

## Issuer Name

**Westpac Banking Corporation**

## Security Name

**Westpac Wholesale Subordinated Notes 7.199% FXD to FRN 2038**

## Security Recommendation

**Hold**

## Security Risk

**Lower Medium**

## Issuer Outlook

Improving

Stable

Deteriorating

## Key Characteristics

Currency	AUD	Last Price	A\$110.52
Outstanding Amount	A\$1,500,000,000.00	Accrued	-A\$0.14
Par Value	A\$100.00	Capital Price	A\$110.66
Fixed/Floating	Fixed	Running Yield	6.51%
Payment Frequency	Semi Annual	Yield to Maturity	5.61%
Current Distribution	7.20%	Trading Margin	1.62%
Issue Margin / Coupon	7.20%	Optional Call Date	15 November 2033
Franking Credits Incl.	No	Legal Final Maturity	15 November 2038
ASX Listed	No (ISIN: AU3CB0304376)	Next Ex-Date	8 May 2025
Convertible	No	Next Payment Date	2025-05-15
GICS Sector	Banks	Next Cash Distribution	A\$3.60

## Summary

On 15 November 2023, Westpac Banking Corporation (ASX: WBC) issued subordinated 15NC10 notes raising \$1.5bn. These securities were sold to wholesale investors only (no prospectus being issued) and are not listed on the Australian Securities Exchange. They are subordinated, unsecured medium-term notes (MTNs) and interest payments are non-discretionary. The purpose of issuing the notes was for general corporate purposes and will qualify as Tier 2 regulatory capital for the Group.

WBC has the right (but not the obligation) to redeem (subject to APRA approval) the notes on the optional redemption date (15 November 2033) and each payment date thereafter until maturity on 15 November 2038. The interest rate is fixed at 7.199% and payable on a semi-annual basis until the first optional call date. If the notes have not redeemed, purchased, cancelled, converted or written-off (non-viability trigger event), the rate of interest will reset to 2.40% p.a. above the 90-Day BBSW and will be paid in arrears on a quarterly basis until the maturity date.

This security contains terms known as a Non-Viability Trigger Event. Upon the occurrence of this event the security will be automatically converted into ordinary shares or written off. The holder will receive the lesser of the conversion number and maximum conversion number (see documentation for more detail). If a situation arises where conversion is not possible for any reason, holder's rights will be terminated, and the notes will lose all value.

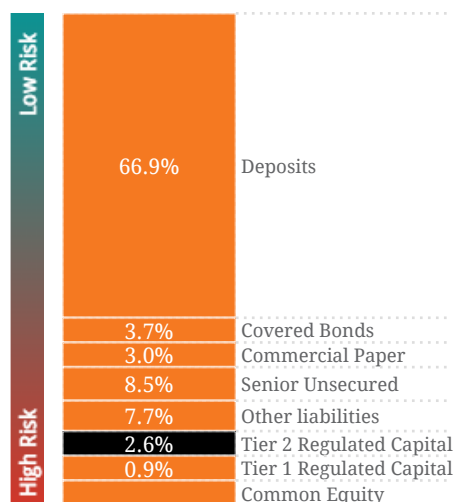
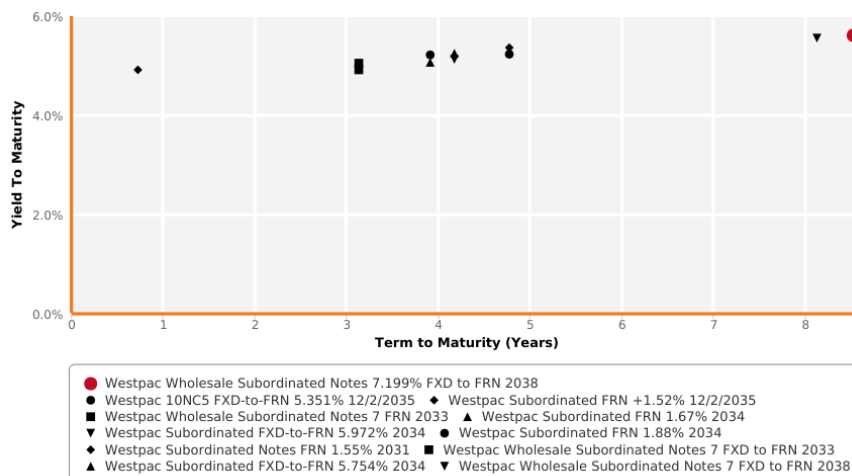
Figure 1: Capital Structure<sup>1</sup>

Figure 2: Relative Value



## Security Recommendation - Hold as at 9 May 2025

WBC reported a 1% y/y decline in 1H25 net profit after tax (NPAT) to \$3.3bn versus 1H24 (y/y) reflecting lower non-interest income (down 2.8% y/y) and an increase in operating expenses (up 5.6% y/y). This was partially offset by a 2.3% y/y increase in net interest income (NII). Excluding notable items, NPAT came in at \$3.5bn, representing a 4% fall versus 2H24 NPAT excluding notable items.

The board maintained an interim ordinary dividend of 76 cents per share which equated to a 75.2% payout of NPAT (excluding notable items) – now above the top end of WBC's 65-75% target range. We note that both the actual and pro-forma CET1 levels continue to exceed the Boards 11.0-11.5% target range. Additionally, asset quality improved modestly in 1H25 (versus 2H24) and provisioning remains appropriate. We retain a **Stable** outlook on WBC.

Our valuation assumptions for this security are based on it being redeemed in full on the first call date (15 November 2033). If this security is not called on this date (extension risk), the price of the security would likely fall. We do not expect this to happen.

At a trading margin of 1.62% (08/05/25), the notes trade broadly in line with the Big Four Tier 2 credit curve. We maintain a **Hold** recommendation.

## Positive / Negative Risk Factors

### What factors would change the Recommendation **UP**

- **Favourable Industry Dynamics.** The major domestic banks continue to benefit from favourable industry dynamics that support high market share. Supported by the four pillars policy, which maintains the separation of the four largest banks, the Major Banks (ANZ, CBA, NAB, WBC) dominate domestic banking. This includes residential mortgages and corporate lending. Despite non-major bank lending gaining traction in recent years, the dominance of the four Major Banks looks set to continue for many years.
- **Strong Capital Position.** WBC, like its Major Bank peers, maintains a strong capital position. APRA's focus for the banks remains on common equity capital, with the expectation that the Major Banks are compliant with its updated benchmark of "unquestionably strong" minimum Common Equity Tier 1 (CET1) ratio of 10.50% of risk-weighted assets (RWAs) effective as of 1 January 2027. The domestic Major Banks now have a significant loss absorption cushion through earnings, capital, and loss provisioning, which are the primary defences against credit impairments.
- **Transparent Regulatory Oversight.** APRA continues to implement disciplined controls over domestic banking operations. Often stricter than global regulator peers, APRA has also displayed a willingness to work with the industry during times of stress to ease any headwinds where possible. Furthermore, APRA continues to work with the industry to support improved transparency, which has come in many forms over the years.
- **A Supportive AAA-rated Federal Government.** As witnessed during the GFC, and most recently the COVID-19 crisis, domestic banking benefits from a supportive government. An example includes the provision of the Term Funding Facility for the industry to support lending to businesses during the pandemic. It is possible Australia may lose its AAA-rating in the medium-term, but this is not expected to impact levels of government support. To be clear, in the event of bank failure, we do not expect government support to hybrid investors.

### What factors would change the Recommendation **DOWN**

- **Regulatory Risk.** Banks are highly regulated, and changes to regulation could impact profitability and/or require changes to the business model. Regulation could also require changes to the capital model, which may be impacted by more punitive pricing of extension risk for loss absorbing capital.
- **Operational Risk.** There are risks of financial losses, fines and regulatory sanctions as a result of failures and/or inadequate processes, systems and controls. This includes cyber risk, which is a growing threat. Regulatory requirements to hold capital for operational risk provides a loss absorption buffer against the financial impact from such events as well as sharpening Management and Board focus on operational risk management.
- **Funding and Liquidity Risk.** The inability to raise funding and meet financial obligations would significantly impact a bank's reputation, its cost of funding and ultimately its ability to continue to do business. This risk is mitigated by minimum regulatory requirements and oversight provided by the prudential regulator.
- **Uncertain Macroeconomic and Geopolitical Environment.** Australia, like other western economies, has been subject to strong inflationary forces and rapid rise in interest rates which pose risks to the economy and consequently asset quality. Supplementary risks include that of geopolitical tensions.

## Issuer Outlook - Stable as at 9 May 2025

### Profitability

WBC reported a 1% decline in 1H25 net profit after tax (NPAT) to \$3.3bn versus 1H24 (y/y) reflecting lower non-interest income (down 2.8% y/y) and an increase in operating expenses (up 5.6% y/y). This was partially offset by a 2.3% y/y increase in net interest income (NII). Excluding notable items, NPAT came in at \$3.5bn, representing a 4% fall versus the 2H24 result (h/h).

Across the business segments NPAT performance was mixed: Consumer Banking rose 2.8% y/y to \$1.1bn; Business and

Wealth fell 4.9% y/y to \$1.1bn; Institutional Banking increased 11.3% y/y to \$758mn; and NZ Banking rose 10% y/y to \$525mn.

The Group's decline in non-interest income reflected weakness in trading and other income (down 14.8% y/y to \$345mn). This was partially offset by wealth income which rose 9.6% y/y to \$239mn, while fee income remained broadly flat y/y at \$840mn. Expenses have increased sequentially by 3% h/h to 2H24 and 1H25, reflecting higher wages growth along with increased FTE and investment spend to support UNITE – WBC's initiative to update its technology environment and decommission legacy systems.

Given the heightened economic uncertainty, we view this as a solid result. That said, higher costs and a soft bottom line ultimately resulted in a 1.95ppt y/y increase in the cost to income (CTI) ratio to 51.8%. Positively, the core net interest margin (which excludes notable items and treasury & markets) remained flat y/y at 1.80%, suggesting management is prudently managing loan growth during a highly competitive period – a credit positive.

## Capitalisation and Liquidity

WBC's capital position remains sound and above the 10.25% regulatory minimum, however, declined 31bps y/y to 12.24%. If you include the remaining on-market share buy-back (worth \$1.1bn) the pro-forma CET1 ratio reduces to 11.99%. Both the actual and pro-forma CET1 levels continue to exceed the Boards 11.0-11.5% target range.

The Board also announced an interim ordinary dividend of 76 cents per share (in line with 1H24 and 2H24). This equates to a 75.2% payout of NPAT (excluding notable items), which is now above the top end of WBC's 65-75% target range – a credit negative in our view.

Following the announced \$1.0bn increase to its existing share buyback in November 2024, WBC now has \$1.1bn remaining under the program. In our view, on-market buybacks are preferable versus special dividends given the inherent flexibility they offer (i.e., share buy-backs can be deferred if necessary).

WBC has strong funding and liquidity levels with key metrics comfortably above the 100% regulatory minimum levels. The liquidity coverage ratio (LCR) increased 3ppts y/y to 135%, while net stable funding ratio (NSFR) increased 1ppt y/y to 115%. Additionally, customer deposits to net loans increased 1.6ppts y/y to 84.5% (this represents a new high for the bank).

## Asset Quality

Loans <90 days in arrears increased modestly by 4bps y/y to 0.28% of total committed exposures (TCE), while 90+ days in arrears fell 9bps y/y to 0.37% and impaired exposures rose 4bps y/y to 0.16%. That said, asset quality generally improved over the 6 months to 31 March 2025.

On a more granular level, Australian consumer mortgages 90+ days in arrears moderated 20bps y/y to 0.86% while NZ mortgages 90+ days in arrears rose 7bps y/y to 0.54%; impaired exposures in Business and Wealth increased 3bps y/y to 0.57%; and impaired Institutional Banking exposures increased 7bps y/y to 0.12%.

Provisioning remains appropriate, however, has moderated 2bps y/y to 0.39% of TCE. This represents 0.61% of gross loans (down 2bps y/y) which remains above pre-pandemic levels of 0.54% (2H19) and compares favourably to the 1H25 impairment ratio of 0.06% (as a proportion of average loans).

## Outlook

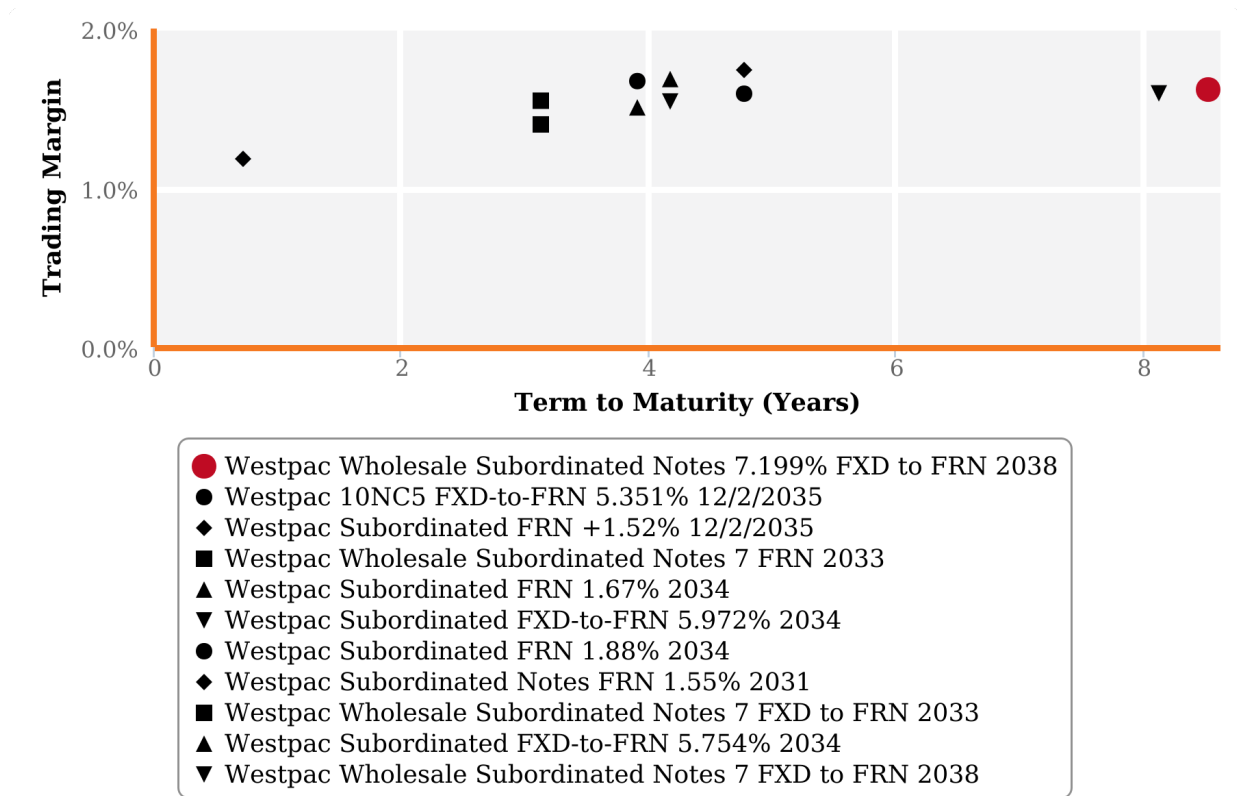
We assign WBC a **Stable** outlook.

The bank has maintained sound capital, funding, and liquidity levels while asset quality remains stable and well provisioned. That said, profitability was soft, reflected by a 1% y/y decline in NPAT. Overall, despite ongoing capital return initiatives, WBC remains well positioned to navigate a challenging lending environment amid rising economic uncertainty.

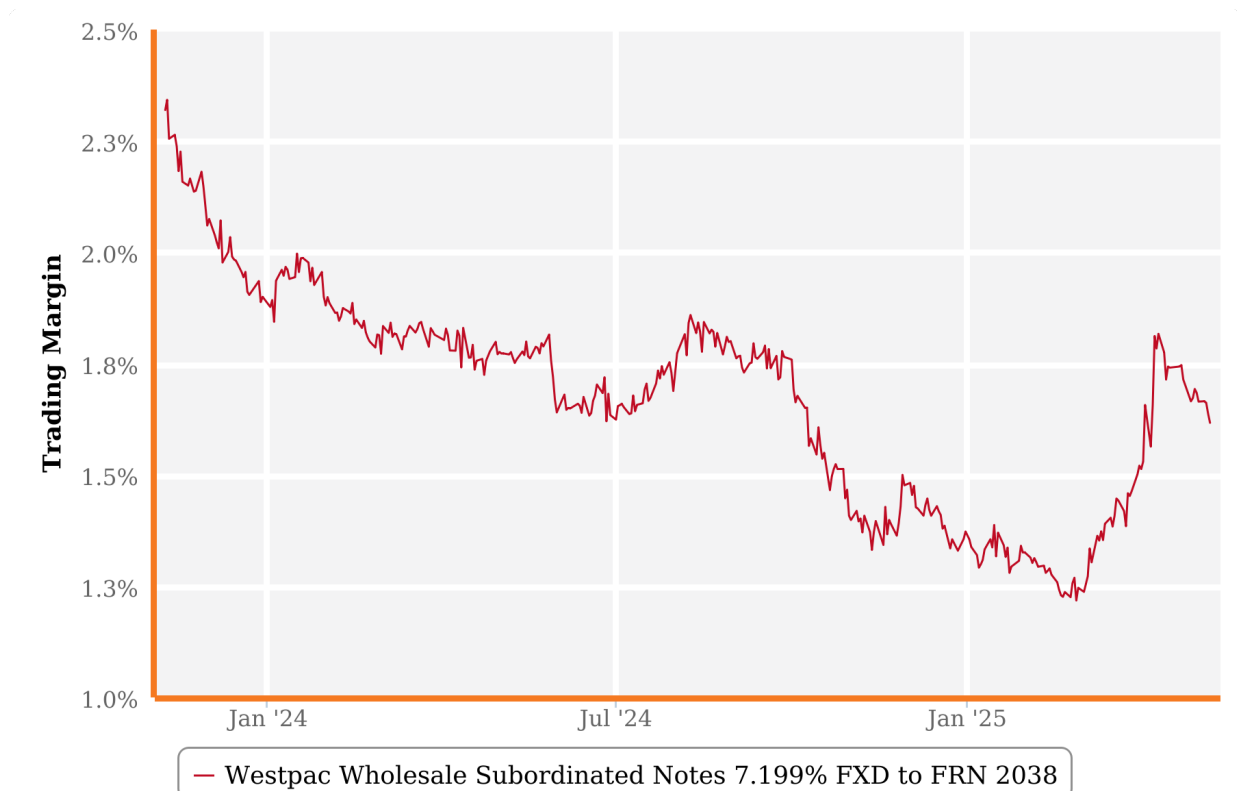
WBC did not provide specific FY25 guidance, however, management commentary highlighted ongoing geopolitical tensions as a driver of volatility and uncertainty. Positively, the UNITE program appears to be progressing on budget with completion anticipated by September 2029. Management also remains committed to achieving a CTI below peer average (currently 2.7ppts above) and a return on tangible equity (ROTE) greater than peers (currently 1.2 ppts below). Achieving this goal will require continued investment over the coming years to simplify the bank's technology stack – specifically, by reducing the number of systems in use, many of which are legacy platforms from past acquisitions. While the simplification program is expected to deliver cost benefits by FY28, risks around cost overruns remain, and increased amortisation of this investment will continue to weigh on earnings in the interim. The 1H25 result indicates these targets are achievable and that initiatives are progressing as planned.

The domestic economy has performed well despite the ongoing cost-of-living crisis, however, economic disruptions (e.g., US tariff policy) could continue to subdue consumer and business spending, causing a further softening in credit growth. In this context, we expect competition to remain elevated, posing an ongoing headwind to operating income. Accordingly, we will be looking for WBC to continue investing in efficiency initiatives to manage its cost base and protect margins.

**Figure 3: Credit Curve (Comparable Securities)**



**Figure 4: Historical Trading Margins of Comparable Securities**



<sup>1</sup> The balance sheet structure diagram represents a measure of liabilities and capital in order of seniority of the overall cash balance sheet.

Source: BondAdviser

## Westpac Banking Corporation: Financial Summary

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## Recommendation Summary

Hold

9 May 2025

Profit and loss	2024	2023	2022	2021	Asset Quality & Provisions	2024	2023	2022	2021
Net Int. Inc. (\$m)	18,753.0	18,317.0	17,161.0	16,858.0	Provision Charge/GLA (%)	0.07	0.09	0.05	-0.08
Fee Income (\$m)	1,672.0	1,645.0	1,671.0	1,482.0	Gross Impaireds/GLA (%)	0.24	0.17	0.20	0.30
Trading Income (\$m)	704.0	717.0	664.0	719.0	Provisions/Impaireds (%)	41.28	43.47	47.95	54.44
Wealth & Insur. (\$m)	441.0	562.0	808.0	1,211.0	Coll. Prov./Credit RWA (%)	1.32	1.35	1.16	1.17
Other Income (\$m)	18.0	404.0	-698.0	952.0	Provisions/GLA (%)	0.63	0.63	0.62	0.70
Total Revenue (\$m)	21,588.0	21,645.0	19,606.0	21,222.0	Provisions/Credit RWA (%)	1.47	1.45	1.28	1.40
Total Expenses (\$m)	-10,944.0	-10,692.0	-10,802.0	-13,311.0					
Pre-Prov. Profit (\$m)	10,644.0	10,953.0	8,804.0	7,911.0	<b>Funding &amp; Liquidity</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
Prov. Exp. (\$m)	-537.0	-648.0	-335.0	590.0					
Taxation (\$m)	-3,117.0	-3,104.0	-2,770.0	-3,038.0	NSFR (%)	112.0	115.0	121.0	125.0
Min. Int. & Prefs (\$m)		-6.0	-5.0	-5.0	LCR (%)	133.0	134.0	132.0	129.0
Statutory NPAT (\$m)	6,990.0	7,195.0	5,694.0	5,458.0					
Adjustments (\$m)	0.0	0.0	-418.0	-106.0	<b>Other Key Metrics</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
Cash NPAT (\$m)	6,990.0	7,195.0	5,276.0	5,352.0					
					Group NIM (%)	1.93	1.95	1.93	2.06
<b>Capital Adequacy</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	Cost to Income (%)	50.7	49.4	55.1	62.7
CET1 (%)	12.49	12.38	11.29	12.32					
AT1 (%)	2.33	2.21	2.10	2.33					
Tier 1 Capital (%)	14.82	14.59	13.39	14.65					
Tier 2 Capital (%)	6.56	5.86	5.01	4.21					
Total Capital (%)	21.38	20.45	18.40	18.86					
Total RWA (\$m)	397,719.0	414,293.0	447,010.0	431,422.0					
Div. Payout (%)	74.62	69.20	76.80	79.30					
<b>Balance Sheet</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>					
Loans (\$m)	806,767.0	773,254.0	739,647.0	709,784.0					
Cash (\$m)	65,667.0	102,522.0	105,257.0	71,353.0					
Trading Assets (\$m)	49,228.0	30,507.0	24,332.0	21,101.0					
Investment Securities	103,885.0	75,326.0	76,465.0	83,417.0					
Intangibles (\$m)	10,746.0	10,886.0	10,327.0	10,109.0					
Other (\$m)	41,251.0	37,279.0	58,170.0	40,113.0					
Total Assets (\$m)	1,077,544.0	1,029,774.0	1,014,198.0	935,877.0					
Deposits (\$m)	720,489.0	688,168.0	659,129.0	626,955.0					
Debt Issues (\$m)	169,285.0	156,573.0	144,868.0	128,779.0					
Loan Capital (\$m)	37,883.0	33,176.0	31,254.0	29,067.0					
Other (\$m)	77,836.0	79,318.0	108,438.0	78,984.0					
Total Liabs (\$m)	1,005,492.0	957,235.0	943,689.0	863,785.0					
Equity (\$m)	72,052.0	72,539.0	70,509.0	72,092.0					

Source: Company data, BondAdviser estimates.

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- **Buy** - Over the next 12 months, the analyst expects the security to outperform the current yield due to credit spread tightening or favourable movements in the underlying yield curve.
- **Hold** - Over the next 12 months, the analyst expects the security to provide stable returns broadly in line with the current yield but with little credit spread tightening.
- **Sell** - Over the next 12 months, the analyst expects the security to underperform the current yield due to credit spread widening or adverse movements in the underlying yield curve.
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