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ANZ Banking Group (ANZ)

FY21 result preview

Recommendation

Buy (unchanged)

Price

\$28.15

Target (12 months)

\$31.00 (unchanged)

GICS Sector

Banks

Expected Return

| | |
|-----------------------|--------------|
| Capital growth | 10.1% |
| Dividend yield | 5.0% |
| Total expected return | 15.1% |

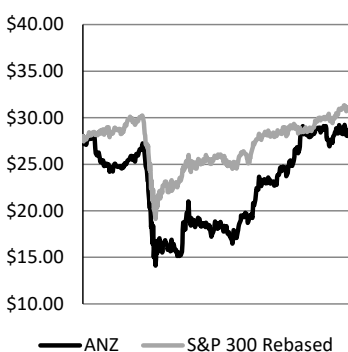
Company Data & Ratios

| | |
|------------------------|--------------------------|
| Enterprise value | n/m |
| Market cap | \$80,139m |
| Issued capital | 2,847m |
| Free float | 100% |
| Avg. daily val. (52wk) | \$161.5m |
| 12 month price range | \$16.97 - \$29.64 |

Price Performance

| | (1m) | (3m) | (12m) |
|----------------|-------|-------|-------|
| Price (A\$) | 28.00 | 28.19 | 17.70 |
| Absolute (%) | 0.54 | -0.14 | 59.04 |
| Rel market (%) | 2.86 | -0.61 | 35.43 |

Absolute Price



SOURCE: IRESS

Expecting \$5.83bn cash profit, 70¢ final dividend

ANZ's result will come out on Thursday 28 October 2021 and our FY21 forecasts are: 1) statutory profit \$5.78bn; 2) cash profit \$5.82bn; 3) cash profit (continuing) \$5.83bn; 4) cash EPS (continuing) 205¢; 5) final dividend 70¢ fully franked, 2H21 payout ratio 70% (42% in 2H20); 6) cash ROE (continuing) 9.4%; 7) group NIM (continuing) 1.64%; 8) credit impairment charge -\$0.42bn/-7bp GLA (\$2.74bn/44bp in FY20); 9) CIR (continuing) 52%; and 10) Level 2 CET1 ratio 12.0%.

Overall changes include lower net interest income (2% lower, mainly due to lower volumes and despite a 1bp increase in NIM in 2H21 from good NIM management) and lower other banking income (18% lower mainly from institutional banking although there was a gain of around 12% in 2H21) offset by lower operating expenses (the bank continues to manage costs relatively well, down from \$4.78bn in 2H20 to \$4.48bn in 1H21 and a forecast of \$4.23bn in 2H21) plus a benefit in credit impairment charge in the first half of \$0.49bn and back to an expense of \$74m in 2H21 (as the industry further normalises). We expect CIR (continuing) to land at 52% in FY21 (51% in 2H21 vs. 53% in 1H21).

Price target \$31.00, Buy rating unchanged

While we have made no changes in net interest and other operating income, we have decided to: (1) further lower operating expenses by \$130m in FY21 and a similar amount in FY22, to arrive at an overall CIR of around 44% at the end of FY23 and FY24; and (2) increase the credit impairment charge by another \$200m but only in FY22. The net impact on cash profit (continuing) is as follows: (1) FY21 +2%; (2) FY22 +1%; (3) FY23 nil; and (4) FY24 +3%. The theoretical composite valuation is marginally increased by around \$1.00 to \$31.33, thanks to higher DCF and dividend yield (sustainable). Nevertheless, we have left the price target unchanged at \$31.00 being the mid-point of the value range of \$30.36-31.33. Based on this price target and 12-month TSR in excess of 15%, we maintain a Buy rating on ANZ.

Earnings Forecast

| Year end 30 September | 2020 | 2021e | 2022e | 2023e |
|----------------------------------|--------|--------|--------|--------|
| Statutory profit (A\$m) | 3,577 | 5,781 | 6,182 | 6,497 |
| Cash profit (continuing) (A\$m) | 3,758 | 5,828 | 6,182 | 6,497 |
| Cash EPS (continuing) (A¢) | 133 | 205 | 221 | 241 |
| Cash EPS (continuing) growth (%) | -42% | 54% | 8% | 9% |
| PER (x) | 21.2 | 13.7 | 12.7 | 11.7 |
| P/Book (x) | 1.3 | 1.3 | 1.3 | 1.2 |
| P/NTA (x) | 1.4 | 1.4 | 1.4 | 1.3 |
| Dividend (A¢) | 60 | 140 | 145 | 150 |
| Yield (%) | 2.1% | 5.0% | 5.2% | 5.3% |
| ROE (%) | 6.2% | 9.4% | 9.9% | 10.3% |
| NIM (%) | 1.62% | 1.64% | 1.62% | 1.61% |
| Franking (%) | 100.0% | 100.0% | 100.0% | 100.0% |

SOURCE: BELL POTTER SECURITIES ESTIMATES

FY21 result preview

Expecting \$5.83bn cash profit, 70¢ final dividend

ANZ's result will come out on Thursday 28 October 2021 and our FY21 forecasts are:

1. Statutory profit \$5.78bn;
2. Cash profit \$5.82bn;
3. Cash profit (continuing) \$5.83bn;
4. Cash EPS (continuing) 205¢;
5. Final dividend 70¢ fully franked, 2H21 payout ratio 70% (42% in 2H20);
6. Cash ROE (continuing) 9.4%;
7. Group NIM (continuing) 1.64%;
8. Credit impairment charge -\$0.42bn/-7bp GLA (\$2.74bn/44bp in FY20);
9. CIR (continuing) 52%; and
10. Level 2 CET1 ratio 12.0%.

We forecast cash NPAT (continuing) of \$5.83bn in FY21, being 55% higher than the previous year (and also 21% higher in 2H21 – meaning there are still substantial gains to be made from efficiencies).

Overall changes include lower net interest income (2% lower, mainly due to lower volumes and despite a 1bp increase in NIM in 2H21 from good NIM management) and lower other banking income (18% lower mainly from institutional banking although there was a gain of around 12% in 2H21) offset by lower operating expenses (the bank continues to manage costs relatively well, down from \$4.78bn in 2H20 down to \$4.48bn in 1H21 and a forecast of \$4.23bn in 2H21) and a benefit in credit impairment charge in the first half of (but back to an expense of \$74m in 2H21 as the industry further normalises).

We expect CIR (continuing) to land at 52% in FY21 (51% in 2H21 vs. 53% in 1H21), a 1% improvement from the previous year. There would in effect be gains made throughout the halves. As for "Jaws", there is now an improvement in FY21 – being +1% in 1H21 (-2% operating income, -3% operating expense) and +2% in 2H21 (-9% operating income, -11% operating expense) but due purely to cost management.

Level 2 CET1 ratio is expected to be around 12.0%.

This is in line with the slight positive change in 3Q21 of 12.2% (noting the recently announced buyback will reduce this by 35bp to 11.8-11.9% but we think organic generation will add back 0.1-0.2% in the final quarter). In the meantime, ANZ continues to drive towards APRA's minimum requirement of 10.5% although a benchmark of 11.5% appears to be the norm. Medium-term, the buyback of \$1.5bn still remains in place and the bank can take up a further \$1.8bn (the difference between 12.2% and NAB's 11.75%, all else being equal).

3Q21 had a total provision release of \$32m (made up of individual provision expense of \$21m and collective provision benefit of \$53m) while total provision balance was \$4.25bn (vs. \$4.29bn in 1H21). While sovereign exposures remain a problem at \$40bn EaD as at the end of the quarter, we think this has now normalised.

The only questions lie in home and business loan deferrals. The first continues to drop at the end of 3Q21 (~1,300 loans comprising ~\$600m out of ~\$280bn or ~0.2% by FUM), driven by a shift to P&I loans, accelerating principal reduction, increasing offsets and paying more of minimum payments. Likewise, the second also fell to only ~50 loans (out of

EaD, ~\$17m out of ~\$70bn or <0.3%; currently below ~24,000 total deferrals in current year). It is therefore a worry when NSW has around ~80% of such deferrals at the end of the third quarter and we can only assume these will rise again given the COVID-19 Delta variant:

1. Australian home loans: Deferrals ~1,300 loans (~\$600m out of ~\$280bn or ~0.2% by FUM; equivalent ~1% total deferrals in current year);
2. Australian home loans 2: Down by \$0.3bn (\$16.2bn increase, \$16.5bn drawdown) with higher payout driven by shift to P&I loans, accelerating principal reduction, increasing offsets and paying more of minimum payments;
3. Australian business loans: Deferrals ~50 loans (out of EaD, ~\$17m out of ~\$70bn or <0.3%; currently below ~24,000 total deferrals in current year); and
4. ~80% of Australian home and business loan deferrals are in NSW.

Total provisions however remained low since FY18, likewise the CP provision has now reverted back to a downward movement – so that's good to know.

Price target \$31.00, Buy rating unchanged

While we have made no changes in net interest and other operating income, we have decided to: (1) further lower operating expenses by \$130m in FY21 and a similar amount in FY22, to arrive at an overall CIR of around 44% at the end of FY23 and FY24; and (2) increase the credit impairment charge by another \$200m but only in FY22. The net impact on cash profit (continuing) is as follows: (1) FY21 +2%; (2) FY22 +1%; (3) FY23 nil; and (4) FY24 +3%.

The theoretical composite valuation is marginally increased by around \$1.00 to \$31.33, thanks to higher DCF and dividend yield (sustainable). Nevertheless, we have left the price target unchanged at \$31.00 being the mid-point of the value range of \$30.36-31.33. Based on this price target and 12-month TSR in excess of 15%, we maintain a Buy rating on ANZ.

Table 1 – Composite valuation

| Composite Valuation | Value (\$m) | Per share | Weighting | Composite value per share |
|-------------------------------|-------------|---------------|-----------|---------------------------|
| DCF | 89,094 | \$31.30 | 25% | \$7.82 |
| Dividend yield (sustainable) | 106,283 | \$37.33 | 25% | \$9.33 |
| ROE (sustainable) | 80,117 | \$28.14 | 25% | \$7.04 |
| Sum-of-Parts | 78,214 | \$27.47 | 25% | \$6.87 |
| Total | | | | \$31.06 |
| Plus surplus capital * | | \$0.27 | | \$31.33 |

* Less estimated NZ new capital requirement

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 2 – SOP valuation

| Sum-of-Parts (As Is) | FY22e NPAT | Pros. PE (times) | Value (\$m) | Per share |
|----------------------|--------------|------------------|---------------|----------------|
| Australia | 3,385 | 12.0 | 40,616 | \$14.27 |
| Pacific | 36 | 10.0 | 358 | \$0.13 |
| Institutional | 1,593 | 13.0 | 20,711 | \$7.28 |
| Wealth Australia | 0 | - | 0 | \$0.00 |
| New Zealand | 1,377 | 12.0 | 16,529 | \$5.81 |
| Other | -209 | - | 0 | \$0.00 |
| Total | 6,182 | 12.7 | 78,214 | \$27.47 |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 3 – Estimate changes

| ANZ Bank Y/e September 30 (\$m) | FY21e | | | FY22e | | | FY23e | | | FY24e | | |
|------------------------------------|---------------|---------------|-----------|---------------|---------------|-----------|---------------|---------------|-----------|---------------|---------------|------------|
| | Current | Previous | Change | Current | Previous | Change | Current | Previous | Change | Current | Previous | Change |
| Profit & Loss | | | | | | | | | | | | |
| Net interest income | 13,707 | 13,707 | 0% | 13,755 | 13,755 | 0% | 13,991 | 13,991 | 0% | 14,279 | 14,279 | 0% |
| Other operating income | 3,044 | 3,044 | 0% | 3,680 | 3,680 | 0% | 4,185 | 4,185 | 0% | 4,286 | 4,286 | 0% |
| Operating income | 16,751 | 16,751 | 0% | 17,435 | 17,435 | 0% | 18,176 | 18,176 | 0% | 18,565 | 18,565 | 0% |
| Operating expenses | -8,716 | -8,847 | 1% | -7,952 | -8,217 | 3% | -8,248 | -8,248 | 0% | -8,122 | -8,401 | 3% |
| Credit impairment charge | 417 | 417 | 0% | -715 | -570 | -20% | -1,057 | -1,057 | 0% | -1,133 | -1,133 | 0% |
| Profit before income tax | 8,452 | 8,322 | 2% | 8,767 | 8,647 | 1% | 8,872 | 8,872 | 0% | 9,310 | 9,031 | 3% |
| Income tax expense | -2,624 | -2,585 | -1% | -2,585 | -2,549 | -1% | -2,617 | -2,617 | 0% | -2,749 | -2,665 | -3% |
| Non-controlling interests | -8 | -8 | n/m | 0 | 0 | n/m | 0 | 0 | n/m | 0 | 0 | n/m |
| Cash profit | 5,820 | 5,729 | 2% | 6,182 | 6,098 | 1% | 6,255 | 6,255 | 0% | 6,561 | 6,366 | 3% |
| Cash profit (continuing) | 5,828 | 5,737 | 2% | 6,182 | 6,098 | 1% | 6,255 | 6,255 | 0% | 6,561 | 6,366 | 3% |
| DPS (cps) | 140 | 130 | 8% | 145 | 140 | 4% | 150 | 150 | 0% | 155 | 160 | -3% |
| Payout ratio (target 60-65%) | 68% | 64% | 4% | 65% | 64% | 1% | 65% | 65% | 0% | 64% | 68% | -4% |
| Cash EPS (continuing) (cps) | 205 | 202 | 1.6% | 221 | 218 | 1.4% | 232 | 232 | 0.0% | 243 | 236 | 3.1% |
| Cash ROE (continuing) | 9.4% | 9.2% | 0.1% | 9.9% | 9.8% | 0.1% | 9.9% | 9.9% | 0.0% | 10.0% | 9.8% | 0.3% |
| NIM | 1.64% | 1.64% | 0.00% | 1.62% | 1.62% | 0.00% | 1.61% | 1.61% | 0.00% | 1.61% | 1.61% | 0.00% |
| CIR (continuing) | 52% | 53% | 1% | 46% | 47% | 2% | 45% | 45% | 0% | 44% | 45% | 1% |
| Impairment expense as % of GLA | -0.07% | -0.07% | 0.00% | 0.11% | 0.09% | -0.02% | 0.16% | 0.16% | 0.00% | 0.17% | 0.17% | 0.00% |
| Effective tax rate | 31% | 31% | 0% | 29% | 29% | 0% | 30% | 30% | 0% | 30% | 30% | 0% |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

ANZ Banking Group

Company description

ANZ operates primarily in Australia, New Zealand and selected markets in the Asia Pacific region via its Institutional Bank. The Group services 6m customers and provides the following products and services: retail banking; business banking and institutional banking.

Investment strategy

ANZ's focus is now on the more profitable and higher ROE Australian and New Zealand retail, business and private banking space, although we believe there is still value in selected offshore locations focusing on institutional banking particularly in trade finance servicing corporates doing business offshore and high net worth customers.

Valuation

The price target is closely aligned with the bank's composite valuation, weighted in the table below.

Table 4 – Composite valuation

| Composite Valuation | Value (\$m) | Per share | Weighting | Composite value per share |
|-------------------------------|-------------|---------------|-----------|---------------------------|
| DCF | 89,094 | \$31.30 | 25% | \$7.82 |
| Dividend yield (sustainable) | 106,283 | \$37.33 | 25% | \$9.33 |
| ROE (sustainable) | 80,117 | \$28.14 | 25% | \$7.04 |
| Sum-of-Parts | 78,214 | \$27.47 | 25% | \$6.87 |
| Total | | | | \$31.06 |
| Plus surplus capital * | | \$0.27 | | \$31.33 |

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SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 5 – SOP valuation

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| Australia | 3,385 | 12.0 | 40,616 | \$14.27 |
| Pacific | 36 | 10.0 | 358 | \$0.13 |
| Institutional | 1,593 | 13.0 | 20,711 | \$7.28 |
| Wealth Australia | 0 | - | 0 | \$0.00 |
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| Other | -209 | - | 0 | \$0.00 |
| Total | 6,182 | 12.7 | 78,214 | \$27.47 |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

SWOT analysis

Strengths

1. Domestic retail and SME banking franchise, including service and sales, and corporate banking; and
2. Management execution.

Weaknesses

1. Underweight home lending Australia (although being addressed); and
2. Overweight New Zealand.

Opportunities

1. Further cost management; and
2. Divesting non-core businesses (under way).

Threats

1. Macroeconomic factors such as higher regulatory requirements in Australia and New Zealand, higher regional unemployment and slowing domestic credit growth;
2. Rising wholesale funding costs;
3. COVID-19 implications on Institutional/Corporate business in Asia;

4. Sovereign risk – exposed to sometimes unstable governments; and
5. Increased competition specifically from CBA, WBC and NAB on the domestic front in retail and wholesale banking and wealth management.

Sensitivities

Table 6 – Sensitivities

| Y/e September 30 | 2021e | 2022e | 2023e | 2024e | 2025e | 2026e | 2027e | 2028e | 2029e |
|---------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Sensitivities | | | | | | | | | |
| Group NIM +10bp | | | | | | | | | |
| - Cash profit upside (continuing) | 10.1% | 9.6% | 9.4% | 9.5% | 9.4% | 9.3% | 9.2% | 9.2% | 9.1% |
| - Price target upside | \$3.12 | \$2.98 | \$2.91 | \$2.93 | \$2.91 | \$2.89 | \$2.86 | \$2.84 | \$2.82 |
| Group Loans +1% | | | | | | | | | |
| - Cash profit upside (continuing) | 0.6% | 0.6% | 0.6% | 0.6% | 0.6% | 0.6% | 0.6% | 0.6% | 0.6% |
| - Price target upside | \$0.19 | \$0.19 | \$0.19 | \$0.19 | \$0.19 | \$0.18 | \$0.18 | \$0.18 | \$0.18 |
| Aust. loans (ex Wealth/IB) +1% | | | | | | | | | |
| - Cash profit upside (continuing) | 0.6% | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% |
| - Price target upside | \$0.18 | \$0.17 | \$0.17 | \$0.17 | \$0.17 | \$0.17 | \$0.17 | \$0.17 | \$0.16 |
| APEA loans +1% | | | | | | | | | |
| - Cash profit upside (continuing) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| - Price target upside | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| NZ loans +1% | | | | | | | | | |
| - Cash profit upside (continuing) | 0.3% | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% |
| - Price target upside | \$0.08 | \$0.07 | \$0.07 | \$0.07 | \$0.07 | \$0.07 | \$0.07 | \$0.07 | \$0.07 |
| Other income +1% | | | | | | | | | |
| - Cash profit upside (continuing) | 0.4% | 0.4% | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% | 0.4% | 0.4% |
| - Price target upside | \$0.11 | \$0.13 | \$0.14 | \$0.14 | \$0.14 | \$0.14 | \$0.14 | \$0.14 | \$0.14 |
| BDD +1% | | | | | | | | | |
| - Cash profit upside (continuing) | 0.1% | -0.1% | -0.1% | -0.1% | -0.1% | -0.1% | -0.1% | -0.1% | -0.1% |
| - Price target upside | \$0.02 | -\$0.03 | -\$0.03 | -\$0.04 | -\$0.04 | -\$0.04 | -\$0.04 | -\$0.04 | -\$0.04 |
| Costs +1% | | | | | | | | | |
| - Cash profit upside (continuing) | -1.0% | -0.9% | -0.9% | -0.9% | -0.9% | -0.8% | -0.8% | -0.8% | -0.8% |
| - Price target upside | -\$0.32 | -\$0.28 | -\$0.27 | -\$0.27 | -\$0.26 | -\$0.26 | -\$0.26 | -\$0.25 | -\$0.25 |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 7 – Financial summary

| ANZ Bank | | | | | | Share Price (A\$) | 28.15 | | | | |
|--------------------------------------------|----------------|------------------|------------------|------------------|------------------|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| As at | 1-Oct-21 | | | | | Market Cap (A\$M) | 80,139 | | | | |
| PROFIT AND LOSS | | | | | | | | | | | |
| Y/e September 30 (\$m) | 2019 | 2020 | 2021e | 2022e | 2023e | Y/e September 30 | 2019 | 2020 | 2021e | 2022e | 2023e |
| Net interest income | 14,339 | 14,049 | 13,707 | 13,755 | 13,991 | Cash profit (continuing) (\$m) | 6,470 | 3,758 | 5,828 | 6,182 | 6,497 |
| Other banking income | 4,672 | 3,703 | 3,044 | 3,680 | 4,185 | Statutory EPS (c) | 210 | 126 | 203 | 222 | 241 |
| Total banking income | 19,011 | 17,752 | 16,751 | 17,435 | 18,176 | - Growth | -5% | -40% | 61% | 9% | 9% |
| Funds management income | 0 | 0 | 0 | 0 | 0 | Cash EPS (continuing) (c) | 228 | 133 | 205 | 221 | 241 |
| Insurance income | 18 | 0 | 0 | 0 | 0 | - Growth | 2% | -42% | 54% | 8% | 9% |
| Operating income | 19,029 | 17,752 | 16,751 | 17,435 | 18,176 | P / E ratio (times) | 12.4 | 21.2 | 13.7 | 12.7 | 11.7 |
| Operating expenses | -9,071 | -9,383 | -8,716 | -7,952 | -7,976 | P / Book ratio (times) | 1.3 | 1.3 | 1.3 | 1.3 | 1.2 |
| Credit impairment charge | -795 | -2,738 | 417 | -715 | -983 | P / NTA ratio (times) | 1.4 | 1.4 | 1.4 | 1.4 | 1.3 |
| Profit before income tax | 9,163 | 5,631 | 8,452 | 8,767 | 9,218 | Net DPS (c) | 160 | 60 | 140 | 145 | 150 |
| Income tax expense | -2,678 | -1,872 | -2,624 | -2,585 | -2,721 | Yield | 5.7% | 2.1% | 5.0% | 5.2% | 5.3% |
| Non-controlling interests | -15 | -1 | 0 | 0 | 0 | Franking | 85% | 100% | 100% | 100% | 100% |
| Investment experience | 0 | 0 | 0 | 0 | 0 | Payout (cash basis, target 60-65%) | 70% | 45% | 68% | 65% | 62% |
| Cash profit (continuing) | 6,470 | 3,758 | 5,828 | 6,182 | 6,497 | CAPITAL ADEQUACY | | | | | |
| Discontinued operations | -309 | -98 | -8 | 0 | 0 | Y/e September 30 | 2019 | 2020 | 2021e | 2022e | 2023e |
| Cash profit | 6,161 | 3,660 | 5,820 | 6,182 | 6,497 | Risk weighted assets (\$m) | 416,961 | 429,384 | 417,393 | 431,361 | 445,861 |
| Hedging, one off gains, etc. | -208 | -83 | -39 | 0 | 0 | Average risk weight | 46% | 46% | 46% | 46% | 46% |
| Statutory profit | 5,953 | 3,577 | 5,781 | 6,182 | 6,497 | Tier 1 ratio | 13.2% | 13.2% | 13.8% | 13.3% | 13.4% |
| CASHFLOW | | | | | | CET1 capital ratio | 11.4% | 11.3% | 12.0% | 11.5% | 11.7% |
| Y/e September 30 (\$m) | 2019 | 2020 | 2021e | 2022e | 2023e | Total capital ratio | 15.3% | 16.4% | 17.8% | 17.1% | 17.1% |
| Cash profit | 6,161 | 3,660 | 5,820 | 6,182 | 6,497 | Equity ratio | 6.2% | 5.9% | 6.0% | 5.8% | 5.8% |
| Increase in loans | -9,640 | -1,598 | -9,658 | -14,565 | -13,891 | DIVISIONAL | | | | | |
| Increase in other assets | -31,308 | -32,642 | 29,278 | -16,665 | -17,680 | Y/e September 30 (\$m) | 2019 | 2020 | 2021e | 2022e | 2023e |
| Capital expenditure | -91 | -1,089 | 179 | -86 | -88 | Australia | | | | | |
| Investing cashflow | -41,039 | -35,329 | 19,799 | -31,316 | -31,660 | Net interest income | 8,092 | 7,916 | 7,902 | 8,054 | 8,129 |
| Increase in deposits & borrowings | 28,986 | 35,692 | 23,326 | 22,010 | 21,805 | Other income | 1,347 | 1,161 | 757 | 1,232 | 1,577 |
| Increase in other liabilities | 7,580 | 24,954 | -27,568 | 9,600 | 7,339 | Total banking income | 9,439 | 9,077 | 8,659 | 9,286 | 9,706 |
| Ordinary equity raised | 0 | 0 | 0 | 0 | 0 | Operating expenses | -4,074 | -4,091 | -3,341 | -3,942 | -4,018 |
| Other | -4,703 | -2,675 | -4,840 | -6,476 | -3,980 | Impairment expenses | -712 | -1,647 | 310 | -509 | -667 |
| Financing cashflow | 31,863 | 57,971 | -9,082 | 25,133 | 25,163 | Net profit before tax | 4,653 | 3,339 | 5,027 | 4,835 | 5,021 |
| Net change in cash | -3,015 | 26,302 | 16,537 | 0 | 0 | Corporate tax expense | -1,458 | -1,002 | -1,586 | -1,451 | -1,506 |
| Cash at end of period | 81,621 | 107,923 | 124,460 | 124,460 | 124,460 | Cash profit (continuing) | 3,195 | 2,337 | 3,441 | 3,385 | 3,515 |
| BALANCE SHEET | | | | | | Loans | 331,871 | 339,381 | 357,126 | 364,268 | 371,554 |
| Y/e September 30 (\$m) | 2019 | 2020 | 2021e | 2022e | 2023e | Deposits | 208,005 | 234,594 | 249,427 | 256,909 | 264,617 |
| Cash and liquid assets | 81,621 | 107,923 | 124,460 | 124,460 | 124,460 | Pacific | | | | | |
| Divisional gross loans | 621,873 | 621,670 | 633,400 | 647,275 | 661,300 | Net interest income | 128 | 109 | 110 | 107 | 91 |
| Provisions | -4,190 | -5,899 | -4,995 | -4,305 | -4,440 | Other income | 104 | 84 | 63 | 54 | 46 |
| Other gross loans / inter div. | -3,106 | 404 | -2,572 | -2,572 | -2,572 | Total banking income | 232 | 193 | 174 | 161 | 137 |
| Other IEA | 267,169 | 302,285 | 273,653 | 290,319 | 307,999 | Operating expenses | -150 | -205 | -136 | -115 | -97 |
| Intangibles | 4,861 | 4,379 | 4,024 | 4,024 | 4,024 | Impairment expenses | 1 | -52 | -6 | -5 | -4 |
| PP&E | 1,924 | 3,013 | 2,834 | 2,920 | 3,008 | Net profit before tax | 83 | -64 | 32 | 41 | 36 |
| Insurance assets | 0 | 0 | 0 | 0 | 0 | Corporate tax expense | -24 | 2 | -4 | -5 | -4 |
| Other assets | 10,985 | 8,511 | 7,865 | 7,865 | 7,865 | Cash profit (continuing) | 59 | -62 | 28 | 36 | 31 |
| Total assets | 981,137 | 1,042,286 | 1,038,669 | 1,069,985 | 1,101,645 | Loans | 2,120 | 1,866 | 1,586 | 1,348 | 1,146 |
| Divisional deposits & IBL | 613,680 | 649,372 | 672,698 | 694,708 | 716,512 | Deposits | 3,546 | 3,534 | 3,110 | 2,643 | 2,247 |
| Other borrowings | 295,556 | 318,885 | 292,198 | 301,798 | 309,137 | Institutional | | | | | |
| Other liabilities | 11,107 | 12,732 | 11,851 | 11,851 | 11,851 | Net interest income | 3,080 | 3,182 | 2,816 | 2,704 | 2,794 |
| Total liabilities | 920,343 | 980,989 | 976,747 | 1,008,357 | 1,037,500 | Other income | 2,192 | 2,649 | 2,044 | 2,093 | 2,143 |
| Ordinary share capital | 26,490 | 26,531 | 25,115 | 22,615 | 22,615 | Total banking income | 5,272 | 5,831 | 4,860 | 4,797 | 4,937 |
| Other equity instruments | 0 | 0 | 0 | 0 | 0 | Operating expenses | -2,667 | -2,558 | -2,568 | -2,420 | -2,478 |
| Reserves | 1,629 | 1,501 | 741 | 741 | 741 | Impairment expenses | 2 | -694 | 55 | -101 | -103 |
| Retained profits | 32,664 | 33,255 | 36,056 | 38,262 | 40,779 | Net profit before tax | 2,607 | 2,579 | 2,347 | 2,276 | 2,356 |
| Minority interests | 11 | 10 | 10 | 10 | 10 | Corporate tax expense | -779 | -725 | -676 | -683 | -707 |
| Total shareholders' equity | 60,794 | 61,297 | 61,922 | 61,628 | 64,145 | Cash profit (continuing) | 1,828 | 1,854 | 1,671 | 1,593 | 1,649 |
| Total sh. equity & liabs. | 981,137 | 1,042,286 | 1,038,669 | 1,069,985 | 1,101,645 | Loans | 164,526 | 157,634 | 148,299 | 151,265 | 154,290 |
| WANOS - statutory (m) | 2,834 | 2,830 | 2,842 | 2,790 | 2,699 | Other IEA | 346,094 | 391,862 | 346,990 | 353,930 | 361,008 |
| WANOS - underlying (m) | 2,842 | 2,833 | 2,844 | 2,792 | 2,701 | IBL | 290,671 | 296,715 | 299,067 | 308,039 | 317,280 |
| PROFITABILITY RATIOS | | | | | | Wealth Australia | | | | | |
| Y/e September 30 | 2019 | 2020 | 2021e | 2022e | 2023e | Net interest income | | | | | |
| Return on assets (cash, continuing) | 0.7% | 0.3% | 0.6% | 0.6% | 0.6% | Other operating income | | | | | |
| Return on equity (cash, continuing) | 10.9% | 6.2% | 9.4% | 9.9% | 10.3% | Net funds management income | | | | | |
| Leverage ratio | 5.7% | 5.4% | 5.6% | 5.4% | 5.5% | Net insurance & other income | | | | | |
| Net interest margin (continuing) | 1.75% | 1.62% | 1.64% | 1.62% | 1.61% | Total operating income | | | | | |
| Cost / income ratio (continuing) | 48% | 53% | 52% | 46% | 44% | Operating expenses | | | | | |
| Cost / average assets (continuing) | 0.92% | 0.86% | 0.85% | 0.75% | 0.73% | Impairment expenses | | | | | |
| Growth in operating income | -2% | -7% | -6% | 4% | 4% | Net profit before tax | 1,943 | 1,424 | 2,059 | 1,913 | 1,903 |
| Growth in operating expenses | -4% | 3% | -7% | -9% | 0% | Corporate tax expense | -544 | -407 | -573 | -536 | -533 |
| Jaws (continuing) | 2% | -10% | 1% | 13% | 4% | Minority interests | 0 | 0 | 0 | 0 | 0 |
| Effective tax rate | 29% | 33% | 31% | 29% | 30% | Investment experience | 0 | 0 | 0 | 0 | 0 |
| ASSET QUALITY | | | | | | Cash profit (continuing) | 1,399 | 1,017 | 1,486 | 1,377 | 1,370 |
| Y/e September 30 | 2019 | 2020 | 2021e | 2022e | 2023e | Loans | 119,166 | 116,890 | 121,394 | 126,088 | 129,871 |
| Impairment expense / GLA | 0.13% | 0.44% | -0.07% | 0.11% | 0.15% | Deposits | 87,456 | 92,832 | 99,217 | 105,055 | 110,307 |
| Impairment expense / RWA | 0.19% | 0.64% | -0.10% | 0.17% | 0.22% | Other IBL | 24,002 | 21,697 | 21,877 | 22,061 | 22,061 |
| Total provisions (\$m) | 4,190 | 5,899 | 4,995 | 4,305 | 4,440 | | | | | | |
| Total provisions / GLA | 0.67% | 0.95% | 0.79% | 0.67% | 0.67% | | | | | | |
| Indiv ass prov / gross imp assets | 40% | 36% | 36% | 40% | 40% | | | | | | |
| IBL / IEA | 103% | 105% | 107% | 107% | 107% | | | | | | |
| Total provisions + GRCL / RWA | 1.00% | 1.37% | 1.20% | 1.00% | 1.00% | | | | | | |

SOURCE: 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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