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Authorisation

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Commonwealth Bank (CBA)

1H22 result preview

Recommendation
Hold (Buy)

Price
\$101.76
Target (12 months)
\$108.00 (previously \$106.00)

GICS Sector
Banks
Expected Return

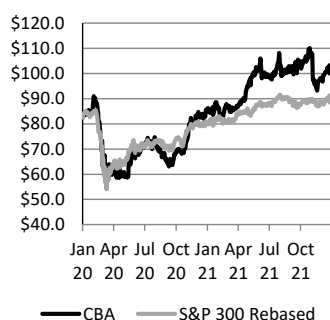
Capital growth	6.1%
Dividend yield	3.6%
Total expected return	9.7%

Company Data & Ratios

Enterprise value	n/m
Market cap	\$173,642m
Issued capital	1,706m
Free float	100%
Avg. daily val. (52wk)	\$283.2m
12 month price range	\$81.56 - \$110.19

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	97.95	103.42	82.90
Absolute (%)	3.89	-1.61	22.75
Rel market (%)	4.05	-4.21	10.72

Absolute Price


SOURCE: IRESS

Expecting \$4.38bn cash NPAT, 162¢ interim dividend

CBA's result will come out on Wednesday 9 February 2022 and our forecasts are: 1) statutory NPAT \$4.68bn; 2) cash NPAT (including discontinued operations and one-offs) \$4.38bn; 3) cash EPS (including discontinued operations and one-offs) 247¢; 4) cash NPAT (continuing operations) \$4.38bn; 5) cash EPS (continuing operations) 247¢; 6) interim dividend 162¢ fully franked (payout ratio 66%); 7) ROE (continuing operations) 11.4%; 8) NIM (continuing operations) 1.93%; 9) loan impairment expense (LIE) \$0.32bn/8bp GLA; and 10) CET1 ratio 11.4%.

We forecast 1H22 cash NPAT of \$4.38bn with no change in the number after excluding notable items. This is roughly double that of \$2.20bn actual in 1Q22, so no surprises here – operating income down 1% but flat excluding AHL and operating expense down 1%. Excluding notable items, operating income (vs. 1H21) grew by 0.2% but was surpassed only by operating expense growth of 2.4% (including notable items, this was however a better bet at +0.2% and -2.0% respectively). The mix was the other way around in relation to 2H21, being 1.7% lower in operating income but a better cost outcome of only 0.8%. Loan impairment expense may have been negative in 2H21 but 1Q22 showed a slight expense of \$105m or only 5bp, helped by a broadly unchanged credit provision. Overall, the changes were evenly matched leading to a doubling in cash earnings in the first quarter.

\$108.00 price target but rating is now a Hold

One major change lies in FY22 forecast numbers, having reduced cash earnings by 6%. This is based on 3% lower operating income (mainly NIM down by 5bp to 1.94%) and slightly higher operating expense of 2%. As for FY24 and beyond, the changes are positive with higher income (and lower loan impairment expense in FY25) that more than offset higher expenses. Net of minor changes in the composite valuation, we have upped the valuation and price target to \$108.00. Based on a 12-month TSR of less than 15%, we have however shifted the rating from Buy to Hold.

Earnings Forecast

Year end 30 June	2021	2022e	2023e	2024e
NPAT (reported) (A\$m)	8,843	9,316	9,728	10,235
NPAT (cash, continuing) (A\$m)	8,653	8,718	9,130	9,637
EPS (cash, continuing) (A¢)	489	501	535	565
EPS (cash) growth (%)	20%	3%	7%	6%
PER (x)	20.8	20.3	19.0	18.0
P/Book (x)	2.2	2.3	2.2	2.1
P/NTA (x)	2.4	2.5	2.4	2.3
Dividend (A¢)	350	374	403	426
Yield (%)	3.4%	3.7%	4.0%	4.2%
ROE (continuing) (%)	11.5%	11.6%	11.9%	12.0%
NIM (continuing) (%)	2.03%	1.94%	1.94%	1.95%
Franking (%)	100.0%	100.0%	100.0%	100.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

1H22 result preview

Expecting \$4.38bn cash NPAT, 162¢ interim dividend

CBA's result will come out on Wednesday 9 February 2022 and our forecasts are:

1. Statutory NPAT \$4.68bn;
2. Cash NPAT (including discontinued operations and one-offs) \$4.38bn;
3. Cash EPS (including discontinued operations and one-offs) 247¢;
4. Cash NPAT (continuing operations) \$4.38bn;
5. Cash EPS (continuing operations) 247¢;
6. Interim dividend 162¢ fully franked (payout ratio 66%);
7. ROE (continuing operations) 11.4%;
8. NIM (continuing operations) 1.93%;
9. Loan impairment expense (LIE) \$0.32bn/8bp GLA; and
10. CET1 ratio 11.4%.

We forecast 1H22 cash NPAT of \$4.38bn with no change in the number after excluding notable items. This is roughly double that of \$2.20bn actual in 1Q22, so no surprises here – operating income down 1% but flat excluding AHL (with above system growth offsetting margin pressure and lower non-interest income) and operating expense down 1% (lower remediation costs more than offset higher staff expenses). Excluding notable items, operating income (vs. 1H21) grew by 0.2% but was surpassed by operating expense growth of 2.4% (including notable items, this was however a better bet at +0.2% and -2.0% respectively).

The mix was the other way around in relation to 2H21, being 1.7% lower in operating income but a better cost outcome of only 0.8%. Loan impairment expense may have been negative in 2H21 but 1Q22 showed a slight expense of \$105m or only 5bp, helped by broadly unchanged credit provisions. Overall, the changes were evenly matched leading to a doubling in cash earnings in the first quarter.

Table 1 – Implied 1H22

CBA Y/E 30 June (cash basis, continuing operations, \$m)		1H21a	2H21a	1H22e	Movement 1H22e vs. 1H21a	Movement 1H22e vs. 2H21a
Operating income	As reported	11,961	12,195	11,983	0.2%	-1.7%
	Mortgage Broking consolidation & other	0	0	0		
	Operating income excluding notable items	11,961	12,195	11,983	0.2%	-1.7%
Operating expenses	As reported	5,591	5,768	5,479	-2.0%	-5.0%
	Insurance recovery	0	0	0		
	Mortgage Broking consolidation	0	0	0		
	Customer remediation	-242	-333	0		
	Risk & compliance uplifts	0	0	0		
	Operating expense excluding customer remediation	5,349	5,435	5,479	2.4%	0.8%
Loan impairment expense (LIE)		882	-328	318	-63.9%	n/m
Cash NPBT excluding notable items as reported		5,730	7,088	6,185	7.9%	-12.7%
Cash NPAT as reported		3,868	4,785	4,378	13.2%	-8.5%
Statutory NPAT as reported		3,759	5,084	4,677	24.4%	-8.0%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

1Q22 numbers

To recap, unaudited 1Q22 figures include: 1) statutory NPAT ~\$2.30bn; 2) cash NPAT ~\$2.20bn; 3) operating income and operating expense down by 1% each way; 4) stable credit quality with loan impairment expense \$0.10bn or 5bp GLA; 5) strong balance sheet – 74% customer deposit funding ratio, 131% NSFR and 132% LCR; and 6) Level 2 CET1 capital 12.5% – net of final dividend and buyback, the ratio would be 11.2% but climbing back to over 11.5% with announced asset sales.

Operating income was 1% lower with 1% higher net interest income offset by lower non-interest income. Growth may have been ahead of system in core markets at \$17.0bn but this was offset by lower NIM (mainly due to higher liquid assets, home loan competition, switching to lower margin fixed rate loans and the overall impact of low interest rates). Non-interest income was 8% lower due to the removal of AHL, the reversal of minority gains and reduced retail lending fees and commissions linked to COVID-19. Excluding these, it was around flat.

Operating expense was down by 1% and driven by lower remediation costs. Excluding these, it was 3% higher mainly due to staff expenses (i.e. lower annual leave taken from COVID-19 and staff needed to cope with higher volumes and other strategic priorities) plus additional working days. As announced previously, the loan impairment expense was still only \$105m (both lower consumer (unsecured arrears linked to reduced spending) and lower home loan arrears (including the impact of new temporary loan repayment deferral arrangements)).

Level 2 CET1 capital at 11.4%

As usual, balance sheet remained in good shape and Level 2 CET1 ratio was forecast at 11.4% at the end of 1H22 (main changes being the \$6.0bn share buyback and net of asset growth). The bank will still target a full year payout ratio of 70-80% of cash NPAT. Net of previously announced divestments to do with Colonial First State (sale of 55% to be completed at the end of calendar year 2021) and CommInsure General Insurance (divestment to be completed the second half of calendar year 2022), this will further add to capital. Our 11.4% assumes this level less half of net asset growth.

\$108.00 price target but rating is now a Hold

One major change lies in FY22 forecast numbers, having reduced cash earnings by 6%. This is based on 3% lower operating income (mainly NIM down by 5bp to 1.94%) and slightly higher operating expense of 2%. As for FY24 and beyond, the changes are positive with higher income (and lower loan impairment expense in FY25) that more than offset higher expenses. Net of minor changes in the composite valuation, we have upped the valuation and price target to \$108.00. Based on a 12-month TSR of less than 15%, we have however shifted the rating from Buy to Hold.

Table 2 – Composite valuation

Composite Valuation	Value (\$m)	Per share	Weighting	Composite value per share
DCF	153,891	\$90.18	25%	\$22.55
Dividend yield (sustainable)	196,479	\$115.14	25%	\$28.79
ROE (sustainable)	189,169	\$110.86	25%	\$27.71
Sum-of-Parts	170,925	\$100.17	25%	\$25.04
Surplus capital *	5,307	\$3.11		\$3.11
Total				\$107.20

* Less estimated capital deductions

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 3 – SOP valuation

SOP Valuation	FY23e NPAT	Pros. PE (times)	Value (\$m)	Per share
Retail Banking	4,638	18.0	83,483	\$48.92
B&PB / IB&M	3,604	18.5	66,673	\$39.07
Wealth Management	0	0.0	-	-
New Zealand	1,187	17.5	20,769	\$12.17
Other	-298	-	-	-
Total	9,130	18.7	170,925	\$100.17

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 4 – Estimate changes

Commonwealth Bank Y/e June 30 (\$m)	FY22e			FY23e			FY24e			FY25e		
	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
Profit & Loss (continuing)												
Net interest income	18,902	19,453	-3%	19,420	19,503	0%	19,954	19,572	2%	20,503	20,028	2%
Other income	5,253	5,265	0%	5,507	5,378	2%	5,798	5,491	6%	5,942	5,608	6%
Total operating income	24,156	24,718	-2%	24,928	24,881	0%	25,751	25,063	3%	26,445	25,635	3%
Operating expenses	-11,111	-10,914	-2%	-10,914	-10,805	-1%	-10,886	-10,789	-1%	-10,827	-10,691	-1%
Loan impairment expense	-728	-729	0%	-1,113	-1,109	0%	-1,250	-1,229	-2%	-1,285	-1,352	5%
Net profit before income tax	12,316	13,075	-6%	12,900	12,967	-1%	13,616	13,046	4%	14,334	13,592	5%
Corporate tax expense	-3,598	-3,819	6%	-3,770	-3,789	0%	-3,979	-3,810	-4%	-4,188	-3,969	-5%
Investment experience	0	0	n/a	0	0	n/a	0	0	n/a	0	0	n/a
NPAT (cash basis)	8,718	9,256	-6%	9,130	9,179	-1%	9,637	9,235	4%	10,145	9,623	5%
DPS (cps)	374	394	-5%	403	415	-3%	426	430	-1%	448	445	1%
EPS (cash basis) (cps)	501	532	-6%	535	538	-1%	565	541	4%	595	564	5%
Payout ratio	75%	74%	1%	75%	77%	-2%	75%	79%	-4%	75%	79%	-4%
ROE	11.6%	12.2%	-0.7%	11.9%	11.9%	0.0%	12.0%	11.6%	0.5%	12.2%	11.6%	0.5%
NIM	1.94%	1.99%	-0.05%	1.94%	1.95%	-0.01%	1.95%	1.92%	0.03%	1.95%	1.93%	0.03%
Cost ratio	46%	44%	-2%	44%	43%	0%	42%	43%	1%	41%	42%	1%
Impairment expense as % of GLA	0.09%	0.09%	0.00%	0.13%	0.13%	0.00%	0.14%	0.14%	0.00%	0.14%	0.15%	0.01%
Effective tax rate	29%	29%	0%	29%	29%	0%	29%	29%	0%	29%	29%	0%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Commonwealth Bank

Company description

CBA is Australia's leading integrated financial services organisation, providing banking and wealth management (funds management, superannuation, insurance and investment advice) products and services to over 10m customers. It currently occupies pole positions in home lending and retail deposits. The bank's strategic strengths of scale, brand and diversified mix is supported by an irreplaceable infrastructure consisting of over 1,100 branches, 3,800 Australia Post agencies and nearly 3,600 ATMs.

Investment strategy

CBA's strategy is built upon continuous service and sales improvement backed by IT and operational excellence, and a leadership position in retail banking. Incremental value add is expected to come from opportunities in the SME banking, ECM / DCM and wealth management space (particularly in advice, private banking and life risk where the market is 80% underinsured) and selective Asian expansion (East Asia and Singapore).

Valuation

The price target is based on a composite valuation of DCF, dividend yield, ROE and Sum-of-Parts weighted equally.

Table 5 – Composite valuation

Composite Valuation	Value (\$m)	Per share	Weighting	Composite value per share
DCF	153,891	\$90.18	25%	\$22.55
Dividend yield (sustainable)	196,479	\$115.14	25%	\$28.79
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Sum-of-Parts	170,925	\$100.17	25%	\$25.04
Surplus capital *	5,307	\$3.11		\$3.11
Total				\$107.20

* Less estimated capital deductions

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 6 – SOP valuation

SOP Valuation	FY23e NPAT	Pros. PE (times)	Value (\$m)	Per share
Retail Banking	4,638	18.0	83,483	\$48.92
B&PB / IB&M	3,604	18.5	66,673	\$39.07
Wealth Management	0	0.0	-	-
New Zealand	1,187	17.5	20,769	\$12.17
Other	-298	-	-	-
Total	9,130	18.7	170,925	\$100.17

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

SWOT analysis

Strengths

1. Retail and business banking (sales and service);
2. Strong management and execution capabilities;
3. Cost discipline;
4. Lower risk banking assets; and
5. IT capabilities.

Weaknesses

1. WA market although recovering slowly; and
2. Ongoing liquidity drag in a low rate environment that is a systemic issue.

Opportunities

1. Value add from ECM / DCM opportunities in capitalising on the bank's AA- rating and balance sheet strength;
2. Selected capital-light offshore e-banking opportunities; and
3. Leveraged to the strength of NSW and VIC economies.

Threats

1. Macroeconomic factors such as higher unemployment and slowing credit growth;
2. COVID-19 fallout;
3. Changes in regulatory environment;
4. Disruptors;
5. Negative fallout from offshore regulator civil actions and domestic class actions;
6. Bank re-regulation; and
7. Some sovereign risk.

Sensitivities

Table 7 – Sensitivities

Y/e June 30	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sensitivities									
Group NIM +10bp									
- NPAT upside (cash basis)	7.8%	7.7%	7.4%	7.2%	7.1%	7.1%	7.0%	7.0%	7.0%
- Price target upside	\$8.47	\$8.28	\$8.03	\$7.82	\$7.65	\$7.62	\$7.58	\$7.55	\$7.51
Group Loans +1%									
- NPAT upside (cash basis)	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.7%	0.7%	0.7%
- Price target upside	\$0.82	\$0.82	\$0.82	\$0.82	\$0.82	\$0.81	\$0.81	\$0.81	\$0.80
RBS loans +1%									
- NPAT upside (cash basis)	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
- Price target upside	\$0.55	\$0.55	\$0.54	\$0.54	\$0.53	\$0.53	\$0.53	\$0.52	\$0.52
B&PB/IB&M loans +1%									
- NPAT upside (cash basis)	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
- Price target upside	\$0.44	\$0.43	\$0.43	\$0.43	\$0.43	\$0.43	\$0.43	\$0.43	\$0.42
NZ loans +1%									
- NPAT upside (cash basis)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
- Price target upside	\$0.14	\$0.14	\$0.14	\$0.14	\$0.14	\$0.15	\$0.15	\$0.16	\$0.16
Other income +1%									
- NPAT upside (cash basis)	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
- Price target upside	\$0.46	\$0.46	\$0.45	\$0.44	\$0.43	\$0.43	\$0.43	\$0.43	\$0.43
BDD +1%									
- NPAT upside (cash basis)	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
- Price target upside	-\$0.06	-\$0.09	-\$0.10	-\$0.10	-\$0.09	-\$0.09	-\$0.09	-\$0.09	-\$0.09
Costs +1%									
- NPAT upside (cash basis)	-0.9%	-0.8%	-0.8%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%
- Price target upside	-\$0.96	-\$0.90	-\$0.85	-\$0.81	-\$0.77	-\$0.77	-\$0.76	-\$0.76	-\$0.76

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Commonwealth Bank

as at 12 January 2022

Recommendation

Hold

Price

\$101.76

Target (12 months)

\$108.00

Table 8 – Financial summary

Commonwealth Bank						Share Price (A\$)		101.76			
As at		12-Jan-22				Market Cap (A\$M)		173,642			
PROFIT AND LOSS						VALUATION DATA					
Y/e June 30 (\$m)	2020	2021	2022e	2023e	2024e	Y/e June 30	2020	2021	2022e	2023e	2024e
Net interest income	18,610	18,839	18,902	19,420	19,954	NPAT (cash basis) (\$m)	7,225	8,653	8,718	9,130	9,637
Other banking income	4,837	5,007	4,963	5,209	5,494	NPAT (cash basis, continuing) (\$m)	7,225	8,653	8,718	9,130	9,637
Total banking income	23,447	23,846	23,865	24,629	25,448	EPS (statutory basis) (cps)	418	499	535	570	600
Funds management income	173	165	182	190	195	- Growth	-14%	20%	7%	7%	5%
Insurance income	141	145	108	108	108	EPS (cash basis) (cps)	408	489	501	535	565
Total operating income	23,761	24,156	24,156	24,928	25,751	- Growth	-17%	20%	3%	7%	6%
Operating expenses	-10,996	-11,359	-11,111	-10,914	-10,886	EPS (cash basis, continuing) (cps)	408	489	501	535	565
Loan impairment expense	-2,518	-554	-728	-1,113	-1,250	- Growth	-12%	20%	3%	7%	6%
Net profit before income tax	10,247	12,243	12,316	12,900	13,616	P / E ratio (times)	24.9	20.8	20.3	19.0	18.0
Corporate tax expense	-3,022	-3,590	-3,598	-3,770	-3,979	P / Book ratio (times)	2.4	2.2	2.3	2.2	2.1
Minority interests	0	0	0	0	0	P / NTA ratio (times)	2.7	2.4	2.5	2.4	2.3
Net profit after tax from discontinued operations	0	0	0	0	0	Net DPS (cps)	298	350	374	403	426
Investment experience	0	0	0	0	0	Yield	2.9%	3.4%	3.7%	4.0%	4.2%
NPAT (cash basis)	7,225	8,653	8,718	9,130	9,637	Franking	100%	100%	100%	100%	100%
Adjustments	163	190	598	598	598	Payout (cash basis, target 70-80%)	73%	72%	75%	75%	75%
NPAT (statutory basis)	7,388	8,843	9,316	9,728	10,235						
CASHFLOW						CAPITAL ADEQUACY					
Y/e June 30 (\$m)	2020	2021	2022e	2023e	2024e	Y/e June 30	2020	2021	2022e	2023e	2024e
NPAT (cash basis)	7,225	8,653	8,718	9,130	9,637	Risk weighted assets (\$m)	454,948	450,680	465,523	502,495	546,711
Increase in loans	-19,318	-42,955	-22,936	-23,466	-24,278	Average risk weight	47%	45%	45%	48%	50%
Increase in other assets	-1,264	20,609	-9,680	-10,394	-11,164	Tier 1 ratio	13.9%	15.7%	13.9%	13.6%	13.4%
Capital expenditure	-3,219	318	-160	-165	-170	CET1 capital ratio	11.6%	13.1%	11.3%	11.3%	11.3%
Investing cashflow	-23,801	-22,028	-32,776	-34,024	-35,612	Total capital ratio	17.5%	19.8%	17.9%	17.3%	16.8%
Increase in deposits & borrowings	68,568	53,814	25,405	26,285	27,196	Equity ratio	7.1%	7.2%	6.7%	6.8%	6.9%
Increase in other liabilities	-33,374	17,383	10,367	4,640	5,254	DIVISIONAL					
Ordinary equity raised	0	0	0	0	0	Y/e June 30 (\$m)	2020	2021	2022e	2023e	2024e
Other	-3,840	-1,946	-11,715	-6,031	-6,475	Retail Banking Services					
Financing cashflow	31,354	69,251	24,058	24,894	25,975	Net interest income	9,697	9,897	10,027	10,278	10,535
Net change in cash	14,778	55,876	0	0	0	Other income	1,510	1,347	1,207	1,320	1,438
Cash at end of period	44,165	100,041	100,041	100,041	100,041	Total banking income	11,207	11,244	11,234	11,598	11,973
BALANCE SHEET						Operating expenses	-4,335	-4,321	-4,355	-4,348	-4,314
Y/e June 30 (\$m)	2020	2021	2022e	2023e	2024e	Loan impairment expense	-1,034	-134	-537	-642	-752
Cash and liquid assets	44,165	100,041	100,041	100,041	100,041	Net profit before tax	5,838	6,789	6,342	6,608	6,906
Divisional gross loans	774,622	817,425	840,229	863,722	887,926	Corporate tax expense	-1,743	-2,024	-1,891	-1,970	-2,059
Provisions	-6,363	-6,211	-6,079	-6,106	-6,031	Cash net profit after tax	4,095	4,765	4,452	4,638	4,847
Divisional IEA	59,047	52,632	54,001	55,405	56,847	Home loans	400,921	429,420	440,156	451,159	462,438
Other IEA & other loans	114,393	101,852	110,163	119,152	128,875	Consumer & other loans	14,001	13,188	13,518	13,856	14,202
Intangibles	6,944	6,942	6,942	6,942	6,942	Deposits	246,031	255,502	264,445	273,700	283,280
PP&E	5,602	5,284	5,444	5,608	5,778	Deposits non bearing interest	33,882	45,267	46,851	48,491	50,188
Insurance assets	0	0	0	0	0	BB / IB&M					
Other assets	15,650	13,997	13,997	13,997	13,997	Net interest income	7,304	6,573	6,475	6,637	6,803
Total assets	1,014,060	1,091,962	1,124,738	1,158,762	1,194,374	Other income	2,382	2,571	2,426	2,546	2,698
Divisional deposits & borrowings	703,962	757,775	783,180	809,466	836,661	Total banking income	9,686	9,144	8,901	9,182	9,501
Other borrowings	220,664	239,156	249,523	254,163	259,417	Operating expenses	-3,479	-3,632	-3,871	-3,782	-3,747
Other liabilities	17,421	16,313	16,313	16,313	16,313	Loan impairment expense	-1,137	-329	-83	-334	-342
Total liabilities	942,047	1,013,244	1,049,017	1,079,942	1,112,392	Net profit before tax	5,070	5,183	4,948	5,067	5,411
Ordinary share capital	38,131	38,420	32,420	32,420	32,420	Corporate tax expense	-1,333	-1,503	-1,428	-1,463	-1,562
Other equity instruments	0	0	0	0	0	Cash net profit after tax	3,737	3,680	3,519	3,604	3,849
Reserves	2,666	3,249	3,249	3,249	3,249	Loans	277,412	280,085	287,087	294,264	301,621
Retained profits	31,211	37,044	40,047	43,146	46,308	Other IEA	48,147	42,022	43,073	44,149	45,253
Minority interests	5	5	5	5	5	IBL	288,136	298,431	308,876	319,687	330,876
Total shareholders' equity	72,013	78,718	75,721	78,820	81,982	Deposits non bearing interest	58,407	74,191	76,788	79,475	82,257
Total sh. equity & liabs.	1,014,060	1,091,962	1,124,738	1,158,762	1,194,374	Wealth Management					
WANOS - statutory (m)	1,769	1,771	1,740	1,706	1,706	Funds management income	0	0	0	0	0
WANOS - cash (m)	1,769	1,771	1,740	1,706	1,706	Insurance income	0	0	0	0	0
PROFITABILITY RATIOS						Total operating income	0	0	0	0	0
Y/e June 30	2020	2021	2022e	2023e	2024e	Volume expenses	0	0	0	0	0
Return on assets (continuing)	0.7%	0.8%	0.8%	0.8%	0.8%	Operating expenses	0	0	0	0	0
Return on equity (continuing)	10.2%	11.5%	11.6%	11.9%	12.0%	Net profit before tax	0	0	0	0	0
Leverage ratio	6.3%	6.5%	5.8%	6.0%	6.2%	Corporate tax expense	0	0	0	0	0
Net interest margin (continuing)	2.07%	2.03%	1.94%	1.94%	1.95%	Investment experience	0	0	0	0	0
Cost / income ratio	46%	47%	46%	44%	42%	Cash net profit after tax	0	0	0	0	0
Cost / average assets	1.10%	1.06%	1.00%	0.95%	0.92%	FUA	0	0	0	0	0
Growth in operating income	1%	2%	0%	3%	3%	New Zealand					
Growth in operating expenses	2%	3%	-2%	-2%	0%	Net interest income	1,934	2,117	2,202	2,307	2,418
Jaws	-1%	-2%	2%	5%	4%	Other income	375	424	388	402	417
ASSET QUALITY						Total banking income	2,309	2,541	2,590	2,709	2,835
Y/e June 30	2020	2021	2022e	2023e	2024e	Funds management income	136	140	156	164	169
Loan impairment expense / GLA	0.33%	0.07%	0.09%	0.13%	0.14%	Insurance income	0	0	0	0	0
Loan impairment expense / RWA	0.55%	0.12%	0.16%	0.22%	0.23%	Total operating income	2,445	2,681	2,746	2,873	3,004
Total provisions (\$m)	6,363	6,211	6,079	6,106	6,031	Operating expenses	-1,032	-1,071	-1,085	-1,085	-1,125
Total provisions / RWA	1.40%	1.38%	1.31%	1.22%	1.10%	Loan impairment expense	-292	5	-109	-137	-155
Indiv ass prov / gross imp assets	27%	26%	30%	30%	30%	Net profit before tax	1,121	1,615	1,552	1,652	1,724
IBL / IEA	98%	103%	103%	103%	103%	Corporate tax expense	-312	-456	-437	-465	-486
Total provisions + GRCL / GLA	0.82%	0.76%	0.72%	0.71%	0.68%	Minority interests	0	0	0	0	0
VALUATION DATA						Investment experience	0	0	0	0	0
Y/e June 30	2020	2021	2022e	2023e	2024e	Cash net profit after tax	809	1,159	1,115	1,187	1,238
Loan impairment expense / GLA	0.33%	0.07%	0.09%	0.13%	0.14%	Loans	82,288	94,732	99,469	104,442	109,664
Loan impairment expense / RWA	0.55%	0.12%	0.16%	0.22%	0.23%	Other IEA	10,900	10,610	10,928	11,256	11,594
Total provisions (\$m)	6,363	6,211	6,079	6,106	6,031	Deposits	57,879	61,219	63,056	64,948	66,896
Total provisions / RWA	1.40%	1.38%	1.31%	1.22%	1.10%	Other IBL	19,626	23,165	23,165	23,165	23,165
Indiv ass prov / gross imp assets	27%	26%	30%	30%	30%	Effective tax rate					
IBL / IEA	98%	103%	103%	103%	103%		29%	29%	29%	29%	29%
Total provisions + GRCL / GLA	0.82%	0.76%	0.72%	0.71%	0.68%	Payout (statutory)					
VALUATION DATA							71%	70%	70%	71%	71%
Y/e June 30	2020	2021	2022e	2023e	2024e						
Loan impairment expense / GLA	0.33%	0.07%	0.09%	0.13%	0.14%						
Loan impairment expense / RWA	0.55%	0.12%	0.16%	0.22%	0.23%						
Total provisions (\$m)	6,363	6,211	6,079	6,106	6,031						
Total provisions / RWA	1.40%	1.38%	1.31%	1.22%	1.10%						
Indiv ass prov / gross imp assets	27%	26%	30%	30%	30%						
IBL / IEA	98%	103%	103%	103%	103%						
Total provisions + GRCL / GLA	0.82%	0.76%	0.72%	0.71%	0.68%						

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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T S Lim, authoring analyst, holds long positions in CBA, CBAPH and CBAPL.

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