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Research Update:

Australia-Based Westpac Banking Corp. And Subsidiaries' Ratings Lowered On Bank Criteria Change

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Research Update:

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Overview

- Following a review under Standard & Poor's revised bank criteria (published Nov. 9, 2011), we have lowered our long-term issuer credit rating on Westpac Banking Corp. (Westpac) to 'AA-' from 'AA'. Our 'A-1+' short-term rating on the bank is affirmed. The outlook is stable.
- Our ratings on subsidiaries of Westpac have also been lowered following our review (see Ratings List).
- Our ratings on Westpac reflect the anchor SACP for a bank operating mainly in Australia; plus the bank's strong business position; its adequate capital and earnings, risk position, and liquidity; average funding; and potential government support.
- The stable outlook reflects our expectation that: the bank's risk-adjusted capital ratios will remain adequate by our standards, the risk position will not deteriorate materially or unexpectedly, and recent funding and liquidity risks can be satisfactorily managed.

Rating Action

As we previously announced on Dec. 1, 2011, Standard & Poor's Ratings Services lowered its long-term issuer credit rating on Westpac to 'AA-'. The 'A-1+' short-term rating is affirmed. Our long-term rating on Westpac New Zealand Ltd. (WNZL), Westpac's core New Zealand banking subsidiary, has also been lowered to 'AA-'. The ratings on Westpac's insurance and wealth-management subsidiaries have also been lowered (see Ratings List). Our outlook on Westpac is stable. Further, we have withdrawn our bank fundamental strength rating on Westpac.

Rationale

Our ratings on Westpac reflect the anchor stand-alone credit profile (SACP) for a bank operating mainly in Australia; plus the bank's "strong" business position; its "adequate" capital and earnings, risk position, and liquidity; "average" funding; and potential government support.

Our bank criteria use the BICRA economic risk and industry risk scores to determine a bank's anchor SACP, the starting point in assigning an ICR. The anchor SACP for a bank operating only in Australia is 'a-'. Westpac conducts almost 90% of its lending in its Australian home market. The BICRA score is informed by our evaluation of economic risk, where we view Australia as a wealthy, open, and resilient economy. We consider that build-up of private sector credit and asset prices has eased in the recent years, and that moderate private sector debt is offset by conservative lending practices and a creditor-supportive legal framework. With regard to industry risk, our assessment of the Australian banking industry is underpinned by the country's conservative and comprehensive regulation, and the banking sector's very low risk appetite, partly offset by limited funding support from customer deposits and a material dependence on net external borrowings. Most of the remainder of Westpac's lending is in New Zealand, which has a weaker '3' economic risk score compared with Australia. This results in a slightly weaker economic risk score for Westpac on a weighted average basis, but not to the extent that it affects our anchor SACP.

The SACP for Westpac is 'a'.

We assess Westpac's business position as "strong". Westpac's business stability benefits from its diversified, well-entrenched position in the retail, commercial, and corporate banking customer segments; supplemented by its good profile in asset management and insurance. Westpac is one of four major banking groups dominating the Australian and New Zealand banking sectors. Westpac's core strategies are domestically-focused on well-understood products and customers. We view these strategies as being relatively low-risk and likely to contribute toward positive future business stability.

Westpac's capitalization and earnings are assessed as "adequate". Our expectation is that over the next 18 months the bank's risk-adjusted capital (RAC) will rest comfortably within our 7%-10% "adequate" range for RAC under our ratings criteria. Although our short-to-medium term outlook for credit growth in Westpac's home markets is relatively subdued, we note that Westpac's future earnings prospects remain good by domestic and international standards, because of its stable and repeatable revenue streams, very good cost efficiency, and good asset quality.

In our opinion, Westpac's risk position is "adequate". The bank's risks are well diversified across the sectors in which it operates, noting that these sectors remain in relatively good health by international standards. Westpac remained relatively stable during the global financial crisis (GFC), given its overall small exposure (by international standards) to higher-risk activities. We continue to view Westpac's asset and revenue bases as being centered in vanilla rather than high-risk banking exposures, and this should have a solidifying effect on our forward view of Westpac's "adequate" risk position. While Westpac's GFC-related losses were lower compared with many highly-rated international banks, we note that the economic and commercial property downturns in Australia and New Zealand were less severe than that experienced in the U.S. and Europe.

We assess Westpac's funding as "average" and liquidity as "adequate". While Westpac and the other Australian major banks are considered by us to be materially reliant on wholesale funding--this being a fundamentally negative rating factor--we note that much of this risk has been taken into account by us in our recent revision of our BICRA assessment of Australia to group '2' from group '1'. Albeit reliant on wholesale markets, Westpac's funding and liquidity is considered by us as being well managed, including funding challenges posed by Westpac's 2009 acquisition of St.George Bank Ltd., considering St.George's relatively high reliance on wholesale funding.

Our counterparty credit rating on Westpac is two notches higher than the SACP, reflecting our view of a high likelihood of extraordinary government support in a crisis. This reflects our view of Westpac's high systemic importance in Australia, and our assessment of the Australian government as highly supportive of institutions core to the national economy.

We have lowered the issue ratings on Westpac's non-deferrable senior subordinated debt to 'A-' from 'AA-', which is one notch below Westpac's SACP, because we believe that Australia's legal and regulatory framework could allow authorities to instigate restructuring of a failing bank to the detriment of non-deferrable subordinated debt. We have lowered the issue ratings on WZNL's non-deferrable senior subordinated debt to 'A-' from 'AA-' which is one notch below Westpac's SACP, reflecting our view that WNZL is a core subsidiary of Westpac. We note that the short-to-medium-term prospects for Westpac experiencing financial stress requiring a restructuring of the bank to the detriment of non-deferrable subordinated debt holders is low. We have, likewise, lowered the issue ratings on Westpac's hybrid capital instruments to 'BBB', which is three notches below the SACP on the bank. Under our criteria, the three-notch differential reflects the narrow-distributable-profits test that is applicable to hybrid-capital instruments issued by Australian banks.

Outlook

The stable outlook reflects our view that the ratings are likely to remain unchanged over the next one-to-two years. To maintain the stable outlook, we expect that: Westpac's RAC ratios will remain consistent with our view that they are "adequate"; the bank's risk position will not deteriorate materially or unexpectedly; and funding and liquidity will be well managed.

We believe that the prospects of positive ratings momentum in the short-to-medium term are unlikely. While we believe Westpac has the capability of achieving higher risk-adjusted capital ratios, we would have to be comfortable that a ratio in excess of 10% would be achievable on an ongoing basis for Westpac to benefit from ratings uplift (all other rating factors remaining equal).

We could lower the ratings if our view of Westpac's funding and liquidity weakens compared to domestic peers, or potentially if the peer group as a whole deteriorates. At the current rating level we expect that the knock-on effects of volatile global debt markets because of euro-zone stresses, or other factors, will be adequately managed; if not, negative ratings consequences could occur. Currently we believe that the prospect of Westpac's funding metrics deteriorating materially from peer averages is not likely. We note that a minor deterioration in key asset quality or earnings measures from current levels would not likely cause the ratings to be lowered, considering

Westpac's metrics are currently good by domestic and international standards.

The ratings would also come under pressure should the sovereign rating on Australia be lowered, which would likely impact the level of government support factored into the counterparty credit rating. In our view, this is an unlikely scenario in the short-to-medium term.

Ratings Score Snapshot

Issuer credit rating	AA-/Stable/A-1+
SACP	a
Anchor	a-
Business position	Strong (1)
Capital and earnings	Adequate (0)
Risk position	Adequate (0)
Funding and liquidity	Average and adequate (0)
Support	+2
GRE support	0
Group support	0
Sovereign support	+2
Additional factors	0

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Ratings List

Downgraded

	To	From
Westpac Banking Corp.		
Certificate of deposit	AA-/A-1+	AA/A-1+
Westpac Life Insurance Services Ltd.		
Westpac Life-NZ-Ltd.		
Issuer credit rating		
Local currency	AA-/Stable/--	AA/Stable/--
Financial strength rating		
Local currency	AA-/Stable/--	AA/Stable/--

Westpac Banking Corp.		
Senior unsecured (278 issues)	AA-	AA
Subordinated (24 issues)	A-	AA-
Junior subordinated (3 issues)	BBB	A+
Preferred stock (1 issue)	BBB	A+
Preference stock (1 issue)	BBB	A+
Westpac New Zealand Ltd.		
Senior unsecured (4 issues)	AA-	AA
Certificate of deposit (1 issue)	AA-	AA
Westpac Securities NZ Ltd.		
Senior unsecured (11 issues)	AA-	AA
Westpac Banking Corp.		
Westpac Europe Ltd.		
Issuer credit rating	AA-/Stable/A-1+	AA/Stable/A-1+
Westpac New Zealand Ltd.		
Issuer credit rating	AA-/Stable/A-1+	AA/Stable/A-1+
Certificate of deposit		
Local currency	AA-/A-1+	AA/A-1+

Not-Rated Action

	To	From
Westpac Banking Corp.		
Bank fundamental strength rating		
Local currency	NR	A

Ratings Affirmed

Westpac Lenders Mortgage Insurance Ltd.	
Issuer credit rating	
Local currency	AA-/Stable/--
Financial strength rating	
Local currency	AA-/Stable/--
Westpac Banking Corp.	
Senior unsecured (70 issues)	cnAAA
Commercial paper (1 issue)	A-1+
Westpac New Zealand Ltd.	
Certificate of deposit (1 issue)	A-1+
Westpac Securities NZ Ltd.	
Senior unsecured (1 issue)	cnAAA
Commercial paper (1 issue)	A-1+

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.