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No Impact On Australian Financial Institution Ratings Following The Australian Financial System Inquiry's Interim Report

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MELBOURNE (Standard & Poor's) July 23, 2014--Standard & Poor's Ratings Services today said its ratings on Australian financial institutions are unchanged following the announcement by the Australian Financial System Inquiry (FSI) of its interim report.

Standard & Poor's notes that the FSI is responsible for examining how the Australian financial system could be positioned to best meet Australia's evolving needs, and to support Australia's economic growth.

We currently believe that Australia is one of the less-risky banking systems of the 84 that have Standard & Poor's banking industry country risk assessments. Hence, our focus in analysing the eventual outcomes of the FSI will be if, and to what extent, the inquiry will result in any meaningful change to Australia's strong economic and industry risk environment as it affects financial institutions' ratings.

We note that the inquiry's interim report makes a number of observations on the Australian financial system and includes a range of possible policy options, but does not make recommendations or describe the final view of the FSI. Next steps are further consultation between the FSI and the financial sector, leading up to a final report from the FSI in November 2014 for the consideration of the Australian Federal Treasurer. We believe that greater

clarity on the potential impact of the inquiry on the financial system is unlikely until the FSI concludes its final report, and that there is a clearer picture of potential changes likely to be taken by the government.

We believe that a key issue for ratings of systemically-important banks could be whether the inquiry recommends--and the government adopts--a materially different approach to bank resolutions. In particular, this would include circumstances where there was seen to be a greater appetite for bail-in of senior creditors in the event of a banking crisis. Should this occur, and reiterating our previous comments, we may reassess the supportiveness of the Australian government toward the banking system (which, in our current opinion, is high) and reduce the 'government support' benefit currently factored into the ratings of systemically-important banks. Currently, our issuer credit ratings on financial institutions we view as highly systemically important--namely Australia and New Zealand Banking Group Ltd. (AA-/Stable/A-1+), Commonwealth Bank of Australia (AA-/Stable/A-1+), National Australia Bank Ltd. (AA-/Stable/A-1+), and Westpac Banking Corp. (AA-/Stable/A-1+)--incorporate two notches of government support. Meanwhile, the issuer credit ratings on Macquarie Bank Ltd. (A/Stable/A-1) and Cuscal Ltd. (A+/Stable/A-1)--which we view as moderately systemically important financial institutions--incorporate two notches and one notch of government support, respectively.

While developments concerning resolution frameworks will be a likely key area of focus, we will continue to assess other subject matter covered by the inquiry - which potentially could have a positive or negative effect on individual ratings - to gauge continuing congruence with our views concerning the operating environment for Australian financial institutions. Other areas of focus that are of interest to Standard & Poor's include those potentially impacting competitive dynamics, funding or capital; and further regulatory developments such as the potential use of macroprudential tools.

RELATED CRITERIA AND RESEARCH

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9 2011
- Australian Banking Sector Outlook: Ratings Resilience Anticipated For 2014 , Feb. 11, 2014
- Australia's Developing Crisis-Management Framework For Banks Could Moderate The Government Support Factored Into Ratings, Nov. 12, 2013
- Resolution Plans For Global Banks May Eliminate Government Support For Some, But Progress Is Varied, Dec. 4, 2013

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