

# **AUSTRALIA**

CBA AU	Underperform
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<b>Price</b> (at 06:27, 09 Aug 2012 GMT)	ΑФ	57.03
Volatility index		Low
12-month target	A\$	48.03
12-month TSR	%	-9.9
Valuation	A\$	50.40

- DCF (WACC 10.3%, beta 1.0, ERP 5.0%, RFR 5.5%)

GICS Sector		Daliks
Market cap	A\$m	90,792
30-day avg turnover	A\$m	275.6
Number shares on issue	m	1.592

#### Investment fundamentals

Year end 30 Jun		2011A	2012E	2013E	2014E
Net interest Inc	m	12,658	13,087	13,870	14,508
Non interest Inc	m	6,966	7,123	7,411	7,685
Underlying profit	m	10,506	10,907	11,667	12,209
Reported profit	m	6,167	7,013	7,143	7,654
Adjusted profit	m	6,835	6,948	7,027	7,534
EPS adj	¢	422.9	422.7	419.9	443.3
EPS adj growth	%	6.0	0.0	-0.7	5.6
PER adj	Х	13.5	13.5	13.6	12.9
PER rel	Х	1.06	1.02	1.11	1.16
Total DPS	¢	320.0	325.0	335.0	345.0
Total div yield	%	5.6	5.7	5.9	6.0
Franking	%	100	100	100	100
ROA	%	1.0	1.0	1.0	1.0
ROE	%	19.0	18.3	17.3	17.2
Equity to assets	%	5.6	5.5	5.7	5.9
EV/EBITDA	Х	8.0	6.4	6.5	6.2
P/BV	Х	2.9	2.4	2.2	2.1

# CBA AU vs ASX 100, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, August 2012 (all figures in AUD unless noted)

9 August 2012 Macquarie Securities (Australia) Limited

# Commonwealth Bank Defying Gravity

# **Event**

CBA reports its full-year result on 15 August. We forecast full-year cash NPAT of A\$7,118m (4.1% yoy growth), full-year cash EPS of 433cps (2.9% yoy growth) and a full year dividend of 325cps (1.6% yoy growth). Given the stock has been super-charged by the yield thematic, we believe the result is likely to focus on areas addressing dividend sustainability/enhancement such as capital generation (capital intensity, BankWest Basel 2 advanced impact) and earnings growth outlook (particularly cost and margin outlook).

# **Impact**

- Yield thematic super-charging CBA stock price with certain markets pricing c5% dividend growth despite negative EPS growth expectations Recently, the options market has priced the CBA 2H12 dividend as high as 197cps (consensus: 190cps; MQG: 188cps). This represents c. 5% pcp dividend growth, despite consensus forecast EPS growth of -1% pcp. This is likely to set the tone for the result with a focus on yield sustainability, keeping in mind the market appears to be forecasting 5% dividend growth next year.
- Case for (absolute) dividend sustainability Cost containment and BankWest Basel 2 advanced status – The CBM program nearing completion and redundancies may result in better than expected cost growth (FY12 forecast 2.1%). More importantly cost out, if quantified, could provide an all important offset in the presence of anaemic balance sheet growth. There is also a chance at this result that CBA may announce that BankWest has attained Basel 2 advanced status which could add c30bp to core tier 1.
- Case against (absolute) dividend sustainability Anaemic balance sheet growth, margin outlook, BDD normalisation and rising capital intensity CBA loan growth has been sub 2% over 2H12 suggesting continued sluggish balance sheet momentum. While likely to have benefited from recent repricing moves, deposit cost pressure remain raising questions over the margin outlook for CBA. CBA's BDD's remain at below normal levels in our view, with normalisation likely in FY13. Finally we also expect that this result may shed light on the changing capital intensity for the Group as business lending becomes a bigger driver of balance sheet growth.

## Earnings and target price revision

No change

## Price catalyst

- 12-month price target: A\$48.03 based on a DDM/PE methodology.
- Catalyst: FY12 result 15 August 2012.

#### Action and recommendation

 While yield has driven the recent share price run, we view this as one off in nature and a de-rating risk. Given this, our longer term thesis on CBA remains intact and is strengthened by CBA's record premium to peers. Underperform.

# **Analysis**

CBA reports its full-year result on 15 August 2012. We forecast full-year cash NPAT of A\$7,118m (4.1% yoy growth), full year cash EPS of 433cps (2.9% yoy growth) and a full year dividend of 325cps (1.6% yoy growth).

Fig 1 Key result forecasts

	2H11	2011	1H12	2H12	2012
Cash NPAT (A\$m)	3,500	6,835	3,576	3,542	7,118
Cash EPS (A\$)	215	421	219	214	433
Net Interest Margin (%)	2.20%	2.16%	2.14%	2.09%	2.12%
Loan Growth (%)	1.6%	1.0%	2.5%	2.1%	4.7%
Deposit Growth (%)	1.5%	7.1%	7.6%	2.1%	9.9%
Cost growth (%)	1.7%	4.6%	2.7%	2.1%	4.6%
Cost / Income (%)	45.6%	45.5%	45.5%	46.5%	46.0%
Impairment Cost (A\$m)	558	1,280	545	557	1,102
Impairment Cost (bp GLAA)	22	25	21	21	20
DPS (A\$)	188	320	137	188	325
Payout Ratio (%)	87.4%	76.1%	62.6%	87.9%	75.1%
Source: Company data, Macquarie Rese	earch, August 2012				

Given the stock has been super-charged by the yield thematic, we believe the result is likely to
focus on areas addressing dividend sustainability/enhancement such as capital generation (capital
intensity, BankWest Basel 2 advanced impact) and earnings growth outlook (particularly costs and
margin outlook).

Yield thematic super-charging CBA stock price with certain markets pricing c5% dividend growth despite negative EPS growth expectations

 Recently, the options market has priced the CBA 2H12 dividend as high as 197cps (consensus: 190cps; MQG: 188cps).

Fig 2 Recently, the market has priced in up to a 4.8% increase in CBA's 2H12 dividend

	2H11	f2H12	2H11 vs. 2H12	
	(cps)	(cps)	(pcp %)	Payout Ratio
MRE	188	188	0.0%	87.9%
Market	188	190	1.2%	88.8%
Options Market	188	197	4.8%	92.1%
Source: Company data, Macquarie Rese	earch July 2012			

This represents c. 5% pcp dividend growth, despite consensus forecast EPS growth of -1% pcp. This is likely to set the tone for the result with a focus on yield sustainability, given the market appears to be forecasting 5% dividend growth next year.

Shorter-term, a super-normal payout is possible although would be unusual given CBA is the lowest on capital and current macro concerns

While CBA could pay out 197cps at the 2H12 result, we believe it is unlikely. CBA's 7.1% CET1 is the lowest of the majors, meaning it needs capital growth.

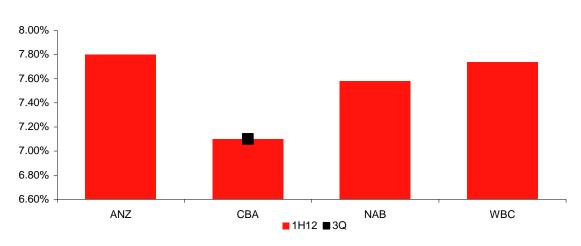


Fig 3 Core tier-1 by bank - CBA the lowest

Source: Bank data, Macquarie Research, June 2012

- Similarly, it would be an unusual move given the current global macro outlook.
- A dividend of this size would equate to a 92% payout ratio relative to historic payout ratios of c87% and would see 2H12 capital generation drop by 3bps.

# Case for (absolute) dividend sustainability – Cost containment and BankWest Basel 2 advanced status

- CBA's Core Banking Modernisation (CBM) program is now in its final year. This has improved productively across the bank with significant gains being reported at the frontline. Whilst CBA has publicly announced that no major retrenchments will occur in response to the announcements made by peers on retrenchment targets, there have been reported retrenchments occurring during 2H12 including ~100 jobs in CBA's Melbourne mortgage business in May this year. The combination of these may result in better than expected cost growth currently forecast to be 2.1% (HoH). More importantly cost out, if quantified, could provide an all important offset in the presence of anaemic balance sheet growth.
- Finally there is a chance that BankWest attaining Basel 2 advanced status could add c30bp to core tier 1, placing CBA slightly closer to peers in terms of capital.

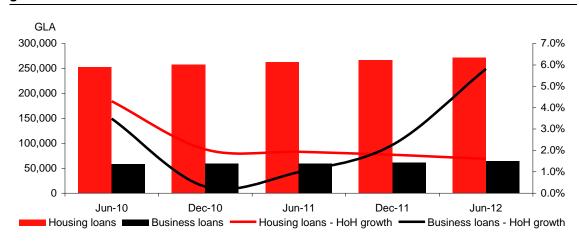
Fig 4 Impact of BankWest Basel 2 Advanced Status - Could be 30bp

	Current RWA	Basel 2 Advanced
Corporate	12,584	9,931
Sovereign	11	183
Bank	1,352	1,678
Residential mortgage	24,148	11,032
Other retail	4,194	4,615
Other	4,508	5,029
Regulatory Scaling Factor		1,705
Total RWA	46,797	34,173
Benefit		12,624
Current RWA		308,599
New RWA		295,975
Current Core Tier 1		7.10%
New Core Tier 1		7.40%
Benefit from Basel 2 Advanced Status		0.30%
Source: Macquarie Research, August 2012		

# Case against (absolute) dividend sustainability – Anaemic balance sheet growth, Margin outlook, BDD normalisation and rising capital intensity

 Loan growth has been sub 2% over 2H12 for CBA suggesting continued sluggish balance sheet momentum.

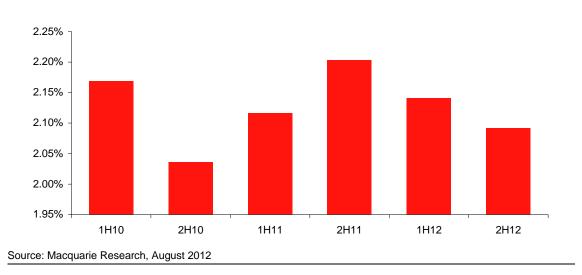
Fig 5 CBA loan growth of sub 2% HoH is possible despite jump in business loans growth in the month of June 2012



Source: APRA, Macquarie Research, August 2012

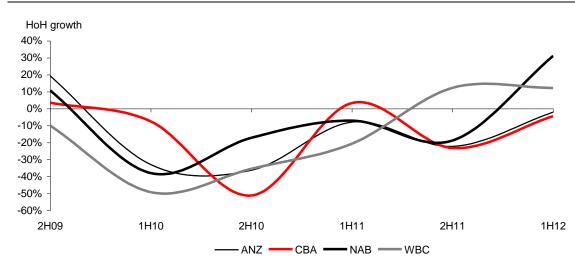
 While likely to have benefited from recent repricing moves, deposit cost pressure remain raising questions over the margin outlook for CBA.

Fig 6 Margins - sustainable?



• CBA's BDD's remain at below normal levels in our view, with normalisation likely in FY13.

**Macquarie Private Wealth** 



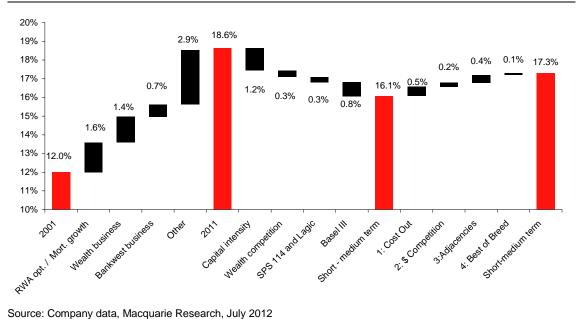
Impairments for peers increased up to March 2012

Source: Company data, Macquarie Research, August 2012

 We also expect that this result may shed light on the changing capital intensity for the Group as business lending becomes a bigger driver of balance sheet growth.

# Investment View – Longer-term thesis remains intact

- While yield has driven the recent share-price run, we view this as one-off in nature and a de-rating risk. Given this, our longer-term thesis on CBA remains intact and is strengthened by CBA's record high premium to peers. We discuss our longer term thesis below.
- We continue to believe the RoE is likely to be under pressure from competitive intensity, regulatory changes and incremental investment.

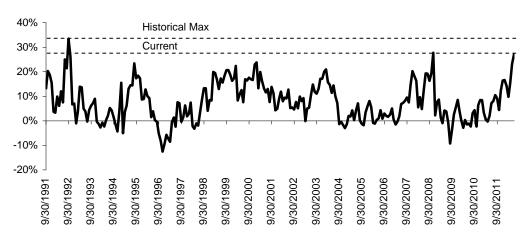


RoE - Partial Backfill from RoE enhancement initiatives

 Despite this, and the shorter-term pressure on EPS, CBA is trading on a record PE and PBV premium to peers, only seen for a short-lived period at the end of 2007.

5 9 August 2012

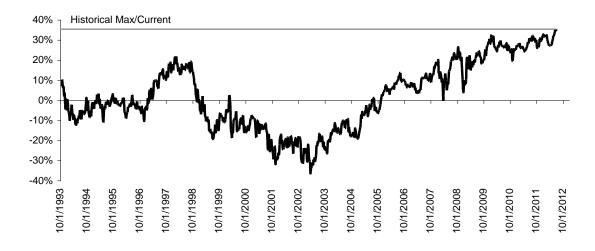
Fig 9 CBA PE premium - We're now factoring in recessionary conditions



Source: IRESS, Macquarie Research, July 2012

If this reflects the market's concern about bad debts, in reality CBA is unlikely to remain unscathed and has the furthest to fall in valuation terms, in our view.

Fig 10 CBA PBV premium



Source: IRESS, Macquarie Research, July 2012

This disparity becomes even starker when looking at the decomposition of CBA's performance relative to peers. All outperformance over the past two years has come from PE expansion with the current PE expansion equalling those seen in Mid 2010 before the PE premium was de-rated shortly after the 2H10 results were announced. Without better-than-peer earnings delivery in the up coming 2H12 results, a de-rating is a distinct possibility.

**Macquarie Private Wealth** 

**Contribution to Rolling Relative Returns CBA** vs Banks 12m excess Decomposed between PER rel chg and EPS rel chg return (ppts) 15 10 5 0 -5 -10 Cont to relative return from PE Rel expansion/contraction Cont to relative return from EPS upgrades/downgrades in excess of market -15 12m rolling excess return Oct-10 Jan-11 Ap Jul-10 Jul-12 Oct-10 Apr-11 Jul-11 Oct-11 Jan-12 Apr-12

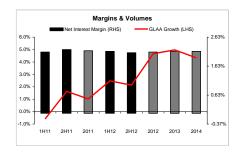
Fig 11 CBA's performance relative to the sector - All PE expansion

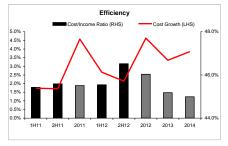
Source: MQG Strategy Team, Macquarie Research, August 2012

# Commonwealth Bank of Australia Underperform Current Price Target Price A\$57.03 \$48.03 Total Shareholder Return -10.2%

Bloomberg: CBA AU Reuters: CBA.AX

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Cash EPS (AUD)		1H11	2H11	2011	1H12	2H12	2012	2013	2014
Cash EPS Growin (%)									
DRS (ALDI)									
BVPS (AUD)									
NA DR P (AUD)   16									
Name on Issue (m)									
PFE (Cash)   13.9   13.3   13.6   13.0   13.3   13.2		1,549	1,559	1,559	1,581	1,593	1,593	1,617	1,641
PB   Silates    2.6   2.5   2.5   2.4   2.4   2.4   2.3   2.2   RoE (%)   19%   19%   19%   18%   1	VALUATION METRICS								
PB   Silates    2.6   2.5   2.5   2.4   2.4   2.4   2.3   2.2   RoE (%)   19%   19%   19%   18%   1	P(F (0 . 1)	40.0	40.0	40.0	400	40.0	40.0	40.0	40.5
PNTA   3.6   3.4   3.4   3.3   3.2   3.2   3.1   2.7   1.7   2.9     RoA (%)	* ,								
RoE (%)									
RoA (%)   1.0%   1.0%   1.0%   1.0%   1.0%   1.0%   1.0%   0.0%   1.0%   0.0									
Dividend Payout (%)   64.2%   87.4%   76.1%   62.6%   87.9%   75.1%   77.3%   75.5%   Sustainable Rote used in Valuation (%)   17.0%   17.0		1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Sustainable RoE used in Valuation (%)									
PROPITA L OSS (AUDm)									
Net Interest Income									
Non-Interest Income   5,170   5,488   12,658   6,551   6,536   13,087   14,508   Fees & Commissions   1,692   1,721   3,413   1,744   1,783   3,527   3,744   3,889   5,656   1,604   3,569   1,725   3,744   3,889   5,740   1,768   3,741									
Non-Interest Income   3,54   3,346   5,860   3,554   3,560   7,123   7,411   7,685   7,685   7,685   7,685   7,685   7,685   7,885		6.170	6.488	12.658	6.551	6.536	13.087	13.870	14.508
Financial Markets									
Life and Funds	Fees & Commissions	1,692	1,721	3,413	1,744	1,783	3,527	3,744	3,889
Chief Revenue									
Total Operating Costs									
Total Operating Costs									
Employee Costs									
Cheric Costs			,	-,	,				
Impairment Charge									
Pre-Tax Profit	Pre-Provision Operating Profit	5,296	5,351	10,647	5,503	5,404	10,907	11,667	12,209
Tax Expense	· · · · · · · · · · · · · · · · · · ·								
Minority Shareholders   9			,						
Cher Post Tax Items   254   72   3.26   3.48   3.68   7.10   7.48   7.65   7.	*								
Stated Net Profit   3,052   3,342   6,394   3,624   3,485   7,109   7,143   7,654									
Extraordinary & Other Items   295   168   463   -49   57   8   115   120     Hybrid Distributions   -12   -10   -22   1   0   0   0   0   0     Macquarie Cash Profit   3,335   3,500   6,835   3,576   3,542   7,118   7,258   7,773     BALANCE SHEET & CAP AD (AUDm)     Risk Weighted Assets   285,563   281,711   281,711   297,705   301,590   301,590   311,489   321,967     Interest Earning Assets   583,130   589,069   586,100   612,014   625,074   618,544   647,841   677,906     Gross Loans, Advances & Acceptances   509,779   518,075   518,075   530,899   542,228   542,228   569,196   593,850     Total Deposits   520,815   531,360   531,360   561,567   573,551   602,076   628,155     Total Assets   649,642   667,899   667,899   701,986   717,322   747,876   776,611     Shareholders Equity   35,349   37,287   37,287   38,875   39,697   39,697   42,596   45,814     Tier 1 Capital   27,735   28,213   28,213   29,473   30,415   30,415   33,110   36,120     Tier 1 Ratio (%)   Basel III   7,4%   7,7%   7,7%   7,7%   7,9%   7,9%   7,9%   8,5%   9,2%     Core Tier 1 Ratio (%) - Basel III   6,7%   7,0%   7,0%   7,1%   7,3%   7,3%   7,9%   8,6%     Asset									
Derivatives & Hedging Revaluation   0	Extraordinary & Other Items		168	463	-49	57			120
Rick Weighted Assets   285,563   281,711   281,711   291,705   301,590   301,590   301,489   321,967   101erest Earning Assets   583,130   589,069   586,100   612,014   625,074   618,544   647,841   677,906   679,006   679,007   618,075   518,0	Hybrid Distributions	-12	-10	-22	1	0	1	0	0
BALANCE SHEET & CAP AD (AUDm)   Risk Weighted Assets   285,563   281,711   281,711   297,705   301,590   301,590   311,489   321,967   101,000			-						
Risk Weighted Assets   285,563   281,711   281,711   297,705   301,590   301,590   311,489   321,967   Interest Earning Assets   583,130   589,069   586,100   612,014   625,074   618,544   647,841   677,906   670ss Loans, Advances & Acceptances   599,779   518,075	Macquarie Cash Profit	3,335	3,500	6,835	3,576	3,542	7,118	7,258	7,773
Interest Earning Assets	BALANCE SHEET & CAP AD (AUDm)								
Cross Loans, Advances & Acceptances   509,779   518,075   518,075   530,899   542,228   569,196   593,850   501   501,360   531,360	=								
Total Deposits   520,815   531,360   531,360   561,567   573,551   573,551   502,076   528,155   504,48sets   649,642   667,899   667,899   701,986   717,322   717,322   747,876   776,611   776,611   776,611   777,775   77,785   776,611   776,611   777,785   77,287   77,287   77,875   776,611   776,611   776,611   777,875   77,875   77,877   77,877   77,877   77,877   77,877   77,97	=								
Total Assets									
Shareholders Equity   35,349   37,287   37,287   38,875   39,697   39,697   42,596   45,814   17-75   17-76	The state of the s								
Tier 1 Ratio (%) - Basel II 7.4% 7.7% 7.7% 7.7% 7.9% 7.9% 8.5% 9.2% Core Tier 1 Ratio (%) - Basel II 7.4% 7.7% 7.7% 7.7% 7.9% 7.9% 7.9% 8.5% 9.2% Core Tier 1 Ratio (%) - Basel III 7.4% 7.0% 7.0% 7.0% 7.1% 7.3% 7.3% 7.9% 8.6% 9.2% 7.0% 7.0% 7.0% 7.1% 7.3% 7.3% 7.9% 8.6% 7.0% 7.0% 7.0% 7.0% 7.0% 7.0% 7.3% 7.3% 7.9% 8.6% 7.0% 7.0% 7.0% 7.0% 7.0% 7.0% 7.0% 7.0	Shareholders Equity	35,349	37,287					42,596	45,814
Core Tier 1 Ratio (%) - Basel II									
ASSET QUALITY   Impairment Charge / GLAA (bp)   28   22   25   21   21   20   30   26									
ASSET QUALITY   Impairment Charge / GLAA (bp)   28   22   25   21   21   20   30   26     Coverage (%)   106%   97%   97%   108%   108%   108%   126%   142%     KEY RATIOS & GROWTH   Net Interest Income growth (%)   6.3%   5.2%   6.7%   1.0%   -0.2%   3.4%   6.0%   4.6%     Non-Interest Income growth (%)   1.9%   -5.3%   -1.1%   6.2%   0.4%   3.5%   4.0%   3.7%     Total Revenue growth (%)   4.6%   1.3%   3.8%   2.8%   0.0%   3.4%   5.3%   4.3%     Cost growth (%)   1.7%   1.7%   4.6%   2.7%   2.1%   4.6%   3.4%   3.8%     RVA growth (%)   1.8%   -1.3%   3.2%   -3.1%   5.7%   1.3%   7.1%   3.3%   3.4%     GLAA growth (%)   -0.6%   1.6%   1.0%   2.5%   2.1%   4.7%   5.0%   4.3%     Net Interest Margin (%)   2.12%   2.20%   2.16%   2.14%   2.09%   2.12%   2.14%   2.14%     Coverage (%)   2.16%   2.16%   2.14%   2.09%   2.12%   2.14%   2.14%     Coverage (%)   108%   27%   2.16%   2.14%   2.09%   2.12%   2.14%     Coverage (%)   108%   27%   2.16%   2.14%   2.09%   2.12%   2.14%     Coverage (%)   108%   27%   2.14%   2.14%     Coverage (%)   108%   108%   108%   108%   108%     Coverage (%)   108%   108%   108%   108%   108%     Coverage (%)   108%   108%   108%   108%   108%     Coverage (%)   108%   108%   108%   108%     Coverage (%)   108%   108%   108%     Coverage (%)   108%   108%   108%   108%     Coverage (%)   108%   108%   108%     Coverage (%)   108%   108%   108%   108%     Coverage (%)   108%   108%     Coverage (%)   108%   108%   108%									
Impairment Charge / GLAA (bp)   28   22   25   21   21   20   30   26		0.770	7.070	7.070	7.170	7.070	7.070	7.570	0.070
KEY RATIOS & GROWTH         Non-Interest Income growth (%)         6.3%         5.2%         6.7%         1.0%         -0.2%         3.4%         6.0%         4.6%           Non-Interest Income growth (%)         1.9%         -5.3%         -1.1%         6.2%         0.4%         3.5%         4.0%         3.7%           Total Revenue growth (%)         4.6%         1.3%         3.8%         2.8%         0.0%         3.4%         5.3%         4.3%           Cost growth (%)         1.7%         1.7%         4.6%         2.7%         2.1%         4.6%         3.4%         3.8%           Pre-Provision Profit growth (%)         7.2%         1.0%         3.2%         2.8%         -1.8%         2.4%         7.0%         4.6%           RWA growth (%)         1.18%         -1.3%         -3.1%         5.7%         1.13%         7.1%         3.3%         3.4%           GLAA growth (%)         -1.8%         -1.3%         -3.1%         5.7%         1.3%         7.1%         3.3%         3.4%           GLAA growth (%)         -0.6%         1.6%         1.0%         2.5%         2.1%         4.7%         5.0%         4.3%           Deposit growth (%)         5.5%         1.5%         7.1%		28	22	25	21	21	20	30	26
Net Interest Income growth (%)         6.3%         5.2%         6.7%         1.0%         -0.2%         3.4%         6.0%         4.6%           Non-Interest Income growth (%)         1.9%         -5.3%         -1.1%         6.2%         0.4%         3.5%         4.0%         3.7%           Total Revenue growth (%)         1.8%         1.3%         3.8%         2.8%         0.0%         3.4%         5.3%         4.3%           Cost growth (%)         1.7%         1.7%         4.6%         2.7%         2.1%         4.6%         3.4%         3.8%           Pre-Provision Profit growth (%)         7.2%         1.0%         3.2%         2.8%         -1.8%         2.4%         7.0%         4.6%           RWA growth (%)         -1.8%         -1.8%         -5.7%         1.3%         7.1%         3.3%         3.4%           GLAA growth (%)         -0.6%         1.6%         1.0%         2.5%         2.1%         4.7%         5.0%         4.3%           Deposit growth (%)         5.5%         1.5%         7.7%         7.6%         2.1         9.9%         5.0%         4.3%           Net Interest Margin (%)         2.12%         2.20%         2.16%         2.14%         2.09%         2									
Net Interest Income growth (%)         6.3%         5.2%         6.7%         1.0%         -0.2%         3.4%         6.0%         4.6%           Non-Interest Income growth (%)         1.9%         -5.3%         -1.1%         6.2%         0.4%         3.5%         4.0%         3.7%           Total Revenue growth (%)         1.8%         1.3%         3.8%         2.8%         0.0%         3.4%         5.3%         4.3%           Cost growth (%)         1.7%         1.7%         4.6%         2.7%         2.1%         4.6%         3.4%         3.8%           Pre-Provision Profit growth (%)         7.2%         1.0%         3.2%         2.8%         -1.8%         2.4%         7.0%         4.6%           RWA growth (%)         -1.8%         -1.8%         -5.7%         1.3%         7.1%         3.3%         3.4%           GLAA growth (%)         -0.6%         1.6%         1.0%         2.5%         2.1%         4.7%         5.0%         4.3%           Deposit growth (%)         5.5%         1.5%         7.7%         7.6%         2.1         9.9%         5.0%         4.3%           Net Interest Margin (%)         2.12%         2.20%         2.16%         2.14%         2.09%         2	KEY RATIOS & GROWTH								
Non-Interest Income growth (%)         1.9%         -5.3%         -1.1%         6.2%         0.4%         3.5%         4.0%         3.7%           Total Revenue growth (%)         4.6%         1.3%         3.8%         2.8%         0.0%         3.4%         5.3%         4.3%           Cost growth (%)         1.7%         1.7%         4.6%         2.7%         2.1%         4.6%         3.4%         3.8%           Pre-Provision Profit growth (%)         7.2%         1.0%         3.2%         2.2%         -1.8%         2.4%         7.0%         4.6%           RWA growth (%)         -1.8%         -1.3%         -3.1%         5.7%         1.3%         7.1%         3.3%         3.4%           GLAA growth (%)         -0.6%         1.6%         1.0%         2.5%         2.1%         4.7%         5.0%         4.3%           Deposit growth (%)         5.5%         1.5%         7.1%         7.6%         2.1         9.9%         5.0%         4.3%           Net Interest Margin (%)         2.12%         2.20%         2.16%         2.14%         2.09%         2.14%         2.14%         2.14%         2.14%         2.14%	· · · · · · · · · · · · · · · · · · ·	6.3%	5.2%	6.7%	1.0%	-0.2%	3.4%	6.0%	4.6%
Cost growth (%)         1.7%         1.7%         4.6%         2.7%         2.1%         4.6%         3.4%         3.8%           Pre-Provision Profit growth (%)         7.2%         1.0%         3.2%         2.8%         -1.8%         2.4%         7.0%         4.6%           RWA growth (%)         -1.8%         -1.3%         -3.1%         5.7%         1.3%         7.1%         3.3%         3.4%           GLAA growth (%)         0.6%         1.6%         1.0%         2.5%         2.1%         4.7%         5.0%         4.3%           Deposit growth (%)         5.5%         1.5%         7.7%         7.6%         2.1%         9.9%         5.0%         4.3%           Net Interest Margin (%)         2.12%         2.20%         2.16%         2.14%         2.09%         2.12%         2.14%         2.14%	Non-Interest Income growth (%)	1.9%	-5.3%	-1.1%	6.2%	0.4%	3.5%	4.0%	3.7%
Pre-Provision Profit growth (%)         7.2%         1.0%         3.2%         2.8%         -1.8%         2.4%         7.0%         4.6%           RWA growth (%)         -1.8%         -1.3%         -3.1%         5.7%         1.3%         7.1%         3.3%         3.4%           GLAA growth (%)         -0.6%         1.6%         1.0%         2.5%         2.1%         4.7%         5.0%         4.3%           Deposit growth (%)         5.5%         1.5%         7.1%         7.6%         2.1%         9.9%         5.0%         4.3%           Net Interest Margin (%)         2.12%         2.20%         2.16%         2.14%         2.09%         2.12%         2.14%         2.14%	. ,								
RWA growth (%)         -1.8%         -1.3%         -3.1%         5.7%         1.3%         7.1%         3.3%         3.4%           GLAA growth (%)         -0.6%         1.6%         1.0%         2.5%         2.1%         4.7%         5.0%         4.3%           Deposit growth (%)         5.5%         1.5%         7.1%         7.6%         2.1%         9.9%         5.0%         4.3%           Net Interest Margin (%)         2.12%         2.20%         2.16%         2.14%         2.09%         2.12%         2.14%         2.14%									
GLAA growth (%)         -0.6%         1.6%         1.0%         2.5%         2.1%         4.7%         5.0%         4.3%           Deposit growth (%)         5.5%         1.5%         7.1%         7.6%         2.1%         9.9%         5.0%         4.3%           Net Interest Margin (%)         2.12%         2.20%         2.16%         2.14%         2.09%         2.12%         2.14%         2.14%									
Deposit growth (%)         5.5%         1.5%         7.1%         7.6%         2.1%         9.9%         5.0%         4.3%           Net Interest Margin (%)         2.12%         2.20%         2.16%         2.14%         2.09%         2.12%         2.14%         2.14%									
Net Interest Margin (%) 2.12% 2.20% 2.16% 2.14% 2.09% 2.12% 2.14% 2.14%									
Cost / Income Ratio (%) 45.4% 45.6% 45.5% 46.5% 46.0% 45.2% 45.0%							2.12%	2.14%	
	Cost / Income Ratio (%)	45.4%	45.6%	45.5%	45.5%	46.5%	46.0%	45.2%	45.0%

Source: Company data, Macquarie Research, August 2012

#### Important disclosures:

#### Recommendation definitions

#### Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return Neutral – return within 3% of benchmark return Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

#### Macquarie - Asia/Europe

Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%

#### Macquarie First South - South Africa

Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%

#### Macquarie - Canada

Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return

#### Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return

Neutral (Hold) – return within 5% of Russell 3000 index

Underperform (Sell)– return >5% below Russell 3000 index return

## Volatility index definition\*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low-medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Australian/NZ/Canada stocks only **Recommendations** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

#### Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa\*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit /average total assets

ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation \*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

### Recommendation proportions - For quarter ending 30 June 2012

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	55.67%	61.00%	53.43%	42.58%	69.23%	46.60%	(for US coverage by MCUSA, 9.05% of stocks followed are investment banking clients)
Neutral	30.50%	22.11%	36.99%	52.41%	28.02%	33.69%	(for US coverage by MCUSA, 8.14% of stocks followed are investment banking clients)
Underperform	13.83%	16.89%	9.59%	5.01%	2.75%	19.71%	(for US coverage by MCUSA, 0.45% of stocks covered are investment banking clients)

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