Westpac GROUP

ASX Release

Level 18, 275 Kent Street
Sydney, NSW, 2000

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S&P Global Ratings Revises Australia's credit rating Outlook to Stable with a similar impact on the credit rating outlook for the Australian major banks

On 7 June 2021, S&P Global Ratings (S&P) affirmed Australia's AAA/A-1+ ratings and revised the outlook to "stable" from "negative" following Australia's swift economic recovery from COVID related impacts.

As a result of the change in Australia's sovereign rating outlook, the rating outlooks for the Australian major banks, including Westpac, have also been revised to "stable" from "negative".

S&P has affirmed Westpac Banking Corporation's current issuer credit rating of AA- long term, and A-1+ short term, with the outlook revised to "stable".

The rating outlook for both Westpac New Zealand Limited and for Westpac Life-NZ Ltd was unchanged at "negative" reflecting the potential for reduced support as Westpac is considering alternative ownership structures.

The S&P Global Ratings release on the Major Australian Banks and Macquarie Bank is attached.

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This document has been authorised for release by Tim Hartin, General Manager & Company Secretary.

Major Australian Banks And Macquarie Bank Outlooks Revised To Stable On Sovereign Outlook Change; Ratings Affirmed

June 7, 2021

- On June 7, 2021, we revised the outlook on our long-term ratings on Australia to stable from negative. The government's swift and decisive fiscal and health response to contain the pandemic and limit long-term economic scarring has seen the economy recover quicker and stronger than we previously expected.
- We are revising to stable from negative our outlooks on each of the four major Australian banks and Macquarie Bank Ltd., Export Finance Australia, and National Housing Finance and Investment Corp. At the same time, we are affirming our ratings on these entities.
- The stable outlook reflects the outlook on Australia.

SYDNEY (S&P Global Ratings) June 7, 2021--S&P Global Ratings today said it has revised its outlooks to stable from negative on the long-term issuer credit ratings on the following Australia-based financial institutions:

- The four major Australian banks: Australia and New Zealand Banking Group Ltd. (ANZ), Commonwealth Bank of Australia (CBA), National Australia Bank Ltd. (NAB), and Westpac Banking Corp. (Westpac). At the same time, we affirmed our 'AA-' long-term issuer credit ratings and 'A-1+' short-term issuer credit ratings on each of the four major banks.
- Macquarie Bank Ltd. (MBL). At the same time, we affirmed our 'A+' long-term and 'A-1' short-term issuer credit ratings on the bank.
- Export Finance Australia (EFA) and National Housing Finance and Investment Corp. (NHFIC). We also affirmed our 'AAA' long-term and 'A-1+' short-term issuer credit ratings on these two entities.

We revised the outlook on Australia (AAA/Stable/A-1+) to stable from negative reflecting the government's swift and decisive fiscal and health response to contain the pandemic and limit long-term economic scarring has seen the economy recover quicker and stronger than we previously expected (see "Australia Outlook Revised To Stable On Swift Economic Recovery; 'AAA/A-1+' Ratings Affirmed," published on June 7, 2021.

The change to our outlooks on the above listed entities is to stable following a similar rating action on Australia. Our outlooks on Westpac's wholly owned subsidiaries Westpac New Zealand Ltd. (WNZL) and Westpac Life-NZ-Ltd. remain negative. The negative outlooks reflect the potential for reduced support from Westpac, in light of Westpac considering a demerger of WNZL.

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Our issuer credit ratings on ANZ, CBA, MBL, NAB and Westpac are two notches above their stand-alone credit profiles (SACPs), reflecting our view that these systemically important banks are likely to receive timely financial support from the Australian government, if needed.

We revised the outlooks on EFA and NHFIC as we equalize the issuer credit ratings on EFA and NHFIC with the sovereign credit ratings on Australia, reflecting the legislative guarantee in place to support each entity's obligations as and when they fall due.

Australia and New Zealand Banking Group Ltd.

The outlook on ANZ is stable. We forecast ANZ's credit losses in the next two years to return to their pre-COVID levels. Consequently, we expect earnings to remain sound despite low interest rates. We also expect that ANZ would maintain a strong risk-adjusted capital ratio above 10% in the next two years.

Upside scenario

We see very limited upside to our issuer credit ratings on ANZ in the next two years.

Alternative scenario: We see a one-in-three possibility that Australian banks will face reduced industry risks in the next two years. We believe that the Australian banking system's funding profile has improved in the past 10 years on the back of growing customer deposits and falling offshore borrowings. We consider that the stronger systemwide funding metrics could be sustained despite a likely modest weakening in the next three years as the COVID-19 driven rise in customer deposits in 2020 unwinds and the Reserve Bank of Australia's (RBA) term funding matures.

If we form a view that industry risks facing Australian banks have reduced sustainably, all else equal, we expect to:

- Revise ANZ's SACP by one notch to 'a+' from 'a'.
- Maintain our 'AA-' long-term issuer credit rating on ANZ, reducing the uplift in our issuer credit rating on ANZ above the bank's SACP to one notch from two notches. This uplift reflects our assessment of the likelihood of extraordinary support from the Australian sovereign.
- Raise by one notch our rating on each of the Tier-1 and Tier-2 regulatory capital instruments issued by the ANZ group, in line with the revision in the bank's SACP.

Downside scenario

The ratings on ANZ have substantial headroom. As such, we see limited downside in the next two years. Nevertheless, low interest rates, and limited supply of housing stock and higher migration levels could result in a resurgence in house prices and household debt, which would exacerbate economic risks faced by banks in Australia and could exert some downside pressure.

Commonwealth Bank of Australia

The outlook on CBA is stable. We forecast CBA's credit losses in the next two years to return to their pre-COVID levels. Consequently, we expect earnings to remain sound despite low interest rates. We also expect that CBA would maintain a strong risk-adjusted capital ratio above 10% in the next two years.

Upside scenario

We see very limited upside to our issuer credit ratings on CBA in the next two years.

Alternative scenario: We see a one-in-three possibility that Australian banks will face reduced industry risks in the next two years. We believe that the Australian banking system's funding profile has improved in the past 10 years on the back of growing customer deposits and falling offshore borrowings. We consider that the stronger systemwide funding metrics could be sustained despite a likely modest weakening in the next three years as the COVID-19 driven rise in customer deposits in 2020 unwinds and the RBA's term funding matures.

If we form a view that industry risks facing Australian banks have reduced sustainably, all else equal, we expect to:

- Revise CBA's SACP by one notch to 'a+' from 'a'.
- Maintain our 'AA-' long-term issuer credit rating on CBA, reducing the uplift in our issuer credit rating on CBA above the bank's SACP to one notch from two notches. This uplift reflects our assessment of the likelihood of extraordinary support from the Australian sovereign.
- Raise by one notch our rating on each of the Tier-1 and Tier-2 regulatory capital instruments issued by the CBA group, in line with the revision in the bank's SACP.

Downside scenario

The ratings on CBA have substantial headroom. As such, we see limited downside in the next two years. Nevertheless, low interest rates, and limited supply of housing stock and higher migration levels could result in a resurgence in house prices and household debt, which would exacerbate economic risks faced by banks in Australia and could exert some downside pressures.

National Australia Bank Ltd.

The outlook on NAB is stable. We forecast NAB's credit losses in the next two years to return to their pre-COVID levels. Consequently, we expect earnings to remain sound despite low interest rates. We also expect that NAB would maintain a strong risk-adjusted capital ratio above 10% in the next two years.

Upside scenario

We see very limited upside to our issuer credit ratings on NAB in the next two years.

Alternative scenario: We see a one-in-three possibility that Australian banks will face reduced industry risks in the next two years. We believe that the Australian banking system's funding profile has improved in the past 10 years on the back of growing customer deposits and falling offshore borrowings. We consider that the stronger systemwide funding metrics could be sustained despite a likely modest weakening in the next three years as the COVID-19 driven rise in customer deposits in 2020 unwinds and the RBA's term funding matures.

If we form a view that industry risks facing Australian banks have reduced sustainably, all else equal, we expect to:

- Revise NAB's SACP by one notch to 'a+' from 'a'.
- Maintain our 'AA-' long-term issuer credit rating on NAB, reducing the uplift in our issuer credit rating on NAB above the bank's SACP to one notch from two notches. This uplift reflects our assessment of the likelihood of extraordinary support from the Australian sovereign.
- Raise by one notch our rating on each of the Tier-1 and Tier-2 regulatory capital instruments issued by the NAB group, in line with the revision in the bank's SACP.

Downside scenario

The ratings on NAB have substantial headroom. As such, we see limited downside in the next two years. Nevertheless, low interest rates, and limited supply of housing stock and higher migration levels could result in a resurgence in house prices and household debt, which would exacerbate economic risks faced by banks in Australia and could exert some downside pressure.

Westpac Banking Corp.

The outlook on Westpac is stable. We forecast Westpac's credit losses in the next two years to return to their pre-COVID levels. Consequently, we expect earnings to remain sound despite low interest rates. We also expect that Westpac would maintain a strong risk-adjusted capital ratio above 10% in the next two years.

Upside scenario

We see very limited upside to our issuer credit ratings on Westpac in the next two years.

Alternative scenario: We see a one-in-three possibility that Australian banks will face reduced industry risks in the next two years. We believe that the Australian banking system's funding profile has improved in the past 10 years on the back of growing customer deposits and falling offshore borrowings. We consider that the stronger systemwide funding metrics could be sustained despite a likely modest weakening in the next three years as the COVID-19 driven rise in customer deposits in 2020 unwinds and the RBA's term funding matures.

If we form a view that industry risks facing Australian banks have reduced sustainably, all else equal, we expect to:

- Revise Westpac's SACP by one notch to 'a+' from 'a'.
- Maintain our 'AA-' long-term issuer credit rating on Westpac, reducing the uplift in our issuer credit rating on Westpac above the bank's SACP to one notch from two notches. This uplift reflects our assessment of the likelihood of extraordinary support from the Australian sovereign.
- Raise by one notch our rating on each of the Tier-1 and Tier-2 regulatory capital instruments issued by the Westpac group, in line with the revision in the bank's SACP.

Downside scenario

The ratings on Westpac have substantial headroom. As such, we see limited downside in the next two years. Nevertheless, low interest rates, and limited supply of housing stock and higher migration levels could result in a resurgence in house prices and household debt, which would exacerbate economic risks faced by banks in Australia and could exert some downside pressures.

Westpac New Zealand Ltd.

The negative outlook on WNZL reflects the potential for reduced support from Westpac in light of it considering a demerger of WNZL. In our view, Westpac's review of a demerger option could indicate WNZL's reducing strategic importance to the group. In our base case, we expect our issuer credit rating on WNZL would remain at the same level as the rating on its parent over the next two years, reflecting our view that WNZL remains highly likely to receive extraordinary financial support from Westpac under all foreseeable situations despite the ongoing assessment of a possible demerger.

Downside scenario

We expect to lower our issuer credit rating on WNZL to 'A+/A-1' in the next two years if we considered that WNZL's strategic importance to the group has reduced and consequently it is less likely to receive timely support from Westpac, if needed. This is likely to occur if Westpac decided to proceed with the demerger.

We see a one-in-three possibility of a downgrade of WNZL in the next two years.

We currently consider a demerger unlikely within the next year or so. Should Westpac proceed with the demerger, we expect we would rate WNZL at its SACP level of 'a-' upon the demerger's completion, all else remaining unchanged.

Upside scenario

We expect to revise the outlook on WNZL to stable within the next two years if we concluded that Westpac is committed to maintaining long-term ownership of WNZL.

Westpac Life-NZ-Ltd.

The negative outlook on WLNZ reflects the potential for reduced support from Westpac in light of it considering a demerger of its New Zealand operations, and aligns with the negative outlook on WNZL. We would not expect to lower our ratings until a transaction is complete as we believe that Westpac will continue to provide a degree of support to its regulated subsidiaries while it continues to own them.

Downside scenario

We could lower the rating over the next two years if we were to view WLNZ as nonstrategic to Westpac. This would occur if a sale of the insurer is complete.

Upside scenario

We could revise our outlook on WLNZ to stable over the next two years if we view that the group will maintain ownership of the insurer.

Macquarie Bank Ltd.

The outlook on MBL is stable. We forecast MBL's credit losses in the next two years to return to their pre-COVID levels. Consequently, we expect earnings to remain sound despite low interest rates. We also expect that MBL would maintain a strong risk-adjusted capital ratio above 10% in the next two years.

Upside scenario

We see very limited upside to our issuer credit ratings on MBL in the next two years.

Alternative scenario: We see a one-in-three possibility that Australian banks will face reduced industry risks in the next two years. We believe that the Australian banking system's funding profile has improved in the past 10 years on the back of growing customer deposits and falling offshore borrowings. We consider that the stronger systemwide funding metrics could be sustained despite a likely modest weakening in the next three years as the COVID-19 driven rise in customer deposits in 2020 unwinds and the RBA's term funding matures.

If we form a view that industry risks facing Australian banks have reduced sustainably, all else equal, we expect to:

- Revise MBL's SACP by one notch to 'a' from 'a-'.
- Maintain our 'A+' long-term issuer credit rating on MBL, reducing the uplift in our issuer credit rating on MBL above the bank's SACP to one notch from two notches. This uplift reflects our assessment of the likelihood of extraordinary support from the Australian sovereign.
- Raise by one notch our rating on each of the Tier-1 and Tier-2 regulatory capital instruments issued by MBL, in line with the revision in the bank's SACP.

Downside scenario

The ratings on MBL have substantial headroom. As such, we see limited downside in the next two years. Nevertheless, low interest rates, and limited supply of housing stock and higher migration levels could result in a resurgence in house prices and household debt, which would exacerbate economic risks faced by banks in Australia and could exert some downside pressures.

National Housing Finance and Investment Corp

Our outlook on NHFIC mirrors that on Australia and reflects our view that our ratings are unlikely to change in the next two years. We expect our ratings on NHFIC to remain equalized with the ratings on Australia, reflecting the legislative guarantee of NHFIC's obligations.

Downside scenario

We would expect to lower our ratings on NHFIC if we lowered the rating on Australia. We would also lower the ratings if we considered that there was a weakening in the guarantee from the government of Australia, or changes to the framework for timely payment under the guarantee, if needed.

Export Finance Australia

Our outlook on EFA mirrors that on Australia and reflects our view that our ratings are unlikely to change in the next two years. We expect our ratings on EFA will continue to be equalized to those on Australia, reflecting the legislative guarantee on EFA's obligations.

Downside scenario

We would expect to lower our ratings on EFA if we lowered the rating on Australia. We would also lower the ratings if we considered that there was a weakening in the guarantee from the government of Australia, or changes to the framework for timely payment under the guarantee, if needed.

WEBINAR

S&P Global Ratings will host a webinar and Q&A at 3:30pm Melbourne time on Tuesday, June 8, 2021, to discuss today's rating actions and our insights on the emerging credit issues. If you would like to attend the webinar, please register here:

https://event.on24.com/wcc/r/3239265/64F6045B67F9BA520F50191B773FEAD7

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer

Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Ratings List

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Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Export Finance Australia		
National Housing Finance and Investment Corp.		
Issuer Credit Rating	AAA/Stable/A-1+	AAA/Negative/A-1+
*** * * * * * * * Australia and New Zealand Banking Group Ltd. * * * * * * ***		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Australia and New Zealand Banking Group Ltd.		
ANZ Bank New Zealand Ltd.		
Issuer Credit Rating	AA-/Stable/A-1+	AA-/Negative/A-1+
Australia and New Zealand Bank (China) Co. Ltd.		
Issuer Credit Rating	A+/Stable/A-1	A+/Negative/A-1
*** * * * * * * * * * * Commonwealth Bank of Australia * * * * * * * * * * ***		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Commonwealth Bank of Australia		
Commonwealth Bank of Australia (Europe) N.V.		
CommBank Europe Ltd.		
CBA Funding NZ Ltd.		
ASB Finance Ltd.		
ASB Bank Ltd.		
Issuer Credit Rating	AA-/Stable/A-1+	AA-/Negative/A-1+
*** * * * * * * * * * * * * * Macquarie Group Ltd. * * * * * * * * * * * * ***		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Macquarie Bank Ltd.		
Macquarie Bank Europe DAC		
Issuer Credit Rating	A+/Stable/A-1	A+/Negative/A-1
Macquarie International Finance Ltd.		
Issuer Credit Rating	A/Stable/A-1	A/Negative/A-1

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Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
National Australia Bank Ltd.		
Bank of New Zealand		
Issuer Credit Rating	AA-/Stable/A-1+	AA-/Negative/A-1+
* * * * * * * * * * * * * Westpac Banking Corp. * * * * * * * * * * * * *		
Ratings Affirmed		
Westpac Life-NZ-Ltd.		
Issuer Credit Rating		
Local Currency	A+/Negative/--	
Financial Strength Rating		
Local Currency	A+/Negative/--	
Westpac New Zealand Ltd.		
Issuer Credit Rating	AA-/Negative/A-1+	
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Westpac Banking Corp.		
Westpac Europe Ltd.		
Issuer Credit Rating	AA-/Stable/A-1+	AA-/Negative/A-1+