

**ASX ANNOUNCEMENT**

Friday, 24 February 2012

**Fitch Ratings decision**

Please find attached an announcement made by Fitch Ratings today.

For further information:

**Media**

Brian Walsh

M: +61 (0) 411 227 585

Meaghan Telford

M: +61 (0) 457 551 211

**Investor Relations**

Ross Brown

M: +61 (0) 477 302 010

Craig Horlin

M: +61 (0) 417 372 474

## **FITCH DOWNGRADES THREE MAJOR AUSTRALIAN BANKS; AFFIRMS ANZ**

Fitch Ratings-Sydney-24 February 2012: Fitch Ratings has downgraded Commonwealth Bank of Australia's (CBA), National Australia Bank Limited's (NAB) and Westpac Banking Corporation's (WBC) Long-Term Issuer Default Ratings (IDR) and Viability Ratings (VR) by a notch. At the same time, Fitch has affirmed the ratings of Australia & New Zealand Banking Group (ANZ).

The Rating Watch Negative (RWN) on the four banks has been removed and a Stable Outlook placed on the Long-Term IDRs. A full list of rating actions, including those on the subsidiaries of the four banks, can be found at the end of this commentary. The VRs of the subsidiary banks were not included as part of this review; they will be reviewed at a later date as part of Fitch's normal review cycle.

The rating actions have been taken in the context of a broader review of the larger and highly rated banks in Fitch's rating portfolio. In Fitch's view, wholesale funding, particularly when sourced cross borders, has become more vulnerable to swings of confidence and for the major Australian banks this risk is better reflected at a VR of 'aa-' and therefore a Long-Term IDR of 'AA-'. As ANZ's VR is already at 'aa-', its ratings have been affirmed.

This action concludes Fitch's review of the four major Australian banks that was announced on 30 January 2012 (see "Fitch Places Major Australian Banks on RWN, Affirms Canadian Banks", dated 30 January 2012).

The downgrade of the Long-Term IDRs and VRs of CBA, NAB and WBC reflect the weaker funding profile of the major Australian banks relative to similarly rated international peers. Despite some improvement since 2008, all four banks retain a reliance on wholesale funding, particularly from offshore markets.

Fitch estimates that wholesale funding made up about 40% of total funding (excluding derivatives), with the offshore component of wholesale funding about 60% of the total. Fitch notes that this exposure is managed well by the banks, with wholesale funding diversified by geography, product, investor and maturity, all offshore funding hedged back into the functional currency through fully collateralised swaps and the maintenance of significant portfolios of central bank repo-eligible assets. Also, the introduction of covered bonds for Australian banks provides an additional avenue of diversity. Nevertheless, this funding profile leaves the banks susceptible to dislocation in international wholesale funding markets.

Fitch expects the banks will continue to improve this mix, with a greater focus on deposit-gathering, a reduced reliance on short-term wholesale funding, particularly from offshore sources, and a continued increase in the duration of wholesale funding. However, any significant improvements over the medium term will likely be constrained by structural impediments such as high levels of fixed capital formation (investment), a large and persistent current account deficit and mandatory pension savings which tend to be weighted towards equities.

A high reliance on wholesale funding makes maintaining investor confidence key. Factors such as Australia's high household debt levels, elevated house prices and increasing reliance on Asia for trade may all impact this confidence, particularly if economic conditions in the region were to deteriorate significantly. Fitch does not expect such deterioration and notes that all four banks closely manage confidence through regular contact with investors.

Within the group of four, ANZ and NAB have more material operations outside Australia and New Zealand - ANZ in Asia and NAB in the UK. To date, ANZ's Asian expansion has been measured and the overall risk profile of the group has not increased materially; nevertheless, these markets

can be more volatile than Australia and New Zealand and the group will need to continue to prudently manage expansion. NAB's UK operations, through Clydesdale Bank PLC (CB), have historically offered diversity in a well-regulated market and exposure is modest (about 10% of group assets). However, earnings are likely to be subdued given a weakening outlook for the UK economy. This weakening outlook prompted NAB to announce on 7 February 2012 that it was undertaking a detailed review of these operations; as a result, Fitch has maintained the RWN on CB's Long-Term IDR and placed the Short-Term IDR and Support Rating on RWN. The agency expects to resolve the RWNs following the completion of this review.

On most other measures, the four major Australian banks remain amongst the strongest banks in Fitch's global rated universe and have therefore retained ratings in the 'AA' range. This reflects strong domestic franchises, robust risk management frameworks, solid profitability, competent liquidity management and sound and improving capital positions. The banks also benefit from, and contribute to, a solid domestic operating environment, while the Australian prudential regulator has proven itself to be conservative and hands-on.

The multiple-notch downgrade of the preference shares issued by CBA, NAB and WBC reflect the application of Fitch's new bank regulatory capital securities rating criteria (see 'Rating Bank Regulatory Capital and Similar Securities' dated 15 December 2011 at [www.fitchratings.com](http://www.fitchratings.com)). In Australia, payment of distributions on Tier 1 instruments is subject to an annual profits test. Fitch believes this is an easily activated non-performance trigger and therefore rates Australian banks preference shares five notches below an institution's VR.

The four major Australian banks dominate the Australian and New Zealand banking systems. At 31 December 2011, the four banks combined held 79% of Australian banking system assets, while in New Zealand this was 87% at 30 June 2011.

The rating actions are as follows:

#### Australia & New Zealand Banking Group (ANZ)

- Long-Term Foreign Currency IDR: affirmed at 'AA-'; removed from RWN; Stable Outlook
- Short-Term Foreign Currency IDR: affirmed at 'F1+'; removed from RWN
- VR: affirmed at 'aa-'; removed from RWN
- Support Rating: affirmed at '1'
- Support Rating Floor: affirmed at 'A'
- Government-guaranteed debt: affirmed at 'AAA'
- Non-guaranteed senior unsecured debt: affirmed at 'AA-'; removed from RWN
- Subordinated debt: affirmed at 'A+'; removed from RWN

#### ANZ National Bank Limited (ANZNB)

- Long-Term Foreign Currency IDR: affirmed at 'AA-', removed from RWN; Stable Outlook
- Short-Term Foreign Currency IDR affirmed at 'F1+'; removed from RWN
- Long-Term Local Currency IDR: affirmed at 'AA-'; removed from RWN; Stable Outlook
- Short-Term Local Currency IDR: affirmed at 'F1+'; removed from RWN
- VR: 'a' unaffected
- Support Rating: affirmed at '1'
- Government-guaranteed debt: affirmed at 'AA'
- Non-guaranteed senior unsecured debt: affirmed at 'AA-'; removed from RWN
- Short-term debt: affirmed at 'F1+'; removed from RWN

#### Commonwealth Bank of Australia (CBA)

- Long-Term Foreign Currency IDR: downgraded to 'AA-' from 'AA'; removed from RWN; Stable Outlook
- Short-Term Foreign Currency IDR: affirmed at 'F1+'
- VR: downgraded to 'aa-' from 'aa'; removed from RWN
- Support Rating: affirmed at '1'
- Support Rating Floor: affirmed at 'A'
- Government guaranteed debt: affirmed at 'AAA'
- Non-guaranteed senior unsecured debt: downgraded to 'AA-' from 'AA'; removed from RWN

- Short-term debt: affirmed at 'F1+'
- Subordinated debt: downgraded to 'A+' from 'AA-'; removed from RWN
- Preferred stock: downgraded to 'BBB' from 'A'; removed from RWN

#### Bank of Western Australia (BankWest)

- Long-Term Foreign Currency IDR: downgraded to 'AA-' from 'AA', removed from RWN; Stable Outlook
- Short-term Foreign Currency IDR: affirmed at 'F1+'
- Support Rating: affirmed at '1'
- Non-guaranteed senior unsecured debt: downgraded to 'AA-' from 'AA'; removed from RWN

#### ASB Bank Limited (ASB)

- Long-Term Foreign Currency IDR: downgraded to 'AA-' from 'AA'; removed from RWN; Stable Outlook
- Short-Term Foreign Currency IDR: affirmed at 'F1+'
- Long-Term Local Currency IDR: downgraded to 'AA-' from 'AA'; removed from RWN; Stable Outlook
- Short-Term Local Currency IDR: affirmed at 'F1+'
- VR: 'a' unaffected
- Support Rating: affirmed at '1'

#### Colonial Finance Ltd. (CFL)

- Long-Term Foreign Currency IDR: downgraded to 'A+' from 'AA-'; removed from RWN; Stable Outlook
- Short-Term Foreign Currency IDR: downgraded to 'F1' from 'F1+'; removed from RWN
- Non-guaranteed senior unsecured debt: downgraded to 'A+' from 'AA-'; removed from RWN
- Short-Term debt: downgraded to 'F1' from 'F1+'; removed from RWN

#### National Australia Bank Limited (NAB)

- Long-Term Foreign Currency IDR: downgraded to 'AA-' from 'AA'; removed from RWN; Stable Outlook
- Short-Term Foreign Currency IDR: affirmed at 'F1+'
- VR: downgraded to 'aa-' from 'aa'; removed from RWN
- Support Rating: affirmed at '1'
- Support Rating Floor: affirmed at 'A'
- Government-guaranteed debt: affirmed at 'AAA'
- Non-guaranteed senior unsecured debt: downgraded to 'AA-' from 'AA'; removed from RWN
- Subordinated debt: downgraded to 'A+' from 'AA-'; removed from RWN
- Preferred stock: downgraded to 'BBB' from 'A'; removed from RWN

#### Bank of New Zealand (BNZ)

- Long-Term Foreign Currency IDR: downgraded to 'AA-' from 'AA'; removed from RWN; Stable Outlook
- Short-Term Foreign Currency IDR: affirmed at 'F1+'
- Long-Term Local Currency IDR: downgraded to 'AA-' from 'AA'; removed from RWN; Stable Outlook
- Short-Term Local Currency IDR: affirmed at 'F1+'
- VR: 'a' unaffected
- Support Rating: affirmed at '1'
- Non-guaranteed senior unsecured debt: downgraded to 'AA-' from 'AA'; removed from RWN

#### Clydesdale Bank PLC (CB)

- Long-Term Foreign Currency IDR: downgraded to 'A' from 'A+'; RWN maintained
- Short-Term Foreign Currency IDR: 'F1'; on RWN
- VR: 'bbb' unaffected
- Support Rating: '1'; on RWN

#### Westpac Banking Corporation (WBC)

- Long-Term Foreign Currency IDR: downgraded to 'AA-' from 'AA'; removed from RWN; Stable

## Outlook

- Short-Term Foreign Currency IDR: affirmed at 'F1+'
- VR: downgraded to 'aa-' from 'aa'; removed from RWN
- Support Rating: affirmed at '1'
- Support Rating Floor: affirmed at 'A'
- Government-guaranteed debt: affirmed at 'AAA'
- Non-guaranteed senior unsecured debt: downgraded to 'AA-' from 'AA'; removed from RWN
- Market-linked debt: downgraded to 'AA-emr' from 'AAemr'; removed from RWN
- Short-Term debt: affirmed at 'F1+'
- Subordinated debt: downgraded to 'A+' from 'AA-'; removed from RWN
- Hybrid capital: downgraded to 'BBB' from 'A'; removed from RWN

## Westpac New Zealand Limited (WNZL)

- Long-Term Foreign Currency IDR: downgraded to 'AA-' from 'AA'; removed from RWN; Stable Outlook

## Outlook

- Short-Term Foreign Currency IDR: affirmed at 'F1+'
  - Long-Term Local Currency IDR: downgraded to 'AA-' from 'AA'; removed from RWN; Stable Outlook
- ## Outlook
- Short-Term Local Currency IDR: affirmed at 'F1+'
  - VR: 'a' unaffected
  - Support Rating: affirmed at '1'
  - Government-guaranteed debt: affirmed at 'AA'
  - Non-guaranteed senior unsecured debt: downgraded to 'AA-' from 'AA'; removed from RWN

## Westpac Lenders Mortgage Insurance Limited (WLMI)

- Insurer Financial Strength Rating: downgraded to 'AA-' from 'AA'; removed from RWN; Stable Outlook

## Outlook

## Contacts:

### Primary Analysts

Tim Roche (ANZ, CBA, BankWest, CFL, NAB and WBC)

Director

+61 2 8256 0310

Fitch Australia Pty Ltd. Level 15, 77 King Street, Sydney, NSW 2000

Andrea Jaehne (ANZNB, ASB, BNZ and WNZL)

Director

+61 2 8256 0343

Julien Noizet (CB)

Analyst

+44 20 3530 1351

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

John Birch (WLMI)

Director

+61 8256 0345

### Secondary Analysts

John Miles (ANZ, ANZNB, CBA, BankWest, ASB, CFL, NAB, BNZ, WBC, WNZL and WLMI)

Senior Director

+61 2 8256 0344

Andrew Shenton (CB)  
Director  
+44 20 3530 1141

Committee Chairperson  
Mark Young  
Managing Director  
+65 6796 7229

Applicable criteria, "Global Financial Institutions Rating Criteria" dated 16 August 2011 and "Rating Bank Regulatory Capital and Similar Securities" dated 15 December 2011, are available at [www.fitchratings.com](http://www.fitchratings.com).

Media Relations: Matthew Robinson, Sydney, Tel: +61 2 8256 0326, Email: [matthew.robinson@fitchratings.com](mailto:matthew.robinson@fitchratings.com).

Additional information is available at [www.fitchratings.com](http://www.fitchratings.com). The ratings above, except for Bank of New Zealand, were solicited by, or on behalf of, the issuers, and therefore, Fitch has been compensated for the provision of the ratings. The ratings of Bank of New Zealand were unsolicited and have been provided by Fitch as a service to investors.

**Applicable Criteria and Related Research:**

Global Financial Institutions Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=649171](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=649171)

Rating Bank Regulatory Capital and Similar Securities

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=656371](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=656371)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S FREE WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.

Fitch Australia Pty Ltd holds an Australian financial services licence (AFS licence no. 337123) which authorises it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.