

**Analyst**  
TS Lim 612 8224 2810

**Authorisation**  
Chris Savage 612 8224 2835

# Commonwealth Bank (CBA)

## The bazooka king

### Recommendation

**Buy** (Hold)

Price

**\$99.56**

Target (12 months)

**\$108.00** (unchanged)

### GICS Sector

Banks

### Expected Return

|                       |              |
|-----------------------|--------------|
| Capital growth        | <b>8.5%</b>  |
| Dividend yield        | <b>3.7%</b>  |
| Total expected return | <b>12.2%</b> |

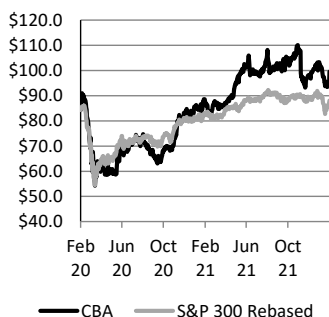
### Company Data & Ratios

|                        |                           |
|------------------------|---------------------------|
| Enterprise value       | <b>n/m</b>                |
| Market cap             | <b>\$169,888m</b>         |
| Issued capital         | <b>1,706m</b>             |
| Free float             | <b>100%</b>               |
| Avg. daily val. (52wk) | <b>\$292.8m</b>           |
| 12 month price range   | <b>\$81.56 - \$110.19</b> |

### Price Performance

|                | (1m)  | (3m)   | (12m) |
|----------------|-------|--------|-------|
| Price (A\$)    | 99.97 | 108.50 | 87.06 |
| Absolute (%)   | -0.41 | -8.24  | 14.36 |
| Rel market (%) | 0.84  | -5.94  | 6.71  |

### Absolute Price



SOURCE: IRESS

## 1H22: \$4.75bn cash NPAT, 175¢ interim dividend

CBA's result includes: 1) cash NPAT (continuing operations) \$4.75bn (BP \$4.38bn); 2) cash EPS (continuing operations) 273¢ (BP 247¢); 3) interim dividend 175¢ (BP 162¢) fully franked (payout ratio 62%); 4) ROE (continuing operations) 12.3% (BP 11.4%); 5) NIM (continuing operations) 1.92% (BP 1.93%); 6) loan impairment expense - \$0.07bn/-2bp GLA (BP \$0.32bn/8bp); and 7) CET1 ratio 11.8% (BP 11.4%).

We will focus purely on cash NPAT from continuing operations. CBA's \$4.75bn cash NPAT was 8% higher than our forecast and was mainly due to a benefit in loan impairment. Regardless, this was another strong outcome despite low interest rates and purely as a result of COVID-19. Other than a loan impairment benefit of \$0.07bn/2bp GLA, this was also due to continued volume growth in home lending, business lending and deposits (above system growth in all core markets), disciplined and flat operating costs, reduction in remediation costs and, above all, a still improving economic outlook. Cash NPAT was nearly on par with 2H21, a great outcome. There was also investment in operational execution (in line with the bank's strategic priorities) coupled with a return of excess capital to shareholders of \$2bn (on-market share buyback; surplus capital post buy-back would be around \$4bn). Finally, the interim dividend was set at 175¢ being fully franked (no DRP, neutralised).

## \$108.00 price target unchanged, back to a Buy

While cash earnings in FY22e and FY23e are increased substantially by 11% and 8%, these were mainly due to lower credit impairment expenses [FY22e \$101m (previously \$728m) and FY23e \$761m (previously \$1,113m)]. There were also benefits from higher total operating income every year (4-5%) mainly from volume-related lending and deposit fees. Given that, cash earnings were increased by 2% from FY25e onwards. Net of higher risk metrics (sustainable dividend yield up by 25bp to 3.75% and discount rate up by the same amount to 9.75%), the amount is only break-even – meaning the valuation and price target are unchanged from \$108.00. Allowing for the current interim dividend of 175¢, the rating for CBA is brought back to a Buy.

### Earnings Forecast

| Year end 30 June               | 2021   | 2022e  | 2023e  | 2024e  |
|--------------------------------|--------|--------|--------|--------|
| NPAT (reported) (A\$m)         | 10,181 | 10,828 | 9,842  | 10,036 |
| NPAT (cash, continuing) (A\$m) | 8,653  | 9,704  | 9,842  | 10,036 |
| EPS (cash, continuing) (A¢)    | 489    | 563    | 574    | 582    |
| EPS (cash) growth (%)          | 20%    | 15%    | 2%     | 1%     |
| PER (x)                        | 20.4   | 17.7   | 17.3   | 17.1   |
| P/Book (x)                     | 2.2    | 2.2    | 2.1    | 2.0    |
| P/NTA (x)                      | 2.4    | 2.4    | 2.3    | 2.2    |
| Dividend (A¢)                  | 350    | 387    | 407    | 423    |
| Yield (%)                      | 3.5%   | 3.9%   | 4.1%   | 4.2%   |
| ROE (continuing) (%)           | 11.5%  | 12.7%  | 12.5%  | 12.1%  |
| NIM (continuing) (%)           | 2.08%  | 1.92%  | 1.93%  | 1.94%  |
| Franking (%)                   | 100.0% | 100.0% | 100.0% | 100.0% |

SOURCE: BELL POTTER SECURITIES ESTIMATES

# The bazooka king

## 1H22: \$4.75bn cash NPAT, 175¢ interim dividend

CBA's result is as follows:

1. Statutory NPAT \$5.87bn (BP \$4.68bn);
2. Cash NPAT (including discontinued operations and one-offs) \$4.85bn (BP \$4.38bn);
3. Cash EPS (including discontinued operations and one-offs) 279¢ (BP 247¢);
4. Cash NPAT (continuing operations) \$4.75bn (BP \$4.38bn);
5. Cash EPS (continuing operations) 273¢ (BP 247¢);
6. Interim dividend 175¢ (BP 162¢) fully franked (payout ratio 62%);
7. ROE (continuing operations) 12.3% (BP 11.4%);
8. NIM (continuing operations) 1.92% (BP 1.93%);
9. Loan impairment expense (LIE) -\$0.07bn/-2bp GLA (BP \$0.32bn/8bp); and
10. CET1 ratio 11.8% (BP 11.4%).

We will focus purely on cash NPAT from continuing operations. CBA's \$4.75bn cash NPAT was 8% higher than our forecast and was mainly due to a benefit in loan impairment. Regardless, this was another strong outcome despite low interest rates and purely as a result of COVID-19. Other than a loan impairment benefit of \$0.07bn/2bp GLA, this was also due to continued volume growth in home lending, business lending and deposits (above system growth in all core markets), disciplined and flat operating costs, reduction in remediation costs and, above all, a still improving economic outlook.

The following table implies cash NPAT was nearly on par with 2H21, a great outcome. There was also investment in operational execution (in line with the bank's strategic priorities) coupled with a return of excess capital to shareholders of \$2bn (on-market share buyback; surplus capital post buy-back would be around \$4bn). Finally, the interim dividend was set at 175¢ being fully franked (no DRP, neutralised).

Table 1 – 1H22 vs. 2H21 and 1H21

| CBA Y/E 30 June (cash basis, continuing operations, \$m) |  | 1H21a        | 2H21a        | 1H22a        | Movement<br>1H22a vs.<br>2H21a | Forecast |
|--|--|--------------|--------------|--------------|--------------------------------|----------|
| Operating income   | As reported                                      | 11,961       | 12,195       | 12,205       | 0.1%                           | -1.7%    |
|  | Mortgage Broking consolidation & other           | 0            | 0            | 0            |                                |          |
|  | Operating income excluding notable items         | 11,961       | 12,195       | 12,205       | 0.1%                           | -1.7%    |
| Operating expenses                                       | As reported                                      | 5,591        | 5,768        | 5,588        | -3.1%                          | -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        | 5,588        | 2.8%                           | 0.8%     |
| Loan impairment expense (LIE)                            | 882  | -328         | -75          | n/m          | n/m                            |          |
| Cash NPBT excluding notable items as reported            | 5,730  | 7,088        | 6,692        | -5.6%        | -12.7%                         |          |
| <b>Cash NPAT as reported</b>                             | <b>3,868</b>                                     | <b>4,785</b> | <b>4,746</b> | <b>-0.8%</b> | <b>-8.5%</b>                   |          |
| <b>Statutory NPAT as reported</b>                        | <b>4,869</b>                                     | <b>5,312</b> | <b>5,870</b> | <b>10.5%</b> | <b>-8.0%</b>                   |          |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Profit & loss highlights

### TOTAL OPERATING INCOME

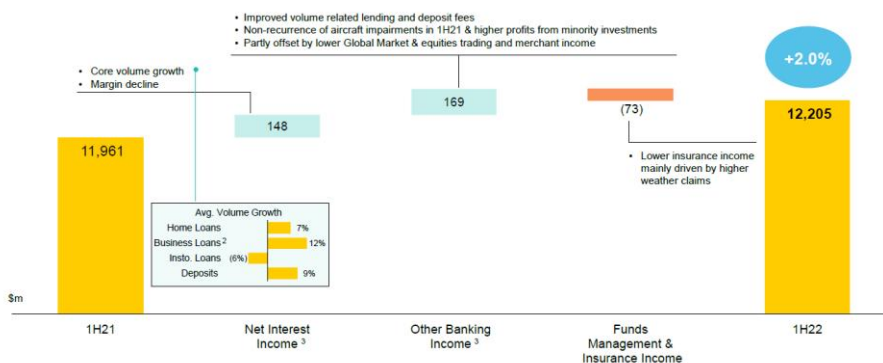
Total operating income was up by 2% to \$12.21bn, driven by core volume growth (home lending, business lending and deposits) and higher fee income offset by lower NIM. While NII increased by 1.5%, there was a fall in NIM by 14bp to 1.92% (although the fall was much smaller at 5bp based on excluded lower yielding liquid assets and basically driven by more fixed rate home loans, rising swap rates and ongoing pressure in the home loan market space).

Home loan price competition and switching may continue in the second half but non-interest income was up by 4.1% (and mainly driven by higher volume related lending and deposit fee income).

Figure 1 – Operating income 1

### Operating income<sup>1</sup>

Strong core volume growth & higher OBI, partly offset by lower margin & reduced insurance income



1. Presented on a continuing operations basis. 2. Includes NZ and other Business Loans. 3. Comparative information has been restated to conform to presentation in the current period.

SOURCE: COMPANY DATA

Figure 2 – Operating income 2

### Group margin<sup>1</sup> – last 6 months

Impacted by continued fixed rate switching and home loan competition



1. Presented on a continuing operations basis. Comparative information has been restated to conform to presentation in the current period. 2. Average external non-lending interest earning assets held by the Group for liquidity purposes and included in LCR liquid assets. 3. Growth in deposits drives higher requirement to hold liquid assets under APRA's Liquidity Coverage Ratio.

SOURCE: COMPANY DATA

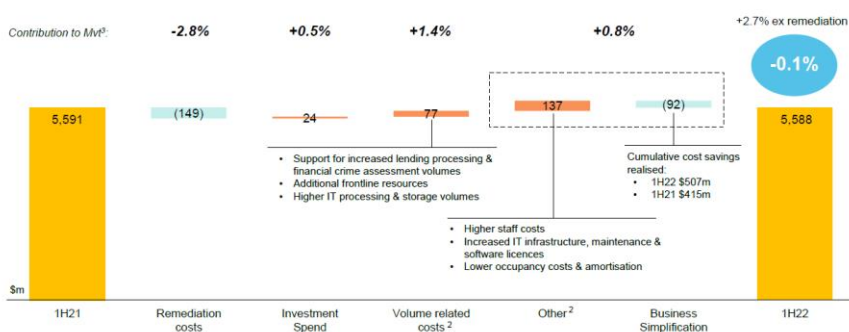
**OPERATING EXPENSES**

Operating expenses remained a key positive at \$5.58bn, being flat, and were driven by lower occupancy, IT and remediation costs that just offset higher staff expenses (necessary to support volumes and strategic initiatives). Staff expenses increased by 13% due to higher staff numbers (increased loan application processing, higher financial crime assessment volumes and cyber security capabilities) and wage inflation. Occupancy and equipment expenses were down by 16% due to branch/ATM optimisations and exit of commercial office space, while IT expenses fell by 5% as a result of lower amortisation and business simplification initiatives net of higher infrastructure and maintenance costs. Finally, remediation costs were now lower driven by lower Aligned Advice costs.

**Figure 3 – Operating expenses**

**Operating expenses<sup>1</sup>**

Lower remediation costs & business simplification benefits offsetting higher investment spend, volume and staff costs



1. Presented on a continuing operations basis. 2. Excludes remediation and investment spend. 3. Growth rate percentages calculated on 1H21 cost base excluding remediation.

SOURCE: COMPANY DATA

**LOAN IMPAIRMENT EXPENSE**

Loan impairment expense decreased by \$957m to a benefit of \$75m basically due to an improved COVID-19 economic outlook. This was not anticipated but certainly fills in the gap for the time being, and we have lowered the costs over the next few years. Regardless, provisions were still higher than expected losses under the central economic scenario. Arrears on home loans and consumer finance remained low, likewise credit card and personal loans. As such, troublesome and impaired assets further decreased by almost 10% to \$6.8bn while Corporate troublesome assets further decreased by \$0.8bn on the previous half (refinancing, repayments and upgrades).

Overall loan impairment provisions decreased from \$6.82bn to \$5.85bn as such. On the other hand, there was a small increase in gross impaired assets (+\$73m) due to New Zealand restructured home loans and a small number of single corporate name exposures.

Figure 4 – Loan impairment expense

### Credit risk

Leading indicators reflect continued improvement in economic conditions and outlook



<sup>1</sup> Loan Impairment Expense as a percentage of average Gross Loans and Acceptances (GLAA) (bpts) annualised. <sup>2</sup> Group consumer arrears including New Zealand. APRA's prudential relief for customers on eligible COVID-19 loan repayment deferral arrangements has effectively 'stopped the clock' on home loan and personal loan arrears. <sup>3</sup> Excludes Reverse Mortgage, Commonwealth Portfolio Loan and Residential Mortgage Group loans.

SOURCE: COMPANY DATA

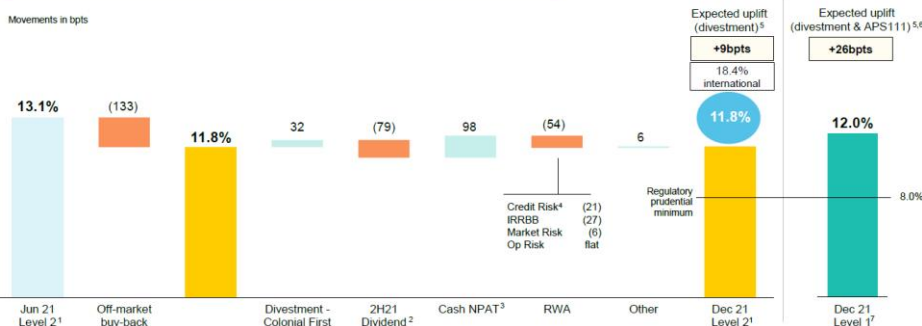
### OTHER ITEMS

The quality of the bank's funding, liquidity and capital measures continue to be strong. The loan book is still 73% deposit funded (and almost unchanged at 74% at the end of FY20), while LCR was 134%, NSFR was 131% and Level 2 CET1 ratio was 11.8%. CBA completed the \$6bn off-market share buy-back (-133bp) plus the 2H21 final dividend payment (-79bp) and higher RWA (-54bp), funded by strong profit generation (+98bp) and asset sales (+32bp). The interim dividend was 175¢ and payout ratio was 62% (or ~70% normalised for long run loss rates). The bank will still target a full year cash payout ratio of 70-80% and an interim ratio of ~70%.

Figure 5 – Capital management 1

### Capital

Strong capital position retained post off-market buy-back and dividends



<sup>1</sup> Level 2 is the consolidated banking group including banking subsidiaries such as ASB Bank, PT Bank Commonwealth (Indonesia) and CBA Europe N.V. It excludes the insurance businesses. <sup>2</sup> 2021 final dividend included the on-market purchase of shares in respect of the DRP. <sup>3</sup> Excludes equity accounting profits from minority investments as it is capital neutral with offsetting increases in capital deductions. <sup>4</sup> Excludes impact of FX movements which is included in 'Other'. <sup>5</sup> Expected CET1 uplift from the previously announced divestment Commisare General Insurance (Level 2: 8bpts, Level 1: 8bpts). Completion of divestments subject to regulatory approvals. <sup>6</sup> Implementation of the revised final APS 111 from 1 January 2022, in which investments in regulated banking and insurance subsidiaries will be risk weighted at 250% (currently 400%), capped at 10% of CET1 capital, above which investments are treated as a 100% CET1 deduction. The revision will contribute 20bpts uplift in Level 1 CET1 ratio. <sup>7</sup> Level 1 is the CBA parent bank, offshore branches and extended license entities approved by APRA.

SOURCE: COMPANY DATA

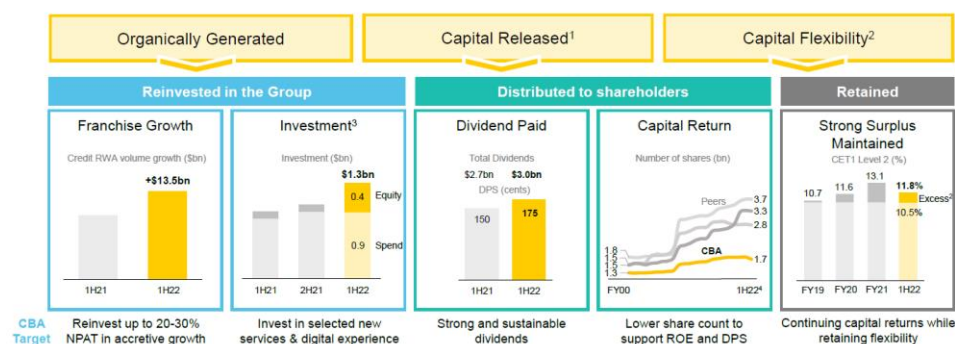
Despite the misgivings of the market and especially COVID-19's Omicron strain, CBA sees FY22 as a strong year. The unemployment (and underemployment rate) are the lowest since 2008 and Australian household accumulated savings are stronger than ever (likewise the rate at which wage growth is anticipated). Inflation is likely to increase in due course (and that's a good thing for all banks) while non-mining investment including infrastructure

continue to hold up reasonably well. The bank has again bounced back from its lows and is on its way back to its usual top line growth potential.

Figure 6 – Capital management 2

## Capital management

A disciplined and balanced approach that optimises growth, reinvestment, shareholder returns and flexibility



<sup>1</sup> Capital released from divestments and changes in financial and non-financial risk exposures. <sup>2</sup> Capital surplus in excess of APRA's current 10.5% benchmark. <sup>3</sup> Investment spend in the franchise and capital injected in equity investments. 1H22 equity includes ~\$200m PEXA investment. <sup>4</sup> CBA shares on issue as at 31 December 2021. Peer banks' share numbers as at 30 September 2021.

SOURCE: COMPANY DATA

## SIX MONTHLY TRENDS AND VARIANCE ANALYSIS

The bank's six monthly trends and variance analysis are found below.

Table 2 – Variance analysis

| Commonwealth Bank<br>Y/E 30 June (\$m)      | 1H22          | BP            | Variance    | Comments  |
|---|---------------|---------------|-------------|---|
| <b>Profit &amp; Loss (continuing)</b>       |               |               |             |   |
| Net interest income                         | 9,748         | 9,387         | 4%          | Better outcome due to higher lending and deposit volumes        |
| Other income                                | 2,457         | 2,596         | -5%         | Basically due to lower trading and insurance income             |
| <b>Total operating income</b>               | <b>12,205</b> | <b>11,983</b> | <b>2%</b>   | Broadly in line with expectations                               |
| Operating expenses                          | -5,588        | -5,479        | -2%         | Broadly in line with expectations                               |
| Loan impairment expense                     | 75            | -318          | -525%       | Drivers were Corporate and Consumer (-7bp and 0bp respectively) |
| <b>Net profit before income tax</b>         | <b>6,692</b>  | <b>6,185</b>  | <b>8%</b>   | Mainly due to lower loan impairment outcome                     |
| Corporate tax expense                       | -1,946        | -1,807        | -7%         |   |
| Minority interests                          | 0             | 0             | n/m         |   |
| Investment experience                       | 0             | 0             | n/m         |   |
| <b>NPAT (cash basis inc. discount'd)</b>    | <b>4,746</b>  | <b>4,378</b>  | <b>8%</b>   | Mainly due to lower loan impairment outcome                     |
| <b>NPAT (cash basis, continuing)</b>        | <b>4,746</b>  | <b>4,378</b>  | <b>8%</b>   | Mainly due to lower loan impairment outcome                     |
| <b>DPS (cps)</b>                            | <b>175</b>    | <b>162</b>    | <b>8%</b>   | Positive outcome based on higher payout ratio                   |
| <b>EPS (cash basis inc. discount'd) (¢)</b> | <b>273</b>    | <b>247</b>    | <b>11%</b>  | Mainly due to lower loan impairment outcome                     |
| <b>EPS (cash basis, continuing) (¢)</b>     | <b>273</b>    | <b>247</b>    | <b>11%</b>  | Mainly due to lower loan impairment outcome                     |
| NIM   | 1.92%         | 1.93%         | -0.01%      | Mainly due to lower loan impairment outcome                     |
| ROE   | 12.3%         | 11.4%         | 0.9%        | Mainly due to lower loan impairment outcome                     |
| <b>Underlying earnings (ex-BDD)</b>         | <b>6,617</b>  | <b>6,504</b>  | <b>1.7%</b> | Mainly due to lower loan impairment outcome                     |
| Total BDD charge as % of GLA                | -0.02%        | 0.08%         | 0.10%       | Better outcome reflects our initial conservatism                |
| Effective tax rate                          | 29%           | 29%           | 0%          | Broadly in line with expectations                               |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES



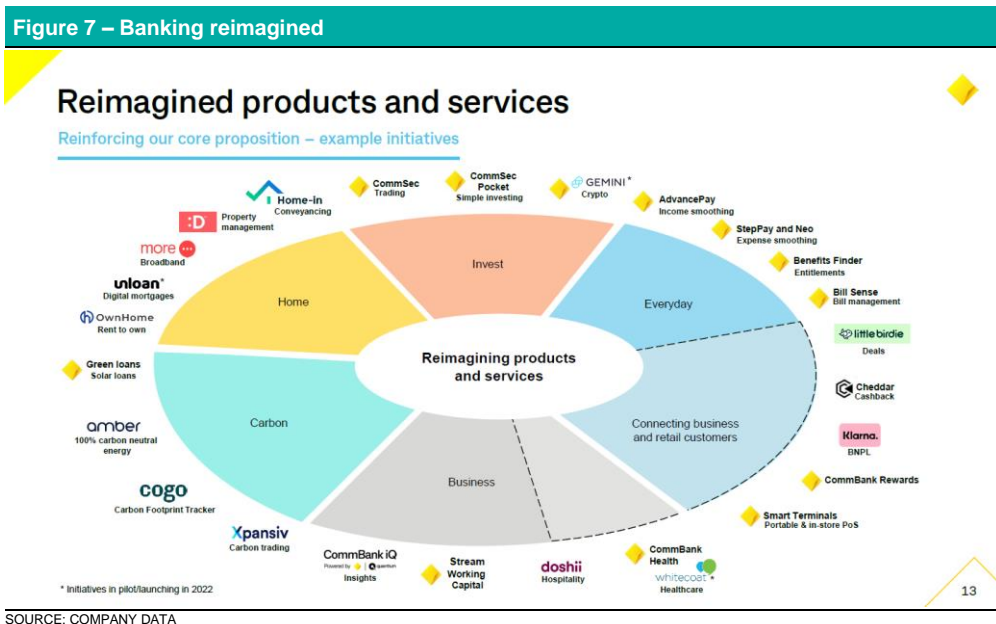
| Table 3 – Six-month trends (12 periods) |       |       |       |       |       |       |       |       |       |       |        |        |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|
| Group KPIs                              | 2H16  | 1H17  | 2H17  | 1H18  | 2H18  | 1H19  | 2H19  | 1H20  | 2H20  | 1H21  | 2H21   | 1H22   |
| Growth in NIE                           | 8%    | 3%    | 4%    | 6%    | 3%    | -1%   | 0%    | 2%    | 2%    | 3%    | 5%     | 2%     |
| Growth in total income                  | 4%    | 4%    | 1%    | -1%   | -1%   | -2%   | -9%   | -3%   | 5%    | -1%   | 4%     | 2%     |
| Growth in operating expenses            | 3%    | 5%    | -1%   | 0%    | 8%    | -3%   | 0%    | -2%   | 5%    | 7%    | 0%     | 0%     |
| Growth in PBT before BDD                | 6%    | 3%    | 4%    | -2%   | -7%   | -1%   | -16%  | -4%   | 6%    | -7%   | 8%     | 4%     |
| Growth in loans                         | 8%    | 6%    | 5%    | 4%    | 2%    | 2%    | 1%    | 1%    | 3%    | 3%    | 5%     | 8%     |
| Growth in deposits                      | 7%    | 7%    | 6%    | 0%    | -2%   | 6%    | 5%    | 3%    | 11%   | 11%   | 7%     | 11%    |
| NIM                                     | 2.14% | 2.10% | 2.10% | 2.16% | 2.14% | 2.10% | 2.08% | 2.11% | 2.04% | 2.06% | 2.09%  | 1.92%  |
| Cost ratio                              | 43%   | 43%   | 41%   | 43%   | 45%   | 43%   | 50%   | 43%   | 49%   | 47%   | 47%    | 46%    |
| Cost / average assets                   | 1.14% | 1.15% | 1.06% | 1.13% | 1.14% | 1.08% | 1.13% | 1.06% | 1.16% | 1.08% | 1.07%  | 1.00%  |
| Tier 1 capital ratio                    | 12.3% | 11.5% | 12.1% | 12.4% | 12.3% | 12.9% | 12.7% | 14.1% | 13.9% | 15.0% | 15.7%  | 14.0%  |
| Loan impairment expense / GLA           | 0.20% | 0.17% | 0.14% | 0.16% | 0.13% | 0.15% | 0.17% | 0.17% | 0.48% | 0.22% | -0.08% | -0.02% |
| Total provisions + GRCL / GLA           | 0.54% | 0.54% | 0.51% | 0.51% | 0.49% | 0.63% | 0.64% | 0.66% | 0.82% | 0.87% | 0.76%  | 0.69%  |
| ROE                                     | 15.8% | 15.8% | 15.7% | 14.2% | 13.1% | 13.8% | 10.4% | 12.3% | 8.1%  | 10.5% | 12.5%  | 12.3%  |
| ROA                                     | 1.01% | 1.01% | 1.00% | 0.95% | 0.89% | 0.96% | 0.72% | 0.89% | 0.58% | 0.75% | 0.89%  | 0.85%  |
| <b>RBS</b>                              |       |       |       |       |       |       |       |       |       |       |        |        |
| Market share                            |       |       |       |       |       |       |       |       |       |       |        |        |
| - Home loans                            | 12.2% | 12.3% | 12.3% | 12.9% | 12.8% | 12.4% | 12.6% | 13.4% | 13.5% | 13.5% | 13.7%  | 14.4%  |
| - Consumer loans                        | 0.7%  | 0.7%  | 0.6%  | 0.9%  | 0.9%  | 0.5%  | 0.5%  | 0.6%  | 0.5%  | 0.4%  | 0.4%   | 0.4%   |
| - Deposits                              | 11.1% | 11.2% | 10.7% | 11.8% | 11.6% | 10.3% | 10.2% | 11.1% | 10.6% | 10.4% | 10.1%  | 10.7%  |
| NIM                                     | 2.91% | 2.90% | 2.91% | 2.77% | 2.71% | 2.57% | 2.53% | 2.65% | 2.62% | 2.61% | 2.60%  | 2.44%  |
| Other income / footings                 | 0.15% | 0.17% | 0.17% | 0.15% | 0.13% | 0.13% | 0.13% | 0.12% | 0.10% | 0.09% | 0.10%  | 0.09%  |
| Operating expense / footings            | 0.29% | 0.29% | 0.29% | 0.32% | 0.31% | 0.32% | 0.34% | 0.32% | 0.31% | 0.31% | 0.29%  | 0.29%  |
| Cost ratio                              | 32%   | 31%   | 31%   | 35%   | 36%   | 38%   | 42%   | 38%   | 39%   | 40%   | 38%    | 40%    |
| Impairment expense / loans              | 0.11% | 0.10% | 0.10% | 0.09% | 0.08% | 0.08% | 0.10% | 0.07% | 0.19% | 0.07% | -0.04% | 0.00%  |
| Effective tax rate                      | 30%   | 30%   | 30%   | 30%   | 30%   | 30%   | 30%   | 30%   | 30%   | 30%   | 30%    | 30%    |
| <b>BB / IB&amp;M</b>                    |       |       |       |       |       |       |       |       |       |       |        |        |
| Market share                            |       |       |       |       |       |       |       |       |       |       |        |        |
| - Loans                                 | 8.3%  | 8.4%  | 8.4%  | 10.1% | 9.8%  | 10.2% | 9.8%  | 9.3%  | 9.3%  | 9.3%  | 9.2%   | 9.5%   |
| - Other IEA                             | 1.1%  | 1.1%  | 1.2%  | 1.1%  | 1.0%  | 1.1%  | 1.3%  | 1.6%  | 1.6%  | 1.8%  | 1.4%   | 1.7%   |
| - IBL                                   | 10.3% | 10.3% | 10.6% | 12.1% | 11.9% | 13.0% | 12.8% | 12.3% | 12.4% | 11.9% | 11.3%  | 11.6%  |
| NIM                                     | 1.97% | 1.92% | 1.94% | 2.15% | 2.20% | 2.27% | 2.34% | 2.19% | 2.53% | 2.20% | 2.29%  | 2.25%  |
| Other income / footings                 | 0.22% | 0.25% | 0.22% | 0.24% | 0.22% | 0.21% | 0.18% | 0.20% | 0.17% | 0.17% | 0.14%  | 0.14%  |
| Operating expense / footings            | 0.27% | 0.27% | 0.26% | 0.28% | 0.30% | 0.27% | 0.29% | 0.27% | 0.26% | 0.26% | 0.28%  | 0.25%  |
| Cost ratio                              | 39%   | 37%   | 38%   | 34%   | 37%   | 35%   | 40%   | 37%   | 35%   | 37%   | 42%    | 39%    |
| Impairment expense / AIEA               | 0.09% | 0.04% | 0.01% | 0.07% | 0.04% | 0.07% | 0.06% | 0.09% | 0.26% | 0.14% | -0.04% | -0.02% |
| Effective tax rate                      | 29%   | 27%   | 28%   | 28%   | 28%   | 28%   | 28%   | 29%   | 23%   | 29%   | 29%    | 29%    |
| <b>Wealth</b>                           |       |       |       |       |       |       |       |       |       |       |        |        |
| Growth in FUA                           | 0%    | 0%    | 6%    | -57%  | -58%  | -     | -     | -     | -     | -     | -      | -      |
| Funds management return                 | 0.28% | 0.27% | 0.27% | 0.30% | 0.29% | -     | -     | -     | -     | -     | -      | -      |
| Growth in insurance income              | -25%  | -67%  | -92%  | -100% | -100% | -     | -     | -     | -     | -     | -      | -      |
| Volume expenses / TOI                   | 27%   | 32%   | 37%   | 0%    | 0%    | -     | -     | -     | -     | -     | -      | -      |
| Growth in operating expenses            | -9%   | -23%  | -41%  | -36%  | -29%  | -     | -     | -     | -     | -     | -      | -      |
| Effective tax rate                      | 21%   | 26%   | 24%   | 29%   | 30%   | -     | -     | -     | -     | -     | -      | -      |
| <b>New Zealand</b>                      |       |       |       |       |       |       |       |       |       |       |        |        |
| NIM                                     | 2.20% | 2.09% | 2.04% | 2.20% | 2.27% | 2.23% | 2.23% | 2.15% | 2.09% | 2.12% | 2.31%  | 2.19%  |
| Other income / footings                 | 0.12% | 0.13% | 0.13% | 0.14% | 0.13% | 0.14% | 0.13% | 0.14% | 0.11% | 0.10% | 0.10%  | 0.10%  |
| Operating expense / footings            | 0.33% | 0.26% | 0.26% | 0.27% | 0.28% | 0.27% | 0.28% | 0.28% | 0.31% | 0.26% | 0.29%  | 0.25%  |
| Cost ratio                              | 41%   | 37%   | 38%   | 37%   | 38%   | 36%   | 37%   | 37%   | 45%   | 39%   | 41%    | 36%    |
| Impairment expense / AIEA               | 0.11% | 0.06% | 0.02% | 0.03% | 0.06% | 0.05% | 0.07% | 0.02% | 0.28% | 0.03% | -0.03% | 0.00%  |
| Effective tax rate                      | 26%   | 28%   | 28%   | 28%   | 28%   | 28%   | 28%   | 28%   | 28%   | 28%   | 28%    | 28%    |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## \$108.00 price target unchanged, back to a Buy

While cash earnings in FY22e and FY23e are increased substantially by 11% and 8%, these were mainly due to lower credit impairment expenses [FY22e \$101m (previously \$728m) and FY23e \$761m (previously \$1,113m)]. There were also benefits from higher total operating income every year (4-5%) mainly from volume-related lending and deposit fees. Given that, cash earnings were increased by 2% from FY25e onwards. Net of higher risk metrics (sustainable dividend yield up by 25bp to 3.75% and discount rate up by the same amount to 9.75%), the amount is only break-even – meaning the valuation and price

target are unchanged from \$108.00. Allowing for the interim dividend of 175¢, the rating for CBA is brought back to a Buy.



**Table 4 – Estimate changes**

| Commonwealth Bank<br>Y/e June 30 (\$m) | FY22e         |               |            | FY23e         |               |           | FY24e         |               |            | FY25e         |               |            |
|--|---------------|---------------|------------|---------------|---------------|-----------|---------------|---------------|------------|---------------|---------------|------------|
|  | Current       | Previous      | Change     | Current       | Previous      | Change    | Current       | Previous      | Change     | Current       | Previous      | Change     |
| <b>Profit &amp; Loss (continuing)</b>  |               |               |            |               |               |           |               |               |            |               |               |            |
| Net interest income                    | 20,034        | 18,902        | 6%         | 21,042        | 19,420        | 8%        | 21,689        | 19,954        | 9%         | 22,361        | 20,503        | 9%         |
| Other income                           | 4,977         | 5,253         | -5%        | 4,969         | 5,507         | -10%      | 5,188         | 5,798         | -11%       | 5,341         | 5,942         | -10%       |
| <b>Total operating income</b>          | <b>25,012</b> | <b>24,156</b> | <b>4%</b>  | <b>26,010</b> | <b>24,928</b> | <b>4%</b> | <b>26,877</b> | <b>25,751</b> | <b>4%</b>  | <b>27,702</b> | <b>26,445</b> | <b>5%</b>  |
| Operating expenses                     | -11,241       | -11,111       | -1%        | -11,399       | -10,914       | -4%       | -11,553       | -10,886       | -6%        | -11,742       | -10,827       | -8%        |
| Loan impairment expense                | -101          | -728          | 622%       | -761          | -1,113        | 46%       | -1,202        | -1,250        | 4%         | -1,366        | -1,285        | -6%        |
| <b>Net profit before income tax</b>    | <b>13,670</b> | <b>12,316</b> | <b>11%</b> | <b>13,851</b> | <b>12,900</b> | <b>7%</b> | <b>14,123</b> | <b>13,616</b> | <b>4%</b>  | <b>14,594</b> | <b>14,334</b> | <b>2%</b>  |
| Corporate tax expense                  | -3,966        | -3,598        | -9%        | -4,008        | -3,770        | -6%       | -4,087        | -3,979        | -3%        | -4,221        | -4,188        | -1%        |
| Investment experience                  | 0             | 0             | n/a        | 0             | 0             | n/a       | 0             | 0             | n/a        | 0             | 0             | n/a        |
| <b>NPAT (cash basis)</b>               | <b>9,704</b>  | <b>8,718</b>  | <b>11%</b> | <b>9,842</b>  | <b>9,130</b>  | <b>8%</b> | <b>10,036</b> | <b>9,637</b>  | <b>4%</b>  | <b>10,372</b> | <b>10,145</b> | <b>2%</b>  |
| <b>DPS (cps)</b>                       | <b>387</b>    | <b>374</b>    | <b>3%</b>  | <b>407</b>    | <b>403</b>    | <b>1%</b> | <b>423</b>    | <b>426</b>    | <b>-1%</b> | <b>439</b>    | <b>448</b>    | <b>-2%</b> |
| EPS (cash basis) (cps)                 | 563           | 501           | 12%        | 574           | 535           | 7%        | 582           | 565           | 3%         | 597           | 595           | 0%         |
| Payout ratio                           | 69%           | 75%           | -6%        | 71%           | 75%           | -4%       | 73%           | 75%           | -3%        | 74%           | 75%           | -2%        |
| ROE                                    | 12.7%         | 11.6%         | 1.2%       | 12.5%         | 11.9%         | 0.6%      | 12.1%         | 12.0%         | 0.1%       | 11.9%         | 12.2%         | -0.3%      |
| NIM                                    | 1.92%         | 1.94%         | -0.01%     | 1.93%         | 1.94%         | -0.01%    | 1.94%         | 1.95%         | -0.01%     | 1.95%         | 1.95%         | -0.01%     |
| Cost ratio                             | 45%           | 46%           | 1%         | 44%           | 44%           | 0%        | 43%           | 42%           | -1%        | 42%           | 41%           | -1%        |
| Impairment expense as % of GLA         | 0.01%         | 0.09%         | 0.08%      | 0.08%         | 0.13%         | 0.04%     | 0.13%         | 0.14%         | 0.01%      | 0.14%         | 0.14%         | 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



# 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                          | 148,739     | \$87.17   | 25%       | \$21.79                   |
| Dividend yield (sustainable) | 185,200     | \$108.53  | 25%       | \$27.13                   |
| ROE (sustainable)            | 194,990     | \$114.27  | 25%       | \$28.57                   |
| Sum-of-Parts                 | 187,709     | \$110.00  | 25%       | \$27.50                   |
| Surplus capital *            | 5,534       | \$3.24    |           | \$3.24                    |
| <b>Total</b>                 |             |           |           | <b>\$108.24</b>           |

\* 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    | 4,636        | 18.0             | 83,450         | \$48.90         |
| B&PB / IB&M       | 4,283        | 18.5             | 79,243         | \$46.44         |
| Wealth Management | 0            | 0.0              | -              | -               |
| New Zealand       | 1,429        | 17.5             | 25,015         | \$14.66         |
| Other             | -507         | -                | -              | -               |
| <b>Total</b>      | <b>9,842</b> | <b>19.1</b>      | <b>187,709</b> | <b>\$110.00</b> |

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   |
|------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Sensitivities</b>               |         |         |         |         |         |         |         |         |         |
| <b>Group NIM +10bp</b>             |         |         |         |         |         |         |         |         |         |
| - NPAT upside (cash basis)         | 7.5%    | 7.7%    | 7.8%    | 7.7%    | 7.7%    | 7.7%    | 7.6%    | 7.6%    | 7.6%    |
| - Price target upside              | \$8.11  | \$8.37  | \$8.42  | \$8.36  | \$8.33  | \$8.29  | \$8.26  | \$8.23  | \$8.20  |
| <b>Group Loans +1%</b>             |         |         |         |         |         |         |         |         |         |
| - NPAT upside (cash basis)         | 0.8%    | 0.8%    | 0.8%    | 0.8%    | 0.8%    | 0.8%    | 0.8%    | 0.8%    | 0.8%    |
| - Price target upside              | \$0.82  | \$0.81  | \$0.81  | \$0.81  | \$0.81  | \$0.81  | \$0.81  | \$0.81  | \$0.81  |
| <b>RBS loans +1%</b>               |         |         |         |         |         |         |         |         |         |
| - NPAT upside (cash basis)         | 0.5%    | 0.5%    | 0.5%    | 0.5%    | 0.4%    | 0.4%    | 0.4%    | 0.4%    | 0.4%    |
| - Price target upside              | \$0.53  | \$0.51  | \$0.50  | \$0.49  | \$0.49  | \$0.48  | \$0.48  | \$0.47  | \$0.47  |
| <b>B&amp;PB/IB&amp;M loans +1%</b> |         |         |         |         |         |         |         |         |         |
| - 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              | \$0.47  | \$0.47  | \$0.47  | \$0.48  | \$0.48  | \$0.48  | \$0.47  | \$0.47  | \$0.46  |
| <b>NZ loans +1%</b>                |         |         |         |         |         |         |         |         |         |
| - NPAT upside (cash basis)         | 0.1%    | 0.1%    | 0.1%    | 0.1%    | 0.2%    | 0.2%    | 0.2%    | 0.2%    | 0.2%    |
| - Price target upside              | \$0.15  | \$0.16  | \$0.16  | \$0.16  | \$0.17  | \$0.17  | \$0.18  | \$0.18  | \$0.19  |
| <b>Other income +1%</b>            |         |         |         |         |         |         |         |         |         |
| - 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              | \$0.39  | \$0.38  | \$0.39  | \$0.39  | \$0.39  | \$0.39  | \$0.39  | \$0.39  | \$0.39  |
| <b>BDD +1%</b>                     |         |         |         |         |         |         |         |         |         |
| - NPAT upside (cash basis)         | 0.0%    | -0.1%   | -0.1%   | -0.1%   | -0.1%   | -0.1%   | -0.1%   | -0.1%   | -0.1%   |
| - Price target upside              | -\$0.01 | -\$0.06 | -\$0.09 | -\$0.10 | -\$0.10 | -\$0.10 | -\$0.10 | -\$0.10 | -\$0.10 |
| <b>Costs +1%</b>                   |         |         |         |         |         |         |         |         |         |
| - NPAT upside (cash basis)         | -0.8%   | -0.8%   | -0.8%   | -0.8%   | -0.8%   | -0.8%   | -0.8%   | -0.8%   | -0.8%   |
| - Price target upside              | -\$0.88 | -\$0.88 | -\$0.87 | -\$0.86 | -\$0.86 | -\$0.86 | -\$0.86 | -\$0.86 | -\$0.86 |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

### Table 8 – Financial summary

| Commonwealth Bank                                 |                  |                  |                  |                  |                  | Share Price (A\$)                          |               | 99.56             |               |               |               |
|---|------------------|------------------|------------------|------------------|------------------|--|---------------|-------------------|---------------|---------------|---------------|
| As at   |                  |                  |                  |                  |                  | 9-Feb-22                                   |               | Market Cap (A\$M) |               |               |               |
|   |                  |                  |                  |                  |                  |  |               | 169,888           |               |               |               |
| <b>PROFIT AND LOSS</b>                            |                  |                  |                  |                  |                  |  |               |                   |               |               |               |
| <b>Y/e June 30 (\$m)</b>                          | <b>2020</b>      | <b>2021</b>      | <b>2022e</b>     | <b>2023e</b>     | <b>2024e</b>     | <b>Y/e June 30</b>                         | <b>2020</b>   | <b>2021</b>       | <b>2022e</b>  | <b>2023e</b>  | <b>2024e</b>  |
| Net interest income                               | 18,610           | 19,302           | 20,034           | 21,042           | 21,689           | NPAT (cash basis) (\$m)                    | 7,225         | 8,653             | 9,704         | 9,842         | 10,036        |
| Other banking income                              | 4,837            | 4,544            | 4,777            | 4,760            | 4,975            | <b>NPAT (cash basis, continuing) (\$m)</b> | <b>7,225</b>  | <b>8,653</b>      | <b>9,704</b>  | <b>9,842</b>  | <b>10,036</b> |
| <b>Total banking income</b>                       | <b>23,447</b>    | <b>23,846</b>    | <b>24,811</b>    | <b>25,802</b>    | <b>26,663</b>    | EPS (statutory basis) (cps)                | 418           | 575               | 628           | 574           | 582           |
| Funds management income                           | 173              | 165              | 165              | 173              | 178              | - Growth                                   | -14%          | 38%               | 9%            | -9%           | 1%            |
| Insurance income                                  | 141              | 145              | 36               | 36               | 36               | EPS (cash basis) (cps)                     | 408           | 489               | 563           | 574           | 582           |
| <b>Total operating income</b>                     | <b>23,761</b>    | <b>24,156</b>    | <b>25,012</b>    | <b>26,010</b>    | <b>26,877</b>    | - Growth                                   | -17%          | 20%               | 15%           | 2%            | 1%            |
| Operating expenses                                | -10,996          | -11,359          | -11,241          | -11,399          | -11,553          | <b>EPS (cash basis, continuing) (cps)</b>  | <b>408</b>    | <b>489</b>        | <b>563</b>    | <b>574</b>    | <b>582</b>    |
| Loan impairment expense                           | -2,518           | -554             | -101             | -761             | -1,202           | - Growth                                   | -12%          | 20%               | 15%           | 2%            | 1%            |
| <b>Net profit before income tax</b>               | <b>10,247</b>    | <b>12,243</b>    | <b>13,670</b>    | <b>13,851</b>    | <b>14,123</b>    | P / E ratio (times)                        | 24.4          | 20.4              | 17.7          | 17.3          | 17.1          |
| Corporate tax expense                             | -3,022           | -3,590           | -3,966           | -4,008           | -4,087           | P / Book ratio (times)                     | 2.4           | 2.2               | 2.2           | 2.1           | 2.0           |
| Minority interests                                | 0                | 0                | 0                | 0                | 0                | P / NTA ratio (times)                      | 2.6           | 2.4               | 2.4           | 2.3           | 2.2           |
| Net profit after tax from discontinued operations | 0                | 0                | 0                | 0                | 0                | Net DPS (cps)                              | 298           | 350               | 387           | 407           | 423           |
| Investment experience                             | 0                | 0                | 0                | 0                | 0                | Yield                                      | 3.0%          | 3.5%              | 3.9%          | 4.1%          | 4.2%          |
| <b>NPAT (cash basis)</b>                          | <b>7,225</b>     | <b>8,653</b>     | <b>9,704</b>     | <b>9,842</b>     | <b>10,036</b>    | Franking                                   | 100%          | 100%              | 100%          | 100%          | 100%          |
| Adjustments                                       | 163              | 1,528            | 1,124            | 0                | 0                | <b>Payout (cash basis, target 70-80%)</b>  | <b>73%</b>    | <b>72%</b>        | <b>69%</b>    | <b>71%</b>    | <b>73%</b>    |
| <b>NPAT (statutory basis)</b>                     | <b>7,388</b>     | <b>10,181</b>    | <b>10,828</b>    | <b>9,842</b>     | <b>10,036</b>    | <b>CAPITAL ADEQUACY</b>                    |               |                   |               |               |               |
| <b>CASHFLOW</b>                                   |                  |                  |                  |                  |                  |  |               |                   |               |               |               |
| <b>Y/e June 30 (\$m)</b>                          | <b>2020</b>      | <b>2021</b>      | <b>2022e</b>     | <b>2023e</b>     | <b>2024e</b>     | <b>Y/e June 30</b>                         | <b>2020</b>   | <b>2021</b>       | <b>2022e</b>  | <b>2023e</b>  | <b>2024e</b>  |
| NPAT (cash basis)                                 | 7,225            | 8,653            | 9,704            | 9,842            | 10,036           | Risk weighted assets (\$m)                 | 454,948       | 450,680           | 485,399       | 512,750       | 558,738       |
| Increase in loans                                 | -19,318          | -39,995          | -57,324          | -27,021          | -28,064          | Average risk weight                        | 47%           | 45%               | 47%           | 48%           | 50%           |
| Increase in other assets                          | -1,264           | 17,636           | 4,972            | -9,196           | -9,854           | <b>Tier 1 ratio</b>                        | <b>13.9%</b>  | <b>15.7%</b>      | <b>14.0%</b>  | <b>13.6%</b>  | <b>13.6%</b>  |
| Capital expenditure                               | -3,219           | 318              | 210              | -153             | -158             | <b>CET1 capital ratio</b>                  | <b>11.6%</b>  | <b>13.1%</b>      | <b>11.8%</b>  | <b>11.6%</b>  | <b>11.7%</b>  |
| <b>Investing cashflow</b>                         | <b>-23,801</b>   | <b>-22,041</b>   | <b>-52,142</b>   | <b>-36,371</b>   | <b>-38,076</b>   | Total capital ratio                        | 17.5%         | 19.8%             | 17.9%         | 17.3%         | 16.9%         |
| Increase in deposits & borrowings                 | 68,568           | 46,989           | 77,639           | 33,565           | 35,179           | Equity ratio                               | 7.1%          | 7.2%              | 6.5%          | 6.7%          | 6.8%          |
| Increase in other liabilities                     | -33,374          | 24,251           | 10,522           | -1,325           | -1,130           | <b>DIVISIONAL</b>                          |               |                   |               |               |               |
| Ordinary equity raised                            | 0                | 0                | 0                | 0                | 0                | <b>Y/e June 30 (\$m)</b>                   | <b>2020</b>   | <b>2021</b>       | <b>2022e</b>  | <b>2023e</b>  | <b>2024e</b>  |
| Other   | -3,840           | -1,976           | -11,408          | -5,711           | -6,009           | <b>Retail Banking Services</b>             |               |                   |               |               |               |
| <b>Financing cashflow</b>                         | <b>31,354</b>    | <b>69,264</b>    | <b>76,752</b>    | <b>26,529</b>    | <b>28,039</b>    | Net interest income                        | 9,697         | 9,769             | 9,954         | 10,384        | 10,644        |
| Net change in cash                                | 14,778           | 55,876           | 34,314           | 0                | 0                | Other income                               | 1,510         | 1,341             | 1,493         | 1,379         | 1,503         |
| <b>Cash at end of period</b>                      | <b>44,165</b>    | <b>100,041</b>   | <b>134,355</b>   | <b>134,355</b>   | <b>134,355</b>   | <b>Total banking income</b>                | <b>11,207</b> | <b>11,110</b>     | <b>11,447</b> | <b>11,764</b> | <b>12,147</b> |
| <b>BALANCE SHEET</b>                              |                  |                  |                  |                  |                  |  |               |                   |               |               |               |
| <b>Y/e June 30 (\$m)</b>                          | <b>2020</b>      | <b>2021</b>      | <b>2022e</b>     | <b>2023e</b>     | <b>2024e</b>     | Operating expenses                         | -4,335        | -4,333            | -4,564        | -4,706        | -4,844        |
| Cash and liquid assets                            | 44,165           | 100,041          | 134,355          | 134,355          | 134,355          | Loan impairment expense                    | -1,034        | -139              | -135          | -473          | -679          |
| Divisional gross loans                            | 774,622          | 814,465          | 871,636          | 898,567          | 926,558          | <b>Net profit before tax</b>               | <b>5,838</b>  | <b>6,638</b>      | <b>6,748</b>  | <b>6,584</b>  | <b>6,624</b>  |
| Provisions  | -6,363           | -6,211           | -6,058           | -5,968           | -5,895           | Corporate tax expense                      | -1,743        | -1,986            | -1,996        | -1,948        | -1,960        |
| Divisional IEA                                    | 59,047           | 52,633           | 64,800           | 66,748           | 68,763           | <b>Cash net profit after tax</b>           | <b>4,095</b>  | <b>4,652</b>      | <b>4,752</b>  | <b>4,636</b>  | <b>4,664</b>  |
| Other IEA & other loans                           | 114,393          | 104,811          | 88,827           | 96,075           | 103,915          | Home loans                                 | 400,921       | 423,113           | 456,666       | 468,082       | 479,785       |
| Intangibles                                       | 6,944            | 6,942            | 7,073            | 7,073            | 7,073            | Consumer & other loans                     | 14,001        | 11,172            | 11,249        | 11,530        | 11,818        |
| PP&E  | 5,602            | 5,284            | 5,074            | 5,227            | 5,385            | Deposits                                   | 246,031       | 253,203           | 277,584       | 287,300       | 297,355       |
| Insurance assets                                  | 0                | 0                | 0                | 0                | 0                | Deposits non bearing interest              | 33,882        | 44,598            | 53,996        | 55,886        | 57,842        |
| Other assets                                      | 15,650           | 14,010           | 12,855           | 12,855           | 12,855           | <b>BB / IB&amp;M</b>                       |               |                   |               |               |               |
| <b>Total assets</b>                               | <b>1,014,060</b> | <b>1,091,975</b> | <b>1,178,562</b> | <b>1,214,933</b> | <b>1,253,009</b> | Net interest income                        | 7,304         | 7,129             | 7,559         | 7,950         | 8,149         |
| Divisional deposits & borrowings                  | 703,962          | 750,951          | 828,590          | 862,155          | 897,334          | Other income                               | 2,382         | 2,148             | 2,039         | 2,100         | 2,164         |
| Other borrowings                                  | 220,664          | 245,980          | 260,059          | 258,733          | 257,603          | <b>Total banking income</b>                | <b>9,686</b>  | <b>9,277</b>      | <b>9,598</b>  | <b>10,050</b> | <b>10,313</b> |
| Other liabilities                                 | 17,421           | 16,356           | 12,799           | 12,799           | 12,799           | Operating expenses                         | -3,479        | -3,645            | -3,719        | -3,831        | -3,758        |
| <b>Total liabilities</b>                          | <b>942,047</b>   | <b>1,013,287</b> | <b>1,101,447</b> | <b>1,133,687</b> | <b>1,167,736</b> | Loan impairment expense                    | -1,137        | -324              | 46            | -215          | -368          |
| Ordinary share capital                            | 38,131           | 38,420           | 37,429           | 38,522           | 39,672           | <b>Net profit before tax</b>               | <b>5,070</b>  | <b>5,308</b>      | <b>5,925</b>  | <b>6,004</b>  | <b>6,187</b>  |
| Other equity instruments                          | 0                | 0                | 0                | 0                | 0                | Corporate tax expense                      | -1,333        | -1,542            | -1,698        | -1,721        | -1,773        |
| Reserves  | 2,666            | 3,249            | 2,848            | 2,848            | 2,848            | <b>Cash net profit after tax</b>           | <b>3,737</b>  | <b>3,766</b>      | <b>4,227</b>  | <b>4,283</b>  | <b>4,414</b>  |
| Retained profits                                  | 31,211           | 37,014           | 36,833           | 39,871           | 42,748           | Loans                                      | 277,412       | 285,440           | 301,157       | 308,686       | 316,403       |
| Minority interests                                | 5                | 5                | 5                | 5                | 5                | Other IEA                                  | 48,147        | 42,022            | 53,537        | 54,876        | 56,248        |
| <b>Total shareholders' equity</b>                 | <b>72,013</b>    | <b>78,688</b>    | <b>77,115</b>    | <b>81,246</b>    | <b>85,273</b>    | IBL  | 288,136       | 283,871           | 301,694       | 312,253       | 323,182       |
| <b>Total sh. equity &amp; liabs.</b>              | <b>1,014,060</b> | <b>1,091,975</b> | <b>1,178,562</b> | <b>1,214,933</b> | <b>1,253,009</b> | Deposits non bearing interest              | 58,407        | 73,838            | 91,684        | 94,893        | 98,214        |
| <b>WANOS - statutory (m)</b>                      | <b>1,769</b>     | <b>1,771</b>     | <b>1,723</b>     | <b>1,714</b>     | <b>1,725</b>     | <b>Wealth Management</b>                   |               |                   |               |               |               |
| <b>WANOS - cash (m)</b>                           | <b>1,769</b>     | <b>1,771</b>     | <b>1,723</b>     | <b>1,714</b>     | <b>1,725</b>     | Funds management income                    | 0             | 0                 | 0             | 0             | 0             |
| <b>PROFITABILITY RATIOS</b>                       |                  |                  |                  |                  |                  |  |               |                   |               |               |               |
| <b>Y/e June 30</b>                                | <b>2020</b>      | <b>2021</b>      | <b>2022e</b>     | <b>2023e</b>     | <b>2024e</b>     | Insurance income                           | 0             | 0                 | 0             | 0             | 0             |
| Return on assets (continuing)                     | 0.7%             | 0.8%             | 0.8%             | 0.8%             | 0.8%             | <b>Total operating income</b>              | <b>0</b>      | <b>0</b>          | <b>0</b>      | <b>0</b>      | <b>0</b>      |
| <b>Return on equity (continuing)</b>              | <b>10.2%</b>     | <b>11.5%</b>     | <b>12.7%</b>     | <b>12.5%</b>     | <b>12.1%</b>     | Volume expenses                            | 0             | 0                 | 0             | 0             | 0             |
| Leverage ratio                                    | 6.3%             | 6.5%             | 5.8%             | 5.8%             | 6.1%             | Operating expenses                         | 0             | 0                 | 0             | 0             | 0             |
| <b>Net interest margin (continuing)</b>           | <b>2.07%</b>     | <b>2.08%</b>     | <b>1.92%</b>     | <b>1.93%</b>     | <b>1.94%</b>     | <b>Net profit before tax</b>               | <b>0</b>      | <b>0</b>          | <b>0</b>      | <b>0</b>      | <b>0</b>      |
| Cost / income ratio                               | 46%              | 47%              | 45%              | 44%              | 43%              | Corporate tax expense                      | 0             | 0                 | 0             | 0             | 0             |
| Cost / average assets                             | 1.10%            | 1.06%            | 0.97%            | 0.95%            | 0.93%            | Investment experience                      | 0             | 0                 | 0             | 0             | 0             |
| Growth in operating income                        | 1%               | 2%               | 4%               | 4%               | 3%               | <b>Cash net profit after tax</b>           | <b>0</b>      | <b>0</b>          | <b>0</b>      | <b>0</b>      | <b>0</b>      |
| Growth in operating expenses                      | 2%               | 3%               | -1%              | 1%               | 1%               | FUA  | 0             | 0                 | 0             | 0             | 0             |
| <b>Jaws</b>                                       | <b>-1%</b>       | <b>-2%</b>       | <b>5%</b>        | <b>3%</b>        | <b>2%</b>        | <b>New Zealand</b>                         |               |                   |               |               |               |
| <b>ASSET QUALITY</b>                              |                  |                  |                  |                  |                  |  |               |                   |               |               |               |
| <b>Y/e June 30</b>                                | <b>2020</b>      | <b>2021</b>      | <b>2022e</b>     | <b>2023e</b>     | <b>2024e</b>     | Net interest income                        | 1,934         | 2,150             | 2,401         | 2,587         | 2,776         |
| Loan impairment expense / GLA                     | 0.33%            | 0.07%            | 0.01%            | 0.08%            | 0.13%            | Other income                               | 375           | 394               | 433           | 468           | 495           |
| Loan impairment expense / RWA                     | 0.55%            | 0.12%            | 0.02%            | 0.15%            | 0.22%            | <b>Total banking income</b>                | <b>2,309</b>  | <b>2,544</b>      | <b>2,834</b>  | <b>3,056</b>  | <b>3,272</b>  |
| <b>Total provisions (\$m)</b>                     | <b>6,363</b>     | <b>6,211</b>     | <b>6,058</b>     | <b>5,968</b>     | <b>5,895</b>     | Funds management income                    | 136           | 140               | 157           | 165           | 170           |
| Total provisions / RWA                            | 1.40%            | 1.38%            | 1.25%            | 1.16%            | 1.06%            | Insurance income                           | 0             | 0                 | 0             | 0             | 0             |
| Indiv ass prov / gross imp assets                 | 27%              | 26%              | 23%              | 23%              | 23%              | <b>Total operating income</b>              | <b>2,445</b>  | <b>2,684</b>      | <b>2,991</b>  | <b>3,220</b>  | <b>3,441</b>  |
| IBL / IEA   | 98%              | 103%             | 107%             | 106%             | 106%             | Operating expenses                         | -1,032        | -1,071            | -1,080        | -1,162        | -1,251        |
| <b>Total provisions + GRCL / GLA</b>              | <b>0.82%</b>     | <b>0.76%</b>     | <b>0.69%</b>     | <b>0.66%</b>     | <b>0.64%</b>     | Loan impairment expense                    | -292          | 5                 | 12            | -72           | -155          |
| <b>Effective tax rate</b>                         |                  |                  |                  |                  |                  |  |               |                   |               |               |               |
| <b>Payout (statutory)</b>                         |                  |                  |                  |                  |                  |  |               |                   |               |               |               |
|   |                  |                  |                  |                  |                  |  | 29%           | 29%               | 29%           | 29%           | 29%           |
|   |                  |                  |                  |                  |                  |  | 71%           | 61%               | 62%           | 71%           | 73%           |

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.*

**Research Team**

| Staff Member     | Sector                       | Phone         | @bellpotter.com.au |
|------------------|------------------------------|---------------|--------------------|
| Chris Savage     | Head of Research/Industrials | 612 8224 2835 | csavage            |
| <b>Analyst</b>   |                              |               |                    |
| TS Lim           | Banks                        | 612 8224 2810 | tslim              |
| John Hester      | Healthcare                   | 612 8224 2871 | jhester            |
| Anubhav Saxena   | Healthcare                   | 612 8224 2846 | asaxena            |
| Tara Speranza    | Healthcare                   | 612 8224 2815 | tsperanza          |
| Marcus Barnard   | Industrials                  | 618 9326 7673 | mbarnard           |
| Sam Brandwood    | Industrials                  | 612 8224 2850 | sbrandwood         |
| James Filius     | Industrials                  | 613 9235 1612 | jfilius            |
| Sam Haddad       | Industrials                  | 612 8224 2819 | shaddad            |
| Olivia Hagglund  | Industrials                  | 612 8224 2813 | ohagglund          |
| Hamish Murray    | Industrials                  | 613 9235 1813 | hmurray            |
| Jonathan Snape   | Industrials                  | 613 9235 1601 | jsnape             |
| David Coates     | Resources                    | 612 8224 2887 | dcoates            |
| Stuart Howe      | Resources                    | 613 9235 1856 | showe              |
| Joseph House     | Resources                    | 613 9235 1624 | jhouse             |
| Regan Burrows    | Resources                    | 618 9326 7677 | rburrows           |
| Brad Watson      | Resources                    | 618 9326 7672 | bwatson            |
| <b>Associate</b> |                              |               |                    |
| Michael Ardrey   | Associate Analyst            | 613 9235 8782 | mardrey            |
| Daniel Laing     | Associate Analyst            | 612 8224 2886 | dlaing             |

**Bell Potter Securities Limited**  
ACN 25 006 390 7721  
Level 29, 101 Collins Street  
Melbourne, Victoria, 3000  
Telephone +61 3 9256 8700  
[www.bellpotter.com.au](http://www.bellpotter.com.au)

**Bell Potter Securities (HK) Limited**  
Room 1701, 17/F  
Prosperity Tower, 39 Queens Road  
Central, Hong Kong, 0000  
Telephone +852 3750 8400

**Bell Potter Securities (US) LLC**  
Floor 39  
444 Madison Avenue, New York  
NY 10022, U.S.A  
Telephone +1 917 819 1410

**Bell Potter Securities (UK) Limited**  
16 Berkeley Street  
London, England  
W1J 8DZ, United Kingdom  
Telephone +44 7734 2929

**The following may affect your legal rights. Important Disclaimer:**

This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of Bell Potter Securities Limited. In the USA and the UK this research is only for institutional investors. It is not for release, publication or distribution in whole or in part to any persons in the two specified countries. **In Hong Kong**, this research is being distributed by Bell Potter Securities (HK) Limited which is licensed and regulated by the Securities and Futures Commission, Hong Kong. **In the United States**, this research is issued and distributed by Bell Potter Securities (US) LLC which is a registered broker-dealer and member of FINRA. Any person receiving this report from Bell Potter Securities (US) LLC and wishing to transact in any security described herein should do so with Bell Potter Securities (US) LLC.

This is general investment advice only and does not constitute personal advice to any person. Because this document has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited investment adviser (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this document.

While this document is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in the document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. Nor does Bell Potter Securities Limited accept any responsibility for updating any advice, views opinions, or recommendations contained in this document or for correcting any error or omission which may become apparent after the document has been issued.

Except insofar as liability under any statute cannot be excluded. Bell Potter Securities Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

**Research Policies:**

For Bell Potter's Research Coverage Decision Making Process and Research Independence Policy, please refer to our company website:

<https://www.bellpotter.com.au/research-independence-policy/>

**Disclosure of interest:**

Bell Potter Securities Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document (which its representatives may directly share) and may from time to time hold interests in the securities referred to in this document.

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

**ANALYST CERTIFICATION**

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.