BELL POTTER

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Recommendation

Buy (unchanged) Price \$98.99 Target (12 months) \$111.00 (previously \$118.00)

GICS Sector

Banks

12.1%
3.8%
15.9%
n/m
\$168,916m
1,706m
100%
\$279.5m
\$74.60 -
\$110.19

Price Performance								
	(1m)	(3m)	(12m)					
Price (A\$)	101.91	105.88	73.07					
Absolute (%)	-2.87	-6.51	35.47					
Rel market (%)	-3.79	-3.92	19.95					

Absolute Price



SOURCE: IRESS

Commonwealth Bank (CBA)

Forest for the trees

1Q22: ~\$2.20bn unaudited cash NPAT (BP \$2.36bn)

CBA's 1Q22 result components are: 1) unaudited statutory NPAT ~\$2.30bn (BP \$2.51bn); 2) unaudited cash NPAT ~\$2.20bn (BP \$2.36bn); 3) operating income down 1% but flat excluding AHL with above system growth offsetting margin pressure and lower non-interest income; 4) operating expenses down 1% – lower remediation costs more than offset higher staff expenses; 5) credit quality stable and reverting back to normal – loan impairment expense \$0.10bn or 5bp GLA (BP \$0.24bn); 6) credit provisions unchanged; 7) strong balance sheet – 74% customer deposit funding ratio, 131% NSFR and 132% LCR; and 8) Level 2 CET1 capital 12.5% (BP 12.0%) – net of final dividend and buyback, the ratio would be 11.2% (but climbing back to 11.6-11.7% with announced asset sales).

Operating income was disappointingly and 1% lower with 1% higher net interest income more than offset by much lower non-interest income. On the other hand, growth was ahead of system in core markets at \$17.0bn but this was offset by lower NIM. Non-interest income was also 8% lower due to the removal of AHL among other things (excluding these, it was better and flat overall). Finally, operating expense was down by 1% and driven by lower remediation costs (but was only 3% higher mainly due to staff expenses plus 1.5 additional working days). Overall, cash NPAT of around \$2.2bn was still higher than for the same period last year – a plus in a way.

Price target a more realistic \$111.00 but maintain Buy rating

Given its lower quarterly performance, CBA's cash NPAT is reduced by 3% across the forecast horizon. This is mainly due to lower NII (-1%) and other income (-2%) but flat in total excluding the AHL divestment (above system growth that offset margin pressures and lower other income), slightly lower operating expenses (+1% based on lower remediation costs) and just a minor change in loan impairment expense in FY22 of -33% (i.e. a lower expense). The price target is however lowered by 6% to \$111.00 (previously \$118.00) after also considering added dividend and ROE risks. Based on a 12-month TSR of greater than 15%, CBA is still regarded as a Buy.

Year end 30 June	2021	2022e	2023e	2024e
NPAT (reported) (A\$m)	8,843	9,854	10,003	10,335
NPAT (cash, continuing) (A\$m)	8,653	9,256	9,405	9,737
EPS (cash, continuing) (A¢)	489	532	551	571
EPS (cash) growth (%)	20%	9%	4%	4%
PER (x)	20.3	18.6	18.0	17.3
P/Book (x)	2.1	2.2	2.1	2.1
P/NTA (x)	2.4	2.4	2.3	2.2
Dividend (A¢)	350	394	415	430
Yield (%)	3.5%	4.0%	4.2%	4.3%
ROE (continuing) (%)	11.5%	12.2%	12.2%	12.1%
NIM (continuing) (%)	2.03%	1.99%	1.97%	1.98%
Franking (%)	100.0%	100.0%	100.0%	100.0%

Forest for the trees

1Q22: ~\$2.20bn unaudited cash NPAT (BP \$2.36bn)

For the quarter ended 30 September 2021, all financial comparisons are to the average of the two quarters of the second half of FY21 unless noted otherwise.

CBA's 1Q22 result components are:

- 1. Unaudited statutory NPAT ~\$2.30bn (BP \$2.51bn);
- 2. Unaudited cash NPAT ~\$2.20bn (BP \$2.36bn);
- 3. Operating income down 1% but flat excluding AHL with above system growth offsetting margin pressure and lower non-interest income;
- Operating expenses down 1% lower remediation costs more than offset higher staff expenses;
- Credit quality stable and reverting back to normal loan impairment expense \$0.10bn or 5bp GLA (BP \$0.24bn);
- 6. Credit provisions unchanged;
- Strong balance sheet 74% customer deposit funding ratio, 131% NSFR and 132% LCR; and
- Level 2 CET1 capital 12.5% (BP 12.0%) net of final dividend and buyback, the ratio would be 11.2% (but climbing back to 11.6-11.7% with announced asset sales).

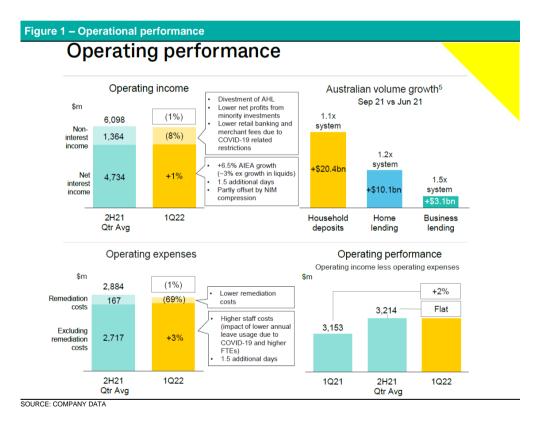
CBA's performance reflected above-system growth in the core markets, sound credit quality and balance sheet strength. The \$6.0bn off-market share buyback in October 2021 was oversubscribed and the bank returned \$12.0bn to shareholders in the last 12 months. The bank also released the final report on the remedial action plan with all milestones completed and all recommendations now closed.

Operating income was 1% lower with 1% higher net interest income (NII) offset by much lower non-interest income. On the other hand, growth was ahead of system in core markets at \$17.0bn (including home lending \$10.1bn driven by proprietary funding and fixed rate loans, strong business lending +13% pcp and with stable margins, >\$20.0bn in household deposits plus 1.5 additional working days) 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 in general; we had a decline of 3bp but have now adjusted this from 2.01% to 1.97-1.98%).

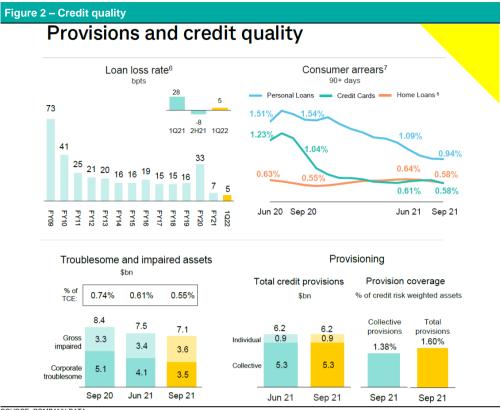
Non-interest income was 8% lower due to the removal of AHL, the reversal of minority gains and reduced retail lending fees and commissions linked to COVID-19. Excluding these, it was around flat and thus also acceptable.

Finally, 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 1.5 additional working days. Overall, cash NPAT of around \$2.2bn was still higher than for the same period last year.

CBA Y/E 30 June (cash ba: continuing operations, \$m		2H21	2H21 quarterly average	1Q22	Movement 1Q22 vs. 2H21 quarterly average
Operating income	As reported	12,195	6,098	6,037	-1.0%
	Mortgage Broking consolidation & other	0	0		
	Operating income excluding notable items	12,195	6,098	6,098	0.0%
Operating expenses	As reported	5,768	2,884	2,855	-1.0%
	Insurance recovery	0	0		
	Mortgage Broking consolidation	0	0		
	Customer remediation	-333	-167		
	Risk & compliance uplifts	0	0		
	Operating expense excluding customer remediation	5,435	2,718	2,799	3.0%
Loan impairment expense (L	JE)	-328	-164	103	n/m
Cash NPBT excluding notable items as reported			3,544	3,195	
Cash NPAT as reported		4,785	2,393	2,200	
Statutory NPAT as reporte	d	5,084	2,542	2,300	

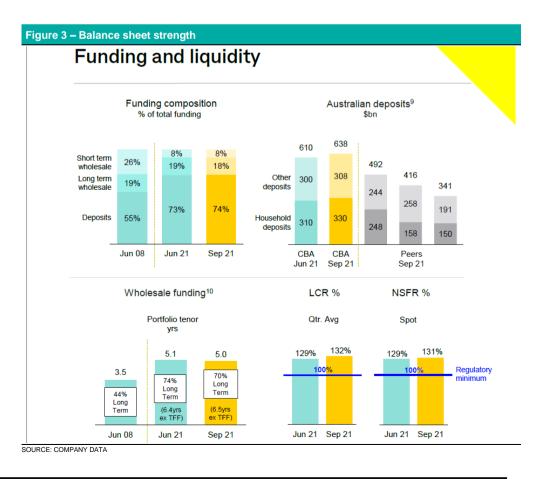


The loan impairment expense was \$105m, still short of the \$204m as predicted. This was mainly due to broadly unchanged credit provisions (\$6.2bn) with lower consumer (unsecured arrears linked to reduced spending among other things) and lower home loan arrears (including the impact of new temporary loan repayment deferral arrangements). Be that as it may, the bank still considers a modest uptick in arrears as the NSW and VIC economies reopen. Finally, TIA were also lower at \$7.1bn or 0.55% TCE.



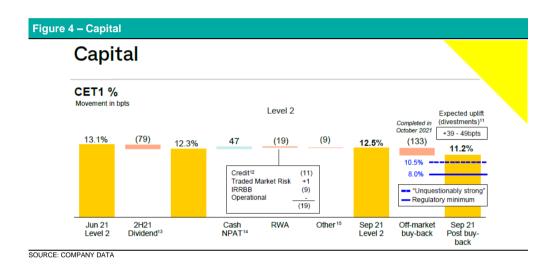
SOURCE: COMPANY DATA

Balance sheet strength was maintained with strong funding. Both the NSFR and LCR were in good shape, likewise from a wholesale funding perspective with 70% long term and a weighted average tenor of 5 years.



Level 2 CET1 ratio was 12.5% at the end of 1Q22, up by 19bp net of the final dividend payment of 79bp. In origination terms and other than the final dividend, cash NPAT of +47bp was offset by RWA movement (-19bp made up of credit and IRRBB offset by traded market risk) and other regulatory adjustments (-9bp). Following the \$6.0bn buyback, Level 2 CET1 ratio would now be 11.2%. The bank will still target a full year payout ratio of 70-80% of cash NPAT, likewise an interim figure of around 70%.

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 add 39-49bp and bring the total Level 2 CET1 ratio to 11.59-11.69%.



Price target \$111.00, maintain Buy rating

Given its lower quarterly performance, CBA's cash NPAT is reduced by 3% across the forecast horizon. This is mainly due to lower NII (-1%) and other income (-2%) but flat in total excluding the AHL divestment (above system growth that offset margin pressures and lower other income), slightly lower operating expenses (+1% based on lower remediation costs) and just a minor change in loan impairment expense in FY22 of -33% (i.e. a lower expense).

The price target is however lowered by 6% to \$111.00 (previously \$118.00) after also considering added dividend and ROE risks. Based on a 12-month TSR of greater than 15%, CBA is still regarded as a Buy.

able 2 – Estimate changes												
Commonwealth Bank		FY22e			FY23e		FY24e				FY25e	
Y/e June 30 (\$m)	Current	Previous	Change									
Profit & Loss (continuing)												
Net interest income	19,453	19,699	-1%	19,669	19,968	-1%	20,123	20,428	-1%	20,590	20,901	-1%
Other income	5,265	5,516	-5%	5,533	5,636	-2%	5,650	5,755	-2%	5,770	5,879	-2%
Total operating income	24,718	25,215	-2%	25,202	25,604	-2%	25,773	26,184	-2%	26,360	26,779	-2%
Operating expenses	-10,914	-10,839	-1%	-10,805	-10,727	-1%	-10,789	-10,710	-1%	-10,691	-10,610	-1%
Loan impairment expense	-729	-973	33%	-1,109	-1,109	0%	-1,229	-1,229	0%	-1,352	-1,352	0%
Net profit before income tax	13,075	13,404	-2%	13,288	13,767	-3%	13,756	14,245	-3%	14,317	14,817	-3%
Corporate tax expense	-3,819	-3,919	3%	-3,883	-4,026	4%	-4,019	-4,165	4%	-4,182	-4,331	4%
Investment experience	0	0	n/a									
NPAT (cash basis)	9,256	9,485	-2%	9,405	9,741	-3%	9,737	10,080	-3%	10,135	10,486	-3%
DPS (cps)	394	406	-3%	415	427	-3%	430	442	-3%	445	457	-3%
EPS (cash basis) (cps)	532	544	-2%	551	569	-3%	571	588	-3%	594	612	-3%
Payout ratio	74%	75%	-1%	75%	75%	0%	75%	75%	0%	75%	75%	0%
ROE	12.2%	12.5%	-0.3%	12.2%	12.6%	-0.4%	12.1%	12.5%	-0.4%	12.1%	12.5%	-0.4%
NIM	1.99%	2.01%	-0.03%	1.97%	2.00%	-0.03%	1.98%	2.01%	-0.03%	1.98%	2.01%	-0.03%
Cost ratio	44%	43%	-1%	43%	42%	-1%	42%	41%	-1%	41%	40%	-1%
Impairment expense as % of GLA	0.09%	0.12%	0.03%	0.13%	0.13%	0.00%	0.14%	0.14%	0.00%	0.15%	0.15%	0.00%
Effective tax rate	29%	29%	0%	29%	29%	0%	29%	29%	0%	29%	29%	0%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 3 – Composite valuation

Composite Valuation	Value (\$m)	Per share	Weighting	Composite value per share
DCF	173,837	\$101.87	25%	\$25.47
Dividend yield (sustainable)	202,329	\$118.57	25%	\$29.64
ROE (sustainable)	182,135	\$106.74	25%	\$26.68
Sum-of-Parts	173,610	\$101.74	25%	\$25.44
Surplus capital *	5,287	\$3.10		\$3.10
Total				\$110.33
* Less estimated capital deductions				

Table 4 – SOP valuation				
SOP Valuation	FY23e NPAT	Pros. PE (times)	Value (\$m)	Per share
Retail Banking	4,712	17.5	82,458	\$48.32
B&PB / IB&M	3,803	18.5	70,353	\$41.23
Wealth Management	0	0.0	-	-
New Zealand	1,189	17.5	20,799	\$12.19
Other	-298	-	-	-
Total	9,405	18.5	173,610	\$101.74

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

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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 Sumof-Parts weighted equally.

able 5 – Composite valuation									
Composite Valuation	Value (\$m)	Per share	Weighting	Composite value per share					
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Other	-298	-	-	-
Total	9,405	18.5	173,610	\$101.74

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

Y/e June 30	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sensitivities									
Group NIM +10bp									
- NPAT upside (cash basis)	7.4%	7.4%	7.3%	7.2%	7.0%	6.9%	6.8%	6.6%	6.5%
- Price target upside	\$8.21	\$8.25	\$8.13	\$7.97	\$7.82	\$7.66	\$7.51	\$7.36	\$7.2
Group Loans +1%									
- NPAT upside (cash basis)	0.8%	0.8%	0.8%	0.8%	0.7%	0.7%	0.7%	0.7%	0.7%
- Price target upside	\$0.84	\$0.84	\$0.84	\$0.83	\$0.83	\$0.83	\$0.82	\$0.82	\$0.8
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	\$0.56	\$0.55	\$0.55	\$0.54	\$0.54	\$0.54	\$0.54	\$0.5
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	\$0.46	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.44	\$0.44	\$0.4
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	\$0.15	\$0.15	\$0.15	\$0.16	\$0.16	\$0.1
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	\$0.44	\$0.46	\$0.45	\$0.44	\$0.43	\$0.43	\$0.42	\$0.41	\$0.4
BDD +1%									
- NPAT upside (cash basis)	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.19
- Price target upside	-\$0.06	-\$0.09	-\$0.10	-\$0.10	-\$0.11	-\$0.11	-\$0.11	-\$0.10	-\$0.1
Costs +1%									
- NPAT upside (cash basis)	-0.8%	-0.8%	-0.8%	-0.7%	-0.7%	-0.7%	-0.6%	-0.6%	-0.6%
- Price target upside	-\$0.92	-\$0.89	-\$0.86	-\$0.82	-\$0.78	-\$0.75	-\$0.71	-\$0.68	-\$0.6

Commonwealth Bank as at 17 November 2021

Recommendation Price

Target (12 months)

Buy \$98.99

\$111.00

Table 8 – Financial summary

Commonwealth Bank

17-Nov-21 Vie June 30 (\$m) 2020 2021 2022e 2023e 2024e Vie June 30 (\$m) 18,610 18,839 19,453 19,669 20,123 Dither banking income 4,837 5,007 4,975 5,235 5,347 Fotal banking income 17.3 165 182 190 195 surance income 141 145 108 108 108 Total perating expenses -10,996 -11,359 -10,184 -10,805 -10,789 Jona impairment expense -3,022 3,589 -3,883 -4,019 -1,229 Vie profit before income tax 10,247 12,243 13,075 13,288 14,019 O 0 0 0 0 0 0 0 Vie profit before income tax 0,926 9,405 9,737 1,328 13,976 2,224 Vie profit basis) 7,225 8,653 9,256 9,405 9,737 Adjustments 163	As at					
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meastment experience 0	-	0	0	0	0	0
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NPAT (cash basis) 7,225 8,653 9,256 9,405 9,737 ncrease in loans -19,318 -42,955 -19,346 -19,713 ncrease in other assets -1,264 20,609 -9,470 -10,174 -10,935 applate expenditure -3,219 318 -160 -165 -170 nrease in other assets -23,801 -22,028 -28,975 -30,052 -31,460 ncrease in there liabilities -33,374 17,383 9,567 -30,052 -31,460 ncrease in there liabilities -33,474 17,484 -19,466 -11,885 -6,512 -6,612 Prometing cashflow 31,354 69,251 19,720 20,647 21,724 Viet June 30 (Sm) 2020 2021 2022e 2023e 2024e Cash at end of period 44,165 100,041<	CASHFLOW					
ncrease in loans ncrease in other assets -19.318 -42.955 -19.346 -19.713 -20.356 ncrease in other assets -3.219 313 -160 -10.174 -10.935 nrease in other labilities -3.219 313 -160 -165 -170 nrease in other labilities -33.374 17.383 9.567 4.252 4.955 Ordinary equity raised 0 0 0 0 0 0 0 Other -3.840 -1.946 -11.865 -6.612 21.722 2024 2025 2024 Pinancing cashflow 31.354 69.251 19.720 20.647 21.724 21.724 Vet change in cash 14.778 55.876 0 0 0 0 Cash at end of period 44.165 100.041 100.	Y/e June 30 (\$m)	2020	2021	2022e	2023e	2024e
ncrease in other assets -1,264 20,609 -9,470 -10,174 -10,935 Capital expenditure -3,219 318 -166 -170 nvesting cashflow -23,801 -22,028 -28,975 -30,052 -31,460 ncrease in other liabilities -33,374 17,383 9,567 4,252 4,955 Tordnay equity raised 0 </td <td>NPAT (cash basis)</td> <td>7,225</td> <td>8,653</td> <td>9,256</td> <td>9,405</td> <td>9,737</td>	NPAT (cash basis)	7,225	8,653	9,256	9,405	9,737
ncrease in other assets -1,264 20,609 -9,470 -10,174 -10,935 Capital expenditure -3,219 318 -166 -170 nvesting cashflow -23,801 -22,028 -28,975 -30,052 -31,460 ncrease in other liabilities -33,374 17,383 9,567 4,252 4,955 Tordnay equity raised 0 </td <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>						
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nvesting cashflow -23,801 -22,028 -28,975 -30,052 -31,460 ncrease in deposits & borrowings 68,668 53,814 22,038 22,699 23,380 Difter in labilities -33,474 17,383 9,567 4,252 4,955 Difter in rancing cashflow 31,354 69,251 19,720 20,647 21,724 Vet change in cash 14,778 55,575 0 0 0 0 0 0 Cash at end of period 44,165 100,041	Increase in other assets	-1,264	20,609	-9,470	-10,174	-10,935
nvesting cashflow -23,801 -22,028 -28,975 -30,052 -31,460 ncrease in deposits & borrowings 68,668 53,814 22,038 22,609 23,380 ncrease in other liabilities -33,374 17,383 9,567 4,252 4,955 Striancing cashflow -3,340 -1,946 -1,1885 65,044 -6,612 Financing cashflow 31,354 69,251 19,720 20,647 21,724 Net change in cash 14,778 55,876 0 0 0 0 Sah and liquid assets 44,165 100,041 100	Capital expenditure					
ncrease in deposits & borrowings ncrease in other liabilities 68,568 53,814 22,038 22,699 23,380 ncrease in other liabilities -33,374 17,383 9,567 4,252 4,955 Driner -3,840 -1,946 -11,865 6,304 -6,612 Financing cashflow 31,354 69,251 19,720 20,647 21,724 Vet change in cash 14,778 55,876 0 0 0 0 Cash at end of period 44,165 100,041	nvesting cashflow	-23,801	-22,028	-28,975	-30,052	-31,460
norease in other liabilities -33,374 17,383 9,567 4,252 4,955 Ordinary equity raised 0						
Ordinary equity raised 0 0 0 0 0 0 0 0 Dther -3,840 -1,946 -11,885 6,3047 21,724 Net change in cash 14,773 55,876 0 0 0 Cash at end of period 44,165 100,041 100,141 100,141 100,141 100,141 100,141 100,141 100,141 100,141 100,141 1	Increase in deposits & borrowings					
Diter -3,840 -11,845 -11,885 -6,304 -6,612 Financing cashflow 31,354 69,251 19,720 20,647 21,724 Vet change in cash 14,778 55,876 0 0 0 Cash at end of period 44,165 100,041 100,041 100,041 100,041 State at end of period 44,165 100,041 100,041 100,041 100,041 Divisional gross loans 774,622 817,425 836,616 866,322 876,592 Divisional gross loans 774,622 817,425 836,616 866,322 876,592 Divisional IEA 59,047 52,632 53,718 54,976 56,188 Divisional IEA 5,602 5,284 5,444 5,608 5,778 Divisional leposits & borrowings 703,962 757,775 779,813 802,513 825,893 Diver casets 1,014,060 1,091,962 1,120,937 1,180,971 1,979 Diver labilities 70,424 1,044,849	Increase in other liabilities	-33,374	17,383	9,567	4,252	4,955
Financing cashflow 31,354 69,251 19,720 20,647 21,724 Net change in cash 14,778 55,876 0 0 0 Cash at end of period 44,165 100,041 100,141 100,141	Ordinary equity raised					
Net change in cash Cash at end of period 14,778 44,165 55,876 100,041 0 0 0 SALANCE SHEET 2020 2021 2022e 2023e 2024e Cash at end of period 44,165 100,041 100,041 100,041 100,041 100,041 SALANCE SHEET 2020 2021 2022e 2023e 2024e Cash at end of period 44,165 100,041 100,041 100,041 100,041 Subisional gross loans 774,622 817,425 836,616 856,332 876,592 Outsional gross loans 774,622 817,425 836,616 856,332 8776 56,963 Othisional lepo 6,944 6,942 6,943						
Cash at end of period 44,165 100,041 100,041 100,041 100,041 SALANCE SHEET Ye June 30 (\$m) 2020 2021 2022e 2023e 2024e Cash and liquid assets 44,165 100,041 100,041 100,041 100,041 Divisional gross loans 774,622 817,425 836,616 856,332 876,592 Provisions -0,636 -6,211 6,066 -5,663 218,875 Divisional IEA 59,047 52,632 5,371 54,976 56,183 Divisional Casests 114,393 101,852 110,163 119,152 128,875 Intangibles 5,602 5,284 5,444 5,608 5,778 Divisional deposits & borrowings 703,962 757,775 779,813 802,513 825,893 Divisional deposits & borrowings 20,664 3,249 3,240 3,2420 32,420 32,420 32,420 32,420 32,420 32,420 32,420 32,420 32,420 32,420 32,420	Financing cashflow	31,354	69,251	19,720	20,647	21,724
Cash at end of period 44,165 100,041 100,041 100,041 100,041 SALANCE SHEET Ye June 30 (\$m) 2020 2021 2022e 2023e 2024e Cash and liquid assets 44,165 100,041 100,041 100,041 100,041 Divisional gross loans 774,622 817,425 836,616 856,332 876,592 Provisions -0,636 -6,211 6,066 -6,059 -5,963 Divisional IEA 59,047 52,632 5,371 54,976 56,183 Divisional Casests 114,393 101,852 110,163 119,152 128,875 Intangibles 5,602 5,284 5,444 5,608 5,778 O 0 0 0 0 0 0 Divisional deposits & borrowings 703,962 757,775 779,813 802,513 825,893 Diver labilities 17,421 16,313 16,313 16,313 16,313 Fotal laborowings 20,3249 3,249 <		4 4	FF 070	-	-	-
ALANCE SHET Verture 30 (\$m) 2020 2021 2022e 2023e 2024e Cash and liquid assets 44,165 100,041						
V/e June 30 (\$m) 2020 2021 2022e 2023e 2024e Cash and liquid assets 44,165 100,041 100,041 100,041 100,041 Divisional gross loans 774,622 817,425 836,616 856,322 876,592 Divisional IEA 59,047 52,632 53,791 54,976 56,183 Divisional IEA 59,047 52,632 53,791 54,976 56,183 Divisional IEA 6,944 6,942	Cash at end of period	44,165	100,041	100,041	100,041	100,041
Cash and liquid assets 44, 165 100,041 100,041 100,041 100,041 Divisional gross loans 774,622 817,425 836,616 856,332 876,592 Divisional IEA 59,047 52,632 53,791 54,975 56,863 Divisional IEA 59,047 52,632 53,791 54,975 56,183 Divisional IEA 6,944 6,942	BALANCE SHEET					
Cash and liquid assets 44, 165 100,041 100,041 100,041 100,041 Divisional gross loans 774,622 817,425 836,616 856,332 876,592 Divisional IEA 59,047 52,632 53,791 54,975 56,863 Divisional IEA 59,047 52,632 53,791 54,975 56,183 Divisional IEA 6,944 6,942		2020	2021	2022e	2023e	2024e
Divisional gross loans 774, 622 817, 425 836, 616 856, 322 876, 592 Divisional IEA 59,047 52,632 53,791 54,976 56,188 Dither IEA & other loans 114,1393 101,852 110,163 119,152 128,875 ntangibles 6,944 6,942 6,942 6,942 6,942 6,942 P&E 5,602 5,284 5,444 5,608 5,778 nsurance assets 0 0 0 0 0 Divisional deposits & borrowings 703,962 757,775 779,813 802,513 825,893 Divisional deposits & borrowings 703,962 757,775 779,813 802,513 825,893 Divisional deposits & borrowings 703,962 757,775 779,813 802,513 825,893 Divisional deposits & borrowings 703,947 1,014,060 1,091,962 1,120,937 1,150,949 1,014,003 Divisional deposits & borrowings 703,947 1,013,244 1,044,849 1,071,800 1,00,135 Divisional deposits & borrowings 202,666 3,249 3,249		44,165	100,041	100,041	100,041	100,041
Provisions ⁻ -6,363 -6,211 -6,056 -6,059 -5,663 Divisional IEA 59,047 52,632 53,791 54,976 56,188 Divisional IEA 59,047 52,632 53,791 54,976 56,188 Divisional IEA 6,944 6,942 13,997 13,997 13,997 13,997 13,997 13,997 13,997 13,997 13,997 13,913 16,313 16,313 16,313 16,313 16,313 16,313 16,313 16,313 16,313 16,313		774,622	817,425	836,616	856,332	876,592
Dther IEA & other loans 114,393 101,852 110,163 119,152 128,875 ntangibles 6,944 6,942 6,943 6,943 6,943 6,943 6,943 6,943 13,997 13		-6,363	-6,211	-6,056	-6,059	-5,963
Dther IEA & other loans 114,393 101,852 110,163 119,152 128,875 ntangibles 6,944 6,942 6,942 6,942 6,942 P&E 5,602 5,284 5,444 5,608 5,778 nsurance assets 1014,606 1,091,962 1,120,937 1,150,989 1,182,449 Divisional deposits & borrowings 703,962 757,775 779,813 802,513 825,893 Divisional deposits & borrowings 220,664 239,156 248,723 252,974 257,929 Dither borrowings 20,064 239,156 248,723 252,974 25,929 Dither borrowings 942,047 1,013,244 1,044,849 1,071,800 1,00,135 Dridinary share capital 38,131 38,420 32,420 32,420 32,420 O 0 0 0 0 0 0 0 Dridinary share capital 38,131 38,420 32,420 3,249 3,249 3,249 3,249 3,249 3,249	Divisional IEA	59,047	52,632	53,791	54,976	56,188
ntangibles 6,944 6,942 6,942 6,942 6,942 PRE 5,602 5,284 5,444 5,608 5,778 nsurance assets 0 0 0 0 0 0 Divisional deposits & borrowings 10,14,060 1,091,962 1,120,937 1,150,989 1,182,449 Divisional deposits & borrowings 20,664 239,156 248,723 252,974 257,927 Dither liabilities 17,421 16,313 <		114,393	101,852	110,163	119,152	128,875
PP&E 5,602 5,284 5,444 5,608 5,778 Insurance assets 0						
Insurance assets 0						
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Divisional deposits & borrowings 703,962 777,775 779,813 802,513 825,893 Diher borrowings 220,664 239,156 248,723 252,974 257,929 Dither liabilities 17,421 16,313 16,313 16,313 16,313 Total liabilities 942,047 1,013,244 1,044,849 1,071,800 1,100,135 Drdinary share capital 38,131 38,420 32,420 32,420 32,449 O 0 0 0 0 0 0 0 Reserves 2,666 3,249	Other assets	15,650	13,997	13,997	13,997	13,997
Dther borrowings 220,664 239,156 248,723 252,974 257,929 Dther liabilities 17,421 16,313 16,315 46,404 <td>Fotal assets</td> <td>1,014,060</td> <td>1,091,962</td> <td>1,120,937</td> <td>1,150,989</td> <td>1,182,449</td>	Fotal assets	1,014,060	1,091,962	1,120,937	1,150,989	1,182,449
Dther borrowings 220,664 239,156 248,723 252,974 257,929 Dther liabilities 17,421 16,313 16,315 46,404 <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>						
Dther liabilities 17,421 16,313 16,313 16,313 16,313 Total liabilities 942,047 1,013,244 1,044,849 1,071,800 1,100,135 Drdinary share capital 38,131 38,420 32,420 32,420 32,420 Other equity instruments 0 0 0 0 0 0 Reserves 2,666 3,249 3,249 3,249 3,249 3,249 Retained profits 31,211 37,044 40,414 43,515 46,640 Minority interests 5 5 5 5 5 5 Fotal shareholders' equity 72,013 78,718 76,088 79,189 82,314 MANOS - statutory (m) 1,769 1,771 1,740 1,706 1,706 PROFITABILITY RATIOS 10,276 11,575 12,276 12,276 12,276 Return on assets (continuing) 0.7% 0.8% 0.8% 0.8% 0.8% 0.8% Cost / average assets 1.10%	Divisional deposits & borrowings					
Fotal liabilities 942,047 1,013,244 1,044,849 1,071,800 1,100,135 Ordinary share capital 38,131 38,420 32,449 32,420 32,449 32,420 32,440 33,444 43,515 46,640 56 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 6,64 <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>						
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Other equity instruments 0 <td>Fotal liabilities</td> <td>942,047</td> <td>1,013,244</td> <td>1,044,849</td> <td>1,071,800</td> <td>1,100,135</td>	Fotal liabilities	942,047	1,013,244	1,044,849	1,071,800	1,100,135
Other equity instruments 0		38 131	38 /20	32 /20	32 /20	32 /20
Reserves 2,666 3,249						
Retained profits 31,211 37,044 40,414 43,515 46,640 Minority interests 5						
Winority interests 5 5 5 5 5 Total shareholders' equity 72,013 78,718 76,088 79,189 82,314 Total sh. equity & liabs. 1,014,060 1,091,962 1,120,937 1,150,989 1,182,449 WANOS - statutory (m) 1,769 1,771 1,740 1,706 1,706 RANOS - cash (m) 1,769 1,771 1,740 1,706 1,706 Return on assets (continuing) 0.7% 0.8%<						
Total shareholders' equity 72,013 78,718 76,088 79,189 82,314 Total sh. equity & liabs. 1,014,060 1,091,962 1,120,937 1,150,989 1,182,449 NANOS - statutory (m) 1,769 1,771 1,740 1,706 1,706 NANOS - cash (m) 1,769 1,771 1,740 1,706 1,706 ROFITABILITY RATIOS V(e June 30 2020 2021 2022e 2023e 2024e Return on assets (continuing) 0.7% 0.8% 0	•					
Total sh. equity & liabs. 1,014,060 1,091,962 1,120,937 1,150,989 1,182,449 WANOS - statutory (m) 1,769 1,771 1,740 1,706 1,706 WANOS - cash (m) 1,769 1,771 1,740 1,706 1,706 PROFITABILITY RATIOS 1,769 1,771 1,740 1,706 1,706 Return on assets (continuing) 0.7% 0.8% 0.8% 0.8% 0.8% Return on equity (continuing) 10.2% 11.5% 12.2% 12.2% 12.1% everage ratio 6.3% 6.5% 5.8% 6.0% 6.3% Ost / income ratio 207% 20% 2% 2% 2% Cost / average assets 1.10% 1.06% 0.98% 0.95% 0.92% Growth in operating income 1% 2% 2% 2% 2% Jaws -1% -2% 6% 3% 2% Asset Quality 0.633 0.07% 0.09% 0.13% 0.14%						
WANOS - statutory (m) 1,769 1,771 1,740 1,706 1,706 WANOS - cash (m) 1,769 1,771 1,740 1,706 1,706 PROFITABILITY RATIOS (ye June 30) 2020 2021 2022e 2023e 2024e Return on assets (continuing) 0.7% 0.8% 0.8% 0.8% 0.8% 0.8% -everage ratio 6.3% 6.5% 5.8% 6.0% 6.3% 2020 2024 12.2% 12.2% 12.1% -everage ratio 6.3% 6.5% 5.8% 6.0% 6.3% 2050 0.95% 0.92% Cost / income ratio 46% 47% 44% 43% 42% Cost / average assets 1.10% 1.06% 0.98% 0.95% 0.92% Growth in operating income 1% 2% 2% 2% 2% Jaws -1% -2% 6% 3% 2% 2% Coan impairment expense / GLA 0.33% 0.07% 0.09% 0.13% 0.14% Loan impairment expense / RWA 0.55% 0.12% <td< td=""><td> statementer o oquity</td><td>,</td><td>,0</td><td>,</td><td>,</td><td>,•.4</td></td<>	statementer o oquity	,	,0	,	,	,•.4
NANOS - cash (m) 1,769 1,771 1,740 1,706 1,706 PROFITABILITY RATIOS 2020 2021 2022e 2023e 2024e Return on assets (continuing) 0.7% 0.8% 0.8% 0.8% 0.8% Return on equity (continuing) 10.2% 11.5% 12.2% 12.2% 12.1% Leverage ratio 6.3% 6.5% 5.8% 6.0% 6.3% Ost / income ratio 2.07% 2.03% 1.99% 1.97% 1.98% Cost / average assets 1.10% 1.06% 0.98% 0.95% 0.92% Growth in operating income 1% 2% 2% 2% 2% Jaws -1% -2% 6% 3% 2% ASSET QUALITY -1% -2% 6% 3% 24% (red June 30 2020 2021 2022e 2023e 2024e .can impairment expense / GLA 0.33% 0.07% 0.09% 0.13% 0.14% .can impairment expens	Fotal sh. equity & liabs.	1,014,060	1,091,962	1,120,937	1,150,989	1,182,449
WANOS - cash (m) 1,769 1,771 1,740 1,706 1,706 PROFITABILITY RATIOS 2020 2021 2022e 2023e 2024e Return on assets (continuing) 0.7% 0.8% 0.8% 0.8% 0.8% Return on equity (continuing) 0.2% 11.5% 12.2% 12.2% 12.1% Leverage ratio 6.3% 6.5% 5.8% 6.0% 6.3% Cost / income ratio 46% 47% 44% 43% 42% Cost / average assets 1.10% 1.06% 0.98% 0.95% 0.92% Growth in operating expenses 2% 3% -4% 1% 0% Jaws -1% -2% 6% 3% 2% ASSET QUALITY V/ June 30 2020 2021 2022e 2023e 2024e Loan impairment expense / GLA 0.33% 0.07% 0.09% 0.13% 0.14% Cotal provisions (\$m) 6,363 6,211 6,056 6,059 5,963		4 700	4 774	4 740	4 700	4 700
PROFITABILITY RATIOS Y/e June 30 2020 2021 2022e 2023e 2024e Return on assets (continuing) 0.7% 0.8% 0.8% 0.8% 0.8% Centur on assets (continuing) 10.2% 11.5% 12.2% 12.2% 12.1% Leverage ratio 6.3% 6.5% 5.8% 6.0% 6.3% Net interest margin (continuing) 2.07% 2.03% 1.99% 1.97% 1.98% Cost / income ratio 46% 47% 44% 43% 42% Cost / average assets 1.10% 1.06% 0.98% 0.95% 0.92% Growth in operating income 1% 2% 3% -4% -1% 0% Jaws -1% -2% 6% 3% 2%						
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BL / IEA 98% 103% 103% 103% 103%						
	ndiv ass prov / gross imp assets	27%	26%			
Total provisions + GRCL / GLA 0.82% 0.76% 0.72% 0.71% 0.68%						
	BL / IEA	98%				
	BL / IEA	98%				

	Share Price				98.99 168.916
	Market Cap	(HQIVI)			168,916
VALUATION DATA Y/e June 30	2020	2021	2022e	2023e	2024e
NPAT (cash basis) (\$m)	7,225 7,225	8,653 8,653	9,256 9,256	9,405 9,405	9,737 9,737
NPAT (cash basis, continuing) (\$m) EPS (statutory basis) (cps)	418	8,653 499	9,256 566	9,405 586	9,737 606
- Growth	-14%	20%	13%	4%	3%
EPS (cash basis) (cps) - Growth	408 -17%	489 20%	532 9%	551 4%	571 4%
EPS (cash basis, continuing) (cps)	408 -12%	489 20%	532 9%	551 4%	571 4%
 Growth P / E ratio (times) 	-12%	20%	18.6	4% 18.0	4% 17.3
P / Book ratio (times)	2.3	2.1 2.4	2.2 2.4	2.1 2.3	2.1
P / NTA ratio (times)	2.6 298	2.4 350	2.4 394	2.3 415	2.2 430
Net DPS (cps) Yield	3.0%	3.5%	4.0%	4.2%	4.3%
Franking	100%	100%	4.0%	4.2%	4.3%
Payout (cash basis, target 70-80%)	73%	72%	74%	75%	75%
CAPITAL ADEQUACY					
Y/e June 30 Risk weighted assets (\$m)	2020 454,948	2021 450,680	2022e 463,784	2023e 498,781	2024e 540,715
Average risk weight	47%	45%	45%	48%	50%
Tier 1 ratio CET1 capital ratio	13.9% 11.6%	15.7% 13.1%	14.0% 11.4%	13.8% 11.4%	13.7% 11.4%
Total capital ratio	17.5%	19.8%	18.0%	17.5%	17.1%
Equity ratio	7.1%	7.2%	6.8%	6.9%	7.0%
DIVISIONAL	2000	2021	2022-	2022-	2024-
Y/e June 30 (\$m) Retail Banking Services	2020	2021	2022e	2023e	2024e
Net interest income	9,697 1,510	9,897 1,347	10,258 1,211	10,254	10,459
Other income Total banking income	11,207	11,244	11,469	1,395 11,649	1,428 11,888
Operating expenses	-4,335 -1,034	-4,321 -134	-4,346 -538	-4,296 -640	-4,241 -746
Loan impairment expense Net profit before tax	5,838	6,789	-536 6,585	-640 6,713	6,901
Corporate tax expense	-1,743	-2,024	-1,963	-2,001 4,712	-2,057
Cash net profit after tax Home loans	4,095 400,921	4,765 429,420	4,622 438,008	446,769	4,844 455,704
Consumer & other loans	14,001	13,188	13,452	13,721	13,995
Deposits Deposits non bearing interest	246,031 33,882	255,502 45,267	263,167 46,625	271,062 48,024	279,194 49,464
BB / IB&M					
Net interest income	7,304	6,573	6,751	6,886	7,024
Other income Total banking income	2,382 9,686	2,571 9,144	2,435 9,186	2,496 9,383	2,560 9,584
Operating expenses	-3,479	-3,632	-3,683	-3,704	-3,724
Loan impairment expense Net profit before tax	-1,137 5,070	-329 5.183	-82 5.421	-333 5.346	-339 5,521
Corporate tax expense	-1,333	-1,503	-1,565	-1,543	-1,594
Cash net profit after tax Loans	3,737 277,412	3,680 280,085	3,856 285,687	3,803 291,400	3,927 297,228
Other IEA	48,147	42,022	42,862	43,720	44,594
IBL Deposits non bearing interest	288,136 58,407	298,431 74,191	307,384 76,417	316,605 78,709	326,104 81,071
Waalth Managamant					
Wealth Management Funds management income	0	0	0	0	0
Insurance income	0	0	0	0	0
Total operating income Volume expenses	0 0	0 0	0 0	0 0	0 0
Operating expenses	0 0	0 0	0 0	0 0	0 0
Net profit before tax Corporate tax expense	0	0	0	0	0
Investment experience	0 0	0 0	0 0	0 0	0 0
Cash net profit after tax FUA	0	0	0	0	0
New Zealand					
Net interest income	1,934	2,117	2,245	2,330	2,442
Other income	375 2,309	424 2,541	388 2,633	402 2,732	417 2,858
Total banking income Funds management income	136	140	156	164	169
Insurance income Total operating income	0 2,445	0 2,681	0 2,789	0 2,896	0 3,027
Operating expenses	-1,032	-1,071	-1,085	-1,105	-1,125
Loan impairment expense Net profit before tax	-292 1,121	5 1,615	-109 1,595	-137 1,655	-143 1,760
Corporate tax expense	-312	-456	-449	-466	-496
Minority interests Investment experience	0	0	0	0	0
Cash net profit after tax	809	1,159	1,146	1,189	1,264
Loans Other IEA	82,288 10,900	94,732 10,610	99,469 10,928	104,442 11,256	109,664 11,594
Deposits	57,879	61,219	63,056	64,948	66,896
Other IBL	19,626	23,165	23,165	23,165	23,165
Effective tax rate	29%	29%	29%	29%	29%
Payout (statutory)	71%	70%	70%	71%	71%

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

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