	7%
20 FUM growth	-	-	-	-	10%	-	-	-	5%	8%	-	8%
21 FUA growth	-	13%	-	8%	-	-	7%	-	-	9%	11%	7%
22 NIM	1.69%	2.11%	1.78%	2.13%	1.99%	1.89%	1.92%	1.95%	1.82%	1.92%	1.93%	1.91%
23 - 6m movement	-0.03%	0.01%	0.00%	0.00%	0.02%	-0.03%	0.02%	0.08%	0.03%	0.01%	-0.01%	0.02%
24 - 12m movement	-0.11%	0.01%	-0.01%	0.01%	0.04%	-0.05%	0.03%	0.07%	0.01%	0.00%	-0.03%	0.02%
25 Cash ROA	0.3%	0.9%	0.3%	0.2%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%	0.5%
26 Cash ROE	4.7%	12.7%	5.3%	2.9%	7.8%	7.5%	7.9%	7.8%	9.3%	7.3%	6.4%	8.0%
27 Group liquidity / funding												
28 Liquidity Coverage Ratio	139%	133%	136%	140%	134%	135%	130%	-	129%	135%	137%	132%
29 Customer funding / total funding	64%	69%	61%	68%	75%	65%	65%	73%	68%	67%	65%	69%
30 Loan to deposit & borrowings ratio	114%	128%	137%	133%	127%	146%	148%	108%	128%	130%	128%	131%
31 Equity ratio	5.3%	7.3%	6.3%	7.0%	7.5%	7.6%	6.6%	6.4%	5.7%	6.6%	6.5%	6.8%
32 Net Stable Funding Ratio	118%	117%	116%	117%	115%	112%	119%	-	-	116%	117%	115%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Retail and business banking comps

Despite all the forward looking COVID-19 impairment charges, there is still money to be made in retail and business banking activities and the following table indicates these segments remain the majors' most valuable assets – with NIM in the healthy 2.45-2.78% range and CIR in the 38-45% range. We suspect the average segment ROEs for the majors have come down a few notches given COVID-19 and higher capital requirements but believe they still exceed the internal hurdle rates of around 12%.

It also comes as no surprise that the domestic regionals continue to lag the majors across most KPIs including 1.89-1.99% NIM, 53-61% CIR and a range of other productivity and efficiency measures due to a relative lack of operating scale (with the exception of credit impairment charges where the regionals tend not to stray away too much from mortgage lending).

The data further suggests the number one player CBA is still ahead of the pack in most key performance measures.

Table 3 – Consumer and business banking comps

Retail & Business Banking	Retail	B&PB	ANZ Group	RBS	B&PB	BWA	CBA Group	CB	B&PB	NAB Group	CB	BB	WBC Group	BEN	BOQ	SUN	ING Direct	Regional bank average ex-ING Direct	Major bank average
(Latest reported 12m, local currency)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
1 Revenue (\$bn)	6.4	3.0	9.3	10.5	7.2	-	17.7	4.6	6.6	11.2	9.2	6.4	15.6	1.6	1.1	1.2	1.1	-	-
2 Operating expenses (\$bn)	3.0	1.2	4.2	4.1	2.7	-	6.7	2.4	2.3	4.7	3.9	2.9	6.9	1.0	0.6	0.7	0.4	-	-
3 Underlying income (\$bn)	3.4	1.7	5.1	6.4	4.6	-	10.9	2.2	4.3	6.5	5.2	3.5	8.7	0.6	0.5	0.5	0.7	-	-
4 Footings (\$bn)																			
5 - Home loans	264	0	264	380	98	-	478	216	86	302	379	67	446	45	31	47	52	-	-
6 - Business loans	0	55	55	0	91	-	91	0	109	109	0	93	93	14	16	11	11	-	-
7 - Other loans	9	2	11	14	5	-	19	6	3	9	12	9	20	4	0	0	0	-	-
8 - Deposits & other borrowings	123	90	213	251	162	-	414	126	141	267	211	147	358	63	38	40	59	-	-
9 Branches (domestic) (#)	577	-	577	1,134	-	-	1,134	719	-	719	931	-	931	726	165	146	0	-	-
10 Customers (E) (m)	5.9	0.5	6.4	13.8	1.0	-	14.8	-	-	6.5	9.6	1.0	10.6	1.7	0.9	0.9	1.8	-	-
11 FTE (E) (#)	11,287	2,774	14,061	14,260	4,419	-	18,679	-	-	13,853	10,555	5,066	15,621	4,560	3,000	1,700	1,766	-	-
12 Productivity/efficiency ratios																			
13 NIM	2.30%	3.00%	2.65%	2.60%	3.12%	-	2.78%	2.02%	2.90%	2.45%	2.34%	3.01%	2.55%	1.99%	1.89%	1.92%	1.50%	1.93%	2.61%
14 NIE / footings	1.40%	1.72%	1.48%	1.40%	1.60%	-	1.47%	1.18%	1.65%	1.41%	1.38%	1.58%	1.45%	1.06%	1.14%	1.19%	0.85%	1.13%	1.45%
15 Other income / footings	0.21%	0.30%	0.24%	0.22%	0.43%	-	0.29%	0.15%	0.30%	0.22%	0.15%	0.45%	0.25%	0.23%	0.14%	0.04%	0.06%	0.14%	0.25%
16 Revenue / footings	1.61%	2.02%	1.72%	1.62%	2.03%	-	1.77%	1.33%	1.94%	1.63%	1.52%	2.03%	1.70%	1.28%	1.28%	1.23%	0.91%	1.27%	1.70%
17 Revenue / branch (\$m)	11.0	-	16.2	9.2	-	-	15.6	6.4	-	15.6	9.8	-	16.7	2.2	6.6	8.3	-	5.7	16.0
18 Revenue / FTE (\$'000)	565	1,069	664	734	1,635	-	947	-	-	808	869	1,264	997	353	363	712	629	476	854
19 Operating expense / footings	0.75%	0.84%	0.78%	0.63%	0.75%	-	0.67%	0.70%	0.68%	0.69%	0.65%	0.93%	0.75%	0.78%	0.67%	0.72%	0.37%	0.72%	0.72%
20 Operating expense / branch (\$m)	5.2	-	7.3	3.6	-	-	5.9	3.4	-	6.6	4.2	-	7.4	1.3	3.5	4.8	-	3.2	6.8
21 Operating expense / FTE (\$'000)	265	446	301	287	601	-	361	-	-	342	372	578	439	214	191	413	253	273	360
22 Underlying income / footings	0.85%	1.18%	0.94%	0.99%	1.28%	-	1.09%	0.63%	1.26%	0.94%	0.87%	1.10%	0.95%	0.50%	0.60%	0.52%	0.54%	0.54%	0.98%
23 Underlying income / branch (\$m)	5.9	-	8.9	5.6	-	-	9.7	3.0	-	9.0	5.6	-	9.4	0.9	3.1	3.5	-	2.5	9.2
24 Underlying income / FTE (\$'000)	300	623	364	448	1,033	-	586	-	-	467	497	686	558	139	172	299	376	203	494
25 Cost ratio	47%	42%	45%	39%	37%	-	38%	53%	35%	42%	43%	46%	44%	61%	53%	58%	40%	57%	42%
26 BDD charge / GLA	0.22%	0.99%	0.35%	0.16%	0.23%	-	0.18%	0.10%	0.13%	0.11%	0.20%	0.59%	0.32%	0.07%	0.13%	0.00%	0.05%	0.07%	0.24%
27 Loans / branch (\$m)	473	-	572	348	-	-	519	308	-	584	419	-	600	87	285	401	-	257	569
28 Loans / customers (\$'000)	46	115	52	29	194	-	40	-	-	65	41	165	53	37	52	65	34	51	52
29 Deposits / branch (\$m)	214	-	369	222	-	-	365	176	-	371	226	-	384	86	231	272	-	196	372
30 Deposits / customers (\$'000)	21	181	33	18	162	-	28	-	-	41	22	144	34	37	42	44	32	41	34
31 Loan / deposit ratio (x)	2.2	0.6	1.5	1.6	1.2	-	1.4	1.8	1.4	1.6	1.9	1.1	1.6	1.0	1.2	1.5	1.1	1.2	1.5
32 Footings / FTE (\$m)	35	53	39	45	81	-	54	-	-	50	57	62	59	28	28	58	69	38	50
33 Customers / branch	10,173	-	11,032	12,169	-	-	13,051	-	-	9,040	10,311	-	11,408	2,342	5,515	6,171	-	4,676	11,133
34 Customers / FTE	520	179	453	968	226	-	792	-	-	469	910	202	680	373	303	530	1,042	402	599
35 FTE / branch (#)	20	-	24	13	-	-	16	-	-	19	11	-	17	6	18	12	-	12	19
36 New mortgages through broker channel	49%	-	-	48%	-	-	48%	43%	-	45%	47%	-	47%	44%	29%	68%	66%	47%	47%
37 Mortgage - dynamic LVR (unweighted)	56%	-	56%	53%	-	-	53%	48%	-	45%	57%	-	57%	57%	66%	51%	-	58%	53%
38 Mortgage - % ahead of repayments	76%	-	76%	82%	-	-	82%	66%	-	67%	70%	-	70%	-	-	-	-	-	74%
39 Mortgage - interest only	12%	-	12%	19%	-	-	19%	20%	-	17%	23%	-	23%	25%	25%	18%	-	-	18%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Whoso pulleth out this sword of this stone?



Given all the market volatility to date, it is only prudent to stick with quality stocks that are both resilient – in terms of their balance sheet – and those that are flexible enough to seek out opportunities that will arise out of all this COVID-19 mess.

As for CET1 ratios, MQG and CBA remain at the top of the pack with 12.2% and around 11.5% respectively (likewise their leverage ratios at close to 6.0%) and the same goes for liquidity and funding in MQG, suggesting there is sufficient firepower to engage in lending opportunities as they arise.

CBA has pushed through the highest impairment charge but has the lowest impaired exposures and arrears, so we think the bank is the most conservative of the bunch. MQG has the lowest impairment charge but this only relates to the banking group, and when you take the non-bank group into the equation, the relativities are pretty immaterial.

To put these charges into perspective, the majors' total impairment charges in the reporting period to 31 March 2020 added up to around \$7bn. These are projected to total around \$29bn over the next three years (ANZ \$8bn, CBA \$8bn, NAB \$6bn and WBC \$7bn) while the GFC charge over three years added up to around \$27bn (ANZ \$6bn, CBA \$7bn, NAB \$8bn and WBC \$6bn).

Table 4 – Resilience comps

	ANZ	CBA	NAB	WBC	MBL
Capital (APRA)					
CET1	10.8%	10.7%	10.4%	10.8%	12.2%
Pro-forma CET1	-	11.4-11.5%	11.2%	-	-
Tier 1	12.5%	13.0%	12.0%	12.9%	13.6%
Total capital	15.5%	16.8%	14.6%	16.3%	15.4%
Leverage ratio	5.0%	5.5%	5.2%	5.7%	5.7%
Pro-forma leverage ratio	-	5.8-5.9%	-	-	-
Funding & liquidity					
NSFR	118%	117%	116%	117%	118%
LCR	139%	133%	136%	140%	173%
Asset quality					
LIE as % of GLA	0.53%	0.80%	0.38%	0.62%	0.37%
Total provisions as % of GLA	0.85%	0.72%	0.85%	0.80%	0.78%
Total provisions as % of CRWA	1.45%	1.65%	1.43%	1.57%	1.93%
Impaired & 90 days past due as % of GLA	0.94%	0.76%	0.97%	1.04%	1.25%
TIA as % of TCE	-	0.72%	-	0.80%	0.71%
Arrears					
- Personal	4.00%	1.50%	-	1.97%	-
- Credit cards	1.00%	0.91%	-	-	-
- Home loans	0.87%	0.63%	0.91%	0.79%	-

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Consequently, some write-backs are only to be expected once the pandemic after effects have settled. Using data from the GFC as an example (i.e. taking cumulative net collective provision funding, net new and increased individual provisioning and write-back of provisions no longer required from 1H09 through to 2H12), we estimate the following write-backs and write-back rates (as a percentage of new provisions):

1. ANZ – New provisions \$9.1bn, write-backs \$1.7bn (write-back rate 19%);
2. CBA – New provisions \$8.8bn, write-backs \$2.3bn (write-back rate 27%);
3. NAB – New provisions \$20.2bn, write-backs \$9.7bn (write-back rate 48%); and
4. WBC – New provisions \$8.6bn, write-backs \$1.7bn (write-back rate 19%).

Table 5 – ANZ provisions FY08-FY19

Y/e September 30 (\$m)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Collective provision												
Opening balance	1,992	2,821	3,000	3,153	3,176	2,765	2,887	2,757	2,956	2,876	2,662	2,523
Change on adoption of AASB 9												
Net collective provision funding	818	235	-4	7	-379	30	-155	95	17	-142	-85	-19
Impairment losses written off												
Impairment losses recovered												
Other	11	-56	157	16	-32	92	25	104	-97	-72	-54	872
Closing balance	2,821	3,000	3,153	3,176	2,765	2,887	2,757	2,956	2,876	2,662	2,523	3,376
Net collective provision funding / GLA	0.21%	0.07%	0.00%	0.00%	-0.09%	0.01%	-0.03%	0.02%	0.00%	-0.02%	-0.01%	0.00%
Impairment losses written off / GLA	-	-	-	-	-	-	-	-	-	-	-	-
Impairment losses recovered / GLA	-	-	-	-	-	-	-	-	-	-	-	-
Individually assessed provisions												
Opening balance	270	675	1,526	1,875	1,697	1,773	1,467	1,176	1,061	1,307	1,136	920
Net new & increased indiv prov'g	1,032	2,750	2,125	2,033	2,293	1,889	1,812	1,757	2,445	2,069	1,444	1,428
Write-back of prov no longer req'd	100	85	58	-613	-537	-487	-447	-434	-311	-501	-425	-382
FX adjustment	0	-22	-100	8	-34	51	8	40	-65	-32	-17	0
Impairments losses written off	-699	-1,889	-1,693	-1,421	-1,503	-1,657	-1,599	-1,424	-1,722	-1,693	-1,224	-1,076
Other	-28	-73	-41	-185	-143	-102	-65	-54	-101	-14	6	-76
Closing balance	675	1,526	1,875	1,697	1,773	1,467	1,176	1,061	1,307	1,136	920	814
Net new & increased IAP / GLA	0.27%	0.79%	0.53%	0.51%	0.54%	0.40%	0.35%	0.31%	0.42%	0.35%	0.24%	0.23%
Write-back prov no longer req'd / GLA	0.03%	0.02%	0.01%	-0.15%	-0.13%	-0.10%	-0.09%	-0.08%	-0.05%	-0.09%	-0.07%	-0.06%
Impairments losses written off / GLA	-0.18%	-0.55%	-0.42%	-0.36%	-0.35%	-0.35%	-0.31%	-0.25%	-0.30%	-0.29%	-0.20%	-0.17%
Loan impairment expense												
Net collective provision funding	818	235	-4	7	-379	30	-155	95	17	-142	-85	-19
Net new & increased indiv prov'g	1,032	2,750	2,125	2,033	2,293	1,889	1,812	1,757	2,445	2,069	1,444	1,428
Write-back of prov no longer req'd	240	71	-301	-829	-656	-722	-668	-777	-529	-728	-671	-614
Total	2,090	3,056	1,820	1,211	1,258	1,197	989	1,075	1,933	1,199	688	795

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 6 – CBA provisions FY08-FY19

Y/e June 30 (\$m)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Collective provision												
Opening balance	1,156	1,466	3,225	3,461	3,043	2,837	2,858	2,779	2,762	2,818	2,747	2,763
Change on adoption of AASB 9	0	0	0	0	0	0	0	0	0	0	0	1,055
Net collective provision funding	627	1,176	901	45	312	559	497	589	664	617	716	724
Impairment losses written off	-381	-472	-734	-646	-740	-695	-753	-770	-846	-894	-871	-901
Impairment losses recovered	77	73	77	206	228	154	165	176	225	210	201	206
Other	-13	982	-8	-23	-6	3	12	-12	13	-4	-30	57
Closing balance	1,466	3,225	3,461	3,043	2,837	2,858	2,779	2,762	2,818	2,747	2,763	3,904
Net collective provision funding / GLA	0.17%	0.25%	0.18%	0.01%	0.06%	0.10%	0.08%	0.09%	0.10%	0.08%	0.10%	0.10%
Impairment losses written off / GLA	-0.11%	-0.10%	-0.15%	-0.13%	-0.14%	-0.12%	-0.13%	-0.12%	-0.12%	-0.12%	-0.12%	-0.12%
Impairment losses recovered / GLA	0.02%	0.02%	0.02%	0.04%	0.04%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
Individually assessed provisions												
Opening balance	100	279	1,729	1,992	2,125	2,008	1,628	1,127	887	944	980	870
Net new & increased indiv prov'ing	336	1,686	1,862	1,602	1,202	937	726	659	788	670	625	619
Write-back of prov no longer req'd	-33	-179	-384	-367	-425	-350	-305	-260	-196	-192	-262	-142
Discount unwind to interest income	-9	-45	-169	-147	-122	-90	-51	-38	-27	-31	-25	-23
Impairments losses written off	-122	-671	-1,339	-1,329	-1,137	-1,194	-1,060	-709	-571	-454	-548	-500
Other	7	659	293	374	365	317	189	108	63	43	100	71
Closing balance	279	1,729	1,992	2,125	2,008	1,628	1,127	887	944	980	870	895
Net new & increased IAP / GLA	0.09%	0.36%	0.37%	0.32%	0.22%	0.17%	0.12%	0.10%	0.11%	0.09%	0.08%	0.08%
Write-back prov no longer req'd / GLA	-0.01%	-0.04%	-0.08%	-0.07%	-0.08%	-0.06%	-0.05%	-0.04%	-0.03%	-0.03%	-0.04%	-0.02%
Impairments losses written off / GLA	-0.03%	-0.14%	-0.27%	-0.26%	-0.21%	-0.21%	-0.18%	-0.11%	-0.08%	-0.06%	-0.07%	-0.07%
Loan impairment expense												
Net collective provision funding	627	1,176	901	45	312	559	497	589	664	617	716	724
Net new & increased indiv prov'ing	336	1,686	1,862	1,602	1,202	937	726	659	788	670	625	619
Write-back of prov no longer req'd	-33	73	-1,442	-476	-486	-532	-270	-260	-196	-192	-262	-142
Total	930	2,935	1,321	1,171	1,028	964	953	988	1,256	1,095	1,079	1,201

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 7 – NAB provisions FY08-FY19

Y/e September 30 (\$m)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Collective provision												
Opening balance	1,800	2,318	2,948	2,865	2,505	2,346	2,178	1,760	3,494	2,811	2,798	3,054
Change on adoption of AASB 9												
Net collective provision funding	1,692	3,763	2,236	1,723	2,521	1,799	863	1,651	-646	130	304	271
Impairment losses written off												
Impairment losses recovered												
Other	-1,174	-3,133	-2,319	-2,083	-2,680	78	-606	83	-37	-143	-48	35
Closing balance	2,318	2,948	2,865	2,505	2,346	2,178	1,760	3,494	2,811	2,798	3,054	3,360
Net collective provision funding / GLA	0.39%	0.87%	0.50%	0.40%	0.58%	0.40%	0.19%	0.30%	-0.12%	0.02%	0.05%	0.04%
Impairment losses written off / GLA	-	-	-	-	-	-	-	-	-	-	-	-
Impairment losses recovered / GLA	-	-	-	-	-	-	-	-	-	-	-	-
Individually assessed provisions												
Opening balance	307	645	1,453	1,409	1,475	1,875	1,840	1,358	671	712	689	675
Net new & increased indiv prov'ing	1,202	2,975	2,235	2,055	2,660	2,045	1,299	747	920	1,047	753	883
Write-back of prov no longer req'd	192	165	177	184	160	160	185	129	119	-242	-193	-170
Discount unwind to interest income												
Impairments losses written off	-1,052	-2,282	-2,424	-2,172	-2,413	-2,298	-1,760	-1,300	-778	-849	-573	-600
Other	-4	-50	-32	-1	-7	58	-206	-263	-220	21	-1	-6
Closing balance	645	1,453	1,409	1,475	1,875	1,840	1,358	671	712	689	675	782
Net new & increased IAP / GLA	0.28%	0.69%	0.50%	0.48%	0.61%	0.46%	0.28%	0.13%	0.17%	0.19%	0.13%	0.15%
Write-back prov no longer req'd / GLA	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.02%	0.02%	-0.04%	-0.03%	-0.03%
Impairments losses written off / GLA	-0.24%	-0.53%	-0.54%	-0.51%	-0.55%	-0.52%	-0.38%	-0.23%	-0.14%	-0.15%	-0.10%	-0.10%
Loan impairment expense												
Net collective provision funding	1,692	3,763	2,236	1,723	2,521	1,799	863	1,651	-646	130	304	271
Net new & increased indiv prov'ing	1,202	2,975	2,235	2,055	2,660	2,045	1,299	747	920	1,047	753	883
Write-back of prov no longer req'd	-429	-2,941	-2,217	-1,974	-2,578	-1,910	-1,437	-1,650	526	-367	-278	-235
Total	2,465	3,797	2,254	1,804	2,603	1,934	725	748	800	810	779	919

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 8 – WBC provisions FY08-FY19

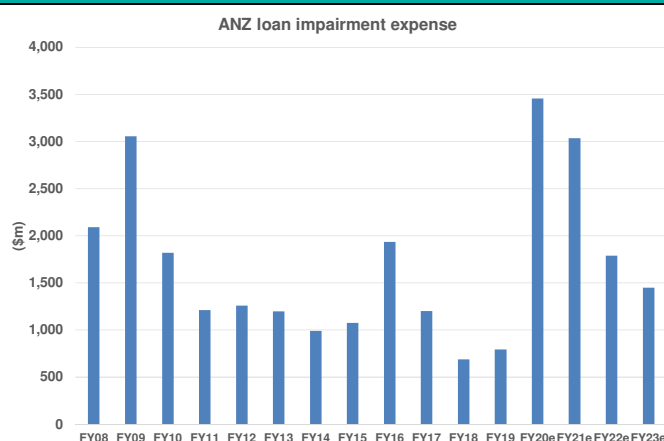
Y/e September 30 (\$m)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Collective provision												
Opening balance	1,701	2,131	3,506	3,439	2,953	2,771	2,585	2,614	2,663	2,733	2,639	2,392
Change on adoption of AASB 9												
Net collective provision funding	847	1,282	363	-24	342	290	505	615	744	699	668	887
Impairment losses written off	-540	-632	-667	-739	-756	-708	-702	-793	-902	-968	-858	-832
Impairment losses recovered												
Other	123	725	237	277	232	232	226	227	228	175	-57	1,054
Closing balance	2,131	3,506	3,439	2,953	2,771	2,585	2,614	2,663	2,733	2,639	2,392	3,501
Net collective provision funding / GLA	0.19%	0.27%	0.08%	0.00%	0.07%	0.05%	0.09%	0.10%	0.11%	0.10%	0.09%	0.12%
Impairment losses written off / GLA	-0.12%	-0.14%	-0.14%	-0.15%	-0.15%	-0.13%	-0.12%	-0.13%	-0.14%	-0.14%	-0.12%	-0.12%
Impairment losses recovered / GLA	-	-	-	-	-	-	-	-	-	-	-	-
Individually assessed provisions												
Opening balance	182	458	1,228	1,622	1,461	1,470	1,364	867	669	869	480	422
Net new & increased indiv prov'g	508	2,111	1,497	1,619	1,442	1,112	684	566	727	610	371	314
Write-back of prov no longer req'd	-90	-106	-353	-542	-468	-479	-433	-297	-210	-288	-150	0
Discount unwind to interest income	-6	-11	-43	-11	-38	-75	-34	-22	-13	-16	-11	0
Impairments losses written off	-143	-1,294	-684	-1,188	-952	-691	-706	-445	-287	-688	-269	-322
Other	7	70	-23	-39	25	27	-8	0	-17	-7	1	-2
Closing balance	458	1,228	1,622	1,461	1,470	1,364	867	669	869	480	422	412
Net new & increased IAP / GLA	0.12%	0.45%	0.31%	0.32%	0.28%	0.21%	0.12%	0.09%	0.11%	0.09%	0.05%	0.04%
Write-back prov no longer req'd / GLA	-0.02%	-0.02%	-0.07%	-0.11%	-0.09%	-0.09%	-0.07%	-0.05%	-0.03%	-0.04%	-0.02%	0.00%
Impairments losses written off / GLA	-0.03%	-0.28%	-0.14%	-0.24%	-0.18%	-0.13%	-0.12%	-0.07%	-0.04%	-0.10%	-0.04%	-0.04%
Loan impairment expense												
Net collective provision funding	847	1,282	363	-24	342	290	505	615	744	699	668	887
Net new & increased indiv prov'g	508	2,111	1,497	1,619	1,442	1,112	684	566	727	610	371	314
Write-back of prov no longer req'd	-150	-101	-404	-602	-572	-555	-539	-428	-347	-456	-227	-407
Total	1,205	3,292	1,456	993	1,212	847	650	753	1,124	853	812	794

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Note that NAB's higher new provisions reflected disproportionately higher impairments in Australia Banking, nabCapital (including high profile exposures and ABS CDO impacts) and the UK Region. Excluding outlier NAB, there is the possibility of 15-20% write-backs in the current setting.

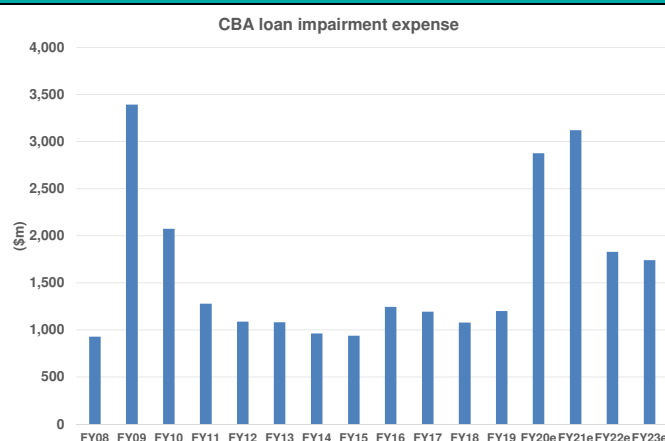
The majors' actual and Bell Potter projected loan impairment expenses are set out below.

Figure 1 – ANZ 1



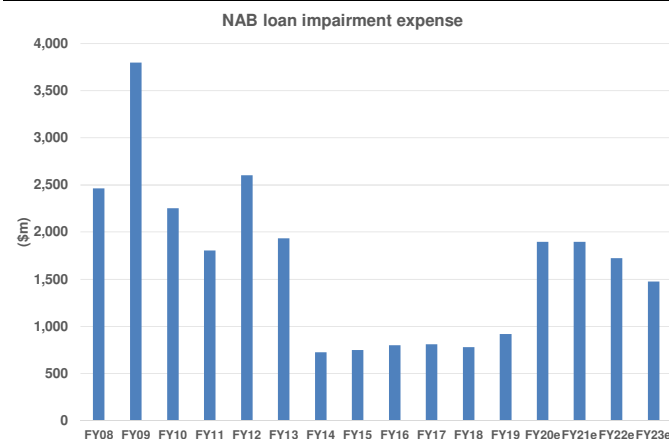
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 2 – CBA 1



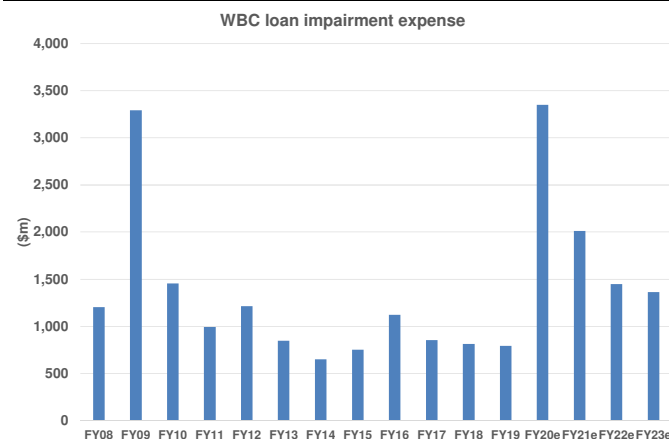
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 3 – NAB 1



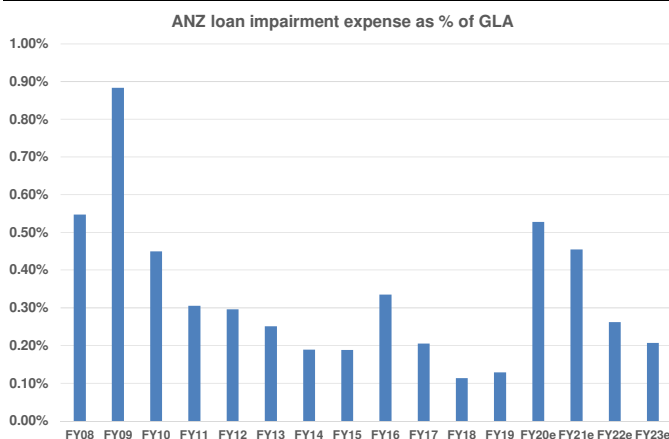
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 4 – WBC 1



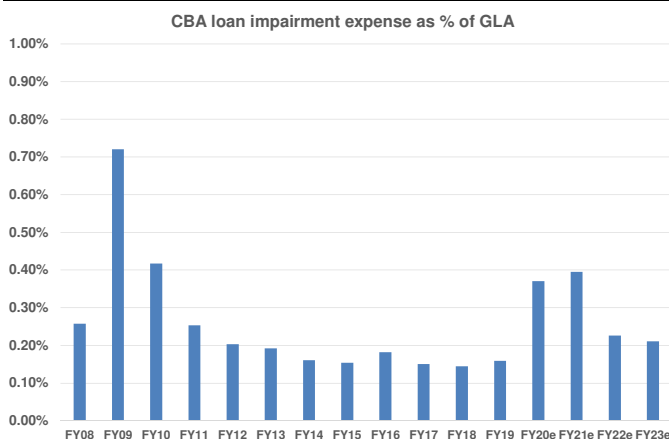
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 5 – ANZ 2



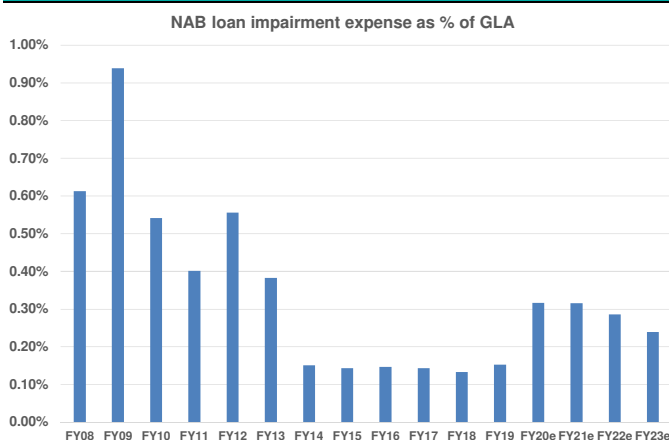
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 6 – CBA 2



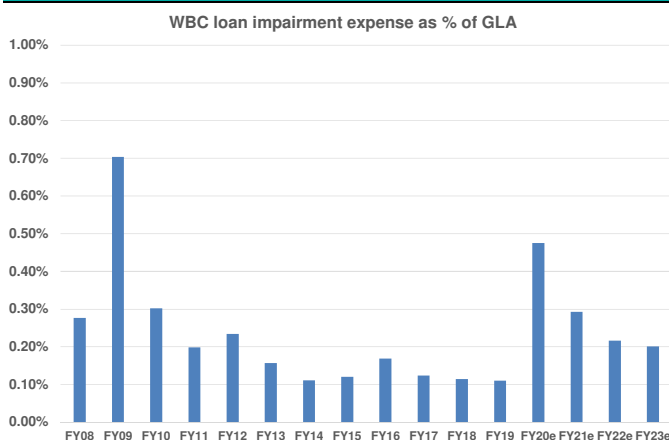
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 7 – NAB 2



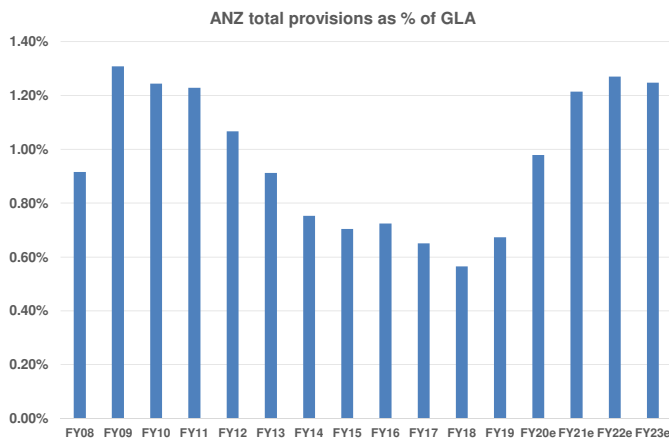
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 8 – WBC 2



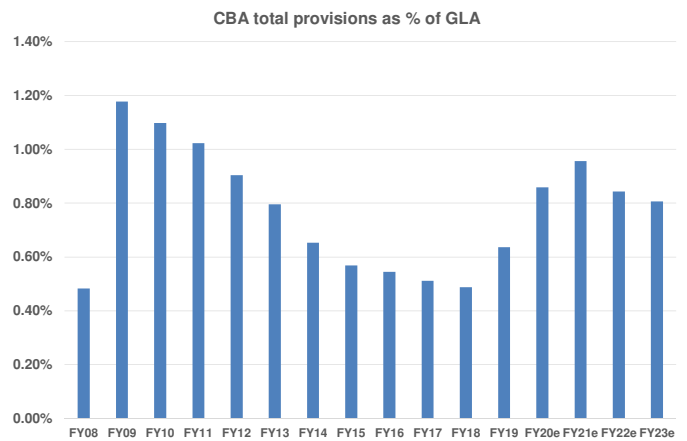
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 9 – ANZ 3



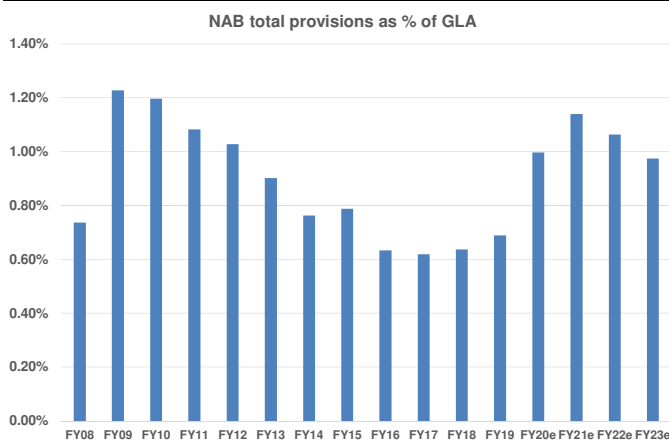
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 10 – CBA 3



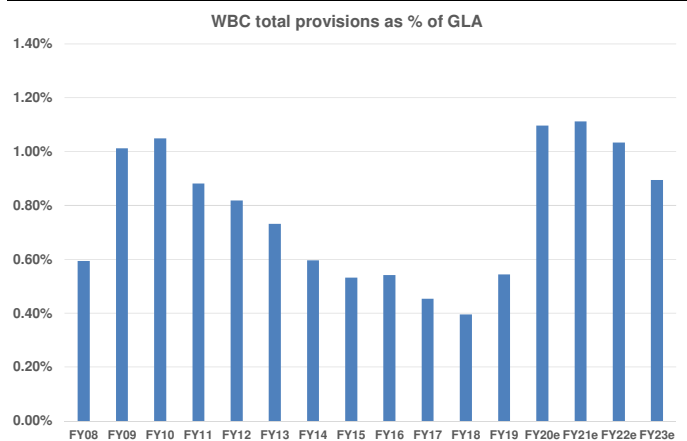
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 11 – NAB 3



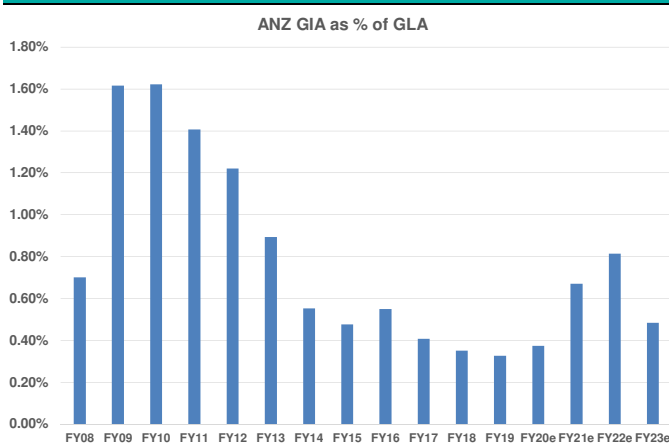
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 12 – WBC 3



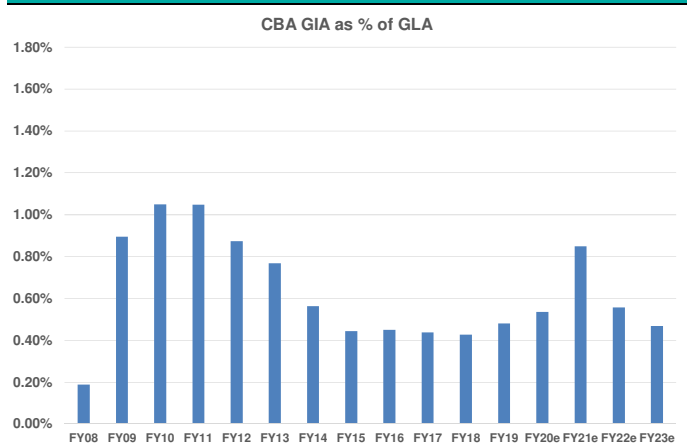
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 13 – ANZ 4



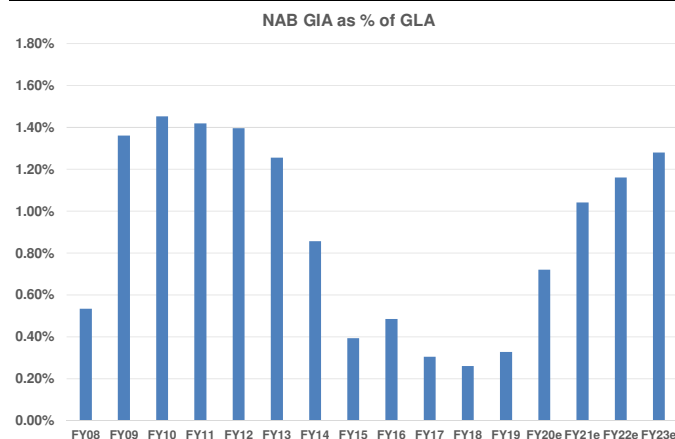
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 14 – CBA 4



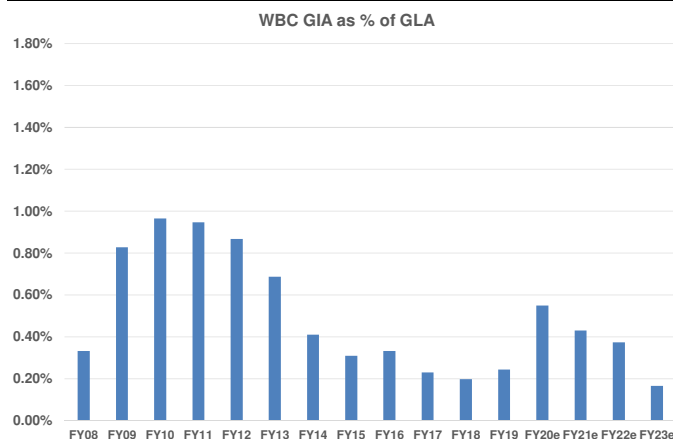
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 15 – NAB 4



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 16 – WBC 4



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Price target changes

Sector cost of equity has improved by 1.8-2.0% since March 2020 and our more conservative revisions are listed below (no change to BEN as we had previously adjusted for this, and also no change to MQG given its market-sensitive and offshore activities relative to the majors). New price targets net of DCF rollover are as follows:

1. ANZ – previously 12.0%, now 11.0% and price target +3% to \$19.50;
2. CBA – previously 11.0%, now 10.0% but price target broadly unchanged at \$72.00;
3. NAB – previously 12.0%, now 10.5% and price target +13% to \$19.50;
4. WBC – previously 12.0%, now 11.0% and price target +6% to \$18.30; and
5. BOQ – previously 13.5%, now 12.5% and price target +4% to \$5.70.

All cash earnings forecasts are unchanged.

Table 9 – Cost of equity movements

Cost of equity (Bloomberg)	ANZ	CBA	NAB	WBC	MQG	ABA	BEN	BOQ	MYS	SUN	Unwtd Avg	Country premium
16-Jan-20	9.4%	8.6%	7.7%	8.8%	9.4%	4.9%	8.4%	7.6%	3.4%	7.7%	7.6%	6.8%
02-Mar-20	9.9%	9.1%	8.6%	9.4%	10.4%	6.5%	8.6%	7.0%	3.2%	8.4%	8.1%	7.5%
30-Mar-20	10.7%	9.2%	10.1%	10.1%	11.9%	8.5%	8.7%	7.8%	7.7%	9.0%	9.4%	8.4%
23-Apr-20	8.9%	7.7%	8.4%	8.4%	10.4%	7.3%	7.1%	6.6%	6.7%	8.0%	8.0%	7.1%
02-Jun-20	8.7%	7.5%	8.3%	8.3%	10.0%	6.8%	6.8%	6.6%	6.4%	7.7%	7.7%	6.7%
Change since 30-Mar-20	-2.0%	-1.7%	-1.8%	-1.8%	-1.9%	-1.7%	-1.9%	-1.2%	-1.3%	-1.3%	-1.7%	-1.7%
Relative to CBA	1.2%	-	0.8%	0.8%	2.5%	-0.7%	-0.7%	-0.9%	-1.1%	0.2%		-0.8%

SOURCE: BLOOMBERG

MQG and CBA ahead of the pack

So it comes as no surprise that **MQG remains our number one stock (price target \$135, rated a strong Buy)**. Its underlying FY20 numbers were strong with stable income and expenses despite having none of the huge prior year asset sales and if COVID-related charges are excluded, profit would have been 4% higher in FY20. MQG's business model – built upon annuity-style and markets-facing activities – continues to work well.

This is capital efficient – noting MQG's 14.5% ROE is higher than the majors and its US peers – and provides the flexibility to shift capital across activities depending on where higher returns will be. Capital management flexibility is also characterised by a final dividend in FY20 that was entirely funded by non-bank activities. In essence, MQG remains a longer term “Cash and Growth” story with \$25bn equity yet to be deployed in infrastructure and other assets.

Of the major banks, we don't think investors can go past CBA (price target \$72.00, rated a Buy). While profit was down because of a \$1.6bn or 80bp loan impairment charge – mainly for COVID-19, underlying income was stable despite all the sector headwinds and underlying costs were 1% lower. There were residual remediation costs but these are likely necessary to get the Colonial deal out of the way. CBA's balance sheet is also in good shape with sufficient capital, funding and now provisions, and asset quality continues to be sound with seasonally higher consumer arrears still below pcg levels.

The announced sales of interests in Colonial First State and the Indonesian life business should lift CET1 to 11.4-11.5% and place CBA ahead of its domestic peers and near the top end of the global “unquestionably strong” club. Excluding COVID-19 and other provisions, underlying organic capital generation in 3Q20 was strong at +12bp and we still think there is scope for CBA to declare a small 2H20 dividend of 100¢ in August.

Table 10 – Investment summary

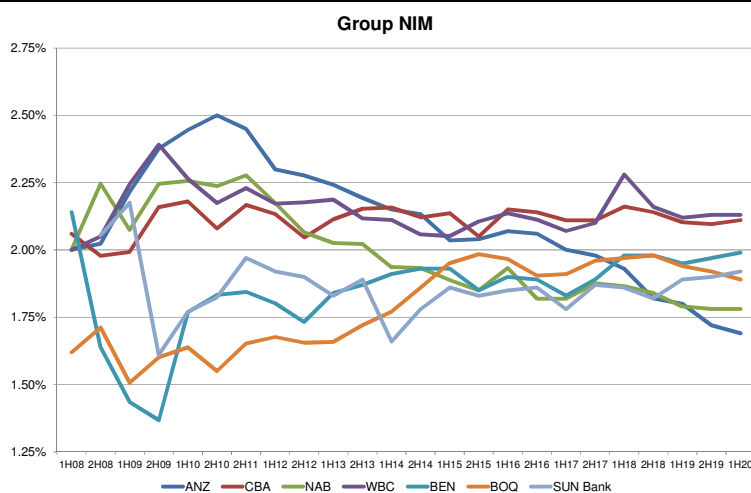
	Mkt Cap (\$bn)	Price / Book (x)		PE (x)		Yield		ROE		EPS growth		Price target	Last price	Rating
		2020e	2021e	2020e	2021e	2020e	2021e	2020e	2021e	2020e	2021e			
MAJORS														
ANZ	51.2	0.8	0.8	14.5	11.4	2.8%	5.5%	5.8%	7.1%	-45%	27%	\$19.50	\$18.05	Buy
CBA	113.1	1.6	1.5	14.5	14.9	4.7%	4.7%	11.1%	10.4%	-8%	-3%	\$72.00	\$63.90	Buy
NAB	57.4	0.9	0.9	18.2	12.4	3.3%	4.9%	5.3%	7.7%	-46%	47%	\$19.50	\$17.95	Buy
WBC	62.7	0.9	0.9	17.1	11.5	4.6%	5.8%	5.3%	7.7%	-49%	48%	\$18.30	\$17.36	Hold
REGIONALS														
BEN	3.3	0.6	0.5	9.7	10.6	7.2%	6.4%	5.8%	5.3%	-24%	-8%	\$6.70	\$6.21	Hold
BOQ	2.4	0.6	0.5	8.5	12.2	3.8%	4.8%	6.6%	4.6%	-22%	-31%	\$5.70	\$5.24	Hold
DIVERSIFIEDS														
MQG	39.2	1.8	1.7	14.0	16.2	3.9%	3.4%	14.5%	11.4%	-10%	-14%	\$135.00	\$110.49	Buy
SUN	11.6	0.9	0.9	21.1	14.2	3.9%	4.4%	4.4%	6.5%	-50%	49%	\$11.20	\$9.19	Buy

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

March 2020 reporting period in charts

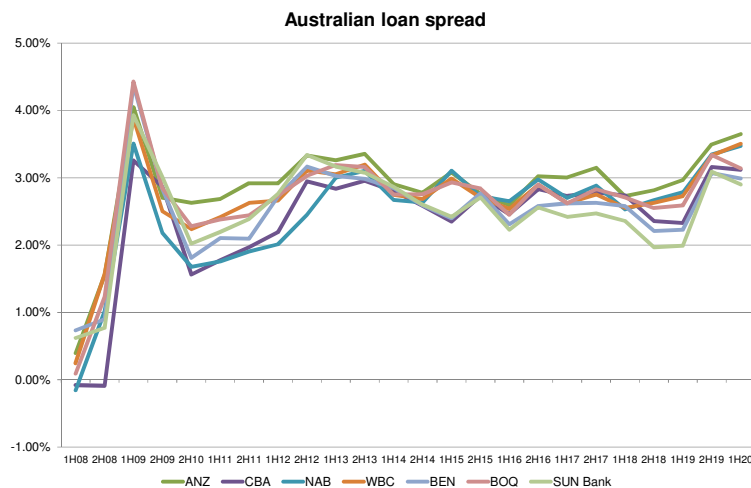
Generally better 1H20 underlying performance ex-COVID-19

Figure 17 – 1H20 Group NIM largely stable...



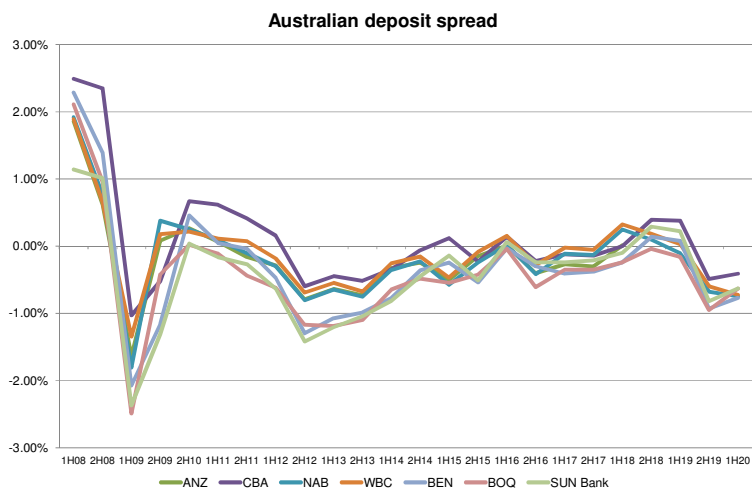
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 18 – ...with higher home loan spreads from repricing...



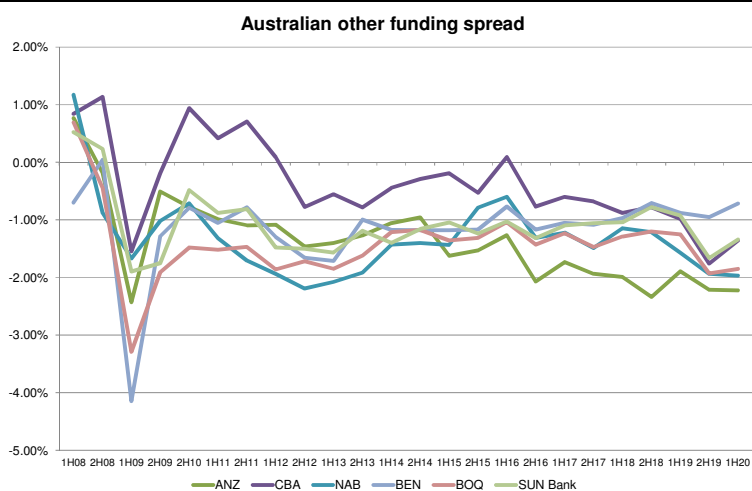
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 19 – ...just offsetting lower retail deposit spreads...



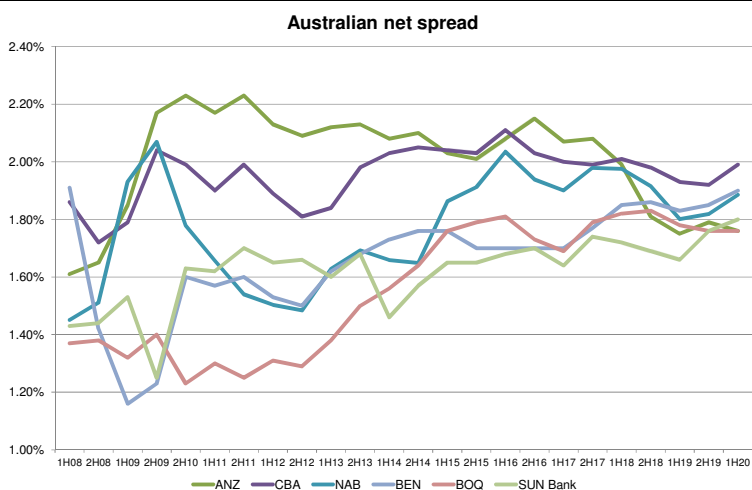
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 20 – ...while wholesale fund spreads benefited from lower funding costs...

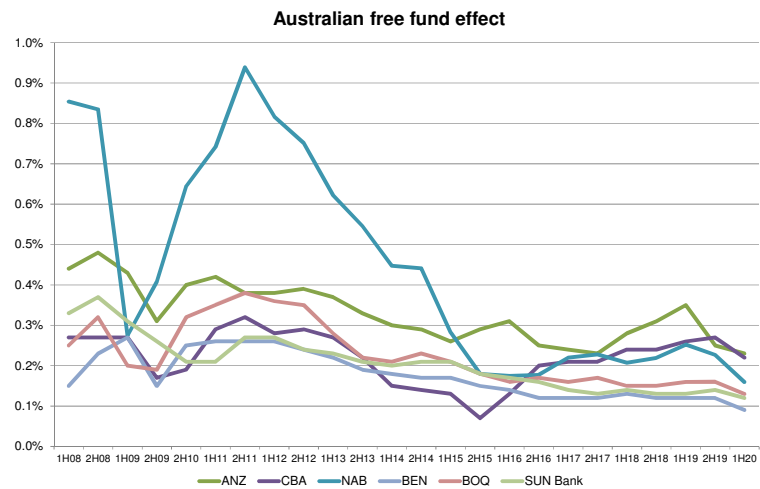


SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

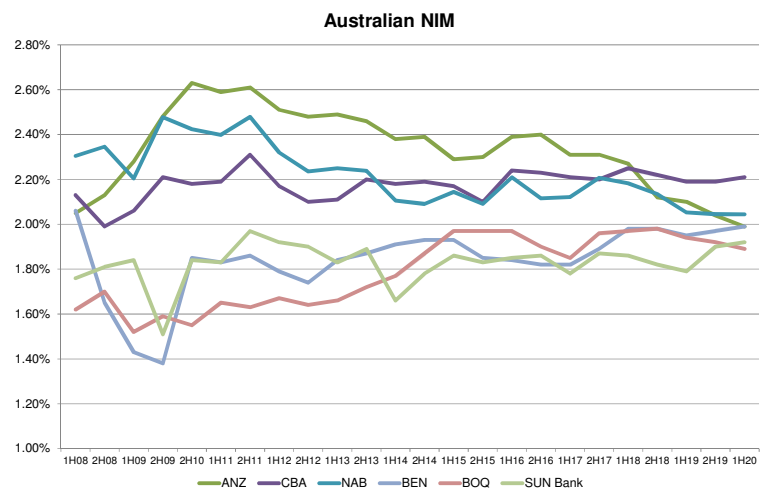
Figure 21 – ...resulting in better net spreads in Australia



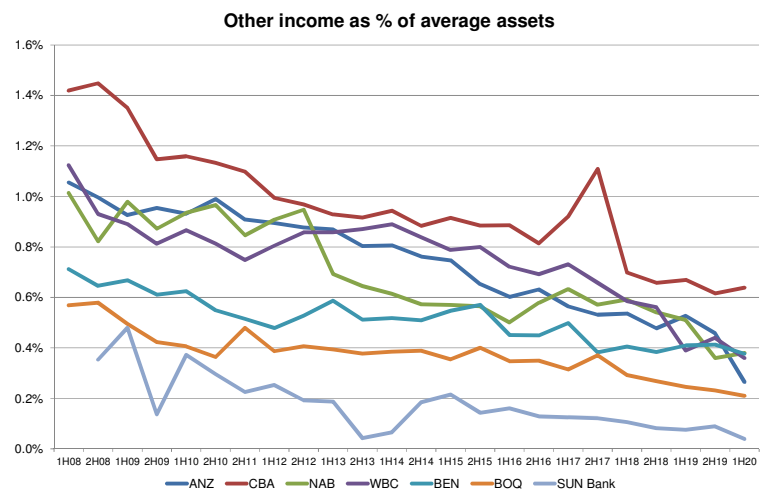
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 22 – The free fund benefit remains depressed in a low rate environment...

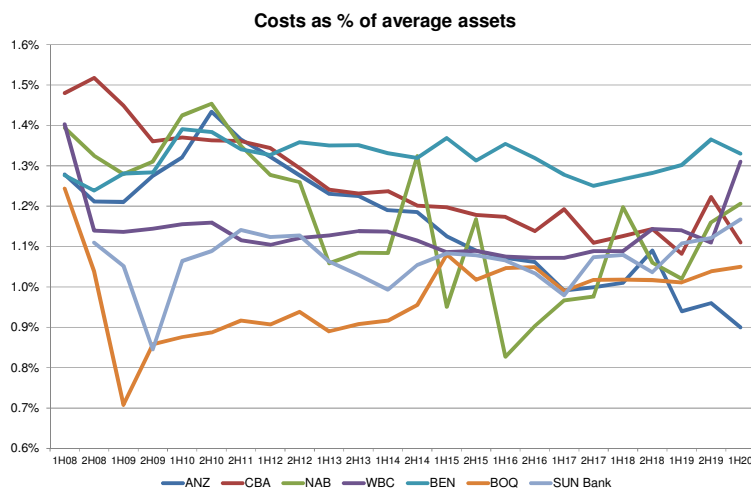
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 23 – ...but was offset by repricing, leading to broadly steady NIM

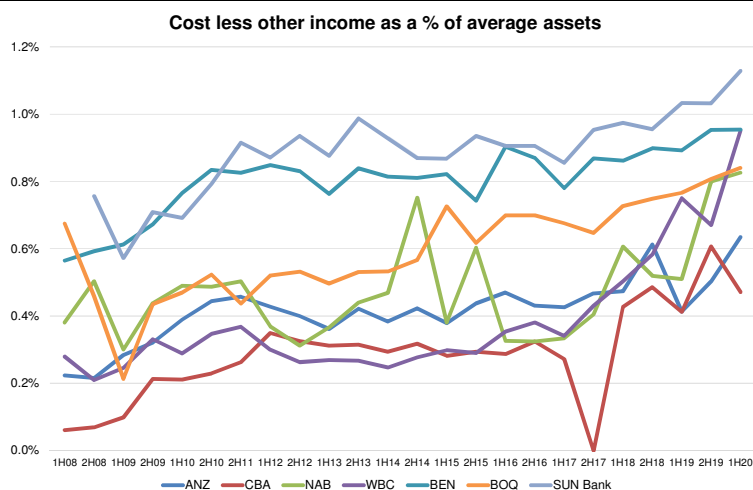
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 24 – Other income impacted by mark-to-market losses but these should reverse

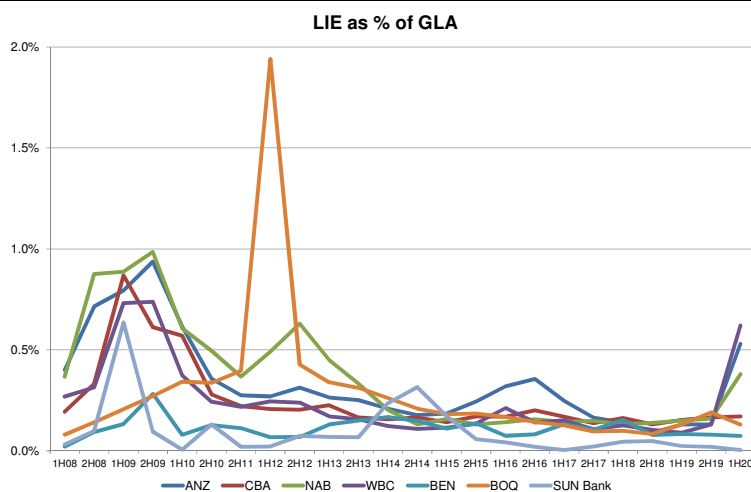
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 25 – Costs for majors largely seeing tail-end of customer remediation

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

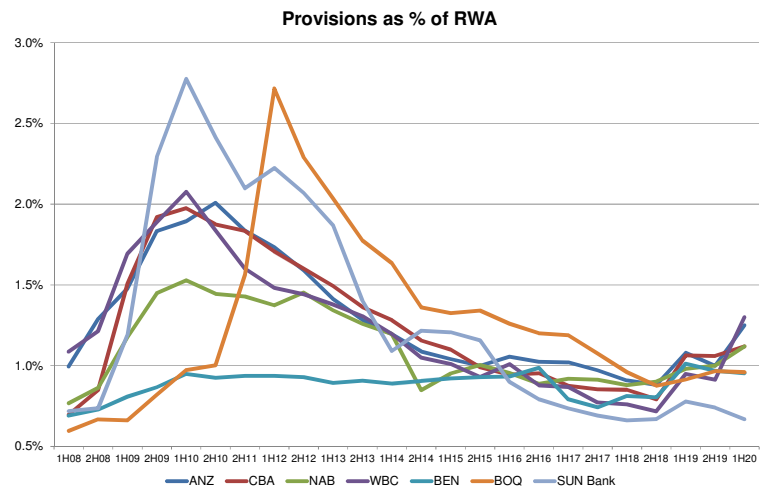
Figure 26 – ...but regionals are still disadvantaged by lack of scale...

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 27 – Impairment expenses impacted by COVID-19...

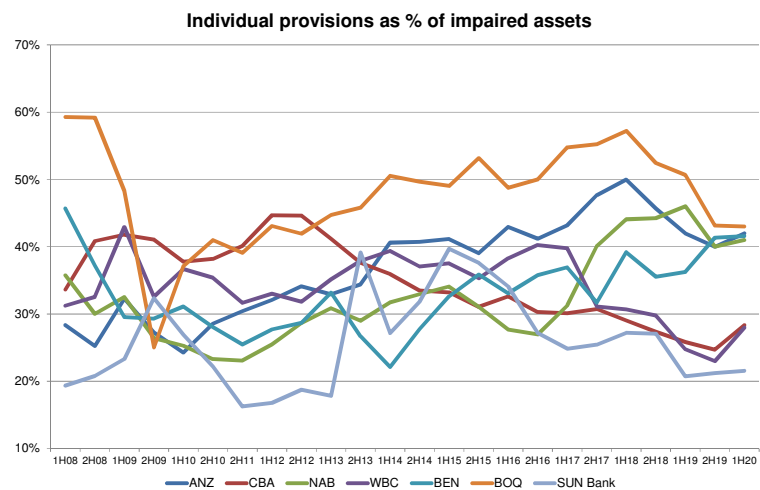
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 28 – ...pushing up provisions...



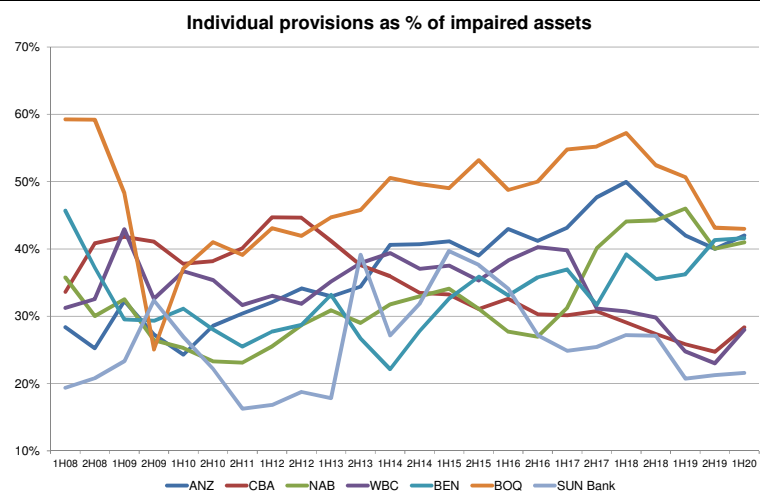
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 29 – ...and individual provision coverage...



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 30 – ...and pushing down ROE



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

March 2020 reporting wrap

ANZ – Price target \$19.50, Buy

ANZ's result components are: (1) statutory profit \$1.55bn (BP \$2.40bn); (2) cash profit (continuing) \$1.41bn (BP \$2.46bn); (3) cash EPS (continuing) 50¢ (BP 87¢); (4) interim dividend decision deferred until August 2020 trading update (BP 48¢); (5) cash ROE (continuing) 4.7% (BP 8.2%); (6) Group NIM (continuing) 1.69% (BP 1.71%); (7) credit impairment charge \$1.67bn/53bp GLA (BP \$1.32bn/43bp); and (8) CET1 ratio 10.8% (BP 11.4%). Cash profit (continuing) was materially down (-60% pcp and -51% hoh), impacted by some large notable items – Asian associate impairments (market values below carrying values), the non-deductible nature of these impairments and a higher credit impairment charge mainly due to COVID-19 and individually assessed charges from a small number of new single name impairments. The bank has thus indicated it is prudent not to declare an interim dividend at this time (i.e. this decision will be deferred until the COVID-19 impact is more certain and this is despite no concerns coming from APRA about its capital level).

The price target is increased by 3% to \$19.50 due to a 1.0% lower discount rate of 11.0% and DCF time creep. Changes to our forecasts are not material and the Buy rating is maintained.

BEN – Price target \$6.70, Hold

BEN released a limited trading last Thursday in conjunction with its 3Q20 Pillar 3 disclosures. As a result of COVID-19 forward-looking assessments under AASB 9, provisions have been topped up with a \$148.3m overlay (to be recognised in May 2020) made up as follows: (1) \$127.7m for the collective provision (CP) and FY20 credit expense in more exposed industries such as accommodation and food services, rental/hiring/real estate services and wholesale and retail trade (we estimate 20bp GLA for the COVID-19 top-up, and around 29bp GLA total credit expense for the whole of FY20); and (2) \$20.6m for the general reserve for credit losses (GRCL). The CP and GRCL would now total \$356.0m or 56bp GLA. The above overlay is expected to decrease CET1 ratio by 40bp to a pro-forma 9.30% as at 31 March 2020 (that is still ahead of APRA's "unquestionably strong" benchmark of 8.50% for standardised banks) although the offset as eligible Tier 2 capital will leave total capital unchanged at 13.77%. As for credit quality, arrears data up to April 2020 indicates an improvement in the mortgage portfolio, steady rates in other consumer portfolios (after allowing for seasonality) and a slight deterioration in the business and agribusiness portfolios (although business impaired loans have decreased).

Our forecasts, 12.5% discount rate, \$6.70 price target and Hold rating are unchanged.

BOQ – Price target \$5.70, Hold

1H20 cash NPAT decreased by 10% pcp to \$151m (-1% hoh vs. 2H19) mainly due to investments in risk and regulatory programs and strategic technology projects, and these were well-flagged in FY19. Excluding these items, underlying operating expense growth was capped at 1% on a pcp and hoh basis. Statutory NPAT was 40% pcp lower to \$93m (-35% hoh vs. 2H19) with the variance to cash NPAT mainly due to adjustments for intangible asset review, restructuring and a mix of legacy/regulatory/compliance items. With the exception of the deferred decision on its interim dividend, BOQ's performance across the key P&L components was largely in line with our expectations (e.g. total income \$541m vs. BP's \$547m, expenses \$292m vs. BP's \$296m and LIE \$30m vs. BP's \$36m) leading to PBT of \$219m (vs. BP's \$215m). While there was some pressure on NIM and

non-interest income, credit quality remained stable and undershot our forecast by 3bp (despite recognising a \$10m collective provision overlay for COVID-19). CET1 ratio of 9.9% remains ahead of the internal target range of 9.0-9.5% and APRA's minimum requirement for standardised banks. This was a solid performance by BOQ.

The price target is increased by 4% to \$5.70 due to a 1.0% lower discount rate of 12.5%. Changes to our forecasts are not material and the Hold rating is maintained.

CBA – Price target \$72.00, Buy

All comparisons are to the 1H20 quarterly average unless noted otherwise. Today's trading update disclosed 3Q20 unaudited statutory NPAT of ~\$1.3bn (-59%) and unaudited cash NPAT (continuing) of ~\$1.3bn (-44%), both impacted by a \$1.6bn pre-tax or 80bp GLA loan impairment expense (LIE, including a \$1.5bn COVID-19 provision), \$135m pre-tax customer remediation provisions and ~\$140m pre-tax risk and compliance costs. Ex-notable items, cash NPAT would be ~\$1.4bn. Our revised forecast 2H20 cash NPAT of ~\$3.4bn including discontinued operations implies ~\$2.1bn in 4Q20 that is broadly in line with the 1H20 quarterly average of \$2.2bn – and this appears very achievable as the 3Q20 COVID-19 provision should be sufficient in the remaining FY20. Underlying outcomes were respectable, with operating income stable at \$6.2bn despite sector headwinds and costs ex-notable items 1% lower at ~\$2.6bn and leading to positive "Jaws". Excluding COVID-19 provisions, underlying asset quality continues to be sound. The balance sheet also remains in good shape with sufficient capital, funding and now provisions. CET1 ratio was 10.7% after paying the 1H20 dividend and after providing for COVID-19. Including the sale of the bank's 55% stake in Colonial First State (CFS) to KKR for \$1.7bn and other announced transactions, the overall uplift to Level 2 CET1 capital will be 67-77bp – that would take the pro-forma CET1 ratio to roughly 11.4-11.5% and place CBA near the top end of the "unquestionably strong" club. Underlying organic capital generation was strong at +12bp in 3Q20 – given this and all else being equal, we still think there is scope for CBA to declare a small 2H20 dividend of 100¢ in August.

Despite a 1.0% lower discount rate of 10.0%, we have maintained the \$72.00 price target. Changes to our forecasts are not material and the Buy rating is maintained.

MQG – Price target \$135.00, Buy

MQG's FY20 result components are: (1) profit attributable to ordinary equity holders of MQG \$2.73bn (BP \$2.99bn), -8% pcp; (2) EPS 791¢ (BP 879¢), -10% pcp; (3) combined net profit contribution \$5.43bn (BP \$6.05bn); (4) effective tax rate 21% (BP 23%); (5) compensation ratio 41% (BP 42%); (6) final dividend 180¢ (BP 180¢), 40% franked; (7) ROE 14.5% (BP 16.3%); and (8) Bank Group CET1 ratio 12.2% (BP 11.7%). Profit was 8% pcp lower at \$2.73bn (-13% hoh) with the miss wholly due to higher credit and other impairment charges associated with potential COVID-19 economic impacts (a timing difference in a way as we had previously taken a large part of the hit in 1H21 instead of 2H20). Excluding these charges, net operating income and total operating expenses were broadly in line with FY19 and our estimates. MQG's profit would have been ~\$3.11bn if not for COVID-19 – over 4% higher than FY19 – and would have beat guidance as such. Surplus capital based on 10.5% RWA was \$5.2bn while CET1 ratio was at a record high of 12.2%. Given strong organic capital generation and strong capital levels, MQG has declared a final dividend of 180¢ (40% franked) **to be funded entirely by the 2H20 earnings of the Non-bank Group** (that goes to show the Group's overall capital management flexibility). Medium term, MQG has retained its 60-80% target dividend payout ratio – great for investors! **MQG remains our top sector pick.**

Our forecasts, \$135.00 price target and Buy rating are unchanged.

NAB – Price target \$19.50, Buy

NAB had previously guided to ongoing noise in its interim result. Cash earnings were ~33% hoh lower (-51% pcp) at \$1.44bn, given large notable items mainly in expenses that were flagged in its 20 April 2020 trading update. These are in respect of customer remediation provisions mainly for wealth-related matters, capitalised software write-downs, impairment in its MLC Life investment's carrying value and negative mark-to-market valuations in its high quality liquid asset – HQLA – portfolio. Despite the bottom line drag, net operating income was quite resilient (up by ~3% hoh and down by ~3% pcp) and this suggests a measure of confidence in the bank's top line prospects. NAB also acknowledged on 20 April that the broader economic impact of COVID-19 may lead to higher credit impairments and provisions plus higher RWA over time. The latter is now quantified with \$745m higher CP charges taken in 1H20 that make up the bulk of the total credit impairment charge of \$1.16bn/38bp GLA. Specific credit impairment charges were 15% hoh lower in 1H20 (+2% pcp) at \$0.30bn and reflected improvements with the core Australian divisions. Ex-large notable items, cash earnings were 24% hoh (-25% pcp) lower at \$2.47bn. Looking past the COVID-19 noise, NAB exhibited good operational resilience in 1H20 underpinned by cost discipline.

The price target is increased by 13% to \$19.50 due to a 1.5% lower discount rate of 10.5% and DCF time creep. Changes to our forecasts are not material and the Buy rating is maintained.

WBC – Price target \$18.30, Hold

WBC's result components are: (1) statutory earnings \$1.19bn (BP \$0.88bn); (2) statutory EPS 33¢ (BP 25¢); (3) cash earnings \$0.99bn (BP \$0.90bn), ex-notable items \$2.28bn (BP \$2.49bn); (4) cash EPS 28¢ (BP 26¢), ex-notable items 64¢ (BP 71¢); (5) interim dividend decision deferred (BP 34¢); (6) cash ROE 2.9% (BP 2.7%), ex-notable items 6.7% (BP 7.6%); (7) Group NIM 2.13% (BP 2.09%); (8) credit impairment charge \$2.24bn/62bp GLA (as per guidance); (9) CIR 60% (BP 66%); and (10) CET1 ratio 10.8% (as per guidance). WBC's lower 1H20 cash earnings were mainly due to impairment charges for higher individually assessed and COVID-19 provisions, AUSTRAC provisions plus related costs and customer remediation and wealth restructuring costs (that were already flagged in separate trading updates last month). Given medium term uncertainties including economic headwinds, WBC's own brand of conservatism as well as following in the footsteps of ANZ and BOQ, it should not come as a great surprise to the market that WBC has deferred the decision on its interim dividend – so NO dividend will be paid in June 2020 AND the bank will review its dividend options over the course of the year (no timeline provided and this will likely put an end to its interim but not the final dividend).

The price target is increased by 6% to \$18.30 due to a 1.0% lower discount rate of 11.0% and DCF time creep. Changes to our forecasts are not material but the Hold rating is reinstated based on value (i.e. total expected return <15% and with the share price up by more than 16% since our Buy upgrade).

Cheat Sheet

Table 11 – Bank Cheat Sheet 1 (S&P 100 only)

	ANZ	CBA	NAB	WBC	SUN	BEN	BOQ	MQG
1 E&D (\$bn) (APRA Table 7d)								
Home	381	611	389	554	45	46	30	60
Other retail	51	38	14	34	0	4	15	8
Agriculture, forestry & fishing	37	22	48	23	4	6	0	0
Oil & gas	9	9	7	3	0	0	0	1
Mining	73	10	3	6	0	0	0	2
Mining services	2	1	1	2	0	0	0	0
Other commercial	524	410	439	468	17	8	6	78
Total	1,075	1,101	901	1,089	67	64	51	149
2020e growth (BP)	7%	3%	0%	-1%	-5%	-3%	-4%	-
2021e growth (BP)	2%	2%	0%	-3%	-2%	2%	2%	-
Domestic market share (APRA)								
Home - owner occupied	14%	26%	14%	21%	3%	3%	2%	2%
Home - investor	13%	24%	17%	28%	2%	2%	2%	3%
Credit card	18%	27%	13%	23%	0%	1%	0%	1%
Other consumer	16%	19%	19%	28%	3%	3%	0%	2%
Wholesale lending (non-financials)	14%	16%	21%	16%	1%	2%	1%	1%
Mortgage lending by State								
NSW / ACT	33%	36%	40%	41%	29%	25%	28%	-
VIC	33%	28%	32%	27%	11%	39%	15%	-
QLD	15%	19%	15%	16%	50%	15%	43%	-
WA	13%	11%	8%	9%	7%	9%	9%	-
SA / other	6%	6%	5%	7%	3%	12%	5%	-
Total	100%	100%	100%	100%	100%	100%	100%	-
2 Group funding (ex-SHE)								
Customer deposits as % of funding - Term	27%	22%	21%	23%	24%	35%	30%	-
Customer deposits as % of funding - Other	37%	47%	40%	45%	41%	40%	35%	-
Other as % of funding	36%	31%	39%	32%	35%	25%	35%	-
Total	100%	100%	100%	100%	100%	100%	100%	-
Customer deposits as % of GLA	87%	78%	73%	75%	68%	79%	69%	-
NIM (including large notable items)	1.69%	2.11%	1.78%	2.13%	1.92%	1.99%	1.89%	-
NSFR	118%	117%	116%	117%	119%	115%	112%	109%
Wholesale funding <12 month maturity	12%	13%	19%	13%	12%	19%	12%	-
2021e w/sale funding requirement (\$bn)	27	21	33	36	3	1	1	-
Liquidity Coverage Ratio (average)	139%	133%	136%	140%	130%	134%	135%	158%
Domestic market share - deposits (APRA)	13%	24%	16%	20%	2%	2%	1%	3%
3 Asset quality								
Bad debt charge as % of GLA	0.53%	0.80%	0.38%	0.62%	0.23%	0.20%	0.13%	-
Provisions as % of GLA	0.85%	0.72%	0.85%	0.80%	0.66%	0.56%	0.69%	-
90 days past due as % of GLA	0.55%	0.36%	0.64%	0.75%	0.96%	1.08%	0.62%	-
Commercial property exposure	4.3%	6.5%	6.7%	6.3%	4.5%	6.5%	6.8%	-
Texas Ratio	9.3%	8.6%	9.3%	9.7%	14.6%	13.0%	10.8%	-
Institutional loans by risk grade (estimate)								
AAA to BBB- (investment grade)	74%	66%	75%	64%	-	-	-	-
Other	26%	34%	25%	36%	-	-	-	-
Total	100%	100%	100%	100%	-	-	-	-
4 E&D by industry (\$bn)								
Agriculture, F&F & mining	54	42	59	33	4	6	-	-
Construction & property related	79	77	86	92	3	4	-	-
Entertainment, leisure & tourism	17	7	10	10	1	0	-	-
Financial	257	75	136	130	2	1	-	-
Manufacturing	55	14	21	31	0	0	-	-
Retail	409	649	391	596	45	50	-	-
Services	14	12	25	35	0	1	-	-
Sovereign	75	91	58	82	3	0	-	-
Trade	48	20	32	35	0	1	-	-
Transport & storage	23	20	28	21	0	0	-	-
Other	43	94	55	24	8	1	-	-
Total	1,075	1,101	901	1,089	67	64	51	149
Agriculture, F&F & mining	5%	4%	7%	3%	6%	9%	-	-
Construction & property related	7%	7%	10%	8%	4%	7%	-	-
Entertainment, leisure & tourism	2%	1%	1%	1%	1%	1%	-	-
Financial	24%	7%	15%	12%	3%	1%	-	-
Manufacturing	5%	1%	2%	3%	0%	0%	-	-
Retail	38%	59%	43%	55%	68%	78%	-	-
Services	1%	1%	3%	3%	1%	1%	-	-
Sovereign	7%	8%	6%	8%	4%	0%	-	-
Trade	5%	2%	4%	3%	0%	1%	-	-
Transport & storage	2%	2%	3%	2%	0%	0%	-	-
Other	4%	9%	6%	2%	12%	2%	-	-
Total	100%	100%	100%	100%	100%	100%	100%	100%
5 E&D by portfolio (\$bn)								
Retail	409	649	391	596	45	50	45	68
Corporate	274	187	118	212	6	0	0	49
Business / SME	60	99	198	88	11	13	0	23
Financial	257	75	136	110	2	1	2	8
Sovereign	75	91	58	82	3	0	3	2
Total	1,075	1,101	901	1,089	67	64	51	149
Retail	38%	59%	43%	55%	68%	78%	88%	46%
Corporate	25%	17%	13%	20%	9%	0%	0%	33%
Business / SME	6%	9%	22%	8%	17%	21%	0%	15%
Financial	24%	7%	15%	10%	3%	1%	4%	5%
Sovereign	7%	8%	6%	8%	4%	0%	7%	1%
Total	100%	100%	100%	100%	100%	100%	100%	100%
6 NPAT by segment								
Retail banking	53%	51%	29%	65%	22%	68%	36%	-
Wholesale banking	38%	44%	70%	35%	22%	32%	66%	-
Wealth	0%	3%	1%	0%	3%	0%	0%	-
Offshore (ex-New Zealand) & other	9%	3%	0%	0%	54%	0%	-2%	-
Total	100%	100%	100%	100%	100%	100%	100%	-
7 NPAT by geography								
Australia	76%	87%	84%	89%	74%	100%	100%	-
New Zealand	24%	11%	16%	11%	26%	0%	0%	-
Other	1%	2%	0%	0%	0%	0%	0%	-
Total	100%	100%	100%	100%	100%	100%	100%	-
Bank Group CIR (including large notable)	54%	44%	62%	60%	60%	59%	54%	60%
8 Capital management (last reported)								
APRA leverage ratio (>4%) (Tier 1 / E&D)	5.0%	5.5%	5.2%	5.7%	5.4%	6.9%	7.0%	5.3%
APRA CET1 (>10.5% MTB, >8.5% others)	10.8%	10.7%	10.4%	10.8%	9.0%	9.0%	9.9%	11.4%
Tier 1	12.5%	13.0%	12.0%	12.9%	10.8%	11.7%	11.5%	13.3%
International CET1	15.5%	16.2%	14.4%	15.8%	-	-	-	14.2%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 12 – Bank Cheat Sheet 2 (S&P 100 only)

	ANZ	CBA	NAB	WBC	SUN	BEN	BOQ	MQG
9 Pricing								
Shareprice	\$18.05	\$63.90	\$17.95	\$17.36	\$9.19	\$6.21	\$5.24	\$110.49
Price target	\$19.50	\$72.00	\$19.50	\$18.30	\$11.20	\$6.70	\$5.70	\$135.00
Target PB								
- FY20e	0.9	1.8	1.0	0.9	1.1	0.6	0.6	2.2
- FY21e	0.8	1.7	0.9	0.9	1.1	0.6	0.6	2.1
Target PE								
- FY20e	15.6	16.3	19.7	18.0	25.8	10.4	9.2	17.1
- FY21e	12.4	16.7	13.4	12.1	17.3	11.4	13.3	19.7
Target yield								
- FY20e	2.6%	4.2%	3.1%	4.4%	3.2%	6.7%	3.5%	3.2%
- FY21e	5.1%	4.2%	4.5%	5.5%	3.6%	6.0%	4.4%	2.8%
Expected return	13.6%	17.4%	12.8%	11.2%	26.2%	14.3%	13.5%	25.6%
BP recommendation	Buy	Buy	Buy	Hold	Buy	Hold	Hold	Buy
S&P long term Issuer Credit Rating (ICR)	AA-	AA-	AA-	AA-	A+	BBB+	BBB+	BBB (Bank A)
Moody's long term Issuer Credit Rating (ICR)	Aa3	Aa3	Aa3	Aa3	A1	A3	A3	A3 (Bank A2)
Market capitalisation (\$bn)	51	113	57	63	12	3	2	39
TSR								
1 week	9%	4%	8%	7%	2%	4%	4%	2%
1 month	15%	9%	11%	13%	8%	3%	8%	16%
3 months	-26%	-21%	-25%	-25%	-18%	-28%	-29%	-16%
1 year	-32%	-13%	-28%	-34%	-24%	-39%	-40%	-5%
BP estimates								
PB FY19 (x)	0.8	1.6	1.0	1.0	0.9	0.6	0.6	2.1
PB FY20e (x)	0.8	1.6	0.9	0.9	0.9	0.6	0.6	1.8
PB FY21e (x)	0.8	1.5	0.9	0.9	0.9	0.5	0.5	1.7
PB FY22e (x)	0.8	1.4	0.8	0.8	0.9	0.5	0.5	1.6
ROE FY19	11%	12%	10%	11%	8%	7%	8%	18%
ROE FY20e	6%	11%	5%	5%	4%	6%	7%	15%
ROE FY21e	7%	10%	8%	8%	6%	5%	5%	11%
ROE FY22e	8%	11%	8%	8%	8%	6%	5%	12%
NIM FY19	1.75%	2.10%	1.79%	2.13%	1.90%	1.96%	1.93%	-
NIM FY20e	1.62%	2.09%	1.75%	2.08%	1.94%	1.95%	1.89%	-
NIM FY21e	1.53%	2.01%	1.68%	2.00%	1.92%	1.86%	1.84%	-
NIM FY22e	1.50%	2.01%	1.65%	1.96%	1.88%	1.82%	1.81%	-
PE FY19 (x)	7.9	13.3	9.9	8.8	10.7	7.3	6.6	12.5
PE FY20e (x)	14.5	14.5	18.2	17.1	21.1	9.7	8.5	14.0
PE FY21e (x)	11.4	14.9	12.4	11.5	14.2	10.6	12.2	16.2
PE FY22e (x)	9.6	12.9	11.3	11.1	11.7	10.1	11.1	13.9
EPS FY19 (c)	228	481	182	198	86	85	80	883
EPS FY20e (c)	125	441	99	102	43	64	62	791
EPS FY21e (c)	158	430	145	151	65	59	43	684
EPS FY22e (c)	188	494	159	156	78	62	47	795
EPS growth FY19	2%	-6%	-13%	-16%	1%	-8%	-16%	17%
EPS growth FY20e	-45%	-8%	-46%	-49%	-50%	-24%	-22%	-10%
EPS growth FY21e	27%	-3%	47%	48%	49%	-8%	-31%	-14%
EPS growth FY22e	19%	15%	9%	4%	21%	5%	10%	16%
DPS FY19 (c)	160	431	166	174	78	70	65	575
DPS FY20e (c)	50	300	60	80	36	45	20	430
DPS FY21e (c)	100	300	89	100	40	40	25	375
DPS FY22e (c)	120	350	101	110	51	43	30	480
Yield FY19	8.9%	6.7%	9.2%	10.0%	8.5%	11.3%	12.4%	5.2%
Yield FY20e	2.8%	4.7%	3.3%	4.6%	3.9%	7.2%	7.2%	3.9%
Yield FY21e	5.5%	4.7%	4.9%	5.8%	4.4%	6.4%	4.8%	3.4%
Yield FY22e	6.6%	5.5%	5.6%	6.3%	5.5%	6.9%	5.7%	4.3%
Payout FY19	70%	90%	91%	88%	90%	82%	82%	65%
Payout FY20e	40%	68%	60%	79%	83%	70%	32%	54%
Payout FY21e	63%	70%	61%	66%	62%	68%	58%	55%
Payout FY22e	64%	71%	63%	70%	65%	70%	63%	60%
BDD as % of GLA FY15	0.19%	0.15%	0.14%	0.12%	0.11%	0.12%	0.18%	-
BDD as % of GLA FY16	0.33%	0.18%	0.15%	0.17%	0.03%	0.08%	0.16%	-
BDD as % of GLA FY17	0.21%	0.15%	0.14%	0.13%	0.01%	0.12%	0.11%	-
BDD as % of GLA FY18	0.11%	0.15%	0.13%	0.10%	0.05%	0.11%	0.09%	-
BDD as % of GLA FY19	0.13%	0.16%	0.15%	0.11%	0.02%	0.11%	0.09%	-
BDD as % of GLA FY20e	0.53%	0.37%	0.32%	0.48%	0.25%	0.08%	0.16%	-
BDD as % of GLA FY21e	0.45%	0.40%	0.32%	0.29%	0.17%	0.29%	0.22%	-
BDD as % of GLA FY22e	0.26%	0.23%	0.29%	0.22%	0.06%	0.16%	0.36%	-
Provisions as % of RWA FY15	1.0%	1.0%	1.0%	0.9%	1.2%	0.9%	1.3%	-
Provisions as % of RWA FY16	1.0%	1.0%	0.9%	0.9%	0.8%	1.0%	1.2%	-
Provisions as % of RWA FY17	1.0%	0.9%	0.9%	0.8%	0.7%	0.7%	1.1%	-
Provisions as % of RWA FY18	0.9%	0.8%	0.9%	0.7%	0.7%	0.8%	0.9%	-
Provisions as % of RWA FY19	1.0%	1.1%	1.0%	0.9%	0.7%	0.8%	0.9%	-
Provisions as % of RWA FY20e	1.4%	1.4%	1.4%	1.8%	1.1%	1.0%	1.0%	-
Provisions as % of RWA FY21e	1.7%	1.5%	1.6%	1.8%	0.7%	1.3%	1.3%	-
Provisions as % of RWA FY22e	1.8%	1.3%	1.4%	1.6%	0.7%	1.3%	1.2%	-
10 Strategy								
	Focus on retail and business banking in Australia and New Zealand, and selected institutional markets here and overseas	Focus on retail and business banking in Australia and New Zealand, and selected institutional markets here and overseas	Focus on retail and business (especially agribusiness) banking in Australia and New Zealand	Focus on retail and business banking in Australia and New Zealand, and selected institutional markets here and overseas	More of a GI now with smaller banking component; lately pursuing front end opportunities	Strong retail funding base to provide platform for growth in SME segment	Strong retail funding base to support growth in WA and VIC; well capitalised and provisioned	Moving towards annuity-style earnings; leveraged to global growth through asset management and infrastructure

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Financial summaries

Table 13 – ANZ

ANZ Bank						Share Price (\$)						18.05
As at						2-Jun-20						51,193
Market Cap (\$M)												
PROFIT AND LOSS						VALUATION DATA						
Y/e September 30 (\$m)	2018	2019	2020e	2021e	2022e	Y/e September 30	2018	2019	2020e	2021e	2022e	
Net interest income	14,514	14,339	14,362	14,115	14,046	Cash profit (continuing) (\$m)	6,487	6,470	3,536	4,483	5,338	
Other banking income	4,736	4,672	3,488	4,208	4,234	Statutory EPS (c)	222	210	127	153	193	
Total banking income	19,250	19,011	17,850	18,323	18,280	- Growth	1%	-5%	-39%	21%	26%	
Funds management income	0	0	0	0	0	Cash EPS (continuing) (c)	223	228	125	158	188	
Insurance income	117	18	0	0	0	- Growth	-4%	2%	-45%	27%	19%	
Operating income	19,367	19,029	17,850	18,323	18,280	P / E ratio (times)	8.1	7.9	14.5	11.4	9.6	
Operating expenses	-9,401	-9,071	-9,082	-8,916	-8,883	P / Book ratio (times)	0.9	0.8	0.8	0.8	0.8	
Credit impairment charge	-688	-795	-3,456	-3,036	-1,790	P / NTA ratio (times)	0.9	0.9	0.9	0.8	0.8	
Profit before income tax	9,278	9,163	5,313	6,370	7,607	Net DPS (c)	160	160	50	100	120	
Income tax expense	-2,775	-2,678	-1,775	-1,885	-2,267	Yield	8.9%	8.9%	2.8%	5.5%	6.6%	
Non-controlling interests	-16	-15	-2	-2	-2	Franking	100%	85%	35%	70%	70%	
Investment experience	0	0	0	0	0	Payout (cash basis, target 60-65%)	72%	70%	40%	63%	64%	
Cash profit (continuing)	6,487	6,470	3,536	4,483	5,338	CAPITAL ADEQUACY						
Discontinued operations	-682	-309	-90	0	0	Y/e September 30	2018	2019	2020e	2021e	2022e	
Cash profit	5,805	6,161	3,446	4,483	5,338	Risk weighted assets (\$m)	390,820	416,961	450,724	465,849	482,393	
Hedging, one off gains, etc.	595	-208	157	-130	130	Average risk weight	46%	46%	45%	45%	45%	
Statutory profit	6,400	5,953	3,603	4,353	5,468	Tier 1 ratio	13.4%	13.2%	12.9%	13.0%	13.0%	
CASHFLOW						CET1 capital ratio	11.4%	11.4%	11.2%	11.3%	11.4%	
Y/e September 30 (\$m)	2018	2019	2020e	2021e	2022e	Total capital ratio	15.2%	15.3%	15.9%	15.8%	15.8%	
Cash profit	5,805	6,161	3,446	4,483	5,338	Equity ratio	6.3%	6.2%	5.5%	5.5%	5.6%	
Increase in loans	-24,644	-9,640	-34,103	-11,241	-14,290	DIVISIONAL						
Increase in other assets	-6,796	-31,308	-74,852	-20,900	-22,173	Y/e September 30 (\$m)	2018	2019	2020e	2021e	2022e	
Capital expenditure	132	-91	-1,335	-99	-101	Australia						
Investing cashflow	-31,308	-41,039	-110,290	-32,239	-36,564	Net interest income	8,449	8,092	7,788	7,404	7,504	
Increase in deposits & borrowings	27,298	28,986	64,722	18,467	21,836	Other income	1,510	1,347	1,129	988	1,007	
Increase in other liabilities	18,228	7,580	104,497	11,547	12,380	Total banking income	9,959	9,439	8,917	8,392	8,511	
Ordinary equity raised	0	0	0	0	0	Operating expenses	-4,075	-4,074	-4,097	-4,007	-3,973	
Other	-3,435	-4,703	-903	-2,257	-2,990	Impairment expenses	-698	-712	-1,248	-852	-896	
Financing cashflow	42,091	31,863	168,317	27,756	31,226	Net profit before tax	5,186	4,653	3,572	3,532	3,642	
Net change in cash	16,588	-3,015	61,472	0	0	Corporate tax expense	-1,560	-1,458	-1,072	-1,060	-1,093	
Cash at end of period	84,636	81,621	143,093	143,093	143,093	Cash profit (continuing)	3,626	3,195	2,500	2,473	2,549	
BALANCE SHEET						Loans	341,310	331,871	324,030	328,089	332,180	
Y/e September 30 (\$m)	2018	2019	2020e	2021e	2022e	Deposits	202,732	208,005	210,057	216,359	222,850	
Cash and liquid assets	84,636	81,621	143,093	143,093	143,093	Asia Retail & Pacific						
Divisional gross loans	609,112	621,873	653,506	666,444	681,292	Net interest income	131	128	133	78	39	
Provisions	-3,443	-4,190	-6,396	-8,093	-8,651	Other income	100	104	75	40	20	
Other gross loans / inter div.	-732	-3,106	1,570	1,570	1,570	Total banking income	231	232	208	118	59	
Other IEA	239,921	267,169	343,191	364,091	386,264	Operating expenses	-128	-150	-112	-55	-27	
Intangibles	4,930	4,861	4,957	4,957	4,957	Impairment expenses	-3	1	-11	0	0	
PP&E	1,833	1,924	3,259	3,358	3,459	Net profit before tax	100	83	85	62	31	
Insurance assets	0	0	0	0	0	Corporate tax expense	-28	-24	-25	-19	-9	
Other assets	6,925	10,985	9,815	9,815	9,815	Cash profit (continuing)	72	59	60	44	22	
Total assets	943,182	981,137	1,152,995	1,185,235	1,221,799	Loans	2,114	2,120	1,060	530	265	
Divisional deposits & IBL	584,694	613,680	678,402	696,869	718,705	Deposits	3,467	3,546	1,773	887	443	
Other borrowings	289,822	295,556	396,878	408,425	420,805	Institutional						
Other liabilities	9,261	11,107	14,282	14,282	14,282	Net interest income	2,993	3,080	3,414	3,445	3,347	
Total liabilities	883,777	920,343	1,089,563	1,119,576	1,153,792	Other income	2,066	2,192	2,318	2,372	2,428	
Ordinary share capital	27,205	26,490	26,440	26,440	26,440	Total banking income	5,059	5,272	5,731	5,818	5,775	
Other equity instruments	0	0	0	0	0	Operating expenses	-2,948	-2,667	-2,562	-2,622	-2,684	
Reserves	323	1,629	2,851	2,851	2,851	Impairment expenses	44	2	-1,945	-2,008	-683	
Retained profits	31,737	32,664	34,131	36,357	38,705	Net profit before tax	2,155	2,607	1,225	1,187	2,409	
Minority interests	140	11	11	11	11	Corporate tax expense	-675	-779	-363	-368	-747	
Total shareholders' equity	59,405	60,794	63,433	65,659	68,007	Cash profit (continuing)	1,480	1,828	862	819	1,662	
Total sh. equity & liabs.	943,182	981,137	1,152,995	1,185,235	1,221,799	Loans	150,133	164,526	196,632	200,565	204,576	
WANOS - statutory (m)	2,888	2,834	2,833	2,836	2,836	Other IEA	276,607	346,094	455,118	464,221	473,505	
WANOS - underlying (m)	2,904	2,842	2,836	2,839	2,839	IBL	273,183	290,671	350,266	360,773	371,597	
PROFITABILITY RATIOS						Wealth Australia						
Y/e September 30	2018	2019	2020e	2021e	2022e	Net interest income	2					
Return on assets (cash, continuing)	0.7%	0.7%	0.3%	0.4%	0.4%	Other operating income	60					
Return on equity (cash, continuing)	11.0%	10.9%	5.8%	7.1%	8.2%	Net funds management income	0					
Leverage ratio	5.6%	5.7%	5.1%	5.1%	5.2%	Net insurance & other income	0					
Net interest margin (continuing)	1.87%	1.75%	1.62%	1.53%	1.50%	Total operating income	62					
Cost / income ratio (continuing)	49%	48%	51%	49%	49%	Operating expenses	-180					
Cost / average assets (continuing)	1.00%	0.92%	0.79%	0.75%	0.73%	Impairment expenses	0					
Growth in operating income	-2%	-2%	-6%	3%	0%	Net profit before tax	-118					
Growth in operating expenses	5%	-4%	0%	0%	0%	Corporate tax expense	35					
Jaws (continuing)	-7%	2%	-6%	4%	0%	Cash profit (continuing)	-83					
Effective tax rate	30%	29%	33%	30%	30%	FUM	0					
ASSET QUALITY						New Zealand						
Y/e September 30	2018	2019	2020e	2021e	2022e	Net interest income	2,651	2,736	2,853	2,938	3,056	
Impairment expense / GLA	0.11%	0.13%	0.53%	0.45%	0.26%	Other income	671	580	493	508	528	
Impairment expense / RWA	0.18%	0.19%	0.77%	0.65%	0.37%	Total operating income	3,322	3,316	3,346	3,446	3,585	
Total provisions (\$m)	3,443	4,190	6,396	8,093	8,651	Operating expenses	-1,205	-1,286	-1,377	-1,382	-1,399	
Total provisions / GLA	0.57%	0.67%	0.98%	1.21%	1.27%	Impairment expenses	-6	-87	-252	-175	-210	
Indiv ass prov / gross imp assets	43%	40%	45%	40%	30%	Net profit before tax	2,111	1,943	1,717	1,889	1,975	
IBL / IEA	104%	103%	108%	107%	107%	Corporate tax expense	-590	-544	-481	-529	-553	
Total provisions + GRCL / RWA	0.88%	1.00%	1.42%	1.74%	1.79%	Minority interests	0	0	0	0	0	
						Investment experience	0	0	0	0	0	
						Cash profit (continuing)	1,521	1,399	1,236	1,360	1,422	
						Loans	112,112	119,166	125,388	129,168	135,620	
						Deposits	82,630	87,456	92,023	94,796	99,532	
						Other IBL	22,682	24,002	24,284	24,054	24,284	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 14 – BEN

Bendigo and Adelaide						Share Price (A\$)						6.21
As at						2-Jun-20						3,291
Market Cap (A\$M)												
PROFIT AND LOSS						VALUATION DATA						
Y/e June 30 (\$m)	2018	2019	2020e	2021e	2022e	Y/e June 30	2018	2019	2020e	2021e	2022e	
Net interest income	1,306	1,308	1,336	1,275	1,281	NPAT (cash) (\$m)	445	416	322	313	331	
Fees and commissions	168	164	154	144	140	EPS (statutory underlying) (cps)	85	83	63	59	62	
Total banking income	1,474	1,472	1,490	1,420	1,421	- Growth	6%	-2%	-24%	-7%	5%	
Wealth solutions commissions	72	74	57	57	57	EPS (cash) (cps)	92	85	64	59	62	
Insurance commissions	0	0	0	0	0	- Growth	4%	-8%	-24%	-8%	5%	
Share of associates' profit	0	0	0	0	0	P / E ratio (times)	6.7	7.3	9.7	10.6	10.1	
Other revenue	42	54	57	53	51	P / Book ratio (times)	0.6	0.6	0.6	0.5	0.5	
Total operating income	1,588	1,600	1,605	1,530	1,529	P / NTA ratio (times)	0.8	0.8	0.8	0.7	0.7	
Fees and commissions	-35	-31	-21	-21	-21	Net DPS (cps)	70	70	45	40	43	
SAW	-497	-519	-544	-561	-577	Yield	11.3%	11.3%	7.2%	6.4%	6.9%	
Amortisation expense	-36	-38	-26	-17	-16	Franking	100%	100%	100%	100%	100%	
G&A expenses	-340	-371	-385	-389	-393	Payout (cash basis) (60-80%)	76%	82%	70%	68%	70%	
Underwriting expenses	0	0	0	0	0	CAPITAL ADEQUACY						
Impairment expenses	0	0	0	0	0	Y/e June 30	2018	2019	2020e	2021e	2022e	
Credit expenses	-71	-50	-174	-98	-50	Risk weighted assets (\$m)	38,256	37,483	37,863	38,843	39,861	
Net profit before income tax	608	591	455	444	472	Average risk weight	56%	54%	55%	55%	55%	
Corporate tax expense	-197	-186	-139	-133	-142	Tier 1 ratio	11.0%	11.3%	12.1%	12.1%	12.1%	
Minority interests	0	0	0	0	0	CET1 capital ratio	8.6%	8.9%	9.8%	9.8%	9.9%	
NPAT (statutory underlying)	411	405	316	311	330	Total capital ratio	12.9%	13.1%	13.9%	13.9%	13.8%	
Adjustments						Equity ratio	7.9%	7.8%	8.1%	8.1%	8.1%	
- Dividends on pref shares	0	0	0	0	0	PROFITABILITY RATIOS						
- Dividends on CPS2	0	0	0	0	0	Y/e June 30	2018	2019	2020e	2021e	2022e	
- Amortisation expense & other	34	10	7	2	1	Return on assets	0.6%	0.6%	0.4%	0.4%	0.4%	
NPAT (cash)	445	416	322	313	331	Return on equity	8.2%	7.5%	5.8%	5.3%	5.5%	
CASHFLOW						Leverage ratio	6.0%	6.0%	6.5%	6.5%	6.5%	
Y/e June 30 (\$m)	2018	2019	2020e	2021e	2022e	Net interest margin	1.98%	1.96%	1.95%	1.86%	1.82%	
NPAT (statutory basis)	411	405	316	311	330	Cost / income ratio	57%	60%	61%	65%	66%	
Increase in loans	-840	-199	1,761	-1,195	-1,269	Cost / average assets	1.27%	1.33%	1.33%	1.34%	1.33%	
Increase in other assets	935	-803	-335	-563	-608	Growth in operating income	6%	0%	0%	-5%	0%	
Capital expenditure	8	7	-213	-8	-9	Growth in operating expenses	2%	5%	2%	1%	2%	
Investing cashflow	103	-995	1,213	-1,766	-1,886	Jaws (underlying)	4%	-5%	-2%	-6%	-2%	
Increase in deposits & borrowings	235	1,037	3,596	1,925	1,983	Effective tax rate	32%	31%	31%	30%	30%	
Increase in other liabilities	-406	-83	-3,898	-339	-252	ASSET QUALITY						
Ordinary equity raised	0	0	300	0	0	Y/e June 30	2018	2019	2020e	2021e	2022e	
Other	-202	-430	-280	-131	-175	Impairment expense / GLA	0.11%	0.08%	0.29%	0.16%	0.08%	
Financing cashflow	-373	524	-281	1,455	1,556	Impairment expense / RWA	0.18%	0.13%	0.46%	0.25%	0.13%	
Net change in cash	141	-65	1,247	0	0	Total provisions + GRCL (\$m)	308	363	493	510	478	
Cash at end of period	1,137	1,072	2,319	2,319	2,319	Total provisions + GRCL / RWA	0.80%	0.97%	1.30%	1.31%	1.20%	
						Total provisions + GRCL / loans	0.50%	0.58%	0.82%	0.83%	0.76%	
						Indiv ass prov / gross imp assets	36%	41%	42%	42%	42%	
						IBL / IEA	96%	97%	98%	98%	98%	
BALANCE SHEET						INTERIMS						
Y/e June 30 (\$m)	2018	2019	2020e	2021e	2022e		1H18	2H18	1H19	2H19	1H20	
Cash and liquid assets	1,137	1,072	2,319	2,319	2,319	Net interest income	658	648	659	650	676	
Divisional gross loans	61,794	62,110	60,472	61,682	62,915	Fees and commissions	85	83	85	79	79	
Provisions	-168	-286	-408	-423	-388	Total banking income	743	731	743	729	756	
Other gross loans / inter div.	168	286	278	278	278	Wealth solutions commissions	35	37	37	36	29	
Other IEA	5,694	6,258	6,893	7,456	8,064	Insurance commissions	0	0	0	0	0	
Intangibles	1,650	1,686	1,585	1,567	1,551	Share of associates' profit	0	0	0	0	0	
PP&E	70	63	277	285	294	Other revenue	25	17	23	32	30	
Insurance assets	0	0	0	0	0	Total operating income	803	785	803	796	815	
Other assets	1,095	1,216	922	922	922	Fees and commissions	-18	-18	-17	-14	-10	
Total assets	71,440	72,405	72,338	74,086	75,956	SAW	-245	-252	-256	-263	-274	
Divisional deposits	59,530	60,567	64,162	66,087	68,070	Amortisation expense	-20	-16	-18	-20	-18	
Other borrowings	5,522	5,588	1,645	1,306	1,053	G&A expenses	-169	-171	-175	-196	-187	
Other liabilities	768	619	664	664	664	Underwriting expenses	0	0	0	0	0	
Total liabilities	65,820	66,773	66,472	68,057	69,787	Impairment expenses	0	0	0	0	0	
Ordinary share capital	4,523	4,571	4,914	4,938	4,969	Credit expenses	-46	-24	-26	-25	-23	
Other equity instruments	0	0	0	0	0	Net profit before income tax	305	303	312	279	303	
Reserves	-19	-4	3	3	3	Corporate tax expense	-100	-97	-98	-88	-93	
GRCL	140	77	85	88	90	Minority interests	0	0	0	0	0	
Retained profits	976	987	864	1,001	1,107	NPAT (statutory underlying)	205	206	214	192	209	
Minority interests	0	0	0	0	0	Adjustments	0	0	0	0	0	
Total shareholders' equity	5,620	5,632	5,867	6,029	6,169	- Dividends on pref shares	0	0	0	0	0	
Total sh. equity & liabs.	71,440	72,405	72,338	74,086	75,956	- Dividends on CPS2	0	0	0	0	0	
WANOS - statutory (m)	483	489	502	531	536	- Amortisation expense & other	20	14	6	4	6	
WANOS - cash (m)	483	489	502	531	536	NPAT (cash)	225	220	220	196	215	
NPAT (cash, diluted)	470	440	347	337	356							
WANOS - diluted (m)	558	558	558	558	558							
EPS (cash, diluted) (cps)	84	79	62	60	64							

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 15 – BOQ

Bank of Queensland						Share Price (A\$)						5.24
As at						Market Cap (A\$M)						2,381
2-Jun-20												
PROFIT AND LOSS						VALUATION DATA						
Y/e August 31 (\$m)	2018	2019	2020e	2021e	2022e	Y/e August 31	2018	2019	2020e	2021e	2022e	
Net interest income	965	961	954	914	926	NPAT (cash basis) (\$m)	372	320	274	197	219	
Other banking income	145	128	109	105	108	EPS (statutory basis) (cps)	85	74	35	40	45	
Total banking income	1,110	1,089	1,064	1,020	1,033	- Growth	-6%	-13%	-52%	14%	11%	
Funds management income	0	0	0	0	0	EPS (cash basis) (cps)	95	80	62	43	47	
Other income	0	0	0	0	0	- Growth	-3%	-16%	-22%	-31%	10%	
Total operating income	1,110	1,089	1,064	1,020	1,033	P / E ratio (times)	5.5	6.6	8.5	12.2	11.1	
Operating expenses	-527	-550	-574	-578	-583	P / Book ratio (times)	0.6	0.6	0.6	0.5	0.5	
Impairment expenses	-41	-74	-96	-161	-137	P / NTA ratio (times)	0.8	0.8	0.7	0.7	0.6	
Net profit before income tax	542	465	394	281	313	Net DPS (cps)	76	65	20	25	30	
Corporate tax expense	-170	-145	-121	-84	-94	Yield	14.5%	12.4%	3.8%	4.8%	5.7%	
Minority interests	0	0	0	0	0	Franking	100%	100%	100%	100%	100%	
Cash earnings after tax	372	320	274	197	219	Payout (cash basis, target 70-80%)	81%	82%	33%	58%	64%	
Adjustments	0	0	0	0	0	CAPITAL ADEQUACY						
- Amort'n of acquisition FVA	-7	-6	-4	0	0	Y/e August 31	2018	2019	2020e	2021e	2022e	
- H/O restructuring & other costs	0	-1	-64	0	0	Risk weighted assets (\$m)	29,669	30,533	29,431	30,244	31,091	
- NSW OMB restructuring costs	0	0	0	0	0	Average risk weight	58%	57%	58%	58%	58%	
- Integration/DD costs	-1	0	0	0	0	Tier 1 ratio	11.0%	10.7%	12.4%	12.4%	12.4%	
- Gain on VISA IPO	0	0	0	0	0	CET1 capital ratio	9.3%	9.0%	10.7%	10.7%	10.8%	
- Other	-28	-15	-50	-12	-12	Total capital ratio	12.8%	12.4%	14.2%	14.1%	14.1%	
Statutory NPAT	336	298	156	185	207	Equity ratio	7.3%	6.9%	8.2%	8.1%	8.1%	
Add: RePS dividends & other	0	0	0	0	0	PROFITABILITY RATIOS						
Add: convertible note dividends	0	0	0	0	0	Y/e August 31	2018	2019	2020e	2021e	2022e	
Add: PEPS dividends	0	0	0	0	0	Return on assets	0.7%	0.6%	0.5%	0.4%	0.4%	
Add: Distributions & other	59	43	137	32	32	Return on equity	9.9%	8.3%	6.6%	4.6%	5.0%	
Cash earnings after tax (diluted)	395	341	293	217	239	ROTE	12.9%	10.8%	8.4%	5.6%	6.0%	
CASHFLOW						Leverage ratio	6.3%	6.0%	7.1%	7.1%	7.1%	
Y/e August 31 (\$m)	2018	2019	2020e	2021e	2022e	Net interest margin	1.98%	1.93%	1.89%	1.84%	1.81%	
NPAT (statutory basis)	372	320	274	197	219	Cost / income ratio	47%	51%	54%	57%	56%	
Increase in loans	-1,488	-905	2,532	-906	-932	Cost / average assets	1.01%	1.01%	1.07%	1.08%	1.06%	
Increase in other assets	464	-1,606	689	-522	-565	Growth in operating income	1%	-2%	-2%	-4%	1%	
Capital expenditure	3	5	-116	0	0	Growth in operating expenses	3%	4%	4%	1%	1%	
Investing cashflow	-1,021	-2,506	3,104	-1,428	-1,497	Jaws	-2%	-6%	-7%	-5%	0%	
Increase in deposits & borrowings	848	320	172	1,155	1,190	Effective tax rate	31%	31%	31%	30%	30%	
Increase in other liabilities	406	2,294	-3,861	137	145	ASSET QUALITY						
Ordinary equity raised	11	0	336	0	0	Y/e August 31	2018	2019	2020e	2021e	2022e	
Other	-318	-366	-165	-61	-57	Impairment expense / GLA	0.09%	0.16%	0.22%	0.36%	0.30%	
Financing cashflow	947	2,248	-3,518	1,231	1,278	Impairment expense / RWA	0.14%	0.24%	0.33%	0.53%	0.44%	
Net change in cash	298	62	-140	0	0	Total provisions + GRCL (\$m)	260	295	384	353	314	
Cash at end of period	1,212	1,274	1,134	1,134	1,134	Total provisions + GRCL / RWA	0.88%	0.97%	1.30%	1.17%	1.01%	
BALANCE SHEET						Indiv ass prov / gross imp assets	52%	43%	43%	43%	43%	
Y/e August 31 (\$m)	2018	2019	2020e	2021e	2022e	IBL / IEA	96%	97%	95%	95%	95%	
Cash and liquid assets	1,212	1,274	1,134	1,134	1,134	INTERIMS						
Divisional gross loans	45,279	46,216	43,771	44,646	45,539	1H18	2H18	1H19	2H19	1H20		
Provisions	-201	-233	-320	-289	-250	Net interest income	475	490	476	485	483	
Other gross loans / inter div.	0	0	0	0	0	Other banking income	75	70	65	63	58	
Other IEA	5,472	7,098	6,401	6,924	7,488	Total banking income	550	560	541	548	541	
Intangibles	875	924	894	858	808	Funds management income	0	0	0	0	0	
PP&E	57	52	168	168	168	Insurance income	0	0	0	0	0	
Insurance assets	0	0	0	0	0	Total operating income	550	560	541	548	541	
Other assets	286	266	274	274	274	Operating expenses	-262	-265	-268	-282	-292	
Total assets	52,980	55,597	52,323	53,715	55,162	Impairment expenses	-22	-19	-30	-44	-30	
Divisional deposits	38,017	38,337	38,509	39,664	40,854	Net profit before income tax	266	276	243	222	219	
Other borrowings	10,686	12,958	8,978	9,116	9,261	Corporate tax expense	-84	-86	-76	-69	-68	
Other liabilities	421	443	562	562	562	Minority interests	0	0	0	0	0	
Total liabilities	49,124	51,738	48,049	49,342	50,677	Cash earnings after tax	182	190	167	153	151	
Ordinary share capital	3,418	3,497	3,868	3,896	3,928	Adjustments	0	0	0	0	0	
Other equity instruments	0	0	0	0	0	- Amort'n of acquisition FVA	-5	-2	-4	-2	-2	
Reserves	38	213	178	178	178	- H/O restructuring & other costs	0	0	0	-1	-15	
Retained profits	400	149	228	298	379	- NSW OMB restructuring costs	0	0	0	0	0	
Minority interests	0	0	0	0	0	- Integration/DD costs	0	-1	0	0	0	
Total shareholders' equity	3,856	3,859	4,274	4,373	4,485	- Gain on VISA IPO	0	0	0	0	0	
Total sh. equity & liabs.	52,980	55,597	52,323	53,715	55,162	- Other	-3	-25	-7	-8	-41	
WANOS - statutory (m)	393	402	441	457	463	Statutory NPAT	174	162	156	142	93	
WANOS - dil. normalised (m)	442	459	510	526	532	Add: RePS dividends & other	0	0	0	0	0	
						Add: convertible note dividends	0	0	0	0	0	
						Add: PEPS dividends	0	0	0	0	0	
						Add: Distributions & other	19	40	21	22	67	
						Cash earnings after tax (diluted)	193	202	177	164	160	
						EPS (cash basis) (cps)	46	48	42	38	35	
						Return on equity	9.9%	9.9%	8.8%	7.8%	7.5%	
						Net interest margin	1.97%	1.98%	1.94%	1.92%	1.89%	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 16 – CBA

Commonwealth Bank of Australia						Share Price (A\$)					63.90
As at						Market Cap (A\$M)					113,118
2-Jun-20											
PROFIT AND LOSS						VALUATION DATA					
Y/e June 30 (\$m)	2018	2019	2020e	2021e	2022e	Y/e June 30	2018	2019	2020e	2021e	2022e
Net interest income	18,342	18,120	18,665	18,517	18,776	NPAT (cash basis) (\$m)	9,412	8,706	7,825	7,610	8,741
Other banking income	5,215	5,068	5,280	5,407	5,510	NPAT (cash basis, continuing) (\$m)	8,915	8,492	7,808	7,610	8,741
Total banking income	23,557	23,188	23,945	23,924	24,286	EPS (statutory basis) (cps)	534	486	537	517	581
Funds management income	1,119	1,072	979	1,010	1,048	- Growth	-7%	-9%	11%	-4%	12%
Insurance income	238	147	91	120	120	EPS (cash basis) (cps)	539	493	442	430	494
Total operating income	24,914	24,407	25,015	25,054	25,453	- Growth	-6%	-8%	-10%	-3%	15%
Operating expenses	-10,995	-11,269	-11,095	-11,169	-11,245	EPS (cash basis, continuing) (cps)	510	481	441	430	494
Loan impairment expense	-1,079	-1,201	-2,876	-3,119	-1,831	- Growth	-9%	-6%	-8%	-3%	15%
Net profit before income tax	12,840	11,937	11,044	10,766	12,377	P / E ratio (times)	11.9	13.0	14.5	14.9	12.9
Corporate tax expense	-3,920	-3,437	-3,243	-3,163	-3,643	P / Book ratio (times)	1.7	1.6	1.6	1.5	1.4
Minority interests	-13	-12	0	0	0	P / NTA ratio (times)	1.9	1.8	1.8	1.7	1.6
Discontinued operations	497	214	17	0	0	Net DPS (cps)	431	431	300	300	350
Investment experience	8	4	6	7	7	Yield	6.7%	6.7%	4.7%	4.7%	5.5%
NPAT (cash basis)	9,412	8,706	7,825	7,610	8,741	Franking	100%	100%	100%	100%	100%
Adjustments	-83	-135	1,687	1,540	1,540	Payout (cash basis, target 70-80%)	80%	87%	68%	70%	71%
NPAT (statutory basis)	9,329	8,571	9,512	9,150	10,281	CAPITAL ADEQUACY					
CASHFLOW						Y/e June 30	2018	2019	2020e	2021e	2022e
Y/e June 30 (\$m)	2018	2019	2020e	2021e	2022e	Risk weighted assets (\$m)	458,612	452,762	485,101	493,938	505,598
NPAT (cash basis)	9,412	8,706	7,825	7,610	8,741	Average risk weight	49%	48%	51%	51%	51%
Increase in loans	-16,228	-8,198	-20,155	-12,470	-19,224	Tier 1 ratio	12.3%	12.7%	13.0%	13.6%	14.1%
Increase in other assets	5,717	-1,487	12,998	-3,893	-4,325	CET1 capital ratio	10.1%	10.7%	10.8%	11.4%	11.9%
Capital expenditure	1,297	193	-2,900	-160	-165	Total capital ratio	15.0%	15.5%	16.1%	16.6%	17.0%
Investing cashflow	-9,214	-9,492	-10,057	-16,523	-23,713	Equity ratio	7.0%	7.1%	7.1%	7.4%	7.7%
Increase in deposits & borrowings	-13,090	32,083	37,346	19,391	21,579	DIVISIONAL					
Increase in other liabilities	7,737	-32,535	-21,121	-6,707	-2,394	Y/e June 30 (\$m)	2018	2019	2020e	2021e	2022e
Ordinary equity raised	0	0	0	0	0	Retail Banking Services (underlying)					
Other	-4,278	-5,792	-6,274	-3,771	-4,213	Net interest income	9,649	8,754	9,417	9,242	9,343
Financing cashflow	-9,631	-6,244	9,950	8,913	14,972	Other income	1,821	1,546	1,412	1,443	1,477
Net change in cash	-9,433	-7,030	7,718	0	0	Total banking income	11,470	10,300	10,829	10,684	10,820
Cash at end of period	36,417	29,387	37,105	37,105	37,105	Operating expenses	-4,102	-4,040	-4,129	-4,085	-4,183
BALANCE SHEET						Loan impairment expense	-652	-672	-663	-827	-864
Y/e June 30 (\$m)	2018	2019	2020e	2021e	2022e	Net profit before tax	6,716	5,588	6,037	5,772	5,772
Cash and liquid assets	36,417	29,387	37,105	37,105	37,105	Corporate tax expense	-2,013	-1,681	-1,812	-1,732	-1,732
Divisional gross loans	744,315	753,679	775,692	789,052	807,537	Cash net profit after tax	4,703	3,907	4,224	4,040	4,041
Provisions	-3,633	-4,799	-6,657	-7,547	-8,809	Home loans	364,840	369,236	383,721	389,874	397,671
Divisional IEA	36,873	38,455	46,670	47,605	48,731	Consumer & other loans	25,703	15,213	14,979	15,279	15,584
Other IEA & other loans	122,296	34,876	36,248	39,206	42,405	Deposits	239,627	218,803	228,508	235,363	242,424
Intangibles	9,090	7,965	7,729	7,729	7,729	Deposits non bearing interest	23,909	23,940	28,770	29,633	30,522
PP&E	2,576	2,383	5,283	5,443	5,607	B&B / IB&M					
Insurance assets	372	0	0	0	0	Net interest income	6,549	7,068	7,070	7,025	7,123
Other assets	26,859	114,556	91,971	91,971	91,971	Other income	2,662	2,591	2,750	2,812	2,883
Total assets	975,165	976,502	994,041	1,010,563	1,034,277	Total banking income	9,211	9,659	9,820	9,837	10,006
Divisional deposits & borrowings	603,310	635,394	672,739	692,130	713,709	Operating expenses	-3,297	-3,618	-3,595	-3,693	-3,648
Other borrowings	288,728	258,065	237,027	230,320	227,926	Loan impairment expense	-327	-401	-893	-993	-844
Other liabilities	15,267	13,394	13,311	13,311	13,311	Net profit before tax	5,587	5,640	5,332	5,151	5,514
Total liabilities	907,305	906,853	923,078	935,761	954,947	Corporate tax expense	-1,572	-1,592	-1,563	-1,510	-1,617
Ordinary share capital	37,270	38,020	38,126	38,126	38,126	Cash net profit after tax	4,015	4,048	3,768	3,640	3,897
Other equity instruments	0	0	0	0	0	Loans	277,417	287,227	289,359	293,625	299,498
Reserves	1,676	3,092	1,910	1,910	1,910	Other IEA	27,821	30,335	38,076	38,837	39,614
Retained profits	28,360	28,482	30,876	34,715	39,243	IBL	246,407	273,854	289,035	297,706	306,637
Minority interests	554	55	51	51	51	Deposits non bearing interest	20,601	42,180	45,337	46,698	48,098
Total shareholders' equity	67,860	69,649	70,963	74,802	79,330	Wealth Management					
Total sh. equity & liabs.	975,165	976,502	994,041	1,010,563	1,034,277	Funds management income	841	862	839	854	879
WANOS - statutory (m)	1,746	1,765	1,770	1,770	1,770	Insurance income	0	0	0	0	0
WANOS - cash (m)	1,747	1,766	1,770	1,770	1,770	Total operating income	841	862	839	854	879
PROFITABILITY RATIOS						Volume expenses	0	0	0	0	0
Y/e June 30	2018	2019	2020e	2021e	2022e	Operating expenses	-490	-649	-650	-650	-650
Return on assets (continuing)	0.9%	0.9%	0.8%	0.8%	0.9%	Net profit before tax	351	213	189	204	229
Return on equity (continuing)	13.7%	12.5%	11.1%	10.4%	11.2%	Corporate tax expense	-104	-67	-56	-61	-69
Leverage ratio	5.8%	5.9%	6.4%	6.7%	6.9%	Investment experience	8	18	18	19	19
Net interest margin (continuing)	2.15%	2.10%	2.09%	2.01%	2.01%	Cash net profit after tax	255	164	151	161	180
Cost / income ratio	44%	46%	44%	45%	44%	FUA	147,999	155,468	160,132	164,936	169,884
Cost / average assets	1.14%	1.15%	1.12%	1.11%	1.09%	New Zealand					
Growth in operating income	-7%	-2%	2%	0%	2%	Net interest income	1,760	1,909	1,948	2,021	2,080
Growth in operating expenses	-3%	2%	-2%	1%	1%	Other income	415	442	440	474	472
Jaws	-4%	-5%	4%	-1%	1%	Total banking income	2,175	2,351	2,388	2,495	2,552
ASSET QUALITY						Funds management income	112	130	143	156	168
Y/e June 30	2018	2019	2020e	2021e	2022e	Insurance income	0	0	0	0	0
Loan impairment expense / GLA	0.14%	0.16%	0.37%	0.40%	0.23%	Total operating income	2,287	2,481	2,532	2,651	2,720
Loan impairment expense / RWA	0.24%	0.27%	0.59%	0.63%	0.36%	Operating expenses	-860	-912	-959	-940	-964
Total provisions (\$m)	3,633	4,799	6,657	7,547	6,809	Loan impairment expense	-74	-102	-59	-99	-123
Total provisions / RWA	0.79%	1.06%	1.37%	1.53%	1.35%	Net profit before tax	1,353	1,467	1,514	1,612	1,633
Indiv ass prov / gross imp assets	27%	25%	30%	30%	30%	Corporate tax expense	-378	-408	-423	-451	-457
IBL / IEA	99%	109%	107%	106%	106%	Minority interests	0	0	0	0	0
Total provisions + GRCL / GLA	0.49%	0.64%	0.86%	0.96%	0.84%	Investment experience	0	0	0	0	0
						Cash net profit after tax	975	1,059	1,091	1,161	1,176
						Loans	76,355	82,003	87,633	90,274	94,784
						Other IEA	9,052	8,120	8,594	8,768	9,117
						Deposits	51,332	54,961	58,169	59,346	61,711
						Other IBL	21,434	21,656	22,920	23,384	24,316
						Effective tax rate	31%	29%	29%	29%	29%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 17 – MQG

Macquarie Group						Share Price (A\$)					110.49
As at						2-Jun-20					39,156
Market Cap (A\$M)											
PROFIT AND LOSS						VALUATION DATA					
Y/e March 31 (\$m)	2019	2020	2021e	2022e	2023e	Y/e March 31	2019	2020	2021e	2022e	2023e
Net interest income	1,760	1,859	2,117	2,271	2,381	Profit attributable to ordinary equity holders of MQG (\$m)	2,982	2,731	2,420	2,797	3,069
Net trading income	2,791	2,861	2,793	2,899	2,910	EPS (cps)	883	791	684	795	874
Fee & commission income						- Growth	17%	-10%	-14%	16%	10%
- Base fees	1,778	2,021	1,912	1,963	2,061	EPS (diluted) (cps)	868	765	661	759	831
- Performance fees	765	821	709	728	764	- Growth	17%	-12%	-14%	15%	9%
- M&A, advisory & u/w fees	1,023	951	835	818	842	P / E ratio (times)	12.5	14.0	16.2	13.9	12.6
- Brokerage & commissions	1,222	1,271	1,309	1,348	1,389	P / Book ratio (times)	2.1	1.8	1.7	1.6	1.5
- Other fee and commission income	492	457	474	492	512	P / NTA ratio (times)	2.4	2.1	2.0	1.9	1.8
- Income from life business, etc.	0	0	0	0	0	Dividend per ordinary share (cps)	575	430	375	480	570
- Other revenue	3,422	2,892	2,863	2,859	2,907	Yield	5.2%	3.9%	3.4%	4.3%	5.2%
Net operating income	13,253	13,133	13,012	13,378	13,766	Franking	45%	40%	40%	40%	40%
Total operating expenses	-8,887	-8,871	-9,166	-9,349	-9,511	Payout (target 60-80%)	65%	54%	55%	60%	65%
Net credit & other impairment charges	-499	-808	-696	-394	-267	CAPITAL ADEQUACY					
Operating profit before income tax	3,867	3,454	3,149	3,636	3,988	Y/e March 31	2019	2020	2021e	2022e	2023e
Income tax expense	-879	-728	-715	-825	-905	Risk weighted assets (\$m)	77,517	95,618	101,943	108,077	113,873
Loss/(profit) attributable to non-controlling interests	-6	5	-14	-14	-14	Average risk weight	49%	46%	46%	46%	46%
Profit attributable to ordinary equity holders of MQG	2,982	2,731	2,420	2,797	3,069	Tier 1 ratio	13.5%	13.6%	13.9%	14.4%	14.7%
Adjustment	67	102	98	98	98	CET1 capital ratio (Bank)	11.4%	12.2%	12.7%	13.1%	13.5%
Profit used in calculating diluted EPS (2012+)	3,049	2,833	2,518	2,895	3,167	Equity ratio	9.3%	8.5%	8.6%	8.6%	8.7%
CASHFLOW						DIVISIONAL					
Y/e March 31 (\$m)	2019	2020	2021e	2022e	2023e	Y/e March 31 (\$m)	2019	2020	2021e	2022e	2023e
NPAT (reported basis)	2,982	2,731	2,420	2,797	3,069	Macquarie Securities					
Increase in loans	15,448	-12,312	-7,364	-6,532	-5,304	Net trading income					
Increase in other assets	-26,991	-35,861	-5,959	-6,445	-6,971	Brokerage & commissions					
Capital expenditure	6,725	-343	-152	-157	-162	Other revenue					
Investing cashflow	-4,818	-48,516	-13,475	-13,135	-12,436	Total operating income					
Increase in deposits & borrowings	7,700	10,500	7,029	6,384	5,412	Operating expenses					
Increase in other liabilities	-1,452	44,125	5,195	5,460	5,817	Net profit contribution b/4 OEI					
Ordinary equity raised	0	1,670	0	0	0	Cost ratio					
Other	-3,836	-2,218	-1,169	-1,506	-1,860	Macquarie Capital					
Financing cashflow	2,412	54,077	11,055	10,338	9,368	M&A, advisory & u/w fees	1,023	951	835	818	842
Net change in cash	576	8,292	0	0	0	Other revenue	1,994	1,222	989	1,030	1,102
Cash at end of period	39,135	47,427	47,427	47,427	47,427	Total operating income	3,017	2,173	1,824	1,847	1,944
BALANCE SHEET						Operating expenses	-1,073	-1,168	-991	-1,014	-1,052
Y/e March 31 (\$m)	2019	2020	2021e	2022e	2023e	Impairment expenses	-183	-267	-501	-233	-100
Cash and liquid assets	39,135	47,427	47,427	47,427	47,427	Net profit contribution b/4 OEI	1,761	738	332	601	792
Divisional gross loans	62,500	75,300	82,830	89,456	94,824	Cost ratio	36%	54%	54%	55%	54%
Provisions	-618	-1,106	-1,272	-1,366	-1,430	Macquarie Asset Management					
Other IEA	68,422	73,026	78,985	85,430	92,401	Base fees	1,778	2,021	1,912	1,963	2,061
Intangibles	2,031	3,268	3,268	3,268	3,268	Performance fees	765	821	709	728	764
PP&E	4,701	5,044	5,196	5,354	5,515	Other revenue	784	890	866	866	866
Insurance assets	0	0	0	0	0	Total operating income	3,327	3,732	3,487	3,557	3,691
Other assets	21,586	52,843	52,843	52,843	52,843	Operating expenses	-1,453	-1,554	-1,508	-1,548	-1,602
Total assets	197,757	255,802	269,277	282,412	294,848	Impairment expenses	0	0	0	0	0
Divisional deposits	53,400	63,900	70,929	77,313	82,724	Net profit contribution b/4 OEI	1,874	2,178	1,979	2,009	2,089
Other borrowings	103,986	148,667	153,862	159,322	165,139	Cost ratio	44%	42%	43%	44%	43%
Other liabilities	22,007	21,451	21,451	21,451	21,451	Commodities and Global Markets					
Total liabilities	179,393	234,018	246,242	258,086	269,314	Net trading income	2,940	2,939	2,939	2,939	2,950
Ordinary share capital	6,174	7,844	7,844	7,844	7,844	Other revenue	1,659	1,764	1,817	1,871	1,928
Other equity instruments	7	7	7	7	7	Total operating income	4,599	4,703	4,756	4,810	4,878
Reserves	1,773	2,773	2,773	2,773	2,773	Operating expenses	-2,689	-2,699	-2,832	-2,902	-2,975
Retained profits	9,807	10,439	11,690	12,981	14,189	Impairment expenses	-165	-258	-59	-59	-59
Minority interests	603	721	721	721	721	Net profit contribution b/4 OEI	1,745	1,746	1,865	1,850	1,844
Total shareholders' equity	18,364	21,784	23,035	24,326	25,534	Cost ratio	58%	57%	60%	60%	61%
Total sh. equity & liabs.	197,757	255,802	269,277	282,412	294,848	Corporate & Asset Finance					
WANOS - statutory (m)	324	333	340	340	340	Net interest income					
WANOS - diluted (m)	351	371	381	381	381	Net operating lease income					
PROFITABILITY RATIOS						Other revenue					
Y/e March 31	2019	2020	2021e	2022e	2023e	Total operating income					
Return on assets	1.5%	1.1%	0.9%	1.0%	1.1%	Operating expenses					
Return on equity	18.0%	14.5%	11.4%	12.4%	12.9%	Impairment expenses					
Leverage ratio	5.3%	5.1%	5.3%	5.6%	5.7%	Net profit contribution b/4 OEI					
Cost / income ratio	67%	68%	70%	70%	69%	Cost ratio					
Cost / average assets	4.41%	3.73%	3.48%	3.39%	3.30%	Banking & Financial Services					
Growth in operating income	19%	-1%	-1%	3%	3%	Net interest income	1,678	1,728	1,813	1,907	1,977
Growth in operating expenses	19%	0%	3%	2%	2%	Base fees	0	0	0	0	0
Jaws	0%	-1%	-4%	1%	1%	Commission income	492	457	474	492	512
Effective tax rate	23%	21%	23%	23%	23%	Other revenue	0	0	0	0	0
ASSET QUALITY						Total operating income	2,170	2,185	2,287	2,400	2,489
Y/e March 31	2019	2020	2021e	2022e	2023e	Operating expenses	-1,347	-1,267	-1,286	-1,335	-1,379
Impairment expense / GLA	0.80%	1.07%	0.84%	0.44%	0.28%	Impairment expenses	-67	-148	-136	-102	-108
Impairment expense / RWA	0.64%	0.85%	0.68%	0.36%	0.23%	Net profit contribution b/4 OEI	756	770	864	963	1,002
Total provisions (\$m)	618	1,106	1,272	1,366	1,430	Cost ratio	62%	58%	56%	56%	55%
Total provisions / RWA	0.80%	1.16%	1.25%	1.26%	1.26%	Compensation ratio	39%	41%	40%	40%	39%
Indiv ass prov / gross imp assets	237%	239%	239%	239%	239%	Net profit contribution b/4 OEI					
IBL / IEA	121%	144%	140%	136%	133%	Annuity-style businesses	2,630	2,948	2,843	2,972	3,091
Total provisions + GRCL / RWA	0.80%	1.16%	1.25%	1.26%	1.26%	Capital markets facing businesses	3,506	2,484	2,197	2,451	2,635
						Combined net profit contribution	6,136	5,432	5,040	5,423	5,727

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 18 – NAB

National Australia Bank						Share Price (A\$)						17.95
As at		2-Jun-20				Market Cap (A\$M)						57,372
PROFIT AND LOSS						VALUATION DATA						
Y/e September 30 (\$m)	2018	2019	2020e	2021e	2022e	Y/e September 30	2018	2019	2020e	2021e	2022e	
Net interest income	13,467	13,614	13,526	13,034	12,928	Cash earnings (\$m)	5,702	5,097	2,989	4,825	5,341	
Other banking income	3,516	2,754	2,461	2,736	3,143	EPS (statutory basis) (cps)	201	169	93	143	156	
Total banking income	16,983	16,368	15,988	15,770	16,071	- Growth	3%	-16%	-45%	54%	10%	
Funds management income	994	853	750	749	771	EPS (cash basis) (cps)	210	182	99	145	159	
Insurance income	0	0	0	0	0	- Growth	-16%	-13%	-46%	47%	9%	
Net operating income	17,977	17,221	16,738	16,519	16,842	P / E ratio (times)	8.5	9.9	18.2	12.4	11.3	
Operating expenses	-8,992	-9,013	-10,594	-7,807	-7,593	P / Book ratio (times)	1.1	1.0	0.9	0.9	0.8	
Credit impairment charge	-779	-919	-1,896	-1,896	-1,724	P / NTA ratio (times)	1.2	1.1	1.0	0.9	0.9	
Cash earnings b4 tax/distributions	8,206	7,289	4,248	6,816	7,526	Net DPS (cps)	198	166	60	89	101	
Income tax expense	-2,404	-2,109	-1,216	-1,947	-2,141	Yield	11.0%	9.2%	3.3%	4.9%	5.6%	
Outside equity interests	0	0	0	0	0	Franking	100%	100%	100%	100%	100%	
Investment experience	0	0	0	0	0	Payout (cash basis)	94%	91%	60%	61%	63%	
Distributions	-100	-83	-44	-44	-44	CAPITAL ADEQUACY						
Cash earnings	5,702	5,097	2,989	4,825	5,341	Y/e September 30	2018	2019	2020e	2021e	2022e	
Adjustments	-148	-299	-143	-40	-40	Risk weighted assets (\$m)	389,684	415,771	429,899	440,591	452,658	
Statutory earnings	5,554	4,798	2,846	4,785	5,301	Average risk weight	52%	53%	50%	50%	50%	
CASHFLOW						Tier 1 ratio	12.4%	12.4%	13.3%	13.6%	13.9%	
Y/e September 30 (\$m)	2018	2019	2020e	2021e	2022e	CET1 capital ratio	10.2%	10.4%	11.7%	12.1%	12.4%	
NPAT (cash basis)	5,702	5,097	2,989	4,825	5,341	Total capital ratio	14.1%	14.7%	15.9%	16.2%	16.4%	
						Equity ratio	6.5%	6.6%	6.9%	7.1%	7.2%	
Increase in loans	-23,414	-19,578	3,324	249	-2,120	DIVISIONAL						
Increase in other assets	11,661	-16,060	-74,321	-20,797	-22,494	Y/e September 30 (\$m)	2018	2019	2020e	2021e	2022e	
Capital expenditure	116	82	-1,208	-70	-72	Business/Private/Consumer Banking						
Investing cashflow	-11,637	-35,556	-72,205	-20,618	-24,687	Net interest income	9,503	9,552	9,478	9,057	8,851	
Increase in deposits & borrowings	9,687	10,836	7,261	12,018	13,373	Net operating income	1,615	1,580	1,445	1,390	1,368	
Increase in other liabilities	7,103	26,886	58,817	5,630	8,399	Operating expenses	11,118	11,132	10,922	10,447	10,218	
Ordinary equity raised	173	147	5,144	147	147	Credit impairment charge	-4,627	-4,687	-4,618	-4,453	-4,356	
Other	-4,666	-2,141	876	-2,002	-2,573	Cash earnings b4 tax/distributions	6,013	5,795	5,457	4,377	4,454	
Financing cashflow	12,297	35,728	72,098	15,793	19,346	Income tax expense	-1,813	-1,745	-1,634	-1,313	-1,336	
Net change in cash	6,362	5,269	2,881	0	0	Cash earnings	4,200	4,050	3,824	3,064	3,118	
Cash at end of period	50,188	55,457	58,338	58,338	58,338	Home loans	302,950	303,904	295,158	295,006	294,730	
BALANCE SHEET						Other loans	115,367	118,288	112,991	109,195	105,203	
Y/e September 30 (\$m)	2018	2019	2020e	2021e	2022e	Deposits	253,127	260,459	264,083	274,272	284,835	
Cash and liquid assets	50,188	55,457	58,338	58,338	58,338	Corporate and Institutional Banking						
Divisional gross loans	585,330	600,881	598,636	600,105	602,639	Net interest income	1,882	1,827	1,816	1,657	1,716	
Provisions	-3,729	-4,142	-5,963	-6,839	-6,413	Other operating income	1,451	1,539	1,009	1,114	1,443	
Other gross loans / inter div.	173	4,613	5,355	4,514	3,673	Net operating income	3,333	3,366	2,825	2,772	3,159	
Other IEA	164,733	180,962	254,870	275,667	298,161	Operating expenses	-1,297	-1,281	-1,264	-1,254	-1,241	
Intangibles	5,787	5,576	4,696	4,696	4,696	Credit impairment charge	43	-70	-34	-111	-144	
PP&E	1,199	1,117	2,325	2,396	2,468	Cash earnings b4 tax/distributions	2,079	2,015	1,527	1,407	1,774	
Insurance assets	0	0	0	0	0	Income tax expense	-538	-507	-372	-352	-444	
Other assets	2,829	2,660	3,073	3,073	3,073	Cash earnings	1,541	1,508	1,156	1,055	1,331	
Total assets	806,510	847,124	921,330	941,949	966,636	Loans	91,383	97,804	106,083	110,627	115,310	
Divisional deposits	306,669	317,505	324,766	336,785	350,158	Other IEA	144,617	160,996	162,036	167,093	172,288	
Other borrowings	436,557	460,699	514,417	520,047	528,445	Wealth Management						
Other liabilities	10,572	13,316	18,415	18,415	18,415	Wealth management income	994	853	750	749	771	
Total liabilities	753,798	791,520	857,598	875,247	897,018	Insurance income	0	0	0	0	0	
Ordinary share capital	33,062	36,762	43,948	44,586	45,366	Net operating income	994	853	750	749	771	
Other equity instruments	2,920	1,945	1,945	1,945	1,945	Wealth management expense	0	0	0	0	0	
Reserves	46	306	870	870	870	Other expenses	-649	-629	-634	-634	-634	
Retained profits	16,673	16,583	16,968	19,300	21,435	Cash earnings b4 tax/distributions	345	224	116	115	137	
Minority interests	11	8	1	1	1	Income tax expense	-95	-61	-34	-34	-41	
Total shareholders' equity	52,712	55,604	63,732	66,702	69,618	Investment experience	0	0	0	0	0	
Total sh. equity & liabs.	806,510	847,124	921,330	941,949	966,636	Cash earnings	250	163	83	80	96	
WANOS - statutory (m)	2,709	2,797	3,027	3,321	3,360	FUMA	119,145	120,060	123,662	127,372	131,193	
WANOS - cash (m)	2,709	2,797	3,027	3,321	3,360	NZ Banking						
PROFITABILITY RATIOS						Net interest income	1,698	1,828	1,889	1,839	1,881	
Y/e September 30	2018	2019	2020e	2021e	2022e	Other operating income	520	571	535	532	533	
Return on assets	0.7%	0.6%	0.3%	0.5%	0.6%	Net operating income	2,218	2,399	2,424	2,371	2,414	
Return on equity	11.7%	9.9%	5.3%	7.7%	8.2%	Operating expenses	-869	-911	-876	-867	-862	
Leverage ratio	6.0%	6.1%	6.2%	6.4%	6.5%	Credit impairment charge	-70	-103	-100	-122	-125	
Net interest margin	1.85%	1.79%	1.75%	1.68%	1.65%	Cash earnings b4 tax/distributions	1,279	1,385	1,447	1,383	1,427	
Cost / income ratio	50%	52%	63%	47%	45%	Income tax expense	-357	-388	-407	-387	-399	
Cost / average assets	1.12%	1.08%	1.15%	0.83%	0.78%	Outside equity interests	0	0	0	0	0	
Growth in net operating income	0%	-4%	-3%	-1%	2%	Investment experience	0	0	0	0	0	
Growth in operating expenses	n/m	n/m	18%	-26%	-3%	Cash earnings	922	997	1,041	996	1,027	
Jaws	n/m	n/m	-20%	25%	5%	Loans	75,630	80,885	84,404	85,276	87,396	
Effective tax rate	29%	29%	29%	29%	28%	Deposits	53,542	57,046	60,684	62,513	65,323	
ASSET QUALITY						EX-LARGE NOTABLE ITEMS						
Y/e September 30	2018	2019	2020e	2021e	2022e	Y/e September 30 (\$m)	2018	2019	2020e	2021e	2022e	
Credit impairment charge / GLA	0.13%	0.15%	0.32%	0.32%	0.29%	Cash earnings	5,702	5,097	2,989	4,825	5,341	
Credit impairment charge / RWA	0.20%	0.22%	0.44%	0.43%	0.38%	Add back:						
Total provisions (\$m)	3,729	4,142	5,963	6,839	6,413	- Customer remediation income loss	181	846	310	210	140	
Total provisions / RWA	0.96%	1.00%	1.39%	1.55%	1.42%	- Customer remed'n costs, ASIC, etc.	80	602	1,793	0	0	
IAP / GIA	44%	40%	25%	25%	25%	- Restructuring costs	530	0	0	0	0	
IBL / IEA	100%	99%	98%	98%	98%	Cash earnings ex-large notable items	6,493	6,545	5,091	5,035	5,481	
Total provisions / GLA	0.64%	0.69%	1.00%	1.14%	1.06%	Cash EPS ex-large notable items	240	234	168	152	163	
						- Growth	-4%	-2%	-28%	-10%	8%	
						Operating expenses (underlying)	8,124	8,153	8,033	7,807	7,593	
						Payout (cash basis)	82%	71%	35%	58%	62%	
						Return on equity (underlying)	13.4%	12.7%	9.0%	8.0%	8.4%	
						CIR (underlying)	45%	47%	48%	47%	45%	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 19 – WBC

Westpac Bank						Share Price (A\$)						17.36
As at						2-Jun-20						62,699
Market Cap (A\$M)												
PROFIT AND LOSS						VALUATION DATA						
Y/e September 30 (\$m)	2018	2019	2020e	2021e	2022e	Y/e September 30	2018	2019	2020e	2021e	2022e	
Net interest income	17,187	16,953	16,999	16,133	15,555	Cash earnings (\$m)	8,065	6,849	3,663	5,464	5,699	
Other banking income	4,978	3,702	3,276	3,326	3,306	EPS (statutory basis) (c)	238	197	107	150	156	
Total banking income	22,165	20,655	20,274	19,460	18,861	- Growth	0%	-17%	-46%	40%	4%	
Funds management income	0	0	0	0	0	EPS (cash basis) (c)	236	198	102	151	156	
Insurance income	0	0	0	0	0	- Growth	-1%	-16%	-49%	48%	4%	
Net operating income	22,165	20,655	20,274	19,460	18,861	P / E ratio (times)	7.3	8.8	17.1	11.5	11.1	
Operating expenses	-9,698	-10,031	-11,181	-9,667	-9,296	P / Book ratio (times)	1.0	1.0	0.9	0.9	0.8	
Impairment charges	-812	-794	-3,349	-2,011	-1,447	P / NTA ratio (times)	1.2	1.2	1.1	1.0	1.0	
Operating profit before income tax	11,655	9,830	5,745	7,782	8,118	Net DPS (c)	188	174	80	100	110	
Income tax expense	-3,586	-2,975	-2,080	-2,316	-2,417	Yield	10.8%	10.0%	4.6%	5.8%	6.3%	
Net profit to non-controlling interests	-4	-6	-2	-2	-2	Franking	100%	100%	100%	100%	100%	
Preference dividends	0	0	0	0	0	Payout (cash basis, 70-75% target)	80%	88%	79%	66%	70%	
Cash earnings	8,065	6,849	3,663	5,464	5,699	CAPITAL ADEQUACY						
Adjustments	30	-65	179	-36	-36	Y/e September 30	2018	2019	2020e	2021e	2022e	
Statutory earnings	8,095	6,784	3,842	5,428	5,663	Risk weighted assets (\$m)	425,384	428,794	435,697	430,589	425,429	
CASHFLOW						Average risk weight	50%	49%	48%	48%	48%	
Y/e September 30 (\$m)	2018	2019	2020e	2021e	2022e	Tier 1 ratio	12.8%	12.8%	13.8%	14.5%	15.2%	
NPAT (cash basis)	8,065	6,849	3,663	5,464	5,699	CET1 capital ratio	10.6%	10.7%	11.6%	12.3%	13.0%	
Increase in divisional loans	-45,545	-5,683	16,366	17,925	17,690	Total capital ratio	14.7%	15.6%	17.2%	18.0%	18.7%	
Increase in other assets	26,172	-28,064	-32,735	-7,438	-7,738	Equity ratio	7.3%	7.2%	7.4%	7.8%	8.1%	
Capital expenditure	158	174	-35	-36	-37	DIVISIONAL						
Investing cashflow	-19,215	-33,573	-16,403	10,452	9,915	Y/e September 30 (\$m)	2018	2019	2020e	2021e	2022e	
Increase in deposits & borrowings	62,271	6,572	12,853	15,226	16,639	Consumer & Business Banks						
Increase in other liabilities	-37,785	19,528	24,505	-28,178	-28,783	Net interest income	13,134	13,034	12,689	11,683	11,285	
Ordinary equity raised	0	0	2,751	0	0	Other income	2,951	2,605	1,966	1,905	1,885	
Other	-4,945	-6,105	-1,613	-2,963	-3,469	Net operating income	16,085	15,639	14,655	13,588	13,169	
Financing cashflow	19,541	19,995	38,496	-15,915	-15,613	Operating expenses	-6,425	-6,622	-6,849	-6,445	-6,083	
Net change in cash	8,391	-6,729	25,756	0	0	Impairment charges	-807	-853	-1,948	-1,394	-1,043	
Cash at end of period	26,788	20,059	45,815	45,815	45,815	Operating profit before income tax	8,853	8,164	5,858	5,749	6,044	
BALANCE SHEET						Income tax expense	-2,674	-2,445	-1,766	-1,725	-1,813	
Y/e September 30 (\$m)	2018	2019	2020e	2021e	2022e	Cash earnings	6,179	5,719	4,093	4,024	4,231	
Cash and liquid assets	26,788	20,059	45,815	45,815	45,815	Home loans	445,100	449,300	433,456	430,015	426,263	
Divisional gross loans	715,659	722,441	709,884	691,873	673,453	Other loans	116,000	115,200	105,588	95,589	85,149	
Provisions	-2,814	-3,913	-7,722	-7,636	-6,907	Deposits	350,000	357,100	352,873	363,459	374,363	
Other gross loans	-3,155	-4,063	-5,574	-5,574	-5,574	Westpac Institutional Bank						
Other IEA	118,656	146,643	184,104	191,542	199,280	Net interest income	1,442	1,443	1,502	1,664	1,581	
Intangibles	11,763	11,953	11,943	11,943	11,943	Other income	1,565	1,292	1,191	1,185	1,178	
PP&E	1,329	1,155	1,190	1,226	1,263	Net operating income	3,007	2,735	2,693	2,849	2,759	
Insurance assets	0	0	0	0	0	Operating expenses	-1,449	-1,284	-1,292	-1,285	-1,255	
Other assets	11,366	12,351	9,136	9,136	9,136	Impairment charges	16	-46	-641	-427	-203	
Total assets	879,592	906,626	948,775	938,324	928,409	Operating profit before income tax	1,574	1,405	760	1,137	1,301	
Divisional deposits	511,571	518,143	530,996	546,222	562,861	Income tax expense	-481	-391	-255	-341	-390	
Other borrowings	292,271	309,985	336,840	308,662	279,879	Cash earnings	1,093	1,014	505	796	910	
Other liabilities	11,177	12,991	10,641	10,641	10,641	Loans	77,700	75,600	76,706	72,185	67,453	
Total liabilities	815,019	841,119	878,477	865,525	853,381	IBL	104,900	101,300	110,951	114,279	117,708	
Ordinary share capital	35,561	36,955	39,917	40,242	40,624	Westpac New Zealand						
Other equity instruments	0	0	0	0	0	Net interest income	1,799	1,860	1,851	1,786	1,789	
Reserves	1,077	1,311	1,688	1,688	1,688	Other income	373	423	333	337	344	
Retained profits	27,883	27,188	28,637	30,812	32,660	Net operating income	2,172	2,283	2,184	2,123	2,133	
Minority interests	52	53	56	56	56	Operating expenses	-855	-939	-1,028	-1,010	-1,031	
Total shareholders' equity	64,573	65,507	70,298	72,798	75,028	Impairment charges	-22	10	-290	-190	-201	
Total sh. equity & liabs.	879,592	906,626	948,775	938,324	928,409	Operating profit before income tax	1,295	1,354	866	923	901	
WANOS - statutory (m)	3,406	3,450	3,593	3,620	3,640	Income tax expense	-361	-369	-243	-259	-252	
WANOS - cash (m)	3,414	3,456	3,598	3,625	3,645	Net profit to non-controlling interests	0	0	0	0	0	
PROFITABILITY RATIOS						Investment experience	0	0	0	0	0	
Y/e September 30	2018	2019	2020e	2021e	2022e	Cash earnings	934	985	624	665	649	
Return on assets	0.9%	0.8%	0.4%	0.6%	0.6%	Loans	74,045	78,428	86,411	86,447	87,683	
Return on equity	13.0%	10.7%	5.3%	7.7%	7.8%	Deposits	56,671	59,743	67,172	68,483	70,790	
Leverage ratio	6.3%	6.2%	6.4%	6.8%	7.1%	Notable items						
Net interest margin	2.22%	2.13%	2.08%	2.00%	1.96%	Net interest income	-105	-344	-206	-100	-100	
Cost / income ratio	44%	49%	55%	50%	49%	Net fee income	-157	-283	-247	-100	-100	
Cost / average assets	1.12%	1.12%	1.18%	1.02%	0.99%	Net wealth mgt & insurance income	-6	-537	16	0	0	
Growth in operating income	3%	-7%	-2%	-4%	-3%	Net operating income	-268	-1,164	-437	-200	-200	
Growth in operating expenses	7%	3%	11%	-14%	-4%	Operating expenses	-112	-461	-1,354	-427	-427	
Jaws	-4%	-10%	-13%	10%	1%	Operating profit before tax	-380	-1,625	-1,791	-627	-627	
ASSET QUALITY						Income tax expense	99	495	250	187	187	
Y/e September 30	2018	2019	2020e	2021e	2022e	Cash earnings	-281	-1,130	-1,540	-441	-441	
Impairment expense / GLA	0.11%	0.11%	0.48%	0.29%	0.22%	Group cash earnings ex-notable items	8,346	7,979	5,203	5,904	6,139	
Impairment expense / RWA	0.19%	0.19%	0.77%	0.47%	0.34%	EPS ex-notable items (cash basis)	244	231	145	163	168	
Total provisions (\$m)	2,814	3,913	7,722	7,636	6,907	- Growth	2%	-6%	-37%	13%	3%	
Total provisions / GLA	0.39%	0.54%	1.10%	1.11%	1.03%	Return on equity ex-notable items	13.5%	12.5%	7.6%	8.3%	8.4%	
IAP / GIA	30%	23%	35%	40%	40%	Payout ratio ex-notable items	77%	75%	55%	61%	65%	
IBL / IEA	97%	96%	99%	98%	98%							
Total provisions / RWA	0.66%	0.91%	1.77%	1.77%	1.62%							

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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TS Lim, authoring analyst, holds long positions in ANZ, CBA, CBAPH, CBAPL, MQG, MQGPC, MQGPD, NAB and WBC.

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