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Bank Note\$

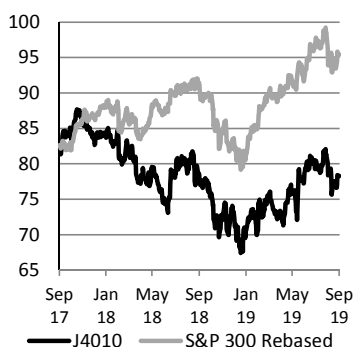
The wind and the lion

Stock	Price	Target	Rating
ANZ	\$26.58	\$27.50	Hold
CBA	\$78.69	\$86.00	Buy
NAB	\$27.32	\$29.00	Buy
WBC	\$28.25	\$29.50	Hold
ABA	\$5.80	\$6.00	Buy
BEN	\$10.74	\$10.80	Hold
BOQ	\$8.99	\$9.20	Hold
MYS	\$4.57	\$5.00	Hold
MQG	\$122.94	\$140.00	Buy
SUN	\$13.58	\$14.60	Buy

ASX200 Banks (J4010) Price Performance

	(1m)	(3m)	(12m)
Index (x100)	81.28	78.11	79.05
Absolute (%)	-3.70	0.21	-0.98
Rel market (%)	-0.65	-2.73	-4.66

Absolute Price



SOURCE: IRESS

August reporting wrap: Banks held up well in a noisy and disruptive environment

A lot has happened in Australian banking in the last 6-12 months. The Royal Commission's final findings were released while the regulators have toyed with higher capital buffers at the same time the respective bank managements had to battle tough operating conditions. These would normally have knocked the wind out of the banks but investor sentiment has remained relatively positive especially for the majors and we think this is due to the alignment of some positive factors including: (1) market expectations that have been set low heading into the reporting season; (2) the Coalition surprisingly winning the federal election in May, thus limiting further unproductive political bank bashing; (3) better customer borrowing capacity flowing from positive changes to APRA's buffer and minimum floor rate when assessing loan serviceability; (4) prospects of lower interest rates in combination with a low unemployment rate that are generally supportive of a resilient banking system; (5) surprising good underlying numbers; and (6) the market's insatiable appetite for bank yields in a low rate environment.

The resilient ones: MQG, NAB and SUN

It has been a noisy and disruptive lead-up to the August reporting season where the banks had to (and continue to) endure the reinvigorated Australian regulators' "Big Stick" ideology. Perversely, this is reminiscent of US President Theodore Roosevelt's foreign policy including his handling of the Perdicaris incident in 1904. The heavily fictionalised account of this event in "The Wind and the Lion" perhaps draws us to reflect in the same manner that the banks, like the lion, must remain in their place while the regulators are like the wind and will never know their place. We are well aware of this drag on the sector and our stock preferences therefore include those that are perceived to be more resilient, namely: MQG (cash and growth story); NAB (transformation play under incoming CEO Ross McEwan); and SUN (surplus capital and potential bank sale to drive PE re-rating as a pure general insurer).

Table 1 – Investment summary

	Mkt Cap (\$bn)	Price / Book (x)		PE (x)		Yield		ROE		EPS growth		Price target	Last price	12-mth Rating	12-mth TSR
		2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e				
MAJORS															
ANZ	75.3	1.2	1.2	10.8	11.2	6.0%	6.0%	11.7%	10.9%	10%	-3%	\$27.50	\$26.58	Hold	9%
CBA	139.3	2.0	1.9	16.4	16.0	5.5%	5.5%	12.5%	12.3%	-6%	2%	\$86.00	\$78.69	Buy	15%
NAB	78.8	1.4	1.4	12.5	11.6	6.1%	6.3%	11.9%	12.4%	4%	7%	\$29.00	\$27.32	Buy	12%
WBC	98.6	1.5	1.5	13.6	11.9	6.7%	6.7%	11.3%	12.7%	-12%	14%	\$29.50	\$28.25	Hold	11%
REGIONALS															
ABA	0.2	1.0	1.0	14.2	13.1	5.9%	6.3%	9.2%	9.8%	0%	8%	\$6.00	\$5.80	Buy	10%
BEN	5.3	0.9	0.9	12.6	12.5	6.5%	6.5%	7.5%	7.5%	-8%	1%	\$10.80	\$10.74	Hold	7%
BOQ	3.6	0.9	0.9	11.2	10.9	7.6%	7.6%	8.5%	8.7%	-15%	3%	\$9.20	\$8.99	Hold	10%
MYS	0.4	1.3	1.2	12.4	11.5	6.3%	6.5%	9.3%	9.9%	-3%	8%	\$5.00	\$4.57	Hold	16%
DIVERSIFIEDS															
MQG	42.9	2.3	2.1	13.9	14.0	4.7%	4.9%	18.0%	15.8%	17%	-1%	\$140.00	\$122.94	Buy	19%
SUN	17.6	1.3	1.4	15.7	14.7	5.7%	5.7%	8.4%	9.5%	1%	7%	\$14.60	\$13.58	Buy	13%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The wind and the lion



August reporting wrap: Banks held up well in a noisy and disruptive environment

There is no denying a lot has happened in Australian banking in the lead-up to books closing on 30 June 2019 and the subsequent August reporting season. The Royal Commission's final findings were released on 4 February and the process has unleashed all sorts of litigation, remediation and regulatory costs on the banks (with the potential for further such costs, ASIC penalties and class actions). In addition, the regulators have toyed with higher capital buffers (e.g. APRA's TLAC and APS 222 plus RBNZ's Tier 1 requirements that, in sum, would impact ANZ more than any of the other majors) at the same time the respective bank managements had to battle tough operating conditions amidst all the distraction (including some unintended consequences).

The above would normally have knocked the wind out of the banks but investor sentiment has remained relatively positive especially for the majors and we think this is due to the alignment of some positive factors including: (1) market expectations that have been set low heading into the reporting season; (2) the Coalition surprisingly winning the federal election in May, thus limiting further unproductive political bank bashing; (3) better customer borrowing capacity flowing from positive changes to APRA's buffer and minimum floor rate when assessing loan serviceability; (4) prospects of lower interest rates in combination with a low unemployment rate that are generally supportive of a resilient banking system; (5) surprising good underlying numbers; and (6) the market's insatiable appetite for bank yields in a low rate environment.

Managing for profitable growth (i.e. growing loan portfolios without sacrificing NIM) was again the key theme in the reporting period ended 30 June 2019 (FY19 for ABA, CBA, BEN, MYS and SUN Bank; and 3Q19 trading updates for ANZ, BOQ, NAB and WBC) and especially in the last three months. While overall lending for the majors and larger regionals (BEN, BOQ and SUN Bank) grew at ~1.8% annualised (i.e. in line with GDP growth) or <0.4% quarterly, this masked a much stronger outcome in home loans (~2.2% annualised, >0.4% quarterly) relative to business and unsecured consumer loans (~1.5% annualised, <0.3% quarterly; demand still subdued in the former while market share loss in the latter was likely intentional and reflected a shift towards lower risk lending categories).

Overall lending growth was matched by 1-2% annualised customer deposit growth for the above players although there was much stronger lending outcomes within the smaller regionals such as ABA and MYS (where GLA growth was 6% and 11% respectively and more than adequately funded by 13% and 12% deposit growth). Apart from starting from a low base, we suspect the smaller regionals' outperformance in footings growth was due to lower management distraction and customers shifting away from the majors following the Royal Commission to better alternate propositions.

NIM was the consistent positive surprise factor in the six months to 30 June 2019. While 12-month declines were reported for the majors and regionals (5bp lower for CBA and 2-17bp lower for ABA, BEN, MYS and SUN Bank due to asset price competition, back to front book switching and higher basis risk), NIM was resilient in 2H19 due to repricing and largely better portfolio mix (CBA and SUN Bank unchanged, BEN up by 2bp, ABA and MYS down by 1-2bp partly offset by stronger volume growth – that goes back to the perennial question of choosing between growth and stable NIM). Unfortunately, the party cannot last and the impact of the RBA's recent rate cuts should be felt in 1H20 leading to NIM declines of perhaps 4-5bp (with the exception of ABA, the only bank that has guided to stable NIM ahead based on a very strong exit NIM of 1.94% vs. 1.87% in 2H19).

Table 2 – Australian spread composition

ANZ (Australia)	1H12	2H12	1H13	2H13	1H14	2H14	1H15	2H15	1H16	2H16	1H17	2H17	1H18	2H18	1H19	2H19
Average loan yield	7.36%	6.82%	6.31%	5.94%	5.56%	5.47%	5.30%	4.92%	4.87%	4.76%	4.80%	4.86%	4.76%	4.76%	4.74%	4.74%
Average deposit cost	4.73%	4.28%	3.68%	3.31%	2.98%	2.93%	2.72%	2.31%	2.27%	2.14%	2.07%	2.01%	2.02%	2.12%	2.22%	2.22%
Average other funding cost	5.53%	4.96%	4.45%	3.85%	3.71%	3.65%	3.84%	3.69%	3.55%	3.81%	3.53%	3.65%	4.02%	4.28%	3.66%	3.66%
90 day BBSW	4.44%	3.49%	3.05%	2.58%	2.66%	2.69%	2.22%	2.16%	2.28%	1.74%	1.80%	1.71%	2.03%	1.94%	1.77%	0.00%
Loan spread	2.92%	3.33%	3.26%	3.36%	2.90%	2.78%	3.08%	2.76%	2.59%	3.02%	3.00%	3.15%	2.73%	2.82%	2.97%	0.00%
Deposit spread	-0.29%	-0.79%	-0.64%	-0.73%	-0.32%	-0.24%	-0.50%	-0.15%	0.01%	-0.40%	-0.27%	-0.30%	0.01%	-0.18%	-0.45%	0.00%
Other funding spread	-1.08%	-1.47%	-1.40%	-1.27%	-1.05%	-0.96%	-1.62%	-1.53%	-1.27%	-2.07%	-1.73%	-1.94%	-1.99%	-2.34%	-1.89%	0.00%
Net spread	1.55%	1.07%	1.22%	1.36%	1.52%	1.58%	0.95%	1.09%	1.34%	0.55%	1.00%	0.91%	0.75%	0.30%	0.63%	0.00%
Geographic spread	2.13%	2.09%	2.12%	2.13%	2.08%	2.10%	2.03%	2.01%	2.08%	2.15%	2.07%	2.08%	1.99%	1.81%	1.78%	0.00%
Geographic free fund effect	0.38%	0.39%	0.37%	0.33%	0.30%	0.29%	0.26%	0.29%	0.31%	0.25%	0.24%	0.23%	0.28%	0.31%	0.32%	0.00%
Geographic NIM	2.51%	2.48%	2.49%	2.46%	2.38%	2.39%	2.29%	2.30%	2.39%	2.40%	2.31%	2.31%	2.27%	2.12%	2.10%	0.00%
Yield slope	-0.36%	-0.49%	0.37%	1.23%	1.43%	0.79%	0.10%	0.45%	0.21%	0.17%	0.89%	1.13%	0.57%	0.73%	0.01%	0.00%
CBA (Australia)	1H12	2H12	1H13	2H13	1H14	2H14	1H15	2H15	1H16	2H16	1H17	2H17	1H18	2H18	1H19	2H19
Average loan yield	6.70%	6.44%	5.95%	5.74%	5.41%	5.28%	5.12%	4.87%	4.81%	4.79%	4.55%	4.49%	4.51%	4.47%	4.42%	4.37%
Average deposit cost	4.35%	4.09%	3.56%	3.30%	2.95%	2.74%	2.65%	2.37%	2.21%	2.18%	1.94%	1.85%	1.77%	1.72%	1.71%	1.70%
Average other funding cost	4.42%	4.27%	3.67%	3.57%	3.05%	2.97%	2.96%	2.67%	2.26%	2.73%	2.42%	2.39%	2.65%	2.89%	3.07%	2.97%
90 day BBSW	4.51%	3.49%	3.11%	2.79%	2.61%	2.68%	2.77%	2.14%	2.35%	1.96%	1.82%	1.71%	1.77%	2.11%	2.09%	1.21%
Loan spread	2.19%	2.95%	2.84%	2.96%	2.81%	2.58%	2.73%	2.46%	2.46%	2.83%	2.73%	2.78%	2.74%	2.36%	2.33%	3.16%
Deposit spread	0.16%	-0.60%	-0.45%	-0.52%	-0.35%	-0.06%	0.12%	-0.23%	0.14%	-0.22%	-0.12%	-0.14%	0.00%	0.39%	0.38%	-0.49%
Other funding spread	0.09%	-0.78%	-0.56%	-0.79%	-0.45%	-0.29%	-0.19%	-0.53%	0.09%	-0.77%	-0.60%	-0.68%	-0.68%	-0.78%	-0.98%	-1.76%
Net spread	2.44%	1.57%	1.83%	1.66%	2.02%	2.23%	2.28%	1.97%	2.69%	1.84%	2.01%	1.96%	1.86%	1.97%	1.73%	0.91%
Geographic spread	1.89%	1.81%	1.84%	1.98%	2.03%	2.05%	2.03%	2.11%	2.03%	2.11%	2.09%	1.99%	2.01%	1.98%	1.93%	1.92%
Geographic free fund effect	0.28%	0.29%	0.27%	0.22%	0.15%	0.14%	0.13%	0.07%	0.13%	0.20%	0.21%	0.21%	0.24%	0.24%	0.26%	0.27%
Geographic NIM	2.17%	2.10%	2.11%	2.20%	2.18%	2.19%	2.17%	2.10%	2.24%	2.23%	2.21%	2.20%	2.25%	2.22%	2.19%	2.19%
Yield slope	-0.84%	-0.45%	0.16%	0.98%	1.63%	0.86%	-0.04%	0.87%	0.46%	0.03%	0.94%	0.89%	0.86%	0.53%	0.23%	0.11%
NAB (Australia)	1H12	2H12	1H13	2H13	1H14	2H14	1H15	2H15	1H16	2H16	1H17	2H17	1H18	2H18	1H19	2H19
Average loan yield	6.45%	5.94%	6.05%	5.68%	5.33%	5.32%	5.33%	4.89%	4.93%	4.72%	4.50%	4.59%	4.56%	4.61%	4.55%	4.55%
Average deposit cost	4.74%	4.30%	3.69%	3.33%	3.01%	2.92%	2.80%	2.40%	2.26%	2.19%	1.91%	1.84%	1.78%	1.85%	1.88%	1.88%
Average other funding cost	6.38%	5.68%	5.12%	4.49%	4.09%	4.09%	3.65%	2.95%	2.88%	3.05%	3.02%	3.20%	3.17%	3.16%	3.34%	3.34%
90 day BBSW	4.44%	3.49%	3.05%	2.58%	2.66%	2.69%	2.22%	2.16%	2.28%	1.74%	1.80%	1.71%	2.03%	1.94%	1.77%	0.00%
Loan spread	2.01%	2.45%	3.00%	3.10%	2.67%	2.63%	3.11%	2.73%	2.65%	2.98%	2.70%	2.88%	2.53%	2.67%	2.78%	0.00%
Deposit spread	-0.30%	-0.81%	-0.65%	-0.75%	-0.35%	-0.23%	-0.58%	-0.24%	0.02%	-0.42%	-0.11%	-0.13%	0.25%	0.09%	-0.11%	0.00%
Other funding spread	-1.94%	-2.19%	-2.08%	-1.91%	-1.43%	-1.40%	-1.43%	-0.79%	-0.60%	-1.31%	-1.22%	-1.14%	-1.14%	-1.22%	-1.57%	0.00%
Net spread	-0.22%	-0.55%	0.28%	0.44%	0.88%	1.00%	1.10%	1.70%	2.07%	1.25%	1.37%	1.26%	1.63%	1.55%	1.11%	0.00%
Geographic spread	1.50%	1.48%	1.63%	1.69%	1.66%	1.66%	1.86%	1.91%	1.94%	1.90%	1.98%	1.98%	1.92%	1.92%	1.80%	0.00%
Geographic free fund effect	0.82%	0.75%	0.62%	0.55%	0.45%	0.44%	0.28%	0.18%	0.17%	0.18%	0.22%	0.23%	0.21%	0.22%	0.25%	0.00%
Geographic NIM	2.32%	2.24%	2.25%	2.24%	2.11%	2.09%	2.21%	2.12%	2.12%	2.12%	2.12%	2.12%	2.12%	2.13%	2.05%	0.00%
Yield slope	-0.36%	-0.49%	0.37%	1.23%	1.43%	0.79%	0.10%	0.45%	0.21%	0.17%	0.89%	1.13%	0.57%	0.73%	0.01%	0.00%
WBC (Australia)	1H12	2H12	1H13	2H13	1H14	2H14	1H15	2H15	1H16	2H16	1H17	2H17	1H18	2H18	1H19	2H19
Average loan yield	7.11%	6.60%	6.10%	5.78%	5.40%	5.37%	5.21%	4.88%	4.82%	4.64%	4.42%	4.46%	4.58%	4.57%	4.50%	4.50%
Average deposit cost	4.63%	4.18%	3.59%	3.25%	2.91%	2.84%	2.69%	2.25%	2.13%	2.02%	1.76%	1.76%	1.71%	1.78%	1.74%	1.74%
Average other funding cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
90 day BBSW	4.44%	3.49%	3.05%	2.58%	2.66%	2.69%	2.22%	2.16%	2.28%	1.74%	1.80%	1.71%	2.03%	1.94%	1.77%	0.00%
Loan spread	2.66%	3.11%	3.05%	3.20%	2.75%	2.68%	2.99%	2.70%	2.54%	2.90%	2.62%	2.75%	2.55%	2.63%	2.73%	0.00%
Deposit spread	-0.18%	-0.69%	-0.55%	-0.67%	-0.26%	-0.15%	-0.47%	-0.09%	-0.15%	-0.28%	-0.02%	-0.05%	0.32%	0.18%	0.03%	0.00%
Other funding spread	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net spread	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Geographic spread	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Geographic free fund effect	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Geographic NIM	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Yield slope	-0.36%	-0.49%	0.37%	1.23%	1.43%	0.79%	0.10%	0.45%	0.21%	0.17%	0.89%	1.13%	0.57%	0.73%	0.01%	0.00%
BEN	1H12	2H12	1H13	2H13	1H14	2H14	1H15	2H15	1H16	2H16	1H17	2H17	1H18	2H18	1H19	2H19
Average loan yield	7.23%	6.66%	6.14%	5.77%	5.45%	5.45%	5.17%	4.66%	4.54%	4.44%	4.34%	4.36%	4.32%	4.28%	4.28%	4.28%
Average deposit cost	4.98%	4.79%	4.18%	3.77%	3.38%	3.04%	3.01%	2.68%	2.38%	2.26%	2.23%	2.09%	2.01%	1.97%	2.01%	1.97%
Average other funding cost	5.80%	5.15%	4.82%	3.78%	3.78%	3.86%	3.95%	3.12%	3.13%	3.27%	2.87%	2.79%	2.74%	2.82%	2.97%	2.82%
90 day BBSW	4.51%	3.49%	3.11%	2.79%	2.61%	2.68%	2.77%	2.14%	2.35%	1.96%	1.82%	1.71%	1.77%	2.11%	2.09%	1.21%
Loan spread	2.72%	3.17%	3.03%	3.16%	2.75%	2.59%	2.40%	2.77%	2.31%	2.59%	2.62%	2.63%	2.58%	2.21%	2.23%	3.07%
Deposit spread	-0.47%	-1.30%	-1.07%	-0.99%	-0.77%	-0.36%	-0.24%	-0.54%	-0.03%	-0.30%	-0.41%	-0.38%	-0.24%	0.14%	0.08%	-0.76%
Other funding spread	-1.30%	-1.66%	-1.71%	-1.00%	-1.17%	-1.18%	-1.17%	-1.17%	-0.77%	-1.17%	-1.05%	-1.08%	-0.97%	-0.71%	-0.88%	-1.61%
Net spread	0.95%	0.21%	0.24%	1.00%	0.90%	1.06%	0.98%	1.06%	1.11%	1.11%	1.17%	1.17%	1.37%	1.64%	1.43%	0.70%
Geographic spread	1.53%	1.50%	1.62%	1.68%	1.73%	1.76%	1.76%	1.70%	1.70%	1.70%	1.70%	1.77%	1.85%	1.86%	1.83%	1.84%
Geographic free fund effect	0.26%	0.24%	0.22%	0.19%	0.18%	0.17%	0.17%	0.15%	0.12%	0.12%	0.12%	0.12%	0.13%	0.12%	0.13%	0.13%
Geographic NIM	1.79%	1.74%	1.84%	1.87%	1.91%	1.89%	1.93%	1.85%	1.84%	1.82%	1.82%	1.89%	1.98%	1.98%	1.95%	1.97%
Yield slope	-0.84%	-0.45%	0.16%	0.98%	1.63%	0.86%	-0.04%	0.87%	0.46%	0.03%	0.94%	0.89%	0.86%	0.53%	0.23%	0.11%
BOQ	1H12	2H12	1H13	2H13	1H14	2H14	1H15	2H15	1H16	2H16	1H17	2H17	1H18	2H18	1H19	2H19
Average loan yield	7.11%	6.65%	6.14%	5.78%	5.37%	5.39%	5.29%	4.97%	4.73%	4.64%	4.40%	4.55%	4.50%	4.50%	4.46%	4.46%
Average deposit cost	4.99%	4.79%	4.14%	3.70%	3.27%	3.11%	2.91%	2.56%	2.32%	2.35%	2.13%	2.07%	2.03%	1.99%	2.03%	2.03%
Average other funding cost	6.23%	5.34%	4.80%	4.22%	3.83%	3.81%	3.72%	3.44%	3.32%	3.17%	3.01%	3.19%	3.08%	3.15%	3.12%	3.12%
90 day BBSW	4.37%	3.62%	3.05%	2.60%	2.62%	2.63%	2.36%	2.13%	2.28%	1.74%	1.78%	1.72%	1.79%	1.95%	1.87%	0.00%
Loan spread	2.74%	3.03%	3.19%	3.16%	2.75%	2.76%	2.93%	2.84%	2.45%	2.90%	2.62%	2.83%	2.71%	2.55%	2.59%	0.00%
Deposit spread	-0.62%	-1.17%	-1.19%	-1.10%	-0.65%	-0.48%	-									

Table 3 – Bank comps

Scorecard	ANZ 1H19	CBA FY19	NAB 1H19	WBC 1H19	BEN FY19	BOQ 1H19	SUN Bank FY19	ABA FY19	MYS FY19	Sector average	Major bank average	Regional bank average
1 Capital adequacy (last reported)												
2 CET1 (International)	17.2%	16.2%	14.6%	15.9%	-	-	-	-	-	16.0%	16.0%	-
3 CET1 (MTB >10.5%, regionals >8.5%)	11.8%	10.7%	10.4%	10.5%	8.9%	9.3%	9.3%	11.8%	11.1%	10.4%	10.9%	10.1%
4 CET1 (pro-forma)	11.5%	11.8%	10.4%	10.5%	>10.0%	>10.0%	>10.0%	>10.0%	>10.0%	>10.0%	11.1%	>10.0%
5 Leverage ratio (>4.0%)	5.5%	5.6%	5.4%	5.7%	6.7%	6.6%	5.4%	5.2%	4.6%	5.6%	5.6%	5.7%
6 Asset quality												
7 Bad debt charge / GLA	0.13%	0.16%	0.15%	0.09%	0.08%	0.13%	0.02%	0.04%	0.00%	0.09%	0.13%	0.05%
8 Provisions / GLA	0.70%	0.63%	0.66%	0.56%	0.58%	0.60%	0.49%	0.22%	0.10%	0.50%	0.64%	0.40%
9 Impaired assets / GLA	0.33%	0.48%	0.26%	0.24%	0.50%	0.33%	0.25%	0.15%	0.01%	0.28%	0.33%	0.25%
10 90 days past due / GLA	0.55%	0.44%	0.53%	0.70%	0.71%	0.63%	0.93%	0.26%	0.22%	0.55%	0.56%	0.55%
11 Texas Ratio (GIA & 90d / SHE & prov)	8.4%	8.6%	8.2%	9.2%	12.5%	10.6%	15.2%	5.1%	3.5%	9.0%	8.6%	9.4%
12 Earnings sustainability												
13 Net revenue growth (pcp) (underlying)	-1%	-2%	-2%	-3%	0%	-2%	-1%	3%	0%	-1%	-2%	0%
14 Expense growth (pcp) (underlying)	-2%	2%	-2%	2%	4%	2%	3%	5%	3%	2%	0%	3%
15 Jaws (pcp)	1%	-4%	-1%	-5%	-4%	-4%	-3%	-2%	-3%	-3%	-2%	-3%
16 Cost / average assets	0.94%	1.16%	0.98%	1.07%	1.39%	1.01%	1.03%	1.33%	1.41%	1.15%	1.04%	1.23%
17 Cost-to-income ratio	46%	46%	47%	44%	57%	48%	56%	65%	65%	53%	46%	58%
18 Loan growth (pcp)	3%	2%	5%	2%	1%	3%	1%	6%	11%	4%	3%	4%
19 Customer deposit growth (pcp)	4%	2%	3%	2%	2%	4%	1%	13%	12%	5%	3%	6%
20 FUM growth	-	5%	1%	3%	16%	-	-	-	1%	5%	3%	9%
21 FUA growth	-	-5%	2%	-	-	-	-1%	-	-	-1%	-2%	-1%
22 NIM	1.79%	2.10%	1.79%	2.12%	1.96%	1.94%	1.79%	1.87%	1.80%	1.91%	1.95%	1.87%
23 - 6m movement	-0.03%	0.00%	-0.05%	-0.04%	0.02%	-0.04%	0.00%	-0.01%	-0.02%	-0.02%	-0.03%	-0.01%
24 - 12m movement	-0.14%	-0.05%	-0.08%	-0.16%	-0.02%	-0.03%	-0.05%	-0.06%	-0.17%	-0.08%	-0.11%	-0.07%
25 Cash ROA	0.7%	0.9%	0.7%	0.7%	0.6%	0.6%	0.5%	0.5%	0.6%	0.7%	0.8%	0.6%
26 Cash ROE	12.0%	12.5%	11.7%	10.4%	7.5%	8.8%	8.7%	7.3%	9.3%	9.8%	11.6%	8.3%
27 Group liquidity / funding												
28 Liquidity Coverage Ratio	143%	132%	128%	137%	125%	124%	127%	-	-	131%	135%	125%
29 Customer funding / total funding	64%	69%	57%	67%	82%	64%	63%	71%	69%	67%	64%	70%
30 Loan to deposit & borrowings ratio	124%	131%	143%	140%	119%	148%	152%	110%	95%	129%	135%	125%
31 Equity ratio	6.1%	7.1%	6.5%	7.2%	7.6%	7.3%	6.4%	6.6%	5.7%	6.7%	6.7%	6.7%
32 Net Stable Funding Ratio	115%	112%	113%	111%	112%	110%	112%	-	-	112%	113%	111%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Plain vanilla banks such as ABA, BEN and MYS performed better in the non-interest income space (with volume-related lending and deposit fees – noting their >system footings growth – plus some FX and trading gains offsetting the impact of customers switching to lower fee options and lower discharge and associated income) while CBA was impacted by lower financial planning income (lower initial advice fees and cessation of ongoing service fees) and insurance contributions (higher general insurance claims from adverse NSW and QLD weather events).

Unlike the other regionals, SUN Bank's lower non-interest income was an outcome of a strategy to improve customer experience including meeting demands for low fee banking products and the overall shortfall was also exacerbated by lower volume-related fee income (while the bank has guided to ongoing pressure in this space, we think this headwind provides another justification for SUN to divest its sub-scale bank).

Underlying costs (excluding remediation) were managed reasonably well for all banks despite higher regulatory and compliance spend (annualised cost growth CBA +2%, MYS +3% and SUN Bank +3%) although those for ABA and BEN (respectively +5% and +4%) reflected growth in front line and IT capabilities. There was also very little in terms of major bank customer refunds and other remediation costs in the 3 months ended 30 June, although these are expected to climb in the current quarter and drag on for some time. Reported underlying bank CIR are as follows: Majors ~46%; regionals excluding BOQ 56-57%; and smaller regionals ~65%.

Non-interest income is traditionally used as an offset against underlying costs and these would match in a perfect world (leaving NIE as the key top line driver). Measuring costs net of other income as a percentage of average assets, the ranges would be around 80-

100bp for the regionals (up from 50-70bp in 2H09) and heading towards 60-80bp for the majors (up from 20-50bp in 2H09). As usual, the variance reflects the regionals' lack of operating scale (that also gives rise to higher overall CIR) although BOQ's better metrics (48% CIR vs. 56-57% for BEN and SUN Bank; costs 1.01% of average assets vs. 1.39% for BEN and 1.03% for SUN Bank) largely reflect its more cost-efficient owner managed branch structure.

The majors' credit impairment charges for the respective reporting periods were still below the through-the-cycle range of 20-30bp GLA (ANZ 13bp, CBA 16bp, NAB 15bp and WBC13bp) while those for the regionals (ABA 4bp, BEN 8bp, MYS nil and SUN Bank 2bp) mainly reflected lower SME and business banking exposures, better understanding of local credit conditions and low actual loss rates within their predominantly mortgage book (2-3bp through-the-cycle sector average).

Most banks (except for CBA surprisingly) experienced rising mortgage arrears in NSW (Western Sydney) and VIC (Melbourne) in addition to the usual WA and QLD stresses, although overall housing credit quality remains in good shape in our view (e.g. lower LVR, declining interest only balances and most customers still ahead of repayments).

Table 4 – Bank housing credit quality

(Last reported)	ANZ	CBA	NAB	WBC	SUN	BEN	BOQ	MQG
1 Total lending								
Domestic market share (APRA)								
Home - owner occupied	16%	27%	14%	24%	3%	2%	1%	2%
Home - investor	14%	24%	19%	28%	2%	2%	2%	2%
Credit card	18%	27%	13%	23%	0%	1%	0%	1%
Other consumer	10%	29%	30%	13%	0%	4%	0%	4%
Business	14%	17%	21%	18%	2%	2%	1%	1%
2 Home lending (Australia)								
Spot balance (\$bn)	269	467	307	447	48	44	31	-
Accounts (m)	1.0	1.8	1.0	1.6	-	0.2	0.1	-
Spot balance per account (\$'000)	269	259	307	275	-	239	274	-
Owner occupied / Investment / LOC Portfolio	66 / 31 / 3	66 / 31 / 3	56 / 37 / 7	57 / 39 / 4	72 / 28 / 0	63 / 37 / 0	59 / 41 / 0	-
- Proprietary	48%	54%	64%	56%	32%	58%	83%	-
- Broker	52%	46%	36%	44%	68%	42%	17%	-
Portfolio (\$bn)								
- Proprietary	129	252	195	252	15	25	25	-
- Broker	140	215	112	195	33	18	5	-
Lo Doc loans								
- as % of mortgages	4%	0%	1%	2%	-	1%	-	-
- as % of EaD	1%	0%	0%	1%	-	1%	-	-
FHB as % of portfolio	7%	~7%	~7%	8%	-	<5%	<5%	-
Average LVR (dynamic)	55%	52%	45%	57%	51%	58%	66%	-
Average loss rate	0.04%	0.03%	0.02%	0.02%	0.02%	0.02%	0.02%	-
Portfolio > 90% LVR (estimate)	<5%	5%	3%	5%	4%	5%	8%	-
Customers ahead of repayments	71%	78%	66%	69%	-	-	-	-
Variable / Fixed	82 / 18	80 / 20	77 / 23	76 / 24	-	74 / 26	77 / 23	-
Interest only	18%	22%	22%	31%	18%	28%	25%	-
Geographic spread								
- NSW / ACT	32%	36%	39%	41%	29%	24%	27%	-
- VIC	33%	28%	31%	27%	11%	39%	16%	-
- QLD	16%	19%	16%	16%	48%	15%	43%	-
- WA	13%	11%	9%	9%	7%	9%	10%	-
- SA / other	6%	6%	5%	7%	5%	13%	4%	-
90+ day delinquencies								
- NSW	0.5%	0.5%	-	0.6%	-	-	-	-
- VIC	0.5%	0.5%	-	0.6%	-	-	-	-
- QLD	1.0%	1.0%	-	0.8%	-	-	-	-
- WA	2.5%	1.4%	-	1.8%	-	-	-	-
- Total	1.0%	0.8%	0.9%	0.8%	0.9%	0.4%	-	-

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

ROE outcomes were as expected with CBA delivering at the lower end of the majors' 12-14% new normal range (the mainly retail-based majors including WBC should deliver better ROE) while the regionals continue to struggle with sub-10% ROE (suggesting, with the exception of MYS, that there is still a long way to go to achieve their 10% new normal range). While the call for the majors to hold more capital could push their ROE towards 11-12%, this would only be in line with the view that they will become utilities in the long run (and with their lower ROE tracking a lower but more de-risked cost of equity).

All else being equal, there is still money to be made in retail and business banking and the following table indicates these segments remain the majors' most valuable assets – with NIM in the healthy 2.40-2.80% range and CIR in the 38-42% range (we suspect the average segment ROEs have come down a few notches given higher capital requirements but still believe these are still greater than the estimated internal hurdle rates – not cost of equity – of around 12%). The data further suggests the number one player CBA is still ahead of the pack in most key performance measures, followed by ANZ, WBC and NAB.

Table 5 – Retail and Business bank comps

Retail & Business Banking	Retail	B&PB	ANZ Group	RBS	B&PB	BWA	CBA Group	CB	B&PB	NAB Group	CB	BB	WBC Group	BEN	BOQ	SUN	ING Direct	Regional bank average ex-ING Direct	Major bank average
(Latest reported 12m, local currency)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
1 Revenue (\$bn)	6.4	3.2	9.6	11.0	6.6	-	17.5	4.4	6.6	11.0	8.4	5.2	13.6	1.6	1.1	1.2	1.0	-	-
2 Operating expenses (\$bn)	2.6	1.2	3.8	4.2	2.4	-	6.6	2.4	2.3	4.7	3.7	2.0	5.7	1.0	0.5	0.7	0.4	-	-
3 Underlying income (\$bn)	3.7	2.0	5.7	6.7	4.2	-	10.9	2.0	4.4	6.4	4.7	3.2	7.9	0.6	0.6	0.5	0.6	-	-
4 Footings (\$bn)																			
5 - Home loans	269	0	269	381	86	-	468	217	90	307	375	55	430	44	31	48	49	-	-
6 - Business loans	0	57	57	10	82	-	92	0	108	108	0	90	90	15	106	11	10	-	-
7 - Other loans	10	0	10	15	5	-	20	7	3	10	13	8	21	4	0	0	0	-	-
8 - Deposits	117	86	203	269	139	-	408	124	136	260	206	109	315	64	31	39	56	-	-
9 Branches (domestic) (#)	629	-	629	1,082	-	-	1,082	719	-	719	971	-	971	747	172	146	0	-	-
10 Customers (E) (m)	-	-	5.7	13.8	1.0	-	14.8	-	-	6.5	9.5	1.1	10.6	1.7	0.8	0.9	1.6	-	-
11 FTE (E) (#)	-	-	13,020	15,137	4,233	-	19,370	-	-	13,853	19,656	6,318	25,974	4,540	2,073	1,700	1,515	-	-
12 Productivity/efficiency ratios																			
13 NIM	2.40%	3.15%	2.60%	2.57%	3.17%	-	2.82%	1.84%	2.94%	2.36%	2.20%	3.02%	2.44%	1.96%	1.94%	1.79%	1.57%	1.90%	2.56%
14 NIE / footings	1.38%	1.91%	1.52%	1.38%	1.64%	-	1.48%	1.11%	1.66%	1.38%	1.29%	1.75%	1.43%	1.03%	0.58%	1.18%	0.83%	0.93%	1.45%
15 Other income / footings	0.23%	0.32%	0.25%	0.24%	0.46%	-	0.29%	0.15%	0.31%	0.23%	0.13%	0.23%	0.16%	0.23%	0.08%	0.05%	0.03%	0.12%	0.23%
16 Revenue / footings	1.61%	2.22%	1.77%	1.62%	2.11%	-	1.78%	1.26%	1.97%	1.61%	1.41%	1.98%	1.59%	1.27%	0.66%	1.24%	0.86%	1.05%	1.69%
17 Revenue / branch (\$m)	10.1	-	15.2	10.1	-	-	16.2	6.1	-	15.3	8.6	-	14.0	2.1	6.4	8.3	-	5.6	15.2
18 Revenue / FTE (\$'000)	-	-	734	724	1,553	-	905	-	-	797	427	821	523	352	531	714	648	532	740
19 Operating expense / footings	0.66%	0.84%	0.71%	0.62%	0.77%	-	0.67%	0.70%	0.67%	0.68%	0.62%	0.75%	0.66%	0.76%	0.32%	0.69%	0.34%	0.59%	0.68%
20 Operating expense / branch (\$m)	4.2	-	6.1	3.9	-	-	6.1	3.4	-	6.5	3.8	-	5.8	1.3	3.1	4.7	-	3.0	6.1
21 Operating expense / FTE (\$'000)	-	-	294	278	569	-	342	-	-	337	188	309	218	210	257	401	259	290	298
22 Underlying income / footings	0.95%	1.38%	1.06%	1.00%	1.33%	-	1.11%	0.57%	1.30%	0.93%	0.79%	1.24%	0.93%	0.51%	0.34%	0.54%	0.51%	0.46%	1.01%
23 Underlying income / branch (\$m)	6.0	-	9.1	6.2	-	-	10.1	2.7	-	8.9	4.8	-	8.2	0.9	3.3	3.6	-	2.6	9.1
24 Underlying income / FTE (\$'000)	-	-	440	446	984	-	563	-	-	460	239	512	305	142	274	312	389	243	442
25 Cost ratio	41%	38%	40%	38%	37%	-	38%	55%	34%	42%	44%	38%	42%	60%	48%	56%	40%	55%	40%
26 BDD charge / GLA	0.16%	0.61%	0.23%	0.17%	0.21%	-	0.16%	0.14%	0.13%	0.13%	0.13%	0.16%	0.14%	0.08%	0.13%	0.02%	0.02%	0.08%	0.17%
27 Loans / branch (\$m)	443	-	534	376	-	-	536	310	-	590	400	-	557	83	795	406	-	428	554
28 Loans / customers (\$'000)	-	-	59	29	173	-	39	-	-	65	41	142	51	37	171	66	37	91	54
29 Deposits / branch (\$m)	187	-	323	248	-	-	377	172	-	361	212	-	324	86	180	266	-	177	346
30 Deposits / customers (\$'000)	-	-	36	19	139	-	28	-	-	40	22	102	30	38	39	43	35	40	33
31 Loan / deposit ratio (x)	2.4	0.7	1.7	1.5	1.2	-	1.4	1.8	1.5	1.6	1.9	1.4	1.7	1.0	4.4	1.5	1.0	2.3	1.6
32 Footings / FTE (\$m)	-	-	41	45	74	-	51	-	-	49	30	41	33	28	81	58	76	55	44
33 Customers / branch	-	-	9,062	12,754	-	-	13,678	-	-	9,040	9,784	-	10,889	2,276	4,651	6,171	-	4,366	10,667
34 Customers / FTE	-	-	438	912	236	-	764	-	-	469	483	170	407	374	386	530	1,056	430	520
35 FTE / branch (#)	-	-	21	14	-	-	18	-	-	19	20	-	27	6	12	12	-	10	21
36 New mortgages through broker channel	57%	-	57%	48%	-	-	48%	46%	-	46%	46%	-	46%	42%	30%	68%	66%	47%	49%
37 Mortgage - dynamic LVR (unweighted)	55%	-	55%	52%	-	-	52%	45%	-	45%	57%	-	57%	58%	66%	51%	-	58%	52%
38 Mortgage - % ahead of repayments	71%	-	71%	78%	-	-	78%	66%	-	66%	69%	-	69%	-	-	-	-	-	71%
39 Mortgage - interest only	18%	-	18%	22%	-	-	22%	22%	-	22%	31%	-	31%	28%	25%	18%	-	-	23%
40 Sensitivity: Home loan growth +1%																			
41 New home loan balance (\$bn)	272	-	272	385	87	-	472	219	91	310	379	55	435	44	31	48	49	-	-
42 Incremental home loans (\$m)	2,690	-	2,690	3,814	864	-	4,678	2,166	900	3,066	3,754	548	4,302	436	305	478	489	-	-
43 NIE benefit (\$m)	65	-	65	98	27	-	125	40	26	66	83	17	99	9	6	9	8	-	-
44 Underlying income benefit (\$m)	38	-	38	60	17	-	78	18	17	35	46	10	56	3	3	4	5	-	-
45 Underlying income upside	1.0%	-	0.7%	0.9%	0.4%	-	0.7%	0.9%	0.4%	0.6%	1.0%	0.3%	0.7%	0.5%	0.5%	0.7%	0.8%	0.6%	0.7%
46 Incremental divisional cash profit (\$m)	24	-	24	38	11	-	49	10	11	22	29	7	35	2	2	3	3	-	-
47 Divisional cash profit (\$m)	2,321	-	3,459	4,267	2,658	-	6,925	1,163	2,891	4,054	2,927	2,093	5,020	-	-	366	-	-	-
48 - Upside	1.02%	-	0.68%	0.88%	0.41%	-	0.70%	0.87%	0.40%	0.53%	0.98%	0.33%	0.71%	-	-	0.70%	-	0.70%	0.66%
49 Group cash profit (continuing)	6,558	-	6,558	8,706	8,706	-	8,706	5,897	5,897	5,897	7,110	7,110	7,110	440	357	1,039	401	-	-
50 - Upside	0.36%	-	0.36%	0.43%	0.13%	-	0.56%	0.17%	0.19%	0.37%	0.40%	0.10%	0.50%	0.49%	0.52%	0.25%	0.79%	0.42%	0.45%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The resilient ones: MQG, NAB and SUN

To recap, it has been a noisy and disruptive lead-up to the 30 June 2019 reporting season where the banks had to (and continue to) endure the reinvigorated Australian regulators' "Big Stick" ideology. Perversely, this is reminiscent of US President Theodore Roosevelt's foreign policy including his handling of the Perdicaris incident in 1904. The heavily fictionalised account of this event in "The Wind and the Lion"¹ perhaps draws us to reflect in the same manner that the banks, like the lion, must remain in their place while the regulators are like the wind and will never know their place.

We are well aware of this drag on the sector and our stock preferences therefore include those that are perceived to be more resilient, namely: MQG (cash and growth story); NAB (transformation play under incoming CEO Ross McEwan); and SUN (surplus capital and potential bank sale to drive PE re-rating as a pure general insurer).

Table 6 – Investment summary

	Mkt Cap (\$bn)	Price / Book (x)		PE (x)		Yield		ROE		EPS growth		Price target	Last price	12-mth Rating	12-mth TSR
		2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e				
MAJORS															
ANZ	75.3	1.2	1.2	10.8	11.2	6.0%	6.0%	11.7%	10.9%	10%	-3%	\$27.50	\$26.58	Hold	9%
CBA	139.3	2.0	1.9	16.4	16.0	5.5%	5.5%	12.5%	12.3%	-6%	2%	\$86.00	\$78.69	Buy	15%
NAB	78.8	1.4	1.4	12.5	11.6	6.1%	6.3%	11.9%	12.4%	4%	7%	\$29.00	\$27.32	Buy	12%
WBC	98.6	1.5	1.5	13.6	11.9	6.7%	6.7%	11.3%	12.7%	-12%	14%	\$29.50	\$28.25	Hold	11%
REGIONALS															
ABA	0.2	1.0	1.0	14.2	13.1	5.9%	6.3%	9.2%	9.8%	0%	8%	\$6.00	\$5.80	Buy	10%
BEN	5.3	0.9	0.9	12.6	12.5	6.5%	6.5%	7.5%	7.5%	-8%	1%	\$10.80	\$10.74	Hold	7%
BOQ	3.6	0.9	0.9	11.2	10.9	7.6%	7.6%	8.5%	8.7%	-15%	3%	\$9.20	\$8.99	Hold	10%
MYS	0.4	1.3	1.2	12.4	11.5	6.3%	6.5%	9.3%	9.9%	-3%	8%	\$5.00	\$4.57	Hold	16%
DIVERSIFIEDS															
MQG	42.9	2.3	2.1	13.9	14.0	4.7%	4.9%	18.0%	15.8%	17%	-1%	\$140.00	\$122.94	Buy	19%
SUN	17.6	1.3	1.4	15.7	14.7	5.7%	5.7%	8.4%	9.5%	1%	7%	\$14.60	\$13.58	Buy	13%

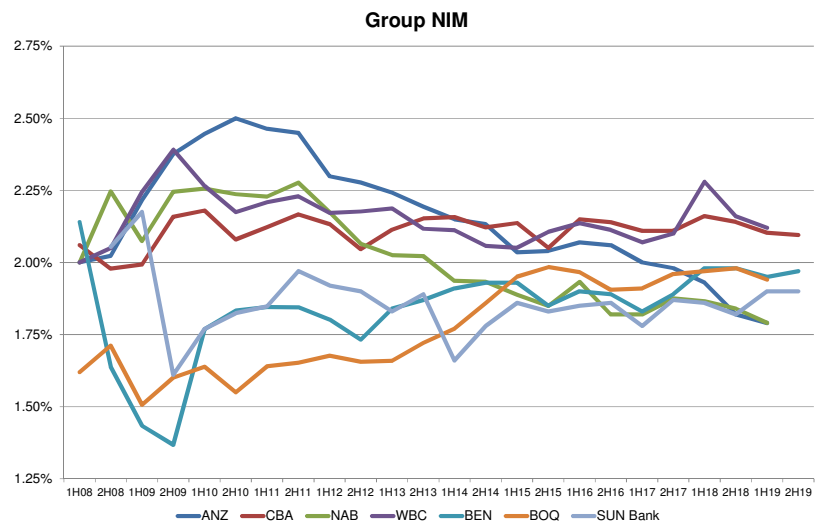
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

¹ The Wind and the Lion. Directed by John Milius. Produced by Metro-Goldwyn-Mayer and Herb Jaffe, 1975.

June 2019 reporting period in charts

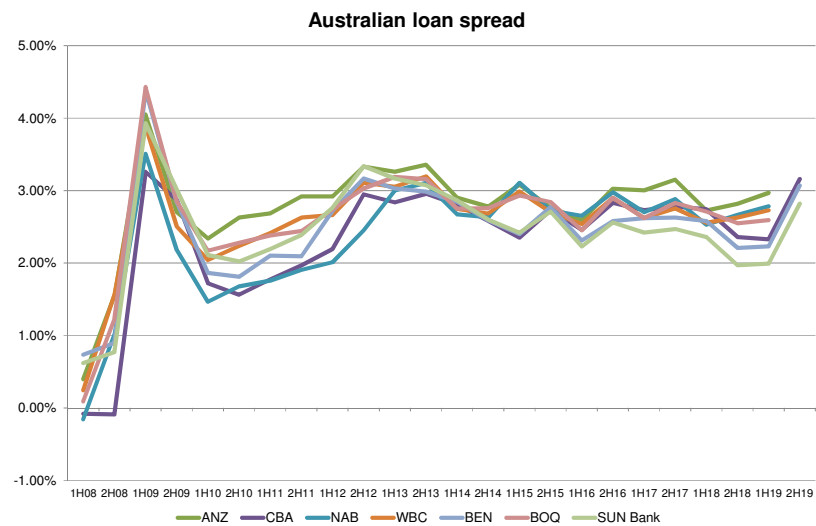
Generally better 2H19 performance for majors and regionals; operating conditions ahead still challenging with after-effects of RBA cash rate cut still to be felt as well as higher expected remediation costs

Figure 1 – 2H19 Group NIM stable...



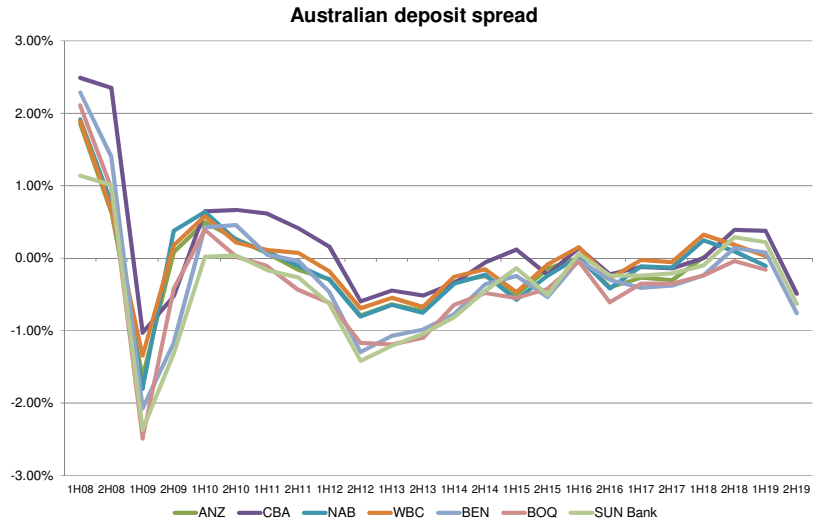
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 2 – ...with higher home loan spreads from repricing...



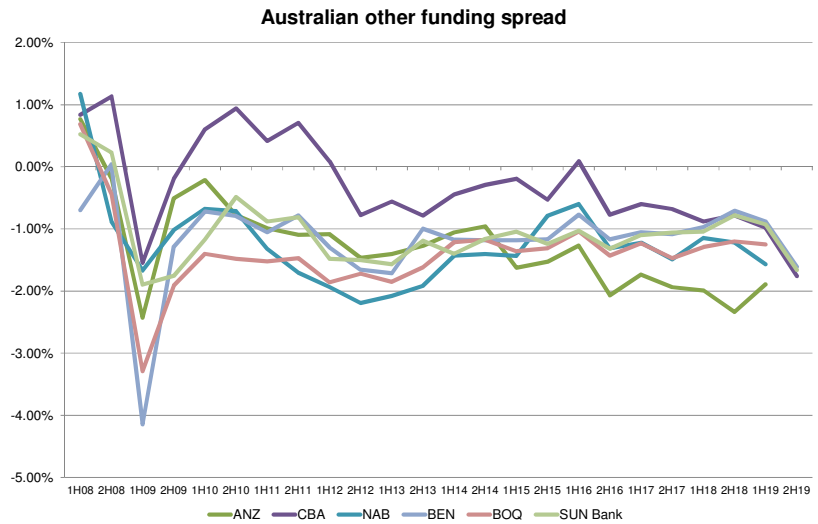
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 3 – ...just offsetting lower retail deposit spreads...



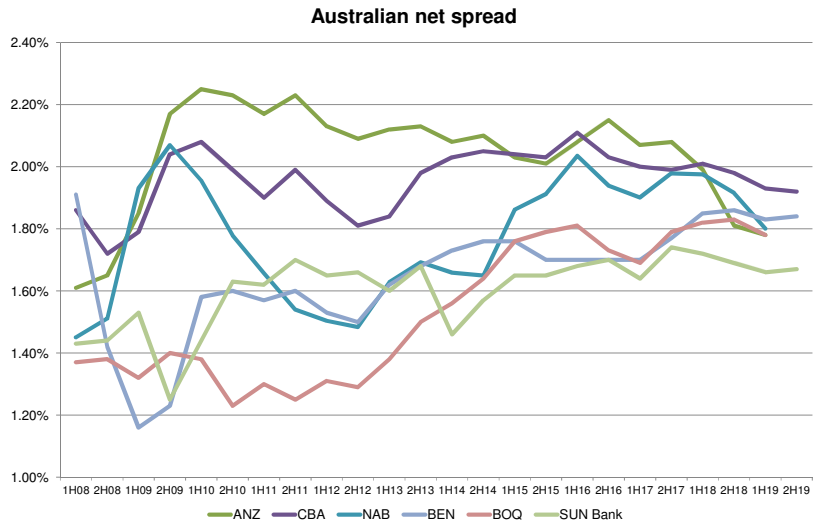
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 4 – ...and lower wholesale fund spreads...



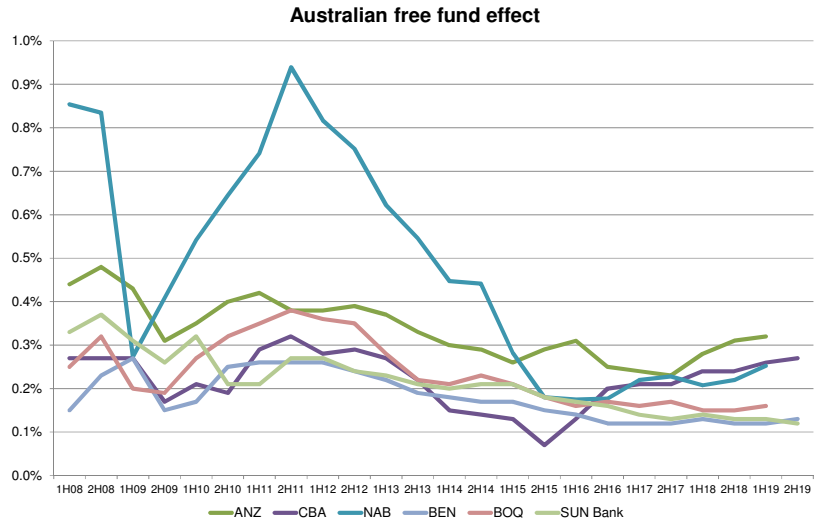
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 5 – ...resulting in relatively stable overall spreads in Australia



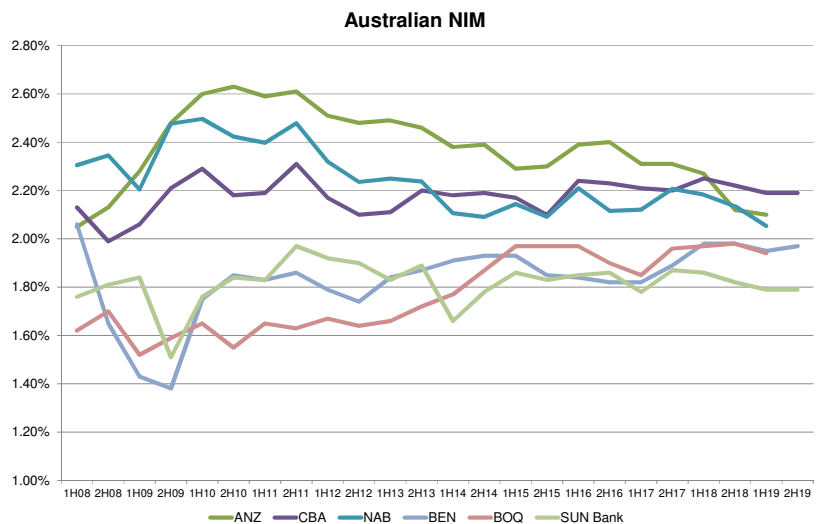
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 6 – There was some free fund benefit in line with lower overall funding spreads...



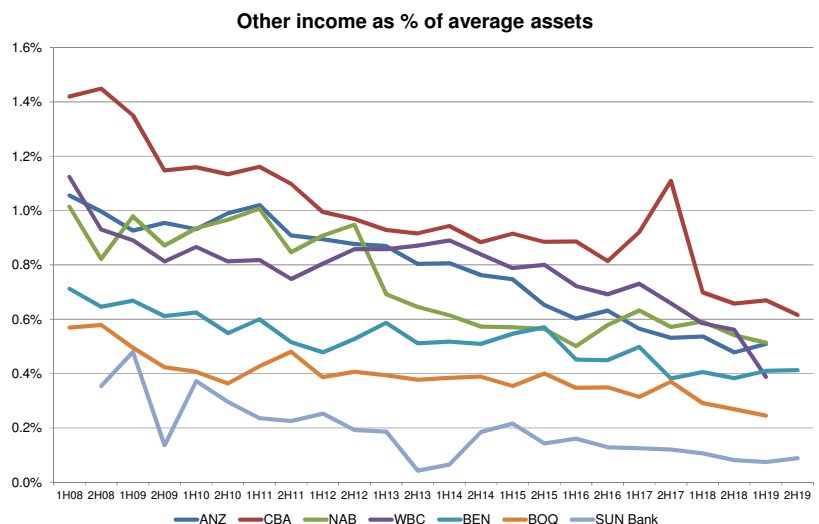
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 7 – ...helping to keep Australian NIM steady



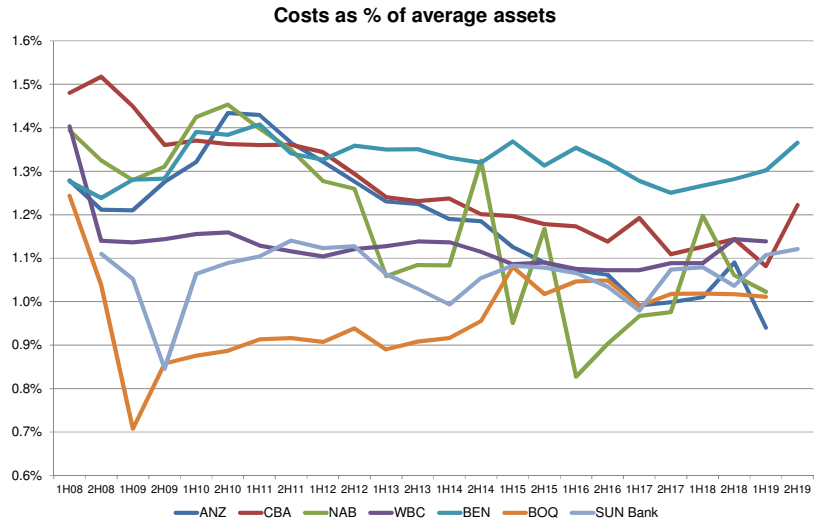
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 8 – Other income finally stabilising, linked to growth in core footings



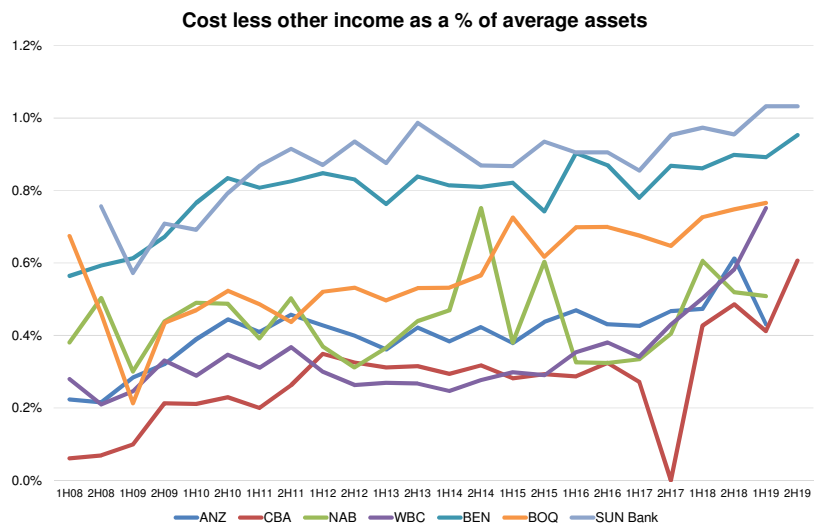
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 9 – Costs impacted by regulatory and compliance spend, with more to come...



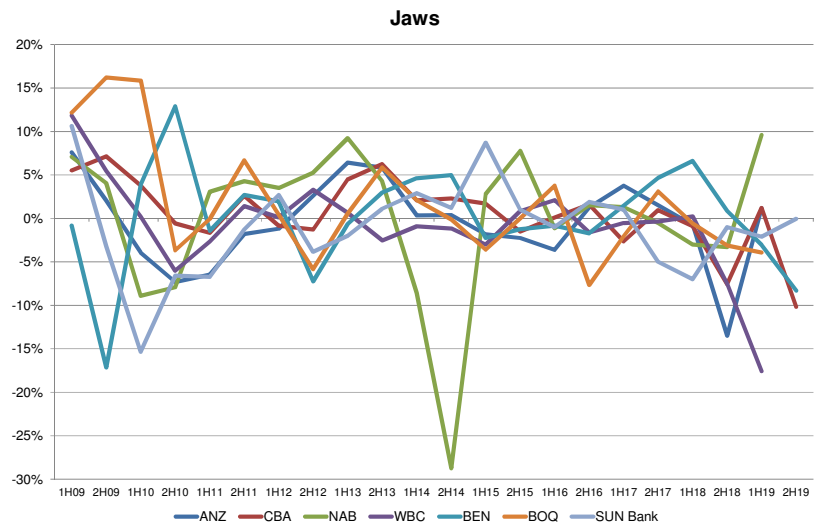
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 10 – ...while regionals are still disadvantaged by lack of scale...



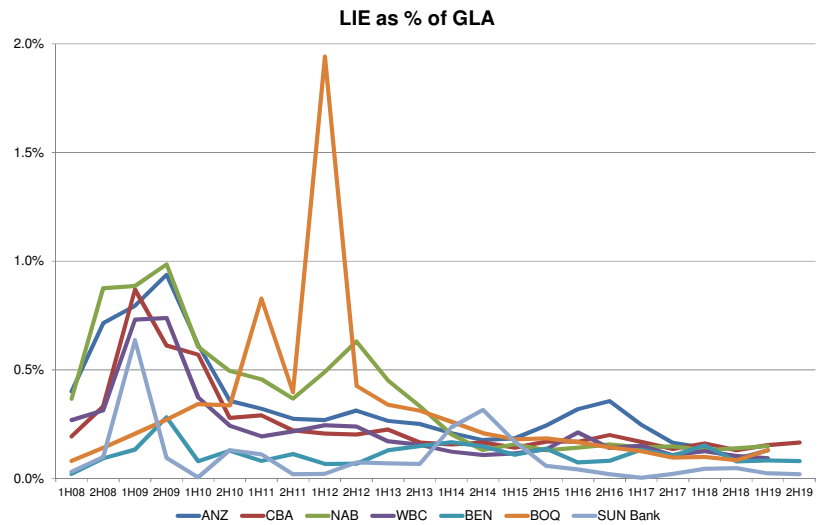
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 11 – ...although the remediation impact is smaller for them – no surprises here



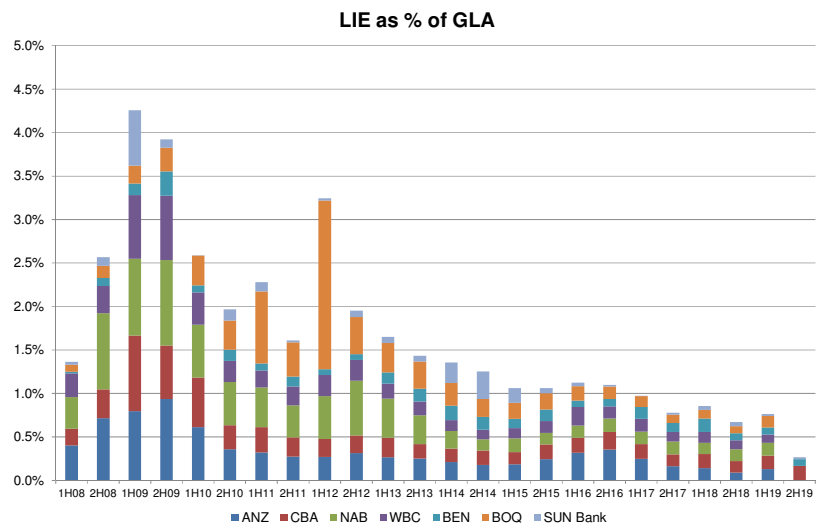
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 12 – Credit risk still manageable in a low unemployment, low rate environment



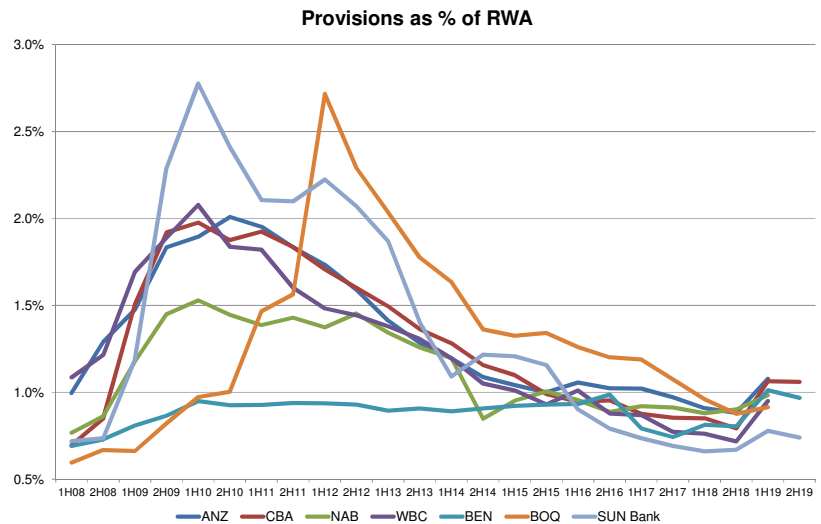
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 13 – For illustrative purposes only, the sum of respective LIE charges is still low...



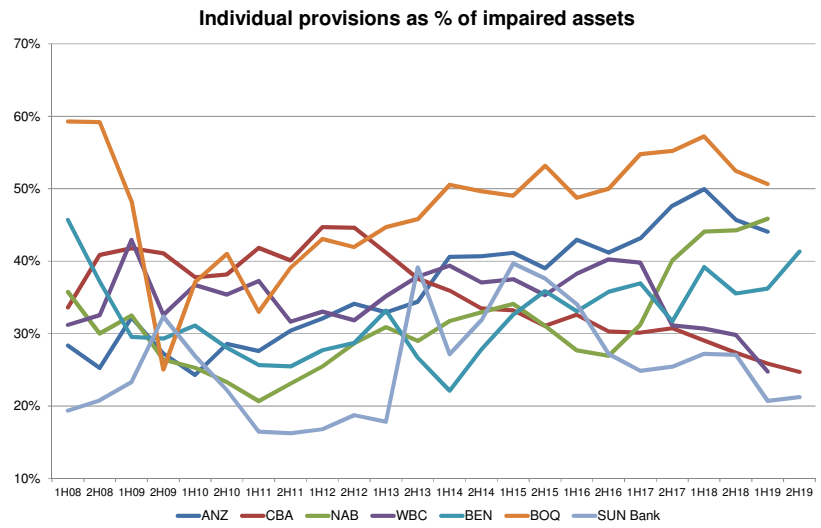
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 14 – ...while the uptick in provisions partly reflects AASB 9 adjustments...



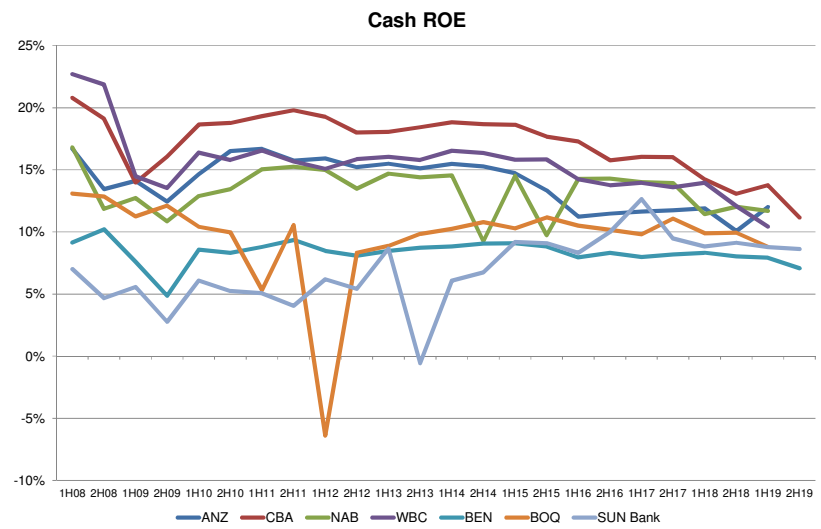
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 15 – ...and individual provision coverage is still within the range



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 16 – Majors' ROE heading to low end of 12-14% range, regionals largely still <10%



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

June 2019 reporting wrap

ABA – Price target \$6.00, Buy

ABA's 2019 result components are as follows: (1) statutory NPAT \$17.2m (BP \$17.4m), -3.8% pcp; (2) statutory EPS 41¢ (BP 41¢), -4.7% pcp; (3) underlying NPAT \$17.2m (BP \$17.4m), +0.5% pcp; (4) underlying EPS 41¢ (BP 41¢), unchanged pcp; (5) fully franked final dividend 18.5¢ (BP 19.0¢), +0.5¢ pcp (underlying payout 89%); (6) underlying RONTA 9.1% (BP 9.3%); (7) NIM 1.87% (BP 1.89%), -6bp pcp; (8) underlying Cost to Income ratio (CIR) 65% (BP 65%); (9) impairment expenses \$1.1m/4bp GLA (BP \$0.8m/3bp GLA); and (10) CET1 ratio 11.8% (BP 11.9%).

This was another good and clean result from ABA with underlying NPAT of \$17.2m up by nearly 1% pcp, based on strong lending volumes (+6.3% pcp, 1.9x system growth) without compromising asset quality and a turnaround in second half performance across most KPIs (as per 4 June guidance). Given strong organic capital generation and CET1 ratio of 11.8% (that is materially ahead of APRA's 8.5% "unquestionably strong" minimum requirement by 1 January 2020 for smaller ADIs), ABA increased its final dividend by 0.5¢ to 18.5¢ (also in line with 4 June guidance of "a small increase in the final dividend"; DRP suspended due to its capital strength).

We like the fact that ABA has provided an outlook statement with some hard targets over the next 2-3 years that are underpinned by volume growth, NIM and cost discipline and adequate capital management to ensure increasing shareholder returns. All else being equal, ABA's targets to FY22 are broadly achievable in our view despite challenging operating conditions and we believe this is due to its reputation as well as plainly sticking with its core businesses while capitalising on risk-adjusted growth opportunities.

Our forecasts, \$6.00 price target and Buy rating are unchanged.

ANZ – Price target \$27.50, Hold

ANZ provided a limited trading update as part of its 3Q19 Pillar 3 disclosure. CET1 ratio was 11.81% at the end of 3Q19, up from 2Q19 (11.49%) with asset sales (+47bp) and organic capital generation & other (+42bp) offsetting interim dividend payments (-57bp). Reverse-engineering quarterly movements in RWA (that was broadly flat) and end-point CET1 ratios, we estimate cash NPAT of ~\$1.67 assuming no other large and notable adjustments. Inclusive of announced divestments, higher counterparty credit and operational risk charges and higher New Zealand RWA, pro-forma CT1 ratio was ~11.50%. NIM and remediation costs were undisclosed but we believe the latter to be minimal in the quarter.

In line with overall RWA, credit RWA was also flat over the quarter with slightly higher Corporate RWA matching lower Retail RWA – a good outcome given the riskier nature of unsecured lending although falling home loan volumes remains a concern. Total provision charge was \$209m in 3Q19 (13bp GLA, just below our ~\$221m/14bp GLA forecast), broadly flat from the quarterly average in 1H19 but \$64m higher than 2Q19 with the bulk of the increase coming from Corporate and Retail exposures. There was a \$9m tick up in Residential individual provision charges but this reflected rising arrears (that was not unexpected) in NSW and VIC.

Our forecasts, \$27.50 price target and Hold rating are unchanged.

BEN – Price target \$10.80, Hold

BEN's 2019 result components are: (1) statutory underlying NPAT (i.e. ex-specific items) \$406m (BP \$431m); (2) cash NPAT \$416m (BP \$437m, consensus \$429m); (3) cash EPS 85¢ (BP 89¢, consensus 83¢); (4) final ordinary dividend 35¢ (BP 36¢, consensus 35¢), fully franked implying 82% full year payout ratio vs. target 60-80%; (5) cash ROE 7.6% (BP 7.9%, consensus 7.8%); (6) NIM 1.96% (BP 1.94%); (7) credit expense \$50m/8bp GLA (BP \$56m/9bp); and (8) CET1 capital ratio 8.9% (BP 8.9%).

BEN's 2019 cash NPAT (-7% pcp to \$416m) appeared much weaker at first glance, having missed our forecast despite a lower credit charge (-29% pcp to \$50m) and was largely the result of lower Homesafe contributions (both realised and unrealised) and higher operating expenses. The overall picture was, however, more positive on an underlying basis. This was after adding back remediation (\$17m vs. <\$1m in FY18) and redundancy (\$12m vs. \$2m in FY18) costs, and cash NPAT was only down by 2.5% pcp at \$436m (vs. \$447m in FY18) as a result. There was a surprise positive NIM outcome especially in 2H19 (+2bp to 2.37% and +2bp to 1.97% respectively, a tale of two halves), better than expected volume growth (mortgages +4.3% and greater than system growth, SME +9.5% and agribusiness +12.8%) helped by strong customer retention and a commitment to drive the cost-to-income ratio (CIR) down to ~50% in the medium term.

Organic capital generation continues to be strong (+37bp for the full year), leading to a 30bp higher CET1 ratio of 8.9%. While BEN is still assessing the benefits of APRA's consultation package on changes to credit risk weights, we expect the regional to be well-positioned in supporting dividends at current levels (still targeting 60-80% payout).

Our forecasts, \$10.80 price target and Hold rating are unchanged.

BOQ – Price target \$9.20, Hold

The following comments are based on BOQ's 3Q19 Pillar 3 report released in late July.

CET1 ratio was 8.9% compared with 9.3% at the end of 1H19 with the decline largely due to payment of the interim dividend. BOQ is now targeting CET1 ratio in the 8.25-9.25% range (mid-point 8.75%). This was previously 8.25-9.50% and provides some flexibility, all else being equal, in at least maintaining dividends at the current level (34cps in 1H19 and we forecast a similar amount in 2H19). Regulatory retained earnings were \$385m at the end of 1H19 and ~\$320m at the end of 3Q19. Assuming \$137m dividends were paid in 1H19 and there are no further adjustments to retained earnings in 3Q19, implied statutory NPAT would be around \$72m (vs. our previous estimate of \$70-80m after taking into account some seasonality).

The earnings profile in 3Q19 is consistent with BOQ's expectation for the rest of the financial year that the operating environment will still not get any easier in the second half, due to persistent income headwinds and elevated operating expenses (rising regulatory, compliance, remediation and software amortisation costs). As for credit quality, the 12-month rolling specific impairment expense continues to tick upwards (we suspect ongoing mortgage stresses) and it is unlikely BOQ will be able to maintain overall impairment expense at \$30m in 2H19. BOQ is focused on reinvigorating its retail bank. This means it will remain a work in progress in the next 6-12 months under new CEO George Frazis and investors should therefore not expect too much from the regional in the meantime.

Our forecasts, \$9.20 price target and Hold rating are unchanged.

CBA – Price target \$86.00, Buy

CBA's 2019 result components are: (1) statutory NPAT \$8.6bn (BP ~\$8.2bn); (2) cash NPAT (continuing operations) \$8.5bn (BP ~\$8.3bn); (3) cash EPS (continuing operations) 481¢ (BP 468¢); (4) final ordinary dividend 231¢ (BP 231¢) fully franked (implying payout ratio 104% 2H19, 88% 2019); (5) ROE (continuing operations) 12.5% (BP 12.2%); (6) NIM (continuing operations) 2.10% (BP 2.08%); (7) loan impairment expense \$1.2bn/16bp GLA (BP ~\$1.2bn/16bp); and (8) CET1 ratio 10.7% (BP 10.7%).

Cash NPAT (continuing) decreased by ~5% pcp to \$8.5bn (-18% hoh to \$3.8bn) and was impacted by 2% pcp lower total operating income of \$24.4bn (-3% hoh to \$12.0bn) and 2% pcp higher operating expenses of \$11.3bn (+13% hoh to \$6.0bn) resulting in -4% "Jaws" (-16% hoh) – although the underlying components were largely in line with our forecasts. While analysis suggests a much weaker 2H19 result, CBA had a better end result in the sense that 4Q19 statutory NPAT was ~\$2.22bn (vs. unaudited ~\$1.75bn in 3Q19) while 4Q19 cash NPAT for continuing operations was ~\$2.11bn (vs. unaudited ~\$1.70bn in 3Q19), and the final quarter outcomes were underpinned by lower customer remediation and program provisions. CBA's balance sheet remains strong (customer deposit funding now 69%, NSFR 112%, LCR 132% and Leverage ratio 5.6% vs. Basel III's 3% minimum and APRA's 3.5% minimum).

Despite increased customer remediation, CET1 ratio of 10.7% is in excess of APRA's 10.5% "unquestionably strong" requirement. Including capital release from announced divestments, the pro-forma CET1 ratio should increase to 11.8% – that would place CBA in a comfortable position to return surplus capital and also weather any higher New Zealand capital requirements.

Our forecasts, \$86.00 price target and Buy rating are unchanged.

MQG – Price target \$140.00, Buy

MQG provided a limited trading update last week. 1H20 result is expected to be up ~10% (~\$1.44bn vs. BP previous forecast of ~\$1.53bn) on the 1H19 result (\$1.31bn), although down on the 2H19 result (\$1.67bn) that benefited from higher markets-facing business contributions. However, MQG has reaffirmed its FY20 guidance of being "slightly down on FY19" (we take this to mean down by 1-2%, all else being equal and subject to the usual caveats including transaction completion, market conditions and FX impact) and the short and medium term outlooks.

Current guidance implies MQG is still expecting FY20 statutory NPAT in the \$2.90-2.95bn range (vs. \$2.98bn in FY19) and this compares to our ~\$2.97bn forecast. MQG further expects its FY20 compensation ratio to be in line with historical levels (estimated at 38-39%, in line with the BP forecast 38%) and the FY20 effective tax rate to be broadly in line with 23% in FY19 (BP forecast 23%). The 1H20 variance to our forecast is also likely due to transaction timing issues and we have left our FY20 forecast unchanged as a result.

Our forecasts, \$140.00 price target and Buy rating are unchanged.

MYS – Price target \$5.00, Hold

MYS's 2019 result components are: (1) statutory NPAT \$31.0m (BP \$29.1m), -1.5% pcp; (2) statutory EPS 34.2¢ (BP 32.2cps), -2.3% pcp; (3) statutory (continuing) NPAT \$29.8m, -4.7% pcp; (4) fully franked final dividend 14.5¢ (BP 14.5cps) and unchanged pcp, payout ratio 84%; (5) statutory ROE 9.7% (BP 9.2%); (6) NIM 1.80% (BP 1.82%); (7) cost to income ratio (CIR) 65% (BP 66%); (8) impairment expenses -0.2\$m/0bp GLA (BP \$0.0m/0bp GLA); and (9) CET1 ratio 11.1% (BP 11.2%).

Statutory NPAT was \$31.0m (-1.5% pcp) while the figure for continuing operations was \$29.8m (-4.7% pcp), with the difference attributable to discontinued operations (MYS's retail financial planning business, a division of wholly-owned subsidiary Tasmanian Perpetual Trustees Limited, was sold on 28 June 2019 resulting in a post-tax gain on sale of \$1.2bn). Broadly speaking, it was a solid and clean result with a better second half performance (better volume growth, higher operating income including stable NIM and lower operating expenses leading to positive 4% "Jaws") and MYS achieved its full year statutory NPAT guidance of ~\$30m. Full year ROE of ~10% (including ~11% in 2H19) was ahead of those of MYS's regional bank peers.

MYS retains sufficient capital to fund long term growth and gradually increase its dividends in our view (noting organic capital generation was strong at over 40bp in FY19 and CET1 ratio of 11.1% remains ahead of APRA's 8.5% minimum requirement for non-major banks).

Our forecasts, \$5.00 price target and Hold rating are unchanged.

NAB – Price target \$29.00, Buy

NAB's limited but positive 3Q19 trading update is summarised as follows: (1) unaudited statutory earnings \$1.70bn (previous BP forecast ~\$1.50bn) vs. \$1.65bn pcp; (2) unaudited cash earnings \$1.65bn (previous BP forecast ~\$1.53bn), unchanged pcp; (3) positive 1% "Jaws" (Income +1%, costs flat); (4) Group NIM up due to lower funding costs (previous BP forecast flat); (5) minimal remediation costs but expect further provisions in 4Q19; (6) credit impairment charge \$247m (~15bp GLA, previous BP forecast ~\$229m), arrears up mainly from mortgages but overall asset quality sound; and (7) CET1 ratio 10.4% (BP forecast ~10.4%).

Unaudited statutory earnings were \$1.70bn (BP forecast ~\$1.50bn) and unaudited cash earnings were \$1.65bn (1% higher than the quarterly average in 1H19 and unchanged compared to 3Q18; BP forecast ~\$1.53bn). NAB's 3Q19 result was stronger than expected with robust top line growth including margin expansion and ongoing cost discipline being the key highlights in a challenging environment. Incoming CEO Ross McEwan will likely have his hands full but he should significantly add to positive momentum in the bank's underlying performance in due course.

Our forecasts, \$5.00 price target and Hold rating are unchanged.

SUN – Price target \$14.60, Buy

SUN's 2019 result components are: (1) cash NPAT \$1,115m (BP \$1,005m); (2) cash EPS 86¢ (BP 78¢); (3) final ordinary dividend 44¢ (BP 35¢), fully franked implying 81% final payout and 81% full year payout (vs. 60-80% target); (4) special dividend 8¢ (BP 8¢, well-flagged back in March and forms ~\$100m of the ~\$600m capital return following the sale of the Australian Life Business); (5) ROE 8.4% (BP 7.8%); (6) GWP \$9.8bn (BP \$9.9bn); (7) reported insurance margin 11.6% (BP 10.2%), underlying 12.3% (BP 11.7%); (8) COR 94% (BP 93%) including 3.8% NEP reserve release (BP 3.3%); (9) General Insurance PCA 1.85x (BP 1.52x, target 1.50x), CET1 coverage 1.39x (BP 1.06x, target 1.05x); (10) Bank NIM 1.79% (BP 1.79%); (11) Bank BDD \$13m/2bp GLA (BP \$14m/2bp); and (12) Bank CET1 capital ratio 9.3% (BP 9.3%).

This was a great result from SUN. While cash NPAT increased by almost 2% pcp to \$1,115m due to stronger New Zealand general insurance contributions, the Group's performance was significantly better on a hoh basis. The second half turnaround was due to lower net Australian incurred claims and higher investment returns (largely mark-to-market gains as a result of lower risk free rates). The result was also underpinned by strong overall New Zealand top-line growth, a benign natural hazard environment,

significant margin improvement in the commercial portfolio in Insurance (Australia), ongoing Business Improvement Program benefits and higher reserve releases at 3.8% of NEP (vs. 1.5% long run average) – all achieved despite higher regulatory project costs and remediation provisions.

Our forecasts, \$14.60 price target and Buy rating are unchanged.

WBC – Price target \$29.50, Hold

Unlike 1Q19 that had additional disclosures such as cash NPAT and credit impairment charge (WBC being a SEC registered bank was seeking US wholesale funding at that time), there was no such disclosure in the bank's 3Q19 trading update. Based on CET1 ratio and RWA movements and assuming no other major capital movements, we estimate 3Q19 cash earnings of \$1.93bn that was broadly in line with our \$1.94bn forecast. While the credit impairment charge was also not disclosed, actual losses were \$234m in 3Q19 vs. \$241m in 2Q19 and \$187m in 1Q19. This trend suggests a credit impairment charge of possibly up to \$200m in 3Q19 vs. our \$215/13bp GLA estimate.

CET1 ratio was 10.5% at the end of 3Q19 and WBC expects -44bp total CET1 impact by 1 January 2020 arising from the new derivative and Leasing standards and additional operational risk capital overlay. In its 1Q19 trading update, WBC considered itself as being well positioned to meet APRA's "unquestionably strong" capital benchmark by 1 January 2020. In its 1H19 result, the bank reported a CET1 ratio that was above APRA's "unquestionably strong" benchmark. It is therefore surprising that this quarterly update made no mention of being "unquestionably strong" in this space – rather, WBC noted its 30 September CET1 ratio will depend on 4Q19 earnings that may be impacted by risks "including changes in remediation provisions or potential fines and penalties".

Assuming similar remediation costs as in 1H19 and DRP at current levels, we still think WBC will be able to offset these extra capital charges and just meet APRA's 10.5% requirement by 1 January 2020.

Our forecasts, \$29.50 price target and Hold rating are unchanged.

Cheat Sheet

Table 7 – Bank Cheat Sheet 1 (S&P 100 only)

	ANZ	CBA	NAB	WBC	SUN	BEN	BOQ	MQG
1 EaD (\$bn) (APRA Table 7d)								
Home	377	593	391	562	45	44	30	51
Other retail	55	42	15	35	0	4	15	11
Agriculture, forestry & fishing	35	22	45	21	4	6	0	0
Oil & gas	7	8	7	3	0	0	0	1
Mining	7	9	2	5	0	0	0	2
Mining services	2	1	1	2	0	0	0	0
Other commercial	489	360	396	406	18	9	5	72
Total	971	1,035	857	1,034	68	63	49	136
2020e growth (BP)	3%	4%	5%	4%	3%	3%	3%	-
2021e growth (BP)	3%	4%	6%	4%	3%	4%	3%	-
<u>Domestic market share (APRA)</u>								
Home - owner occupied	16%	27%	14%	24%	3%	2%	1%	2%
Home - investor	14%	24%	19%	28%	2%	2%	2%	2%
Credit card	18%	27%	13%	23%	0%	1%	0%	1%
Other consumer	10%	29%	30%	13%	0%	4%	0%	4%
Wholesale lending (non-financials)	14%	17%	21%	18%	2%	2%	1%	1%
<u>Mortgage lending by State</u>								
NSW / ACT	32%	36%	39%	41%	29%	24%	27%	-
VIC	33%	28%	31%	26%	11%	39%	16%	-
QLD	16%	19%	16%	17%	48%	15%	43%	-
WA	13%	11%	9%	9%	7%	9%	10%	-
SA / other	6%	6%	5%	7%	5%	13%	4%	-
Total	100%	100%	100%	100%	100%	100%	100%	-
2 Group funding (ex-SHE)								
Customer deposits as % of funding - Term	35%	22%	21%	28%	27%	43%	34%	-
Customer deposits as % of funding - Other	29%	47%	36%	39%	37%	36%	31%	-
Other as % of funding	36%	31%	43%	33%	37%	18%	36%	-
Total	100%	100%	100%	100%	100%	100%	100%	-
Customer deposits as % of gross loans	80%	76%	100%	71%	66%	84%	68%	-
Net interest margin	1.79%	2.10%	1.79%	2.12%	1.79%	1.96%	1.94%	-
NSFR	115%	112%	113%	111%	112%	112%	110%	113%
Wholesale funding <12 month maturity	25%	14%	17%	14%	12%	8%	14%	-
2020e w/sale funding requirement (\$bn)	23	32	31	30	3	1	1	-
Liquidity Coverage Ratio (average)	143%	132%	128%	137%	127%	125%	124%	154%
Domestic market share - deposits (APRA)	14%	24%	17%	20%	2%	3%	2%	3%
3 Asset quality								
Bad debt charge as % of GLA	0.13%	0.16%	0.15%	0.09%	0.02%	0.08%	0.13%	-
Provisions as % of GLA	0.70%	0.63%	0.66%	0.56%	0.49%	0.58%	0.60%	-
90 days past due as % of GLA	0.55%	0.44%	0.53%	0.70%	0.93%	0.71%	0.63%	-
Commercial property exposure	4.3%	6.3%	7.4%	6.4%	4.9%	6.8%	<1.0%	-
Texas Ratio	8.4%	8.6%	8.2%	9.2%	15.2%	12.5%	10.6%	-
<u>Institutional loans by risk grade (estimate)</u>								
AAA to BBB- (investment grade)	78%	67%	76%	61%	-	-	-	-
Other	22%	33%	24%	39%	-	-	-	-
Total	100%	100%	100%	100%	-	-	-	-
4 EaD by industry (\$bn)								
Agriculture, F&F & mining	49	40	56	19	4	6	-	-
Construction & property related	70	74	87	91	3	4	-	-
Entertainment, leisure & tourism	16	6	10	10	1	0	-	-
Financial	113	69	96	71	2	1	-	-
Manufacturing	42	15	20	30	0	0	-	-
Retail	412	635	407	603	45	47	-	-
Services	13	13	24	35	0	0	-	-
Sovereign	155	90	62	80	3	0	-	-
Trade	46	20	32	35	0	1	-	-
Transport & storage	19	20	23	18	0	0	-	-
Other	36	53	40	40	8	3	-	-
Total	971	1,035	857	1,034	68	63	49	136
Agriculture, F&F & mining	5%	4%	6%	2%	6%	10%	-	-
Construction & property related	7%	7%	10%	9%	5%	7%	-	-
Entertainment, leisure & tourism	2%	1%	1%	1%	2%	1%	-	-
Financial	12%	7%	11%	7%	3%	1%	-	-
Manufacturing	4%	1%	2%	3%	0%	0%	-	-
Retail	42%	61%	48%	58%	67%	75%	-	-
Services	1%	1%	3%	3%	0%	1%	-	-
Sovereign	16%	9%	7%	8%	5%	0%	-	-
Trade	5%	2%	4%	3%	0%	1%	-	-
Transport & storage	2%	2%	3%	2%	0%	0%	-	-
Other	4%	5%	5%	4%	12%	5%	-	-
Total	100%	100%	100%	100%	100%	100%	100%	100%
5 EaD by portfolio (\$bn)								
Retail	412	635	407	603	45	47	44	61
Corporate	176	182	137	198	6	0	0	49
Business / SME	116	59	155	89	11	15	0	16
Financial	113	69	96	63	2	1	2	8
Sovereign	155	90	62	80	3	0	3	2
Total	971	1,035	857	1,034	68	63	49	136
Retail	42%	61%	48%	58%	67%	75%	90%	45%
Corporate	18%	18%	16%	19%	9%	0%	0%	36%
Business / SME	12%	6%	18%	9%	17%	24%	0%	12%
Financial	12%	7%	11%	6%	3%	1%	3%	6%
Sovereign	16%	9%	7%	8%	5%	0%	6%	1%
Total	100%	100%	100%	100%	100%	100%	100%	100%
6 NPAT by segment								
Retail banking	47%	52%	23%	55%	15%	67%	38%	-
Wholesale banking	53%	44%	74%	55%	15%	33%	62%	-
Wealth	-1%	2%	3%	-9%	4%	0%	0%	-
Offshore (ex-New Zealand) & other	1%	3%	0%	0%	66%	0%	0%	-
Total	100%	100%	100%	100%	100%	100%	100%	-
7 NPAT by geography								
Australia	78%	86%	85%	84%	80%	100%	100%	-
New Zealand	22%	11%	15%	16%	20%	0%	0%	-
Other	1%	3%	0%	0%	0%	0%	0%	-
Total	100%	100%	100%	100%	100%	100%	100%	-
Bank group cost-to-income ratio	46%	46%	47%	44%	56%	57%	48%	64%
8 Capital management (last reported)								
APRA leverage ratio (>4%) (Tier 1 / EaD)	5.5%	5.6%	5.4%	5.7%	5.4%	6.7%	6.6%	5.3%
APRA CET1 (>10.5% MTB, >8.5% others)	11.8%	10.7%	10.4%	10.5%	9.3%	8.9%	9.3%	11.4%
Tier 1	13.8%	12.7%	12.5%	12.7%	11.0%	11.3%	10.9%	13.5%
International CET1	17.2%	16.2%	14.6%	15.9%	-	-	-	14.3%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 8 – Bank Cheat Sheet 2 (S&P 100 only)

	ANZ	CBA	NAB	WBC	SUN	BEN	BOQ	MQG
9 Pricing								
Shareprice	\$26.58	\$78.69	\$27.32	\$28.25	\$13.58	\$10.74	\$8.99	\$122.94
Price target	\$27.50	\$86.00	\$29.00	\$29.50	\$14.60	\$10.80	\$9.20	\$140.00
Target PB								
- 2020e	1.2	2.1	1.4	1.5	1.5	0.9	0.9	2.4
- 2021e	1.2	2.1	1.4	1.5	1.5	0.9	0.9	2.3
Target PE								
- 2020e	11.6	17.5	12.4	12.4	15.8	12.6	11.1	16.0
- 2021e	11.4	16.6	11.6	12.1	14.8	12.3	10.8	14.9
Target yield								
- 2020e	5.8%	5.0%	5.9%	6.4%	5.3%	6.5%	7.4%	4.3%
- 2021e	5.8%	5.0%	6.2%	6.5%	5.5%	6.5%	7.4%	4.6%
Expected return	9.5%	14.8%	12.3%	11.1%	13.3%	7.1%	9.9%	18.8%
BP recommendation	Hold	Buy	Buy	Hold	Buy	Hold	Hold	Buy
S&P long term Issuer Credit Rating (ICR)	AA-	AA-	AA-	AA-	A+	BBB+	BBB+	BBB (Bank A)
Moody's long term Issuer Credit Rating (ICR)	Aa3	Aa3	Aa3	Aa3	A1	A3	A3	A3 (Bank A2)
Market capitalisation (\$bn)	75	139	79	99	18	5	4	43
TSR								
1 week	1%	2%	1%	3%	0%	1%	0%	0%
1 month	-4%	-1%	-4%	-2%	5%	-2%	-2%	-2%
3 months	-4%	3%	3%	4%	9%	-1%	-3%	8%
1 year	-2%	17%	3%	6%	-7%	3%	-15%	0%
BP estimates								
PB 2018 (x)	1.3	2.1	1.5	1.5	1.3	0.9	0.9	2.4
PB 2019e (x)	1.2	2.0	1.4	1.5	1.3	0.9	0.9	2.3
PB 2020e (x)	1.2	1.9	1.4	1.5	1.4	0.9	0.9	2.1
PB 2021e (x)	1.1	1.9	1.3	1.4	1.4	0.9	0.9	2.0
ROE 2018	11%	14%	12%	13%	8%	8%	10%	17%
ROE 2019e	12%	12%	12%	11%	8%	7%	8%	18%
ROE 2020e	11%	12%	12%	13%	9%	8%	9%	16%
ROE 2021e	11%	13%	13%	13%	10%	8%	9%	16%
NIM 2018	1.87%	2.15%	1.85%	2.22%	1.84%	1.98%	1.98%	-
NIM 2019e	1.79%	2.10%	1.80%	2.11%	1.90%	1.96%	1.93%	-
NIM 2020e	1.78%	2.06%	1.80%	2.09%	1.90%	1.91%	1.92%	-
NIM 2021e	1.77%	2.05%	1.79%	2.09%	1.89%	1.90%	1.92%	-
PE 2018 (x)	11.9	15.4	13.0	12.0	15.9	11.7	9.5	16.2
PE 2019e (x)	10.8	16.4	12.5	13.6	15.7	12.6	11.2	13.9
PE 2020e (x)	11.2	16.0	11.6	11.9	14.7	12.5	10.9	14.0
PE 2021e (x)	11.0	15.2	11.0	11.5	13.8	12.3	10.5	13.0
EPS 2018 (cps)	223	510	210	236	85	92	95	758
EPS 2019e (cps)	245	481	219	208	86	85	80	883
EPS 2020e (cps)	237	492	235	237	93	86	83	878
EPS 2021e (cps)	242	517	249	245	99	88	85	942
EPS growth 2018	-4%	-9%	-16%	-1%	-5%	4%	-3%	15%
EPS growth 2019e	10%	-6%	4%	-12%	1%	-8%	-15%	17%
EPS growth 2020e	-3%	2%	7%	14%	7%	1%	3%	-1%
EPS growth 2021e	2%	5%	6%	3%	7%	2%	3%	7%
DPS 2018 (cps)	160	431	198	188	81	70	76	525
DPS 2019e (cps)	160	431	166	188	78	70	68	575
DPS 2020e (cps)	160	431	172	188	78	70	68	601
DPS 2021e (cps)	160	431	180	191	80	70	68	637
Yield 2018	6.0%	5.5%	7.2%	6.7%	6.0%	6.5%	8.5%	4.3%
Yield 2019e	6.0%	5.5%	6.1%	6.7%	5.7%	6.5%	7.6%	4.7%
Yield 2020e	6.0%	5.5%	6.3%	6.7%	5.7%	6.5%	7.6%	4.9%
Yield 2021e	6.0%	5.5%	6.6%	6.8%	5.9%	6.5%	7.6%	5.2%
Payout 2018	72%	80%	94%	80%	86%	76%	81%	69%
Payout 2019e	65%	90%	76%	90%	82%	82%	85%	65%
Payout 2020e	68%	88%	73%	79%	84%	82%	82%	68%
Payout 2021e	66%	83%	72%	78%	81%	80%	80%	68%
BDD as % of GLA 2014	0.19%	0.16%	0.15%	0.11%	0.27%	0.15%	0.22%	-
BDD as % of GLA 2015	0.19%	0.15%	0.14%	0.12%	0.11%	0.12%	0.18%	-
BDD as % of GLA 2016	0.33%	0.18%	0.15%	0.17%	0.17%	0.08%	0.16%	-
BDD as % of GLA 2017	0.21%	0.15%	0.14%	0.14%	0.01%	0.12%	0.11%	-
BDD as % of GLA 2018	0.11%	0.15%	0.13%	0.10%	0.05%	0.11%	0.02%	-
BDD as % of GLA 2019e	0.13%	0.16%	0.15%	0.10%	0.02%	0.08%	0.14%	-
BDD as % of GLA 2020e	0.16%	0.17%	0.18%	0.12%	0.03%	0.09%	0.14%	-
BDD as % of GLA 2021e	0.18%	0.17%	0.19%	0.13%	0.04%	0.09%	0.15%	-
Provisions as % of RWA 2014	1.1%	1.2%	1.0%	1.1%	1.2%	0.9%	1.4%	-
Provisions as % of RWA 2015	1.0%	1.0%	1.0%	0.9%	1.2%	0.9%	1.3%	-
Provisions as % of RWA 2016	1.0%	1.0%	0.9%	0.9%	0.8%	1.0%	1.2%	-
Provisions as % of RWA 2017	1.0%	0.9%	0.9%	0.8%	0.7%	0.7%	1.1%	-
Provisions as % of RWA 2018	0.9%	0.8%	0.9%	0.7%	0.7%	0.8%	0.9%	-
Provisions as % of RWA 2019e	1.1%	1.1%	1.0%	0.9%	0.7%	1.0%	0.9%	-
Provisions as % of RWA 2020e	1.1%	1.1%	1.0%	0.9%	0.7%	1.0%	0.9%	-
Provisions as % of RWA 2021e	1.1%	1.1%	1.0%	0.9%	0.7%	1.0%	0.9%	-
10 Strategy								
	Focus on retail and business banking in Australia and New Zealand, and selected institutional markets here and overseas	IT leadership underpinning core retail bank in Australia & NZ	Focus on retail and business (especially agribusiness) banking in Australia and New Zealand	Focus on retail and business banking in Australia and New Zealand, and selected institutional markets here and overseas	More of a GI now with smaller banking component; lately pursuing front end opportunities	Strong retail funding base to provide platform for growth in SME and wealth	Strong retail funding base to support growth in WA and VIC; well capitalised and provisioned	Moving towards annuity-style earnings; leveraged to global growth through asset management and infrastructure
11 Value proposition								
	Maximising NIM and ROE through focus markets and cost management, and having the best capital management flexibility in its peer group	Wealth demerger, focus on higher ROE core retail and business banking	Bridge ROE gap with peers; focus on business, SME and retail banking	Significant improvements in core retail banking efficiency and productivity	Surplus capital and BIP cost savings, rate and volume increases	Value add is to buy SUNs Core Bank or regional QLD players such as ABA or MYS	Focused on higher margin leasing and specialty finance businesses; credit systems top notch	Best growth outlook based on infrastructure leverage; return of surplus capital

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Recommendation structure

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

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

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

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

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

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TS Lim, authoring analyst, holds long positions in ABA, ANZ, BOQ, CBA, CBAPC, MQG, MQGPC, MQGPD and SUN.

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