



Can dividends drive share price higher?

Difficult to see yield drive further outperformance

It is becoming difficult to use yield as a justification for further outperformance with DDM analysis suggesting the sector is 5-30% overvalued. In order to drive upside we would need to assume a 9% WACC vs historical average of 12.25%. Amongst the banks there is a stark difference with ANZ and NAB 5-10% overvalued while CBA and WBC are ~30% overvalued despite the current high payout ratios. Whilst this might suggest downside risk to the sector, other factors such as relative PER and low global interest rates may see the sector supported in the near term.

Major banks look expensive on a DDM basis

Assuming a 12.25% WACC, terminal growth rate of 2.5% and terminal div payout of 85% our multi stage DDM model suggests the Australian banks are ~5% - 30% over valued at present. This share price premium over the DDM looks high compared to historical periods.

DDM has proven to be a good indicator for share prices in the past 5 years

The DDM has proven to be a relatively good indicator for the banks' share prices in recent periods. Over the past 5 years, Australian banks have traded largely inline with our DDM models with a peak of 22% overvalued and a trough of 29% undervalued. The trend on a 10 year view is a little less obvious, however we believe that averages over this period are less accurate as we have had a change in payout ratios and a significant reduction in interest rates.

Adjusting the discount rate to find value

Whilst we acknowledge that there are several variables that go into the DDM model, such as payout ratios, forecast period growth rates and terminal growth rates, given the low interest rate environment and some high payout ratios already assumed in the models, we have looked at what changes to the discount rate (base case 12.25%) would be needed to find fair value. Based on our models, CBA and WBC are implying a ~10% discount rate vs 11-12% for ANZ and NAB. In order to get 10% upside from the DDM we would need to assume a discount rate of ~9.0% for CBA and WBC and ~10.5% for ANZ and NAB. Whilst ~10.5% can be justified, 9.0% is difficult despite low cash rates.

ANZ and NAB look cheap

There is quite a difference between banks with CBA and WBC's share price premium to the DDM most stretched at 28% and 30% respectively while ANZ and NAB appear overvalued by 14% and 5% respectively despite having lower payout ratios in the forecast period and similar growth to the others.

The banks could continue to trade above the DDM in the near term

Although the banks look overvalued on our DDM model, DDM is only one valuation methodology at investors' disposal. Other methods (such as relative PER's) suggest upside, while unprecedented quantitative easing is driving a chase for yield and the sector's defensive qualities are in high demand. As such, while over the long term they should trend back towards their DDM values, in the ST we could see bank share prices remain above their DDM's.

Valuation and risks

We use a combination of sum of the parts, DCF and PE-based methodologies for valuing banks. See page 14 for a list of key risks.

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Top picks

ANZ (ANZ.AX),AUD28.57	Buy
National Australia Bank (NAB.AX),AUD31.64	Buy

Companies Featured

ANZ (ANZ.AX),AUD28.57	Buy
	2012A 2013E 2014E
P/E (x)	10.2 12.8 11.9
Div yield (%)	6.6 5.2 5.6
Price/book (x)	1.6 1.8 1.7

Commonwealth Bank (CBA.AX),AUD69.33	Hold
	2012A 2013E 2014E
P/E (x)	11.3 15.3 14.8
Div yield (%)	6.8 5.0 5.1
Price/book (x)	2.1 2.5 2.4

National Australia Bank (NAB.AX),AUD31.64	Buy
	2012A 2013E 2014E
P/E (x)	10.1 12.6 12.3
Div yield (%)	7.5 5.9 6.1
Price/book (x)	1.3 1.6 1.5

Westpac (WBC.AX),AUD31.32	Hold
	2012A 2013E 2014E
P/E (x)	10.4 14.7 14.4
Div yield (%)	7.6 5.6 5.8
Price/book (x)	1.7 2.1 2.0



Getting lost in a search for yield

Banks outperformance driven by search for yield

The Australian banks have outperformed the All Ords by 18% over the last 12 months. We believe that one of the main drivers of the rally has been a search for yield with a number of large-cap, high yielding stocks having also outperformed during this period.

In this note, we look at whether the recent rally has gone too far by reviewing the DDM valuations and looking at various scenarios for the major variables.

We note that DDM is just one valuation approach in an investor's toolkit and should be considered in conjunction with absolute and relative PERs, as well as DCFs, however given the more recent focus on yield we believe that this is a good tool for determining what the market is implying in the current share prices.

DDM models suggest the banks are overvalued by ~20%

We evaluate the banks using a multi-stage DDM analysis with the following key assumptions:

- Between 2013 and 2016, we use our dividend forecasts;
- Beyond 2016 we assume that the dividends grow at 5% in the first year before stepping down to a long run terminal growth rate;
- Terminal growth rate of 2.5% p.a.; and
- Discount rate of 12.25%, made up of a long term risk free rate of 6.25% (being the long run 10 year government bond yield), market risk premium of 6% and a beta of 1.0. This is consistent with the discount rate used in our DCF models.

Our analysis of historical data suggests that DDM valuation based on a 12.25% discount rate has been a good proxy for bank share prices over the last 5 years. This analysis is included in the following section.

Based on our forecasts, our analysis suggests that the banks appear overvalued by 5-30%.

DDM valuation using a 12.25% discount rate			
	DDM	Share price	Implied % over valued
ANZ	\$25.00	\$28.40	13.8%
CBA	\$53.80	\$68.80	27.8%
NAB	\$29.90	\$31.50	5.1%
WBC	\$24.00	\$31.20	29.9%
Avg			19.2%

Source: Deutsche Bank, Company Data



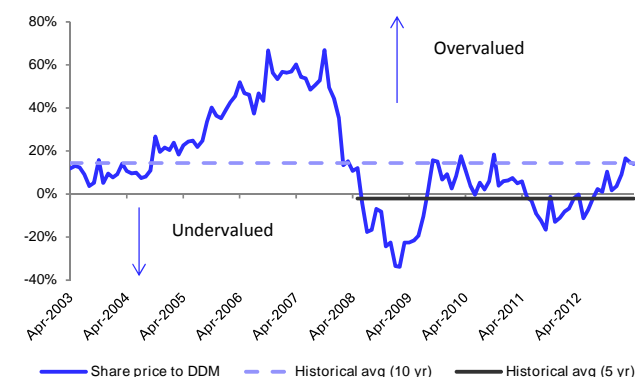
From a relative perspective, ANZ and NAB continue to have more valuation support compared with CBA and WBC, consistent with our stock recommendations.

How does this compare to historical levels?

Whilst this does look expensive, we need to ascertain how banks have traded relative to the DDM historically to determine if this level of overvaluation is the norm or is a sign that the banks have run too far.

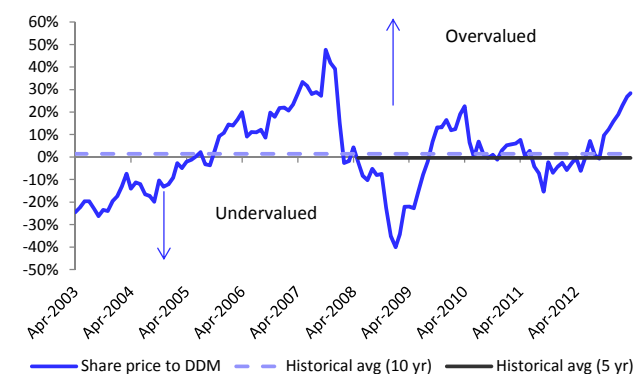
The charts below illustrate the ratio of the major banks' share prices vs the corresponding DDM valuation based on a 12.25% discount rate. The DDM valuations are derived based on the actual dividends (assuming we have perfect foresight) up to 2013 and future dividend and growth rate based on our forecasts.

ANZ share price premium/(discount) to DDM



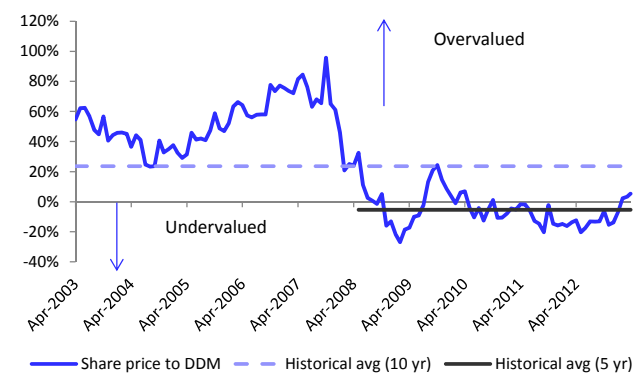
Source: Deutsche Bank, Company Data, IRESS

CBA share price premium/(discount) to DDM



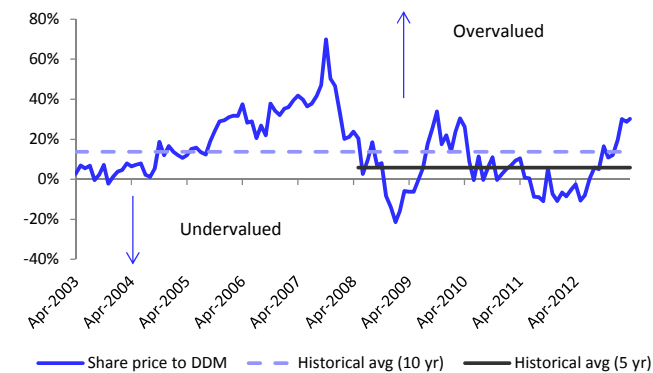
Source: Deutsche Bank, Company Data, IRESS

NAB share price premium/(discount) to DDM



Source: Deutsche Bank, Company Data, IRESS

WBC share price premium/(discount) to DDM



Source: Deutsche Bank, Company Data, IRESS

As shown above, we find that in the past 5 years the banks have traded around their DDM valuations when using a 12.25% cost of equity, while the relationship of share prices to DDM's over a longer period (the last 10 years) has been more patchy with no clear trend. We summarise these relationships a little more clearly below.



Banks share price historical relationship to DDM valuation using 12.25% discount rate

\$	Avg share price last 5 years	Avg DDM valuation last 5 years	Share price vs DDM last 5 yrs	Share price vs DDM (Last 10 yrs)	Share price vs DDM (2003-2008)
ANZ	21.60	22.10	-2%	14%	30%
CBA	49.30	49.30	0%	1%	2%
NAB	25.00	26.30	-5%	24%	53%
WBC	22.80	21.50	6%	14%	22%
Avg			0%	13%	27%

Source: Deutsche Bank, Company Data

As shown above the banks have tended to trade in line with their DDM's over the past 5 years and ~13% above their DDMs over a 10 year period.

It is interesting to note that pre the GFC the DDM was not a great predictor of the banks share price, with the banks trading at a 27% premium to the DDM valuation reflecting the market's expectations of strong earnings growth and a strong and rising market PER. However with the banks earnings growth outlook now a little more subdued and payout ratios already high we believe that the experience over the last 5 years might be a better proxy.

With the historical relationship showing that the DDM can be a good predictor of the banks share prices and with the banks now trading above the DDM, in the following sections, we looked at what the market could be currently pricing in for the major banks and assess how reasonable these assumptions may be.



So what is the market currently pricing in?

What is the market pricing in and how reasonable is this?

A number of assumptions have been used in calculating the DDM valuations for the major banks. The key assumptions are:

- Discount rate;
- Dividend payout ratio; and
- Long run growth rate.

In the next few sections, we examine what the current share prices are pricing in, how reasonable these implied assumptions are vs our assumptions in the DDM valuation and what we need to assume in order to find upside.

1. Market pricing in a discount rate of 9.9% - 11.7%

Holding all other assumptions constant, we estimate that the banks are currently pricing in discount rates of 9.9%-11.7% for the banks, 0.5% to 2.4% below our theoretical discount rate of 12.25% as shown below.

Implied risk free and discount rate		
	Implied risk free rate	Implied discount rate
ANZ	5.0%	11.0%
CBA	4.2%	10.2%
NAB	5.7%	11.7%
WBC	3.9%	9.9%
DB assumption	6.3%	12.25%
10 year bond yield	3.2%	9.2%

Source: Deutsche Bank forecasts, IRESS, Company Data

Assuming an equity risk premium of 6%, this implies risk free rates of 3.9%-5.7% for the bank to get DDM's to equate to current share prices.

In order to find some value upside we would need to assume a discount rate of 9-10%, which if we again assume a risk premium of 6% suggests a risk free rate of 3-3.5% which is very close to the current bond yield / cash rates.

Upside/(downside) to current share prices based on DDM valuation assuming different discount rates								
	8%	9%	10%	11%	12%	13%	14%	15%
ANZ	+61%	+35%	+17%	+2%	-9%	-18%	-25%	-32%
CBA	+42%	+20%	+3%	-9%	-19%	-27%	-33%	-39%
NAB	+73%	+46%	+26%	+11%	-1%	-11%	-19%	-26%
WBC	+37%	+16%	+0%	-11%	-20%	-28%	-34%	-39%

Source: Deutsche Bank, Company Data, NB: Positive percentages indicate current share price is below the DDM valuation



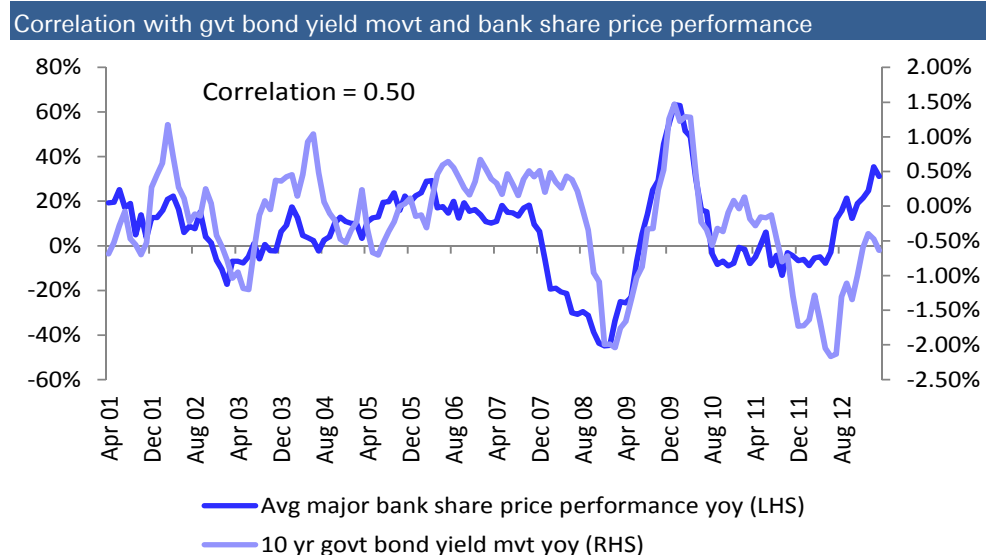
This would effectively mean using the spot cash and Bill rate as a proxy for the risk free rate. Whilst this does have some theoretical merit, our analysis has shown that DDM valuations using a floating rate such as the prevailing 10 year government bond yield has not produced reasonable results historically when compared to the share prices as shown below.

Banks share price historical relationship to DDM valuation using floating risk free rate					
	Avg share price (last 5 years)	Avg DDM valuation (last 5 years)	Share price vs DDM (last 5 yrs)	Share price vs DDM last (Prior 5 yrs)	Share price vs DDM last (Last 10 yrs)
ANZ	21.6	26.70	-19%	21%	1%
CBA	49.3	59.40	-17%	-5%	-11%
NAB	25.0	31.70	-21%	41%	10%
WBC	22.8	25.70	-11%	13%	1%
Avg			-17%	18%	0%

Source: Deutsche Bank, IRESS, Company Data

As shown above, using a floating 10 year government bond yield would have consistently overestimated bank valuations in the last 5 years and on the other hand underestimated bank share prices in the prior 5 years.

In fact, as shown below a rise in bond yields has tended to be a positive for bank share price performance which is exactly the opposite to what would be expected from a floating discount rate DDM valuation model.



Source: Deutsche Bank, Company Data

As such from a DDM perspective we can explain the recent increase in the share prices from a change in discount rate, however it is very difficult to see upside from here from this thematic.

2. Limited upside from further increases in payout ratios

We believe that it is difficult to justify further upside to the DDM's from a further increase in the payout ratio given:



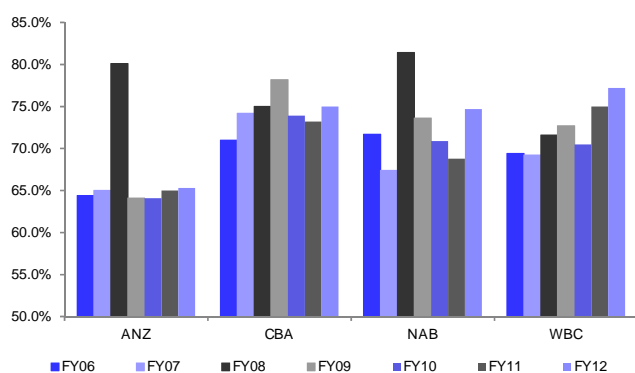
- Major banks have already increased their payout ratios materially over recent years;
- Our DDM assumes a sustainable long term payout ratio of 85%; and
- Excess capital going forward is likely to focus on DRP buybacks or ordinary buybacks given fully franking dividends above an 85% payout will be difficult.

We explore these issues below and provide some sensitivities to these factors.

Major banks have already increased payouts (with the exception of ANZ)

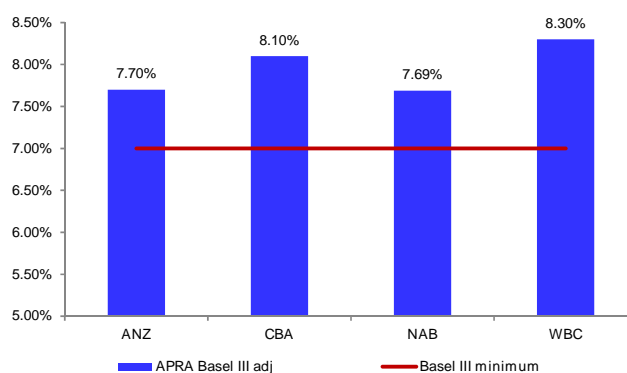
The major banks' payout ratios have increased substantially over the last few years with the banks paying on average 6 percentage points more compared with 2006-07 levels as shown below. This reflected both the low credit growth environment post the GFC and the strong capital position that the banks are now enjoying.

Payout ratios have increased substantially



Source: Deutsche Bank, Company Data, NB: banks reported payout ratios

Major banks are now in a strong capital position



Source: Deutsche Bank, Company Data, NB: As at the most recent reported date

Surplus capital is building but unlikely to come back in higher div.

Our DDM valuation assumes that the banks broadly maintain their current payout ratio over the next four years before increasing to a terminal rate of 85%. These new higher payout ratios are potentially conservative given the banks will continue to generate capital organically under the above payout ratios as shown below.

Progression of banks Core Tier 1 ratio (Basel III/APRA basis)

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
ANZ	8.5%	8.8%	9.0%	9.3%	9.4%	9.5%	9.6%	9.6%	9.7%
CBA	8.6%	9.3%	9.9%	10.5%	10.6%	10.6%	10.7%	10.8%	10.9%
NAB	8.2%	8.3%	8.6%	8.9%	8.9%	8.9%	8.9%	9.0%	9.0%
WBC	9.1%	9.4%	9.6%	9.8%	9.7%	9.6%	9.6%	9.6%	9.7%

Source: Deutsche Bank forecasts, we have assumed that the banks stop allowing for DRP participation from FY17 onwards.

As shown above, we expect banks to continue to increase their Core Tier 1 ratios into FY16 under our current forecasts which assume DRP participation continues. The capital generation slows down in FY17 onwards given we have assumed DRP participation will cease from then on as the banks reach a more mature phase.

Whilst this suggests that there is scope for higher payout ratios, we do not think this will occur given the banks will be unable to fully frank higher payouts. As such we think off market buybacks are more likely.



That said even if we assume that all the banks maintain an 8.5% Basel III/ core tier 1 ratio by releasing the excess capital as dividends, we estimate that the DDM valuation will increase by 2-7% which is not enough to drive value from a DDM perspective.

Impact of releasing capital above 8.5% core tier 1 ratio (Basel III/APRA basis)						
	Impact of additional dividend	DDM valuation	Impact on DDM valuation	Revised DDM valuation	Current share price	Revised DDM vs current share price
ANZ	1.00	25.00	4%	26.00	28.40	-9%
CBA	3.50	53.80	7%	57.30	68.80	-17%
NAB	0.50	29.90	2%	30.40	31.50	-3%
WBC	1.10	24.00	5%	25.10	31.20	-20%

Source: Deutsche Bank, Company Data

As shown above using the surplus would imply a lift to the payout ratios of 7% on average but there is a large divergence of 3% - 11%. If added to our forecast years this would still leave the payout ratio inline with the 85% terminal payout ratio used. So In reality our DDM analysis already accounts for this.

Our DDM already assumes a long run payout of 85%

As mentioned above our DDM valuation already assumes that the banks maintain their current payout ratio over the next four years before increasing the payout from current levels to a terminal rate of 85% which we believe is already high.

Our forecast payout ratios are summarized in the following table.

Forecast payout ratios adopted in the DDM valuation									
	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
ANZ	67%	67%	67%	67%	71%	75%	78%	82%	85%
CBA	76%	76%	76%	76%	78%	80%	82%	83%	85%
NAB	74%	75%	72%	74%	77%	79%	81%	83%	85%
WBC	81%	84%	83%	84%	84%	84%	85%	85%	85%

Source: Deutsche Bank forecasts

The sensitivity of the banks' DDM valuation to various levels of terminal payout ratios are set out below.

Upside/(downside) to current share prices assuming different terminal payout ratios									
	65%	70%	75%	80%	85%	90%	95%	100%	
ANZ	-26%	-22%	-19%	-15%	-12%	-8%	-5%	-1%	
CBA	-34%	-31%	-28%	-25%	-21%	-18%	-15%	-12%	
NAB	-19%	-15%	-12%	-8%	-4%	-1%	+3%	+6%	
WBC	-34%	-31%	-28%	-26%	-23%	-20%	-17%	-14%	

Source: Deutsche Bank, IRESS, Company Data

As shown above even if we assume 100% long term payouts we struggle to find value from a DDM perspective using a 12.25% cost of equity for CBA and WBC.

In the table below we have used a 10% cost of equity and again run the sensitivities to changing payout assumptions.



Upside/(downside) to current share prices assuming different terminal payout ratios (at 10% cost of equity)								
	65%	70%	75%	80%	85%	90%	95%	100%
ANZ	-4%	+1%	+6%	+11%	+16%	+21%	+26%	+31%
CBA	-15%	-11%	-6%	-2%	+3%	+7%	+11%	+16%
NAB	+4%	+9%	+14%	+20%	+25%	+30%	+36%	+41%
WBC	-16%	-12%	-8%	-4%	+0%	+4%	+8%	+12%

Source: Deutsche Bank, Company Data

As shown above we would need to increase the long term payout to 70-85% for ANZ, CBA and WBC to deliver value at a DDM level even using a 10% cost of equity.

Whilst mathematically this may be possible, practically it would be almost impossible for the banks to sustain a long run payout ratio of 80% given capital requirements and more importantly franking. With Australian earnings only ~80% of group earnings at best and likely to shrink over time we believe that franking will be a constraint on what sustainable dividend can be paid.

We would note that whilst an increase to the long run payout assumption used in our DDM is unlikely, we do believe that in the near term there may be capacity for some banks to increase their payout ratio, given the low credit growth and surplus capital levels.

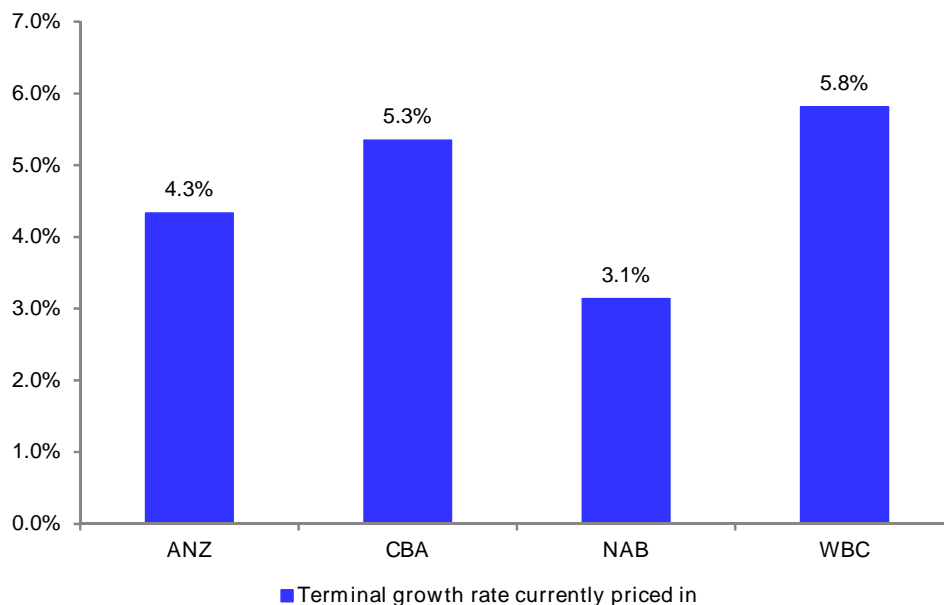
That said it does not appear to deliver material upside to our DDM valuation.

Terminal growth rate capped at 4% p.a. with 85% payout

We have assumed a terminal growth rate of 2.5% p.a. in the DDM valuation, inline with the long run CPI rate. With the current share prices 5-30% higher than our DDM valuation, if we assume that terminal growth is the key variable then we estimate that the current share prices are implying the following terminal growth rates for each of the banks.



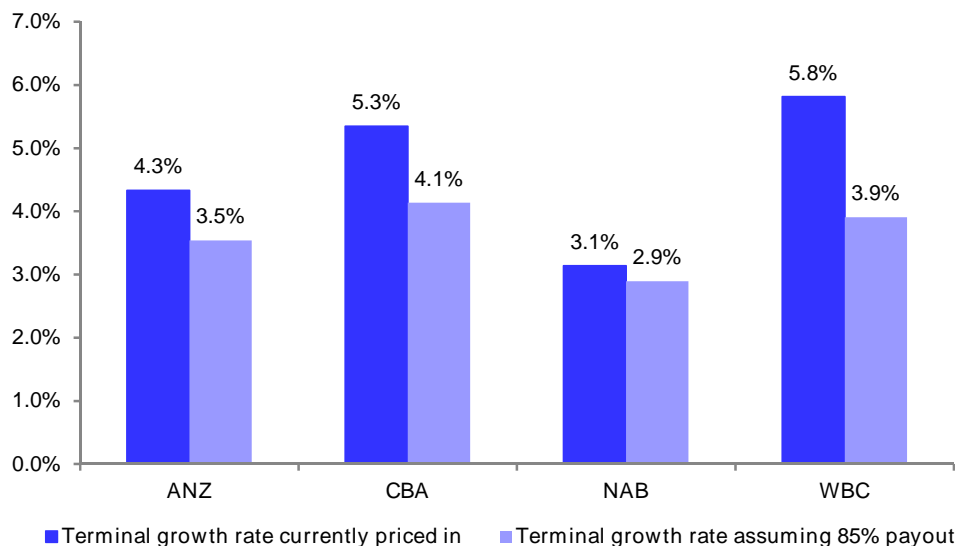
Terminal growth rates currently priced in by the market



Source: Deutsche Bank, Company Data

To grow dividends at these levels, there will need to be balance sheet growth which in turn will require banks to retain some earnings for the capital outlay. In our analysis, we have assumed a dividend payout ratio of 85% in the terminal years. If we assume all the excess earnings (above dividend) contribute towards capital and that balance sheets grow inline with the dividends, the following terminal growth rates can be sustained.

Sustainable LT growth rates lower than the growth rates that are currently priced in



Source: Deutsche Bank, Company Data

As shown above, the maximum long run growth rates that can be sustained under our assumed payout ratio are all lower than the implied growth rates in the current share prices with the discrepancy highest for CBA and WBC.



In addition, whilst we have assumed that balance sheet grows inline with dividends, in reality this may not be the case and a higher capital drag may persist (i.e. RWA growth being greater than the dividend growth).

The table below shows the sensitivity of the DDM valuation to the terminal growth rate assumed.

Upside/(downside) to current share prices assuming different terminal growth rates								
\$	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
ANZ	-20%	-18%	-15%	-12%	-9%	-5%	-1%	+3%
CBA	-29%	-27%	-25%	-22%	-19%	-16%	-12%	-8%
NAB	-13%	-11%	-8%	-5%	-2%	+2%	+6%	+11%
WBC	-29%	-27%	-25%	-23%	-20%	-17%	-14%	-11%

Source: Deutsche Bank, Company Data, IRESS

If we were to also reduce the discount rate down to 10% then the sensitivities to the terminal growth rates would be as follow.

Upside/(downside) to current share prices assuming different terminal growth rates and 10% cost of equity								
\$	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
ANZ	+2%	+6%	+11%	+16%	+22%	+29%	+38%	+48%
CBA	-10%	-6%	-2%	+3%	+8%	+14%	+22%	+30%
NAB	+10%	+14%	+19%	+25%	+32%	+39%	+48%	+58%
WBC	-11%	-8%	-4%	+0%	+5%	+11%	+18%	+26%

Source: Deutsche Bank, Company Data, IRESS

Scenario analysis using a combination of different assumptions

The above analyses look at what valuations are justified by changing one variable at a time whilst the current share prices may imply a scenario that is more favourable for each of the assumptions.

In the following section, we look at what valuation scenario is implied by the current valuation by:

- First assuming that banks payout all the excess capital above 8.5% core tier 1;
- If the DDM remains below the current share prices, we then adjust the terminal growth rate, up to a maximum rate of 4% assuming an 85% payout ratio; and
- We then adjust the discount rate if the valuation is still above the current share price.

We find that the current share prices are implying the following combination of assumptions for the banks.



Assumptions required to justify current prices

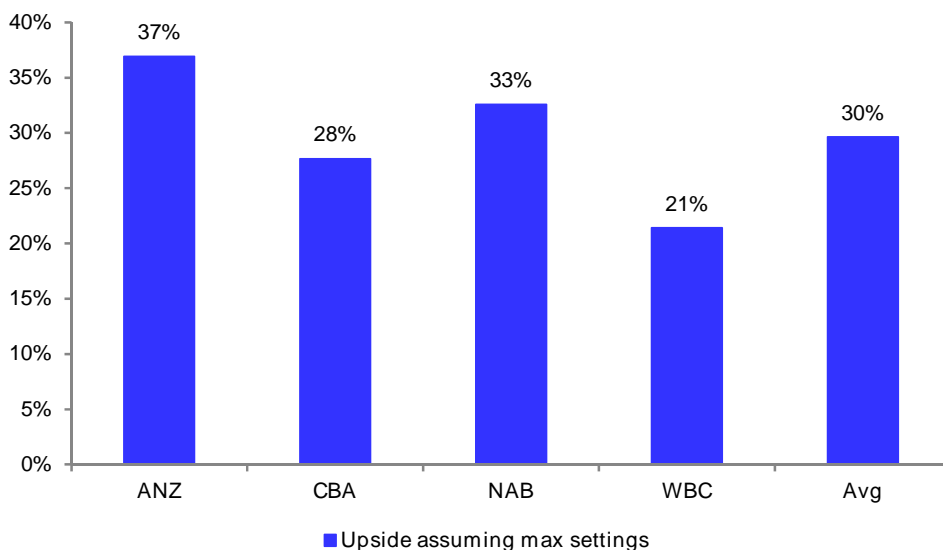
	Discount rate	Terminal growth rate
ANZ	12.3%	3.7%
CBA	11.7%	4.0%
NAB	12.3%	2.9%
WBC	11.4%	4.0%

Source: Deutsche Bank, Company Data, DDM valuation already adjusted for the value of excess dividends

NAB and ANZ will need to grow dividends at a terminal rate of 2.9% and 3.7% respectively to justify current prices which can be broadly sustained by a payout ratio of 85%. On the other hand, both CBA and WBC still require a lower discount rate to justify their current valuation even with terminal growth rates and dividend payouts at maximum settings.

If we were to also reduce the discount rate down to 10% then the DDM model would suggest that there is 30% upside to current share prices from here as shown below.

Upside assuming 10% cost of equity, full payout and maximum terminal growth rate



Source: Deutsche Bank estimates, Company Data, IRESS

Whilst this might still appeal to some, we would flag that under this scenario, everything has gone right for the banks and we would be factoring in numbers which over the long term would be difficult to justify.



That said, near term prices are likely to remain above DDM's

Whilst in the long term we do believe that the banks share prices will come back closer to the DDM valuations, in the near term we believe that there are some conditions that could well see the banks trade above what the DDM are suggesting. These factors include:

- Abnormally low global interest rates make Australian Banks yield look attractive, even at 5%;
- Unprecedented global quantitative easing makes yield more attractive; and
- Relative PER valuations (vs the All Industrials ex Banks) suggest that banks are cheap.

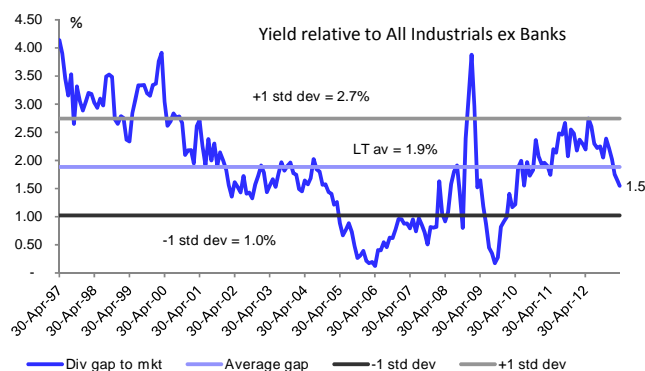
Given the first two factors, we do believe that relative PER's are likely to carry a little more weighting in the investment thesis in the short term. On this basis there does look like there is still some relative upside with the banks trading below their historical relative PER compared to the All Industrials ex Banks.

Banks' PER remains attractive vs the market



Source: Deutsche Bank, Company Data, IRESS

Dividend yield near long run average



Source: Deutsche Bank, Company Data, IRESS

As such, whilst the DDM suggests little upside, in the near term we continue to maintain a market weight position for banks in the near term, until we see a change in either global rates, relative PER valuations or a reduction in the amount of quantitative easing.



Valuation and risks

We use a combination of sum-of-the-parts, DCF and PE-based methodologies for valuing banks. We select the methodology and what we see as an appropriate multiple based on our assessment of relative growth rates and risks.

Key downside risks are slow loan growth, increase in costs of funding and weakness in financial markets impacting on funds management income. Upside risks include further improvement in wholesale funding markets, improvement in market conditions resulting in higher wealth management income, and a rebound in business lending.

ANZ: Our price target is based on the mid-point of our DCF valuation and SOTP valuation. In the SOTP we apply a peer average banking PE multiple adjusted for respective wealth management contributions. We use comparative listed wealth management groups to derive an implied PE multiple for that line of business. Key assumptions for our DCF valuation include WACC of 12.25%, beta of 1.0, bond yield 6.25%, equity risk premium of 6% and terminal growth rate of 2.5%, which is based on long-term inflation forecast. Downside risks include: Subdued markets activity resulting in lower institutional income and competition in institutional lending eroding margins.

Commonwealth Bank: Our target price is based on the mid-point of our DCF valuation and our SOTP valuation. Our SOTP valuation captures earnings contributions from both banking and wealth management and attributes what we see as appropriate PE multiples. Our DCF is based on a WACC of 12.25% (beta of 1.0, market risk premium of 6% and bond yield 6.25%). Key downside risks to our view include: Further increases in wholesale funding costs and deposit competition, and further deterioration in commercial loan losses in excess of our forecasts. Upside risks: rebound in markets and improvement in TD spreads.

National Australia Bank: We value NAB using the midpoint of SOTP and DCF analysis. Our SOTP valuation captures the earnings contribution from both banking and wealth management and attributes an appropriate PE multiple. We apply a 10% discount to comparable peer multiples for the wealth business, reflecting the absence of takeover potential. We apply an FY13F PE multiple based on the peer average banking PE multiple reduced by 10% to reflect the riskier nature of NAB's banking book. Key assumptions for our DCF valuation include beta of 1.0, WACC of 12.25%, bond yield of 6.25%, equity risk premium of 6% and terminal growth rate of 2.5%, which is based on long term inflation forecast. Downside risks: margin pressure; UK & SGA credit losses.

Westpac: Our price target is broadly based on the midpoint of our DCF valuation and our SOTP valuation. Our SOTP valuation captures the earnings contribution from both banking and wealth management and attributes an appropriate PE multiple. Key assumptions for our DCF valuation include beta of 1.0, WACC of 12.25%, bond yield of 6.25%, equity risk premium of 6% and terminal growth rate of 2.5%, which is based on long term inflation forecast. Upside risks: large rebound in business lending; better than expected cost synergies. Downside risks: market share losses, a reduction in WBC margins driven by elevated competition for deposits.



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
ANZ	ANZ.AX	28.57 (AUD) 22 Apr 13	7,17
Commonwealth Bank	CBA.AX	69.33 (AUD) 22 Apr 13	1,7,14,15,17
National Australia Bank	NAB.AX	31.64 (AUD) 22 Apr 13	1,7,14,15,17
Westpac	WBC.AX	31.32 (AUD) 22 Apr 13	1,4,7,14,15

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies

Important Disclosures Required by U.S. Regulators

Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See Important Disclosures Required by Non-US Regulators and Explanatory Notes.

1. Within the past year, Deutsche Bank and/or its affiliate(s) has managed or co-managed a public or private offering for this company, for which it received fees.
4. The research analyst(s) or an individual who assisted in the preparation of this report (or a member of his/her household) has a direct ownership position in securities issued by this company or derivatives thereof.
7. Deutsche Bank and/or its affiliate(s) has received compensation from this company for the provision of investment banking or financial advisory services within the past year.
14. Deutsche Bank and/or its affiliate(s) has received non-investment banking related compensation from this company within the past year.
15. This company has been a client of Deutsche Bank Securities Inc. within the past year, during which time it received non-investment banking securities-related services.

Important Disclosures Required by Non-U.S. Regulators

Please also refer to disclosures in the Important Disclosures Required by US Regulators and the Explanatory Notes.

1. Within the past year, Deutsche Bank and/or its affiliate(s) has managed or co-managed a public or private offering for this company, for which it received fees.
4. The research analyst(s) or an individual who assisted in the preparation of this report (or a member of his/her household) has a direct ownership position in securities issued by this company or derivatives thereof.
7. Deutsche Bank and/or its affiliate(s) has received compensation from this company for the provision of investment banking or financial advisory services within the past year.
17. Deutsche Bank and or/its affiliate(s) has a significant Non-Equity financial interest (this can include Bonds, Convertible Bonds, Credit Derivatives and Traded Loans) where the aggregate net exposure to the following issuer(s), or issuer(s) group, is more than 25m Euros.

For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>

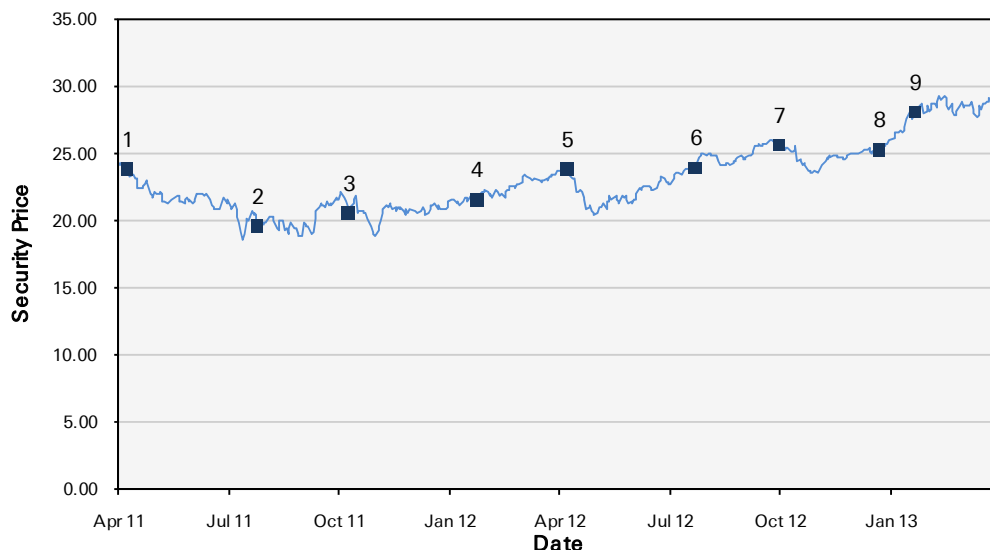


Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst about the subject issuers and the securities of those issuers. In addition, the undersigned lead analyst has not and will not receive any compensation for providing a specific recommendation or view in this report. James Freeman

Historical recommendations and target price: ANZ (ANZ.AX)

(as of 4/22/2013)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

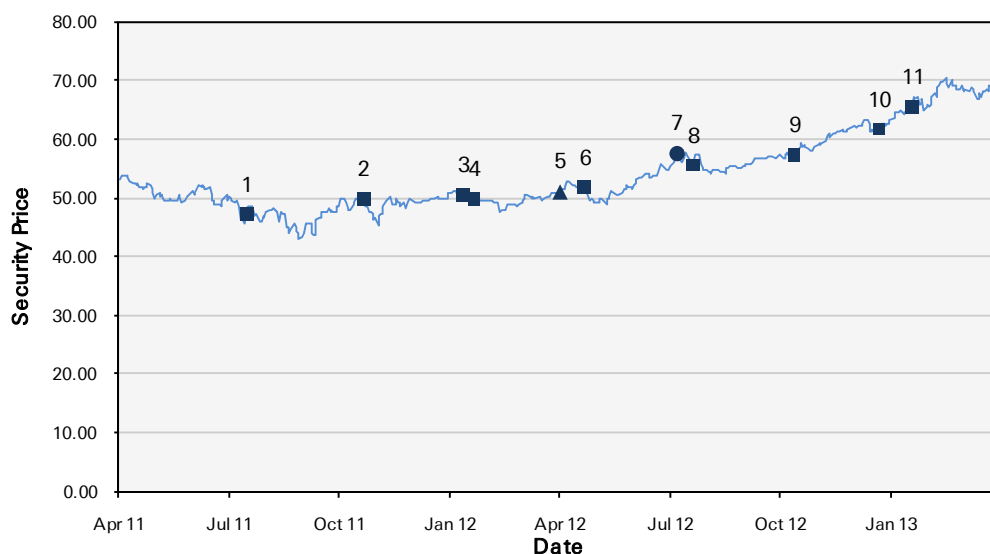
*New Recommendation Structure
as of September 9, 2002

1.	03/05/2011:	Buy, Target Price Change AUD26.64	6.	17/08/2012:	Buy, Target Price Change AUD27.80
2.	19/08/2011:	Buy, Target Price Change AUD24.75	7.	25/10/2012:	Buy, Target Price Change AUD27.50
3.	03/11/2011:	Buy, Target Price Change AUD23.50	8.	16/01/2013:	Buy, Target Price Change AUD28.10
4.	17/02/2012:	Buy, Target Price Change AUD23.80	9.	15/02/2013:	Buy, Target Price Change AUD31.20
5.	02/05/2012:	Buy, Target Price Change AUD26.10			



Historical recommendations and target price: Commonwealth Bank (CBA.AX)

(as of 4/22/2013)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

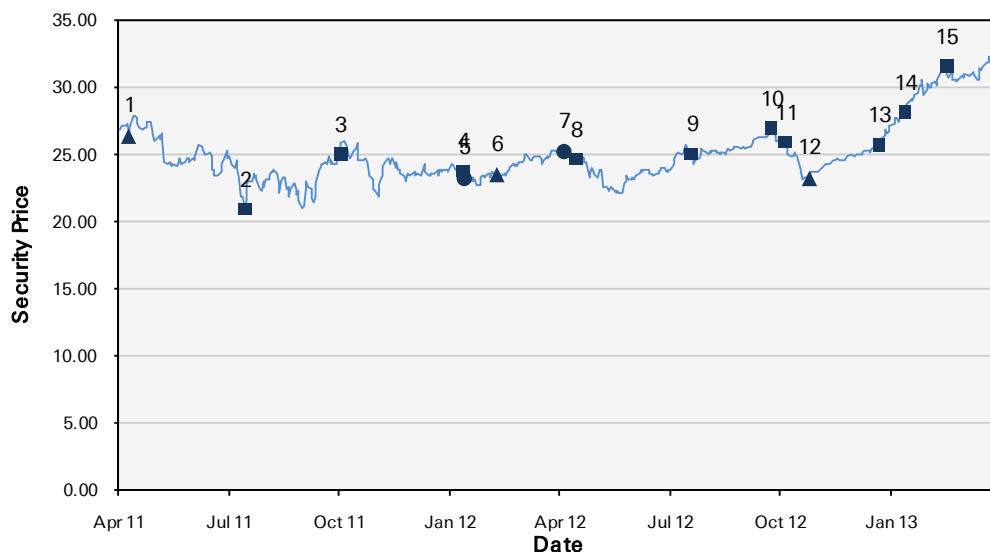
*New Recommendation Structure
as of September 9, 2002

1.	10/08/2011:	Hold, Target Price Change AUD50.60	7.	01/08/2012:	Downgrade to Hold, AUD55.00
2.	15/11/2011:	Hold, Target Price Change AUD52.70	8.	15/08/2012:	Hold, Target Price Change AUD56.50
3.	06/02/2012:	Hold, Target Price Change AUD52.30	9.	07/11/2012:	Hold, Target Price Change AUD58.20
4.	15/02/2012:	Hold, Target Price Change AUD52.10	10.	16/01/2013:	Hold, Target Price Change AUD59.20
5.	26/04/2012:	Upgrade to Buy, Target Price Change AUD55.80	11.	13/02/2013:	Hold, Target Price Change AUD66.00
6.	17/05/2012:	Buy, Target Price Change AUD55.00			



Historical recommendations and target price: National Australia Bank (NAB.AX)

(as of 4/22/2013)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

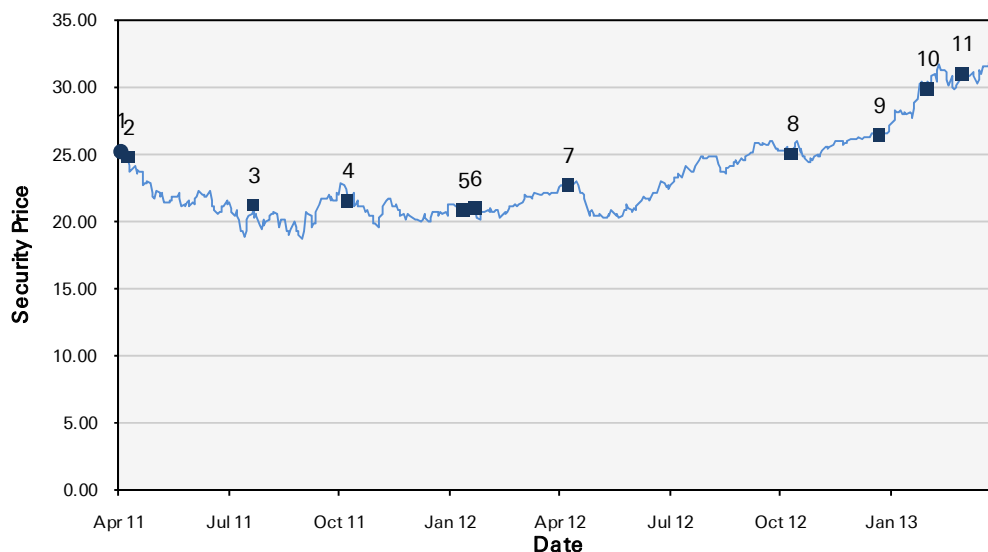
*New Recommendation Structure
as of September 9,2002

1. 05/05/2011:	Upgrade to Buy, Target Price Change AUD29.00	9. 14/08/2012:	Hold, Target Price Change AUD26.60
2. 09/08/2011:	Buy, Target Price Change AUD26.20	10. 19/10/2012:	Hold, Target Price Change AUD26.10
3. 27/10/2011:	Buy, Target Price Change AUD28.70	11. 31/10/2012:	Hold, Target Price Change AUD25.70
4. 06/02/2012:	Buy, Target Price Change AUD28.00	12. 19/11/2012:	Upgrade to Buy, Target Price Change AUD25.50
5. 07/02/2012:	Downgrade to Hold, Target Price Change AUD25.50	13. 16/01/2013:	Buy, Target Price Change AUD27.70
6. 05/03/2012:	Upgrade to Buy, Target Price Change AUD27.40	14. 07/02/2013:	Buy, Target Price Change AUD31.50
7. 30/04/2012:	Downgrade to Hold, Target Price Change AUD27.00	15. 13/03/2013:	Buy, Target Price Change AUD32.80
8. 10/05/2012:	Hold, Target Price Change AUD25.70		



Historical recommendations and target price: Westpac (WBC.AX)

(as of 4/22/2013)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002

1. 28/04/2011:	Downgrade to Hold, AUD26.00	7. 03/05/2012:	Hold, Target Price Change AUD23.30
2. 04/05/2011:	Hold, Target Price Change AUD25.20	8. 05/11/2012:	Hold, Target Price Change AUD25.30
3. 16/08/2011:	Hold, Target Price Change AUD22.20	9. 16/01/2013:	Hold, Target Price Change AUD25.90
4. 02/11/2011:	Hold, Target Price Change AUD23.00	10. 25/02/2013:	Hold, Target Price Change AUD28.50
5. 06/02/2012:	Hold, Target Price Change AUD22.50	11. 26/03/2013:	Hold, Target Price Change AUD29.60
6. 16/02/2012:	Hold, Target Price Change AUD21.80		

Equity rating key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

1. Newly issued research recommendations and target prices always supersede previously published research.

2. Ratings definitions prior to 27 January, 2007 were:

Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships

