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Bank Note\$

Imagine Mulder without Scully

Stock	Price	Target	Rating
ANZ	\$28.00	\$29.80	Buy
CBA	\$73.95	\$76.00	Hold
NAB	\$25.13	\$26.50	Hold
WBC	\$26.96	\$28.50	Buy
MQG	\$128.64	\$135.00	Buy

New Zealand bank demerger has appeal...

The Reserve Bank of New Zealand (RBNZ) is unlikely to back down from its recent proposal to materially increase New Zealand banks' capital requirements (moving the minimum total capital requirement for the four majors from 10.5% to 18.0% and the Tier 1 component from 8.5% to 16.0%). The majors' RWA is then expected to rise by NZ\$40bn to NZ\$290bn (BP estimate NZ\$330bn) and this would require a further NZ\$13bn Tier 1 capital (vs. Standard & Poor's ~NZ\$14bn estimate and BP's more conservative NZ\$19bn). Potential capital increases estimated by ANZ and NAB are NZ\$6-8bn (BP estimate NZ\$7bn) and NZ\$4-5bn (BP estimate NZ\$5bn) respectively.

While the actual impact should be materially lower as additional capital required in New Zealand will not impact at Group level (i.e. Level 2), there is still the potential for RWA to materially increase given higher proposed risk weights and for dividend repatriation from New Zealand to decrease. As a result, there has been recent talk in the market – with noise mainly coming out of Australia as opposed to New Zealand – about the Australian majors possibly demerging their New Zealand operations to get around this conundrum. The merits of such a move are assessed in this note by looking at some pre- and post-demerger scenarios impacting CET1 capital and ROE.

...but this is more a case of sine qua non

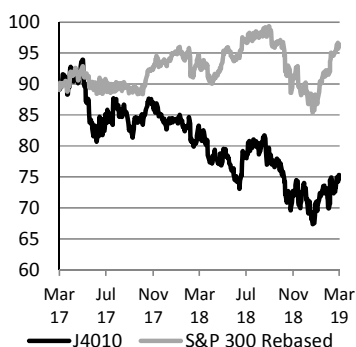
The RBNZ's proposed capital top-up is not immaterial and the Australian banks may be tempted to assess the merits of demerger (perhaps underpinned by a shortage of quality listed banks). With possibly room for only one such transaction, there is definitely a first mover advantage to all this providing the economics are sound. The template for this should then follow closely NAB's playbook in demerging CYB, likely using a holding company structure and demerging a majority to existing shareholders and selling the residual to institutional shareholders via IPO. Any New Zealand bank demerger should be considerably cleaner given better returns and the absence of legacy conduct issues. However, the process may be a double-edged sword – in that demerging the profitable New Zealand banks would likely lead to lower residual Group ROA and ROE. The decision to pursue such a demerger will then boil down to risk management – which bank has the most to lose by not doing anything – and potentially trading off better capital outcomes for lower returns.

Our findings indicate that ANZ and NAB would be most impacted in such an event (Group ROE down by -2.3% and -1.5% respectively) given inherently higher New Zealand ROA and ROE to start with. The impact on WBC (being our top major bank pick) and CBA would, however, be largely immaterial given their much lower country exposures (Group ROE down by -0.5% and -0.7% respectively). We further believe WBC and CBA will be indifferent towards any demerger given only marginally lower Group ROE impacts under the "do nothing" scenario (i.e. lie back and think of Closer Economic Relations). Contrary to popular belief, the "do nothing" scenario would also be better for ANZ and NAB although the former may wish to do more work given a projected Group ROE of below 10%. All else being equal, we believe the status quo will be maintained as the Trans-Tasman operations are considered inseparable.

ASX200 Banks (J4010) Price Performance

	(1m)	(3m)	(12m)
Index (x100)	73.11	72.67	82.92
Absolute (%)	3.05	3.67	-9.14
Rel market (%)	-1.48	-5.06	-11.04

Absolute Price



SOURCE: IRESS

Imagine Mulder without Scully



New Zealand bank demerger has appeal...

The Reserve Bank of New Zealand (RBNZ) released its consultation paper on bank capital [Capital Review Paper 4 (CRP4)] in January with the deadline for submissions now set at 3 May 2019. To recap, RBNZ has proposed a material increase in New Zealand banks' proportion of capital funding over a five-year transition period and appears unlikely to back down from its stance.

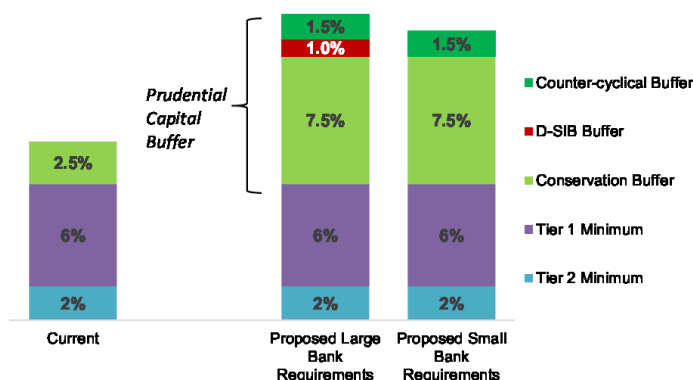
The key elements of CRP4 (see chart below) include: (1) raising risk-weighted assets (RWA) to at least 85% of what would be calculated under the Standardised approach to ensure a level playing field (i.e. overall RWA would increase by ~16% according to RBNZ estimates); (2) setting a Tier 1 capital requirement of 16% of RWA for the four majors (comprising 6% minimum requirement and 9-10% prudential capital buffer) and a requirement of 15% for all other banks; and (3) retaining the current treatment of Tier 2 capital and querying if Tier 2 should remain in the capital framework.

The RBNZ's proposal would raise the minimum total capital requirement for the four majors from 10.5% to 18.0% (and the Tier 1 component from 8.5% to 16.0%). The RBNZ expects the majors' RWA to rise by NZ\$40bn to NZ\$290bn (BP estimate NZ\$330bn or \$320bn) and suggested this would require a further NZ\$13bn or \$12bn Tier 1 capital (Standard & Poor's estimate ~NZ\$13.7bn or \$12-13bn vs. BP's more conservative estimate NZ\$19bn or \$18bn).

Potential capital increases estimated by some of the majors back in January are: (1) ANZ NZ\$6.0-8.0bn or \$5.7-7.7bn (BP estimate NZ\$6.9bn or \$6.7bn, see the following table); and (2) NAB NZ\$4.0-5.0bn or \$3.8-4.7bn (BP estimate NZ\$4.6bn or \$4.4bn). While the actual impact should be materially lower as additional capital required in New Zealand will not impact at Group level (i.e. Level 2), there is still the potential for RWA to materially increase (given higher proposed risk weights) and for dividend repatriation from New Zealand to decrease.

As a result, there has been recent talk in the market – with noise mainly coming out of Australia as opposed to New Zealand – about the Australian majors possibly demerging their New Zealand operations to get around this conundrum. In this note, we assess the merits of such a move by looking at some pre- and post-demerger scenarios impacting CET1 capital and ROE.

Figure 1 – CRP4 summary



SOURCE: RBNZ

CBA and WBC did not provide figures but we estimate NZ\$4.1bn or \$3.9bn for the former and NZ\$3.2bn or \$3.0bn for the latter. Not surprisingly, incremental capital requirements would be lower for CBA and WBC given their smaller New Zealand footprints. 2018 New Zealand contributions to Group NPAT are: (1) ANZ 22%; (2) CBA 11%; (3) NAB 13%; and (4) WBC 12%.

Table 1 – CRP4 estimates

Latest reported (NZ\$m)	ANZ	ASB/CBA	BNZ/NAB	WBC	Total
Capital position					
CET1 capital	9,081	5,890	6,810	6,290	
Additional Tier 1 capital	2,776	1,000	900	1,500	
Tier 1 capital	11,857	6,890	7,710	7,790	34,247
Tier 2 capital	0	830	1,053	1,135	
Total capital	11,857	7,720	8,763	8,925	
RWA	82,147	55,682	64,492	53,820	256,141
CET1 ratio	11.1%	10.6%	10.6%	11.7%	
Tier 1 ratio	14.4%	12.4%	12.0%	14.5%	13.4%
Total capital ratio	14.4%	13.9%	13.6%	16.6%	
Credit RWA subject to IRB approach	57,680	42,997	45,592	39,931	
Credit RWA subject to standardised approach	11,339	5,684	980	1,027	
Other RWA	13,128	7,001	17,920	12,862	
Total RWA	82,147	55,682	64,492	53,820	256,141
Credit EaD IRB	171,525	103,045	107,137	100,688	
Credit EaD Standardised	14,091	5,789	2,393	2,516	
Total credit EaD	185,616	108,834	109,530	103,204	
Average credit risk weight IRB	34%	42%	43%	40%	
Assumed credit risk weight standardised	64%	64%	64%	64%	
Proposed average credit risk weight IRB	54%	54%	54%	54%	
Estimated new RWA	117,412	68,523	76,955	68,449	331,339
- Proposed increase	43%	23%	19%	27%	29%
Current Tier 1 ratio based on new RWA	10.1%	10.1%	10.0%	11.4%	
Proposed Tier 1 ratio	16.0%	16.0%	16.0%	16.0%	
Estimated new Tier 1 capital required	6,929	4,074	4,603	3,162	18,767
- in A\$m terms (@ NZ\$1.0413/A\$1.00)	6,654	3,912	4,420	3,036	18,023

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

...but this is more a case of sine qua non

The RBNZ proposed capital headwinds are not immaterial and the Australian banks may be tempted to assess the merits of spinning off their New Zealand banks. After all, there is a perceived shortage of quality listed banks in New Zealand and there is possibly room for only one transaction given the limited breadth and depth of equity markets yonder – so there is definitely a first mover advantage to all this providing the economics are sound.

The template for such a transaction should then follow closely NAB's proven playbook in demerging CYB, likely using a holding company structure and demerging up to 80% to existing shareholders and selling the residual to institutional shareholders via IPO (the latter to provide liquidity and establish a natural shareholder base in New Zealand). However, any New Zealand bank demerger should be considerably cleaner given better returns for a start (e.g. 14-15% New Zealand ROE vs. 11-14% at Group level, that also presents a capital efficiency dilemma that can't be ignored by Sydney and Melbourne head offices) and the absence of costly legacy conduct issues (e.g. UK mis-sold PPI and tailored business loans).

Be that as it may, the process would also be a double-edged sword – in that demerging the profitable New Zealand banks would likely lead to lower residual Group ROA and ROE. The decision to pursue such a demerger will then boil down to risk management – which bank has the most to lose by not doing anything – and potentially trading off better capital outcomes for lower returns. The following decision-making process takes into account the

pre- and post-demerger financial metrics of each of the major banks and provides an indication of the most likely contender(s) for such a transaction.

The following table highlights the impact of potential a New Zealand bank demerger on each of the Groups (more details in Tables 3-6 in the next few pages). It comes as no surprise that ANZ and NAB would, theoretically, be most impacted in such an event (Group ROE down by -2.3% and -1.5% respectively) given inherently higher New Zealand ROA and ROE to start with. The impact on WBC (being our top major bank pick) and CBA would, however, be largely immaterial given their much lower country exposures (Group ROE down by -0.5% and -0.7% respectively).

We further believe WBC and CBA will be indifferent towards any demerger given only marginally lower Group ROE impacts under the “do nothing” scenario (i.e. lie back and think of Closer Economic Relations). Contrary to popular belief, the “do nothing” scenario would also be better for ANZ and NAB although the former may wish to do more work given a projected Group ROE of below 10%. All else being equal, we believe the status quo will be maintained as the Trans-Tasman operations are considered inseparable.

Table 2 – Summary impacts

New Zealand banking demerger impact on Group metrics	ANZ	CBA	NAB	WBC
NIM				
- Before demerger	1.87%	2.15%	1.85%	2.11%
- After demerger	1.78%	2.14%	1.80%	2.10%
- Change	-0.09%	-0.01%	-0.06%	-0.01%
CIR				
- Before demerger	48%	44%	50%	44%
- After demerger	57%	47%	55%	46%
- Change	9%	3%	5%	3%
Cash ROA				
- Before demerger	0.7%	0.9%	0.7%	0.9%
- After demerger	0.5%	0.8%	0.6%	0.9%
- Change	-0.2%	-0.1%	-0.1%	0.0%
Cash ROE				
- Before demerger	11.0%	13.5%	11.0%	13.0%
- After demerger	8.7%	12.9%	9.6%	12.5%
- Change	-2.3%	-0.7%	-1.5%	-0.5%
CET1 ratio				
- Before demerger	11.4%	10.1%	10.2%	10.6%
- After demerger	12.2%	10.2%	10.3%	10.8%
- Change	0.8%	0.1%	0.1%	0.2%
Do nothing scenario (i.e. taking the capital hit on the Group and New Zealand)				
New Zealand cash ROE				
- Pre-higher capital requirements	15.1%	15.0%	14.4%	13.8%
- Post-higher capital requirements	9.8%	9.8%	8.7%	9.5%
- Change	-5.3%	-5.2%	-5.6%	-4.3%
Group ROE				
- Pre-higher capital requirements	11.0%	13.5%	11.0%	13.0%
- Post-higher capital requirements	9.9%	12.8%	10.2%	12.4%
- Change	-1.1%	-0.8%	-0.9%	-0.6%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

ANZ

Table 3 – ANZ

Y/e 30 September 2018 (A\$m) (continuing)	ANZ Group	ANZ Bank New Zealand	Intercompany balances	Other demerger adjustments	ANZ Group pro-forma	Change
Income statement						
Net interest income	14,514	-3,025	0		11,489	
Other banking income	4,135	-692	0		3,443	
Total banking income	18,649	-3,717			14,932	
Funds management income	353	-389			-36	
Insurance income	212	0			212	
Operating income	19,214	-4,106			15,108	-21%
Operating expenses	-9,248	1,457	-50	-797	-8,638	-7%
Credit impairment charge	-688	53			-635	
Profit before income tax	9,278	-2,597			5,834	-37%
Income tax expense	-2,775	721			-1,750	
Non-controlling interests	-16				-16	
Investment experience	0				0	
Discontinued operations	0				0	
NPAT (cash basis)	6,487	-1,876			4,068	-37%
Hedging, one off gains, etc.	-87				-87	
NPAT (statutory basis)	6,400	-1,876			3,981	-38%
Balance sheet						
Total average interest earnings assets	774,884	-128,181	-630		646,073	-17%
Total average assets	943,600	-150,286	-630		792,684	-16%
Total average liabilities	884,601	-137,854	-2,075		744,672	-16%
Total average equity (includes estimated deconsolidation of NZ net assets)	58,999	-12,432			46,567	-21%
Risk weighted assets	390,820	-78,889			311,931	-20%
CET1 capital (includes estimated deconsolidation of NZ net assets adjusted for AT1)	44,691	-6,055	-558		38,078	-15%
KPIs						
NIM	1.87%	2.36%			1.78%	-0.09%
CIR	48%	35%			57%	9%
Cash ROA	0.7%	1.2%			0.5%	-0.2%
Cash ROE	11.0%	15.1%			8.7%	-2.3%
CET1 ratio	11.4%	7.7%			12.2%	0.8%
Equity leverage (x)	16.0	12.1			17.0	-1.0
Do nothing scenario (i.e. taking the capital hit on the Group and New Zealand)						
Proposed Tier 1 ratio		16.0%				
Proposed new RWA base		112,755				
Estimated new Tier 1 capital required	6,654	6,654				
Estimated ROE post capital raising	9.9%	9.8%				
Cash ROE drag	-1.1%	-5.3%				

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

CBA

Table 4 – CBA

Y/e 30 June 2018 (A\$m) (continuing)	CBA Group	ASB	Intercompany balances	Other demerger adjustments	CBA Group pro-forma	Change
Income statement						
Net interest income	18,342	-1,958	0		16,384	
Other banking income	5,215	-422	0		4,793	
Total banking income	23,557	-2,380			21,177	
Funds management income	1,119	109			1,228	
Insurance income	238	0			238	
Total operating income	24,914	-2,270			22,644	-9%
Operating expenses	-10,995	844	0	-468	-10,619	-3%
Loan impairment expense	-1,079	77			-1,002	
Net profit before income tax	12,840	-1,349			11,022	-14%
Corporate tax expense	-3,920	438			-3,307	
Minority interests	-13				-13	
Discontinued operations	0				0	
Investment experience & other	8	-186			-178	
NPAT (cash basis)	8,915	-1,098			7,524	-16%
Adjustments	414				414	
NPAT (statutory basis)	9,329	-1,098			7,938	-15%
Balance sheet						
Total average interest earnings assets	854,264	-87,416	0		766,848	-10%
Total average assets	976,287	-88,371	0		887,916	-9%
Total average liabilities	910,417	-81,037	0		829,380	-9%
Total average equity (includes estimated deconsolidation of NZ net assets)	65,870	-7,334			58,536	-11%
Risk weighted assets	458,612	-53,474			405,138	-12%
CET1 capital (includes estimated deconsolidation of NZ net assets adjusted for AT1)	46,537	-4,696	-328		41,513	-11%
KPIs						
NIM	2.15%	2.24%			2.14%	-0.01%
CIR	44%	37%			47%	3%
Cash ROA	0.9%	1.2%			0.8%	-0.1%
Cash ROE	13.5%	15.0%			12.9%	-0.7%
CET1 ratio	10.1%	8.8%			10.2%	0.1%
Equity leverage (x)	14.8	12.0			15.2	-0.3
Do nothing scenario (i.e. taking the capital hit on the Group and New Zealand)						
Proposed Tier 1 ratio		16.0%				
Proposed new RWA base		65,805				
Estimated new Tier 1 capital required	3,912	3,912				
Estimated ROE post capital raising	12.8%	9.8%				
Cash ROE drag	-0.8%	-5.2%				

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

NAB

Table 5 – NAB

Y/e 30 September 2018 (A\$m) (continuing)	NAB Group	Bank of New Zealand	Intercompany balances	Other demerger adjustments	NAB Group pro-forma	Change
Income statement						
Net interest income	13,467	-1,869	-52		11,546	
Other banking income	3,516	-586	21		2,951	
Total banking income	16,983	-2,455			14,498	
Funds management income	994	0			994	
Insurance income	0	0			0	
Net operating income	17,977	-2,455			15,492	-14%
Operating expenses	-8,992	1,004	-33	-500	-8,521	-5%
Credit impairment charge	-779	79			-700	
Cash earnings b4 tax/distributions	8,206	-1,372			6,270	-24%
Income tax expense	-2,404	384			-1,881	
Outside equity interests	0				0	
Investment experience	0				0	
Distributions	-100				-100	
Cash earnings	5,702	-988			4,289	-25%
Adjustments	-148				-148	
Statutory earnings	5,554	-988			4,141	-25%
Balance sheet						
Total average interest earnings assets	726,657	-82,327	-1,203		643,127	-11%
Total average assets	807,037	-93,780	-1,203		712,054	-12%
Total average liabilities	755,401	-86,904	-877		667,620	-12%
Total average equity (includes estimated deconsolidation of NZ net assets)	51,636	-6,876			44,760	-13%
Risk weighted assets	389,684	-61,934			327,750	-16%
CET1 capital (includes estimated deconsolidation of NZ net assets adjusted for AT1)	39,759	-5,676	-350		33,733	-15%
KPIs						
NIM	1.85%	2.27%			1.80%	-0.06%
CIR	50%	41%			55%	5%
Cash ROA	0.7%	1.1%			0.6%	-0.1%
Cash ROE	11.0%	14.4%			9.6%	-1.5%
CET1 ratio	10.2%	9.2%			10.3%	0.1%
Equity leverage (x)	15.6	13.6			15.9	-0.3
Do nothing scenario (i.e. taking the capital hit on the Group and New Zealand)						
Proposed Tier 1 ratio		16.0%				
Proposed new RWA base		73,903				
Estimated new Tier 1 capital required	4,420	4,420				
Estimated ROE post capital raising	10.2%	8.7%				
Cash ROE drag	-0.9%	-5.6%				

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

WBC

Table 6 – WBC

Y/e 30 September 2018 (A\$m) (continuing)	WBC Group	WNZL	Intercompany balances	Other demerger adjustments	WBC Group pro- forma	Change
Income statement						
Net interest income	16,339	-1,809	-26		14,504	
Other banking income	3,387	-358	7		3,036	
Total banking income	19,726	-2,167			17,539	
Funds management income	1,708	0			1,708	
Insurance income	517	0			517	
Net operating income	21,951	-2,167			19,764	-10%
Operating expenses	-9,586	879	-4	-454	-9,165	-4%
Impairment charges	-710	3			-707	
Operating profit before income tax	11,655	-1,286			9,892	-15%
Income tax expense	-3,586	349			-2,968	
Net profit to non-controlling interests	-4				-4	
Preference dividends	0				0	
Discontinued operations					0	
Cash earnings	8,065	-937			6,920	-14%
Adjustments	30				30	
Statutory earnings	8,095	-937			6,950	-14%
Balance sheet						
Total average interest earnings assets	774,944	-84,152	1,267		692,058	-11%
Total average assets	884,624	-85,709	1,267		800,181	-10%
Total average liabilities	822,576	-78,925	1,578		745,228	-9%
Total average equity (includes estimated deconsolidation of NZ net assets)	62,048	-6,784			55,264	-11%
Risk weighted assets	425,384	-51,685			373,699	-12%
CET1 capital (includes estimated deconsolidation of NZ net assets adjusted for AT1)	45,239	-4,600	-318		40,321	-11%
KPIs						
NIM	2.11%	2.15%			2.10%	-0.01%
CIR	44%	41%			46%	3%
Cash ROA	0.9%	1.1%			0.9%	0.0%
Cash ROE	13.0%	13.8%			12.5%	-0.5%
CET1 ratio	10.6%	8.9%			10.8%	0.2%
Equity leverage (x)	14.3	12.6			14.5	-0.2
Do nothing scenario (i.e. taking the capital hit on the Group and New Zealand)						
Proposed Tier 1 ratio		16.0%				
Proposed new RWA base		65,734				
Estimated new Tier 1 capital required	3,036	3,036				
Estimated ROE post capital raising	12.4%	9.5%				
Cash ROE drag	-0.6%	-4.3%				

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Investment summary

Table 7 – Investment summary

	Mkt Cap (\$bn)	Price / Book (x)		PE (x)		Yield		ROE		EPS growth		Price target	Last price	Rating
		2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e			
MAJORS														
ANZ	80.0	1.2	1.2	12.1	11.8	5.8%	5.9%	10.8%	10.6%	4%	2%	\$29.80	\$28.00	Buy
CBA	130.9	1.8	1.8	13.9	14.0	5.8%	5.9%	13.8%	13.0%	5%	-1%	\$76.00	\$73.95	Hold
NAB	69.8	1.3	1.2	10.3	9.9	7.9%	7.9%	13.3%	13.5%	16%	5%	\$26.50	\$25.13	Hold
WBC	92.9	1.4	1.3	11.1	10.7	7.0%	7.2%	12.8%	12.8%	3%	3%	\$28.50	\$26.96	Buy

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Financial summaries

Table 9 – CBA

Commonwealth Bank of Australia						Share Price (A\$)					73.95
As at						Market Cap (A\$M)					130,909
1-Mar-19											
PROFIT AND LOSS						VALUATION DATA					
Y/e June 30 (\$m)	2017	2018	2019e	2020e	2021e	Y/e June 30	2017	2018	2019e	2020e	2021e
Net interest income	17,543	18,342	18,389	18,864	19,421	NPAT (cash basis) (\$m)	9,881	9,412	9,572	9,444	9,857
Other banking income	5,578	5,215	5,287	5,341	5,418	NPAT (cash basis, continuing) (\$m)	9,696	8,915	9,435	9,444	9,857
Total banking income	23,121	23,557	23,676	24,205	24,838	EPS (statutory basis) (cps)	577	534	617	531	550
Funds management income	1,913	1,119	1,141	1,171	1,209	- Growth	6%	-7%	15%	-14%	3%
Insurance income	223	238	136	136	136	EPS (cash basis) (cps)	574	539	541	529	547
Total operating income	25,257	24,914	24,953	25,513	26,184	- Growth	3%	-6%	0%	-2%	3%
Operating expenses	-10,622	-10,995	-10,633	-10,956	-10,965	EPS (cash basis, continuing) (cps)	563	510	533	529	547
Loan impairment expense	-1,095	-1,079	-1,093	-1,166	-1,248	- Growth	1%	-9%	5%	-1%	3%
Net profit before income tax	13,540	12,840	13,228	13,390	13,971	P / E ratio (times)	12.9	13.7	13.7	14.0	13.5
Corporate tax expense	-3,847	-3,920	-3,787	-3,940	-4,109	P / Book ratio (times)	2.1	1.9	1.8	1.8	1.7
Minority interests	-20	-13	-12	-12	-12	P / NTA ratio (times)	2.4	2.2	2.1	2.0	1.9
Discontinued operations	185	497	137	0	0	Net DPS (cps)	429	431	432	434	440
Investment experience	23	8	6	6	7	Yield	5.8%	5.8%	5.8%	5.9%	5.9%
NPAT (cash basis)	9,881	9,412	9,572	9,444	9,857	Franking	100%	100%	100%	100%	100%
Adjustments	47	-83	1,331	40	40	Payout (cash basis, target 70-80%)	75%	80%	80%	82%	80%
NPAT (statutory basis)	9,928	9,329	10,903	9,484	9,897						
CASHFLOW						CAPITAL ADEQUACY					
Y/e June 30 (\$m)	2017	2018	2019e	2020e	2021e	Y/e June 30	2017	2018	2019e	2020e	2021e
NPAT (cash basis)	9,881	9,412	9,572	9,444	9,857	Risk weighted assets (\$m)	437,063	458,612	448,990	462,536	478,114
Increase in loans	-36,939	-16,228	-10,894	-23,722	-27,560	Average risk weight	47%	49%	47%	47%	47%
Increase in other assets	15,673	5,717	-2,693	-4,660	-5,089	Tier 1 ratio	12.1%	12.3%	13.4%	13.9%	14.1%
Capital expenditure	67	1,297	123	-74	-76	CET1 capital ratio	10.1%	10.1%	11.3%	11.9%	12.2%
Investing cashflow	-21,199	-9,214	-13,465	-28,455	-32,726	Total capital ratio	14.2%	15.0%	16.3%	16.7%	16.9%
Increase in deposits & borrowings	36,059	-13,090	18,991	20,671	21,027	Equity ratio	6.5%	7.0%	7.3%	7.4%	7.4%
Increase in other liabilities	4,162	7,737	-9,664	4,856	8,477						
Ordinary equity raised	0	0	0	0	0	DIVISIONAL					
Other	-6,425	-4,278	-4,630	-6,516	-6,635	Y/e June 30 (\$m)	2017	2018	2019e	2020e	2021e
Financing cashflow	33,796	-9,631	4,696	19,011	22,869	Retail Banking Services					
Net change in cash	22,478	-9,433	803	0	0	Net interest income	9,208	9,649	9,492	9,743	10,033
Cash at end of period	45,850	36,417	37,220	37,220	37,220	Other income	1,997	1,821	1,733	1,715	1,700
						Total banking income	11,205	11,470	11,225	11,458	11,734
						Operating expenses	-3,473	-4,102	-4,137	-4,054	-4,044
						Loan impairment expense	-702	-652	-638	-678	-723
						Net profit before tax	7,030	6,716	6,449	6,727	6,967
						Corporate tax expense	-2,097	-2,013	-1,938	-2,022	-2,094
						Cash net profit after tax	4,933	4,703	4,511	4,705	4,873
						Home loans	334,530	364,840	375,874	387,150	400,700
						Consumer & other loans	17,118	25,703	25,435	26,198	27,115
						Deposits	217,939	239,627	249,010	256,480	264,175
						Deposits non bearing interest	30,529	23,909	26,066	26,848	27,653
						B&B/P / IB&M					
						Net interest income	4,769	6,549	6,632	6,758	6,954
						Other income	2,324	2,662	2,632	2,710	2,799
						Total banking income	7,093	9,211	9,264	9,469	9,753
						Operating expenses	-2,657	-3,297	-3,321	-3,302	-3,288
						Loan impairment expense	-126	-327	-358	-378	-391
						Net profit before tax	4,310	5,587	5,584	5,788	6,074
						Corporate tax expense	-1,191	-1,572	-1,570	-1,627	-1,707
						Cash net profit after tax	3,119	4,015	4,014	4,161	4,367
						Loans	227,261	277,417	275,680	283,950	293,888
						Other IEA	31,635	27,821	31,041	31,972	33,091
						IBL	216,683	246,407	249,308	256,788	264,491
						Deposits non bearing interest	29,467	20,601	21,467	22,111	22,775
						Wealth Management					
						Funds management income	1,820	841	883	903	930
						Insurance income	121	0	0	0	0
						Total operating income	1,941	841	883	903	930
						Volume expenses	-675	0	0	0	0
						Operating expenses	-728	-490	-483	-483	-483
						Net profit before tax	538	351	400	420	447
						Corporate tax expense	-134	-104	-125	-126	-134
						Investment experience	18	8	14	14	15
						Cash net profit after tax	422	255	289	308	328
						FUA	354,874	147,999	152,439	157,012	161,723
						New Zealand					
						Net interest income	1,642	1,760	1,905	2,003	2,073
						Other income	331	415	465	458	460
						Total banking income	1,973	2,175	2,370	2,460	2,534
						Funds management income	92	112	126	136	147
						Insurance income	0	0	0	0	0
						Total operating income	2,065	2,287	2,497	2,597	2,681
						Operating expenses	-795	-860	-887	-917	-950
						Loan impairment expense	-65	-74	-84	-110	-134
						Net profit before tax	1,205	1,353	1,526	1,569	1,597
						Corporate tax expense	-336	-378	-428	-439	-447
						Minority interests	0	0	0	0	0
						Investment experience	0	0	0	0	0
						Cash net profit after tax	869	975	1,097	1,130	1,150
						Loans	71,459	76,355	79,368	82,923	86,240
						Other IEA	7,900	9,052	9,409	9,830	10,223
						Deposits	48,152	51,332	54,384	57,913	61,387
						Other IBL	18,961	21,434	22,066	22,832	23,517
						Effective tax rate	29%	31%	29%	29%	29%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 10 – NAB

National Australia						Share Price (A\$)					25.13
As at						Market Cap (A\$M)					69,797
1-Mar-19											
PROFIT AND LOSS						VALUATION DATA					
Y/e September 30 (\$m)	2017	2018	2019e	2020e	2021e	Y/e September 30	2017	2018	2019e	2020e	2021e
Net interest income	13,166	13,467	13,904	14,535	15,167	NPAT (cash basis) (\$m)	6,642	5,702	6,705	7,155	7,605
Other banking income	3,697	3,516	3,625	3,703	3,785	EPS (statutory basis) (cps)	195	201	242	253	265
Total banking income	16,863	16,983	17,529	18,238	18,952	- Growth	2117%	3%	20%	5%	5%
Funds management income	1,032	994	1,008	1,073	1,116	EPS (cash basis) (cps)	249	210	243	255	267
Insurance income	0	0	0	0	0	- Growth	2%	-16%	16%	5%	5%
Net operating income	17,895	17,977	18,537	19,312	20,068	P / E ratio (times)	10.1	11.9	10.3	9.9	9.4
Operating expenses	-7,635	-8,992	-8,063	-8,039	-8,007	P / Book ratio (times)	1.4	1.3	1.3	1.2	1.1
Credit impairment charge	-810	-779	-816	-961	-1,109	P / NTA ratio (times)	1.5	1.5	1.4	1.3	1.3
Cash earnings b4 tax/distributions	9,450	8,206	9,658	10,312	10,951	Net DPS (cps)	198	198	198	198	198
Income tax expense	-2,710	-2,404	-2,851	-3,055	-3,245	Yield	7.9%	7.9%	7.9%	7.9%	7.9%
Outside equity interests	0	0	0	0	0	Franking	100%	100%	100%	100%	100%
Investment experience	0	0	0	0	0	Payout (cash basis)	79%	94%	81%	77%	74%
Distributions	-98	-100	-102	-102	-102	CAPITAL ADEQUACY					
Cash earnings	6,642	5,702	6,705	7,155	7,605	Y/e September 30	2017	2018	2019e	2020e	2021e
Adjustments	-1,357	-148	60	60	60	Risk weighted assets (\$m)	382,114	389,684	412,214	435,743	461,852
Statutory earnings	5,285	5,554	6,765	7,215	7,665	Average risk weight	51%	52%	52%	52%	52%
CASHFLOW						Tier 1 ratio	12.4%	12.4%	12.5%	12.6%	12.6%
Y/e September 30 (\$m)	2017	2018	2019e	2020e	2021e	CET1 capital ratio	10.1%	10.2%	10.5%	10.7%	10.7%
NPAT (cash basis)	6,642	5,702	6,705	7,155	7,605	Total capital ratio	14.6%	14.1%	14.2%	14.2%	14.0%
Increase in loans	-12,600	-23,414	-29,924	-30,747	-34,528	Equity ratio	6.5%	6.5%	6.5%	6.5%	6.5%
Increase in other assets	14,372	11,661	-13,442	-14,539	-15,725	DIVISIONAL					
Capital expenditure	108	116	-36	-37	-38	Y/e September 30 (\$m)	2017	2018	2019e	2020e	2021e
Investing cashflow	1,880	-11,637	-43,402	-45,324	-50,291	Business/Private/Consumer Banking					
Increase in deposits & borrowings	14,903	9,687	12,837	13,504	14,078	Net interest income	9,141	9,503	9,753	10,240	10,719
Increase in other liabilities	-3,290	7,103	27,957	28,843	33,147	Other operating income	1,627	1,615	1,625	1,626	1,629
Ordinary equity raised	170	173	173	173	173	Net operating income	10,768	11,118	11,378	11,866	12,348
Other	-7,109	-4,666	-4,270	-4,352	-4,711	Operating expenses	-4,326	-4,627	-4,632	-4,651	-4,751
Financing cashflow	4,674	12,297	36,697	38,169	42,687	Credit impairment charge	-447	-478	-470	-573	-689
Net change in cash	13,196	6,362	0	0	0	Cash earnings b4 tax/distributions	5,995	6,013	6,276	6,641	6,908
Cash at end of period	43,826	50,188	50,188	50,188	50,188	Income tax expense	-1,795	-1,813	-1,883	-1,992	-2,072
BALANCE SHEET						Cash earnings	4,200	4,200	4,393	4,649	4,835
Y/e September 30 (\$m)	2017	2018	2019e	2020e	2021e	Home loans	292,946	302,950	316,790	331,188	347,845
Cash and liquid assets	43,826	50,188	50,188	50,188	50,188	Other loans	110,163	115,367	122,392	129,734	138,074
Divisional gross loans	563,899	585,330	616,288	648,082	683,681	Deposits	246,297	253,127	262,876	272,983	283,459
Provisions	-3,224	-3,513	-3,706	-3,912	-4,143	Corporate and Institutional Banking					
Other gross loans / inter div.	-2,315	-43	-884	-1,725	-2,565	Net interest income	1,972	1,882	1,905	1,998	2,095
Other IEA	179,238	164,733	178,175	192,714	208,440	Other operating income	1,368	1,451	1,469	1,535	1,602
Intangibles	5,601	5,787	5,787	5,787	5,787	Net operating income	3,340	3,333	3,375	3,533	3,697
PP&E	1,315	1,199	1,235	1,273	1,311	Operating expenses	-1,236	-1,297	-1,271	-1,312	-1,365
Insurance assets	0	0	0	0	0	Credit impairment charge	-37	43	0	-39	-70
Other assets	-15	2,829	2,829	2,829	2,829	Cash earnings b4 tax/distributions	2,067	2,079	2,103	2,182	2,262
Total assets	788,325	806,510	849,912	895,236	945,527	Income tax expense	-532	-538	-620	-655	-679
Divisional deposits	296,982	306,669	319,506	333,010	347,088	Cash earnings	1,535	1,541	1,483	1,527	1,584
Other borrowings	430,085	436,557	464,514	493,357	526,504	Loans	88,023	91,383	97,869	104,754	112,060
Other liabilities	9,941	10,572	10,572	10,572	10,572	Other IEA	154,877	144,617	152,905	161,647	170,865
Total liabilities	737,008	753,798	794,592	836,939	884,164	Wealth Management					
Ordinary share capital	31,707	33,062	34,317	35,593	36,608	Wealth management income	1,032	994	1,008	1,073	1,116
Other equity instruments	2,920	2,920	2,920	2,920	2,920	Insurance income	0	0	0	0	0
Reserves	237	46	46	46	46	Net operating income	1,032	994	1,008	1,073	1,116
Retained profits	16,442	16,673	18,026	19,726	21,778	Wealth management expense	0	0	0	0	0
Minority interests	11	11	11	11	11	Other expenses	-668	-649	-649	-649	-649
Total shareholders' equity	51,317	52,712	55,320	58,297	61,363	Cash earnings b4 tax/distributions	364	345	359	424	467
Total sh. equity & liabs.	788,325	806,510	849,912	895,236	945,527	Income tax expense	-90	-95	-98	-116	-128
Investment experience	0	0	0	0	0	Cash earnings	274	250	261	308	339
WANOS - statutory (m)	2,665	2,709	2,755	2,807	2,854	FUMA	112,935	119,145	125,696	130,724	135,953
WANOS - cash (m)	2,665	2,709	2,755	2,807	2,854	NZ Banking					
PROFITABILITY RATIOS						Net interest income	1,586	1,698	1,776	1,837	1,893
Y/e September 30	2017	2018	2019e	2020e	2021e	Other operating income	530	520	530	542	553
Return on assets	0.8%	0.7%	0.8%	0.8%	0.8%	Net operating income	2,116	2,218	2,306	2,379	2,447
Return on equity	14.0%	11.7%	13.3%	13.5%	13.7%	Operating expenses	-827	-869	-910	-927	-942
Leverage ratio	6.1%	6.0%	6.1%	6.2%	6.2%	Credit impairment charge	-67	-70	-68	-70	-73
Net interest margin	1.85%	1.85%	1.86%	1.84%	1.83%	Cash earnings b4 tax/distributions	1,222	1,279	1,328	1,382	1,432
Cost / income ratio	43%	50%	43%	42%	40%	Income tax expense	-340	-357	-372	-387	-401
Cost / average assets	0.97%	1.12%	0.96%	0.91%	0.86%	Outside equity interests	0	0	0	0	0
Growth in net operating income	2%	0%	3%	4%	4%	Investment experience	0	0	0	0	0
Growth in operating expenses	2%	n/m	n/m	0%	0%	Cash earnings	882	922	956	995	1,031
Jaws	0%	n/m	n/m	4%	4%	Loans	72,767	75,630	79,237	82,406	85,702
Effective tax rate	29%	29%	30%	30%	30%	Deposits	50,685	53,542	56,630	60,027	63,629
ASSET QUALITY											
Y/e September 30	2017	2018	2019e	2020e	2021e						
Credit impairment charge / GLA	0.14%	0.13%	0.13%	0.15%	0.16%						
Credit impairment charge / RWA	0.21%	0.20%	0.20%	0.22%	0.24%						
Total provisions (\$m)	3,224	3,513	3,706	3,912	4,143						
Total provisions / RWA	0.84%	0.90%	0.90%	0.90%	0.90%						
Indiv ass prov / gross imp assets	40%	44%	44%	44%	44%						
IBL / IEA	99%	100%	99%	99%	99%						
Total provisions + GRCL / RWA	0.84%	0.90%	0.90%	0.90%	0.90%						

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 11 – WBC

Westpac Bank						Share Price (A\$)					26.96
As at						Market Cap (A\$M)					92,947
1-Mar-19											
PROFIT AND LOSS											
Y/e September 30 (\$m)						VALUATION DATA					
Net interest income	2017	2018	2019e	2020e	2021e	Y/e September 30	2017	2018	2019e	2020e	2021e
Other banking income	15,704	16,339	16,303	16,762	17,406	Cash earnings (\$m)	8,062	8,065	8,383	8,716	9,180
Total banking income	3,664	3,387	3,576	3,682	3,800	EPS (statutory basis) (cps)	238	238	243	251	262
Funds management income	19,368	19,726	19,880	20,444	21,206	- Growth	6%	0%	2%	3%	5%
Insurance income	1,679	1,708	1,982	2,076	2,217	EPS (cash basis) (cps)	240	236	243	251	262
Net operating income	509	517	573	601	631	- Growth	2%	-1%	3%	3%	5%
Operating expenses	21,556	21,951	22,434	23,121	24,055	P / E ratio (times)	11.2	11.4	11.1	10.7	10.3
Impairment charges	-9,105	-9,586	-9,633	-9,758	-9,933	P / Book ratio (times)	1.5	1.4	1.4	1.3	1.3
Operating profit before income tax	-853	-710	-881	-969	-1,066	P / NTA ratio (times)	1.9	1.8	1.7	1.6	1.5
Income tax expense	11,598	11,655	11,920	12,395	13,056	Net DPS (cps)	188	188	190	194	198
Net profit to non-controlling interests	-3,529	-3,586	-3,533	-3,675	-3,872	Yield	7.0%	7.0%	7.0%	7.2%	7.3%
Preference dividends	-7	-4	-4	-4	-4	Franking	100%	100%	100%	100%	100%
Cash earnings	0	0	0	0	0	Payout (cash basis, 70-75% target)	78%	80%	78%	77%	75%
Adjustments	8,062	8,065	8,383	8,716	9,180	CAPITAL ADEQUACY					
Statutory earnings	-72	30	-36	-36	-36	Y/e September 30	2017	2018	2019e	2020e	2021e
	7,990	8,095	8,347	8,680	9,144	Risk weighted assets (\$m)	404,235	425,384	444,538	461,682	481,184
CASHFLOW						Average risk weight	49%	50%	50%	50%	50%
Y/e September 30 (\$m)						Tier 1 ratio	12.7%	12.8%	12.8%	12.9%	13.0%
NPAT (cash basis)	2017	2018	2019e	2020e	2021e	CET1 capital ratio	10.6%	10.6%	10.7%	10.9%	11.1%
Increase in divisional loans	8,062	8,065	8,383	8,716	9,180	Total capital ratio	14.8%	14.7%	14.7%	14.7%	14.7%
Increase in other assets	-20,520	-23,900	-31,196	-28,473	-32,909	Equity ratio	7.2%	7.3%	7.3%	7.3%	7.4%
Capital expenditure	8,910	4,170	-5,649	-5,349	-5,570	DIVISIONAL					
Investing cashflow	250	158	-40	-41	-43	Y/e September 30 (\$m)					
Increase in deposits & borrowings	-11,360	-19,572	-36,885	-33,863	-38,522	Consumer & Business Banks					
Increase in other liabilities	14,825	29,200	18,676	16,653	17,261	Net interest income	11,523	11,813	11,767	12,186	12,717
Ordinary equity raised	-5,313	-4,714	-5,715	-5,517	-5,570	Other income	1,954	1,935	2,023	2,101	2,189
Other	0	0	0	0	0	Net operating income	13,477	13,748	13,790	14,287	14,906
Financing cashflow	-4,832	-4,945	-5,889	-6,024	-6,192	Operating expenses	-5,196	-5,418	-5,437	-5,485	-5,546
Net change in cash	4,680	19,541	28,502	25,146	29,342	Impairment charges	-908	-742	-788	-846	-912
Cash at end of period	1,382	8,034	0	0	0	Operating profit before income tax	7,373	7,588	7,565	7,956	8,448
	18,397	26,431	26,431	26,431	26,431	Income tax expense	-2,215	-2,289	-2,270	-2,387	-2,535
BALANCE SHEET						Cash earnings	5,158	5,299	5,296	5,569	5,914
Y/e September 30 (\$m)						Home loans	411,300	427,900	444,301	461,300	481,245
Cash and liquid assets	2017	2018	2019e	2020e	2021e	Other loans	110,500	112,200	117,942	123,927	130,797
Divisional gross loans	18,397	26,431	26,431	26,431	26,431	Deposits	303,500	317,000	326,510	336,305	346,394
Provisions	670,419	694,253	726,588	755,231	788,333	Westpac Institutional Bank					
Other gross loans	-3,119	-3,053	-4,193	-4,363	-4,555	Net interest income	1,328	1,416	1,467	1,497	1,543
Other IEA	118,496	114,738	119,373	124,196	129,214	Other income	1,707	1,556	1,608	1,614	1,622
Intangibles	11,652	11,763	11,763	11,763	11,763	Net operating income	3,035	2,972	3,075	3,111	3,166
PP&E	1,487	1,329	1,369	1,411	1,453	Operating expenses	-1,351	-1,446	-1,554	-1,579	-1,606
Insurance assets	10,643	9,450	10,463	10,989	11,542	Impairment charges	-56	38	-44	-54	-65
Other assets	6,534	6,430	6,430	6,430	6,430	Operating profit before income tax	1,628	1,564	1,477	1,479	1,494
Total assets	851,875	879,592	916,477	950,339	988,861	Income tax expense	-469	-478	-443	-444	-448
Divisional deposits	449,300	478,500	497,176	513,829	531,090	Cash earnings	1,159	1,086	1,034	1,035	1,046
Other borrowings	321,651	317,487	333,202	347,719	365,992	Loans	74,400	77,500	79,825	82,220	85,097
Other liabilities	19,582	19,032	19,032	19,032	19,032	IBL	92,100	104,800	107,944	111,182	114,518
Total liabilities	790,533	815,019	849,410	880,580	916,114	BT Financial Group (Australia)					
Ordinary share capital	34,394	35,561	36,211	36,877	37,561	Funds management income	1,679	1,708	1,982	2,076	2,217
Other equity instruments	0	0	0	0	0	Insurance income	509	517	573	601	631
Reserves	794	1,077	1,077	1,077	1,077	Total operating income	2,188	2,225	2,555	2,678	2,848
Retained profits	26,100	27,883	29,727	31,754	34,057	Volume expenses	-3	-7	-6	-6	-7
Minority interests	54	52	52	52	52	Operating expenses	-1,183	-1,286	-1,270	-1,310	-1,387
Total shareholders' equity	61,342	64,573	67,067	69,759	72,747	Operating profit before income tax	1,002	932	1,279	1,361	1,455
Total sh. equity & liabs.	851,875	879,592	916,477	950,339	988,861	Income tax expense	-299	-271	-367	-392	-420
WANOS - statutory (m)	3,355	3,406	3,441	3,465	3,490	Investment experience	0	0	0	0	0
WANOS - cash (m)	3,364	3,414	3,449	3,473	3,498	Cash earnings	703	661	912	970	1,035
PROFITABILITY RATIOS						FUA	191,400	191,400	199,056	207,018	215,299
Y/e September 30	2017	2018	2019e	2020e	2021e	Westpac New Zealand					
Return on assets	1.0%	0.9%	0.9%	0.9%	0.9%	Net interest income	1,629	1,720	1,770	1,828	1,896
Return on equity	13.8%	13.0%	12.8%	12.8%	13.0%	Other income	480	438	446	467	489
Leverage ratio	6.1%	6.3%	6.3%	6.3%	6.4%	Net operating income	2,109	2,158	2,215	2,295	2,385
Net interest margin	2.09%	2.11%	2.08%	2.07%	2.08%	Operating expenses	-903	-860	-866	-878	-887
Cost / income ratio	42%	44%	43%	42%	41%	Impairment charges	72	-2	-50	-69	-89
Cost / average assets	1.08%	1.10%	1.08%	1.05%	1.03%	Operating profit before income tax	1,278	1,296	1,299	1,349	1,408
Growth in operating income	2%	2%	2%	3%	4%	Income tax expense	-361	-362	-364	-378	-394
Growth in operating expenses	2%	5%	0%	1%	2%	Net profit to non-controlling interests	0	0	0	0	0
Jaws	0%	-3%	2%	2%	2%	Investment experience	0	0	0	0	0
ASSET QUALITY						Cash earnings	917	934	935	971	1,014
Y/e September 30	2017	2018	2019e	2020e	2021e	Loans	71,100	73,600	80,328	83,421	86,638
Impairment expense / GLA	0.13%	0.10%	0.12%	0.13%	0.14%	Deposits	53,700	56,700	62,722	66,341	70,178
Impairment expense / RWA	0.21%	0.17%	0.20%	0.21%	0.22%	Westpac Institutional Bank					
Total provisions (\$m)	3,119	3,053	4,193	4,363	4,555	Net interest income	1,328	1,416	1,467	1,497	1,543
Total provisions / RWA	0.77%	0.72%	0.94%	0.94%	0.95%	Other income	1,707	1,556	1,608	1,614	1,622
Indiv ass prov / gross imp assets	31%	30%	30%	30%	30%	Net operating income	3,035	2,972	3,075	3,111	3,166
IBL / IEA	96%	97%	97%	96%	96%	Operating expenses	-1,351	-1,446	-1,554	-1,579	-1,606
Total provisions + GRCL / RWA	0.78%	0.72%	0.94%	0.94%	0.95%	Impairment charges	-56	38	-44	-54	-65

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 12 – MQG

Macquarie Group						Share Price (A\$)					
As at						Market Cap (A\$M)					
1-Mar-19											
PROFIT AND LOSS						VALUATION DATA					
Y/e March 31 (\$m)	2017	2018	2019e	2020e	2021e	Y/e March 31	2017	2018	2019e	2020e	2021e
Net interest income	2,185	1,986	2,036	2,180	2,295	NPAT (reported) (\$m)	2,217	2,557	2,904	2,955	3,128
Net trading income	1,758	1,957	2,296	2,130	2,130	EPS (reported) (cps)	658	758	864	880	933
Fee & commission income						- Growth	6%	15%	14%	2%	6%
- Base fees	1,574	1,608	1,760	1,848	1,904	EPS (reported, diluted) (cps)	645	744	848	863	913
- Performance fees	264	595	535	538	554	- Growth	7%	15%	14%	2%	6%
- M&A, advisory & u/w fees	887	878	1,068	1,229	1,272	P / E ratio (times)	19.6	17.0	14.9	14.6	13.8
- Brokerage & commissions	704	686	722	744	766	P / Book ratio (times)	2.5	2.4	2.4	2.3	2.2
- Other fee and commission income	743	523	578	627	674	P / NTA ratio (times)	2.7	2.5	2.7	2.6	2.4
- Income from life business, etc.	0	0	0	0	0	Net DPS (cps)	470	525	565	601	637
- Other revenue	2,707	2,868	3,272	3,370	3,448	Yield	3.7%	4.1%	4.4%	4.7%	5.0%
Total operating income	10,822	11,101	12,267	12,666	13,043	Franking	45%	45%	45%	45%	45%
Operating expenses	-7,260	-7,456	-8,232	-8,587	-8,734	Payout (statutory basis, target 60-	71%	69%	65%	68%	68%
Impairment expenses	-458	-181	-233	-186	-193	CAPITAL ADEQUACY					
Operating profit before tax	3,104	3,464	3,802	3,893	4,116	Y/e March 31	2017	2018	2019e	2020e	2021e
Corporate tax expense	-868	-883	-856	-895	-947	Risk weighted assets (\$m)	90,016	91,730	99,116	105,702	112,199
Minority interests	-19	-24	-42	-42	-42	Average risk weight	58%	60%	58%	58%	58%
NPAT (reported)	2,217	2,557	2,904	2,955	3,128	Tier 1 ratio	13.3%	12.8%	12.6%	12.7%	12.9%
Adjustment	75	54	34	34	34	CET1 capital ratio (Bank)	11.1%	11.0%	10.9%	11.2%	11.4%
NPAT (basic/diluted EPS 2012+)	2,292	2,611	2,938	2,989	3,162	Equity ratio	9.4%	9.5%	8.5%	8.5%	8.6%
CASHFLOW						DIVISIONAL					
Y/e March 31 (\$m)	2017	2018	2019e	2020e	2021e	Y/e March 31 (\$m)	2017	2018	2019e	2020e	2021e
NPAT (reported basis)	2,217	2,557	2,904	2,955	3,128	Macquarie Securities					
Increase in loans	2,700	-3,141	-5,774	-5,420	-4,794	Net trading income					
Increase in other assets	4,940	6,182	-13,981	-5,625	-6,084	Brokerage & commissions					
Capital expenditure	512	-417	-105	-349	-359	Other revenue					
Investing cashflow	8,152	2,624	-19,860	-11,394	-11,237	Total operating income					
Increase in deposits & borrowings	3,963	2,673	4,411	4,465	4,452	Operating expenses					
Increase in other liabilities	-19,447	4,865	15,412	5,958	5,765	Net profit contribution b/4 OEI					
Ordinary equity raised	0	0	0	0	0	Cost ratio					
Other	-542	-1,631	-3,964	-1,984	-2,107	Macquarie Capital					
Financing cashflow	-16,026	5,907	15,859	8,438	8,110	M&A, advisory & u/w fees	887	878	1,068	1,229	1,272
Net change in cash	-5,657	11,088	-1,097	0	0	Other revenue	416	673	1,119	1,215	1,259
Cash at end of period	27,471	38,559	37,462	37,462	37,462	Total operating income	1,303	1,551	2,187	2,444	2,531
BALANCE SHEET						Operating expenses	-722	-785	-950	-991	-1,024
Y/e March 31 (\$m)	2017	2018	2019e	2020e	2021e	Impairment expenses	-97	-60	-46	-66	-89
Cash and liquid assets	27,471	38,559	37,462	37,462	37,462	Net profit contribution b/4 OEI	484	706	1,192	1,387	1,438
Divisional gross loans	68,177	70,914	76,750	82,216	87,058	Cost ratio	55%	51%	43%	41%	40%
Provisions	-874	-470	-533	-579	-627	Macquarie Asset Management					
Other IEA	63,992	54,492	68,933	74,558	80,642	Base fees	1,574	1,608	1,760	1,848	1,904
Intangibles	1,009	993	1,894	1,894	1,894	Performance fees	264	595	535	538	554
PP&E	11,009	11,426	11,531	11,880	12,239	Other revenue	758	589	442	436	451
Insurance assets	0	0	0	0	0	Total operating income	2,596	2,792	2,737	2,822	2,908
Other assets	12,093	15,411	14,951	14,951	14,951	Operating expenses	-1,057	-1,107	-1,243	-1,258	-1,279
Total assets	182,877	191,325	210,989	222,383	233,620	Impairment expenses	0	0	0	0	0
Divisional deposits & IBL	56,939	59,612	64,024	68,488	72,941	Net profit contribution b/4 OEI	1,539	1,685	1,494	1,563	1,629
Other borrowings	101,530	107,592	127,290	133,248	139,013	Cost ratio	41%	40%	45%	45%	44%
Other liabilities	7,138	5,941	1,654	1,654	1,654	Commodities and Global Markets					
Total liabilities	165,607	173,145	192,968	203,391	213,608	Net trading income	2,060	1,960	2,360	2,200	2,200
Ordinary share capital	6,280	6,234	6,137	6,137	6,137	Other revenue	1,037	1,035	1,195	1,226	1,258
Other equity instruments	10	9	7	7	7	Total operating income	3,097	2,995	3,555	3,426	3,458
Reserves	1,396	1,297	1,567	1,567	1,567	Operating expenses	-1,976	-1,997	-2,275	-2,283	-2,319
Retained profits	7,877	8,817	9,711	10,682	11,702	Impairment expenses	-149	-88	-51	-66	-66
Minority interests	1,707	1,823	599	599	599	Net profit contribution b/4 OEI	972	910	1,229	1,077	1,073
Total shareholders' equity	17,270	18,180	18,021	18,992	20,012	Cost ratio	64%	67%	64%	67%	67%
Total sh. equity & liabs.	182,877	191,325	210,989	222,383	233,620	Corporate & Asset Finance					
WANOS - statutory (m)	321	322	324	324	324	Net interest income	712	582	412	417	421
WANOS - diluted (m)	356	351	346	346	346	Net operating lease income	904	929	927	936	945
PROFITABILITY RATIOS						Other revenue	326	393	233	234	234
Y/e March 31	2017	2018	2019e	2020e	2021e	Total operating income	1,942	1,904	1,572	1,586	1,600
Return on assets	1.2%	1.3%	1.4%	1.3%	1.4%	Operating expenses	-634	-679	-687	-693	-700
Return on equity	15.2%	16.8%	18.1%	17.7%	17.8%	Impairment expenses	-111	-15	-27	-34	-36
Leverage ratio	6.6%	6.2%	6.0%	6.1%	6.3%	Net profit contribution b/4 OEI	1,197	1,210	859	859	864
Net interest margin	1.62%	1.58%	1.48%	1.45%	1.42%	Cost ratio	33%	36%	44%	44%	44%
Cost / income ratio	67%	67%	67%	68%	67%	Banking & Financial Services					
Cost / average assets	3.86%	3.91%	3.95%	3.91%	3.79%	Net interest income	1,049	1,182	1,271	1,386	1,496
Growth in operating income	0%	3%	11%	3%	3%	Base fees	0	0	0	0	0
Growth in operating expenses	2%	3%	10%	4%	2%	Commission income	690	482	537	585	632
Jaws	-2%	0%	0%	-1%	1%	Other revenue	0	0	0	0	0
Effective tax rate	28%	25%	23%	23%	23%	Total operating income	1,739	1,664	1,807	1,970	2,128
ASSET QUALITY						Operating expenses	-1,135	-1,086	-1,120	-1,171	-1,220
Y/e March 31	2017	2018	2019e	2020e	2021e	Impairment expenses	-91	-18	-18	-20	-22
impairment expense / GLA	0.67%	0.26%	0.30%	0.23%	0.22%	Net profit contribution b/4 OEI	513	560	669	779	886
impairment expense / RWA	0.51%	0.20%	0.24%	0.18%	0.17%	Cost ratio	65%	65%	62%	59%	57%
Total provisions (\$m)	874	470	533	579	627	MQG compensation ratio	40%	39%	39%	39%	38%
Total provisions / RWA	0.97%	0.51%	0.54%	0.55%	0.56%	Net profit contribution b/4 OEI					
Indiv ass prov / gross imp assets	39%	28%	248%	248%	248%	Annuity-style businesses	3,249	3,455	3,022	3,202	3,380
IBL / IEA	121%	134%	132%	129%	127%	Capital markets facing businesses	1,456	1,616	2,420	2,463	2,511
Total provisions + GRCL / RWA	0.97%	0.51%	0.54%	0.55%	0.56%	Combined net profit contribution	4,705	5,071	5,442	5,665	5,891

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 and SUN.

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